

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2018

Volume 11 Issue 59

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	9

## Tonight's Research Points

- Closing in the top 25% of the day's range after closing in the bottom 25% for the last 3 days is a potential short-term positive.
- The strong bounce from the lows would have been substantially more bullish if it was accompanied by strong volume.
- The CBI remains at 9, but could quickly drop on Tuesday if further gains are seen.

## *Short-term Outlook*

### *The Bottom Line*

A bit more upside appears probable, but it is unclear whether the bounce will turn into a sustained rally. I am looking to start scaling out of my long positions.

*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 27, 2018	Top 25% range close after 3x botm 25%	1-5 days	Bullish			
March 27, 2018	SPXup 2.5% from 20-low. Poor volume	1-2 days	Bearish			
March 27, 2018	SPY up 2% from 20-low. Top 25% close	1 day	Bullish			
March 26, 2018	SPX dn 1.5%+ 2nd time in a week > 200	1-7 days	Bullish	3.30%	-2.40%	-4.80%
March 23, 2018	System 110524	1-7 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			
<b>Dropped Tonight</b>						
March 26, 2018	TICK TomOscillator < 1%. SPX 10-low	1 day	Bullish			
March 23, 2018	VIX 25%+ above 10ma	1-2 days	Bullish			
March 23, 2018	SPX dn 2.5% after 5-low yest	1-2 days	Bullish			
March 26, 2018	SPX dn 1% on 4th Fri of month	1-6 days	Bullish	2.60%	-1.30%	-2.60%

*Blue highlighted studies indicate they were removed early because they already reached their potential.*

**The Evidence**

The big short-covering rally I have been looking for arrived in spades on Monday. The SPX rallied 2.7%, the NASDAQ rose 3.3%, and the Russell 2000 gained 2.2%. Breadth was strongly positive as the NYSE Up Issues % was 77% and the Up Volume % came in at 86%. NYSE volume declined some from the level of the last 2 days.

After closing near the lows of the day on Wednesday, Thursday, and Friday, it seemed potentially positive to see the market close near its highs on Monday. In the 7/18/11 letter I looked back at other instances during long-term uptrends where the SPY had closed in the bottom 25% of its range for 3 days in a row and then the top 25% the next day. I have updated the results from that study below.

After closing in the bottom 25% of the daily range for the last 3 days, SPY closes in the top 25% of the daily range today. 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
5	14,968.47	11	9	2	81.82	1,724.82	3,632.09	-277.44	-464.98	6.22	27.98	1,360.77
4	8,312.90	11	8	3	72.73	1,484.65	2,950.20	-1,188.09	-1,621.01	1.25	3.33	755.72
3	7,421.95	11	9	2	81.82	1,084.58	2,811.60	-1,169.65	-1,874.00	0.93	4.17	674.72
2	7,017.73	11	9	2	81.82	1,092.83	2,341.35	-1,408.85	-2,183.21	0.78	3.49	637.98
1	559.09	11	6	5	54.55	962.01	2,470.05	-1,042.60	-2,895.33	0.92	1.11	50.83

Instances are a bit low, but early returns suggest an upside edge. Below is a list of all the instances assuming a 5-day exit strategy.

After closing in the bottom 25% of the daily range for the last 3 days, SPY closes in the top 25% of the daily range today. Close > 200ma. Buy on close. Sell 5 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/8/1998	Buy	\$111.13	-0.09%	\$1,402.44
5/15/1998	Sell	\$111.03		(\$791.12)
8/5/1998	Buy	\$108.47	0.20%	\$1,952.52
8/12/1998	Sell	\$108.69		(\$2,735.37)
9/29/2003	Buy	\$100.93	2.90%	\$3,316.50
10/6/2003	Sell	\$103.86		(\$1,663.20)
3/30/2005	Buy	\$118.18	0.36%	\$685.26
4/6/2005	Sell	\$118.60		(\$1,218.24)
9/25/2007	Buy	\$151.39	1.78%	\$2,217.60
10/2/2007	Sell	\$154.09		\$0.00
10/29/2009	Buy	\$106.65	0.19%	\$215.51
11/5/2009	Sell	\$106.85		(\$3,345.09)
7/15/2011	Buy	\$131.69	2.19%	\$2,375.67
7/22/2011	Sell	\$134.58		(\$1,563.54)
5/21/2012	Buy	\$131.97	1.31%	\$1,483.72
5/29/2012	Sell	\$133.70		(\$1,498.86)
10/15/2012	Buy	\$144.08	-0.47%	\$1,693.36
10/22/2012	Sell	\$143.41		(\$1,249.20)
12/17/2014	Buy	\$201.79	2.96%	\$5,534.10
12/24/2014	Sell	\$207.77		\$0.00
3/2/2018	Buy	\$269.08	3.64%	\$3,632.09
3/9/2018	Sell	\$278.87		(\$545.37)

