

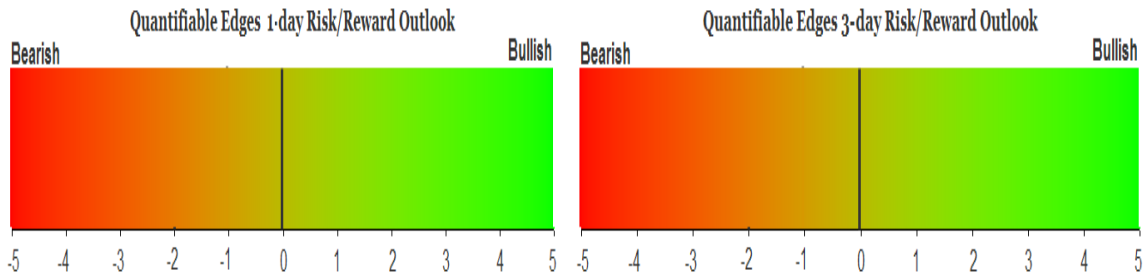
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2015

Volume 8 Issue 139

Market Overview



Signals Overview

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

Tonight's Research Points

- A 4th Hindenburg Omen signal triggered on Friday.

Short-term Outlook

The Bottom Line

Expectations remain bearish, but after Tuesday's selling the market is no longer overbought. This leaves me short-term neutral.

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 17, 2015	NDX up 1%. SOX dn.	1-6 days	Bearish	-3.10%	1.80%	4.00%
July 17, 2015	SPX top 1-% 10-day range opex Thurs	1-5 days	Bearish	-1.60%	0.90%	1.75%
July 14, 2015	VIX 10% to 10% below 10ma	1-8 days	Bullish			
Active - Long Term						
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
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						
July 14, 2015	QE Buying Power Short	1-6 days	Bearish			
July 16, 2015	3+ Higher hi, low, close. Dn close.	1-4 days	Bullish	1.45%	-0.75%	-1.50%

The Evidence

The market sold off a bit on Tuesday. The SPX lost 0.4%, the NASDAQ fell 0.2%, and the Russell 2000 declined 0.5%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 38%. Total NYSE volume rose some from Monday's level.

Notable about Tuesday is that a Hindenburg Omen signal triggered, making it the 4th one in the last 29 trading days. I discussed the Hindenburg Omen in detail in the 12/8/14 letter, and have updated the research and my thoughts below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead.

Below are the rules for a Hindenburg Omen signal.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% it made for too low of sample size to draw conclusions from when looking at larger clusters. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
3. The McClellan Oscillator is negative on the same day.

4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	23,545.51	26	15	11	57.69	6,377.07	13,171.60	-6,555.51	-19,079.85	0.97	1.33	905.60
95	23,023.40	27	16	11	59.26	6,161.96	17,946.48	-6,869.81	-22,416.88	0.90	1.30	852.72
90	4,973.27	27	14	13	51.85	6,441.23	15,961.92	-6,554.15	-20,572.65	0.98	1.06	184.20
85	24,177.07	29	17	12	58.62	6,707.42	16,670.24	-7,487.42	-21,465.22	0.90	1.27	833.69
80	10,484.35	29	16	13	55.17	6,501.25	16,583.84	-7,195.06	-21,552.30	0.90	1.11	361.53
75	7,865.73	29	16	13	55.17	6,182.94	14,501.70	-7,004.72	-22,917.59	0.88	1.09	271.23
70	6,561.91	29	15	14	51.72	7,129.75	17,714.32	-7,170.31	-20,289.64	0.99	1.07	226.27
65	-7,074.57	29	15	14	51.72	6,435.18	16,609.84	-7,400.16	-21,508.76	0.87	0.93	-243.95
60	-25,624.26	29	14	15	48.28	5,822.82	17,197.44	-7,142.91	-24,323.31	0.82	0.76	-883.60
55	-46,604.17	30	15	15	50.00	4,965.35	14,306.24	-8,072.29	-27,246.71	0.62	0.62	-1,553.47
50	-27,358.45	30	14	16	46.67	5,411.37	14,509.04	-6,444.85	-29,846.67	0.84	0.73	-911.95
45	-16,603.91	31	17	14	54.84	4,469.26	13,151.98	-6,612.95	-23,971.88	0.68	0.82	-535.61
40	-22,115.83	31	14	17	45.16	5,381.13	12,520.58	-5,732.45	-23,520.93	0.94	0.77	-713.41
35	-19,192.18	33	16	17	48.48	4,841.57	12,021.20	-5,685.72	-24,659.19	0.85	0.80	-581.58
30	-10,688.09	33	17	16	51.52	4,304.04	9,855.58	-5,241.05	-22,460.42	0.82	0.87	-323.88
25	-3,207.54	36	18	18	50.00	4,398.21	9,781.64	-4,576.41	-27,340.01	0.96	0.96	-89.10
20	-15,501.87	37	20	17	54.05	3,421.37	9,257.67	-4,937.01	-19,533.91	0.69	0.82	-418.97
15	4,243.39	40	19	21	47.50	2,907.26	9,103.68	-2,428.31	-8,166.80	1.20	1.08	106.08
10	-8,295.06	46	23	23	50.00	2,136.82	9,012.33	-2,497.47	-7,899.90	0.86	0.86	-180.33
5	-21,763.56	59	22	37	37.29	1,632.69	4,926.56	-1,559.00	-5,775.12	1.05	0.62	-368.87

