

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 7, 2014

Volume 7 Issue 4

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.
- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.

Short-term Outlook

The Bottom Line

The short-term bullish case is growing. The market is oversold. I intend to up my long exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
January 7, 2014	3-down from 50-high	1-4 days	Bullish	1.70%
January 7, 2014	3-down. Today is Monday.	1-5 days	Bullish	2.50%
January 6, 2014	SPX down. Up issue % > 55%	1-3 days	Bullish	
January 3, 2014	Big drop from 50-day high	1-5 days	Bullish	
January 2, 2014	Close at high of month	1-5 days	Bullish	
Active - Long Term				
December 23, 2014	QE Tapering	int term	Neutral	
December 19, 2013	20-high on high vol	1-20 days	Bullish	
December 18, 2013	4 Hindenburg Trigger	1 - 35 days	Bearish	-7.00%
December 16, 2013	2nd half December seasonally strong	1-15 days	Bullish	3.60%
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
January 3, 2014	10 days > 5ma & 10-day high	1-2 days	Bearish	

The Evidence

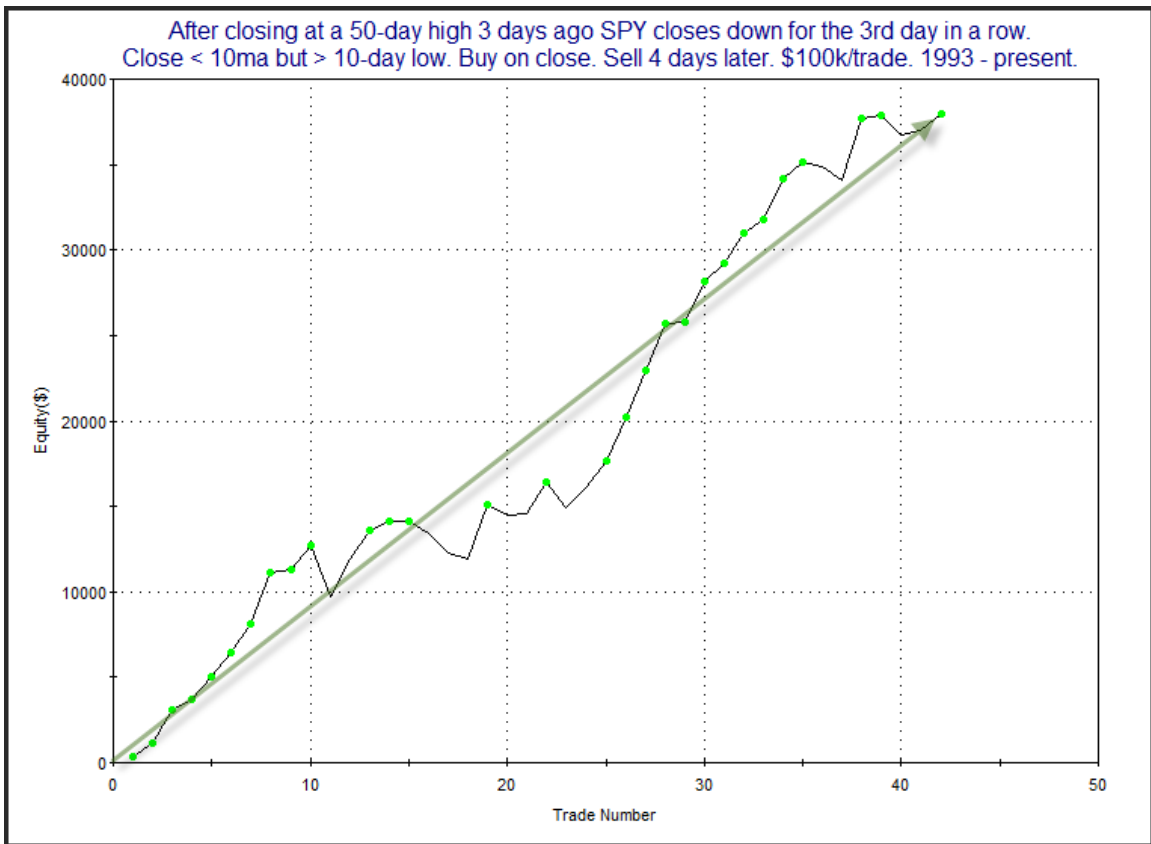
The market struggled for the 3rd day in a row on Monday. The SPX lost 0.25%, the Nasdaq fell 0.4%, and the Russell 2000 declined 0.8%. Breadth was a little negative as the NYSE Up Issues % was 46% and the Up Volume % was 44%. Total NYSE volume came in light. I expect it will rise some this week, with most traders back from vacations.

