

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 3, 2018

Volume 11 Issue 127

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- The last 5 days have now closed within the previous day's range. After a 1% selloff in an uptrend this type of consolidation has often been followed by a pop.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator remains bullish and evidence is continuing to build. But SPX could easily find itself short-term overbought on Monday.

**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>						
July 2, 2018	End of month, bottom 1/2 of range	1 day	Bullish			
July 2, 2018	Bottom 10% intraday range but up	1-3 days	Bullish			
July 2, 2018	Up 2 days from 20-low but < 3 ago	1-3 days	Bullish			
June 29, 2018	20 Low Cls. 20-low ID then up.	1-7 days	Bullish	2.40%	-1.65%	-3.10%
June 29, 2018	Higher Hi then Dn. Lower Low then Up	1-5 days	Bullish	1.80%	-1.15%	-2.30%
June 28, 2018	Outside Day Dn. Bottom 10% 10-day	1-6 days	Bullish			
<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 \$30 billion	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			

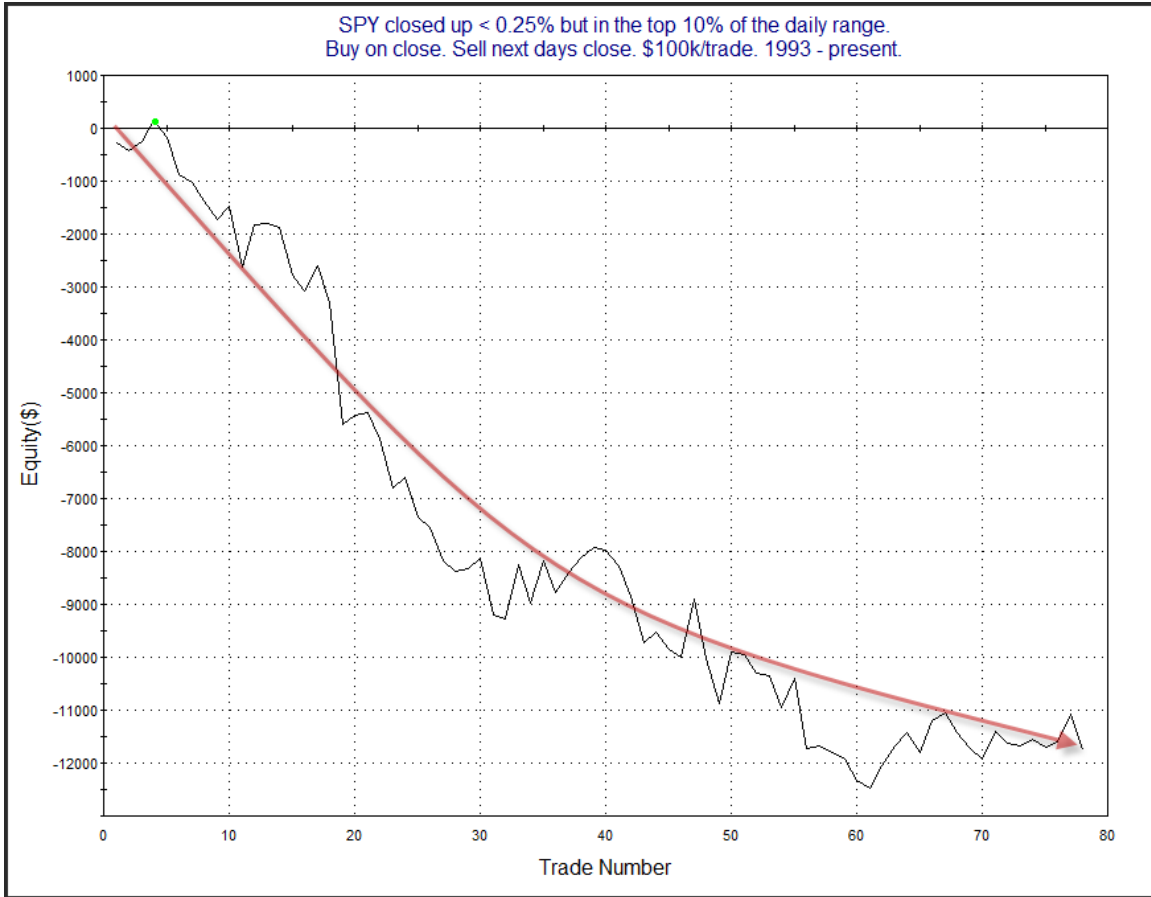
**The Evidence**

Monday started with a gap down but finished positive. In the end the SPX closed up 0.3%, the NASDAQ rose 0.8%, and the Russell 2000 gained 0.7%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 47%. NYSE volume declined some from Friday's level.

