

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 4, 2018

Volume 11 Issue 86

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- The dip below the 200ma for SPY and close above it is something that often sees another dip in the coming days.
- The employment report could bring some interesting action tomorrow, but it has not provided a consistent edge over the years.

Short-term Outlook

The Bottom Line

Like the last couple of nights, the Aggregator is neutral and so am I.

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 4, 2018	SPY dip under 200ma but close above	1-2 days	Bearish			
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			
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			
Dropped Tonight						

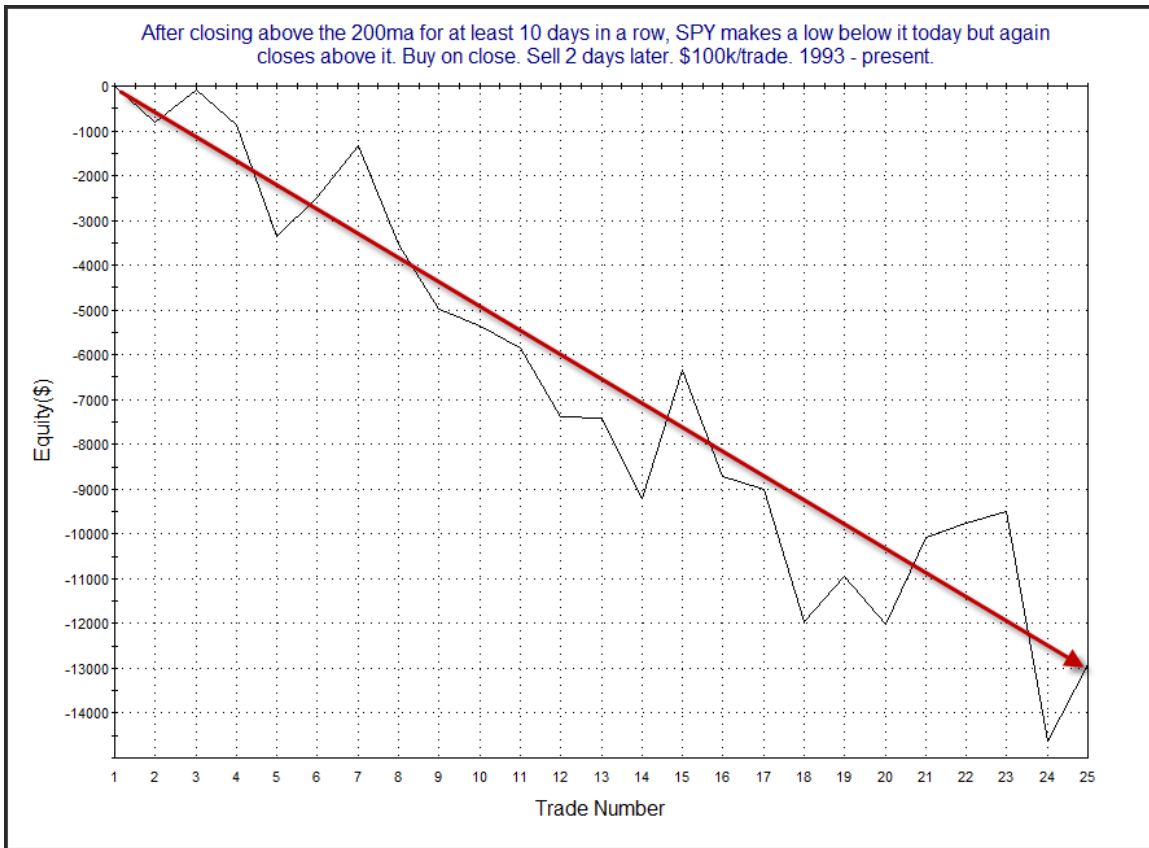
The Evidence

The market took a dive in the morning, but recovered much of its losses by the close. SPX closed down 0.2%, the NASDAQ fell 0.2% and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 37%. NYSE volume declined some from Wednesday's level.

SPY crossed below its 200-day moving average today, but then reversed back up to finish above it. I decided to look back at other times SPY seemed to save itself from crossing down on a closing basis. Returns over the next several days can be seen below.

