

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 14, 2014

Volume 7 Issue 71

Market Overview



Signals Overview

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

Tonight's Research Points

- This week has a number of days that have shown seasonal strength over the years.

Short-term Outlook

The Bottom Line

The market is oversold. We are seeing a good amount of evidence it is likely to bounce, and we are now entering a period of seasonal strength. I am long and looking to get longer.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
April 14, 2014	Opex/Tax Day/Holy Thursday bullish	1-4 days	Bullish	
April 11, 2014	System 110524	1-7 days	Bullish	
April 11, 2014	QE Buying Power System Long	1-6 days	Bullish	
April 11, 2014	3-high, 3-low, 3-high close	1-5 days	Bullish	
April 9, 2014	4 Lower lows & 20-day Low > 200ma	1-8 days	Bullish	2.40%
April 8, 2014	Unfilled gap down & weak finish > 200	1-8 days	Bullish	
April 7, 2014	20-day high and close bottom 10% rng	1-8 days	Bullish	2.00%
Active - Long Term				
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
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				
April 11, 2014	2% drop to 10-low. Poor close.	1 day	Bullish	
April 8, 2014	3 Down & Today is Monday	1-4 days	Bullish	2.10%
April 7, 2014	Double Outside Days	1-5 days	Bullish	1.80%
April 11, 2014	100 day low TICK	1 day	Bullish	
March 14, 2014	QQQ 5 lower lows. Big drop today.	1-20 days	Bullish	11.90%

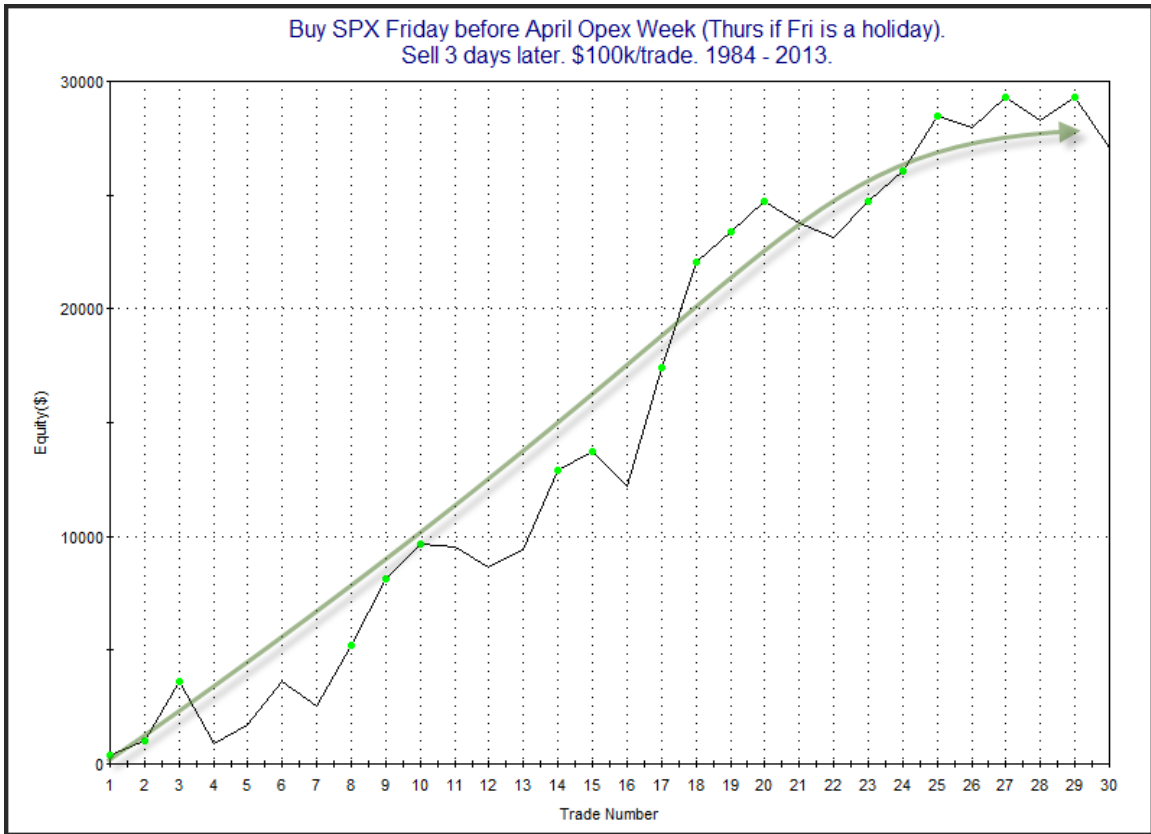
The Evidence

There was no relief for the market on Friday as it added to Thursday’s damage. The SPX lost nearly 1%, the NASDAQ fell 1.3% and the Russell 2000 declined 1.4%. Breadth was again negative as the NYSE Up Issues % came in at 25% and the Up Volume % was 20%. Total NYSE volume rose for the 2nd day in a row.

