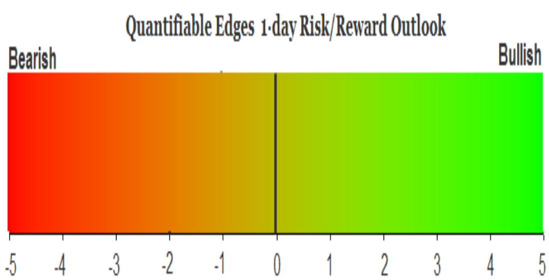
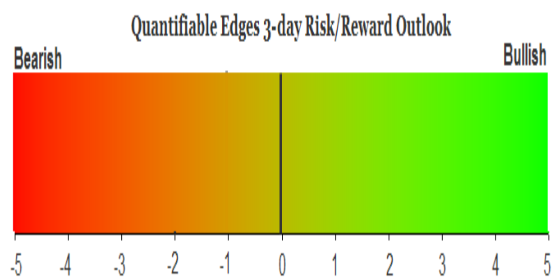
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 17, 2014 Volume 7 Issue 133

Market Overview





Signals Overview

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

Tonight's Research Points

- After a wide range, high volume, down day, narrow range days are typically a good sign for the bulls.

Short-term Outlook
The Bottom Line

Wednesday's gain resulted in an overbought market, but evidence suggesting more upside is likely. I prefer to wait until the market pulls back more before taking on new positions. I'm neutral for the short-term.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
July 17, 2014	NR7 after high vol WR7 down	1-5 days	Bullish	2.20%
Active - Long Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-10 days	Bullish	2.50%
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
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

The market was quiet Wednesday and finished mixed. The SPX rose 0.4%, the NASDAQ gained 0.2%, but the Russell 2000 declined 0.2%. Breadth was positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 65%. Total NYSE volume declined from Tuesday's level.

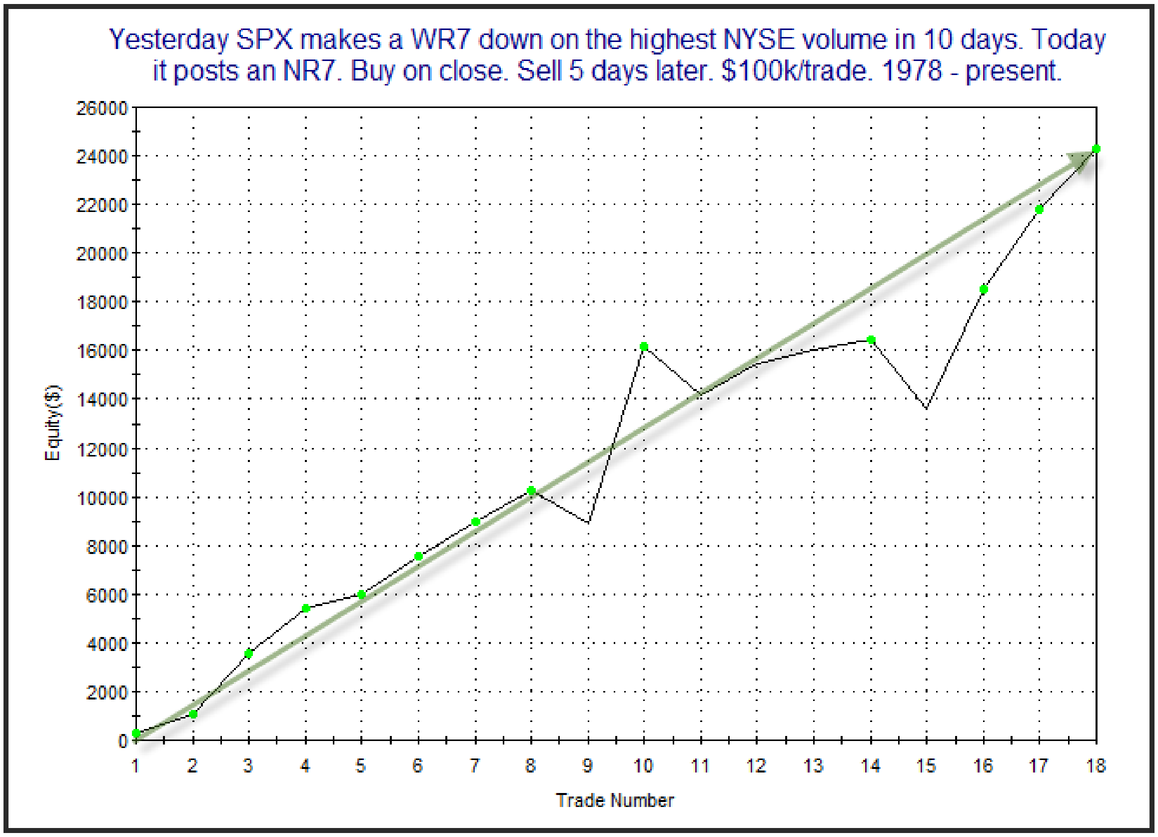
SPX traded in a very tight range on Wednesday. When a security trades in the tightest range of the last 7 days this is known as an "NR7" day. (NR stands for narrow range.) In the 4/20/2011 letter I looked at NR7 days that followed high volume WR7 days (widest range in 7 days) that closed down. In that letter I found these setups to suggest an upside edge over the next few days. I have updated the study from that letter below.

