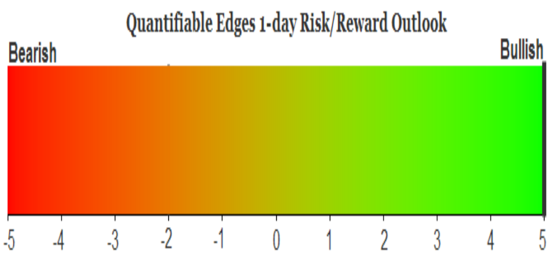
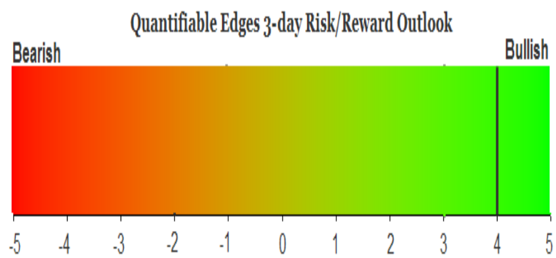
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2011 Volume 4 Issue 144

Market Overview





Signals Overview

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

Tonight's Research Points

- Many, many studies suggesting Wednesday's selloff was extreme enough to trigger an immediate reaction to the upside.

Short-term Outlook
The Bottom Line

Wednesday's selling triggered a large number of indicators suggesting a bounce. I am looking to get more aggressively long.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 28, 2011	Extermely low TICK	1 day	Bullish	
July 28, 2011	50ma cross. 90% down vol.	1 day	Bullish	
July 28, 2011	2% drop. Weak close.	1-3 days	Bullish	
July 28, 2011	system 110524	1-6 days	Bullish	
July 28, 2011	3 dn. Big drop.	1-5 days	Bullish	
July 22, 2011	Up Issue% > 75% 2 of 3. Close 10 high.	1-6 days	Bullish	2.70%
Active - Long Term				
July 22, 2011	Up Issue% > 75% 2 of 3. Close 10 high.	1-20 days	Bullish	5.50%
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 26, 2011	***SPY unfilled gap from 10-high***	***1-2 days***	***Bearish***	***-1.00%***

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

The Evidence

A sizable gap down never even began to fill and the market got hammered from open to close on Wednesday. In the end the SPX lost 2.0%, the Nasdaq was down 2.7% and the Russell 2000 fell 3.0%. Breadth was extremely negative as the NYSE Up Issues % came in at 8% and the Up Volume % was 6%. Total NYSE volume spiked to the highest level in over a month.

Many different studies appeared tonight in the Quantifinder. I have highlighted below many of the most compelling. They examine such things as the extremely low closing TICK, the fact that we sold off hard and made new 20-day lows, that the market broke down below the 50ma on extremely negative breadth, and more.

The extremely low closing TICK was especially notable on Wednesday. It finished below -1000, which suggests many people were bailing hard and indiscriminately at the end of the day. A few TICK-related studies triggered. The clip below is from the 6/9/11 Subscriber Letter. All results have been updated.

So I ran some tests to see how the market performed when the TICK closed at long-term lows while the SPX was closing at a short-term low. Results suggested a substantial upside edge for the following day. Below is a results table ...

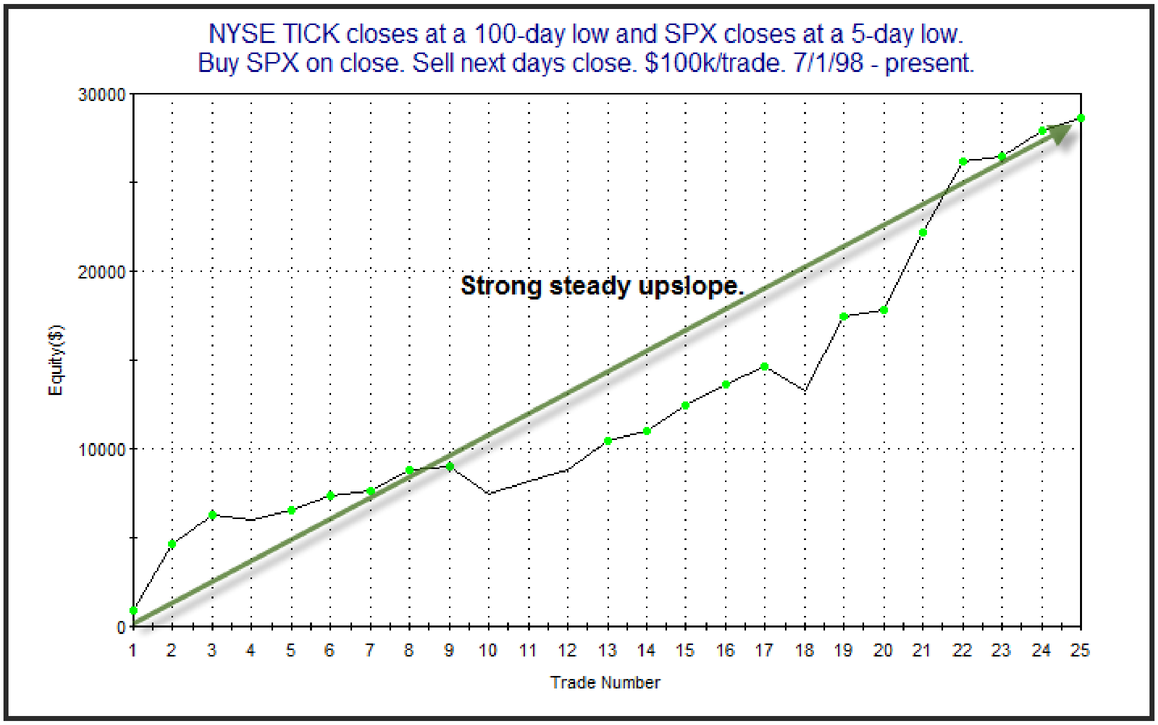
NYSE TICK closes at a 100-day low and SPX closes at a 5-day low.
Buy SPX on close. Sell next days close. $100k/trade. 7/1/98 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$28,664.64	Profit Factor	10.05
Gross Profit	$31,830.75	Gross Loss	($3,166.11)
Total Number of Trades	25	Percent Profitable	88.00%
Winning Trades	22	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	$1,146.59	Ratio Avg. Win:Avg. Loss	1.37
Avg. Winning Trade	$1,446.85	Avg. Losing Trade	($1,055.37)
Largest Winning Trade	$4,342.48	Largest Losing Trade	($1,506.56)

