

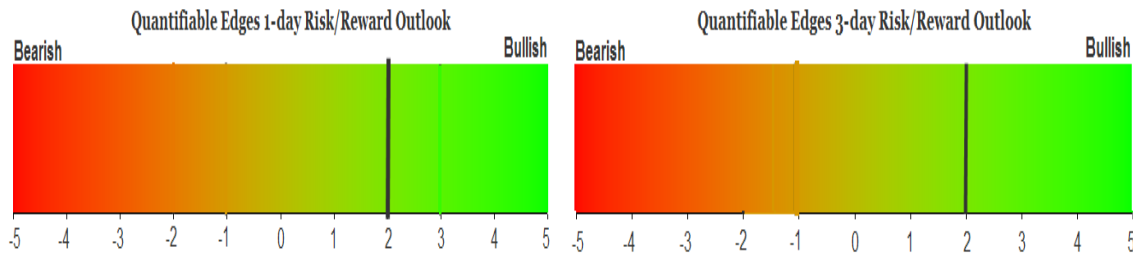
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2011

Volume 4 Issue 136

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | Conservative VIX | NDX Trend Timer |
|------------|----------------|------------------|-----------------|
| Long | 100% Long XIV | 100% Long XIV | Long |

Tonight's Research Points

- Closing in the top 25% of the day's range after closing in the bottom 25% for the last 4 days is a potential short-term positive.

Short-term Outlook

The Bottom Line

The market finally put in a decent day. I have been maintaining a small long position. I am not looking to increase that position yet. I will likely take profits if Monday closes up strongly. The Aggregator remains positive but new bullish evidence remains lacking.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|---------------------------------------|------------|---------|--------------|
| Active | | | | |
| July 13, 2011 | Pullback slowing | 1-5 days | Bullish | 2.50% |
| July 12, 2011 | SPY 2 unfilled dn gaps.5-low & >200ma | 1-5 days | Bullish | 1.70% |
| July 5, 2011 | 5 days higher. >200 & < 50-high | 1-10 days | Bullish | 2.00% |
| Active - Long Term | | | | |
| July 5, 2011 | QE2 Over | int term | Bearish | |
| July 5, 2011 | 3 days higher. Up vol % > 90% today. | 1-20 days | Bullish | 5.00% |
| June 22, 2011 | FTD with Up Issues % 1-yr Rank > 95% | int term | Bullish | |
| 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% |
| October 25, 2010 | SPX Golden Cross | int term | Bullish | |

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

The Evidence

After churning for much of the day the market gained some traction Friday and finished well. The SPX closed up 0.6%, the Nasdaq rose 1%, and the Russell 2000 added on 0.7%. Breadth was moderately positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 56%. Total NYSE volume increased some but wasn't terribly impressive for an op-ex day.

The SPX has been oversold and there has been evidence suggesting a short-term move higher, but there haven't been any new directional clues for the past few days. Friday provided more of the same. With a moderate but expected bounce the Quantifinder failed to identify much in the way of studies. With over 900 studies stored in the Quantifinder it is very unusual that we go 3 days in a row without a lot to talk about.

One study that did trigger looked at wide range down closes in the NDX that were followed by narrow range days. Implications of the original study from 2008 appeared bullish. I broke it down a little further tonight and found that the edge primarily existed below the 200ma. During uptrends returns were weaker and less consistent.

After closing near the lows of the day on Monday-Thursday, it did feel better to see the market close near its highs going in to the weekend. I looked back at other instances during long-term uptrends where the SPY had closed in the bottom 25% of its range for 4 days in a row and then the top 25% the next day. I found only 2 other instances. I therefore loosened the criteria to only require 3 days in the bottom 25%. Instances were still low, but I've generated a stats table for viewing below.

After closing in the bottom 25% of the daily range the last 3 days, SPY closes in the top 25% of its daily range today. 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 | 10,375.18 | 6 | 5 | 1 | 83.33 | 2,223.93 | -744.48 | 2.99 | 14.94 | 1,729.20 |
| 9 | 11,981.37 | 6 | 6 | 0 | 100.00 | 1,996.90 | 0.00 | 100.00 | 100.00 | 1,996.90 |
| 8 | 10,006.57 | 6 | 4 | 2 | 66.67 | 2,541.40 | -79.51 | 31.96 | 63.92 | 1,667.76 |
| 7 | 5,311.60 | 6 | 4 | 2 | 66.67 | 1,904.76 | -1,153.71 | 1.65 | 3.30 | 885.27 |
| 6 | 4,821.17 | 6 | 4 | 2 | 66.67 | 1,555.15 | -699.72 | 2.22 | 4.45 | 803.53 |
| 5 | 5,338.14 | 6 | 5 | 1 | 83.33 | 1,085.61 | -89.90 | 12.08 | 60.38 | 889.69 |
| 4 | 1,755.53 | 6 | 4 | 2 | 66.67 | 1,210.23 | -1,542.70 | 0.78 | 1.57 | 292.59 |
| 3 | 877.53 | 6 | 4 | 2 | 66.67 | 804.21 | -1,169.65 | 0.69 | 1.38 | 146.25 |
| 2 | 778.84 | 6 | 4 | 2 | 66.67 | 899.14 | -1,408.85 | 0.64 | 1.28 | 129.81 |
| 1 | -3,432.40 | 6 | 2 | 4 | 33.33 | 480.43 | -1,098.32 | 0.44 | 0.22 | -572.07 |