One interesting study to appear in the Quantifinder was the one below, which I last showed in the 10/20/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of the daily range. Buy on close. Sell next days close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand
All Trades			
Total Net Profit	(\$11,757.74)	Profit Factor	0.49
Gross Profit	\$11,364.31	Gross Loss	(\$23,122.05)
Total Number of Trades	78	Percent Profitable	38.46%
Winning Trades	30	Losing Trades	48
Even Trades	0		
Avg. Trade Net Profit	(\$150.74)	Ratio Avg. Win:Avg. Loss	0.79
Avg. Winning Trade	\$378.81	Avg. Losing Trade	(\$481.71)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The curve has flattened out a good bit in recent times. I am monitoring this, and will suspend the study if need be. But for now, I am still giving it the benefit of the doubt and including it on the Active List.

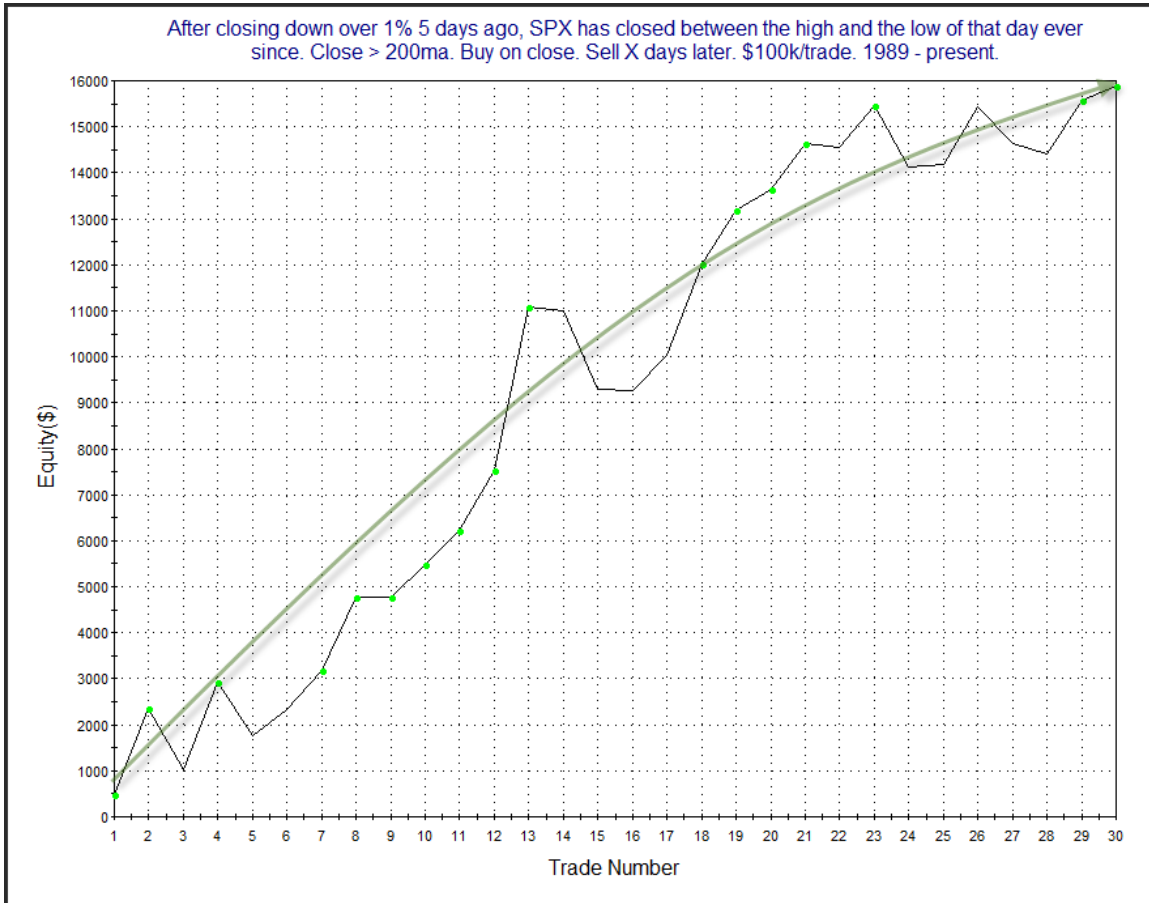
After the big down day on June 25<sup>th</sup>, the SPX has closed within the true range of that 1 bar every day for the last week. The bears failed to follow through on that selloff, but the bulls have not managed to move the SPX back out of the range either. This triggered the study below, which I last discussed in the 6/3/15 Letter.

After closing down over 1% 5 days ago, SPX has closed between the high and the low of that day ever since. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	-2,112.29	30	16	14	53.33	1,770.47	3,757.60	-2,174.28	-5,937.53	0.81	0.93	-70.41
4	1,904.70	30	19	11	63.33	1,205.91	3,706.56	-1,909.78	-3,003.89	0.63	1.09	63.49
3	15,884.30	30	21	9	70.00	1,077.66	3,552.64	-749.63	-1,683.76	1.44	3.35	529.48
2	11,022.03	30	18	12	60.00	1,093.21	2,111.20	-721.31	-2,003.25	1.52	2.27	367.40
1	9,274.92	30	22	8	73.33	699.92	1,760.80	-765.41	-1,663.20	0.91	2.51	309.16

