

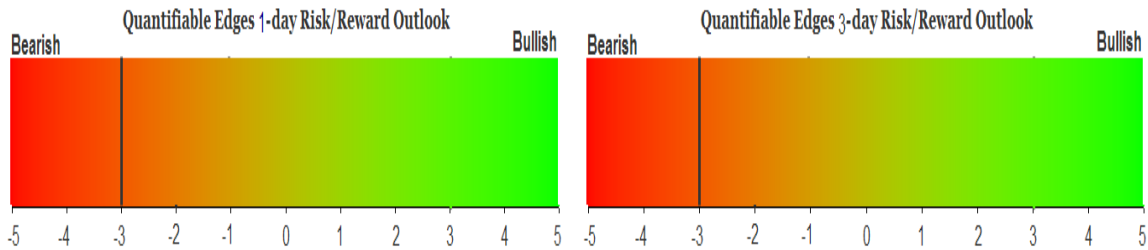
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 2, 2016

Volume 9 Issue 21

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- A down close in a long-term downtrend with a 2-day RSI still above 85 has always been followed by more selling in SPY.

Short-term Outlook

The Bottom Line

Evidence is pointing lower, and the market is strongly overbought. This suggests a short-term bearish 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						
February 2, 2016	SPY dn. RSI2 > 85. Close < 299ma.	1-3 days	Bearish			
February 1, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
January 29, 2016	NDX up 1%. SOX down.	1-6 days	Bearish			
Active - Long Term						
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
February 1, 2016	FTD on strong breadth and weak vol	1-10 days	Bullish			
January 19, 2016	NASDAQ 100-day low. UpIss EMA < 37.5	1-19 days	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

Monday was a mixed day for the market. SPX declined less than 0.1%, the NASDAQ gained 0.1%, and the Russell 2000 fell 0.3%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 44%. Total NYSE volume declined from Friday's level.

Historically, when SPY has become very overbought short-term and then pulled back extremely gently on day 1, that is often just the beginning of the pullback. The study below uses the 2-day RSI to measure how overbought the SPY is short-term. It requires a strongly overbought condition be in place at the close of a down day. For this to be achieved the SPY must be very strongly overbought to begin with, and then only pull back a little. The study is from the 12/2/11 letter. I have updated all the results.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.													
X Days	Test	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	5	-23,872.84	10	2	8	20.00	1,372.61	2,144.90	-3,327.26	-6,354.30	0.41	0.10	-2,387.28
4	4	-17,158.53	10	3	7	30.00	1,513.05	2,047.00	-3,099.67	-5,692.05	0.49	0.21	-1,715.85
3	3	-18,576.43	10	1	9	10.00	1,032.00	1,032.00	-2,178.71	-4,948.40	0.47	0.05	-1,857.64
2	2	-16,291.07	10	2	8	20.00	709.15	1,000.00	-2,213.67	-4,065.25	0.32	0.08	-1,629.11
1	1	-5,271.21	11	4	7	36.36	523.64	1,088.00	-1,052.25	-2,217.05	0.50	0.28	-479.20

All 10 instances closed below the entry price at some point in the next 3 days.

