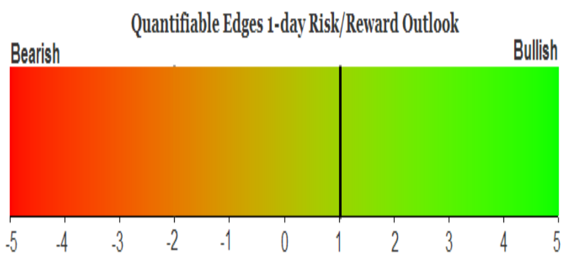
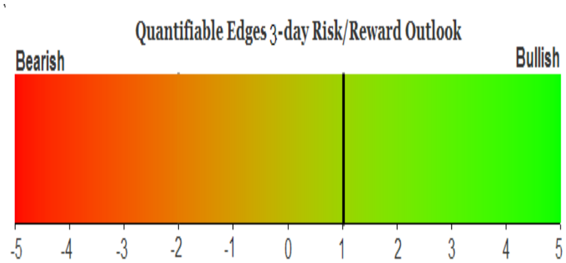
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2018 Volume 11 Issue 137

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The gap down and reversal to a 10-day high hinted at a pullback over the next couple of days.
- Back to back outside days for QQQ has often been followed by short-term market gains.

Short-term Outlook
The Bottom Line
Evidence is mixed, but pointing slightly higher. There appears to be a small upside edge.

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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 18, 2018	Gap up close dn. Gap dn close 10-high	1-2 days	Bearish			
July 18, 2018	QQQ double outside days	1 day	Bullish			
July 13, 2018	Breakaway Gap	1-5 days	Bullish	1.50%	-0.90%	-1.90%
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 $30billior	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						
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%

The Evidence

Tuesday started with a gap down, but it turned around nicely as the indices all posted gains. The SPX rose 0.4%, the NASDAQ climbed 0.6%, and the Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 59%. NYSE volume increased for the 2nd day in a row.

While the market managing to recover from a gap down and closing at a new high may seem like a positive, the study below saw Tuesday's "gap and reverse" as a potential negative. The study was last seen in the 5/22/15 Subscriber Letter. I have updated the results.

After gapping up and closing down yesterday, SPY gaps down and closes at a 10-day high today. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1997 - 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	-15,547.58	30	12	18	40.00	1,128.48	1,888.77	-1,616.07	-6,714.00	0.70	0.47	-518.25
4	-12,627.95	30	14	16	46.67	838.76	1,803.51	-1,523.16	-4,267.12	0.55	0.48	-420.93
3	-7,566.46	31	15	16	48.39	809.04	2,657.93	-1,231.38	-4,244.74	0.66	0.62	-244.08
2	-8,675.80	31	12	19	38.71	744.00	1,935.96	-926.52	-3,107.14	0.80	0.51	-279.86
1	-578.82	31	14	17	45.16	526.10	2,409.00	-467.31	-1,388.76	1.13	0.93	-18.67

The numbers here look somewhat bearish, with much of the damage being done by day 2. I also produced a profit curve assuming a 2-day holding period.

