

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 7, 2015

Volume 8 Issue 4

Market Overview



Signals Overview

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

Tonight's Research Points

- 5-day drops under similar market conditions, while rare, have often led to a bounce.
- The stretched VIX is suggesting a bounce over the next 1-2 days.

Short-term Outlook

The Bottom Line

More selling but even more evidence suggesting a bounce is near. I am still looking to take advantage of that bounce through long exposure.

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 7, 2015	SPX down 5 days but > 20-day low	1-2 days	Bullish			
January 7, 2015	VIX 25% > 10ma	1-2 days	Bullish			
January 6, 2015	Unfilled gap down. 3 lower & 10-low	1-2 days	Bullish			
January 6, 2015	3 Lower High, Low, Close on Monday	1-3 days	Bullish			
January 6, 2015	4 Days Down. Today's drop biggest	1-3 days	Bullish			
January 5, 2015	SPX dn 3 from 20-high. Last one mild.	1-3 days	Bullish			
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 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			
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 9, 2014	Hindenburg Omens	1-35 days	Bearish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
January 2, 2015	SPX dn 1% between Chirstmas & New Yr	1-3 days	Bullish	2.30%	-1.05%	-2.10%

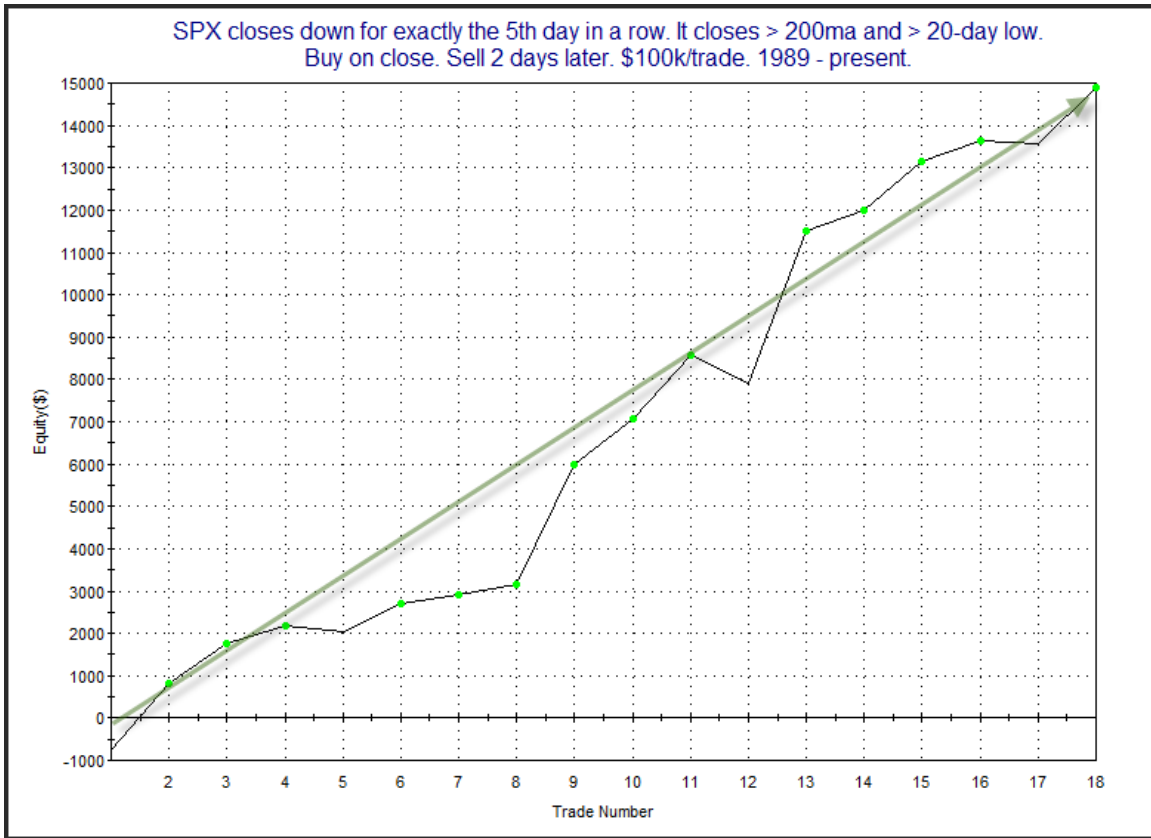
The Evidence

Tuesday was another day of selling. The SPX finished down 0.9%, while the NASDAQ dropped 1.3%, and the Russell 2000 lost 1.7%. Breadth was negative as the NYSE Up Issues % came in at 33% and the Up Volume % was 29%. Total NYSE volume again rose to the highest level since 12/19/14.

There were a few compelling studies that emerged tonight. The study below required 5 lower closes above the 200ma and also above a 20-day low. I last showed it in the 9/26/13 Letter and have updated the results.

