

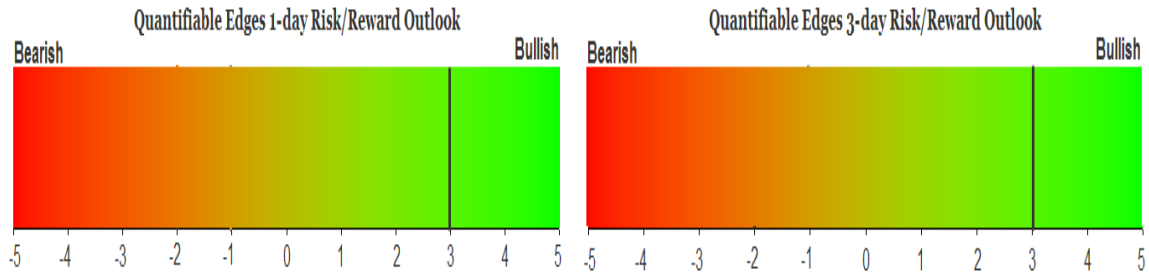
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2012

Volume 5 Issue 186

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing | NDX Trend Timer |
|------------|----------------|------------------|-----------------|
| Long | Long | Flat | Long |

Tonight's Research Points

- 4-day pullbacks going into a Wednesday have been strongly prone to upside reversals.
- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.

Short-term Outlook

The Bottom Line

The selloff Tuesday appears to be presenting a better buying opportunity. I am long and looking to get longer.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|--|-----------|---------|--------------|
| Active | | | | |
| September 26, 2012 | 4 down on Tuesday | 1-6 days | Bullish | 2.65% |
| September 26, 2012 | 4 down. Biggest today. > 200ma | 1-3 days | Bullish | 1.80% |
| September 25, 2012 | 3/10 HV < 0.25 4 days > 10ma > 200ma | 1-4 days | Bullish | 1.00% |
| September 24, 2012 | SPX dn. Up Issues > 55% | 1-3 days | Bullish | |
| September 24, 2012 | Weakest week | 1-4 days | Bearish | |
| September 18, 2012 | SPY unfilled gap up then down from 20h | 1-7 days | Bearish | -2.40% |
| Active - Long Term | | | | |
| September 17, 2012 | QE3 | int term | Bullish | |
| September 17, 2012 | SPX and TNX hit 50-day high | 1-20 days | Bearish | |
| August 20, 2012 | Nasdaq leading SPX | int term | Bullish | |
| July 30, 2012 | SPX 50-day high on 90% up vol | 1-50 days | Bullish | |
| February 1, 2012 | Golden Cross | int term | Bullish | |
| Dropped Tonight | | | | |
| September 14, 2012 | 100 day high on Fed Day | 1-8 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

The big move the 3/10 Offset HV has been warning of recently finally arrived. And it was down. The SPX declined 1.0%, the NASDAQ dropped 1.4%, and the Russell 2000 declined 1.5%. Breadth was negative as the NYSE Up Issues % was 28% and the Up Volume % came in at 11%. Total NYSE volume was well above Monday's low level.

