

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2018

Volume 11 Issue 112

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.

## *Short-term Outlook*

### *The Bottom Line*

While the Aggregator is bullish, that won't last unless the market pulls back some on Tuesday. And with tonight's evidence suggesting bearish implications, there does not appear to be a very favorable short-term edge. A poor close on Tuesday could set up a bullish Fed Day on Wednesday.

*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
<b>Active - Short Term</b>						
June 12, 2018	VIX up Monday. SPX 50-day high.	1-2 days	Bearish			
June 11, 2018	Gap up cls dn. Gap dn cls 10-hi & >200	1-2 days	Bearish			
June 7, 2018	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.10%	-1.20%	-2.55%
<b>Active - Long Term</b>						
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 \$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			

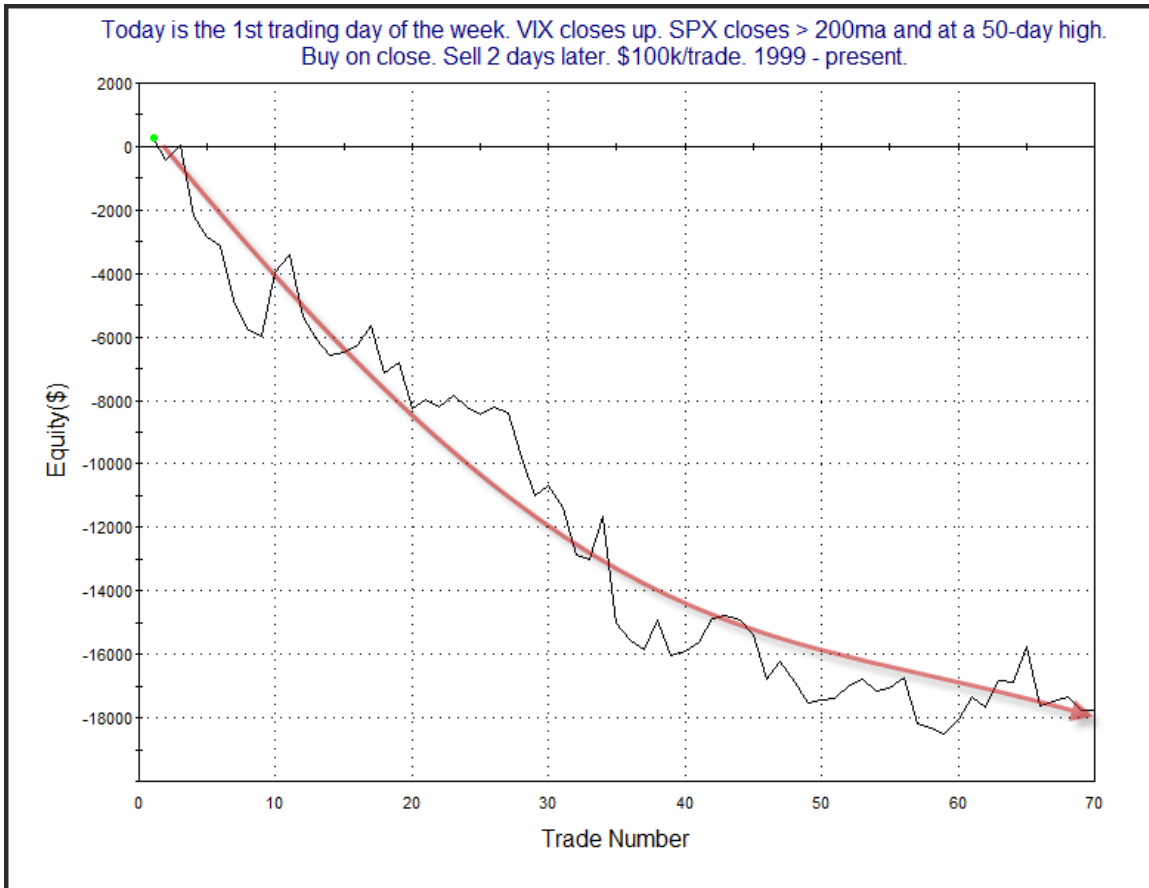
**The Evidence**

Monday saw most indices close slightly higher. The SPX rose 0.1%, the NASDAQ gained 0.2%, and the Russell 2000 climbed 0.1%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 63%. NYSE volume declined for the 3<sup>rd</sup> day in a row.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 12/19/17 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-11,861.27	64	30	34	46.88	1,066.65	3,260.25	-1,290.02	-5,048.68	0.83	0.73	-185.33
4	-5,535.69	70	34	36	48.57	924.97	2,953.65	-1,027.35	-4,271.52	0.90	0.85	-79.08
3	-8,413.86	70	33	37	47.14	708.97	2,641.80	-859.72	-3,887.84	0.82	0.74	-120.20
2	-17,750.59	70	32	38	45.71	453.17	1,981.72	-848.74	-3,372.16	0.53	0.45	-253.58
1	-7,567.71	70	26	44	37.14	319.33	769.70	-360.69	-1,580.04	0.89	0.52	-108.11

