

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 11, 2018

Volume 11 Issue 197

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	5

Tonight's Research Points

- Bullish studies related to breadth, price action, VIX action, and closing TICK values all triggered on Wednesday.

Short-term Outlook

The Bottom Line

Bullish evidence continues to build, and the SPX is now strongly oversold. Reward/risk appears quite favorable for the bulls.

The Evidence

The market got completely slammed on Wednesday. The SPX finished down 3.3%, the NASDAQ lost 4.1%, and the Russell 2000 declined 2.9%. Breadth was extremely negative as the NYSE Up Issues % was 12% and the Up Volume % came in at just under 10%. NYSE volume spiked up from Tuesday's level.

The damage took the SPX from above its 50ma on Tuesday to a 50-day low close on Wednesday. Meanwhile, RUT closed below its 200ma for the 1st time since August of 2017, and the NASDAQ closed below the 200ma for the 1st time since June, 2016. The extreme selling triggered a large number of studies in the Quantifinder – and all of them were bullish. They were related to breadth, price action, VIX movement, and closing TICK values. I have highlighted the most compelling ones in each category below.

Closing TICK

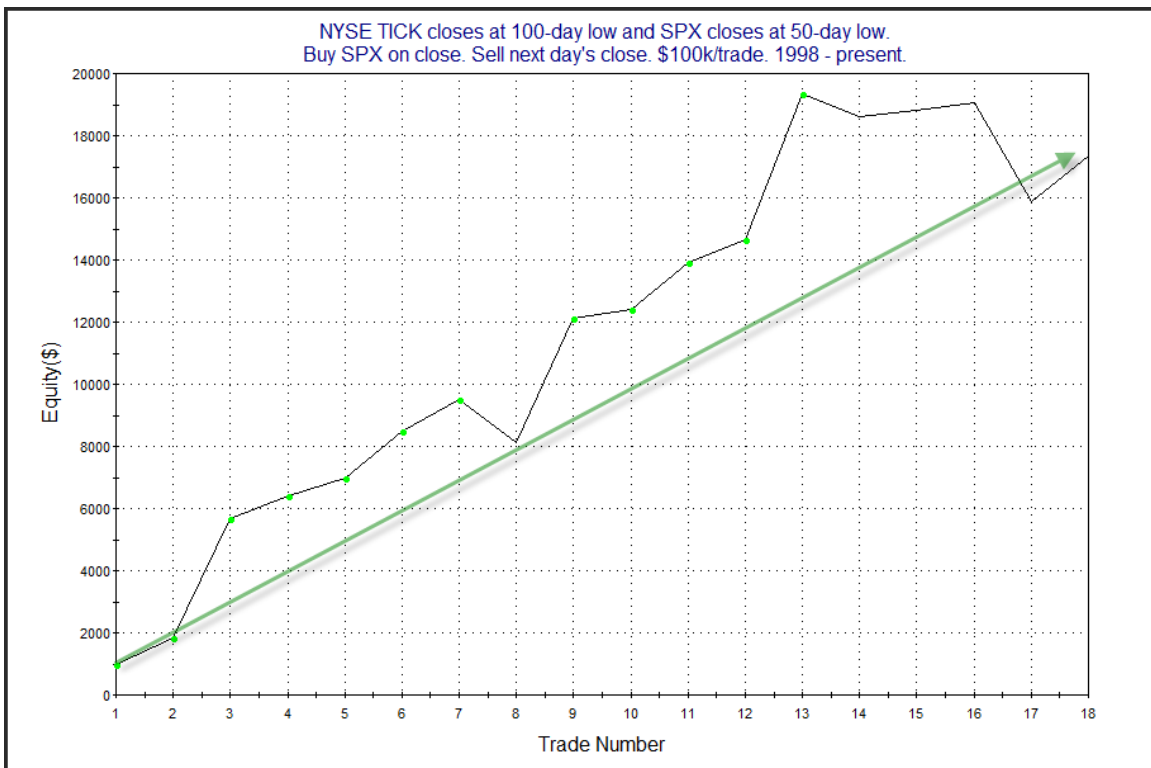
My friend and colleague, Tom McClellan, taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Thursday the NYSE closing TICK was -637. This is a very low reading and it represents the lowest reading since 3/23/18. The study below was last seen in the 8/21/15 Subscriber Letter. It looks at intermediate-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at 100-day low and SPX closes at 50-day low.
Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$17,349.98	Profit Factor	4.27
Gross Profit	\$22,648.58	Gross Loss	(\$5,298.60)
Total Number of Trades	18	Percent Profitable	83.33%
Winning Trades	15	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$963.89	Ratio Avg. Win:Avg. Loss	0.85
Avg. Winning Trade	\$1,509.91	Avg. Losing Trade	(\$1,766.20)
Largest Winning Trade	\$4,723.23	Largest Losing Trade	(\$3,177.16)

