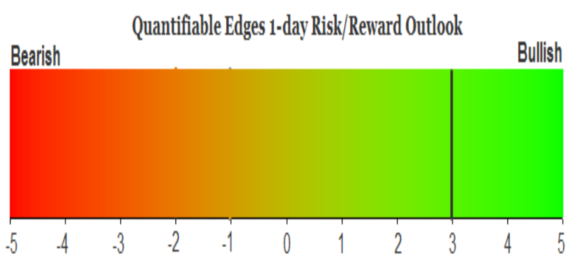
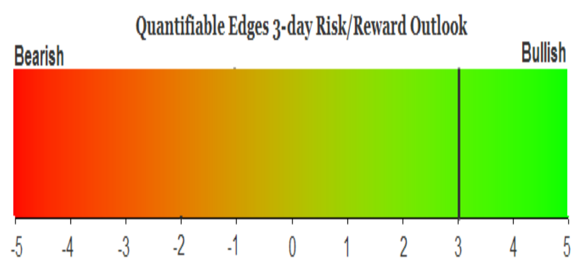
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 5, 2016 Volume 9 Issue 2

Market Overview





Signals Overview

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

Tonight's Research Points

- 3 Lower highs, lows & closes have consistently led to a bounce going into Turnaround Tuesday.
- 3 down days along with a big drop that hold above a 20-day low suggest an upside edge.
- The market has done better after bad starts to January than good ones.

Short-term Outlook
The Bottom Line
Evidence is bullish and the market is strongly oversold. I believe there is an upside edge and am looking for a bounce.

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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						
January 4, 2016	2 unfilled gaps down	1-5 days	Bullish			
January 4, 2016	Down last 2 days of positive quarter	1-5 days	Bullish			
December 24, 2015	QE Buying Power Short	1-6 days	Bearish			
December 24, 2015	Up 2% frm 3 ago. 3/10 HV < 0.25	1-6 days	Bullish	1.95%	-1.20%	-2.50%
December 23, 2015	Twas 3 Nights Before Christmas	1-8 days	Bullish			
Active - Long Term						
January 4, 2016	Down last 2 days of positive quarter	1-15 days	Bullish			
December 24, 2015	Up 3 days. 90% up vol today	1-14 days	Bullish	3.40%	-2.15%	-3.80%
December 24, 2015	Up 2% frm 3 ago. 3/10 HV < 0.25	1-19 days	Bullish	4.50%	-1.80%	-3.60%
December 22, 2015	Golden Cross	int term	Bullish			
December 14, 2015	Santa Rally	thru Jan 4	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	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						
December 30, 2015	1% gain between Christmas & New Year	1-2 days	Bullish			

The Evidence

It was a rough start to the year. The SPX sank 1.5%, the NASDAQ fell 2.1% and the Russell 2000 dropped 2.4%. Breadth was negative as the NYSE Up Issues % came in at 31% and the Up Volume % was 26%. Total NYSE volume rose quite a bit as traders returned from vacations.

In the 1/6/15 letter I noted that there was a strong bullish edge when ES had made at least three consecutive lower highs, lows, and closes. I also noted that this edge was even more substantial when it occurred on a Monday. This isn't surprising since Tuesdays are known for their turnaround capabilities. The study below uses SPY and it looks at swing term implications of the 3+ days of lower HLC's.

