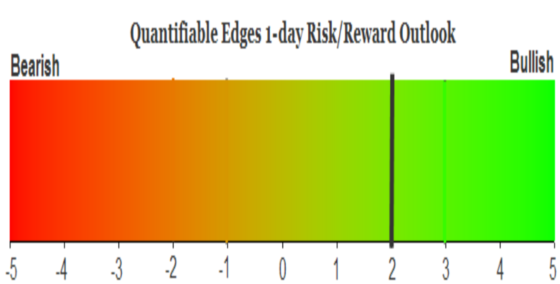
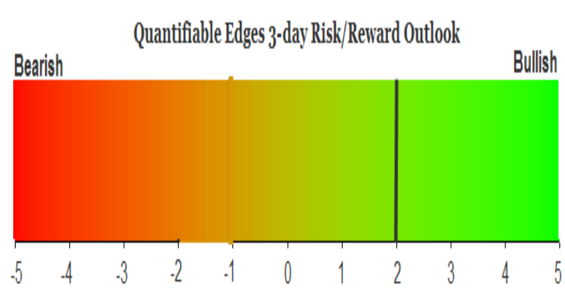
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2014 Volume 7 Issue 114

Market Overview





Signals Overview

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

Tonight's Research Points

- Wednesday's Fed day edge will be highly dependent on Tuesday's action.
- Wednesday's Fed Day will also inform us about the Fed's intentions for July.

Short-term Outlook

The Bottom Line

No new short-term evidence emerged, but the existing evidence is calling for more of a bounce. And SPX is still considered short-term oversold. I am partially long and am looking to hold that position at least through Monday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
June 13, 2014	Unfilled gap dn 2 days in row > 200	1-5 days	Bullish	
June 13, 2014	1st 5-day low close in > 10 days	1-4 days	Bullish	
June 13, 2014	System 11111	1-4 days	Bullish	
Active - Long Term				
June 13, 2014	Unfilled gap dn 2 days in row > 200	1-10 days	Bullish	
June 9, 2014	RSI(2) > 99	1-15 days	Bullish	2.40%
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
December 23, 2013	QE Tapering	int term	Neutral	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
June 11, 2014	SPX down. RSI(2) > 90	1-2 days	Bullish	

The Evidence

Evidence suggested a bounce as we headed into Friday. And Friday delivered, but not in a big way. The SPX, NASDAQ and the Russell 2000 each rose 0.3%. Breadth was positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 62%. Total NYSE volume dipped and was very light.

The moderate bounce back after the decline over the last few days did very little to inspire new studies. We do still have some short-term studies from Thursday in effect for the next few days, and they all suggest there should be more upside to come.

So there is nothing new to discuss with regards to Monday. But Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 4/29/14 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

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Tomorrow is a Fed Day. SPY closes in top 25% of daily range.
Buy on close. Sell next day's close. $100k/trade. 1993 - 4/1/2014.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$7,188.50	Profit Factor	1.32
Gross Profit	$29,338.01	Gross Loss	($22,149.51)
Total Number of Trades	68	Percent Profitable	47.06%
Winning Trades	32	Losing Trades	34
Even Trades	2		
Avg. Trade Net Profit	$105.71	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	$916.81	Avg. Losing Trade	($651.46)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of daily range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$13,888.50	Profit Factor	2.08
Gross Profit	$26,710.49	Gross Loss	($12,821.99)
Total Number of Trades	38	Percent Profitable	57.89%
Winning Trades	22	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	$365.49	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	$1,214.11	Avg. Losing Trade	($854.80)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.
Buy on close. Sell next day's close. $100k/trade. 1993 - 4/1/2014.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$12,043.90	Profit Factor	2.76
Gross Profit	$18,895.86	Gross Loss	($6,851.96)
Total Number of Trades	29	Percent Profitable	72.41%
Winning Trades	21	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$415.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	$899.80	Avg. Losing Trade	($856.50)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

