

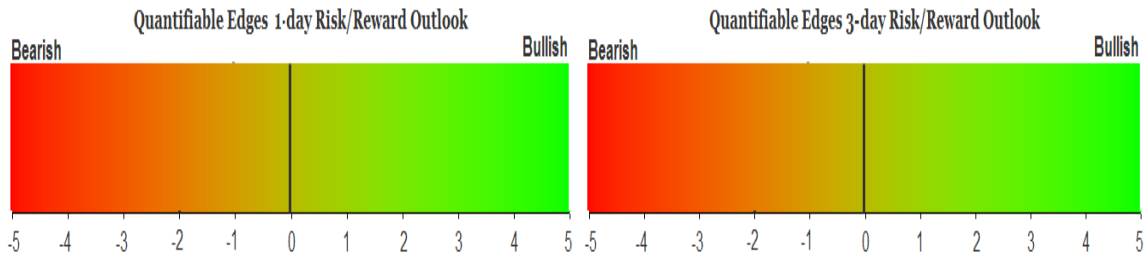
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 7, 2018

Volume 11 Issue 109

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.
- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.

Short-term Outlook

The Bottom Line

Like the last few nights, evidence suggests we could see some more upside. But with the market again overbought, reward/risk is not great. I am waiting for a more favorable buying opportunity.

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						
June 7, 2018	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.10%	-1.20%	-2.55%
June 5, 2018	SPY 2 unfilled up gaps	1-3 days	Bullish	0.80%	-0.60%	-1.20%
June 5, 2018	SPX 50-day breakout over intra high	1-4 days	Bullish	1.00%	-0.65%	-1.40%
June 4, 2018	SPX 50-day breakout with lower volume	1-5 days	Bullish			
June 4, 2018	SPY 50-day breakout w/ unfilled gap	1-5 days	Bullish			
Active - Long Term						
June 7, 2018	SPX > 50-day Bollinger Band	1-50 days	Bullish	5.00%	-4.10%	-7.80%
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			

