

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 1, 2015

Volume 8 Issue 125

Market Overview



Signals Overview

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

Tonight's Research Points

- The poor close on Tuesday's last day of the month set up Wednesday for a rise.
- Mild bounces from strong drops have shown mixed results over the years.

Short-term Outlook

The Bottom Line

Evidence continues to lean bullish and the market is still oversold. I expect a bounce in the next few days.

The Evidence

After a big selloff on Monday the market had a minor bounce-back Tuesday. The SPX rose 0.3%, the NASDAQ gained 0.5%, and the Russell 2000 closed up 0.6%. Breadth was positive as the NYSE Up Issues % came in at 61% and the Up Volume % was 51%. Total NYSE volume rose a little from Monday's level.

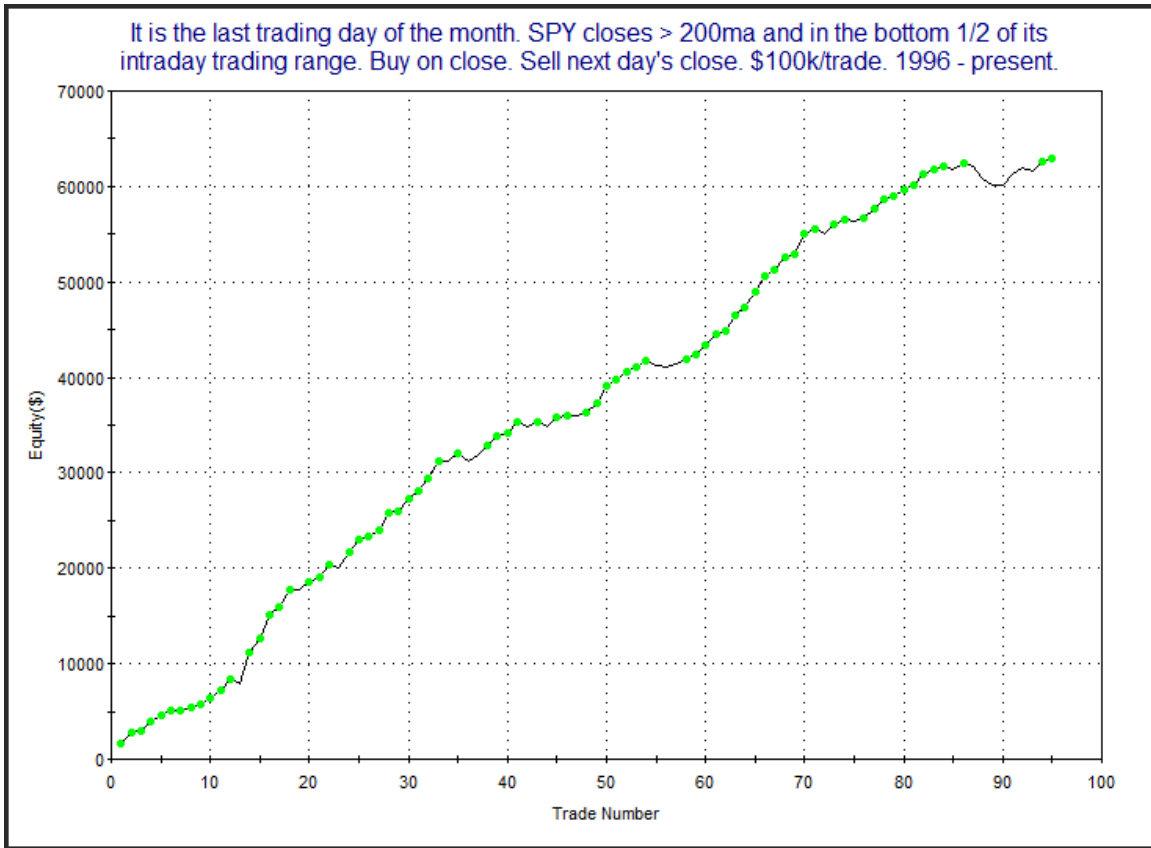
Quantifinder studies tonight were mixed. They focused on primarily 2 things: 1) oversold bounces, and 2) turn of the month bullishness. I'll cover the most compelling ones.

