

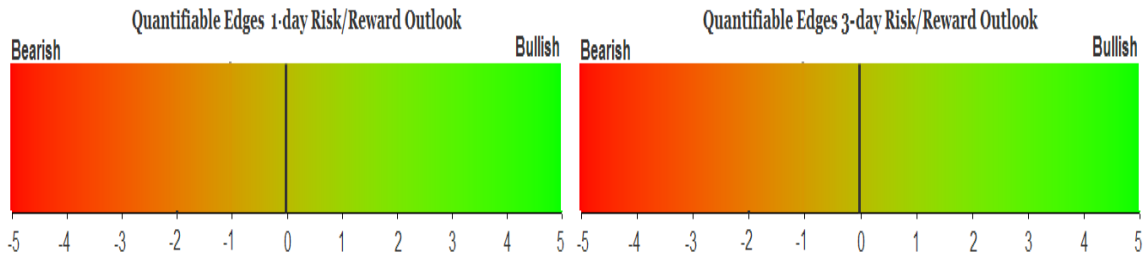
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 23, 2018

Volume 11 Issue 163

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- The very light NYSE volume on the pullback Thursday could suggest more selling soon.
- The 3/10 HV indicator is suggesting SPX could see a volatility expansion in the coming days.
- QT is about to pick up again, which should provide a hurdle for the bulls over the next couple of weeks.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But the signal is again weak and tenuous. I do not see a strong edge, and will not be looking to take on new index positions until a more compelling setup emerges.

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 22, 2018 | SPX 50-high. VIX up > 2.5%. Midweek. | 1-2 days | Bearish | -0.80% | 0.50% | 0.90% |
| Active - Long Term | | | | | | |
| July 1, 2018 | SOMA reduction intensifies to \$40billion | 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 | | | |

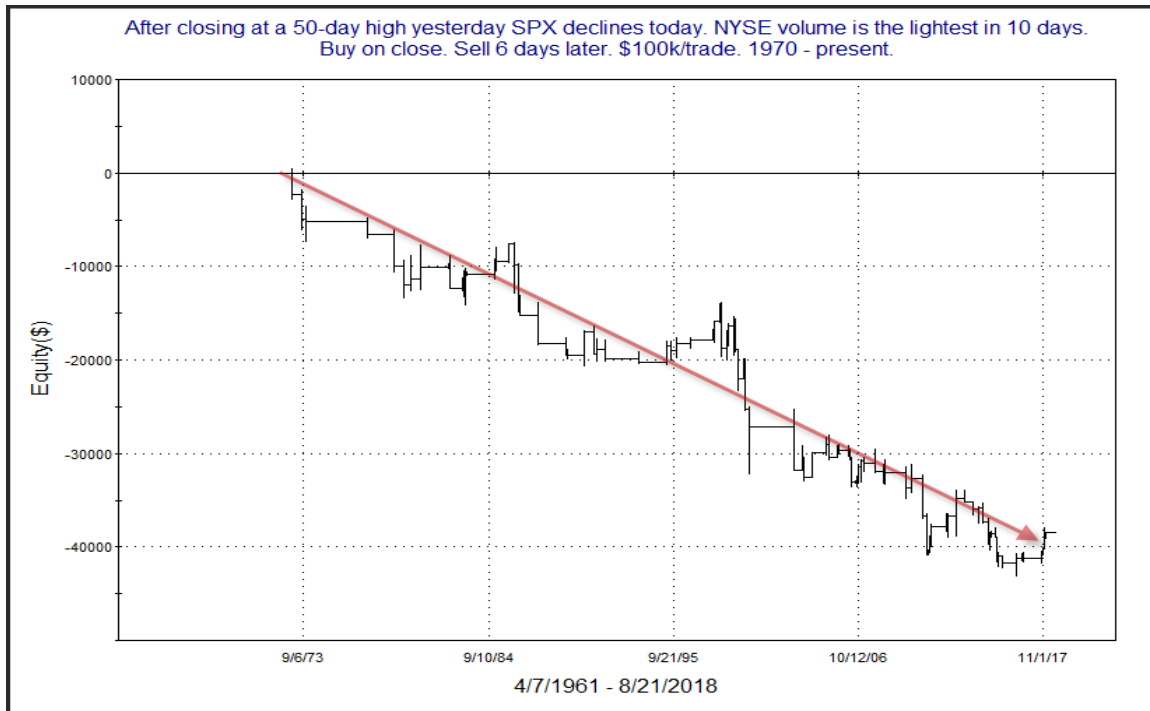
The Evidence

Wednesday was mixed and mild on light summer volume. The SPX finished the day down less than 0.1%, the NASDAQ gained 0.5%, and the Russell 2000 rose 0.3%. Breadth was slightly positive as the NYSE Up Issues % was 51.1% and the Up Volume % came in at 50.6%. NYSE volume came in at the lightest level since mid-July.