Numbers strongly favor the bulls and appear to be worth some consideration. This exemplifies again a concept that I showed in a different way over the weekend. In the Sunday letter, we saw the TICK TomOscillator study that looked at the panic selling at the end of the last few days and suggested it was overdone to the point that a rally Monday was likely. On Monday, there was “panic buying” going into the close, rather than panic selling. And this particular study suggests that the buying is likely to persist for another day.

What this study above does not address is that the buying came directly off an intermediate-term low. As the day was getting late, I decided to examine strong moves off lows that finish the day near its highs. I set up the following study using SPY as the market proxy.

After closing at a 20-day low yesterday, SPY closes up over 2% today and in the top 25% of the day's range. 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
5	55,462.00	43	30	12	69.77	3,409.02	9,473.60	-3,900.71	-13,757.52	0.87	2.18	1,289.81
4	39,066.31	45	30	15	66.67	3,259.43	13,286.49	-3,914.43	-9,714.74	0.83	1.67	868.14
3	20,888.64	45	24	21	53.33	3,048.97	11,878.65	-2,489.84	-7,473.88	1.22	1.40	464.19
2	5,984.96	45	24	21	53.33	2,395.29	7,717.98	-2,452.48	-11,171.38	0.98	1.12	133.00
1	18,201.39	45	26	18	57.78	1,555.44	6,926.07	-1,235.56	-4,416.69	1.26	1.82	404.48

These initial results appeared quite encouraging. But some more studies that appeared in the Quantifinder used a similar concept of looking for strong moves from 20-day lows. They also broke the data down by how strong the volume was on the rebound day. Those studies were from the 11/29/11 subscriber letter. I have updated the results below. I will first remind you that NYSE volume today was NOT high compared to Thursday and Friday of last week. As you'll see, the lack of volume is potentially concerning. The first study looks at strong rebounds that occur on the highest volume of the last 5 days.

