

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 23, 2014

Volume 7 Issue 201

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

## Tonight's Research Points

- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are now positive but the market remains overbought. This is not a great setup for new entries, as risk is elevated. Therefore I am neutral and awaiting the next compelling trading opportunity.

**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>						
October 23, 2014	3 higher highs, lows, closes. Down close.	1-4 days	Bullish	1.40%	-0.75%	-1.50%
October 22, 2014	SPX up 1%. UUP up 0.5%	1-2 days	Bearish	0.90%	-2.50%	
October 22, 2014	FTD low vol strong breadth	1-10 days	Bullish	4.10%	-2.80%	-4.30%
October 22, 2014	4 up from 50-low. RSI rises 85	1-4 days	Bullish	2.90%	-2.60%	-5.00%
October 21, 2014	Low vol, low range > 10 < 200ma	1-4 days	Bearish			
October 21, 2014	SPX up 3 from 50-low. Close < 200ma	1-3 days	Bullish			
October 20, 2014	SPY low Vol opex. VIX low 5.	1-4 days	Bearish			
<b>Active - Long Term</b>						
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%
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			

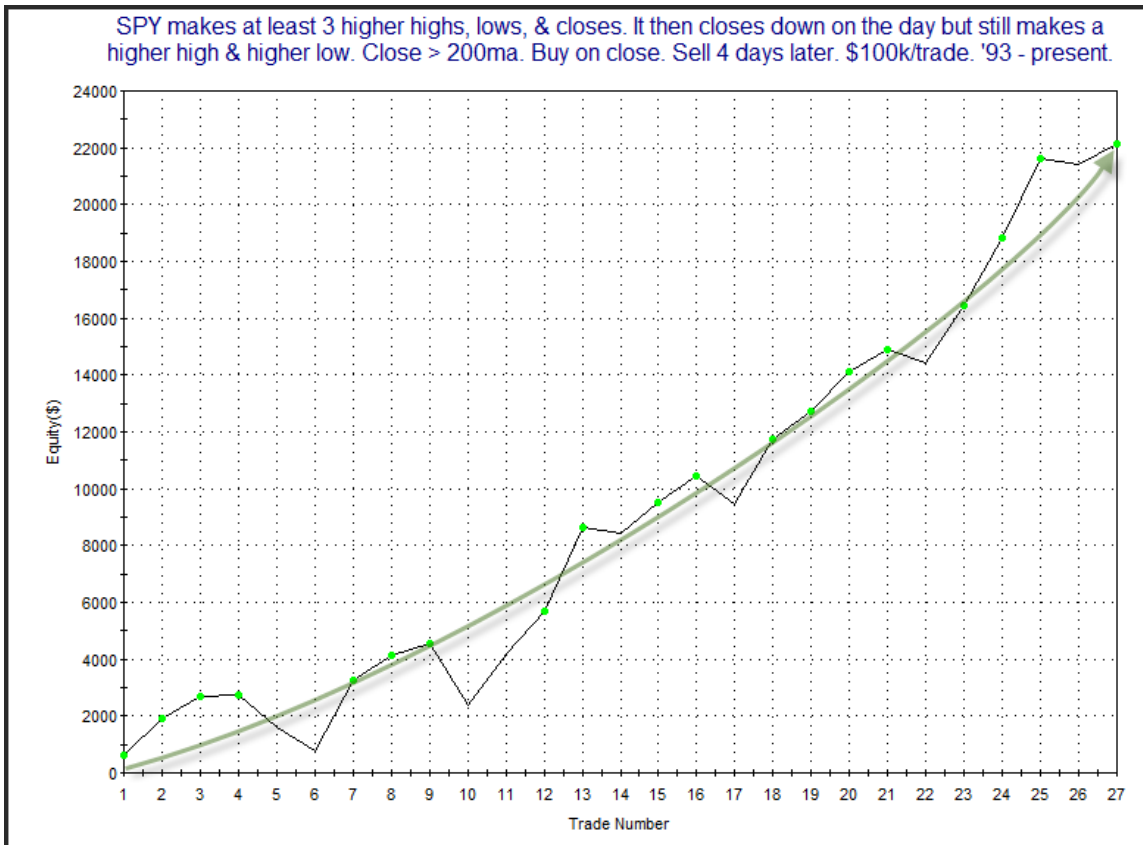
**The Evidence**

After a strong bounce over the last 4 days the market pulled back some on Wednesday. The SPX declined 0.7%, the NASDAQ fell 0.8% and, the Russell 2000 dropped 1.4%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 21%. Total NYSE volume declined from Tuesday's level.

While SPY pulled back some on Wednesday, it did manage to register a higher high and a higher low. The study below was last seen in the 5/29/14 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, lows, & closes. It then closes down on the day but still makes a higher high & higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. '93 - 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	17,534.19	27	17	10	62.96	1,576.89	3,602.64	-927.29	-2,800.26	1.70	2.89	649.41
4	22,155.79	27	20	7	74.07	1,406.05	2,958.05	-852.18	-2,191.22	1.65	4.71	820.58
3	13,145.37	27	19	8	70.37	1,035.76	2,762.41	-816.75	-2,640.33	1.27	3.01	486.87
2	8,976.56	27	21	5	77.78	691.73	2,073.28	-1,109.97	-1,804.67	0.62	2.62	332.47
1	6,552.22	27	19	8	70.37	488.67	1,395.93	-341.55	-1,137.92	1.43	3.40	242.67

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study certainly appears worthy of consideration and I have included it on the Active List.

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



With tonight's study taken into account the green Aggregator Line moved up through 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 below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Thursday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 1909.47 on Thursday. That is 0.9% below Wednesday's close. So for the SPX to move from overbought to oversold versus expectations on Thursday it is going to need to close down at least 0.9%.

The Aggregator is neutral and so am I at this point. If forced to choose, I would side with the studies here. I believe the market is more likely to move higher over the next several days than it is to move lower. But I do not find the evidence to be strongly compelling. And with the market already overbought, reward/risk just does not appear favorable. I intend to wait until it does appear favorable before putting new capital to work.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/20 – neutral***

The intermediate-term outlook was last updated in the 10/20/14 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***

*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
<i>APA(1/3)</i>	<i>10/10/2014</i>	<i>\$81.48</i>	<i>\$75.48</i>	<i>-7.36%</i>		<i>sold on open</i>
<i>MDLZ(1/3)</i>	<i>10/17/2014</i>	<i>\$32.04</i>	<i>\$33.64</i>	<i>4.99%</i>		<i>sold on open</i>

*Both positions were sold at the open as per last night's subscriber letter.*

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