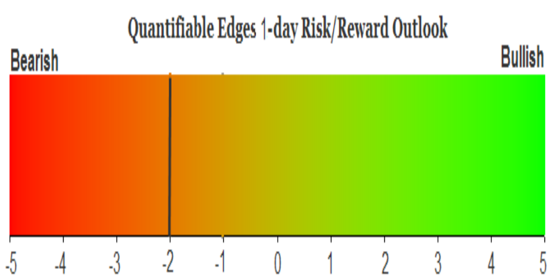
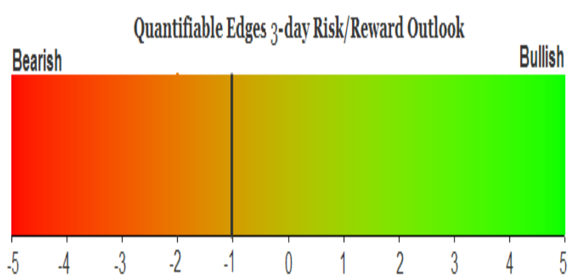
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 25, 2015 Volume 8 Issue 37

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.
- The NASDAQ's 10-day win streak could be predicting further gains, but in an environment like this one it is tough to tell.

Short-term Outlook

The Bottom Line

Expectations have turned negative. And with the SPX overbought the Aggregator is suggesting a downside edge. It does not seem to be much of an edge though. I intend to wait for a more compelling setup before putting new capital at risk.

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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 25, 2015	50-high, inside day, 50-high	1 day	Bearish			
February 24, 2015	WR10 up then NR10 low vol	1-5 days	Bearish			
February 24, 2015	5 gaps down	1-3 days	Bullish			
February 23, 2015	SPX up 1-2% opex week	1-5 days	Bearish	-1.40%	0.80%	1.60%
February 23, 2015	2 outside days	1-3 days	Bullish	1.40%	-0.70%	-1.30%
February 20, 2015	High close on Opex Thursday	1-4 days	Bearish			
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			

The Evidence

Tuesday was another day of moderate buying. The SPX rose 0.3%, the NASDAQ closed up 0.1% and the Russell 2000 gained 0.2%. Breadth was positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 63%. Total NYSE volume rose just a little from Monday's level.

After Friday's move to a new high, Monday put in an inside day. With Tuesday closing at another new high the study below triggered. It was last seen in the 7/7/14 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and closes at a new 50-day high today. Buy on close. Sell X days later. $100k/trade. 1999 - 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	-15,690.55	20	6	14	30.00	746.87	1,413.21	-1,440.84	-3,754.10	0.52	0.22	-784.53
4	-10,494.87	20	7	13	35.00	817.18	1,245.97	-1,247.32	-5,106.46	0.66	0.35	-524.74
3	-9,672.30	20	8	12	40.00	583.02	1,367.56	-1,194.71	-3,417.34	0.49	0.33	-483.61
2	-9,624.49	20	6	14	30.00	654.76	1,132.23	-968.08	-2,737.00	0.68	0.29	-481.22
1	-4,457.30	20	4	16	20.00	451.88	651.42	-391.55	-1,405.62	1.15	0.29	-222.86

Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 16 of 20 times. Below I have listed all 20 instances

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and closes at a new 50-day high today. Buy on close. Sell 1 day later. $100k/trade. 1999 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
01/08/99	Buy	$127.75	(0.95%)	$0.00
01/11/99	Sell	$126.53		($1,978.46)
03/15/99	Buy	$131.22	(0.38%)	$335.28
03/16/99	Sell	$130.72		($571.50)
11/18/99	Buy	$142.63	(0.09%)	$238.34
11/19/99	Sell	$142.50		($441.63)
08/28/00	Buy	$151.77	(0.12%)	$72.38
08/29/00	Sell	$151.59		($565.88)
06/22/05	Buy	$121.57	(1.41%)	$24.66
06/23/05	Sell	$119.86		($1,430.28)
07/14/05	Buy	$122.91	(0.06%)	$105.69
07/15/05	Sell	$122.84		($447.15)
07/22/05	Buy	$123.54	(0.28%)	$331.69
07/25/05	Sell	$123.19		($558.21)
05/09/06	Buy	$132.62	(0.05%)	$98.02
05/10/06	Sell	$132.55		($550.42)
11/22/06	Buy	$140.92	(0.40%)	$0.00
11/24/06	Sell	$140.35		($510.48)
10/09/07	Buy	$156.48	(0.17%)	$0.00
10/10/07	Sell	$156.22		($683.73)
05/06/09	Buy	$92.14	(1.39%)	$1,095.85
05/07/09	Sell	$90.86		($2,018.10)
08/04/10	Buy	$112.97	(0.11%)	$0.00
08/05/10	Sell	$112.85		($787.65)
02/03/11	Buy	$130.78	0.28%	$320.88
02/04/11	Sell	$131.15		($420.20)
02/07/12	Buy	$134.79	0.30%	$318.63
02/08/12	Sell	$135.19		($355.68)
03/19/12	Buy	$140.85	(0.29%)	$0.00
03/20/12	Sell	$140.44		($857.89)
05/17/13	Buy	$166.94	(0.01%)	$383.36
05/20/13	Sell	$166.93		($197.67)
07/22/13	Buy	$169.50	(0.21%)	$194.37
07/23/13	Sell	$169.14		($265.05)
06/04/14	Buy	$193.19	0.65%	$754.82
06/05/14	Sell	$194.45		($253.33)
07/03/14	Buy	$198.20	(0.35%)	$0.00
07/07/14	Sell	$197.51		($493.92)
11/17/14	Buy	$204.37	0.58%	$757.95
11/18/14	Sell	$205.55		$0.00
Avg Run-up: $251 Avg Drawdown: -$669				

