

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 6, 2015

Volume 8 Issue 192

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Long VXX	Short

## Tonight's Research Points

- The QE Buying Power Swing System signaled short.
- 3+ up days (with today being the strongest) below the 200ma have typically been followed by a pullback
- Multiple 1% up days during a prolonged downtrend suggest a short-term downside edge.
- 3+ day rallies with a 90% up day have shown strong follow through over the next 3 weeks

### *Short-term Outlook*

#### *The Bottom Line*

The market is overbought and bearish evidence is dominating. I believe there is a short-side edge.

**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
<b>Active - Short Term</b>						
October 6, 2015	3+ days up today strongest < 200	1-4 days	Bearish			
October 6, 2015	1% gain 2x. 10-high < 200ma	1-3 days	Bearish			
October 6, 2015	QE Buying Power Swing Short	1-6 days	Bearish			
<b>Active - Long Term</b>						
October 6, 2015	SPX up 3+ days. Up Vol % > 90%	1-14 days	Bullish			
September 29, 2015	CBI >= 11	1-20 days	Bullish			
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
October 5, 2015	Gap dn 0.5%. High close < 200	1 day	Bearish			

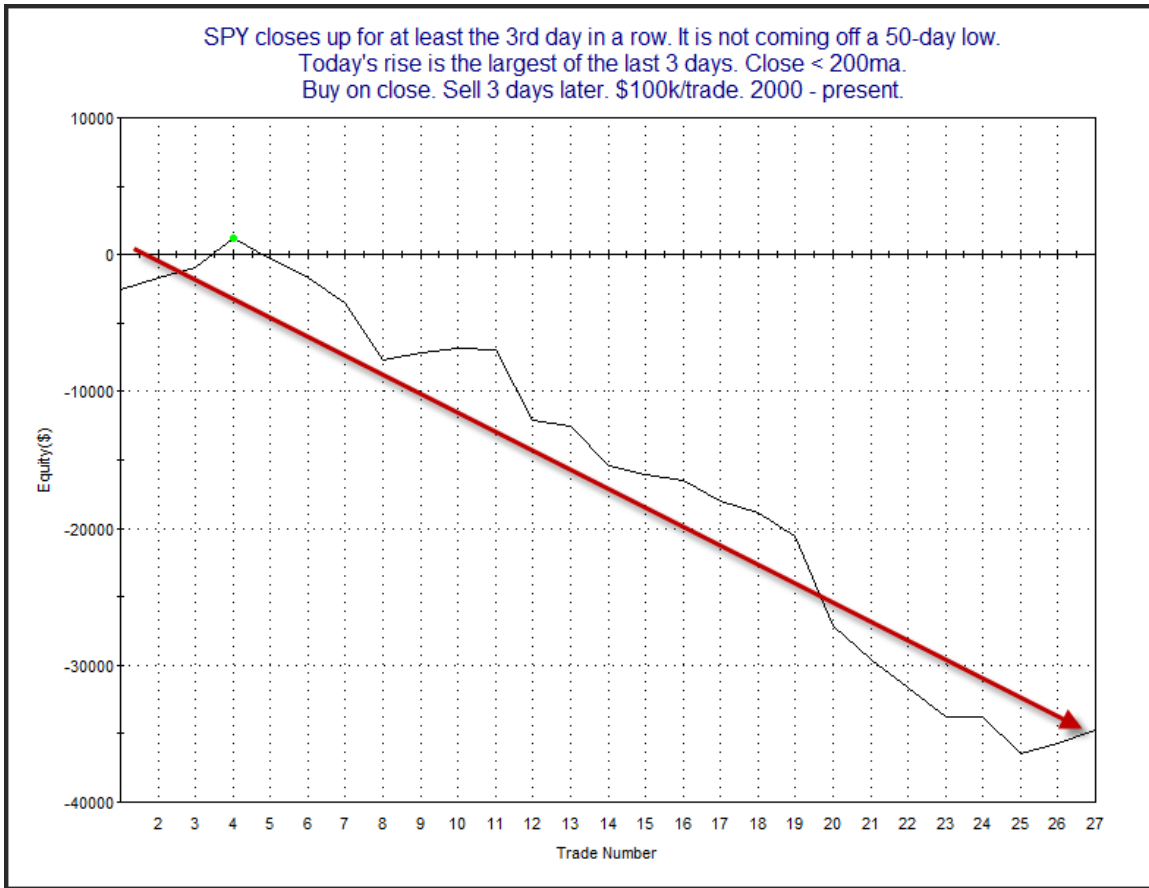
**The Evidence**

Monday saw the bulls keep running. The SPX rose 1.8%, the NASDAQ closed up 1.6%, and the Russell 2000 rallied 2.5%. Breadth was strong as the NYSE Up Issues % came in at 88% and the Up Volume % was 94%. Total NYSE volume declined from Friday's level.

