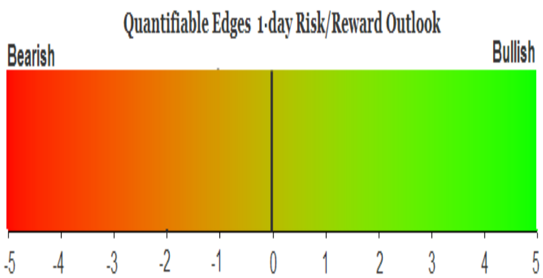
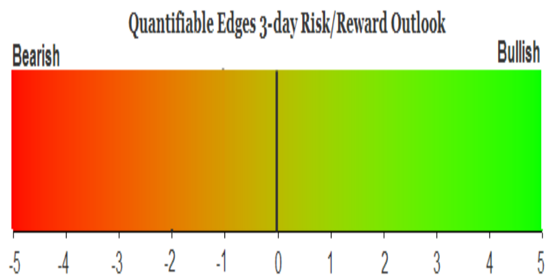
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2013 Volume 6 Issue 83

Market Overview





Signals Overview

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

Tonight's Research Points

- Closing the month at a high level is something that has often been followed by further gains the following month.
- 1st Day of the month is seasonally bullish. Especially in uptrends and especially in May.
- Bullish Fed Day inclinations have not held true when the market has closed at a 20-day high and in the upper part of its daily range.

Short-term Outlook
The Bottom Line

Positive new-month seasonality is adding to the already bullish evidence. But SPX is now too overbought for me to consider entry. I am waiting for a better risk/reward setup before putting new capital to work.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 1, 2013	End of month at high of month	1-5 days	Bullish	2.30%
April 30, 2013	Breakout. Unfilled Gap / Low Volume	1-5 days	Bullish	1.50%
April 30, 2013	VIX up SPX up 50-high. Monday	1-2 days	Bearish	
April 29, 2013	1 dn after 5 higher closes	1-9 days	Bullish	2.10%
April 26, 2013	5 higher highs < 50-high.	1-10 days	Bullish	2.00%
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-6 days	Bullish	2.00%
Active - Long Term				
April 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
April 26, 2013	5 higher highs < 50-high.	1-15 days	Bullish	2.80%
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-19 days	Bullish	4.50%
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
September 17, 2012	QE3	int term	Bullish	
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

Tuesday was a fairly quiet day as a mild morning dip gave way to an afternoon rise. The SPX finished up 0.25%, the Nasdaq rose 0.7% and the Russell 2000 rallied 0.5%. Breadth was solidly positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 62%. Total NYSE volume came in at the highest level in over a week.

There were a number of Quantifinder studies that triggered. In one way or another they all related to seasonality - either because Wednesday is the 1st day of May, or because Wednesday is a Fed Day. Below I have review the most relevant studies.

