

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 23, 2013

Volume 6 Issue 205

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- SPX and VIX up 2 days in a row with SPX at a 50-day high suggests a pullback.

## *Short-term Outlook*

### *The Bottom Line*

The market keeps chugging higher, and while it is quite overbought, there simply is not enough evidence to convince me to short it. So I remain sidelined awaiting my next opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
October 22, 2013	VIX up SPX up 2x. SPX 50-high	1 day	Bearish	
October 18, 2013	Top 10% 10-day range. Tmrw opex	1-5 days	Bearish	
October 18, 2013	SPX 50-high brakout, low vol	1-5 days	Bullish	
October 18, 2013	NYSE Up Iss % Rank > 90 2x & 60-high	1-4 days	Bullish	
<b>Active - Long Term</b>				
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
October 14, 2013	VIX big swing	1-8 days	Bullish	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
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	
<b>Dropped Tonight</b>				
October 22, 2013	VXO 15% below 10ma 3+ days in row	1 day	Bearish	
<b>October 21, 2013</b>	<b>Up Iss % &gt; 70 for 3 days</b>	<b>1-2 days</b>	<b>Bullish</b>	
October 21, 2013	8-day Avg %R > 75	1-2 days	Bearish	

**The Evidence**

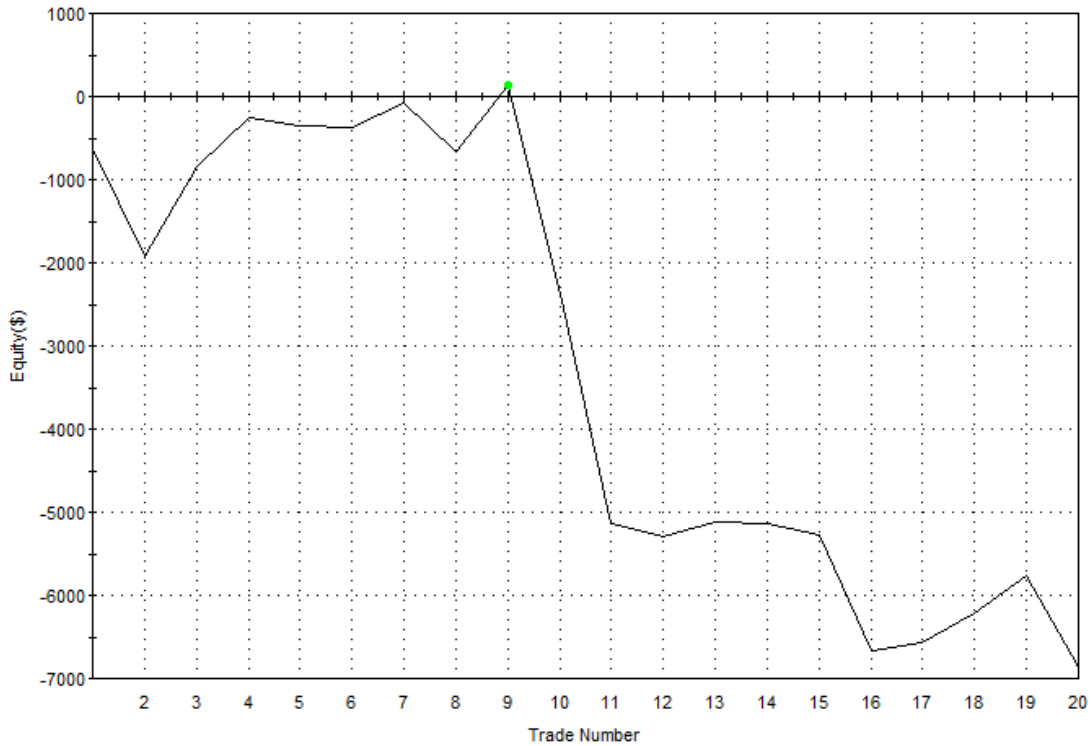
Employment numbers were well received by the market and it tacked on another day of gains. The SPX finished up 0.6%, the Nasdaq gained 0.2%, and the Russell 2000 rose 0.3%. Breadth was nicely positive as the NYSE Up Issues % was 72% and the Up Volume % was 69%. Total NYSE volume rose from Monday's level.

