

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 25, 2014

Volume 7 Issue 181

Market Overview



Signals Overview

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

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce should continue higher.

Short-term Outlook

The Bottom Line

Expectations remain positive and the bounce should have further to go. But SPX will move from oversold to overbought on Thursday unless it suffers a substantial drawdown. I'm long and looking to take profits.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 25, 2014	Reversal from 20-day low > 200ma	1-6 days	Bullish	2.40%	-1.50%	-2.70%
September 24, 2014	QE Buying Power System Long	1-6 days	Bullish			
September 24, 2014	SPX 20-day low > 200ma	1-7 days	Bullish			
September 24, 2014	TICK Tomosc < -200. SPX 5-low	1-2 days	Bullish			
September 22, 2014	The weakest week	1-4 days	Bearish			
Active - Long Term						
September 4, 2014	SPX 20-day high. NDX biggest loss in 20	1-50 days	Bullish	6.50%	-2.70%	-5.10%
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						
September 19, 2014	SPX top 10% of 10-day range. Opex	1-4 days	Bearish	-1.40%	0.80%	1.50%

The Evidence

Wednesday saw the market make a strong bounce-back. The SPX rose 0.8%, the NASDAQ gained 1.0%, and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 67%. Total NYSE volume rose some from the last couple of days level.

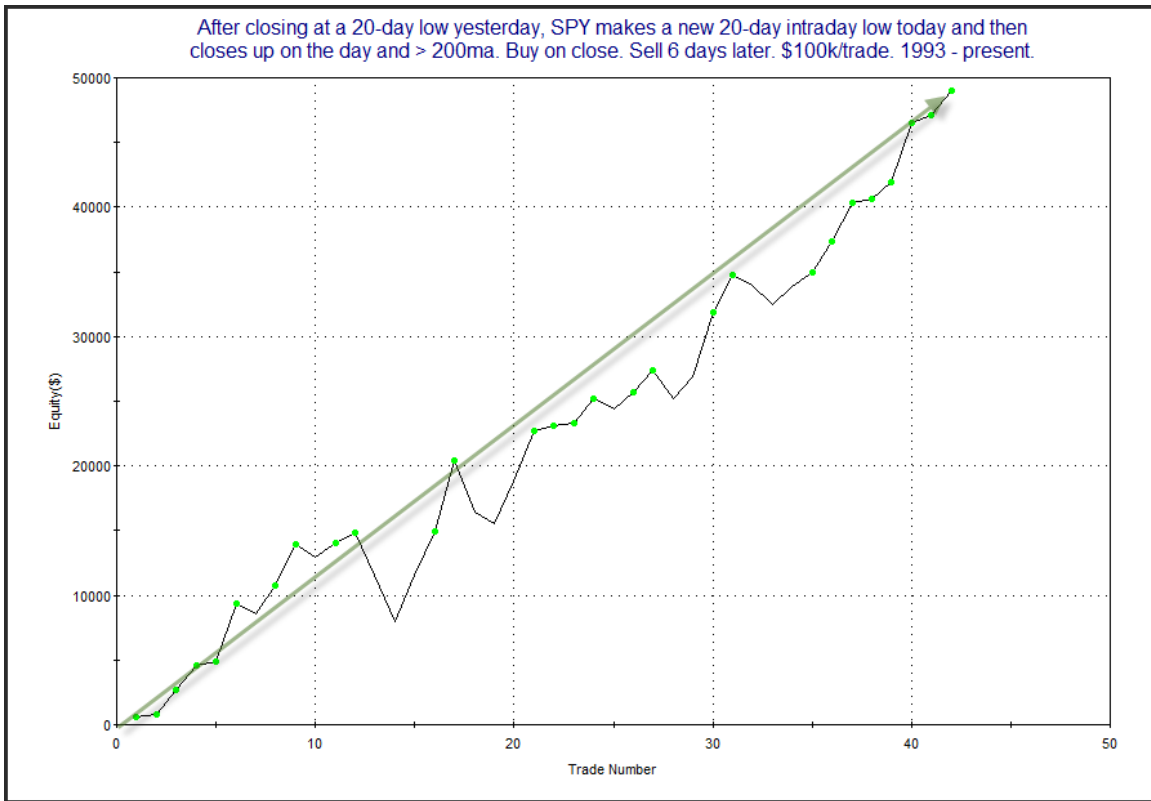
The morning selloff and strong reversal triggered a few similar studies in the Quantifinder. The study below had a good number of instances and perhaps the most appealing results. It was last seen in the 8/7/14 Letter. It looks at reversals off a 20-day low. All stats are updated.

After closing at a 20-day low yesterday, SPY makes a new 20-day intraday low today and then closes up on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	58,016.04	39	30	9	76.92	2,431.38	6,600.62	-1,658.37	-3,844.83	1.47	4.89	1,487.59
9	55,060.95	40	29	11	72.50	2,598.18	5,915.43	-1,844.20	-4,258.20	1.41	3.71	1,376.52
8	46,141.31	41	29	12	70.73	2,504.92	5,306.40	-2,208.44	-4,268.86	1.13	2.74	1,125.40
7	51,455.83	42	30	12	71.43	2,390.64	5,585.14	-1,688.61	-3,531.11	1.42	3.54	1,225.14
6	49,021.92	42	32	10	76.19	2,121.20	5,411.67	-1,885.66	-3,952.19	1.12	3.60	1,167.19
5	43,573.99	42	31	10	73.81	1,853.03	5,029.50	-1,386.98	-3,450.35	1.34	4.14	1,037.48
4	31,767.41	42	28	14	66.67	1,640.61	3,213.00	-1,012.11	-2,284.36	1.62	3.24	756.37
3	20,102.66	45	28	17	62.22	1,364.20	4,462.50	-1,064.41	-3,560.24	1.28	2.11	446.73
2	21,323.65	47	30	17	63.83	1,344.29	4,105.50	-1,117.94	-2,471.52	1.20	2.12	453.69
1	14,784.61	47	29	18	61.70	964.10	2,562.30	-731.91	-1,792.48	1.32	2.12	314.57