Price action did little to generate compelling edges, but we do have a few studies suggesting this upcoming week is a strong one from a seasonal standpoint. April expirations week has historically been very bullish. I showed this last in the 4/14/13 Subscriber Letter and have updated it below.

Buy SPX Friday before April Opex Week (Thurs if Fri is a holiday). Sell X days later. \$100k/trade. 1984 - 2013.												
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	22,970.23	30	18	12	60.00	2,262.91	5,393.97	-1,480.18	-3,580.15	1.53	2.29	765.67
4	23,283.82	30	19	11	63.33	2,110.60	5,895.12	-1,528.87	-3,587.57	1.38	2.38	776.13
3	27,045.76	30	20	10	66.67	1,938.82	5,215.85	-1,173.07	-2,745.05	1.65	3.31	901.53
2	20,696.20	30	24	6	80.00	1,272.48	6,245.15	-1,640.57	-4,545.53	0.78	3.10	689.87
1	7,071.54	30	20	10	66.67	720.49	3,322.23	-733.82	-2,339.26	0.98	1.96	235.72

The consistency has been very impressive. It suggests an upside edge the first few days of this week. Below is a profit curve that assumes a 3-day holding period.



The curve has flattened out some in recent years. This bears watching. For now, I am still giving it the benefit of the doubt. Prior to last year the curve did hit a new high.

Part of the reason that April opex may perform so well is that tax day often occurs this week. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market.

My research has found that some of the strongest influence occurs on tax day (normally April 15th) and the day immediately after. Below are some studies that demonstrate this.

SPX Tax Day Performance.
\$100k/trade. 1981 - 2013.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$9,942.90	Profit Factor	2.33
Gross Profit	\$17,401.04	Gross Loss	(\$7,458.14)
Total Number of Trades	33	Percent Profitable	69.70%
Winning Trades	23	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$301.30	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$756.57	Avg. Losing Trade	(\$745.81)
Largest Winning Trade	\$3,322.23	Largest Losing Trade	2013 → (\$2,262.38)

