

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 23, 2014

Volume 7 Issue 15

Market Overview



Signals Overview

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

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

The Aggregator is now leaning bullish, but it is not very convincing. I am still flat and intend to remain that way for another day.

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 17, 2014	SPY up 2days but < 3 days ago.	1-2 days	Bullish	
January 21, 2014	MLK week bearish	1-4 days	Bearish	-1.90%
January 14, 2014	1% drop bad breadth	1-9 days	Bullish	3.10%
Active - Long Term				
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	
Dropped Tonight				
January 17, 2014	SPX down. Up Issues % > 55%. SPX>200	1-3 days	Bullish	1.10%

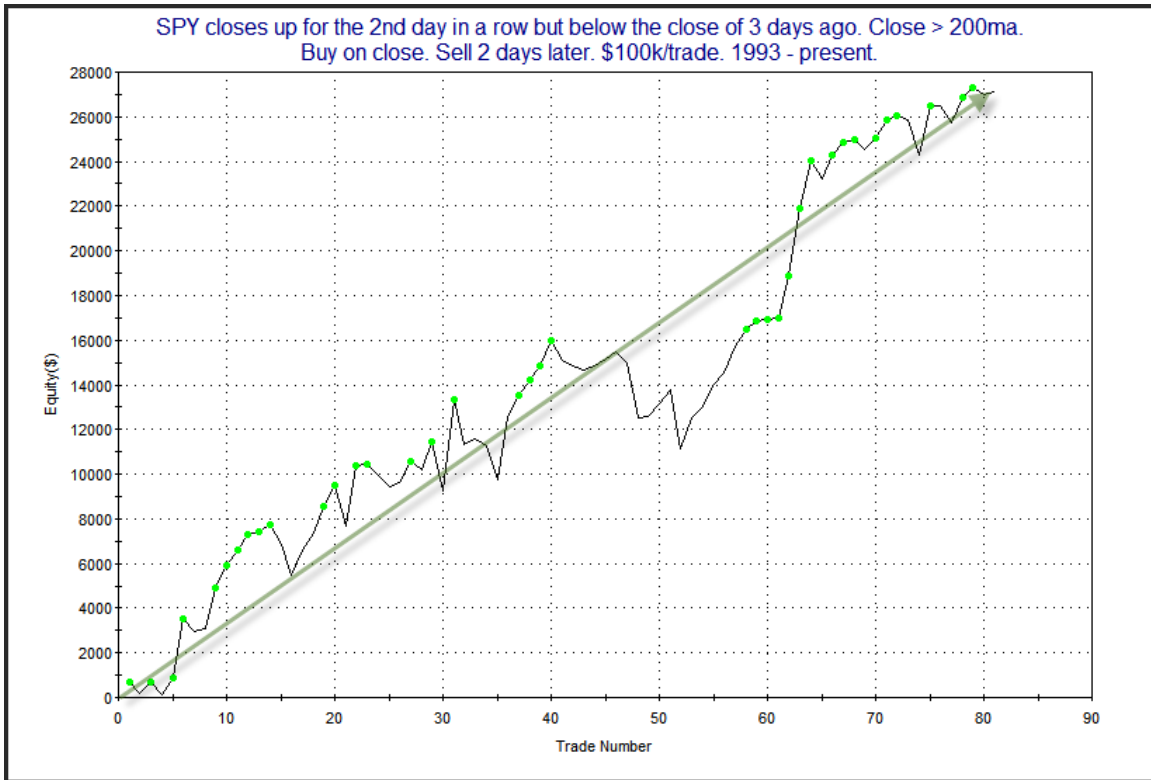
The Evidence

The market traded in a very tight range on Wednesday and none of the major indices moved too far. The SPX gained 0.1%, the Nasdaq rallied 0.4% and the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % was 58%. Total NYSE volume fell for the 2nd day in a row.

The quiet action did not generate much in the way of compelling evidence. The study below was last seen in the 2/7/13 Letter. It looked at times the SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated that study below.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. Close > 200ma. 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
5	18,812.97	79	47	31	59.49	1,494.18	4,717.70	-1,658.50	-6,549.84	0.90	1.37	238.14
4	21,158.38	80	51	29	63.75	1,357.41	4,698.60	-1,657.58	-4,384.89	0.82	1.44	264.48
3	16,362.44	81	49	32	60.49	1,251.25	3,000.00	-1,404.65	-4,092.24	0.89	1.36	202.01
2	27,114.23	81	55	26	67.90	932.47	4,088.25	-929.67	-2,673.44	1.00	2.12	334.74
1	6,954.92	81	46	33	56.79	634.89	3,732.75	-674.24	-1,777.90	0.94	1.31	85.86

The stats appear to suggest a bit of an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

