

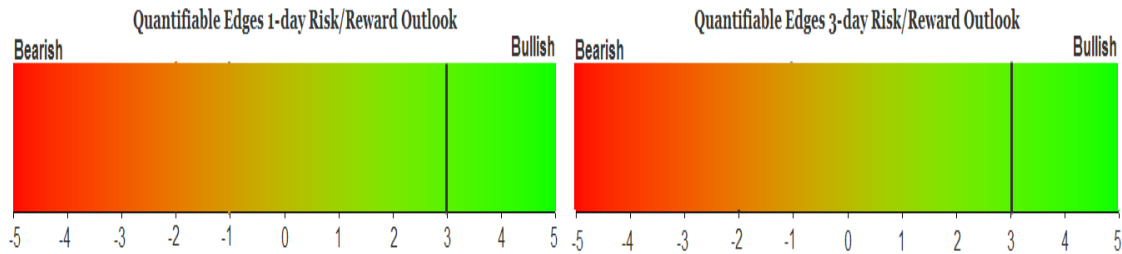
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2018

Volume 11 Issue 200

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- 4 days below the lower Bollinger Band will normally cause a snap-back for the market.
- The failed continuation bounce from the 20-day low does not appear concerning for the bulls, and is typically followed by a resumption of the bounce.

Short-term Outlook

The Bottom Line

Evidence is still favoring the bulls, and the market is still somewhat oversold. This suggests an upside edge remains intact.

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 16, 2018	Bounce from 20-low then dn inside day	1-3 days	Bullish	2.65%	-1.50%	-3.50%
October 16, 2018	4 days under Bollinger Band	1-2 days	Bullish			
October 15, 2018	Inside day low range 3 < 200	1-6 days	Bearish			
October 15, 2018	Friday bounce from 50-low	1-2 days	Bullish			
October 15, 2018	October Opex	1-4 days	Bullish			
October 15, 2018	1.5% Down 2x then close up but < open	1-2 days	Bullish			
October 12, 2018	RSI < 2, SPX 50-low. 2 Days in row,	1-3 days	Bullish			
October 11, 2018	20-low, then gap down & close < open	1-5 days	Bullish			
October 11, 2018	50-day low & Mc Osc bottom 2% reading	1-5 days	Bullish			
October 10, 2018	SPX down 4 days on Tuesday	1-6 days	Bullish			
Active - Long Term						
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
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						
October 12, 2018	Up Issue % < 33.3% 2x below 200ma	1-2 days	Bullish			
October 15, 2018	VXO 20% drop	1 day	Bearish			
October 12, 2018	2% dn < 200 2x	1-2 days	Bullish			

The Evidence

A back and forth day ended mostly lower on Monday. The SPX lost 0.6%, and the NASDAQ fell 0.9%, but the Russell 2000 rose 0.4%. Breadth was moderately positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 57%. NYSE volume declined some from Friday's level.

