

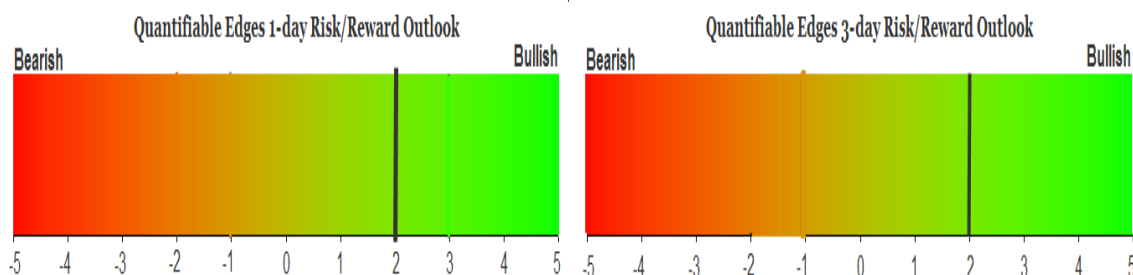
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2012

Volume 5 Issue 47

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- While the market is moving towards overbought, bearish evidence is lacking.

Short-term Outlook

The Bottom Line

We've seen a nice bounce over the last 2 days. Friday looks like a good day to take some profits. I'll be looking to exit my SPY position.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 8, 2012	3 donw. Unfilled gap. 10-low.	1-2 days	Bullish	1.80%
March 8, 2012	Bounce from RSI(2)<5 on lower volume	1-2 days	Bullish	1.35%
March 8, 2012	McClellan Osc % Rank 4-day sum < 5	1-5 days	Bullish	2.20%
March 6, 2012	SPY 5-day low 1st time in 10 days	1-4 days	Bullish	1.35%
Active - Long Term				
March 5, 2012	Negative breadth divergences	int term	Bearish	
March 1, 2012	10-high then outside day down > 200	1-12 days	Bullish	2.70%
February 29, 2012	Russell dn 3 days. SPX 3-day high.	1-10 days	Bullish	5.10%
February 1, 2012	Golden Cross	int term	Bullish	
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
March 7, 2012	3 donw. Unfilled gap. 10-low.	1-2 days	Bullish	
March 7, 2012	TICK Tom Oscillator extreme	1-2 days	Bullish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

Thursday saw the 2nd strong day in a row. The SPX rallied 1.0%, the Nasdaq rose 1.2%, and the Russell 2000 gained 1.3%. Breadth was again strongly positive as the NYSE Up Issues % came in at 77% and the Up Volume % was 84%. Total NYSE volume came in a little lower than Wednesday's already-low level.

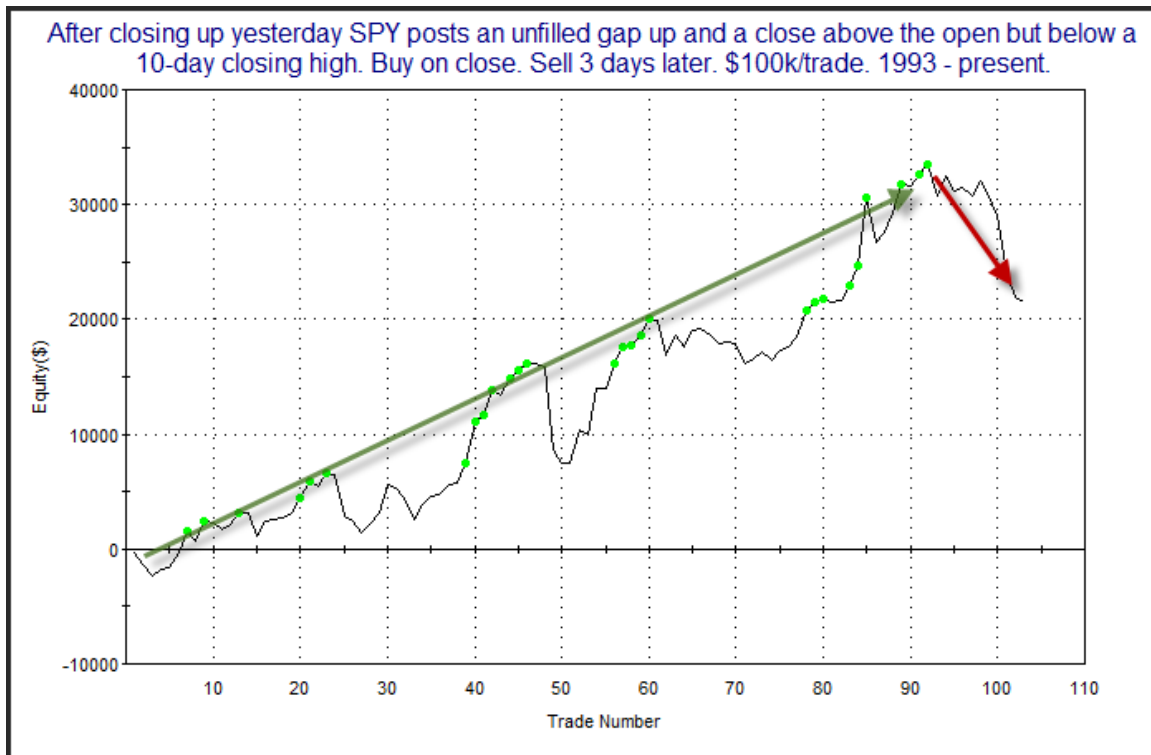
Thursday's action did not provide anything in the way of compelling edges. There were a few studies that appeared in the Quantifinder that I will discuss below but really nothing exciting, and nothing I found worth even including on the Active Studies List.

