

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 9, 2018

Volume 11 Issue 28

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	29

Tonight's Research Points

- The 10% drop from an all-time high in less than 2 weeks that we have just undergone is nearly unheard of.
- The persistently high CBI is extremely unusual.
- Another strong drop and close at a 10-day low above the 200ma is suggesting a bullish edge.
- The extremely low closing TICK value is suggesting a bounce for Friday.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish. I still favor the long side. But with the market acting far outside of historical norms, I am wary of upping my index exposure further ahead of the weekend.

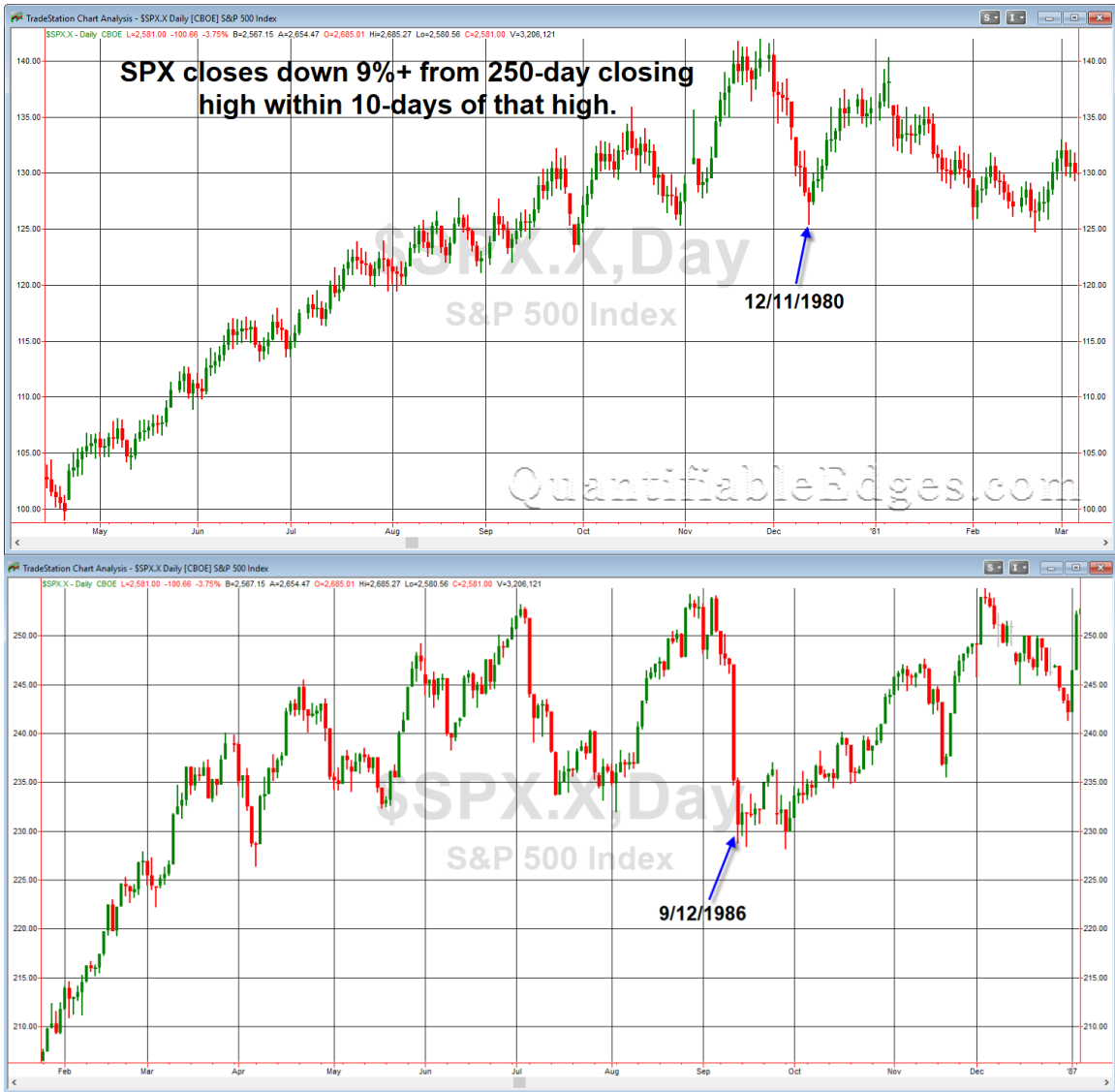
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
February 9, 2018	SPX 50-low. TICK 100-low close	1 day	Bullish			
February 9, 2018	1.5% drop 2x. 10-low > 200	1-7 days	Bullish			
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	Down 1.5%+ 1st 2 days of month > 200	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						
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

Thursday was a real tough day for bulls. The SPX finished down 3.75%, the NASDAQ lost 3.9%, and the Russell 2000 declined 2.9%. Breadth was positive as the NYSE Up Issues % was 11% and the Up Volume % came in at 9.6%. NYSE volume rose some from Wednesday's high level.

