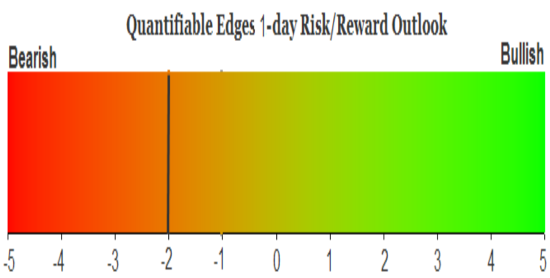
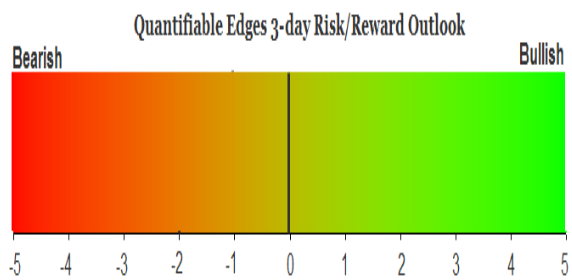
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 15, 2013 Volume 6 Issue 199

**Market Overview**




**Signals Overview**

| Aggregator | Aggressive VIX | QE Buy Pwr Swing | NDX Trend Timer |
|---|---|---|---|
| Flat | Flat | Flat | Long |

***Tonight's Research Points***

- The rising VIX on Monday could spell trouble over the next day or two.
- The SPY gap down and reversal to a 10-day high is a pattern that has been followed most often by selling.

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***Short-term Outlook***

***The Bottom Line***

The Aggregator is neutral, and risks appear higher than usual. So I see no good reason to start taking on positions yet. I remain content to be sidelined.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---|---|---|---|---|
| Active | | | | |
| October 15, 2013 | SPY big gap down & close 10-high | 1 day | Bearish | |
| October 15, 2013 | SPX up 10-high. VIX up. Monday. | 1 day | Bearish | |
| October 8, 2013 | Unfill gap down poor close > 200ma | 1-8 days | Bullish | |
| Active - Long Term | | | | |
| 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 | | | | |
| October 14, 2013 | 2 Big White Candles | 1 day | Bearish | |
| ***October 14, 2013*** | ***October Opex Monday*** | ***1 day*** | ***Bullish*** | |
| ***October 14, 2013*** | ***Columbus Day*** | ***1 day*** | ***Bullish*** | |

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

***The Evidence***

Monday started out looking difficult, but the market managed to fill the big down gap and posts decent gains on the day. The SPX gained 0.4%, and the Nasdaq and Russell 2000 each rose 0.6%. Breadth was also positive as the NYSE Up Issues % was 58% and the Up Volume % was 68%. Total NYSE volume came in very light, but that can largely be attributed to it being Columbus Day.

