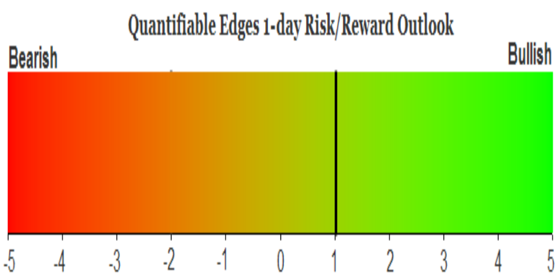
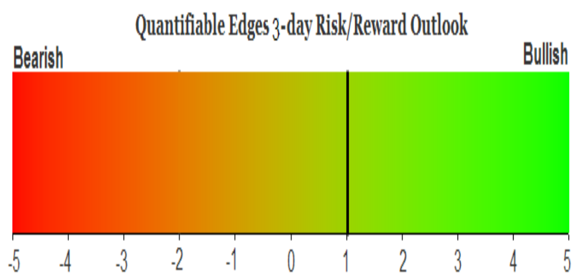
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 13, 2012 Volume 5 Issue 71

Market Overview





Signals Overview

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

Tonight's Research Points

- Studies identified by the Quantifinder tonight have not been as bullish lately.

Short-term Outlook
The Bottom Line

Expectations remain positive. The market is still oversold but that will change Friday. It is time to start considering taking long exposure off the table.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 12, 2012	Low vol bounce after RSI(2)<2.	1-2 days	Bullish	
April 11, 2012	System 110524	1-7 days	Bullish	2.30%
April 10, 2012	4 down. Biggest drop today. SPX>200ma	1-5 days	Bullish	2.10%
April 10, 2012	Worst breadth & lowest volume 15 days	1-4 days	Bullish	1.90%
April 2, 2012	SPX 3-day high. Nas/Rus down 3 days.	1-10 days	Bullish	4.30%
Active - Long Term				
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	
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				
April 10, 2012	5 gaps down	1-3 days	Bullish	2.30%
April 12, 2012	***Mild price bounce after 4+ day dro***	***1 day***	***Bullish***	

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

The Evidence

Thursday the market put in strong gains. The SPX rose 1.4%, the NASDAQ gained 1.3%, and the Russell 2000 rallied 1.5%. Breadth was strongly positive as the NYSE Up Issues % came in at 80% and the Up Volume % was 88%. Total NYSE volume declined a little from Wednesday's level.

It was a very odd night when looking at studies. The Quantifinder identified several that suggested bullish implications. Unfortunately, upon closer examination, all of them appeared to struggle in recent instances. Ultimately there were none that I found compelling enough to include on the short-term Active List. Below are 2 studies that are from the 2/3/10 subscriber letter that exemplify the dilemma I was faced with. They both use breadth to measure the strength of the 2-day move up. This first one looks for 2 strong days that fail to make a 10-day high.

NYSE Up Issues % closes > 75% 2 days in a row. SPX fails to make 10-day intraday high. Buy SPX on close. Sell X days later. $100k/trade. 1969 - 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	-5,391.68	12	5	7	41.67	2,570.32	4,729.48	-2,606.18	-6,546.10	0.99	0.70	-449.31
9	-6,471.05	12	4	8	33.33	3,252.85	5,086.20	-2,435.31	-6,669.30	1.34	0.67	-539.25
8	-3,386.05	12	5	7	41.67	2,845.72	4,810.82	-2,516.38	-4,082.16	1.13	0.81	-282.17
7	-1,726.55	12	5	7	41.67	2,921.75	5,131.28	-2,333.62	-5,073.66	1.25	0.89	-143.88
6	1,367.71	12	5	7	41.67	2,430.68	3,550.54	-1,540.82	-3,422.14	1.58	1.13	113.98
5	7,775.39	12	7	5	58.33	2,140.33	3,685.00	-1,441.38	-2,952.00	1.48	2.08	647.95
4	10,149.00	12	10	2	83.33	1,687.31	5,239.40	-3,362.08	-4,192.20	0.50	2.51	845.75
3	12,479.94	12	9	3	75.00	2,070.31	4,328.20	-2,050.94	-3,341.70	1.01	3.03	1,039.99
2	6,711.00	12	7	5	58.33	1,609.55	4,328.20	-911.17	-3,618.90	1.77	2.47	559.25
1	8,467.75	14	9	5	64.29	1,255.84	3,140.50	-566.96	-705.99	2.22	3.99	604.84

Instances are low but they appear to have a bullish tilt. But these stats were much better in the 2/3/10 letter. Below is a list of instances that assumes a 4-day holding period. You can see here why the stats no longer appear as bullish.

