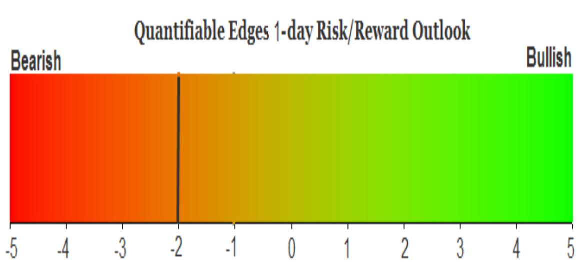
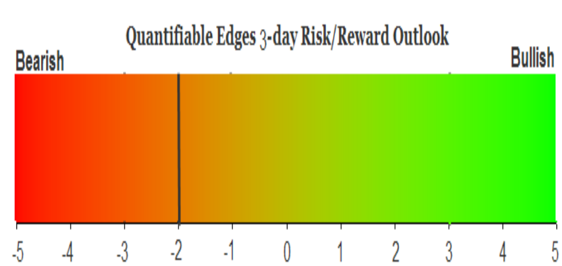
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 18, 2016 Volume 9 Issue 32

Market Overview





Signals Overview

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

Tonight's Research Points

- A mix of bullish and bearish studies emerged tonight.

Short-term Outlook
The Bottom Line
The Aggregator remains bearish and I believe a pullback is likely in the next few days.

The Evidence

Wednesday was the 3rd day in a row of strong market gains. The SPX rallied 1.7%, the NASDAQ gained 2.2%, and the Russell 2000 rose 1.5%. Breadth was positive as the NYSE Up Issues % was 82% and the Up Volume % came in at 89%. Total NYSE volume rose for the 2nd day in a row.

The Quantifinder showed a real mix of studies tonight. Both bulls and bears have some compelling evidence they can point to. Let's first look at the bullish studies.

Just closing up 3 days in a row from a 50-day low has typically been a good sign. The study below was last seen in the 10/21/14 letter. Stats are updated.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closed at a 50-day low just prior to the rally. Buy on close. Sell X days later. $100k/trade. 7/1/2001 - 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	30,337.09	14	11	3	78.57	3,247.60	7,515.60	-1,795.50	-3,382.50	1.81	6.63	2,166.94
4	25,001.78	14	10	4	71.43	2,868.52	5,800.13	-920.85	-1,887.00	3.12	7.79	1,785.84
3	18,622.44	14	10	4	71.43	2,593.77	4,890.00	-1,828.81	-4,776.88	1.42	3.55	1,330.17
2	17,432.42	14	13	1	92.86	1,629.49	4,506.60	-3,751.00	-3,751.00	0.43	5.65	1,245.17
1	15,461.80	14	9	5	64.29	1,923.53	4,699.94	-370.00	-834.50	5.20	9.36	1,104.41

Prior to 2001 the setup did not appear to suggest any edge.

It has been quite a hot streak since 2001 with these setups. Prior to that, no edge was evident in either direction. Below is a profit curve assuming a 2-day exit strategy.