The first study to consider looked at all 1st days of the month and broke them down by whether the previous day closed in the top or bottom half of the daily range. It was from the 9/2/14 letter. First let's look at times (like now) where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom 1/2 of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

| TradeStation Performance Summary Collapse ^ | | | |
|--------------------------------------------------------------------------------|-------------|--------------------------|--------------|
| All Trades | | | |
| Total Net Profit | \$62,864.86 | Profit Factor | 10.19 |
| Gross Profit | \$69,702.22 | Gross Loss | (\$6,837.36) |
| Total Number of Trades | 95 | Percent Profitable | 81.05% |
| Winning Trades | 77 | Losing Trades | 18 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$661.74 | Ratio Avg. Win:Avg. Loss | 2.38 |
| Avg. Winning Trade | \$905.22 | Avg. Losing Trade | (\$379.85) |
| Largest Winning Trade | \$3,295.88 | Largest Losing Trade | (\$1,353.69) |

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 10x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 95 instances. Below is a profit curve.



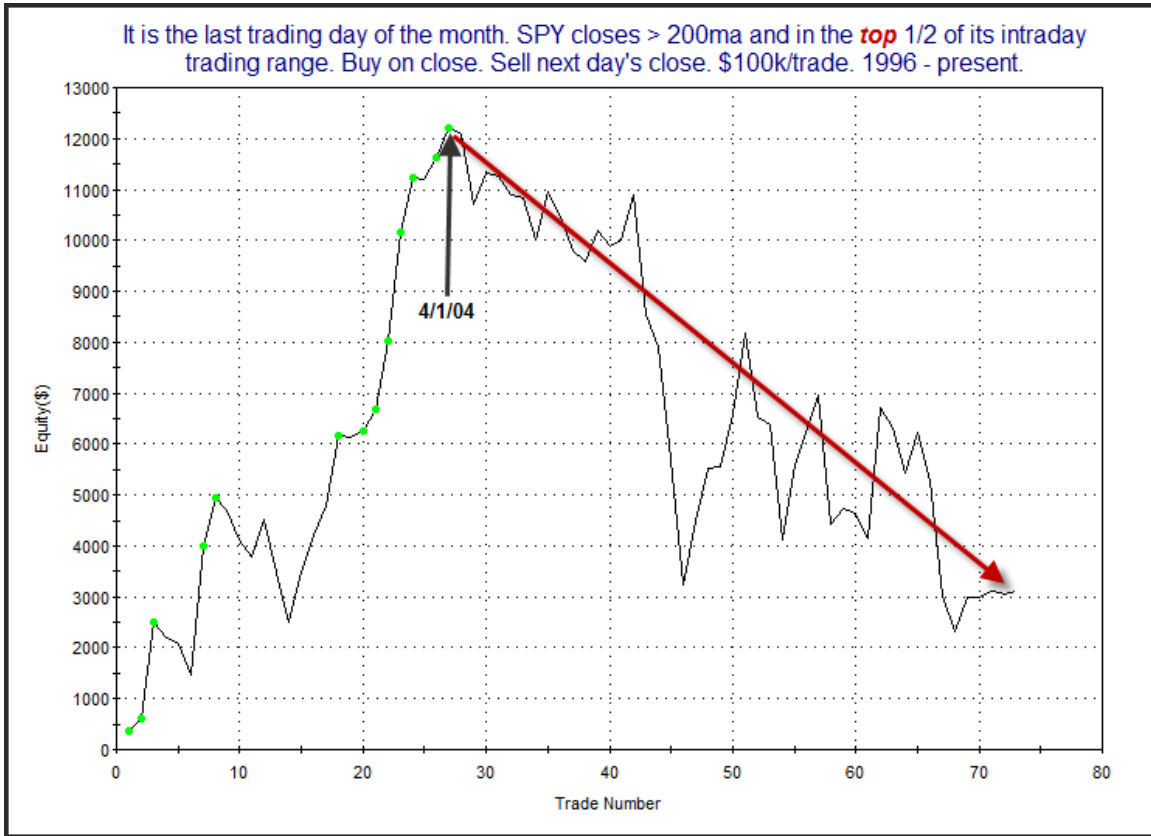
There was a little pullback a few instances back, but the curve appears to be back on track. The long and persistent upslope is impressive.

