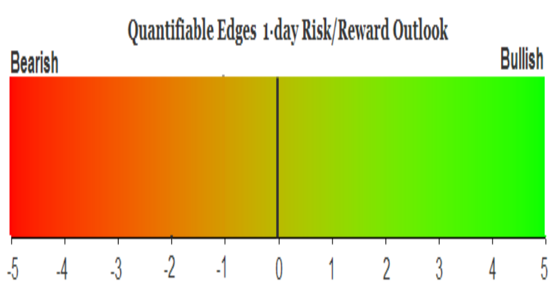
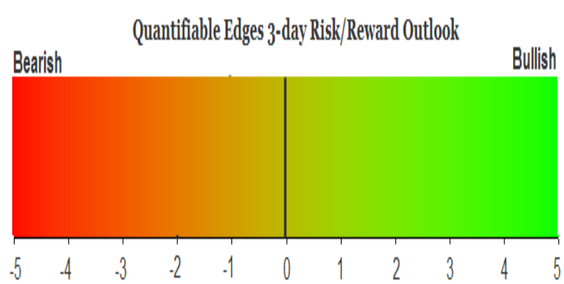
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 19, 2012 Volume 5 Issue 53

## Market Overview




## Signals Overview

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

## ***Tonight's Research Points***

- Persistent overbought conditions like we have seen recently often lead to more short-term gains.

***Short-term Outlook***
***The Bottom Line***

The market remains overbought. Net expectations remain short-term bullish. This has the Aggregator neutral. I'm not looking to take on new exposure until a more favorable opportunity arises.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---|---|---|---|---|
| Active | | | | |
| March 19, 2012 | 100-day high on Fed Day | 1-8 days | Bullish | 1.90% |
| March 16, 2012 | SPX 50-high. VIX up midweek. | 1-2 days | Bearish | |
| March 16, 2012 | SPX top of range. Op-ex tomorrow. | 1-4 days | Bearish | -1.55% |
| 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 13, 2012 | VIX 10%high to 10% low in < week | 1-8 days | Bullish | 2.75% |
| 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 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% |

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

### *The Evidence*

Opex Friday failed to generate any volatility as the market traded in a very narrow range all day. The indices all finished near unchanged. SPX gained 0.1%, the Nasdaq was down 0.04% and the Russell 2000 lost 0.1%. Breadth was mixed as the NYSE Up Issues % came in at 45% and the Up Volume % was 55%. Aided by options expiration, volume came in at the highest level so far this year.

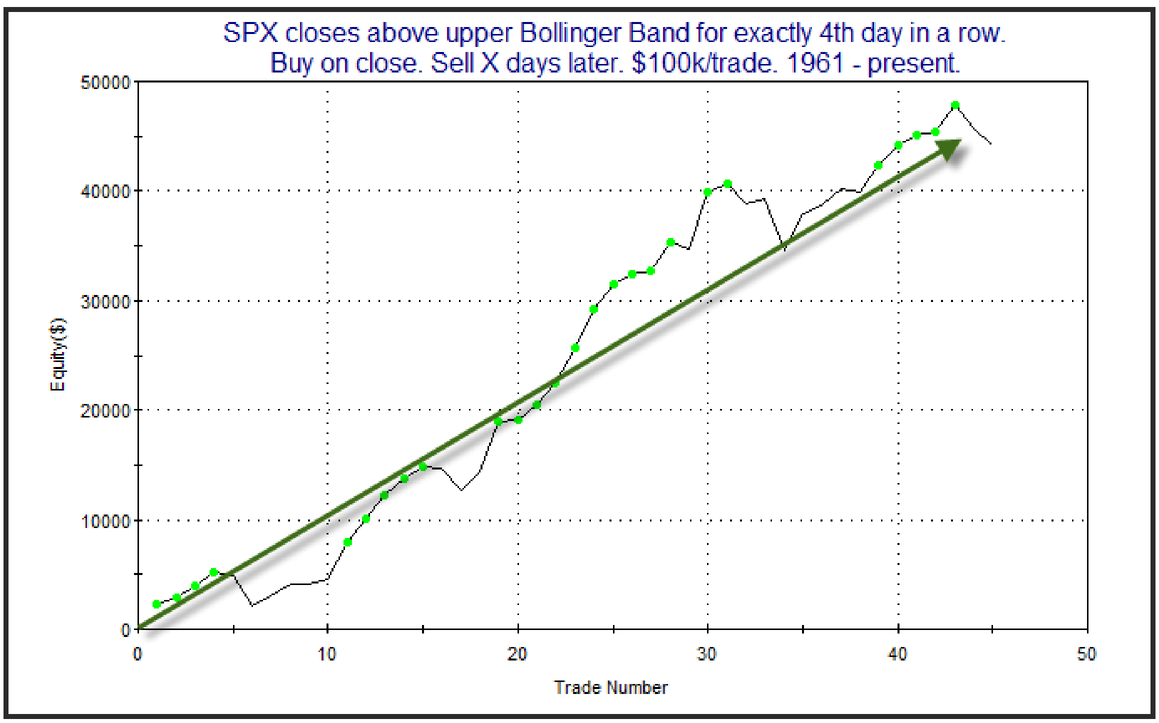
The strong upside momentum we are seeing can be viewed a number of different ways. After closing at a pullback low on 3/6, the SPX has now risen 7 of the last 8 days. Additionally, SPX has now closed above its upper Bollinger Band (using the standard 20-period, 2 standard deviation bands) for 4 days in a row. It’s somewhat unusual to see the market close this far above its mean for 4 days in a row. Such shows of strength have often begat more short-term strength. This can be seen in the study below, which last appeared in the 5/2/11 subscriber letter.

