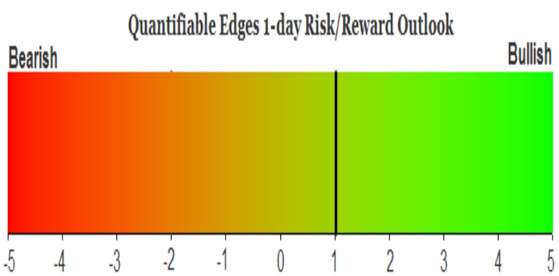
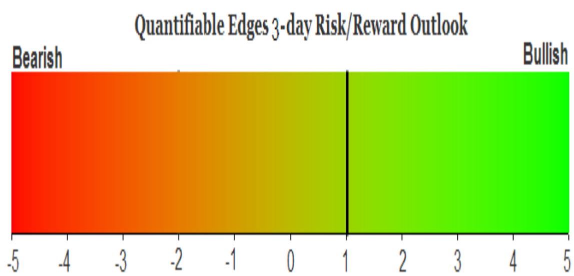
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 16, 2012 Volume 5 Issue 72

Market Overview





Signals Overview

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

Tonight's Research Points

- The weak price & breadth on Friday suggest an upside edge over the next several days.
- The next 3 days are seasonally bullish.
- POMO activity will be very negative this week, culminating this upcoming Friday in the 1st negative reading since February for the QE Buying Power Index.

Short-term Outlook

The Bottom Line

Expectations remain positive. But while studies are bullish, the market is no longer oversold. The CBI is no longer suggesting an upside edge. And finally, the QE Buying Power Index is not aiding the bulls. I have a small long position, but will not be getting aggressively long under these circumstances.

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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				
April 16, 2012	Down 1% on 2:1 negative breadth	1-3 days	Bullish	1.90%
April 16, 2012	Op-ex & Tax Time seasonally bullish	1-3 days	Bullish	1.90%
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 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 12, 2012	Low vol bounce after RSI(2) < 2	1-2 days	Bullish	
April 10, 2012	Worst breadth & lowest volume 15 days	1-4 days	Bullish	1.90%

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

The Evidence

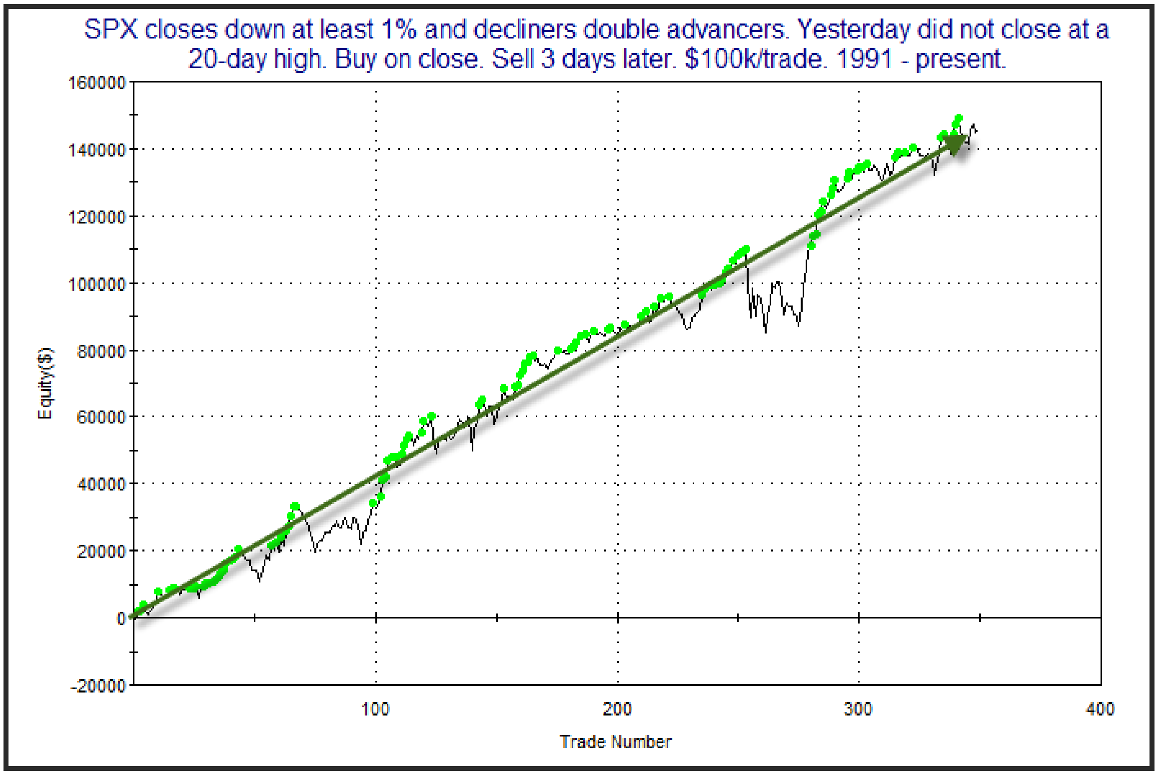
After two pretty good days the market had a bad day on Friday. The SPX lost 1.25%, and the NASDAQ and the Russell 2000 each lost 1.5%. Breadth was strongly negative as the NYSE Up Issues % came in at 24% and the Up Volume % was 14%. Total NYSE volume rose a little from Thursday's level.

