

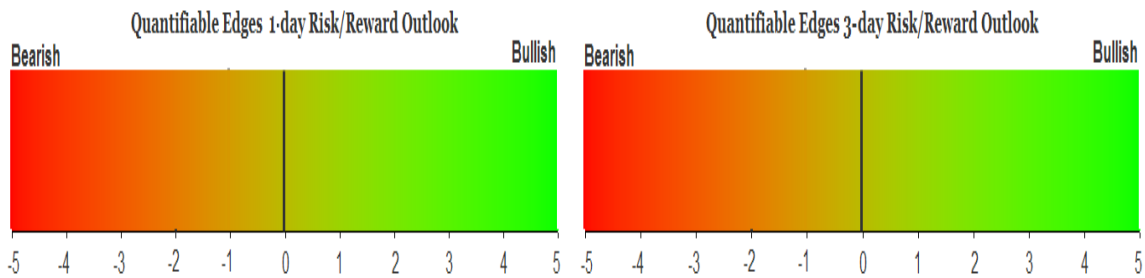
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2013

Volume 6 Issue 178

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Opex week in September has generally done well when September has started off positively.
- Wednesday's Fed Day should provide a bullish edge, but the strength of that edge will largely be dependent on how Tuesday plays out.
- The Study of Tops has been updated with a look at the current market.
- Two studies are suggesting recent short-term strength bodes well for the intermediate-term.
- QE buying has been strong, but Wednesday's Fed announcement could alter policy in a way that may have a negative market impact.

## Short-term Outlook

### The Bottom Line

Short-term indicators are generally pointing higher, but the market is already overbought. And I am not inclined to get aggressive just yet. No buying for me until at least Tuesday – and then perhaps just to hold until just before the Fed announcement Wednesday. It is a tricky environment at the moment, so I'll remain patient.

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

| Study Date                | Description                            | Time span   | Bias    | Avg Max Move |
|---------------------------|--|-------------|---------|--------------|
| <b>Active</b>             |  |             |         |              |
| September 16, 2013        | September positive into opex week      | 1-2 days    | Bullish | 1.10%        |
| September 13, 2013        | Down day after 5+ up. Close > 200ma.   | 1-9 days    | Bullish |              |
| September 13, 2013        | 3 Higher HLC. Then low cls. Higher h&l | 1-4 days    | Bullish |              |
| September 10, 2013        | 5 higher highs                         | 1-4 days    | Bearish |              |
| September 10, 2013        | 5 higher closes > 200ma < 50-high      | 1-10 days   | Bullish |              |
| <b>Active - Long Term</b> |  |             |         |              |
| September 11, 2013        | RSI2 crosses over 99. Close > 200ma    | 1-15 days   | Bullish | 2.40%        |
| September 10, 2013        | 5 higher closes > 200ma < 50-high      | 1-15 days   | Bullish |              |
| August 12, 2013           | Hindenburg Omen cluster                | 1-50 days   | Bearish | -8.60%       |
| July 22, 2013             | New High Divergence (Study of Tops)    | int term    | Bearish |              |
| June 28, 2013             | 70% Advancing Issues 3 Days In Row     | 1-85 days   | Bullish | 10.60%       |
| May 6, 2013               | Nasdaq leading SPX                     | int term    | Bullish |              |
| 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 |              |

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

**The Evidence**

After just one down day, the market put in another up day on Friday. The SPX rose 0.3%, the NASDAQ gained 0.2%, and the Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % was 64%. Total NYSE volume came in at the lightest level in over two weeks.

The light volume could be a concern, and a possible sign of complacency. Or perhaps traders are wary of making big bets right now with both Fed news and Syria news pending. The low-volume studies I did showed no substantial upside or downside edge. But it is unusual to see such low-volume occurring in September. August is a typical low-volume month since many traders take vacation. So September numbers generally show an increase over August. But QQQ actually posted its lowest volume in 20 days. I tried to look back at other times in which QQQ posted a 20-day low in volume during the month of September. There were none. This is the first instance.

