

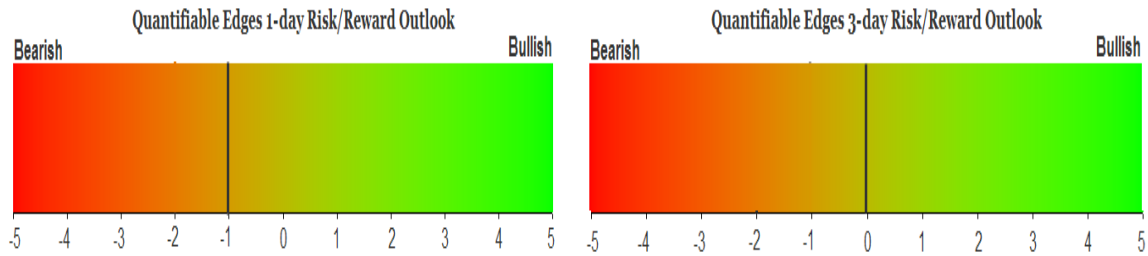
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 3, 2016

Volume 9 Issue 106

Market Overview



Signals Overview

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

Tonight's Research Points

- Thursday's moderately higher volume is not encouraging on a breakout day.

Short-term Outlook

The Bottom Line

Like yesterday, evidence is slightly bullish but the market is a little overbought. This leaves me short-term neutral.

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						
June 2, 2016	Gap and reverse 2x	1-2 days	Bearish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%
Active - Long Term						
May 31, 2016	NASDAQ Leading	int term	Bullish			
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%
April 26, 2016	Golden Cross	int term	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	290% 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			

The Evidence

Thursday saw a morning dip that was recovered and led to some afternoon gains. The SPX rose 0.3%, the NASDAQ gained 0.4%, and the Russell 2000 rallied 0.7%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 62%. NYSE volume rose a small amount from Wednesday's level.

Thursday we saw SPX breakout to new highs. One measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 8/22/14 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high. Moderate but increasing volume is the worst scenario. And unfortunately that is what we are faced with. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. 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	31,082.31	55	31	24	56.36	2,657.71	11,088.84	-2,137.78	-8,157.10	1.24	1.61	565.13
19	31,474.61	56	32	24	57.14	2,556.44	9,628.99	-2,097.15	-9,056.82	1.22	1.63	562.05
18	31,605.08	56	34	22	60.71	2,459.82	11,076.80	-2,364.95	-9,094.80	1.04	1.61	564.38
17	31,306.45	56	34	22	60.71	2,531.14	10,017.28	-2,488.75	-8,682.96	1.02	1.57	559.04
16	32,630.75	56	35	21	62.50	2,422.29	10,944.36	-2,483.31	-9,243.81	0.98	1.63	582.69
15	28,081.46	56	36	20	64.29	2,228.40	8,166.13	-2,607.04	-9,354.92	0.85	1.54	501.45
14	33,692.39	58	39	19	67.24	2,025.60	7,314.30	-2,384.52	-6,525.68	0.85	1.74	580.90
13	34,825.66	59	37	22	62.71	2,038.08	7,780.85	-1,844.70	-5,160.09	1.10	1.86	590.27
12	22,261.64	59	32	27	54.24	2,097.69	5,996.75	-1,661.64	-4,539.14	1.26	1.50	377.32
11	18,178.28	59	30	29	50.85	2,102.80	5,809.60	-1,548.48	-6,029.07	1.36	1.40	308.11
10	20,053.52	59	30	29	50.85	2,062.42	5,960.00	-1,442.04	-4,324.52	1.43	1.48	339.89
9	26,735.25	59	38	21	64.41	1,644.98	5,147.20	-1,703.52	-5,812.26	0.97	1.75	453.14
8	33,315.92	59	41	18	69.49	1,515.40	5,096.00	-1,600.85	-4,186.55	0.95	2.16	564.68
7	33,974.53	59	39	20	66.10	1,432.47	4,655.00	-1,094.59	-3,211.35	1.31	2.55	575.84
6	48,681.87	59	42	17	71.19	1,479.29	5,002.50	-791.08	-3,563.65	1.87	4.62	825.12
5	50,749.96	59	45	14	76.27	1,463.46	4,482.50	-1,079.00	-3,693.73	1.36	4.36	860.17
4	35,004.85	59	43	16	72.88	1,216.64	4,440.00	-1,081.92	-2,913.85	1.12	3.02	593.30
3	32,964.54	59	40	19	67.80	1,172.86	3,950.00	-734.21	-1,802.37	1.60	3.36	558.72
2	19,050.34	59	39	20	66.10	812.90	2,212.98	-632.63	-1,912.60	1.28	2.51	322.89
1	8,670.43	59	39	19	66.10	452.57	1,384.02	-472.62	-1,921.32	0.96	1.97	146.96