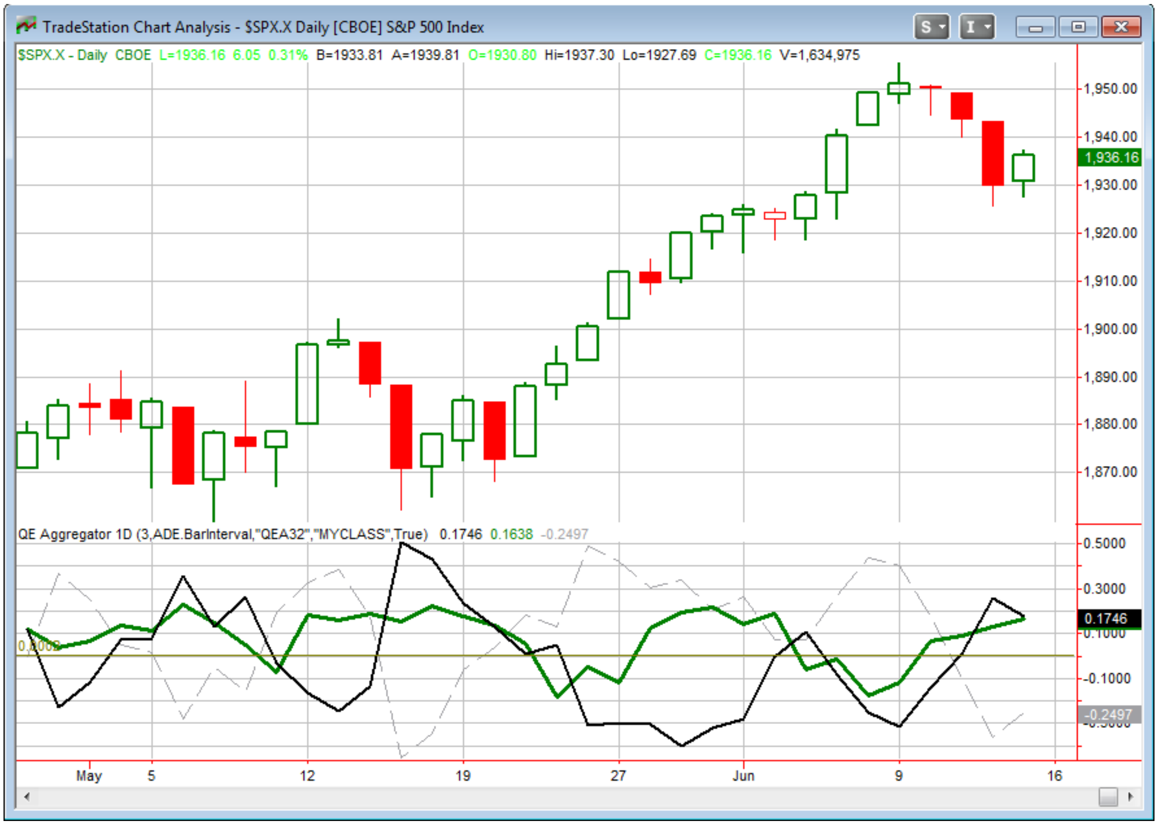
SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. $100k/trade. 3/1/93 - present.

TradeStation Performance Summary Collapse

All Trades			
Total Net Profit	$20,552.27	Profit Factor	4.08
Gross Profit	$27,234.96	Gross Loss	($6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	$1,047.50	Avg. Losing Trade	($742.52)
Largest Winning Trade	$4,645.80	Largest Losing Trade	($2,945.28)

What was true 4 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

I have updated the Aggregator chart below.



Without anything new being added tonight the green Aggregator Line held well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also remained squarely above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold versus expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

With all the short-term studies currently bullish, expectations are set to remain bullish again on Monday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1944.63 on Monday. That is 0.4% above Friday's close. So for SPX to move back to overbought it will need to close up at least this much.

The Aggregator is suggesting an upside edge. The studies from the other night indicate this bounce should have further to go. And on a short-term basis the oversold condition has not yet been worked off. I took on some long exposure on Friday. With no new evidence having emerged Friday, I do not intend to take on new exposure on Monday. Depending how things play out over the next couple of days (and especially Tuesday), I may look to buy more on Tuesday ahead of Wednesday's Fed Day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/16 – slightly bullish

Quantifiable Edges Market Timing Course Combo Signals Overview

Combo #1	Combo #2	Combo #3
Flat	Long	Long

SPX did make a new all-time high this week, but the mid-week selling made it a down week overall. Still, there is no indication yet that the long uptrend had ended.