Risk/reward here heavily favors the short side. The average drawdown is 2.7 times the size of the average run-up. Also notable is that the only instances where intraday run-up exceeded drawdown were 5/17/13, 6/4/14, and 11/17/14. While the numbers in the original table looked like 2-5 days provided an even larger edge, their profit curves have flattened out greatly. So I am only concerning myself with the 1-day returns at this point.

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As of Tuesday the Nasdaq has now closed higher for 10 days in a row. I looked at runs like this on the 7/7/09 blog. Tonight I again ran a study to examine performance following such runs since the inception of the Nasdaq.

NASDAQ composite closes higher 10 days in a row.
Buy on close. Sell X days later. $100k/trade. 1971 - 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
20	66,971.14	29	24	5	82.76	3,463.52	9,609.60	-3,230.68	-5,608.59	1.07	5.15	2,309.35
19	62,943.70	29	23	6	79.31	3,483.48	9,436.35	-2,862.74	-5,110.18	1.22	4.66	2,170.47
18	63,340.87	29	23	6	79.31	3,519.14	7,179.60	-2,933.21	-6,172.01	1.20	4.60	2,184.17
17	61,925.94	29	23	6	79.31	3,420.19	7,413.96	-2,789.72	-6,108.97	1.23	4.70	2,135.38
16	58,857.14	29	23	6	79.31	3,289.54	7,402.80	-2,800.39	-6,731.49	1.17	4.50	2,029.56
15	51,012.09	29	23	6	79.31	3,025.33	6,751.80	-3,095.08	-6,688.15	0.98	3.75	1,759.04
14	49,233.30	29	23	6	79.31	2,947.77	7,071.72	-3,094.25	-6,307.94	0.95	3.65	1,697.70
13	47,997.70	29	23	6	79.31	2,828.50	7,413.96	-2,842.96	-4,272.10	0.99	3.81	1,655.09
12	40,747.34	29	22	7	75.86	2,630.96	6,986.16	-2,447.70	-4,566.48	1.07	3.38	1,405.08
11	35,055.43	29	22	7	75.86	2,404.73	5,966.88	-2,549.81	-5,126.52	0.94	2.96	1,208.81
10	36,259.23	29	23	6	79.31	2,236.13	5,319.60	-2,528.64	-5,198.32	0.88	3.39	1,250.32
9	36,265.77	29	22	7	75.86	2,281.54	4,834.65	-1,989.74	-4,544.94	1.15	3.60	1,250.54
8	29,438.84	29	21	8	72.41	2,107.13	4,916.48	-1,851.36	-5,126.52	1.14	2.99	1,015.13
7	27,588.59	29	21	8	72.41	1,906.31	5,497.64	-1,555.49	-4,990.10	1.23	3.22	951.33
6	24,118.70	29	20	9	68.97	1,844.84	4,650.95	-1,419.80	-5,133.70	1.30	2.89	831.68
5	18,291.75	29	22	7	75.86	1,323.36	3,294.91	-1,546.03	-4,731.62	0.86	2.69	630.75
4	16,073.35	29	22	7	75.86	1,159.93	2,972.60	-1,349.30	-3,726.42	0.86	2.70	554.25
3	8,739.35	29	20	9	68.97	899.48	3,657.30	-1,027.80	-2,797.20	0.88	1.94	301.36
2	5,573.14	29	16	13	55.17	846.24	2,984.80	-612.83	-2,056.32	1.38	1.70	192.18
1	4,457.33	29	20	9	68.97	463.22	1,626.24	-534.12	-1,770.39	0.87	1.93	153.70

These results appear to be quite bullish. But I believe they are a bit misleading. A closer examination of the results would show that the last occurrence was in 2009. Prior to that there were not any instances since 1997. Of course this means that in the 27 years from 1971 – 1997 there were a whopping 28 separate instances where the NASDAQ Composite closed higher at least 10 days in a row.

