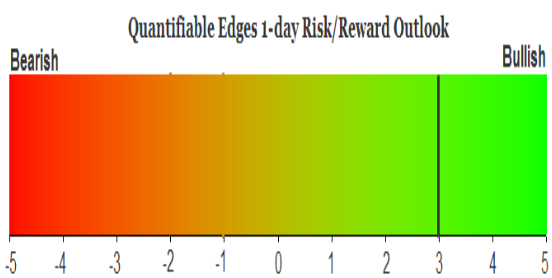
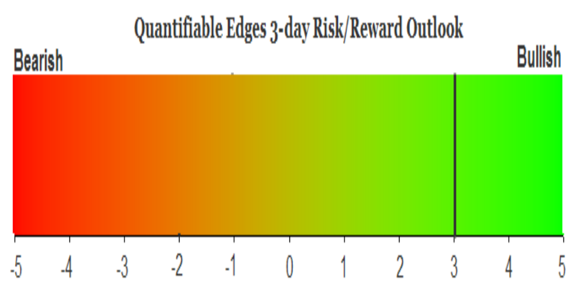
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2015 Volume 8 Issue 19

Market Overview





Signals Overview

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

Tonight's Research Points

- Down 2+ days on a Fed Day has often been followed by a rally.
- Strong starts and big reversals down on Fed Days are typically followed by a bounce in the next few days.

Short-term Outlook
The Bottom Line
The negative Fed reaction appears to be setting the market up for a bit of a bounce. I like reward/risk and am looking to put on some index 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 29, 2015	Fed Day. SPY dwn 2 in row.	1-6 days	Bullish			
January 29, 2015	Dn 2% from high on Fed Day	1-4 days	Bullish			
January 23, 2015	VIX 10% up to 10% dn blow ma	1-8 days	Bullish	2.50%	-1.00%	-1.95%
Active - Long Term						
January 26, 2015	NASDAQ leading SPX	int term	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 28, 2015	Strong selling prior to Fed Day	1 day	Bullish			

The Evidence

The Fed announcement arrived and the market gave a strongly negative (over?)reaction. The SPX declined 1.35%, the NASDAQ fell 0.9%, and the Russell 2000 lost 1.6%. Breadth was extremely negative as the NYSE Up Issues % came in at 27% and the Up Volume % was a mere 9%. Total NYSE volume was high with the strong reaction to the Fed.

It's a little unusual to see such strong selling on a fed day, especially after the previous day was weak. But the market was still around breakeven just prior to the announcement, and that's really the point where fed day action becomes unreliable. I've studied other instances where fed days have seen moves higher and then a large reversal and weak close. Below are a few Fed-based studies whose criteria were met with today's action. This first one was last seen in the 12/14/11 letter. Results are updated.

Today is a Fed Day. SPY closes down and at least 2% below its intraday high.
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	19,117.55	13	9	4	69.23	2,863.75	6,086.66	-1,664.06	-2,628.75	1.72	3.87	1,470.58
4	21,003.98	13	9	4	69.23	3,065.17	7,872.42	-1,645.64	-2,241.12	1.86	4.19	1,615.69
3	18,577.48	13	9	4	69.23	2,414.01	4,772.75	-787.15	-1,185.52	3.07	6.90	1,429.04
2	12,165.55	13	9	4	69.23	2,271.69	5,087.19	-2,069.92	-2,695.00	1.10	2.47	935.81
1	5,472.87	13	9	4	69.23	1,596.87	3,649.75	-2,224.73	-3,230.89	0.72	1.62	420.99

Instances here are lower than I would prefer, but the overall numbers appear strongly positive. I figured it was at least worth looking at the equity curve.

