

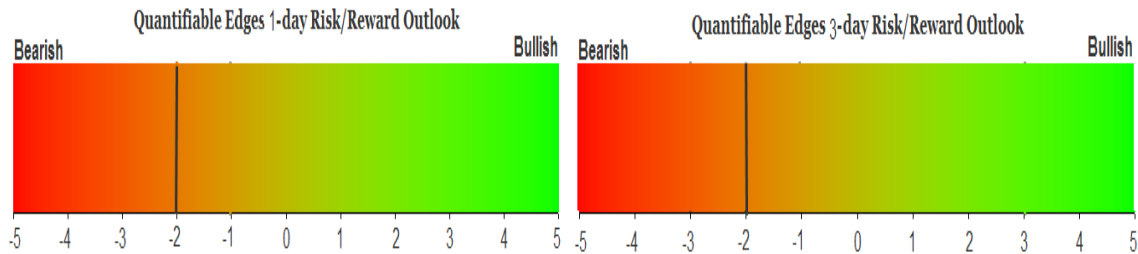
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2018

Volume 11 Issue 166

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

Evidence is pointing lower and the SPX is overbought. There appears to be a moderate, and somewhat tenuous, downside edge.

The Evidence

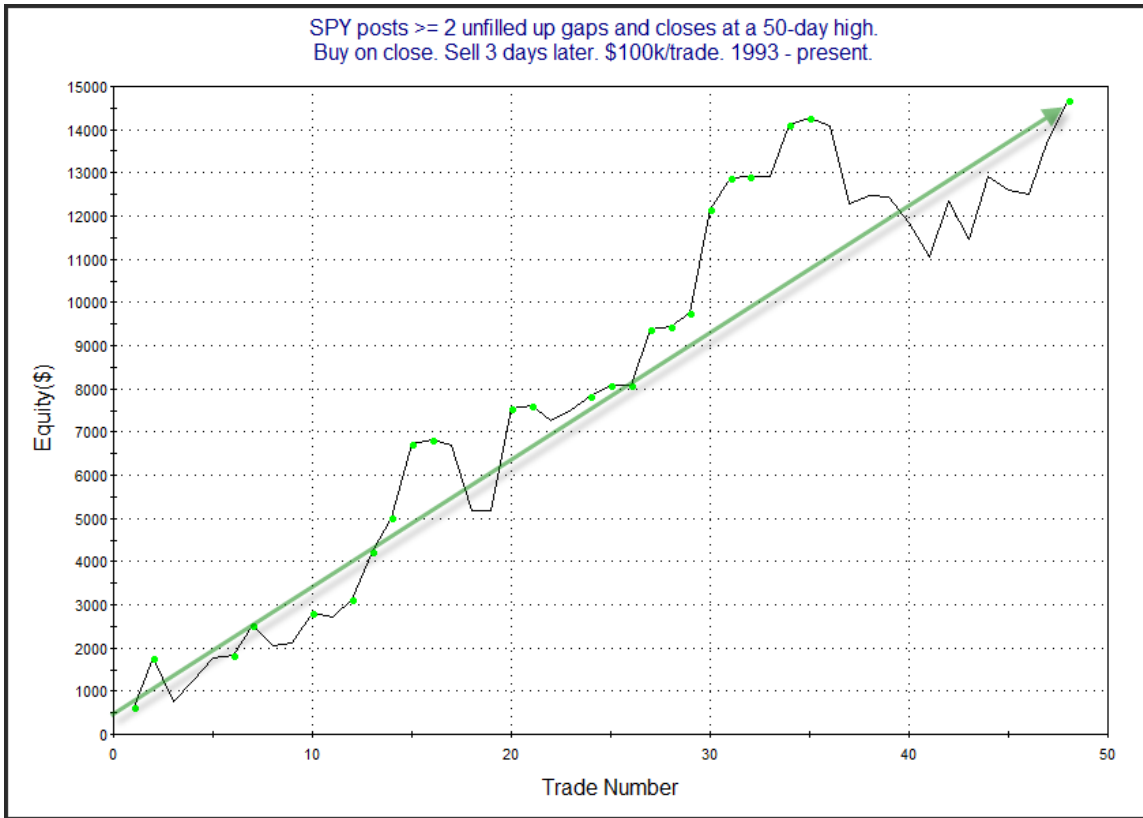
Monday again saw the market rally to new highs. The SPX finished the day up 0.8%, the NASDAQ rallied 0.9%, and the Russell 2000 gained 0.2%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 78%. NYSE volume came in at the lowest level since mid-July.

