

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2014

Volume 7 Issue 86

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Monday's mild up close near the top of its range suggests a bearish 1-day edge.
- SPX 10-day high and VIX up on a Monday have led to down Tuesdays in the past.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now mixed and the overbought/oversold nature of the market is not clear. There may be an upside edge, but it isn't very strong. I am waiting another day or so to see if a more favorable opportunity arises.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
May 6, 2014	Up < 0.25% but top 10% of range	1 day	Bearish	
May 6, 2014	SPX up VIX up Monday 10 high > 200	1 day	Bearish	
May 5, 2014	3 Higher Hi, Low, Close, then down close	1-4 days	Bullish	1.50%
May 5, 2014	SPX down. Up issue % > 55%	1-3 days	Bullish	1.10%
April 29, 2014	High-volume up day	1-10 days	Bullish	2.50%
April 24, 2014	5 Days up then 1 down. < 50-high > 200	1-9 days	Bullish	
<b>Active - Long Term</b>				
May 1, 2014	3 of 4 Market Timing Indicators weak	int term	Bearish	
April 28, 2014	Sell in May	6 months	Bearish	
April 22, 2014	5 Days Higher < 50 but > 200	1-15 days	Bullish	
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	
<b>Dropped Tonight</b>				
April 22, 2014	5 Days Higher < 50 but > 200	1-10 days	Bullish	

**The Evidence**

The market fought back well after a weak start on Monday, but it still finished mixed. The SPX rose 0.2% and the NASDAQ gained 0.3%, but the Russell 2000 fell 0.2%. Breadth was slightly negative as the NYSE Up Issues % came in at 49% and the Up Volume % was 43%. Total NYSE volume came in at the lightest level in over a month.

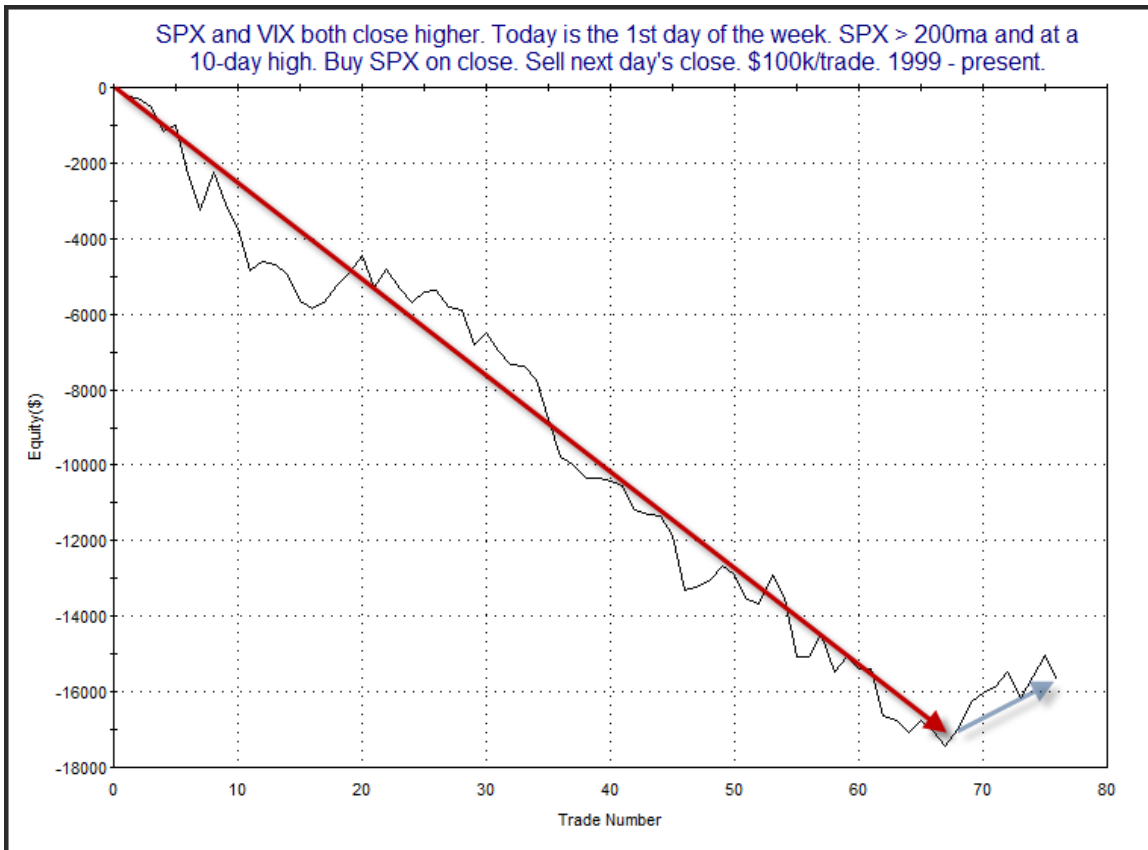
A number of studies appeared in the Quantifinder. They were all either bearish or neutral. Several of the bearish ones seem to be losing their effectiveness over the last few years as the bull market has raged. The two I decided to include in tonight's letter both appear worth continued consideration.

