

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2018

Volume 11 Issue 26

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	27

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.
- An extremely high intraday TICK near an intermediate-term low carries bearish implications for the next day.
- Tuesday's big VIX drop suggests Wednesday the SPX could see a dip.

Short-term Outlook

The Bottom Line

Evidence remains mostly bullish and the market is still oversold. Wednesday looks a little iffy, but this bounce should have further to go in the coming days.

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						
February 7, 2018	VXO drops 20%+	1 day	Bearish			
February 7, 2018	Bounce from low, TICK very high	1 day	Bearish			
February 7, 2018	20-low, 20 intra low, up close	1-4 days	Bullish			
February 6, 2018	CBI > 10	1-5 days	Bullish			
February 6, 2018	20-low Big drop. Monday	1-4 days	Bullish			
February 5, 2018	Dn 1.5x 20-day ATR	1-6 days	Bullish			
February 5, 2018	VIX 20% up on Fri	1-4 days	Bullish			
February 5, 2018	Down 1.5%+ 1st 2 days of month > 200	1-5 days	Bullish			
January 31, 2018	Gap < 5-low. Close < open. Close > 200ma	1-6 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						
February 7, 2018	20-low, 20 intra low, up close	1-10 days	Bullish			
February 6, 2018	CBI > 10	1-17 days	Bullish			
February 5, 2018	Hindenburg Omen Cluster	1-35 days	Bearish			
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-15 days	Bullish			
January 16, 2018	NASDAQ Leading	int term	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 \$20 billion	int term	Bearish			
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			

