

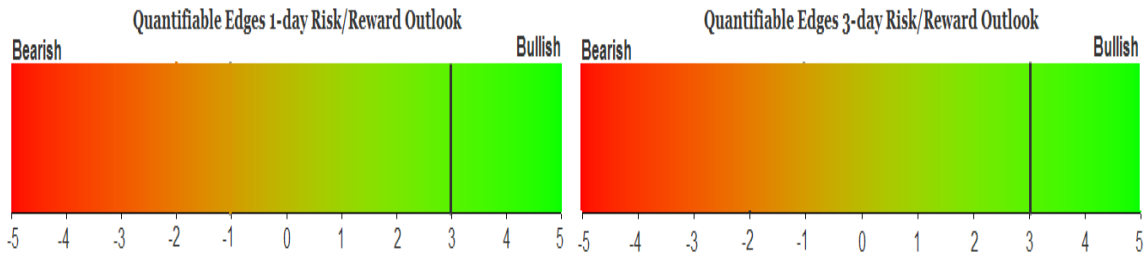
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2018

Volume 11 Issue 56

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	5

## Tonight's Research Points

- Weak closes at 5-day lows often lead to a bounce.
- Closing at a 10-day low above the 200ma on a Fed Day has almost always meant gains for both SPX and NDX in the following days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to build, and the market 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 22, 2018	Fed Day. 10-low > 200ma	1-7 days	Bullish	2.00%	-1.10%	-1.85%
March 22, 2018	5-low, bottom 10% > 200	1-5 days	Bullish			
March 20, 2018	Gap 5-low, sell more > 200	1-5 days	Bullish	1.80%	-1.30%	-2.70%
March 19, 2018	Bullish opex week fails to materialize	1-5 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 \$20 billion	int term	Bearish			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

