

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 26, 2018

Volume 11 Issue 80

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- The SPX price pattern the last 2 days suggests a failure by the bears. Bulls have a chance to take charge over the next few days.

Short-term Outlook

The Bottom Line

Expectations remain bullish and the market is still oversold. This suggests an upside edge..

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						
April 26, 2018	Higher then dn . Lower then up.	1-5 days	Bullish			
Active - Long Term						
April 23, 2018	1st 5-low in 10+ days. Close > 10ma.	1-10 days	Bullish	2.20%	-1.30%	-2.60%
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			

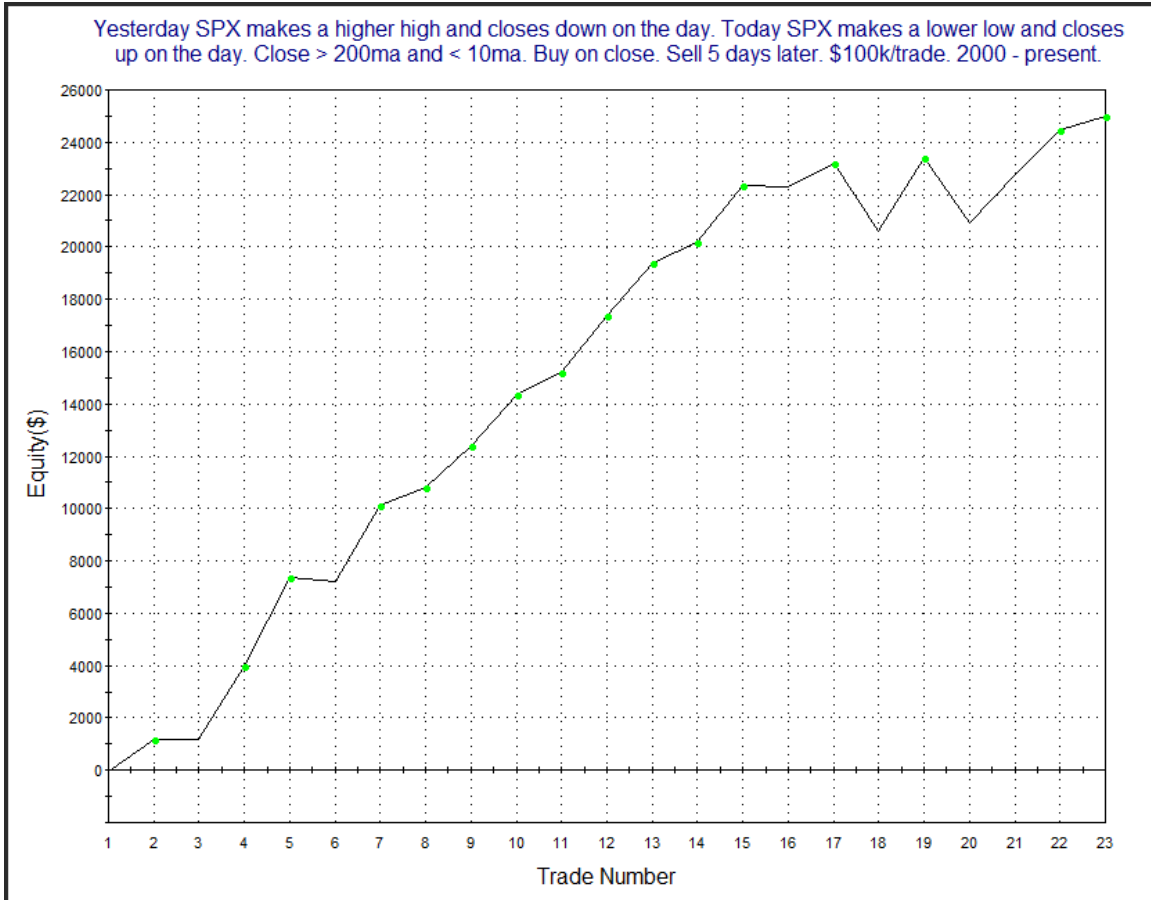
The Evidence

The market suffered a pretty large drop in the morning but it recovered well and the major indices finished without much change. After coming near its 200ma, the SPX closed up 0.2%, the NASDAQ fell 0.05% and the Russell 2000 dropped 0.2%. Breadth was mixed as the NYSE Up Issues % was 44% and the Up Volume % came in at 52%. NYSE volume declined some from Tuesday’s level.

On Tuesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Wednesday the opposite happened. The bears failed in their attempt at a move lower. In the 6/17/16 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range is has been consistently bullish over the next 4-5 days. This can be seen in the below test, which I have updated.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and < 10ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	24,994.57	23	17	6	73.91	1,784.08	3,344.64	-889.14	-2,608.20	2.01	5.69	1,086.72
4	17,766.47	23	19	4	82.61	1,307.23	2,345.07	-1,767.73	-2,618.70	0.74	3.51	772.46
3	7,107.64	23	15	8	65.22	1,167.99	2,224.32	-1,301.52	-3,490.90	0.90	1.68	309.03
2	3,673.20	23	14	9	60.87	1,068.25	2,967.00	-1,253.58	-2,246.00	0.85	1.33	159.70
1	3,132.52	23	12	11	52.17	833.58	1,712.28	-624.59	-1,970.00	1.33	1.46	136.20
21 of 23 instances (91%) closed above the entry price at some point in the next week.												

Odds strongly favor a move higher and the win:loss ratio and profit factors are very impressive. Below is an equity curve using a 5-day exit strategy to see how the edge has played out over time.



There have been a couple of negative instances lately, but the edge still appears intact, and the curve has made new highs on the last 2 instances. The failure of the bears to take control when the market pressed downward and made a lower low on Wednesday has opened the door for the bulls.

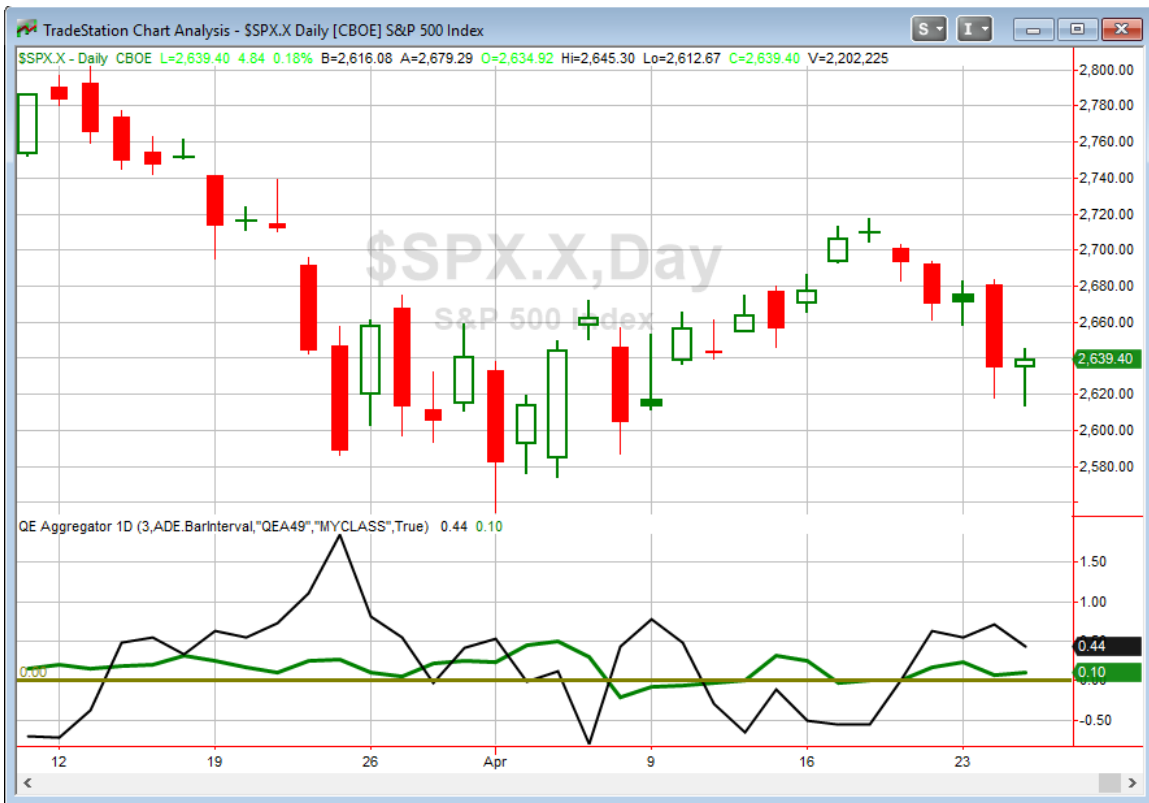
While not applicable to the current situation, I thought I'd also show the results when the pattern occurred and the SPX closed above the 10ma. This table is updated from the 6/17/16 letter as well.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and > 10ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-3,545.60	48	27	21	56.25	910.06	2,143.70	-1,338.91	-3,770.60	0.68	0.87	-73.87
4	-6,989.26	54	30	24	55.56	740.60	1,984.54	-1,216.97	-4,575.48	0.61	0.76	-129.43
3	-5,514.10	54	28	26	51.85	764.59	1,918.21	-1,035.49	-2,726.23	0.74	0.80	-102.11
2	2,496.06	55	31	24	56.36	638.06	2,723.04	-720.16	-2,362.36	0.89	1.14	45.38
1	822.19	55	27	28	49.09	528.76	1,560.24	-480.51	-1,275.95	1.10	1.06	14.95

