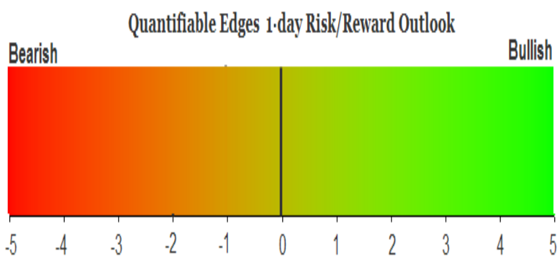
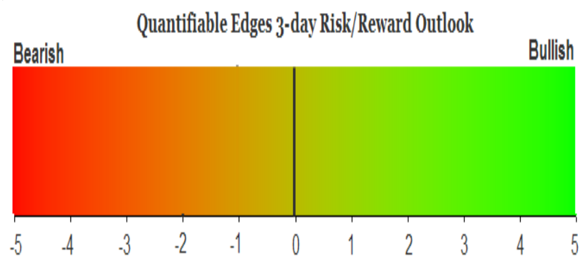
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2018 Volume 11 Issue 47

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- The employment report could bring some interesting action tomorrow but it has not provided a consistent edge over the years.
- March Op-Ex week has historically been very strong, especially Mon-Thurs.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

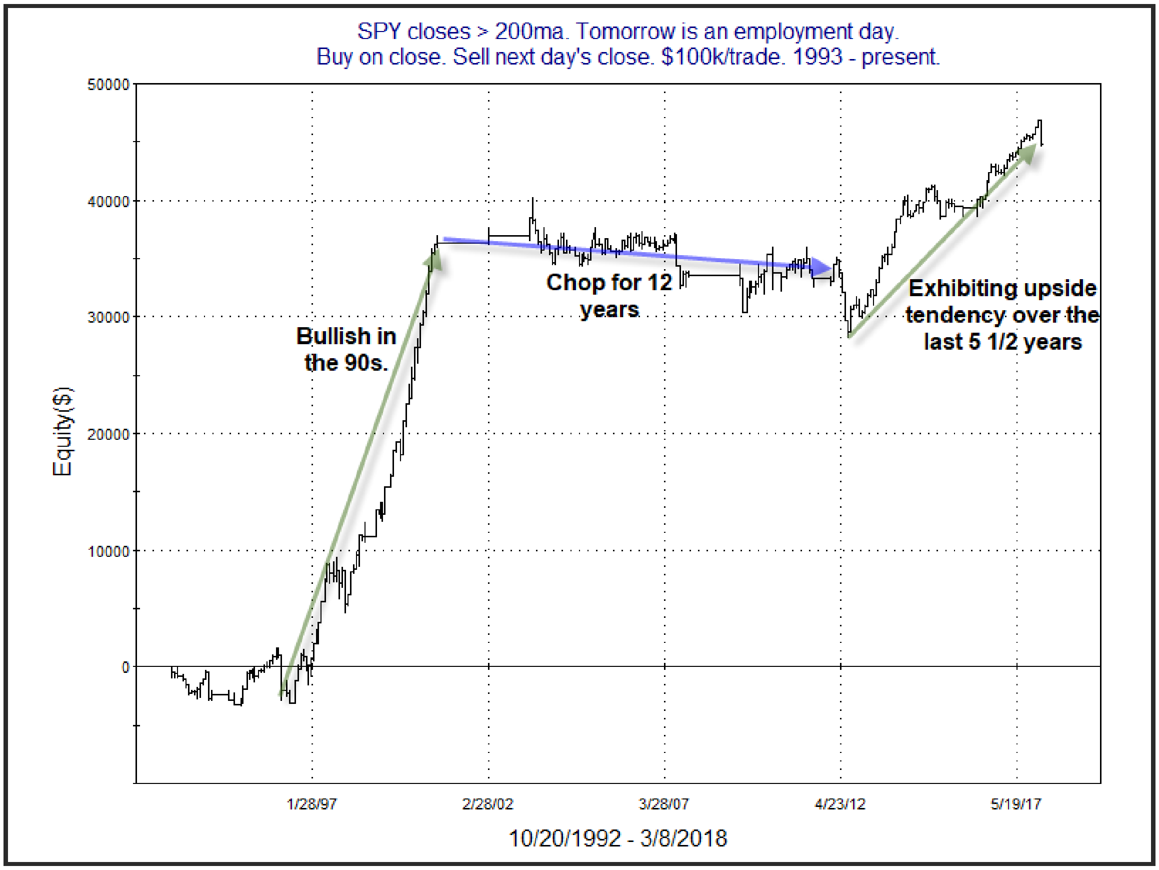
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
None						
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

