

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2013

Volume 6 Issue 5

Market Overview



Signals Overview

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

Tonight's Research Points

- VXO remains extended, which is nothing new.

Short-term Outlook

The Bottom Line

Evidence is pointing higher but the pullback to this point has been quite shallow. If it deepens I may look to take on some long exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
January 7, 2013	Up Issue % > 75% 2 of last 3 days	1-2 days	Bullish	
January 7, 2013	VXO 15% below 10ma 3 days	1-2 days	Bearish	
January 3, 2013	50-day high breakout	1-5 days	Bullish	
Active - Long Term				
January 3, 2013	50-day high breakout. 90% up vol	1-25 days	Bullish	
January 3, 2013	VIX high stretch to low stretch	1-8 days	Bullish	
January 3, 2013	SPX & TNX high 50-day highs	1-20 days	Bearish	
December 24, 2012	Nasdaq Leading SPX	int term	Bullish	
December 12, 2012	5 days up > 200ma & < 50-high	1-15 days	Bullish	2.80%
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				
January 4, 2013	SPX dn. Up issue % > 55%.	1-2 days	Bullish	1.00%
January 4, 2013	VXO 20% below 10ma	1-2 days	Bearish	-0.90%

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

The Evidence

Monday saw a mild pullback on quiet action. The SPX lost 0.3%, the Nasdaq fell 0.1%, and the Russell 2000 dropped 0.4%. Breadth was moderately negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 41%. Volume was light and declined from Friday's level.

The moderate action did not really trigger anything new and compelling. The standout statistic remains the very low VIX/VXO. And the studies shown there were just repeats of those I covered the last few nights. So after the long letter last night I am going to keep it short tonight.

The active studies on the short-term list include the favorable 50-day breakout action from 1/3, and the 2 studies from last night. There are also a good number of intermediate-term studies active, most of which are bullish.

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



The green Aggregator line tonight remained 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 shot higher and reached positive territory. The positive reading means the SPX is now oversold versus recent expectations. So net expectations are positive 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 turn long at the close.

Based on the current studies, expectations are set to remain bullish on Tuesday. This could change if compelling bearish evidence emerges. The Differential Pivot will be 1,462.55 on Tuesday. This is 0.45% above Monday's close. So it will take a close higher of at least this much in order for the SPX to move back into an overbought state.

So the Aggregator is suggesting a bit of an upside edge. But while the SPX is “oversold” versus expectations over the last few days, it is not oversold by many other short-term measures. It is well above its 5 and 10-day moving averages, and in fact SPY closed in the top 10% of its 10-day range. And the pullback is only 1-day old after hitting an intermediate-term high. So I don't see a need to rush into anything here. I am not going to begin scaling in unless we get a lower close again on Tuesday. Details are in the Trade Ideas section at the bottom of the Letter.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/7– bullish

The intermediate-term outlook was last updated in the 1/7 letter. Link below:

[2013-01-07 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 @ \$145.30 LIMIT ON CLOSE. Based on the short-term outlook above. I will be looking to begin scaling long in SPY if we close down a bit on Tuesday.

Current Open Trade Ideas

None

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