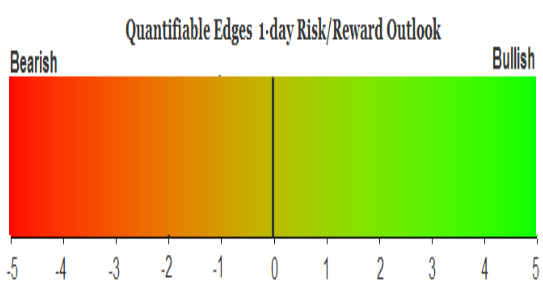
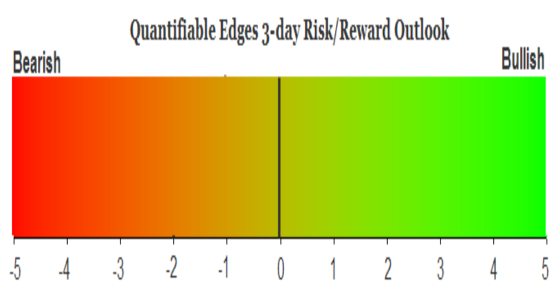
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2015 Volume 8 Issue 23

Market Overview





Signals Overview

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

Tonight's Research Points

- The bounce was strong enough over the last 2 days that much of the upside edge has been realized and the potential for further gains is reduced.

Short-term Outlook

The Bottom Line

Evidence is still leaning slightly bullish but the SPX is now squarely overbought. I am looking to take profits and get index-neutral.

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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						
February 3, 2015	False breakdown 20-low	1-2 days	Bullish			
Active - Long Term						
January 26, 2015	NASDAQ leading SPX	int term	Bullish			
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 29, 2015	***Fed Day. SPY dwn 2 in row.***	***1-6 days***	***Bullish***	*2.10%*	*-1.50%*	*-3.20%*
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%

The Evidence

Tuesday showed some nice follow-through on Monday's bounce. The SPX rose 1.4%, the NASDAQ rallied 1.1%, and the Russell 2000 gained 1.8%. Breadth was positive as the NYSE Up Issues % came in at 78% and the Up Volume % was 88%. Total NYSE volume rose from Monday's level.

After being squarely oversold the market has bounced back quite nicely the last 1½ days. The effect has basically been to work off the oversold condition and leave several indices back above their 10-day moving averages. Had the reversal not been so strong then the current upside potential would be a little better. But since the move was so good (and I'm not complaining), it took out much of the upside edge. I demonstrated this in the 6/10/13 subscriber letter.

There I looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma). I broke it down by instances that closed above the 10ma versus instances that closed below it. I have updated those tables below.

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It **closes < 10ma** and closes > 200ma.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