While the 5-day rally has been strong, Monday was actually the strongest day of the move. This triggered the study below, which I last showed in the 9/15/11 letter.

SPY closes up for at least the 3rd day in a row. It is not coming off a 50-day low. Today's rise is the largest of the last 3 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-32,468.04	25	9	16	36.00	1,508.49	3,702.72	-2,877.78	-10,586.80	0.52	0.29	-1,298.72
4	-35,887.28	26	8	18	30.77	1,377.78	2,310.00	-2,606.09	-7,741.10	0.53	0.23	-1,380.28
3	-34,722.74	27	7	20	25.93	906.07	2,092.50	-2,053.26	-6,517.25	0.44	0.15	-1,286.03
2	-23,204.28	27	12	15	44.44	606.51	1,799.55	-2,032.16	-9,502.25	0.30	0.24	-859.42
1	-14,540.43	30	10	20	33.33	873.67	3,383.38	-1,163.86	-4,198.90	0.75	0.38	-484.68
<b>96% of instances closed below the entry price at some point in the next week.</b>												

The statistics seem to strongly suggest a downside edge. Below is a profit curve assuming a 3-day holding period.



Despite the last 2 instances closing higher, the downslope still appears strong.

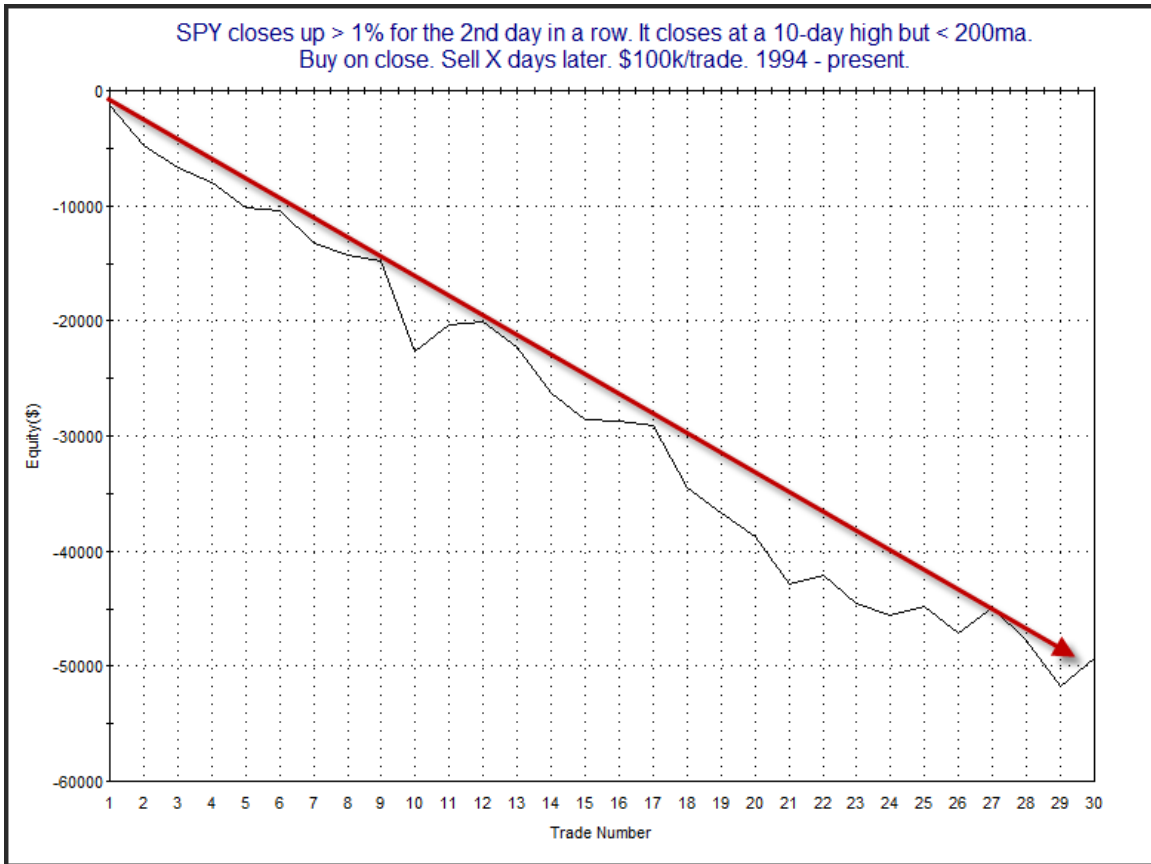
Another study that looked at strong multi-day moves below the 200ma is the one below. It requires 2 days of 1% gains and a 10-day high. It was last seen in the 10/25/11 letter. All stats are updated.

