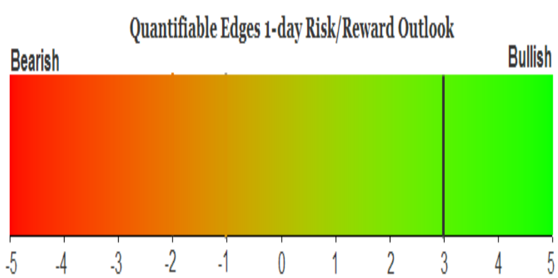
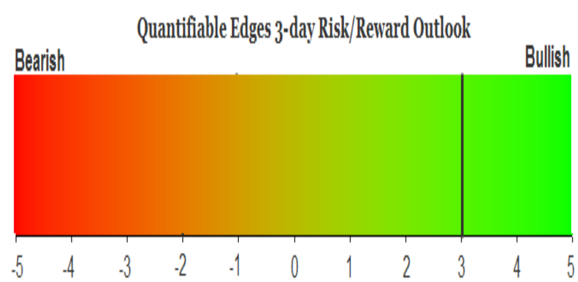
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2015 Volume 8 Issue 58

Market Overview





Signals Overview

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

Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is now strongly oversold. This suggests an upside edge.

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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						
March 26, 2015	1% drop on weak breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
March 19, 2015	High volume up day > 200ma. No opex	1-10 days	Bullish	2.50%	-1.50%	-3.10%
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						
March 24, 2015	SPX down. Up Issue % >55%	1-2 days	Bullish	0.90%	-0.60%	-1.30%

The Evidence

The market got whacked pretty good on Wednesday. The SPX finished down 1.5%, the NASDAQ lost 2.4%, and the Russell 2000 declined 2.3%. Breadth was negative as the NYSE Up Issues % came in at 27% and the Up Volume % was 25%. Total NYSE volume rose from Tuesday's level.

This was the 3rd day in a row that SPX declined. 3-day pullbacks often trigger some interesting studies. This one was no exception. But some of the characteristics of this pullback left those studies a bit lacking. For instance, if the pullback is quiet and the Quantifiable Edges 3/10 Offset Historical Volatility indicator comes in very low, then that is a positive. But it didn't. And while a 3-day pullback from a 20-day high has generally been positive, when the market comes off a 10-day high, but not a 20-day high, then the results are only marginally better than neutral. So the 3-day pullback did not generate the kind of bullish evidence that it often does.

But there was one study that simply looked at Wednesday's strong selling that is worth featuring. While I have used it for a long time, I have not discussed it since the 1/14/14 letter, since it often gets overshadowed by other studies. But it triggered again on Wednesday and it seems worthy of discussion. Often big down days on strongly negative breadth like Wednesday will be followed by a bounce over the next several days. The edge is greatly reduced when the market is directly coming off of intermediate-term highs. This study takes both of those things into consideration. Stats are updated.