SPX closes above upper Bollinger Band for exactly 4th day in a row.
Buy on close. Sell X days later. $100k/trade. 1961 - 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 | 37,740.47 | 45 | 32 | 12 | 71.11 | 1,829.42 | 3,731.50 | -1,733.42 | -3,824.52 | 1.06 | 2.81 | 838.68 |
| 9 | 44,115.11 | 45 | 34 | 10 | 75.56 | 1,780.88 | 3,918.50 | -1,643.49 | -3,241.48 | 1.08 | 3.68 | 980.34 |
| 8 | 44,211.28 | 45 | 35 | 10 | 77.78 | 1,727.21 | 5,222.40 | -1,624.09 | -4,731.56 | 1.06 | 3.72 | 982.47 |
| 7 | 35,710.93 | 45 | 34 | 11 | 75.56 | 1,508.97 | 4,326.50 | -1,417.63 | -4,901.14 | 1.06 | 3.29 | 793.58 |
| 6 | 28,919.50 | 45 | 32 | 13 | 71.11 | 1,360.25 | 3,356.16 | -1,123.72 | -4,428.54 | 1.21 | 2.98 | 642.66 |
| 5 | 24,654.96 | 45 | 34 | 11 | 75.56 | 1,181.73 | 3,581.50 | -1,411.25 | -6,988.92 | 0.84 | 2.59 | 547.89 |
| 4 | 24,236.53 | 45 | 31 | 14 | 68.89 | 1,116.99 | 3,067.74 | -742.16 | -2,081.23 | 1.51 | 3.33 | 538.59 |
| 3 | 18,984.04 | 45 | 32 | 13 | 71.11 | 844.58 | 3,025.75 | -618.66 | -1,189.17 | 1.37 | 3.36 | 421.87 |
| 2 | 19,072.61 | 45 | 28 | 17 | 62.22 | 913.55 | 2,701.80 | -382.76 | -1,045.16 | 2.39 | 3.93 | 423.84 |
| 1 | 4,249.14 | 45 | 25 | 19 | 55.56 | 460.03 | 1,582.32 | -381.67 | -1,587.76 | 1.21 | 1.59 | 94.43 |

41 of 45 instances (91%) closed above the entry price
at some point in the next week.