Everything above suggests a strong upside edge for the next day. Below is an equity curve to see how the edge has played out over time.



The strong steady upslope acts as confirmation of the setup's bullish tendencies.

I also did a quick filter to see the instances that occurred while the SPX was above the 200ma. Below are those results.

NYSE TICK closes at a 100-day low and SPX closes at a 5-day low. SPX > 200ma. Buy SPX on close. Sell next days close. $100k/trade. 7/1/98 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
08/04/98	Buy	$1,072.12	0.87%	$1,179.24
08/05/98	Sell	$1,081.42		($1,374.54)
05/25/99	Buy	$1,284.38	1.59%	$1,574.65
05/26/99	Sell	$1,304.76		($450.45)
08/30/99	Buy	$1,324.02	(0.27%)	$694.50
08/31/99	Sell	$1,320.41		($1,283.25)
07/17/03	Buy	$981.73	1.18%	$1,264.52
07/18/03	Sell	$993.32		($3.03)
02/04/04	Buy	$1,126.53	0.18%	$408.32
02/05/04	Sell	$1,128.61		($183.92)
03/10/04	Buy	$1,123.91	(1.52%)	$180.40
03/11/04	Sell	$1,106.79		($1,587.52)
05/10/04	Buy	$1,087.12	0.77%	$779.87
05/11/04	Sell	$1,095.49		$0.00
02/22/05	Buy	$1,184.17	0.56%	$785.40
02/23/05	Sell	$1,190.80		$0.00
02/27/07	Buy	$1,399.14	0.55%	$1,189.25
02/28/07	Sell	$1,406.82		($176.79)
03/05/07	Buy	$1,374.12	1.55%	$1,712.16
03/06/07	Sell	$1,395.41		$0.00
06/07/07	Buy	$1,490.72	1.14%	$1,141.68
06/08/07	Sell	$1,507.67		($221.77)
07/27/07	Buy	$1,458.95	1.03%	$1,287.24
07/30/07	Sell	$1,473.91		($314.84)
02/04/10	Buy	$1,063.11	0.29%	$377.88
02/05/10	Sell	$1,066.19		($1,749.34)
06/08/11	Buy	$1,279.56	0.74%	$1,168.44
06/09/11	Sell	$1,289.00		$0.00

The consistency is very good. The volatility and average trade are dampened a bit, though. The average trade now gains about $600 instead of $1,000. I decided this TICK study was worth including in the Active Studies List.

Another TICK-related study involved the TICK Tomoscillator. It was last seen in the 6/13/11 letter. I have updated that study below.

