

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2018

Volume 11 Issue 186

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Since 1982, 3+ down days combined with a Fed Day has resulted in consistent gains over the next 3-4 days.
- Poor closes the day before a Fed Day have led to strong Fed Days.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is favorable reward/risk for the bulls over the next few days.

Summary of Recent Active Studies (see Letters from listed dates for details)

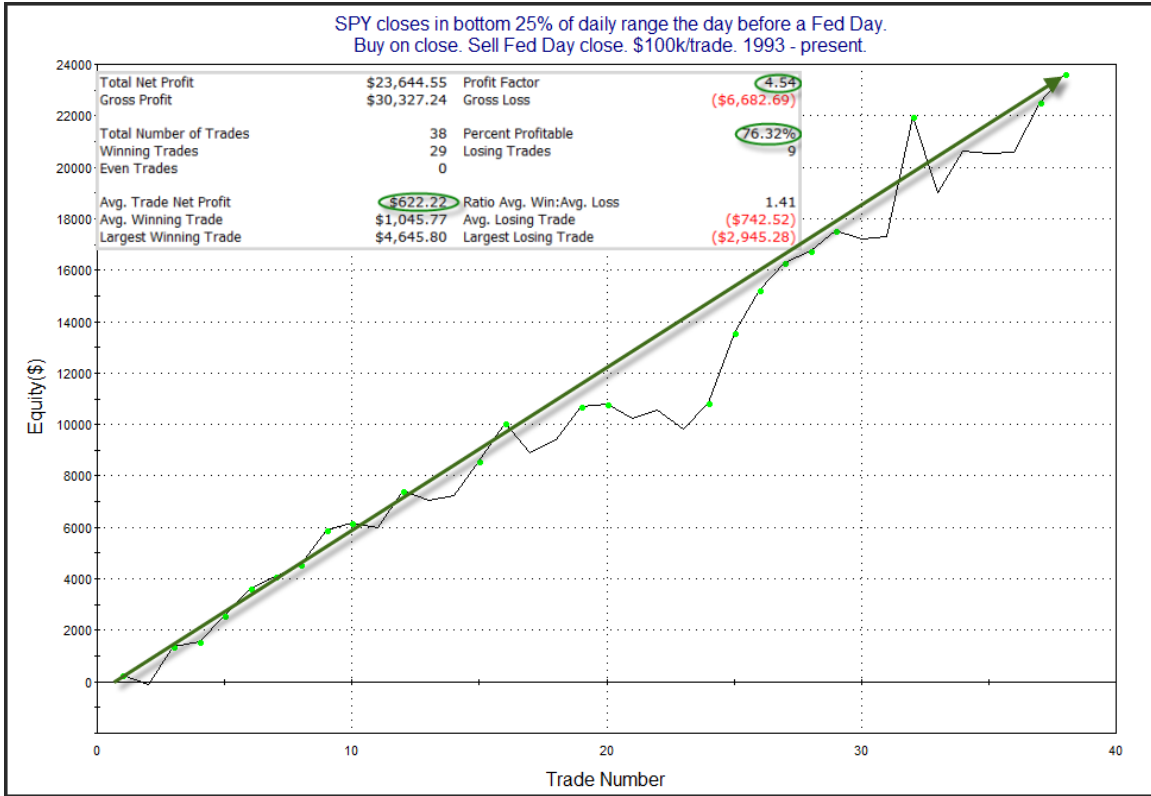
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 26, 2018	Bottom 25% range before Fed Day	1 day	Bullish			
September 26, 2018	Down 3 days before Fed Day	1-4 days	Bullish			
September 24, 2018	Weakest Week	1-4 days	Bearish	-2.20%	0.80%	2.20%
September 21, 2018	Breakaway Gap Breakout	1-5 days	Bullish	1.45%	-0.90%	-1.90%
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%
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 17, 2018	5 Up closes. Close < 50 high but > 200m	1-7 days	Bullish	1.85%	-1.20%	-2.30%

The Evidence

Tuesday was again mixed and mild. The SPX declined 0.1%, while the NASDAQ and the Russell 2000 each rose 0.2%. Breadth was negative as the NYSE Up Issues % was 44% and the Up Volume % also came in at 44%. NYSE volume declined some from Monday's level.

The most compelling studies tonight were related to Fed Days. A Fed Day is one of eight days per year that the Federal Reserve concludes one of their scheduled meetings and makes a policy announcement. Wednesday is a Fed Day. Historically, Fed Days have had a bullish inclination. That inclination has been even stronger when there has been selling heading into the Fed Day.

One metric I have found useful in estimating Fed Day odds is the closing range on the day before the Fed Day. In the 1/30/18 letter I broke down performance by quartile. The lower in the range, the better the results were for the next day. On Tuesday, SPY closed in the bottom quartile of its intraday range. Below are updated results along with a chart.



We see here the strong upside tendency when there has been a weak close heading into a Fed Day.

There was another very interesting Fed Day-related study that emerged. It examined other times that SPX was in a long-term uptrend, but closed down for at least the third day in a row going into the Fed Day. I last showed this study in the 2/1/17 subscriber letter, and have updated the results below.

