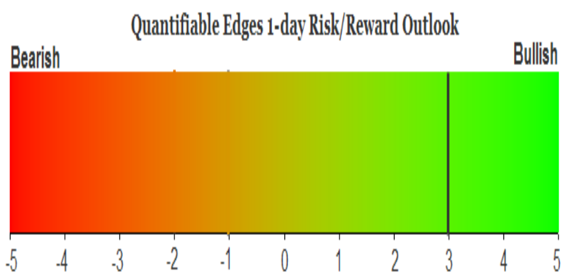
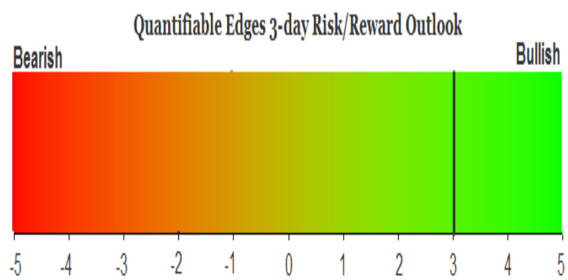
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2013 Volume 6 Issue 106

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Long	Long

Tonight's Research Points

- The bounce on somewhat weak breadth after a strong down day has triggered a rare study with strong bullish results.
- A 3rd Hindenburg signal has triggered. This is a notoriously bearish intermediate-term signal that I have examined in the past and review again tonight.

Short-term Outlook
The Bottom Line

The bounce started on Monday and indications so far are that it will likely continue. I am not looking to add exposure right now, but will instead maintain my current positions.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 4, 2013	SPX dn 1.5% then up w/ poor breadth	1-2 days	Bullish	1.90%
June 3, 2013	Big drop on Friday	1-6 days	Bullish	2.70%
Active - Long Term				
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
May 23, 2013	3-hi. 3-low. 3-low close. Close > 200.	1-15 days	Bullish	4.10%
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
April 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
June 3, 2013	***Pullback into end of month***	***1 day***	***Bullish***	
June 3, 2013	***TICK Tom oscillator low extreme***	***1 day***	***Bullish***	
May 28, 2013	2 unfilled gaps down. 5-low.	1-5 days	Bullish	1.80%
May 28, 2013	3 dn from 50-high. < 10ma & > 10-low	1-5 days	Bullish	1.80%

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

The Evidence

There was a lot of back and forth on Monday but a strong finish meant higher closes for the indices. The SPX finished with a 0.6% gain, the Nasdaq rose 0.3%, and the Russell 2000 rallied 0.7%. Breadth was mixed as the NYSE Up Issues % was 43% but the Up Volume % was 59%. Total NYSE volume came in lower than Friday.

So we got the bounce on Monday that seemed so likely last night. And Monday also provided us with a few interesting studies to examine. From a short-term standpoint, there was the study below, which was from the 12/15/10 Subscriber Letter.

Yesterday SPX drops between 1.25% and 1.75%. Today SPX closes higher but NYSE Up Issue % is between 43% and 47%.
Buy SPX on close. Sell X days later. $100k/trade. 2000 - present.

