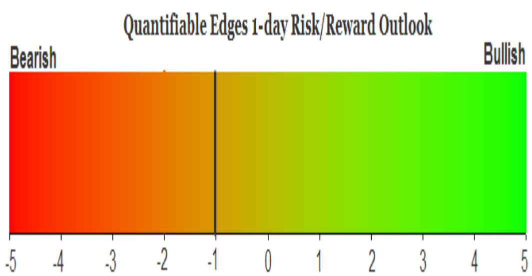
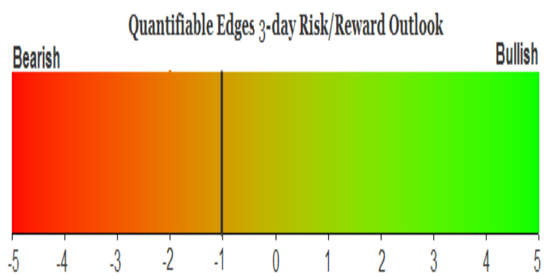
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2013 Volume 6 Issue 146

Market Overview





Signals Overview

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

Tonight's Research Points

- Wednesday is a Fed Day. Fed Days have had a bullish tilt historically.
- The turn of the month on Thursday could also be bullish if the market closes poorly on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is now mildly bullish. I will look to take advantage of dip if the reaction to the Fed is sour..

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 31, 2013	Fed Day Tommorrow	1 day	Bullish	
July 26, 2013	SPY gap & reverse 2 days > 10 & 200	1-4 days	Bearish	-1.20%
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 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 25, 2013	1st 5-low in 10 days	1-4 days	Bullish	1.60%
July 29, 2013	SPY up 2 but < 3 ago	1-2 days	Bullish	

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

The Evidence

Tuesday the market bounced a little. The SPX gained less than 0.1%, while the Nasdaq rose 0.5% and the Russell 2000 added on 0.3%. Breadth was very slightly negative as the NYSE Up Issues % was just shy of 50% and the Up Volume % was 49%. Total NYSE volume rose some from the last couple of days.

As I discussed yesterday, Wednesday is a Fed Day. Fed Days have a long history of bullish behavior. The returns have not shown an upside edge when the SPX has closed at an intermediate-term high just before the Fed Day, but other than that they've have shown considerable strength. The study below was last seen in the 4/25/12 Subscriber Letter. I have updated all the stats.

