

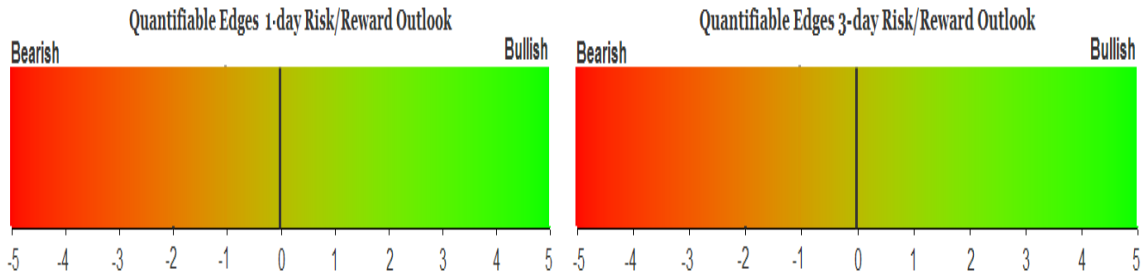
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 15, 2013

Volume 6 Issue 71

Market Overview



Signals Overview

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

Tonight's Research Points

- Seasonal strength often occurs both around Tax Day, and during April op-ex week.
- New highs are still diverging.
- Liquidity remains positive, but not as strong as the last few months.

Short-term Outlook

The Bottom Line

Evidence suggests we could get a move up here in the next few days, but the market is still overbought. If we get a pullback on Monday, I will start getting excited about the long side for a swing trade.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 15, 2013	April Opex / Tax Day bullish	1-3 days	Bullish	1.90%
April 12, 2013	%b > 115 last 2 days	1-5 days	Bullish	1.80%
Active - Long Term				
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.

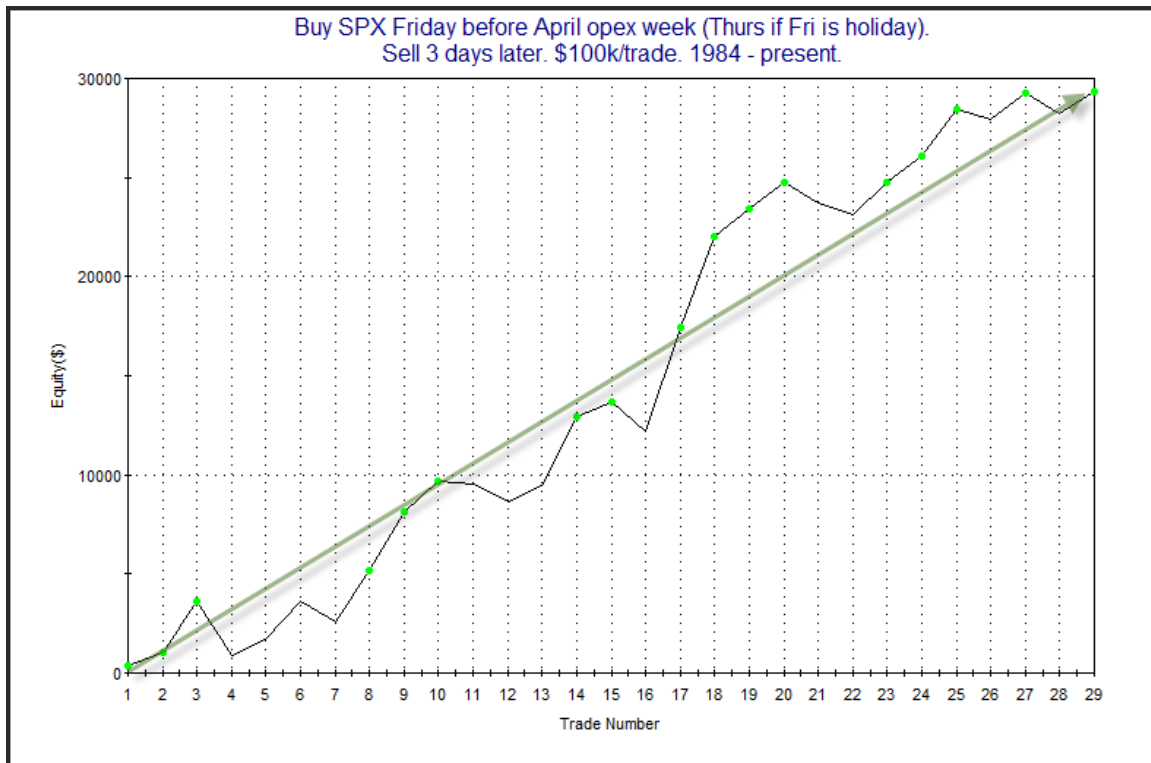
The Evidence

After 4 up days in a row the market pulled back a bit on Friday. The SPX declined 0.3%, the Nasdaq fell 0.2%, and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 32%. Total NYSE volume rose a little from Thursday's level.