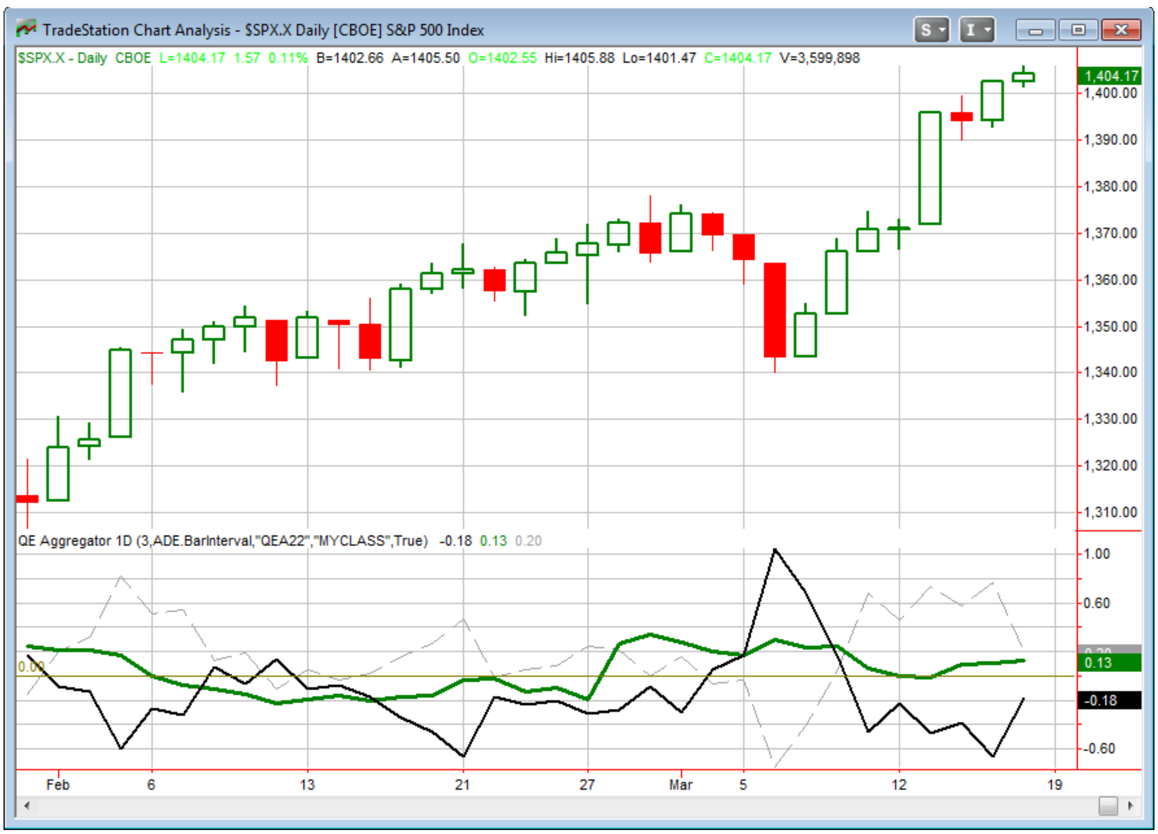
The stats seem to strongly support the bull case. Even those instances that didn't continue higher immediately mostly just saw a shallow pullback before hitting new highs at some point in the week. I find the results especially impressive considering the moves are measured from a point where the market is already substantially overbought. Below is an equity curve that assumes an 8-day exit strategy.



Despite the last trade being a loser the consistent upslope remains quite impressive.

There were a few studies in the Quantifinder that looked at things like SPY's unfilled gap down. I ignored these, because though it appears as an unfilled gap down on the chart, this is only because SPY went ex-div on Friday. The SPX actually closed up. There was also a study that suggesting strong op-ex weeks are often followed by pullbacks. But upon closer examination this appeared to primarily be the case in downtrends.

I have updated the Aggregator chart below.




Tonight's study helped the green Aggregator Line inch higher into 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 remain flat at the close. It was noted on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Monday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,395.32 on Monday. This is 0.6% below Friday's close. An SPX close down of this amount or more would move the SPX into oversold territory and generate a positive Differential Line reading.

With the SPX at new highs and the Differential suggesting we are squarely overbought, risk is a bit elevated. The market may continue to push higher as expected but I'd rather wait for a more favorable entry point. Should we see a pullback in the next few days, I anticipate jumping into the long side.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/19 – moderately bullish***

The market is again at new highs. So the uptrend continues. While not everything is suggesting it will continue, it has punished anyone who has stubbornly bet against it for extended periods. We did see a few new studies emerge this past week with possible intermediate-term significance. Two were bullish and one was bearish. I've reviewed them all below.