Let's take a moment to consider why 10-day streaks used to be so prevalent, and now they are so rare with this now being only the second instance in about 18 years.

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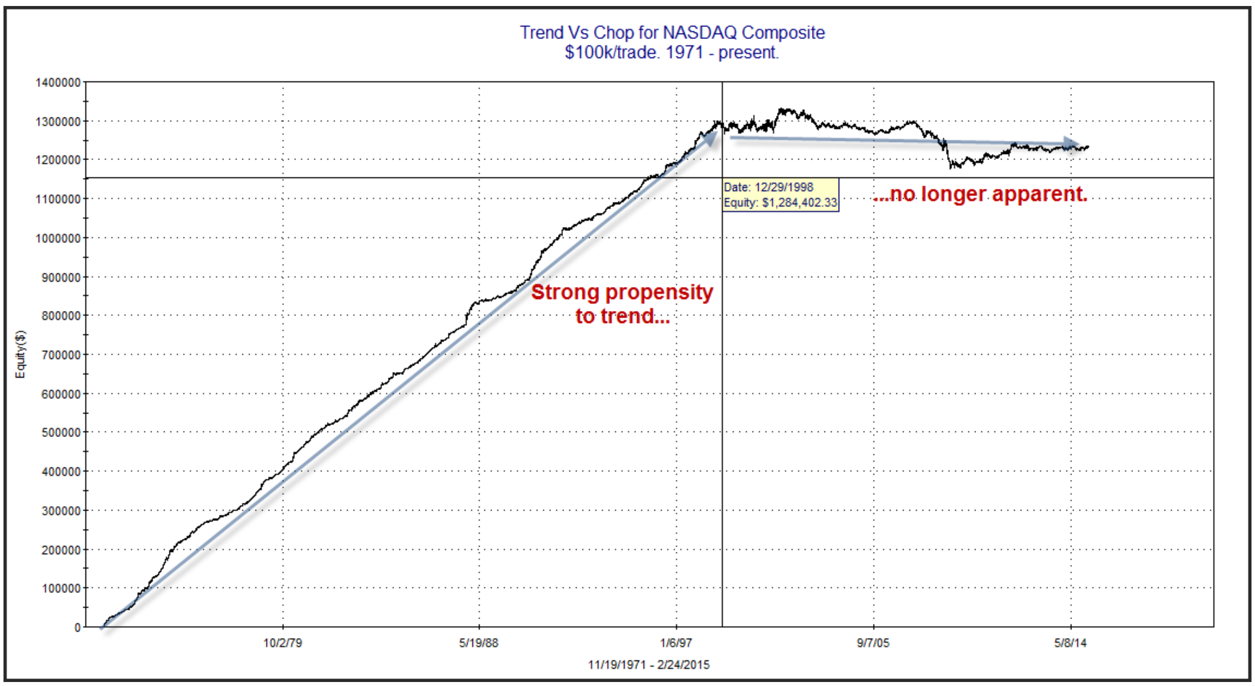
I have not shown any of my Trend vs Chop charts in a while. But I produced below a long-term Trend vs Chop "profit curve" for the NASDAQ. What this chart shows are the results of a strategy that 1) goes long at the close of any up day and then 2) flips to short at the close of any down day. What it is measuring is the propensity of the market to follow through on a day to day basis. So an upward sloping profit curve indicates that the market has shown a tendency to follow through, or "Trend", on a day to day basis. A downsloping curve would indicate that the market was more prone to revert, or "chop" on a day to day basis. A sideways movement in the curve simply means there has not been a consistent tendency to either Trend from day to day or Chop from day to day.

