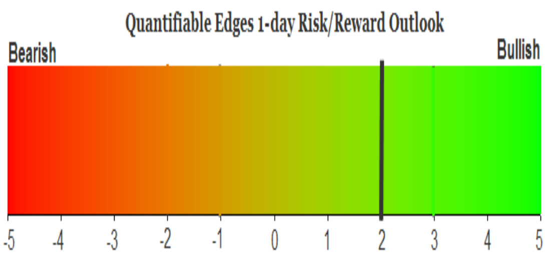
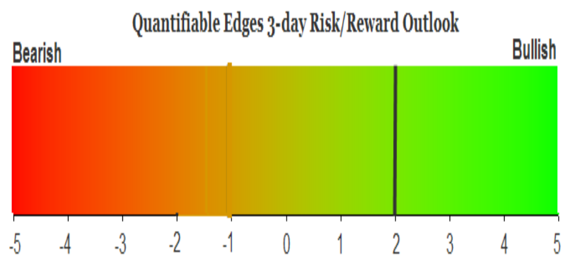
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2011 Volume 4 Issue 114

Market Overview





Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Long	100% Long XIV	100% Long XIV	Flat

Tonight's Research Points

- The bounce looks good and it not yet overbought. A further rise in the next few days appears probable.

Short-term Outlook

The Bottom Line

A strong day on Tuesday. Studies that triggered suggest more upside and the market is not yet overbought. It will be overbought tomorrow if it continues higher. I am looking to sell Wednesday if the rally persists.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 15, 2011	SPX up 2 days, below close 3 days ago.	1-3 days	Bullish	
June 14, 2011	NYSE Up Issues % < 40%. SPX up.	1-3 days	Bearish	
June 13, 2011	McClellan Osc % Rank < 2%. SPX 50 low	1-6 days	Bullish	3.70%
June 3, 2011	Dn 2 days(early month & big/small drop	1-9 days	Bullish	
Active - Long Term				
May 31, 2011	4 Weeks Down. Close > 40ma.	1-10 weeks	Bullish	9.00%
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
June 14, 2011	SPX up. VIX up. Monday.	1 day	Bearish	
June 13, 2011	TICK Tomoscillator very low	1-2 days	Bullish	
June 1, 2011	SPX up. High vol 20.	1-10 days	Bullish	

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

The Evidence

Buyers showed up on Thursday and the market posted some nice gains. There was some give-back in the last hour but the final numbers were impressive anyway. In the end the SPX gained 1.3%, the Nasdaq was up 1.5%, and the Russell 2000 rose 2.2%. Breadth was solidly positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 76%. Total NYSE volume rose from Monday's levels.

With Monday's modest gain in the SPX, Tuesday was the 2nd up day in a row. With two up days and some solid gains on Tuesday, traders may have been tempted to take some off the table. When trading oversold oscillations this might seem the right thing to do. But despite Tuesday's strong moves the SPX not only remains relatively oversold, but studies are suggesting the bounce of the last 2 days should have more to go. There were several studies looking at 2 day bounces that appeared in the Quantifinder this evening. Most of these were fairly similar. I've selected 2 of them to review in detail below.

