

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2012

Volume 5 Issue 91

Market Overview



Signals Overview

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

Tonight's Research Points

- Low-volume bounces when the SPX has been extremely oversold short-term have suggested an upside edge.

Short-term Outlook

The Bottom Line

Evidence continues to suggest an upside edge. I remained positioned to take advantage of a possible bounce.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 11, 2012	Low Vol Bounce from RSI(2) < 5	1-2 days	Bullish	
May 10, 2012	QE Buying Power Swing System long	1-5 days	Bullish	2.70%
May 9, 2012	20-day low close > 200ma	1-7 days	Bullish	2.00%
Active - Long Term				
May 7, 2012	QQQ 5 lower lows. Today biggest drop.	1-20 days	Bullish	12.30%
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	

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

The Evidence

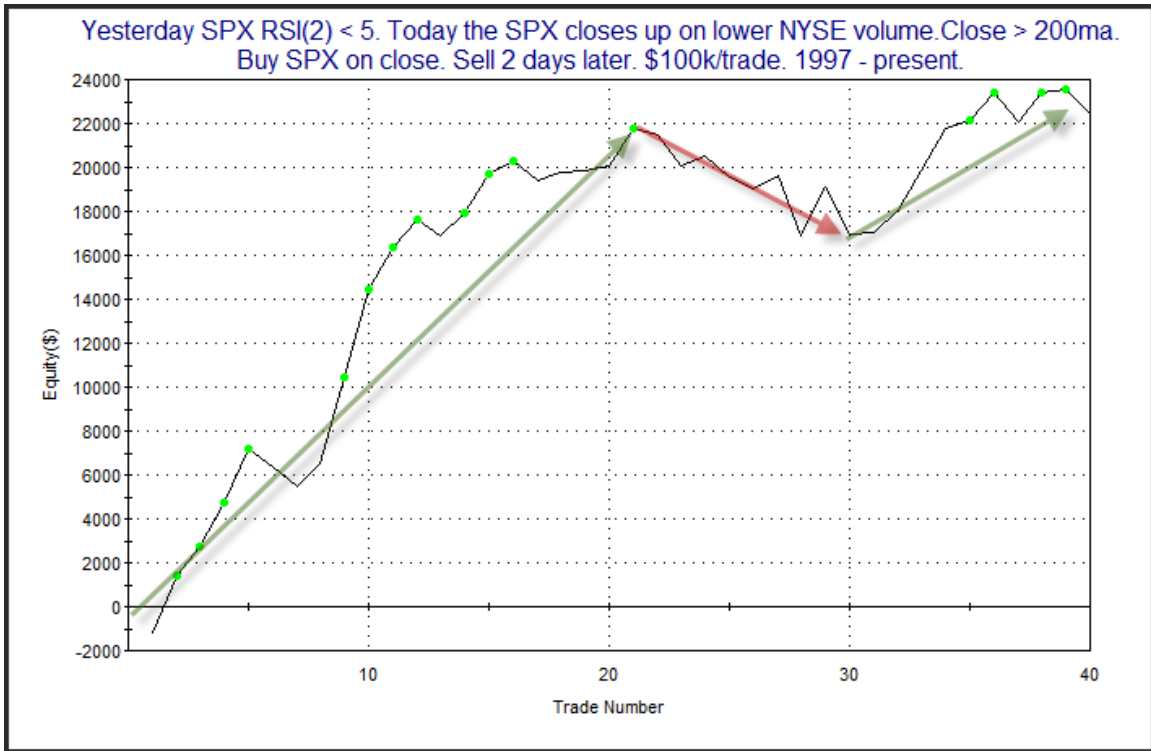
Thursday was the opposite of the last 2 days. This time we saw morning strength turn into afternoon weakness. The net result was a mixed market. The SPX finished up 0.3%, and the Russell 2000 gained 0.4%, but the NASDAQ lost a little less than 0.1%. Breadth was positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 61%. Total NYSE came in much lighter than the last 2 days.

