

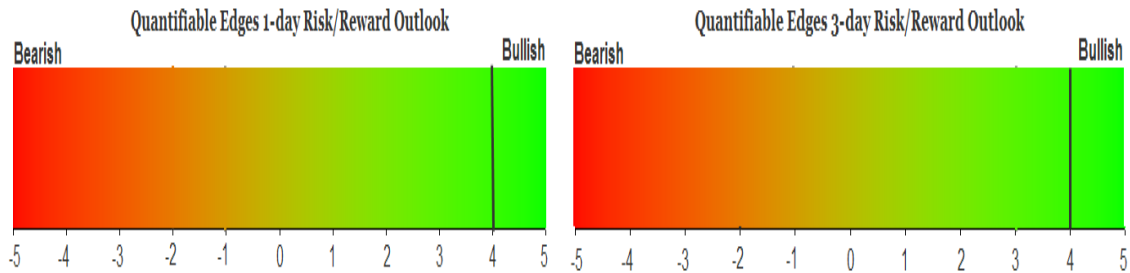
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2014

Volume 7 Issue 238

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Continued closes in near the bottom of the daily range are suggesting a short-term bullish edge.
- The high CBI reading is suggesting a bounce is likely.
- 20-day lows have often been followed by bounces – especially if the low occurs on Monday.
- Wednesday's Fed day edge could be highly dependent on Tuesday's action.

## *Short-term Outlook*

### *The Bottom Line*

Evidence for a bounce continues to build. I am long and looking to get longer.

**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>						
December 16, 2014	CBI >= 7. SPX > 200ma.	1-5 days	Bullish			
December 16, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish			
December 16, 2014	20-day low on a Monday	1-4 days	Bullish			
December 15, 2014	Unfilled gap up. Unfill gap dn < 2 ago.	1-3 days	Bearish			
December 15, 2014	Big drop on Friday	1-6 days	Bullish	2.50%	-1.70%	-3.70%
December 15, 2014	Dn 1.5% 2x in 5 days	1-7 days	Bullish	3.50%	-1.90%	-4.40%
December 15, 2014	Oversold into Most Wonderful Week	1-6 days	Bullish	2.35%	-1.10%	-2.10%
December 12, 2014	VIX up 6%. SPX up. Not Monday.	1-3 days	Bullish			
December 11, 2014	30+ days over 10-low then 10lo, hi ADX	1-4 days	Bullish			
<b>Active - Long Term</b>						
December 15, 2014	End of Yr. Strength & January Effect	thru Jan 2	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
December 5, 2014	10-high outside day w/ down close > 20d	1-11 days	Bullish	2.00%	-2.00%	-4.20%
December 2, 2014	1st day under 10ma in over 25 days	1-20 days	Bullish	4.74%	-0.35%	-0.65%
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
<b>Dropped Tonight</b>						
December 15, 2014	20low. Up day. 20-low.	1 day	Bullish			

**The Evidence**

The market again tried to bounce on Monday but failed miserably. The SPX fell 0.6%, the NASDAQ lost 1.0%, and the Russell 2000 declined 1.1%. Breadth was strongly negative as the NYSE Up Issues % came in at 25% and the Up Volume % was 19%. Total NYSE volume again hit a high level.

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. This study was last seen in the 10/15/14 letter and has been updated.

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	37,991.24	14	13	1	92.86	2,964.45	13,737.50	-546.65	-546.65	5.42	70.50	2,713.66
4	25,001.69	14	13	1	92.86	2,138.35	12,275.00	-2,796.92	-2,796.92	0.76	9.94	1,785.83
3	17,890.15	14	10	4	71.43	2,115.89	7,062.50	-817.19	-1,641.05	2.59	6.47	1,277.87
2	8,934.34	14	8	6	57.14	1,701.05	5,062.50	-779.01	-1,812.29	2.18	2.91	638.17
1	11,001.91	14	9	5	64.29	1,700.65	5,962.50	-860.78	-1,068.60	1.98	3.56	785.85
<b>All 14 instances closed above the entry price at some point in the next week.</b>												

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)
10/14/14	Buy	\$187.70	3.39%	\$3,458.00
10/21/14	Sell	\$194.07		(\$3,074.96)
<b>Avg Run-up: 3.4% Avg Drawdown: -1.6%</b>				

