

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2016

Volume 9 Issue 183

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- Positive days that close poorly will often be followed by buying in the next few days.
- A weak close going into a Fed Day has been a positive in the past.

Short-term Outlook

The Bottom Line

There appears to be an upside edge, but there is also a potentially volatile news event due thanks to Wednesday's Fed meeting. I am flat and I will not be looking to take on new exposure for at least 1 day.

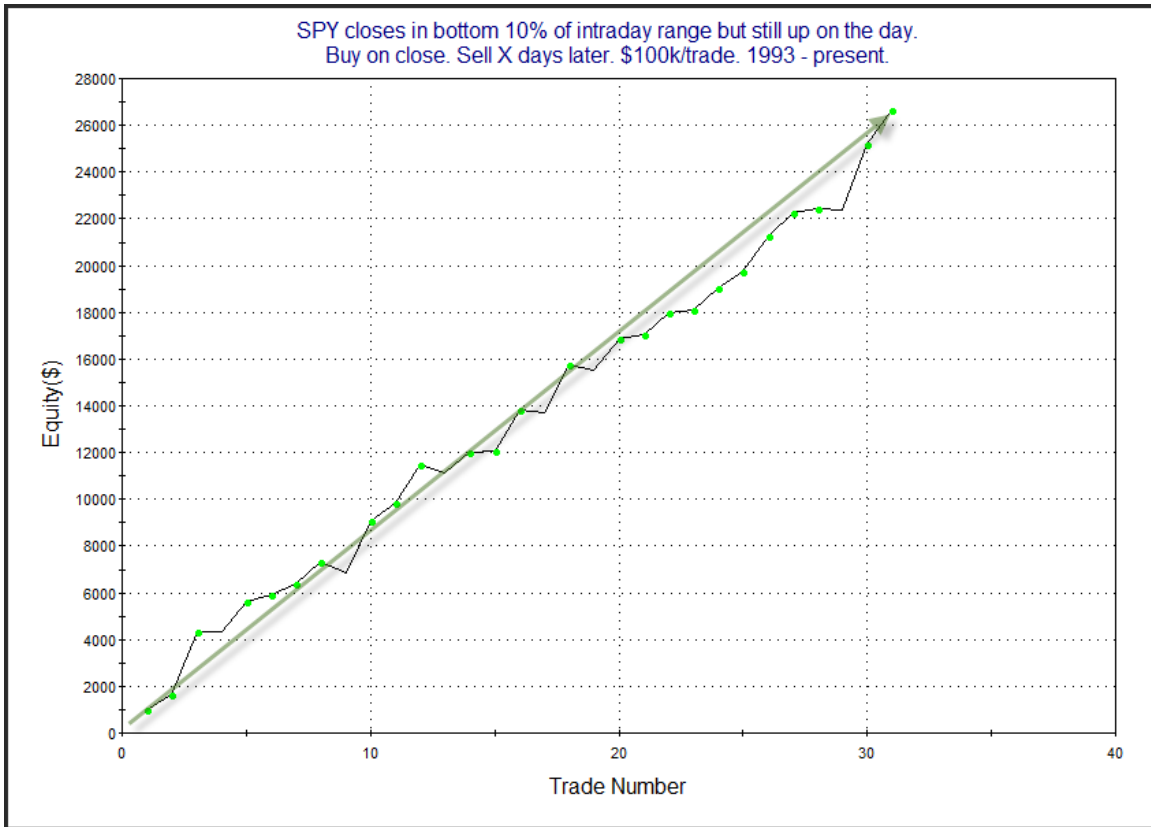
The Evidence

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 late-day selling and weak close may have felt like a negative, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 6/21/16 letter. Results below are all updated.