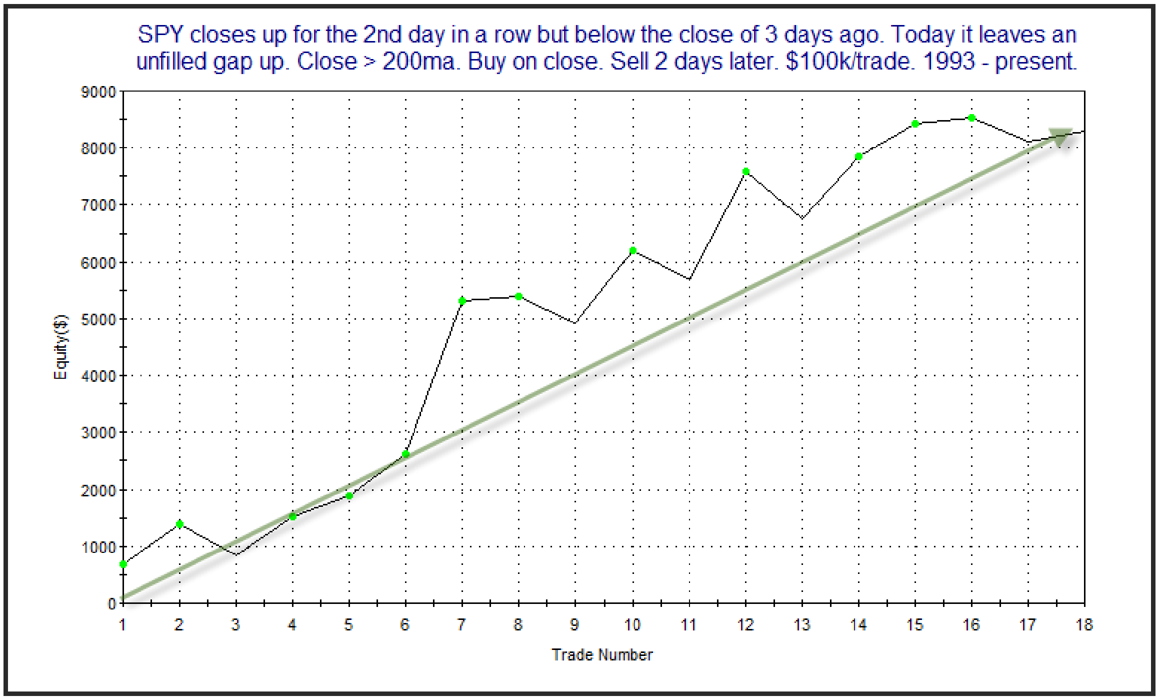
Both studies looked at 2 up days that failed to close above the close of 3 days ago. This first one, which last appeared in the 11/19/10 letter, also examines the fact that today saw an unfilled up gap. Unfilled up gaps can be a sign of strength depending on where they occur. This appears to be one of those cases.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. Today it leaves an unfilled gap up. 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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	11,799.30	16	12	4	75.00	1,883.86	-2,701.76	0.70	2.09	737.46
9	13,226.16	16	12	4	75.00	1,654.49	-1,656.93	1.00	3.00	826.64
8	7,716.70	16	10	6	62.50	1,475.61	-1,173.23	1.26	2.10	482.29
7	5,082.30	18	11	7	61.11	1,168.40	-1,110.01	1.05	1.65	282.35
6	-2,688.69	18	9	9	50.00	1,448.05	-1,746.79	0.83	0.83	-149.37
5	-1,860.78	18	8	10	44.44	1,615.20	-1,478.24	1.09	0.87	-103.38
4	4,353.20	18	13	5	72.22	960.29	-1,626.12	0.59	1.54	241.84
3	5,946.33	18	11	7	61.11	1,189.81	-1,020.23	1.17	1.83	330.35
2	8,302.07	18	13	5	72.22	855.25	-563.23	1.52	3.95	461.23
1	3,922.36	18	12	6	66.67	624.94	-596.16	1.05	2.10	217.91

16 of 18 instances (89%) closed above the entry price on either day 1 or day 2.

The results are impressive – especially over the 1st 2 days. Below is an equity curve to see how the edge has played out over time.



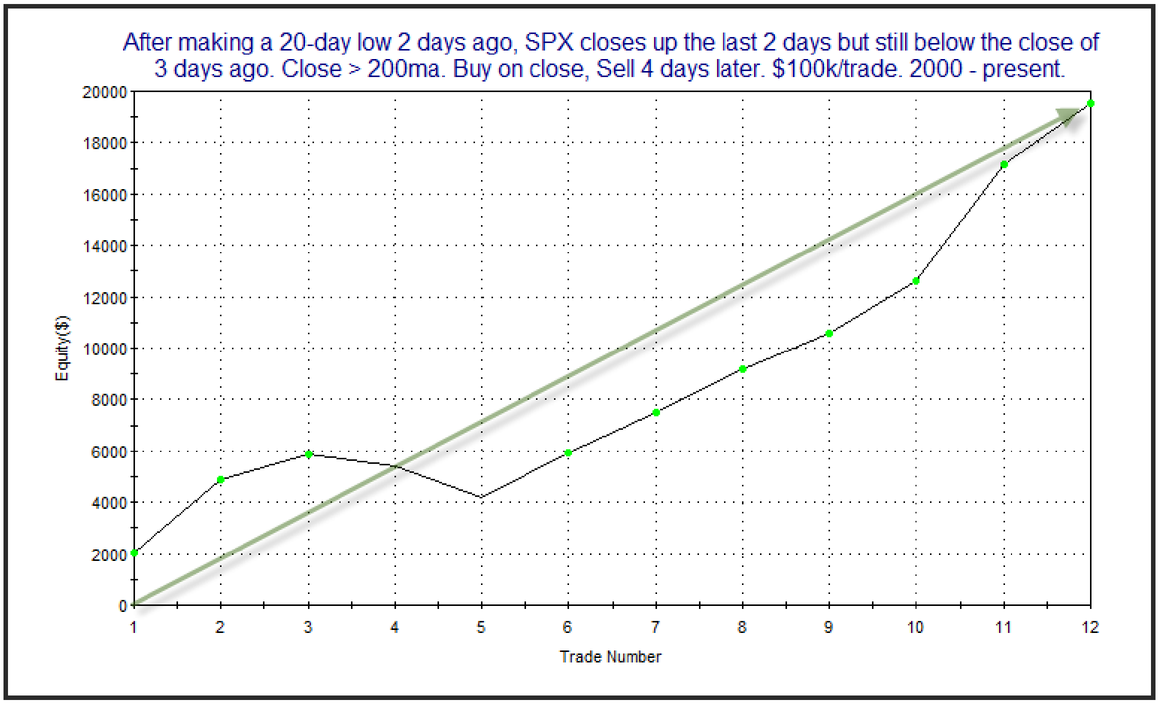
As you can see the edge has been fairly consistent. There is some chop in the above chart but the slope remains upward throughout.

