

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2015

Volume 8 Issue 164

Market Overview



Signals Overview

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

Tonight's Research Points

- Too many to list. Mostly short-term bearish.

Short-term Outlook

The Bottom Line

A bunch of evidence tonight is suggesting the next 1-2 days could be rough. But after that signs still point to a further bounce. The outlook remains bullish but the market could easily switch to short-term overbought on Thursday, so upside is becoming limited and reducing exposure may be warranted.

The Evidence

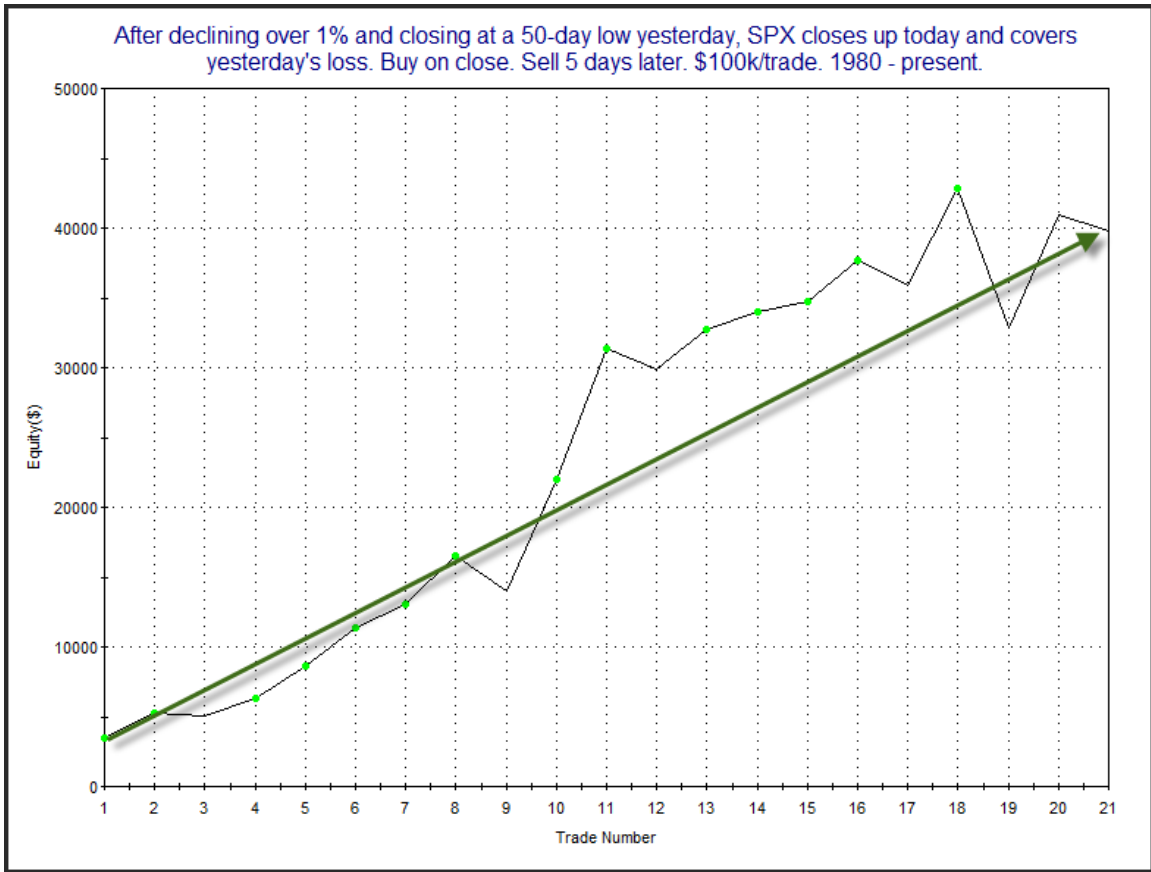
Wednesday was a strong bounce-back day for the market. The SPX rose 3.9%, the NASDAQ rallied 4.2%, and the Russell 2000 gained 2.5%. Breadth was strongly positive as the NYSE Up Issues % came in at 79% and the Up Volume % was just under 90%. Total NYSE volume rose from Tuesday’s level but was not as high as on the selloff Monday.

Bounces can often be tricky to interpret. This one does not appear completely clear, either. There was a fair amount of evidence that emerged on Wednesday. Most of it was short-term bearish. But let’s first take a look at a bullish study that emerged.

The study below was from the 2/25/09. It looks at other times a sizable drop to a 50-day low was reversed the next day and covered the previous day’s entire decline.

