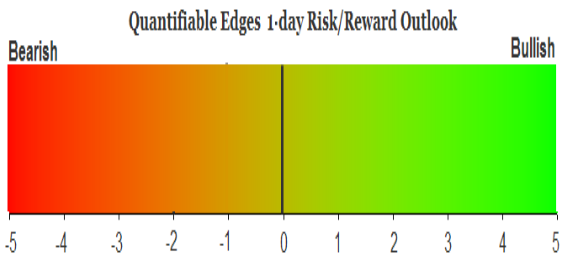
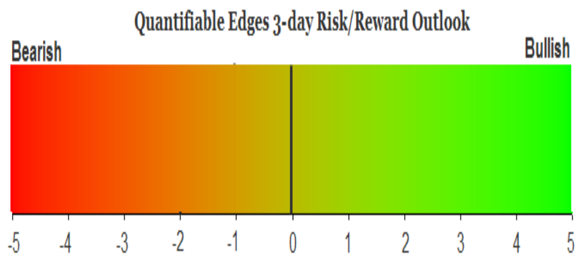
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 2, 2018 Volume 11 Issue 84

**Market Overview**




**Signals Overview**

| Aggregator | CBI Reading |
|---|---|
| Flat | 1 |

***Tonight's Research Points***

- May 1st rallies have commonly been followed by dips.
- The last 5 days have now closed within the previous day's range. After a 1% selloff in an uptrend this type of consolidation has often been followed by a pop.
- Intermediate-term lows in HV without highs in price are often followed by a price decline.
- Fed Days are generally bullish, though this one does not appear to have as strong of an upside edge as most.

***Short-term Outlook***
***The Bottom Line***

Mixed evidence, an overbought market, and an upcoming Fed announcement have me looking to exit my current long index trade and step aside for the time being.

***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 | | | | | | |
| May 2, 2018 | SPX higher 1st day in May | 1-4 days | Bearish | | | |
| May 2, 2018 | HV 20-low 3x. No SPX 20-high | 1-3 days | Bearish | | | |
| May 2, 2018 | 1% down then 5 closes inside | 1-3 days | Bullish | | | |
| 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 | 1.80% | -1.20% | -2.40% |
| 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***

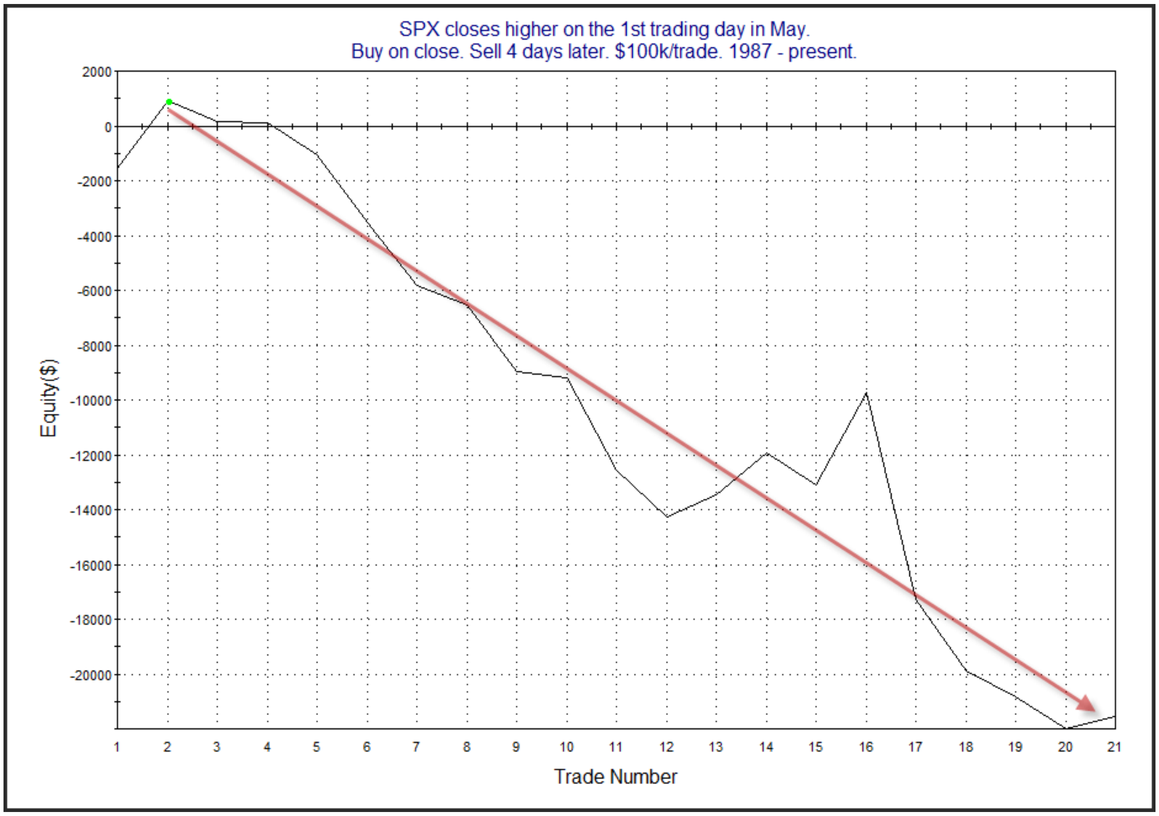
Morning selling led to an afternoon rally and the indices finished mostly higher. SPX closed up 0.25%, the NASDAQ rose 0.9% and the Russell 2000 gained 0.6%. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 43%. NYSE volume declined some from Monday's level.