SPX closes down for exactly the 5th day in a row. It closes > 200ma and > 20-day low. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	13,255.32	18	11	7	61.11	1,691.92	5,460.84	-765.12	-1,479.60	2.21	3.47	736.41
4	14,891.21	18	13	5	72.22	1,441.54	5,187.49	-769.76	-1,389.15	1.87	4.87	827.29
3	15,850.61	18	14	4	77.78	1,358.16	5,339.18	-790.91	-1,169.92	1.72	6.01	880.59
2	14,891.41	18	14	4	77.78	1,181.11	3,591.28	-411.05	-763.84	2.87	10.06	827.30
1	6,165.45	18	12	6	66.67	761.84	1,367.55	-496.11	-1,155.00	1.54	3.07	342.52

Based on the stats table there appears to be a bullish inclination, especially over the first 2-3 days. Below is a profit curve to see how the edge has evolved.



The profit curve supports the idea of a bullish edge.

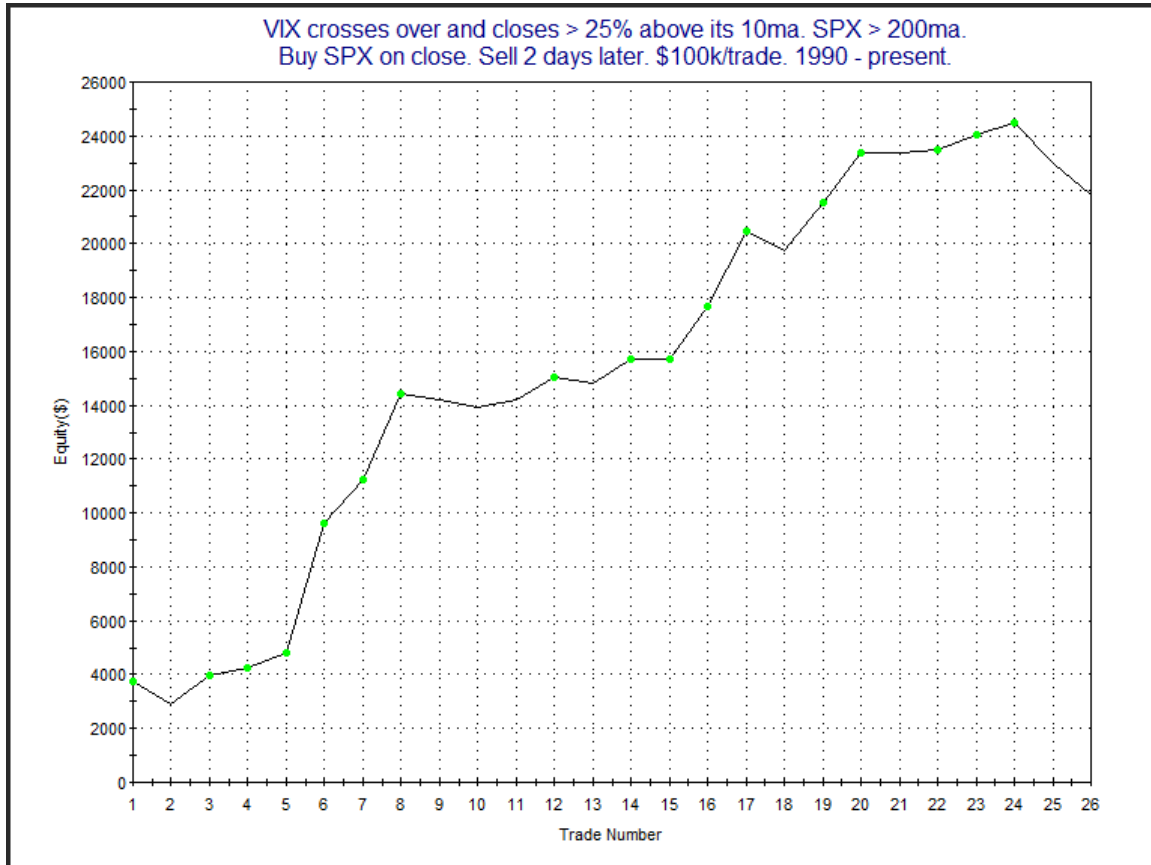
While the SPX declined sharply, the VIX index rose sharply. In fact it closed 35% above its 10-day moving average. In the 12/11/14 letter I examined stretches of 25% or more. I have updated that study below.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	23,709.67	26	14	12	53.85	2,497.32	7,070.28	-937.73	-1,759.84	2.66	3.11	911.91
4	27,615.81	26	18	8	69.23	2,076.69	4,690.50	-1,220.57	-2,616.60	1.70	3.83	1,062.15
3	18,313.02	26	18	8	69.23	1,502.14	3,940.55	-1,090.69	-2,269.28	1.38	3.10	704.35
2	21,824.26	26	18	8	69.23	1,486.45	4,809.66	-616.47	-1,478.36	2.41	5.43	839.39
1	16,648.82	26	20	6	76.92	1,091.87	5,117.46	-864.75	-1,632.28	1.26	4.21	640.34

