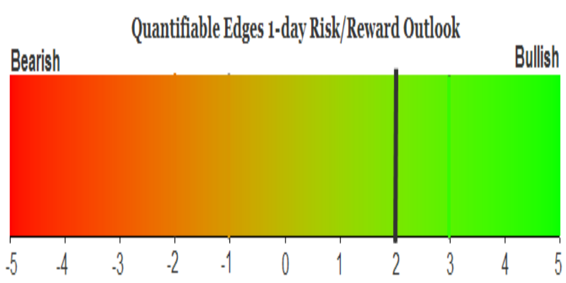
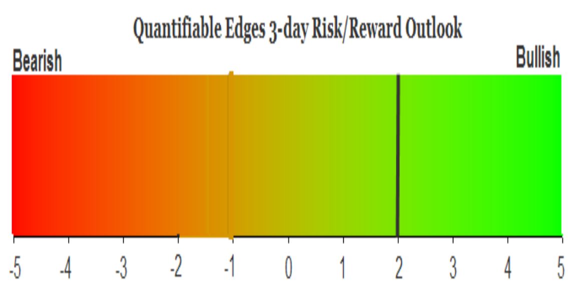
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 29, 2015 Volume 8 Issue 144

Market Overview





Signals Overview

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

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.
- Fed Days are generally bullish, though this one does not appear to have as strong of an upside edge as most.

Short-term Outlook

The Bottom Line

Expectations remain bullish and the market is still oversold. But the oversold reading will not remain for long, and reaction to Wednesday's Fed announcement could be negative.

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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 29, 2015	Unfillgap up from 10lo. C>O. C<10ma	1-4 days	Bullish	1.80%	-1.20%	-2.30%
July 28, 2015	Unfilled gap dn. 3 dn & 10-low	1-2 days	Bullish			
July 28, 2015	Dn 5. > 200 & > 20-low	1-2 days	Bullish			
July 27, 2015	SPX dn 4. Big drop.	1-5 days	Bullish	2.10%	-0.85%	-1.50%
July 27, 2015	1% drop 4th Fri.	1-6 days	Bullish			
July 27, 2015	CBI reaches 10+. SPX > 200ma.	1-4 days	Bullish			
Active - Long Term						
July 27, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
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			

The Evidence

The market bounced nicely on Tuesday. The SPX gained 1.2%, the NASDAQ rose 1.0%, and the Russell 2000 rallied 0.8%. Breadth was strongly positive as the NYSE Up Issues % came in at 71% and the Up Volume % was 86%. Total NYSE volume came in at the highest level in a while.

Tuesday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 3/10/15 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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	18,709.97	25	16	9	64.00	2,201.88	5,666.72	-1,835.57	-4,060.20	1.20	2.13	748.40
9	22,060.33	25	13	12	52.00	2,797.82	6,522.72	-1,192.61	-3,329.90	2.35	2.54	882.41
8	24,109.72	25	16	9	64.00	2,334.47	5,468.09	-1,471.32	-5,654.80	1.59	2.82	964.39
7	23,839.37	25	17	7	68.00	2,264.22	5,136.00	-2,093.19	-9,172.30	1.08	2.63	953.57
6	19,624.87	25	15	10	60.00	2,073.43	5,589.68	-1,147.65	-3,309.80	1.81	2.71	784.99
5	21,447.04	25	19	6	76.00	1,399.39	4,106.63	-856.89	-1,949.70	1.63	5.17	857.88
4	21,422.47	25	17	8	68.00	1,637.35	3,904.83	-801.57	-2,096.99	2.04	4.34	856.90
3	14,456.95	26	16	10	61.54	1,362.68	3,914.92	-734.60	-1,874.00	1.86	2.97	556.04
2	9,878.56	26	16	10	61.54	1,236.60	2,828.00	-990.70	-2,183.21	1.25	2.00	379.94
1	1,312.37	26	13	12	50.00	880.66	1,773.46	-844.68	-2,895.33	1.04	1.13	50.48

All 26 instances closed above the entry price at some point in the next week.

