

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 27, 2018

Volume 11 Issue 39

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The persistently stretched VXO is rare, but could suggest a possible bullish edge for SPX.

Short-term Outlook

The Bottom Line

Expectations have turned slightly bullish but the market is overbought. This leaves me neutral.

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 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%
Active - Long Term						
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

It was another good day for the market on Monday. The SPX finished up 1.2%, the NASDAQ gained 1.15%, and the Russell 2000 rallied 0.65%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 74%. NYSE volume was not terribly strong, but it did rise some from Friday's level.

The 1% move higher in SPX and close near the top of its range for the 2nd day in a row was interesting, but I did not see compelling results when examining studies related to that action. What has also stood out recently is that the VXO (which is the old calculation for the VIX) has remained stretched to the downside for an extended period of time. After the early-February explosion, the VXO has seen a rapid contraction. In fact, Monday marked the 9th day in a row that VXO closed at least 10% below its 10-day moving average. Below is a study looking at SPX performance following other times that VXO was stretched this low for this long.

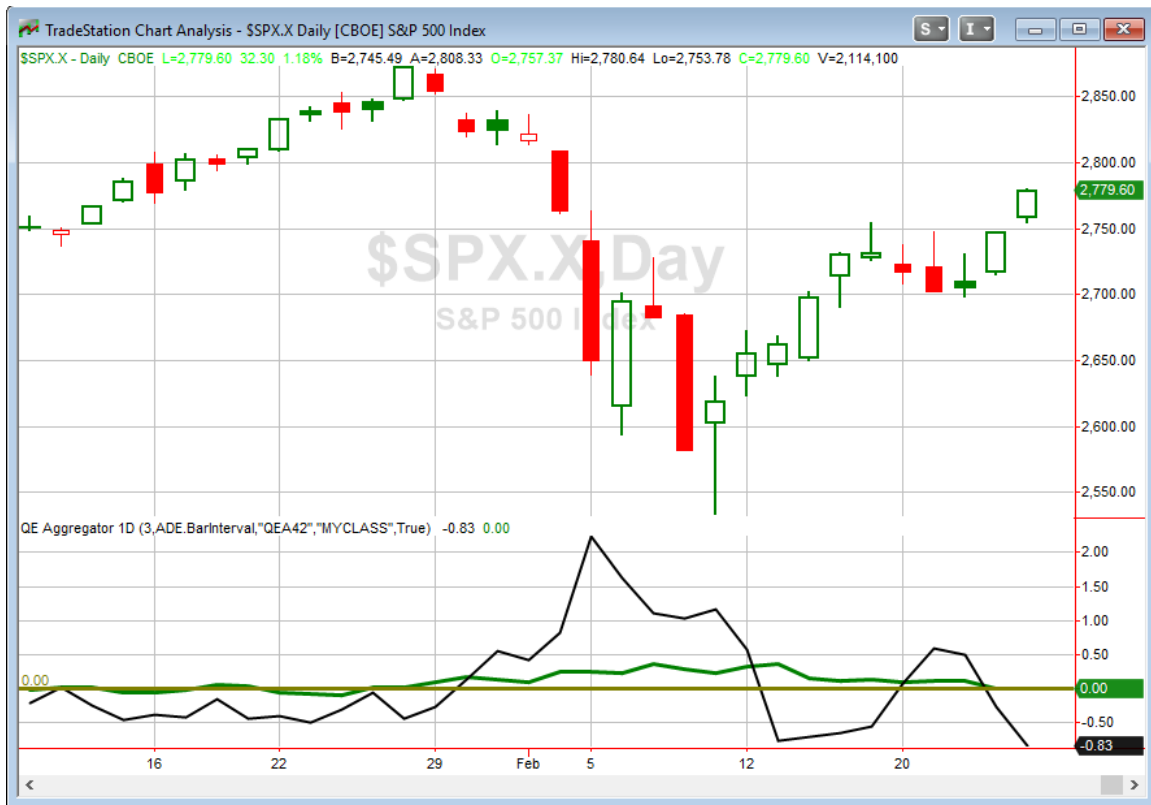
VXO closes at least 10% below its 10ma for the 9th day in a row. Buy SPX on close. Sell X days later. \$100k/trade. 1987 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
40	29,142.04	6	6	0	100.00	4,857.01	11,734.47	0.00	0.00	100.00	100.00	4,857.01
35	20,169.27	6	6	0	100.00	3,361.54	9,524.79	0.00	0.00	100.00	100.00	3,361.54
30	20,354.75	6	6	0	100.00	3,392.46	11,502.81	0.00	0.00	100.00	100.00	3,392.46
25	20,465.59	6	5	1	83.33	4,122.71	11,975.04	-147.96	-147.96	27.86	139.32	3,410.93
20	17,187.28	6	5	1	83.33	4,115.61	9,471.33	-3,390.75	-3,390.75	1.21	6.07	2,864.55
15	11,417.86	6	5	1	83.33	3,200.92	8,699.13	-4,586.76	-4,586.76	0.70	3.49	1,902.98
10	11,540.99	6	4	2	66.67	3,114.78	8,809.02	-459.06	-848.25	6.79	13.57	1,923.50
5	9,286.27	6	6	0	100.00	1,547.71	4,579.74	0.00	0.00	100.00	100.00	1,547.71
4	7,739.72	6	6	0	100.00	1,289.95	3,712.50	0.00	0.00	100.00	100.00	1,289.95
3	6,851.08	6	6	0	100.00	1,141.85	2,202.96	0.00	0.00	100.00	100.00	1,141.85
2	5,673.95	7	6	1	85.71	1,032.65	2,399.76	-521.97	-521.97	1.98	11.87	810.56
1	2,917.48	10	8	2	80.00	609.94	1,502.82	-981.03	-1,709.76	0.62	2.49	291.75

Instances are very low, but early returns suggest a possible upside edge for the SPX. Below are the full list of instances.