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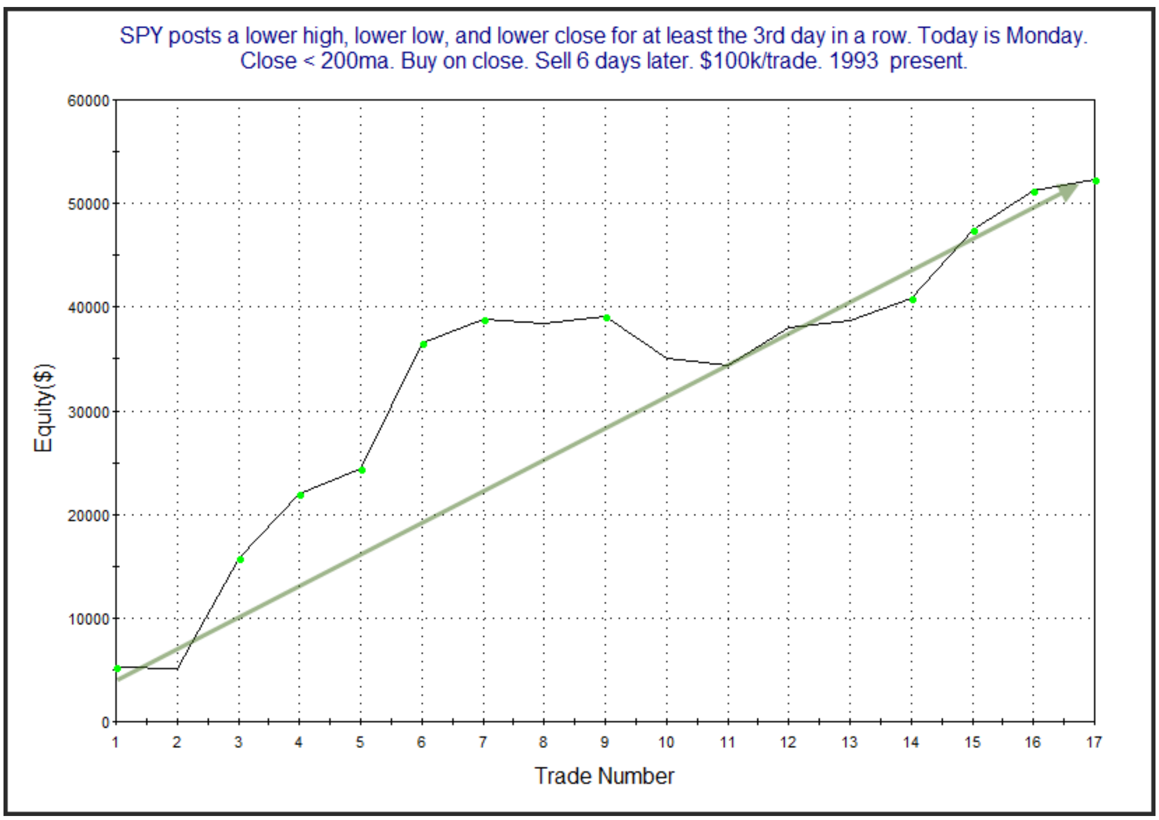
SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. Close < 200ma. Buy on close. Sell X days later. $100k/trade. 1993 present.

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	45,189.84	17	11	6	64.71	6,019.86	13,943.52	-3,504.77	-5,491.32	1.72	3.15	2,658.23
9	54,094.09	17	13	4	76.47	5,054.14	12,011.13	-2,902.44	-3,417.70	1.74	5.66	3,182.01
8	61,203.24	17	13	4	76.47	5,297.83	11,607.89	-1,917.13	-4,138.98	2.76	8.98	3,600.19
7	50,678.80	17	11	6	64.71	5,482.75	10,895.36	-1,605.24	-3,360.36	3.42	6.26	2,981.11
6	52,350.19	17	13	4	76.47	4,428.61	12,086.91	-1,305.44	-3,988.72	3.39	11.03	3,079.42
5	39,116.69	19	12	7	63.16	4,726.43	9,205.12	-2,514.36	-4,985.90	1.88	3.22	2,058.77
4	38,162.05	19	13	6	68.42	3,786.84	8,971.36	-1,844.48	-3,428.66	2.05	4.45	2,008.53
3	33,691.30	19	15	4	78.95	2,782.73	8,565.74	-2,012.39	-3,346.70	1.38	5.19	1,773.23
2	25,302.53	19	14	5	73.68	2,177.34	5,165.69	-1,036.06	-1,899.52	2.10	5.88	1,331.71
1	19,554.98	19	12	7	63.16	2,345.47	4,645.80	-1,227.25	-2,736.00	1.91	3.28	1,029.21

18 of 19 instances (95%) closed above the entry price at some point in the next three days.

