

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 1, 2018

Volume 11 Issue 147

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- Strong closes prior to both Fed Days and to new months have greatly reduced their bullish edges
- A Fed Day occurring on the 1st of the month has often led to a good start for the month.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the strong close Tuesday is not encouraging and the Fed meeting Wednesday is a wildcard. I will give it a day before considering new positions.

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						
August 1, 2018	Fed & EOM	1-3 days	Bullish	1.20%	-0.60%	-1.10%
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			

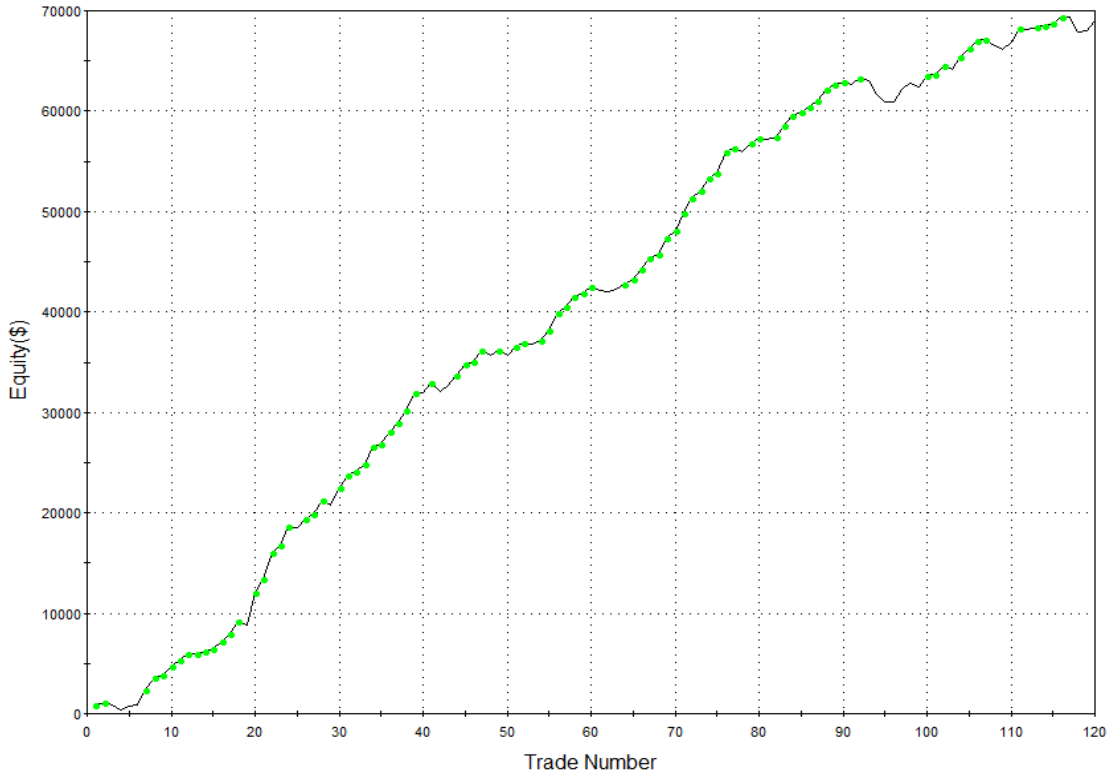
The Evidence

Tuesday saw the market gap higher and hang on for a nice day to end the month. The SPX closed up 0.5%, the NASDAQ rose 0.6%, and the Russell 2000 gained 1.1%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 60.5%. NYSE volume spiked to the highest level in a while.

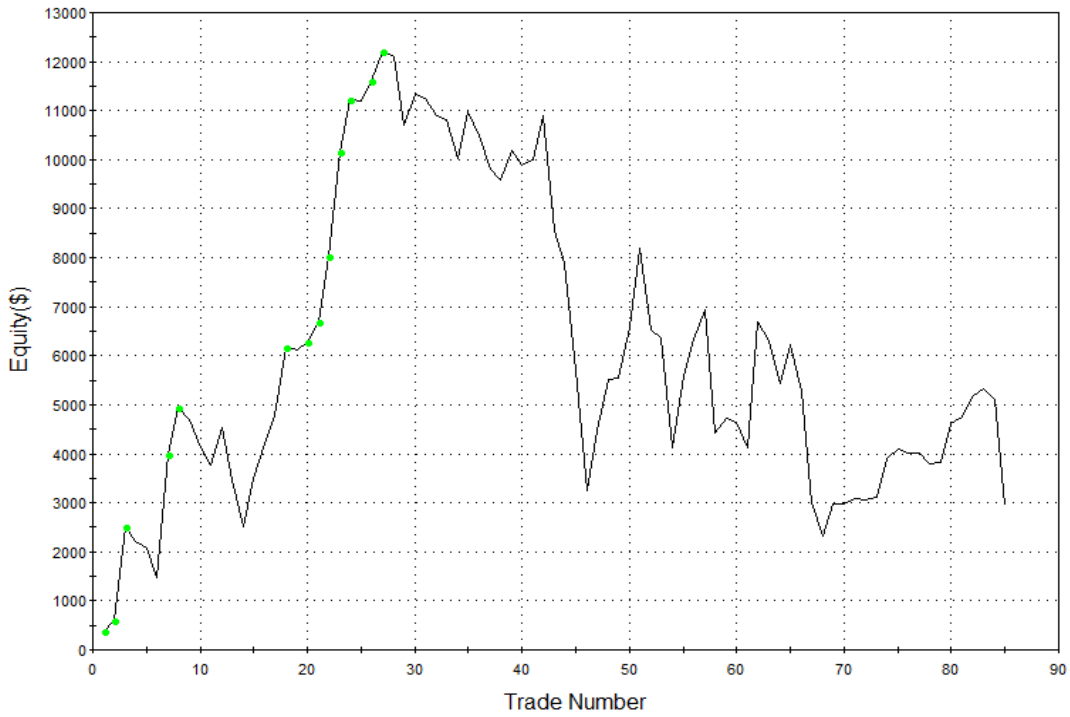
Two of the more significant things to take into account for Wednesday are that 1) it is the 1st day of a new month, and 2) it is a Fed Day. Both turn of the month, and Fed Days are generally viewed with a bullish tilt. But the strong close for the market could be somewhat discouraging for both.