SPX closes down at least the 3rd day in a row but > 200ma. Tomorrow is a Fed Day.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	30,024.11	20	17	3	85.00	2,129.10	5,471.50	-2,056.86	-3,270.96	1.04	5.87	1,501.21
4	30,206.14	20	18	2	90.00	1,806.94	5,290.00	-1,159.35	-1,433.11	1.56	14.03	1,510.31
3	28,086.79	20	18	2	90.00	1,640.61	4,895.50	-722.09	-1,247.38	2.27	20.45	1,404.34
2	18,470.11	20	15	5	75.00	1,345.69	4,424.50	-343.06	-1,083.82	3.92	11.77	923.51
1	9,355.96	20	15	5	75.00	760.51	2,007.50	-410.35	-647.66	1.85	5.56	467.80

These are some very encouraging numbers for the bulls. Below is the list of instances.

SPX closes down at least the 3rd day in a row but > 200ma. Tomorrow is a Fed Day.
Buy on close. Sell 4 days later. \$100k/trade. 1982 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/16/1982	Buy	\$135.42	-0.89%	\$2,590.38
11/22/1982	Sell	\$134.22		(\$892.98)
10/3/1983	Buy	\$165.81	3.01%	\$3,189.87
10/7/1983	Sell	\$170.80		\$0.00
7/8/1986	Buy	\$241.58	-1.44%	\$780.57
7/14/1986	Sell	\$238.11		(\$1,466.15)
2/10/1987	Buy	\$275.07	3.78%	\$3,778.83
2/17/1987	Sell	\$285.48		(\$431.97)
12/18/1989	Buy	\$343.68	1.09%	\$1,116.50
12/22/1989	Sell	\$347.41		(\$1,177.40)
8/19/1991	Buy	\$376.46	4.70%	\$5,003.20
8/23/1991	Sell	\$394.16		\$0.00
11/4/1991	Buy	\$390.27	0.67%	\$1,574.40
11/8/1991	Sell	\$392.88		(\$688.64)
7/6/1993	Buy	\$441.43	1.71%	\$1,735.68
7/12/1993	Sell	\$448.98		(\$6.78)
9/20/1993	Buy	\$455.05	0.57%	\$797.16
9/24/1993	Sell	\$457.63		(\$1,186.98)
11/14/1995	Buy	\$589.29	1.28%	\$1,877.59
11/20/1995	Sell	\$596.85		(\$157.17)
12/18/1995	Buy	\$606.82	0.85%	\$1,221.80
12/22/1995	Sell	\$611.95		(\$290.28)
12/16/1996	Buy	\$720.99	3.87%	\$4,749.96
12/20/1996	Sell	\$748.87		(\$593.40)
3/30/1998	Buy	\$1,093.60	2.66%	\$2,981.16
4/3/1998	Sell	\$1,122.70		(\$4.55)
5/18/1998	Buy	\$1,105.82	0.42%	\$1,676.70
5/22/1998	Sell	\$1,110.47		\$0.00
8/8/2005	Buy	\$1,223.13	0.59%	\$1,584.36
8/12/2005	Sell	\$1,230.39		\$0.00
3/19/2013	Buy	\$1,548.34	0.22%	\$1,060.48
3/25/2013	Sell	\$1,551.69		(\$306.56)
12/16/2014	Buy	\$1,972.74	5.36%	\$5,301.00
12/22/2014	Sell	\$2,078.54		\$0.00
6/14/2016	Buy	\$2,075.32	0.38%	\$1,216.32
6/20/2016	Sell	\$2,083.25		(\$1,197.60)
11/1/2016	Buy	\$2,111.72	0.94%	\$953.16
11/7/2016	Sell	\$2,131.52		(\$1,312.71)
1/31/2017	Buy	\$2,278.87	0.60%	\$835.92
2/6/2017	Sell	\$2,292.56		(\$310.46)

The setup has certainly been potent over a long period of time. There has not been a loser for the 4-day holding period since 1986. And every instance back to 1982 has closed higher than the entry price *at some point* in the next 4 days. I have included both of these Fed Day studies on the Active List tonight.

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



With tonight's new studies being considered, the green Aggregator Line rose back above zero. Positive readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line moved further 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 turned long at the close.

Based on the current list of active studies, expectations are slated to remain positive on Wednesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2941.32 on Wednesday. That is 0.9% above Tuesday's close. So SPX will need to close up 0.9% on Wednesday in order to flip to "overbought" in relation to recent expectations.

So evidence is suggesting we could get a bounce here. And with ample room to the upside it may be worth taking a chance on a small long position. With my intermediate-term outlook still neutral and a strong QT week on the horizon starting Thursday, I remain wary of betting to aggressively. I will dip my toe on the long side if I can get a favorable fill on Wednesday at either the open or the close of trading. I am not inclined to take trades in the middle of the day with Fed news providing high potential for volatility. Details in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/24– neutral

The intermediate-term outlook was last updated in the 9/24/18 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.

SPY – buy ¼ index position @ \$290.75 LIMIT ON OPEN. If not filled on open, cancel order, and then look to buy @ \$290.75 LIMIT ON CLOSE. Per the short-term outlook above, I will look to take a small position if I can get a favorable fill on Wednesday, but am not inclined to buy into a mid-day swoon.

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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