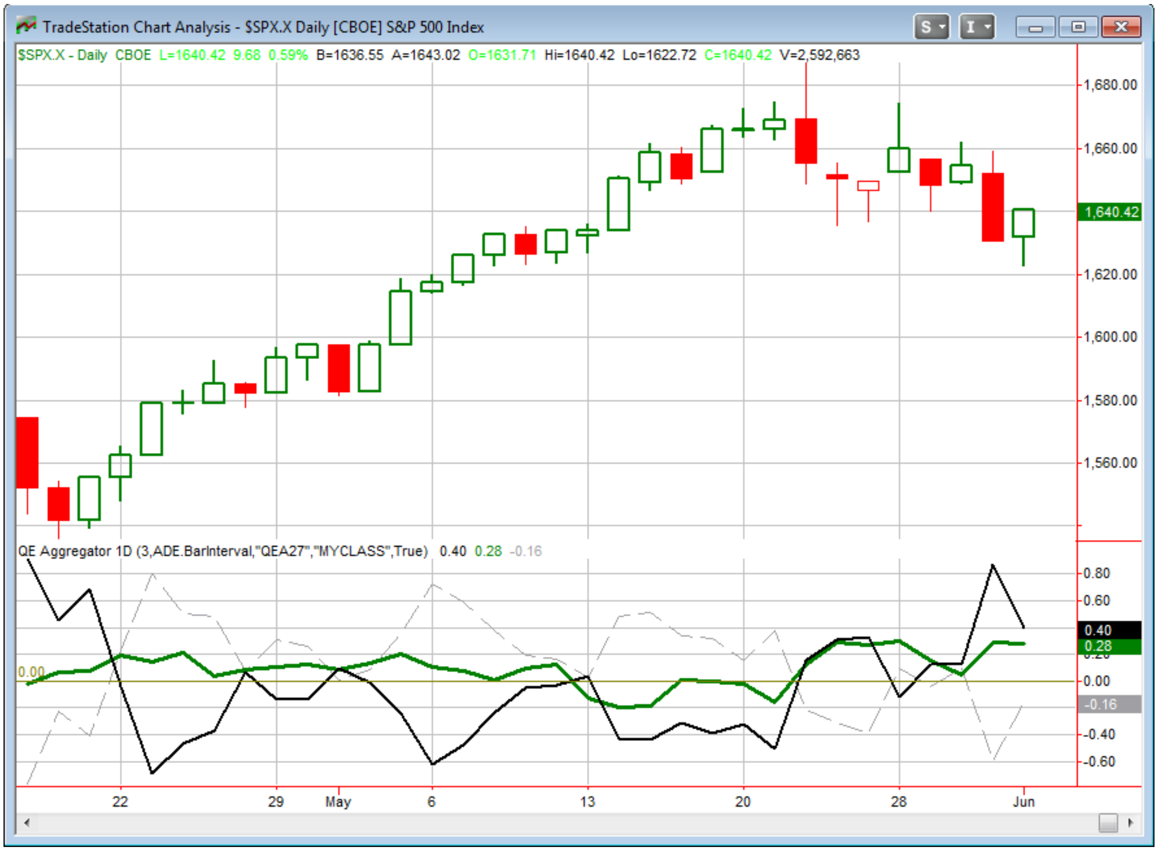
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,810.57	6	5	1	83.33	2,592.21	7,590.88	-150.48	-150.48	17.23	86.13	2,135.10
4	9,247.88	6	5	1	83.33	1,857.39	4,662.24	-39.06	-39.06	47.55	237.76	1,541.31
3	6,483.28	6	4	2	66.67	1,805.28	3,119.60	-368.93	-552.78	4.89	9.79	1,080.55
2	9,443.87	6	6	0	100.00	1,573.98	4,732.64	0.00	0.00	100.00	100.00	1,573.98
1	7,082.17	6	5	1	83.33	1,434.19	3,390.64	-88.80	-88.80	16.15	80.75	1,180.36

So the 1st thing I noticed about these results is that there are very few instances. And with only 6 instances I would normally ignore these results. But before throwing it out, I took a closer look at the instances. I have listed them below with their 2-day results.

Yesterday SPX drops between 1.25% and 1.75%. Today SPX closes higher but NYSE Up Issue % is between 43% and 47%. Buy SPX on close. Sell 2 days later. $100k/trade. 2000 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
04/21/04	Buy	$1,124.12	1.47%	$1,641.20
04/23/04	Sell	$1,140.60		($193.60)
08/09/04	Buy	$1,065.22	0.99%	$1,285.26
08/11/04	Sell	$1,075.79		$0.00
02/15/08	Buy	$1,349.98	0.74%	$1,280.20
02/20/08	Sell	$1,360.02	Max Ddown	($993.82)
04/19/10	Buy	$1,197.52	0.70%	$1,118.01
04/21/10	Sell	$1,205.94		$0.00
06/16/11	Buy	$1,267.64	0.85%	$996.84
06/20/11	Sell	$1,278.36	Min run-up	($18.72)
08/22/11	Buy	$1,123.82	4.79%	$4,817.12
08/24/11	Sell	$1,177.60		($80.08)
Avg Run-up: 1.86% Avg Drawdown: -0.21%				

While the 6-0 record is impressive, it is the run-up/drawdown stats that make this study compelling in my eyes. The average run-up has been 8.67x the size of the average drawdown. And the minimum run-up is larger than the maximum drawdown. With stats so strong I felt it was worth giving this study some consideration and have included it on the Active List.

