

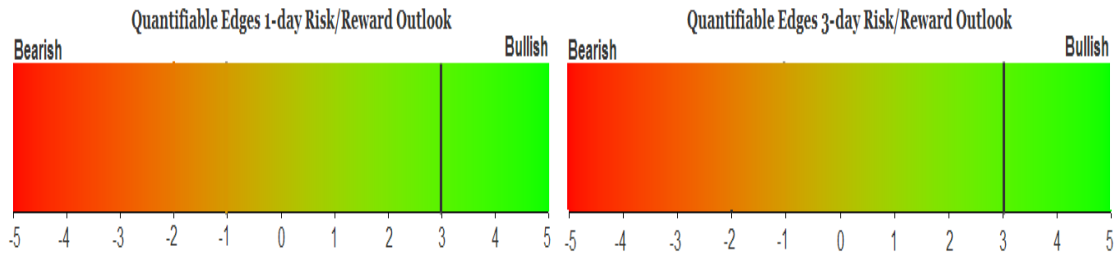
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2018

Volume 11 Issue 195

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- 3-day pullbacks & a 20-day low on a Monday have been a powerful hint of an upcoming bounce.
- 3 lower highs, lows, and closes going into potential Turnaround Tuesday have historically led to a bounce.

Short-term Outlook

The Bottom Line

The market is oversold, and evidence is suggesting a bounce is likely. Reward/risk appears favorable for the bulls.

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 9, 2018	Down 3, 20-low, Monday	1-4 days	Bullish			
October 9, 2018	3 Lower High, Low, Close Mon QQQ	1-2 days	Bullish			
Active - Long Term						
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
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			

The Evidence

Monday was the 3rd day in a row where a strong morning selloff was followed by a partial bounce. The SPX finished down 0.04%, the NASDAQ fell 0.7%, and the Russell 2000 declined 0.2%. Breadth was mixed as the NYSE Up Issues % was 49.9% and the Up Volume % came in at 67.6%. NYSE volume declined some from Friday’s level.

I’ve shown many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The next couple of studies take the Turnaround Tuesday tendency into consideration. This first one was from the 6/9/15 Letter. It combined 3 down days with a 20-day low and the Turnaround Tuesday. Results are updated.

Today is Monday. SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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
10	27,071.18	14	14	0	100.00	1,933.66	5,016.83	0.00	0.00	100.00	100.00	1,933.66
9	27,279.94	14	13	1	92.86	2,100.59	5,024.40	-27.75	-27.75	75.70	984.06	1,948.57
8	20,558.51	14	12	2	85.71	1,937.96	5,300.00	-1,348.52	-2,241.75	1.44	8.62	1,468.46
7	14,158.22	14	11	3	78.57	1,666.30	5,345.05	-1,390.36	-1,959.00	1.20	4.39	1,011.30
6	10,237.14	14	11	3	78.57	1,464.51	4,399.00	-1,957.50	-3,496.50	0.75	2.74	731.22
5	13,981.92	15	11	4	73.33	1,790.04	4,608.35	-1,427.14	-2,268.75	1.25	3.45	932.13
4	13,671.80	15	12	3	80.00	1,434.03	4,690.50	-1,178.84	-2,082.00	1.22	4.87	911.45
3	10,399.54	15	12	3	80.00	1,325.59	3,940.55	-1,835.84	-2,513.78	0.72	2.89	693.30
2	10,429.92	15	11	4	73.33	1,187.69	3,744.45	-658.68	-1,704.00	1.80	4.96	695.33
1	5,536.96	15	10	5	66.67	840.35	1,709.40	-573.31	-1,692.52	1.47	2.93	369.13

There were just a small number of instances here. Still, 2 weeks out they’ve been a perfect 14 for 14. And just a few days out the numbers are appealing as well. Below is the full list of instances using a 4-day exit strategy.

