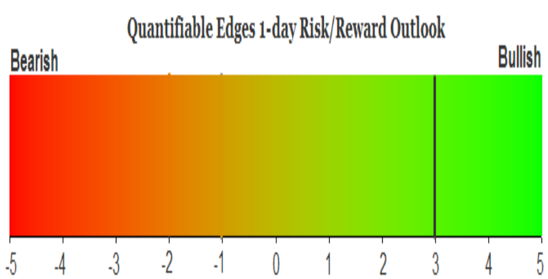
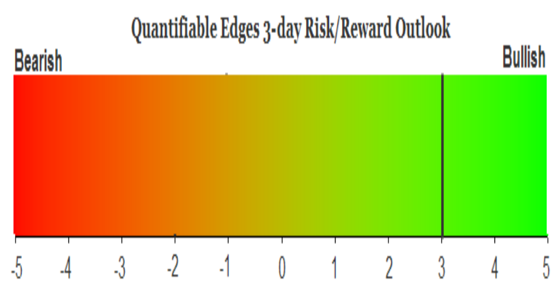
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 9, 2015 Volume 8 Issue 130

Market Overview





Signals Overview

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

Tonight's Research Points

- A strong move to a 50-day low on light volume has led to some lasting bottoms in the past.
- The unfilled gap down and poor close at a 50-day low suggest a short-term upside edge.
- The high VIX reading coupled with the SPX market position suggest a short and intermediate-term bullish edge.

Short-term Outlook
The Bottom Line

Evidence became more bullish on Wednesday and the market became more oversold. This appears to be a potential short-term buying opportunity.

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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						
July 6, 2015	20-low then 3-day consolidation	1-5 days	Bullish	1.90%	-1.40%	-2.80%
July 2, 2015	2-day bounce from big drop	1-5 days	Bullish			
July 1, 2015	20 low reversal bar	1-5 days	Bullish	2.10%	-1.40%	-2.50%
June 30, 2015	4 Lower Lows. 20-day low.	1-8 days	Bullish			
Active - Long Term						
July 1, 2015	20 low reversal bar	1-10 days	Bullish	2.90%	-1.85%	-3.40%
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			

(list not updated tonight)

The Evidence

The market hard on Wednesday. The SPX lost 1.7%, the NASDAQ declined 1.75%, and the Russell 2000 closed down 1.5%. Breadth was negative as the NYSE Up Issues % came in at 18% and the Up Volume % was 6%. Total NYSE volume came in at the lowest level in months.

The SPX closed down below its 200ma for the 1st time since October. I ran a few tests examining 200ma crosses. I did not find consistently bullish or bearish results. But the Quantifinder did offer a decent amount of evidence. The studies leaned bullish, and I have updated the most compelling ones below.

One common market misconception is that the market cannot bottom on low volume. This next study shows that isn't the case, and in fact strong, but low volume drops to 50-day lows have commonly suggested an upside edge. The study below was last seen in the 6/7/11 letter. (And the instance prior to that marked the day of the huge '09 bottom.)

SPX closes down > 1% and at a 50-day low. NYSE volume is the lightest in 5 days.
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
10	35,924.89	10	8	2	80.00	5,437.55	21,519.33	-3,787.75	-6,974.13	1.44	5.74	3,592.49
9	26,637.96	10	7	3	70.00	4,852.07	13,525.47	-2,442.18	-5,224.16	1.99	4.64	2,663.80
8	30,626.18	10	7	3	70.00	5,342.56	15,803.97	-2,257.25	-4,867.78	2.37	5.52	3,062.62
7	33,190.55	10	7	3	70.00	5,632.82	17,319.54	-2,079.72	-4,251.84	2.71	6.32	3,319.05
6	26,135.72	10	6	4	60.00	5,905.18	14,933.73	-2,323.84	-4,962.54	2.54	3.81	2,613.57
5	24,591.94	12	7	5	58.33	4,391.22	11,371.92	-1,229.32	-1,629.46	3.57	5.00	2,049.33
4	23,089.78	12	9	3	75.00	2,875.93	11,762.94	-931.19	-1,380.14	3.09	9.27	1,924.15
3	24,353.51	12	11	1	91.67	2,331.74	10,908.87	-1,295.58	-1,295.58	1.80	19.80	2,029.46
2	14,489.56	12	8	4	66.67	2,202.97	6,590.01	-783.55	-1,509.98	2.81	5.62	1,207.46
1	9,813.43	12	8	4	66.67	1,566.76	6,331.29	-680.16	-2,117.68	2.30	4.61	817.79

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There is often an immediate bounce, and then after a pause or pullback the positive inclinations persist. Below I have listed all instances with a 10-day exit strategy.

