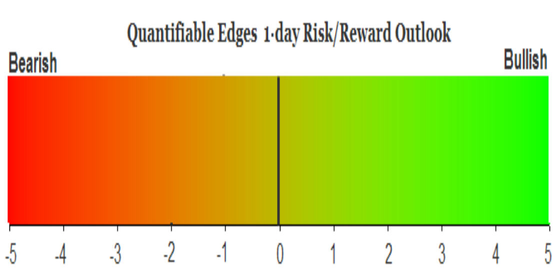
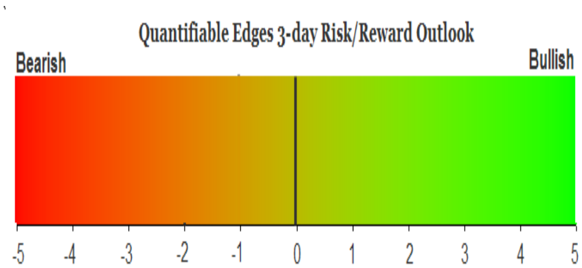
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 8, 2018 Volume 11 Issue 152

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The recent mild action sets the market up for a possible sharp move.
- The VIX stretched below it lower Bollinger Band for he 2nd day in a row is a rarity. It used to suggest a short-term bearish edge, but that edge has not held up well lately.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and I am too.

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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						
None						
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						
July 31, 2018	*SPX down 3 days. Today is Monday*	*1-8 days*	*Bullish*	*2.10%*	*-1.30%*	*-2.50%*

The Evidence

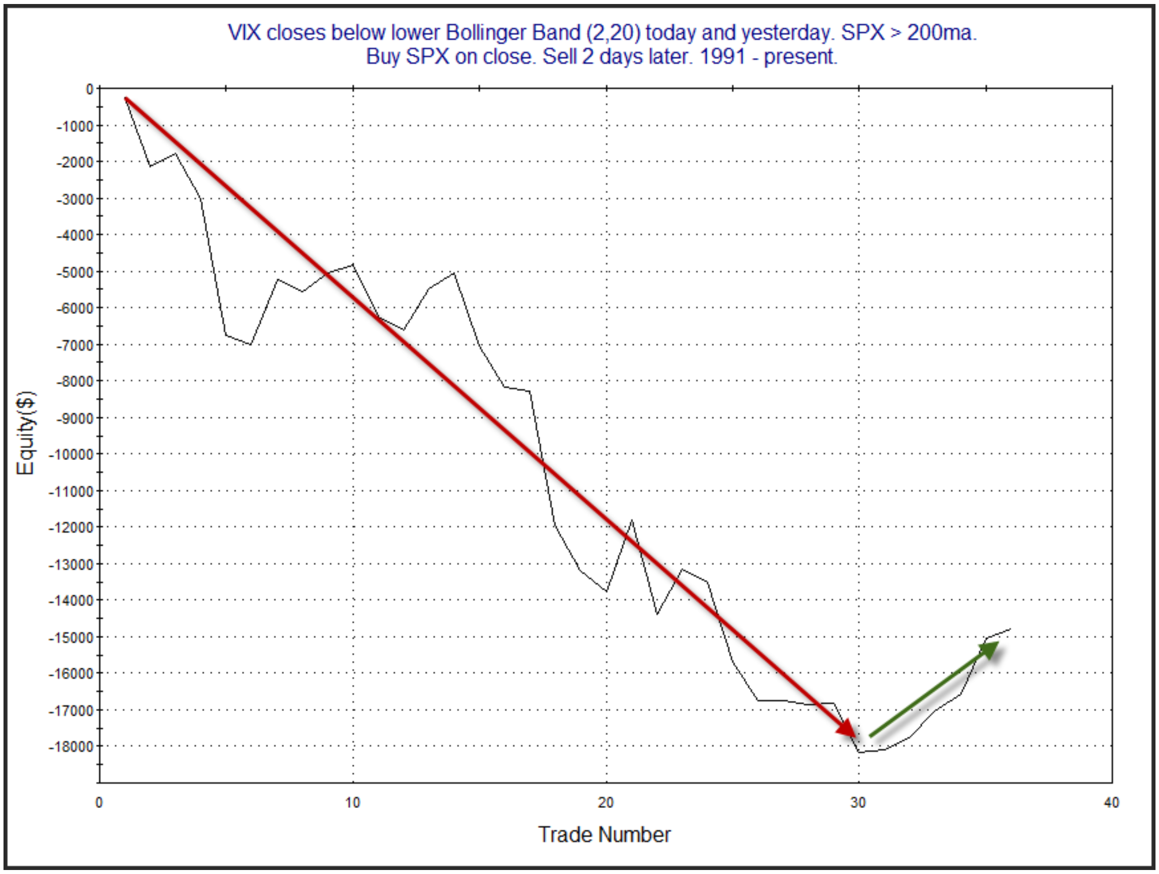
Tuesday was an up day for the market. The SPX closed up 0.3%, the NASDAQ rose 0.3%, and the Russell 2000 rallied 0.2%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 56%. NYSE volume rose some from Monday's level.

One notable bit of action in the indicators we watch was the continued VIX decline. The study below was last seen in the 11/21/12 Subscriber Letter. It looked at instances where the VIX closed below its lower Bollinger band for multiple days. It also included a long-term trend filter. The reason I have not looked at it in nearly 6 years is that it has not triggered since then. Results have all been updated.

