

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 25, 2013

Volume 6 Issue 185

Market Overview



Signals Overview

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

Tonight's Research Points

- 4-day pullbacks going into a Wednesday have been strongly prone to upside reversals.
- When SPX closes down but breadth is strong, it has often led to gains over the next few days.

Short-term Outlook

The Bottom Line

Tuesday's selling did nothing to sour the short-term bullish outlook. I am now partially long and looking to get longer.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 25, 2013	SPX up. Up Issue % > 55%	1-2 days	Bullish	
September 25, 2013	Turn Tues Fail	1-6 days	Bullish	2.60%
September 23, 2013	Weakest week	1-4 days	Bearish	-2.40%
September 20, 2013	SPX top 10% 10-day range pre-opex	1-5 days	Bearish	-1.80%
September 19, 2013	High Volume Breakout to new 50-hi	1-6 days	Bullish	1.90%
September 19, 2013	100-day high close on Fed Day	1-6 days	Bullish	1.00%
Active - Long Term				
August 12, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
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				
September 18, 2013	SPY unfilled gap to 50-high breakout	1-5 days	Bullish	1.60%

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

The Evidence

The market tried to rally on Tuesday but afternoon selling led to a split for the indices. The SPX dropped 0.3%, the Nasdaq gained 0.1%, and the Russell 2000 rose 0.2%. Breadth was also mixed as the NYSE Up Issues % was 56% and the Up Volume % was 47%. Volume declined from Monday's level.

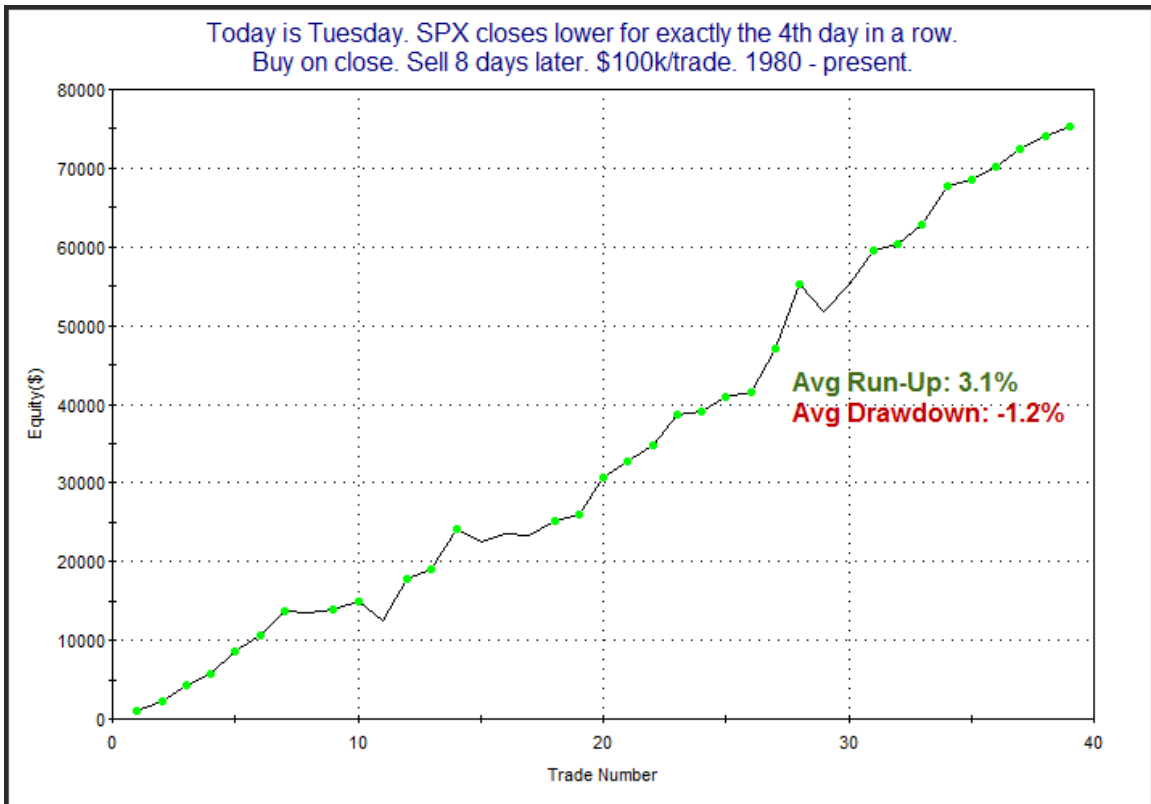
Last night I showed a Turnaround Tuesday study that indicated when the market is down 3 days in a row going into a Tuesday that it has a strong tendency to bounce. Of course there have been instances over the years where it hasn't. When it doesn't bounce on Tuesday what does that mean for Wednesday and beyond? The test below is updated from the 9/26/12 Letter and it answers that question.

