

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 12, 2017

Volume 10 Issue 90

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish but I am still not enthused about the mix of studies and the current market position. It does not yet appear to be a pullback worth buying.

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 | | | | | | |
| May 12, 2017 | Relatively big drop from 50-high | 1-4 days | Bullish | | | |
| May 11, 2017 | Gap & revers 2x. 10--high today. | 1-2 days | Bearish | | | |
| May 8, 2017 | 50-day breakout on lower volume | 1-5 days | Bullish | | | |
| May 5, 2017 | High volume up days | 1-10 days | Bullish | | | |
| Active - Long Term | | | | | | |
| April 28, 2017 | 20-high. High volume. | 1-16 days | Bullish | 2.80% | -1.80% | -3.20% |
| 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 | | | |
| Dropped Tonight | | | | | | |
| May 11, 2017 | SPY top 10% range. Less than 0.25% gain | 1 day | Bearish | | | |

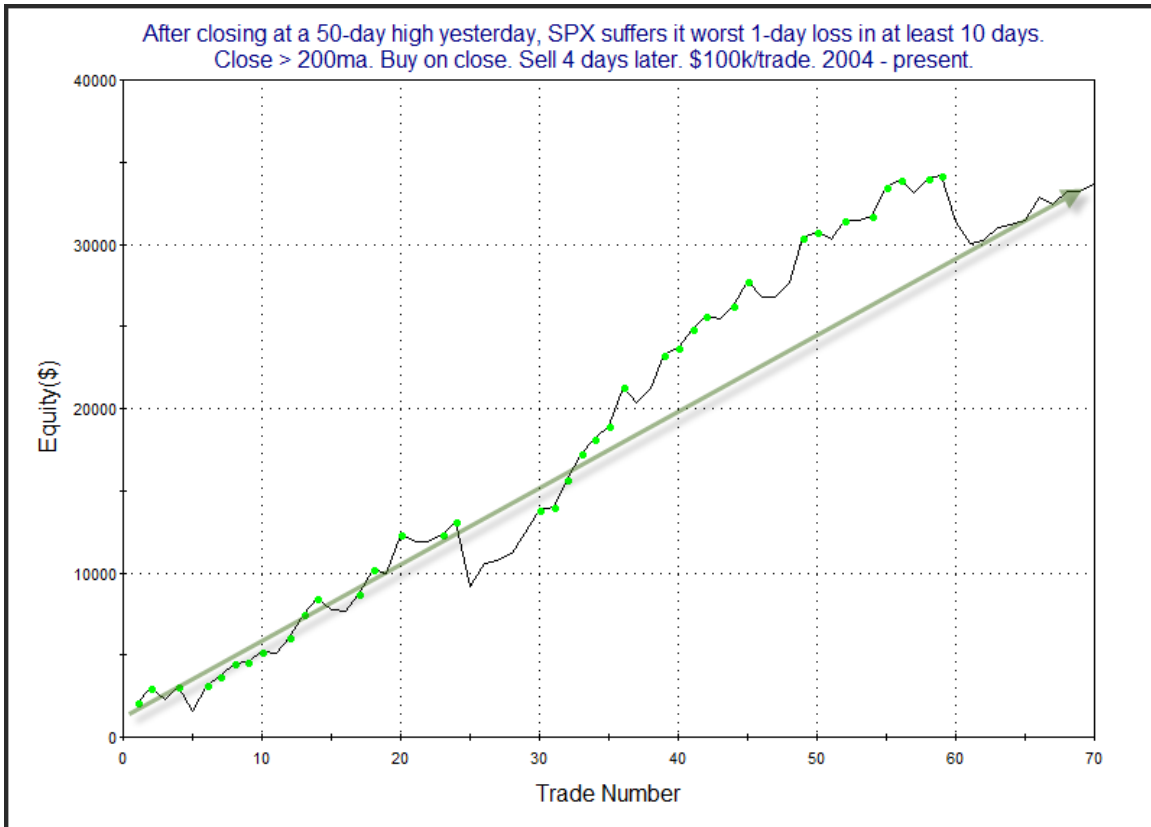
The Evidence

A strong selloff in the morning saw a partial bounce back in the afternoon, leaving the major indices with just mild losses. The SPX lost 0.2%, the NASDAQ fell 0.2%, and the Russell 2000 dropped 0.7%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 34%. NYSE volume increased some from Wednesday's level.

There were a few studies worth consideration that emerged tonight. This first study looks at *relatively* large drops from intermediate-term highs. It was last seen in the 2/23/17 letter. I have updated all the stats.

| After closing at a 50-day high yesterday, SPX suffers it worst 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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 | 26,943.31 | 66 | 46 | 20 | 69.70 | 1,178.41 | 3,149.37 | -1,363.18 | -3,454.00 | 0.86 | 1.99 | 408.23 |
| 4 | 33,698.15 | 70 | 51 | 19 | 72.86 | 967.17 | 2,725.38 | -822.49 | -3,895.76 | 1.18 | 3.16 | 481.40 |
| 3 | 26,223.62 | 71 | 52 | 19 | 73.24 | 783.84 | 2,192.40 | -765.04 | -1,808.21 | 1.02 | 2.80 | 369.35 |
| 2 | 15,893.30 | 74 | 43 | 31 | 58.11 | 742.13 | 2,437.50 | -516.72 | -1,777.55 | 1.44 | 1.99 | 214.77 |
| 1 | 9,570.32 | 74 | 46 | 28 | 62.16 | 505.97 | 1,521.72 | -489.43 | -1,354.59 | 1.03 | 1.70 | 129.33 |

