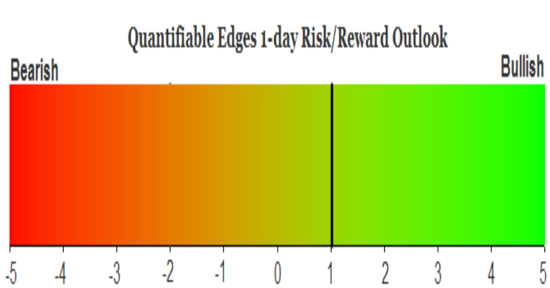
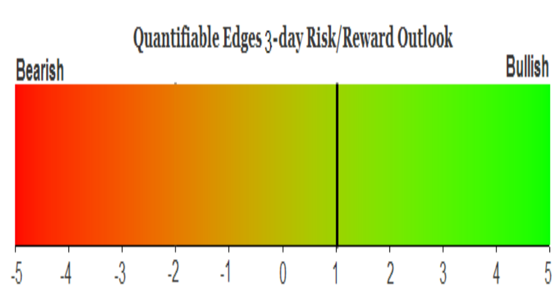
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 8, 2014 Volume 7 Issue 232

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Short

Tonight's Research Points

- Nothing new and compelling emerged from a short-term standpoint.
- A 4th Hindenburg Omen signal triggered on Friday.

Short-term Outlook

The Bottom Line

Evidence is pointing weakly higher for the short-term. While the SPX is not overbought versus expectations, it is versus just about anything else. So while the Aggregator configuration is bullish, I am leaning more neutral.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
December 4, 2014	2 unfilled up gaps & 50-day high	1-3 days	Bullish	0.90%	-0.60%	-1.20%
Active - Long Term						
December 8, 2014	Hindenburg Omens	1-35 days	Bearish			
December 5, 2014	10-high outside day w/ down close>200	1-11 days	Bullish	2.00%	-2.00%	-4.20%
December 2, 2014	1st day under 10ma in over 25 days	1-20 days	Bullish	4.74%	-0.35%	-0.65%
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
December 2, 2014	1st day under 10ma in over 25 days	1-4 days	Bullish	1.90%	-0.30%	-0.60%
December 5, 2014	*Employment Day tomorrow*	*1 day*	*Bullish*			

The Evidence

Friday saw the market add to its recent gains. The SPX and NASDAQ each rose 0.2%, and the Russell 2000 rallied 0.8%. Breadth was near breakeven as the NYSE Up Issues % came in at 52% and the Up Volume % was 51%. Total NYSE declined for the 4th day in a row.

The quiet action over the last few days failed to trigger any new and compelling short-term studies on Friday. My search for anything possibly meaningful came up empty as well. So there is very little suggesting any kind of short-term edge at this point. There are some long-term indications worth discussion, so I'll have more to say in the intermediate-term outlook down lower.

I have updated the Aggregator chart below.

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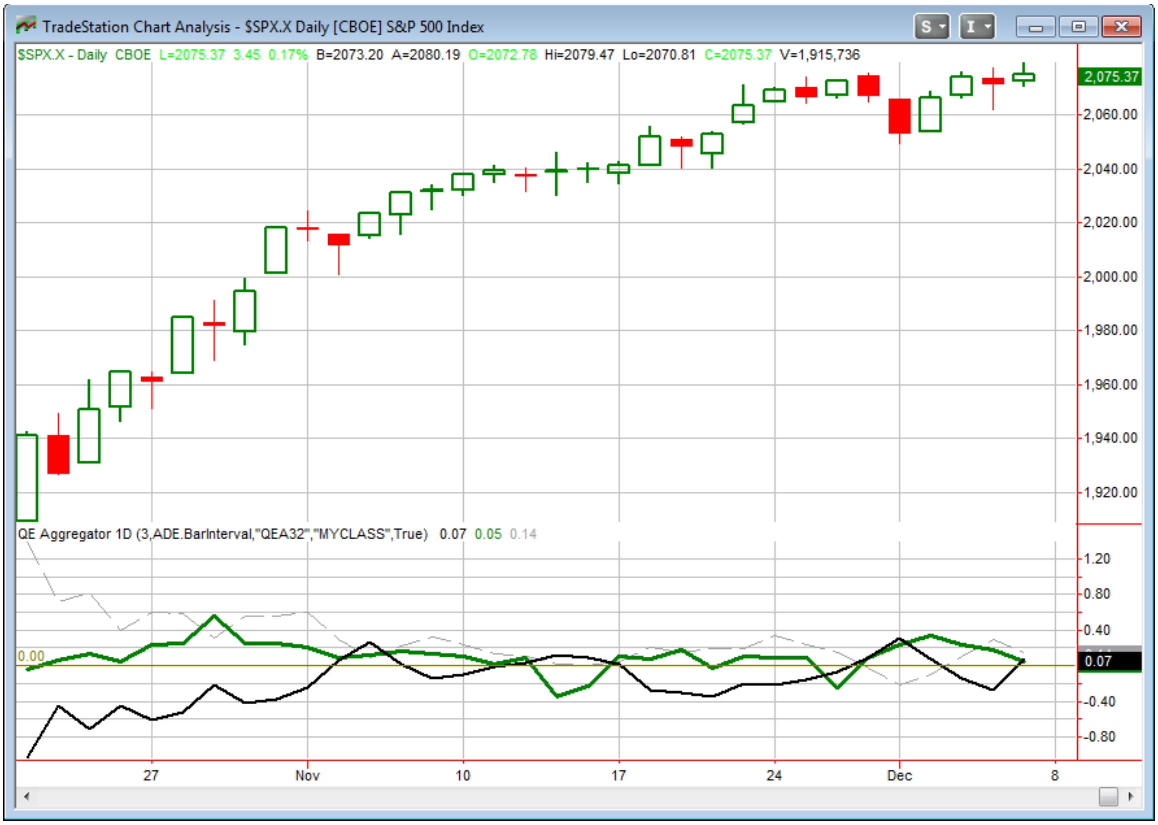

