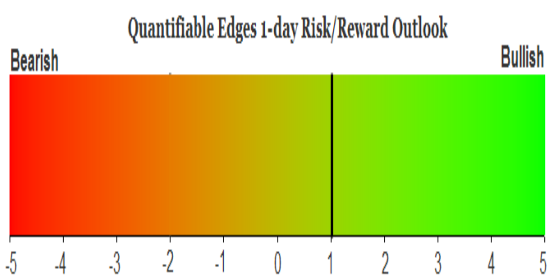
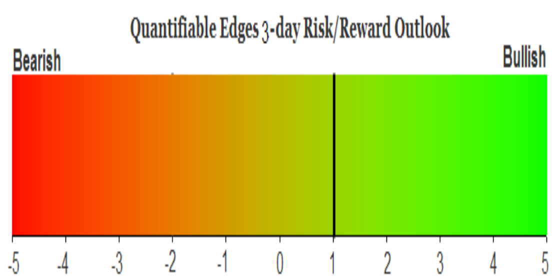
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2014 Volume 7 Issue 59

Market Overview





Signals Overview

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

Tonight's Research Points

- Weak closes at 5-day lows often lead to a bounce.

Short-term Outlook
The Bottom Line
The Aggregator is now mildly bullish. I am not inclined to start trading indices here, but I'm not averse to small positions in individual stocks that may be setting up.

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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				
March 27, 2014	SPX 5-low. Bottom 10% range.	1-5 days	Bullish	1.80%
March 24, 2014	SPX up 1%-2% opex week	1-5 days	Bearish	
Active - Long Term				
March 14, 2014	QQQ 5 lower lows. Big drop today.	1-20 days	Bullish	11.90%
December 23, 2013	QE Tapering	int term	Neutral	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
March 24, 2014	SPX dn. Up Issues> 55%	1-3 days	Bullish	

The Evidence

Morning gains failed to hold and the market selling accelerated into the close. The SPX lost 0.7%, the NASDAQ fell 1.4% and the Russell 2000 dropped 1.9%. Breadth was strongly negative as the NYSE Up Issues % came in at 33% and the Up Volume % was 24%. Total NYSE volume rose from the level of the last 2 days.

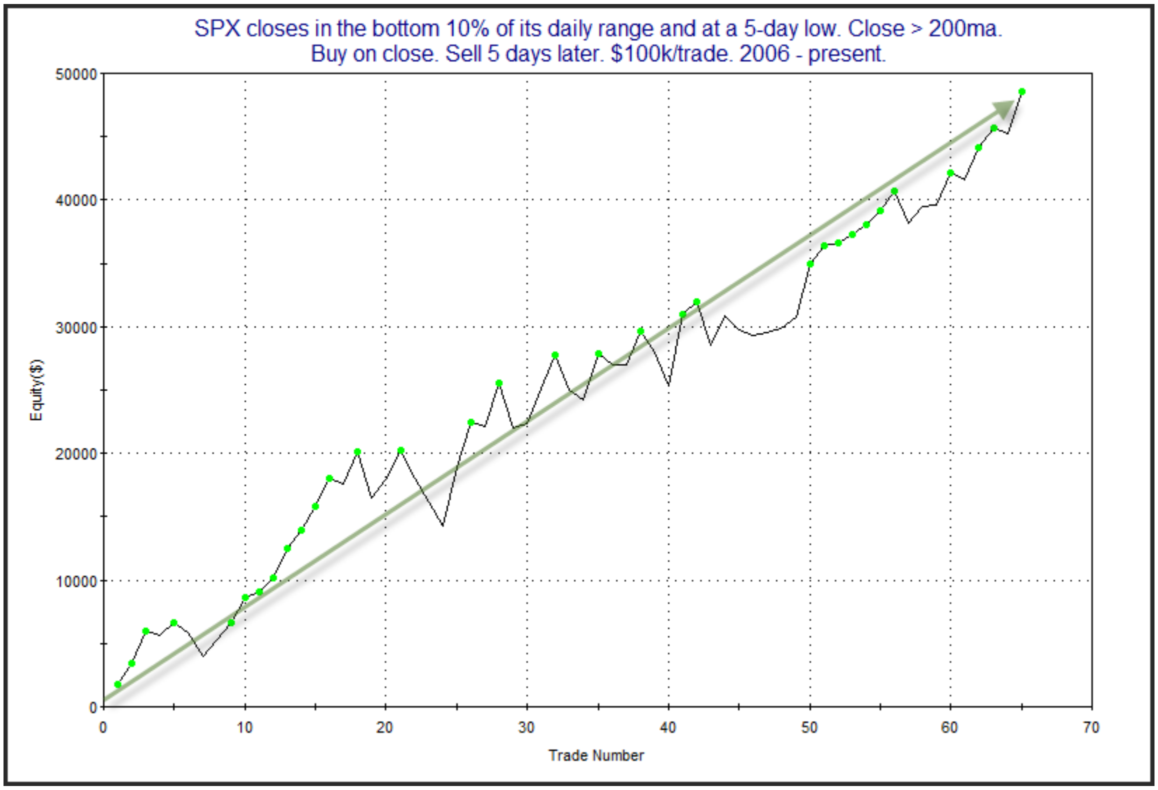
The selling also put SPX at a short-term closing low. Over the last several years when SPX has closed near the bottom of its range and at a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below.

SPX closes in the bottom 10% of its daily range and at a 5-day low. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 2006 - present.