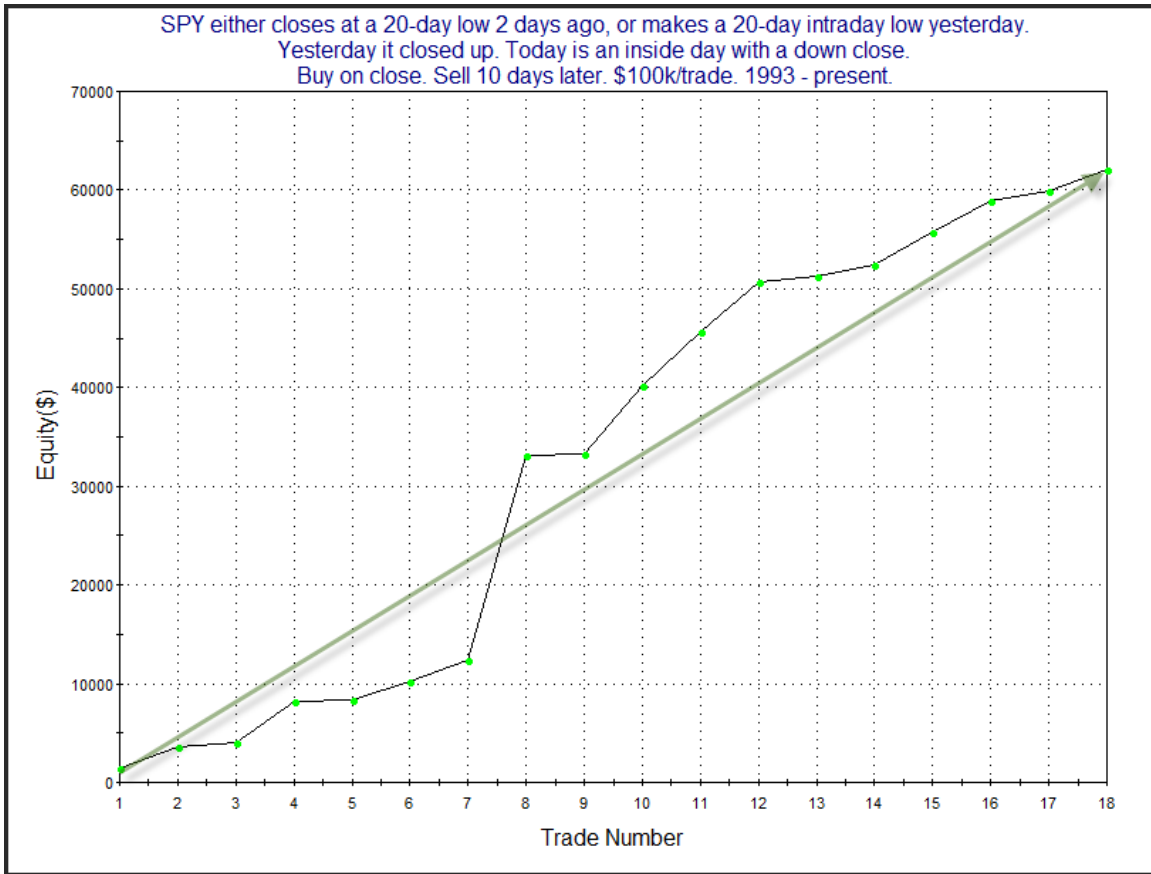
After closing at a 20-day low on Thursday, the market put in a bounce attempt on Friday. Monday's decline left that attempt looking like a possible failure. But it also triggered a study that suggested an upside edge moving forward. Last seen in the 4/19/17 Letter, I have updated the results below.

SPY either closes at a 20-day low 2 days ago, or makes a 20-day intraday low yesterday. Yesterday it closed up. Today is an inside day with a down close. Buy on close. Sell X days later. \$100k/trade. 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
10	62,049.32	18	18	0	100.00	3,447.18	20,713.48	0.00	0.00	100.00	100.00	3,447.18
9	45,649.15	18	15	3	83.33	3,295.28	12,624.80	-1,260.02	-2,882.00	2.62	13.08	2,536.06
8	34,579.22	18	15	3	83.33	2,884.68	15,898.44	-2,896.97	-5,475.84	1.00	4.98	1,921.07
7	28,430.05	18	13	5	72.22	3,384.08	17,351.76	-3,112.60	-7,242.24	1.09	2.83	1,579.45
6	22,819.74	18	13	5	72.22	2,971.35	14,782.76	-3,161.55	-6,447.36	0.94	2.44	1,267.76
5	11,164.55	18	12	6	66.67	3,140.40	11,377.00	-4,420.03	-11,713.44	0.71	1.42	620.25
4	24,222.59	18	13	5	72.22	3,331.22	11,714.64	-3,816.66	-9,229.44	0.87	2.27	1,345.70
3	21,470.54	18	14	4	77.78	2,594.12	10,848.52	-3,711.79	-6,458.40	0.70	2.45	1,192.81
2	15,923.53	18	14	4	77.78	1,886.80	6,650.04	-2,622.92	-3,047.04	0.72	2.52	884.64
1	7,578.74	18	10	7	55.56	1,466.97	5,960.08	-1,012.99	-1,883.84	1.45	2.07	421.04

The stats certainly appear bullish and the edge seems to occur both right off the bat and after a couple of weeks. Below are the stats for the 3-day holding period.

