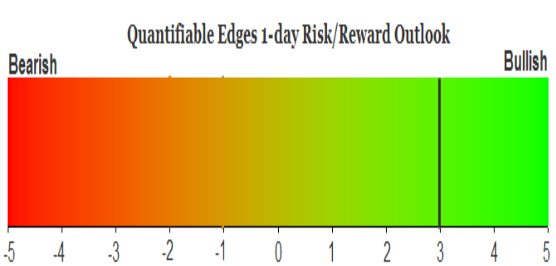
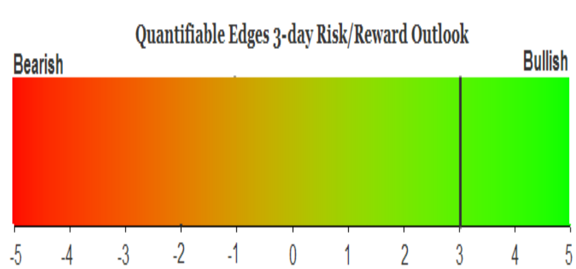
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2011 Volume 4 Issue 117

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 oversold NDX may help an SPX bounce.
- SPX up 2 days but still under the close of 3 days ago is suggesting a bullish shprt-term edge under current market conditions.
- Intermediate-term traders can start watching for follow through days.

Short-term Outlook
The Bottom Line

Studies are a bit mixed today but still favor the bullish case overall. I'm heavily long but will be lightening up on any further strength.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 20, 2011	SPX up 2 days, below close 3 days ago.	1-3 days	Bullish	1.60%
June 17, 2011	VIX up 6% while SPX up.	1-3 days	Bullish	
June 17, 2011	Breadth < 45%. Up day after 1.5% drop,	1-2 days	Bearish	
June 13, 2011	McClellan Osc % Rank < 2%. SPX 50 low	1-6 days	Bullish	3.70%
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	POMO	int term	weakening	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
June 15, 2011	SPX up 2 days, below close 3 days ago.	1-3 days	Bullish	
June 16, 2011	SPX 50-low. VIX spike.	1-2 days	Bullish	2.80%

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

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The Evidence

Friday started out strong with a large gap higher, but the high for the day was made in the first few minutes and there was deterioration for much of the rest of the day. In the end the major indices finished mixed. The SPX was up 0.3% and the Russell 2000 gained 0.02%, but the NASDAQ fell 0.3%. Despite the mixed performance among the indices, breadth came in squarely positive. The NYSE Up Issues % closed at 62% and the Up Volume % was 66%. Total NYSE volume spiked to the highest level in the last few months, largely thanks to options operation.

