

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2015

Volume 8 Issue 197

Market Overview



Signals Overview

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

Tonight's Research Points

- Low Columbus Day volume is typical, and not something to read into.
- When the Nasdaq has closed higher 4 days in a row and under its 200ma it has consistently been followed by a pullback – both in the Nasdaq and in the SPX – over the last 10 years.

Short-term Outlook

The Bottom Line

Bearish evidence continues to dominate the short-term. The market remains overbought. 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
Active - Short Term						
October 12, 2015	Nasdaq up 4 days < 200ma	1-2 days	Bearish			
October 12, 2015	Up 3 > 10 < 200, 2day smallest rise	1-4 days	Bearish	-2.90%	1.30%	2.70%
October 12, 2015	Low vol & low range 10 > 10 < 200	1-4 days	Bearish	-2.90%	1.50%	3.00%
October 9, 2015	Vol 5-low, SPX 10-high < 200	1-3 days	Bearish			
October 6, 2015	QE Buying Power Swing Short	1-6 days	Bearish			
Active - Long Term						
October 9, 2015	Zweig Breadth Thrust	1-20 days	Bullish			
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			
Dropped Tonight						
October 12, 2015	October Opex Monday bullish	1 day	Bullish			
October 12, 2015	Columbus Day bullish when last u	1 day	Bullish			

The Evidence

The market posted mixed numbers on Monday. The SPX rose 0.1% and the NASDAQ closed up 0.2%, but the Russell 2000 declined 0.1%. Breadth was also mixed as the NYSE Up Issues % came in at 51% and the Up Volume % was 37%. Total NYSE volume came in at the lightest level in weeks.

The Quantifinder was filled with studies that noted the light trading on Monday. As a bond holiday it is understood that volume will typically be a bit light. But is the extremely low level really attributable to Columbus Day? Since 1980 this was the 24th time that Columbus Days posted the lowest volume in at least 20 days. That means volume has been this low 2/3 of the time. That is certainly often enough that I am comfortable ignoring volume indications and volume-related studies.

One study that did provide some compelling results is the one below. It is from the 12/6/11 subscriber letter. It looks at other instances over the last 10 years in which the Nasdaq rose exactly 4 days in a row and closed under the 200ma. All results have been updated.

NASDAQ closes higher for exactly the 4th day in a row. It did not close at a 50-day low 4 days ago.
Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2002 - 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	-47,344.08	18	4	14	22.22	2,347.08	4,498.82	-4,052.32	-9,279.70	0.58	0.17	-2,630.23
9	-41,359.48	18	5	13	27.78	1,580.94	3,123.20	-3,789.55	-7,688.92	0.42	0.16	-2,297.75
8	-33,663.02	19	7	12	36.84	1,626.64	3,823.79	-3,754.13	-7,746.48	0.43	0.25	-1,771.74
7	-34,611.57	19	5	14	26.32	1,823.62	3,529.97	-3,123.55	-5,934.18	0.58	0.21	-1,821.66
6	-38,765.27	19	4	15	21.05	1,368.75	4,086.93	-2,949.35	-6,362.65	0.46	0.12	-2,040.28
5	-26,995.25	20	5	15	25.00	1,373.03	2,029.98	-2,257.36	-5,753.20	0.61	0.20	-1,349.76
4	-16,954.16	20	8	12	40.00	951.53	1,870.87	-2,047.20	-4,907.27	0.46	0.31	-847.71
3	-16,084.11	20	8	12	40.00	1,329.90	2,032.68	-2,226.94	-4,090.24	0.60	0.40	-804.21
2	-17,447.90	20	9	11	45.00	798.02	2,042.04	-2,239.10	-5,242.88	0.36	0.29	-872.40
1	-13,766.96	20	7	13	35.00	681.54	1,809.18	-1,425.98	-3,232.00	0.48	0.26	-688.35

All 20 instances closed below the entry price at some point in the next week.