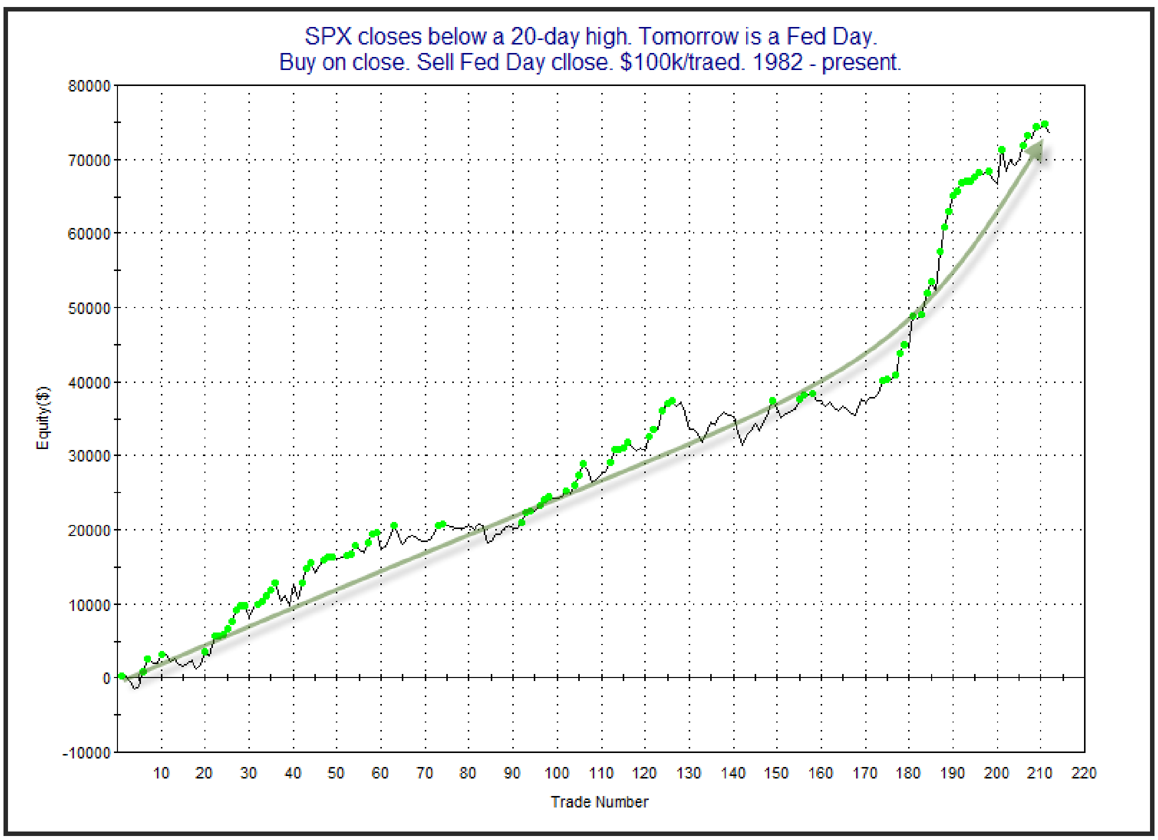
SPX closes below a 20-day high. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day cllose. $100k/traed. 1982 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$73,451.62	Profit Factor	2.27
Gross Profit	$131,186.65	Gross Loss	($57,735.03)
Total Number of Trades	212	Percent Profitable	61.32%
Winning Trades	130	Losing Trades	82
Even Trades	0		
Avg. Trade Net Profit	$346.47	Ratio Avg. Win:Avg. Loss	1.43
Avg. Winning Trade	$1,009.13	Avg. Losing Trade	($704.09)
Largest Winning Trade	$5,130.15	Largest Losing Trade	($2,932.39)

As you can see, every stat on the performance summary favors the bulls. Below is an equity curve.



A steady upslope for many years has seen an acceleration in the last few. Overall, this study appears to suggest a compelling case for the bulls on Wednesday.

Last night I broke down returns for SPY based on where it closed in the daily range. Tuesday it closed between ¼ and ½ way up off the bottom of the daily range. Below is the study I showed last night.

Tomorrow is a Fed Day. SPY closes > 25 and <=50% of daily range.
Buy on close. Sell Fed Day close.$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary Collapse

