

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 8, 2017

Volume 10 Issue 44

Market Overview



Signals Overview

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

Tonight's Research Points

- The 1st 10-day low in a while is often buyable, but it has been less reliable when the market is drifting sideways.
- System 11111 is set up for SPY – which has led to short-term bounces in the past.
- The extremely low TICK Tomoscillator is suggesting a short-term bounce.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is short-term oversold. This is leaving me bullish and looking to take on some long exposure.

The Evidence

Wednesday was a mixed day for the market. The SPX lost 0.2%, the NASDAQ rose 0.1%, and the Russell 2000 declined 0.6%. Breadth was negative as the NYSE Up Issues % was 27% and the Up Volume % came in at 33%. NYSE volume rose a little from Tuesday’s level.

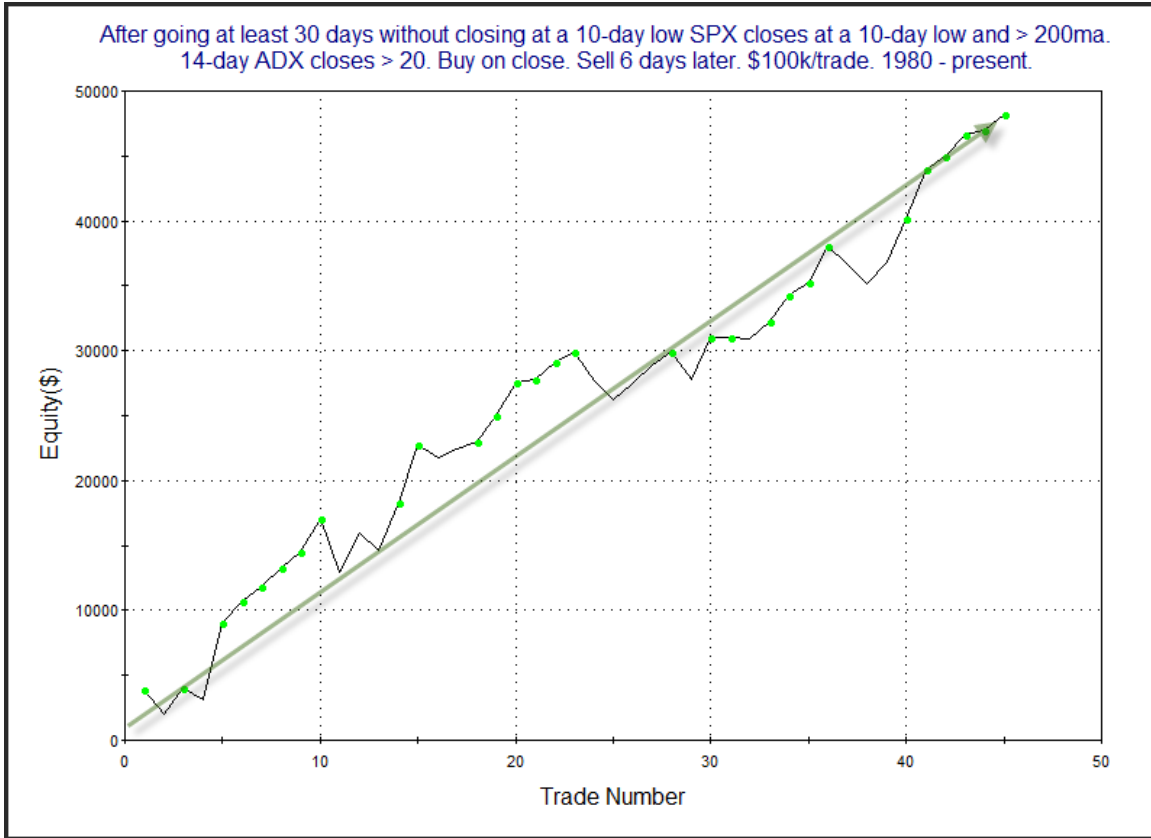
Notable about the low close on Wednesday is that it was the 1st 10-day low close since 1/19/17. Before today SPX had gone 32 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after such a long time without one has provided a solid upside edge. In the 12/11/14 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low and > 200ma. 14-day ADX closes > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - present.

