

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 15, 2018

Volume 11 Issue 32

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	14

Tonight's Research Points

- Strong 4-day rallies when SPX > 200ma have led to further gains in the past.
- Tuesday's FTD showed characteristics of FTDs that will often fail.

Short-term Outlook

The Bottom Line

Evidence is mixed tonight, and the Aggregator remains neutral. With SPX short-term overbought, I am looking to remove my index exposure until the next favorable reward/risk opportunity arises.

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 15, 2018	FTD with moderate breadth & volume	1-2 days	Bearish			
February 15, 2018	Up 4 with 3 > 1%	1-4 days	Bullish	2.10%	-0.90%	-1.60%
February 14, 2018	50-low. Up 3+. NR7.	1-3 days	Bullish	1.80%	-1.20%	-3.00%
February 14, 2018	20-low then 3 closes inside dn day	1-5 days	Bullish	1.85%	-1.40%	-2.80%
February 9, 2018	1.5% drop 2x. 10-low > 200	1-7 days	Bullish			
Active - Long Term						
February 15, 2018	FTD with moderate breadth & volume	int term	Bearish			
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 \$20billion	int term	Bearish			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
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	2.80%		

The Evidence

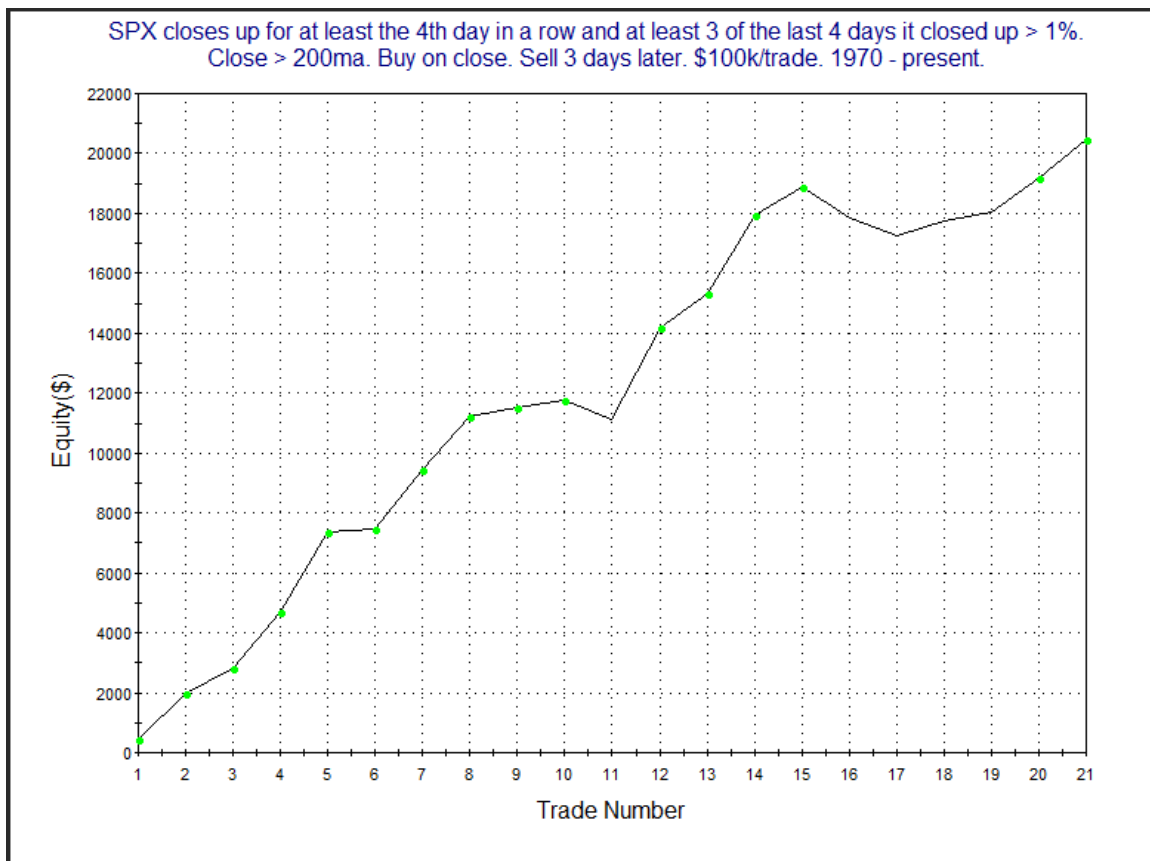
Wednesday started with a gap down after a negative initial reaction to the CPI report. But the market started rallying from the open and finished near its highs at the close. The SPX finished up 1.3%, the NASDAQ rose 1.9%, and the Russell 2000 gained 1.8%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 83%. NYSE volume rose some from Tuesday's low level.

