

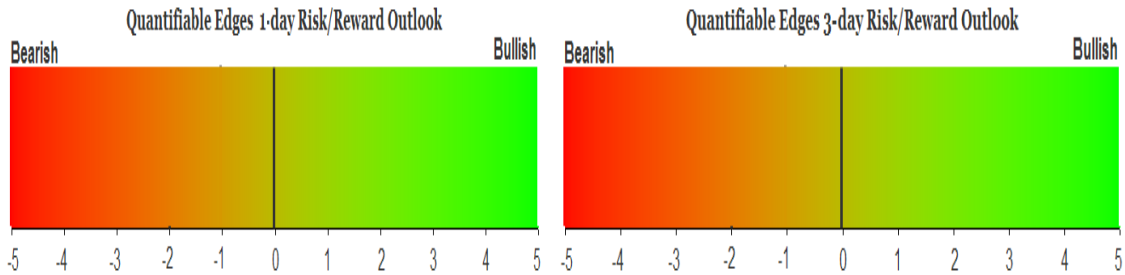
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 14, 2013

Volume 6 Issue 50

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 20-day volume low combined with a relatively high closing price suggests a pullback is due in the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is mixed with a slight bullish tilt. The SPX remains slightly overbought but could easily finish Thursday oversold. I'm not interested in doing anything until the market tips its hand a bit more.

**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 14, 2013	20 low volume and high close	1-3 days	Bearish	-1.30%
March 13, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%
March 11, 2013	March OpEx seasonally strong	1-4 days	Bullish	1.70%
<b>Active - Long Term</b>				
March 13, 2013	5 days up to 50-high, then 1 down	1-10 days	Bullish	2.00%
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	

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

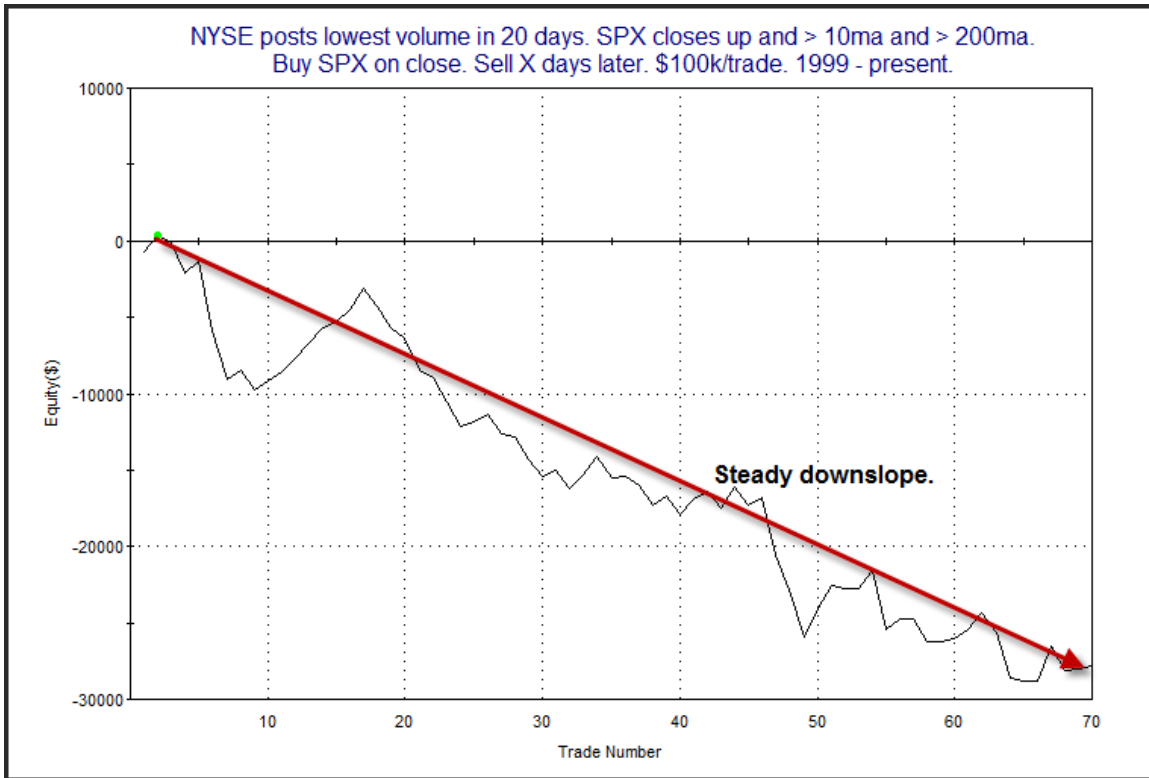
**The Evidence**

Trading was very quiet on Wednesday, and the major indices traded in a fairly tight range before finishing modestly higher. The SPX and Nasdaq each gained 0.1%, while the Russell 2000 rose 0.4%. Breadth was marginally positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 53%. Total NYSE volume came in at the lowest level in over a month.