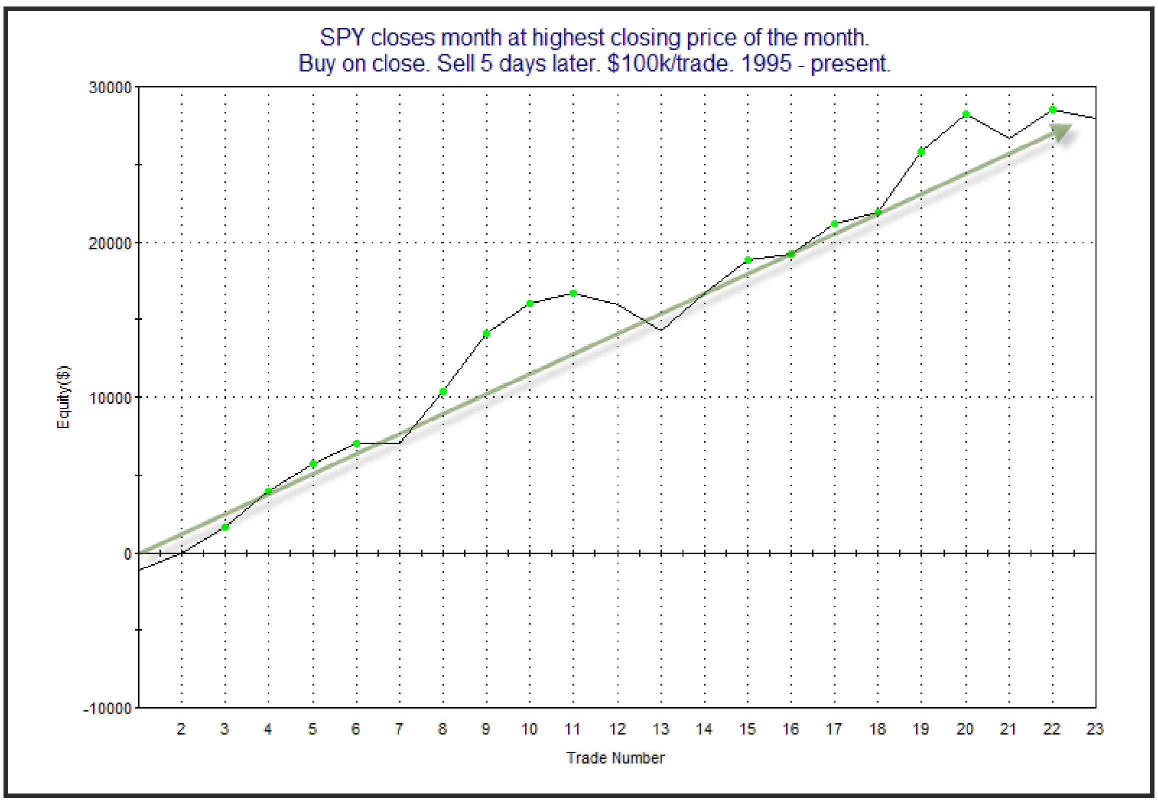
In the 7/2/12 subscriber letter I showed a study that examined other times SPY closed at its highest level of the month on the last day of the month. Results of that study suggested the strong end of month momentum has typically carried through into the following month. I have updated that study below.

SPY closes month at highest closing price of the month.
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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	32,120.37	23	17	6	73.91	2,536.05	5,238.84	-1,832.08	-4,159.04	1.38	3.92	1,396.54
9	32,579.96	23	16	7	69.57	2,577.23	4,455.36	-1,236.52	-3,178.47	2.08	4.76	1,416.52
8	26,605.03	23	17	6	73.91	2,223.93	4,879.68	-1,866.95	-2,884.75	1.19	3.38	1,156.74
7	23,708.45	23	15	8	65.22	2,171.94	4,366.26	-1,108.84	-2,519.04	1.96	3.67	1,030.80
6	27,051.34	23	16	7	69.57	2,188.46	6,355.08	-1,137.71	-2,024.57	1.92	4.40	1,176.15
5	27,910.48	23	17	5	73.91	1,982.69	3,931.92	-1,159.04	-1,659.68	1.71	5.82	1,213.50
4	21,205.82	23	15	8	65.22	2,184.68	5,394.96	-1,445.54	-6,208.40	1.51	2.83	921.99
3	15,239.24	23	15	8	65.22	1,734.58	4,105.92	-1,347.44	-4,678.40	1.29	2.41	662.58
2	11,067.97	23	13	10	56.52	1,601.85	3,954.78	-975.60	-4,848.40	1.64	2.13	481.22
1	6,947.42	23	13	10	56.52	927.14	1,850.94	-510.54	-1,049.76	1.82	2.36	302.06

20 of 23 instances (87%) closed above the entry price at some point in the next week.

We see here that the edge goes beyond just the first trading day of the month. The numbers across the board are quite compelling. And while most of the edge is realized week one, there even appears to be some follow through into week two. Below is an equity curve showing results assuming a 5-day holding period.



The steady upslope supports the bullish hypothesis suggested by the stats table.