Selling as strong as we saw on Friday is typically enough to suggest an upside edge over the next several days - especially when the market is not at an intermediate-term high. The study below exemplifies this. It has been shown many times in the Subscriber Letter. I most recently published it in the 11/17/11 letter, and have updated the statistics below.

SPX closes down at least 1% and decliners double advancers. Yesterday did not close at a 20-day high. Buy on close. Sell X days later. $100k/trade. 1991 - 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	218,365.98	218	144	74	66.06	3,042.64	16,319.16	-2,969.93	-16,768.40	1.02	1.99	1,001.68
9	259,806.17	226	158	68	69.91	2,924.37	10,875.66	-2,974.17	-18,373.16	0.98	2.28	1,149.58
8	224,704.41	237	156	80	65.82	2,929.91	15,738.88	-2,904.53	-17,685.00	1.01	1.97	948.12
7	204,056.56	256	159	97	62.11	2,686.26	10,415.64	-2,299.58	-12,654.00	1.17	1.91	797.10
6	173,057.08	268	164	104	61.19	2,522.72	14,933.73	-2,314.12	-19,140.34	1.09	1.72	645.74
5	179,913.81	291	174	117	59.79	2,382.64	11,405.78	-2,005.68	-8,351.64	1.19	1.77	618.26
4	142,860.06	313	180	133	57.51	2,241.43	14,020.11	-1,959.37	-14,820.98	1.14	1.55	456.42
3	145,503.66	349	213	136	61.03	1,865.60	8,531.60	-1,851.99	-10,506.45	1.01	1.58	416.92
2	134,975.22	399	219	180	54.89	1,797.10	8,484.76	-1,436.61	-8,657.72	1.25	1.52	338.28
1	119,378.66	449	263	186	58.57	1,216.16	10,716.03	-1,077.80	-7,577.02	1.13	1.60	265.88

Prior to the Crash of '87 very weak breadth days like this were often followed by more weakness. That changed after the crash. As you can see there have been a large number of instances over the last 20 years. The edge appears to be very solid as well. While the edge may persist as far out as nine days, I find the 3-day equity curve to be more appealing, and decided to show that below.

