

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 5, 2016

Volume 9 Issue 64

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

## Tonight's Research Points

- SPX down < 1% from 50-day high on 2:1 negative breadth has often led to 1-2 more days of selling.

## *Short-term Outlook*

### *The Bottom Line*

The tables turned as evidence is suggesting more selling over the next day or two, but the SPX is now considered oversold versus recent expectations.

**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
<b>Active - Short Term</b>						
April 5, 2016	Dn < 1% from 50-high. Decl 2x Adv	1-2 days	Bearish			
April 1, 2016	Early April bullish	1-4 days	Bullish			
<b>Active - Long Term</b>						
March 28, 2016	1st close < 10ma in 25 days	1-19 days	Bullish	4.10%	-0.90%	-2.25%
March 28, 2016	2 unfilled gaps dn. 5 low. Close > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.40%
March 24, 2016	1st 5-low in 10 days, but > 10ma	1-10 days	Bullish			
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			
<b>Dropped Tonight</b>						
April 4, 2016	Gap dn & reversal to 10-high	1 day	Bearish			
March 31, 2016	20-high. Unfil gap up. Close < open > 200	1-3 days	Bullish			
March 28, 2016	2 unfilled gaps dn. 5 low. Close > 200ma	1-6 days	Bullish	1.90%	-1.30%	-2.40%

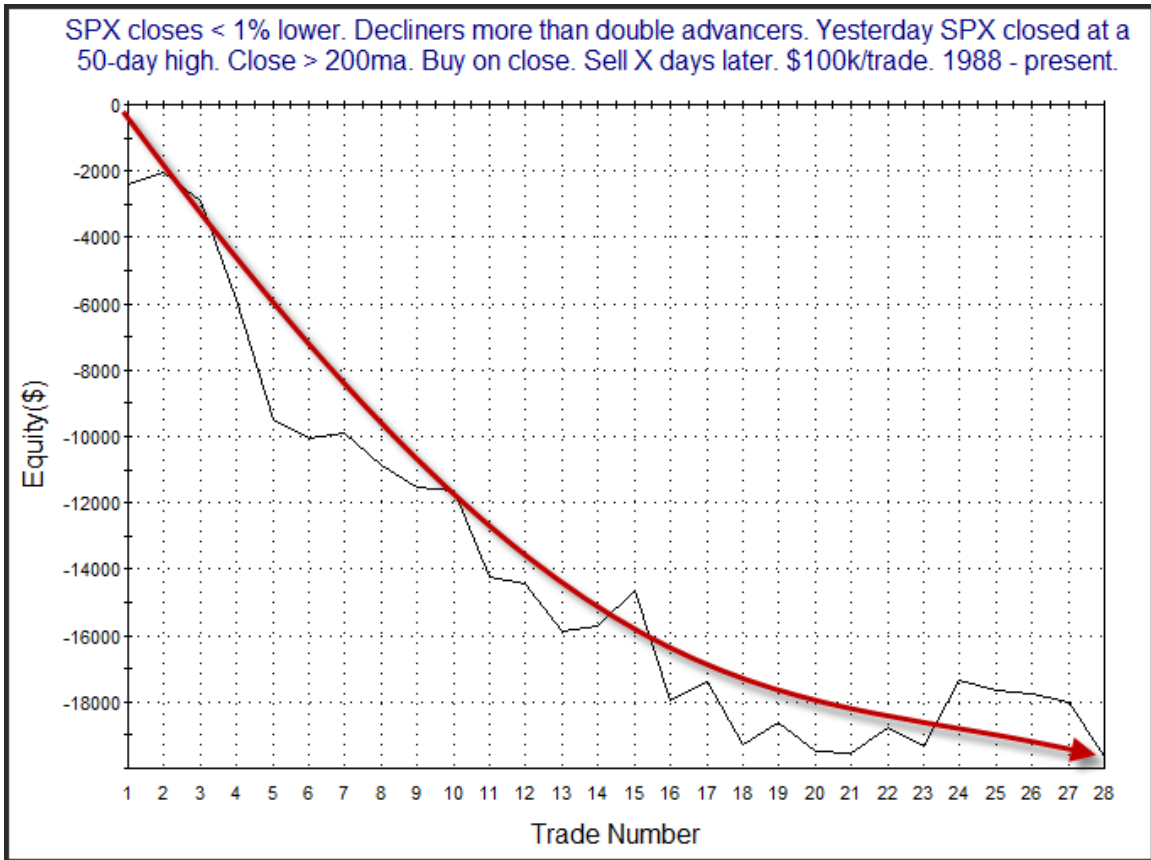
**The Evidence**

Monday was a weak day for the market. The SPX declined 0.3%, the NASDAQ lost 0.5%, and the Russell 2000 fell 0.8%. Breadth was also negative as the NYSE Up Issues % was 27% and the Up Volume % came in at 26%. NYSE volume declined substantially from Friday's level.

Monday's action triggered the study below, which is from the 12/9/14 Subscriber Letter. It notes the fact that SPX is coming off an intermediate-term high on Friday. And while selling was broad it was not extremely deep. Results are updated.

