

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 24, 2018

Volume 11 Issue 206

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 5 |

Tonight's Research Points

- Tuesday's large gap down and partial reversal suggests wash-out behavior that could lead to a further bounce over the next few days.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is oversold. This suggests favorable reward/risk 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 24, 2018 | SPY large gap dn to low and partial rvsl | 1-2 days | Bullish | | | |
| October 22, 2018 | SPY Gap Up 0.25% Rise 0.5% Close Down | 1-3 days | Bullish | 2.50% | -2.20% | -4.95% |
| Active - Long Term | | | | | | |
| October 1, 2018 | Quantitative Tightening \$50billion/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 | | | |

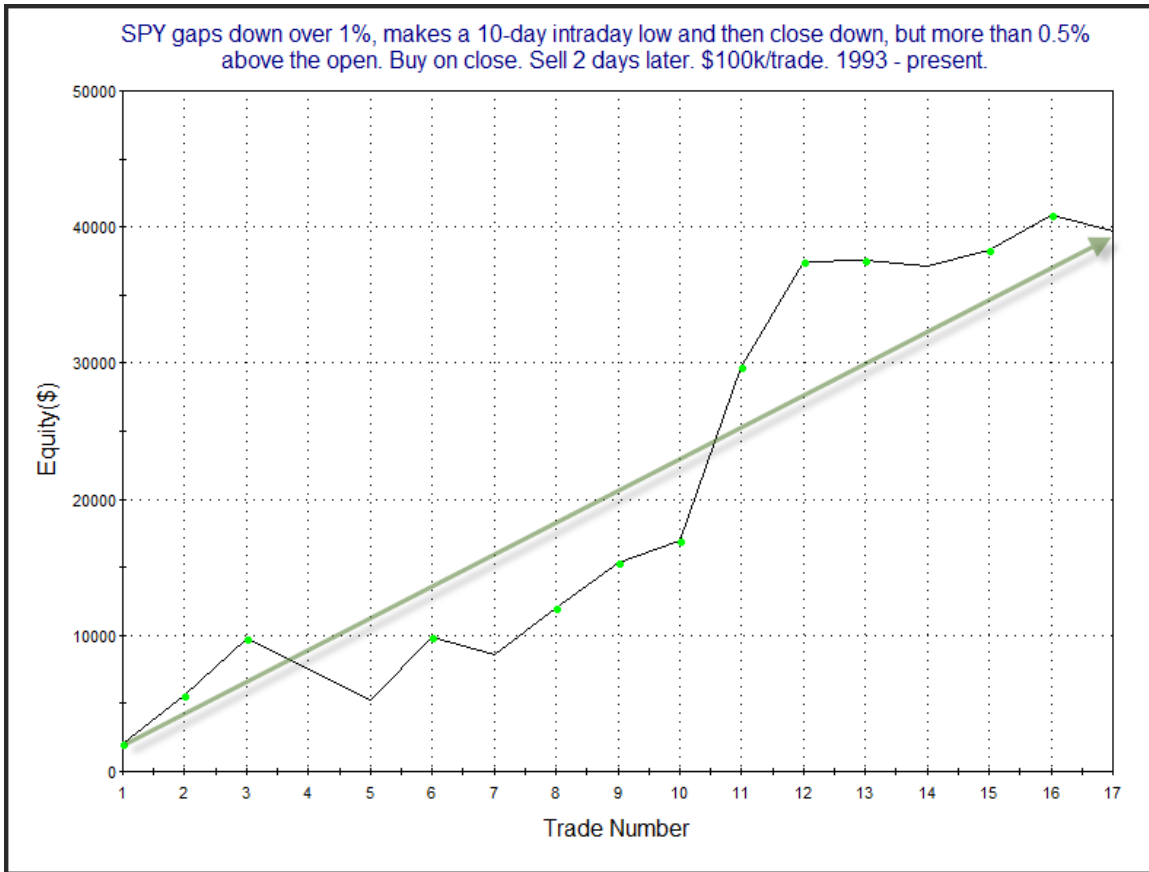
The Evidence

Tuesday started off really bad, and ended much less bad. The SPX lost 0.6%, the NASDAQ fell 0.4%, and the Russell declined 0.8%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 33%. NYSE volume rose on the big drop and reversal day.

Tuesday did not see a “turnaround” with a higher close, but it did manage to rally strongly off the lows. And the big gap lower, reversal upwards and higher close triggered a few interesting Quantifinder studies. This first study looked for a 1% gap down, 10-day intraday low, and then partial reversal with SPY closing below its 200ma. It was last seen in the 10/16/14 letter and has been updated below.