Today is Monday. SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell 4 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/6/1989	Buy	\$332.61	1.95%	\$2,037.00
11/10/1989	Sell	\$339.10		(\$513.00)
8/19/1991	Buy	\$376.46	4.70%	\$5,003.20
8/23/1991	Sell	\$394.16		\$0.00
9/20/1993	Buy	\$455.05	0.57%	\$797.16
9/24/1993	Sell	\$457.63		(\$1,186.98)
4/27/1998	Buy	\$1,086.54	3.17%	\$3,172.16
5/1/1998	Sell	\$1,121.02		(\$464.60)
5/24/1999	Buy	\$1,306.65	-0.37%	\$823.08
5/28/1999	Sell	\$1,301.82		(\$2,229.84)
8/2/1999	Buy	\$1,328.05	-2.09%	\$600.75
8/6/1999	Sell	\$1,300.29		(\$3,056.25)
3/22/2004	Buy	\$1,095.44	1.15%	\$1,804.53
3/26/2004	Sell	\$1,108.02		(\$762.58)
5/10/2004	Buy	\$1,087.12	0.79%	\$1,424.15
5/14/2004	Sell	\$1,095.66		(\$982.80)
5/17/2004	Buy	\$1,084.08	0.88%	\$2,010.20
5/21/2004	Sell	\$1,093.59		\$0.00
6/27/2005	Buy	\$1,190.69	0.31%	\$1,110.54
7/1/2005	Sell	\$1,194.44		(\$14.94)
3/5/2007	Buy	\$1,374.12	2.09%	\$2,594.16
3/9/2007	Sell	\$1,402.85		\$0.00
1/27/2014	Buy	\$1,781.56	0.06%	\$963.76
1/31/2014	Sell	\$1,782.59		(\$622.16)
6/8/2015	Buy	\$2,079.28	0.71%	\$1,715.52
6/12/2015	Sell	\$2,094.11		(\$342.72)
3/27/2017	Buy	\$2,341.59	0.90%	\$1,210.86
3/31/2017	Sell	\$2,362.72		(\$166.32)
2/5/2018	Buy	\$2,648.94	-1.11%	\$2,913.01
2/9/2018	Sell	\$2,619.55		(\$4,301.25)

While SPX finished down slightly on Monday, SPY was breakeven. So studies looking for SPY to close down 3 days in a row did not trigger. But the study below has played out well for both SPY and QQQ over the years, and the QQQ version did trigger on Monday. Updated results are below.

QQQ makes a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	10,684.22	22	15	7	68.18	1,631.12	4,360.08	-1,968.94	-8,453.80	0.83	1.78	485.65
4	13,538.10	22	18	4	81.82	1,246.14	3,215.20	-2,223.12	-5,996.30	0.56	2.52	615.37
3	16,722.81	22	17	5	77.27	1,505.19	4,943.37	-1,773.09	-5,544.12	0.85	2.89	760.13
2	15,755.75	22	15	7	68.18	1,439.08	4,461.09	-832.92	-1,999.08	1.73	3.70	716.17
1	7,926.26	22	13	8	59.09	1,160.16	4,154.67	-894.48	-2,116.31	1.30	2.11	360.28

