

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 8, 2016

Volume 9 Issue 109

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- SPX and VIX up 2 days in a row with SPX at a 50-day high suggests a pullback.
- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-4 days.
- Back to back unfilled up gaps and a 50-day high often lead to more buying in the coming days.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence has turned bearish and with the market a little overbought, there appears to be a bit of a downside edge. But it is not strong enough to compel me to take a counter-trend position.

**Summary of Recent Active Studies (see Letters from listed dates for details) – *List not updated tonight***

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
June 7, 2016	VIX up SPX 50-high. Monday	1-2 days	Bearish			
June 6, 2016	Big drop from 50-high	1-4 days	Bullish	1.10%	-0.80%	-1.60%
<b>Active - Long Term</b>						
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	≥ 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>						
June 6, 2016	Unfilled gap from 50-high	1 day	Bearish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%

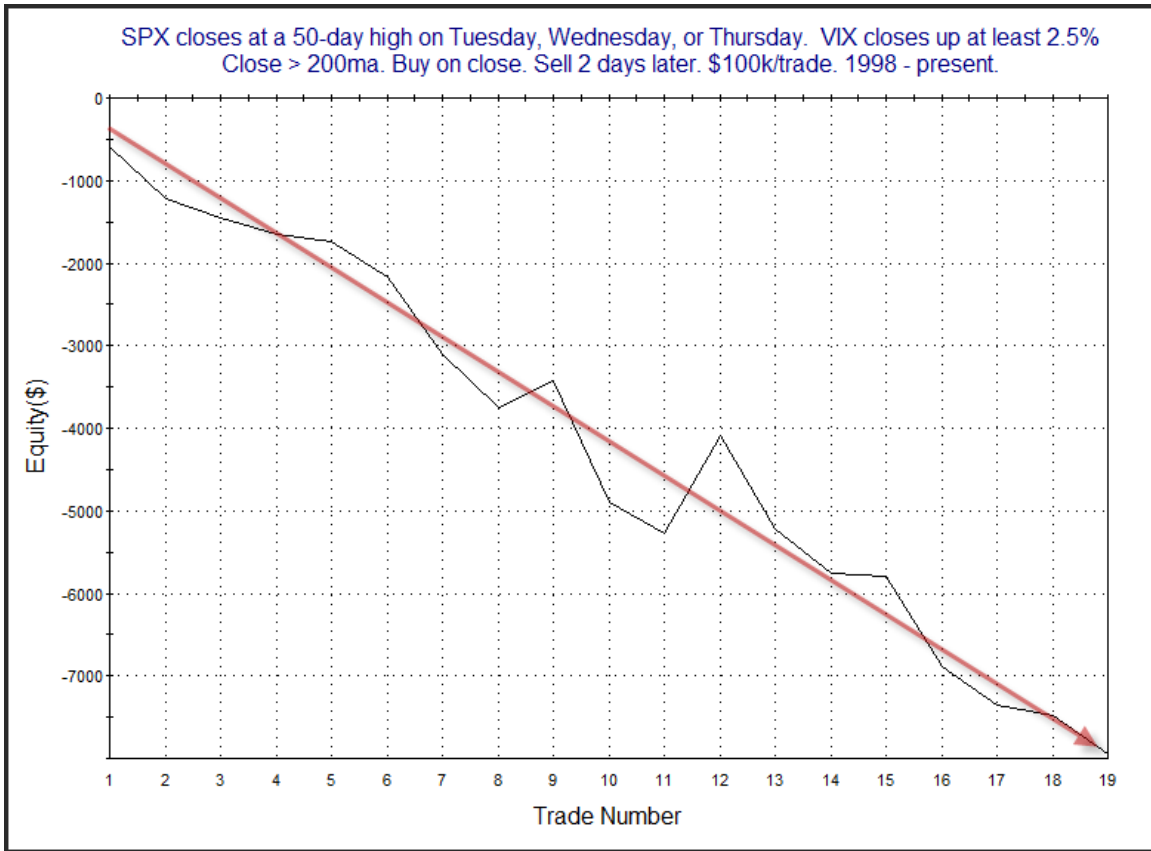
**The Evidence**

Tuesday was a mixed day for the market. The SPX gained 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 61%. NYSE volume was very light.

