

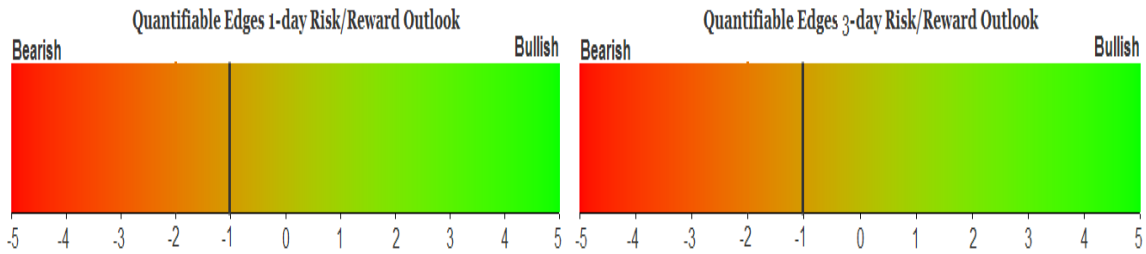
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 9, 2018

Volume 11 Issue 89

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Intermediate-term lows in HV without highs in price are often followed by a price decline.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but evidence is light. I would like to see a more compelling edge before taking on new index positions.

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 9, 2018	HV 20-low 3x. No SPX 20-high	1-3 days	Bearish	-1.65%	1.00%	1.90%
Active - Long Term						
May 7, 2018	NASDAQ leading	int term	Bullish			
April 2, 2018	SOMA reduction intensifies to \$30 billion	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			

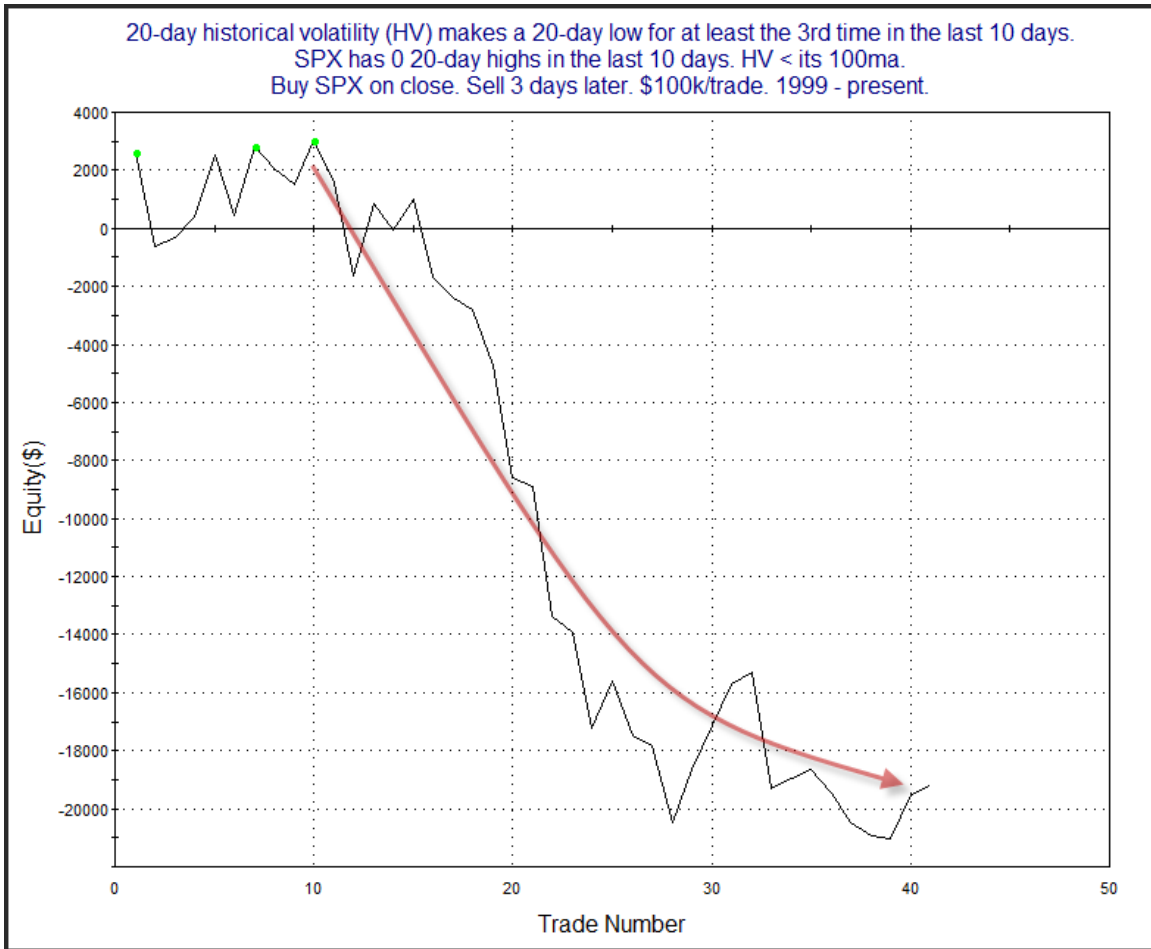
The Evidence

The market made very little progress in either direction on Tuesday. SPX closed down 0.03%, the NASDAQ rose 0.02% and the Russell 2000 gained 0.47%. Breadth was slightly positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 54%. NYSE volume rose a little from Monday's level.

