

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 25, 2017

Volume 10 Issue 16

Market Overview



Signals Overview

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

Tonight's Research Points

- The moderately higher volume that accompanied the SPX breakout to a new high is not encouraging.

Short-term Outlook

The Bottom Line

Overall, the situation has not really changed since last night. Expectations are bullish but the SPX is overbought. This is leaving 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						
January 20, 2017	3-high, 3-low, 3 low close	1-5 days	Bullish			
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

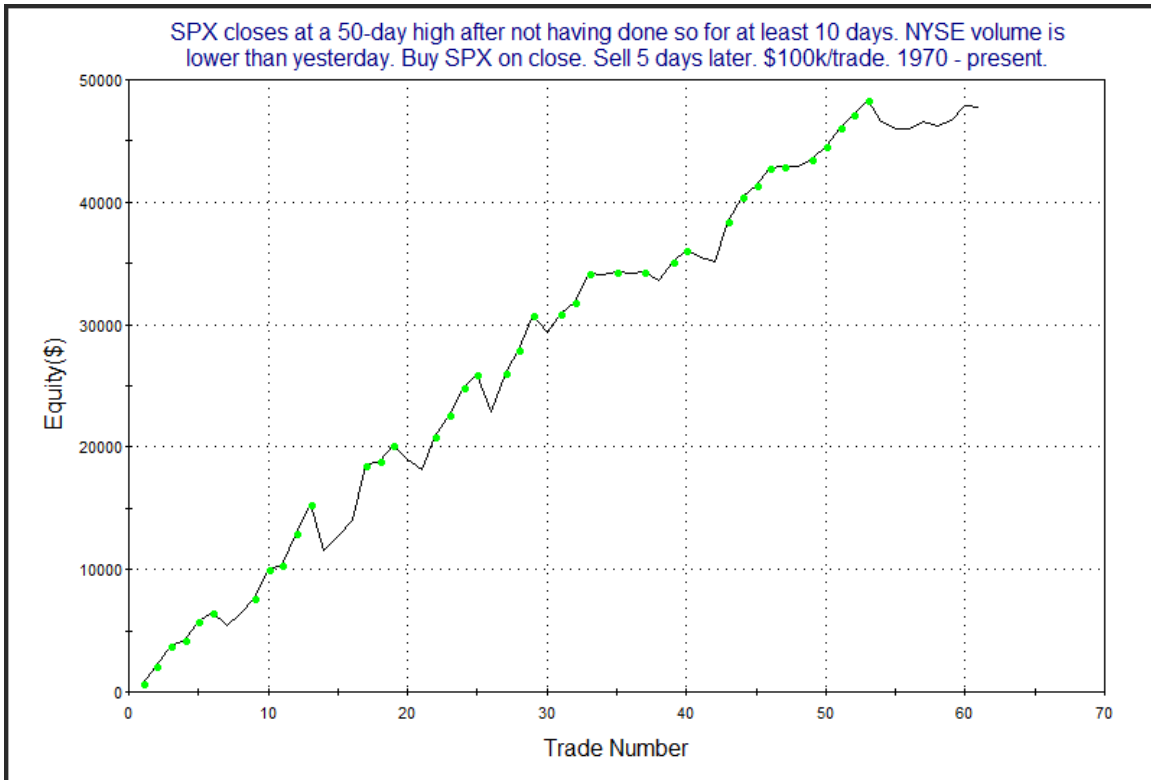
Tuesday was a breakout day. The SPX closed up 0.7% and at a new closing high. The NASDAQ gained 0.9%, and the Russell 2000 rallied 1.6%. Breadth was strongly positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 75%. NYSE volume rose some from Monday's level.

Tuesday we saw SPX breakout to new highs. One measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 1/9/17 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high. Moderate but increasing volume is the worst (and current) scenario. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts that occur on declining volume.

