

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 20, 2018

Volume 11 Issue 76

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- Opex Friday mornings during uptrends has historically struggled.

Short-term Outlook

The Bottom Line

The Aggregator is about as neutral as it can get. I am neutral also.

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
Active - Short Term						
None						
Active - Long Term						
April 6, 2018	2%+ gain over 3 days. Offset HV < 0.25	1-19 days	Bullish	4.30%	-2.20%	-4.80%
April 2, 2018	SOMA reduction intensifies to \$30billion	int term	Bearish			
February 15, 2018	FTD with moderate breadth & volume	int term	Bearish			
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

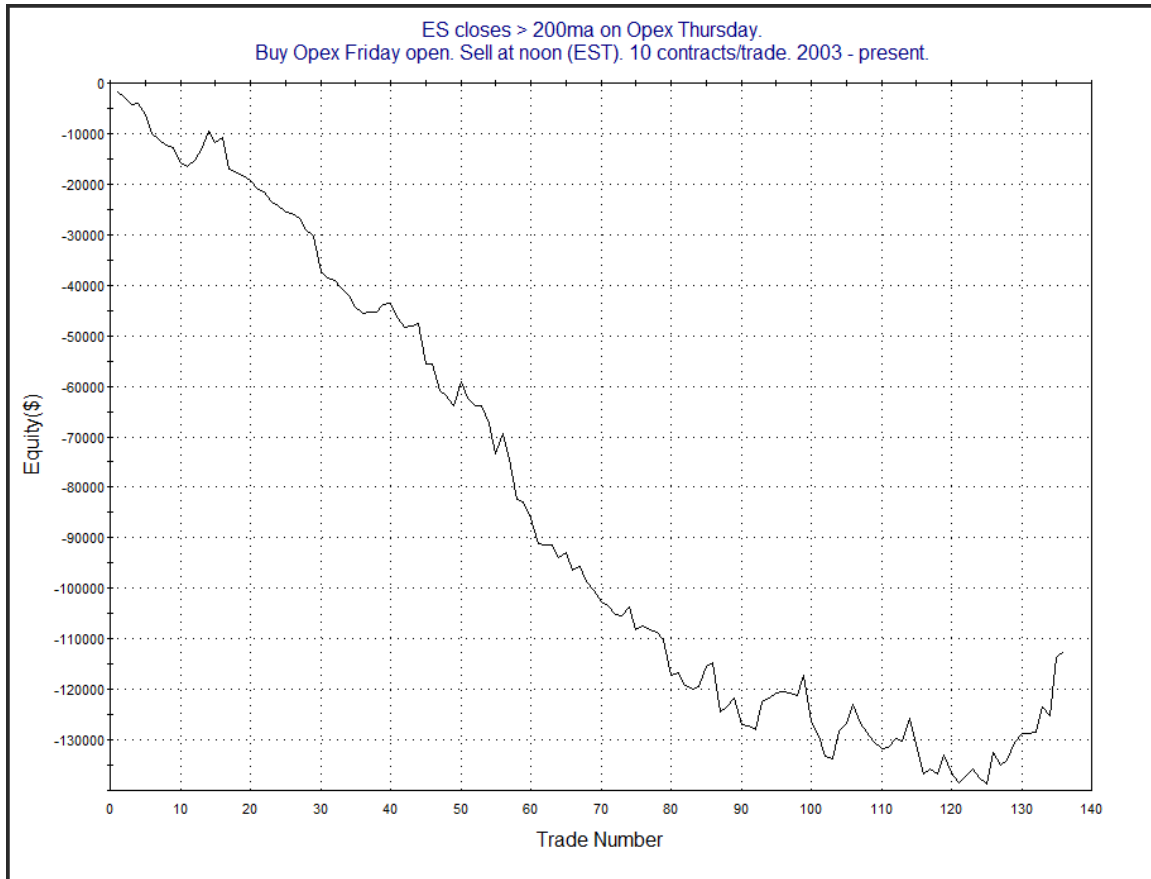
Thursday saw the market pull back a bit. The SPX lost 0.6%, the NASDAQ fell 0.8% and the Russell 2000 dropped 0.6%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 39%. NYSE volume declined some from Wednesday's level.

The down day did not seem to have much impact. SPX is still in the top 20% of its 10-day range, meaning the pullback to this point is quite mild. The Fed's Quantitative Tightening should take down the SOMA in a fairly large way over the next few days. Knowing this I have been hoping for some decent short-side evidence to emerge and offer me an entry trigger. There was one bearish study that emerged in the Quantifinder that looked at the SPY price action. But its recent action has called the edge into question, so I decided not to include it on the Active List.

