

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2016

Volume 9 Issue 225

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The breakout to a new 50-day high was accompanied by 1) lower volume and 2) an unfilled gap up in the SPY. Both are short-term positives.
- The SPX has moved from a 50-day low to a 50-day high in just 2 short weeks. Past occurrences have led to bullish returns over the short and intermediate-term.
- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is very mildly bullish. I would prefer more of a pullback before considering a long position.

**The Evidence**

Thursday was an up day for the market. The SPX gained 0.5%, the NASDAQ rose 0.7%, and the Russell 2000 was rose 0.6%. Breadth was also positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 57%. NYSE volume dipped to the lowest level in weeks.

Please note that I had substantial problems with our backtesting software tonight. Therefore, the studies below, while all valid, are not updated to reflect the most recent instance.

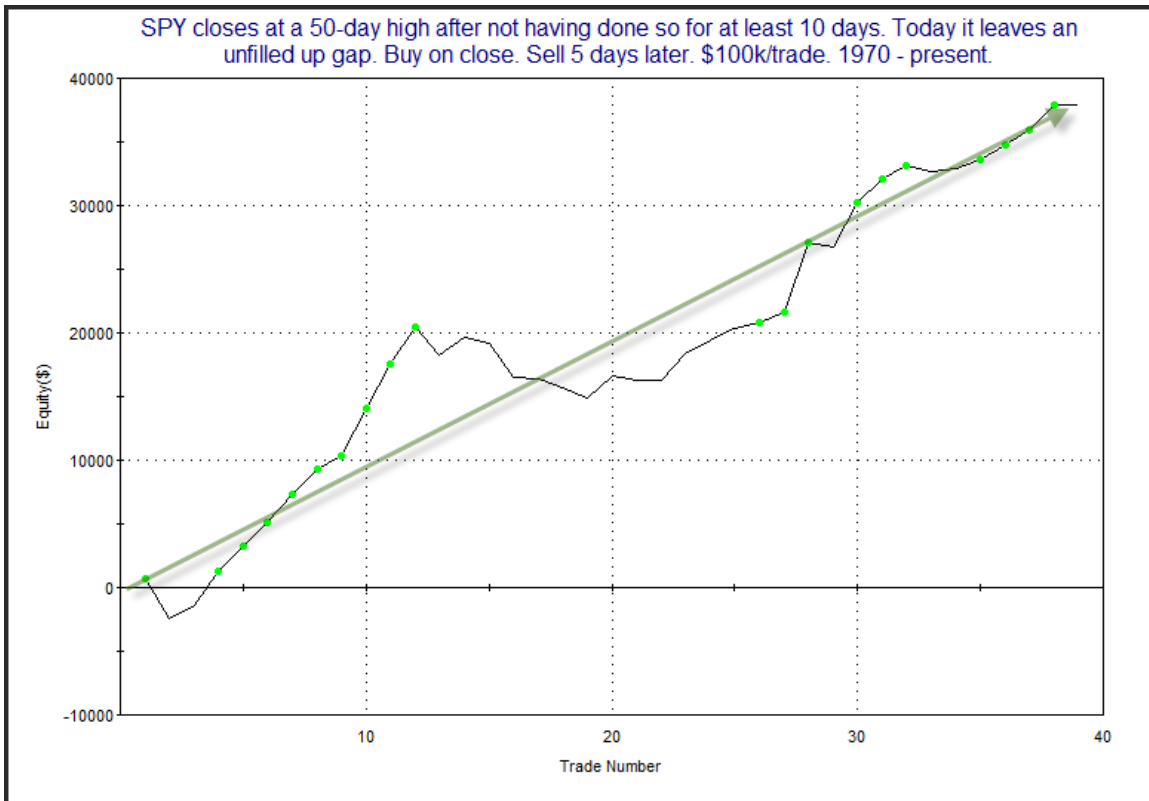
The strong move up on Thursday led to a new 50-day closing high and a breakout of the recent range. There were a number of positives associated with this breakout, including the unfilled gap up and the low volume.