Once again the most compelling study that emerged was related to the VIX. The VIX most often will trade opposite SPX. But today it rose along with it. That's not too unusual for one day, but the same thing also happened yesterday. This triggered the study below which was last seen in the 5/16/13 subscriber letter, and has been updated.

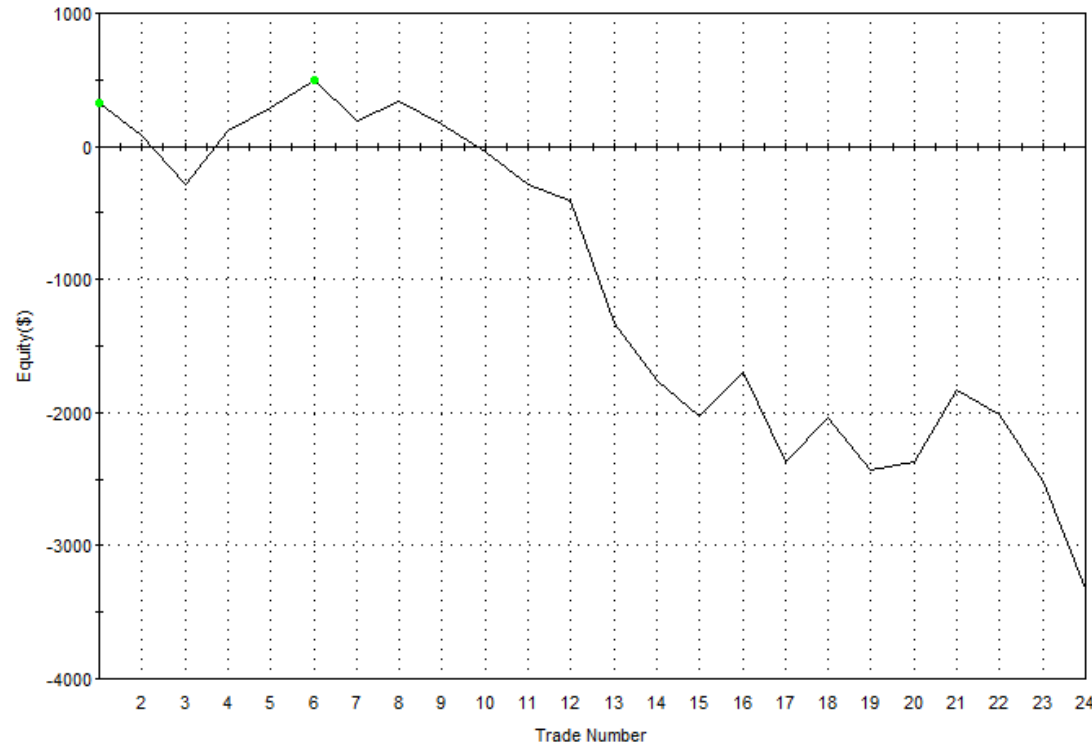
SPX and VIX both closed higher the last 2 days. SPX closed at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-6,438.39	19	11	8	57.89	903.36	3,434.08	-2,046.92	-4,221.70	0.44	0.61	-338.86
4	-8,372.38	20	10	10	50.00	720.37	1,907.36	-1,557.61	-4,240.48	0.46	0.46	-418.62
3	-8,780.08	20	8	12	40.00	683.35	1,433.12	-1,187.24	-4,423.40	0.58	0.38	-439.00
2	-6,868.34	20	8	12	40.00	477.63	1,078.48	-890.78	-2,752.74	0.54	0.36	-343.42
1	-3,329.02	24	9	15	37.50	280.48	537.24	-390.23	-924.70	0.72	0.43	-138.71

The stats appear somewhat bearish. While, 2-3 days have seen larger drops, their equity curves were not terribly appealing. Below are both the 2-day and 1-day profit curves.

SPX and VIX both closed higher the last 2 days. SPX closed at a 50-day high.  
 Buy SPX on close. Sell 2 days later. \$100k/trade. 1998 - present.