SPX closes down > 1% and at a 50-day low. NYSE volume is the lightest in 5 days.
Buy on close. Sell 3 days later. $100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/15/88	Buy	$258.68	1.41%	$1,574.88
08/29/88	Sell	$262.33		($829.90)
01/22/90	Buy	$330.37	0.45%	$721.78
02/05/90	Sell	$331.85		($3,183.08)
11/22/91	Buy	$376.13	0.57%	$1,656.25
12/09/91	Sell	$378.26		($1,264.05)
10/09/92	Buy	$402.65	2.84%	$3,558.80
10/23/92	Sell	$414.10		$0.00
09/29/99	Buy	$1,268.37	1.35%	$5,520.84
10/13/99	Sell	$1,285.55		($195.78)
04/29/02	Buy	$1,065.45	0.86%	$2,415.21
05/13/02	Sell	$1,074.56		($1,533.57)
07/01/02	Buy	$968.65	(6.99%)	$2,565.73
07/16/02	Sell	$900.94		($9,495.57)
10/07/02	Buy	$785.28	14.57%	$14,654.53
10/21/02	Sell	$899.72		($2,109.47)
03/09/09	Buy	$676.53	21.64%	$21,585.48
03/23/09	Sell	$822.92		$0.00
06/06/11	Buy	$1,286.17	(0.61%)	$773.85
06/20/11	Sell	$1,278.36		($2,163.70)

There are some large outliers but the results remain impressive nonetheless. Below are the instances using a 3-day exit strategy.

SPX closes down > 1% and at a 50-day low. NYSE volume is the lightest in 5 days. Buy on close. Sell 3 days later. $100k/trade. 1988 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
08/15/88	Buy	$258.68	0.91%	$1,574.88
08/18/88	Sell	$261.03		($455.48)
08/22/88	Buy	$256.97	0.86%	$1,614.35
08/25/88	Sell	$259.17		($171.16)
01/22/90	Buy	$330.37	(1.30%)	$721.78
01/25/90	Sell	$326.08		($1,875.42)
11/22/91	Buy	$376.13	0.11%	$572.40
11/27/91	Sell	$376.55		($1,195.15)
10/09/92	Buy	$402.65	1.67%	$2,199.76
10/14/92	Sell	$409.37		$0.00
09/29/99	Buy	$1,268.37	2.86%	$2,825.94
10/04/99	Sell	$1,304.60		($195.78)
04/29/02	Buy	$1,065.45	1.79%	$2,415.21
05/02/02	Sell	$1,084.56		($185.07)
05/06/02	Buy	$1,052.67	1.93%	$3,407.50
05/09/02	Sell	$1,073.01		($348.74)
07/01/02	Buy	$968.65	2.10%	$2,103.26
07/05/02	Sell	$989.03		($3,479.34)
10/07/02	Buy	$785.28	2.37%	$2,985.77
10/10/02	Sell	$803.92		($2,109.47)
03/09/09	Buy	$676.53	10.97%	$11,186.70
03/12/09	Sell	$750.74		$0.00
06/06/11	Buy	$1,286.17	0.22%	$773.85
06/09/11	Sell	$1,289.00		($673.75)

In included this study on the Active list.

Another study examined SPY's unfilled gap down and its weak close at a 50-day low. It was from the 6/13/11 letter. I have updated it below.

