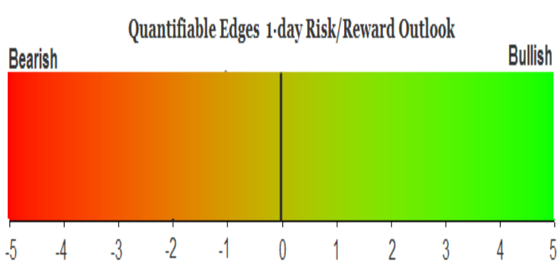
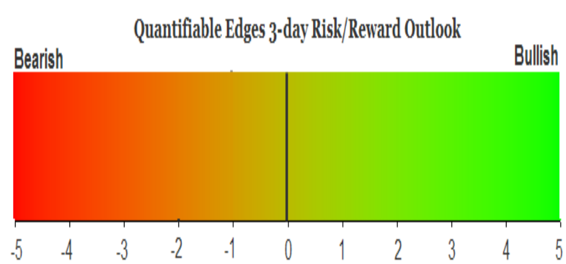
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2016 Volume 9 Issue 184

Market Overview





Signals Overview

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

Tonight's Research Points

- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically been followed by gains.

Short-term Outlook

The Bottom Line

Evidence is still pointing higher but the move up has the market short-term overbought. This is leaving me short-term neutral.

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The Evidence

The market got a big pop on Wednesday thanks to the Fed. The SPX gained 1.1%, the NASDAQ rose 1.0%, and the Russell 2000 rallied 1.4%. Breadth was strongly positive as the NYSE Up Issues % was 85% and the Up Volume % came in at 90%. NYSE volume rose from the level of the last couple of days.

After closing at 16.30 last Thursday, the VIX closed Wednesday at 13.30. The VIX is a measure of expected volatility in the market, and it tends to move up and down counter to the SPX. The Quantifinder study below considered the sharp drop in the VIX over the last few days after previously being extended upwards. It was last seen in the 11/23/15 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. $100k/trade. 1992 - 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
10	29,391.26	24	17	7	70.83	2,470.25	8,115.80	-1,800.42	-3,412.50	1.37	3.33	1,224.64
9	28,940.38	24	16	8	66.67	2,294.07	8,397.40	-970.59	-2,403.36	2.36	4.73	1,205.85
8	31,834.56	24	18	6	75.00	2,082.54	8,076.20	-941.85	-1,858.85	2.21	6.63	1,326.44
7	29,427.53	24	17	7	70.83	2,130.84	7,749.50	-970.96	-2,030.40	2.19	5.33	1,226.15
6	27,312.17	24	17	7	70.83	2,007.09	5,305.30	-972.61	-3,271.68	2.06	5.01	1,138.01
5	25,548.83	24	15	9	62.50	2,151.97	5,361.40	-747.86	-2,011.20	2.88	4.80	1,064.53
4	15,284.13	25	19	6	76.00	1,356.84	4,981.90	-1,749.30	-2,927.52	0.78	2.46	611.37
3	6,859.95	26	16	10	61.54	1,106.23	3,799.40	-1,083.97	-3,629.81	1.02	1.63	263.84
2	4,191.38	26	14	12	53.85	1,093.15	3,839.00	-926.06	-5,300.66	1.18	1.38	161.21
1	4,290.51	26	15	11	57.69	768.50	2,952.40	-657.91	-3,572.94	1.17	1.59	165.02

The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend. Results appear especially strong and consistent between days 4 and 8. Below I have provided the profit curve assuming a 6 day holding period.