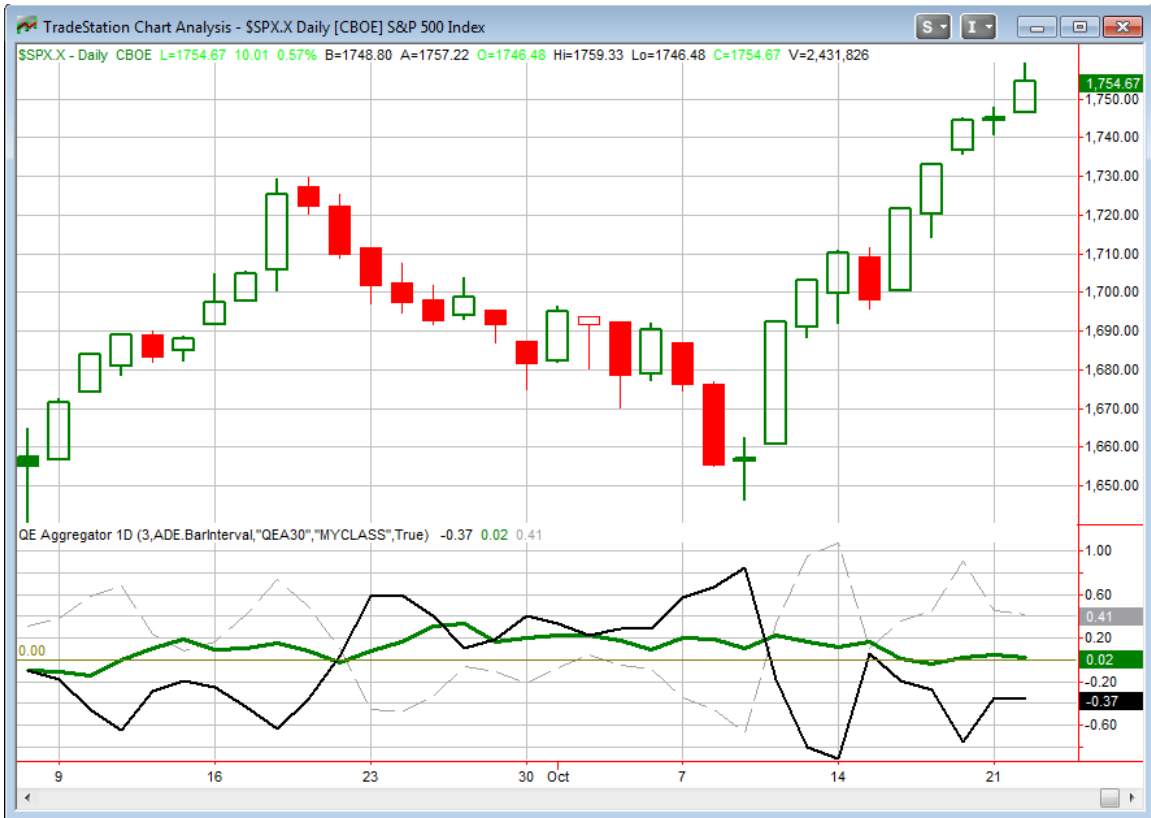


SPX and VIX both closed higher the last 2 days. SPX closed at a 50-day high.  
 Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.



As you can see, the 1-day curve appears much steadier, and it is the timeframe that I decided to use for the study on the Active List.

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



Despite the bearish study tonight, the green Aggregator Line again remained slightly 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 still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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 on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1744.26 on Wednesday. That is 0.6% below Tuesday's close. So it will take a drop of at least this much for SPX to turn oversold.

Very little has changed since last night. We are still looking at a market that is overextended to the upside. But it is also backed by strong liquidity, a strong uptrend, and a number of studies that suggest further upside both short and intermediate-term. Short-side evidence exists, but it is not compelling enough to act upon. So I will continue to wait until a more favorable entry opportunity presents itself.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/21 – somewhat bullish***

The intermediate-term outlook was last updated in the 10/21 letter. Link below.

[2013-10-21 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.*

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