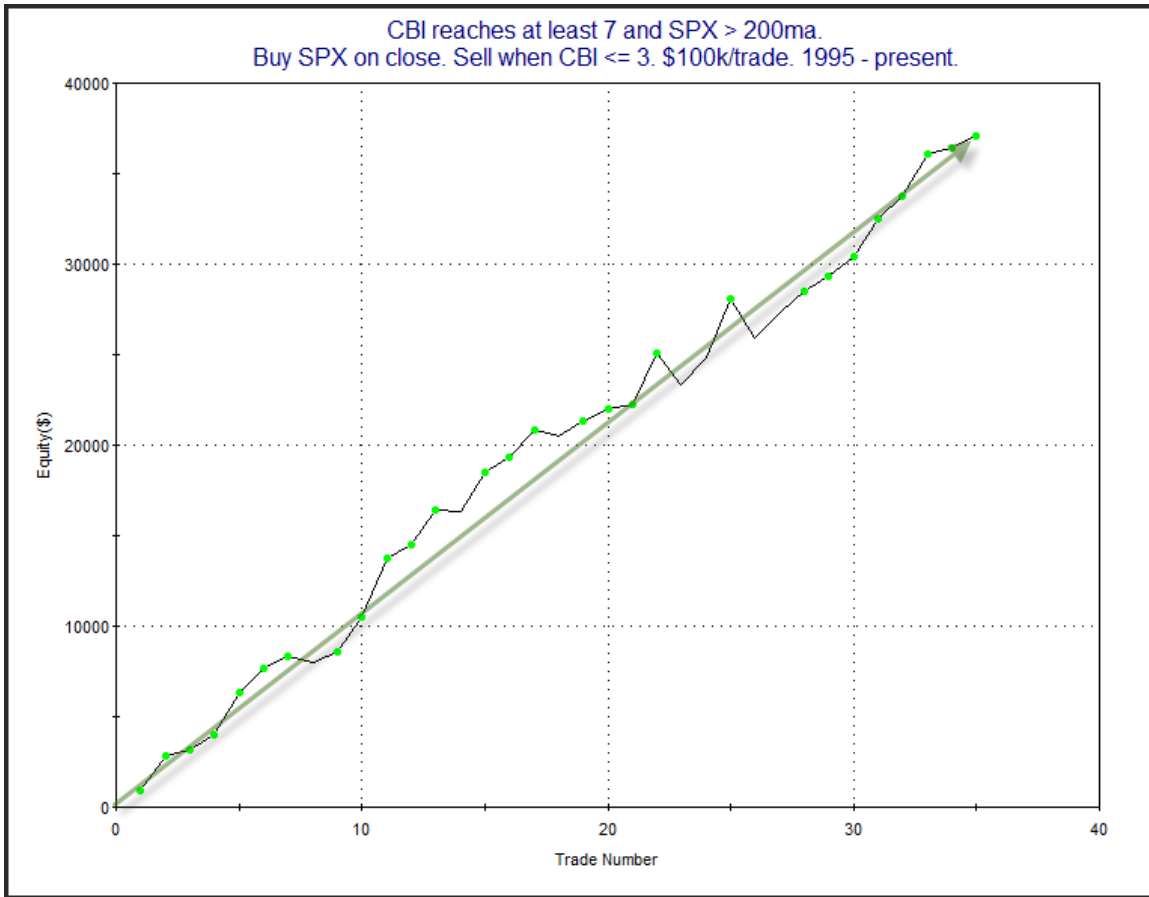
I do not see anything here that alarms me. The bears have owned the afternoons lately. It appears in the next few days the bulls will have their chance, and this study suggests an afternoon that does not go to the bears could turn into a sizable move higher.

One tool I have found to be especially helpful over the years is the Quantifiable Edges Capitulative Breadth Indicator (CBI). [I have published a good number of studies about it](#)

on the blog over the years. CBI readings of 10 or higher have been strong indications that a bottom is likely to occur within a matter of days. But most CBI readings of 10 or higher have occurred when SPX is in a long-term downtrend. When SPX is above its 200ma, lower readings will often be enough to signal a nearby bounce. On Monday the CBI moved up from 5 to 8. In the study below I examined times SPX was above the 200ma and the CBI reached 7 or higher as it did Monday.