SPY either closes at a 20-day low 2 days ago, or makes a 20-day intraday low yesterday. Yesterday it closed up. Today is an inside day with a down close. Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/3/1994	Buy	\$46.56	0.41%	\$944.68
3/8/1994	Sell	\$46.75		(\$300.58)
5/9/2002	Buy	\$107.75	2.29%	\$2,431.36
5/14/2002	Sell	\$110.22		(\$1,995.20)
7/16/2002	Buy	\$90.56	-6.46%	\$3,024.96
7/19/2002	Sell	\$84.71		(\$6,911.04)
10/2/2002	Buy	\$83.15	-4.83%	\$1,742.90
10/7/2002	Sell	\$79.13		(\$5,529.20)
12/17/2002	Buy	\$90.85	-0.95%	\$0.00
12/20/2002	Sell	\$89.99		(\$2,475.00)
8/30/2005	Buy	\$121.05	1.01%	\$1,734.60
9/2/2005	Sell	\$122.27		(\$256.06)
1/22/2009	Buy	\$82.75	2.15%	\$3,152.88
1/27/2009	Sell	\$84.53		(\$2,633.44)
3/9/2009	Buy	\$68.11	10.85%	\$11,215.52
3/12/2009	Sell	\$75.50		\$0.00
5/28/2010	Buy	\$109.37	1.23%	\$1,544.66
6/3/2010	Sell	\$110.71		(\$1,828.00)
8/30/2010	Buy	\$105.31	3.95%	\$3,966.82
9/2/2010	Sell	\$109.47		(\$778.18)
6/17/2011	Buy	\$127.05	1.28%	\$2,172.12
6/22/2011	Sell	\$128.67		(\$369.89)
8/10/2011	Buy	\$112.29	7.42%	\$7,520.50
8/15/2011	Sell	\$120.62		\$0.00
12/19/2013	Buy	\$181.49	0.81%	\$841.50
12/24/2013	Sell	\$182.96		(\$506.00)
10/9/2014	Buy	\$192.74	-2.61%	\$471.38
10/14/2014	Sell	\$187.70		(\$2,952.60)
7/8/2015	Buy	\$204.53	2.56%	\$2,620.56
7/13/2015	Sell	\$209.77		\$0.00
5/23/2016	Buy	\$205.21	2.01%	\$2,220.72
5/26/2016	Sell	\$209.34		\$0.00
9/13/2016	Buy	\$213.23	0.07%	\$1,170.00
9/16/2016	Sell	\$213.37		(\$341.64)
4/18/2017	Buy	\$233.87	0.31%	\$845.46
4/21/2017	Sell	\$234.59		(\$294.63)

The recent instances have been quite good, with 12 of the last 13 finishing positive. Of course, all 18 instances were positive 10-days out. Here is a look at that profit curve.



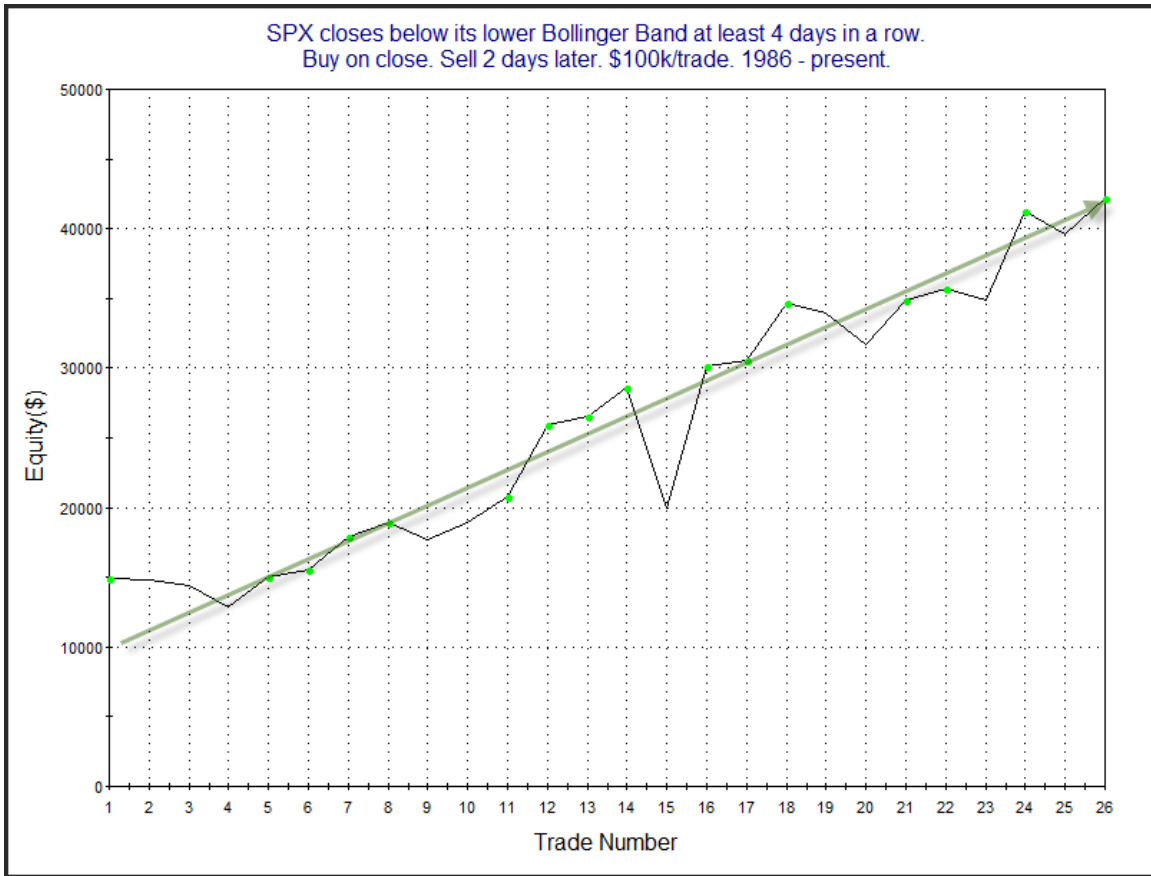
It appears Monday's lack of follow through is likely not something to worry about.

