

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2018

Volume 11 Issue 30

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	31

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish and the CBI remains extremely high. I still favor the long side. But I will look to exit some of my long position if Tuesday closes up much.

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 13, 2018	20-low. 2 up days < 3 ago	1-3 days	Bullish	1.40%	-1.00%	-1.85%
February 12, 2018	20-low. Gap up, fill close up 0.5%	1-5 days	Bullish			
February 9, 2018	1.5% drop 2x. 10-low > 200	1-7 days	Bullish			
February 5, 2018	Down 1.5%+ 1st 2 days of month > 200	1-5 days	Bullish			
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			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

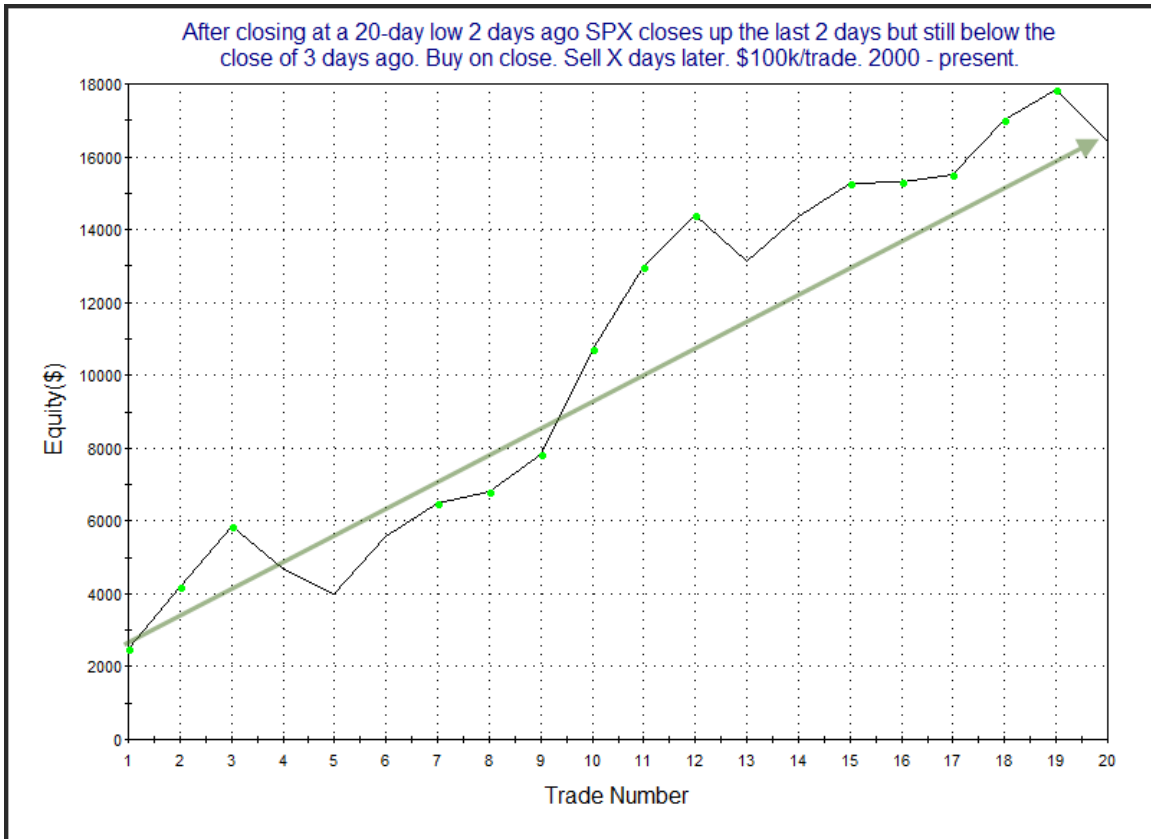
The Evidence

The market bounce that began Friday continued on Monday. The SPX finished up 1.4%, the NASDAQ rose 1.6%, and the Russell 2000 gained 0.9%. Breadth was positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 82%. NYSE volume declined some from Friday's level.

There were a few studies that triggered from the Quantifinder, but I found the one below to be the most compelling. It notes that SPX has closed up 2 days in a row now, but has not yet managed to recover the full loss from Thursday. The study was last seen in the 8/15/17 letter. The stats are all updated.