CBI reaches at least 7 and SPX > 200ma. Buy SPX on close. Sell when CBI <= 3. \$100k/trade. 1995 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$37,082.58	Profit Factor	8.94
Gross Profit	\$41,753.82	Gross Loss	(\$4,671.24)
Total Number of Trades	35	Percent Profitable	85.71%
Winning Trades	30	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$1,059.50	Ratio Avg. Win:Avg. Loss	1.49
Avg. Winning Trade	\$1,391.79	Avg. Losing Trade	(\$934.25)
Largest Winning Trade	\$3,278.50	Largest Losing Trade	(\$2,178.16)

The numbers here appear strongly bullish. I also ran a profit curve.



The strong, steady upslope serves as confirmation of the upside edge. Lastly, I also looked at the reaction over the next several days after this setup has occurred.

CBI reaches at least 7 and SPX > 200ma.  
Buy SPX 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
5	35,019.25	35	26	9	74.29	1,699.95	3,614.80	-1,019.95	-3,337.95	1.67	4.81	1,000.55
4	27,210.51	35	24	11	68.57	1,528.43	3,172.16	-861.08	-3,351.72	1.78	3.87	777.44
3	13,496.97	35	25	10	71.43	1,045.02	3,278.50	-1,262.86	-3,490.90	0.83	2.07	385.63
2	6,960.82	35	21	14	60.00	961.51	2,137.76	-945.07	-2,726.97	1.02	1.53	198.88
1	7,575.83	35	22	13	62.86	762.88	1,612.80	-708.27	-1,939.20	1.08	1.82	216.45

No matter how I slice it, the CBI of 7 appears to be a substantial positive during long-term uptrends.

Further selling on Tuesday could easily cause the CBI to reach 10 or higher. (And if selling accelerates in the next couple of days we could see a very large spike in the CBI.) Below is a list of all the instances where the CBI closed  $\geq 10$  while SPX was above its 200ma. Like the strategy shown above, this one looks to exit when the CBI returns to 3 or lower.

CBI reaches at least 10 and SPX > 200ma. Buy SPX on close. Sell when CBI $\leq 3$ . \$100k/trade. 1995 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.09%	\$1,116.22
12/19/96	Sell	\$745.77		(\$3,806.94)
04/03/97	Buy	\$750.32	0.59%	\$2,554.93
04/15/97	Sell	\$754.72		(\$2,231.74)
08/14/97	Buy	\$924.77	1.58%	\$1,574.64
08/20/97	Sell	\$939.35		(\$3,394.44)
01/26/00	Buy	\$1,404.09	0.37%	\$1,048.67
02/01/00	Sell	\$1,409.28		(\$3,836.84)
02/02/04	Buy	\$1,135.26	0.40%	\$809.60
02/09/04	Sell	\$1,139.81		(\$952.16)
03/23/05	Buy	\$1,172.53	0.76%	\$765.85
03/30/05	Sell	\$1,181.41		(\$751.40)
03/05/07	Buy	\$1,374.12	2.36%	\$2,594.16
03/12/07	Sell	\$1,406.60		\$0.00
03/17/11	Buy	\$1,273.72	1.94%	\$2,095.08
03/21/11	Sell	\$1,298.38		\$0.00
05/18/12	Buy	\$1,295.22	1.97%	\$2,561.79
05/24/12	Sell	\$1,320.68		\$0.00
02/05/14	Buy	\$1,751.64	2.59%	\$2,644.23
02/07/14	Sell	\$1,797.02		\$0.00
08/01/14	Buy	\$1,925.15	0.61%	\$1,007.25
08/11/14	Sell	\$1,936.92		(\$1,038.87)