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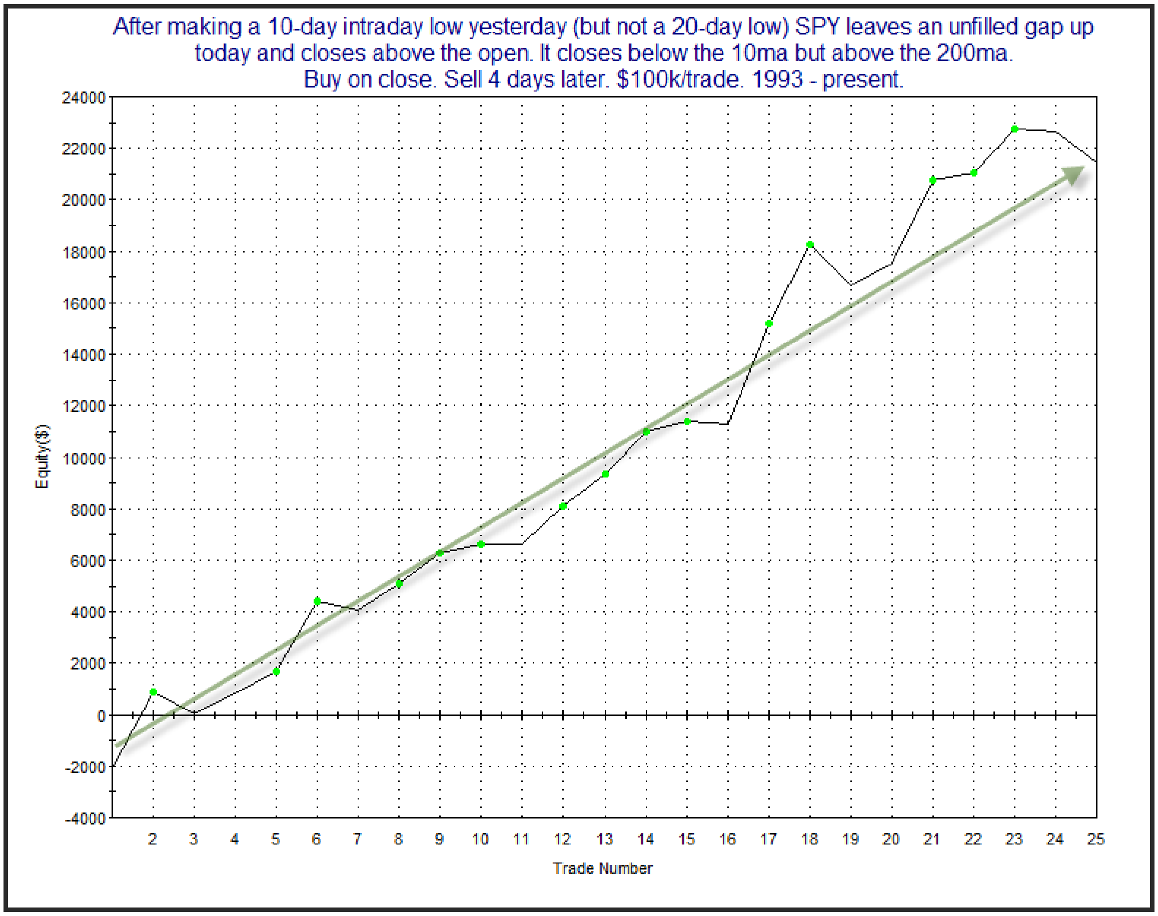
Indications here are bullish across the board. It is especially impressive that all 26 instances saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



The strong, steady upslope is impressive. This appears to confirm the upside edge suggested by the results table.

Also in the 3/10/15 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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
5	-4,695.74	29	13	16	44.83	1,726.48	3,073.60	-1,696.25	-3,739.32	1.02	0.83	-161.92
4	-889.35	31	17	14	54.84	1,296.82	2,950.20	-1,638.23	-2,744.82	0.79	0.96	-28.69
3	-8,242.29	33	16	17	48.48	844.90	2,811.60	-1,280.04	-3,070.92	0.66	0.62	-249.77
2	-8,070.55	35	17	18	48.57	830.72	2,341.35	-1,232.94	-2,818.42	0.67	0.64	-230.59
1	-2,592.64	35	13	22	37.14	951.55	2,470.05	-680.12	-1,777.90	1.40	0.83	-74.08

