

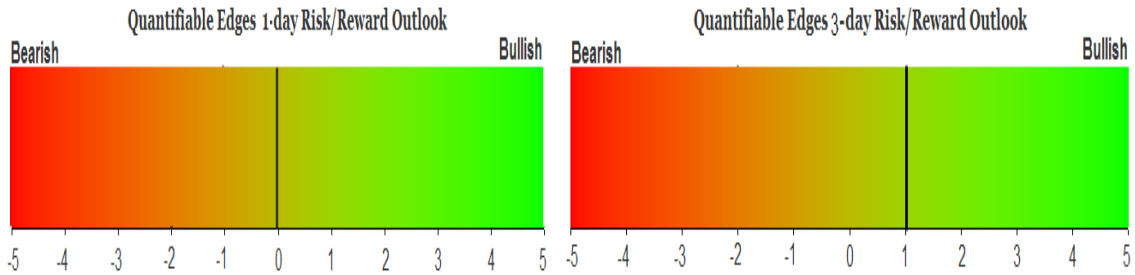
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 25, 2013

Volume 6 Issue 142

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

The Aggregator is still neutral. But expectations are scheduled to turn bullish on Thursday and another down day.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 25, 2013	1st 5-low in 10 days	1-4 days	Bullish	1.60%
July 24, 2013	SPX down. NYSE Up Issue > 55%	1-3 days	Bullish	1.20%
July 23, 2013	50-high. Inside day. 50-high.	1-5 days	Bearish	-2.00%
July 19, 2013	Breakout & close above intraday high	1-5 days	Bullish	
July 19, 2013	Top 10% of range pre-opex	1-5 days	Bearish	
Active - Long Term				
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
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 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				
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
July 23, 2013	SPY 10 > 5ma. High close 10	1-2 days	Bearish	-1.00%

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

The Evidence

It was a mixed day in the market on Wednesday, with most indices closing down. The SPX lost 0.4%, and the Russell 2000 declined 0.8%, but the NASDAQ finished up slightly with a 0.33 point gain. Breadth was strongly negative as the NYSE Up Issues % was 24% and the Up Volume % was 27%. Total NYSE volume rose from Tuesday's level.