I've shown the status of the different Combination Signals from the Quantifiable Edges Market Timing Course above. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in Lesson 8. Subscribers may also download detailed hypothetical historical performance reports covering 1/1/71 – 3/7/14 in Lesson 11, Course Downloads. (You must go through the course first in order to access the Downloads.)

Thursday night's letter contained a study with intermediate-term implications. I have copied it below.

Notable about the price action over the last 2 days is that both Wednesday and Thursday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 5/16/14 letter. Results are updated.

SPY leaves an unfilled down gap for the 2nd day in a row. It closes at a 5-day low but > 200ma.
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	43,277.05	34	25	9	73.53	2,286.82	5,325.39	-1,543.73	-4,353.36	1.48	4.11	1,272.85
9	39,744.92	35	28	7	80.00	2,054.38	4,882.41	-2,539.69	-6,273.96	0.81	3.24	1,135.57
8	33,124.65	35	25	9	71.43	2,044.12	4,574.25	-1,997.60	-4,801.50	1.02	2.84	946.42
7	22,169.36	35	24	10	68.57	1,937.90	4,429.74	-2,434.02	-5,057.58	0.80	1.91	633.41
6	27,686.88	35	26	9	74.29	1,642.39	3,828.72	-1,668.36	-3,734.50	0.98	2.84	791.05
5	28,776.81	35	25	10	71.43	1,518.50	3,940.02	-918.56	-2,465.95	1.65	4.13	822.19
4	23,153.98	35	27	8	77.14	1,157.48	4,388.28	-1,012.26	-1,920.60	1.14	3.86	661.54
3	12,205.09	35	21	14	60.00	1,050.05	3,325.14	-703.29	-1,645.38	1.49	2.24	348.72
2	8,015.28	35	21	14	60.00	904.72	2,948.14	-784.56	-2,436.12	1.15	1.73	229.01
1	3,921.92	36	21	15	58.33	706.09	1,974.15	-727.06	-1,849.26	0.97	1.36	108.94

Only one instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.

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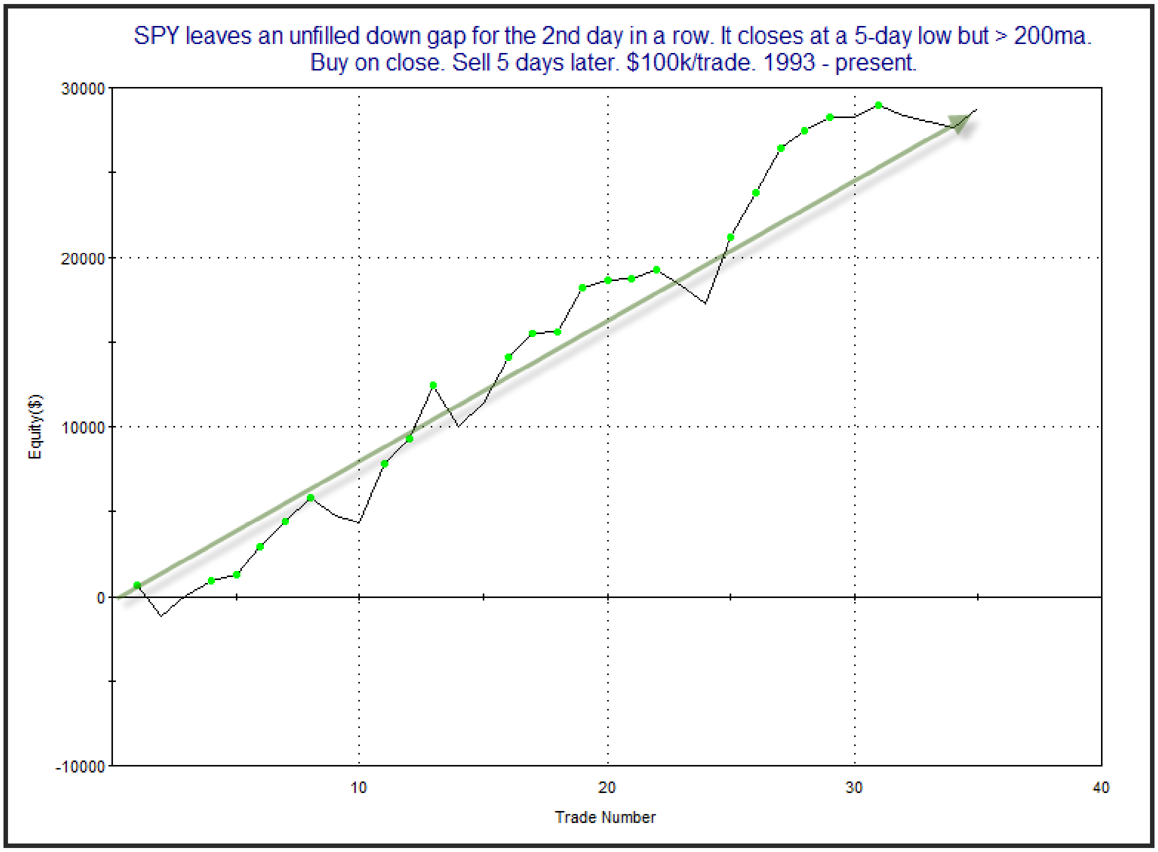
The numbers appear to suggest s strong tendency for a bounce in the next few days. Below is the profit curve assuming a 5-day holding period.