SPY closes up > 1% for the 2nd day in a row. It closes at a 10-day high but < 200ma.  
 Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-40,525.65	29	10	19	34.48	1,533.19	3,399.42	-2,939.87	-7,053.11	0.52	0.27	-1,397.44
4	-49,283.15	30	6	24	20.00	1,480.77	2,475.56	-2,423.66	-7,879.83	0.61	0.15	-1,642.77
3	-41,342.96	30	6	24	20.00	1,391.15	2,864.79	-2,070.41	-5,502.64	0.67	0.17	-1,378.10
2	-36,580.69	30	9	21	30.00	912.35	2,505.60	-2,132.94	-5,350.20	0.43	0.18	-1,219.36
1	-21,627.43	31	12	19	38.71	591.27	2,052.00	-1,511.72	-8,857.80	0.39	0.25	-697.66

Only 1 instance failed to close below the entry price at some point in the next 3 days. It triggered on 5/29/09

The numbers here all suggest a downside edge. The equity curve is below.



Again we see a strong steady downslope, confirming the bearish edge.

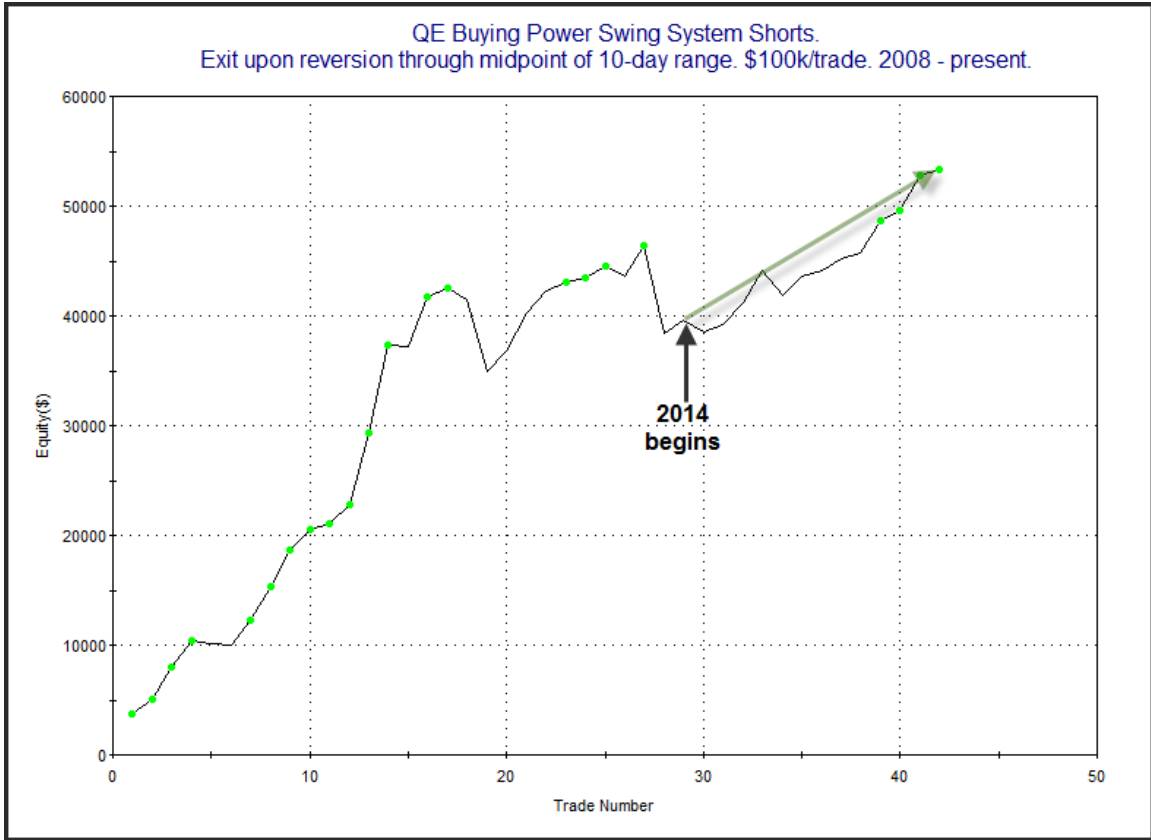
It is also notable that the QE Buying Power Swing System triggered short on Monday. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index  $\leq 0$  and the SPX closes in the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November 2014.

QE Buying Power Swing System Shorts.  
Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$53,323.14	Profit Factor	3.62
Gross Profit	\$73,691.54	Gross Loss	(\$20,368.40)
Total Number of Trades	42	Percent Profitable	78.57%
Winning Trades	33	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$1,269.60	Ratio Avg. Win:Avg. Loss	0.99
Avg. Winning Trade	\$2,233.08	Avg. Losing Trade	(\$2,263.16)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