Thursday posted mixed results. The SPX finished up 0.5%, the NASDAQ rose 0.4%, and the Russell 2000 lost 0.2%. Breadth was positive as the NYSE Up Issues % was 56.5% and the Up Volume % came in at 55.6%. NYSE volume declined some from Wednesday's level.

Friday the employment report will be released about an hour before the NYSE open. Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPY performance on Employment Days. I posted this chart in the 8/4/17 subscriber letter. For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional $100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. While it's a bit unusual to see such abrupt changes in market dynamics, it does serve as a nice reminder that such changes are always possible. And with the last employment day seeing a 2% decline in the SPX, perhaps dynamics may change again…

So price action did not do anything to trigger compelling new studies. But there is a seasonal influence that could have a bullish impact on the market next week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/13/17 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. I will show it again in this weekend's letter, but I thought I would update it tonight ahead of the weekend.

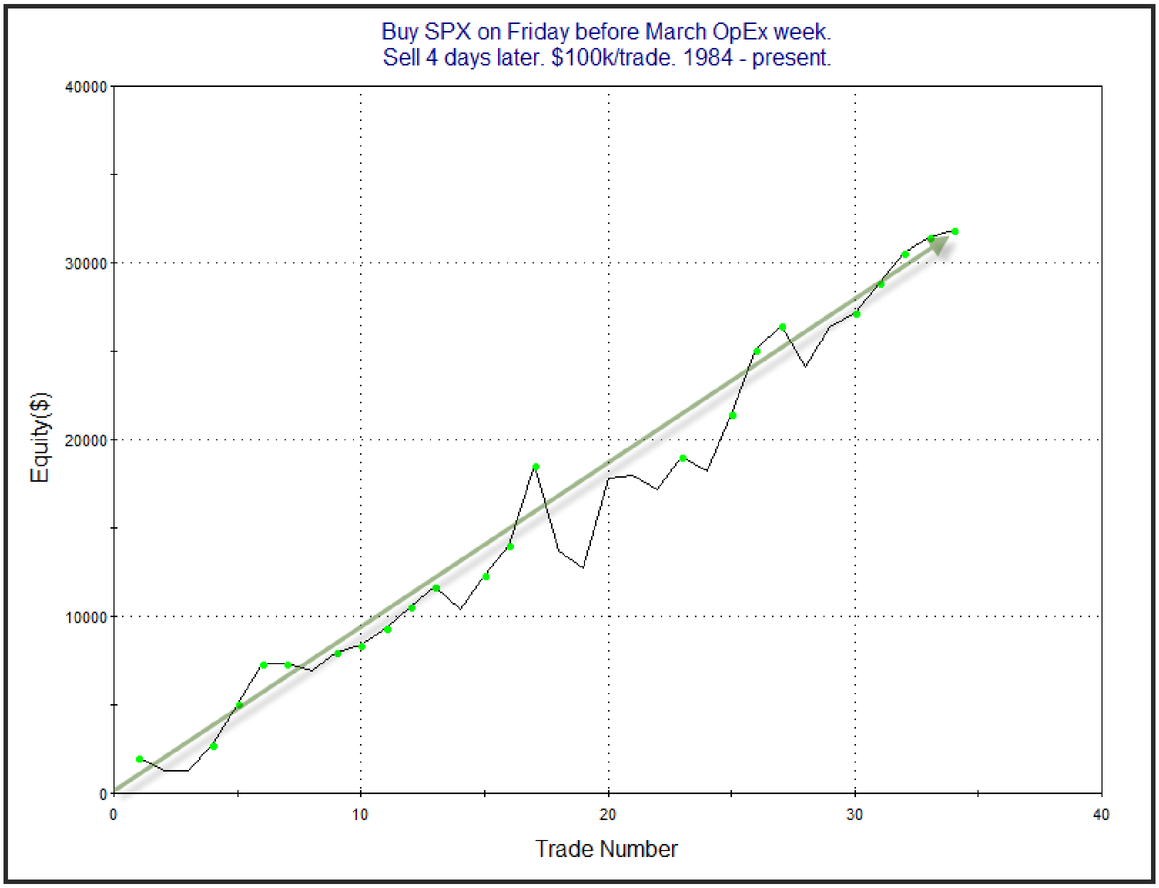
OpEx week SPX performance by month. $100k/trade. 1984 - present. (Excludes September 2001)												
Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	29,033.77	34	26	8	76.47	1,458.03	5,868.16	-1,109.38	-4,176.33	1.31	4.27	853.93
11	5,787.67	34	21	13	61.76	1,418.95	3,718.25	-1,846.95	-8,351.64	0.77	1.24	170.23