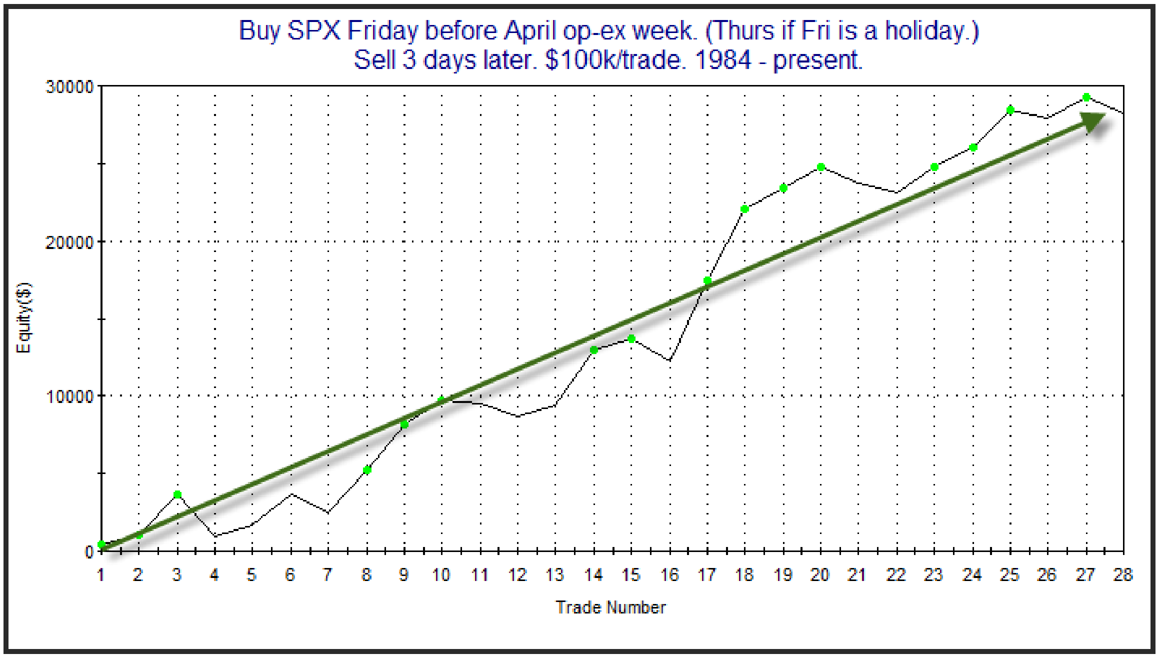


Other than a brief dip a while back this curve has been incredibly steady over time, suggesting an upside edge.

In addition to price and breadth action suggesting a possible pop, the first few days this upcomin week show strong seasonal bullish inclinations. April expirations week has historically been very bullish. I showed this in the 4/11/11 Subscriber Letter and have updated it below.

Buy SPX Friday before April op-ex week. (Thurs if Fri is a holiday.) Sell X days later. $100k/trade. 1984 - 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	24,457.99	28	17	11	60.71	2,361.00	5,393.97	-1,425.36	-3,580.15	1.66	2.56	873.50
4	25,733.18	28	18	10	64.29	2,201.22	5,895.12	-1,388.87	-3,587.57	1.58	2.85	919.04
3	28,258.48	28	19	9	67.86	1,984.48	5,215.85	-1,049.62	-2,745.05	1.89	3.99	1,009.23
2	20,104.12	28	23	5	82.14	1,263.57	6,245.15	-1,791.61	-4,545.53	0.71	3.24	718.00
1	9,383.60	28	20	8	71.43	720.49	3,322.23	-628.27	-2,339.26	1.15	2.87	335.13

The consistency has been very impressive. It suggests an upside edge the first few days of this week. Below is a profit curve that assumes a 3-day holding period.



Part of the reason that April may perform so well is that tax day often occurs this week. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market.

My research has found that some of the strongest influence occurs on tax day (normally April 15th) and the day immediately after. Below are some studies that demonstrate this.

SPX Tax Day Performance.
$100k/trade. 1981 - 2011.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$10,656.95	Profit Factor	3.05
Gross Profit	$15,852.71	Gross Loss	($5,195.76)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$343.77	Ratio Avg. Win:Avg. Loss	1.25
Avg. Winning Trade	$720.58	Avg. Losing Trade	($577.31)
Largest Winning Trade	$3,322.23	Largest Losing Trade	($1,601.32)

SPX day after Day Performance.
$100k/trade. 1981 - 2011.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$17,326.59	Profit Factor	4.22
Gross Profit	$22,705.25	Gross Loss	($5,378.66)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$558.92	Ratio Avg. Win:Avg. Loss	1.73
Avg. Winning Trade	$1,032.06	Avg. Losing Trade	($597.63)
Largest Winning Trade	$2,842.84	Largest Losing Trade	($1,602.28)

As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

Buy SPX on the day before Tax Day. Sell X days later..
$100k/trade. 1981 - 2011.

