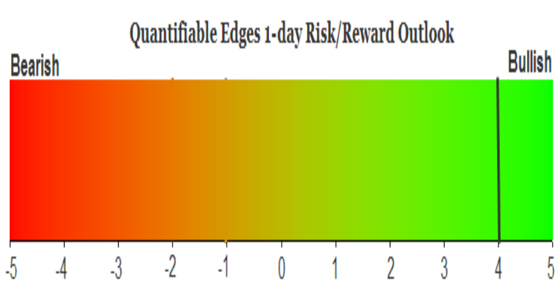
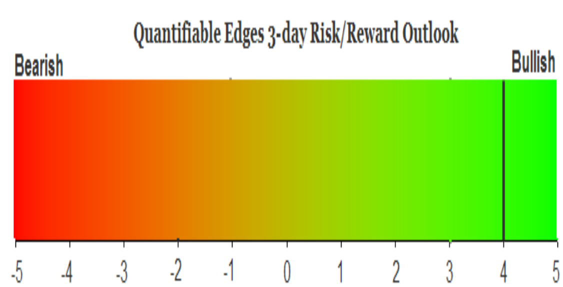
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 2, 2015 Volume 8 Issue 1

Market Overview





Signals Overview

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

Tonight's Research Points

- During uptrends, moves down at the end of the month will often set the market up for an early month bounce.
- Strong 1-day selloffs in between Christmas and New Year's have typically been followed by a sizable bounce.
- When the market has moved from a 50-day high to an 8-day low in just 2 days it has commonly been followed by a bounce.

Short-term Outlook

The Bottom Line

Evidence is bullish, seasonality is strong, and the market is now short-term oversold. This appears to be a setup with favorable reward/risk. I am partially long and may get longer on Friday.

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						
January 2, 2015	50-high to 8-low in 2 days	1-4 days	Bullish	1.50%	-1.00%	-1.80%
January 2, 2015	SPX dn 1% between Chirstmas & New Yr	1-3 days	Bullish	2.30%	-1.05%	-2.10%
January 2, 2015	SPX pullback into month-end	1-4 days	Bullish	1.90%	-1.10%	-2.60%
December 31, 2014	SPX 5-day low > 200. Botm 10%day rng	1-5 days	Bullish			
December 30, 2014	3/10 Offset HV < 0.3 for 4 days	1-4 days	Bullish			
December 29, 2014	SPY unfilled gap breakout	1-5 days	Bullish	1.60%	-1.00%	-1.90%
December 26, 2014	SPY gap up partial reversal 2 days	1-5 days	Bullish			
December 23, 2014	Twas 3 Nights Before Christmas	1-8 days	Bullish	2.70%	-1.00%	-2.00%
December 22, 2014	VIX 10% Above MA to 10% Below	1-8 days	Bullish	2.60%	-1.00%	-2.00%
Active - Long Term						
December 26, 2014	5 up to 50-high then down 1 day	1-10 days	Bullish			
December 19, 2014	Russell strong after Dec opex	1-10 days	Bullish			
December 18, 2014	20-high volume on up day. Not opex	1-10 days	Bullish			
December 18, 2014	20-low to 4-high	1-19 days	Bullish			
December 17, 2014	CBI >= 11.	1-20 days	Bullish			
December 15, 2014	End of Yr. Strength & January Effect	thru Jan 2	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
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			
Dropped Tonight						
December 30, 2014	*SPX 50-high VIX up Mon*	*1-2 days*	*Bearish*			
December 26, 2014	5 up to 50-high then down 1 day	1-4 days	Bullish			

The Evidence

It was a tough way for the market to end 2014 as the major indices all got smacked pretty good. The SPX declined 1.0%, the NASDAQ dropped 0.9%, and the Russell 2000 lost 0.7%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 23%. Total NYSE volume rose some from Tuesday's level.

I have documented many times some strong tendencies for the market to perform well on the 1st day of the month. There were a number of studies that appeared in the Quantifinder along these lines. I'll highlight the two that I found most compelling. The study below is one that looks at what has happened when the market was short-term oversold during a long-term uptrend at the turn of the month. It was last seen in the 6/1/12 letter. All stats are updated.

