

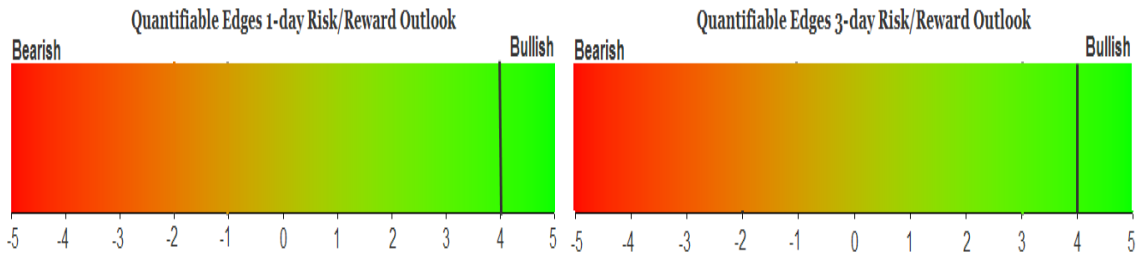
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 12, 2018

Volume 11 Issue 198

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- Short-term bullish studies continue to emerge.

Short-term Outlook

The Bottom Line

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

The Evidence

The oversold market turned substantially more oversold on Thursday. The SPX finished down 2.1%, the NASDAQ lost 1.25%, and the Russell 2000 declined 1.9%. Breadth was strongly negative as the NYSE Up Issues % was 21% and the Up Volume % came in at just under 17%. NYSE volume rose some from Wednesday’s level.

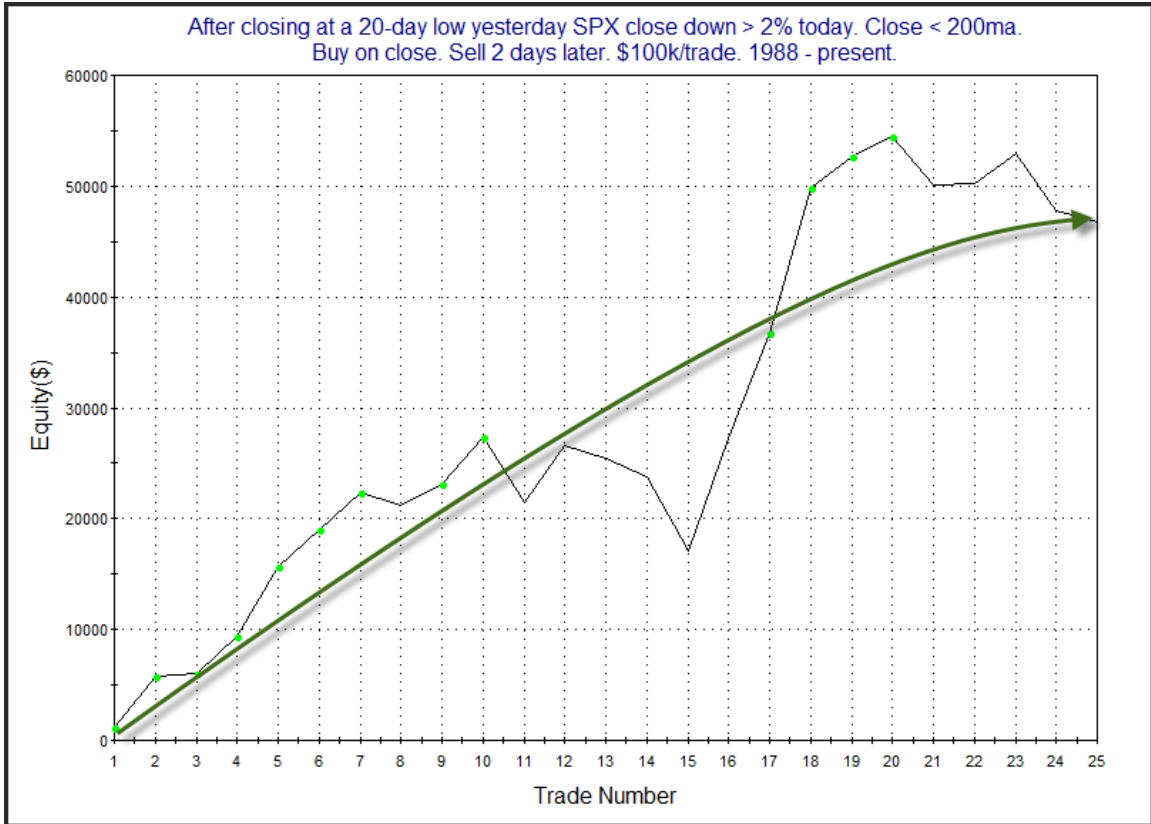
Among other notables, Thursday saw the SPX and Dow close below the 200ma. It was the 1st such close for the SPX since June 2016, and it broke the longest streak of closes above it looking all the way back to the inception of my SPX data in 1960. Despite the drop below the 200ma, the short-term studies that emerged were again all bullish. I have highlighted a few of the more compelling ones below.

