

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2018

Volume 11 Issue 54

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.
- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing higher and the SPX is oversold. There appears to be an upside edge.

*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
<b>Active - Short Term</b>						
March 20, 2018	Gap 5-low, sell more > 200	1-5 days	Bullish	1.80%	-1.30%	-2.70%
March 19, 2018	SPY closes bottom 33% 5 days in row	1-2 days	Bullish			
March 19, 2018	Bullish opex week fails to materialize	1-5 days	Bullish			
March 16, 2018	3+dn from 20-high. Today smallest	1-3 days	Bullish			
<b>Active - Long Term</b>						
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**

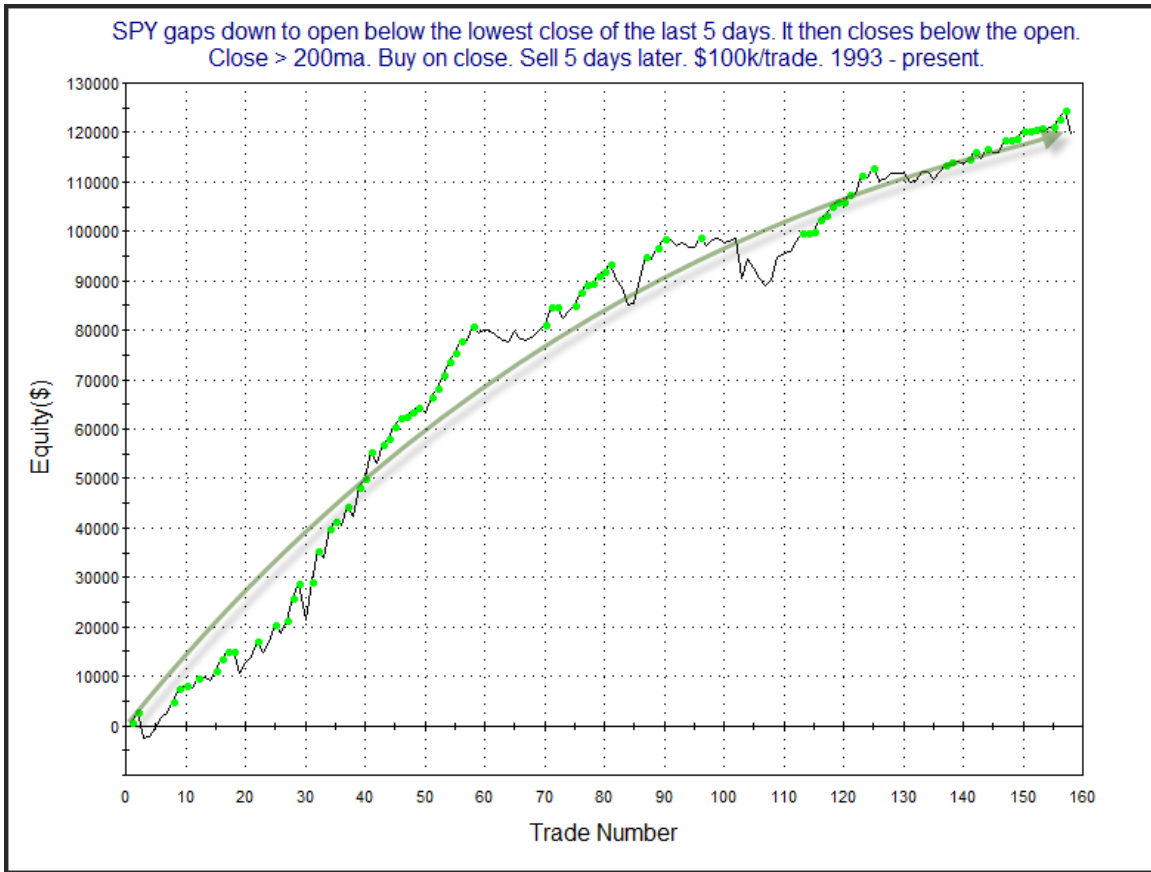
Monday was a tough day for the market. The SPX lost 1.4%, the NASDAQ dropped 1.8%, and the Russell 2000 fell 1.0%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 12%. NYSE volume dropped from its typically high opex Friday level.