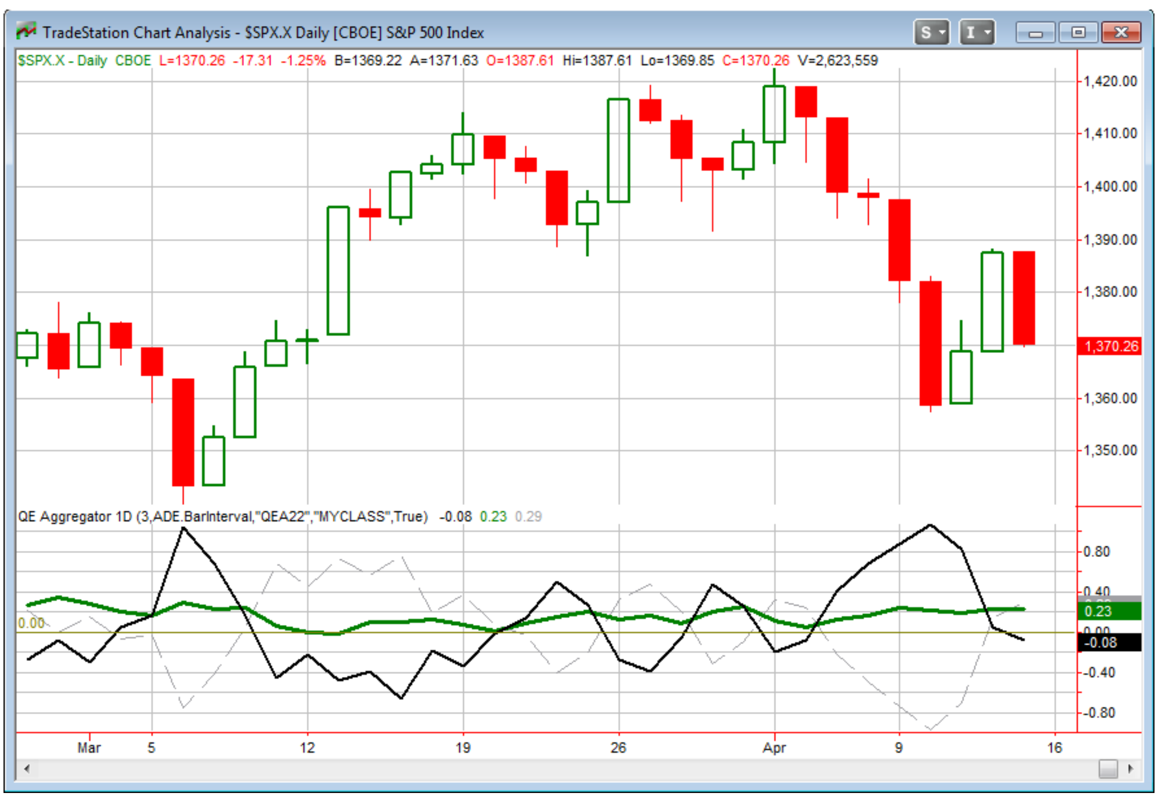
TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$28,153.20	Profit Factor	4.88
Gross Profit	$35,403.74	Gross Loss	($7,250.54)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$908.17	Ratio Avg. Win:Avg. Loss	2.00
Avg. Winning Trade	$1,609.26	Avg. Losing Trade	($805.62)
Largest Winning Trade	$6,245.15	Largest Losing Trade	($1,518.64)

As you would expect, numbers here are nicely impressive. With Sunday being the 15th this year and Monday being Emancipation Day in Washington DC, Tax Day does not happen until Tuesday the 17th. So this study would suggest a bullish tendency for Tuesday and Wednesday.

I have updated the Aggregator chart below.



The short-term studies are all bullish so the green Aggregator Line remains strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, despite Friday's selloff the black Differential Line declined to just below zero. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are quite bullish but the SPX is mildly 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 meant the Aggregator System changed from long to flat 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 Monday. It would take strongly bearish evidence to change this. Meanwhile, the Differential Pivot will be again be *inverted*. It will be 1,377.47 on Monday. An inverted pivot means the Differential line will cross zero if the SPX breaks even. In this case the pivot is about 0.5% *above* Friday's close. So the SPX would need to close up at least this much in order to prevent it from shifting from overbought to oversold versus expectations.

The inverted pivot means that unless the market rallies tomorrow, there is a strong chance the aggregator signal will go back to long. While I took off some of my long index position, I still hold a small lot because of the positive expectations and the inverted pivot.

I won't be looking to add anymore to my long index position on Monday. Despite bullish studies based on breadth, volume, and price action, as well as the positive seasonality early this week, I still have some concerns. For one, my intermediate-term outlook remains neutral. With a neutral intermediate-term outlook, I tend to play positions a little more conservatively. Additionally, the QE Buying Power Index continues to provide weak readings, and the CBI is at a neutral 2. Since the beginning of 2008 oversold SPX readings that have not been accompanied by a QE Buying Power Index of 3 or above have shown little or no upside edge. So while there is a decent amount of evidence suggesting we could move higher over the next few days, I don't believe it's a great time to be getting aggressively long.

