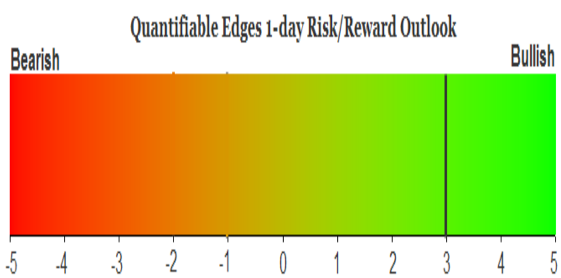
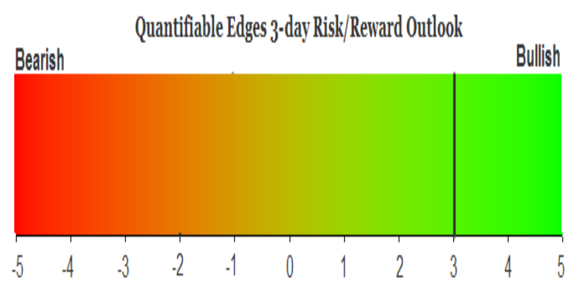
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2015 Volume 8 Issue 114

Market Overview





Signals Overview

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

Tonight's Research Points

- Under similar circumstances "Turnaround Tuesday" has failed to live up to its reputation.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- VIX spikes to new high when SPX > 200 have been short-term bullish for SPX.

Short-term Outlook
The Bottom Line

More bullish evidence emerged and the market is now squarely oversold. This points to a short-term 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						
June 16, 2015	2x unfilled gap down > 200ma	1-6 days	Bullish			
June 16, 2015	VIX spike 50-high. SPX > 200ma	1-2 days	Bullish			
June 15, 2015	Unfilled gap down after unfilled gap up.	1-2 days	Bearish			
June 10, 2015	4 lower lows. 20-day low > 200ma	1-8 days	Bullish	2.40%	-1.50%	-2.70%
Active - Long Term						
June 16, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%
May 18, 2015	NASDAQ leading SPX	int term	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

For the 2nd day in a row the market opened poorly and never recovered. The SPX lost 0.5%, the NASDAQ declined 0.4%, and the Russell 2000 fell 0.3%. Breadth was also negative as the NYSE Up Issues % came in at 35% and the Up Volume % was 24%. Total NYSE volume rose a little from Friday's light level.

Notable about the price action over the last 2 days is that both Friday and Monday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured just recently in the 6/1/15 letter. Results are updated.

SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1998 - 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	43,234.60	35	26	9	74.29	2,157.22	5,325.39	-1,428.13	-4,320.54	1.51	4.36	1,235.27
9	41,904.08	36	28	8	77.78	1,962.62	4,882.41	-1,631.14	-4,075.15	1.20	4.21	1,164.00
8	35,147.56	36	24	11	66.67	2,040.55	4,742.40	-1,256.88	-4,700.95	1.62	3.54	976.32
7	28,269.68	37	25	11	67.57	1,968.31	4,429.74	-1,903.47	-4,604.10	1.03	2.35	764.05
6	31,948.41	37	27	10	72.97	1,758.02	3,828.72	-1,551.82	-3,671.57	1.13	3.06	863.47
5	25,253.09	37	26	11	70.27	1,491.98	3,940.02	-1,230.75	-3,627.12	1.21	2.87	682.52
4	15,892.27	37	26	11	70.27	1,132.83	4,388.28	-1,232.84	-3,342.64	0.92	2.17	429.52
3	6,315.90	37	22	15	59.46	899.51	3,325.14	-898.23	-2,747.01	1.00	1.47	170.70
2	5,420.11	37	20	17	54.05	883.97	2,948.14	-721.13	-2,436.12	1.23	1.44	146.49
1	7,704.67	37	24	13	64.86	694.83	1,974.15	-690.10	-1,849.26	1.01	1.86	208.23

35 of 37 instances (94%) closed above the entry price at some point in the enxt week.

The numbers appear to suggest s strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.