Price action did little to generate compelling edges, but we do have a few studies suggesting this upcoming week is a strong one from a seasonal standpoint. April expirations week has historically been very bullish. I showed this last in the 4/16/12 Subscriber Letter and have updated it below.

Buy SPX Friday before April opex week (Thurs if Fri is holiday). Sell X days later. \$100k/trade. 1984 - 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	25,053.43	29	18	11	62.07	2,262.91	5,393.97	-1,425.36	-3,580.15	1.59	2.60	863.91
4	26,212.70	29	19	10	65.52	2,110.60	5,895.12	-1,388.87	-3,587.57	1.52	2.89	903.89
3	29,329.84	29	20	9	68.97	1,938.82	5,215.85	-1,049.62	-2,745.05	1.85	4.10	1,011.37
2	21,581.56	29	24	5	82.76	1,272.48	6,245.15	-1,791.61	-4,545.53	0.71	3.41	744.19
1	9,333.92	29	20	9	68.97	720.49	3,322.23	-563.98	-2,339.26	1.28	2.84	321.86

The consistency has been very impressive. It suggests an upside edge the first few days of this week. Below is a profit curve that assumes a 3-day holding period.



The strong, steady upslope provides some confirmation of the bullish bias.

Part of the reason that April opex may perform so well is that tax day often occurs this week. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market.

My research has found that some of the strongest influence occurs on tax day (normally April 15th) and the day immediately after. Below are some studies that demonstrate this.

SPX Tax Day Performance. \$100k/trade. 1981 - 2012.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$12,205.28	Profit Factor	3.35
Gross Profit	\$17,401.04	Gross Loss	(\$5,195.76)
Total Number of Trades	32	Percent Profitable	71.88%
Winning Trades	23	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$381.42	Ratio Avg. Win:Avg. Loss	1.31
Avg. Winning Trade	\$756.57	Avg. Losing Trade	(\$577.31)
Largest Winning Trade	\$3,322.23	Largest Losing Trade	(\$1,601.32)

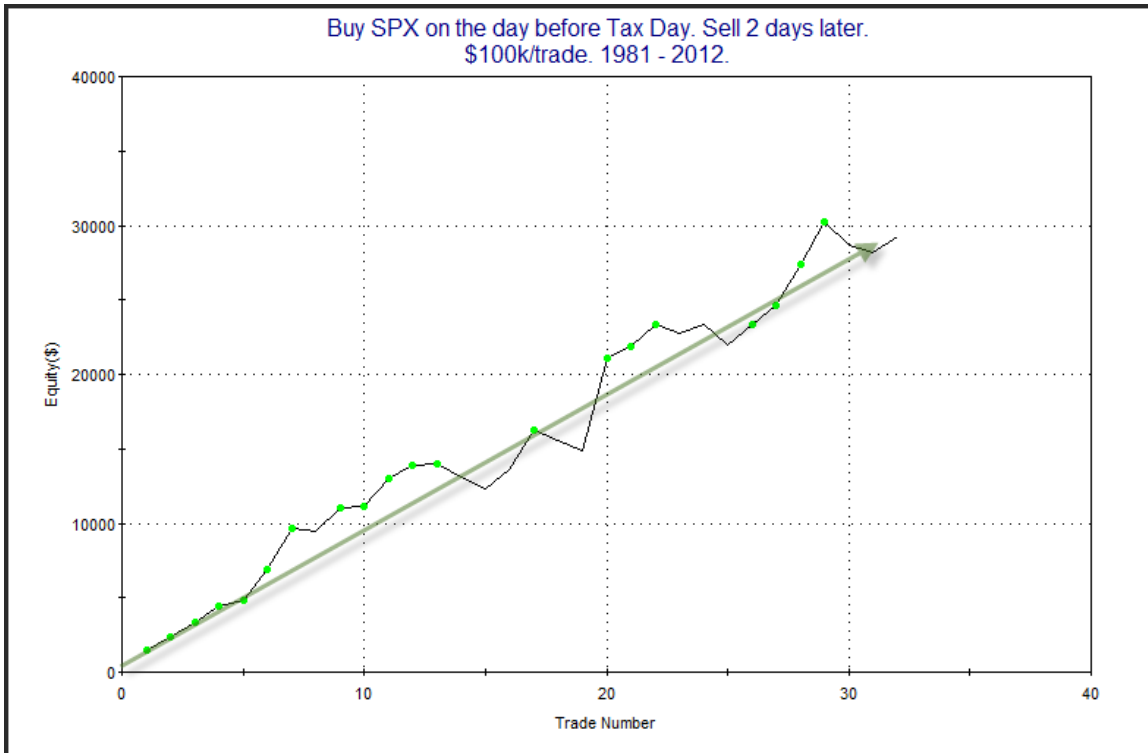
SPX day after Tax Day performance. \$100k/trade. 1981 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$16,926.15	Profit Factor	3.93
Gross Profit	\$22,705.25	Gross Loss	(\$5,779.10)
Total Number of Trades	32	Percent Profitable	68.75%
Winning Trades	22	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$528.94	Ratio Avg. Win:Avg. Loss	1.79
Avg. Winning Trade	\$1,032.06	Avg. Losing Trade	(\$577.91)
Largest Winning Trade	\$2,842.84	Largest Losing Trade	(\$1,602.28)