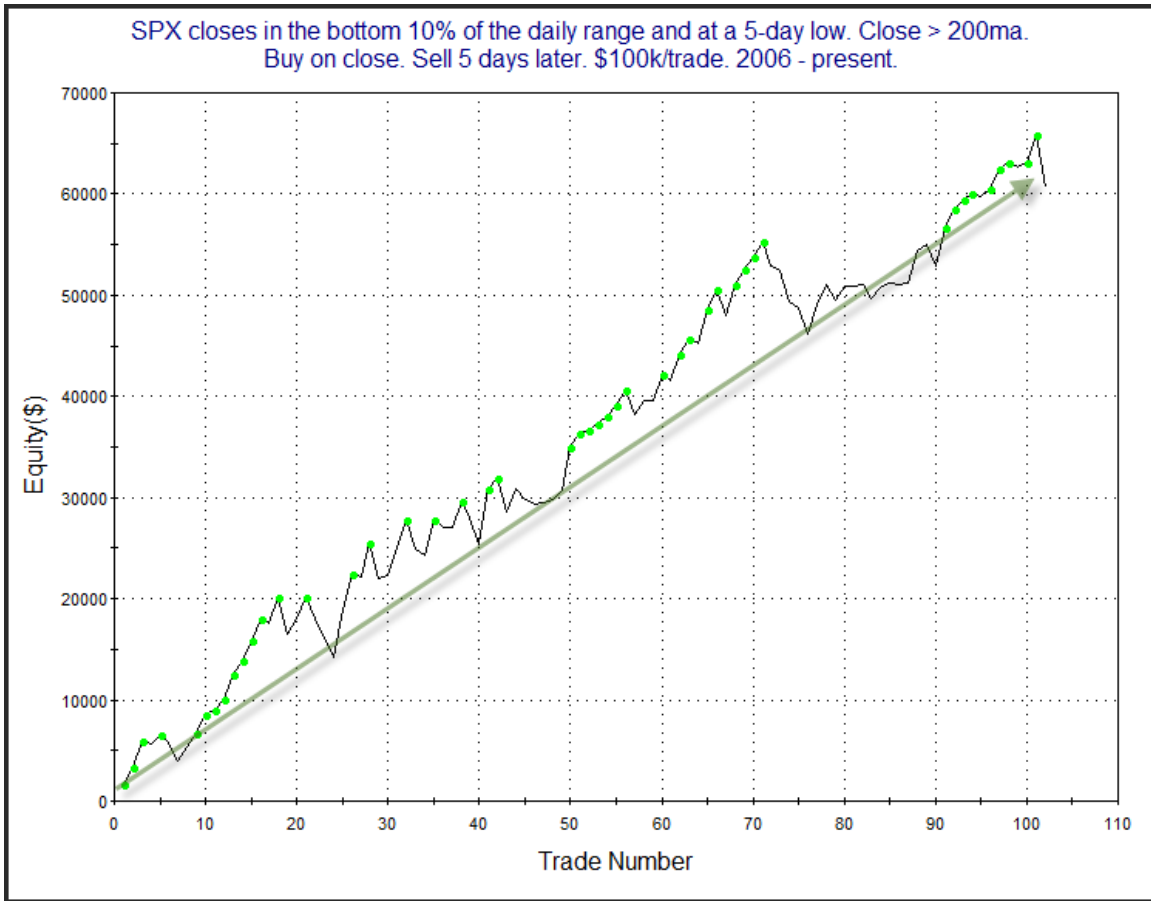
**The Evidence**

Wednesday saw the market put in mixed results after the Fed. The SPX lost 0.2%, the NASDAQ fell 0.3%, and the Russell 2000 GAINED 0.6%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 59%. NYSE volume declined for the 3<sup>rd</sup> day in a row.

The selling saw SPX close at its lowest level in over 2 weeks. Over the last several years when SPX has closed near the bottom of its daily range and at a short-term low, it has typically been followed by a bounce in the next few days. This can be seen in the study below, which is updated from the 6/28/17 letter.

SPX closes in the bottom 10% of the daily range and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2006 - 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	60,707.36	102	67	35	65.69	1,757.47	5,555.16	-1,629.81	-5,132.88	1.08	2.06	595.17
4	51,645.27	106	69	37	65.09	1,583.68	5,290.00	-1,557.53	-6,520.68	1.02	1.90	487.22
3	43,020.50	113	73	40	64.60	1,241.32	4,895.50	-1,189.89	-3,437.94	1.04	1.90	380.71
2	33,689.50	123	70	53	56.91	1,116.76	4,424.50	-839.31	-2,726.97	1.33	1.76	273.90
1	30,807.80	134	85	49	63.43	776.91	2,230.60	-718.97	-4,074.84	1.08	1.87	229.91
<b>90% of instances closed above the entry price at some point in the next week.</b>												

The stats here appear to suggest a pretty solid upside tendency over the last 12+ years. Below is a look at the profit curve assuming a 5-day holding period.



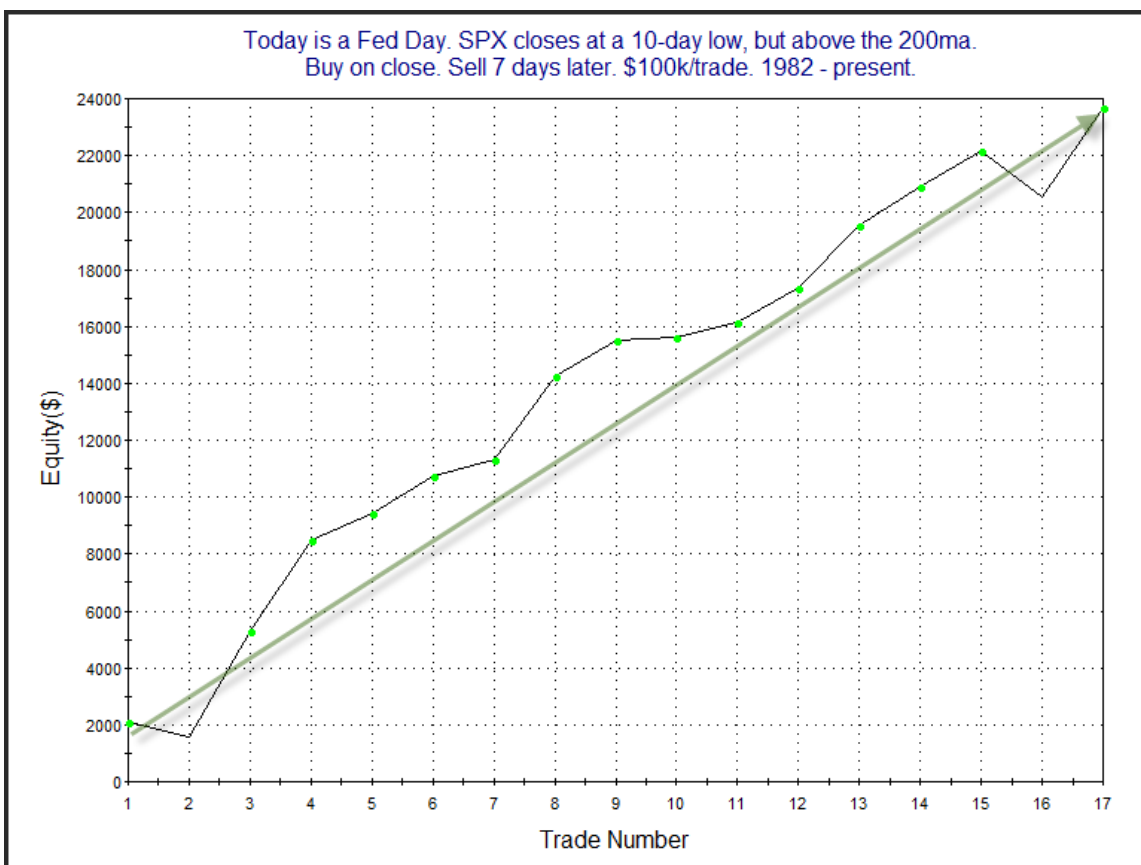
Despite the sizable failure in early February, this curve looks impressive. The strong, steady upslope serves as some confirmation of the bullish edge. I have included this study on the Active List tonight.

