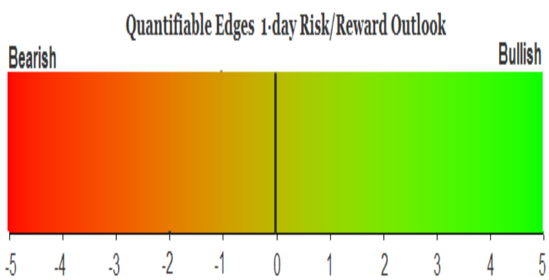
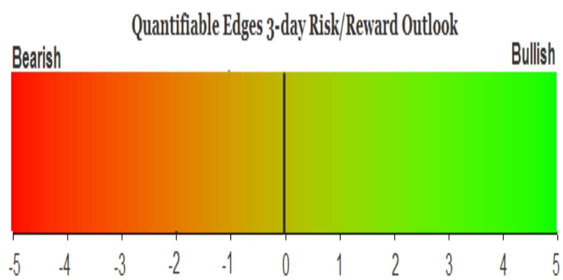
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 15, 2012 Volume 5 Issue 51

## Market Overview




## Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing | NDX Trend Timer |
|---|---|---|---|
| Flat | 50% Long XIV | Flat | Flat |

### *Tonight's Research Points*

- SPX dips after 5 up days and a 50-day high are often followed by a move higher.
- Mild drops from 50-day highs on very poor breadth have typically been followed by more selling.

### *Short-term Outlook*

### *The Bottom Line*

Conflicting but net bullish evidence and an overbought market suggest poor risk/reward. The Aggregator is neutral, and so is my outlook.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---|---|---|---|---|
| Active | | | | |
| March 15, 2012 | 5+ up to 50-high then dip | 1-2 days | Bullish | 0.80% |
| March 15, 2012 | 50-high then weak dip on bad breadth | 1-2 days | Bearish | -1.80% |
| March 14, 2012 | 50-day high on strong breadth | 1-5 days | Bullish | |
| March 14, 2012 | 100-day high on Fed Day | 1-8 days | Bullish | |
| March 14, 2012 | SPY Gap-n-Go on Fed Day | 1-2 days | Bearish | |
| March 14, 2012 | VIX < Bollinger 2 days | 1-2 days | Bearish | |
| March 13, 2012 | VIX 10%high to 10% low in < week | 1-8 days | Bullish | 2.75% |
| March 13, 2012 | SPX up. Up Issues% & Up Vol% < 45% | 1-3 days | Bearish | -1.80% |
| March 13, 2012 | SPX up > 10ma > 200ma. Low vol 20. | 1-3 days | Bearish | -1.30% |
| Active - Long Term | | | | |
| March 15, 2012 | 5+ up to 50-high then dip | 1-10 days | Bullish | 2.00% |
| March 14, 2012 | SPX & TNX hit 50-day highs | 1-50 days | Bearish | |
| March 14, 2012 | 50-day high on strong breadth | 1-50 days | Bullish | 8.00% |
| 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 12, 2012 | 3 unfilled up gaps | 1-3 days | Bearish | -1.40% |