There is nothing here suggesting a substantial edge in either direction. Of course, that does not really matter to us, since the market is currently set up like the 1st study.

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



With tonight's new study included the green Aggregator Line again 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 also closed 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 active studies, expectations are slated to remain bullish on Thursday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2680.55 on Thursday. That is 1.6% above Wednesday's close. So SPX will need to close up at least 1.6% on Thursday in order to flip from oversold to overbought versus expectations. That is a sizable 1-day move, so a multi-day rally or consolidation would seem a more likely scenario for working off the oversold condition.

The Aggregator remains bullish and there is still ample room to the upside before SPX would turn overbought. I already have a small amount of index exposure, along with a number of Catapult positions. One more Catapult triggered on Wednesday, bringing the CBI to 6 – still a bit shy of a bullish indication. I am not inclined to add any more index exposure just yet, but will continue to hold for now.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/23– neutral

The intermediate-term outlook was last updated in the 4/23/18 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

BMV – 1/3 @ \$52.38 (bought @ limit)

BMV – 1/3 @ \$52.30 (bought @ limit)

BMV – 1/3 @ \$51.61 (bought @ limit)

KHC - 1/3 @ \$56.53 (buy @ limit)

QCOM - 1/3 @ \$49.94 (buy @ limit)

New

QCOM - 1/3 @ \$49.75 (buy @ limit)

Broad Market Large Cap CBI – 6(BMV-3, KHC, QCOM-2)

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.

QCOM – buy 1/3 Catapult position @ \$49.75 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for QCOM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BMY(1/3)	4/18/2018	\$52.35	\$51.76	-1.13%		Catapult
BMY(1/3)	4/19/2018	\$52.30	\$51.76	-1.03%		Catapult
BMY(1/3)	4/20/2018	\$51.61	\$51.76	0.29%		Catapult
QQQ(1/4)	4/24/2018	\$161.50	\$158.65	-1.76%		Aggregator
KHC(1/3)	4/25/2018	\$56.52	\$56.85	0.58%		Catapult
QCOM(1/3)	4/25/2018	\$49.94	\$49.75	-0.38%		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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