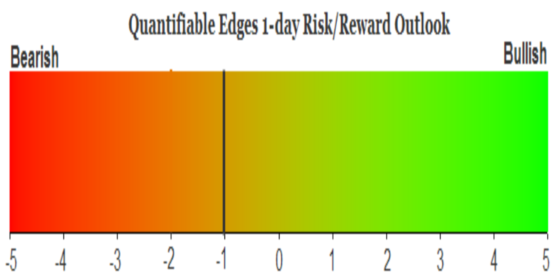
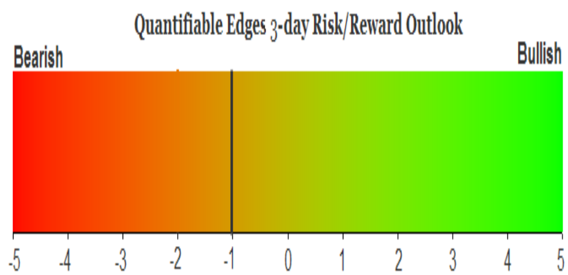
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 19, 2012 Volume 5 Issue 117

Market Overview





Signals Overview

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

Tonight's Research Points

- Very low SPY volume while at a short-term high suggests a pullback.

Short-term Outlook

The Bottom Line

Same as last night. The Aggregator is bearish but I am not yet convinced. Fed Day, POMO, and tendencies of a young rally could offset the Aggregator over the next few days. I am flat and looking to stay that way until at least Wednesday afternoon.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 19, 2012	SPY low vol 20, high price 10.	1-4 days	Bearish	
June 18, 2012	SPY low vol. VIX low close. Opex.	1-4 days	Bearish	-1.90%
June 18, 2012	SPX up 1%-2% opex week	1-5 days	Bearish	-1.40%
June 15, 2012	Top 10% 10-day range before opex	1-4 days	Bearish	-1.50%
Active - Long Term				
June 18, 2012	POMO modestly bullish	int term	slight bull	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
June 12, 2012	SPY 3high, 3low, 3low close.	1-10 days	Bullish	3.30%
June 7, 2012	90% up day on 3rd day of rally	1-14 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	

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

The Evidence

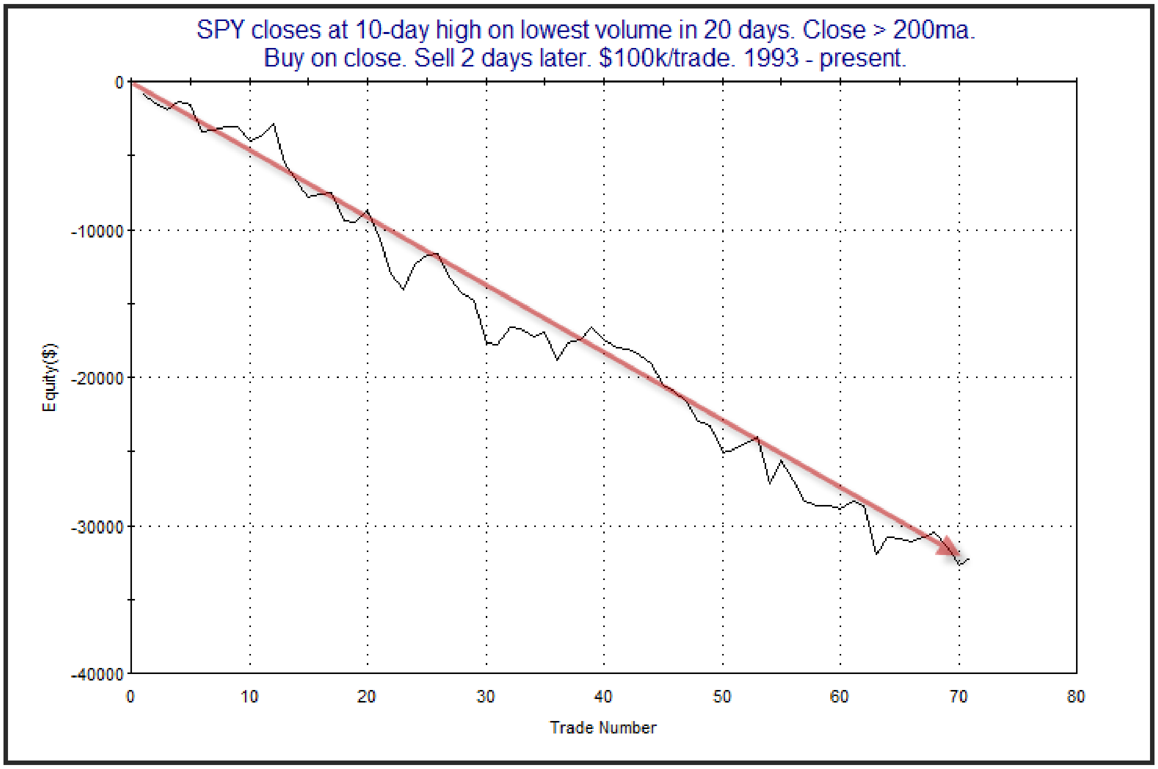
Monday was a slow day that ended with the market mostly higher. The SPX rose 0.1%, the Nasdaq gained 0.8% and the Russell 2000 rallied 0.2%. Breadth was mixed as the NYSE Up Issues % came in at 66% but the Up Volume % was 49%. Total NYSE volume was the lightest in over a week.