TICK Tomoscillator < -200 and SPX closes at 5-day low. SPX > 200ma. Buy on close. Sell X days later. $100k/trade. 1998 - 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	31,997.91	20	16	4	80.00	2,301.32	-1,205.79	1.91	7.63	1,599.90
9	32,708.07	20	17	3	85.00	2,223.54	-1,697.36	1.31	7.42	1,635.40
8	34,557.36	20	17	3	85.00	2,188.86	-884.41	2.47	14.02	1,727.87
7	27,269.69	20	16	4	80.00	2,011.61	-1,229.03	1.64	6.55	1,363.48
6	23,335.30	21	17	4	80.95	1,903.75	-2,257.13	0.84	3.58	1,111.20
5	20,193.35	21	15	6	71.43	1,871.87	-1,314.12	1.42	3.56	961.59
4	19,420.63	21	15	6	71.43	1,732.32	-1,094.02	1.58	3.96	924.79
3	27,605.89	24	19	5	79.17	1,812.79	-1,367.43	1.33	5.04	1,150.25
2	29,388.72	24	22	2	91.67	1,372.89	-407.47	3.37	37.06	1,224.53
1	21,139.34	30	23	7	76.67	1,186.99	-880.20	1.35	4.43	704.64

Here again we see a very strong short-term bullish inclinations. The extremely weak close was not only evident by looking at the TICK. This next study used breadth and a dip below the 50ma to identify an edge. It last appeared in the 4/19/11 letter. Results have been updated.

SPX crosses down through the 50ma on 90% downside volume and the highest NYSE volume in 10 days. Buy on close. Sell next days close. $100k/trade. 1995 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$9,535.26	Profit Factor	n/a
Gross Profit	$9,535.26	Gross Loss	$0.00
Total Number of Trades	14	Percent Profitable	100.00%
Winning Trades	14	Losing Trades	0
Even Trades	0		
Avg. Trade Net Profit	$681.09	Ratio Avg. Win:Avg. Loss	n/a
Avg. Winning Trade	$681.09	Avg. Losing Trade	$0.00
Largest Winning Trade	$2,753.79	Largest Losing Trade	$0.00

14 for 14 suggests an immediate bounce is strongly favored.

This next study looks at the absolute size of the drop and the very weak close. It is from the 6/2/11 letter and has also been updated.

SPY drops more than 2%, closes at a 10-day low and > 200ma. Close is in the bottom 10% of the daily range. 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	35,057.30	19	11	8	57.89	4,645.48	-2,005.37	2.32	3.19	1,845.12
9	45,069.11	21	15	6	71.43	3,873.23	-2,171.57	1.78	4.46	2,146.15
8	47,190.39	21	16	5	76.19	3,928.83	-3,134.19	1.25	4.01	2,247.16
7	45,979.30	21	17	4	80.95	3,430.15	-3,083.31	1.11	4.73	2,189.49
6	44,054.64	21	16	5	76.19	3,108.90	-1,137.56	2.73	8.75	2,097.84
5	37,291.27	21	15	6	71.43	2,964.04	-1,194.88	2.48	6.20	1,775.77
4	30,192.73	21	16	5	76.19	2,424.17	-1,718.81	1.41	4.51	1,437.75
3	31,682.07	21	16	5	76.19	2,319.91	-1,087.29	2.13	6.83	1,508.67
2	25,838.62	21	16	5	76.19	1,948.17	-1,066.41	1.83	5.85	1,230.41
1	19,568.35	21	18	3	85.71	1,171.43	-505.79	2.32	13.90	931.83

The June 1, 2011 instance was the 1st one that failed to post a close above the entry price in one of the next two days.

More bullish evidence.

In the 5/24/11 letter I looked at large losses that closed at intermediate-term lows. One study from that letter is updated below.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. Buy on close. Sell X days later. $100k/trade. 1991 - 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	53,245.93	53	36	17	67.92	2,396.90	-1,943.68	1.23	2.61	1,004.64
9	65,641.52	54	41	13	75.93	2,127.87	-1,661.63	1.28	4.04	1,215.58
8	62,798.21	54	38	16	70.37	2,312.76	-1,567.91	1.48	3.50	1,162.93
7	74,862.83	55	43	12	78.18	2,169.18	-1,534.33	1.41	5.07	1,361.14
6	68,604.24	56	41	15	73.21	2,196.79	-1,430.95	1.54	4.20	1,225.08
5	59,275.87	56	35	21	62.50	2,243.73	-916.90	2.45	4.08	1,058.50
4	40,035.64	58	37	21	63.79	1,769.74	-1,211.65	1.46	2.57	690.27
3	31,786.58	58	40	18	68.97	1,377.68	-1,295.59	1.06	2.36	548.04
2	32,167.59	59	40	19	67.80	1,204.88	-843.56	1.43	3.01	545.21
1	14,288.81	61	40	21	65.57	726.47	-703.32	1.03	1.97	234.24

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.
Buy on close. Sell on close > 10ma. $100k/trade. 1991 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$68,471.87	Profit Factor	7.39
Gross Profit	$79,184.91	Gross Loss	($10,713.04)
Total Number of Trades	55	Percent Profitable	83.64%
Winning Trades	46	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$1,244.94	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	$1,721.41	Avg. Losing Trade	($1,190.34)
Largest Winning Trade	$7,070.28	Largest Losing Trade	($3,275.60)
Max. Consecutive Winning Trades	19	Max. Consecutive Losing Trades	1

As you can see, waiting for a reversion to exit has often been a good way to go.

The fact that Wednesday was the 3rd down day in a row was also notable. The excerpt below is from the 6/27/11 letter. Unless otherwise noted the stats have all been updated.