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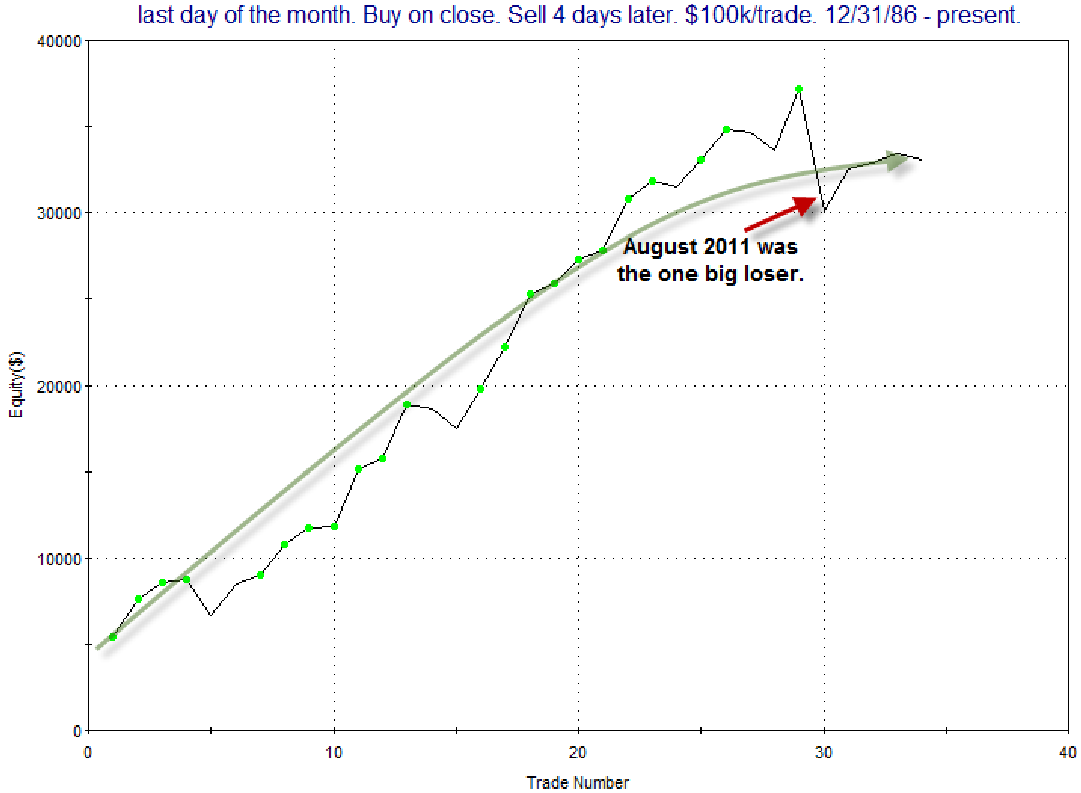
SPX closes down for at least the 2nd day in a row. It closes < 10ma and > 200ma. It is the last day of the month. Buy on close. Sell X days later. $100k/trade. 12/31/86 - present.

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
15	74,079.77	34	28	6	82.35	3,278.70	13,076.88	-2,953.97	-12,993.75	1.11	5.18	2,178.82
14	68,802.54	34	28	6	82.35	3,139.07	10,580.16	-3,181.89	-11,675.51	0.99	4.60	2,023.60
13	72,088.29	34	30	4	88.24	2,874.85	11,074.56	-3,539.28	-7,576.80	0.81	6.09	2,120.24
12	67,373.13	34	29	5	85.29	2,834.84	11,198.16	-2,967.45	-7,663.04	0.96	5.54	1,981.56
11	58,439.42	34	29	5	85.29	2,525.35	9,937.44	-2,959.16	-6,759.83	0.85	4.95	1,718.81
10	50,946.06	34	27	7	79.41	2,526.59	9,607.84	-2,467.42	-8,737.19	1.02	3.95	1,498.41
9	48,208.06	34	26	8	76.47	2,654.95	8,433.64	-2,602.57	-9,212.28	1.02	3.32	1,417.88
8	40,936.22	34	27	7	79.41	2,293.80	7,325.36	-2,999.48	-13,207.04	0.76	2.95	1,204.01
7	40,917.55	34	25	9	73.53	2,382.03	7,473.68	-2,070.34	-9,220.75	1.15	3.20	1,203.46
6	34,099.01	34	25	9	73.53	2,271.20	6,822.72	-2,520.10	-13,307.14	0.90	2.50	1,002.91
5	37,387.67	34	26	8	76.47	2,009.27	6,229.44	-1,856.68	-7,153.30	1.08	3.52	1,099.64
4	33,046.54	34	26	8	76.47	1,751.73	5,426.04	-1,562.32	-7,100.17	1.12	3.64	971.96
3	27,794.74	34	22	12	64.71	1,891.46	4,371.32	-1,151.45	-2,459.38	1.64	3.01	817.49
2	21,978.04	34	24	10	70.59	1,436.34	4,132.36	-1,249.42	-2,995.78	1.15	2.76	646.41
1	14,729.88	34	24	10	70.59	940.13	3,119.10	-783.33	-2,559.62	1.20	2.88	433.23