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	34,305.37	15	10	5	66.67	7,169.80	17,883.98	-7,478.53	-18,879.12	0.96	1.92	2,287.02
95	29,788.72	16	11	5	68.75	6,649.93	17,605.78	-8,672.11	-21,212.88	0.77	1.69	1,861.79
90	26,817.43	16	12	4	75.00	5,540.35	20,476.59	-9,916.68	-20,011.68	0.56	1.68	1,676.09
85	13,804.84	18	10	8	55.56	7,104.31	20,455.19	-7,154.78	-21,883.68	0.99	1.24	766.94
80	8,964.37	18	11	7	61.11	5,823.91	18,961.47	-7,871.24	-21,961.68	0.74	1.16	498.02
75	17,663.34	18	11	7	61.11	6,411.28	17,861.51	-7,551.54	-23,181.60	0.85	1.33	981.30
70	6,922.64	18	12	6	66.67	5,610.92	21,700.67	-10,068.06	-19,060.08	0.56	1.11	384.59
65	-15,090.33	18	10	8	55.56	5,735.17	20,504.41	-9,055.25	-23,131.68	0.63	0.79	-838.35
60	-9,677.19	18	10	8	55.56	5,072.71	19,457.95	-7,550.53	-22,011.60	0.67	0.84	-537.62
55	-24,246.03	19	11	8	57.89	4,423.41	18,625.49	-9,112.94	-26,329.68	0.49	0.67	-1,276.11
50	-17,303.50	20	11	9	55.00	4,868.78	17,961.02	-7,873.34	-29,889.60	0.62	0.76	-865.17
45	-19,706.14	21	10	11	47.62	4,617.24	16,345.32	-5,988.96	-24,766.56	0.77	0.70	-938.39
40	-23,112.45	21	9	12	42.86	4,877.02	14,615.13	-5,583.80	-24,853.92	0.87	0.66	-1,100.59
35	-16,942.45	21	10	11	47.62	4,399.15	13,303.31	-5,539.45	-22,211.28	0.79	0.72	-806.78
30	-22,943.93	21	11	10	52.38	3,720.50	11,007.09	-6,386.94	-20,354.88	0.58	0.64	-1,092.57
25	-16,594.45	24	13	11	54.17	3,591.87	10,173.56	-5,753.52	-23,381.28	0.62	0.74	-691.44
20	-33,013.99	25	10	15	40.00	3,256.33	8,886.35	-4,371.82	-22,295.52	0.74	0.50	-1,320.56
15	-5,340.01	26	12	14	46.15	2,361.26	8,305.02	-2,405.36	-6,748.56	0.98	0.84	-205.38
10	-12,125.71	32	10	22	31.25	2,563.36	9,247.23	-1,716.33	-5,748.21	1.49	0.68	-378.93
5	-4,702.40	42	16	26	38.10	1,960.83	6,245.73	-1,387.53	-4,179.84	1.41	0.87	-111.96