Without any new short-term evidence being added, the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line inched above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. Of course it is unusual to be considered "oversold" while at a new high. But although SPX saw gains over the past few days, they were not as large as previous studies indicated were likely. Hence, the "oversold vs expectations" reading. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned long at the close.

Expectations are set to remain bullish on Monday. But the only remaining short-term study is set to expire. So those expectations will solely be based on the long-term studies. Any new short-term studies that emerge could greatly impact expectations. The Differential Pivot will be 2091.05 on Monday. This is 0.8% above Friday's close. So for SPX to move from "oversold" to "overbought" it is going to need to close up at least 0.8% on Monday.

We have a bullish Aggregator formation. But I am not quite as bullish. The evidence behind the bullish expectations is fairly weak (only 1 short-term study). And the relative "oversold" reading is also "just barely". There is also probably no other way to suggest

SPX is "oversold", since it is at a new high. So bullish signals don't get a whole lot weaker than this one. And I'm not inclined to get aggressive here. If we were in the 2nd half of December, which is very strong from a seasonal standpoint, then I might be feeling more aggressive. But I'd rather wait for more compelling evidence or a more oversold reading at this point before taking on new exposure. Of course more aggressive traders could look to try long trades here, and the Numbered Systems spreadsheet did have a number of stocks and ETFs triggering that could be appealing.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/8 – somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in Lesson 8. Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in Lesson 11, Course Downloads. (You must go through the course first in order to access the Downloads.)

After the pullback on Monday the market recovered nicely this week. New highs were reached again in multiple indices. Obviously with new highs intact, the uptrend remains squarely in place. So the bulls certainly have trend on their side. There were also some studies that emerged with possible intermediate-term implications.

This first one was from the Thursday night subscriber letter.

When price makes a new short-term high as it did Thursday, and then reverses down to form an outside day, and closes negative, that is sometimes considered a "key reversal". I looked at reversals like this a number of times in the past. For the very short-term there rarely appears to be a substantial edge. Often test results will show churn or very mildly bearish numbers. But when you look out 1 to 2 weeks what you often see is that the uptrend most of the time will reassert itself. In the 2/20/14 subscriber letter there was a study that exemplified this. I have updated its results below.