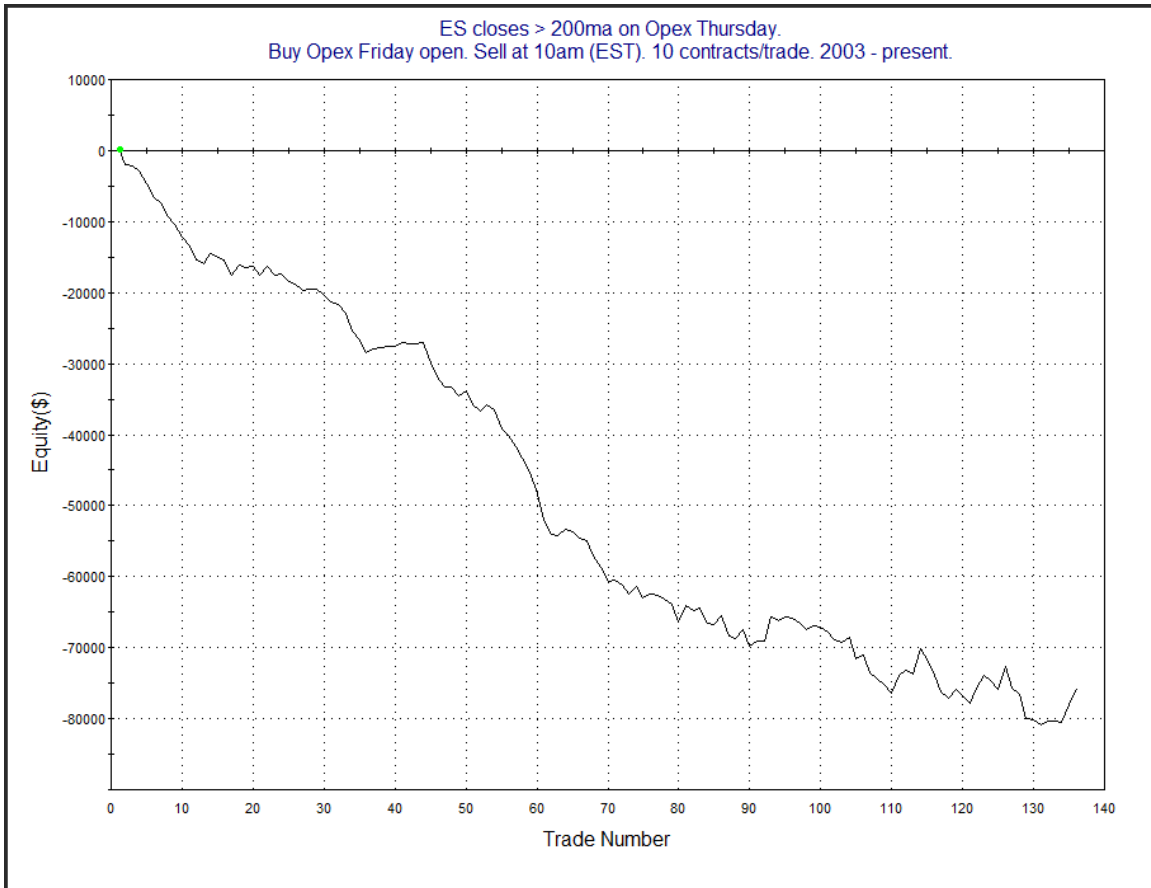
One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. This table is updated from the 3/20/15 letter.

ES closes > 200ma on Opex Thursday. Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - present.													
OE Op-Ex Fri Intra Short2: timeofday	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	
1,600	-104,375.00	136	59	74	43.38	2,569.92	13,875.00	-3,459.46	-16,125.00	0.74	0.59	-767.46	
1,500	-106,625.00	136	50	82	36.76	2,685.00	9,875.00	-2,937.50	-11,625.00	0.91	0.56	-784.01	
1,400	-126,250.00	136	43	86	31.62	2,433.14	9,875.00	-2,684.59	-10,750.00	0.91	0.45	-928.31	
1,300	-110,125.00	136	46	89	33.82	2,440.22	11,375.00	-2,498.60	-10,000.00	0.98	0.50	-809.74	
1,200	-112,375.00	136	46	90	33.82	2,171.20	11,625.00	-2,358.33	-9,750.00	0.92	0.47	-826.29	
1,100	-86,625.00	136	51	83	37.50	1,688.73	7,250.00	-2,081.33	-7,625.00	0.81	0.50	-636.95	
1,000	-75,750.00	136	39	94	28.68	1,086.54	3,625.00	-1,256.65	-3,625.00	0.86	0.36	-556.99	

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) In years past, the noon profit curve appeared the most appealing. But as you can see below, over the last 12 months, the downside tendency has not persisted.

