

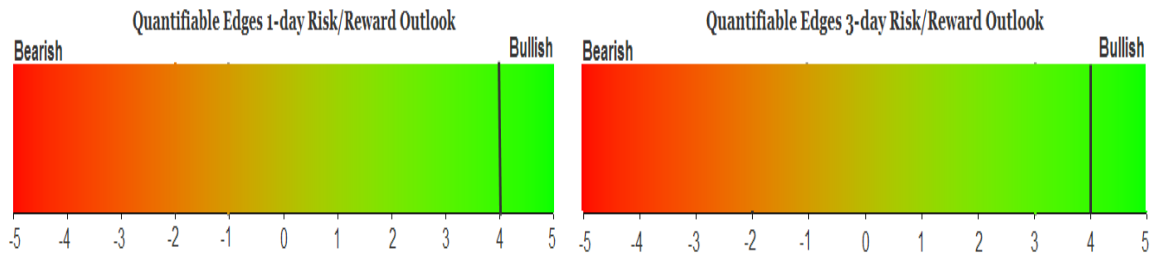
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2016

Volume 9 Issue 5

Market Overview



Signals Overview

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

Tonight's Research Points

- The already oversold market accelerated to the downside on Wednesday, suggesting an upside edge.
- 2 days of broad selling have the market setup to bounce

Short-term Outlook

The Bottom Line

Evidence is getting more and more bullish while the market is getting extremely oversold. I believe there is an upside edge and am looking to up my long exposure to take advantage of it.

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 8, 2016	Up Issue % < 33.3% 2 days in row	1-2 days	Bullish			
January 8, 2016	2% decline after 20-day low.	1-2 days	Bullish			
January 7, 2016	Fed SOMA expected to rise this week	1-5 days	Bullish			
January 7, 2016	Gap < 50-low. Close > open but down	1-2 days	Bullish			
January 5, 2016	Down 3 < 200 but > 20-low. 1% drop	1-4 days	Bullish			
January 5, 2016	3 Lower high, low, close. Monday.	1-6 days	Bullish			
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			
Active - Long Term						
January 5, 2016	Down 3 < 200 but > 20-low. 1% drop	1-17 days	Bullish			
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			
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			

The Evidence

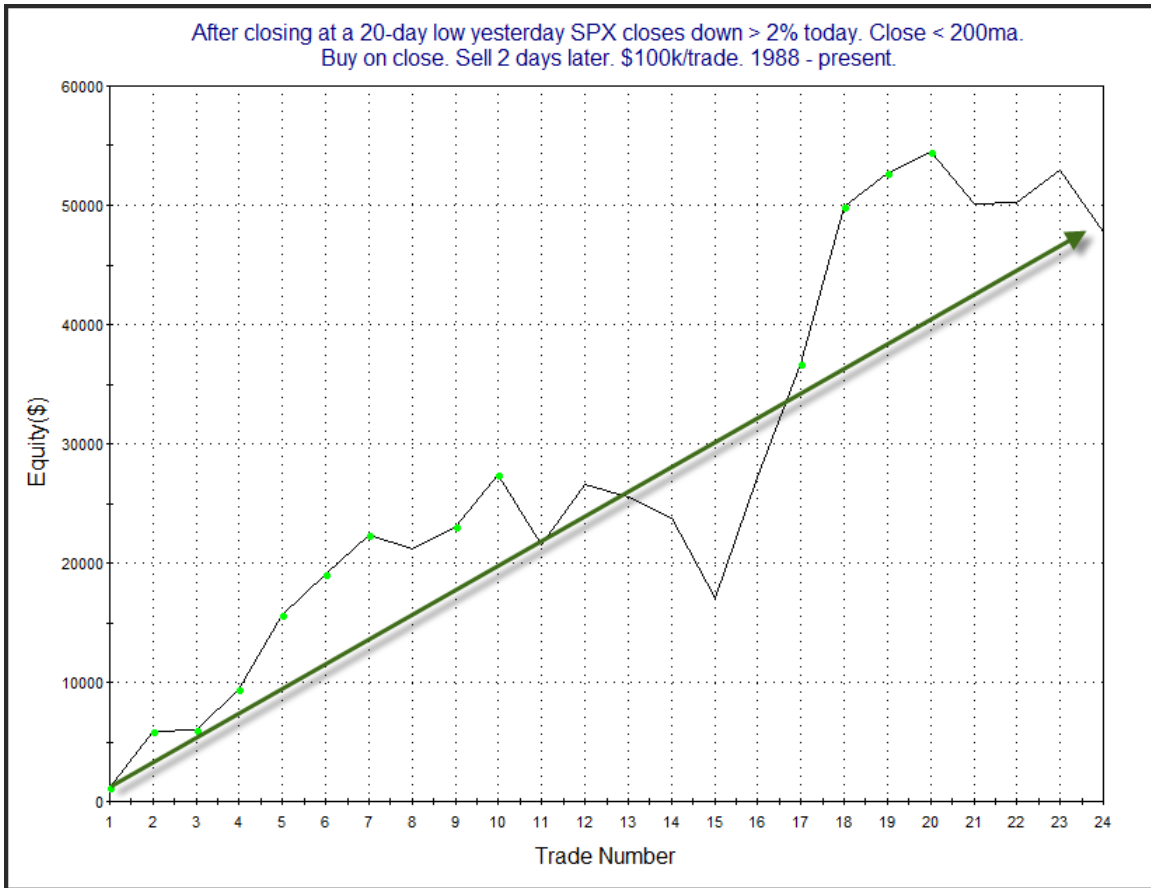
Thursday was another drubbing for the market. The SPX lost 2.4%, the NASDAQ fell 3.0%, and the Russell 2000 declined 2.7%. Breadth was negative as the NYSE Up Issues % came in at 13% and the Up Volume % was 11%. Total NYSE volume hit the highest level since December opex.