Let's also consider what the results would have looked like if SPY closed in the top half of its intraday range. (Also from the 9/2/14 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the **top** 1/2 of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

| TradeStation Performance Summary Collapse ^ | | | |
|--------------------------------------------------------------------------------|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$3,109.24 | Profit Factor | 1.11 |
| Gross Profit | \$32,005.51 | Gross Loss | (\$28,896.27) |
| Total Number of Trades | 73 | Percent Profitable | 50.68% |
| Winning Trades | 37 | Losing Trades | 36 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$42.59 | Ratio Avg. Win:Avg. Loss | 1.08 |
| Avg. Winning Trade | \$865.01 | Avg. Losing Trade | (\$802.67) |
| Largest Winning Trade | \$2,562.30 | Largest Losing Trade | (\$2,515.60) |

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



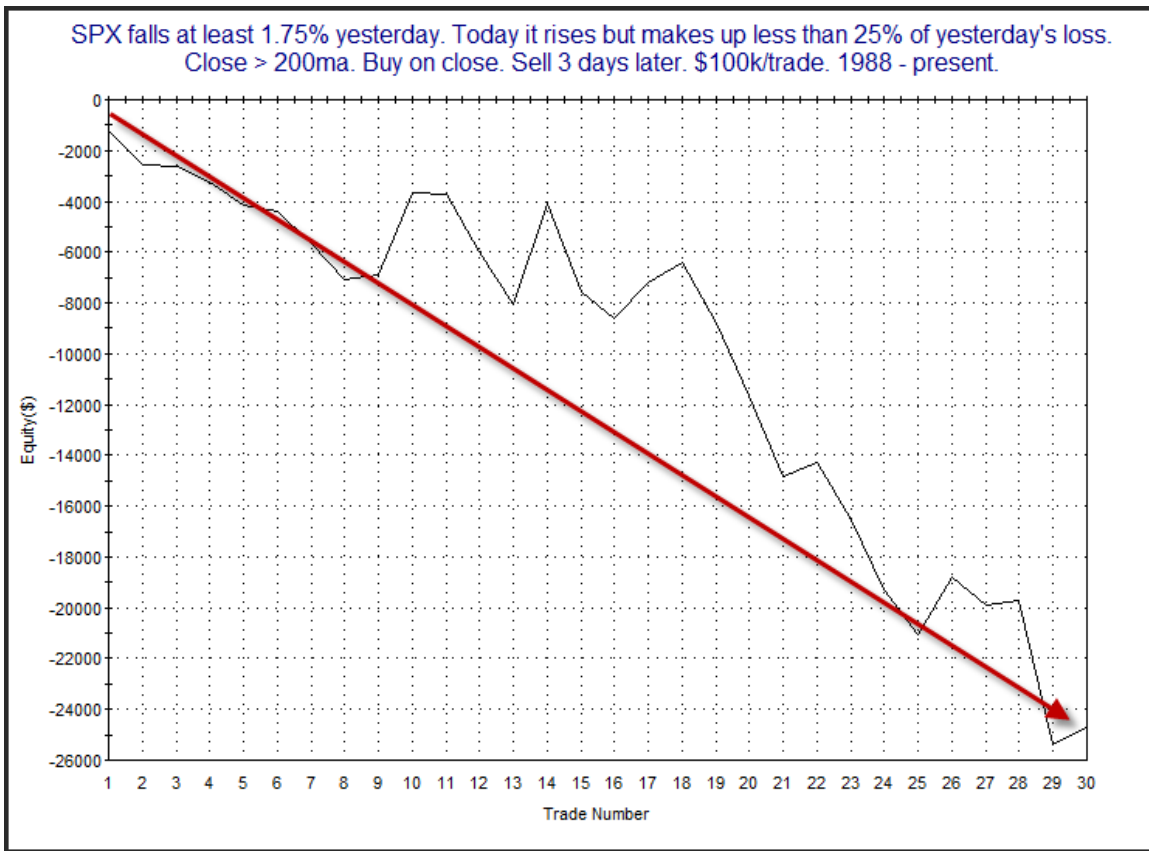
This paints an even bleaker picture. So it appears Monday's action may have been a good thing for Tuesday's chances.

The bounce also provided some clues – though they were mixed. On the one hand, the weak bounce after such a strong decline the day before generated this bearish study from the 6/25/12 letter.

