

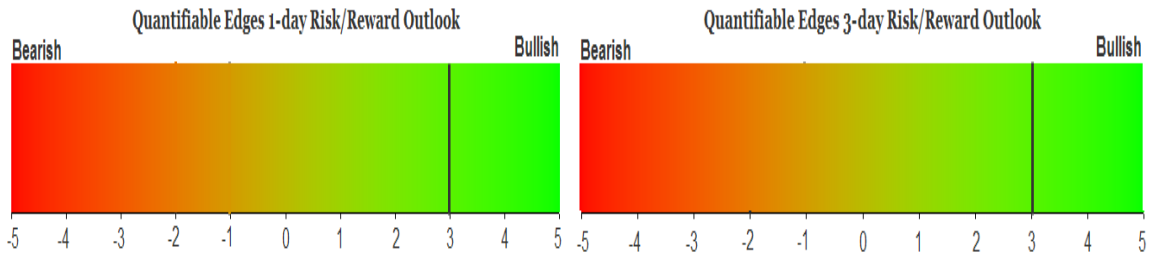
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 2, 2018

Volume 11 Issue 42

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- The 3-day pullback appears to be offering a mild upside edge.

Short-term Outlook

The Bottom Line

The Aggregator bullish. I already have some long exposure and am looking for a bounce.

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						
March 1, 2018	End of month. Close weak < 10 > 200	1 day	Bullish			
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

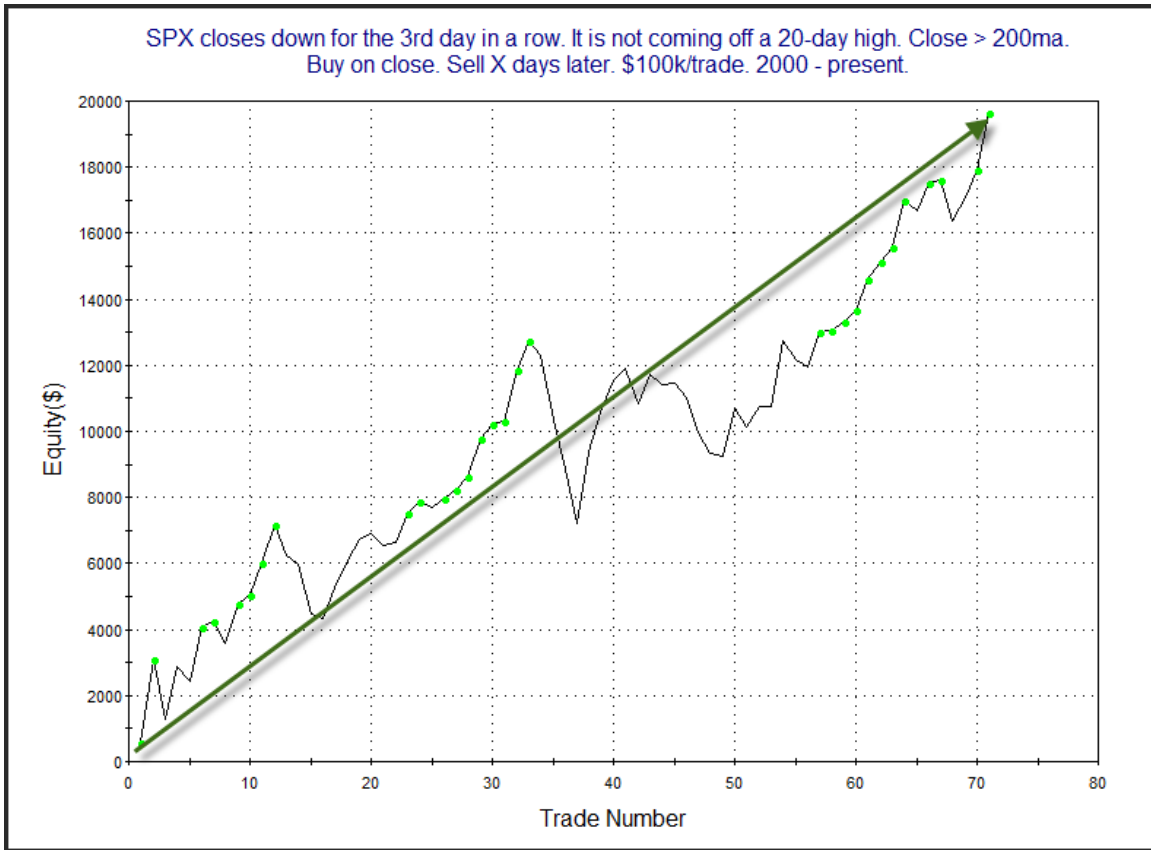
Thursday was another day of strong selling. The SPX finished down 1.3%, the NASDAQ lost 1.3%, and the Russell 2000 fell 0.3%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 35%. NYSE volume rose for the 4th day in a row.