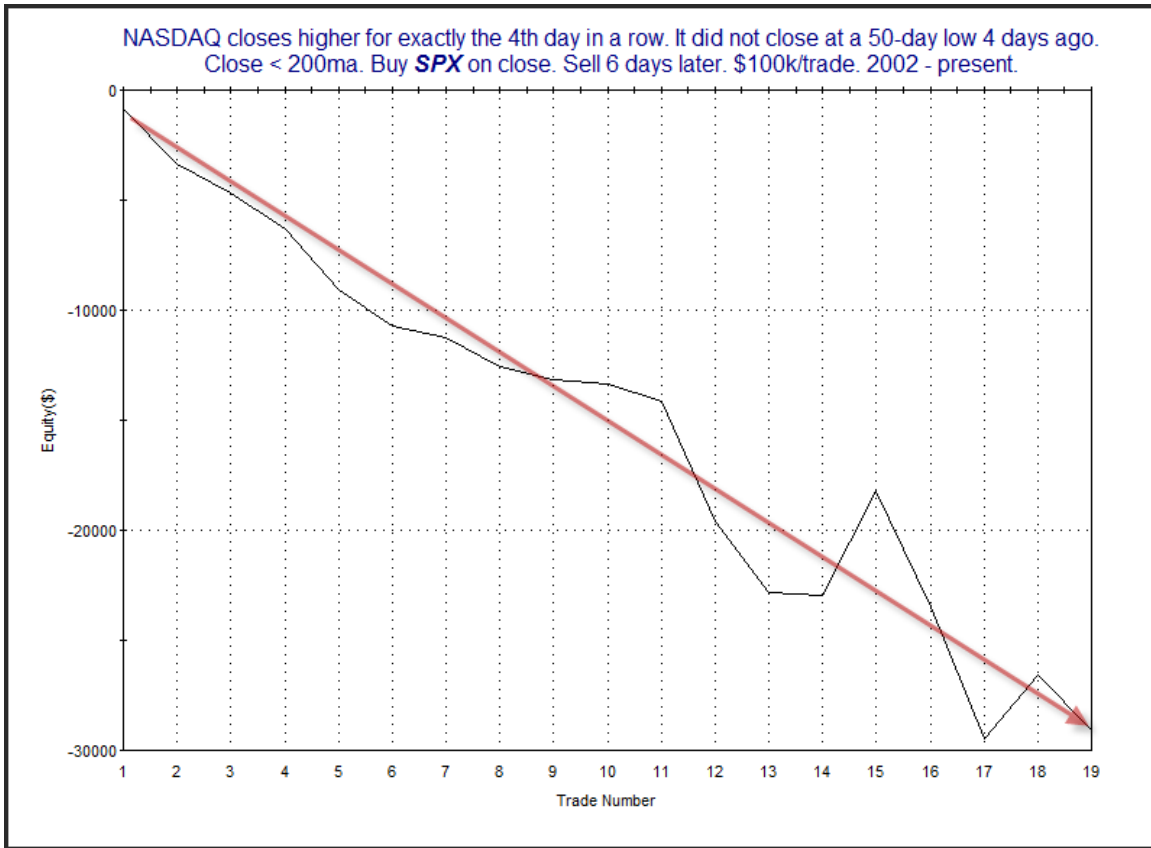
Results here appear to be strongly bearish. And the edge persists for up to 2 weeks. I also examined how the SPX performed when the Nasdaq had set up this way. The results below show this.

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Close < 200ma. Buy **SPX** on close. Sell X days later. \$100k/trade. 2002 - 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	-32,972.35	18	3	15	16.67	4,816.79	7,245.00	-3,161.51	-7,631.40	1.52	0.30	-1,831.80
9	-29,999.31	18	6	12	33.33	2,074.29	4,733.40	-3,537.09	-5,350.02	0.59	0.29	-1,666.63
8	-24,709.57	19	5	14	26.32	2,337.99	6,129.50	-2,599.97	-7,676.64	0.90	0.32	-1,300.50
7	-25,162.77	19	5	14	26.32	2,053.05	4,320.55	-2,530.57	-6,238.08	0.81	0.29	-1,324.36
6	-29,080.48	19	2	17	10.53	3,793.56	4,716.15	-2,156.92	-5,959.76	1.76	0.21	-1,530.55
5	-21,268.33	20	6	14	30.00	1,122.92	1,915.14	-2,000.42	-6,523.10	0.56	0.24	-1,063.42
4	-14,062.47	20	8	12	40.00	722.95	1,659.08	-1,653.84	-4,056.12	0.44	0.29	-703.12
3	-13,784.10	20	11	9	55.00	739.85	1,802.76	-2,435.83	-5,547.24	0.30	0.37	-689.21
2	-16,859.92	20	8	12	40.00	498.05	1,695.10	-1,737.03	-5,495.94	0.29	0.19	-843.00
1	-9,811.77	20	7	13	35.00	663.03	1,736.36	-1,111.77	-3,300.30	0.60	0.32	-490.59

