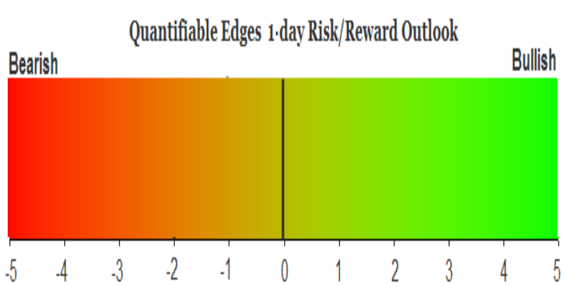
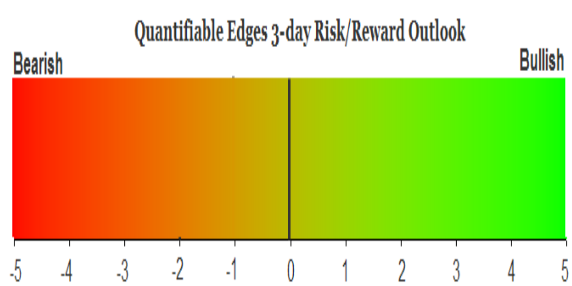
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 14, 2014 Volume 7 Issue 130

Market Overview





Signals Overview

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

Tonight's Research Points

- July has been the weakest opex week of the year historically.

Short-term Outlook

The Bottom Line

Evidence is moderately positive and the market is slightly overbought. This leaves me with a neutral short-term outlook.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-5 days	Bullish	1.70%
Active - Long Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-10 days	Bullish	2.50%
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
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	

The Evidence

Friday was a slow summer day for the market and the indices finished mixed. The SPX rose 0.2%, the NASDAQ gained 0.4% and the Russell 2000 closed down 0.2%. Breadth was near breakeven as the NYSE Up Issues % came in at 52% and the Up Volume % was 51%. Total NYSE volume came in very light.

Again we are seeing a lack of action leading to a lack of new evidence. The moderate movement failed to generate any compelling Quantifinder studies and my looks at the current patterns did not uncover anything either. This upcoming week monthly options will expire on Firday. In general, opex week has historically been bullish. But July is the month where opex has been the weakest. The table below is copied from the 3/17/14 letter.

Op-Ex Week SPX Performance by Month. $100k/trade. 1984 - present. (Excludes September 2001)

X Month	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
12	25,180.37	30	24	6	80.00	1,402.31	5,868.16	-1,412.53	-4,176.33	0.99	3.97	839.35
11	715.38	30	18	12	60.00	1,366.36	3,718.25	-1,989.93	-8,351.64	0.69	1.03	23.85
10	25,130.48	30	22	8	73.33	2,338.11	7,282.10	-3,288.50	-9,109.98	0.71	1.96	837.68
9	12,008.05	29	18	11	62.07	1,593.13	5,313.08	-1,515.30	-4,975.04	1.05	1.72	414.07
8	3,158.22	30	17	13	56.67	1,445.89	4,329.72	-1,647.84	-4,643.52	0.88	1.15	105.27
7	-3,406.63	30	14	15	46.67	1,471.98	6,921.25	-1,600.96	-7,953.12	0.92	0.86	-113.55
6	-2,972.18	30	16	14	53.33	1,257.62	3,786.09	-1,649.57	-3,998.19	0.76	0.87	-99.07
5	2,162.63	30	15	15	50.00	2,025.78	4,850.40	-1,881.60	-4,959.45	1.08	1.08	72.09
4	25,996.98	30	19	11	63.33	2,271.86	5,731.96	-1,560.77	-3,580.15	1.46	2.51	866.57
3	24,891.20	30	20	10	66.67	2,041.89	7,515.60	-1,594.66	-6,711.66	1.28	2.56	829.71
2	6,981.81	31	17	14	54.84	1,440.68	3,096.72	-1,250.70	-6,814.80	1.15	1.40	225.22
1	8,168.50	31	15	16	48.39	2,177.49	5,389.00	-1,530.87	-5,383.93	1.42	1.33	263.50

June and July are the only months where opex has posted net losses, and July stats are a bit worse. So the normal opex positive seasonality does not seem to be with us this week.

