

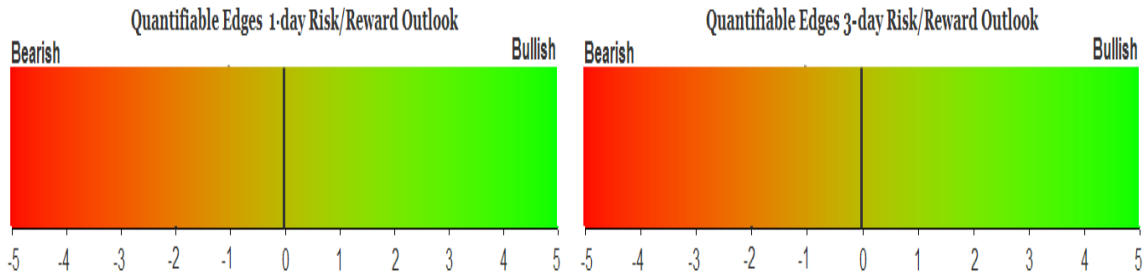
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2013

Volume 6 Issue 181

Market Overview



Signals Overview

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

Tonight's Research Points

- 100-day highs on Fed Days have often led to follow-on buying.
- The very high volume that accompanied Wednesday's breakout appears to be a positive.

Short-term Outlook

The Bottom Line

The studies are still pointing higher, but the market is strongly overbought on a short-term basis. I'm waiting for a pullback, or at least a pause, before attempting any swing trades.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 19, 2013	High Volume Breakout to new 50-hi	1-6 days	Bullish	1.90%
September 19, 2013	100-day high close on Fed Day	1-6 days	Bullish	1.00%
September 18, 2013	SPY unfilled gap to 50-high breakout	1-5 days	Bullish	1.60%
Active - Long Term				
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	
Dropped Tonight				
September 17, 2013	10 days > 5ma. 10-high.	1-2 days	Bearish	-1.10%
September 17, 2013	VIX up. SPX 10-high > 200. Mon.	1-2 days	Bearish	-0.90%
September 18, 2013	SPY unfilled gap up inside day	1 day	Bearish	
<i>September 13, 2013</i>	<i>3 Higher HLC. Then low cls. Higher</i>	<i>1-4 days</i>	<i>Bullish</i>	
<i>September 17, 2013</i>	<i>20-day intraday high. Weak close</i>	<i>1-3 days</i>	<i>Bullish</i>	<i>1.10%</i>
<i>September 10, 2013</i>	<i>5 higher closes > 200ma < 50-high</i>	<i>1-10 days</i>	<i>Bullish</i>	
<i>September 10, 2013</i>	<i>5 higher closes > 200ma < 50-high</i>	<i>1-15 days</i>	<i>Bullish</i>	
<i>September 11, 2013</i>	<i>RSI2 crosses over 99. Close > 200m</i>	<i>1-15 days</i>	<i>Bullish</i>	<i>2.40%</i>
<i>September 13, 2013</i>	<i>Down day after 5+ up. Close > 200m</i>	<i>1-9 days</i>	<i>Bullish</i>	<i>2.10%</i>

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

The Evidence

The Fed announced it planned to keep buying bonds at the same pace it has and the market celebrated in a big way. The SPX rose 1.2%, while the NASDAQ and Russell 2000 each gained 1.0%. Breadth was very strong as the NYSE Up Issues % was 84% and the Up Volume % was 88%. Total NYSE volume spiked to the highest level since the end of July.

