

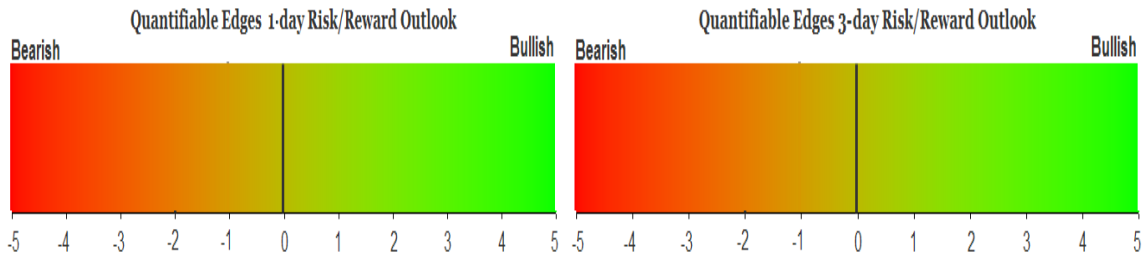
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 29, 2017

Volume 10 Issue 188

Market Overview



Signals Overview

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

Tonight's Research Points

- For breakouts to generate a short-term upside edge, they should have longer bases than what we saw with SPX.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and I am too.

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 26, 2017	Gap to 5 low then close < open	1-4 days	Bullish	1.80%	-1.10%	-2.30%
September 26, 2017	1st close < 10ma in > 15 days	1-5 days	Bullish	1.40%	-0.95%	-1.95%
September 20, 2017	100-day high on Fed Day	1-8 days	Bullish	1.80%	-0.95%	-1.60%
Active - Long Term						
September 25, 2017	SOMA reduction about to begin	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

An afternoon rally led to positive gains for most of the major indices. The SPX rose 0.1%, the Nasdaq gained a very small 0.19 points, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 53%. NYSE volume declined some from Wednesday's level.

Last night I discussed that while some indices are hitting intermediate-term highs, they are not emerging from basing formations (also known as periods of consolidation), but instead are making repeated highs, or are emerging from very short bases. The SPX is one such index that made a new high on Thursday after having a short, 6-day base. A study did appear in the Quantifinder that looked at breakout from bases of at least 5 days that occurred on low volume. It suggested the low volume could be an advantage, and that a short-term bullish edge existed. But the real focus of that study was the volume. Tonight I want to review it and focus on the length of the base. So I used the same study and broke it down by bases between 5-9 days and bases of at least 10 days.

SPX closes at a 50-day high after not doing so for at least 5 days (<i>but less than 10 days</i>). NYSE volume declines. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	6,375.73	26	12	14	46.15	1,389.81	3,687.06	-735.86	-2,508.38	1.89	1.62	245.22
4	4,033.18	26	15	11	57.69	888.26	3,349.50	-844.61	-2,300.20	1.05	1.43	155.12
3	3,724.84	26	14	12	53.85	913.49	3,803.64	-755.34	-2,125.44	1.21	1.41	143.26
2	1,548.69	26	18	8	69.23	525.18	1,658.22	-988.08	-2,752.74	0.53	1.20	59.57
1	3,354.70	26	17	9	65.38	433.27	1,415.70	-445.66	-1,721.70	0.97	1.84	129.03

Odds for these shorter bases appear very mild. Now let's look at the longer bases.