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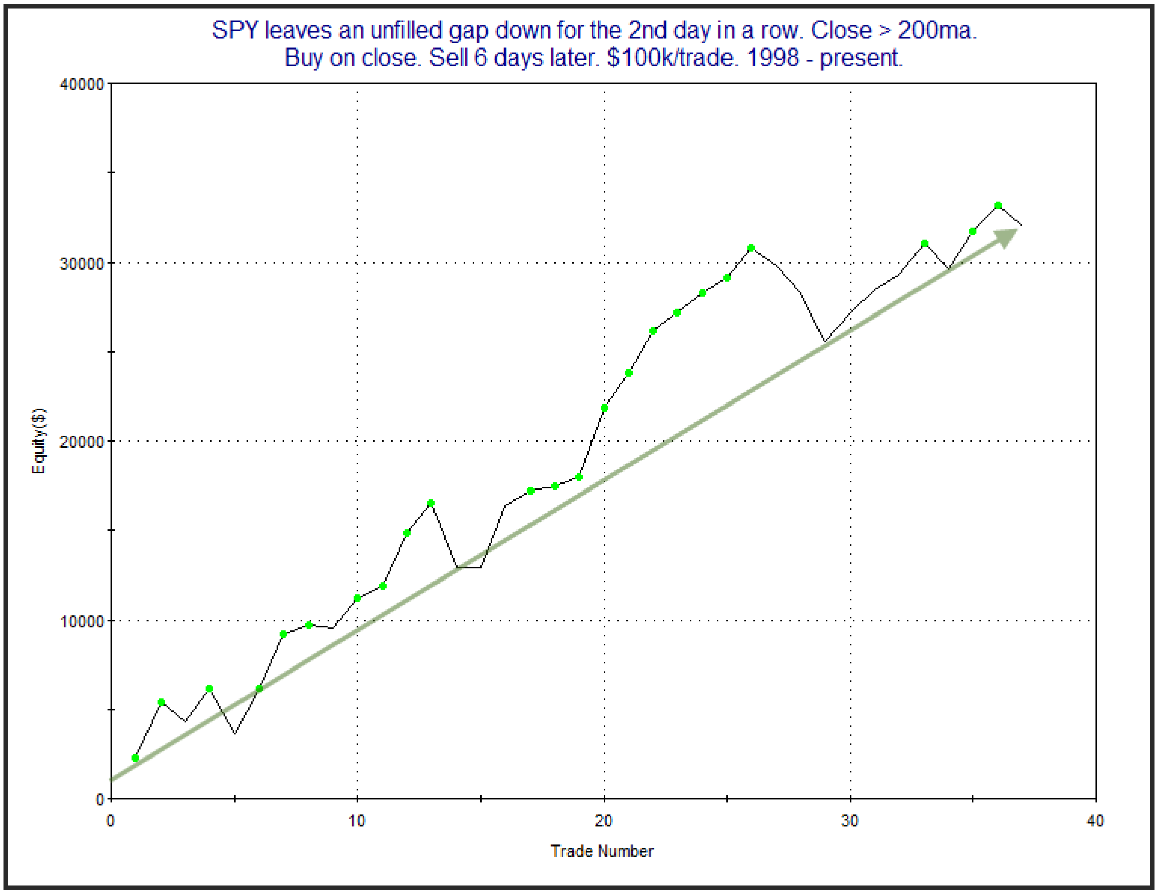

The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.

