

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 15, 2014

Volume 7 Issue 195

Market Overview



Signals Overview

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

Tonight's Research Points

- Continues closes in near the bottom of the daily range are suggesting a short-term bullish edge.
- The very high volume that accompanied the bounce today is an encouraging sign.

Short-term Outlook

The Bottom Line

The market bounced a little on Tuesday, but did not accomplish very much. Studies continue to point northward. I am long and looking for more of a bounce.

Summary of Recent Active Studies (see Letters from listed dates for details) – not updated

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
October 15, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish			
October 15, 2014	Bounce from 50-low on high volume	1-4 days	Bullish			
October 14, 2014	Dn 3 days. Today is Monday	1-4 days	Bullish			
October 14, 2014	CBI >= 10	1-5 days	Bullish			
October 10, 2014	SPX dn 1.5% 2nd time in 5. Close > 200	1-7 days	Bullish	3.40%	-2.20%	-4.70%
October 10, 2014	QE Buying Power Swing Long	1-6 days	Bullish			
October 9, 2014	20-day low then 4-day high	1-8 days	Bullish	2.40%	-1.30%	-2.50%
October 8, 2014	VIX 100-high. SPX > 100-low	1-7 days	Bullish	3.00%	-2.30%	-4.90%
Active - Long Term						
October 14, 2014	CBI >= 11	1-20 days	Bullish			
October 9, 2014	20-day low then 4-day high	1-19 days	Bullish	2.40%	-1.30%	-2.50%
October 3, 2014	Reversal from 20-day low > 200ma	1-10 days	Bullish	3.60%	-1.10%	-2.45%
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			

The Evidence

The market bounced on Tuesday – sort of. The gains were pretty docile compared to recent selling, and the market finished fairly close to its lows. The SPX gained 0.2%, the NASDAQ rose 0.3% and the Russell 2000 rallied 1.2%. Breadth was positive as the NYSE Up Issues % came in at 61% and the Up Volume % was 62%. Total NYSE volume rose to the highest level in a few weeks.

Despite attempts to put in rallies over the last few days, SPY has been persistently weak in the afternoon. It has not managed to hold gains and has closed in the bottom 25% of its daily range for the last 4 days in a row. That may not sound all that extreme, but it is pretty rare. Below is a look at how the market has performed following past occurrences. It looks back to the inception of SPY in 1993.

SPY closes in the bottom 25% of its daily range for the 4th day in a row. 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	34,602.40	13	12	1	92.31	2,929.09	13,737.50	-546.65	-546.65	5.36	64.30	2,661.72
4	23,618.49	13	12	1	92.31	2,201.28	12,275.00	-2,796.92	-2,796.92	0.79	9.44	1,816.81
3	17,480.51	13	9	4	69.23	2,305.48	7,062.50	-817.19	-1,641.05	2.82	6.35	1,344.65
2	9,695.10	13	8	5	61.54	1,701.05	5,062.50	-782.66	-1,812.29	2.17	3.48	745.78
1	11,677.55	13	9	4	69.23	1,700.65	5,962.50	-907.07	-1,068.60	1.87	4.22	898.27
All 13 instances closed above the entry price at some point in the next week.												

Instances are a little low, but the numbers are very lopsided in favor of the bulls. Below is a list of all instances assuming a 5-day holding period.

SPY closes in the bottom 25% of its daily range for the 4th day in a row. Buy on close. Sell 5 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/07/98	Buy	\$109.44	2.03%	\$2,967.25
05/14/98	Sell	\$111.66		\$0.00
02/22/00	Buy	\$134.97	1.83%	\$1,850.00
02/29/00	Sell	\$137.44		(\$1,665.00)
07/23/02	Buy	\$79.95	13.75%	\$14,312.50
07/30/02	Sell	\$90.94		(\$2,837.50)
01/04/05	Buy	\$118.83	(0.55%)	\$529.83
01/11/05	Sell	\$118.18		(\$706.44)
01/24/05	Buy	\$116.55	1.38%	\$1,458.60
01/31/05	Sell	\$118.16		\$0.00
05/24/07	Buy	\$151.06	2.00%	\$2,207.74
06/01/07	Sell	\$154.08		\$0.00
01/18/08	Buy	\$132.06	2.41%	\$3,557.90
01/28/08	Sell	\$135.24		(\$4,587.42)
03/03/09	Buy	\$70.07	3.00%	\$3,995.60
03/10/09	Sell	\$72.17		(\$4,238.19)
10/28/09	Buy	\$104.41	0.49%	\$2,344.65
11/04/09	Sell	\$104.92		(\$1,272.81)
07/14/11	Buy	\$130.93	2.72%	\$2,968.07
07/21/11	Sell	\$134.49		(\$991.90)
12/16/11	Buy	\$121.59	3.95%	\$3,978.48
12/23/11	Sell	\$126.39		(\$1,282.32)
05/17/12	Buy	\$130.86	1.28%	\$1,810.68
05/24/12	Sell	\$132.53		(\$1,000.84)
10/12/12	Buy	\$142.89	0.35%	\$2,537.37
10/19/12	Sell	\$143.39		(\$83.88)
Avg Run-up: 3.4% Avg Drawdown: -1.4%				

I do not see anything here that alarms me. The bears have owned the afternoons lately. It appears in the next few days the bulls will have their chance, and this study suggests an afternoon that does not go to the bears could turn into a sizable move higher.