The numbers here are incredibly strong from an average trade standpoint. I also ran a profit curve.



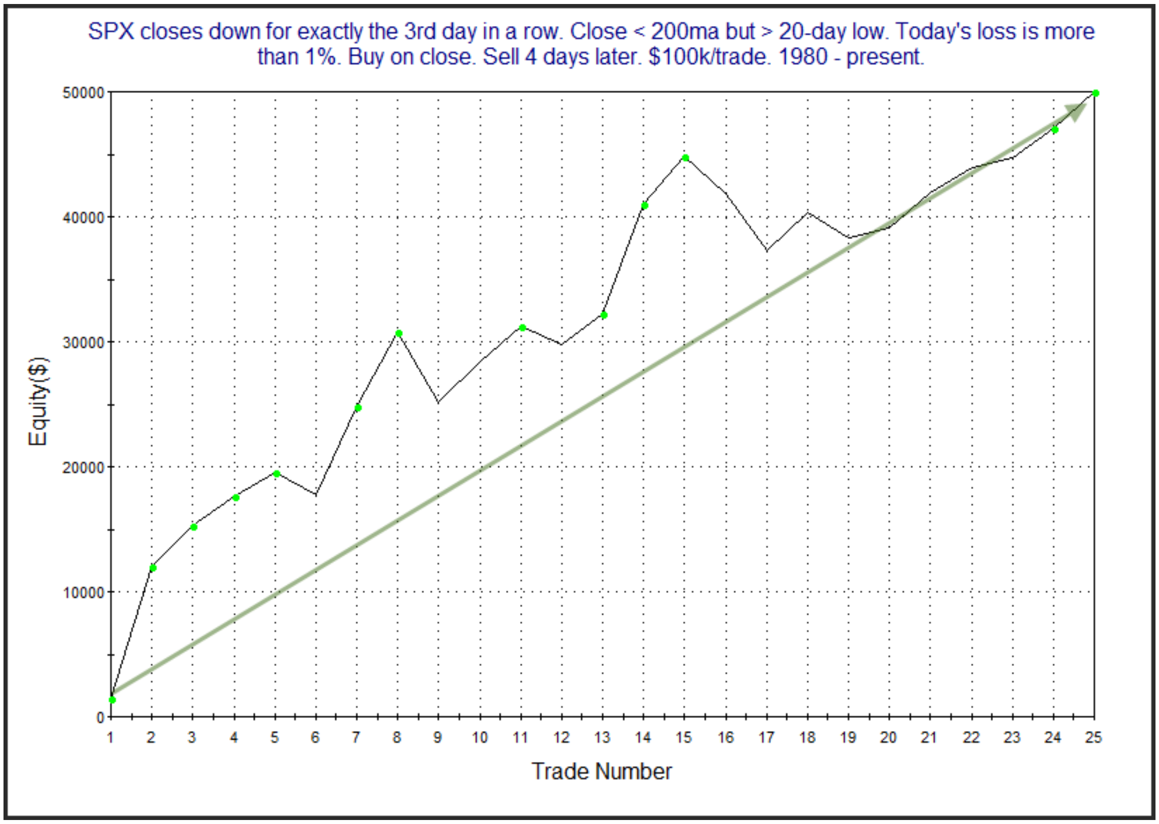
Nothing here that would cause me to throw out this study. I have included it on the Active List.