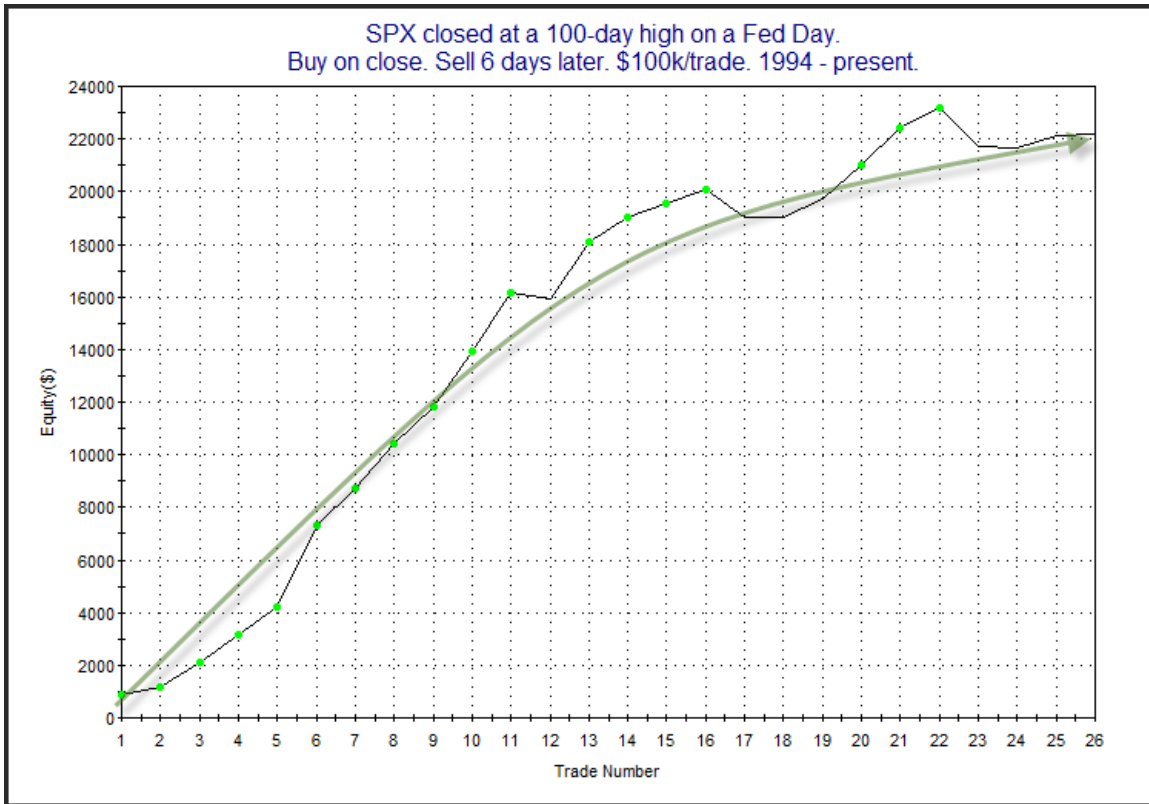
In “The Quantifiable Edges Guide to Fed Days” I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 9/14/12 Subscriber Letter.

SPX closed at a 100-day high on a Fed Day.
Buy on close. Sell X days later. \$100k/trade. 1994 - 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
10	25,339.76	26	19	7	73.08	1,799.18	5,492.11	-1,263.51	-2,161.08	1.42	3.87	974.61
9	26,350.79	26	20	6	76.92	1,815.29	5,708.74	-1,659.17	-2,346.69	1.09	3.65	1,013.49
8	27,936.07	26	21	5	80.77	1,472.30	3,995.65	-596.46	-1,251.20	2.47	10.37	1,074.46
7	21,992.04	26	20	6	76.92	1,273.68	3,198.09	-580.25	-1,290.24	2.20	7.32	845.85
6	22,162.18	26	22	4	84.62	1,135.45	3,147.85	-704.43	-1,500.88	1.61	8.87	852.39
5	18,948.80	26	21	5	80.77	1,044.21	2,353.88	-595.93	-1,077.30	1.75	7.36	728.80
4	16,237.08	26	19	7	73.08	1,103.92	3,173.92	-676.77	-1,024.50	1.63	4.43	624.50
3	8,754.40	26	16	10	61.54	889.56	2,227.50	-547.86	-978.00	1.62	2.60	336.71
2	10,021.67	26	17	9	65.38	905.44	2,314.87	-596.75	-1,562.33	1.52	2.87	385.45
1	5,841.74	26	17	9	65.38	603.90	2,073.34	-491.62	-1,393.26	1.23	2.32	224.68

The only instance NOT to close above the entry price at some point in the next 5 trading days triggered on 1/25/12. It took 7.

This suggests further upside is likely over the next 1-2 weeks. Below is the profit curve assuming a 6-day holding strategy.



The upslope is not as steep as it once appeared, but the bullish edge still appears to be intact.