The study below is a repeat from just 3 days ago in the 5/8/12 letter. It considered bounces from strongly oversold short-term conditions and filtered based on the relative volume of the first day of the bounce. The study suggested that low volume bounces provide more favorable odds. I have updated the results (but copied my commentary) below.

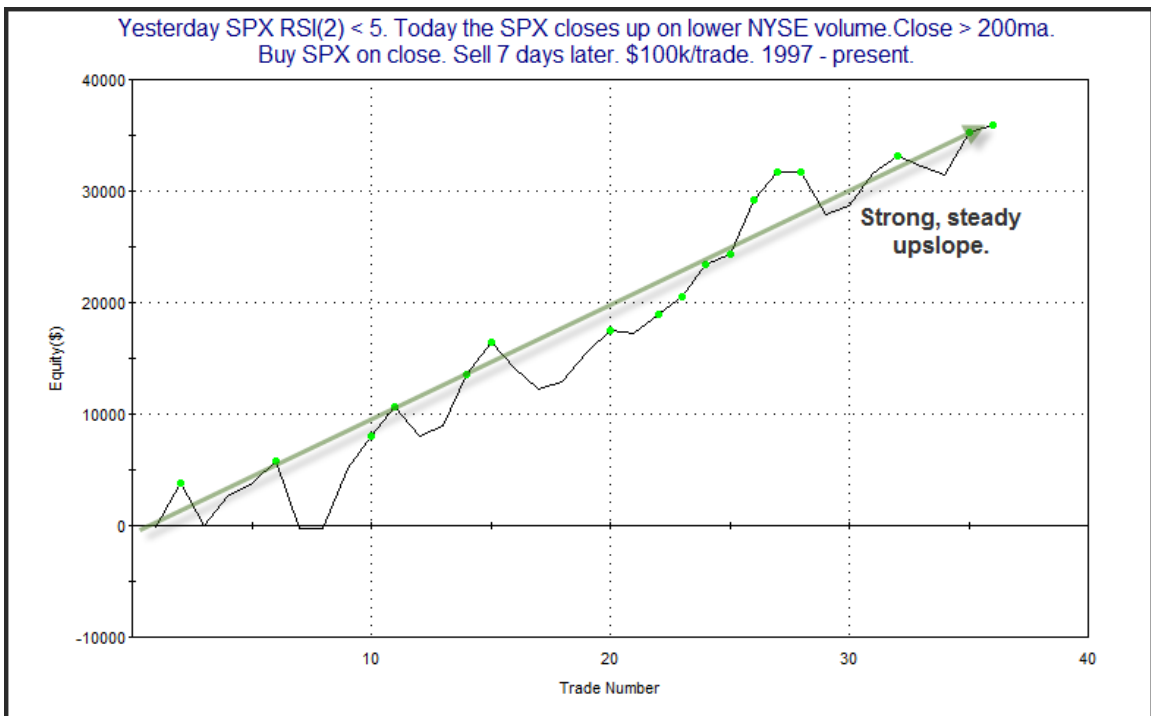
Yesterday SPX RSI(2) < 5. Today the SPX closes up on lower NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	24,788.25	35	18	17	51.43	3,285.31	6,440.94	-2,020.43	-7,402.88	1.63	1.72	708.24
9	31,413.86	36	24	12	66.67	2,604.46	6,371.46	-2,591.10	-6,195.44	1.01	2.01	872.61
8	20,913.74	36	24	12	66.67	2,250.91	6,486.48	-2,759.00	-7,580.04	0.82	1.63	580.94
7	35,951.13	36	25	11	69.44	2,339.56	5,418.09	-2,048.89	-5,975.16	1.14	2.60	998.64
6	32,241.85	37	25	12	67.57	2,092.58	5,668.38	-1,672.71	-3,510.00	1.25	2.61	871.40
5	27,843.19	37	22	15	59.46	2,375.39	5,396.71	-1,627.69	-8,178.56	1.46	2.14	752.52
4	25,905.11	39	24	15	61.54	1,942.10	4,223.34	-1,380.35	-2,736.28	1.41	2.25	664.23
3	17,969.02	39	23	16	58.97	1,510.13	4,457.43	-1,047.74	-3,490.90	1.44	2.07	460.74
2	22,428.66	40	27	13	67.50	1,389.14	4,001.40	-1,159.85	-2,735.64	1.20	2.49	560.72
1	14,383.37	40	26	14	65.00	977.69	2,842.84	-788.33	-2,782.56	1.24	2.30	359.58

