QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 10, 2015 Volume 8 Issue 68

Market Overview

Signals Overview

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

Tonight's Research Points

- The QE Buying Power Swing System triggered a short.

Short-term Outlook
The Bottom Line
Evidence really is not painting a clear short-term picture. The market is not substantially overbought or oversold versus expectations. There does not appear to be a strong edge at the moment.

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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						
None						
Active - Long Term						
April 2, 2015	2 unfilled gaps down > 200ma	1-9 days	Bullish	2.40%	-1.60%	-3.00%
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

The market saw a mixed day on Thursday. The SPX closed up 0.45%, and the NASDAQ rose 0.5%, but the Russell 2000 lost 0.3%. Breadth was also mixed as the NYSE Up Issues % came in at 49% and the Up Volume % was 57%. Total NYSE volume rose some from Wednesday's level.

The gains in SPX put it at a 10-day high for the 1st time since 3/20. But a look at the chart leaves SPX looking like it remains in a larger consolidation. While this action did not trigger any studies in the Quantifinder, it did cause the QE Buying Power System to trigger short. This is the 6th short signal since the Fed ended the most recent QE program at the end of October.

I did a detailed write-up of my thoughts in the 11/10/14 letter. I copied below my notes from that letter.

Perhaps the most interesting chart on the charts page right now is the one that shows the QE Short-Term Buying Power Index. This chart essentially tracks recent Fed activity. For the last 22 months the QE Buying Power Index was locked at either four or five. This meant the QE Short Term Buying Power Swing System was only looking to buy pullbacks. But with the Fed's QE program now ended, the QE Buying Power Index will now be locked at zero for the foreseeable future. This can be seen in the chart below. So the system is no longer going to be looking to buy pullbacks. Rather, it will be looking to short overbought readings.

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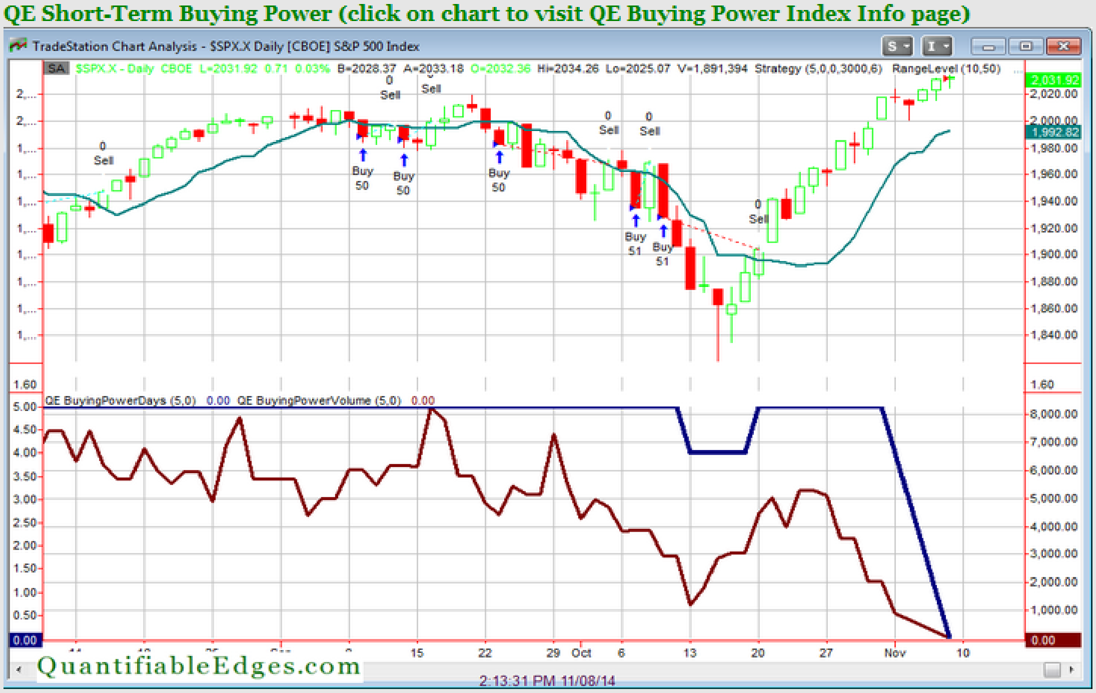
QE Short-Term Buying Power (click on chart to visit QE Buying Power Index Info page)



With the index now at zero, instead of five, the system is no longer going to be looking to buy pullbacks. Rather, it will be looking to short overbought readings. And on Friday, with SPX at a high, and the Buying Power Index hitting zero, the first short signal in a long time triggered.

The performance table below shows the hypothetical result of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index <= 0 and the SPX closes in the top 20% of its 10-day range.)