After declining over 1% and closing at a 50-day low yesterday, SPX closes up today and covers yesterday's loss. Buy on close. 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
5	39,823.56	21	15	6	71.43	3,784.92	9,334.72	-2,825.04	-9,908.49	1.34	3.35	1,896.36
4	22,649.30	21	15	6	71.43	3,091.85	7,003.30	-3,954.75	-9,329.28	0.78	1.95	1,078.54
3	18,667.80	22	13	9	59.09	2,880.05	9,591.40	-2,085.87	-5,635.08	1.38	1.99	848.54
2	2,553.61	22	14	8	63.64	1,647.04	4,652.48	-2,563.11	-9,455.49	0.64	1.12	116.07
1	4,030.98	22	11	11	50.00	1,181.80	3,893.60	-815.35	-2,311.50	1.45	1.45	183.23

Results here appear to suggest a bullish upside edge – especially after the 1st couple of days. Below is a look at the profit curve.



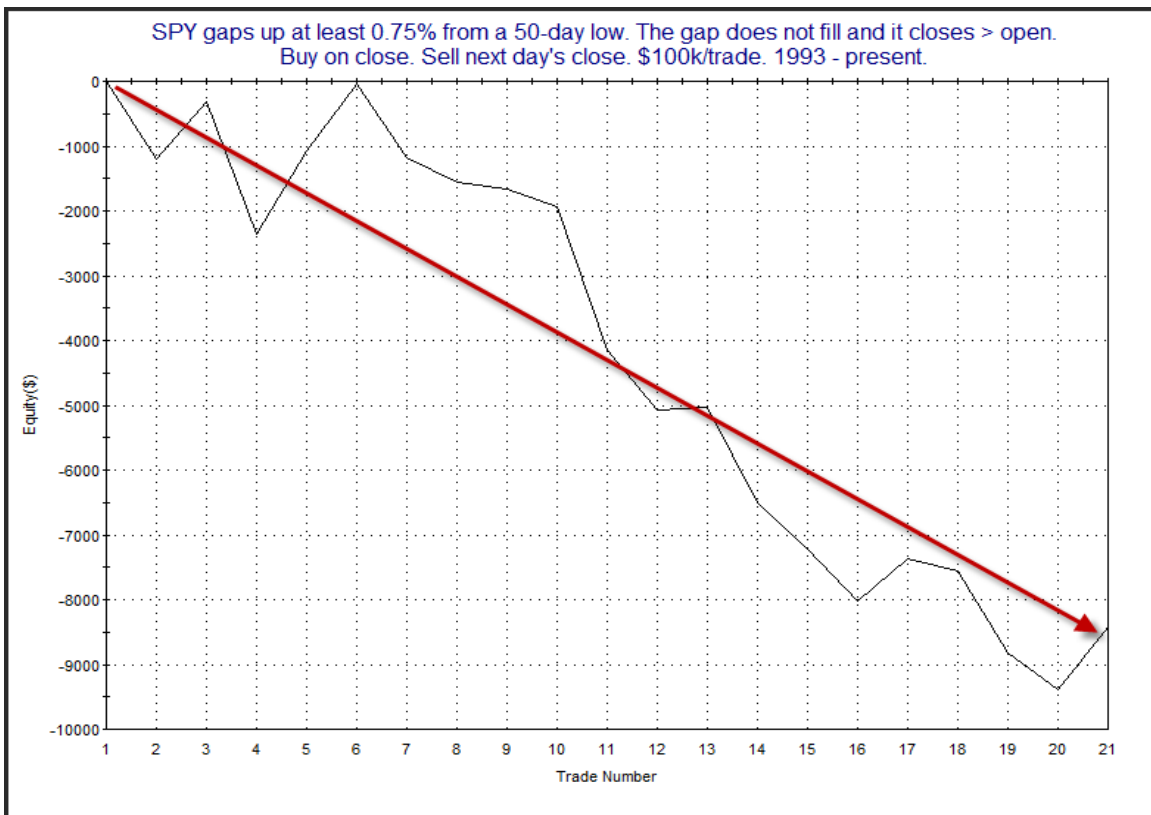
A bit choppy, but certainly upsloping, this study seems to warrant some consideration.

This next study was last seen in the 10/20/14 letter. There I looked at big gaps up from 50-day lows that go unfilled and close above the open. I looked at that setup again tonight. I found the edge only to really be consistent for one day. So I have shown those results below.