I've discussed 3-day pullbacks many times before and several studies associated with them came up tonight. They tend to provide a nice upside edge under the right conditions. It's just a matter of determining whether the conditions are right. So let's take a look at 3-day pullbacks a few different ways to determine the possible upside edge in this case.

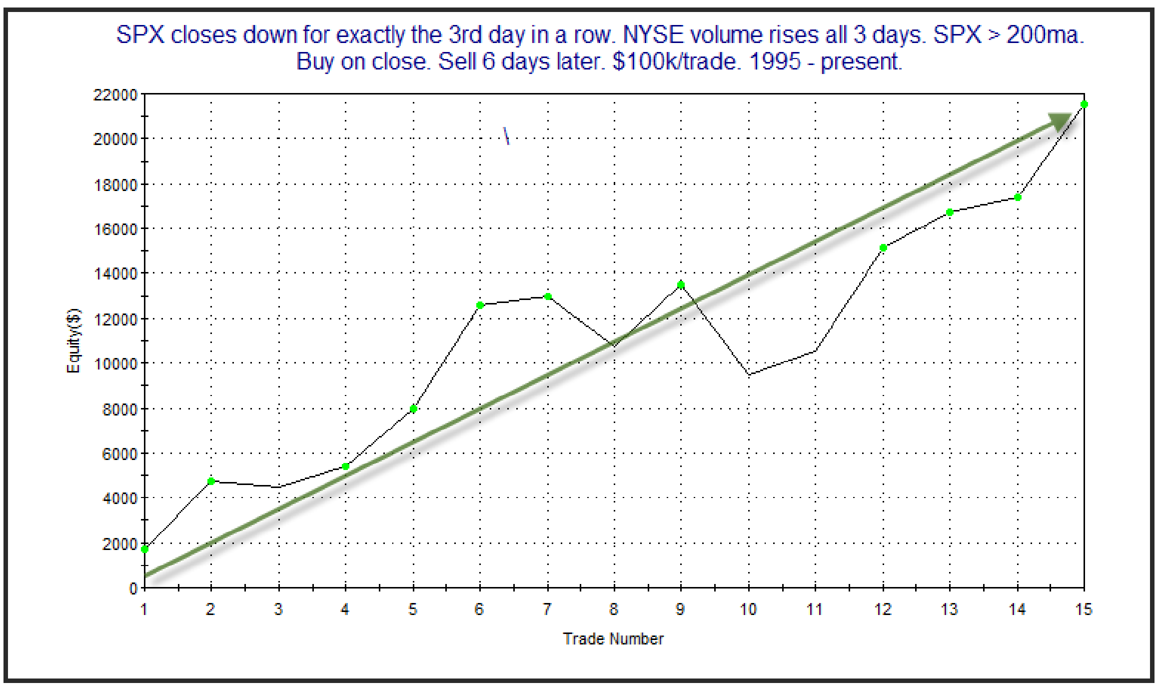
One aspect of the pullback the last three days that especially sticks out is that volume has increased each day. I decided to look at other times since 1995 in which this was the case. Those results are below.

SPX closes down for exactly the 3rd day in a row. NYSE volume rises all 3 days.
Buy on close. Sell X days later. $100k/trade. 1995 - 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	22,377.81	16	12	4	75.00	2,901.70	-3,110.66	0.93	2.80	1,398.61
9	25,400.87	16	12	4	75.00	2,844.92	-2,184.54	1.30	3.91	1,587.55
8	25,581.26	16	12	4	75.00	2,888.08	-2,268.94	1.27	3.82	1,598.83
7	26,568.77	16	13	3	81.25	2,683.41	-2,771.85	0.97	4.20	1,660.55
6	26,955.48	16	13	3	81.25	2,578.35	-2,187.67	1.18	5.11	1,684.72
5	23,813.84	16	11	5	68.75	2,877.47	-1,567.67	1.84	4.04	1,488.37
4	18,305.41	16	12	4	75.00	2,376.28	-2,552.50	0.93	2.79	1,144.09
3	16,622.45	16	11	5	68.75	2,187.18	-1,487.31	1.47	3.24	1,038.90
2	15,901.61	16	13	3	81.25	1,634.22	-1,781.10	0.92	3.98	993.85
1	3,471.57	16	12	4	75.00	1,036.29	-2,240.98	0.46	1.39	216.97

15 of 16 instances closed above the entry price at some point in the next 4 days. The one that didn't was on 10/24/97.

*It appears the continually rising volume may suggest the selloff is becoming washed out and overdone. All but one instance managed a short-term rebound, and stats across the board appear to suggest a substantial bullish edge. Below is an equity curve assuming a 6-day exit strategy that shows how this edge has played out over time (*not updated*).*



There's certainly some choppiness in the curve, but it never deviates too far from the uptrend arrow. This seems to confirm the upside edge.

