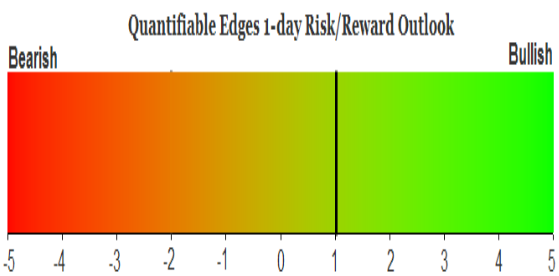
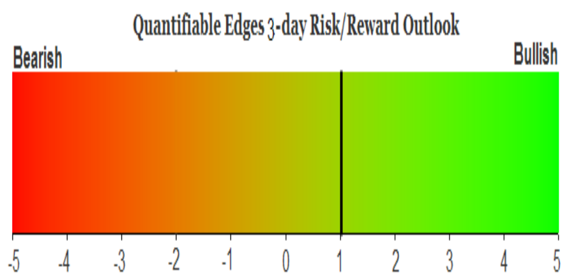
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 7, 2012 Volume 5 Issue 214

Market Overview





Signals Overview

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

Tonight's Research Points

- Elections have not led to sharp rallies in the past.

Short-term Outlook

The Bottom Line

Our studies still suggest a long-side edge, but the edge is not as pronounced as it has been the last couple of days. And unless there is a selloff on Wednesday the SPX will move into short-term overbought territory. I took some long index exposure off at the close on Tuesday, and I will exit the rest if we close up again on Wednesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 6, 2012	Double big reversal days > 200 < 10	1-4 days	Bullish	1.60%
November 1, 2012	End of month < 10ma and > 200ma	1-5 days	Bullish	2.20%
Active - Long Term				
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 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	
Dropped Tonight				
October 25, 2012	20-low reversal	1-6 days	Bullish	
October 24, 2012	4 lower lows. 20-day low.	1-8 days	Bullish	

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

The Evidence

The market had a little pop on Election Day. Tomorrow (and tonight's) reaction to actual results will be interesting. The SPX gained 0.8%, the Nasdaq rose 0.4%, and the Russell 2000 rallied 0.7%. Breadth was strongly positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 81%. Total NYSE volume rose some from Monday's level.

The Quantifinder was void of anything terribly interesting. In a blog post this morning I examined SPX performance in the 1-week period following past elections. You would think an election could spark optimism. And (in most cases), with the person winning whom the majority of Americans want to win, you'd also think investors would be pleased with the results and willing to bid up the market. My results showed none of this.

Today is Election Day (or the day before from '68 - '80 when the market was closed on Election Day). Buy SPX on close. Sell X days later. $100ktrade. 1964 - 2008.

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	-13,706.57	12	5	7	41.67	1,929.36	2,949.76	-3,336.20	-10,573.20	0.58	0.41	-1,142.21
4	-15,026.37	12	5	7	41.67	1,472.82	3,021.04	-3,198.64	-8,567.46	0.46	0.33	-1,252.20
3	-12,709.34	12	5	7	41.67	1,298.99	3,133.68	-2,743.47	-7,401.24	0.47	0.34	-1,059.11
2	-10,255.02	12	4	8	33.33	1,256.76	2,737.68	-1,910.26	-9,986.13	0.66	0.33	-854.59
1	-6,041.31	12	4	8	33.33	1,130.99	1,782.50	-1,320.66	-5,245.02	0.86	0.43	-503.44

I would point out a couple of things. 1) Much of the negative total returns came thanks to the "Max Losing Trade", which was 2008. 2) The "Max Winning Trade" over the next week is barely 3%. So the election has not in years passed served as a spark that led to a sharp rally.

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 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 at the close.

Based on the current studies, expectations are set to remain bullish again on Wednesday. With the number of active studies now low, this could easily change if bearish evidence emerges. The Differential Pivot will be *inverted at* 1,421.87 on Wednesday. This is 0.5% *below* Tuesday's close. An inverted pivot means the Differential Line will cross 0 (and signify SPX is moving from oversold to overbought) on a flat close. So to remain oversold SPX would need to decline 0.5% on Wednesday.

It'll be interesting to see how the market moves post-election on Wednesday. There still appears to be an upside edge, though evidence is not as compelling as it has been the last few days. I still have a small amount long. With the Differential Pivot inverted, I will look exit that position if we close higher again on Wednesday. I'm not looking to add any more exposure, but that could easily change for Thursday depending on how the market moves and what studies emerge.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/5– bullish

The intermediate-term outlook was last updated in the 11/5 letter. Link below:
2012-11-05 QE Subscriber Letter.pdf

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

ALL – 1/3 @ $38.56 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(ALL)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/22/2012	$143.15	$142.96	-0.13%		sell on close >= $142.97
SPY(1/4)	***11/5/2012***	***$141.35***	***$142.96***	***1.14%***		***sold on close***
ALL(1/3)	11/5/2012	$38.21	$39.25	2.72%		Catapult