

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2018

Volume 11 Issue 146

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- 3 down days going into a Turnaround Tuesday appears bullish.
- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.
- The first drop below the 10ma in quite a while will often be followed by another leg up.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I am looking to take on some long exposure and take advantage of a bounce.

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 31, 2018	SPY dn 3 days fm 50-hi. <10ma >10 low	1-4 days	Bullish	1.60%	-0.90%	-1.80%
July 31, 2018	SPX 15+ days over 10ma, then below	1-2 days	Bullish	0.90%	-0.60%	-1.30%
July 31, 2018	SPX down 3 days. Today is Monday	1-8 days	Bullish	2.10%	-1.30%	-2.50%
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%
July 1, 2018	SOMA reduction intensifies to \$40billion	int term	Bearish			
June 7, 2018	SPX > 50-day Bollinger Band	1-50 days	Bullish	5.00%	-4.10%	-7.80%
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						

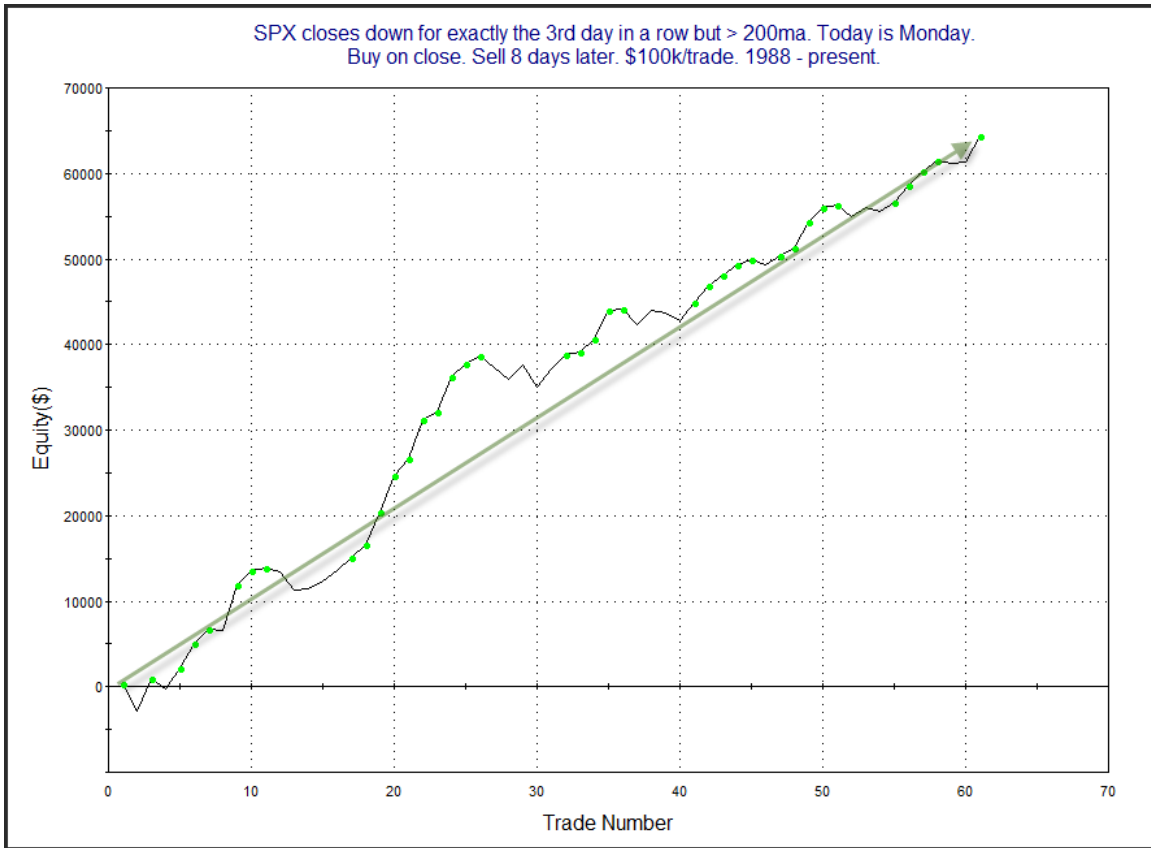
The Evidence

Monday was another substantial down day for the market. The SPX closed down 0.6%, the NASDAQ lost 1.4%, and the Russell 2000 fell 0.6%. Breadth was mixed as the NYSE Up Issues % was 45% and the Up Volume % came in at 53%. NYSE volume declined a little from Friday's level.

