

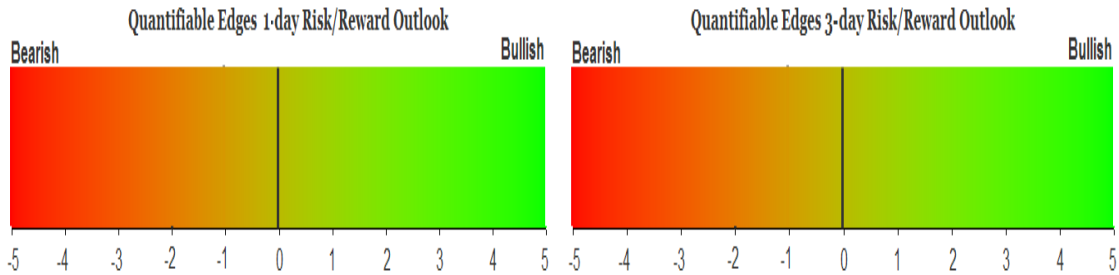
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 12, 2013

Volume 6 Issue 133

Market Overview



Signals Overview

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

Tonight's Research Points

- The breakout to a new 50-day high was accompanied by an unfilled gap up in the SPY, which has been a short-term positive.

Short-term Outlook

The Bottom Line

The Aggregator now neutral. Expectations remain positive but the market is too strongly overbought for me to consider a short-term position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 12, 2013	SPY breakaway gap	1-5 days	Bullish	1.65%
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
July 11, 2013	10 closes > 5ma. Close 10-high	1-2 days	Bearish	
Active - Long Term				
July 11, 2013	5 up > 200 but < 50-high	1-15 days	Bullish	
July 10, 2013	RSI(2) crosses over 99. SPX > 200ma	1-15 days	Bullish	2.40%
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
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	

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

The Evidence

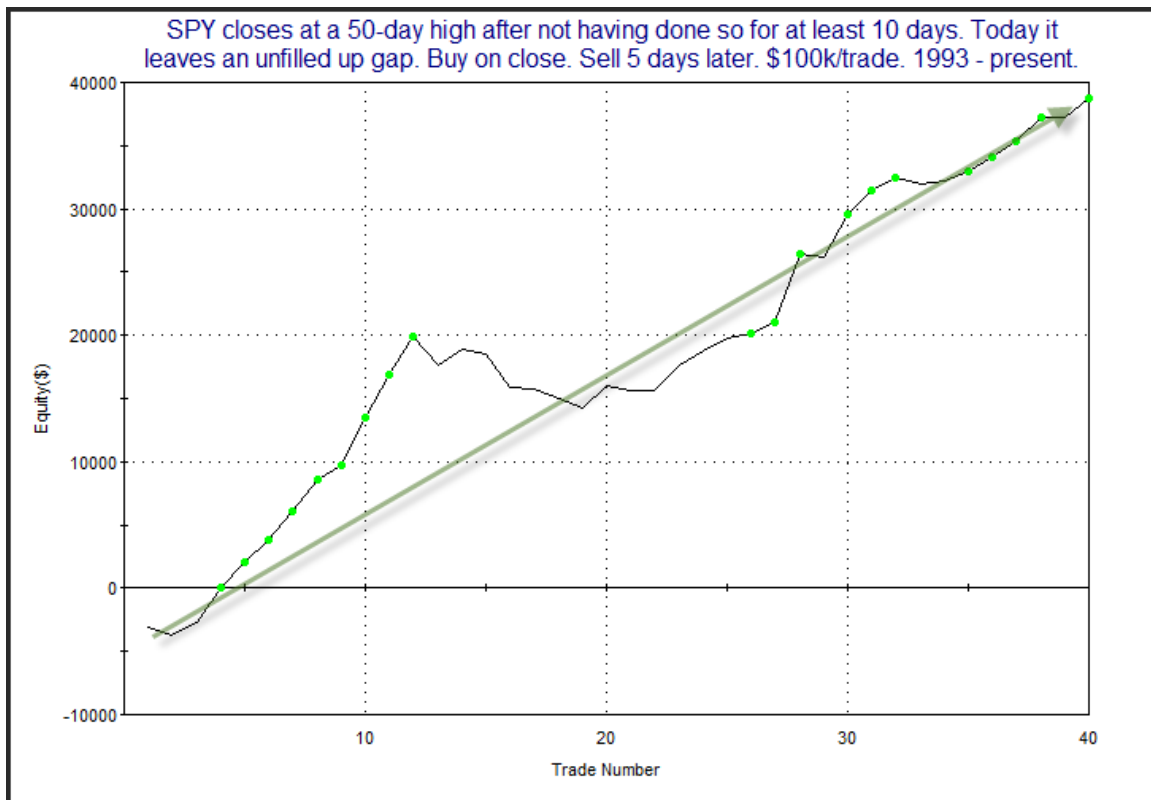
Thursday the market gapped up big, held on, and actually rose further into the close. The SPX rose 1.4%, while the Nasdaq climbed 1.6%, and the Russell 2000 gained 1.3%. Breadth was strongly positive as the NYSE Up Issues % was 85% and the Up Volume % was 88%. Total NYSE volume came in higher than the last several days.