SPY gaps up at least 0.75% from a 50-day low. The gap does not fill and it closes > open.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$8,425.50)	Profit Factor	0.37
Gross Profit	\$4,880.21	Gross Loss	(\$13,305.71)
Total Number of Trades	21	Percent Profitable	28.57%
Winning Trades	6	Losing Trades	14
Even Trades	1		
Avg. Trade Net Profit	(\$401.21)	Ratio Avg. Win:Avg. Loss	0.86
Avg. Winning Trade	\$813.37	Avg. Losing Trade	(\$950.41)
Largest Winning Trade	\$1,274.58	Largest Losing Trade	(\$2,203.74)

As you can see, the stats clearly favor a down day on Monday. Let's also look at the profit curve.



This appears to be a pretty steady curve and overall a study worth some consideration. The suggestion here is that the overwhelming 1-day bullishness (big gap and move higher) immediately after a new low is probably overdone, and unlikely to carry through for a 2nd day.

There was another study that looked at strong moves off bottoms as well. It was from the 8/10/11 subscriber letter. There I found that volume was a substantial determinant when sizable moves occur off intermediate-term bottoms. Unfortunately, as I noted earlier, volume was not terribly high compared to the last few days. Results have been much better when volume came in at a 5-day high.

This can be seen below. This 1st case examines times where there was a 3% rise off a 50-day low and high volume occurred.

After closing at a 50-day low yesterday, SPX rises > 3% today. NYSE volume IS the highest in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	38,715.46	12	11	1	91.67	3,659.23	9,334.72	-1,536.08	-1,536.08	2.38	26.20	3,226.29
4	35,028.70	12	9	3	75.00	4,875.82	11,930.04	-2,951.22	-3,869.74	1.65	4.96	2,919.06
3	36,489.27	12	7	5	58.33	6,363.64	10,868.60	-1,611.25	-2,437.50	3.95	5.53	3,040.77
2	20,193.29	12	7	5	58.33	3,890.48	7,112.64	-1,408.01	-3,081.26	2.76	3.87	1,682.77
1	23,355.70	12	7	5	58.33	3,845.03	9,089.88	-711.91	-1,441.44	5.40	7.56	1,946.31

Instances are low but the results appear strongly bullish. Below is the list of instances.

After closing at a 50-day low yesterday, SPX rises > 3% today. NYSE volume IS the highest in 5 days. Buy SPX on close. Sell 5 days later. \$100k/trade. 1970 - present.

