

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 20, 2016

Volume 9 Issue 182

Market Overview



Signals Overview

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

Tonight's Research Points

- Turnaround Tuesday has not shown its typical bullish edge under similar circumstances.
- Tuesday's close could set up Wednesday's Fed Day edge.

Short-term Outlook

The Bottom Line

Similar to last night. Evidence is now leaning a little bearish. Meanwhile the market is a little oversold. 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						
September 19, 2016	Weakest week	1-4 days	Bearish			
September 12, 2016	System 110524	1-7 days	Bullish			
Active - Long Term						
September 14, 2016	"Failed" reversal from 20-day low	1-10 days	Bullish			
September 13, 2016	Reversal from 20-day low	1-10 days	Bullish	2.90%	-1.80%	-3.30%
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-10 days	Bullish			
July 11, 2016	NASDAQ leading	int term	Bullish			
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
April 26, 2016	Golden Cross	int term	Bullish			
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			
Dropped Tonight						
September 14, 2016	Failed reversal from 20-day low(3x)	1-4 days	Bullish			
September 13, 2016	1.75% drop then Sweet Spot bounce	1-5 days	Bullish	3.00%	-0.95%	-1.90%
September 12, 2016	Drop 1.5x 20-day ATR on a Friday	1-6 days	Bullish			
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-6 days	Bullish			

The Evidence

The market was mixed and mild on Monday. The SPX nearly broke even with a 0.04 point loss, the NASDAQ lost 0.2%, and the Russell 2000 rose 0.6%. Breadth was positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 63%. NYSE volume came in very light.

The action did not trigger much in the way of new compelling studies. The lower close did trigger some Turnaround Tuesday studies. The note below is copied from the 8/23/16 letter.

...But as I laid out in the "Turnaround Tuesday" study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. Unfortunately, as I showed in the 8/4/15 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$28,501.13	Profit Factor	1.98
Gross Profit	\$57,629.30	Gross Loss	(\$29,128.17)
Total Number of Trades	86	Percent Profitable	54.65%
Winning Trades	47	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	\$331.41	Ratio Avg. Win:Avg. Loss	1.64
Avg. Winning Trade	\$1,226.16	Avg. Losing Trade	(\$746.88)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed under its 200ma (unlike now).

SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$28,393.19	Profit Factor	3.22
Gross Profit	\$41,193.74	Gross Loss	(\$12,800.55)
Total Number of Trades	37	Percent Profitable	64.86%
Winning Trades	24	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$767.38	Ratio Avg. Win:Avg. Loss	1.74
Avg. Winning Trade	\$1,716.41	Avg. Losing Trade	(\$984.66)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,117.68)

We see here under half of the total instances, but very positive numbers, and almost 100% of the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$107.94	Profit Factor	1.01
Gross Profit	\$16,435.56	Gross Loss	(\$16,327.62)
Total Number of Trades	49	Percent Profitable	46.94%
Winning Trades	23	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$2.20	Ratio Avg. Win:Avg. Loss	1.14
Avg. Winning Trade	\$714.59	Avg. Losing Trade	(\$627.99)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats close to breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances.

It is also notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/27/16 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$7,609.77	Profit Factor		1.32
Gross Profit	\$31,632.42	Gross Loss		(\$24,022.65)
Total Number of Trades	77	Percent Profitable		48.05%
Winning Trades	37	Losing Trades		38
Even Trades	2			
Avg. Trade Net Profit	\$98.83	Ratio Avg. Win:Avg. Loss		1.35
Avg. Winning Trade	\$854.93	Avg. Losing Trade		(\$632.18)
Largest Winning Trade	\$2,238.25	Largest Losing Trade		(\$2,739.69)

Tomorrow is a Fed Da. SPY closes > 50% and <= 75% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$15,980.67	Profit Factor		2.22
Gross Profit	\$29,047.89	Gross Loss		(\$13,067.22)
Total Number of Trades	42	Percent Profitable		57.14%
Winning Trades	24	Losing Trades		17
Even Trades	1			
Avg. Trade Net Profit	\$380.49	Ratio Avg. Win:Avg. Loss		1.57
Avg. Winning Trade	\$1,210.33	Avg. Losing Trade		(\$768.66)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