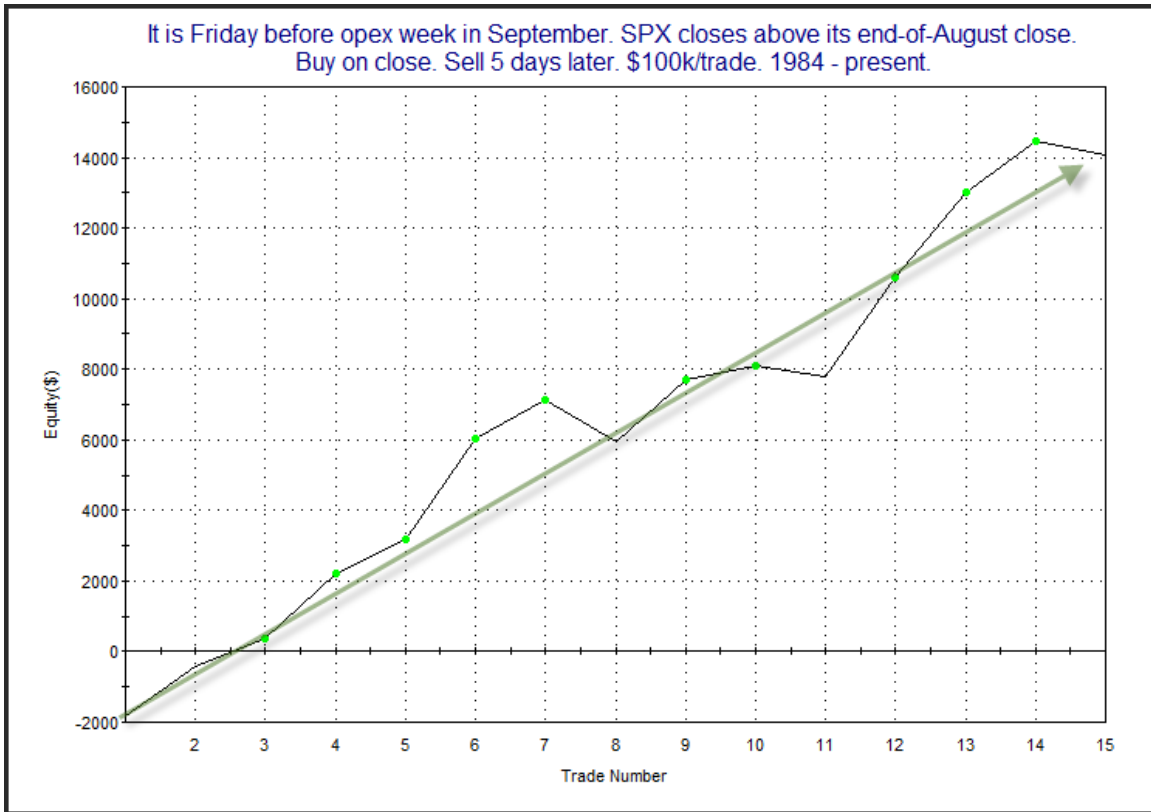
This upcoming week is options expiration. Options expiration weeks are typically pretty good week for the market. In the 3/11/13 Letter I broke down options expiration week performance by month of the year. I have copied that table below (not updated).

| Op-Ex Week Performance by Month. 1984 - present. \$100k/trade.<br>(Excludes September 2001) |                 |                   |                     |                    |                   |                        |                        |                       |                       |                     |                   |                |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 |
| 12  | 22,772.93       | 29                | 23                  | 6                  | 79.31             | 1,358.61               | 5,868.16               | -1,412.53             | -4,176.33             | 0.96                | 3.69              | 785.27         |
| 11  | -828.54         | 29                | 17                  | 12                 | 58.62             | 1,355.92               | 3,718.25               | -1,989.93             | -8,351.64             | 0.68                | 0.97              | -28.57         |
| 10  | 22,735.08       | 29                | 21                  | 8                  | 72.41             | 2,335.39               | 7,282.10               | -3,288.50             | -9,109.98             | 0.71                | 1.86              | 783.97         |
| 9   | 10,714.77       | 28                | 17                  | 11                 | 60.71             | 1,610.77               | 5,313.08               | -1,515.30             | -4,975.04             | 1.06                | 1.64              | 382.67         |
| 8   | 5,258.03        | 29                | 17                  | 12                 | 58.62             | 1,445.89               | 4,329.72               | -1,610.18             | -4,643.52             | 0.90                | 1.27              | 181.31         |
| 7   | -4,108.73       | 29                | 13                  | 15                 | 44.83             | 1,531.20               | 6,921.25               | -1,600.96             | -7,953.12             | 0.96                | 0.83              | -141.68        |
| 6   | -879.88         | 29                | 16                  | 13                 | 55.17             | 1,257.62               | 3,786.09               | -1,615.52             | -3,998.19             | 0.78                | 0.96              | -30.34         |
| 5   | 185.01          | 29                | 14                  | 15                 | 48.28             | 2,029.21               | 4,850.40               | -1,881.60             | -4,959.45             | 1.08                | 1.01              | 6.38           |
| 4   | 28,080.18       | 29                | 19                  | 10                 | 65.52             | 2,271.86               | 5,731.96               | -1,508.53             | -3,580.15             | 1.51                | 2.86              | 968.28         |
| 3   | 24,281.92       | 29                | 19                  | 10                 | 65.52             | 2,117.29               | 7,515.60               | -1,594.66             | -6,711.66             | 1.33                | 2.52              | 837.31         |
| 2   | 7,110.33        | 30                | 17                  | 13                 | 56.67             | 1,440.68               | 3,096.72               | -1,337.02             | -6,814.80             | 1.08                | 1.41              | 237.01         |
| 1   | 8,366.68        | 30                | 15                  | 15                 | 50.00             | 2,177.49               | 5,389.00               | -1,619.71             | -5,383.93             | 1.34                | 1.34              | 278.89         |

September, which is "9" in the rows listed above shows pretty good numbers. I decided to look and see how September has done when it has posted gains over the first couple of weeks, like it has this year. So I devised the study below.