In the 3/10/15 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes ***above*** the 10ma and above the 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
5	-2,570.65	14	7	7	50.00	777.28	1,647.78	-1,144.51	-2,249.52	0.68	0.68	-183.62
4	-1,001.34	14	7	7	50.00	679.37	1,903.47	-822.42	-1,769.04	0.83	0.83	-71.52
3	-2,903.03	14	7	7	50.00	583.23	1,393.05	-997.95	-2,475.20	0.58	0.58	-207.36
2	-798.01	14	8	6	57.14	579.64	1,325.28	-905.86	-2,293.20	0.64	0.85	-57.00
1	-2,929.07	14	7	7	50.00	478.47	949.00	-896.91	-2,591.68	0.53	0.53	-209.22

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

It is also notable that Wednesday is a Fed Day. Fed Days are known for their bullish tendencies. But I've shown in the past that the upside Fed Day edge has not held nearly as well over the years when the market has closed the day strongly. And while it is generally good to close < a 20-day high, the strong close could still be a little problem. Below is a study that shows this, which was last seen in the 6/17/15 Letter. Stats are updated.

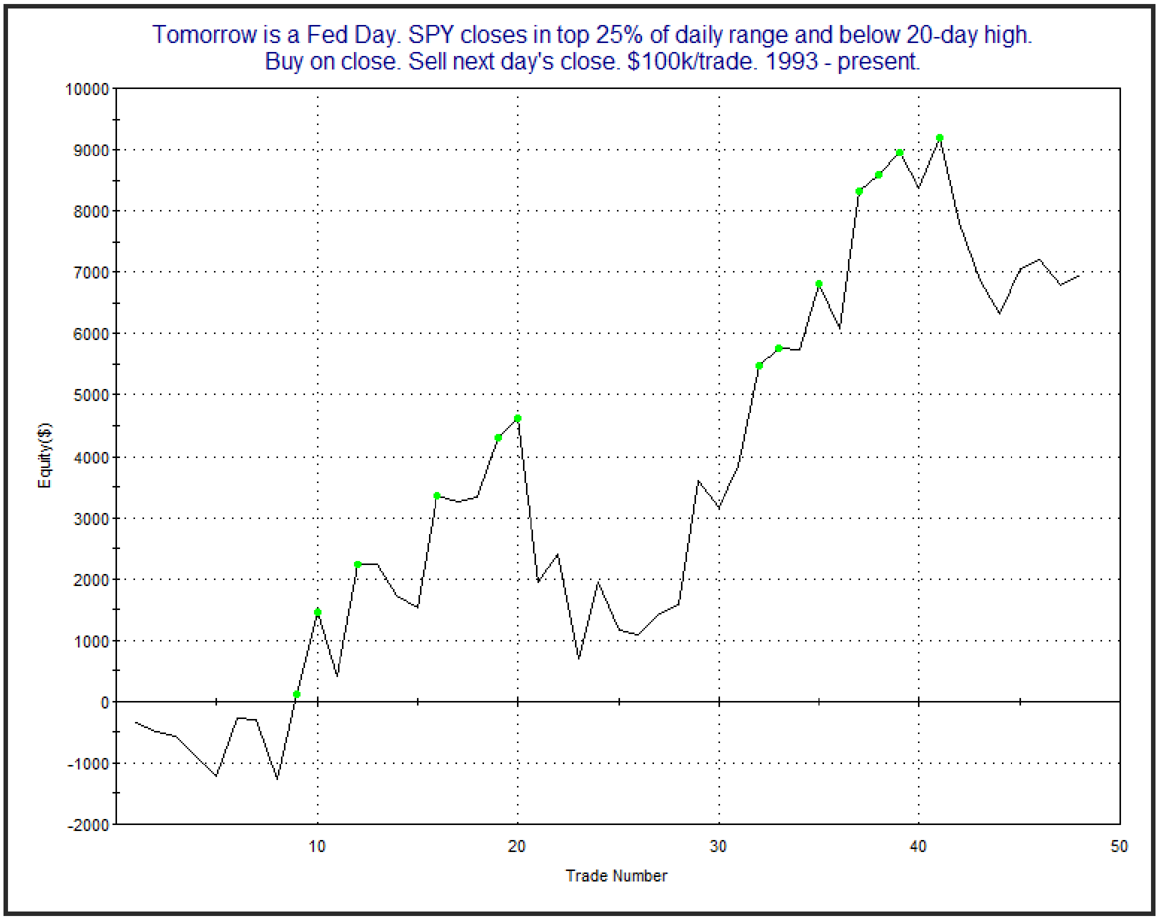
Tomorrow is a Fed Day. SPY closes in top 25% of daily range and below 20-day high.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Collapse