The numbers here are compelling. Below is a profit curve.



The long-term upslope serves as some confirmation for the bullish numbers.

Price Action

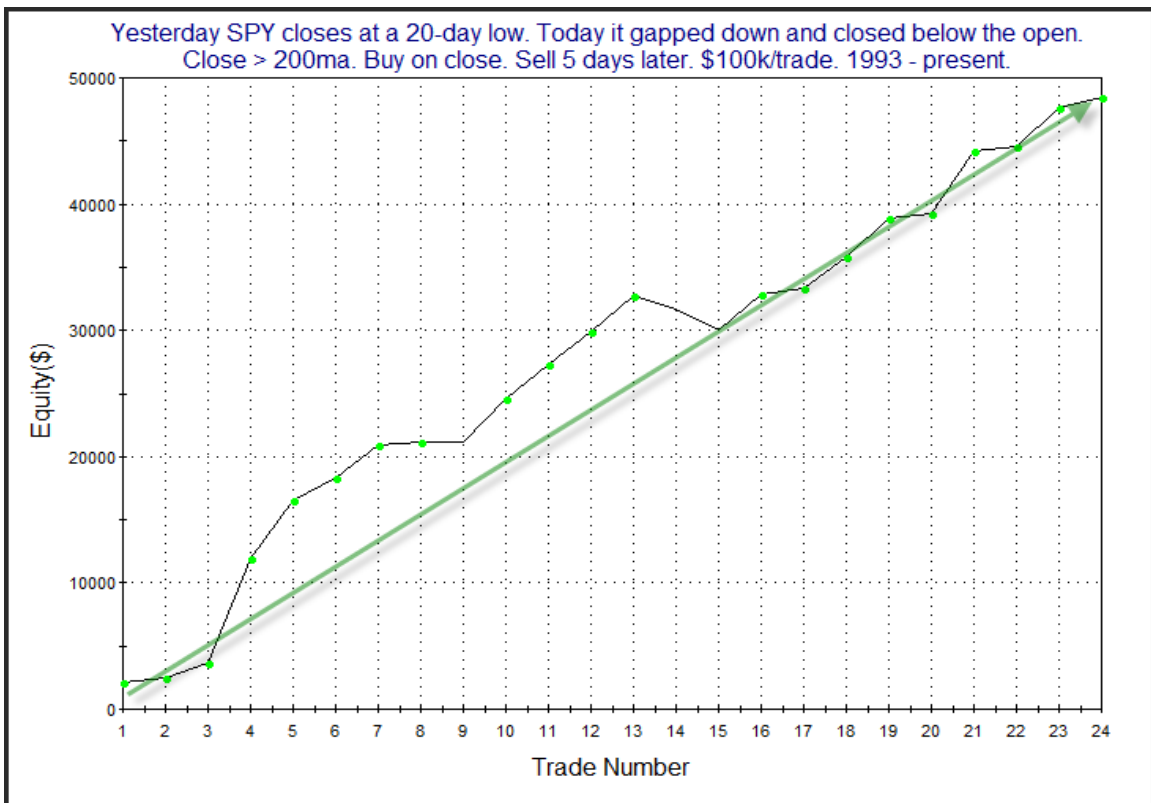
SPY was already oversold before Wednesday's action. Wednesday saw it gap down from a 20-day low the day before and then continue the selling. This triggered the below study, from the 8/21/17 letter. Results are updated.