Evidence came in mixed based on Monday’s action. It is notable that Monday was the 2nd day in a row with an unfilled up gap. The study below was from in the 6/5/18 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts >= 2 unfilled up gaps and closes at a 50-day high. 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
5	12,236.88	48	32	16	66.67	933.42	2,013.72	-1,102.04	-4,508.40	0.85	1.69	254.93
4	15,697.62	48	32	16	66.67	949.14	2,475.56	-917.18	-2,720.25	1.03	2.07	327.03
3	14,671.62	48	32	16	66.67	715.70	2,419.84	-514.43	-1,801.77	1.39	2.78	305.66
2	10,848.59	49	34	14	69.39	529.81	1,858.87	-511.77	-1,476.68	1.04	2.51	221.40
1	2,539.60	59	32	27	54.24	352.33	1,156.32	-323.51	-1,942.24	1.09	1.29	43.04

**53 of 59 instances (90%) closed above the entry price
at some point in the next week**

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



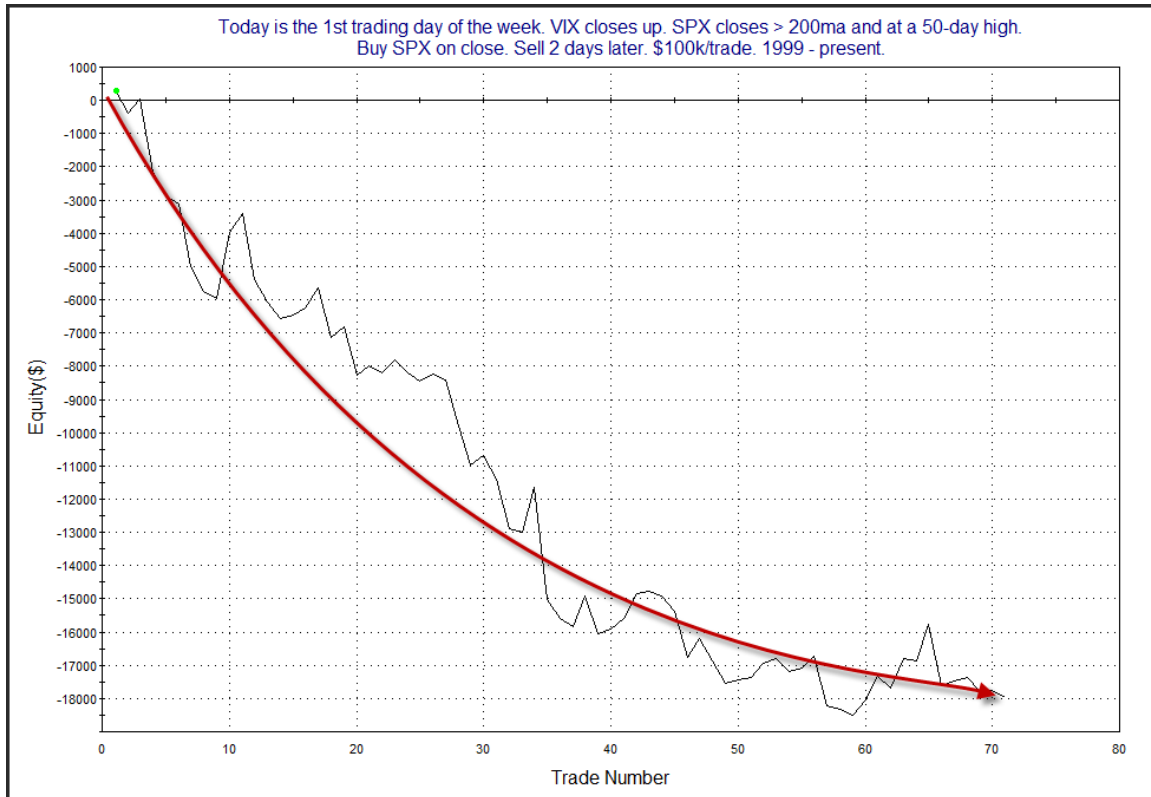
The most recent instances again made a new-high on the profit curve. This study seems worth consideration, and I have included on the Active List.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 1/9/18 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200 ma and at a 50-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.