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	31,255.80	12	9	3	75.00	5,799.12	18,512.90	-6,978.75	-16,085.07	0.83	2.49	2,604.65
95	21,536.76	12	8	4	66.67	5,723.83	16,070.66	-6,063.47	-16,770.54	0.94	1.89	1,794.73
90	7,206.66	12	7	5	58.33	6,178.98	18,595.58	-7,209.24	-19,277.67	0.86	1.20	600.55
85	14,858.80	12	8	4	66.67	6,010.87	18,884.96	-8,307.03	-21,362.25	0.72	1.45	1,238.23
80	-6,211.59	13	6	7	46.15	6,550.62	16,528.58	-6,502.19	-19,449.82	1.01	0.86	-477.81
75	4,795.65	13	6	7	46.15	8,754.60	18,289.24	-6,818.85	-22,758.23	1.28	1.10	368.90
70	-4,743.27	13	7	6	53.85	6,191.48	19,119.22	-8,013.93	-21,021.08	0.77	0.90	-364.87
65	-21,440.85	13	5	8	38.46	6,090.96	17,909.76	-6,486.96	-23,731.66	0.94	0.59	-1,649.30
60	-19,754.14	13	6	6	46.15	4,610.64	17,209.10	-7,903.00	-22,576.69	0.58	0.58	-1,519.55
55	-22,057.04	13	5	8	38.46	5,726.76	17,905.52	-6,336.35	-20,673.65	0.90	0.56	-1,696.70
50	-13,555.18	14	6	8	42.86	5,842.99	17,255.74	-6,076.64	-22,263.69	0.96	0.72	-968.23
45	-25,908.02	14	6	8	42.86	4,708.08	15,507.80	-6,769.56	-25,143.29	0.70	0.52	-1,850.57
40	-36,827.40	14	5	9	35.71	4,942.25	13,700.50	-6,837.63	-26,846.01	0.72	0.40	-2,630.53
35	-32,110.45	14	3	11	21.43	6,823.64	11,461.78	-4,780.13	-22,795.79	1.43	0.39	-2,293.60
30	-31,163.59	15	7	8	46.67	4,135.74	10,991.14	-7,514.22	-23,844.34	0.55	0.48	-2,077.57
25	-32,468.85	16	7	9	43.75	4,003.70	9,841.04	-6,721.64	-25,105.73	0.60	0.46	-2,029.30
20	-37,560.56	17	7	10	41.18	3,215.60	8,458.80	-6,006.98	-21,406.07	0.54	0.37	-2,209.44
15	-32,723.76	19	9	10	47.37	2,586.88	7,078.68	-5,600.56	-26,924.26	0.46	0.42	-1,722.30
10	-40,394.46	21	7	14	33.33	1,851.62	3,400.10	-3,811.13	-25,784.94	0.49	0.24	-1,923.55
5	-11,447.73	28	10	18	35.71	1,369.19	4,174.28	-1,396.64	-3,509.22	0.98	0.54	-408.85

Between 35 and 55 days out there appears to be somewhat weak returns on a small sample size.