*In the 9/7/12 subscriber letter I looked at the importance of an unfilled upside gap. I have revisited that study below.*

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	37,849.43	39	28	11	71.79	1,755.61	5,434.00	-1,027.96	-3,093.12	1.71	4.35	970.50
4	24,274.68	39	28	11	71.79	1,323.44	3,637.92	-1,161.96	-3,267.84	1.14	2.90	622.43
3	20,164.44	39	27	12	69.23	1,208.86	3,992.56	-1,039.55	-2,538.18	1.16	2.62	517.04
2	14,227.32	39	27	12	69.23	846.67	2,545.92	-719.40	-2,293.20	1.18	2.65	364.80
1	3,945.71	39	27	12	69.23	529.33	1,816.10	-862.18	-2,591.68	0.61	1.38	101.17

**35 of 39 instances (90%) closed above the entry price at some point in the next 4 days**

*Results here are strong across the board. Below is an equity curve using a 5-day holding period.*



*The nice upslope on the equity curve confirms the bullish inclinations.*

*Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.*

*Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same.*

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today.  
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	3.13	38	22	16	57.89	1,035.77	2,671.20	-1,423.99	-4,285.26	0.73	1.00	0.08
4	-3,699.03	38	19	19	50.00	1,081.98	2,072.07	-1,276.67	-4,518.34	0.85	0.85	-97.34
3	1,615.79	38	20	18	52.63	1,091.84	2,927.90	-1,123.39	-5,133.72	0.97	1.08	42.52
2	-2,200.67	38	18	20	47.37	700.55	2,324.90	-740.53	-3,640.86	0.95	0.85	-57.91
1	657.06	38	20	17	52.63	475.49	1,586.97	-520.75	-2,448.72	0.91	1.07	17.29

*As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.*

Another factor to consider about Thursday's breakout is that it is occurred on light volume. Textbooks often refer to this as a negative, but the study below, which was last seen in the 4/30/13 Letter shows it is actually a positive.

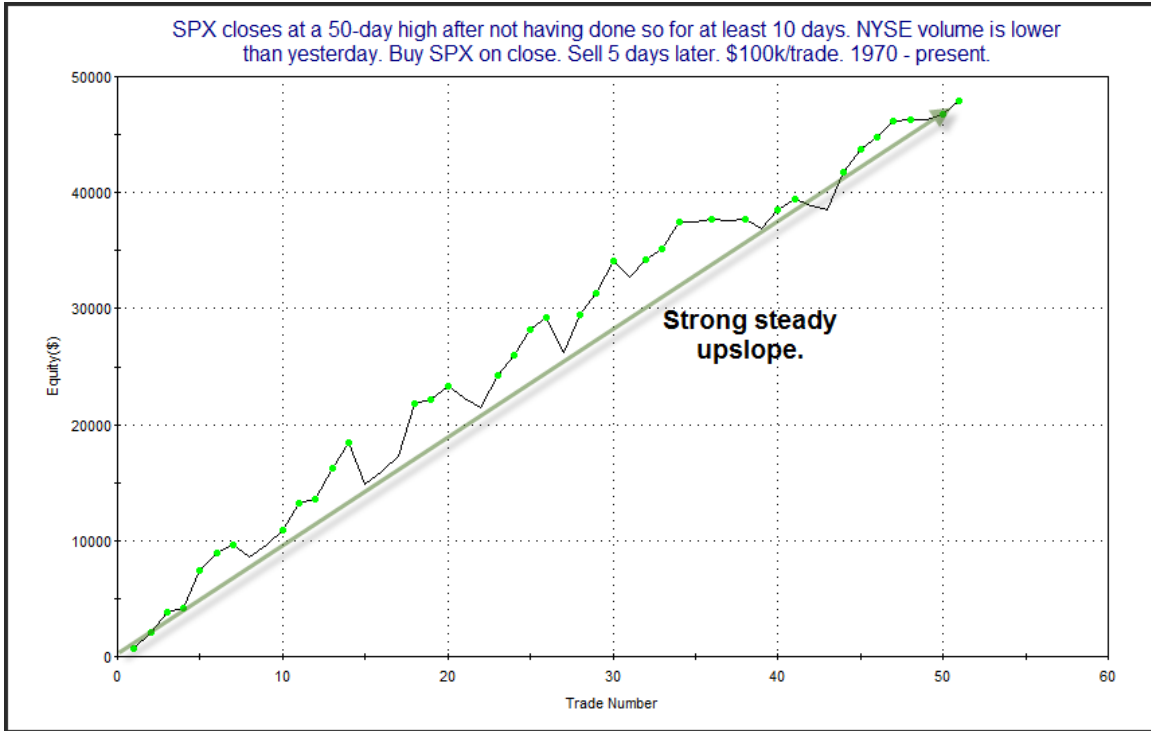
SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