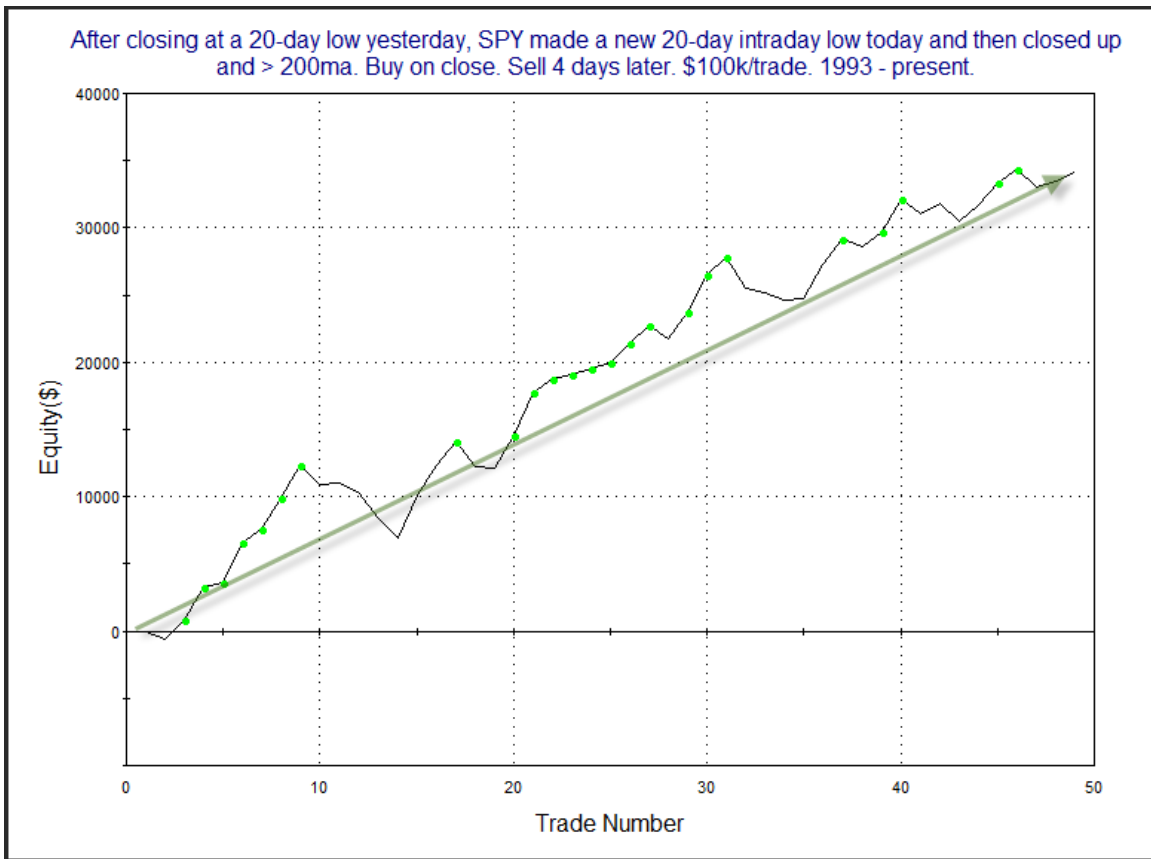
The Evidence

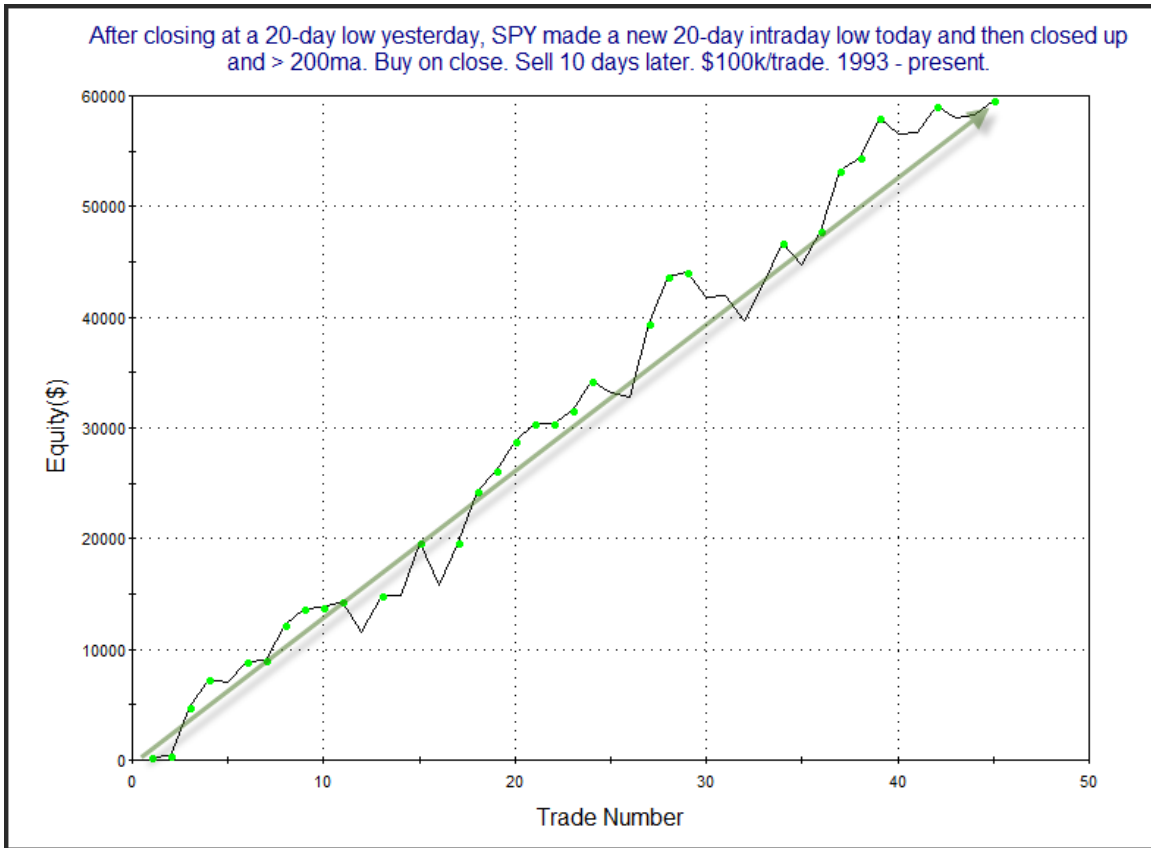
Tuesday saw a partial bounce back. The SPX rallied 1.7%, the NASDAQ jumped 2.1%, and the Russell 2000 gained 1.1%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 80%. NYSE volume rose to the highest level in a while as the market swung wildly.

