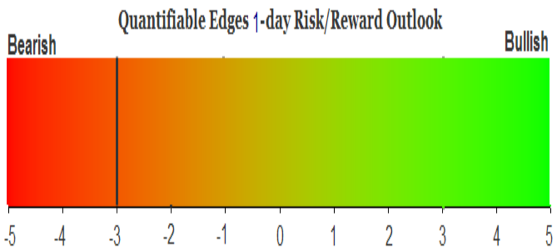
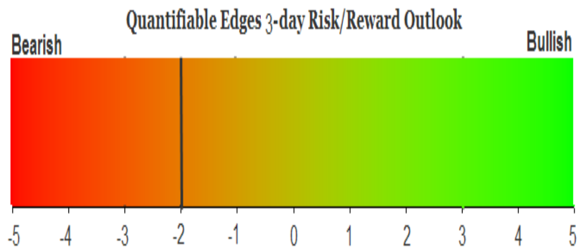
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 17, 2016 Volume 9 Issue 52

Market Overview





Signals Overview

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

Tonight's Research Points

- Short-term highs on a Fed Day are often met by a pullback over the next few days.
- Breakouts to 50-day highs on increasing volume and without an unfilled up gap have generally not followed through well.

Short-term Outlook

The Bottom Line

Expectations are now negative and the market is now overbought. This suggests a bearish short-term 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						
March 17, 2016	Fed day 10-high < 100-high	1-2 days	Bearish			
March 14, 2016	March opex week bullish	1-4 days	Bullish			
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 16, 2016	Fed Day	1 day	Bullish			

The Evidence

Wednesday saw the market rally in reaction to the Fed. The SPX rose 0.6%, the NASDAQ gained 0.74%, and the Russell 2000 rallied 0.75%. Breadth was positive as the NYSE Up Issues % was 78% and the Up Volume % came in at 72%. Total NYSE volume rose some from Tuesday's light level.

Today's breakout to a new intermediate-term high on a Fed Day reminded me a lot of the October 28th breakout that also occurred on a Fed Day. And a lot of the same studies triggered then. The first study looked at Fed Days that reached 10-day highs, but not 100-day highs. It was last seen in the 10/29/15 letter and has been updated below.

SPX closes at a 10-day high but not a 100-day high on a Fed Day.
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
10	-23,634.26	26	11	15	42.31	1,495.76	4,389.95	-2,672.51	-9,625.50	0.56	0.41	-909.01
9	-26,923.37	26	11	15	42.31	1,503.43	3,956.94	-2,897.41	-12,928.50	0.52	0.38	-1,035.51
8	-21,083.50	26	11	15	42.31	1,264.07	4,058.40	-2,332.55	-7,050.88	0.54	0.40	-810.90
7	-10,216.10	26	14	12	53.85	1,517.24	6,337.26	-2,621.46	-6,122.88	0.58	0.68	-392.93
6	-10,380.63	26	13	13	50.00	1,433.75	4,813.75	-2,232.26	-4,908.27	0.64	0.64	-399.26
5	-22,145.76	26	11	15	42.31	1,344.97	5,231.46	-2,462.70	-6,268.92	0.55	0.40	-851.76
4	-18,699.18	26	11	15	42.31	1,137.33	3,438.24	-2,080.66	-4,528.95	0.55	0.40	-719.20
3	-12,312.57	26	14	12	53.85	1,136.39	3,830.40	-2,351.83	-5,547.24	0.48	0.56	-473.56
2	-23,263.18	26	8	18	30.77	626.38	1,737.55	-1,570.79	-5,495.94	0.40	0.18	-894.74
1	-12,708.30	26	6	20	23.08	924.90	1,990.25	-912.89	-3,300.30	1.01	0.30	-488.78

25 of 26 instances (96%) closed below the entry price
at some point in the next 4 days.

