

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 12, 2014

Volume 7 Issue 29

Market Overview



Signals Overview

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

Tonight's Research Points

- Strong 4-day rallies when SPX > 200ma have led to further gains in the past.

Short-term Outlook

The Bottom Line

The market is strongly overbought but that does not mean a short trade contains strong risk/reward. Short-term evidence is still pointing towards further upside. This is not a setup I love and I'm sidelined until evidence turns bearish (for a short) or the market is no longer overbought (for a long).

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
February 12, 2014	SPX up 4 days. 3 > 1%. Close > 200ma	1-3 days	Bullish	1.70%
February 10, 2014	VIX high stretch to low stretch	1-8 days	Bullish	2.70%
Active - Long Term				
January 27, 2014	2 unfilled dn gaps & 5-low > 200	1-10 days	Bullish	
December 23, 2014	QE Tapering	int term	Neutral	
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
February 11, 2014	SPY up < 0.25% but top 10% daily range	1 day	Bearish	
February 5, 2014	Sweet Spot bounce	1-5 days	Bullish	2.90%
February 7, 2014	20-low then sideways chop	1-5 days	Bullish	
February 4, 2014	VIX 100-high. SPX > 100-low	1-7 days	Bullish	2.90%

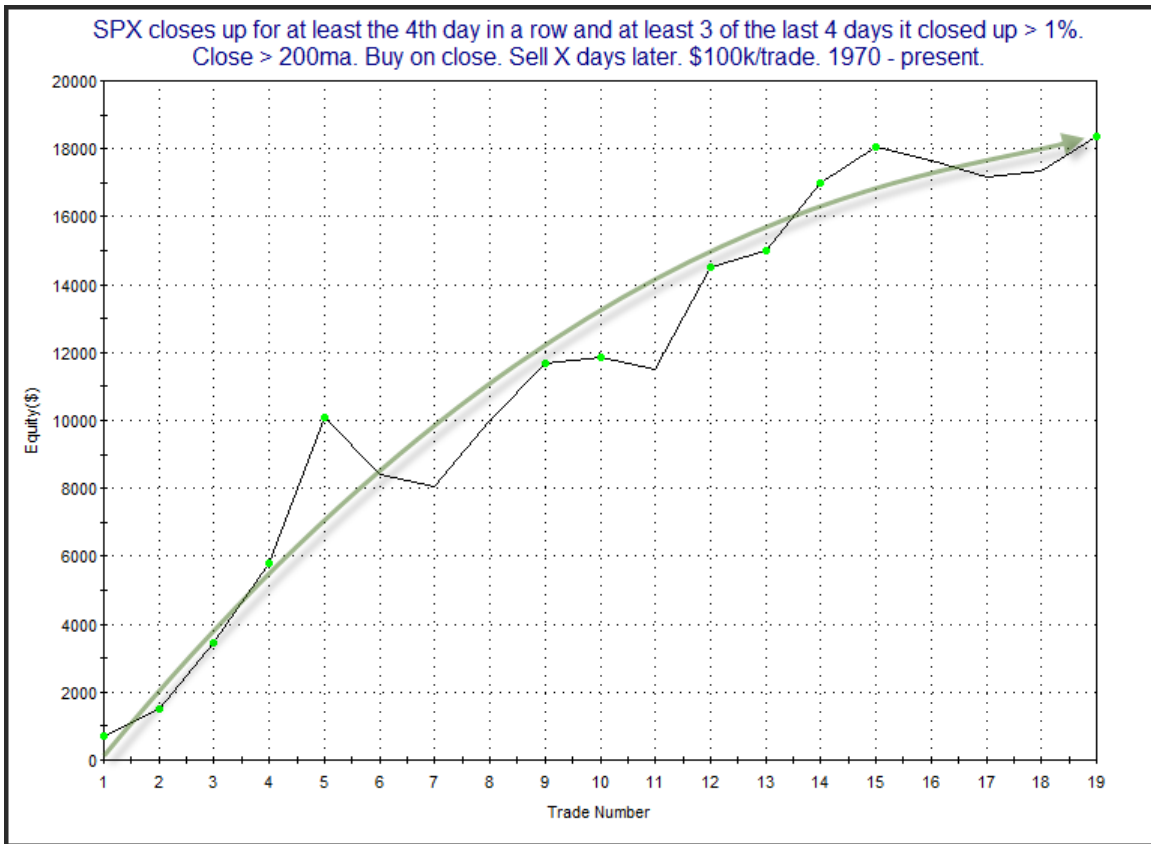
The Evidence

Tuesday was another strong up day for the market. The SPX rallied 1.1%, the Nasdaq gained 1.0%, and the Russell 2000 rose 0.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 77% and the Up Volume % was 84%. Total NYSE volume rose some from Monday's level.

I went through the studies in the Quantifinder and did not love any of them. But one study that did provide interesting results is one that an Overnight Edges subscriber suggested in the Overnight Edges Trade Discussion Room on Tuesday. It looked at momentum price thrusts in SPX like we have seen over the last 4 days while SPX has been in a long-term uptrend. Below are the results.