SPY did post a higher close, but not before making a new intermediate-term intraday low. The study below was last seen in the 8/22/17 letter. It looks at similar reversals from intermediate-term lows. All stats are updated.

After closing at a 20-day low yesterday, SPY made a new 20-day intraday low today and then closed up and > 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	59,546.83	45	34	11	75.56	2,261.92	6,600.62	-1,578.04	-3,844.83	1.43	4.43	1,323.26
9	55,547.94	46	32	14	69.57	2,507.23	5,915.43	-1,763.10	-4,258.20	1.42	3.25	1,207.56
8	49,304.31	47	34	13	72.34	2,277.76	5,306.40	-2,164.58	-4,268.86	1.05	2.75	1,049.03
7	51,645.72	48	33	15	68.75	2,254.84	5,585.14	-1,517.61	-3,531.11	1.49	3.27	1,075.95
6	44,850.36	49	35	14	71.43	2,002.45	5,411.67	-1,802.52	-3,952.19	1.11	2.78	915.31
5	41,240.99	49	34	14	69.39	1,781.11	5,029.50	-1,379.78	-3,450.35	1.29	3.13	841.65
4	34,115.42	49	33	16	67.35	1,543.32	3,213.00	-1,050.89	-2,284.36	1.47	3.03	696.23
3	20,826.66	52	31	21	59.62	1,331.62	4,462.50	-973.98	-3,560.24	1.37	2.02	400.51
2	21,929.14	54	34	20	62.96	1,277.02	4,105.50	-1,074.47	-2,471.52	1.19	2.02	406.10
1	14,780.12	54	33	21	61.11	942.76	2,562.30	-777.66	-1,792.48	1.21	1.91	273.71

Results here seem to suggest a solid upside edge. Below are the profit curves for the 4-day and 10-day exit strategies.





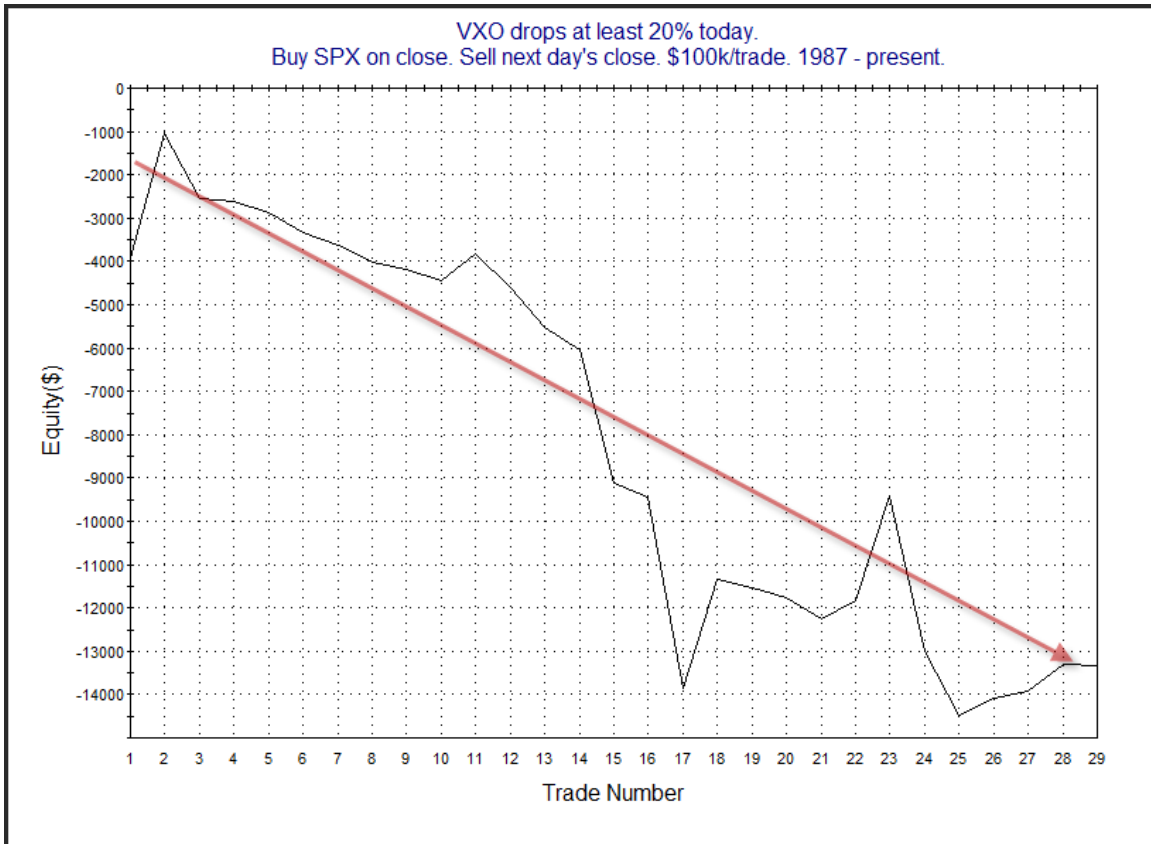
The impressive upslopes serve as some confirmation of the upside edge. But not all was bullish tonight.

