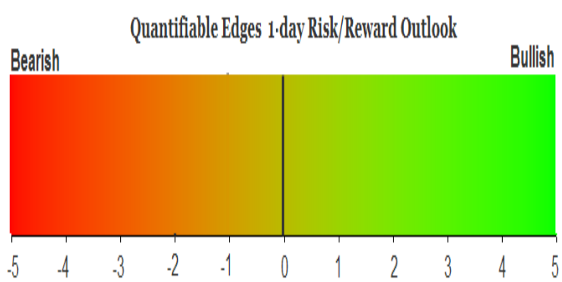
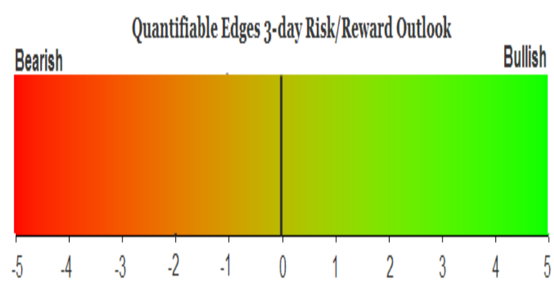

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 16, 2014 Volume 7 Issue 73

Market Overview





Signals Overview

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

Tonight's Research Points

- Holy Thursday has historically been bullish.
- The very low 3/10 Offset HV combined with the 3-day rally suggests more upside.
- A SOX decline combined with a strong NDX has often been followed by a market pullback over the last 12 years.

Short-term Outlook

The Bottom Line

Short-term studies have gone from 100% bullish to mostly bullish and the overall estimates still point higher. But after 3 days of rallying SPX is now short-term overbought. I am now back to flat with my index exposure. I plan to await the nex high-probability opportunity to take the next trade.

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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				
April 17, 2014	NDX up 1%. SOX down.	1-6 days	Bearish	-3.20%
April 17, 2014	3 days up gain 2%. 3/10 Offset HV<0.25	1-6 days	Bullish	
April 15, 2014	20-low then Gap up - Fill - Close up	1-5 days	Bullish	3.80%
April 14, 2014	Opex/Tax Day/Holy Thursday bullish	1-4 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%
Active - Long Term				
April 17, 2014	3 days up gain 2%. 3/10 Offset HV<0.25	1-19 days	Bullish	
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	***QE Buying Power System Long***	***1-6 days***	***Bullish***	
April 11, 2014	***System 110524***	***1-7 days***	***Bullish***	
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%

The Evidence

Wednesday saw a 3rd straight day of gains. SPX rose 1.1%, the NASDAQ rallied 1.3% and the Russell 2000 gained 1.1%. Breadth was strongly positive as the NYSE Up Issues % came in at 79% and the Up Volume % was 78%. Total NYSE volume sank some from Tuesday's level.

One interesting aspect of Wednesday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.3% on Wednesday, the SOX declined slightly - which is very unusual action. It brought about a study last seen over 2 years ago in the 4/3/12 Letter, which I have updated below.

NDX rises > 1% while SOX closes down on the day.
Buy NDX on close. Sell X days later. $100k/trade. 2000 - present.