With QE3 having lasted so long I was wary of how shorts would work out when it finally ended. So far it has offered profitable opportunities. Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 & 2015 trades began.



Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

**QE Buying Power Swing System Shorts.**  
Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.

<b>Date/Time</b>	<b>Signal</b>	<b>Price</b>	<b>% Profit</b>	<b>Run-up Drawdown</b>
11/07/14	Short	\$2,031.92	(1.06%)	\$85.75
12/01/14	Cover	\$2,053.44		(\$2,148.16)
12/03/14	Short	\$2,074.33	0.68%	\$962.88
12/08/14	Cover	\$2,060.31		(\$246.72)
12/18/14	Short	\$2,061.23	1.97%	\$2,106.72
01/05/15	Cover	\$2,020.58		(\$1,551.36)
01/22/15	Short	\$2,063.15	2.96%	\$2,959.68
01/28/15	Cover	\$2,002.16		\$0.00
02/03/15	Short	\$2,050.03	(2.37%)	\$638.88
03/04/15	Cover	\$2,098.53		(\$3,338.88)
03/18/15	Short	\$2,099.42	1.83%	\$1,803.39
03/25/15	Cover	\$2,061.05		(\$725.68)
04/09/15	Short	\$2,091.18	0.48%	\$884.07
04/17/15	Cover	\$2,081.18		(\$974.31)
04/22/15	Short	\$2,107.96	1.07%	\$1,427.39
04/30/15	Cover	\$2,085.51		(\$844.12)
05/08/15	Short	\$2,116.10	0.56%	\$1,434.91
05/26/15	Cover	\$2,104.20		(\$875.14)
06/18/15	Short	\$2,121.24	3.00%	\$3,036.20
06/29/15	Cover	\$2,057.64		(\$405.61)
07/13/15	Short	\$2,099.60	0.95%	\$1,057.97
07/24/15	Cover	\$2,079.65		(\$1,561.34)
08/17/15	Short	\$2,102.44	3.17%	\$3,135.37
08/20/15	Cover	\$2,035.73		(\$48.41)
09/08/15	Short	\$1,969.41	0.58%	\$1,611.00
09/18/15	Cover	\$1,958.08		(\$2,572.50)

