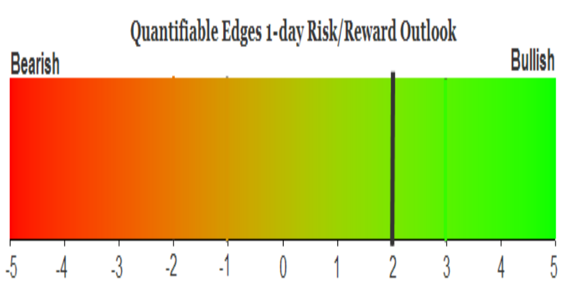
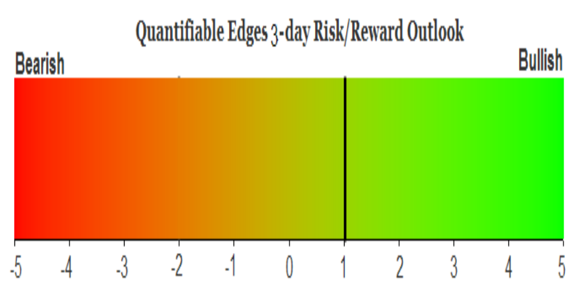
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2014 Volume 7 Issue 112

Market Overview





Signals Overview

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

Tonight's Research Points

- Very poor breadth and very low volume on the same day is often followed by positive returns. But not necessarily when the market is already overbought.

Short-term Outlook
The Bottom Line

The Aggregator is turned bullish, but the evidence is a bit weak, risk appears somewhat high, and the potential reward is limited. So I am not going to bite on a position just yet.

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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				
June 11, 2014	SPX down. RSI(2) > 90	1-2 days	Bullish	
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	
Dropped Tonight				
June 10, 2014	*VIX up. SPX 50-day high.*	*1-2 days*	*Bearish*	
June 5, 2014	50 high, inside day, 50-high	1-5 days	Bearish	-2.00%

The Evidence

Wednesday was the first decline of any magnitude in a while. The SPX fell 0.4%, the NASDAQ declined 0.1% and the Russell 2000 dropped 0.5%. Breadth was weak as the NYSE Up Issues % came in at 34% and the Up Volume % was 36%. None of these numbers are extremely negative. They just seem so compared to recent market action. Total NYSE volume was extreme and it came in at the lightest level of 2014.

The combination of very low volume and very weak breadth triggered a study from the 4/10/12 Letter with seemingly bullish inclinations. I have updated that study below.

NYSE posts worst Up Vol % and lowest volume in 3 weeks.
Buy SPX on close. Sell X days later. $100k/trade. 1970 - 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	54,661.53	49	34	15	69.39	2,607.01	13,815.90	-2,265.12	-6,595.68	1.15	2.61	1,115.54
9	57,902.26	49	31	17	63.27	2,784.66	11,206.23	-1,671.89	-6,024.90	1.67	3.04	1,181.68
8	47,874.96	49	32	17	65.31	2,446.18	11,382.35	-1,788.41	-4,711.20	1.37	2.57	977.04
7	42,088.09	49	28	21	57.14	2,420.62	10,117.38	-1,223.30	-4,417.12	1.98	2.64	858.94
6	37,840.90	49	33	16	67.35	1,858.17	5,903.59	-1,467.42	-4,202.80	1.27	2.61	772.26
5	38,282.32	49	32	17	65.31	1,862.64	8,234.80	-1,254.24	-3,172.68	1.49	2.80	781.27
4	42,203.40	49	35	14	71.43	1,756.80	8,810.76	-1,377.47	-2,971.68	1.28	3.19	861.29
3	35,099.58	49	33	16	67.35	1,614.92	8,432.34	-1,137.06	-2,967.03	1.42	2.93	716.32
2	19,590.65	49	30	19	61.22	1,336.22	5,018.23	-1,078.74	-2,391.84	1.24	1.96	399.81
1	4,424.79	49	29	20	59.18	737.23	2,971.43	-847.75	-3,466.02	0.87	1.26	90.30

Bullish tendencies appeared to persist for at least a couple of weeks, though much of the upside edge is realized within the first four days. You may notice that there is no long-