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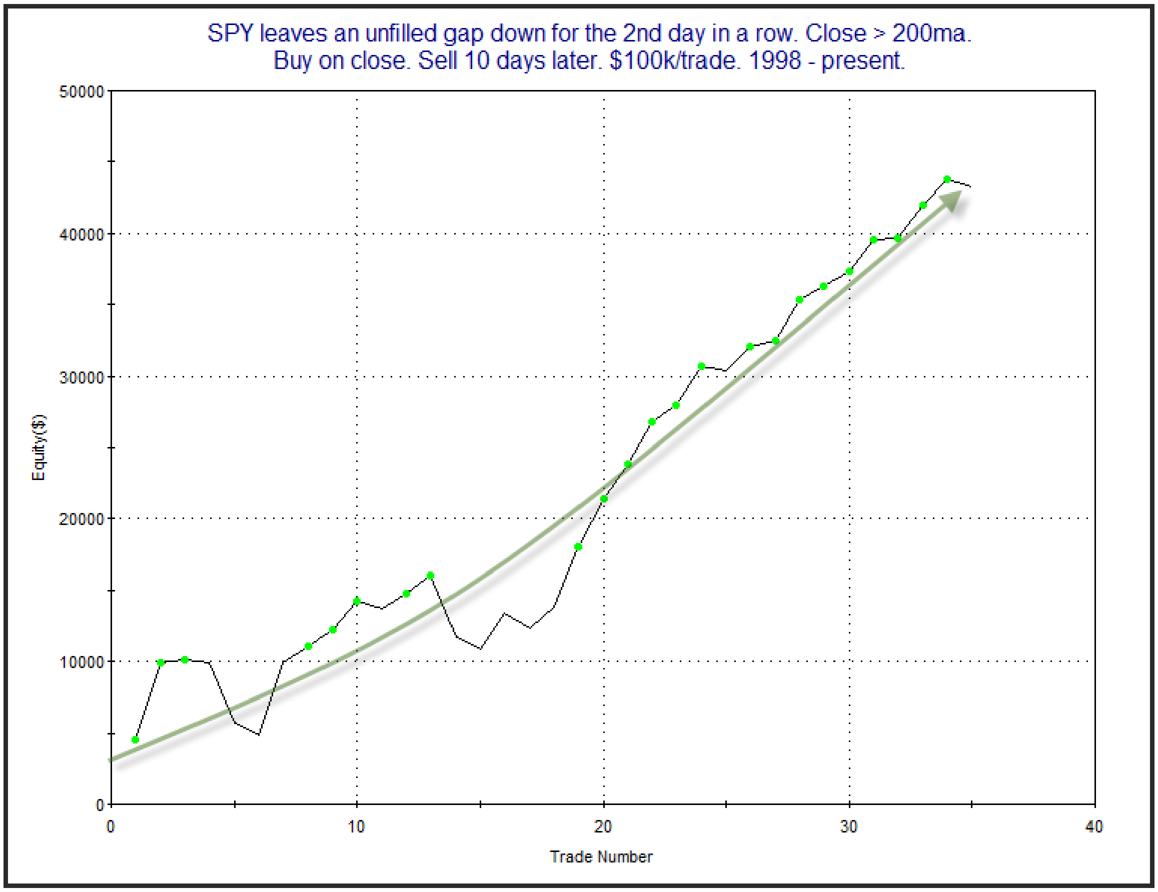

This is also impressive. I have included this study on both the Short and Intermediate-term Active Lists tonight.

It is also notable that the VIX spiked up 11.7% on Monday and closed at the highest level since March. In the past when it has closed at a high level on a strong move there has been a tendency for the SPX to bounce over the next 1-2 days. This can be seen in the study below from the 10/8/13 letter. (Stats are updated.)

VIX posts biggest % gain in 10 days and closes at a 50-day high. SPX > 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 1997 - 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	24,084.87	34	18	16	52.94	2,455.29	7,070.28	-1,256.90	-3,385.80	1.95	2.20	708.38
4	23,766.59	34	23	11	67.65	1,966.05	4,546.84	-1,950.24	-3,863.84	1.01	2.11	699.02
3	17,553.07	37	23	14	62.16	1,564.55	4,042.74	-1,316.54	-2,576.01	1.19	1.95	474.41
2	21,252.52	37	24	13	64.86	1,279.22	4,809.66	-726.83	-2,726.97	1.76	3.25	574.39
1	5,572.74	39	24	15	61.54	831.89	5,117.46	-959.51	-1,949.22	0.87	1.39	142.89

