

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 31, 2018

Volume 11 Issue 21

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.
- The pre-Fed day selling suggests a bullish edge for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. I am looking to manage my current index position, hoping to lock in some profits ahead of the Fed announcement. I may also add to my position if the reaction to the Fed is poor.

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						
January 31, 2018	1% drop ahead of Fed	1 day	Bullish			
January 31, 2018	1st close < 10ma in over 15 days	1-5 days	Bullish			
January 31, 2018	Gap < 5-low. Close < open. Close > 200ma	1-6 days	Bullish			
January 29, 2018	Unfill gap dn from 20-high aft unfill up	1-3 days	Bearish			
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-5 days	Bullish			
January 26, 2018	SPX 17 days > 5ma & 50-day high	1-12 days	Bullish	2.10%	-1.15%	-1.70%
Active - Long Term						
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-15 days	Bullish			
January 16, 2018	NASDAQ Leading	int term	Bullish			
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 \$20billior	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%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

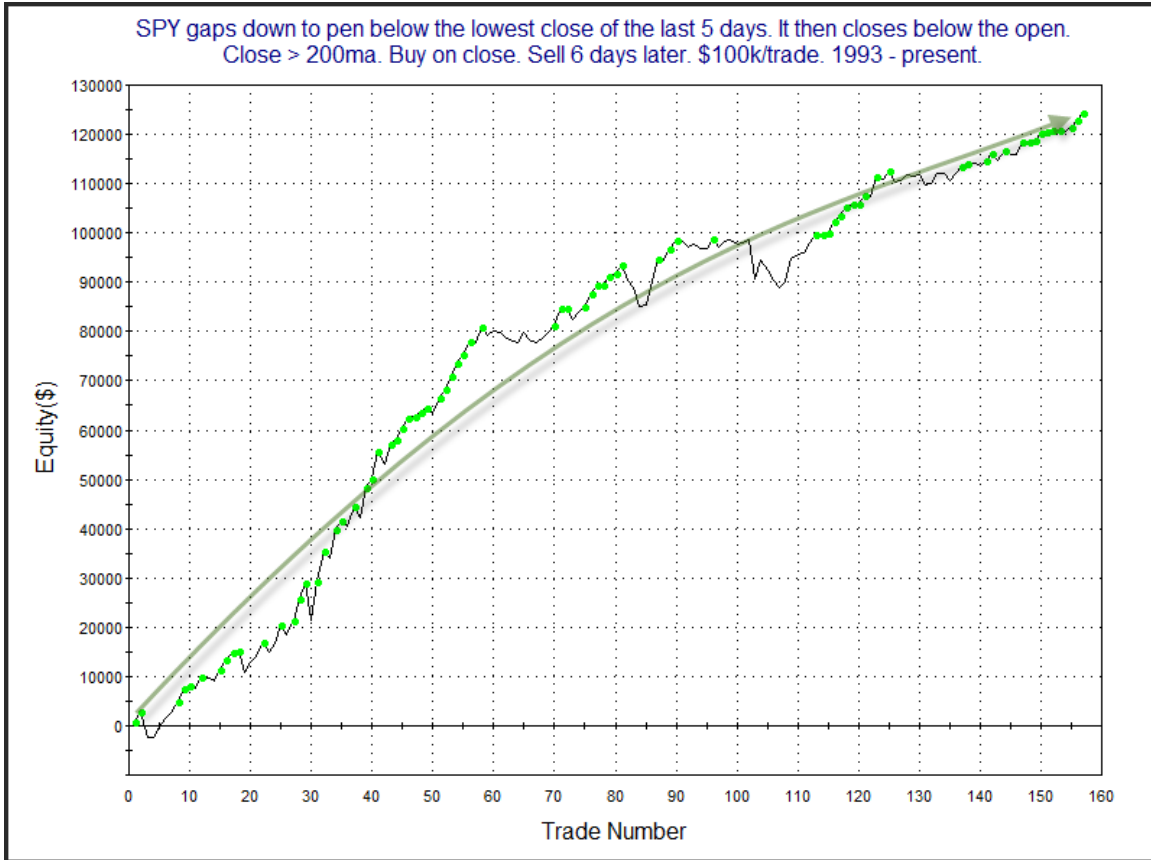
The Evidence

Tuesday saw some sharp selling. The SPX declined 1.1%, the NASDAQ dropped 0.9%, and the Russell 2000 lost 1.0%. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 17%. NYSE volume rose some from Monday's level.