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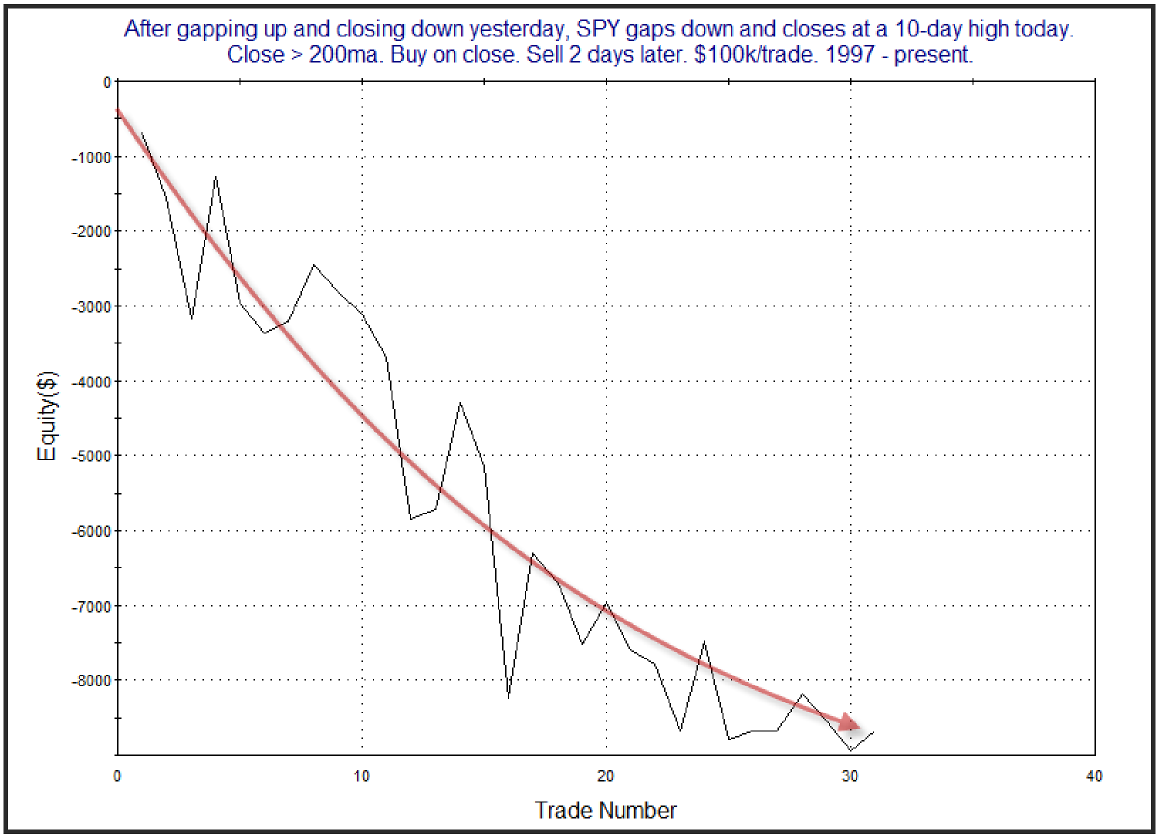


There is a bit of chop in this curve but the overall slope seems good enough to warrant consideration. I included this study on the Short-Term Active List.

Another interesting study that triggered tonight considered the fact that QQQ made an outside day for the second day in a row. When QQQ has made back-to-back outside days in the past, it has often led to a short-term rally. I last showed this in the 11/11/16 subscriber letter, and have updated the study below.

QQQ posts 2 outside days in a row.
Buy on close. Sell X days later. $100k/trade. 2000 - present.

