

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 25, 2012

Volume 5 Issue 207

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Fed Day selloffs like today have often seen a bounce over the next few days.
- When the market has hit an intermediate-term low on a fed day, it's generally seen improvement over the next 1-2 weeks.

## *Short-term Outlook*

### *The Bottom Line*

Our studies are still dominated by bullish evidence. The market remains strongly oversold. The odds suggest a bounce is near, and I continue to look to take advantage of it.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
October 25, 2012	Fed Day reversal down	1-3 days	Bullish	
October 24, 2012	SPY dn 1% and SOX up	1-6 days	Bullish	
October 24, 2012	4 lower lows. 20-day low.	1-8 days	Bullish	
October 22, 2012	QE Buying Power Swing long	1-7 days	Bullish	3.10%
October 22, 2012	Oversized drop on Friday	1-6 days	Bullish	2.75%
<b>Active - Long Term</b>				
October 25, 2012	20-low > 200ma on a Fed Day	1-9 days	Bullish	
October 24, 2012	SPY dn 1% and SOX up	1-20 days	Bullish	
October 19, 2012	SPY key reversal	1-12 days	Bullish	
October 15, 2012	Breadth not diverging at top	int term	Bullish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
October 24, 2012	SPY dn 1% pre-Fed	1 day	Bullish	
October 24, 2012	Unfilled gap & 3-low pre-Fed	1 day	Bullish	

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

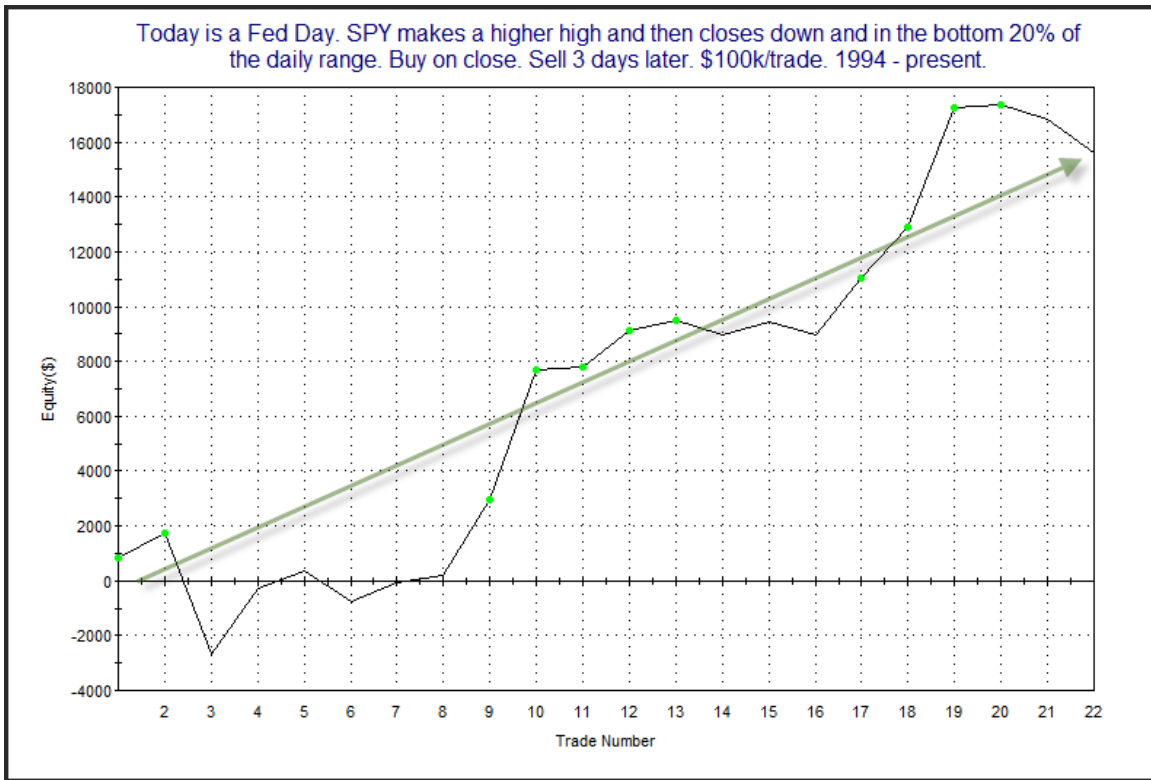
**The Evidence**

The overnight was strong (which was good for <http://OvernightEdges.com> subscribers), but the market could not extend those gains, and finished poorly. The SPX, Nasdaq and Russell all lost 0.3%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 34%. Total NYSE volume declined from Tuesday's level.