One study that provided interesting results is was from the 2/12/14 letter. It looked at strong price thrusts in SPX like we have seen over the last 4 days. Below are updated results.

SPX closes up for at least the 4th day in a row and at least 3 of the last 4 days it closed up > 1%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	22,437.06	21	16	5	76.19	1,747.06	3,581.50	-1,103.19	-1,493.32	1.58	5.07	1,068.43
4	20,448.09	21	18	3	85.71	1,261.38	3,067.74	-752.27	-1,043.86	1.68	10.06	973.72
3	19,150.80	21	15	6	71.43	1,515.20	4,318.58	-596.21	-1,698.57	2.54	6.35	911.94
2	7,824.21	21	12	9	57.14	968.51	2,586.57	-421.99	-1,301.14	2.30	3.06	372.58
1	1,604.98	24	11	13	45.83	702.84	2,609.46	-471.25	-1,362.90	1.49	1.26	66.87
22 of 24 instances (92%) closed above the entry price at some point in the next week.												

The above stats are impressive. Notable though is that there have only been 5 instances since 2000. These triggered on 6/2/09, 8/21/09, 7/1/11, 2/11/14 and 7/1/16. So although

the total number of instances is decent, we don't have a very large sample in recent years. Below is a profit curve assuming a 4-day holding period.



I do like the curve. And though I would rather see more in the way of recent instances, it appears this study is worth taking under some consideration. Price thrusts as we have seen over the last few days have led to further upside on a fairly consistent basis. I have included this study on the Short-Term Active List. But not everything looked so encouraging.

Another notable bit of evidence that emerged on Wednesday was the fact that it qualified as an IBD Follow Through Day (FTD). I have done a lot of research on FTDs over the years. Much of that research can be found on the blog. Here is a link.

<http://quantifiableedges.com/category/ibd-follow-through-day/>

A couple of filters that have appeared useful in examining FTDs are breadth and volume. Wednesday's FTD was accompanied by moderate breadth and volume. Let's look at those factors individually, and then I will show how the combination has played out over time.

In the 9/9/15 letter I noted that when very strong breadth accompanied a FTD it increased the chances of success – both short and intermediate-term. Below I have updated that study.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank >= 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	31,654.63	45	26	19	57.78	2,963.75	10,921.96	-2,389.63	-11,137.06	1.24	1.70	703.44
9	31,252.26	45	27	18	60.00	2,805.66	10,571.08	-2,472.25	-9,568.46	1.13	1.70	694.49
8	25,135.29	45	24	21	53.33	3,140.12	8,372.32	-2,391.79	-9,554.20	1.31	1.50	558.56
7	29,749.92	45	26	19	57.78	2,906.18	9,599.94	-2,411.09	-9,340.30	1.21	1.65	661.11
6	23,706.58	45	29	16	64.44	2,261.47	7,437.54	-2,617.25	-7,343.90	0.88	1.57	526.81
5	23,814.43	45	28	17	62.22	2,141.91	4,977.83	-2,127.00	-5,410.30	1.01	1.66	529.21
4	32,847.52	45	29	16	64.44	2,220.39	5,800.13	-1,971.49	-4,832.59	1.13	2.04	729.94
3	31,662.45	45	30	15	66.67	2,034.46	7,252.08	-1,958.09	-4,359.81	1.04	2.08	703.61
2	23,582.97	45	28	17	62.22	1,666.71	5,367.23	-1,357.94	-4,195.25	1.23	2.02	524.07
1	17,022.12	45	26	19	57.78	1,105.37	3,911.26	-616.71	-1,673.25	1.79	2.45	378.27

39 of 45 instances (87%) closed above the entry price at some point in the next week.

