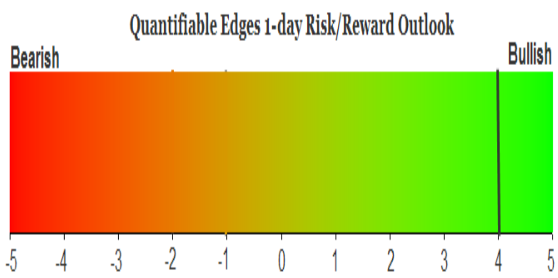
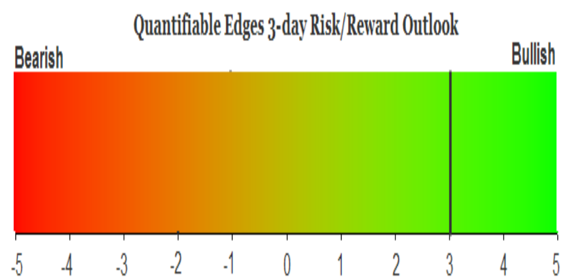
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 21, 2013 Volume 6 Issue 119

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Long	Long

Tonight's Research Points

- The strong move down through the 50ma is normally good for a 1-day bounce.
- Very strong selling that put the SPX at a 20-day low while > 200ma suggests an upside edge.
- 20% VIX spikes are often followed by a rise in the SPX the next day.
- The 2% drop and poor close suggest an upside bias for Friday.

Short-term Outlook
The Bottom Line

Expectations are now strongly positive and the market is very oversold. I am long and looking to get longer if the selling continues.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 21, 2013	Strong drop thru 50ma	1 day	Bullish	
June 21, 2013	System 110524	1-7 days	Bullish	
June 21, 2013	VIX up 20%	1 day	Bullish	
June 21, 2013	2% drop poor close > 200ma	1 day	Bullish	
June 20, 2013	1% drop. Bad breadth.	1-5 days	Bullish	
Active - Long Term				
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
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%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
June 20, 2013	Dive on Fed Day	1 day	Bullish	

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

The Evidence

Wednesday's selling carried right into Thursday, and it accelerated quite a bit on Thursday as well. The SPX, Nasdaq, and Russell 2000 all lost between 2.3% - 2.6%. Breadth was extremely negative as the NYSE Up Issues % was 5% and the Up Volume % was 6%. Total NYSE came in at the highest level since March.

There were several studies that triggered tonight. I went through the Quantifinder and pulled out the most compelling. The 1st two both triggered on 4/11/12. This first one below considers the fact that SPX crossed down through the 50ma on strong breadth and volume. Results are updated.

SPX crosses down through the 50ma on 90% downside volume and the highest NYSE volume in 10 days. Buy on close. Sell next day's close. $100k/trade. 10/86 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$9,953.30	Profit Factor	32.03
Gross Profit	$10,274.02	Gross Loss	($320.72)
Total Number of Trades	16	Percent Profitable	93.75%
Winning Trades	15	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	$622.08	Ratio Avg. Win:Avg. Loss	2.14
Avg. Winning Trade	$684.93	Avg. Losing Trade	($320.72)
Largest Winning Trade	$2,753.79	Largest Losing Trade	($320.72)

The 15 for 16 record is very impressive. Here is a look at the individual instances.