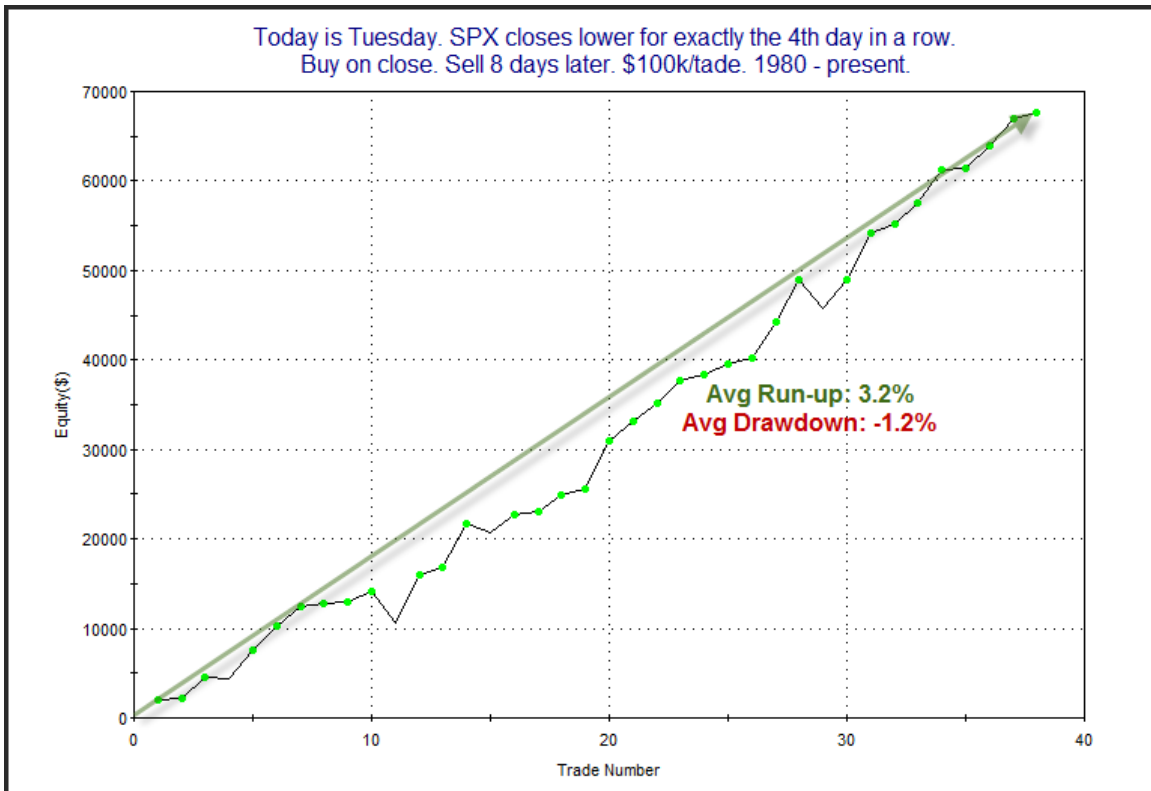
Last night I showed a Turnaround Tuesday study that indicated when the market is down 3 days in a row going into a Tuesday that it has a strong tendency to bounce. Of course there have been instances over the years where it hasn't. When it doesn't bounce on Tuesday what does that mean for Wednesday and beyond? The test below is updated from the 2/1/12 Letter and it answers that question.

Today is Tuesday. SPX closes lower for exactly the 4th day in a row.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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 | 64,447.95 | 38 | 31 | 7 | 81.58 | 2,475.01 | 7,733.75 | -1,753.91 | -4,415.04 | 1.41 | 6.25 | 1,696.00 |
| 9 | 67,646.39 | 38 | 34 | 4 | 89.47 | 2,213.31 | 5,490.33 | -1,901.52 | -3,566.25 | 1.16 | 9.89 | 1,780.17 |
| 8 | 73,995.95 | 38 | 33 | 5 | 86.84 | 2,482.92 | 8,317.50 | -1,588.06 | -3,575.04 | 1.56 | 10.32 | 1,947.26 |
| 7 | 66,674.30 | 38 | 32 | 6 | 84.21 | 2,406.98 | 10,870.00 | -1,724.85 | -4,817.12 | 1.40 | 7.44 | 1,754.59 |
| 6 | 65,734.34 | 38 | 31 | 7 | 81.58 | 2,432.60 | 14,240.00 | -1,382.33 | -2,605.12 | 1.76 | 7.79 | 1,729.85 |
| 5 | 55,032.21 | 38 | 29 | 9 | 76.32 | 2,307.61 | 13,135.00 | -1,320.95 | -3,256.96 | 1.75 | 5.63 | 1,448.22 |
| 4 | 50,859.49 | 38 | 28 | 10 | 73.68 | 2,290.38 | 12,657.50 | -1,327.11 | -4,495.68 | 1.73 | 4.83 | 1,338.41 |
| 3 | 35,853.37 | 38 | 30 | 8 | 78.95 | 1,595.16 | 6,892.50 | -1,500.17 | -2,936.64 | 1.06 | 3.99 | 943.51 |
| 2 | 19,968.41 | 38 | 23 | 15 | 60.53 | 1,282.00 | 5,122.50 | -634.50 | -1,667.42 | 2.02 | 3.10 | 525.48 |
| 1 | 15,617.70 | 38 | 26 | 12 | 68.42 | 863.98 | 5,716.25 | -570.48 | -1,721.25 | 1.51 | 3.28 | 410.99 |

33 of 38 instances (87%) closed above the entry price at some point in the next week.

Results here have been very strong over a long period. Below is a profit curve using an 8-day exit strategy.



It seems the “Turnaround Tuesday Failure” is likely a temporary setback.

