

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 23, 2018

Volume 11 Issue 57

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	7

Tonight's Research Points

- System 110524 triggered for SPY, which has been a reliable trigger over the years.
- Big drops from short-term lows during an uptrend suggest a sizable bounce.
- The stretched VIX is suggesting a bounce

Short-term Outlook

The Bottom Line

Evidence continues to build, and the market is now very oversold. There appears to be a strong upside edge.

Summary of Recent Active Studies (see Letters from listed dates for details) - not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
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			
Active - Long Term						
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 was a big down day for the market. The SPX lost 2.5%, the NASDAQ fell 2.4%, and the Russell 2000 dropped 2.2%. Breadth was strongly negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 9%. NYSE volume came in at the highest level so far this week.

The selloff in SPX put it at a 20-day low. In the 7/7/17 letter I showed a study that examined large losses that finished at intermediate-term lows. I have updated that study below.

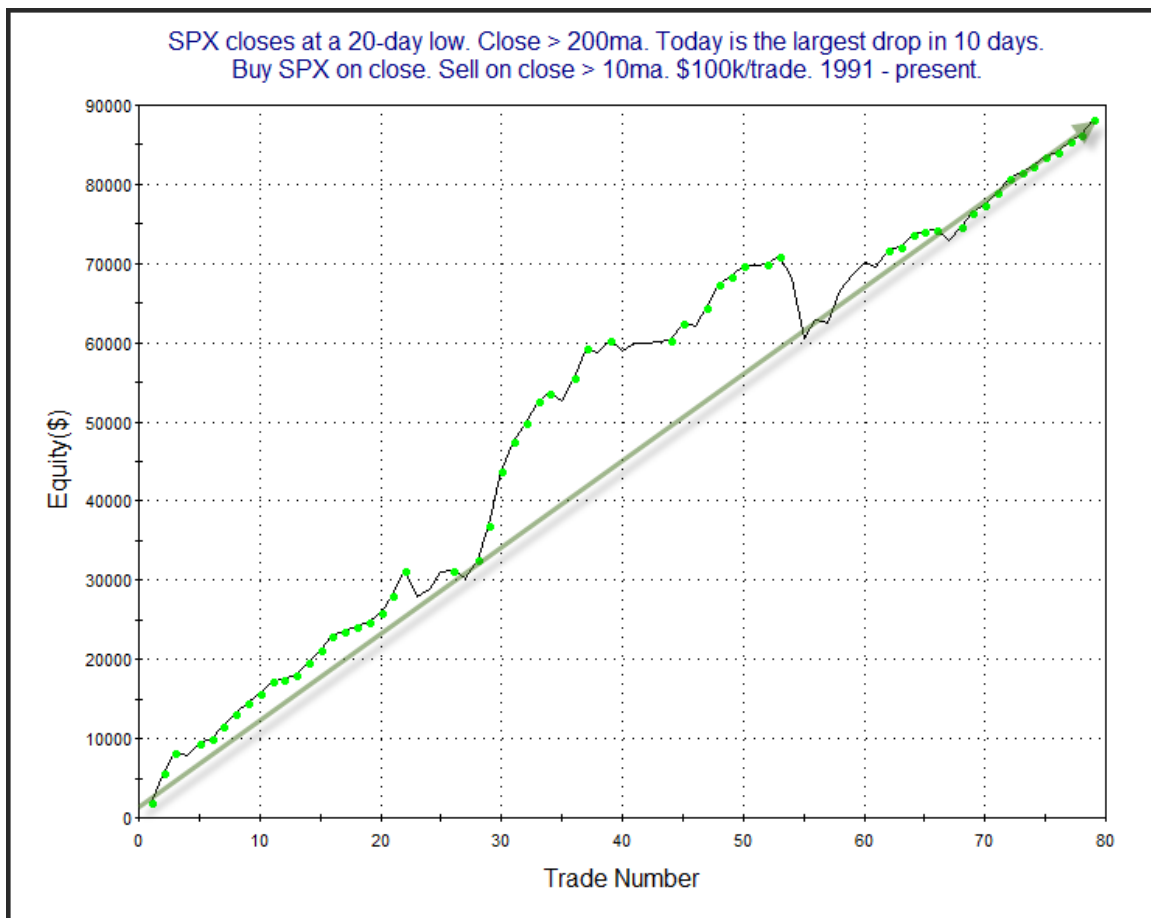
SPX closes at a 20-day low. Close > 200ma. Today is the largest drop in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	82,628.62	76	55	21	72.37	2,421.67	5,953.20	-2,407.76	-13,993.88	1.01	2.63	1,087.22
9	99,662.57	77	59	18	76.62	2,277.36	5,761.56	-1,927.89	-10,059.36	1.18	3.87	1,294.32
8	86,632.81	78	57	21	73.08	2,313.60	6,960.84	-2,154.40	-14,092.68	1.07	2.91	1,110.68
7	97,561.33	79	59	20	74.68	2,214.48	7,500.06	-1,654.66	-8,018.76	1.34	3.95	1,234.95
6	89,334.20	81	60	21	74.07	2,125.19	7,272.06	-1,817.96	-7,966.32	1.17	3.34	1,102.89
5	76,336.87	82	52	30	63.41	2,092.79	7,070.28	-1,082.93	-3,385.80	1.93	3.35	930.94
4	52,318.95	84	54	30	64.29	1,719.26	4,731.13	-1,350.70	-3,863.84	1.27	2.29	622.84
3	39,236.83	84	55	29	65.48	1,362.63	4,277.94	-1,231.31	-5,331.20	1.11	2.10	467.11
2	41,769.79	85	56	29	65.88	1,188.29	4,809.66	-854.30	-3,863.25	1.39	2.69	491.41
1	17,350.12	87	55	32	63.22	720.46	5,117.46	-696.10	-2,162.04	1.03	1.78	199.43