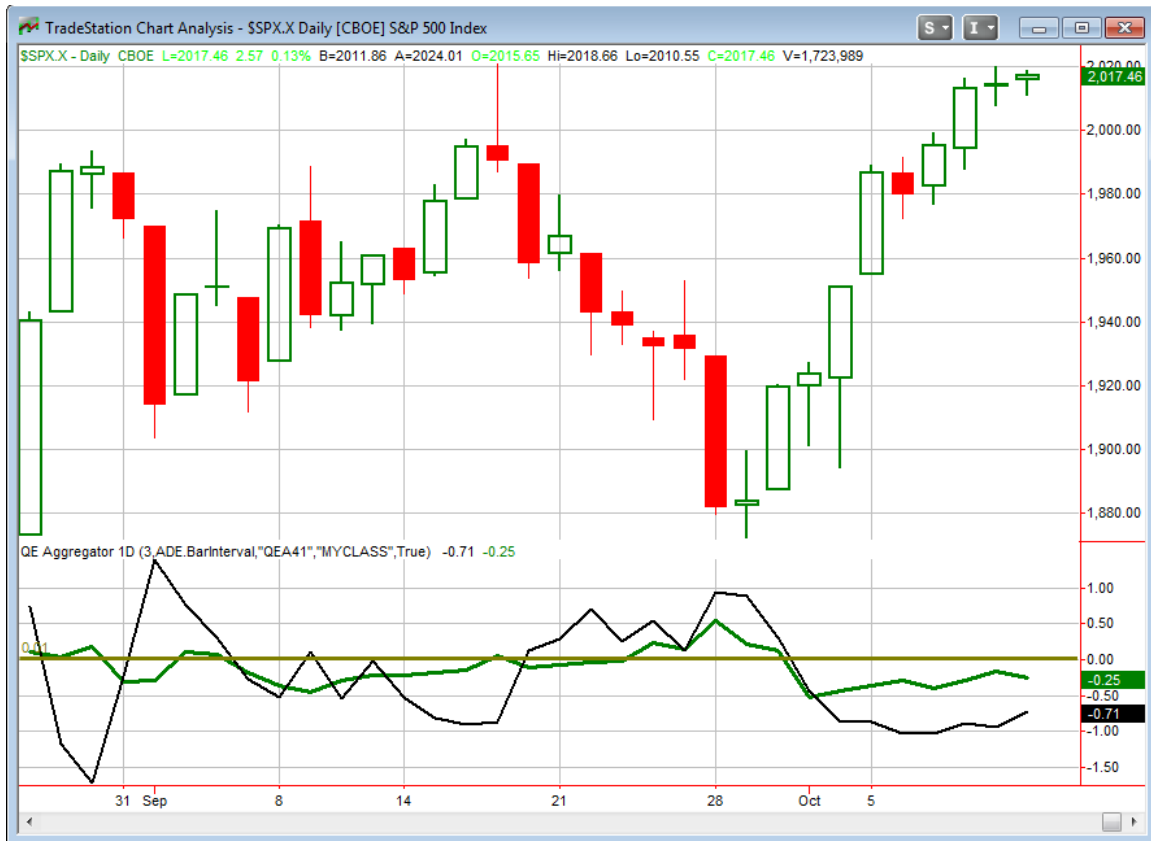
All 20 instances closed below the entry price at some point in the next week.

Though not quite as powerful, these results appear just as consistently bearish as the Nasdaq results. Below is an equity curve that assumes a 6-day holding period.



The results appear to be nicely consistent. This serves as confirmation of the downside edge. While the 6-day results appear to be the most impressive, I have decided to use the 2-day estimates in the Aggregator. I did this because after the initial dip there does appear to be a pause.

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 slated to remain bearish on Tuesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1993.77 on Tuesday. That is 1.2% 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 1.2%.

Other than the seasonally bullish studies that stood out on Monday and have now expired, very little has changed. The market still refuses to pull back in spite of bearish evidence and overbought readings. But bearish short-term evidence continues to build. I am still looking to gain from a short-term market dip. I will continue to hold on to my current short position.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/12 – neutral*

The intermediate-term outlook was last updated in the 10/12 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	10/2/2015	\$192.13	\$201.52	-4.89%		Aggregator
SPY(1/4)(s)	10/5/2015	\$196.46	\$201.52	-2.58%		Aggregator
SPY(1/4)(s)	10/6/2015	\$198.47	\$201.52	-1.54%		Aggregator

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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