The Quantifinder also identified a number of 3-day pullback studies… Rather than volume, the study below considers the fact that today's drop was especially large when examining the possibility that the pullback is getting overdone.

SPX closes down for exactly the 3rd day in a row. Today is the largest drop of the decline.
The pullback did not immediately follow a 20-day high. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1988 - 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	63,213.54	50	36	14	72.00	2,718.16	-2,474.29	1.10	2.82	1,264.27
9	73,461.12	50	39	11	78.00	2,531.61	-2,297.43	1.10	3.91	1,469.22
8	70,765.47	51	40	11	78.43	2,378.86	-2,217.16	1.07	3.90	1,387.56
7	54,205.27	51	37	14	72.55	2,204.37	-1,954.03	1.13	2.98	1,062.85
6	46,035.96	52	38	14	73.08	2,090.74	-2,386.59	0.88	2.38	885.31
5	56,508.82	53	35	18	66.04	2,119.76	-982.38	2.16	4.20	1,066.20
4	46,142.24	54	38	16	70.37	1,700.36	-1,154.46	1.47	3.50	854.49
3	48,102.34	54	38	16	70.37	1,669.30	-958.19	1.74	4.14	890.78
2	34,271.66	54	37	17	68.52	1,366.21	-957.53	1.43	3.11	634.66
1	16,609.53	54	37	17	68.52	749.78	-654.85	1.14	2.49	307.58

Results here are also quite impressive. As I mentioned earlier, though the SPX is above its 200ma, it is just barely so. Therefore I thought it would be interesting to see if this 3-day pullback setup also suggests an upside edge while under the 200ma. (Not updated.)

SPX closes lower for exactly the 3rd day in a row. Today is the largest drop of the decline.
The pullback did not immediately follow a 20-day high. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1988 - 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	33,788.44	24	16	8	66.67	3,398.87	-2,574.19	1.32	2.64	1,407.85
9	27,875.43	24	15	9	62.50	3,415.18	-2,594.69	1.32	2.19	1,161.48
8	23,183.63	24	15	9	62.50	3,210.41	-2,774.72	1.16	1.93	965.98
7	16,205.56	24	13	11	54.17	3,266.72	-2,387.43	1.37	1.62	675.23
6	3,522.04	24	13	11	54.17	3,265.63	-3,539.20	0.92	1.09	146.75
5	10,874.68	24	15	9	62.50	2,343.16	-2,696.97	0.87	1.45	453.11
4	13,154.03	24	13	11	54.17	2,425.53	-1,670.71	1.45	1.72	548.08
3	12,485.20	24	11	13	45.83	2,275.72	-965.21	2.36	2.00	520.22
2	41.91	24	13	11	54.17	1,360.60	-1,604.18	0.85	1.00	1.75
1	3,870.11	24	15	9	62.50	1,031.77	-1,289.61	0.80	1.33	161.25

It appears here that a bounce is still favored, though the edge isn't as strong.

With both the increasing volume and the increasing size of the drop suggesting the pullback is ready to reverse, I decided to see how results might look at times like now when the combination was in force.

SPX closes down for at least the 3rd day in a row. Today is the largest decline of the last 3 days. NYSE volume SPX > 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - 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	29,707.44	12	11	1	91.67	2,864.05	-1,797.12	1.59	17.53	2,475.62
4	23,879.49	12	10	2	83.33	2,739.28	-1,756.65	1.56	7.80	1,989.96
3	19,584.46	12	10	2	83.33	2,070.54	-560.45	3.69	18.47	1,632.04
2	18,268.71	12	10	2	83.33	1,925.36	-492.44	3.91	19.55	1,522.39
1	11,140.87	12	9	3	75.00	1,461.20	-669.99	2.18	6.54	928.41

All 12 instances closed above the entry price on either day 1 or day 2.

Instances are fairly light, but the statistics are overwhelmingly bullish. This would seem to suggest an upside edge. For those who might want to take a closer look, I have listed below all 12 instances assuming a 5-day exit strategy.

SPX closes down for at least the 3rd day in a row. Today is the largest decline of the last 3 days. NYSE volume SPX > 200ma. Buy on close. Sell 5 days later. $100k/trade. 1995 - present.