I have updated the Aggregator chart below.



Today's study helped keep the green Aggregator Line strongly 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 also still far above 0. The positive Differential Line reading means the SPX is strongly oversold versus recent expectations. So expectations are strongly positive and the SPX is extremely oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close.

Based on the current studies, expectations are slated to remain positive on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,662.35 on Tuesday. This is about 1.3% above Monday's close. That is a pretty big 1-day move. More likely it will still take a multi-day rally or consolidation to work off the strong oversold condition.

So the Aggregator remains bullish. The studies are still pointing higher and the market is still oversold. It appears to me that this bounce is likely to last a bit longer. From a trading standpoint, I have built up some long positions, and I intend to simply hold and manage them tomorrow. I will not look for additional exposure on Tuesday.

Intermediate-term study

We are seeing a fair number of both new 52-week highs and 52-week lows now. One setup that I have covered in the past examines whether this indicates a split market that is in for some trouble. The setup is called a "Hindenburg Omen". Monday marked the 3rd Hindenburg Omen trigger we have seen in the last 4 days. I last covered it in the 12/15/10 Letter. Below I have updated the research from that letter.

First, below are the rules for a Hindenburg Omen signal according to Wikipedia.

1. *The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically, 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). An older version of the indicator used a threshold of 2.5 percent of total issues traded (approximately 80 of 3200 in today's market).*
2. *The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.*
3. *The McClellan Oscillator is negative on the same day.*
4. *New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).*

Now my past thoughts…

The Hindenburg Omen is a technical setup that suggests the market could be in for a decline if it is in an uptrend and the market has become "split". A split market is suggested when there is both a high number of new highs and new lows. The definition varies somewhat depending on where you read about it… Tom McClellan wrote an interesting piece on the history of the indicator…Additionally, he enlightened me on some stock market history and noted that prior to 1979 new high/low data was calculated differently. Therefore testing back before 1979 creates problems. Anyway, I'd encourage you to read his thoughts here:

http://www.mcoscillator.com/learning_center/kb/special_market_reports/hindenburg_omen_signaled_but_also_not/

I've seen a number of discrepancies over the last few days with regards to the exact criteria used for the Hindenburg Omen. Below are 3 worth mentioning.

1) *50-day vs. 10-week moving average. This one shouldn't matter much. They are both looking at the same time frame. The idea is that average should be moving higher and that will occur if the market is higher than it was 10 weeks (or 50 days) ago. For my testing I used 50-days. I've had some funky issues in the past with Tradestation when I've tried mixing daily and weekly bars. I decided to keep it simple and just use the 50-day instead of the 10-week.*
2) *NH's and NL's must be greater than (2.2% or 2.4% or 2.8%) of new issues. I saw all 3 listed. Tom addressed this issue in his article. I used 2.2% in my testing.*
3) *Clusters vs. single occurrences – Some people suggested a single Hindenburg Omen trigger is not enough. That it is more reliable with multiple signals. This I examine a bit below.*