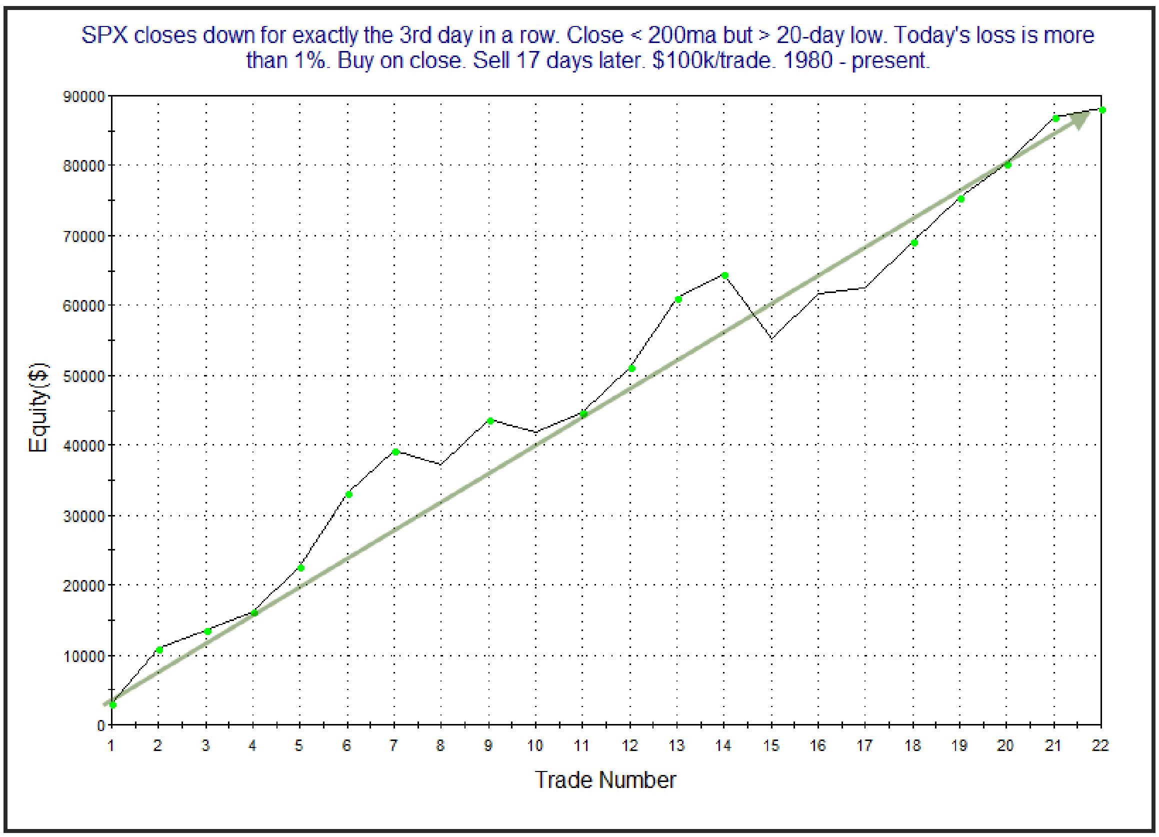
Another study that examined 3-day drops was from the 12/15/11 letter. It considered the fact that SPX closed down at least 1% on the day and that it did not close at a 20-day low. I have updated the results below.