The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.

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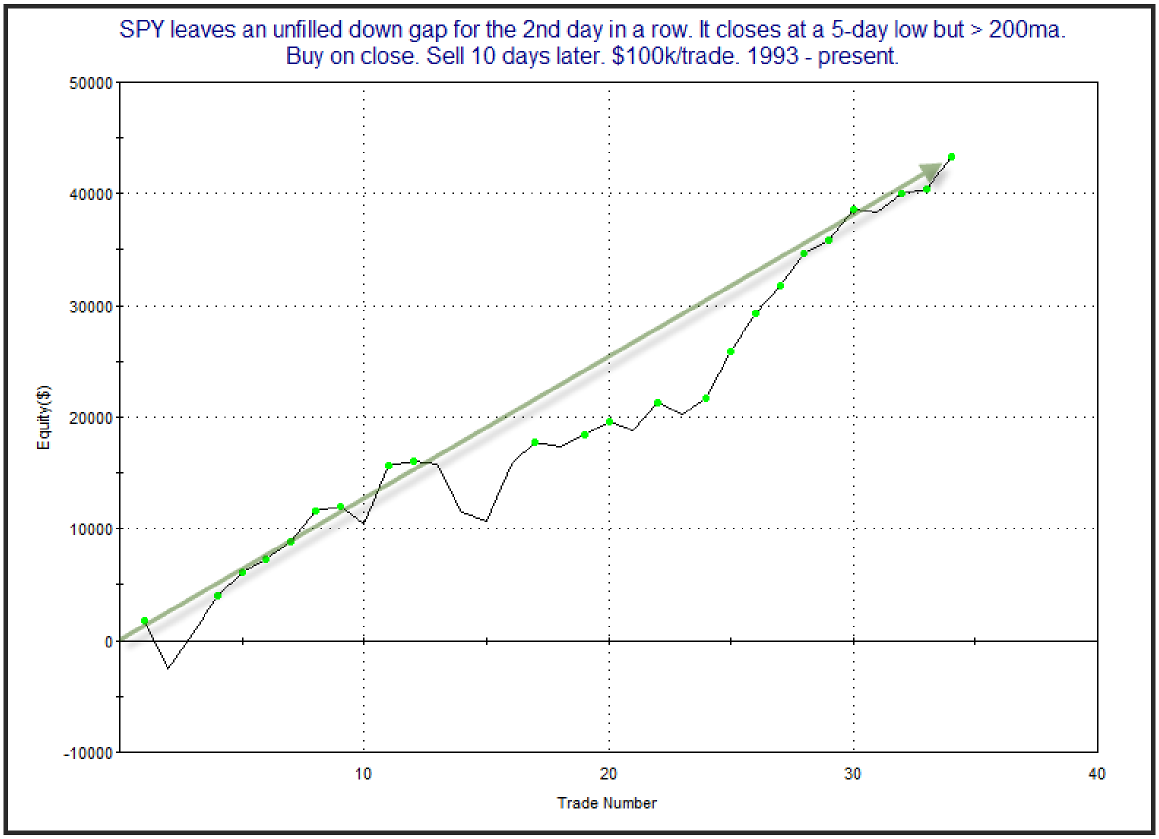