| It is Friday before opex week in September. SPX closes above its end-of-August close.<br>Buy on close. 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   | 14,078.54       | 15                | 11                  | 4                  | 73.33             | 1,615.94               | 2,871.72               | -924.20               | -1,841.12             | 1.75                | 4.81              | 938.57         |
| 4   | 9,503.22        | 15                | 10                  | 5                  | 66.67             | 1,420.58               | 2,528.28               | -940.52               | -2,422.14             | 1.51                | 3.02              | 633.55         |
| 3   | 10,137.83       | 15                | 10                  | 5                  | 66.67             | 1,545.87               | 3,608.55               | -1,064.18             | -2,459.37             | 1.45                | 2.91              | 675.86         |
| 2   | 9,206.89        | 15                | 11                  | 4                  | 73.33             | 1,114.37               | 2,836.35               | -762.79               | -1,122.01             | 1.46                | 4.02              | 613.79         |
| 1   | 3,667.15        | 15                | 8                   | 7                  | 53.33             | 759.23                 | 2,044.35               | -343.82               | -549.69               | 2.21                | 2.52              | 244.48         |

It is a few less instances than I would prefer, but the overall numbers are very strong. In fact, you'll notice that the total profits are larger here than without the extra filter in the first table. Below is a look at the equity curve assuming a 5-day holding period.



This is a pretty good-looking equity curve, and it adds some confidence to the bullish expectation. But with most of the gains occurring in the first two days I decided to simply include this study on the active list for just Monday and Tuesday.

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



The green Aggregator Line rose further tonight and is now well above 0. 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 Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive 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 signal to remain flat at the close.

Based on the current group of studies, expectations are slated to remain bullish on Monday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1684.79 on Monday. That's about 0.2% below Friday's close. So SPX will need to close down at least this much to move from overbought to oversold versus expectations.

My outlook matches with the Aggregator in that I am neutral. Evidence for a rise is pretty good, but risk/reward isn't great with the market still overbought. A decent-sized down day on Monday will probably turn the Aggregator bullish. But I am not going to rush into anything Monday. Wednesday is a Fed Day, and this often provides an upside edge (at least until the time of the announcement, after which there has been no substantial edge over the last several years). So if the market sets up well on Monday,

then I may look to take on some exposure Tuesday going into Wednesday's Fed Day. Of course Tuesday's action will also play a part in how aggressive I get.

One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in the day before. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/30/13 letter. Below are the 4 quartiles from highest to lowest in the daily range (not updated).

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

| TradeStation Performance Summary <span style="float: right;">Collapse ^</span> |             |                          |               |
|--|-------------|--------------------------|---------------|
| All Trades   |             |                          |               |
| Total Net Profit   | \$8,020.26  | Profit Factor            | 1.40          |
| Gross Profit   | \$28,181.69 | Gross Loss               | (\$20,161.43) |
| Total Number of Trades   | 64          | Percent Profitable       | 48.44%        |
| Winning Trades   | 31          | Losing Trades            | 31            |
| Even Trades  | 2           |                          |               |
| Avg. Trade Net Profit  | \$125.32    | Ratio Avg. Win:Avg. Loss | 1.40          |
| Avg. Winning Trade   | \$909.09    | Avg. Losing Trade        | (\$650.37)    |
| Largest Winning Trade  | \$2,238.25  | Largest Losing Trade     | (\$2,739.69)  |

Tomorrow is a Fed Day. SPY closes > 50 and <=75% of daily range.  
Buy on close. Sell Fed Day close.\$100k/trade. 3/1/93 - 6/14/13.

| TradeStation Performance Summary <span style="float: right;">Collapse ^</span> |             |                          |               |
|--|-------------|--------------------------|---------------|
| All Trades   |             |                          |               |
| Total Net Profit   | \$13,590.58 | Profit Factor            | 2.06          |
| Gross Profit   | \$26,412.57 | Gross Loss               | (\$12,821.99) |
| Total Number of Trades   | 37          | Percent Profitable       | 56.76%        |
| Winning Trades   | 21          | Losing Trades            | 15            |
| Even Trades  | 1           |                          |               |
| Avg. Trade Net Profit  | \$367.31    | Ratio Avg. Win:Avg. Loss | 1.47          |
| Avg. Winning Trade   | \$1,257.74  | Avg. Losing Trade        | (\$854.80)    |
| Largest Winning Trade  | \$4,704.07  | Largest Losing Trade     | (\$2,246.40)  |

Tomorrow is a Fed Day. SPY closes > 25 and <=50% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 6/14/13.

| TradeStation Performance Summary |             |                          |  | Collapse ^   |
|----------------------------------|-------------|--------------------------|--|--------------|
| All Trades                       |             |                          |  |              |
| Total Net Profit                 | \$10,267.79 | Profit Factor            |  | 2.50         |
| Gross Profit                     | \$17,119.75 | Gross Loss               |  | (\$6,851.96) |
| Total Number of Trades           | 27          | Percent Profitable       |  | 70.37%       |
| Winning Trades                   | 19          | Losing Trades            |  | 8            |
| Even Trades                      | 0           |                          |  |              |
| Avg. Trade Net Profit            | \$380.29    | Ratio Avg. Win:Avg. Loss |  | 1.05         |
| Avg. Winning Trade               | \$901.04    | Avg. Losing Trade        |  | (\$856.50)   |
| Largest Winning Trade            | \$2,943.00  | Largest Losing Trade     |  | (\$2,066.62) |