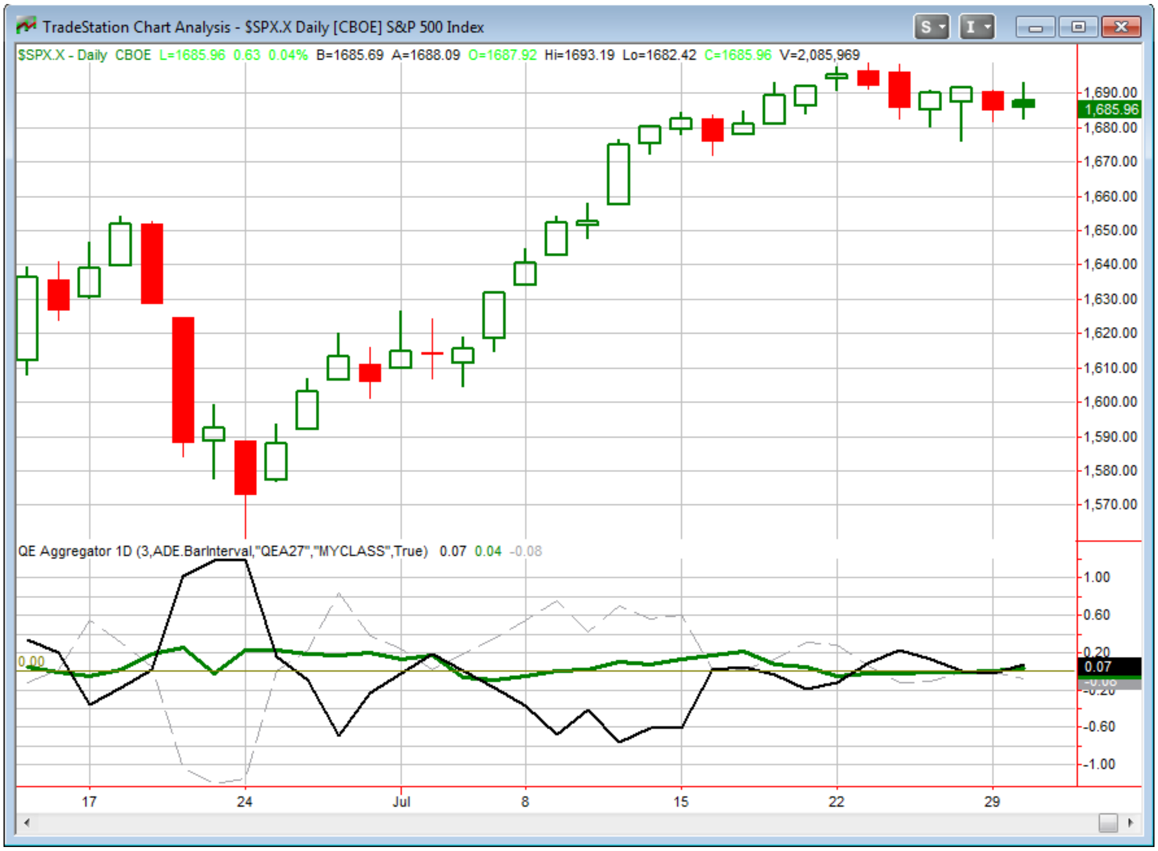
All Trades			
Total Net Profit	$10,267.79	Profit Factor	2.50
Gross Profit	$17,119.75	Gross Loss	($6,851.96)
Total Number of Trades	27	Percent Profitable	70.37%
Winning Trades	19	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$380.29	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	$901.04	Avg. Losing Trade	($856.50)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

Numbers here are very good. The overall Avg Trade is also similar the 1st study. Tomorrow's Fed Day appears more likely to see gains than losses.

In the Quantifiable Edges Guide to Fed Days I broke down the Fed Day returns by time of day. The most interesting finding I uncovered when I did this was that there has been no consistent edge after the announcement. The upside edge has typically played itself out between the close the day before and the time the announcement is made. This is why I will often take profits before the announcement if I am in a Fed-Day trade. In this case, I did not get a fill last night, so there is nothing for me to concern myself with.

Wednesday is especially interesting because not only is there a Fed announcement, but it is also the last day of the month. This means that not only will hear whether there is going to be any tapering, but in the unlikely case that it begins immediately, we'll be able to see amounts. This is because the Fed buying schedule is due to be released in the afternoon as well.

I have updated the Aggregator chart below.



Both lines are again close to zero making it difficult to decipher where they lie. Though tough to see, the green Aggregator Line moved from barely negative to barely positive. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also crossed up through 0. The positive Differential Line reading means the SPX is mildly oversold versus recent expectations. So expectations are a little positive and the SPX is slightly 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 change from short to long at the close.

Both current short-term studies are set to expire on Wednesday. This means that the Aggregator value will be largely dependent on any new studies that emerge. If none emerge, the intermediate-term studies will leave the Aggregator mildly positive. The Differential Pivot will be 1,690.92 on Wednesday. That is 0.3% above Tuesday's close. So the market will need to close up at least this this much in order to move back into overbought territory.

Seasonality will again play a part in the studies that trigger on Wednesday. The 1st day of the month has generally been a strong day for the market since the late 80s / early 90s.

The upside edge has primarily played out during uptrends, though. In the past I have shown that 1st days of the month when SPX is above its 200ma have done very well. Inspired by an Overnight Edges study this afternoon I decided to break down the 1st of the month a little differently tonight, and the results were very compelling.

