

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 1, 2013

Volume 6 Issue 147

Market Overview



Signals Overview

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

Tonight's Research Points

- Turn of the month is offering some bullish evidence.
- The Fed buying schedule for August was released.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but SPX could easily move back to oversold on Thursday. I'll be looking to take some quick profits if SPX closes higher.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 1, 2013	Fed Day Tommorrow	1 day	Bullish	
August 1, 2013	End of Month < 10ma and > 200ma	1-5 days	Bullish	2.20%
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 31, 2013	Fed Day Tommorrow	1 day	Bullish	
July 26, 2013	SPY gap & reverse 2 days > 10 & 200	1-4 days	Bearish	-1.20%

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

The Evidence

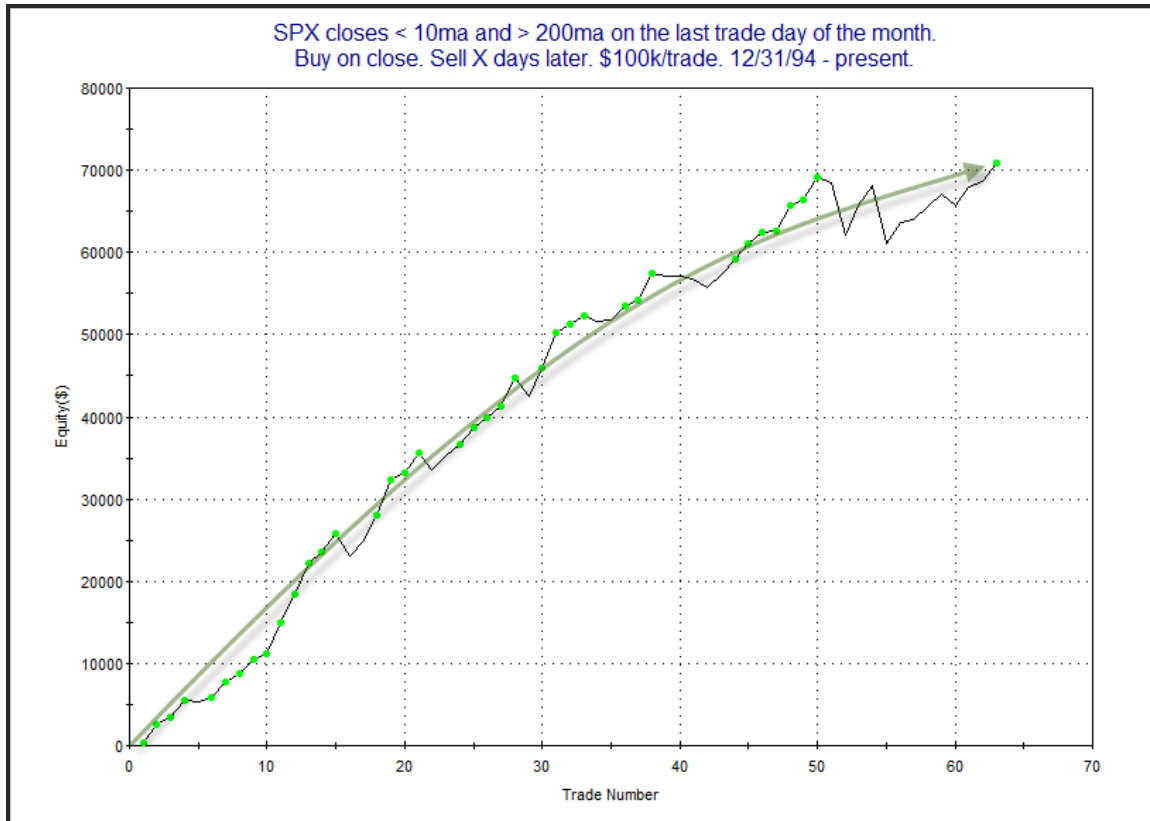
The market made some strong moves both up and down following the Fed announcement on Wednesday. But it didn't really get far in the end. The SPX finished down less than 0.1%, while the Nasdaq rose 0.3% and the Russell 2000 added on 0.2%. Breadth was mixed as the NYSE Up Issues % was just shy of 51% and the Up Volume % was 46%. Total NYSE volume came in relatively high.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is not already short-term overbought. The study below was last seen in the 7/1/13 subscriber letter. It uses moving averages to take these concepts into account. All stats are updated.

