

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 16, 2018

Volume 11 Issue 94

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|--------------|-------------|
| Short | 0 |

Tonight's Research Points

- SPY's unfilled gap down and intraday price action suggest further selling could be on tap.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but potential reward appears limited.

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 16, 2018 | Unfilled dn from 10-high. Open/close hi | 1-3 days | Bearish | | | |
| Active - Long Term | | | | | | |
| May 14, 2018 | SPX 20-high. VIX 20-low. Volm 10-low | 1-10 days | Bullish | 1.80% | -1.40% | -2.75% |
| 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 | | | |

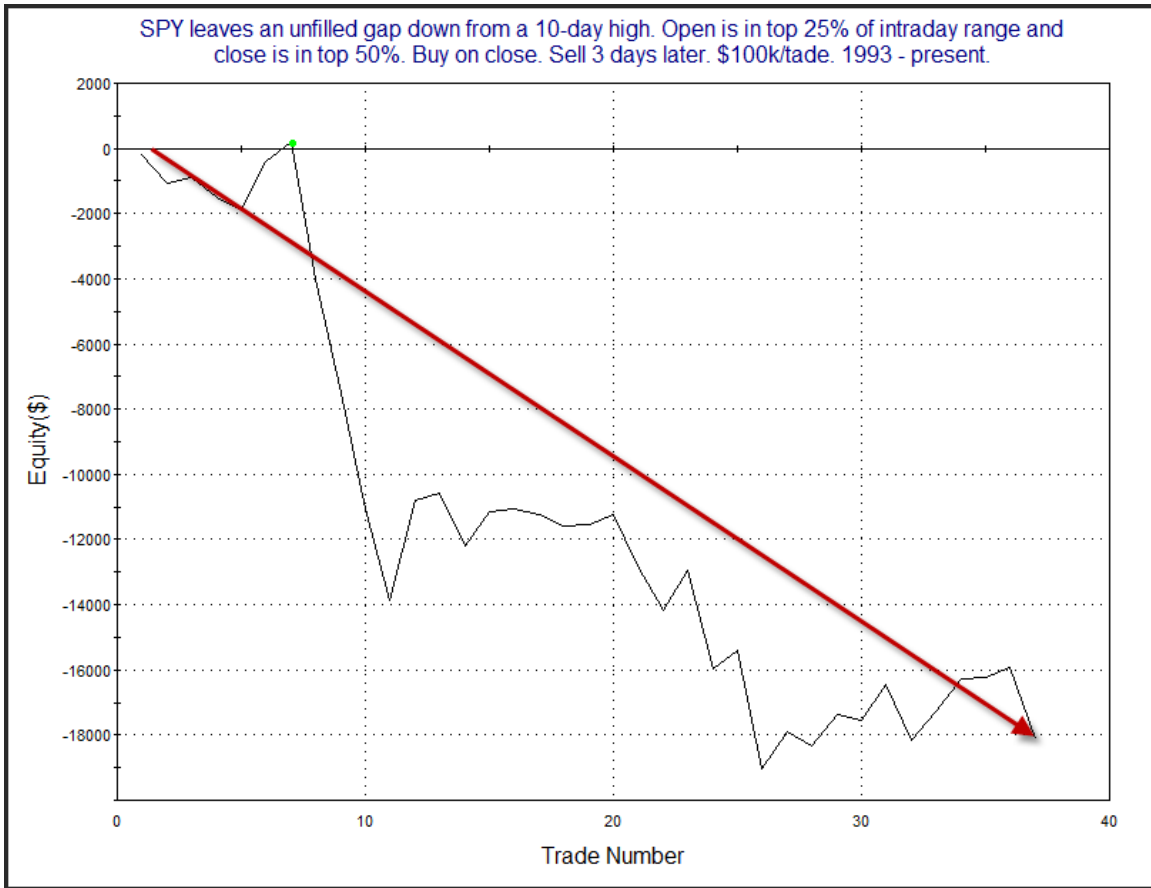
The Evidence

Tuesday saw the market close mostly lower. SPX lost 0.7%, the NASDAQ dropped 0.8% and the Russell 2000 gained a fraction of a point. Breadth was weak as the NYSE Up Issues % was 35% and the Up Volume % came in at 38%. NYSE volume rose a little from Tuesday's level.

