

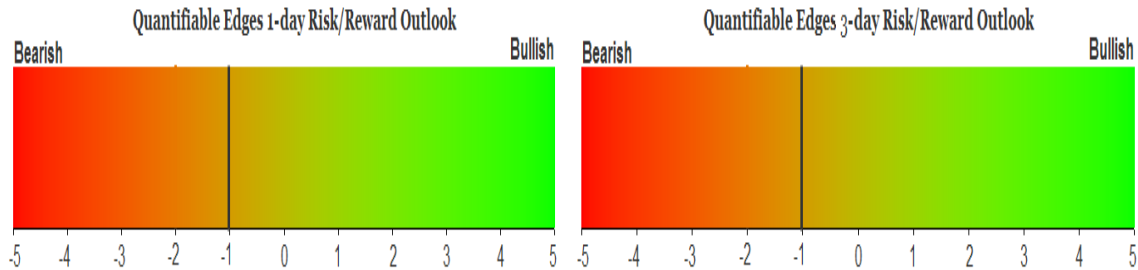
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 15, 2013

Volume 6 Issue 32

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 up days to a 50 day high, all on higher volume, are often followed by further gains in the next few days.
- The Friday before President's Friday has been weak over the last 20 years.
- The tight range over the last few days suggests we could see a sharp move in the next few.

Short-term Outlook

The Bottom Line

Mixed evidence Thursday left short-term expectations bearish. But liquidity and momentum remain strong and the unusually tight range the last few days suggests we could see a quick range expansion in the next few. I still believe down is the more likely short-term direction, but I'm not crazy about risk/reward so I am not positioning short at this point.

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


Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 15, 2013	3 up on rising volume to 50-day high	1-2 days	Bullish	
February 15, 2013	Friday before Pres Day seasonally weak	1 day	Bearish	
February 14, 2013	SPX 50-high. VIX up > 2.5%	1-2 days	Bearish	
Active - Long Term				
February 14, 2013	SPX & TNX 50-day highs.	1-20 days	Bearish	
January 29, 2013	up 5 & 50-day high. Then down.	1-10 days	Bullish	
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
February 13, 2013	SPY 50 high on 20-low vol	1-2 days	Bearish	

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

The Evidence

Thursday saw the market move mostly higher with modest changes. The SPX and Nasdaq rose 0.1%, while Russell 2000 rallied 0.3%. Breadth was mixed as the NYSE Up Issues % was 49% and the Up Volume % came in at 53%. Total NYSE volume rose slightly for the 3rd day in a row.

Friday is the last day before the President's Day holiday. Over the last 21 years the Friday before President's Day has been a poor performer. I showed this last year in the 2/17/12 Subscriber Letter. I have updated the results in the table below.

SPX performance on the Friday before Presidents Day. \$100k/trade. 1992 - present.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	(\$10,780.89)	Profit Factor	0.20
Gross Profit	\$2,713.00	Gross Loss	(\$13,493.89)
Total Number of Trades	21	Percent Profitable	23.81%
Winning Trades	5	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	(\$513.38)	Ratio Avg. Win:Avg. Loss	0.64
Avg. Winning Trade	\$542.60	Avg. Losing Trade	(\$843.37)
Largest Winning Trade	\$2,137.44	Largest Losing Trade	(\$3,035.52)

Inclinations appear squarely bearish. For those who want more detail I have listed all the instances below.