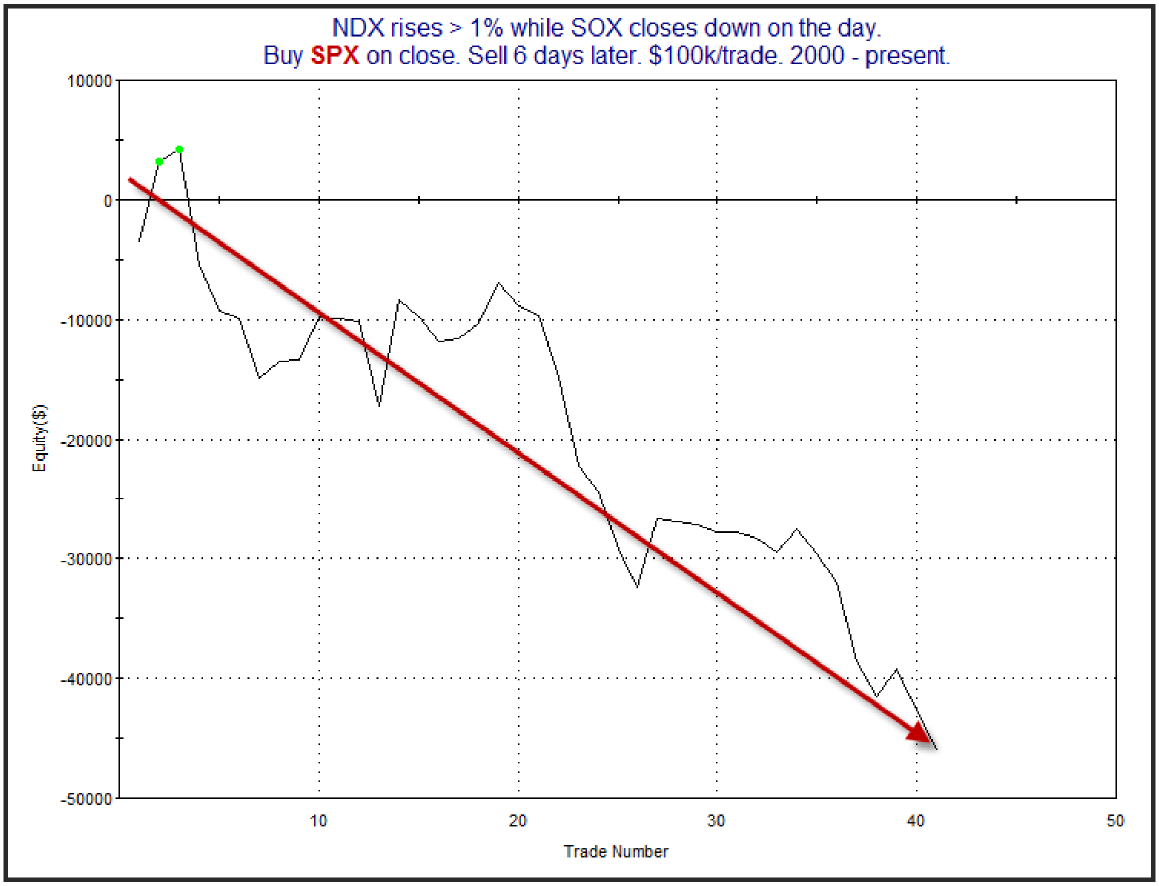
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-81,002.55	39	15	24	38.46	5,096.58	18,826.33	-6,560.47	-13,954.56	0.78	0.49	-2,076.99
9	-77,005.99	39	12	27	30.77	5,916.14	22,154.89	-5,481.47	-15,780.45	1.08	0.48	-1,974.51
8	-72,461.66	40	11	29	27.50	6,598.24	30,307.45	-5,001.46	-13,288.50	1.32	0.50	-1,811.54
7	-84,876.01	41	9	32	21.95	8,368.69	31,628.02	-5,006.07	-17,436.00	1.67	0.47	-2,070.15
6	-114,176.38	41	9	32	21.95	7,540.46	23,421.19	-5,688.77	-21,090.48	1.33	0.37	-2,784.79
5	-83,080.95	42	14	28	33.33	4,343.50	12,749.43	-5,138.93	-12,790.08	0.85	0.42	-1,978.12
4	-50,598.66	42	19	23	45.24	3,178.98	11,322.33	-4,826.05	-12,796.24	0.66	0.54	-1,204.73
3	-29,286.45	43	17	26	39.53	4,487.37	15,615.69	-4,060.45	-15,779.50	1.11	0.72	-681.08
2	-6,097.91	45	20	25	44.44	3,551.89	16,624.43	-3,085.43	-9,160.50	1.15	0.92	-135.51
1	-3,012.77	47	21	26	44.68	2,759.28	9,397.52	-2,344.53	-6,256.64	1.18	0.95	-64.10