NYSE Up Issues % closes > 75% 2 days in a row. SPX fails to make 10-day intraday high.Buy SPX on close. Sell 4 days later. $100k/trade. 1969 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/01/69	Buy	$93.47	0.56%	$555.88
08/07/69	Sell	$93.99		($513.12)
05/28/70	Buy	$74.61	5.24%	$5,239.40
06/03/70	Sell	$78.52		$0.00
11/03/82	Buy	$142.86	0.11%	$1,726.53
11/09/82	Sell	$143.02		($3,166.47)
06/04/84	Buy	$154.33	0.54%	$685.82
06/08/84	Sell	$155.16		($685.82)
10/30/87	Buy	$251.78	1.07%	$1,711.07
11/05/87	Sell	$254.47		($3,576.97)
12/31/08	Buy	$903.25	0.38%	$4,466.00
01/07/09	Sell	$906.65		($429.00)
09/04/09	Buy	$1,016.40	2.59%	$3,114.44
09/11/09	Sell	$1,042.73		$0.00
10/06/09	Buy	$1,054.72	2.04%	$2,325.56
10/12/09	Sell	$1,076.19		($434.28)
02/02/10	Buy	$1,103.32	(4.22%)	$0.00
02/08/10	Sell	$1,056.74		($5,293.80)
07/08/10	Buy	$1,070.25	2.33%	$2,716.53
07/14/10	Sell	$1,095.17		($199.95)
11/03/11	Buy	$1,261.15	(2.54%)	$1,295.60
11/09/11	Sell	$1,229.10		($2,726.29)
03/08/12	Buy	$1,365.91	2.08%	$2,446.23
03/14/12	Sell	$1,394.28		$0.00

Two of the last four instances were losers – and sizable ones at that. Normally just 2 instances would not concern me but since the total instances in the study is so low, the recent struggles demand attention. So I will continue to track this study but will look for results to improve before utilizing it again.

This next study was quite similar. It did not consider 10-day highs though. Rather, it simply looked for 2 strong breadth days above the 200ma. Results here are updated from the 2/3/10 letter as well.

NYSE Up Issues % closes > 75% 2 days in a row. SPX > 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 1969 - present.