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

### ***The Evidence***

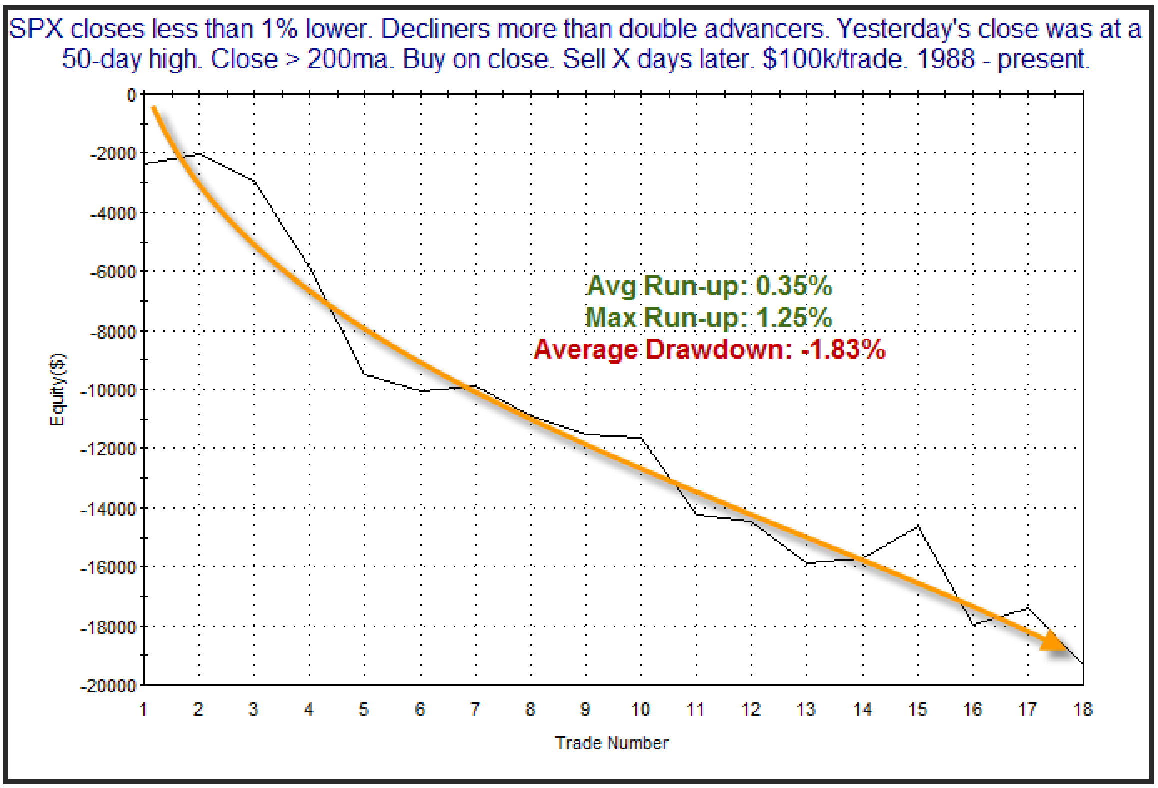
The market traded back and forth on Wednesday and the indices finished mixed. The SPX fell 0.1% and the Russell 2000 lost 0.9% but, the Nasdaq rose a tiny 0.03%. Breadth was negative as the NYSE Up Issues % came in at 26% and the Up Volume % was 38%. Total NYSE volume came in just under Tuesday's level.

Wednesday's pullback triggered a few studies worth examination. One study identified by the Quantifinder considered what happens after relatively mild drops from high levels are accompanied by very weak breadth. It was seen just recently in the 3/5/12 subscriber letter and has been updated below.

SPX closes less than 1% lower. Decliners more than double advancers. Yesterday's close was at a 50-day high. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1988 - 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 | -4,426.54 | 18 | 11 | 7 | 61.11 | 728.32 | 2,181.96 | -1,776.87 | -2,538.28 | 0.41 | 0.64 | -245.92 |
| 4 | -10,317.35 | 18 | 7 | 11 | 38.89 | 766.61 | 1,232.88 | -1,425.78 | -3,709.52 | 0.54 | 0.34 | -573.19 |
| 3 | -17,534.69 | 18 | 5 | 13 | 27.78 | 283.01 | 568.80 | -1,457.67 | -3,721.09 | 0.19 | 0.07 | -974.15 |
| 2 | -19,305.34 | 18 | 5 | 13 | 27.78 | 467.29 | 1,077.12 | -1,664.75 | -3,611.48 | 0.28 | 0.11 | -1,072.52 |
| 1 | -14,659.51 | 18 | 5 | 13 | 27.78 | 550.25 | 832.48 | -1,339.29 | -3,794.40 | 0.41 | 0.16 | -814.42 |

The implication here is that when the SPX is coming off a high level and it holds up relatively well despite broad selling, it will often have further to drop. The strong selling in the Russell 2000 could spill over into the large caps. There's a chance they could even play catch-up to the downside. The good news for bulls here is that the bearish inclinations have only lasted a couple of days. In addition to the edges suggested by the "% profitable" and the "avg trade" columns, the win:loss ratio is also strongly skewed. Risks appears to far outweigh reward. Below is a profit curve using a two day exit strategy.