One interesting aspect of Tuesday's action was the unfilled gap down and continued selloff. The study below was seen recently in the 4/13/17 letter. It considers the fact that the gap down on Tuesday put SPY at a short-term low immediately and then the selling continued from there.

SPY gaps down to pen below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	137,372.16	138	90	48	65.22	2,589.36	9,282.24	-1,993.12	-14,007.15	1.30	2.44	995.45
9	148,019.27	146	96	50	65.75	2,518.92	7,585.77	-1,875.94	-10,036.80	1.34	2.58	1,013.83
8	140,859.10	148	102	45	68.92	2,278.29	7,858.26	-2,033.92	-14,030.10	1.12	2.54	951.75
7	119,833.69	154	101	53	65.58	2,045.72	8,324.13	-1,637.44	-8,047.80	1.25	2.38	778.14
6	124,480.61	157	109	48	69.43	1,844.15	7,873.02	-1,594.41	-7,910.10	1.16	2.63	792.87
5	113,517.61	158	106	51	67.09	1,719.84	8,239.74	-1,348.74	-4,103.46	1.28	2.65	718.47
4	110,088.78	166	111	55	66.87	1,655.42	5,581.02	-1,339.32	-4,096.40	1.24	2.49	663.19
3	99,349.05	172	110	61	63.95	1,500.67	5,117.85	-1,077.45	-4,085.40	1.39	2.51	577.61
2	86,128.44	185	120	62	64.86	1,169.68	5,477.88	-874.72	-2,614.66	1.34	2.59	465.56
1	59,269.96	201	131	70	65.17	811.57	5,764.38	-672.08	-3,772.68	1.21	2.26	294.88
90% of instances closed above the entry price at some point in the next week.												

There are a sizable number of occurrences and the numbers all appear squarely positive. Below is a look at a profit curve that assumes a 6-day holding period.



While not quite as steep as it once was, the curve has continued to move higher and again made new highs the last time it triggered. I have added this study to the Active List tonight.