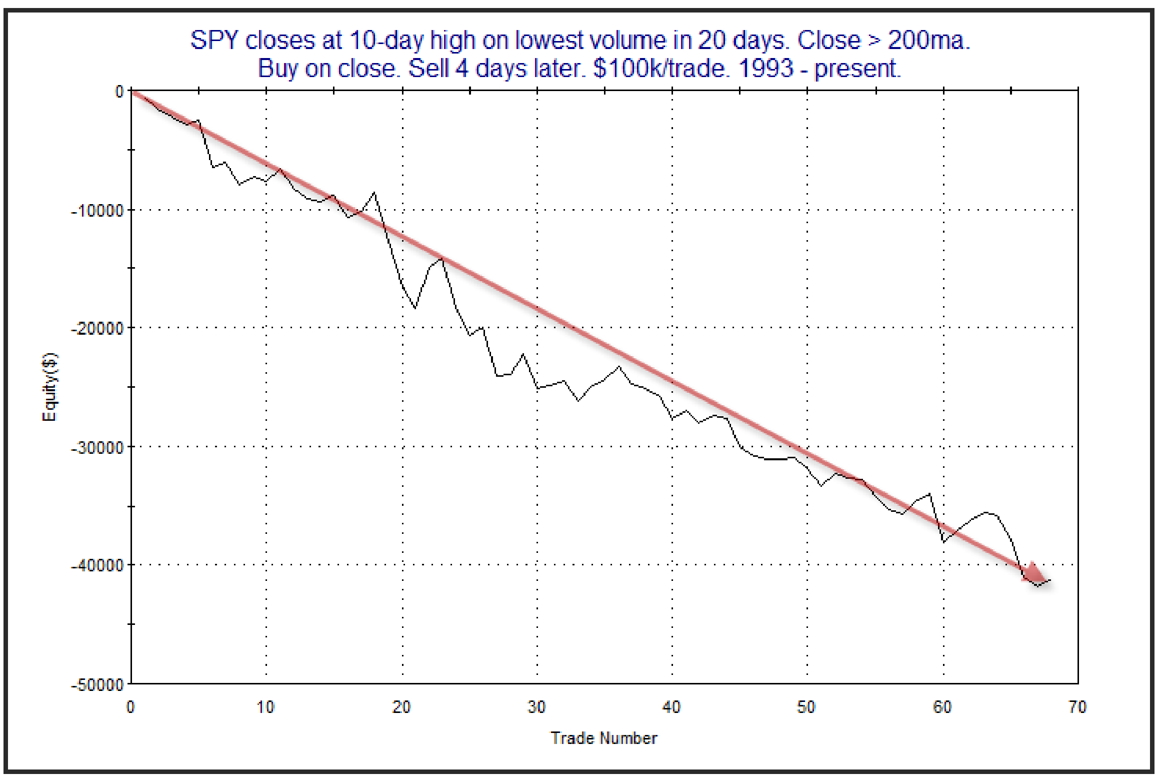
While NYSE volume was somewhat light, SPY volume was VERY light. Over the weekend I showed a study that looked at low SPY volume combined with a low VIX. Tonight I will show a study that looks for SPY volume to close at the lowest level in at least 4 weeks. SPY volume tends to spike during times of fear and to be low when traders are more comfortable. This is partially due to SPY often acting as a hedge security. Traders are less inclined to hedge when they are comfortable with market conditions. Such complacency is often punished. The study below demonstrates this. It was last seen in the 7/25/11 subscriber letter. All stats have been updated.

