

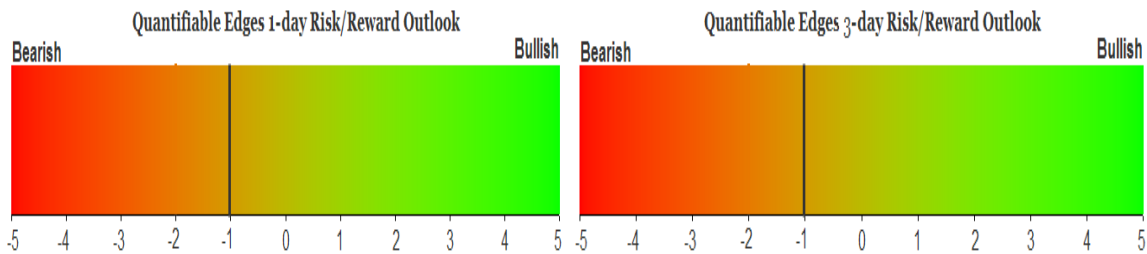
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 24, 2018

Volume 11 Issue 100

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The gap and reverse pattern the last 2 days suggests weakness for Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but it is unlikely to remain so beyond Thursday. This limits potential reward.

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 24, 2018	Gap up close dn. Gap dn close up. >10	1 day	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			
Dropped Tonight						
May 23, 2018	Unfilled gap up, then gap up close	1 day	Bullish			

The Evidence

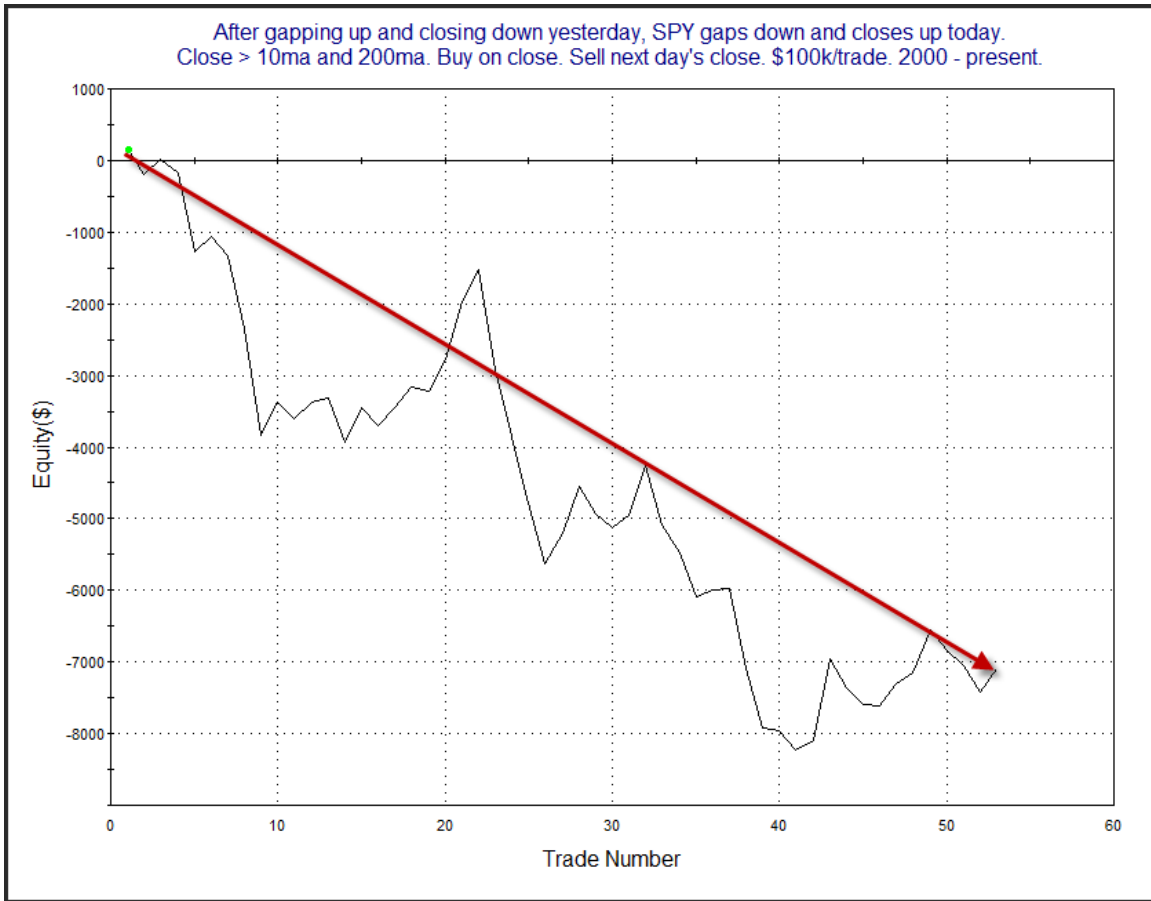
Wednesday started poorly but the indices rebounded to finish positive. In the end, SPX rose 0.3%, the NASDAQ gained 0.6% and the Russell 2000 climbed 0.15%. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 45%. NYSE volume rose a little from Tuesday's level.