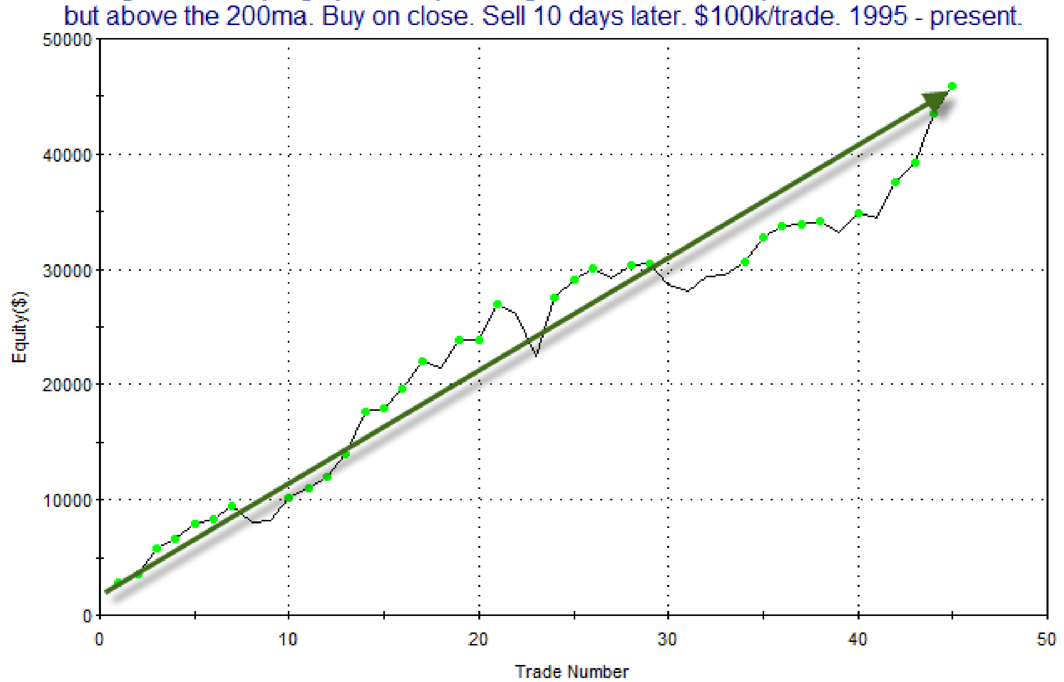
One possible positive is that prior to Wednesday's drop the market was locked in a persistent rally. I've shown a few different ways in recent months that persistent rallies are unlikely to end abruptly. Instead they will either continue higher after a brief pullback, or action will become choppy prior to a sizable move lower. The study below is copied from the 3/15/12 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. Below is an equity curve showing the 10-day exit strategy.

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.

The next couple of studies were from the 3/14/12 letter. This 1st one suggested that the strong breadth on the move up to new highs was a bullish sign. It had previously been shown in the 10/19/11 subscriber letter.

