

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2014

Volume 7 Issue 182

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Wednesday's bounce failed. Historically such failed bounces have quickly been followed by another bounce attempt.
- Four lower lows and a 20-day low in an uptrend has often been followed by a bounce.
- The strongly negative closing TICK values of late have again triggered a bullish setup for our TICK Tomoscillator.

## *Short-term Outlook*

### *The Bottom Line*

Expectations remain positive. The failed bounce was disappointing but such action has typically been followed by another bounce attempt coming along soon after. I am long and looking to get longer.

**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
<b>Active - Short Term</b>						
September 26, 2014	TICK Tomosc % < 1% & SPX 10-low > 200	1 day	Bullish			
September 26, 2014	4 lower lows & 20-low > 200	1-8 days	Bullish	2.40%	-1.50%	-2.70%
September 26, 2014	20-low bounce failure > 200	1 day	Bullish			
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			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
September 22, 2014	<i>The weakest week</i>	<i>1-4 days</i>	<i>Bearish</i>			
September 24, 2014	TICK Tomosc < -200. SPX 5-low	1-2 days	Bullish			

**The Evidence**

Thursday was a smackdown from the start all the way to the finish. The SPX lost 1.6%, the NASDAQ fell 1.9%, and the Russell 2000 declined 1.6%. Breadth was very weak as the NYSE Up Issues % came in at 16% and the Up Volume % was 9%. Total NYSE volume came in light, but it normally does on Rosh Hashana.

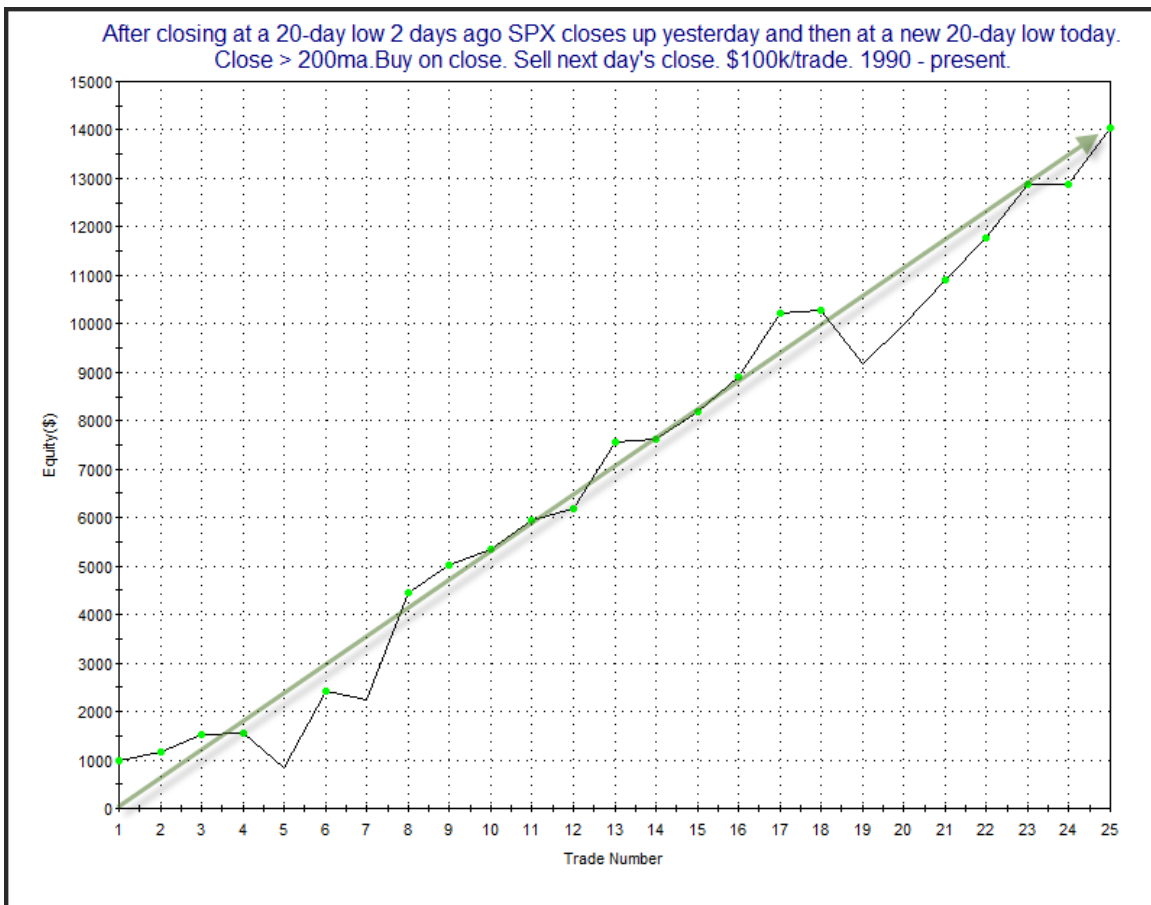
There were a number of studies that triggered in the Quantifinder on Thursday. Below I will discuss the ones I found most compelling.

