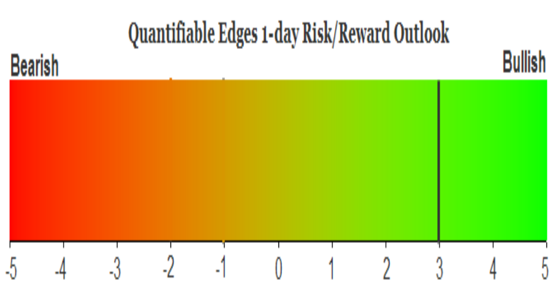
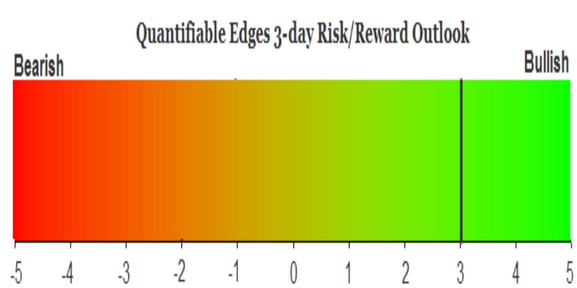
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2014 Volume 7 Issue 186

Market Overview





Signals Overview

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

Tonight's Research Points

- Down 3 days and at a 20-day low is often bullish. But it has not been when the CBI has been at 0.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.

Short-term Outlook

The Bottom Line

Expectations remain positive and the market is now extremely oversold. But evidence is a little mixed with the CBI still at 0. I have some long exposure and am not looking increase it at this point.

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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						
October 2, 2014	Unfilled gap 10-intra low, down 3	1-2 days	Bullish			
October 1, 2014	EOM < 10ma and > 200ma	1-5 days	Bullish	2.15%	-1.25%	-3.20%
October 1, 2014	20-day low then 3-day pause	1-5 days	Bullish	1.90%	-1.30%	-2.80%
September 26, 2014	4 lower lows & 20-low > 200	1-8 days	Bullish	2.40%	-1.50%	-2.70%
September 25, 2014	Reversal from 20-day low > 200ma	1-6 days	Bullish	2.40%	-1.50%	-2.70%
September 24, 2014	SPX 20-day low > 200ma	1-7 days	Bullish			
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%
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						
October 1, 2014	SPY closes bottom 1/2 range last of mo	1 day	Bullish			
September 24, 2014	QE Buying Power System Long	1-6 days	Bullish			

The Evidence

The market got clobbered on Wednesday. The SPX closed down 1.3%, the NASDAQ lost 1.6% and the Russell 2000 fell 1.5%. Breadth was strongly negative as the NYSE Up Issues % came in at 25% and the Up Volume % was 15%. Total NYSE volume rose again.

There were a good number of studies that triggered in the Quantifinder Wednesday afternoon. Many of them looked at either 1) 3-day pullbacks or 2) 20-day lows during long-term uptrends. Some of them suggested a fairly sizable edge and others were more tame. I decided tonight to examine the combination of a 20-day low and a 3-day pullback. Results are below.

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - 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	10,944.42	33	20	13	60.61	2,612.91	5,639.02	-3,177.99	-13,993.88	0.82	1.26	331.65
9	22,487.53	33	21	12	63.64	2,374.28	4,942.24	-2,281.02	-10,059.36	1.04	1.82	681.44
8	9,259.78	34	19	14	55.88	2,262.39	4,858.65	-2,408.98	-14,092.68	0.94	1.27	272.35
7	18,905.81	35	20	14	57.14	2,270.25	5,956.07	-1,892.79	-8,018.76	1.20	1.71	540.17
6	11,528.76	39	21	16	53.85	1,953.58	4,587.32	-1,843.53	-7,966.32	1.06	1.39	295.61
5	22,194.58	40	19	19	47.50	2,314.88	4,892.94	-1,146.74	-3,385.80	2.02	2.02	554.86
4	23,264.81	40	25	15	62.50	1,663.63	4,731.13	-1,221.72	-3,994.08	1.36	2.27	581.62
3	19,513.50	40	26	14	65.00	1,356.98	3,607.50	-1,126.28	-2,658.00	1.20	2.24	487.84
2	14,082.55	40	24	16	60.00	1,102.79	3,585.76	-774.02	-2,068.06	1.42	2.14	352.06
1	3,856.50	40	25	15	62.50	788.76	2,503.90	-1,057.50	-6,826.40	0.75	1.24	96.41

Results here appeared to suggest a bit of an upside edge. Much of the edge was realized over the first 3-4 days.