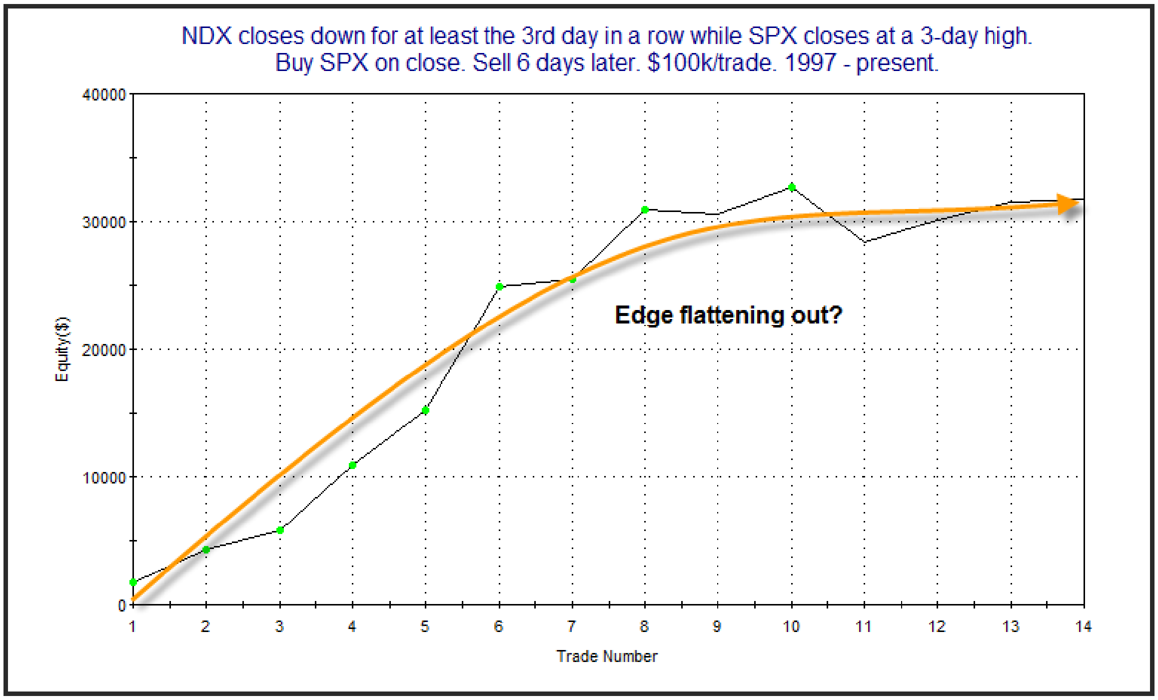
The choppy, mixed action over the last few days has left us with bullish studies, but the evidence certainly isn't overwhelming. A few showed up in the Quantifinder on Friday and I'll discuss them below.

This first study was last seen in the 1/24/11 subscriber letter. It examines times when the SPX has been managing gains while the NDX has been selling off. I have updated all of the statistics below.

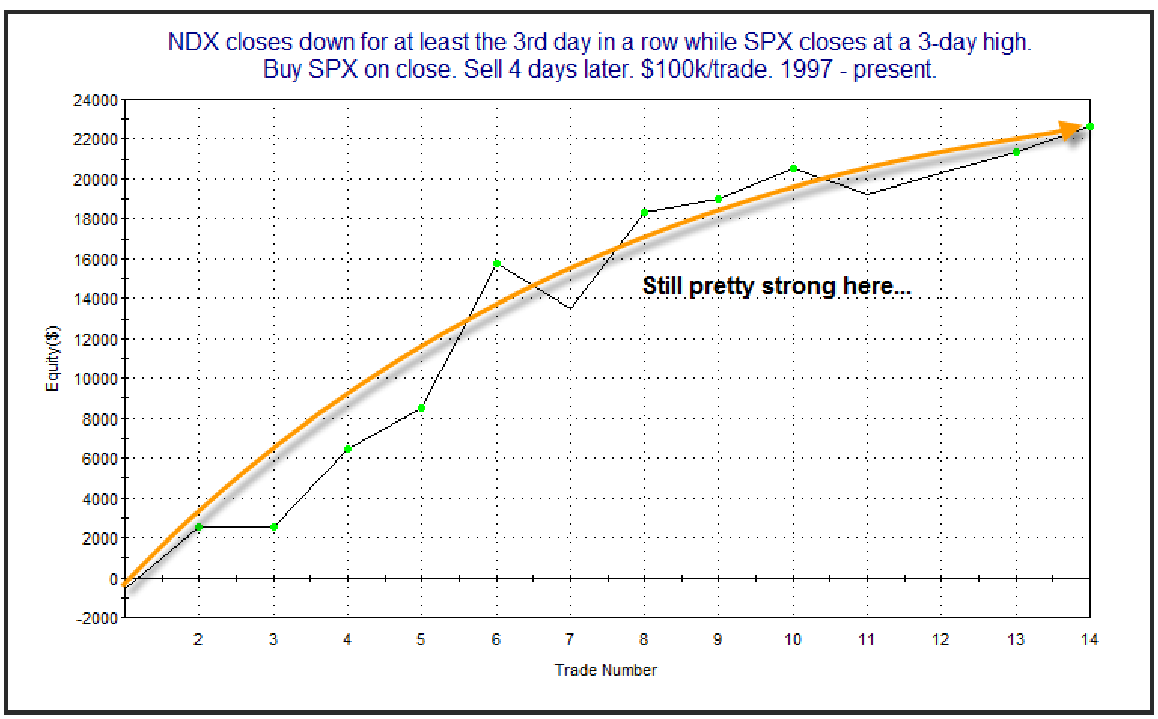
NDX closes down for at least the 3rd day in a row while SPX closes at a 3-day high.
Buy SPX on close. Sell X days later. $100k/trade. 1997 - present.

