

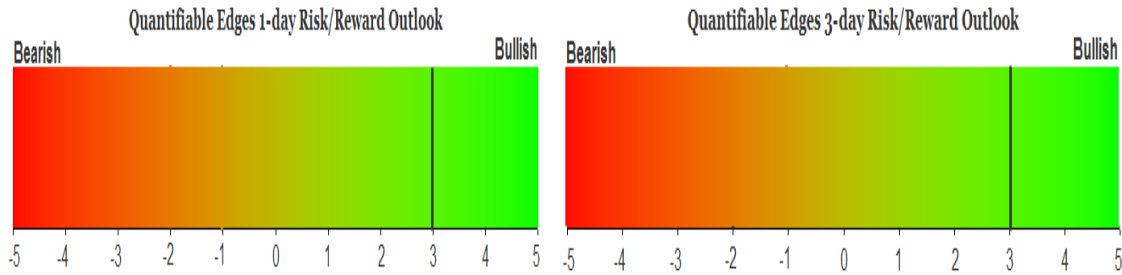
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 8, 2013

Volume 6 Issue 194

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX spikes to new high when SPX > 200 have been short-term bullish for SPX.
- When SPY has left an unfilled gap down and closed poorly after already being positioned in a short-term move lower but a long-term move higher, it has generally led to higher prices over the next several days.
- A 20-day closing low in an uptrend often marks a decent buying area.

Short-term Outlook

The Bottom Line

I'm now seeing more evidence that SPX is primed for a bounce. With the market already oversold, I will look to add more long exposure on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 8, 2013	VIX spike to 50-high	1-2 days	Bullish	
October 8, 2013	Unfill gap down poor close > 200ma	1-8 days	Bullish	
October 8, 2013	20-low > 200ma.	1-7 days	Bullish	
October 1, 2013	2 unfilled down gaps & 5-low	1-6 days	Bullish	
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	

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

The Evidence

The market had a tough weekend, and gapped down nearly 1% at the open on Monday. It spent much of the day trying to recover, but gave up that fight in the last hour. Strong selling came in and it finished back down near where it started. The SPX lost 0.9%, the Nasdaq fell 1.0%, and the Russell 2000 declined 1.2%. Breadth was strongly negative as the NYSE Up Issues % was 22% and the Up Volume % was also 22%. Total NYSE volume declined and came in quite light.

