

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2018

Volume 11 Issue 120

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Monday's spiking VIX and mild SPX decline appear to be a bullish combination.

Short-term Outlook

The Bottom Line

Expectations remain positive and there is ample room to the upside. I have a small long position and I may get longer if we see further selling on Friday.

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 22, 2018	VIX up 10%. SPX not down > 1%.	1-5 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%
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			

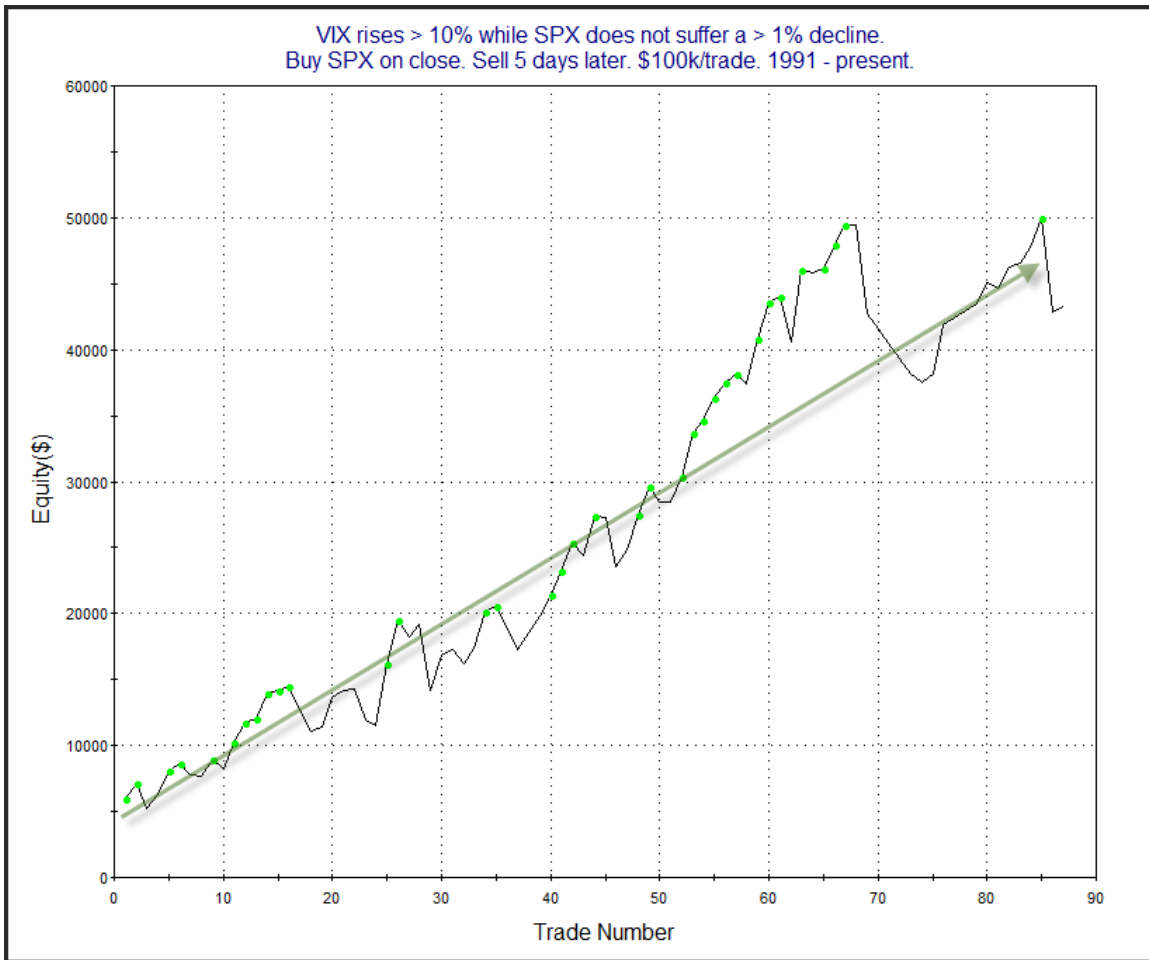
The Evidence

Thursday saw the market sell off for much of the day. The SPX closed down 0.9%, the NASDAQ fell 0.9%, and the Russell 2000 lost 1.1%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 30%. NYSE volume rose some from Wednesday's level.

What stuck out on Thursday was the large spike in the VIX (over 14%) despite the relatively small drop in the SPX. The VIX is a measure of implied volatility. In the 4/14/15 letter I looked at other times where the VIX spiked over 10% and SPX did not even drop 1%. Below are updated results to that study.