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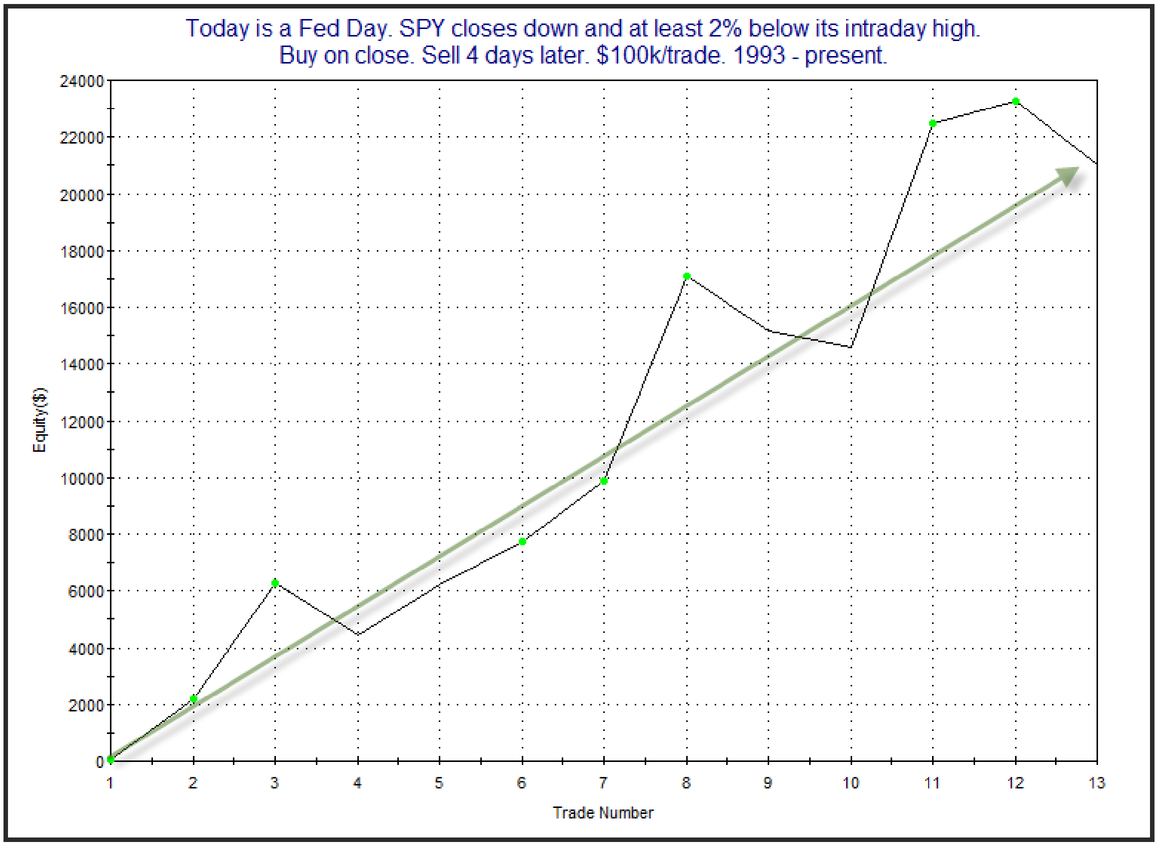
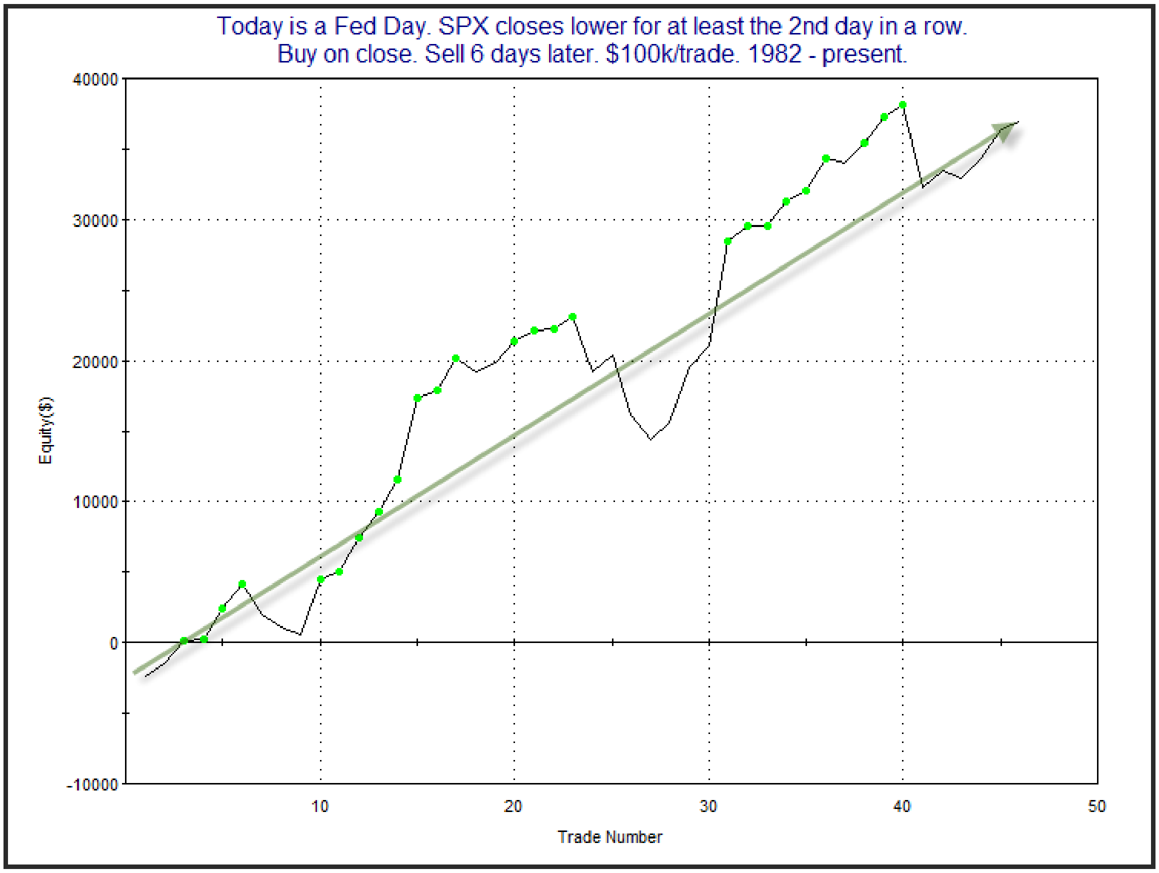


