

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2018

Volume 11 Issue 132

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Breakouts to new 50-day highs often lead to more buying in the short-term. This is especially true when there has been a run-up into the breakout and the breakout occurs on lower volume. Both conditions were present Tuesday.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are somewhat bullish, but the market is overbought, leaving me neutral.

*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
<b>Active - Short Term</b>						
July 11, 2018	50-breakout. 3-up. Low vol.	1-5 days	Bullish			
July 10, 2018	SPX up 2% in 3 days. HV Off < 0.25	1-6 days	Bullish	1.90%	-1.30%	-2.60%
<b>Active - Long Term</b>						
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			

***The Evidence***

Tuesday was a mixed day. The SPX closed up 0.3%, the NASDAQ rose 0.04%, and the Russell 2000 lost 0.6%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 58%. NYSE volume declined some from Monday's level.

Tuesday was the 1<sup>st</sup> time since June 12<sup>th</sup> that the SPX closed at a new high. The new high triggered a number of studies in the Quantifinder. I have shown numerous times before that breakouts to new highs show a better chance of following through if they are occurring after a decent basing period of at least 1-2 weeks. Some other studies that triggered showed evidence that to some people might seem counter-intuitive. One study showed that breakouts that occurred on declining volume have followed-through much better than breakouts accompanied by rising volume. Another study showed that when the breakout has come after the market had already risen for at least the past 2 days, then it has done a better job of carrying that momentum forward.

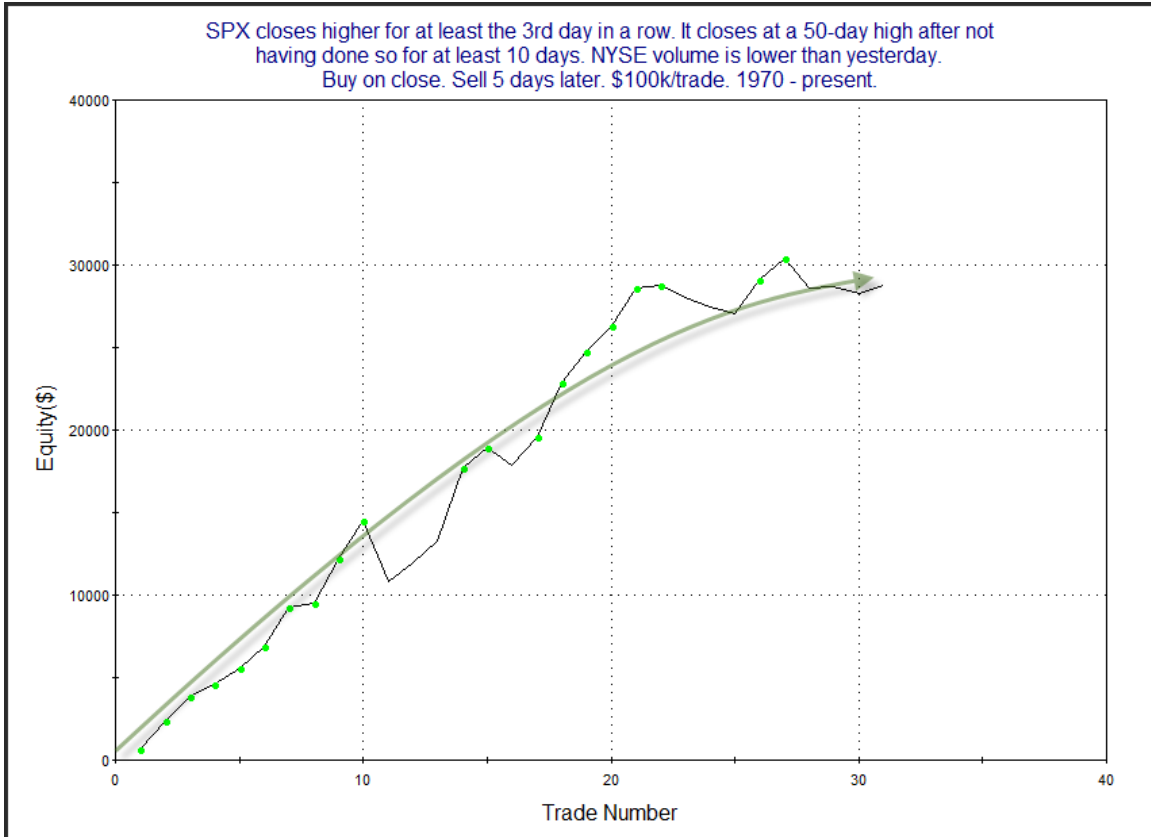
In the 7/17/17 Letter I combined these concepts and published the following study. (All stats are updated.)

SPX closes higher for at least the 3rd day in a row. It closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday.  
Buy on close. Sell X days later. \$100k/trade. 1970 - 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	28,796.59	31	24	7	77.42	1,562.48	4,482.50	-1,243.28	-3,693.73	1.26	4.31	928.92
4	19,541.92	31	24	7	77.42	1,141.13	4,440.00	-1,120.76	-2,145.44	1.02	3.49	630.38
3	18,873.13	31	21	10	67.74	1,170.86	3,950.00	-571.48	-1,082.79	2.05	4.30	608.81
2	13,131.34	31	23	8	74.19	845.38	2,133.10	-789.04	-1,312.40	1.07	3.08	423.59
1	8,141.94	31	21	10	67.74	556.36	1,384.02	-354.15	-893.32	1.57	3.30	262.64

28 of 31 instances (90%) closed above the entry price at some point in the next week.

