

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2018

Volume 11 Issue 138

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- The rising VIX with SPX at a new 50-day used to suggest a bearish inclination, but that has not held true in recent times.
- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bearish, but reward/risk appears less than compelling.

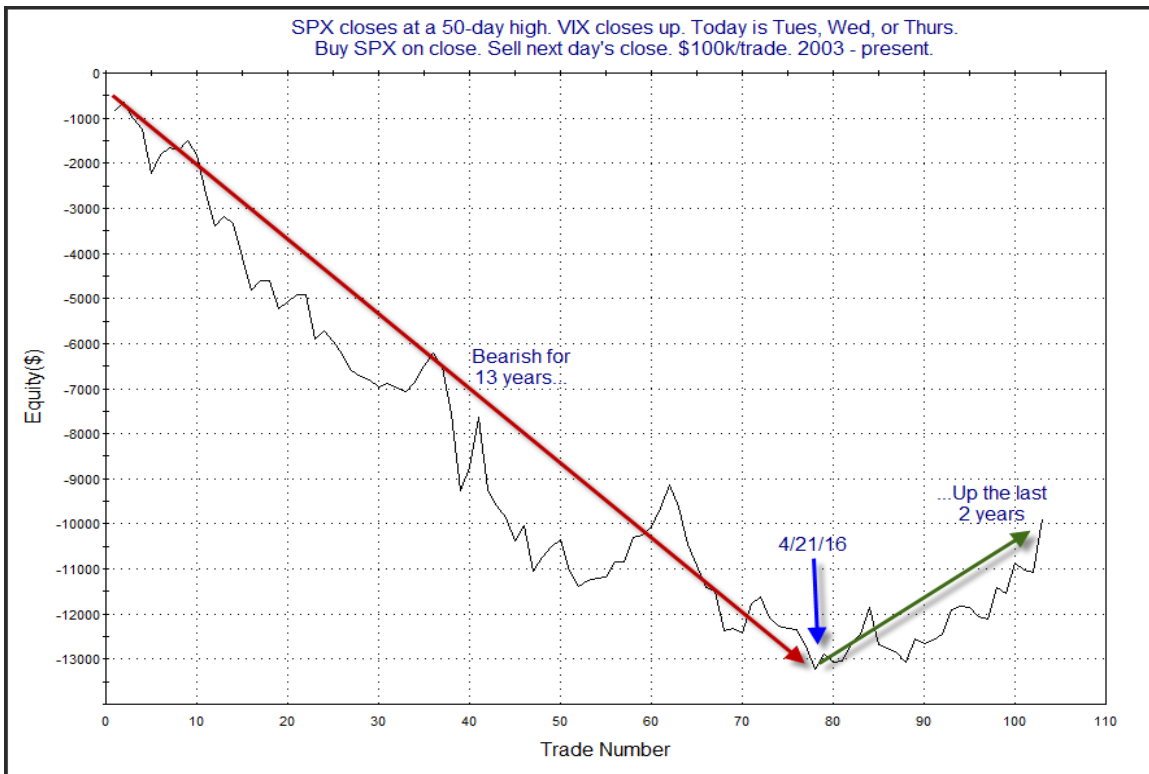
*Summary of Recent Active Studies (see Letters from listed dates for details)*

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
July 18, 2018	Gap up close dn. Gap dn close 10-high	1-2 days	Bearish			
<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			
<b>Dropped Tonight</b>						
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%

**The Evidence**

Wednesday was mixed and mild. The SPX rose 0.2%, the NASDAQ fell 0.01%, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 55%. NYSE volume increased for the 3<sup>rd</sup> day in a row.

From a short-term perspective, no studies triggered that appeared to offer a compelling edge. There was one study that looked at days the VIX rose while SPX closed at a 50-day high. It was last discussed in the 4/21/16 letter. Formerly, it had appeared bearish. But as you can see below, that no longer appears to be the case.