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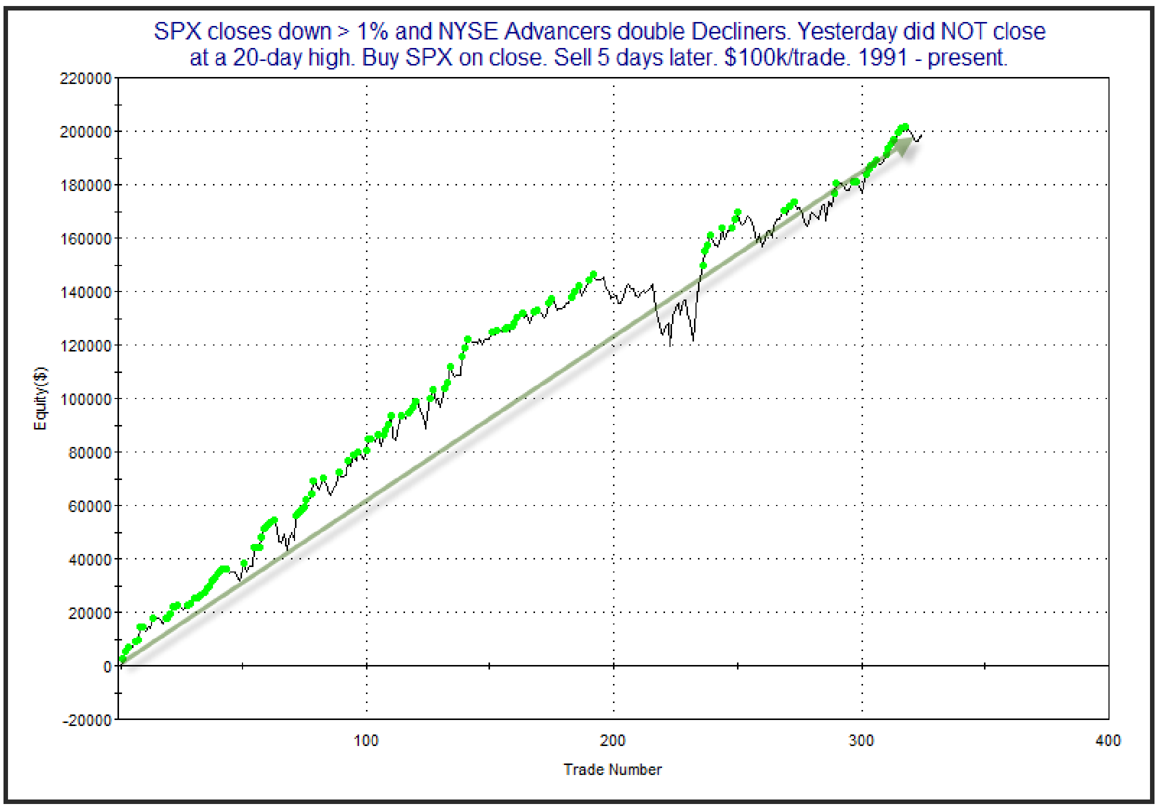
SPX closes down > 1% and NYSE Advancers double Decliners. Yesterday did NOT close at a 20-day high. Buy SPX on close. Sell X days later. $100k/trade. 1991 - present.

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	244,864.44	246	161	85	65.45	2,977.48	16,319.16	-2,758.93	-16,768.40	1.08	2.04	995.38
9	290,847.17	255	178	77	69.80	2,836.91	10,875.66	-2,780.82	-18,373.16	1.02	2.36	1,140.58
8	245,244.63	268	174	93	64.93	2,853.37	15,738.88	-2,701.52	-17,685.00	1.06	1.98	915.09
7	228,435.47	288	180	108	62.50	2,601.31	10,415.64	-2,220.37	-12,654.00	1.17	1.95	793.18
6	197,767.81	301	188	113	62.46	2,416.71	14,933.73	-2,270.56	-19,140.34	1.06	1.77	657.04
5	197,507.53	325	195	130	60.00	2,301.25	11,405.78	-1,932.58	-8,351.64	1.19	1.79	607.72
4	150,444.41	349	200	149	57.31	2,168.84	14,020.11	-1,901.51	-14,820.98	1.14	1.53	431.07
3	150,650.75	390	235	155	60.26	1,824.63	8,531.60	-1,794.44	-10,506.45	1.02	1.54	386.28
2	148,330.84	448	249	199	55.58	1,710.84	8,484.76	-1,395.32	-8,657.72	1.23	1.53	331.10
1	125,205.80	501	293	208	58.48	1,162.51	10,716.03	-1,035.63	-7,577.02	1.12	1.58	249.91

The stats table suggests a decent upside edge over the next 1-2 weeks. Below are the profit curves for the 5-day and 9-day holding periods. First the five.



Other than the one rough period, it has been a pretty persistent rise in this curve. Now the 9-day curve.