All Trades

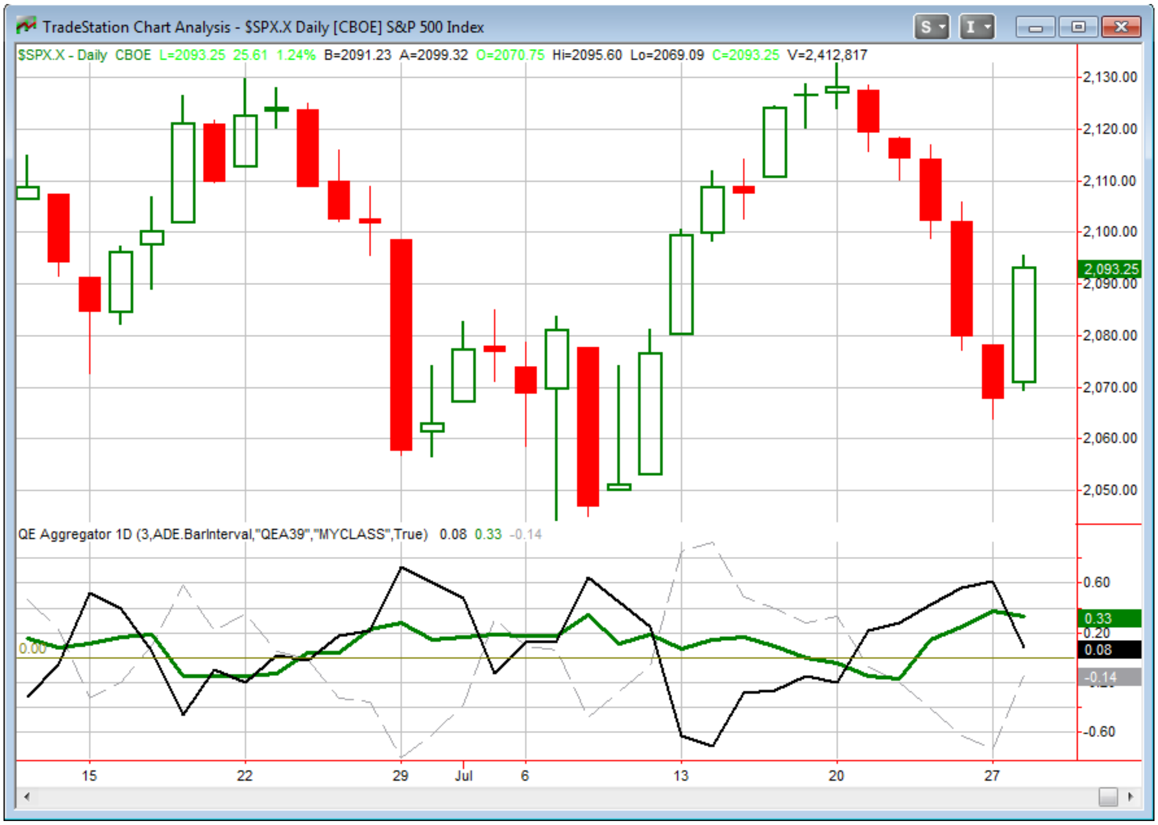
Total Net Profit	$6,945.50	Profit Factor	1.48
Gross Profit	$21,302.79	Gross Loss	($14,357.29)
Total Number of Trades	48	Percent Profitable	50.00%
Winning Trades	24	Losing Trades	23
Even Trades	1		
Avg. Trade Net Profit	$144.70	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	$887.62	Avg. Losing Trade	($624.23)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,683.80)

The average win to loss ratio isn't bad but the winning percentage is only breakeven. Below is a profit curve showing how the trades have played out over time.



