

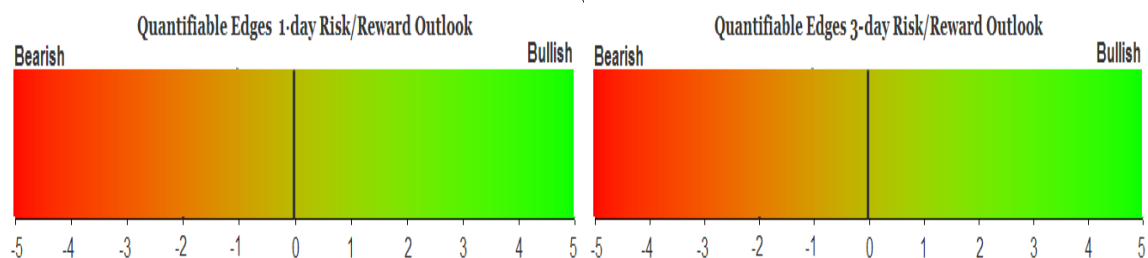
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2017

Volume 10 Issue 183

Market Overview



Signals Overview

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

Tonight's Research Points

- The very light NYSE volume on the pullback Thursday could suggest more selling soon.
- Relatively strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

Evidence is mildly bullish and the SPX is a little oversold. This is leaving the Aggregator in a bullish formation. But the setup does not appear to have strongly favorable reward/risk.

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						
September 22, 2017	Relatively big drop from 50-high	1-3 days	Bullish			
September 20, 2017	100-day high on Fed Day	1-8 days	Bullish	1.80%	-0.95%	-1.60%
Active - Long Term						
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
September 1, 2017	5 days up. Close < 50-high.	1-15 days	Bullish	3.05%	-1.60%	-3.20%
July 17, 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						
September 18, 2017	Weakest Week of the Year	1-4 days	Bearish			

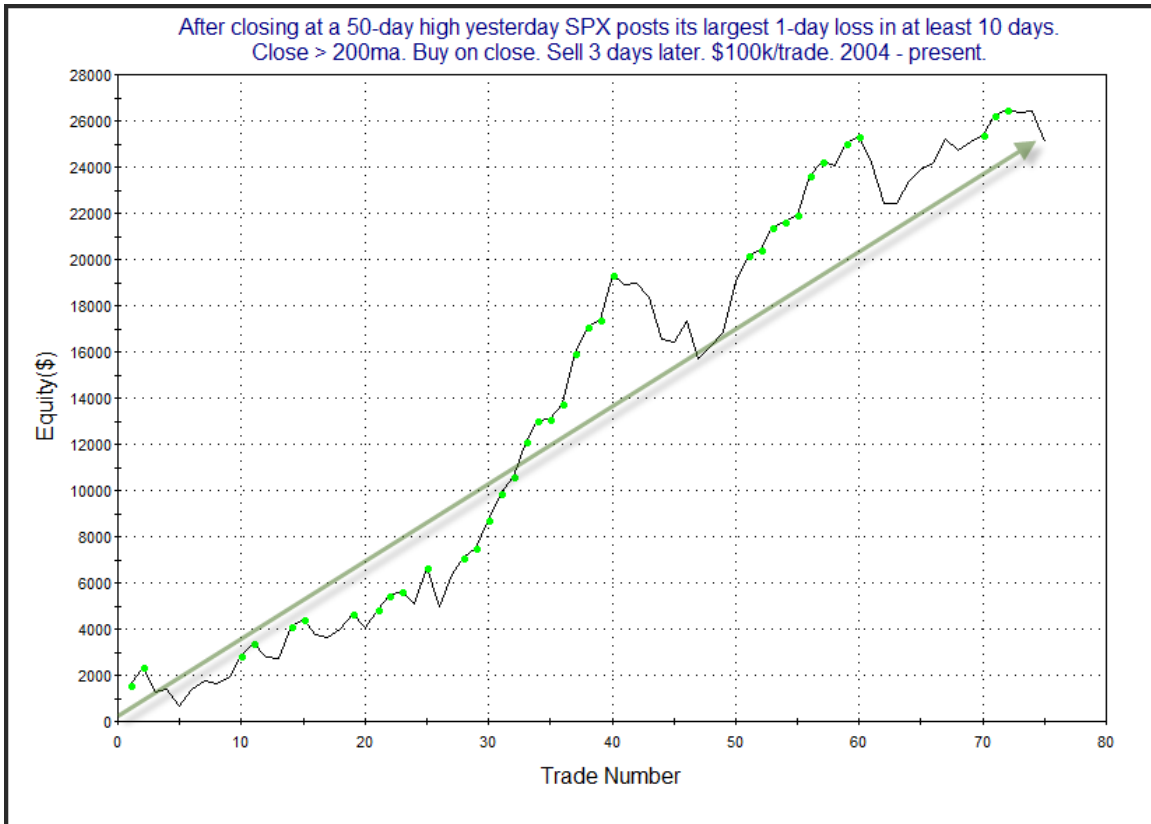
The Evidence

Thursday was a mild down day for most of the market. The SPX declined 0.3%, the Nasdaq lost 0.5%, and the Russell 2000 dropped 0.1%. Breadth was negative as the NYSE Up Issues % was 41.8% and the Up Volume % came in at 42.0%. NYSE volume came in at the lightest level in a while.