Tuesday marked the 3rd close lower in a row for the market. Three-day pullbacks will often trigger a few bullish studies. Tonight was no exception. I found 2 to be especially compelling. This first one below is from the 8/8/13 letter. It looked at other times that SPY had a 3-day pullback from a 50-day high, and that pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. I have updated the stats table.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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	48,812.50	41	28	13	68.29	2,565.50	7,242.70	-1,770.89	-6,933.13	1.45	3.12	1,190.55
9	40,451.94	41	29	12	70.73	2,322.14	6,322.56	-2,240.85	-8,192.92	1.04	2.50	986.63
8	43,281.14	41	30	11	73.17	2,202.40	6,358.08	-2,071.90	-4,499.25	1.06	2.90	1,055.64
7	37,705.25	41	29	12	70.73	2,077.40	6,322.56	-1,878.28	-4,354.31	1.11	2.67	919.64
6	40,712.03	41	29	12	70.73	1,992.82	5,375.36	-1,423.32	-2,140.14	1.40	3.38	992.98
5	33,921.72	42	29	13	69.05	1,676.99	3,522.94	-1,131.61	-3,453.71	1.48	3.31	807.66
4	37,932.95	42	33	9	78.57	1,439.70	3,543.50	-1,064.14	-3,076.63	1.35	4.96	903.17
3	25,873.44	42	29	13	69.05	1,343.89	3,543.50	-1,007.63	-2,027.68	1.33	2.98	616.03
2	11,717.42	42	27	15	64.29	1,018.17	2,332.48	-1,051.55	-2,781.35	0.97	1.74	278.99
1	8,461.57	42	26	16	61.90	803.14	2,060.16	-776.25	-2,031.09	1.03	1.68	201.47

Under these circumstances, it appears bounces have been both reliable and powerful. Below is a look at the profit curve assuming a 4-day exit technique.