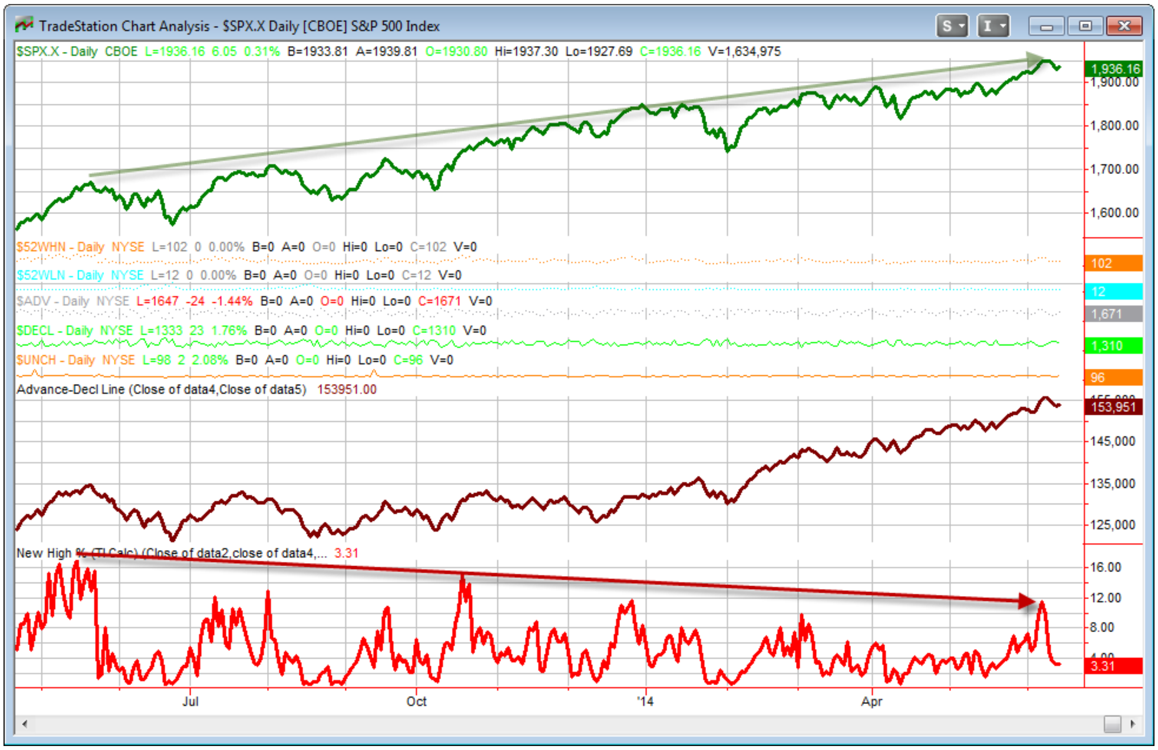


This is also very strong. I have included this study on both the Short and Intermediate-term Active Lists tonight.