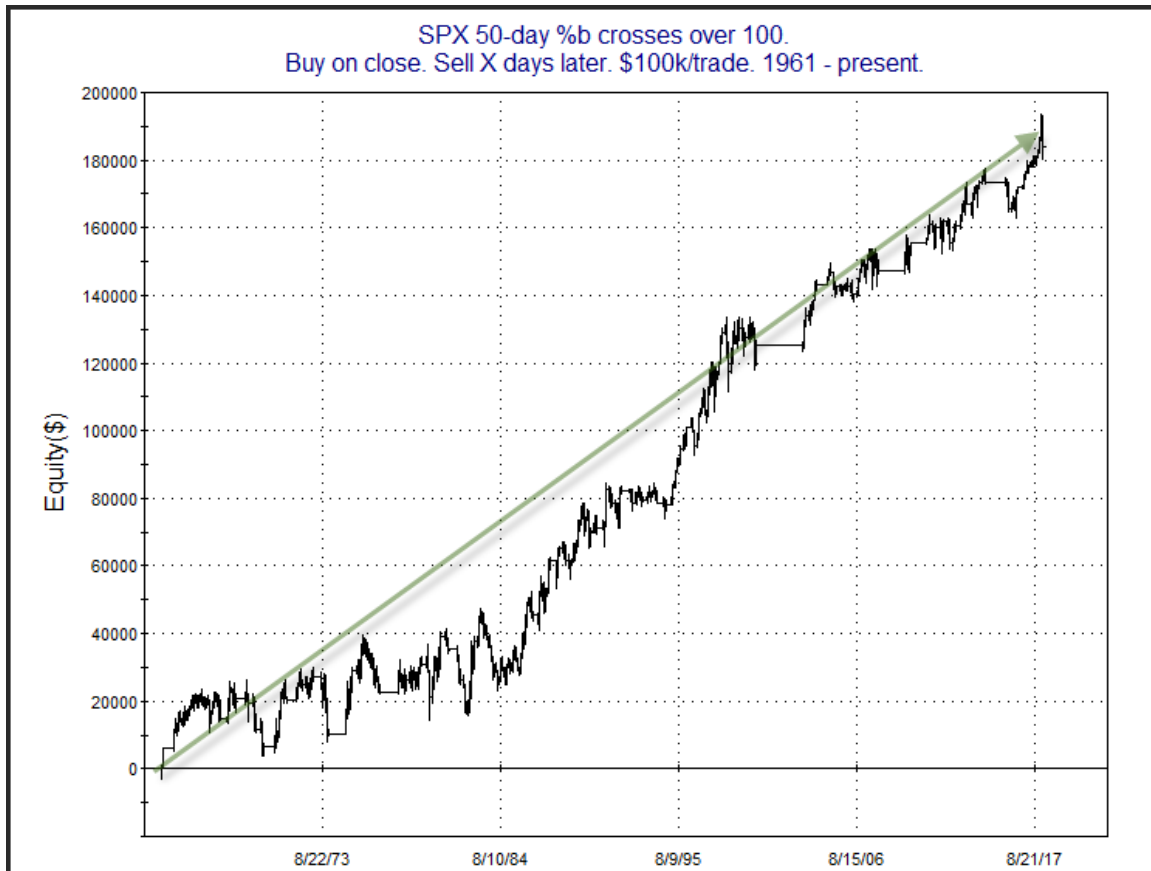
The Evidence

Wednesday saw the recent rally continue. The SPX rose 0.9%, the NASDAQ rallied 0.7%, and the Russell 2000 climbed 0.7%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 74%. NYSE volume rose some from Tuesday's level.

One study from the 9/19/17 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - 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
50	183,782.88	134	81	53	60.45	4,890.91	18,408.18	-4,007.18	-15,795.00	1.22	1.87	1,371.51
45	154,783.22	140	80	60	57.14	5,041.78	15,816.57	-4,142.66	-25,812.76	1.22	1.62	1,105.59
40	166,270.44	145	87	58	60.00	4,520.09	17,624.67	-3,913.41	-15,540.70	1.16	1.73	1,146.69
35	143,843.63	153	92	61	60.13	4,043.78	15,782.13	-3,740.72	-13,617.00	1.08	1.63	940.15
30	98,549.69	159	94	65	59.12	3,364.92	11,920.74	-3,350.05	-10,485.00	1.00	1.45	619.81
25	65,401.52	167	95	72	56.89	3,047.45	10,859.94	-3,112.59	-8,732.16	0.98	1.29	391.63
20	60,977.97	178	102	76	57.30	2,654.30	9,501.30	-2,760.00	-10,205.38	0.96	1.29	342.57
15	67,130.23	195	114	81	58.46	2,326.50	7,843.46	-2,445.57	-9,763.44	0.95	1.34	344.26
10	49,765.27	218	137	81	62.84	1,683.79	8,239.16	-2,233.50	-9,133.53	0.75	1.28	228.28
5	26,181.30	265	152	113	57.36	1,129.57	5,030.81	-1,287.73	-5,817.77	0.88	1.18	98.80

