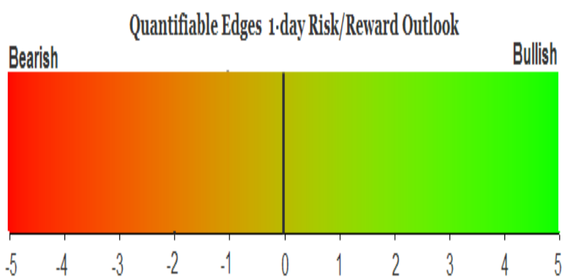
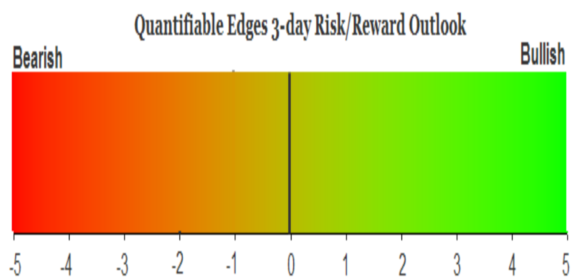
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2013 Volume 6 Issue 124

Market Overview





Signals Overview

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

Tonight's Research Points

- 3 unfilled up gaps has been rare, but often followed by a decline the next day.
- 3 consecutive days of Up Issues > 70% appears bullish both short and long-term.
- 3 Up days for SPY all on declining volume has often been followed by intermediate-term struggles.

Short-term Outlook

The Bottom Line

I'm not seeing a strong edge at the moment. While evidence is leaning towards further gains, the market is too overbought to consider taking on new positions. I am in "wait, observe, and be ready" mode.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 28, 2013	70% Advancing Issues 3 Days In Row	1-2 days	Bullish	
June 28, 2013	3 unfilled up gaps	1 day	Bearish	
Active - Long Term				
June 28, 2013	SPY up 3 days on lower volume	1-19 days	Bearish	-4.00%
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 25, 2013	***Failed reversal.***	***1-4 days***	***Bullish***	***2.70%***
June 25, 2013	***4 lower lows. 20-low. Close > 200.***	***1-8 days***	***Bullish***	***2.40%***
June 21, 2013	***System 110524***	***1-7 days***	***Bullish***	
June 21, 2013	***1% drop. Bad breadth.***	***1-5 days***	***Bullish***	

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

The Evidence

More upside on Thursday. SPX gained 0.6%, the NASDAQ closed up 0.8% and the Russell 2000 rose 1.7%. Breadth was strongly positive as the NYSE Up Issues % was 83% and the Up Volume % was also 82%. Total NYSE volume declined for the 4th day in a row.

Thursday was the 3rd day in a row that provided strong breadth readings. In the past, 3 days of strong breadth has led to further short-term upside. This is something I discussed in the 9/16/11 Letter. I have updated that study below.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X dasy later. $100k/trade. 1967 - 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	25,314.21	19	14	5	73.68	3,219.27	8,961.33	-3,951.10	-8,739.76	0.81	2.28	1,332.33
9	23,168.73	19	14	5	73.68	3,126.83	10,112.58	-4,121.38	-9,422.42	0.76	2.12	1,219.41
8	21,168.24	19	12	7	63.16	3,157.91	8,417.94	-2,389.52	-9,542.26	1.32	2.27	1,114.12
7	24,848.48	19	14	5	73.68	2,724.54	7,911.39	-2,659.01	-6,421.07	1.02	2.87	1,307.81
6	25,398.74	19	13	6	68.42	3,170.32	9,237.63	-2,635.90	-6,584.78	1.20	2.61	1,336.78
5	18,859.23	19	13	6	68.42	2,602.48	8,344.26	-2,495.50	-6,523.10	1.04	2.26	992.59
4	16,586.67	19	12	7	63.16	2,131.88	6,272.01	-1,285.13	-3,472.70	1.66	2.84	872.98
3	13,730.05	19	10	9	52.63	2,469.98	6,990.39	-1,218.86	-2,691.05	2.03	2.25	722.63
2	17,307.21	19	16	3	84.21	1,160.87	4,144.50	-422.21	-790.32	2.75	14.66	910.91
1	10,429.84	19	13	5	68.42	901.66	2,609.46	-258.34	-465.45	3.49	9.07	548.94

All 19 instances posted a close above the entry price at some point in the next week.

Not only are the net results strong but the consistency has been outstanding with all 19 instances posting gains at some point during the next week. Below I have listed all 19 instances and assumed a 2-day exit.

