

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 31, 2018

Volume 11 Issue 104

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The bounce was strong enough over the last 2 days that much of the upside edge has been realized and the potential for further gains is reduced.
- Thursday after Memorial Day has exhibited a steady bullish tendency historically.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but that is only going to last through Thursday unless the SPX closes down a bit.

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 31, 2018	Thursday after Memorial Day bullish	1 day	Bullish			
May 30, 2018	Unfilled gap, 10 low, 3 down above 200	1-2 days	Bullish			
May 29, 2018	1st close < 10ma in 15+ days	1-5 days	Bullish	1.40%	-1.00%	-2.40%
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			

The Evidence

Wednesday saw the market bounce back in a big way. The SPX finished up 1.3%, the NASDAQ rose 0.9% and the Russell 2000 rallied 1.5%. Breadth was strong as the NYSE Up Issues % was 79% and the Up Volume % came in at 88%. NYSE volume declined some from Tuesday's level.

After being squarely oversold the market has bounced back quite nicely the last 1½ days. The effect has basically been to work off the oversold condition and leave several indices back above their 10-day moving averages. Had the reversal not been so strong then the current upside potential would be a little better. But since the move was so good, it took out much of the upside edge. I demonstrated this in the 11/17/17 subscriber letter.

There I looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma). I broke it down by instances that closed above the 10ma versus instances that closed below it. Those results are copied below (not updated).

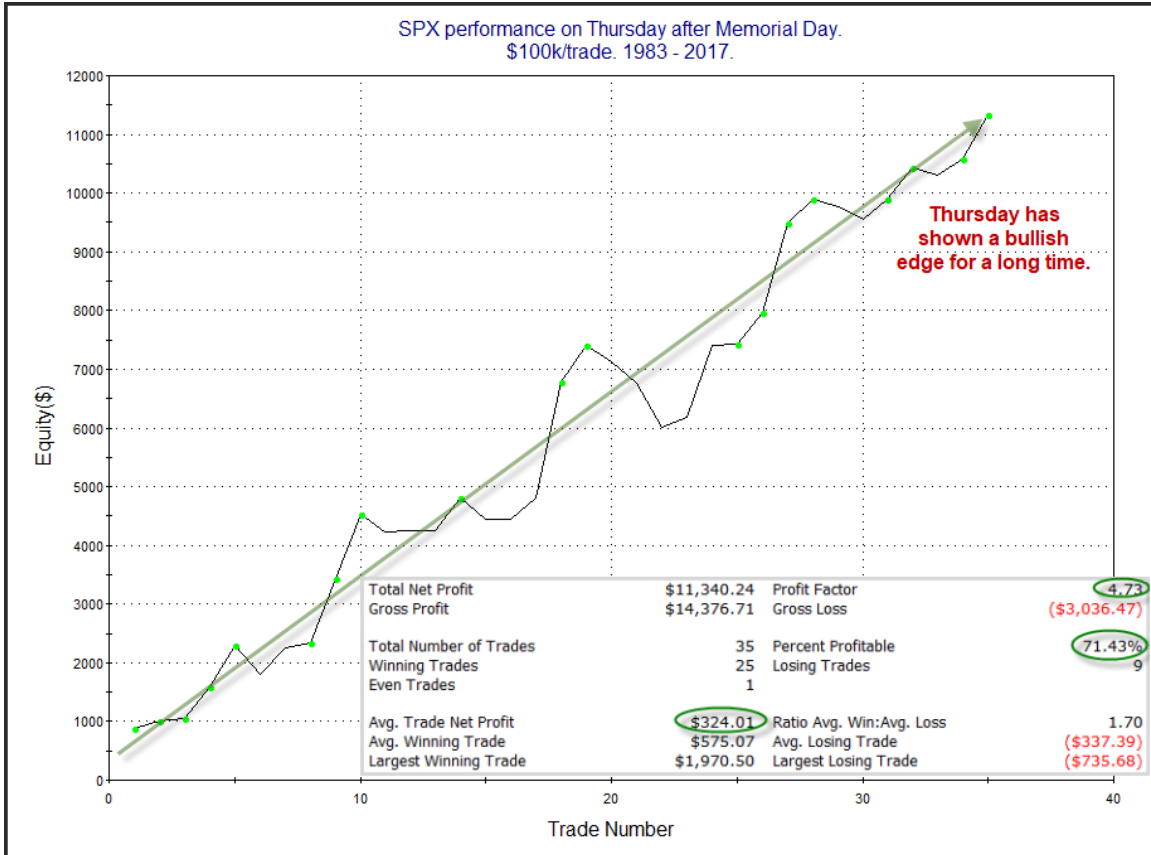
After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes < 10ma and closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % 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	23,179.43	60	37	23	61.67	1,525.92	4,106.63	-1,446.95	-3,739.32	1.05	1.70	386.32
4	24,481.98	62	39	23	62.90	1,407.94	3,904.83	-1,322.95	-2,744.82	1.06	1.80	394.87
3	12,645.36	66	38	28	57.58	1,136.63	3,914.92	-1,090.95	-3,070.92	1.04	1.41	191.60
2	6,105.93	68	38	30	55.88	1,055.47	3,089.76	-1,133.40	-2,818.42	0.93	1.18	89.79
1	906.46	68	30	37	44.12	910.28	2,470.05	-713.57	-2,895.33	1.28	1.03	13.33