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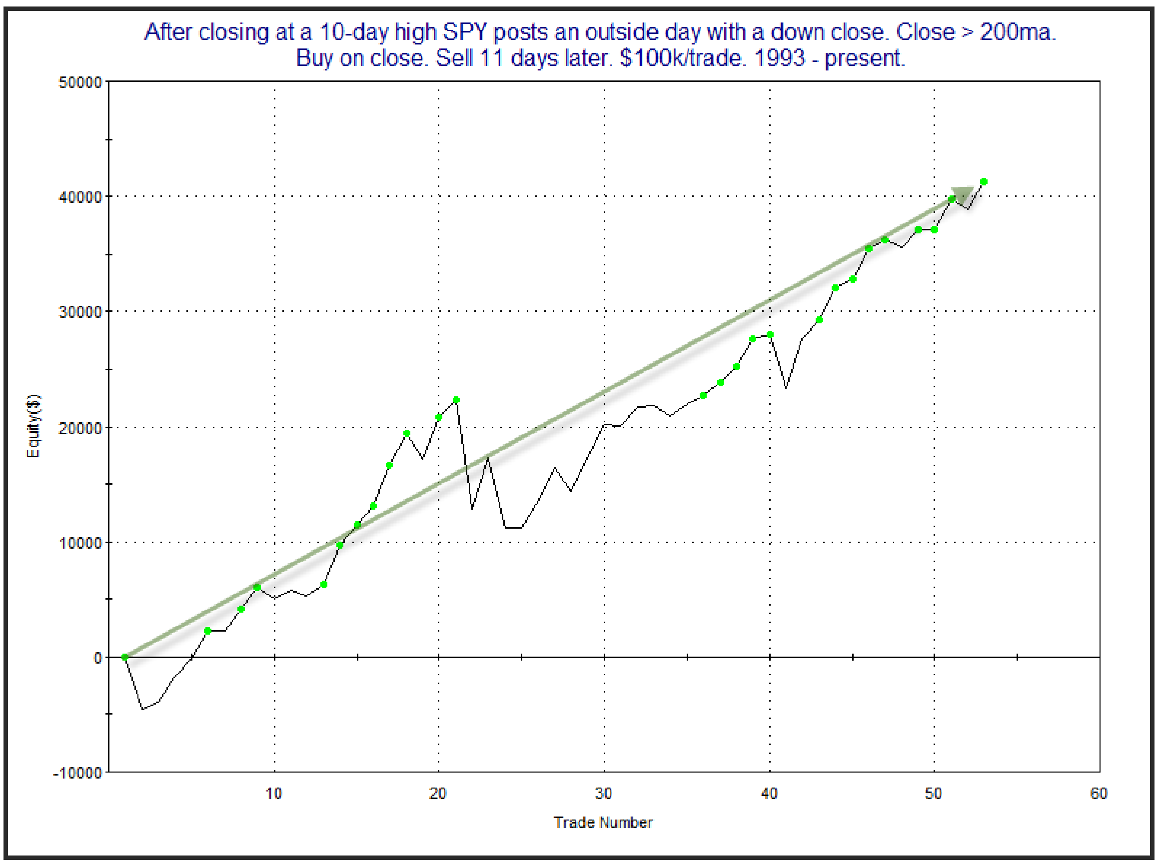
After closing at a 10-day high SPY posts an outside day with a down close. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	39,749.38	53	37	16	69.81	2,016.79	4,987.60	-2,179.50	-8,625.12	0.93	2.14	749.99
11	41,289.52	53	40	13	75.47	1,863.92	4,366.44	-2,559.03	-9,406.32	0.73	2.24	779.05
10	36,211.79	55	36	19	65.45	1,944.60	4,438.52	-1,778.62	-7,577.46	1.09	2.07	658.40
9	27,147.06	57	38	19	66.67	1,650.36	4,389.12	-1,871.93	-8,065.18	0.88	1.76	476.26
8	23,373.75	58	36	22	62.07	1,663.86	4,878.08	-1,660.23	-7,638.87	1.00	1.64	403.00
7	14,991.00	59	39	20	66.10	1,457.95	3,874.76	-2,093.46	-7,341.61	0.70	1.36	254.08
6	13,184.10	62	37	25	59.68	1,514.19	4,307.20	-1,713.64	-6,404.44	0.88	1.31	212.65
5	16,600.94	64	38	26	59.38	1,283.08	4,252.50	-1,236.78	-4,294.08	1.04	1.52	259.39
4	-1,397.21	65	30	35	46.15	1,331.21	3,843.00	-1,180.95	-4,135.32	1.13	0.97	-21.50
3	-10,887.37	65	32	33	49.23	996.75	2,301.60	-1,296.46	-3,726.24	0.77	0.75	-167.50
2	-12,614.42	66	30	36	45.45	812.20	2,437.50	-1,027.23	-3,611.48	0.79	0.66	-191.13
1	-10,696.94	66	31	35	46.97	575.21	1,464.75	-815.09	-3,794.40	0.71	0.63	-162.07

A little weakness over the next couple of days is normal, but before long the move higher sees a continuation. Below is a profit curve using an 11-day holding period.



The strong, steady upslope serve as confirmation of the bullish edge. I have added this study to the intermediate-term active list.

Additionally, there were 3-4 Hindenburg Omen signals that triggered this past week. (Monday was questionable. The official rules call for the NYA to finish above its close of 50-days ago. In fact, it did not quite make it up there. But SPX did. And SPX is what I have used for the research in that past, so I decided to use Monday as a signal day anyway.) I discussed the Hindenburg Omen in detail in the 12/18/13 letter, and have updated the research and my thoughts below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Friday marked the 4th recent Hindenburg Omen signals (under the less strict rules).

Below are the rules for a Hindenburg Omen signal.

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 about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 6 instances since 1980 where there has been a cluster of 3 or more triggers. Five saw lower prices ahead, but this does not give us a sample size that is really workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
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).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