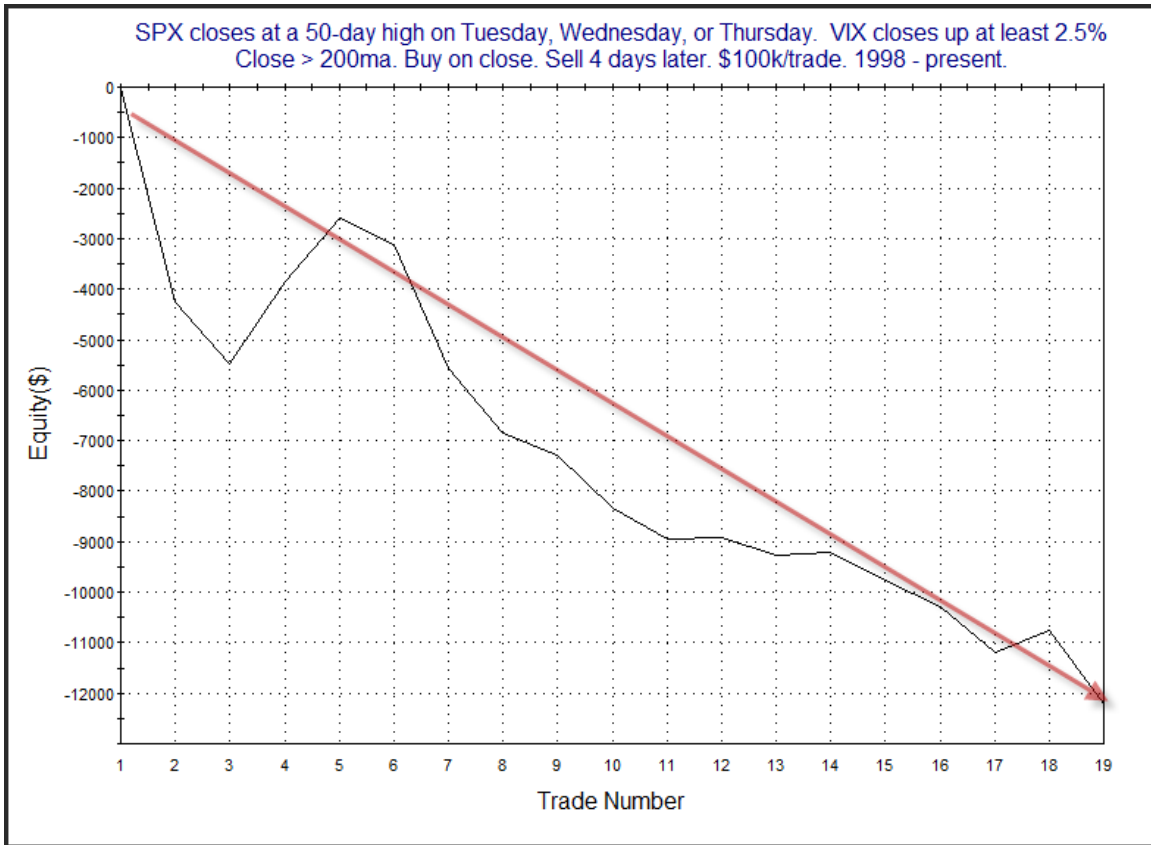
There were several studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 7/25/14 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

SPX closes at a 50-day high on Tuesday, Wednesday, or Thursday. VIX closes up at least 2.5% Close > 200ma. Buy 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	-10,604.62	19	7	12	36.84	847.66	2,108.40	-1,378.19	-4,149.36	0.62	0.36	-558.14
4	-12,220.86	19	5	14	26.32	677.71	1,629.60	-1,114.96	-4,240.48	0.61	0.22	-643.20
3	-10,379.95	19	7	12	36.84	553.18	1,271.55	-1,187.68	-4,423.40	0.47	0.27	-546.31
2	-7,949.16	19	2	17	10.53	757.10	1,192.71	-556.67	-1,461.48	1.36	0.16	-418.38
1	-3,108.08	22	10	12	45.45	257.99	1,108.05	-474.00	-1,008.70	0.54	0.45	-141.28

Instances are a bit low, but the numbers are quite lopsided. Below is a profit curve assuming a 2-day exit strategy.



