

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2018

Volume 11 Issue 81

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 3 |

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish, but the market is set to turn short-term overbought on Friday unless there is substantial selling. If the market moves higher on Friday I will use that as an opportunity to take profits.

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 27, 2018 | 10-low yest. Unfill gap up < 10 > 200ma | 1-5 days | Bullish | 1.80% | -1.20% | -2.20% |
| 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 | | | |

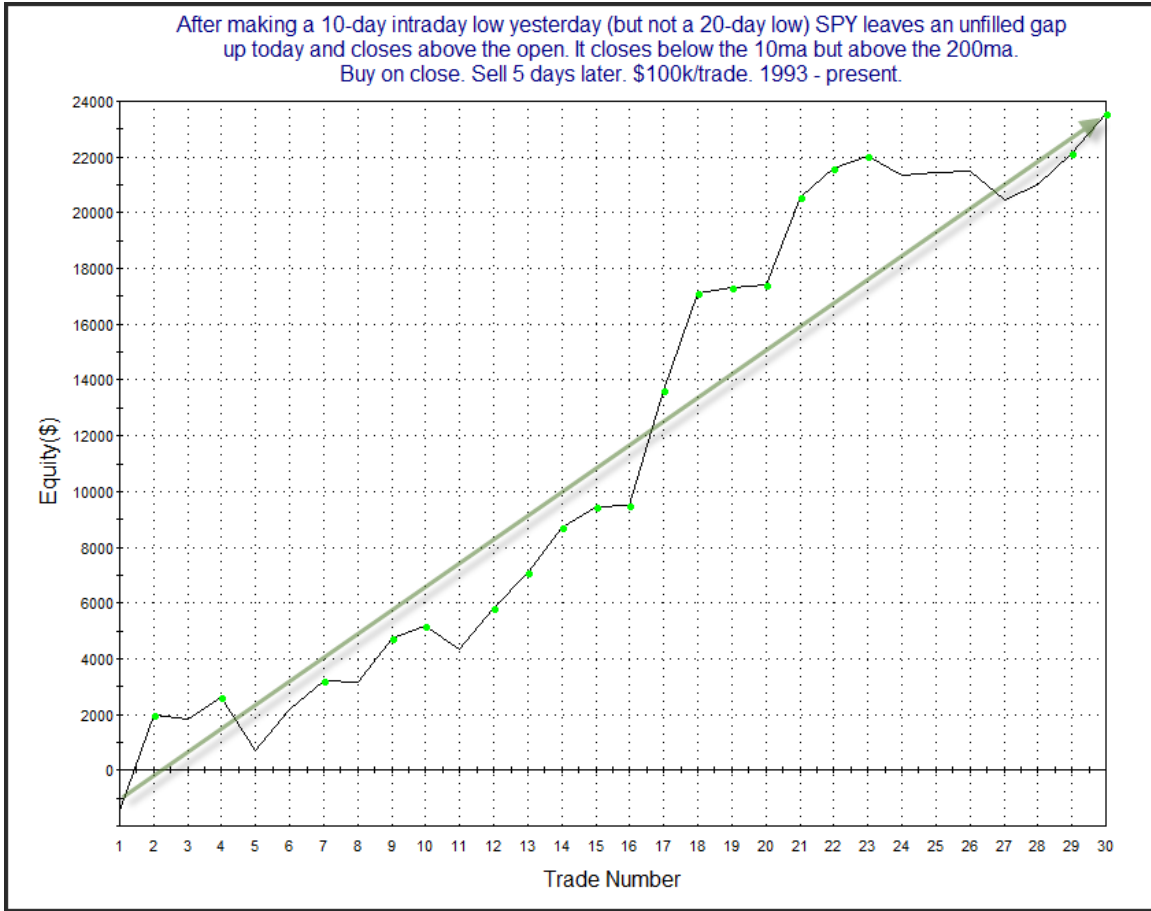
The Evidence

The market gapped up and kept moving higher on Thursday. SPX closed up 1.0%, the NASDAQ rose 1.6% and the Russell 2000 gained 0.5%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 66%. NYSE volume rose some from Wednesday's level.