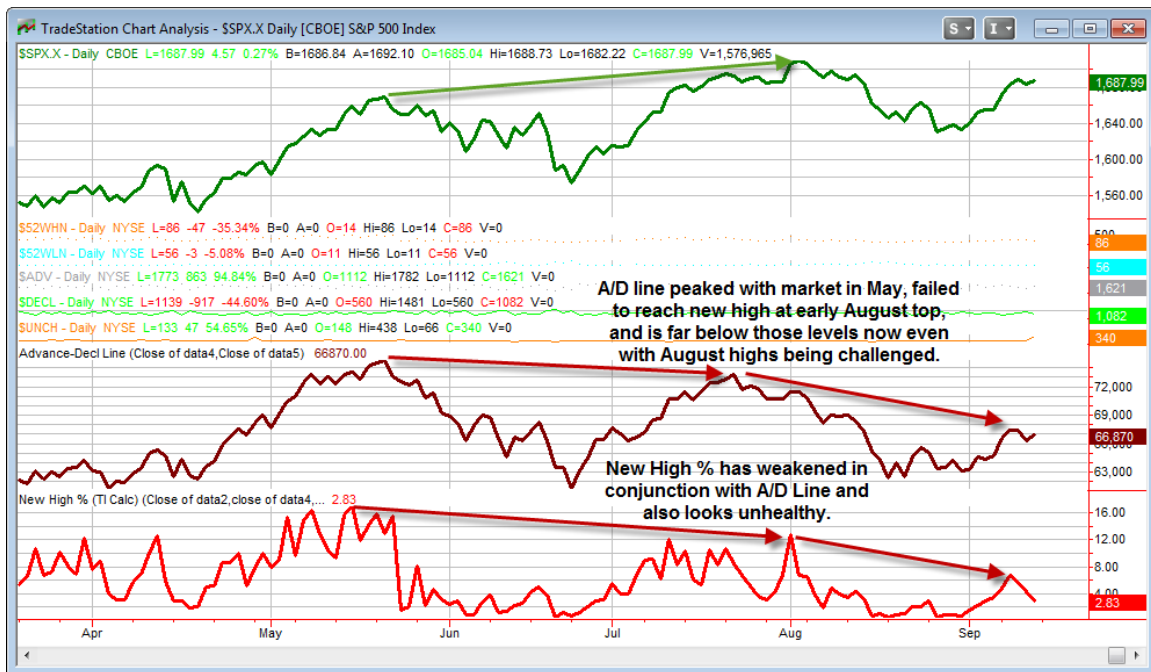
SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

| TradeStation Performance Summary |             |                          |  | Collapse ^   |
|----------------------------------|-------------|--------------------------|--|--------------|
| All Trades                       |             |                          |  |              |
| Total Net Profit                 | \$20,552.27 | Profit Factor            |  | 4.08         |
| Gross Profit                     | \$27,234.96 | Gross Loss               |  | (\$6,682.69) |
| Total Number of Trades           | 35          | Percent Profitable       |  | 74.29%       |
| Winning Trades                   | 26          | Losing Trades            |  | 9            |
| Even Trades                      | 0           |                          |  |              |
| Avg. Trade Net Profit            | \$587.21    | Ratio Avg. Win:Avg. Loss |  | 1.41         |
| Avg. Winning Trade               | \$1,047.50  | Avg. Losing Trade        |  | (\$742.52)   |
| Largest Winning Trade            | \$4,645.80  | Largest Losing Trade     |  | (\$2,945.28) |

What was true in 2010 when I first devised this study holds true today: the worse the close, the better the edge. And with the bullish Fed Day implications generally playing out prior to the announcement, traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 9/16 – neutral***

It was a strong week for the market, as the SPX rose 4 of the 5 days and is now approaching all-time highs. We have some new intermediate-term evidence to consider, and with new rally highs in sight (and already there for the Nasdaq), I also decided to update the “Study of Tops” over the weekend. Subscribers may download the “Study of Tops” anytime from the Downloads page on the website. Below is the updated portion that looks at the current market.



*The SPX has been posting new highs for much of 2013. The May high was accompanied by new highs in both the A/D Line and the New High %. This provided us some confidence that the next price top prior to a major decline was unlikely to occur until at least July. The August high saw a divergence in both of our breadth indicators. After a dip in August, the SPX is again nearing new highs. But the breadth indicators are continuing to flounder.*

*This opens up the possibility of a major top being put in. Note I said possibility, not probability. It needs to be understood that while the narrowing of New Highs and/or the turn down in the Advance/Decline Line has been a prerequisite for a top to take place, these breadth conditions have not been very useful in timing the tops. Often such divergences have persisted for many months, or even years. I therefore view these breadth divergences as possible warning signs – not as timing signals.*