The main theme of the studies in the Quantifinder is that the SPX is now experiencing a 3-day pullback. A simple 3-day pullback will often suggest a short-term upside edge. And times when the market is in a long-term uptrend that edge is often more consistent. I looked at the 3-day pullback a number of ways today, including a few new studies that I have not previously published.

Let's first look at a pullback study that appeared in the 9/2/16 letter. It examined pullbacks during uptrends that did not originate at intermediate-term highs.

SPX closes down for the 3rd day in a row. It is not coming off a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	26,490.61	67	39	28	58.21	1,490.48	5,555.16	-1,129.93	-3,385.80	1.32	1.84	395.38
4	25,157.64	71	43	28	60.56	1,383.52	5,290.00	-1,226.21	-3,863.84	1.13	1.73	354.33
3	23,526.78	71	42	29	59.15	1,307.69	4,895.50	-1,082.62	-4,464.88	1.21	1.75	331.36
2	16,148.45	71	41	30	57.75	1,085.58	4,424.50	-945.35	-7,559.56	1.15	1.57	227.44
1	19,629.46	71	47	24	66.20	808.07	2,503.90	-764.57	-1,953.32	1.06	2.07	276.47

Much of the upside edge has been realized on Day 1. And the 1-day hold showed the most impressive looking equity curve as well. It can be seen below.



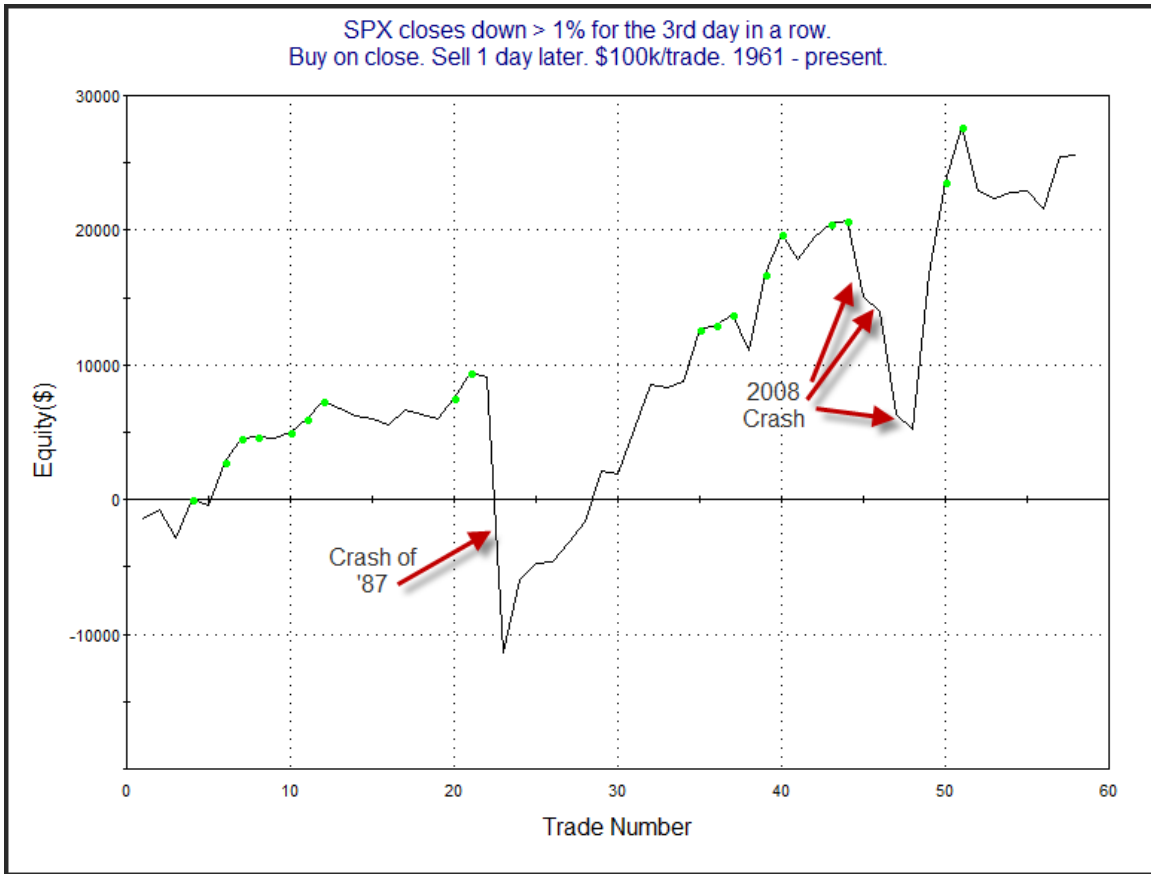
Not perfect, but not bad as it makes its way from lower left to upper right.

