

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2018

Volume 11 Issue 176

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- Moderate 2-day bounces from 10-day lows during uptrends usually have farther to go.

Short-term Outlook

The Bottom Line

Evidence is bullish and the SPX is still not overbought. But it will turn overbought if it closes flat or up on Wednesday. So upside potential is somewhat limited. This has me looking to take profits if the market rallies a bit more on Wednesday.

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						
September 12, 2018	Up 2 from 10-low < 10ma > 200ma	1-2 days	Bullish			
Active - Long Term						
September 10, 2018	4+ Hindenburg Omen signals	1-35 days	Bearish	-6.50%	2.50%	4.50%
September 5, 2018	1st low in 2 weeks. C > 10ma.	1-10 days	Bullish			
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						
September 7, 2018	System 11111	1-3 days	Bullish			

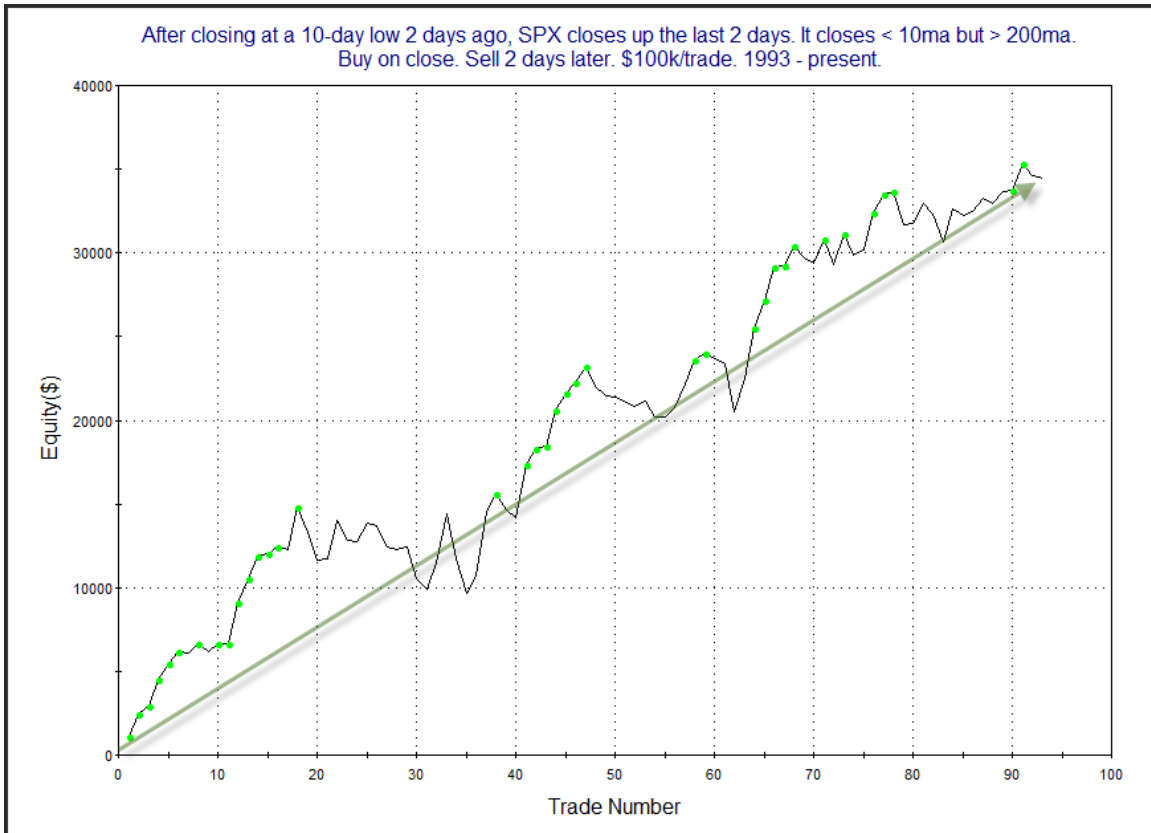
The Evidence

Tuesday started out weak, but quickly recovered and the major indices all posted gains. The SPX finished up 0.4%, the NASDAQ rose 0.6%, and the Russell 2000 climbed 0.1%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 56%. NYSE volume rose some from Monday's level.

Other than yet another Hindenburg Omen signal, nothing triggered in the Quantifinder. But I took a look at moderate bounces from 10-day lows like we have seen the last couple of days, and I was surprised to find some compelling results. The study I constructed is below.