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

It is also notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 3/20/18 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$6,909.18	Profit Factor		1.28
Gross Profit	\$31,707.93	Gross Loss		(\$24,798.75)
Total Number of Trades	81	Percent Profitable		48.15%
Winning Trades	39	Losing Trades		40
Even Trades	2			
Avg. Trade Net Profit	\$85.30	Ratio Avg. Win:Avg. Loss		1.31
Avg. Winning Trade	\$813.02	Avg. Losing Trade		(\$619.97)
Largest Winning Trade	\$2,238.25	Largest Losing Trade		(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$15,830.43	Profit Factor		2.11
Gross Profit	\$30,036.07	Gross Loss		(\$14,205.64)
Total Number of Trades	47	Percent Profitable		55.32%
Winning Trades	26	Losing Trades		20
Even Trades	1			
Avg. Trade Net Profit	\$336.82	Ratio Avg. Win:Avg. Loss		1.63
Avg. Winning Trade	\$1,155.23	Avg. Losing Trade		(\$710.28)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

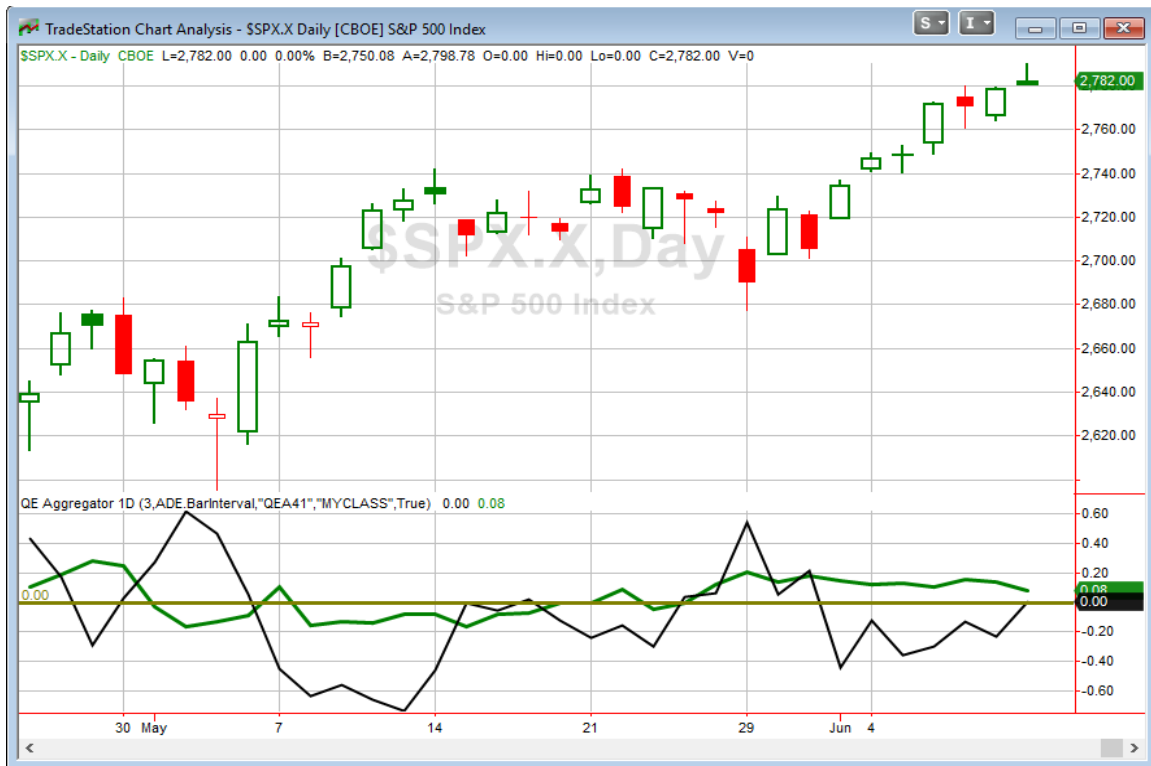
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$11,870.31	Profit Factor		2.36
Gross Profit	\$20,616.00	Gross Loss		(\$8,745.69)
Total Number of Trades	36	Percent Profitable		69.44%
Winning Trades	25	Losing Trades		11
Even Trades	0			
Avg. Trade Net Profit	\$329.73	Ratio Avg. Win:Avg. Loss		1.04
Avg. Winning Trade	\$824.64	Avg. Losing Trade		(\$795.06)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in bottom 25% of the intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$23,650.08	Profit Factor	4.54
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 8 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

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



Even with tonight's bearish evidence, 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 inched just barely 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 turned long at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Tuesday. This could change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted at 2781.37* on Tuesday. That is less than 1 point *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need close down about a point in order to remain oversold. Otherwise, it will be considered "overbought" versus expectations as of Tuesday's close.

We are in a bit of an unusual situation where I am seeing a fair amount of contradiction and uncertainty. Overall short-term evidence is pointing slightly higher, but tonight's evidence is bearish. Based on the Differential calculation the SPX is "oversold", but it is also at a 50-day high, and it will change to "overbought" tomorrow unless it closes down some. This contradiction and uncertainty suggests a setup that is not very compelling. I will continue to exercise patience and await a more favorable reward/risk scenario before putting new capital to work.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/11– neutral**

The intermediate-term outlook was last updated in the 6/11/18 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	\$33.80	-4.33%		Sell on close > \$34.84

*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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