Unusual about the current pullback is that all 3 days saw declines of at least 1%. Below is a look at returns following other drops that saw 1% declines for 3 consecutive days.

SPX closes down > 1% for the 3rd day in a row.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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	47,289.70	47	27	20	57.45	3,945.02	9,572.31	-2,961.29	-12,167.91	1.33	1.80	1,006.16
4	29,024.46	48	32	16	66.67	2,600.34	8,810.76	-3,386.66	-14,820.98	0.77	1.54	604.68
3	25,159.14	48	28	20	58.33	2,717.86	9,601.81	-2,547.05	-13,815.18	1.07	1.49	524.15
2	27,239.84	49	31	18	63.27	2,512.14	10,965.69	-2,813.14	-16,188.58	0.89	1.54	555.92
1	25,565.75	58	35	23	60.34	2,287.51	11,558.43	-2,369.43	-20,424.58	0.97	1.47	440.79

Much of the early edge here is realized on Day 1 as well. Below is a profit curve.



What you see here is that there was some real ugliness on the chart. That is because 3x 1% declines occurred just prior to the crash of '87 and the 2008 crash.

I also filtered a couple of other interesting ways. For one, I wanted to see how it looked if it was Thursday. Friday's are not known as turnaround days, and I was curious to see if there was strong underperformance going into the weekend.

SPX closes down > 1% for the 3rd day in a row. Today is Thursday.
Buy on close. Sell X days later. \$100k/trade. 1961 - present.

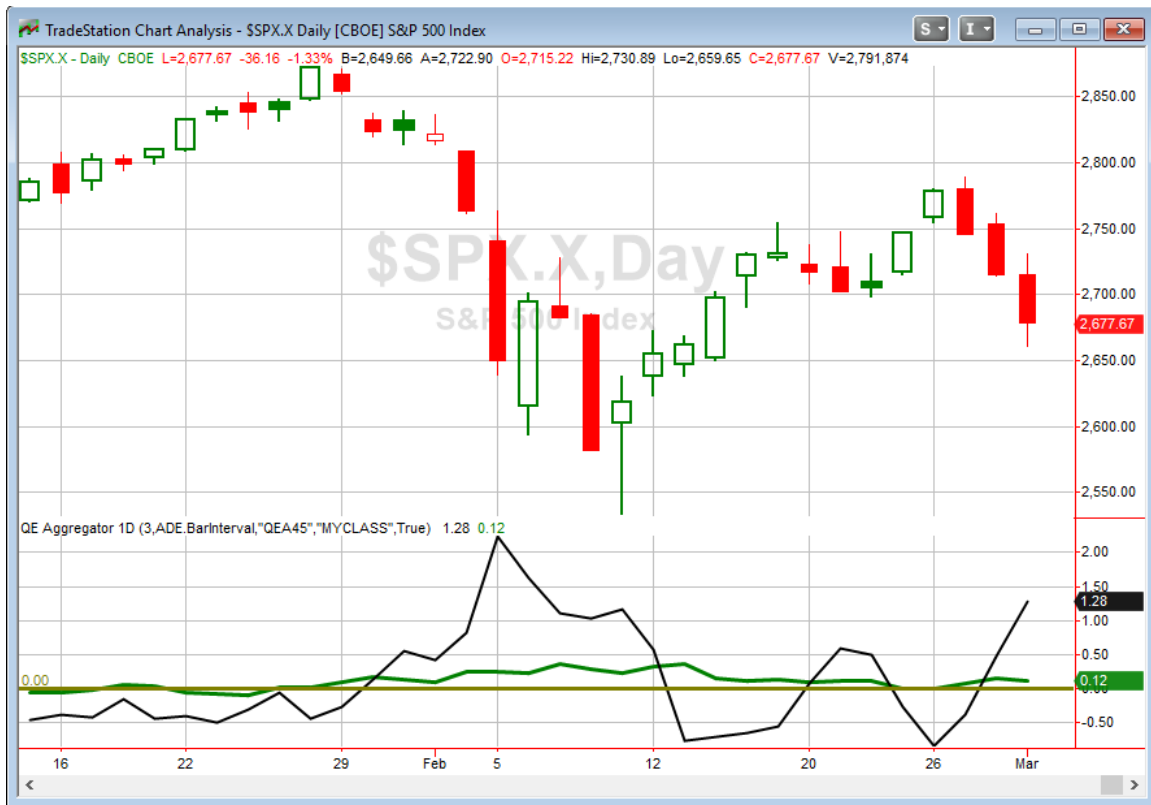
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,125.22	10	8	2	80.00	3,411.60	5,312.62	-2,583.80	-3,806.00	1.32	5.28	2,212.52
4	14,362.86	10	8	2	80.00	2,072.63	5,564.00	-1,109.08	-1,991.44	1.87	7.48	1,436.29
3	21,103.93	10	9	1	90.00	2,786.54	9,601.81	-3,974.95	-3,974.95	0.70	6.31	2,110.39
2	21,922.50	10	8	2	80.00	3,163.40	10,183.87	-1,692.33	-2,645.35	1.87	7.48	2,192.25
1	9,469.54	10	8	2	80.00	1,510.38	3,334.50	-1,306.73	-1,447.16	1.16	4.62	946.95