So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg signal triggers.
Sell X days later. $100k/trade. 1980 - 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
100	9,987.35	23	12	11	52.17	6,841.50	13,171.60	-6,555.51	-19,079.85	1.04	1.14	434.23
95	13,052.60	24	13	11	54.17	6,816.97	17,946.48	-6,869.81	-22,416.88	0.99	1.17	543.86
90	-3,650.88	24	12	12	50.00	6,758.52	15,961.92	-7,062.76	-20,572.65	0.96	0.96	-152.12
85	2,576.99	24	12	12	50.00	7,702.17	16,670.24	-7,487.42	-21,465.22	1.03	1.03	107.37
80	-14,115.87	24	11	13	45.83	7,219.99	16,583.84	-7,195.06	-21,552.30	1.00	0.85	-588.16
75	-12,979.72	24	12	12	50.00	6,471.07	14,501.70	-7,552.72	-22,917.59	0.86	0.86	-540.82
70	-17,197.09	24	10	14	41.67	8,318.72	17,714.32	-7,170.31	-20,289.64	1.16	0.83	-716.55
65	-27,173.27	24	10	14	41.67	7,642.90	16,609.84	-7,400.16	-21,508.76	1.03	0.74	-1,132.22
60	-41,230.50	24	10	14	41.67	6,547.07	17,197.44	-7,621.52	-24,323.31	0.86	0.61	-1,717.94
55	-62,429.48	24	9	15	37.50	6,517.21	14,306.24	-8,072.29	-27,246.71	0.81	0.48	-2,601.23
50	-37,488.28	24	9	15	37.50	7,233.64	14,509.04	-6,839.40	-29,846.67	1.06	0.63	-1,562.01
45	-30,160.56	25	11	14	44.00	5,674.61	13,151.98	-6,612.95	-23,971.88	0.86	0.67	-1,206.42
40	-26,559.20	25	10	15	40.00	6,640.76	12,520.58	-6,197.79	-23,520.93	1.07	0.71	-1,062.37
35	-27,150.59	26	11	15	42.31	6,113.09	12,021.20	-6,292.97	-24,659.19	0.97	0.71	-1,044.25
30	-13,105.41	27	14	13	51.85	4,840.74	9,855.58	-6,221.21	-22,460.42	0.78	0.84	-485.39
25	-2,627.51	28	14	14	50.00	5,152.84	9,781.64	-5,340.52	-27,340.01	0.96	0.96	-93.84
20	-4,315.56	29	16	13	55.17	3,949.12	9,257.67	-5,192.43	-19,533.91	0.76	0.94	-148.81
15	7,508.64	31	15	16	48.39	3,253.54	9,103.68	-2,580.91	-8,166.80	1.26	1.18	242.21
10	3,255.00	37	19	18	51.35	2,522.20	9,012.33	-2,481.49	-7,899.90	1.02	1.07	87.97
5	-10,839.06	44	17	27	38.64	1,849.17	4,926.56	-1,565.74	-5,775.12	1.18	0.74	-246.34

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period. (I read statements suggesting 30 days and others suggesting 36 days. I chose to test 30.)

Buy SPX when 2nd Hindenburg signal triggers. Sell X days later. $100k/trade. 1980 - 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
100	19,339.22	12	7	5	58.33	8,104.55	17,883.98	-7,478.53	-18,879.12	1.08	1.52	1,611.60
95	18,964.27	13	8	5	61.54	7,790.60	17,605.78	-8,672.11	-21,212.88	0.90	1.44	1,458.79
90	20,547.32	13	9	4	69.23	6,690.45	20,476.59	-9,916.68	-20,011.68	0.67	1.52	1,580.56
85	3,243.66	14	6	8	42.86	10,080.32	20,455.19	-7,154.78	-21,883.68	1.41	1.06	231.69
80	2,405.00	14	7	7	50.00	8,214.81	18,961.47	-7,871.24	-21,961.68	1.04	1.04	171.79
75	5,748.77	14	7	7	50.00	8,372.79	17,861.51	-7,551.54	-23,181.60	1.11	1.11	410.63
70	-6,904.36	14	8	6	57.14	6,688.00	21,700.67	-10,068.06	-19,060.08	0.66	0.89	-493.17
65	-25,530.96	14	6	8	42.86	7,818.50	20,504.41	-9,055.25	-23,131.68	0.86	0.65	-1,823.64
60	-16,264.54	14	7	7	50.00	6,160.29	19,457.95	-8,483.79	-22,011.60	0.73	0.73	-1,161.75
55	-33,157.03	14	6	8	42.86	6,624.41	18,625.49	-9,112.94	-26,329.68	0.73	0.55	-2,368.36
50	-32,247.86	14	5	9	35.71	7,722.44	17,961.02	-7,873.34	-29,889.60	0.98	0.54	-2,303.42
45	-28,520.09	15	6	9	40.00	5,741.73	16,345.32	-6,996.72	-24,766.56	0.82	0.55	-1,901.34
40	-25,103.58	15	6	9	40.00	6,326.03	14,615.13	-7,006.64	-24,853.92	0.90	0.60	-1,673.57
35	-20,159.24	15	7	8	46.67	5,528.46	13,303.31	-7,357.31	-22,211.28	0.75	0.66	-1,343.95
30	-25,451.65	15	7	8	46.67	4,884.77	11,007.09	-7,455.63	-20,354.88	0.66	0.57	-1,696.78
25	-22,588.16	16	8	8	50.00	4,720.73	10,173.56	-7,544.25	-23,381.28	0.63	0.63	-1,411.76
20	-25,965.01	17	7	10	41.18	3,944.37	8,886.35	-5,357.56	-22,295.52	0.74	0.52	-1,527.35
15	4,319.83	18	8	10	44.44	3,145.17	8,305.02	-2,084.16	-6,748.56	1.51	1.21	239.99
10	-3,034.14	23	8	15	34.78	2,981.07	9,247.23	-1,792.18	-5,748.21	1.66	0.89	-131.92
5	1,574.82	28	11	17	39.29	2,353.07	6,245.73	-1,429.94	-3,352.36	1.65	1.06	56.24

