

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 14, 2015

Volume 8 Issue 70

Market Overview



Signals Overview

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

Tonight's Research Points

- Monday's spiking VIX and mild SPX decline appear to be a bullish combination.

Short-term Outlook

The Bottom Line

Outlook remains neutral with the market still overbought. But a down close on Tuesday would almost certainly leave the Aggregator bullish.

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						
April 14, 2015	VIX up 10%. SPX no 1% drop	1-5 days	Bullish			
April 13, 2015	April opex bullish	1-3 days	Bullish	1.80%	-0.90%	-2.10%
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						
April 1, 2015	Pullback into month end	1-5 days	Bullish			
March 26, 2015	1% drop on weak breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%

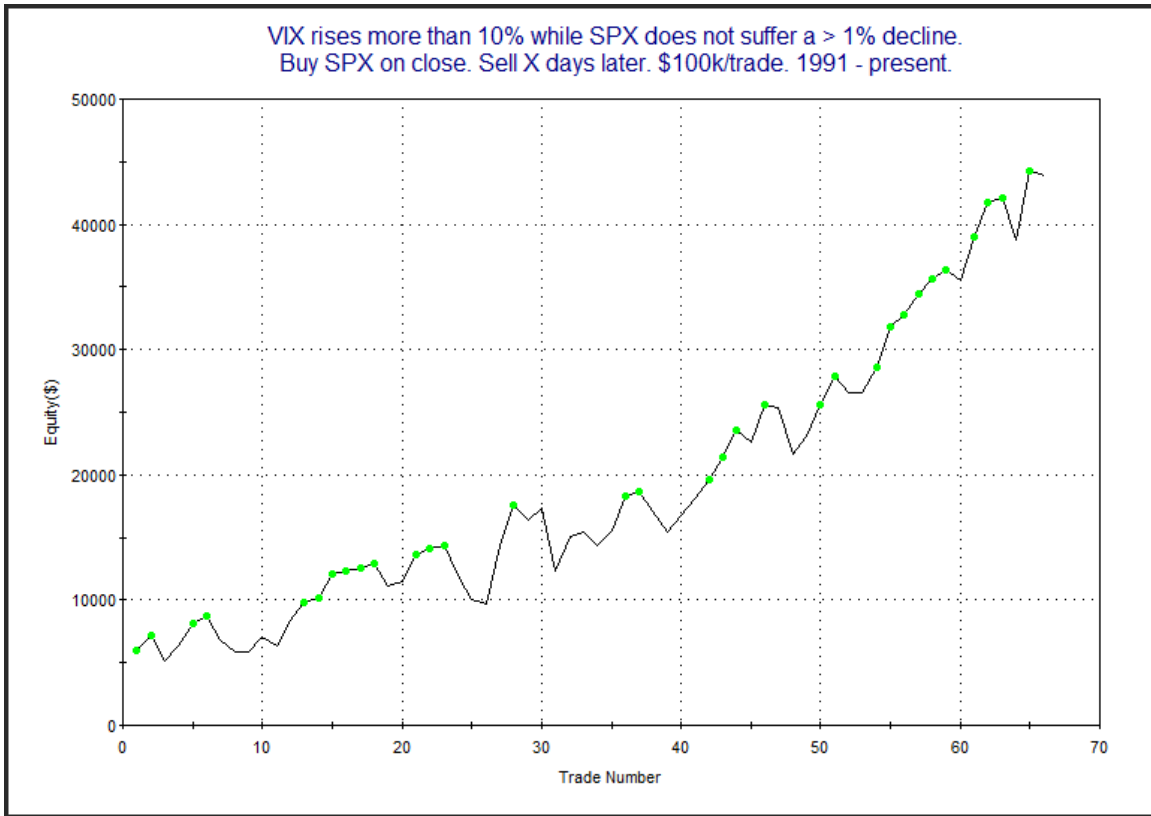
The Evidence

Monday was a mixed day for the market. The SPX closed down 0.5% and the NASDAQ fell 0.15%, but the Russell 2000 closed up a little less than 1 point. Breadth was negative as the NYSE Up Issues % came in at 35% and the Up Volume % was 37%. Total NYSE volume declined from Friday's level.

What stuck out to me today was the large spike in the VIX (over 10%) despite the relatively small drop in the SPX. I decided to take a look at other times where the VIX spiked this much and SPX did not even drop 1%. Below are the results.

VIX rises more than 10% while SPX does not suffer a > 1% decline. 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
5	43,929.00	66	44	22	66.67	1,750.00	5,945.60	-1,503.24	-4,961.56	1.16	2.33	665.59
4	35,247.96	67	44	23	65.67	1,596.50	6,316.80	-1,521.66	-3,551.20	1.05	2.01	526.09
3	27,136.42	68	43	25	63.24	1,272.87	4,953.60	-1,103.89	-2,720.24	1.15	1.98	399.06
2	11,479.45	70	40	30	57.14	940.19	4,424.50	-870.94	-2,407.96	1.08	1.44	163.99
1	3,966.75	70	38	32	54.29	600.39	2,007.50	-589.00	-1,541.70	1.02	1.21	56.67

The numbers here all seem to favor the bulls. Below is a look at the profit curve for a 5-day holding period.



The curve has sloped upwards for a long time and the edge has been fairly steady. This appears to suggest the fear that caused the VIX to spike on Monday might have been overdone. Odds favor a move higher from here based on this study, which I have added to the Active List.

I have updated the [Aggregator](#) chart below.



With tonight's study factored in the green Aggregator Line stayed well above 0. Positive readings mean net expectations from the Active List are for upside 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 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 Tuesday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 2092.10 on Tuesday. That is less than 1 point below Monday's close. So SPX will turn oversold versus expectations on just about any down close on Tuesday.

Oversold with bullish expectations going into seasonal strength (see April opex and Tax day studies from last night) would appear to be a favorable reward/risk opportunity. We are not quite there yet, though. SPX needs to first close down on Tuesday. If that happens, it will make me a buyer. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/13– somewhat bullish

The intermediate-term outlook was last updated in the 4/13 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 @ \$209.08 LIMIT ON CLOSE. Based on the short-term outlook above, I'll look to start scaling in on any down close on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$38.78	20.25%	\$32.69	Aggressive VIX

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