

QUANTIFIABLE EDGES

SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 4, 2013

Volume 6 Issue 3

Market Overview

Short-term Outlook

The Evidence

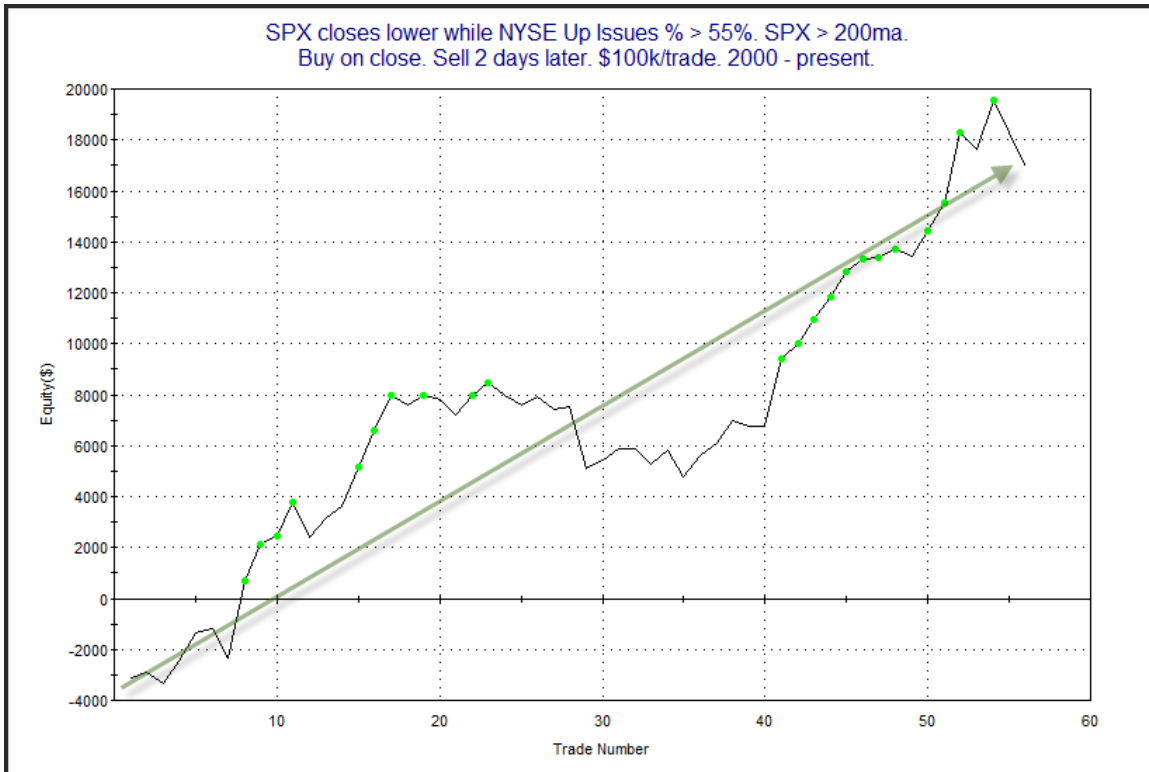
The market quieted down some on Thursday as the major indices were hit with small losses. The SPX lost 0.2%, the Nasdaq dropped 0.4%, and the Russell 2000 fell 0.1%. Breadth was positive though as the NYSE Up Issues % was 56% and the Up Volume % came in at 52%. Volume fell some from Wednesday's level.

Thursday's action led to some mixed studies in the Quantifinder.

The study below looks at strong breadth on a day the SPX declines. It last appeared in the 10/8/12 letter. Results are updated.

SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	24,832.15	50	29	21	58.00	2,008.65	7,183.08	-1,591.37	-4,406.82	1.26	1.74	496.64
9	29,674.54	50	34	16	68.00	1,751.00	5,597.64	-1,866.22	-4,873.44	0.94	1.99	593.49
8	26,461.84	50	34	16	68.00	1,652.52	5,105.16	-1,857.73	-4,715.80	0.89	1.89	529.24
7	18,653.23	50	33	17	66.00	1,467.62	4,736.88	-1,751.66	-6,585.48	0.84	1.63	373.06
6	14,175.67	51	34	17	66.67	1,376.82	3,398.72	-1,919.77	-9,589.14	0.72	1.43	277.95
5	17,041.36	51	31	20	60.78	1,391.12	3,616.92	-1,304.17	-4,012.80	1.07	1.65	334.14
4	18,959.82	53	32	21	60.38	1,346.11	3,429.00	-1,148.36	-2,921.28	1.17	1.79	357.73
3	18,253.75	55	37	18	67.27	1,012.83	3,373.50	-1,067.83	-2,852.01	0.95	1.95	331.89
2	16,947.99	56	38	18	67.86	879.27	3,025.12	-914.69	-3,119.03	0.96	2.03	302.64
1	13,945.11	58	34	24	58.62	726.35	2,484.00	-447.95	-1,348.29	1.62	2.30	240.43

The edge isn't huge, but it does appear to be worth a closer look. The equity curve below gives a better idea of how it has played out over time.



