

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 16, 2018

Volume 11 Issue 158

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- The 1st 10-day low in a while is often buyable, but it has been less reliable when the market is drifting sideways.
- The pattern of unfilled gaps suggested short-term bearish implications at one point, but not any longer.

Short-term Outlook

The Bottom Line

There still appears to be a decent short-term bullish edge. I have a small long index position and am still looking to benefit from a market bounce.

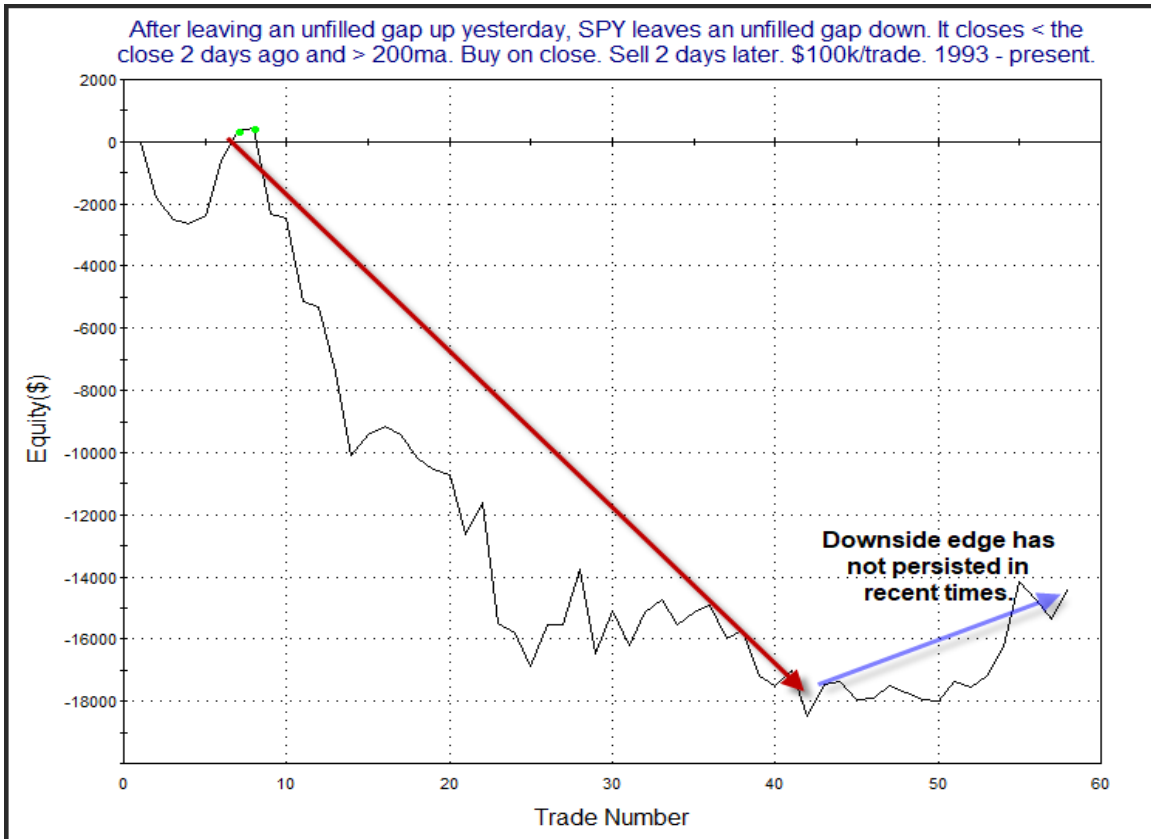
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 14, 2018	SPX bottom 10% rng. 5-low. Monday.	1-5 days	Bullish	2.10%	-1.00%	-2.20%
August 13, 2018	Dn 3 from 50-hi. Cls < 10ma & > 10-low	1-4 days	Bullish	1.60%	-0.90%	-1.80%
Active - Long Term						
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

The market saw selling overnight, and a big gap down never recovered. The SPX finished the day down 0.8%, the NASDAQ dropped 1.2%, and the Russell 2000 fell 1.3%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 20%. NYSE volume rose some from Tuesday's level.

There was a study from 9/6/17 that appeared in the Quantifinder that in the past had suggested bearish implications. The setup looked at unfilled gaps down after unfilled gaps up. The full description is on the updated chart below.



As noted on the chart, the downside edge has not played out in recent times. So I am not including this study on the Active List tonight.

The selloff Wednesday caused SPX to close at a 10-day low. It was the 1st 10-day low close since 6/27. Prior to Wednesday, it had gone 33 trading days without closing at a 10-day low. In the 5/7/15 letter I showed some interesting studies that examined 10-day low closes following a long drought. I have updated those studies tonight. This first study looks at instances where SPX posted its first 10-day low in a while.

