

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2018

Volume 11 Issue 190

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- Split market conditions were again exhibited on Monday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is still pointing higher, but the SPX is now overbought. I do not see a strong reward/risk setup here.

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						
October 1, 2018	SPY up 2 < 3 ago. Close > 200ma.	1-2 days	Bullish			
September 27, 2018	Fed today. Dn 2+	1-6 days	Bullish	2.00%	-1.45%	-3.10%
Active - Long Term						
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
October 1, 2018	NASDAQ Leading	int term	Bullish			
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%
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 26, 2018	Down 3 days before Fed Day	1-4 days	Bullish			

The Evidence

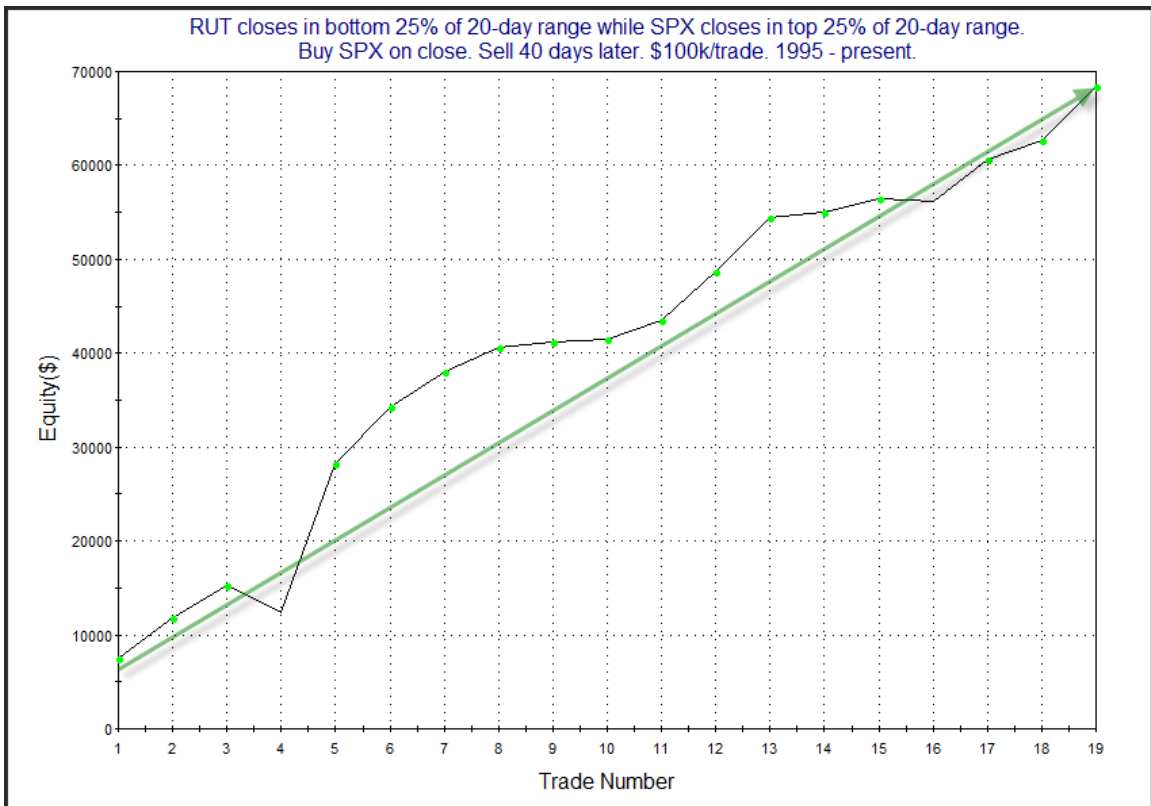
Every day lately seems to end with mixed results, and Monday was no exception. The SPX finished up 0.4%, the NASDAQ lost 0.1%, and the Russell 2000 dropped 1.4%. Breadth was also mixed as the NYSE Up Issues % was 41% and the Up Volume % came in at 60%. NYSE volume declined some from Friday’s level.

