

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 20, 2017

Volume 10 Issue 203

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but with the market continually posting new all-time highs, I would prefer to see a pullback before taking on new long index exposure.

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						
October 20, 2017	SPY up < 0.25%. Top 10% daily range	1 day	Bearish			
October 19, 2017	Unfill up. 20-high. Close < open.	1-3 days	Bullish			
October 17, 2017	RUT down 3 days. SPX 3-day high	1-4 days	Bullish			
Active - Long Term						
October 17, 2017	RUT down 3 days. SPX 3-day high	1-10 days	Bullish			
October 9, 2017	5 up & 50-high, then 1 down	1-10 days	Bullish	1.90%	-1.00%	-2.20%
October 4, 2017	RSI(2) crosses over 99	1-15 days	Bullish	2.30%	-1.40%	-2.70%
October 2, 2017	NASDAQ leading	int term	Bullish			
October 2, 2017	SOMA reduction begins	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			

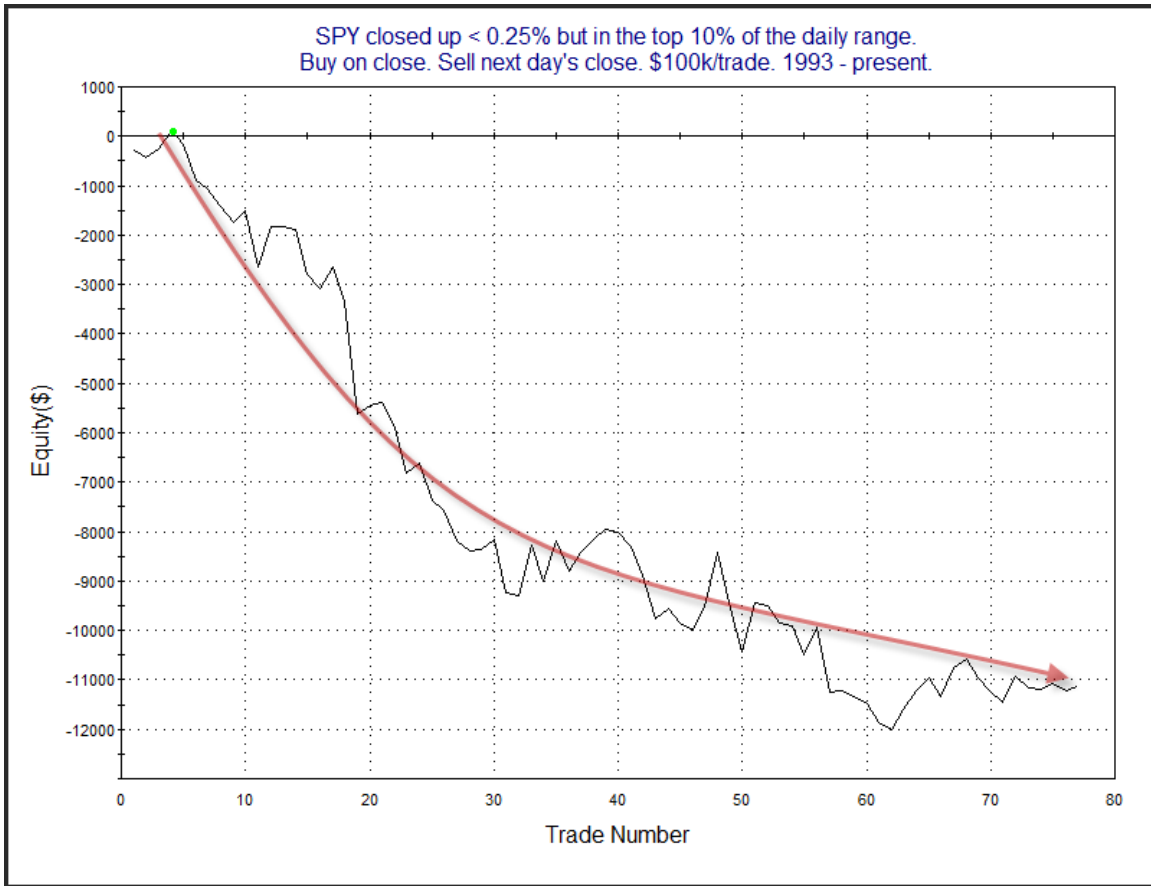
The Evidence

Thursday started with a large gap down. But by the end of the day most of the losses were wiped out, and some indices managed to close positive. SPX finished up 0.03%, the NASDAQ declined 0.3%, and the Russell 2000 lost 0.2%. Breadth was mixed as the NYSE Up Issues % was 49% and the Up Volume % came in at 55%. NYSE volume rose some from Wednesday's level.