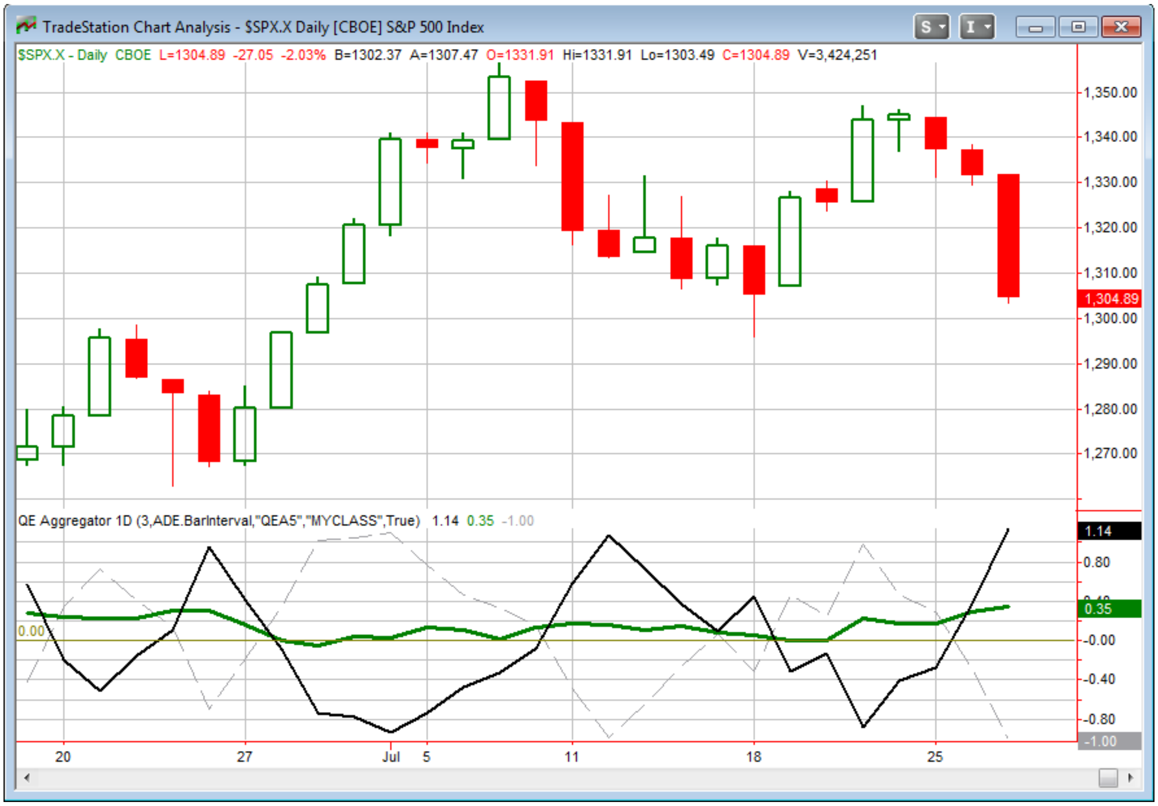
Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/27/97	Buy	$876.97	7.07%	$7,073.70
11/03/97	Sell	$938.99		($2,473.80)
12/11/97	Buy	$954.94	0.04%	$2,013.44
12/18/97	Sell	$955.30		($825.76)
07/23/98	Buy	$1,139.74	0.27%	$904.80
07/30/98	Sell	$1,142.86		($1,766.10)
01/28/00	Buy	$1,360.16	4.72%	$5,412.22
02/04/00	Sell	$1,424.37		($738.03)
03/11/04	Buy	$1,106.79	1.40%	$1,707.30
03/18/04	Sell	$1,122.31		($376.20)
06/07/07	Buy	$1,490.72	2.16%	$2,393.91
06/14/07	Sell	$1,522.97		($221.77)
07/18/07	Buy	$1,546.17	(1.82%)	$577.92
07/25/07	Sell	$1,518.09		($2,716.16)
09/01/09	Buy	$998.04	3.54%	$3,830.00
09/09/09	Sell	$1,033.37		($607.00)
05/06/10	Buy	$1,128.15	2.60%	$3,996.96
05/13/10	Sell	$1,157.44		($2,992.00)
03/16/11	Buy	$1,256.88	3.23%	$3,452.30
03/23/11	Sell	$1,297.54		$0.00
05/05/11	Buy	$1,335.10	1.01%	$1,801.16
05/12/11	Sell	$1,348.65		($227.18)
06/24/11	Buy	$1,268.45	5.61%	$5,659.68
07/01/11	Sell	$1,339.67		($71.76)

The AVERAGE run-up (3.2%) is larger than the MAX drawdown (3.0%).

In addition to the stats shown in the stats table earlier, the trade breakdown above suggests a very positive risk/reward setup.

In all, evidence from Wednesday is overwhelmingly bullish.

I have updated the Aggregator chart below.



Tonight's numerous bullish studies caused the green Aggregator line to rise to a very high level. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line is also about as far above 0 as it has been in a long time. 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 provided a bullish 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.

With the current studies the green Aggregator line is again set to close above 0 on Thursday. This is highly unlikely to change. Meanwhile, the Differential Pivot will be 1,344.29. This is about 3% above Wednesday's close. This means that it would take a rally of at least this much in order the flip the Differential Line back to negative. Obviously this is a huge longshot. The implications are that a multi-day move higher is being suggested by the Aggregator.

