

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 27, 2017

Volume 10 Issue 122

Market Overview



Signals Overview

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

Tonight's Research Points

- The recent mild action sets the market up for a possible sharp move.

Short-term Outlook

The Bottom Line

Expectations are mildly bullish and the market is a little overbought. This leaves the Aggregator neutral.

The Evidence

Monday was mixed for the market. The SPX rose 0.03%, the NASDAQ lost 0.3%, and the Russell 2000 gained 0.1%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 70%. NYSE volume came in at the lightest level in weeks.

The mild action did not trigger much compelling evidence. One factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.22 on Monday. This suggests a volatility expansion is likely to occur in the next few days. I last discussed this indicator in the 5/25/17 Letter.

I first introduced the 3/10 Offset HV in July of 2009. It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. This is below the historical average but still implied a sharp volatility expansion is likely.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

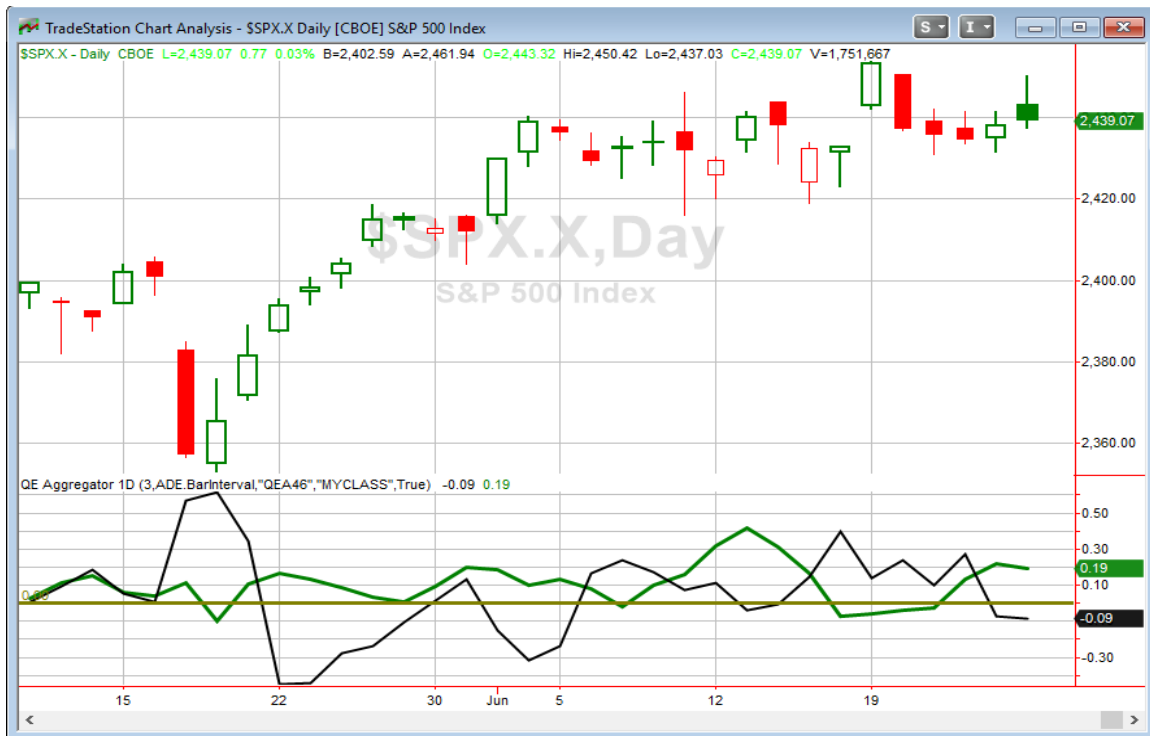
[Quantifiable Edges ORBs Study](#)

For anyone who is interested in seeing some techniques for actually trading these ORBs, there is a webinar from October 2010 on the subject on the videos page (subscribers only).

[Daytrading ORBs using the 3/10 Offset HV as a filter](#)

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. Of course tonight the Aggregator is neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

I have updated the Aggregator chart below.



Without any new short-term evidence 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 down 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 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2436.26 on Tuesday. That is 0.1% below Monday's close. So SPX will only need to close down 0.1% in order to move from overbought to oversold as of Tuesday's close.

Again we see mildly bullish evidence in a mildly overbought market. There has been a lot of chop and we are at a point where the market could explode in either direction. This is not an appealing setup. I will wait for a more favorable reward/risk setup to emerge before taking new trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/26 –neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

COST – 1/3 @ \$159.79 (bought @ limit)

COST – 1/3 @ \$157.13 (buy @ limit) – not filled – cancel for now

Broad Market Large Cap CBI – 2(COST-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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COST(1/3)	6/23/2017	\$159.40	\$160.20	0.50%		Catapult

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