Another bullish study was from the 1/12/16 letter. It looked at a persistent stretches in the SPX below its lower Bollinger Band. Stats are updated.

SPX closes below its lower Bollinger Band at least 4 days in a row.
Buy on close. Sell X days later. \$100k/trade. 1986 - present.

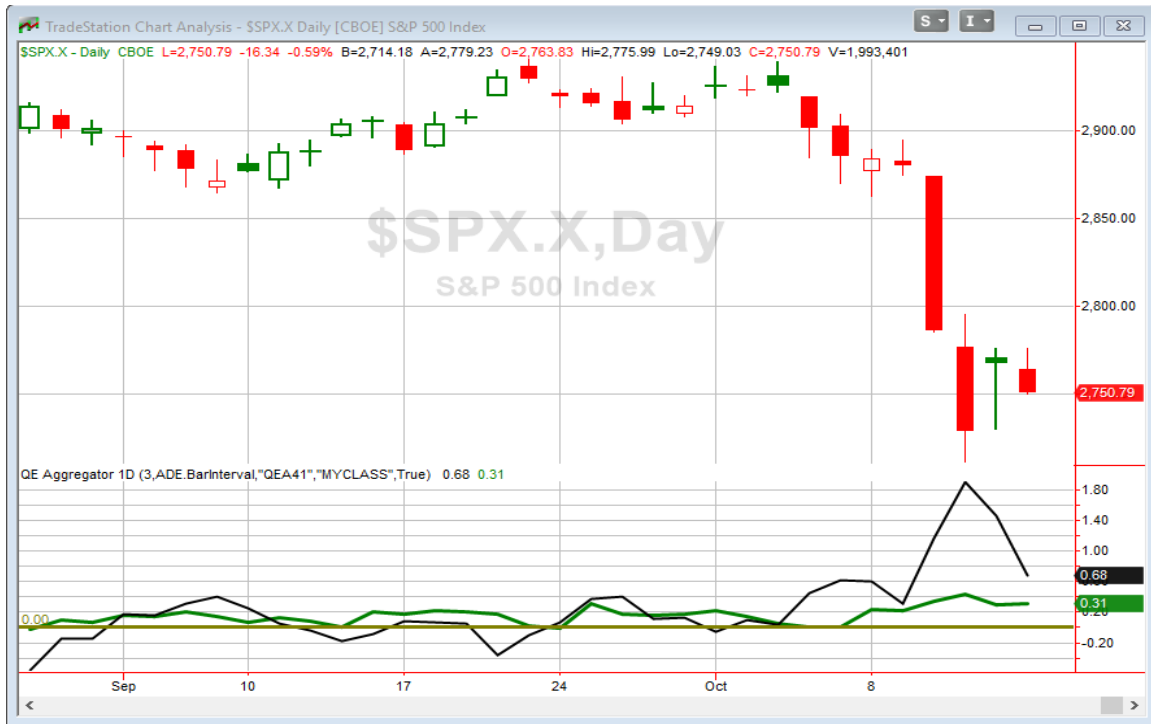
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	86,578.87	24	19	5	79.17	5,720.52	17,466.25	-4,422.20	-10,725.83	1.29	4.92	3,607.45
19	93,027.57	24	20	4	83.33	5,703.34	19,125.00	-5,259.81	-10,324.51	1.08	5.42	3,876.15
18	97,451.47	24	20	4	83.33	5,592.60	16,383.75	-3,600.13	-8,701.85	1.55	7.77	4,060.48
17	92,569.50	24	20	4	83.33	5,239.97	16,568.75	-3,057.47	-6,471.68	1.71	8.57	3,857.06
16	74,493.74	24	19	5	79.17	5,023.71	15,240.00	-4,191.33	-8,074.59	1.20	4.55	3,103.91
15	74,475.36	24	18	6	75.00	5,161.42	11,401.89	-3,071.70	-6,257.59	1.68	5.04	3,103.14
14	62,171.31	24	18	6	75.00	5,057.17	13,262.50	-4,809.64	-14,731.00	1.05	3.15	2,590.47
13	56,719.65	24	18	6	75.00	4,758.03	13,867.50	-4,820.80	-11,946.00	0.99	2.96	2,363.32
12	44,562.31	24	15	9	62.50	5,104.89	13,470.00	-3,556.79	-8,812.00	1.44	2.39	1,856.76
11	31,736.80	24	16	8	66.67	4,321.11	11,539.56	-4,675.13	-12,064.08	0.92	1.85	1,322.37
10	40,831.03	24	15	9	62.50	4,622.42	13,728.48	-3,167.25	-11,180.43	1.46	2.43	1,701.29
9	35,796.77	24	17	7	70.83	3,691.00	11,965.80	-3,850.02	-11,287.50	0.96	2.33	1,491.53
8	42,481.69	24	16	7	66.67	3,688.40	8,853.36	-2,361.81	-7,376.22	1.56	3.57	1,770.07
7	30,531.93	24	15	9	62.50	3,583.71	10,870.00	-2,580.41	-9,509.88	1.39	2.31	1,272.16
6	26,425.93	24	17	7	70.83	3,032.67	14,240.00	-3,589.92	-8,930.67	0.84	2.05	1,101.08
5	33,595.86	24	16	8	66.67	2,813.55	13,135.00	-1,427.61	-4,509.84	1.97	3.94	1,399.83
4	52,270.01	24	19	5	79.17	3,194.78	12,657.50	-1,686.14	-2,221.38	1.89	7.20	2,177.92
3	33,402.45	25	19	6	76.00	2,790.76	10,398.48	-3,270.35	-9,701.00	0.85	2.70	1,336.10
2	42,133.13	26	17	9	65.38	3,491.24	14,891.76	-1,913.10	-8,631.00	1.82	3.45	1,620.50
1	44,258.24	38	25	13	65.79	2,885.87	11,558.43	-2,145.27	-7,577.02	1.35	2.59	1,164.69