Six days out 78% of the instances were losers and the average occurrence was nearly a 3% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.
Buy **SPX** on close. Sell X days later. $100k/trade. 2000 - 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
10	-18,984.51	39	16	23	41.03	2,937.20	9,774.70	-2,868.69	-8,478.02	1.02	0.71	-486.78
9	-26,463.60	39	17	22	43.59	2,729.14	9,278.30	-3,311.77	-8,963.07	0.82	0.64	-678.55
8	-33,152.39	40	18	22	45.00	2,297.00	9,165.45	-3,386.29	-7,574.41	0.68	0.55	-828.81
7	-41,148.43	41	18	23	43.90	2,198.05	10,101.57	-3,509.28	-11,391.59	0.63	0.49	-1,003.62
6	-46,037.02	41	12	29	29.27	3,031.02	8,753.07	-2,841.70	-9,589.14	1.07	0.44	-1,122.85
5	-41,839.45	42	17	25	40.48	1,803.11	6,877.04	-2,899.69	-7,519.22	0.62	0.42	-996.18
4	-26,339.26	42	20	22	47.62	1,707.54	5,068.10	-2,749.55	-11,917.40	0.62	0.56	-627.13
3	-13,760.07	43	19	24	44.19	1,940.00	6,877.26	-2,109.17	-9,480.90	0.92	0.73	-320.00
2	-7,354.10	45	19	26	42.22	1,660.54	5,842.98	-1,496.32	-6,411.90	1.11	0.81	-163.42
1	3,244.11	47	23	24	48.94	1,321.04	5,396.04	-1,130.83	-2,692.80	1.17	1.12	69.02

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



While choppy, it has persisted lower and continues to make new lows. Overall, this study appears worthy of consideration.

Another interesting observation from the Quantifinder is that the 3/10 Offset HV indicator closed below the 0.25 threshold today. This is a threshold that we typically look at and expect to see a volatility expansion. But on Wednesday it was quite odd that the 3/10 Offset HV was so low considering we've seen a fairly strong move higher over the last three days. This behavior is something I last looked at in the 4/24/13 letter.