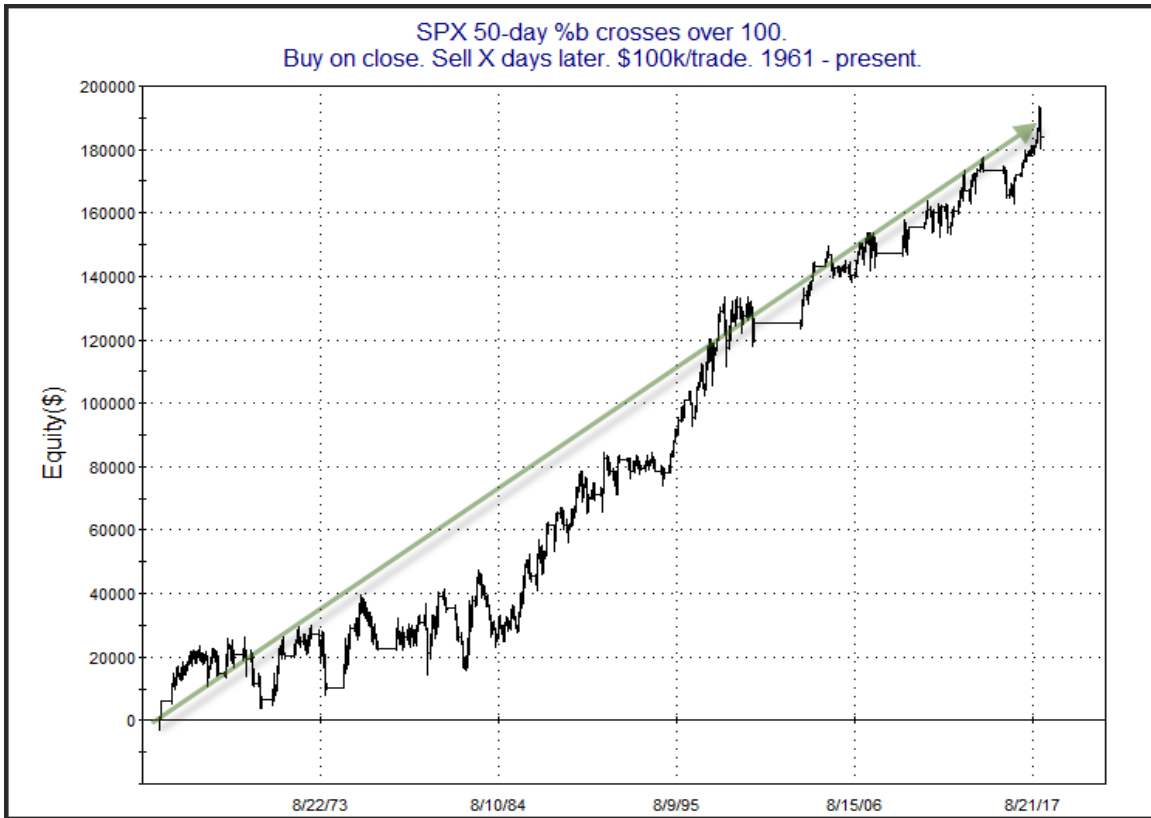
Obviously, I will not be adding this study to the Active List tonight.

One study from the 6/7/18 Subscriber Letter that examined the strong upside momentum and what that has meant for the intermediate-term. It is still “active” from that letter. I posted my notes from then below (not updated).