After closing at a 10-day low 2 days ago, SPX closes up the last 2 days. It closes < 10ma but > 200ma. 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	27,722.34	90	54	36	60.00	1,630.56	4,522.00	-1,675.78	-4,385.11	0.97	1.46	308.03
4	34,871.36	91	56	35	61.54	1,557.44	4,528.65	-1,495.57	-4,255.02	1.04	1.67	383.20
3	35,647.24	93	64	29	68.82	1,220.66	3,167.68	-1,464.65	-3,993.04	0.83	1.84	383.30
2	34,439.29	93	57	36	61.29	1,165.28	3,844.65	-888.39	-2,822.04	1.31	2.08	370.31
1	12,992.85	93	55	38	59.14	703.59	2,699.42	-676.43	-3,044.52	1.04	1.51	139.71

Stats here seem to suggest a bit of an upside edge, especially over the 1st couple of days. Below is a look at a profit curve that assumes a 2-day holding period.



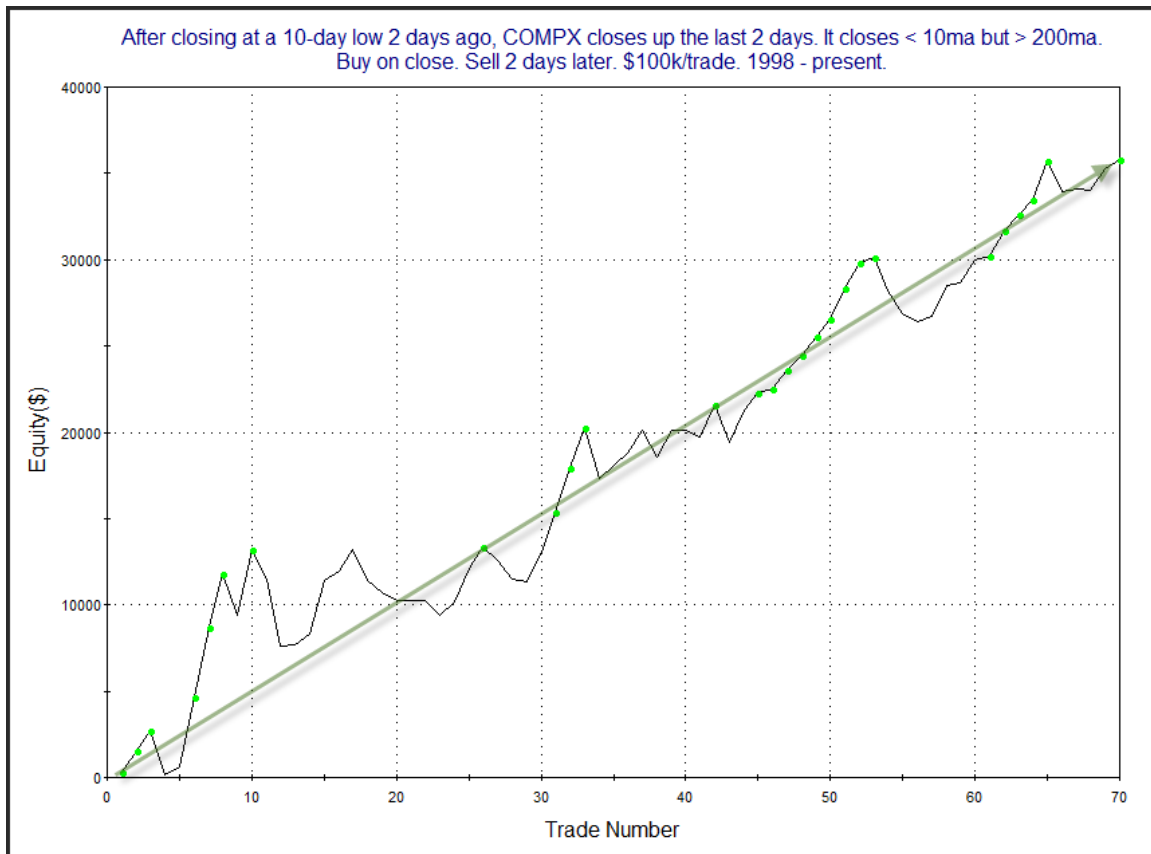
It has moved from lower left to upper right on a fairly steady basis for a very long time. This serves as some confirmation of the potential bullish edge.

I also noted that the NASDAQ has exhibited this same pattern over the last few days. So I decided to run the same study on the NASDAQ. I found that the edge did not persist back quite as far, but it has been more powerful over the last 20 years. The results table can be seen below.

After closing at a 10-day low 2 days ago, COMPX closes up the last 2 days. It closes < 10ma but > 200ma
Buy on close. Sell X days later. \$100k/trade. 1998 - present.