89% of instances posted a close above the entry price at some point in the next week. 36 of 37 did so within 8 days.

The numbers here are all fairly attractive. The 2-day and 7-day results appeared to be especially appealing. Below are profit curves for both those time frames. First I will show the 2-day holding period.



This one saw a bit of a stumble in the middle of the curve, but now appears to be back on track. That is a little disconcerting, but not so much to make me throw out the study. I also wanted to look at the 7-day results.



This curve is more appealing. It did not seem to suffer the same struggles that the 2-day holding period experienced.

The volume is an interesting filter here. Many readers may be wondering whether it really matters. The test below looks at the exact same scenario, except rather than requiring volume come in lower, it requires it to come in higher.

Yesterday SPX RSI(2) < 5. Today the SPX closes up on higher NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-2,071.07	19	9	10	47.37	3,532.25	-2,969.64	1,342.26	-1,415.14	0.95	0.85	-109.00
4	-4,197.57	20	11	9	55.00	2,587.95	-2,541.13	929.63	-1,602.61	0.58	0.71	-209.88
3	-10,722.45	20	6	14	30.00	3,939.79	-2,517.13	1,234.45	-1,294.94	0.95	0.41	-536.12
2	-8,343.62	20	8	12	40.00	2,794.56	-1,962.36	705.60	-1,165.70	0.61	0.40	-417.18
1	-6,590.57	20	8	12	40.00	761.76	-1,774.60	347.28	-780.74	0.44	0.30	-329.53

As you can see, the change in volume appears to have a dramatic impact on the results. It would seem that the low volume bounces may suggest that people need convincing and are not rushing back in. But over the next few days, their willingness to commit capital and desire not let the bounce get too far away from them helps to propel it further.

I have updated the [Aggregator](#) chart below.



With tonight's study factored in the green Aggregator line remains positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also above zero. This means the SPX is short-term oversold versus expectations. So net expectations are bullish and the SPX is oversold 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 indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations will remain positive on Friday. Of course this could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,370.82 on Friday. This is 0.9% above Thursday's close. So it would take a rise of at least this much to move the SPX from oversold to overbought, causing the Differential line to drop below 0.

There still appears to be an upside edge. For all the range and intraday volatility over the last few days, closing prices haven't changed much. My open positions are about breakeven. Other than the Catapult trade, which did not receive a fill on Thursday, I will not be looking to up my exposure. A poor report out of JP Morgan after the close caused futures to drop about 10 points very quickly. So it will probably be a bad start to the day.

I'll take a look in the morning to see if I note any substantial edges based on the opening gap and send out notification if I uncover anything.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/7 – neutral

The intermediate-term outlook was last updated in the 5/7 letter. A link can be found below:

[2012-05-07 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

HD –1/3 @ \$50.11 (not yet filled – see trade ideas section below)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(HD)

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.

HD – buy 1/3 Catapult position @ \$50.11 LIMIT ON CLOSE. This is a Catapult trade and it was listed in the Catapult & CBI section above. No fill occurred on Thursday. Friday I will attempt a more conservative entry in that I will only enter at the close if HD finishes below its original limit.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	5/7/2012	\$64.31	\$64.19	-0.19%		Aggregator
SPY(1/4)	5/9/2012	\$135.74	\$136.02	0.21%		Aggregator/QE BuyPower

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