

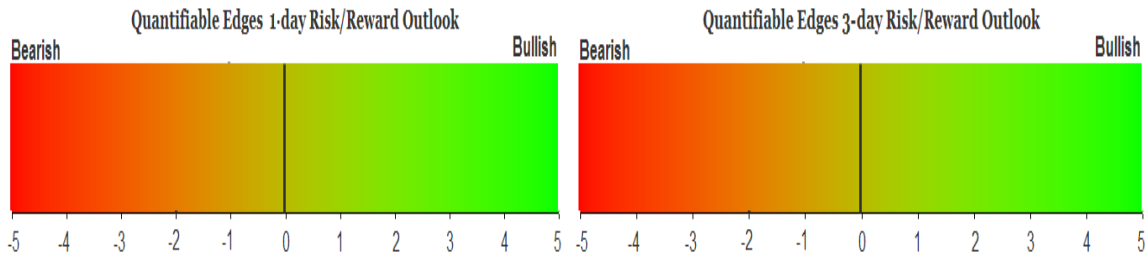
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 6, 2018

Volume 11 Issue 66

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The employment report could bring some interesting action tomorrow but it has not provided a consistent edge over the years.
- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- 3+ days of strong Nasdaq breadth are often followed by a down day

## *Short-term Outlook*

### *The Bottom Line*

Expectations are mixed but leaning bullish. Meanwhile, the SPX is overbought. This leaves the Aggregator neutral. I am too.

**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 6, 2018	2%+ gain over 3 days. Offset HV < 0.25	1-6 days	Bullish	1.90%	-1.25%	-2.60%
April 4, 2018	Gap up from 20-low. Fill then close up	1-5 days	Bullish	3.10%	-1.70%	-2.10%
<b>Active - Long Term</b>						
April 6, 2018	2%+ gain over 3 days. Offset HV < 0.25	1-19 days	Bullish	4.30%	-2.20%	-4.80%
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 3<sup>rd</sup> day of gains for the market. The SPX rose 0.7%, the NASDAQ gained 0.5%, and the Russell 2000 closed up 0.7%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 80%. NYSE volume declined and again came in at the lowest level in weeks.

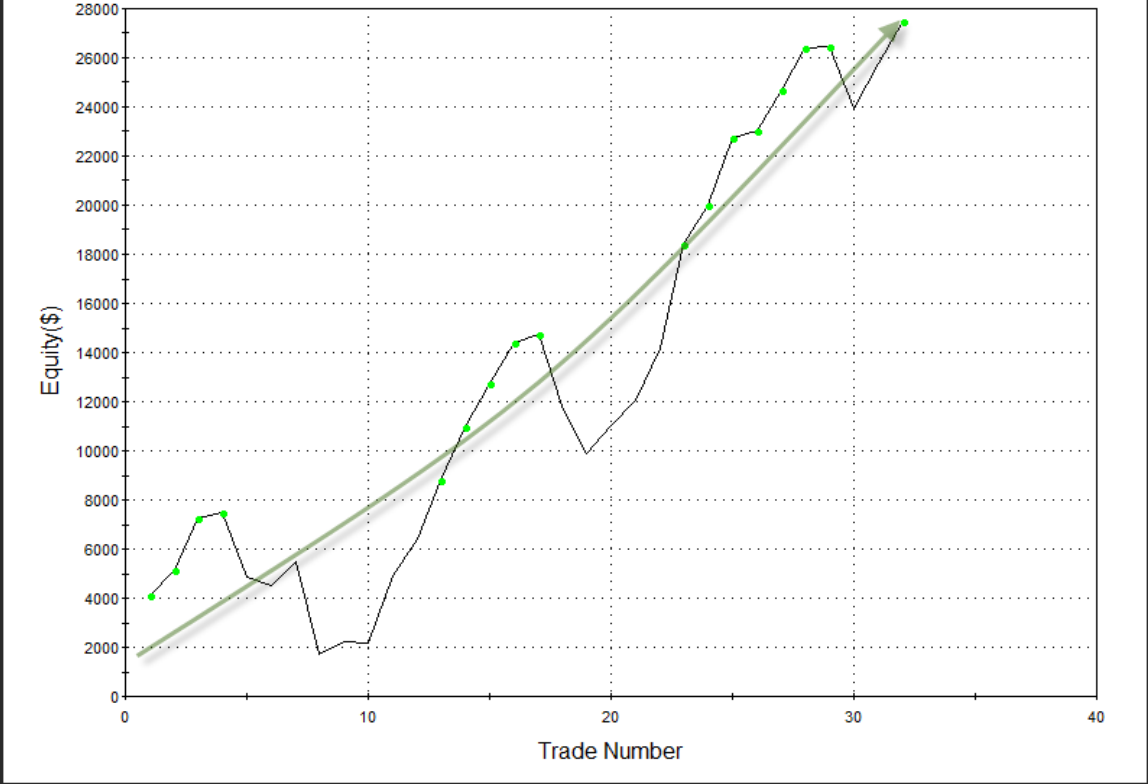
On Thursday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. The 3/10 Offset HV Indicator compares the 3-day Historical Volatility reading to the 10-day reading of 3 days ago. When the reading is very low, that means there has been a contraction in volatility. A high reading means there has been an expansion over the last 3 days. I often use 0.25 as an "extremely" low reading. The 3/10 Offset HV has come in at this level or lower about 9% of the time historically. The SPX rally and low 3/10 Offset HV reading on Thursday triggered the study below, which I last discussed in the 12/24/15 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma.  
 Its 3/10 offset HV is <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1985 - present.