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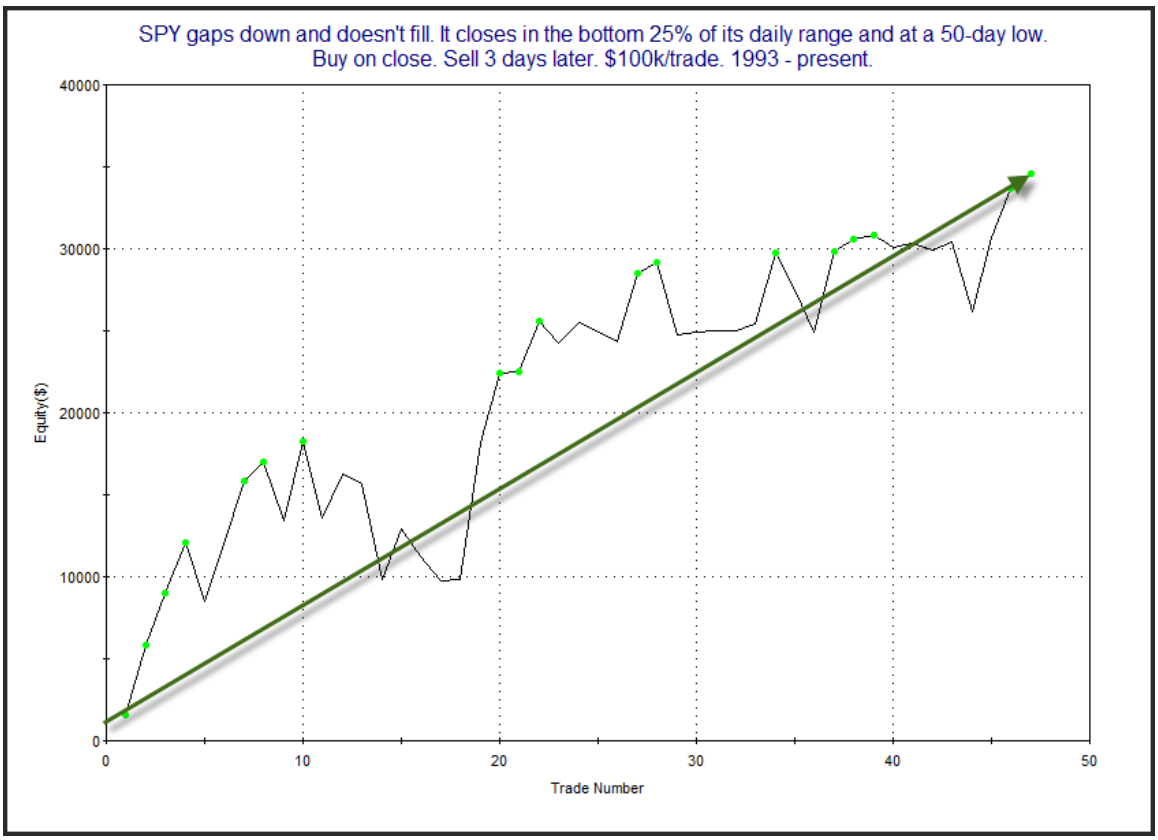
SPY gaps down and doesn't fill. It closes in the bottom 25% of its daily range and at a 50-day low. Buy on close. Sell X days later. $100k/trade. 1993 - present.

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	55,669.10	39	23	16	58.97	5,389.96	15,488.00	-4,268.75	-11,547.30	1.26	1.82	1,427.41
9	54,073.74	39	27	12	69.23	4,635.51	14,617.60	-5,923.75	-20,523.36	0.78	1.76	1,386.51
8	55,709.94	39	27	12	69.23	4,432.09	15,449.60	-5,329.71	-18,549.96	0.83	1.87	1,428.46
7	49,642.64	40	26	14	65.00	3,999.21	13,491.20	-3,881.20	-12,441.39	1.03	1.91	1,241.07
6	50,720.02	42	30	12	71.43	3,493.57	13,017.60	-4,507.24	-10,878.12	0.78	1.94	1,207.62
5	44,762.59	42	27	15	64.29	3,428.88	10,816.00	-3,187.81	-7,955.64	1.08	1.94	1,065.78
4	21,843.44	44	24	20	54.55	3,223.88	13,568.00	-2,776.48	-10,531.08	1.16	1.39	496.44
3	34,549.37	47	30	17	63.83	2,436.60	8,358.40	-2,267.57	-5,835.94	1.07	1.90	735.09
2	15,271.21	49	26	23	53.06	2,342.00	7,756.80	-1,983.51	-7,761.78	1.18	1.33	311.66
1	17,138.38	50	29	21	58.00	1,527.67	5,764.38	-1,293.53	-7,417.30	1.18	1.63	342.77

The numbers look strong and suggest a short-term bullish edge. Below is a look at a profit curve for a 3-day exit strategy.



A bit choppy but it continues to head from lower left to upper right, and serves as some confirmation of the numbers.

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The VIX also provided some notable action today. The VIX is often referred to as the fear index. When VIX levels are relatively high, that often suggests fear and uncertainty among market participants. Relative highs can be measured a number of ways. Often I will show VIX levels compared to short-term moving averages. But an interesting study tonight looked at 100-day VIX highs that occurred when the SPX was not making 100-day lows. In other words, relatively extreme fear in a market that is not making long-term lows. The study was last seen in the 2/4/14 Subscriber Letter. I have updated it below.

