

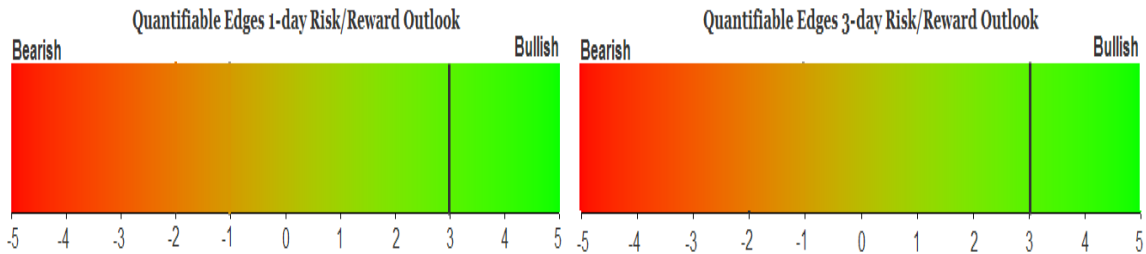
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2018

Volume 11 Issue 118

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

Short-term Outlook

The Bottom Line

Expectations are positive and the SPX is oversold. There appears to be an upside edge over the next few days.

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 20, 2018	Gap down, 10-day low, 3 days dn > 200	1-2 days	Bullish			
June 20, 2018	2 unfilled gaps dn 5-low > 200	1-6 days	Bullish			
June 18, 2018	Week after June Opex bearish	1-5 days	Bearish	-1.90%	1.10%	1.80%
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%
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

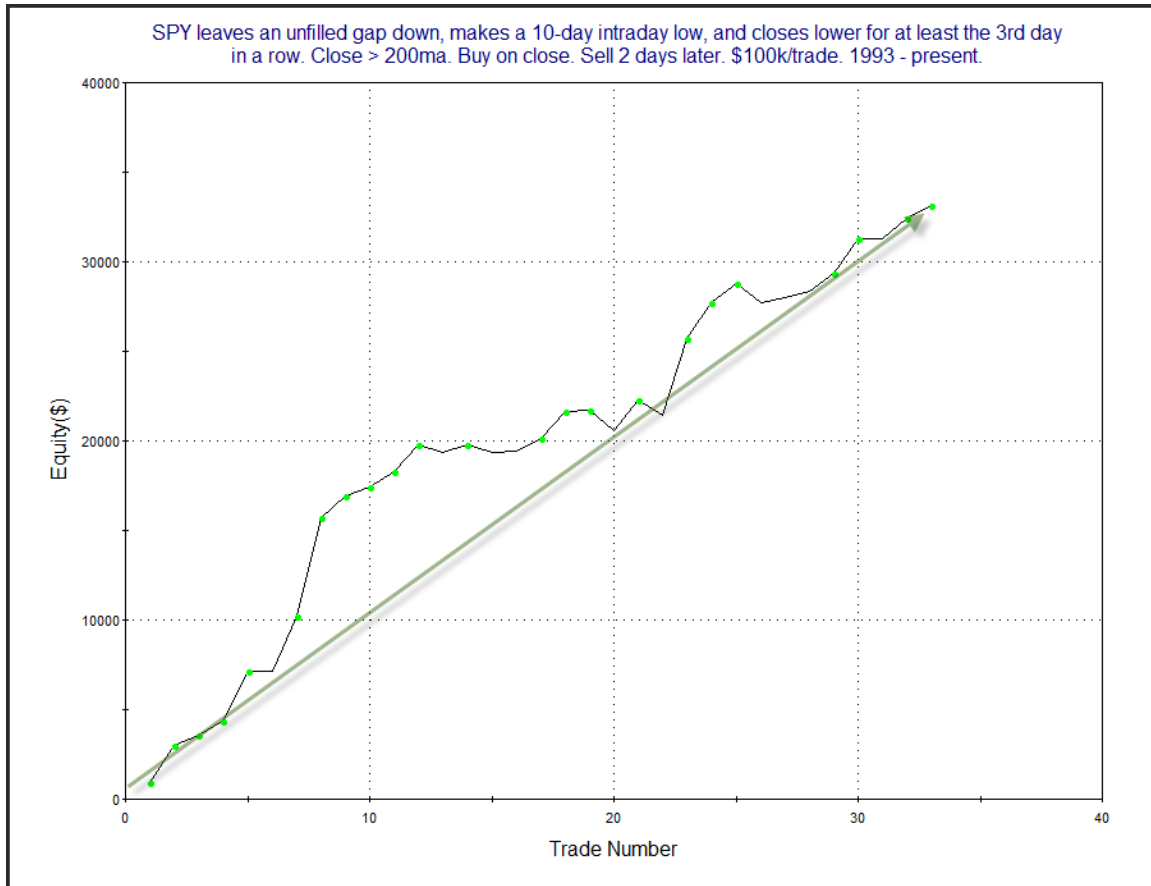
Tuesday started with a sizable gap down, but much of the losses were recovered by the end of the day. The SPX closed down 0.4%, the NASDAQ fell 0.3%, and the Russell 2000 rose 0.1% and finished at an all-time high. Breadth was positive as the NYSE Up Issues % was 43% and the Up Volume % came in at 43%. NYSE volume rose a little from Monday's level.