Nothing new appeared in the Quantifinder tonight. What did appear were some repeat studies we have seen over the last few weeks that examine the split market conditions we have been seeing. One was the Hindenburg Omen signal, which I covered in detail in the 9/10/18 subscriber letter. (Subscribers may look on the “Archives” area of the website to access past letters.) Another was the SPX/RUT study from the 9/20 letter. I have copied that one below for convenience. (Stats not updated.)

I have spoken a fair amount lately about the “split” market, and how that has historically been followed by declines. But not all kinds of splits are bad. Today we saw the SPX rise while the RUT closed lower. That is not unusual on a 1-day basis. But it has now been several weeks in which they have been heading in opposite directions. RUT closed in the bottom 25% of its 20-day range on Wednesday while SPX closed in the top 25% of its 20-day range. The study below is updated from the 11/14/17 letter. It looks at other times where this occurred.

RUT closes in bottom 25% of 20-day range while SPX closes in top 25% of 20-day range. Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	62,482.12	17	12	5	70.59	5,878.17	17,360.82	-1,611.18	-2,450.72	3.65	8.76	3,675.42
45	63,259.12	18	14	4	77.78	5,335.64	15,231.03	-2,859.98	-5,633.12	1.87	6.53	3,514.40
40	68,378.28	19	17	2	89.47	4,208.54	15,916.02	-1,583.41	-2,953.44	2.66	22.59	3,598.86
35	56,844.43	19	15	4	78.95	4,302.10	15,668.34	-1,921.77	-3,769.92	2.24	8.39	2,991.81
30	60,058.52	19	17	2	89.47	3,574.75	11,907.99	-356.13	-707.88	10.04	85.32	3,160.97
25	45,080.13	19	15	4	78.95	3,236.00	9,355.08	-864.96	-2,245.18	3.74	14.03	2,372.64
20	33,361.00	19	14	5	73.68	3,309.22	9,900.75	-2,593.61	-6,058.36	1.28	3.57	1,755.84
15	32,231.31	19	15	4	78.95	2,850.16	7,779.99	-2,630.26	-5,109.23	1.08	4.06	1,696.38
10	21,574.93	23	16	7	69.57	2,258.61	8,346.30	-2,080.40	-6,893.04	1.09	2.48	938.04
5	13,087.61	24	10	14	41.67	2,666.78	7,383.96	-970.01	-2,806.44	2.75	1.96	545.32

It appears the lagging RUT in similar circumstances has not been a drag going forward, and that SPX has continued to flourish. Below is a look at a profit curve with a 40-day holding period.



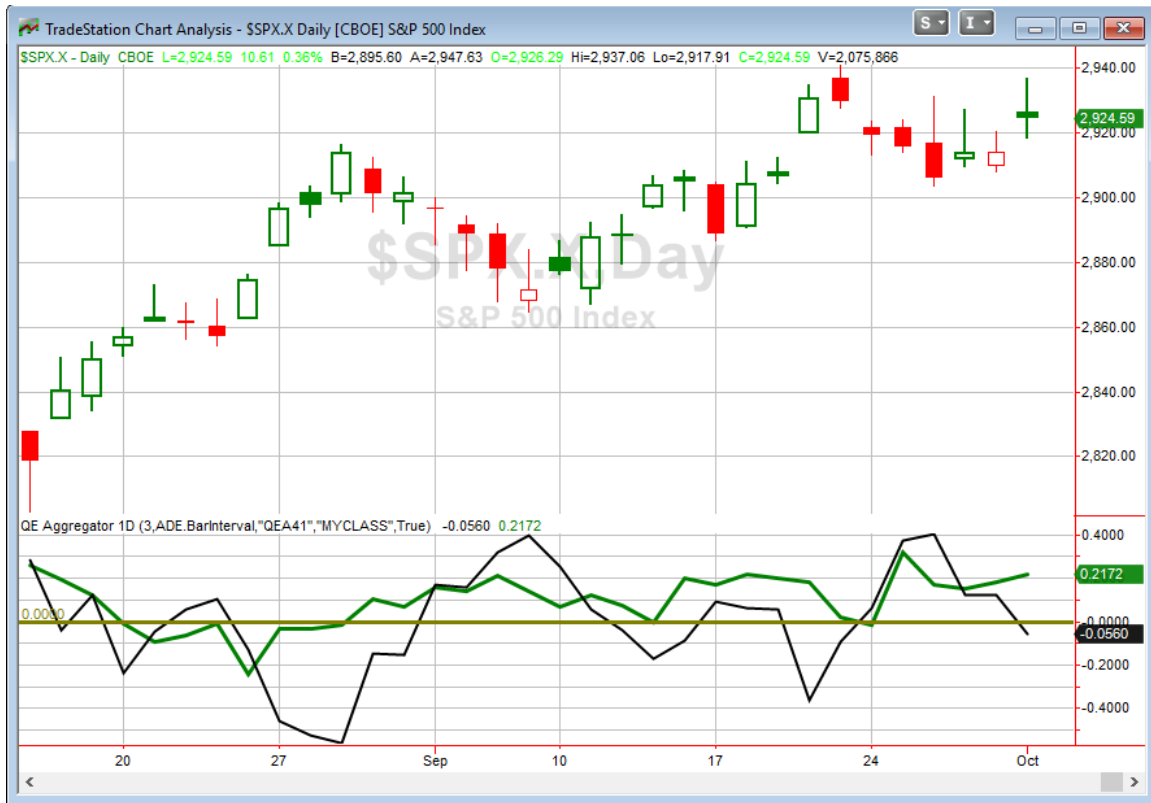
The strong, steady upslope serves as some confirmation of the upside edge. I also checked to see how the Russell 2000 did going forward.

