

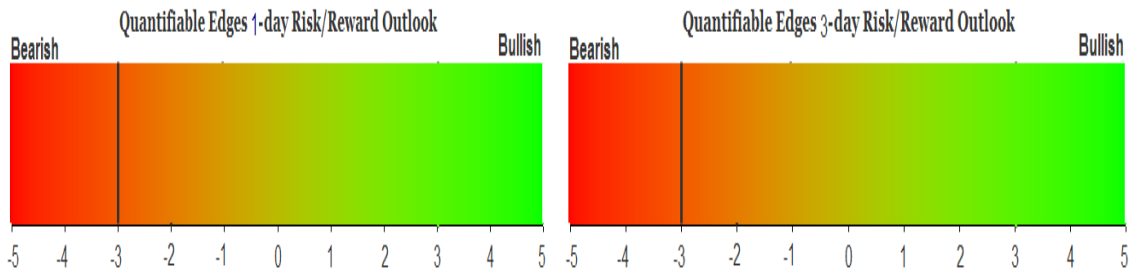
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 19, 2015

Volume 8 Issue 117

Market Overview



Signals Overview

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

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.
- The QE Buying Power Swing System is now short.
- Opex Friday commonly experiences intraday weakness.

Short-term Outlook

The Bottom Line

The rally over the last few days has turned the market short-term overbought. Meanwhile, we are now seeing bearish evidence emerge. This suggests a downside edge.

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 20, 2015	QE Buy Pwr Short / Opex overbought	1-5 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			
Dropped Tonight						
June 16, 2015	2x unfilled gap down > 200ma	1-6 days	Bullish	2.00%	-1.40%	-2.45%

