

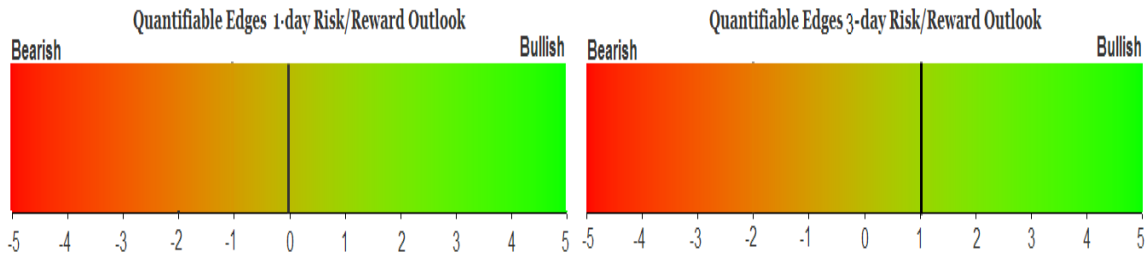
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2018

Volume 11 Issue 40

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A poor close to end the month could suggest bullish odds for Friday.
- The SPY gap and reversal on Tuesday after an unfilled gap up on Monday suggests an upside edge for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, but weakness on Wednesday could set up a rally on Thursday. I am on the lookout for that.

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 28, 2018	Unfilled up then gap up & close down	1 day	Bullish			
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 \$20billior	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

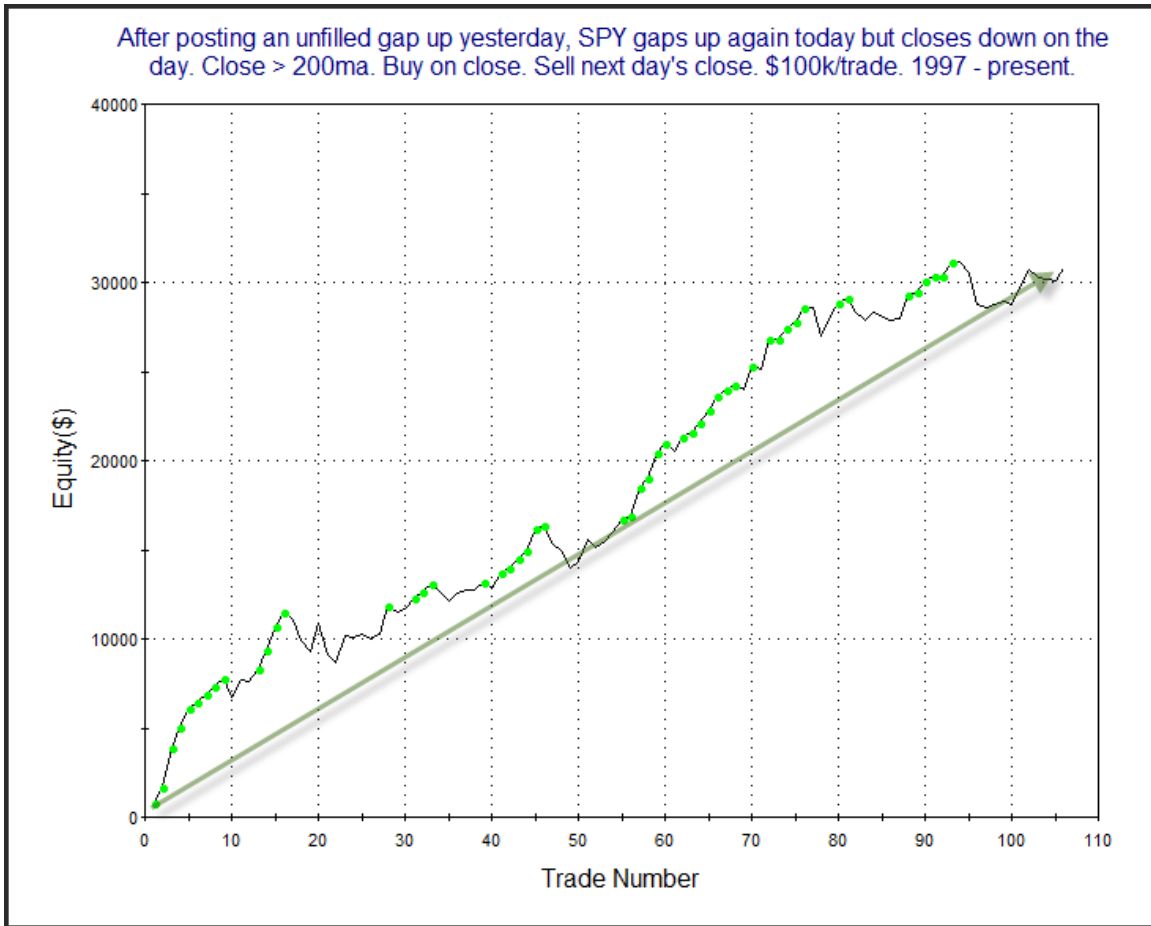
Tuesday saw a good start to the day, but Fed testimony led to some selling and a poor close by the end of the day. The SPX finished down 1.3%, the NASDAQ lost 1.2%, and the Russell 2000 fell 1.5%. Breadth was negative as the NYSE Up Issues % was 22% and the Up Volume % came in at 12%. NYSE volume rose some from Monday's level.