SPX day after Tax Day performance.
\$100k/trade. 1981 - 2013

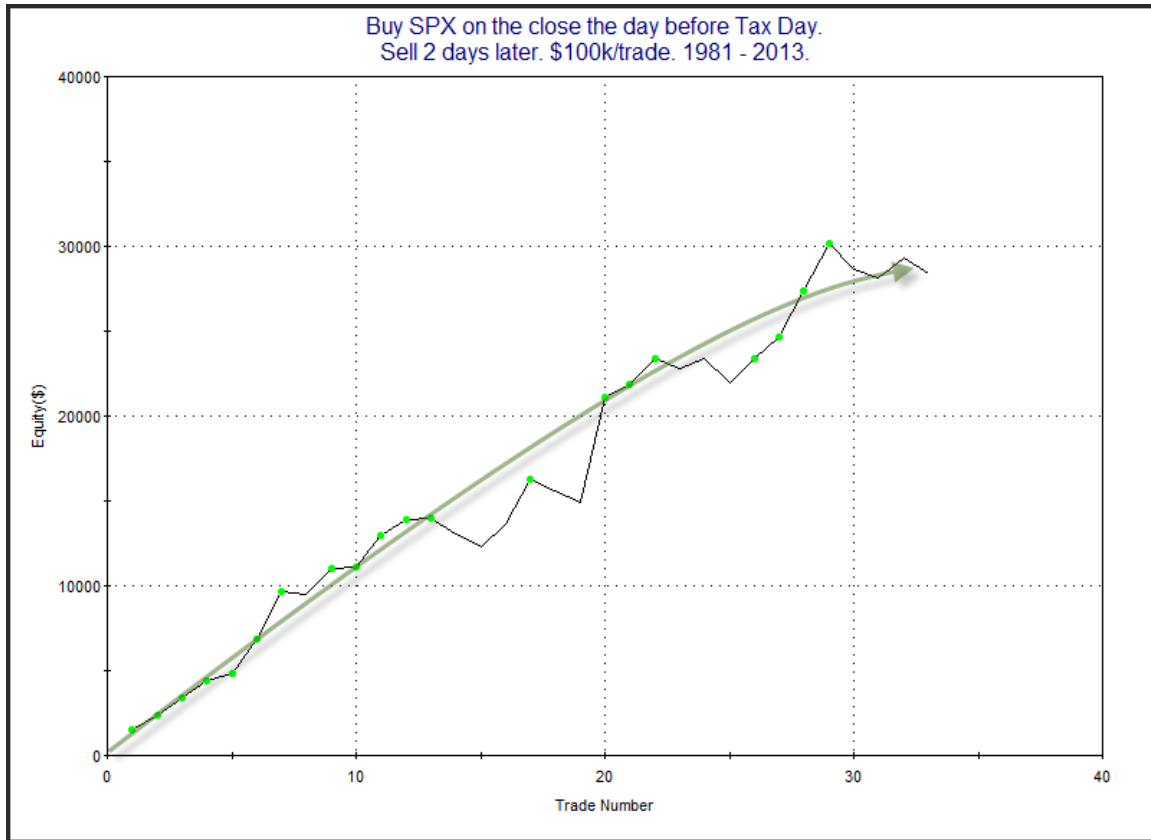
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$18,347.59	Profit Factor	4.17
Gross Profit	\$24,126.69	Gross Loss	(\$5,779.10)
Total Number of Trades	33	Percent Profitable	69.70%
Winning Trades	23	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$555.99	Ratio Avg. Win:Avg. Loss	1.82
Avg. Winning Trade	\$1,048.99	Avg. Losing Trade	(\$577.91)
Largest Winning Trade	\$2,842.84	Largest Losing Trade	(\$1,602.28)

As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

Buy SPX on the close the day before Tax Day.
Sell 2 days later. \$100k/trade. 1981 - 2013.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$28,404.45	Profit Factor	4.49
Gross Profit	\$36,540.35	Gross Loss	(\$8,135.90)
Total Number of Trades	33	Percent Profitable	69.70%
Winning Trades	23	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$860.74	Ratio Avg. Win:Avg. Loss	1.95
Avg. Winning Trade	\$1,588.71	Avg. Losing Trade	(\$813.59)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.