This next study considers what happens when the "2 up days that close under the close of 3 days ago" pattern appears just after a 20-day low. It was last seen in the 3/21/11 subscriber letter.

After making a 20-day low 2 days ago, SPX closes up the last 2 days but still below the close of 3 days ago. Close > 200ma. Buy 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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	18,360.49	12	9	3	75.00	2,402.08	-1,086.07	2.21	6.64	1,530.04
4	19,514.17	12	10	2	83.33	2,119.97	-842.78	2.52	12.58	1,626.18
3	14,410.79	12	10	2	83.33	1,629.19	-940.56	1.73	8.66	1,200.90
2	11,445.88	12	8	4	66.67	1,561.16	-260.86	5.98	11.97	953.82
1	2,600.57	12	7	5	58.33	984.25	-857.84	1.15	1.61	216.71

Instances are low but the stats table appears quite bullish. To provide a little greater confidence in this study I also examined the equity curve using a 4-day holding period.



The strong steady upslope makes this study more attractive than it otherwise would be.

I have updated the Aggregator chart below.

The green Aggregator Line is once again solidly above 0. Readings above 0 mean net expectations from the active list are for upside over the next few days. Meanwhile, the black Differential Line is also above 0. This means the SPX has underperformed expectations over the last few days. So net expectations are positive and the SPX is oversold versus recent expectations. Historically this has provided an upside edge. This configuration can be seen on the chart whenever both lines close above 0. Due to this the Aggregator System remained long at the close.

The green Aggregator line is again set to close above 0 on Wednesday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,280.54. This is nearly 0.6% BELOW Tuesday's close. In other words, the Differential line is slated to drop below 0 on Wednesday unless there is a pullback of at least this much. A drop below 0 would turn the Aggregator System either flat (likely) or short (possible).

When the Differential Pivot is inverted as it is now (inverted meaning even a flat close would flip it) it puts me into profit-taking mode. I hope to get out of all or part of my positions tomorrow. Knowing how far down the pivot is, I will also consider trailing a stop higher throughout the day to protect against late-day selloffs.

So bottom line is that the studies suggest more upside and the market is still oversold, but it is slated to move to overbought tomorrow with or without a further rise. I am not looking to add to my positions, but instead will be taking some (or all) of them off depending how the day unfolds.