Last night I showed the strong seasonal tendency of the SPX on the 1st trading day of May. In the May 2, 2017 letter I looked at what has happened after a positive start to May. Updated results may be found in the table below.

SPX closes higher on the 1st trading day in May.
Buy on close. Sell X days later. $100k/trade. 1987 - 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 | -10,212.25 | 21 | 8 | 13 | 38.10 | 1,594.71 | 5,843.23 | -1,766.92 | -3,529.99 | 0.90 | 0.56 | -486.30 |
| 4 | -21,541.98 | 21 | 5 | 16 | 23.81 | 1,730.24 | 3,375.31 | -1,887.07 | -7,584.54 | 0.92 | 0.29 | -1,025.81 |
| 3 | -15,990.36 | 21 | 8 | 13 | 38.10 | 1,205.74 | 4,747.13 | -1,972.02 | -6,151.13 | 0.61 | 0.38 | -761.45 |
| 2 | -11,398.76 | 21 | 7 | 14 | 33.33 | 1,022.97 | 2,969.64 | -1,325.68 | -3,614.20 | 0.77 | 0.39 | -542.80 |
| 1 | -1,895.05 | 21 | 13 | 8 | 61.90 | 516.01 | 3,358.36 | -1,075.40 | -2,378.78 | 0.48 | 0.78 | -90.24 |

Of the 21 instances that rose on the first day in May since 1987, 16 of them closed lower 4 days later. Below is an equity curve that shows how it has played out over time.