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	32,651.08	56	32	24	57.14	2,623.70	11,088.84	-2,137.81	-8,157.10	1.23	1.64	583.05
19	31,542.43	57	33	24	57.89	2,480.99	9,628.99	-2,097.09	-9,056.82	1.18	1.63	553.38
18	34,106.52	57	35	22	61.40	2,460.80	11,076.80	-2,364.61	-9,094.80	1.04	1.66	598.36
17	32,863.59	57	35	22	61.40	2,503.33	10,017.28	-2,488.78	-8,682.96	1.01	1.60	576.55
16	35,918.48	57	36	21	63.16	2,446.29	10,944.36	-2,483.24	-9,243.81	0.99	1.69	630.15
15	29,793.96	57	37	20	64.91	2,214.21	8,166.13	-2,606.59	-9,354.92	0.85	1.57	522.70
14	34,329.84	59	40	19	67.80	1,990.71	7,314.30	-2,384.13	-6,525.68	0.83	1.76	581.86
13	34,455.36	60	38	22	63.33	1,992.49	7,780.85	-1,875.42	-5,160.09	1.06	1.84	574.26
12	20,630.76	60	33	27	55.00	1,984.72	5,996.75	-1,661.67	-4,539.14	1.19	1.46	343.85
11	15,603.86	61	32	29	52.46	1,890.93	5,809.60	-1,548.48	-6,029.07	1.22	1.35	255.80
10	16,583.16	61	31	30	50.82	1,900.05	5,960.00	-1,410.61	-4,324.52	1.35	1.39	271.86
9	23,350.20	61	38	23	62.30	1,570.91	5,147.20	-1,580.18	-5,812.26	0.99	1.64	382.79
8	29,526.61	61	42	19	68.85	1,402.70	5,096.00	-1,546.68	-4,186.55	0.91	2.00	484.04
7	30,870.12	61	39	22	63.93	1,368.09	4,655.00	-1,022.07	-3,211.35	1.34	2.37	506.07
6	45,514.68	61	42	19	68.85	1,426.36	5,002.50	-757.51	-3,563.65	1.88	4.16	746.14
5	47,732.27	61	45	16	73.77	1,418.22	4,482.50	-1,005.47	-3,693.73	1.41	3.97	782.50
4	31,823.45	61	43	18	70.49	1,169.88	4,440.00	-1,026.74	-2,913.85	1.14	2.72	521.70
3	30,252.44	61	40	21	65.57	1,134.73	3,950.00	-720.80	-1,802.37	1.57	3.00	495.94
2	18,533.17	61	40	21	65.57	804.44	2,212.98	-649.74	-1,912.60	1.24	2.36	303.82
1	8,015.38	61	39	22	63.93	452.37	1,384.02	-437.59	-1,921.32	1.03	1.83	131.40

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Below is a look at a profit curve.



The move from lower left to upper right is encouraging. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 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
20	18,538.22	40	22	18	55.00	3,632.58	8,953.20	-3,409.92	-8,308.32	1.07	1.30	463.46
19	13,685.17	40	23	17	57.50	3,409.41	8,942.40	-3,807.72	-7,980.00	0.90	1.21	342.13
18	24,595.39	40	23	17	57.50	3,674.90	9,613.50	-3,525.13	-7,323.36	1.04	1.41	614.88
17	20,613.97	40	24	16	60.00	3,274.62	9,069.84	-3,623.55	-8,144.90	0.90	1.36	515.35
16	25,570.48	40	23	17	57.50	3,530.65	8,048.82	-3,272.62	-8,109.35	1.08	1.46	639.26
15	20,775.66	40	23	17	57.50	3,424.99	7,668.00	-3,411.72	-8,358.20	1.00	1.36	519.39
14	21,212.29	40	23	17	57.50	3,302.74	8,128.38	-3,220.63	-8,338.45	1.03	1.39	530.31
13	25,626.24	40	24	16	60.00	3,054.35	7,478.64	-2,979.88	-8,251.55	1.02	1.54	640.66
12	21,979.40	40	23	17	57.50	2,796.65	7,352.31	-2,490.79	-8,757.15	1.12	1.52	549.49
11	28,371.52	40	26	14	65.00	2,514.89	6,782.40	-2,643.98	-6,975.70	0.95	1.77	709.29
10	31,145.17	40	24	16	60.00	2,487.82	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.63
9	27,897.57	40	24	15	60.00	2,272.85	6,418.16	-1,776.73	-3,113.22	1.28	2.05	697.44
8	29,663.58	40	24	16	60.00	2,245.80	6,220.34	-1,514.73	-2,943.34	1.48	2.22	741.59
7	30,443.70	40	25	15	62.50	2,017.12	5,264.21	-1,332.29	-2,946.00	1.51	2.52	761.09
6	33,597.45	40	28	12	70.00	1,753.17	4,695.76	-1,290.94	-3,093.30	1.36	3.17	839.94
5	29,863.77	40	26	14	65.00	1,655.48	4,771.60	-941.33	-2,562.72	1.76	3.27	746.59
4	21,201.24	40	26	14	65.00	1,266.35	3,165.12	-837.42	-1,948.21	1.51	2.81	530.03
3	17,575.07	40	26	14	65.00	1,086.30	2,989.36	-762.04	-2,188.15	1.43	2.65	439.38
2	27,508.43	40	27	12	67.50	1,181.81	3,813.53	-366.70	-1,259.60	3.22	7.25	687.71
1	15,102.12	40	29	11	72.50	648.11	2,755.52	-335.73	-1,292.50	1.93	5.09	377.55

