

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 29, 2014

Volume 7 Issue 102

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The Thursday after Memorial Day has exhibited a steady bullish tendency over the years.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.

## *Short-term Outlook*

### *The Bottom Line*

Expectations have now turned bullish, but the market remains overbought. I don't typically buy into overbought conditions. I intend to take the same approach this time and wait for a better setup.

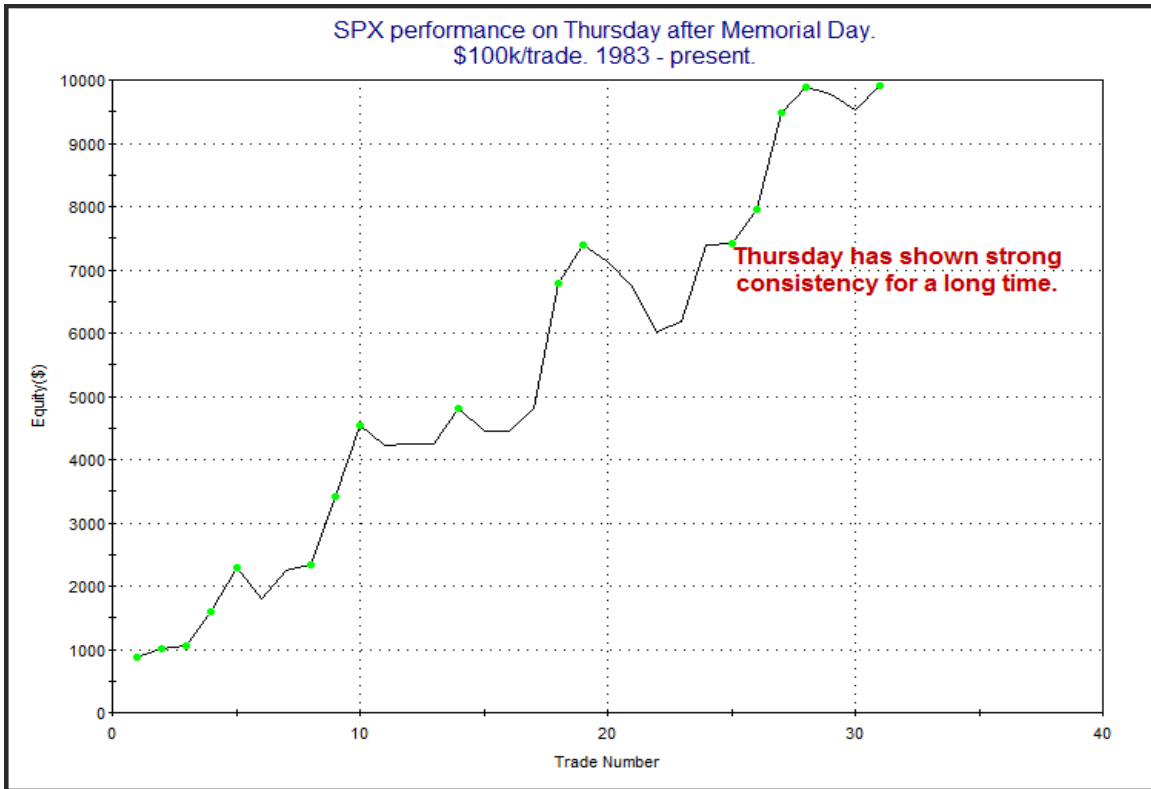
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
May 29, 2014	3 lowers highs, lows, closes. Dn close.	1-4 days	Bullish	1.50%
May 29, 2014	Thursday after Memorial Day bullish	1 day	Bullish	
May 28, 2014	SPX new high. VIX up. 1st day of week	1-2 days	Bearish	
<b>Active - Long Term</b>				
May 16, 2014	2 unfilled gaps dn > 200	1-10 days	Bullish	2.50%
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>				
May 28, 2014	Nas Up Issue % > 60% 3 days	1 day	Bearish	

**The Evidence**

Wednesday looked like it was going to finish positive for most of the day, but a late swoon left the indices in negative territory. The SPX fell 0.1%, the NASDAQ dropped 0.3% and the Russell 2000 closed down 0.5%. Breadth was mixed as the NYSE Up Issues % came in just over 50% and the Up Volume % was 46%. Total NYSE volume declined from Monday's level.

In the 5/27/14 letter this past weekend I examined Memorial Day week seasonality. After exhibiting a positive bias for many years, the last four years have struggled. But that has not been the case on the Thursday after Memorial Day. Thursday has maintained a steady upward bias. The chart below is the same one I showed in the letter a few days ago. It illustrates Thursday's historical strength.



