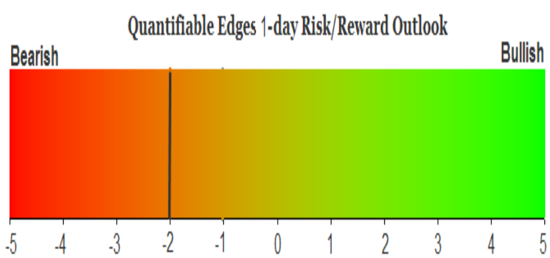
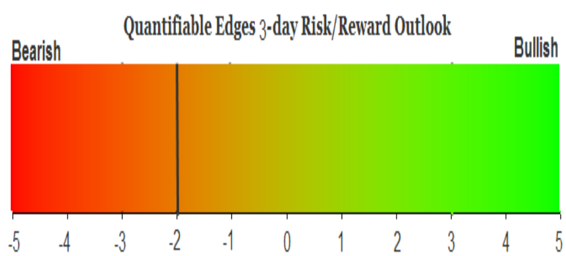
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 2, 2016 Volume 9 Issue 41

Market Overview





Signals Overview

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

Tonight's Research Points

- The big drop in VXO suggests a downside edge.
- The SPY price action also points lower.
- The Follow Through Day Tuesday looks promising.

Short-term Outlook

The Bottom Line

Evidence is mixed but tilted bearish for the next few days. With SPX strongly overbought I am anticipating a dip.

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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						
March 2, 2016	FTD & 20-day high	1-3 days	Bullish			
March 2, 2016	VXO drops 15%-20% in 1 day. SPX<200	1-2 days	Bearish			
March 2, 2016	SPY closes top 10% 1-day & 10-day rng	1-3 days	Bearish			
Active - Long Term						
March 2, 2016	FTD & 20-day high	int term	Bullish			
February 18, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-5.10%	-12.10%
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
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			
Dropped Tonight						
March 1, 2016	Turnaround Tuesday	1 day	Bullish			

The Evidence

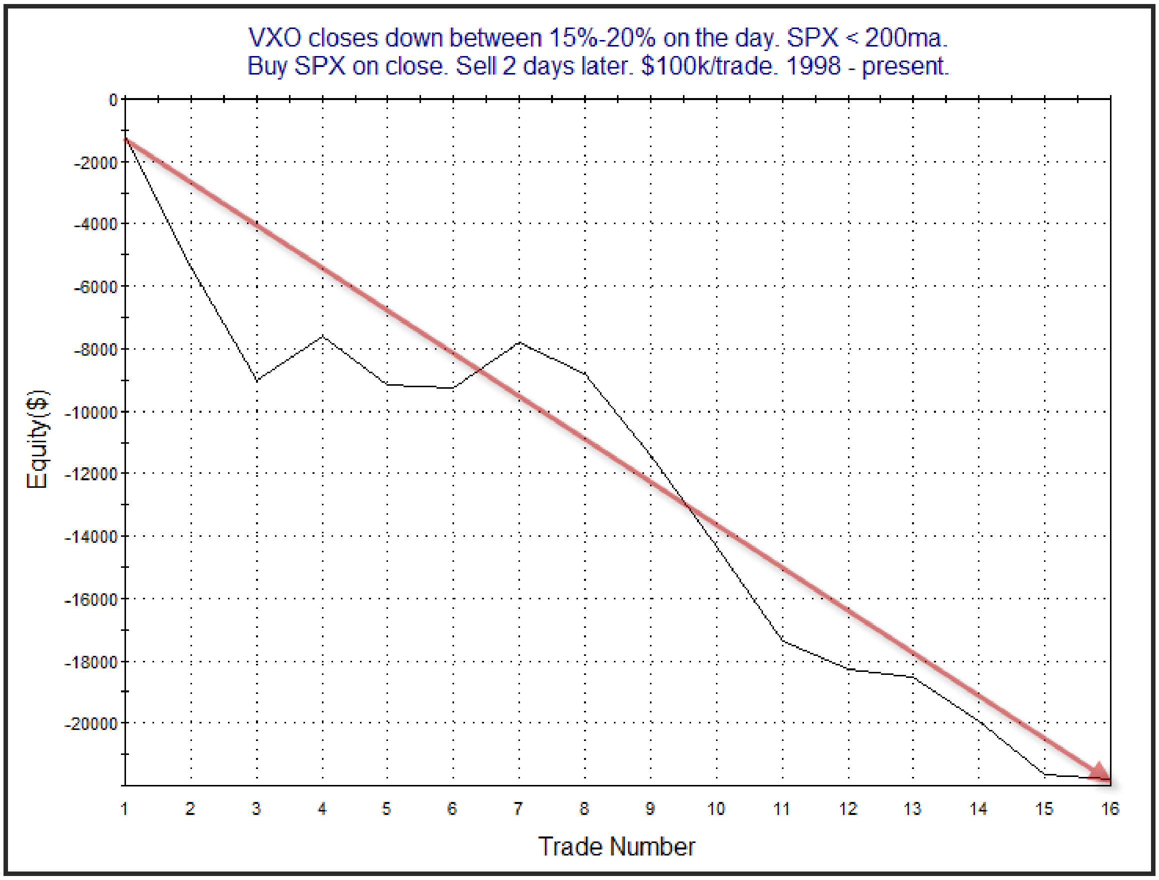
Tuesday was a huge day for the market. The SPX rallied 2.4%, the NASDAQ gained 2.9%, and the Russell 2000 rose 2.0%. Breadth was positive as the NYSE Up Issues % was 81% and the Up Volume % came in at 77%. Total NYSE volume rose some from Monday's level.