After coming near a new high on Tuesday, SPX broke out and closed at its first all-time high since early August. I've shown in the past that fresh breakouts need to either be accompanied by very strong volume, or by low-volume in order to increase their chances of success. The study below is from the 4/30/13 subscriber letter. It looks at performance following a breakout that came on a decline in volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume comes in lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
10	22,889.76	51	27	24	52.94	2,177.30	5,960.00	-1,495.72	-4,324.52	1.46	1.64	448.82
9	31,689.04	51	34	17	66.67	1,749.94	5,147.20	-1,635.83	-5,812.26	1.07	2.14	621.35
8	38,102.96	51	37	14	72.55	1,579.85	5,096.00	-1,453.68	-4,186.55	1.09	2.87	747.12
7	36,643.27	51	36	15	70.59	1,450.28	4,655.00	-1,037.79	-3,211.35	1.40	3.35	718.50
6	47,842.41	51	38	13	74.51	1,532.95	5,002.50	-800.74	-3,563.65	1.91	5.60	938.09
5	50,149.21	51	40	11	78.43	1,560.83	4,482.50	-1,116.71	-3,693.73	1.40	5.08	983.32
4	36,424.90	51	38	13	74.51	1,292.12	4,440.00	-975.05	-2,913.85	1.33	3.87	714.21
3	32,802.94	51	35	16	68.63	1,251.97	3,950.00	-688.51	-1,802.37	1.82	3.98	643.19
2	18,568.20	51	34	17	66.67	888.45	2,212.98	-684.65	-1,912.60	1.30	2.60	364.08
1	7,427.15	51	32	18	62.75	499.84	1,384.02	-475.98	-1,921.32	1.05	1.87	145.63

As you can see, there appears to be a solid tendency over the next week to get some follow through. In that letter I also showed results if volume came in higher than the day before. Tonight I am going to break it down a little bit further. First let's look at times where volume rose, but not to an extreme. I define "extreme" in this example as reaching a 20-day high.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume rises but not to the highest level in 20 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
10	-15,457.93	92	42	50	45.65	2,284.48	10,507.25	-2,228.12	-8,683.66	1.03	0.86	-168.02
9	-9,774.12	92	41	51	44.57	2,227.60	8,413.73	-1,982.47	-6,878.68	1.12	0.90	-106.24
8	-15,436.25	92	46	46	50.00	1,745.76	8,524.75	-2,081.33	-7,085.22	0.84	0.84	-167.79
7	1,493.99	92	44	48	47.83	1,840.88	6,337.26	-1,656.35	-7,255.84	1.11	1.02	16.24
6	-734.89	92	48	44	52.17	1,523.65	6,819.80	-1,678.87	-7,103.18	0.91	0.99	-7.99
5	-5,374.32	92	41	51	44.57	1,645.06	8,516.82	-1,427.88	-6,088.44	1.15	0.93	-58.42
4	-13,855.05	92	45	47	48.91	1,280.22	6,716.71	-1,520.53	-5,585.56	0.84	0.81	-150.60
3	-191.74	92	49	43	53.26	1,169.43	6,740.50	-1,337.07	-5,361.06	0.87	1.00	-2.08
2	-3,533.64	92	53	39	57.61	736.26	4,028.44	-1,091.16	-4,276.16	0.67	0.92	-38.41
1	6,871.75	92	52	40	56.52	523.66	2,731.56	-508.97	-2,722.61	1.03	1.34	74.69