Thursday quickly undercut the low established on Wednesday and put an end to Wednesday's bounce attempt. How has the market responded under similar circumstances in the past? For the study below, I look at times when a 20-day low was followed by a 1-day bounce and then another 20-day low (when above the 200ma). It was last seen in the 8/6/14 Letter. Results are all updated.

After closing at a 20-day low 2 days ago SPX closes up yesterday and then at a new 20-day low today. Close > 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

TradeStation Performance Summary		Collapse ^	
<b>All Trades</b>			
Total Net Profit	\$14,033.97	Profit Factor	7.95
Gross Profit	\$16,052.71	Gross Loss	(\$2,018.74)
Total Number of Trades	25	Percent Profitable	88.00%
Winning Trades	22	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$561.36	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$729.67	Avg. Losing Trade	(\$672.91)
Largest Winning Trade	\$2,225.00	Largest Losing Trade	(\$1,097.92)

The numbers here look very solid and suggest a bullish edge for Friday. Below is a profit curve to see how the edge has played out over time.



The strong, steady upslope is impressive and appears to confirm the upside edge. It has been especially strong since 2000 (after instance #6). Below I listed all of those trades.

After closing at a 20-day low 2 days ago SPX closes up yesterday and then at a new 20-day low today. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1990 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/30/03	Buy	\$995.97	2.23%	\$2,225.00
10/01/03	Sell	\$1,018.22		\$0.00
03/15/04	Buy	\$1,104.43	0.57%	\$845.10
03/16/04	Sell	\$1,110.70		(\$163.80)
07/08/04	Buy	\$1,109.10	0.33%	\$582.30
07/09/04	Sell	\$1,112.81		\$0.00
01/13/05	Buy	\$1,177.44	0.60%	\$652.68
01/14/05	Sell	\$1,184.51		\$0.00
03/24/05	Buy	\$1,171.42	0.24%	\$721.65
03/28/05	Sell	\$1,174.28		\$0.00
03/29/05	Buy	\$1,165.36	1.38%	\$1,375.30
03/30/05	Sell	\$1,181.41		\$0.00
08/18/05	Buy	\$1,219.02	0.06%	\$496.92
08/19/05	Sell	\$1,219.71		\$0.00
08/26/05	Buy	\$1,205.10	0.60%	\$752.76
08/29/05	Sell	\$1,212.28		(\$292.74)
07/31/07	Buy	\$1,455.27	0.72%	\$891.48
08/01/07	Sell	\$1,465.81		(\$1,066.24)
02/08/10	Buy	\$1,056.74	1.30%	\$2,118.76
02/09/10	Sell	\$1,070.52		\$0.00
06/10/11	Buy	\$1,270.98	0.07%	\$472.68
06/13/11	Sell	\$1,271.83		(\$416.52)
05/11/12	Buy	\$1,353.39	(1.11%)	\$0.00
05/14/12	Sell	\$1,338.35		(\$1,224.94)
10/12/12	Buy	\$1,428.59	0.81%	\$877.68
10/15/12	Sell	\$1,440.13		(\$93.15)
06/24/13	Buy	\$1,573.09	0.95%	\$1,304.10
06/25/13	Sell	\$1,588.03		\$0.00
08/21/13	Buy	\$1,642.80	0.86%	\$1,005.00
08/22/13	Sell	\$1,656.96		\$0.00
01/29/14	Buy	\$1,774.20	1.13%	\$1,375.92
01/30/14	Sell	\$1,794.19		\$0.00
08/05/14	Buy	\$1,920.21	0.00%	\$400.40
08/06/14	Sell	\$1,920.24		(\$455.52)
08/07/14	Buy	\$1,909.57	1.15%	\$1,186.12
08/08/14	Sell	\$1,931.59		(\$29.12)

