

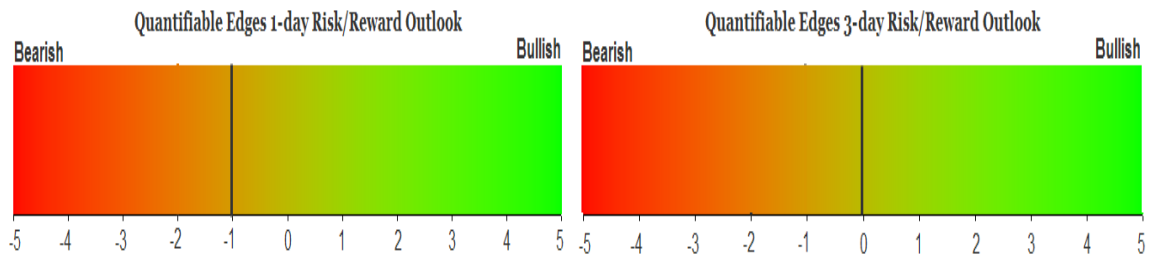
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2018

Volume 11 Issue 131

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- 3+ days of strong Nasdaq breadth are often followed by a down day

Short-term Outlook

The Bottom Line

The market is now strongly overbought, but bullish short-term evidence is still outweighing bearish. This suggests poor reward/risk. The Aggregator is therefore neutral, and so am I.

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						
July 10, 2018	SPX up 2% in 3 days. HV Off < 0.25	1-6 days	Bullish	1.90%	-1.30%	-2.60%
July 10, 2018	SOMA reduction intensifies to \$30billion	1 day	Bearish			
Active - Long Term						
July 10, 2018	SPX up 2% in 3 days. HV Off < 0.25	1-19 days	Bullish	4.20%	-2.20%	-4.80%
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			
Dropped Tonight						
June 29, 2018	20-low cls. 20-low 1D then up	1-7 days	Bullish	2.40%	-1.65%	-3.10%