Thursday's rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. A couple of things that make this particular unfilled gap up appealing are 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 5/22/17 letter. It looked at situations just like the current one. I have updated all the stats.

| After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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 | 23,545.15 | 30 | 23 | 7 | 76.67 | 1,290.65 | 4,106.63 | -877.11 | -1,949.70 | 1.47 | 4.83 | 784.84 |
| 4 | 22,556.42 | 30 | 21 | 9 | 70.00 | 1,430.90 | 3,904.83 | -832.50 | -2,096.99 | 1.72 | 4.01 | 751.88 |
| 3 | 15,739.47 | 31 | 20 | 11 | 64.52 | 1,226.27 | 3,914.92 | -798.72 | -1,874.00 | 1.54 | 2.79 | 507.72 |
| 2 | 9,930.05 | 31 | 19 | 12 | 61.29 | 1,144.17 | 2,828.00 | -984.10 | -2,183.21 | 1.16 | 1.84 | 320.32 |
| 1 | 1,932.86 | 31 | 16 | 14 | 51.61 | 827.25 | 1,773.46 | -807.37 | -2,895.33 | 1.02 | 1.17 | 62.35 |
| 30 of 31 instances (97%) closed above the entry price at some point in the next week. The lone failure triggered on 5/2/16. | | | | | | | | | | | | |

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 5-day holding period.



The strong upslope is impressive and the curve is again at new highs.

Also in the 5/22/17 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

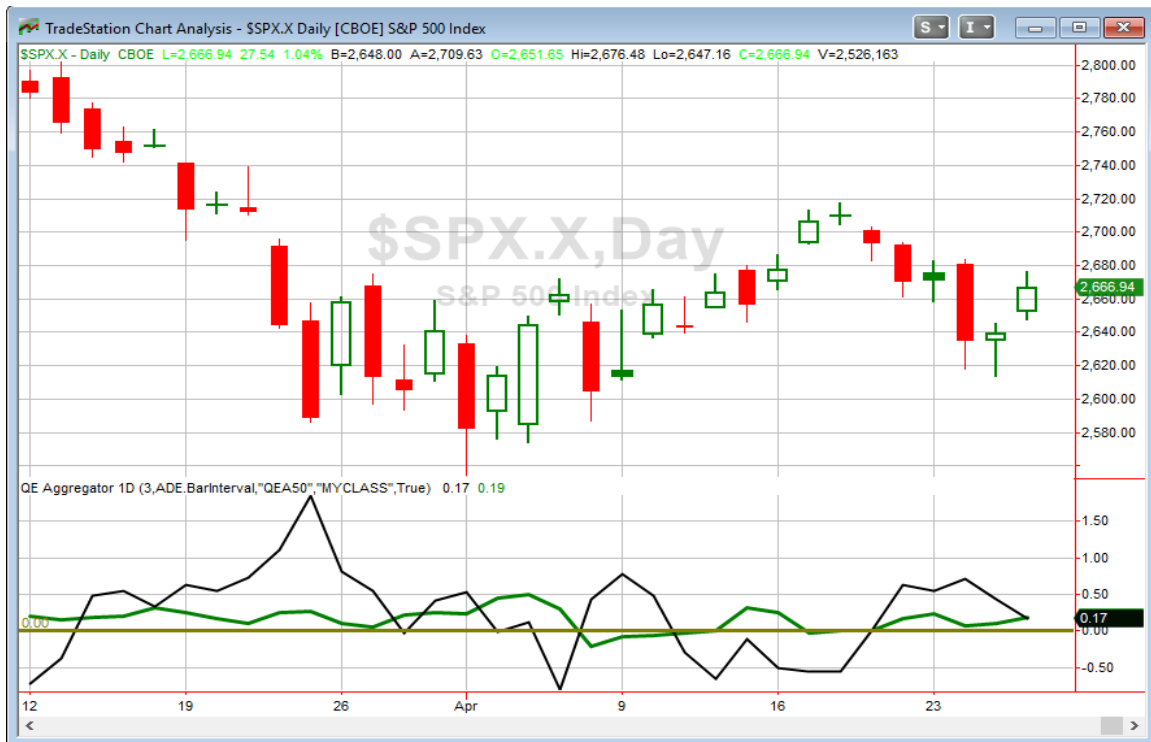
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 1,433.46 | 33 | 16 | 17 | 48.48 | 1,888.10 | 3,178.32 | -1,692.72 | -3,739.32 | 1.12 | 1.05 | 43.44 |
| 4 | 3,586.31 | 35 | 20 | 15 | 57.14 | 1,470.09 | 2,950.20 | -1,721.04 | -2,880.28 | 0.85 | 1.14 | 102.47 |
| 3 | -941.59 | 37 | 19 | 18 | 51.35 | 1,134.63 | 3,306.24 | -1,249.98 | -3,070.92 | 0.91 | 0.96 | -25.45 |
| 2 | -4,216.67 | 39 | 20 | 19 | 51.28 | 998.34 | 3,089.76 | -1,272.81 | -2,818.42 | 0.78 | 0.83 | -108.12 |
| 1 | -2,478.51 | 39 | 15 | 24 | 38.46 | 954.71 | 2,470.05 | -699.96 | -1,777.90 | 1.36 | 0.85 | -63.55 |