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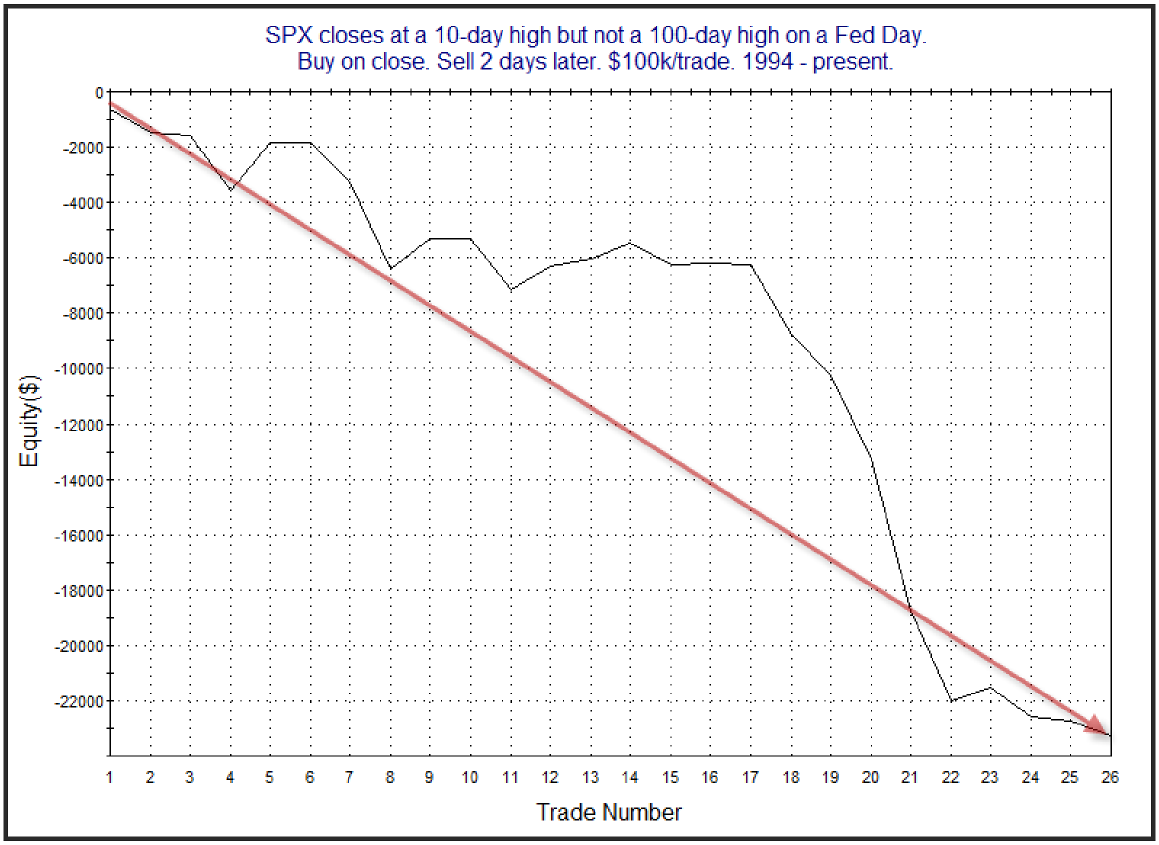
The numbers here all point to a downside edge, primarily over the 1st 2 days. Below is a profit curve showing how the edge has played out over time.



Not the smoothest curve, but I prefer a steepening one like this to a flattening one. I think this study is compelling enough to include on the Active List.

Also in that 10/29/15 letter I looked at times SPY broke out to a new 50-day high. I broke it down by times it did so with an unfilled gap up vs times it did not. I found that times it left an unfilled gap up showed a tendency to follow through over the next few days. Times without an unfilled up gap did not show the same tendency. I have re-run below the studies from that letter.

First, times SPY posted an unfilled up gap long with the breakout.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	37,473.87	50	34	16	68.00	1,591.96	5,434.00	-1,040.80	-3,218.88	1.53	3.25	749.48
4	24,740.49	50	34	16	68.00	1,209.85	3,637.92	-1,024.65	-3,267.84	1.18	2.51	494.81
3	18,610.53	50	33	17	66.00	1,067.73	3,992.56	-977.92	-2,538.18	1.09	2.12	372.21
2	15,277.16	50	33	17	66.00	787.26	2,545.92	-629.56	-2,293.20	1.25	2.43	305.54
1	5,696.30	50	36	14	72.00	474.81	1,816.10	-814.06	-2,591.68	0.58	1.50	113.93

45 of 50 instances (90%) closed above the entry price at some point in the next week.