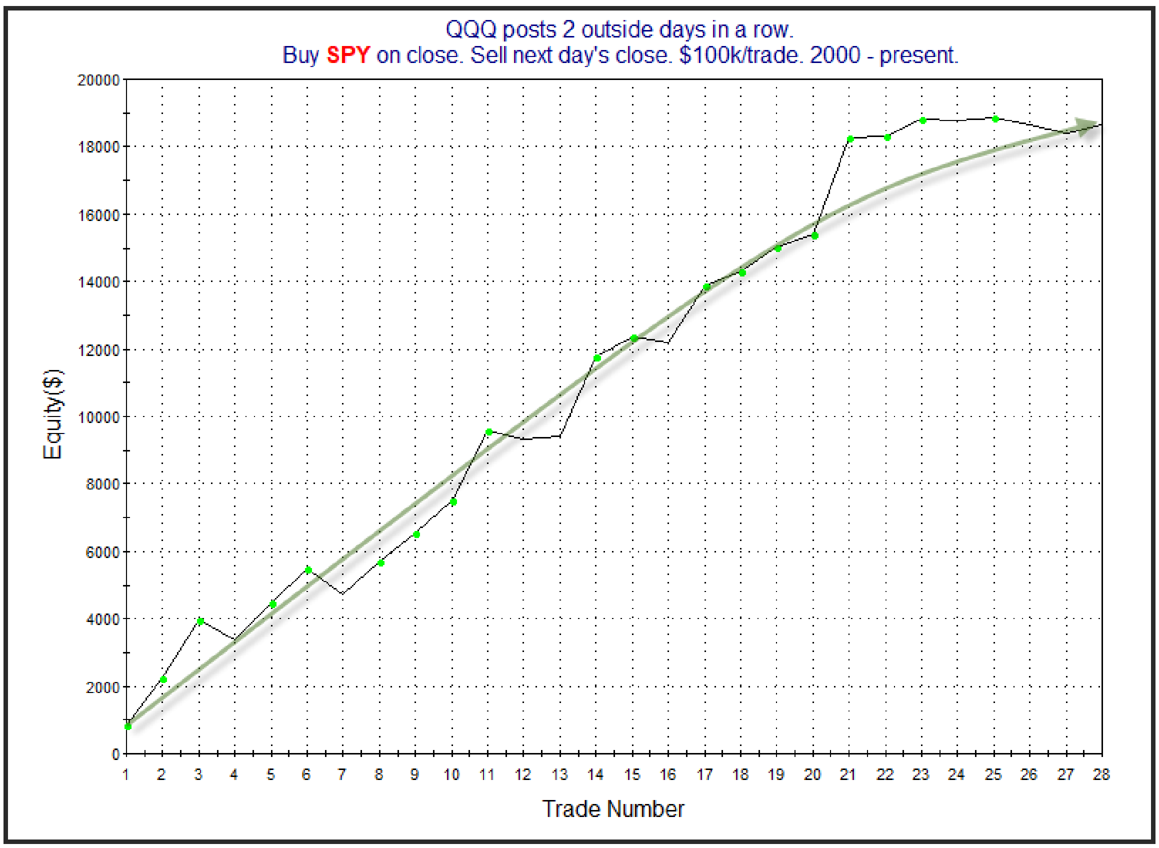
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	28,587.37	27	18	9	66.67	2,431.80	8,554.64	-1,687.22	-3,766.00	1.44	2.88	1,058.79
4	31,018.98	27	19	8	70.37	2,289.12	7,467.78	-1,559.29	-2,994.30	1.47	3.49	1,148.85
3	32,321.05	28	19	9	67.86	2,305.48	7,502.84	-1,275.89	-2,721.60	1.81	3.81	1,154.32
2	17,066.85	28	19	9	67.86	1,531.45	3,775.87	-1,336.74	-2,914.80	1.15	2.42	609.53
1	19,095.02	28	22	6	78.57	1,032.24	3,179.66	-602.37	-1,209.60	1.71	6.28	681.96

Results here appear strongly positive. I also looked at how SPY performed when QQQ had back to back outside days.

QQQ posts 2 outside days in a row.
Buy **SPY** on close. Sell X days later. $100k/trade. 2000 - present.