Some observations that suggest a possible upside are 1) SPY has now closed lower 3 days in a row during a long-term uptrend, and 2) SPY left an unfilled gap down and made a short-term low. These things triggered a few studies in the Quantifinder tonight. The study below combined them and served as a good description of the current market setup. It looked for multiple down days, short-term lows, and an unfilled gap down. It was last seen in the 5/31/18 letter. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 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	30,983.02	33	24	9	72.73	1,793.77	8,239.74	-1,340.82	-4,770.78	1.34	3.57	938.88
4	25,493.30	33	23	10	69.70	1,778.28	5,581.02	-1,540.70	-4,430.01	1.15	2.65	772.52
3	34,644.65	33	26	7	78.79	1,573.36	4,249.44	-894.69	-1,847.47	1.76	6.53	1,049.84
2	33,119.43	33	26	6	78.79	1,428.48	5,477.88	-670.19	-1,118.36	2.13	9.24	1,003.62
1	18,523.05	34	26	8	76.47	916.28	5,764.38	-662.53	-1,677.36	1.38	4.49	544.80

32 of 34 instances (94%) closed above the entry price at some point in the next week.

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but it has made its way from lower left to upper right without many instances between new highs at any point. The study certainly seems strong enough to include on the Active List tonight.

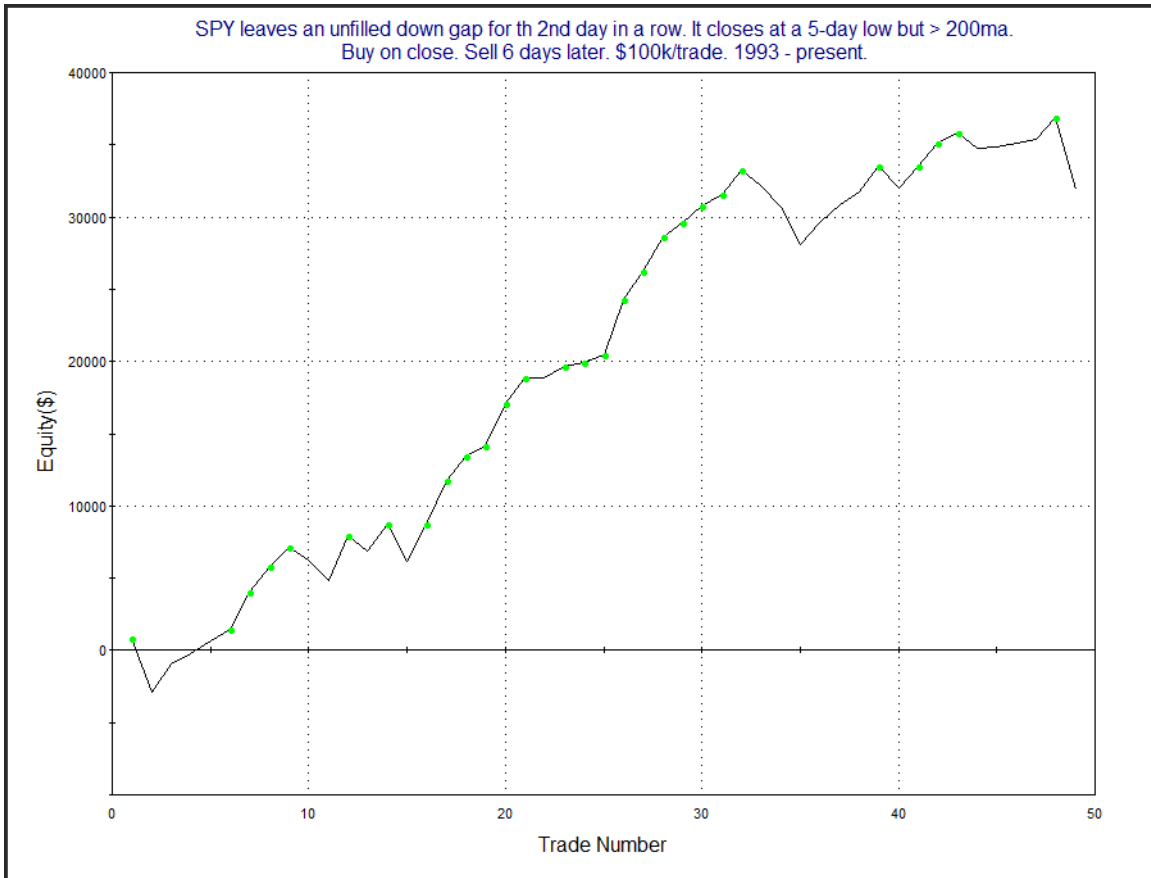
Also notable about the price action over the last 2 days is that both Monday and Tuesday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 5/1/15 letter. Results are updated.

SPY leaves an unfilled down gap for th 2nd day in a row. It closes at a 5-day low but > 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
10	44,502.61	48	34	14	70.83	2,075.62	5,325.39	-1,862.04	-5,579.04	1.11	2.71	927.14
9	44,561.59	49	38	11	77.55	1,838.09	4,882.41	-2,298.72	-6,273.96	0.80	2.76	909.42
8	37,132.24	49	36	12	73.47	1,778.11	4,574.25	-2,239.97	-7,172.04	0.79	2.38	757.80
7	17,941.39	49	32	16	65.31	1,706.96	4,429.74	-2,292.59	-8,542.02	0.74	1.49	366.15
6	31,897.59	49	37	12	75.51	1,471.46	3,828.72	-1,878.88	-4,987.86	0.78	2.41	650.97
5	28,417.17	49	35	14	71.43	1,347.63	3,940.02	-1,339.28	-4,471.02	1.01	2.52	579.94
4	17,825.07	49	34	15	69.39	1,135.39	4,388.28	-1,385.21	-6,311.82	0.82	1.86	363.78
3	9,452.44	49	28	21	57.14	921.95	3,325.14	-779.16	-2,233.74	1.18	1.58	192.91
2	7,880.50	49	29	20	59.18	796.23	2,948.14	-760.50	-2,436.12	1.05	1.52	160.83
1	7,309.31	50	31	19	62.00	661.98	1,974.15	-695.37	-1,849.26	0.95	1.55	146.19