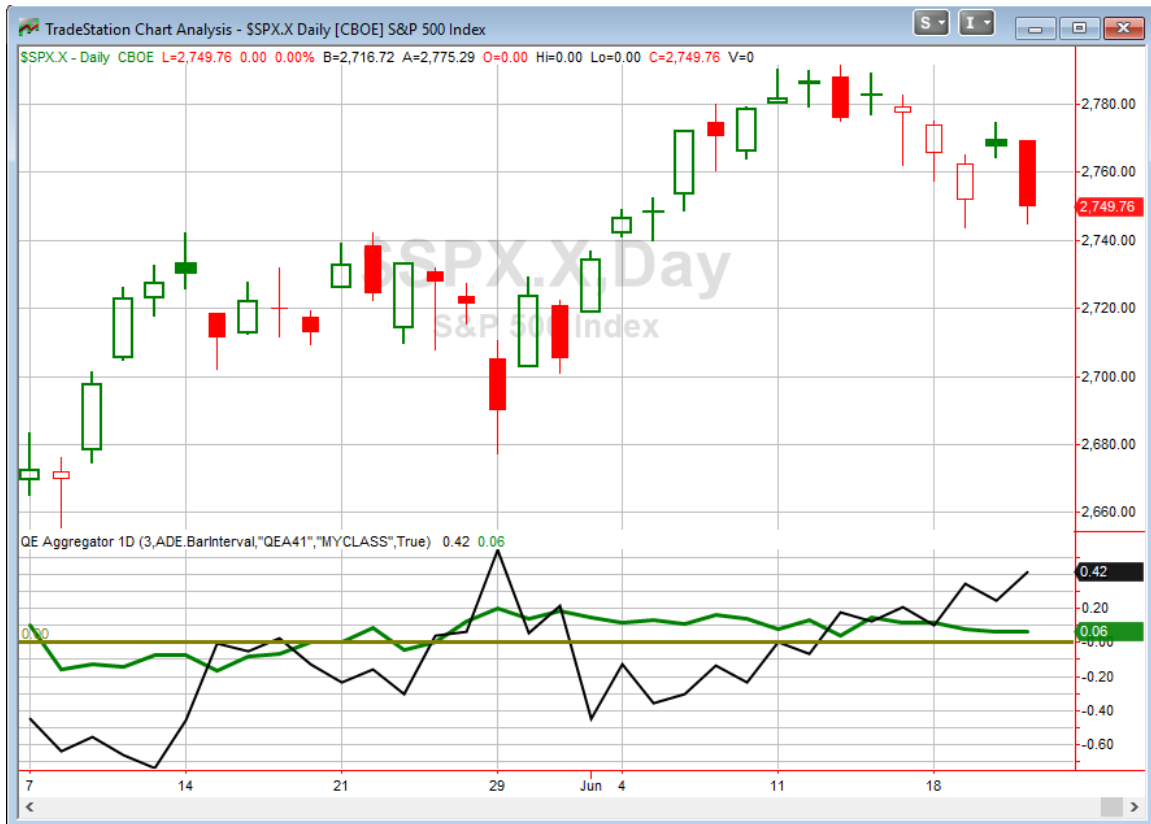
VIX rises > 10% while SPX does not suffer a > 1% decline. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	43,317.16	87	57	30	65.52	1,644.82	5,945.60	-1,681.24	-7,160.65	0.98	1.86	497.90
4	30,783.27	88	57	31	64.77	1,508.58	6,316.80	-1,780.83	-10,175.52	0.85	1.56	349.81
3	18,331.57	91	56	35	61.54	1,157.63	4,953.60	-1,328.45	-8,947.20	0.87	1.39	201.45
2	12,881.34	94	56	38	59.57	876.84	4,424.50	-953.20	-5,218.56	0.92	1.36	137.04
1	7,925.78	96	54	42	56.25	591.76	2,007.50	-572.12	-2,106.24	1.03	1.33	82.56

The numbers here all seem to favor the bulls. Below is a look at the profit curve for a 5-day holding period.



The curve had just recovered and made new highs when then VIX explosion happened late Jan / early Feb this year which led to a sizable loss. Despite the recent choppiness, I believe this study is still worth a bit of consideration. It suggests fear appears overdone, and the SPX is likely to bounce in the coming days.

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



With tonight's evidence included 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 is now quite far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is considerably 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 Friday. This could change if new bearish evidence emerges. The Differential Pivot will be 2771.22 on Friday. That is 0.8% above Thursday's close. Therefore, SPX would need to close up at least 0.8% on Friday to flip from oversold to overbought versus expectations.

So the Aggregator is suggesting a solid upside edge. And there is ample room to the upside before SPX would become overbought. While our study tonight suggests fear is a bit overdone, Friday afternoons can often see accelerated selling if people are overly concerned about potential weekend news. With this in mind, I'd be willing to add to my long exposure on Friday afternoon if SPX undergoes further selling.

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 @ \$273.50 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add to my SP index position on Friday afternoon if SPX finishes down at least to this level.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$31.88	-9.77%		Sell on close > \$33.02
SPY(1/4)	6/21/2018	\$274.24	\$274.24	0.00%		bought on close

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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