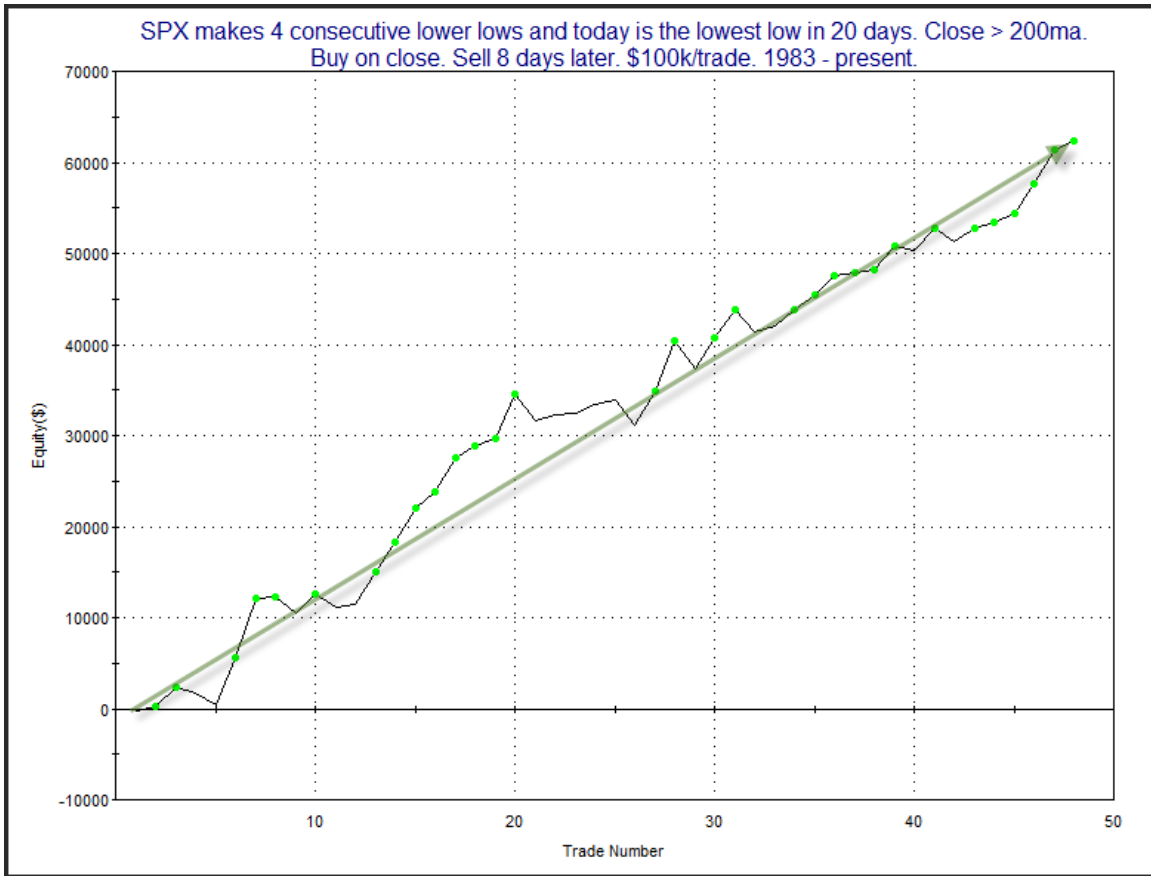
Quite a hot streak here, with 17 of 18 closing higher the next day. I have included this study on the Active List tonight. I will also note that the stats have been substantially less impressive when SPX has been below its 200ma. This edge has only been prevalent during long-term uptrends.