NYSE Up Issues % > 70% for exactly the 3rd day in a row. Buy SPX on close. Sell X dasy later. $100k/trade. 1967 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/09/67	Buy	$82.81	0.80%	$796.62
01/11/67	Sell	$83.47		$0.00
05/29/70	Buy	$76.55	1.69%	$1,684.74
06/02/70	Sell	$77.84		$0.00
10/11/74	Buy	$71.14	0.42%	$2,248.00
10/15/74	Sell	$71.44		$0.00
01/03/75	Buy	$70.71	0.44%	$509.04
01/07/75	Sell	$71.02		$0.00
01/05/76	Buy	$92.58	1.48%	$1,479.60
01/07/76	Sell	$93.95		$0.00
01/05/79	Buy	$99.13	0.20%	$836.64
01/09/79	Sell	$99.33		($1,310.40)
08/18/82	Buy	$108.52	4.15%	$4,577.37
08/20/82	Sell	$113.02		($1,077.57)
10/08/82	Buy	$131.05	2.59%	$4,555.11
10/12/82	Sell	$134.44		$0.00
03/03/83	Buy	$153.47	0.12%	$956.97
03/07/83	Sell	$153.66		($1,269.45)
08/03/84	Buy	$162.35	0.22%	$1,795.80
08/07/84	Sell	$162.71		($953.25)
12/26/91	Buy	$404.84	2.54%	$2,541.63
12/30/91	Sell	$415.13		($61.75)
03/21/07	Buy	$1,435.04	0.07%	$265.65
03/23/07	Sell	$1,436.11		($356.04)
01/02/09	Buy	$931.80	0.31%	$1,289.35
01/06/09	Sell	$934.70		($1,312.89)
04/02/09	Buy	$834.38	0.13%	$966.28
04/06/09	Sell	$835.48		($1,379.21)
09/08/09	Buy	$1,025.39	1.83%	$1,818.75
09/10/09	Sell	$1,044.14		($137.74)
07/09/10	Buy	$1,077.95	1.61%	$1,978.92
07/13/10	Sell	$1,095.34		($690.00)
07/26/10	Buy	$1,115.01	(0.80%)	$528.66
07/28/10	Sell	$1,106.13		($1,059.10)
03/21/11	Buy	$1,298.38	(0.06%)	$164.01
03/23/11	Sell	$1,297.54		($1,103.41)
09/15/11	Buy	$1,209.11	(0.42%)	$897.90
09/19/11	Sell	$1,204.09		($1,701.50)

The last 3 instances have all been lower 2 days later. This bears watching a little, but even so, all of them have still closed higher at some point during the following week. So I believe this study is worth taking into consideration.

It is also notable that Thursday marked the 3rd day in a row that the SPY posted an unfilled up gap. This has rarely happened since the SPY began trading in 1993. The study below examined other instances and was last seen in the 3/12/12 letter. Results are updated.

SPY leaves an unfilled gap up for the 3rd day in a row.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	($2,634.07)	Profit Factor	0.21
Gross Profit	$715.88	Gross Loss	($3,349.95)
Total Number of Trades	12	Percent Profitable	33.33%
Winning Trades	4	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	($219.51)	Ratio Avg. Win:Avg. Loss	0.43
Avg. Winning Trade	$178.97	Avg. Losing Trade	($418.74)
Largest Winning Trade	$500.58	Largest Losing Trade	($1,126.25)

On average we've only seen this occur about once every 2 years. Statistics squarely favor the downside. I listed below all 13 instances along with their day 1 returns.

SPY leaves an unfilled gap up for the 3rd day in a row.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/31/94	Buy	$48.22	(0.52%)	$0.00
02/01/94	Sell	$47.97		($642.63)
04/06/95	Buy	$50.75	(0.08%)	$236.40
04/07/95	Sell	$50.71		($551.60)
05/14/96	Buy	$66.77	(0.12%)	$808.38
05/15/96	Sell	$66.69		($179.64)
09/16/96	Buy	$68.80	(0.23%)	$261.54
09/17/96	Sell	$68.64		($828.21)
12/01/97	Buy	$98.09	(0.60%)	$0.00
12/02/97	Sell	$97.50		($1,559.07)
10/29/99	Buy	$137.00	(1.05%)	$0.00
11/01/99	Sell	$135.56		($1,049.76)
11/05/99	Buy	$137.88	0.09%	$362.50
11/08/99	Sell	$138.00		($819.25)
07/02/01	Buy	$124.13	(0.02%)	$0.00
07/03/01	Sell	$124.10		($869.40)
06/15/07	Buy	$153.07	(0.12%)	$208.96
06/18/07	Sell	$152.89		($267.73)
09/03/10	Buy	$110.89	(1.13%)	$0.00
09/07/10	Sell	$109.64		($1,207.34)
03/09/12	Buy	$137.57	0.01%	$137.94
03/12/12	Sell	$137.58		($348.48)
08/07/12	Buy	$140.32	0.12%	$234.96
08/08/12	Sell	$140.49		($363.12)
05/06/13	Buy	$161.79	0.50%	$531.48
05/07/13	Sell	$162.60		($74.16)

These 5 instances all resulted in unfilled gaps down the next day.