QE Buying Power Swing System Shorts.
Exit upon reversion through midpoint of 10-day range. $100k/trade. 2008 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$39,637.38	Profit Factor	3.33
Gross Profit	$56,623.30	Gross Loss	($16,985.92)
Total Number of Trades	29	Percent Profitable	75.86%
Winning Trades	22	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	$1,366.81	Ratio Avg. Win:Avg. Loss	1.06
Avg. Winning Trade	$2,573.79	Avg. Losing Trade	($2,426.56)
Largest Winning Trade	$8,004.64	Largest Losing Trade	($8,003.49)

Results here are strong. With short systems there is an adjustment I sometimes make to protect against getting run over by a strong and persistent rally. I do this because the market tends to stay overbought for extended periods more often than it tends to stay oversold for extended periods. For instance, earlier I discussed that since 1997, this is now the 6th time that the market has gone 16 days without closing below its 5ma. Over that same time period it has managed to go 16 days without a close above the 5ma only 1 time. Additionally, lengthy oversold stretches tend to reverse sharply, often helped by short covering, which launches the market quickly higher. (Think about the Quantifiable Edges Catapult System trades for instance.) Overbought reversals are not typically as sharp and violent. So the reversal may not make you back your unrealized losses as easily.

So adjustments that can be employed for short trades would be to either 1) demand less of a pullback to trigger an exit, or 2) give it a few days to revert, and then quickly tighten the exit criteria if it continues to run against you. I prefer #2, since that gives you an opportunity for a more sizable win if you time the entry right. The table below shows results based on giving the reversion X days to work

QE Buying Power Swing System Shorts.
Exit upon 1) reversion through midpoint of 10-day range or 2)1st down day after holding for X days.
$100k/trade. 2008 - 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	34,670.42	29	21	8	72.41	2,678.15	8,004.64	-2,696.33	-4,186.56	0.99	2.61	1,195.53
9	36,642.20	29	21	8	72.41	2,678.15	8,004.64	-2,449.86	-4,186.56	1.09	2.87	1,263.52
8	42,620.85	29	23	6	79.31	2,470.71	8,004.64	-2,367.60	-4,186.56	1.04	4.00	1,469.68
7	42,608.94	29	22	7	75.86	2,520.37	8,004.64	-1,834.16	-2,852.25	1.37	4.32	1,469.27
6	40,876.53	29	19	10	65.52	2,869.28	8,004.64	-1,363.98	-2,852.25	2.10	4.00	1,409.54
5	48,831.49	29	20	9	68.97	2,786.56	8,004.64	-766.63	-2,776.80	3.63	8.08	1,683.84
4	41,985.68	29	19	10	65.52	2,706.48	8,004.64	-943.75	-2,776.80	2.87	5.45	1,447.78
3	26,656.79	29	19	10	65.52	1,999.74	8,004.64	-1,133.83	-2,044.02	1.76	3.35	919.20
2	26,164.39	29	19	10	65.52	1,930.12	8,004.64	-1,050.78	-2,044.02	1.84	3.49	902.22
1	26,937.66	29	22	7	75.86	1,537.86	8,004.64	-985.03	-1,835.47	1.56	4.91	928.88

Using the time exit adjustment the stats improve nicely between days 4-8. Five days shows the optimal stats here, and a week is typically about right with what I have seen in the past. I often give short systems about 5-6 days to reach their targets before tightening in this manner, so I'll use 5 days here. Below is a look at profit curve assuming the tightening begins on day five.