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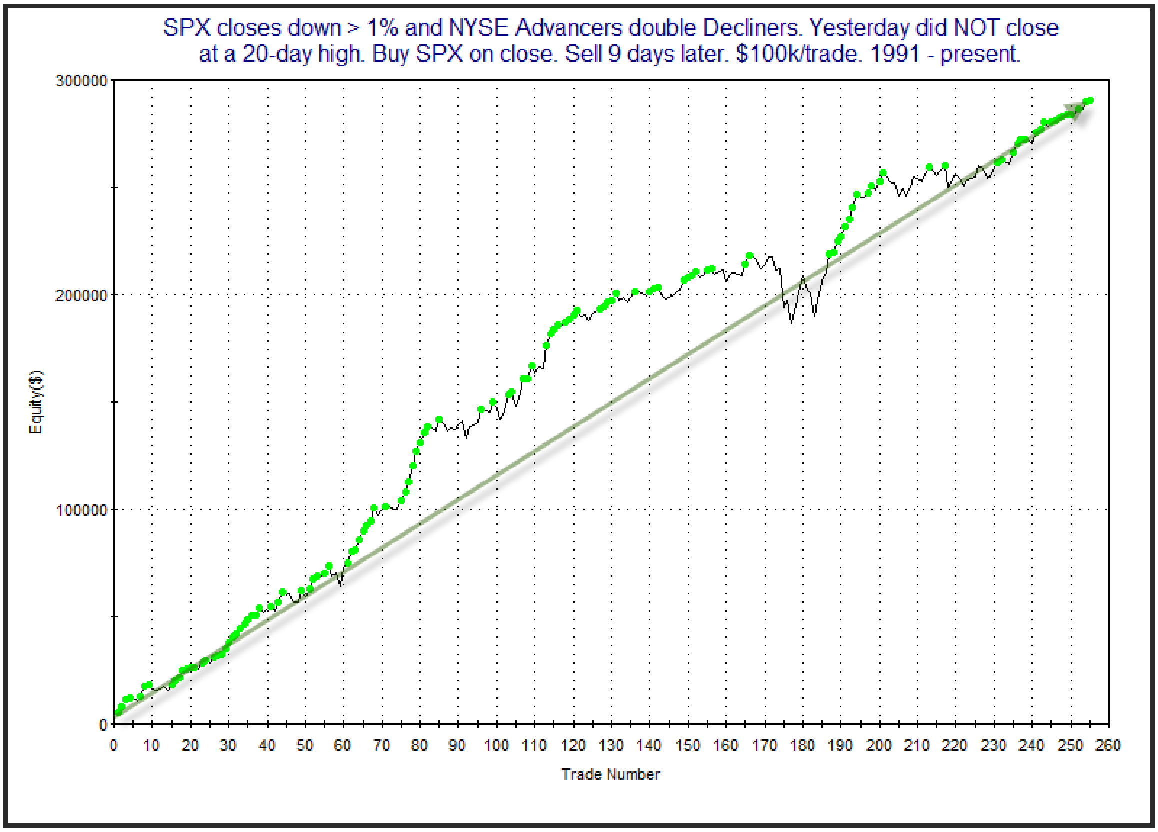

This looks quite similar and suggests the upside edge which has been in place a long time, remains so. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.

Tonight's bullish study helped the green Aggregator Line remain above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose further 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 positive on Thursday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 2111.65 on Thursday. That is a whopping 2.5% above Wednesday's close. So for SPX to change from oversold to overbought it will need to close up at least 2.5% on Thursday. That is highly unlikely. A more likely scenario to work off the oversold condition is a multi-day rally or consolidation.

Evidence is pointing bullish and the market is now strongly oversold. I like the long side here. And with the Differential Pivot so far away, potential reward is sizable. I added some SPY long exposure near the close on Wednesday. I will look to take on some other positions on Thursday if I can get a fill. There was one Catapult that triggered, and I will look to add that. I may also take on another lot of XIV. Contango remains steep even with the sharp SPX pullback over the last few days. The combination of the steep futures

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contango and the expected market bounce make for a substantial edge for XIV. Details on both trade ideas can be found in the Trade Ideas section.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/23 – somewhat bullish

The intermediate-term outlook was last updated in the 3/23 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

New

BMY – 1/3 @ $64.70 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (BMY)

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.

BMY – buy 1/3 Catapult position @ $64.70 LIMIT. This is a Catapult trade idea. For those unfamiliar with Catapults, more information can be found on the Catapult System page on the website.

XIV – buy ½ position at $33.75 LIMIT ON CLOSE. If XIV closes down much at all on Thursday I will be a buyer. This would be the 2nd and final lot of XIV.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	$32.25	$33.78	4.74%		Aggressive VIX
SPY(1/4)	3/25/2015	$205.76	$205.76	0.00%		bought on close

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