SPX closes at a 50-day high. NYSE Up Volume % > 90%.
Buy on close. Sell X days later. $100k/trade. 1970 - 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50 | 92,670.89 | 16 | 16 | 0 | 100.00 | 5,791.93 | 19,845.80 | 0.00 | 0.00 | 100.00 | 100.00 | 5,791.93 |
| 45 | 90,236.29 | 17 | 16 | 1 | 94.12 | 5,830.07 | 17,945.20 | -3,044.80 | -3,044.80 | 1.91 | 30.64 | 5,308.02 |
| 40 | 86,258.34 | 18 | 15 | 3 | 83.33 | 5,989.19 | 20,950.80 | -1,193.19 | -1,558.77 | 5.02 | 25.10 | 4,792.13 |
| 35 | 86,156.84 | 18 | 15 | 3 | 83.33 | 6,045.17 | 18,961.80 | -1,506.89 | -2,194.86 | 4.01 | 20.06 | 4,786.49 |
| 30 | 74,584.53 | 18 | 17 | 1 | 94.44 | 4,411.97 | 11,920.74 | -418.88 | -418.88 | 10.53 | 179.06 | 4,143.59 |
| 25 | 64,022.17 | 19 | 15 | 4 | 78.95 | 4,883.16 | 12,045.67 | -2,306.30 | -3,024.54 | 2.12 | 7.94 | 3,369.59 |
| 20 | 58,926.89 | 20 | 15 | 5 | 75.00 | 4,843.63 | 13,393.77 | -2,745.50 | -6,770.72 | 1.76 | 5.29 | 2,946.34 |
| 15 | 46,565.42 | 20 | 15 | 5 | 75.00 | 4,209.70 | 8,150.48 | -3,316.01 | -6,277.02 | 1.27 | 3.81 | 2,328.27 |
| 10 | 30,785.16 | 22 | 13 | 9 | 59.09 | 3,564.52 | 10,507.25 | -1,728.18 | -4,090.24 | 2.06 | 2.98 | 1,399.33 |
| 9 | 25,792.55 | 22 | 14 | 7 | 63.64 | 3,062.16 | 8,413.73 | -2,439.66 | -5,207.55 | 1.26 | 2.51 | 1,172.39 |
| 8 | 27,187.39 | 22 | 14 | 8 | 63.64 | 3,273.43 | 8,524.75 | -2,330.07 | -4,082.16 | 1.40 | 2.46 | 1,235.79 |
| 7 | 25,305.88 | 23 | 15 | 8 | 65.22 | 2,964.28 | 6,026.80 | -2,394.80 | -3,954.60 | 1.24 | 2.32 | 1,100.26 |
| 6 | 25,478.47 | 23 | 15 | 8 | 65.22 | 2,456.26 | 6,819.80 | -1,420.68 | -4,106.70 | 1.73 | 3.24 | 1,107.76 |
| 5 | 28,529.29 | 24 | 18 | 6 | 75.00 | 2,011.58 | 8,516.82 | -1,279.87 | -3,295.50 | 1.57 | 4.72 | 1,188.72 |
| 4 | 22,451.15 | 25 | 19 | 6 | 76.00 | 1,800.31 | 6,716.71 | -1,959.13 | -4,894.50 | 0.92 | 2.91 | 898.05 |
| 3 | 15,028.81 | 25 | 16 | 9 | 64.00 | 1,644.86 | 6,740.50 | -1,254.32 | -5,105.87 | 1.31 | 2.33 | 601.15 |
| 2 | 16,747.30 | 25 | 18 | 7 | 72.00 | 1,198.37 | 4,028.44 | -689.06 | -2,409.33 | 1.74 | 4.47 | 669.89 |
| 1 | 10,972.38 | 26 | 15 | 11 | 57.69 | 1,047.07 | 2,755.52 | -430.34 | -1,255.50 | 2.43 | 3.32 | 422.01 |

23 of 25 instances (92%) closed above the entry price at some point in the next week. All within 8 trading days.

Implications appeared to be strongly positive both short and long-term. For those that would like to review examples, below is a list of instances assuming a 50-day exit criteria.

| SPX closes at a 50-day high. NYSE Up Volume % > 90%. Buy on close. Sell 50 days later. $100k/trade. 1970 - present. | | | | |
|---|---|---|---|---|
| **Date/Time** | **Signal** | **Price** | **% Profit** | **Run-up Drawdown** |
| 11/30/70 | Buy | $87.20 | 11.69% | $11,815.26 |
| 02/10/71 | Sell | $97.39 | | $0.00 |
| 01/27/75 | Buy | $75.37 | 9.91% | $14,108.64 |
| 04/09/75 | Sell | $82.84 | | $0.00 |
| 01/05/76 | Buy | $92.58 | 9.01% | $10,281.60 |
| 03/16/76 | Sell | $100.92 | | $0.00 |
| 04/14/78 | Buy | $92.91 | 1.82% | $9,597.92 |
| 06/26/78 | Sell | $94.60 | | ($172.16) |
| 08/02/78 | Buy | $102.91 | 1.91% | $4,990.94 |
| 10/12/78 | Sell | $104.88 | | ($2,184.75) |
| 08/20/82 | Buy | $113.02 | 19.86% | $27,722.24 |
| 11/01/82 | Sell | $135.47 | | ($928.20) |
| 11/03/82 | Buy | $142.86 | 2.65% | $4,347.78 |
| 01/14/83 | Sell | $146.64 | | ($7,535.22) |
| 08/02/84 | Buy | $157.99 | 3.91% | $7,362.80 |
| 10/12/84 | Sell | $164.17 | | $0.00 |
| 01/04/88 | Buy | $255.94 | 3.98% | $5,779.80 |
| 03/15/88 | Sell | $266.12 | | ($6,154.20) |
| 05/12/89 | Buy | $313.84 | 6.38% | $7,488.90 |
| 07/25/89 | Sell | $333.87 | | $0.00 |
| 05/11/90 | Buy | $352.00 | 1.08% | $5,049.52 |
| 07/24/90 | Sell | $355.79 | | ($542.44) |
| 02/11/91 | Buy | $368.58 | 3.85% | $6,146.28 |
| 04/24/91 | Sell | $382.76 | | ($1,734.40) |
| 05/04/09 | Buy | $907.24 | 2.80% | $5,388.90 |
| 07/15/09 | Sell | $932.68 | | ($4,171.20) |
| 08/03/09 | Buy | $1,002.63 | 7.04% | $7,674.48 |
| 10/13/09 | Sell | $1,073.19 | | ($2,387.88) |
| 08/02/10 | Buy | $1,125.86 | 3.90% | $4,111.36 |
| 10/12/10 | Sell | $1,169.77 | | ($7,582.08) |
| 10/18/11 | Buy | $1,225.38 | 3.07% | $5,449.68 |
| 12/29/11 | Sell | $1,263.02 | | ($5,404.32) |