SPX crosses down through the 50ma on 90% downside volume and the highest NYSE volume in 10 days. Buy on close. Sell next day's close. $100k/trade. 10/86 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/18/86	Buy	$236.77	0.38%	$493.74
11/19/86	Sell	$237.66		($535.94)
04/14/88	Buy	$259.75	0.01%	$241.92
04/15/88	Sell	$259.77		($1,451.52)
10/13/89	Buy	$333.64	2.76%	$2,759.77
10/16/89	Sell	$342.85		($1,949.48)
08/19/91	Buy	$376.46	0.79%	$1,030.85
08/20/91	Sell	$379.42		$0.00
11/15/91	Buy	$382.62	0.68%	$722.97
11/18/91	Sell	$385.23		($767.34)
04/02/93	Buy	$441.39	0.20%	$235.04
04/05/93	Sell	$442.29		($194.36)
01/09/98	Buy	$927.69	1.24%	$1,236.92
01/12/98	Sell	$939.21		($1,590.02)
02/27/07	Buy	$1,399.14	0.55%	$1,189.25
02/28/07	Sell	$1,406.82		($176.79)
07/24/07	Buy	$1,511.04	0.47%	$875.82
07/25/07	Sell	$1,518.09		($482.46)
06/06/08	Buy	$1,360.44	0.10%	$743.87
06/09/08	Sell	$1,361.77		($716.86)
09/04/08	Buy	$1,236.83	0.44%	$648.80
09/05/08	Sell	$1,242.31		($1,568.00)
02/10/09	Buy	$827.16	0.80%	$1,327.20
02/11/09	Sell	$833.74		($583.20)
07/16/10	Buy	$1,064.88	0.60%	$913.26
07/19/10	Sell	$1,071.25		($350.61)
04/18/11	Buy	$1,305.14	0.57%	$574.56
04/19/11	Sell	$1,312.62		($88.92)
07/27/11	Buy	$1,304.89	(0.32%)	$868.68
07/28/11	Sell	$1,300.67		($435.48)
04/10/12	Buy	$1,358.59	0.74%	$1,176.76
04/11/12	Sell	$1,368.71		$0.00

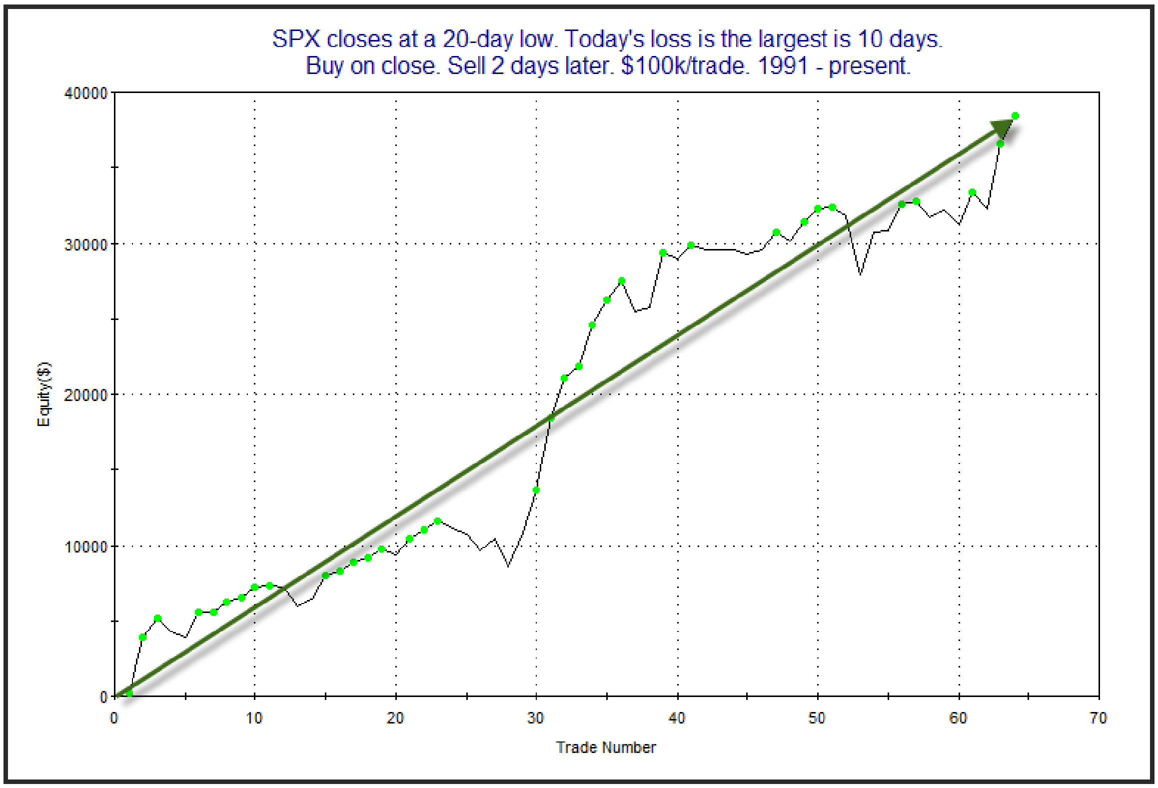
No red flags here.

