

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 13, 2018

Volume 11 Issue 134

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPY's unfilled up-gap and new 50-day high suggest a bullish edge.

Short-term Outlook

The Bottom Line

Same as yesterday...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
Active - Short Term						
July 13, 2018	Breakaway Gap	1-5 days	Bullish	1.50%	-0.90%	-1.90%
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%
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			

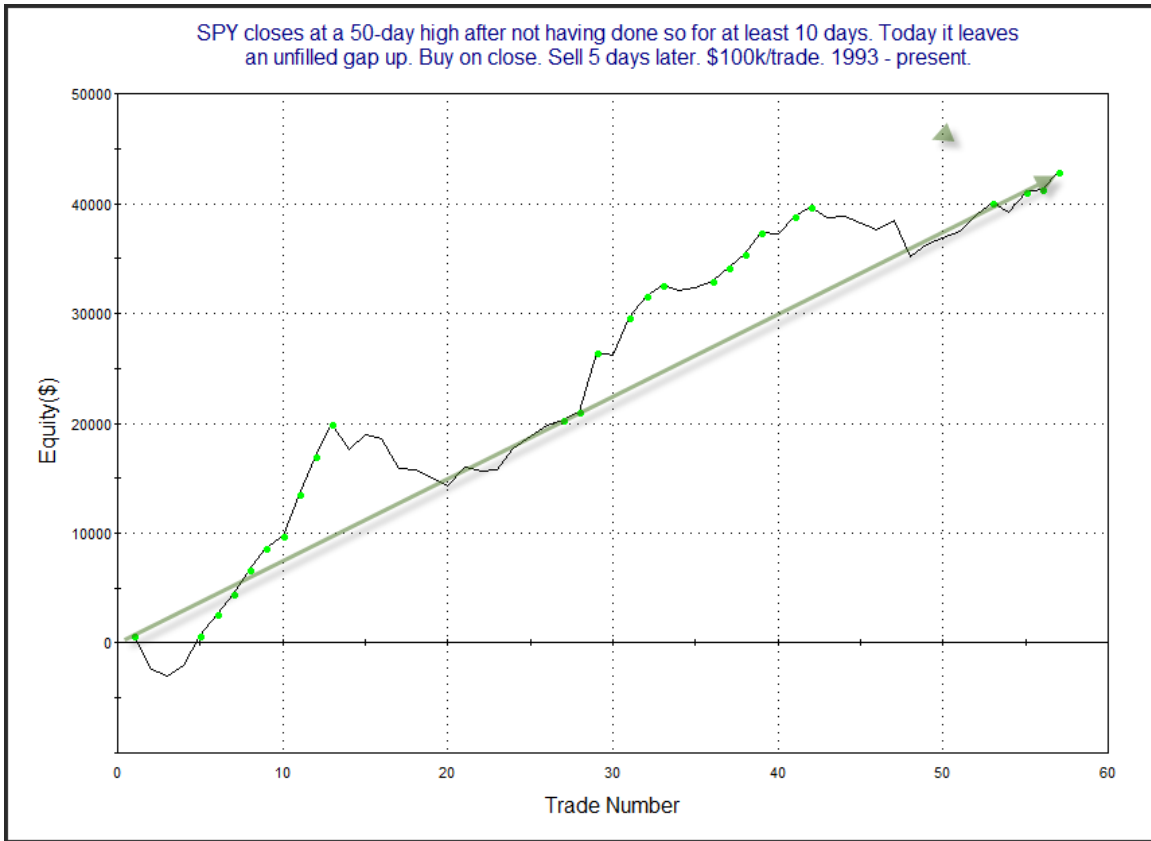
The Evidence

The market bounced back strongly on Thursday. The SPX rose 0.7%, the NASDAQ gained 1.4%, and the Russell 2000 closed up 0.4%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 63%. NYSE volume declined for the 3rd day in a row.

The NASDAQ broke out to new all-time highs. And SPY broke out and closed at a new 50-day high for the 1st time in a while. Breakout days often give clues as to whether we are likely to see additional follow through. Whether the market is posting an unfilled gap is one indication we often examine. The unfilled gap up provided a substantial hint on Thursday. In the 6/4/18 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	42,914.29	57	40	17	70.18	1,524.15	5,434.00	-1,061.86	-3,218.88	1.44	3.38	752.88
4	28,676.83	57	39	18	68.42	1,200.29	3,637.92	-1,007.47	-3,267.84	1.19	2.58	503.10
3	22,988.37	57	39	18	68.42	1,036.76	3,992.56	-969.17	-2,538.18	1.07	2.32	403.30
2	18,492.13	57	39	18	68.42	755.95	2,545.92	-610.55	-2,293.20	1.24	2.68	324.42
1	7,664.12	57	40	17	70.18	466.27	1,816.10	-646.28	-2,591.68	0.72	1.70	134.46
51 of 57 instances (89.5%) closed above the entry price at some point in the next week.												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 6/4/18 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. 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	3,422.69	45	27	18	60.00	1,018.49	2,671.20	-1,337.58	-4,285.26	0.76	1.14	76.06
4	604.96	45	26	19	57.78	979.18	2,072.07	-1,308.09	-4,518.34	0.75	1.02	13.44
3	4,607.09	45	27	18	60.00	994.33	2,927.90	-1,235.54	-5,133.72	0.80	1.21	102.38
2	-2,131.58	45	23	22	51.11	641.90	2,324.90	-767.97	-3,640.86	0.84	0.87	-47.37
1	2,202.16	45	24	21	53.33	477.52	1,586.97	-440.88	-2,448.72	1.08	1.24	48.94

Moves to new highs that don't start with an unfilled gap are much less reliable.