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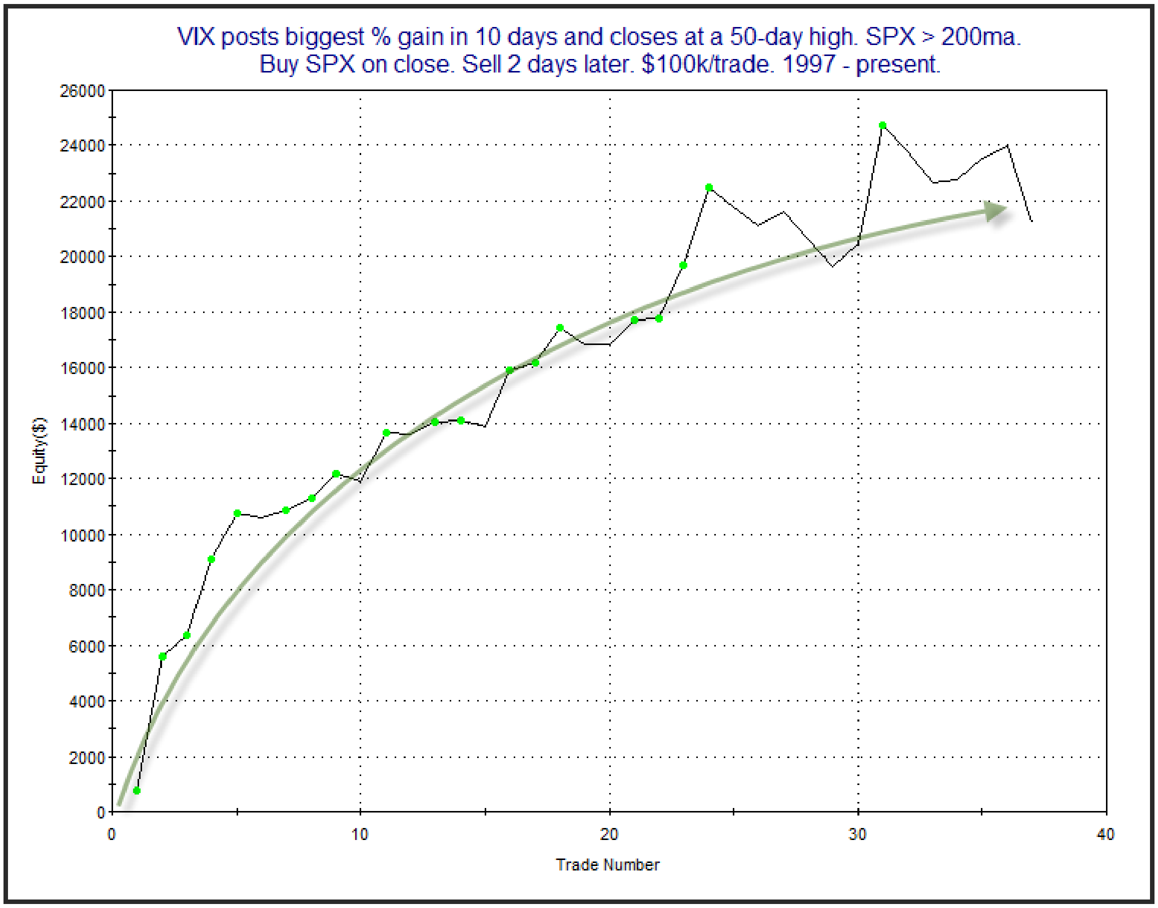
The numbers appear compelling. Below is a profit curve using a 2-day hold.



This study has struggled some recently, but the long-term upward bias does not appear broken yet. I will be keeping an eye on it, but have added it to the Short-Term Active List tonight.

As I laid out in the "Turnaround Tuesday" study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But I as I showed in the 2/10/15 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

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SPX closes down for the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. $100k/trade. 2000 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$22,483.55	Profit Factor	1.78
Gross Profit	$51,324.69	Gross Loss	($28,841.14)
Total Number of Trades	79	Percent Profitable	53.16%
Winning Trades	42	Losing Trades	37
Even Trades	0		
Avg. Trade Net Profit	$284.60	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	$1,222.02	Avg. Losing Trade	($779.49)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. $100k/trade. 2000 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$23,315.03	Profit Factor	2.83
Gross Profit	$36,050.39	Gross Loss	($12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	$1,716.69	Avg. Losing Trade	($1,061.28)

We see here under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

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SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. $100k/trade. 2000 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	($831.48)	Profit Factor	0.95
Gross Profit	$15,274.30	Gross Loss	($16,105.78)
Total Number of Trades	46	Percent Profitable	45.65%
Winning Trades	21	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	($18.08)	Ratio Avg. Win:Avg. Loss	1.13
Avg. Winning Trade	$727.35	Avg. Losing Trade	($644.23)
Largest Winning Trade	$1,548.33	Largest Losing Trade	($2,190.26)

"Turnaround Tuesday" sure doesn't fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats close to breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that "Turnaround Tuesday" does not seem to provide a strong bullish edge under these circumstances. So I'll instead be leaning on the first 2 studies tonight to provide evidence for the Aggregator.

