

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2012

Volume 5 Issue 138

Market Overview



Signals Overview

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

Tonight's Research Points

- If SPY would've posted an unfilled gap up Wednesday the new 50-day high would be more short-term compelling.

Short-term Outlook

The Bottom Line

There is still very little to go on. I am still waiting for a more favorable trading opportunity.

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	

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

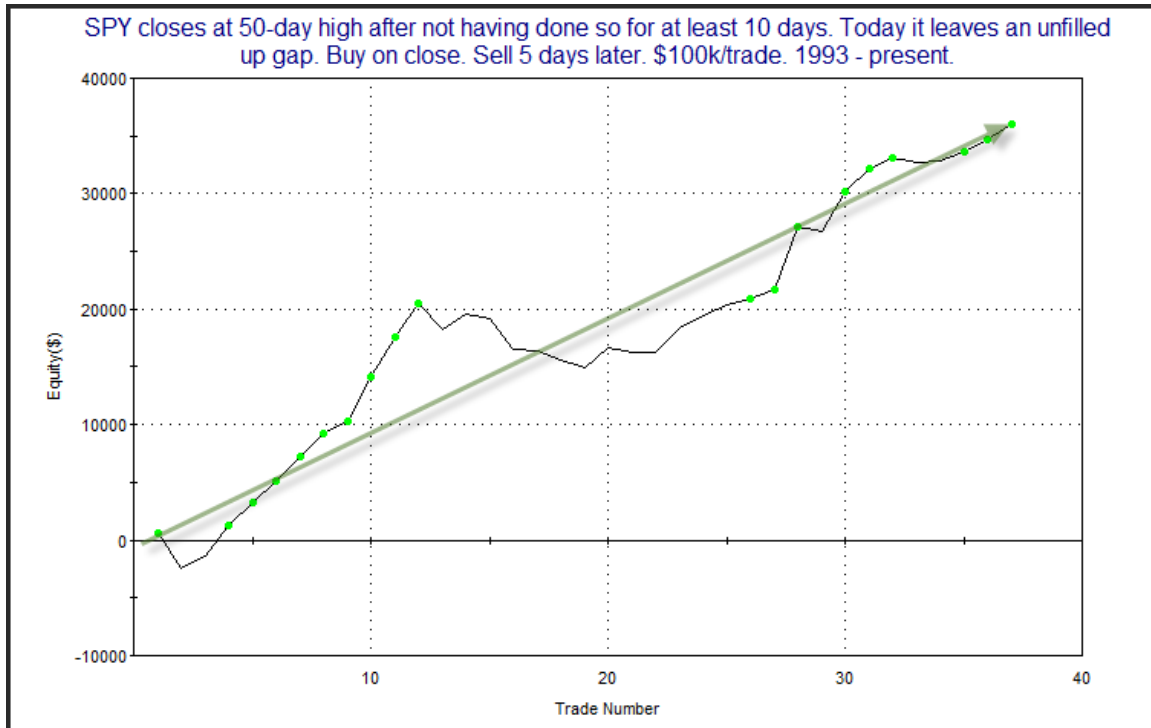
The Evidence

After a weak open the market rallied for most of the day. The SPX finished up 0.7%, the Nasdaq gained 1.1% and the Russell 2000 rallied 0.7%. Breadth was positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 61%. Total NYSE volume rose for the 2nd day in a row.

One notable is that that SPY closed at a 50-day high today (matching the 7/3/12 close). I've shown in the past that a new 50-day high is often more reliable after a period of consolidation. In this case it has been more than 10 days since we last saw a 50-day closing high. But unfortunately there is one ingredient that today's new high was missing – an unfilled gap up. In the 1/11/12 subscriber letter I looked at the importance of an unfilled upside gap. I have revisited that study below and updated the results. First let's review instances that occurred in conjunction with an unfilled gap (unlike Wednesday).

SPY closes at 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	35,985.29	37	27	10	72.97	1,748.04	5,434.00	-1,121.18	-3,093.12	1.56	4.21	972.58
4	24,192.62	37	27	10	72.97	1,356.49	3,637.92	-1,243.27	-3,267.84	1.09	2.95	653.85
3	20,128.70	37	26	11	70.27	1,251.61	3,992.56	-1,128.46	-2,538.18	1.11	2.62	544.02
2	14,195.98	37	26	11	70.27	871.08	2,545.92	-768.37	-2,293.20	1.13	2.68	383.68
1	3,782.23	37	26	11	70.27	534.72	1,816.10	-920.04	-2,591.68	0.58	1.37	102.22
33 of 37 instances (89%) closed above the entry price at some point in the next 4 days.												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