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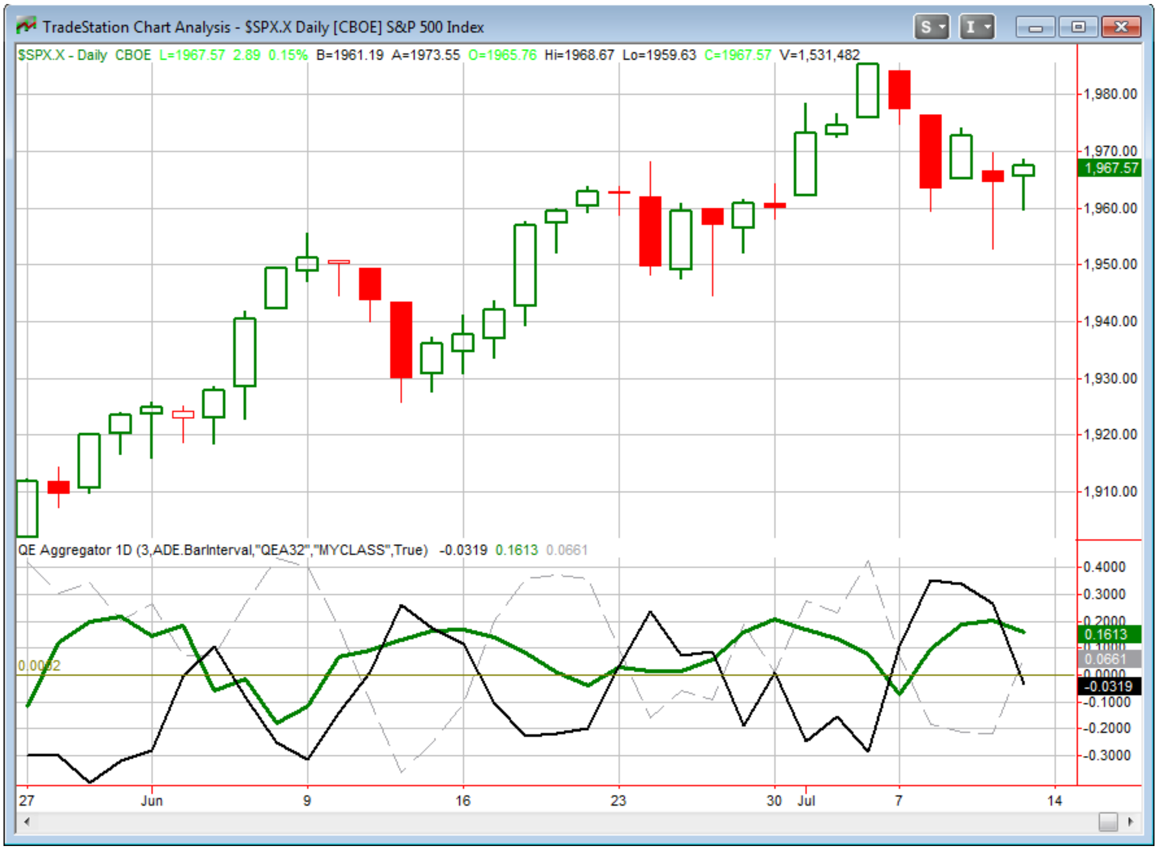
Without any new studies being added to the Active List tonight, I have updated the Aggregator chart below.



The green Aggregator Line held squarely above 0 on Friday. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove down and finished just below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are slated to stay positive on Monday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted at* 1977.01 on Monday. That is 0.5% *above* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So SPX will need to close up at least 0.5% in order to remain overbought versus recent expectations. Otherwise it will be considered oversold at the close on Monday.

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The Aggregator is officially back to neutral. And expectations are only weakly positive. With the Differential Pivot inverted it is already setting up to turn back to bullish on Monday. I do not intend to jump the gun and begin setting up orders just yet. There's no telling what new evidence will emerge on Monday. And with just one study on the short-term Active List, expectations going forward will depend greatly on any new evidence that emerges in the next few days. So I am not looking to take on new exposure just yet. But a down day on Monday could very easily lead to a long entry Tuesday morning.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/14 – slightly bullish

Quantifiable Edges Market Timing Course Combo Signals Overview

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

SPX took a week off from making new highs, and despite the move up on Friday, it finished the week down 0.9%.