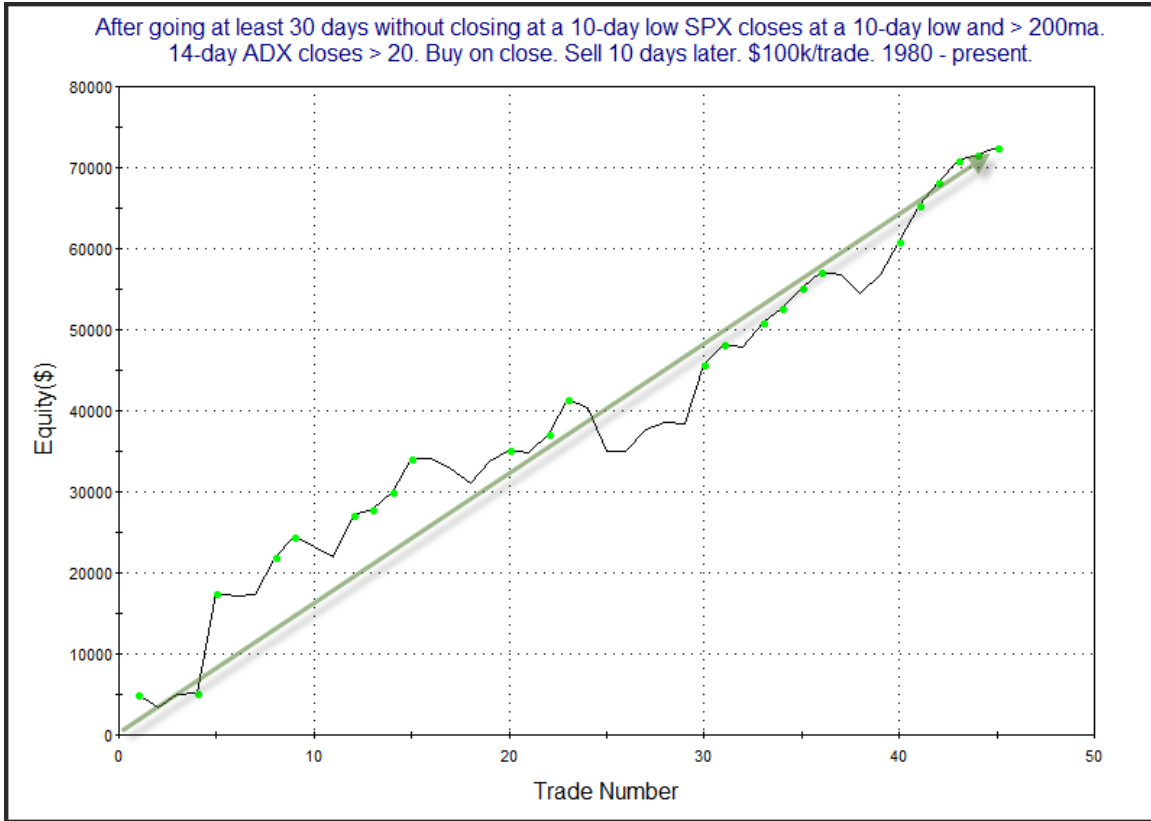
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	72,496.88	45	31	14	68.89	2,902.08	12,395.76	-1,247.69	-5,362.24	2.33	5.15	1,611.04
9	70,771.09	45	34	11	75.56	2,533.20	10,529.82	-1,396.16	-3,753.36	1.81	5.61	1,572.69
8	66,572.42	45	35	10	77.78	2,398.43	10,554.48	-1,737.27	-6,117.72	1.38	4.83	1,479.39
7	47,496.21	45	32	13	71.11	2,344.59	7,743.24	-2,117.75	-8,141.12	1.11	2.73	1,055.47
6	48,186.85	45	34	11	75.56	1,952.88	5,893.74	-1,655.54	-4,111.40	1.18	3.65	1,070.82
5	41,278.62	45	31	14	68.89	1,878.48	4,608.35	-1,211.02	-3,502.11	1.55	3.43	917.30
4	40,011.13	45	35	10	77.78	1,594.26	4,690.50	-1,578.80	-2,616.60	1.01	3.53	889.14
3	18,841.31	45	31	14	68.89	1,210.98	3,940.55	-1,335.64	-4,464.88	0.91	2.01	418.70
2	9,118.87	45	28	17	62.22	1,030.02	3,744.45	-1,160.10	-7,559.56	0.89	1.46	202.64
1	6,527.91	45	27	18	60.00	702.00	2,287.60	-690.34	-1,922.40	1.02	1.53	145.06

43 of 45 instances (96%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a 6-day profit curve.