The 1<sup>st</sup> one looks at times during long-term uptrends that the VIX closes up on the first day of the week while the SPX is closing at a 10-day high. Most of the time the VIX and SPX will trade in opposite directions. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Due to this, Monday (or Tuesday if Monday is a holiday) is the most common day of the week to see VIX rise in conjunction with SPX. The study was last seen in the 2/19/14 letter and all stats have been updated.

SPX and VIX both close higher. Today is the 1st day of the week. SPX > 200ma and at a 10-day high. Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$15,682.94)	Profit Factor	0.38
Gross Profit	\$9,808.66	Gross Loss	(\$25,491.60)
Total Number of Trades	76	Percent Profitable	35.53%
Winning Trades	27	Losing Trades	49
Even Trades	0		
Avg. Trade Net Profit	(\$206.35)	Ratio Avg. Win:Avg. Loss	0.70
Avg. Winning Trade	\$363.28	Avg. Losing Trade	(\$520.24)
Largest Winning Trade	\$1,004.25	Largest Losing Trade	(\$1,580.04)

Results here certainly appear to suggest a day of weakness. Below is a profit curve.

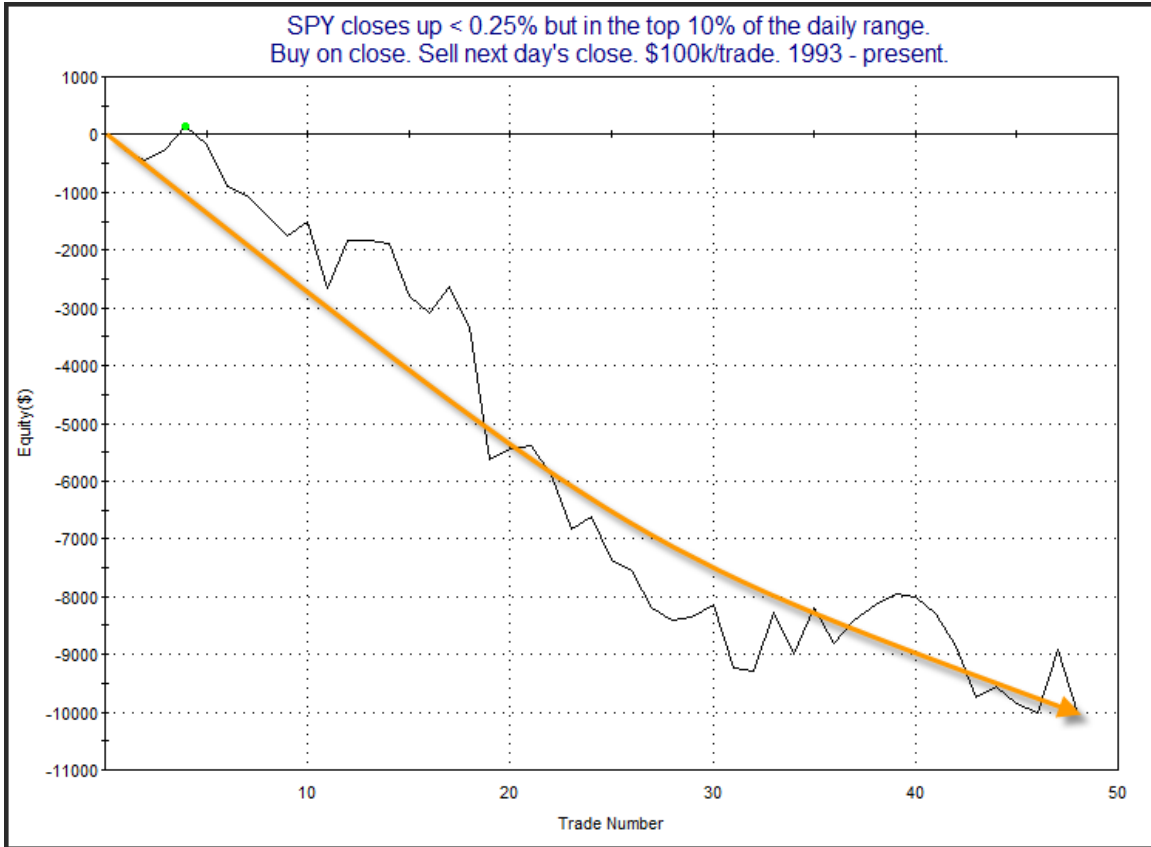


The downside edge looked strong and consistent for a long time. Recently the setup has not led to bearish results. It's too early to tell if this is just a blip or if the market environment has changed in a way in which this edge no longer holds true. I'll be including it again tonight but am nearing the point where I will suspend this study.