Some of these numbers look a little worse, but you'd probably need to squint to notice. So lastly I checked instances that triggered a 3rd signal in a 30-day period.

Buy the SPX when the 3rd Hindenburg signal triggers. Sell X days later. $100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	All: Max Losing Trade	All: Max Winning Trade
100	18,189.83	9	6	3	66.67	6,521.01	-6,978.75	0.93	1.87	2,021.09	-16,085.07	18,512.90
95	9,304.48	9	5	4	55.56	6,711.67	-6,063.47	1.11	1.38	1,033.83	-16,770.54	16,070.66
90	101.55	9	4	5	44.44	9,036.94	-7,209.24	1.25	1.00	11.28	-19,277.67	18,595.58
85	6,033.07	9	5	4	55.56	7,852.24	-8,307.03	0.95	1.18	670.34	-21,362.25	18,884.96
80	-10,368.80	10	4	6	40.00	8,639.87	-7,488.05	1.15	0.77	-1,036.88	-19,449.82	16,528.58
75	-4,108.84	10	4	6	40.00	10,775.33	-7,868.36	1.37	0.91	-410.88	-22,758.23	18,289.24
70	-12,895.26	10	4	6	40.00	8,797.08	-8,013.93	1.10	0.73	-1,289.53	-21,021.08	19,119.22
65	-25,072.11	10	3	7	30.00	8,434.30	-7,196.43	1.17	0.50	-2,507.21	-23,731.66	17,909.76
60	-23,437.47	10	4	5	40.00	5,846.03	-9,364.32	0.62	0.50	-2,343.75	-22,576.69	17,209.10
55	-29,818.46	10	2	8	20.00	10,436.19	-6,336.35	1.65	0.41	-2,981.85	-20,673.65	17,905.52
50	-25,203.09	10	2	8	20.00	11,705.02	-6,076.64	1.93	0.48	-2,520.31	-22,263.69	17,255.74
45	-32,230.99	10	3	7	30.00	7,255.22	-7,713.81	0.94	0.40	-3,223.10	-25,143.29	15,507.80
40	-40,485.19	10	3	7	30.00	6,532.64	-8,583.30	0.76	0.33	-4,048.52	-26,846.01	13,700.50
35	-32,141.50	10	2	8	20.00	8,676.37	-6,186.78	1.40	0.35	-3,214.15	-22,795.79	11,461.78
30	-32,085.92	11	4	7	36.36	6,414.52	-8,249.14	0.78	0.44	-2,916.90	-23,844.34	10,991.14
25	-36,341.93	11	4	7	36.36	5,376.68	-8,264.09	0.65	0.37	-3,303.81	-25,105.73	9,841.04
20	-37,079.86	11	4	7	36.36	4,136.00	-7,660.55	0.54	0.31	-3,370.90	-21,406.07	8,458.80
15	-26,985.45	13	6	7	46.15	3,205.22	-6,602.39	0.49	0.42	-2,075.80	-26,924.26	7,078.68
10	-39,038.35	14	5	9	35.71	1,892.94	-5,389.23	0.35	0.20	-2,788.45	-25,784.94	3,159.86
5	-9,973.42	18	5	13	27.78	1,848.15	-1,478.01	1.25	0.48	-554.08	-3,509.22	4,174.28

Between 35 and 55 days out there appears to be some pretty poor returns on a very small sample size.