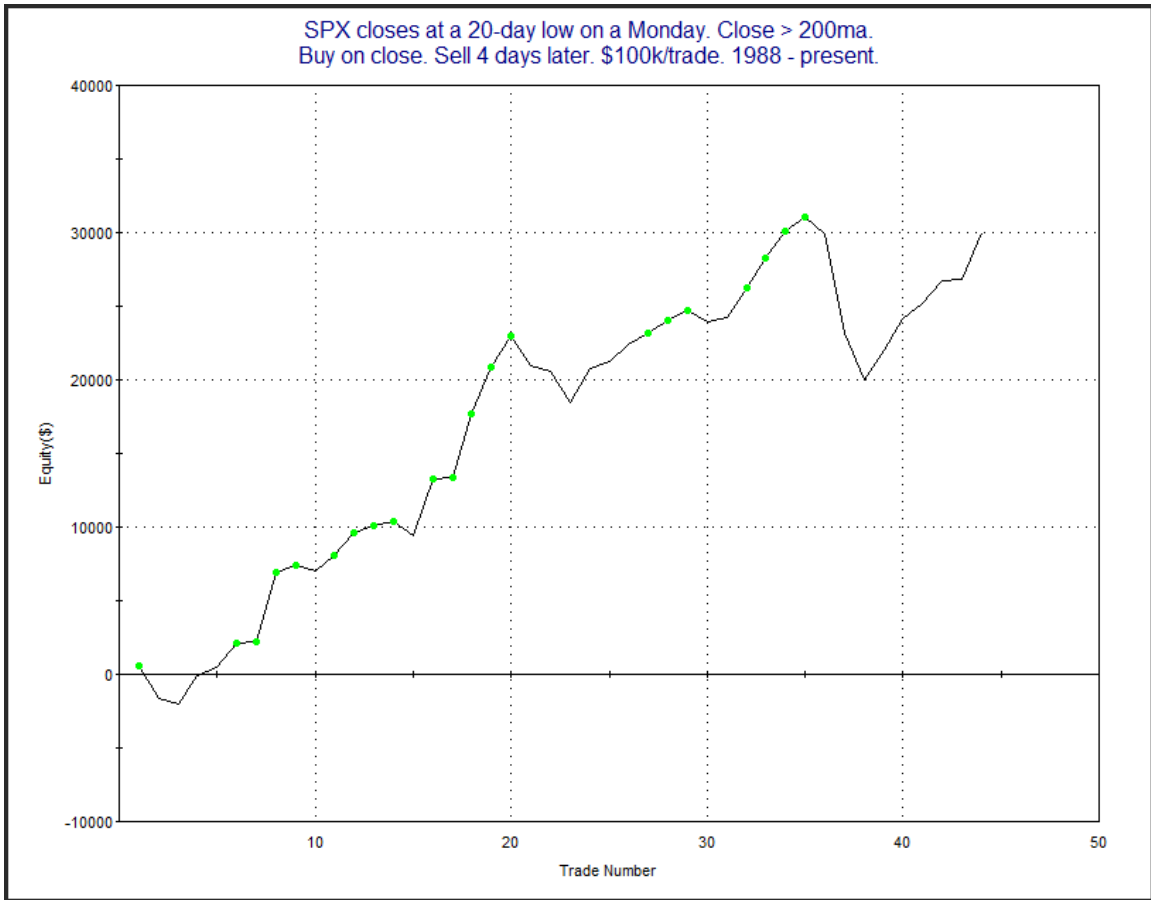
Only 11 instances, but the perfect record is impressive. Overall these studies suggest the CBI is a strong positive now. And if the market collapses further in the next few days, that may just increase the size of the potential rebound when the bounce does occur.

On another note, [Tuesday's have a well-earned reputation for being days where bounces tend to begin](#). The study below is from the 1/28/14 letter. It examined other times that the SPX closed at a 20-day low on a Monday. Results have been updated.

SPX closes at a 20-day low on a Monday. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	29,273.24	44	29	15	65.91	2,225.07	7,070.28	-2,350.25	-12,895.96	0.95	1.83	665.30
4	29,967.92	44	33	11	75.00	1,525.86	4,690.50	-1,853.22	-6,742.12	0.82	2.47	681.09
3	24,114.06	44	32	12	72.73	1,363.16	3,940.55	-1,625.58	-6,688.99	0.84	2.24	548.05
2	18,709.66	44	28	16	63.64	1,205.55	4,809.66	-940.36	-2,760.78	1.28	2.24	425.22
1	10,454.75	44	28	16	63.64	867.75	5,117.46	-865.14	-3,588.48	1.00	1.76	237.61


Stats here appear strongly bullish. Below is a profit curve using a 4-day exit strategy.




There were 3 trades that failed miserably in 2011-2012, changing the shape of the curve. But since that time there have been 6 winning trades in a row. And at this point the profit curve is nearly back to new highs. So the study seems worth taking into consideration.