The VIX, which is a measure of options pricing and is often referred to as a “fear index” saw a 20% drop on Tuesday. Meanwhile, the VXO, which is the old calculation of the VIX declined 31%. Such big declines often suggest short-term over-optimism on the part of traders and are followed by a dip the next day. This can be seen in the study below, which was last seen in the 4/25/17 letter. All stats are updated.

VXO drops at least 20% today.
Buy SPX on close. Sell next day's close. \$100k/trade. 1987 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$13,348.58)	Profit Factor	0.43
Gross Profit	\$10,011.43	Gross Loss	(\$23,360.01)
Total Number of Trades	29	Percent Profitable	27.59%
Winning Trades	8	Losing Trades	21
Even Trades	0		
Avg. Trade Net Profit	(\$460.30)	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$1,251.43	Avg. Losing Trade	(\$1,112.38)
Largest Winning Trade	\$2,860.08	Largest Losing Trade	(\$4,400.45)

Numbers here suggest a downside edge. Below is a profit curve to see how it has played out over time.



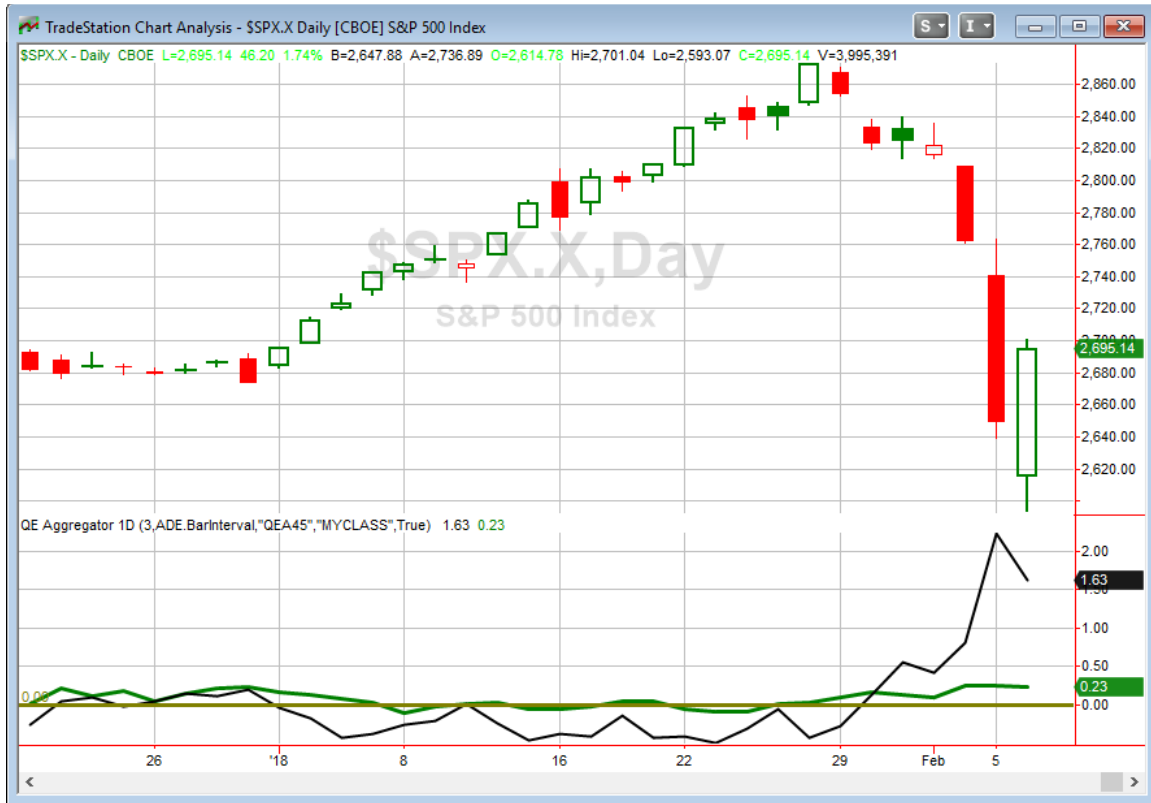
Quite choppy but it appears the big VXO drops don't often bode well for the next day. This study has been added to the Short-Term Active List.

