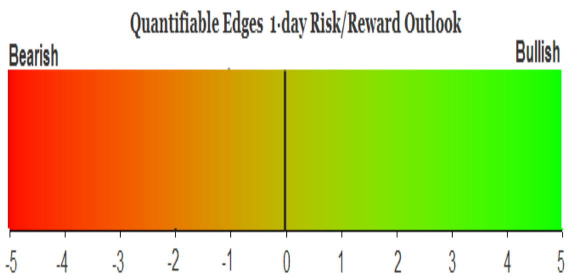
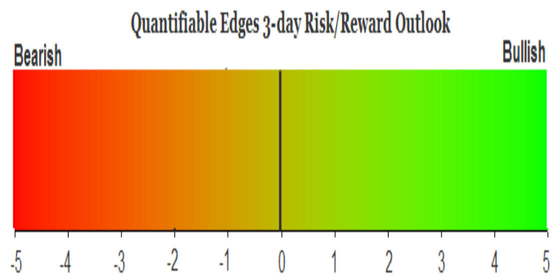
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 27, 2014 Volume 7 Issue 39

Market Overview





Signals Overview

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

Tonight's Research Points

- VIX up / SPX up is a bearish setup during long-term downtrends, but during uptrends it is not terribly predictive.

Short-term Outlook
The Bottom Line
Another sideways day Wednesday did nothing to change the neutral outlook. I'm staying patient and staying sidelined for now – awaiting the next nicely favorable opportunity.

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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 25, 2014	SPY breakaway gap	1-5 days	Bullish	1.70%
February 20, 2014	SPX 20-high then close bottom 10% rng	1-8 days	Bullish	2.00%
Active - Long Term				
February 20, 2014	SPX key reversal after 10-high	1-11 days	Bullish	2.30%
December 23, 2013	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 26, 2014	SPY breakaway gap then inside day	1 day	Bullish	
February 21, 2014	SPX top 10% 10-day range opex Thurs	1-4 days	Bearish	

The Evidence

Wednesday was a 2nd day of drift. The SPX rose a mere 0.04 points while the Nasdaq gained 0.1% and the Russell 2000 rallied 0.7%. Breadth was mildly positive as the NYSE Up Issues % came in at 58% and the Up Volume % was 55%. Total NYSE volume rose slightly from Tuesday's level.

Another index that closed up today was the VIX. As many readers are likely aware, VIX is a volatility index. Typically VIX will trade counter to the SPX. So if SPX rises, VIX will sink and if SPX falls, VIX will most often rise. There are some calculation-induced tendencies around the weekend, so often when I show studies on VIX I will break them down by day of the week. What was interesting about VIX on Wednesday is that it rose nearly 5% while SPX rose slightly. In the 4/25/13 Subscriber Letter I studied other mid-week occurrences of SPX and VIX both closing higher. I found that the long-term trend played a big part in the short-term reaction to this setup. First I'll show VIX up & SPX up when the market is below the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close < 200ma.
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	-32,433.88	30	10	20	33.33	1,809.48	5,674.40	-2,526.43	-7,204.80	0.72	0.36	-1,081.13
4	-53,725.84	31	8	23	25.81	1,335.16	3,696.70	-2,800.31	-7,745.95	0.48	0.17	-1,733.09
3	-38,097.73	31	9	22	29.03	1,236.71	2,587.14	-2,237.64	-5,299.32	0.55	0.23	-1,228.96
2	-29,272.16	32	10	22	31.25	1,582.34	3,181.60	-2,049.80	-6,672.34	0.77	0.35	-914.75
1	-11,260.93	34	16	18	47.06	1,025.40	3,644.16	-1,537.07	-3,035.25	0.67	0.59	-331.20

This obviously seems to suggest a downside edge.

Now let's look at occurrences above the 200ma.

SPX and VIX both close higher on Tues, Wed, or Thurs. SPX > 200ma. 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	5,091.10	124	70	54	56.45	1,057.07	3,549.70	-1,276.00	-4,171.80	0.83	1.07	41.06
4	-1,533.34	131	68	63	51.91	1,025.77	3,154.00	-1,131.52	-4,354.72	0.91	0.98	-11.70
3	-6,124.66	136	73	63	53.68	835.46	3,288.60	-1,065.29	-3,671.32	0.78	0.91	-45.03
2	-4,676.06	141	69	72	48.94	707.72	3,962.70	-743.17	-2,848.17	0.95	0.91	-33.16
1	-8,605.67	155	78	77	50.32	469.46	1,970.50	-587.32	-2,079.70	0.80	0.81	-55.52

No discernible edge here. This is the kind of situation the market is currently dealing with. So while this is all interesting to me, it isn't terribly predictive today. And with the flat close nothing strongly compelling emerged, so I will not be adding any studies to the Active List tonight.