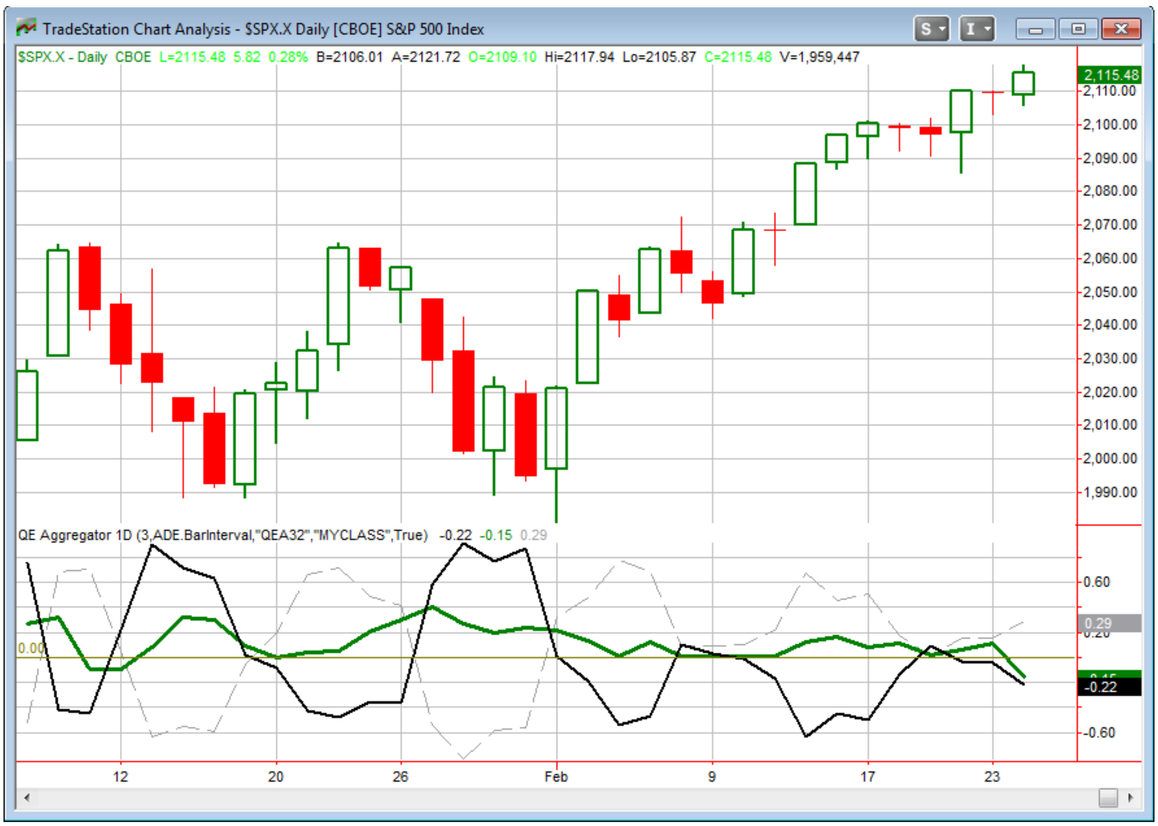
For those who would like to read more on the Trend vs. Chop concept you may click here.



As you can see the Nasdaq saw a strong and steady tendency to follow through on a day to day basis during the 70's, 80's and much of the 90's. Because of this, 10-day streaks were more likely. To put some numbers to it, between 1971 – 1998 an up day was followed by another up day over 65% of the time. From 1999 – present up days have been followed by another up day less than 54% of the time. This has made it considerably harder for a 10-day streak to occur.

Further, environments like '71-'98 where the propensity to follow-through is strong suggest that strength begets more strength. Therefore, the fact that the results were bullish over the 1971-1997 period shouldn't come as a surprise. From a Trend vs. Chop perspective the nature of the market is so different today than it was during that period, that I don't think it would be reasonable to extrapolate the results of the above test to the current environment. This essentially means that there is almost no historical precedent for 10 consecutive up days in a non-trendy environment. So while the NASDAQ's 10-day streak is certainly notable and interesting, I'm not convinced it is predictive.

I have updated the Aggregator chart below.



With tonight's studies taken into account the green Aggregator Line dipped below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line remained below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish

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configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned short at the close.

If nothing new triggers, then expectations are set to stay negative on Wednesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2114.19 on Wednesday. That is less than 0.1% below Tuesday's close. So SPX will only need to close down a small amount in order to move from overbought to oversold verus expectations.

There appears to be a bit of a bearish edge here, but it is debatable as to whether the edge is strong enough to put new capital to work. I am more cautious about shorts when my intermediate-term outlook is bullish. And one thing I do not like about this setup is that the Differential Pivot is so close by. In other words, the short signal will expire on Wednesday if in fact the signal is right and SPX closes down much at all.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/23 – somewhat bullish

The intermediate-term outlook was last updated in the 2/23 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	$32.42	-4.73%		sell @ $32.42 limit

The Aggressive VIX system has now gone short. While I am not inclined to short yet, I don't think it is a great idea to hold the long position through the short signal. I will look to exit if I can get a fill >= Tuesday's close. I won't chase a gap lower though. Any down close for SPX will likely put the Aggressive VIX system back to 50% long, so I don't see a point in taking a bad fill on Wednesday.

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