But there is one indicator that has been dormant lately that I have some concern about. That is the Quantifiable Edges CBI. While the market has sold off sharply, there has not been a single Catapult signal that triggered. A high CBI (especially 10 or above) has been a very good indication that a bounce is due. But low CBI readings I have rarely worried about quantifying. (It spends a fair amount of time at 0.) This afternoon I wondered whether the low CBI could be a troublesome sign. If individual issues were not necessarily capitulating, then perhaps the overall market wasn't quite there either. So I broke down the above study by time the CBI was at 0 vs times it wasn't. First let's examine times where it was NOT at 0 (unlike now).

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. CBI > 0.
Buy on close. Sell X days later. $100k/trade. 1995 - 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	34,801.48	27	20	7	74.07	2,612.91	5,639.02	-2,493.82	-4,977.28	1.05	2.99	1,288.94
9	37,430.86	27	20	7	74.07	2,486.88	4,942.24	-1,758.11	-4,105.91	1.41	4.04	1,386.33
8	26,110.06	27	17	10	62.96	2,490.34	4,858.65	-1,622.58	-4,132.58	1.53	2.61	967.04
7	31,155.79	28	18	10	64.29	2,454.74	5,956.07	-1,302.96	-2,922.27	1.88	3.39	1,112.71
6	26,670.26	29	20	9	68.97	2,051.26	4,587.32	-1,595.00	-3,496.50	1.29	2.86	919.66
5	32,687.69	30	19	11	63.33	2,314.88	4,892.94	-1,026.82	-2,268.75	2.25	3.89	1,089.59
4	33,869.73	31	24	7	77.42	1,676.06	4,731.13	-907.95	-2,082.00	1.85	6.33	1,092.57
3	22,466.92	31	22	9	70.97	1,519.34	3,607.50	-1,217.62	-2,658.00	1.25	3.05	724.74
2	16,316.34	31	20	11	64.52	1,189.77	3,585.76	-679.91	-1,935.00	1.75	3.18	526.33
1	8,417.25	31	19	12	61.29	862.36	2,503.90	-663.96	-1,692.52	1.30	2.06	271.52

Numbers here appear substantially better than they did without the CBI filter. Below is a profit curve assuming a 4-day holding period.

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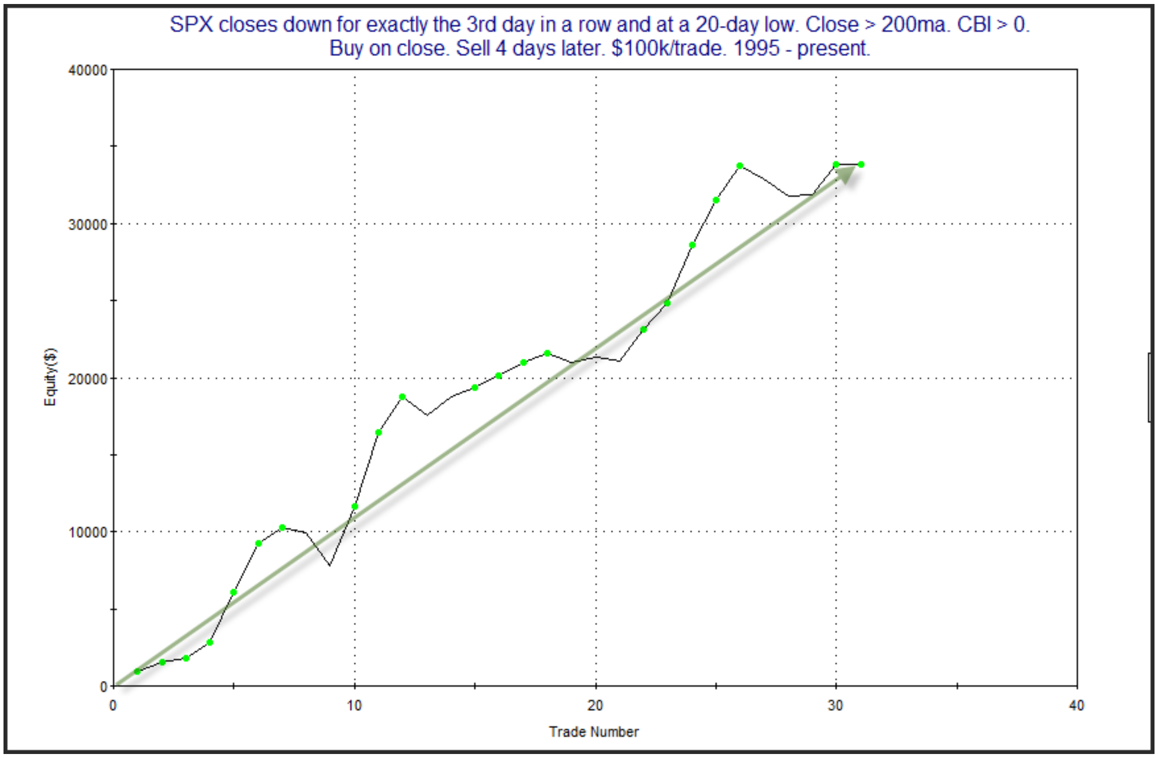


The steady upslope makes the setup all the more appealing. Of course the problem is that the CBI is currently 0. And this is what results would look like under current circumstances.