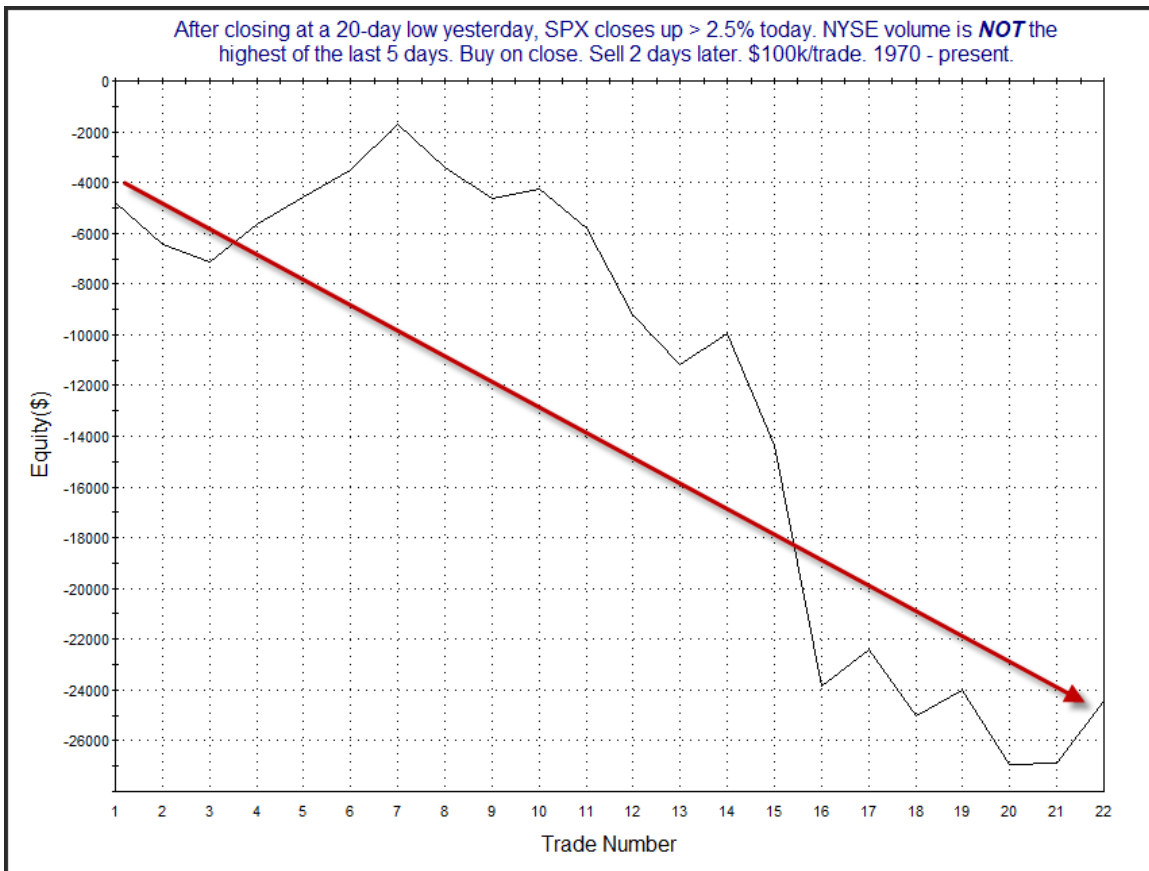
After closing at a 20-day low yesterday, SPX closes up > 2.5% today. NYSE volume <i>is</i> the highest of the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1970 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	45,568.69	16	10	6	62.50	5,759.82	13,599.08	-2,004.92	-7,562.86	2.87	4.79	2,848.04
9	52,725.28	16	10	6	62.50	6,065.47	14,258.16	-1,321.56	-3,726.90	4.59	7.65	3,295.33
8	36,415.16	16	11	5	68.75	4,030.73	10,693.76	-1,584.58	-3,292.30	2.54	5.60	2,275.95
7	39,158.63	16	12	4	75.00	4,231.63	11,879.20	-2,905.23	-8,207.38	1.46	4.37	2,447.41
6	37,231.64	16	12	4	75.00	3,559.44	10,315.50	-1,370.40	-1,660.50	2.60	7.79	2,326.98
5	42,103.86	16	15	1	93.75	2,909.33	9,334.72	-1,536.08	-1,536.08	1.89	28.41	2,631.49
4	35,798.03	16	13	3	81.25	3,434.75	11,930.04	-2,951.22	-3,869.74	1.16	5.04	2,237.38
3	35,008.58	16	10	6	62.50	4,350.15	10,868.60	-1,415.49	-2,437.50	3.07	5.12	2,188.04
2	18,630.52	16	9	7	56.25	2,997.14	7,112.64	-1,191.96	-3,081.26	2.51	3.23	1,164.41
1	19,590.02	16	9	7	56.25	2,795.59	9,089.88	-795.76	-1,516.06	3.51	4.52	1,224.38
<b>All 16 instances closed above the entry price at some point in the next week.</b>												

Terrific follow through has been seen under these circumstances and the rally has persisted over the next 1-5 days on a consistent basis. But the next study looks at times like the present where NYSE volume was lacking, and did not post a 5-day high.

