

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2018

Volume 11 Issue 38

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	3

## Tonight's Research Points

- The very low NYSE volume combined with the rising SPX and strong market suggest a short-term bearish edge.
- The Fed's site is down – I will update SOMA information later or tomorrow after it comes back online.

## *Short-term Outlook*

### *The Bottom Line*

Expectations have turned slightly bearish and the market is now overbought short-term. So there appears to be a bit of a downside edge, but I am not of the opinion that it is strong enough to pursue a counter-trend trade.

*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 26, 2018	Low volume 20. SPX up 0.5% >10 > 200	1-3 days	Bearish	-1.60%	0.70%	1.30%
February 21, 2018	5+ up. 1 down > 200ma	1-10 days	Bullish	2.00%	-1.10%	-2.30%
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 \$2obillion	int term	Bearish			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

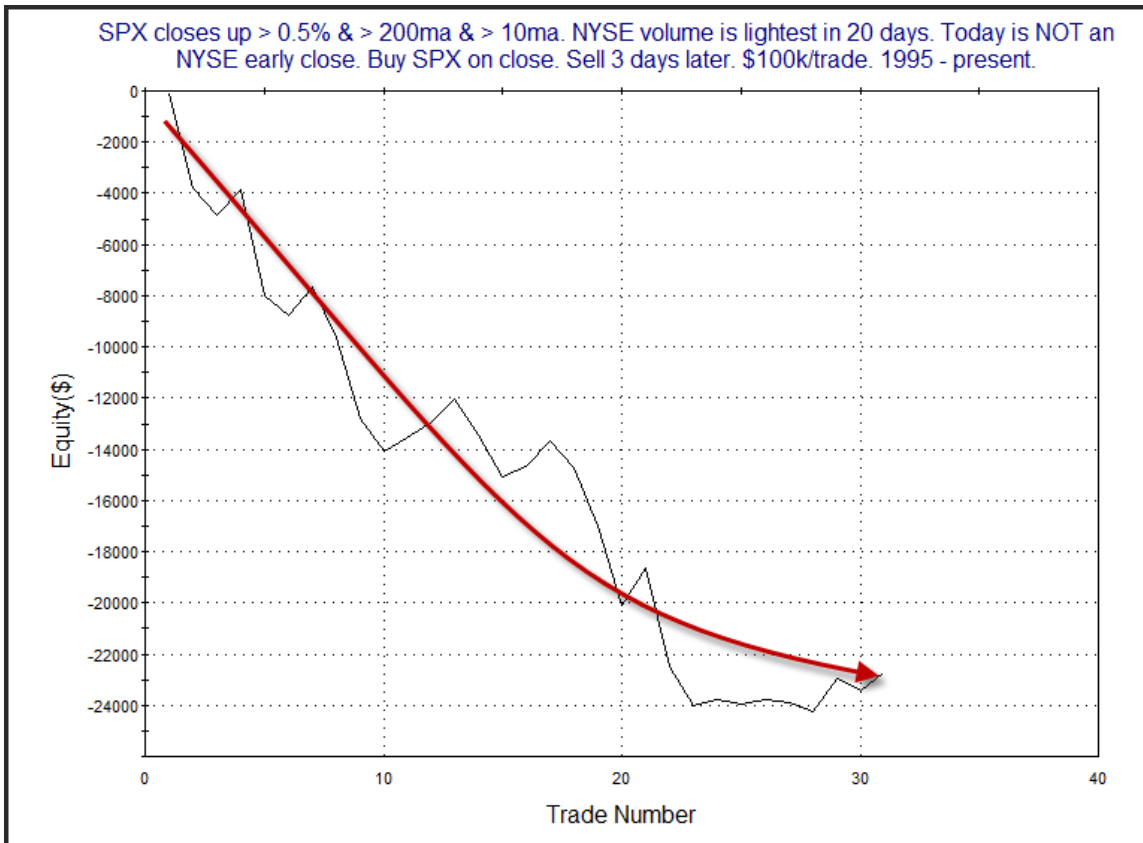
**The Evidence**

The market started the day strong on Friday and added to the gains during the day. The SPX finished up 1.6%, the NASDAQ gained 1.8%, and the Russell 2000 rallied 1.25%. Breadth was positive as the NYSE Up Issues % was 81% and the Up Volume % came in at 82%. But NYSE volume came in at the lightest level since the end of 2017.

There were a few studies that examined the low in volume while SPX was posting a good day. The study below from the 11/22/16 letter was the most compelling. I updated it and added a filter to exclude instances where the low volume occurred on a day where the NYSE closed early (like the day after Thanksgiving), since those days almost always have extremely low volume.

