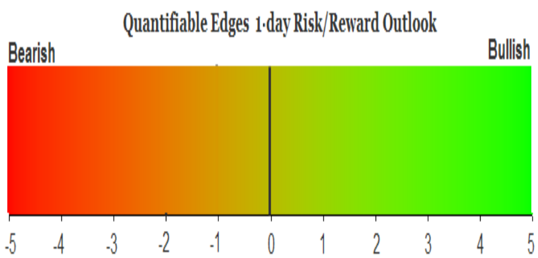
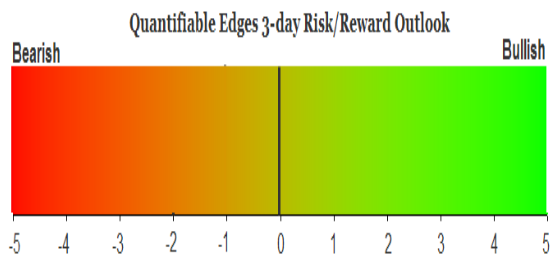
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2011 Volume 4 Issue 138

Market Overview





Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

Tonight's Research Points

- A good looking start to a potential rally, but nothing clearly compelling from a studies standpoint.

Short-term Outlook
The Bottom Line

A nice rally today moved the SPX to overbought and the Aggregator System to neutral. I took profits and am waiting for the next substantial edge before building new positions.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
None				
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	
Dropped Tonight				
July 13, 2011	Pullback slowing	1-5 days	Bullish	2.50%

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

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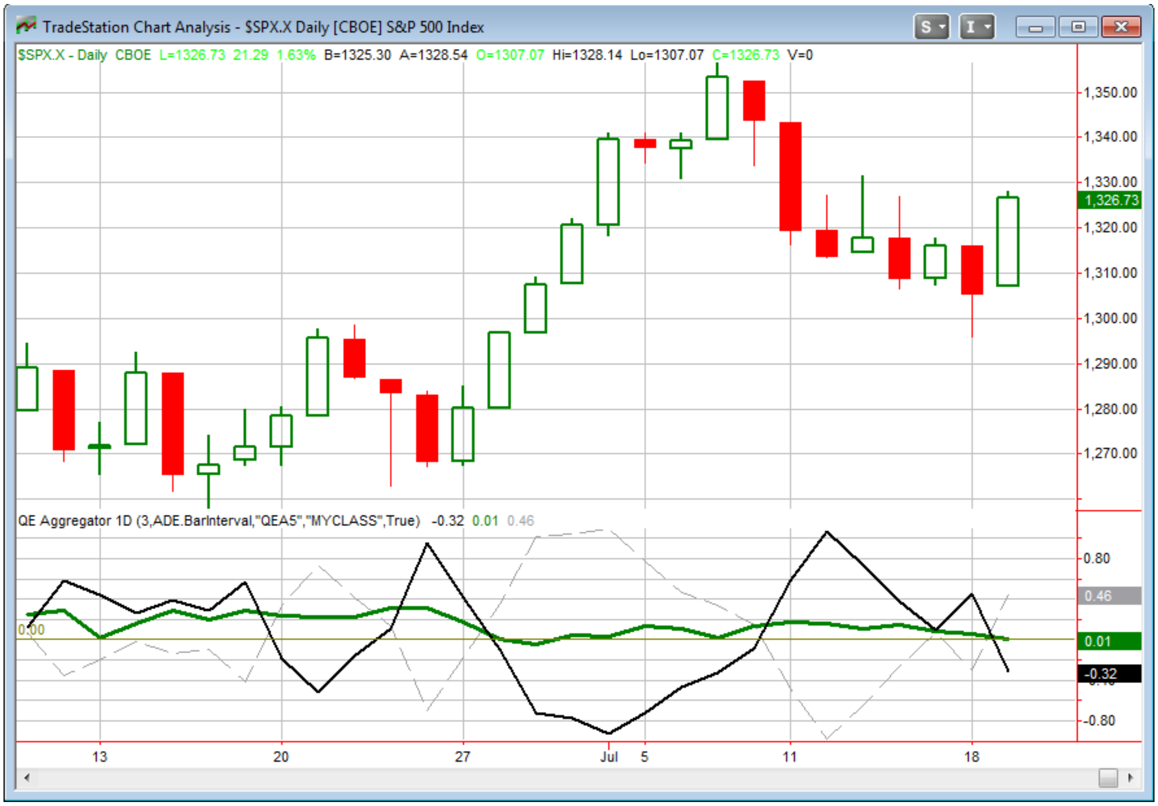
The Evidence

Good news and an oversold market in a long-term uptrend are often a nice combination when you're on the long side. Tuesday was such a day. It was earnings that gapped the market up this morning and congress that provided the excuse to push it higher. In the end the indices all looked good. The SPX gained 1.6%, the Nasdaq rallied 2.2%, and the Russell 2000 rose 2.3%. Breadth was also very strong as the NYSE Up Issues % came in at 79% and the Up Volume % was 85%. Total NYSE Volume rose slightly from Monday's level.