Yesterday SPY closes at a 20-day low. Today it gapped down and closed below the open.
Close > 200ma. Buy on close. Sell X days later. 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	48,453.33	24	21	3	87.50	2,434.25	8,239.74	-888.66	-1,594.30	2.74	19.17	2,018.89
4	38,602.57	24	19	5	79.17	2,309.46	5,581.02	-1,055.44	-3,255.65	2.19	8.31	1,608.44
3	32,986.88	24	18	6	75.00	2,063.58	4,348.05	-692.94	-2,421.25	2.98	8.93	1,374.45
2	24,444.16	25	15	10	60.00	1,962.21	5,477.88	-498.90	-996.00	3.93	5.90	977.77
1	21,684.47	29	20	9	68.97	1,299.39	5,764.38	-478.14	-1,486.80	2.72	6.04	747.74

The only instance NOT to close above the entry price at some point in the next week was the one that triggered on 5/14/12.

Results here appear consistent and powerful. Below is a look at the profit curve assuming a 5-day holding period.



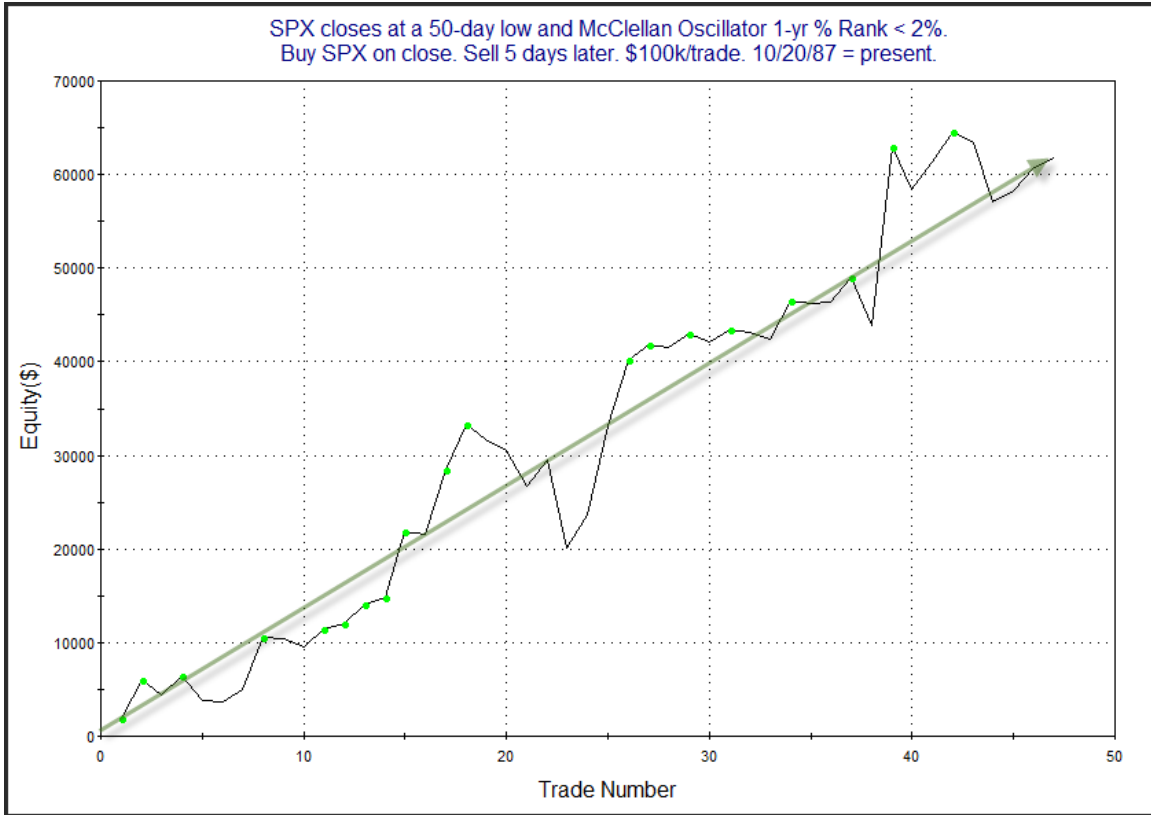
The strong, steady upslope is impressive. It serves as some confirmation of the bullish edge. I have included this study on the Active List tonight.

