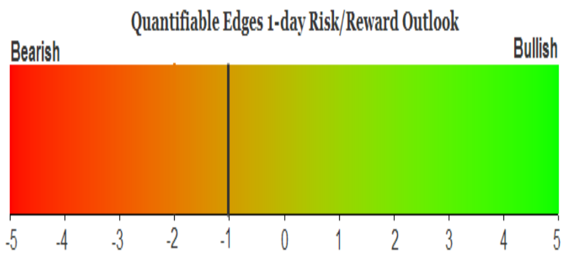
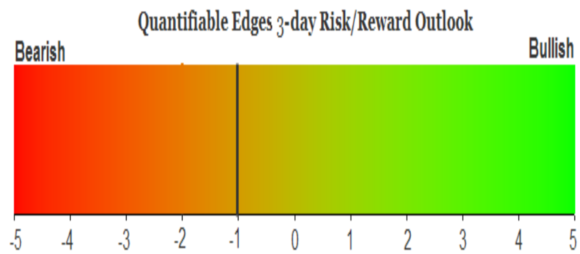
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2018 Volume 11 Issue 91

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The stretched VIX could be suggesting a downside edge.

Short-term Outlook
The Bottom Line

In a repeat of the last couple of night's, 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 11, 2018	SPY up 2 from 10-low. C>200. C<50ma.	1-2 days	Bearish			
Active - Long Term						
May 7, 2018	NASDAQ leading	int term	Bullish			
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						
May 9, 2018	*HV 20-low 3x. No SPX 20-high.*	*1-3 days*	*Bearish*	*-1.65%*	*1.00%*	*1.90%*

The Evidence

The rally continued on Thursday. SPX closed up 0.94%, the NASDAQ rose 0.89% and the Russell 2000 gained 0.48%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 77%. NYSE volume declined quite a bit from Wednesday's level.

The move up over the last few days has the market hitting new 10 and 20-day highs, but falling short of longer-term highs. The Russell 2000 is the closest to making new long-term highs.

I looked at instances of SPY making short-term highs, but not long-term highs tonight. In general, I found performance over the net few days to be fairly weak. The study below is an example of one I examined.

SPY closes > 200ma and at a 10-day high but below a 50-day high.
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	-34,072.03	200	106	94	53.00	1,322.40	4,539.48	-1,853.68	-9,972.96	0.71	0.80	-170.36
4	-37,115.44	215	106	109	49.30	1,183.92	4,627.26	-1,491.84	-6,143.04	0.79	0.77	-172.63
3	-15,869.87	245	136	108	55.51	905.41	3,323.01	-1,287.09	-4,138.38	0.70	0.89	-64.77
2	-9,922.36	295	160	135	54.24	698.97	2,618.88	-901.91	-5,313.54	0.77	0.92	-33.64
1	-9,403.78	418	206	210	49.28	521.00	2,380.38	-555.86	-3,640.32	0.94	0.92	-22.50

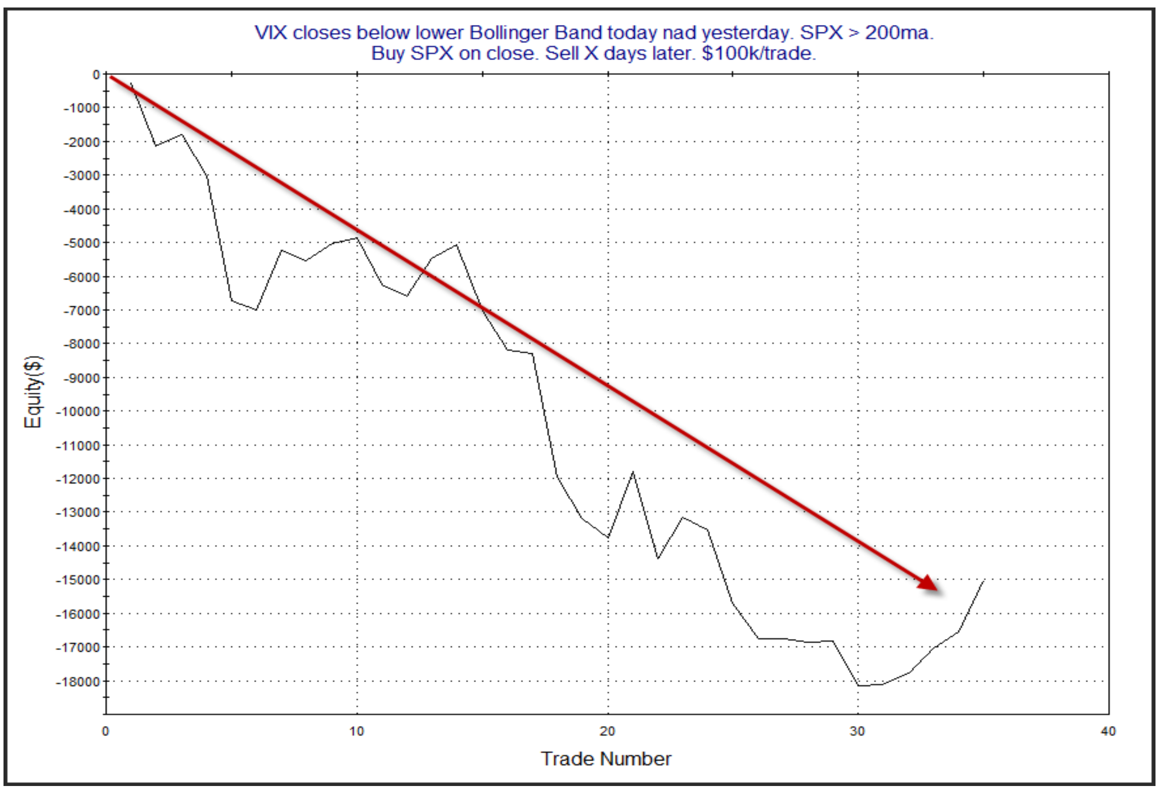
These numbers are not bad enough to call them bearish, but it does suggest that reaching such short-term highs will often mean much of the short-term upside has already been realized.