VXO closes at least 10% below its 10ma for the 9th day in a row. Buy SPX on close. Sell 5/40 days later. \$100k/trade. 1987 - present.						
Date/Time	Signal	Price	5-day % Profit	5-day Run-up Drawdown	40-day % Profit	40-day Run-up Drawdown
11/9/1987	Buy	\$243.16	1.48%	\$2,766.03	7.37%	\$7,652.82
11/16/1987	Sell	\$246.75		(\$2,272.83)		(\$9,009.12)
1/29/1991	Buy	\$335.84	4.59%	\$4,752.00	11.76%	\$13,011.57
2/5/1991	Sell	\$351.26		(\$41.58)		(\$41.58)
3/31/2011	Buy	\$1,325.83	0.58%	\$1,016.25	0.40%	\$3,356.25
4/7/2011	Sell	\$1,333.51		\$0.00		(\$2,334.75)
10/30/2014	Buy	\$1,994.65	1.83%	\$1,848.00	4.81%	\$4,945.00
11/6/2014	Sell	\$2,031.21		\$0.00		(\$1,104.50)
7/12/2016	Buy	\$2,152.14	0.54%	\$777.86	1.58%	\$1,916.82
7/19/2016	Sell	\$2,163.78		(\$272.78)		(\$272.78)
11/21/2016	Buy	\$2,198.18	0.29%	\$682.65	3.33%	\$3,776.40
11/29/2016	Sell	\$2,204.66		(\$165.15)		(\$483.30)

Aside from 1987, one thing that stood out to me here was that the drawdowns were all very low for both the 5-day and 40-day holding periods. With instances so sparse over such a long period of time, I don't have great confidence in this study. So I decided not to include it on the Active List tonight. But I did think results were interesting enough to share.

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



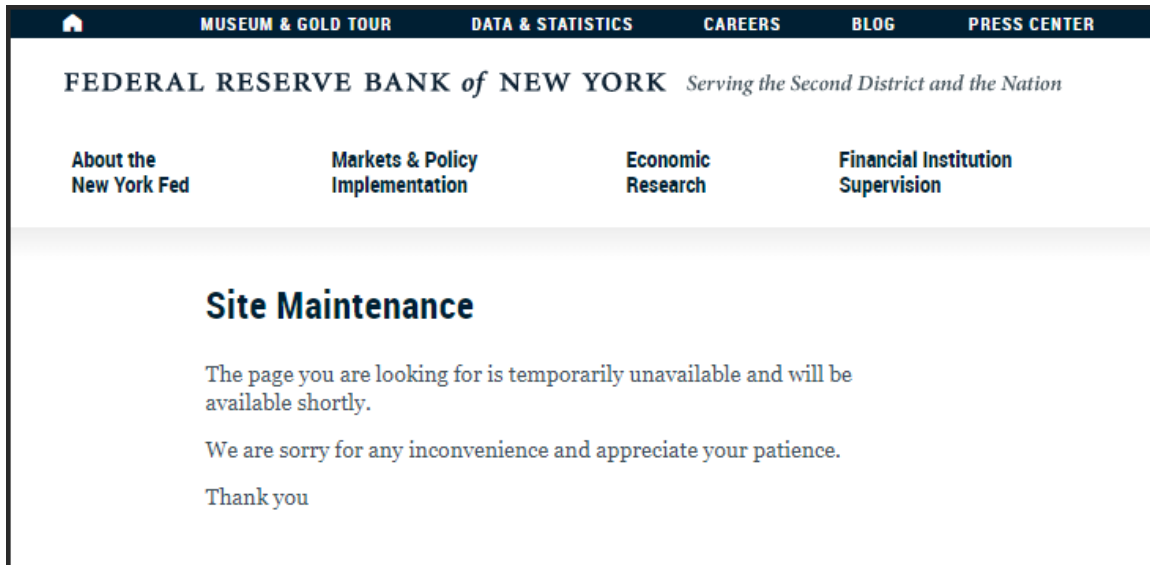
Without anything new making the Active List tonight, the green Aggregator line inched a very small amount above zero (indiscernible from 0 on the chart). Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held below 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 turned flat at the close.

Based on the current list of active studies, expectations are slated to stay bullish on Tuesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2712.24 on Tuesday. That is 2.4% below Monday's close. That would be a huge 1-day drop. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

The Aggregator is neutral and appears likely to remain so Tuesday as well. Overbought in an uptrend with weak bullish evidence is not a terribly appealing setup in my view. So I will continue to monitor action closely and be ready to act when a more compelling opportunity arises.

Fed Note

I am still unable to update the weekend SOMA charts, since the Fed's website has had the below message up since Friday. I will look to update that analysis in the coming days.



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

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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	\$108.04	-9.20%		sell on open
CVX(1/3)	2/6/2018	\$111.20	\$113.18	1.78%		sold on open
UPS(1/3)	2/6/2018	\$112.19	\$108.04	-3.70%		sell on open
UPS(1/3)	2/7/2018	\$112.39	\$108.04	-3.87%		sell on open
CVX(1/3)	2/22/2018	\$109.06	\$113.18	3.78%		sold on open

UPS reached its exit trigger on Monday and will be exited at the open on Tuesday.

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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