For SPY, closes in the top half of the day's range have not shown nearly the same bullish tendency as closes in the bottom half of the day's range. This is demonstrated by the charts below.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade, 1996 - present.



It is the last trade day of the month. SPY closes in the **top** half of its intraday range. Buy on close. Sell X days later. \$100k/trade. 1996 - present.



The 2nd chart is tonight's setup. No need to get excited there.

As I mentioned above, Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 6/12/18 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$6,909.18	Profit Factor	1.28
Gross Profit	\$31,707.93	Gross Loss	(\$24,798.75)
Total Number of Trades	81	Percent Profitable	48.15%
Winning Trades	39	Losing Trades	40
Even Trades	2		
Avg. Trade Net Profit	\$85.30	Ratio Avg. Win:Avg. Loss	1.31
Avg. Winning Trade	\$813.02	Avg. Losing Trade	(\$619.97)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$15,511.81	Profit Factor	2.07
Gross Profit	\$30,036.07	Gross Loss	(\$14,524.26)
Total Number of Trades	48	Percent Profitable	54.17%
Winning Trades	26	Losing Trades	21
Even Trades	1		
Avg. Trade Net Profit	\$323.16	Ratio Avg. Win:Avg. Loss	1.67
Avg. Winning Trade	\$1,155.23	Avg. Losing Trade	(\$691.63)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$11,870.31	Profit Factor	2.36	
Gross Profit	\$20,616.00	Gross Loss	(\$8,745.69)	
Total Number of Trades	36	Percent Profitable	69.44%	
Winning Trades	25	Losing Trades	11	
Even Trades	0			
Avg. Trade Net Profit	\$329.73	Ratio Avg. Win:Avg. Loss	1.04	
Avg. Winning Trade	\$824.64	Avg. Losing Trade	(\$795.06)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

Tomorrow is a Fed Day. SPY closes in bottom 25% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$23,650.08	Profit Factor	4.54	
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)	
Total Number of Trades	38	Percent Profitable	76.32%	
Winning Trades	29	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41	
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)	
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)	

The 2nd quartile above still shows overall bullish stats, but it would have appeared much more favorable if SPY had closed in one of the bottom 2 quartiles.

Way back in the 7/31/12 letter I looked at other instances where the Fed Day and the turn of the month came at the same time. I have decided to update that study tonight.

Tomorrow is a Fed Day & it is the 1st day of the month.
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	13,886.84	10	8	2	80.00	2,284.27	3,603.60	-2,193.65	-4,027.50	1.04	4.17	1,388.68
9	11,750.98	10	8	2	80.00	2,169.60	3,848.24	-2,802.92	-3,955.90	0.77	3.10	1,175.10
8	10,966.34	10	8	2	80.00	1,841.91	2,757.04	-1,884.45	-1,890.24	0.98	3.91	1,096.63
7	7,704.83	10	8	2	80.00	1,570.35	2,683.12	-2,428.98	-2,842.42	0.65	2.59	770.48
6	8,915.15	10	8	2	80.00	1,516.64	2,283.24	-1,608.98	-1,850.40	0.94	3.77	891.52
5	7,478.22	10	8	2	80.00	1,428.88	2,861.76	-1,976.42	-2,148.52	0.72	2.89	747.82
4	6,284.62	10	8	2	80.00	1,116.51	2,272.64	-1,323.73	-1,698.77	0.84	3.37	628.46
3	8,640.08	10	9	1	90.00	1,057.10	2,064.48	-873.80	-873.80	1.21	10.89	864.01
2	2,508.48	10	9	1	90.00	393.28	1,107.92	-1,031.04	-1,031.04	0.38	3.43	250.85
1	1,457.33	10	6	4	60.00	502.93	1,293.60	-390.05	-921.94	1.29	1.93	145.73