It is also worth noting that the day 1 tendency in May has been stronger than most other months. I last showed this in the 5/1/12 letter. Below are results for May dating back to 1987.

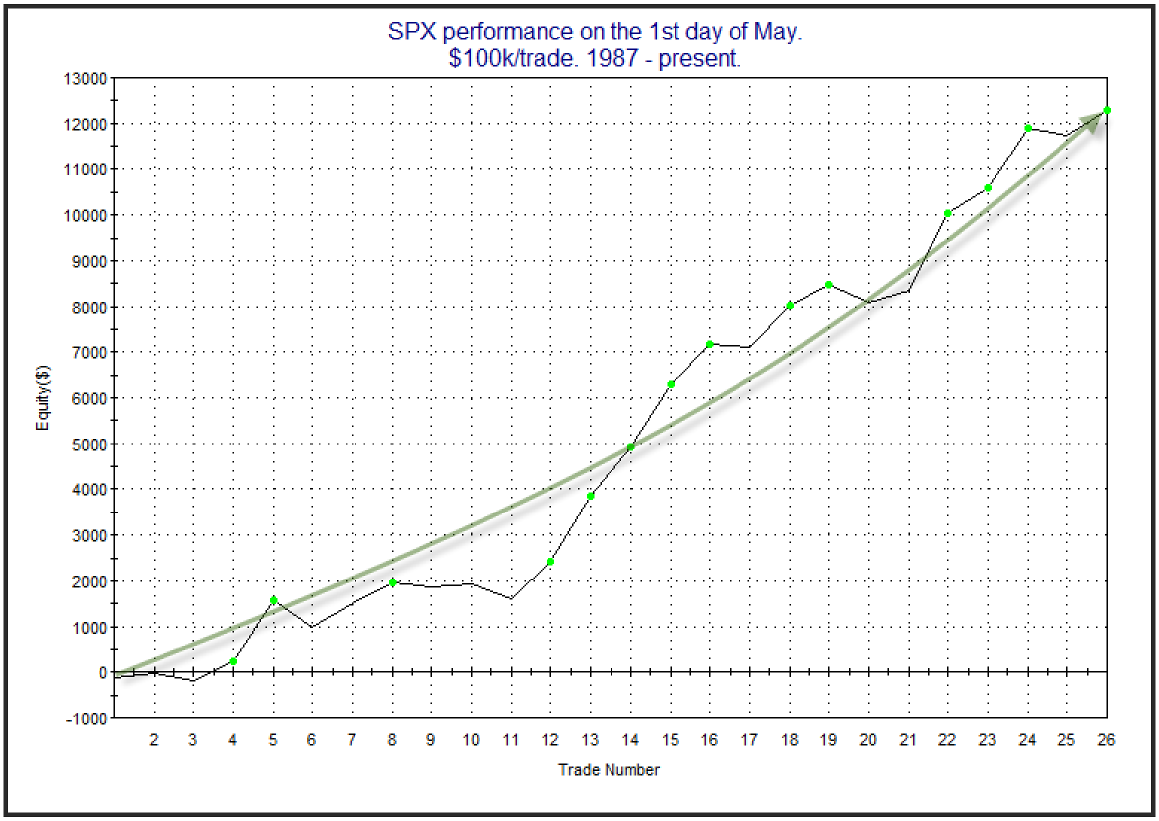
SPX performance on the 1st day of May.
$100k/trade. 1987 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$12,278.74	Profit Factor	7.31
Gross Profit	$14,226.01	Gross Loss	($1,947.27)
Total Number of Trades	26	Percent Profitable	69.23%
Winning Trades	18	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$472.26	Ratio Avg. Win:Avg. Loss	3.25
Avg. Winning Trade	$790.33	Avg. Losing Trade	($243.41)
Largest Winning Trade	$1,710.72	Largest Losing Trade	($578.40)

Stats here are strongly lopsided in favor of the bulls. Winning %, win:loss ratio, profit factor, and average trade are all outstanding. Below is the equity curve.