Fed Day seasonality and other bullish evidence we've seen lately got ignored this afternoon. The market is struggling to put in a bounce. The Quantifinder tonight showed a few studies that were tilted bullish. They were mostly related to performance following down Fed Days. The one below was last seen in the 12/14/11 letter. I have updated the results.

Today is a Fed Day. SPY makes a higher high and then closes down and in the bottom 20% of the daily range. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	18,469.64	22	15	7	68.18	2,065.10	6,086.66	-1,786.69	-5,393.25	1.16	2.48	839.53
4	20,509.23	22	13	9	59.09	2,439.90	7,872.42	-1,245.49	-3,667.41	1.96	2.83	932.24
3	15,629.13	22	16	6	72.73	1,496.99	4,772.75	-1,387.11	-4,441.50	1.08	2.88	710.42
2	11,721.92	22	15	7	68.18	1,548.59	5,087.19	-1,643.85	-2,695.00	0.94	2.02	532.81
1	12,031.82	22	15	7	68.18	1,335.42	3,649.75	-1,142.79	-2,906.82	1.17	2.50	546.90
<b>19 of 22 instances (86%) closed above the entry price at some point in the next 3 days.</b>												

The numbers here suggest a bullish edge over the next 3-4 days. To get a better feel for how the edge has played out over time I produced an equity curve using a 3-day exit strategy.



The equity curve here is choppier than I would like to see. Still, it does manage to wind its way from lower left to upper right. I have decided to include it on the active list.

I also thought today to examine 20-day lows that occur on Fed Days during long-term uptrends. The results appeared interesting. You'll find the stats table below.

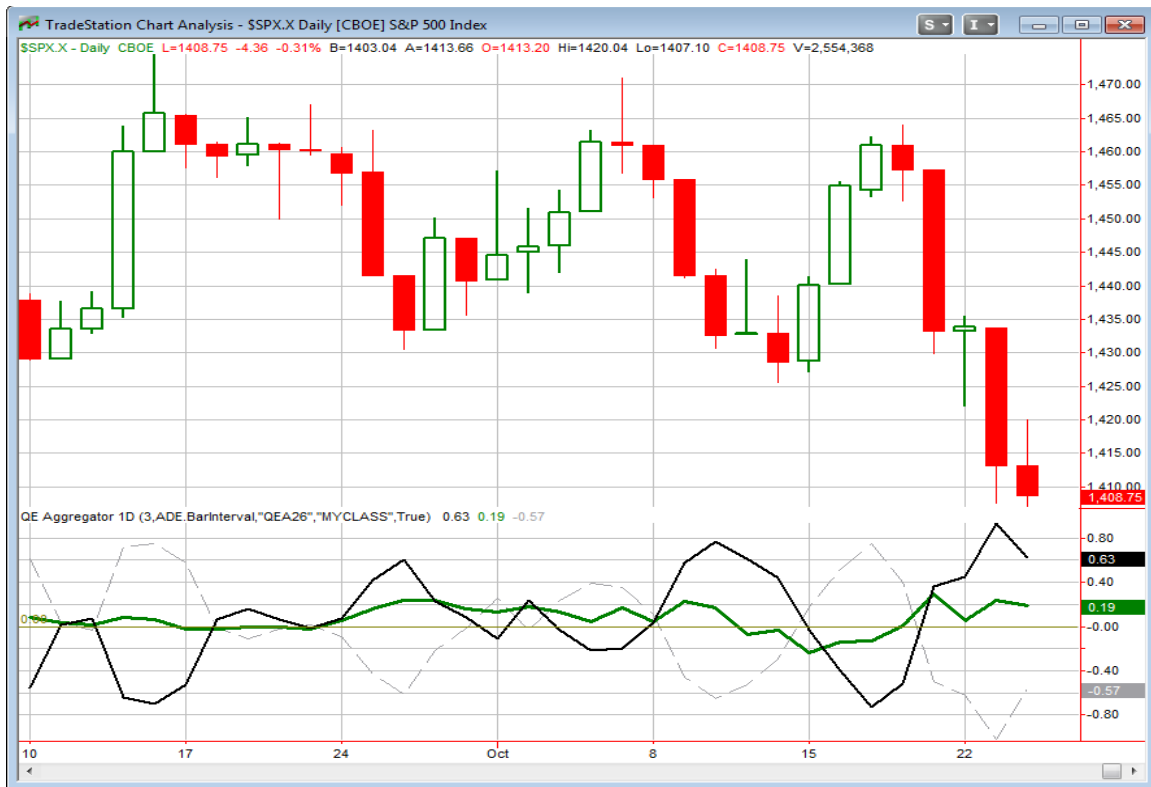
SPX closes at a 20-day low on a Fed Day. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1982 - present.