SPY gapped up and closed lower Tuesday after leaving an unfilled up gap on Monday. In the 12/26/17 letter I examined similar price action in SPY with regards to how it gapped and finished. I found that gains had been pretty consistent the next day after similar action. The study is updated below.

After posting an unfilled gap up yesterday, SPY gaps up again today but closes down on the day. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$30,809.38	Profit Factor		2.71
Gross Profit	\$48,855.41	Gross Loss		(\$18,046.03)
Total Number of Trades	106	Percent Profitable		67.92%
Winning Trades	72	Losing Trades		34
Even Trades	0			
Avg. Trade Net Profit	\$290.65	Ratio Avg. Win:Avg. Loss		1.28
Avg. Winning Trade	\$678.55	Avg. Losing Trade		(\$530.77)
Largest Winning Trade	\$2,194.38	Largest Losing Trade		(\$1,772.16)

The numbers here all look solidly bullish. Below is the profit curve.



Despite the recent choppiness, the strong, long-term upslope is fairly encouraging. The action of the last 2 days appears to be suggesting an upside edge for Wednesday. I have included this study on the Active List tonight.

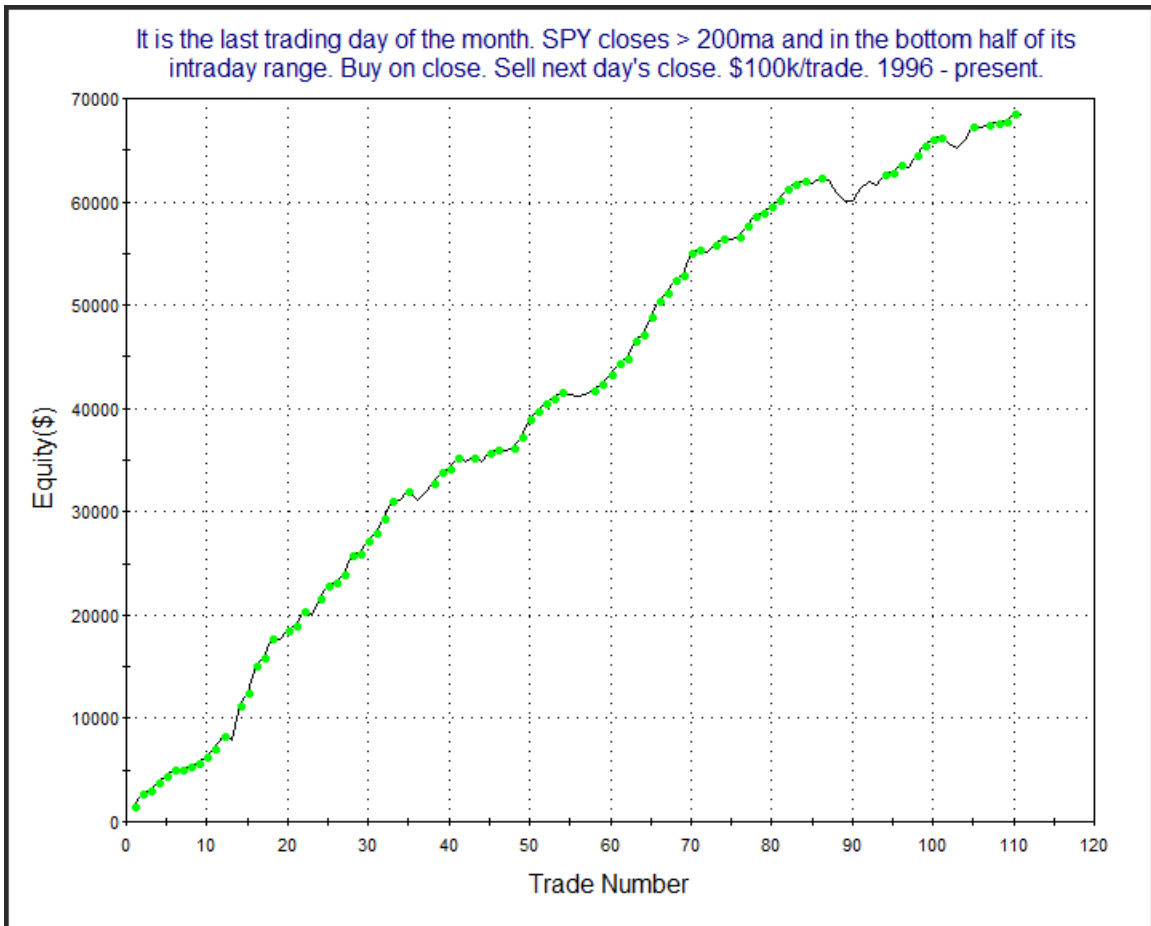
It is worth noting that Wednesday is the last trading day of the month. In the 8/31/17 letter I showed some studies about the 1st trading day of the month based on how the last trading day of the previous month performed. I have updated those studies below.