The pullback Monday managed to trigger a few studies suggesting bullish implications. One notable is that that Monday marked the 3rd down day in a row. In the past, I have documented both the tendency for the market to bounce 1) after 3 days lower, and 2) going into a Tuesday. In the 3/21/17 letter I combined these concepts. Below are updated results.

SPX closes down for exactly the 3rd day in a row but > 200ma. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 1988 - 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
10	64,752.15	60	43	17	71.67	2,095.15	5,206.22	-1,490.55	-4,773.00	1.41	3.56	1,079.20
9	70,781.05	60	45	15	75.00	2,005.75	5,024.40	-1,298.52	-3,566.80	1.54	4.63	1,179.68
8	64,023.38	60	45	15	75.00	1,826.24	5,300.00	-1,210.49	-3,270.80	1.51	4.53	1,067.06
7	52,336.43	60	45	15	75.00	1,566.73	5,345.05	-1,211.10	-3,367.00	1.29	3.88	872.27
6	41,739.21	60	41	19	68.33	1,527.50	4,399.00	-1,099.39	-3,444.70	1.39	3.00	695.65
5	40,668.15	65	43	22	66.15	1,601.97	4,608.35	-1,282.57	-4,140.30	1.25	2.44	625.66
4	36,731.29	65	44	21	67.69	1,411.78	4,690.50	-1,208.90	-2,964.25	1.17	2.45	565.10
3	25,339.12	65	38	27	58.46	1,311.01	3,940.55	-906.64	-2,634.40	1.45	2.04	389.83
2	25,336.32	65	41	24	63.08	1,081.63	3,744.45	-792.11	-2,952.60	1.37	2.33	389.79
1	9,726.71	65	36	28	55.38	689.92	2,205.80	-539.66	-1,692.52	1.28	1.64	149.64

Results here appear to be quite bullish. The 8-day time period especially stands out. Below is an equity curve showing how that holding period has played out.



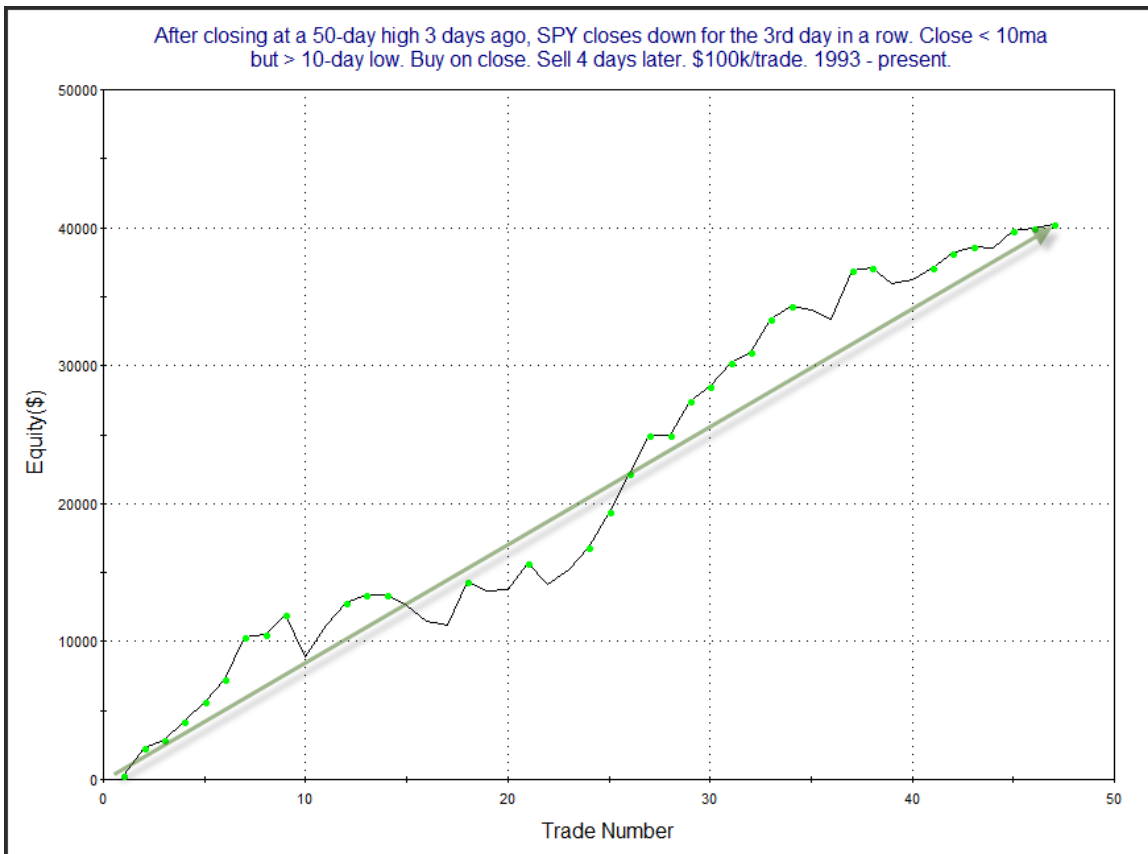
The curve is nearly as straight as the arrow. This serves as some confirmation of the upside edge suggested by the numbers. I have included this study on the Active List.