Strong moves down when the market is already oversold are often an indication of short-term capitulation. The study below was last seen in the 1/8/16 subscriber letter. It looks for 2% drops after the SPX is already at a 20-day low. Results are updated.

After closing at a 20-day low yesterday SPX close down > 2% today. 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
5	51,212.40	22	14	8	63.64	5,486.33	18,981.60	-3,199.53	-6,440.08	1.71	3.00	2,327.84
4	33,592.60	23	15	8	65.22	4,620.76	17,851.68	-4,464.85	-14,820.98	1.03	1.94	1,460.55
3	42,885.83	24	15	9	62.50	4,697.06	13,853.40	-3,063.35	-13,815.18	1.53	2.56	1,786.91
2	46,771.40	25	17	8	68.00	4,340.79	13,116.84	-3,377.75	-6,763.30	1.29	2.73	1,870.86
1	24,665.33	28	16	12	57.14	3,018.78	10,716.03	-1,969.60	-5,702.04	1.53	2.04	880.90

93% of instances closed above the entry price at some point in the next week.

Here we see strong consistency and sizable average bounces. Below is the equity curve for a 2-day hold.



Recent instances have struggled a little bit, but the overall slope still appears up. I have included this study on the Short-Term Active List tonight. I will keep an eye on it moving forward, though.

The extremely oversold market also triggered the study below, which was last seen in the 11/3/16 subscriber letter. Results are updated.

SPX 2-day RSI < 2 and SPX closes at 50-day low. This also happened yesterday.
Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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	33,864.00	13	9	4	69.23	4,816.65	13,135.00	-2,371.47	-5,696.34	2.03	4.57	2,604.92
4	26,567.31	13	9	4	69.23	3,658.41	12,657.50	-1,589.61	-4,574.36	2.30	5.18	2,043.64
3	34,402.97	13	12	1	92.31	3,124.42	9,601.81	-3,090.08	-3,090.08	1.01	12.13	2,646.38
2	29,481.48	15	11	4	73.33	3,212.80	10,183.87	-1,464.83	-3,135.65	2.19	6.03	1,965.43
1	30,361.21	22	13	9	59.09	2,972.96	11,558.43	-920.81	-1,631.84	3.23	4.66	1,380.05

Instances are a little lower than I typically like, but the numbers are incredibly bullish and seem worthy of consideration. Below I have listed all 13 instances assuming a 3-day holding period.

SPX 2-day RSI < 2 and SPX closes at 50-day low. This also happened yesterday. Buy SPX on close. Sell 3 days later. \$100k/trade. 1985 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/16/1985	Buy	\$182.88	0.27%	\$278.46
9/19/1985	Sell	\$183.38		(\$1,152.06)
3/28/1994	Buy	\$460.00	-3.10%	\$69.44
3/31/1994	Sell	\$445.76		(\$5,173.28)
11/23/1994	Buy	\$449.19	1.33%	\$1,327.56
11/29/1994	Sell	\$455.17		\$0.00
10/12/2000	Buy	\$1,329.64	1.53%	\$3,851.25
10/17/2000	Sell	\$1,349.97		(\$212.25)
9/21/2001	Buy	\$965.80	4.27%	\$5,612.47
9/26/2001	Sell	\$1,007.04		\$0.00
4/29/2002	Buy	\$1,065.45	1.79%	\$2,415.21
5/2/2002	Sell	\$1,084.56		(\$185.07)
7/23/2002	Buy	\$797.70	6.91%	\$7,016.25
7/26/2002	Sell	\$852.84		(\$2,752.50)
10/9/2008	Buy	\$909.92	9.68%	\$14,648.51
10/14/2008	Sell	\$998.01		(\$7,643.08)
2/23/2009	Buy	\$743.33	1.28%	\$4,929.86
2/26/2009	Sell	\$752.83		\$0.00
7/1/2010	Buy	\$1,027.37	3.20%	\$3,251.44
7/7/2010	Sell	\$1,060.27		(\$1,109.68)
5/17/2012	Buy	\$1,304.86	0.90%	\$1,795.88
5/22/2012	Sell	\$1,316.63		(\$978.88)
8/24/2015	Buy	\$1,893.21	4.99%	\$5,012.28
8/27/2015	Sell	\$1,987.66		(\$1,358.76)
11/2/2016	Buy	\$2,097.94	1.60%	\$1,600.82
11/7/2016	Sell	\$2,131.52		(\$665.05)

No red flags here.