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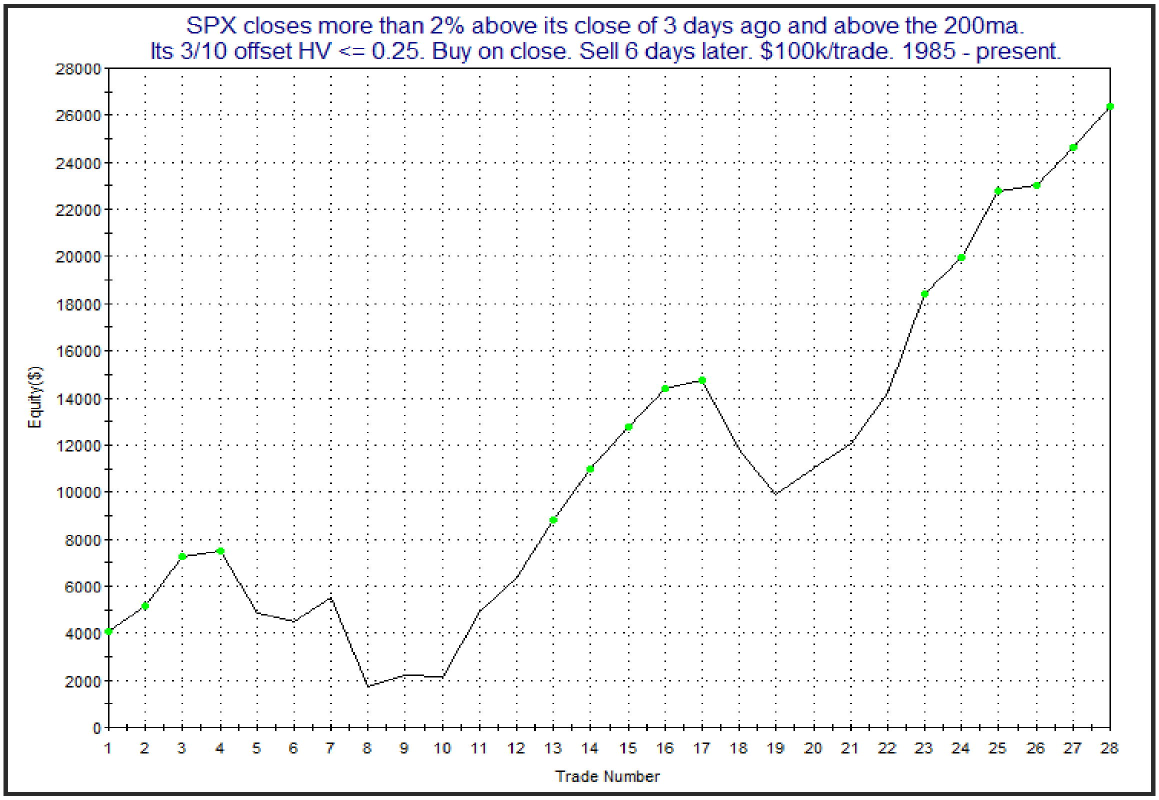
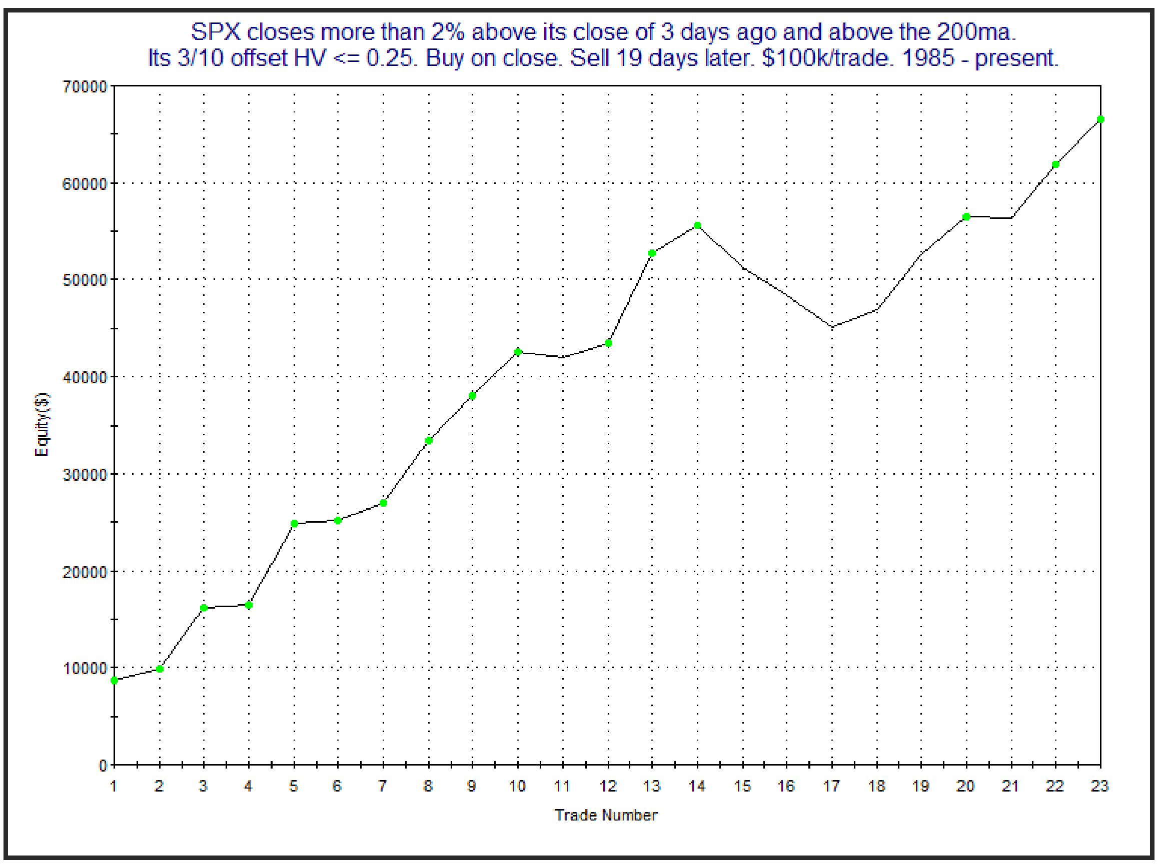
SPX closes more than 2% above its close of 3 days ago and above the 200ma.
Its 3/10 offset HV <= 0.25. Buy on close. Sell X days later. $100k/trade. 1985 - present.