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. CBI = 0. Buy on close. Sell X days later. $100k/trade. 1995 - 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	-24,779.47	8	1	7	12.50	2,220.84	2,220.84	-3,857.19	-13,993.88	0.58	0.08	-3,097.43
9	-17,267.36	8	2	6	25.00	952.05	1,781.88	-3,195.24	-10,059.36	0.30	0.10	-2,158.42
8	-19,848.26	8	3	5	37.50	594.75	1,134.60	-4,326.50	-14,092.68	0.14	0.08	-2,481.03
7	-13,068.59	8	3	5	37.50	1,107.73	2,103.66	-3,278.36	-8,018.76	0.34	0.20	-1,633.57
6	-15,679.37	9	1	8	11.11	2,704.44	2,704.44	-2,297.98	-7,966.32	1.18	0.15	-1,742.15
5	-8,610.44	9	1	8	11.11	2,996.46	2,996.46	-1,450.86	-3,385.80	2.07	0.26	-956.72
4	-10,604.92	9	1	8	11.11	1,365.24	1,365.24	-1,496.27	-3,994.08	0.91	0.11	-1,178.32
3	-2,953.42	9	4	5	44.44	463.98	1,317.00	-961.87	-2,354.26	0.48	0.39	-328.16
2	-2,233.79	9	4	5	44.44	667.88	1,308.75	-981.06	-2,068.06	0.68	0.54	-248.20
1	-4,560.75	9	6	3	66.67	555.70	1,417.32	-2,631.65	-6,826.40	0.21	0.42	-506.75

This doesn't look pretty at all. There are not really enough instances here for me to draw a strong bearish conclusion – especially since tonight's signal would not be a fresh one. The setup actually triggered last week as well (6 trading days ago). So the fact that it is a repeat signal may mean it does not hold the same downward edge. I did decide to broaden the study a little to see if the CBI continued to act as a worthwhile filter. I therefore eliminated the 3-day pullback requirement and just focused on 20-day lows above the 200ma. Here are results both for times with a 0 CBI and a CBI > 0.

SPX closes at a 20-day low. Close > 200ma. **CBI = 0.**
Buy on close. Sell X days later. $100k/trade. 1995 - 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
6	-4,266.13	26	12	14	46.15	2,042.88	3,908.16	-2,055.77	-7,966.32	0.99	0.85	-164.08
5	5,254.41	26	11	15	42.31	2,278.51	4,221.66	-1,320.61	-3,385.80	1.73	1.27	202.09
4	2,154.23	27	14	13	51.85	1,489.87	4,546.84	-1,438.77	-3,994.08	1.04	1.12	79.79
3	8,352.22	29	18	11	62.07	1,047.93	4,042.74	-955.50	-2,354.26	1.10	1.79	288.01
2	1,669.09	31	13	18	41.94	1,325.87	4,259.29	-864.84	-2,689.62	1.53	1.11	53.84
1	-6,573.17	35	20	14	57.14	664.08	1,966.48	-1,418.19	-6,826.40	0.47	0.67	-187.80

SPX closes at a 20-day low. Close > 200ma. **CBI > 0.**
Buy on close. Sell X days later. $100k/trade. 1995 - 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
6	58,861.03	64	43	21	67.19	2,198.05	7,272.06	-1,697.85	-4,296.16	1.29	2.65	919.70
5	51,309.37	66	42	24	63.64	1,953.74	7,070.28	-1,281.15	-5,114.56	1.52	2.67	777.41
4	38,346.86	71	44	27	61.97	1,651.23	4,292.10	-1,270.64	-3,039.24	1.30	2.12	540.10
3	25,283.80	76	44	32	57.89	1,469.30	4,277.94	-1,230.18	-5,331.20	1.19	1.64	332.68
2	28,043.87	87	51	36	58.62	1,199.17	4,809.66	-919.83	-4,320.06	1.30	1.85	322.34
1	13,875.49	101	59	42	58.42	816.96	5,117.46	-817.26	-2,726.40	1.00	1.40	137.38

There still appears to be a sizable edge to having the CBI above 0. While it may not necessarily be bearish, it certainly appears to be a thorn in the side of any potential bounce. It also appears to be very worthwhile to keep an eye on in the future.