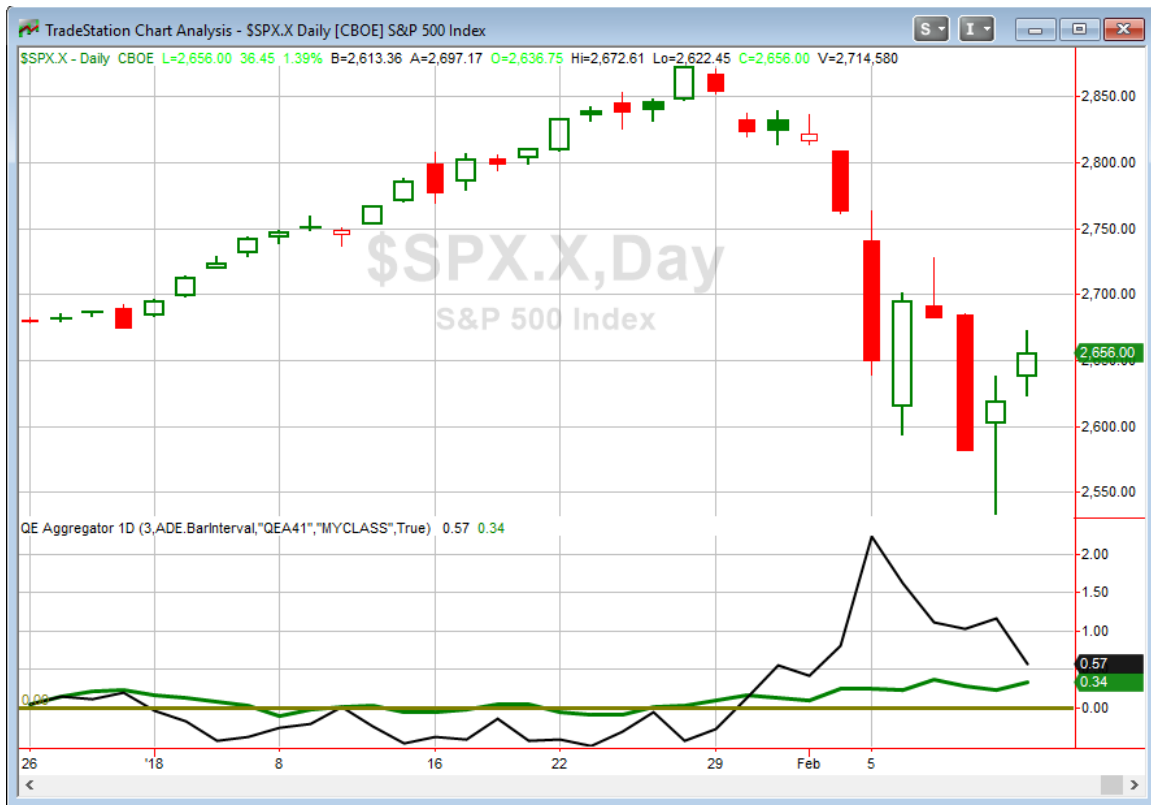
After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	17,847.03	19	13	6	68.42	2,072.76	4,522.00	-1,516.47	-3,088.50	1.37	2.96	939.32
4	18,335.87	19	13	6	68.42	1,986.53	4,528.65	-1,248.16	-1,984.50	1.59	3.45	965.05
3	16,398.03	20	16	4	80.00	1,310.80	2,891.90	-1,143.70	-1,433.20	1.15	4.58	819.90
2	12,094.91	20	13	7	65.00	1,288.59	3,844.65	-665.26	-1,640.00	1.94	3.60	604.75
1	1,881.02	20	9	11	45.00	947.54	2,699.42	-604.26	-2,621.71	1.57	1.28	94.05

The stats above appear compelling. Below is the 3-day profit curve.



This is an impressive looking curve that supports the bullish inclinations suggested by the numbers.

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 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 Tuesday. This is unlikely to change. The Differential Pivot will be *inverted* at 2602.82 on Tuesday. That is 2.0% *below* Monday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down at least 2% in order to remain oversold versus recent expectations. Anything other than that and it will be considered short-term overbought versus expectations as of Tuesday's close.

