

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2018

Volume 11 Issue 183

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPY's unfilled up-gap and new 50-day high suggest a bullish edge.
- The very strong volume that accompanied the SPX breakout is a positive.
- Quantitative Tightening (QT) was light this past week, but I am expecting some large QT flows the next two weeks.

Short-term Outlook

The Bottom Line

The breakout look good for the short-term, but it also leaves the market overbought. I am neutral and awaiting the next compelling setup.

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 21, 2018	High Volume SPX Breakout	1-2 days	Bullish			
September 21, 2018	Breakaway Gap Breakout	1-5 days	Bullish	1.45%	-0.90%	-1.90%
September 18, 2018	5 Up closes < 50 Then down.	1-5 days	Bullish	1.70%	-1.10%	-2.10%
September 17, 2018	5 Up closes. Close < 50 high but > 200m	1-7 days	Bullish	1.85%	-1.20%	-2.30%
Active - Long Term						
September 20, 2018	RUT btm 25% 20-day rng SPX top 25%	1-40 days	Bullish	5.60%	-2.70%	-5.30%
September 17, 2018	5 Up closes. Close < 50 high but > 200m	1-15 days	Bullish	3.10%	-1.75%	-3.30%
September 14, 2018	8 days of split New Highs and Lows	1-25 days	Bearish			
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			

The Evidence

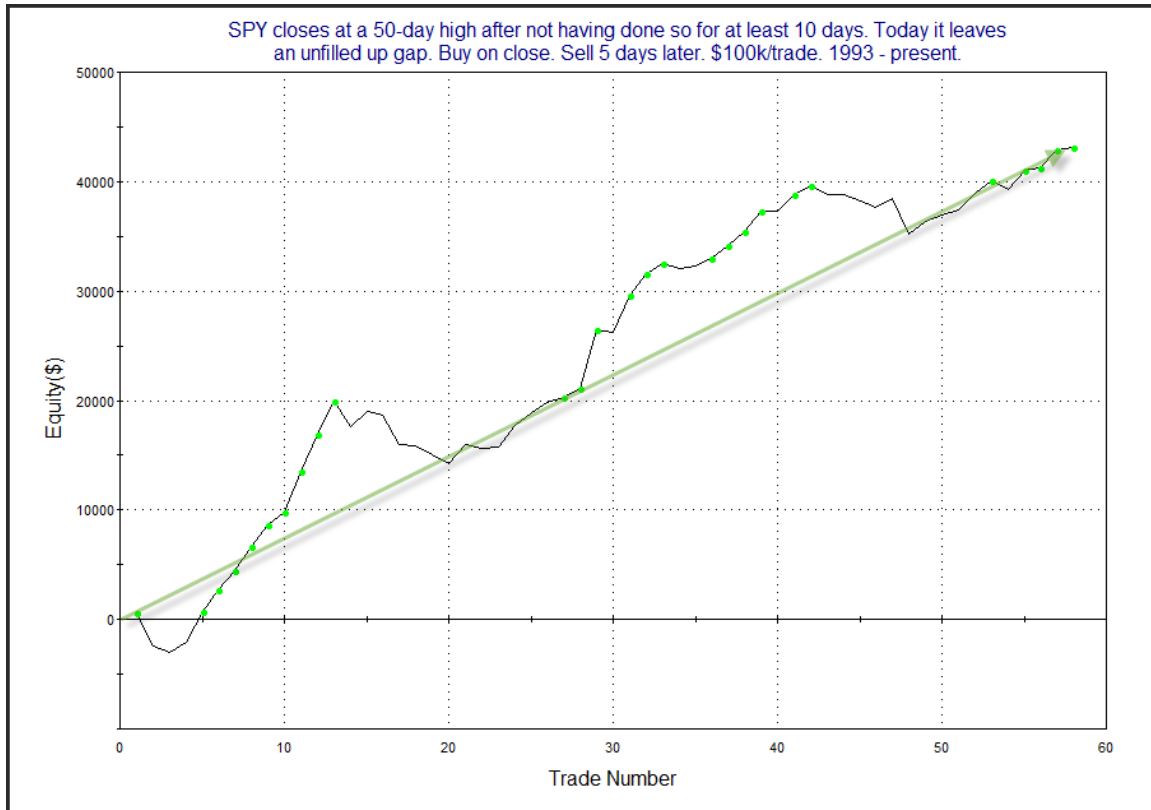
Thursday was a day of strong gains for the market. The SPX rose 0.8%, the NASDAQ climbed 1.0%, and the Russell 2000 also added on 1.0%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 79%. NYSE volume spiked up to the highest level in a while.