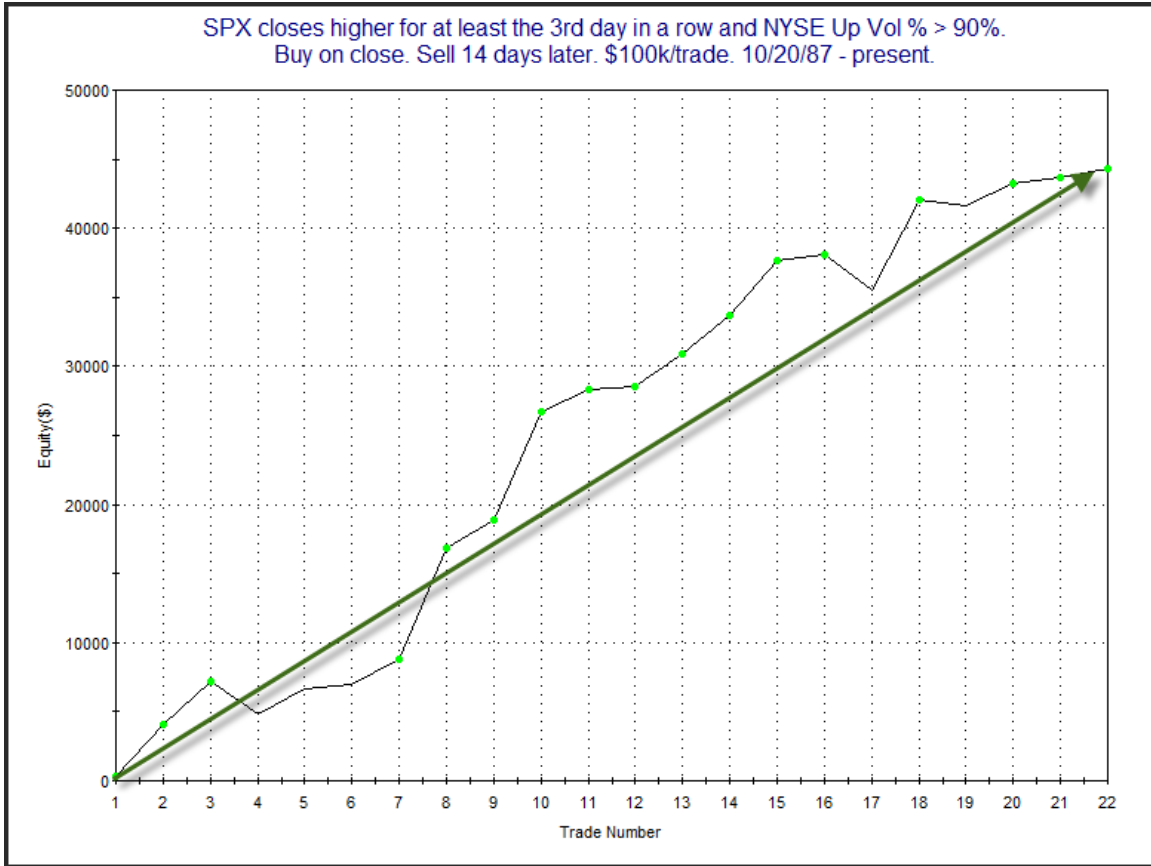
There were a few sizable drawdowns, and several of these required some patience. But the trades overall have done quite well.

But not everything suggested bearish implications. The study below was last seen in the 11/26/12 letter. It looked at other times the SPX rose for at least 3 days in a row and the NYSE Up Volume % came in > 90%. Results are updated.

