

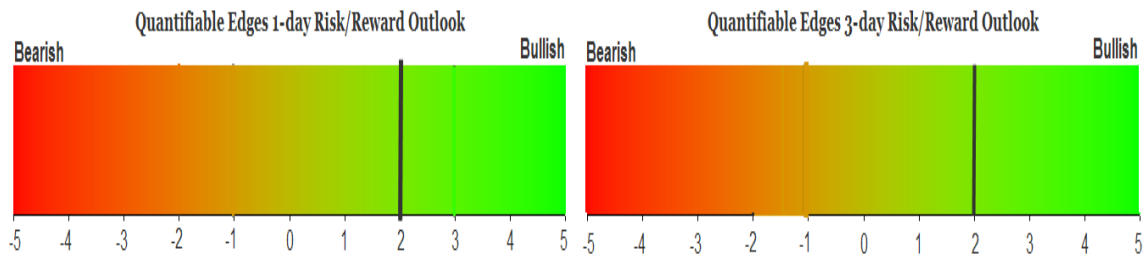
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 23, 2018

Volume 11 Issue 37

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	5

## Tonight's Research Points

- Thursday's action is not showing a clear message.

### *Short-term Outlook*

#### *The Bottom Line*

Nothing substantial changed from the last couple of nights. The Aggregator is again suggesting a short-term upside edge. I don't view reward/risk as terribly favorable with the market still near short-term highs. I would like to see more of a pullback before committing to new long positions.

**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
<b>Active - Short Term</b>						
February 21, 2018	5+ up. 1 down > 200ma	1-10 days	Bullish			
February 16, 2018	5 up < 50-high > 200ma	1-10 days	Bullish	2.30%	-1.30%	-2.65%
<b>Active - Long Term</b>						
February 16, 2018	5 up < 50-high > 20ma	1-15 days	Bullish	3.00%	-1.60%	-3.20%
February 15, 2018	FTD with moderate breadth & volume	int term	Bearish			
February 6, 2018	CBI > 10	1-17 days	Bullish			
February 5, 2018	Hindenburg Omen Cluster	1-35 days	Bearish			
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			

**The Evidence**

For the 2<sup>nd</sup> day in a row, big morning gains met afternoon selling and the market finished mixed. The SPX rose 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 also dropped 0.1%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 55%. NYSE volume declined a little from Wednesday's level.

The mixed and mild action did not do much to trigger compelling studies. But there was some interesting evidence to discuss. In the 4/5/17 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

SPX declines for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	15,524.45	48	24	24	50.00	1,951.05	5,379.66	-1,304.20	-3,579.52	1.50	1.50	323.43
4	13,571.49	49	29	20	59.18	1,509.51	5,553.52	-1,510.21	-4,672.36	1.00	1.45	276.97
3	-1,458.50	49	29	20	59.18	1,272.33	4,047.64	-1,917.80	-6,686.40	0.66	0.96	-29.77
2	10,538.21	49	32	17	65.31	1,206.63	4,123.60	-1,651.40	-4,296.24	0.73	1.38	215.07
1	10,369.39	49	35	14	71.43	743.93	2,286.08	-1,119.15	-2,452.26	0.66	1.66	211.62

Results here are a bit mixed, but at least day one appears to suggest a bit of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

After closing down 2 days in a row SPX closes up today but by less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	8,252.97	50	25	25	50.00	1,939.83	7,590.88	-1,609.72	-5,506.23	1.21	1.21	165.06
4	-11,345.42	51	25	26	49.02	1,373.88	4,662.24	-1,757.40	-7,588.98	0.78	0.75	-222.46
3	-13,824.57	52	23	29	44.23	1,313.04	3,939.79	-1,518.09	-6,120.45	0.86	0.69	-265.86
2	-5,481.07	52	21	31	40.38	1,241.34	4,732.64	-1,017.71	-3,197.70	1.22	0.83	-105.41
1	-7,424.17	52	24	28	46.15	717.18	3,390.64	-879.88	-3,325.38	0.82	0.70	-142.77