These results were surprisingly strong, but instances are very low. So I do not find them very compelling. I also wanted to see how the 3x 1% pullbacks performed when the market was in a long-term uptrend (above the 200ma).

SPX closes down > 1% for the 3rd day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	-2,274.28	8	3	5	37.50	3,408.02	6,868.41	-2,499.67	-4,612.14	1.36	0.82	-284.28
9	-2,743.75	8	3	5	37.50	3,088.06	5,460.75	-2,401.59	-4,763.98	1.29	0.77	-342.97
8	-600.92	8	3	5	37.50	2,880.94	6,067.50	-1,848.75	-4,355.91	1.56	0.93	-75.11
7	757.80	8	3	5	37.50	3,128.65	6,560.99	-1,725.63	-3,511.30	1.81	1.09	94.72
6	-2,476.05	8	2	6	25.00	3,772.45	6,035.14	-1,670.16	-4,338.40	2.26	0.75	-309.51
5	239.25	8	2	6	25.00	4,303.98	6,625.71	-1,394.78	-1,837.62	3.09	1.03	29.91
4	1,807.12	8	3	5	37.50	2,435.43	4,684.11	-1,099.83	-2,002.39	2.21	1.33	225.89
3	4,258.17	8	5	3	62.50	1,299.11	3,680.95	-745.79	-1,841.06	1.74	2.90	532.27
2	5,364.95	8	6	2	75.00	1,078.65	2,904.31	-553.47	-768.69	1.95	5.85	670.62
1	2,539.35	8	3	5	37.50	1,287.49	1,852.38	-264.63	-364.65	4.87	2.92	317.42

Instances here were also low. And there was no strong edge apparent. Overall, it seems to me there may be a mild upside edge provided by the 3-day pullback. The first study I showed, with its ample sample size, appeared the most suitable, and I have included that one on the Active List tonight.

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



With tonight's study considered the green Aggregator 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 new bearish evidence emerges. The Differential Pivot will be 2745.14 on Friday. That is a whopping 2.5% above Thursday's close. So it would take a rise of at least 2.5% on Friday to move SPX from oversold to overbought. That is an unlikely scenario. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I still like the long side. But I don't LOVE the long side. While high volatility has the market moving in big chunks, evidence is showing fairly mild edges. I have some long exposure with SPY already. I am not inclined to add more to it just yet. But I likely will on Monday if Friday closes down again and more bullish evidence emerges. There was 1 Catapult that triggered, and I will look to take advantage of that.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

New

LOW – 1/3 @ \$87.96 (buy @ limit)

Broad Market Large Cap CBI – 1(LOW)

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.

LOW – Buy 1/3 Catapult position @ \$87.96 LIMIT. From the Catapult & CBI section above. This is the 1st of up to 3 possible lots for LOW.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	2/28/2018	\$271.65	\$267.70	-1.45%		Aggregator

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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