

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 26, 2018

Volume 11 Issue 122

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.
- The stretched VIX is suggesting a bounce.
- 3 lower highs, lows, and closes going into potential Turnaround Tuesday have historically led to a bounce for QQQ.

### *Short-term Outlook*

#### *The Bottom Line*

New evidence emerged suggest a bounce is likely in the next few days. The market is now substantially oversold, suggesting favorable reward/risk.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
<b>Active - Short Term</b>						
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 14, 2018	SPX 20-high then clos bottom 10%	1-10 days	Bullish	2.10%	-1.30%	-2.60%
<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 suffered some strong selling, with trade fears being the excuse. In the end the SPX finished up 0.2%, the NASDAQ fell 0.3%, and the Russell 2000 lost 0.2%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 63%. NYSE volume came in high, largely due to the rebalance.

Before examining the studies, I will note that the volatile selling on Monday is the kind of action that is much more likely to occur during a Fed tightening than when the Fed is supportive. It is why position size needs to be managed more carefully. But volatility does not eliminate opportunity. In fact, it will often create new opportunities. Our studies below show we may be looking at a buying opportunity now.

One interesting aspect of Monday's action was the unfilled gap down and continued selloff. The study below was last seen in the 3/20/18 letter. It considers the fact that the gap down on Monday put SPY at a short-term low immediately and then the selling continued from there.

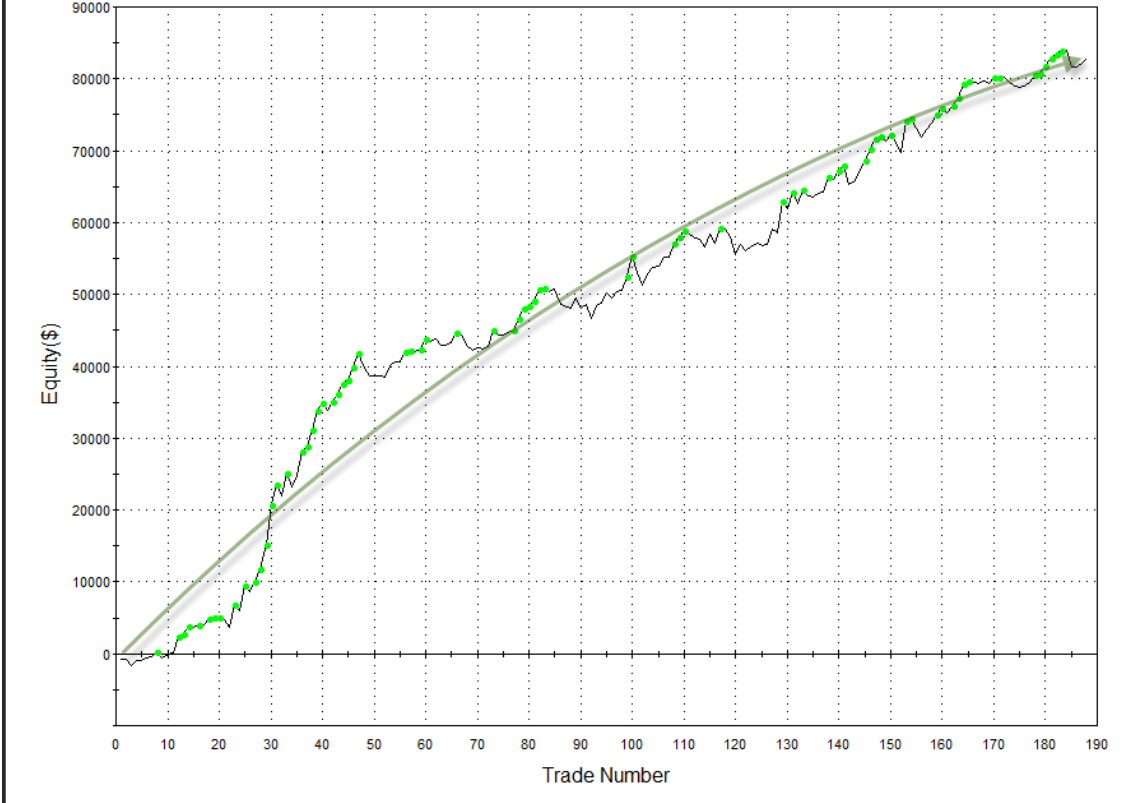
SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.  
 Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
10	130,039.59	139	89	50	64.03	2,639.21	9,282.24	-2,097.01	-14,007.15	1.26	2.24	935.54
9	139,074.09	147	95	52	64.63	2,563.12	7,585.77	-2,008.11	-10,036.80	1.28	2.33	946.08
8	133,353.92	149	102	46	68.46	2,297.02	7,858.26	-2,194.40	-14,030.10	1.05	2.32	894.99
7	107,562.60	155	100	55	64.52	2,068.23	8,324.13	-1,804.73	-8,542.02	1.15	2.08	693.95
6	116,007.91	158	108	50	68.35	1,862.75	7,873.02	-1,703.38	-7,910.10	1.09	2.36	734.23
5	106,990.83	159	105	53	66.04	1,735.69	8,239.74	-1,419.94	-4,471.02	1.22	2.42	672.90
4	97,650.27	168	110	58	65.48	1,664.87	5,581.02	-1,473.89	-6,311.82	1.13	2.14	581.25
3	89,838.91	175	109	65	62.29	1,507.24	5,117.85	-1,145.39	-4,085.40	1.32	2.21	513.37
2	82,851.31	188	120	65	63.83	1,162.19	5,477.88	-870.95	-2,614.66	1.33	2.46	440.70
1	55,696.31	205	133	72	64.88	820.01	5,764.38	-741.18	-4,181.76	1.11	2.04	271.69