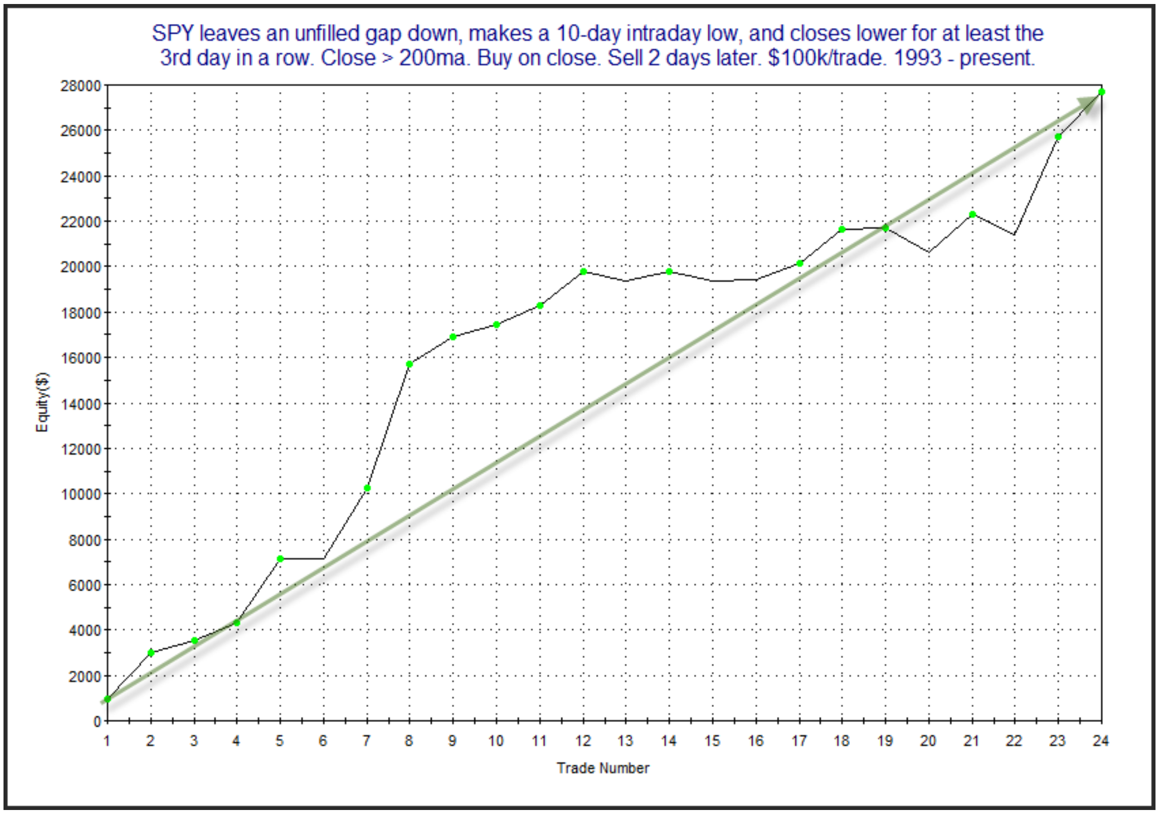
But while the CBI is not favorable, there are positive aspects to this pullback. The Fed liquidity, the consistently lower lows, and the early-month seasonality are things we have seen in the last few days that all seem to improve the odds of a bounce. Another potential positive that appeared on Wednesday was the unfilled gap down. The study below is from the 3/7/12 Letter. It examines unfilled gaps and new lows that happen after multi-day pullbacks. All stats are updated.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 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
5	22,679.67	24	17	7	70.83	1,988.14	8,239.74	-1,588.38	-4,770.78	1.25	3.04	944.99
4	19,435.86	24	16	8	66.67	1,981.23	5,581.02	-1,532.97	-4,430.01	1.29	2.58	809.83
3	27,146.92	24	19	5	79.17	1,660.69	4,249.44	-881.24	-1,847.47	1.88	7.16	1,131.12
2	27,684.21	24	19	4	79.17	1,608.69	5,477.88	-720.23	-1,118.36	2.23	10.61	1,153.51
1	15,480.48	25	19	6	76.00	996.09	5,764.38	-574.20	-1,677.36	1.73	5.49	619.22

23 of 25 instances (92%) closed above the entry price at some point in the next 3 days.

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

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I have updated the Aggregator chart below.

With tonight's studies taken into account the green Aggregator Line barely budged and held 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 now extremely far above 0. The positive Differential Line reading means the SPX is very 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. It would take strong bearish evidence in order to change that. The Differential Pivot will be 1987.91 on Thursday. That is over 2.1% above Wednesday's close. It is highly unlikely we will see that achieved on Thursday. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

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I have some long exposure now with a couple of lots of SPY. Often when pullbacks like this occur and the Aggregator remains bullish I will continue to scale in to a position. But with my intermediate-term outlook neutral and the CBI at zero, I am not inclined to take on more exposure at this point. Instead I will wait for the CBI to expand some before taking on additional exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/29 – neutral

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	$194.35	-1.85%		Aggregator
SPY(1/4)	10/1/2014	$196.70	$194.35	-1.19%		Aggregator