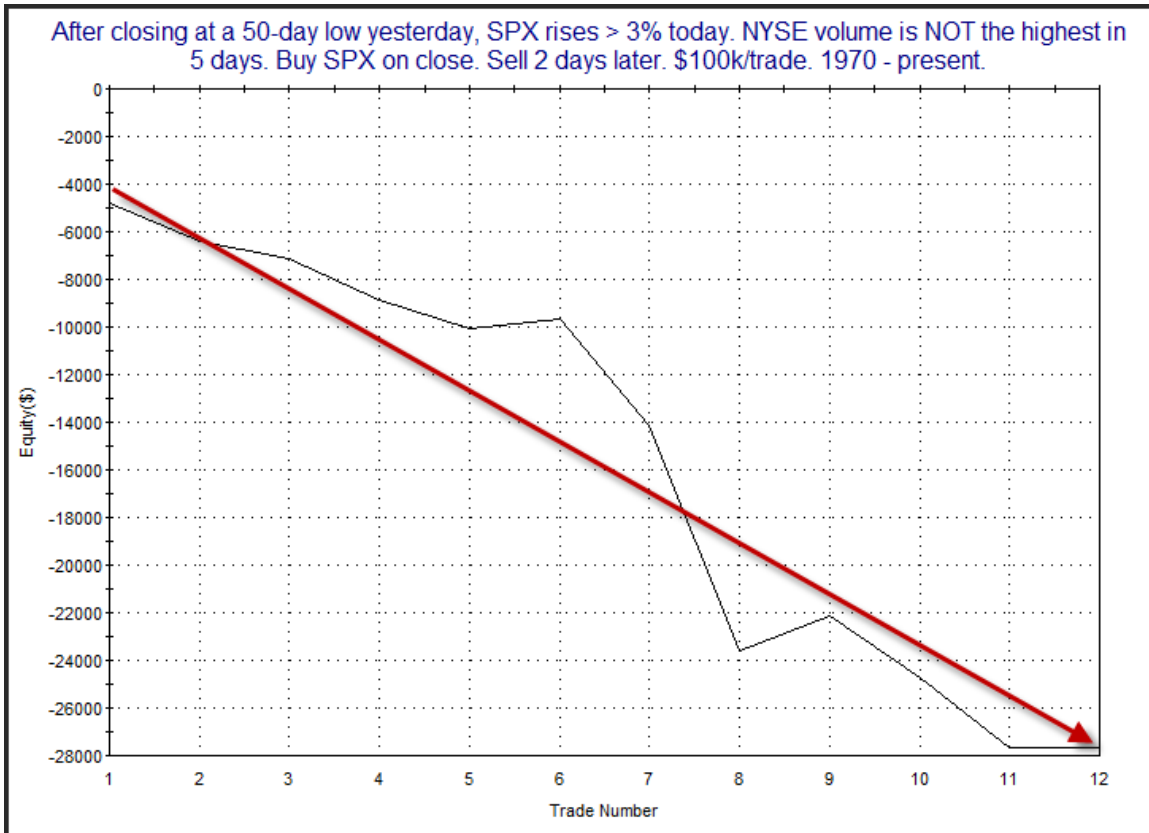
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/27/70	Buy	\$72.77	7.90%	\$8,862.30
06/03/70	Sell	\$78.52		(\$247.32)
07/12/74	Buy	\$83.15	0.47%	\$2,692.48
07/19/74	Sell	\$83.54		(\$1,742.90)
10/20/87	Buy	\$236.83	(1.54%)	\$9,465.46
10/27/87	Sell	\$233.19		(\$4,042.76)
10/28/97	Buy	\$921.86	2.05%	\$2,110.32
11/04/97	Sell	\$940.76		(\$1,963.44)
09/01/98	Buy	\$994.25	1.20%	\$3,345.00
09/09/98	Sell	\$1,006.20		(\$3,775.00)
05/08/02	Buy	\$1,088.85	0.20%	\$1,399.58
05/15/02	Sell	\$1,091.07		(\$3,180.45)
07/24/02	Buy	\$843.43	8.08%	\$8,048.78
07/31/02	Sell	\$911.62		(\$3,223.76)
10/10/02	Buy	\$803.92	9.36%	\$10,097.32
10/17/02	Sell	\$879.20		\$0.00
03/11/08	Buy	\$1,320.65	0.76%	\$945.75
03/18/08	Sell	\$1,330.71		(\$4,775.25)
09/18/08	Buy	\$1,206.51	0.23%	\$4,806.02
09/25/08	Sell	\$1,209.27		(\$2,191.04)
11/21/08	Buy	\$800.03	2.02%	\$11,931.28
12/01/08	Sell	\$816.21		\$0.00
03/10/09	Buy	\$719.60	8.13%	\$8,075.76
03/17/09	Sell	\$778.12		(\$793.50)

No red flags here. Unfortunately, Wednesday's volume failed to make a 10-day high. When that has happened the results have been dramatically different, as can be seen below.

After closing at a 50-day low yesterday, SPX rises > 3% today. NYSE volume is NOT the highest in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	-25,854.94	10	3	7	30.00	4,699.85	7,866.42	-5,707.78	-14,309.75	0.82	0.35	-2,585.49
9	-46,018.81	11	2	9	18.18	7,758.43	8,791.78	-6,837.30	-13,855.85	1.13	0.25	-4,183.53
8	-51,183.79	11	2	9	18.18	7,004.80	7,458.78	-7,243.71	-22,706.90	0.97	0.21	-4,653.07
7	-49,338.51	11	3	8	27.27	4,004.52	6,814.17	-7,669.01	-21,797.40	0.52	0.20	-4,485.32
6	-27,420.22	11	5	6	45.45	2,368.29	4,740.12	-6,543.61	-15,420.70	0.36	0.30	-2,492.75
5	-18,932.98	11	5	6	45.45	3,300.98	6,915.44	-5,906.32	-14,461.05	0.56	0.47	-1,721.18
4	-17,471.10	11	5	6	45.45	2,301.76	3,711.51	-4,829.98	-9,329.28	0.48	0.40	-1,588.28
3	-18,279.71	12	4	8	33.33	1,620.37	2,993.44	-3,095.15	-5,706.05	0.52	0.26	-1,523.31
2	-27,660.55	12	3	9	25.00	601.41	1,439.48	-3,273.87	-9,455.49	0.18	0.06	-2,305.05
1	-12,609.22	12	3	9	25.00	562.22	873.18	-1,588.43	-4,400.45	0.35	0.12	-1,050.77

We see results here about completely opposite of the earlier case. Much of the damage was done in the 1st 2 days. Below is a look at the 2-day profit curve.



That is a pretty steady curve. I also decided to show the 8-day individual results.