SPX closed at a new 20-day low for the 1st time since August. Intermediate-term lows during a long-term uptrend will often suggest an upside edge. The study below was last seen in the 6/6/13 Letter. It looked at times the SPX closed at a 20-day low, but still above the 200ma. I have updated the results table.

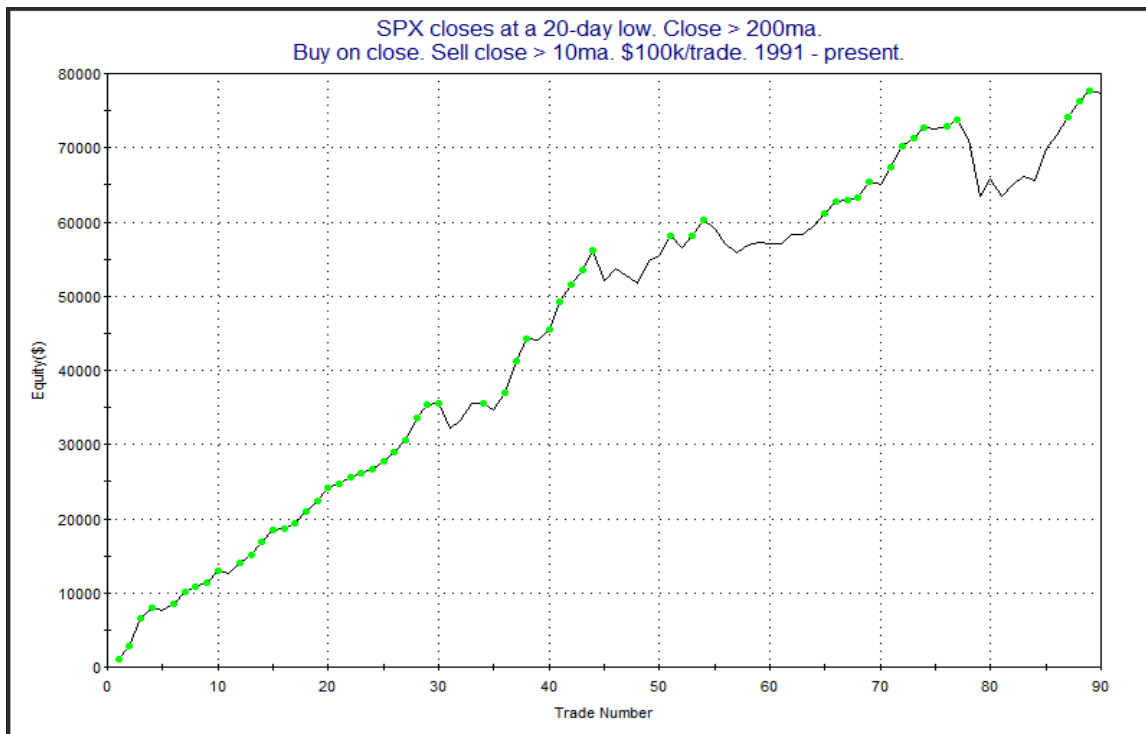
SPX closes at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	65,566.79	89	58	31	65.17	2,361.92	5,656.16	-2,304.01	-13,993.88	1.03	1.92	736.71
9	75,189.73	90	60	30	66.67	2,235.45	5,167.64	-1,964.58	-10,059.36	1.14	2.28	835.44
8	81,290.22	97	67	30	69.07	2,204.51	5,982.72	-2,213.74	-14,092.68	1.00	2.22	838.04
7	87,786.14	99	70	29	70.71	2,022.87	5,454.72	-1,855.67	-8,018.76	1.09	2.63	886.73
6	75,949.65	101	66	35	65.35	1,980.59	5,461.44	-1,564.83	-7,966.32	1.27	2.39	751.98
5	71,236.06	108	64	44	59.26	1,893.68	4,608.35	-1,135.44	-5,114.56	1.67	2.43	659.59
4	42,955.58	117	69	48	58.97	1,525.30	4,690.50	-1,297.71	-3,994.08	1.18	1.69	367.14
3	41,591.73	132	81	51	61.36	1,269.75	5,471.10	-1,201.13	-6,688.99	1.06	1.68	315.09
2	47,736.66	154	94	60	61.04	1,105.74	4,259.29	-936.72	-4,320.06	1.18	1.85	309.98
1	19,976.95	213	127	85	59.62	764.83	5,117.46	-907.72	-6,826.40	0.84	1.26	93.79