SPX closes down for exactly the 3rd day in a row. Close < 200ma but > 20-day low. Today's loss is more than 1%. 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
20	74,326.38	22	16	6	72.73	5,295.65	10,323.66	-1,734.01	-5,567.10	3.05	8.14	3,378.47
19	81,909.67	22	17	5	77.27	5,594.85	10,606.90	-2,640.54	-7,357.90	2.12	7.20	3,723.17
18	82,037.09	22	18	4	81.82	5,282.94	11,474.87	-3,263.96	-9,285.10	1.62	7.28	3,728.96
17	88,129.63	22	19	3	86.36	5,322.61	10,376.95	-4,333.30	-9,141.00	1.23	7.78	4,005.89
16	86,664.07	22	19	3	86.36	5,184.32	11,926.18	-3,946.03	-7,983.80	1.31	8.32	3,939.28
15	77,198.92	23	18	5	78.26	5,202.71	13,488.65	-3,289.98	-7,239.10	1.58	5.69	3,356.47
14	70,385.19	23	18	5	78.26	4,828.27	12,644.94	-3,304.73	-7,929.90	1.46	5.26	3,060.23
13	70,460.95	23	17	6	73.91	5,101.10	15,243.90	-2,709.62	-6,999.30	1.88	5.33	3,063.52
12	60,770.51	23	17	6	73.91	4,668.14	13,656.44	-3,097.97	-6,400.90	1.51	4.27	2,642.20
11	56,243.12	24	17	7	70.83	4,481.10	12,236.77	-2,847.94	-5,893.80	1.57	3.82	2,343.46
10	62,934.07	24	18	6	75.00	4,253.60	13,815.90	-2,271.78	-4,560.60	1.87	5.62	2,622.25
9	59,405.96	24	17	7	70.83	4,224.41	12,019.45	-1,772.72	-5,068.80	2.38	5.79	2,475.25
8	58,169.87	24	17	6	70.83	4,480.30	12,293.93	-2,999.21	-6,288.70	1.49	4.23	2,423.74
7	46,864.85	24	18	6	75.00	3,601.41	12,277.87	-2,993.42	-6,115.59	1.20	3.61	1,952.70
6	41,347.77	25	18	7	72.00	3,725.94	10,326.58	-3,674.16	-11,683.62	1.01	2.61	1,653.91
5	46,338.91	25	18	7	72.00	3,829.21	12,331.51	-3,226.71	-5,973.00	1.19	3.05	1,853.56
4	49,954.72	25	19	6	76.00	3,602.47	10,588.68	-3,082.02	-5,638.06	1.17	3.70	1,998.19
3	43,579.95	25	17	8	68.00	3,173.42	8,432.34	-1,296.02	-2,616.64	2.45	5.20	1,743.20
2	25,455.42	25	15	10	60.00	2,496.47	7,249.63	-1,199.16	-2,936.78	2.08	3.12	1,018.22
1	19,955.50	25	18	7	72.00	1,540.21	6,901.83	-1,109.74	-3,162.00	1.39	3.57	798.22

Stats look strongly bullish. And while a large portion of the gains were realized in the first 4 days, the edge did not max out until day 17. Below are profit curves for both the 4-day and 17-day holding periods.





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Both curves are impressive. I have included this study on both the short and intermediate-term active lists tonight.

In the 1/5/15 subscriber letter I compared short-term returns following an up first day versus a down first day of the year. I decided to update those results today. First let's look at times where the 1st day of the year was positive.

SPX closes up on the 1st day of the year.
Buy on close. Sell X days later. $100k/trade. 1961 - 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
15	-8,676.54	25	9	16	36.00	4,745.14	9,582.30	-3,211.42	-10,189.61	1.48	0.83	-347.06
14	-10,071.79	25	10	15	40.00	4,081.12	11,121.30	-3,392.20	-10,683.95	1.20	0.80	-402.87
13	-18,309.03	25	9	16	36.00	3,908.20	8,667.00	-3,342.68	-11,160.10	1.17	0.66	-732.36
12	-12,262.16	25	9	16	36.00	3,947.65	9,153.00	-2,986.94	-9,796.92	1.32	0.74	-490.49
11	-2,948.23	25	13	12	52.00	2,843.59	9,274.50	-3,326.24	-13,544.06	0.85	0.93	-117.93
10	1,997.75	25	13	12	52.00	2,745.25	8,035.20	-2,807.54	-8,739.76	0.98	1.06	79.91
9	-4,145.40	25	13	12	52.00	2,627.67	7,711.20	-3,192.10	-9,422.42	0.82	0.89	-165.82
8	-7,767.66	25	14	11	56.00	2,417.46	6,853.00	-3,782.92	-9,542.26	0.64	0.81	-310.71
7	-7,486.50	25	13	12	52.00	2,305.22	5,467.50	-3,121.20	-6,421.07	0.74	0.80	-299.46
6	-10,062.41	25	14	11	56.00	2,058.26	5,973.00	-3,534.37	-6,584.78	0.58	0.74	-402.50
5	-7,661.70	25	13	12	52.00	1,871.96	4,973.40	-2,666.43	-4,859.58	0.70	0.76	-306.47
4	-2,986.04	25	12	13	48.00	1,568.15	4,390.20	-1,677.22	-4,894.50	0.93	0.86	-119.44
3	7,308.97	25	16	9	64.00	1,307.17	3,600.45	-1,511.76	-3,109.48	0.86	1.54	292.36
2	13,282.61	25	19	6	76.00	1,065.83	2,893.00	-1,161.37	-2,905.98	0.92	2.91	531.30
1	10,752.46	25	19	6	76.00	739.44	2,328.75	-549.49	-2,189.66	1.35	4.26	430.10

Results here are pretty mixed. The basic pattern suggests that there may be some quick follow-though but that is often followed by weakness.