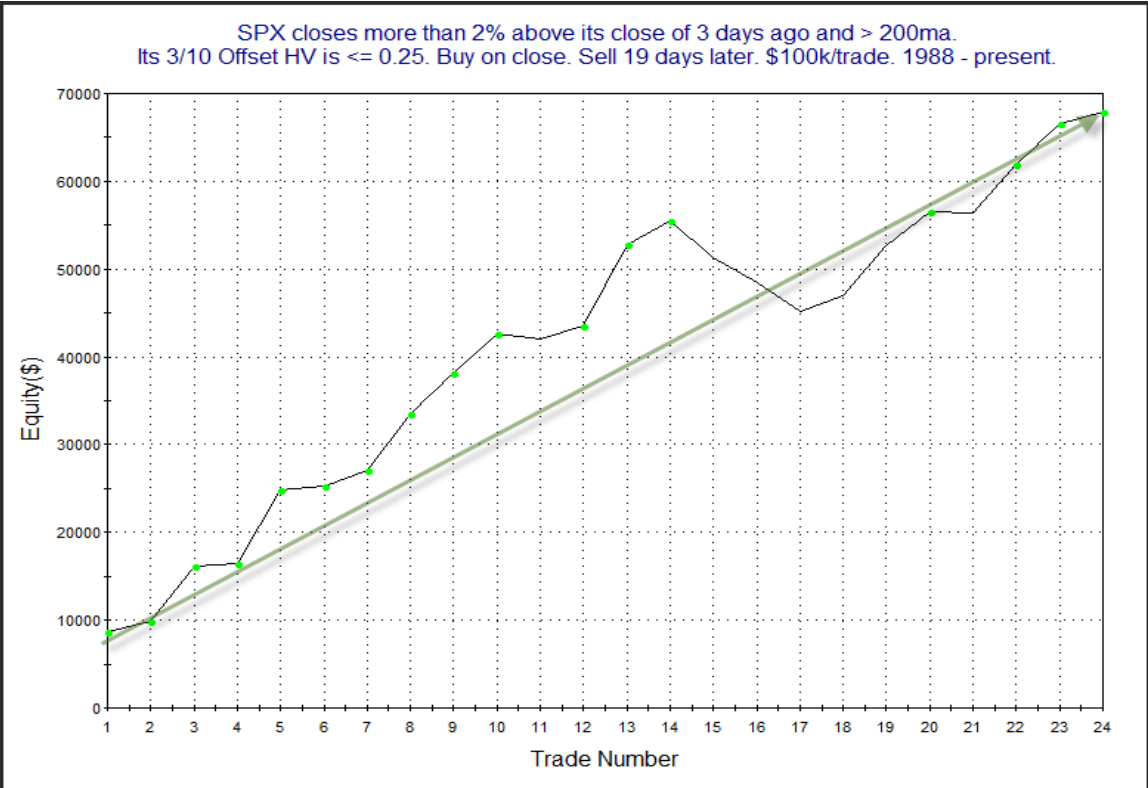
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	59,137.75	27	21	6	77.78	3,965.54	9,311.76	-4,023.10	-8,986.08	0.99	3.45	2,190.29
19	64,310.76	27	21	6	77.78	3,951.68	9,258.48	-3,112.41	-7,554.72	1.27	4.44	2,381.88
18	59,761.36	28	22	6	78.57	3,723.98	10,412.64	-3,694.35	-9,374.40	1.01	3.70	2,134.33
17	47,603.10	28	21	7	75.00	3,513.45	10,683.36	-3,739.90	-9,838.08	0.94	2.82	1,700.11
16	49,562.00	28	20	8	71.43	3,690.75	10,667.52	-3,031.62	-8,782.08	1.22	3.04	1,770.07
15	49,647.05	28	20	8	71.43	3,512.91	8,742.96	-2,576.40	-8,832.00	1.36	3.41	1,773.11
14	47,776.60	29	22	7	75.86	2,945.40	8,253.36	-2,431.74	-6,837.60	1.21	3.81	1,647.47
13	42,789.14	29	20	9	68.97	2,987.82	6,434.62	-1,885.25	-8,352.48	1.58	3.52	1,475.49
12	42,739.12	29	21	8	72.41	2,699.66	6,140.16	-1,744.21	-6,029.28	1.55	4.06	1,473.76