What is especially interesting about the 10-day low close today is that it came on a Fed Day. We know Fed Day's are typically bullish. So to have SPX finish at a 10-day low on a Fed Day is quite unusual. I devised the study below, which looks at prior instances when the market was in a long-term uptrend.

Today is a Fed Day. SPX closes at a 10-day low, but above the 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	26,216.48	17	12	5	70.59	2,482.64	4,940.88	-715.05	-2,023.00	3.47	8.33	1,542.15
9	27,554.09	17	15	2	88.24	2,096.04	4,762.52	-1,943.24	-2,186.80	1.08	8.09	1,620.83
8	23,645.71	17	15	2	88.24	1,869.81	5,031.16	-2,200.74	-3,406.08	0.85	6.37	1,390.92
7	23,664.82	17	15	2	88.24	1,720.09	3,741.36	-1,068.26	-1,641.60	1.61	12.08	1,392.05
6	20,463.92	17	14	3	82.35	1,555.07	3,976.98	-435.68	-904.28	3.57	16.66	1,203.76
5	16,055.73	17	13	4	76.47	1,471.07	3,248.70	-767.04	-1,263.36	1.92	6.23	944.45
4	10,384.69	17	11	6	64.71	1,265.10	3,387.93	-588.57	-1,064.00	2.15	3.94	610.86
3	3,479.81	17	11	6	64.71	685.31	1,578.26	-676.43	-1,809.36	1.01	1.86	204.69
2	967.35	17	10	7	58.82	390.12	1,056.00	-419.13	-706.68	0.93	1.33	56.90
1	366.01	17	11	6	64.71	516.71	1,119.44	-886.29	-1,949.22	0.58	1.07	21.53

The numbers are quite impressive, and point to a move higher over the next several days. The suggestion is that the Fed Day decline is often an overreaction, and that the market is likely to bounce. Below is a look at the profit curve, assuming a 7-day holding period.



That is a strong, steady move from lower left to upper right. This serves as some confirmation of the bullish edge.

The NDX has been hit even harder than SPX over the last few days, and it also closed Wednesday at a 10-day low. I ran the same study on NDX to see how it performed under such circumstances.

Today is a Fed Day. NDX closes at a 10-day low, but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1986 - 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	23,915.94	16	12	4	75.00	2,891.33	6,746.88	-2,695.01	-5,161.72	1.07	3.22	1,494.75
9	25,338.08	16	13	3	81.25	2,708.93	8,973.72	-3,292.67	-5,820.48	0.82	3.57	1,583.63
8	27,534.08	16	11	5	68.75	3,089.10	9,243.36	-1,289.21	-2,296.20	2.40	5.27	1,720.88
7	37,758.78	16	15	1	93.75	2,609.21	7,859.04	-1,379.44	-1,379.44	1.89	28.37	2,359.92
6	22,811.15	16	13	3	81.25	2,225.16	4,384.38	-2,038.64	-3,746.16	1.09	4.73	1,425.70
5	22,081.15	16	11	5	68.75	2,395.90	4,823.28	-854.74	-1,940.32	2.80	6.17	1,380.07
4	12,631.37	16	13	3	81.25	1,223.90	2,618.07	-1,093.13	-1,756.16	1.12	4.85	789.46
3	8,363.46	16	10	6	62.50	1,348.02	2,482.48	-852.78	-1,716.96	1.58	2.63	522.72
2	13,949.90	16	13	3	81.25	1,349.31	2,814.00	-1,197.03	-1,512.72	1.13	4.88	871.87
1	979.28	16	10	6	62.50	670.08	2,205.00	-953.58	-2,492.60	0.70	1.17	61.21