Stats here are very impressive, especially with a setup where the SPX is already extended. The consistency is impressive as well. Below is a look at the profit curve assuming a 5-day holding period.



While the last couple of instances have not done great, I still like the curve enough to include the study on the Active List.

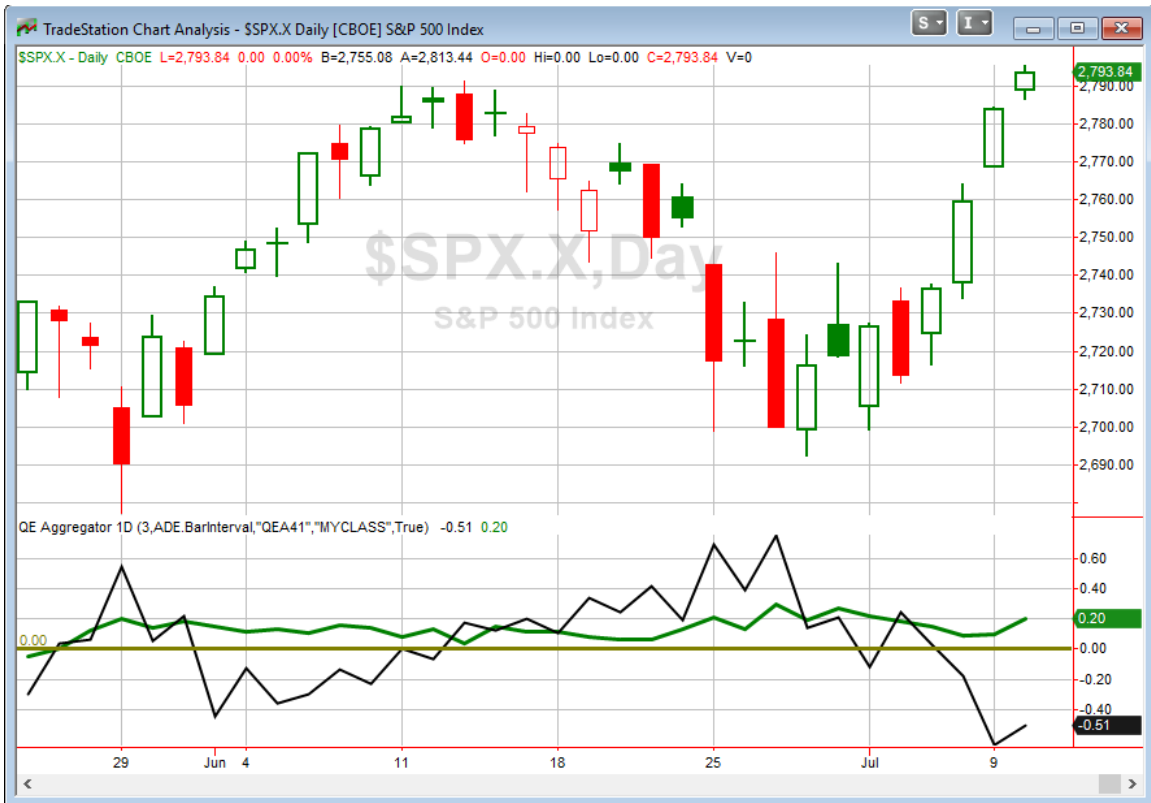
To demonstrate the importance of the 3-day rise and the low volume on the breakout, I reversed both of those criteria and re-ran the study.

SPX closes at a 50-day high after not having done so for at least 10 days. It closed down either yesterday or the day before. NYSE volume is higher than yesterday.  
Buy on close. Sell X days later. \$100k/trade. 1970 - 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	11,800.02	79	40	39	50.63	1,558.68	8,516.82	-1,296.08	-6,088.44	1.20	1.23	149.37
4	4,270.69	79	42	37	53.16	1,251.05	6,716.71	-1,304.69	-5,585.56	0.96	1.09	54.06
3	13,596.68	79	44	35	55.70	1,197.77	6,740.50	-1,117.29	-5,361.06	1.07	1.35	172.11
2	14,224.62	79	45	33	56.96	929.34	4,028.44	-836.23	-4,166.72	1.11	1.52	180.06
1	10,892.95	79	46	33	58.23	561.73	2,731.56	-452.93	-2,722.61	1.24	1.73	137.89

Breakouts under these conditions have seen essentially no edge over the next few days.

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



With tonight's study 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 still far 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 stayed flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Wednesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2771.53 on Wednesday. That is 0.8% below Tuesday's close. So SPX will need to close down 0.8% on Wednesday in order to flip from being considered overbought to oversold versus recent expectations.

So despite the SPX being overbought, there appears to be a decent chance it could continue higher in the next few days. Of course the overbought nature of the market increases potential risk and decreases potential reward. It is not the kind of setup that gets me excited about taking on new positions. I will continue to monitor market action and await the next favorable reward/risk scenario before taking on new exposure. (And with an initially strong negative overnight reaction to more tariff news, things could set up rather quickly in the next day or two.)

***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**

*None.*

*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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