The S&P 500 broke out to new all-time highs on Thursday. And the breakout was accompanied by some bullish clues suggesting we could see some follow-through in the coming days. One indication for SPY is whether it posts an unfilled gap or not on the day of the breakout. And Thursday did come with an unfilled gap up. I last showed the importance of an unfilled gap in the 7/13/18 subscriber letter. I have updated those studies below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	43,139.20	58	41	17	70.69	1,492.46	5,434.00	-1,061.86	-3,218.88	1.41	3.39	743.78
4	29,280.16	58	40	18	68.97	1,185.36	3,637.92	-1,007.47	-3,267.84	1.18	2.61	504.83
3	23,381.06	58	40	18	68.97	1,020.66	3,992.56	-969.17	-2,538.18	1.05	2.34	403.12
2	18,481.42	58	39	19	67.24	755.95	2,545.92	-578.98	-2,293.20	1.31	2.68	318.65
1	7,742.66	58	41	17	70.69	456.82	1,816.10	-646.28	-2,591.68	0.71	1.70	133.49

52 of 58 instances (90%) closed above the entry price at some point in the next week.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 7/13/18 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. 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	3,422.69	45	27	18	60.00	1,018.49	2,671.20	-1,337.58	-4,285.26	0.76	1.14	76.06
4	604.96	45	26	19	57.78	979.18	2,072.07	-1,308.09	-4,518.34	0.75	1.02	13.44
3	4,607.09	45	27	18	60.00	994.33	2,927.90	-1,235.54	-5,133.72	0.80	1.21	102.38
2	-2,131.58	45	23	22	51.11	641.90	2,324.90	-767.97	-3,640.86	0.84	0.87	-47.37
1	2,202.16	45	24	21	53.33	477.52	1,586.97	-440.88	-2,448.72	1.08	1.24	48.94

Moves to new highs that don't start with an unfilled gap are much less reliable.

Another measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 6/3/16 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high (like we saw on Thursday). Moderate but increasing volume is the worst scenario. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts that occur on rising volume that is not the highest of the last 20 days. It would be the worst-case scenario.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < the highest in 20 days. Buy SPX 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
20	5,065.06	99	48	51	48.48	3,333.40	13,401.70	-3,038.00	-11,541.15	1.10	1.03	51.16
19	14,699.94	99	51	48	51.52	3,125.13	9,135.36	-3,014.20	-11,854.89	1.04	1.10	148.48
18	20,283.41	100	54	46	54.00	2,932.12	9,503.00	-3,001.11	-10,293.66	0.98	1.15	202.83
17	12,081.75	100	54	46	54.00	2,806.16	9,962.68	-3,031.54	-9,419.67	0.93	1.09	120.82
16	7,288.52	102	55	47	53.92	2,641.79	8,910.72	-2,936.38	-9,482.88	0.90	1.05	71.46
15	14,650.00	102	54	48	52.94	2,575.09	8,150.48	-2,591.77	-9,608.60	0.99	1.12	143.63
14	591.78	102	57	45	55.88	2,310.54	7,702.40	-2,913.54	-10,120.46	0.79	1.00	5.80
13	-1,383.58	102	54	48	52.94	2,303.38	7,911.80	-2,620.13	-9,725.34	0.88	0.99	-13.56
12	-5,981.03	103	56	47	54.37	2,155.49	10,197.98	-2,695.50	-9,869.02	0.80	0.95	-58.07
11	-818.20	103	53	50	51.46	2,274.50	10,380.37	-2,427.34	-9,482.88	0.94	0.99	-7.94
10	-8,025.69	103	51	52	49.51	2,149.22	10,515.18	-2,262.23	-8,683.66	0.95	0.93	-77.92
9	-3,473.71	103	49	54	47.57	2,117.90	8,413.73	-1,986.12	-6,878.68	1.07	0.97	-33.73
8	-7,075.34	103	55	48	53.40	1,686.89	8,532.68	-2,080.30	-7,076.24	0.81	0.93	-68.69
7	9,985.33	103	54	49	52.43	1,729.43	6,337.26	-1,702.12	-7,255.84	1.02	1.12	96.94
6	7,538.03	103	57	46	55.34	1,472.42	6,819.80	-1,660.64	-7,103.18	0.89	1.10	73.18
5	3,484.01	103	50	53	48.54	1,529.71	8,516.82	-1,377.38	-6,088.44	1.11	1.05	33.83
4	-2,617.45	103	56	47	54.37	1,227.15	6,716.71	-1,517.83	-5,585.56	0.81	0.96	-25.41
3	9,328.96	103	60	43	58.25	1,111.64	6,740.50	-1,334.17	-5,361.06	0.83	1.16	90.57
2	2,913.35	103	61	42	59.22	765.52	4,028.44	-1,042.47	-4,276.16	0.73	1.07	28.28
1	9,177.57	103	58	45	56.31	518.50	2,731.56	-464.34	-2,722.61	1.12	1.44	89.10