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Buy SPX when 1st Hindenburg Omen 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	20,744.18	25	14	11	56.00	6,632.48	13,171.60	-6,555.51	-19,079.85	1.01	1.29	829.77
95	21,546.05	26	15	11	57.69	6,474.27	17,946.48	-6,869.81	-22,416.88	0.94	1.29	828.69
90	5,424.07	26	14	12	53.85	6,441.23	15,961.92	-7,062.76	-20,572.65	0.91	1.06	208.62
85	21,091.03	27	15	12	55.56	7,396.00	16,670.24	-7,487.42	-21,465.22	0.99	1.23	781.15
80	5,352.09	27	14	13	51.85	7,063.42	16,583.84	-7,195.06	-21,552.30	0.98	1.06	198.23
75	2,655.55	27	15	12	55.56	6,219.21	14,501.70	-7,552.72	-22,917.59	0.82	1.03	98.35
70	-1,455.47	27	13	14	48.15	7,609.91	17,714.32	-7,170.31	-20,289.64	1.06	0.99	-53.91
65	-13,439.18	27	13	14	48.15	6,935.62	16,609.84	-7,400.16	-21,508.76	0.94	0.87	-497.75
60	-27,098.18	27	13	14	48.15	6,123.31	17,197.44	-7,621.52	-24,323.31	0.80	0.75	-1,003.64
55	-49,880.17	28	13	15	46.43	5,477.25	14,306.24	-8,072.29	-27,246.71	0.68	0.59	-1,781.43
50	-31,070.29	28	12	16	42.86	6,003.95	14,509.04	-6,444.85	-29,846.67	0.93	0.70	-1,109.65
45	-19,278.47	29	15	14	51.72	4,886.85	13,151.98	-6,612.95	-23,971.88	0.74	0.79	-664.77
40	-21,431.35	29	13	16	44.83	5,728.86	12,520.58	-5,994.16	-23,520.93	0.96	0.78	-739.01
35	-20,055.22	31	14	17	45.16	5,471.57	12,021.20	-5,685.72	-24,659.19	0.96	0.79	-646.94
30	-10,275.29	31	16	15	51.61	4,472.33	9,855.58	-5,455.51	-22,460.42	0.82	0.87	-331.46
25	-7,055.22	32	15	17	46.88	4,933.22	9,781.64	-4,767.85	-27,340.01	1.03	0.91	-220.48
20	-16,406.97	33	17	16	51.52	3,822.91	9,257.67	-5,087.28	-19,533.91	0.75	0.80	-497.18
15	4,138.00	36	17	19	47.22	3,152.56	9,103.68	-2,602.92	-8,166.80	1.21	1.08	114.94
10	-5,729.97	42	20	22	47.62	2,432.45	9,012.33	-2,471.77	-7,899.90	0.98	0.89	-136.43
5	-20,071.11	52	18	34	34.62	1,873.09	4,926.56	-1,581.96	-5,775.12	1.18	0.63	-385.98

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, which is a common time-period that Hindenburg watchers look for.

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
Buy SPX when 2nd Hindenburg Omen Triggers. Sell X days later. $100k/trade. 1980 - present.												
100	30,479.45	14	9	5	64.29	7,541.34	17,883.98	-7,478.53	-18,879.12	1.01	1.82	2,177.10
95	27,234.84	15	10	5	66.67	7,059.54	17,605.78	-8,672.11	-21,212.88	0.81	1.63	1,815.66
90	26,285.78	15	11	4	73.33	5,995.68	20,476.59	-9,916.68	-20,011.68	0.60	1.66	1,752.39
85	8,702.98	16	8	8	50.00	8,242.65	20,455.19	-7,154.78	-21,883.68	1.15	1.15	543.94
80	8,805.58	16	9	7	56.25	7,100.47	18,961.47	-7,871.24	-21,961.68	0.90	1.16	550.35
75	14,098.59	16	9	7	56.25	7,439.93	17,861.51	-7,551.54	-23,181.60	0.99	1.27	881.16
70	-641.00	16	10	6	62.50	5,976.74	21,700.67	-10,068.06	-19,060.08	0.59	0.99	-40.06
65	-21,888.59	16	8	8	50.00	6,319.17	20,504.41	-9,055.25	-23,131.68	0.70	0.70	-1,368.04
60	-10,575.85	16	9	7	56.25	5,423.41	19,457.95	-8,483.79	-22,011.60	0.64	0.82	-660.99
55	-29,851.46	16	8	8	50.00	5,381.50	18,625.49	-9,112.94	-26,329.68	0.59	0.59	-1,865.72
50	-21,000.94	18	9	9	50.00	5,539.90	17,961.02	-7,873.34	-29,889.60	0.70	0.70	-1,166.72
45	-21,653.50	19	9	10	47.37	4,854.80	16,345.32	-6,534.67	-24,766.56	0.74	0.67	-1,139.66
40	-20,843.02	19	8	11	42.11	5,340.97	14,615.13	-5,779.16	-24,853.92	0.92	0.67	-1,097.00
35	-16,521.02	19	9	10	47.37	4,856.21	13,303.31	-6,022.69	-22,211.28	0.81	0.73	-869.53
30	-20,964.89	19	10	9	52.63	3,935.83	11,007.09	-6,702.58	-20,354.88	0.59	0.65	-1,103.42
25	-22,338.49	20	10	10	50.00	4,073.86	10,173.56	-6,307.71	-23,381.28	0.65	0.65	-1,116.92
20	-34,131.20	21	8	13	38.10	3,695.45	8,886.35	-4,899.60	-22,295.52	0.75	0.46	-1,625.30
15	-5,391.13	22	9	13	40.91	2,975.13	8,305.02	-2,474.41	-6,748.56	1.20	0.83	-245.05
10	-7,108.63	28	9	19	32.14	2,837.45	9,247.23	-1,718.20	-5,748.21	1.65	0.78	-253.88
5	-1,708.31	36	13	23	36.11	2,275.75	6,245.73	-1,360.57	-3,352.36	1.67	0.95	-47.45

