Harmonic Edge

Intermediate Term Trade Service
System Performance and Market Analysis

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Quarterly Report

The system had a gain of 5.8% for the 2nd quarter of 2010. This compares with a net loss in the S&P 500 of 11.9% (the worst quarterly loss since the 4th quarter of 2008).
Year to date the system has gained 15% while the S&P 500 has lost 7.6%.

There are two sections to this report. The first section is an update on the performance of the system and will be of interest to all subscribers. The second section contains market analysis and educational material that will be of interest to students of the market.

System Performance

Hypothetical Monthly Results

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2010	1.3%	2.2%	7.4%	0.4%	6.5%	0.3%						
2011												
2012												

Current Trade

Opened	B/S	# Shares	Symbol	Price	Date Closed	Current or Closed Price	P/L

Note: Individual lots are included in closed trade statistics when the entire position is closed.

Recent Closed Trade(s)

Opened	B/S	# Shares	Symbol	Price	Date Closed	Closed Price	P/L
1-07-10	*Buy*	*250*	*SDS*	*34.00*	*1-13-10*	*$33.14*	*<215>*
1-25-10	Buy	225	SSO	37.20	3-08-10	$40.05	641.00
2-11-10	Buy	225	SSO	35.85	3-10-10	$40.15	967.00
2-18-10	Buy	225	SSO	37.50	3-17-10	$41.90	990.00
2-24-10	Buy	225	SSO	37.47	3-23-10	$42.45	1,121.00

3-03-10	Buy	225	SSO	39.00	3-31-10	$42.05	686.00
4-07-10	*Buy*	*300*	*SDS*	*30.42*	*05/06/10*	*$32.50*	*624.00*
4-16-10	*Buy*	*300*	*SDS*	*29.40*	*05/06/10*	*$33.60*	*1,260.00*
4-27-10	*Buy*	*300*	*SDS*	*30.17*	*05/19/10*	*$33.30*	*780.00*
5-14-10	*Buy*	*300*	*SDS*	*31.64*	*05/26/10*	*$34.50*	*858.00*
6-10-10	Buy	270	SSO	35.64	06/24/10	$34.95	<186>

Account Status

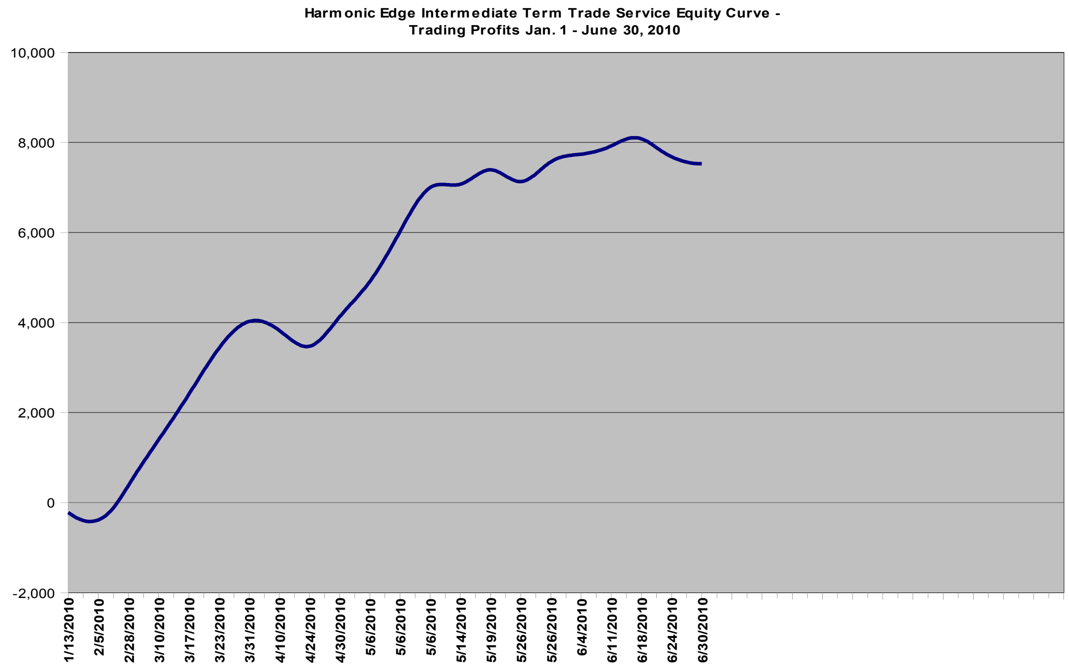
Started	$50,000.00
Closed Trade Result	$7,526.00
Closed Trade Equity	$57.526.00
Open Profit/Loss	
Total System Equity	$57,526.00