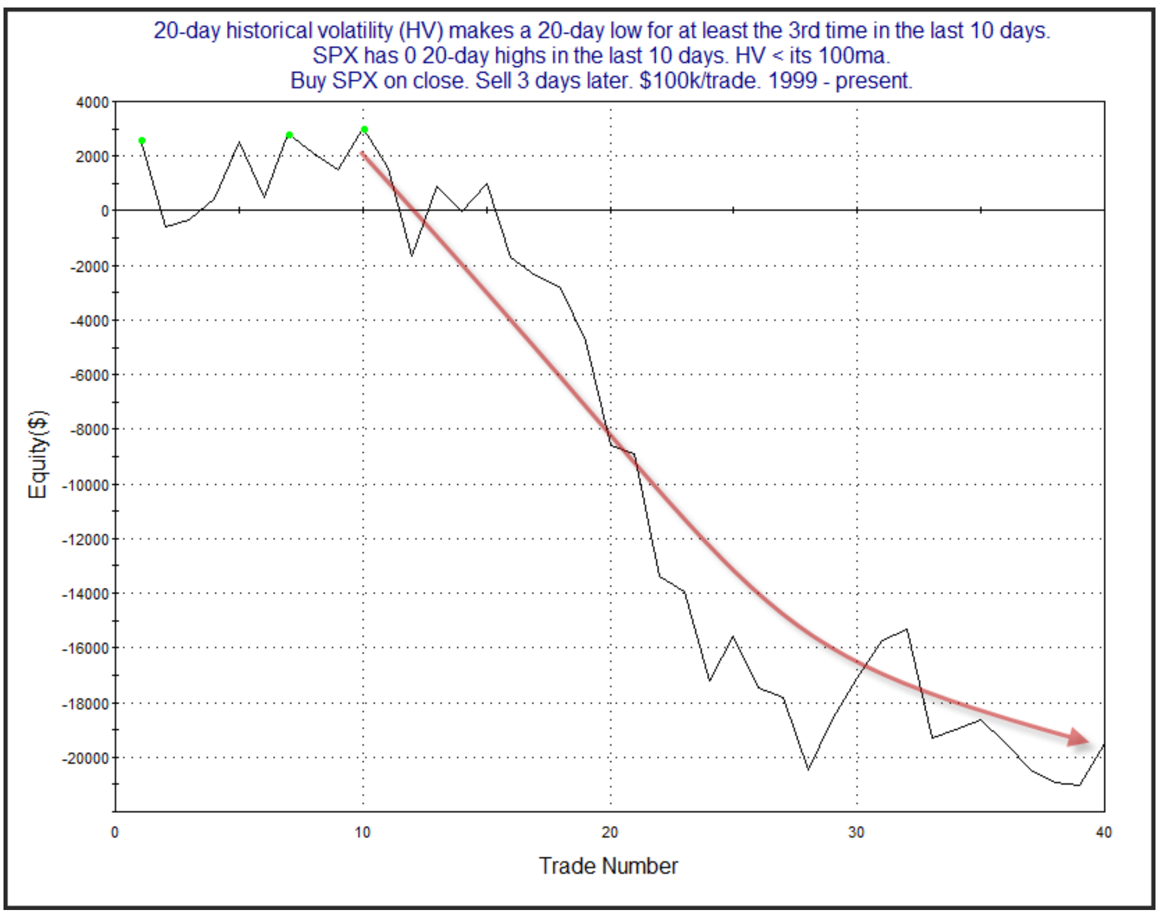

The big drop in instance 17 was the 2010 Flash Crash. Even without that instance there appears to be a solid downside inclination. I have added this study to the Short-Term Active List.

Despite choppy action lately, SPX posted a 20-day low in historical volatility (HV) on Wednesday. HV often makes lows when the market is making new highs and participants are getting complacent. It is unusual to have historical volatility so low without SPX highs. The study below was last seen in the 4/20/17 letter and it looks at repeated instances of 20-day lows in HV without price highs. I have updated the results.

