

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 11, 2018

Volume 11 Issue 8

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator flipped to bullish. But evidence is mixed and the Differential Pivot is inverted. So reward/risk appears pretty weak. I do not believe the edge is strong enough to merit a new long index position just yet.

*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
<b>Active - Short Term</b>						
January 11, 2018	5 up 50 high. Down 1.	1-4 days	Bullish			
January 11, 2018	Unfill up 20 high. Unfilled gap down	1-3 days	Bearish			
January 10, 2018	1st 4 days of year close higher	1-8 days	Bullish	2.00%	-1.30%	-2.70%
January 10, 2018	VIX up 2.5%. SPX 50-high	1-2 days	Bearish			
<b>Active - Long Term</b>						
January 11, 2018	5 up 50 high. Down 1.	1-10 days	Bullish			
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
January 8, 2018	SOMA reduction intensifies to \$20billion	int term	Bearish			
January 2, 2018	SPY 1st close < 10ma in 25+ days	1-19 days	Bullish	4.10%	-0.90%	-2.15%
November 30, 2017	SPX 50-intraday high. NDX big down 50	1-50 days	Bullish			
November 29, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
November 14, 2017	SPX top 25% 20day rng. RUT bottom 25	1-40 days	Bullish	5.60%	-2.80%	-5.50%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
January 9, 2018	SPX 50-high. VIX up. Monday	1-2 days	Bearish			

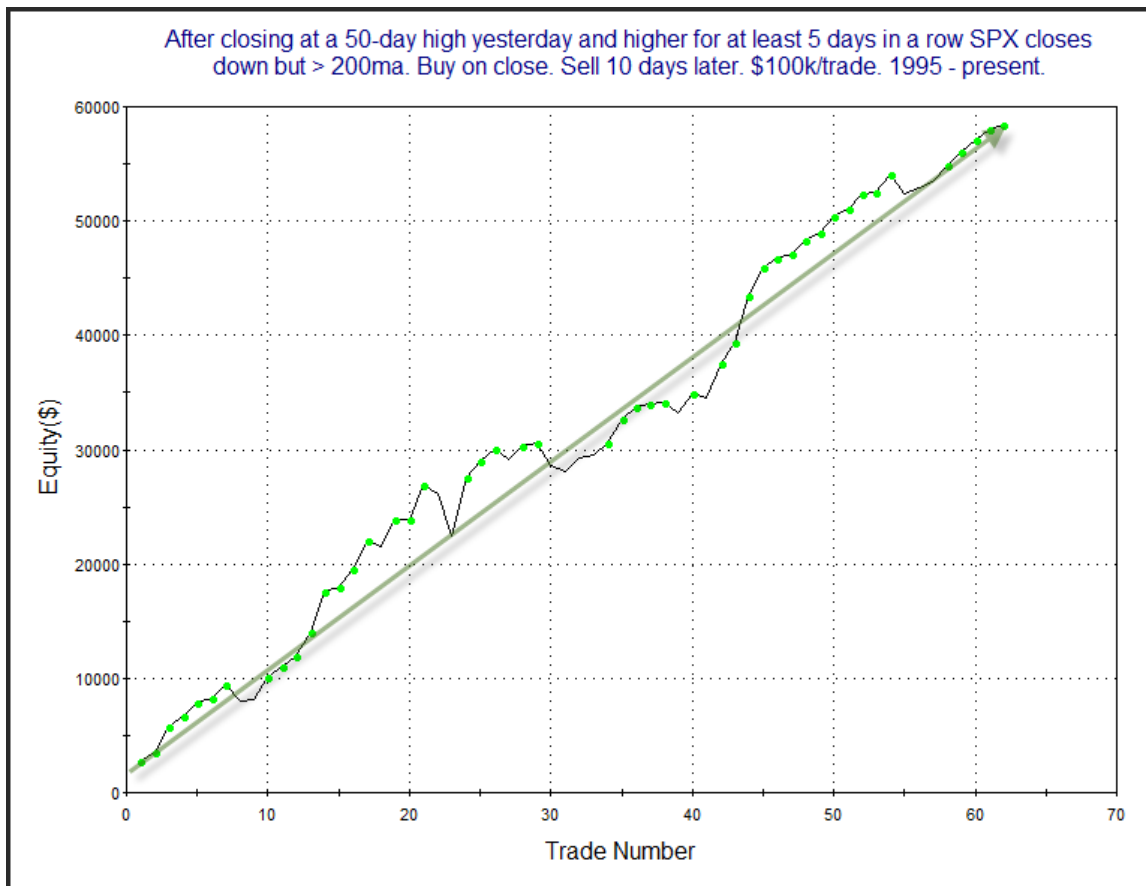
**The Evidence**

Wednesday was a day of mild losses for the market. The SPX and NASDAQ each fell 0.1%, while the Russell 2000 lost 0.02%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 52%. NYSE volume rose some from Tuesday's level.