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
20	63,409.28	23	18	5	78.26	4,364.54	9,311.76	-3,030.50	-6,635.95	1.44	5.18	2,756.93
19	66,548.74	23	18	5	78.26	4,314.92	9,258.48	-2,223.95	-4,276.35	1.94	6.98	2,893.42
18	63,432.42	24	19	5	79.17	4,011.80	10,412.64	-2,558.34	-3,726.38	1.57	5.96	2,643.02
17	51,088.16	24	18	6	75.00	3,746.08	10,683.36	-2,723.54	-5,009.90	1.38	4.13	2,128.67
16	52,349.41	24	17	7	70.83	3,989.43	10,667.52	-2,210.13	-6,108.95	1.81	4.38	2,181.23
15	52,199.78	24	17	7	70.83	3,763.47	8,742.96	-1,682.74	-3,353.25	2.24	5.43	2,174.99
14	50,375.21	25	19	6	76.00	3,187.36	8,253.36	-1,697.43	-3,334.55	1.88	5.95	2,015.01
13	47,527.77	25	18	7	72.00	3,110.23	6,434.62	-1,208.05	-3,430.60	2.57	6.62	1,901.11
12	44,643.49	25	19	6	76.00	2,760.89	6,140.16	-1,302.25	-3,768.05	2.12	6.71	1,785.74
11	39,597.04	25	19	6	76.00	2,591.88	5,708.16	-1,608.10	-4,522.00	1.61	5.10	1,583.88
10	37,716.40	26	20	6	76.92	2,359.23	5,768.50	-1,578.04	-3,819.05	1.50	4.98	1,450.63
9	30,550.64	26	17	9	65.38	2,368.36	5,859.48	-1,079.05	-2,858.55	2.19	4.15	1,175.02
8	18,070.87	26	19	7	73.08	1,547.37	4,162.27	-1,618.46	-3,819.90	0.96	2.60	695.03
7	19,683.01	27	20	7	74.07	1,562.44	3,983.52	-1,652.26	-4,227.28	0.95	2.70	729.00
6	26,381.07	28	22	6	78.57	1,726.55	4,206.89	-1,933.84	-3,782.08	0.89	3.27	942.18
5	22,287.94	28	22	6	78.57	1,560.70	3,481.56	-2,007.90	-2,842.40	0.78	2.85	796.00
4	20,216.32	28	20	8	71.43	1,620.19	2,616.60	-1,523.43	-2,910.70	1.06	2.66	722.01
3	12,707.01	28	20	8	71.43	1,303.14	2,315.72	-1,669.48	-3,701.10	0.78	1.95	453.82
2	14,873.37	29	20	9	68.97	1,056.20	2,451.76	-694.52	-1,675.86	1.52	3.38	512.87
1	1,616.05	31	15	16	48.39	633.74	1,857.24	-493.12	-1,515.80	1.29	1.20	52.13

I found it quite interesting that the numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. Being above the 200ma, that scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.





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Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

In in the Sunday night Letter I showed that Holy Thursday has been a seasonally strong day going back to 1981. I have pasted those results again below.

