

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2014

Volume 7 Issue 10

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Unfilled gaps up that fail to make a higher high will often pull back over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

The market bounced back strongly. But it still finds itself oversold while expectations remain bearish. With the Aggregator still neutral I remain in “wait for a better edge” mode.

**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>				
January 15, 2014	Unfilled gap up inside day > 200	1 day	Bearish	
January 14, 2014	7-day high to a 7-day low in 1 day	1-3 days	Bearish	
January 14, 2014	1% drop bad breadth	1-9 days	Bullish	3.10%
January 13, 2014	Jan opex week bearish	1-5 days	Bearish	-2.30%
January 10, 2014	Back to back outside days	1-5 days	Bullish	1.90%
<b>Active - Long Term</b>				
December 23, 2014	QE Tapering	int term	Neutral	
December 18, 2013	4 Hindenburg Triggers	1 - 35 days	Bearish	-7.00%
December 2, 2013	Nasdaq leading SPX	int term	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	

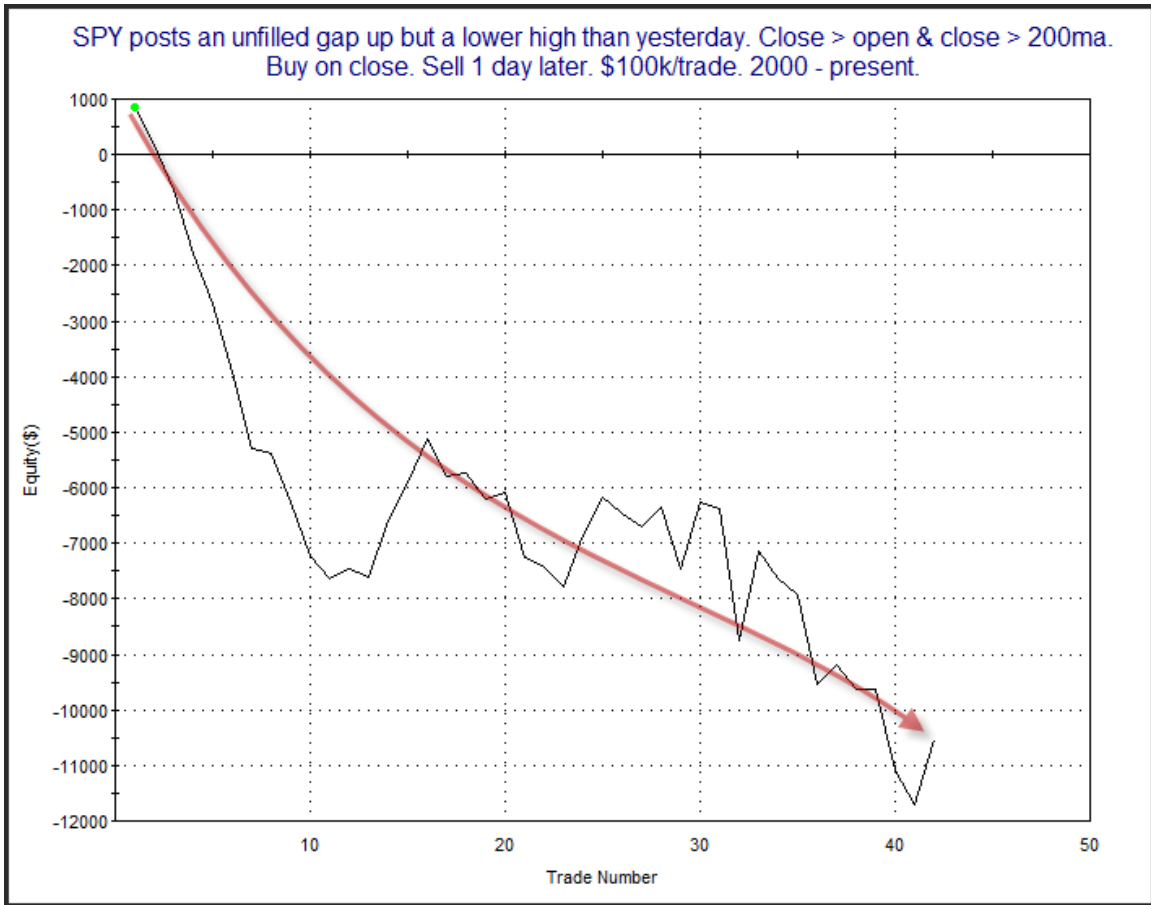
**The Evidence**

After Monday's selling Tuesday enjoyed a strong rebound to the upside. The SPX gained 1.1%, the Nasdaq rose 1.7% and the Russell 2000 closed up 1.3%. Breadth was squarely positive as the NYSE Up Issues % was 70% and the Up Volume % was 79%. Total NYSE volume fell a little from Monday's level.

Back and forth action like we saw the last couple of days doesn't often generate strong studies. But there was one bearish study from the Quantifinder that did seem worth some attention. It was last seen in the 3/27/13 Letter. It looks at days like Tuesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results of that study below.