20-day historical volatility (HV) makes a 20-day low for at least the 3rd time in the last 10 days.
SPX has 0 20-day highs in the last 10 days. HV < its 100ma.
Buy SPX on close. Sell X days later. $100k/trade. 1999 - 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 | -32,002.98 | 28 | 14 | 14 | 50.00 | 1,550.44 | 4,090.31 | -3,836.37 | -9,248.46 | 0.40 | 0.40 | -1,142.96 |
| 9 | -29,895.91 | 28 | 12 | 16 | 42.86 | 1,509.57 | 3,967.48 | -3,000.67 | -5,844.30 | 0.50 | 0.38 | -1,067.71 |
| 8 | -42,648.46 | 30 | 12 | 18 | 40.00 | 1,153.87 | 4,100.25 | -3,138.61 | -7,573.44 | 0.37 | 0.25 | -1,421.62 |
| 7 | -28,180.97 | 32 | 14 | 18 | 43.75 | 1,209.58 | 4,425.43 | -2,506.40 | -5,959.52 | 0.48 | 0.38 | -880.66 |
| 6 | -20,607.89 | 33 | 15 | 18 | 45.45 | 1,194.20 | 4,015.05 | -2,140.05 | -5,678.64 | 0.56 | 0.47 | -624.48 |
| 5 | -29,657.99 | 34 | 13 | 21 | 38.24 | 1,015.12 | 2,351.52 | -2,040.69 | -4,943.40 | 0.50 | 0.31 | -872.29 |
| 4 | -18,116.96 | 37 | 15 | 22 | 40.54 | 1,516.40 | 3,291.12 | -1,857.40 | -5,769.55 | 0.82 | 0.56 | -489.65 |
| 3 | -19,516.00 | 40 | 16 | 24 | 40.00 | 1,388.91 | 2,634.92 | -1,739.11 | -4,463.68 | 0.80 | 0.53 | -487.90 |
| 2 | -16,237.19 | 49 | 22 | 27 | 44.90 | 903.70 | 2,957.13 | -1,337.72 | -3,551.76 | 0.68 | 0.55 | -331.37 |
| 1 | -6,186.78 | 69 | 30 | 39 | 43.48 | 917.15 | 2,861.10 | -864.13 | -3,006.10 | 1.06 | 0.82 | -89.66 |

The stats all suggest a downside edge. Below is a profit curve using a 3-day exit strategy.



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Recent instances have seen the curve flatten out a bit. I'll be keeping a close eye to see if the downside edge continues to flail or whether it reasserts itself. For tonight I have included it on the Short-Term Active List.

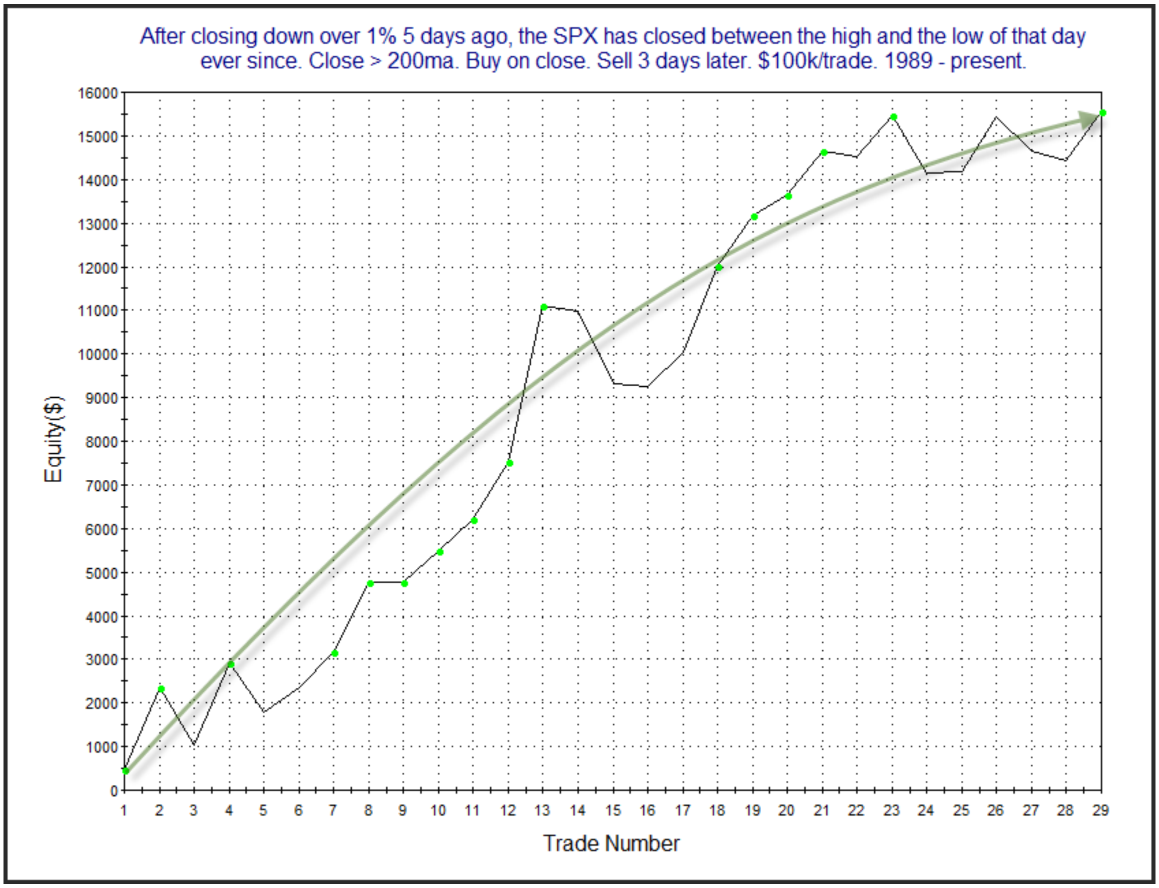
But not everything is pointing lower. After the big down day last Tuesday the market has not done a lot. In fact, it has closed within the true range of that 1 bar every day for the last week. The bears failed to follow through on that selloff, but the bulls have not managed to move the SPX back out of the range either. This triggered the study below, which I last discussed in the 6/3/15 Letter.