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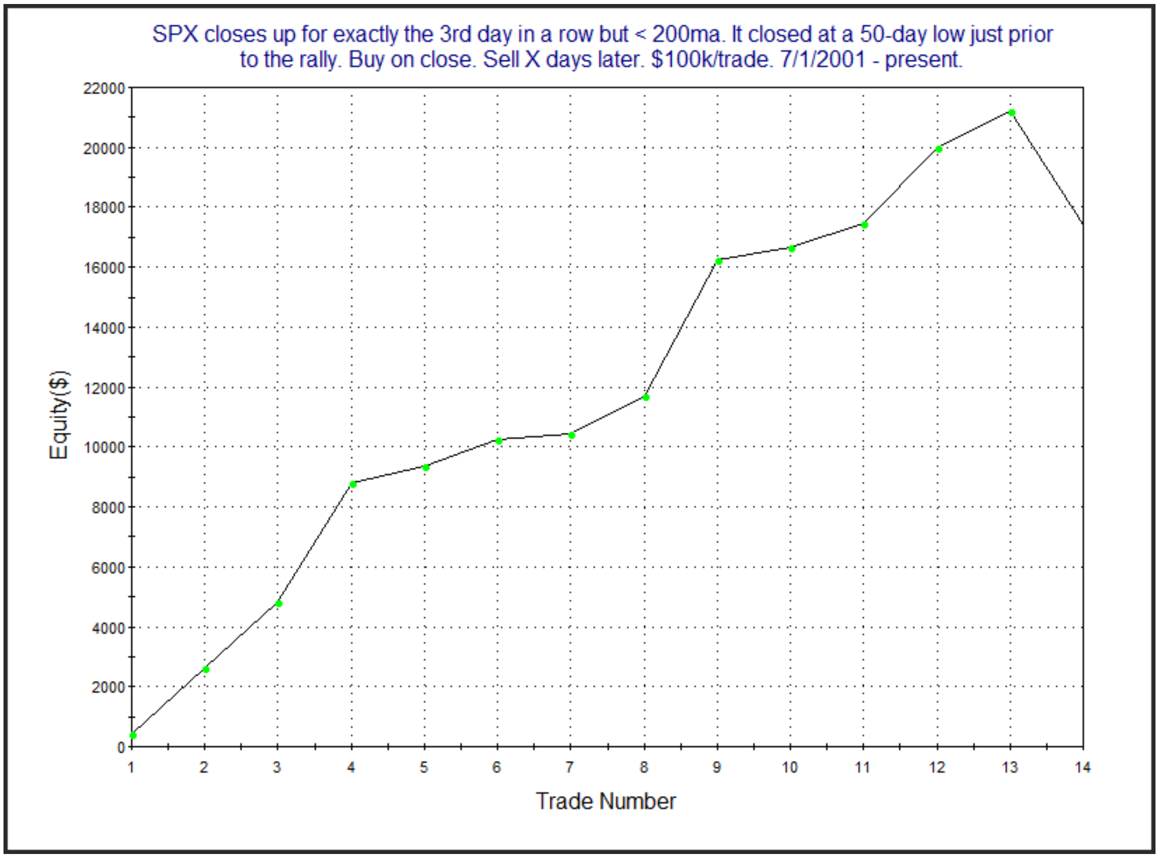


The last instance did not hold true but the curve certainly seems to support the data nonetheless.

Also notable is that Wednesday was the 3rd day in a row that provided strong breadth readings. In the past, 3 days of strong breadth has led to further short-term upside. This is something I discussed in the 10/21/13 Letter. I have updated that study below.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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	29,946.60	21	16	5	76.19	3,133.32	8,961.33	-4,037.30	-8,739.76	0.78	2.48	1,426.03
9	27,626.04	21	16	5	76.19	3,014.56	10,112.58	-4,121.38	-9,422.42	0.73	2.34	1,315.53
8	24,645.03	21	14	7	66.67	2,955.12	8,417.94	-2,389.52	-9,542.26	1.24	2.47	1,173.57
7	28,799.45	21	16	5	76.19	2,630.91	7,911.39	-2,659.01	-6,421.07	0.99	3.17	1,371.40
6	28,065.37	21	15	6	71.43	2,925.39	9,237.63	-2,635.90	-6,584.78	1.11	2.77	1,336.45
5	20,869.71	21	15	6	71.43	2,389.52	8,344.26	-2,495.50	-6,523.10	0.96	2.39	993.80
4	17,152.97	21	14	7	66.67	1,867.77	6,272.01	-1,285.13	-3,472.70	1.45	2.91	816.81
3	13,890.89	21	12	9	57.14	2,071.72	6,990.39	-1,218.86	-2,691.05	1.70	2.27	661.47
2	17,994.26	21	18	3	85.71	1,070.05	4,144.50	-422.21	-790.32	2.53	15.21	856.87
1	10,016.84	21	14	6	66.67	837.90	2,609.46	-285.64	-465.45	2.93	6.84	476.99

All 21 instances posted a close above the entry price at some point in the next 5 days.