The rally near the end of the day saw broad participation and aggressive buying. At one point the NYSE tick spiked to 1478. It actually registered its highest intraday high since November 2016. I saw comments suggesting that the very high tick reading after a test of the lows was a good sign for the bulls. I have not found this to be the case. The test below was from the 5/24/12 letter. It looked at other instances where SPY probed or tested a new 50-day low while the NYSE TICK hit its highest intraday level in at least 100 days. The 1-day returns were the most interesting. I have listed all instances below.

SPY makes a low at or within 0.5% of a 50-day low. NYSE TICK makes highest intraday high in 100 days. Buy SPY on close. Sell next day's close. \$100k/trade. 2003 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/1/2007	Buy	\$1,403.17	-1.14%	\$16.33
3/2/2007	Sell	\$1,387.17		(\$1,157.30)
1/23/2008	Buy	\$1,338.59	1.01%	\$1,225.44
1/24/2008	Sell	\$1,352.14		(\$316.72)
2/24/2009	Buy	\$773.14	-1.07%	\$900.42
2/25/2009	Sell	\$764.90		(\$2,612.25)
5/21/2010	Buy	\$1,087.69	-1.29%	\$205.66
5/24/2010	Sell	\$1,073.65		(\$1,364.09)
3/15/2011	Buy	\$1,281.87	-1.95%	\$0.00
3/16/2011	Sell	\$1,256.88		(\$2,559.96)
6/23/2011	Buy	\$1,283.50	-1.17%	\$33.11
6/24/2011	Sell	\$1,268.45		(\$1,252.02)
8/3/2011	Buy	\$1,260.34	-4.78%	\$0.00
8/4/2011	Sell	\$1,200.07		(\$4,803.20)
8/9/2011	Buy	\$1,172.53	-4.42%	\$0.00
8/10/2011	Sell	\$1,120.76		(\$4,634.20)
5/23/2012	Buy	\$1,318.86	0.14%	\$396.00
5/24/2012	Sell	\$1,320.68		(\$627.00)

The consistent and sizable weakness the next day has been very impressive. On average, the day following the extreme TICK near a market low has lost just over 1.6%. The average loser (2.25%) has been over 4 times the size of the average winner. It sure doesn't look like frantic intraday buying and high TICK is a positive. Instances are a bit low, but the results are compelling enough to include this study in the Quantifinder.