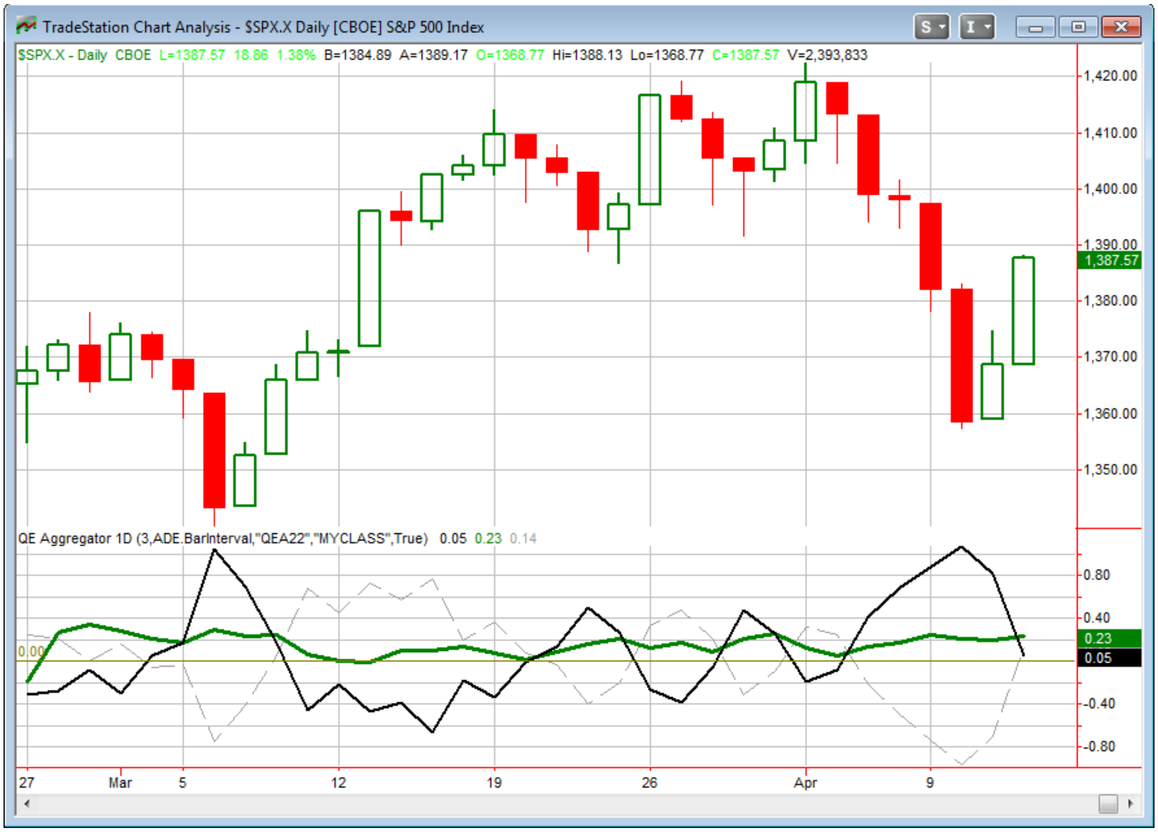
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	39,476.00	18	14	4	77.78	3,424.15	7,954.00	-2,115.52	-3,456.53	1.62	5.67	2,193.11
9	34,797.42	18	13	5	72.22	3,638.04	8,085.92	-2,499.42	-5,207.55	1.46	3.78	1,933.19
8	28,717.74	18	13	5	72.22	2,979.61	6,037.28	-2,003.43	-4,082.16	1.49	3.87	1,595.43
7	29,063.42	18	12	6	66.67	3,166.99	6,145.92	-1,490.07	-2,334.66	2.13	4.25	1,614.63
6	27,811.17	19	15	4	78.95	2,432.01	5,002.50	-2,167.23	-3,167.10	1.12	4.21	1,463.75
5	24,179.63	19	13	6	68.42	2,450.06	4,482.50	-1,278.53	-2,952.00	1.92	4.15	1,272.61
4	19,180.66	19	15	4	78.95	1,884.63	6,138.16	-2,272.21	-4,192.20	0.83	3.11	1,009.51
3	12,410.13	19	13	6	68.42	1,860.34	4,376.64	-1,962.39	-5,105.87	0.95	2.05	653.16
2	8,772.58	20	13	7	65.00	1,288.63	4,399.92	-1,139.94	-3,618.90	1.13	2.10	438.63
1	6,059.07	22	14	8	63.64	673.57	1,848.00	-421.36	-705.99	1.60	2.80	275.41

Here again we see what appears to be a bullish inclination. But again recent instances have struggled. Below is a list utilizing the 4-day exit strategy.