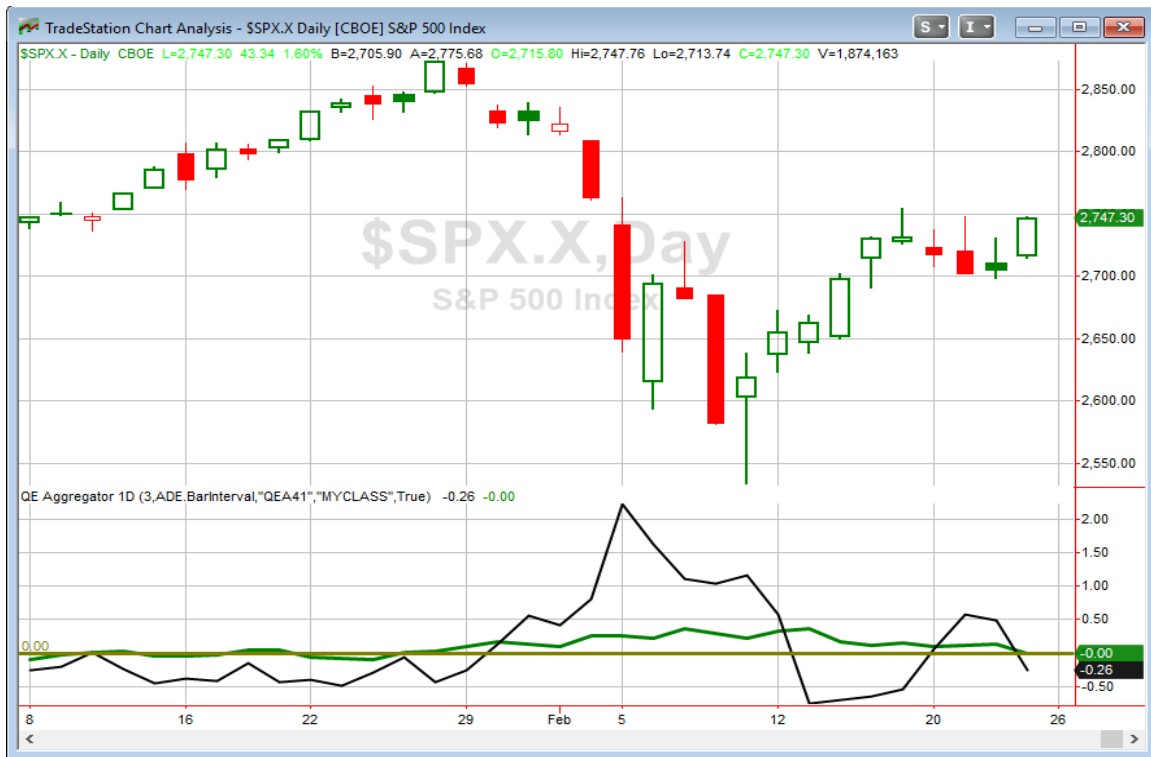
SPX closes up > 0.5% & > 200ma & > 10ma. NYSE volume is lightest in 20 days. Today is NOT an NYSE early close. Buy SPX on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-18,335.30	31	15	16	48.39	1,190.38	2,927.68	-2,261.93	-11,883.69	0.53	0.49	-591.46
4	-17,310.28	31	15	16	48.39	910.71	1,909.60	-1,935.69	-5,540.99	0.47	0.44	-558.40
3	-22,722.22	31	12	19	38.71	774.46	1,485.12	-1,685.04	-4,145.96	0.46	0.29	-732.97
2	-13,329.83	31	13	18	41.94	569.78	1,532.44	-1,152.05	-3,372.16	0.49	0.36	-429.99
1	-7,167.05	32	12	20	37.50	480.19	1,439.62	-646.47	-1,939.20	0.74	0.45	-223.97

Stats here suggest a downside edge. Below is a profit curve assuming a 3-day holding period.



While the curve has flattened a bit lately, the long-term downslope still seems to support the bearish inclinations suggested by the numbers. I am including this study on the Active List tonight.

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



With tonight's study considered, the green Aggregator line dipped just slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line also fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal flipped to short at the close.

Based on the current list of active studies, expectations are slated to turn just slightly bullish on Monday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2710.84 on Monday. That is 1.3% below Friday's close. Therefore, it will take a close down of at least 1.3% in order for SPX to move from overbought to overbought oversold on Monday.

So the Aggregator is suggesting a bearish edge for the short-term. But it is about as weak of a bearish edge as you can get. It is based off just 1 bearish study, net expectations are barely negative, they are set to turn positive after Monday, and the intermediate-term outlook is still leaning bullish. Therefore, I don't feel enthused about trying to take advantage of this potential downside edge. But if it comes to fruition over the next few days, it could set up the next bounce – perhaps as we head into turn-of-month bullishness. So I will continue to monitor action closely and be ready to act when a more compelling opportunity arises.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 2/26– somewhat bullish**

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 Combo Systems remained “Long”.*

Friday helped the market close positive on the week. The SPX finished the week up 0.6%, while the NASDAQ did a little better with a 1.35% gain. There were not any new studies that emerged with intermediate-term implications.

*At this point in the letter I typically update our Fed SOMA charts and include Fed analysis. Unfortunately, the Fed’s website has been down since Friday afternoon. I do not see a point in delaying publication any longer. I will look to do a separate Fed analysis later tonight or tomorrow once the Fed’s site comes back online.*

Most of the intermediate-term evidence is still pointing higher. There are still some active studies with bullish inclinations from the strong burst higher. Additionally, the Market Timing Course combo systems are all pointing higher. The FTD study from last week is still a bit discouraging for the bulls. My biggest concern remains Fed action, both with rising interest rates and with the accelerating SOMA reduction. For now I am still leaning a little bullish, and more inclined to get involved with long trades than short ones. That could certainly change depending how things unfold in the coming days and weeks.

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

***OpenCatapult Triggers***

Ticker	Trigger Price
UPS	\$119.51
UPS	\$113.30
UPS	\$112.71

***Broad Market Large Cap CBI – 3(UPS-3)***

### **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	\$105.61	-11.24%		Catapult
CVX(1/3)	2/6/2018	\$111.20	\$112.59	1.25%		sell on open
UPS(1/3)	2/6/2018	\$112.19	\$105.61	-5.87%		Catapult
UPS(1/3)	2/7/2018	\$112.39	\$105.61	-6.03%		Catapult
CVX(1/3)	2/22/2018	\$109.06	\$112.59	3.24%		sell on open

*CVX reached its exit trigger on Friday and will be exited at the open on Monday.*

*UPS is near its exit trigger as well. Any move above \$105.93 during the day on Monday will mean an exit for UPS on Tuesday morning.*

*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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