

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 26, 2018

Volume 11 Issue 208

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	12

## Tonight's Research Points

- Thursday's inside day suggests more short-term selling could be on the way.
- The strong move on high volume following a 100-day low suggests a short-term upside edge.

## *Short-term Outlook*

### *The Bottom Line*

Bullish evidence abounds and the market is still very oversold. I have some long exposure and am looking for more of a bounce.

**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 26, 2018	1% gain on high volume from 100-low	1-3 days	Bullish			
October 26, 2018	Inside day . NR3 < 200ma	1-6 days	Bearish			
October 25, 2018	CBI 10+. SPX 50-day low	1-5 days	Bullish	4.30%	-3.60%	-7.80%
October 25, 2018	SPY Catapult for ETF	1-4 days	Bullish			
October 25, 2018	SPX dn 5 days. 50-low < 200ma	1-5 days	Bullish	3.00%	-2.25%	-5.10%
October 25, 2018	SPX dn 3% from 5-day low	1-5 days	Bullish	5.40%	-3.50%	-7.10%
October 24, 2018	SPY large gap dn to low and partial rvsl	1-2 days	Bullish			
<b>Active - Long Term</b>						
October 25, 2018	CBI 10+. SPX 50-day low	1-20 days	Bullish	7.40%	-4.30%	-8.40%
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
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**

Thursday saw the market bounce back in a pretty big way. The SPX closed up 1.9%, the NASDAQ rallied 2.95%, and the Russell rose 2.2%. Breadth was positive as the NYSE Up Issues % was 72.5% and the Up Volume % came in at 72.2%. NYSE volume rose on the rally.

There was a mix of studies that triggered in the Quantifinder tonight. The bearish ones mostly noted the fact that SPY posted an inside day. The one below was the most compelling of the bunch. It looked at times the inside day had low range, but not very low volume and occurred under the 200ma. It was last seen in the 12/11/15 letter. Results are updated.

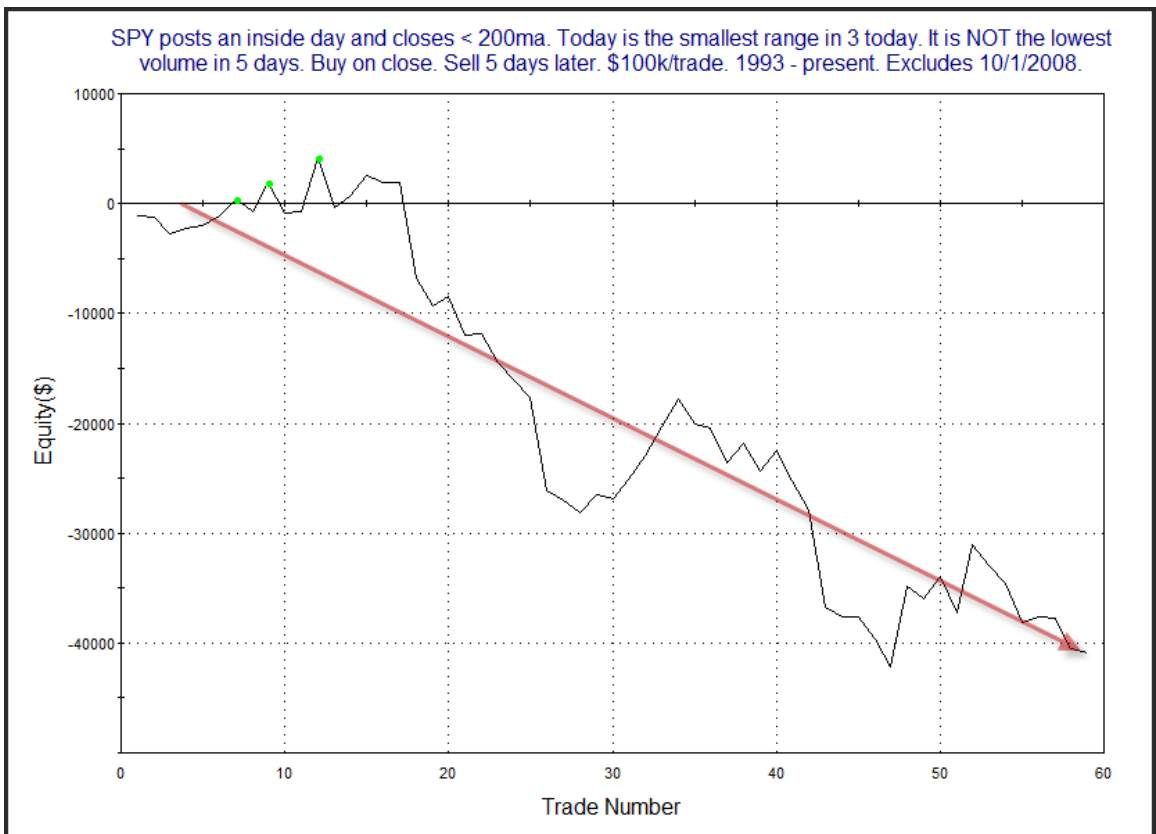
SPY posts an inside day and closes < 200ma. Today is the smallest range in 3 today. It is NOT the lowest volume in 5 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	-55,190.68	52	24	28	46.15	2,543.00	6,523.20	-4,150.81	-22,420.44	0.61	0.53	-1,061.36
9	-53,552.91	54	27	26	50.00	2,041.09	6,293.68	-4,179.32	-19,606.65	0.49	0.51	-991.72
8	-47,787.80	55	25	30	45.45	2,002.14	7,315.44	-3,261.37	-13,163.40	0.61	0.51	-868.87
7	-48,615.63	58	22	35	37.93	2,189.93	7,286.10	-2,765.55	-23,729.16	0.79	0.50	-838.20
6	-62,720.52	60	23	37	38.33	1,970.44	7,295.88	-2,920.02	-21,834.96	0.67	0.42	-1,045.34
5	-50,775.06	62	25	37	40.32	1,811.66	6,568.20	-2,596.39	-15,971.55	0.70	0.47	-818.95
4	-43,203.71	62	27	35	43.55	1,817.09	6,497.00	-2,636.15	-13,801.83	0.69	0.53	-696.83
3	-31,757.24	64	32	32	50.00	1,822.18	7,413.70	-2,814.60	-9,763.74	0.65	0.65	-496.21
2	-17,217.75	64	31	32	48.44	1,400.66	5,188.70	-1,894.95	-5,131.74	0.74	0.72	-269.03
1	-19,297.33	66	29	37	43.94	1,021.05	4,485.60	-1,321.83	-5,444.46	0.77	0.61	-292.38