There were a few breadth-related studies that appeared in the Quantifinder that were somewhat conflicting depending on how the market position was characterized. Part of problem is that it is quite rare to see back to back strong breadth days (Up Issue % > 75%) where the SPY (or SPX) closes above the 200ma but never makes a 10-day high. Since SPY's inception in 1993 it has only happened 3 other times. Three instances are not enough to learn from and depending on how you broaden the study you could come up with bullish or bearish numbers based on the back to back strong breadth days. Therefore I think it is best to set aside those studies for tonight.

Another study I took a look at is the one below, which was last shown in the 11/14/11 letter. It considers strong 2-day moves in SPY that fail to make a new 10-day closing high. Results are all updated.

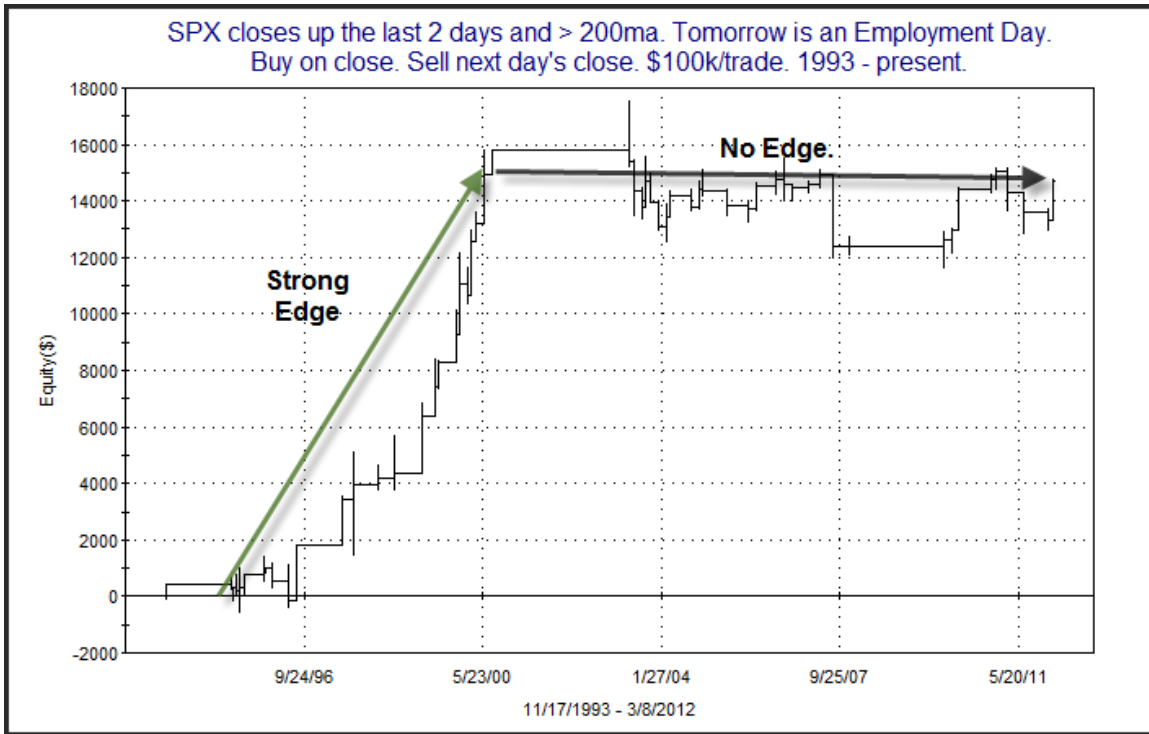
After closing up yesterday SPY posts an unfilled gap up and a close above the open but below a 10-day closing high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	6,165.38	100	56	44	56.00	1,647.78	5,322.24	-1,957.06	-7,504.76	0.84	1.07	61.65
4	11,480.91	101	61	40	60.40	1,367.72	4,887.20	-1,798.76	-10,547.25	0.76	1.16	113.67
3	21,525.22	103	60	43	58.25	1,228.54	5,950.56	-1,213.66	-7,233.14	1.01	1.41	208.98
2	15,033.87	104	59	44	56.73	1,042.99	5,393.52	-1,056.88	-4,594.04	0.99	1.32	144.56
1	3,454.84	110	61	47	55.45	608.41	2,121.60	-716.13	-3,474.68	0.85	1.10	31.41