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	33,867.42	14	11	3	78.57	3,847.72	-2,819.17	1.36	5.00	2,419.10
9	35,215.71	14	12	2	85.71	3,353.59	-2,513.68	1.33	8.00	2,515.41
8	32,687.58	14	12	2	85.71	3,319.99	-3,576.14	0.93	5.57	2,334.83
7	28,149.23	14	11	3	78.57	3,479.36	-3,374.56	1.03	3.78	2,010.66
6	31,716.55	14	12	2	85.71	3,024.04	-2,285.97	1.32	7.94	2,265.47
5	21,952.71	14	12	2	85.71	2,355.70	-3,157.83	0.75	4.48	1,568.05
4	22,601.78	14	11	3	78.57	2,427.74	-1,367.78	1.77	6.51	1,614.41
3	17,989.89	14	10	4	71.43	2,253.15	-1,135.40	1.98	4.96	1,284.99
2	16,783.04	14	9	5	64.29	2,508.61	-1,158.88	2.16	3.90	1,198.79
1	10,160.81	14	8	6	57.14	2,144.27	-1,165.55	1.84	2.45	725.77

At first blush these results would seem to suggest a strong bullish edge. But let's look at things in a little more detail to see if that is truly the case. First below is an equity curve assuming a six-day exit.



While the totals were strong for the 6-day period, it appears the earlier trades were much more powerful than the latest ones. I also looked at some other exits, and though the edge seems to be flattening out a bit, it does appear to still be somewhat intact. Below is a look at the equity curve using a 4-day exit strategy.



So the general results table appears strong and the equity curve is a little weak but not terrible. But one thing that sticks out about the current setup is that the NDX is now at a 50-day low. I scanned the study one more time to see if there are other instances where this was also the case. Those results are below.

NDX closes down for at least the 3rd day in a row ***and at a 50-day low*** while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. $100k/trade. 1997 - 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	-8,423.32	2	0	2	0.00	0.00	-4,211.66	0.00	0.00	-4,211.66
9	-5,027.36	2	0	2	0.00	0.00	-2,513.68	0.00	0.00	-2,513.68
8	-7,152.27	2	0	2	0.00	0.00	-3,576.14	0.00	0.00	-3,576.14
7	-9,730.39	2	0	2	0.00	0.00	-4,865.19	0.00	0.00	-4,865.19
6	-3,609.14	2	1	1	50.00	620.80	-4,229.94	0.15	0.15	-1,804.57
5	-5,249.19	2	1	1	50.00	526.71	-5,775.90	0.09	0.09	-2,624.59
4	-3,532.39	2	0	2	0.00	0.00	-1,766.20	0.00	0.00	-1,766.20
3	-3,516.96	2	0	2	0.00	0.00	-1,758.48	0.00	0.00	-1,758.48
2	-3,805.84	2	0	2	0.00	0.00	-1,902.92	0.00	0.00	-1,902.92
1	-5,036.86	2	0	2	0.00	0.00	-2,518.43	0.00	0.00	-2,518.43

There were only two instances, and I wouldn't ever rely on a study that produced just two instances, but they were both awful and it seems to cast doubt on the possible upside edge. When combined with the flattening of the equity curve, I decided not to include this study on the active list today.