One interesting study to appear in the Quantifinder was the one below, which we have seen a bunch recently - the last time being just a few days ago in the 10/18/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$11,137.45)	Profit Factor	0.50
Gross Profit	\$11,335.45	Gross Loss	(\$22,472.90)
Total Number of Trades	77	Percent Profitable	38.96%
Winning Trades	30	Losing Trades	47
Even Trades	0		
Avg. Trade Net Profit	(\$144.64)	Ratio Avg. Win:Avg. Loss	0.79
Avg. Winning Trade	\$377.85	Avg. Losing Trade	(\$478.15)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

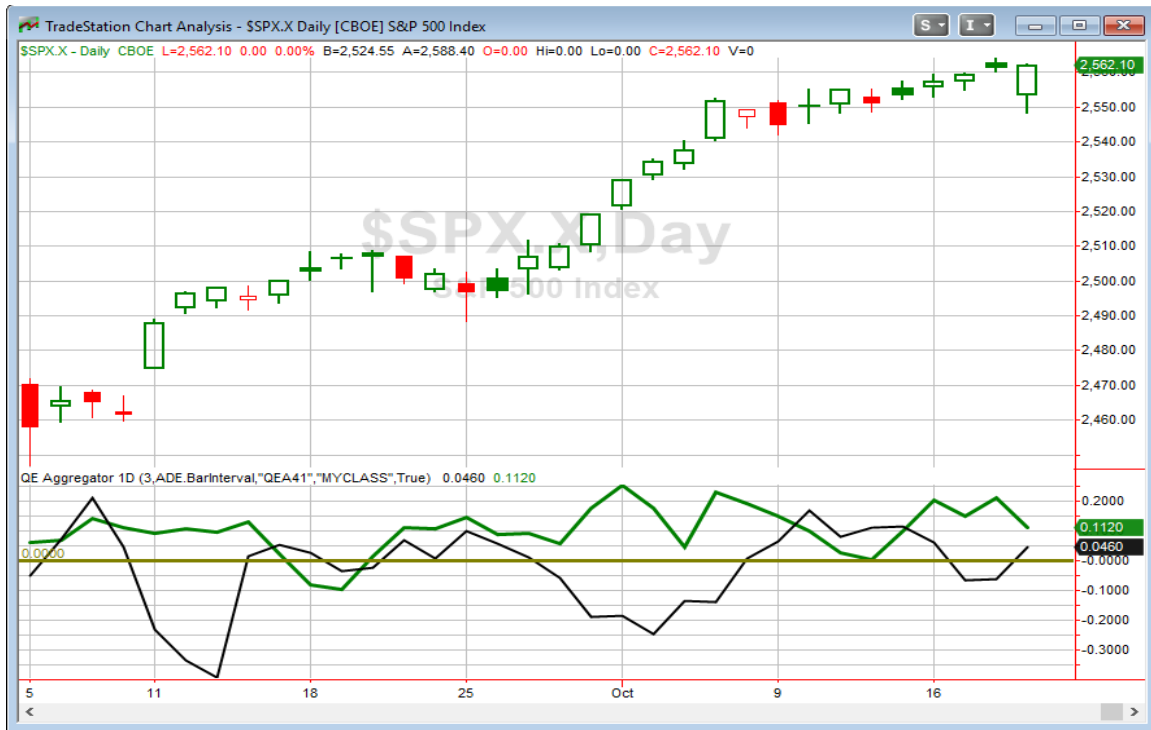
As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The curve has flattened out a good bit in recent times. I am monitoring this, and will suspend the study if need be. But for now, I am still giving it the benefit of the doubt and including it on the Active List.

There were some other studies that appeared in the Quantifinder, but none that looked to be providing a compelling edge in the current environment.

I have updated the Aggregator chart below.



Even with tonight's bearish 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 moved 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 list of active studies, expectations are set to remain positive on Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2571.04 on Friday. That is 0.35% above Thursday's close. So SPX would need to close up at least 0.35% in order to move from "oversold" to "overbought" versus recent expectations.

Of course, the Aggregator looks at returns on a relative basis as compared to recent expectations. It is only because we have seen solid bullish evidence lately that SPX could manage to close up 5 days in a row and at an all-time high and still be considered "oversold". Any traditional measurement would show SPX as overbought, rather than oversold. In fact, SPY has now closed in the top 20% of its 10-day range for 17 days in a row – a feat that has only ever been matched 4 other times looking back to 1993. So I still would prefer to see a real pullback before taking on new long index exposure. Interestingly, there were a couple of new Catapults. I will look to take advantage of them.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/16– somewhat bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

New

HAL @ \$43.42 (buy 1/3 @ limit)

KHC @ \$76.47 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 2(HAL, 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.

HAL – buy 1/3 Catapult position @ \$43.42 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lots for HAL.

KHC – buy 1/3 Catapult position @ \$76.47 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lots for KHC.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>C(1/3)</i>	<i>10/16/2017</i>	<i>\$71.38</i>	<i>\$72.35</i>	<i>1.36%</i>		<i>sold on open</i>

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