SPX falls at least 1.75% yesterday. Today it rises but makes up less than 25% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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 | -16,683.31 | 30 | 12 | 18 | 40.00 | 1,556.07 | 4,769.00 | -1,964.23 | -5,506.23 | 0.79 | 0.53 | -556.11 |
| 4 | -20,238.96 | 30 | 11 | 19 | 36.67 | 1,617.56 | 2,587.95 | -2,001.69 | -4,284.75 | 0.81 | 0.47 | -674.63 |
| 3 | -24,733.32 | 30 | 9 | 21 | 30.00 | 1,462.54 | 3,939.79 | -1,804.58 | -5,685.45 | 0.81 | 0.35 | -824.44 |
| 2 | -19,074.19 | 31 | 13 | 18 | 41.94 | 662.39 | 2,794.56 | -1,538.07 | -3,844.10 | 0.43 | 0.31 | -615.30 |
| 1 | -14,655.71 | 31 | 11 | 20 | 35.48 | 587.50 | 1,669.20 | -1,055.91 | -2,302.95 | 0.56 | 0.31 | -472.76 |

Stats here are decidedly bearish. Below is a look at the 3-day profit curve.



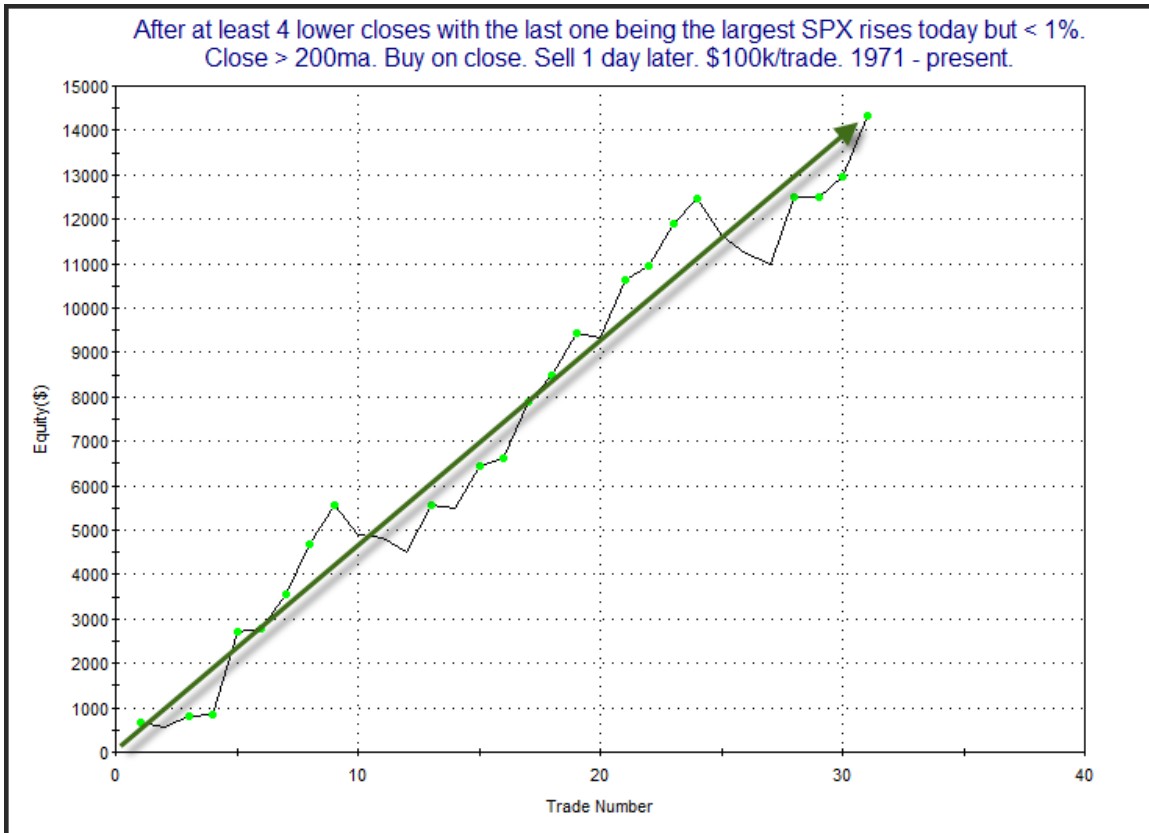
This would seem to confirm the bearish inclination suggested by the numbers.