10	26,245.77	34	25	9	73.53	2,142.44	7,282.10	-3,035.03	-9,109.98	0.71	1.96	771.93
9	15,176.65	33	21	12	63.64	1,523.50	5,313.08	-1,401.40	-4,975.04	1.09	1.90	459.90
8	-1,954.26	34	18	16	52.94	1,432.07	4,329.72	-1,733.21	-5,670.55	0.83	0.93	-57.48
7	1,522.27	34	18	15	52.94	1,418.70	6,921.25	-1,600.96	-7,953.12	0.89	1.06	44.77
6	-1,985.79	34	19	15	55.88	1,172.43	3,786.09	-1,617.47	-3,998.19	0.72	0.92	-58.41
5	2,345.79	34	17	17	50.00	1,821.90	4,850.40	-1,683.91	-4,959.45	1.08	1.08	68.99
4	30,132.39	34	22	12	64.71	2,194.65	5,731.96	-1,512.48	-3,580.15	1.45	2.66	886.25
3	30,457.88	34	24	10	70.59	1,933.52	7,515.60	-1,594.66	-6,711.66	1.21	2.91	895.82
2	16,205.42	35	21	14	60.00	1,605.48	4,281.46	-1,250.70	-6,814.80	1.28	1.93	463.01
1	5,478.21	35	16	19	45.71	2,094.03	5,389.00	-1,475.07	-5,383.93	1.42	1.20	156.52

While December has been more reliable, March op-ex week has seen the most in total gains. As I did in that 3/13/17 Subscriber Letter, I also broke down March performance in more detail below.

Buy SPX on Friday before March OpEx week. Sell X days later. $100k/trade. 1984 - 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	32,026.37	34	24	10	70.59	1,998.87	7,515.60	-1,594.66	-6,711.66	1.25	3.01	941.95
4	31,833.88	34	25	9	73.53	1,758.37	5,108.40	-1,347.26	-4,848.66	1.31	3.63	936.29
3	15,000.34	34	22	12	64.71	1,352.58	4,989.60	-1,229.70	-5,403.51	1.10	2.02	441.19
2	12,217.39	34	22	12	64.71	1,157.24	3,981.60	-1,103.49	-2,894.94	1.05	1.92	359.33
1	3,997.21	34	23	11	67.65	634.50	3,542.40	-963.31	-4,302.72	0.66	1.38	117.56

