

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 23, 2018

Volume 11 Issue 205

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	3

## Tonight's Research Points

- Turnaround Tuesday could be an opportune time to see a bounce.

### *Short-term Outlook*

#### *The Bottom Line*

The market is oversold with room to bounce. Evidence remains somewhat light and we are in the midst of a retracement of the bounce, and not truly oversold. Still, there appears to be a moderate upside edge.

*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
<b>Active - Short Term</b>						
October 23, 2018	Down 3+ on Monday < 200ma	1 day	Bullish			
October 22, 2018	SPY Gap Up 0.25% Rise 0.5% Close Down	1-3 days	Bullish	2.50%	-2.20%	-4.95%
<b>Active - Long Term</b>						
October 1, 2018	Quantitative Tightening \$50 billion/mo	int term	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			

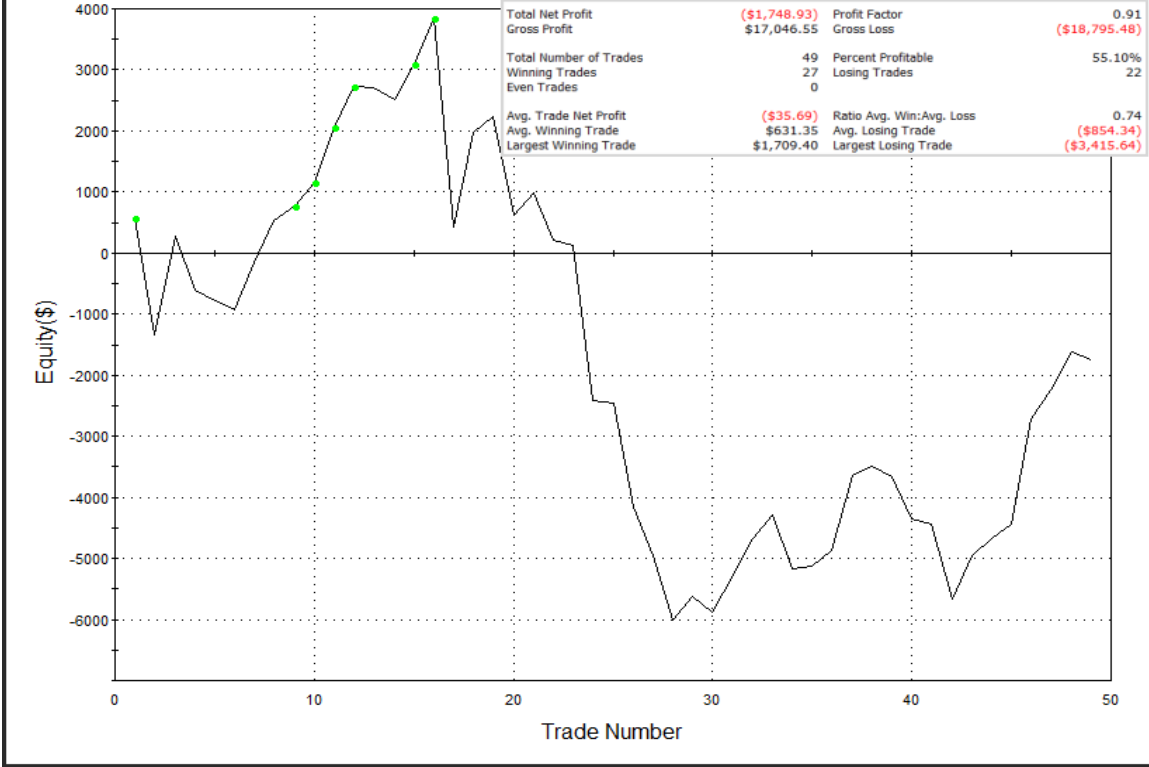
***The Evidence***

The market struggled again on Monday, deliver mostly lower results. The SPX lost 0.4%, the NASDAQ rose 0.3%, and the Russell declined 0.2%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 32%. NYSE volume declined as it typically does following opex Friday.