This next study was last seen in the 4/9/14 Subscriber Letter. It examines times when SPX posted four consecutive lower lows and a 20-day low as it did on Thursday. I have updated the stats table below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - 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	54,484.22	48	33	15	68.75	2,289.37	5,268.12	-1,404.33	-3,910.79	1.63	3.59	1,135.09
9	56,819.04	48	35	13	72.92	2,228.45	6,263.40	-1,628.96	-3,859.20	1.37	3.68	1,183.73
8	62,388.42	48	37	11	77.08	2,188.98	6,529.38	-1,691.25	-3,075.97	1.29	4.35	1,299.76
7	55,985.48	48	33	15	68.75	2,116.71	5,954.52	-924.41	-2,637.75	2.29	5.04	1,166.36
6	46,690.71	49	37	12	75.51	1,640.75	5,148.00	-1,168.08	-3,084.00	1.40	4.33	952.87
5	34,101.29	49	31	18	63.27	1,698.88	3,689.40	-1,031.33	-3,056.25	1.65	2.84	695.94
4	29,324.25	49	29	20	59.18	1,647.27	3,847.44	-922.32	-1,828.50	1.79	2.59	598.45
3	15,174.96	49	26	23	53.06	1,364.96	3,939.79	-883.22	-2,708.81	1.55	1.75	309.69
2	13,774.10	49	27	22	55.10	1,117.85	2,794.56	-745.81	-2,218.50	1.50	1.84	281.10
1	5,509.48	49	31	18	63.27	698.20	2,536.10	-896.38	-1,949.22	0.78	1.34	112.44

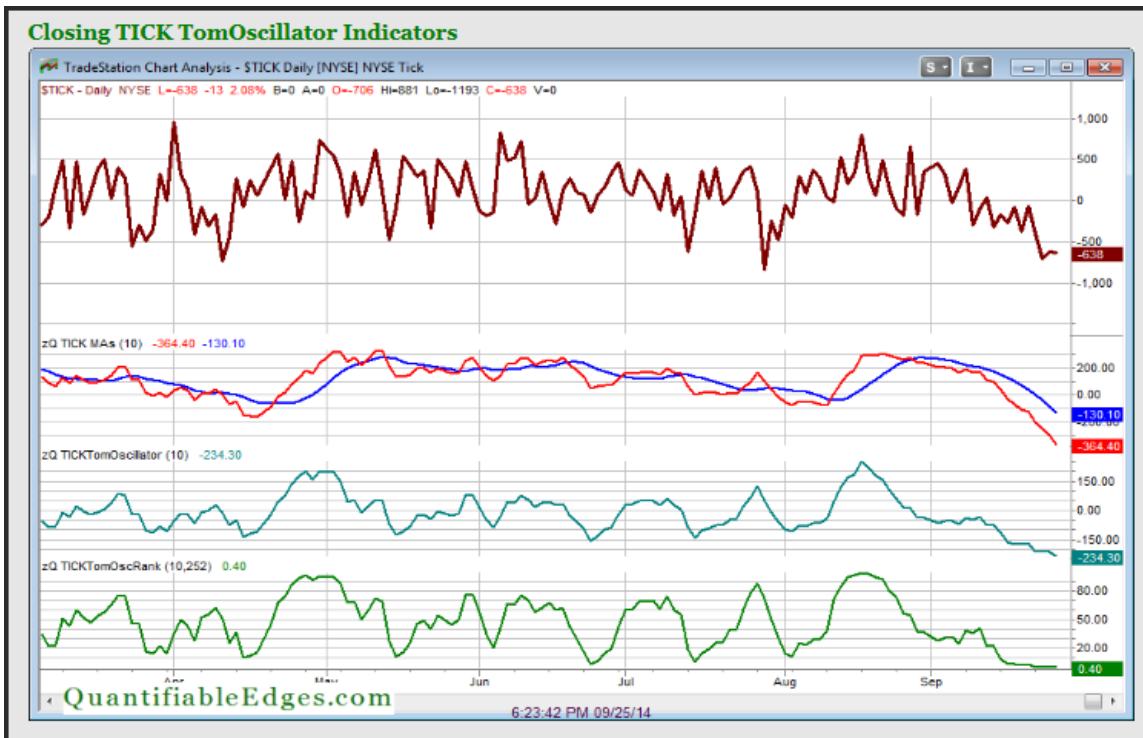
**43 of 49 instances (88%) closed above the entry price at some point in the next week.**