Results here still appear strong.

But Wednesday's breadth fell shy of the 95th percentile. I also ran the study to show times when breadth was not that strong.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank < 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	3,621.01	46	24	22	52.17	3,317.87	8,942.91	-3,454.90	-24,546.70	0.96	1.05	78.72
9	-3,523.98	46	22	24	47.83	3,431.25	10,103.37	-3,292.14	-18,395.06	1.04	0.96	-76.61
8	9,109.88	46	25	21	54.35	2,994.79	9,347.15	-3,131.42	-17,469.28	0.96	1.14	198.04
7	8,811.97	46	27	19	58.70	2,674.37	9,614.11	-3,336.63	-12,495.16	0.80	1.14	191.56
6	24,083.79	46	30	16	65.22	2,686.33	9,598.49	-3,531.64	-9,023.28	0.76	1.43	523.56
5	12,608.25	46	28	18	60.87	2,505.03	8,325.84	-3,196.25	-7,789.18	0.78	1.22	274.09
4	2,429.34	46	23	23	50.00	2,461.52	7,217.86	-2,355.89	-7,745.95	1.04	1.04	52.81
3	-4,338.91	46	21	25	45.65	2,110.17	6,971.97	-1,946.10	-5,299.32	1.08	0.91	-94.32
2	-5,057.54	46	20	26	43.48	1,851.45	5,134.01	-1,618.71	-8,433.70	1.14	0.88	-109.95
1	1,261.51	46	19	27	41.30	1,091.35	4,708.01	-721.26	-2,475.86	1.51	1.06	27.42

As you can see, there is no discernible short-term edge here. From an intermediate-term perspective, I would also note that breadth seemed to play a part there as well. When the Up Issues % Rank was > 95% then 24 of 45 instances (53.3%) managed to post successful

rallies. When breadth was not as strong on a FTD, then only 20 of 46 instances (43.5%) went on to successful rallies.

The second filter worth examining was volume. In the 9/9/15 letter I also looked at whether NYSE volume came in above or below its 10-day average. First let's look at times like Wednesday when volume was not particularly strong.

Today is an IBD Follow Through Day. NYSE volume < 10ma . Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-4,332.91	37	22	15	59.46	3,010.41	10,921.96	-4,704.13	-24,546.70	0.64	0.94	-117.11
9	-17,078.64	37	20	17	54.05	2,604.35	10,571.08	-4,068.57	-18,395.06	0.64	0.75	-461.58
8	-16,514.87	37	18	19	48.65	2,609.52	8,027.20	-3,341.38	-17,469.28	0.78	0.74	-446.35
7	-5,923.05	37	19	18	51.35	2,366.14	9,599.94	-2,826.65	-12,495.16	0.84	0.88	-160.08
6	1,757.75	37	22	15	59.46	2,202.41	6,965.80	-3,113.02	-9,023.28	0.71	1.04	47.51
5	-3,384.62	37	19	18	51.35	2,284.72	4,663.62	-2,599.69	-7,789.18	0.88	0.93	-91.48
4	-4,884.50	37	16	21	43.24	2,535.47	7,124.13	-2,164.38	-7,745.95	1.17	0.89	-132.01
3	-10,593.33	37	15	22	40.54	2,172.17	5,692.12	-1,962.54	-5,299.32	1.11	0.75	-286.31
2	-21,777.62	37	15	22	40.54	1,308.17	5,323.24	-1,881.83	-8,433.70	0.70	0.47	-588.58
1	-2,443.31	37	16	21	43.24	954.40	2,860.08	-843.51	-2,475.86	1.13	0.86	-66.04
Only 13 of 37 FTDs (35%) went on to successful rallies.												

