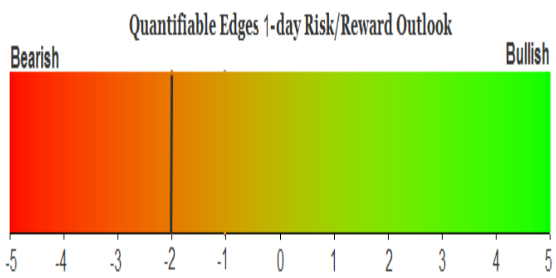
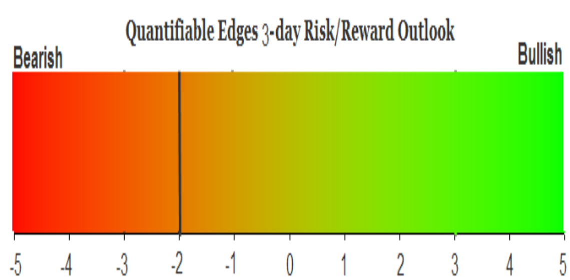
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2012 Volume 5 Issue 81

Market Overview





Signals Overview

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

Tonight's Research Points

- Recent action is not suggesting anything new.

Short-term Outlook
The Bottom Line

There still appears to be a mild downside edge. I plan to maintain my current 1/4 short position in SPY.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 26, 2012	Gap & go on a Fed Day	1-2 days	Bearish	-1.50%
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	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
April 24, 2012	Unfilled gap down after unfilled gap up	1-3 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

The market put in some nice gains again on Thursday. The SPX and the Nasdaq each rallied 0.7% and the Russell 2000 rose 0.8%. Breadth was squarely positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 68%. Total NYSE volume declined some from Wednesday's level.

The back-and-forth action lately has kept the market from generating extreme readings. This has in turn led to a low number of studies. The study drought continued on Thursday with nothing of real significance appearing. One study that looked interesting initially was from the 10/31/08 subscriber letter. It looked at times where the NASDAQ Up Issues % came in strong three days in a row. I looked at that study in detail tonight. I also decided to break out by its long-term trend. What I found was that while numbers may not look strongly different, instances above the 200ma did not produce a consistent edge. The study is really only worth consideration when the SPX is below its 200ma.

I have updated the Aggregator chart below.

The green Aggregator line is still below 0. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the rally over the last few days has caused the black Differential Line to drop sharply below zero. This suggests the SPX is more short-term overbought versus expectations than it has been in all of 2012. So net expectations are bearish and the SPX is very strongly overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This meant the Aggregator System remained short at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations will be nearly flat on Friday. And with the last of the short-term studies expiring on Friday, action and the edges it generates will largely determine short-term expectations over the next few days. Meanwhile, the Differential Pivot will be 1,366.59 on Friday. This is a whopping 2.4% below Thursday's close. It would therefore take a selloff of this magnitude on Friday to move the SPX out of overbought territory and flip the Differential Line back to positive. That large of a decline is highly unlikely. A more likely scenario would be a multi-day decline or consolidation to wear off the overbought condition.

Last night it appeared there was a small downside edge. On Thursday I looked take advantage of that edge by establishing a small short position in SPY. While it went against me, the edge still appears to be to the downside. I do have concerns though, and I am not interested in adding to my short position at the moment. Evidence is scarce, and while last night's study suggests a good probability of a pullback, I prefer multiple studies to be pointing in the same direction to create a compelling edge. With a neutral intermediate-term market outlook and a long-term uptrend in place I am also not inclined to get aggressive on the short side. Additionally, the QE Buying Power Index will be at 2 the next couple of days. Visibility beyond that is not available, and won't be until the Fed releases its new POMO schedule on Monday. Lastly, the next level of possible resistance on the SPX chart is about 20 points above where SPX closed today. It's unlikely I will look to increase my short exposure until we at least get up near that level.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/23 – neutral

The intermediate-term outlook was last updated in the 4/23 letter. Subscribers who wish to view it may use the link below:

2012-04-23 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/26/2012	$139.19	$140.16	-0.70%		shorted at limit