But a couple of other studies suggested the bounce may have legs. This first one looked at moderate bounces after extended drops a bit differently. It was last seen in the 4/12/12 letter. Results are updated.

After at least 4 lower closes with the last one being the largest SPX rises today but < 1%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1971 - 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 | 16,623.68 | 31 | 20 | 11 | 64.52 | 1,312.77 | 2,692.16 | -875.62 | -1,752.18 | 1.50 | 2.73 | 536.25 |
| 4 | 16,520.80 | 31 | 22 | 9 | 70.97 | 1,013.50 | 2,948.67 | -641.81 | -1,854.16 | 1.58 | 3.86 | 532.93 |
| 3 | 9,337.56 | 31 | 20 | 11 | 64.52 | 919.80 | 2,713.95 | -823.50 | -2,321.70 | 1.12 | 2.03 | 301.21 |
| 2 | 11,738.90 | 31 | 20 | 11 | 64.52 | 974.52 | 3,047.41 | -704.68 | -1,546.60 | 1.38 | 2.51 | 378.67 |
| 1 | 14,334.65 | 31 | 22 | 9 | 70.97 | 779.39 | 1,863.54 | -312.43 | -835.05 | 2.49 | 6.10 | 462.41 |

Over the 1-5 day period there appears to be a bit of an upside edge. Most of the gains were realized on day one though. Below is a profit curve that assumes a one day holding period.



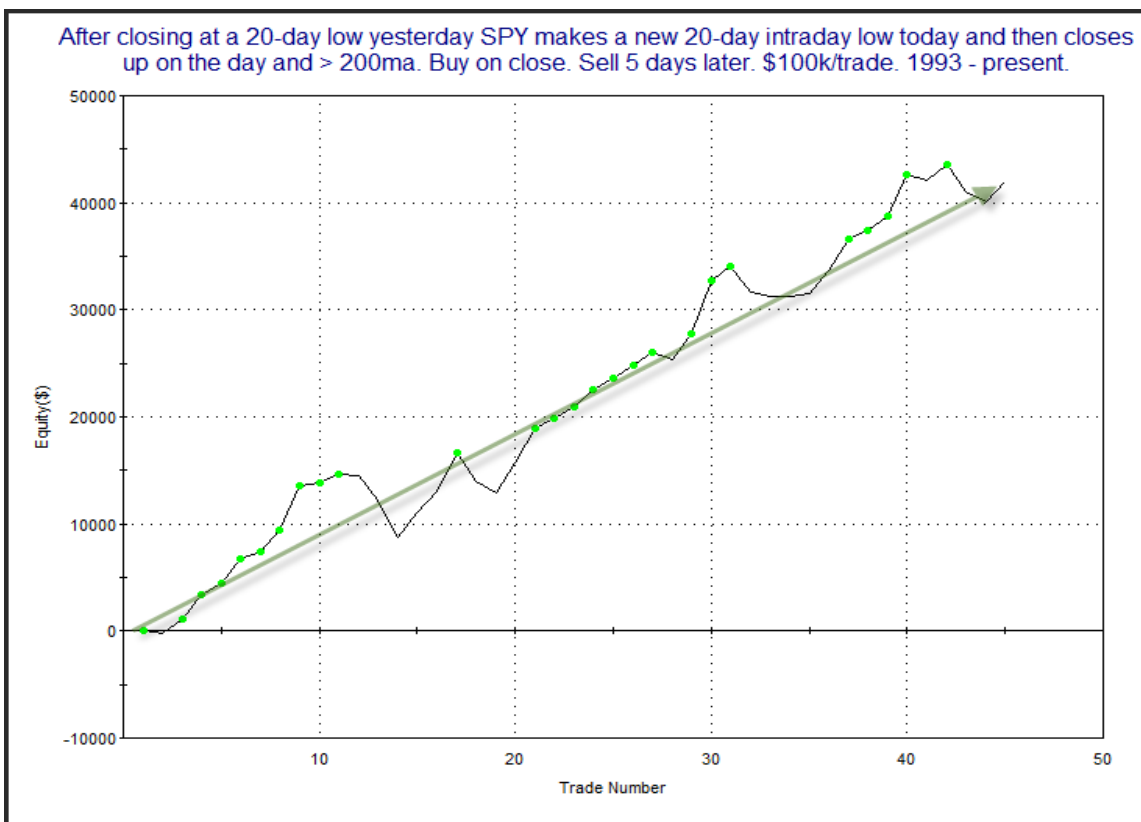
No complaints about that curve.