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

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
Buy SPX when the 3rd Hindenburg Omen triggers. Sell X days later. $100k/trade. 1980 - present.												
100	24,547.43	10	7	3	70.00	6,497.67	18,512.90	-6,978.75	-16,085.07	0.93	2.17	2,454.74
95	14,171.68	10	6	4	60.00	6,404.26	16,070.66	-6,063.47	-16,770.54	1.06	1.58	1,417.17
90	1,060.35	10	5	5	50.00	7,421.31	18,595.58	-7,209.24	-19,277.67	1.03	1.03	106.03
85	9,240.07	10	6	4	60.00	7,078.03	18,884.96	-8,307.03	-21,362.25	0.85	1.28	924.01
80	-7,227.80	11	5	6	45.45	7,540.10	16,528.58	-7,488.05	-19,449.82	1.01	0.84	-657.07
75	997.16	11	5	6	45.45	9,641.47	18,289.24	-7,868.36	-22,758.23	1.23	1.02	90.65
70	-9,972.66	11	5	6	45.45	7,622.19	19,119.22	-8,013.93	-21,021.08	0.95	0.79	-906.61
65	-24,312.51	11	4	7	36.36	6,515.62	17,909.76	-7,196.43	-23,731.66	0.91	0.52	-2,210.23
60	-24,033.87	11	4	6	36.36	5,846.03	17,209.10	-7,903.00	-22,576.69	0.74	0.49	-2,184.90
55	-29,102.66	11	3	8	27.27	7,196.06	17,905.52	-6,336.35	-20,673.65	1.14	0.43	-2,645.70
50	-18,897.71	12	4	8	33.33	7,428.85	17,255.74	-6,076.64	-22,263.69	1.22	0.61	-1,574.81
45	-28,482.23	12	5	7	41.67	5,102.88	15,507.80	-7,713.81	-25,143.29	0.66	0.47	-2,373.52
40	-38,157.63	12	4	8	33.33	5,582.58	13,700.50	-7,560.99	-26,846.01	0.74	0.37	-3,179.80
35	-29,355.64	12	3	9	25.00	6,823.64	11,461.78	-5,536.29	-22,795.79	1.23	0.41	-2,446.30
30	-29,214.58	13	6	7	46.15	4,754.90	10,991.14	-8,249.14	-23,844.34	0.58	0.49	-2,247.28
25	-36,178.35	13	5	8	38.46	4,444.14	9,841.04	-7,299.88	-25,105.73	0.61	0.38	-2,782.95
20	-41,061.44	13	4	9	30.77	4,136.00	8,458.80	-6,400.61	-21,406.07	0.65	0.29	-3,158.57
15	-34,465.23	15	6	9	40.00	3,205.22	7,078.68	-5,966.28	-26,924.26	0.54	0.36	-2,297.68
10	-42,296.03	17	5	12	29.41	1,892.94	3,159.86	-4,313.39	-25,784.94	0.44	0.18	-2,488.00
5	-13,719.37	22	6	16	27.27	1,564.02	4,174.28	-1,443.97	-3,509.22	1.08	0.41	-623.61

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Between 35 and 55 days out there appears to be somewhat weak returns on a small sample size.

With the 4th trigger occurring on Friday I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen 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	17,275.13	8	6	2	75.00	3,816.33	7,362.09	-2,811.44	-3,671.20	1.36	4.07	2,159.39
95	13,315.76	8	4	4	50.00	5,461.64	6,207.97	-2,132.70	-4,635.15	2.56	2.56	1,664.47
90	2,413.95	8	3	5	37.50	4,616.22	5,450.48	-2,286.94	-6,882.20	2.02	1.21	301.74
85	6,617.75	8	4	4	50.00	4,717.62	7,141.18	-3,063.18	-6,553.95	1.54	1.54	827.22
80	3,934.30	8	4	4	50.00	4,221.61	7,248.39	-3,238.04	-6,169.80	1.30	1.30	491.79
75	-3,153.19	9	4	5	44.44	5,234.61	8,515.03	-4,818.32	-9,034.35	1.09	0.87	-350.35
70	-6,294.34	9	5	4	55.56	3,003.63	5,115.04	-5,328.12	-9,322.50	0.56	0.70	-699.37
65	-20,459.73	9	3	6	33.33	1,952.18	4,280.64	-4,386.04	-10,467.60	0.45	0.22	-2,273.30
60	-22,281.85	9	4	5	44.44	1,475.08	4,358.48	-5,636.43	-11,602.80	0.26	0.21	-2,475.76
55	-20,611.15	9	3	6	33.33	2,427.78	5,385.52	-4,649.08	-8,851.04	0.52	0.26	-2,290.13
50	-16,833.14	10	4	6	40.00	2,923.68	3,934.12	-4,754.64	-9,493.04	0.61	0.41	-1,683.31
45	-21,207.14	10	3	7	30.00	2,821.99	3,730.16	-4,239.02	-14,483.52	0.67	0.29	-2,120.71
40	-23,053.59	10	3	7	30.00	2,665.81	3,315.35	-4,435.86	-11,889.84	0.60	0.26	-2,305.36
35	-34,850.23	10	2	8	20.00	2,112.64	3,328.16	-4,884.44	-14,149.68	0.43	0.11	-3,485.02
30	-17,123.05	11	5	6	45.45	2,329.77	5,262.60	-4,795.31	-13,738.80	0.49	0.40	-1,556.64
25	-17,958.08	11	5	6	45.45	2,337.22	6,253.80	-4,940.70	-12,343.52	0.47	0.39	-1,632.55
20	-25,556.30	11	2	9	18.18	4,215.12	4,796.40	-3,776.28	-9,672.80	1.12	0.25	-2,323.30
15	-18,860.76	11	3	8	27.27	3,663.79	4,301.89	-3,731.52	-8,414.48	0.98	0.37	-1,714.61
10	-15,667.71	15	5	10	33.33	1,827.22	2,854.88	-2,480.38	-6,566.95	0.74	0.37	-1,044.51
5	-12,632.09	16	4	12	25.00	1,688.46	2,929.92	-1,615.49	-4,884.75	1.05	0.35	-789.51