Of course the good news with the above realization is that results that aren't associated with a 50-day low now appear extremely impressive.

NDX closes down for at least the 3rd day in a row ***but above a 50-day low*** while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. $100k/trade. 1997 - present.

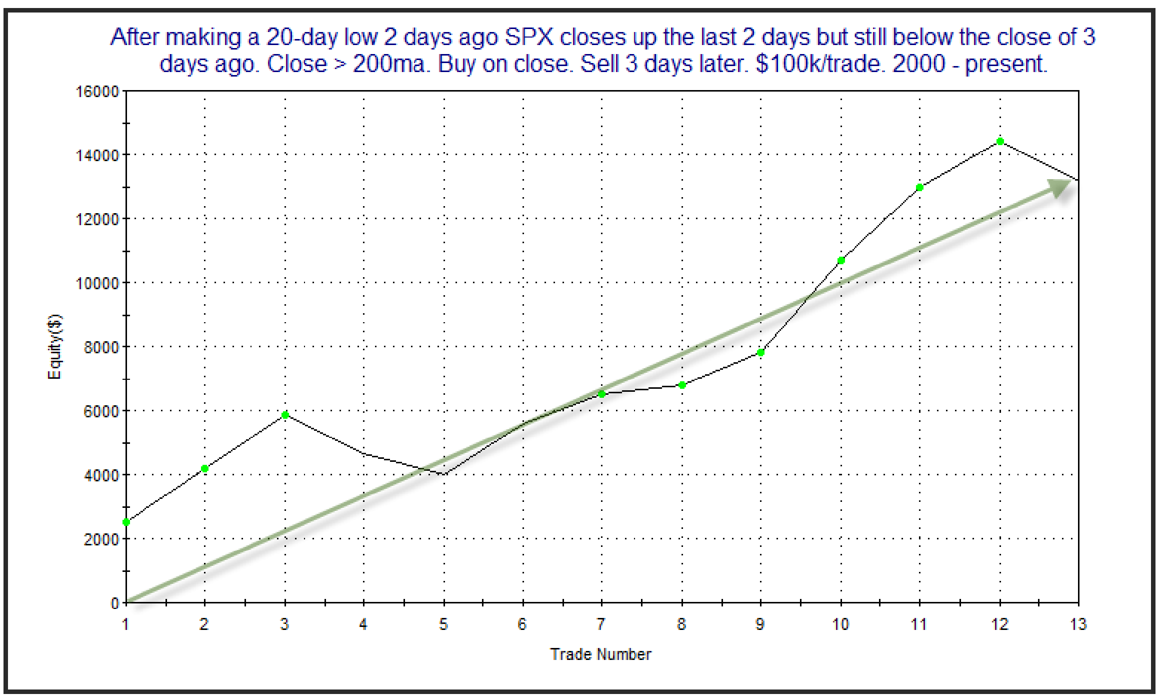
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	42,290.74	12	11	1	91.67	3,847.72	-34.20	112.51	1,237.57	3,524.23
9	40,243.07	12	12	0	100.00	3,353.59	0.00	100.00	100.00	3,353.59
8	39,839.85	12	12	0	100.00	3,319.99	0.00	100.00	100.00	3,319.99
7	37,879.62	12	11	1	91.67	3,479.36	-393.30	8.85	97.31	3,156.64
6	35,325.69	12	11	1	91.67	3,242.52	-342.00	9.48	104.29	2,943.81
5	27,201.90	12	11	1	91.67	2,521.97	-539.77	4.67	51.40	2,266.82
4	26,134.17	12	11	1	91.67	2,427.74	-570.96	4.25	46.77	2,177.85
3	21,506.85	12	10	2	83.33	2,253.15	-512.31	4.40	21.99	1,792.24
2	20,588.88	12	9	3	75.00	2,508.61	-662.86	3.78	11.35	1,715.74
1	15,197.67	12	8	4	66.67	2,144.27	-489.11	4.38	8.77	1,266.47

I'll be sure to keep this study for future reference.