And here are the stats to go along with it.

SPX performance on Thursday after Memorial Day.  
\$100k/trade. 1983 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$9,900.15	Profit Factor	4.40
Gross Profit	\$12,810.19	Gross Loss	(\$2,910.04)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	8
Even Trades	1		
Avg. Trade Net Profit	\$319.36	Ratio Avg. Win:Avg. Loss	1.60
Avg. Winning Trade	\$582.28	Avg. Losing Trade	(\$363.76)
Largest Winning Trade	\$1,970.50	Largest Losing Trade	(\$735.68)

Nothing alarming here. I will be incorporating these results into the Aggregator for Thursday.

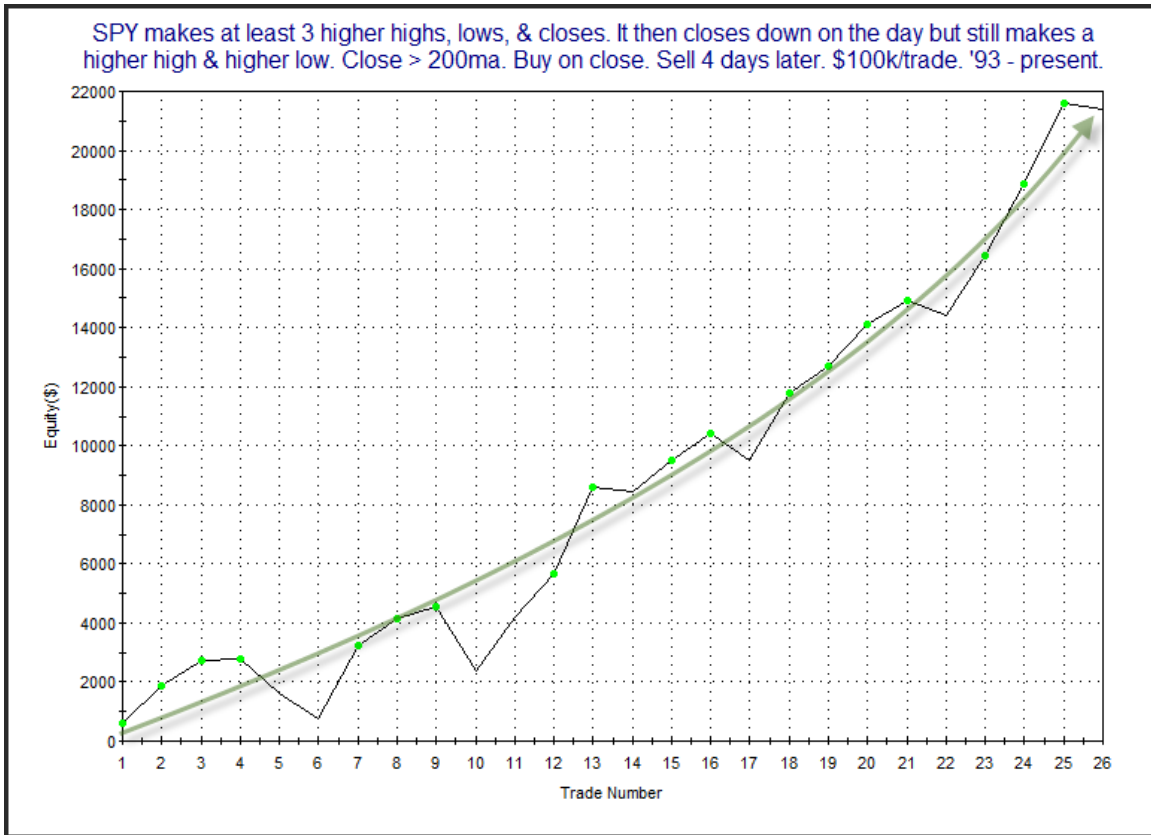
While SPY pulled back some on Wednesday, it did manage to register a higher high and a higher low. The study below was last seen earlier this month in the 5/5/14 letter and

examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, lows, & closes. It then closes down on the day but still makes a higher high & higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. '93 - present.