NYSE Up Issues % closes > 75% 2 days in a row. SPX > 200ma. Buy SPX on close. Sell 4 days later. $100k/trade. 1969 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
06/02/75	Buy	$92.58	(0.11%)	$334.80
06/06/75	Sell	$92.48		($108.00)
12/26/75	Buy	$90.25	0.72%	$720.20
01/02/76	Sell	$90.90		($531.84)
01/02/76	Buy	$90.90	4.05%	$4,048.00
01/08/76	Sell	$94.58		$0.00
01/04/79	Buy	$98.58	0.19%	$1,399.32
01/10/79	Sell	$98.77		($760.50)
11/12/79	Buy	$103.50	0.27%	$1,391.04
11/16/79	Sell	$103.78		($1,535.94)
08/23/82	Buy	$116.11	0.86%	$4,399.71
08/27/82	Sell	$117.11		($1,747.83)
10/07/82	Buy	$128.80	6.14%	$7,822.08
10/13/82	Sell	$136.71		($1,226.08)
11/03/82	Buy	$142.86	0.11%	$1,726.53
11/09/82	Sell	$143.02		($3,166.47)
08/03/84	Buy	$162.35	1.96%	$2,170.95
08/09/84	Sell	$165.53		($953.25)
01/05/87	Buy	$252.19	2.59%	$2,772.00
01/09/87	Sell	$258.72		($23.76)
12/24/91	Buy	$399.33	4.45%	$4,747.50
12/31/91	Sell	$417.09		($5.00)
08/02/96	Buy	$662.49	0.02%	$318.00
08/08/96	Sell	$662.59		($849.00)
08/16/06	Buy	$1,295.43	0.26%	$543.62
08/22/06	Sell	$1,298.82		($209.44)
09/04/09	Buy	$1,016.40	2.59%	$3,114.44
09/11/09	Sell	$1,042.73		$0.00
10/06/09	Buy	$1,054.72	2.04%	$2,325.56
10/12/09	Sell	$1,076.19		($434.28)
02/02/10	Buy	$1,103.32	(4.22%)	$0.00
02/08/10	Sell	$1,056.74		($5,293.80)
07/26/10	Buy	$1,115.01	(1.20%)	$528.66
07/30/10	Sell	$1,101.60		($2,403.00)
10/27/11	Buy	$1,284.59	(3.63%)	$191.73
11/02/11	Sell	$1,237.90		($5,326.09)
03/08/12	Buy	$1,365.91	2.08%	$2,446.23
03/14/12	Sell	$1,394.28		$0.00

In this case there have been 3 of the last 4 that failed. And even the run-up stats for those 3 were very weak. Like the study above, this one is also now put on the backburner.

I have updated the Aggregator chart below.



Without any new studies the green Aggregator Line is still 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 closed just barely above zero. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are very bullish and the SPX is very mildly overbought versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This meant the Aggregator System remained long at the close. This was projected on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Friday. It would take strongly bearish evidence to change this. Meanwhile, the Differential Pivot will be *strongly inverted* at 1,366.90 on Friday. An inverted pivot means the Differential line will cross zero if the SPX breaks even. In this case the pivot is a whopping 1.5% below Thursday's close. So the SPX would need to decline at least this much in order to prevent it from shifting from oversold to overbought versus expectations.

The inverted pivot means the Aggregator is unlikely to maintain its long signal tomorrow. It often suggests an opportune time to take profits is on intraday rallies. And the early morning range can sometimes be used as a stop level to protect some profits in case of a sizable selloff that does not drop the “required” 1.5% needed to keep the long signal active.

So I am in exit mode for my SPY trades. The bias is still long but if the market moves higher tomorrow the bias won’t be long any more. Additionally, it is worth considering that the CBI is now back to 2, which is a neutral reading, and the QE Buying Power Index is 0. A reading of 0 suggests we do not have short-term POMO liquidity at our backs. The CBI / Buying Power Index combination leads me to believe that it is not wise to push my luck too far. We may not get much more of a bounce from here. I will look to exit part of my position should the market rally in the morning and then I will look to trail a stop up and exit the 2nd part by the close as long as we don’t have a freefall on Friday. Details are in the trade ideas section near the bottom of the letter.