QE Finder Tester: daysin	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	48,565.62	65	44	21	67.69	1,879.31	5,555.16	-1,624.95	-3,680.82	1.16	2.42	747.16
4	32,450.96	67	43	24	64.18	1,513.22	4,732.80	-1,359.06	-3,863.84	1.11	1.99	484.34
3	28,111.91	71	45	26	63.38	1,240.86	4,042.74	-1,066.42	-3,437.94	1.16	2.01	395.94
2	26,455.87	75	45	30	60.00	1,154.54	4,259.29	-849.95	-2,261.76	1.36	2.04	352.74
1	24,662.92	80	56	24	70.00	720.43	2,230.60	-653.38	-2,200.08	1.10	2.57	308.29

92% of instances closed above the entry price
at some point in the next week.

The stats here appear to suggest a pretty solid upside tendency over the last 8 years. Below is a look at the profit curve assuming a 5-day holding period.



The profit curve has had a steady move higher from lower left to upper right. This seems to serve as some confirmation of the short-term upside edge. I have included this study on the Short-Term Active List tonight.

I have updated the Aggregator chart below.

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Tonight's bullish study helped the green Aggregator Line inch above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained 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. Therefore the Aggregator signal turned long at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 1856.49 on Thursday. That is just 0.2% above Wednesday's close. So it will only take a small move higher on Thursday for SPX to move from oversold to overbought versus expectations.

There appears to be a bit of an upside edge, but it really isn't a very strong one. The Aggregator line is barely positive, and if SPX closes up tomorrow it is almost sure to turn overbought. So even if the small edge plays out, there is not a lot of room for it to run. And while the SPX did close at a 5-day low, it is still not far below the middle of its 10-day range. This is not the kind of setup that gets me excited about taking on large index positions. But it is good enough for me to consider individual stocks that appear to be setting up. I've list one such stock in the Trade Ideas section down below.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 3/24 – neutral

The intermediate-term outlook was last updated in the 3/24 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.

AMZN – buy @ $343.41 LIMIT. This is based on numbered system 110524. AMZN has done quite well with this setup over the years. Below is a hypothetical performance report for AMZN since 2000.

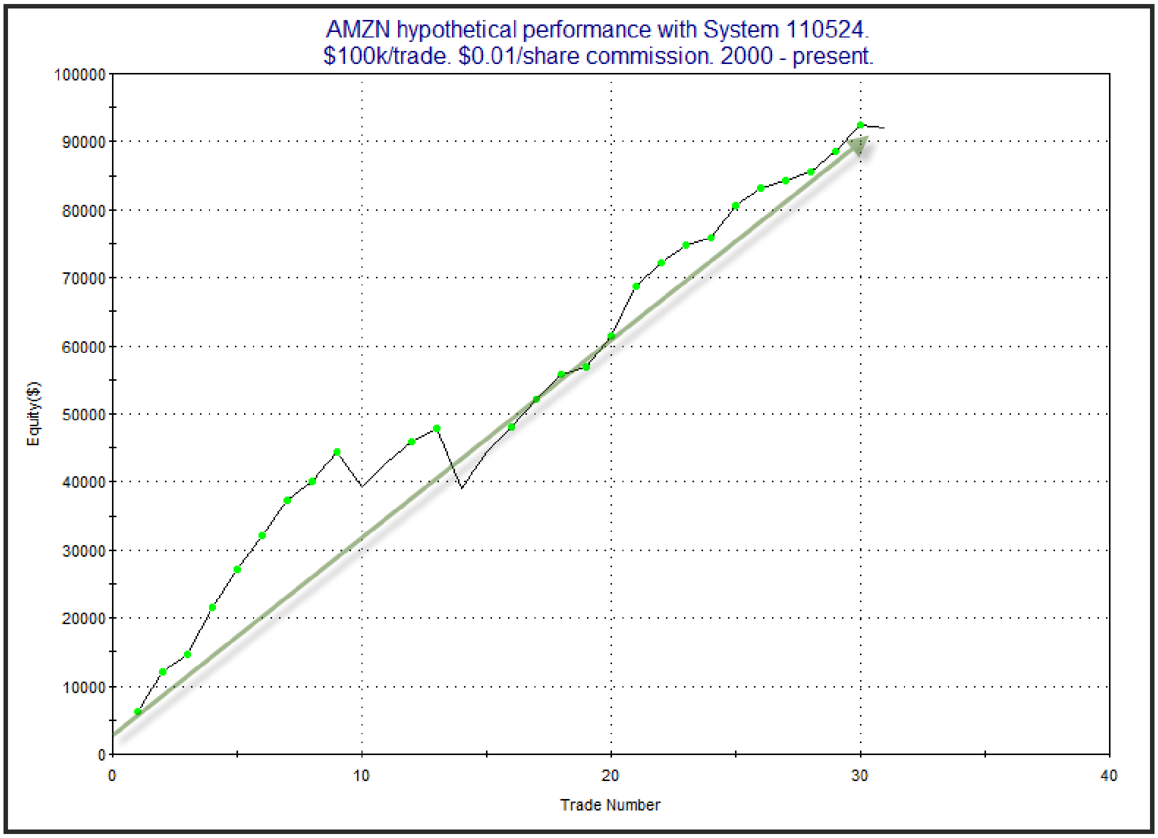
AMZN hypothetical performance with System 110524.
$100k/trade. $0.01/share commission. 2000 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$92,071.49	Profit Factor	7.32
Gross Profit	$106,628.29	Gross Loss	($14,556.80)
Total Number of Trades	31	Percent Profitable	90.32%
Winning Trades	28	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	$2,970.05	Ratio Avg. Win:Avg. Loss	0.78
Avg. Winning Trade	$3,808.15	Avg. Losing Trade	($4,852.27)
Largest Winning Trade	$7,339.65	Largest Losing Trade	($8,858.22)

The numbers all look strong. Below is a profit curve.



I intend to manage this as per system 110524 rules, though I may adjust my approach if circumstances appear to call for it.

<u>Current Open Trade Ideas</u>

None.