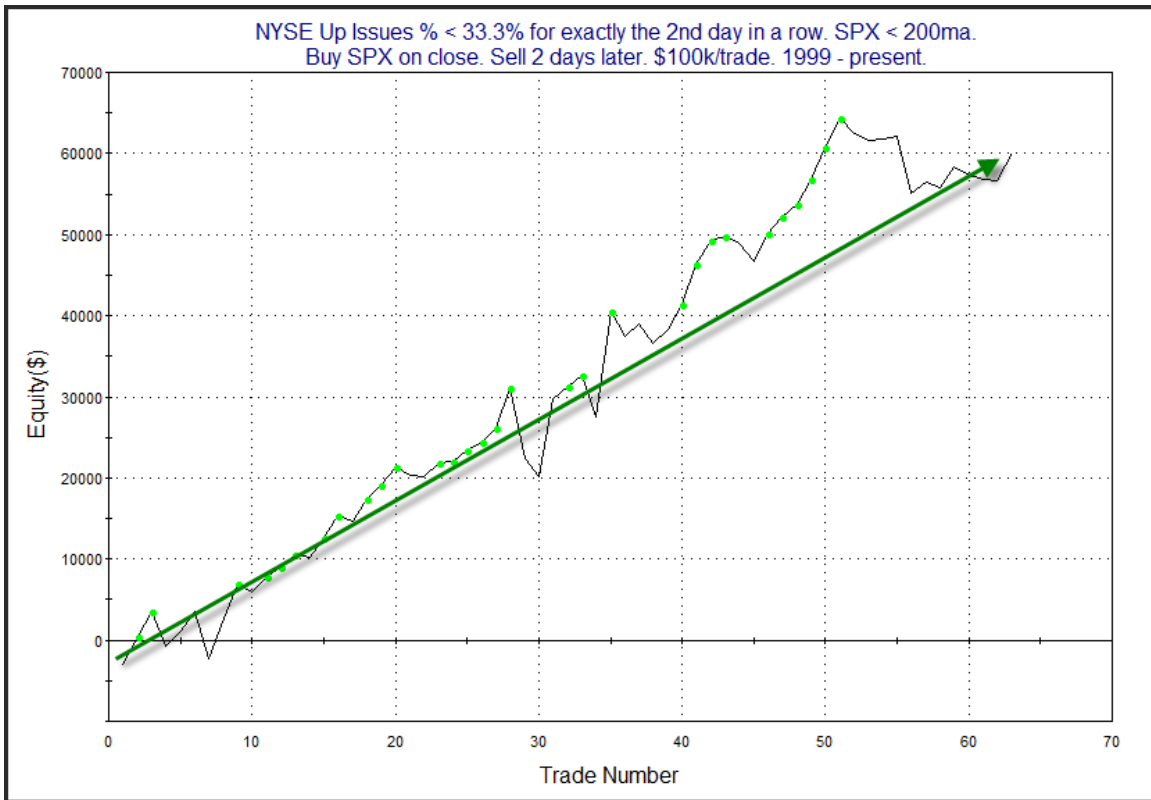
Thursday was also the 2nd day in a row of lopsided negative breadth. This brought about the following study, which we last saw in the 12/9/15 letter. Results are updated.

NYSE Up Issues % < 33.3% for exactly the 2nd day in a row. SPX < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	69,732.99	55	38	17	69.09	3,037.51	8,609.40	-2,687.80	-9,314.08	1.13	2.53	1,267.87
4	37,942.61	59	33	26	55.93	3,099.29	8,810.76	-2,474.38	-6,869.52	1.25	1.59	643.10
3	47,182.21	63	37	26	58.73	3,363.66	13,853.40	-2,972.05	-11,502.27	1.13	1.61	748.92
2	60,083.48	63	41	22	65.08	2,756.97	13,116.84	-2,406.93	-8,631.00	1.15	2.13	953.71
1	40,601.63	63	38	25	60.32	1,924.53	10,716.03	-1,301.21	-6,633.36	1.48	2.25	644.47

