

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 4, 2018

Volume 11 Issue 64

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- 1% up, 1% down, and another 1% up is often followed by more upside the next day.
- Strong moves up through the 200ma have often led to pullbacks in recent years.
- The reversal pattern from the 20-day low suggests the bounce could last a few more days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now mixed, but the bulls still seem to have a mild edge over the next few days.

*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>						
April 4, 2018	1% Up through 200ma	1 day	Bearish			
April 4, 2018	1% up. 1% down. 1% up.	1 day	Bullish			
April 4, 2018	Gap up from 20-low. Fill then close up	1-5 days	Bullish	3.10%	-1.70%	-2.10%
March 26, 2018	SPX dn 1.5%+ 2nd time in a week > 200	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 23, 2018	System 110524	1-7 days	Bullish			
March 27, 2018	Top 25% rng close after 3x bottom 25%	1-5 days	Bullish			

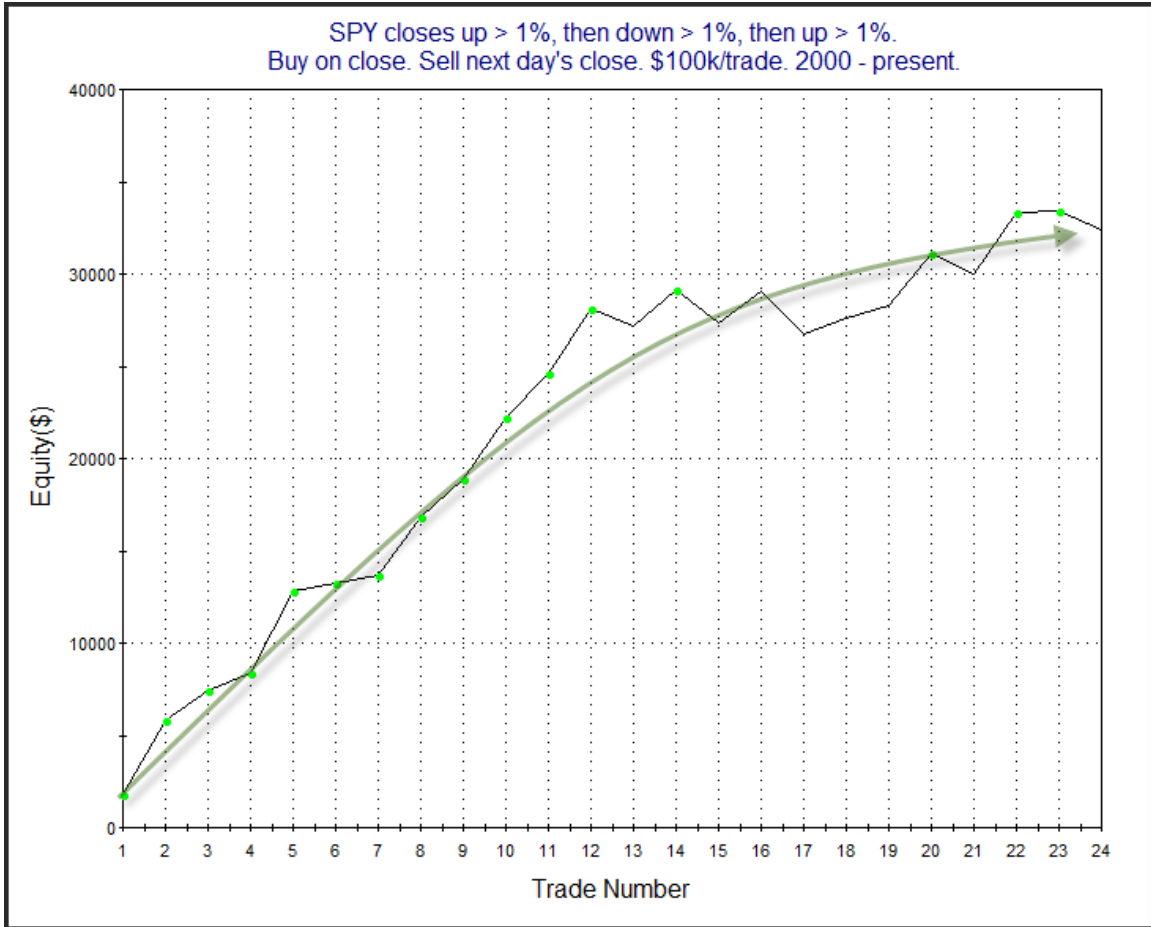
**The Evidence**

Tuesday saw the market bounce with a solid afternoon rally. The SPX rose 1.3%, the NASDAQ gained 1.0%, and the Russell 2000 closed up 1.3%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 82%. NYSE volume declined some from Monday's level.