As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

Buy SPX on the day before Tax Day. Sell 2 days later.
\$100k/trade. 1981 - 2012.

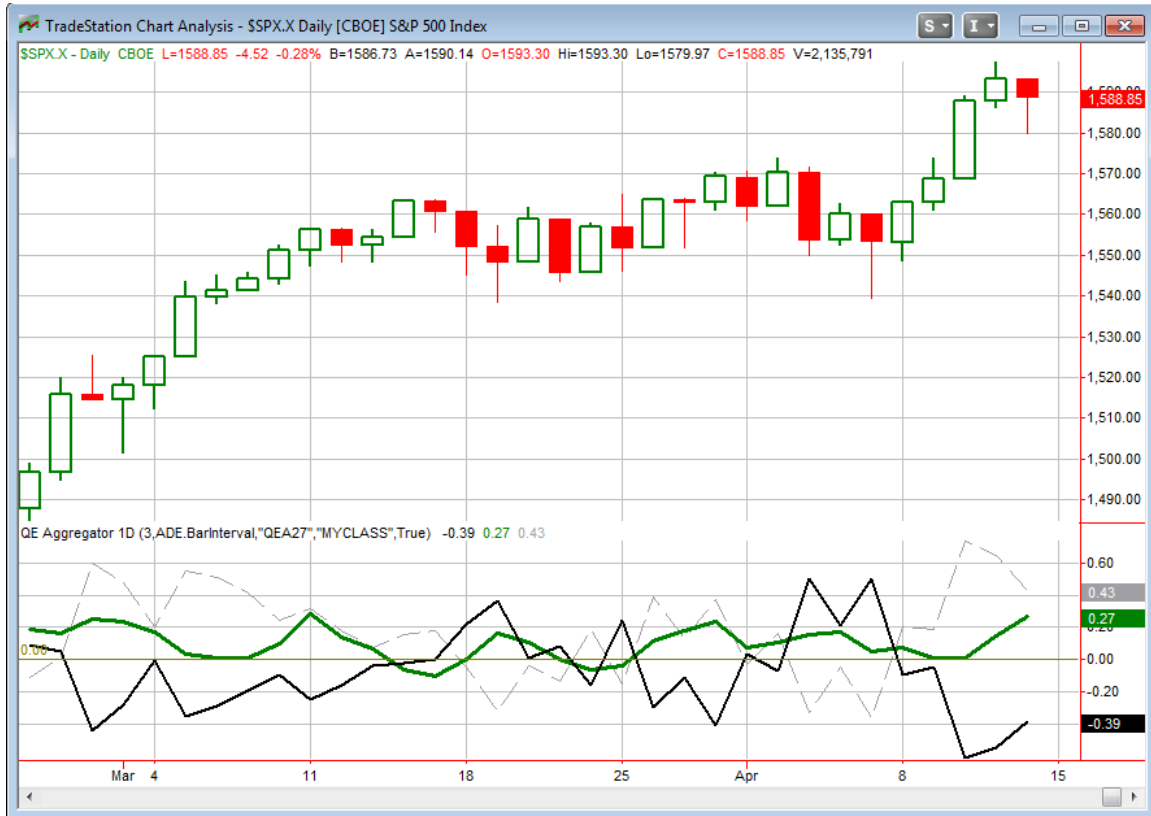
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$29,289.81	Profit Factor	5.04
Gross Profit	\$36,540.35	Gross Loss	(\$7,250.54)
Total Number of Trades	32	Percent Profitable	71.88%
Winning Trades	23	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$915.31	Ratio Avg. Win:Avg. Loss	1.97
Avg. Winning Trade	\$1,588.71	Avg. Losing Trade	(\$805.62)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.



