

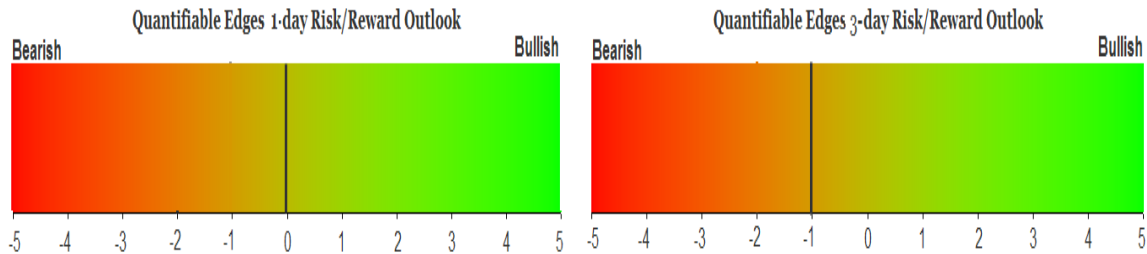
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 27, 2016

Volume 9 Issue 102

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- When an overbought market has pulled back as little as it did Thursday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence is again slightly bearish and the market is now short-term overbought. This suggests a bit of a downside edge – though not one that is quite strong enough to get me excited about shorting yet.

**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>						
May 27, 2016	Down today. RSI2 > 90/	1-2 days	Bullish			
May 25, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
<b>Active - Long Term</b>						
May 24, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
May 9, 2016	CBI >= 7. SPX < 200.	1-15 days	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
March 2, 2016	FTD & 20-day high		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 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
May 24, 2016	Bounce from 20-low then inside day dn.	1-3 days	Bullish	2.90%	-1.80%	-3.90%
May 17, 2016	20-low to 4-high	1-8 days	Bullish	2.40%	-1.50%	-3.10%

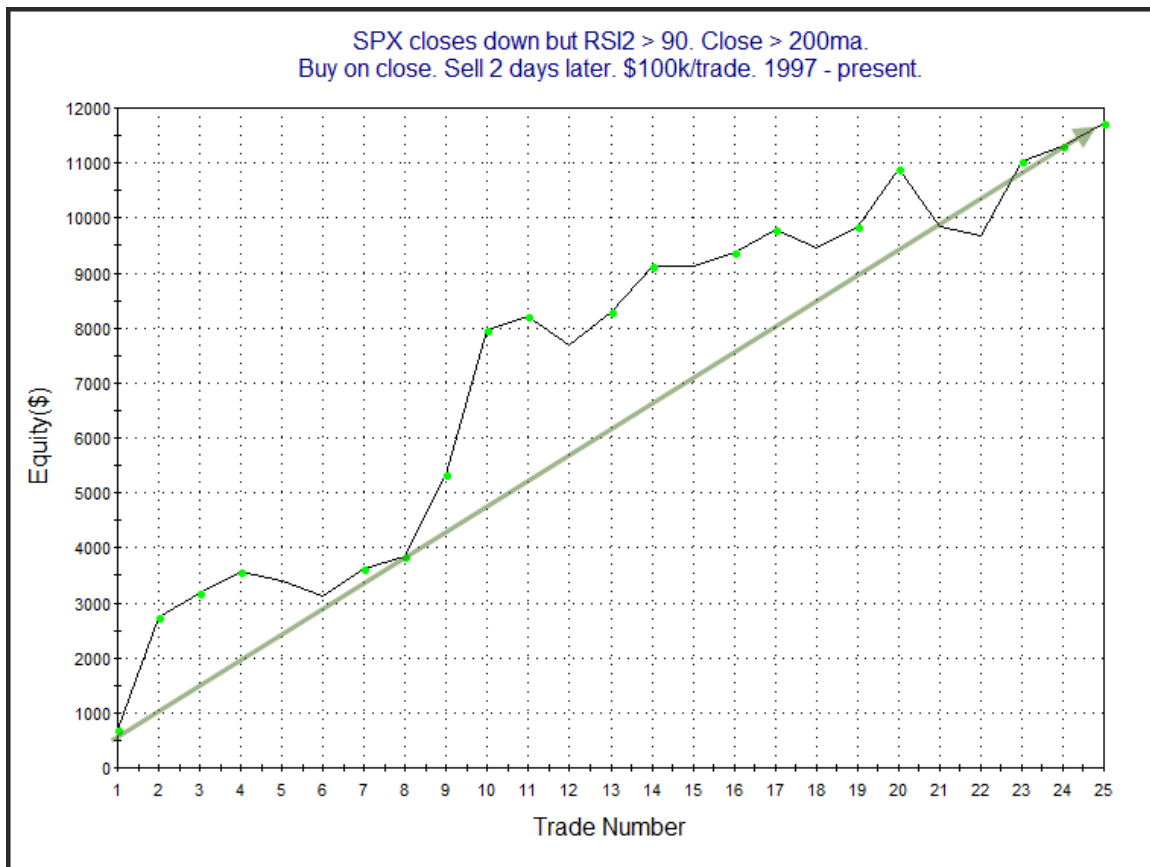
**The Evidence**

Thursday did not see the market move very much. The SPX and Russell 2000 came in near breakeven while the NASDAQ gained 0.1%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 44%. NYSE volume declined some from Wednesday's level.

