

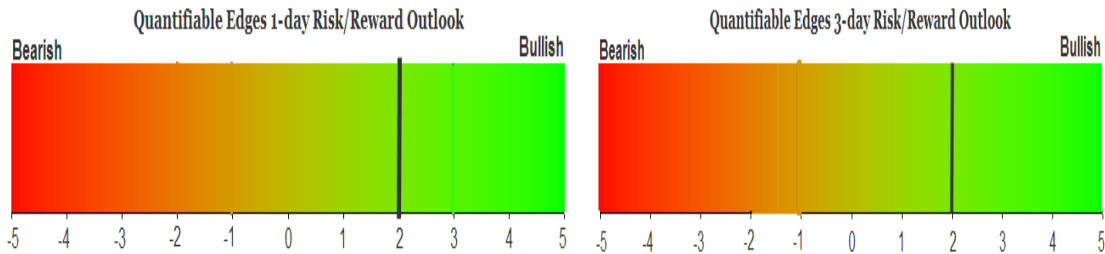
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 27, 2016

Volume 9 Issue 187

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled gaps down while above the 200ma has often been followed by a bounce in the next few days.

Short-term Outlook

The Bottom Line

Evidence is leaning higher and the SPX is now oversold. This sets up a moderately bullish outlook.

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 27, 2016	2 unfilled dan gaps > 200ma	1-6 days	Bullish			
September 22, 2016	VIX 10% above to 10% below 10ma	1-6 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			

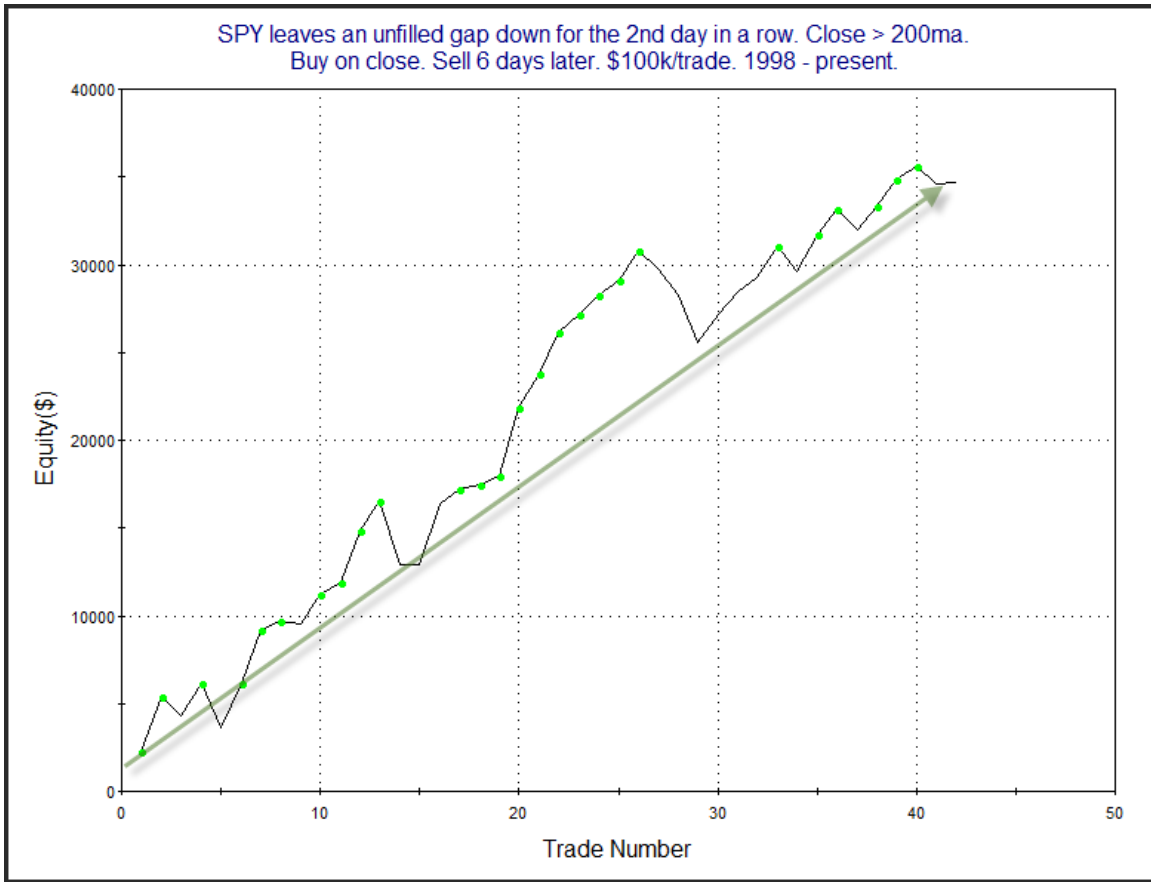
The Evidence

The market had a down day on Monday. The SPX lost 0.9%, the NASDAQ also fell 0.9%, and the Russell 2000 dropped 1.1%. Breadth was negative as the NYSE Up Issues % was 28% and the Up Volume % came in at 26%. NYSE volume declined for the 3rd day in a row.

From a price action standpoint it was notable that Wednesday marked the 2nd day in a row that SPY left an unfilled gap down. In the 4/2/15 letter I showed that this suggested bullish implications when it occurred during a long-term uptrend. I have updated that study below.