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in 20 days. 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	18,537.77	40	22	18	55.00	3,632.58	8,953.20	-3,409.95	-8,308.32	1.07	1.30	463.44
19	13,673.22	40	23	17	57.50	3,409.30	8,942.40	-3,808.28	-7,980.00	0.90	1.21	341.83
18	24,585.12	40	23	17	57.50	3,674.68	9,613.50	-3,525.45	-7,323.36	1.04	1.41	614.63
17	20,649.33	40	24	16	60.00	3,275.47	9,069.84	-3,622.62	-8,144.90	0.90	1.36	516.23
16	25,573.17	40	23	17	57.50	3,530.42	8,048.82	-3,272.15	-8,109.35	1.08	1.46	639.33
15	20,273.46	40	23	17	57.50	3,402.51	7,668.00	-3,410.84	-8,358.20	1.00	1.35	506.84
14	21,205.47	40	23	17	57.50	3,302.09	8,128.38	-3,220.16	-8,338.45	1.03	1.39	530.14
13	25,650.88	40	24	16	60.00	3,054.51	7,478.64	-2,978.58	-8,251.55	1.03	1.54	641.27
12	21,993.63	40	23	17	57.50	2,796.62	7,352.31	-2,489.92	-8,757.15	1.12	1.52	549.84
11	28,400.61	40	26	14	65.00	2,515.78	6,782.40	-2,643.56	-6,975.70	0.95	1.77	710.02
10	31,150.21	40	24	16	60.00	2,488.03	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.76
9	27,905.27	40	24	15	60.00	2,272.93	6,429.15	-1,776.34	-3,113.22	1.28	2.05	697.63
8	29,685.76	40	24	16	60.00	2,245.65	6,220.34	-1,514.36	-2,943.34	1.48	2.22	741.64
7	30,416.32	40	25	15	62.50	2,016.71	5,275.20	-1,333.43	-2,946.00	1.51	2.52	760.41
6	33,604.40	40	28	12	70.00	1,752.67	4,689.44	-1,289.20	-3,093.30	1.36	3.17	840.11
5	29,878.19	40	26	14	65.00	1,655.33	4,765.28	-940.04	-2,562.72	1.76	3.27	746.95
4	21,210.45	40	26	14	65.00	1,266.45	3,176.11	-836.94	-1,948.21	1.51	2.81	530.26
3	17,553.76	40	26	14	65.00	1,085.48	2,983.04	-762.04	-2,188.15	1.42	2.65	438.84
2	27,503.41	40	27	12	67.50	1,180.94	3,813.53	-365.16	-1,259.60	3.23	7.28	687.59
1	15,101.62	40	29	11	72.50	648.02	2,755.52	-335.53	-1,292.50	1.93	5.09	377.54

Numbers here are quite similar, with the first week getting solid follow-through buying once again. But now let's look at the current set-up: rising but moderate volume.