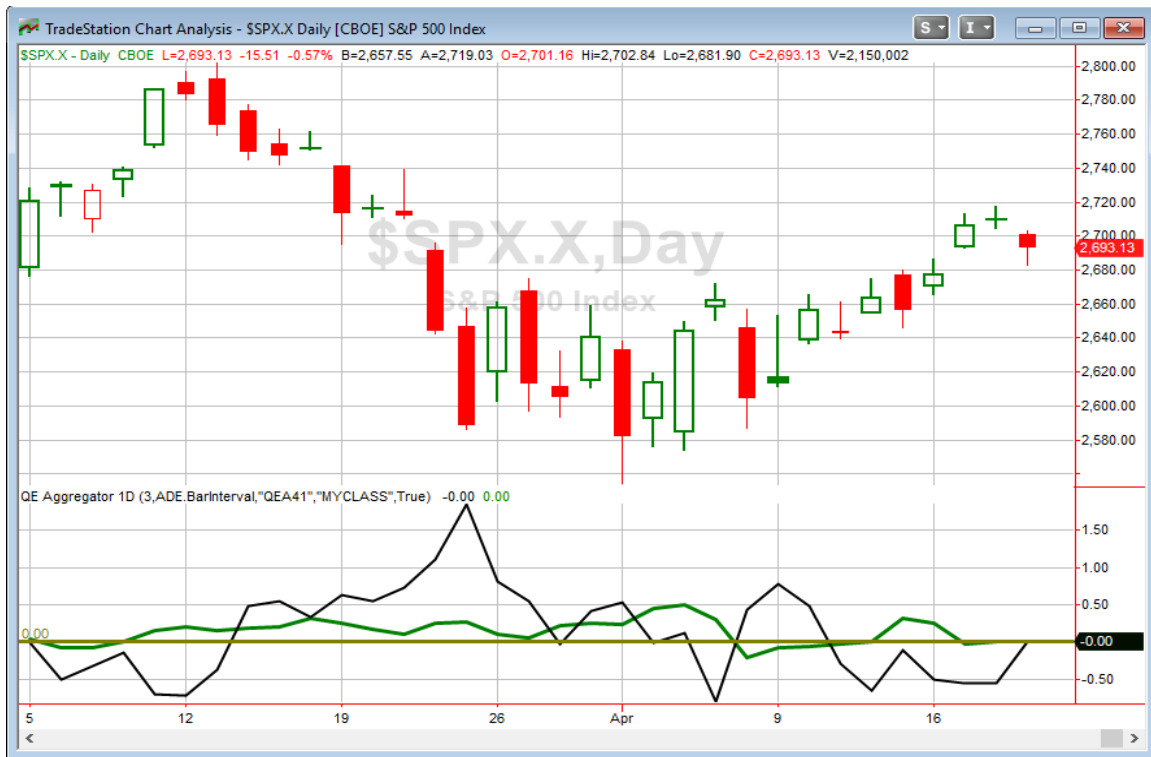


In fact, over the last 12 months there appears to be an upside tendency. But the change in character is not as evident when looking at the early morning, and closing out at 10am. This can be seen below.



Despite the recent upturn, it still appears to me that caution seems warranted on the long side during the early morning on Friday.

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



The lack of short-term evidence combined with the neutral intermediate-term bias has the green Aggregator Line right at zero. A flat reading means net expectations from the Active List are breakeven over the next few days. Meanwhile the black Differential Line remained below 0, but by such a little amount that it appears as 0 on the chart. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of 0. And with both lines basically right at 0, it does not get any more neutral than this.

Without any short-term studies currently active, expectations on Friday will be largely dependent on any new evidence that emerges. The Differential Pivot will be *inverted at* 2721.08 on Friday. That is 1.0% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up at least 1.0% in order to remain overbought versus expectations. Anything less than a 1% gain will see SPX turn oversold vs expectations as of Friday's close.

The overbought nature of the market and the expected large drop in the SOMA over the next week or two have me leaning a little short. But I need some more compelling evidence to get me to take on an index position. A 30-minute possible seasonal study is not enough for me to consider this a compelling short entry point. I remain sidelined and ready for the next opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/16– neutral

The intermediate-term outlook was last updated in the 4/16/18 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

BMY – 1/3 @ \$52.38 (bought @ limit)

BMY – 1/3 @ \$52.30 (buy @ limit)

New

BMY – 1/3 @ \$51.61 (buy @ limit)

Broad Market Large Cap CBI – 3(BMY-3)

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.

BMY – Buy 1/3 Catapult position @ \$51.61 limit. This is from the Catapult section above. It is the 3rd of up to 3 possible lots for BMY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BMY(1/3)	4/18/2018	\$52.35	\$51.61	-1.41%		Catapult
BMY(1/3)	4/18/2018	\$52.30	\$51.61	-1.32%		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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