Another 3-day pullback study I found especially compelling can be found below. It also considered the fact that the 3-day pullback was occurring right after a high was hit. Additionally, it required that the pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. It was last seen in the 6/23/17 subscriber letter, and I have updated the stats.

After closing at a 50-day high 3 days ago, SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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
10	43,516.92	46	30	16	65.22	2,386.53	7,242.70	-1,754.93	-6,933.13	1.36	2.55	946.02
9	37,275.78	46	31	15	67.39	2,189.28	6,322.56	-2,039.47	-8,192.92	1.07	2.22	810.34
8	42,169.58	46	32	14	69.57	2,160.25	6,358.08	-1,925.61	-4,499.25	1.12	2.56	916.73
7	37,392.82	46	32	14	69.57	1,965.11	6,322.56	-1,820.76	-4,354.31	1.08	2.47	812.89
6	42,194.49	46	32	14	69.57	1,899.75	5,375.36	-1,328.39	-2,140.14	1.43	3.27	917.27
5	33,752.40	47	31	16	65.96	1,643.25	3,522.94	-1,074.27	-3,453.71	1.53	2.96	718.14
4	40,249.61	47	37	10	78.72	1,349.24	3,543.50	-967.21	-3,076.63	1.39	5.16	856.37
3	27,141.72	47	32	15	68.09	1,283.29	3,543.50	-928.24	-2,027.68	1.38	2.95	577.48
2	13,983.12	47	32	15	68.09	929.89	2,332.48	-1,051.55	-2,781.35	0.88	1.89	297.51
1	10,829.69	47	32	15	68.09	719.17	2,060.16	-812.25	-2,031.09	0.89	1.89	230.42

Under these circumstances, it appears bounces have been both reliable and powerful. While much of the edge was realized in the first 4 days, there does seem to be some follow through as far out as 2 weeks. Below is a look at the profit curve assuming a 4-day exit technique.