A few studies triggered that noted the sharp drops in the the VIX and VXO (the old version of the VIX). They are viewed as "fear indices". So when there is a sharp decline in them that generally means fear is quickly leaving the market. More accurately, options traders are no longer willing to pay large premiums for protection, and option prices are dropping rapidly. The study below was last covered recently in the 1/25/16 letter. Stats are all updated.

VXO closes down between 15%-20% on the day. SPX < 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 1998 - 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	-12,021.77	14	8	6	57.14	2,482.04	6,915.44	-5,313.02	-9,908.49	0.47	0.62	-858.70
4	-13,244.88	15	7	8	46.67	1,914.64	4,104.78	-3,330.92	-9,329.28	0.57	0.50	-882.99
3	-18,794.52	16	5	11	31.25	1,361.77	2,993.44	-2,327.58	-5,298.72	0.59	0.27	-1,174.66
2	-21,807.61	16	2	14	12.50	1,422.37	1,439.48	-1,760.88	-4,195.25	0.81	0.12	-1,362.98
1	-10,775.25	16	5	11	31.25	604.35	1,311.50	-1,254.27	-2,415.00	0.48	0.22	-673.45

We see here some very bearish statistics over the 1-2 day period. Below is a look at the profit curve.



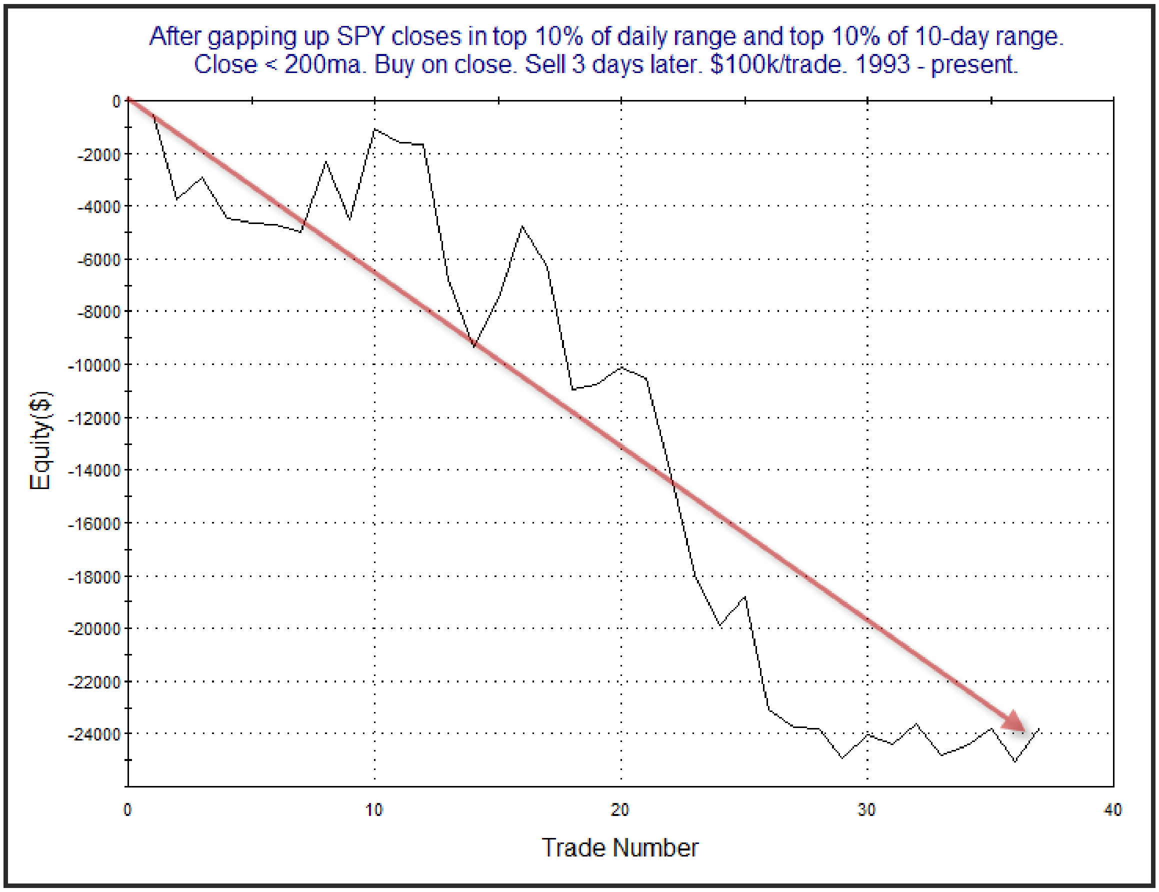
This equity curve seems to strengthen the bearish case. It appears there is rarely upside follow-through when fear dissipates so quickly during a downtrend.