This next study was from the 9/25/14 letter. It examined bounces from 20-day low closes a little differently.

After closing at a 20-day low yesterday SPY makes a new 20-day intraday low today and then closes up on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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 | 56,696.67 | 41 | 31 | 10 | 75.61 | 2,357.58 | 6,600.62 | -1,638.83 | -3,844.83 | 1.44 | 4.46 | 1,382.85 |
| 9 | 50,825.54 | 42 | 29 | 13 | 69.05 | 2,598.18 | 5,915.43 | -1,886.28 | -4,258.20 | 1.38 | 3.07 | 1,210.13 |
| 8 | 44,681.24 | 43 | 30 | 13 | 69.77 | 2,427.36 | 5,306.40 | -2,164.58 | -4,268.86 | 1.12 | 2.59 | 1,039.10 |
| 7 | 49,195.24 | 44 | 30 | 14 | 68.18 | 2,390.64 | 5,585.14 | -1,608.85 | -3,531.11 | 1.49 | 3.18 | 1,118.07 |
| 6 | 45,002.44 | 45 | 33 | 12 | 73.33 | 2,073.57 | 5,411.67 | -1,952.13 | -3,952.19 | 1.06 | 2.92 | 1,000.05 |
| 5 | 42,011.72 | 45 | 32 | 12 | 71.11 | 1,854.21 | 5,029.50 | -1,443.58 | -3,450.35 | 1.28 | 3.43 | 933.59 |
| 4 | 33,309.81 | 45 | 30 | 15 | 66.67 | 1,625.06 | 3,213.00 | -1,029.47 | -2,284.36 | 1.58 | 3.16 | 740.22 |
| 3 | 20,727.61 | 48 | 29 | 19 | 60.42 | 1,393.46 | 4,462.50 | -1,035.93 | -3,560.24 | 1.35 | 2.05 | 431.83 |
| 2 | 22,191.48 | 50 | 32 | 18 | 64.00 | 1,313.38 | 4,105.50 | -1,102.04 | -2,471.52 | 1.19 | 2.12 | 443.83 |
| 1 | 14,479.25 | 50 | 31 | 19 | 62.00 | 944.09 | 2,562.30 | -778.30 | -1,792.48 | 1.21 | 1.98 | 289.59 |

Results here seem to suggest a solid upside edge. Most of the edge is realized in the first week. Below is a profit curve using a 5-day exit strategy.



Another strong, steady upslope has this study on the Active List along with the other three.

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



Tonight's mix of studies allowed the green Aggregator line to 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 also held 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. It would take strongly bearish evidence to change that. The Differential Pivot will be 2107.05 on Wednesday. That is 2.1% above Tuesday's close. That is a tall order for a 1-day increase. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence continues to favor the bulls and the market remains oversold. I still like the long side. But I have scaled into a couple of lots over the last 2 days, and I did not find tonight's evidence compelling enough to up my exposure even further. So (other than a new Catapult trigger) I will look to hold onto my current position and hopefully take advantage of a further short-term bounce.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/29– slightly bullish

The intermediate-term outlook was last updated in the 6/29/15 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

RTN - \$97.79 (bought @ limit)

RTN - \$97.92 (bought @ limit)

New

RTN - \$95.68 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(RTN-3)

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.

RTN – buy 1/3 Catapult position @ \$95.68 LIMIT. This is a Catapult trade from above. It is the 3rd of 3 possible lots for RTN. Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| RTN(1/3) | 6/29/2015 | \$96.52 | \$95.68 | -0.87% | | Catapult |
| SPY(1/4) | 6/29/2015 | \$208.04 | \$205.89 | -1.03% | | Aggregator |
| SPY(1/4) | 6/30/2015 | \$205.67 | \$205.89 | 0.11% | | Aggregator |
| RTN(1/3) | 6/30/2015 | \$95.92 | \$95.68 | -0.25% | | Catapult |

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