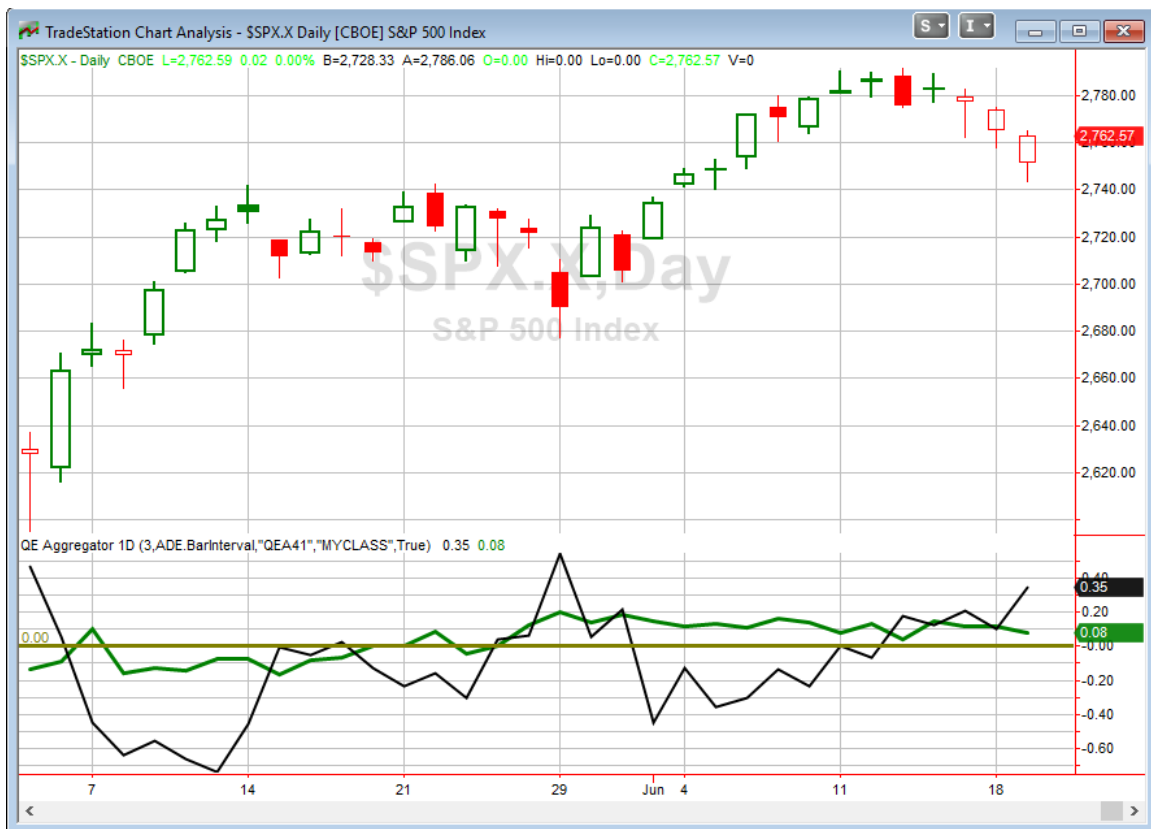
96% of instances closed above the entry price at some point in the next 6 days.

The numbers appear to suggest a tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.



The last instance, which triggered on 1/30/18 just before the VIX explosion, changed the look of the curve a bit. Still, the move higher over the long term appears strong enough to warrant some consideration. I did have some concern that the odds could be negatively impacted by the fact that SPY closed strongly on the day. I further filtered to look at filters such as a close in the top half of the day's range, and a close above the open. The study continued to hold up even with these additional filters.

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



With tonight's new 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 also remained 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 Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2788.00 on Wednesday. That is 0.9% above Tuesday's close. Therefore, SPX would need to close up at least 0.9% on Wednesday to flip from oversold to overbought versus expectations.

So the Aggregator is bullish, expectations are slated to remain bullish, and there is ample room to the upside before the SPX would turn overbought. This all suggests a playable upside edge. Of course we do still have negative seasonality and negative SOMA flows to deal with. So this is not an ideal setup. And the neutral intermediate-term outlook suggests a conservative approach. Therefore, I will look to scale in with the beginnings of an index position with the intention of adding further if bullish evidence continues to build in the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/18– 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.

SPY – buy ¼ index position @ \$275.50 LIMIT. Based on the short-term outlook above, I will look to start scaling into an index position if I can get filled at a price equal or better than Tuesday's close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$32.72	-7.39%		Sell on close > \$33.29

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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