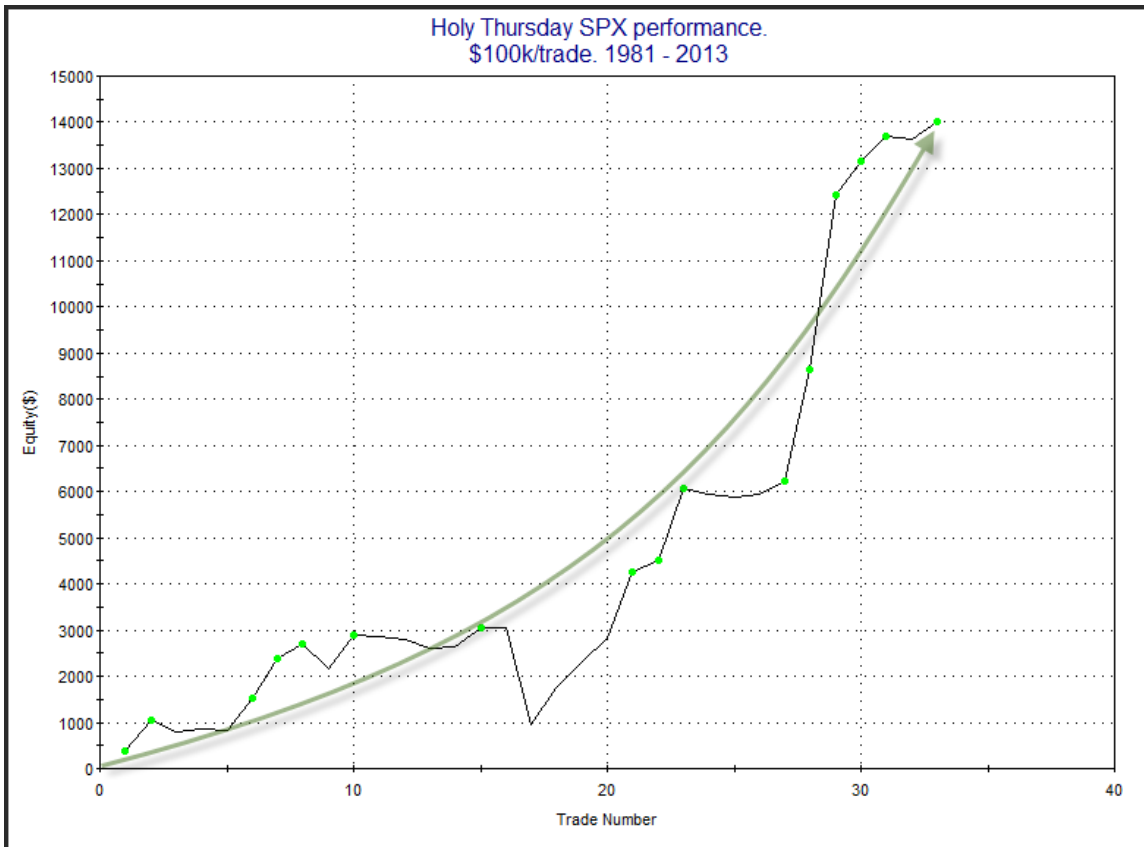


A pretty good looking curve, but this one is beginning to fade a little also. Tuesday is Tax Day this year. So between the Opex study and the Tax Day studies, it appears there could be a nice seasonal wind at the markets back early this week. BUT WAIT - like a [Ginsu Knife offer](#), there's more!

In in the 3/28/13 Letter I showed that Holy Thursday has been a seasonally strong day going back to 1981 as well. With Easter next week, and the market closed on Good Friday, we will also have a bullish seasonal influence on Thursday. Below I have updated the study results.

Holy Thursday SPX performance. \$100k/trade. 1981 - 2013			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$14,029.77	Profit Factor	5.01
Gross Profit	\$17,524.88	Gross Loss	(\$3,495.11)
Total Number of Trades	33	Percent Profitable	66.67%
Winning Trades	22	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$425.14	Ratio Avg. Win:Avg. Loss	2.51
Avg. Winning Trade	\$796.59	Avg. Losing Trade	(\$317.74)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$2,097.90)

The numbers are compelling, and it is especially impressive to see how much the winners have outsized the losers. Below is the profit curve.



The curve isn't exactly straight, but you can't complain about the last 16 years. Strong seasonality could certainly be a factor this upcoming week.

In the blogs last year I broke down Holy Thursday returns a little deeper, separating overnight and intraday returns. The intraday returns I discussed in the Quantifiable Edges blog, and the overnight returns in the Overnight Edges blog. Links to those past posts are below if you would like to see them.

<http://quantifiableedges.com/an-intraday-look-at-holy-thursday-historical-performance/>

<http://overnightedges.com/1149/the-night-before-holy-thursday/>

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



With the substantial number of active bullish studies we are currently seeing the green Aggregator Line remain well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line jumped higher and is now far 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 remained long at the close.

Based on the current active studies, expectations are slated to remain positive on Monday. That is highly unlikely to change. The Differential Pivot will be 1882.07 on Monday. That is a whopping 3.7% above Friday's close. It is extremely unlikely we will see a 3.7% rally in just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

We have ample price-based evidence from the previous few days suggesting a high probability of a bounce. Additionally, the market is strongly oversold with plenty of room to the upside to capture some a nice swing-trade profit. As I'll discuss more in the intermediate-term section, liquidity improved the last few days and should provide some help. And one of my favorite kind of setups has always been "oversold going into seasonal strength". Today's studies certainly suggest we have seasonal strength on our side. I am partially long an index position from Friday, and I will be looking to increase that position on Monday. I like the setup, I think there is a good chance of a bounce in the next few days, and I will do my best to take advantage of it.