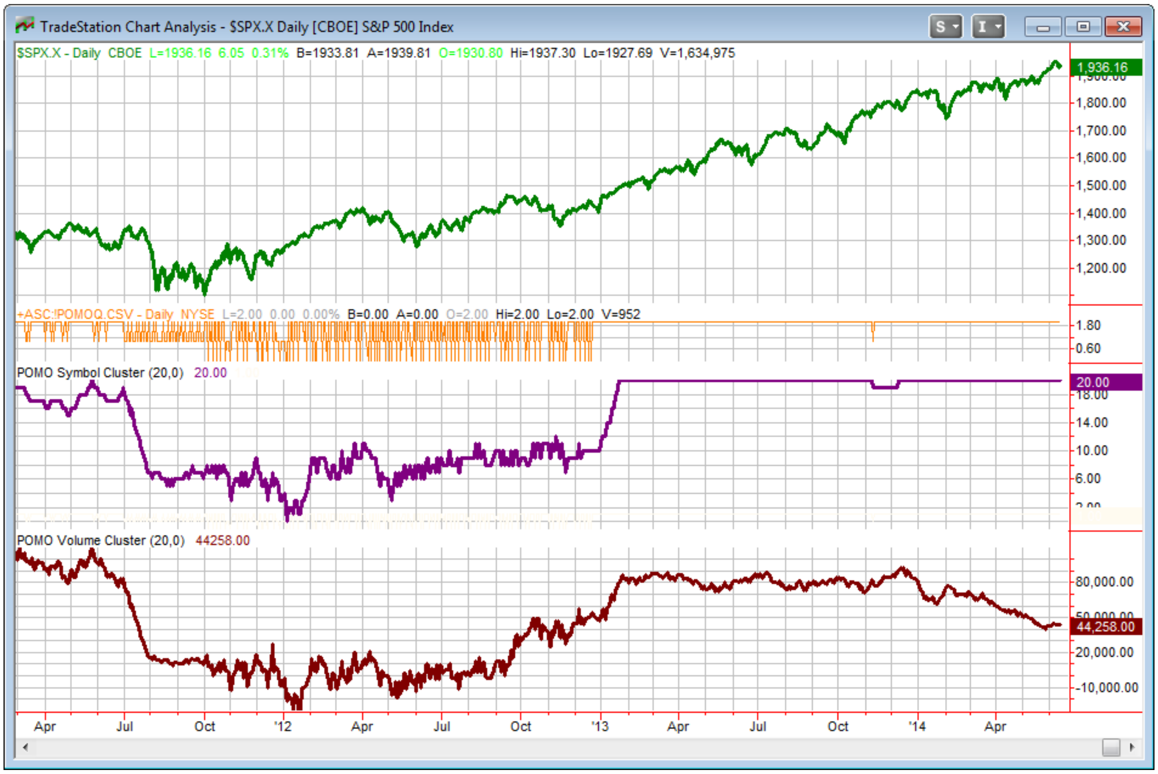
Despite the new high early in the week, the number of stocks hitting new 52-week highs did not expand. It also remained substantially below the peak seen in May 2013. This divergence is still a bit of a concern. The chart below can also be found on the QE charts page.



Subscribers that would like more info on this chart should check out the Study of Tops (available for Gold & Silver subscribers on the special reports downloads page). Until this divergence is resolved with new highs increasing beyond the May 2013 level, the market remains at risk of topping out. If the divergence is resolved, then it would be highly unlikely that the market would top out and begin a major decline any time in the next couple of months.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that *date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.*



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator is about where it was the last couple of weeks. It should continue to move sideways during June. We estimate net inflows this past week to have been about $10.5 billion. We are also expecting around there for the last 2 weeks of the month. To this point the reduced liquidity has still been positive enough to provide a decent wind at the market's back. But the Fed meeting on Wednesday will let us know of any policy changes moving forward.

We are expecting the Fed to announce another reduction in POMO/AMBS buying starting in July. We expect they will again reduce by $10 billion. This would mean $35 billion in July, which is well below the $85 billon/month that was pumped all of 2013. At some point I expect the reduced inflows will take their toll, but it has not really happened yet. Depending on the announcement, we may see if $35 billion is the magic number for the bears, or whether it is going to need to go lower before any problems arise.

So liquidity appears ample, though declining. The leading NASDAQ is providing a plus, and the uptrend appears intact. The double-gap study from Thursday night is providing more evidence, along with the RSI > 99 study from last week. The bears are banking on the shrinking New High % divergence and the weak seasonality. I am keeping my outlook at slightly bullish this week. I will continue to trade longs a bit more aggressively than shorts for the time being.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MDLZ @ $37.31 - bought 1/3 at $37.31 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(MDLZ)

Additional New Trade Ideas

A full listing of system triggers can be found at the numbered systems 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. Traders looking for ideas could look at the Triggers Spreadsheet tonight, which showed some strong results from MWV, ADP, CSCO & VTR among others.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/13/2014	$193.54	$194.14	0.31%		bought @ limit
MDLZ(1/3)	6/13/2014	$37.31	$37.45	0.38%		bought @ limit