

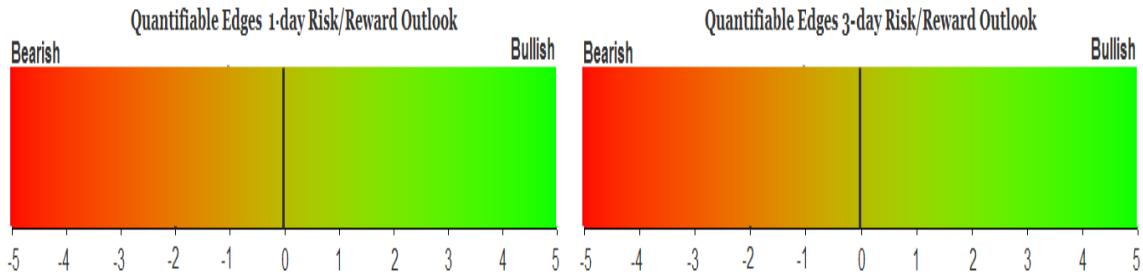
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 10, 2013

Volume 6 Issue 238

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.

## *Short-term Outlook*

### *The Bottom Line*

The bounce continued on Monday and sent the market back to new highs. And to this point I am not seeing bearish evidence build up. But with the market back at new highs and short-term overbought I have taken profits on most of my long positions from last week. I'll likely look to re-enter if we get a pullback in the next few days.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
December 10, 2013	2 unfilled up gaps & 50-day high	1-3 days	Bullish	
December 9, 2013	Low vol bounce from oversold	1-5 days	Bullish	1.90%
December 6, 2013	4+ days dn. Today big drop. > 200ma	1-3 days	Bullish	1.90%
<b>Active - Long Term</b>				
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
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	
<b>Dropped Tonight</b>				
December 5, 2013	VIX up 7 days	1-3 days	Bullish	2.10%
December 4, 2013	3 down from 50-high < 10ma > 10-low	1-4 days	Bullish	1.75%
<b>December 4, 2013</b>	<b>System 11111</b>	<b>1-4 days</b>	<b>Bullish</b>	

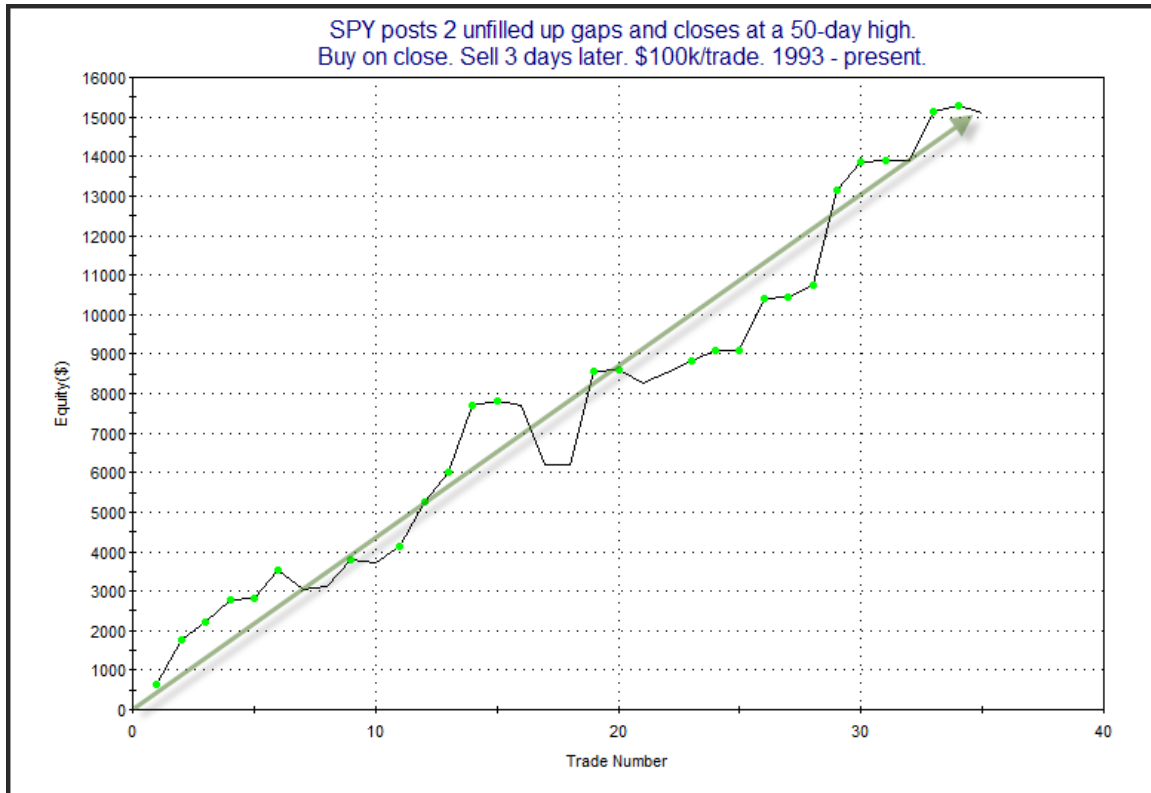
**The Evidence**

Monday got off to a good start, but there was not a lot of movement after the open, and the indices finished mixed. The SPX and Nasdaq rallied 0.2%, while the Russell 2000 fell 0.2%. Breadth was mixed as the NYSE Up Issues % was 50% and the Up Volume % was 41%. Total NYSE volume rose a little from Friday's letter.

