

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 14, 2018

Volume 11 Issue 114

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPY's big outside day reversal pattern suggests a short-term upside edge.
- A down close on a Fed Day after closing at a 10-day high the day before is a setup that has struggled in recent years.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is no longer overbought. There appears to be a bit of an upside edge. I will have more confidence in a bounce if we get a bit more selling on Thursday.

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 14, 2018	SPX 20-high then clos bottom 10%	1-10 days	Bullish	2.10%	-1.30%	-2.60%
June 14, 2018	SPY 3-hi, 3-low, 3 low close	1-5 days	Bullish	1.80%	-1.20%	-2.40%
June 14, 2018	SPX dn on Fed Day after 10hi yest	1 day	Bearish			
June 7, 2018	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.10%	-1.20%	-2.55%
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 \$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

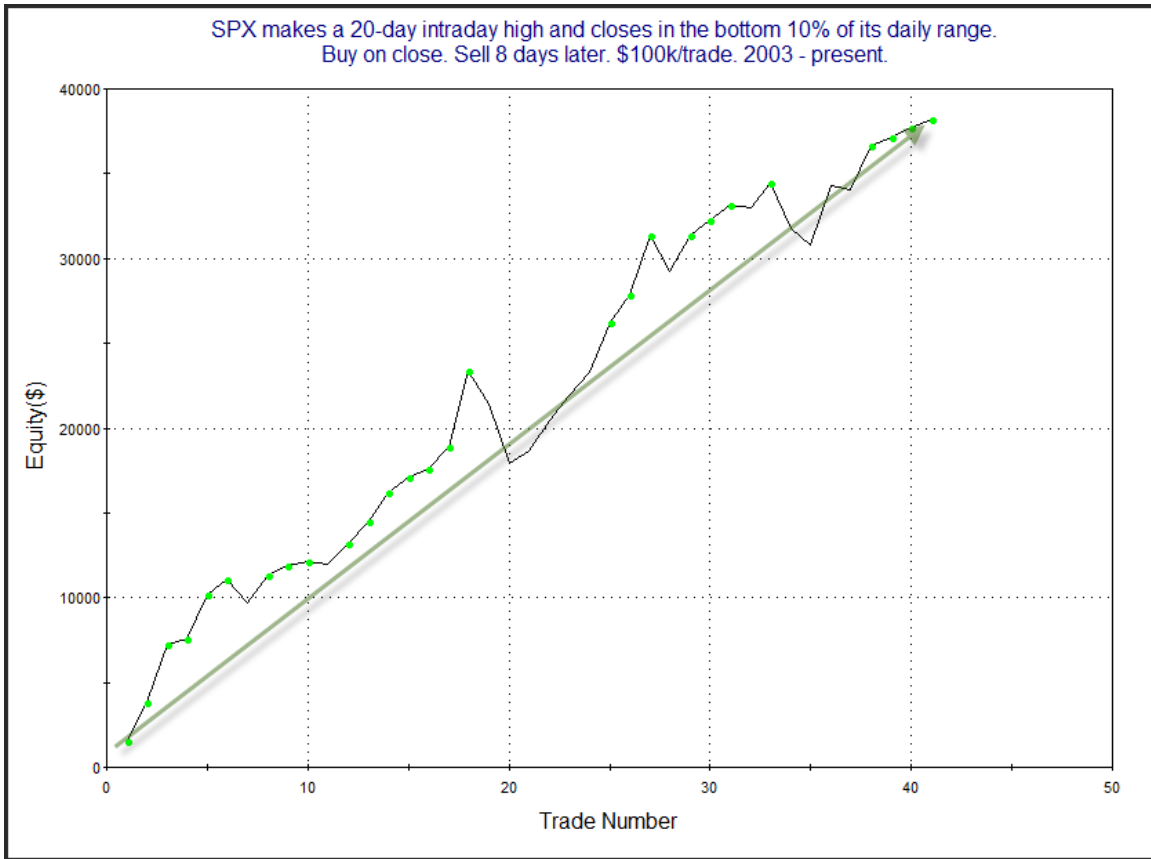
After some indecision, the market decided it did not like the Fed announcement. The SPX closed down 0.4%, the NASDAQ lost 0.1%, and the Russell 2000 dropped 0.3%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 28%. NYSE volume rose some from Tuesday's level.

Before spending the last hour selling off, the SPX managed to make a new intraday intermediate-term high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 12/1/16 subscriber letter. Results are all updated.