Nice, steady decline. I see nothing here that would cause me to doubt the downside edge. I also ran the 4-day profit curve.



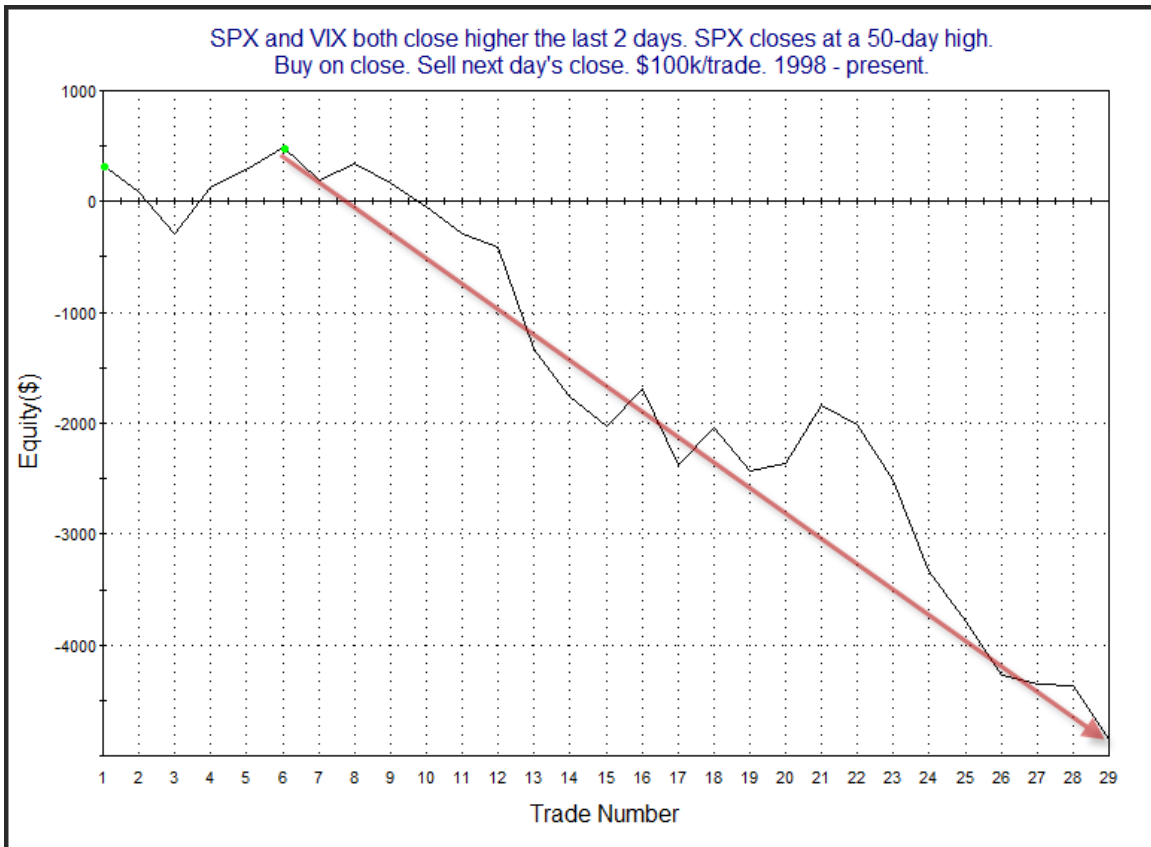
This started off a little choppy, but it also serves as solid confirmation for the bearish numbers.

Another compelling VIX-related study looked at the fact that both SPX and VIX closed up on Friday. This triggered the study below which was last seen in the 6/23/14 subscriber letter, and has been updated.

SPX and VIX both close higher the last 2 days. SPX closes at a 50-day high.  
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	(\$4,848.54)	Profit Factor	0.34
Gross Profit	\$2,524.36	Gross Loss	(\$7,372.90)
Total Number of Trades	29	Percent Profitable	31.03%
Winning Trades	9	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	(\$167.19)	Ratio Avg. Win:Avg. Loss	0.76
Avg. Winning Trade	\$280.48	Avg. Losing Trade	(\$368.65)
Largest Winning Trade	\$537.24	Largest Losing Trade	(\$924.70)

The stats appear somewhat bearish. Below is the profit curve.