After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	66,286.28	61	38	23	62.30	2,709.56	12,395.76	-1,594.65	-5,362.24	1.70	2.81	1,086.66
9	69,831.62	61	42	19	68.85	2,408.74	10,529.82	-1,649.23	-4,227.31	1.46	3.23	1,144.78
8	66,575.90	61	45	16	73.77	2,136.14	10,554.48	-1,846.91	-6,117.72	1.16	3.25	1,091.41
7	49,823.34	61	41	20	67.21	2,111.39	7,743.24	-1,837.18	-8,141.12	1.15	2.36	816.78
6	45,476.40	61	42	19	68.85	1,797.33	5,893.74	-1,579.56	-4,111.40	1.14	2.52	745.51
5	37,543.93	61	41	20	67.21	1,602.52	4,608.35	-1,407.96	-3,502.11	1.14	2.33	615.47
4	37,325.18	61	43	18	70.49	1,468.78	4,690.50	-1,435.12	-2,616.60	1.02	2.44	611.89
3	18,372.96	61	38	23	62.30	1,207.08	3,940.55	-1,195.48	-4,464.88	1.01	1.67	301.20
2	8,941.24	61	37	24	60.66	982.86	3,744.45	-1,142.68	-7,559.56	0.86	1.33	146.58
1	3,248.64	61	34	27	55.74	690.46	2,287.60	-749.14	-2,200.08	0.92	1.16	53.26

But I also found in that letter that the setup worked much better when SPX had been trending. To measure trend strength I used ADX. I broke down the setup to view times ADX <= 20 vs times ADX > 20. Wednesday ADX closed at just 12.98. The tables below are updated and show the difference between strong and weak ADX.

After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. 14-day ADX > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	73,680.22	47	32	15	68.09	2,867.44	12,395.76	-1,205.20	-5,362.24	2.38	5.08	1,567.66
9	71,805.23	47	35	12	74.47	2,513.12	10,529.82	-1,346.17	-3,753.36	1.87	5.45	1,527.77
8	67,869.89	47	37	10	78.72	2,303.85	10,554.48	-1,737.27	-6,117.72	1.33	4.91	1,444.04
7	49,032.45	47	34	13	72.34	2,251.86	7,743.24	-2,117.75	-8,141.12	1.06	2.78	1,043.24
6	49,651.62	47	36	11	76.60	1,885.07	5,893.74	-1,655.54	-4,111.40	1.14	3.73	1,056.42
5	42,980.46	47	33	14	70.21	1,816.20	4,608.35	-1,211.02	-3,502.11	1.50	3.54	914.48
4	40,239.13	47	37	10	78.72	1,514.25	4,690.50	-1,578.80	-2,616.60	0.96	3.55	856.15
3	19,281.13	47	32	15	68.09	1,186.90	3,940.55	-1,246.65	-4,464.88	0.95	2.03	410.24
2	9,780.17	47	30	17	63.83	983.40	3,744.45	-1,160.10	-7,559.56	0.85	1.50	208.09
1	6,065.79	47	28	19	59.57	679.76	2,287.60	-682.50	-1,922.40	1.00	1.47	129.06

45 of 47 instances (96%) closed above the entry price at some point in the next week.