VIX closes at a 100-day high. SPX does not close at a 100-day low.
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
10	63,229.89	46	30	16	65.22	3,317.05	13,815.90	-2,267.60	-7,532.72	1.46	2.74	1,374.56
9	66,954.55	46	34	12	73.91	2,856.67	11,486.80	-2,514.36	-6,727.63	1.14	3.22	1,455.53
8	63,191.00	49	34	15	69.39	2,854.74	11,382.35	-2,258.00	-9,154.20	1.26	2.87	1,289.61
7	68,309.57	50	35	15	70.00	2,624.83	10,706.80	-1,570.64	-7,304.57	1.67	3.90	1,366.19
6	58,884.25	53	39	14	73.58	2,404.68	10,082.80	-2,492.72	-9,712.78	0.96	2.69	1,111.02
5	56,704.78	54	35	19	64.81	2,604.12	9,157.20	-1,812.60	-11,533.34	1.44	2.65	1,050.09
4	52,848.62	58	40	18	68.97	2,278.20	8,810.76	-2,126.64	-9,828.00	1.07	2.38	911.18
3	45,853.49	62	45	17	72.58	1,713.18	8,432.34	-1,837.62	-6,956.04	0.93	2.47	739.57
2	47,802.62	68	43	25	63.24	1,714.51	5,049.00	-1,036.85	-5,441.80	1.65	2.84	702.98
1	43,934.22	87	54	32	62.07	1,434.92	5,117.46	-1,048.48	-5,829.81	1.37	2.31	504.99

Numbers here look pretty solid. But while SPX did not close at a long-term low, it did close at an intermediate-term low. I decided tonight to re-run the above test and look for times where at least a 20-day low was made.

VIX closes at a 100-day high. SPX closes at a 20-day low but not a 100-day low.
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
20	105,324.17	30	25	5	83.33	4,877.52	18,119.92	-3,322.76	-7,241.91	1.47	7.34	3,510.81
19	96,601.04	30	25	5	83.33	4,645.12	16,556.80	-3,905.37	-10,655.01	1.19	5.95	3,220.03
18	93,886.82	30	25	5	83.33	4,426.42	15,745.60	-3,354.73	-4,172.91	1.32	6.60	3,129.56
17	93,563.65	30	25	5	83.33	4,338.21	15,823.60	-2,978.30	-5,054.72	1.46	7.28	3,118.79
16	93,340.35	30	26	4	86.67	3,913.18	14,476.80	-2,100.59	-3,409.12	1.86	12.11	3,111.34
15	86,101.94	30	25	5	83.33	3,825.98	13,156.00	-1,909.53	-4,783.80	2.00	10.02	2,870.06
14	73,307.46	30	25	5	83.33	3,477.99	11,299.60	-2,728.45	-5,297.60	1.27	6.37	2,443.58
13	66,060.58	30	25	5	83.33	3,108.26	11,013.60	-2,329.21	-4,762.56	1.33	6.67	2,202.02
12	64,648.02	30	25	5	83.33	2,951.49	11,736.40	-1,827.87	-4,796.00	1.61	8.07	2,154.93
11	61,926.75	30	22	8	73.33	3,296.09	11,564.80	-1,323.40	-3,560.48	2.49	6.85	2,064.22
10	54,444.56	31	21	10	67.74	3,339.88	12,381.20	-1,569.30	-4,977.28	2.13	4.47	1,756.28
9	61,892.31	31	25	6	80.65	2,832.70	11,486.80	-1,487.55	-2,570.04	1.90	7.93	1,996.53
8	57,947.07	31	24	7	77.42	2,725.56	10,868.00	-1,066.63	-2,465.34	2.56	8.76	1,869.26
7	62,424.77	32	26	6	81.25	2,687.85	10,706.80	-1,243.23	-3,689.34	2.16	9.37	1,950.77
6	56,495.12	34	28	6	82.35	2,346.29	10,082.80	-1,533.48	-3,703.11	1.53	7.14	1,661.62
5	56,186.21	35	24	11	68.57	2,653.60	9,157.20	-681.84	-2,927.40	3.89	8.49	1,605.32
4	47,209.05	38	29	9	76.32	2,003.39	4,794.40	-1,209.91	-3,078.36	1.66	5.34	1,242.34
3	38,830.82	39	30	9	76.92	1,585.68	4,444.98	-971.08	-2,269.28	1.63	5.44	995.66
2	36,368.37	41	27	14	65.85	1,776.78	4,809.66	-828.90	-2,726.97	2.14	4.13	887.03
1	33,117.33	50	37	13	74.00	1,367.42	5,117.46	-1,344.41	-5,829.81	1.02	2.89	662.35

The stats here were even stronger and the bullish edge seemed to persist for at least 4 weeks. Below are profit curves for the 7-day and 20-day holding periods. First the 7-day.