SPX performance on the Friday before Presidents Day.
\$100k/trade. 1992 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/13/92	Buy	\$413.68	(0.29%)	\$38.56
02/14/92	Sell	\$412.47		(\$600.09)
02/11/93	Buy	\$447.65	(0.69%)	\$8.92
02/12/93	Sell	\$444.58		(\$684.61)
02/17/94	Buy	\$470.34	(0.56%)	\$159.00
02/18/94	Sell	\$467.69		(\$905.24)
02/16/95	Buy	\$485.22	(0.67%)	\$0.00
02/17/95	Sell	\$481.97		(\$669.50)
02/15/96	Buy	\$651.34	(0.52%)	\$12.24
02/16/96	Sell	\$647.98		(\$665.55)
02/13/97	Buy	\$811.83	(0.42%)	\$45.51
02/14/97	Sell	\$808.45		(\$452.64)
02/12/98	Buy	\$1,024.14	(0.40%)	\$0.00
02/13/98	Sell	\$1,020.08		(\$623.71)
02/11/99	Buy	\$1,254.03	(1.91%)	\$0.79
02/12/99	Sell	\$1,230.13		(\$2,251.50)
02/17/00	Buy	\$1,388.25	(3.04%)	\$0.00
02/18/00	Sell	\$1,346.09		(\$3,090.96)
02/15/01	Buy	\$1,326.61	(1.90%)	\$0.00
02/16/01	Sell	\$1,301.47		(\$2,507.25)
02/14/02	Buy	\$1,116.48	(1.10%)	\$54.29
02/15/02	Sell	\$1,104.18		(\$1,179.25)
02/13/03	Buy	\$817.37	2.14%	\$2,137.44
02/14/03	Sell	\$834.89		(\$285.48)
02/12/04	Buy	\$1,152.11	(0.55%)	\$410.22
02/13/04	Sell	\$1,145.81		(\$763.68)
02/17/05	Buy	\$1,200.75	0.07%	\$180.11
02/18/05	Sell	\$1,201.58		(\$282.20)
02/16/06	Buy	\$1,289.38	(0.17%)	\$6.93
02/17/06	Sell	\$1,287.24		(\$408.87)
02/15/07	Buy	\$1,456.81	(0.09%)	\$0.00
02/16/07	Sell	\$1,455.54		(\$356.32)
02/14/08	Buy	\$1,348.86	0.08%	\$84.36
02/15/08	Sell	\$1,349.98		(\$794.02)
02/12/09	Buy	\$835.19	(1.00%)	\$504.56
02/13/09	Sell	\$826.84		(\$1,187.62)
02/11/10	Buy	\$1,078.47	(0.27%)	\$0.00
02/12/10	Sell	\$1,075.51		(\$1,426.00)
02/17/11	Buy	\$1,340.43	0.19%	\$269.36
02/18/11	Sell	\$1,343.01		(\$170.94)
02/16/12	Buy	\$1,358.04	0.23%	\$391.28
02/17/12	Sell	\$1,361.23		(\$58.40)

Avg Run-up: 0.2% Avg Drawdown: -0.9%

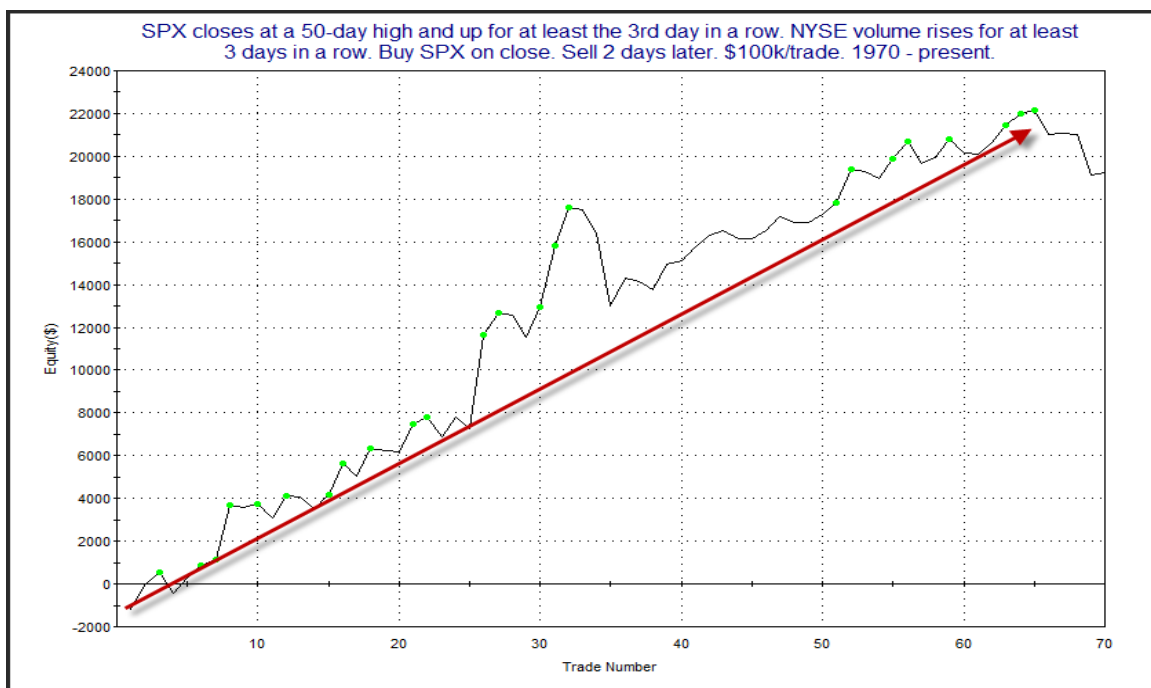
Among the 5 up years, only one of them has posted an intraday gain of over 0.5%. And with drawdown/runup ratio coming in at 4.5:1, risk/reward strongly favors the bears.