Evidence tonight same in a little bit mixed. The study below was from the Quantifinder. It examined ping-pong activity like we have seen the last few days. It was last seen in the 1/27/16 subscriber letter. I have updated it below.

SPY closes up > 1%, then down > 1%, then up > 1%. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Expand
All Trades			
Total Net Profit	\$32,352.45	Profit Factor	5.34
Gross Profit	\$39,808.67	Gross Loss	(\$7,456.22)
Total Number of Trades	24	Percent Profitable	79.17%
Winning Trades	19	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$1,348.02	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$2,095.19	Avg. Losing Trade	(\$1,491.24)
Largest Winning Trade	\$4,377.20	Largest Losing Trade	(\$2,348.90)

It is only a 1-day edge but the numbers look compelling. The profit curve is below.



While it has flattened out a little bit lately, that still appears to be a decent looking curve. I have included this study on the Active List.

There was also another study that emerged with bullish implications that is worth review. It required a sizable gap up, gap fill, and then move back up. It was last seen in the 2/12/18 letter. I have updated the results below.

After closing at a 20-day low yesterday, SPY gaps up over 0.5% this morning, fills the gap, and then close > 0.5% above yesterday's close. 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	21,475.13	9	9	0	100.00	2,386.13	5,029.50	0.00	0.00	100.00	100.00	2,386.13
4	15,059.88	9	8	1	88.89	2,065.53	4,404.46	-1,464.39	-1,464.39	1.41	11.28	1,673.32
3	9,832.82	9	7	2	77.78	1,738.40	3,090.38	-1,167.97	-1,604.97	1.49	5.21	1,092.54
2	6,697.82	9	7	2	77.78	1,458.27	2,858.42	-1,755.04	-1,993.10	0.83	2.91	744.20
1	1,659.16	9	5	4	55.56	844.79	1,466.88	-641.20	-1,699.38	1.32	1.65	184.35

Instances are quite low, but the initial results could not be any more bullish. Below is the full list of trades with a 5-day holding period.

After closing at a 20-day low yesterday, SPY gaps up over 0.5% this morning, fills the gap, and then close > 0.5% above yesterday's close. Close > 200ma.  
Buy on close. Sell 5 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/18/1997	Buy	\$91.63	0.64%	\$2,923.88
8/25/1997	Sell	\$92.22		(\$1,167.37)
12/22/1997	Buy	\$95.31	1.91%	\$2,035.06
12/30/1997	Sell	\$97.13		(\$2,160.94)
8/5/1998	Buy	\$108.47	0.20%	\$1,952.52
8/12/1998	Sell	\$108.69		(\$2,735.37)
8/11/1999	Buy	\$130.22	2.64%	\$3,474.51
8/18/1999	Sell	\$133.66		(\$153.40)
7/31/2000	Buy	\$143.94	2.91%	\$3,123.00
8/7/2000	Sell	\$148.13		(\$909.14)
5/19/2006	Buy	\$127.10	1.01%	\$1,006.08
5/26/2006	Sell	\$128.38		(\$1,839.24)
11/2/2009	Buy	\$104.32	5.03%	\$5,086.98
11/9/2009	Sell	\$109.57		(\$747.24)
4/14/2014	Buy	\$182.94	2.71%	\$2,981.16
4/22/2014	Sell	\$187.89		(\$780.78)
2/9/2018	Buy	\$261.50	4.44%	\$5,279.24
2/16/2018	Sell	\$273.11		\$0.00

All 9 instances saw run-ups of at least 1%, and they all closed positive. This study appears to be worth some consideration. I will also note that this study was found in the 4/15/14 letter without the 200ma filter. Since we are right near the 200ma, and instances are low above, I thought it worth be worth looking at that version as well.

After closing at a 20-day low yesterday, SPY gaps up over 0.5% this morning, fills the gap, and then close > 0.5% above yesterday's close. 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	50,061.07	25	20	5	80.00	3,018.72	10,362.52	-2,062.65	-4,848.06	1.46	5.85	2,002.44
4	37,571.64	27	20	7	74.07	2,792.67	13,286.49	-2,611.68	-7,683.94	1.07	3.06	1,391.54
3	15,358.62	27	17	10	62.96	2,650.69	11,878.65	-2,970.31	-5,736.72	0.89	1.52	568.84
2	4,324.71	27	15	12	55.56	2,073.94	7,717.98	-2,232.03	-4,336.68	0.93	1.16	160.17
1	-1,454.93	27	13	14	48.15	1,874.39	6,926.07	-1,844.43	-4,416.69	1.02	0.94	-53.89