Lastly, it is also notable is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 10/28/14 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$7,905.35	Profit Factor		1.35
Gross Profit	\$30,206.06	Gross Loss		(\$22,300.71)
Total Number of Trades	71	Percent Profitable		47.89%
Winning Trades	34	Losing Trades		35
Even Trades	2			
Avg. Trade Net Profit	\$111.34	Ratio Avg. Win:Avg. Loss		1.39
Avg. Winning Trade	\$888.41	Avg. Losing Trade		(\$637.16)
Largest Winning Trade	\$2,238.25	Largest Losing Trade		(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 present.

TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$13,888.50	Profit Factor		2.08
Gross Profit	\$26,710.49	Gross Loss		(\$12,821.99)
Total Number of Trades	38	Percent Profitable		57.89%
Winning Trades	22	Losing Trades		15
Even Trades	1			
Avg. Trade Net Profit	\$365.49	Ratio Avg. Win:Avg. Loss		1.42
Avg. Winning Trade	\$1,214.11	Avg. Losing Trade		(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

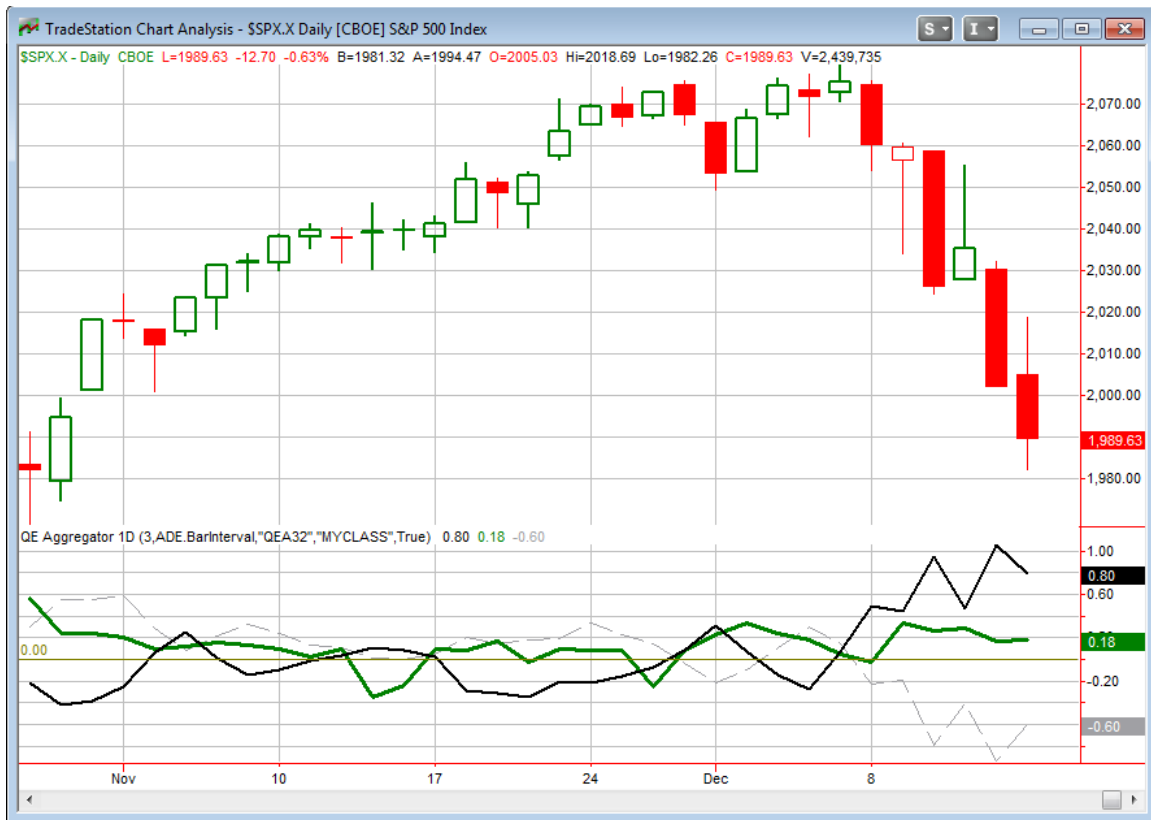
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$12,043.90	Profit Factor	2.76
Gross Profit	\$18,895.86	Gross Loss	(\$6,851.96)
Total Number of Trades	29	Percent Profitable	72.41%
Winning Trades	21	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$415.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$899.80	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in the bottom 25% of the daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$20,567.48	Profit Factor	4.08
Gross Profit	\$27,250.17	Gross Loss	(\$6,682.69)
Total Number of Trades	36	Percent Profitable	75.00%
Winning Trades	27	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$571.32	Ratio Avg. Win:Avg. Loss	1.36
Avg. Winning Trade	\$1,009.27	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 4 ½ years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additionally volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider removing some exposure ahead of the Wednesday afternoon announcement.