As you can see, returns are basically neutral over the next 4 weeks following this setup. Next, let's look at times the market broke out on decreasing volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX 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
20	35,788.58	61	35	26	57.38	2,525.68	11,088.84	-2,023.48	-8,157.10	1.25	1.68	586.70
19	34,530.37	62	36	26	58.06	2,398.95	9,628.99	-1,993.53	-9,056.82	1.20	1.67	556.94
18	36,492.70	62	39	23	62.90	2,301.89	11,076.80	-2,316.57	-9,094.80	0.99	1.68	588.59
17	34,865.14	62	39	23	62.90	2,308.57	10,017.28	-2,398.66	-8,682.96	0.96	1.63	562.34
16	37,475.18	62	40	22	64.52	2,256.38	10,944.36	-2,399.09	-9,243.81	0.94	1.71	604.44
15	32,857.76	62	42	20	67.74	2,023.56	8,166.13	-2,606.59	-9,354.92	0.78	1.63	529.96
14	37,105.59	64	45	19	70.31	1,831.20	7,314.30	-2,384.13	-6,525.68	0.77	1.82	579.77
13	38,295.07	65	43	22	66.15	1,850.10	7,780.85	-1,875.42	-5,160.09	0.99	1.93	589.15
12	24,730.27	65	37	28	56.92	1,881.92	5,996.75	-1,603.60	-4,539.14	1.17	1.55	380.47
11	19,070.04	65	35	30	53.85	1,834.05	5,809.60	-1,504.06	-6,029.07	1.22	1.42	293.39
10	18,918.80	65	34	31	52.31	1,822.27	5,960.00	-1,388.33	-4,324.52	1.31	1.44	291.06
9	24,803.05	65	41	24	63.08	1,524.97	5,147.20	-1,571.69	-5,812.26	0.97	1.66	381.59
8	30,292.35	65	45	20	69.23	1,364.71	5,096.00	-1,555.97	-4,186.55	0.88	1.97	466.04
7	33,892.13	65	43	22	66.15	1,311.11	4,655.00	-1,022.07	-3,211.35	1.28	2.51	521.42
6	48,532.50	65	46	19	70.77	1,367.94	5,002.50	-757.51	-3,563.65	1.81	4.37	746.65
5	50,067.70	65	48	17	73.85	1,385.40	4,482.50	-966.56	-3,693.73	1.43	4.05	770.27
4	33,639.45	65	46	19	70.77	1,137.38	4,440.00	-983.16	-2,913.85	1.16	2.80	517.53
3	32,468.51	65	44	21	67.69	1,081.94	3,950.00	-720.80	-1,802.37	1.50	3.14	499.52
2	19,155.83	65	43	22	66.15	765.06	2,212.98	-624.62	-1,912.60	1.22	2.39	294.71
1	7,761.17	65	41	24	63.08	441.15	1,384.02	-430.24	-1,921.32	1.03	1.75	119.40