Not only are the net results strong but the consistency has been outstanding with all 21 instances posting gains at some point during the next week. Below I have listed all 21 instances and assumed a 2-day exit.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell 2 days later. $100k/trade. 1967 - present.

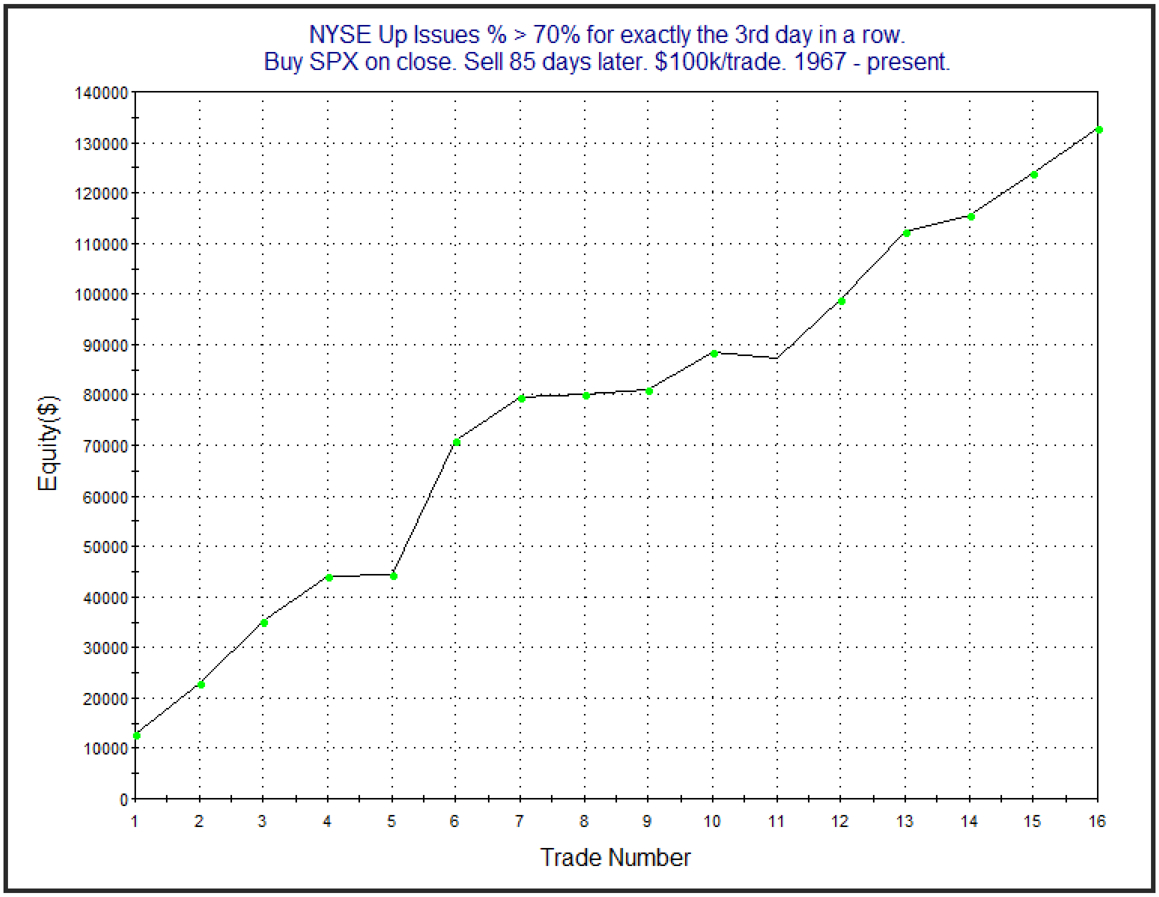
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/9/1967	Buy	$82.81	0.80%	$1,339.77
1/11/1967	Sell	$83.47		($1,738.08)
5/29/1970	Buy	$76.55	1.69%	$2,847.08
6/2/1970	Sell	$77.84		($927.26)
10/11/1974	Buy	$71.14	0.42%	$4,622.45
10/15/1974	Sell	$71.44		($744.65)
1/3/1975	Buy	$70.71	0.44%	$2,163.42
1/7/1975	Sell	$71.02		($1,117.06)
1/5/1976	Buy	$92.58	1.48%	$2,775.60
1/7/1976	Sell	$93.95		($226.80)
1/5/1979	Buy	$99.13	0.20%	$836.64
1/9/1979	Sell	$99.33		($1,310.40)
8/18/1982	Buy	$108.52	4.15%	$4,577.37
8/20/1982	Sell	$113.02		($1,077.57)
10/8/1982	Buy	$131.05	2.59%	$4,555.11
10/12/1982	Sell	$134.44		$0.00