The stats since 1991 all appear to suggest an upside edge. The edge seems to persist for between 1-2 weeks. Another thing I did in that letter was to examine results using a reversion-based exit rather than a time-based exit. To do this I simply said that the trade would be held until SPX closed above its 10ma. Results of this "system" are below.

SPX closes at a 20-day low. Close > 200ma.
Buy on close. Sell close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$77,259.44	Profit Factor	3.44
Gross Profit	\$108,949.46	Gross Loss	(\$31,690.02)
Total Number of Trades	90	Percent Profitable	77.78%
Winning Trades	70	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	\$858.44	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	\$1,556.42	Avg. Losing Trade	(\$1,584.50)
Largest Winning Trade	\$4,277.94	Largest Losing Trade	(\$7,630.40)

The winning percentage and profit factor are both impressive, and with the average trade making nearly 0.9% this study appears worth further consideration. Below is an equity curve showing how the edge has played out over time.



What I see here is a curve that suggests a strong, persistent edge over a long period of time. The dip a few instances back occurred at the time of the US debt downgrade in the summer of 2011. That losing instance cost 7.6% and was the largest loss of the entire period. But as you can see the curve now appears to be back on track.

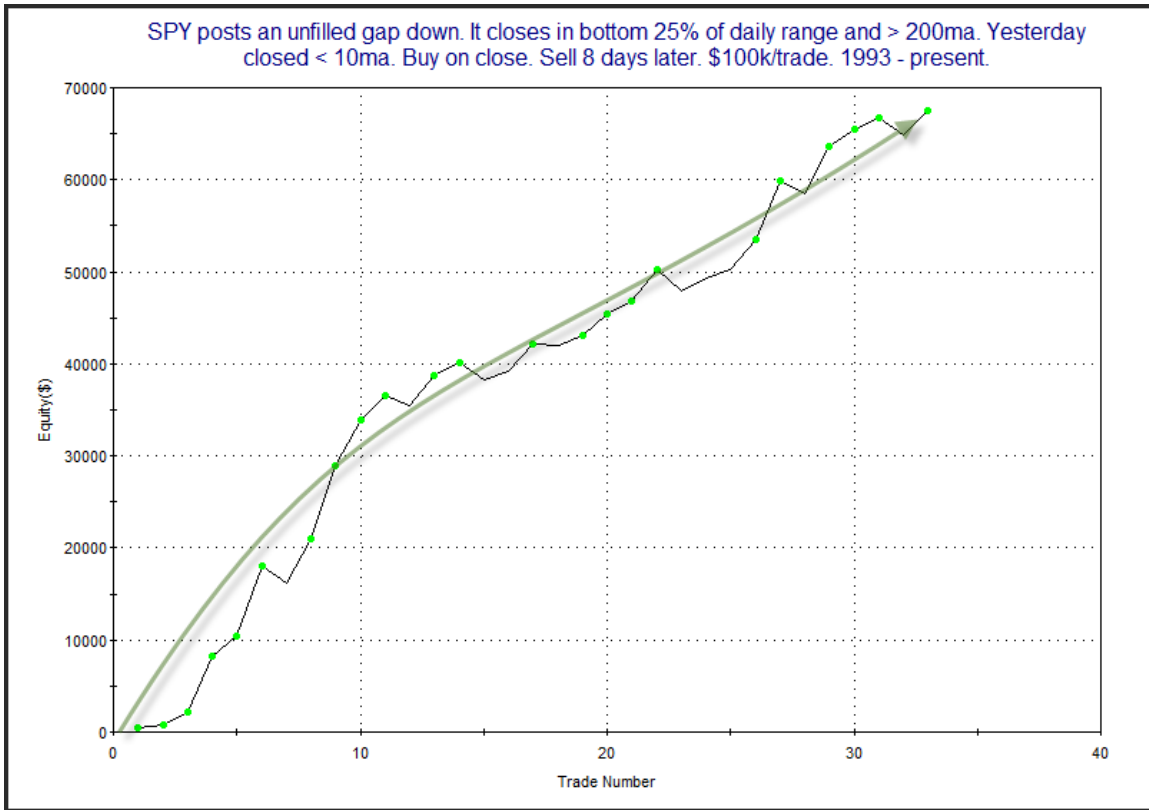
This next study was last seen in the 8/16/13 Subscriber Letter. It looks at unfilled gaps down that close poorly while the market is in a short-term downtrend, but a long-term uptrend. Results are updated.

SPY posts an unfilled gap down. It closes in bottom 25% of daily range and > 200ma. Yesterday closed < 10ma. 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	62,024.38	31	23	8	74.19	3,015.22	9,282.24	-915.70	-1,621.08	3.29	9.47	2,000.79
9	64,470.55	32	25	7	78.13	2,830.11	7,585.77	-897.46	-1,540.26	3.15	11.26	2,014.70
8	67,486.67	33	26	7	78.79	3,009.22	7,858.26	-1,536.13	-2,373.11	1.96	7.28	2,045.05
7	59,548.89	34	26	8	76.47	2,708.60	8,324.13	-1,359.34	-3,146.11	1.99	6.48	1,751.44
6	52,671.17	34	26	8	76.47	2,443.93	7,873.02	-1,358.88	-4,076.73	1.80	5.85	1,549.15
5	45,082.73	34	23	11	67.65	2,462.05	8,239.74	-1,049.49	-3,731.61	2.35	4.91	1,325.96
4	36,558.44	35	24	11	68.57	2,022.12	5,581.02	-1,088.41	-2,342.19	1.86	4.05	1,044.53
3	34,615.67	37	26	11	70.27	1,769.77	5,117.85	-1,036.22	-2,897.57	1.71	4.04	935.56
2	34,165.93	37	29	8	78.38	1,547.01	5,477.88	-1,337.17	-2,657.80	1.16	4.19	923.40
1	24,064.37	37	28	9	75.68	1,031.72	5,764.38	-535.98	-1,269.00	1.92	5.99	650.39

32 of 37 instances (86%) closed above the entry price at some point in the next 4 days.

Results are strong right from the start and look good throughout the first two weeks. Below I have posted the equity curve assuming an 8-day holding strategy.