VIX closes below lower Bollinger Band (2,20) today and yesterday. SPX > 200ma.
Buy SPX on close. Sell X days later. 1991 - 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	-13,500.03	33	13	20	39.39	1,694.28	4,482.50	-1,776.28	-5,999.92	0.95	0.62	-409.09
4	-18,571.12	33	14	19	42.42	1,139.40	4,440.00	-1,816.99	-6,497.20	0.63	0.46	-562.76
3	-8,690.33	35	19	16	54.29	949.17	3,950.00	-1,670.28	-3,832.46	0.57	0.67	-248.30
2	-14,770.30	36	16	20	44.44	689.59	1,974.69	-1,290.18	-3,712.29	0.53	0.43	-410.29
1	-10,087.83	47	20	27	42.55	459.43	1,377.50	-713.94	-3,644.52	0.64	0.48	-214.63

The results spreadsheet appears to suggest a moderate downside edge, especially over the first 1-2 days. I took a look at a 2-day equity curve to confirm the possible downside edge.



After a long, steady decline, the last several instances have bucked the trend. I am not including this on the Active List tonight. But I will continue to keep an eye on it to see if the bearish edge begins to re-assert itself.

Another factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.15 on Tuesday. This suggests a volatility expansion is likely to occur in the next few days. I last discussed this indicator in the 6/27/17 Letter.

I first introduced the 3/10 Offset HV in July of 2009. It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. This is below the historical average but still implied a sharp volatility expansion is likely.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

Quantifiable Edges ORBs Study

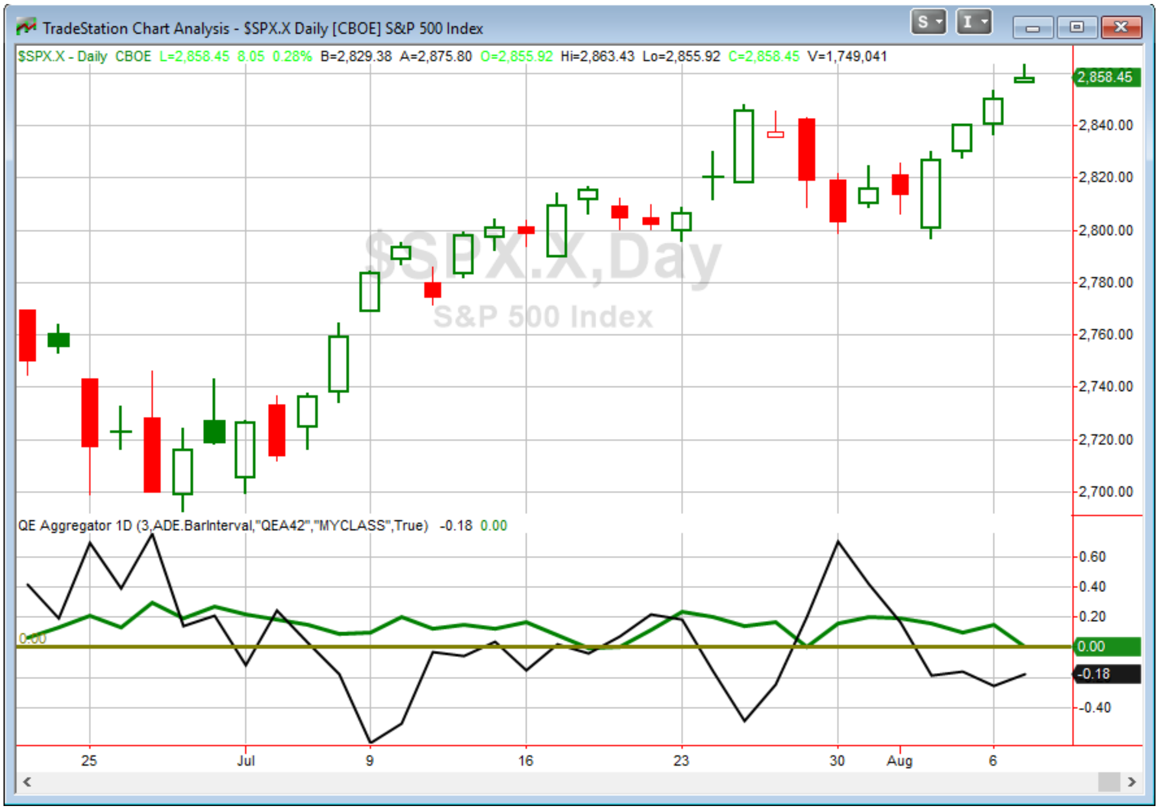
For anyone who is interested in seeing some techniques for actually trading these ORBs, there is a webinar from October 2010 on the subject on the videos page (subscribers only).

Daytrading ORBs using the 3/10 Offset HV as a filter

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. Of course tonight the Aggregator is neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

One last thing to note about Tuesday's action was that it was strong enough that our last remaining short-term study reached its avg run-up and was therefore removed from the Active List.

I have updated the Aggregator chart below.



With the last remaining short-term study coming off the Active List tonight, the green Aggregator Line closed right at zero. This means expectations are flat. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of 0. Therefore, the Aggregator signal stayed flat at the close.

With the intermediate-term outlook neutral and no active short-term studies, expectations for the next few days will be highly dependent on any new studies that emerge. Differential Pivot will be 2853.34 on Wednesday. That is 0.2% below Tuesday's close. So SPX will need to close down at least 0.2% on Wednesday in order to turn from overbought to oversold versus recent expectations.

No substantial change from last night. The Aggregator is neutral, and I am too. The low 3/10 Offset HV is suggesting a possible big move in the next few days, and I am not interested in being on the wrong side of that. So I will continue to wait for the next compelling reward/risk opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/6– neutral, but approaching mildly bearish

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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F(1/3)	7/23/2018	$10.56	$10.08	-4.55%		Catapult

F reached its exit trigger. It will be sold at the open on Wednesday.

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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