3/3/1983	Buy	$153.47	0.12%	$956.97
3/7/1983	Sell	$153.66		($1,269.45)
8/3/1984	Buy	$162.35	0.22%	$1,795.80
8/7/1984	Sell	$162.71		($953.25)
12/26/1991	Buy	$404.84	2.54%	$2,541.63
12/30/1991	Sell	$415.13		($61.75)
3/21/2007	Buy	$1,435.04	0.07%	$265.65
3/23/2007	Sell	$1,436.11		($356.04)
1/2/2009	Buy	$931.80	0.31%	$1,289.35
1/6/2009	Sell	$934.70		($1,312.89)
4/2/2009	Buy	$834.38	0.13%	$966.28
4/6/2009	Sell	$835.48		($1,379.21)
9/8/2009	Buy	$1,025.39	1.83%	$1,818.75
9/10/2009	Sell	$1,044.14		($137.74)
7/9/2010	Buy	$1,077.95	1.61%	$1,978.92
7/13/2010	Sell	$1,095.34		($690.00)
7/26/2010	Buy	$1,115.01	-0.80%	$528.66
7/28/2010	Sell	$1,106.13		($1,059.10)
3/21/2011	Buy	$1,298.38	-0.06%	$164.01
3/23/2011	Sell	$1,297.54		($1,103.41)
9/15/2011	Buy	$1,209.11	-0.42%	$897.90
9/19/2011	Sell	$1,204.09		($1,701.50)
6/27/2013	Buy	$1,613.20	0.11%	$818.01
7/1/2013	Sell	$1,614.96		($740.54)
10/18/2013	Buy	$1,744.50	0.58%	$845.31
10/22/2013	Sell	$1,754.67		($218.31)

