

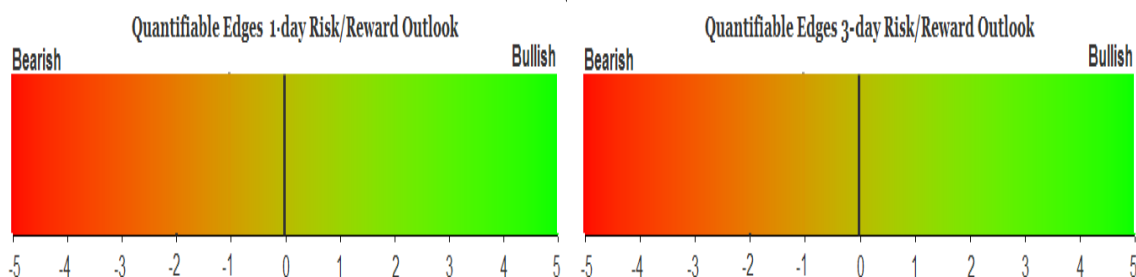
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2012

Volume 5 Issue 137

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- Choppy, range-bound market is again leaving us low on edges.

Short-term Outlook

The Bottom Line

There is very little to go on right now as action is not triggering compelling short-term edges. The SPX is overbought but that could wear off as early as Wednesday with just a flat move. I'm not inspired to get involved in a directional bet just yet.

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 16, 2012	POMO modestly bullish	int term	neutral	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
July 16, 2012	Low vol bounce from RSI(2)<5.	1-2 days	Bullish	1.30%

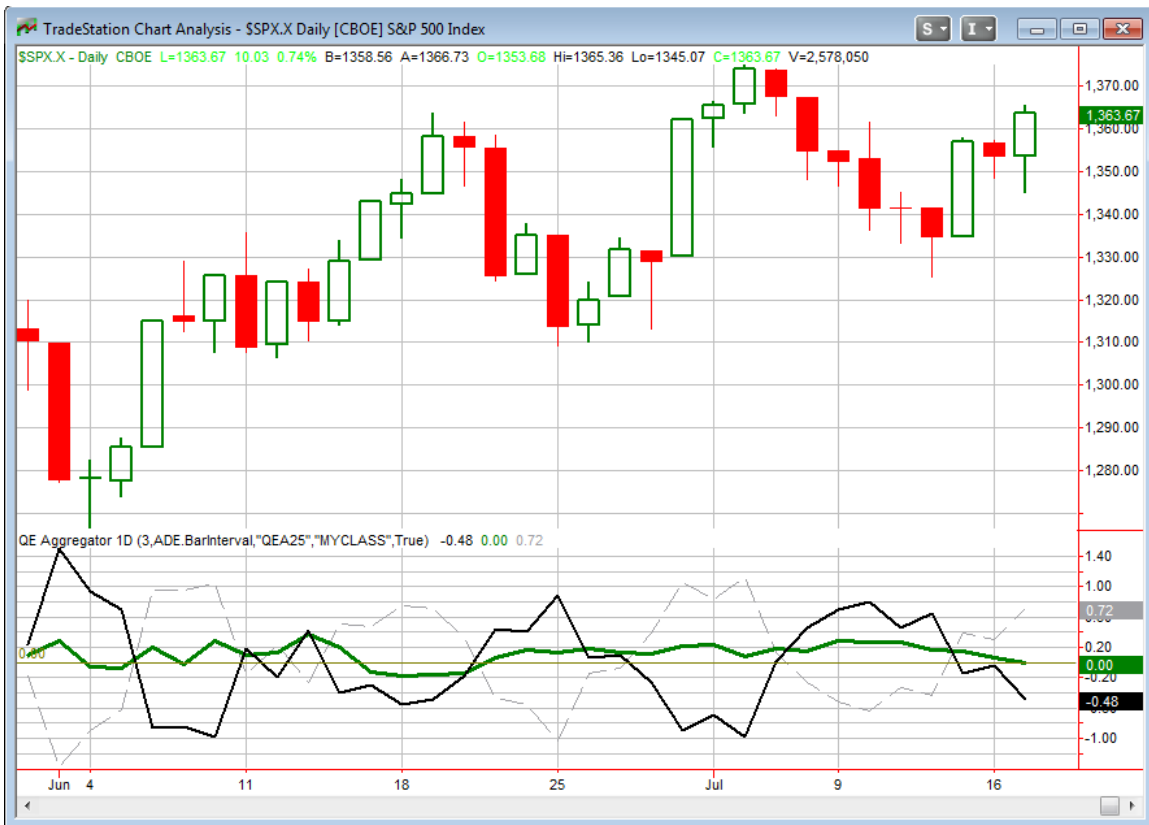
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

A gap up quickly reversed and the market turned negative. But the selling ended just before 11am EST and a decent rally ensued after that. The SPX finished up 0.7%, the Nasdaq gained 0.45% and the Russell 2000 rallied 0.35%. Breadth was positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 72%. Total NYSE volume rose from the last couple of days.

Overbought in an uptrend can persist for a while and often lacks strong edges. And that is where we seem to find ourselves at the moment. It was pointed out to me that the semis failed to participate in the market rally. We do have some studies that look at times the semis trade opposite the market. But tonight the difference was not so great as to trigger any of those and suggest an edge.

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



The green Aggregator line is nearly at 0 just now, only just above it thanks to the intermediate-term outlook. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. This means the SPX is overbought versus expectations. So net expectations are bullish but the SPX is overbought versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This meant the Aggregator System remained flat at the close. This was indicated as likely on the systems page before the bell.

I can't remember the last time we didn't have any short-term studies active. I suspect it has been a few years. Action in the next few days will have a strong influence on what studies emerge and the resulting expectations. The Differential Pivot will be slightly inverted at 1,364.65 on Wednesday. An inverted pivot means that the Differential Line will cross 0 on a flat close. So in order for the market to remain "overbought" versus recent expectations it will need to close up about 1 point. It's tough to anticipate a short signal possibly occurring when the market is in an uptrend, but a down day would have a pretty good chance of triggering a long signal.

I'm still not seeing a compelling edge here that would get me excited about putting additional capital to work. For now I am just looking to ride these summer doldrums with my XIV position and await a more favorable risk/reward scenario for index or other individual trades.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/16 – slightly bullish

The intermediate-term outlook was last updated in the 7/16/12 letter. You may use the link below to view it.

[2012-07-16 QE Subscriber Letter.pdf](#)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	7/11/2012	\$11.64	\$13.21	13.49%	\$11.70	Aggressive VIX

While I would not want to sit in a SPY trade without a clear directional edge, I have no problem sitting in this XIV trade without a clear directional edge. It is a contango play at this point, which allows it to profit even if the market (and the VIX) move sideways. If compelling bearish market evidence emerges I will likely look to take profits. No need yet.

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