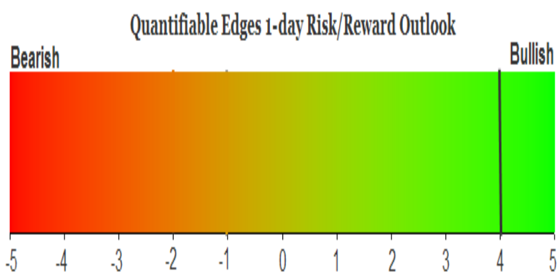
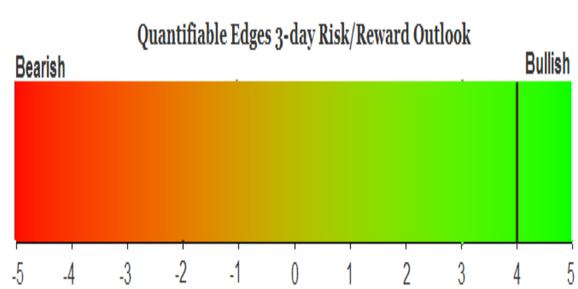
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 27, 2012 Volume 5 Issue 187

Market Overview





Signals Overview

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

Tonight's Research Points

- The QE Buying Power Swing System triggered long on Wednesday.
- The CBI is now 7 and the SPY has triggered a Catapult for ETFs signal..

Short-term Outlook
The Bottom Line

This selloff continues to look like a buying opportunity. I am continuing to buy.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 27, 2012	QE Buying Power Sing signal	1-3 days	Bullish	1.80%
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	Weakest week	1-4 days	Bearish	
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 24, 2012	SPX dn. Up Issues > 55%	1-3 days	Bullish	
September 18, 2012	SPY unfilled gap up then down from 20h	1-7 days	Bearish	-2.40%

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

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The Evidence

The market gapped down slightly to open the day and never put in a serious rally attempt. Bears ruled again. The SPX and Russell 2000 each declined 0.6% while the NASDAQ dropped 0.8%. Breadth was solidly negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 34%. Total NYSE volume came in only slightly under Tuesday's level, despite the Yom Kippur holiday.

The Quantifinder did not show much, but we did have some notable systems trigger for SPX and SPY. One notable is that a QE Buying Power Swing System long signal triggered. This little system looks to go long on pullbacks when short-term liquidity has been strong. It requires a reading of three or higher for the QE Buying Power Index and a close in the bottom 20% of the 10-day range. There have been many readings of 3 or higher over the last several months and all throughout the year, but they've generally come when they were "supposed" to come. In other words, when POMO flows were weak or negative. This has been pretty eye-opening since the required pullback is fairly mild and common. The results table below shows the performance of long entries using this simple system since 2008.