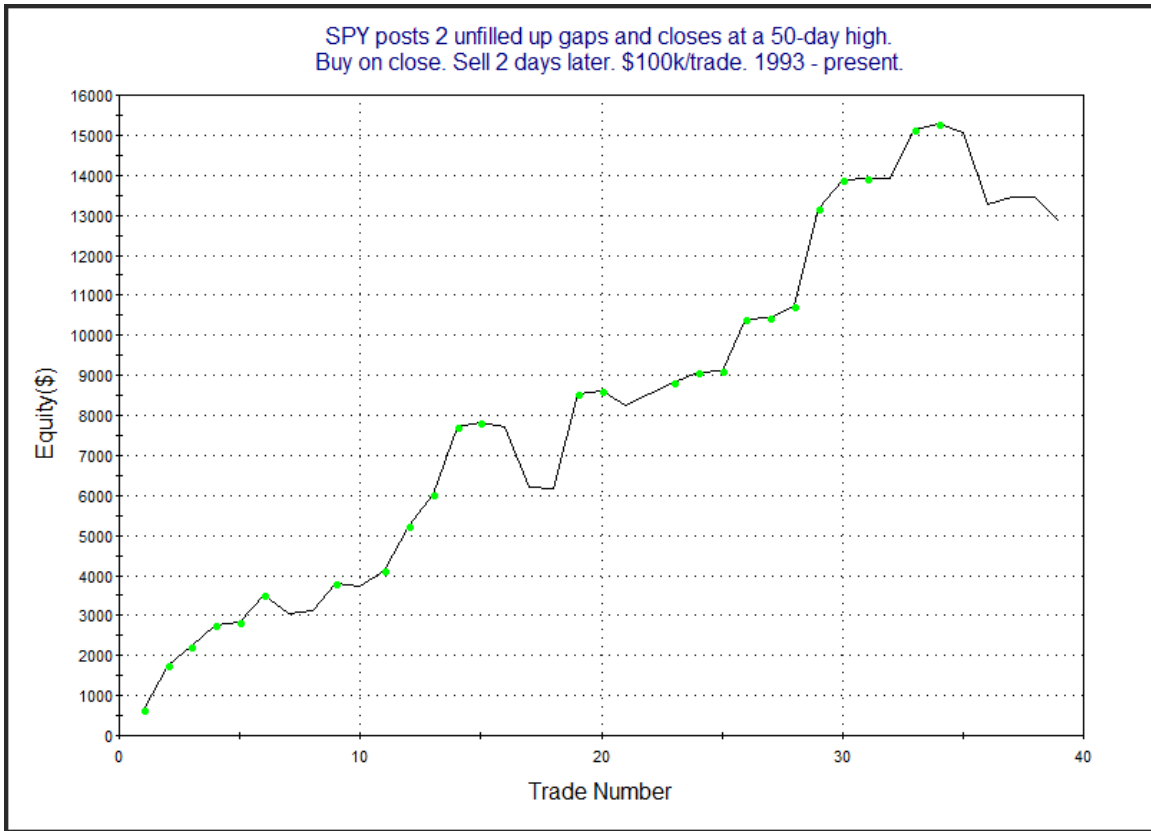
The downside edge seems to be increasing in recent instances. This study appears worthy of the Short-Term Active List.

It is notable that Wednesday was this 2<sup>nd</sup> day in a row with an unfilled up gap. The study below is one that was seen recently in the 12/4/14 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high. 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	9,516.20	39	27	12	69.23	887.23	2,013.72	-1,203.26	-4,508.40	0.74	1.66	244.01
4	14,266.38	39	28	11	71.79	897.07	2,475.56	-986.51	-2,720.25	0.91	2.31	365.80
3	12,825.63	39	28	11	71.79	642.50	2,419.84	-469.50	-1,801.77	1.37	3.48	328.86
2	7,699.81	39	27	11	69.23	509.20	1,858.87	-549.88	-1,476.68	0.93	2.27	197.43
1	-131.06	45	23	22	51.11	343.11	1,156.32	-364.67	-1,942.24	0.94	0.98	-2.91