| SPY gaps down over 1%, makes a 10-day intraday low and then close down, but more than 0.5% above the open. Close < 200ma. 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 |
| 5 | 29,431.11 | 16 | 9 | 7 | 56.25 | 5,189.82 | 11,238.92 | -2,468.18 | -4,576.11 | 2.10 | 2.70 | 1,839.44 |
| 4 | 37,852.86 | 17 | 12 | 5 | 70.59 | 4,312.43 | 10,630.48 | -2,779.26 | -6,725.16 | 1.55 | 3.72 | 2,226.64 |
| 3 | 29,490.58 | 17 | 12 | 5 | 70.59 | 3,095.11 | 6,933.92 | -1,530.15 | -5,355.22 | 2.02 | 4.85 | 1,734.74 |
| 2 | 39,698.52 | 17 | 12 | 5 | 70.59 | 3,917.93 | 12,814.15 | -1,463.33 | -2,251.30 | 2.68 | 6.43 | 2,335.21 |
| 1 | 26,675.44 | 17 | 11 | 6 | 64.71 | 3,238.19 | 14,507.65 | -1,490.77 | -3,576.07 | 2.17 | 3.98 | 1,569.14 |

There have been some powerful bounces over the 1st couple of days. Below is a look at the 2-day profit curve.



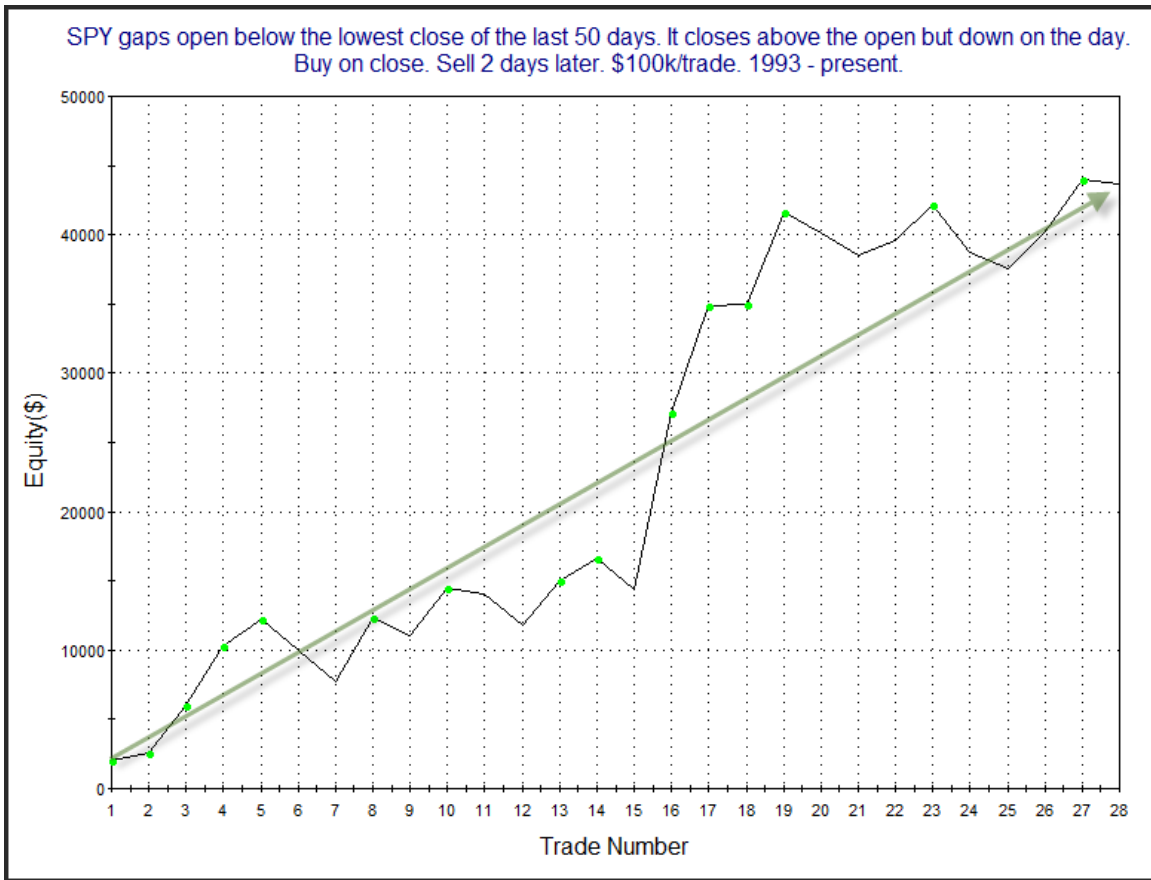
While instances are low, the numbers and curve paint a compelling picture.

And there was another, simpler study from the 1/7/16 letter that looked for gaps to 50-day lows and partial reversals. It showed similar strength. I have updated that study below.