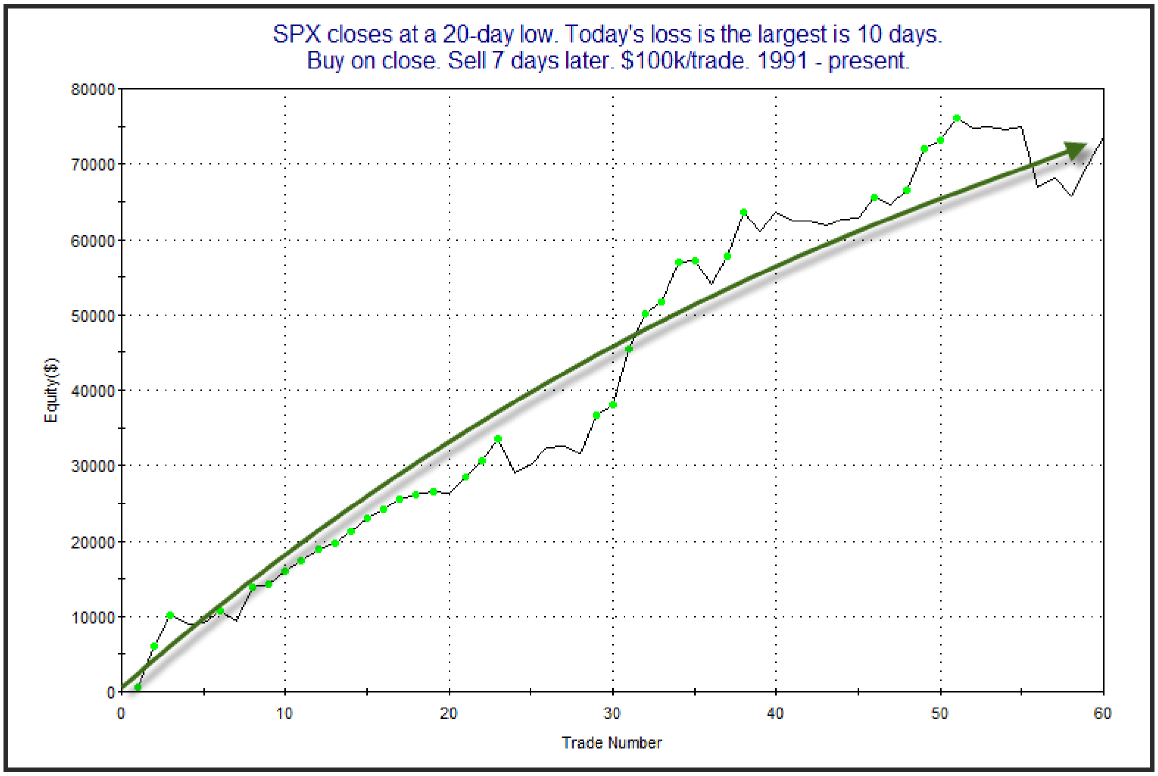
In the 4/11/12 letter I also looked at large losses that closed at intermediate-term lows. Another study from that letter is updated below.