SPX makes a 20-day intraday high and closes in the bottom 10% of its daily range. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	40,667.45	40	30	10	75.00	1,808.51	4,119.18	-1,358.78	-3,210.80	1.33	3.99	1,016.69
9	38,916.68	40	31	9	77.50	1,651.31	3,613.36	-1,363.77	-3,775.10	1.21	4.17	972.92
8	38,192.82	41	32	9	78.05	1,605.71	4,483.84	-1,465.54	-3,543.84	1.10	3.90	931.53
7	29,815.89	42	33	9	78.57	1,441.82	3,761.94	-1,973.81	-4,159.32	0.73	2.68	709.90
6	28,205.60	43	34	9	79.07	1,242.17	3,331.38	-1,558.67	-2,942.40	0.80	3.01	655.94
5	16,816.42	43	31	12	72.09	950.51	2,693.34	-1,054.11	-3,566.84	0.90	2.33	391.08
4	12,375.52	45	30	15	66.67	911.47	2,531.61	-997.90	-2,332.44	0.91	1.83	275.01
3	14,032.43	45	29	16	64.44	844.62	2,159.82	-653.85	-2,091.82	1.29	2.34	311.83
2	8,801.03	45	25	20	55.56	792.30	3,288.48	-550.32	-1,575.22	1.44	1.80	195.58
1	5,692.70	46	30	16	65.22	483.85	1,710.72	-551.43	-1,194.83	0.88	1.65	123.75

44 of 46 instances closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30/04 & 12/31/04.

Results here seem to suggest an upside edge over the next 1-2 weeks. Below is a profit curve assuming an 8-day holding period.



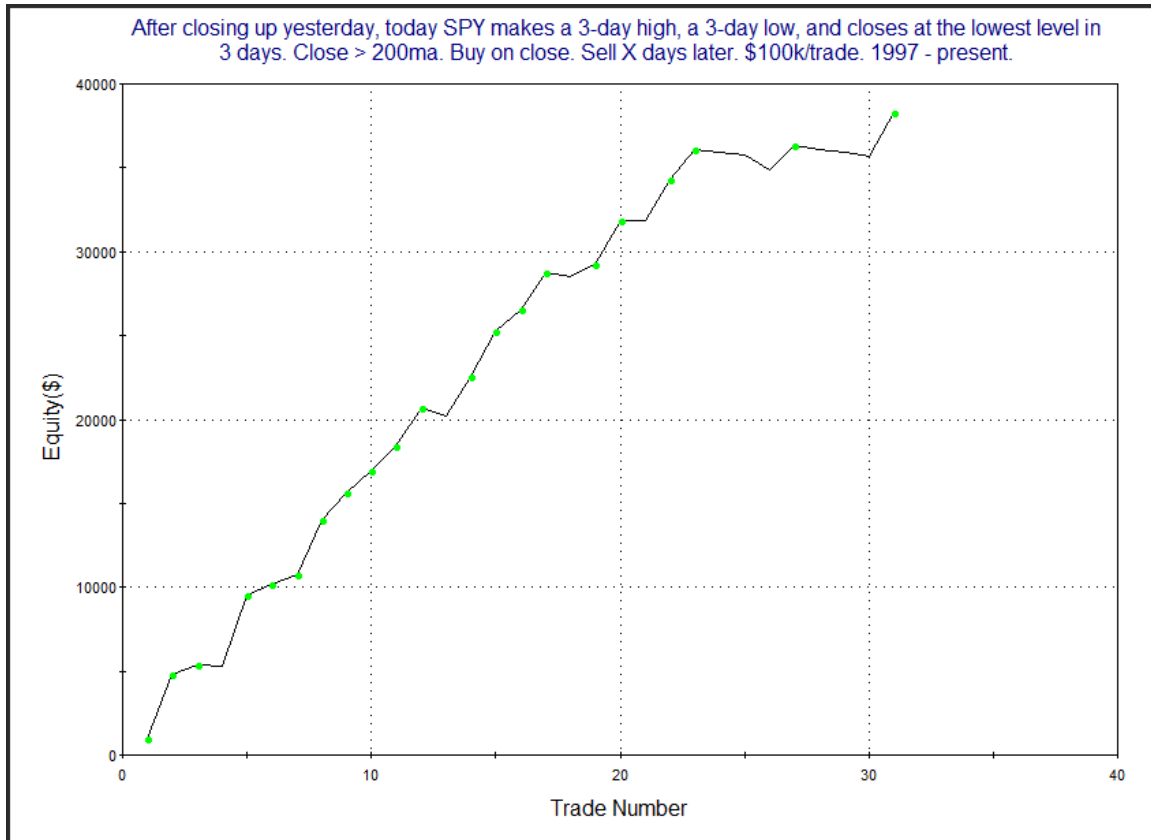
The persistent upslope appears to confirm the upside edge suggested by the statistics. I have added this study to the Active List.