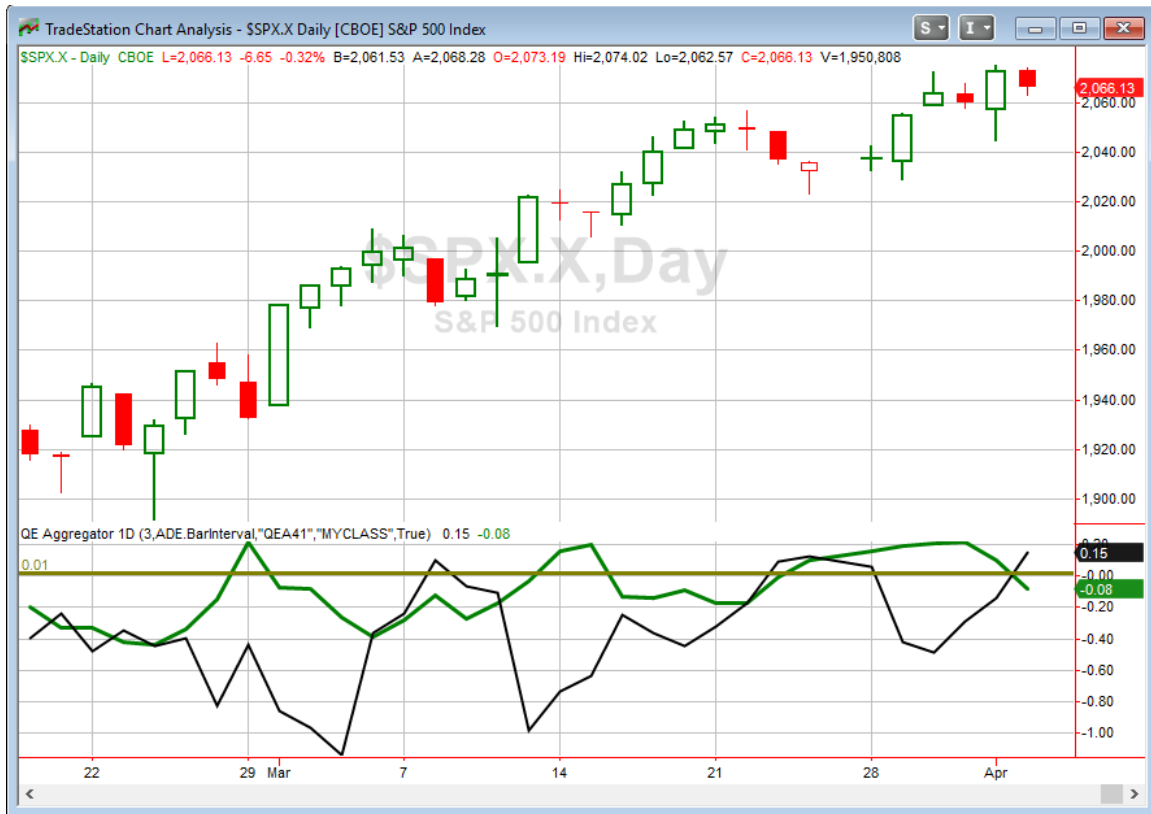
SPX closes < 1% lower. Decliners more than double advancers. Yesterday SPX closed at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,304.56	27	16	11	59.26	806.40	3,149.37	-1,473.37	-3,392.64	0.55	0.80	-122.39
4	-9,763.02	28	11	17	39.29	935.07	2,725.38	-1,179.34	-3,709.52	0.79	0.51	-348.68
3	-16,763.15	28	9	19	32.14	583.01	2,192.40	-1,158.44	-3,721.09	0.50	0.24	-598.68
2	-19,641.39	28	8	20	28.57	722.11	1,998.36	-1,270.91	-3,611.48	0.57	0.23	-701.48
1	-14,571.63	28	8	20	28.57	599.65	938.07	-968.44	-3,794.40	0.62	0.25	-520.42

This type of broad selling will often see a deepening in the following days. Risks appear to far outweigh potential rewards when looking at metrics such as win/loss ratio and profit factor. The downside edge plays out quickly though, and has generally exhausted itself after the first couple of days. Below is a profit curve that assumes a 2-day holding period.



The curve may not be quite as steep as it once was, but it is still posting new lows and seems to support the idea of a downside edge.

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



Tonight's bearish study caused the green Aggregator Line to dip below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line jumped above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current list of studies, expectations on Tuesday are set to turn back to positive. But this could change if additional bearish evidence emerges. The Differential Pivot will be 2072.22 on Tuesday. That is 0.3% above Monday's close. So for SPX to turn from oversold to overbought versus expectations it will need to close up at least 0.3%

At this point buying into the pullback does not appear to be a high probability play. That will change at some point if the market continues to pull back. But I see no reason to get involved just yet. So I will remain patient and await the next favorable opportunity before putting new capital to work.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/4 – bullish***

The intermediate-term outlook was last updated in the 4/4 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***

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**

None

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