The next study was last seen in the 3/13/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

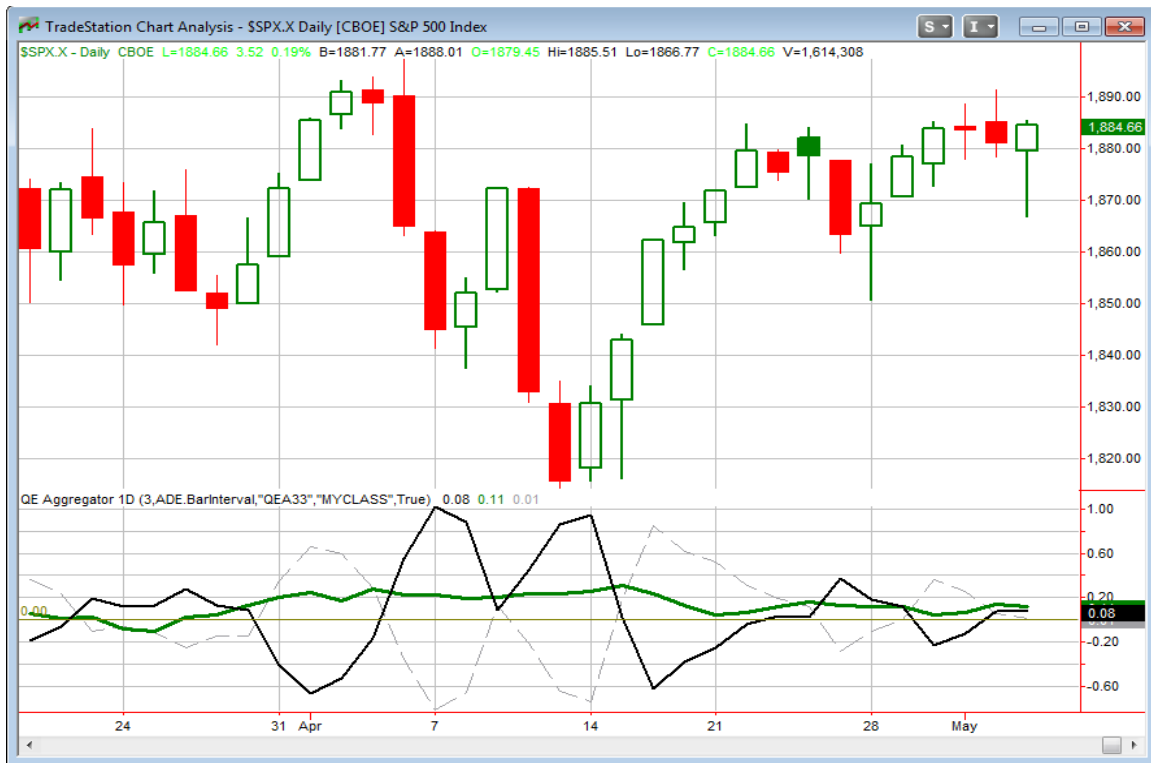
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$10,035.64)	Profit Factor	0.40
Gross Profit	\$6,736.44	Gross Loss	(\$16,772.08)
Total Number of Trades	48	Percent Profitable	37.50%
Winning Trades	18	Losing Trades	30
Even Trades	0		
Avg. Trade Net Profit	(\$209.08)	Ratio Avg. Win:Avg. Loss	0.67
Avg. Winning Trade	\$374.25	Avg. Losing Trade	(\$559.07)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The bearish edge here too may be waning a bit, but I have included this study on the Active List for tonight.

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



Despite the bearish studies tonight the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is relatively oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are slated to remain positive on Tuesday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1887.93 on Tuesday. That is just 0.2% above Monday's close. So for SPX to move back to an overbought state, it won't need to close up very much.

Expectations are interesting. Part of the reason that expectations failed to turn negative despite the bearish studies is that they only showed an impact 1 day out. Expectations for Tuesday are actually negative, but with both bearish studies expiring after just 1 day, 3-day expectations are still positive. And the green Aggregator Line looks at 3-day expectations.

The Differential Line is also interesting. Versus recent expectations SPX is considered "oversold". But it closed above its 10ma for the 13<sup>th</sup> day in a row and at a 20-day high. So by almost any other measure it would look more overbought than oversold.

All this leaves the short-term outlook with a fair amount of uncertainty. If 1-day expectations play out, and the market sells off Tuesday and closes below its 10ma, then that could set us up to start scaling in to a long entry. I'm not going to jump the gun though with the current setup so inconclusive. Instead I will let action play out and see what edges emerges Tuesday before making a decision tomorrow night.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 5/5– slightly bearish***

The intermediate-term outlook was last updated in the 5/5/14 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**

*None*

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