I mentioned the other day that the market is acting outside of historical norms. Thursday's action reinforced that. The pullback has come so fast and been so extreme that it is going beyond even many of the most extreme moves in similar situations. For instance, I looked back to 1960 with the SPX for to find other times SPX closed down > 10% from a 250-day closing high within 2 weeks of that high. Thursday marked the 1st time this has ever happened. If I loosened the criteria to a 9% drop from a 250-day high within a 2 week period, then there were 2 instances. They occurred in 1980 and 1986. Below are charts of them.



I don't read too much into just two instances. They did both bounce in short order, but more significant to me is that SPX is doing something it has never done before with the 10% drop from a 250-day high within 2 weeks. Running the same test on the Dow I found only 2 instances. They occurred in 1928 and 1933. So you need to look back 85 years to see such a sharp drop from a high level.

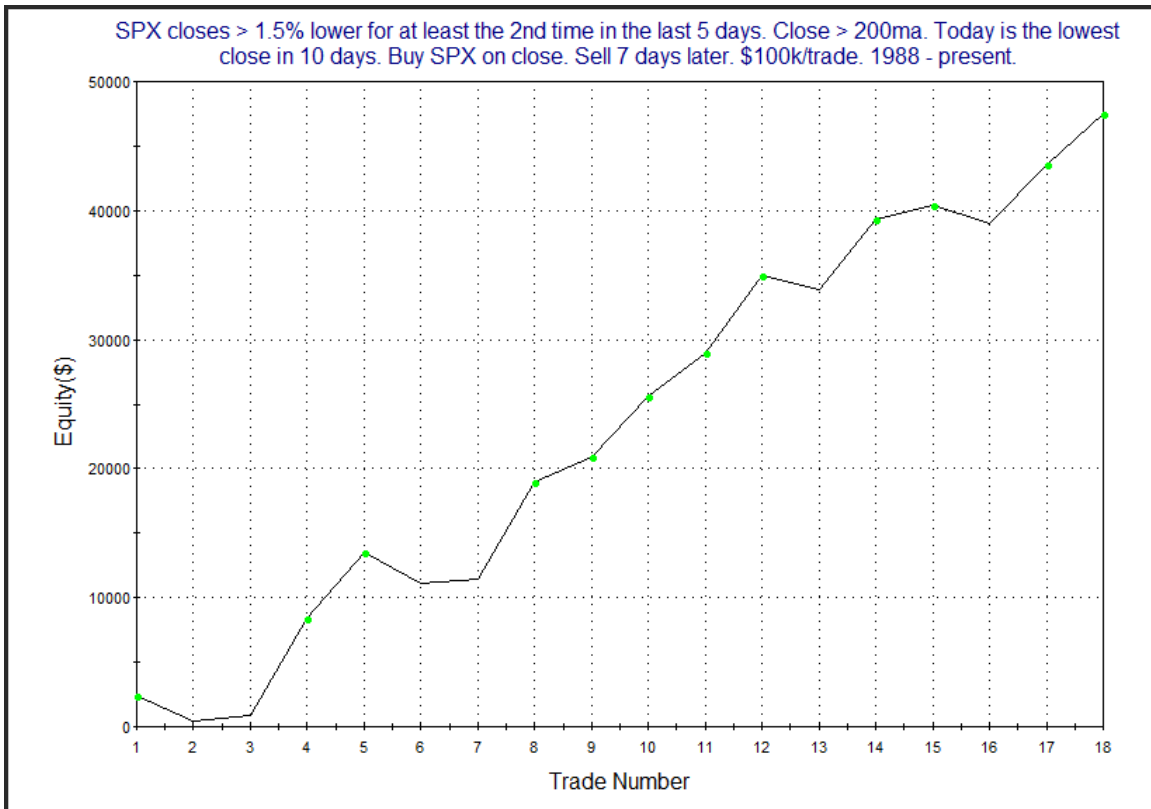
The CBI is also giving extreme readings – and for an unusually long period of time. The CBI goes back to 1995. Since then, the only dates where the CBI closed ≥ 25 for 4 days in a row were 9/3/1998 and 7/24/2002. High CBI readings typically lead to strong bounces in short order. The bounce here has obviously not yet arrived. But I expect it will within the next few days.

