

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 31, 2014

Volume 7 Issue 207

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The gap down and reversal to a 10-day high hinted at a pullback over the next couple of days.
- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.

## *Short-term Outlook*

### *The Bottom Line*

Similar to last night, expectations remain positive (despite a couple of bearish studies tonight). But the market is still overbought. I am neutral and waiting for a better setup before jumping back in.

**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 31, 2014	Gap up reverse. Gap dn reverse 10-high	1-2 days	Bearish			
October 31, 2014	10 days > 5ma. 10-day high	1-2 days	Bearish			
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%
<b>Active - Long Term</b>						
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			

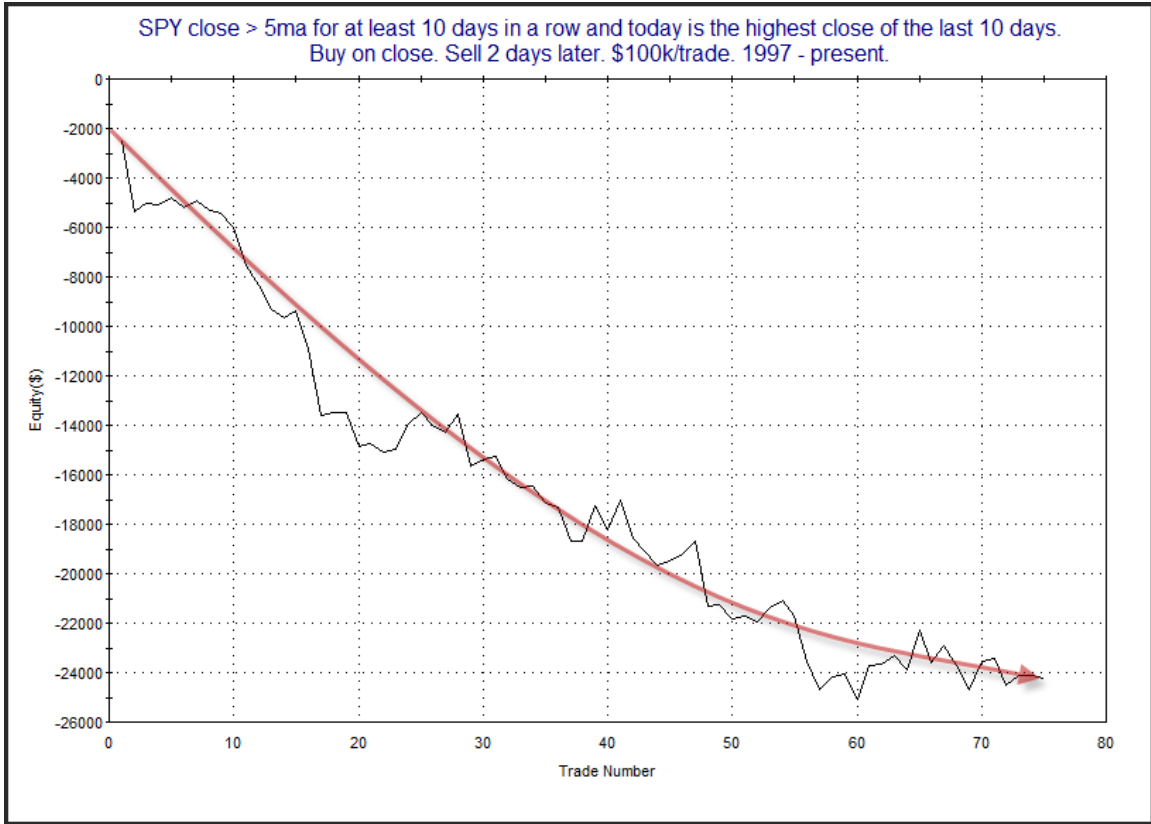
**The Evidence**

The market put in some gains on Thursday. The SPX rose 0.6%, the NASDAQ gained 0.4% and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % came in at 63% and the Up Volume % was 61%. Total NYSE volume fell from the levels of the last few days.

It has been a persistent move higher lately since the market bottomed mid-month. SPY has now gone 10 days without closing below its 5ma. The study below was last seen in the 9/2/14 subscriber letter. It looks at other instances in which the market traded above the 5ma for at least 2 weeks and closed at a 10-day high. I have updated the results.