Current Month Results

Starting Balance	$57,712.00
Change To Open Position(s)	
Closed This Month	<186.00>
Current Balance	$57,526.00
Percent Change	<0.3%>

Statistics

Annual Return	30.19%
Number of Wins	2
Number of Losses	2
% Win Loss Ratio	50.00%
Largest Win	$4,405.00
Largest Loss	$215.00
Average $ Win	$3,964.00
Average $ Loss	$201.00
Profit Factor	19.7:1
Worst Draw down	$822.00 or 1.5%



Important Warning about These Results

It is important that you understand that these results must be treated as hypothetical. Hypothetical performance results have limitations, a few of which are described below. No representation is being made that your account will or is likely to achieve profits or losses similar to those shown here. There are frequently sharp differences between hypothetical performance results and the actual results achieved by any trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program, which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results

Commission costs

We do not include commissions and execution costs when displaying hypothetical results. These costs will reduce your actual trading results from what you see here. We strongly suggest the use of a *deeply discounted broker* like Interactive Brokers.

Over trading

If you over trade (use excessive margin) this system, sooner or later draw down could kill your account.

Monitoring of price action.

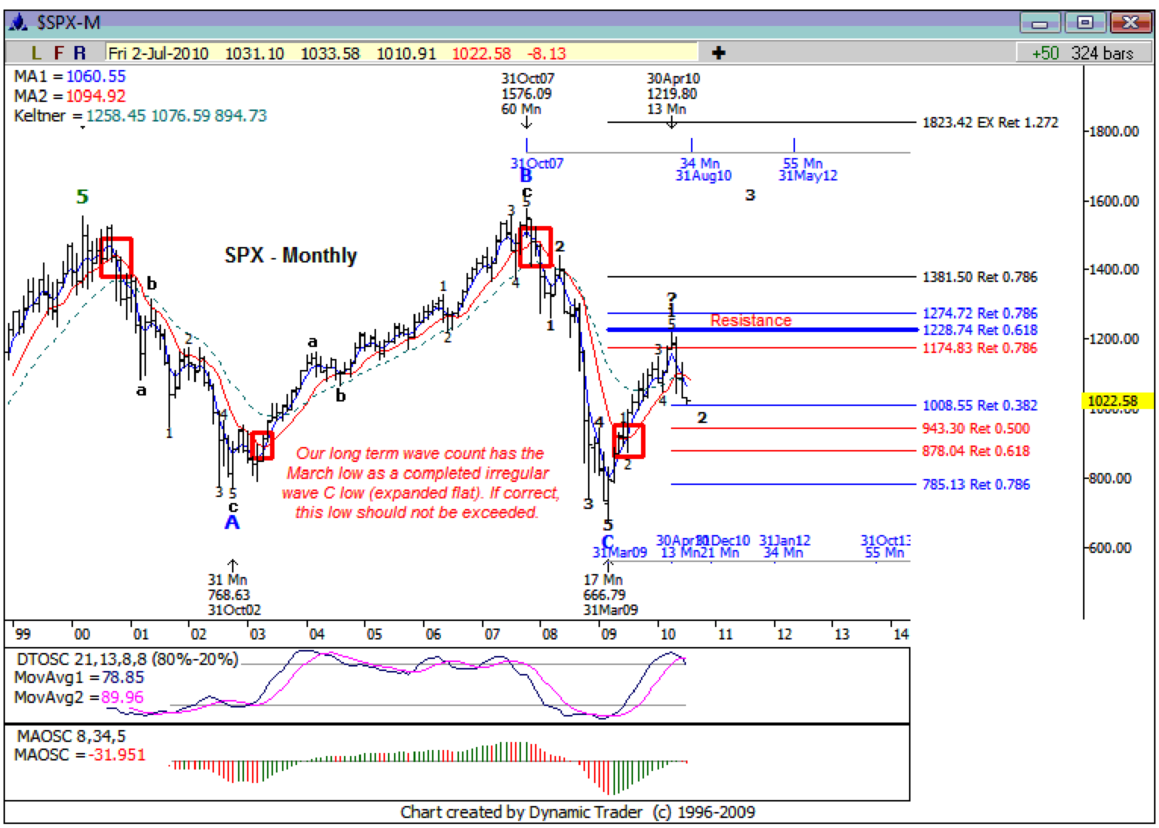
If you watch an open trade every minute, or even every hour or two, you can drive yourself crazy. This system is designed to profit from large multi-week or month moves. The vast majority of intraday price movement is irrelevant to this kind of a system. Constantly watching the intraday price fluctuation will stress you out and ultimately have no effect on the outcome. We suggest you step back and just let each trade unfold. Don't allow every tick or retracement cause you stress. It will not make the system any better but will definitely play havoc with your peace of mind. You have an experienced index analyst watching the market for you, so go ahead and focus on your other trading activities or priorities.