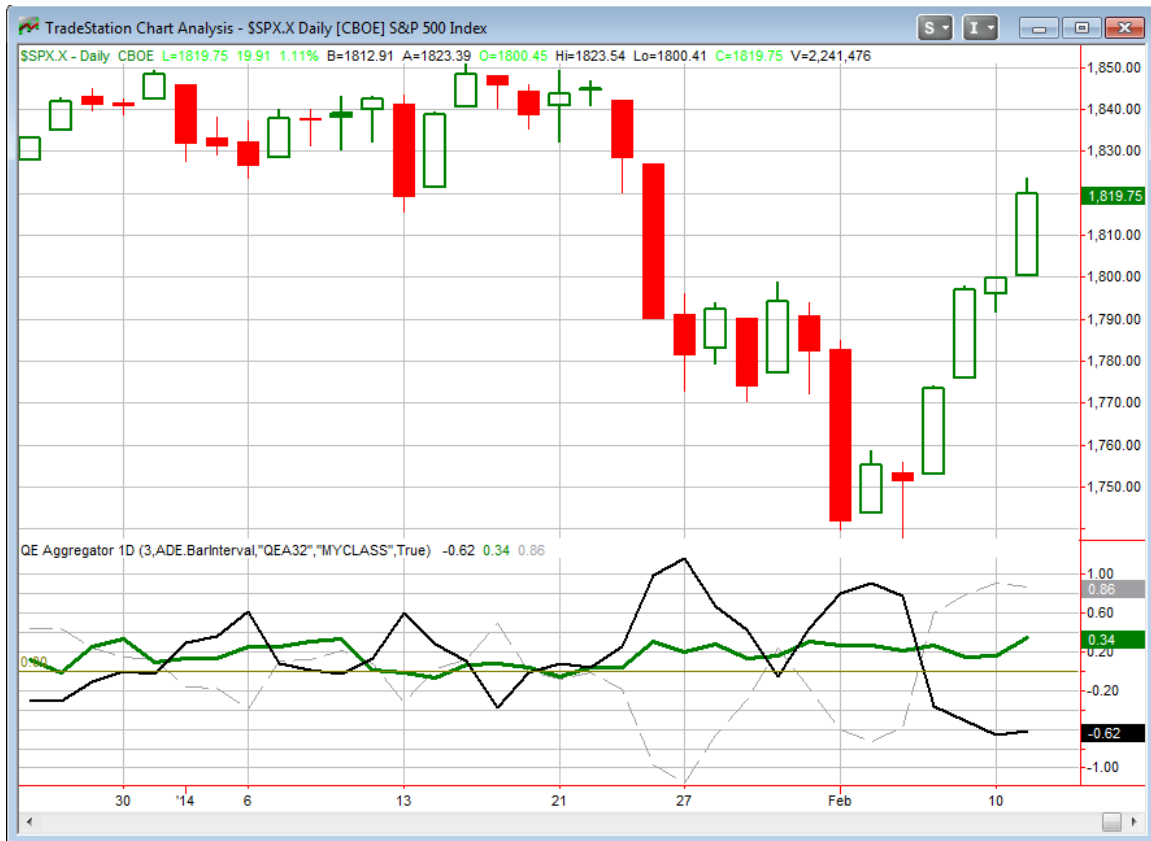
SPX closes up for at least the 4th day in a row and at least 3 of the last 4 days it closed up > 1%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,336.71	19	14	5	73.68	1,846.12	3,581.50	-1,101.79	-1,493.32	1.68	4.69	1,070.35
4	18,040.42	19	16	3	84.21	1,268.58	3,067.74	-752.27	-1,043.86	1.69	8.99	949.50
3	18,368.30	19	14	5	73.68	1,550.09	4,318.58	-666.59	-1,691.58	2.33	6.51	966.75
2	7,432.07	19	11	8	57.89	1,006.52	2,586.57	-454.95	-1,301.14	2.21	3.04	391.16
1	2,309.05	22	11	11	50.00	702.27	2,609.46	-492.36	-1,362.90	1.43	1.43	104.96
20 of 22 instances (91%) closed above the entry price at some point in the next week. (All did within 9 days.)												

The above stats are impressive. Notable though is that there have only been 3 instances since 2000. These triggered on 6/2/09, 8/21/09, and 7/1/11. So although the total number of instances is decent, we don't have much of a sample in recent years. Below is a profit curve assuming a 3-day holding period.



I do like the curve. And though I would rather see more in the way of recent instances, it appears this study is worth taking under some consideration. Price thrusts as we have seen over the last few days have led to further upside on a fairly consistent basis. I have included this study on the Short-Term Active List.

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



Evidence continues to favor the bulls and the green Aggregator Line is now strongly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Of course the big rally over the last 4 days has left the black Differential Line way below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is strongly 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.

Based on the current open studies, expectations are slated to remain positive on Wednesday. The Differential Pivot will be 1808.14 on Wednesday. That is 0.6% below Tuesday's close. So it will take a close lower of at least this much in order for SPX to flip from overbought to oversold versus expectations.

My stance has not changed at all. Bearish evidence remains lacking, and what we are seeing appears to favor the bulls. Yet the market is far too overbought for me to consider taking on new positions. So it remains a game of patience as I await the next highly favorable setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/10 – neutral

The intermediate-term outlook was last updated in the 2/3 Letter. It can be found in the most recent weekly letter on the website.

<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.

Current Open Trade Ideas

None

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