After closing at a 50-day low yesterday, SPX rises > 3% today. NYSE volume is NOT the highest in 5 days. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/30/74	Buy	\$72.15	(7.54%)	\$1,191.96
09/12/74	Sell	\$66.71		(\$8,218.98)
11/01/78	Buy	\$96.85	(3.84%)	\$464.40
11/13/78	Sell	\$93.13		(\$4,097.04)
10/13/00	Buy	\$1,374.10	(0.67%)	\$2,990.88
10/25/00	Sell	\$1,364.90		(\$4,918.32)
04/05/01	Buy	\$1,151.46	7.53%	\$8,338.56
04/18/01	Sell	\$1,238.19		(\$2,766.62)
09/24/01	Buy	\$1,003.45	6.59%	\$7,986.33
10/04/01	Sell	\$1,069.62		(\$515.79)
09/30/08	Buy	\$1,166.36	(22.90%)	\$56.95
10/10/08	Sell	\$899.22		(\$27,757.60)
10/13/08	Buy	\$1,003.35	(9.49%)	\$4,055.04
10/23/08	Sell	\$908.11		(\$14,346.09)
10/28/08	Buy	\$940.51	(1.01%)	\$7,102.00
11/07/08	Sell	\$930.99		(\$4,321.62)
02/24/09	Buy	\$773.14	(11.61%)	\$900.42
03/06/09	Sell	\$683.38		(\$13,719.15)
05/27/10	Buy	\$1,103.06	(4.29%)	\$234.90
06/09/10	Sell	\$1,055.69		(\$5,480.10)
08/09/11	Buy	\$1,172.53	(4.18%)	\$3,054.90
08/19/11	Sell	\$1,123.53		(\$4,634.20)

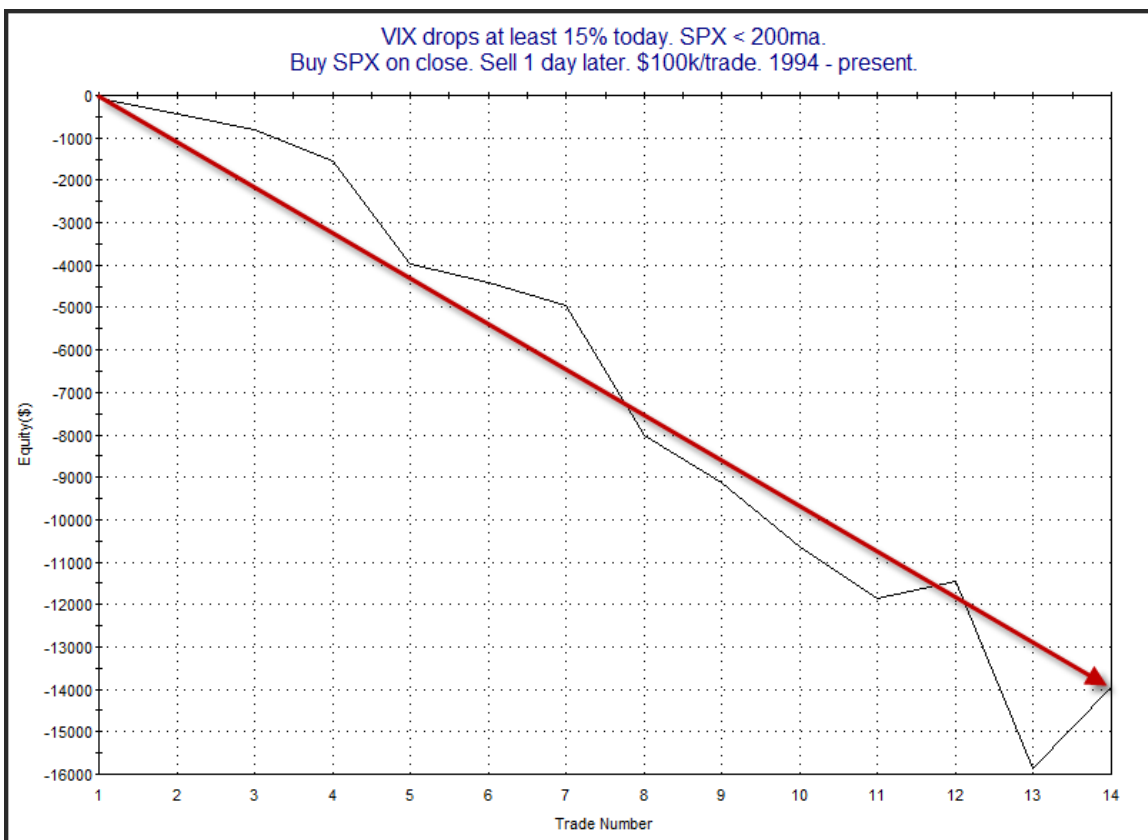
What struck me most here was the very high volatility of the trades. The 11/78 instance saw the tightest 8-day range following the setup – and it traded in a 4.5% range over the next 8 days. So regardless of the direction over the next few days, we can expect the move to be fairly large.