SPX closes at a 20-day low. Today's loss is the largest is 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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	49,406.84	58	39	19	67.24	2,479.28	5,656.16	-2,488.68	-13,993.88	1.00	2.04	851.84
9	64,901.43	59	44	15	74.58	2,205.42	5,761.56	-2,142.46	-10,059.36	1.03	3.02	1,100.02
8	58,346.17	59	41	18	69.49	2,391.90	6,960.84	-2,206.76	-14,092.68	1.08	2.47	988.92
7	73,473.77	60	46	14	76.67	2,225.32	7,500.06	-2,063.64	-8,018.76	1.08	3.54	1,224.56
6	67,015.25	61	44	17	72.13	2,258.45	7,272.06	-1,903.33	-7,966.32	1.19	3.07	1,098.61
5	62,192.21	61	38	23	62.30	2,305.39	7,070.28	-1,104.89	-3,385.80	2.09	3.45	1,019.54
4	42,133.64	63	40	23	63.49	1,821.56	4,731.13	-1,336.03	-3,863.84	1.36	2.37	668.79
3	36,083.00	63	43	20	68.25	1,437.20	4,277.94	-1,285.82	-5,331.20	1.12	2.40	572.75
2	38,427.16	64	43	21	67.19	1,312.92	4,809.66	-858.49	-3,863.25	1.53	3.13	600.42
1	15,794.42	66	43	23	65.15	746.36	5,117.46	-708.65	-2,162.04	1.05	1.97	239.31

Results here are quite bullish. Below are snapshots of the 2-day and 7-day profit curves.





Both curves are quite impressive. 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	$60,841.47	Profit Factor	4.32
Gross Profit	$79,184.91	Gross Loss	($18,343.44)
Total Number of Trades	56	Percent Profitable	82.14%
Winning Trades	46	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$1,086.45	Ratio Avg. Win:Avg. Loss	0.94
Avg. Winning Trade	$1,721.41	Avg. Losing Trade	($1,834.34)
Largest Winning Trade	$7,070.28	Largest Losing Trade	($7,630.40)

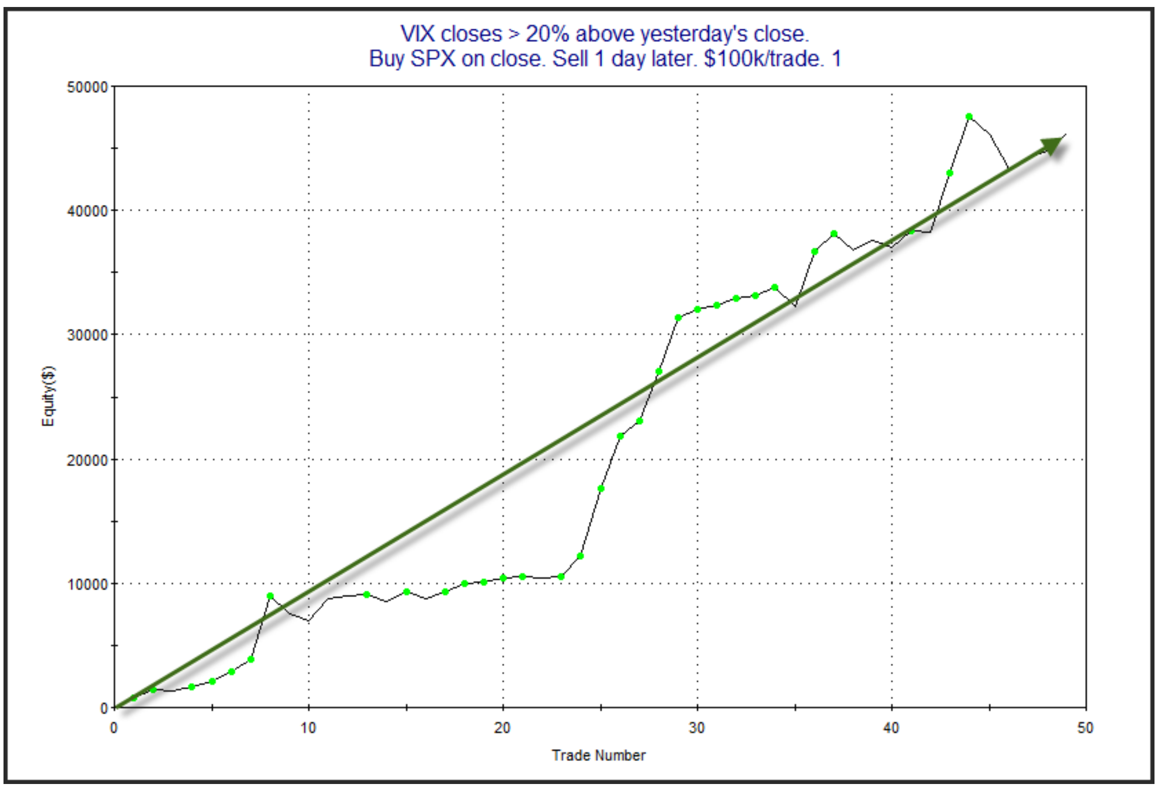
As you can see, waiting for a reversion to exit has often been a good way to go, and may be an approach that some traders could consider.