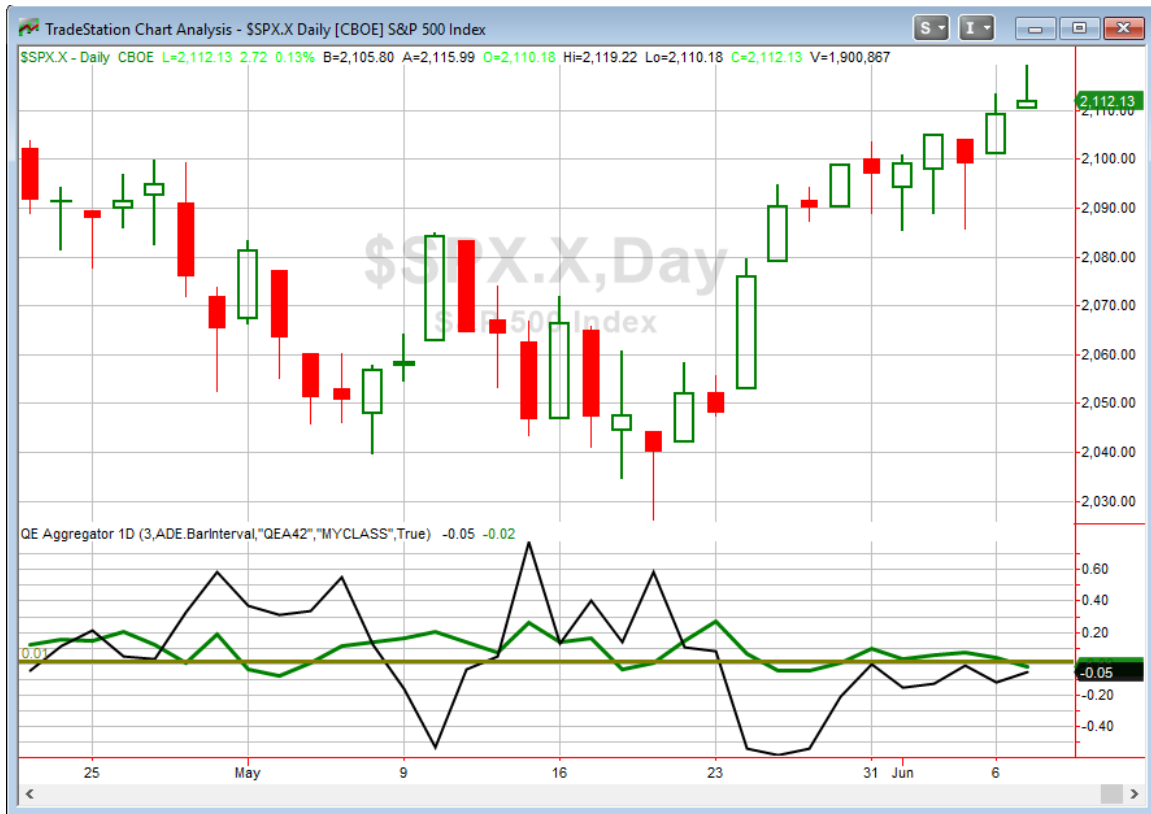
**42 of 45 instances (93%) closed above the entry price at some point in the next week.**

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



Despite the recent dip the upward inclination appears to be in place. This study seems worth consideration, and I have included on the Active List.

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



With tonight's studies included the green Aggregator Line dropped 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 slightly 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.

With the current list of active studies, expectations are poised to remain a little negative on Wednesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2102.55 on Wednesday. That is 0.45% points below Tuesday's close. So SPX will need to close down at least 0.45% to move from overbought to oversold on Wednesday.

There does appear to be a bit of a downside edge at this point. But it is not much of one. The studies are mixed, leaving expectations just barely negative. And the market is just marginally overbought. This combination would be enough to get me interested in the short side if I had a neutral or bearish intermediate-term outlook. But with a bullish one, and am not inclined to attempt a counter-trend trade on such modest evidence. I will continue to wait for a more advantageous reward/risk setup before taking on new exposure.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 6/6 – 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	\$33.43	27.60%		Aggressive VIX

VIX futures contango remains strong (over 14% between 1<sup>st</sup> and 2<sup>nd</sup> month). So while the Aggregator is modestly bearish, I will stick in the XIV position for the time being. That contango is just too strong for me to fiddle with jumping in and out based on mixed evidence.

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