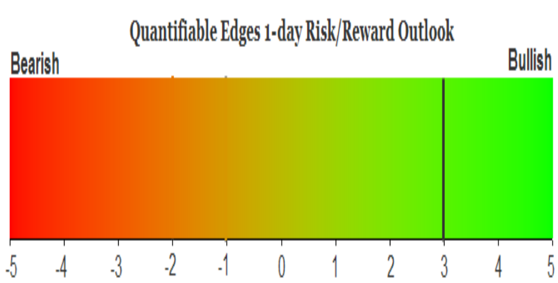
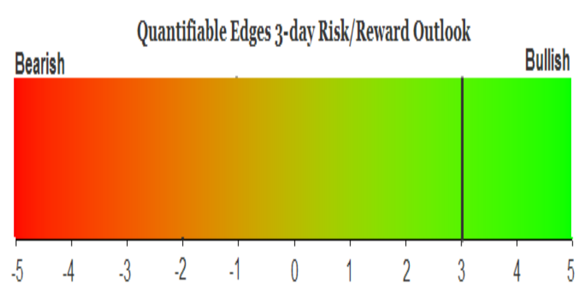
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 8, 2014 Volume 7 Issue 149

Market Overview





Signals Overview

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

Tonight's Research Points

- Outside day at bottom of range creates a strongly bullish setup.

Short-term Outlook
The Bottom Line
The market still can't muster a bounce. But another short-term study is being added to the list tonight saying we should see a bounce soon. I remain long.

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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				
August 8, 2014	Outside day. Bottom 10% 10-day rng.	1-6 days	Bullish	2.40%
August 6, 2014	20 low. Up day. 20 low. Close > 200ma	1-6 days	Bullish	
August 1, 2014	QE Buying Power System long signal	1-6 days	Bullish	
August 1, 2014	System 110524 for SPY	1-7 days	Bullish	
Active - Long Term				
August 4, 2014	CBI >= 11.	1-20 days	Bullish	4.00%
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	
Dropped Tonight				
August 4, 2014	CBI >= 10. SPX > 200ma.	1-4 days	Bullish	

The Evidence

This market can't seem to muster a decent bounce all of a sudden, and the SPX made a new 20-day low for the 4th time in that last 6 days. The SPX, NASDAQ, and Russell 2000 all closed down between 0.46%-0.56% on Thursday. Breadth was negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 29%. Total NYSE volume dropped for the 2nd day in a row.

Thursday action was a bit discouraging, and it will probably get touted as a short-term negative by some analysts. They'll claim the fact that the market couldn't hold on to its morning gains and it broke down to a new low was bad. Of course most analysts don't bother testing their ideas. The study below is from the 2/26/13 letter. It examines the reality of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of its 10-day range but above the 200ma. Buy on close. Sell X days later. $100k/trade. 1988 - 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	49,965.85	28	23	5	82.14	2,462.80	6,549.66	-1,335.69	-2,142.23	1.84	8.48	1,784.49
9	50,934.15	28	23	5	82.14	2,481.24	6,622.56	-1,226.88	-3,224.13	2.02	9.30	1,819.08
8	52,662.53	28	23	5	82.14	2,554.18	5,596.29	-1,216.72	-2,364.18	2.10	9.66	1,880.80
7	49,027.06	29	24	5	82.76	2,281.18	5,846.58	-1,144.27	-2,644.46	1.99	9.57	1,690.59
6	51,944.79	29	27	2	93.10	1,992.67	5,645.64	-928.60	-1,353.73	2.15	28.97	1,791.20
5	49,045.57	29	26	3	89.66	1,946.51	5,460.84	-521.20	-869.01	3.73	32.37	1,691.23
4	35,669.16	29	23	6	79.31	1,823.50	5,187.49	-1,045.22	-2,964.25	1.74	6.69	1,229.97
3	29,652.01	29	21	8	72.41	1,720.31	5,339.18	-809.32	-1,665.30	2.13	5.58	1,022.48
2	21,833.06	31	21	10	67.74	1,247.82	3,591.28	-437.12	-1,105.36	2.85	5.99	704.29
1	7,407.41	31	24	7	77.42	577.32	1,337.22	-921.19	-1,799.08	0.63	2.15	238.95