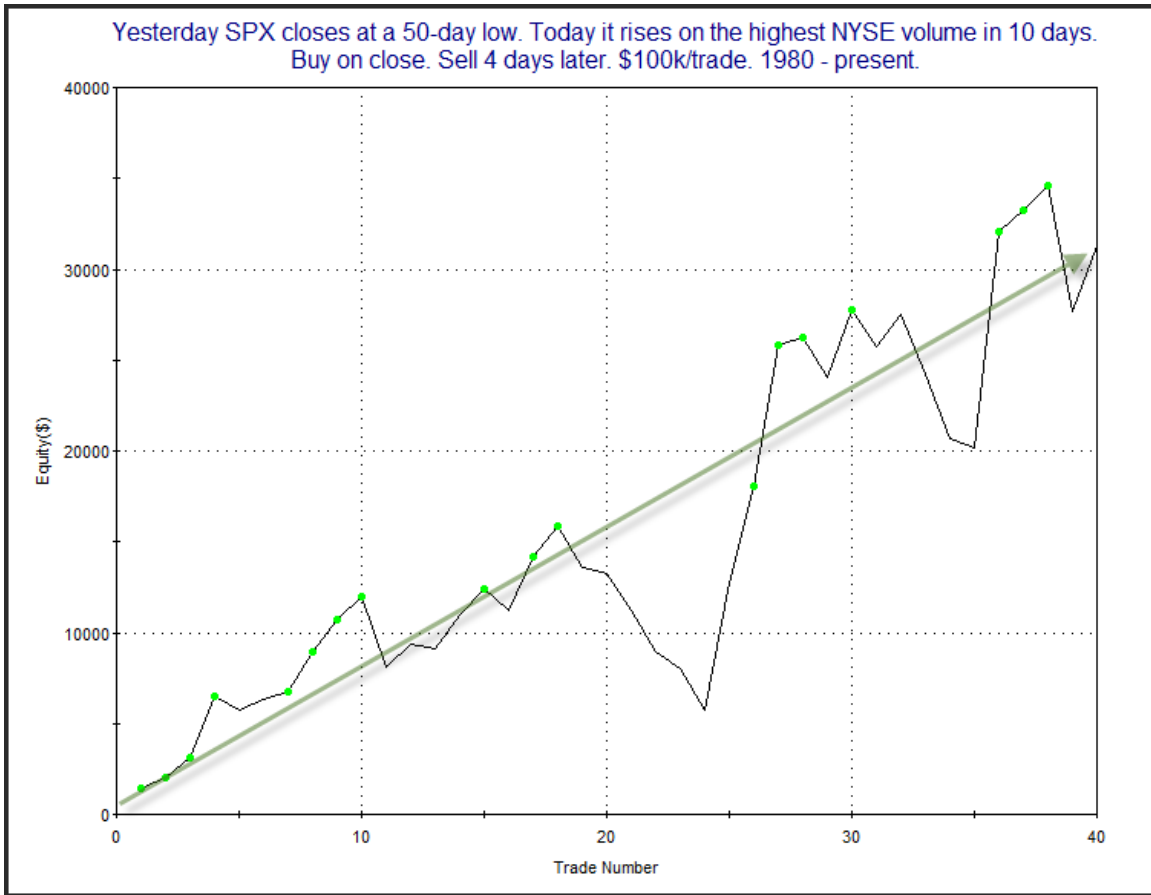
In the 2/2/10 subscriber letter I examined bounces from 50-day lows based on the volume. I found that when the 1st day had very low volume or very high volume the probabilities of follow-through increased substantially. Days where volume did not hit

an extreme showed no bullish edge going forward. Subscribers that would like to see the whole discussion may download the 2/2/10 letter from the Archives page on the website.

Tonight I have re-run the stats for setups like Tuesday where the NYSE posted the highest volume in the last 10 days.