Not a terribly smooth curve, and recent instances have not helped the cause at all. It seems there may be a mild bullish seasonal edge, but not a reliable one. I am not including this study on the Active List tonight. Results simply don't appear worthy.

I have updated the Aggregator chart below.



The bullish bounce study tonight helped the green Aggregator remain strongly 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. This is highly unlikely to change. The Differential Pivot will be *inverted at* 2093.25 on Wednesday. That is 0.4% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.4% on Wednesday in order to remain oversold

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versus expectations. Anything short of that and it will be considered overbought at Wednesday's close.

I generally consider inverted pivots as good times to take profits. And with the Fed announcement due at 2pm, perhaps some profit taking ahead of that would be a good idea. But the CBI is still at an extreme reading. And readings this extreme typically see more upside follow through than just one day. So this seems like an opportune time to hold on to a part of my position to try and ride a move up a little further. Therefore I will look to scale back while still maintaining long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/27– slightly bullish

The intermediate-term outlook was last updated in the 7/27/15 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

APA – 1/3 @ $47.53 (bought @ limit)
APA – 1/3 @ $47.53 (bought 2nd lot @ limit)
OXY – 1/3 @ $69.47 (bought @ limit)
COP – 1/3 @ $55.83 (bought @ limit)
UTX – 1/3 @ $101.55 (bought @ limit)
COP – 1/3 @ $55.83 (bought 2nd lot @ limit)
UTX – 1/3 @ $101.55 (bought 2nd lot @ limit)
ORCL– 1/3 @ $39.00 (bought @ limit)
COP – 1/3 @ $52.09
UTX – 1/3 @ $99.31
ORCL– 1/3 @ $39.00
APA – 1/3 @ $45.08
DD– 1/3 @ $56.94
ORCL
DD
DVN
New
DD– 1/3 @ $55.90

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Catapult for ETF's Trades
None

Broad Market Large Cap CBI – 17/7(APA-3, OXY, COP-3, UTX-3, ORCL-3, DD-3, DVN)

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 @ $55.90 LIMIT. This is a new Catapult trade from above. It is the last 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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APA(1/3)	7/22/2015	$47.32	$46.47	-1.80%		Catapult
APA(1/3)	7/23/2015	$47.32	$46.47	-1.80%		Catapult
COP(1/3)	7/23/2015	$55.10	$52.24	-5.19%		Catapult
OXY(1/3)	7/23/2015	$69.44	$69.62	0.26%		Catapult
UTX(1/3)	7/23/2015	$101.55	$98.97	-2.54%		Catapult
COP(1/3)	7/24/2015	$53.95	$52.24	-3.17%		Catapult
ORCL(1/3)	7/24/2015	$39.00	$39.28	0.72%		Catapult
SPY(1/4)	7/24/2015	$210.18	$209.31	-0.41%		sell @ $209.31 limit
UTX(1/3)	7/24/2015	$101.00	$98.97	-2.01%		Catapult
APA(1/3)	7/27/2015	$44.28	$46.47	4.95%		Catapult
COP(1/3)	7/27/2015	$51.34	$52.24	1.75%		Catapult
DD(1/3)	7/27/2015	$56.83	$55.90	-1.64%		Catapult
EMR(1/3)	7/27/2015	$50.39	$51.80	2.80%		sell on open
NSC(1/3)	7/27/2015	$82.31	$84.92	3.17%		sell on open
ORCL(1/3)	7/27/2015	$38.72	$39.28	1.45%		Catapult
SPY(1/4)	7/27/2015	$206.94	$209.31	1.15%		sell @ $210.00 limit
UTX(1/3)	7/27/2015	$98.78	$98.97	0.19%		Catapult
DD(1/3)	7/28/2015	$53.38	$55.90	4.72%		Catapult
DVN(1/3)	7/28/2015	$48.83	$49.99	2.38%		Catapult
ORCL(1/3)	7/28/2015	$38.51	$39.28	2.00%		Catapult
SPY(1/4)	7/28/2015	$207.00	$209.31	1.12%		Aggregator

EMR and NSC both hit their Catapult exit triggers and will be exited at the open.