I looked at the 50-day holding period a bit closer. A few write-ups I read noted that a decline of at least 5% should be expected. Below are all 10 instances and their 50-day holding period stats. The column to the far right shows runup & drawdown.

Buy the SPX when the 3rd Hindenburg signal triggers.
Sell 50 days later. $100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
02/12/80	Buy	$117.89	(11.45%)	$1,975.84
04/24/80	Sell	$104.39		($17,104.16)
07/23/86	Buy	$238.66	(1.99%)	$6,528.02
10/02/86	Sell	$233.91		($4,433.02)
10/06/87	Buy	$319.21	(22.28%)	$53.21
12/16/87	Sell	$248.08		($32,160.75)
03/14/94	Buy	$467.39	(2.36%)	$788.10
05/25/94	Sell	$456.34		($6,715.89)
10/25/95	Buy	$582.47	6.18%	$7,185.42
01/08/96	Sell	$618.46		($1,699.74)
01/12/98	Buy	$939.21	17.33%	$18,429.16
03/25/98	Sell	$1,102.00		$0.00
12/07/99	Buy	$1,409.17	(1.48%)	$4,818.10
02/17/00	Sell	$1,388.25		($4,138.40)
04/17/06	Buy	$1,285.33	(3.59%)	$3,185.49
06/27/06	Sell	$1,239.20		($5,085.08)
07/18/07	Buy	$1,546.17	(0.96%)	$577.92
09/27/07	Sell	$1,531.38		($11,236.48)
10/18/07	Buy	$1,540.08	(4.66%)	$811.52
12/31/07	Sell	$1,468.29		($8,574.72)

Six of the ten instances listed had a drawdown of over 5% within 50 days of the entry point. I found this to be a bit disappointing.

So here's my overall impression of the Hindenburg Omen signal.

1) *Great name – much more marketable than names like "Aggregator" or "Rob".*
2) *Lots & lots of hype.*
3) *Lots of rules – and lots of confusion about those rules.*
4) *Not a lot of big selloffs following these signals – but certainly some.*

The rule confusion suggests to me that over time there have been people who likely have "improved" the system by adding rules to filter out bad signals. Normally a dangerous endeavor.

It appears the original intent of the system was to identify when a rally was narrowing and susceptible to a tumble. This is a concept I can buy into.

This is the 1st time we have seen a cluster of Hindenburg triggers since 2007. Though I do not find the evidence overwhelming, I have added it to the intermediate-term active list. Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads page.

http://www.quantifiableedges.com/members/memdownloads.php

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/3 –bullish

The intermediate-term outlook was last updated in the 6/3 letter. Link below:

2013-06-03 QE Subscriber Letter.pdf

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

SO – buy 1/3 @ $44.89 LIMIT (bought @ $44.67)
SO – buy 1/3 @ $44.26 LIMIT(bought @ $44.26)
EXC – buy 1/3 @ $31.65 LIMIT(bought @ $31.65)
SO – buy 1/3 @ $44.13 LIMIT (bought @ $44.13)
EXC – buy 1/3 @ $31.50 LIMIT (bought @ $31.50)
EXC – buy 1/3 @ $31.34 LIMIT (bought @ $31.34)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6(SO-3, EXC-3)

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

Symbol	Entry Date	Entry Pric	Current Pric	% Gain/Loss	Stop	Notes
SPY(1/4)	5/23/2013	$165.45	$164.35	-0.66%		Aggregator
SO (1/3)	5/29/2013	$44.67	$44.09	-1.30%		Catapult
SO (1/3)	5/30/2013	$44.26	$44.09	-0.38%		Catapult
EXC(1/3)	5/30/2013	$31.65	$31.61	-0.13%		Catapult
SO (1/3)	5/31/2013	$44.13	$44.09	-0.09%		Catapult
EXC(1/3)	5/31/2013	$31.50	$31.61	0.35%		Catapult
EXC(1/3)	6/3/2013	$31.34	$31.61	0.86%		Catapult
SPY(1/4)	6/3/2013	$163.65	$164.35	0.43%		Aggregator