

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 3, 2015

Volume 8 Issue 170

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's gap pattern is suggesting a move higher in the next few days.
- The steep drop in VXO may be a sign of short-term trouble for the bulls.

Short-term Outlook

The Bottom Line

Evidence is still quite mixed. Though the Aggregator is bullish, the reward/risk does not appear great. I would lean bullish, but not strongly.

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						
September 3, 2015	SPY 1.5% drop. Unfill gap up > yest hi	1-3 days	Bullish			
September 3, 2015	VXO 15% drop	1-2 days	Bearish			
August 28, 2015	2% Rally. Low Volume 5 days.	1-5 days	Bearish			
Active - Long Term						
August 31, 2015	NASDAQ leading SPX	int term	Bullish			
August 21, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

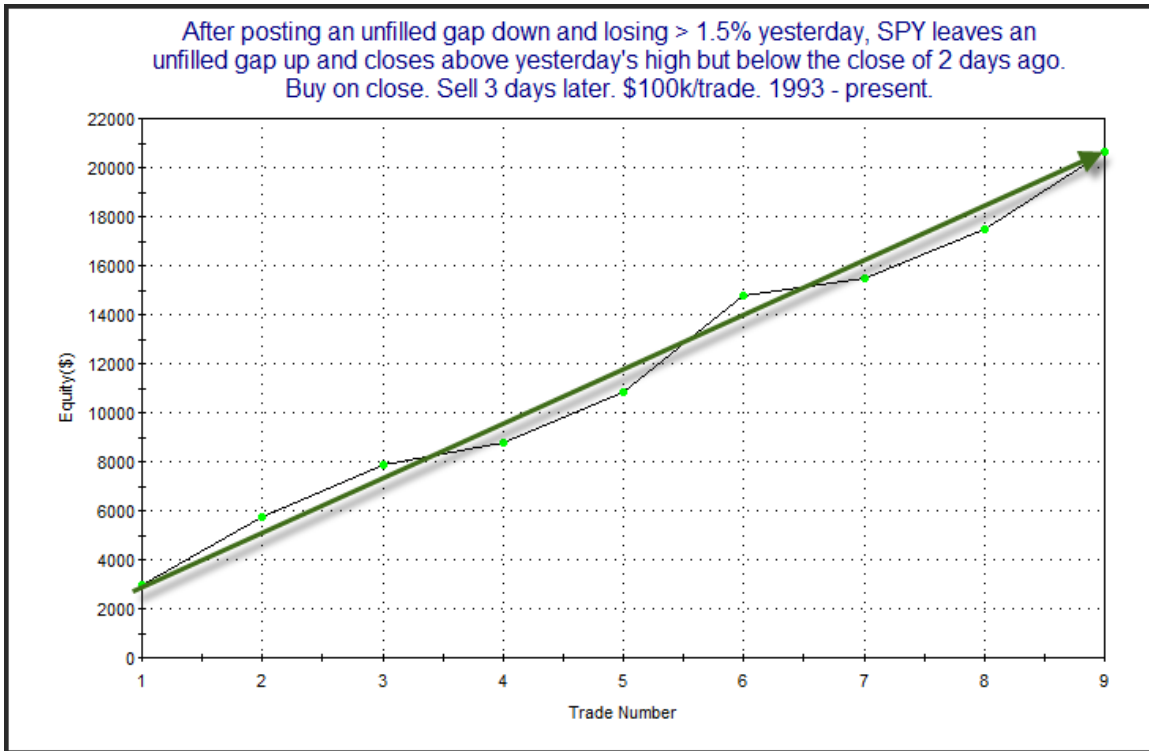
The Evidence

Wednesday was a day of gains for stocks. The SPX rose 1.8%, the NASDAQ rallied 2.5%, and the Russell 2000 closed up 1.6%. Breadth was positive as the NYSE Up Issues % came in at 72% and the Up Volume % was 82%. Total NYSE volume declined some from Tuesday's level.

The strong rally in the closing minutes of the day is what allowed SPY to close above Tuesday's high. This helped trigger the bullish study seen below. It requires an unfilled gap down and large selloff to be followed by an unfilled gap up and close above the high of the down day. Below is the results table.