Results here appear strongly bullish for the early part of the upcoming month, and perhaps even as far out as 13 days. Below is an updated equity curve using a 4-day exit strategy.

SPX closes down for at least the 2nd day in a row. It closes < 10ma and > 200ma. It is the last day of the month. Buy on close. Sell 4 days later. $100k/trade. 12/31/86 - present.



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The August 2011 instance saw a sharp decline. Traders may recall that this was the first time in history in which US debt was downgraded, and the market reacted with a mini-crash. At this point it looks like an anomaly rather than representative of typical behavior. I still like this study and have included it on the Active List.

This next study was seen in the 8/1/14 letter. It looked at times the SPX dropped at least 1% on the last day of the month and closed above its 200ma.

SPX closes down over 1% on the last trading day of the month. Close > 200ma.
Buy on close. Sell next day's close. $100k/trade. 1988 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$8,884.26	Profit Factor	6.85
Gross Profit	$10,403.61	Gross Loss	($1,519.35)
Total Number of Trades	14	Percent Profitable	78.57%
Winning Trades	11	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	$634.59	Ratio Avg. Win:Avg. Loss	1.87
Avg. Winning Trade	$945.78	Avg. Losing Trade	($506.45)
Largest Winning Trade	$2,225.00	Largest Losing Trade	($731.58)

Though the number of instances is low the results again appear bullish. Below is the full list of instances.

SPX closes down over 1% on the last trading day of the month. Close > 200ma. Buy on close. Sell next day's close. $100k/trade. 1988 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
12/31/96	Buy	$740.74	(0.51%)	$279.45
01/02/97	Sell	$736.99		($1,510.65)
03/31/97	Buy	$757.12	0.33%	$576.84
04/01/97	Sell	$759.64		($773.52)
07/31/98	Buy	$1,120.66	(0.73%)	$99.68
08/03/98	Sell	$1,112.44		($914.92)
11/30/98	Buy	$1,163.62	1.00%	$1,042.10
12/01/98	Sell	$1,175.28		($1,132.20)
03/31/99	Buy	$1,286.37	0.57%	$621.39
04/01/99	Sell	$1,293.72		($282.59)
11/30/99	Buy	$1,389.07	0.62%	$784.55
12/01/99	Sell	$1,397.72		($119.99)
09/30/03	Buy	$995.97	2.23%	$2,225.00
10/01/03	Sell	$1,018.22		$0.00
02/28/06	Buy	$1,280.66	0.83%	$868.92
03/01/06	Sell	$1,291.24		$0.00
07/31/07	Buy	$1,455.27	0.72%	$891.48
08/01/07	Sell	$1,465.81		($1,066.24)
10/30/09	Buy	$1,036.19	0.65%	$1,535.04
11/02/09	Sell	$1,042.88		($653.76)
12/31/09	Buy	$1,115.10	1.60%	$1,670.53
01/04/10	Sell	$1,132.99		$0.00
04/30/10	Buy	$1,186.69	1.31%	$1,548.96
05/03/10	Sell	$1,202.26		$0.00
05/31/13	Buy	$1,630.74	0.59%	$590.48
06/03/13	Sell	$1,640.42		($489.22)
07/31/14	Buy	$1,930.67	(0.29%)	$340.68
08/01/14	Sell	$1,925.15		($729.30)

The last instance broke a hot streak, but it does not concern me at this point. This study seems to act as nice confirmation of the "weak close to a month" bullish tendency identified in the 1st study.