For this study I examined all 1st days of the month and broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

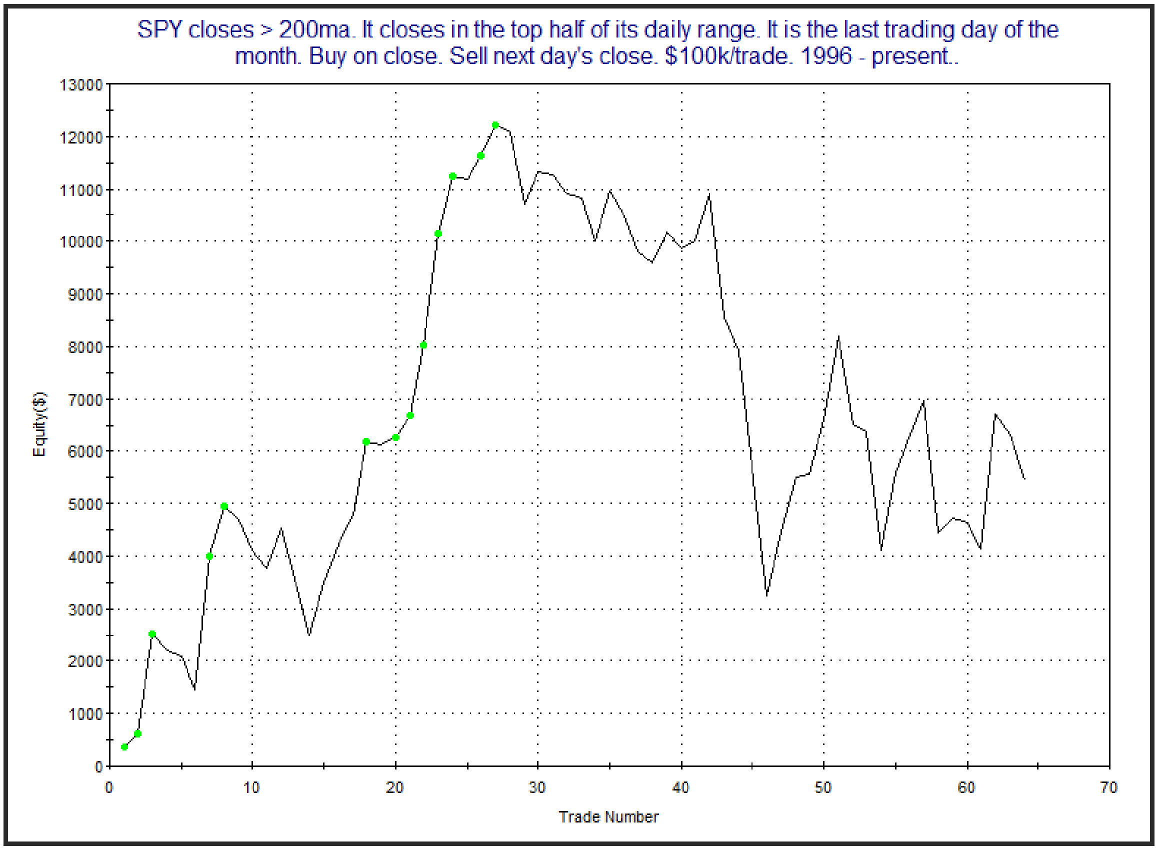
SPY closes > 200ma. It closes in the top half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. $100k/trade. 1996 - present..

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$5,441.15	Profit Factor	1.22
Gross Profit	$30,378.28	Gross Loss	($24,937.13)
Total Number of Trades	64	Percent Profitable	50.00%
Winning Trades	32	Losing Trades	32
Even Trades	0		
Avg. Trade Net Profit	$85.02	Ratio Avg. Win:Avg. Loss	1.22
Avg. Winning Trade	$949.32	Avg. Losing Trade	($779.29)
Largest Winning Trade	$2,562.30	Largest Losing Trade	($2,515.60)

The numbers here don't suggest any substantial edge. Below is the profit curve.



This paints an even bleaker picture.

But now let's look at the stats when SPY closed in the bottom half of its daily range.