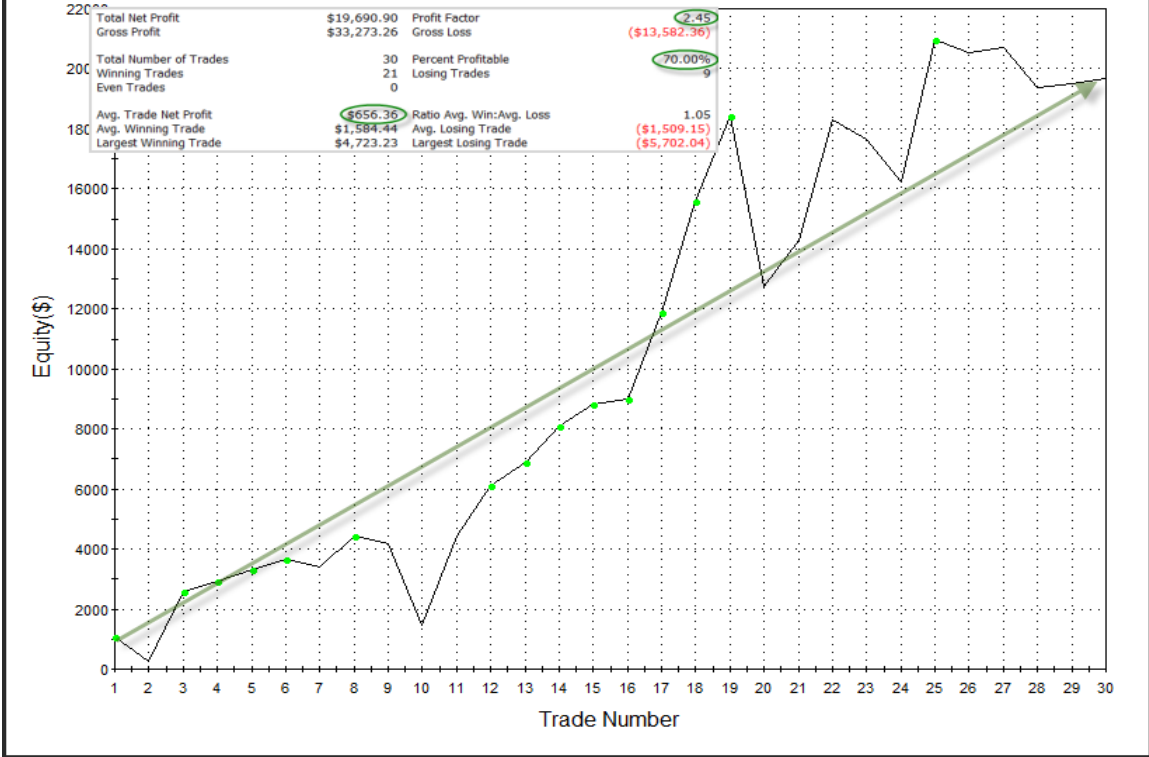
The market is in a bit of an odd place right now. The SPX has now closed lower for 4 days in a row, but it is still around the middle of its 8-day range (measuring the low to high of the bounce). So we have seen a partial retracement of the bounce over the last few days. And there has not been much evidence either way suggesting a high probability the retracement will go deeper or the rally will attempt re-assert itself. But we do have a potential Turnaround Tuesday now.

I have written about Tuesdays and their propensity for reversing pullbacks several times over the years. One interesting aspect of Turnaround Tuesdays is that they have actually fared better when the SPX has been below the 200ma, rather than above it. The charts below show Tuesday performance following at least 3 lower closes. Both above and below the 200ma is shown.

SPX closes down for at least the 3rd day in a row. It is Monday. Close > 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.



SPX closes down for at least the 3rd day in a row. It is Monday. Close < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.



As you can see, the bottom chart, showing results below the 200ma is very impressive. But the > 200ma setup is not. This difference has also carried out over the next few days. This can be seen in the results tables below.