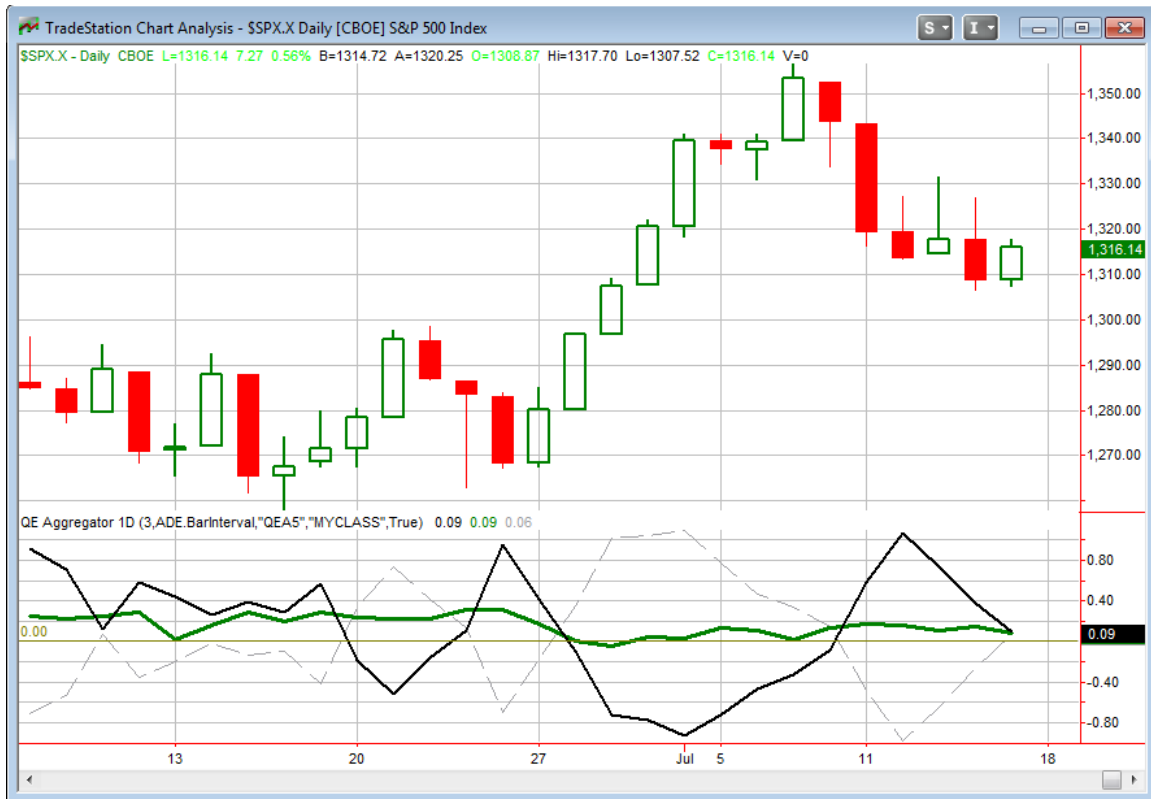
I'm not inclined to include this study in the Active Studies list because of the low number of instances. It does appear to hint at potential upside, though. Below I have listed all 6 instances assuming a 9-day holding period.

After closing in the bottom 25% of the daily range the last 3 days, SPY closes in the top 25% of its daily range today. Close > 200ma. Buy on close. Sell 9 days later. \$100k/trade. 1993 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|-----------|--------|----------|----------|-----------------|
| 05/08/98 | Buy | \$111.13 | 0.50% | \$1,483.35 |
| 05/21/98 | Sell | \$111.69 | | (\$1,168.70) |
| 08/05/98 | Buy | \$108.47 | 1.76% | \$1,952.52 |
| 08/18/98 | Sell | \$110.38 | | (\$2,735.37) |
| 09/29/03 | Buy | \$100.93 | 3.61% | \$4,247.10 |
| 10/10/03 | Sell | \$104.57 | | (\$1,663.20) |
| 03/30/05 | Buy | \$118.18 | 0.44% | \$913.68 |
| 04/12/05 | Sell | \$118.70 | | (\$1,218.24) |
| 09/25/07 | Buy | \$151.39 | 2.40% | \$3,108.60 |
| 10/08/07 | Sell | \$155.02 | | \$0.00 |
| 10/29/09 | Buy | \$106.65 | 3.28% | \$3,907.29 |
| 11/11/09 | Sell | \$110.15 | | (\$3,345.09) |

While I am not including this in the Active List or the Aggregator, it does appear worth keeping an eye on moving forward.

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



With the outstanding bullish studies near the end of their influence the green Aggregator line has begun to dip a little. It is still squarely positive though. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line is also above 0. A positive Differential reading 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 combination has offered an upside edge. It can be seen on the Aggregator chart whenever both lines are above 0. Due to this the Aggregator System remained long at the close.