The way SPY has gapped and reversed the last couple of days is reminiscent of a study I showed in the 7/29/16 letter. I re-ran the stats for that gap and reverse study and posted them below.

After gapping up and closing down yesterday, SPY gaps down and closes up today. Close > 10ma and 200ma. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

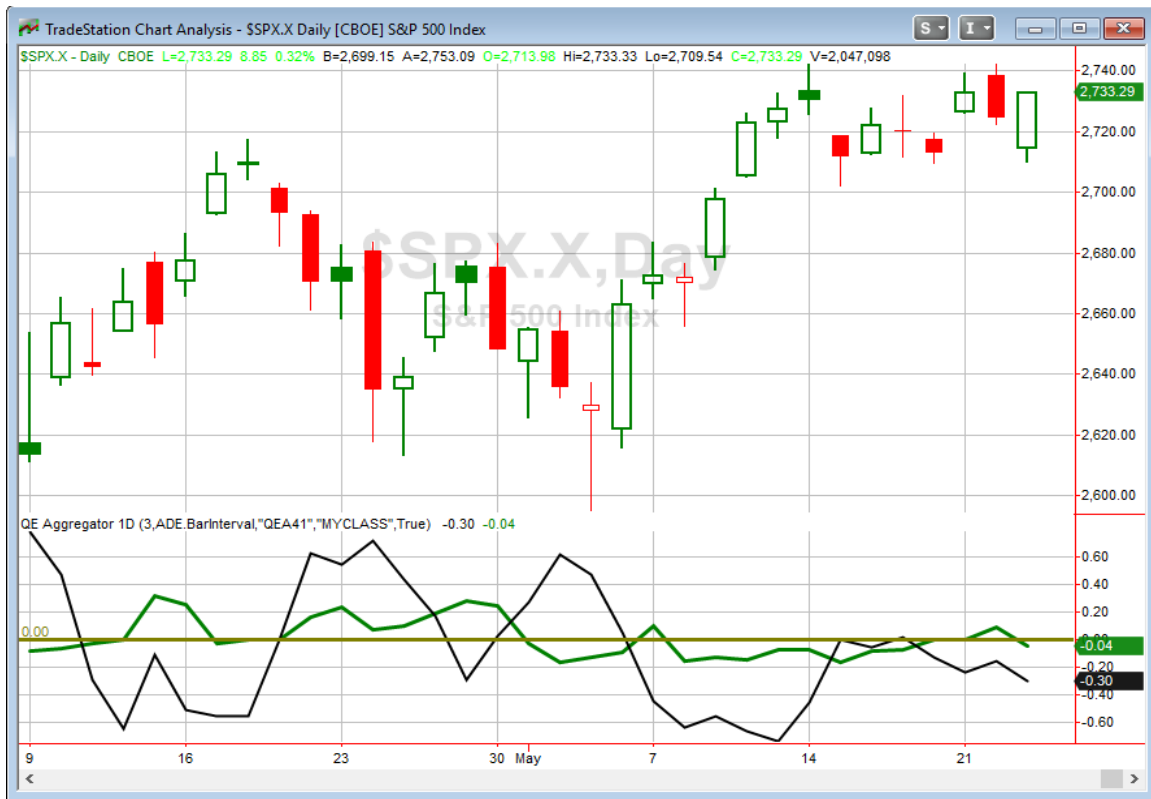
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$7,102.01)	Profit Factor	0.55
Gross Profit	\$8,751.43	Gross Loss	(\$15,853.44)
Total Number of Trades	53	Percent Profitable	45.28%
Winning Trades	24	Losing Trades	29
Even Trades	0		
Avg. Trade Net Profit	(\$134.00)	Ratio Avg. Win:Avg. Loss	0.67
Avg. Winning Trade	\$364.64	Avg. Losing Trade	(\$546.67)
Largest Winning Trade	\$1,142.28	Largest Losing Trade	(\$1,485.70)

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is a profit curve to see how the edge has played out over time.



No one would call this a smooth curve, but it does seem to be working its way lower. I decided to include it on the Active List tonight.

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



With tonight's study considered the green Aggregator Line fell below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained 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 flat at the close.

With the lone active short-term study set to expire after Thursday, expectations going forward will depend largely on new evidence that emerges. The Differential Pivot will be 2731.10 on Thursday. That is 0.1% below Tuesday's close. So SPX will need to close down just 0.1% on Thursday in order to flip from overbought to oversold versus expectations.

While the Aggregator is bearish, expectations are set to turn flat on Thursday. And just about any move lower will turn the market oversold. So if the bearish formation is correct on Thursday, then it is highly unlikely to remain bearish. This greatly limits potential reward, and has me once again wanting a more compelling setup before taking on new exposure. More nimble traders could look to take advantage of potential downside on an intraday basis on Thursday. I'll remain sidelined and patiently awaiting the next favorable swing opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/21– neutral

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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