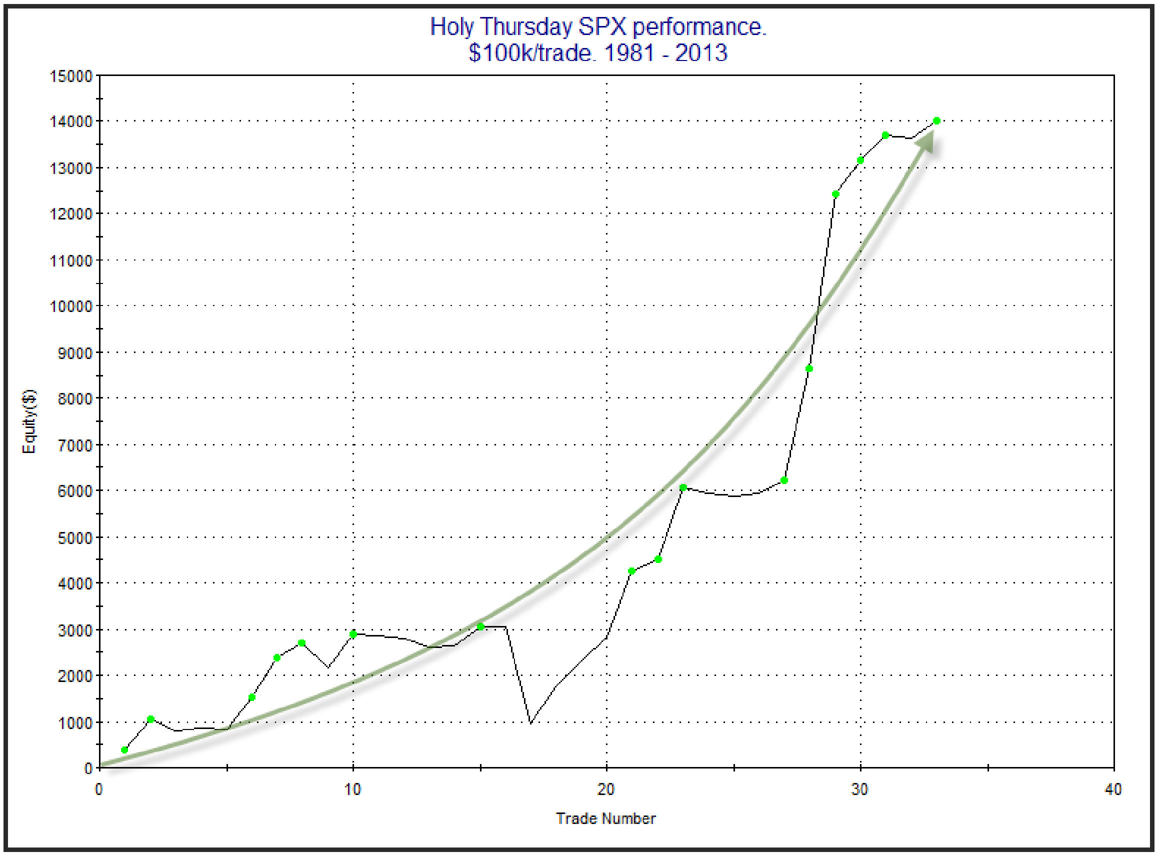
Holy Thursday SPX performance.
$100k/trade. 1981 - 2013

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.

In the blogs today 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 are below if you would like to see them.

http://quantifiableedges.com/updating-intraday-holy-thursday-returns/

http://overnightedges.com/2062/updating-the-night-before-holy-thursday/

I have updated the Aggregator chart below.