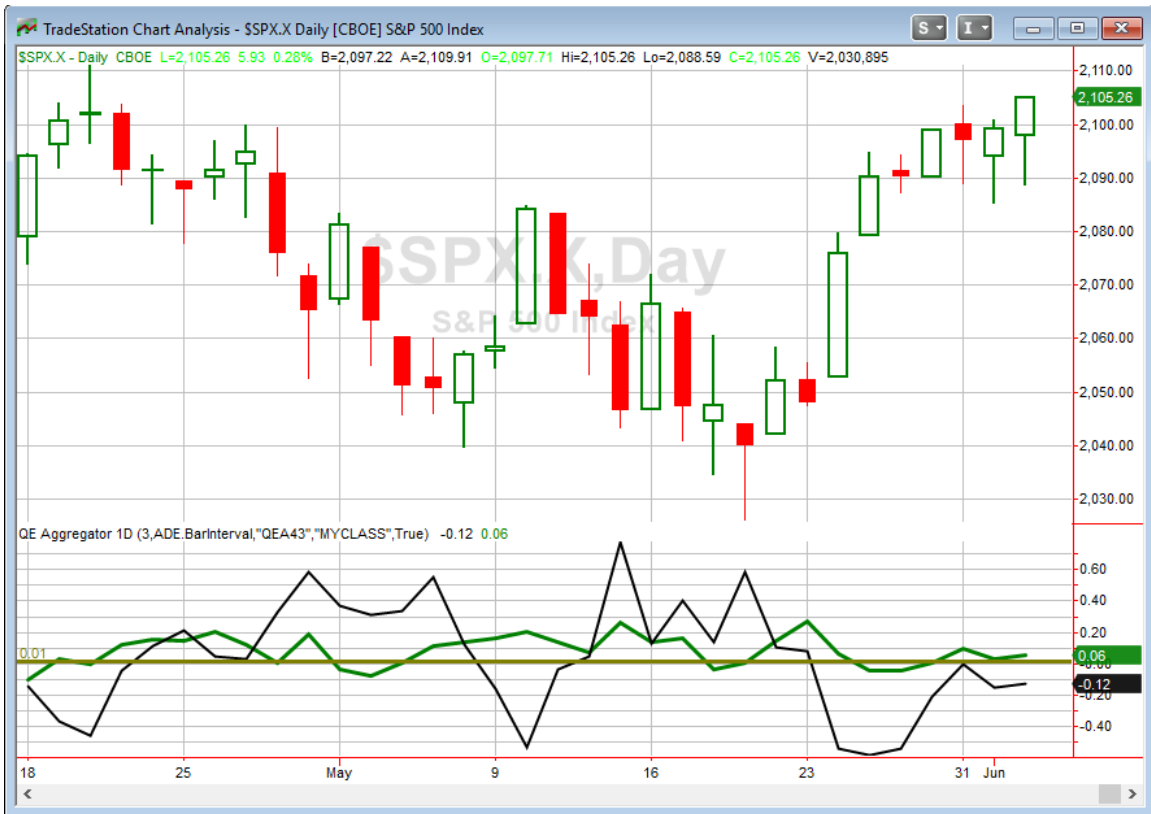
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20	-3,656.84	95	45	50	47.37	3,357.62	13,393.77	-3,095.00	-11,548.62	1.08	0.98	-38.49
19	12,881.67	96	50	46	52.08	3,109.72	9,135.36	-3,100.09	-11,862.36	1.00	1.09	134.18
18	13,265.16	96	50	46	52.08	2,980.07	9,503.00	-2,950.83	-10,293.66	1.01	1.10	138.18
17	8,519.20	96	51	45	53.13	2,817.67	9,953.84	-3,004.04	-9,419.67	0.94	1.06	88.74
16	3,009.58	98	52	46	53.06	2,642.20	8,910.72	-2,921.41	-9,482.88	0.90	1.02	30.71
15	7,231.34	98	50	48	51.02	2,637.13	8,150.48	-2,596.36	-9,608.60	1.02	1.06	73.79
14	-6,827.96	98	54	44	55.10	2,305.07	7,702.40	-2,984.13	-10,120.46	0.77	0.95	-69.67
13	-8,812.57	98	51	47	52.04	2,286.96	7,911.80	-2,669.10	-9,725.34	0.86	0.93	-89.92
12	-15,859.38	98	52	46	53.06	2,131.39	10,197.98	-2,754.17	-9,878.00	0.77	0.87	-161.83
11	-7,924.00	98	49	49	50.00	2,289.75	10,372.44	-2,451.47	-9,482.88	0.93	0.93	-80.86
10	-14,677.80	98	46	52	46.94	2,191.05	10,507.25	-2,220.50	-8,683.66	0.99	0.87	-149.77
9	-9,251.23	98	45	53	45.92	2,124.45	8,413.73	-1,978.33	-6,878.68	1.07	0.91	-94.40
8	-14,474.55	98	50	48	51.02	1,684.41	8,524.75	-2,056.15	-7,085.22	0.82	0.85	-147.70
7	2,128.55	98	49	49	50.00	1,729.11	6,337.26	-1,685.67	-7,255.84	1.03	1.03	21.72
6	-358.46	98	53	45	54.08	1,440.16	6,819.80	-1,704.16	-7,103.18	0.85	1.00	-3.66
5	-4,331.34	98	45	53	45.92	1,541.62	8,516.82	-1,390.64	-6,088.44	1.11	0.94	-44.20
4	-11,326.89	98	50	48	51.02	1,219.82	6,716.71	-1,506.62	-5,585.56	0.81	0.84	-115.58
3	2,428.44	98	54	44	55.10	1,117.17	6,740.50	-1,315.88	-5,361.06	0.85	1.04	24.78
2	-2,496.98	98	56	42	57.14	737.50	4,028.44	-1,042.78	-4,276.16	0.71	0.94	-25.48
1	7,803.67	98	55	43	56.12	516.67	2,731.56	-479.37	-2,722.61	1.08	1.38	79.63

This does not appear to suggest any edge over the next 1-4 weeks. It puts a little damper on the breakout enthusiasm.

Also notable about the current market is that our 3/10 Offset Historical Volatility reading for SPX is below 0.25. This essentially means that there has been a contraction in historical volatility in the last few days. And when the contraction is as pronounced as we are now seeing, it has typically led to a volatility expansion in the next few days. I sometimes refer to this as my “big move” indicator. And while it does a good job of anticipating sharp moves, it does not predict the direction of the move. For that we need to look at other evidence. The bottom line with the 3/10 Offset HV right now is that it is suggesting a sharp move in the next few days.

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



With no new studies making the short-term active list tonight the green Aggregator Line held just barely above zero. Positive readings mean net expectations from the Active List

are for upside over the next few days. Meanwhile the black Differential Line held just a little below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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.

With the current list of active studies, expectations are poised to remain positive on Friday. This could easily change if new bearish evidence emerges. The Differential Pivot will be 2098.34 on Friday. That is 0.3% below Thursday's close. So for SPX to move from overbought to oversold versus expectations it will need to close down 0.3%.

The new highs are leaving the market overbought. And while evidence is moderately bullish the breakout itself is questionable. Overall, reward/risk does not appear strong. I will wait for a better setup before taking on new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/31 – bullish

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	\$32.82	25.27%		Aggressive VIX

VIX futures contango remains strong (just over 15% between 1st and 2nd month). That is helping our XIV position. I will look to ride it a bit further.

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