The strong move up on Thursday led to a new 50-day closing high and a breakout of the recent range. A big positive associated with this breakout was the unfilled gap up.

In the 4/30/13 subscriber letter I looked at the importance of an unfilled upside gap on breakouts. I have revisited that study below.

SPY closes at a 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	39,401.28	41	29	12	70.73	1,769.11	5,434.00	-991.91	-3,093.12	1.78	4.31	961.01
4	25,146.73	41	29	12	70.73	1,350.39	3,637.92	-1,167.88	-3,267.84	1.16	2.79	613.33
3	19,447.37	41	28	13	68.29	1,175.76	3,992.56	-1,036.45	-2,538.18	1.13	2.44	474.33
2	12,949.98	41	27	14	65.85	846.67	2,545.92	-707.87	-2,293.20	1.20	2.31	315.85
1	4,098.93	41	28	13	68.29	518.93	1,816.10	-802.40	-2,591.68	0.65	1.39	99.97
36 of 41 instances (88%) closed above the entry price at some point in the next week.												

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 nearly the same. This study also appeared in the 4/30/13. These stats have not changed.

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: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	3.13	38	22	16	57.89	1,035.77	2,671.20	-1,423.99	-4,285.26	0.73	1.00	0.08
4	-3,699.03	38	19	19	50.00	1,081.98	2,072.07	-1,276.67	-4,518.34	0.85	0.85	-97.34
3	1,615.79	38	20	18	52.63	1,091.84	2,927.90	-1,123.39	-5,133.72	0.97	1.08	42.52
2	-2,200.67	38	18	20	47.37	700.55	2,324.90	-740.53	-3,640.86	0.95	0.85	-57.91
1	657.06	38	20	17	52.63	475.49	1,586.97	-520.75	-2,448.72	0.91	1.07	17.29

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

But there were also a few studies that appeared in the Quantifinder that indicated today's volume was not desirable. Volume rose today, but not to an extreme level. Typically SPX breakouts have done better when volume either declines (suggesting people may not believe the breakout initially), or volume comes in extremely high (suggesting real institutional buying). Both of these scenarios have led to a strong upside edge over the next several days. But moderately higher volume on an SPX breakout has shown no substantial edge. You may refer to the Quantifinder if you wish to see some of these studies. They were in the 7/20/12 and 7/30/12 subscriber letters.

So tonight I wondered whether the moderately increasing volume negatively impacted SPY breakaway gaps. To test this I took the 1st study above and added volume filters to it.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. Volume is higher than yesterday but not at a 20-day high. 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	23,503.12	20	14	6	70.00	2,203.62	5,434.00	-1,224.59	-3,093.12	1.80	4.20	1,175.16
4	18,689.66	20	16	4	80.00	1,542.92	3,637.92	-1,499.27	-3,267.84	1.03	4.12	934.48
3	14,584.18	20	15	5	75.00	1,424.28	3,992.56	-1,355.99	-2,538.18	1.05	3.15	729.21
2	10,328.91	20	14	6	70.00	1,026.06	2,545.92	-672.64	-1,838.16	1.53	3.56	516.45
1	5,757.21	20	16	4	80.00	560.90	1,708.92	-804.32	-1,880.71	0.70	2.79	287.86

Interestingly, the numbers were actually slightly BETTER here. So the higher volume did not appear to be an issue. I also used NYSE volume as a filter instead of SPY volume, since NYSE volume was used in the SPX studies I mentioned. NYSE volume seemed to have no discernible impact on the success or failure of the SPY breakaway gaps.

So the bottom line is that the breakaway gap looks good. One final note for Tradestation users – my Tradestation daily chart shows SPY filling its gap. But it never really even came close, and this appears to be a bad data point that I expect will get fixed at some point.

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



The breakaway gap helped the green Aggregator Line move 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 well below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but 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 stay flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. The Differential Pivot will be 1,649.84 on Friday. That is 1.5% below Thursday's close. So unless there is a very strong selloff Friday, SPX will remain overbought.

There really is nothing for me to do but wait. Expectations are for more upside, but the market is already so overbought that risk/reward is pretty poor. So I'll remain flat into the weekend and see what happens next week. (Spoiler alert for this weekend's letter: next week is slated to see the lowest amount of POMO buying so far in 2013, which could open the door a little for the bears to force a pullback. And if that happens it could set up a nice short-term buying opportunity.)

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/8 – somewhat bullish

The intermediate-term outlook was last updated in the 7/8 letter. Link below:

[2013-07-08 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.

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