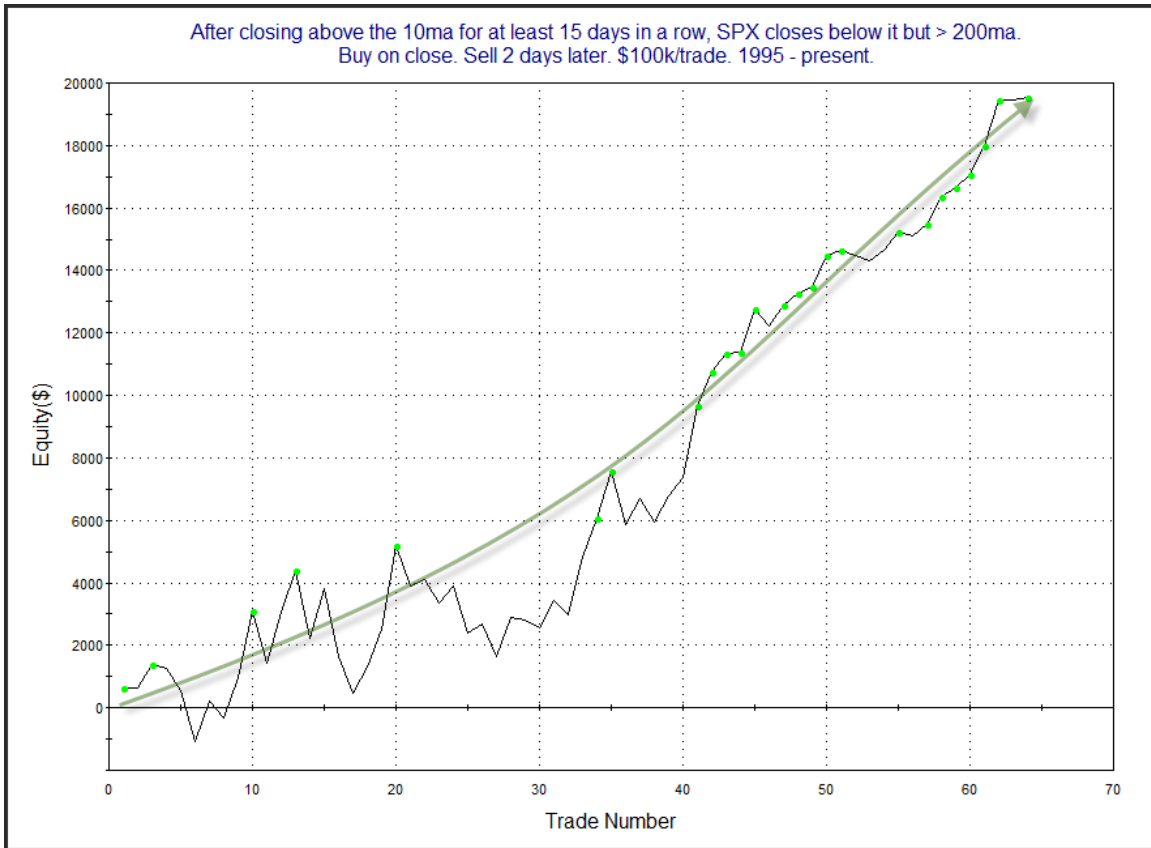


The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Monday, after 17 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 9/26/17 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