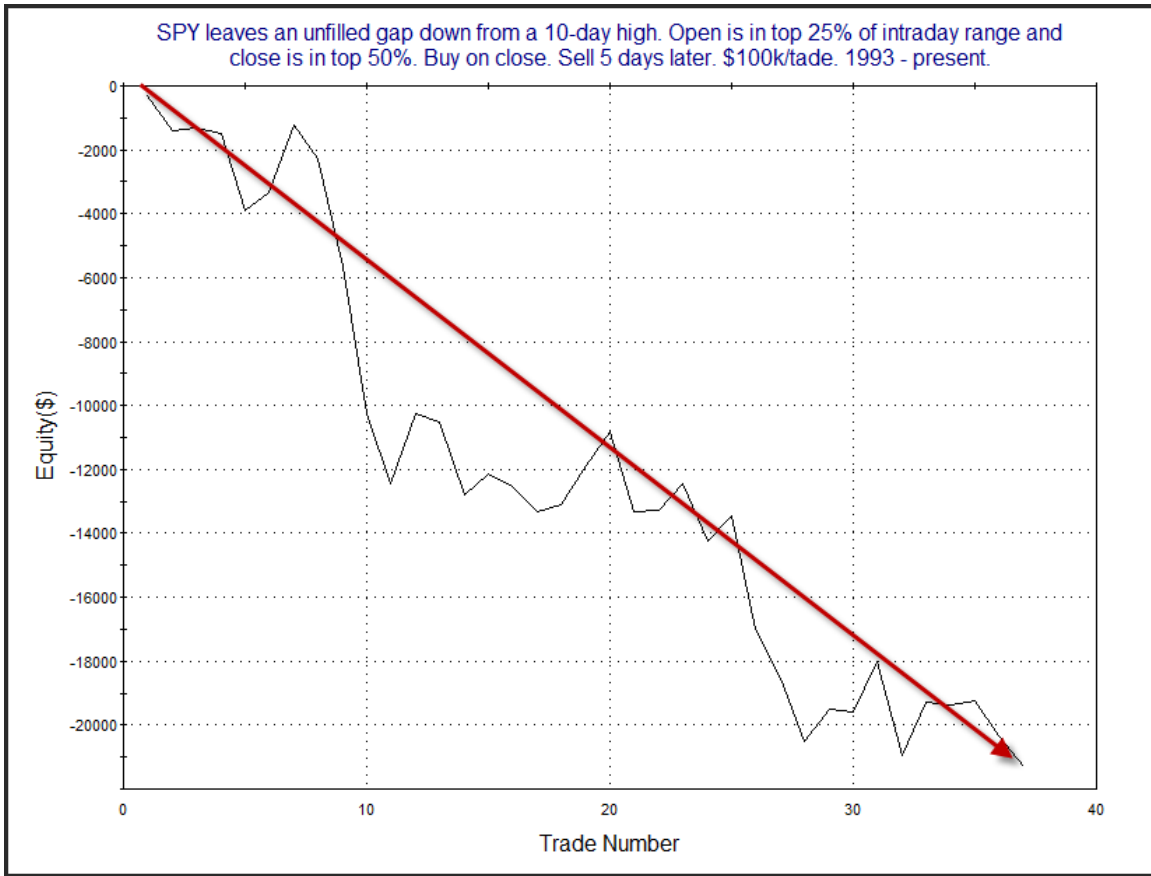
SPY started off poorly, gapping down and never getting positive on the day at any point. In addition to the unfilled gap down, SPY also managed to both open and close in the upper part of its daily range. This triggered the study below, which I have shown a number of times, most recently in the 10/27/15 letter. I have updated the results.

| SPY leaves an unfilled gap down from a 10-day high. Open is in top 25% of intraday range and close is in top 50%. 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 | -21,304.00 | 37 | 15 | 22 | 40.54 | 940.96 | 2,167.34 | -1,609.93 | -4,604.60 | 0.58 | 0.40 | -575.78 |
| 4 | -17,495.66 | 37 | 16 | 21 | 43.24 | 1,005.30 | 2,838.64 | -1,599.07 | -4,926.08 | 0.63 | 0.48 | -472.86 |
| 3 | -18,115.23 | 37 | 18 | 19 | 48.65 | 792.99 | 3,040.03 | -1,704.69 | -4,194.90 | 0.47 | 0.44 | -489.60 |
| 2 | -10,496.64 | 37 | 19 | 18 | 51.35 | 770.90 | 2,953.72 | -1,396.88 | -4,109.04 | 0.55 | 0.58 | -283.69 |
| 1 | -8,914.56 | 37 | 16 | 21 | 43.24 | 546.12 | 1,440.24 | -840.59 | -1,948.10 | 0.65 | 0.49 | -240.93 |

When the gap goes unfilled and the open and close are in the upper end of the day's range as described above, inclinations appear to be somewhat bearish. Below is an equity curve using a 3-day exit strategy.