The VIX posted an extreme rise on Thursday, rising about 23%. In the past I have shown how spikes of 20% or greater have generally suggested an upside edge. I've rerun that study tonight, which last appeared in the 11/10/11 letter.

VIX closes > 20% above yesterday's close.
Buy SPX on close. Sell X days later. $100k/trade. 1

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	46,414.21	45	31	14	68.89	2,407.46	11,405.78	-2,015.51	-5,731.35	1.19	2.64	1,031.43
4	50,640.25	47	33	14	70.21	2,465.11	7,302.92	-2,193.45	-7,005.12	1.12	2.65	1,077.45
3	32,050.35	47	33	14	70.21	1,835.43	8,531.60	-2,037.07	-5,312.46	0.90	2.12	681.92
2	25,600.93	48	28	20	58.33	2,018.29	6,652.66	-1,545.56	-8,077.85	1.31	1.83	533.35
1	46,244.36	49	37	12	75.51	1,551.68	5,394.60	-930.66	-2,766.58	1.67	5.14	943.76

In most cases the upside edge largely played out on Day 1. Below is a profit curve that assumes a 1-day exit strategy.



The upslope and bullish edge appear to be intact.

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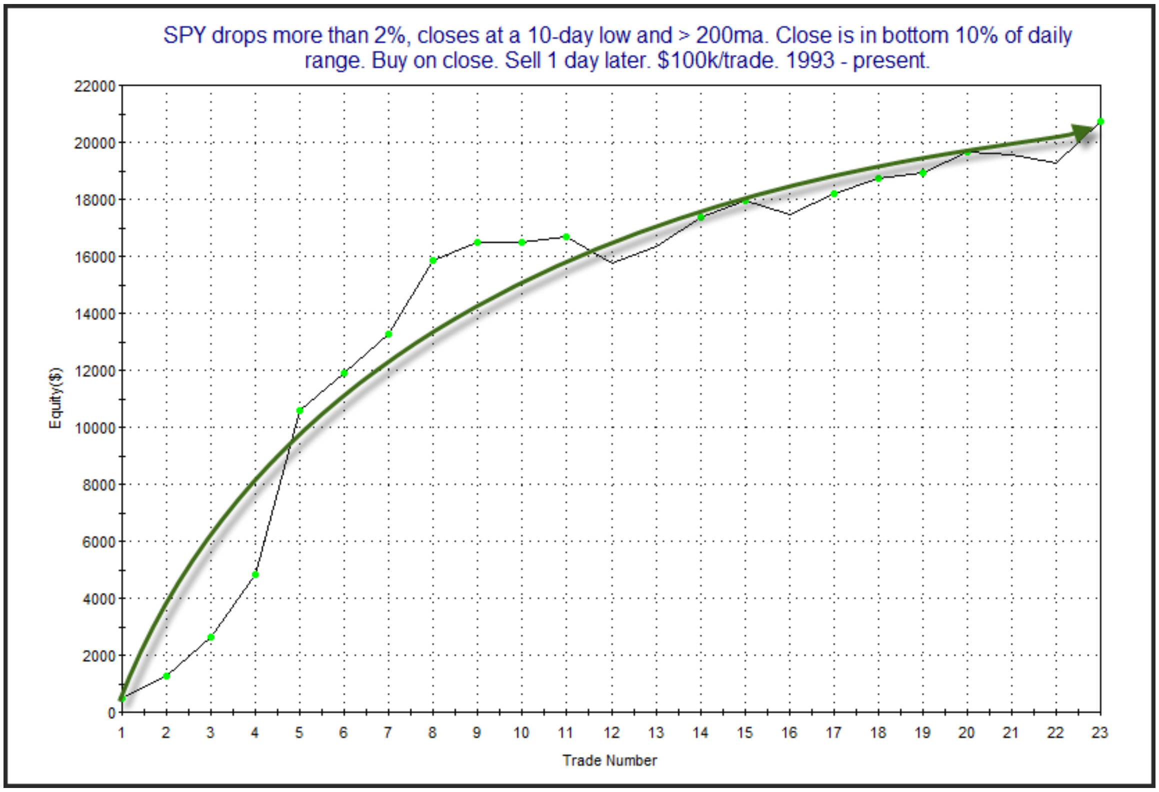