One other study that appeared in the Quantifinder on Friday was last seen just a few days ago in the 6/15/11 subscriber letter. It looked at moderate bounces from 20-day lows. Full description and updated results are in the table below.

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	13,150.30	13	10	3	76.92	1,629.19	-1,047.20	1.56	5.19	1,011.56
2	9,888.17	13	8	5	61.54	1,561.16	-520.23	3.00	4.80	760.63
1	871.92	13	7	6	53.85	984.25	-1,002.98	0.98	1.14	67.07

The results here are very strong. Of course the last instance, which is only three days old, isn't working out so well. In last Tuesday night's letter I showed an equity curve using a four day exit strategy. Since it hasn't even been four days yet, that equity curve would look the same. So here is an equity curve using a 3-day exit strategy, which includes the loss from the last instance.



Despite last week's failure, the study still appears to suggest an upside edge and I have included it among the active studies.

I have updated the Aggregator chart below.

The green Aggregator Line is still 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 well 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. While it's been a tough go so far in June, 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 Monday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,271.11. This is just barely below Friday's close. Basically the Aggregator is saying a 3rd up day will eliminate the "oversold" condition. Only a drop on Monday would keep the market oversold and the Aggregator on a buy signal.

The Differential line action has me thinking about lightening up on my position. I may not take everything off on an up close tomorrow but I would take off a good portion. I'm of the belief that the market has some decent potential to put in more of an oversold bounce, and it could run for several days once it gets going. Still, bullish evidence isn't spectacular and rallies have been so weak lately and the selling has overrun some extremely bullish studies along the way. It certainly doesn't seem like a great time to trade stubbornly and push my luck after an Aggregator buy signal has come off.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/20 – neutral

The SPX closed higher this past week. In fact it closed higher on 4 of the 5 days. This sounds impossible since every day but Tuesday seemed disappointing, but it is true. From the 5/2 peak down to the low on Thursday the SPX declined 8.2%.

I conducted extensive research into IBD Follow-Through-Days (FTD) over the last few years. Much of it was published on the blog in 2008. Most of the work I published required an SPX correction of at least 8% before a FTD was looked for. Investors Business Daily followers and other intermediate-term trade will be eagerly awaiting a FTD before looking to aggressively allocate intermediate-term trend following positions to their portfolios.

That research is too vast to explore in detail in the letter, but I would suggest readers that are interested may want check out the links below.

This first one is a summary post with links to different areas of the research.

http://quantifiableedges.blogspot.com/2008/07/follow-through-days-quantified.html

This second link will bring up all blog posts with an "IBD Follow Through Day" label. There have been a few since the summary post above was published.