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
20	24,934.24	48	28	20	58.33	2,657.08	11,088.84	-2,473.20	-8,157.10	1.07	1.50	519.46
19	29,084.12	49	29	20	59.18	2,574.69	9,628.99	-2,279.10	-9,056.82	1.13	1.64	593.55
18	29,681.11	49	30	19	61.22	2,557.03	11,076.80	-2,475.25	-9,094.80	1.03	1.63	605.74
17	31,541.64	49	30	19	61.22	2,653.89	10,017.28	-2,530.27	-8,682.96	1.05	1.66	643.71
16	32,410.27	49	31	18	63.27	2,502.86	10,944.36	-2,509.92	-9,243.81	1.00	1.72	661.43
15	27,262.64	49	32	17	65.31	2,337.88	8,166.13	-2,797.04	-9,354.92	0.84	1.57	556.38
14	32,443.96	50	35	15	70.00	2,067.78	7,314.30	-2,661.90	-6,525.68	0.78	1.81	648.88
13	32,153.96	51	33	18	64.71	2,071.77	7,780.85	-2,011.91	-5,160.09	1.03	1.89	630.47
12	19,064.95	51	28	23	54.90	2,135.77	5,996.75	-1,771.15	-4,539.14	1.21	1.47	373.82
11	15,804.84	51	27	24	52.94	2,110.17	5,809.60	-1,715.40	-6,029.07	1.23	1.38	309.90
10	20,214.53	51	26	25	50.98	2,165.27	5,960.00	-1,443.30	-4,324.52	1.50	1.56	396.36
9	29,418.59	51	34	17	66.67	1,683.17	5,147.20	-1,635.83	-5,812.26	1.03	2.06	576.84
8	35,827.46	51	36	15	70.59	1,566.80	5,096.00	-1,371.82	-4,186.55	1.14	2.74	702.50
7	33,807.09	51	35	16	68.63	1,422.49	4,655.00	-998.76	-3,211.35	1.42	3.12	662.88
6	45,086.95	51	37	14	72.55	1,520.17	5,002.50	-797.10	-3,563.65	1.91	5.04	884.06
5	47,909.75	51	39	12	76.47	1,562.87	4,482.50	-1,086.84	-3,693.73	1.44	4.67	939.41
4	34,154.88	51	37	14	72.55	1,292.17	4,440.00	-975.39	-2,913.85	1.32	3.50	669.70
3	32,038.59	51	34	17	66.67	1,281.54	3,950.00	-678.45	-1,802.37	1.89	3.78	628.21
2	19,314.91	51	35	16	68.63	865.07	2,212.98	-685.17	-1,912.60	1.26	2.76	378.72
1	7,324.34	51	32	18	62.75	496.62	1,384.02	-475.98	-1,921.32	1.04	1.85	143.61