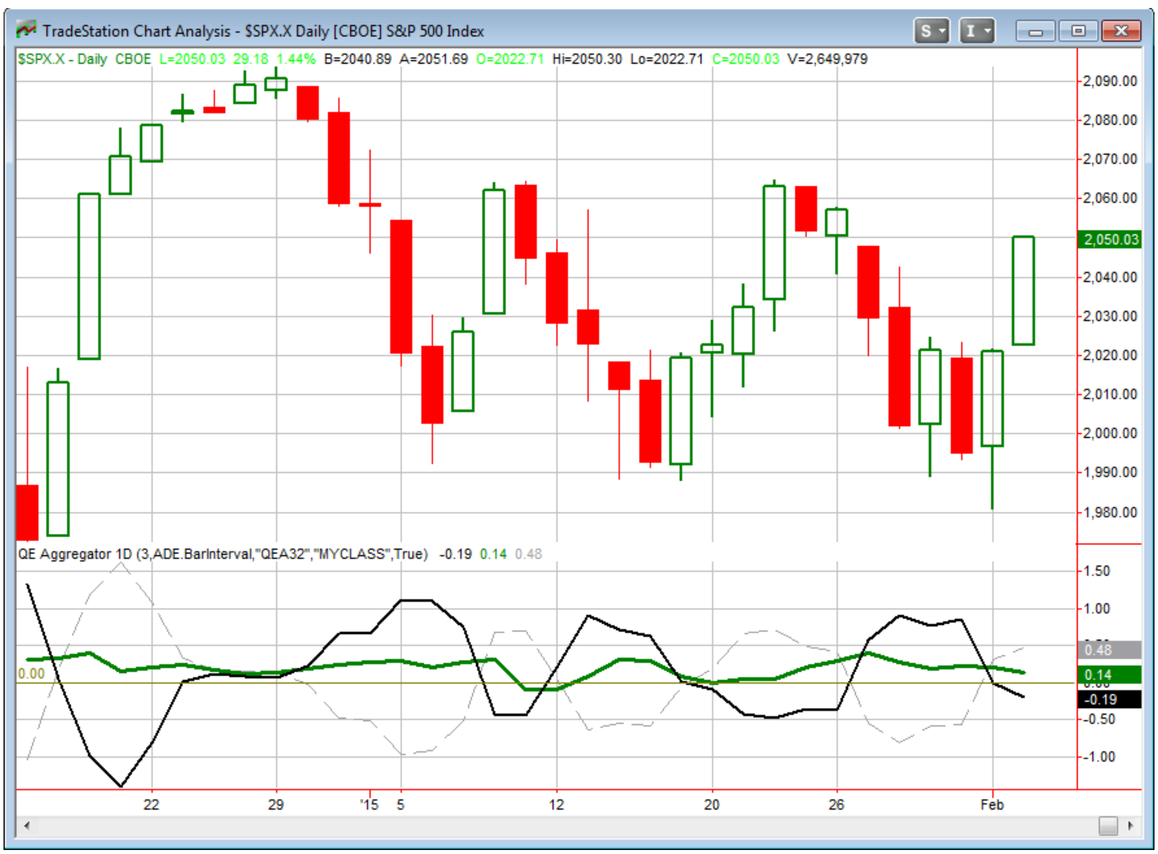
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	15,489.12	52	30	22	57.69	1,592.35	4,106.63	-1,467.33	-3,739.32	1.09	1.48	297.87
4	20,125.47	54	33	21	61.11	1,462.47	3,904.83	-1,339.81	-2,744.82	1.09	1.72	372.69
3	6,403.68	57	31	26	54.39	1,126.03	3,914.92	-1,096.27	-3,070.92	1.03	1.22	112.35
2	2,943.58	59	32	27	54.24	1,037.33	2,828.00	-1,120.41	-2,818.42	0.93	1.10	49.89
1	950.88	59	26	32	44.07	916.10	2,470.05	-714.62	-2,895.33	1.28	1.04	16.12

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It **closes > 10ma** and also closes > 200ma. 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	4,011.39	28	14	14	50.00	1,272.42	3,113.39	-985.89	-2,249.52	1.29	1.29	143.26
4	3,959.61	28	16	12	57.14	931.10	2,584.17	-911.50	-2,586.55	1.02	1.36	141.41
3	-1,474.98	28	14	14	50.00	944.46	2,533.50	-1,049.81	-2,475.20	0.90	0.90	-52.68
2	-1,550.64	28	16	12	57.14	677.06	1,424.39	-1,031.97	-2,293.20	0.66	0.87	-55.38
1	-2,594.65	28	14	13	50.00	534.79	1,238.60	-775.52	-2,591.68	0.69	0.74	-92.67

So the current situation falls into the 2nd category. Most of the stats are basically breakeven. Had we not bounced so much, we would have a better chance of seeing more follow-though. As is, it appears some caution and some profit-taking is warranted.

And not only did the bounce take us above the 200ma, but it also meant both of our Fed Day – based studies from the Active List hit their targets and were removed.

I have updated the Aggregator chart below.



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Even with the reduction in the upside edge the green Aggregator Line held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dropped down below 0. The positive Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now 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 turned flat at the close.

The last of the short-term active studies is set to expire on Wednesday. If nothing new emerges then this would leave expectations slightly bullish based on the intermediate-term studies. Of course any new evidence that emerges could have a substantial impact on expectations. The Differential Pivot will be 2008.23 on Wednesday. That is 2.0% below Tuesday's close. So for SPX to move from overbought to oversold on Wednesday it is going to need to close down at least 2.0%. That would be a very large loss. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

The bounce I was looking for arrived in a pretty big way the last two days. It could certainly continue. But evidence has weakened and the SPX is now quite overbought. So there does not seem to a strong directional edge here, and I will look to exit my index position and wait for the next substantial reward/risk opportunity to arise.

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

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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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	$34.03	$27.68	-18.66%		Aggressive VIX
SPY(1/4)	1/29/2015	$200.14	$204.84	2.35%		sell @ $204.50 LIMIT

If SPY gaps down large I will look for it to move back up to $204.50 before taking profits. If I am not out of this position in the 1st 30 minutes of trading I may adjust my target or institute a stop below the early morning low, and will send out an intraday update if that occurs.

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