Also supporting the idea of a bounce is the study below, which last appeared in the 12/15/14 subscriber letter.

SPX closes > 1.5% lower for at least the 2nd time in the last 5 days. Close > 200ma. Today is the lowest close in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	32,430.34	17	11	6	64.71	4,507.80	8,752.20	-2,859.24	-4,488.00	1.58	2.89	1,907.67
9	34,108.66	17	12	5	70.59	4,200.53	7,332.36	-3,259.55	-5,073.84	1.29	3.09	2,006.39
8	39,397.72	18	13	5	72.22	4,051.54	7,400.22	-2,654.47	-5,882.94	1.53	3.97	2,188.76
7	47,455.14	18	14	4	77.78	3,866.98	7,598.58	-1,670.66	-2,375.10	2.31	8.10	2,636.40
6	41,647.21	18	13	5	72.22	3,699.84	7,272.06	-1,290.14	-3,322.53	2.87	7.46	2,313.73
5	34,060.00	18	13	5	72.22	2,962.93	7,070.28	-891.62	-1,627.99	3.32	8.64	1,892.22
4	28,669.60	18	13	5	72.22	2,668.10	5,187.49	-1,203.13	-1,784.86	2.22	5.77	1,592.76
3	13,372.83	19	12	7	63.16	2,286.93	5,339.18	-2,010.05	-5,331.20	1.14	1.95	703.83
2	20,738.56	21	15	6	71.43	2,015.83	4,809.66	-1,583.16	-3,863.25	1.27	3.18	987.55
1	17,910.59	22	18	4	81.82	1,238.79	5,117.46	-1,096.92	-1,588.57	1.13	5.08	814.12

The numbers look bullish. Below is a look at the profit curve.



The steady move from lower left to upper right is impressive and serves as some confirmation of the bullish edge suggested by the numbers.

My friend and colleague, Tom McClellan, taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Thursday the NYSE closing TICK was -654. This is a very low reading and it represents the lowest reading since 5/17/17. The study below was last seen in the 8/21/15 Subscriber Letter. It looks at intermediate-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at 100-day low and SPX closes at 50-day low.
Buy SPX on close. Sell next days close. \$100k/trade. 1998 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$15,885.08	Profit Factor	4.00
Gross Profit	\$21,183.68	Gross Loss	(\$5,298.60)
Total Number of Trades	17	Percent Profitable	82.35%
Winning Trades	14	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$934.42	Ratio Avg. Win:Avg. Loss	0.86
Avg. Winning Trade	\$1,513.12	Avg. Losing Trade	(\$1,766.20)
Largest Winning Trade	\$4,723.23	Largest Losing Trade	(\$3,177.16)

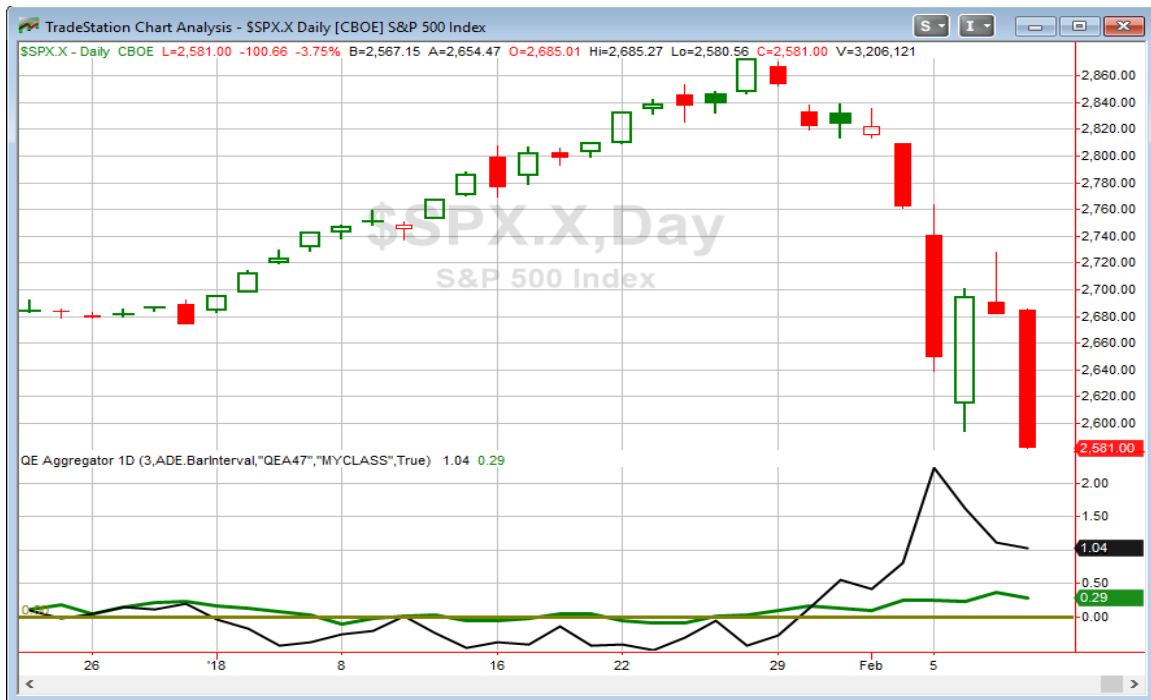
Instances are a bit low but the numbers are compelling. Below is the full trade list.