After closing down over 1% 5 days ago, the SPX has closed between the high and the low of that day ever since. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1989 - 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 | -2,745.73 | 29 | 15 | 14 | 51.72 | 1,846.28 | 3,757.60 | -2,174.28 | -5,937.53 | 0.85 | 0.91 | -94.68 |
| 4 | 1,244.99 | 29 | 18 | 11 | 62.07 | 1,236.25 | 3,706.56 | -1,909.78 | -3,003.89 | 0.65 | 1.06 | 42.93 |
| 3 | 15,565.36 | 29 | 20 | 9 | 68.97 | 1,115.60 | 3,552.64 | -749.63 | -1,683.76 | 1.49 | 3.31 | 536.74 |
| 2 | 11,949.62 | 29 | 18 | 11 | 62.07 | 1,093.21 | 2,111.20 | -702.56 | -2,003.25 | 1.56 | 2.55 | 412.06 |
| 1 | 9,982.73 | 29 | 22 | 7 | 75.86 | 699.92 | 1,760.80 | -773.64 | -1,663.20 | 0.90 | 2.84 | 344.23 |

Over the last 29 years or so the SPX has burst higher out of this "failed selloff" and consolidation on a consistent basis. But the implications are only bullish for a few short days. After that there does not appear to be a decided edge for either the bulls or the bears.

Below I have produced an equity curve using a 3-day exit strategy.




Not perfect, but the move from lower left to upper right appears to serve as some confirmation of the edge.  I have added this study to the Active List tonight.

Also notable about Wednesday is that it is a Fed Day. Fed Days are known for their bullish tendencies. But I've shown in the past that the upside Fed Day edge has not held nearly as well over the years when the market has closed the day strongly the day before. And while it is generally good to close < a 20-day high, the strong close could still be a little problem. Below is a study that shows this, which was last seen in the 9/17/15 Letter. Stats are updated.