The equity curve appears as strong as the results table. Wednesday appears to have a solid seasonal edge.

But the Fed Day inclinations are not as strong as they typically are. In general Fed Days have been strongly positive days. But both closes in the upper part of the daily range, and intermediate-term highs can reduce that upside edge. In the 9/13/12 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. Results below are all updated.

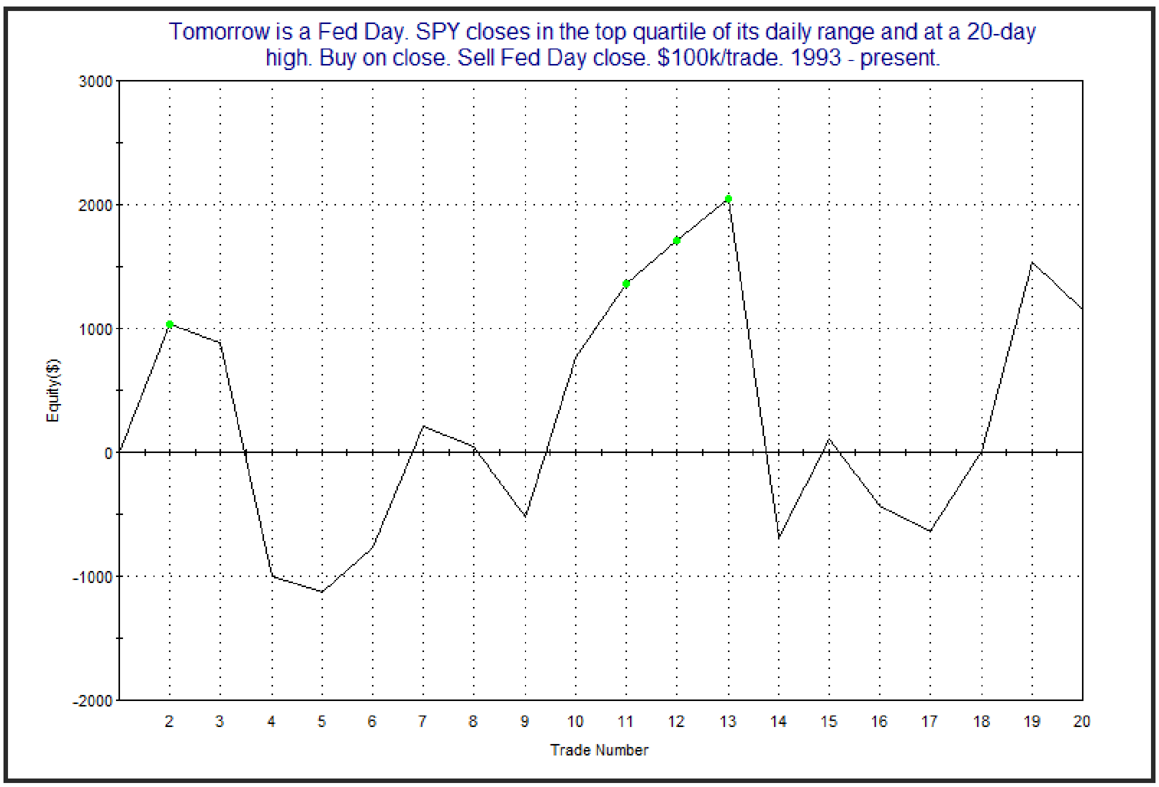
Tomorrow is a Fed Day. SPY closes in the top quartile of its daily range and at a 20-day high. Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary

All Trades

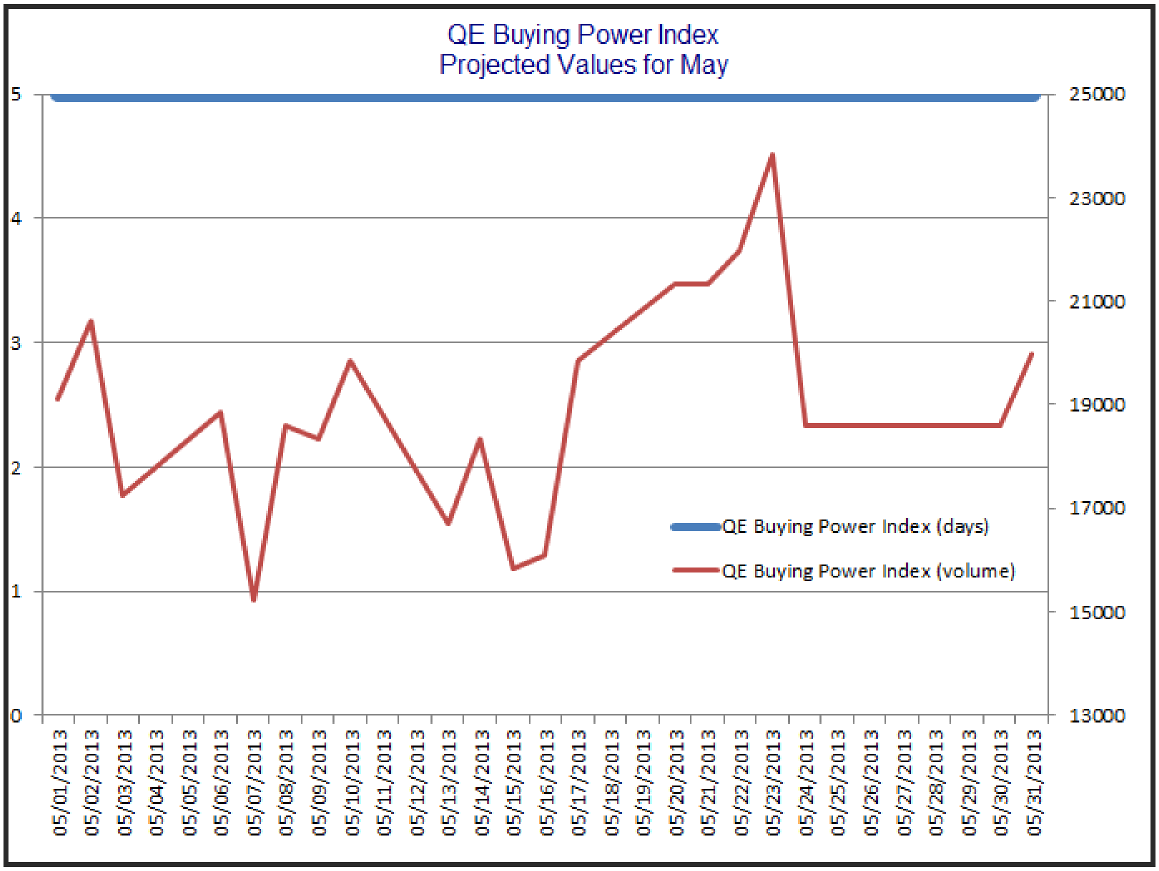
Total Net Profit	$1,146.23	Profit Factor	1.17
Gross Profit	$7,908.45	Gross Loss	($6,762.22)
Total Number of Trades	20	Percent Profitable	50.00%
Winning Trades	10	Losing Trades	9
Even Trades	1		
Avg. Trade Net Profit	$57.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	$790.85	Avg. Losing Trade	($751.36)
Largest Winning Trade	$1,522.40	Largest Losing Trade	($2,739.69)

Results here suggest no edge whatsoever. Below is the equity curve.