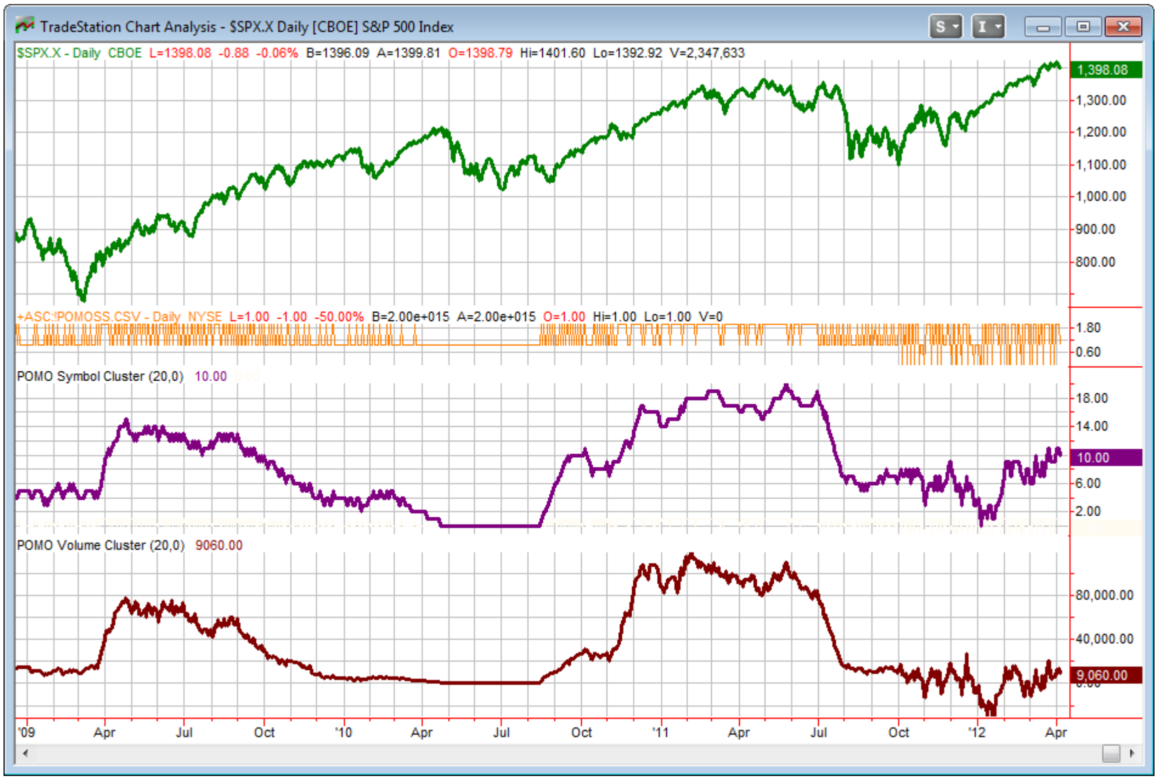
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/9 – neutral

Despite positive seasonality the market failed to make progress in this shortened week. The SPX declined a mild 0.75% from last week’s close. This week’s action didn’t bring about any new intermediate-term edges, but there are still some things to consider.

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.)

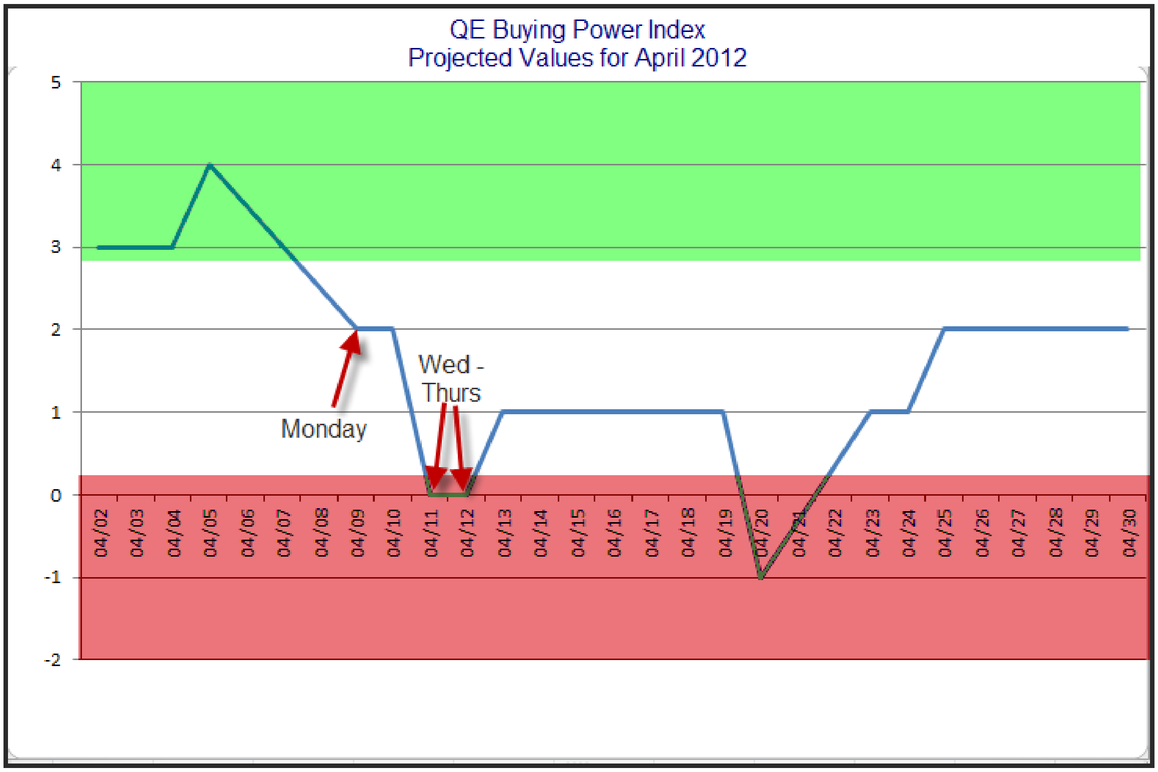
http://www.quantifiableedges.com/members/pomo.php



