

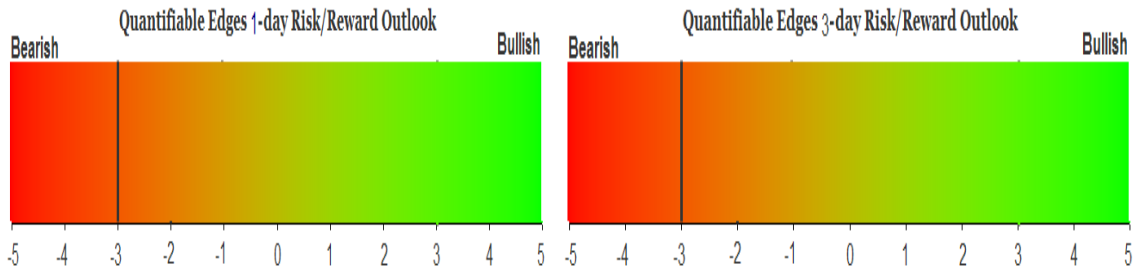
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2014

Volume 7 Issue 110

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on a Monday) suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator still negative. And while there are reasons to be cautious, I again will look to take on a small amount of short exposure if I can get a favorable entry on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
June 10, 2014	VIX up. SPX 50-day high.	1-2 days	Bearish	
June 9, 2014	10 days > 5ma. 10 high today	1-2 days	Bearish	
June 5, 2014	50 high, inside day, 50-high	1-5 days	Bearish	-2.00%
Active - Long Term				
June 9, 2014	RSI(2) > 99	1-15 days	Bullish	2.40%
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
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	

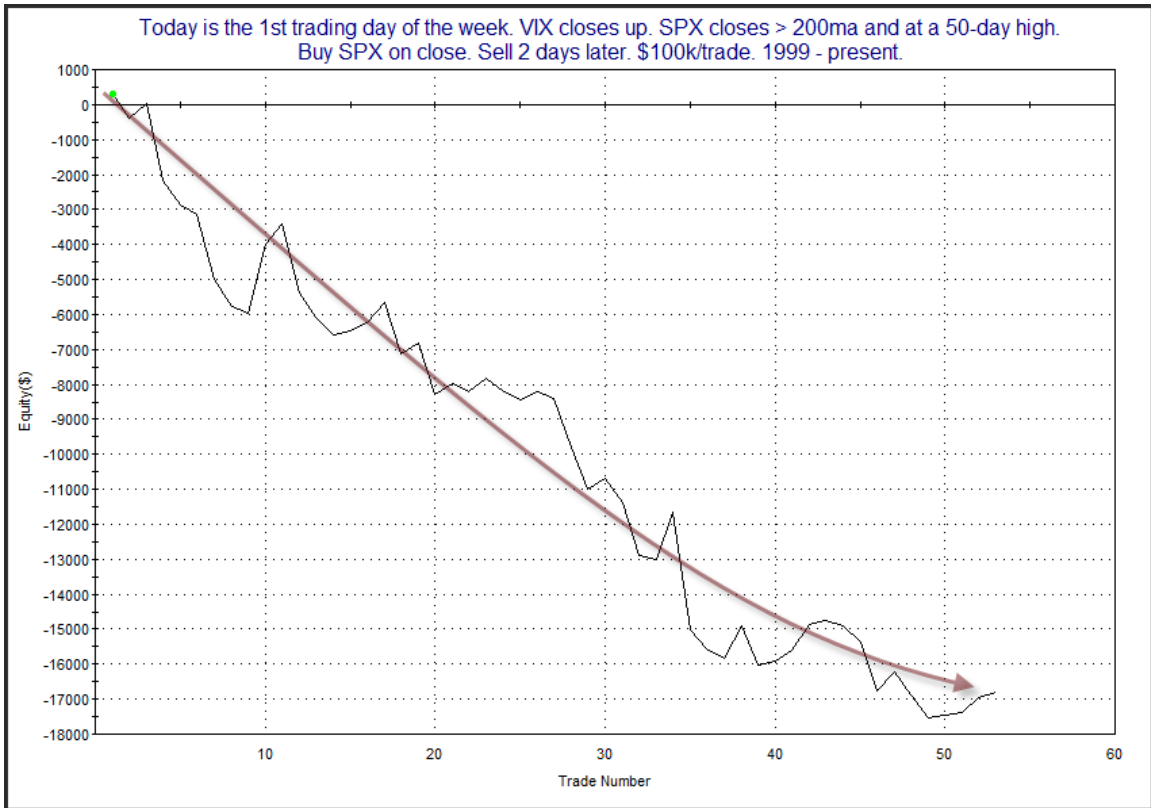
The Evidence

Monday saw more gains and more new highs for the market. The SPX rose 0.1%, the NASDAQ gained 0.3% and the Russell 2000 rallied 0.9%. Breadth was squarely positive as the NYSE Up Issues % came in at 61% and the Up Volume % was also 61%. Total NYSE volume declined from Friday's level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen just a week ago in the 6/3/14 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-9,639.70	48	23	25	47.92	1,107.60	3,260.25	-1,404.58	-5,048.68	0.79	0.73	-200.83
4	-5,674.93	53	25	28	47.17	990.54	2,953.65	-1,087.09	-4,271.52	0.91	0.81	-107.07
3	-8,537.94	53	23	30	43.40	805.07	2,641.80	-901.82	-3,887.84	0.89	0.68	-161.09
2	-16,803.49	53	23	30	43.40	461.32	1,981.72	-913.80	-3,372.16	0.50	0.39	-317.05
1	-7,670.53	53	19	34	35.85	331.04	769.70	-410.60	-1,580.04	0.81	0.45	-144.73