I find it especially interesting that so many instances gapped down and never filled the next day after 3 consecutive unfilled up-gaps. Like the last study, the last 3 instances here have not followed suit. So this study also bears watching but overall results appear strong enough to include it on the Active List.

Another interesting note about Thursday's rally is that it was strong enough to cause all 4 of the bullish short-term studies from last night's Active List to hit their targets. So the short-term Active List is essentially starting with a clean slate.

I have updated the Aggregator chart below.

Tonight's studies caused the green Aggregator Line to remain 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 now a long way below 0. The negative Differential Line reading means the SPX is strongly overbought versus recent expectations. So expectations are positive but the SPX is 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 at the close.

Based on the current studies expectations are slated to remain positive on Friday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 1,594.78 on Thursday. This is about 1.1% below Thursday's close. So it will take a big move down on Friday to move the SPX from overbought to oversold.

The market is too overbought short-term for me to consider a long position. And with the weight of the evidence leaning higher, I am certainly not inclined to short. So I will exercise some patience and wait until the next favorable opportunity avails itself.

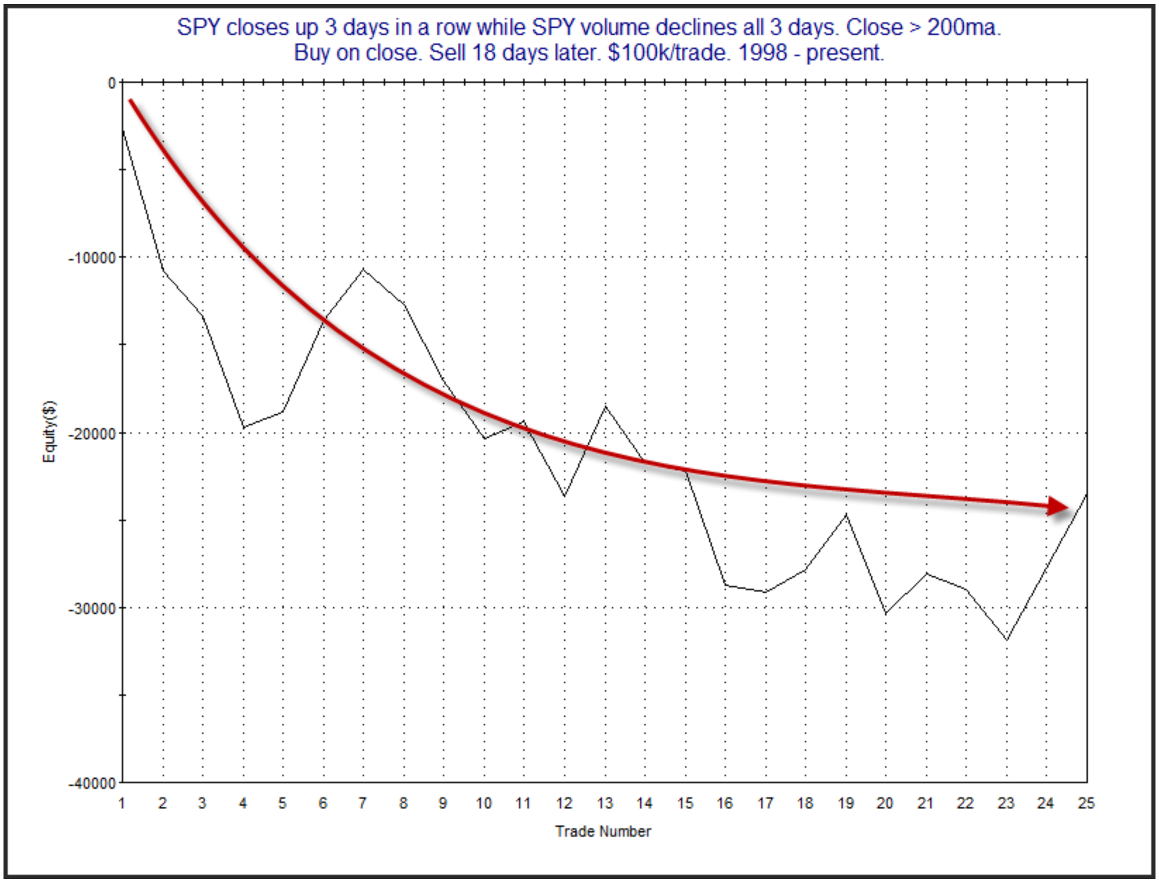
Intermediate-term Note

There was one study that appeared with possible intermediate-term bearish inclinations. That study looked at the rise in SPY on declining volume each of the last 3 days. It was last seen in the 5/2/11 Subscriber Letter. I have updated the results table below.

SPY closes up 3 days in a row while SPY volume declines all 3 days. Close > 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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	-15,750.27	24	11	13	45.83	2,994.15	5,491.80	-3,745.07	-7,490.88	0.80	0.68	-656.26
19	-30,075.02	24	11	13	45.83	2,566.73	4,627.35	-4,485.31	-8,540.64	0.57	0.48	-1,253.13
18	-23,524.36	25	10	15	40.00	3,027.75	5,217.21	-3,586.79	-8,170.95	0.84	0.56	-940.97