There are only 10 instances when looking out 35-45 days, but with 8 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

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Buy SPX when 4th Hindenburg Omen Triggers. Sell 35 days later. $100k/trade. 1980 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
02/14/80	Buy	$116.72	(14.16%)	$1,001.52
04/07/80	Sell	$100.19		($16,264.00)
07/24/86	Buy	$237.94	(3.06%)	$6,846.00
09/12/86	Sell	$230.66		($3,864.00)
03/15/94	Buy	$467.01	(3.35%)	$873.12
05/05/94	Sell	$451.38		($6,666.10)
12/08/99	Buy	$1,403.88	(3.11%)	$5,262.52
01/28/00	Sell	$1,360.16		($3,385.28)
04/24/06	Buy	$1,308.11	(6.45%)	$1,412.84
06/13/06	Sell	$1,223.69		($6,504.84)
07/20/07	Buy	$1,534.10	(5.37%)	$853.45
09/10/07	Sell	$1,451.70		($10,627.50)
10/25/07	Buy	$1,514.39	(3.07%)	$2,532.42
12/14/07	Sell	$1,467.95		($7,147.14)
06/04/13	Buy	$1,631.38	3.34%	$4,111.40
07/24/13	Sell	$1,685.94		($4,334.05)
08/09/13	Buy	$1,691.42	(0.58%)	$2,267.96
09/30/13	Sell	$1,681.55		($3,773.05)
12/17/13	Buy	$1,781.00	0.90%	$3,911.04
02/07/14	Sell	$1,797.02		($2,412.48)

The last 3 instances, all of which occurred during the last two years, have not played out as bearish as the previous ones. Still, even those instances saw pullbacks of 2.4%, 3.8%, and 4.3% from the 4th trigger date's closing price at some point during the next 35 days. And the average drawdown is still about 2x the size of the average run-up. So the numbers still do seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage following these signals that it is probably worth remaining cognizant of it. I have therefore listed it on the Intermediate-term Active List.

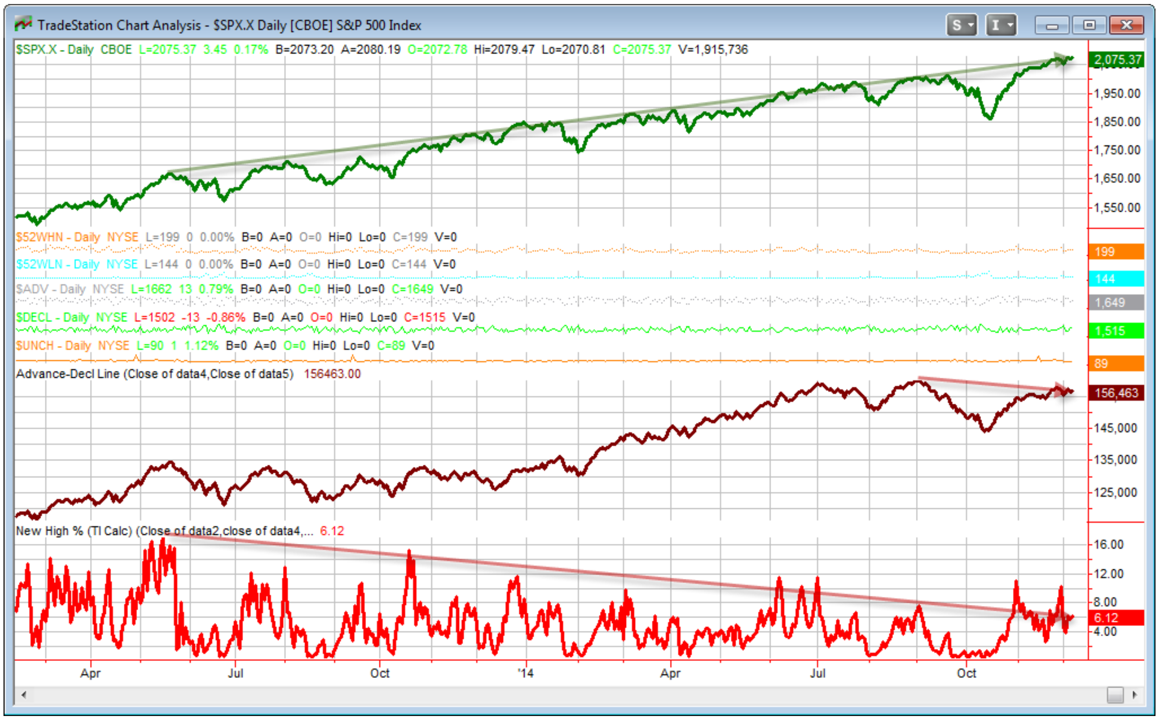
Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads section.