Another good-looking curve here. Monday is Tax Day this year. So between the 2 studies, it appears there could be a nice seasonal wind at the markets back early this week.

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



Tonight's bullish studies helped push the green Aggregator Line further 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 well below 0. The negative Differential Line 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 stay flat at the close.

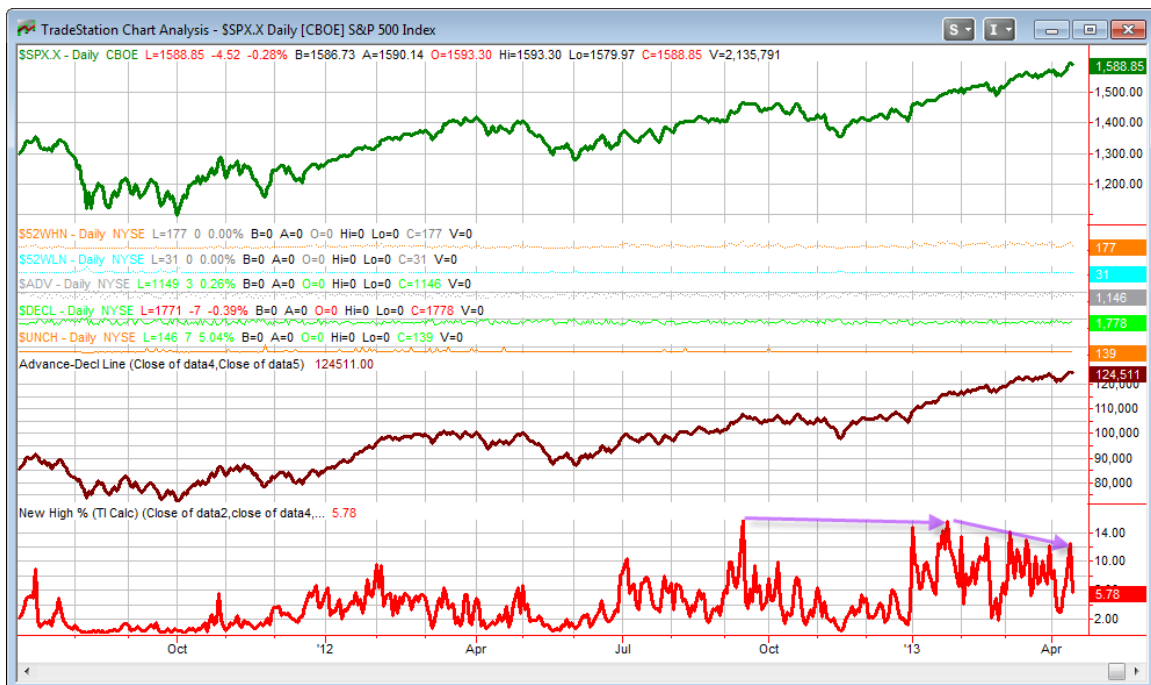
Without any bearish short-term active studies, expectations are slated to remain positive on Monday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,589.12 on Monday. This is a mere 0.27 SPX points above Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will be considered oversold on any down (or flat) close, and it will be considered overbought on almost any up close.

So while the Aggregator configuration is currently neutral, it will likely turn bullish if SPX closes down again on Monday. I don't often jump the gun on these, but I like the idea of getting long after a pullback from a high, with strong seasonality, and bullish price evidence. So I will likely look to take on exposure Monday afternoon if the market closes lower.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/15 – somewhat bullish