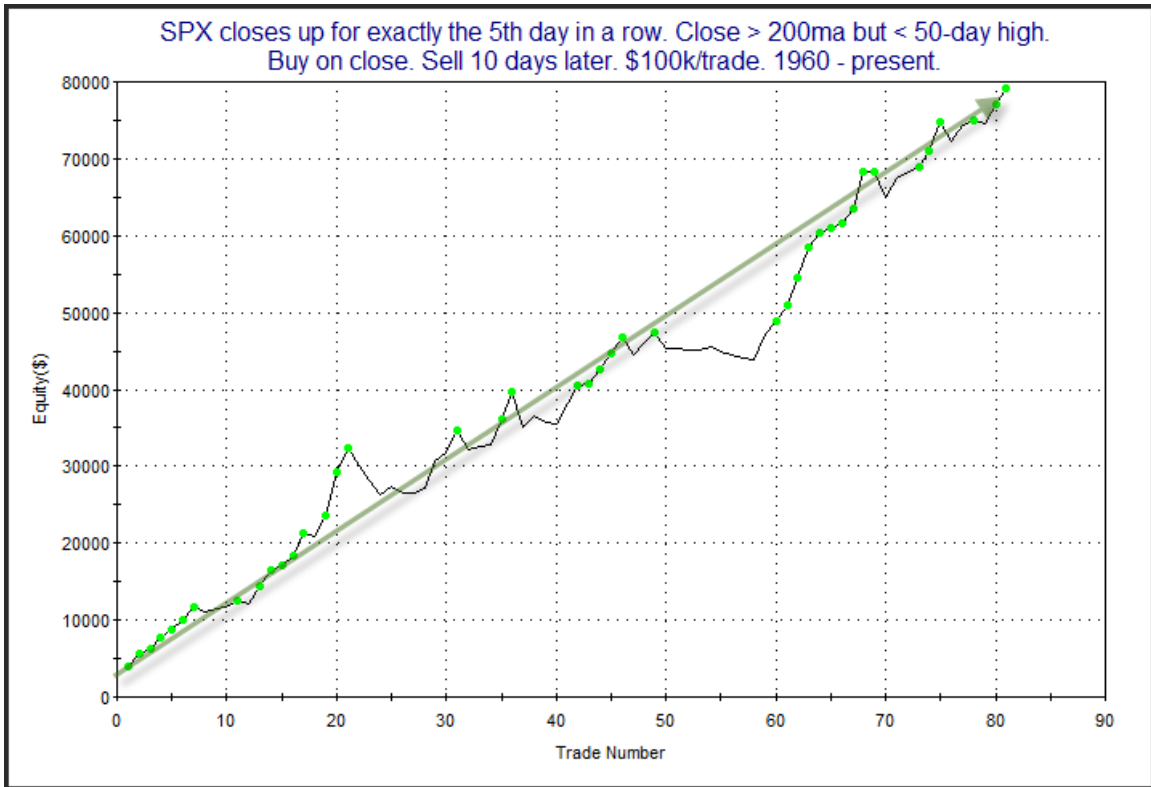
*If the market continues higher and the New High % and A/D Line rally to new highs as well, then that would suggest the market is unlikely to reach a major price top for at least another 2 months. I'll be keeping an eye on these indicators as usual.*

As I mentioned above, there were also a couple of new intermediate-term studies that emerged this week. This first one was from the 9/10/13 Letter. I have pasted the excerpt below.

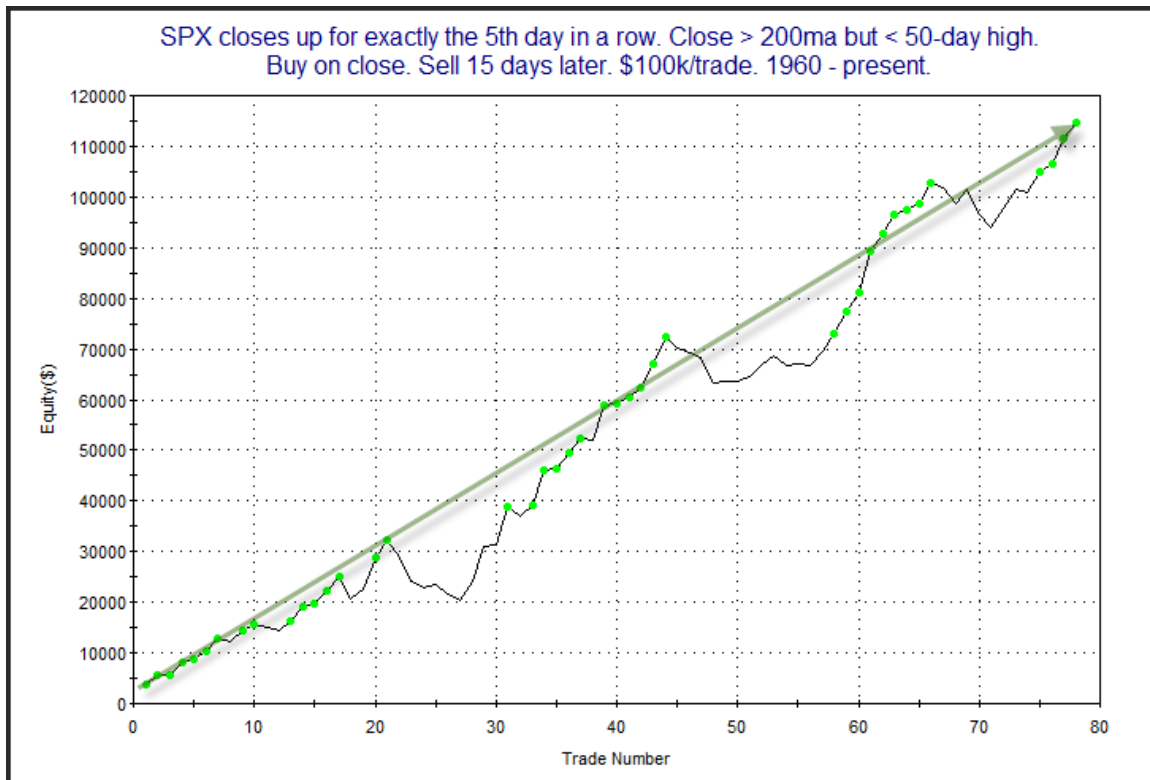
*This next study utilizes a phenomenon that I have spoken of a number of times in the past. That is that when the market begins to get overbought it will often suggest a pullback is likely, but when overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. This study demonstrates the continuation concept. It was last seen in the 12/12/12 subscriber letter.*