http://quantifiableedges.com/other-code-spreadsheets/

I would also note that Tom McClellan wrote an interesting piece on the history of the indicator a while back. You may find a link to that write-up below.

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

As the Hindenburg signals would indicate, despite the new highs this week, the number of stocks hitting new 52-week highs continues to deteriorate. This keeps the divergence in place that we have noted for over a year and a half now. This can be seen on the chart below, which is similar to the one found on the QE charts page.



In fact, not only is the New High % diverging, it is still very far below the May 2013 level. And as I discussed in the Study of Tops (available for Gold & Silver subscribers on the special reports downloads page) and have reiterated here a number of times, the divergent New High % is a condition that has preceded every major SPX decline since 1970.

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. The current divergence is over 18 months old. It hasn't mattered yet, but if it persists, then it will matter at some point.

If the market continues higher and the New High % rallies 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 continue to keep an eye on it. For now it remains highly divergent. So the rally is occurring with fewer and fewer stocks making new highs. And from this point it will likely take quite a bit of work to get the New High % back to the May 2013 level, or even levels we saw at the end of October.

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.

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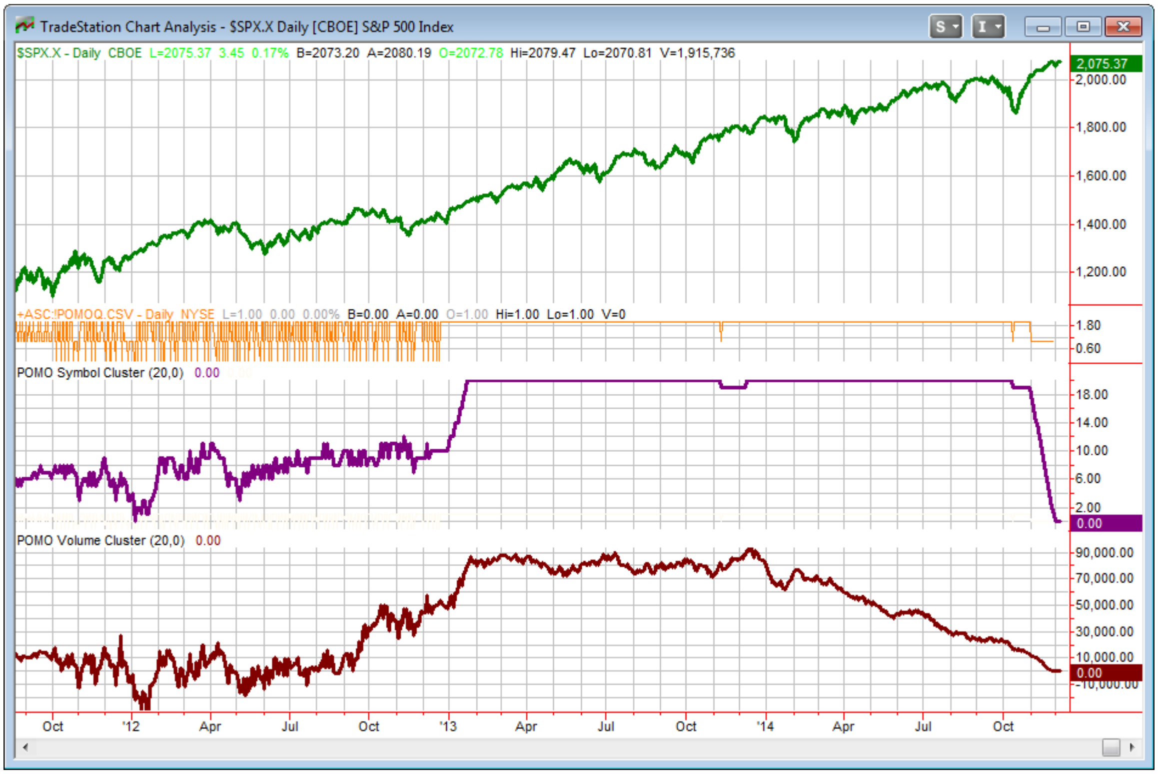

The POMO/AMBS days indicator is now at zero. The Fed's QE program is done making new purchases. I expect the indicators on this chart to flatline for the foreseeable future. And I will likely stop including this chart in the weekly update until some kind of activity (buying or selling) resumes.