SPY closes in bottom 10% of intraday range but still up on the day. 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	17,603.40	30	21	9	70.00	1,462.94	3,611.20	-1,457.60	-3,968.25	1.00	2.34	586.78
4	19,246.68	31	24	7	77.42	1,172.28	2,786.48	-1,269.72	-3,623.88	0.92	3.17	620.86
3	26,624.15	31	25	5	80.65	1,116.18	2,820.64	-256.09	-472.68	4.36	21.79	858.84
2	17,546.03	31	22	9	70.97	932.99	3,028.76	-331.09	-531.70	2.82	6.89	566.00
1	9,930.15	32	22	10	68.75	634.28	3,476.36	-402.41	-903.90	1.58	3.47	310.32
All 32 instances closed above the entry price at some point in the next 4 days.												

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



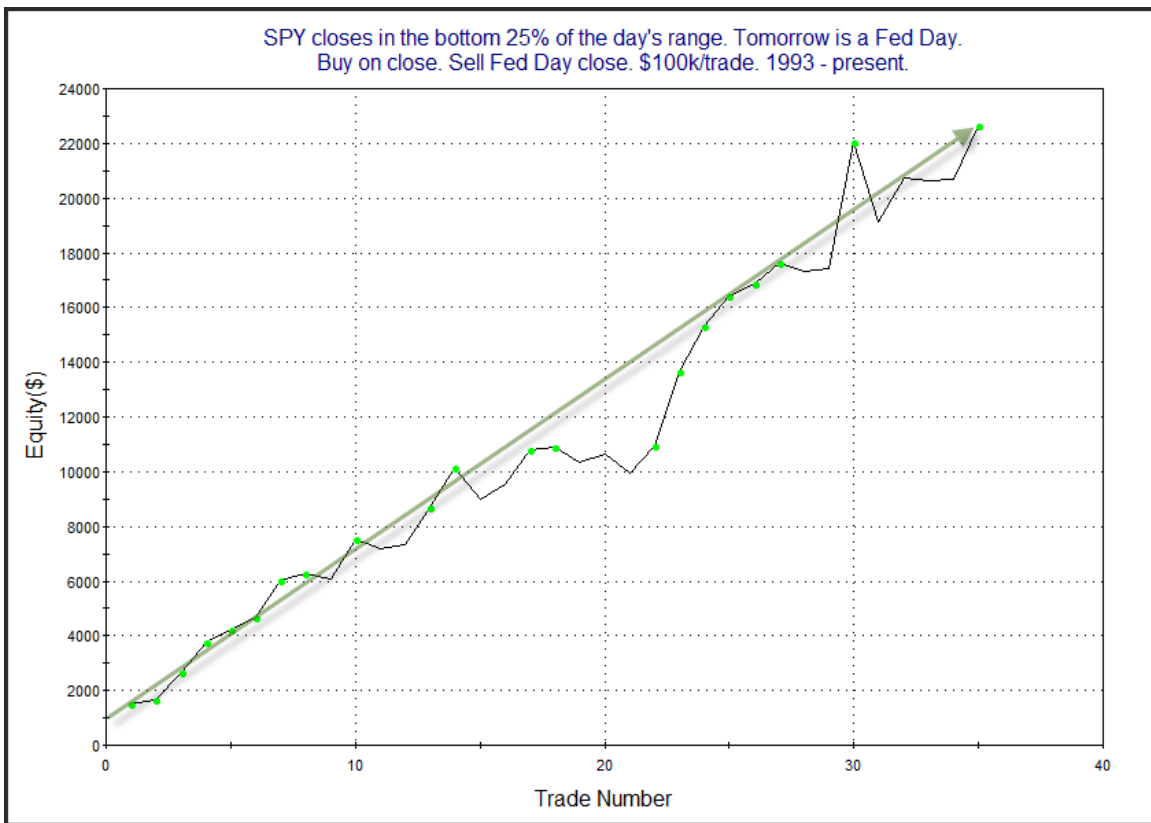
This curve is almost as straight as the arrow, and acts as confirmation of the upside edge.

In last night's letter I showed that Fed Day performance can be largely influenced by action in the market the day before the Fed Day. Basically, the weaker the close the more pronounced the upside edge. So Tuesday's weak close would seem to bode well for Wednesday. Below I have copied the results showing when the close is in the bottom 25% of the daily range.