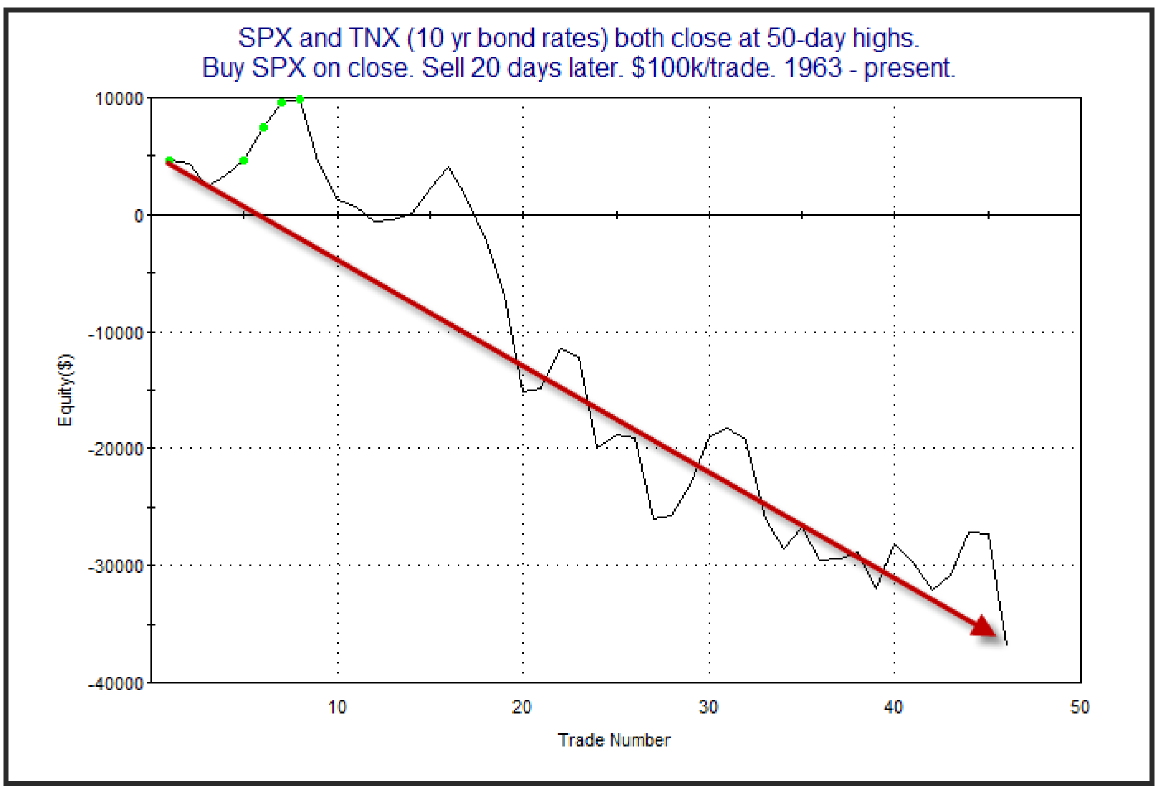
The results are outstanding across the board.

The last study of intermediate-term significance from this week, also from 3/14/12, is below. It noted the fact that 10-year bond rates hit new highs on Tuesday along with the SPX.