Results here are quite bullish. Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today is the largest drop in 10 days.
 Buy SPX on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$88,163.70	Profit Factor	5.28	
Gross Profit	\$108,778.18	Gross Loss	(\$20,614.48)	
Total Number of Trades	79	Percent Profitable	83.54%	
Winning Trades	66	Losing Trades	13	
Even Trades	0			
Avg. Trade Net Profit	\$1,116.00	Ratio Avg. Win:Avg. Loss	1.04	
Avg. Winning Trade	\$1,648.15	Avg. Losing Trade	(\$1,585.73)	
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)	

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



The big drop was made up for fairly quickly and the upward slope continues to impress.

In the 10/4/2011 letter I looked at large drops of at least 2.5% a few different ways. It is notable that large drops that occur after the market is already posting short-term lows have a stronger inclination to bounce than big drops out of consolidations or from highs. A move as large as 2.5% is rarely seen when the market is in a long-term uptrend. The study below was from that 10/4/11 letter. It looked at setups like we are currently seeing.

SPX closes down > 2.5% today after closing at a 5-day low yesterday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	22,310.58	10	7	3	70.00	3,342.34	7,070.28	-361.93	-528.95	9.23	21.55	2,231.06
4	22,471.77	11	8	3	72.73	3,537.48	4,731.13	-1,942.70	-2,964.25	1.82	4.86	2,042.89
3	17,341.92	11	8	3	72.73	2,617.93	3,574.08	-1,200.50	-2,513.78	2.18	5.82	1,576.54
2	21,799.29	11	11	0	100.00	1,981.75	4,809.66	0.00	0.00	100.00	100.00	1,981.75
1	14,484.67	11	10	1	90.91	1,600.44	5,117.46	-1,519.76	-1,519.76	1.05	10.53	1,316.79

Instances are rare, but the inclination to bounce has been very strong on the limited number of trades there have been. Below is the full list with their 2-day exits.