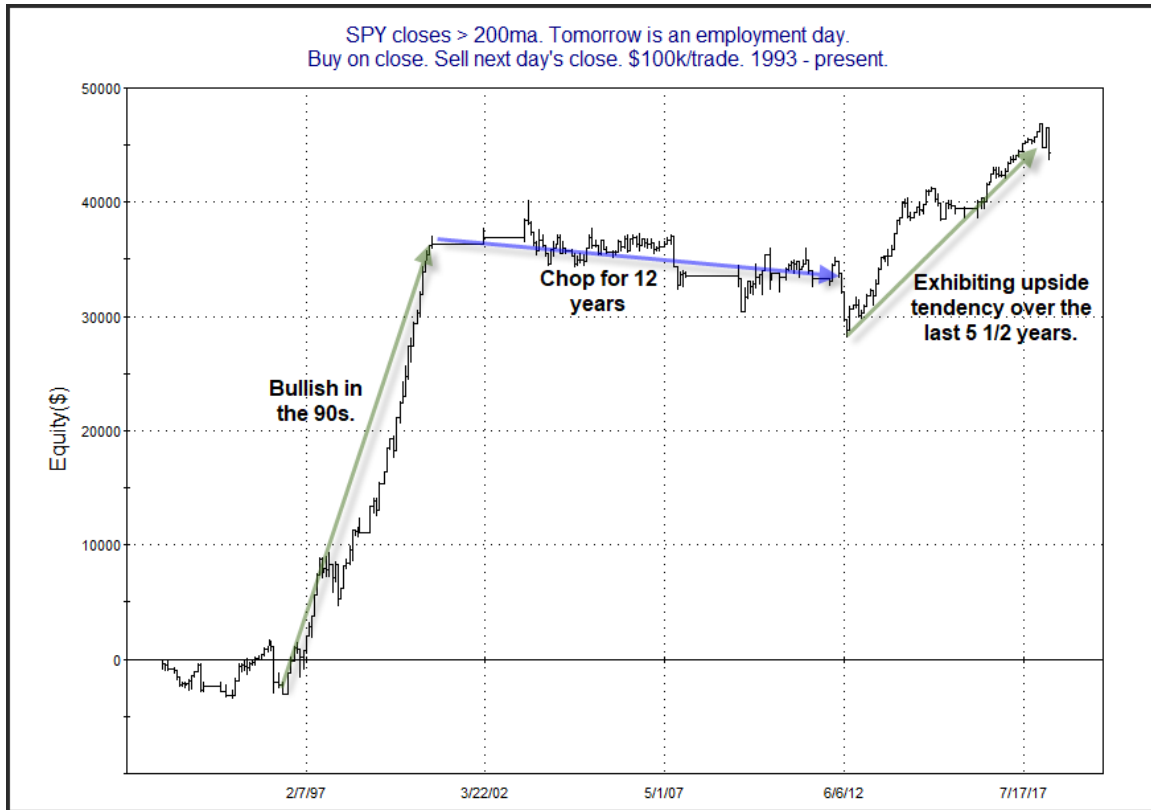
After closing above the 200ma for at least 10 days in a row, SPY makes a low below it today but again closes above it. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-7,430.42	21	12	9	57.14	2,729.56	6,456.87	-4,465.02	-9,956.01	0.61	0.82	-353.83
9	-926.53	22	12	9	54.55	2,494.88	6,068.37	-3,429.46	-9,276.00	0.73	0.97	-42.12
8	-16,540.36	23	12	11	52.17	1,949.66	4,416.93	-3,630.57	-13,171.92	0.54	0.59	-719.15
7	-10,518.46	23	12	11	52.17	1,906.95	4,292.29	-3,036.53	-9,160.05	0.63	0.69	-457.32
6	-21,347.06	23	10	13	43.48	2,245.18	4,377.98	-3,369.14	-13,195.11	0.67	0.51	-928.13
5	-1,741.86	24	15	9	62.50	1,945.31	4,638.69	-3,435.73	-7,150.25	0.57	0.94	-72.58
4	-8,097.33	24	14	10	58.33	1,814.33	4,404.46	-3,349.80	-10,104.00	0.54	0.76	-337.39
3	-5,236.05	25	13	12	52.00	1,480.14	3,496.50	-2,039.82	-9,009.60	0.73	0.79	-209.44
2	-12,917.80	25	9	16	36.00	1,204.18	2,849.70	-1,484.71	-5,131.20	0.81	0.46	-516.71
1	-7,553.32	32	12	20	37.50	1,101.76	4,400.20	-1,038.72	-3,772.68	1.06	0.64	-236.04

Returns here are negative across the board. Most of the downside tendency occurred right away though (within the 1st two days). Below is a look at the profit curve assuming a 2-day exit strategy.