With the 4th trigger occurring on Tuesday I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	18,855.29	9	7	2	77.78	3,496.88	7,362.09	-2,811.44	-3,671.20	1.24	4.35	2,095.03
95	15,347.12	9	5	4	55.56	4,775.58	6,207.97	-2,132.70	-4,635.15	2.24	2.80	1,705.24
90	2,692.83	9	4	5	44.44	3,531.89	5,450.48	-2,286.94	-6,882.20	1.54	1.24	299.20
85	7,898.87	9	5	4	55.56	4,030.32	7,141.18	-3,063.18	-6,553.95	1.32	1.64	877.65
80	3,530.62	9	4	5	44.44	4,221.61	7,248.39	-2,671.16	-6,169.80	1.58	1.26	392.29
75	-4,075.75	10	4	6	40.00	5,234.61	8,515.03	-4,169.03	-9,034.35	1.26	0.84	-407.58
70	-5,627.14	10	6	4	60.00	2,614.22	5,115.04	-5,328.12	-9,322.50	0.49	0.74	-562.71
65	-20,911.89	10	3	7	30.00	1,952.18	4,280.64	-3,824.06	-10,467.60	0.51	0.22	-2,091.19
60	-21,049.69	10	5	5	50.00	1,426.49	4,358.48	-5,636.43	-11,602.80	0.25	0.25	-2,104.97
55	-18,913.39	10	4	6	40.00	2,245.27	5,385.52	-4,649.08	-8,851.04	0.48	0.32	-1,891.34
50	-15,773.30	11	5	6	45.45	2,550.91	3,934.12	-4,754.64	-9,493.04	0.54	0.45	-1,433.94
45	-21,535.46	11	3	8	27.27	2,821.99	3,730.16	-3,750.18	-14,483.52	0.75	0.28	-1,957.77
40	-24,678.87	11	3	8	27.27	2,665.81	3,315.35	-4,084.54	-11,889.84	0.65	0.24	-2,243.53
35	-38,364.31	11	2	9	18.18	2,112.64	3,328.16	-4,732.18	-14,149.68	0.45	0.10	-3,487.66
30	-19,199.05	12	5	7	41.67	2,329.77	5,262.60	-4,406.84	-13,738.80	0.53	0.38	-1,599.92
25	-16,823.82	13	6	7	46.15	2,555.45	6,253.80	-4,593.79	-12,343.52	0.56	0.48	-1,294.14
20	-27,142.68	13	3	10	23.08	3,445.45	4,796.40	-3,747.90	-9,672.80	0.92	0.28	-2,087.90
15	-17,691.63	13	5	8	38.46	2,432.10	4,301.89	-3,731.52	-8,414.48	0.65	0.41	-1,360.89
10	-15,797.74	17	6	11	35.29	1,538.77	2,854.88	-2,275.49	-6,566.95	0.68	0.37	-929.28
5	-16,041.48	19	5	14	26.32	1,426.03	2,929.92	-1,655.12	-4,884.75	0.86	0.31	-844.29

There are only 11 instances when looking out 35-45 days, but with 9 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg Omen triggers. Sell 35 days later. \$100k/trade. 1980 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/14/80	Buy	\$116.72	(14.16%)	\$1,001.52
04/07/80	Sell	\$100.19		(\$16,264.00)
07/24/86	Buy	\$237.94	(3.06%)	\$6,846.00
09/12/86	Sell	\$230.66		(\$3,864.00)
03/15/94	Buy	\$467.01	(3.35%)	\$873.12
05/05/94	Sell	\$451.38		(\$6,666.10)
12/08/99	Buy	\$1,403.88	(3.11%)	\$5,262.52
01/28/00	Sell	\$1,360.16		(\$3,385.28)
04/24/06	Buy	\$1,308.11	(6.45%)	\$1,412.84
06/13/06	Sell	\$1,223.69		(\$6,504.84)
07/20/07	Buy	\$1,534.10	(5.37%)	\$853.45
09/10/07	Sell	\$1,451.70		(\$10,627.50)
10/25/07	Buy	\$1,514.39	(3.07%)	\$2,532.42
12/14/07	Sell	\$1,467.95		(\$7,147.14)
06/04/13	Buy	\$1,631.38	3.34%	\$4,111.40
07/24/13	Sell	\$1,685.94		(\$4,334.05)
08/09/13	Buy	\$1,691.42	(0.58%)	\$2,267.96
09/30/13	Sell	\$1,681.55		(\$3,773.05)
12/17/13	Buy	\$1,781.00	0.90%	\$3,911.04
02/07/14	Sell	\$1,797.02		(\$2,412.48)
12/05/14	Buy	\$2,075.37	(3.53%)	\$872.64
01/28/15	Sell	\$2,002.16		(\$4,934.88)

Some of the recent instances have not played out as bearish as the previous ones. Still, even those instances that closed higher saw pullbacks of 2.4% and 4.3% from the trigger date's closing price at some point during the next 35 days. And the average drawdown is still about 2x the size of the average run-up. So the numbers still do seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage following these signals that it is probably worth remaining cognizant of it. I have therefore listed it on the Intermediate-term Active List.

Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads section.