This profit curve also shows a strong steady upslope. And here is the 10-day.



This curve is just as impressive. I have added this study to both the short and intermediate-term active lists.

One showed that SPY is now set up to trigger QE numbered system 11111 on Tuesday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 12/2/14 Letter. Below are the updated stats.

SPY System 11111			
\$100k/trade. \$0.01/share commission. 1994 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$10,997.12	Profit Factor	9.75
Gross Profit	\$12,253.71	Gross Loss	(\$1,256.59)
Total Number of Trades	16	Percent Profitable	87.50%
Winning Trades	14	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$687.32	Ratio Avg. Win:Avg. Loss	1.39
Avg. Winning Trade	\$875.27	Avg. Losing Trade	(\$628.29)
Largest Winning Trade	\$2,456.58	Largest Losing Trade	(\$907.22)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.

SPY System 11111
\$100k/trade. \$0.01/share commission. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/6/1994	Buy	\$47.25	0.53%	\$655.03
9/8/1994	Sell	\$47.50		(\$253.56)
4/3/1995	Buy	\$50.12	0.58%	\$877.80
4/4/1995	Sell	\$50.41		(\$99.75)
5/19/1995	Buy	\$51.98	1.33%	\$1,468.39
5/22/1995	Sell	\$52.67		(\$114.42)
2/16/1996	Buy	\$65.06	0.06%	\$275.94
2/21/1996	Sell	\$65.10		(\$1,808.94)
10/1/1996	Buy	\$68.59	0.57%	\$670.22
10/1/1996	Sell	\$68.98		(\$218.55)
12/4/1996	Buy	\$74.83	0.73%	\$788.24
12/9/1996	Sell	\$75.38		(\$2,899.12)
11/24/1999	Buy	\$140.75	0.36%	\$1,508.04
12/2/1999	Sell	\$141.25		(\$1,239.00)
11/2/2006	Buy	\$136.51	1.15%	\$1,292.10
11/6/2006	Sell	\$138.08		(\$226.30)
9/1/2009	Buy	\$101.95	0.11%	\$1,257.75
9/4/2009	Sell	\$102.06		(\$2,320.50)
3/23/2012	Buy	\$139.20	1.73%	\$1,730.38
3/26/2012	Sell	\$141.61		(\$466.70)
8/24/2012	Buy	\$140.31	2.47%	\$2,463.70
9/6/2012	Sell	\$143.77		(\$127.80)
9/24/2012	Buy	\$145.15	-0.35%	\$746.65
9/27/2012	Sell	\$144.64		(\$1,507.00)
12/4/2013	Buy	\$179.10	1.03%	\$1,117.56
12/6/2013	Sell	\$180.94		(\$417.00)
6/13/2014	Buy	\$193.54	0.67%	\$737.88
6/17/2014	Sell	\$194.83		(\$123.84)
11/10/2015	Buy	\$207.51	-0.91%	\$686.40
11/16/2015	Sell	\$205.62		(\$2,558.40)
3/28/2016	Buy	\$203.12	0.98%	\$1,047.96
3/29/2016	Sell	\$205.12		(\$354.24)

Avg Bars in Trade: 3.5

The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

<http://quantifiableedges.com/system-11111/>

There was also a study that used the TICK TomOscillator. The TICK TomOscillator is an indicator that uses recent closing TICK values to determine buying and selling interest at the end of the day. It was developed by Tom McClellan, and I made a minor % Rank