In the 5/22/17 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

| After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes above the 10ma and above the 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 | -7,049.16 | 19 | 9 | 10 | 47.37 | 713.20 | 1,647.78 | -1,346.79 | -3,691.98 | 0.53 | 0.48 | -371.01 |
| 4 | -3,264.92 | 19 | 9 | 10 | 47.37 | 577.80 | 1,903.47 | -846.51 | -1,788.75 | 0.68 | 0.61 | -171.84 |
| 3 | -6,126.42 | 19 | 8 | 11 | 42.11 | 576.43 | 1,393.05 | -976.17 | -2,475.20 | 0.59 | 0.43 | -322.44 |
| 2 | -4,033.56 | 19 | 8 | 11 | 42.11 | 579.64 | 1,325.28 | -788.25 | -2,293.20 | 0.74 | 0.53 | -212.29 |
| 1 | -5,543.34 | 19 | 7 | 12 | 36.84 | 478.47 | 949.00 | -741.05 | -2,591.68 | 0.65 | 0.38 | -291.75 |

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Thursday.

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 Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2646.88 on Friday. That is 0.75% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to decline at least 0.75% on Friday in order to remain "oversold" versus recent expectations. Anything other than that and SPX will flip to overbought at the close on Friday.

I often view inverted pivots as opportune times to take profits. This is because while the edge is still in my favor, the potential reward is now limited to just 1 day. So I will look to exit my QQQ position on any gap up or move higher on Friday. I am not inclined to sell into a gap down at this point since there is still an upside edge in place for Friday. I will also note that BMY triggered a Catapult exit, and I will be looking to exit my positions there at the open as well.

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

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

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

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

Broad Market Large Cap CBI – 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.

None tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------|------------|-------------|---------------|-------------|------|------------------------------|
| BMV(1/3) | 4/18/2018 | \$52.35 | \$52.04 | -0.59% | | <i>sell on open</i> |
| BMV(1/3) | 4/19/2018 | \$52.30 | \$52.04 | -0.50% | | <i>sell on open</i> |
| BMV(1/3) | 4/20/2018 | \$51.61 | \$52.04 | 0.83% | | <i>sell on open</i> |
| QQQ(1/4) | 4/24/2018 | \$161.50 | \$161.99 | 0.30% | | <i>sell @ \$162.00 limit</i> |
| KHC(1/3) | 4/25/2018 | \$56.52 | \$57.33 | 1.43% | | Catapult |
| QCOM(1/3) | 4/25/2018 | \$49.94 | \$50.47 | 1.06% | | Catapult |
| QCOM(1/3) | 4/25/2018 | \$49.41 | \$50.47 | 2.15% | | 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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