Another study, from the 7/20/12 subscriber letter, showed bullish inclinations. It examined persistent moves up to new highs on rising volume. Results below are all updated.

SPX closes at a 50-day high and up for at least the 3rd day in a row. NYSE volume rises for at least 3 days in a row. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	22,565.62	70	43	27	61.43	1,234.54	4,765.28	-1,130.36	-3,827.55	1.09	1.74	322.37
4	9,209.11	70	42	28	60.00	984.56	6,138.16	-1,147.94	-3,898.65	0.86	1.29	131.56
3	16,141.78	70	44	26	62.86	893.92	4,376.64	-891.95	-4,388.45	1.00	1.70	230.60
2	19,221.90	70	42	28	60.00	886.24	4,399.92	-642.86	-3,412.80	1.38	2.07	274.60
1	5,573.84	80	44	36	55.00	520.24	2,755.52	-481.02	-1,602.28	1.08	1.32	69.67

The bullish tendency here appears to largely play out in the first two days. Below is a profit curve assuming a 2-day exit strategy.



The upslope here is impressive, and the study seems worthy of consideration. But the last few instances have struggled so I am keeping an eye on this one to see that the edge is not lost.

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



Mixed evidence left the green Aggregator line just barely 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 is also still 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 remain short at the close.

Based on the current studies expectations are set to turn bullish on Friday. Of course, this could easily change if bearish evidence emerges. The Differential Pivot will be 1,512.94 on Friday. This is 0.6% below Thursday's close. So it would take a decline of this much in order to move the differential line back above zero and the SPX to an oversold state.

The market has been so quiet the last few days that it is somewhat surprising that I have anything to discuss. Shorting remains somewhat tempting but I still do not love risk/reward. And on top of the directional evidence that I discussed above, there is also a “Big Move” possibility on the board. This increases risk a bit more and leaves me content to wait for a more substantial edge.

The fairly tight trading over the last 3 days caused the 3/10 Offset Historical Volatility Indicator to come in at a very low 0.07 on Thursday. I last discussed this indicator in detail in the 12/10/12 letter. I have copied that commentary below.

I first introduced this indicator in July of 2009. It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after sharp contractions like this we see a volatility expansion take place.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

[Quantifiable Edges ORBs Study.pdf](#)

For anyone who is interested in seeing some techniques for actually trading these ORBs, there is a webinar from October 2010 on the subject on the videos page (subscribers only).

<http://www.quantifiableedges.com/members/videos.php>

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The Aggregator is currently neutral. Under these circumstances I could consider ORB trades in either direction. This would just be for a possible daytrade and is not something I will be tracking in the subscriber letter as an official trade idea. But even if you don't have any interest in attempting a daytrade, the low 3/10 Offset HV is worth noting. Because a volatility expansion (in either direction) is now likely, that means risk is elevated in open swing trade positions.

Of further note, the 3/10 Offset HV Calculation is available as part of the "QE Indicators/Functions for Tradestation". Subscribers may download it to include on their

own charts. A link to the Indicators page is below, where you may download the User Guide or the Tradestation ELD.

<http://www.quantifiableedges.com/members/qeindicators.php>

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

The intermediate-term outlook was last updated in the 2/11/13 letter. Link below:

[2013-02-11 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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