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and close above the open. **It closes > 10ma** and closes > 200ma.
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	1,025.18	36	17	19	47.22	1,217.34	3,113.39	-1,035.24	-3,691.98	1.18	1.05	28.48
4	2,001.25	36	18	18	50.00	913.10	2,584.17	-801.92	-2,586.55	1.14	1.14	55.59
3	-4,342.90	36	16	20	44.44	958.56	2,533.50	-984.00	-2,475.20	0.97	0.78	-120.64
2	-3,558.87	36	18	18	50.00	720.70	1,514.87	-918.41	-2,293.20	0.78	0.78	-98.86
1	-4,881.80	36	16	19	44.44	516.23	1,238.60	-691.66	-2,591.68	0.75	0.63	-135.61

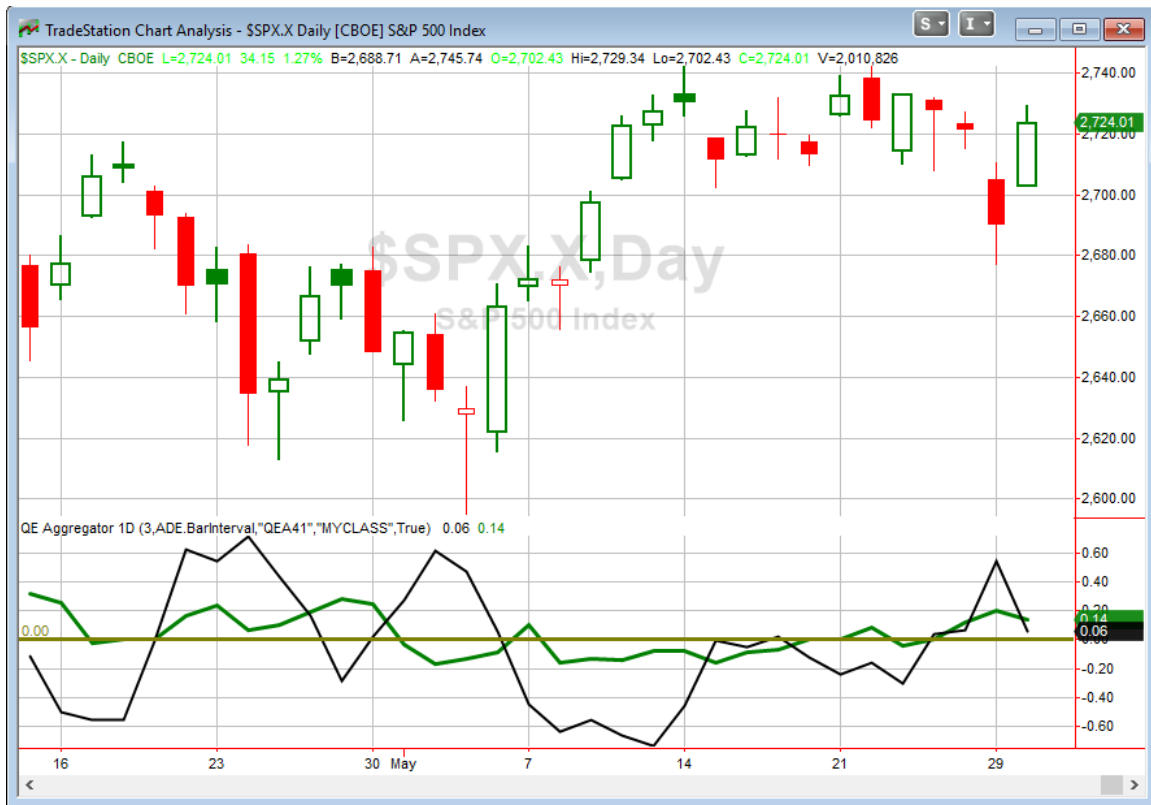
So the current situation falls into the 2nd category. Most of the stats are basically breakeven. Had we not bounced so much, we would have a better chance of seeing more follow-through. As is, the study does not appear to be suggesting a substantial edge.

In the 5/29/18 letter this past weekend I examined Memorial Day week seasonality. After exhibiting a positive bias for many years, the last four years have struggled. But that has not been the case on the Thursday after Memorial Day. Thursday has maintained a steady upward bias. The chart below is the same one I showed in the letter a few days ago, though I did add the stats at the bottom tonight. This illustrates Thursday's historical strength.



I have added the study to tonight's Active List.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Thursday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted at 2723.04* on Thursday. That is about 1 point *below* Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down about 1 point in order to remain oversold. Failure to do so will leave it overbought versus expectations on Thursday.

So there may be a mild upside edge. But tonight's evidence suggests that edge is reduced since we already bounced a strong amount on Wednesday. Additionally, the inverted pivot limits potential reward and negatively impacts reward/risk. I generally do not view inverted pivots as opportune times to take on new index positions, because any move in my direction would mean the end of the Aggregator signal. So I won't be looking to take

on any new index exposure on Thursday. I will briefly note that Thursday is the last trading day of the month. That means there is a decent chance we will see some bullish seasonality for Friday. But as I have shown a number of times in the past, a weak close on Thursday would set up Friday much better than a strong close. (A strong close could suggest front-running of the bullish new-month edge). So it will be interesting to see how Thursday plays out as we consider potential trades for Friday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/29– neutral

The intermediate-term outlook was last updated in the 5/29/18 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
EWZ	5/30/2018	\$35.33	\$35.68	0.99%		System 81119

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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