Today is Tuesday. SPX closes lower for exactly the 4th day in a row.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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	64,440.36	39	31	8	79.49	2,475.01	7,733.75	-1,535.62	-4,415.04	1.61	6.25	1,652.32
9	68,632.39	39	35	4	89.74	2,178.24	5,490.33	-1,901.52	-3,566.25	1.15	10.02	1,759.80
8	75,330.41	39	34	5	87.18	2,449.14	8,317.50	-1,588.06	-3,575.04	1.54	10.49	1,931.55
7	68,041.19	39	33	6	84.62	2,375.46	10,870.00	-1,724.85	-4,817.12	1.38	7.57	1,744.65
6	66,382.95	39	32	7	82.05	2,376.85	14,240.00	-1,382.33	-2,605.12	1.72	7.86	1,702.13
5	55,319.25	39	30	9	76.92	2,240.26	13,135.00	-1,320.95	-3,256.96	1.70	5.65	1,418.44
4	51,059.59	39	29	10	74.36	2,218.30	12,657.50	-1,327.11	-4,495.68	1.67	4.85	1,309.22
3	35,789.89	39	30	9	76.92	1,595.16	6,892.50	-1,340.54	-2,936.64	1.19	3.97	917.69
2	20,352.05	39	24	15	61.54	1,244.57	5,122.50	-634.50	-1,667.42	1.96	3.14	521.85
1	15,047.07	39	26	13	66.67	863.98	5,716.25	-570.49	-1,721.25	1.51	3.03	385.82

**34 of 39 instances (87%) closed above the entry price
at some point in the next week**

Results here have been very strong over a long period. Below is a profit curve using an 8-day exit strategy.

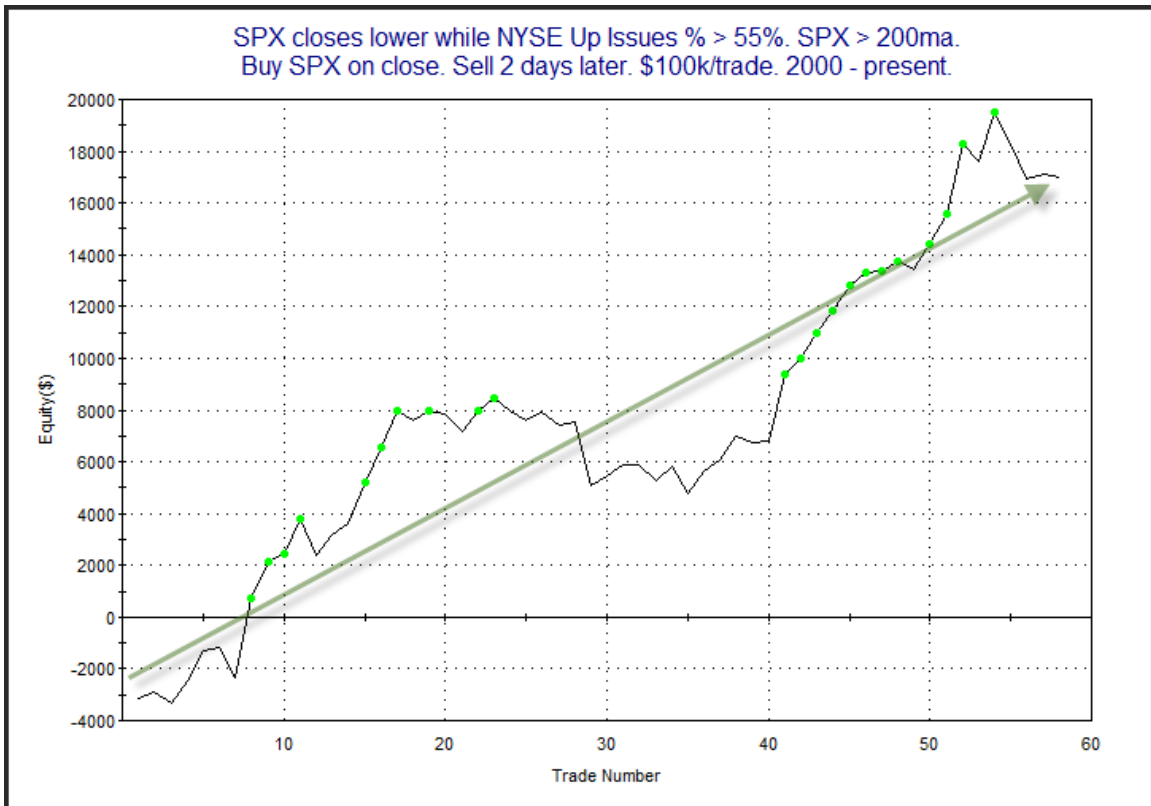


It seems the “Turnaround Tuesday Failure” is likely a temporary setback.