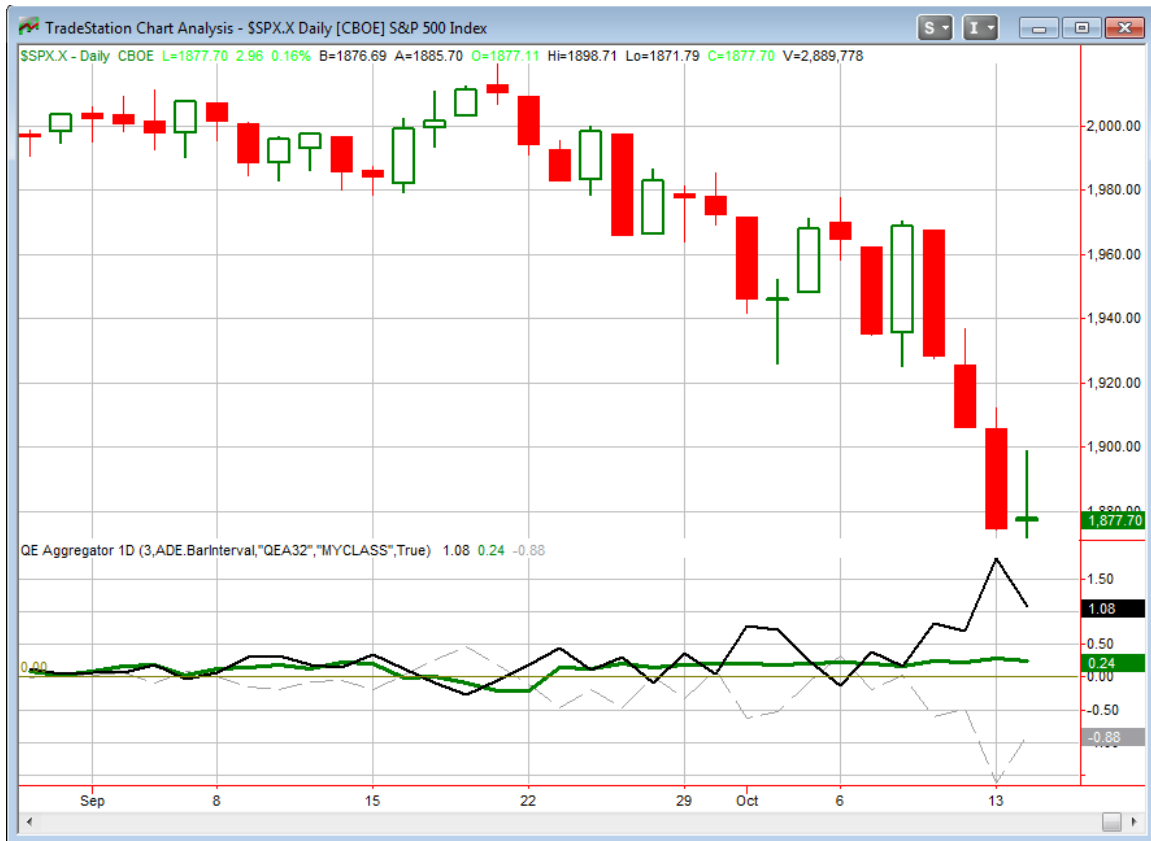
Yesterday SPX closed at a 50-day low. Today it rises on the highest NYSE volume in 10 days. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,460.52	40	27	13	67.50	2,418.29	10,340.00	-3,294.88	-11,026.82	0.73	1.52	561.51
4	31,288.48	40	24	16	60.00	2,743.28	11,930.04	-2,159.39	-6,936.99	1.27	1.91	782.21
3	22,555.89	41	24	17	58.54	2,466.03	10,868.60	-2,154.64	-11,129.52	1.14	1.62	550.14
2	21,860.50	43	25	18	58.14	1,734.27	7,112.64	-1,194.23	-4,815.84	1.45	2.02	508.38
1	19,821.15	43	24	19	55.81	1,861.39	9,089.88	-1,308.01	-4,761.33	1.42	1.80	460.96

The stats here appear to favor follow-through over the next couple of weeks. Much of the edge has come in the 1st 4 days. Below is an equity curve using a 4-day holding period.



We see a good amount of chop here but the bullish edge still appears to be in force.

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



With tonight's studies taken into account the green Aggregator Line held firmly 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 still very far above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are slated to remain bullish on Wednesday. It would take very strong bearish evidence in order to change that. The Differential Pivot will be 1917.38 on Wednesday. That is a 2.1% above Tuesday's close. It is pretty unlikely the market will rally that much on Wednesday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence continues to mount in favor of a bounce. And the CBI continues to rise as well. As you'll see in the Catapult & CBI section below there were 6 more triggers today, including 4 new individual issues. It is certainly a volatile environment, and a decent bounce has been hard to come by. Oversold can always get more oversold, but the likelihood of a short-term rally emerging in the next few days seems much higher than a

continued drop. I am long and looking to take advantage of this expected bounce. I will look to add a bit more exposure on Wednesday with the new Catapult trades.

