

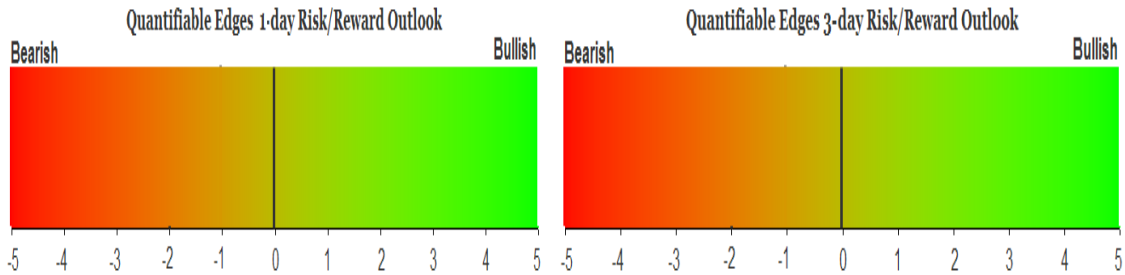
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 12, 2013

Volume 6 Issue 48

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

## Tonight's Research Points

- Low volume at a new intermediate-term high does not appear as bearish as it once did.
- The very lower 3/10 Offset HV suggests a big move could be coming in the next few days.

## Short-term Outlook

### The Bottom Line

Expectations remain positive but the market is still strongly overbought. I am not compelled to get involved on the long side until we get a bit of a pullback.

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

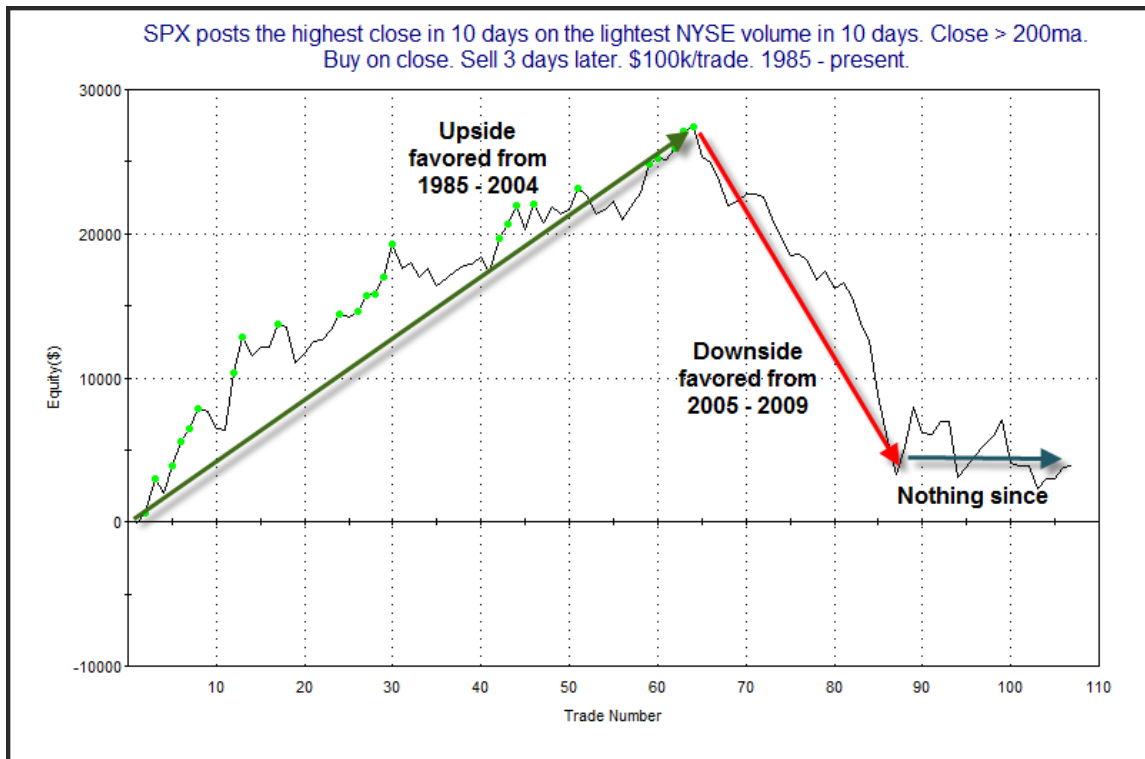
Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
March 11, 2013	March OpEx seasonally strong	1-4 days	Bullish	1.70%
<b>Active - Long Term</b>				
February 21, 2013	1st 5 low in 10 days. Yest 20-high.	1-11 days	Bullish	
February 14, 2013	SPX & TNX 50-day highs.	1-20 days	Bearish	
January 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	
<b>Dropped Tonight</b>				
March 11, 2013	VXO 15% below 10ma	1 day	Bearish	

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

***The Evidence***

Monday started a little weak but it gained strength throughout the day and finished well. The SPX and Nasdaq each closed up 0.3%, while the Russell 2000 just barely missed breakeven with a 0.03 point decline. Breadth was mildly positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 60%. Total NYSE volume came in at the lightest level in weeks

There were some studies from the 2/7/11 subscriber letter related to volume that triggered. They looked for 2-week volume lows that coincided with either 10-day or 50-day highs. Results were similar for both, and suggested a downside edge over the next several days. But these studies only went back as far as late 2004. More recently they have failed to produce the bearish edge suggested by the prior period. Below I have produced a profit curve showing how the setup has evolved over time. I used a 3-day holding period for the curve, but really everything from 1-5 days all looked similar.