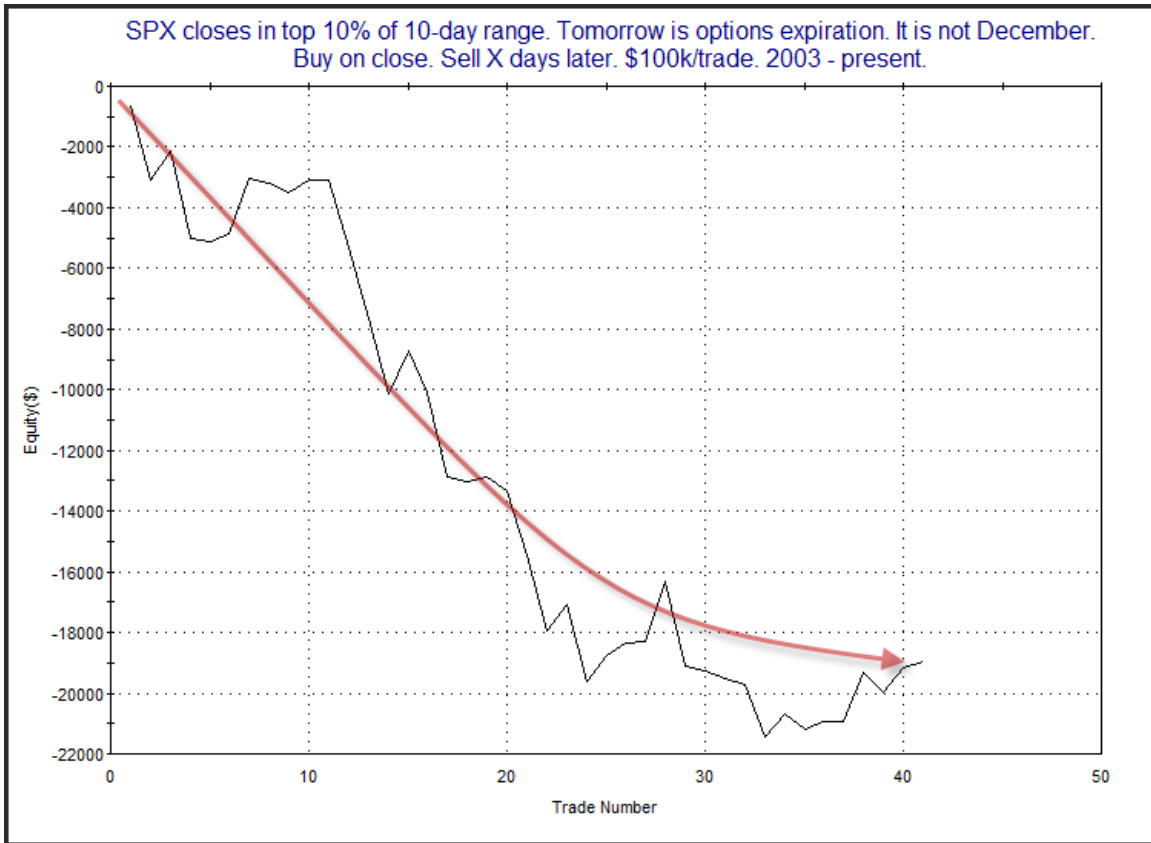
The Evidence

The market enjoyed a strong move higher on Thursday. The SPX gained 1.0%, the NASDAQ rose 1.3%, and the Russell 2000 rallied 1.3%. Breadth was positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 73%. Total NYSE volume rose from Wednesday's level.

The study below last appeared in the 8/15/14 Letter. It looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2nd half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market. The results below are all updated.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	-20,835.09	41	16	25	39.02	860.58	3,768.30	-1,384.17	-4,932.90	0.62	0.40	-508.17
4	-18,958.13	41	17	24	41.46	755.57	1,994.25	-1,325.12	-2,899.20	0.57	0.40	-462.39
3	-10,972.85	41	20	21	48.78	692.46	2,166.00	-1,182.00	-2,828.70	0.59	0.56	-267.63
2	-8,996.05	41	26	15	63.41	454.77	1,588.40	-1,388.01	-3,784.65	0.33	0.57	-219.42
1	-2,557.11	41	23	18	56.10	376.21	2,286.84	-622.77	-2,875.60	0.60	0.77	-62.37

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



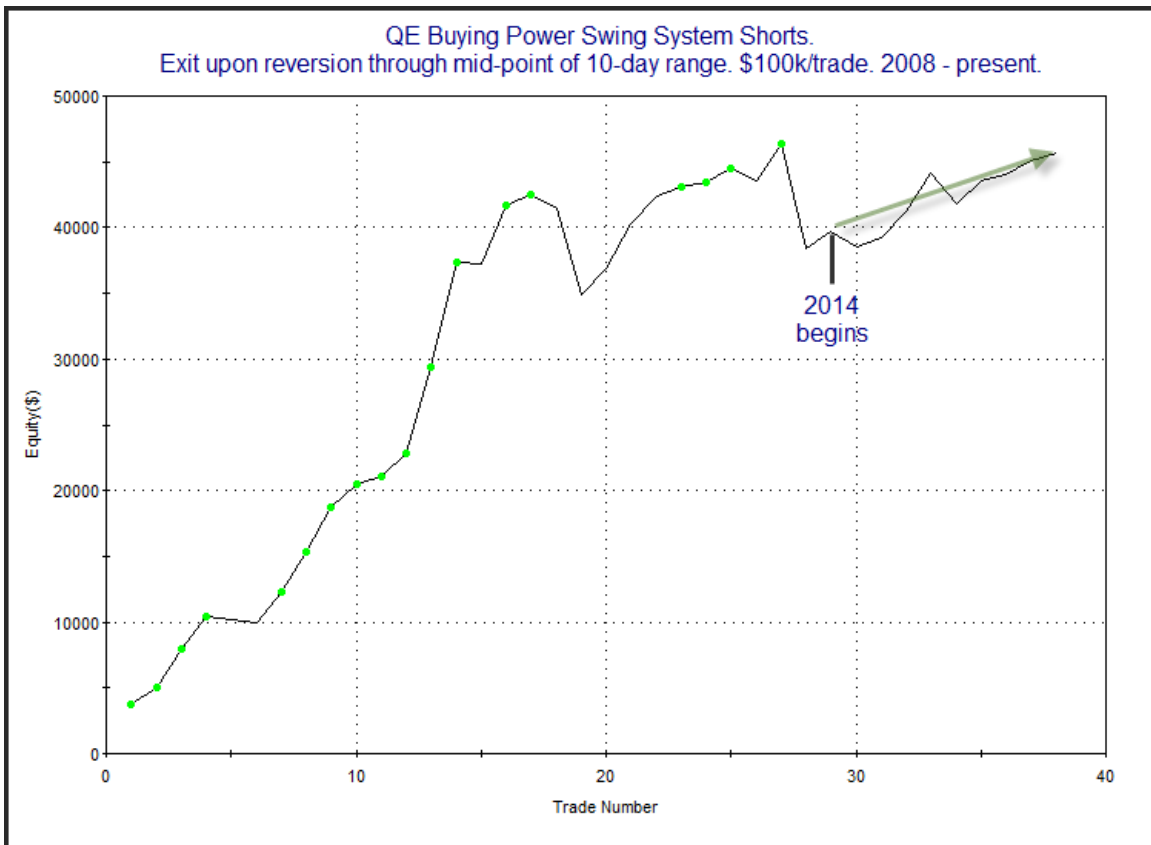
Recent instances have seen a little move upwards, so this study does need to be watch closely.