Breadth

Another compelling study I examined tonight looked at the McClellan Oscillator. Using Tradestation advance/decline data the McClellan Oscillator came in at -229.49 on Wednesday afternoon. That puts it among the lowest 2% of readings over the course of the last year. The study below looked at other times the % Rank of the McClellan Oscillator was < 2% and the SPX closed at a 50-day low. It was last seen in the 1/14/16 letter and has been updated.

SPX closes at a 50-day low and McClellan Oscillator 1-yr % Rank < 2%. Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 = 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	61,711.25	47	28	19	59.57	3,678.28	18,981.60	-2,172.66	-9,314.08	1.69	2.49	1,313.01
4	41,180.83	50	32	18	64.00	2,818.17	17,851.68	-2,722.26	-14,820.98	1.04	1.84	823.62
3	33,043.84	53	35	18	66.04	2,476.90	13,853.40	-2,980.42	-13,815.18	0.83	1.62	623.47
2	42,696.07	65	40	25	61.54	2,646.40	13,116.84	-2,526.40	-8,657.72	1.05	1.68	656.86
1	43,712.17	89	54	35	60.67	1,932.23	11,558.43	-1,732.24	-7,577.02	1.12	1.72	491.15

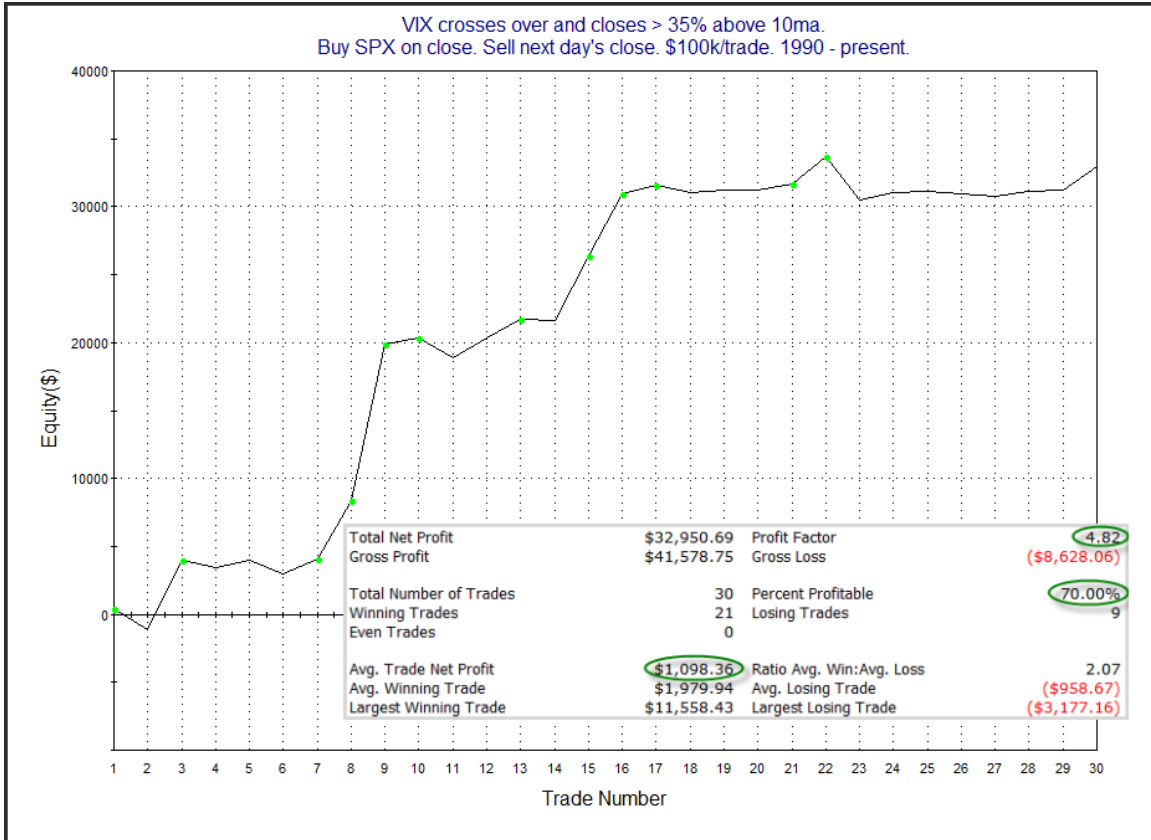
The numbers here look squarely bullish. I also examined the 5-day profit curve.