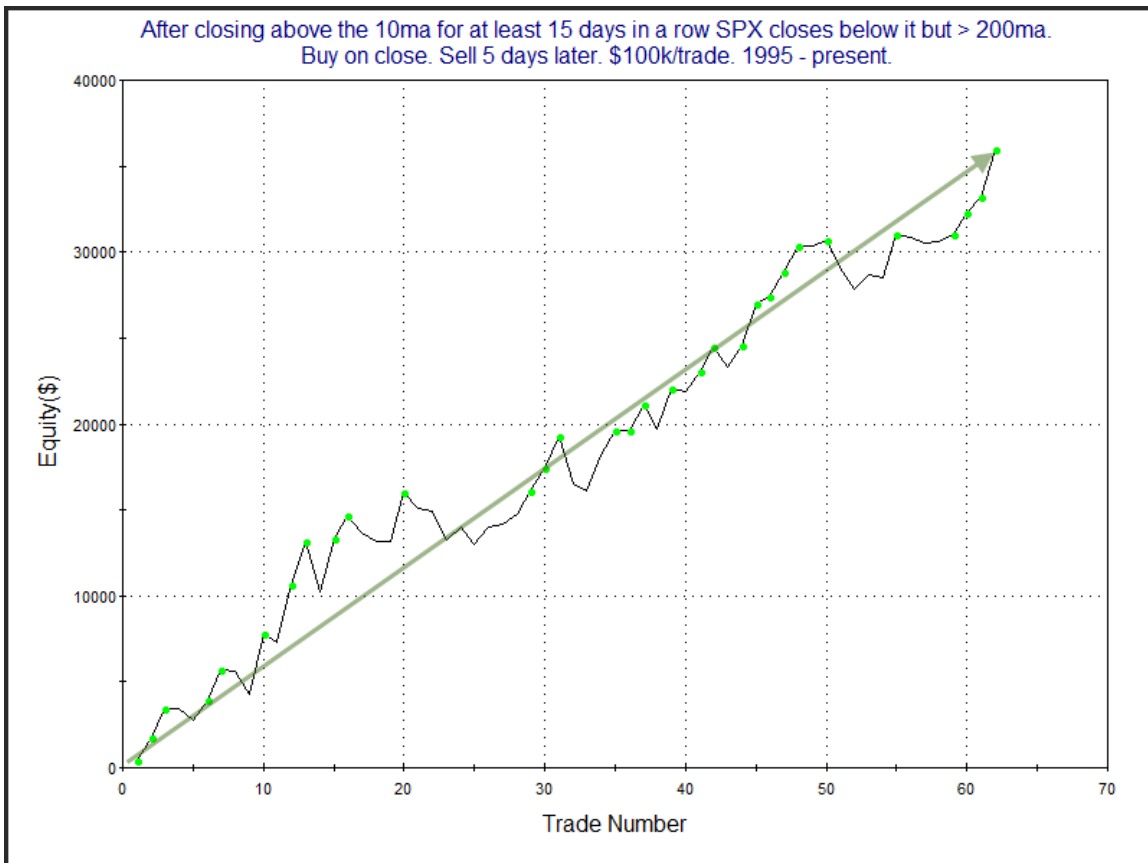
The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Tuesday, after 19 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 10/26/17 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing above the 10ma for at least 15 days in a row SPX closes below it 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
5	35,933.84	62	38	24	61.29	1,478.05	3,505.74	-843.00	-2,959.70	1.75	2.78	579.58
4	32,853.03	62	41	21	66.13	1,335.47	3,206.40	-1,042.92	-3,078.40	1.28	2.50	529.89
3	25,211.58	62	43	19	69.35	1,011.72	2,805.12	-962.75	-2,062.10	1.05	2.38	406.64
2	19,457.82	62	40	22	64.52	965.98	2,682.72	-871.89	-2,185.60	1.11	2.01	313.84
1	16,919.74	62	41	21	66.13	643.13	2,097.92	-449.93	-1,542.24	1.43	2.79	272.90

56 of 62 instances (90%) closed above the entry price at some point in the next week.

The numbers here all look solidly bullish over the next week. Below is the 5-day profit curve.