It is also notable that the QE Buying Power Swing System triggered short on Thursday. The performance table below shows updated hypothetical results 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.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November.

QE Buying Power Swing System Shorts. Exit upon reversion through mid-point of 10-day range. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse ↕
All Trades			
Total Net Profit	\$45,694.42	Profit Factor	3.24
Gross Profit	\$66,062.82	Gross Loss	(\$20,368.40)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$1,202.48	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$2,278.03	Avg. Losing Trade	(\$2,263.16)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

With QE3 having lasted so long I was wary of how shorts would work out with the strong seasonality and strong uptrend the market had coming into November. But while the uptrend has persisted, the short side has still offered profitable opportunities. Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 trades began.



Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

QE Buying Power Swing System Shorts. Exit upon reversion through mid-point of 10-day range. \$100k/trade. 2014 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/07/14	Short	\$2,031.92	(1.06%)	\$85.75
12/01/14	Cover	\$2,053.44		(\$2,148.16)
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	1.97%	\$2,106.72
01/05/15	Cover	\$2,020.58		(\$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	(2.37%)	\$638.88
03/04/15	Cover	\$2,098.53		(\$3,338.88)
03/18/15	Short	\$2,099.42	1.83%	\$1,803.39
03/25/15	Cover	\$2,061.05		(\$725.68)
04/09/15	Short	\$2,091.18	0.48%	\$884.07
04/17/15	Cover	\$2,081.18		(\$974.31)
04/22/15	Short	\$2,107.96	1.07%	\$1,427.39
04/30/15	Cover	\$2,085.51		(\$844.12)
05/08/15	Short	\$2,116.10	0.56%	\$1,434.91
05/26/15	Cover	\$2,104.20		(\$875.14)

There were a few sizable drawdowns, and several of these required some patience. But the trades overall have done quite well.