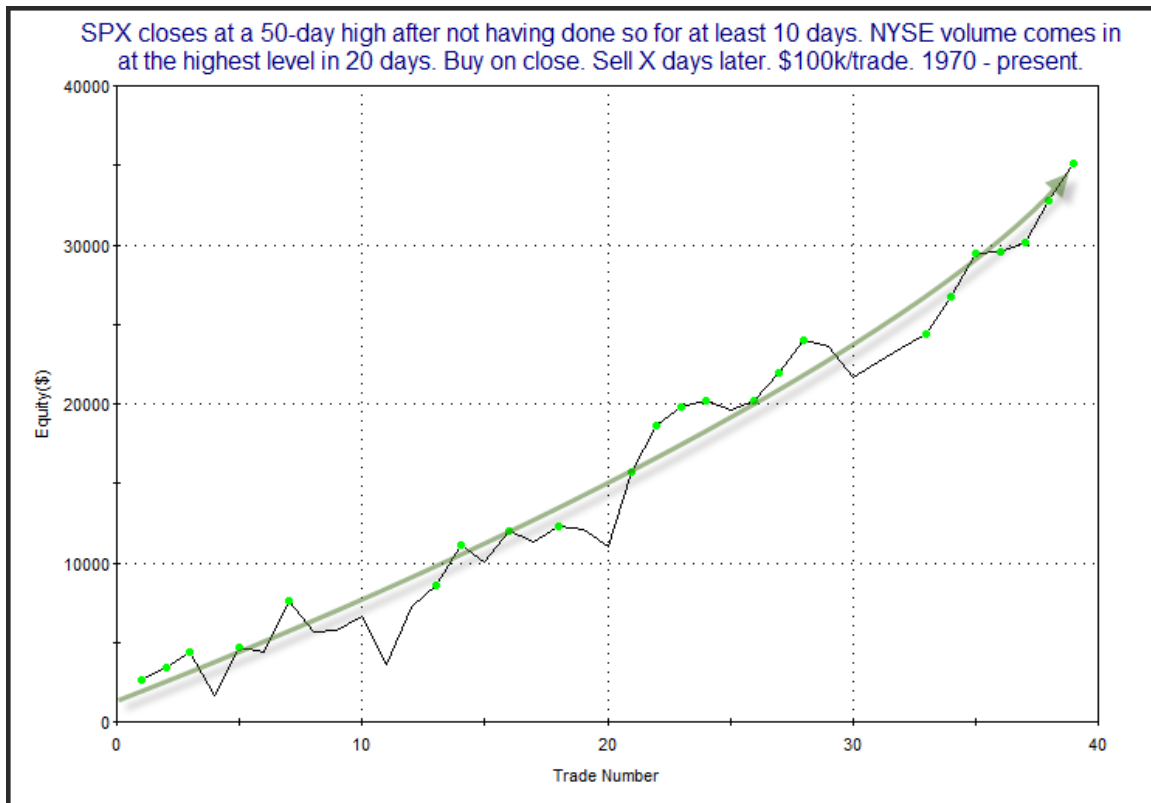
Results here are inconsistent. Such breakouts don't seem to follow through, or pullback, on a reliable basis. But now let's look at breakouts like we saw on Wednesday, where volume comes in extremely high.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume comes in at the highest level in 20 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
10	32,954.26	39	24	15	61.54	2,488.03	6,199.20	-1,783.89	-3,730.08	1.39	2.23	844.98
9	29,679.29	39	24	14	61.54	2,274.36	6,429.15	-1,778.96	-3,113.22	1.28	2.19	761.01
8	32,172.05	39	24	15	61.54	2,245.65	6,220.34	-1,448.23	-2,943.34	1.55	2.48	824.92
7	32,321.63	39	25	14	64.10	2,016.71	5,275.20	-1,292.58	-2,946.00	1.56	2.79	828.76
6	35,134.85	39	28	11	71.79	1,752.67	4,689.44	-1,267.27	-3,093.30	1.38	3.52	900.89
5	31,744.94	39	26	13	66.67	1,655.33	4,765.28	-868.75	-2,562.72	1.91	3.81	813.97
4	22,812.15	39	26	13	66.67	1,266.45	3,176.11	-778.11	-1,948.21	1.63	3.26	584.93
3	18,903.52	39	26	13	66.67	1,085.48	2,983.04	-716.84	-2,188.15	1.51	3.03	484.71
2	28,393.18	39	27	11	69.23	1,180.94	3,813.53	-317.47	-1,259.60	3.72	9.13	728.03
1	15,182.01	39	29	10	74.36	644.54	2,755.52	-350.96	-1,292.50	1.84	5.33	389.28

35 of 39 instances (90%) closed above the entry price at some point in the next week.

The numbers here are quite a bit more impressive, and suggest a good chance at some follow through over the next several days. I also generated a profit curve to show how the edge has evolved over time.



The line has been working its way higher on a persistent basis, and recent instances appear stronger than ever.

A fresh breakout that gets a few people excited and is accompanied by a mild increase in volume is the least desirable (but most common) option. A decline in volume suggests the initial breakout is not initially believed. In such cases, follow through often occurs as traders start to become convinced over the next few days. The last scenario is the big rise in volume. To get a big rise in volume, you need some big players to commit big money. That happened today. And that's big.

You'll note the Active List shrunk quite a bit tonight. That is because Wednesday's big rally caused a large number of studies that we were tracking to reach their targets.

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



With the short-term studies all bullish, the green Aggregator Line remained 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1703.87 on Thursday. That's 1.25% below Wednesday's close. That would be a sizable drop for just one day. A more likely scenario for working off the overbought condition is a multi-day decline or consolidation.

The breakout looks good. There is no doubt the trend remains up. But from a short-term trading standpoint buying into such strongly overbought conditions is generally a risky proposition. I will wait for the next opportunity to come to me. From a seasonal standpoint, we are about to enter the "weakest week". In other words, the worst performing week of the year has historically been the one following opex Friday in September. I will discuss this more in this weekend's letter. Traders that want a brief preview may refer to [this blog post from last year](#). So if next week plays out as most

years have, we could see a nice pullback opportunity to buy into. I see no point in chasing now if the goal is short-term gains.

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

The intermediate-term outlook was last updated in the 9/16 Letter. Link below:

[2013-09-16 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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