Only one study triggered in the Quantifinder tonight and it again showed fairly neutral results. I actually looked at the bounce a number of different ways tonight. Here are some general findings: 1) had the SPX closed below its 10ma that would have suggested there is more room to the upside and implications of today's jump would have been bullish, 2) the close above the 10ma weakened possible implications and generally turned results neutral, 3) that fact that it was SO strong actually improved the outlook. (Not only did it close > 10ma, but also at a 5-day high, a 7-day high, and it posted the highest percent gain in over ten days. These observations all appear moderately favorable.)

So while nothing overtly bullish appeared, no bearish red flags were raised either. With the last short-term study expiring today that leaves us with just the intermediate-term studies left to help form the bias. As I discussed last night, a lack of anything on the short-term list would still leave us with bullish expectations thanks to the bullish tilt of the intermediate-term studies.

I have updated the Aggregator chart below.



With just the intermediate-term studies left the green Aggregator line is now only mildly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, Tuesday's strong rally caused the Differential Line to drop down below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are positive and the SPX is overbought versus recent expectations. This is considered a neutral configuration. It can be seen on the Aggregator chart whenever both lines are on opposite sides of 0. Due to this the Aggregator System changed from long to flat at the close.

Without any bearish short-term studies the green Aggregator line is again set to close above 0 on Wednesday. This is could easily change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,320.41. This is about 0.5% below Tuesday's close. So it would take a decline of at least this much to flip the Differential Line back to positive and possibly trigger another long signal.

The Aggregator is now neutral and so am I. Profits were taken on the open SPY trade idea at the close as per the instructions in last night's letter. I await the next favorable entry trigger before taking on exposure again. Note for anyone trading the Aggressive VIX system, the fact that the VIX:VXV ratio was at 0.94 at 4pm means that the system remains 50% long XIV. (The conservative VIX system went flat with the Aggregator.)

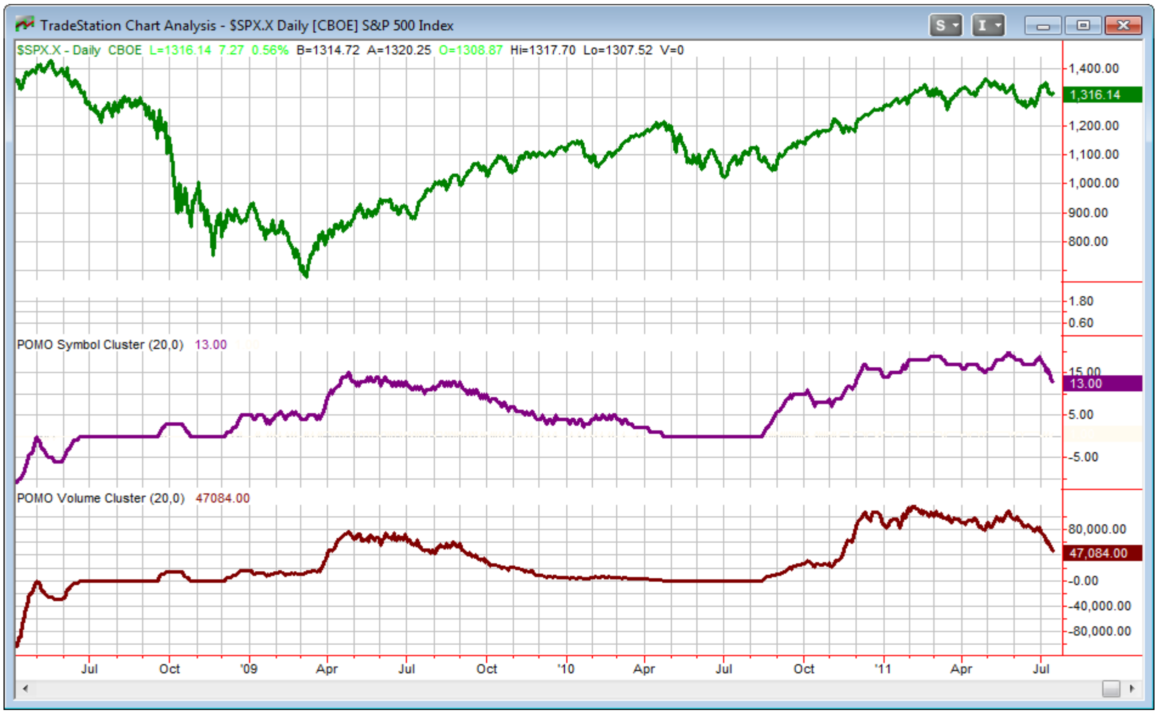
Intermediate-term Outlook (2 weeks – 2 months)– updated 7/11 – mildly bullish

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. A few triggers did appear on the list tonight, but I typically wait until the Aggregator System is also in my favor before taking most numbered systems trades.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	*7/12/2011*	*$131.69*	*$132.73*	*0.79%*		*sold on close*