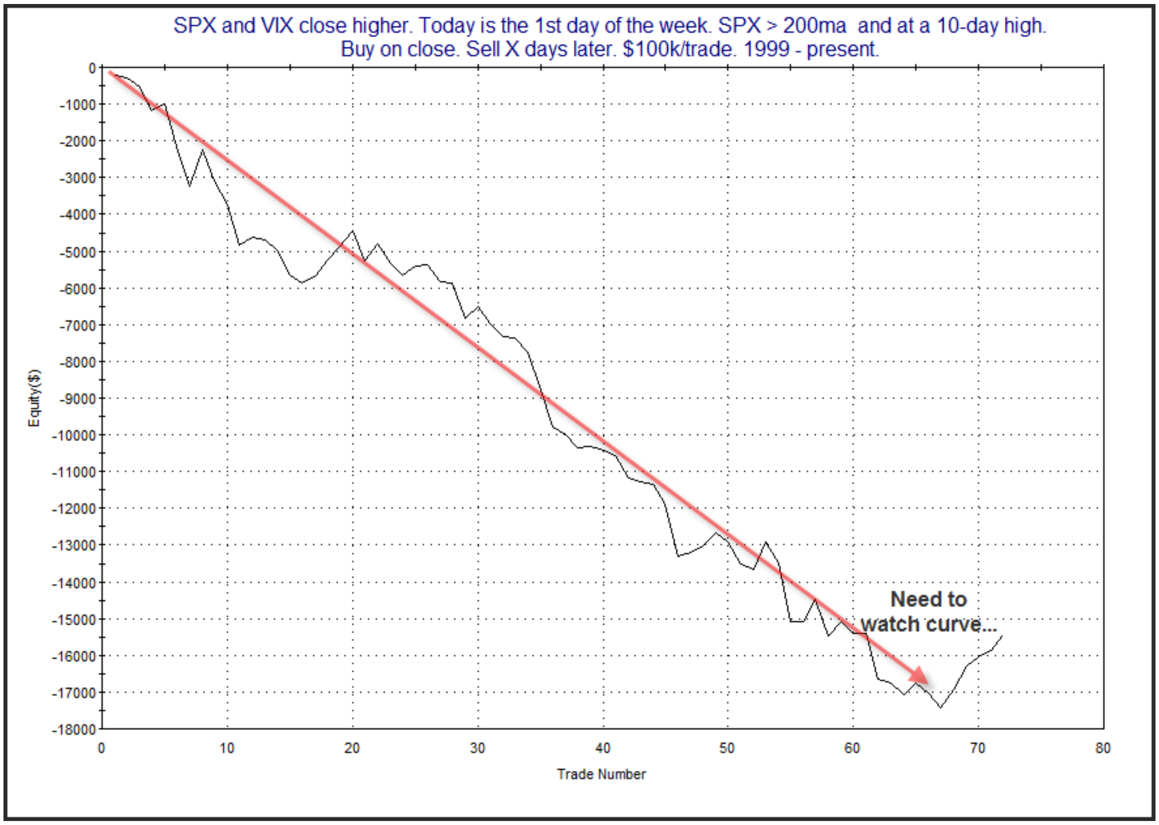
Volume was the lowest in over a month. But last year I looked to see how common this was on Columbus Day, and tonight I updated the stats. Since 1980, Columbus Day has seen a 20-day low in volume 22 of 34 times (65%).

Another notable bit of information was the rise in the VIX. This next study looks at times during long-term uptrends that the VIX closes up on the first day of the week while the SPX is closing at a 10-day high. Most of the time the VIX and SPX will trade in opposite directions. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Due to this, Monday is the most common day of the week to see VIX rise in conjunction with SPX. The study was last seen in the 12/11/12 letter and all stats have been updated.

SPX and VIX close higher. Today is the 1st day of the week. SPX > 200ma and at a 10-day high.
Buy on close. Sell X days later. $100k/trade. 1999 - 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 | -18,516.17 | 68 | 31 | 37 | 45.59 | 1,125.37 | 3,260.25 | -1,443.32 | -5,048.68 | 0.78 | 0.65 | -272.30 |
| 4 | -20,538.22 | 72 | 31 | 41 | 43.06 | 922.15 | 2,953.65 | -1,198.17 | -4,271.52 | 0.77 | 0.58 | -285.25 |
| 3 | -23,688.41 | 72 | 29 | 43 | 40.28 | 754.91 | 2,641.80 | -1,060.02 | -3,887.84 | 0.71 | 0.48 | -329.01 |
| 2 | -23,567.18 | 72 | 27 | 45 | 37.50 | 545.30 | 1,981.72 | -850.90 | -3,372.16 | 0.64 | 0.38 | -327.32 |
| 1 | -15,455.37 | 72 | 25 | 47 | 34.72 | 347.48 | 1,004.25 | -513.67 | -1,580.04 | 0.68 | 0.36 | -214.66 |

Results here certainly appear to suggest a day or two of weakness. The 2-day curve has not been appealing over the last 3 years. So I elected to show the 1-day curve below.




The downslope here was impressive for a long time. Recent instances have created a bump in the curve, so it seems advisable to keep a close eye on this study. But I am not ready to give up on it yet and have included it on the Active List tonight.

Many traders view reversals like today as a positive. The fact that the market overcame a gap down and was able to close in the black and near its highs is interpreted as a sign of strength. I've looked at days similar to this in the past and found that most often they are actually followed by short-term market weakness. Below is a study from the 9/15/09

Subscriber Letter that looks at situations like Monday's. I have updated the stats so they are current.