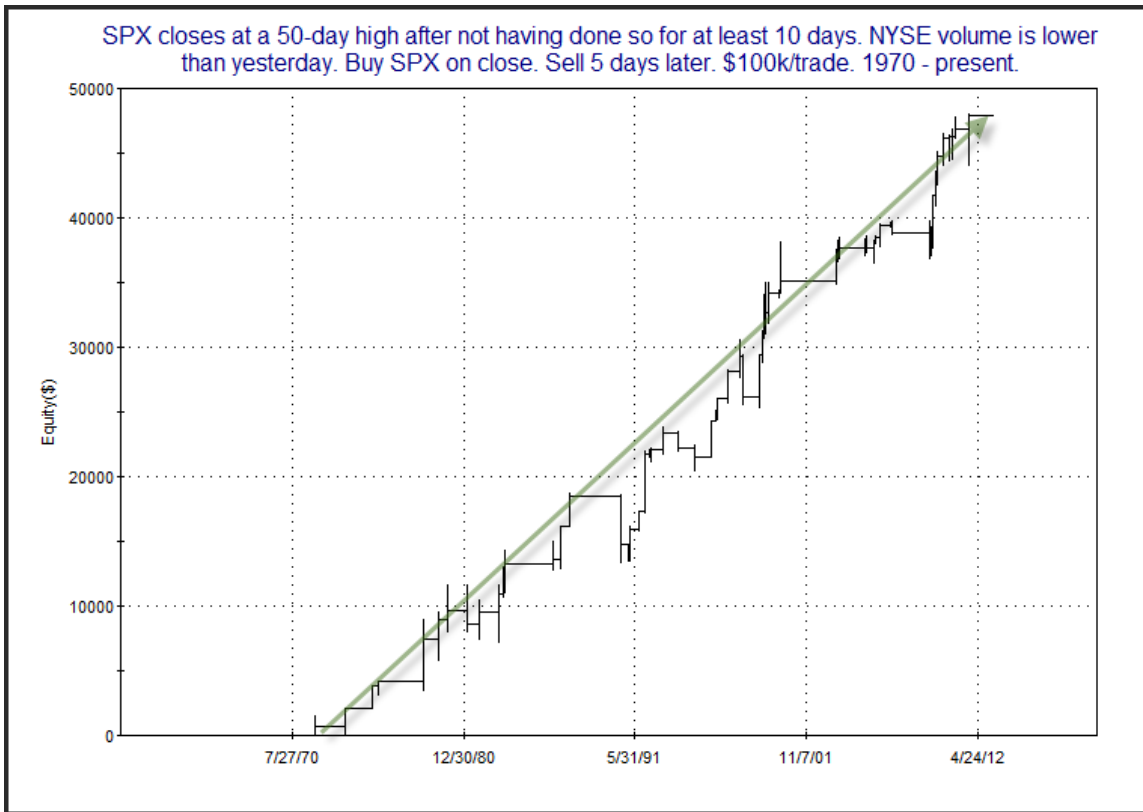
**48 of 51 instances (94%) closed above the entry price at some point in the next 5 days.**

*Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't much of an edge.*

To see how the 1-week edge has played out over time I have produced a profit curve below.



Profit curves don't often get steadier and smoother than this one. I also ran it using time instead of instances in the x-axis.



*This provides further illustration of the persistent upside edge.*

*For comparison, I ran the breakout stats when the breakout came on increased volume rather than lower volume. Those are updated below.*

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	11,902.75	120	59	61	49.17	3,583.82	13,393.77	-3,271.19	-11,548.62	1.10	1.06	99.19
19	28,143.02	122	65	57	53.28	3,337.11	9,135.36	-3,311.74	-11,862.36	1.01	1.15	230.68
18	39,362.06	122	65	57	53.28	3,328.12	9,613.50	-3,104.66	-10,293.66	1.07	1.22	322.64
17	30,853.42	122	67	55	54.92	3,081.42	9,953.84	-3,192.76	-9,419.67	0.97	1.18	252.90
16	32,030.05	124	68	56	54.84	2,984.27	8,910.72	-3,051.79	-8,244.85	0.98	1.19	258.31
15	35,087.66	125	66	59	52.80	2,980.85	8,150.48	-2,739.81	-8,621.45	1.09	1.22	280.70
14	22,854.67	125	69	56	55.20	2,707.30	8,128.38	-2,927.66	-8,338.45	0.92	1.14	182.84
13	26,914.72	125	67	58	53.60	2,688.75	7,911.80	-2,641.92	-8,251.55	1.02	1.18	215.32
12	17,100.67	125	68	57	54.40	2,426.17	10,197.98	-2,594.37	-8,757.15	0.94	1.12	136.81
11	19,919.08	128	68	60	53.13	2,476.79	10,372.44	-2,475.05	-9,482.88	1.00	1.13	155.62
10	13,803.45	128	64	64	50.00	2,371.60	10,507.25	-2,155.92	-8,683.66	1.10	1.10	107.84
9	15,504.62	128	62	65	48.44	2,282.51	8,413.73	-1,938.63	-6,878.68	1.18	1.12	121.13
8	12,819.63	128	68	60	53.13	1,912.62	8,524.75	-1,953.98	-7,085.22	0.98	1.11	100.15
7	30,337.12	128	67	61	52.34	1,903.35	6,337.26	-1,593.24	-7,255.84	1.19	1.31	237.01
6	31,541.16	128	74	54	57.81	1,602.72	6,819.80	-1,612.23	-7,103.18	0.99	1.36	246.42
5	23,142.23	128	65	63	50.78	1,638.45	8,516.82	-1,323.13	-6,088.44	1.24	1.28	180.80
4	6,999.47	128	69	59	53.91	1,269.56	6,716.71	-1,366.11	-5,585.56	0.93	1.09	54.68
3	17,208.01	128	73	55	57.03	1,143.88	6,740.50	-1,205.37	-5,361.06	0.95	1.26	134.44
2	22,881.05	128	77	50	60.16	895.18	4,028.44	-920.95	-4,276.16	0.97	1.50	178.76
1	21,296.59	128	78	50	60.94	579.04	2,755.52	-477.36	-2,722.61	1.21	1.89	166.38