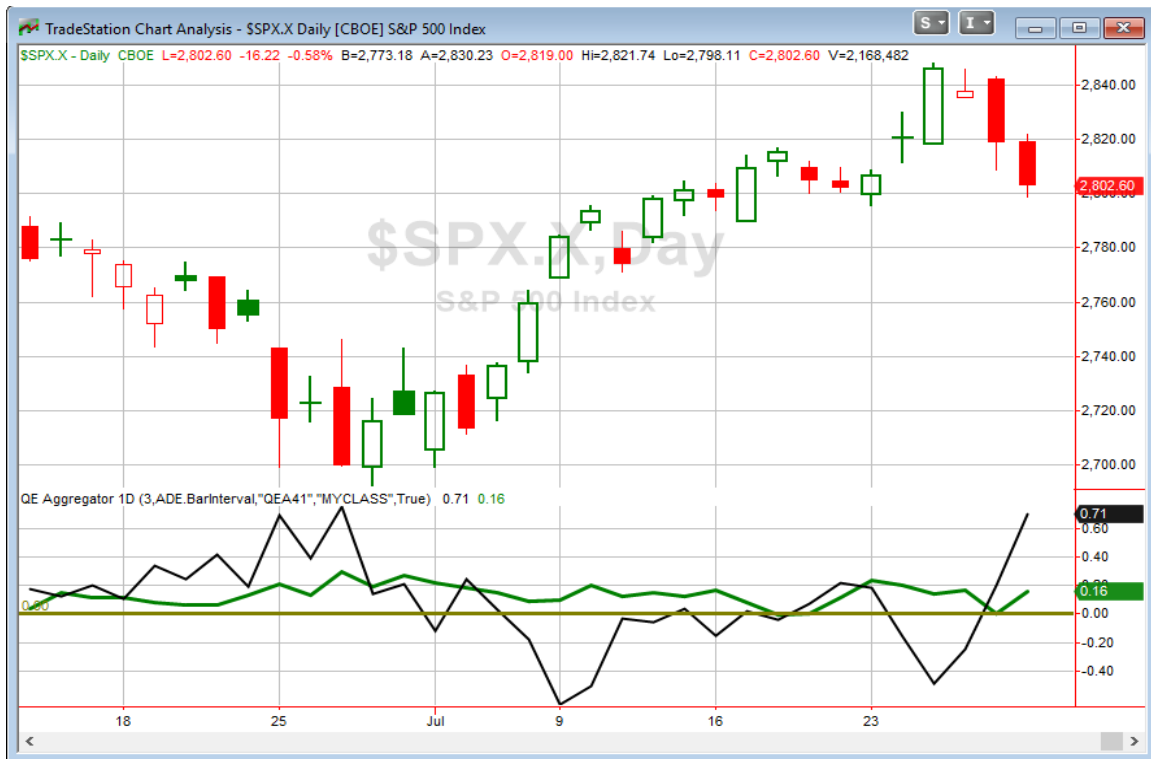
After closing above the 10ma for at least 15 days in a row, SPX closes below it but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	32,398.13	64	39	25	60.94	1,463.73	3,505.74	-987.49	-4,455.15	1.48	2.31	506.22
4	27,259.32	64	42	22	65.63	1,315.07	3,206.40	-1,271.52	-6,072.15	1.03	1.97	425.93
3	22,522.92	64	43	21	67.19	1,011.72	2,805.12	-999.09	-2,110.50	1.01	2.07	351.92
2	19,538.55	64	41	23	64.06	944.78	2,682.72	-834.66	-2,185.60	1.13	2.02	305.29
1	15,835.12	64	42	22	65.63	628.97	2,097.92	-480.98	-1,542.24	1.31	2.50	247.42
58 of 64 instances (91%) closed above the entry price at some point in the next week.												

The numbers here all look solidly bullish over the next week. Below is the 2-day profit curve.



The strong upslope serves as some confirmation of the bullish edge.

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



With the bullish new evidence to consider tonight, the green Aggregator Line moved 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 now very far above 0. The positive Differential Line reading means SPX is strongly 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.

Based on the current active studies, expectations are set to remain positive on Tuesday. Of course, this could change if strong new bearish evidence emerges. The Differential Pivot will be 2851.65 on Tuesday. That is 1.75% above Friday's close. So SPX will need to post a very strong rally on Tuesday in order to change from oversold to overbought versus expectations.

The studies tonight provide some fairly compelling evidence suggesting an upside edge. And there is plenty of room to the upside to make profits before SPX would flip from oversold to overbought. So reward/risk appears favorable. And while I do not have time to cover it tonight, poor closes into month end will generally set up for rallies to start the next month. And "poor closes" could mean several days down, or it could simply mean a close in the bottom half of the daily range. I will therefore be looking to take on some long index on Tuesday, and if the SPX struggles further on Tuesday, I may even look to add a 2nd lot.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/30– neutral, but approaching mildly bearish

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.

SPY – Buy ¼ index position at \$279.95 LIMIT. Based on the short-term section above, I am looking to start building an index position on Tuesday if I can get filled at Monday’s close or better.

SPY – Buy ¼ index position at \$279.50 LIMIT ON CLOSE IF SPY ALSO CLOSES IN THE BOTTOM HALF OF THE DAILY RANGE. Also based on the short-term section above, I will add a 2nd lot if the SPX closes poorly another day heading into the turn of the month.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F(1/3)	7/23/2018	\$10.56	\$10.07	-4.64%		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.