Without any bearish short-term studies the green Aggregator line is again set to close above 0 on Monday. This could easily change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,323.47. This is about 0.6% above Friday's close. So a close higher of this amount would flip the Differential line negative and remove the Aggregator long signal.

Aggregator values over the next few days are going to be largely dependent on what new studies emerge. I've been slow to ramp up my exposure over the last few days since evidence, while bullish, has been underwhelming. I intend to hold tight again on Monday and will only consider increasing my position in the next few days if additional compelling bullish evidence emerges.

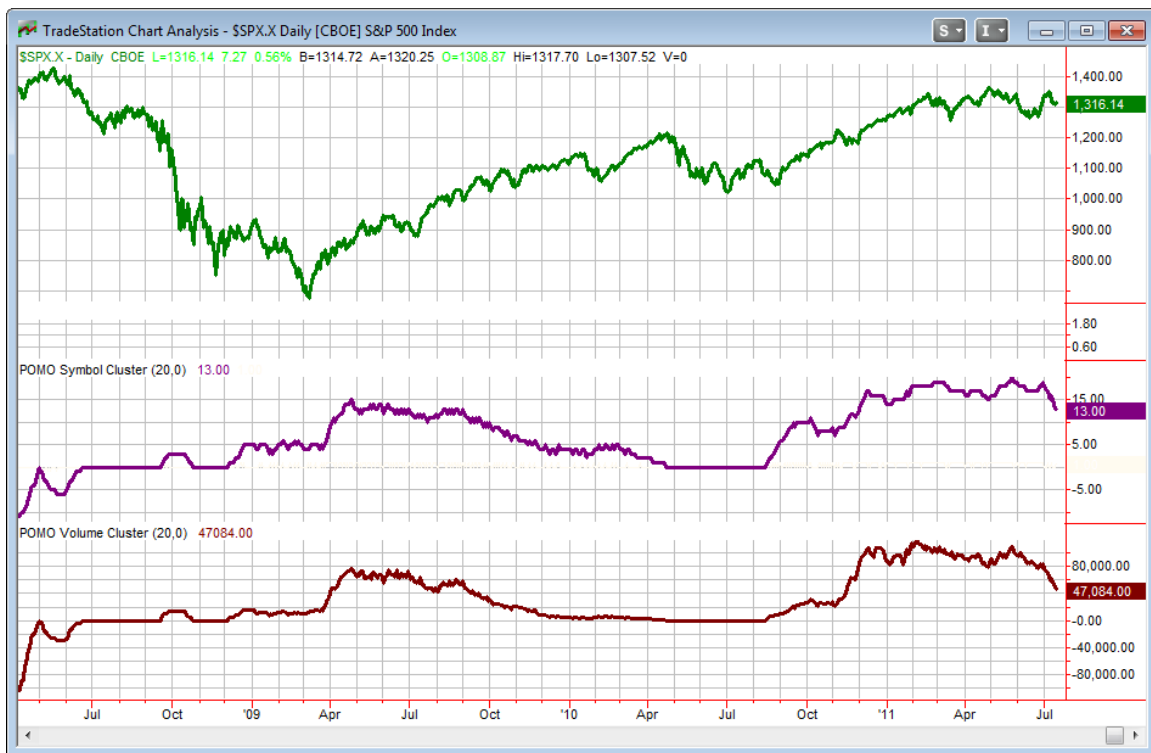
Intermediate-term Outlook (2 weeks – 2 months)– updated 7/11 – mildly bullish

It was a fairly tough week for the market. After entering the week close to new highs, the SPX pulled back near the middle of its May-June trading range. Not much showed up with intermediate-term implications.

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>



Even with QE2 now over there were 2 days of POMO buying this past week. In looking at the upcoming schedule it appears 2 days a week may be par for the course for a while. So even without QE2, there will still be a decent amount of liquidity pumping occurring. It certainly isn't at the levels that the market was accustomed to, but it does not appear the POMO indicators above will be hitting 0 any time soon. The "Days" indicator may even settle in around 7-8, which is far higher than I anticipated. Below is a copy of the upcoming schedule.

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

I had been considering the end of QE2 as a strongly negative market influence, but perhaps I should be considering it mildly bearish to neutral at this point. After being used to massive amounts of liquidity, I certainly don't think the current POMO schedule will act as a positive. I thought I might be phasing out this chart for a while, but I think it will still be important to monitor for a while.

There remain a number of intermediate-term market positives that can be pointed to. The Intermediate-Term Active List at the top of the letter shows there is still a high-probability Follow-Through Day signal active, the Nasdaq is leading the SPX, breadth has issued bullish intermediate-term signals, and price action has as well. The combination of evidence is enough to keep me slightly favoring the bull side for the time being.

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.

No new trade ideas tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------------------------|
| SPY(1/4) | 7/12/2011 | \$131.69 | \$131.69 | 0.00% | | sell on SPX close > 1,323.46 |
| | | | | | | |
| | | | | | | |

Should we rally and close above the Differential pivot I will exit the SPY trade idea at the close.

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