Results here suggest a downside edge. Not evident in the above table is that there was a very large outlier in October of 2008. To perhaps better estimate the potential negative influence I eliminated that instance and reran the test.

SPY posts an inside day and closes < 200ma. Today is the smallest range in 3 today. It is NOT the lowest volume in 5 days. Buy on close. Sell 5 days later. \$100k/trade. 1993 - present. Excludes 10/1/2008.

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	-32,770.23	51	24	27	47.06	2,543.00	6,523.20	-3,474.16	-15,272.10	0.73	0.65	-642.55
9	-39,596.09	53	27	25	50.94	2,041.09	6,293.68	-3,788.22	-19,606.65	0.54	0.58	-747.10
8	-35,122.48	54	25	29	46.30	2,002.14	7,315.44	-2,937.10	-13,163.40	0.68	0.59	-650.42
7	-24,886.48	57	22	34	38.60	2,189.93	7,286.10	-2,148.97	-8,847.60	1.02	0.66	-436.60
6	-40,885.56	59	23	36	38.98	1,970.44	7,295.88	-2,394.60	-8,935.35	0.82	0.53	-692.98
5	-34,803.51	61	25	36	40.98	1,811.66	6,568.20	-2,224.86	-7,710.60	0.81	0.57	-570.55
4	-29,401.88	61	27	34	44.26	1,817.09	6,497.00	-2,307.74	-12,422.13	0.79	0.63	-482.00
3	-21,993.51	63	32	31	50.79	1,822.18	7,413.70	-2,590.43	-9,199.26	0.70	0.73	-349.10
2	-12,292.83	63	31	31	49.21	1,400.66	5,188.70	-1,797.21	-5,131.74	0.78	0.78	-195.12
1	-15,672.52	65	29	36	44.62	1,021.05	4,485.60	-1,257.86	-5,444.46	0.81	0.65	-241.12

Even without the large outlier the results appear squarely negative over the next few days. Below is a profit curve using a 6-day holding period.