A few studies triggered tonight that considered the relatively high close and the very low volume. A few nights ago I looked at some volume studies where the volume was the lowest in 10 days. I found that high closes on moderately light volume was not as dire as once appeared. So I was interested to see tonight's tests, which require volume to be lower to a greater extreme. The study that stood out and was best representative of the current setup is the one below, which was last seen in the 3/13/12 subscriber letter.

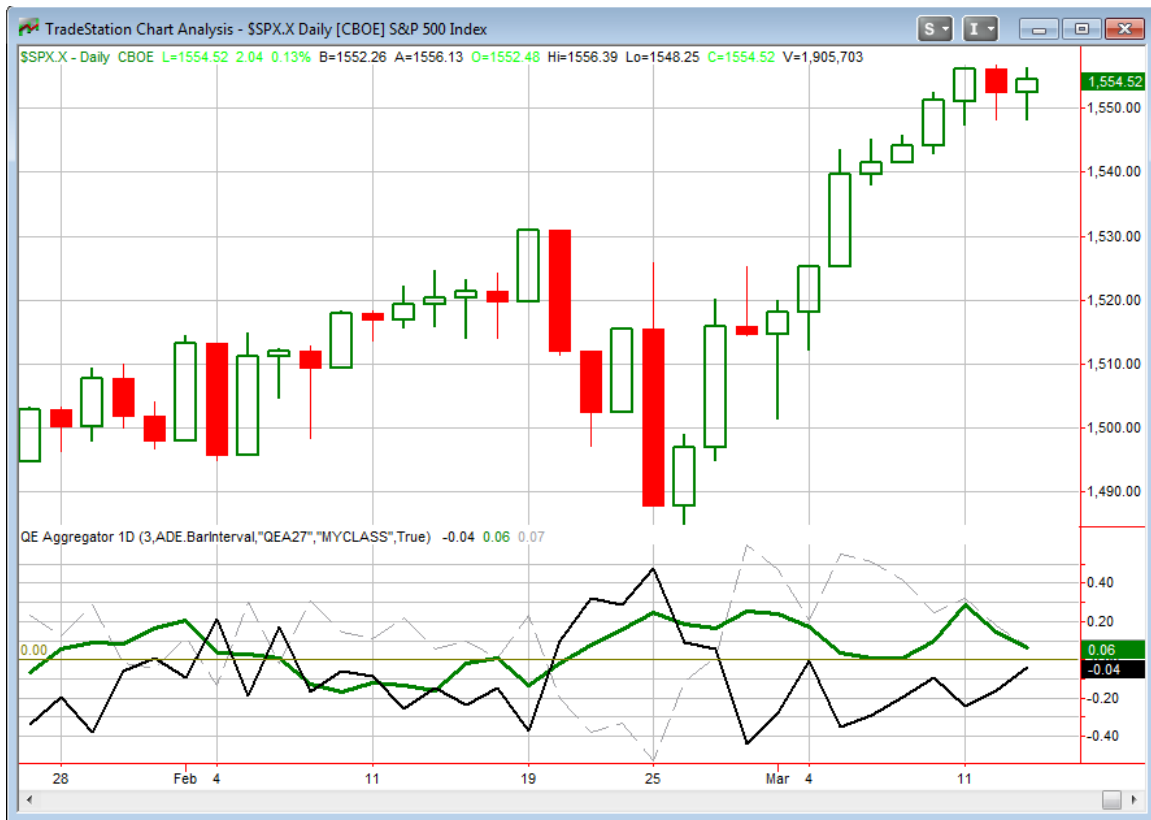
NYSE posts lowest volume in 20 days. SPX closes up and > 10ma and > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,157.18	66	34	32	51.52	1,198.71	2,927.68	-1,997.29	-10,421.45	0.60	0.64	-350.87
4	-21,474.09	68	34	34	50.00	856.74	2,381.76	-1,488.33	-4,929.60	0.58	0.58	-315.80
3	-27,865.39	70	33	37	47.14	791.91	2,268.72	-1,459.42	-4,565.52	0.54	0.48	-398.08
2	-21,781.64	72	31	41	43.06	626.37	1,669.68	-1,004.86	-3,595.20	0.62	0.47	-302.52
1	-8,945.91	79	38	41	48.10	471.30	1,790.64	-655.01	-2,361.45	0.72	0.67	-113.24

Based on these results there appears to be a moderate downside edge suggested by the setup. To confirm the downside edge, I examined the profit curve assuming a 3-day holding period.



The curve here is fairly impressive, and the downtrend seems to be intact. This study appears worthy inclusion on the Active List, so I have placed it there.

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



Despite tonight's bearish study the green Aggregator Line is still mildly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remains 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 Thursday. This could easily change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 1,562.24 on Thursday. This is about 0.5% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross 0 if SPX closes flat. In this case SPX would need to gain about 0.5% on Thursday in order to avoid changing from overbought to oversold status.

The Aggregator and Differential lines look like they are on a collision course and are both fairly close to 0. With both of them so tenuous anything is possible on Thursday. The Aggregator configuration could end up bullish, bearish, or neutral. I'll wait and see how Thursday plays out before taking a stance. Things remain too dicey for me to place new bets at the moment.

***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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