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. 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.)

There was one study this week with intermediate-term implications. It triggered on Tuesday. The notes below are copied from the 7/9/14 letter.

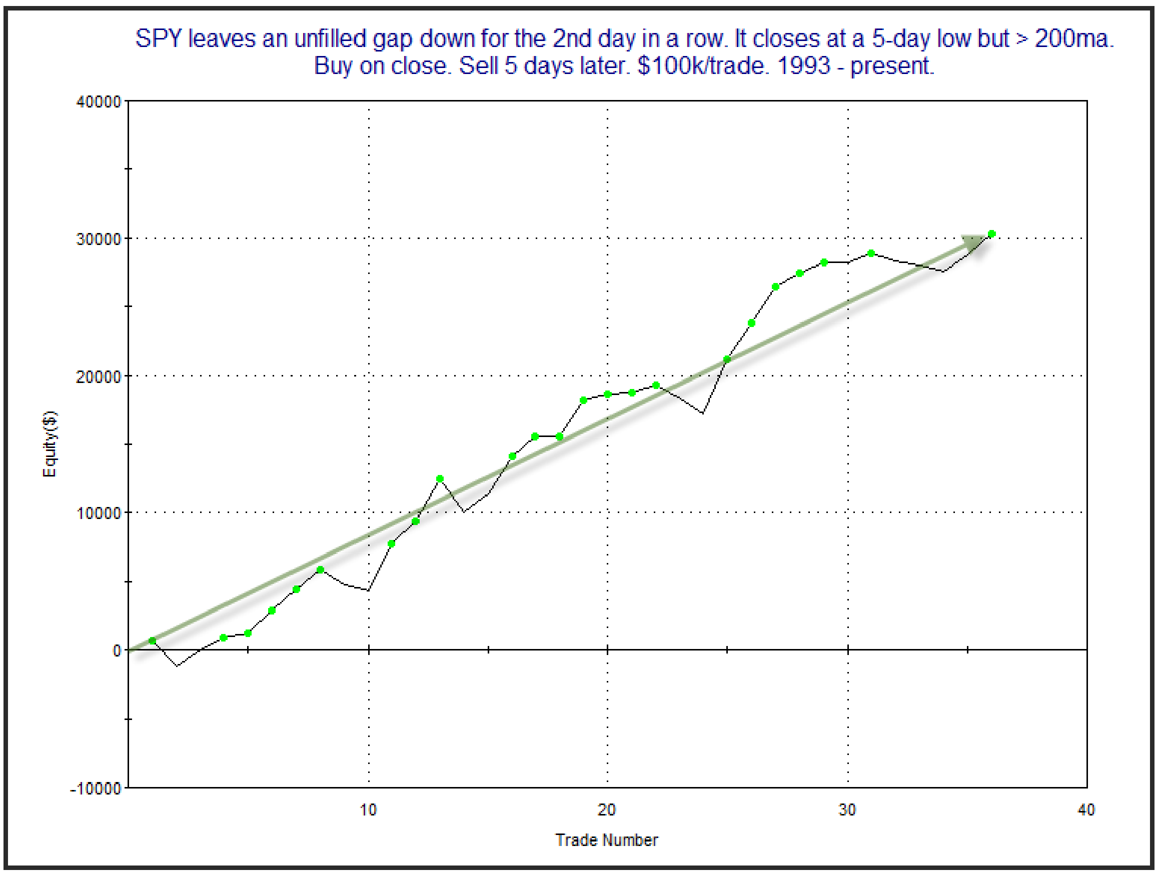
Notable about the price action over the last 2 days is that both Monday and Tuesday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 6/13/14 letter. Results are updated.