Strong moves down when the market is already oversold are often an indication of short-term capitulation. The study below was last seen in the 11/25/11 subscriber letter. It looks for 2% drops after the SPX is already at a 20-day low. Results are updated.

After closing at a 20-day low yesterday SPX closes down > 2% today. Close < 200ma. Buy 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	52,296.15	21	14	7	66.67	5,486.33	18,981.60	-3,501.79	-6,440.08	1.57	3.13	2,490.29
4	36,285.91	22	15	7	68.18	4,620.76	17,851.68	-4,717.92	-14,820.98	0.98	2.10	1,649.36
3	43,110.74	23	15	8	65.22	4,697.06	13,853.40	-3,418.15	-13,815.18	1.37	2.58	1,874.38
2	47,761.82	24	17	7	70.83	4,340.79	13,116.84	-3,718.79	-6,763.30	1.17	2.83	1,990.08
1	25,739.39	27	16	11	59.26	3,018.78	10,716.03	-2,051.01	-5,702.04	1.47	2.14	953.31

26 of 27 instances (96%) closed above the entry price at some point in the next week. The lone failure triggered on 10/6/08.

Here again we see strong consistency. In almost every case a bounce has come in short order. Below is the equity curve for a 2-day hold.



Recent instances have struggled a little bit, but the overall slope still appears up. I have included this study on the Short-Term Active List tonight. I will keep an eye on it moving forward, though.