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming an 8-day exit strategy.



The strong, steady rise helps to confirm the upside edge suggested by the stats table.

There was also a study that used the TICK TomOscillator. There have been a few of these this week. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of [McClellan Financial Publications](#) ([click for Tom's article on the indicator](#)). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The Tomoscillator % Rank Thursday came in below 1%, meaning Thursday's reading is among the lowest 1% in the last year. Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:



The TICK Tomoscillator is also included in the QE Indicators/Functions for Tradestation package which can be downloaded by all subscribers for free.

The study below uses the Tomoscillator % Rank reading rather than just the raw reading.

**TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	15,673.55	13	8	5	61.54	2,792.69	5,308.60	-1,333.59	-4,360.44	2.09	3.35	1,205.66
9	18,845.23	13	10	3	76.92	2,441.00	4,786.10	-1,854.93	-5,073.84	1.32	4.39	1,449.63
8	19,624.70	14	10	4	71.43	2,828.90	4,792.75	-2,166.08	-5,882.94	1.31	3.26	1,401.76
7	19,326.18	14	11	3	78.57	2,156.60	4,205.84	-1,465.48	-2,375.10	1.47	5.40	1,380.44
6	15,434.81	14	11	3	78.57	1,762.31	3,839.52	-1,316.88	-1,781.60	1.34	4.91	1,102.49
5	9,538.52	14	10	4	71.43	1,412.98	3,199.60	-1,147.82	-2,274.60	1.23	3.08	681.32
4	6,569.02	15	10	5	66.67	1,338.91	2,288.36	-1,364.02	-3,019.20	0.98	1.96	437.93
3	8,176.60	16	10	6	62.50	1,270.01	2,450.24	-753.92	-1,332.24	1.68	2.81	511.04
2	11,083.48	16	12	4	75.00	1,081.72	1,963.50	-474.30	-806.48	2.28	6.84	692.72
1	12,808.44	17	16	1	94.12	859.25	2,230.60	-939.60	-939.60	0.91	14.63	753.44

**All 17 instances closed below the entry price on either day 1 or day 2.**

There appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/23/98	Buy	\$1,139.74	0.09%	\$904.80
07/24/98	Sell	\$1,140.80		(\$925.68)
08/04/98	Buy	\$1,072.12	0.87%	\$1,179.24
08/05/98	Sell	\$1,081.42		(\$1,374.54)
05/25/99	Buy	\$1,284.38	1.59%	\$1,574.65
05/26/99	Sell	\$1,304.76		(\$450.45)
07/24/00	Buy	\$1,464.29	0.70%	\$811.92
07/25/00	Sell	\$1,474.47		\$0.00
06/25/03	Buy	\$975.32	1.08%	\$1,143.42
06/26/03	Sell	\$985.82		(\$155.04)
06/30/03	Buy	\$974.50	0.80%	\$893.52
07/01/03	Sell	\$982.32		(\$1,264.80)
10/24/03	Buy	\$1,028.91	0.22%	\$857.48
10/27/03	Sell	\$1,031.13		\$0.00
02/22/05	Buy	\$1,184.17	0.56%	\$785.40
02/23/05	Sell	\$1,190.80		\$0.00
02/27/07	Buy	\$1,399.14	0.55%	\$1,189.25
02/28/07	Sell	\$1,406.82		(\$176.79)
03/02/07	Buy	\$1,387.17	(0.94%)	\$337.68
03/05/07	Sell	\$1,374.12		(\$950.40)
03/05/07	Buy	\$1,374.12	1.55%	\$1,712.16
03/06/07	Sell	\$1,395.41		\$0.00
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
10/28/09	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/09	Sell	\$1,066.11		\$0.00
04/18/11	Buy	\$1,305.14	0.57%	\$574.56
04/19/11	Sell	\$1,312.62		(\$88.92)
06/10/11	Buy	\$1,270.98	0.07%	\$472.68
06/13/11	Sell	\$1,271.83		(\$416.52)
05/31/13	Buy	\$1,630.74	0.59%	\$590.48
06/03/13	Sell	\$1,640.42		(\$489.22)
11/07/13	Buy	\$1,747.15	1.34%	\$1,346.91
11/08/13	Sell	\$1,770.61		\$0.00