After closing at a 20-day low yesterday, SPX closes up > 2.5% today. NYSE volume is **NOT** the highest of the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	-19,203.68	20	9	11	45.00	3,973.39	8,721.35	-4,996.75	-14,309.75	0.80	0.65	-960.18
9	-42,633.32	21	7	14	33.33	4,908.92	9,514.20	-5,499.70	-13,855.85	0.89	0.45	-2,030.16
8	-51,731.94	21	7	14	33.33	4,672.50	8,645.60	-6,031.39	-22,706.90	0.77	0.39	-2,463.43
7	-50,848.33	21	8	13	38.10	3,648.88	8,044.65	-6,156.88	-21,797.40	0.59	0.36	-2,421.35
6	-32,046.33	21	11	10	52.38	2,631.38	7,888.10	-6,099.15	-15,420.70	0.43	0.47	-1,526.02
5	-16,011.46	21	10	11	47.62	3,457.67	7,282.10	-4,598.92	-14,461.05	0.75	0.68	-762.45
4	-21,425.13	21	10	11	47.62	2,602.39	6,383.20	-4,313.55	-9,329.28	0.60	0.55	-1,020.24
3	-16,944.69	22	10	12	45.45	1,791.16	2,993.44	-2,904.69	-5,706.05	0.62	0.51	-770.21
2	-24,440.38	22	10	12	45.45	1,195.56	2,466.36	-3,033.00	-9,455.49	0.39	0.33	-1,110.93
1	-5,718.73	22	10	12	45.45	1,202.58	2,842.84	-1,478.71	-4,400.45	0.81	0.68	-259.94

The results here show a decided lack of follow-through. While the win rate is not much worse than breakeven over the 1<sup>st</sup> few days, the losers were substantially larger than the winners. A two-day profit curve can be seen below.



Certainly not consistent, but it has managed to meander its way from upper left to lower right over time. So what would have been a strong upside edge if Monday was accompanied by big volume, is pointing towards a possible bearish inclination.

But what of the SPY study I showed earlier? The % move requirement was not quite as strong in that one, but it did require that SPY close in the upper part of its daily range. I wondered what would happen if I broke that study down by times SPY volume (not NYSE volume) came in at a 5-day high vs times it did not. Note that like NYSE volume, SPY volume also did not post a 5-day high on Monday. Here are the breakdowns of that SPY study.

After closing at a 20-day low yesterday, SPY closes up over 2% today and in the top 25% of the day's range. SPY volume *is* the highest of the last 5 days. 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
5	40,355.93	12	12	0	100.00	3,362.99	7,599.20	0.00	0.00	100.00	100.00	3,362.99
4	28,297.98	12	10	2	83.33	3,248.87	7,339.60	-2,095.34	-3,242.20	1.55	7.75	2,358.16
3	16,373.15	12	8	4	66.67	2,638.88	5,959.00	-1,184.48	-2,254.46	2.23	4.46	1,364.43
2	6,661.29	12	7	5	58.33	1,943.75	3,693.50	-1,388.99	-3,016.93	1.40	1.96	555.11
1	720.64	12	5	7	41.67	1,842.03	3,369.60	-1,212.79	-4,416.69	1.52	1.08	60.05

After closing at a 20-day low yesterday, SPY closes up over 2% today and in the top 25% of the day's range. SPY volume is *NOT* the highest of the last 5 days. Buy on close. Sell X days later.  
\$100k/trade. 1993 - present