SPY close > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-12,399.25	49	26	23	53.06	714.77	2,516.52	-1,347.10	-4,014.40	0.53	0.60	-253.05
4	-17,946.90	54	23	31	42.59	664.53	1,428.90	-1,071.97	-3,723.20	0.62	0.46	-332.35
3	-18,442.87	63	26	37	41.27	643.19	1,790.80	-950.43	-3,235.65	0.68	0.48	-292.74
2	-24,222.24	75	34	40	45.33	449.52	1,608.38	-987.65	-2,870.40	0.46	0.39	-322.96
1	-21,470.46	106	46	60	43.40	328.44	1,361.25	-609.65	-2,817.32	0.54	0.41	-202.55

In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. This seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



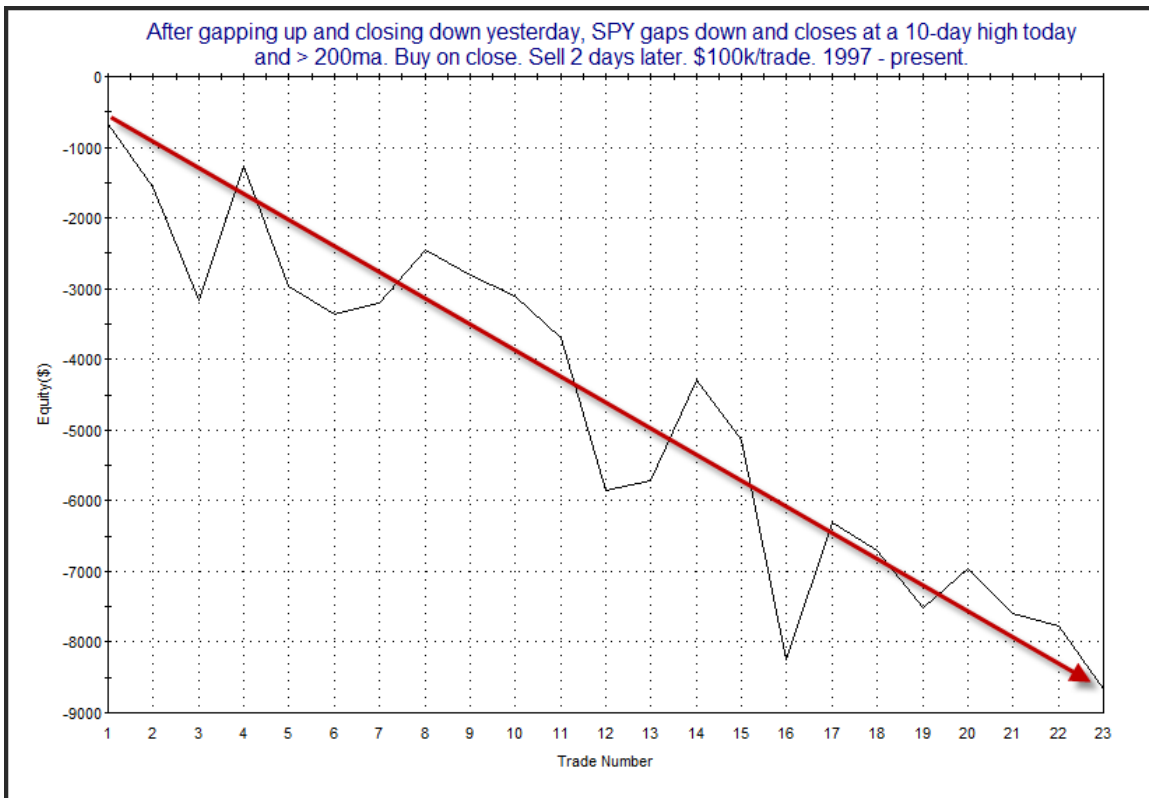
The line may be flattening out a bit here, but I think it is too soon to throw away this study. It has generally headed from upper left to lower right for a long time and certainly appears worthy of consideration. I have added this study to the Active List tonight.

This next study saw Thursday's "gap and reverse" as a potential negative. It noted that after gapping up and reversing down on Wednesday, SPY gapped down and reversed up on Thursday, closing at a new 10-day high. The study was last seen in the 9/8/14 Subscriber Letter. I have updated the results.