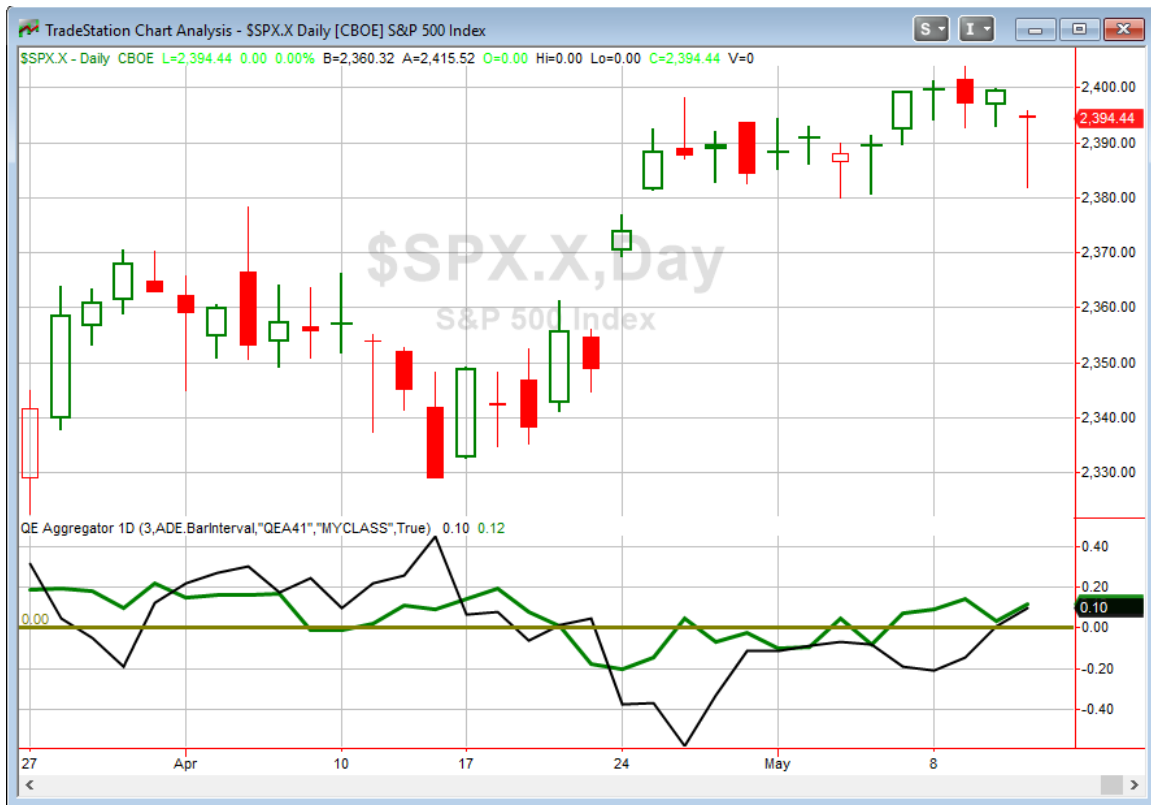
The stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



Despite some recent struggles, the steady upslope seems to confirm the bullish inclination. This study is on the Active List tonight.

While there were some other studies that appeared in the Quantifinder, this is the only one I elected to include. The others had somewhat borderline recent performance. Additionally, the market setup we are looking at right now is quite unusual. SPY went from a 50-day high on Wednesday to a 5-day low on Thursday. But even at a 5-day low it still managed to close above its 7-day moving average. That is very unusual (7th time ever), and it speaks to how tight and choppy the action has been over the last week.

I have updated the Aggregator chart below.



With tonight's study to consider 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 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 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2404.29 on Friday. That is 0.4% above Thursday's close. So for SPX to move from oversold to overbought on Friday it will need to close up at least 0.4%.

The Aggregator is again in a bullish formation, but I am still not enthused. I noted that the "pullback" still has SPX above its short-term moving averages. At this point I would at least like to see it close below its 10ma before considering it a pullback worth trading. I plan to give it another day, and will re-examine as always over the weekend. I will note there was 1 new Catapult that triggered as usual I will look to trade that.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/8 –bullish

The intermediate-term outlook was last updated in the 5/8 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

T – 1/3 @ \$38.40 (buy @ limit)

DIS – 1/3 @ \$111.62 (buy @ limit)

T – 1/3 @ \$38.01 (*not filled – cancel for now*)

DIS – 1/3 @ \$111.17 (bought @ limit)

IBM – 1/3 @ \$151.25 (bought @ limit)

New

IBM – 1/3 @ \$150.65 (buy @ limit)

Broad Market Large Cap CBI – 6(T-2, DIS-2, IBM-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.

IBM – buy 1/3 Catapult position @ \$150.65 LIMIT. This is from the Catapult section above. It is the 2nd of 3 possible lots for IBM.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|----------|
| T(1/3) | 5/4/2017 | \$38.40 | \$38.44 | 0.10% | | Catapult |
| DIS(1/3) | 5/4/2017 | \$110.58 | \$109.58 | -0.90% | | Catapult |
| DIS(1/3) | 5/5/2017 | \$111.17 | \$109.58 | -1.43% | | Catapult |
| IBM(1/3) | 5/11/2017 | \$151.05 | \$150.65 | -0.26% | | Catapult |
| | | | | | | |

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