SPY leaves an unfilled gap down 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	44,257.45	35	26	9	74.29	2,236.58	5,325.39	-1,543.73	-4,353.36	1.45	4.19	1,264.50
9	40,797.56	36	29	7	80.56	2,019.84	4,882.41	-2,539.69	-6,273.96	0.80	3.29	1,133.27
8	33,723.21	36	26	9	72.22	1,988.52	4,574.25	-1,997.60	-4,801.50	1.00	2.88	936.76
7	23,376.80	36	25	10	69.44	1,908.68	4,429.74	-2,434.02	-5,057.58	0.78	1.96	649.36
6	28,925.28	36	27	9	75.00	1,627.43	3,828.72	-1,668.36	-3,734.50	0.98	2.93	803.48
5	30,293.85	36	26	10	72.22	1,518.44	3,940.02	-918.56	-2,465.95	1.65	4.30	841.50
4	24,557.49	36	28	8	77.78	1,166.27	4,388.28	-1,012.26	-1,920.60	1.15	4.03	682.15
3	12,870.73	36	22	14	61.11	1,032.58	3,325.14	-703.29	-1,645.38	1.47	2.31	357.52
2	8,402.28	36	22	14	61.11	881.19	2,948.14	-784.56	-2,436.12	1.12	1.76	233.40
1	4,226.36	37	22	15	59.46	687.83	1,974.15	-727.06	-1,849.26	0.95	1.39	114.23

Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.

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.



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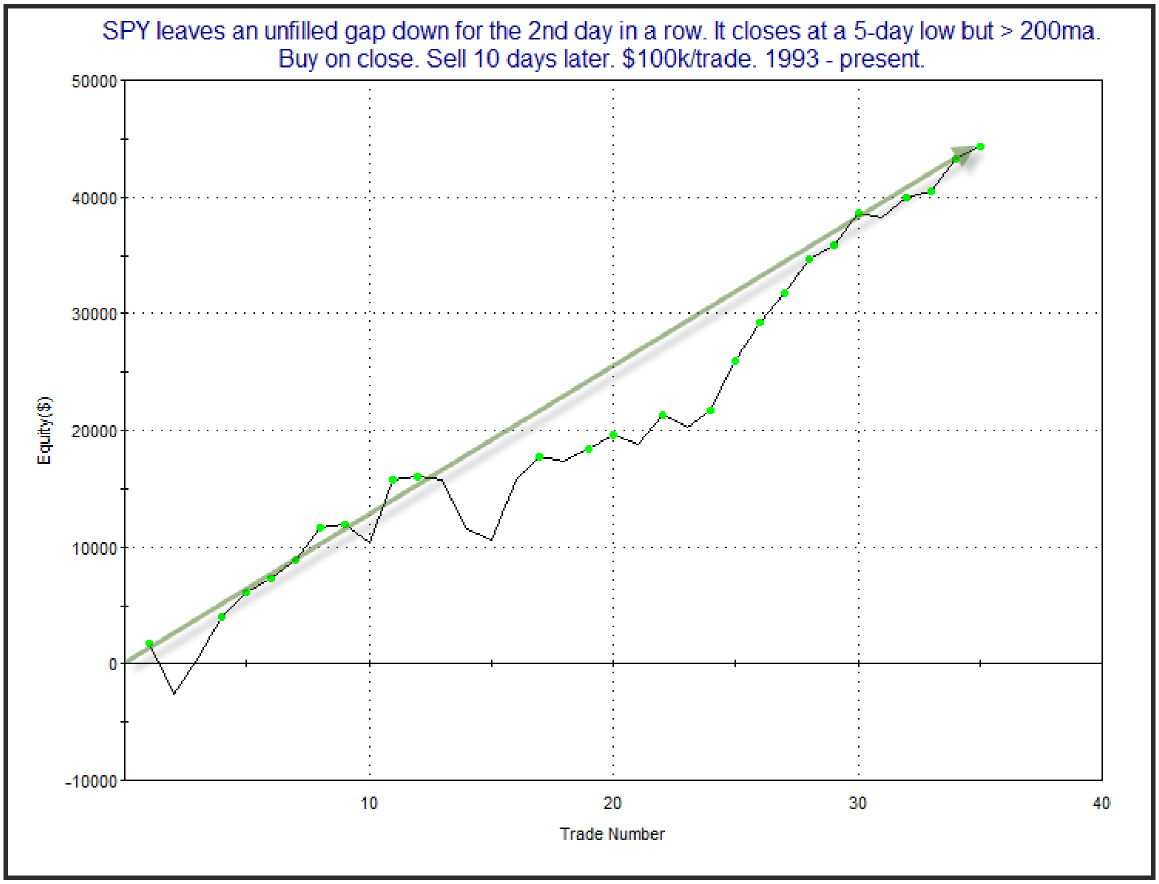
The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



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

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.