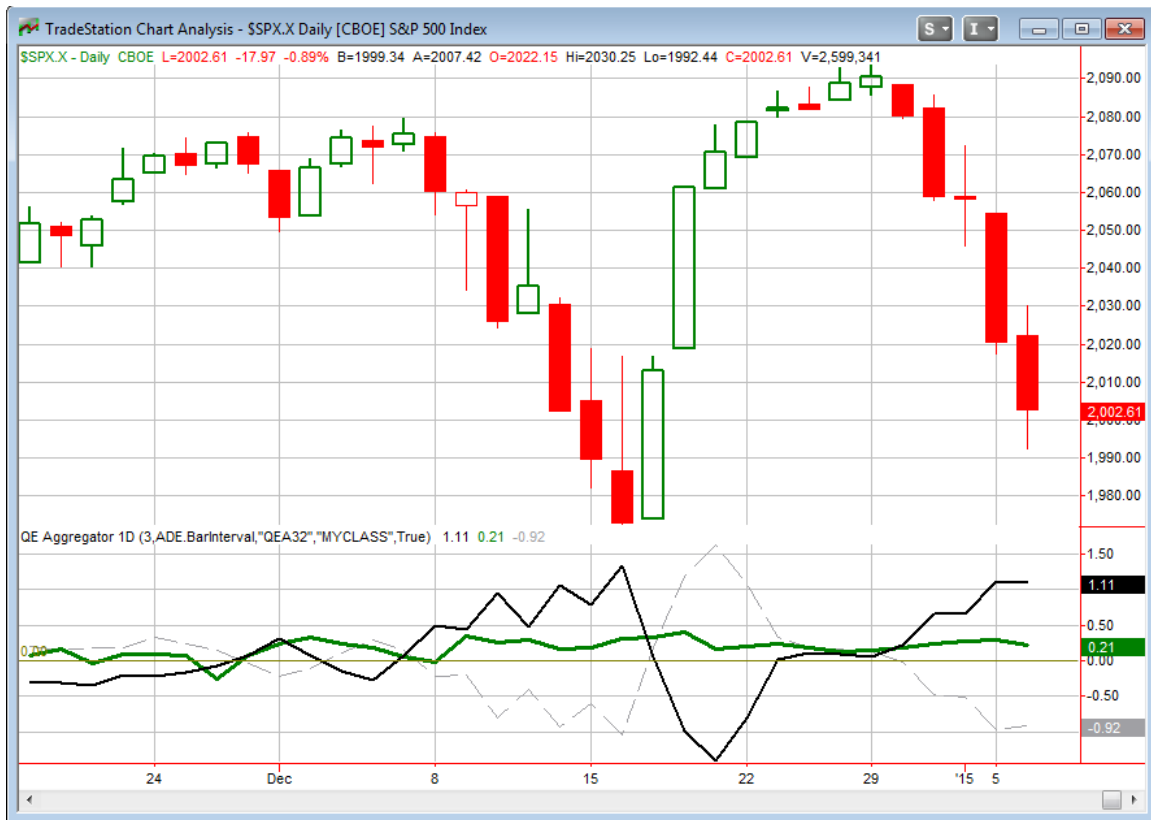
24 of 26 instances (92%) closed above the entry price at some point in the next 3 days. All 26 did within 7 days.

Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



Impressive steadiness up until the last 2 instances. I have included this study on the Active List.

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



With the new studies tonight the Aggregator Line remained 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 still 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 remained long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. It would take a sizable amount of bearish evidence on Wednesday to change this. The Differential Pivot will be 2071.15 on Wednesday. That is a whopping 3.4% above Tuesday's close. It is very unlikely we will see SPX achieve that in 1 day. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

The market went from refusing to have a down day to refusing to have an up day in a flash. Evidence continues to build suggest a bounce is very near. And with the market now as oversold as it is, there is plenty of room to the upside. I have now built up a fairly large long position to try and take advantage of this bounce. Since I just added a 3rd lot at the close, I will give it a day before considering adding more index exposure. But there was another Catapult signal that triggered, and I will look to take that on. Details are in the Trade Ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/5 – 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

ALL – 1/3 @ \$68.73 (buy @ limit)

CVS – 1/3 @ \$94.16 (buy @ limit)

COST – 1/3 @ \$140.00 (buy @ limit)

New

ALL – 1/3 @ \$68.73 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4(ALL-2, CVS, COST)

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.

ALL – buy 1/3 Catapult position @ \$68.73 LIMIT. From the Catapult section above. This is the 2nd of 3 possible lots for ALL.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/10/2014	\$37.21	\$28.77	-22.68%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$28.77	-15.46%		Aggressive VIX
SPY(1/4)	12/31/2014	\$205.54	\$199.82	-2.78%		Aggregator
SPY(1/4)	1/5/2015	\$204.17	\$199.82	-2.13%		Aggregator
SPY(1/4)	1/6/2015	\$199.82	\$199.82	0.00%		Aggregator
ALL(1/3)	1/6/2015	\$68.73	\$68.68	-0.07%		Catapult
CVS(1/3)	1/6/2015	\$94.16	\$94.23	0.07%		Catapult
COST(1/3)	1/6/2015	\$140.00	\$141.85	1.32%		Catapult

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