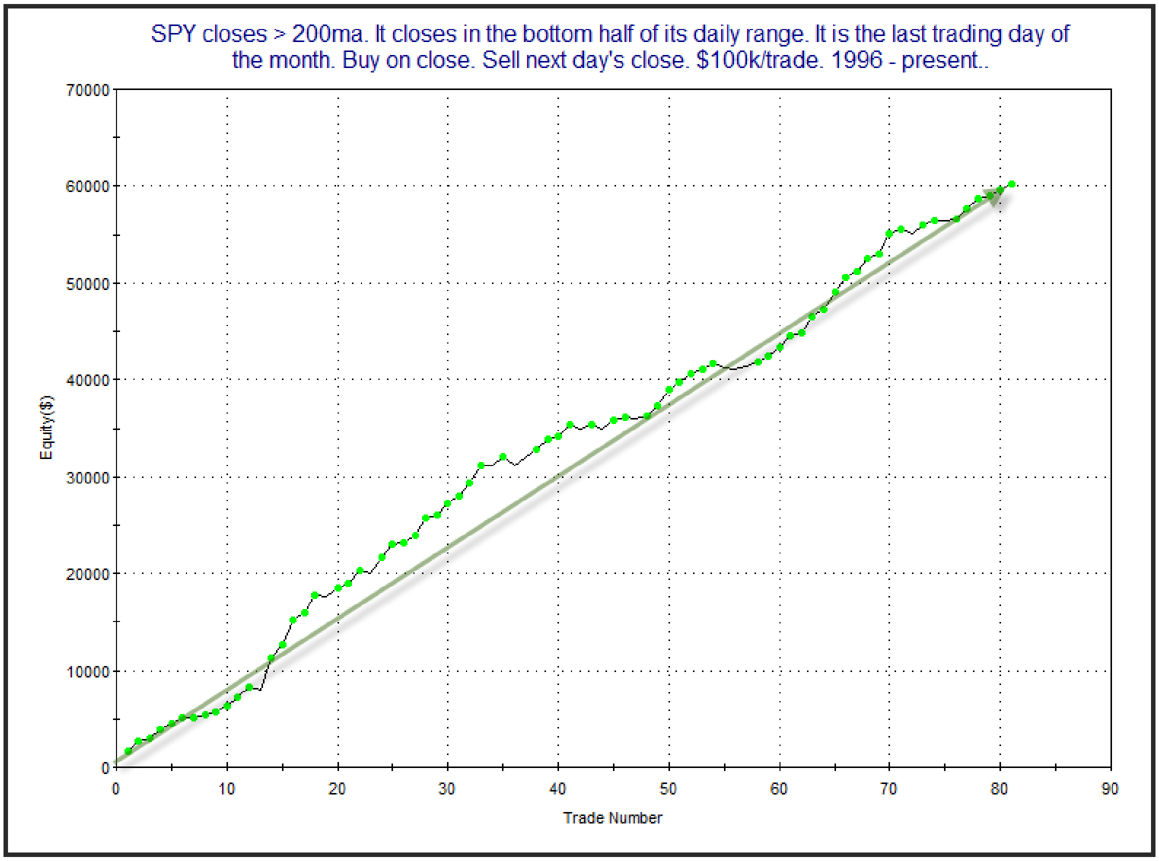
SPY closes > 200ma. It closes in the bottom half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. $100k/trade. 1996 - present..

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$60,189.26	Profit Factor	16.65
Gross Profit	$64,035.20	Gross Loss	($3,845.94)
Total Number of Trades	81	Percent Profitable	85.19%
Winning Trades	69	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	$743.08	Ratio Avg. Win:Avg. Loss	2.90
Avg. Winning Trade	$928.05	Avg. Losing Trade	($320.50)
Largest Winning Trade	$3,295.88	Largest Losing Trade	($885.28)

The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 16x the size of gross losses. And the average win is actually bigger than the largest loss. That's an incredible stat when you are looking at a sample size of 81 instances. And the profit curve…



You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

With all this in mind, I will take another shot at the long side on Wednesday if SPY fails to post substantial gains and finishes in the bottom half of the daily range.   Details are in the Trade Ideas section lower down.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/29 – somewhat bullish
The intermediate-term outlook was last updated in the 7/29 subscriber letter. Link below:
2013-07-29 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 @ $169.00 LIMIT ON CLOSE IF IT ALSO CLOSES IN THE BOTTOM 50% OF THE DAILY RANGE. Based on the short-term outlook above, I will anticipate a long-side edge if the market closes poorly before the turn of the month.

Current Open Trade Ideas

None.