Breadth was unusually strong on Tuesday for a day that the indices declined. The study below was last seen in the 7/24/13 Letter. It looks at days like Tuesday where SPX declines despite strong breadth. Results are updated.

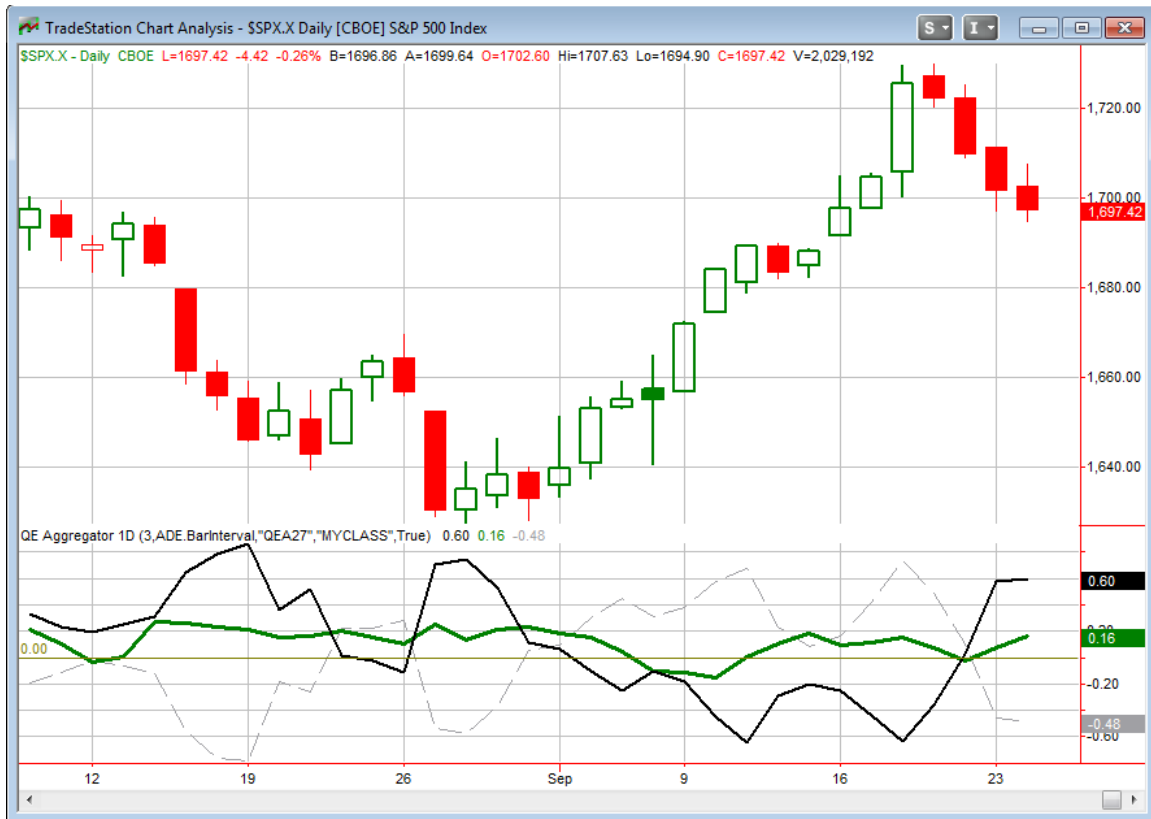
SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	17,528.99	53	32	21	60.38	1,374.74	3,616.92	-1,260.13	-4,012.80	1.09	1.66	330.74
4	18,655.48	55	33	22	60.00	1,308.72	3,429.00	-1,115.10	-2,921.28	1.17	1.76	339.19
3	18,059.13	57	37	20	64.91	1,012.83	3,373.50	-970.77	-2,852.01	1.04	1.93	316.83
2	16,993.09	58	39	19	67.24	861.12	3,025.12	-873.19	-3,119.03	0.99	2.02	292.98
1	14,047.36	60	35	25	58.33	719.39	2,484.00	-445.26	-1,348.29	1.62	2.26	234.12

The edge isn't huge, but it does appear to be worth a closer look. The equity curve below gives a better idea of how it has played out over time.



While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration and I've included it among the active studies.

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



The studies tonight helped the green Aggregator Line rise further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose and is still strongly above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are now squarely positive and the SPX is quite oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator signal to remain long at the close.