SPX closes higher for at least the 3rd day in a row and NYSE Up Vol % > 90%.  
Buy on close. Sell X days later. \$100k/trade. 10/20/87 - present.

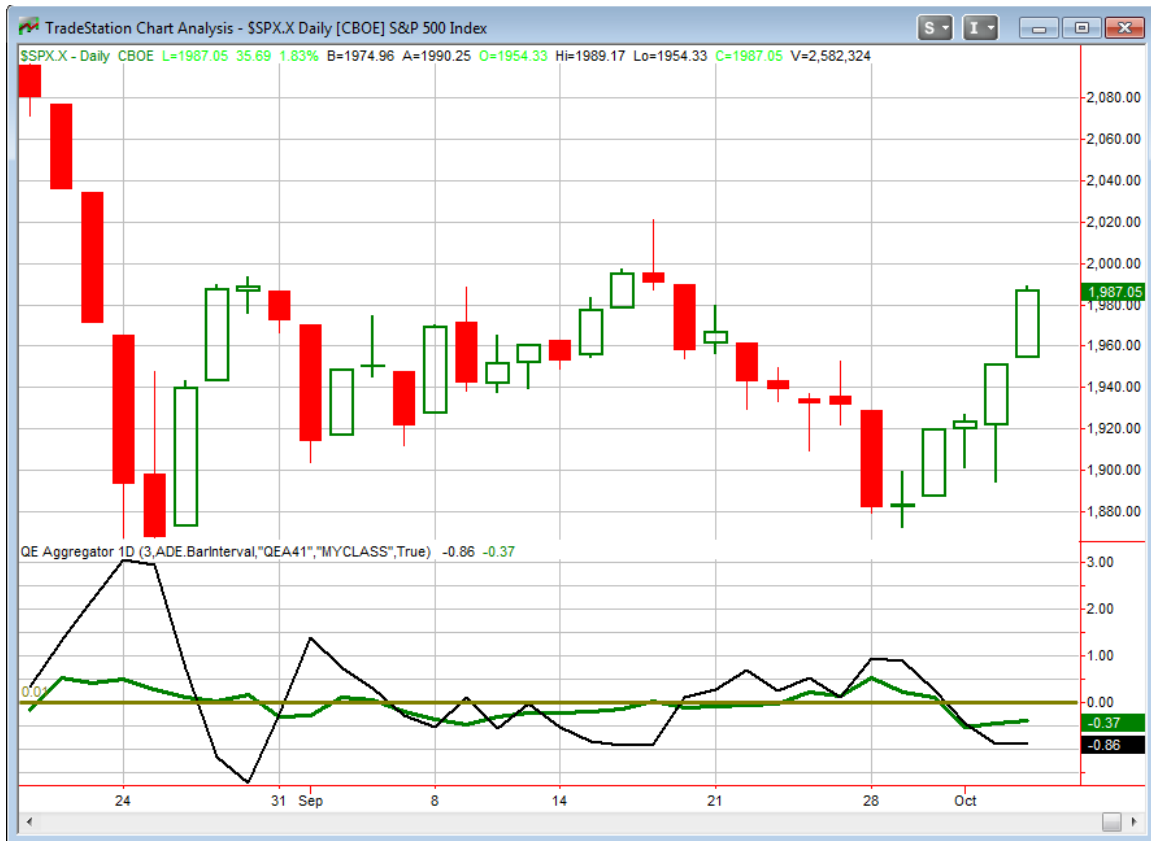
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	43,866.34	21	14	7	66.67	4,412.55	14,074.06	-2,558.48	-5,866.30	1.72	3.45	2,088.87
19	34,948.85	21	15	6	71.43	3,610.68	9,897.86	-3,201.89	-7,086.20	1.13	2.82	1,664.23
18	37,404.18	21	16	5	76.19	3,318.67	8,619.73	-3,138.90	-4,913.70	1.06	3.38	1,781.15
17	47,413.82	21	16	5	76.19	3,725.52	11,270.42	-2,438.89	-5,553.90	1.53	4.89	2,257.80
16	47,989.43	21	17	4	80.95	3,349.96	12,204.08	-2,239.97	-6,770.50	1.50	6.36	2,285.21
15	45,887.27	22	16	6	72.73	3,562.74	11,124.12	-1,852.76	-5,239.30	1.92	5.13	2,085.79
14	44,341.66	22	19	3	86.36	2,616.50	8,025.22	-1,790.62	-2,533.16	1.46	9.25	2,015.53
13	32,856.85	23	17	6	73.91	2,383.88	7,484.65	-1,278.19	-3,373.70	1.87	5.28	1,428.56
12	33,248.97	23	18	5	78.26	2,309.04	7,583.70	-1,662.73	-2,355.10	1.39	5.00	1,445.61
11	29,004.83	23	15	8	65.22	2,415.62	8,671.60	-903.69	-2,496.80	2.67	5.01	1,261.08
10	31,288.51	23	17	6	73.91	2,535.40	10,921.96	-1,968.89	-2,811.20	1.29	3.65	1,360.37
9	28,957.04	23	17	6	73.91	2,249.71	8,397.62	-1,547.99	-2,298.27	1.45	4.12	1,259.00
8	22,330.95	23	17	6	73.91	2,077.91	7,394.80	-2,165.58	-3,753.26	0.96	2.72	970.91
7	26,431.06	23	15	8	65.22	2,344.80	9,599.94	-1,092.62	-2,724.73	2.15	4.02	1,149.18
6	18,373.55	23	15	8	65.22	2,044.48	5,066.85	-1,536.70	-3,497.62	1.33	2.49	798.85
5	13,665.98	23	17	6	73.91	1,702.21	4,428.90	-2,545.27	-6,695.61	0.67	1.89	594.17
4	13,123.09	23	18	5	78.26	1,415.17	5,800.13	-2,470.00	-6,719.68	0.57	2.06	570.57
3	2,601.80	23	15	8	65.22	1,256.56	3,641.54	-2,030.82	-5,298.72	0.62	1.16	113.12
2	4,922.18	23	17	6	73.91	898.67	4,479.84	-1,725.88	-8,004.64	0.52	1.48	214.01
1	4,904.01	23	9	14	39.13	961.74	2,860.08	-267.98	-1,140.30	3.59	2.31	213.22