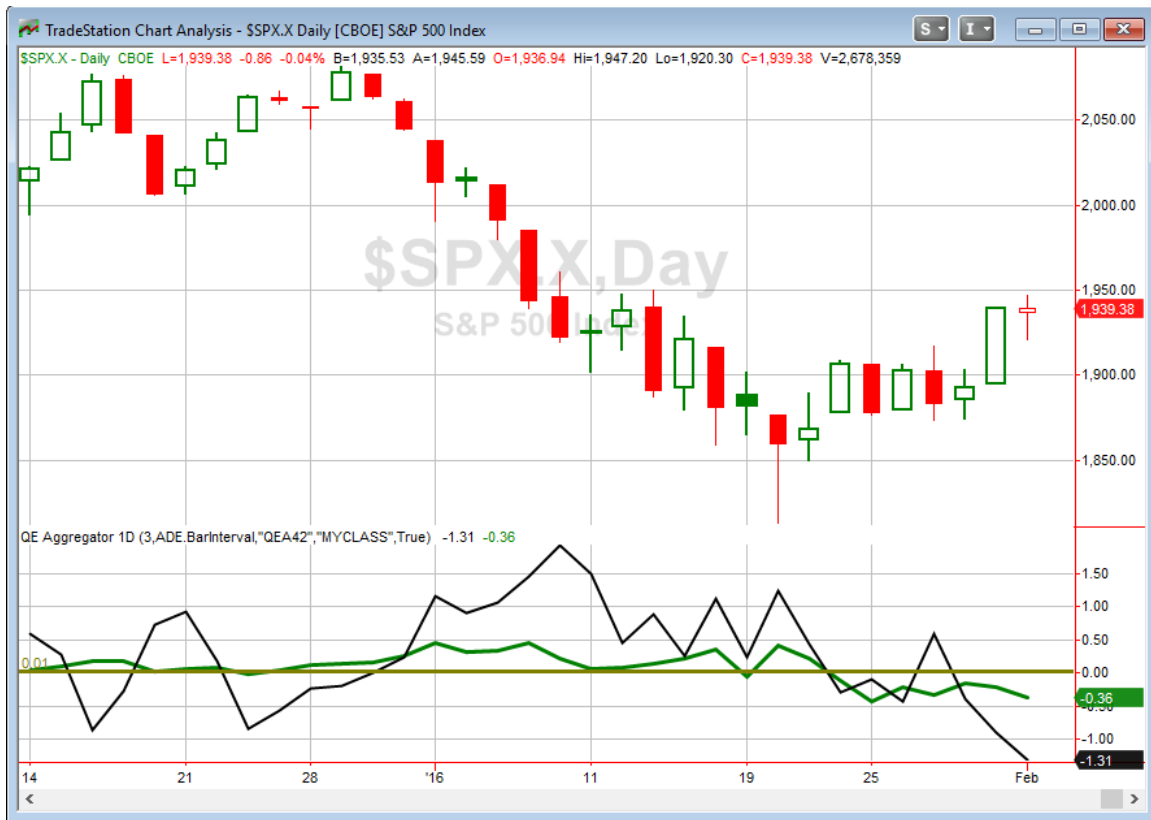
Only 10 instances is lower than I typically like to see, but all of them closed lower within 3 days. And the size and consistency of the moves was also impressive. Below I have listed all 10 instances and their trade stats assuming a 3-day holding period.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma.
Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/6/1994	Buy	\$46.22	-0.39%	\$129.78
6/9/1994	Sell	\$46.04		(\$951.72)
11/7/2000	Buy	\$143.75	-4.95%	\$152.90
11/10/2000	Sell	\$136.63		(\$5,017.90)
5/22/2001	Buy	\$131.48	-2.57%	\$0.00
5/25/2001	Sell	\$128.10		(\$2,720.80)
7/3/2001	Buy	\$124.10	-3.55%	\$0.00
7/9/2001	Sell	\$119.70		(\$4,065.25)
11/7/2001	Buy	\$112.25	-0.20%	\$1,628.70
11/12/2001	Sell	\$112.03		(\$2,002.50)
12/6/2001	Buy	\$117.34	-2.72%	\$0.00
12/11/2001	Sell	\$114.15		(\$2,930.88)
1/5/2009	Buy	\$92.85	-1.95%	\$1,723.20
1/8/2009	Sell	\$91.04		(\$3,424.86)
7/14/2010	Buy	\$109.65	-2.15%	\$373.51
7/19/2010	Sell	\$107.29		(\$3,124.73)
7/27/2010	Buy	\$111.55	-1.15%	\$241.92
7/30/2010	Sell	\$110.27		(\$2,302.72)
12/1/2011	Buy	\$124.97	1.03%	\$1,768.00
12/6/2011	Sell	\$126.26		(\$152.00)
Avg Run-up: 0.6%				Avg Drawdown: -2.7%

The last instance did not work out well, but that hardly dampens the downside edge. I have added this study to the Active List.

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



With tonight's evidence included the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is now far below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is strongly 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.

Expectations on Tuesday are primed to remain negative if nothing new emerges. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1878.86 on Tuesday. That is a whopping 3.1% below Monday's close. So for SPX to move from overbought to oversold versus expectations it would need to close down 3.1% on Tuesday. That is a highly unlikely 1-day move. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

I still like the short side here, and am lightly positioned to try and take advantage of a move lower. I am still hesitant to get aggressively short since we are emerging from an intermediate-term low and the market has undergone a strong breadth thrust on this rally. For now I will just hold on to what I have and look to earn some profits on a move lower in the next few days.

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

The intermediate-term outlook was last updated in the 2/2/16 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

AXP - 1/3 @ \$55.06 (buy @ limit) (filled)

AXP - 1/3 @ \$55.02 (buy @ limit) (filled)

AXP - 1/3 @ \$52.88 (buy @ limit) (not filled – cancel for now)

Broad Market Large Cap CBI – 3(AXP-3)

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.

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
AXP(1/3)	1/25/2016	\$54.46	\$54.70	0.44%		Catapult
AXP(1/3)	1/26/2016	\$55.02	\$54.70	-0.58%		Catapult
SPY(1/4)(s)	1/26/2016	\$193.72	\$193.65	0.04%		Aggregator short

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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