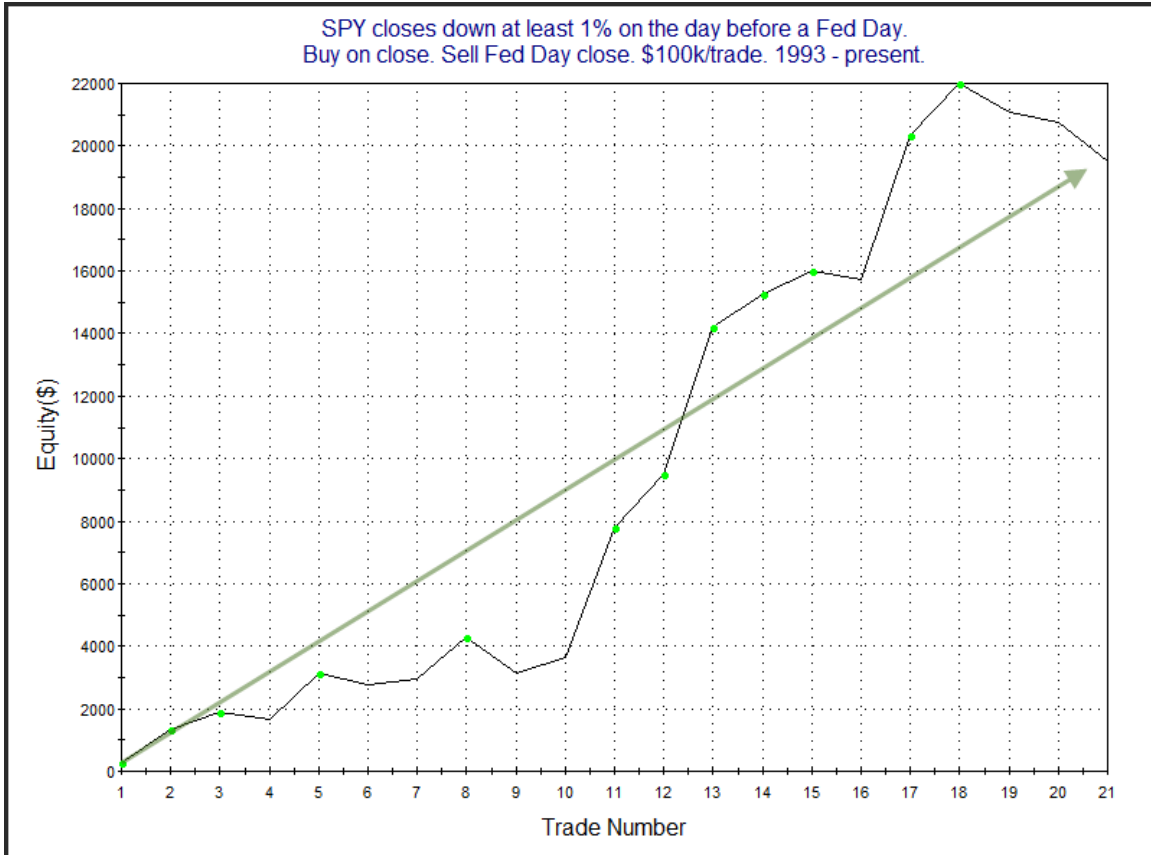


The strong upslope serves as some confirmation of the bullish edge.

I noted last night that Wednesday is a Fed Day. I also showed a study suggested that weakness on Tuesday could make the typical Fed Day edge even stronger. Selloffs as strong as we saw on Tuesday have been fairly rare just ahead of a Fed Day. The action triggered the study below from the 1/28/15 letter. It looked for 1-day drops of 1% or more. Results are updated.