A few recent instances did not do as well, but every instance has still managed to close higher at some point in the next week. So I believe this study is worth taking into consideration.

Intermediate-term implications of this study are also very compelling. I have included them below as well.

NYSE Up Issues % > 70% for exactly the 3rd day in a row. Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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
100	121,663.29	16	13	3	81.25	10,310.56	35,228.25	-4,124.64	-9,681.98	2.50	10.83	7,603.96
95	112,836.31	16	14	2	87.50	8,816.96	27,455.01	-5,300.59	-7,569.87	1.66	11.64	7,052.27
90	131,796.43	16	14	2	87.50	9,851.97	30,991.65	-3,065.58	-5,123.16	3.21	22.50	8,237.28
85	132,867.55	16	15	1	93.75	8,945.36	26,681.37	-1,312.89	-1,312.89	6.81	102.20	8,304.22
80	122,090.92	16	15	1	93.75	8,554.27	28,597.05	-6,223.12	-6,223.12	1.37	20.62	7,630.68
75	114,298.87	17	16	1	94.12	7,733.85	27,786.57	-9,442.75	-9,442.75	0.82	13.10	6,723.46
70	92,659.21	17	16	1	94.12	6,324.46	24,277.56	-8,532.18	-8,532.18	0.74	11.86	5,450.54
65	84,787.45	17	14	3	82.35	7,039.01	27,455.01	-4,586.24	-12,438.75	1.53	7.16	4,987.50
60	94,743.23	18	15	3	83.33	7,543.81	30,604.83	-6,137.98	-14,330.51	1.23	6.15	5,263.51
55	95,731.08	19	15	4	78.95	7,724.32	30,696.93	-5,033.43	-13,424.22	1.53	5.75	5,038.48
50	88,198.68	19	15	4	78.95	7,767.57	23,080.26	-7,078.71	-16,443.76	1.10	4.11	4,642.04
45	81,399.80	19	16	3	84.21	6,925.99	28,118.13	-9,805.37	-22,705.40	0.71	3.77	4,284.20
40	67,212.93	19	16	3	84.21	6,330.04	23,992.05	-11,355.88	-25,195.29	0.56	2.97	3,537.52
35	65,994.61	20	16	4	80.00	5,621.20	18,677.88	-5,986.16	-16,976.62	0.94	3.76	3,299.73
30	65,653.67	20	15	5	75.00	5,848.26	15,257.06	-4,414.06	-15,261.41	1.32	3.97	3,282.68
25	67,506.23	20	16	4	80.00	5,127.75	14,072.88	-3,634.44	-6,624.37	1.41	5.64	3,375.31
20	63,211.48	20	16	4	80.00	4,962.15	14,045.25	-4,045.75	-11,381.59	1.23	4.91	3,160.57
15	48,517.24	20	17	3	85.00	3,670.47	12,387.45	-4,626.90	-10,189.61	0.79	4.50	2,425.86
10	29,946.60	21	16	5	76.19	3,133.32	8,961.33	-4,037.30	-8,739.76	0.78	2.48	1,426.03
5	20,869.71	21	15	6	71.43	2,389.52	8,344.26	-2,495.50	-6,523.10	0.96	2.39	993.80