I have updated the Aggregator chart below.

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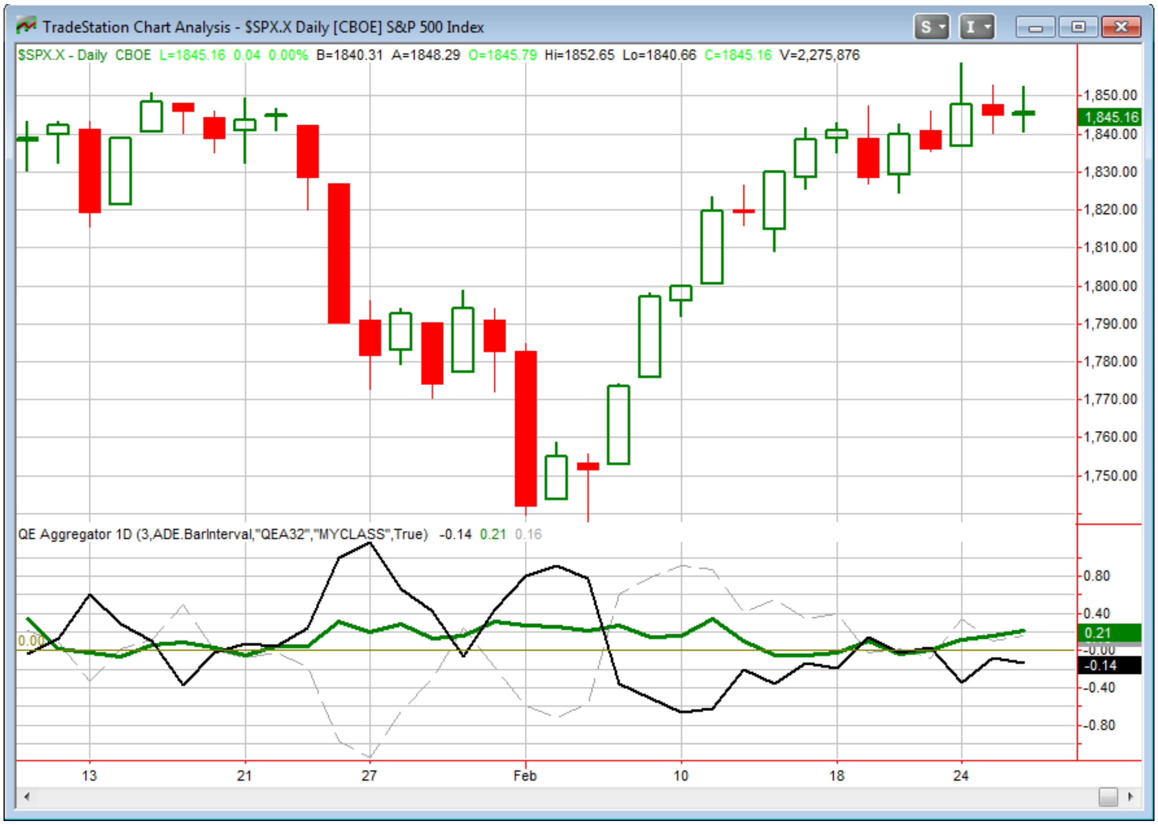

The green Aggregator Line tonight edged a little higher above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative Differential Line reading means the SPX is overbought versus recent 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. Therefore the Aggregator signal remained flat.

Based on the current open studies, expectations are slated to remain positive on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted at* 1848.98 on Thursday. That is 0.2% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat on the day. In this case, SPX is going to need to close up 0.2% in order for it to remain "overbought" versus expectations.

This week has been really dull from a trading standpoint. But a few dull days is not reason for me to start getting more aggressive. You can't get blood from a stone, and you should not try and force a trade when risk/reward is sub-par. So I'll again wait for a better setup to emerge. More aggressive traders or those with stronger short-term convictions can certainly look to the numbered systems Triggers Sheet on the numbered systems page for possible trade ideas.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/24 – neutral

The intermediate-term outlook was last updated in the 2/24 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