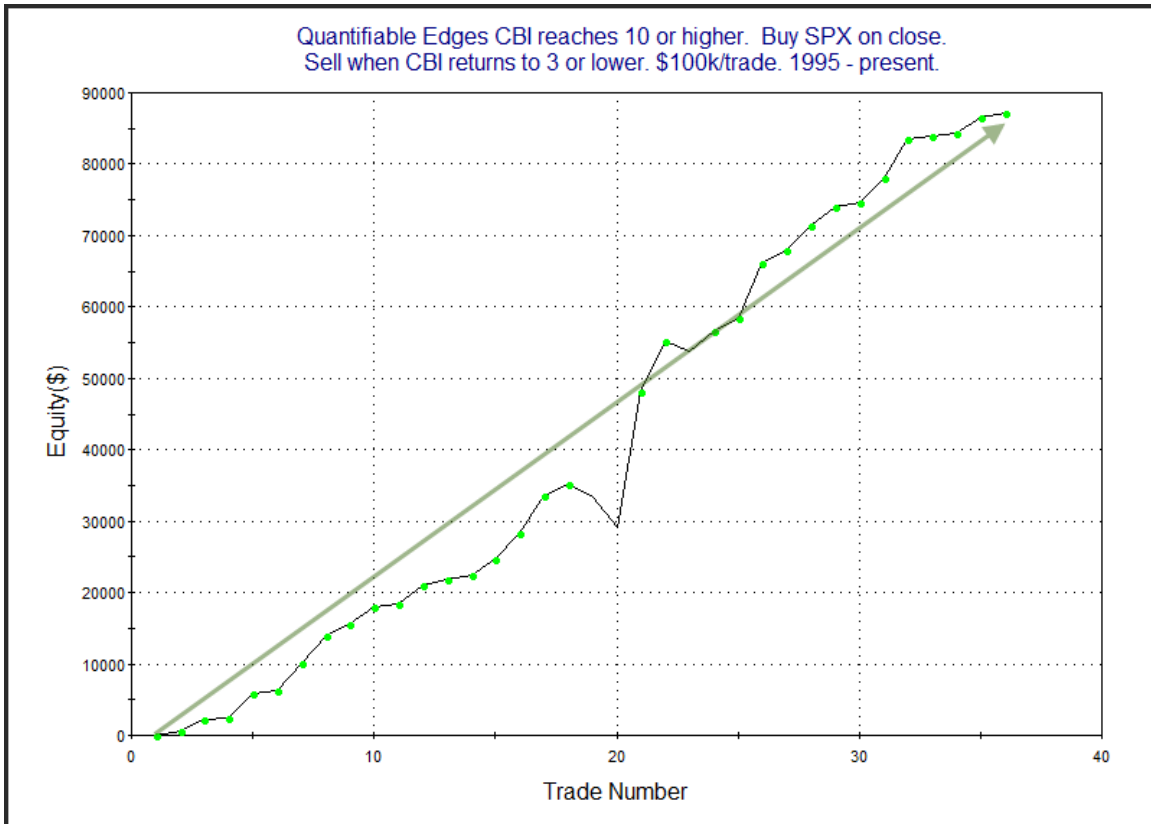
Typically I tend to view inverted pivots as opportune times to reduce exposure. This is because the Aggregator formation is likely to turn neutral with SPX turning relatively overbought. But with the CBI so elevated there still appears to be a lot of juice that could see the bounce continue. In the past I have looked at holding markets with large CBI spikes

until the CBI turned back to “neutral”. I have typically used 3 or less signify neutral. Below are some studies that show how this has played out. The first one looks at large spikes similar to the recent one that reach 24 or more.

Quantifiable Edges CBI reaches 24 or higher. Buy SPX on close. Sell when CBI returns to 3 or lower. \$100k/trade. 1995 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/6/1996	Buy	\$739.60	0.83%	\$1,867.05
12/19/1996	Sell	\$745.77		(\$3,092.85)
8/31/1998	Buy	\$957.55	7.53%	\$8,408.40
9/14/1998	Sell	\$1,029.70		(\$1,825.20)
9/20/2001	Buy	\$984.54	8.91%	\$9,174.84
10/3/2001	Sell	\$1,072.28		(\$4,018.79)
7/19/2002	Buy	\$847.75	6.49%	\$7,261.02
7/30/2002	Sell	\$902.78		(\$8,432.19)
10/9/2008	Buy	\$909.92	4.85%	\$14,648.51
10/30/2008	Sell	\$954.09		(\$7,643.08)
7/6/2010	Buy	\$1,028.06	4.10%	\$4,189.43
7/8/2010	Sell	\$1,070.25		\$0.00
8/24/2015	Buy	\$1,893.21	4.48%	\$5,214.04
9/15/2015	Sell	\$1,978.09		(\$1,358.76)

There have not been many instances with CBI spikes as large as the one we are seeing now. They all turned out profitable. Though I highly doubt this one will, I do think we could see more of a bounce from here. The study below I have shown several times over the years. It only requires a CBI of 10 or higher.