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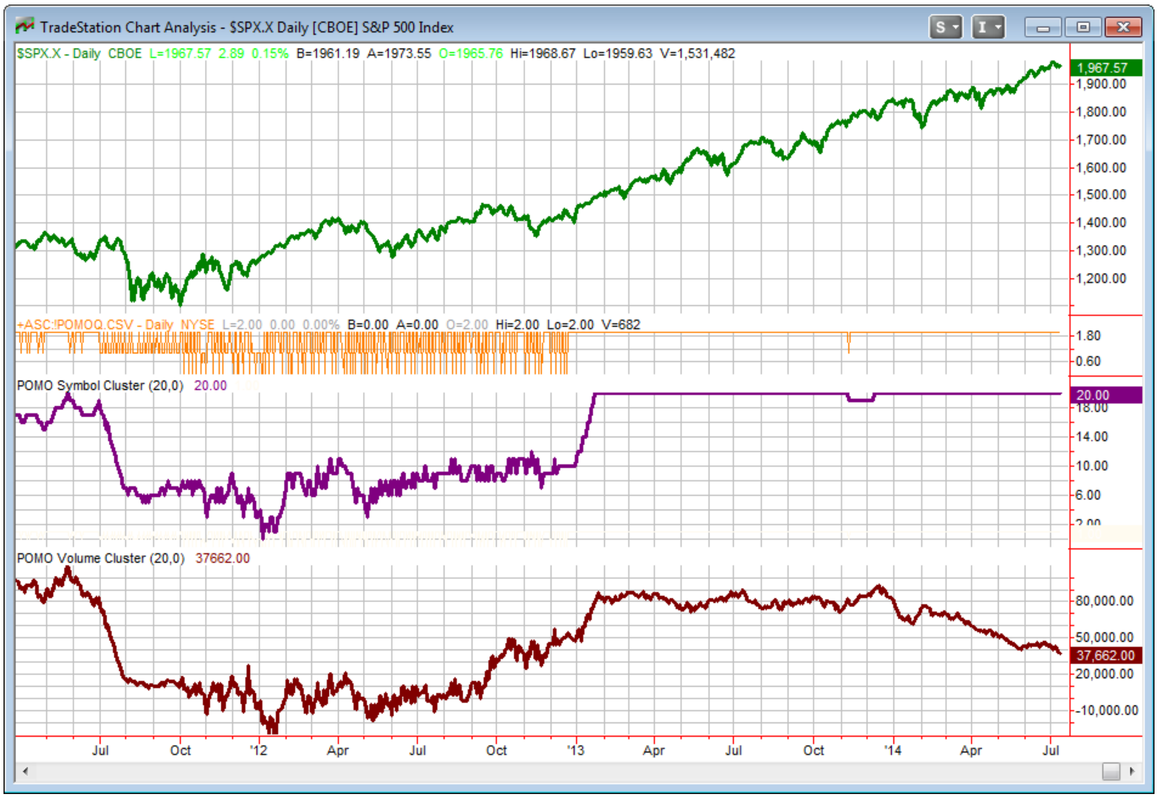
Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



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 continuing to head lower since purchase amounts were again tapered starting July 1. We estimate net inflows this past week to have been about $7.8 billion. That is quite low compared to the last year and a half, but is about average for what we can expect for July.

While the reduced flows have not had a negative impact up to this point, I am still of the opinion that the market is likely to struggle sometime between here and when they hit 0, or at the very least, shortly after they hit 0. This has effectively been the case at least back until 2003 when the Fed began publishing its POMO flows.

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The leading NASDAQ is still providing a plus, and the uptrend appears intact. The new study from the 7/9 letter is providing more upside evidence. So the bulls have some things in their favor. The bears are still banking on the shrinking New High % divergence and the weak seasonality (and at some point in the next few months the lack of Fed stimulus.) I am keeping my outlook at slightly bullish again this week. I will use some caution on both sides of the market, but will continue to favor longs over shorts.

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 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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLB	*7/11/2014*	*$115.40*	*$114.63*	*-0.67%*		*System 11111*