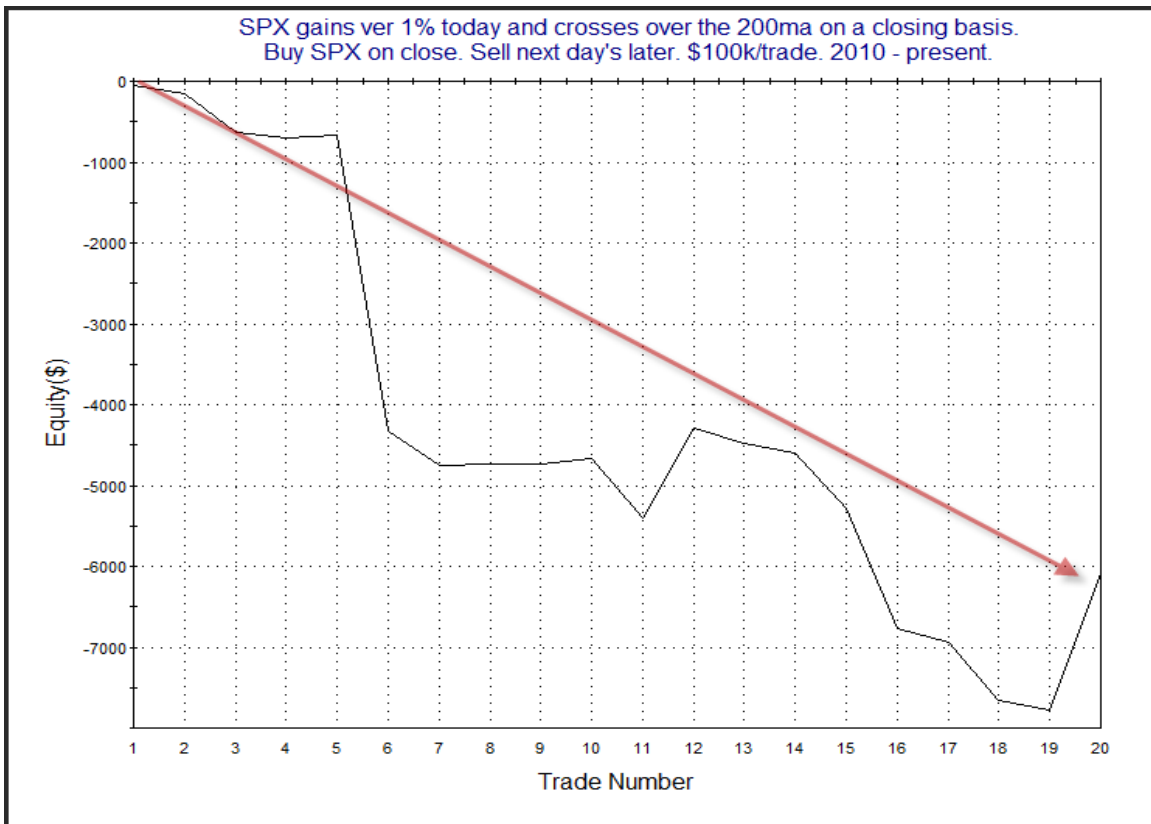
Numbers here are similarly strong, with a good number more instances. This serves as more confirmation of the possible upside edge.

There was one study that triggered from the 3/14/16 letter that examined strong moves through the 200ma like we saw on Tuesday. It showed that the next day often sees the market give back some of those gains. Updated stats can be seen below.

SPX gains ver 1% today and crosses over the 200ma on a closing basis.  
Buy SPX on close. Sell next day's later. \$100k/trade. 2010 - present.