SPX closes < 10ma and > 200ma on the last trade day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/94 - 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	70,840.63	63	51	12	80.95	1,886.09	4,435.97	-2,112.50	-7,153.30	0.89	3.79	1,124.45
4	63,941.72	63	50	13	79.37	1,704.65	3,838.00	-1,637.75	-7,100.17	1.04	4.00	1,014.95
3	45,853.11	63	44	19	69.84	1,641.94	3,709.44	-1,389.05	-3,492.36	1.18	2.74	727.83
2	37,063.80	63	47	16	74.60	1,225.16	3,442.32	-1,282.41	-4,320.06	0.96	2.81	588.31
1	39,651.38	63	49	14	77.78	978.23	3,119.10	-591.56	-2,559.62	1.65	5.79	629.39

58 of 63 instances (92%) closed above the entry price at some point in the next week.

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



There have been a couple of big drops among recent instances, but 9 of the last 11 triggers have led to higher prices, so this edge appears to be intact.

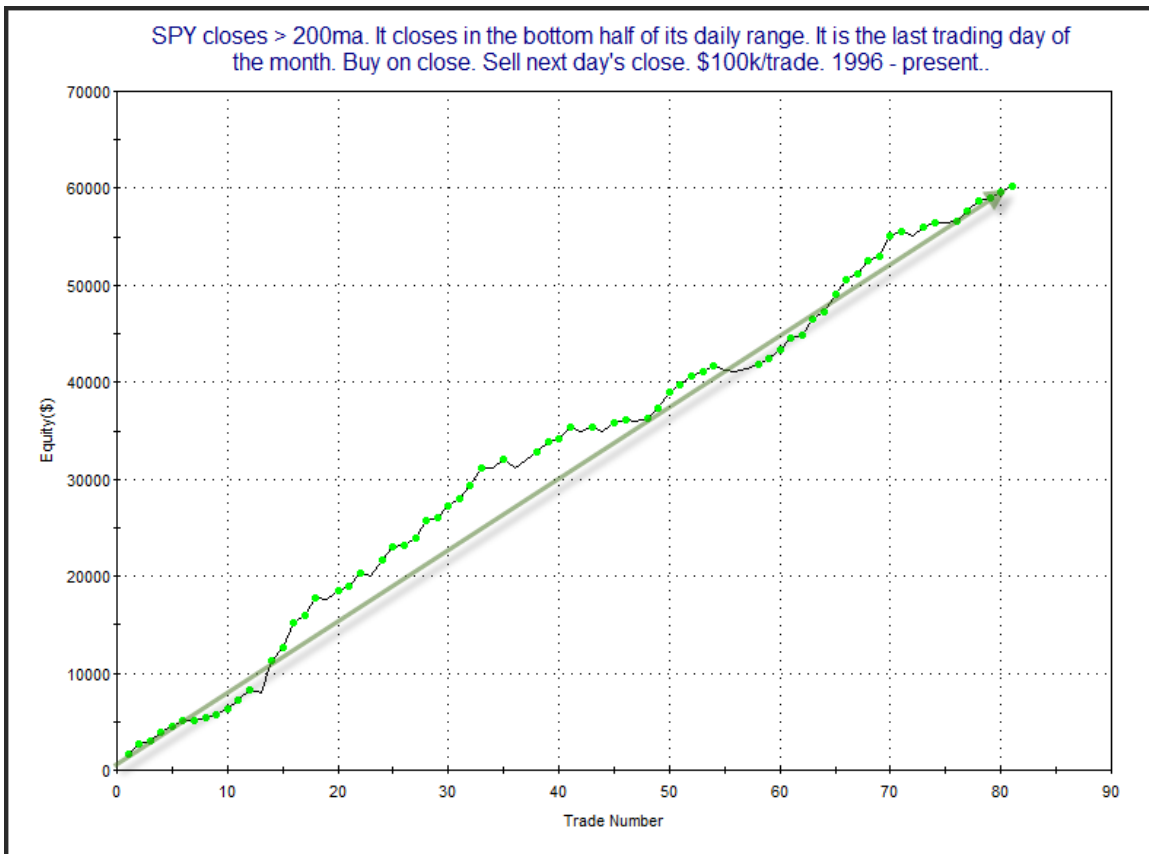
Of course I also showed a compelling turn of the month study last night that did trigger today. Excerpt below.

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..