Another notable bit of action today was the large drop in the VIX, which declined almost 16% and triggered a study from 7/21/14 letter that looked at drops of 15% or more and suggested bearish implications. I have updated that study below.

VIX drops at least 15% today. SPX < 200ma.
Buy SPX on close. Sell 1 day later. \$100k/trade. 1994 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$13,929.38)	Profit Factor	0.14
Gross Profit	\$2,342.99	Gross Loss	(\$16,272.37)
Total Number of Trades	14	Percent Profitable	14.29%
Winning Trades	2	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$994.96)	Ratio Avg. Win:Avg. Loss	0.86
Avg. Winning Trade	\$1,171.49	Avg. Losing Trade	(\$1,356.03)
Largest Winning Trade	\$1,938.04	Largest Losing Trade	(\$4,400.45)

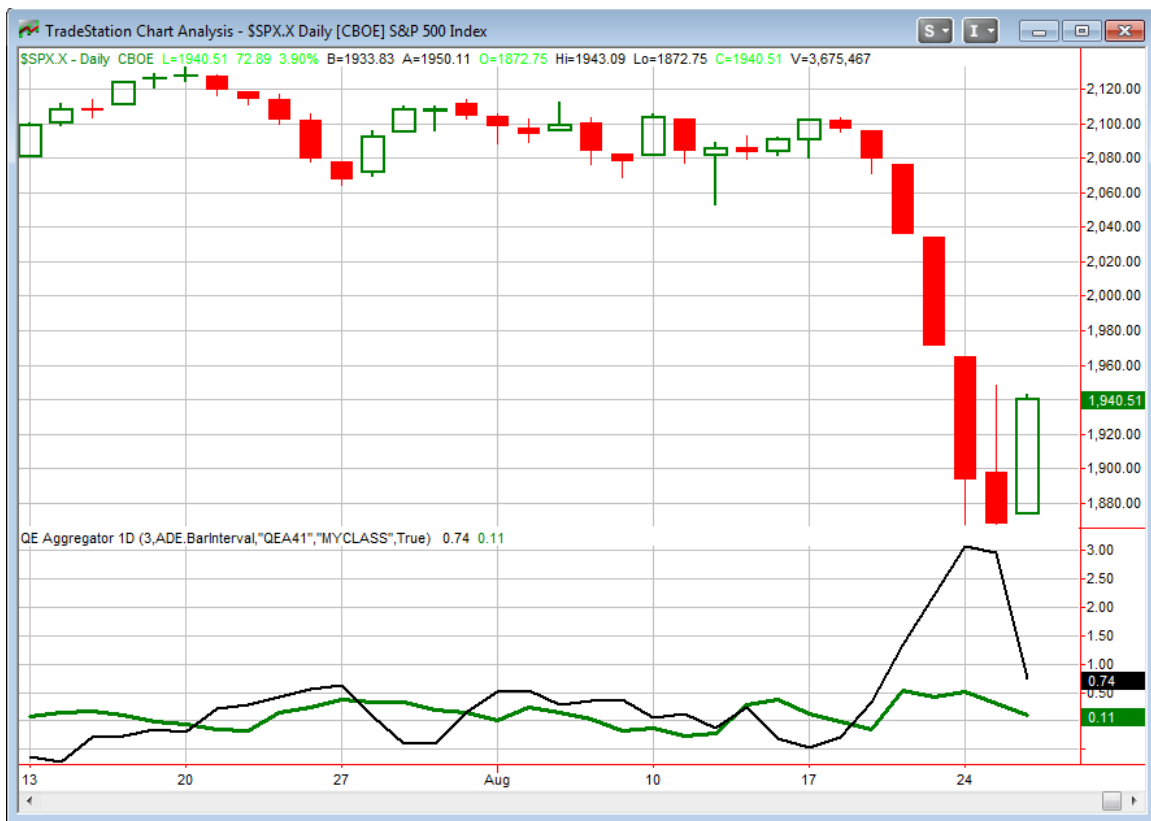
Another example here of low sample size but strongly bearish short-term numbers. Below is a profit curve.



Again we see a persistent downslope.