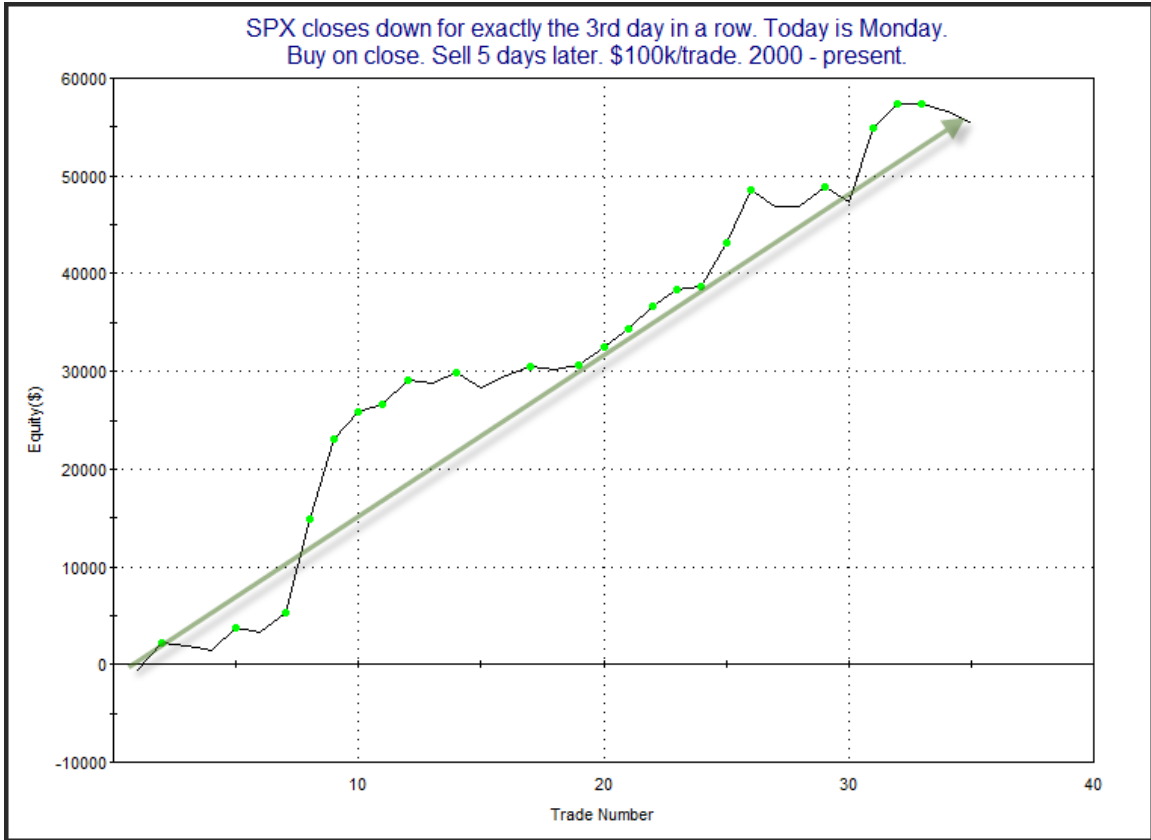


The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger [Turnaround Tuesday study](#) published in the 9/25/12 blog and Subscriber Letter. All statistics are updated.

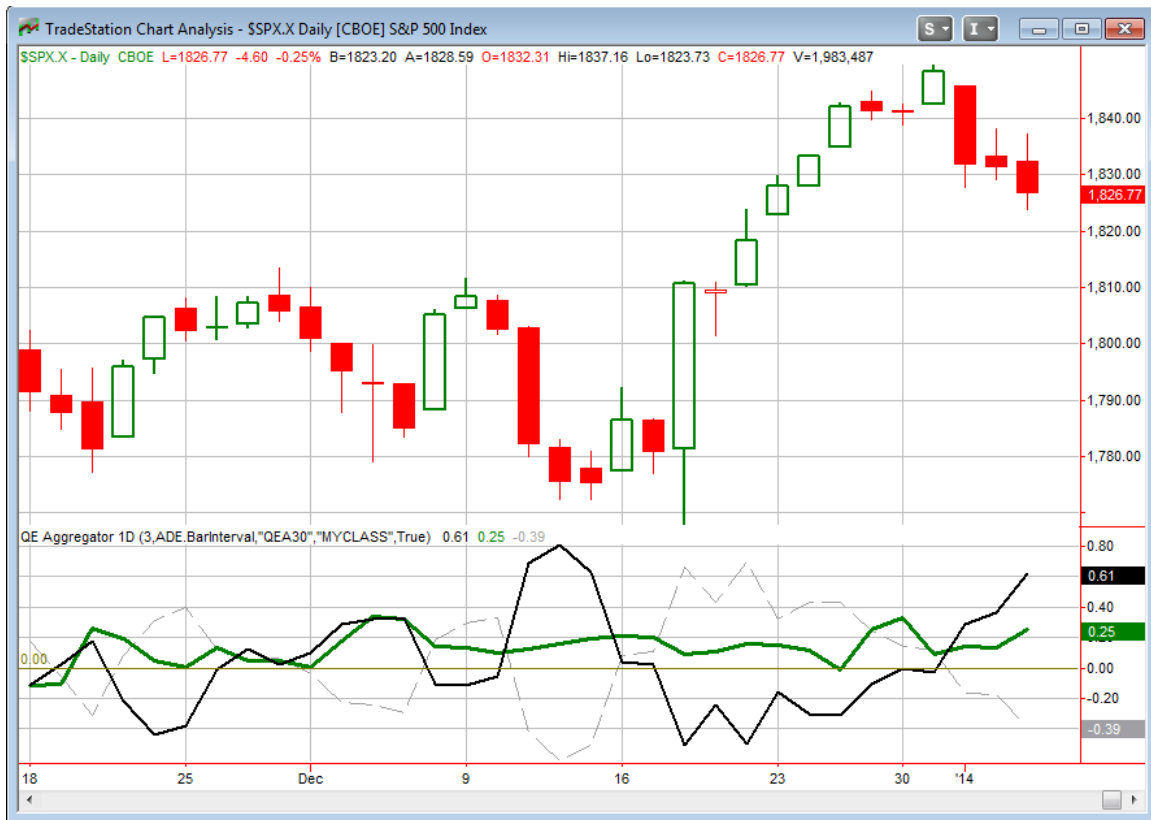
SPX closes down for exactly the 3rd day in a row. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	59,186.20	34	25	9	73.53	2,854.72	13,815.90	-1,353.54	-4,387.46	2.11	5.86	1,740.77
9	64,983.21	34	27	7	79.41	2,614.70	11,206.23	-801.94	-1,686.96	3.26	12.58	1,911.27
8	63,525.12	34	27	6	79.41	2,617.22	11,382.35	-1,189.96	-2,031.30	2.20	9.90	1,868.39
7	62,661.30	34	27	7	79.41	2,578.80	11,104.17	-995.20	-2,148.96	2.59	9.99	1,842.98
6	50,239.43	34	24	10	70.59	2,433.36	10,034.53	-816.12	-1,676.79	2.98	7.16	1,477.63
5	55,394.89	35	24	11	68.57	2,688.43	9,572.31	-829.77	-1,714.92	3.24	7.07	1,582.71
4	44,310.09	35	27	8	77.14	1,946.48	8,810.76	-1,030.62	-2,964.25	1.89	6.37	1,266.00
3	37,111.23	35	23	12	65.71	1,994.02	8,432.34	-729.28	-1,873.02	2.73	5.24	1,060.32
2	24,449.94	35	25	10	71.43	1,323.28	5,018.23	-863.21	-1,602.76	1.53	3.83	698.57
1	16,847.36	35	21	14	60.00	1,301.04	4,723.23	-748.17	-2,680.15	1.74	2.61	481.35