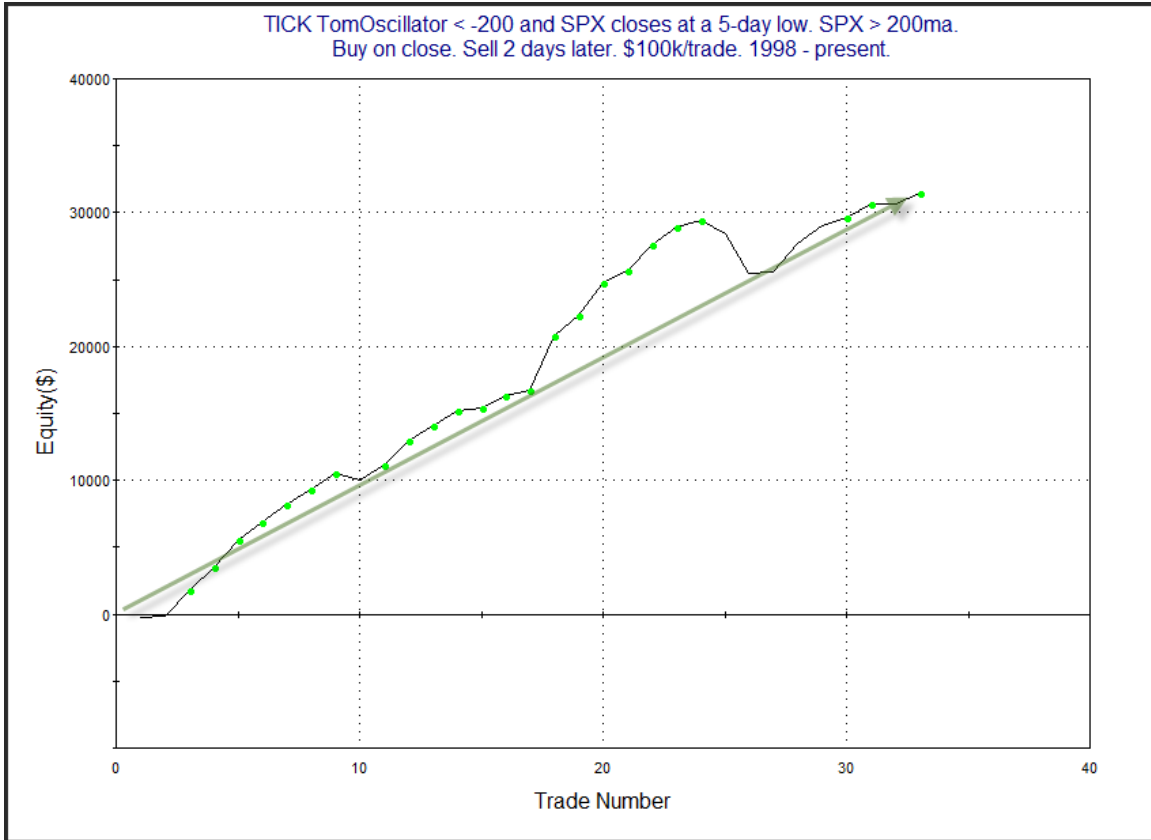
adjustment for 1 type of readings. For those who would like to learn more about the TICK TomOscillator, including exactly how to calculate it, the link below is a good place to start.

<http://quantifiableedges.com/how-the-nyse-closing-tick-can-be-utilized-as-a-valuable-indicator/>

The study below looks for an extremely low reading in conjunction with a short-term oversold price condition during a long-term uptrend. It last appeared in the 11/8/13 letter. I have updated it below.