There was one study from the Quantifinder that was worth review. The study below was last seen in the 11/21/12 Subscriber Letter. It looked at instances where the VIX closed below its lower Bollinger band for multiple days. It also included a long-term trend filter. Results have all been updated.

VIX closes below lower Bollinger Band today nad yesterday. SPX > 200ma.
Buy SPX on close. Sell X days later. $100k/trade.

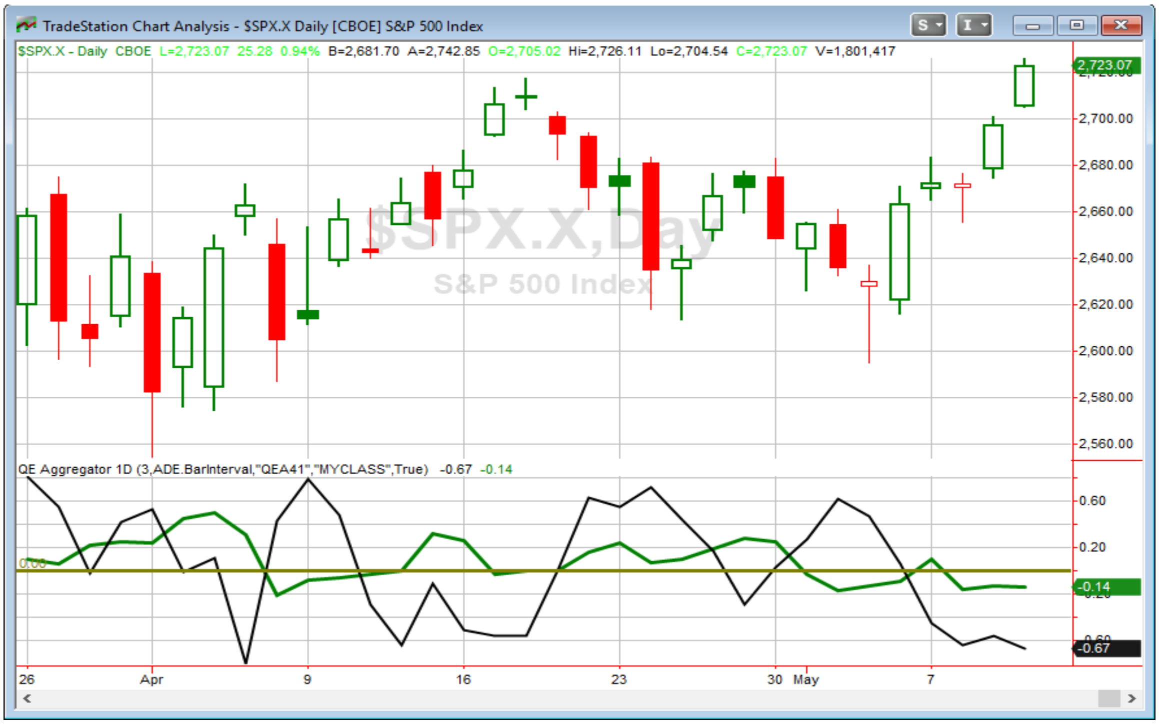
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,394.19	32	13	19	40.63	1,694.28	4,482.50	-1,864.20	-5,999.92	0.91	0.62	-418.57
4	-18,549.16	32	14	18	43.75	1,139.40	4,440.00	-1,916.71	-6,497.20	0.59	0.46	-579.66
3	-8,272.01	34	19	15	55.88	949.17	3,950.00	-1,753.74	-3,832.46	0.54	0.69	-243.29
2	-15,024.46	35	15	20	42.86	718.62	1,974.69	-1,290.18	-3,712.29	0.56	0.42	-429.27
1	-10,341.99	45	18	27	40.00	496.36	1,377.50	-713.94	-3,644.52	0.70	0.46	-229.82

The results spreadsheet appears to suggest a moderate downside edge, especially over the first 1-2 days. I took a look at a 2-day equity curve to confirm the possible downside edge.



While choppy, the negative slope still appears to suggest bearish inclinations. The last few instances have not led to a move lower, so that does bear watching, but the study still appears worthy of consideration.

I have updated the Aggregator chart below.



With tonight's evidence considered the green Aggregator Line held 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 stayed short at the close.

Based on the current active studies, expectations are set to remain negative on Friday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2667.33 on Friday. That is 2.0% below Thursday's close. Therefore, SPX will need to close down 2.0% on Friday in order to change from overbought to oversold versus expectations. That is a large drop for just 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

My outlook is basically the same as the last 2 nights. While there appears to be a bit of a downside edge, 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 may take on some short exposure. I'm *still* not at that point.

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

None.

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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