Despite the chop, the overall upslope appears persistent. I have included this study on the Active List for tonight.

VIX movement

The VIX has been spiking, and that continued on Wednesday, suggesting fear is reaching a level where a reversal is likely. In fact, it closed a whopping 59% above the 10ma. The study below was from the 1/11/16 subscriber letter. It examines spikes of at least 35% above the 10ma. Results are updated.



Numbers here are impressive. But the profit curve is not exactly steady, and it seems to have flattened out a good bit. Of course the VIX spike was substantially more severe than is represented here. Below I look at moves at least 50% above the 10ma.

VIX crosses over and closes > 50% above 10ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	\$8,955.31	Profit Factor	3.31
Gross Profit	\$12,839.31	Gross Loss	(\$3,884.00)
Total Number of Trades	6	Percent Profitable	83.33%
Winning Trades	5	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$1,492.55	Ratio Avg. Win:Avg. Loss	0.66
Avg. Winning Trade	\$2,567.86	Avg. Losing Trade	(\$3,884.00)
Largest Winning Trade	\$4,723.23	Largest Losing Trade	(\$3,884.00)

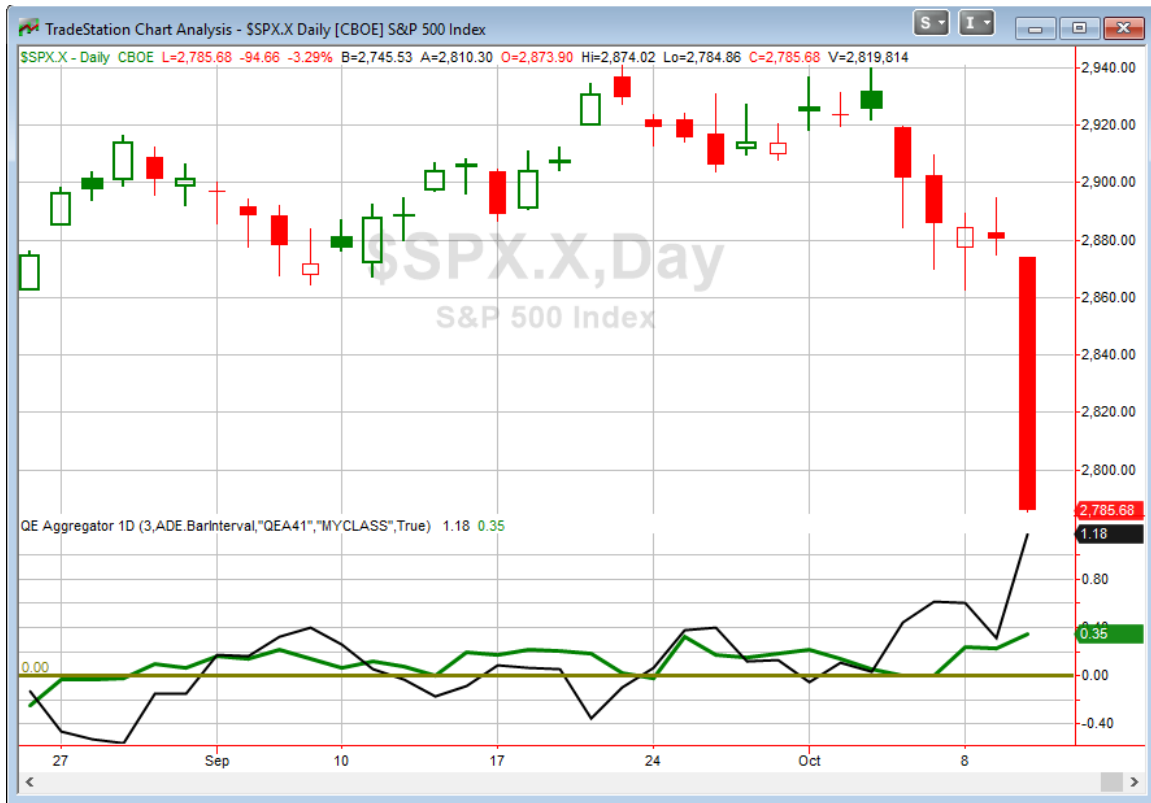
Instances are low but numbers are encouraging. Below is a look at the 6 instances.

