

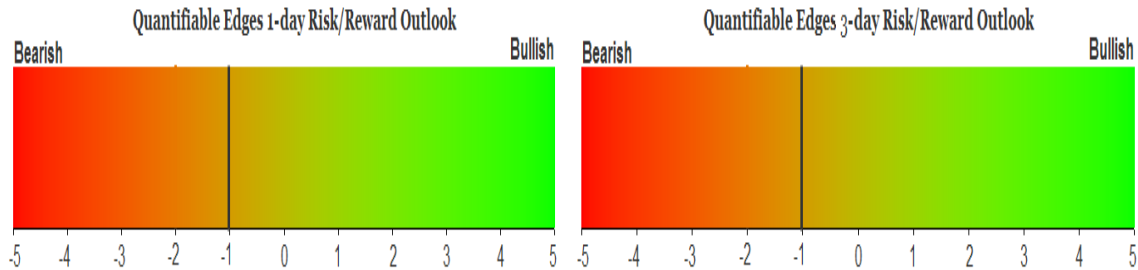
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 8, 2013

Volume 6 Issue 27

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- Sideways chop is not conducive to strong edges and that is what we are seeing.

Short-term Outlook

The Bottom Line

The studies are now leaning bearish and the market is overbought. This suggests a downside edge. But based on the current configuration the downside edge will likely be short-lived. Additionally, with both my intermediate-term outlook bullish and the QE Buying Power Index still bullish, I'm not inclined to short.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 7, 2013	SPY up 2 but < 3 days ago.	1-2 days	Bullish	
February 5, 2013	Unfill gap up then gap dn from 20-high	1-7 days	Bearish	-2.40%
Active - Long Term				
January 29, 2013	up 5 & 50-day high. The down.	1-10 days	Bullish	
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
January 3, 2013	50-day high breakout. 90% up vol	1-25 days	Bullish	
January 3, 2013	SPX & TNX high 50-day highs	1-20 days	Bearish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
February 1, 2013	Dn last 2 days of up month	1-5 days	Bullish	

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

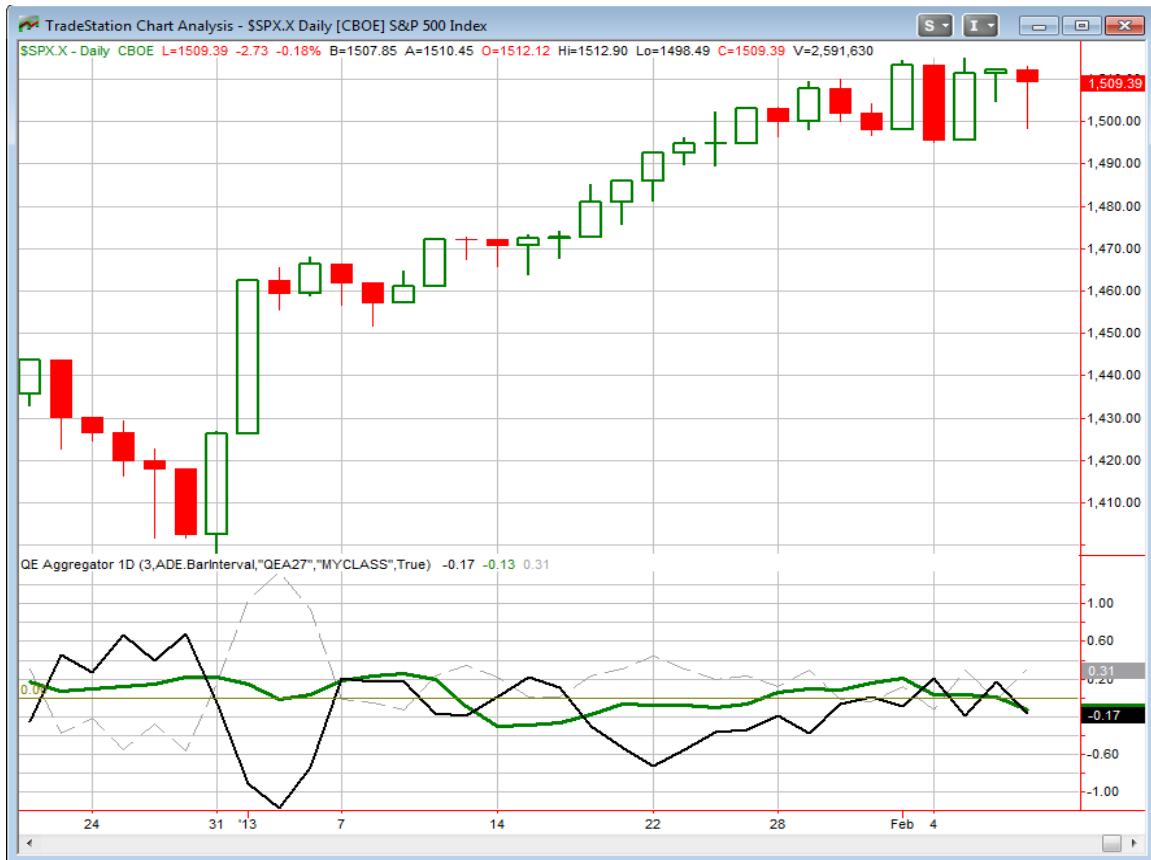
The Evidence

Thursday looked like it was going to be a big down day for a while, but an afternoon rally left the damage minimal. The SPX lost 0.2%, the NASDAQ fell 0.1%, and the Russell 2000 declined 0.4%. Breadth was squarely negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 35%. Total NYSE volume declined for the second day in a row.

We haven't had a day where the Quantifinder came up with absolutely nothing in a long time. But as many long-time subscribers know, choppy, sideways action similar to what we have seen over the last two weeks is just the kind of environment where strong edges are often lacking. And that is what happened today.

So I am going to keep it short tonight. We only have 2 short-term studies still active. One bullish and one bearish, and the bearish one is exerting more influence. So as we will see below, expectations are net negative. But it isn't as if we have a multitude of evidence all pointing south. It is just one study. A compelling one, but just one nonetheless.

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



As expected the green Aggregator line fell below zero tonight. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also dropped down below 0. The negative reading means the SPX is overbought versus recent expectations. 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 long to short at the close.

Based on the current studies expectations are set to remain bearish on Friday. Of course, this could easily change if additional bullish evidence emerges. The Differential Pivot will again be *inverted* at 1,515.30 on Friday. This is 0.4% *above* Wednesday's close. An inverted pivot means the Aggregator line will cross through 0 on a flat close. In this case, in order to remain overbought, SPX will need to close higher by more than 0.4%. Otherwise it will flip and be considered "oversold" versus recent expectations.

Similar to last night, we have what appears to be a mild edge that has no chance of extending beyond one day if in fact the market moves in the anticipated direction. And also similar to last night, I don't have much interest in trying to play this marginal downside edge. Of course I'm not terribly interested in the short side right now anyway since my intermediate-term outlook is bullish and the QE Buying Power Index is also

very bullish. So I will continue to wait through this chop and be ready to pounce when the next strong edges emerge.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/4– bullish

The intermediate-term outlook was last updated in the 2/4 letter. Link below:

[2013-02-04 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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