

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 29, 2018

Volume 11 Issue 167

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-2 days.

Short-term Outlook

The Bottom Line

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

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 29, 2018	VIX up > 2.5%. SPX 50-high midweek	1-2 days	Bearish			
August 28, 2018	SPY 2 unfilled gaps up 50 day highs	1-3 days	Bullish			
August 27, 2018	SPX up > 0.5%. > 10ma & 200. Low vol	1-3 days	Bearish	-1.60%	0.60%	1.25%
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			

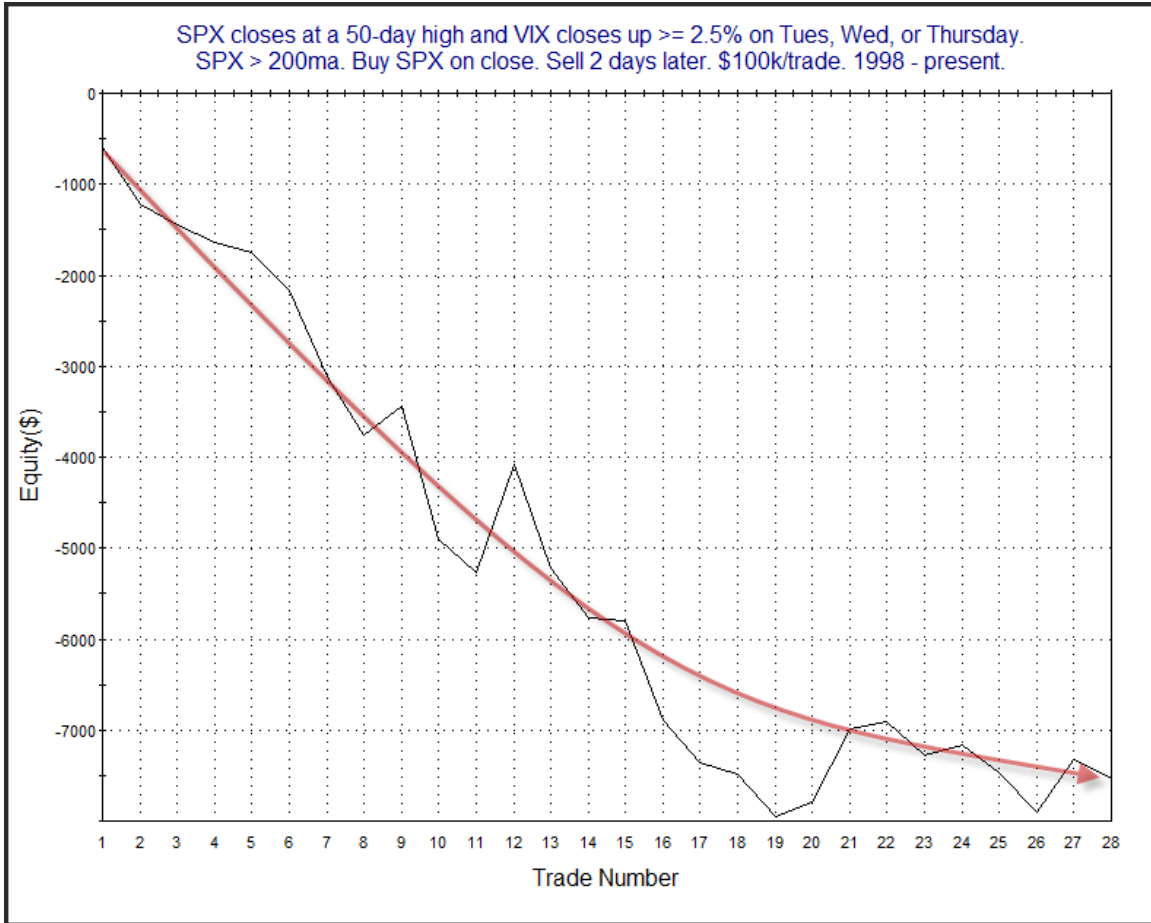
The Evidence

Tuesday saw moderate gains and more new highs. The SPX finished the day up 0.03%, the NASDAQ rose 0.15%, and the Russell 2000 gained 0.01 *points*. Breadth was actually negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 40%. NYSE volume was down from Monday's level and very light.

