

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 26, 2018

Volume 11 Issue 143

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- When the SPX hits a new high on strong breadth and strong volume that is typically a positive sign for the short-term.
- Facebook took a dive after-hours. I took a look at past NDX leaders that posted huge gaps down.

Short-term Outlook

The Bottom Line

The studies are suggesting an upside edge, but the market is overbought. This is leaving me neutral and awaiting a better reward/risk setup.

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 26, 2018	SPX 10-high on strong breadth & volm	1 day	Bullish			
July 25, 2018	Unfilled up. 20-high. Close < open	1-3 days	Bullish	1.00%	-0.45%	-0.85%
July 23, 2018	Down on big volume. Then NR7	1-5 days	Bullish	2.00%	-1.50%	-3.40%
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 \$30billio	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			

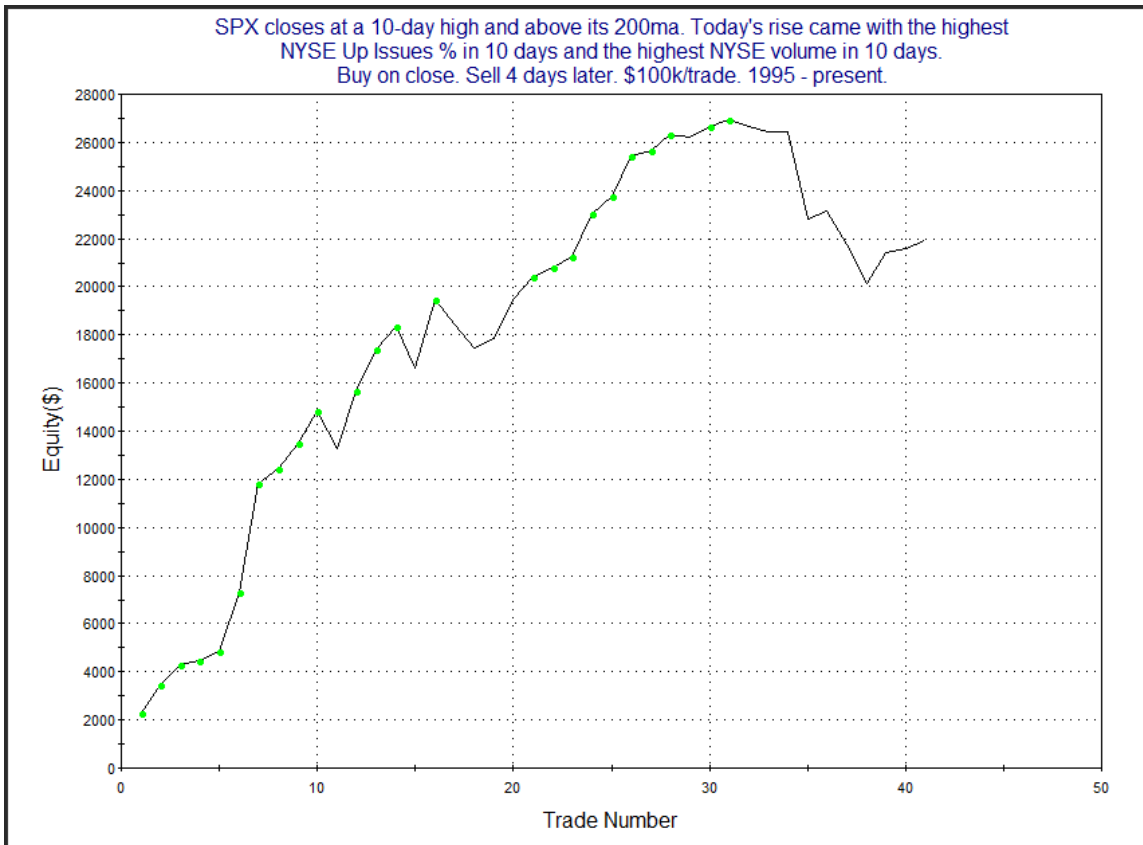
The Evidence

Wednesday was a rally day. The SPX rose 0.9%, the NASDAQ gained 1.2%, and the Russell 2000 climbed 0.3%. Breadth was also positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 60%. NYSE volume rose to the highest level in a few weeks.