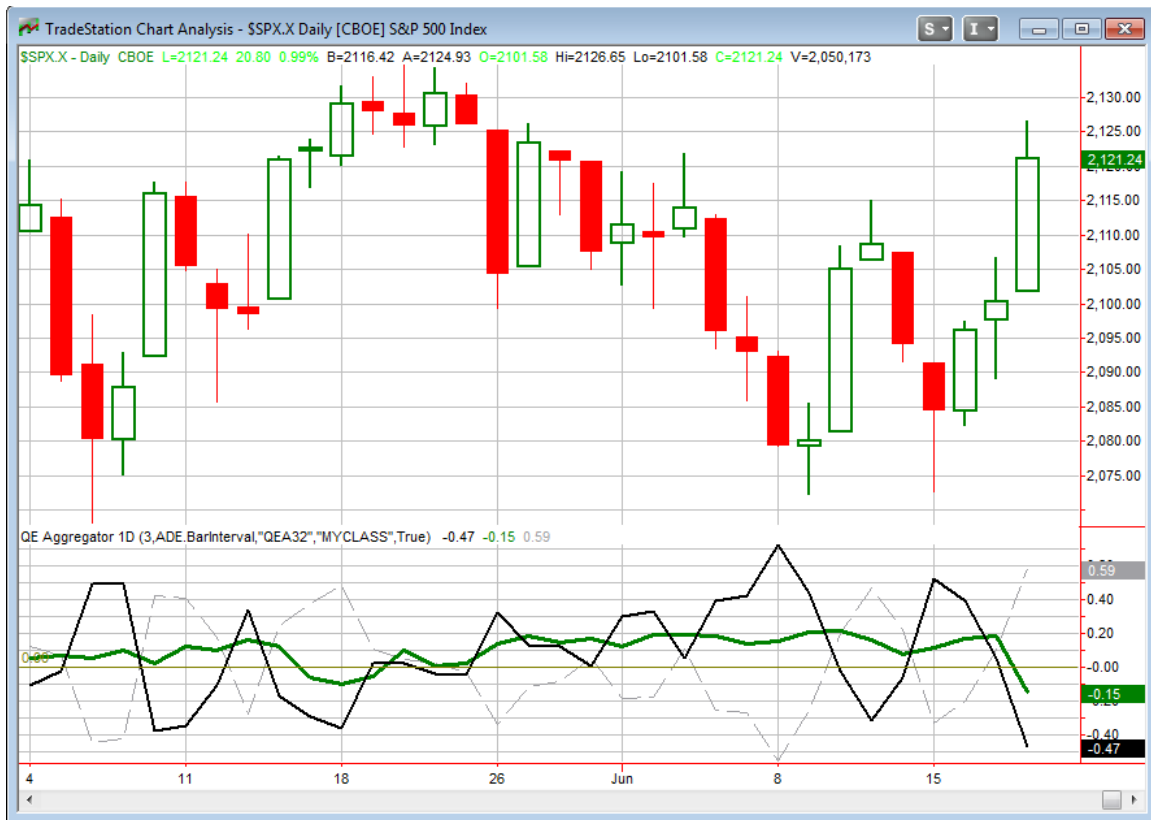
So we have two bits of evidence suggesting this is not a good time for SPX to be overbought. 1) Tomorrow is Opex Friday, and 2) the QE Buying Power Index is zero. I also decided to see how that combination has played out over the years.

QE Buying Power System short criteria is met on Opex Thursday. Short on close. Cover upon reversion through mid-point of 10-day range. \$100k/trade. '08 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/15/08	Short	\$1,423.57	2.31%	\$2,433.20
05/21/08	Cover	\$1,390.71		(\$1,166.90)
01/14/10	Short	\$1,148.46	0.91%	\$1,671.27
01/20/10	Cover	\$1,138.04		(\$173.13)
03/18/10	Short	\$1,165.83	(2.26%)	\$1,100.75
04/16/10	Cover	\$1,192.13		(\$4,087.65)
06/17/10	Short	\$1,116.04	2.15%	\$2,734.97
06/23/10	Cover	\$1,092.04		(\$1,351.91)
07/15/10	Short	\$1,096.48	2.45%	\$3,603.60
07/21/10	Cover	\$1,069.59		\$0.00
11/20/14	Short	\$2,052.75	(0.03%)	\$152.64
12/01/14	Cover	\$2,053.44		(\$1,104.48)
02/19/15	Short	\$2,097.45	(0.05%)	\$564.47
03/04/15	Cover	\$2,098.53		(\$1,040.58)
04/16/15	Short	\$2,104.99	1.13%	\$1,533.14
04/17/15	Cover	\$2,081.18		\$0.00
05/14/15	Short	\$2,121.10	0.80%	\$1,030.24
05/26/15	Cover	\$2,104.20		(\$640.14)

These results appear favorable for shorts.

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



With the bearish evidence emerging on Thursday the green Aggregator Line fell below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal flipped to short at the close.

Based on the current active studies, expectations are set to remain negative on Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2103.85 on Friday. That is 0.8% below Thursday's close. So SPX would need to close down at least 0.8% in order to turn from overbought to oversold.