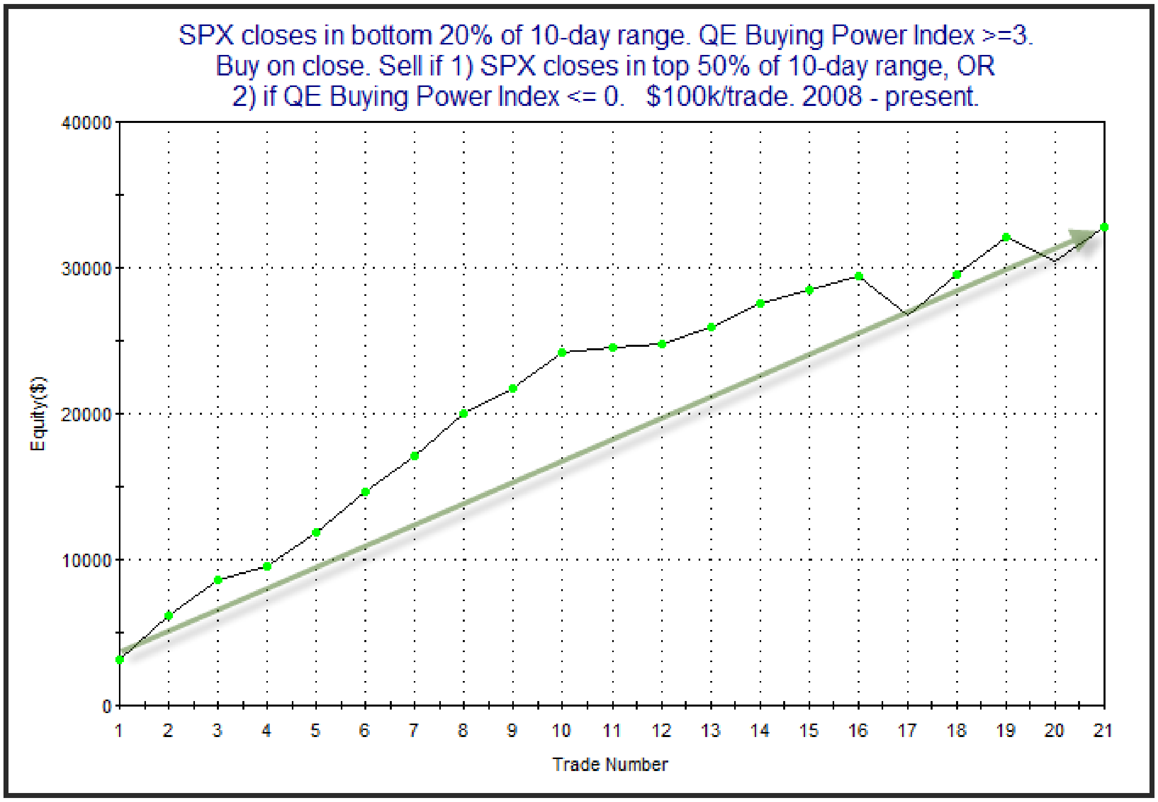
SPX closes in bottom 20% of 10-day range. QE Buying Power Index >=3.
Buy on close. Sell if 1) SPX closes in top 50% of 10-day range, OR
2) if QE Buying Power Index <= 0. $100k/trade. 2008 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$32,806.88	Profit Factor	8.51
Gross Profit	$37,175.00	Gross Loss	($4,368.12)
Total Number of Trades	21	Percent Profitable	90.48%
Winning Trades	19	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	$1,562.23	Ratio Avg. Win:Avg. Loss	0.90
Avg. Winning Trade	$1,956.58	Avg. Losing Trade	($2,184.06)
Largest Winning Trade	$3,160.20	Largest Losing Trade	($2,750.44)

The numbers here are all very strongly in favor of a bounce. Below is an equity curve.



The May instance was a loser, but the curve remains impressive nonetheless. I also looked at it simply with a time-based exit. Those stats are below.

SPX closes in bottom 20% of 10-day range. QE Buying Power Index >=3.
Buy on close. Sell X days later. $100k/trade. 2008 - 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	45,611.53	18	15	3	83.33	3,740.23	8,311.15	-3,497.31	-5,452.11	1.07	5.35	2,533.97
9	37,843.30	18	13	5	72.22	3,677.90	7,921.30	-1,993.87	-3,325.86	1.84	4.80	2,102.41
8	33,451.46	19	13	6	68.42	3,360.10	8,227.10	-1,704.97	-2,925.72	1.97	4.27	1,760.60
7	35,838.31	20	15	5	75.00	3,044.27	7,393.35	-1,965.13	-4,333.28	1.55	4.65	1,791.92
6	25,415.68	22	12	10	54.55	3,304.83	7,893.60	-1,424.23	-3,629.56	2.32	2.78	1,155.26
5	29,191.77	25	16	9	64.00	2,639.05	6,257.44	-1,448.12	-2,659.24	1.82	3.24	1,167.67
4	19,679.40	25	16	9	64.00	2,193.20	5,281.05	-1,712.42	-4,672.36	1.28	2.28	787.18
3	23,223.03	28	21	7	75.00	1,656.22	6,051.15	-1,651.09	-4,416.52	1.00	3.01	829.39
2	20,833.72	31	23	8	74.19	1,288.09	3,018.23	-1,099.06	-2,264.02	1.17	3.37	672.06
1	13,626.54	44	27	17	61.36	849.51	3,031.79	-547.66	-1,858.94	1.55	2.46	309.69

No matter how you slice it, there seems to be a decent upside edge.

As you'll see in the Catapult section below, the CBI jumped from 3 to 7 on Wednesday. So it is nearing a level (10+) that would strongly suggest a bounce. It is also notable that a Catapult for ETF signal triggered in SPY. Actually, it also triggered Monday, but the Quantifinder had an error in the calculation, so it missed it. Below is a performance report showing how Catapult for ETF triggers have done for SPY over the years.