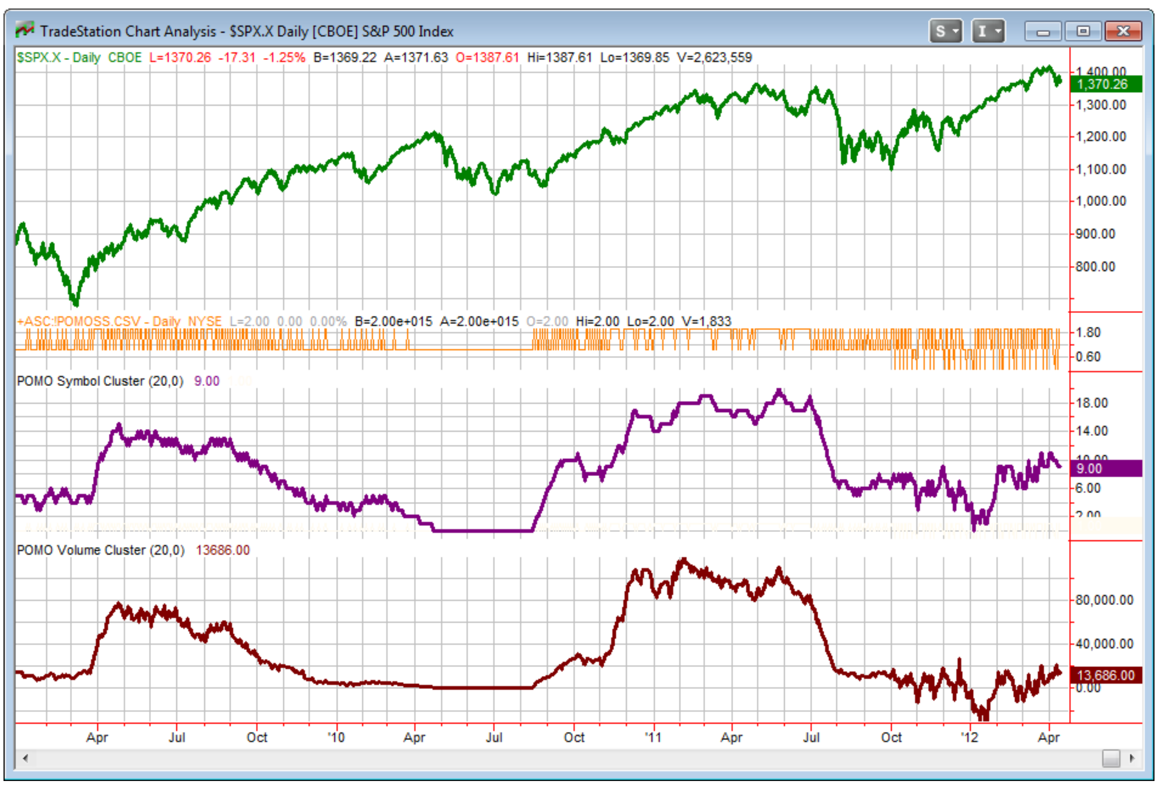
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/16 – neutral

This was the worst week since mid-December. It was the first time the SPX has closed down two weeks in a row since November and also the first time it has closed below its 5-week moving average since November. Evidence remains split in the intermediate-term, and nothing new and terribly compelling triggered 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



This past week saw moderate inflows in the amount of just over $3 billion. This was accomplished with 3 days of buying, and 2 days of selling. This kept the intermediate-term POMO indicators in the top end of their recent range.

This upcoming week is scheduled to be about as bad as we have seen from a liquidity flow standpoint since the beginning of Operation Twist. Monday, Wednesday and Friday are all scheduled to see outflows, while POMO buying is scheduled in smaller amounts on Tuesday and Thursday. The net estimated total for the upcoming week amounts to a $17 billion outflow. It's important to remember the daily flows do not have an immediate impact on the market. Rather, it appears to be a cumulative effect over a period of several days. This cumulative effect is what the QE Buying Power Index looks to measure.

The QE Buying Power Index is currently at 1, and is slated to stay there through Thursday. On Friday (op-ex) the Index is scheduled to provide its only negative reading of the month at -1. If the SPX does manage to take advantage of the price, breadth, volume, and seasonality edges we identified early in the week, and closes Friday in the top 20% of its 10-day range, then we would see the QE Buying Power Index Swing System trigger short at Friday's close.

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 studies are still active, but they no longer appear to substantially overwhelm the bearish ones. I remain neutral this week, waiting for more compelling evidence before taking a strong stance. I will likely play both the long and the short side fairly conservatively.

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. I'll see how things play out on Monday before considering new positions.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	***4/5/2012***	***$139.38***	***$137.14***	***-1.61%***		***sold on close***
SPY(1/4)	4/9/2012	$138.03	$137.14	-0.64%		Aggregator
KO(1/3)	4/11/2012	$72.02	$71.94	-0.11%		Catapult
QCOM(1/3)	***4/11/2012***	***$66.25***	***$68.13***	***2.84%***		***Sold on open***

The 1st lot of SPY was sold at the close as per the intraday update sent to gold subscribers on Friday.

SPY *– I will exit the last lot of SPY if the SPX closes >= the differential pivot of 1,377.47.*