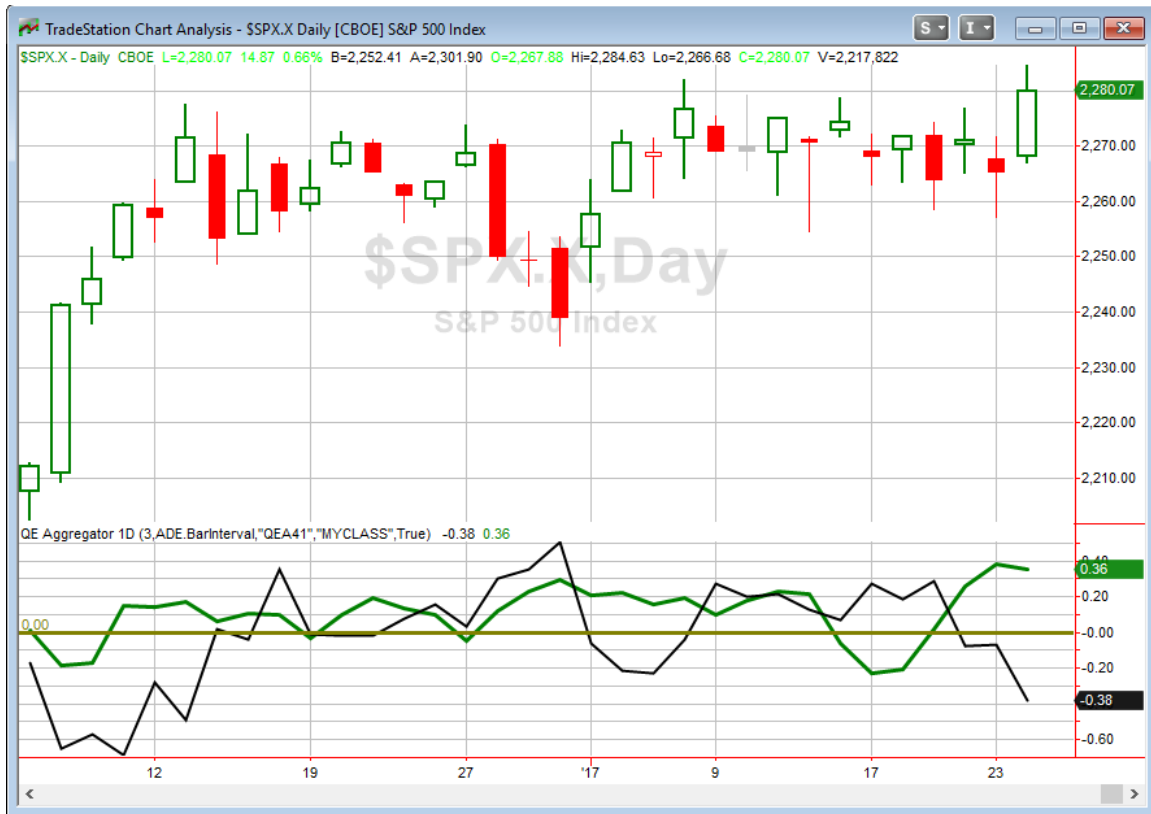
Numbers here are quite similar, with the first week getting solid follow-through buying once again. Lastly, let's look at rising but moderate volume, which was the situation on Tuesday.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. 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	-757.98	97	46	51	47.42	3,351.74	13,401.70	-3,038.00	-11,541.15	1.10	1.00	-7.81
19	8,582.81	97	49	48	50.52	3,127.85	9,135.36	-3,014.20	-11,854.89	1.04	1.06	88.48
18	14,668.13	98	52	46	53.06	2,936.91	9,503.00	-3,001.11	-10,293.66	0.98	1.11	149.67
17	7,209.09	98	52	46	53.06	2,820.38	9,962.68	-3,031.54	-9,419.67	0.93	1.05	73.56
16	2,454.98	100	53	47	53.00	2,650.28	8,910.72	-2,936.38	-9,482.88	0.90	1.02	24.55
15	10,536.66	100	52	48	52.00	2,595.03	8,150.48	-2,591.77	-9,608.60	1.00	1.08	105.37
14	-2,729.97	100	55	45	55.00	2,334.17	7,702.40	-2,913.54	-10,120.46	0.80	0.98	-27.30
13	-3,810.87	100	52	48	52.00	2,345.30	7,911.80	-2,620.13	-9,725.34	0.90	0.97	-38.11
12	-10,331.74	100	53	47	53.00	2,195.41	10,197.98	-2,695.50	-9,869.02	0.81	0.92	-103.32
11	-4,455.17	100	50	50	50.00	2,338.23	10,380.37	-2,427.34	-9,482.88	0.96	0.96	-44.55
10	-11,484.33	100	48	52	48.00	2,211.49	10,515.18	-2,262.23	-8,683.66	0.98	0.90	-114.84
9	-6,980.60	100	46	54	46.00	2,179.78	8,413.73	-1,986.12	-6,878.68	1.10	0.93	-69.81
8	-10,683.84	100	52	48	52.00	1,714.82	8,532.68	-2,080.30	-7,076.24	0.82	0.89	-106.84
7	6,673.66	100	51	49	51.00	1,766.23	6,337.26	-1,702.12	-7,255.84	1.04	1.08	66.74
6	4,957.32	100	55	45	55.00	1,478.63	6,819.80	-1,697.05	-7,103.18	0.87	1.06	49.57