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

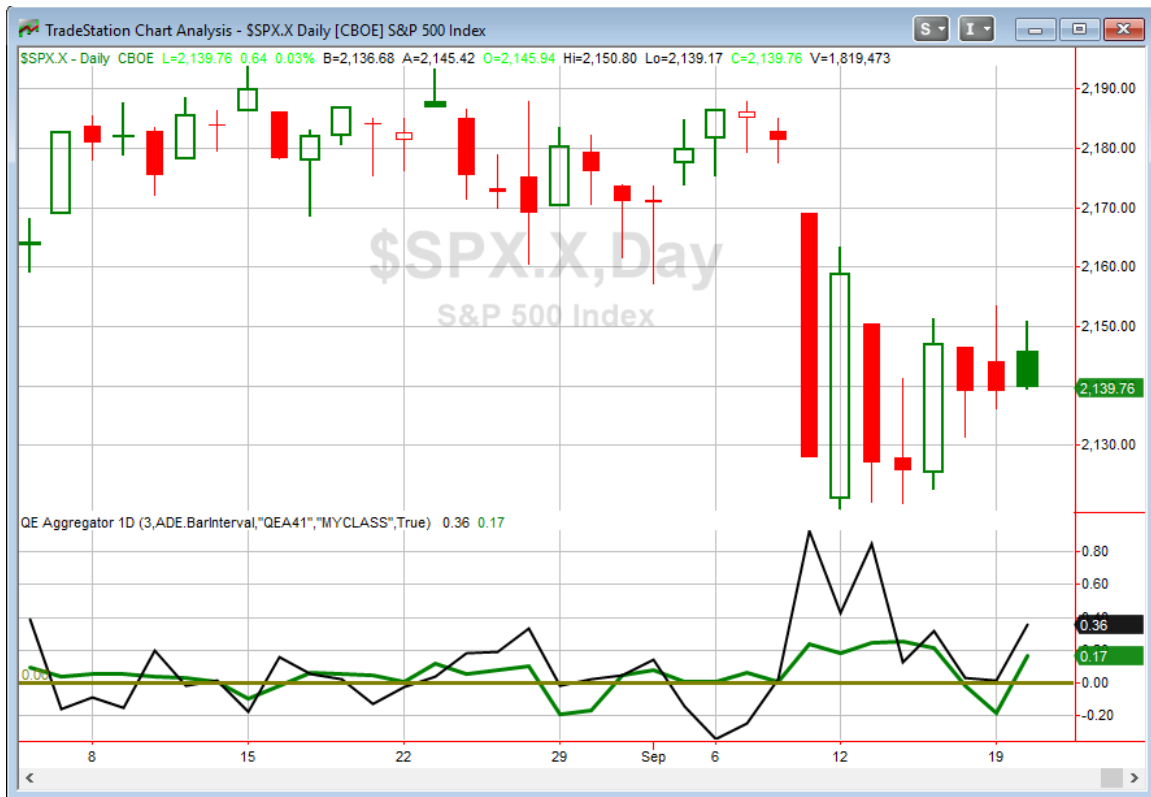
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$22,526.88	Profit Factor	4.37
Gross Profit	\$29,209.57	Gross Loss	(\$6,682.69)
Total Number of Trades	37	Percent Profitable	75.68%
Winning Trades	28	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$608.83	Ratio Avg. 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)

These are strong results. Below is the profit curve.



This curve is also impressive, and this study has been added to the Active List.

I have updated the Aggregator chart below.



With tonight's studies being considered the green Aggregator Line rose above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are bullish and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current list of active studies, expectations are poised to remain positive on Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2148.79 on Wednesday. That is 0.4% above Tuesday's close. So for SPX to move from oversold to overbought versus recent expectations it will need to close up at least 0.4% on Wednesday.

There appears to be an upside edge. But Fed Day edges primarily play out ahead of the announcement. After the announcement there is a lot of volatile noise. I am not sure I am interested in getting in the market ahead of that volatility. But if a selloff ensues there is a very good chance I will be looking to buy into things tomorrow night.

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

None tonight.

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