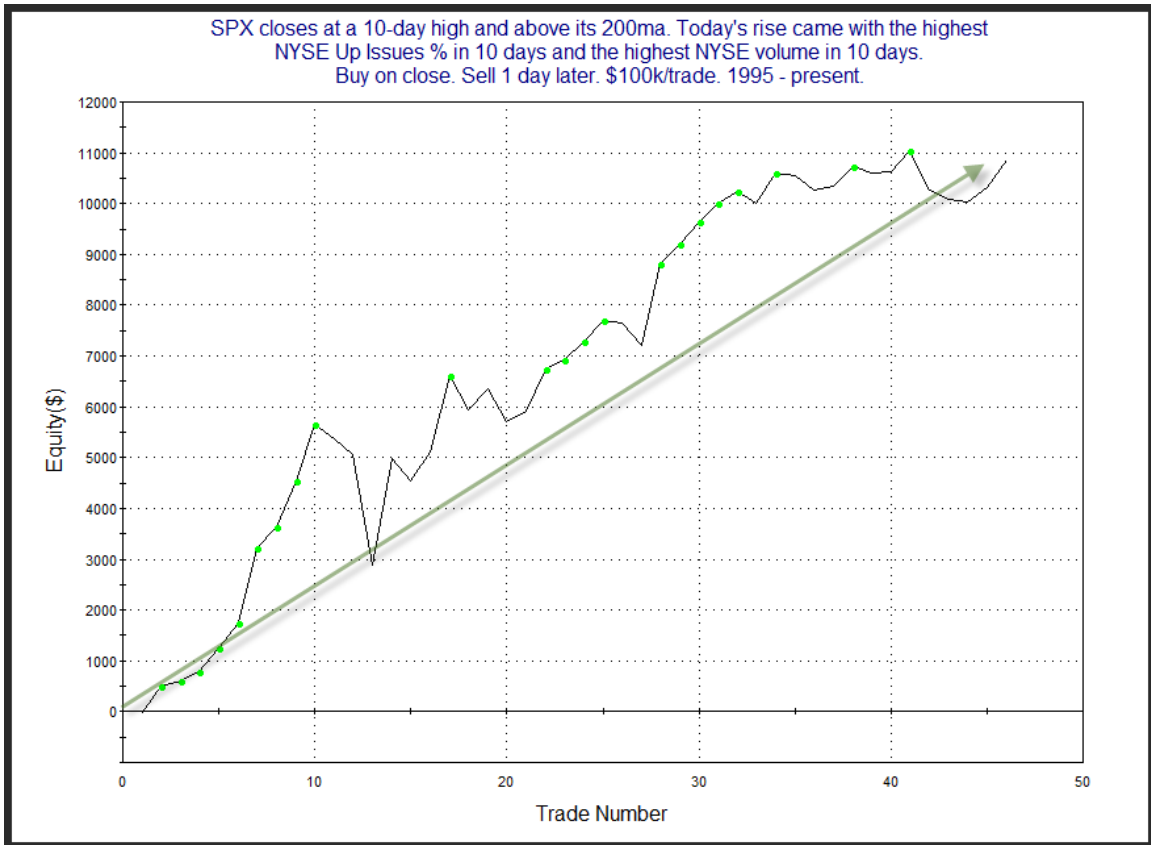
Strong breadth and volume on a day where the SPX is hitting a new high has often been a positive sign. This was discussed in a study in the 12/19/12 Subscriber Letter. In this study I looked for both volume and breadth to come in at the highest levels in 10 days while the SPX was making a 10-day high. I have updated that study tonight.