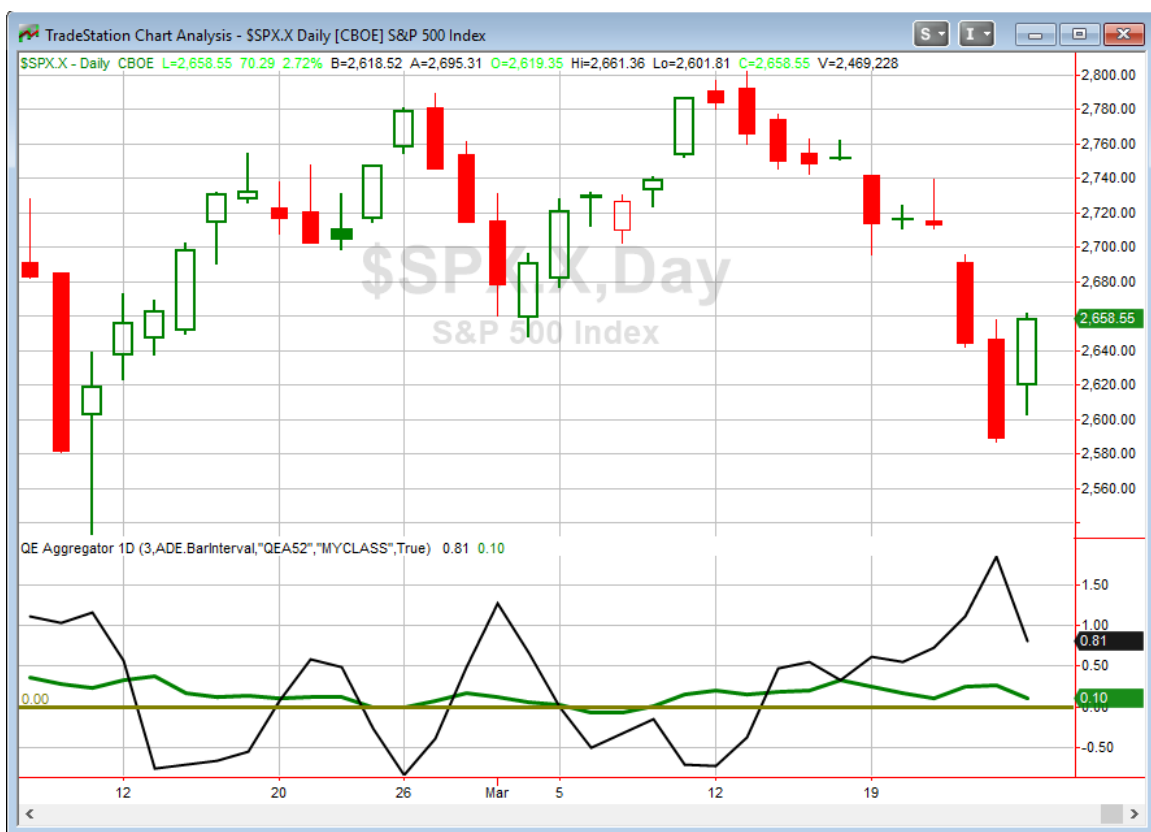
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	15,106.06	31	18	12	58.06	3,439.70	9,473.60	-3,900.71	-13,757.52	0.88	1.32	487.29
4	10,768.30	33	20	13	60.61	3,264.70	13,286.49	-4,194.29	-9,714.74	0.78	1.20	326.31
3	4,515.50	33	16	17	48.48	3,254.02	11,878.65	-2,796.99	-7,473.88	1.16	1.09	136.83
2	-676.34	33	17	16	51.52	2,581.22	7,717.98	-2,784.82	-11,171.38	0.93	0.98	-20.50
1	17,480.75	33	21	11	63.64	1,487.20	6,926.07	-1,250.04	-2,996.62	1.19	2.27	529.72

Like the previous study, you can see that the volume makes a massive difference in the follow-through potential over the next few days. In this case, there is not necessarily a bearish inclination, but the bullish inclination is greatly reduced, and only persists for one day rather than a full week.

The bottom line with these rebound studies is that the edge is somewhat unclear. If there was strong volume on Monday, that would have been a clear bullish indication for the short-term. But the lack of volume is a bit discouraging.

Lastly, I want to discuss the CBI. It remained at 9 on Monday, suggesting there should be more bounce left. Generally, I would look to a return to 3 or lower to put the CBI back into a neutral state. As I survey the prospects for change on Tuesday, it appears highly unlikely that new Catapults will trigger. So an increase in the CBI is doubtful. For the CBI to drop to 3 or lower is very possible, though. If KHC and CMCSA each rose as much as 2% during the day on Tuesday, or closed up as much as 1.5%, then they would reach their exit triggers and the CBI would close at 3 or lower.

