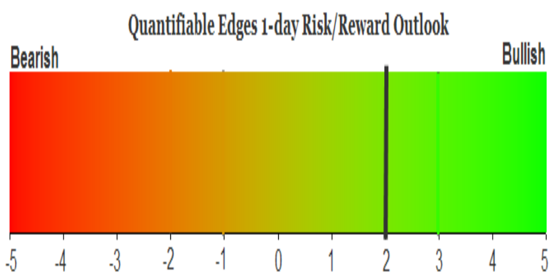
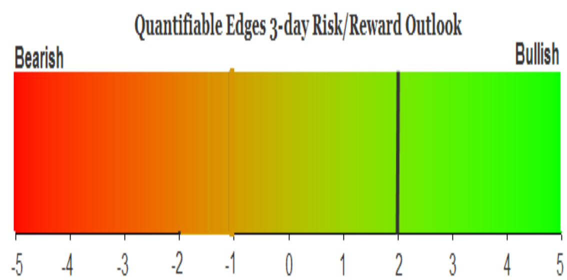
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2012 Volume 5 Issue 195

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- Low Columbus Day volume is typical, and not something to read into.

Short-term Outlook
The Bottom Line

I'm looking at very mild evidence pointing to a bounce and an SPX that is just barely oversold. So risk/reward appears to favor the long side, but it isn't overwhelming. I'll look to begin scaling in to a long index position Tuesday, but only if we close lower.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 8, 2012	SPX dn. Up Issues % > 55%.	1-3 days	Bullish	1.20%
Active - Long Term				
September 17, 2012	QE3	int term	Bullish	
September 17, 2012	SPX and TNX hit 50-day high	1-20 days	Bearish	
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				
October 8, 2012	Employment Day down > 200ma	1 day	Bullish	
October 8, 2012	Columbus Day	1 day	Bullish	

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

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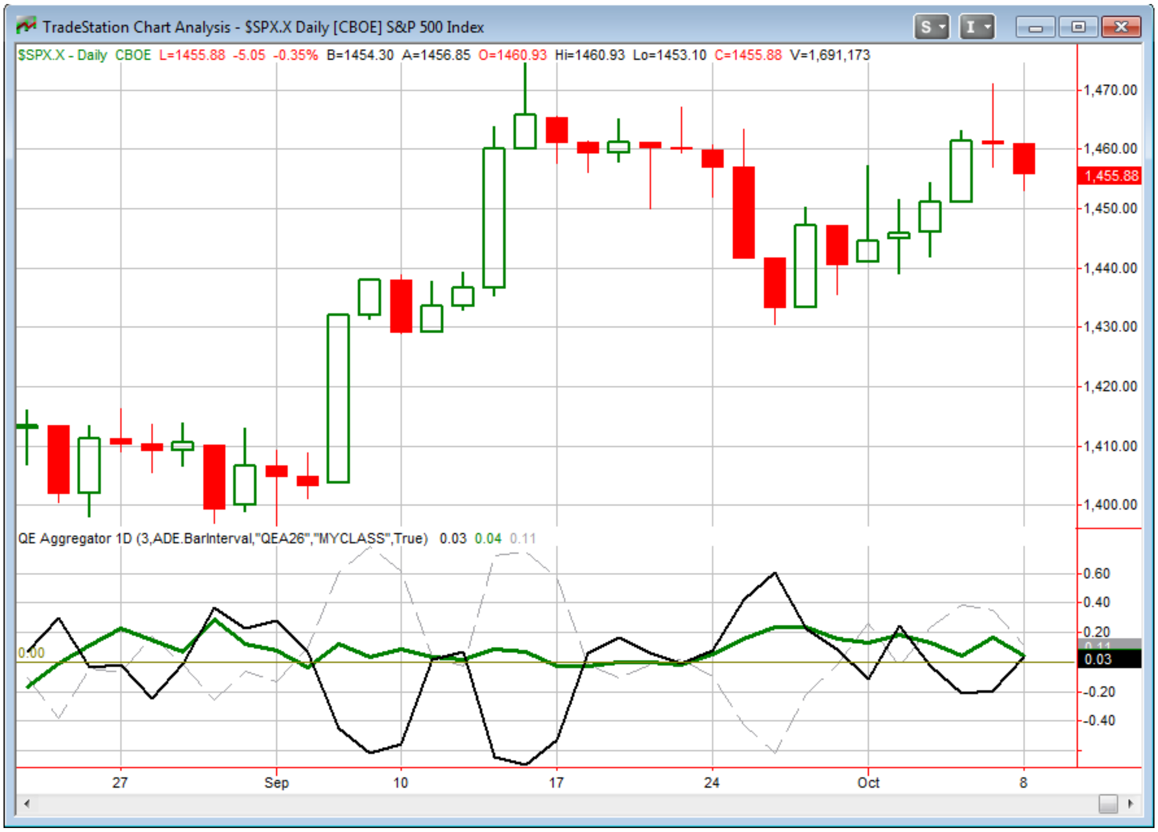
The Evidence

Despite the strong seasonal implications, the market couldn't manage to attract any real buying on Monday. It gapped down and then meandered sideways all day. It appears many traders were not in action. The SPX fell 0.4%, the Nasdaq dropped 0.8% and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % also came in at 39%. Total NYSE volume was very light – largely thanks to Columbus Day.

As a bond holiday it is understood that volume will typically be a bit light. But is the extremely low level really attributable to Columbus Day? Since 1980 this was the 21st time that Columbus Days posted the lowest volume in at least 20 days. That means volume has been this low about 64% of the time. That is certainly often enough that I am comfortable ignoring volume indications and volume-related studies.

Aside from volume studies, not much appeared in the Quantifinder. Tomorrow is a possible Turnaround Tuesday, but with Monday only being the 2nd down day, it's not much of an edge – and nothing worth inclusion on the Active Study List.

I have updated the Aggregator chart below.



The green Aggregator Line remains above 0 tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line has now risen into positive territory as well (barely). 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 change from flat to long at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations are set to remain positive on Tuesday. Of course with so little to go on this could easily change if bearish evidence emerges. The Differential Pivot will be 1,466.51 on Tuesday. This is 0.7% above Monday's close. So the SPX would need to close up at least this much in order to turn from oversold to overbought.

The Aggregator is in a bullish configuration, with expectations higher and the SPX oversold. But the degree of both is very slight. So while there appears to be an upside edge, it isn't entirely convincing. Therefore, rather than simply look to enter via a limit order, I'll look for a down day on Tuesday to try and get a better price and higher probability setup at the close. A 3rd day down often triggers a number of bullish studies so I would be surprised to see expectations change to bearish if Tuesday was down. Of course by doing this I run the risk of missing out on a long opportunity. More aggressive traders could consider an earlier entry.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/8– bullish

The intermediate-term outlook was last updated in the 10/8 letter. Link below:

2012-10-08 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.

SPY – buy ¼ index position @ $145.64 LIMIT ON CLOSE. Based on short-term outlook above.

Current Open Trade Ideas

None