SPX closes down > 2.5% today after closing at a 5-day low yesterday. Close > 200ma.
Buy on close. Sell 2 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/13/1989	Buy	\$333.64	2.25%	\$2,759.77
10/17/1989	Sell	\$341.15		(\$1,949.48)
10/27/1997	Buy	\$876.97	4.81%	\$6,642.78
10/29/1997	Sell	\$919.16		(\$2,473.80)
1/9/1998	Buy	\$927.69	2.63%	\$2,614.01
1/13/1998	Sell	\$952.12		(\$1,590.02)
8/4/1998	Buy	\$1,072.12	1.63%	\$1,750.26
8/6/1998	Sell	\$1,089.62		(\$1,374.54)
3/23/1999	Buy	\$1,262.14	2.21%	\$2,201.73
3/25/1999	Sell	\$1,289.99		(\$443.98)
1/4/2000	Buy	\$1,399.42	0.29%	\$983.35
1/6/2000	Sell	\$1,403.45		(\$1,543.54)
1/24/2000	Buy	\$1,401.91	0.16%	\$876.85
1/26/2000	Sell	\$1,404.09		(\$952.82)
1/28/2000	Buy	\$1,360.16	3.61%	\$3,820.09
2/1/2000	Sell	\$1,409.28		(\$738.03)
2/27/2007	Buy	\$1,399.14	0.29%	\$1,189.25
3/1/2007	Sell	\$1,403.17		(\$1,297.17)
5/6/2010	Buy	\$1,128.15	2.80%	\$3,141.60
5/10/2010	Sell	\$1,159.73		(\$2,992.00)
2/5/2018	Buy	\$2,648.94	1.24%	\$2,913.01
2/7/2018	Sell	\$2,681.66		(\$2,067.19)

I'll note that both run-ups and drawdowns are sizable – especially considering there is only a 2-day holding period. It appears we could see some strong moves over the next couple of days. One thing I do *not* love about this study is that SPX barely met the 2.5% decline requirement on Thursday, and drops of 2% - 2.5% were not nearly as impressive.

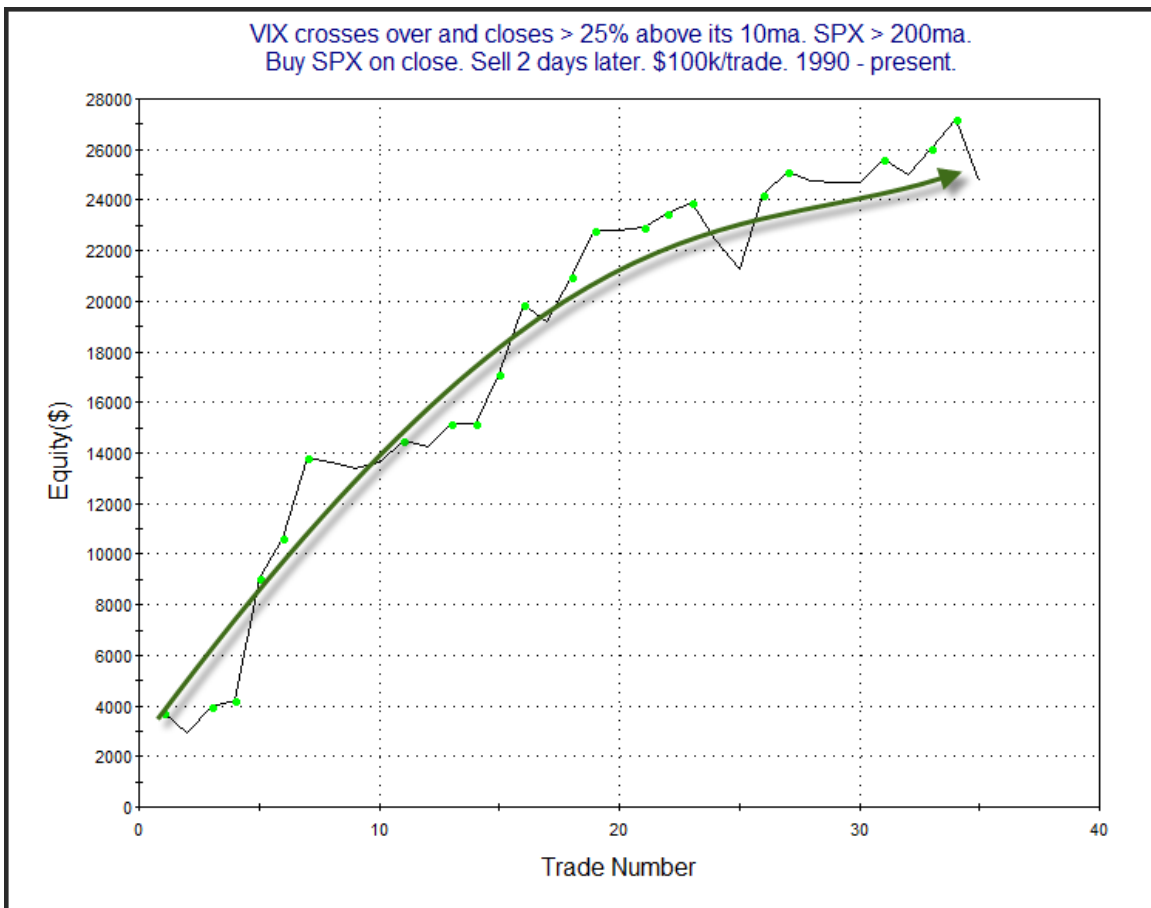
While the SPX declined sharply, the VIX index rose sharply. In fact, it closed 34% above its 10-day moving average. A study from the 2/5/18 letter examined stretches of 25% or more.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	28,058.70	34	20	14	58.82	2,239.03	7,070.28	-1,194.42	-5,132.88	1.87	2.68	825.26
4	29,676.25	34	24	10	70.59	1,930.74	4,690.50	-1,666.16	-6,520.68	1.16	2.78	872.83
3	23,887.91	34	23	11	67.65	1,550.24	3,940.55	-1,069.79	-2,896.92	1.45	3.03	702.59
2	24,782.86	35	22	13	62.86	1,508.39	4,809.66	-646.28	-2,411.64	2.33	3.95	708.08
1	12,725.22	35	24	11	68.57	1,019.34	5,117.46	-1,067.19	-4,074.84	0.96	2.08	363.58

