

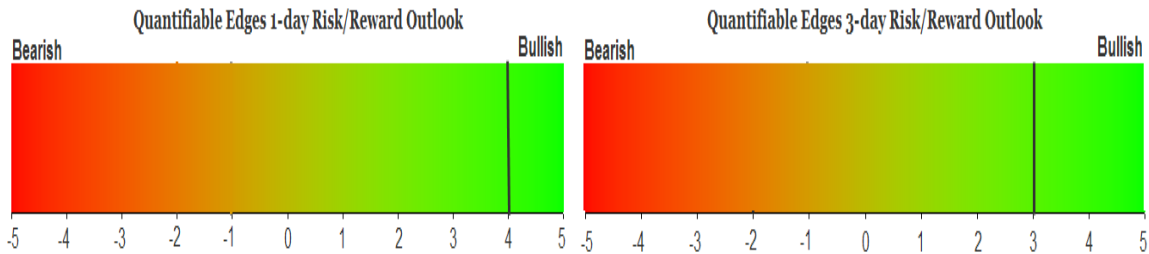
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2018

Volume 11 Issue 124

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Outside day at bottom of range creates a strongly bullish setup.
- The stretched VIX is suggesting a bounce.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish and evidence is building. I like the long side, and will look to add to my current small index position if I can get a favorable fill on Thursday.

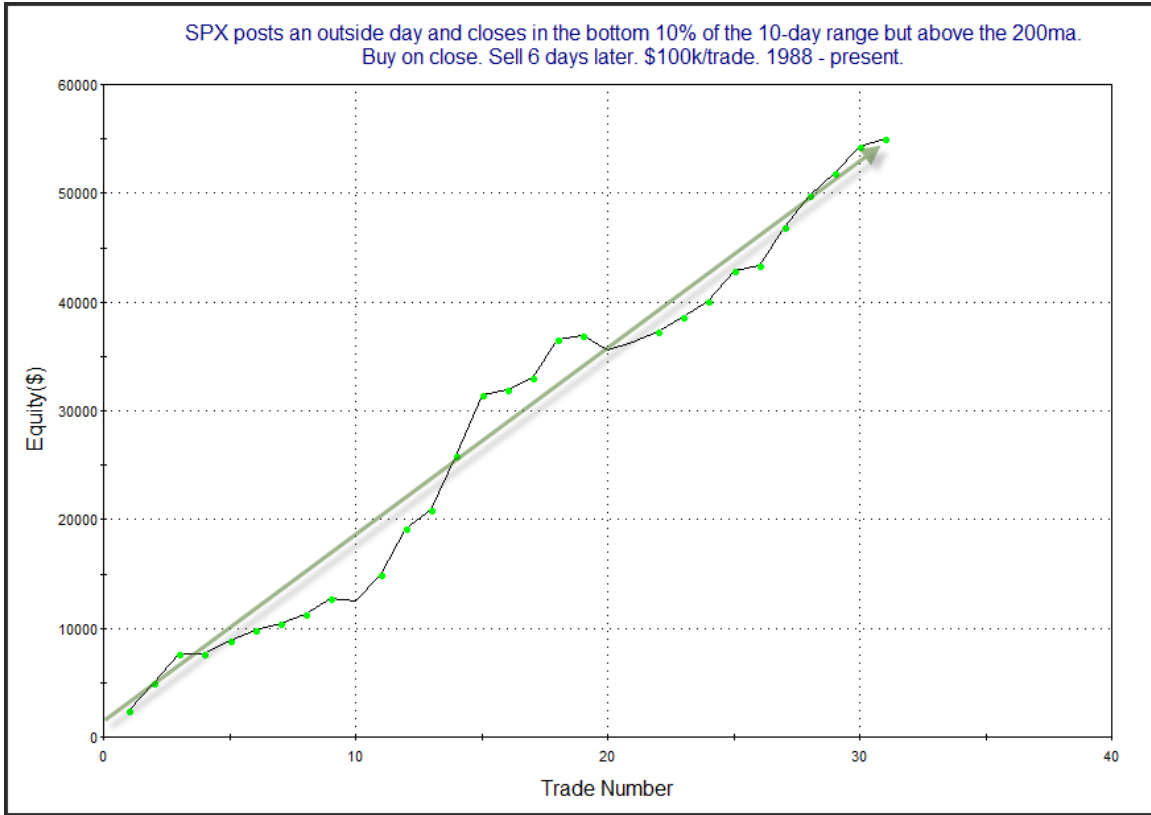
The Evidence

Wednesday started strong, but the buying ended at 10:30am EST, and it was all downhill after that. In the end the SPX finished down 0.9%, the NASDAQ fell 1.5%, and the Russell 2000 lost 1.7%. Breadth was negative as the NYSE Up Issues % was 29% and the Up Volume % came in at 33%. NYSE volume rose some from Tuesday's level.