Of course "turn of the month" is not the only bullish seasonal force currently in play. As I have been discussing over the last few days, the time between Christmas and New Year's tends to be a very strong seasonal period. (And even through the 1st or 2nd trading day in January). Wednesday was only the 11th time since 1960 that SPX fell greater than 1% on a day during this week. In the 12/31/12 Subscriber Letter I looked at the other instances. I've updated that research tonight as well.

SPX closes down > 1% on a day between Christmas and New Years. Buy on close. Sell X days later. $100k/trade. 1960 - 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	19,061.78	10	8	2	80.00	3,154.79	6,111.54	-3,088.27	-4,331.55	1.02	4.09	1,906.18
4	18,860.75	10	8	2	80.00	2,807.92	4,546.84	-1,801.31	-1,950.37	1.56	6.24	1,886.07
3	15,683.50	10	9	1	90.00	1,959.24	4,042.74	-1,949.70	-1,949.70	1.00	9.04	1,568.35
2	12,750.85	10	9	1	90.00	1,476.17	4,259.29	-534.66	-534.66	2.76	24.85	1,275.08
1	2,054.47	10	7	3	70.00	822.27	1,686.96	-1,233.81	-2,792.25	0.67	1.56	205.45

All 10 instances closed above the entry price on either Day 1 or Day 2.

Over the next 2-5 days there appears to be a nice upside tendency. With all 10 closing up on at least 1 of the next 2 days the reliability appears solid, though on a fairly small sample. Below I have listed all 10 instances assuming a 3-day exit strategy.

SPX closes down > 1% on a day between Christmas and New Years. Buy on close. Sell 3 days later. $100k/trade. 1960 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/29/80	Buy	$135.02	0.97%	$1,539.20
01/02/81	Sell	$136.33		($732.60)
12/28/87	Buy	$245.57	0.61%	$1,009.36
12/31/87	Sell	$247.08		($529.10)
12/31/96	Buy	$740.74	0.93%	$1,696.95
01/06/97	Sell	$747.65		($1,510.65)
12/29/00	Buy	$1,320.50	0.97%	$2,230.50
01/04/01	Sell	$1,333.29		($3,441.00)
12/31/01	Buy	$1,148.08	2.13%	$2,476.89
01/04/02	Sell	$1,172.51		($1,030.95)
12/27/02	Buy	$875.40	3.84%	$3,833.82
01/02/03	Sell	$909.03		($678.30)
12/27/07	Buy	$1,476.27	(1.97%)	$786.58
01/02/08	Sell	$1,447.17		($2,291.40)
12/31/09	Buy	$1,115.10	1.98%	$2,144.01
01/06/10	Sell	$1,137.14		$0.00
12/28/11	Buy	$1,249.64	2.19%	$2,798.40
01/03/12	Sell	$1,277.06		$0.00
12/28/12	Buy	$1,402.43	4.06%	$4,475.84
01/03/13	Sell	$1,459.37		($306.72)

Run-ups weren't always huge but they were consistent. Every instance posted a run-up of at least 0.75% during the next 3 days.

Another interesting study from the Quantifinder looked at relatively sharp selloffs from intermediate-term highs. It showed that there has been a strong tendency for situations like the current one to bounce. The study was last seen in the 12/12/13 Letter. I have updated the results below.

SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low.
Buy 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	33,852.60	42	29	13	69.05	1,837.74	4,726.48	-1,495.53	-3,502.11	1.23	2.74	806.01
4	33,995.78	42	30	12	71.43	1,481.72	4,732.80	-871.32	-2,147.75	1.70	4.25	809.42
3	14,302.06	42	26	16	61.90	1,123.73	2,985.55	-932.19	-2,866.27	1.21	1.96	340.53
2	8,253.56	42	24	18	57.14	987.70	3,515.34	-858.41	-2,051.10	1.15	1.53	196.51
1	8,671.96	44	26	18	59.09	742.38	2,002.36	-590.56	-2,200.08	1.26	1.82	197.09

88% of instances closed above the entry price
at some point in the next week.