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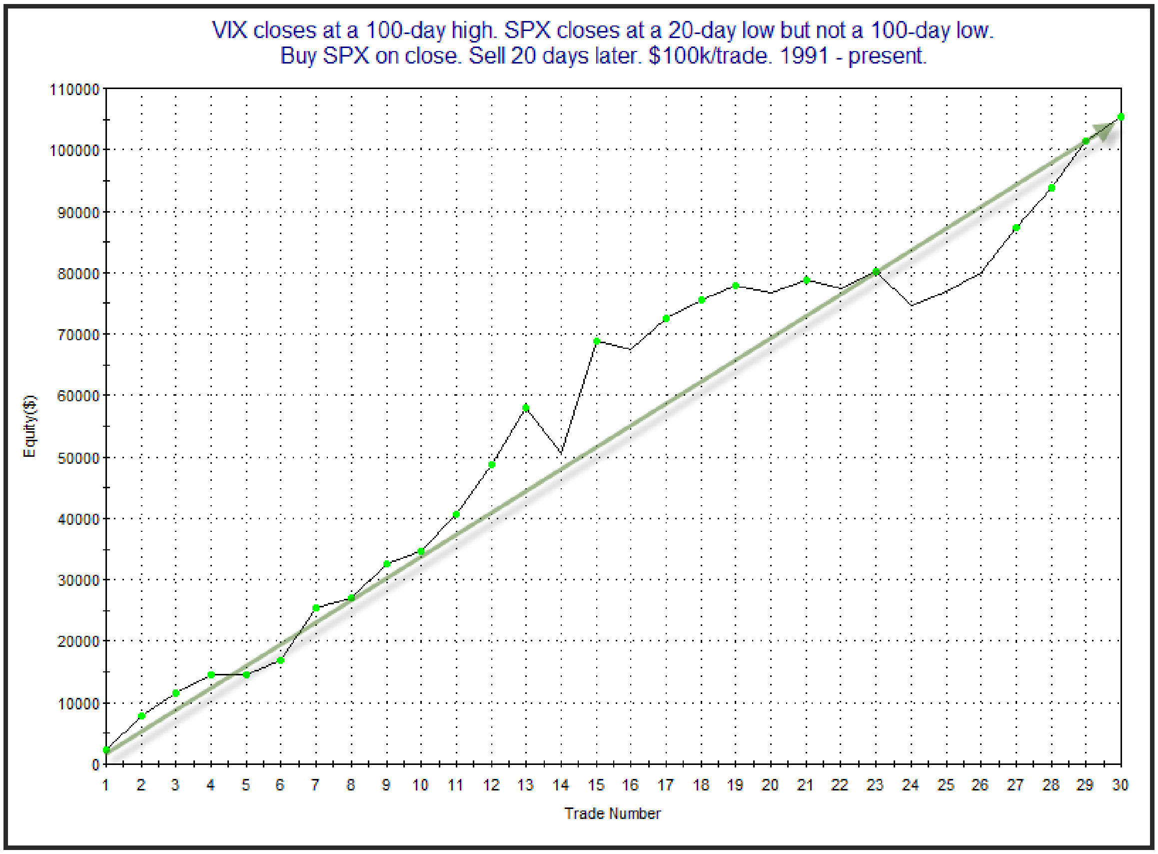
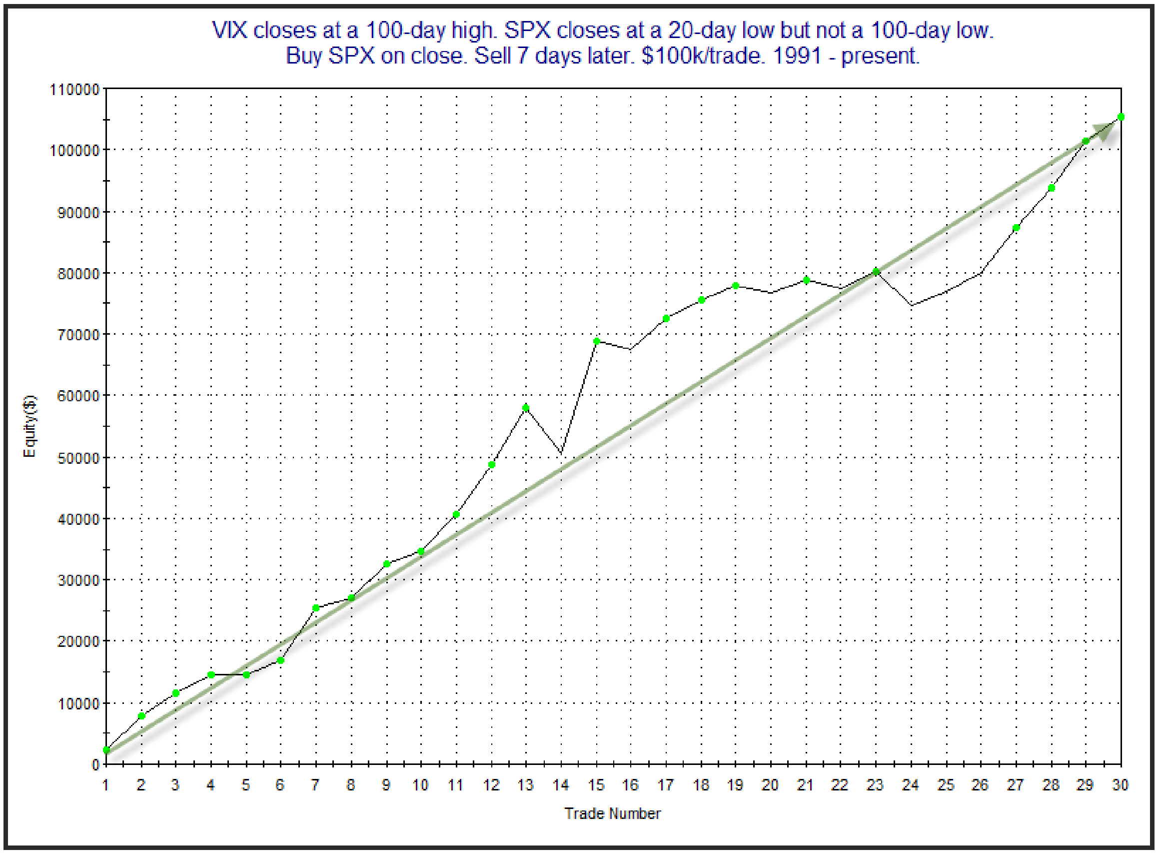