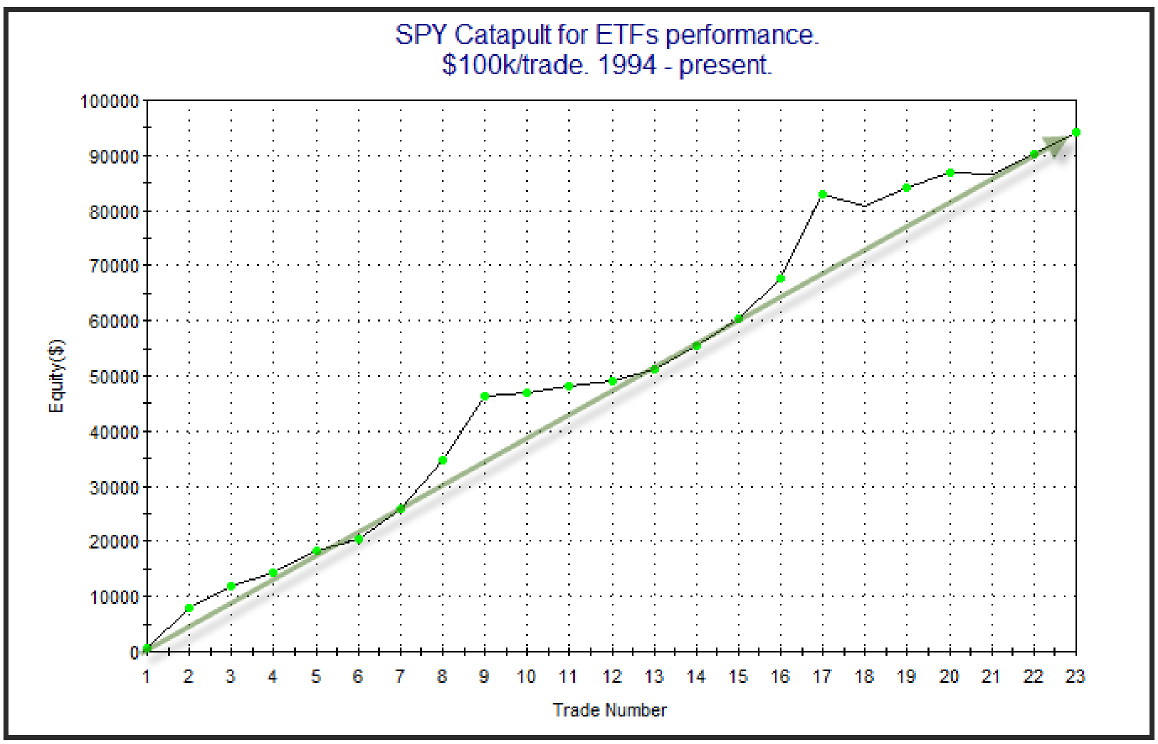
SPY Catapult for ETFs performance.
$100k/trade. 1994 - present.