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$68,488.71	Profit Factor	9.01
Gross Profit	\$77,041.17	Gross Loss	(\$8,552.46)
Total Number of Trades	111	Percent Profitable	79.28%
Winning Trades	88	Losing Trades	23
Even Trades	0		
Avg. Trade Net Profit	\$617.02	Ratio Avg. Win:Avg. Loss	2.35
Avg. Winning Trade	\$875.47	Avg. Losing Trade	(\$371.85)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 111 instances. Below is a profit curve.



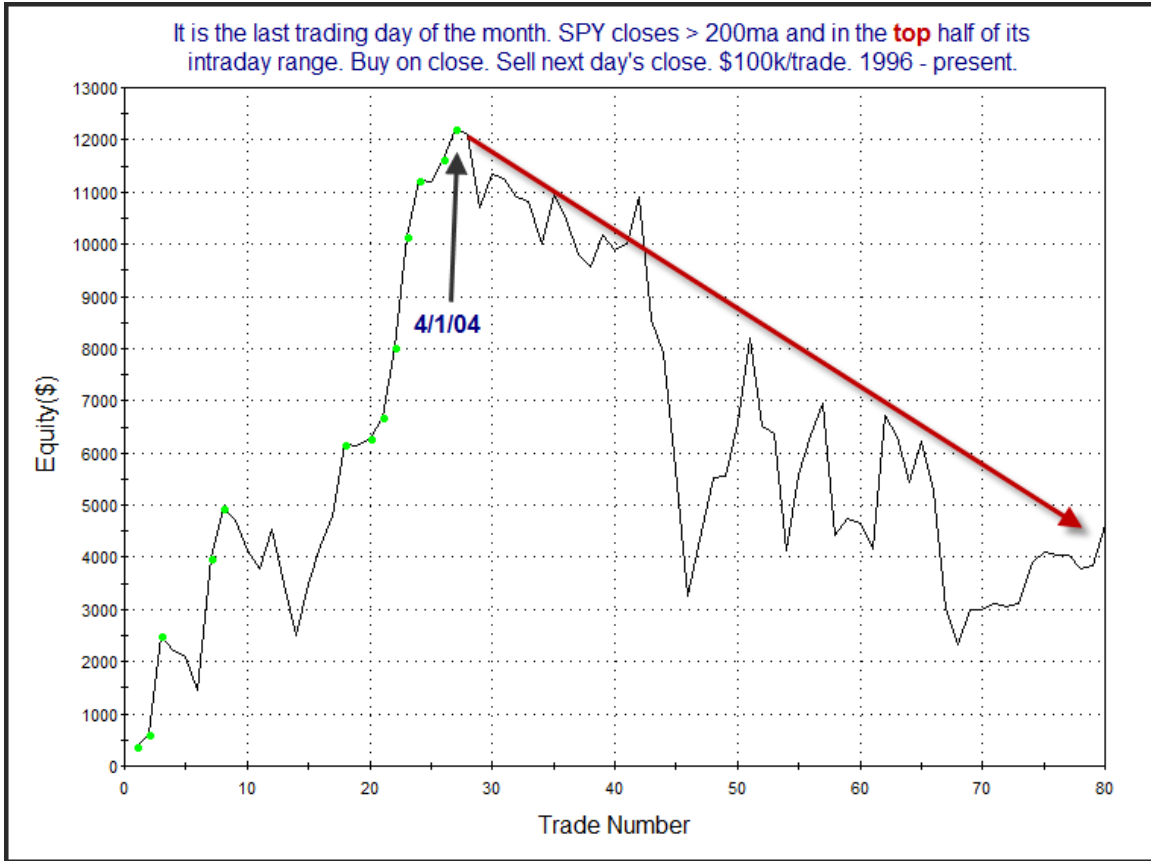
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results have looked like when SPY closed in the top half of its intraday range. (Also from the 8/31/17 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the **top** half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