Yesterday SPX makes a WR7 down on the highest NYSE volume in 10 days. Today it posts an NR7. Buy on close. Sell X days later. $100k/trade. 1978 - 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	27,113.40	18	14	4	77.78	2,811.45	8,721.35	-3,061.73	-3,389.76	0.92	3.21	1,506.30
9	32,643.40	18	14	4	77.78	2,975.19	9,514.20	-2,252.32	-4,929.75	1.32	4.62	1,813.52
8	32,338.90	18	13	5	72.22	3,182.21	8,645.60	-1,805.96	-4,134.00	1.76	4.58	1,796.61
7	27,998.45	18	12	6	66.67	3,132.53	8,044.65	-1,598.64	-4,236.75	1.96	3.92	1,555.47
6	23,219.28	18	12	6	66.67	2,604.36	7,888.10	-1,338.84	-2,482.50	1.95	3.89	1,289.96
5	24,312.24	18	15	3	83.33	2,035.29	7,282.10	-2,072.38	-2,851.50	0.98	4.91	1,350.68
4	16,969.46	18	12	6	66.67	2,054.59	6,383.20	-1,280.93	-2,964.75	1.60	3.21	942.75
3	4,324.94	18	11	7	61.11	1,492.82	3,064.00	-1,728.02	-6,426.24	0.86	1.36	240.27
2	4,730.05	18	12	6	66.67	1,055.16	2,165.00	-1,321.98	-4,627.20	0.80	1.60	262.78
1	1,809.04	18	10	8	55.56	890.98	2,045.97	-887.60	-1,597.44	1.00	1.25	100.50

17 of 18 instances (94%) posted a close above the entry price at some point in the next week. The lone holdout was 9/18/01 (following the 9/11 attacks) which took 8 days.

The stats here are quite impressive, as is the note at the bottom of the table. The setup has been both consistent and fairly explosive. Below is a look at a profit curve using a 5-day holding period.



The profit curve appears as impressive as the stats table. This serves as some confirmation of the upside edge.

One filter that I typically use that is not part of this study is a long-term trend filter. I was somewhat concerned that instances above the 200ma might not be as powerful, since volatility is often lower during uptrends. So I added that filter tonight to see the impact. Those results are below.

Yesterday SPX makes a WR7 down on the highest NYSE volume in 10 days. Today it posts an NR7. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1978 - 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	19,819.41	10	9	1	90.00	2,578.80	7,074.00	-3,389.76	-3,389.76	0.76	6.85	1,981.94
9	22,045.25	10	8	2	80.00	3,045.55	7,401.00	-1,159.56	-1,882.32	2.63	10.51	2,204.53
8	23,421.88	10	8	2	80.00	3,159.86	5,788.00	-928.50	-983.40	3.40	13.61	2,342.19
7	20,583.73	10	8	2	80.00	2,811.27	5,459.00	-953.22	-1,212.12	2.95	11.80	2,058.37
6	16,608.22	10	8	2	80.00	2,348.39	4,798.00	-1,089.45	-2,031.48	2.16	8.62	1,660.82
5	17,202.88	10	9	1	90.00	2,067.04	4,939.00	-1,400.52	-1,400.52	1.48	13.28	1,720.29
4	11,512.31	10	6	4	60.00	2,236.88	3,862.00	-477.24	-1,305.48	4.69	7.03	1,151.23
3	7,085.91	10	6	4	60.00	1,649.43	3,064.00	-702.66	-1,696.10	2.35	3.52	708.59
2	5,090.68	10	7	3	70.00	1,046.34	2,165.00	-744.57	-994.98	1.41	3.28	509.07
1	1,526.49	10	6	4	60.00	779.69	1,531.80	-787.91	-1,588.26	0.99	1.48	152.65

With this filter added the number of instances is lower than I would prefer, but the results are even more impressive than without the filter. So the long-term uptrend is certainly not something to be concerned about. I have used the more general study for purposes of generating estimates, simply because the instances here were a bit low.