The big outside day that SPX put in is notable. The study below is from the 3/22/17 letter. It examines the implications of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of the 10-day range but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	56,180.99	30	25	5	83.33	2,514.38	6,549.66	-1,335.69	-2,142.23	1.88	9.41	1,872.70
9	56,400.53	30	25	5	83.33	2,501.40	6,622.56	-1,226.88	-3,224.13	2.04	10.19	1,880.02
8	55,839.42	30	25	5	83.33	2,476.92	5,596.29	-1,216.72	-2,364.18	2.04	10.18	1,861.31
7	53,077.68	31	27	4	87.10	2,170.39	5,846.58	-1,380.73	-2,644.46	1.57	10.61	1,712.18
6	54,962.01	31	29	2	93.55	1,948.76	5,645.64	-776.09	-1,353.73	2.51	36.41	1,772.97
5	51,977.41	31	28	3	90.32	1,924.24	5,460.84	-633.81	-869.01	3.04	28.34	1,676.69
4	38,535.75	31	24	7	77.42	1,812.31	5,187.49	-708.53	-2,964.25	2.56	8.77	1,243.09
3	29,476.22	31	21	10	67.74	1,721.40	5,339.18	-667.31	-1,665.30	2.58	5.42	950.85
2	22,957.66	34	23	11	67.65	1,204.69	3,591.28	-431.84	-1,105.36	2.79	5.83	675.23
1	9,049.55	34	27	7	79.41	574.00	1,337.22	-921.19	-1,799.08	0.62	2.40	266.16

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a "> 200ma" filter. And it isn't just the numbers that look good. Here is the profit curve.



That is a nice straight profit curve.

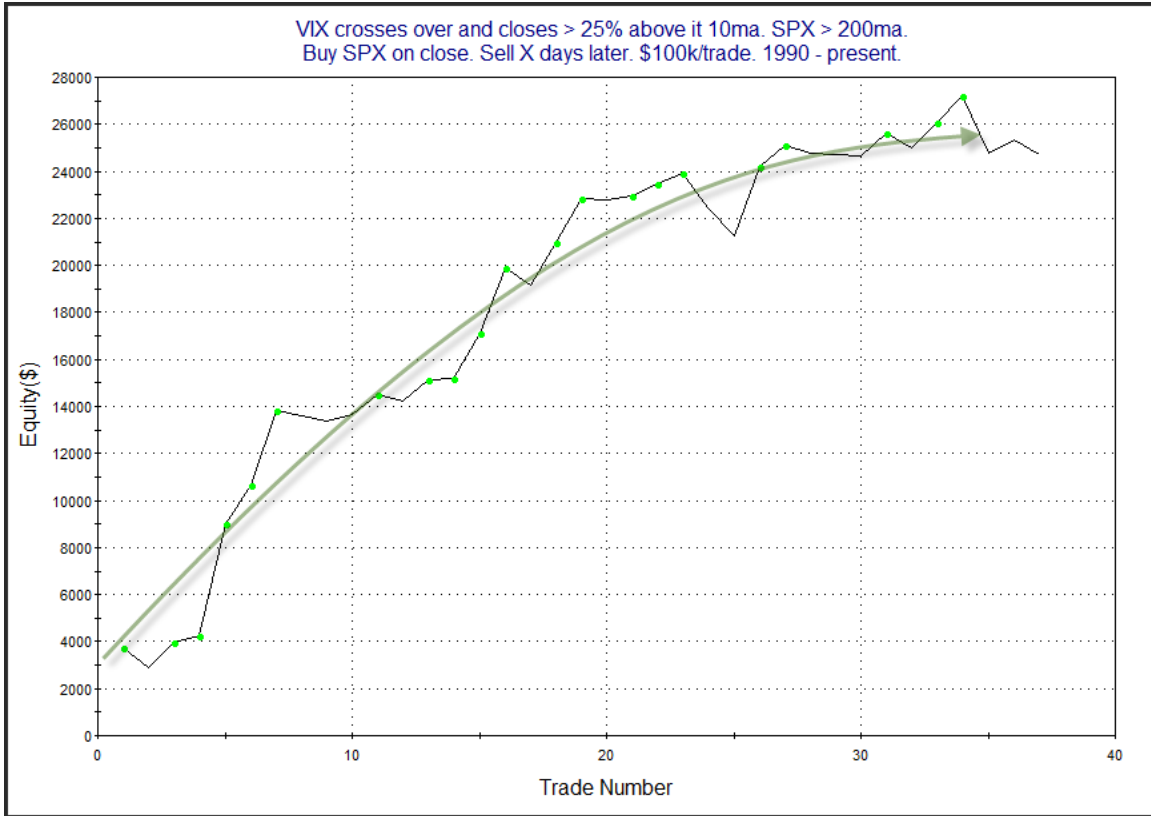
While the SPX declined sharply, the VIX index rose sharply. In fact, it closed 26% above its 10-day moving average. A study from just 2 nights ago in the 6/26/18 letter examined stretches of 25% or more.