SPX closes at a 10-day high and above its 200ma. Today's rise came with the highest NYSE Up Issues % in 10 days and the highest NYSE volume in 10 days. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	19,755.75	41	27	14	65.85	1,347.71	4,683.84	-1,188.03	-4,561.65	1.13	2.19	481.85
4	21,918.38	41	30	11	73.17	1,150.03	4,518.75	-1,143.87	-3,595.13	1.01	2.74	534.59
3	11,985.29	43	31	12	72.09	928.54	2,403.80	-1,399.95	-5,105.87	0.66	1.71	278.73
2	3,655.91	43	26	17	60.47	600.29	1,998.39	-703.04	-2,409.33	0.85	1.31	85.02
1	10,850.45	46	30	16	65.22	586.69	2,096.10	-421.89	-2,176.20	1.39	2.61	235.88

We have a good sample size here and the results appear strong. But in looking at the 4-day equity curve the picture does not appear as bright.

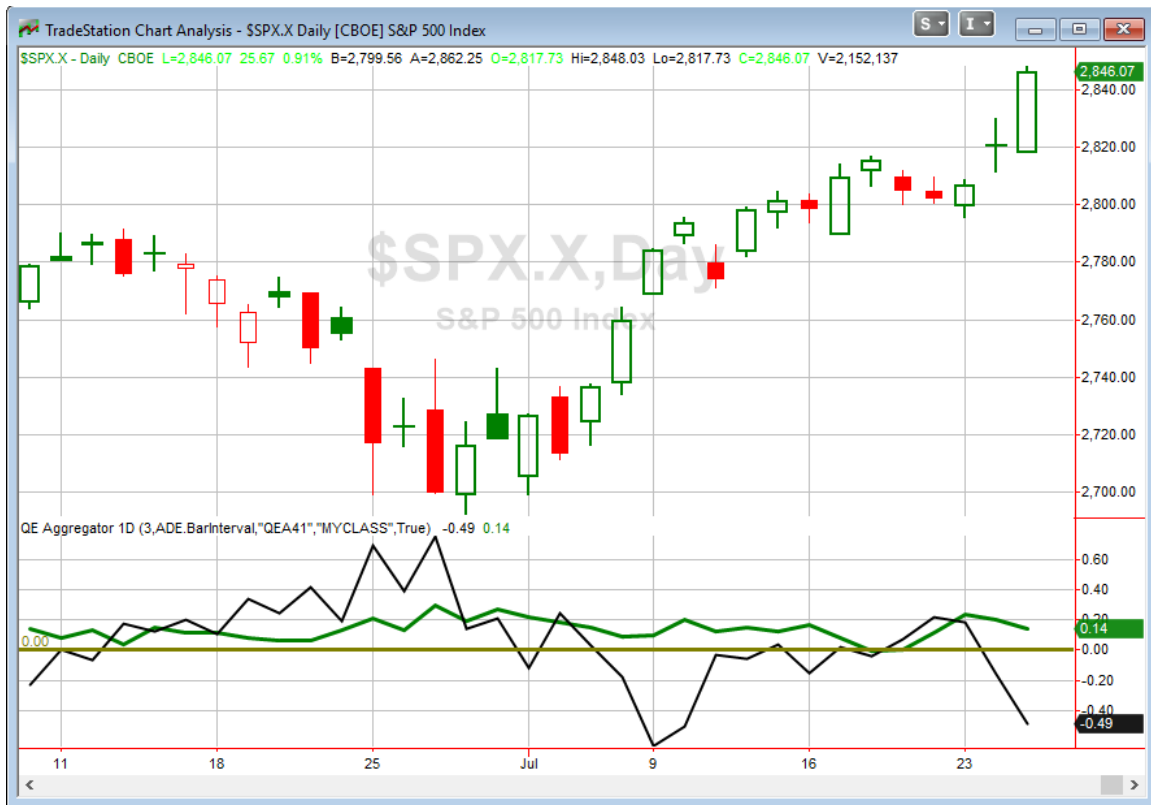


Recent instances have failed to show gains, calling into question the strength of the edge. But while the 4-day curve is questionable, the 1-day still appears strong.