SPX again posted a 20-day low in historical volatility (HV) on Tuesday. 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 seen last week in the 5/2/18 letter and it looks at repeated instances of 20-day lows in HV without price highs. I have updated the results.

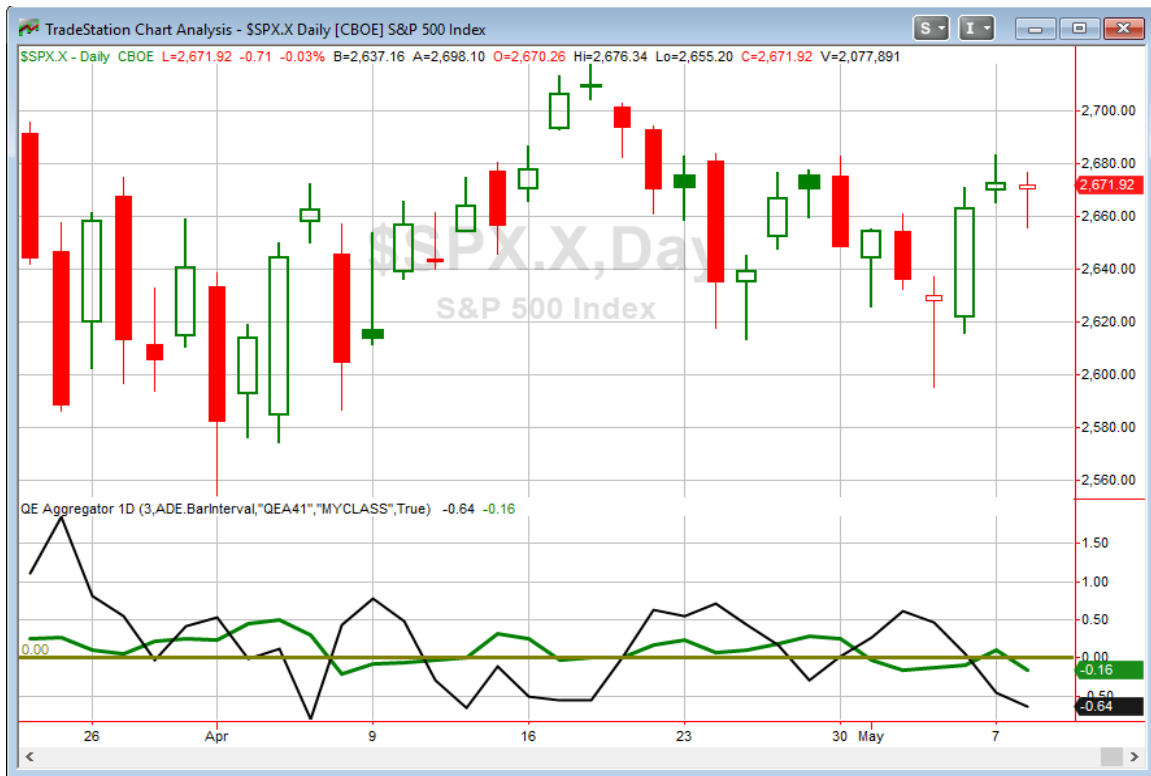
20-day historical volatility (HV) makes a 20-day low for at least the 3rd time in the last 10 days. SPX has 0 20-day highs in the last 10 days. HV < its 100ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: 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: Profit Factor	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	-29,288.36	35	14	21	40.00	969.01	2,351.52	-2,040.69	-4,943.40	0.47	0.32	-836.81
4	-17,457.25	38	16	22	42.11	1,462.85	3,291.12	-1,857.40	-5,769.55	0.79	0.57	-459.40
3	-19,197.06	41	17	24	41.46	1,325.97	2,634.92	-1,739.11	-4,463.68	0.76	0.54	-468.22
2	-15,534.58	51	23	28	45.10	935.29	2,957.13	-1,323.08	-3,551.76	0.71	0.58	-304.60
1	-5,493.38	73	32	41	43.84	910.48	2,861.10	-844.60	-3,006.10	1.08	0.84	-75.25

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



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.

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



With tonight's evidence considered the green Aggregator Line dropped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line stayed below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

Based on the current active studies, expectations are set to remain negative on Wednesday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2653.04 on Wednesday. That is 0.7% below Tuesday's close. Therefore, SPX would need to close down 0.7% on Wednesday in order to flip from overbought to oversold versus expectations.

So there appears to be a bit of a downside edge. But I do not find it terribly compelling. Evidence is light with only 1 active short-term study, and it is a borderline study at that. With the intermediate-term outlook neutral, I need to see a more sizable edge before I will take on new index trades. If the market remains overbought and bearish evidence builds further, then I will likely to be looking to take on some short exposure. I'm not at that point just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/7– neutral

The intermediate-term outlook was last updated in the 5/7/18 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

None

Broad Market Large Cap CBI – 0

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
MDLZ(1/3)	5/4/2018	\$37.50	\$38.61	2.96%		sold on open

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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