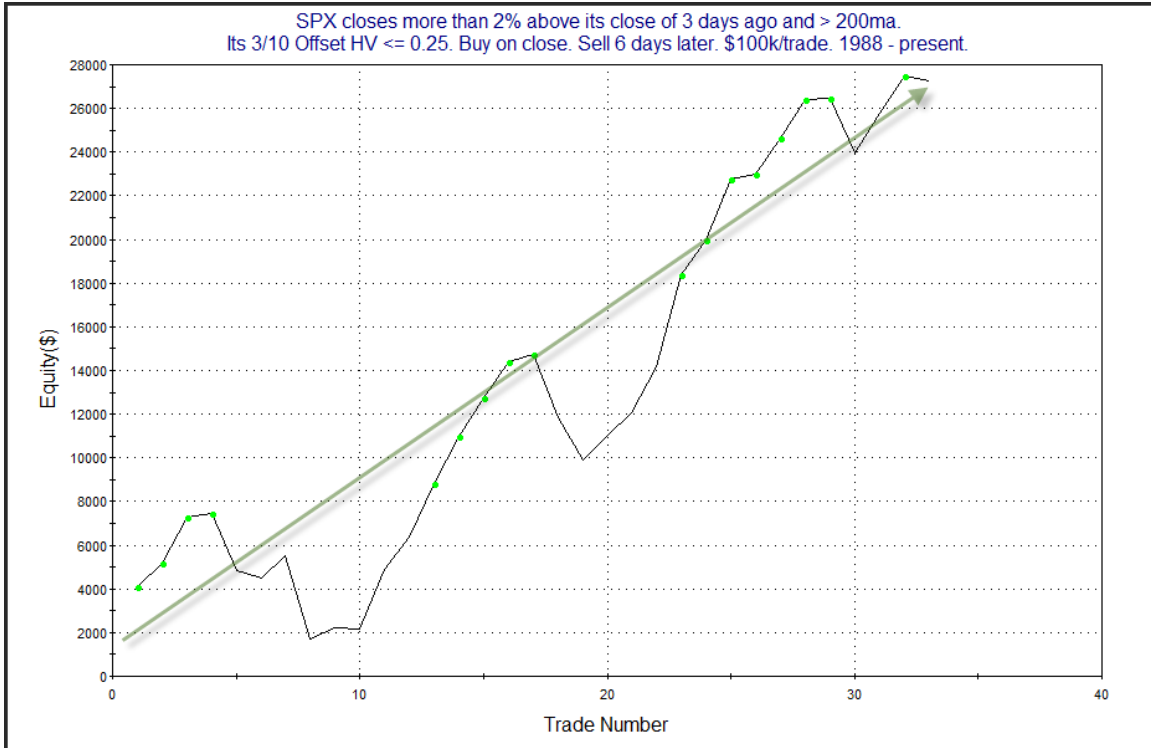
The Evidence

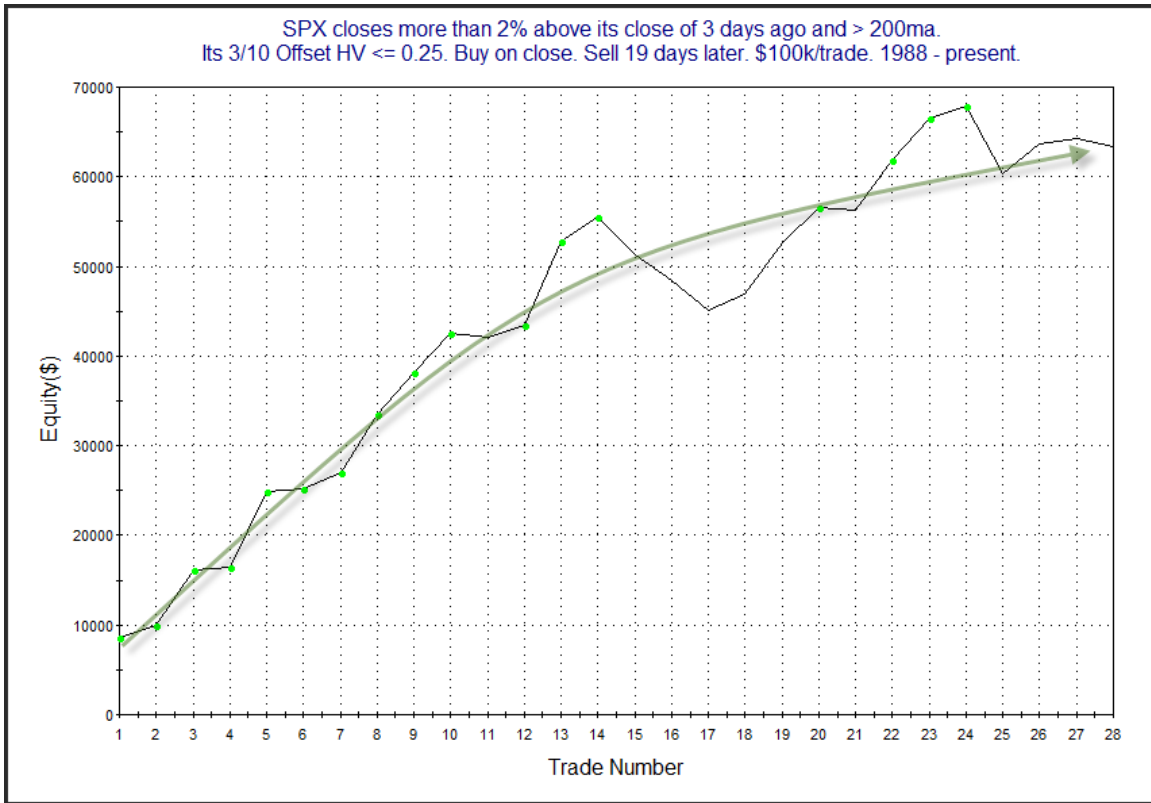
Monday was the third strong day in a row. The SPX closed up 0.9%, the NASDAQ rose 0.9%, and the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 69%. NYSE volume rose some from Friday's low level.

On Monday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. This triggered the study below, which I last discussed in the 12/24/15 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma. Its 3/10 Offset HV <= 0.25. 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
20	57,912.68	28	21	7	75.00	3,965.54	9,311.76	-3,623.38	-8,986.08	1.09	3.28	2,068.31
19	63,305.47	28	21	7	75.00	3,951.68	9,258.48	-2,811.39	-7,554.72	1.41	4.22	2,260.91
18	59,463.88	29	22	7	75.86	3,723.98	10,412.64	-3,209.08	-9,374.40	1.16	3.65	2,050.48
17	47,055.87	29	21	8	72.41	3,513.45	10,683.36	-3,340.82	-9,838.08	1.05	2.76	1,622.62
16	49,823.60	29	21	8	72.41	3,527.46	10,667.52	-3,031.62	-8,782.08	1.16	3.05	1,718.06
15	49,798.76	29	21	8	72.41	3,352.85	8,742.96	-2,576.40	-8,832.00	1.30	3.42	1,717.20
14	46,909.32	30	22	8	73.33	2,945.40	8,253.36	-2,236.19	-6,837.60	1.32	3.62	1,563.64
13	41,742.78	30	20	10	66.67	2,987.82	6,434.62	-1,801.36	-8,352.48	1.66	3.32	1,391.43
12	43,014.77	30	22	8	73.33	2,589.47	6,140.16	-1,744.21	-6,029.28	1.48	4.08	1,433.83
11	36,943.42	30	22	8	73.33	2,441.42	5,708.16	-2,095.97	-6,749.76	1.16	3.20	1,231.45
10	34,658.42	31	23	8	74.19	2,277.97	5,768.50	-2,216.86	-6,828.48	1.03	2.95	1,118.01
9	28,697.31	31	20	11	64.52	2,307.67	5,859.48	-1,586.92	-5,817.60	1.45	2.64	925.72
8	18,870.31	31	22	9	70.97	1,562.65	4,162.27	-1,723.11	-3,819.90	0.91	2.22	608.72
7	21,306.57	32	24	8	75.00	1,464.84	3,983.52	-1,731.21	-4,227.28	0.85	2.54	665.83
6	27,261.12	33	25	8	75.76	1,663.38	4,206.89	-1,790.41	-3,782.08	0.93	2.90	826.09
5	24,256.07	33	26	7	78.79	1,433.86	3,481.56	-1,860.60	-2,842.40	0.77	2.86	735.03
4	19,075.11	33	21	12	63.64	1,576.05	2,616.60	-1,168.49	-2,910.70	1.35	2.36	578.03
3	13,040.77	33	23	10	69.70	1,204.03	2,315.72	-1,465.20	-3,701.10	0.82	1.89	395.17
2	12,146.62	34	21	13	61.76	1,030.09	2,451.76	-729.63	-1,838.16	1.41	2.28	357.25
1	-338.47	36	18	18	50.00	548.31	1,857.24	-567.12	-2,159.69	0.97	0.97	-9.40