SPY closes at 10-day high on lowest volume in 20 days. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1993 - 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	-26,520.06	67	31	36	46.27	964.44	3,379.48	-1,567.16	-4,272.30	0.62	0.53	-395.82
4	-41,153.71	68	28	40	41.18	802.71	3,379.48	-1,590.74	-4,141.80	0.50	0.35	-605.20
3	-33,993.83	68	27	41	39.71	702.86	4,032.73	-1,291.98	-4,581.36	0.54	0.36	-499.91
2	-32,191.07	71	26	44	36.62	562.48	1,637.48	-1,063.99	-3,265.65	0.53	0.31	-453.40
1	-13,844.68	74	26	48	35.14	471.62	1,114.56	-543.89	-1,935.36	0.87	0.47	-187.09

This study looks back to the inception of the SPY in 1993. As you'll see below the edge has been quite steady over this entire period. The edge appears to max out after 4 days, though most of it is realized in the 1st 2 days. Below are both 4 and 2-day equity curves.


SPY closes at 10-day high on lowest volume in 20 days. Close > 200ma.
Buy on close. Sell 2 days later. $100k/trade. 1993 - present.
Equity($)
0
-10000
-20000
-30000
-40000
0
10
20
30
40
50
60
70
80
Trade Number


SPY closes at 10-day high on lowest volume in 20 days. Close > 200ma.
Buy on close. Sell 4 days later. $100k/trade. 1993 - present.
Equity($)
0
-10000
-20000
-30000
-40000
-50000
0
10
20
30
40
50
60
70
Trade Number

In both cases the edge appears intact. The strong, steady downslope serves as confirmation of the bearish inclinations. The results are especially impressive considering they were all realized in long-term uptrends.

I have updated the Aggregator chart below.

With all the short-term studies still bearish the green Aggregator line remains negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained 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 remained short at the close. This was indicated as likely on the systems page near the close.

Expectations are set to remain negative on Tuesday. Of course this could change if bullish studies emerge. Meanwhile, the Differential Pivot will be 1,338.59 on Tuesday. This is a drop of about 0.5%. If the SPX were to close down this much it would flip the Differential Line from negative to positive.

The Aggregator remains bearish. But as I have discussed recently there are certain times where the Aggregator has not provided a strong downside edge. One of those times is when the QE Buying Power Index is providing a bullish reading of 3 or more. It still is, and will until Wednesday afternoon. Another time that it is advisable to be extra cautious about shorting is when the market is early in a move off an intermediate-term low. Overbought is susceptible to getting "more overbought" under these circumstances. It's only been 4 days since Tuesday's Follow Through Day, so the rally attempt is still young (and potentially dangerous). Another point to consider that I discussed last night is that Wednesday is a Fed Day, and Fed Days have had a solid upside tendency historically.

So while the Aggregator is short, I'm not yet interested in taking on short exposure. That could change as early as Wednesday afternoon, when the Fed Day has passed and the QE Buying Power Index returns to neutral. For now though, it remains "wait and see".

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/18 – neutral

The intermediate-term outlook was last updated in the 6/18 letter. A link is below:
2012-06-18 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

None.