*As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral. Of course volume wasn't just down, it was at the lowest level in quite a while. So I ran a study to what happens when the breakout occurs on the lightest volume in 10 days.*

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lowest in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	16,595.51	11	7	4	63.64	2,864.97	5,960.00	-864.82	-1,939.50	3.31	5.80	1,508.68
9	19,680.49	11	10	1	90.91	1,981.62	5,147.20	-135.68	-135.68	14.61	146.05	1,789.14
8	18,633.61	11	10	1	90.91	1,935.87	5,096.00	-725.04	-725.04	2.67	26.70	1,693.96
7	13,967.45	11	9	2	81.82	1,645.45	4,655.00	-420.81	-633.88	3.91	17.60	1,269.77
6	17,849.15	11	10	1	90.91	1,862.29	5,002.50	-773.80	-773.80	2.41	24.07	1,622.65
5	16,751.58	11	10	1	90.91	1,783.28	4,482.50	-1,081.20	-1,081.20	1.65	16.49	1,522.87
4	10,912.32	11	8	3	72.73	1,649.25	4,440.00	-760.56	-867.08	2.17	5.78	992.03
3	13,101.08	11	7	4	63.64	2,158.10	3,950.00	-501.41	-1,190.70	4.30	7.53	1,191.01
2	11,208.04	11	10	1	90.91	1,146.50	1,888.00	-256.91	-256.91	4.46	44.63	1,018.91
1	3,479.34	11	8	3	72.73	734.72	1,384.02	-799.46	-1,921.32	0.92	2.45	316.30

**All 11 instances closed above the entry price at some point in the next 5 days.**

No matter how I slice it, the low volume does not appear to be a concern. Between the unfilled up gap and the low volume the breakout appears to be a solid and provide good evidence of short-term follow through.

Another thing about this breakout that is remarkable is the fact that Thursday's 50-day high close came just 9 trading days after SPX closed at a 50-day low. That's quite rare to see. The last time we saw a move from a 50-day low to a 50-day high occur within 2 weeks was in July. The study below is from the 7/11/16 letter and it examines such sharp moves.