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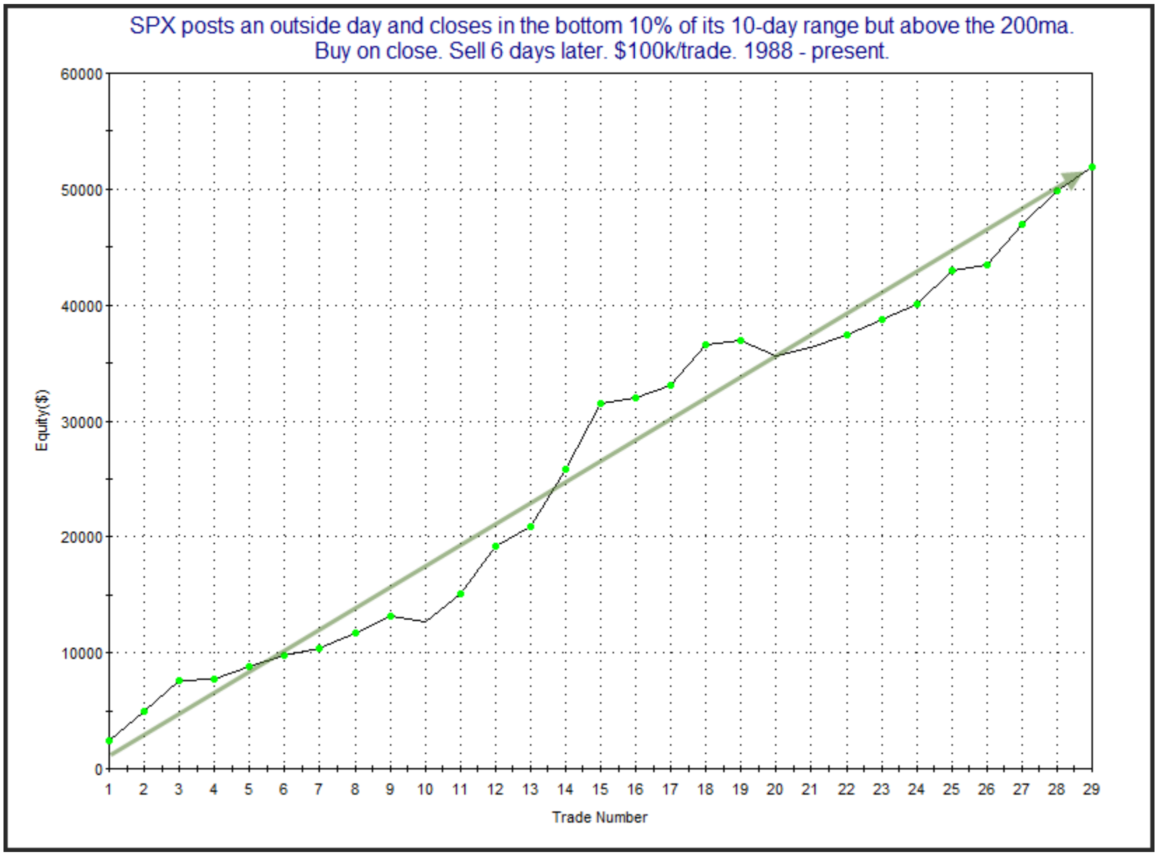
Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a "> 200ma" filter. This study is a great reminder that common perceptions of a day's action can sometimes be very far from the truth. And it isn't just the numbers that look good. Here is the profit curve.



That is a nice straight profit curve.

Of course we have seen a few strong studies in the last week that have failed to lead to a decent bounce. And it is always possible that the market will completely fall apart. But based on historical precedent, that seems very unlikely. The CBI, the VIX, the intermediate-term lows, the outside day patterns, and the increased POMO flows this week should all matter at some point. It just hasn't mattered enough yet.

I have updated the Aggregator chart below.

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Tonight's study helped the green Aggregator Line stay well 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 strongly positive. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Without any short-term bearish studies active, expectations are set to remain positive on Friday. This is highly unlikely to change. The Differential Pivot will be 1936.12 on Friday. That is 1.4% above Thursday's close. So for SPX to move from oversold to overbought versus expectations on Friday would take a strong move higher. A multi-day rally or consolidation is probably a more likely way to work off the oversold condition.

The pullback has already gone quite a bit beyond historical norms. At this point we are at historical extremes with some studies. While this could be a sign of deeper trouble, all the short-term evidence is still suggesting a bounce. Of course that bounce may be followed by another leg down, but I don't intend to stick around long after the bounce arrives. While there is a good chance several of my positions turn out to be losers on this

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pullback, I will not lose my nerve and prematurely bail on positions. Instead, I will continue to re-evaluate each night and make my choices based on probabilities rather than emotions. While I am not quite "all-in" with my index position just yet, I am not inclined to add to it tonight. I will continue to hold on to my longs in anticipation of a short-term rally. And I will re-evaluate the evidence each night as I always do.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/4 – slightly bullish
The intermediate-term outlook was last updated in the 8/4/14 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

MDLZ – 1/3 @ $36.97 (bought @ $36.62)
UTX – 1/3 @ $106.38 (bought @ $105.79)
MDLZ – 1/3 @ $36.02 (bought @ limit)
UTX – 1/3 @ $105.15 (bought @ limit)
F – 1/3 @ $17.02 (bought @ limit)
WMB – 1/3 @ $55.55 (bought @ limit) – 1st lot
UTX – 1/3 @ $104.75 (bought @ limit) – 3rd lot
F – 1/3 @ $16.81– (not filled – cancel order for now)
MCD – 1/3 @ $93.43 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 9/5(MDLZ-2,UTX-3,F-2,WMB,MCD)

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

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/29/2014	$196.95	$191.03	-3.01%		Aggregator
SPY(1/4)	7/31/2014	$193.09	$191.03	-1.07%		Aggregator
MDLZ(1/3)	7/31/2014	$36.62	$35.07	-4.23%		Catapult
UTX(1/3)	7/31/2014	$105.79	$104.22	-1.48%		Catapult
MDLZ(1/3)	8/1/2014	$36.02	$35.07	-2.64%		Catapult
UTX(1/3)	8/1/2014	$104.92	$104.22	-0.67%		Catapult
F(1/3)	8/1/2014	$17.02	$16.82	-1.18%		Catapult
KO(1/3)	***8/4/2014***	***$39.29***	***$39.96***	***1.71%***		***Sold on open***
WMB(1/3)	8/4/2014	$55.45	$54.37	-1.95%		Catapult
UTX(1/3)	8/4/2014	$104.75	$104.22	-0.51%		Catapult
SPY(1/4)	8/4/2014	$192.25	$191.03	-0.63%		Aggregator
MCD(1/3)	8/6/2014	$93.39	$93.31	-0.09%		Catapult