Another potential positive for the bulls, which I discussed in last weekend's letter, is the fact that the SOMA is unlikely to see much of a decline this upcoming week. In fact, I am projecting we will see it rise a small amount. And speaking of small rises, the Fed released the SOMA holdings as of 7/11 on Thursday afternoon. I have pasted it below.

« As of 07/04/2018

SECURITIES HOLDINGS AS OF
July 11, 2018

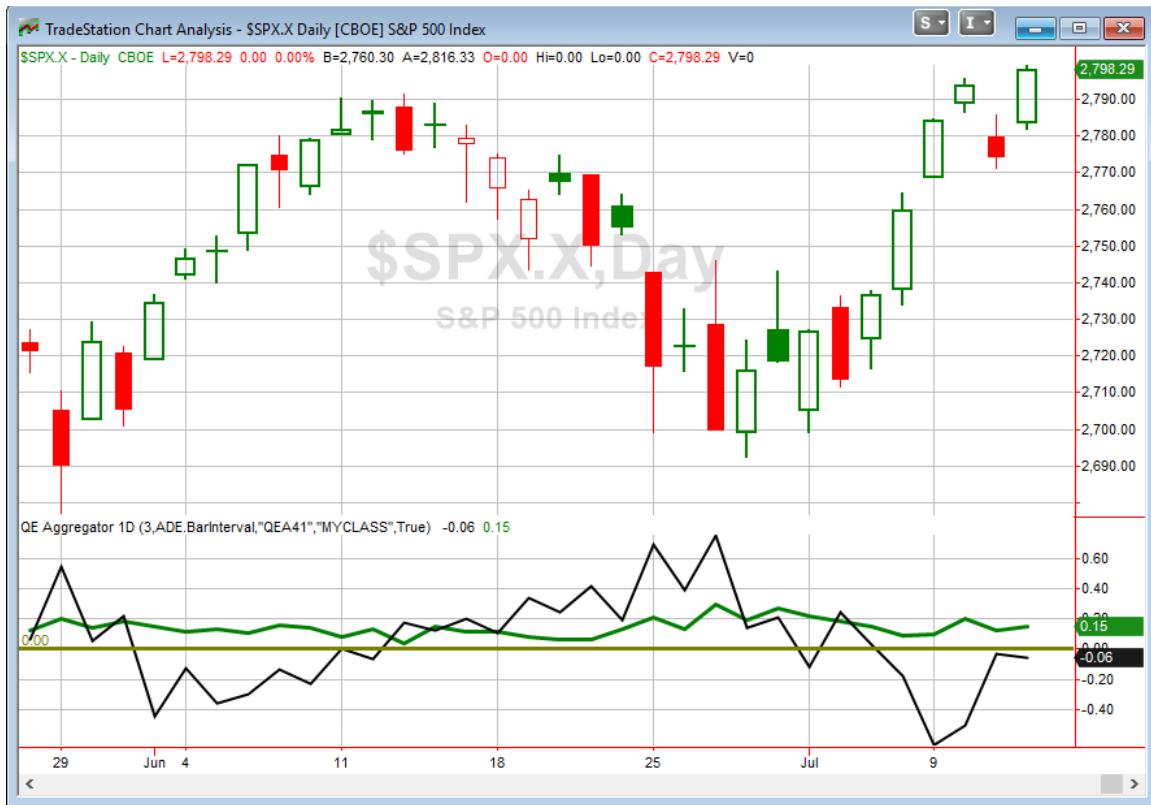
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,206,344,406.1
US Treasury Floating Rate Notes (FRN)	17,816,385.9
US Treasury Inflation-Protected Securities (TIPS)*	114,860,063.8
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,721,275,186.1
Total SOMA Holdings	4,062,705,041.9
Change From Prior Week	3,000.0

*Does not reflect inflation compensation of 21,483,352.3
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 07/12/2018 4:30pm.

While many traders may be surprised to see the SOMA rise a small amount during a month where a \$40 billion reduction is anticipated, QE subscribers would have anticipated this. And as I will discuss more this weekend, this current week could see an even more substantial increase in the SOMA. (But after that, the bears may get another chance to take the market down as liquidity will tighten dramatically.)

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



With tonight's study included, 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 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 stayed flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2804.54 on Friday. That is 0.2% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to rise at least 0.2% in order to remain overbought. Anything less than that and it will be considered "oversold" vs expectations as of Friday's close.

The setup is very similar to last night. Neutral Aggregator which could easily turn bullish on Friday – especially if the market pulls back a little. But again I am not inclined to jump the gun and set up any orders just yet. Instead I will wait for confirmation, and to see what new edges emerge and how compelling they are. For now I remain in wait and see mode.

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](#).

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.