I have updated the Aggregator chart below.

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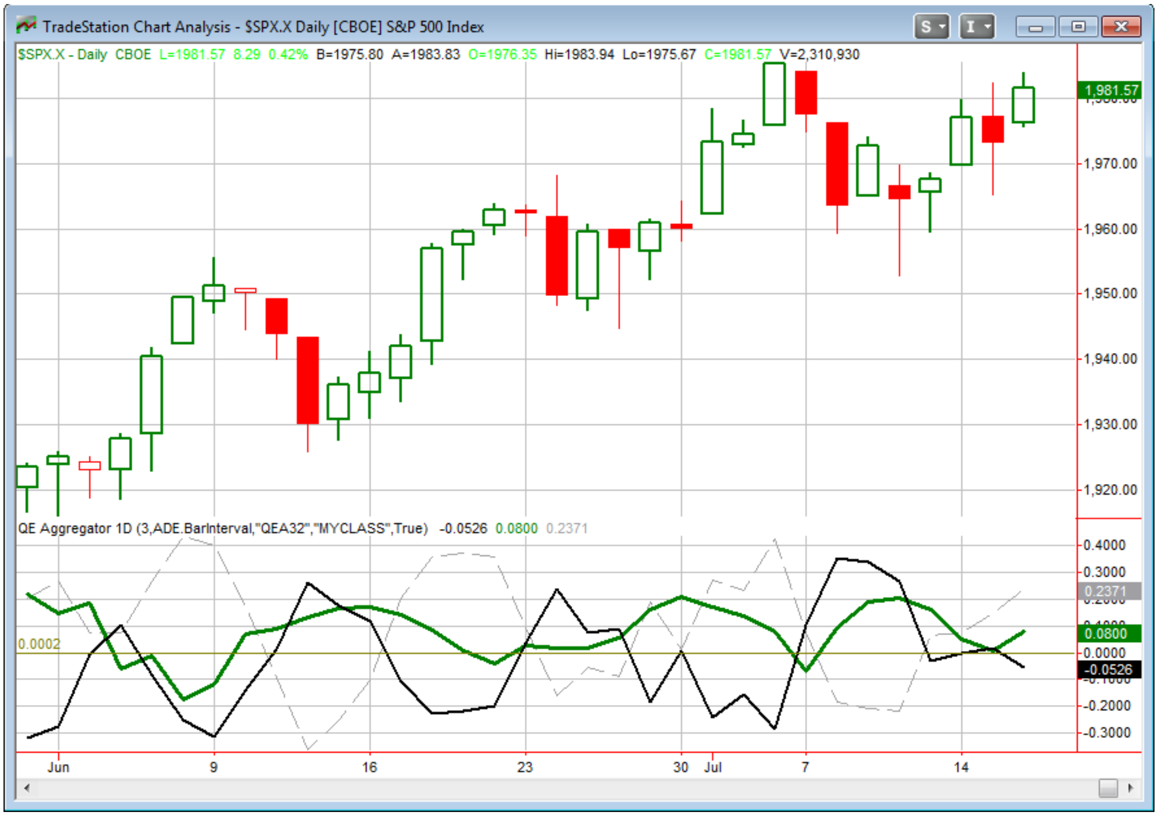

With tonight’s bullish study now factored in the green Aggregator Line moved a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line sank below 0. The negative Differential Line reading means the 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 set to remain positive on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted at* 1985.33 on Thursday. That is 0.2% *above* Wednesday’s close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to close up at least 0.2% in order to remain overbought on Thursday. Otherwise it will be considered oversold versus recent expectations.

Yesterday’s marginally bullish setup played out fairly well on Wednesday. But in doing so it turned the SPX overbought and took away the edge. A down close on Thursday (or even a slight gain), would resolve the overbought condition. Aggressive traders could consider buying into the market on Thursday as long as compelling bearish studies are not visible in the intraday Quantifinder. I'll wait until Thursday night to re-evaluate before looking to add any new trade ideas to the trade ideas section of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/14 – slightly bullish

The intermediate-term outlook was last updated in the 7/14/14 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
SLB	***7/11/2014***	***$115.40***	***$115.88***	***0.42%***		***sold on close***

SLB was sold at the close on Wednesday as per System 11111 rules.