I have updated the Aggregator chart below.

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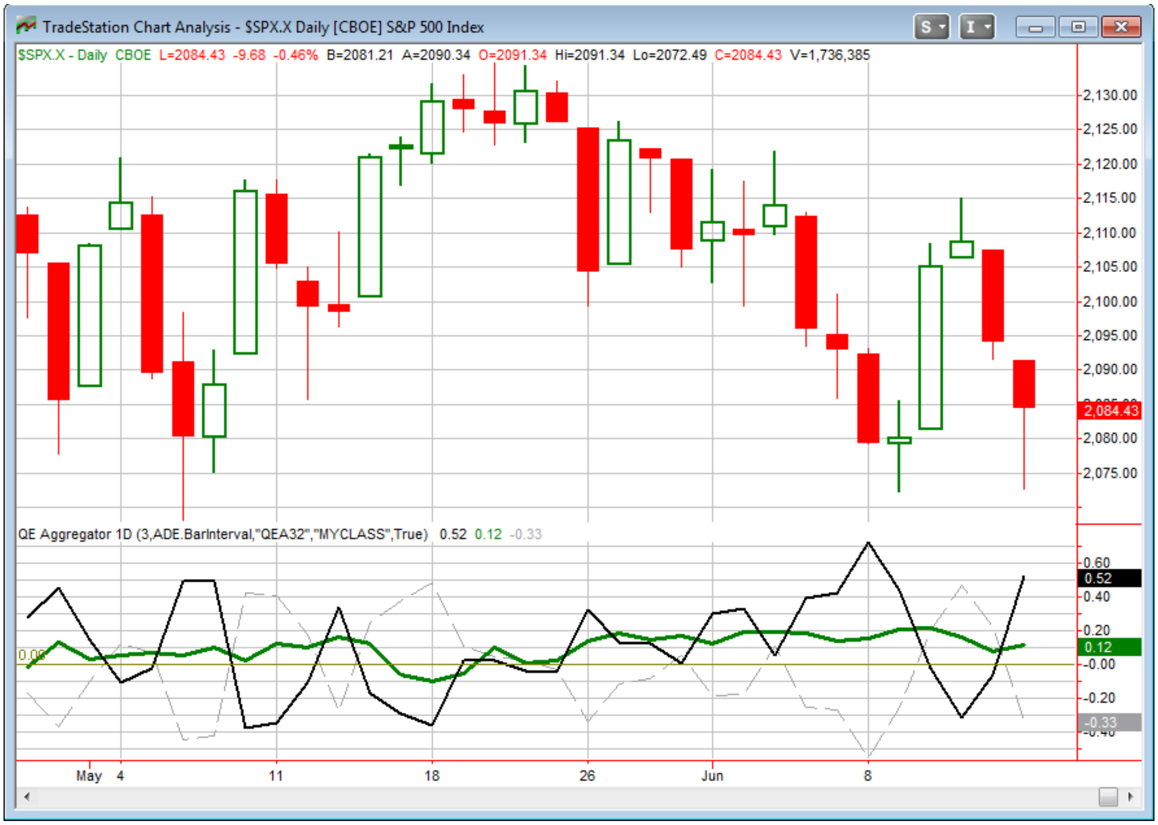

New evidence tonight helped the green Aggregator Line remain above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved strongly above 0. The positive Differential Line reading means SPX is oversold versus recent 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 turned long at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. This could change if strong bearish evidence emerges. The Differential Pivot will be 2120.82 on Tuesday. That is 1.75% above Monday's close. So SPX would need to close up at least this much on Tuesday in order to flip back to "overbought". That would be a very big rally. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

We have some new bullish evidence to consider, an oversold market, and plenty of room to the upside before SPX will turn overbought. This all suggests to me a solid reward/risk opportunity. Therefore I will look to start scaling into a long position to try and take advantage of the anticipated bounce. Details in the Trade Ideas section down below.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 6/15– slightly bullish

The intermediate-term outlook was last updated in the 6/15 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 @ $209.11 LIMIT. Based on the short-term section above, I will look to start scaling into an index position if I can get filled <= Monday's closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	$32.25	$44.72	38.67%	$40.40	Aggressive VIX

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