We see here a fairly steady downmove. While instances are a little bit low this study appears well worthy of consideration. The stats shown on the chart are especially impressive, with downside risks swamping upside reward as the results table seemed to imply.

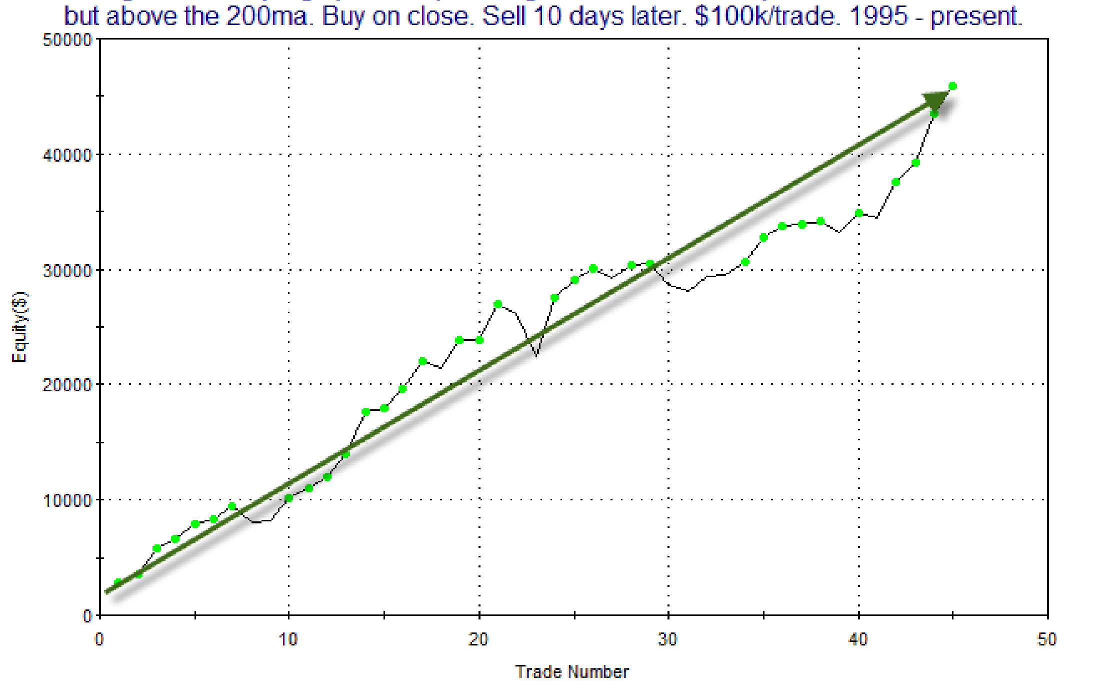
One possible positive is that prior to Wednesday's drop the market was locked in a persistent rally. I've shown a few different ways in recent months that persistent rallies are unlikely to end abruptly. Instead they will either continue higher after a brief pullback, or action will become choppy prior to a sizable move lower. This next study was recently seen in the 1/25/12 subscriber letter.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - present.

