

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2013

Volume 6 Issue 7

Market Overview



Signals Overview

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

Tonight's Research Points

- If SPX closed at a 50-day high then Wednesday's VIX action would've suggested a short-term downside edge. But without the intermediate-term high there does not appear to be an edge.

Short-term Outlook

The Bottom Line

I still like the upside. I will try again to get filled long if SPY pulls back intraday on Thursday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
January 9, 2013	2 Unfilled SPY Gaps Dn & 5-low	1-5 days	Bullish	1.90%
January 7, 2013	Up Issue % > 75% 2 of last 3 days	1-6 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	
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 3, 2013	50-day high breakout	1-5 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 has gone quiet over the last few days. Moderate selling the past 2 days was replaced with moderate buying on Wednesday. The SPX rose 0.3%, the Nasdaq gained 0.5%, and the Russell 2000 rallied 0.6%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 54%. Volume rose a little from Tuesday.

The sideways chop is doing little to generate substantial edges. The Quantifinder did not come up with anything compelling tonight and neither did I. But it did note a study that was interesting, and something I thought traders might like to see reviewed.

It was from the 10/29/10 Letter and it looked at mid-week days during uptrends that both SPX and VIX rose. In it I found there to be a substantial difference in performance at times the SPX closed at a 50-day high versus times it did not. The reason I typically isolate mid-week versus ends is that the VIX has a natural tendency to decline on Friday afternoons and the rise Monday mornings. Tues-Thurs do not have any such tendencies. So let's first look at instances that occurred at 50-day SPX highs.

SPX and VIX both close higher on a Tuesday, Wednesday, or Thursday. SPX > 200ma and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-13,167.36	51	26	25	50.98	699.47	2,108.40	-1,254.15	-4,171.80	0.56	0.58	-258.18
4	-10,343.91	53	24	29	45.28	712.81	1,719.75	-946.60	-4,354.72	0.75	0.62	-195.17
3	-6,057.44	53	26	27	49.06	596.23	2,381.25	-798.49	-2,091.82	0.75	0.72	-114.29
2	-11,145.09	54	19	35	35.19	561.32	1,609.50	-623.15	-2,182.68	0.90	0.49	-206.39
1	-8,829.07	62	29	33	46.77	279.90	1,281.75	-513.52	-1,721.70	0.55	0.48	-142.40

91% of instances closed below the entry price at some point in the next week.

Numbers here seem to suggest a downside edge. But now let's look at times like now where the market is in an uptrend but not hitting a 50-day high.

SPX and VIX both close higher on a Tuesday, Wednesday, or Thursday. SPX > 200ma but below a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	16,760.16	62	37	25	59.68	1,416.84	3,549.70	-1,426.51	-3,523.08	0.99	1.47	270.33
4	9,704.77	63	36	27	57.14	1,312.29	3,154.00	-1,390.28	-3,332.34	0.94	1.26	154.04
3	1,432.38	65	37	28	56.92	1,050.86	3,288.60	-1,337.48	-3,671.32	0.79	1.04	22.04
2	7,948.58	66	39	27	59.09	855.12	3,962.70	-940.79	-2,848.17	0.91	1.31	120.43
1	746.40	68	35	33	51.47	672.76	1,970.50	-690.91	-2,079.70	0.97	1.03	10.98

Odds here are basically flat over the 1-3 day timeframe.

With nothing new to add to the Short-Term Active List tonight 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 also in positive territory. The positive reading means the SPX is 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 remain long at the close.

Based on the current studies, expectations are set to remain bullish on Thursday. This could change if compelling bearish evidence emerges. The Differential Pivot will be 1,464.72 on Thursday. This is just 0.25% above Wednesday'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.

The Aggregator suggests more upside is likely at this point. But a close up on Thursday will likely change the Aggregator signal back to flat. So potential reward is somewhat limited. I'm still looking to get long if I can get a good price. 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 @ \$145.55 LIMIT. Based on the short-term outlook above. I am keeping the limit price at the same level it was at Wednesday.

Current Open Trade Ideas

None

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