TradeStation Performance Summary Collapse

All Trades

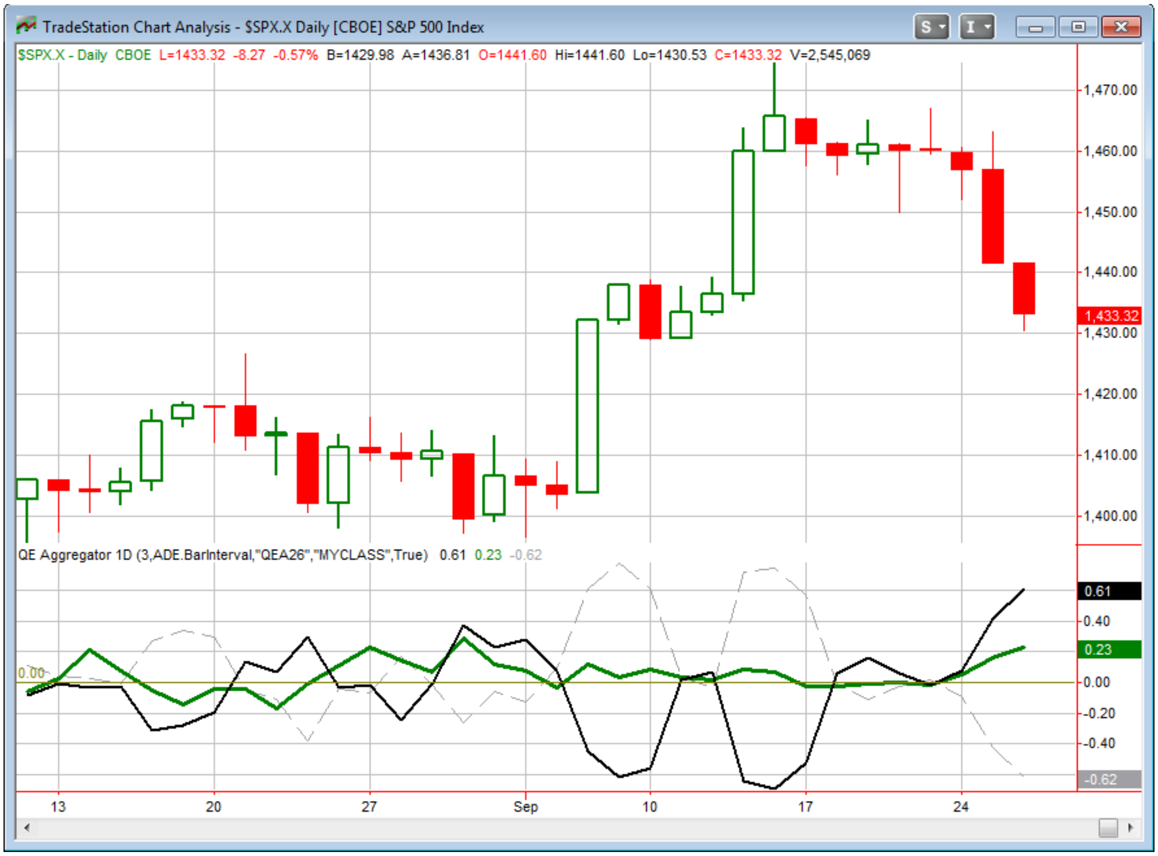
Total Net Profit	$94,292.55	Profit Factor	37.27
Gross Profit	$96,892.50	Gross Loss	($2,599.95)
Total Number of Trades	23	Percent Profitable	91.30%
Winning Trades	21	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	$4,099.68	Ratio Avg. Win:Avg. Loss	3.55
Avg. Winning Trade	$4,613.93	Avg. Losing Trade	($1,299.98)
Largest Winning Trade	$15,428.00	Largest Losing Trade	($2,209.35)

The numbers are very strong. Below is a profit curve.



The curve here is just as impressive as the numbers. So the evidence for a bounce is continuing to pile up.

I have updated the Aggregator chart below.



The green Aggregator Line tonight 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 strongly 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,457.01 on Thursday. This is 1.7% above Wednesday's close. That would be a big move for 1 day. A more likely scenario is a multi-day rally or consolidation to wear off the oversold condition.

With the QE Buying Power Index now supporting the long idea, I'm interested in taking on a 3rd lot if I can get a favorable fill. The SPY Catapult for ETFs signal is also encouraging. I'll wait until the CBI hits 10 to consider a 4th lot, but if Thursday is another down day that could easily happen. Of course pullbacks like this could always get worse, but there is a good amount of evidence strongly suggesting a bounce. Details on the new Catapults and the SPY trade idea are down below.

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

INTC @ $22.53 (buy 1/3 @ limit)
MS @ $16.60 (buy 1/3 @ limit)
GS @ $113.50 (buy 1/3 @ limit)
New
C @ $32.51 (buy 1/3 @ limit)
BAC @ $8.81 (buy 1/3 @ limit)
MS @ $16.43 (buy 1/3 @ limit)
GS @ $113.08 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7/5(INTC, MS-2, GS-2, C, BAC)

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 at $143.00 limit. Based on the bullish short-term outlook above. This would be the 3rd lot of a possible 4.

MS– buy 1/3 Catapult position @ $16.43 limit. This is a Catapult trigger from above.

GS– buy 1/3 Catapult position @ $113.08 limit. This is a Catapult trigger from above.

C – buy 1/3 Catapult position @ $32.51 limit. This is a Catapult trigger from above.

BAC – buy 1/3 Catapult position @ $8.81 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	$143.29	-1.62%		Aggregator
SPY(1/4)	9/26/2012	$144.07	$143.29	-0.54%		Aggregator
INTC(1/3)	9/26/2012	$22.53	$22.65	0.53%		Catapult
MS(1/3)	9/26/2012	$16.60	$16.43	-1.02%		Catapult
GS(1/3)	9/26/2012	$113.18	$113.08	-0.09%		Catapult