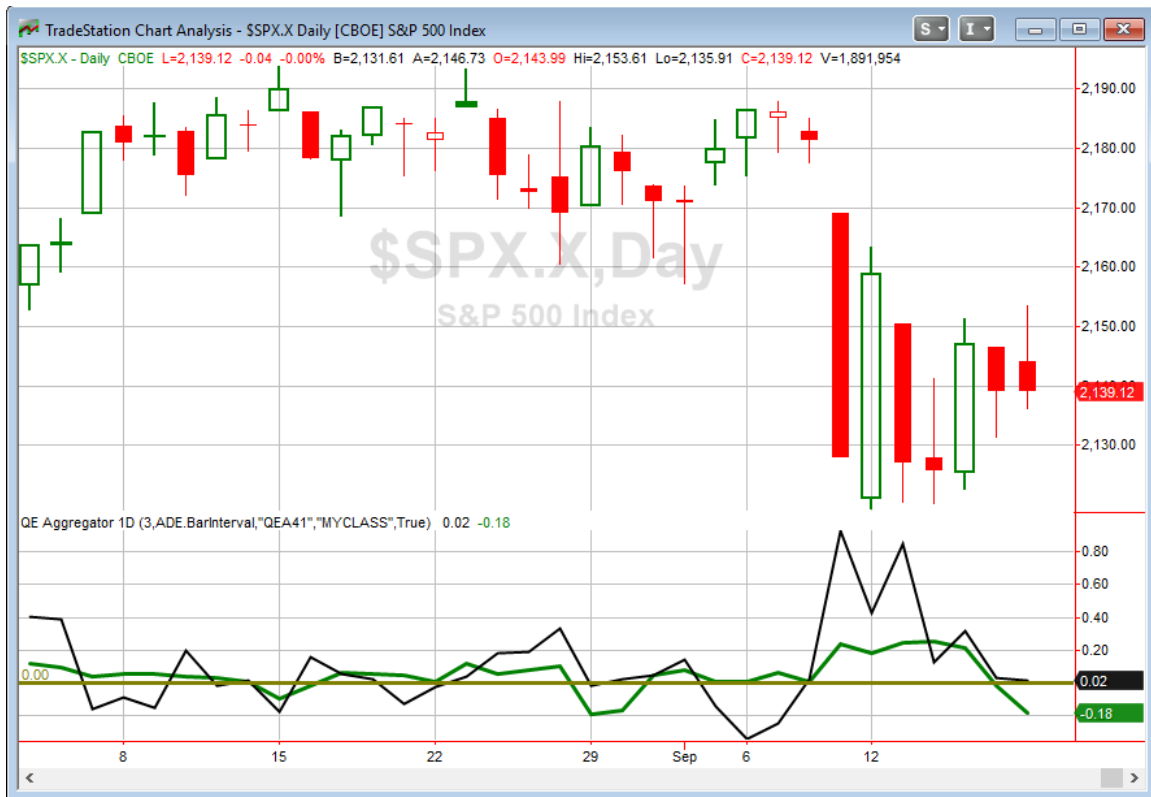
TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$12,428.64	Profit Factor		2.53
Gross Profit	\$20,562.40	Gross Loss		(\$8,133.76)
Total Number of Trades	32	Percent Profitable		71.88%
Winning Trades	23	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$388.39	Ratio Avg. Win:Avg. Loss		0.99
Avg. Winning Trade	\$894.02	Avg. Losing Trade		(\$903.75)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

SPY closes in the bottom 25% of the day's range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$22,526.88	Profit Factor	4.37
Gross Profit	\$29,209.57	Gross Loss	(\$6,682.69)
Total Number of Trades	37	Percent Profitable	75.68%
Winning Trades	28	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$608.83	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$1,043.20	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 5 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

I have updated the Aggregator chart below.



With nothing new and compelling being added tonight the green Aggregator Line dipped further below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is just above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are bearish but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current list of active studies, expectations are poised to remain negative on Tuesday. This could change if new bullish evidence emerges. The Differential Pivot will be 2162.57 on Tuesday. That is 1.1% above Monday's close. So for SPX to move from oversold to overbought versus recent expectations it will need to close up at least 1.1% on Tuesday.

Very little has changed since last night. The Aggregator remains neutral and so do I. I'll see how the Fed Day sets up tomorrow before consider taking on new positions. For now I remain sidelined and patient.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/19 – bullish

The intermediate-term outlook was last updated in the 7/25 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
ABT(1/3)	8/25/2016	\$43.17	\$42.04	-2.62%		sell on open
ABT(1/3)	8/26/2016	\$42.84	\$42.04	-1.87%		sell on open
ABT(1/3)	9/12/2016	\$40.85	\$42.04	2.91%		sell on open
SPY(1/4)	9/12/2016	\$212.39	\$215.21	1.33%		**div adj sale price

SPY sales price is dividend adjusted.

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