As far as very-short term implications, tonight's studies showed a strong upside propensity. The studies looked at price action, breadth, volume, TICK, market environment, and more. With a diversified group all pointing one way I have quickly become quite bullish. I will look to quickly add to my small long position tomorrow. Details in the trade ideas section further down.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/25 – moderately bullish

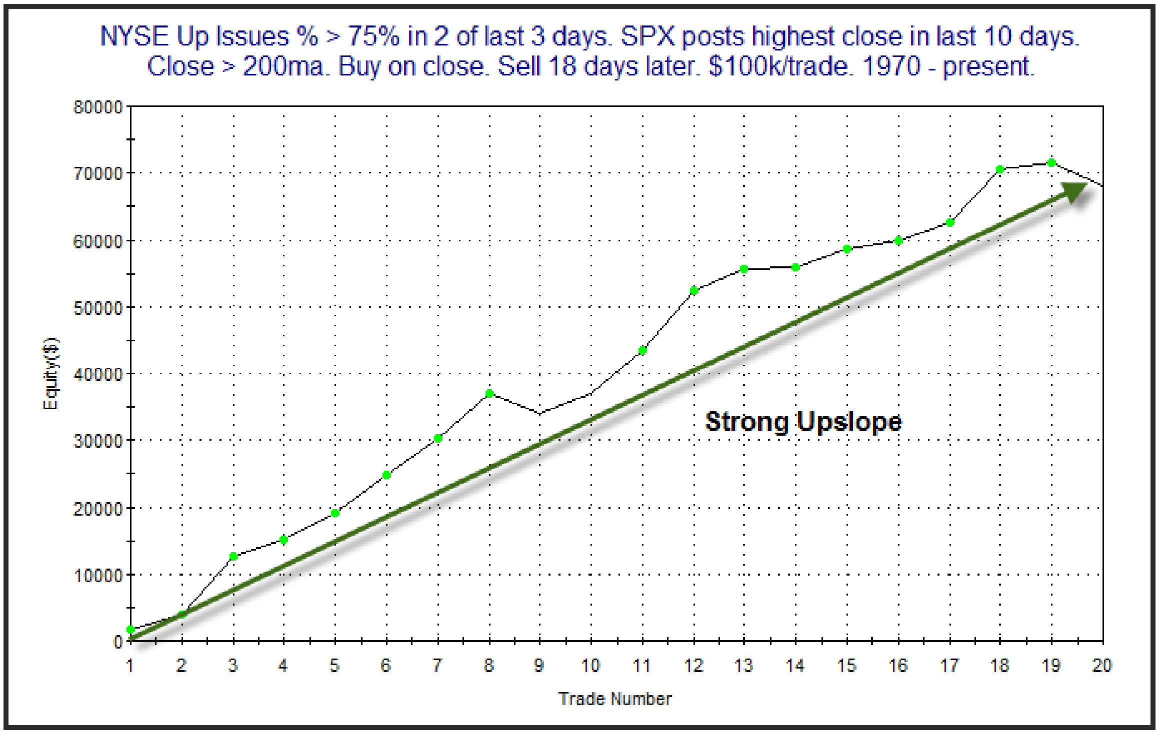
After a dip to new short-term lows on Monday the market gathered itself and finished out with a nice week. The SPX is now less than 1% from its July high and within 2% of its May high. An intermediate-term study triggered on Thursday that suggested that these levels should be taken out. Below I have copied the results from Thursday night's letter.

NYSE Up Issues % > 75% in 2 of last 3 days. SPX posts highest close in last 10 days. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1970 - 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
20	72,673.56	19	16	3	84.21	4,912.07	-1,973.20	2.49	13.28	3,824.92
19	70,576.96	20	17	3	85.00	4,593.61	-2,504.78	1.83	10.39	3,528.85
18	68,169.46	20	18	2	90.00	4,150.05	-3,265.74	1.27	11.44	3,408.47
17	65,698.31	20	18	2	90.00	4,089.68	-3,957.99	1.03	9.30	3,284.92
16	64,695.52	20	18	2	90.00	4,015.19	-3,788.93	1.06	9.54	3,234.78
15	54,962.15	20	16	4	80.00	4,043.82	-2,434.73	1.66	6.64	2,748.11
14	50,742.27	20	18	2	90.00	3,381.83	-5,065.35	0.67	6.01	2,537.11
13	48,932.78	21	17	4	80.95	3,442.08	-2,395.64	1.44	6.11	2,330.13
12	48,351.39	22	17	5	77.27	3,423.88	-1,970.90	1.74	5.91	2,197.79
11	50,348.14	22	18	4	81.82	3,193.65	-1,784.37	1.79	8.05	2,288.55
10	45,265.78	22	18	4	81.82	3,002.75	-2,195.91	1.37	6.15	2,057.54
9	43,659.47	22	17	5	77.27	3,118.12	-1,869.70	1.67	5.67	1,984.52
8	38,392.06	22	18	4	81.82	2,516.31	-1,725.40	1.46	6.56	1,745.09
7	38,493.16	22	17	5	77.27	2,580.25	-1,074.22	2.40	8.17	1,749.69
6	39,010.37	23	20	3	86.96	2,145.86	-1,302.27	1.65	10.99	1,696.10
5	32,659.62	23	18	5	78.26	1,996.35	-654.95	3.05	10.97	1,419.98
4	25,157.02	24	19	5	79.17	1,497.08	-657.52	2.28	8.65	1,048.21
3	16,066.83	24	16	8	66.67	1,382.97	-757.59	1.83	3.65	669.45
2	10,142.47	27	17	10	62.96	1,072.59	-809.16	1.33	2.25	375.65
1	5,976.39	29	17	12	58.62	692.62	-483.18	1.43	2.03	206.08

