

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2012

Volume 5 Issue 201

Market Overview



Signals Overview

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

Tonight's Research Points

- The QE Buying Power Index and CBI are still in bullish territory.
- The choppy, range-bound action is failing to generate new, compelling studies.

Short-term Outlook

The Bottom Line

Studies continue to suggest a mild bearish edge. But the combination of a bullish intermediate-term outlook, a strong QE Buying Power Index, and an elevated CBI has me disinterested in attempting to short the indices.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 16, 2012	High vol bounce after RSI(2)<5.	1-3 days	Bearish	
October 12, 2012	HV low. SPX not high.	1-5 days	Bearish	
Active - Long Term				
October 15, 2012	Breadth not diverging at top	int term	Bullish	
September 17, 2012	QE3	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 17, 2012	SPX and TNX hit 50-day high	1-20 days	Bearish	

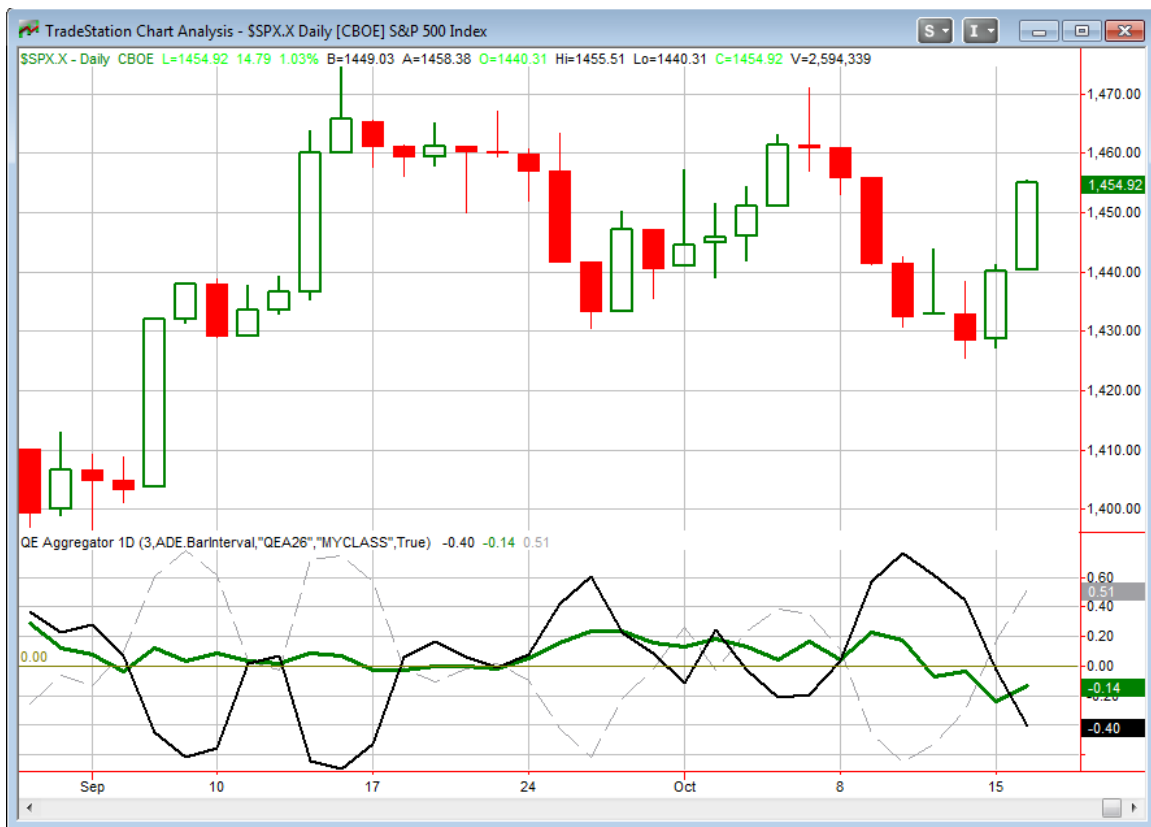
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

We saw a gap up and strong move higher for the 2nd day in a row on Tuesday. The SPX rallied 1.0%, the Nasdaq rose 1.2% and the Russell 2000 gained 0.9%. Breadth was strongly positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 79%. Total NYSE volume rose from Monday's level.

The strong move on Tuesday brought the market back into the upper half of its recent range. But it is still range-bound. And with all the chop lately I am not seeing any extremes to consider. The Quantifinder failed to come up with anything notable so I'm going to keep my comments short tonight.

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



The green Aggregator Line is once again well below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line continued to drop with the strong rally Tuesday. This means the SPX is overbought versus recent expectations. So net expectations are bearish and the SPX is overbought. This is considered a bearish configuration. Bearish configurations

are visible on the chart whenever both lines close below 0. This caused the Aggregator system to remain short 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 negative on Wednesday. With only 2 short-term studies on the Active List this could easily change if bullish evidence emerges. The Differential Pivot will be 1,429.17 on Wednesday. This is 1.8% below Tuesday's close. That would be a very big 1-day drop in this environment. A more likely scenario would be either a multi-day pullback or consolidation to wear off the overbought condition.

There were some indications from the studies that the bounce would not come as nicely as it has. But the QE Buying Power Index and the CBI both suggested a long-side edge. And they won out over the Aggregator studies. SPY is now peeking into the top 1/3 of its 10-day range, so the oversold condition has clearly been worked off the last 2 days. Monday's move kept me from getting a nice index entry, but I am thankful that the CBI and QE Buying Power Index helped warn me off of a possible short scenario yesterday. From my standpoint it is ok not to capture every swing. That is not what it is all about. Rather by making sure I participate in the strong risk/reward setups and sitting out the less favorable ones I should be able to continue to see portfolio growth.

Today we are in a similar setup. The Aggregator is again suggesting a short, but the CBI remains elevated, and so does the QE Buying Power Index. And the intermediate-term outlook is bullish. So even though we are more overbought today, I still am not looking to get short.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/15– bullish

The intermediate-term outlook was last updated in the 10/15 letter. Link below:

[2012-10-15 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CVS – (\$47.06 close) – bought 1/3 position

VZ - (\$44.62 close) – bought 1/3 position

CVS – (\$47.07 close) – bought 1/3 position

VZ - (\$44.50 close) – bought 1/3 position

New

CVS – (\$46.90 close) – buy 1/3 position @ \$46.90 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5/2(CVS-3, VZ-2)

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.

CVS – buy 1/3 Catapult position @ \$46.90 limit (final entry)

This trade idea is from the Catapult section.

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
CVS(1/3)	10/15/2012	\$47.06	\$46.90	-0.34%		Catapult
VZ(1/3)	10/15/2012	\$44.48	\$44.08	-0.90%		Catapult
CVS(1/3)	10/16/2012	\$47.07	\$46.90	-0.36%		Catapult
VZ(1/3)	10/16/2012	\$44.50	\$44.08	-0.94%		Catapult

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