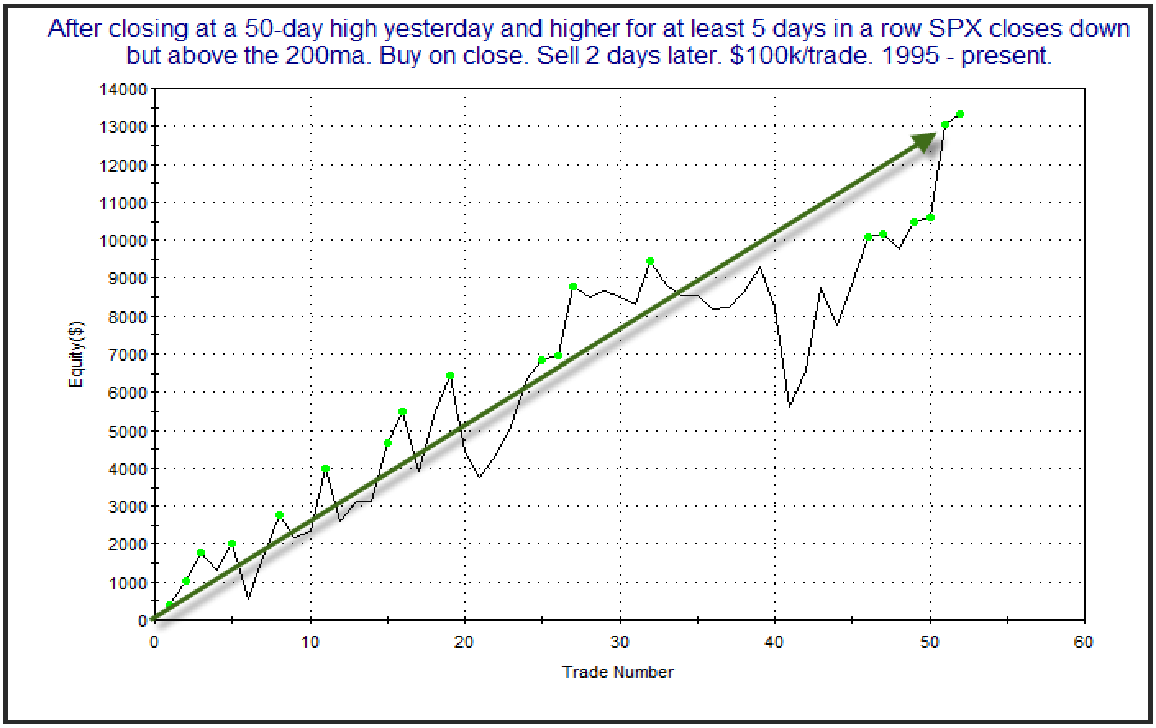
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 | 45,913.92 | 45 | 36 | 9 | 80.00 | 1,585.01 | 5,131.35 | -1,238.51 | -3,672.90 | 1.28 | 5.12 | 1,020.31 |
| 9 | 45,743.97 | 48 | 39 | 9 | 81.25 | 1,536.55 | 5,023.20 | -1,575.73 | -4,151.40 | 0.98 | 4.23 | 953.00 |
| 8 | 38,655.82 | 49 | 33 | 16 | 67.35 | 1,762.93 | 4,878.08 | -1,220.06 | -4,874.10 | 1.44 | 2.98 | 788.89 |
| 7 | 31,529.21 | 50 | 32 | 18 | 64.00 | 1,646.52 | 3,874.76 | -1,175.52 | -3,912.48 | 1.40 | 2.49 | 630.58 |
| 6 | 31,460.67 | 52 | 34 | 18 | 65.38 | 1,493.45 | 4,307.20 | -1,073.14 | -3,637.71 | 1.39 | 2.63 | 605.01 |
| 5 | 23,145.87 | 52 | 32 | 20 | 61.54 | 1,263.24 | 4,252.50 | -863.89 | -2,466.75 | 1.46 | 2.34 | 445.11 |
| 4 | 22,449.38 | 52 | 31 | 21 | 59.62 | 1,265.86 | 3,843.00 | -799.63 | -3,003.39 | 1.58 | 2.34 | 431.72 |
| 3 | 12,052.46 | 52 | 32 | 20 | 61.54 | 918.39 | 2,472.85 | -866.80 | -1,992.34 | 1.06 | 1.70 | 231.78 |
| 2 | 13,344.55 | 52 | 34 | 18 | 65.38 | 838.84 | 2,437.50 | -843.10 | -2,614.95 | 0.99 | 1.88 | 256.63 |
| 1 | 7,652.96 | 52 | 32 | 19 | 61.54 | 571.50 | 1,751.19 | -559.73 | -1,744.10 | 1.02 | 1.72 | 147.17 |

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell 10 days later. $100k/trade. 1995 - present.