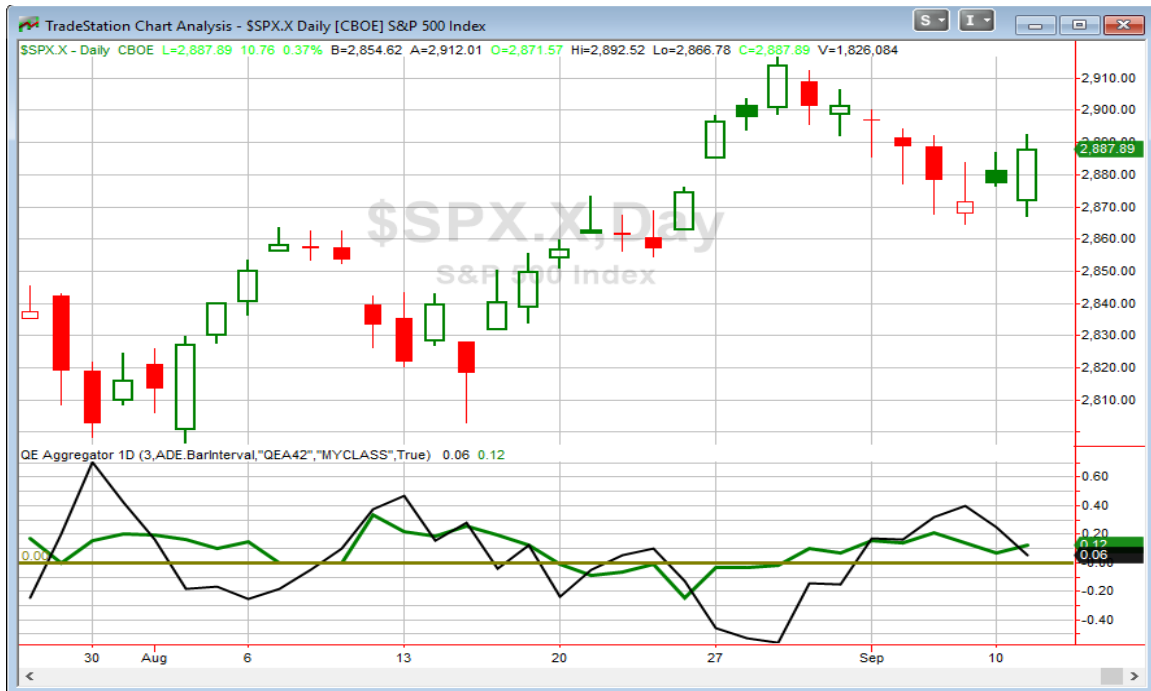
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	46,141.87	69	46	23	66.67	1,990.84	8,967.60	-1,975.51	-5,970.24	1.01	2.02	668.72
4	47,760.10	69	45	24	65.22	1,967.01	6,444.48	-1,698.15	-4,986.40	1.16	2.17	692.18
3	32,641.05	70	42	28	60.00	1,777.69	6,518.80	-1,500.78	-8,084.18	1.18	1.78	466.30
2	35,767.03	70	49	21	70.00	1,325.60	4,064.40	-1,389.89	-3,891.94	0.95	2.23	510.96
1	21,833.77	70	46	24	65.71	895.46	2,901.20	-806.56	-3,682.80	1.11	2.13	311.91

Here again we see impressive stats over the 1st couple of days. Below is a look at the 2-day profit curve.



This too has been a steady move higher. Overall, this study appears worthy of some consideration and I have included it on the Active List tonight.

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



With tonight's new studies under consideration, 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 also held 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 List, expectations are slated to remain positive on Wednesday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2885.81 on Wednesday. That is about 2 points (less than 0.1%) *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down about 0.1% in order to remain oversold. Anything other than that and it will be considered "overbought" versus expectations as of Wednesday's close.

So there still appears to be a bit of an upside edge, and tonight's evidence suggests most similar bounces go a little further in the next 1-2 days. But a higher close on Wednesday will mean the end of the bullish Aggregator signal. I often view inverted pivots as opportune times to take profits if they are available. So I will be looking to exit my small SPY position if we get a bit of an up move on Wednesday. I will not exit if there is a gap down and more selling, because in that case there is a good chance we will again see a bullish Aggregator formation on Wednesday night. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/10– neutral

The intermediate-term outlook was last updated in the 9/10/18 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

HAL @ \$36.69 (bought @ limit)

Broad Market Large Cap CBI – 1(HAL)

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/6/2018	\$289.07	\$289.05	-0.01%		sell @ \$289.34 LIMIT
HAL(1/3)	9/11/2018	\$36.69	\$37.35	1.80%		Catapult

I have set the exit price for SPY halfway between Tuesday's close and Tuesday's high. (For futures traders that would be about 2891.)

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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