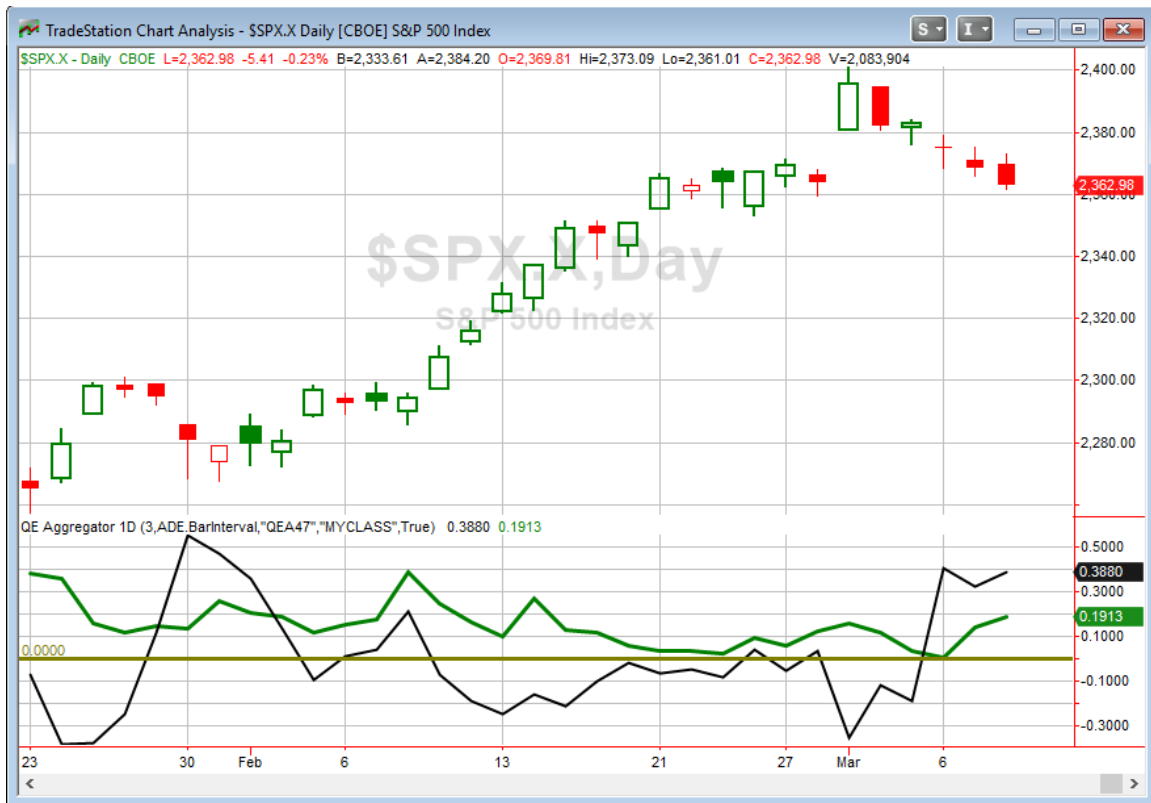
TICK TomOscillator < -200 and SPX closes at a 5-day low. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,872.58	27	19	8	70.37	1,743.90	3,456.11	-1,532.69	-3,385.80	1.14	2.70	773.06
4	17,421.71	27	18	9	66.67	1,630.01	4,190.40	-1,324.27	-3,863.84	1.23	2.46	645.25
3	29,980.37	31	24	7	77.42	1,646.42	5,471.10	-1,361.94	-2,558.68	1.21	4.14	967.11
2	31,448.77	33	28	5	84.85	1,292.12	4,041.90	-946.09	-2,943.71	1.37	7.65	952.99
1	25,177.06	39	30	9	76.92	1,069.01	4,396.50	-765.92	-1,953.32	1.40	4.65	645.57

There has been a strong propensity for the market to bounce over the next 2 days. Below is an equity curve that shows how the edge has played out over time.



There was a brief dip recently, but the curve is now back on track, serving as some confirmation of the bullish tendency.

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 also remained above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Thursday. Of course, that could change if new bearish evidence emerges. The Differential Pivot will be 2379.10 on Thursday. That is 0.7% above Wednesday's close. So SPX would need to close up at least 0.7% in order to move from oversold to overbought versus recent expectations.

Evidence is mounting, the Aggregator remains bullish, and there is some decent room to the upside before the market would turn overbought. I still like the long side here. I am not going to load up just yet, but I may add more long exposure if I can get a favorable fill on Thursday.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

TGT – 1/3 @ \$55.14 (bought @ limit)

New

TGT – 1/3 @ \$55.02 (buy @ limit)

Broad Market Large Cap CBI – 2(TGT-2)

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.

TGT – Buy 1/3 Catapult position @ \$55.02 Limit. From the Catapult section above. This is the 2nd of 3 possible lots for TGT.

SPY – buy ¼ index position @ \$236.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add to my index position if SPX closes much lower on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/8/2017	\$237.00	\$236.56	-0.19%		bought @ limit
TGT(1/3)	3/8/2017	\$55.14	\$55.02	-0.22%		bought @ limit

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