Any possible edge here appears to be a very mild one. And when I looked at the equity curve I lost any enthusiasm I had for the study.



The profit curve has always been choppy but the last 10 trades or so is the worst dip it has seen. I'm not considering this a bullish setup any longer. I will keep my eye on it a little longer in case the curve makes a quick move back up and regains its old trendline.

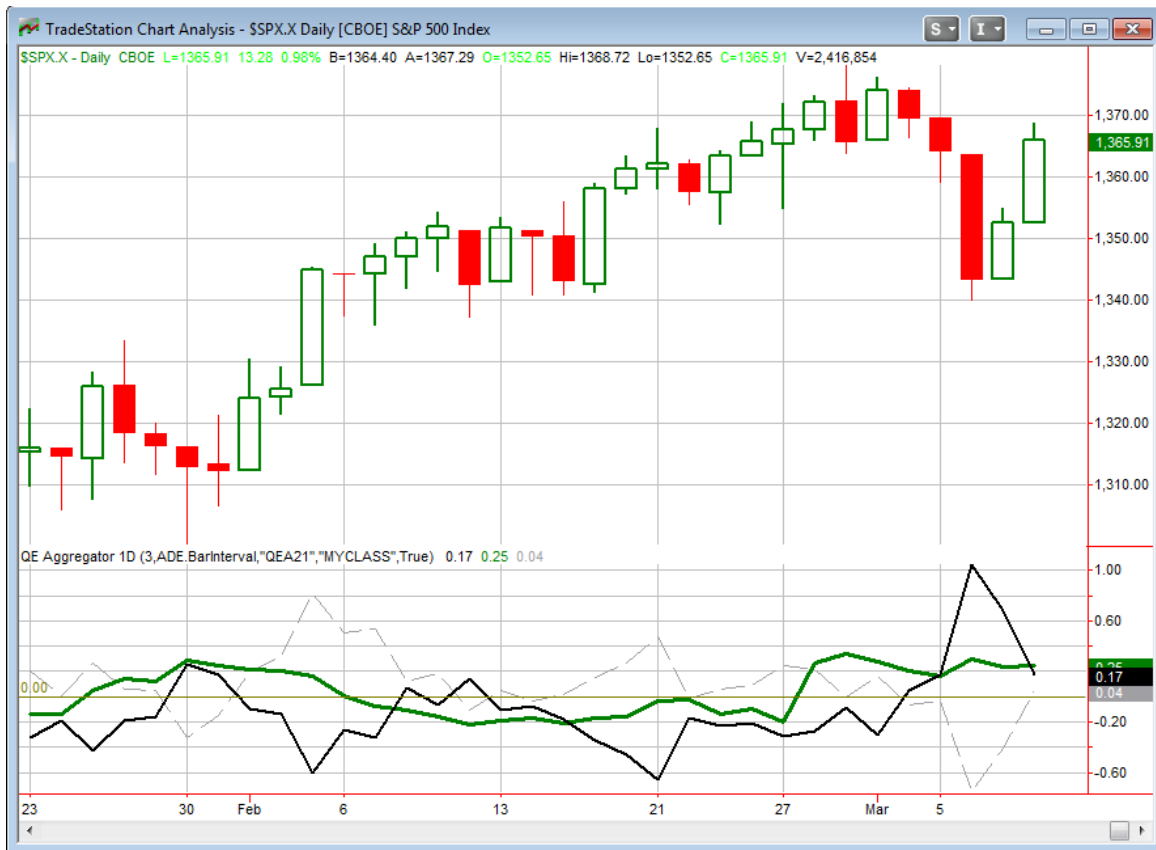
Friday morning is the release of the employment report. Employment Days during the 90s would often provide a nice upside kick to the market. Since then they have not provided the same edge. This is something I have discussed before. The study below looks at other instances where the SPX was trading above its 200ma and it closed up at least 2 days in a row leading up to an Employment Day.