The move lower from late 2004 is something I often refer to as an “environmental edge”. That means it is an edge that is working well in the current environment, but the setup has NOT acted that way for an extended period of time. My attitude with these is that I keep them on a short leash. As long as the setup continues to produce results I’ll continue to give it weight. But those inclinations could easily change so I stop incorporating these studies in my analysis when that happens. That appears to be what is happening here. So I am no longer inclined to pay much mind to this study.

I am seeing more and more studies fall out of favor that suggest a short-side edge at a high level. That makes sense because uptrends the last few years have been so persistent. This is something I credit QE1, QE2, and now QE3 with. Of course the QE programs will eventually end. But the QE Buying Power Index may continue to prove a useful filter in years to come even after QE is dead. Studies like the one above could easily revert to suggesting a downside edge when the market is not being flooded with liquidity. So I believe QE is something that we will need to remain cognizant of for many years to come.

The 3/10 Offset HV is now down to an extremely low 0.13. This indicator has popped up a few times lately. Below is a refresher copied from the 3/5/13 Letter.

*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).*

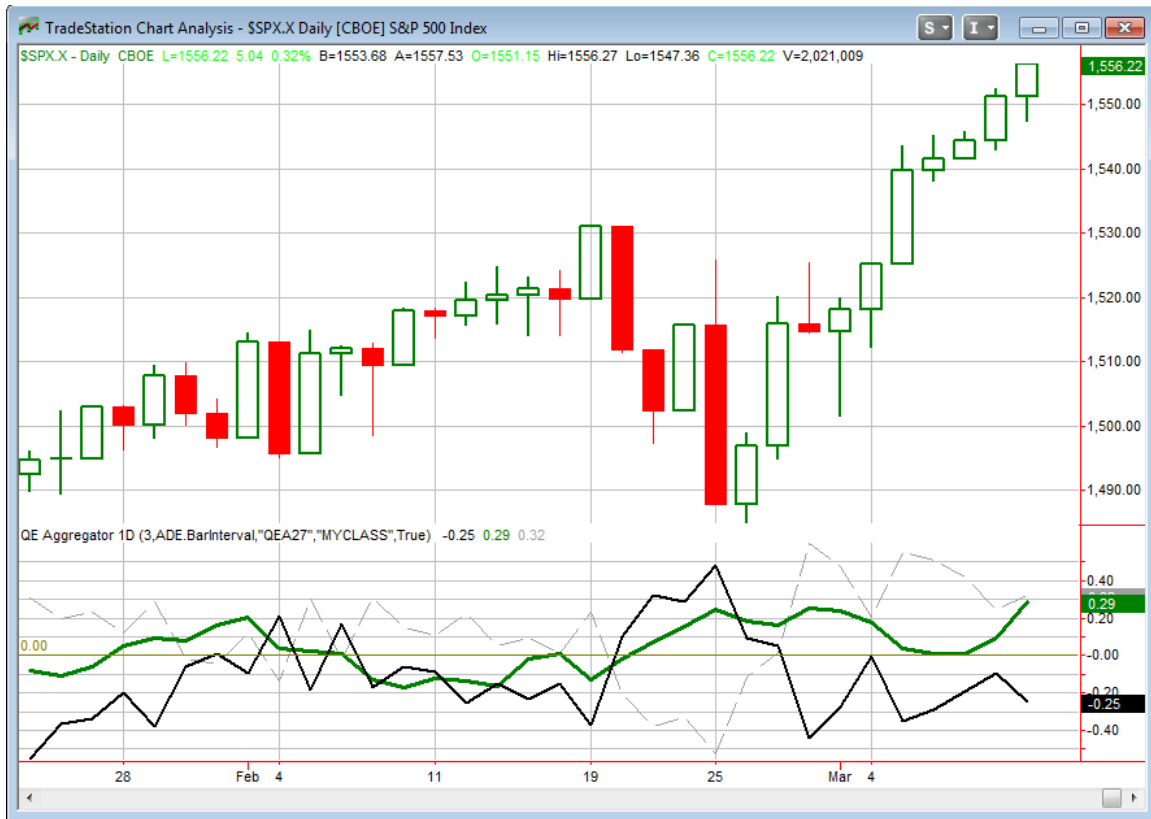
<http://www.quantifiableedges.com/members/videos.php>

*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>

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



Strong seasonality this week is helping to keep the green Aggregator Line above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to remain flat at the close.

Based on the current short-term studies, expectations are set to remain bullish on Tuesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,544.94 on Tuesday. This is about 0.7% below Monday's close. So it would take a close lower of at least this much in order to move the SPX from overbought to oversold versus expectations.

Overbought by every measure is not a favorable entry point for a long swing trade. And expectations refuse to turn negative. On top of that risk is now elevated with the 3/10 Offset HV warning of a potential big move. So I again find myself sidelined. Of course I will continue to monitor the market vigilantly and carefully for a favorable entry opportunity. But now is not the time for me.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/11 – bullish***

The Intermediate-term Outlook was last updated in the 3/11 Letter. Link below:

[2013-03-11 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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