90% of instances closed above the entry price at some point in the next week.

There are a sizable number of occurrences and the numbers all appear squarely positive. A good chunk of the gains have happened in the first couple of days. Below is a look at a profit curve that assumes a 2-day holding period.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.  
 Close > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.



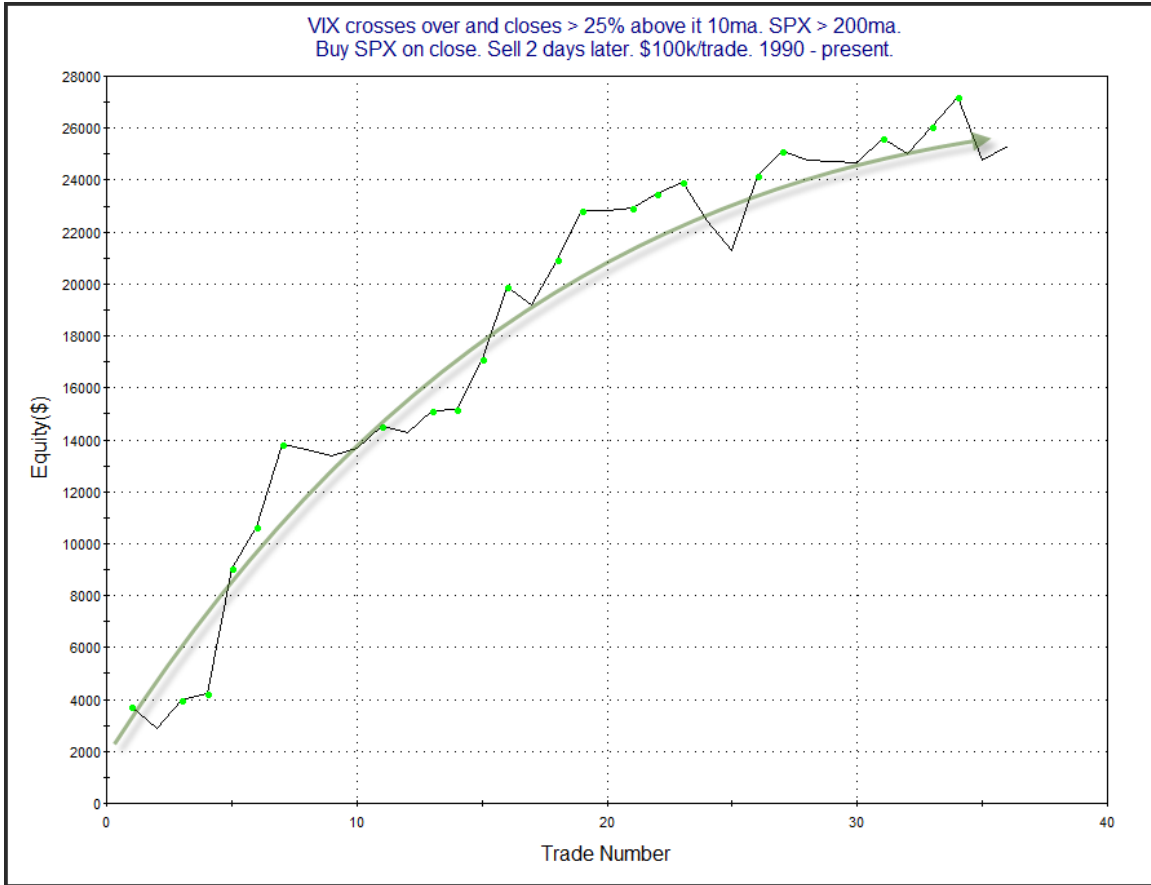
While not quite as steep as it once was, the curve has continued to move higher. I have added this study to the Active List tonight.

