

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2018

Volume 11 Issue 44

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- No new compelling studies emerged tonight.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, evidence is lacking, and volatile market conditions suggest sizable risk. Not an appealing combination for short-term traders.

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 21, 2018	5+ up. 1 down > 200ma	1-10 days	Bullish	2.00%	-1.10%	-2.30%
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			
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

Monday started with a sizable gap down, but reversed and put in a solid rally day. The SPX finished up 1.1%, the NASDAQ rose 1.0%, and the Russell 2000 gained 0.8%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 83%. NYSE volume rose some from Friday's level.

The strong bounce was not entirely unexpected, with the Aggregator in a bullish formation and the little evidence we had pointing higher. But the way it happened was a bit unusual. I looked back at other times SPY started with a gap down of at least 0.5% and then closed up 1% on the day and also above its 200-day moving average. I found that there were only 14 prior instances. They are all listed below with their 1-day returns.

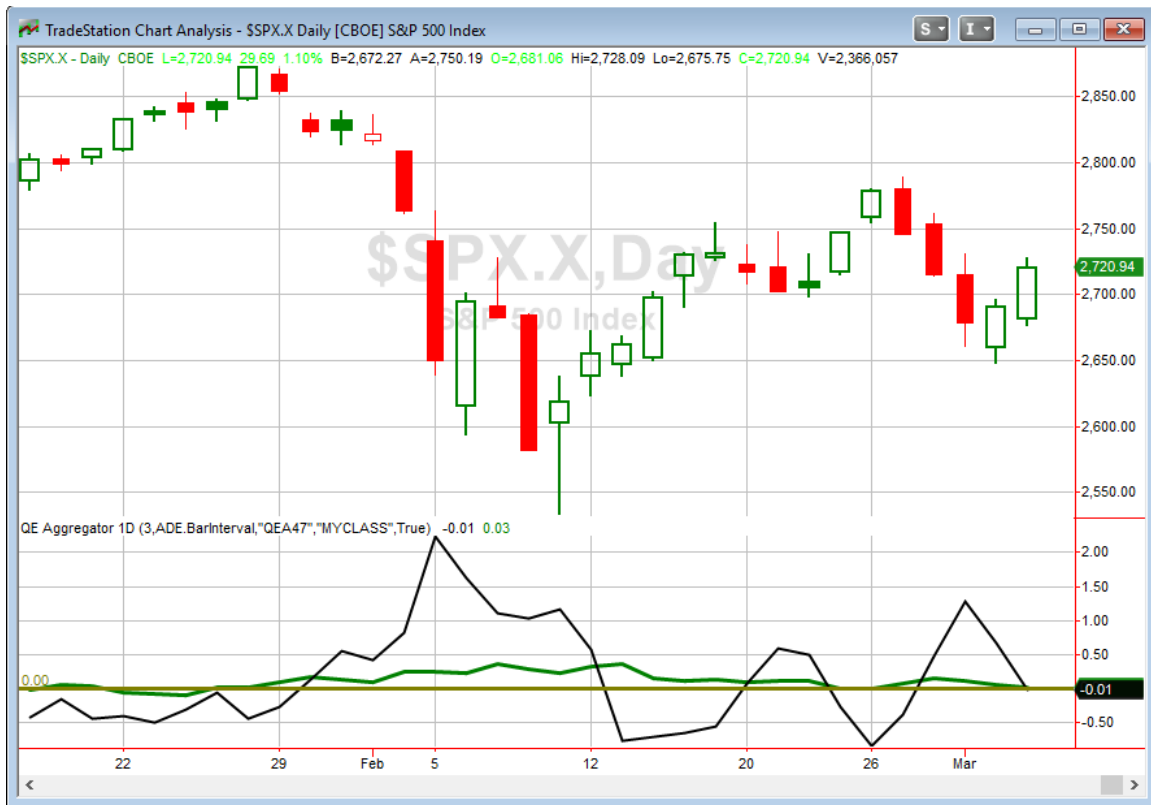
SPY gaps down 0.5% and closes up > 1.0%. Close > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/8/1996	Buy	\$64.79	-0.09%	\$432.04
5/9/1996	Sell	\$64.73		(\$447.47)
1/10/1997	Buy	\$76.13	-0.14%	\$485.81
1/13/1997	Sell	\$76.02		(\$643.37)
2/24/1997	Buy	\$81.31	0.00%	\$270.38
2/25/1997	Sell	\$81.31		(\$528.47)
4/4/1997	Buy	\$75.84	0.40%	\$1,041.22
4/7/1997	Sell	\$76.14		\$0.00
10/28/1997	Buy	\$92.22	-0.27%	\$1,658.52
10/29/1997	Sell	\$91.97		(\$1,018.96)
1/12/1998	Buy	\$94.00	1.39%	\$1,466.94
1/13/1998	Sell	\$95.31		\$0.00
11/5/1998	Buy	\$113.78	0.31%	\$684.84
11/6/1998	Sell	\$114.13		(\$412.66)
4/12/1999	Buy	\$136.31	-0.64%	\$117.28
4/13/1999	Sell	\$135.44		(\$1,326.73)
3/23/2000	Buy	\$152.66	0.59%	\$2,023.95
3/24/2000	Sell	\$153.56		(\$615.70)
5/5/2000	Buy	\$143.53	-0.75%	\$0.00
5/8/2000	Sell	\$142.45		(\$1,176.24)
4/22/2003	Buy	\$91.34	0.92%	\$1,104.94
4/23/2003	Sell	\$92.18		(\$109.40)
11/9/2016	Buy	\$216.38	0.25%	\$891.66
11/10/2016	Sell	\$216.92		(\$535.92)
2/6/2018	Buy	\$269.13	-0.54%	\$1,198.33
2/7/2018	Sell	\$267.67		(\$575.05)
2/14/2018	Buy	\$269.59	1.28%	\$1,276.50
2/15/2018	Sell	\$273.03		(\$303.40)