Another study worth discussion is one from the 2/26/16 letter, which looks at SPY closing in the upper part of its 1 and 10-day ranges. I have updated it below.

After gapping up SPY closes in top 10% of daily range and top 10% of 10-day range.
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
5	-16,783.56	32	18	13	56.25	1,249.79	3,095.18	-3,021.53	-6,223.36	0.41	0.57	-524.49
4	-13,449.12	35	16	19	45.71	1,490.86	5,167.16	-1,963.31	-5,244.16	0.76	0.64	-384.26
3	-23,722.94	37	13	24	35.14	1,336.94	3,447.12	-1,712.63	-5,133.72	0.78	0.42	-641.16
2	-22,310.29	39	17	22	43.59	824.91	2,075.22	-1,651.53	-5,196.96	0.50	0.39	-572.06
1	-10,585.11	41	19	22	46.34	646.87	2,238.25	-1,039.80	-3,187.90	0.62	0.54	-258.17

Numbers over the 1st 3 days appear squarely bearish. Below is a look at a 3-day profit curve.



The last instance looked good for 2 days but Tuesday's rally caused it to close higher. I have included this study on the active list as well.

Tuesday did mark the 1st IBD Follow Through Day (FTD) since the rally began. Unusual about this FTD is that it occurred in conjunction with SPX making a new 20-day high. This triggered the study below, from the 10/19/11 letter.

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Today is Follow Through Day (FTD). SPX closes at a 20-day high.
Buy on close. Sell X days later. $100k/trade. 1971 - 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	36,389.20	12	10	2	83.33	4,242.40	8,449.98	-3,017.38	-4,916.46	1.41	7.03	3,032.43
19	36,496.68	12	9	3	75.00	4,560.48	8,638.19	-1,515.87	-2,535.28	3.01	9.03	3,041.39
18	38,144.32	12	9	3	75.00	4,746.12	8,021.64	-1,523.59	-2,534.61	3.12	9.35	3,178.69
17	36,477.08	12	10	2	83.33	3,958.01	8,709.58	-1,551.48	-1,983.40	2.55	12.76	3,039.76
16	34,236.65	12	10	2	83.33	3,513.70	8,456.47	-450.18	-464.20	7.81	39.03	2,853.05
15	35,531.59	12	10	2	83.33	3,615.87	8,417.53	-313.55	-584.91	11.53	57.66	2,960.97
14	37,604.64	12	10	2	83.33	3,924.50	8,923.75	-820.19	-1,619.28	4.78	23.92	3,133.72
13	31,320.51	12	10	2	83.33	3,309.68	7,484.65	-888.15	-1,660.80	3.73	18.63	2,610.04
12	23,595.18	12	7	5	58.33	4,001.97	6,522.45	-883.72	-2,107.14	4.53	6.34	1,966.26
11	20,331.32	12	8	4	66.67	3,251.34	6,288.81	-1,419.85	-2,937.54	2.29	4.58	1,694.28
10	12,499.25	12	6	6	50.00	3,250.75	5,659.28	-1,167.55	-2,571.84	2.78	2.78	1,041.60
9	17,019.83	12	7	5	58.33	3,244.10	6,704.17	-1,137.77	-3,011.76	2.85	3.99	1,418.32
8	19,310.94	12	7	5	58.33	3,608.23	7,359.66	-1,189.33	-2,687.04	3.03	4.25	1,609.24
7	23,997.92	12	9	3	75.00	2,896.79	7,353.17	-691.07	-1,142.35	4.19	12.58	1,999.83
6	20,017.98	12	11	1	91.67	1,922.32	7,431.05	-1,127.52	-1,127.52	1.70	18.75	1,668.16
5	15,230.44	12	11	1	91.67	1,414.76	4,977.83	-331.92	-331.92	4.26	46.89	1,269.20
4	15,307.83	12	10	2	83.33	1,635.51	5,600.87	-523.64	-552.82	3.12	15.62	1,275.65
3	14,666.97	12	9	3	75.00	1,835.80	5,529.48	-618.41	-998.20	2.97	8.91	1,222.25
2	10,563.95	12	7	5	58.33	1,860.92	5,367.23	-492.50	-809.19	3.78	5.29	880.33
1	5,610.13	12	7	5	58.33	1,099.88	2,537.59	-417.80	-1,255.50	2.63	3.69	467.51