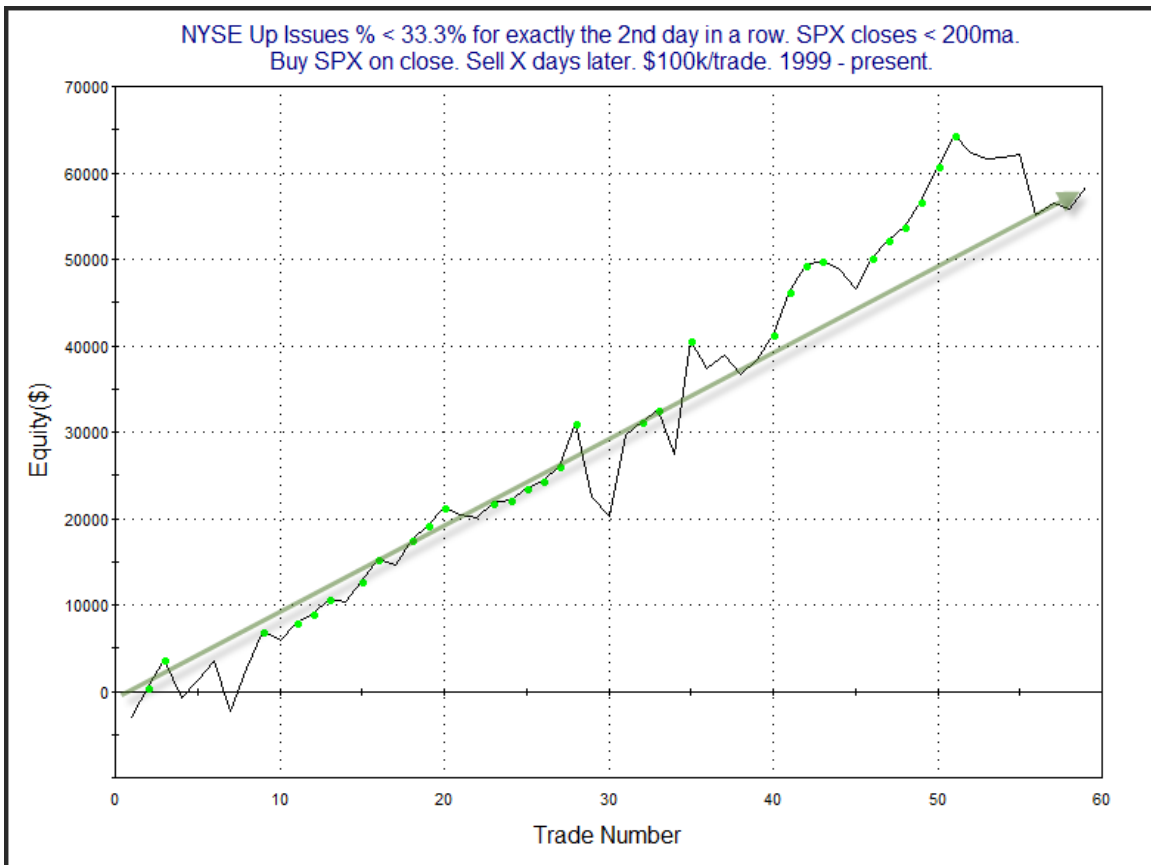
Thursday posted the 2nd day in a row of lopsided negative breadth. This brought about the following study from the 12/4/15 letter. Results are updated.

NYSE Up Issues % < 33.3% for exactly the 2nd day in a row. SPX closes < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	63,088.93	51	35	16	68.63	3,077.08	8,609.40	-2,788.05	-9,314.08	1.10	2.41	1,237.04
4	35,242.05	55	31	24	56.36	3,117.98	8,810.76	-2,558.97	-6,869.52	1.22	1.57	640.76
3	42,525.30	59	35	24	59.32	3,379.50	13,853.40	-3,156.55	-11,502.27	1.07	1.56	720.77
2	58,370.39	59	40	19	67.80	2,739.87	13,116.84	-2,696.01	-8,631.00	1.02	2.14	989.33
1	41,164.93	59	37	22	62.71	1,929.46	10,716.03	-1,373.87	-6,633.36	1.40	2.36	697.71

54 of 59 instances (92%) closed above the entry price at some point in the next week.

For the considerable sample size and low number of criteria these results are astonishingly consistent. Below is an equity curve using a 2-day exit.



Despite the “downtrend” filter this setup has generated some impressive returns. I believe this study is worth consideration as well.

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



extremely unlikely gain for just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence for a bounce continues to mount, and the market is now extremely oversold. Additionally, as you will see below, we finally saw the CBI tick up a little as it moved from 0 to 4. This has me interested in adding in a bit more long exposure to try and take advantage of what will likely be a sharp oversold bounce. With 4 Catapults triggering I will look to take on some exposure with them. I will also take on a 3rd lot of index exposure if SPY closes down even a little on Friday.

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

New

AAPL – 1/3 @ \$96.45 (buy @ limit)

CMCSA - 1/3 @ \$54.61 (buy @ limit)

COF - 1/3 @ \$65.08 (buy @ limit)

DIS – 1/3 @ \$99.50 (buy @ limit)

Broad Market Large Cap CBI – 4(AAPL, CMCSA, COF, DIS)

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 – buy ¼ index position @ \$194.00 LIMIT ON CLOSE. Based on the short-term section above, I will look to up my exposure if SPY closes down even a little on Friday. This would be the 3rd of 4 possible lots.

AAPL – buy 1/3 Catapult position @ \$96.45 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for AAPL.

CMCSA – buy 1/3 Catapult position @ \$54.61 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for CMCSA.

COF – buy 1/3 Catapult position @ \$65.08 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for COF.

DIS – buy 1/3 Catapult position @ \$99.50 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for DIS.

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](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/31/2015	\$203.87	\$194.05	-4.82%		Aggregator
SPY(1/4)	1/4/2016	\$201.02	\$194.05	-3.47%		Aggregator

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