11	36,673.31	29	21	8	72.41	2,544.81	5,708.16	-2,095.97	-6,749.76	1.21	3.19	1,264.60
10	33,537.69	30	22	8	73.33	2,330.57	5,768.50	-2,216.86	-6,828.48	1.05	2.89	1,117.92
9	27,002.71	30	19	11	63.33	2,339.94	5,859.48	-1,586.92	-5,817.60	1.47	2.55	900.09
8	17,258.96	30	21	9	70.00	1,560.33	4,162.27	-1,723.11	-3,819.90	0.91	2.11	575.30
7	20,751.57	31	23	8	74.19	1,504.40	3,983.52	-1,731.21	-4,227.28	0.87	2.50	669.41
6	27,503.10	32	25	7	78.13	1,663.38	4,206.89	-2,011.61	-3,782.08	0.83	2.95	859.47
5	24,213.52	32	25	7	78.13	1,489.51	3,481.56	-1,860.60	-2,842.40	0.80	2.86	756.67
4	19,839.16	32	21	11	65.63	1,576.05	2,616.60	-1,205.26	-2,910.70	1.31	2.50	619.97
3	13,261.66	32	23	9	71.88	1,204.03	2,315.72	-1,603.46	-3,701.10	0.75	1.92	414.43
2	13,984.78	33	21	12	63.64	1,030.09	2,451.76	-637.25	-1,675.86	1.62	2.83	423.78
1	1,821.22	35	18	17	51.43	548.31	1,857.24	-473.43	-1,515.80	1.16	1.23	52.03