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

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



With tonight's studies factored in the green Aggregator Line managed to edge even 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 is also 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.

With the current active studies, expectations are set to remain bullish on Tuesday. This is unlikely to change without very compelling new bearish evidence. The Differential Pivot will be 1843.96 on Tuesday. That is about 1% about Monday's close. So it will take a strong close higher on Tuesday in order for SPX to move from oversold to overbought.

Bullish short-term evidence continues to build, and the last bearish study fell of the Short-Term Active List tonight. The market is plenty oversold at this point and the setup appears ripe for a bounce in the next day or so. I took some long exposure on Monday and plan to add to it on Tuesday. Details are in the Trade Ideas section near the bottom of the Letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/6 – somewhat bullish

The intermediate-term outlook was last updated on 1/6. It can be found in the current weekly letter:

<http://quantifiableedges.com/current-weekly-letter/>

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 at \$181.00 LIMIT ON CLOSE. Another sizable down close on Tuesday would lead me to take on a 2nd lot of SPY.

FCX – buy @ \$37.02 LIMIT. This is based on System 11111 from tonight's Systems Triggers Spreadsheet. System 11111 has done nicely over the years, and FCX has done especially well with it. With the market primed for a bounce I'm inclined to take this trigger if I can get a fill. Below is the list of historical FCX triggers for System 11111. For gold subscribers that would like to learn more about system 11111, you may check out [the 11111 page](#).

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

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/29/01	Buy	\$3.56	4.49%	\$5,041.98
01/30/01	Sell	\$3.72		(\$280.11)
02/14/01	Buy	\$4.28	9.35%	\$12,382.92
02/22/01	Sell	\$4.68		(\$6,308.28)
09/26/03	Buy	\$14.42	5.06%	\$5,041.38
10/01/03	Sell	\$15.15		(\$3,107.70)
10/05/05	Buy	\$20.77	3.56%	\$3,720.80
10/07/05	Sell	\$21.51		(\$2,046.44)
04/13/10	Buy	\$40.11	1.42%	\$2,337.78
04/14/10	Sell	\$40.68		(\$994.80)
01/06/11	Buy	\$57.66	0.55%	\$884.34
01/10/11	Sell	\$57.98		(\$2,774.40)
09/24/12	Buy	\$39.11	0.00%	\$1,866.28
09/27/12	Sell	\$39.11		(\$5,674.50)
10/01/13	Buy	\$32.48	3.17%	\$3,112.66
10/02/13	Sell	\$33.51		(\$271.98)
11/01/13	Buy	\$36.76	1.74%	\$1,795.20
11/04/13	Sell	\$37.40		(\$952.00)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/6/2014	\$182.88	\$182.36	-0.28%		Aggregator

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