I see no red flags here.

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



Tonight's studies 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 Friday. It would take some very strong bearish evidence in order to change that. The Differential Pivot will be 1977.12 on Friday. That is 0.6% above Thursday's close. So for SPX to move from oversold to overbought on Friday it will need to close at least 0.6% higher.

There are some song studies suggesting a very good chance of a bounce on Friday. One looks at the failed bounce from Wednesday and the other uses the TICK TomOscillator. Additionally, the 4 lower lows and a 20-day low study suggests a bounce over a multi-day period. The 2 studies associated with the 20-day lows are similar to other 20-low studies we have seen over the last couple of days. Since they are related, I would not expect them to add much to the expectations. But they do help to confirm that the pullback has not gotten out of hand to the point where the expectations are starting to swing the other way. Failures like we saw on Thursday do happen on occasion and when they have it has not meant a total failure to bounce – just typically a short delay. So with the market now more oversold and expectations still positive I will look to add to my index position on Friday if I can get a decent fill price.

***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.*

**SPY – buy ¼ index position @ \$196.34 LIMIT.** Based on short-term outlook above, I will look to add a 2<sup>nd</sup> lot (of possibly 4).

**EWH – buy @ \$20.86 LIMIT.** Based on system 80402, which EWH has done very well with over the years. I will use the same exit trigger as 80402 for this position as well. Below is a link to the 80402 page for subscribers.

<http://quantifiableedges.com/system-80402/>

And here is a list of all 80402 triggers in EWH since 2000.

Hypothetical List of Triggers & Exits for System 80402 using EWH.  
\$100k/trade. \$0.01/share commission. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/07/02	Buy	\$9.37	2.35%	\$2,881.44
06/07/02	Sell	\$9.59		(\$106.72)
11/21/03	Buy	\$9.42	3.61%	\$4,033.70
11/26/03	Sell	\$9.76		\$0.00
10/26/04	Buy	\$10.80	1.76%	\$2,314.75
10/27/04	Sell	\$10.99		(\$277.77)
01/10/05	Buy	\$11.41	1.23%	\$1,398.56
01/18/05	Sell	\$11.55		(\$1,048.92)
03/16/05	Buy	\$11.57	1.73%	\$1,815.03
03/18/05	Sell	\$11.77		(\$605.01)
05/26/05	Buy	\$11.82	1.27%	\$1,438.20
05/27/05	Sell	\$11.97		(\$84.60)
06/23/09	Buy	\$13.11	5.49%	\$5,801.95
06/25/09	Sell	\$13.83		(\$1,431.65)
01/28/10	Buy	\$14.83	2.43%	\$2,697.20
02/02/10	Sell	\$15.19		(\$1,820.61)
08/25/10	Buy	\$15.95	1.19%	\$1,563.25
08/27/10	Sell	\$16.14		(\$562.77)
02/23/11	Buy	\$18.22	1.76%	\$1,920.80
02/25/11	Sell	\$18.54		(\$1,097.60)
09/06/12	Buy	\$16.70	1.62%	\$1,913.60
09/06/12	Sell	\$16.97		(\$239.20)
05/06/14	Buy	\$20.20	1.63%	\$1,677.90
05/12/14	Sell	\$20.53		(\$1,776.60)

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/24/2014	\$198.01	\$196.34	-0.84%		Aggregator

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