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	24,704.84	37	23	14	62.16	1,466.71	4,809.66	-644.96	-2,411.64	2.27	3.74	667.70
1	10,889.95	37	25	12	67.57	987.20	5,117.46	-1,149.16	-4,074.84	0.86	1.79	294.32

34 of 37 instances (92%) closed above the entry price at some point in the next week.

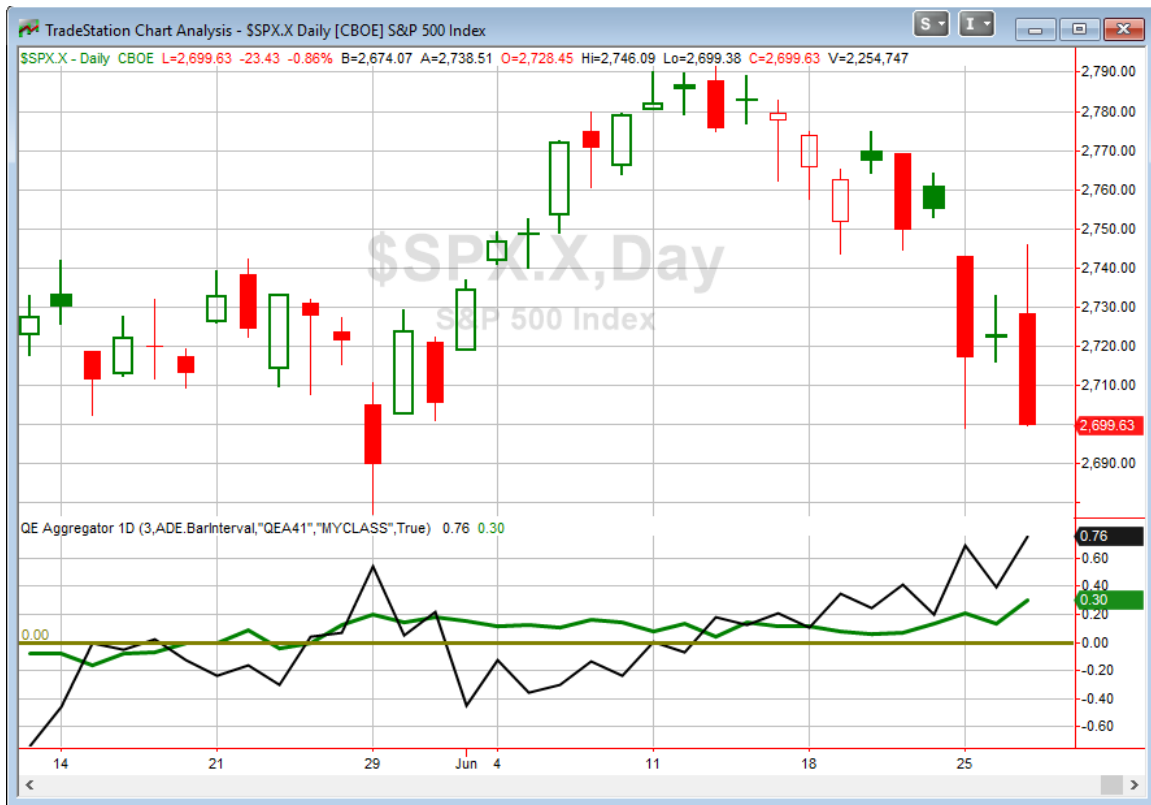
Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



Despite some recent flattening, that is a nice move from lower left to upper right on the chart. I have included this study on the Active List also.

One possible downer is that the CBI actually dropped to zero. I prefer to see the CBI spiking when the market is selling off as a sign that there may be broad capitulation suggesting a bounce. But Catapults have not been triggering much to this point, so the market does not have CBI support suggesting a bounce. It is capable of bouncing without such support. Odds just increase if the CBI is spiking.

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



With the new studies tonight 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 moved further above 0. The very positive Differential Line reading means SPX is strongly 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 Thursday. It would take some very compelling new bearish evidence to change this. The Differential Pivot will be 2728.03 on Thursday. That is 1.1% above Wednesday's close. Therefore, SPX would need to close up 1.1% on Thursday to flip from oversold to overbought versus expectations.

So the Aggregator is bullish, and it is likely to stay that way. Evidence is building, and the market has a good amount of room to the upside before it would be considered overbought. Despite the low CBI reading that I noted above, I generally like the long-side reward/risk potential here. The SPX outside day pattern has shown favorable odds, and the spiking VIX suggests fear is overdone. I already have a small index position. I will look to add to it if I can get a favorable fill on Thursday.

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

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 @ \$269.35 LIMIT. Based on the short-term outlook above, I will look to take on a 2nd lot of SPY if I can get a fill at Wednesday’s closing price or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$31.00	-12.26%		Sell on close > \$32.25
SPY(1/4)	6/21/2018	\$274.24	\$269.35	-1.78%		Aggregator
LMT (1/3)	6/26/2018	\$298.77	\$294.78	-1.34%		<i>sell on open</i>

LMT reached its intraday exit trigger price before reversing. It will be exited at the open on Thursday.

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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