There were a few studies related to VIX action that appeared in the Quantifinder. The one below seemed the most appropriate. It last appeared recently in the 8/22/18 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

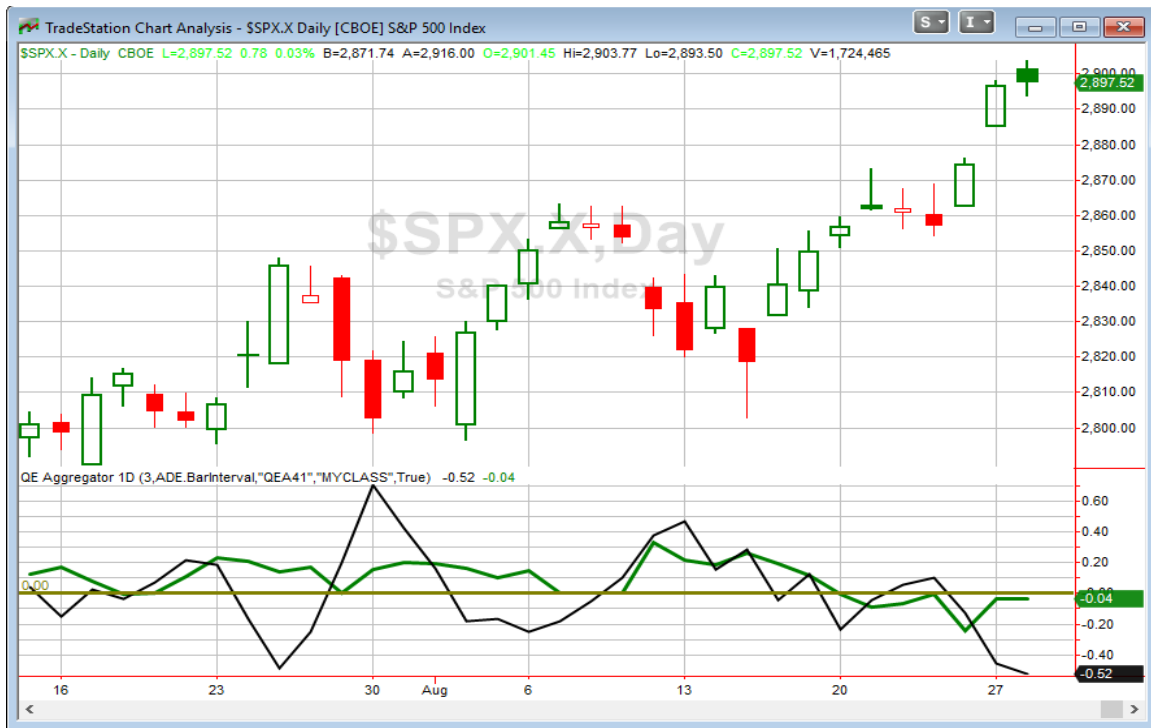
SPX closes at a 50-day high and VIX closes up >= 2.5% on Tues, Wed, or Thursday. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,292.94	28	13	15	46.43	854.94	2,108.40	-1,360.47	-4,149.36	0.63	0.54	-331.89
4	-9,267.53	28	12	16	42.86	714.47	1,629.60	-1,115.07	-4,240.48	0.64	0.48	-330.98
3	-7,618.48	28	14	14	50.00	575.35	1,271.55	-1,119.53	-4,423.40	0.51	0.51	-272.09
2	-7,529.12	28	7	21	25.00	463.48	1,192.71	-513.02	-1,461.48	0.90	0.30	-268.90
1	-2,597.44	32	14	18	43.75	270.18	1,108.05	-354.44	-1,008.70	0.76	0.59	-81.17
26 of 28 instances (93%) closed below the entry price at some point in the next 4 days.												

The numbers here are quite lopsided. Below is a profit curve assuming a 2-day exit strategy.



The decline has flattened out a bit lately, and I will be keeping a close eye on that. But the overall evidence is strong enough for me to include this study on the Active List tonight.

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



With tonight's new study 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 is now far below 0. The negative Differential Line reading means SPX is strongly 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 remain slightly bearish on Wednesday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2865.42 on Wednesday. That is 1.1% below Tuesday's close. So SPX would need to close down 1.1% or more in order to flip from overbought to oversold versus recent expectations. That is not very likely based on 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. And there appears to be decent reward potential with the Differential line so far away. I already have a small short position. While you won't normally see me shorting at all-time highs, I still believe the market is primed for a pullback. Momentum has won out over the past couple of weeks. But we know that market has struggled during periods of large QT. And we are in one now. And we are also seeing other supporting evidence suggesting a bearish edge. So I will again hold

onto my small short position and look to benefit from a potential pullback in the next few days.

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	\$289.92	-0.37%		Cover SPX close <= 2865.42

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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