The stats all suggest an upside edge over the next 1-4 days. Below I have produced a profit curve using a 4-day exit strategy.

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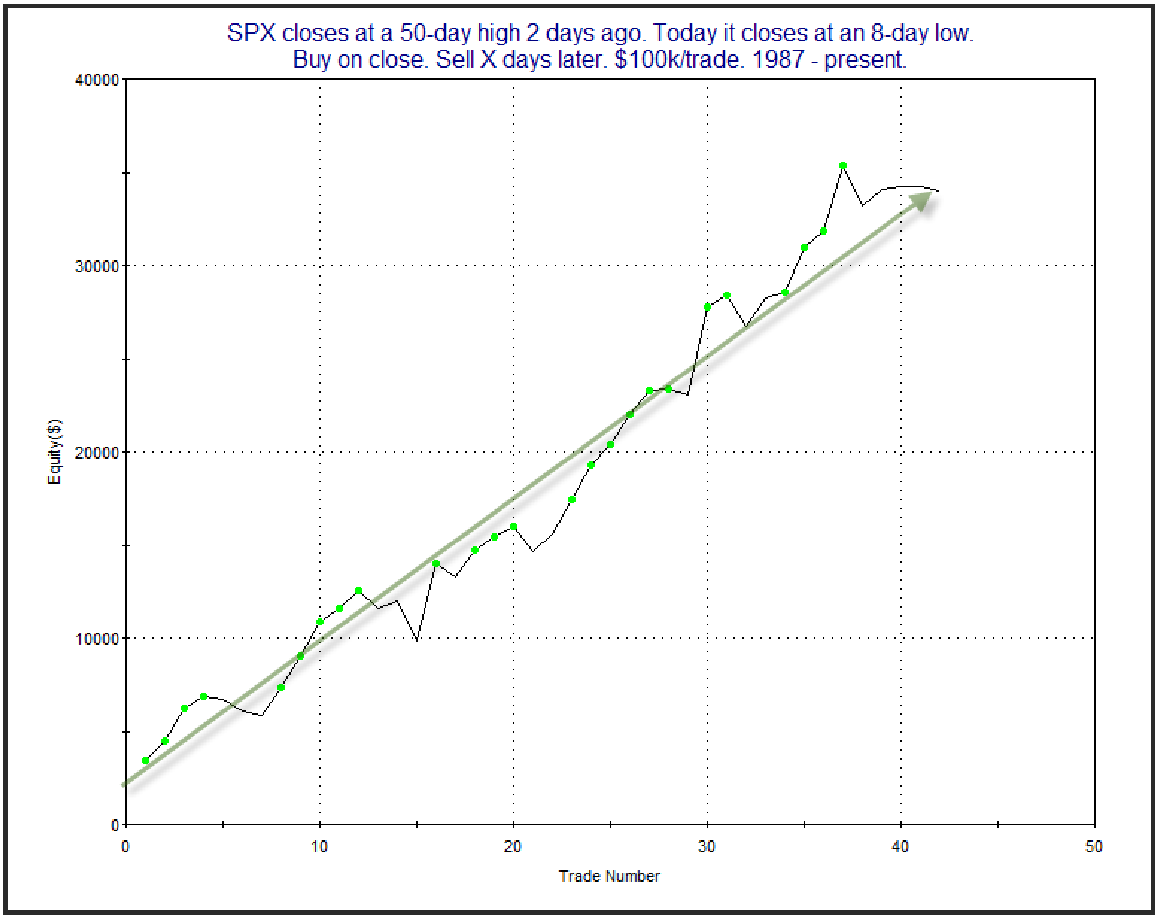

The strong, steady upslope is impressive and makes the study even more compelling.

I have updated the Aggregator chart below.