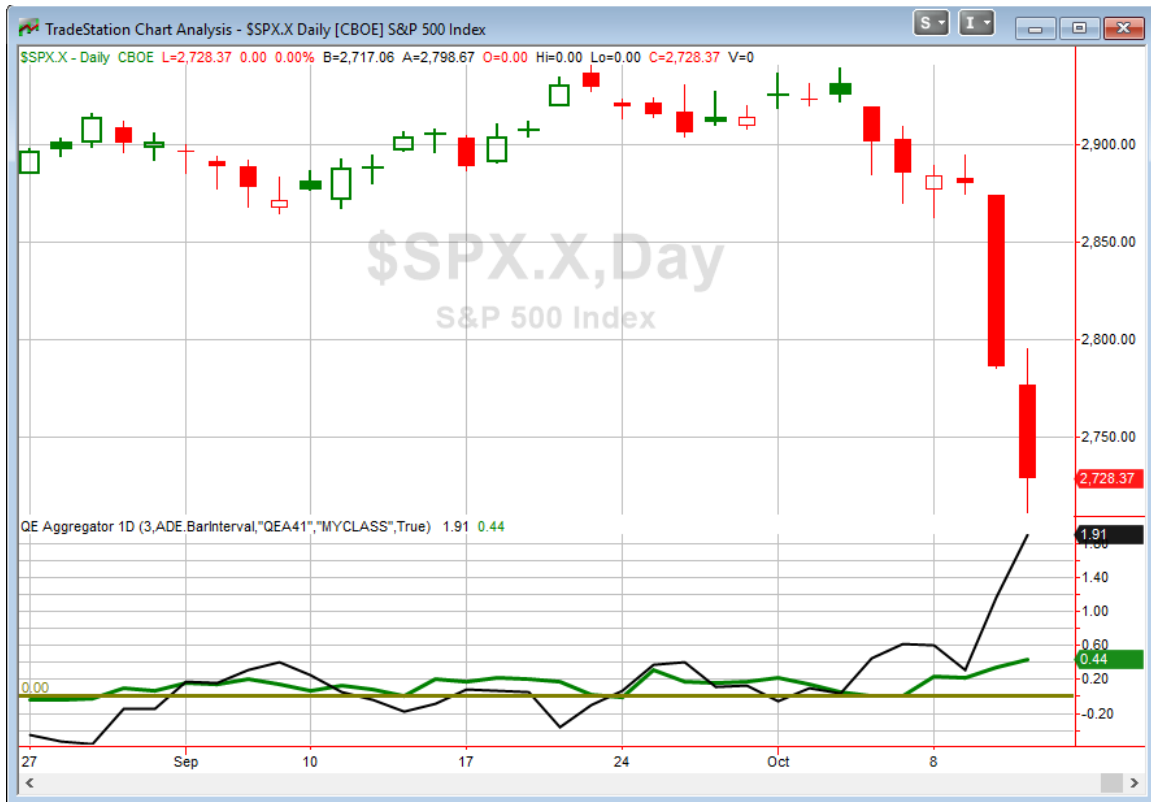
90% of instances closed above the entry price at some point in the next week.

Results here are quite impressive. Below is an equity curve using a 2-day exit.



Despite the “downtrend” filter this setup has generated some impressive returns. Some recent instances have struggled, but the long-term upslope still appears intact. I believe this study is worth consideration on the Active List.

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. Both lines are now as high as they have been in a long time. So expectations are strongly 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 Friday. This is highly unlikely to change. The Differential Pivot will be 2886.76 on Friday. That is a whopping 5.8% above Thursday's close. Therefore, SPX would need to close up a 5.8% on Friday 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. Tonight's studies all show that multiple days of oversold creates situations where there is high-probability of a bounce. But the fact that there are multiple days of oversold also serve as a reminder that oversold can become more oversold. From a cautionary perspective, the CBI still stands at just 6, which is not considered a significant level. If it were to reach 10 or higher that would greatly increase the chances of a bounce. I'll also note that Fridays will not as often serve as a reversal day. People that were worried and selling the market already may not be looking to step in ahead of the weekend. So it would not be entirely unusual to see further selling on Friday afternoon. This also tempers my expectations a little. I will therefore only look to add more index exposure if SPY closes down a bit more on Friday, and not look to jump in ahead of the close.

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)

LOW @ \$106.29 (bought @ limit)

ABT @ \$68.92 (bought @ limit)

New

ABT @ \$68.38 (buy @ limit)

Broad Market Large Cap CBI – 6(LOW-3, DHR, ABT-2)

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.

ABT – Buy 1/3 Catapult position @ \$68.38 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for ABT.

SPY – Buy ¼ index position @ \$272.00 LIMIT ON CLOSE. Based on the short-term outlook above, I'll be looking to add a little more SPY exposure if it closes much lower on Friday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$104.23	-5.79%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$104.23	-4.83%		Catapult
DHR(1/3)	10/9/2018	\$105.61	\$101.27	-4.11%		Catapult
SPY(1/4)	10/9/2018	\$287.39	\$272.17	-5.30%		Aggregator
LOW(1/3)	10/11/2018	\$106.29	\$104.23	-1.94%		Catapult
ABT(1/3)	10/11/2018	\$68.92	\$68.38	-0.78%		Catapult
SPY(1/4)	10/11/2018	\$277.08	\$272.17	-1.77%		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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