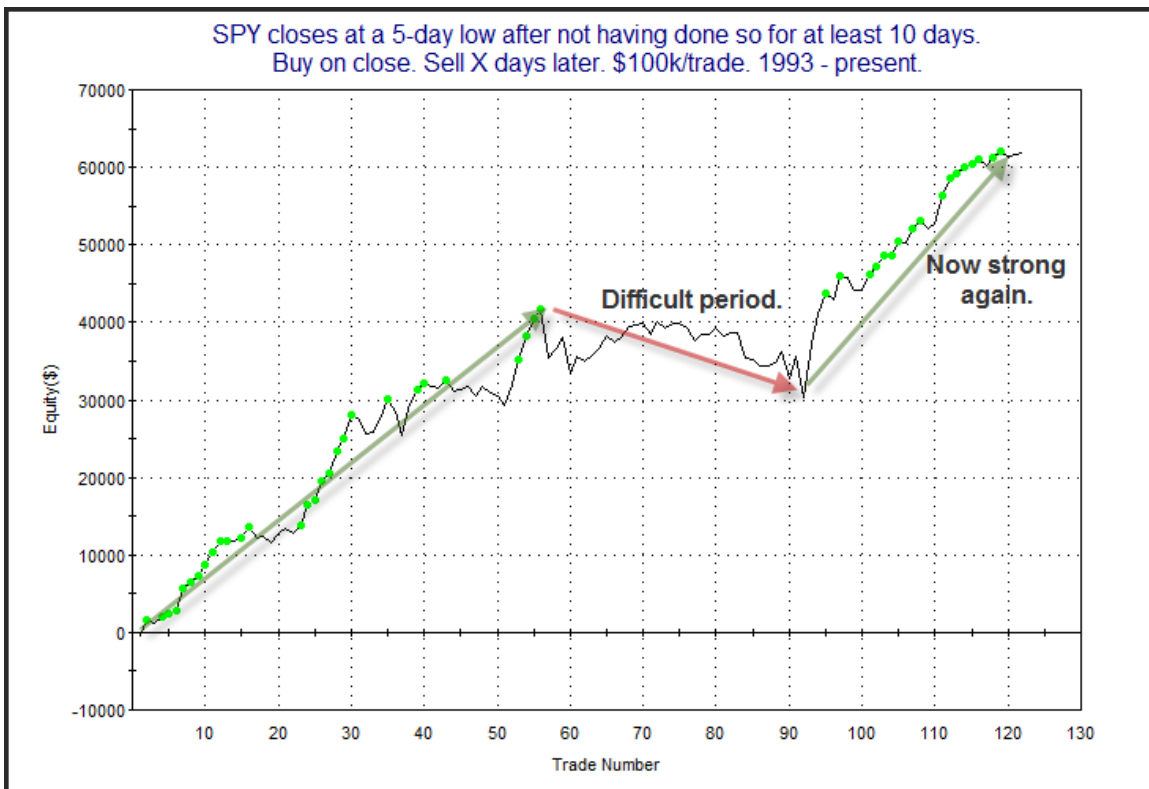
Wednesday the SPY managed to close at a 5-day low after 20 days without doing so. In the 5/24/13 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days.
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	102,926.91	122	82	40	67.21	2,179.28	8,925.10	-1,894.35	-8,623.54	1.15	2.36	843.66
9	85,774.77	122	82	40	67.21	1,951.25	8,933.76	-1,855.69	-6,709.56	1.05	2.16	703.07
8	77,943.77	122	81	40	66.39	1,876.34	8,908.38	-1,850.99	-7,113.48	1.01	2.05	638.88
7	64,145.46	122	80	42	65.57	1,802.85	6,851.52	-1,906.73	-7,790.40	0.95	1.80	525.78
6	52,420.88	122	79	43	64.75	1,611.53	6,523.92	-1,741.62	-9,559.44	0.93	1.70	429.68
5	49,050.55	122	75	46	61.48	1,588.86	6,103.89	-1,524.21	-4,906.44	1.04	1.70	402.05
4	61,897.24	122	82	40	67.21	1,399.63	6,941.43	-1,321.81	-6,244.56	1.06	2.17	507.35
3	36,816.67	122	74	48	60.66	1,300.64	5,888.16	-1,238.14	-5,295.84	1.05	1.62	301.78
2	25,141.86	122	69	52	56.56	1,092.98	3,809.72	-966.81	-3,737.28	1.13	1.50	206.08
1	13,073.25	122	67	55	54.92	845.27	2,812.20	-792.00	-3,909.03	1.07	1.30	107.16

107 of 122 instances (88%) closed above the entry price at some point in the next 5 days.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 30 trades or so the edge seems to have reasserted itself. Persistent uptrends normally wither before they die, rather than turn on a dime.

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



Even with the bullish study tonight the green Aggregator Line stayed a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the selloff helped the black Differential Line remain above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are mildly negative but the SPX is already oversold. 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 change to bullish on Thursday. Of course this could change if additional bearish evidence emerges. The Differential

Pivot will be 1,696.58 on Thursday. That is 0.6% above Wednesday's close. So SPX will need to close up at least this much in order to move back into overbought territory.

The Aggregator is still neutral. And I generally am also. But I am starting to anticipate a possible bullish setup. If SPX manages to close down again on Thursday, that would almost assuredly mean a bullish Aggregator signal, and it would also get me interested in a long trade. Three down days during a long-term uptrend always triggers some bullish studies. And with expectations set to turn bullish anyway, that would almost certainly mean a positive outlook. So with my intermediate-term outlook somewhat bullish, I will take a little more aggressive entry than I might otherwise and I will look to get in on Thursday at the close if I can get a favorable fill. Details are in the Trade Ideas section at the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/22 – somewhat bullish

The intermediate-term outlook was last updated in the 7/22 Letter. Link below:

[2013-07-22 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.

SPY – buy ¼ index position @ \$168.00 LIMIT ON CLOSE IF SPY CLOSES IN THE BOTTOM 1/3 OF ITS DAILY TRADING RANGE. Based on the short-term outlook above, I'll look to start scaling long if we see weakness on Thursday and the market closes weakly as well.

Current Open Trade Ideas

None.

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