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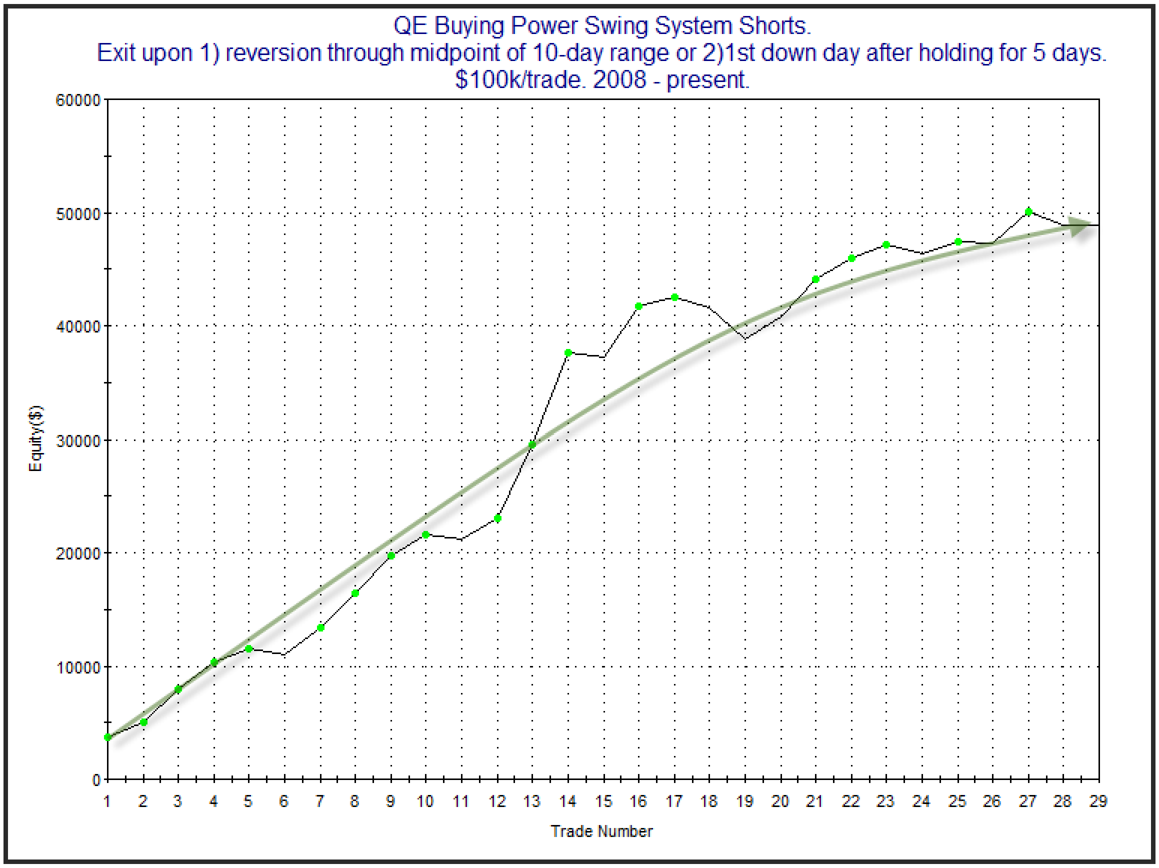

The strong steady upslope serves as a nice confirmation.

Of course the QE Buying Power Index Swing System does not consider seasonality or long-term trend. As exhibited by the QE Market Timing Indicators as shown in the intermediate-term section below, both seasonality and trend are strong right now. So I wondered how a short selling approach similar to the QE Buying Power Swing System would have worked if we ignored the Buying Power Index and substituted fully bullish seasonality and price action indicators from the QE Market Timing Course. Since 2008 there have only been seven instances. So I ran the test back to 2003. Those results are below.

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Sell short if SPX closes in top 20% of 10-day range and all QE Market Timing Course signals are bullish. Exit upon 1) reversion through midpoint of 10-day range or 2)1st down day after holding for 5 days.$100k/trade. 2003 - present.

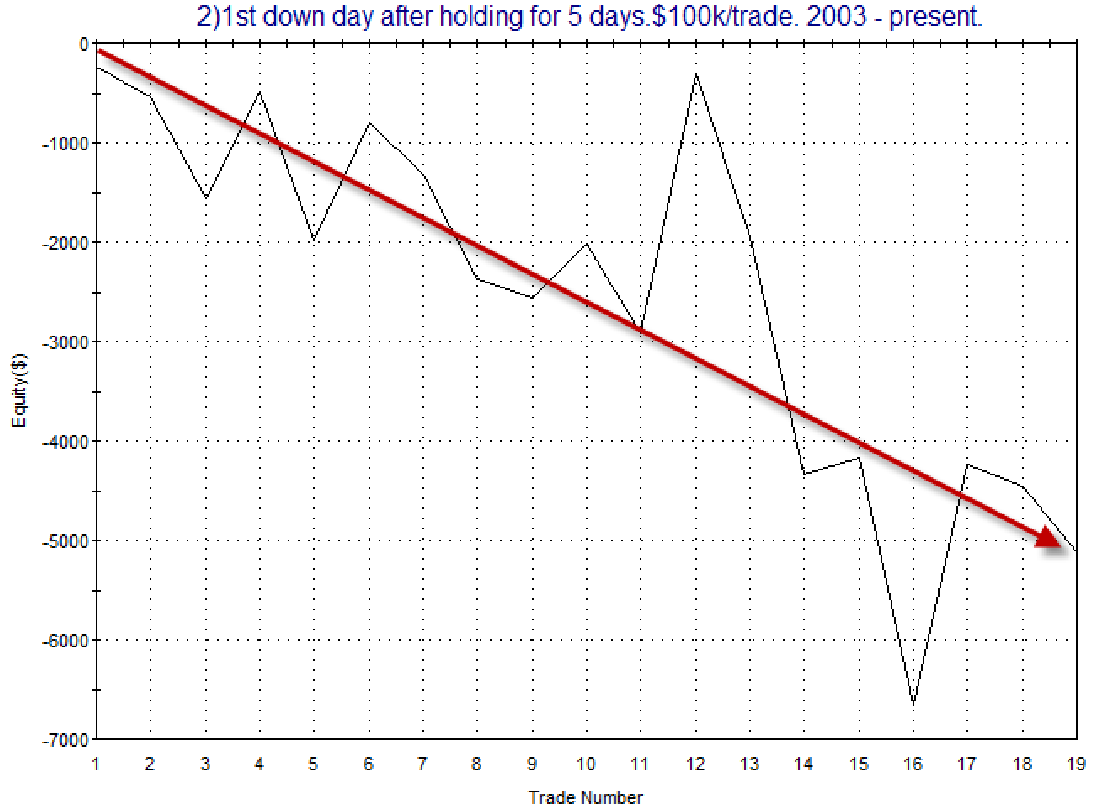
TradeStation Performance Summary Collapse