32 of 35 instances (91%) closed above the entry price at some point in the next week.

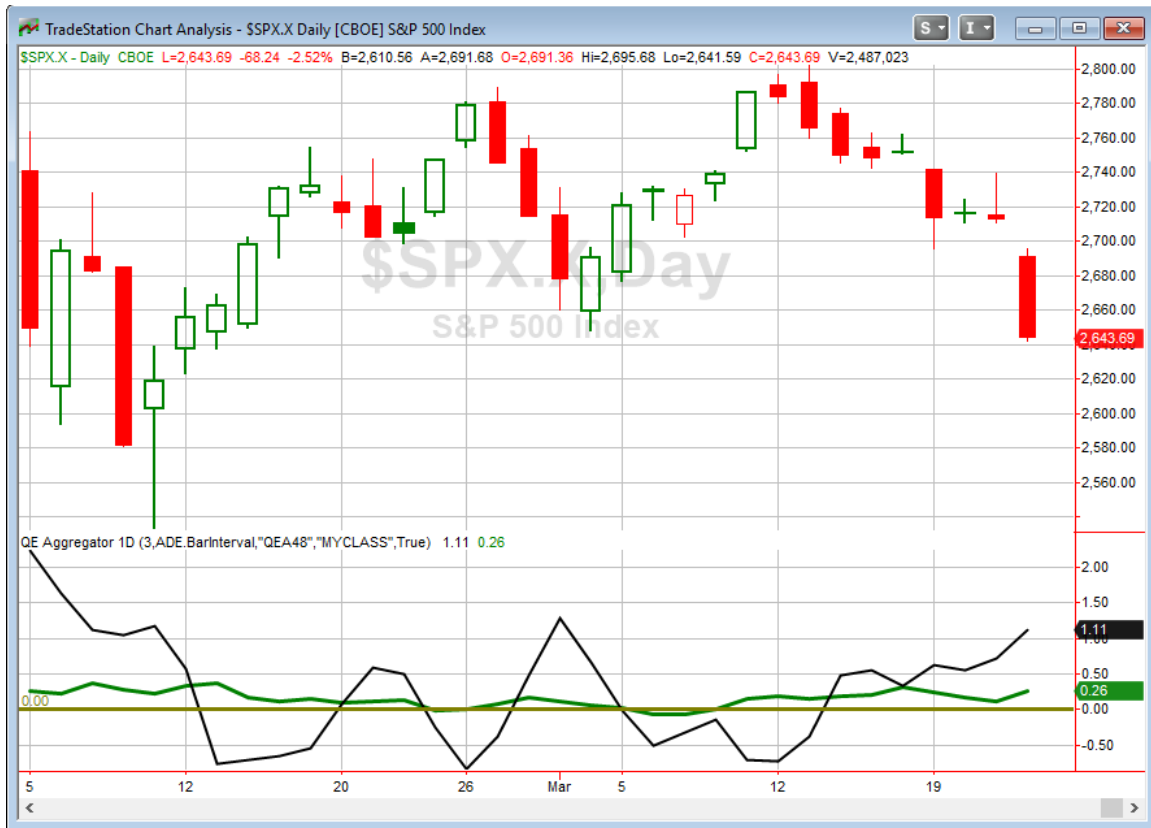
Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