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

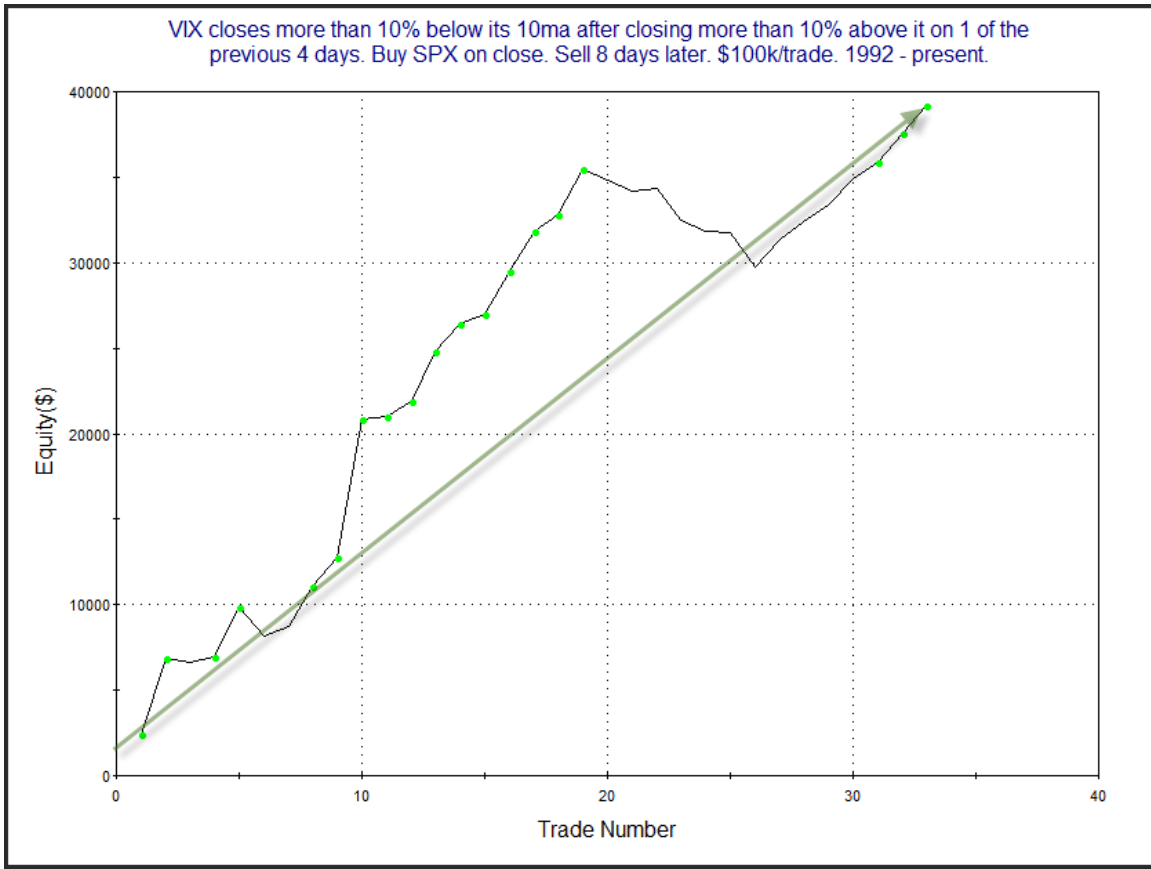
The study below suggests a bullish edge for the short-term. It considers the sharp drop in the VIX over the last couple of days after a sharp rise the previous few. It was last seen in the 8/14/14 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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
10	32,966.41	33	23	10	69.70	2,133.73	8,115.80	-1,610.95	-3,412.50	1.32	3.05	998.98
9	33,803.14	33	23	10	69.70	1,937.56	8,397.40	-1,076.07	-2,415.00	1.80	4.14	1,024.34
8	39,211.31	33	25	8	75.76	1,877.55	8,076.20	-965.95	-1,988.12	1.94	6.07	1,188.22
7	37,534.34	33	25	8	75.76	1,827.41	7,749.50	-1,018.87	-2,030.40	1.79	5.60	1,137.40
6	33,626.94	33	23	10	69.70	1,822.57	5,305.30	-829.23	-3,271.68	2.20	5.06	1,019.00
5	28,849.93	33	22	11	66.67	1,659.44	5,361.40	-696.15	-2,011.20	2.38	4.77	874.24
4	15,935.97	34	24	10	70.59	1,168.62	4,981.90	-1,211.09	-2,927.52	0.96	2.32	468.71
3	6,953.80	35	21	14	60.00	916.92	3,799.40	-878.68	-3,629.81	1.04	1.57	198.68
2	4,337.43	35	21	14	60.00	849.04	3,839.00	-963.75	-5,300.66	0.88	1.32	123.93
1	4,988.17	35	21	14	60.00	704.41	2,952.40	-700.32	-3,567.77	1.01	1.51	142.52