The numbers here all seem to suggest an upside edge. To get the 3/10 Offset HV indicator that low while the market is rising so strongly would typically require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.

SPX closes more than 2% above its close of 3 days ago and > 200ma.  
 Its 3/10 offset HV is  $\leq 0.25$ . Buy on close. Sell 6 days later. \$100k/trade. 1985 - present.



SPX closes more than 2% above its close of 3 days ago and > 200ma.  
 Its 3/10 Offset HV is  $\leq 0.25$ . Buy on close. Sell 19 days later. \$100k/trade. 1988 - present.



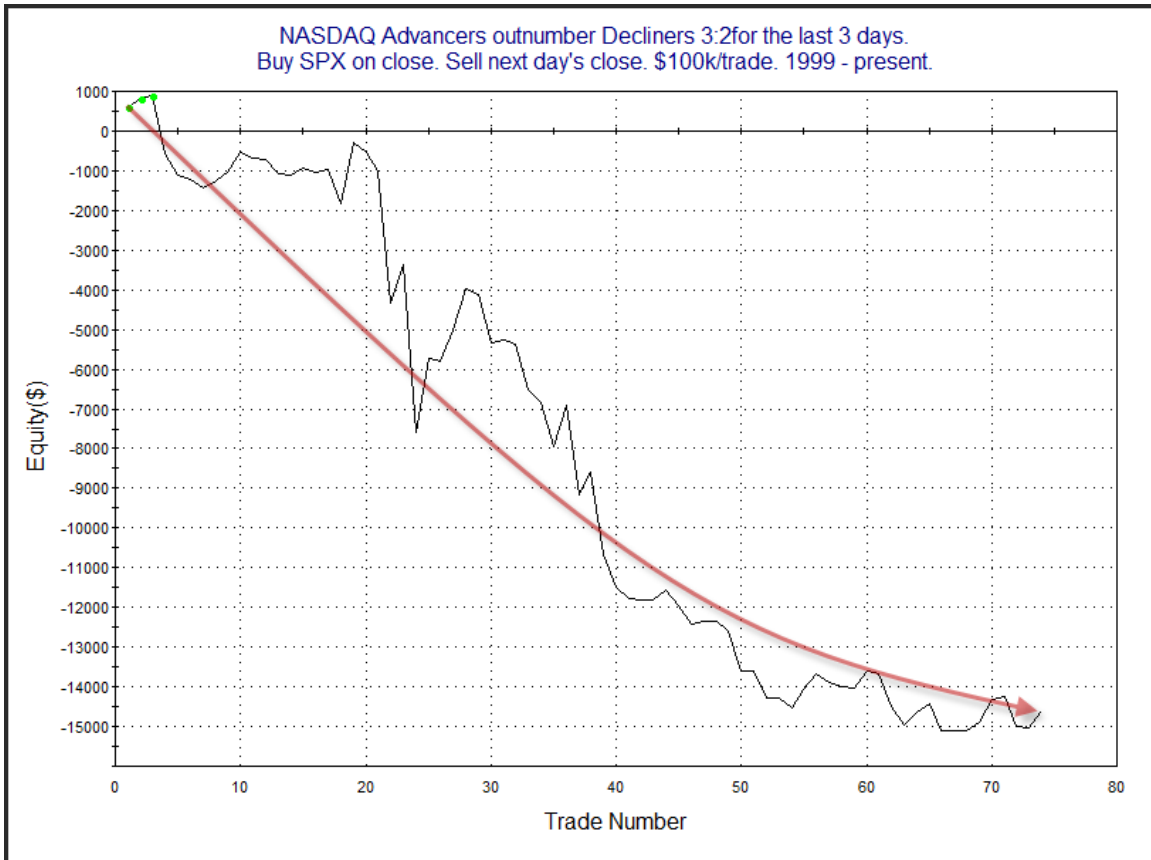
Both of these curves look pretty solid. I have added this study to both the short and intermediate-term active lists.

Not only did we see gains for the 3<sup>rd</sup> day in a row, but the NASDAQ put in some strong breadth numbers. This triggered a study that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. I last showed the study in the 3/8/18 letter and have updated the results below.