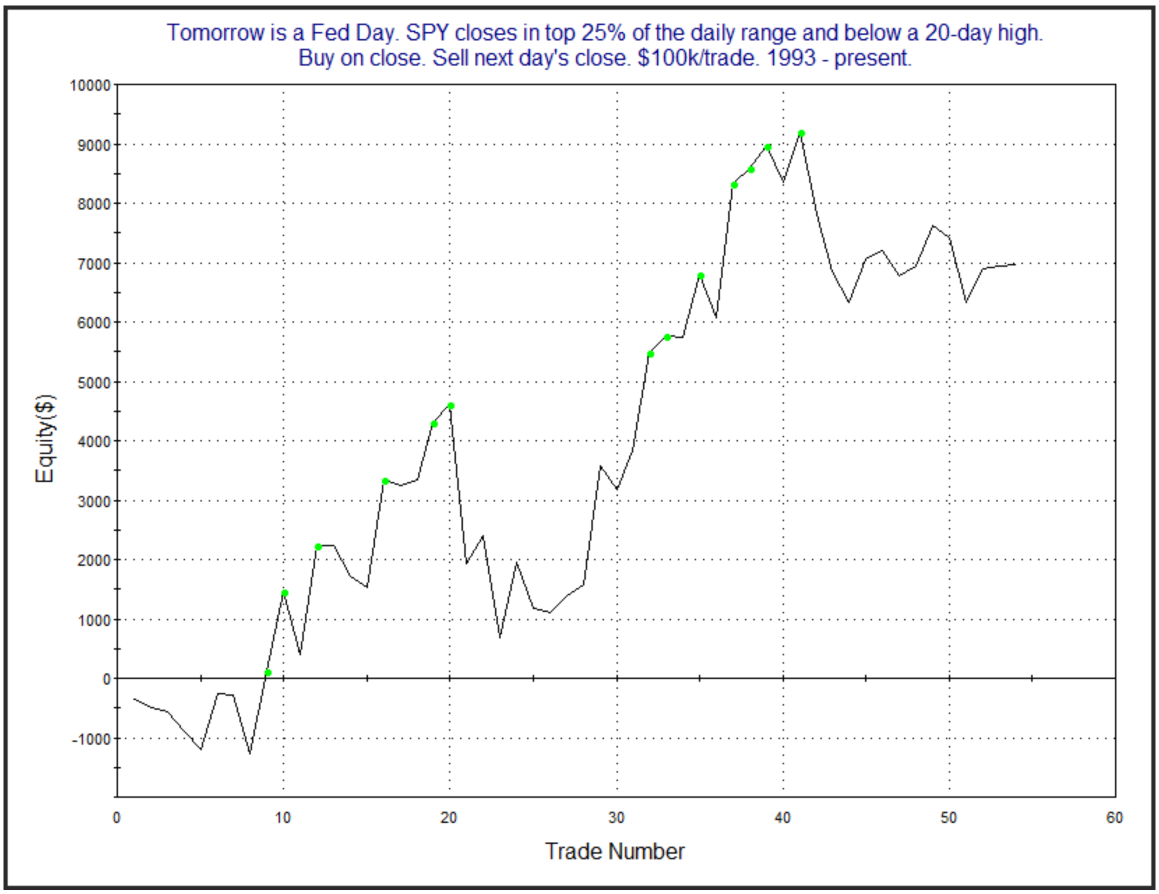
Tomorrow is a Fed Day. SPY closes in top 25% of the daily range and below a 20-day high. Buy on close. Sell next day's close. $100k/trade. 1993 - present.