That is a nice move from lower left to upper right on the chart. I have included this study on the Active List also.

Lastly, I will note that the Quantifiable Edges CBI rose to 7 on Thursday. That is not quite at a level that would suggest a strong bullish edge to me – but it is getting close.

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 is now far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 is highly unlikely to change. The Differential Pivot will be 2734.90 on Friday. That is a whopping 3.5% above Thursday's close. So SPX will need to close up at least 3.5% on Friday to turn from oversold to overbought versus expectations. That is incredibly

unlikely. A more likely scenario to work off the oversold condition would be a multi-day bounce or consolidation.

So the evidence continues to mount for the bulls, but so do the drawdowns. It appears likely that sellers will be exhausted here soon. And as sharp as the drop has been, I expect the short-covering rally to be violent as well. I have a fair amount of long exposure currently. There are 2 new Catapult triggers that I will be looking to utilize. I anticipate the CBI will rise a bit more if the selling continues on Friday, and there is even a possibility it could reach 10. Fridays can be tricky. Sometimes moves get more exaggerated on Fridays as traders rush in or out ahead of the weekend. With all the evidence we already have, I expect any further down move on Friday would be just about it before a bounce would likely ensue. So I will be looking to take on a 3rd lot of index exposure if we close down again. I won't add a 4th and final lot at least until I see a CBI reading of 10.

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)

KHC – 1/3 @ \$61.99 (bought @ limit)

CMCSA – 1/3 @ \$34.49 (bought @ limit)

New

CMCSA – 1/3 @ \$33.23 (buy @ limit)

PG – 1/3 @ \$76.41 (buy @ limit)

Broad Market Large Cap CBI – 7(KHC-3, CMCSA-3, PG)

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.

SPY – buy ¼ index position @ \$263.66 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add a 3rd lot of index exposure if SPY closes down on Friday.

PG – buy 1/3 Catapult position @ \$76.41 LIMIT. Based on the Catapult trigger above. This would be the 1st of up to 3 possible lots of PG.

CMCSA – buy 1/3 Catapult position @ \$33.23 LIMIT. Based on the Catapult trigger above. This would be the 3rd and final lot 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	\$263.67	-4.22%		*dividend adjusted current
KHC(1/3)	3/20/2018	\$63.95	\$60.53	-5.35%		Catapult
KHC(1/3)	3/21/2018	\$62.53	\$60.53	-3.20%		Catapult
CMCSA(1/3)	3/21/2018	\$34.55	\$33.23	-3.82%		Catapult
KHC(1/3)	3/22/2018	\$61.73	\$60.53	-1.94%		Catapult
CMCSA(1/3)	3/22/2018	\$34.17	\$33.23	-2.75%		Catapult
QQQ(1/4)	3/22/2018	\$164.70	\$162.80	-1.15%		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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