While a bit choppy, this curve does head from lower left to upper right. This study may be worth considering. It is also worth considering that Wednesday was the 2nd down day in a row, which by itself is unusual on a Fed Day. This can be seen in the study below, which was last shown in the 8/2/12 letter and has been updated.

Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - present.

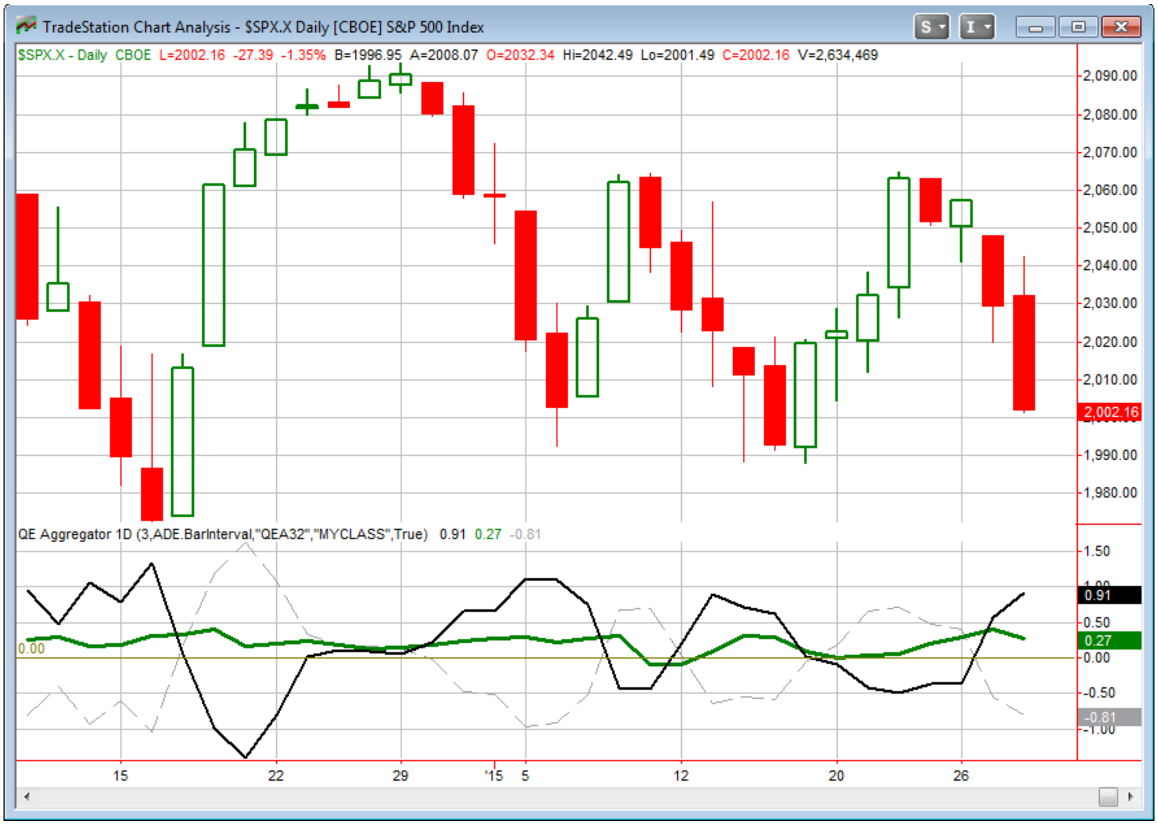
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	43,780.00	46	31	15	67.39	2,511.07	9,012.33	-2,270.88	-5,334.70	1.11	2.29	951.74
9	36,049.07	46	33	13	71.74	2,228.15	8,967.96	-2,883.07	-5,671.36	0.77	1.96	783.68
8	30,596.05	46	34	12	73.91	2,002.77	8,456.40	-3,124.84	-6,514.96	0.64	1.82	665.13
7	36,284.10	46	36	10	78.26	1,791.38	8,869.37	-2,820.55	-6,757.80	0.64	2.29	788.78
6	36,962.94	46	35	11	76.09	1,733.15	7,361.95	-2,154.31	-5,884.97	0.80	2.56	803.54
5	31,073.55	46	33	13	71.74	1,620.56	6,013.86	-1,723.45	-5,581.03	0.94	2.39	675.51
4	19,528.19	46	28	18	60.87	1,555.13	7,513.37	-1,334.19	-4,622.80	1.17	1.81	424.53
3	12,745.36	46	27	19	58.70	1,155.05	5,035.28	-970.57	-2,737.00	1.19	1.69	277.07
2	16,644.22	46	30	16	65.22	1,120.98	5,202.52	-1,061.57	-2,942.24	1.06	1.98	361.83
1	9,323.68	46	29	17	63.04	915.25	4,001.33	-1,012.85	-3,162.00	0.90	1.54	202.69

When Fed Days fail to rally, you normally see a rally shortly after. This is even truer when the day before the Fed Day was also down. And for those who are curious, below is a profit curve assuming a 6-day exit strategy.



The strong upslope appears to confirm the bullish edge.

I have updated the Aggregator chart below.



With the Fed Day studies now in the mix the green Aggregator Line held strongly 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 remained above 0. The positive Differential Line reading means the SPX is 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 Thursday. That could change if more bearish evidence emerges. The Differential Pivot will be 2067.06 on Thursday. That is a whopping 3.2% above Wednesday's close. This means that in order for the Differential Line to cross below 0 (signaling SPX moving from "oversold" to "overbought") it would need to close up at least 3.2% on Thursday. That is EXTREMELY unlikely. A more likely way to work off the oversold condition will be a multi-day rally or consolidation.

The market is strongly oversold and the short-term evidence is all pointing higher. There is plenty of room to the upside before SPX will turn overbought, so profit potential on a swing trade is fairly sizable here. The intermediate-term outlook is also leaning bullish. Overall, the setup appears to have a lot going for it and so I will look to begin scaling back into an index position on Thursday if I can get a good fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/26 – somewhat bullish

The intermediate-term outlook was last updated in the 1/26 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 @ $200.14 LIMIT. Based on the short-term outlook above, I will look to take on some long SPY exposure if I can get filled at a price at or below Wednesday's close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	$34.03	$27.13	-20.28%		Aggressive VIX
SPY(1/4)	***1/27/2015***	***$202.74***	***$204.25***	***0.74%***		***sold at limit***

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