This is substantially better, especially over the 1st week following the initial breakout. Lastly, let's look at times like Thursday when the market rose on the highest volume of the last 20 trading days.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in 20 days. Buy SPX 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
20	18,538.22	40	22	18	55.00	3,632.58	8,953.20	-3,409.92	-8,308.32	1.07	1.30	463.46
19	13,685.17	40	23	17	57.50	3,409.41	8,942.40	-3,807.72	-7,980.00	0.90	1.21	342.13
18	24,595.39	40	23	17	57.50	3,674.90	9,613.50	-3,525.13	-7,323.36	1.04	1.41	614.88
17	20,613.97	40	24	16	60.00	3,274.62	9,069.84	-3,623.55	-8,144.90	0.90	1.36	515.35
16	25,570.48	40	23	17	57.50	3,530.65	8,048.82	-3,272.62	-8,109.35	1.08	1.46	639.26
15	20,775.66	40	23	17	57.50	3,424.99	7,668.00	-3,411.72	-8,358.20	1.00	1.36	519.39
14	21,212.29	40	23	17	57.50	3,302.74	8,128.38	-3,220.63	-8,338.45	1.03	1.39	530.31
13	25,626.24	40	24	16	60.00	3,054.35	7,478.64	-2,979.88	-8,251.55	1.02	1.54	640.66
12	21,979.40	40	23	17	57.50	2,796.65	7,352.31	-2,490.79	-8,757.15	1.12	1.52	549.49
11	28,371.52	40	26	14	65.00	2,514.89	6,782.40	-2,643.98	-6,975.70	0.95	1.77	709.29
10	31,145.17	40	24	16	60.00	2,487.82	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.63
9	27,897.57	40	24	15	60.00	2,272.85	6,418.16	-1,776.73	-3,113.22	1.28	2.05	697.44
8	29,663.58	40	24	16	60.00	2,245.80	6,220.34	-1,514.73	-2,943.34	1.48	2.22	741.59
7	30,443.70	40	25	15	62.50	2,017.12	5,264.21	-1,332.29	-2,946.00	1.51	2.52	761.09
6	33,597.45	40	28	12	70.00	1,753.17	4,695.76	-1,290.94	-3,093.30	1.36	3.17	839.94
5	29,863.77	40	26	14	65.00	1,655.48	4,771.60	-941.33	-2,562.72	1.76	3.27	746.59
4	21,201.24	40	26	14	65.00	1,266.35	3,165.12	-837.42	-1,948.21	1.51	2.81	530.03
3	17,575.07	40	26	14	65.00	1,086.30	2,989.36	-762.04	-2,188.15	1.43	2.65	439.38
2	27,508.43	40	27	12	67.50	1,181.81	3,813.53	-366.70	-1,259.60	3.22	7.25	687.71
1	15,102.12	40	29	11	72.50	648.11	2,755.52	-335.73	-1,292.50	1.93	5.09	377.55

Numbers here are the strongest. Much of the strength is actually seen in the first couple of days. I have added this study to the Active List tonight.

I will also quickly note that the Fed released the SOMA changes update on Thursday after the bell. It came in as expected, with just a small amount of QT (\$1.8 billion). This can be seen below.

