

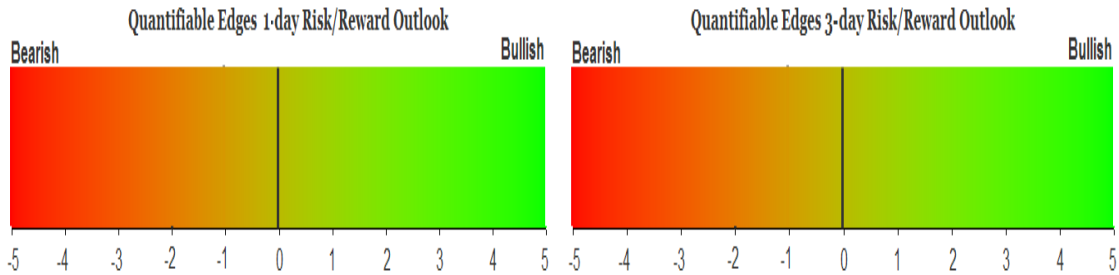
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 16, 2013

Volume 6 Issue 135

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 light volume at a new closing higher was bearish for many years, but not in the last few.

Short-term Outlook

The Bottom Line

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

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 15, 2013	10 closes > 5ma. Close 10-high	1-2 days	Bearish	
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	
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.

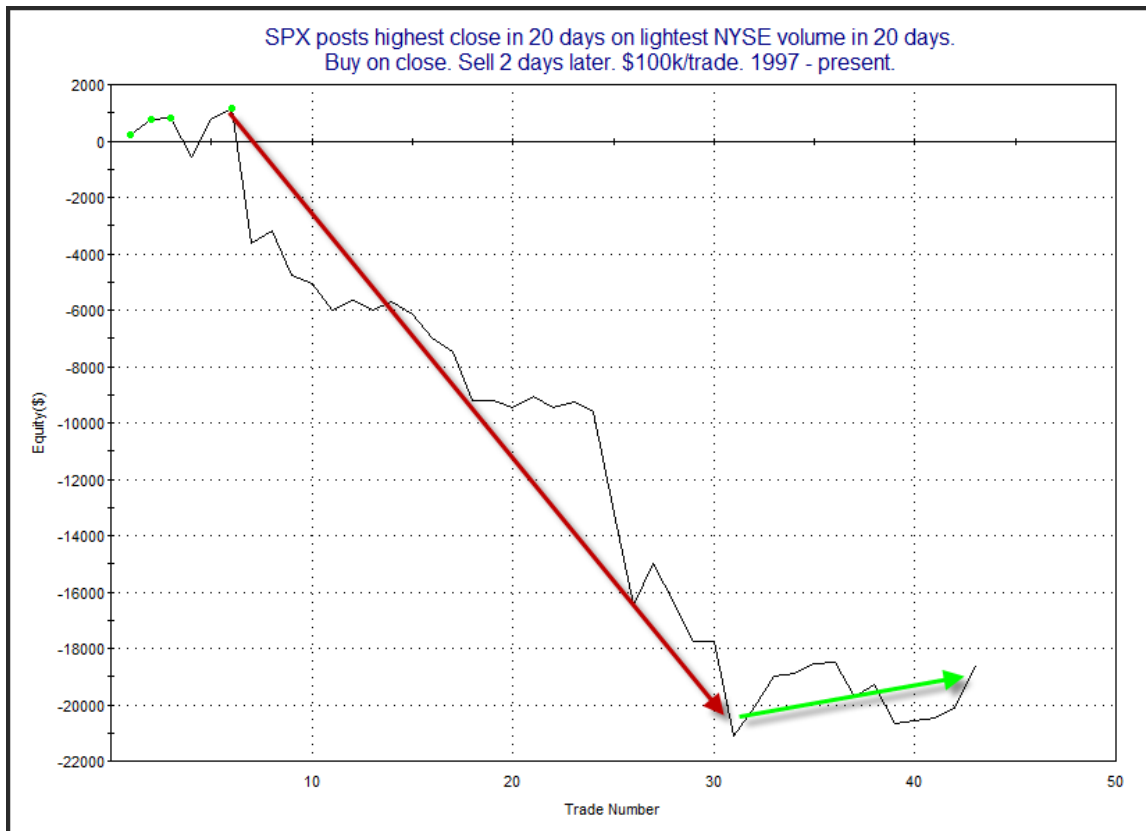
The Evidence

More quiet trading on Monday and another day of higher prices. SPX gained 0.1%, the Nasdaq climbed 0.2%, and the Russell 2000 rose 0.7%. Breadth was moderately positive as the NYSE Up Issues % was 62% and the Up Volume % was 64%. Total NYSE volume came in at the lightest level in over a month.

The extremely light volume Monday triggered a good number of studies. But interestingly, those studies all told a very similar story. The study below was last seen in the 8/10/12 letter. It well represents the current setup and exemplifies what I was seeing in my reviews tonight.