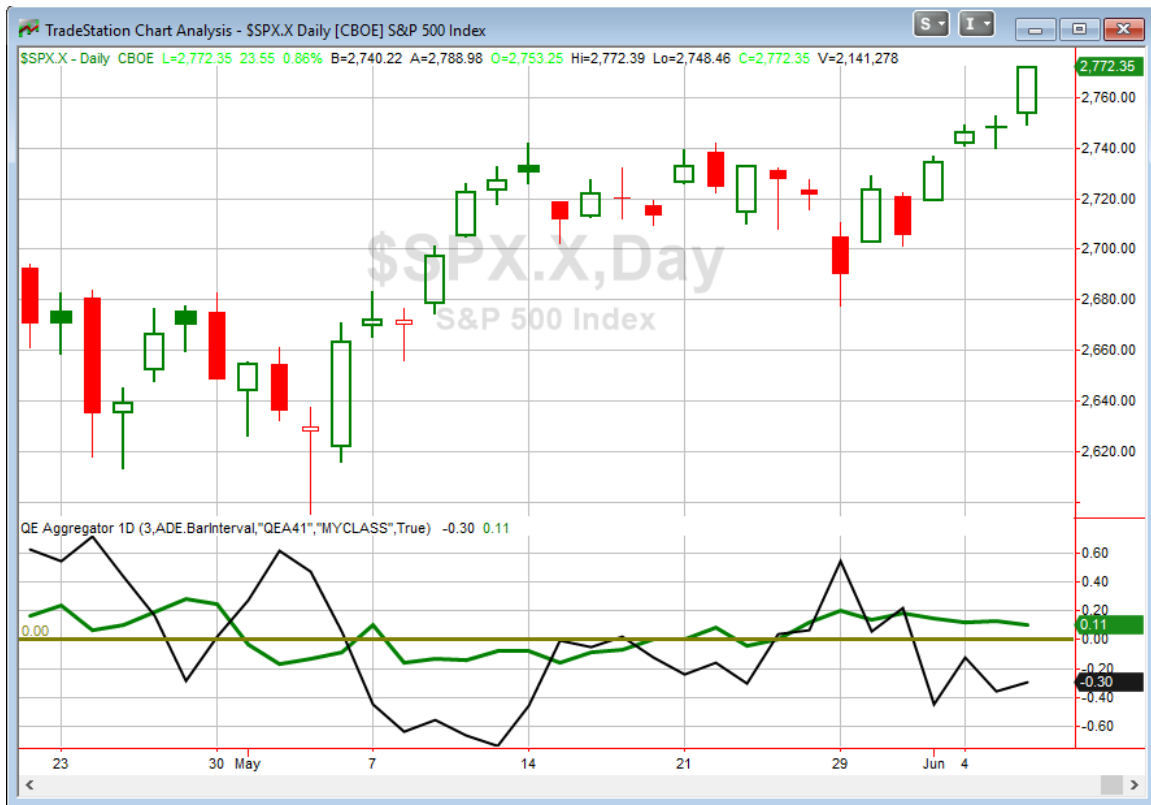
91% of instances closed above the entry price at some point in the next week.

The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend. In this case we are looking at the strong move up after the post-Memorial Day Italy scare. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8 day holding period.



This curve struggled for a period of time, but it now appears to be back on track. I have included this study on the Active List tonight.

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



With tonight's new evidence to consider, 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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Thursday. It would take some strong new bearish evidence in order to change this. The Differential Pivot will be 2759.23 on Thursday. That is 0.5% below Wednesday's close. Therefore, SPX would need to close down at least 0.5% on Thursday in order to change to "oversold" versus recent expectations.

The story is similar to the last few nights. Overbought, but apparently likely to go higher. For someone that prefers to swing trade, this can be a frustrating type environment. (It is a great environment for trend trades.) I see no reason to abandon my principles because of a desire to have more trades on. I will remain patient and wait for the next strongly favorable reward/risk setup to emerge before putting more capital at risk. At this point, that will probably take 2-3 days at the least.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/4– 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$34.48	-2.41%		Sell on close > \$35.96

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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