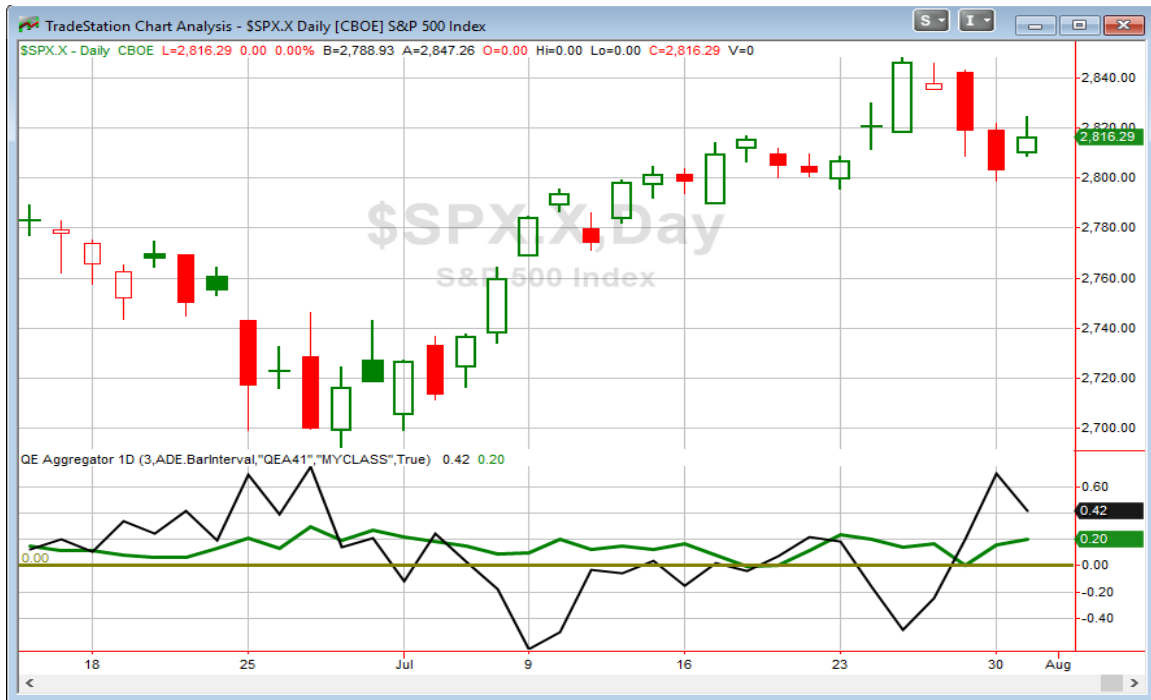
Obviously there are not a lot of instances, but they certainly appear encouraging – especially over the 1st 3 days. Below is the list of instances with their 3-day results.

Tomorrow is a Fed Day & it is the 1st day of the month.
Buy on close. Sell 3 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/1988	Buy	\$278.96	0.08%	\$504.78
11/3/1988	Sell	\$279.19		(\$673.04)
9/30/1991	Buy	\$387.86	-0.88%	\$557.69
10/3/1991	Sell	\$384.46		(\$873.80)
6/30/1992	Buy	\$408.13	1.40%	\$1,854.65
7/6/1992	Sell	\$413.84		\$0.00
1/31/1995	Buy	\$470.42	1.75%	\$2,011.88
2/3/1995	Sell	\$478.65		(\$239.56)
6/30/1998	Buy	\$1,133.86	2.07%	\$2,064.48
7/6/1998	Sell	\$1,157.32		(\$1.76)
10/31/2005	Buy	\$1,206.98	1.07%	\$1,453.04
11/3/2005	Sell	\$1,219.94		(\$484.62)
7/31/2012	Buy	\$1,379.32	0.85%	\$1,068.48
8/3/2012	Sell	\$1,390.99		(\$1,776.24)
4/30/2013	Buy	\$1,597.57	1.05%	\$1,295.18
5/3/2013	Sell	\$1,614.42		(\$1,009.98)
1/31/2017	Buy	\$2,278.87	0.81%	\$835.92
2/3/2017	Sell	\$2,297.42		(\$310.46)
10/31/2017	Buy	\$2,575.26	0.49%	\$500.08
11/3/2017	Sell	\$2,587.84		(\$345.42)

Results here appear encouraging. I'll note that every instance saw a run-up of at least 0.5% over the entry price at some point during the 3-day period.

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



With tonight's evidence to consider, 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 also 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. Of course, this could change if strong new bearish evidence emerges. The Differential Pivot will be 2827.49 on Wednesday. That is 0.4% above Tuesday's close. So SPX will need to rise at least 0.4% on Wednesday in order the flip from oversold to overbought versus expectations.

The Aggregator remains bullish. But the strong close on Tuesday was a little discouraging when looking at both Fed Days and new months. Additionally, the Fed announcement Wednesday serves as a real wildcard. The market could see a strong reaction in either direction. So while there appears to be an upside edge. There is a bit more risk in the setup than I would like when considering a new position in a neutral intermediate-term environment. I will wait to see how the market reacts to the Fed before considering any new positions tomorrow night.

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.

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	\$10.03	-5.02%		Catapult

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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