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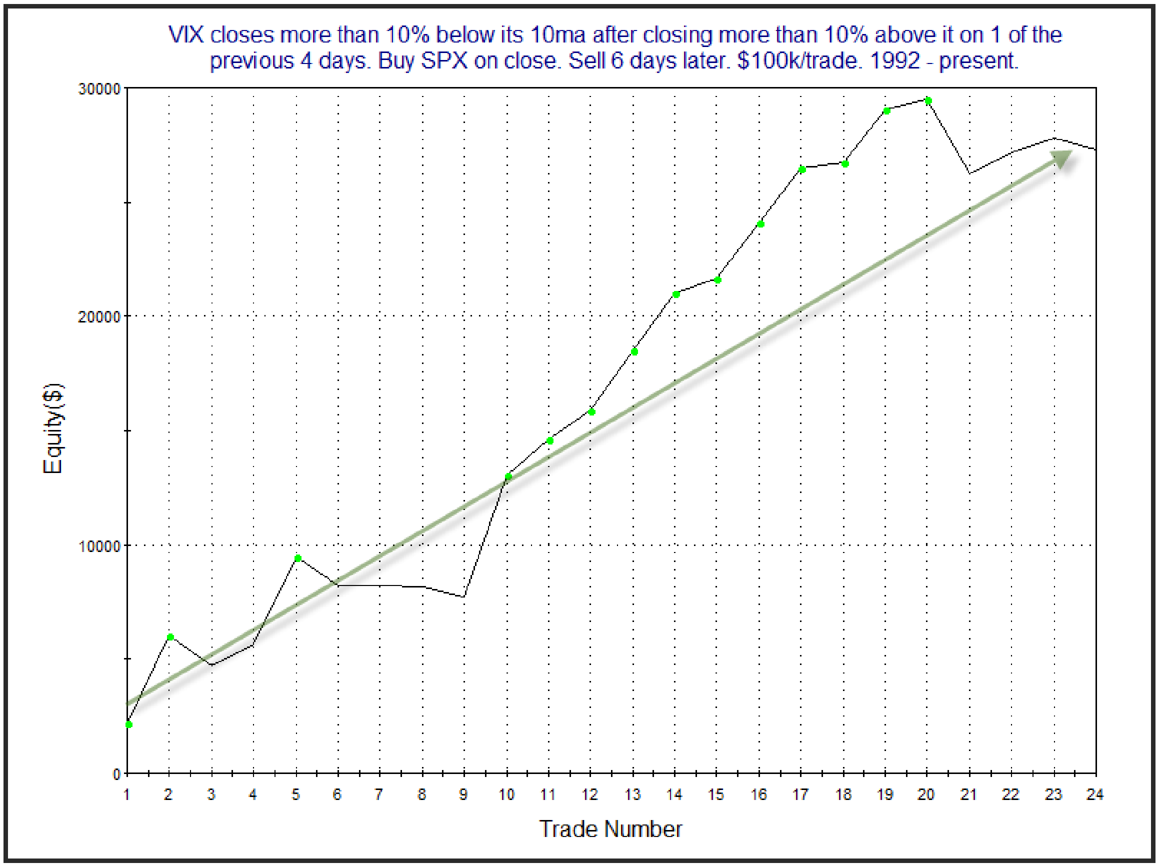
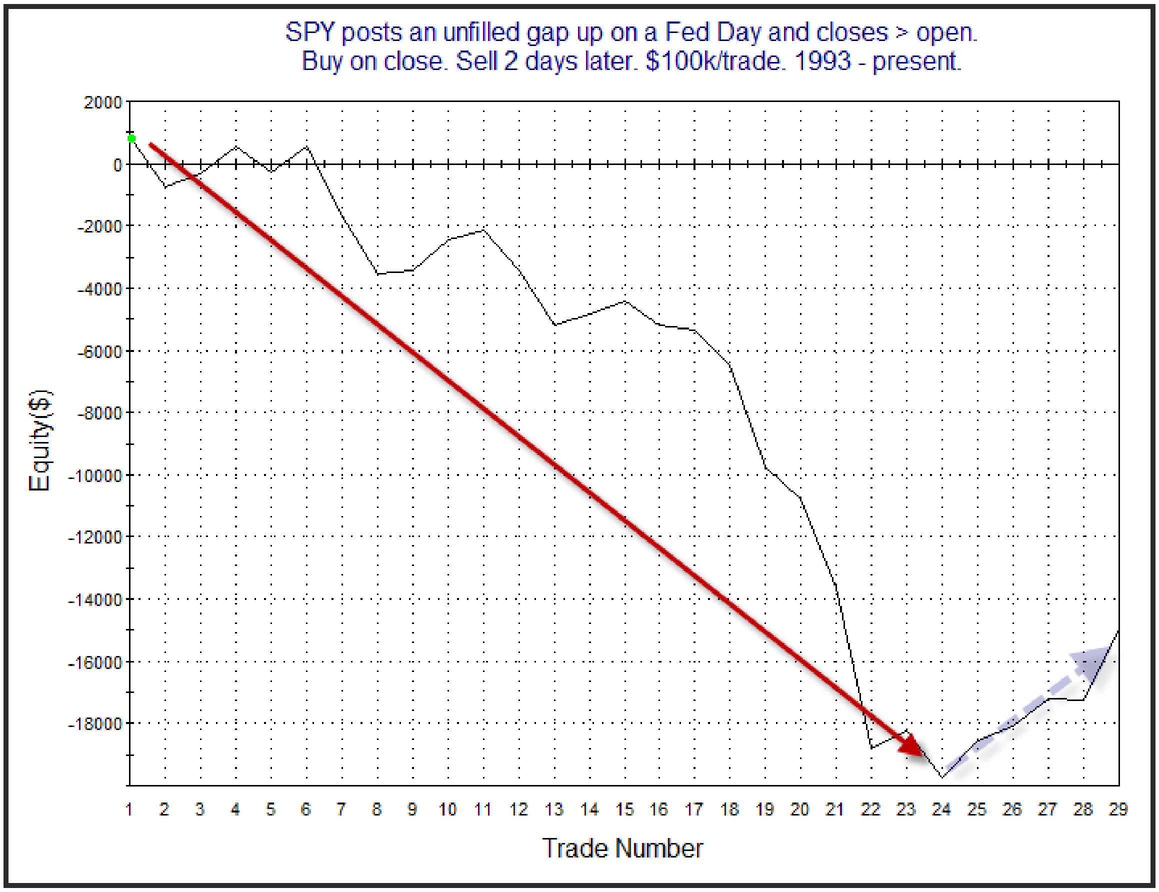