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



With tonight's studies taken into account the green Aggregator Line stayed far 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 also strongly above 0. The positive Differential Line reading means the SPX is considered 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. This is highly unlikely to change. The Differential Pivot will be 2052.41 on Tuesday. This is a whopping 3.2% above Monday's close. That kind of gain is extremely unlikely to occur on Tuesday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

Bullish evidence continues to mount. And though it has not mattered so far, it will at some point. Based on what I am seeing, it appears that point is near. I am already fairly long, but I will look to ramp up exposure even further on Tuesday if the market does not run away from me before I get filled. And with the Fed Day on Wednesday, I will likely add more if there appears to be fear (and selling) into the close. Details are in the Trade Ideas section at the bottom of the letter.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/15 – somewhat bullish***

The intermediate-term outlook was last updated in the 12/15 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***

F @ \$15.16 (bought 1/3 @ limit)

FCX @ \$22.98 (buy 1/3 @ limit)

FCX @ \$21.78 (buy 1/3 @ limit)

PFE @ \$30.95 (buy 1/3 @ limit)

ABBV @ \$65.27 (buy 1/3 @ limit)

***New***

FCX @ \$21.03 (buy 1/3 @ limit) – final lot

PFE @ \$30.86 (buy 1/3 @ limit) – 2<sup>nd</sup> lot

WMB @ \$42.14 (buy 1/3 @ limit)

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 8/5(F, FCX-3, PFE-2, ABBV, WMB)***

**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.*

**FCX – buy 1/3 Catapult position @ \$21.03 LIMIT.** From the Catapult section above. This is the 3<sup>rd</sup> and final possible lot for this Catapult trade.

**PFE – buy 1/3 Catapult position @ \$30.86 LIMIT.** From the Catapult section above. This is the 2<sup>nd</sup> of 3 possible lots for this Catapult trade.

**WMB – buy 1/3 Catapult position @ \$42.14 LIMIT.** From the Catapult section above. This is the 1<sup>st</sup> of 3 possible lots for this Catapult trade.

More about Catapults can be found on [the Catapult System page](#) on the website..

**SPY – buy 1/4 index position @ \$199.51 LIMIT.** Based on the short-term outlook above, I will look to take a 3<sup>rd</sup> lot of SPY (out of 4 possible) if I can get filled at a price equal to Monday’s close.

**SPY – buy 1/4 index position @ \$198.75 LIMIT ON CLOSE IF SPY ALSO CLOSSES IN THE BOTTOM HALF OF ITS DAILY RANGE.** Further selling will likely cause the CBI to rise to 10 or higher. Additionally, a poor close ahead of a Fed Day also carries an upside edge. So if SPY falls this low and also closes poorly, I will be all-in on my index position.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/10/2014	\$205.91	\$199.51	-3.11%		Aggregator
XIV(1/2)	12/10/2014	\$37.21	\$30.87	-17.04%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$30.87	-9.29%		Aggressive VIX
F(1/3)	12/11/2014	\$15.16	\$14.28	-5.80%		Catapult
FCX(1/3)	12/12/2014	\$22.98	\$21.03	-8.49%		Catapult
FCX(1/3)	12/15/2014	\$21.78	\$21.03	-3.44%		Catapult
PFE(1/)	12/15/2014	\$30.95	\$30.86	-0.29%		Catapult
ABBV(1/3)	12/15/2014	\$65.27	\$65.62	0.54%		Catapult
SPY(1/4)	12/15/2014	\$200.89	\$199.51	-0.69%		Aggregator

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