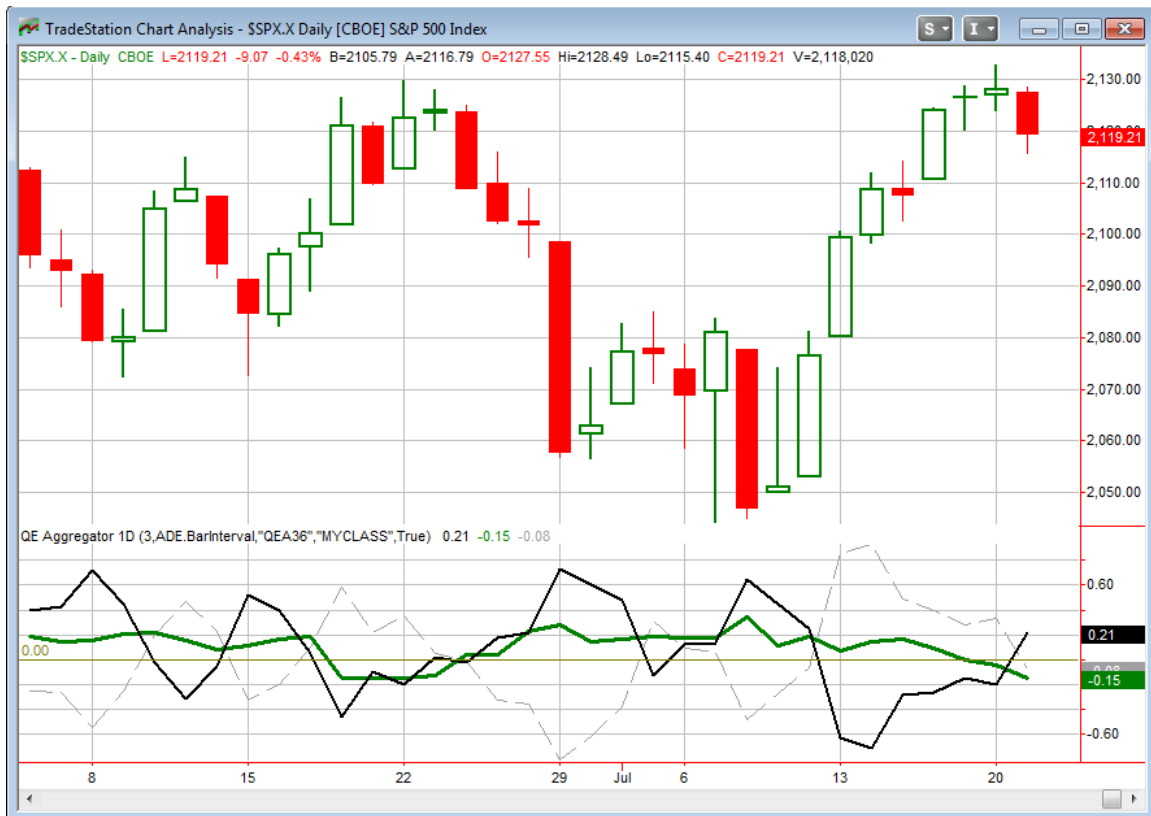
<http://quantifiableedges.com/other-code-spreadsheets/>

I would also note that Tom McClellan wrote an interesting piece on the history of the indicator a while back. You may find a link to that write-up below.

http://www.mcoscillator.com/learning_center/kb/special_market_reports/hindenburg_omen_signaled_but_also_not/

While the Hindenburg Omen has been added to the Intermediate-Term Active List, nothing new emerged worth including on the Short-Term Active List.

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



With tonight's evidence factored in the green Aggregator line moved a little further below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but the SPX is already oversold. 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 turned flat at the close.

Based on the current active studies, expectations are set to remain negative on Wednesday. Of course this could change if additional bullish evidence emerges. The

Differential Pivot will be 2131.91 on Wednesday. That is 0.6% above Tuesday's close. In order to move back to overbought versus expectations, SPX will need to close up at least 0.6% on Wednesday.

While I did not find the bearish edge the last couple of nights strong enough to compel me to take a counter-trend position, it did play out some with Tuesday's pullback. And with Apple's earnings receiving a negative reaction, it appears the market may be set to gap down on Wednesday. Downside follow through could leave the market even more oversold on Wednesday. But bullish evidence is not yet taking hold. So there is still nothing for me to do but sit, wait, and remain ready to pounce on the next favorable index trading opportunity.

There was one Catapult that triggered on Wednesday, and I will be looking to trade based off of that setup. Details are in the Catapult & Trade Ideas sections down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/20– slightly bullish

The intermediate-term outlook was last updated in the 7/20 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

APA – 1/3 @ \$47.53 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(APA)

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.

APA – buy 1/3 Catapult position @ \$47.53 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for APA. 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

None

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