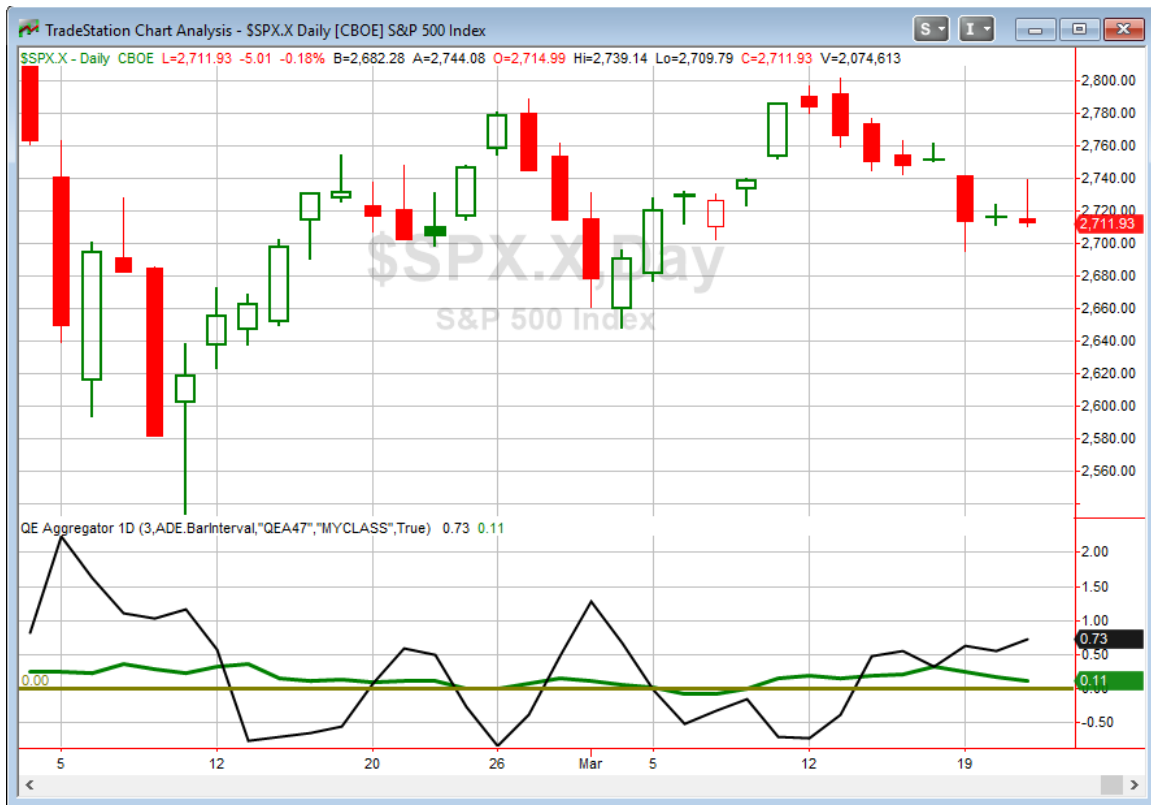
Numbers here are even stronger than SPX. Below I have listed all instances with their 7-day returns.