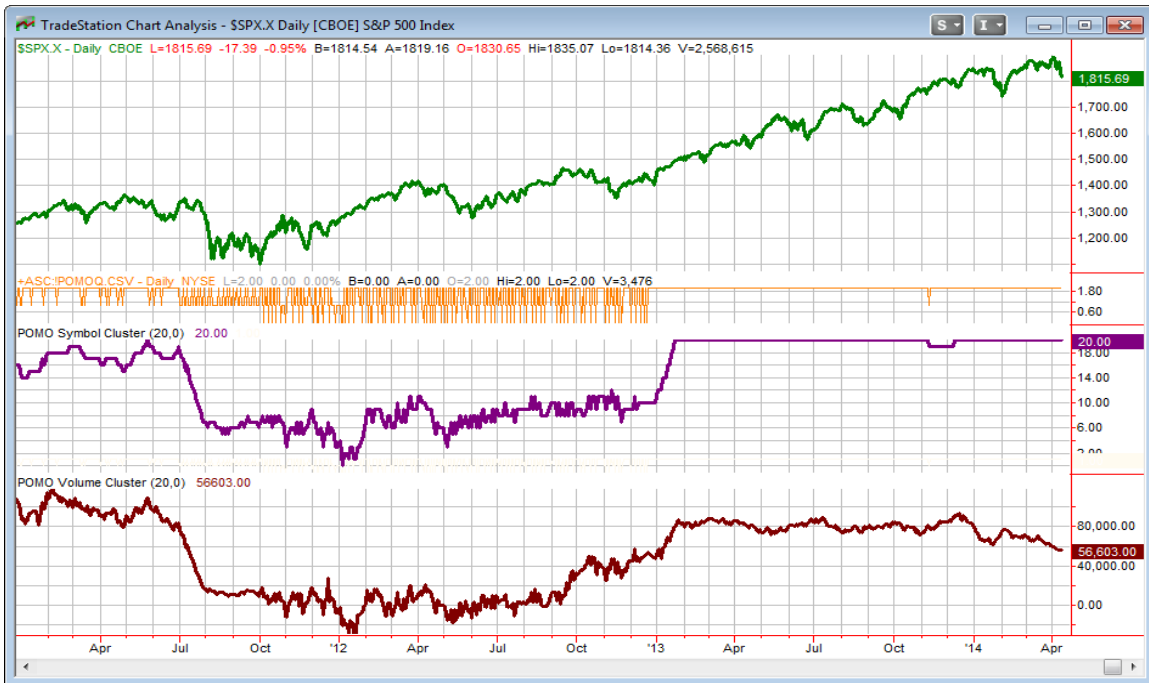
Intermediate-term Outlook (2 weeks – 2 months) – updated 4/14 – neutral

SPX reversed direction for the 5th week in a row. This past week the reversal down was a fairly big one. It was the largest weekly loss since January. And SPX closed at its lowest level since February. From a studies standpoint, there was nothing new and substantial that emerged with intermediate-term implications.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that

date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator is continuing to drift lower, and with the new (lowered) April level of buying now kicking in we should see this line drop even a little further. We estimate net inflows this past week to have been about \$14.4 billion, which is well above the previous week's \$10 billion and about as high as we are likely to see in the near future. The improved flows should help out some this upcoming week. (There is typically a few day delay in impact as the money moves its way through the system.)

This upcoming week is a short one, and buying is set to be fairly light. This could impact the market negatively after Easter.

I've been intermediate-term neutral for a while now, and nothing occurred this past week to change my outlook. There are still bullish price action studies, and of course the Golden Cross shows the long-term trend is still pointing up. The tapering has not yet had a negative impact but the market has certainly struggled to make headway over the last few months while it has been adjusting to lower levels of Fed stimulus. And the New High Divergence from the Study of Tops remains active and a bearish concern. So again I remain willing to trade both sides of the market, but will be doing so with a bit more caution than if I had strong bullish or bearish intermediate-term inclinations.

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.

SPY – buy ¼ index position @ \$181.50 LIMIT. Based on the short-term outlook above, I'll look to scale up with a 2nd (of possibly 4) lot here.

SPY – buy ¼ index position (2nd lot) if SPY closes at least \$0.90 below my 1st entry and in the bottom half of the day's range. If weakness continues during the day it will turn oversold to more oversold. Not only will we have seasonal strength & bullish Aggregator on our side, but Turnaround Tuesday studies will be kicking in as well. I will get longer at the close so as not to miss out if Tuesday gaps higher and doesn't look back.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AMZN	3/27/2014	\$343.15	\$311.73	-9.16%		sell on close >= \$327.46
MS	4/8/2014	\$29.52	\$28.47	-3.56%		sell on close >= \$30.11
SPY(1/4)	4/7/2014	\$182.17	\$181.51	-0.36%		bought on open

The exits for AMZN and MS are the standard ones for the numbered systems they were purchased with.

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