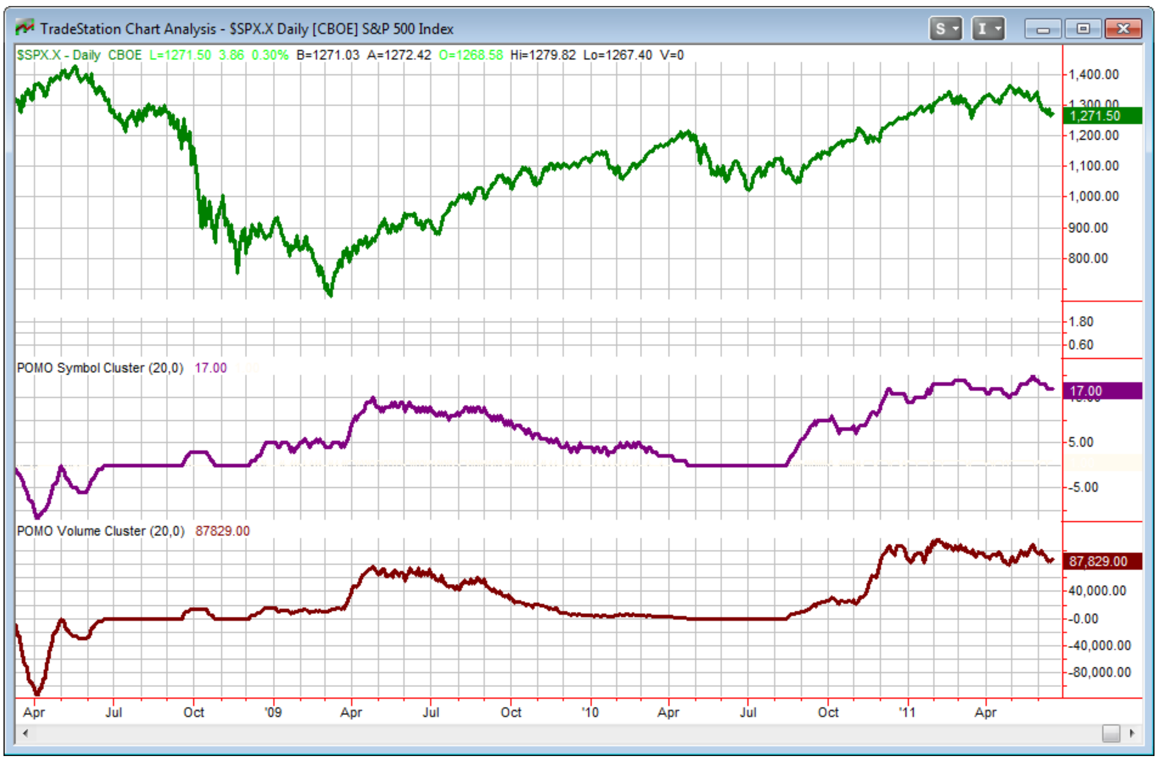
http://quantifiableedges.blogspot.com/search/label/IBD%20Follow%20Through%20Day

As bounces occur and FTDs are registered I will be sure to alert readers to odds and edges associated with FTDs.

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



My POMO interpretation remains the same as last week.

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 moderately bullish but we are certainly in the midst of a correction. Whether it turns into something worse or whether it straightens itself out quickly isn't yet clear. 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. My outlook remains neutral for now. This means I will approach both longs and shorts with some caution but 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)

LOW – 1/3 position @ $22.87(3rd lot)

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 3/1(LOW(3))**

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	$127.68	-3.18%		Dividend adjusted price
SPY(1/4)	6/3/2011	$130.15	$127.68	-1.90%		Dividend adjusted price
LOW(1/3)	6/3/2011	$23.18	$22.83	-1.51%		Catapult
LOW(1/3)	6/6/2011	$23.07	$22.83	-1.04%		Catapult
AEP(1/3)	**6/6/2011**	**$37.43**	**$37.64**	**0.56%**		**sold on close**
SPY(1/4)	6/6/2011	$129.04	$127.68	-1.06%		Dividend adjusted price
LOW(1/3)	6/8/2011	$22.72	$22.83	0.48%		Catapult
XIV	6/13/2011	$170.38	$154.96	-9.05%		
SPY(1/4)	6/16/2011	$127.02	$127.68	0.52%		Dividend adjusted price

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

LOW would need to hit (approx.) $22.94 intraday to trigger and exit. Or it would need to close higher by about $0.02. In either case the standard exit would be Tuesday morning. I will exit 1 lot at Monday's close if the target is hit. If LOW closes as high as $23.20 and in the top half of its daily range I will exit all 3 lots at the close rather than hold for Tuesday's open.

I will exit 2 lots of SPY if SPX closes >= 1,271.11. The other 2 I will hold overnight and evaluate further. There is a good chance I would exit them in the morning.

I may send out intraday updates to subscribers tomorrow as studies emerge that could alter my outlook. There is a chance I could call to exit more of the position at the close depending on market action.