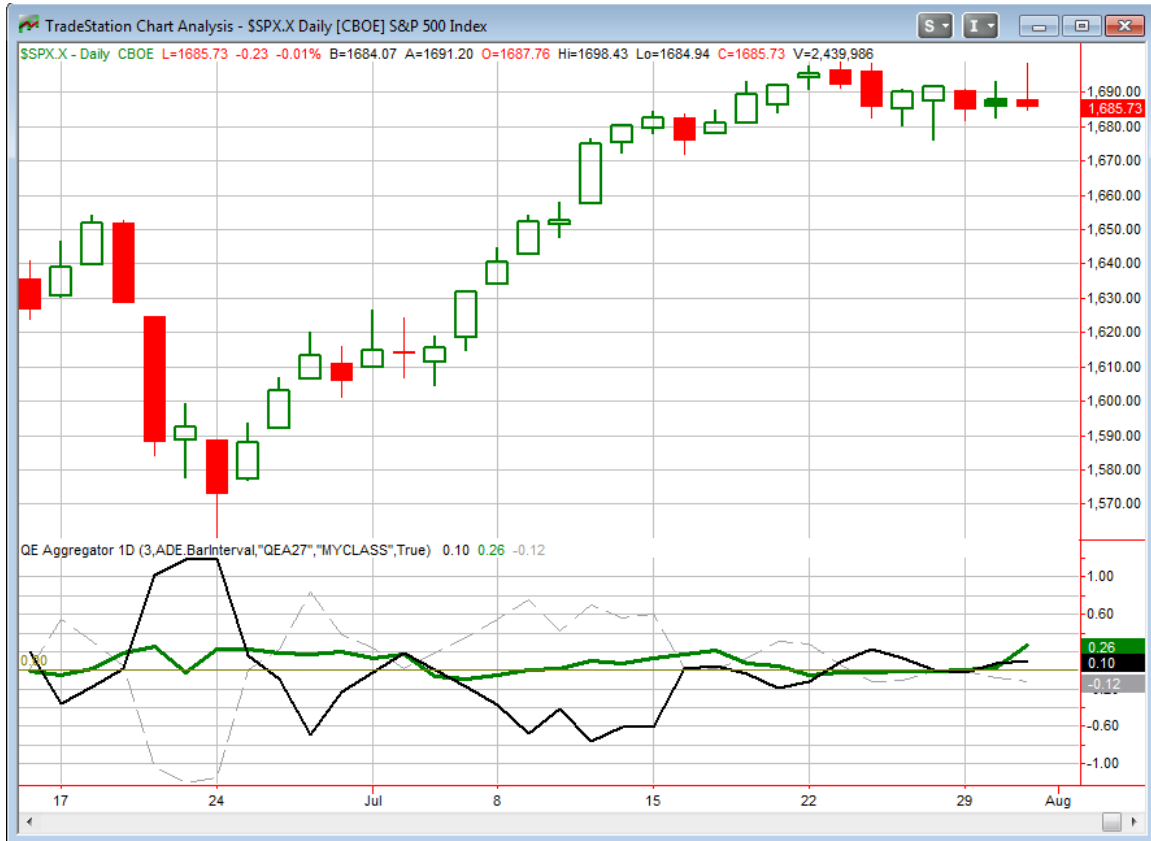
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$60,189.26	Profit Factor	16.65
Gross Profit	\$64,035.20	Gross Loss	(\$3,845.94)
Total Number of Trades	81	Percent Profitable	85.19%
Winning Trades	69	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$743.08	Ratio Avg. 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.

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



With the bullish studies tonight the green Aggregator Line moved more solidly into positive territory. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also put some daylight above zero. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is 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 remain long at the close.

Based on the current active studies expectations are set to close positive once again on Thursday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,685.00 on Thursday. That is less than 1 point below Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 on a flat SPX close. So SPX will turn overbought unless it closes \leq 1,685.00. This would also put an end to the long Aggregator signal should it occur.

I took on some long exposure at the close on Wednesday. If things go my way Thursday that will put the SPX back in an overbought state. Therefore, I'll be looking to take profits if the trade goes my way.

I should also mention briefly the Fed news. From a policy standpoint, there did not appear to be any substantial changes. The Fed also released its POMO buying schedule for August on Wednesday. This month instead of \$45 billion in POMO, they have scheduled \$46 billion. This is supposed to make up for a \$1 billion shortfall in July. I am out of the office on vacation, and unable to dedicate the normal amount of time to the Letter tonight. But I will update the QE Buying Power Index and offer some additional thoughts on August's schedule in this weekend's Letter.

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.

None tonight..

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/31/2013	\$168.71	\$168.71	0.00%		bought on close

I will look to sell SPY at \$168.75 LIMIT ON CLOSE. This is because the SPX would be considered “overbought” on any up close. So I will hope to take quick profits on this one.

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