| SPX closes up for exactly the 5th day in a row. Close > 200ma but < 50-day high.<br>Buy on close. Sell X days later. \$100k/trade. 1960 - 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 |
| 15   | 115,217.98      | 78                | 54                  | 24                 | 69.23             | 2,813.35               | 8,288.00               | -1,529.28             | -4,879.10             | 1.84                | 4.14              | 1,477.15       |
| 14   | 102,757.83      | 78                | 53                  | 25                 | 67.95             | 2,674.97               | 8,272.60               | -1,560.61             | -4,738.50             | 1.71                | 3.63              | 1,317.41       |
| 13   | 102,222.86      | 78                | 58                  | 20                 | 74.36             | 2,426.16               | 6,401.50               | -1,924.72             | -3,773.44             | 1.26                | 3.66              | 1,310.55       |
| 12   | 91,830.35       | 80                | 58                  | 22                 | 72.50             | 2,243.18               | 5,925.50               | -1,739.74             | -3,661.77             | 1.29                | 3.40              | 1,147.88       |
| 11   | 78,201.59       | 81                | 55                  | 26                 | 67.90             | 2,099.46               | 6,110.00               | -1,433.41             | -4,887.00             | 1.46                | 3.10              | 965.45         |
| 10   | 79,106.49       | 81                | 58                  | 23                 | 71.60             | 1,873.19               | 5,675.25               | -1,284.30             | -4,684.28             | 1.46                | 3.68              | 976.62         |
| 9  | 75,403.28       | 81                | 54                  | 27                 | 66.67             | 1,953.51               | 5,228.75               | -1,114.31             | -4,910.55             | 1.75                | 3.51              | 930.90         |
| 8  | 67,798.72       | 82                | 58                  | 24                 | 70.73             | 1,632.06               | 5,146.50               | -1,119.20             | -3,376.64             | 1.46                | 3.52              | 826.81         |
| 7  | 59,986.59       | 82                | 54                  | 28                 | 65.85             | 1,677.95               | 5,698.75               | -1,093.68             | -3,500.70             | 1.53                | 2.96              | 731.54         |
| 6  | 51,158.60       | 82                | 59                  | 23                 | 71.95             | 1,393.34               | 5,134.75               | -1,349.94             | -3,359.36             | 1.03                | 2.65              | 623.89         |
| 5  | 42,701.85       | 82                | 58                  | 24                 | 70.73             | 1,228.24               | 4,476.75               | -1,189.00             | -3,716.53             | 1.03                | 2.50              | 520.75         |
| 4  | 30,316.02       | 82                | 55                  | 27                 | 67.07             | 1,038.26               | 3,983.25               | -992.15               | -3,494.78             | 1.05                | 2.13              | 369.71         |
| 3  | 27,417.17       | 82                | 54                  | 28                 | 65.85             | 1,013.34               | 2,796.50               | -975.12               | -3,359.36             | 1.04                | 2.00              | 334.36         |
| 2  | 14,121.39       | 82                | 52                  | 30                 | 63.41             | 786.06                 | 2,479.25               | -891.78               | -3,748.50             | 0.88                | 1.53              | 172.21         |
| 1  | 8,264.66        | 82                | 50                  | 32                 | 60.98             | 525.03                 | 2,211.54               | -562.09               | -2,193.72             | 0.93                | 1.46              | 100.79         |

*These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.*



*This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.*



*Much like the 10-day curve, the 15-day shows impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.*