It has been noted by a few readers that most of the Catapult signals have come from the energy sector. They have also questioned whether this is less desirable than a high CBI with participation across a wider number of sectors. I would prefer to see the towel being thrown in by more sectors, rather than having such an energy concentration. But it is not unusual for one or two sectors to dominate the CBI. The only instance I can recall where it became especially frustrating was during the financials meltdown in 2008. That was much, much worse though. Banks were not just capitulating – they were going bankrupt. I believe risks then were substantially higher.

Overall, the current pullback, for both the broad market and the individual Catapult triggers, has been worse than anything we have seen for the last few years. But it appears much tamer than many other selloffs I have traded through (2001, 2002, 2008 & 2011 for instance). And I believe holding the present course is still the best course of action for me. I like the odds of a bounce and I want to have a good amount of exposure when it arrives.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/13 – neutral

The intermediate-term outlook was last updated in the 10/13/14 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

DVN – 1/3 @ \$64.82 (bought @ \$64.51)

APA – 1/3 @ \$86.19 (bought @ \$85.46)

DVN – 1/3 @ \$63.61 (bought)

APA – 1/3 @ \$84.21 (bought)

F – 1/3 @ \$14.10 (bought)

APA – 1/3 @ \$81.88 (bought) – 3rd & final trigger

NOV – 1/3 @ \$71.34 (bought)

NOV – 1/3 @ \$68.05 – (buy @ limit) 2nd lot

APC – 1/3 @ \$85.25 (buy @ limit) 1st lot

HAL – 1/3 @ \$50.26 (buy @ limit) 1st lot

WMB – 1/3 @ \$47.89 (buy @ limit) 1st lot

DVN – 1/3 @ \$56.56 (buy @ limit) 3rd lot

New

OXY – 1/3 @ \$86.55 – (buy @ limit) 1st lot

APC – 1/3 @ \$84.66 (buy @ limit) 2nd lot

HAL – 1/3 @ \$49.63 (buy @ limit) 2nd lot

DOW – 1/3 @ \$43.93 (buy @ limit) 1st lot

COP – 1/3 @ \$66.20 (buy @ limit) 1st lot

SLB – 1/3 @ \$88.96 (buy @ limit) 1st lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 18/11(DVN-3, APA-3, F, NOV-2, APC-2, HAL-2, WMB, OXY, DOW, COP, SLB)

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.

OXY – buy 1/3 Catapult position @ \$86.55 LIMIT. From the Catapult section above. This is the 1st of a possible 3 lots.

DOW – buy 1/3 Catapult position @ \$43.93 LIMIT. From the Catapult section above. This is the 1st of a possible 3 lots.

COP – Buy 1/3 Catapult position @ \$66.20 LIMIT. From the Catapult section above. This is the 1st of a possible 3 lots.

HAL – Buy 1/3 Catapult position @ \$49.63 LIMIT. From the Catapult section above. This is the 2nd of a possible 3 lots.

APC – Buy 1/3 Catapult position @ \$84.66 LIMIT. From the Catapult section above. This is the 2nd of a possible 3 lots.

SLB – Buy 1/3 Catapult position @ \$88.96 LIMIT. From the Catapult section above. This is the 1st of a possible 3 lots.

Subscribers that are new to Catapults or would like to learn more about this strategy should check out the Catapult System page on the website. There is a link to a detailed video about the system there near the top of the page, as well as other resources.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APA(1/3)	10/7/2014	\$85.46	\$74.40	-12.94%		Catapult
DVN(1/3)	10/7/2014	\$64.51	\$55.25	-14.35%		Catapult
APA(1/3)	10/8/2014	\$83.77	\$74.40	-11.19%		Catapult
DVN(1/3)	10/8/2014	\$63.22	\$55.25	-12.61%		Catapult
F(1/3)	10/8/2014	\$14.07	\$13.78	-2.06%		Catapult
SPY(1/4)	10/8/2014	\$193.26	\$187.70	-2.88%		Aggregator
APA(1/3)	10/10/2014	\$81.48	\$74.40	-8.69%		Catapult
NOV(1/3)	10/10/2014	\$71.34	\$68.50	-3.98%		Catapult
SPY(1/4)	10/10/2014	\$190.54	\$187.70	-1.49%		Aggregator
APC(1/3)	10/14/2014	\$85.25	\$84.66	-0.69%		Catapult
WMB(1/3)	10/14/2014	\$47.89	\$47.92	0.06%		Catapult
HAL(1/3)	10/14/2014	\$50.26	\$49.63	-1.25%		Catapult
NOV(1/3)	10/14/2014	\$68.05	\$68.50	0.66%		Catapult
DVN(1/3)	10/14/2014	\$56.56	\$55.25	-2.32%		Catapult
SPY(1/4)	10/14/2014	\$187.50	\$187.70	0.11%		Aggregator

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