After gapping up and closing down yesterday, SPY gaps down and closes at a 10-day high today and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

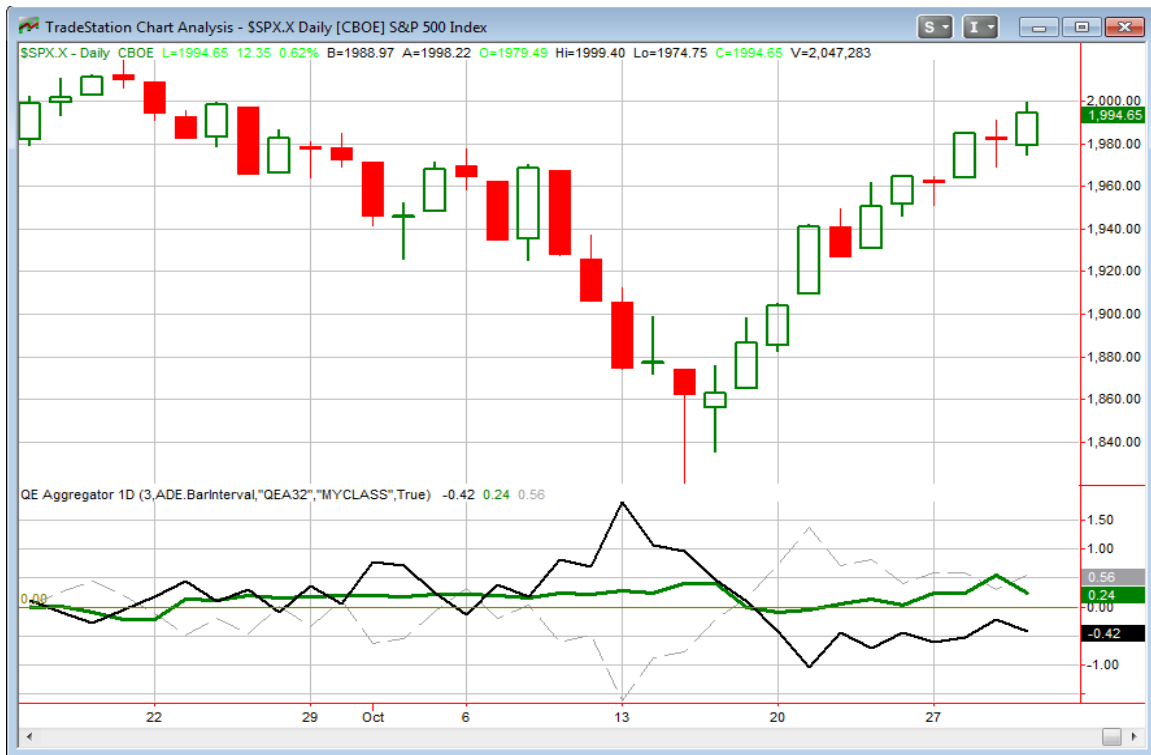
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,703.44	22	9	13	40.91	1,088.55	1,775.87	-1,884.65	-6,714.00	0.58	0.40	-668.34
4	-15,379.52	22	8	14	36.36	996.63	1,803.51	-1,668.04	-4,267.12	0.60	0.34	-699.07
3	-8,631.82	23	11	12	47.83	911.21	2,657.93	-1,554.59	-4,244.74	0.59	0.54	-375.30
2	-8,672.59	23	7	16	30.43	979.69	1,935.96	-970.65	-3,107.14	1.01	0.44	-377.07
1	-1,934.20	23	10	13	43.48	519.13	2,409.00	-548.12	-1,388.76	0.95	0.73	-84.10

The numbers here look somewhat bearish, with much of the damage being done by day 2. I also produced a profit curve assuming a 2-day holding period.



There is a bit of chop in this curve but the overall slope seems good enough to warrant consideration. I also included this study on the Short-Term Active List.

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



Even 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 Friday. Of course that could change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1995.41 on Friday. That is less than 1 point *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to close up nearly 1 point in order to remain overbought. A flat or down close would leave it "oversold" versus expectations Friday afternoon.

Not a lot to say here. I still do not find the setup appealing. Tonight's bearish evidence indicated a quick pullback could easily happen. But with some bullish studies already on the board, these new studies were not strong enough to swing net expectations bearish. And with the Differential Pivot inverted, the downside opportunity does not have much shelf-life. I'm not interested in going long because the market is still overextended. So I'll let the market do its thing on Friday and re-evaluate over the weekend.

***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***

**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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