Today is a Fed Day. NDX closes at a 10-day low, but above the 200ma.  
Buy on close. Sell 7 days later. \$100k/trade. 1986 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/19/1987	Buy	\$181.46	4.03%	\$4,611.87
5/29/1987	Sell	\$188.77		(\$947.72)
7/7/1987	Buy	\$187.76	4.41%	\$4,569.88
7/16/1987	Sell	\$196.04		(\$633.08)
3/23/1993	Buy	\$348.14	1.78%	\$4,316.48
4/1/1993	Sell	\$354.33		(\$777.77)
2/4/1994	Buy	\$397.48	2.72%	\$2,934.19
2/15/1994	Sell	\$408.28		(\$1,292.65)
9/26/1995	Buy	\$580.77	-1.38%	\$3,188.88
10/5/1995	Sell	\$572.75		(\$4,155.52)
8/20/1996	Buy	\$662.87	1.24%	\$3,342.00
8/29/1996	Sell	\$671.10		(\$660.00)
2/5/1997	Buy	\$887.39	1.41%	\$2,787.68
2/14/1997	Sell	\$899.91		(\$3,511.20)
9/30/1997	Buy	\$1,097.16	4.65%	\$5,162.43
10/9/1997	Sell	\$1,148.21		(\$709.80)
6/25/2003	Buy	\$1,188.33	7.87%	\$7,894.32
7/7/2003	Sell	\$1,281.89		(\$690.48)
12/9/2003	Buy	\$1,383.66	3.44%	\$4,247.28
12/18/2003	Sell	\$1,431.31		(\$776.88)
1/28/2004	Buy	\$1,491.57	0.49%	\$1,073.34
2/6/2004	Sell	\$1,498.95		(\$2,047.52)
9/20/2005	Buy	\$1,578.20	0.74%	\$815.85
9/29/2005	Sell	\$1,589.93		(\$1,662.57)
3/15/2011	Buy	\$2,259.62	2.32%	\$2,461.36
3/24/2011	Sell	\$2,312.09		(\$3,110.80)
10/24/2012	Buy	\$2,655.55	0.96%	\$1,715.32
11/6/2012	Sell	\$2,681.05		(\$692.64)
1/29/2014	Buy	\$3,467.82	2.71%	\$2,668.96
2/7/2014	Sell	\$3,561.91		(\$1,370.32)
11/2/2016	Buy	\$4,726.91	0.53%	\$2,706.48
11/11/2016	Sell	\$4,751.95		(\$1,665.72)

Every instance saw a run-up of at least 0.8% from the entry point. And the lone loser after 7 days ran up over 3% before rolling over. The low close we saw on Wednesday simply appears to be setting the market up for a bounce.

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



With tonight's evidence 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 Thursday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2734.17 on Thursday. That is 0.8% above Wednesday's close. So SPX will need to close up at least 0.8% on Thursday to turn from oversold to overbought versus expectations.

While Wednesday disappointed the bulls, it did generate additional evidence suggesting a bounce is likely coming soon. SPX is still oversold and there is ample room to profit before it would flip to overbought. I have some long exposure already. I will look to take on some more index exposure on Thursday if I can get filled at a decent price. With the NDX being more oversold than SPX, and the Fed Day study showing strong numbers for NDX, I will look to take my next lot of index exposure in QQQ rather than SPY. Lastly, I will note that a couple of more Catapults triggered on Wednesday..

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

The intermediate-term outlook was last updated in the 3/19/18 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***OpenCatapult Triggers***

KHC – 1/3 @ \$63.95 (bought @ limit)

KHC – 1/3 @ \$63.18 (bought @ limit)

CMCSA – 1/3 @ \$34.57 (bought @ limit)

*New*

KHC – 1/3 @ \$61.99 (buy @ limit)

CMCSA – 1/3 @ \$34.49 (buy @ limit)

***Broad Market Large Cap CBI – 5(KHC-3, CMCSA-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.*

***QQQ – buy ¼ index position @ \$166.92 LIMIT.*** Based on the short-term outlook above, I will look to take on some more index exposure – this time with QQQ if I can get filled at Wednesday’s closing level or better.

***KHC – buy 1/3 Catapult position @ \$61.99 LIMIT.*** Based on the Catapult trigger above. This would be the 3<sup>rd</sup> and final lot of KHC.

***CMCSA – buy 1/3 Catapult position @ \$34.49 LIMIT.*** Based on the Catapult trigger above. This would be the 2<sup>nd</sup> of up to 3 possible lots of CMCSA.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/15/2018	\$275.30	\$271.53	-1.37%		*dividend adjusted current
KHC(1/3)	3/20/2018	\$63.95	\$61.99	-3.06%		Catapult
KHC(1/3)	3/21/2018	\$62.53	\$61.99	-0.86%		Catapult
CMCSA(1/3)	3/21/2018	\$34.55	\$34.49	-0.17%		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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