The results table suggests a strong consistent edge has followed this setup. Below is a performance graph showing performance assuming an 85-day holding period.



The curve appears to serve as further confirmation of the upside edge. The strong, steady upslope is very impressive.

But as I mentioned, not everything was bullish. And compelling bearish evidence also emerged. An indicator that is providing a notable reading is the 3/10 Offset HV for the SPX. I first introduced this indicator in the 7/13/2009 blog. It looks for periods where short-term historical volatility is contracting sharply. When that happens it is often soon followed by a volatility expansion. This volatility expansion can occur in either direction. The indicator does not predict direction. But when combined with other indicators it can provide some powerful signals. The study below looks at the combination of low a 3/10 Offset HV, a short-term overbought market, and a long-term downtrend. It was last seen in the 12/7/11 subscriber letter. I have updated all results.

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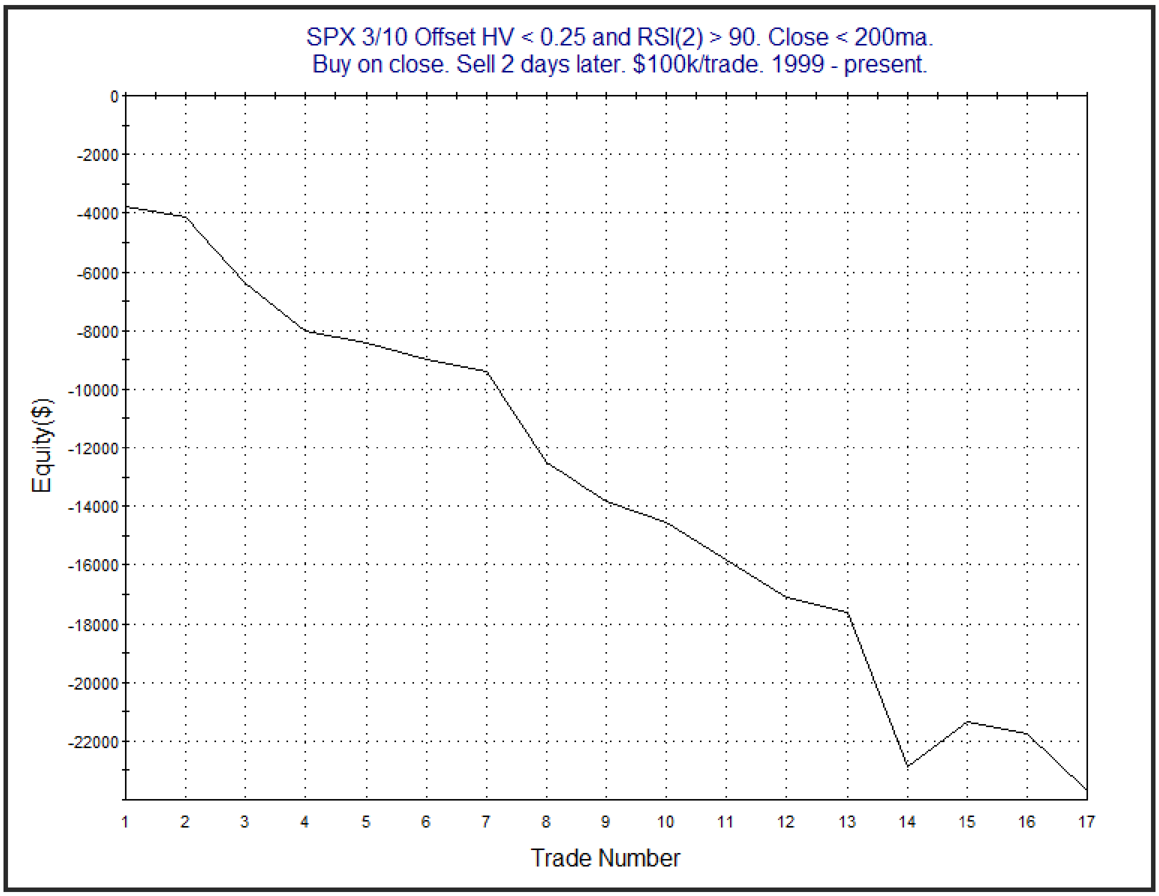
SPX 3/10 Offset HV < 0.25 and RSI(2) > 90. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1999 - present.