After posting an unfilled gap down and losing > 1.5% yesterday, SPY leaves an unfilled gap up and closes above yesterday's high but below the close of 2 days ago. 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	11,894.29	9	7	2	77.78	2,174.42	5,666.72	-1,663.34	-2,432.08	1.31	4.58	1,321.59
9	19,814.69	9	8	1	88.89	2,567.86	6,522.72	-728.21	-728.21	3.53	28.21	2,201.63
8	12,097.25	9	7	2	77.78	2,167.78	4,870.64	-1,538.62	-2,318.96	1.41	4.93	1,344.14
7	9,931.60	9	6	3	66.67	2,537.47	5,136.00	-1,764.41	-3,919.20	1.44	2.88	1,103.51
6	10,644.26	9	6	3	66.67	2,511.12	5,589.68	-1,474.16	-3,995.88	1.70	3.41	1,182.70
5	10,701.74	9	7	2	77.78	1,967.62	4,106.63	-1,535.81	-2,402.64	1.28	4.48	1,189.08
4	20,619.04	9	9	0	100.00	2,291.00	3,904.83	0.00	0.00	100.00	100.00	2,291.00
3	18,974.41	9	9	0	100.00	2,108.27	3,914.92	0.00	0.00	100.00	100.00	2,108.27
2	12,388.62	9	8	1	88.89	1,683.71	2,828.00	-1,081.08	-1,081.08	1.56	12.46	1,376.51
1	2,486.82	9	6	3	66.67	848.92	1,821.56	-868.89	-2,203.74	0.98	1.95	276.31

Instances are a little bit low but the 3-4 days results couldn't be more bullish. And not only are the numbers bullish, but the equity curve is almost a straight shot.



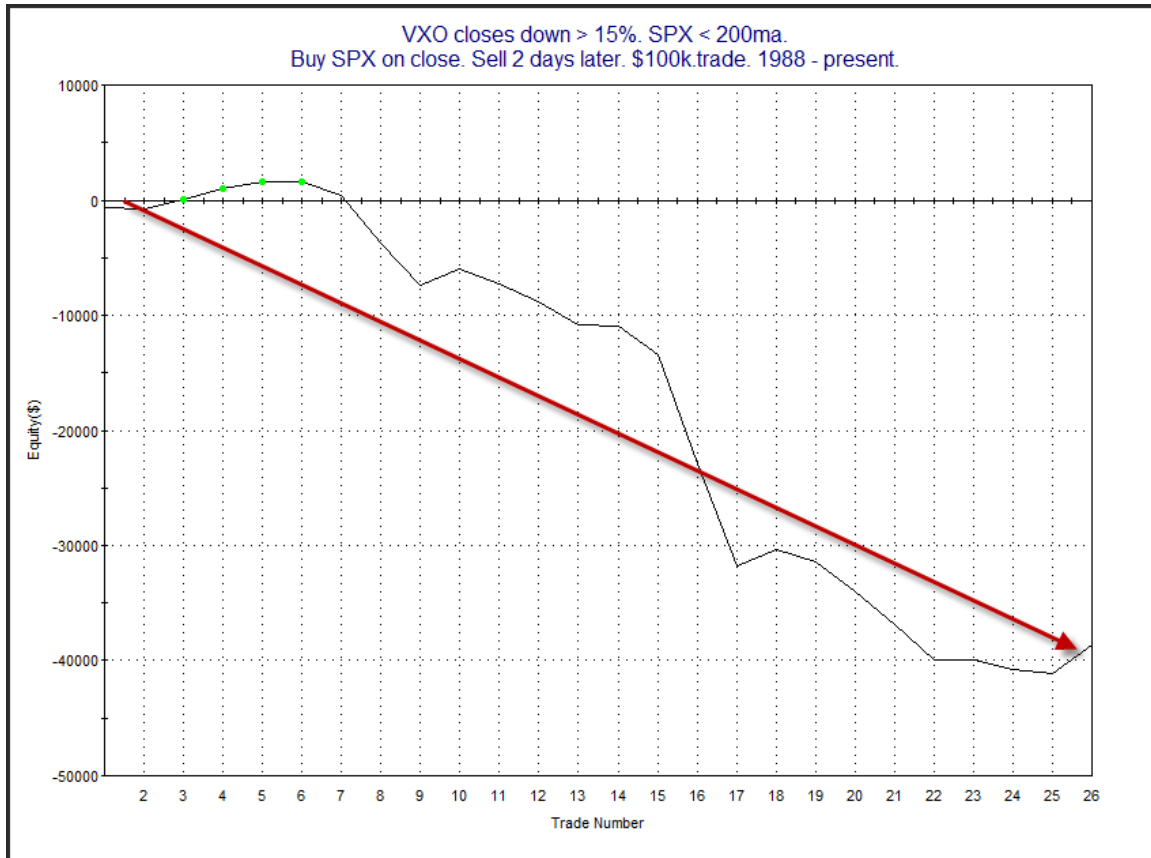
So overall these results are very impressive. I have therefore elected to include this study on the Active List despite the low number of instances.