5	1,213.16	100	48	52	48.00	1,545.06	8,516.82	-1,402.88	-6,088.44	1.10	1.02	12.13
4	-4,917.27	100	53	47	53.00	1,253.22	6,716.71	-1,517.83	-5,585.56	0.83	0.93	-49.17
3	7,122.37	100	57	43	57.00	1,131.43	6,740.50	-1,334.17	-5,361.06	0.85	1.12	71.22
2	912.38	100	58	42	58.00	770.62	4,028.44	-1,042.47	-4,276.16	0.74	1.02	9.12
1	7,701.98	100	55	45	55.00	519.95	2,731.56	-464.34	-2,722.61	1.12	1.37	77.02

This does not appear to suggest any edge over the next 1-4 weeks.

I have updated the Aggregator chart below.



With tonight's research 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 remained 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 2272.86 on Wednesday. That is 0.3% below Tuesday's close. Therefore, SPX will need to close down 0.3% in order to flip from overbought to oversold versus expectations on Wednesday.

The breakout was not accompanied by the kind of volume confirmation we like to see. So watching for further clues in the coming days will be very important to help determine this breakouts chances of success. Of course with the SPX clearly overbought, reward/risk does not appear favorable at the moment. The overbought market and unclear directional edge have me sidelined awaiting a more favorable trading opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/23 – bullish

The intermediate-term outlook was last updated in the 1/23 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.

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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