This past week saw strong inflows in the amount of just over $12.5 billion. This was accomplished with 3 days of buying, and 1 day of inactivity. This kept the intermediate-term POMO indicators near the top of their recent range.

The liquidity flows are about to worsen, though. This upcoming week is scheduled for three days of buying and two days of selling with total net inflows of only about $1 billion. And over the next three weeks there is expected to be about $13 billion in net POMO outflows. As I did last week, I think it is worth pointing out the April projected QE Buying Power Index. The chart below is taken from the QE Buying Power Index information page.

http://www.quantifiableedges.com/members/qebuyingpower.php



I added a few arrows here to point out what's happening this week. As you can see, Monday the index is set to drop down to "2". Of course "3" or higher is considered bullish. After spending most of March at 3 or above, the index will not see that level again in April. This means the QE Buying Power Swing System cannot trigger long for the rest of the month. There will be a few opportunities for shorts to trigger. The first of those opportunities will be on Wednesday and Thursday of this upcoming week. So if the market does bounce in the early part of this upcoming week as the short-term outlook above suggests is likely, there is a chance it could set up a short trade on either Wednesday or Thursday.

I have continually been surprised at how well the market has performed over the last few months considering the very slight inflows provided by Operation Twist. If the market is going to suffer an intermediate-term pullback, POMO flows suggest it could get going here soon.

Aside from the poor POMO schedule, we also need to be mindful of breadth divergences, and possible negative impacts from rising interest rates. Intermediate-term bullish indicators are still active, but they no longer appear to substantially overwhelm the bearish ones. I am not calling a top. I do not see a strong intermediate-term downside edge. But I am now wary and no longer excited about the bull case. Therefore I have moved my market outlook to neutral. I am still willing to take both longs and shorts, but I won't get overly aggressive with either.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

BAX @ $57.67 – not filled

KO @ $72.02 – filled @ $72.02

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 2/2(BAX, KO)**

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. All of the Catapults except BAX and KO hit their exit targets. I am no longer looking to get long BAX since it is much closer to an exit than an entry.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/5/2012	$139.38	$138.79	-0.42%		Aggregator
SPY(1/4)	4/9/2012	$138.03	$138.79	0.55%		Aggregator
KO(1/3)	4/11/2012	$72.02	$72.22	0.28%		Catapult
QCOM(1/3)	4/11/2012	$66.25	$68.33	3.14%		***Sell on open***

QCOM will be exited at the open.

***SPY** – I will look to sell 1 lot at a $138.79 limit. Should we gap up this will get us a better price. If SPY gaps down, I will be looking to exit on a gap fill. If a gap fill does not occur in the 1st half hour or so, I may send out an intraday update that would place a stop below the low of the day.*

The 2nd lot I will look to exit at the close. Here also I will likely send out an intraday update that will utilize a stop based on the early trading.