Short-term results are mild and inconsistent, but when you look out longer the numbers are strongly bullish. Below is an equity curve assuming a 14-day holding period.



This certainly seems to suggest that Monday's strong breadth is a positive sign for the intermediate-term. I have listed it as a factor on the Intermediate-Term Active List.

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



With tonight's studies taken into account the green Aggregator Line again closed below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed short at the close.

Based on the current Active Studies, expectations are set to remain bearish on Tuesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1918.80 on Tuesday. That is a whopping 3.4% below Monday's close. This means that for SPX to turn from overbought to oversold versus expectations on Tuesday it will need to close down at least 3.4%. That would be an extremely large 1-day drop. A more likely scenario for working off the overbought condition is a multi-day decline or consolidation.

Bearish evidence continues to build and the Differential Pivot is very far away. I already have begun building a short position. With the evidence provided tonight I will look to add to that position on Tuesday if I can get a favorable fill.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/5 – somewhat bearish***

The intermediate-term outlook was last updated in the 10/515 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***

*None*

***Broad Market Large Cap CBI – 0***

**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.*

***SPY – sell short ¼ index position @ \$198.47 LIMIT.*** Based on the short-term outlook above I will look to short a 3<sup>rd</sup> lot of SPY.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GILD(1/3)	9/29/2015	\$94.80	\$99.36	4.81%		<i>sell on open</i>
VZ(1/3)	10/2/2015	\$42.55	\$44.00	3.41%		<i>sell on open</i>
SPY(1/4)(s)	10/2/2015	\$192.13	\$198.47	-3.30%		Aggregator
SPY(1/4)(s)	10/5/2015	\$196.46	\$198.47	-1.02%		Aggregator

*VZ and GILD hit their target prices and will be sold at the open on Tuesday.*

*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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