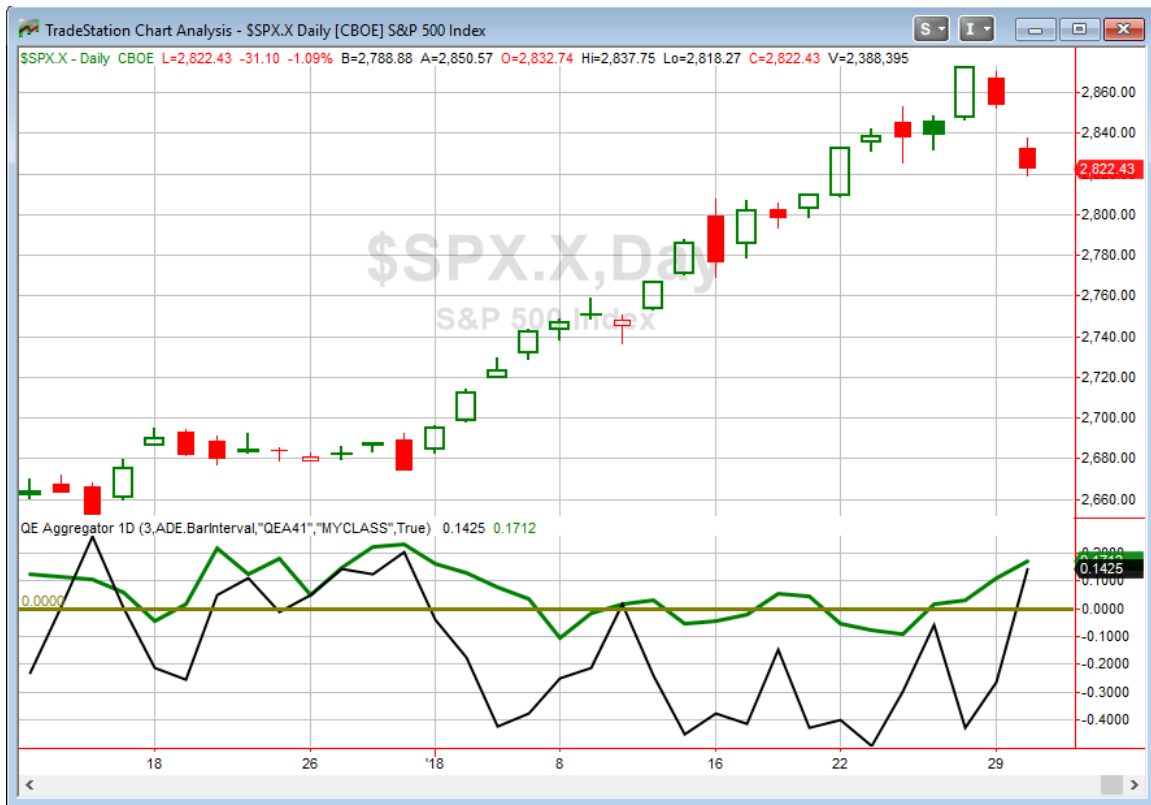
SPY closes down at least 1% on the day before a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$19,490.48	Profit Factor	5.33
Gross Profit	\$23,991.75	Gross Loss	(\$4,501.27)
Total Number of Trades	21	Percent Profitable	66.67%
Winning Trades	14	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$928.12	Ratio Avg. Win:Avg. Loss	2.66
Avg. Winning Trade	\$1,713.70	Avg. Losing Trade	(\$643.04)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$1,281.80)

The stats here appear strongly bullish. With a profit factor over 5, risk/reward appears to heavily favor the bulls. Below is a profit curve.



Despite the last three instances the upslope appears to be firmly intact.

I have updated [the Aggregator chart](#) below.



With tonight's studies included, the green Aggregator line moved further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose 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 slated to remain bullish on Wednesday. It would take some very compelling new bearish evidence to change that. The Differential Pivot will be 2870.98 on Wednesday. That is a whopping 1.7% above Tuesday's close. So SPX would need to close up at least 1.7% in order to flip from oversold to overbought. That is an unlikely sized rally for just Wednesday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is now bullish and there seems to be ample room to the upside before the market will turn overbought. Anticipating this, I bought a ½ index position in SPY at the close on Tuesday. There are a few factors I am considering when thinking about managing this trade. One is that the Fed announcement in the afternoon is a wildcard. I would like to be out of a portion of my position by then. The second factor is that Thursday

is the 1st day of a new month. This is often a bullish day, especially when SPX closes poorly on the last trading day of the month just before it. So I may look to buy back some of my position if the reaction to the Fed is negative and the market sells off in the afternoon. Details in the Trade Ideas section lower down.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/29– somewhat bullish

The intermediate-term outlook was last updated in the 1/29/18 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

UNP – 1/3 @ \$133.60 (bought @ limit)

Broad Market Large Cap CBI – 1(UNP)

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.

SPY – buy ¼ index position if SPX closes in the lower 50% of its intraday range.

This is based on the short-term outlook above. I would be looking to buy a weak close into end of the month.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UNP(1/3)	1/26/2018	\$133.60	\$135.36	1.32%		Catapult
SPY(1/2)	1/30/2018	\$281.76	\$281.76	0.00%		see below

SPY - I will look to sell 1/2 my current position (1/4 index position) @ \$282.75 LIMIT. If the target is not hit by 1:30pm EST, I will sell at the market price at that time.

SPY - The 2nd half of my position I will do the following: If the target above is hit, I will move the stop to breakeven for this remaining portion. If the target above is not hit by 1:30pm EST I will put a stop @ \$281.76 if SPY is trading above there. If below, I will simply sell my position at that time.

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

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.