While the action was not terribly strong, there were a couple of studies that stood out as interesting. This 1st one looked at *relatively* large drops from intermediate-term highs. It was last seen in the 8/9/17 letter. I have updated all the stats.

After closing at a 50-day high yesterday SPX posts its largest 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	24,354.63	70	46	24	65.71	1,178.41	3,149.37	-1,243.85	-3,454.00	0.95	1.82	347.92
4	31,707.25	74	52	22	70.27	950.18	2,725.38	-804.63	-3,895.76	1.18	2.79	428.48
3	25,092.41	75	54	21	72.00	760.50	2,192.40	-760.69	-1,808.21	1.00	2.57	334.57
2	14,522.89	78	44	34	56.41	732.60	2,437.50	-520.93	-1,777.55	1.41	1.82	186.19
1	9,053.39	78	46	32	58.97	505.97	1,521.72	-444.41	-1,354.59	1.14	1.64	116.07

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



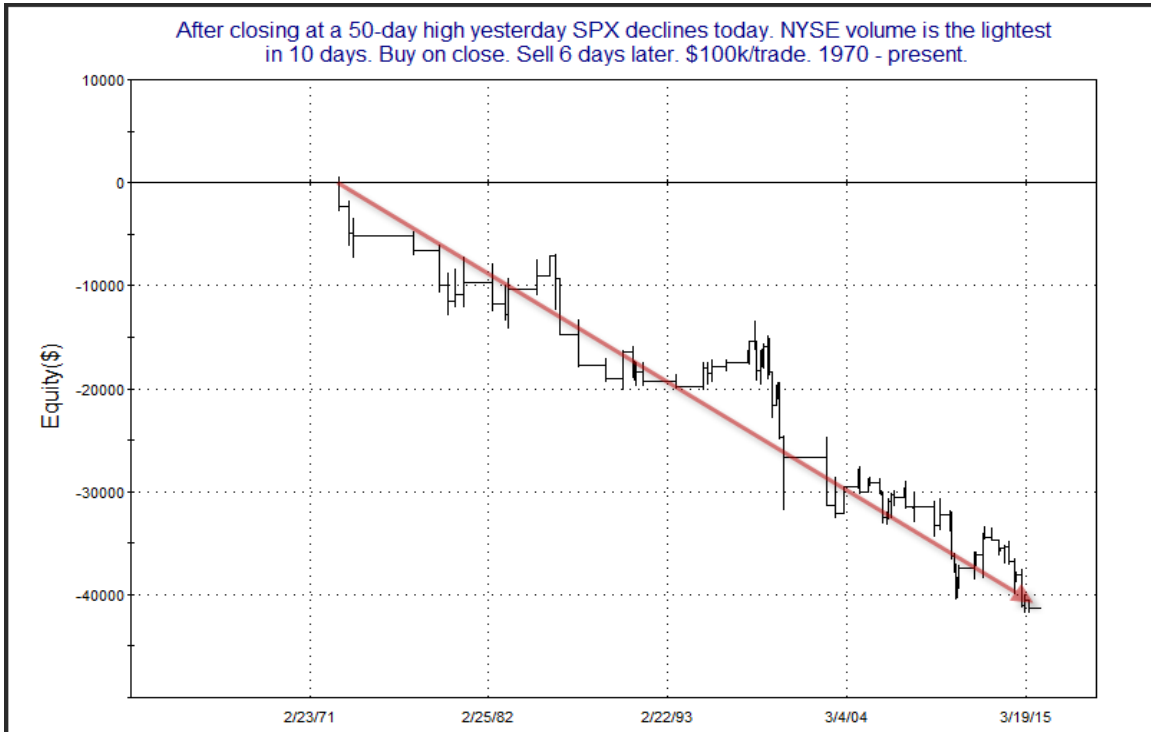
The strong upslope seems to confirm the bullish inclination. This study is on the Active List tonight. I will note that I get questions about this study quite often, because many times the “big” drop is not that big. That is ok. It simply looks at the size of the drop versus the last 10 days.

The study below is one that was last seen in the 3/23/16 letter. It looks at light volume occurring on down days after a 50-day high. Stats have all been updated.

After closing at a 50-day high yesterday SPX declines today. NYSE volume is the lightest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - present.