The numbers here all seem to suggest an upside edge. To get the 3/10 Offset HV indicator that low while the market is rising so strongly generally requires some volatile activity prior to the bounce. That volatile period will often pave the way for a continuation of the rally. Of course, I also took a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.





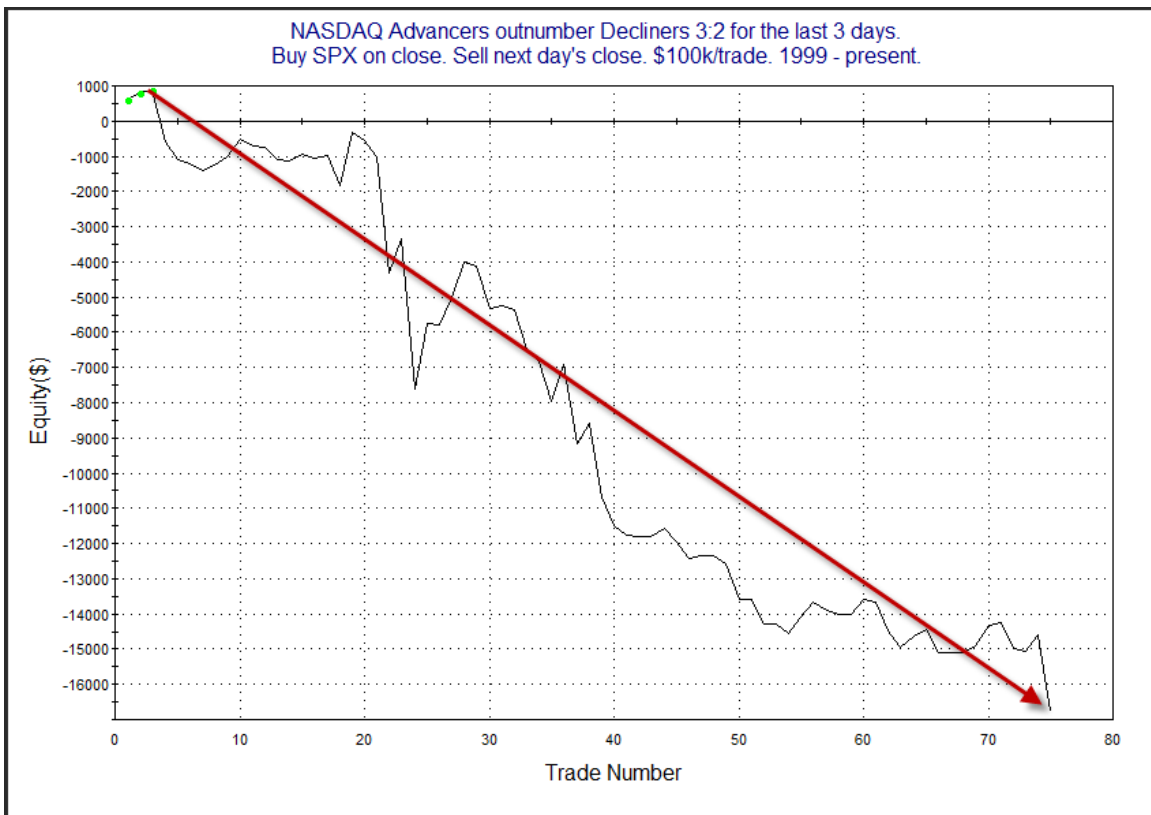
Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

Not only did we see gains for the 3rd day in a row, but the NASDAQ put in some strong breadth numbers. This triggered a study that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. I last showed the study in the 4/6/18 letter and have updated the results below.