**NASDAQ Advancers outnumber Decliners 3:2 for the last 3 days.  
Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.**

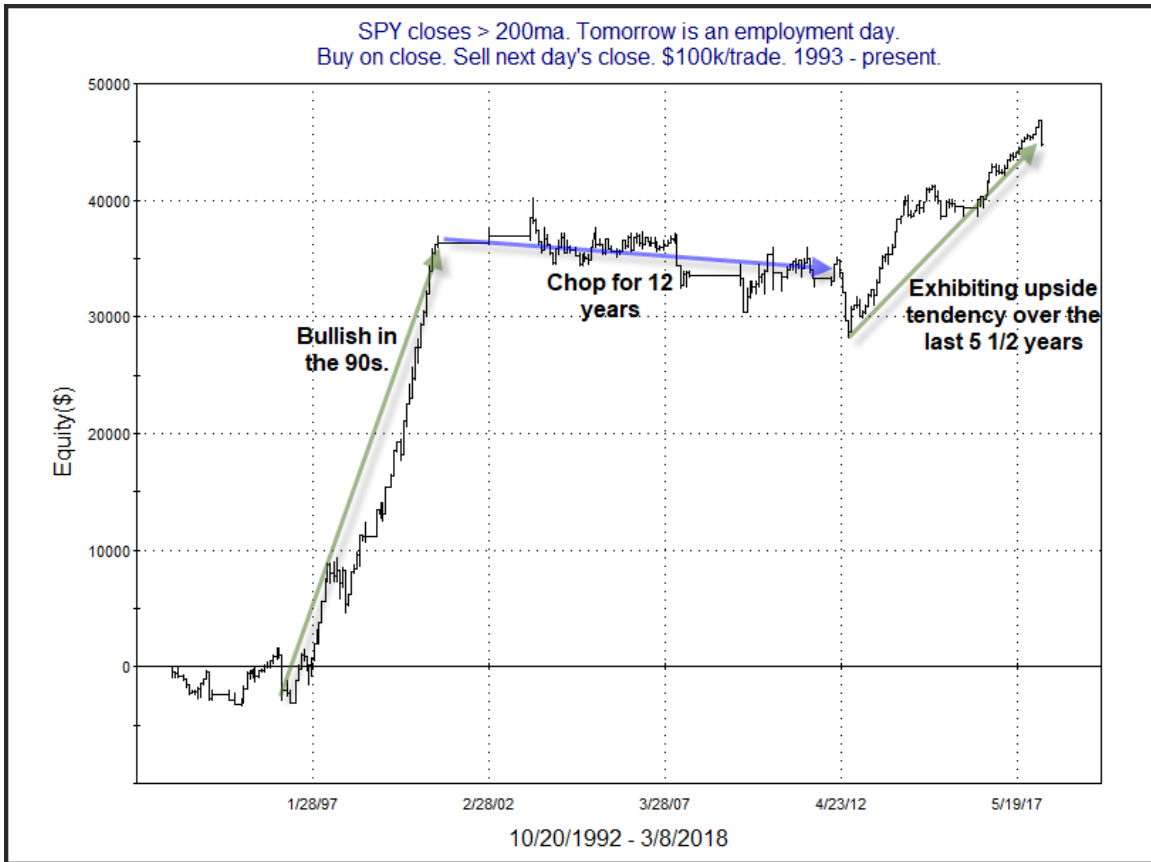
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$14,611.03)	Profit Factor	0.48
Gross Profit	\$13,395.69	Gross Loss	(\$28,006.72)
Total Number of Trades	74	Percent Profitable	41.89%
Winning Trades	31	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	(\$197.45)	Ratio Avg. Win:Avg. Loss	0.66
Avg. Winning Trade	\$432.12	Avg. Losing Trade	(\$651.32)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a bit of a downside edge. I also produced an equity curve.