SPY traded in a relatively wide range and closed down on Wednesday. The study below was last shown in the 8/9/17 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three-day low, and still be above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	38,293.57	31	21	10	67.74	1,958.68	4,273.50	-283.87	-892.80	6.90	14.49	1,235.28
4	24,980.10	31	21	10	67.74	1,547.60	4,533.98	-751.94	-2,123.52	2.06	4.32	805.81
3	8,735.51	31	20	11	64.52	1,284.61	3,903.34	-1,541.51	-3,393.78	0.83	1.52	281.79
2	5,758.86	32	18	14	56.25	1,184.17	3,244.78	-1,111.15	-3,737.28	1.07	1.37	179.96
1	1,696.59	32	19	13	59.38	639.18	2,359.84	-803.67	-3,909.03	0.80	1.16	53.02

After the first couple of days there appears to be a strong and consistent upside edge. It is notable that with 29 instances, the biggest loser when looking out 5 days was less than 0.9%. Below is a profit curve that assumes a 5-day holding period.



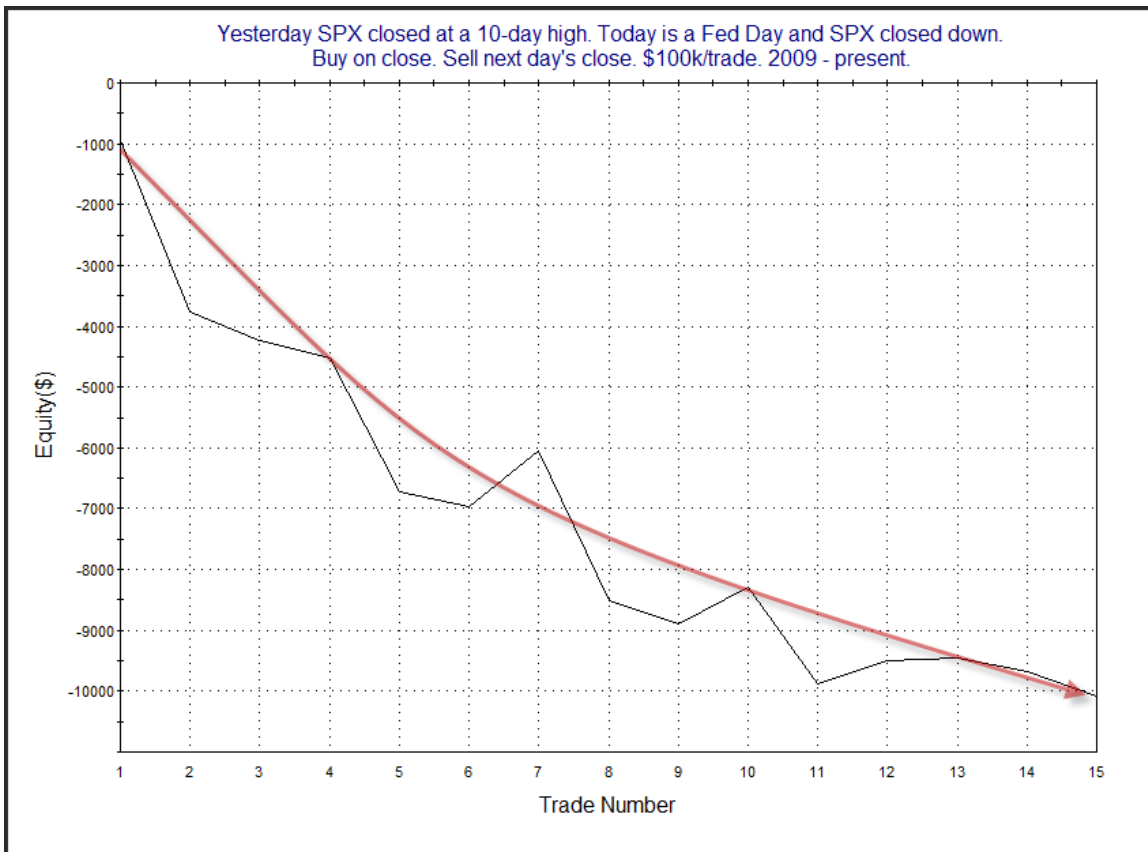
The strong curve appears to be a nice confirmation of the bullish suggestion by the stats table.

But not all evidence was bullish. The study below looked at other times SPX closed down on a Fed after closing at a 10-day high the day before. I last discussed this setup in the 6/21/12 letter.

Yesterday SPX closed at a 10-day high. Today is a Fed Day and SPX closed down.
Buy on close. Sell next day's close. \$100k/trade. 2009 - present.