But while the Fed is not making new purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the POMO indicators in the chart above. The SOMA chart I have been sharing remains relevant, and I will continue to update it. This week's update is below.

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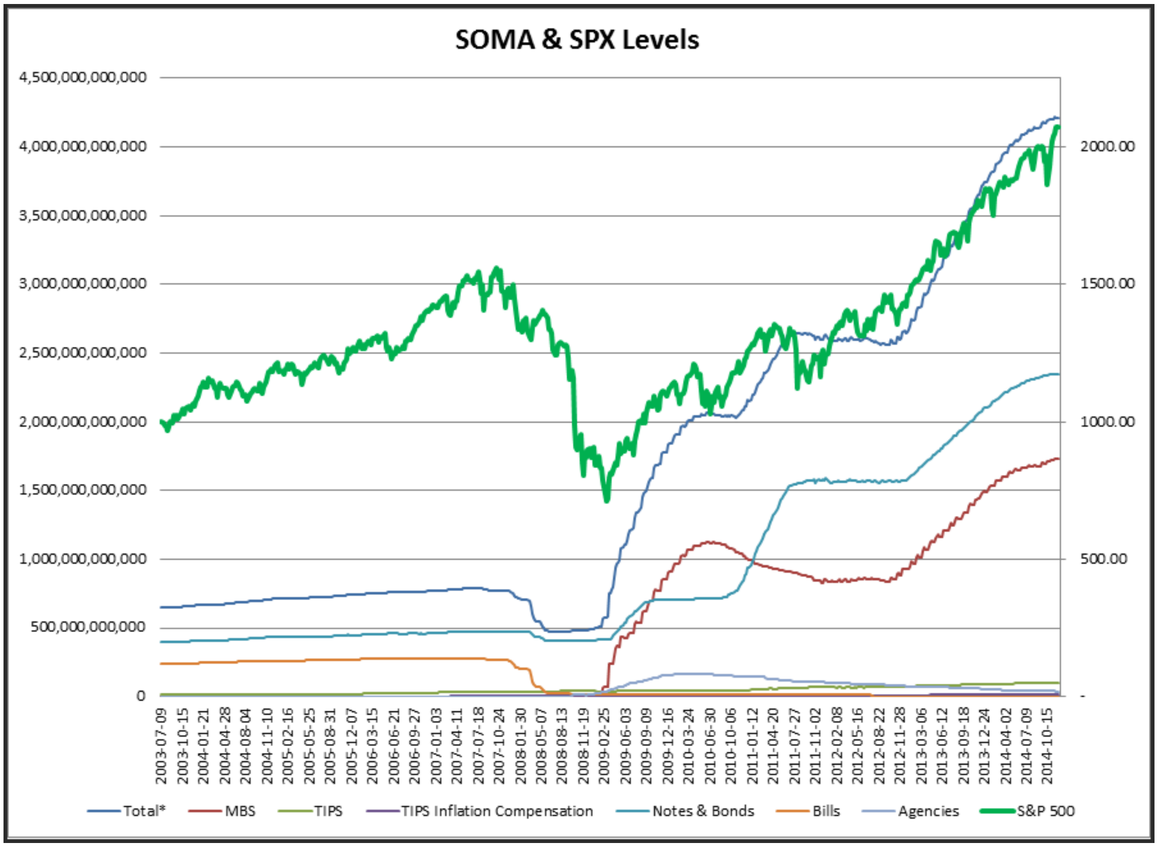

It is tough to see in the above chart, but the SOMA total assets increased slightly from last week. The increase did not get it up to the high it reached 2 weeks ago though. We appear to be seeing a flattening of the blue Total Assets line at this point. The market has continually struggled over the years whenever the SOMA has not been increasing. So I will continue to watch the Total Assets line closely to see whether it begins to roll over and head south, or whether reinvestments can keep it afloat a while longer.

Evidence built this week for both sides of the bull/bear argument. Strong seasonality, trend (Market Timing Course indicators) and price action indications (like the key reversal study) are siding with the bulls. But liquidity (SOMA flattening) and breadth divergences (Hindenburg, Study of Tops) are potentially bearish.

I am still somewhat bullish overall. The bearish warning signs have not yet had an impact on index prices, as SPX is at a new high. I will likely want to see some confirmation from price before moving neutral (or bearish). So for now I will remain more willing to take on longs than shorts for my short-term trades. I believe risk/reward continues to favor the bulls on these short-term trades.

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 numbered systems 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