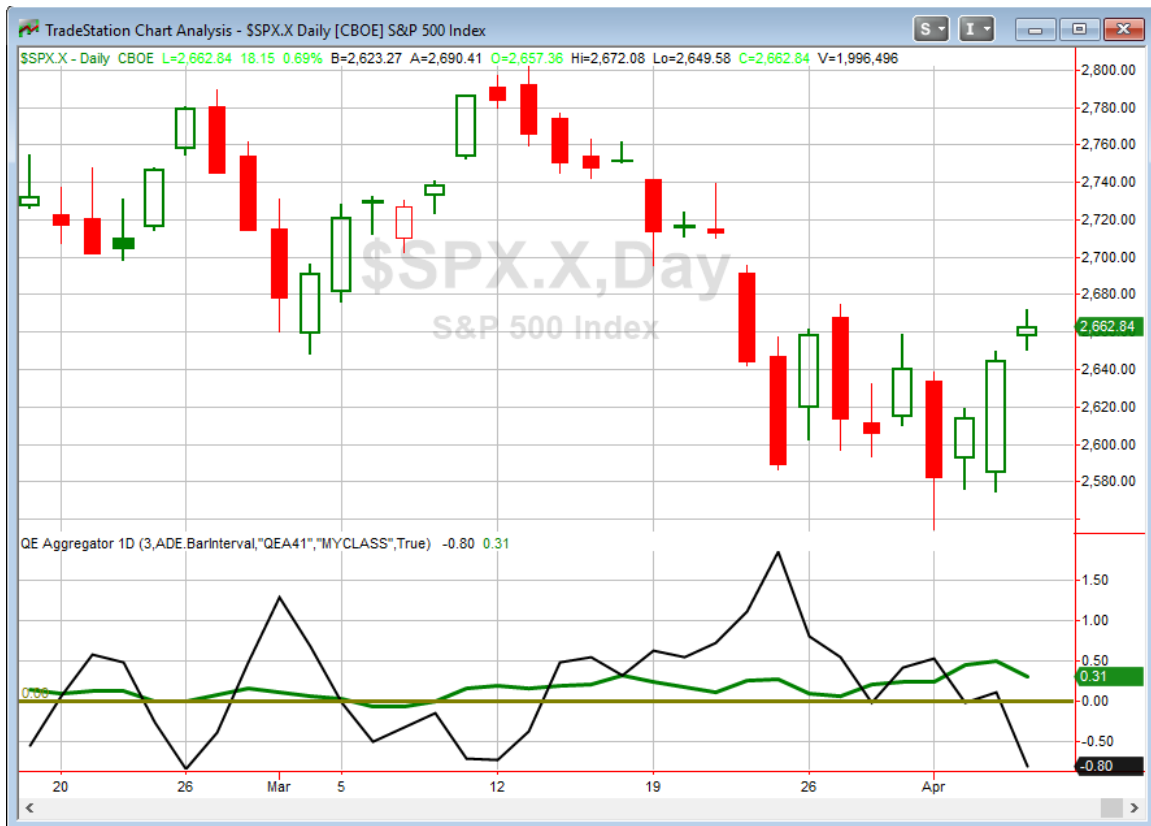
It's definitely choppy, but it has moved from upper left to lower right for a long time. And I have shown this study for years, and it continues to make new lows. I believe it to be worth consideration and I have included it on the Active List for tonight.

Friday the employment report will be released about an hour before the NYSE open. Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPY performance on Employment Days. This chart is from the 3/9/18 subscriber letter, and has not been updated. For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional \$100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. While it’s a bit unusual to see such abrupt changes in market dynamics, it does serve as a nice reminder that such changes are always possible.

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. But the black Differential Line dove down below 0. The negative Differential Line reading means SPX is 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 off 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Friday. This could change if compelling new bearish evidence were to emerge. The Differential Pivot will be 2640.08 on Friday. That is 0.9% below Thursday's close. So SPX will need to close down at least 0.9% to turn from overbought to oversold on Friday.

Evidence is mixed, the Aggregator formation is neutral, and the low 3/10 Offset HV suggests we could see an expansion in volatility in the next few days. That is a poor combination for trading. No strong edge and a decent chance the market moves strongly against you if you are wrong about the direction. I have no desire to start building new positions here. I will wait until a more favorable reward/risk scenario emerges. Until then, I will remain patient and alert.

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

The intermediate-term outlook was last updated in the 4/2/18 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***

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**

None

*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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