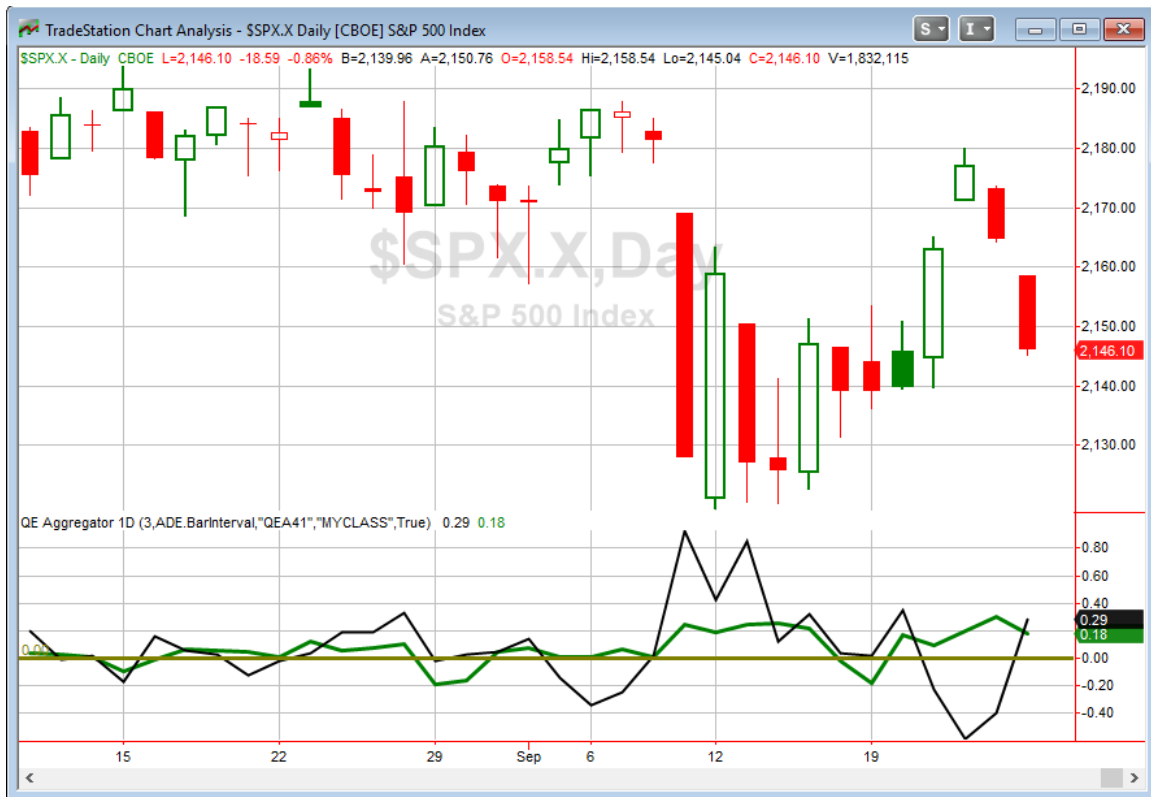
SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	40,065.88	40	28	12	70.00	2,072.68	5,325.39	-1,497.43	-4,320.54	1.38	3.23	1,001.65
9	44,751.34	41	32	9	78.05	1,808.70	4,882.41	-1,458.56	-4,075.15	1.24	4.41	1,091.50
8	38,242.65	41	28	12	68.29	1,893.07	4,742.40	-1,230.29	-4,700.95	1.54	3.59	932.75
7	28,628.43	42	28	13	66.67	1,802.29	4,429.74	-1,679.67	-4,604.10	1.07	2.31	681.63
6	34,647.88	42	31	11	73.81	1,652.35	3,828.72	-1,506.81	-3,671.57	1.10	3.09	824.95
5	27,529.48	42	30	12	71.43	1,425.25	3,940.02	-1,269.01	-3,627.12	1.12	2.81	655.46
4	19,687.75	42	30	12	71.43	1,135.27	4,388.28	-1,197.54	-3,342.64	0.95	2.37	468.76
3	8,760.36	42	25	17	59.52	935.96	3,325.14	-861.09	-2,747.01	1.09	1.60	208.58
2	6,467.64	42	23	19	54.76	857.24	2,948.14	-697.31	-2,436.12	1.23	1.49	153.99
1	8,950.11	42	27	15	64.29	693.04	1,974.15	-650.80	-1,849.26	1.06	1.92	213.10
39 of 42 instances (93%) closed above the entry price at some point in the next week.												

The first 3 days do not seem to show strong consistency, but once you get out past that the numbers are quite impressive. The high number that bounced at some point in the next week is also striking. Below is a profit curve for a 6-day holding period.



The curve is also impressive. I have included this study on the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's study included 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 rose 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 Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2186.78 on Tuesday. That is 1.9% above Monday's close. So SPX would need to close up at least 1.9% on Tuesday in order to move from oversold to overbought versus expectations. A 1-day move of that magnitude is unlikely. A more likely scenario to work off the oversold condition is a multi-day rally or consolidation.

The evidence is not overwhelming but there is plenty of upside potential before the market would turn overbought. So that helps increase reward/risk. While I don't love the evidence, I think it may be good enough to allocate a small amount of capital to. I will look to start scaling into an index position on Tuesday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/26 – bullish

The intermediate-term outlook was last updated in the 9/26 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.

SPY – buy 1/4 index position @ \$214.24 LIMIT. Based on the short-term outlook above I will look to begin taking on some long index exposure if I can get filled at or below Monday's close.

Current Open Trade Ideas

None.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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