Note: You can only ignore the price fluctuations if you have enough equity and are not over trading or making excessive use of margin.

Market Analysis

In this second section of the report, we will touch on some of the factors that we have considered in our analysis and what our view of the market is at the present time.

Macro or Long Term Market Position (Monthly Chart)

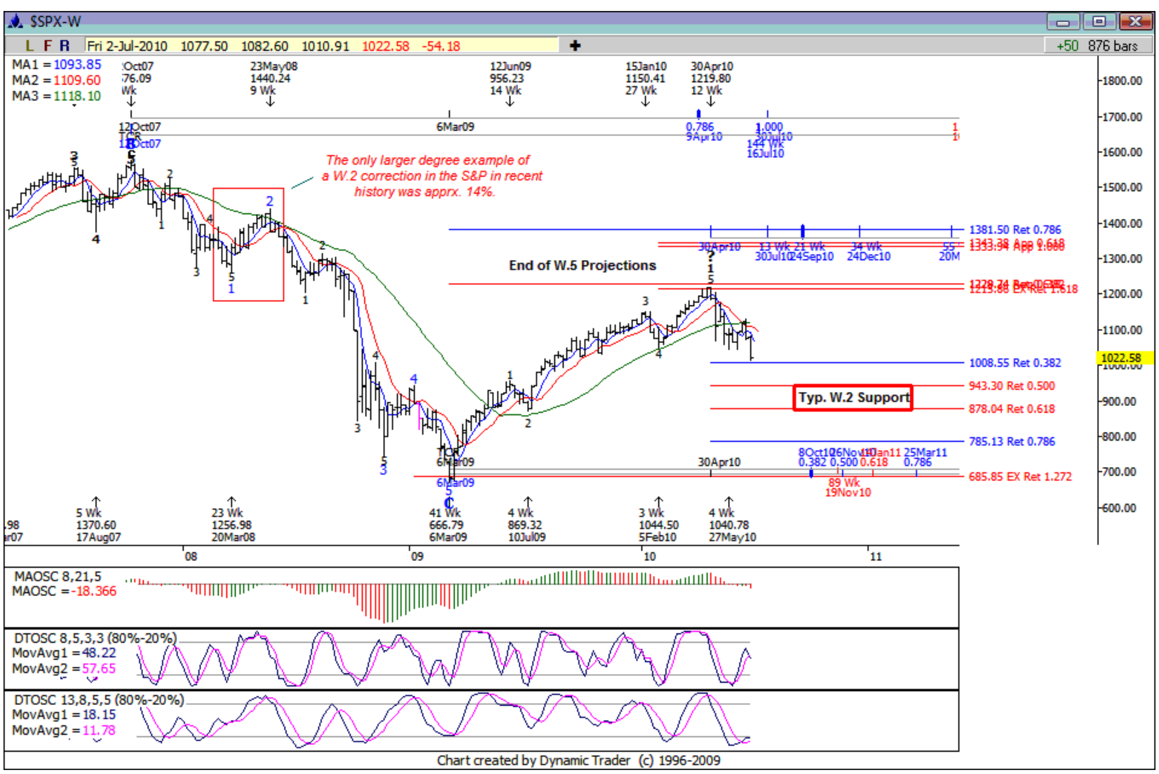


It is our opinion that a multi-decade wave five pattern completed in March of 2000. The subsequent price action has been what amounts to a decade long "irregular" ABC correction in terms of Elliott wave analysis. Irregular in the sense that wave "B" actually managed to exceed the wave five high by about 24 points. This conclusion is further supported by the more traditional ABC correction clearly observable in the monthly chart of the S&P 100 (OEX) Refer to the 6-11-10 report.

The move down off the October 2007 high is impulsive and counts out very clearly as five waves. The March 2009 low appears to be the end of this correction and we don't believe this level will ever be exceeded. While we cannot rule out a double dip type recession this appears very unlikely in our view. The majority of the analysts we monitor share our view. However, there are some skilled technicians with bearish views and wave counts to back them up. It takes two opinions to make a market.

The monthly chart shows strong zones of resistance (Fibonacci retracement clusters) between *1174 – 1274* that have now been reached and significant retracement from these zones is highly probable and well under way at this time. The four boxes on this chart denote where the fast moving average was able to close above or below the slow moving average and the market confirmed or followed through. These are very large market moves and hence powerful signals. The current signal turned bearish this week and demands our attention. This warns us of the potential for a very powerful move down in the index. We also note that the 21 period oscillator is turning bearish and the moving average oscillator also is turning to the downside.

Intermediate Term Position (Weekly Chart)