Based on the current group of studies, expectations are slated to remain bullish on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,713.26 on Wednesday. That's a sizable 0.9% above Tuesday's close. That would be a substantial 1-day gain. A more likely scenario would be a multi-day rally or consolidation to work off the oversold condition.

So despite Tuesday's failed attempt, I still believe the market is primed for a bounce. I am already partially long, and I will look to add to my index position on Wednesday. I will also look to System 11111 to add a little individual stock exposure. Details are in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/23 – somewhat bullish

The intermediate-term outlook was last updated in the 9/23/13 Letter. Link below:

[2013-09-23 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 @ \$169.53 LIMIT. Based on the Aggregator and the short-term outlook above, I will look to continue scaling into a long position. This is the 2nd of a possible 4 lots of SPY.

AKAM – buy @ \$51.93 LIMIT. This is based on System 11111 of the Quantifiable Edges Numbered Systems. System 11111 has been pretty good over the years, and with the general market primed for a bounce I like the idea of taking on additional exposure in stocks that are setting up as AKAM appears to be. AKAM has historically done very well with System 11111. Below is a performance report showing results for AKAM from 2000 – present.

System 11111 for AKAM.
\$100k/trade. \$0.01/share commission. 2000 - present.

TradeStation Performance Summary				Collapse
All Trades				
Total Net Profit	\$51,068.30	Profit Factor	11.38	
Gross Profit	\$55,986.28	Gross Loss	(\$4,917.98)	
Total Number of Trades	17	Percent Profitable	94.12%	
Winning Trades	16	Losing Trades	1	
Even Trades	0			
Avg. Trade Net Profit	\$3,004.02	Ratio Avg. Win:Avg. Loss	0.71	
Avg. Winning Trade	\$3,499.14	Avg. Losing Trade	(\$4,917.98)	
Largest Winning Trade	\$8,844.48	Largest Losing Trade	(\$4,917.98)	

The numbers here are all very impressive. I've circled a few that really stood out to me and appeared compelling. I also generated a list of trade dates.

System 11111 for AKAM. \$100k/trade. \$0.01/share commission. 2000 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/00	Buy	\$47.25	7.94%	\$12,167.00
10/31/00	Sell	\$51.00		(\$2,116.00)
12/04/01	Buy	\$5.54	8.84%	\$9,025.00
12/04/01	Sell	\$6.03		(\$2,166.00)
12/05/02	Buy	\$1.83	(4.92%)	\$2,185.76
12/11/02	Sell	\$1.74		(\$23,496.92)
12/05/03	Buy	\$11.20	1.52%	\$5,891.91
12/11/03	Sell	\$11.37		(\$8,624.39)
01/23/04	Buy	\$13.37	8.45%	\$8,740.26
02/05/04	Sell	\$14.50		(\$15,628.77)
10/13/05	Buy	\$15.48	4.01%	\$4,252.38
10/14/05	Sell	\$16.10		(\$1,353.03)
10/28/05	Buy	\$16.63	4.27%	\$4,990.79
10/31/05	Sell	\$17.34		(\$3,186.89)
12/13/05	Buy	\$20.01	0.20%	\$5,006.38
12/21/05	Sell	\$20.05		(\$4,675.77)
02/28/06	Buy	\$26.39	2.35%	\$2,500.74
03/01/06	Sell	\$27.01		(\$2,993.31)
04/10/06	Buy	\$30.89	1.04%	\$2,201.16
04/11/06	Sell	\$31.21		(\$2,945.67)
10/11/06	Buy	\$49.60	2.22%	\$4,744.74
10/13/06	Sell	\$50.70		(\$220.22)
01/14/10	Buy	\$26.04	3.23%	\$3,686.40
01/14/10	Sell	\$26.88		\$0.00
03/23/10	Buy	\$31.26	1.34%	\$2,878.20
03/26/10	Sell	\$31.68		(\$703.56)
04/01/10	Buy	\$31.42	3.28%	\$3,722.94
04/05/10	Sell	\$32.45		(\$922.78)
02/22/12	Buy	\$37.05	0.43%	\$988.27
02/24/12	Sell	\$37.21		(\$2,617.58)
12/31/12	Buy	\$40.31	4.59%	\$5,494.50
01/02/13	Sell	\$42.16		(\$643.50)
05/23/13	Buy	\$45.94	2.50%	\$3,794.00
05/30/13	Sell	\$47.09		(\$1,062.32)

Fourteen wins in a row dating back to 2003. These individual results appear as impressive as the first table. Gold subscribers may access the System 11111 detail page using the link below:

<http://www.quantifiableedges.com/members/11111.php>

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)	9/24/2013	\$169.90	\$169.53	-0.22%		Aggregator

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