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



With tonight's mix of 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 is still far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is heavily oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Wednesday. This is unlikely to change. The Differential Pivot will be 2771.71 on Wednesday. That is a 2.8% above Tuesday's close. So SPX would need to close up at least 2.8% in order to flip from oversold to overbought on Wednesday. That's fairly unlikely for a 1-day move. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

Based on tonight's evidence, Wednesday looks a little sketchy. But the days following still appear likely to see a further bounce. So I continue to like the long side. I have partial exposure through index positions, and I will hold onto that. There were also a couple of new Catapults that triggered on Tuesday, and I will be looking to get into them.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/5– somewhat bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

Ticker	Trigger Price
UNP	\$133.60
UPS	\$119.51
PCLN	\$1,859.10
F	\$10.71
HD	\$193.97
LOW	\$101.50
CVS	\$73.32
HON	\$150.17
WMT	\$100.09
FDX	\$248.50
WFC	\$58.16
GOOGL	\$1,062.39
UNP	\$124.14
ABT	\$58.73
CAT	\$151.08
MMM	\$231.44
CVX	\$112.62
TGT	\$70.77
UNH	\$220.02
COST	\$182.77
LOW	\$97.58
UPS	\$113.30
HD	\$183.11
F	\$10.24
PCLN	\$1,825.93
<i>New Catapults</i>	
UPS	\$112.71
WFC	\$57.28

Broad Market Large Cap CBI – 27(UNP-2, UPS-3, PCLN-2, F-2, HD-2, LOW-2, CVS, HON, WMT, FDX, WFC-2, GOOGL, ABT, CAT, MMM, CVX, TGT, UNH, COS)

Other Catapult notes:

- SPY's Catapult trigger, that I mentioned in the 2/6 letter, remains active.
- No Catapults reached their exit trigger on Tuesday. Many could if the rally continues on Wednesday.

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.

UPS – buy 1/3 Catapult position @ \$112.71 limit. This is from the Catapult section above. It is the 3rd and final lot for UPS.

WFC – buy 1/3 Catapult position @ \$57.28 limit. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for WFC.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UNP(1/3)	1/26/2018	\$133.60	\$131.15	-1.83%		Catapult
SPY(1/4)	1/31/2018	\$281.90	\$269.13	-4.53%		Aggregator
UPS(1/3)	2/2/2018	\$118.99	\$112.71	-5.28%		Catapult
SPY(1/4)	2/5/2018	\$273.45	\$269.13	-1.58%		Aggregator
HD(1/3)	2/5/2018	\$190.07	\$191.04	0.51%		Catapult
LOW(1/3)	2/5/2018	\$101.38	\$100.22	-1.14%		Catapult
F(1/3)	2/5/2018	\$10.71	\$10.76	0.47%		Catapult
PCLN(1/3)	2/5/2018	\$1,841.30	\$1,858.66	0.94%		Catapult
ABT(1/3)	2/6/2018	\$57.67	\$58.86	2.06%		Catapult
CAT(1/3)	2/6/2018	\$148.07	\$156.41	5.63%		Catapult
COST(1/3)	2/6/2018	\$178.91	\$185.01	3.41%		Catapult
CVS(1/3)	2/6/2018	\$72.50	\$74.02	2.10%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$117.18	5.38%		Catapult
F(1/3)	2/6/2018	\$10.24	\$10.76	5.08%		Catapult
FDX(1/3)	2/6/2018	\$244.44	\$250.18	2.35%		Catapult
GOOGL(1/3)	2/6/2018	\$1,033.98	\$1,084.43	4.88%		Catapult
HD(1/3)	2/6/2018	\$178.62	\$191.04	6.95%		Catapult
HON(1/3)	2/6/2018	\$147.68	\$151.40	2.52%		Catapult
LOW(1/3)	2/6/2018	\$95.29	\$100.22	5.17%		Catapult
MMM(1/3)	2/6/2018	\$227.51	\$233.63	2.69%		Catapult
PCLN(1/3)	2/6/2018	\$1,800.01	\$1,858.66	3.26%		Catapult
TGT(1/3)	2/6/2018	\$69.54	\$72.71	4.56%		Catapult
UNH(1/3)	2/6/2018	\$212.20	\$225.18	6.12%		Catapult
UNP(1/3)	2/6/2018	\$122.28	\$131.15	7.25%		Catapult
UPS(1/3)	2/6/2018	\$112.19	\$112.71	0.46%		Catapult
WFC(1/3)	2/6/2018	\$56.90	\$57.28	0.67%		Catapult
WMT(1/3)	2/6/2018	\$97.64	\$100.90	3.34%		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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