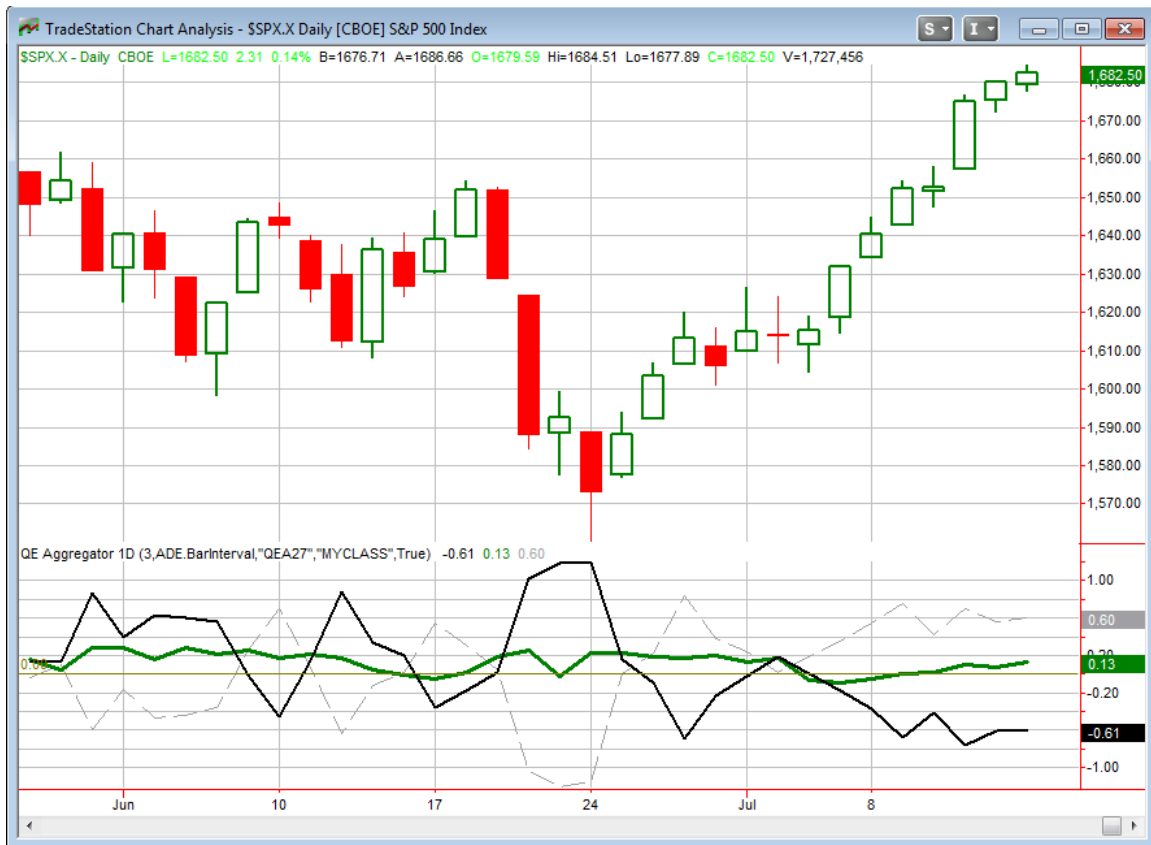
SPX posts highest close in 20 days on lightest NYSE volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,071.18	40	18	22	45.00	1,129.19	2,124.32	-1,699.85	-5,584.17	0.66	0.54	-426.78
4	-17,804.15	41	17	24	41.46	907.63	1,973.35	-1,384.75	-4,567.80	0.66	0.46	-434.25
3	-18,624.57	41	16	25	39.02	723.10	1,874.04	-1,207.76	-3,887.84	0.60	0.38	-454.26
2	-18,604.67	43	21	22	48.84	513.83	1,525.61	-1,336.14	-4,748.44	0.38	0.37	-432.67
1	-11,808.70	47	19	28	40.43	319.10	1,111.50	-638.27	-2,378.78	0.50	0.34	-251.25

What we see here is what appears to be a decent downside inclination. But the stats tables were not the most interesting part of all these volume studies. The profit curves were. Here is the profit curve assuming a 2-day holding period.



Every one of the volume studies I looked at looked like this. A reliable, steady downslope for a long period of time that no longer appeared reliable. The edge may very well re-assert itself. But I see no evidence of that yet. I don't know why these studies all seemed to stop working the last few years. Perhaps it is thanks to quantitative easing, or perhaps just a byproduct of a strong bull market. It will be interesting to see if these studies begin to work again down the road. But for now it does not appear to be a setup that can be trusted. So I have not included any of these setups on the Active List tonight.

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



Without anything new being added the green Aggregator Line remained 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 Tuesday. The Differential Pivot will be 1,677.11 on Tuesday. That is 0.3% below Monday's close. So the market would only need to close down this much in order to move from overbought to oversold.

I feel like a broken record, but there is nothing for me to do until the market pulls back or some very compelling short evidence emerges. Expectations are higher but with SPX already up 8 days in a row, this is not a favorable entry point. So I'll continue to sit and wait for a better one.

Intermediate-term Outlook (2 weeks – 2 months)– *updated 7/15 – somewhat bullish*

The intermediate-term outlook was last updated in the 7/15 letter. Link below:

[2013-07-15 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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