Results here are impressive over both the short and intermediate-term. To get a better feel for the short-term returns I have listed the instances below.

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Today is Follow Through Day (FTD). SPX closes at a 20-day high. Buy on close. Sell 6 days later. $100k/trade. 1971 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
12/1/1971	Buy	$95.54	1.49%	$2,750.98
12/9/1971	Sell	$96.96		($847.26)
11/10/1977	Buy	$94.71	0.65%	$1,877.90
11/18/1977	Sell	$95.33		($126.60)
12/1/1978	Buy	$96.27	0.87%	$2,397.78
12/11/1978	Sell	$97.11		($944.58)
8/1/1984	Buy	$154.08	7.43%	$7,658.20
8/9/1984	Sell	$165.53		$0.00
10/16/1985	Buy	$187.97	0.28%	$780.57
10/24/1985	Sell	$188.50		($631.89)
8/11/1986	Buy	$240.67	2.42%	$2,971.40
8/19/1986	Sell	$246.50		($132.80)
10/8/1986	Buy	$236.67	1.20%	$1,477.00
10/16/1986	Sell	$239.52		($974.82)
12/5/2007	Buy	$1,485.00	0.23%	$2,584.19
12/13/2007	Sell	$1,488.42		($1,123.59)
4/1/2008	Buy	$1,370.15	-1.14%	$1,194.48
4/9/2008	Sell	$1,354.49		($1,452.96)
7/15/2009	Buy	$932.68	4.68%	$5,001.18
7/23/2009	Sell	$976.29		($559.61)
10/18/2011	Buy	$1,225.38	1.36%	$2,524.77
10/26/2011	Sell	$1,242.00		($2,271.24)
12/11/2012	Buy	$1,427.84	0.56%	$1,411.20
12/19/2012	Sell	$1,435.81		($1,117.20)
Avg Run-up: 2.7% Avg Drawdown: -0.85%				

The run-up to drawdown ratio here is quite impressive. I'll also note that 9 of the 12 instances went on to have "successful" rallies. ("Success" means it either hit a new 200-day high or at least rose 2x as much as it had already risen off the bottom.) The 3 instances whose rallies did not succeed (circled in red) all saw run-ups of at least 2% before they eventually rolled over and made new lows.

I have updated the Aggregator chart below.

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With tonight's studies being added the green Aggregator Line dropped back below zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are now 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 turned short at the close.

Expectations on Wednesday are slated to remain bearish. But this could change if strong new bullish evidence emerges. The Differential Pivot will be 1929.02 on Wednesday. That is a whopping 2.5% below Tuesday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down at least 2.5% on Wednesday. That's improbable for just 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So there again appears to be a downside edge. Last night I indicated I would be looking to cover my short index positions on Tuesday. Unfortunately, the large gap up and run higher did not offer me a fill. But with the new evidence and now strongly overbought SPX, I again desire short exposure. So I will hold onto the 2 lots of short SPY I already have and see how things play out on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/29 – neutral

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)	2/17/2016	$191.16	$198.11	-3.64%		Aggregator
SPY(1/4)(s)	2/26/2016	$196.57	$198.11	-0.78%		Aggregator

I was looking to cover SPY on Tuesday. Unfortunately, it gapped up large and never came back to my limit price.