As you can see, short-term results were poor, and intermediate term results were even worse. Let's now compare this to times when volume came in strong.

Today is an IBD Follow Through Day. NYSE volume > 10ma . Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	39,608.55	54	28	26	51.85	3,230.62	8,942.91	-1,955.73	-11,137.06	1.65	1.78	733.49
9	44,806.93	54	29	25	53.70	3,419.07	10,103.37	-2,173.85	-9,568.46	1.57	1.82	829.76
8	50,760.02	54	31	23	57.41	3,331.01	9,347.15	-2,282.66	-9,554.20	1.46	1.97	940.00
7	44,484.96	54	34	20	62.96	3,023.88	9,614.11	-2,916.34	-10,238.55	1.04	1.76	823.80
6	46,032.62	54	37	17	68.52	2,641.07	9,598.49	-3,040.41	-7,343.90	0.87	1.89	852.46
5	39,807.30	54	37	17	68.52	2,343.36	8,325.84	-2,758.65	-6,557.14	0.85	1.85	737.17
4	40,161.34	54	36	18	66.67	2,234.41	7,217.86	-2,237.64	-5,213.25	1.00	2.00	743.73
3	37,916.86	54	36	18	66.67	2,021.25	7,252.08	-1,936.00	-3,938.55	1.04	2.09	702.16
2	40,303.06	54	33	21	61.11	1,941.65	5,367.23	-1,131.97	-3,630.44	1.72	2.70	746.35
1	20,726.94	54	29	25	53.70	1,179.48	4,708.01	-539.12	-2,008.49	2.19	2.54	383.83
31 of 54 FTDs (57%) went on to successful rallies.												

This appears to be a much more favorable setup.

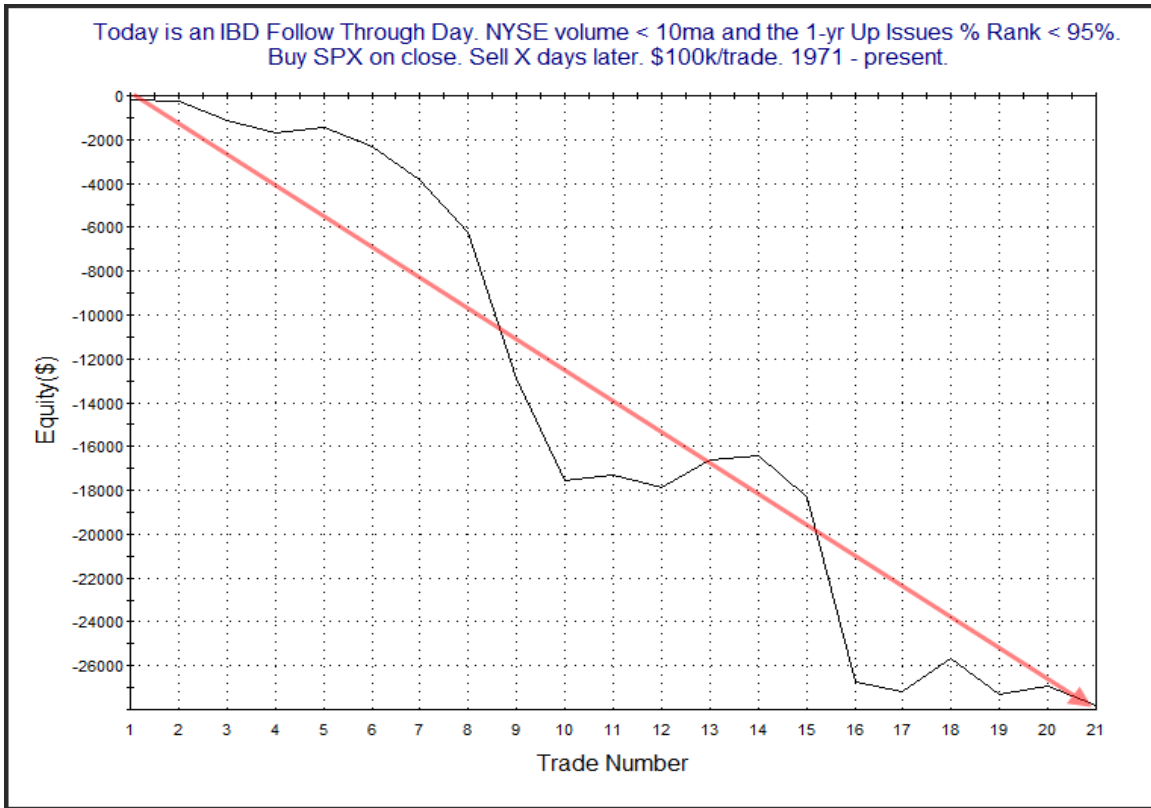
Of course Wednesday's FTD has both breadth and volume going against it. So let's examine results of other instances with FTDs that occurred on modest breadth and modest volume.