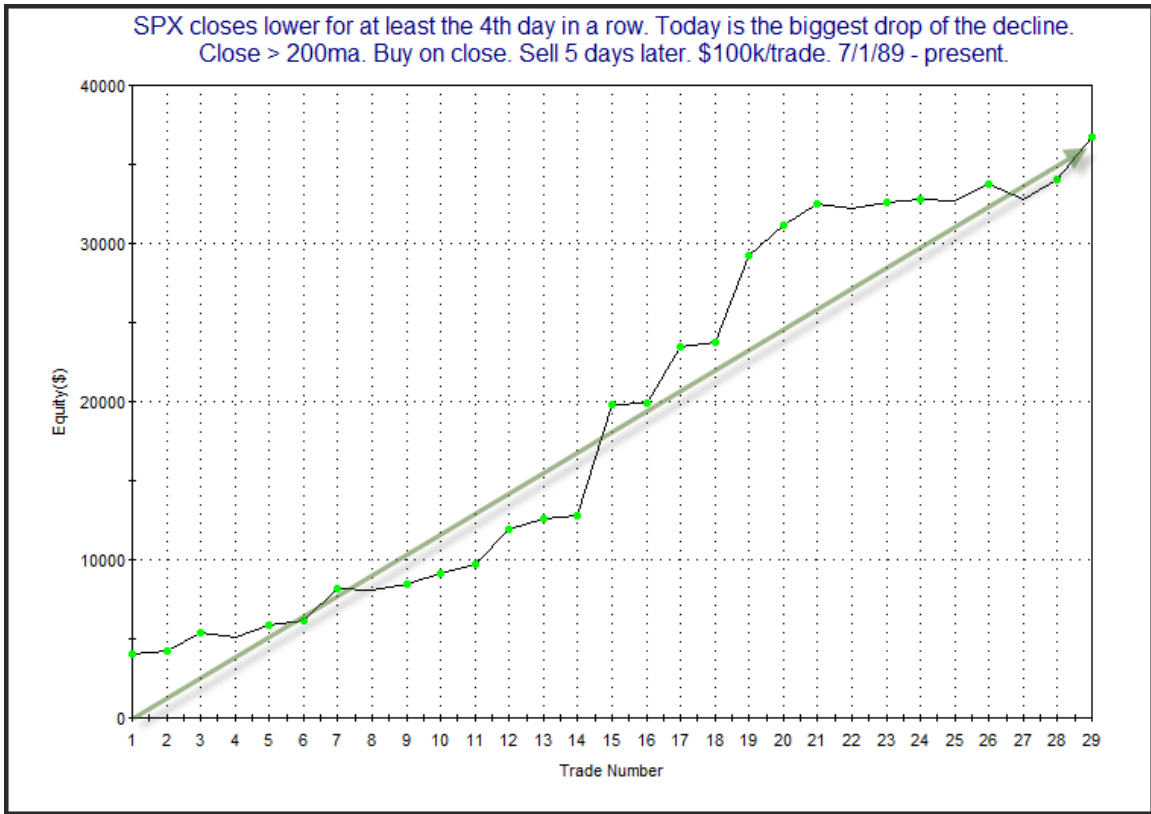
The 4-day pullback also triggered this next study. It was last seen in the 4/10/12 Subscriber Letter. It looks at 4+ day drops that suffer the worst decline of the drop on the entry day.

SPX closes lower for at least the 4th day in a row. Today is the biggest drop of the decline.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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 | 36,760.28 | 29 | 24 | 5 | 82.76 | 1,600.25 | 7,070.28 | -329.15 | -909.36 | 4.86 | 23.34 | 1,267.60 |
| 4 | 29,385.22 | 29 | 22 | 7 | 75.86 | 1,606.25 | 5,187.49 | -850.34 | -1,776.42 | 1.89 | 5.94 | 1,013.28 |
| 3 | 30,306.21 | 29 | 23 | 6 | 79.31 | 1,473.11 | 5,339.18 | -595.89 | -849.87 | 2.47 | 9.48 | 1,045.04 |
| 2 | 25,385.85 | 30 | 22 | 8 | 73.33 | 1,393.48 | 4,809.66 | -658.85 | -1,343.84 | 2.12 | 5.82 | 846.20 |
| 1 | 17,434.69 | 33 | 23 | 10 | 69.70 | 1,023.38 | 5,117.46 | -610.31 | -1,699.92 | 1.68 | 3.86 | 528.32 |