SPX and TNX (10 yr bond rates) both close at 50-day highs.
Buy SPX on close. Sell X days later. $100k/trade. 1963 - 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 50 | -35,672.95 | 37 | 17 | 20 | 45.95 | 3,406.25 | 9,293.13 | -4,678.96 | -11,866.50 | 0.73 | 0.62 | -964.13 |
| 45 | -31,810.41 | 38 | 16 | 22 | 42.11 | 4,061.53 | 8,170.47 | -4,399.76 | -11,540.20 | 0.92 | 0.67 | -837.12 |
| 40 | -19,094.95 | 40 | 19 | 21 | 47.50 | 3,794.28 | 7,101.51 | -4,342.20 | -10,971.10 | 0.87 | 0.79 | -477.37 |
| 35 | -31,559.89 | 42 | 18 | 24 | 42.86 | 3,350.00 | 9,093.59 | -3,827.50 | -9,558.36 | 0.88 | 0.66 | -751.43 |
| 30 | -18,938.52 | 43 | 17 | 26 | 39.53 | 3,582.60 | 8,122.50 | -3,070.87 | -6,689.55 | 1.17 | 0.76 | -440.43 |
| 25 | -7,364.05 | 44 | 19 | 25 | 43.18 | 2,969.29 | 7,845.48 | -2,551.22 | -6,261.07 | 1.16 | 0.88 | -167.36 |
| 20 | -36,936.63 | 46 | 23 | 23 | 50.00 | 1,781.90 | 4,616.92 | -3,387.84 | -9,695.84 | 0.53 | 0.53 | -802.97 |
| 15 | -29,133.07 | 46 | 24 | 22 | 52.17 | 1,680.97 | 3,500.32 | -3,158.01 | -9,608.60 | 0.53 | 0.58 | -633.33 |
| 10 | -8,833.84 | 51 | 30 | 21 | 58.82 | 1,326.33 | 3,263.44 | -2,315.41 | -8,683.66 | 0.57 | 0.82 | -173.21 |
| 5 | -5,607.13 | 67 | 36 | 31 | 53.73 | 1,038.59 | 5,231.46 | -1,386.98 | -6,088.44 | 0.75 | 0.87 | -83.69 |

Generally it seems that higher interest rates have often made bonds an attractive investment. This may have lead people to forsake stocks in favor of lower risk returns with improved yield. Implications of this study appear to be longer-term in nature. To help visualize how this edge has played out over time I have pasted below equity curve using a 20-day exit strategy.