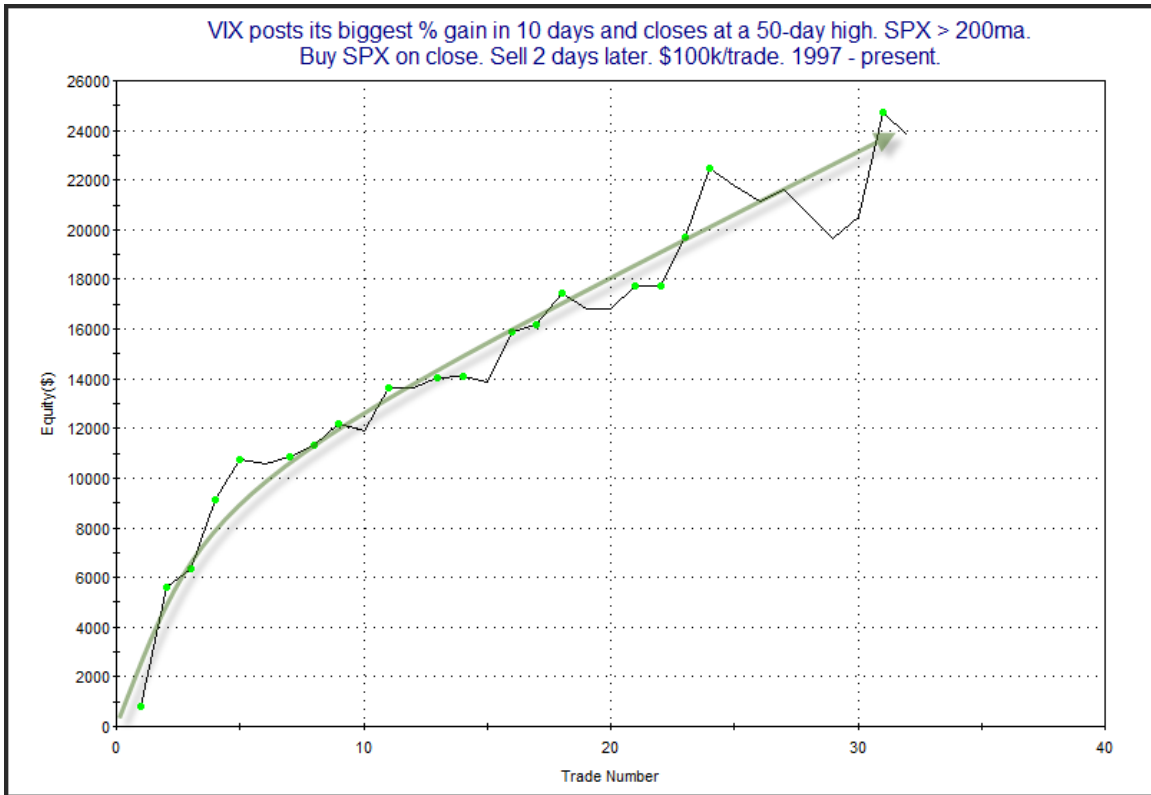
Nothing wrong with this curve. So the unfilled gap down and weak price action on Monday appear to suggest a bullish edge.

It is also notable that the VIX spiked up 16% on Monday and closed at the highest level since June. In the past when it has closed at a high level on a strong move there has been a tendency for the SPX to bounce over the next 1-2 days. This can be seen in the study below from the 5/15/12 blog. (Stats are updated.)

VIX posts its biggest % gain in 10 days and closes at a 50-day high. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	25,392.38	29	16	13	55.17	2,541.58	7,070.28	-1,174.84	-3,385.80	2.16	2.66	875.60
4	24,364.63	29	20	9	68.97	2,096.68	4,546.84	-1,952.11	-3,863.84	1.07	2.39	840.16
3	19,281.62	32	21	11	65.63	1,605.65	4,042.74	-1,312.46	-2,478.26	1.22	2.34	602.55
2	23,806.09	32	21	11	65.63	1,398.31	4,809.66	-505.31	-1,002.70	2.77	5.28	743.94
1	7,654.92	34	23	11	67.65	823.49	5,117.46	-1,025.95	-1,949.22	0.80	1.68	225.14

The numbers appear compelling. Below is a profit curve using a 2-day hold.



This study has been persistently bullish for a long time and certainly appears worth consideration. I have added it, along with the other 2, to the Short-Term Active List.

There are again no new studies to add to the Active List tonight, but I have updated the [Aggregator](#) chart below.



With the new bullish studies tonight the green Aggregator Line is again 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 is also still well above 0. 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 signal to remain long at the close.

Based on the current active studies, expectations are slated to remain positive again on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,689.05 on Tuesday. That is 0.8% above Monday's close. So SPX will need to close up at least this much in order to move from oversold to overbought versus expectations.

The last several days there had been a dearth of new evidence. I was waiting for something more to take on additional exposure. We seem to have gotten some solid upside evidence on Monday, and I will look to take on some new exposure on Tuesday. Details are in the Trade Ideas section near the bottom of the Letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/7 – somewhat bullish

The intermediate-term outlook was last updated in the 10/7 Letter. Link below:

[2013-10-07 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

New

TGT – 1/3 @ \$62.68 (buy at limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(TGT)

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.

TGT – buy 1/3 Catapult position @ \$62.68 LIMIT. This is based on the Catapult trigger above. Catapult trades have been very solid, but also very volatile. I'd encourage anyone who has not taken them before to review the Catapult Presentation.

SPY– buy ¼ index position @ \$167.00 LIMIT ON CLOSE. Evidence is pointing upwards once again. I'll add a 3rd lot if SPY closes down a bit on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)	9/24/2013	\$169.90	\$167.43	-1.45%		Aggregator
SPY (1/4)	9/25/2013	\$169.53	\$167.43	-1.24%		Aggregator
EMC	10/4/2013	\$25.16	\$25.32	0.64%		System 80402

As per System 80402, EMC will be sold at the close if it closes >= \$25.72.

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