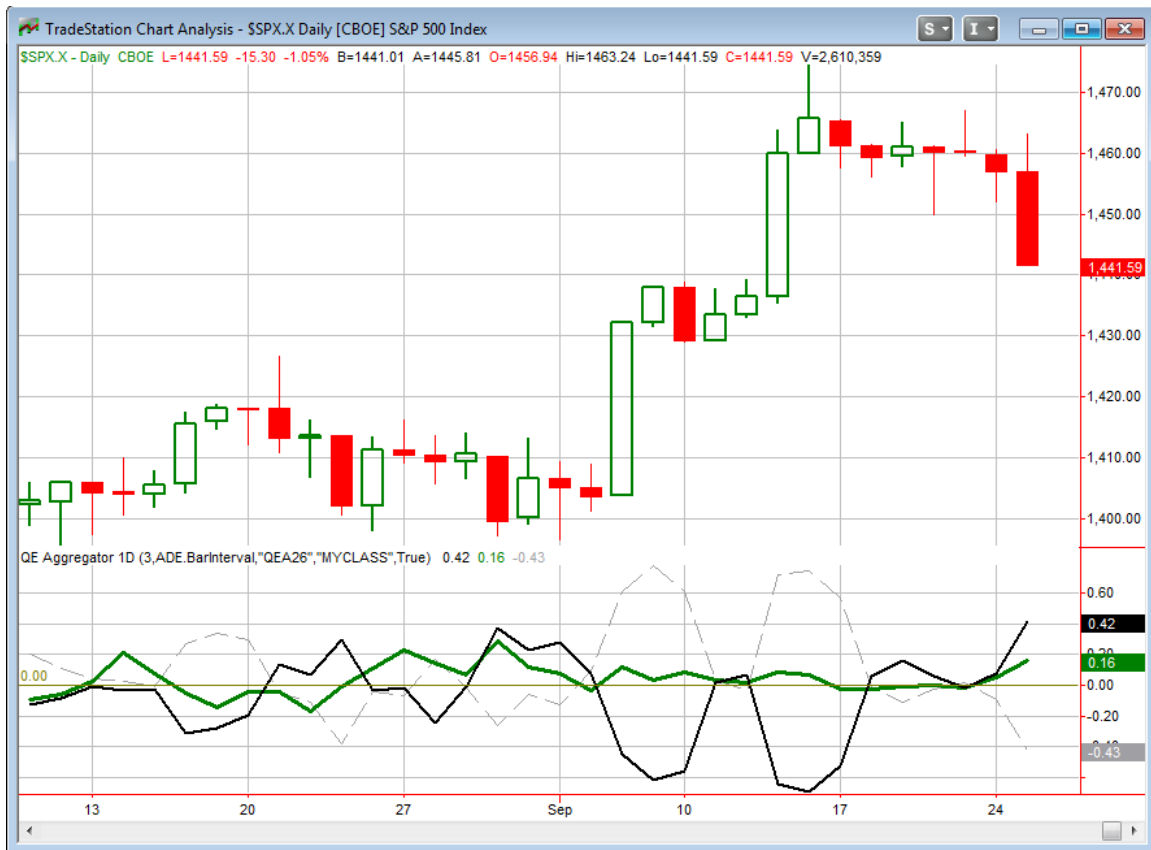
100% of instances closed above the entry price
at some point in the next 6 days.

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 4 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The curve has been a little choppy when looking strictly at the 5-day holding period. But it has maintained an upward trajectory throughout and the setup has effectively called short-term bounces.

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



With the new studies tonight the green Aggregator Line moved further above 0. Positive readings 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 “oversold” versus recent expectations. So net expectations are bullish and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current open studies, expectations are scheduled to remain positive on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,459.57 on Wednesday. This is 1.25% above Tuesday’s close. So it would take a close up of at least this much in order to turn the SPX back to overbought and close out the long Aggregator signal.

We had some pretty solid indications of a probable rally last night, but so far the “Weakest Week” seasonality is winning out. Liquidity remains strong and the market is now oversold by a few measures. The QE Buying Power System missed a long entry by a fraction of a point. I plan to scale in a little more Wednesday if I can get a decent fill. There are also 3 Catapults that triggered that I intend to trade.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/24– bullish

The intermediate-term outlook was last updated in the 9/24 letter. A link is below:

[2012-09-24 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

New

INTC @ \$22.53 (buy 1/3 @ limit)

MS @ \$16.60 (buy 1/3 @ limit)

GS @ \$113.50 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/3(INTC, MS, GS)

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.

SPY – buy ¼ index position @ \$144.10 limit. Based on short-term outlook above. I'll look to scale into a 2nd lot here.

INTC– buy 1/3 Catapult position @ \$22.53 limit. This is a Catapult trigger from above.

MS– buy 1/3 Catapult position @ \$16.60 limit. This is a Catapult trigger from above.

GS– buy 1/3 Catapult position @ \$113.50 limit. This is a Catapult trigger from above.

Those unfamiliar with the catapult trades are encouraged to review the Catapult and CBI video, which can be found on the videos page. There is also a perma-link near the top of the catapult section above. Additional, and more recent information can also be found in the "Catapult Exit Designer" presentation and tools, which are available for subscribers on the downloads page. Bottom line with the Catapults is that while they have performed quite well as a whole over time, they can be very volatile and I rarely trade them with stops, so position sizing is critical for managing risk.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 9/25/2012 | \$145.65 | \$144.10 | -1.06% | | Aggregator |
| | | | | | | |
| | | | | | | |

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