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days. Buy on close. Sell X days later. \$100k/trade. 1950 - 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
20	19,806.68	7	7	0	100.00	2,829.53	8,380.32	0.00	0.00	100.00	100.00	2,829.53
19	21,125.05	7	7	0	100.00	3,017.86	8,424.52	0.00	0.00	100.00	100.00	3,017.86
18	21,804.18	7	7	0	100.00	3,114.88	9,503.00	0.00	0.00	100.00	100.00	3,114.88
17	26,604.14	7	7	0	100.00	3,800.59	9,953.84	0.00	0.00	100.00	100.00	3,800.59
16	25,318.27	7	6	1	85.71	4,288.38	8,910.72	-412.00	-412.00	10.41	62.45	3,616.90
15	23,300.20	7	6	1	85.71	3,940.28	8,150.48	-341.50	-341.50	11.54	69.23	3,328.60
14	21,588.94	7	7	0	100.00	3,084.13	7,027.80	0.00	0.00	100.00	100.00	3,084.13
13	20,886.78	7	7	0	100.00	2,983.83	7,911.80	0.00	0.00	100.00	100.00	2,983.83
12	15,664.89	7	4	3	57.14	4,109.81	8,106.28	-258.12	-510.30	15.92	21.23	2,237.84
11	17,823.08	7	7	0	100.00	2,546.15	7,372.56	0.00	0.00	100.00	100.00	2,546.15
10	20,357.84	7	6	1	85.71	3,396.19	8,530.60	-19.30	-19.30	175.97	1,055.81	2,908.26
9	18,686.80	7	7	0	100.00	2,669.54	6,409.00	0.00	0.00	100.00	100.00	2,669.54
8	13,689.37	7	7	0	100.00	1,955.62	4,623.32	0.00	0.00	100.00	100.00	1,955.62
7	14,118.51	7	6	1	85.71	2,382.03	5,728.32	-173.70	-173.70	13.71	82.28	2,016.93
6	13,588.12	7	7	0	100.00	1,941.16	4,689.44	0.00	0.00	100.00	100.00	1,941.16
5	11,927.07	7	7	0	100.00	1,703.87	4,765.28	0.00	0.00	100.00	100.00	1,703.87
4	7,091.11	7	5	2	71.43	1,636.58	4,888.52	-545.90	-744.39	3.00	7.49	1,013.02
3	7,023.62	7	5	2	71.43	1,669.88	4,031.04	-662.90	-1,190.70	2.52	6.30	1,003.37
2	5,851.21	7	6	1	85.71	994.99	2,913.52	-118.72	-118.72	8.38	50.29	835.89
1	2,556.21	7	3	4	42.86	1,877.28	2,755.52	-768.90	-1,921.32	2.44	1.83	365.17

There have only been 7 occurrences but the stats are overwhelmingly bullish over the next month. The profit maxes out on day 17 in the table above. To getting a better feel for the instances I have listed them all below along with their 6-day and 17-day stats. (These table ARE updated.)

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days.  
Buy on close. Sell 6 days later. \$100k/trade. 1950 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/1/1961	Buy	\$67.37	0.55%	\$667.80
8/9/1961	Sell	\$67.74		(\$638.12)
6/17/1976	Buy	\$103.61	0.11%	\$1,167.65
6/25/1976	Sell	\$103.72		(\$1,167.65)
8/20/1982	Buy	\$113.02	4.11%	\$7,248.80
8/30/1982	Sell	\$117.66		(\$928.20)
8/2/1984	Buy	\$157.99	4.70%	\$6,692.88
8/10/1984	Sell	\$165.41		\$0.00
6/24/1998	Buy	\$1,132.89	1.20%	\$1,378.96
7/2/1998	Sell	\$1,146.45		(\$465.52)
10/14/2011	Buy	\$1,224.58	2.42%	\$2,589.57
10/24/2011	Sell	\$1,254.19		(\$2,681.10)
8/21/2014	Buy	\$1,992.37	0.55%	\$633.50
8/29/2014	Sell	\$2,003.37		(\$380.50)
7/8/2016	Buy	\$2,129.90	1.74%	\$1,800.90
7/18/2016	Sell	\$2,166.89		\$0.00

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days.  
Buy on close. Sell 17 days later. \$100k/trade. 1950 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/1/1961	Buy	\$67.37	0.33%	\$1,587.88
8/24/1961	Sell	\$67.59		(\$638.12)
6/17/1976	Buy	\$103.61	1.99%	\$3,059.05
7/13/1976	Sell	\$105.67		(\$1,167.65)
8/20/1982	Buy	\$113.02	9.96%	\$10,440.04
9/15/1982	Sell	\$124.28		(\$928.20)
8/2/1984	Buy	\$157.99	5.35%	\$6,831.92
8/27/1984	Sell	\$166.44		\$0.00
6/24/1998	Buy	\$1,132.89	4.52%	\$5,076.72
7/20/1998	Sell	\$1,184.10		(\$465.52)
10/14/2011	Buy	\$1,224.58	4.19%	\$5,514.48
11/8/2011	Sell	\$1,275.92		(\$2,681.10)
8/21/2014	Buy	\$1,992.37	0.33%	\$940.00
9/16/2014	Sell	\$1,998.98		(\$694.50)
7/8/2016	Buy	\$2,129.90	1.27%	\$2,225.94
8/2/2016	Sell	\$2,157.03		\$0.00