NYSE TICK closes at 100-day low and SPX closes at 50-day low.
Buy SPX on close. Sell next days close. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/15/1998	Buy	\$1,077.01	0.98%	\$973.36
6/16/1998	Sell	\$1,087.58		(\$215.28)
8/4/1998	Buy	\$1,072.12	0.87%	\$1,179.24
8/5/1998	Sell	\$1,081.42		(\$1,374.54)
8/31/1998	Buy	\$957.55	3.83%	\$4,487.60
9/1/1998	Sell	\$994.25		(\$1,825.20)
5/10/2004	Buy	\$1,087.12	0.77%	\$779.87
5/11/2004	Sell	\$1,095.49		\$0.00
2/27/2007	Buy	\$1,399.14	0.55%	\$1,189.25
2/28/2007	Sell	\$1,406.82		(\$176.79)
3/5/2007	Buy	\$1,374.12	1.55%	\$1,712.16
3/6/2007	Sell	\$1,395.41		\$0.00
7/27/2007	Buy	\$1,458.95	1.03%	\$1,287.24
7/30/2007	Sell	\$1,473.91		(\$314.84)
8/14/2007	Buy	\$1,426.54	-1.39%	\$996.80
8/15/2007	Sell	\$1,406.70		(\$1,552.60)
2/23/2009	Buy	\$743.33	4.01%	\$4,309.44
2/24/2009	Sell	\$773.14		\$0.00
2/4/2010	Buy	\$1,063.11	0.29%	\$377.88
2/5/2010	Sell	\$1,066.19		(\$1,749.34)
5/20/2010	Buy	\$1,071.59	1.50%	\$1,727.01
5/21/2010	Sell	\$1,087.69		(\$1,459.17)
6/8/2011	Buy	\$1,279.56	0.74%	\$1,168.44
6/9/2011	Sell	\$1,289.00		\$0.00
8/8/2011	Buy	\$1,119.46	4.74%	\$4,754.38
8/9/2011	Sell	\$1,172.53		(\$1,594.88)
5/17/2012	Buy	\$1,304.86	-0.74%	\$560.88
5/18/2012	Sell	\$1,295.22		(\$978.88)
11/8/2012	Buy	\$1,377.51	0.17%	\$999.36
11/9/2012	Sell	\$1,379.85		(\$322.56)
6/29/2015	Buy	\$2,057.64	0.27%	\$798.72
6/30/2015	Sell	\$2,063.12		(\$63.36)
8/20/2015	Buy	\$2,035.73	-3.19%	\$0.00
8/21/2015	Sell	\$1,970.89		(\$3,177.16)

The last instance went hard in the wrong direction, but there still appears to be a solid upside edge suggested. I have included this study on the Active List tonight.

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



With tonight's 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 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 Friday. This is unlikely to change. The Differential Pivot will be 2709.97 on Friday. That is a whopping 5.0% above Thursday's close. So SPX would need to close up at least 5% on Friday in order to flip from oversold to overbought. That is extremely unlikely. It will almost certainly take a multi-day rally or consolidation to work off the oversold condition.