Returns going forward did not exhibit a discernable edge (looking out 1-5 days). But I did find it interesting that despite this being only the 15th instance, it was the 3rd instance in the last month! So unusual market action remains. But unusual does not always suggest an edge. And despite my examination if this and other ideas, I am not seeing evidence suggestion a substantial edge tonight.

That is not a huge surprise based on market position. After the bounce the last 2 days, SPY is back a little above the midpoint of it's 10-day range. Mid-range is often a place where edges are lacking and reward/risk is underwhelming. That seems to be the case here.

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



With nothing new being added today the green Aggregator remained above zero – but just slightly. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped slightly 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 remain bullish on Tuesday. This could easily change if new bearish evidence emerges. The Differential Pivot will be 2687.03 on Tuesday. That is 1.25% below Monday's close. So it would take a close down of at least 1.25% on Tuesday to move SPX from overbought to oversold versus expectations.

I don't find the current setup particularly appealing for either bulls or bears. The Aggregator is neutral, and both lines are very, very close to zero. Evidence is lacking. And to top it off, volatility is high, so being wrong could be painful. I took profits on my index trades at the close on Monday, and I am not inclined to get involved in new ones until a more favorable setup emerges. I will note I do still have some long exposure via some open Catapult positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/5– very slightly bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

LOW – 1/3 @ \$87.96 (bought)

LOW – 1/3 @ \$85.34 (buy @ limit)

MCD – 1/3 @ \$148.27 (buy @ limit)

Broad Market Large Cap CBI – 3(LOW-2, MCD)

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
<i>SPY(1/4)</i>	<i>2/28/2018</i>	<i>\$271.65</i>	<i>\$272.19</i>	<i>0.20%</i>		<i>sold on close</i>
LOW(1/3)	3/2/2018	\$86.88	\$86.33	-0.63%		Catapult
LOW(1/3)	3/5/2018	\$85.06	\$86.33	1.49%		Catapult
MCD(1/3)	3/5/2018	\$148.27	\$151.03	1.86%		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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