VIX crosses over and closes > 50% above 10ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/27/2007	Buy	\$1,399.14	0.55%	\$1,189.25
2/28/2007	Sell	\$1,406.82		(\$176.79)
5/7/2010	Buy	\$1,110.88	4.40%	\$4,767.30
5/10/2010	Sell	\$1,159.73		\$0.00
8/8/2011	Buy	\$1,119.46	4.74%	\$4,754.38
8/9/2011	Sell	\$1,172.53		(\$1,594.88)
8/21/2015	Buy	\$1,970.89	-3.94%	\$0.00
8/24/2015	Sell	\$1,893.21		(\$5,194.00)
2/5/2018	Buy	\$2,648.94	1.74%	\$1,927.70
2/6/2018	Sell	\$2,695.14		(\$2,067.19)
2/8/2018	Buy	\$2,581.00	1.49%	\$2,191.46
2/9/2018	Sell	\$2,619.55		(\$1,835.78)

It certainly appears to me that the big spike in the VIX carries a bit of an upside edge, regardless of which measurement you use.

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



With tonight's new evidence considered, the green Aggregator Line moved further 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 strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Thursday. This is highly unlikely to change. The Differential Pivot will be 2887.72 on Thursday. That is just 3.7% above Wednesday's close. Therefore, SPX would need to close up a whopping 3.7% on Thursday to flip from oversold to overbought versus recent expectations. That is highly doubtful to happen. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence is impressive and there is lots of room to the upside for SPX before it would turn overbought. I am partially long already. Reward/risk appears strongly favorable here, and I will look to up my position on Thursday.

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)

DHR @ \$105.61 (bought @ limit)

New

LOW @ \$106.29 (buy @ limit)

ABT @ \$68.92 (buy @ limit)

Broad Market Large Cap CBI – 5(Low-3, DHR, ABT)

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.

LOW – Buy 1/3 Catapult position @ \$106.29 LIMIT. From the Catapult section above, this is the 3rd and final lot for LOW.

ABT – Buy 1/3 Catapult position @ \$68.92 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for ABT.

SPY – Buy ¼ index position @ \$278.30 LIMIT. Based on the short-term outlook above, I'll be looking to add a little more SPY exposure if I can get a fill at or below Wednesday'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	\$106.29	-3.93%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$106.29	-2.95%		Catapult
DHR(1/3)	10/9/2018	\$105.61	\$103.84	-1.68%		Catapult
SPY(1/4)	10/9/2018	\$287.39	\$278.30	-3.16%		Aggregator

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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