All Trades

Total Net Profit	($5,113.84)	Profit Factor	0.61
Gross Profit	$8,018.08	Gross Loss	($13,131.92)
Total Number of Trades	19	Percent Profitable	31.58%
Winning Trades	6	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	($269.15)	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	$1,336.35	Avg. Losing Trade	($1,010.15)
Largest Winning Trade	$2,617.60	Largest Losing Trade	($2,494.80)

As you can see, trying to short an overbought market with seasonality and trend strongly against you would have been a losing approach over the last 11 years. Let's take a look at the profit curve to see how it has played out.

Sell short if SPX closes in top 20% of 10-day range and all QE Market Timing Course signals are bullish. Exit upon 1) reversion through midpoint of 10-day range or 2)1st down day after holding for 5 days.$100k/trade. 2003 - present.



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This seems to confirm the difficulty in trying to short strongly trending markets during strongly bullish seasonal periods.

This leaves us with a bit of a conundrum. Will the weak liquidity win out, or will trend and seasonality prevail? If liquidity does begin to exert its influence here, then it will probably not take long for one, or both, of the price action indicators to come out of their bullish posture.

I intend to watch this closely. For the time being, I am not including the QE Buying Power short signals in the Aggregator calculation.

Since I wrote the above we have seen 6 short signals trigger. Below are the results of those signals.

QE Buying Power Swing System Short Signals.
Exit upon 1) reversion through midpoint of 10-day range, or
2) 1st down day after holding for at least 5 days.
$100k/trade. 10/31/14 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/07/14	Short	$2,031.92	(0.83%)	$85.75
11/19/14	Cover#2	$2,048.72		($1,183.84)
12/03/14	Short	$2,074.33	0.68%	$962.88
12/08/14	Cover	$2,060.31		($246.72)
12/18/14	Short	$2,061.23	(0.93%)	$9.60
12/30/14	Cover#2	$2,080.35		($1,551.36)
01/22/15	Short	$2,063.15	2.96%	$2,959.68
01/28/15	Cover	$2,002.16		$0.00
02/03/15	Short	$2,050.03	(0.90%)	$638.88
02/11/15	Cover#2	$2,068.53		($1,125.60)
03/18/15	Short	$2,099.42	1.83%	$1,803.39
03/25/15	Cover	$2,061.05		($725.68)

Three winners and three losers does not help greatly in determining a substantial edge. The winners have been larger, so that is a little encouraging for the bears. But at this point I am not inclined to override the fact that all 4 QE Market Timing Course signals remain bullish. That will no longer be the case next month, so I will need to reevaluate this again soon. But for tonight at least I am not inclined to list this as a bearish edge. Seasonality and trend remain too strong despite the short-term overbought reading and the lower Fed liquidity.

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I have updated the Aggregator chart below.

Without anything new being added tonight the green Aggregator Line again remained slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line stayed a little below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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 remained flat at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course that could change if new bearish evidence emerges. And any new evidence that emerges will have a strong impact on the Aggregator due to the current lack of short-term studies. The Differential Pivot will be 2081.90 on Friday. That is 0.4% below Thursday's close. So for SPX to move from overbought to oversold versus recent expectations it is going to need to close down at least 0.4% on Friday.

Like the last 2 nights, not only are both lines on opposite sides of zero, but they are both very close to it. In other words expectations are just mildly positive and SPX is overbought to a very minor degree. Traders could include the QE Buying Power System short signal in setting their bias. In that case, there would be a moderate downside edge apparent. For reasons discussed above, I did not do that. So I remain content to wait for more clarity and a more favorable reward/risk scenario before taking on new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/6– somewhat bullish

The intermediate-term outlook was last updated in the 4/6 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.

None tonight.

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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	$38.19	18.42%	$32.69	Aggressive VIX

VIX futures contango between the front two months closed at over 15% today for the 1st time since March 2013. That is a strong wind at the back of XIV. I will continue to look to ride this position until contango weakens substantially or there appears to be a clear short-term bearish edge. For more information on the impact of contango on XIV, please check out the VIX-based Systems & Research page.

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