This looks strong and serves as confirmation of the upside edge. Now for the 20-day.



Nothing wrong with this. I have added this study to both the short and intermediate-term active lists tonight.

I have updated the Aggregator chart below.

With the new studies taken into account the green Aggregator line moved further above 0 tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also rose further 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 Thursday. With so much bullish evidence that is unlikely to change. The Differential Pivot will be 2078.95 on Thursday. That is 1.6% above Wednesday's close. So for SPX to move from oversold to overbought it will need to close up at least 1.6% on Thursday. That is a tall order. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Upside evidence has strengthened, the SPX is now clearly oversold, and there is a good amount of room to the upside to potentially profit. I like this setup quite a bit better than I did the last 2 night. This appears to be an opportunity offering favorable reward/risk, and I will therefore look to take advantage of a bounce. I will do so by beginning to scale into a long index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6– slightly bullish

The intermediate-term outlook was last updated in the 7/6 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

CVX - $94.77 (bought 1/3 @ limit)

New

DD – 1/3 @ 58.16 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2(CVX, DD)

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.

DD – buy 1/3 Catapult position @ $58.16 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for DD. 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.

SPY – buy ¼ index position @ $204.70 LIMIT. Based on the short-term outlook above, I will look to start scaling into an index position on Tuesday. I place the entry price a little above Wednesday's close to give myself a better chance to receive a fill if SPY gaps up at the open.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	***6/29/2015***	***$96.52***	***$97.31***	***0.82%***		***sold on open***
RTN(1/3)	***6/30/2015***	***$95.92***	***$97.31***	***1.45%***		***sold on open***
CVX(1/3)	7/7/2015	$94.41	$93.56	-0.90%		Catapult