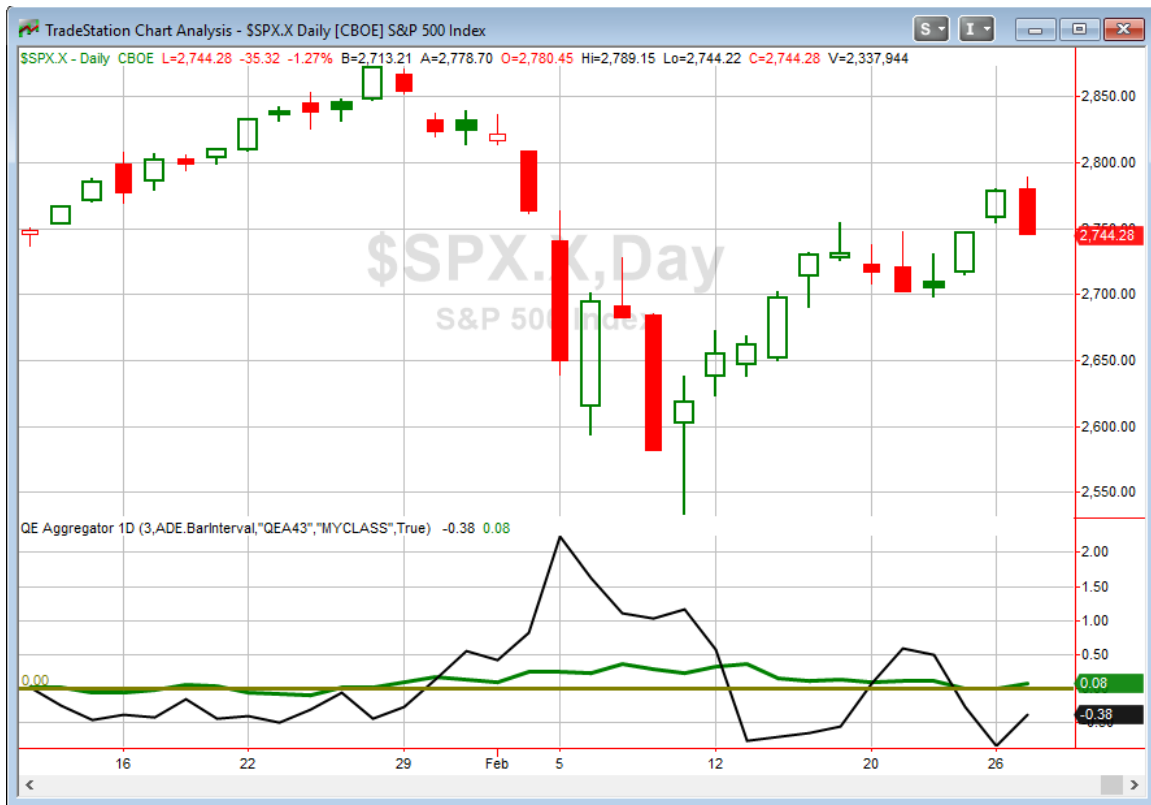
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$4,628.83	Profit Factor	1.16
Gross Profit	\$33,848.14	Gross Loss	(\$29,219.31)
Total Number of Trades	80	Percent Profitable	52.50%
Winning Trades	42	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$57.86	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$805.91	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture. So to set up an upside edge for Thursday, traders would prefer a weak close on Wednesday.

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



With tonight's study considered the green Aggregator moved a little further 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 still 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 stay bullish on Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 2753.67 on Wednesday. That is 0.3% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, it will take a rise of over 0.3% in order for SPX to remain overbought. Anything less than that and SPX will be considered "oversold" versus expectations as of Wednesday's close.

A poor close on Wednesday would leave the SPX oversold and could set up a nice turn of the month buying opportunity. If SPY closes down enough to finish below its 10ma, then I would find reward/risk potential even more favorable. I'll be looking to get long near the close on Wednesday if this kind of selloff arrives. Otherwise, I will wait and re-evaluate tomorrow night.

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.

***SPY – buy ¼ index position @\$272.73 LIMIT ON CLOSE if it also closes in lower half of intraday range.** Based on the short-term outlook above, I will look to take on some long index exposure if SPY closes poorly and below its 10ma on Wednesday.*

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>UPS(1/3)</i>	<i>2/2/2018</i>	<i>\$118.99</i>	<i>\$108.24</i>	<i>-9.03%</i>		<i>sold on open</i>
<i>UPS(1/3)</i>	<i>2/6/2018</i>	<i>\$112.19</i>	<i>\$108.24</i>	<i>-3.52%</i>		<i>sold on open</i>
<i>UPS(1/3)</i>	<i>2/7/2018</i>	<i>\$112.39</i>	<i>\$108.24</i>	<i>-3.69%</i>		<i>sold on open</i>

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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