So the bulk of tonight's evidence is suggesting a 1-2 day pullback. Of course the market is still oversold and the CBI is still just slightly off its all-time high. So shorting is out of the question for me.

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



Even with tonight's bearish studies factored in the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also 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.

Expectations are currently set to remain bullish on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1919.91 on Thursday. That is about 1.1% *below* Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close down at least 1.1% in order to remain short-term oversold versus expectations. Anything other than that and it will be considered short-term "overbought" as of Thursday's close.

I often view inverted pivots as opportune times to take profits. That is because the long Aggregator signal now has more limited upside since any move high and it will expire on

Thursday. Still, with the CBI so high, volatility so high, and the potential for a much larger rebound, I will only look to moderately reduce my long exposure, rather than take it all off. Additionally, there was some Catapult activity as well that will lead me to reduce exposure there.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/24 – neutral

The intermediate-term outlook was last updated in the 8/17/15 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

EBAY – 1/3 @ \$26.52 (bought @ \$26.33)

COP – 1/3 @ \$47.00 (bought @ \$46.66)

PG – 1/3 @ \$73.91 (bought @ 73.55)

EBAY – 1/3 @ \$25.77 - 2nd lot

COP – 1/3 @ \$45.39 – 2nd lot

PG – 1/3 @ \$71.84 – 2nd lot

MO – 1/3 @ \$53.94

GS – 1/3 @ \$187.74

CVX – 1/3 @ \$75.76

DVN – 1/3 @ \$41.09

MDLZ – 1/3 @ \$43.20

UTX – 1/3 @ \$93.01

FOXA – 1/3 @ \$27.94

ALL – 1/3 @ \$61.25

ALL 1/3 @ \$58.39 limit

APA 1/3 @ \$40.49 limit

COF 1/3 @ \$73.53 limit

COP 1/3 @ \$42.93 limit – 3rd lot

CVX 1/3 @ \$72.12 limit

DD 1/3 @ \$49.98 limit

DIS 1/3 @ \$95.36 limit

DOW 1/3 @ \$40.35 limit

DVN 1/3 @ \$38.08 limit

EBAY 1/3 @ \$24.93 limit – 3rd lot

EMR 1/3 @ \$46.36 limit

FCX 1/3 @ \$8.68 limit

FOXA 1/3 @ \$26.66 limit

GS 1/3 @ \$179.46 limit
IBM 1/3 @ \$143.47 limit
LMT 1/3 @ \$197.46 limit
MDLZ 1/3 @ \$41.96 limit
MMM 1/3 @ \$138.58 limit
MO 1/3 @ \$52.14 limit
NSC 1/3 @ \$74.74 limit
PG 1/3 @ \$69.14 limit – 3rd lot
SPG 1/3 @ \$182.07 limit
TWX 1/3 @ \$69.81 limit
UTX 1/3 @ \$90.87 limit
XOM 1/3 @ \$68.72 limit
ALL 1/3 @ \$56.99 limit
APA 1/3 @ \$38.90 limit
CMCSA 1/3 @ \$53.85 limit
COF 1/3 @ \$72.25 limit
CVS 1/3 @ \$100.00 limit
CVX 1/3 @ \$70.02 limit
DD 1/3 @ \$49.06 limit
DOW 1/3 @ \$39.39 limit
DVN 1/3 @ \$36.63 limit
EMR 1/3 @ \$45.16 limit
FCX 1/3 @ \$8.24 limit
GE 1/3 @ \$23.27 limit
GS 1/3 @ \$178.22 limit
IBM 1/3 @ \$140.96 limit
MDLZ 1/3 @ \$41.31 limit
MMM 1/3 @ \$137.64 limit
MO 1/3 @ \$51.82 limit
MON 1/3 @ \$89.42 limit
MS 1/3 @ \$31.76 limit
NSC 1/3 @ \$72.44 limit
ORCL 1/3 @ \$35.45 limit
QCOM 1/3 @ \$53.88 limit
SPG 1/3 @ \$177.09 limit
TWX 1/3 @ \$69.69 limit
UTX 1/3 @ \$88.80 limit
WBA 1/3 @ \$81.00 limit
XOM 1/3 @ \$68.71 limit
New
FCX 1/3 @ \$7.92 limit

Broad Market Large Cap CBI – 67

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.

Catapults:

FCX 1/3 @ \$7.92 limit

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](#).