Trading based on historical probabilities becomes more difficult when the market does not comply to historical norms. And when action is so extreme (115% 1-day VIX moves, 10% drops from all-time highs within 2 weeks, etc) that there is little or no comparisons, then keeping some powder dry and not blowing up your accounts becomes more important than timing entries perfectly. I am glad I am still only 50% long my index position. And I might not get to 100% before the bounce occurs. I am ok with that. There is plenty of money to be made once markets normalize again.

So I still like the long side. And I intend to maintain my current index exposure. But I am not inclined to up it on Friday. As we saw last Friday, runaway emotions can take over when things are falling apart going into a weekend. So while the reversal may arrive immediately, I intend to play it conservatively. I will watch Friday's action, evaluate further over the weekend, and perhaps add a 3rd lot on Monday. I will look to add the 2 new Catapults that triggered on Thursday.

*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
UPS	\$112.71
WFC	\$57.28
<i>New</i>	
ABT	\$56.27
COP	\$53.24

Broad Market Large Cap CBI – 29(UNP-2, UPS-3, PCLN-2, F-2, HD-2, LOW-2, CVS, HON, WMT, FDX, WFC-2, GOOGL, ABT-2, CAT, MMM, CVX, TGT, UNH, COST, COP)

Other Catapult notes:

- SPY's Catapult trigger, that I mentioned in the 2/6 letter, remains active.
- No Catapults reached their exit trigger on Thursday. Some could if the market rallies on Friday.

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.

ABT – buy 1/3 Catapult position @ \$56.27 limit. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for ABT.

COP – buy 1/3 Catapult position @ \$53.24 limit. This is from the Catapult section above. It is the 1st of up to 3 possible lots for COP.

Currently open trade ideas can be found on the next page...

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UNP(1/3)	1/26/2018	\$133.60	\$124.86	-6.54%		Catapult
SPY(1/4)	1/31/2018	\$281.90	\$257.63	-8.61%		Aggregator
UPS(1/3)	2/2/2018	\$118.99	\$109.28	-8.16%		Catapult
SPY(1/4)	2/5/2018	\$273.45	\$257.63	-5.79%		Aggregator
HD(1/3)	2/5/2018	\$190.07	\$181.82	-4.34%		Catapult
LOW(1/3)	2/5/2018	\$101.38	\$95.01	-6.28%		Catapult
F(1/3)	2/5/2018	\$10.71	\$10.43	-2.61%		Catapult
PCLN(1/3)	2/5/2018	\$1,841.30	\$1,806.06	-1.91%		Catapult
ABT(1/3)	2/6/2018	\$57.67	\$56.27	-2.43%		Catapult
CAT(1/3)	2/6/2018	\$148.07	\$145.99	-1.40%		Catapult
COST(1/3)	2/6/2018	\$178.91	\$178.61	-0.17%		Catapult
CVS(1/3)	2/6/2018	\$72.50	\$70.55	-2.69%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$112.30	0.99%		Catapult
F(1/3)	2/6/2018	\$10.24	\$10.43	1.86%		Catapult
FDX(1/3)	2/6/2018	\$244.44	\$239.27	-2.12%		Catapult
GOOGL(1/3)	2/6/2018	\$1,033.98	\$1,007.71	-2.54%		Catapult
HD(1/3)	2/6/2018	\$178.62	\$181.22	1.46%		Catapult
HON(1/3)	2/6/2018	\$147.68	\$146.02	-1.12%		Catapult
LOW(1/3)	2/6/2018	\$95.29	\$95.01	-0.29%		Catapult
MMM(1/3)	2/6/2018	\$227.51	\$222.89	-2.03%		Catapult
PCLN(1/3)	2/6/2018	\$1,800.01	\$1,806.06	0.34%		Catapult
TGT(1/3)	2/6/2018	\$69.54	\$71.11	2.26%		Catapult
UNH(1/3)	2/6/2018	\$212.20	\$216.46	2.01%		Catapult
UNP(1/3)	2/6/2018	\$122.28	\$124.86	2.11%		Catapult
UPS(1/3)	2/6/2018	\$112.19	\$109.28	-2.59%		Catapult
WFC(1/3)	2/6/2018	\$56.90	\$55.40	-2.64%		Catapult
WMT(1/3)	2/6/2018	\$97.64	\$100.02	2.44%		Catapult
WFC(1/3)	2/7/2018	\$56.94	\$55.40	-2.70%		Catapult
UPS(1/3)	2/7/2018	\$112.39	\$109.28	-2.77%		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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