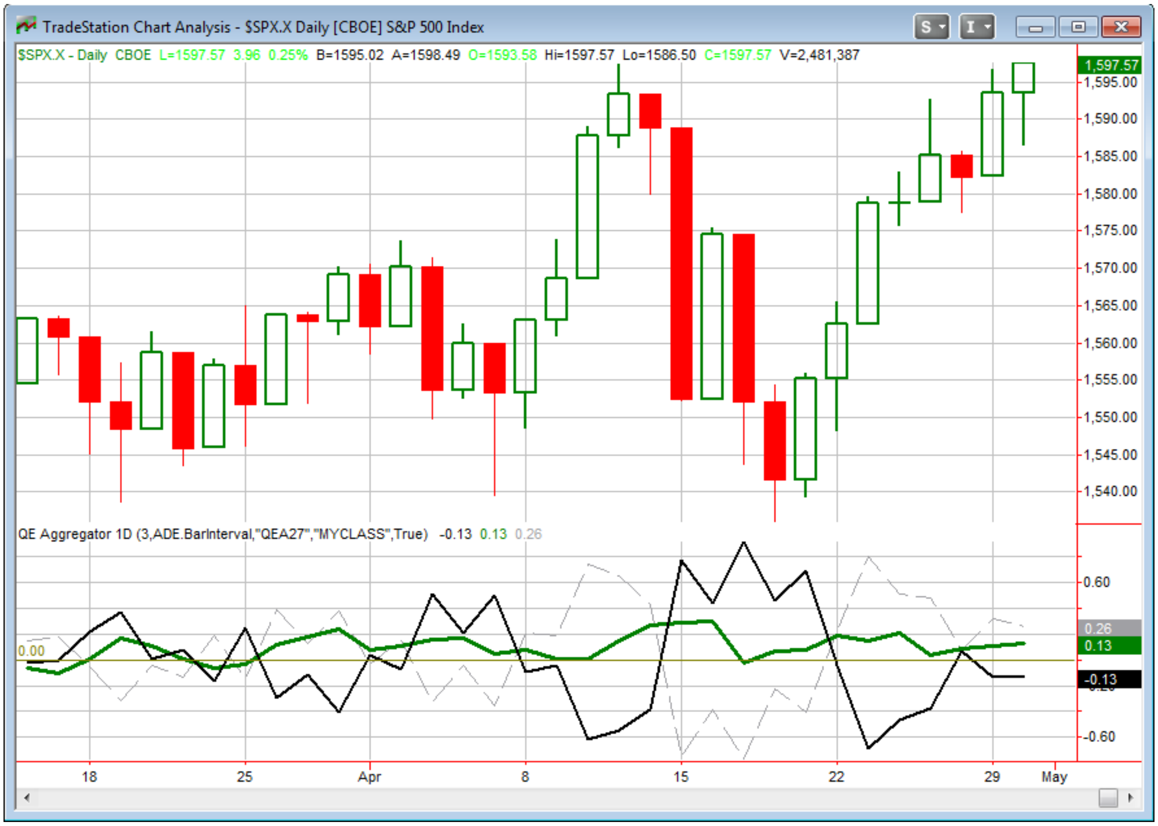
Fed Days under these conditions don't seem to provide the bullish edge they typically do otherwise.

The Fed did post their POMO and MBS schedule for May. No real surprises. The POMO amount dropped slightly from an expected $45 billion to $44 billion because the Fed overshot their target in April. Below I have produced the QE Buying Power Index Projection for May.



The first couple of weeks seem to be a bit weaker than the end of the month, but like April, even though the average day is lower than Jan-Mar, it is still a substantial amount of liquidity being provided and it should continue to aid the market. I will have more to say on this in the next few days.

I have updated the Aggregator chart below.



With tonight's bullish seasonal studies factored in the green Aggregator Line rose a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is still overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to remain flat.

Based on the current studies, expectations are slated to remain positive on Wednesday. Of course this could change if strongly compelling bearish evidence emerges. The Differential Pivot will be 1,587.42 on Wednesday. This is 0.6% below Tuesday's close. So it would take a close lower of at least this much to move the SPX back into "oversold" territory.

Bullish evidence still rules, but I was unable to get a fill either of the last two days. Now the SPX is at new highs and too overbought for my taste. So it will be a matter of patience here. I am not looking to take on any new positions on Wednesday, but will instead simply wait, observe, and be ready when the next opportunity avails itself.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/29 –bullish

The intermediate-term outlook was last updated in the 4/29 letter. Link below:

2013-04-29 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

None