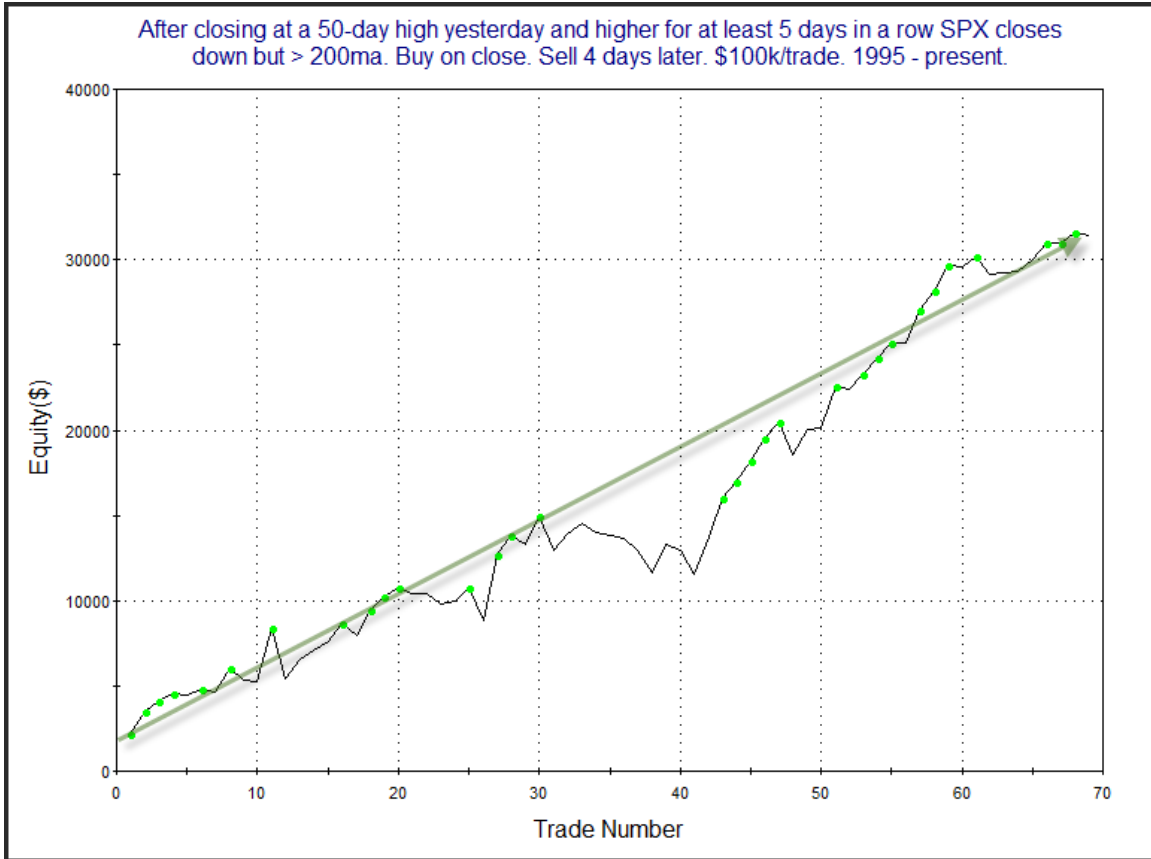
There were a few interesting studies that triggered tonight. One compelling suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 11/8/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	58,391.74	62	52	10	83.87	1,371.49	5,131.35	-1,292.59	-3,672.90	1.06	5.52	941.80
9	56,963.35	65	53	12	81.54	1,367.28	5,023.20	-1,291.89	-4,151.40	1.06	4.67	876.36
8	49,490.97	66	47	19	71.21	1,538.11	4,878.08	-1,200.01	-4,874.10	1.28	3.17	749.86
7	37,898.73	67	46	21	68.66	1,380.01	3,874.76	-1,218.18	-3,912.48	1.13	2.48	565.65
6	37,407.77	69	48	21	69.57	1,265.87	4,307.20	-1,112.10	-3,637.71	1.14	2.60	542.14
5	29,193.97	69	44	25	63.77	1,107.60	4,252.50	-781.62	-2,466.75	1.42	2.49	423.10
4	31,417.14	69	44	25	63.77	1,128.18	3,843.00	-728.90	-3,003.39	1.55	2.72	455.32
3	19,640.87	69	44	25	63.77	862.44	2,472.85	-732.26	-1,992.34	1.18	2.07	284.65
2	18,185.49	69	47	22	68.12	727.74	2,437.50	-728.10	-2,614.95	1.00	2.14	263.56
1	10,773.40	69	45	23	65.22	495.06	1,751.19	-500.18	-1,744.10	0.99	1.94	156.14

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day:



The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



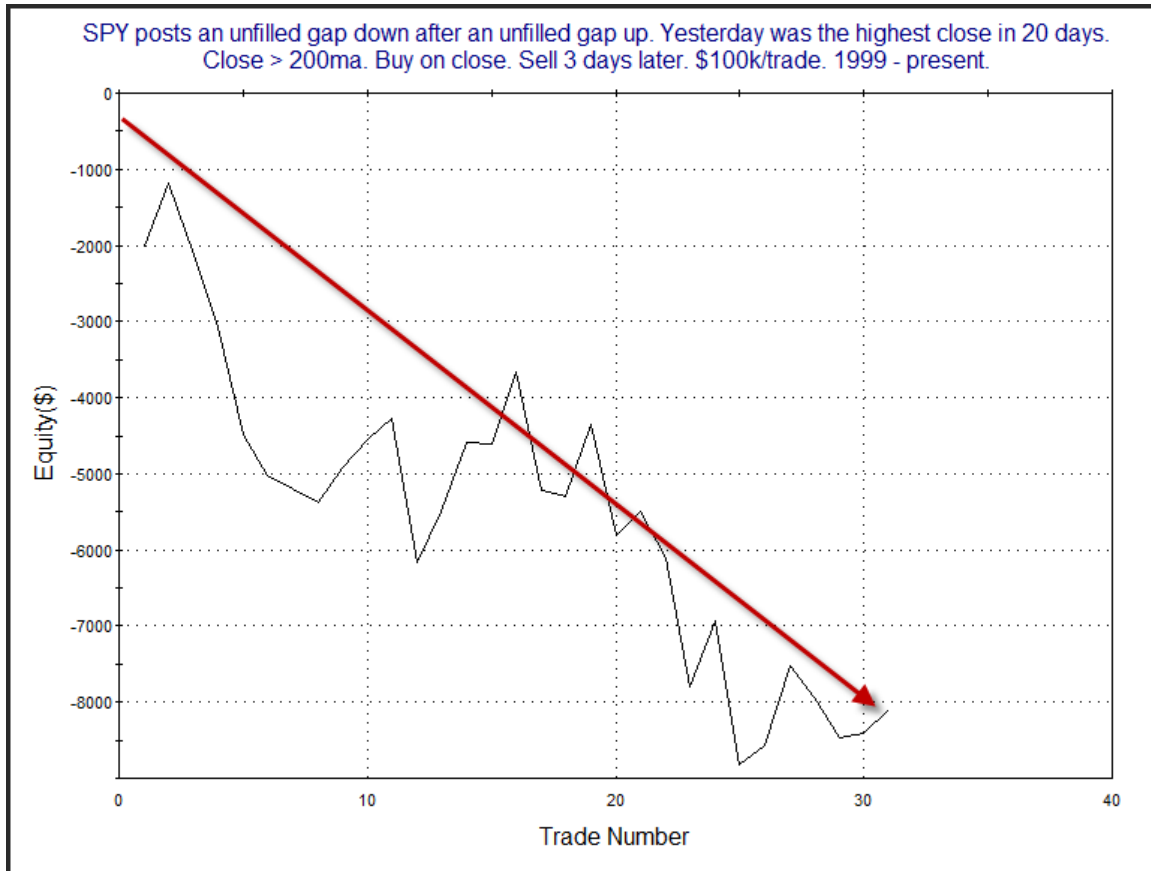
Results are choppy. But even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

But overall evidence was mixed. This next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 10/31/17 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-8,218.14	31	15	16	48.39	754.95	1,649.70	-1,221.40	-4,404.92	0.62	0.58	-265.10
4	-10,192.24	31	14	17	45.16	698.65	1,509.68	-1,174.91	-3,746.95	0.59	0.49	-328.78
3	-8,085.01	31	14	17	45.16	593.11	1,044.24	-964.03	-2,017.28	0.62	0.51	-260.81
2	-5,447.70	32	13	19	40.63	499.55	1,082.16	-628.52	-2,232.00	0.79	0.54	-170.24
1	-4,058.52	32	14	18	43.75	417.50	1,008.68	-550.20	-1,807.92	0.76	0.59	-126.83

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling over the next few days. So the short-term Active List received one bullish and one bearish study tonight.

I have updated the Aggregator chart below.



With tonight's studies considered the green Aggregator Line inched 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 moved 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 on opposite sides of 0. Therefore, the Aggregator signal flipped to long at the close.

Based on the current active list, expectations are slated to remain bullish on Thursday. This could change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2747.94 on Thursday. That is less than 1 point below Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down slightly in order to remain oversold, any flat or up close will result in an overbought SPX.

So the Aggregator is now bullish, but it is very tenuous. First of all, evidence is mixed and just barely leaning bullish at the moment. Additionally, I rarely view inverted pivot setups as opportune times to take on new exposure. This is because the potential reward is limited to just 1 day, since any up close would leave SPX overbought and cause the Aggregator signal to turn neutral or bearish. So I am not inclined to look to take on any new exposure on Thursday. I will continue to wait patiently for a strong reward/risk opportunity to emerge.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/8– somewhat bullish***

The intermediate-term outlook was last updated in the 1/8/18 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***

DUK – buy 1/3 @ \$81.94

***Broad Market Large Cap CBI – 1(DUK)***

**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
DUK(1/3)	1/8/2018	\$81.94	\$80.11	-2.23%		Catapult

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here.](#)*

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