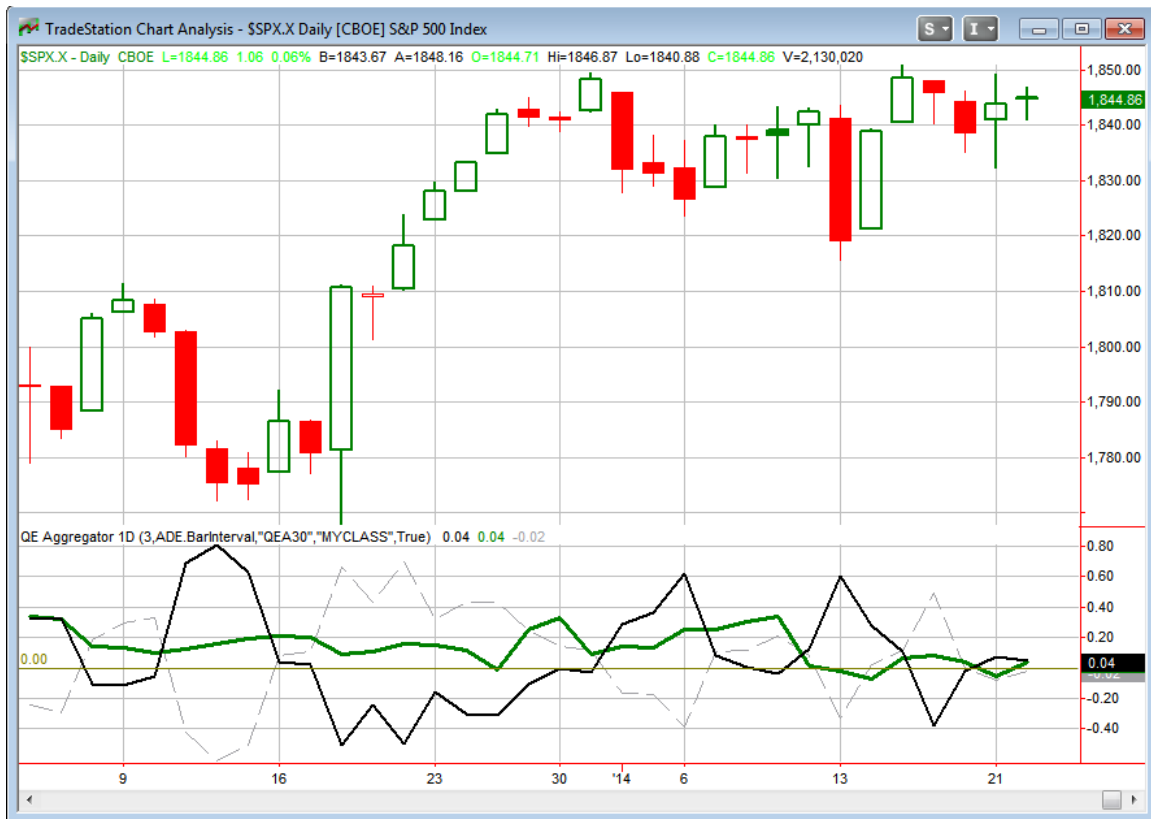
To see the importance of the “close < 3 days ago” filter let’s also examine those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. Those results are below.

SPY closes up for the 2nd day in a row and \geq the close of 3 days ago. Close > 200ma.
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
5	29,398.45	341	192	149	56.30	1,352.31	5,470.88	-1,545.27	-8,618.72	0.88	1.13	86.21
4	18,989.89	369	203	163	55.01	1,239.20	4,985.56	-1,426.79	-12,608.53	0.87	1.08	51.46
3	35,703.91	410	245	164	59.76	987.16	3,978.96	-1,257.01	-5,587.56	0.79	1.17	87.08
2	24,744.95	410	240	167	58.54	811.45	3,949.33	-1,017.98	-5,249.75	0.80	1.15	60.35
1	25,088.37	410	229	175	55.85	588.17	2,922.95	-626.30	-3,686.32	0.94	1.23	61.19

As you can see, that small change makes a big difference. Two days out total gains are less despite the fact that there are about 5 times as many instances. And the profit curves here look more like drift than any consistent edge.

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



With tonight's mildly bullish study taken into account, the green Aggregator Line edged 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 held a little above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are now positive and the SPX is marginally 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 turn long. But as I will discuss below, this is about as weak as a long signal could possibly be in my eyes.

If the current open studies remain as-is then expectations would remain bullish on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 1842.02 on Thursday. That is 0.2% below

Wednesday's close. An inverted pivot means that the Differential Line will cross zero if the SPX closes flat. So in this case, for SPX to remain oversold it is going to need to close down 0.2% or more.

Inverted pivots generally mean that the opportunity is limited. That is because any close in the expected direction will mean an end to the signal. So it is only moves against a signal that could possibly keep the signal intact. Therefore, I typically use inverted pivots as good places to take profits if I have a position. Or if I don't have a position, I rarely take one if the pivot is inverted. But the inverted pivot is not the only issue tonight. While 3-day expectations that the Aggregator uses are positive, the 1-day and 2-day expectations are actually negative. So while the Aggregator configuration (both lines closing above 0) is suggesting a bullish edge, the overall picture is not. Exercising patience can be the hardest part of trading. For me it has also proven to be perhaps the most important. I'll continue to wait for a more favorable risk/reward scenario before looking to take on new positions.

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

The intermediate-term outlook was last updated in the 1/21 letter. You may check out the current weekly letter to view it.

<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 [numbered systems 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. I'll wait another day. Aggressive traders could certainly consider some signals from the Numbered Systems Page.

Current Open Trade Ideas

None.

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