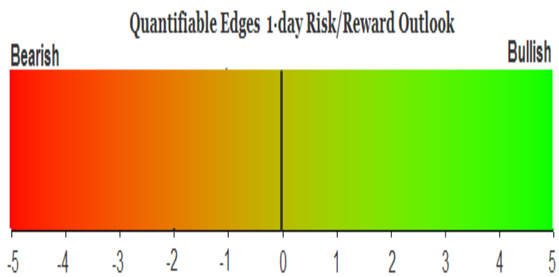
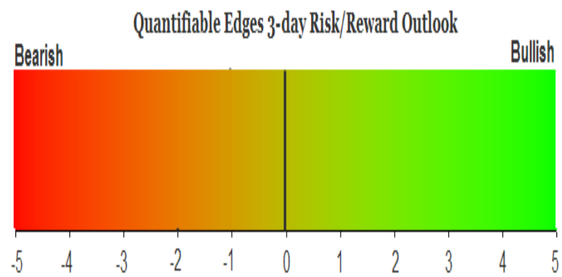
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 30, 2014 Volume 7 Issue 206

Market Overview





Signals Overview

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

Tonight's Research Points

- The failure to pull back over the last 2 days means it may be a while before we see a real pullback..

Short-term Outlook
The Bottom Line
Expectations remain positive, but the market is still overbought. I am neutral and waiting for a better setup before jumping back in.

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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 28, 2014	Tues-Fri after 4th Fri in October	1-4 days	Bullish			
October 22, 2014	FTD low vol strong breadth	1-10 days	Bullish	4.10%	-2.80%	-4.30%
Active - Long Term						
October 30, 2014	VXO > 15% < 10ma 3 days thn no drop	1-20 days	Bullish	3.50%	-0.70%	-1.30%
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
October 22, 2014	Follow Through Day on Strong Breadth	int term	Bullish			
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

Wednesday's Fed announcement caused some volatility but the net results of the day don't look like much. The SPX fell 0.1% while the NASDAQ and the Russell 2000 each fell 0.3%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 39%. Total NYSE volume rose for the 3rd day in a row.

The price action and indicators we follow did not generate anything new and substantial. The big story instead was that the Fed declared we are at the end of its QE program. This was expected, so the relative non-reaction of the market is not terribly surprising. I'll write more about the significance of the end of quantitative easing in this weekend's letter. But the bottom line for me is that it has been many years since the market has been able to mount a sustained rally without being backed by the Fed. Liquidity will not be as plentiful and that could create vacuums when prices begin to drop. I expect larger swings and deeper corrections to be a result of this.

One bit of possible bullish news is related to a study I showed in Monday night's letter. There I examined times the VXO (old VIX measurement) was stretched more than 15% below its 10ma for 3 days in a row. Below I have copied the results table I shared in that letter.

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VXO closes 15% below its 10ma for exactly the 3rd day in a row. Buy SPX on close. Sell X days later. $100k/trade. 1987 - 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	-22,094.34	26	14	12	53.85	885.56	2,073.06	-2,874.35	-10,448.88	0.31	0.36	-849.78
4	-16,449.11	26	14	12	53.85	857.89	2,331.45	-2,371.64	-5,673.45	0.36	0.42	-632.66
3	-11,864.54	26	13	13	50.00	1,044.78	1,904.75	-1,957.43	-8,395.18	0.53	0.53	-456.33
2	-14,190.45	26	8	18	30.77	993.57	1,737.55	-1,229.95	-5,164.42	0.81	0.36	-545.79
1	-14,511.19	26	8	18	30.77	666.40	1,990.25	-1,102.35	-4,980.56	0.60	0.27	-558.12

Just 6 instances failed to closed below the entry price on either Day 1 or Day 2. All 6 continued higher and did not post a close below the entry price at any time in the next month. The 6 instances triggered on 7/18/94, 10/19/98, 10/2/01, 10/18/13, 2/12/14 & 8/15/14.

While the overall results appear bearish, the not at the bottom is what is coming into play now. This is just the 7th time the market did not pull back over the next 1-2 days. The other 6 have all led to a continued move higher. And 20 days out from this point the average of gain of the 6 instances was an additional rise of 2.5%. That is a small sample size, so I would not put too much faith in it. But it's at least notable – so I have noted it.

I have updated the Aggregator chart below.

With tonight's studies taken into account the green Aggregator Line again stayed 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 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 stayed 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 1969.68 on Thursday. That is 0.6% 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 0.6%.

Wednesday's Fed announcement did nothing to change the short-term outlook. The market is still overbought. Expectations are still positive. I am still wary of risk/reward here and would prefer a better setup before putting new capital to work. So I will remain sidelined and patient. It is never too long before another opportunity arises. I'll wait for that.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/27 – somewhat bullish

The intermediate-term outlook was last updated in the 10/27 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

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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

None

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