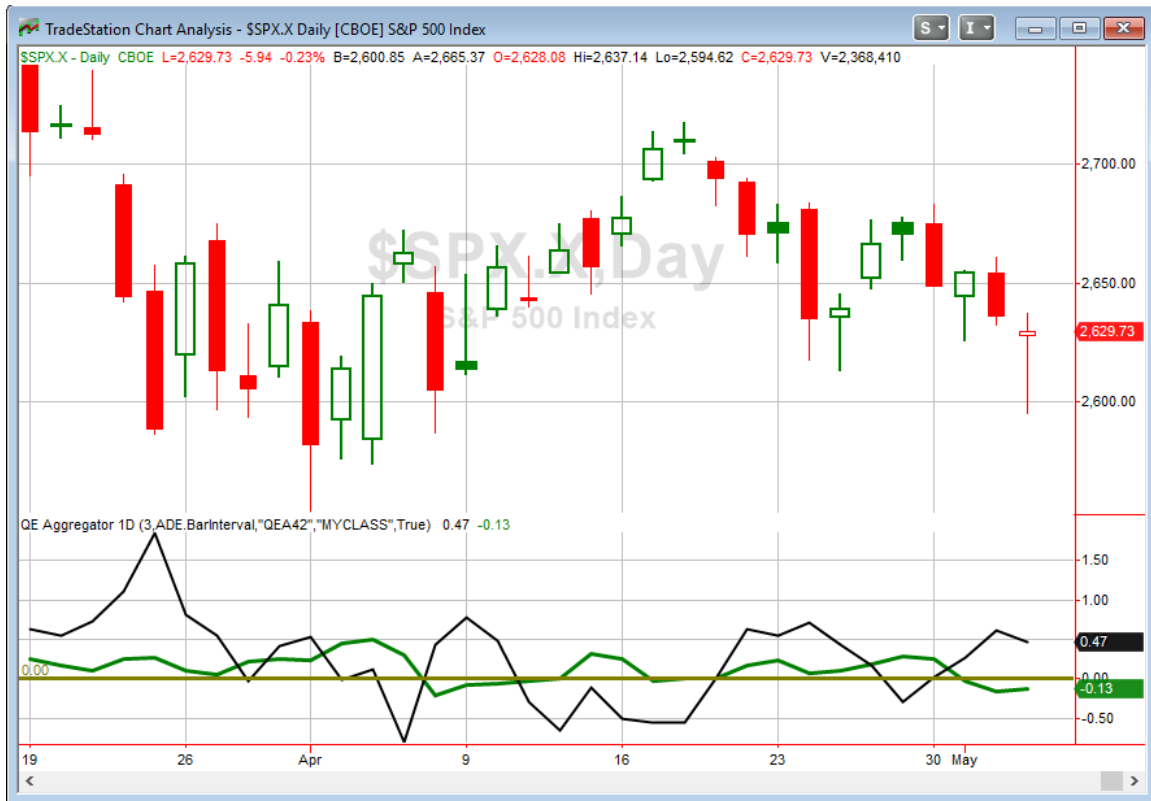
This seems to suggest there is a good chance that SPY is likely to revisit the 200ma in the next few days.

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. I posted this chart in the 4/6/17 subscriber letter. 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. And with two of the last three employment days seeing a 2% decline in the SPX, perhaps dynamics may be changing again. I will note that employment days are often volatile, and that has been especially true in 2018. The 4 employment days in 2018 have posted the following results: +0.7%, -2.1%, +1.7%, -2.2%. In other words, it has been a market mover.

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



With tonight's evidence considered the green Aggregator Line remained 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 stayed flat at the close.

Based on the current active studies, expectations are slated to remain bearish on Friday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2667.92 on Friday. That is 1.5% above Thursday's close. Therefore, SPX will need to close up 1.5% on Friday in order to flip from oversold to overbought versus expectations.

So the Aggregator is neutral. I am too. And with employment day volatility possible on Friday, I have no interest in taking on new index exposure without a strong edge. I will continue to exercise patience, and will look for further evidence and opportunities over the weekend. I will note there was one new Catapult trigger that emerged that I will look to take advantage of.

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)

New

MDLZ @ \$37.57 (buy @ limit)

Broad Market Large Cap CBI – 2(MMM, MDLZ)

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.

MDLZ – buy 1/3 Catapult position @ \$37.57 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lots for MDLZ.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MMM(1/3)	5/1/2018	\$194.03	\$195.68	0.85%		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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