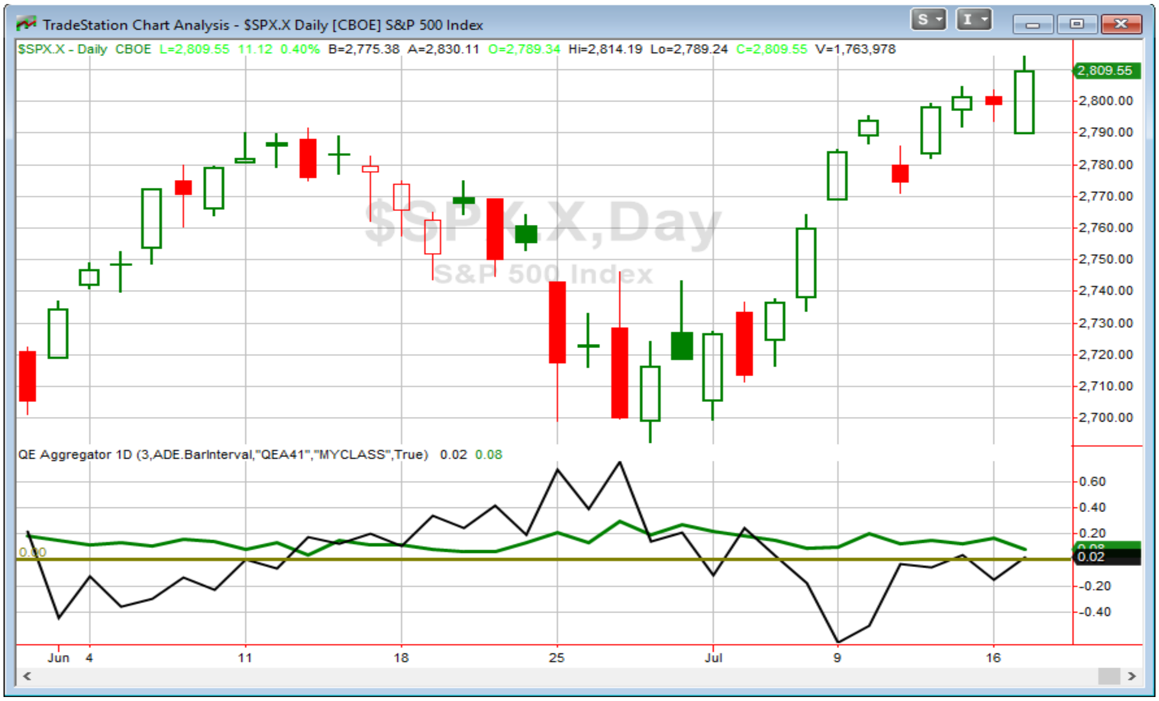
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	23,728.07	27	18	9	66.67	1,828.57	7,544.00	-1,020.70	-2,835.90	1.79	3.58	878.82
4	23,319.44	27	16	11	59.26	2,014.88	6,831.00	-810.79	-2,487.51	2.49	3.61	863.68
3	28,875.94	28	20	8	71.43	1,741.71	6,957.50	-744.78	-1,498.50	2.34	5.85	1,031.28
2	15,250.57	28	17	11	60.71	1,425.58	3,829.50	-816.76	-1,655.64	1.75	2.70	544.66
1	18,631.28	28	21	7	75.00	994.19	2,871.33	-320.97	-733.92	3.10	9.29	665.40

The positive results seem to translate to SPY as well. Using the 1-day exit criteria, I generated the profit curve below.



The strong upslope again acts as confirmation of the upside edge.

I have updated the Aggregator chart below.



The green Aggregator Line again 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 inched back above 0. The positive Differential Line reading means SPX is 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 turned long at the close.

With the current studies on the Active List, expectations are slated to turn very slightly bearish on Wednesday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2812.50 on Wednesday. That is just 0.1% above Tuesday's close. So SPX will only need to close up a small amount in order to change from oversold to overbought versus expectations on Wednesday.

This is about as weak of a bullish formation as you are going to see. With expectations set to turn slightly negative on Wednesday and the SPX so close to the Differential Pivot, anything could happen. But big gains from new long index positions would be difficult, since any move up over 0.1% on Wednesday would turn the Aggregator to neutral or bearish. Also notable is the fact that Wednesday is the end of the Fed SOMA reporting week. And as I discussed in the weekend letter, I expect the next few weeks to see SOMA declines. Therefore, I am anticipating a bearish Fed-induced headwind starting to take hold after Wednesday. So with all that consider, I have no interest in trying to take on new long index positions at this time. I will instead wait for the next substantial edge to occur – and it could be in either direction.

Intermediate-term Outlook (2 weeks – 2 months) – updated 716– neutral

The intermediate-term outlook was last updated in the 7/16 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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