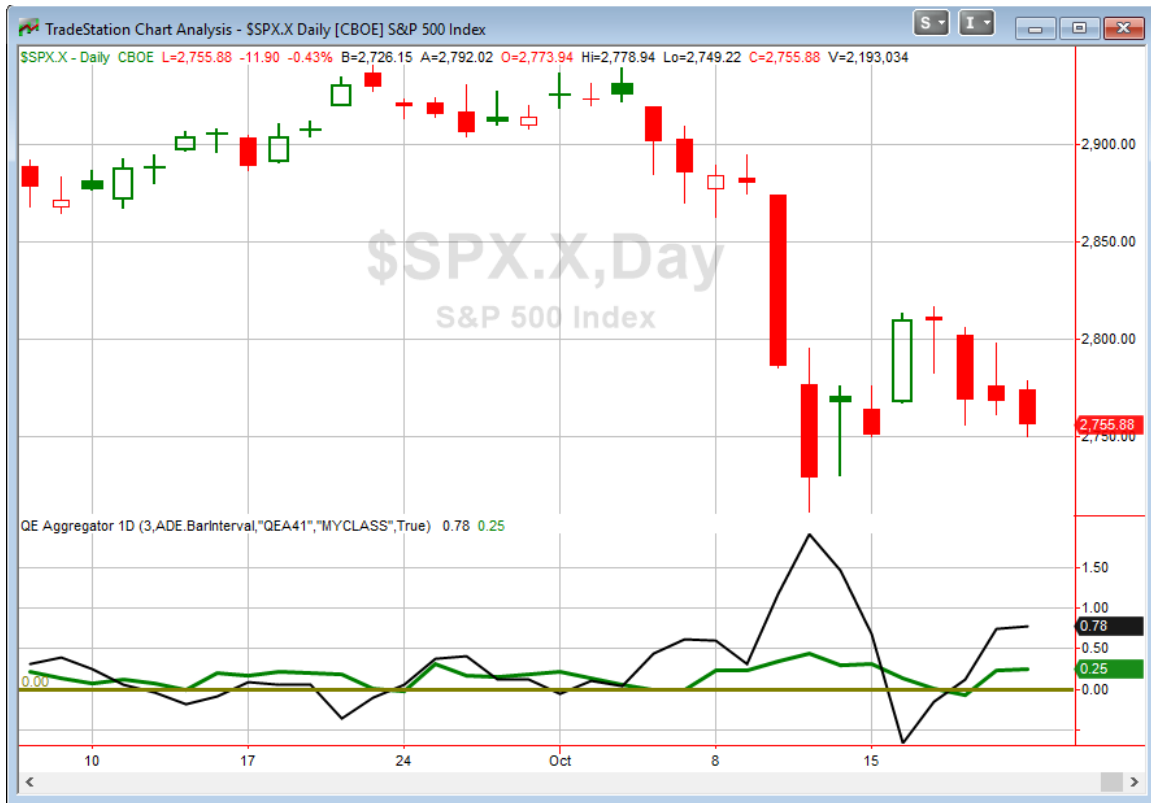
SPX closes down for at least the 3rd day in a row. It is Monday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-1,494.21	49	32	17	65.31	1,097.16	2,760.00	-2,153.14	-12,895.96	0.51	0.96	-30.49
4	-4,877.79	49	31	18	63.27	939.43	2,422.88	-1,888.90	-6,742.12	0.50	0.86	-99.55
3	-623.12	49	29	20	59.18	986.18	2,249.40	-1,461.12	-6,688.99	0.67	0.98	-12.72
2	3,591.45	49	28	21	57.14	819.85	1,964.64	-922.11	-3,357.50	0.89	1.19	73.29
1	-1,748.93	49	27	22	55.10	631.35	1,709.40	-854.34	-3,415.64	0.74	0.91	-35.69

SPX closes down for at least the 3rd day in a row. It 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	42,386.86	30	17	13	56.67	3,995.98	9,572.31	-1,964.99	-5,696.34	2.03	2.66	1,412.90
4	33,112.26	30	21	9	70.00	2,819.75	8,810.76	-2,900.27	-14,820.98	0.97	2.27	1,103.74
3	26,086.06	30	21	9	70.00	2,546.53	8,432.34	-3,043.45	-13,815.18	0.84	1.95	869.54
2	27,248.08	30	20	10	66.67	2,189.45	5,018.23	-1,654.10	-6,763.30	1.32	2.65	908.27
1	19,690.89	30	21	9	70.00	1,584.44	4,723.23	-1,509.15	-5,702.04	1.05	2.45	656.36

Huge difference here as well.

I added this study to the Active List tonight. I only included it as a 1-day edge because the profit curves looking out more than 1 day were not nearly as compelling.

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



With today's study 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 is still 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 Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2770.60 on Tuesday. That is 0.5% above Monday's close. Therefore, SPX would need to close up 0.5% on Tuesday to flip from oversold to overbought versus recent expectations.

So there appears to be a decent chance of a bounce here in the next day or 2. Of course I may be a bit early, and we could see a further retest of the lows. But 3 or 4 days in one direction is a lot for a volatile environment, and Tuesdays often offer reversal opportunities. So I will look to take a small position if I can get a favorable fill on Tuesday. With the market so choppy and volatile, if the trade goes my way I will likely be quick to take profits.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/22– neutral***

The intermediate-term outlook was last updated in the 10/22/18 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)

LOW @ \$106.29 (bought @ limit)

***Broad Market Large Cap CBI – 3(LOW-3)***

**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.*

**SPY – buy ¼ index position @ \$275.00 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$275.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I am looking to take a small SPY position if I can get long on a gap down or lower close on Tuesday. I am not inclined to buy into an intraday swoon, but will only look for entry at the open or, if not filled at the open, then the close.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$98.39	-11.07%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$98.39	-10.16%		Catapult
LOW(1/3)	10/11/2018	\$106.29	\$98.39	-7.43%		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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