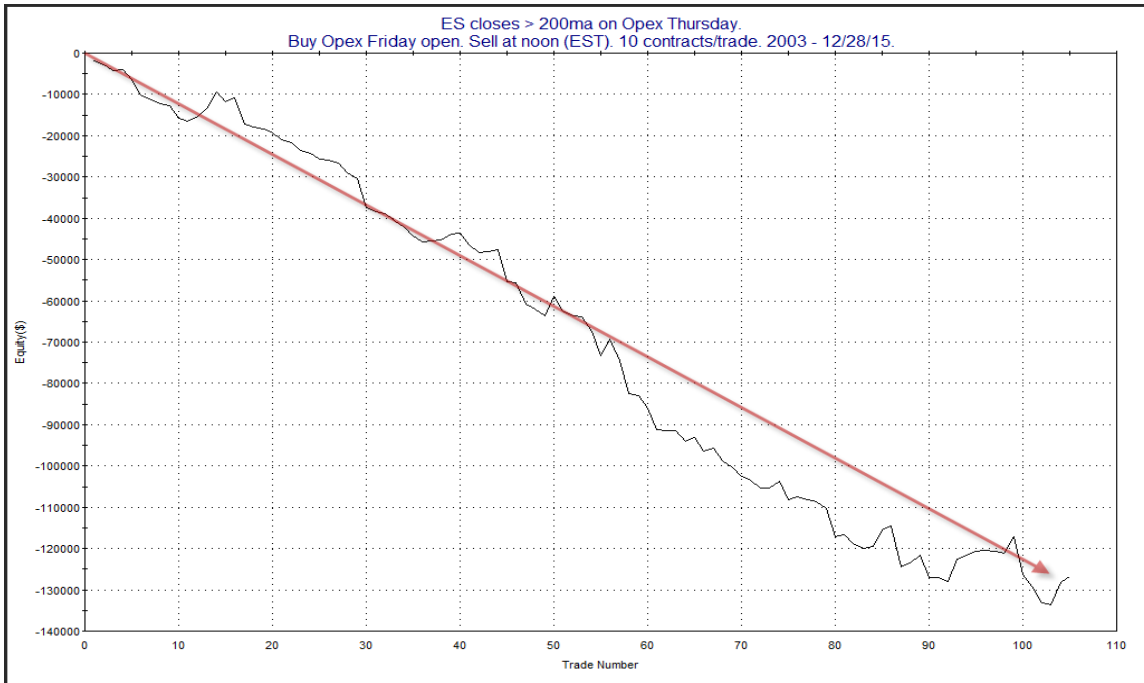
Tonight's evidence is fairly compelling for the bears. And with the Differential Pivot a good amount lower down there seems to be some room to profit. Additionally, Opex Friday tends to be a bearish day between the open and the close. This can be seen in the study below, which I copied from the 3/20/15 subscriber letter. I'm a little wary of shorting into a strong uptrend with a "slightly bullish" intermediate-term outlook. But I think there is a downside edge, so I will look to scale in short on Friday if I can get an opportunistic fill.

Excerpt from 3/20/15 Letter

One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

ES closes > 200ma on Opex Thursday. Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - 12/28/15.												
OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-110,125.00	105	44	58	41.90	2,431.82	13,875.00	-3,743.53	-16,125.00	0.65	0.49	-1,048.81
1,500	-118,750.00	105	36	66	34.29	2,350.69	9,875.00	-3,081.44	-11,625.00	0.76	0.42	-1,130.95
1,400	-124,750.00	105	31	68	29.52	2,072.58	9,875.00	-2,779.41	-10,750.00	0.75	0.34	-1,188.10
1,300	-123,500.00	105	31	73	29.52	1,907.26	9,625.00	-2,501.71	-10,000.00	0.76	0.32	-1,176.19
1,200	-126,750.00	105	30	75	28.57	1,704.17	5,625.00	-2,371.67	-9,750.00	0.72	0.29	-1,207.14
1,100	-86,250.00	105	37	66	35.24	1,432.43	7,250.00	-2,109.85	-7,625.00	0.68	0.38	-821.43
1,000	-71,500.00	105	28	75	26.67	767.86	3,250.00	-1,240.00	-3,625.00	0.62	0.23	-680.95

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side during the morning on Friday.

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 - Sell short ¼ index share @ \$211.75 LIMIT ON OPEN. This is based on the short-term outlook above. Please note that SPY is going ex-div on Friday. Therefore I have placed the short limit price \$1.03 below Thursday's close. \$1.03 is the expected dividend. **If not filled on open, then cancel order and look to sell short @ \$211.75 LIMIT ON CLOSE.**

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$46.97	45.64%	\$41.95	Aggressive VIX
SPY(1/4)	6/16/2015	\$208.93	\$211.31	1.14%		<i>sold on open</i>

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