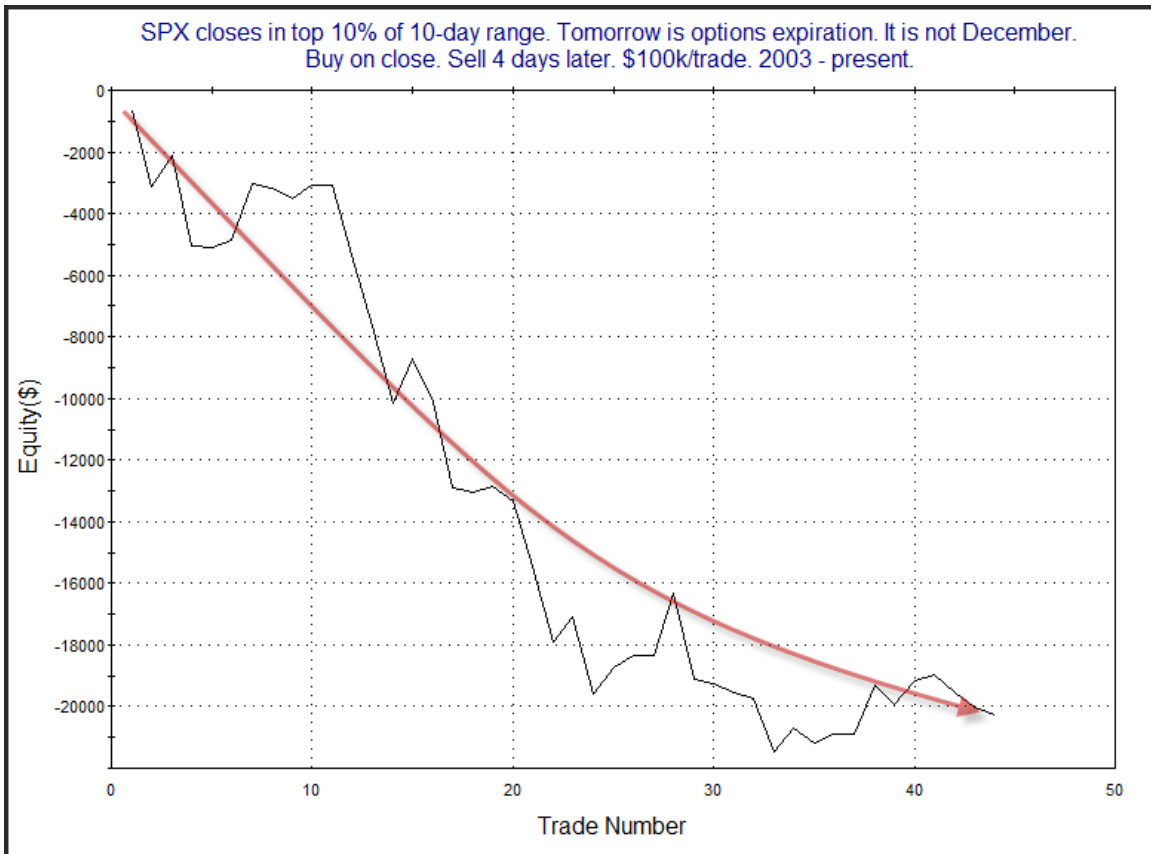
While 8 instances is a bit low, the results are unanimous and the stats above are incredibly lopsided. So it seems it may be worth some consideration. The average run-up of the 8 instances is over 5x the size of the average drawdown, and every instance saw a run-up substantially larger than its drawdown. That's impressive.