But there was also some bearish evidence that emerged. The rally was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 7/21/14 subscriber letter I showed that big drops in the VXO when SPX was < 200ma have been problematic. I have update that study below.

VXO closes down > 15%. SPX < 200ma.
Buy SPX 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	-16,921.81	23	12	11	52.17	2,377.06	6,915.44	-4,131.50	-13,784.48	0.58	0.63	-735.73
4	-27,087.25	25	13	12	52.00	1,704.02	4,104.78	-4,103.29	-10,971.63	0.42	0.45	-1,083.49
3	-34,603.85	26	8	18	30.77	1,320.47	2,993.44	-2,509.31	-7,806.29	0.53	0.23	-1,330.92
2	-38,614.37	26	8	18	30.77	970.88	2,466.36	-2,576.74	-9,455.49	0.38	0.17	-1,485.17
1	-18,735.46	26	5	21	19.23	1,168.03	2,404.65	-1,170.27	-4,400.45	1.00	0.24	-720.59

We see here some very bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates so quickly during a downtrend. Below is a look at the 2-day profit curve.



The last instance ticked higher but it has been a pretty steady decline on this chart. I have also included this study in the Aggregator for tonight.

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



Despite the mix of studies tonight the green Aggregator Line edged 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 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 turned long at the close.

Expectations are currently set to remain bullish on Thursday. Of course this could change if more strong bearish evidence emerges. The Differential Pivot will be 1969.26 on Thursday. That is 1.0% above Wednesday's close. So for SPX to change from oversold to overbought versus expectations on Thursday it will need to close up at least 1.0%.

This is still not a great setup in my eyes. Though the 3-day expectations are positive, the 1-day is actually negative. With studies and overall expectations mixed, action choppy and volatile, and the market already up strongly on Wednesday, reward/risk is not terribly favorable. I will wait to see how Thursday plays out. In a market like the current one, I want to see a clear edge before putting additional capital at risk.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/31 – neutral

The intermediate-term outlook was last updated in the 8/31 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

PG – 1/3 @ \$73.91 (bought @ 73.55)

PG – 1/3 @ \$71.84 – 2nd lot

UTX – 1/3 @ \$93.01

ALL – 1/3 @ \$61.25

ALL 1/3 @ \$58.39 limit

IBM 1/3 @ \$143.47 limit

PG 1/3 @ \$69.14 limit – 3rd lot

SPG 1/3 @ \$182.07 limit

UTX 1/3 @ \$90.87 limit

ALL 1/3 @ \$56.99 limit

IBM 1/3 @ \$140.96 limit

MON 1/3 @ \$89.42 limit

QCOM 1/3 @ \$53.88 limit

SPG 1/3 @ \$177.09 limit

UTX 1/3 @ \$88.80 limit

Broad Market Large Cap CBI – 15

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
PG(1/3)	8/21/2015	\$73.55	\$69.81	-5.08%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$69.81	1.81%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$91.24	2.90%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$57.93	-3.63%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$57.93	-0.79%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$145.05	1.10%		Catapult
PG(1/3)	8/25/2015	\$69.14	\$69.81	0.97%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$177.13	-2.71%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$91.24	0.41%		Catapult
ALL(1/3)	8/26/2015	\$56.99	\$57.93	1.65%		Catapult

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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