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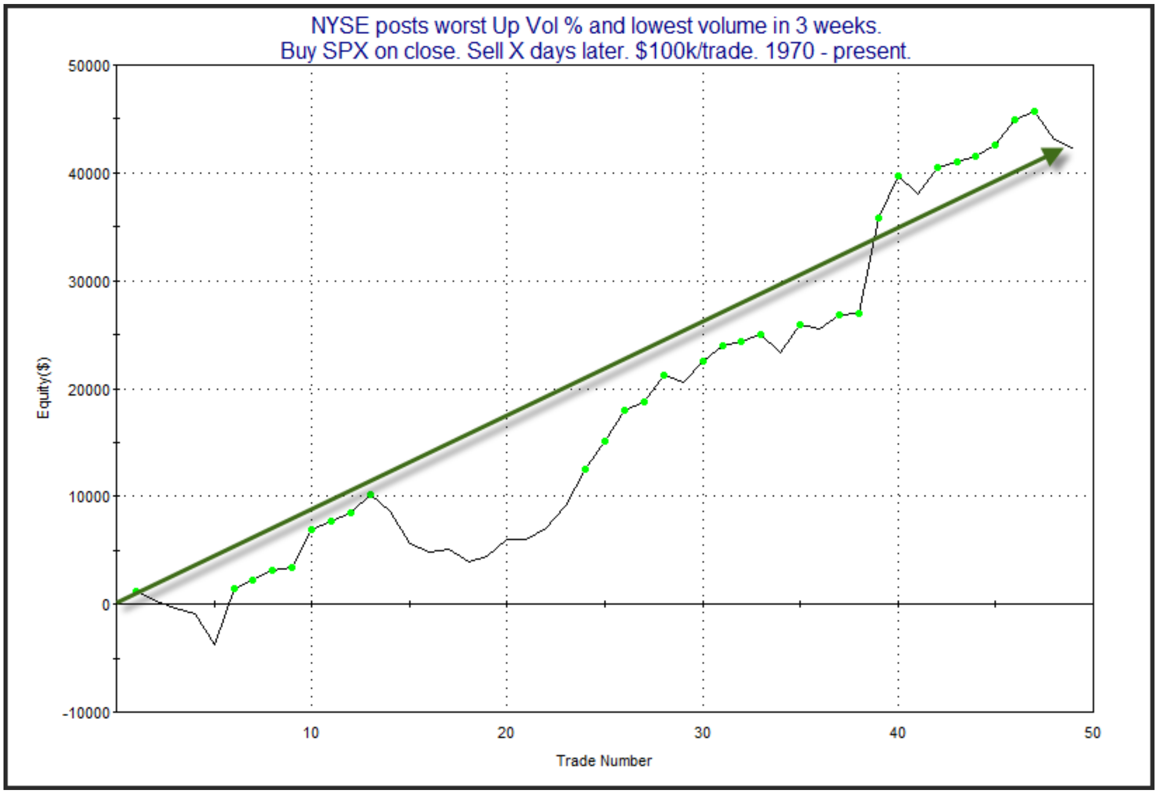
term trend filter associated with the study. I did look at that and found that instances above and below the 200ma produced very similar results. To see how the edge has played out over time I have included the equity curve below. It assumes a 4-day holding period.



While the last couple of instances have faltered a bit, the overall curve still looks strong. But I did have a bit of a concern with this study tonight. Very weak stats will often mean different things depending on the position of the market. In other words, a strong selling day coming off a high often does not carry the same consequences as a strong selling day at a market low. So I added a couple of filters to the test. I wanted to see how the results looked when the SPX closed above both its 200ma and its 10ma.