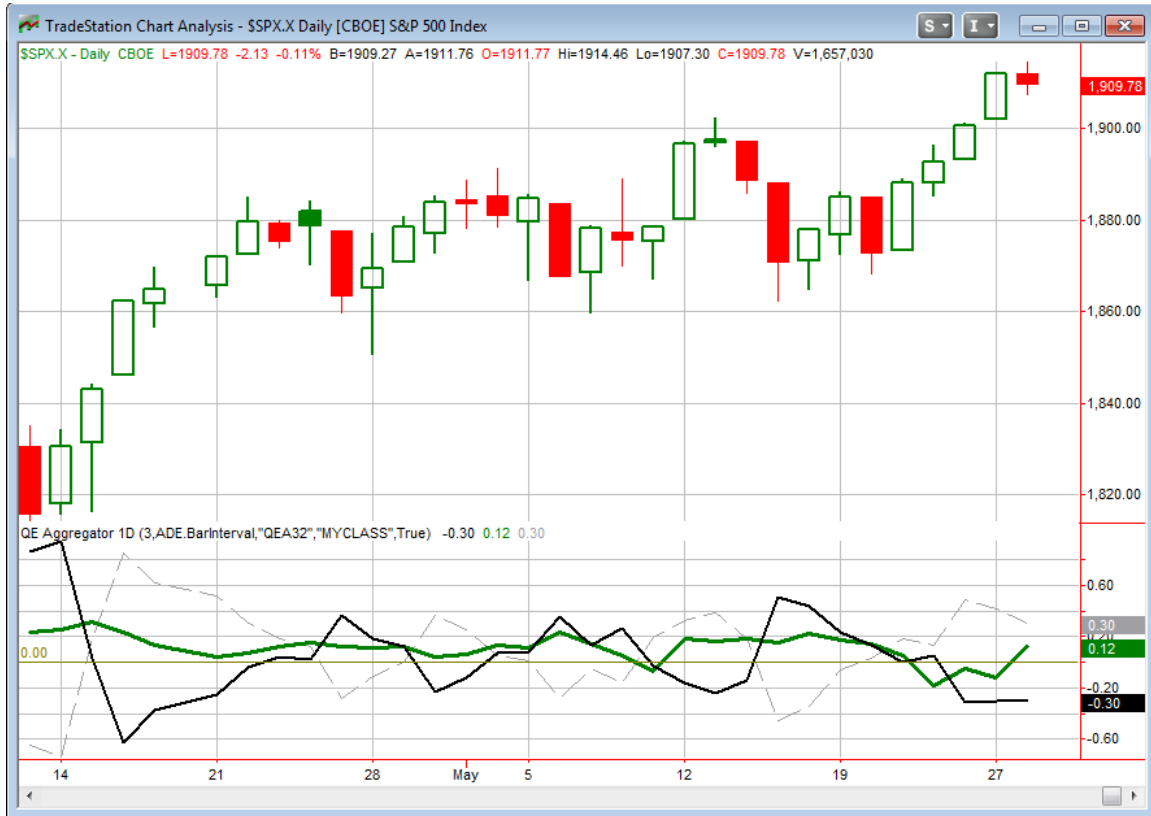
X Days	All: Net Profit	All: Total Trades	All: /Winning Trades	All: /Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	16,589.37	26	16	10	61.54	1,616.39	3,602.64	-927.29	-2,800.26	1.74	2.79	638.05
4	21,414.55	26	19	7	73.08	1,441.04	2,958.05	-852.18	-2,191.22	1.69	4.59	823.64
3	12,351.93	26	18	8	69.23	1,049.22	2,762.41	-816.75	-2,640.33	1.28	2.89	475.07
2	8,297.96	26	20	5	76.92	692.39	2,073.28	-1,109.97	-1,804.67	0.62	2.50	319.15
1	6,035.44	26	18	8	69.23	487.10	1,395.93	-341.55	-1,137.92	1.43	3.21	232.13

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study certainly appears worthy of consideration and I have included it on the Active List.

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



Tonight's bullish studies helped the green Aggregator Line rise back 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 again 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 turned flat at the close.

Base on the current active studies, expectations are slated to remain positive on Thursday. Of course this could easily change if bearish evidence emerges. The Differential Pivot will be 1897.06 on Thursday. That is 0.7% below Wednesday's close. This means that SPX will need to close down at least 0.7% in order to move from "overbought" to "oversold" versus expectations.

Momentum, seasonality, and overall expectations appear to favor more upside over the next few days. But with the market already overbought I don't love the reward/risk

potential. I'd rather see SPX pull back a bit more before looking to take on long exposure. So I will again exercise some patience and wait for a more favorable trading opportunity to emerge.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 5/27– slightly bearish***

The intermediate-term outlook was last updated in the 5/27/14 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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