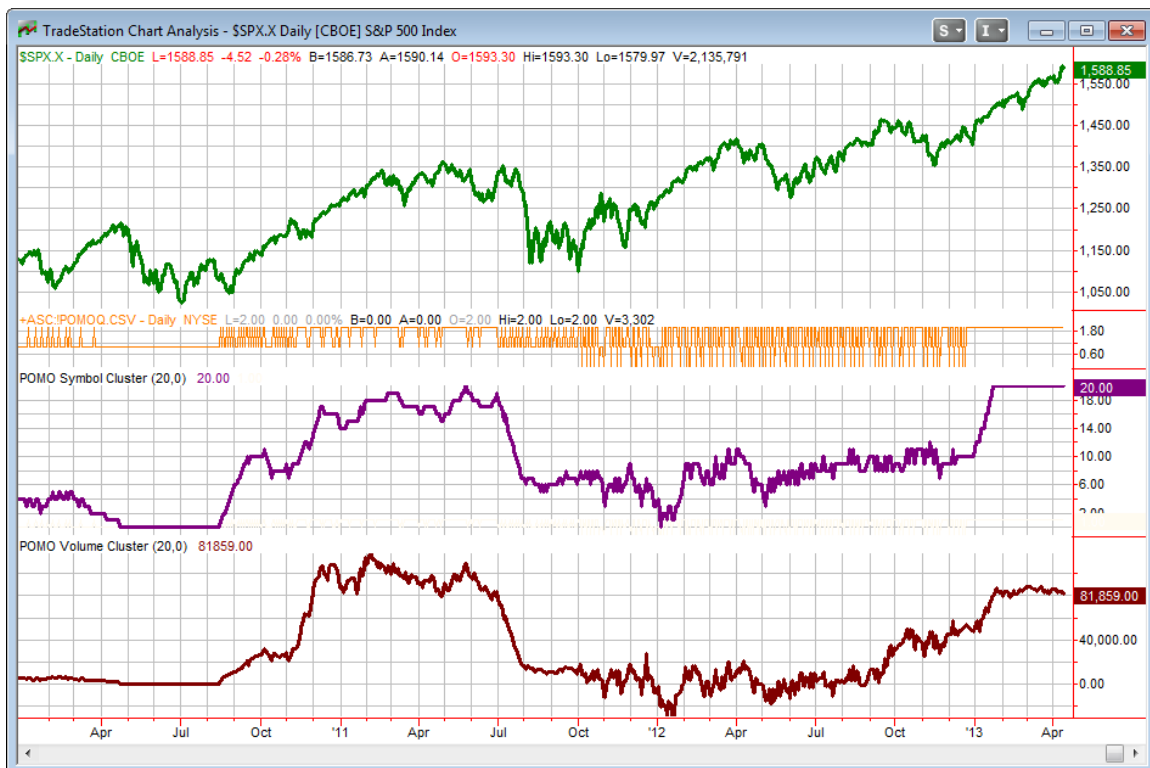
New all-time highs were again achieved on Tuesday, but by Friday the SPX put in a losing week. As mentioned above, SPX has reversed direction a record-tying 12 days in a row, so over the last couple of weeks neither the bulls nor the bears have exhibited clear control. And as a result, there has been a dearth of new intermediate-term studies triggering.

Since I updated the QE Study of Tops in January (it can be found on [members download page](#)) I have been keeping a close eye on the number of new highs being made on the NYSE. And while SPX again posted all-time highs, the number of individual issues hitting new highs remains in a divergence. The chart below is an updated version of the one I showed in the study. The indicator on the bottom shows the % of NYSE stocks that are making new 52-week highs. As you can clearly see that number has continued to shrink even while the SPX makes all-time highs. It is well below both the January level and the slightly higher September level of 15.73%. An expansion of new highs above there would greatly reduce the possibility of a major decline beginning in the next few months. For now the divergence raises a yellow flag.



I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator remained elevated in its 2013 range again this week. And the days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$16.8 billion. While that is a sizeable number, it is the

smallest weekly number we have seen so far in 2013. So while it is likely bullish, it is less bullish than we have grown accustomed to.

This upcoming week we expect to see liquidity flows rise to a more typical level compared to what we have seen in recent months. Between POMO and AMBS we should see about a \$20.5 billion inflow.

There is sometimes a lag in the impact of the POMO flows. So while the market held up strongly last week despite the lower inflows, it still may be a little more susceptible than usual to a pullback in the next week or so.

Overall, intermediate-term evidence is still mixed. I have kept my overall outlook at “somewhat bullish” this week for the 2nd week in a row. On the negative side we are still cognizant of the breadth divergence from the Study of Tops. The trend is still up, but price action has failed to generate any new bullish intermediate-term studies in recent weeks. And while liquidity flows are positive, they are weaker than they have been in a few months. So we could be entering a period here where bulls may struggle some. I still favor a rising market, and am more inclined to play long trades than shorts, but some caution may be warranted here for the next few weeks.

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 @ \$158.79 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to start scaling in to a long trade if SPX closes down on Monday.*

Current Open Trade Ideas

None

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