On the weekly chart the internal wave structure reveals a fairly clear five wave impulse pattern off the March 2009 low. While this move could be counted as a complex correction – the price action was more impulsive than corrective in our view. The entire first group of wave five targets was hit and the market continues to correct off the April high. The 13 period oscillator is deep in the over sold zone and hooking up and the 8 period oscillator is near the middle of the zone and hooking down. The fast moving average (blue line) remains below the slow moving average (red line) giving a *primary short signal* and this is consistent with our wave count.

Daily Chart

The daily 8 period momentum oscillator remains bearish oversold, and the 13 period oscillator is also buried in the oversold zone. This is typical in a strong down trend but still generally suggests a low lasting at least a few days is at or near completion. The intermediate term trend turned bearish last and a very strong multi-day rally will be required to turn the trend back up. The bulls were not able to take control of the market last week despite its over sold condition and this is a further sign of weakness.

The daily chart shows strong support at the 1010 level which is exactly where the market stopped on Thursday and attempted to put in an intermediate term low. If this zone can hold on Tuesday, at least a multi-day correction seems likely. Potentially a wave 1:5 of 3 or C if you are counting waves.

As we explained last week, the failure of the 1060 level set the stage for the test and potential failure of the May 25th low. That scenario materialized and confirmed the June

21st high as a completed wave 2 or B correction. This now sets the stage for a significant sell off this summer with the S&P eventually reaching the 880 – 940 area. The only other significant scenario we are considering is the potential for a truncated wave "C" correction. These are not that unusual and tend to occur right at the 127% external retracement of wave "B" which was reached on Thursday.

The coming week is shortened due to the July 4th holiday in the U.S. and has few key economic reports. The market remains short term oversold and at some key support. Watch for the bulls to try and take back control. At present we are 100% in cash.