One question I am sometimes asked about Catapults is how I handle them when so many trigger at once. During times like this I will often either reduce the size of each trade, or trade options, which allow me lower total outlay as well as a natural stop (\$0). I will keep it simple for the letter, though and just treat them all the same.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/21/2015	\$201.73	\$194.68	-3.49%		sell at \$196.00 limit
SPY(1/4)	8/21/2015	\$197.63	\$194.68	-1.49%		Aggregator
EBAY(1/3)	8/21/2015	\$26.33	\$26.17	-0.61%		Catapult
COP(1/3)	8/21/2015	\$46.66	\$43.41	-6.97%		Catapult
PG(1/3)	8/21/2015	\$73.55	\$70.90	-3.60%		Catapult
EBAY(1/3)	8/24/2015	\$23.87	\$26.17	9.64%		Catapult
COP(1/3)	8/24/2015	\$41.98	\$43.41	3.41%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$70.90	3.40%		Catapult
MO(1/3)	8/24/2015	\$48.71	\$53.21	9.24%		Catapult
GS(1/3)	8/24/2015	\$178.46	\$184.40	3.33%		Catapult
CVX(1/3)	8/24/2015	\$70.55	\$73.09	3.60%		Catapult
DVN(1/3)	8/24/2015	\$38.42	\$38.45	0.08%		Catapult
MDLZ(1/3)	8/24/2015	\$41.12	\$42.20	2.63%		Catapult
AMZN(1/3)	8/24/2015	\$463.58	\$500.77	8.02%		sell on open
UTX(1/3)	8/24/2015	\$88.67	\$91.56	3.26%		Catapult
AAPL(1/3)	8/24/2015	\$94.87	\$109.69	15.62%		sell on open
FOXA(1/3)	8/24/2015	\$24.82	\$27.34	10.15%		Catapult
NOV(1/3)	8/24/2015	\$35.12	\$39.03	11.13%		sell on open
ALL(1/3)	8/24/2015	\$60.11	\$57.40	-4.51%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$57.40	-1.70%		Catapult
APA(1/3)	8/25/2015	\$40.49	\$39.53	-2.37%		Catapult
COF(1/3)	8/25/2015	\$73.53	\$74.75	1.66%		Catapult
COP(1/3)	8/25/2015	\$42.93	\$43.41	1.12%		Catapult
CVX(1/3)	8/25/2015	\$72.12	\$73.09	1.34%		Catapult
DD(1/3)	8/25/2015	\$49.98	\$50.66	1.36%		Catapult
DOW(1/3)	8/25/2015	\$40.35	\$41.05	1.73%		Catapult
DVN(1/3)	8/25/2015	\$38.08	\$38.45	0.97%		Catapult
EMR(1/3)	8/25/2015	\$46.36	\$46.41	0.11%		Catapult
FCX(1/3)	8/25/2015	\$8.68	\$7.92	-8.76%		Catapult
GOOG(1/3)	8/25/2015	\$589.61	\$628.62	6.62%		sell on open
GS(1/3)	8/25/2015	\$179.46	\$184.40	2.75%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$146.70	2.25%		Catapult
MDLZ(1/3)	8/25/2015	\$41.96	\$42.20	0.57%		Catapult
MMM(1/3)	8/25/2015	\$138.58	\$142.72	2.99%		Catapult
MO(1/3)	8/25/2015	\$52.14	\$53.21	2.05%		Catapult
NSC(1/3)	8/25/2015	\$74.74	\$74.12	-0.83%		Catapult
PG(1/3)	8/25/2015	\$69.14	\$70.90	2.55%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$181.97	-0.05%		Catapult
TWX(1/3)	8/25/2015	\$69.81	\$71.67	2.66%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$91.56	0.76%		Catapult
XOM(1/3)	8/25/2015	\$68.72	\$72.50	5.50%		Catapult
SPY(1/4)	8/25/2015	\$189.55	\$194.68	2.71%		Aggregator
MO(1/3)	8/26/2015	\$51.82	\$53.21	2.68%		Catapult
APA(1/3)	8/26/2015	\$38.90	\$39.53	1.62%		Catapult
ALL(1/3)	8/26/2015	\$56.99	\$57.40	0.72%		Catapult
FCX(1/3)	8/26/2015	\$8.24	\$7.92	-3.88%		Catapult
MDLZ(1/3)	8/26/2015	\$41.31	\$42.20	2.15%		Catapult
GE(1/3)	8/26/2015	\$23.27	\$24.03	3.27%		Catapult

Please note that any orders that did not get filled on Wednesday will be cancelled for the time being. I may look to enter these if they move down and close below their entry prices in the next few days.

Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the [QE Trade Ideas Results Sheet](#). It can be downloaded from the website at any time.

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