NASDAQ Advancers outnumber Decliners 3:2 for the last 3 days.
Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.

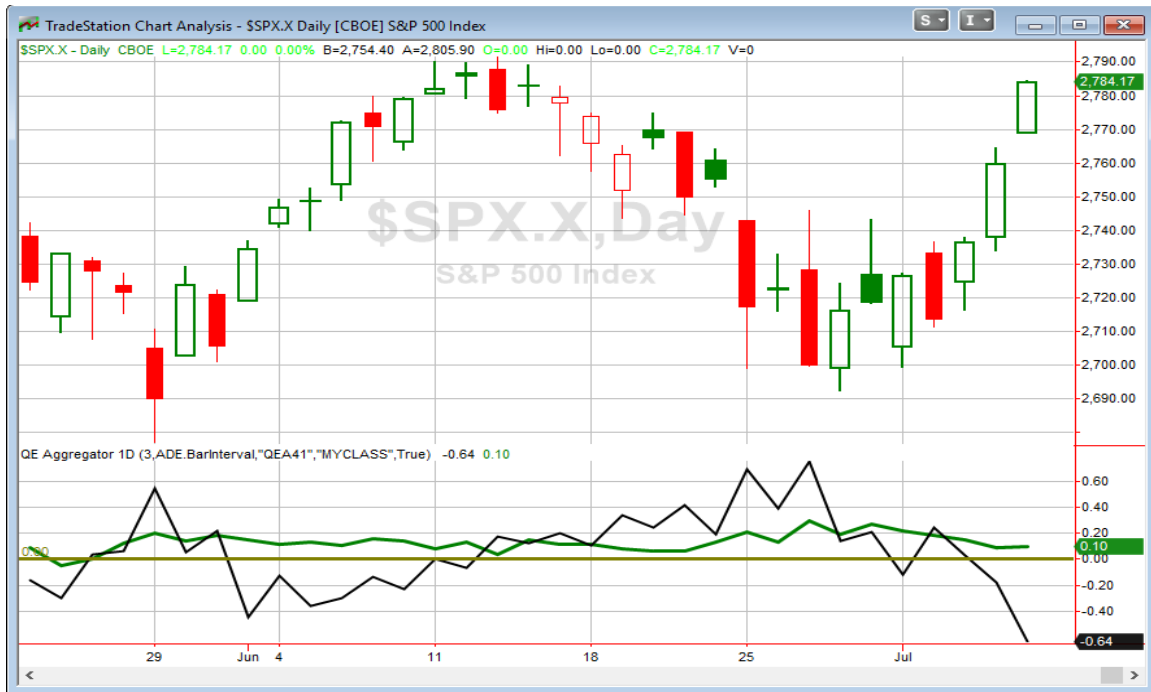
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$16,770.72)	Profit Factor	0.44	
Gross Profit	\$13,395.69	Gross Loss	(\$30,166.41)	
Total Number of Trades	75	Percent Profitable	41.33%	
Winning Trades	31	Losing Trades	44	
Even Trades	0			
Avg. Trade Net Profit	(\$223.61)	Ratio Avg. Win:Avg. Loss	0.63	
Avg. Winning Trade	\$432.12	Avg. Losing Trade	(\$685.60)	
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)	

The numbers imply a downside edge. I also produced an equity curve.



It's definitely choppy, but it has moved from upper left to lower right for a long time. And I have shown this study for years, and it continues to make new lows. I believe it to be worth consideration and I have included it on the Active List for tonight.

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



With tonight's studies being added, 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 far below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is as overbought as we have seen in a good while. 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 stayed flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2751.57 on Tuesday. That is 1.2% below Monday's close. So SPX will need to close down 1.2% on Monday in order to flip from being considered overbought to oversold versus recent expectations.

The Aggregator is showing bullish expectations based on the 3-day time horizon. But the 1-day is actually negative. That is why you see the negative Reward/Risk reading at the top of the letter for the 1-day timeframe. The window of opportunity is not large enough for me to look to take advantage of it in the letter. But more nimble traders could factor the possible negative bias into their decision making on Tuesday. The 3-day outlook is not

near a favorable setup right now. I am going to need to see compelling bearish evidence, or a substantial pullback in SPX before I will consider taking on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/9– neutral

The intermediate-term outlook was last updated in the 7/9 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>LOW(1/3)</i>	<i>7/5/2018</i>	<i>\$94.87</i>	<i>\$96.56</i>	<i>1.78%</i>		<i>sold on open</i>

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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