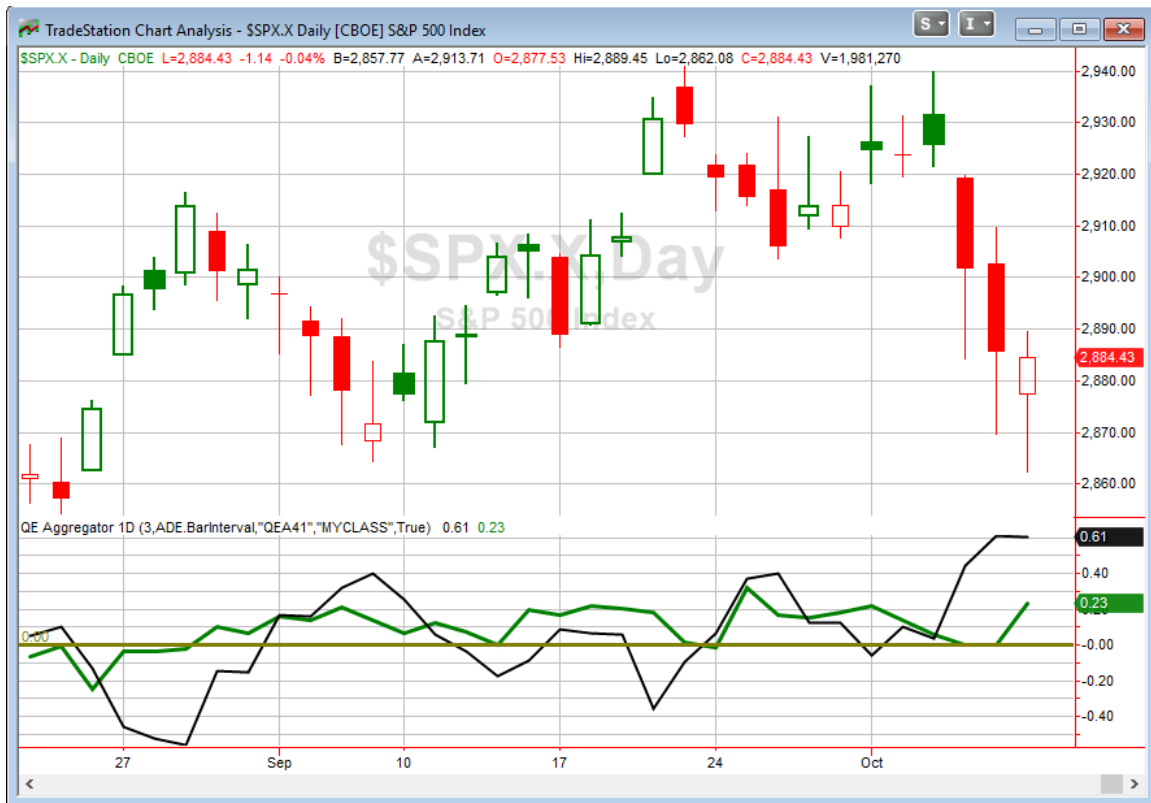
21 of 22 instances (95%) closed above the entry price at some point in the next 4 days.

The bounces have been quite reliable. In all but one instance QQQ has managed to bounce at some point in the next four days. Much of the edge has played out in the first 2 days. Below is the profit curve for a 2-day holding strategy.



The long-time upward slope is encouraging. I have therefore included this study on the Active List.

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



With tonight's new evidence considered the green Aggregator Line climbed above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line 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 zero. Therefore, the Aggregator signal turned long at the close.

With the current active studies, expectations are slated to remain bullish on Tuesday. Of course compelling new bearish evidence could change this. The Differential Pivot will be 2907.20 on Tuesday. That is 0.8% above Monday's close. Therefore, SPX would need to close up at least 0.8% on Tuesday to flip from oversold to overbought versus recent expectations.

So evidence suggests a good chance of a bounce in the next few days. And upside potential appears ample. The Aggregator is positive, and I believe reward/risk is favorable enough to look to take advantage of the setup. I'll be looking to get long some SPY exposure on Tuesday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/8– neutral

The intermediate-term outlook was last updated in the 10/8/18 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

LOW @ \$110.78 (bought @ limit)

LOW @ \$109.74 (bought @ limit)

New

DHR @ \$105.61 (buy @ limit)

Broad Market Large Cap CBI – 3(LOW-2, DHR)

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.

DHR – Buy 1/3 Catapult position @ \$105.61 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for DHR.

SPY – Buy ¼ index position @ \$287.82 LIMIT. Based on the short-term outlook above, I'll be looking to take on some SPY exposure if I can get a fill at or below Monday's closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$109.90	-0.67%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$109.90	0.35%		Catapult

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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