Today is an IBD Follow Through Day. NYSE volume < 10ma and the 1-yr Up Issues % Rank < 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-44,387.58	21	8	13	38.10	2,626.16	7,531.29	-5,030.53	-24,546.70	0.52	0.32	-2,113.69
9	-49,948.20	21	7	14	33.33	1,960.68	2,418.26	-4,548.07	-18,395.06	0.43	0.22	-2,378.49
8	-37,284.52	21	9	12	42.86	1,690.63	3,617.64	-4,375.02	-17,469.28	0.39	0.29	-1,775.45
7	-26,485.88	21	10	11	47.62	1,426.48	2,899.26	-3,704.61	-12,495.16	0.39	0.35	-1,261.23
6	-11,873.60	21	12	9	57.14	1,899.77	5,900.31	-3,852.32	-9,023.28	0.49	0.66	-565.41
5	-17,622.58	21	10	11	47.62	1,855.42	4,663.62	-3,288.80	-7,789.18	0.56	0.51	-839.17
4	-18,835.89	21	7	14	33.33	2,163.85	7,124.13	-2,427.34	-7,745.95	0.89	0.45	-896.95
3	-20,850.20	21	6	15	28.57	1,717.93	3,189.42	-2,077.19	-5,299.32	0.83	0.33	-992.87
2	-27,799.48	21	6	15	28.57	645.94	1,508.80	-2,111.68	-8,433.70	0.31	0.12	-1,323.78
1	-5,721.94	21	8	13	38.10	837.07	2,565.81	-955.27	-2,475.86	0.88	0.54	-272.47