« As of 09/12/2018

DOMESTIC SECURITIES HOLDINGS AS OF
September 19, 2018

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	100,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,157,449,918.5
US Treasury Floating Rate Notes (FRN)	18,152,012.4
US Treasury Inflation-Protected Securities (TIPS)*	115,578,709.4
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,695,223,409.0
Total SOMA Holdings	3,988,913,049.3
Change From Prior Week	-1,792,879.3

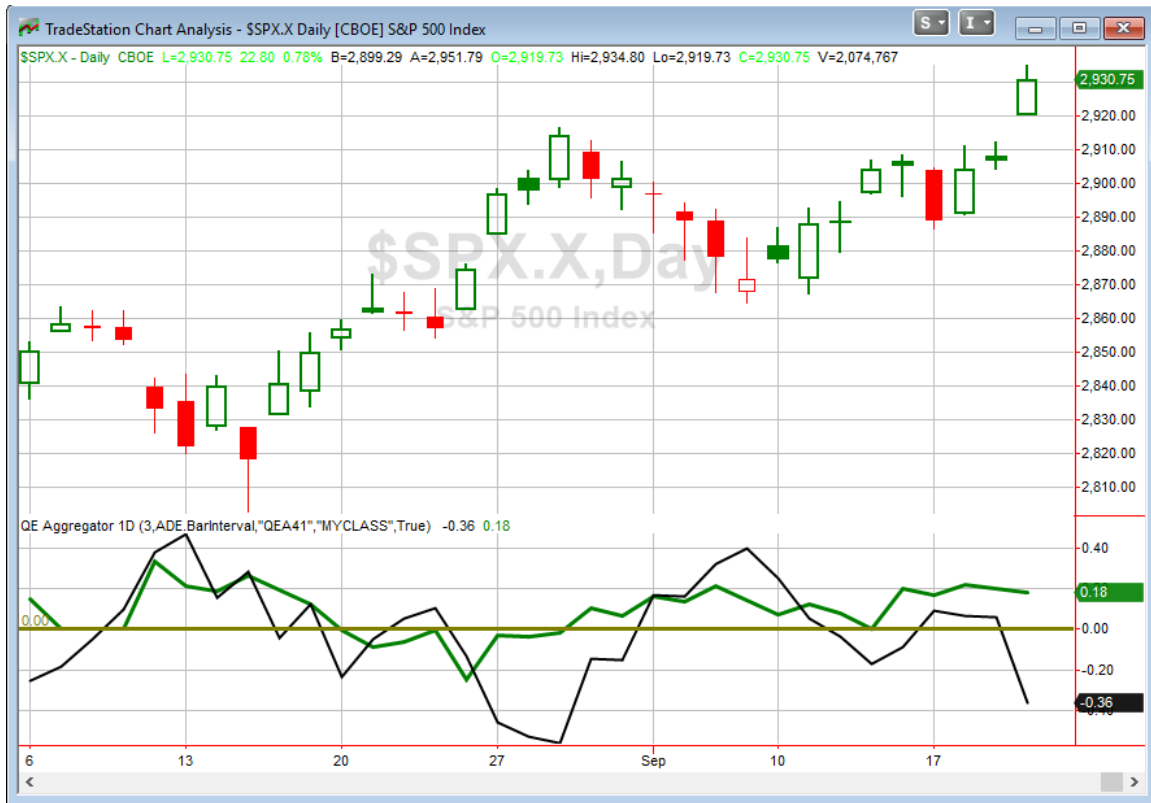
*Does not reflect inflation compensation of 21,925,375.
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 09/20/2018 4:30pm.

Full QT decline
came from AMBS

The light amount of Quantitative Tightening this past week sets up the next two weeks for some sizable SOMA reductions. That could provide a liquidity headwind for the bulls to contend with. And it is coming as we head into the traditional “weakest week” of the year next week. This could potentially challenge the bulls and their perfect breakout scenario. But I am getting slightly ahead of myself. I will be updating all of that information in this weekend’s letter.

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



With tonight's new breakout-related studies to consider, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List for upside over the next few days. Meanwhile the black Differential Line dove down below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite side of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current list of active studies, expectations are slated to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2921.27 on Friday. That is 0.3% below Thursday's close. So SPX will only need to close down 0.3% on Friday to flip back to "oversold" in relation to recent expectations.

Short-term evidence is bullish. But the market is overbought, short-term bearish seasonality is on the way, the intermediate-term remains mixed, and I don't see a compelling reason to jump into new positions with so many crosswinds. Until a more favorable edge emerges, I will remain patient but alert.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/17– neutral

The intermediate-term outlook was last updated in the 9/17/18 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

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

None.

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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