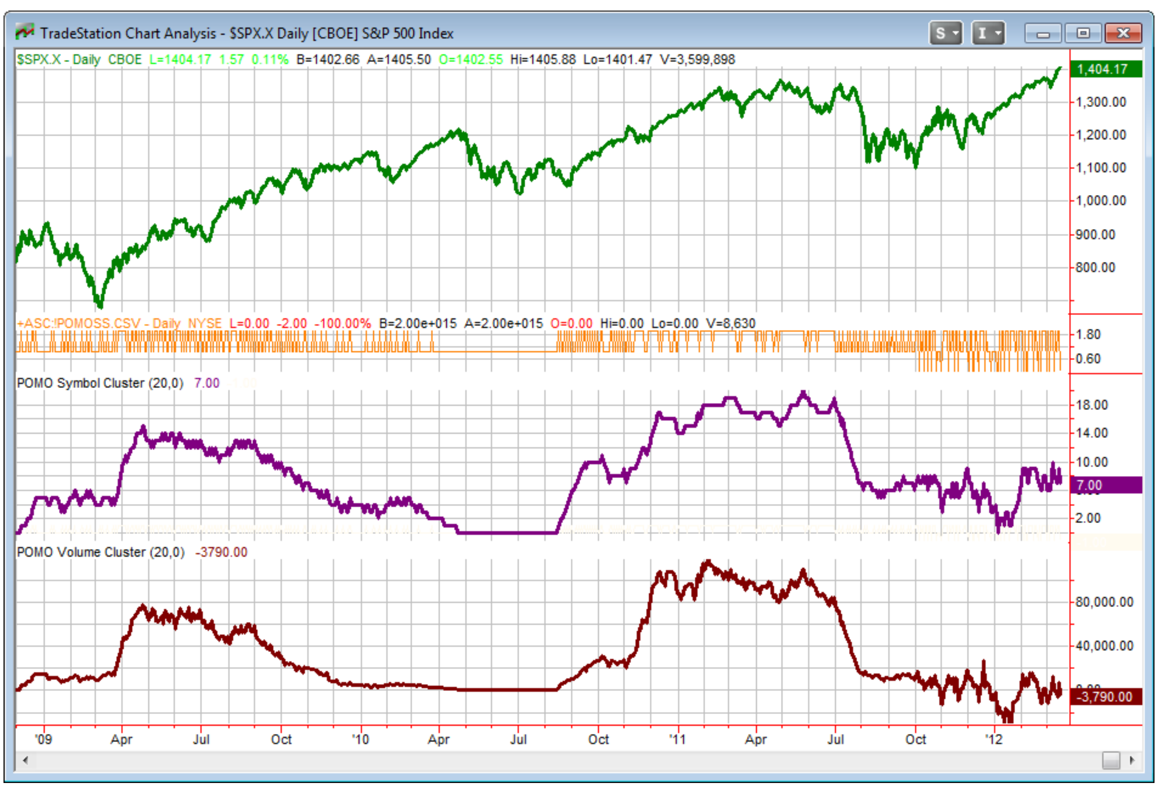


The most recent instance saw the curve hit new lows and kept the downslope squarely intact.  So not all the news was good this past week.

I've been updating the POMO chart most weekends in the letter.  For those who may not recall below is a brief refresher on POMO.  Beneath that I have updated our POMO indicator chart.

*POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities.  The net effect of this buying is an influx of cash into the system.  It appears a portion of that cash makes its way to the stock market and works as a bullish influence.  A "POMO Day" is simply a day where these operations take place… The chart below (shows a couple of POMO indicators).  The top pane is the S&P 500.  The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days.  In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1.  The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days.  Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below.  (Not available for trial users.)*

*http://www.quantifiableedges.com/members/pomo.php*



There were 3 days of buying and 1 day of selling this week by the Fed, but since the selling day was much stronger the net amount was $1.5 billion of POMO outflows. The intermediate-term POMO indicators continue to wiggle in their recent range.

This upcoming week is scheduled to see the strongest net inflows in months. Every day is scheduled for buying and the net amount is expected to be near $15 billion. This should help to provide some short-term support for the market, and perhaps even a bit of a boost. (A pullback early in the week could be a nice buying opportunity.)

I'm still somewhat surprised that the market has managed to mount such a strong rally over the last few months without much in the way of POMO aid from the Fed. Currency swaps with Europe may have helped out in Dec-Jan but as we noted last week, these have dipped a bit recently as well. So perhaps the rally is a sign of an improving economy and business environment. But just in case it may be wise to stay wary.

Without a strong quantitative easing policy liquidity shocks could hit the market at any time. Aside from POMO, we should remain mindful of breadth divergences, and as we saw this week, the rising interest rates could also spell trouble for the market. Still, there appear to be more positives than negatives for the intermediate-term. The persistent uptrend, the leading Nasdaq, the breakout on breadth and some studies associated with recent price action all suggest more gains to come. While not all-out bullish at this point, I am still more comfortable being aggressive with long trades than with shorts.

**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 | $9.96 | 17.45% | | Aggressive VIX |
| | | | | | | |
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*XIV - XIV still appears to carry both directional and term structure edges. With market expectations favorable for both the short and intermediate-term, volatility is expected to remain low. Contango remains extremely steep, which is a strong help to XIV. But the contango edge may be greatly reduced in a few days. On Friday afternoon the VIX closed at 14.47. The March futures, which will be settled this Wednesday morning, closed over 10% higher than that, at 16.15. So futures are still pricing in a strong rise to the VIX in the next couple of days. I don't see this as likely. April futures closed at a much higher 21.6. The difference between the front month and the second month is where XIV makes money off the roll. So the next couple of days could see solid gains in XIV if we are able to avoid a volatility spike. May futures closed at 23.75. Therefore the spread between April and May is much narrower than the spread between March and April. If this remains the case, contango benefits will be substantially reduced starting on Wednesday. I'll continue to monitor this trade closely, but see no compelling reason to exit in the next couple of days. The contango situation does bear watching and I will likely update that on Wednesday evening after the March futures have settled.*