

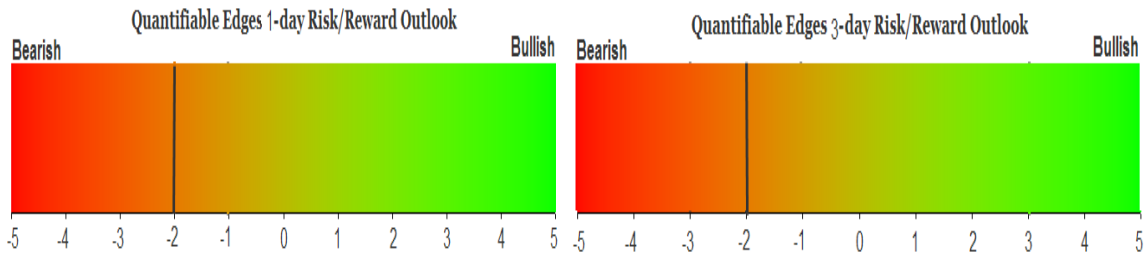
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 25, 2017

Volume 10 Issue 77

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Short

Tonight's Research Points

- Monday's big VXO drop suggests Tuesday the SPX could see a dip.

Short-term Outlook

The Bottom Line

There appears to be a bit of a downside edge. I don't find it compelling enough to try a counter-trend trade at the moment.

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						
April 24, 2017	VXO drops > 20%	1 day	Bearish			
April 20, 2017	HV 3x 20-day lows. No SPX 20-high	1-5 days	Bearish	-2.20%	1.15%	2.05%
Active - Long Term						
April 19, 2017	20-low. 1-day bounce, then inside down	1-10 days	Bullish	4.80%	-2.50%	-6.30%
March 29, 2017	20-low to 4-day high	1-20 days	Bullish	3.40%	-2.70%	-5.40%
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			

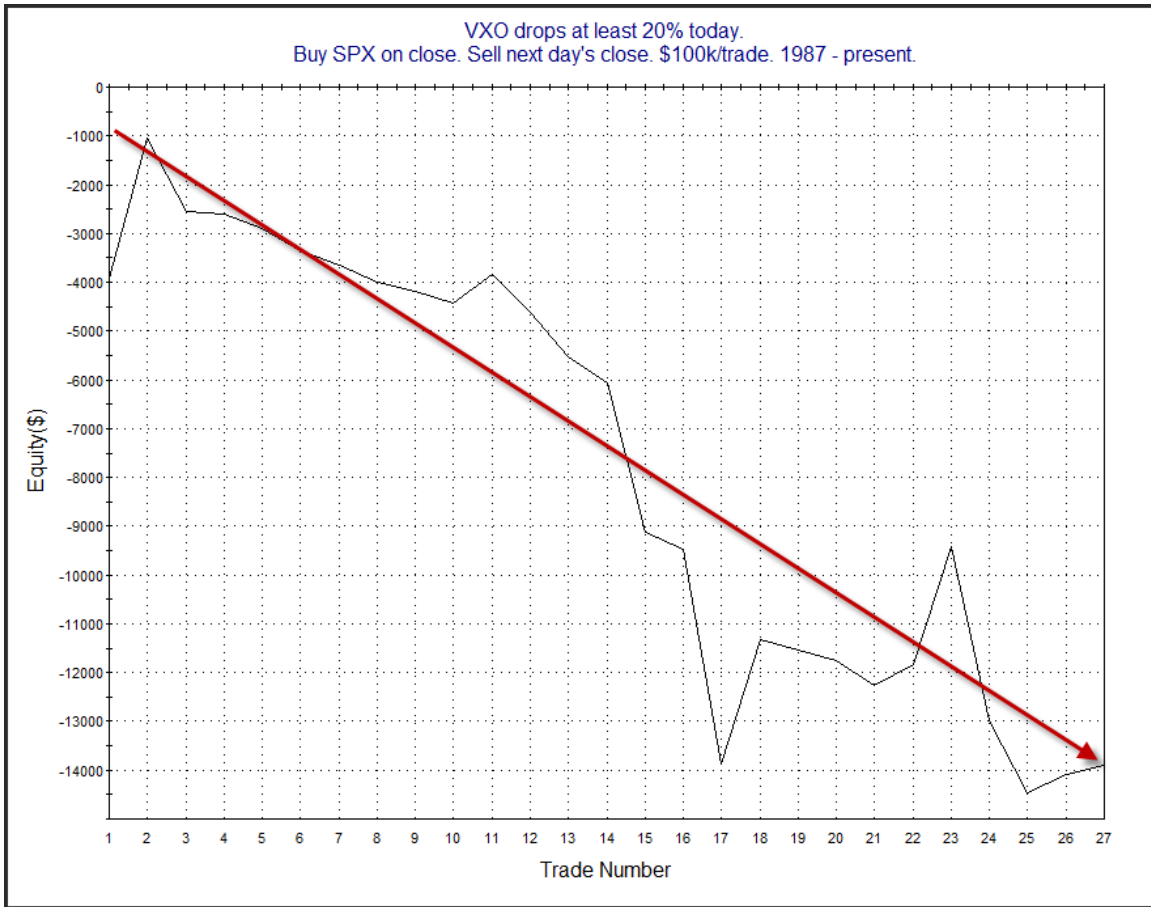
The Evidence

Monday was a rally day. The SPX rose 1.1%, the NASDAQ gained 1.2%, and the Russell 2000 climbed 1.3%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 75%. NYSE volume declined some from its opex Friday high levels.

The VIX, which is a measure of options pricing and is often referred to as a “fear index” saw a 26% drop on Monday. Meanwhile, the VXO, which is the old calculation of the VIX declined nearly 29.5%. Such big declines often suggest short-term over-optimism on the part of traders and are followed by a dip the next day. This can be seen in the study below, which was last seen in the 11/10/16 letter. All stats are updated.

VXO drops at least 20% today. Buy SPX on close. Sell next day's close. \$100k/trade. 1987 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$13,906.70)	Profit Factor	0.40
Gross Profit	\$9,404.11	Gross Loss	(\$23,310.81)
Total Number of Trades	27	Percent Profitable	25.93%
Winning Trades	7	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	(\$515.06)	Ratio Avg. Win:Avg. Loss	1.15
Avg. Winning Trade	\$1,343.44	Avg. Losing Trade	(\$1,165.54)
Largest Winning Trade	\$2,860.08	Largest Losing Trade	(\$4,400.45)

Numbers here suggest a downside edge. Below is a profit curve to see how it has played out over time.



Quite choppy but it certainly appears the big VXO drops don't often bode well for the next day. This study has been added to the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's study under consideration the green Aggregator Line held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal changed from flat to short at the close.

Based on the current list of studies, expectations are set to remain negative on Tuesday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2363.62 on Tuesday. That is 0.4% below Monday's close. So SPX would need to close down at least 0.4% in order to move from overbought to oversold as of Tuesday's close.

There does appear to be a short-term downside edge. But I am typically fairly cautious about taking trades that are counter to my intermediate-term bias. The intermediate-term bias is still bullish. And while I think an aggressive trader could manage a quick short-side trade here, I do not like the setup enough to try a counter-trend trade. So I'll sit out another day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/24 – bullish

The intermediate-term outlook was last updated in the 4/24 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.

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