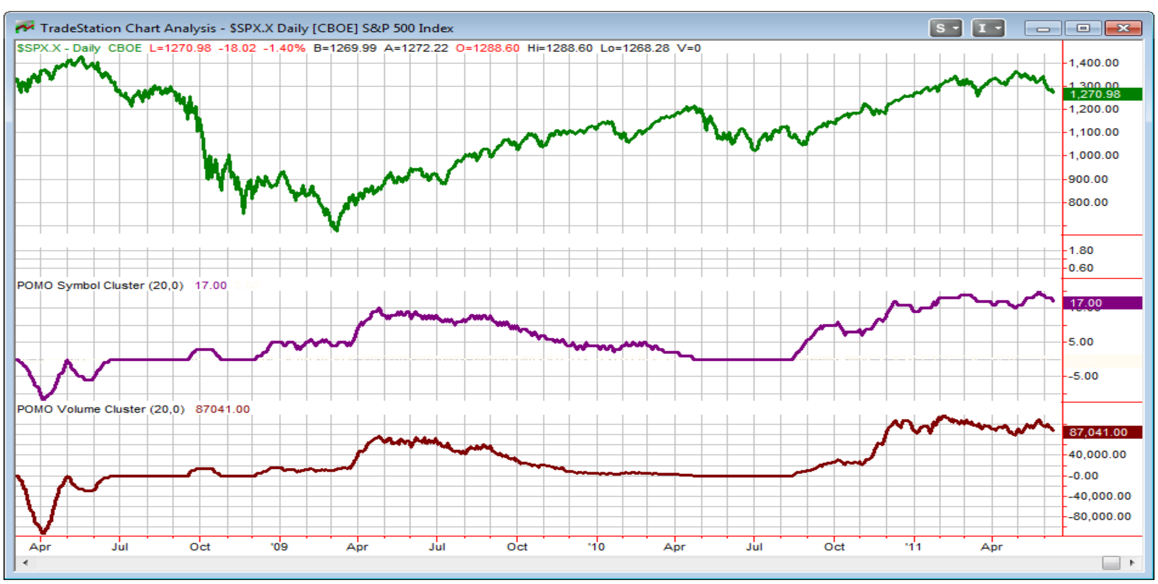
Intermediate-term Outlook (2 weeks – 2 months)– updated 6/13 – neutral

It was another tough week in the market. We are now down 6 weeks in a row. Perhaps the biggest development is that the POMO schedule was released on Friday and we can now see the end of QE2.

I've been updating the POMO chart most weekends in the letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. 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 POMO indicators). The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)

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



Both the POMO Days and POMO Volume indicators remain at high levels. Still, they are beginning to trend lower. The current schedule calls for steady buying until the end of the month, but after that there will be little in the way of Fed stimulus. Starting July 1 we will see these indicators begin to head back towards the 0 line. There are 2 small days of buying currently scheduled in July which is associated with the reinvestment of principal payments rather than the $600billion of QE2 money. The past few times POMO stimulus was halted, it took the market about a month after the halt until prices began to decline.

For those that would like to view the current schedule I have provided a link below.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

Intermediate-term studies are still slightly in favor of the bulls, but that may not last long with POMO exiting the equation. The bears may also point to the divergence in the number of new highs in the NYSE that I discussed a couple of weeks ago. The studies found on the intermediate-term active list at the top of this letter consider breadth, momentum, and intermediate-term mean reversion. I expect we will get a bounce here in the short-term as suggested by the short-term section above. That bounce could carry forward for another few weeks. I don't have great confidence that it will surpass the May highs. After the next few weeks the picture becomes less clear in my eyes. I'm moving the intermediate-term outlook to neutral. I will approach both longs and shorts with some caution but at this point I am willing to bet either way should short-term evidence suggest an edge.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

LOW – 1/3 position @ $23.59
LOW – 1/3 position @ $23.40(2nd lot)
AEP – 1/3 position @ $37.51
LOW – 1/3 position @ $22.87(3rd lot)

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 4(2)(LOW(3), AEP)**

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.

No new trade ideas tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/2/2011	$131.87	$129.32	-1.93%		exit $129.33 limit ON CLOSE
SPY(1/4)	6/3/2011	$130.15	$129.32	-0.64%		exit $129.33 limit ON CLOSE
LOW(1/3)	6/3/2011	$23.18	$22.72	-1.98%		Catapult
LOW(1/3)	6/6/2011	$23.07	$22.72	-1.52%		Catapult
AEP(1/3)	6/6/2011	$37.43	$37.32	-0.29%		Catapult
SPY(1/4)	6/6/2011	$129.04	$129.32	0.22%		Aggregator
LOW(1/3)	6/8/2011	$22.72	$22.72	0.00%		Catapult
BRK.B(1/3)	6/13/2011	$74.10	$75.12	1.38%		sell on open
XIV	6/13/2011	$170.38	$175.45	2.98%		

Both remaining Catapults are near an exit. Exit triggers estimates are below for both.

LOW would need to hit (approx.) $22.90 intraday, or close >= $22.77.

AEP would need to hit (approx.) $37.45 intraday, or close >= $37.39.

If any of the above are accomplished, then the standard exit would be Thursday's open. I would exit 1 LOW at the close and let the other two ride overnight.