Quantifiable Edges CBI reaches 10 or higher. Buy SPX on close. Sell when CBI returns to 3 or lower. \$100k/trade. 1995 - present.				
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$87,126.31	Profit Factor		12.52
Gross Profit	\$94,687.03	Gross Loss		(\$7,560.72)
Total Number of Trades	36	Percent Profitable		91.67%
Winning Trades	33	Losing Trades		3
Even Trades	0			
Avg. Trade Net Profit	\$2,420.18	Ratio Avg. Win:Avg. Loss		1.14
Avg. Winning Trade	\$2,869.30	Avg. Losing Trade		(\$2,520.24)
Largest Winning Trade	\$18,981.60	Largest Losing Trade		(\$4,214.00)



The numbers and the curve are both very impressive. I am not inclined to exit until at least the CBI is greatly reduced, or the SPY Catapult that triggered last week closes, or we start to see bearish evidence suggesting the bounce is likely to fail. So for now, I intend to hold on a little longer. In the trade ideas section, I did put in an exit target for 1 lot that equates to the SPY Catapult exit trigger on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/12– somewhat bullish

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

OpenCatapult 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
ABT	\$56.27
COP	\$53.24
COP	\$52.02
XOM	\$75.78

Broad Market Large Cap CBI – 31(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-2, XOM)

Other Catapult notes:

- SPY's Catapult trigger, that I mentioned in the 2/6 letter, remains active.
- No Catapults reached their exit trigger on Monday. Some are close, and we could see several hit exit triggers on Tuesday if the market rallies.

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.

Neither trade idea from Sunday's letter was filled. I have decided to leave them both open another day.

COP – buy 1/3 Catapult position @ \$52.02 limit. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for COP.

XOM – buy 1/3 Catapult position @ \$75.78 limit. This is from the Catapult section above. It is the 1st of up to 3 possible lots for XOM.

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	\$128.64	-3.71%		Catapult
SPY(1/4)	1/31/2018	\$281.90	\$265.34	-5.87%		see below
UPS(1/3)	2/2/2018	\$118.99	\$106.31	-10.66%		Catapult
SPY(1/4)	2/5/2018	\$273.45	\$265.34	-2.97%		Aggregator
HD(1/3)	2/5/2018	\$190.07	\$184.06	-3.16%		Catapult
LOW(1/3)	2/5/2018	\$101.38	\$97.78	-3.55%		Catapult
F(1/3)	2/5/2018	\$10.71	\$10.70	-0.09%		Catapult
PCLN(1/3)	2/5/2018	\$1,841.30	\$1,790.00	-2.79%		Catapult
ABT(1/3)	2/6/2018	\$57.67	\$57.41	-0.45%		Catapult
CAT(1/3)	2/6/2018	\$148.07	\$152.29	2.85%		Catapult
COST(1/3)	2/6/2018	\$178.91	\$181.06	1.20%		Catapult
CVS(1/3)	2/6/2018	\$72.50	\$69.87	-3.63%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$113.98	2.50%		Catapult
F(1/3)	2/6/2018	\$10.24	\$10.70	4.49%		Catapult
FDX(1/3)	2/6/2018	\$244.44	\$239.93	-1.85%		Catapult
GOOGL(1/3)	2/6/2018	\$1,033.98	\$1,054.56	1.99%		Catapult
HD(1/3)	2/6/2018	\$178.62	\$184.06	3.05%		Catapult
HON(1/3)	2/6/2018	\$147.68	\$149.47	1.21%		Catapult
LOW(1/3)	2/6/2018	\$95.29	\$97.78	2.61%		Catapult
MMM(1/3)	2/6/2018	\$227.51	\$229.19	0.74%		Catapult
PCLN(1/3)	2/6/2018	\$1,800.01	\$1,790.00	-0.56%		Catapult
TGT(1/3)	2/6/2018	\$69.54	\$71.88	3.36%		Catapult
UNH(1/3)	2/6/2018	\$212.20	\$225.69	6.36%		Catapult
UNP(1/3)	2/6/2018	\$122.28	\$128.64	5.20%		Catapult
UPS(1/3)	2/6/2018	\$112.19	\$106.31	-5.24%		Catapult
WFC(1/3)	2/6/2018	\$56.90	\$56.50	-0.70%		Catapult
WMT(1/3)	2/6/2018	\$97.64	\$99.55	1.96%		Catapult
WFC(1/3)	2/7/2018	\$56.94	\$56.50	-0.77%		Catapult
UPS(1/3)	2/7/2018	\$112.39	\$106.31	-5.41%		Catapult
ABT(1/3)	2/9/2018	\$56.27	\$57.41	2.03%		Catapult
COP(1/3)	2/9/2018	\$53.24	\$53.41	0.32%		Catapult

I will look to exit 1 lot of SPY on a close \geq \$267.03, which would also signal the exit trigger for the SPY Catapult signal.

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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