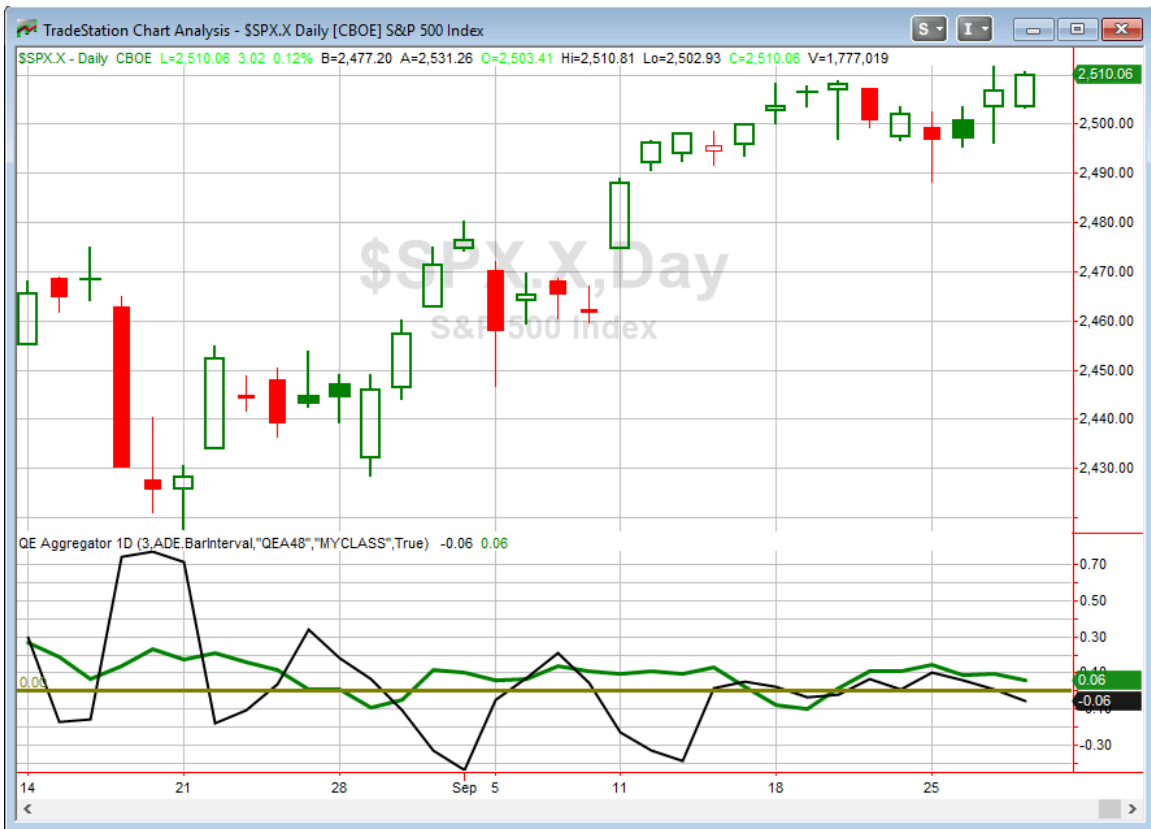
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5	29,765.99	42	29	13	69.05	1,361.95	3,260.25	-748.50	-3,070.40	1.82	4.06	708.71
4	20,226.08	42	29	13	69.05	1,155.76	2,953.65	-1,022.39	-2,913.85	1.13	2.52	481.57
3	21,646.91	42	30	12	71.43	1,065.47	2,641.80	-859.78	-1,802.37	1.24	3.10	515.40
2	11,603.38	42	27	15	64.29	734.71	2,212.98	-548.93	-1,912.60	1.34	2.41	276.27
1	3,098.06	42	27	15	64.29	341.79	1,384.02	-408.68	-1,921.32	0.84	1.51	73.76

The odds here appear substantially better.

So in a situation like we have tonight, with a short base, there does not appear to be a substantial edge. Additionally, I am not seeing any other studies suggesting Thursday's action dropped strong hints. So there is nothing new being added to the Active List tonight.

I have updated the Aggregator chart below.



Without any compelling new evidence emerging tonight, 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 dipped 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 turned flat 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 2505.37 on Friday. That is 0.2% below Thursday's close. Therefore, SPX would need to close down at least 0.2% in order to move from overbought to oversold versus expectations.

The Aggregator has slipped into a neutral state, and I am not seeing anything suggesting a very strong edge. So I won't be looking to take on any new index positions ahead of the weekend. I will note that Friday is the last day of the month. And the turn of the month is often bullish, especially when SPX closes poorly to finish the month. While I am not inclined to jump into the market before seeing what studies emerge on Friday, more aggressive traders could consider a long position if Friday closes down and near the low end of its intraday range. Such action would turn the market oversold and would certainly generate at least 1 bullish turn-of-month study.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/25– neutral

The intermediate-term outlook was last updated in the 9/25 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

KHC @ \$77.52 (bought @ limit)

Broad Market Large Cap CBI – 1(KHC)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	9/25/2017	\$77.52	\$77.97	0.58%		Catapult

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