This last study examines strong 1-day selloffs of 2% or more that close near their lows during uptrends. It was last seen in the 7/28/11 subscriber letter. I have updated the results.

SPY drops more than 2%, closes at a 10-day low and > 200ma. Close is in bottom 10% of 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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	23,742.07	21	12	9	57.14	4,482.68	9,282.24	-3,338.90	-14,007.15	1.34	1.79	1,130.57
9	37,041.59	23	16	7	69.57	3,756.74	7,585.77	-3,295.17	-10,036.80	1.14	2.61	1,610.50
8	35,349.89	23	17	6	73.91	3,826.52	7,858.26	-4,950.17	-14,030.10	0.77	2.19	1,536.95
7	39,708.94	23	18	5	78.26	3,338.33	8,324.13	-4,076.21	-8,047.80	0.82	2.95	1,726.48
6	37,857.58	23	17	6	73.91	3,026.79	7,873.02	-2,266.32	-7,910.10	1.34	3.78	1,645.98
5	34,578.52	23	16	7	69.57	2,821.05	8,239.74	-1,508.32	-3,388.95	1.87	4.28	1,503.41
4	26,515.42	23	17	6	73.91	2,295.21	5,581.02	-2,083.86	-3,909.15	1.10	3.12	1,152.84
3	29,658.65	23	16	7	69.57	2,319.91	5,117.85	-1,065.69	-2,145.14	2.18	4.98	1,289.51
2	24,860.63	23	16	7	69.57	1,948.17	5,477.88	-901.43	-1,430.00	2.16	4.94	1,080.90
1	20,752.41	23	19	4	82.61	1,187.39	5,764.38	-452.02	-916.56	2.63	12.48	902.28