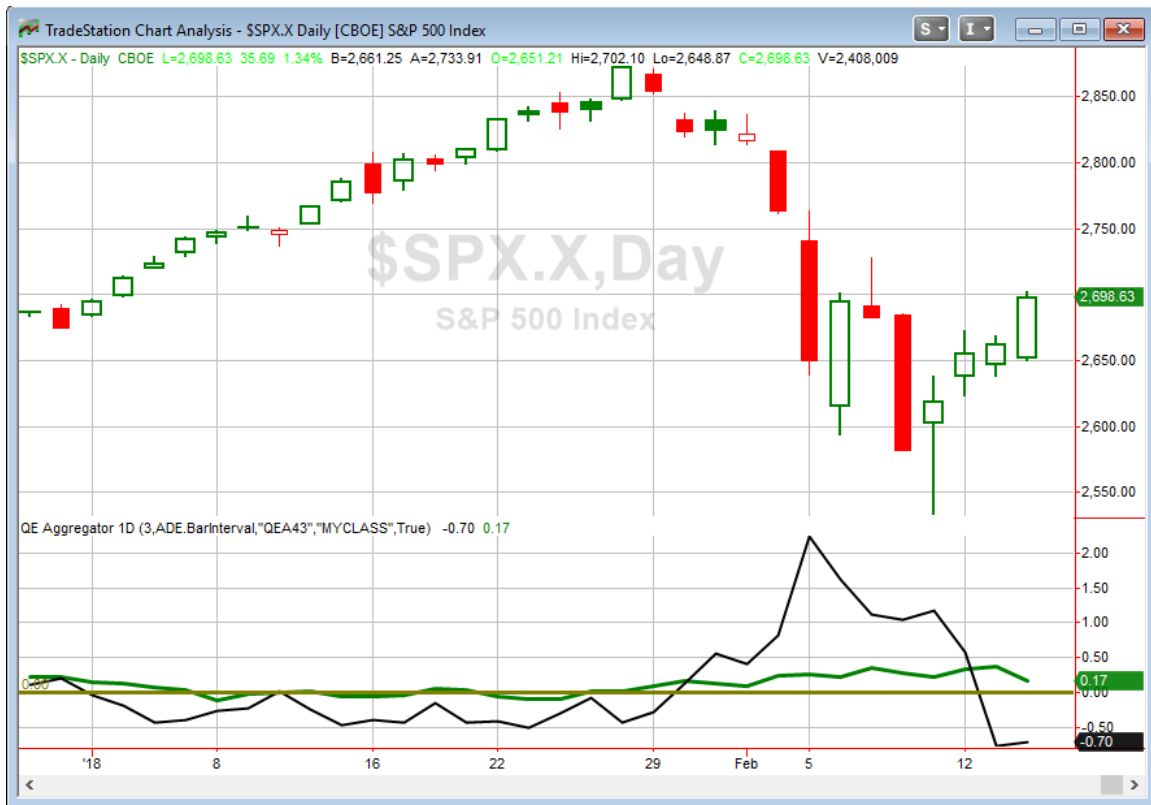
All 21 instances closed below the entry price at some point in the next week.
Only 4 of those 21 FTDs (19%) were followed by successful rallies.

The failure rate here is substantial no matter how you look at it. A short-term downside edge is suggested, which largely plays out in the 1st 2 days. Every instance closed below the entry price over the next few days. And these FTDs have demonstrated a paltry 19% success rate. All these stats are impressive and point to a downside inclination over the next few days. Below is a profit curve which illustrates 2-day holding period results.



There's certainly some wiggle but the general slope has been down for a long time and the curve is at new lows. I'm adding this study to both the short and intermediate-term active lists.

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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Thursday. This is unlikely to change. The Differential Pivot will be 2678.50 on Thursday. That is 0.75% below Wednesday's close. Therefore, it will take a decline of at least 0.75% in order for SPX to move from overbought to oversold on Thursday.

Evidence is mixed tonight, the market is short-term overbought, and the Aggregator is neutral for the 2nd day in a row. With the CBI still elevated at 14 and the strong price thrust we are seeing, there could certainly be more upside in the next few days. But I am not inclined to hold any longer with the questionable FTD evidence and the short-term overbought condition. I will look to exit my index position on Thursday if I can get a favorable fill. I will continue to hold the open Catapults for further upside. I'll prep for the next favorable reward/risk opportunity to put index exposure back on.

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
UPS	\$119.51
F	\$10.71
HD	\$193.97
LOW	\$101.50
CVS	\$73.32
HON	\$150.17
FDX	\$248.50
CVX	\$112.62
LOW	\$97.58
UPS	\$113.30
HD	\$183.11
F	\$10.24
UPS	\$112.71
XOM	\$75.78

Broad Market Large Cap CBI – 14(UPS-3, F-2, HD-2, LOW-2, CVS, HON, FDX, CVX, XOM)

Other Catapult notes:

- SPY's Catapult trigger, that I mentioned in the 2/6 letter, hit its exit trigger, and will no longer be active after the open.
- Several Catapults reached their exit trigger on Wednesday. Others are close, and we could see more exit triggers hit on Thursday.