One interesting aspect of Monday's action was the unfilled gap down and continued selloff. The study below was last seen in the 4/13/17 letter. It considers the fact that the gap down on Monday put SPY at a short-term low immediately and then the selling continued from there.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	131,793.13	139	90	49	64.75	2,589.36	9,282.24	-2,066.30	-14,007.15	1.25	2.30	948.15
9	142,206.59	147	96	51	65.31	2,518.92	7,585.77	-1,953.13	-10,036.80	1.29	2.43	967.39
8	133,687.06	149	102	46	68.46	2,278.29	7,858.26	-2,145.62	-14,030.10	1.06	2.35	897.23
7	111,291.66	155	101	54	65.16	2,045.72	8,324.13	-1,765.30	-8,542.02	1.16	2.17	718.01
6	119,492.75	158	109	49	68.99	1,844.15	7,873.02	-1,663.66	-7,910.10	1.11	2.47	756.28
5	109,046.59	159	106	52	66.67	1,719.84	8,239.74	-1,408.78	-4,471.02	1.22	2.49	685.83
4	102,858.42	168	111	57	66.07	1,655.42	5,581.02	-1,419.18	-6,311.82	1.17	2.27	612.25
3	94,291.17	174	110	63	63.22	1,500.67	5,117.85	-1,123.53	-4,085.40	1.34	2.33	541.90
2	83,770.56	187	120	64	64.17	1,169.68	5,477.88	-884.23	-2,614.66	1.32	2.48	447.97
1	57,103.36	204	133	71	65.20	814.52	5,764.38	-721.51	-4,181.76	1.13	2.11	279.92

**90% of instances closed above the entry price at some point in the next week.**

There are a sizable number of occurrences and the numbers all appear squarely positive. Below is a look at a profit curve that assumes a 5-day holding period.



While not quite as steep as it once was, the curve has continued to move higher. I have added this study to the Active List tonight.

It is also notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 1/30/18 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$7,558.80	Profit Factor	1.31	
Gross Profit	\$31,707.93	Gross Loss	(\$24,149.13)	
Total Number of Trades	80	Percent Profitable	48.75%	
Winning Trades	39	Losing Trades	39	
Even Trades	2			
Avg. Trade Net Profit	\$94.49	Ratio Avg. Win:Avg. Loss	1.31	
Avg. Winning Trade	\$813.02	Avg. Losing Trade	(\$619.21)	
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)	

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$16,031.15	Profit Factor	2.14	
Gross Profit	\$30,044.91	Gross Loss	(\$14,013.76)	
Total Number of Trades	46	Percent Profitable	56.52%	
Winning Trades	26	Losing Trades	19	
Even Trades	1			
Avg. Trade Net Profit	\$348.50	Ratio Avg. Win:Avg. Loss	1.57	
Avg. Winning Trade	\$1,155.57	Avg. Losing Trade	(\$737.57)	
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)	

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$11,870.31	Profit Factor	2.36	
Gross Profit	\$20,616.00	Gross Loss	(\$8,745.69)	
Total Number of Trades	36	Percent Profitable	69.44%	
Winning Trades	25	Losing Trades	11	
Even Trades	0			
Avg. Trade Net Profit	\$329.73	Ratio Avg. Win:Avg. Loss	1.04	
Avg. Winning Trade	\$824.64	Avg. Losing Trade	(\$795.06)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

Tomorrow is a Fed Day. SPY closes in bottom 25% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
<b>All Trades</b>				
Total Net Profit	\$23,650.08	Profit Factor	4.54	
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)	
Total Number of Trades	38	Percent Profitable	76.32%	
Winning Trades	29	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41	
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)	
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)	

What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

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



With tonight's studies considered, the green Aggregator line held 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 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 Tuesday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2761.97 on Tuesday. That is 1.8% above Monday's close. So SPX will need to close up at least 1.8% on Tuesday to turn from oversold to overbought versus expectations. That is a very big move up for just one day. A more likely scenario for working off the oversold condition would be a multi-day rally of consolidation.

Monday did not go as expected, but evidence is again building suggesting a bounce. I don't find current evidence overwhelming, but I do like the long side. I will note that the CBI only inched up to 1 on Monday. That is a neutral state, so the CBI does not offer any intriguing evidence at the moment. I am not inclined to add more to my long index position near the open, but a poor close going into the Fed Day on Wednesday could lead to a 2<sup>nd</sup> entry for me. Details in the Trade Ideas section down below.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 3/19– neutral*

### **Catapult and Capitulative Breadth Statistics**

[\*Catapult & CBI Presentation Link\*](#)

#### ***OpenCatapult Triggers***

*New*

KHC – 1/3 @ \$63.95 (buy @ limit)

***Broad Market Large Cap CBI – 1(KHC)***

### **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.*

***KHC – buy 1/3 Catapult position @ \$63.95 LIMIT.*** Based on the Catapult trigger above. This would be the 1<sup>st</sup> of up to 3 possible lots of KHC.

***SPY – buy 1/4 index position SPY @ \$270.48 LIMIT ON CLOSE IF SPY ALSO CLOSSES IN THE LOWER 1/2 OF ITS INTRADAY TRADING RANGE.*** Based on the short-term outlook above, I will aim to take advantage of the Fed Day edge and take on a 2<sup>nd</sup> lot of SPY if it closes poorly on Wednesday.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/15/2018	\$275.30	\$271.59	-1.35%		*dividend adjusted current

*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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