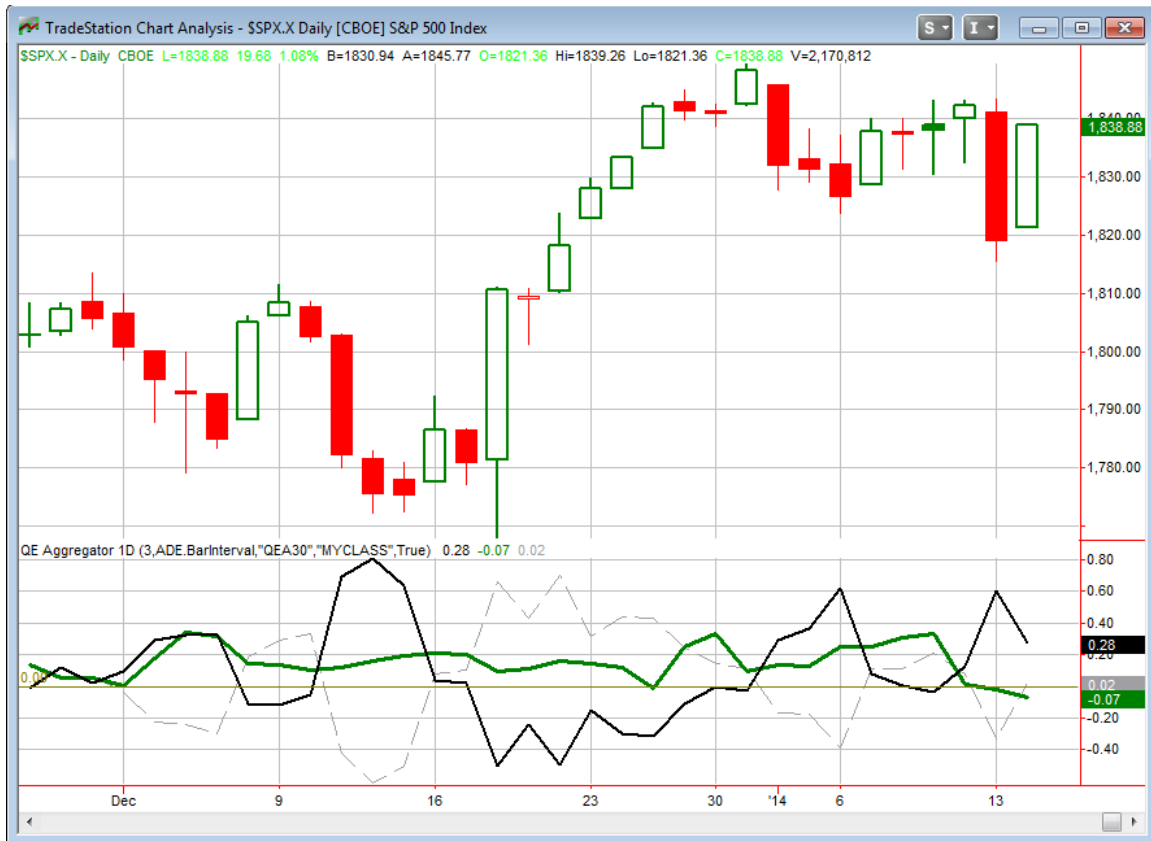
SPY posts an unfilled gap up but a lower high than yesterday. Close > open & close > 200ma. Buy on close. Sell X day later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,845.09	39	17	22	43.59	1,259.57	2,556.33	-1,420.81	-3,477.70	0.89	0.69	-252.44
4	-10,319.15	39	18	21	46.15	1,085.07	1,964.02	-1,421.44	-7,544.70	0.76	0.65	-264.59
3	-11,042.29	40	18	22	45.00	830.87	2,311.02	-1,181.72	-6,150.30	0.70	0.58	-276.06
2	-9,650.99	42	17	25	40.48	832.14	1,859.92	-951.90	-2,929.90	0.87	0.59	-229.79
1	-10,537.69	42	14	27	33.33	710.62	1,600.62	-758.75	-2,348.90	0.94	0.49	-250.90
<b>37 of 42 instances (88%) closed below the entry price at some point in the next week.</b>												

Implications here appear somewhat bearish, with most of the damage occurring on day 1. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge. I felt it was worth giving this study consideration once again.

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



Tonight's bearish study helped the green Aggregator Line edge down a little further below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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.

If the current open studies remain as-is then expectations would turn from bearish to bullish on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1854.10 on Wednesday. That is 0.8% above Tuesday's close. So it will take a move up of at least this much on Wednesday to move SPX from oversold to overbought versus recent expectations..

The Aggregator is neutral and really I am too. The back and forth chop the last few days does not suggest to me that we are at a high-probability entry point. And we are closer to the middle of the 10-day range than we are to the edges of it. Mid-range with increasing volatility and opposing studies over the last few days is not an ideal setup. So I will wait and see what emerges over the next day or two before considering committing more capital to trade ideas.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/13 – 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***

*DOW – 1/3 @ \$43.11 (bought at limit)*

*AXP – 1/3 @ \$86.99 (bought @ limit)*

*MMM – 1/3 @ \$134.68 (not filled – cancel order for now)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 3 (DOW, AXP, MMM)***

**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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DOW(1/3)	1/8/2014	\$43.11	\$42.65	-1.07%		Catapult
AXP(1/3)	1/14/2013	\$86.99	\$87.12	0.15%		Catapult

MMM did not receive a fill, missing by just \$0.05 before moving strong higher on Tuesday. It is now near hitting its exit trigger. I have removed the buy order from last night.

To reach their end-of-day targets, DOW and AXP would need to close >= the following levels on Wednesday:

DOW - \$43.01  
 AXP - \$88.47

The standard play when targets are hit is to sell the position at the open the next morning. I will send an intraday update if I intend to do anything other than that.

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