*This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.*

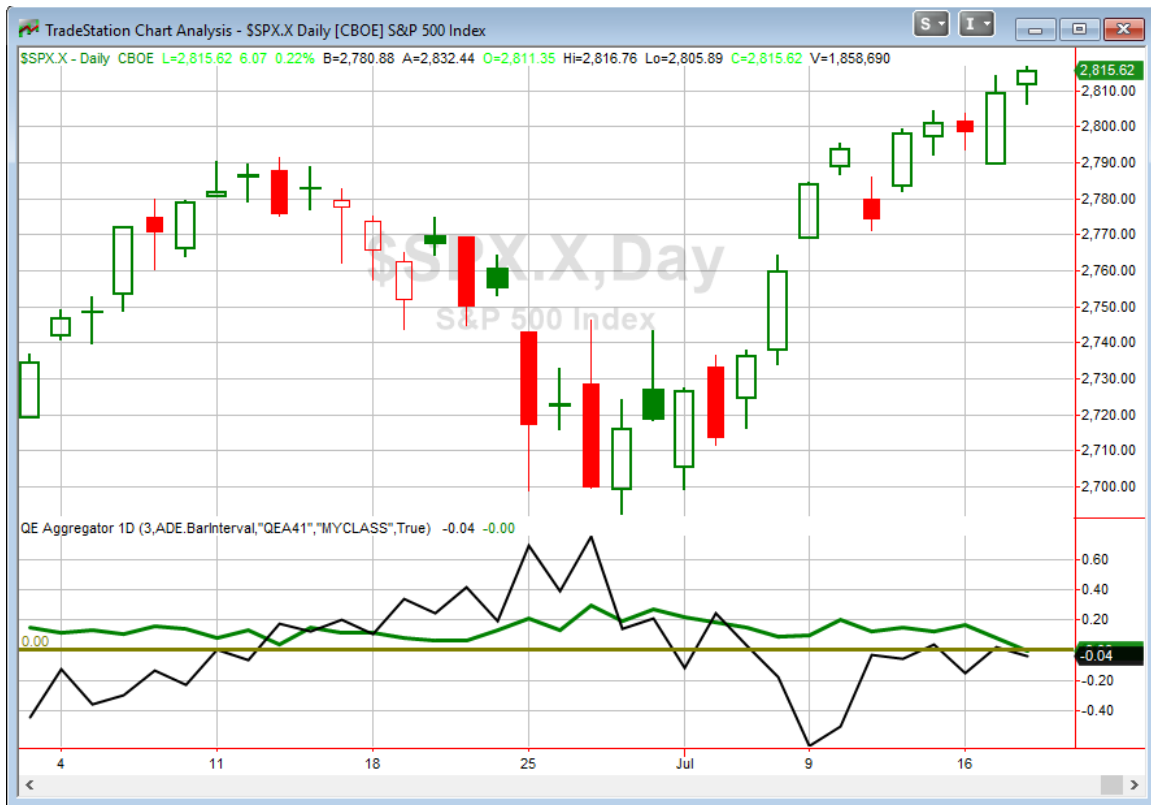
SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	183,782.88	134	81	53	60.45	4,890.91	18,408.18	-4,007.18	-15,795.00	1.22	1.87	1,371.51
45	154,783.22	140	80	60	57.14	5,041.78	15,816.57	-4,142.66	-25,812.76	1.22	1.62	1,105.59
40	166,270.44	145	87	58	60.00	4,520.09	17,624.67	-3,913.41	-15,540.70	1.16	1.73	1,146.69
35	143,843.63	153	92	61	60.13	4,043.78	15,782.13	-3,740.72	-13,617.00	1.08	1.63	940.15
30	98,549.69	159	94	65	59.12	3,364.92	11,920.74	-3,350.05	-10,485.00	1.00	1.45	619.81
25	65,401.52	167	95	72	56.89	3,047.45	10,859.94	-3,112.59	-8,732.16	0.98	1.29	391.63
20	60,977.97	178	102	76	57.30	2,654.30	9,501.30	-2,760.00	-10,205.38	0.96	1.29	342.57
15	67,130.23	195	114	81	58.46	2,326.50	7,843.46	-2,445.57	-9,763.44	0.95	1.34	344.26
10	49,765.27	218	137	81	62.84	1,683.79	8,239.16	-2,233.50	-9,133.53	0.75	1.28	228.28
5	26,181.30	265	152	113	57.36	1,129.57	5,030.81	-1,287.73	-5,817.77	0.88	1.18	98.80

*Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.*



*That's a pretty steady upslope for a study without a very high "% Profitable.*

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



Without any new evidence emerging tonight, the green Aggregator Line dipped slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also moved a little below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

With the last study on the Short-Term Active List set to expire, expectations are slated to turn flat on Thursday. This could easily change if new evidence emerges. The Differential Pivot will be 2810.83 on Thursday. That is just 0.2% below Wednesday's close. So SPX will only need to close down a small amount in order to change from overbought to oversold versus expectations on Thursday.

We have gone from a very weak bullish formation to a very weak bearish formation. And it is set to turn neutral tomorrow unless new evidence emerges. One plus for the bears is that we are now in the 2<sup>nd</sup> half of July, when negative SOMA flows should kick in much harder. But even if I felt strong about the downside evidence, there is not much opportunity for profit until the SPX would turn "oversold". So I am again facing a setup that appears

to lack compelling reward/risk. Therefore, I will continue to exercise patience while vigilantly awaiting the next compelling setup.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 7/16– 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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