All 29 instances posted a close above the entry price at some point in the next 6 days.

The intermediate-term implications appear strongly positive. I showed a short-term equity curve on Thursday. Today I have run an intermediate-term curve, which can be found below.

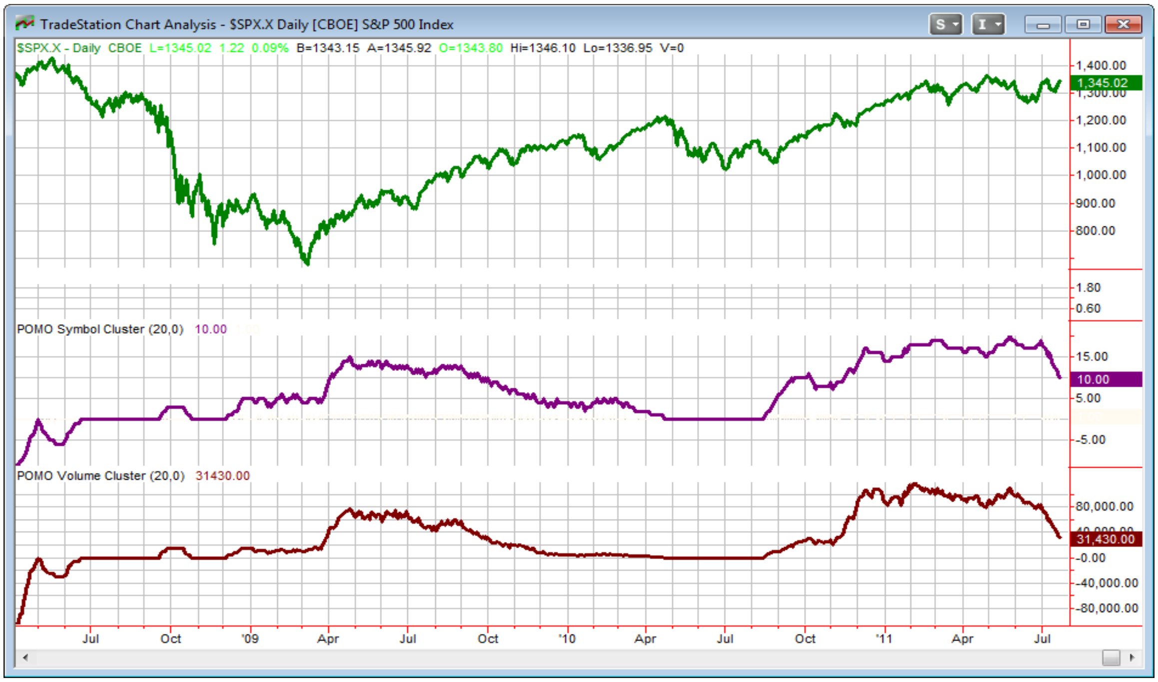


The strong upslope creates greater confidence in the upside edge.

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



There were again 2 days of POMO buying this past week. They were extremely light days from a volume perspective. 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 originally anticipated. Below is a link to the upcoming schedule.

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

With buying so light this past week it will be interesting to see where the POMO volume indicator begins to level off. Action over the next couple of weeks will be especially interesting as the QE2 program completely falls out of the backwards-looking calculation.

There remain a number of intermediate-term market positives that can be pointed to. Breadth seems to be the #1 indication of higher prices. Thursday's study created the 3rd active intermediate-term breadth-thrust study. The other 2 were from March 22nd and July 5th. There is also still a high-probability Follow-Through Day signal active, the Nasdaq is leading the SPX, and price action and momentum are providing positive indications as well. The big concern remains the rapidly weakening POMO activity. 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.

SPY buy ¼ index position @ $130.70 limit. Based on short-term outlook above. In case of a gap up I am placing this entry a little above Wednesday's close. That way I still may get filled even if it doesn't close the opening gap.

SPY buy ¼ index position @ $130.50 limit ON OPEN If not filled on open, buy at close if it closes below open and <= $130.60. Based on short-term outlook above. If the market gaps down even a little at the open, I will be ramping up quickly. If not I will wait until the close to try and put on this lot.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/26/2011	$133.33	$130.60	-2.05%		Aggregator