The move higher earlier this week has many oscillators strongly overbought short-term. With such a small SPX decline on Thursday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Thursday. It therefore triggered the below study from the 11/4/14 letter, which I have updated.

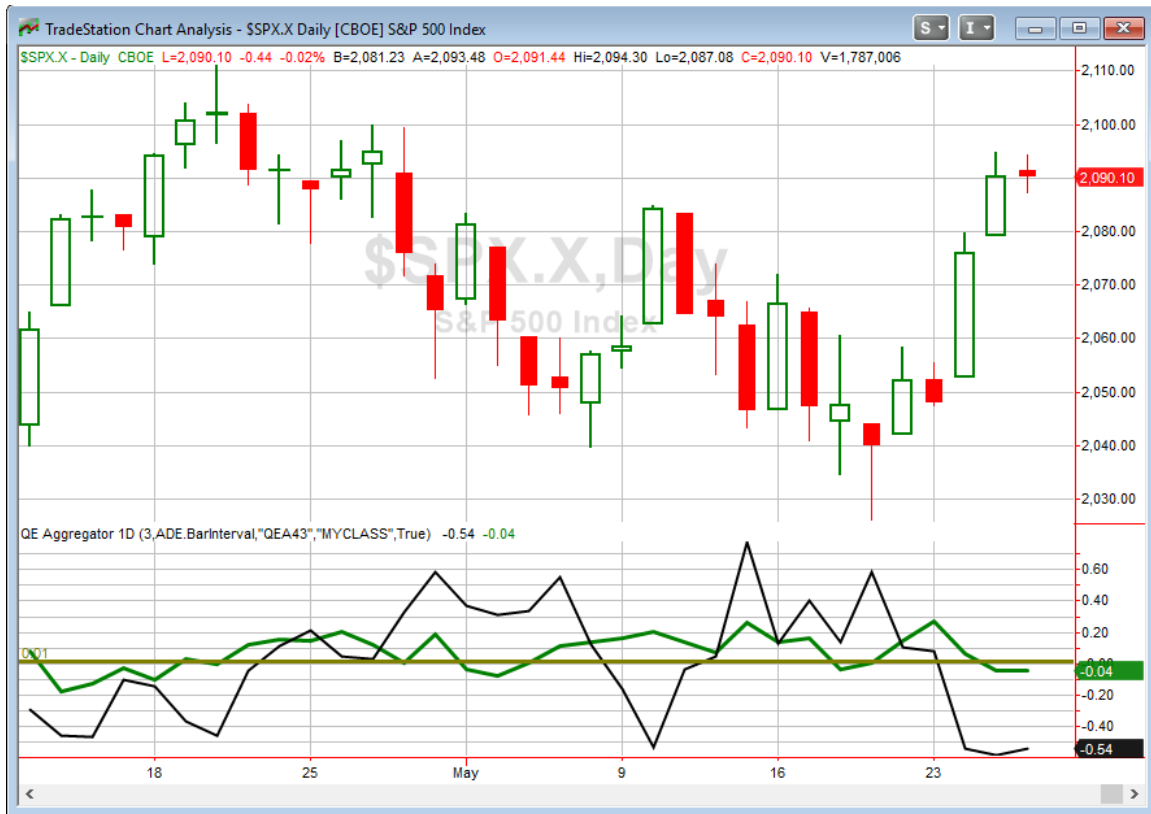
SPX closes down but RSI2 > 90. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	4,234.99	23	9	14	39.13	1,604.49	4,121.28	-728.96	-2,008.73	2.20	1.41	184.13
4	5,441.94	24	12	12	50.00	1,164.97	3,806.46	-711.48	-1,717.70	1.64	1.64	226.75
3	11,759.27	25	14	11	56.00	1,139.33	2,923.44	-381.03	-1,123.50	2.99	3.81	470.37
2	11,734.39	25	18	7	72.00	790.67	2,619.76	-356.81	-1,054.68	2.22	5.70	469.38
1	5,330.29	25	17	8	68.00	482.44	2,310.88	-358.90	-704.76	1.34	2.86	213.21

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong upslope and is making new highs. I have added this study to the Active List.

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



Even with tonight's bullish study the green Aggregator Line held a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held 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 above 0. Therefore, the Aggregator signal stayed short at the close.

With the current list of active studies, expectations are poised to remain negative on Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2086.09 on Friday. That is 0.2% below Thursday's close. So SPX would need to close down at least 0.2% on Friday to flip from overbought to oversold versus expectations.

The Aggregator is again suggesting a bit of a downside edge. But like last night I consider this to be a pretty weak short setup. While 3-day expectations are negative, 1-day expectations are positive. Also, the intermediate-term outlook is slightly bullish, and the short-term bearish evidence is really only one active study. I am not inclined take a counter-trend position right here. If bearish evidence increases I will reconsider tomorrow night, but for now I remain in "wait and see" mode.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/23 – slightly bullish**

The intermediate-term outlook was last updated in the 5/23 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
XIV(1/2)	5/5/2016	\$26.20	\$30.84	17.71%		Aggressive VIX

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