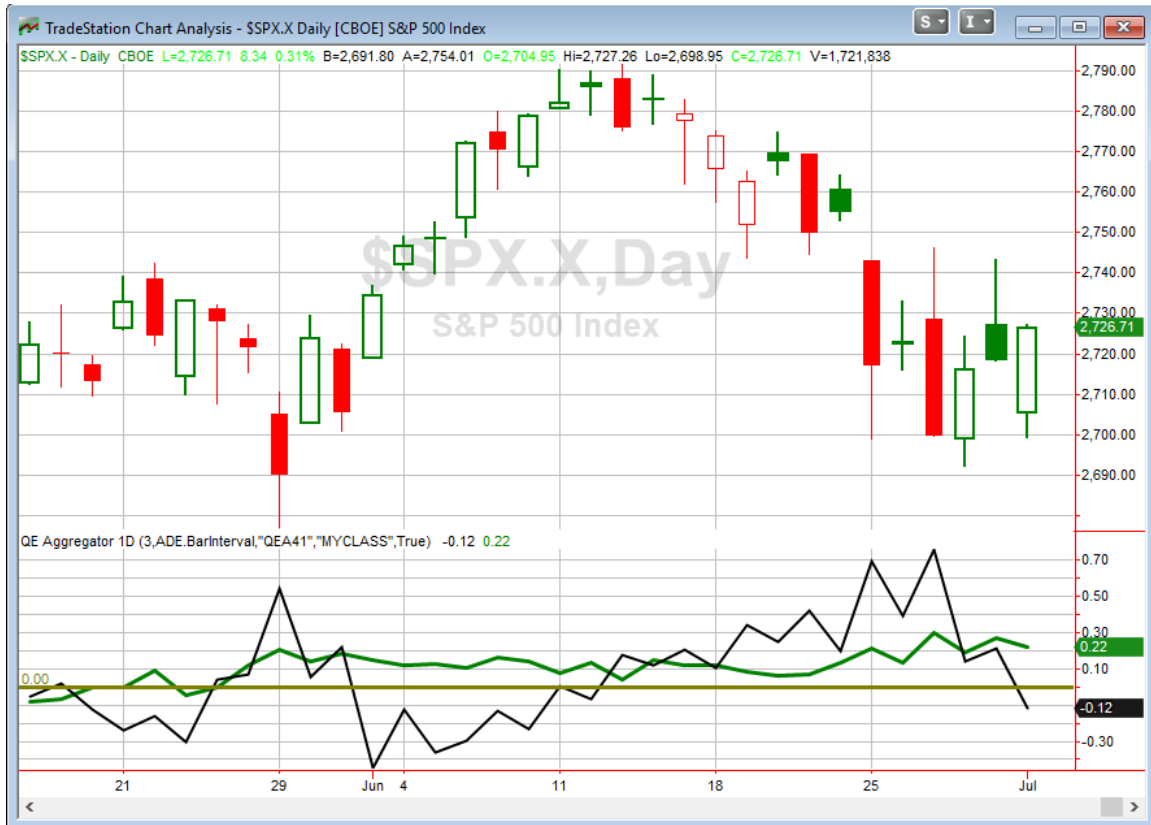
Over the last 29 ½ years or so the SPX has burst higher out of this “failed selloff” and consolidation on a consistent basis. But the implications are only bullish for a few short days. After that there does not appear to be a decided edge for either the bulls or the bears.

Below I have produced an equity curve using a 3-day exit strategy.



This is a pretty steady equity curve and it appears to serve as confirmation of the edge. I have added this study to the Active List tonight.

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 dipped a little below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Tuesday. It would take some very compelling new bearish evidence to change this. The Differential Pivot will be *slightly inverted* at 2733.35 on Tuesday. That is 0.2% *above* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case it will take a close higher of over 0.2% for SPX to remain

overbought. If it does not do that, it will be considered “oversold” versus expectations as of Tuesday’s close.

Evidence is mixed tonight, but overall still pointing higher. While the Aggregator is neutral, it will likely turn back to bullish on Tuesday if SPX fails to close 0.2% higher. I took off part of my long position at the close on Monday. I will look to close out the rest if SPX can finish Tuesday up enough to remain “overbought”.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 7/2– neutral***

### **Catapult and Capitulative Breadth Statistics**

[\*Catapult & CBI Presentation Link\*](#)

#### ***OpenCatapult Triggers***

*New*

LOW @ \$94.87 (buy 1/3 @ limit)

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

### **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.*

**LOW – buy 1/3 Catapult position @ \$94.87 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of up to 3 possible lots for LOW.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EWZ	5/30/2018	\$35.33	\$31.87	-9.79%		<i>Sell on close &gt; \$31.97</i>
SPY(1/4)	6/21/2018	\$274.24	\$271.86	-0.87%		<i>sell on SPX close&gt;2733.35</i>
<b>SPY(1/4)</b>	<b>6/28/2018</b>	<b>\$269.29</b>	<b>\$271.86</b>	<b>0.95%</b>		<b><i>Sold on close</i></b>

*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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