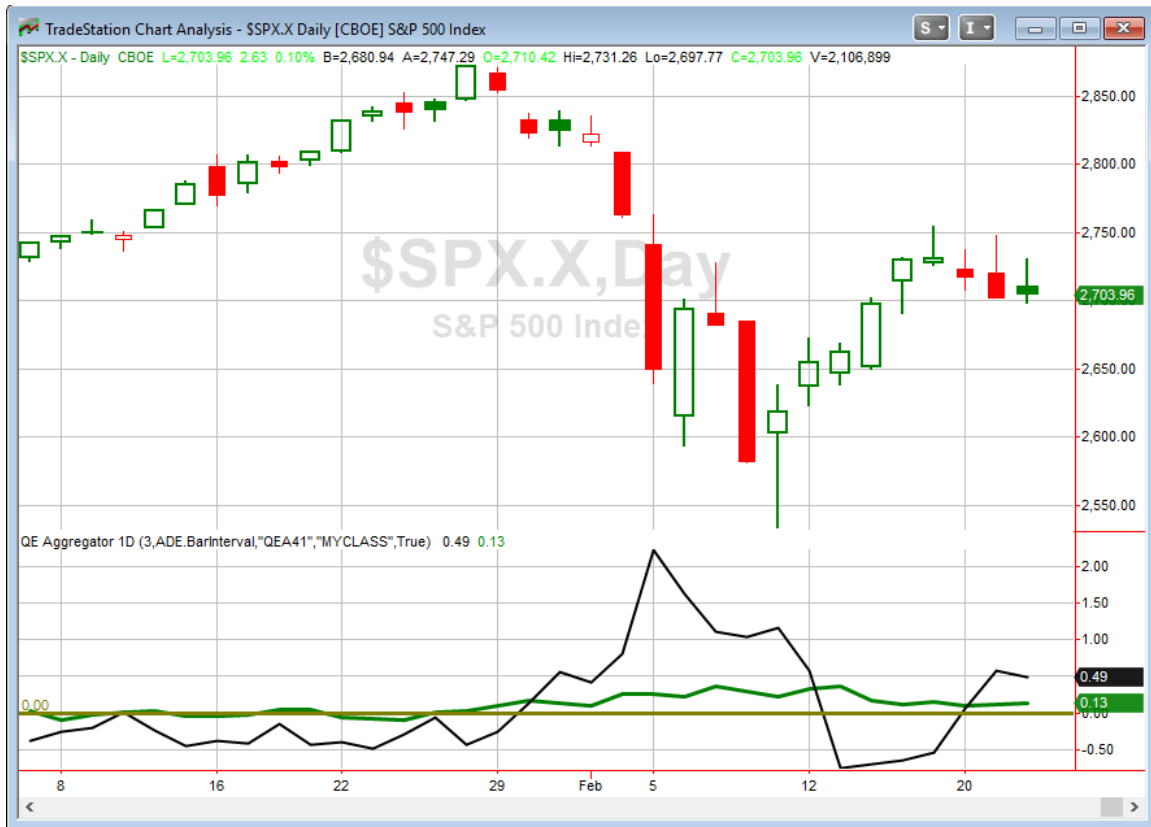
As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside, all of which is realized on day one.

But most often with the above study, it triggered following a reversal where the market traded lower much of the day and then squeezed into positive territory in the end. But Thursday it was up big and then closed weak. The study below is from the 11/12/12 letter and it adds a filter where the SPX must close in the bottom 1/3 of its daily range.

After closing down 2 days in a row SPX closes up today but by less than 0.2%. It also closes in the bottom 1/3 of the daily range. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	14,893.34	12	7	5	58.33	2,767.66	7,590.88	-896.05	-1,947.00	3.09	4.32	1,241.11
4	8,312.91	12	8	4	66.67	1,595.62	4,662.24	-1,113.01	-2,161.38	1.43	2.87	692.74
3	4,816.45	12	7	5	58.33	1,566.38	3,535.07	-1,229.65	-2,037.00	1.27	1.78	401.37
2	4,850.94	12	5	7	41.67	2,125.01	4,732.64	-824.87	-1,832.70	2.58	1.84	404.25
1	1,873.30	12	6	6	50.00	1,056.97	3,390.64	-744.75	-1,405.00	1.42	1.42	156.11

Results here no longer appear bearish. The number of trades is low, and the breakeven win rate means the results are not significant, but to me they are good enough to call the original study into question. This negates my desire to include it on the Active List.

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 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 could change if compelling new bearish evidence emerges. The Differential Pivot will be 2726.32 on Friday. That is 0.8% above Thursday's close. Therefore, it will take a close up of at least 0.8% in order for SPX to move from oversold to overbought on Friday.

There was no new compelling evidence that emerged, and no substantial market move. So it should not be a big surprise that my outlook from last night has not changed much. I still view evidence as mildly bullish, and with the market still near the upper end of its recent trading range, I am still not loving the reward/risk potential. We have reached an interesting level here, where after wild swings down and then up, the market has consolidated the last several days. Our Follow Through Day study from last week suggests

a retest (and likely failure) of the lows is on tap, and the large expected SOMA reduction could provide a headwind for the bulls here at near the end of the month. But the recent thrust higher suggests momentum was strong enough that further gains can be expected. In any case, a strong directional edge with favorable reward/risk is not evident, so I will remain patient until a better opportunity emerges.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/20– somewhat bullish***

The intermediate-term outlook was last updated in the 2/20/18 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*

***OpenCatapult Triggers***

Ticker	Trigger Price
UPS	\$119.51
CVX	\$112.62
UPS	\$113.30
UPS	\$112.71
CVX	\$109.06

***Broad Market Large Cap CBI – 5(UPS-3, CVX-2)***

**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.](#)*

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UPS(1/3)	2/2/2018	\$118.99	\$105.08	-11.69%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$109.89	-1.18%		Catapult
UPS(1/3)	2/6/2018	\$112.19	\$105.08	-6.34%		Catapult
UPS(1/3)	2/7/2018	\$112.39	\$105.08	-6.50%		Catapult
CVX(1/3)	2/22/2018	\$109.06	\$109.89	0.76%		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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