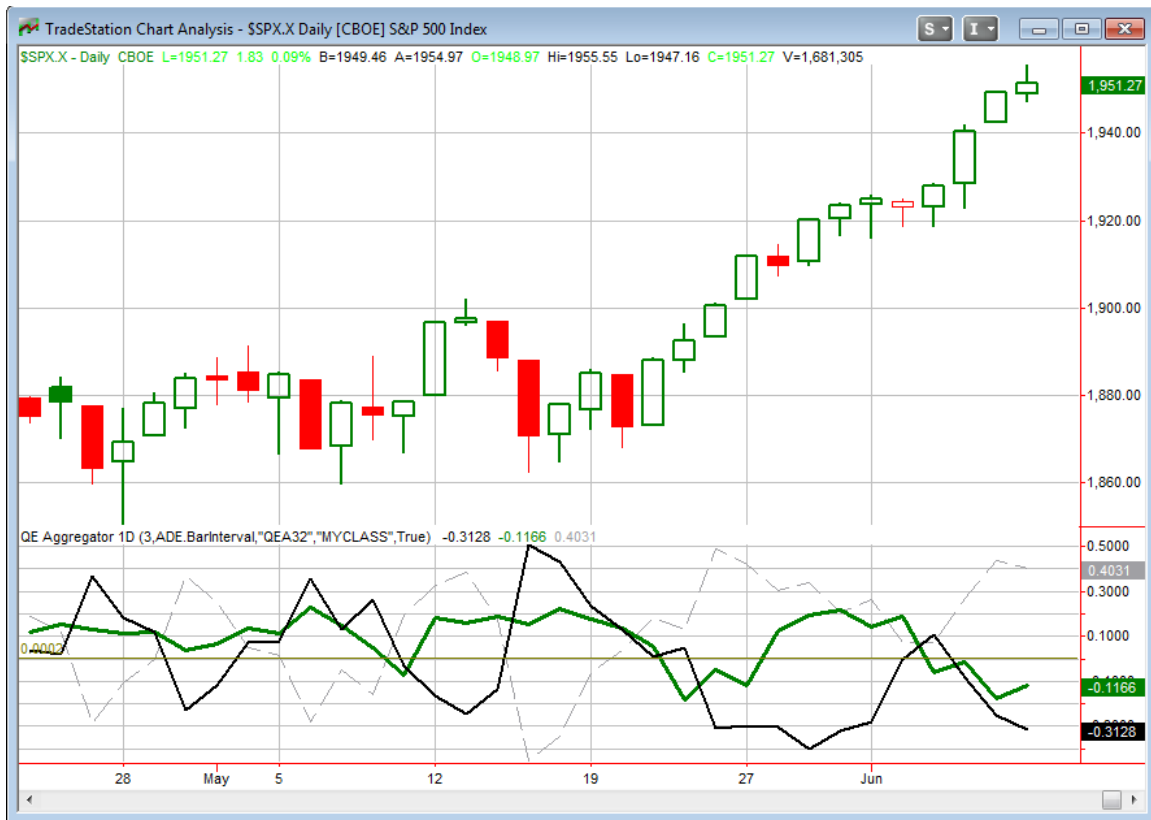
Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The last few instances have not panned out, causing the line to flatten some. But at this point I will continue to give the study some credence.

It is also worth noting just how incredibly persistent this rally has been over the last few weeks. Tuesday marked the 11th day in a row that SPY closed in the top 10% of its 10-day range. That is something that SPY has never done before. So while we are in uncharted territory here, it would seem the market is well overdue for at least a brief pullback.

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



With tonight's study included the green Aggregator Line remained below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line fell further below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought versus expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal remained short at the close.

Based on the current active studies, expectations are slated to remain negative again on Tuesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1942.59 on Tuesday. That is 0.4% below Friday's close. So for SPX to move to an oversold state it would have to close down at least this much on Tuesday.

My outlook tonight is very similar to last night. The Aggregator is suggesting a downside edge. And risk/reward appears pretty good since there is a bit of room to the downside before it would get oversold. As I stated last night, I'm generally cautious about shorting against 1) the long-term trend, 2) a QE Buying Power Index locked at five, and 3) with a bullish intermediate-term outlook. But with risk/reward looking pretty good, I will again look to take on a small short position IF I can get a favorable entry on Tuesday. (SPY did not fill me on Monday since it gapped lower and closed beneath my

limit.) Therefore, I will again be looking for either a large gap up or a substantial close higher in order to get short.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/9– slightly bullish

The intermediate-term outlook was last updated in the 6/9/14 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.

SPY – short ¼ index position @ \$196.10 LIMIT ON OPEN. If not filled, cancel order and look to short @ \$196.10 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on a small amount of short exposure if SPY gaps up strongly or closes up at \geq \$196.10

Current Open Trade Ideas

None.

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