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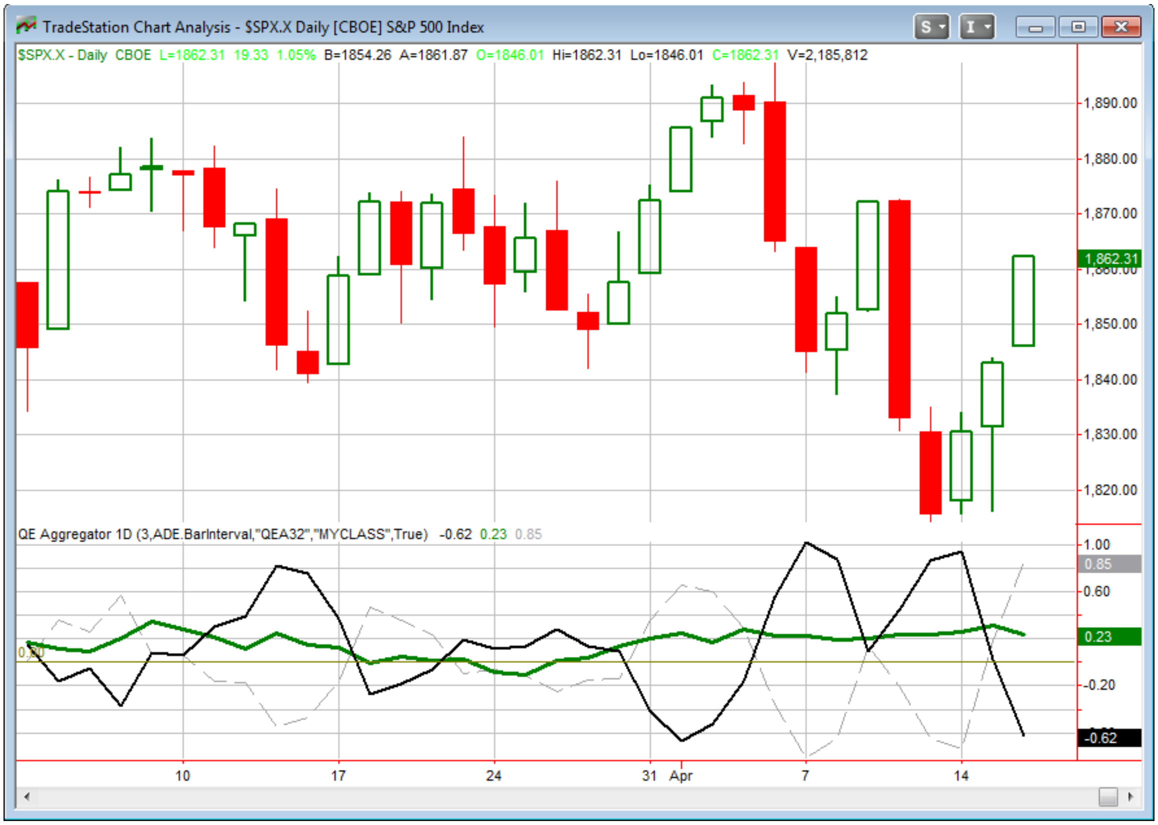

With the mix of studies being added tonight the green Aggregator Line remained well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell hard and is now far below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now 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 turned flat at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. That could change if strong bearish evidence emerges. The Differential Pivot will be 1843.75 on Thursday. That is a 1.0% below Wednesday's close. So it will take a fairly big drop on Thursday for SPX to move from overbought to oversold versus expectations.

The nice bounce over the last few days provided our index swing positions some decent profits. I got a little too eager with the profit taking on Wednesday and was not able to take advantage of the strong afternoon. Even so, the gains in SPY were solid. At this point, with the Aggregator formation back to neutral, I am happy to stand aside for the time being until the next favorable trading opportunity emerges.

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

The intermediate-term outlook was last updated in the 4/14/14 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AMZN	*3/27/2014*	*$343.15*	*$323.68*	*-5.67%*		*sold on close*
MS	*4/8/2014*	*$29.52*	*$29.89*	*1.25%*		*sold on close*
SPY(1/4)	*4/11/2014*	*$182.17*	*$185.47*	*1.81%*		*sold on open*
SPY(1/4)	*4/14/2014*	*$181.50*	*$184.72*	*1.77%*		*stopped out intraday*