Now, times like the present when it did not.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	1,511.47	42	25	17	59.52	1,009.69	2,671.20	-1,395.93	-4,285.26	0.72	1.06	35.99
4	-3,231.98	42	22	20	52.38	1,046.56	2,072.07	-1,312.81	-4,518.34	0.80	0.88	-76.95
3	1,808.64	42	23	19	54.76	1,062.23	2,927.90	-1,190.67	-5,133.72	0.89	1.08	43.06
2	-3,183.75	42	20	22	47.62	671.32	2,324.90	-755.01	-3,640.86	0.89	0.81	-75.80
1	1,433.70	42	22	19	52.38	476.19	1,586.97	-475.91	-2,448.72	1.00	1.16	34.14

This does not help the bull case.

And neither does the fact that the breakout came on rising (but not extremely high) NYSE volume. This is something I covered in some detail in the 8/22/14 letter. Below is a copy of the study that referenced the current setup.

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SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. $100k/trade. 1970 - 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	-11,558.84	90	41	49	45.56	3,490.77	13,393.77	-3,156.74	-11,548.62	1.11	0.93	-128.43
19	4,285.23	91	46	45	50.55	3,192.02	9,135.36	-3,167.72	-11,862.36	1.01	1.03	47.09
18	6,304.63	91	46	45	50.55	3,084.05	9,503.00	-3,012.48	-10,293.66	1.02	1.05	69.28
17	2,604.88	91	47	44	51.65	2,930.45	9,953.84	-3,071.06	-9,419.67	0.95	1.02	28.63
16	-2,100.11	93	49	44	52.69	2,682.54	8,910.72	-3,035.10	-9,482.88	0.88	0.98	-22.58
15	2,439.28	93	47	46	50.54	2,689.46	8,150.48	-2,694.90	-9,608.60	1.00	1.02	26.23
14	-10,813.55	93	50	43	53.76	2,372.25	7,702.40	-3,009.91	-10,120.46	0.79	0.92	-116.27
13	-10,340.75	93	47	46	50.54	2,411.92	7,911.80	-2,689.16	-9,725.34	0.90	0.92	-111.19
12	-16,276.91	93	49	44	52.69	2,184.79	10,197.98	-2,802.99	-9,878.00	0.78	0.87	-175.02
11	-9,890.83	93	45	48	48.39	2,403.23	10,372.44	-2,459.08	-9,482.88	0.98	0.92	-106.35
10	-17,198.23	93	43	50	46.24	2,264.21	10,507.25	-2,291.18	-8,683.66	0.99	0.85	-184.93
9	-12,167.25	93	41	52	44.09	2,250.70	8,413.73	-2,008.57	-6,878.68	1.12	0.88	-130.83
8	-16,464.59	93	47	46	50.54	1,733.01	8,524.75	-2,128.61	-7,085.22	0.81	0.83	-177.04
7	88.77	93	45	48	48.39	1,828.29	6,337.26	-1,712.18	-7,255.84	1.07	1.00	0.95
6	-2,026.52	93	49	44	52.69	1,508.38	6,819.80	-1,725.85	-7,103.18	0.87	0.97	-21.79
5	-5,498.32	93	41	52	44.09	1,645.06	8,516.82	-1,402.80	-6,088.44	1.17	0.92	-59.12
4	-13,399.52	93	46	47	49.46	1,259.53	6,716.71	-1,517.83	-5,585.56	0.83	0.81	-144.08
3	454.53	93	50	43	53.76	1,156.72	6,740.50	-1,334.45	-5,361.06	0.87	1.01	4.89
2	-3,131.35	93	53	40	56.99	752.03	4,028.44	-1,074.72	-4,276.16	0.70	0.93	-33.67
1	7,260.26	93	53	40	56.99	521.11	2,731.56	-508.97	-2,722.61	1.02	1.36	78.07

Either declining volume or a 20-day high in volume would have generated bullish results. Unfortunately for the bulls, volume does not appear to be helpful for this breakout.