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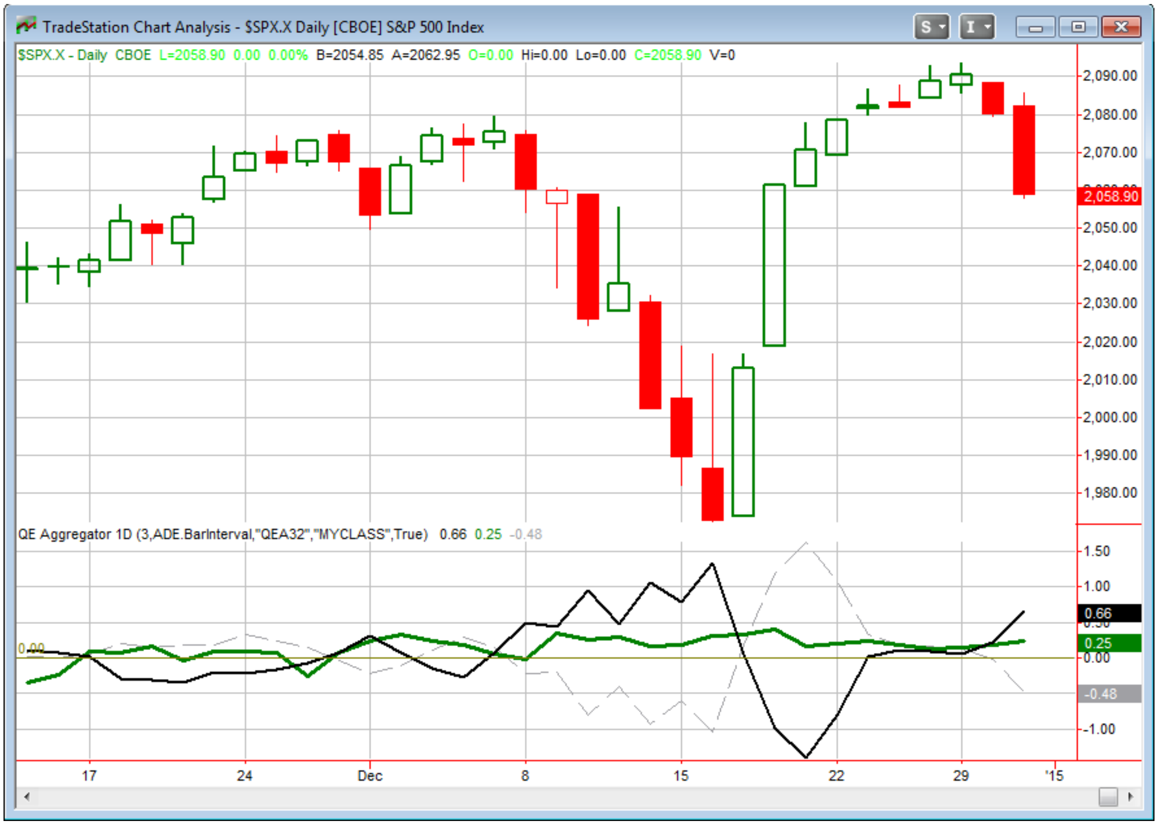

With the new studies tonight the Aggregator Line moved further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line also increased its distance above 0. The positive Differential Line reading means the SPX 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 remained long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2099.41 on Friday. That is 2.0% above Wednesday's close. That would be a very large 1-day gain. It is unlikely we will see SPX achieve that and move from oversold to overbought on Friday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

We have a fair amount of evidence pointing upwards here. The Active List is filled with combinations of strong seasonality and short-term oversold price action. That combination is often a good one. I started scaling in to a long index position on Wednesday at the close and I will look to increase that position if SPY closes down much on Friday.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 12/29 – bullish

The intermediate-term outlook was last updated in the 12/29 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.

SPY – buy ¼ index position @ $204.54 LIMIT ON CLOSE. Based on the short-term outlook above I will add another lot of SPY if it closes down $1.00 or more.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/10/2014	$37.21	$31.14	-16.31%		Aggressive VIX
XIV(1/2)	12/11/2014	$34.03	$31.14	-8.49%		Aggressive VIX
SPY(1/4)	12/31/2014	$205.54	$205.54	0.00%		bought on close

I got a little too cute with my exit limit for XIV and was punished on Wednesday. It is now at a point where I would be looking to buy back into it if I had been filled. So I will hold the position I already have.

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