17	-23,351.70	25	11	14	44.00	2,522.17	5,265.47	-3,649.68	-9,270.75	0.69	0.54	-934.07
16	-19,582.72	25	12	13	48.00	2,398.44	5,145.96	-3,720.30	-8,262.60	0.64	0.60	-783.31
15	-24,099.86	25	12	13	48.00	2,246.87	4,189.88	-3,927.87	-8,058.15	0.57	0.53	-963.99
14	-21,090.71	26	11	15	42.31	2,158.96	4,147.70	-2,989.29	-7,050.00	0.72	0.53	-811.18
13	-16,927.29	27	14	13	51.85	1,636.03	4,541.38	-3,063.98	-7,881.90	0.53	0.58	-626.94
12	-13,735.39	27	14	13	51.85	1,568.42	3,564.21	-2,745.64	-6,605.85	0.57	0.62	-508.72
11	-11,429.05	27	14	13	51.85	1,669.60	3,592.33	-2,677.19	-6,168.75	0.62	0.67	-423.30
10	-12,488.35	27	16	11	59.26	1,684.20	4,010.23	-3,585.06	-6,758.64	0.47	0.68	-462.53
9	-13,016.21	27	15	12	55.56	1,542.40	3,408.21	-3,012.69	-5,825.52	0.51	0.64	-482.08
8	-8,203.87	27	16	11	59.26	1,464.26	3,670.38	-2,875.64	-5,484.60	0.51	0.74	-303.85
7	-733.22	28	18	10	64.29	1,488.81	4,097.62	-2,753.17	-4,765.20	0.54	0.97	-26.19
6	-6,405.23	28	16	12	57.14	1,380.58	4,252.98	-2,374.55	-7,055.40	0.58	0.78	-228.76
5	-16,756.22	29	16	13	55.17	1,076.02	3,249.00	-2,613.27	-10,520.40	0.41	0.51	-577.80
4	-8,937.00	30	16	13	53.33	993.22	2,475.00	-1,909.89	-4,745.40	0.52	0.64	-297.90
3	-5,821.96	30	16	14	53.33	808.83	1,863.00	-1,340.23	-3,405.60	0.60	0.69	-194.07
2	-1,232.34	30	15	15	50.00	879.29	1,796.35	-961.45	-3,415.04	0.91	0.91	-41.08
1	-2,588.90	34	16	18	47.06	571.44	1,508.04	-651.77	-2,961.48	0.88	0.78	-76.14

There doesn't appear to be an overwhelming edge based on the data but it does hint at poor risk/reward for the intermediate-term. Below is an equity curve using a 18-day holding period.



Though choppy, this would seem to support the idea that the market could suffer some losses. I believe it's worth including this study on the Intermediate-term Active List.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/24 – somewhat bullish

The intermediate-term outlook was last updated in the 6/24 letter. Link below:

2013-06-24 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 Pric	Current Pric	% Gain/Loss	Stop	Notes
SPY(1/4)	*6/20/2013*	*$158.56*	*$161.10*	*1.60%*		*sold @ open*

I will look to get out at a limit price equal to Wednesday's close. In the case of a gap down, I will give it some time to fill. If it fails to fill, I may institute a stop after the first 30 minutes or so of trading.