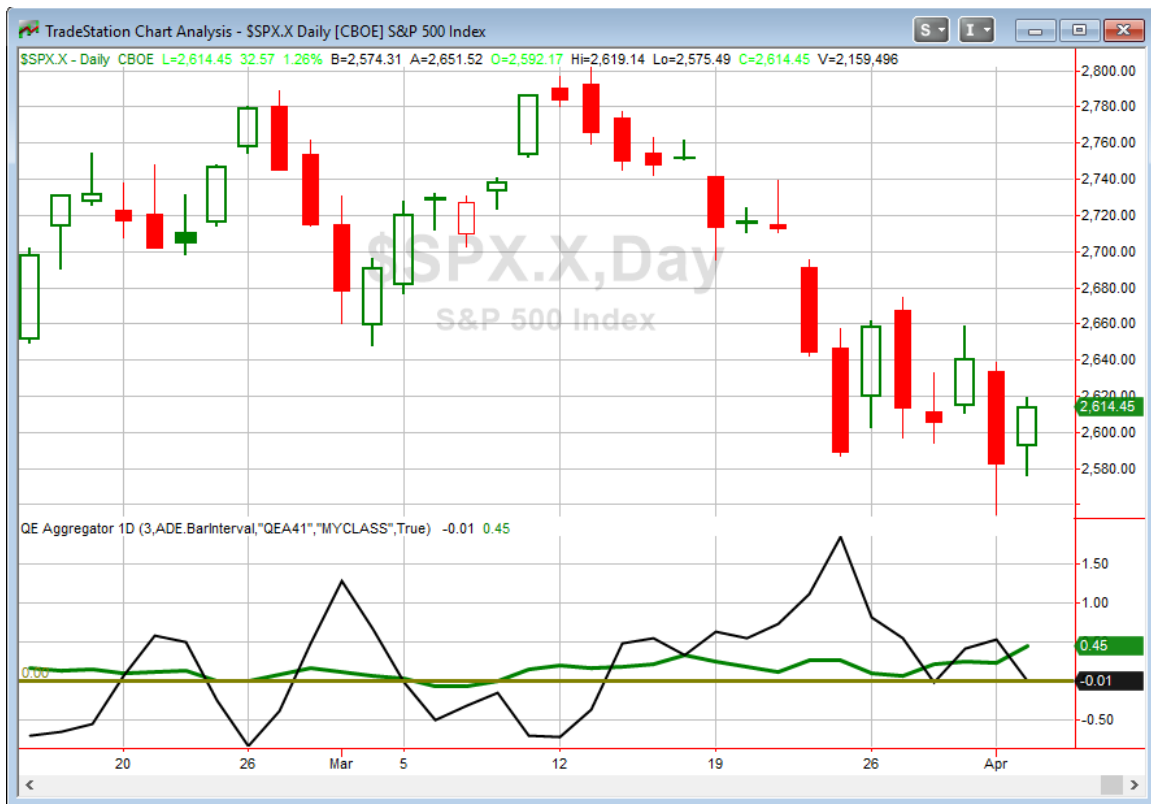
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$6,081.06)	Profit Factor	0.32
Gross Profit	\$2,925.77	Gross Loss	(\$9,006.83)
Total Number of Trades	20	Percent Profitable	25.00%
Winning Trades	5	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$304.05)	Ratio Avg. Win:Avg. Loss	0.97
Avg. Winning Trade	\$585.15	Avg. Losing Trade	(\$600.46)
Largest Winning Trade	\$1,699.32	Largest Losing Trade	(\$3,651.96)

The stats look quite bearish. Below is a look at the profit curve.



The cure is certainly choppy, but it actually looked quite impressive leading up to the last instance. In general, it appears that the 1-day excitement that is seen on the strong break through the 200ma is often a bit overdone, and that leads to a reversal the next day. Of course the current setup is occurring after spending just one day below the 200ma. So it may not be viewed the same as a setup where the market was under the 200ma for an extended period of time. Notably, the last instance (which saw the market jump higher) also came after just 1 day below the 200ma. I have included this study on the Active List, but I am viewing it with a healthy amount of skepticism based on the current setup

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



Tonight 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 dipped just barely below 0. The negative Differential Line reading means SPX is slightly 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 bullish on Wednesday. This could easily change if compelling new bearish evidence were to emerge. The Differential Pivot will be *inverted* at 2653.61 on Wednesday. That is 1.5% *above* Tuesday'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 up at least 1.5% in order to remain overbought versus expectations. Anything less than that and it will be considered "oversold" as of Wednesday's close.

So expectations remain somewhat bullish. And while SPX is "overbought" as measured by the current Differential value, it can only stay that way if it rises at least 1.5% on Wednesday. So there does appear to be a moderate bullish edge. This is the 3<sup>rd</sup> attempt to put in a bounce from around this area in the last 7 trading days. The previous 2 attempts only lasted one day. SPY will string together a multi-day rally at some point. And when it does that 2<sup>nd</sup> day could be fierce as it scares some bears and ignites short-covering. Evidence is mixed with regards to whether Wednesday will be that day. I have a small amount long exposure at the moment. I am not looking to add anything to that.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/2– neutral***

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

*Catapult & CBI Presentation Link*

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

None

***Broad Market Large Cap CBI – 0***

### **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
QQQ(1/4)	3/22/2018	\$164.70	\$157.26	-4.52%		Aggregator

*I will look for the following exit on the QQQ position: Exit QQQ if QQQ closes > \$160.21 or SPY > \$262.12 (10ma levels).*

*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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