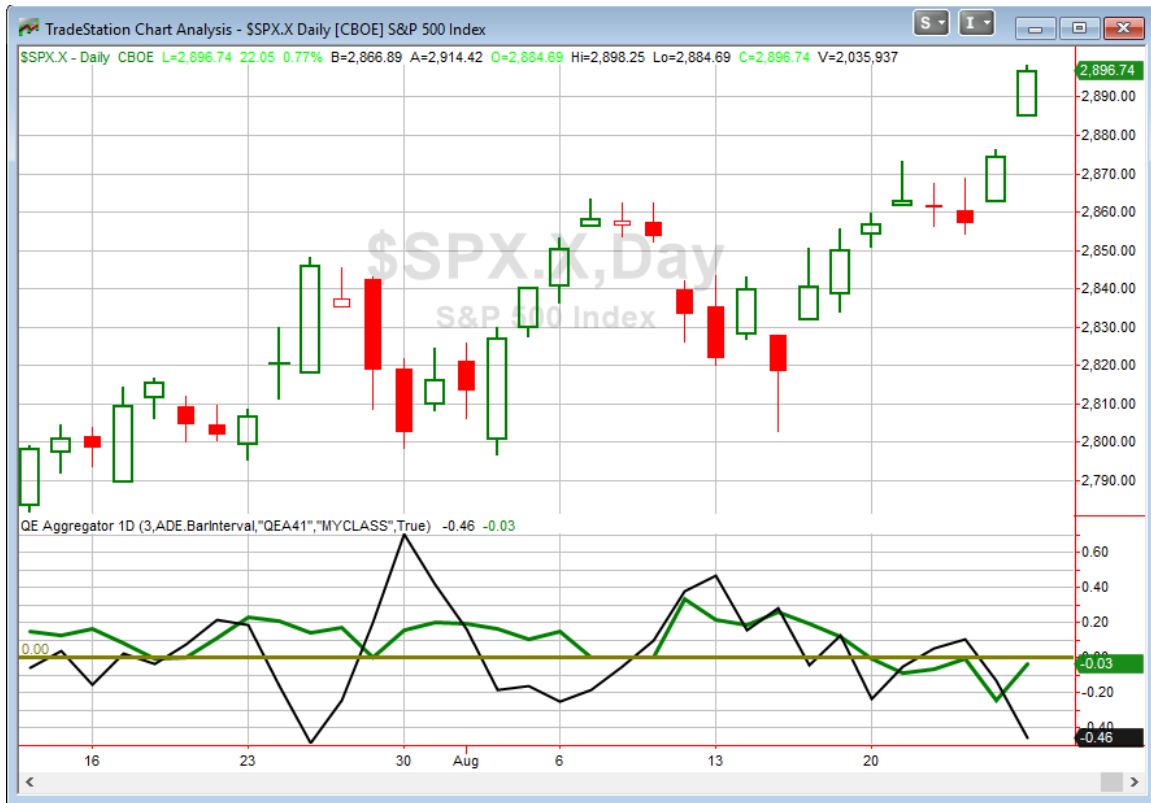
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,145.82	65	30	35	46.15	1,066.65	3,260.25	-1,261.29	-5,048.68	0.85	0.72	-186.86
4	-5,625.99	71	34	37	47.89	924.97	2,953.65	-1,002.03	-4,271.52	0.92	0.85	-79.24
3	-8,396.71	71	34	37	47.89	688.62	2,641.80	-859.72	-3,887.84	0.80	0.74	-118.26
2	-17,973.54	71	32	39	45.07	453.17	1,981.72	-832.69	-3,372.16	0.54	0.45	-253.15
1	-7,397.96	71	27	44	38.03	313.79	769.70	-360.69	-1,580.04	0.87	0.53	-104.20

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

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



With tonight's new studies considered, the green Aggregator Line remained just slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed short at the close.

Based on the current Active List, expectations are slated to flip to slightly bullish on Tuesday. Of course, this could easily change if additional bearish evidence emerges. The Differential Pivot will be 2851.94 on Tuesday. That is 1.5% below Monday's close. So SPX would need to close down a very large 1.5% or more in order to flip from overbought to oversold versus recent expectations. That is not very likely based recent volatility. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So the Aggregator is again bearish. But tonight expectations are mixed, and they are set to lean bullish starting after Tuesday. So the downside edge appears smaller and more tenuous. I have a small short position already. I will look to hold that at least until Tuesday's close. I won't be looking to add anything to it, though.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/27– slightly bearish

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
SPY(1/4)(s)	8/27/2018	\$288.86	\$289.78	-0.32%		Cover SPX close <= 2851.94

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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