**TradeStation Performance Summary** Expand

All Trades

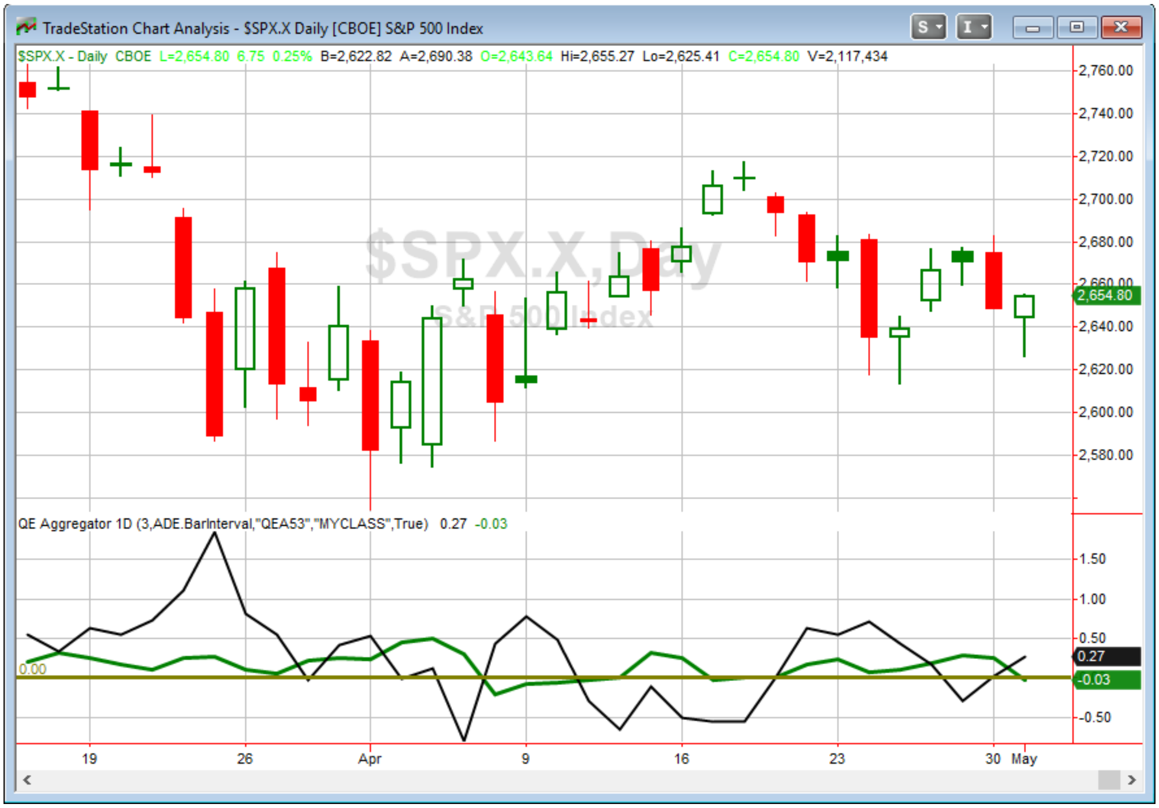
| | | | |
|---|---|---|---|
| Total Net Profit | $6,974.57 | Profit Factor | 1.45 |
| Gross Profit | $22,643.16 | Gross Loss | ($15,668.59) |
| Total Number of Trades | 54 | Percent Profitable | 51.85% |
| Winning Trades | 28 | Losing Trades | 25 |
| Even Trades | 1 | | |
| Avg. Trade Net Profit | $129.16 | Ratio Avg. Win:Avg. Loss | 1.29 |
| Avg. Winning Trade | $808.68 | Avg. Losing Trade | ($626.74) |
| Largest Winning Trade | $2,238.25 | Largest Losing Trade | ($2,683.80) |

The average win to loss ratio isn't bad but the winning percentage is only breakeven. Below is a profit curve showing how the trades have played out over time.



Not a terribly smooth curve. It seems there may be a mild bullish seasonal edge, but not a reliable one. I am not including this study on the Active List tonight. Results simply don't appear worthy.

I have updated the Aggregator chart below.




With tonight's evidence included the green Aggregator Line dipped slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 active studies, expectations are slated to remain bearish on Wednesday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2685.14 on Wednesday. That is 1.1% above Tuesday's close. Therefore, SPX will need to close up 1.1% on Wednesday in order to flip from oversold to overbought versus expectations.

So the Aggregator is neutral, evidence is mixed, and the Fed is a potential wildcard on Wednesday. This is not an appealing combination suggesting a strong directional edge. I currently have some long index exposure, which I will be looking to exit on Wednesday. I will then wait for the next compelling opportunity to emerge before taking on new index positions.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/30– neutral turning to bearish on Friday***

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***

MMM @ $194.39 (bought @ limit)

***Broad Market Large Cap CBI – 1(MMM)***

## 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 |
|---|---|---|---|---|---|---|
| MMM(1/3) | 5/1/2018 | $194.03 | $195.02 | 0.51% | | Catapult |
| SPY(1/4) | 5/1/2018 | $263.87 | $264.98 | 0.42% | | sell on open |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
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*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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