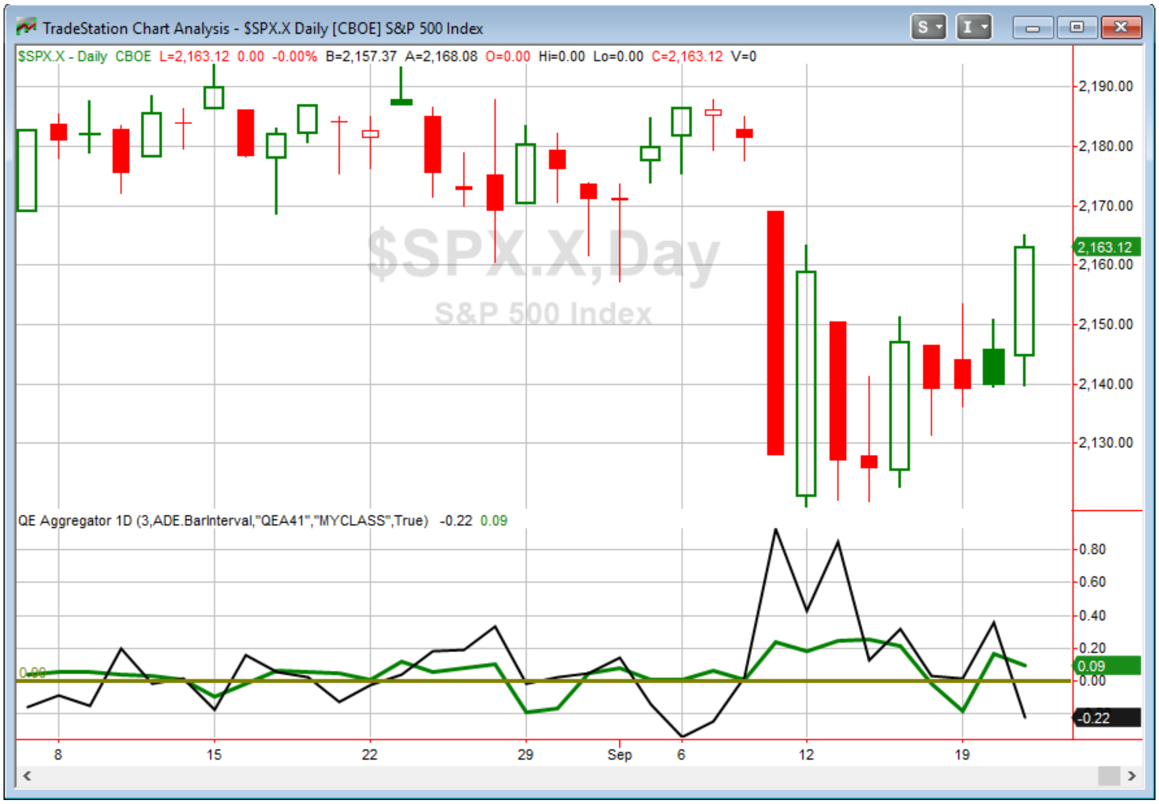
Despite recent struggles this curve appears pretty good. It seems to support the idea of an upside edge. I have included this study on the Active List tonight.

There was a study from the 3/21/12 subscriber letter that looked at other Fed Days with similar action where SPY left an unfilled gap up and moved higher. But the data there is looking less and less convincing. Below is an updated version of the 2-day profit curve.



The curve here has undergone a sizable reversal which is casting the edge in doubt. I have decided to ignore this study for tonight, but will continue to track how it performs going forward.

I have updated the Aggregator chart below.



With tonight's studies being considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are bullish 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 turned flate at the close.

Based on the current list of active studies, expectations are poised to remain positive on Thursday. This could change if new bearish evidence emerges. The Differential Pivot will be 2139.22 on Thursday. That is 1.1% below Wednesday's close. So for SPX to move from overbought to oversold versus recent expectations it will need to close down at least 1.1% on Thursday.

So the Aggregator is clearly neutral and I see no compelling reason to override that and go for new positions at this point. Instead I will remain patient and await the next favorable reward/risk setup before looking to take on new positions.

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.