I have updated the Aggregator chart below.

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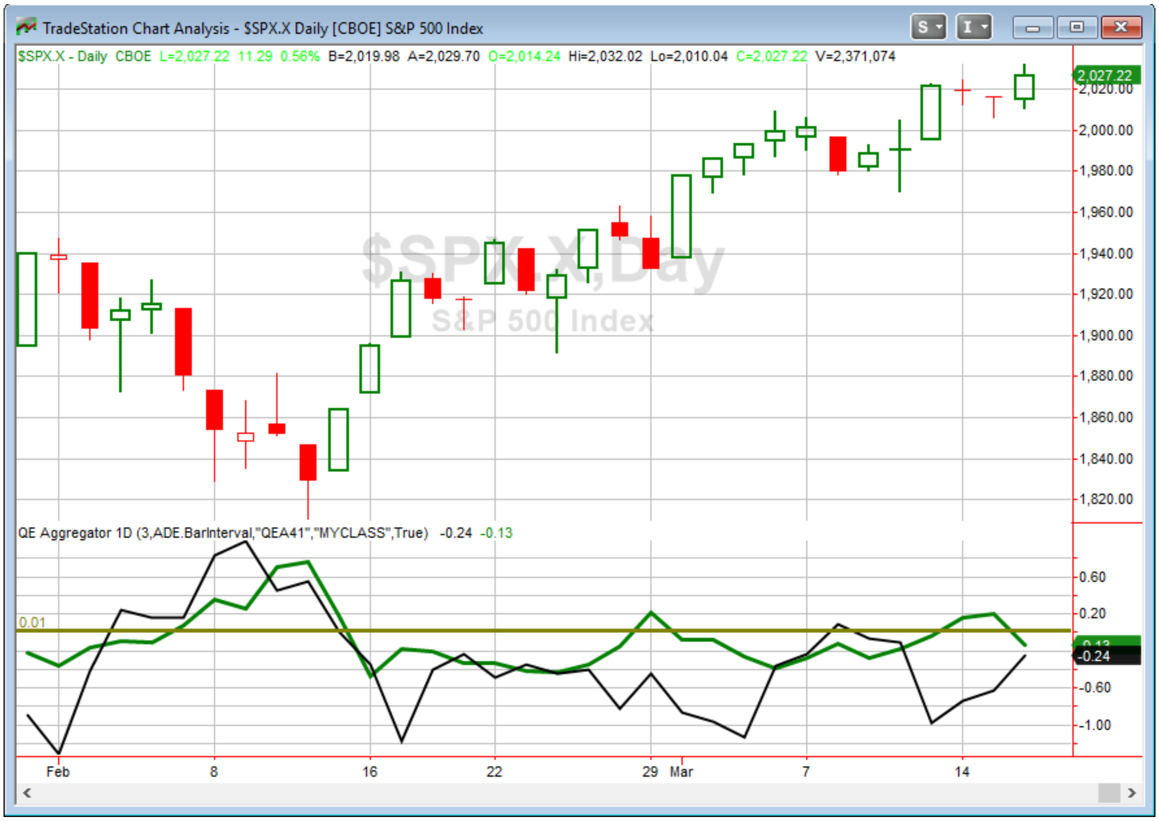

With tonight's Fed study considered the green Aggregator Line dipped back below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are 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 Thursday are set to remain bearish. But this could change if new bullish evidence emerges. The Differential Pivot will be 2018.61 on Thursday. That is 0.4% below Wednesday's close. So for SPX to move from overbought to oversold versus recent expectations it will need to close down at least 0.4%.

There now appears to be a bit of a downside edge again. And there is also a bit of room o the downside before the SPX would become oversold. So if I can get a favorable fill, I will take a small short position to try and take advantage of this downside edge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/14 – 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.

SPY – sell short ¼ index position @ $204.00 LIMIT ON OPEN. If not filled on open, cancel order and look to short @ $203.35 LIMIT ON CLOSE. I will look to short on a decent sized gap up or a close higher. But I won't be shorting into an intraday rally.

Current Open Trade Ideas

None tonight.