While the SPX declined sharply, the VIX index rose sharply. In fact, it closed 29% above its 10-day moving average. A study from the 3/23/18 letter examined stretches of 25% or more.

VIX crosses over and closes > 25% above it 10ma. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	27,954.36	35	20	15	57.14	2,239.03	7,070.28	-1,121.75	-5,132.88	2.00	2.66	798.70
4	28,244.72	35	24	11	68.57	1,930.74	4,690.50	-1,644.83	-6,520.68	1.17	2.56	806.99
3	22,738.32	35	23	12	65.71	1,550.24	3,940.55	-1,076.44	-2,896.92	1.44	2.76	649.67
2	25,332.68	36	23	13	63.89	1,466.71	4,809.66	-646.28	-2,411.64	2.27	4.02	703.69
1	10,674.31	36	24	12	66.67	1,019.34	5,117.46	-1,149.16	-4,074.84	0.89	1.77	296.51

**33 of 36 instances (92%) closed above the entry price at some point in the next week.**

Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



That is a nice move from lower left to upper right on the chart. I have included this study on the Active List also.

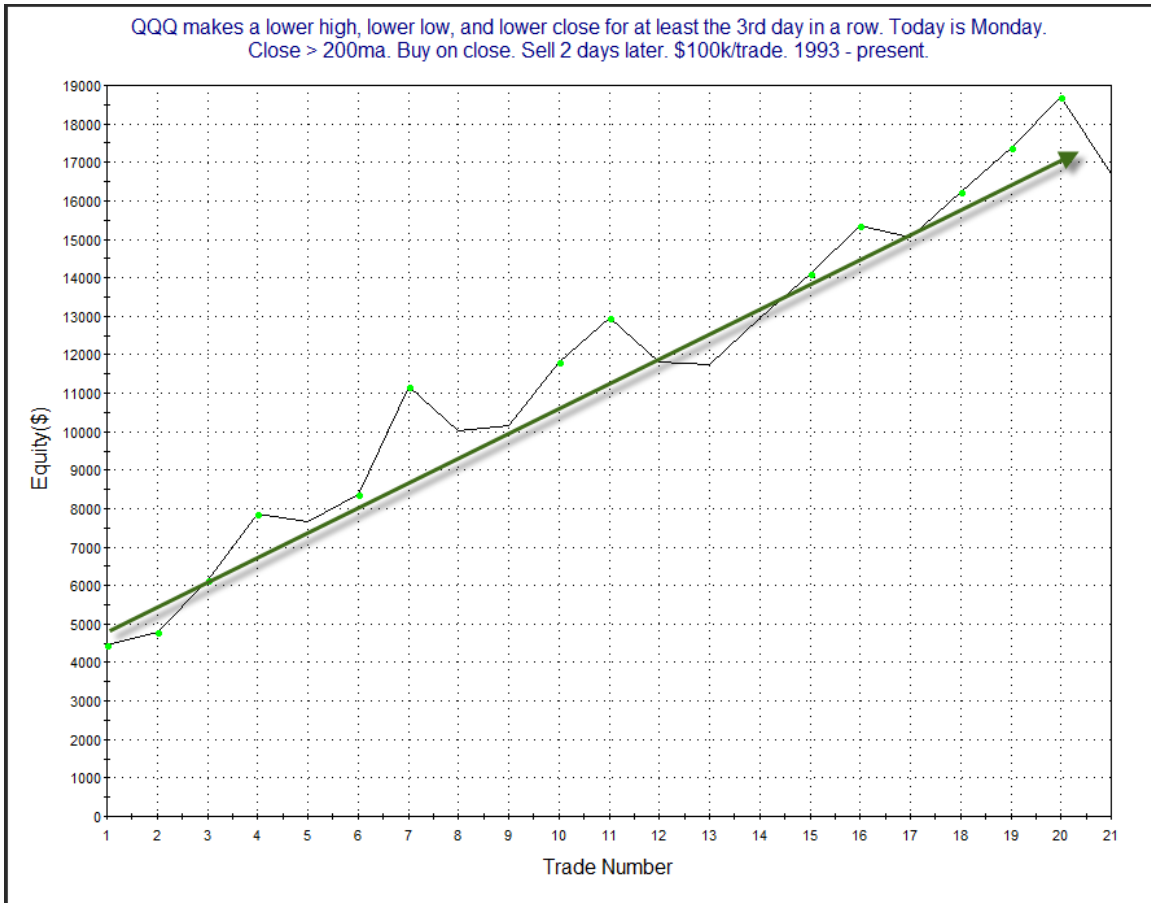
This next study is from the 4/24/18 Letter. It examined the persistent selling that has occurred over the last 3 days, with SPY making lower highs, lows & closes each day. It also considers the fact that the pullback is occurring going into a possible “Turnaround Tuesday”. Results are updated below.

QQQ makes a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.  
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	9,850.53	21	14	7	66.67	1,688.08	4,360.08	-1,968.94	-8,453.80	0.86	1.71	469.07
4	13,374.86	21	17	4	80.95	1,309.84	3,215.20	-2,223.12	-5,996.30	0.59	2.50	636.90
3	16,827.75	21	17	4	80.95	1,505.19	4,943.37	-2,190.12	-5,544.12	0.69	2.92	801.32
2	16,711.87	21	15	6	71.43	1,439.08	4,461.09	-812.39	-1,999.08	1.77	4.43	795.80
1	7,518.16	21	12	8	57.14	1,222.83	4,154.67	-894.48	-2,116.31	1.37	2.05	358.01

20 of 21 instances (95%) closed above the entry price at some point in the next 4 days.