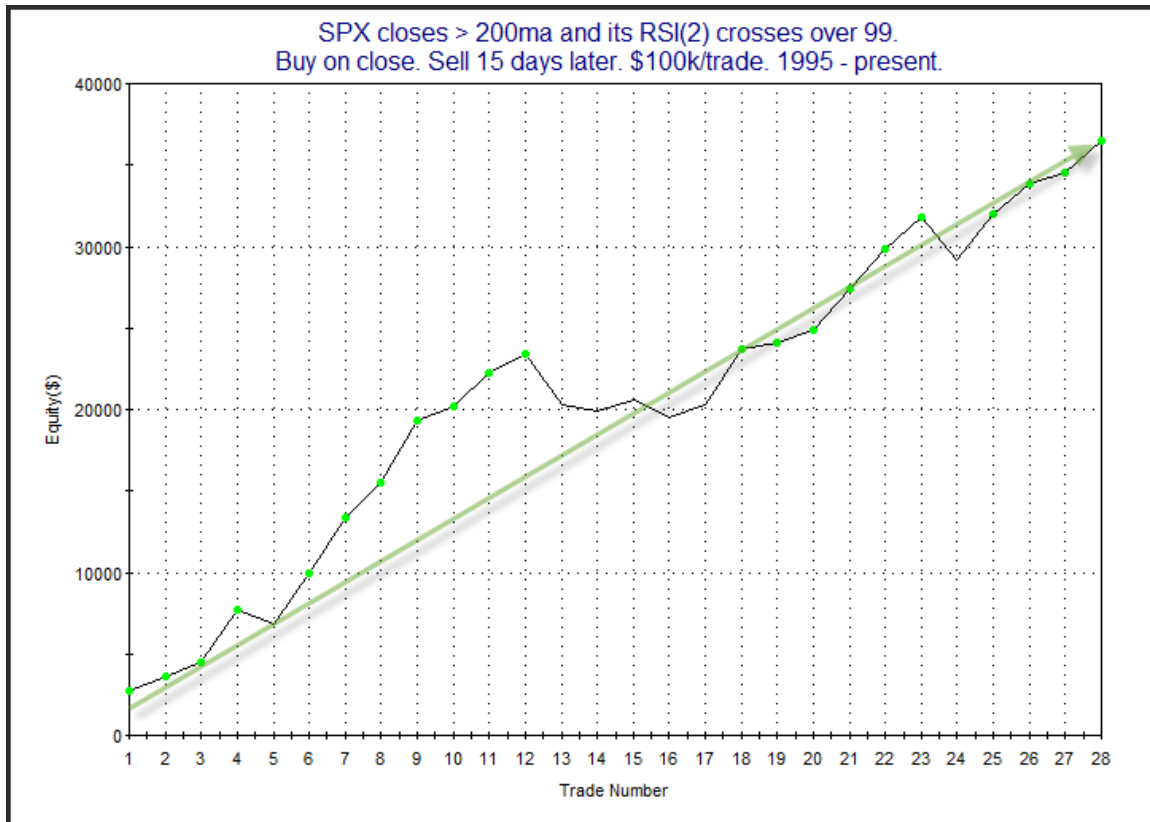
This next study appeared the following night in the 9/11/13 subscriber letter.

*When the market starts to get short-term overbought we often see studies pop up that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that downside edges are no longer prevalent. We saw this in a study last night and another one popped up tonight. The study below exemplifies the kind of extreme short-term overbought scenario the market is now in.*

SPX closes > 200ma and its RSI(2) crosses over 99.  
Buy on close. Sell X days later. \$100k/trade. 1995 - 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 15     | 36,530.82       | 28                | 23                  | 5                  | 82.14             | 1,935.55               | 3,782.11               | -1,597.39             | -3,063.60             | 1.21                | 5.57              | 1,304.67       |
| 14     | 30,514.14       | 28                | 22                  | 6                  | 78.57             | 1,852.90               | 4,461.36               | -1,708.26             | -2,699.52             | 1.08                | 3.98              | 1,089.79       |
| 13     | 29,002.39       | 29                | 23                  | 6                  | 79.31             | 1,730.24               | 3,989.82               | -1,798.84             | -3,320.01             | 0.96                | 3.69              | 1,000.08       |
| 12     | 27,070.29       | 29                | 22                  | 7                  | 75.86             | 1,662.94               | 4,058.61               | -1,359.21             | -3,175.53             | 1.22                | 3.85              | 933.46         |
| 11     | 28,375.42       | 29                | 22                  | 7                  | 75.86             | 1,750.83               | 4,106.40               | -1,448.99             | -2,523.21             | 1.21                | 3.80              | 978.46         |
| 10     | 23,061.91       | 30                | 21                  | 9                  | 70.00             | 1,684.38               | 3,770.55               | -1,367.79             | -2,793.28             | 1.23                | 2.87              | 768.73         |
| 9      | 18,768.92       | 30                | 20                  | 10                 | 66.67             | 1,536.82               | 3,453.27               | -1,196.74             | -3,440.07             | 1.28                | 2.57              | 625.63         |
| 8      | 20,240.28       | 30                | 19                  | 11                 | 63.33             | 1,621.24               | 3,547.80               | -960.29               | -3,460.32             | 1.69                | 2.92              | 674.68         |
| 7      | 12,835.67       | 31                | 18                  | 13                 | 58.06             | 1,368.59               | 3,564.39               | -907.62               | -4,153.62             | 1.51                | 2.09              | 414.05         |
| 6      | 4,425.46        | 31                | 18                  | 13                 | 58.06             | 1,096.82               | 2,634.36               | -1,178.25             | -5,296.92             | 0.93                | 1.29              | 142.76         |
| 5      | 2,292.48        | 31                | 20                  | 11                 | 64.52             | 839.55                 | 1,782.39               | -1,318.04             | -3,596.40             | 0.64                | 1.16              | 73.95          |
| 4      | 3,149.48        | 31                | 21                  | 10                 | 67.74             | 838.51                 | 2,442.90               | -1,445.92             | -3,039.18             | 0.58                | 1.22              | 101.60         |
| 3      | -1,376.66       | 32                | 19                  | 13                 | 59.38             | 776.52                 | 1,982.20               | -1,240.82             | -2,880.45             | 0.63                | 0.91              | -43.02         |
| 2      | -679.09         | 32                | 18                  | 14                 | 56.25             | 694.07                 | 1,998.39               | -940.88               | -2,348.76             | 0.74                | 0.95              | -21.22         |
| 1      | 772.93          | 32                | 16                  | 16                 | 50.00             | 619.77                 | 2,096.10               | -571.46               | -3,515.37             | 1.08                | 1.08              | 24.15          |