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	15,301.15	8	7	1	87.50	2,250.08	4,940.88	-449.44	-449.44	5.01	35.04	1,912.64
9	15,209.47	8	8	0	100.00	1,901.18	3,152.31	0.00	0.00	100.00	100.00	1,901.18
8	13,365.99	8	8	0	100.00	1,670.75	3,644.97	0.00	0.00	100.00	100.00	1,670.75
7	10,370.69	8	7	1	87.50	1,552.23	3,741.36	-494.91	-494.91	3.14	21.95	1,296.34
6	10,115.61	8	7	1	87.50	1,573.40	3,976.98	-898.17	-898.17	1.75	12.26	1,264.45
5	9,107.17	8	7	1	87.50	1,468.61	3,248.70	-1,173.12	-1,173.12	1.25	8.76	1,138.40
4	4,809.67	8	4	4	50.00	1,700.61	3,387.93	-498.20	-885.95	3.41	3.41	601.21
3	1,303.85	8	5	3	62.50	597.08	1,031.80	-560.52	-918.08	1.07	1.78	162.98
2	-120.14	8	4	4	50.00	415.58	1,056.00	-445.61	-712.72	0.93	0.93	-15.02
1	-2,446.69	8	4	4	50.00	381.61	717.20	-993.29	-1,949.22	0.38	0.38	-305.84

**There have only been 2 instances in the last decade:  
3/22/05 and 3/15/11.**

Over the first 1-4 day period there doesn't appear to be much of an edge. But over the 5-10 day period the market has reliably risen. Instances are low, but I still thought the two-week results were strong enough to keep in mind. So I have added this study to the intermediate-term active list.

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



The green Aggregator line remains well 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 still strongly positive. 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 the close.

Based on the current studies, expectations are set to remain bullish again on Thursday. Of course this could change should strong bearish evidence emerge. The Differential Pivot will be 1,438.46 on Thursday. This is 2.1% above Wednesday's close. That would require a very strong 1-day rally. The more likely scenario would be either a multi-day bounce or consolidation.

I'm still not seeing anything to dissuade me from the idea that we are likely to see a bounce. I just missed getting filled on my third lot of SPY at the close. If the market starts to drop intraday on Thursday, then there doesn't appear to be much technical support until SPY gets down around \$140. So I still plan to look for a possible entry, but I'd rather not buy into an intraday selloff. If the market opens with a big gap down, I'll take it. Otherwise, I'll wait until the close as I sometimes do. Details are in the trade ideas section at the bottom of the letter.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 10/22– bullish**

The intermediate-term outlook was last updated in the 10/22 letter. Link below:

[2012-10-22 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

**Open Catapult Triggers**

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

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

CVS – (\$46.90 close) – bought 1/3 position

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 3(CVS-3)**

**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 @ \$140.00 LIMIT ON OPEN. If note filled, cancel order and enter later as \$140.50 LIMIT ON CLOSE.** Based on short-term outlook above. If the market gaps down large from such an oversold condition, I will consider it a gift, and enter another lot long. Otherwise, I will wait until the close to possibly add exposure.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CVS(1/3)	10/15/2012	\$47.06	\$45.95	-2.36%		Catapult
CVS(1/3)	10/16/2012	\$47.07	\$45.95	-2.38%		Catapult
CVS(1/3)	10/17/2012	\$46.90	\$45.95	-2.03%		Catapult
SPY(1/4)	10/22/2012	\$143.15	\$141.02	-1.49%		Aggregator
SPY(1/4)	10/23/2012	\$141.42	\$141.02	-0.28%		Aggregator

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