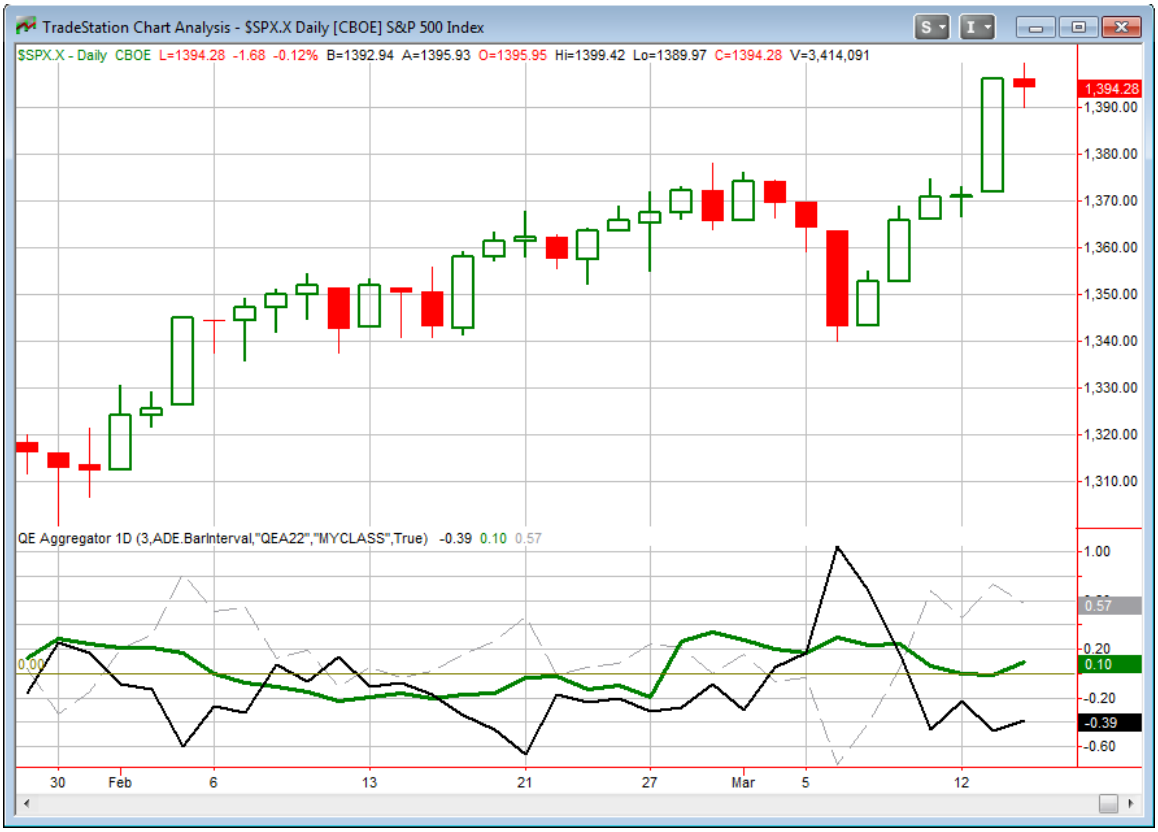


The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.




Results are choppier here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration.

I have updated the Aggregator chart below.




The large mix of current active studies has the green Aggregator Line back in positive territory. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held firm below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bullish but the SPX is overbought versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator System to change from short to flat. It was noted on the systems page shortly before the bell.

Based on the current studies, expectations are scheduled to remain positive on Thursday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,374.93 on Thursday. This is 1.4% below Wednesday's close. So it would take a drop of at least this much on Thursday to move the SPX into oversold territory and generate a positive Differential Line reading.

The Aggregator is neutral and so am I. I remain long XIV, which is more of a contango play than a directional play at this point. For directional index trades I'll continue to wait for a more favorable entry opportunity.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/12 – moderately bullish***

The intermediate-term outlook was last updated in the 3/12 letter. Use the link below if you wish to review it.

2012-03-12 QE Subscriber Letter.pdf

## Catapult and Capitulative Breadth Statistics

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*None.*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI* – 0**

## 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 |
|---|---|---|---|---|---|---|
| XIV(1/2) | 3/6/2012 | $8.48 | $9.79 | 15.45% | | Aggressive VIX |
| | | | | | | |
| | | | | | | |
| | | | | | | |