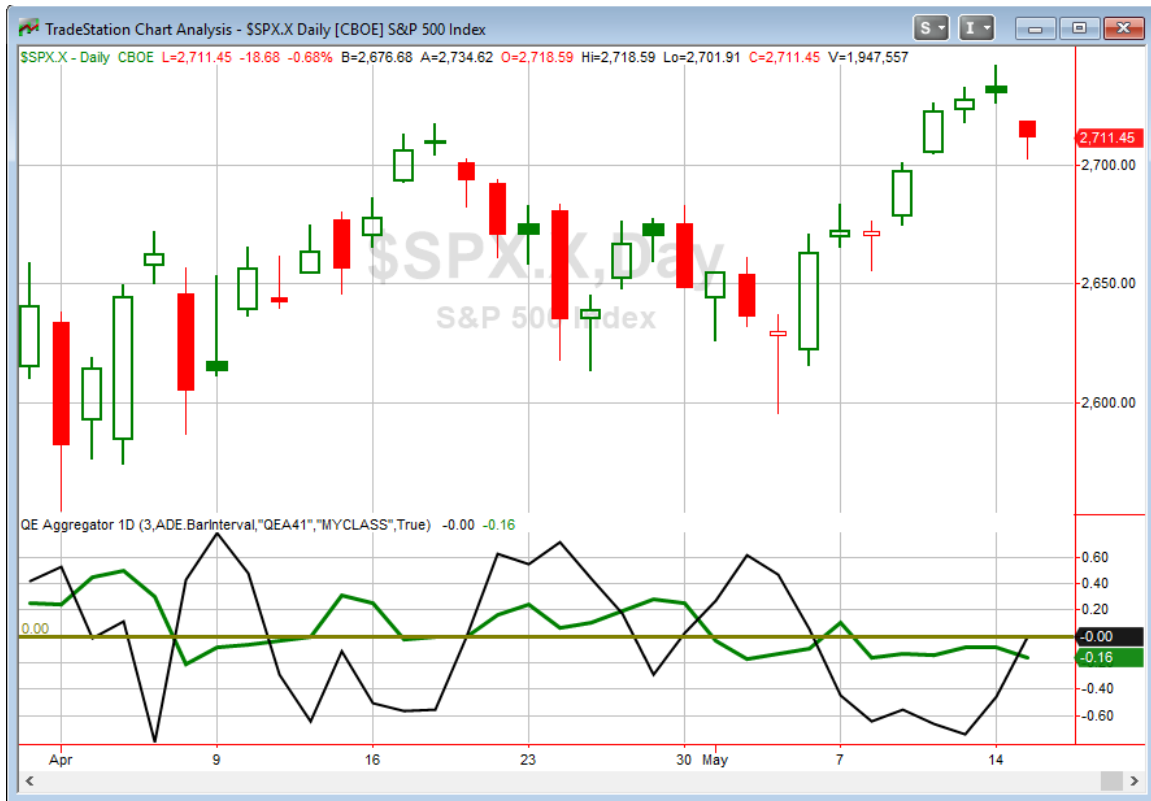


The curve is choppy, but it has generally persisted low and is again nearing new lows. This seems to support the bearish case. I'll also note that while most of the damage was done in the 1st 3 days, the 5-day curve is actually smoother, and is already at new lows. That can be seen below.



Overall, this study seems worth some consideration. Without much more total downside, I elected to keep this as just a 3-day edge rather than a 5-day.

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 (just barely) below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative 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 list of active studies, expectations are set to remain negative on Wednesday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be *inverted* at 2718.09 on Wednesday. That is 0.2% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. In this case, SPX is going to need to close up over 0.2% on Wednesday in order to remain "overbought" versus recent expectations. Anything other than that, and SPX will be considered "oversold" versus expectations at Wednesday's close.

I generally do not view inverted pivots as opportune times to take on new exposure. This is because potential reward is quite limited. If the trade goes in your direction, the signal will expire at the end of the day. This effectively caps potential reward, but leaves potential risk wide open. So I typically shy away from such setups. And with the intermediate-term neutral, and evidence still fairly light for the bear case, I will be shying away from a new

entry on Wednesday. It can be difficult being patient sometimes, but I have repeatedly found over the years that there is little to be gained by taking borderline setups. By only trading strongly favorable opportunities, I have generally made out much better. So I'll continue to wait for the next strongly favorable opportunity to arrive.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/14– neutral

The intermediate-term outlook was last updated in the 5/14/18 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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