The persistent upslope here convinced me to add this study to the Active List as a 1-day edge.

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



With tonight's new study considered, 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 held 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.

Based on the current active studies, expectations are slated to remain bullish on Thursday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be 2416.47 on Thursday. That is 1.0% below Wednesday's close So SPX would need to close down at least 1.0% on Thursday in order to flip from overbought to oversold versus expectations.

Expectations remain positive and the market remains overbought. The Aggregator is again neutral and so am I. Until something changes I will not be looking to take on new index exposure.

After the market close on Wednesday, Facebook (FB) released earnings, and the news and future outlook was not viewed well. After closing at an all-time high on Wednesday, it traded down in excess of 25% in the after-hours. So it seems certain it will be opening

Thursday with a sizable gap lower. I decided to take a look back at other leading NDX stocks that suffered large gaps down. I first checked for all stocks that:

- 1) Closed at a 252-day (1-year) high yesterday
- 2) Were a NDX constituent at the time
- 3) Opened over 15% below yesterday's close

Looking back to 1993, I found only 2 examples. They are shown below with results of buying at the open and selling the close the same day as the gap down.

NDX component closes at a 252-day high. It opens >= 15% below yesterday's close. Buy on open. Sell on close. \$100k/trade. 1993 - present.											
Symbol	Trade	Date	Price	Ex. date	Ex. Price	% chg	Profit	% Profit	Shares	Position value	Cum. Profit
COMS-201004	Long	12/22/1999	8.033471	12/22/1999	8.843665	10.09%	10,085.30	10.09%	12,447.92	100,000.00	10,085.30
VRTX	Long	5/29/2012	50.144	5/29/2012	57.8	15.27%	15,268.03	15.27%	1,994.256	100,000.00	25,353.33

QuantifiableEdges.com

Amazingly, there have been only 2 instances in the last 25 years. Both saw sizable intraday bounces. Loosening the criteria to require only a 10% gap down yielded the following results.

NDX component closes at a 252-day high. It opens >= 10% below yesterday's close. Buy on open. Sell on close. \$100k/trade. 1993 - present.											
Symbol	Trade	Date	Price	Ex. date	Ex. Price	% chg	Profit	% Profit	Shares	Position value	Cum. Profit
VTSS-201504	Long	4/9/1999	497.5	4/9/1999	510	2.51%	2,512.56	2.51%	201.005	100,000.00	2,512.56
COMS-201004	Long	12/22/1999	8.033471	12/22/1999	8.843665	10.09%	10,085.30	10.09%	12,447.92	100,000.00	12,597.87
SBUX	Long	4/3/2000	5.023438	4/3/2000	5.179688	3.11%	3,110.42	3.11%	19,906.69	100,000.00	15,708.29
CIEN	Long	9/5/2000	700	9/5/2000	757.148	8.16%	8,164.00	8.16%	142.8571	100,000.00	23,872.29
CPWR-201412	Long	7/14/2003	5.368061	7/14/2003	5.127986	-4.47%	-4,472.29	-4.47%	18,628.7	100,000.00	19,400.00
NUAN	Long	2/10/2012	26.6699	2/10/2012	26.495	-0.66%	-655.80	-0.66%	3,749.545	100,000.00	18,744.21
VRTX	Long	5/29/2012	50.144	5/29/2012	57.8	15.27%	15,268.03	15.27%	1,994.256	100,000.00	34,012.23
STX	Long	4/26/2017	44.61	4/26/2017	42.01	-5.83%	-5,828.29	-5.83%	2,241.65	100,000.00	28,183.94

Most of the gains here were thanks to the COMS and VRTX trades from above. I also decided loosen the criteria further and require just a 5% gap down from a 1-year high. Below is a results summary.