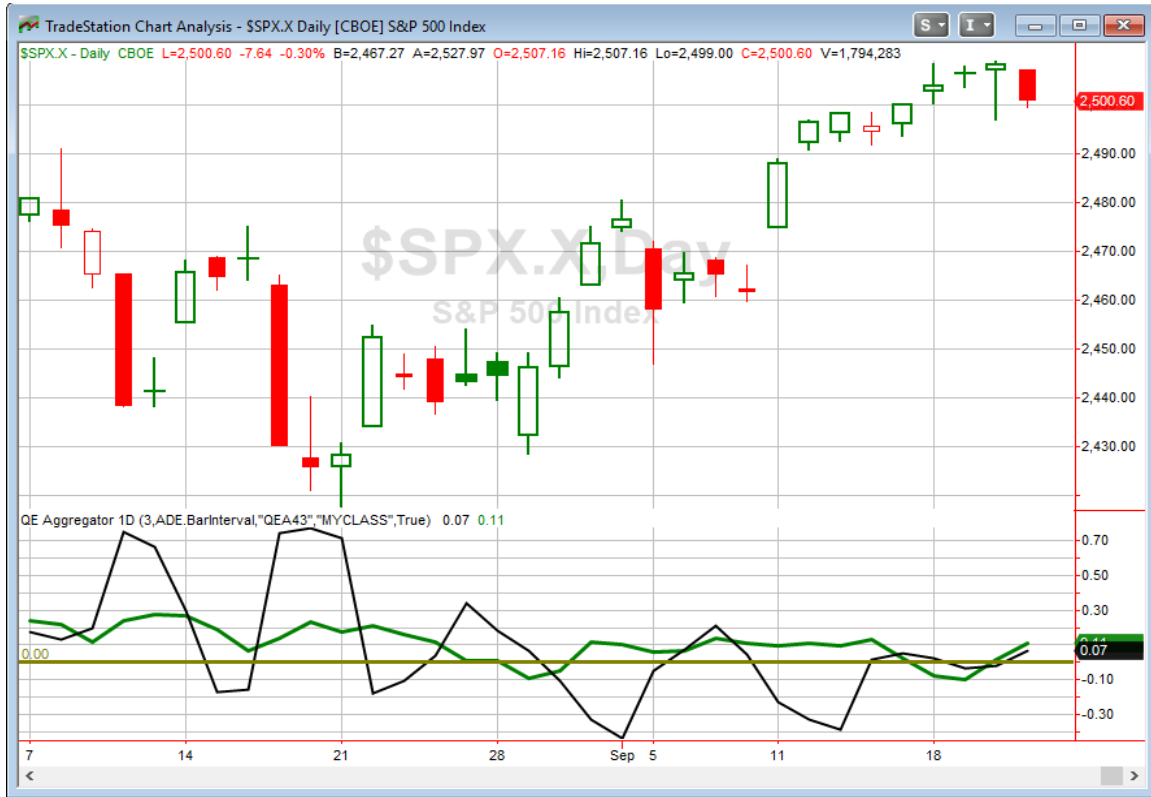
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-29,748.67	70	35	35	50.00	1,700.38	5,104.00	-2,550.34	-6,121.74	0.67	0.67	-424.98
9	-24,308.66	71	36	35	50.70	1,666.58	3,955.23	-2,408.73	-6,236.87	0.69	0.71	-342.38
8	-34,968.21	71	33	38	46.48	1,462.74	3,521.07	-2,190.49	-6,661.66	0.67	0.58	-492.51
7	-44,455.26	71	32	39	45.07	1,261.29	3,732.48	-2,174.78	-7,193.64	0.58	0.48	-626.13
6	-41,262.30	72	33	39	45.83	1,055.00	2,563.47	-1,950.70	-5,426.99	0.54	0.46	-573.09
5	-27,100.07	73	34	39	46.58	938.68	2,273.04	-1,513.21	-4,288.68	0.62	0.54	-371.23
4	-24,298.46	76	37	39	48.68	831.05	2,457.84	-1,411.47	-4,263.60	0.59	0.56	-319.72
3	-5,855.66	79	43	36	54.43	795.06	2,169.48	-1,112.31	-3,726.24	0.71	0.85	-74.12
2	-1,587.46	79	42	37	53.16	680.53	2,328.05	-815.39	-4,049.40	0.83	0.95	-20.09
1	-4,710.42	79	41	38	51.90	487.37	2,235.13	-649.80	-3,068.81	0.75	0.81	-59.63

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line inched a little 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 turned long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be 2502.91 on Friday. That is just 0.1% above Thursday's close. Therefore, SPX will only need to close up 0.1% on Friday in order to be considered "overbought" versus recent expectations.

So the Aggregator is now in a bullish configuration. And there may be a moderate upside edge. But I am not terribly excited just yet. For one, we are only down 1 day from an all-time high. That is not much of a pullback. And all it would take to turn the Aggregator

long signals off is a close higher of 0.1%. So profit potential is quite limited. Additionally, the SPX is reaching a point where it is becoming overdue for a more substantial short-term pullback. It has now closed above the 10ma for 18 days in a row, which is an extended amount of time. After this long, I would prefer to see an SPX close below the 10ma before jumping into a long position. Bottom line is that there appears to be a mild upside edge, but reward/risk is not strong enough to entice me to look to take advantage of this bullish edge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/18– somewhat bullish

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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