SPY gaps lower by at least 0.5%. It then closes in the top 10% of its range and at a 10-day high. Buy on close. Sell next day's close. $100k/trade. 1993 - present.

**TradeStation Performance Summary** Collapse

**All Trades**

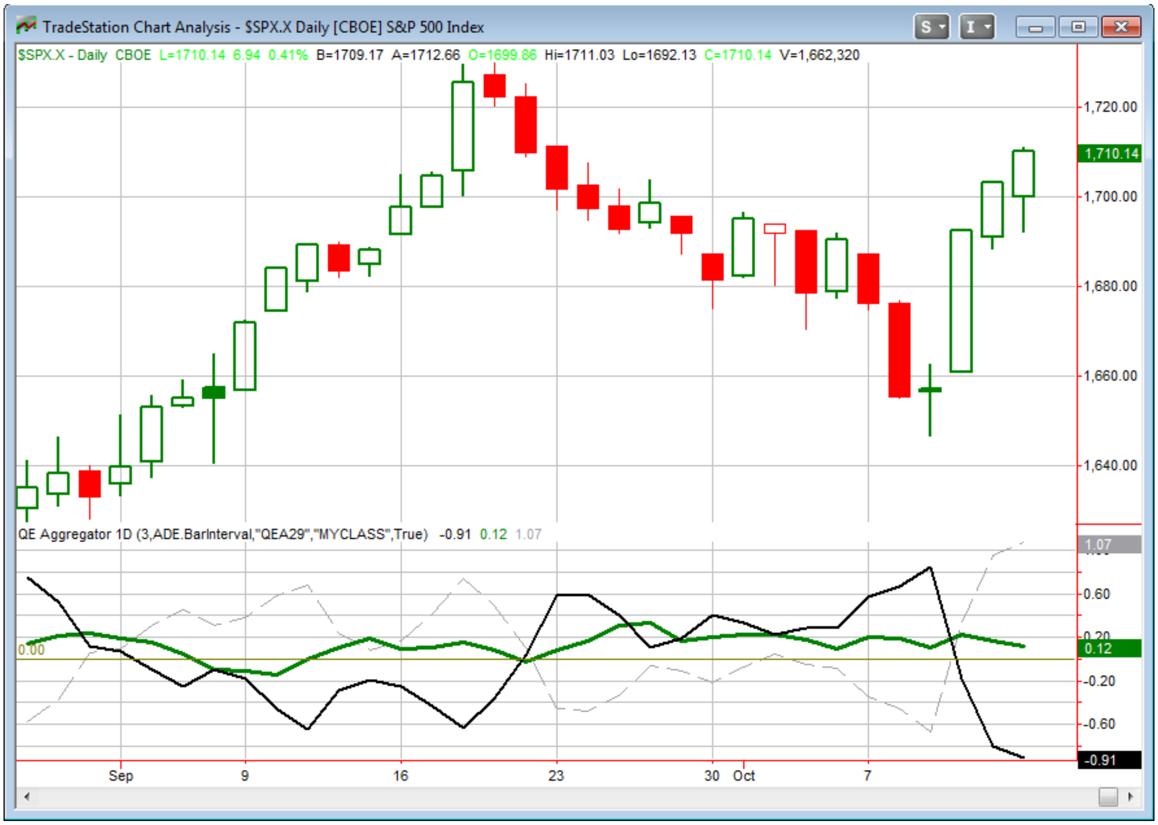
| | | | |
|---|---|---|---|
| Total Net Profit | ($6,420.85) | Profit Factor | 0.23 |
| Gross Profit | $1,968.78 | Gross Loss | ($8,389.63) |
| Total Number of Trades | 15 | Percent Profitable | 26.67% |
| Winning Trades | 4 | Losing Trades | 11 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | ($428.06) | Ratio Avg. Win:Avg. Loss | 0.65 |
| Avg. Winning Trade | $492.20 | Avg. Losing Trade | ($762.69) |
| Largest Winning Trade | $918.96 | Largest Losing Trade | ($2,038.72) |

Instances are low, but there certainly appears to be a negative tendency based on the early numbers. Below is a list of all 15 instances.