Interestingly, a close lower on the 1st day of the year has led to better returns over the next few weeks. Here are those stats.

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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
15	33,012.34	30	20	10	66.67	3,248.13	7,267.05	-3,195.03	-6,557.07	1.02	2.03	1,100.41
14	29,555.07	30	20	10	66.67	3,038.07	6,646.05	-3,120.63	-7,492.02	0.97	1.95	985.17
13	34,075.39	30	21	9	70.00	2,919.87	6,177.60	-3,026.88	-9,429.54	0.96	2.25	1,135.85
12	32,341.80	30	20	10	66.67	2,871.88	5,360.85	-2,509.57	-8,415.93	1.14	2.29	1,078.06
11	36,051.13	30	21	9	70.00	2,800.34	5,819.32	-2,528.44	-7,858.41	1.11	2.58	1,201.70
10	32,434.48	30	20	10	66.67	2,673.62	6,050.36	-2,103.79	-5,104.62	1.27	2.54	1,081.15
9	29,391.09	30	22	8	73.33	2,394.00	5,999.82	-2,909.61	-4,686.00	0.82	2.26	979.70
8	23,081.48	30	20	10	66.67	2,288.60	5,335.58	-2,269.06	-4,398.45	1.01	2.02	769.38
7	18,022.83	30	19	11	63.33	2,186.08	6,035.92	-2,137.52	-4,260.00	1.02	1.77	600.76
6	17,993.33	30	20	10	66.67	2,010.78	5,371.68	-2,222.22	-4,345.20	0.90	1.81	599.78
5	15,617.18	30	19	11	63.33	1,867.47	6,093.68	-1,805.89	-4,577.76	1.03	1.79	520.57
4	13,542.77	30	19	11	63.33	1,814.11	4,938.48	-1,902.30	-3,932.31	0.95	1.65	451.43
3	11,734.68	30	18	12	60.00	1,761.43	5,010.68	-1,664.26	-3,520.36	1.06	1.59	391.16
2	9,277.43	30	17	13	56.67	1,626.48	3,851.54	-1,413.29	-3,611.48	1.15	1.50	309.25
1	9,314.07	30	18	12	60.00	1,150.38	4,948.02	-949.39	-3,794.40	1.21	1.82	310.47

Nothing overwhelming here, but combined with the 3-day pullback studies above evidence is pointing to a bullish edge.

I have updated the Aggregator chart below.

With tonight's studies included the green Aggregator Line jumped higher above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also now far above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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.

With all the short-term studies now bullish, evidence is set to remain positive on Tuesday. This is unlikely to change. The Differential Pivot will be 2071.23 on Tuesday. That is a whopping 2.9% above Monday's close. So for SPX to move from oversold to overbought versus expectations on Tuesday it will need to close up at least 2.9%. That is a pretty unlikely gain for just 1 day. A more likely scenario for working off the oversold condition would be a multi-day decline or consolidation.

Evidence is turning more and more bullish for the short-term, and the market is squarely oversold. Additionally, there appears to be a good amount of room to the upside before the market would be considered "overbought". That improves reward potential and overall reward/risk when evaluating the possibility of trades. I believe there is a good chance of a bounce in the next few days. I have already taken on 2 lots of SPY. I will not look to add more just yet on Tuesday. But if evidence continues to build, I very well may on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/4 – bullish

The intermediate-term outlook was last updated in the 1/4 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

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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)	12/31/2015	$203.87	$201.02	-1.40%		Aggregator
SPY(1/4)	1/4/2016	$201.02	$201.02	0.00%		bought on close