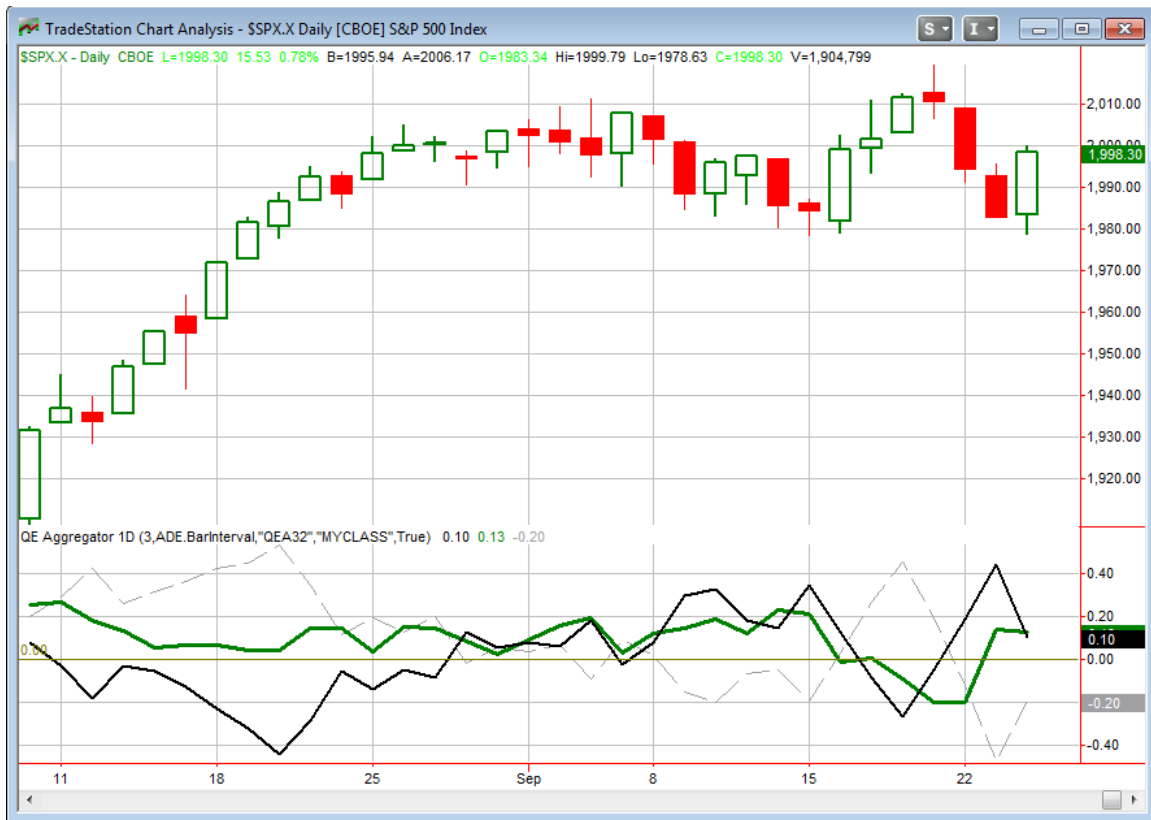
91% of instances closed above the entry price at some point in the next week.

Results here seem to suggest a solid upside edge. Below is a profit curve using a 6-day exit strategy.



This curve appears strong and steady, providing greater confidence in the results.

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



Tonight's bullish study helped the green Aggregator Line remain 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 also stayed above 0. 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.

Based on the current active studies, expectations are slated to remain bullish on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *highly inverted* at 1984.17 on Thursday. That is 0.7% *below* Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, in order for SPX to remain "oversold" versus expectations, it is going to need to close down over 0.7% on Thursday. Otherwise, it will be considered overbought as of Thursday's close.

There could certainly be more bounce to come here. That said, when I am in a position I often view inverted pivots as opportune times to take profits. Any up close is going to mean the end of the long signal. And the market could easily close down a fair amount and still end up “overbought” versus recent expectations. So if I can get a decent fill, I will take this opportunity to step out with some profits. If SPX does sell off strongly enough to remain oversold on Thursday, then I would very likely consider jumping back in to a long position on Friday. Of course with expectations still positive, aggressive traders could hold for more gains on Thursday. Another approach might be to scale out if the market gaps higher or rallies during the day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/22– slightly bullish

The intermediate-term outlook was last updated in the 9/22 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
SPY(1/4)	9/24/2014	\$198.01	\$199.56	0.78%		<i>sell @ \$199.45 limit</i>

I will look to sell SPY. I am giving it a little leeway here in case of a gap down that does not fill. I am not giving much leeway because expectations remain positive, so the bounce could surely have further to go.

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