SPY gaps open below the lowest close of the last 50 days. It closes above the open but down on the day. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

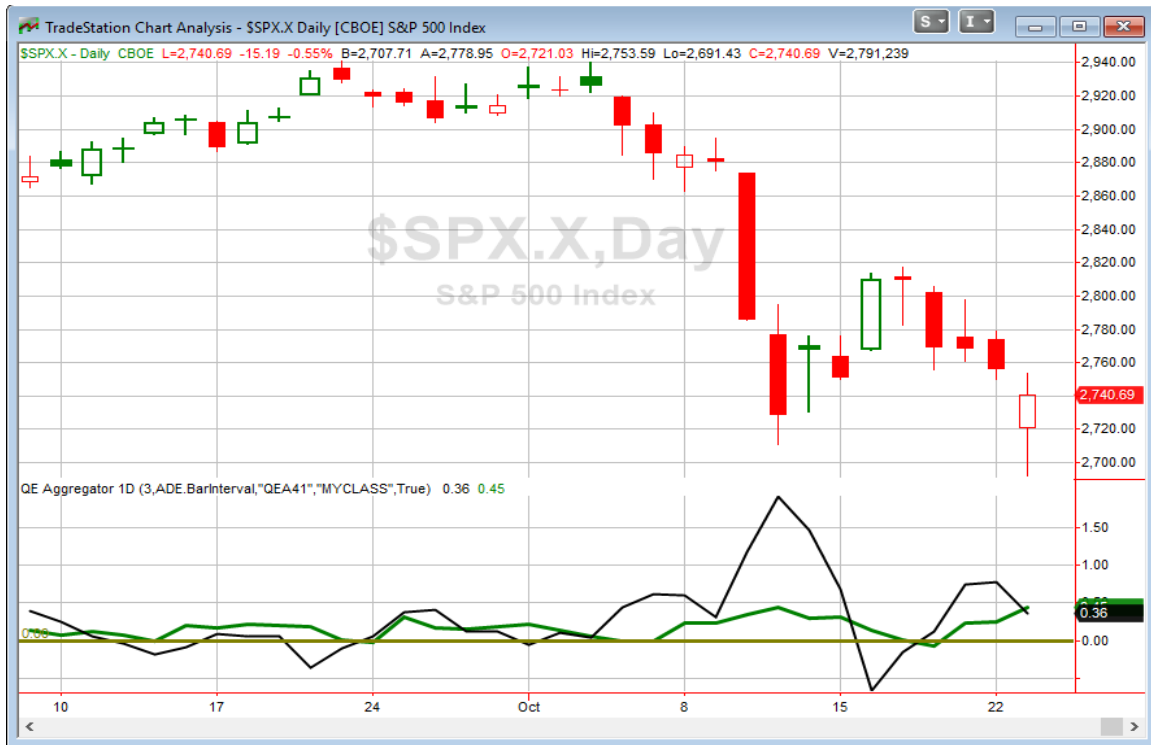
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 42,344.51 | 26 | 16 | 10 | 61.54 | 4,298.52 | 11,377.00 | -2,643.18 | -5,014.98 | 1.63 | 2.60 | 1,628.63 |
| 4 | 50,458.70 | 27 | 17 | 10 | 62.96 | 4,308.35 | 11,714.64 | -2,278.32 | -6,725.16 | 1.89 | 3.21 | 1,868.84 |
| 3 | 36,617.80 | 27 | 15 | 12 | 55.56 | 3,708.59 | 10,848.52 | -1,584.25 | -5,355.22 | 2.34 | 2.93 | 1,356.21 |
| 2 | 43,687.65 | 28 | 17 | 11 | 60.71 | 3,678.05 | 12,814.15 | -1,712.65 | -3,463.80 | 2.15 | 3.32 | 1,560.27 |
| 1 | 31,336.07 | 29 | 19 | 10 | 65.52 | 2,552.98 | 14,507.65 | -1,717.06 | -3,576.07 | 1.49 | 2.82 | 1,080.55 |

Again the edge appears to largely play out over the next 2 days. Below is a profit curve.



This study also appears compelling. And with both studies utilizing the same concept and showing similar results, I have greater confidence in the edge.

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



With tonight's 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 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 stayed 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 2772.27 on Wednesday. That is 1.2% above Tuesday's close. Therefore, SPX would need to close up 1.2% on Wednesday to flip from oversold to overbought versus recent expectations.

The market tested its recent lows on Tuesday, and that may have washed out the sellers, at least temporarily. Evidence tonight suggests the rebound is strong enough, and from a low enough level, that there is a good chance the market will continue to rally over the next few days. And while evidence is pointing higher, there is ample room to the upside before the market would work off its oversold condition. This suggests favorable reward/risk for long positions. I took a small index position at the open on Tuesday. I intend to hang onto it for the time being. I'll also note there were a couple of new Catapult signals that triggered on Tuesday.

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)

New

DWDP @ \$54.68 (buy @ limit)

UNP @ \$143.92 (buy @ limit)

Broad Market Large Cap CBI – 3(LOW-3, DWDP, UNP)

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.

DWDP – buy 1/3 Catapult position @ \$54.68 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lot for DWDP.

UNP – buy 1/3 Catapult position @ \$143.92 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lot for UNP.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| LOW(1/3) | 10/5/2018 | \$110.64 | \$98.12 | -11.32% | | Catapult |
| LOW(1/3) | 10/8/2018 | \$109.52 | \$98.12 | -10.41% | | Catapult |
| LOW(1/3) | 10/11/2018 | \$106.29 | \$98.12 | -7.69% | | Catapult |
| SPY(1/4) | 10/23/2018 | \$270.95 | \$273.61 | 0.98% | | 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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