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](#)

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	\$133.19	-0.31%		<i>sell on open</i>
<i>SPY(1/4)</i>	<i>1/31/2018</i>	<i>\$281.90</i>	<i>\$269.59</i>	<i>-4.37%</i>		<i>sold on close</i>
UPS(1/3)	2/2/2018	\$118.99	\$106.60	-10.41%		Catapult
SPY(1/4)	2/5/2018	\$273.45	\$269.59	-1.41%		<i>sell @ \$269.59 limit</i>
HD(1/3)	2/5/2018	\$190.07	\$184.69	-2.83%		Catapult
LOW(1/3)	2/5/2018	\$101.38	\$96.93	-4.39%		Catapult
F(1/3)	2/5/2018	\$10.71	\$10.74	0.28%		Catapult
PCLN(1/3)	2/5/2018	\$1,841.30	\$1,818.41	-1.24%		<i>sell on open</i>
ABT(1/3)	2/6/2018	\$57.67	\$58.28	1.06%		<i>sell on open</i>
<i>CAT(1/3)</i>	<i>2/6/2018</i>	<i>\$148.07</i>	<i>\$152.39</i>	<i>2.92%</i>		<i>sold on open</i>
<i>COST(1/3)</i>	<i>2/6/2018</i>	<i>\$178.91</i>	<i>\$182.71</i>	<i>2.12%</i>		<i>sold on open</i>
CVS(1/3)	2/6/2018	\$72.50	\$69.79	-3.74%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$113.63	2.19%		Catapult
F(1/3)	2/6/2018	\$10.24	\$10.74	4.88%		Catapult
FDX(1/3)	2/6/2018	\$244.44	\$240.82	-1.48%		Catapult
GOOGL(1/3)	2/6/2018	\$1,033.98	\$1,072.70	3.74%		<i>sell on open</i>
HD(1/3)	2/6/2018	\$178.62	\$184.69	3.40%		Catapult
HON(1/3)	2/6/2018	\$147.68	\$150.38	1.83%		Catapult
LOW(1/3)	2/6/2018	\$95.29	\$96.93	1.72%		Catapult
<i>MMM(1/3)</i>	<i>2/6/2018</i>	<i>\$227.51</i>	<i>\$229.45</i>	<i>0.85%</i>		<i>sold on open</i>
PCLN(1/3)	2/6/2018	\$1,800.01	\$1,818.41	1.02%		<i>sell on open</i>
<i>TGT(1/3)</i>	<i>2/6/2018</i>	<i>\$69.54</i>	<i>\$74.29</i>	<i>6.83%</i>		<i>sold on open</i>
<i>UNH(1/3)</i>	<i>2/6/2018</i>	<i>\$212.20</i>	<i>\$224.95</i>	<i>6.01%</i>		<i>sold on open</i>
UNP(1/3)	2/6/2018	\$122.28	\$133.19	8.92%		<i>sell on open</i>
UPS(1/3)	2/6/2018	\$112.19	\$106.60	-4.98%		Catapult
<i>WFC(1/3)</i>	<i>2/6/2018</i>	<i>\$56.90</i>	<i>\$57.85</i>	<i>1.67%</i>		<i>sold on open</i>
WMT(1/3)	2/6/2018	\$97.64	\$101.70	4.16%		<i>sell on open</i>
<i>WFC(1/3)</i>	<i>2/7/2018</i>	<i>\$56.94</i>	<i>\$57.85</i>	<i>1.60%</i>		<i>sold on open</i>
UPS(1/3)	2/7/2018	\$112.39	\$106.60	-5.15%		Catapult
ABT(1/3)	2/9/2018	\$56.27	\$58.28	3.57%		<i>sell on open</i>
COP(1/3)	2/9/2018	\$53.24	\$55.51	4.26%		<i>sell on open</i>
XOM(1/3)	2/13/2018	\$75.78	\$76.46	0.90%		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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