| SPY gaps lower by at least 0.5%. It then closes in the top 10% of its range and at a 10-day high. Buy on close. Sell next day's close. $100k/trade. 1993 - present. | | | | |
|---|---|---|---|---|
| **Date/Time** | **Signal** | **Price** | **% Profit** | **Run-up Drawdown** |
| 01/10/97 | Buy | $76.13 | (0.14%) | $485.81 |
| 01/13/97 | Sell | $76.02 | | ($643.37) |
| 11/05/98 | Buy | $113.78 | 0.31% | $684.84 |
| 11/06/98 | Sell | $114.13 | | ($412.66) |
| 04/12/99 | Buy | $136.31 | (0.64%) | $117.28 |
| 04/13/99 | Sell | $135.44 | | ($1,326.73) |
| 05/04/01 | Buy | $127.34 | (0.86%) | $102.05 |
| 05/07/01 | Sell | $126.24 | | ($1,420.85) |
| 05/16/01 | Buy | $128.95 | 0.16% | $875.75 |
| 05/17/01 | Sell | $129.15 | | ($302.25) |
| 10/25/01 | Buy | $110.57 | (0.23%) | $1,111.92 |
| 10/26/01 | Sell | $110.32 | | ($840.72) |
| 10/23/02 | Buy | $90.20 | (2.04%) | $775.60 |
| 10/24/02 | Sell | $88.36 | | ($2,326.80) |
| 03/17/03 | Buy | $86.78 | 0.59% | $656.64 |
| 03/18/03 | Sell | $87.29 | | ($576.00) |
| 04/22/03 | Buy | $91.34 | 0.92% | $1,104.94 |
| 04/23/03 | Sell | $92.18 | | ($109.40) |
| 06/05/03 | Buy | $99.65 | (0.39%) | $1,755.25 |
| 06/06/03 | Sell | $99.26 | | ($521.56) |
| 10/07/03 | Buy | $104.26 | (0.25%) | $124.67 |
| 10/08/03 | Sell | $104.00 | | ($815.15) |
| 08/03/06 | Buy | $128.42 | (0.17%) | $785.78 |
| 08/04/06 | Sell | $128.20 | | ($731.32) |
| 05/30/07 | Buy | $153.48 | (0.10%) | $266.91 |
| 05/31/07 | Sell | $153.32 | | ($234.36) |
| 05/06/08 | Buy | $142.05 | (1.78%) | $0.00 |
| 05/07/08 | Sell | $139.52 | | ($2,052.76) |
| 05/26/09 | Buy | $91.30 | (1.79%) | $492.75 |
| 05/27/09 | Sell | $89.67 | | ($1,938.15) |

The primary concern with this study is simply the fact that it has been over 4 years since the last instance. Still, I think it is worth some consideration.

I have updated the Aggregator chart below.




With tonight's studies factored in the green Aggregator Line dipped some but is still above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the rally caused the black Differential Line to dive even further below 0. The negative Differential Line reading means the SPX is strongly overbought versus recent expectations. So expectations are positive but the SPX is very overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator signal to remain flat at the close.

Based on the current active studies, expectations are slated to remain positive again on Tuesday. This is largely because both bearish studies only have a 1-day influence. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1701.10 on Tuesday. That is 0.5% below Monday's close. So despite the fact that the market has risen quite a bit over the last few days, it won't take too much of a pullback on Tuesday to bring it back to an "oversold versus expectations" state.

The 1-day Risk/Reward at the top of the letter is showing an overall bearish outlook for Tuesday. That is thanks to the two bearish studies tonight. But since they only appear predictive for 1-day, the 3-day expectations remain bullish and the 3-day outlook neutral. There really is not anything that is getting me excited about the market at this point. I like the sidelines. Studies are not terribly compelling, and politicians are keeping risks high (in both directions). So I will not be looking to do anything on Tuesday – except reevaluating my outlook Tuesday night, as I do every night.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/14 – somewhat bullish***

The intermediate-term outlook was last updated in the 10/14/13 Letter. Link below:

2013-10-14 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.*

**None tonight.**

## Current Open Trade Ideas

*None.*