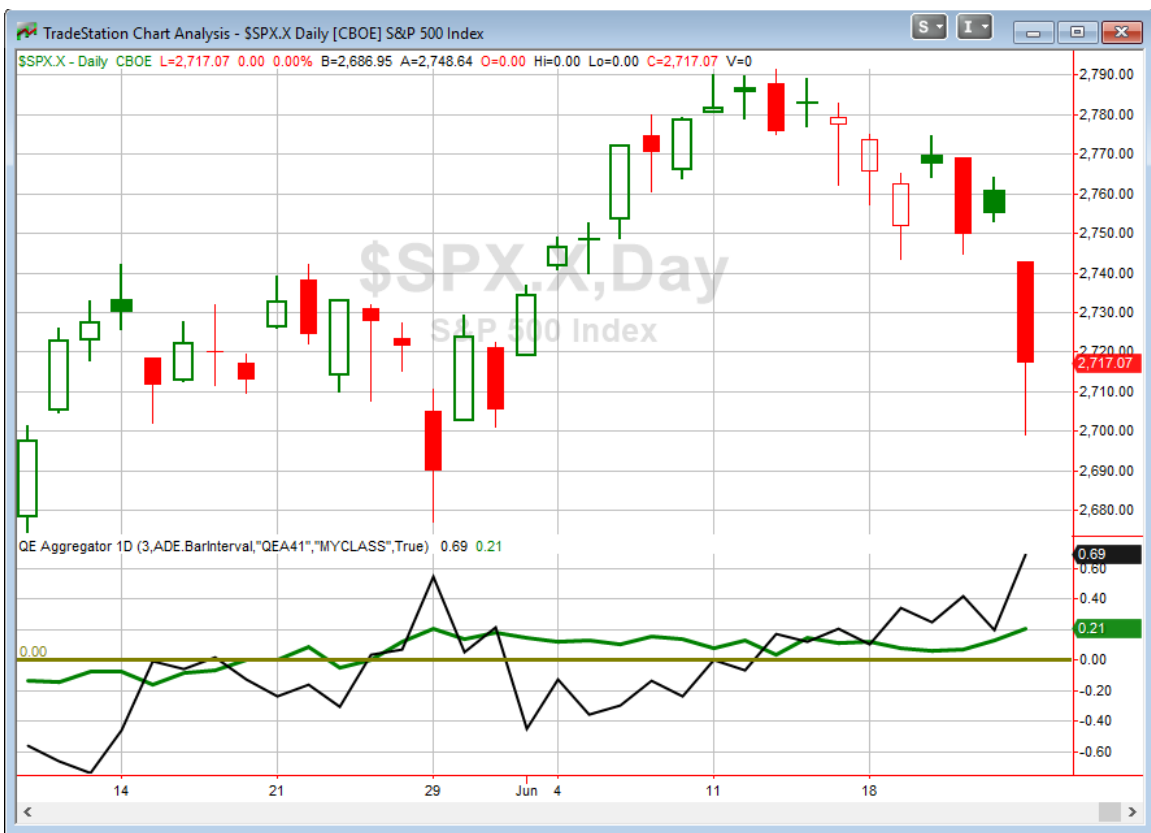
The bounces have been very reliable, with only 1 instance where QQQ has failed to bounce at some point in the next four days. And much of the edge has played out in the first 2 days. Below is the profit curve for a 2-day holding strategy.



The consistent movement from lower left to upper right is an encouraging sign for the bulls. I have therefore included the study on the short-term Active List.

Lastly, I will note that there was a Catapult trigger today. This brings the CBI up to just "1". But even a low reading is more bullish than 0. For more confidence, I would want to see a larger CBI spike.

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



With tonight's new studies being added tonight the green Aggregator Line moved higher 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 climbed further above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 Tuesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2754.99 on Tuesday. That is 1.4% above Monday's close. Therefore, SPX would need to close up a sizable 1.4% on Tuesday to flip from oversold to overbought versus expectations.

Evidence is building. A somewhat stretched condition, a potential Turnaround Tuesday setup, and a VIX spike suggesting overdone fear are all pointing towards a short-term bounce. With ample room to the upside, I am inclined to take on a 2<sup>nd</sup> lot of index exposure here (out of 4 possible lots). QQQ appears a bit more stretched than SPY, and I will look to take advantage of that with a QQQ entry if I can get a good fill. I sometimes try and avoid buying into intraday selloffs during emotional markets like we are currently experiencing. I will do the same on Tuesday, only looking to buy into a gap down or a poor close. I will not add QQQ on an intraday pullback.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/25– neutral***

The intermediate-term outlook was last updated in the 6/25/18 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***

***New***

LMT – 1/3 @ \$298.77 (buy @ limit)

***Broad Market Large Cap CBI – 1 (LMT)***

### **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.*

***LMT – buy 1/3 Catapult position @ \$298.77 LIMIT.*** This is a Catapult trigger. It is the 1<sup>st</sup> of up to 3 possible entries for LMT.

***QQQ – buy ¼ index position @ \$171.36 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$171.36 LIMIT ON CLOSE.*** Based on the short-term outlook above, I will look to take on some QQQ if I can get a favorable fill at either the open or the close.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$32.32	-8.52%		Sell on close > \$32.62
SPY(1/4)	6/21/2018	\$274.24	\$271.00	-1.18%		Aggregator

*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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