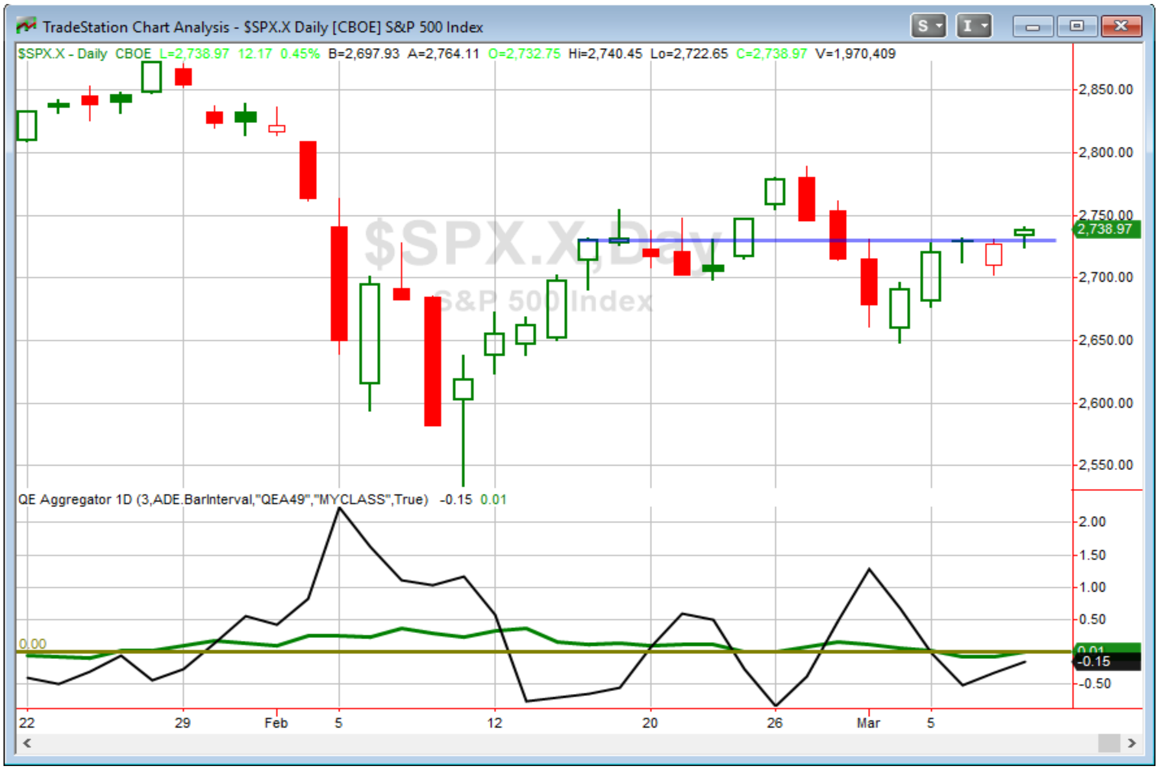
There have only been 4 years where SPX did not close above the entry price at some point during OpEx week. They were 1986, 1991, 2001, and 2011.

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.



The curve is impressive. Bottom line here is that seasonality next week could provide a bit of a wind at the markets' back.

I have updated the Aggregator chart below.



Without any new studies being added tonight, the green Aggregator inched back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 slightly bullish on Friday. But with nothing on the short-term active list, expectations will be largely dependent on any new evidence that emerges over the next few days. The Differential Pivot will be 2728.71 on Friday. That is 0.4% below Thursday's close. So SPX will need to close down at least 0.4% in order to move from overbought to oversold versus expectations on Friday.

A placed a horizontal blue line on the Aggregator chart tonight. That line shows how price has basically gone nowhere for the last 3 weeks. Twelve of the last fifteen trading days SPX has touched that line. I suspect we may see some more compelling edges once we move away from that line. For now, evidence remains weak, the market is still in the middle of its range, and the market appears reactive to news and potentially volatile. Not an appealing combination for taking on new short-term trades. I'll remain patient and alert, ready to pounce when the next strongly favorable opportunity arrives.

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)

Broad Market Large Cap CBI – 2(LOW-2)

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
LOW(1/3)	3/2/2018	$86.88	$86.16	-0.83%		Catapult
LOW(1/3)	3/5/2018	$85.06	$86.16	1.29%		Catapult
MCD(1/3)	3/5/2018	$148.27	$154.44	4.16%		sell on open

MCD reached its exit trigger and will be sold at the open.

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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