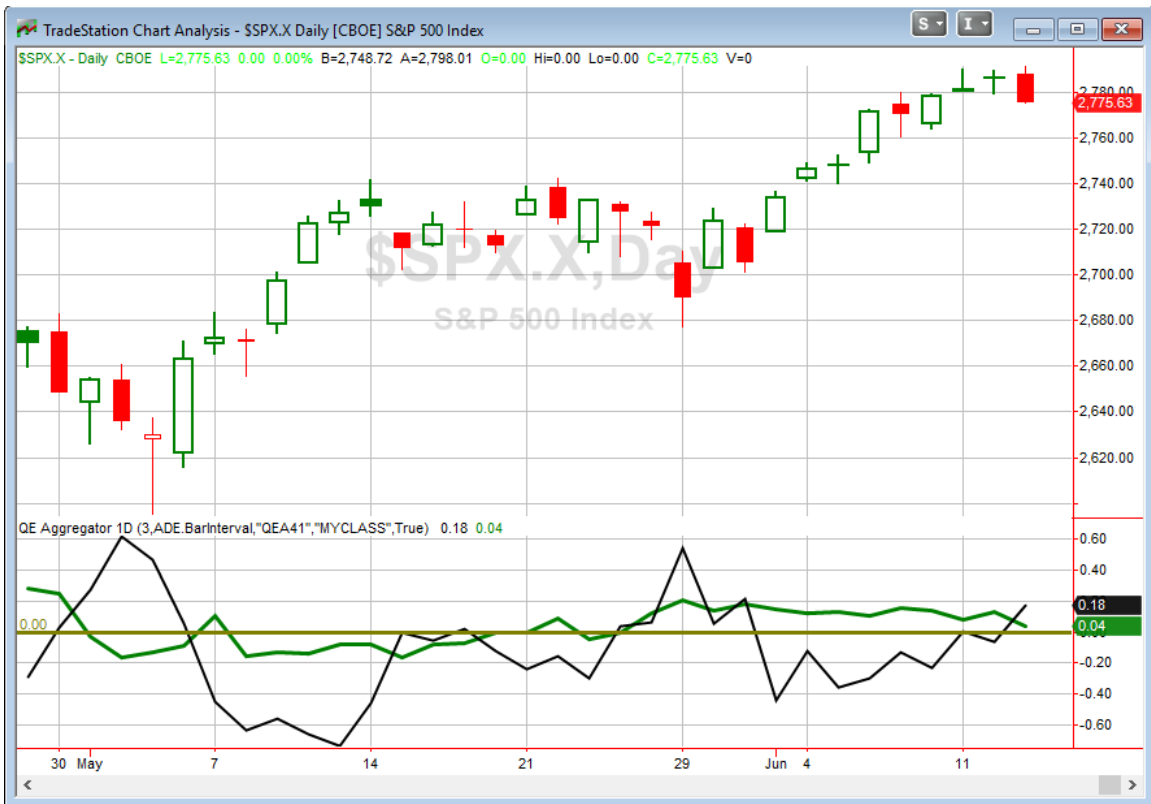
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$10,073.63)	Profit Factor	0.17	
Gross Profit	\$1,997.56	Gross Loss	(\$12,071.19)	
Total Number of Trades	15	Percent Profitable	26.67%	
Winning Trades	4	Losing Trades	11	
Even Trades	0			
Avg. Trade Net Profit	(\$671.58)	Ratio Avg. Win:Avg. Loss	0.46	
Avg. Winning Trade	\$499.39	Avg. Losing Trade	(\$1,097.38)	
Largest Winning Trade	\$938.07	Largest Losing Trade	(\$2,811.51)	
Max. Consecutive Winning Trades	2	Max. Consecutive Losing Trades	6	

This is a setup that has changed over the years. Prior to 2009, this setup often saw the market move higher the next day. But the recent tendency has been decidedly downward. Below is a look at the profit curve.



With a low sample size, and only a recent tendency, I do not consider this a strong edge. But it may be something traders want to consider, especially if the tendency persists over the next few instances.

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



With tonight's studies 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 rose back 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 Thursday. This could change if compelling bearish evidence emerges. The Differential Pivot will be 2792.60 on Thursday. That is about 0.6% above Wednesday's close. Therefore, SPX would need to close up at least 0.6% on Thursday to flip from oversold to overbought versus expectations.

There appears to be a bit of an upside edge based on the Aggregator. But although the Differential is showing SPX as oversold, it still may be a bit too early to jump in. This is only the 1st down day from intermediate-term highs, and the indices still remain well above their 10-day moving averages. I am not inclined to take on new exposure right here, but if we close down again on Thursday and below the 10ma, that would be enough for me to start scaling into a long index position.

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.

SPY – buy ¼ index position @ \$276.90 LIMIT ON CLOSE. Based on the short-term outlook above. I will start scaling into an index position if SPY is able to close lower and crack the 10ma.

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 > \$34.47

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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