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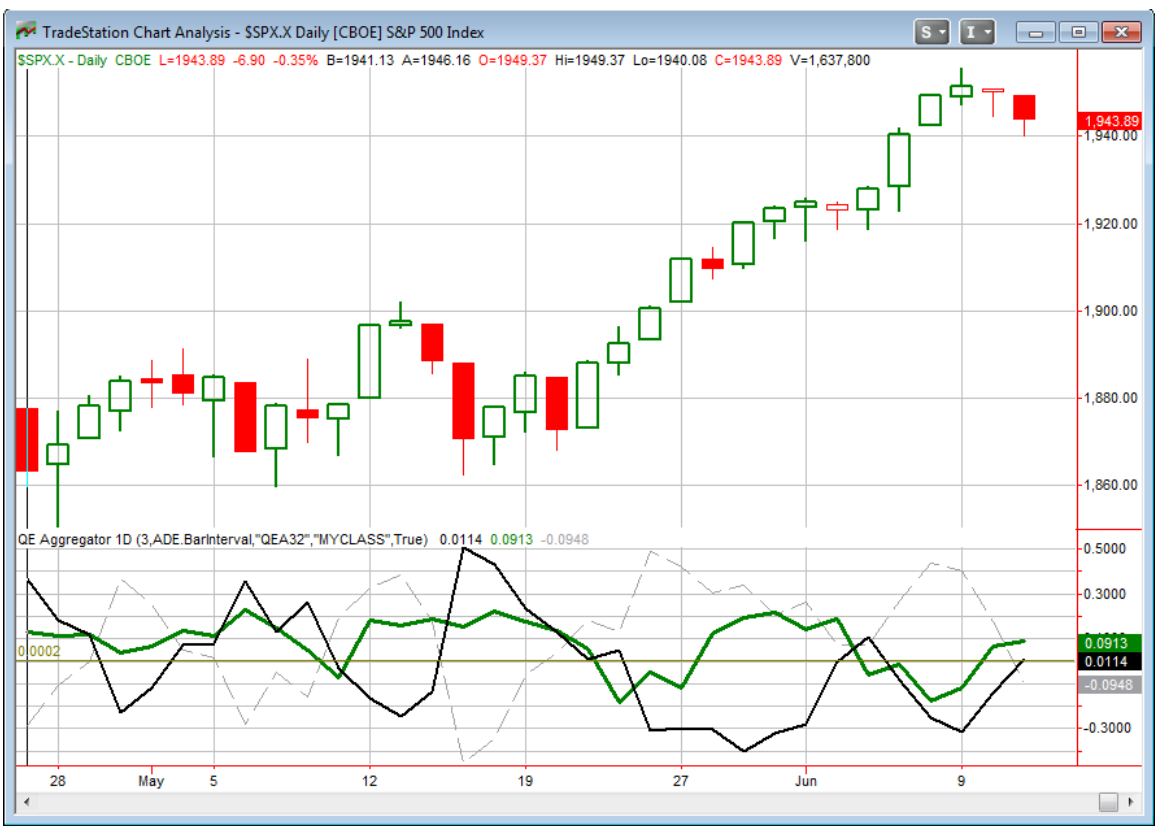
NYSE posts worst Up Vol % and lowest volume in 3 weeks. SPX > 200ma and 10ma.
Buy SPX on close. Sell X days later. $100k/trade. 1970 - present.

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	10,166.20	11	8	3	72.73	1,953.27	5,104.00	-1,819.99	-2,960.00	1.07	2.86	924.20
9	6,888.09	11	6	4	54.55	2,127.98	3,161.34	-1,469.94	-3,326.08	1.45	2.17	626.19
8	2,908.19	11	6	5	54.55	1,594.66	2,246.76	-1,331.96	-3,670.80	1.20	1.44	264.38
7	5,611.14	11	6	5	54.55	1,744.49	2,430.09	-971.16	-2,387.28	1.80	2.16	510.10
6	863.14	11	7	4	63.64	1,130.81	1,931.13	-1,763.13	-2,958.48	0.64	1.12	78.47
5	-1,875.56	11	7	4	63.64	596.79	1,054.65	-1,513.27	-3,172.68	0.39	0.69	-170.51
4	-12.83	11	6	5	54.55	978.92	2,063.36	-1,177.27	-2,584.82	0.83	1.00	-1.17
3	2,118.31	11	7	4	63.64	961.87	2,027.09	-1,153.70	-1,929.92	0.83	1.46	192.57
2	4,001.55	11	8	3	72.73	1,004.94	2,216.50	-1,345.99	-2,231.84	0.75	1.99	363.78
1	1,042.36	11	6	5	54.55	621.31	2,027.09	-537.10	-1,798.94	1.16	1.39	94.76

There are not enough instances to draw strong conclusions but the upside inclination that was evident over the first 4-5 days without the trend filters no longer seems apparent. I therefore decided not to include this study on the Active List tonight.

I have updated the Aggregator chart below.



With two bearish studies coming off the Active List tonight the green Aggregator Line moved further 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 nudged above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold versus expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned long at the close.

The last remaining short-term study is set to expire on Thursday. So if nothing new emerges, the intermediate-term studies and outlook will keep expectations positive. Of course a lot will depend on what new evidence emerges. The Differential Pivot will be 1945.28 on Thursday. That is less than 0.1% above Wednesday's close. So for SPX to move back to overbought it will only take a slight close higher.

The Aggregator is now in a bullish formation. But it is not exactly a strong signal. For one, short-term evidence appears extremely light. And without new evidence emerging tomorrow it will be even lighter. Additionally, with the Differential Pivot so close by, there is no room to let profits run if the Aggregator picks the market direction correctly on Thursday. The only way the market could remain oversold and the long signal remain in force is if SPX closed down. And with the market still in the upper end of its recent range it could fall quite a ways before it becomes oversold by many other measures. So with reward limited, risk high, and evidence weak, I am not going to look to partake in this signal just yet.

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/

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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

Current Open Trade Ideas

None.

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