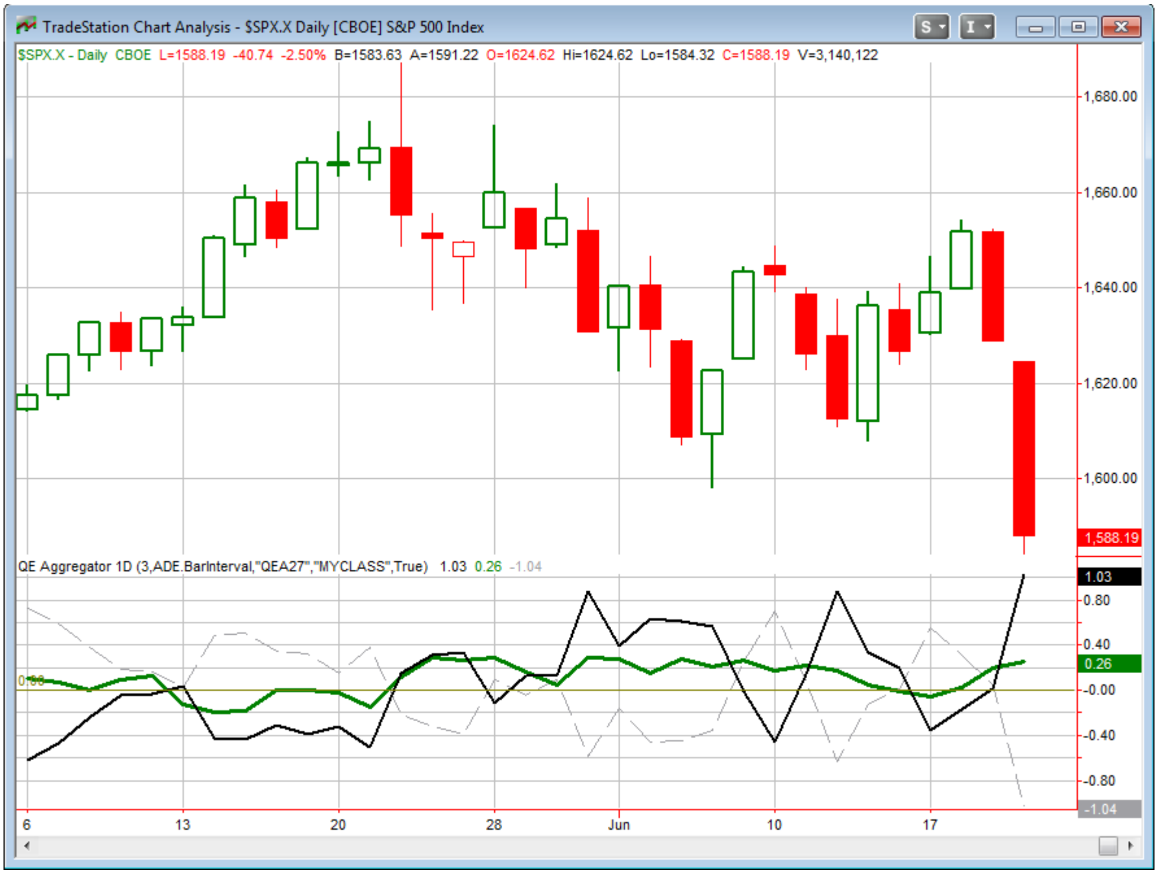
There appears to be a sizable edge based on the numbers. Much of it is realized on day 1. And in looking at the curves, I found the 1-day hold to be the most compelling. Below is the profit curve.



Not as steep as it once was, but still heading higher.

So there seems to be ample evidence pointing higher. The strong 1-day selloff, the 50ma break, new 20-day lows, and a huge spike in the VIX are all signs that the market is likely to bounce.

I have updated the Aggregator chart below.



All the bullish evidence helped the green Aggregator Line rise further above 0 tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is now strongly above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is very oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close.

Based on the current studies expectations are expected to remain positive on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,649.10 on Friday. This is a whopping 3.8% above Thursday's close. In other words, it will almost certainly take a few days to work off the oversold condition.

Evidence is quite compelling. I took some long exposure at the close, and I will look to take more if there is additional selling on Friday. I expect to see a bounce occur in the next few days, and I would like to take advantage of it.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/17 – somewhat bullish
I last updated the intermediate-term outlook in the 6/17 letter. Link below:

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 @ $159.00 LIMIT ON CLOSE. – Based on the short-term outlook above I will continue scaling long if I can get a good fill at the close on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Pric	Current Pric	% Gain/Loss	Stop	Notes
SPY(1/4)	6/20/2013	$159.40	$159.40	0.00%		bought on close