The numbers appear squarely bullish. Of course a large portion of the gains have occurred in the first two days. Below is a 2-day profit curve.



The curve appears quite steady and serves as confirmation of the upside edge.

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



With tonight's new evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are strongly 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 stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Tuesday. It would take some very compelling new bearish evidence in order to change this. The Differential Pivot will be 2755.70 on Tuesday. That is 0.2% above Monday's close. Therefore, SPX would need to only need to close up 0.2% on Tuesday to flip from oversold to overbought versus recent expectations.

Evidence continues to build for the bullish case. And with the SPX still oversold, the Aggregator remains bullish. But potential reward for the Aggregator signal is limited, because it will only take a small gain on Tuesday to end the bullish signal and turn the Aggregator neutral. Often I will exit my entire index position when the oversold condition no longer exists. In some cases when the market is coming off of extremely oversold conditions as it is now, I may hold onto part of my positions for a larger reversion, like a close above the 10-day moving average. With the market still oversold, I do not need to decide that now. But a close higher on Tuesday would likely have me exiting at least part of my SPY position on Wednesday morning.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/15– neutral

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)
- ABT @ \$68.38 (buy @ limit) – not filled – cancel for now

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$104.67	-5.40%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$104.67	-4.43%		Catapult
DHR(1/3)	10/9/2018	\$105.61	\$101.99	-3.43%		Catapult
SPY(1/4)	10/9/2018	\$287.39	\$274.40	-4.52%		Aggregator
LOW(1/3)	10/11/2018	\$106.29	\$104.67	-1.52%		Catapult
ABT(1/3)	10/11/2018	\$68.92	\$68.70	-0.32%		Catapult
SPY(1/4)	10/11/2018	\$277.08	\$274.40	-0.97%		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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