But not everything was bullish. From the 3/18/16 letter the study below most recently looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2<sup>nd</sup> half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December.  
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

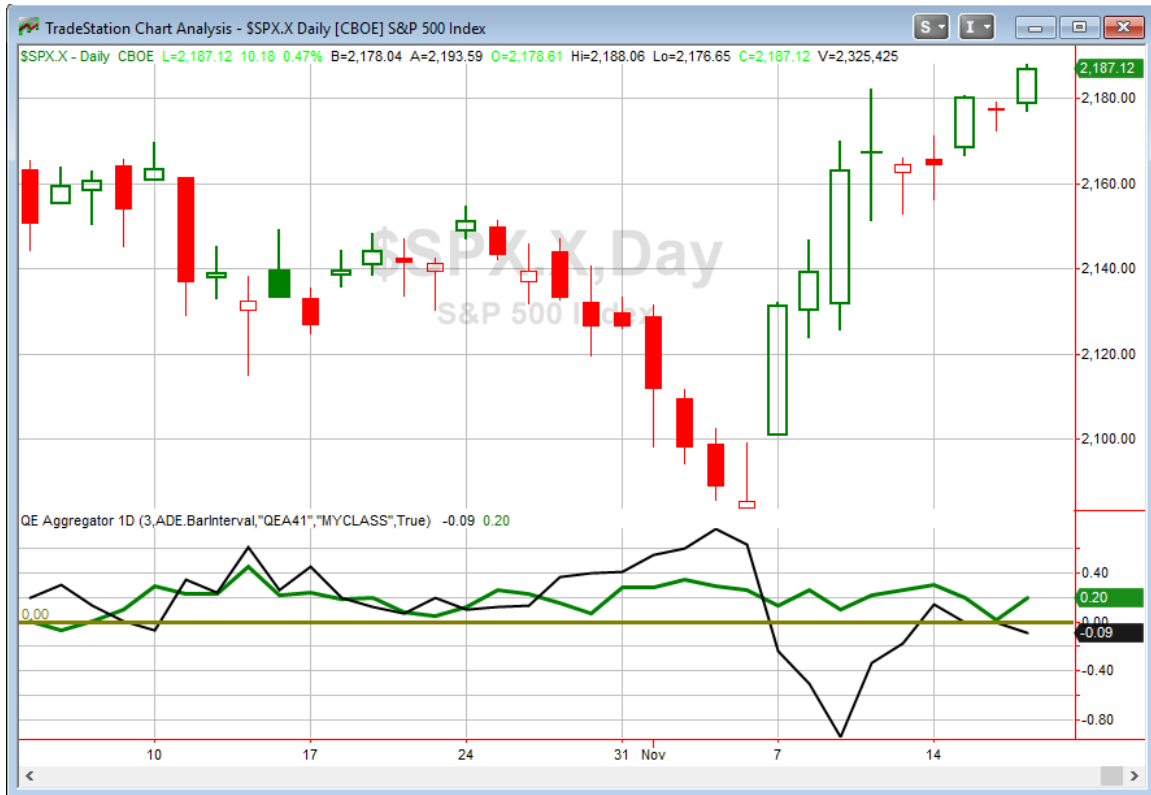
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,361.53	44	17	27	38.64	892.53	3,768.30	-1,353.13	-4,932.90	0.66	0.42	-485.49
4	-20,270.81	44	17	27	38.64	755.57	1,994.25	-1,226.50	-2,899.20	0.62	0.39	-460.70
3	-10,733.90	44	22	22	50.00	651.22	2,166.00	-1,139.13	-2,828.70	0.57	0.57	-243.95
2	-8,252.65	44	29	15	65.91	433.36	1,588.40	-1,388.01	-3,784.65	0.31	0.60	-187.56
1	-2,532.97	44	25	19	56.82	368.66	2,286.84	-618.39	-2,875.60	0.60	0.78	-57.57

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



*The curve has turned somewhat sideways recently. This warrants watching, but I still believe the long-term bearish inclination is worth consideration.*

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line moved further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive 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 zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are primed to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be inverted at 2197.17 on Friday. That is 0.5% above Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So in this case SPX is going to need to close up at least 0.5% in order to remain overbought

vs expectations. Anything less than that and it will be considered oversold at the close on Friday.

The Aggregator is neutral and I am too. Bullish evidence is now strong. And it appears that there is a high likelihood of more upside in the coming days and weeks. While any entry from this point seems to be likely to enjoy some upside, I still prefer a pullback in order to more tightly control risk/reward. So I won't be looking to take new positions just yet. But I most likely will if we see a dip in the next few days.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/13 – somewhat 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**

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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