While action was moderate, there are a few things to discuss tonight. The study below is one that was last seen in the 9/22/17 letter. It looks at light volume occurring on down days after a 50-day high. Stats have all been updated.

| After closing at a 50-day high yesterday SPX declines today. NYSE volume is the lightest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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 | -25,121.51 | 76 | 40 | 36 | 52.63 | 1,623.53 | 5,104.00 | -2,501.74 | -6,121.74 | 0.65 | 0.72 | -330.55 |
| 9 | -21,368.94 | 77 | 41 | 36 | 53.25 | 1,552.36 | 3,955.23 | -2,361.54 | -6,236.87 | 0.66 | 0.75 | -277.52 |
| 8 | -30,915.45 | 77 | 39 | 38 | 50.65 | 1,354.02 | 3,521.07 | -2,203.22 | -6,661.66 | 0.61 | 0.63 | -401.50 |
| 7 | -40,391.13 | 77 | 38 | 39 | 49.35 | 1,182.05 | 3,732.48 | -2,187.41 | -7,193.64 | 0.54 | 0.53 | -524.56 |
| 6 | -38,483.10 | 78 | 38 | 40 | 48.72 | 1,005.45 | 2,563.47 | -1,917.25 | -5,426.99 | 0.52 | 0.50 | -493.37 |
| 5 | -23,788.23 | 79 | 40 | 39 | 50.63 | 892.60 | 2,279.20 | -1,525.44 | -4,288.68 | 0.59 | 0.60 | -301.12 |
| 4 | -22,647.65 | 83 | 44 | 39 | 53.01 | 747.68 | 2,457.84 | -1,424.25 | -4,263.60 | 0.52 | 0.59 | -272.86 |
| 3 | -5,097.19 | 86 | 47 | 39 | 54.65 | 761.56 | 2,169.48 | -1,048.48 | -3,726.24 | 0.73 | 0.88 | -59.27 |
| 2 | -3,131.77 | 86 | 44 | 41 | 51.16 | 644.44 | 2,328.05 | -767.98 | -4,049.40 | 0.84 | 0.90 | -36.42 |
| 1 | -5,006.32 | 86 | 45 | 40 | 52.33 | 455.42 | 2,235.13 | -637.51 | -3,068.81 | 0.71 | 0.80 | -58.21 |

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

It is also worth noting that the Quantifiable Edges 3/10 Offset HV calc came in very low for SPX. This essentially means that volatility over the last few days has seen a substantial contraction. Often this is followed by a sharp volatility expansion. So a big move could be coming in the next few days. The indicator does not help to predict direction. For that, I look to the Aggregator.

The last thing I will note is that the Fed reporting week ended on Wednesday. As I have mentioned a few times lately, I am expecting this week to see the SOMA finish fairly flat. That could mean up a little or down a little, but down a little seemed to have slightly better odds. In any case, I was not anticipating strong QT this past week. I will be able to report the numbers in tomorrow night's letter. But starting Thursday we are in a new week, and I do expect some substantial QT from AMBS expirations. This will cause a liquidity headwind for the bulls to battle. And the following week should see strong QT as well. More on this tomorrow.

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



Once again tonight the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 turned flat at the close.

The last remaining study on the Short-Term Active List is set to expire on Thursday. If no new studies emerge, then expectations will be slightly negative on Thursday afternoon. Of course this could easily change as expectations over the next few days will be largely dependent on new evidence that emerges. The Differential Pivot will be 2865.86 on Thursday. That is 0.1% above Wednesday's close. So SPX would only need to close up a little over 0.1% in order to flip from oversold to overbought versus expectations on Thursday.

While the Aggregator formation is now officially neutral, my bias was basically already there. I don't see a very strong edge at the moment. While some short-term evidence is pointing lower, SPX is not overextended versus recent expectations. Reward/risk is poor. I will continue to exercise patience while remaining alert for the next favorable opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/20– slightly bearish*

The intermediate-term outlook was last updated in the 8/20 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 |
|------------------|------------------|-----------------|-----------------|--------------|------|---------------------|
| <i>NFLX(1/3)</i> | <i>8/16/2018</i> | <i>\$326.40</i> | <i>\$338.49</i> | <i>3.70%</i> | | <i>sold on open</i> |
| <i>NFLX(1/3)</i> | <i>8/17/2018</i> | <i>\$319.01</i> | <i>\$338.49</i> | <i>6.11%</i> | | <i>sold on open</i> |
| <i>NFLX(1/3)</i> | <i>8/20/2018</i> | <i>\$314.64</i> | <i>\$338.49</i> | <i>7.58%</i> | | <i>sold on open</i> |
| | | | | | | |

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#). It was updated this afternoon.

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