One interesting aspect of today's action is the SPY gapped up above Friday's close, and never filled that gap. This made the 2<sup>nd</sup> day in a row with an unfilled up gap. The study below is one that was seen in the 1/11/13. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

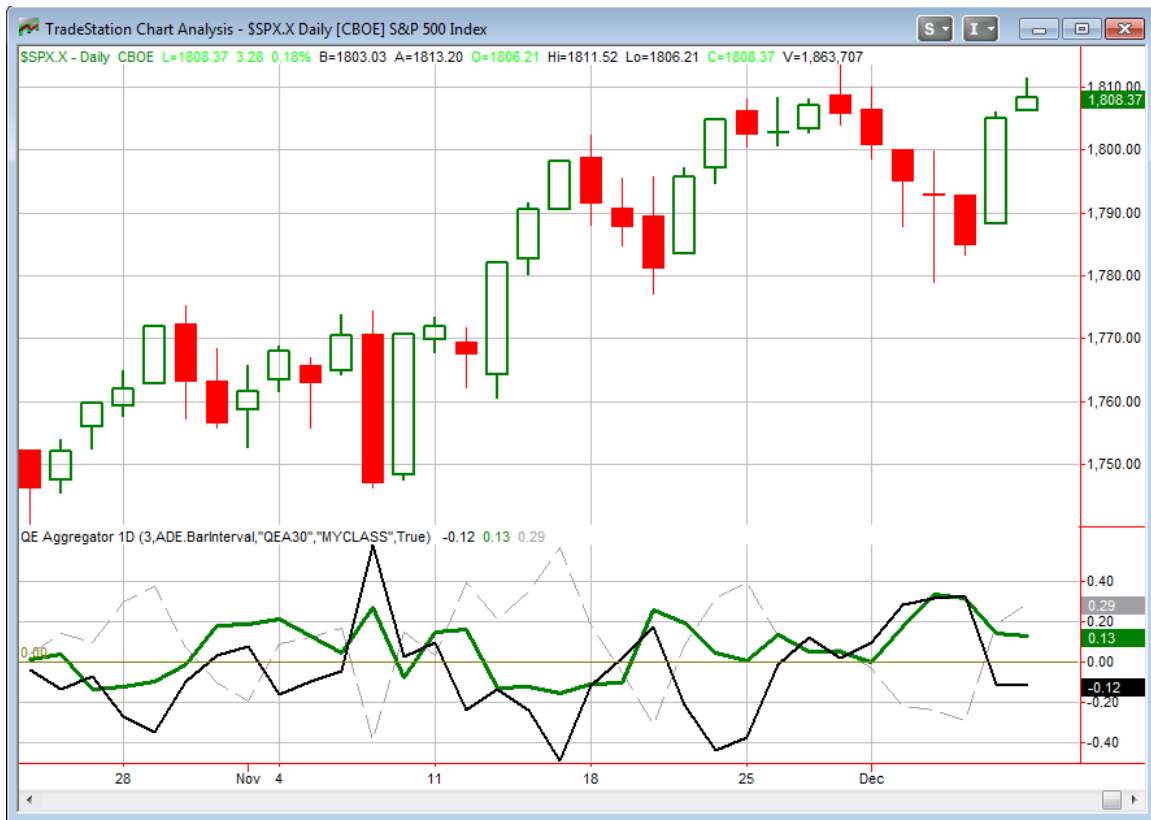
SPY posts 2 unfilled up gaps and closes at a 50-day high. Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,989.62	35	26	9	74.29	918.10	2,013.72	-1,208.99	-4,508.40	0.76	2.19	371.13
4	17,345.47	35	27	8	77.14	925.12	2,475.56	-954.10	-2,720.25	0.97	3.27	495.58
3	15,082.38	35	27	8	77.14	659.28	2,419.84	-339.76	-1,509.60	1.94	6.55	430.93
2	9,035.23	35	25	9	71.43	540.50	1,858.87	-497.47	-947.24	1.09	3.02	258.15
1	449.94	41	23	18	56.10	343.11	1,156.32	-413.42	-1,942.24	0.83	1.06	10.97
<b>39 of 41 instances (95%) posted a close above the entry price at some point in the next week.</b>												

The size of the follow-through isn't terribly large, but it has been very, very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



The curve here is strong and steady. This study seems well worth consideration, and I have included on the Active List.

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



Tonight's bullish study helped the green Aggregator Line remain 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 remained well below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is already short-term 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.

With the current active studies, expectations are set to remain bullish on Tuesday. This could change if new bearish evidence emerges. The Differential Pivot will be 1799.85 on Tuesday. That is 0.5% below Monday's close. So it will take a decline of at least this much for SPX to move into "oversold" territory on Tuesday.

We are back at new highs. The intermediate-term looks good. Seasonality is going to strengthen next week. (I'll talk more about that on the weekend.) Short-term bearish indications have not appeared. So people could consider riding long positions further. But we have a Fed meeting next Wednesday, and I could see some worry creeping in to the market in anticipation of that. So 1) it seems with the market short-term overbought this may be a good spot to just take profits on the XIV trade, and 2) I will probably be getting long again if a pullback does occur over the next few days.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 12/9 – bullish**

The intermediate-term outlook was last updated in the 12/9 Letter.

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

**Open Catapult Triggers**

ABT @ \$36.92 (buy 1/3 at limit) (not filled – cancel for now)

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 1 (ABT)**

**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 Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/29/2013	\$180.95	\$181.47	0.29%		<i>sold on open</i>
XIV(1/2)	12/2/2013	\$32.78	\$33.14	1.10%		<i>sell @ \$33.14 limit</i>
SPY(1/4)	12/4/2013	\$179.10	\$181.40	1.28%		<i>sold on close</i>

*I probably would have held on to part of the XIV position if I had been filled on any of my attempts to purchase a 2<sup>nd</sup> lot. I hate to divide up partial positions even further, so I'll just exit this one and be ready to possibly buy it back if we get a pullback leading up to the Fed meeting.*

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