While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration and I've included it among the active studies.

Thursday the VXO closed over 20% below its 10ma. This triggered the following study from the 3/25/11 Letter.

VXO closes over 20% below 10ma. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-8,488.86	7	3	4	42.86	429.63	1,168.00	-2,444.44	-4,561.65	0.18	0.13	-1,212.69
4	-6,063.93	7	3	4	42.86	441.98	686.20	-1,847.47	-3,899.98	0.24	0.18	-866.28
3	-3,623.87	7	3	4	42.86	442.83	1,074.06	-1,238.09	-2,266.83	0.36	0.27	-517.70
2	-8,429.99	7	1	6	14.29	73.83	73.83	-1,417.30	-3,149.67	0.05	0.01	-1,204.28
1	-5,010.45	8	0	8	0.00	0.00	0.00	-626.31	-2,176.20	0.00	0.00	-626.31

Instances are very low, but all eight closed lower the next day (including yesterday's). And looking out 2 days the edge appears even more pronounced. Below is a list of all the individual occurrences. It assumes a 1-day holding period.

VXO closes over 20% below 10ma. SPX > 200ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/17/89	Buy	\$341.61	(0.66%)	\$81.76
11/20/89	Sell	\$339.35		(\$969.44)
09/23/98	Buy	\$1,066.10	(2.19%)	\$0.00
09/24/98	Sell	\$1,042.70		(\$3,073.65)
12/23/98	Buy	\$1,228.54	(0.19%)	\$95.58
12/24/98	Sell	\$1,226.26		(\$299.70)
03/21/07	Buy	\$1,435.04	(0.03%)	\$180.78
03/22/07	Sell	\$1,434.54		(\$356.04)
08/24/07	Buy	\$1,479.37	(0.85%)	\$0.00
08/27/07	Sell	\$1,466.79		(\$897.13)
09/21/07	Buy	\$1,525.75	(0.53%)	\$287.95
09/24/07	Sell	\$1,517.73		(\$624.00)
06/18/10	Buy	\$1,117.51	(0.39%)	\$1,221.08
06/21/10	Sell	\$1,113.20		(\$825.03)
01/02/13	Buy	\$1,462.42	(0.21%)	\$207.40
01/03/13	Sell	\$1,459.37		(\$468.52)
Avg Runup: 0.26%		Avg Drawdown: -0.94%		

In addition to the fact that they all closed down, I also note that the average drawdown the next day was over 3.5 times the average run-up. I also created the list for a 2-day holding period.

VXO closes over 20% below 10ma. SPX > 200ma.
Buy SPX on close. Sell 2 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/17/89	Buy	\$341.61	(0.59%)	\$81.76
11/21/89	Sell	\$339.59		(\$1,191.36)
09/23/98	Buy	\$1,066.10	(2.00%)	\$0.00
09/25/98	Sell	\$1,044.75		(\$3,073.65)
12/23/98	Buy	\$1,228.54	(0.25%)	\$241.38
12/28/98	Sell	\$1,225.48		(\$597.78)
03/21/07	Buy	\$1,435.04	0.07%	\$265.65
03/23/07	Sell	\$1,436.11		(\$356.04)
08/24/07	Buy	\$1,479.37	(3.18%)	\$0.00
08/28/07	Sell	\$1,432.36		(\$3,173.12)
09/21/07	Buy	\$1,525.75	(0.56%)	\$287.95
09/25/07	Sell	\$1,517.21		(\$1,210.30)
06/18/10	Buy	\$1,117.51	(1.99%)	\$1,221.08
06/22/10	Sell	\$1,095.31		(\$2,076.37)
Avg Runup: 0.30% Avg Drawdown: -1.67%				

Here too the strong downside inclinations are confirmed. In this case the downside risk is about 5 1/2 times as much as upside reward.

So we have 1 bullish and 1 bearish study being added to the Active List tonight.

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



Tonight's studies pushed the green Aggregator line slightly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still extremely negative. The negative reading means the SPX is overbought versus recent expectations. So net expectations are negative and the SPX is strongly 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 change from flat to short.

Based on the current studies, expectations are set to turn back to bullish on Friday. This could change if more bearish evidence emerges. The Differential Pivot will be 1,432.09 on Friday. This is a strong 1.9% below Thursday's close. It seems unlikely that we would have a drop of that magnitude on Friday. A more likely scenario in which the overbought condition could get worked off would involve a multi-day pullback or consolidation.

With the QE Buying Power Index currently in bullish territory and bearish expectations set to expire on Friday, I have no intention of taking a short signal. I intend to remain flat through the weekend.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/31– bullish

The intermediate-term outlook was last updated in the 12/31/12 Letter. Link below:

[2012-12-31 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.

None tonight.

Current Open Trade Ideas

None

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