RUT closes in bottom 25% of 20-day range while SPX closes in top 25% of 20-day range. Buy RUT on close. Sell X days later. \$100k/trade. 1995 - 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	32,915.18	17	12	5	70.59	5,850.86	18,203.13	-7,459.03	-13,291.46	0.78	1.88	1,936.19
45	36,770.06	18	13	5	72.22	5,303.94	17,231.94	-6,436.23	-16,401.84	0.82	2.14	2,042.78
40	56,575.54	19	13	6	68.42	5,606.19	16,988.40	-2,717.48	-7,866.04	2.06	4.47	2,977.66
35	45,136.65	19	14	5	73.68	4,843.27	16,765.65	-4,533.82	-10,617.88	1.07	2.99	2,375.61
30	52,387.29	19	13	6	68.42	5,303.38	15,209.37	-2,759.44	-7,982.52	1.92	4.16	2,757.23
25	31,291.45	19	12	7	63.16	4,458.08	14,012.46	-3,172.22	-10,952.76	1.41	2.41	1,646.92
20	17,018.68	19	13	6	68.42	3,984.59	12,067.11	-5,796.83	-16,370.90	0.69	1.49	895.72
15	21,977.69	19	12	7	63.16	4,178.92	11,066.88	-4,024.19	-8,143.20	1.04	1.78	1,156.72
10	1,307.05	23	11	12	47.83	3,513.31	8,215.02	-3,111.61	-10,958.54	1.13	1.04	56.83
5	2,990.39	24	12	12	50.00	2,347.89	7,817.04	-2,098.69	-4,524.56	1.12	1.12	124.60

Numbers here also favor the long side. But the performance does not appear as impressive as for SPX. I have added the SPX version of this study to the intermediate-term active list, where we continue to see numerous crosswinds.

So we continued to face a split market with potential implications pointing in different directions depending on how you look at it. There are no new studies being added to the Active List tonight.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line dropped 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 sides 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 Tuesday. It would take some compelling new bearish evidence to change this. The Differential Pivot will be *inverted* at 2932.73 on Tuesday. That is 0.3% above Monday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.3% in order to remain "overbought" versus recent expectations. Anything less than that and it will be considered oversold as of Tuesday's close.

So the Aggregator is neutral, and that is where I am, too. I don't see a strong edge here that would suggest a high-probability index trade. I will wait for the next favorable reward/risk scenario to emerge before looking to take on new index exposure. I will note that there was a new Catapult signal that triggered today, and I will look to take advantage of that.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/1– neutral

The intermediate-term outlook was last updated in the 10/1/18 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

AXP @ \$106.49 (buy @ limit) – not filled, cancel for now

New

WFC @ \$52.25 (buy @ limit)

Broad Market Large Cap CBI – 2(AXP, WFC)

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.

WFC – buy 1/3 Catapult position @ \$52.25 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for WFC.

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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