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	-37,448.89	17	4	13	23.53	706.79	1,138.84	-3,098.16	-7,519.22	0.23	0.07	-2,202.88
4	-29,836.23	17	3	14	17.65	1,004.61	1,209.90	-2,346.43	-5,663.22	0.43	0.09	-1,755.07
3	-20,540.13	17	4	13	23.53	975.91	1,631.16	-1,880.29	-6,445.61	0.52	0.16	-1,208.24
2	-23,673.21	17	1	16	5.88	1,510.64	1,510.64	-1,573.99	-5,264.73	0.96	0.06	-1,392.54
1	-15,967.90	18	5	13	27.78	961.26	2,286.84	-1,598.02	-8,883.33	0.60	0.23	-887.11

As you can see, the results are overwhelmingly bearish over the next couple of days. Below is a profit curve.



Results are strongly negative and consistent.

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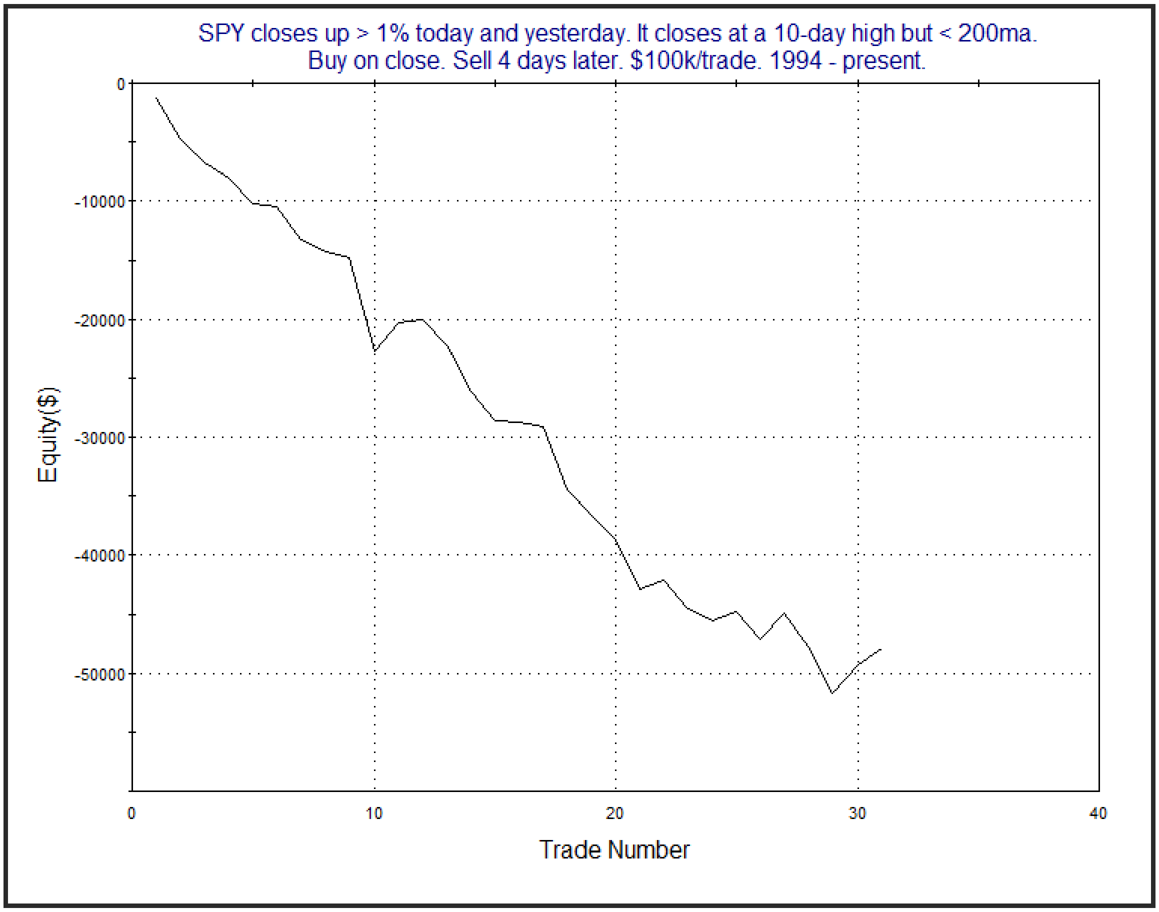
SPY has been very strong the last few days. Such strong moves on back-to-back days during a prolonged downtrend have been followed by pullbacks on a very consistent basis. This is demonstrated in the study below, which I last showed in the 10/25/11 subscriber letter, and have updated tonight.

SPY closes up > 1% today and yesterday. 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	-38,991.50	30	11	19	36.67	1,533.27	3,399.42	-2,939.87	-7,053.11	0.52	0.30	-1,299.72
4	-47,844.57	31	7	24	22.58	1,474.74	2,475.56	-2,423.66	-7,879.83	0.61	0.18	-1,543.37
3	-39,964.74	31	7	24	22.58	1,389.30	2,864.79	-2,070.41	-5,502.64	0.67	0.20	-1,289.19
2	-36,107.87	31	10	21	32.26	868.40	2,505.60	-2,132.94	-5,350.20	0.41	0.19	-1,164.77
1	-21,969.47	32	12	20	37.50	591.27	2,052.00	-1,453.24	-8,857.80	0.41	0.24	-686.55

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 very strongly suggest a downside edge. The equity curve is below.



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

This of course leaves us with a real mix of studies.

I have updated the Aggregator chart below.

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With tonight's studies being considered the green Aggregator Line held 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 also below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and 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.

Expectations on Thursday are primed to remain bearish. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1894.99 on Thursday. That is 1.65% below Wednesday's close. So for SPX to move from overbought to oversold on Wednesday it will need to close down at least 1.65%.

Evidence is still leaning bearish. And the Aggregator suggests a decent opportunity to trade. I am already partially short. With evidence from Wednesday so mixed I am not inclined to add to my position on Thursday. I'll instead wait to see how things unfold on Thursday and what additional evidence emerges there.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/16 – neutral

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

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
BA(1/3)	2/12/2016	$105.12	$116.34	10.67%		***sell on open***
SPY(1/4)(s)	2/17/2016	$191.16	$192.88	-0.90%		shorted on open

BA reached its exit trigger and will be sold at Thursday's open.

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