NDX component closes at a 252-day high. It opens \geq 5% below yesterday's close. Buy on open. Sell on close. \$100k/trade. 1993 - present.

Statistics	
All trades	100
Avg. Profit/Loss	714.90
Avg. Profit/Loss %	0.71%
Avg. Bars Held	1.00
<hr/>	
Winners	51 (51.00 %)
Total Profit	193223.38
Avg. Profit	3788.69
Avg. Profit %	3.79%
Avg. Bars Held	1.00
Max. Consecutive	7
Largest win	15268.03
# bars in largest win	1
<hr/>	
Losers	49 (49.00 %)
Total Loss	-121733.48
Avg. Loss	-2484.36
Avg. Loss %	-2.48%
Avg. Bars Held	1.00
Max. Consecutive	4
Largest loss	-11381.06
# bars in largest loss	1

Exactly 100 instances and about even as to whether the stock bounced or sold off further. But winners outweighed losers by a sizable amount, making for strong net gains for the study.

Lastly, I went back to the 15% gap down requirement, but I loosened the other criteria so that a stock simply had to close above its 250-day moving average and within 5% of its 252-day high. Those instances are all listed below.

NDX component closes within 5% of its 252-day high and above its 250-day moving average.
It opens >= 15% below yesterday's close. Buy on open. Sell on close. \$100k/trade. 1993 - present.

Symbol	Trade	Date	Price	Ex. date	Ex. Price	% chg	Profit	% Profit	Shares	Position value	Cum. Profit
MCIC-199809	Long	7/11/1997	35.75	7/11/1997	35	-2.10%	-2,097.90	-2.10%	2,797.203	100,000.00	-2,097.90
AABA	Long	1/13/1999	41.89063	1/13/1999	46	9.81%	9,809.76	9.81%	2,387.169	100,000.00	7,711.86
COMS-201004	Long	12/22/1999	8.033471	12/22/1999	8.843665	10.09%	10,085.30	10.09%	12,447.92	100,000.00	17,797.16
ALTR-201512	Long	6/28/2004	21.62	6/28/2004	21.79	0.79%	786.31	0.79%	4,625.347	100,000.00	18,583.47
BRCM-201601	Long	10/24/2007	35.74	10/24/2007	34.92	-2.29%	-2,294.35	-2.29%	2,797.985	100,000.00	16,289.12
BIDU	Long	10/27/2009	35.571	10/27/2009	38.366	7.86%	7,857.52	7.86%	2,811.279	100,000.00	24,146.65
FFIV	Long	1/20/2011	111.19	1/20/2011	109.15	-1.83%	-1,834.70	-1.83%	899,3615	100,000.00	22,311.95
GILD	Long	2/17/2012	23	2/17/2012	23.5	2.17%	2,173.91	2.17%	4,347.826	100,000.00	24,485.86
VRTX	Long	5/29/2012	50.144	5/29/2012	57.8	15.27%	15,268.03	15.27%	1,994.256	100,000.00	39,753.89

QuantifiableEdges.com

It appears the overall tendency when a leading NDX stock gaps down a sizable amount from a high area is for the stock to rebound some between the open and the close. But volatility and variance is very high. Traders need to decide whether the upside edge and the potential reward are worth the risk when considering trades in FB on Thursday. While I am not looking to trade FB, I am keenly interested in how it performs on Thursday, and what the rest of the market does. Will the market recover quickly, or could this be the catalyst that get some downside momentum going?

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/23– neutral

The intermediate-term outlook was last updated in the 7/23 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

F – 1/3 @ \$10.56 (bought @ limit)

F – 1/3 @ \$10.47 (buy @ limit) – not filled – cancel for now

Broad Market Large Cap CBI – 2(F-2)

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
F(1/3)	7/23/2018	\$10.56	\$10.52	-0.38%		Catapult

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.