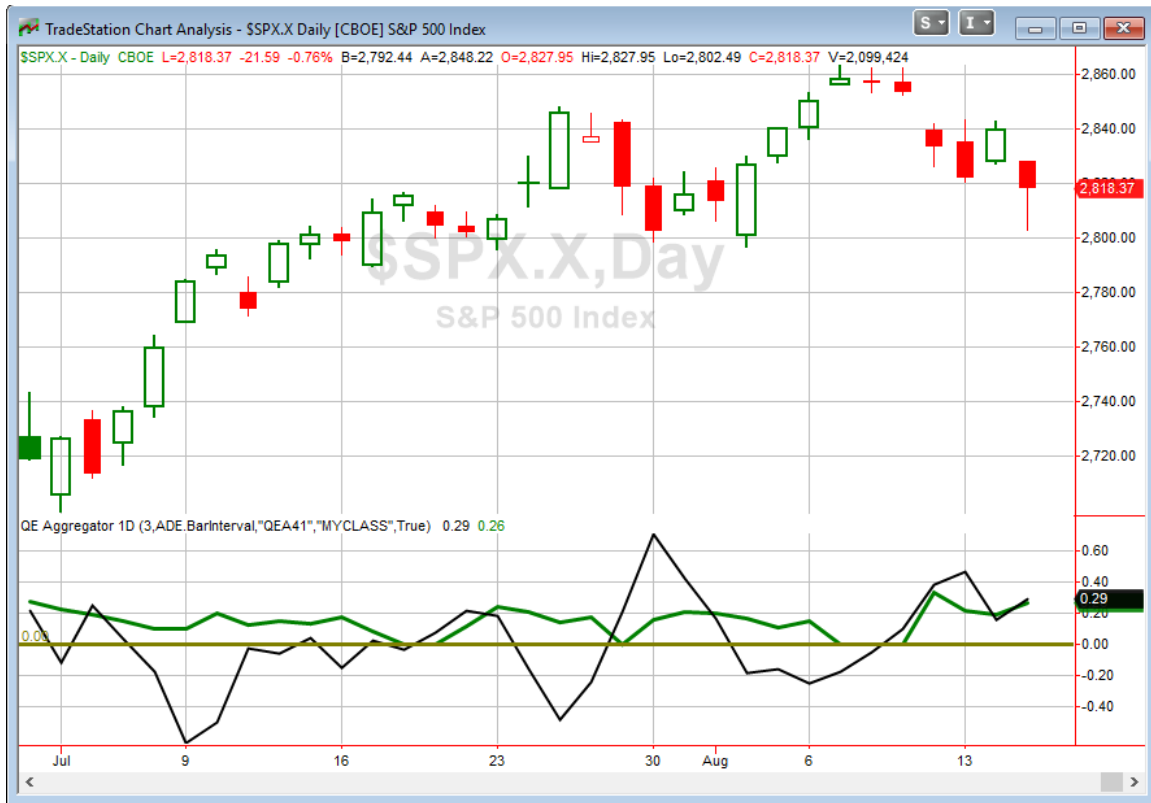
After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. 14-day ADX <= 20. Buy on close. Sell X days later. \$100k/trade. 1980 - present.

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	-7,393.96	14	6	8	42.86	1,867.51	2,991.12	-2,324.88	-4,749.93	0.80	0.60	-528.14
9	-1,973.62	14	7	7	50.00	1,886.80	3,201.66	-2,168.75	-4,227.31	0.87	0.87	-140.97
8	-1,294.00	14	8	6	57.14	1,360.48	3,107.28	-2,029.65	-4,508.89	0.67	0.89	-92.43
7	790.89	14	7	7	50.00	1,429.08	2,849.55	-1,316.10	-2,877.17	1.09	1.09	56.49
6	-4,175.23	14	6	8	42.86	1,270.92	2,432.10	-1,475.09	-3,792.29	0.86	0.65	-298.23
5	-5,436.53	14	8	6	57.14	721.05	1,836.78	-1,867.49	-3,032.40	0.39	0.51	-388.32
4	-2,913.95	14	6	8	42.86	1,188.37	2,054.58	-1,255.52	-1,949.36	0.95	0.71	-208.14
3	-908.17	14	6	8	42.86	1,314.70	1,942.05	-1,099.55	-2,320.47	1.20	0.90	-64.87
2	-838.93	14	7	7	50.00	980.54	1,725.60	-1,100.38	-1,753.30	0.89	0.89	-59.92
1	-2,817.15	14	6	8	42.86	740.36	1,491.93	-907.41	-2,200.08	0.82	0.61	-201.22

While it is just 14 instances, they certainly don't appear to have the same bullish inclinations of times when ADX > 20.

With this in mind I elected not to bank on the new low as a bullish indication tonight. No new studies were added to the Active List.

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



Without any new studies to consider tonight, 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 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 Thursday. Of course, this could change if strong new bearish evidence emerges. The Differential Pivot will be 2837.25 on Thursday. That is 0.7% above Wednesday's close. Therefore, SPX will need to close at least 0.7% on Thursday in order to change from oversold to overbought versus expectations.

There still appears to be a bit of an upside edge. And there is again ample room to the upside before SPX would turn overbought. So I plan to maintain my current small SPY index position. But the lack of new bullish evidence the last couple of days leaves me disinterested in taking on new positions. There was one new Catapult that triggered, which I will look to take advantage of. But I will remain lightly allocated and patient with my index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/13– neutral, but approaching mildly bearish

The intermediate-term outlook was last updated in the 8/13 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 @ \$9.46 (bought @ limit)

New

NFLX – 1/3 @ \$326.40 (buy @ limit)

Broad Market Large Cap CBI – 2(F, NFLX)

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.

NFLX – buy 1/3 Catapult position @ \$326.40 LIMIT. From the Catapult section above, this will be the 1st of up to 3 possible lots for NFLX.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/13/2018	\$282.10	\$281.78	-0.11%		Aggregator
F(1/3)	8/14/2018	\$9.46	\$9.45	-0.11%		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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