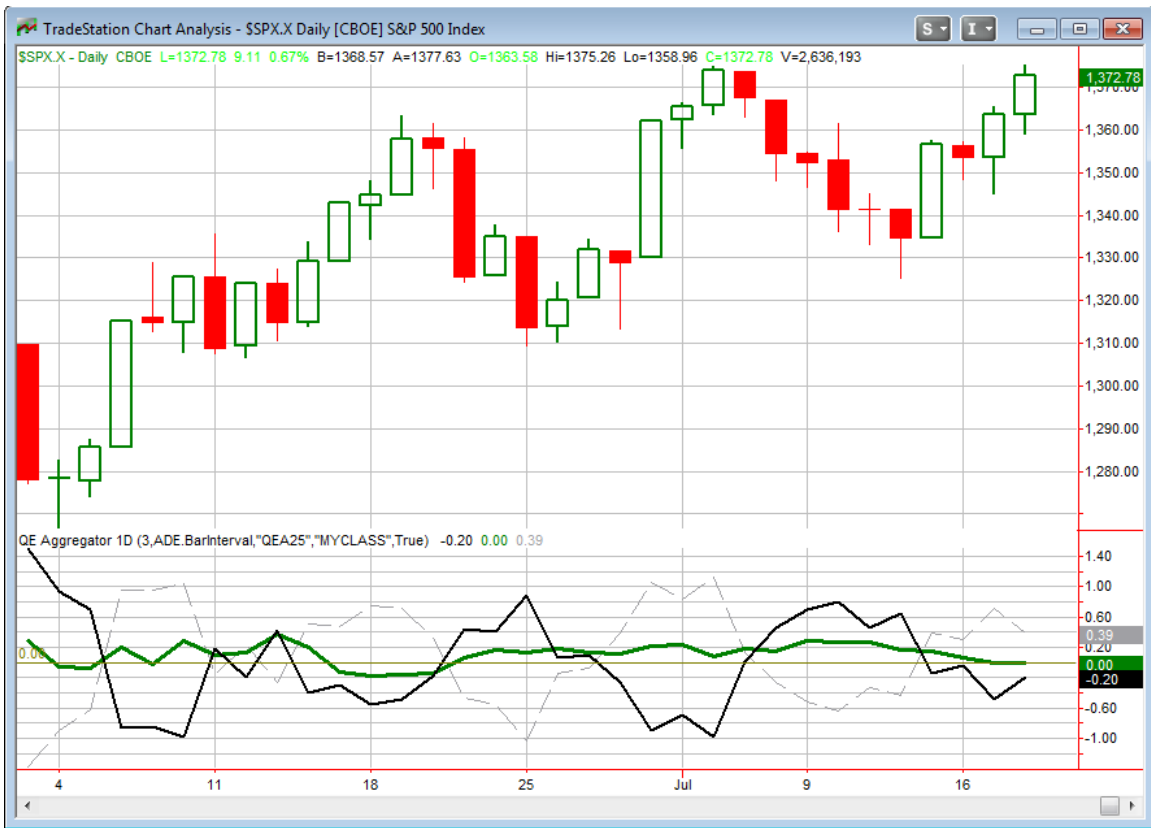
Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was exactly the same. This study also appeared in the 1/11/12 Letter and is updated.

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today. 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
5	2,482.20	37	22	15	59.46	1,035.77	-1,353.65	0.77	1.12	67.09
4	-1,198.15	37	19	18	51.35	1,081.98	-1,208.65	0.90	0.94	-32.38
3	3,273.35	37	20	17	54.05	1,091.84	-1,091.97	1.00	1.18	88.47
2	-1,546.37	37	18	19	48.65	700.55	-745.07	0.94	0.89	-41.79
1	395.34	37	19	17	51.35	486.74	-520.75	0.93	1.04	10.68

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable. Unfortunately for the bull case, this is what happened on Wednesday. The gap down to start the day may not have seemed like a big deal to most, but it means the odds of immediate follow-through are greatly diminished.

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.

We are now without active short-term studies for an unprecedented 2nd night in a row. Action in the next few days will have a strong influence on what studies emerge and the resulting expectations. The Differential Pivot will be 1,358.73 on Thursday. This is about 1% below Wednesday's close. So it would take a decline of this much in order to move the SPX out of overbought territory.

My story remains the same. I'm not inclined to put capital at risk without a clear edge. I'll continue to exercise patience.

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	\$13.07	12.29%	\$11.70	Aggressive VIX

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