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



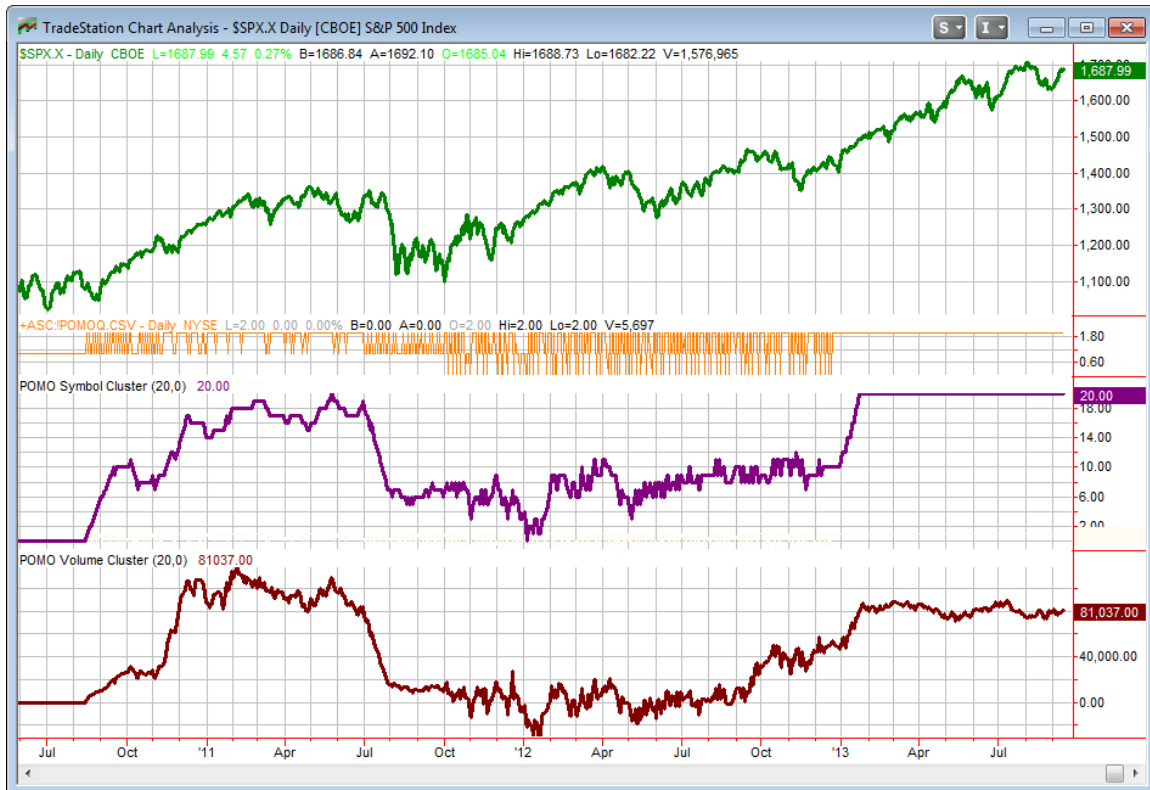
*The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.*

So between these 2 studies we have some decent evidence that the recent short-term strength should bode well for the next few weeks.

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 remains in its 2013 range. 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 \$21.4 billion, which is a very strong week.

This upcoming week is expected to see flows of about \$17 billion. Part of the reason for the reduced flows is that Fed typically does not schedule POMO buying on Fed announcement days. And the announcement this week will be more important than the flows. We will learn on Wednesday if the Fed plans to soon reduce the \$85 billion/month in purchases that they have been doing since the start of 2013. A lowered amount of stimulus would raise a big red flag. While they would likely still be providing some stimulus, the market has become accustomed to a certain amount. And the tapering could be painful. Think of QE as the drug that the market is addicted to. Even a reduction in the amount of an addict's drug can be a shock to the system.

We've seen some signals that a major top could be in place between the QE Study of Tops breadth divergences and the Hindenburg Omens in July/August. So there is a possibility that a major decline could unfold. Liquidity remains strong, but we will get more news on that in the next few days. We did see a few studies emerge this past week suggesting the recent short-term strength could carry through for the next few weeks. And of course the long-term trend is still pointing up. There is also a geopolitical wildcard out there still with Syria. So the neutral stance still seems appropriate. Lots of crosswinds right now, some of which may straighten out fairly soon. I won't get too aggressive until the picture is clearer.

### **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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