As you can see, it no longer appears as anything to get excited about.

So nothing new is going on the Active List tonight. A couple of studies did expire. The 4 short-term studies that are left are all bullish.

I have updated the [Aggregator](#) chart below.



The green Aggregator line didn't move much and remained strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is also above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bullish and the SPX is oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator System to remain long at the close. This was indicated on the Systems page before the bell.

Without any bearish studies on the short-term active list, expectations are scheduled to remain positive on Friday. This appears unlikely to change but could if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be inverted at 1,352.14 on Friday. This is 1.0% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if the SPX remains where it is. Currently, that means the SPX will go from oversold to overbought, and the Differential Line will flip from positive to negative unless the SPX closes down over 1% on Friday.

Inverted pivots often signal a good time to start planning an exit strategy. It will take more than a 1% drop on Friday to keep the Aggregator signal long. I have solid gains in my SPY position right now, and long exposure in a couple of other trades as well. I don't

see a point in insisting on holding until the close on Friday. Instead I will simply look to take some profits and sell into strength. If you have a large position then scaling out intraday could also be a reasonable approach. Another approach might be to try and trail a stop intraday. This would allow you to protect some profits while giving the trade a chance to run further during the day. I'm going to employ a simpler approach and just post an intraday limit order. Details are in the trade ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/5 – moderately bullish

The intermediate-term outlook was last updated in the 3/5/12 letter. A link is below:

[2012-03-05 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

CAT – buy 1/3 position @ \$112.49 limit (filled at \$111.55)

CAT – buy 1/3 position @ \$110.09 limit (filled at \$106.57)

CAT – buy 1/3 position @ \$105.93 limit (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/1(CAT-3)

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

[No new trade ideas tonight.](#)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CAT(1/3)	3/5/2012	\$111.55	\$110.28	-1.14%		Catapult
CAT(1/3)	3/6/2012	\$106.57	\$110.28	3.48%		Catapult
XIV(1/2)	3/6/2012	\$8.48	\$9.09	7.19%		Aggressive VIX
SPY(1/4)	3/7/2012	\$134.95	\$137.04	1.55%		sell @ \$137.04 limit

SPY - I am putting this out as a straight limit order. If it is not filled in the first 30 min. or so of trading I may put out an intraday update with stop levels below the early low to try and protect profits.

CAT - CAT will need to close about \$0.60 higher to hit its end of day target on Friday. The bounce over the last two days has been pretty good. Anyone who prefers the alternate exit shown as an example in the Catapult Exit Designer will be looking to exit their position first thing in the morning. I don't see a reason to take an early exit on this trade and aim to let it play out until the standard exit target is hit.

XIV - There is still a lot going for this XIV trade. Contango is extremely steep and market expectations remain positive both short and intermediate-term. I may soon utilize a stop, take partial profits, or both in this extremely volatile position. But I do intend to try and let at least a portion of this position run for a while to see if it can turn into a sizable winner.

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