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



With tonight's evidence considered, the green Aggregator line held a little above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dove down a bit but is still 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. It would take some compelling new bearish evidence to change this. The Differential Pivot will be *slightly inverted* at 2656.61 on Tuesday. That is 0.1% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down about 0.1% in order to remain oversold. Anything other than that and it will be considered overbought versus expectations as of Tuesday's close.

So the Aggregator is still bullish, but that is set to change on Tuesday with any close higher. I often consider an inverted pivot to be a good time to start scaling out of a position. That is because further upside is generally limited to 1 days movement, but downside is not. Of course when we get strong moves from low areas there are multiple ways that the trades can be exited. I will discuss 3 of them now – all of which I intend to pursue in this case.

The first is an Aggregator-type exit. When the Aggregator formation turns neutral or bearish, that signals the bullish edge is no longer apparent and it is time to get out. In this case, we know any close above 2656.61 will cause the Aggregator formation to turn neutral or bearish. One reasonable exit therefore is at or above this level on Tuesday. Personally, I will be looking to sell into a gap up or move higher for 1 lot of SPY.

A second potential exit would be a system-type exit that shows the market has again “normalized” from its oversold condition. System 110524 triggered on Thursday. Its exit criteria is a close above the 10-day moving average. I will look to exit my QQQ lot if either QQQ or SPY close above their 10-day moving averages on Tuesday. (That would require  $QQQ > \$166.85$  or  $SPY > \$269.24$ .)

Another potential exit could be a normalization of the CBI. In other words, if it drops to 3 or lower, then I would be looking to exit the other lot of SPY. I will look to send out an intraday update on Tuesday to alert subscribers where the CBI is likely to close. I will also look to Tweet it prior to 4pm for those that would prefer to look there rather than in an email. But as I stated earlier, solid moves higher for CMCSA and KHC would easily lead to a CBI of 3 or lower.

Any or all of these techniques are valid ways to exit long positions. Traders can elect to go for more or less. The bottom line for me is that I am now looking to sell into further strength. Tonight's studies did not give me great confidence that the move up will persist much longer, although it certainly could. So I'll be reducing my long exposure and watching closely for new evidence that could signal whether this bounce is likely to turn into something more, or whether another leg down starts to look more probable.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/26– neutral***

The intermediate-term outlook was last updated in the 3/26/18 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)

CMCSA – 1/3 @ \$33.23 (bought @ limit)

PG – 1/3 @ \$76.41 (bought @ limit)

BIIB – 1/3 @ \$260.13 (buy @ limit) – *not filled, cancel for now*

PG – 1/3 @ \$76.41 (buy @ limit) - *not filled, cancel for now*

***Broad Market Large Cap CBI – 9(KHC-3, CMCSA-3, PG-2, BIIB)***

**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
SPY(1/4)	3/15/2018	\$275.30	\$266.21	-3.30%		*dividend adjusted current
KHC(1/3)	3/20/2018	\$63.95	\$61.65	-3.60%		Catapult
KHC(1/3)	3/21/2018	\$62.53	\$61.65	-1.41%		Catapult
CMCSA(1/3)	3/21/2018	\$34.55	\$33.54	-2.92%		Catapult
KHC(1/3)	3/22/2018	\$61.73	\$61.65	-0.13%		Catapult
CMCSA(1/3)	3/22/2018	\$34.17	\$33.54	-1.84%		Catapult
QQQ(1/4)	3/22/2018	\$164.70	\$164.40	-0.18%		Aggregator
CMCSA(1/3)	3/23/2018	\$33.23	\$33.54	0.93%		Catapult
PG(1/3)	3/23/2018	\$76.41	\$76.41	0.00%		Catapult
SPY(1/4)	3/23/2018	\$258.05	\$265.11	2.74%		Aggregator

*As noted above I will look for the following exits:*

- 1) Exit 1 lot of SPY @ \$265.11 limit*
- 2) Exit QQQ if QQQ closes > \$166.85 or SPY > \$269.24.*
- 3) Sell other lot of SPY if CBI closes <= 3*

*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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