

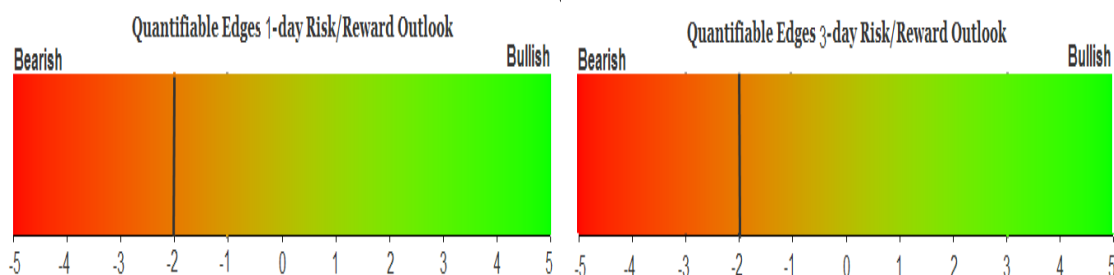
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 8, 2012

Volume 5 Issue 110

Market Overview



Signals Overview

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

Tonight's Research Points

- No new studies tonight.

Short-term Outlook

The Bottom Line

Expectations are now slightly negative. With the SPX overbought, the aggregator is suggesting a downside edge. Evidence is weak though, and it is a potentially dangerous time to be shorting, so I'm flat and staying out of it.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 5, 2012	Weak bounce after 1.75% drop	1-4 days	Bearish	
Active - Long Term				
June 7, 2012	90% up day on 3rd day of rally	1-14 days	Bullish	
May 21, 2012	CBI > 10.	1-20 days	Bullish	6.80%
February 1, 2012	Golden Cross	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
June 1, 2012	End-of-month decline	1-5 days	Bullish	2.50%
June 6, 2012	2 up after 20 low. Close < 3 days ago < 200	1-2 days	Bearish	
June 5, 2012	SPX up on poor breadth	1-3 days	Bearish	
June 4, 2012	Big drop on Friday	1-6 days	Bullish	3.20%

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

The Evidence

The market gapped up strong at the open but it made its high in the first few minutes of trading. After drifting sideways for most of the day, it sold off in the last hour, leaving most of the major indices in negative territory. The SPX was barely negative with a 0.01% loss, the Nasdaq lost 0.5% and the Russell 2000 fell 0.6%. Breadth was negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 44%. Total NYSE volume came in just below Wednesday's level.

In the end, action was unremarkable and it failed to trigger any of the 1000+ studies contained in the Quantifinder. Today's finish was typical of the kind of day where a 0-day study would occur. Price is no longer overextended and is near the midsection of its 2-week range. Volume and breadth were ordinary. The VIX is not terribly extended. And the CBI has now returned to zero, officially closing out the large (and very profitable) cluster that began nearly a month ago. So it's disappointing not to have anything interesting to discuss tonight, but there was some action related to the Aggregator since the morning rally took the market high enough that our last bullish study reached its target and was removed from the short-term Active List.

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



The removal of the "big drop on Friday" study combined with the late swoon that left the SPX just barely negative caused the green Aggregator line to turn negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still strongly below zero. This means the SPX is short-term overbought versus expectations. So net expectations are bearish and the SPX is 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 turned from flat to short.

On Friday the last short-term active study is set to expire. With the long-term active studies leaning just slightly bullish this would place expectations weakly positive. Of course this could easily change based on new short-term studies that emerge on Friday. Meanwhile, the Differential Pivot will be 1,286.91 on Friday. This means the SPX would need to close at or below that level in order to turn the Differential Line positive, signaling an oversold market. That would be a drop of 2.1% - an unlikely 1-day drop. A more likely scenario would be a multi-day decline or consolidation to wear off the overbought condition.

So the Aggregator is suggesting a mild short bias for tomorrow. While that may be true, I don't love the setup. The market is rallying off of a 100-day low and sentiment was extremely bearish only one short week ago. While the bounce has exceeded short-term

expectations and failed to generate compelling bullish evidence in the last few days, risks for shorting are high. The most common time for the market to enter a runaway up mode is when it is coming off of a long-term low and a capitulative bottom. While there may not have been massive capitulation, the CBI did hit eight last week. For me to short in an environment like this one I would need to see very compelling evidence. All the Aggregator is going on from a short-term perspective is a single bearish study-and that study is set to expire on Friday. So while we may see a pullback here, I'd rather step aside and wait for a more compelling setup.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/4 – neutral

The intermediate-term outlook was last updated in the 6/4 letter. A link is below.

[2012-06-04 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
<i>QQQ(1/4)</i>	<i>5/7/2012</i>	<i>\$64.31</i>	<i>\$63.16</i>	<i>-1.79%</i>		<i>sold on open</i>
<i>BAX(1/3)</i>	<i>6/4/2012</i>	<i>\$50.17</i>	<i>\$50.54</i>	<i>0.74%</i>		<i>hit stop intraday</i>
<i>BAX(1/3)</i>	<i>6/5/2012</i>	<i>\$49.92</i>	<i>\$50.54</i>	<i>1.24%</i>		<i>hit stop intraday</i>

BAX was exited using an intraday stop, which was sent to gold subscribers about 9:45am EST.

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