

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 30, 2018

Volume 11 Issue 168

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.

Short-term Outlook

The Bottom Line

Evidence is still pointing lower and the SPX is overbought. There still appears to be a mild 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			
Active - Long Term						
August 30, 2018	SPX crosses over 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
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			
Dropped Tonight						
August 27, 2018	SPX up > 0.5%. > 10ma & 200. Low vol	1-3 days	Bearish	-1.60%	0.60%	1.25%

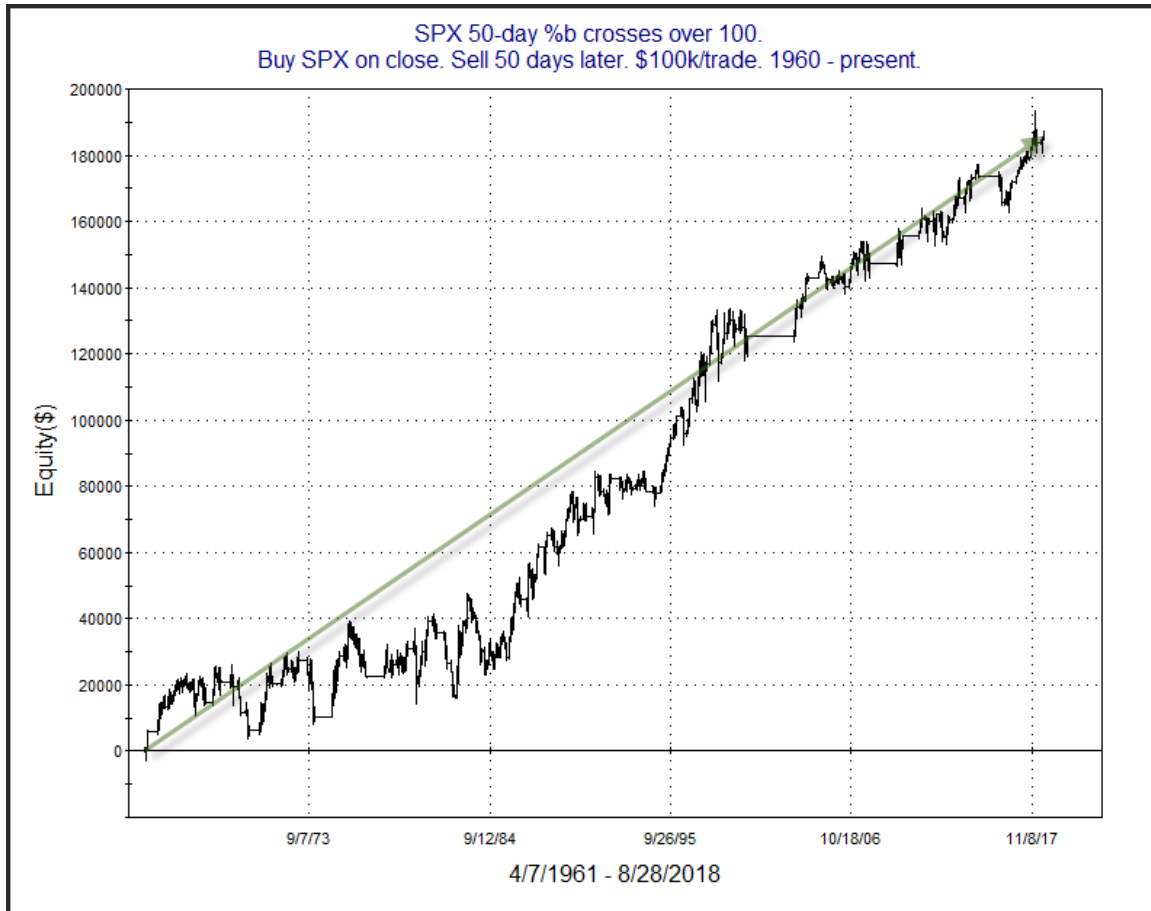
The Evidence

Wednesday was more gains and more new highs. The SPX finished the day up 0.6%, the NASDAQ rose 1.0%, and the Russell 2000 gained 0.4%. They all finished at all-time highs. Breadth was positive as the NYSE Up Issues % was 61.1% and the Up Volume % came in at 61.2%. NYSE volume rose some from Tuesday's level.

The action did not inspire anything in the way of compelling short-term evidence. One study from the 6/7/18 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100. Buy SPX on close. Sell X days later. \$100k/trade. 1960 - 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
50	186,243.13	135	82	53	60.74	4,861.27	18,408.18	-4,007.18	-15,795.00	1.21	1.88	1,379.58
45	157,707.50	141	81	60	57.45	5,015.64	15,816.57	-4,142.66	-25,812.76	1.21	1.63	1,118.49
40	168,245.75	146	88	58	60.27	4,491.18	17,624.67	-3,913.41	-15,540.70	1.15	1.74	1,152.37
35	146,186.88	154	93	61	60.39	4,025.49	15,782.13	-3,740.72	-13,617.00	1.08	1.64	949.27
30	99,706.72	160	95	65	59.38	3,341.68	11,920.74	-3,350.05	-10,485.00	1.00	1.46	623.17
25	67,952.36	169	97	72	57.40	3,010.91	10,859.94	-3,112.59	-8,732.16	0.97	1.30	402.08
20	59,787.58	180	103	77	57.22	2,629.46	9,501.30	-2,740.87	-10,205.38	0.96	1.28	332.15
15	65,985.13	197	115	82	58.38	2,319.08	7,843.46	-2,447.67	-9,763.44	0.95	1.33	334.95
10	49,505.09	220	137	83	62.27	1,683.79	8,239.16	-2,182.82	-9,133.53	0.77	1.27	225.02
5	26,220.28	268	154	114	57.46	1,122.59	5,030.81	-1,286.48	-5,817.77	0.87	1.18	97.84

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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



With tonight's evidence considered, the green Aggregator Line again 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 also 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 below 0. Therefore, the Aggregator signal stayed short at the close.

Based on the current Active List, expectations are slated to remain slightly bearish or neutral on Thursday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2888.40 on Thursday. That is 0.9% below Wednesday's close. Therefore SPX would need to close down 0.9% or more in order to flip from overbought to oversold versus recent expectations.

Momentum is bringing back some intermediate-term evidence. We see this in tonight's study. I'll also note that the NASDAQ is currently poised to take over leadership from the SPX based on our NASDAQ/SPX 10-week RS indicator. This won't be official until the end of the week, but if the week ended on Wednesday, the NASDAQ would have retaken the lead. So SPX will need to outperform by a substantial amount over the next 2 days to prevent this from happening.

Momentum is not helping short-term evidence, though. We still have bearish short-term expectations and there still appears to be a bit of a downside edge. I have a small short

position. I intend to maintain it for another day. With evidence not terribly strong and the market clearly in an uptrend, I am not inclined to add to the short position at this time.

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	\$291.45	-0.90%		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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