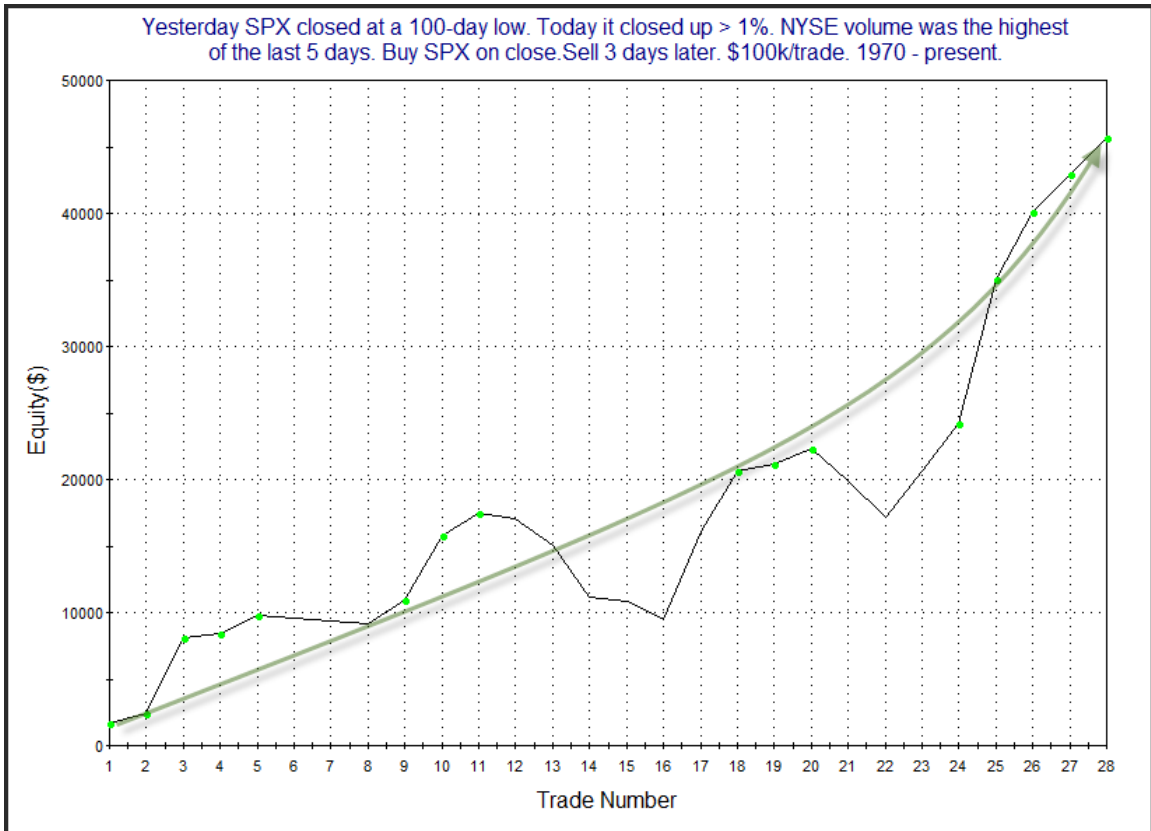
Definitely choppy, but downslping. This seems to offer some confirmation of the bearish inclination.

In the 2/16/16 letter I looked at strong moves up from 100-day lows, and the impact that volume had on the follow-through potential. Times like today, where it was the highest level in at least the last 5 days, showed the most promising results. I have updated the results of those studies below.

Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE volume was the highest of the last 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	42,114.34	28	19	9	67.86	3,465.23	10,340.00	-2,636.12	-4,585.62	1.31	2.78	1,504.08
4	42,424.21	28	18	10	64.29	3,472.74	11,930.04	-2,008.50	-3,869.74	1.73	3.11	1,515.15
3	45,684.05	28	18	10	64.29	3,300.30	10,868.60	-1,372.13	-3,910.96	2.41	4.33	1,631.57
2	23,898.63	30	17	13	56.67	2,466.73	7,112.64	-1,387.37	-6,510.90	1.78	2.33	796.62
1	19,762.01	30	19	11	63.33	2,081.20	9,089.88	-1,798.26	-4,686.30	1.16	2.00	658.73

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

Results here appear to suggest an upside edge. Below is a 3-day equity curve to see how the edge has played out over time.

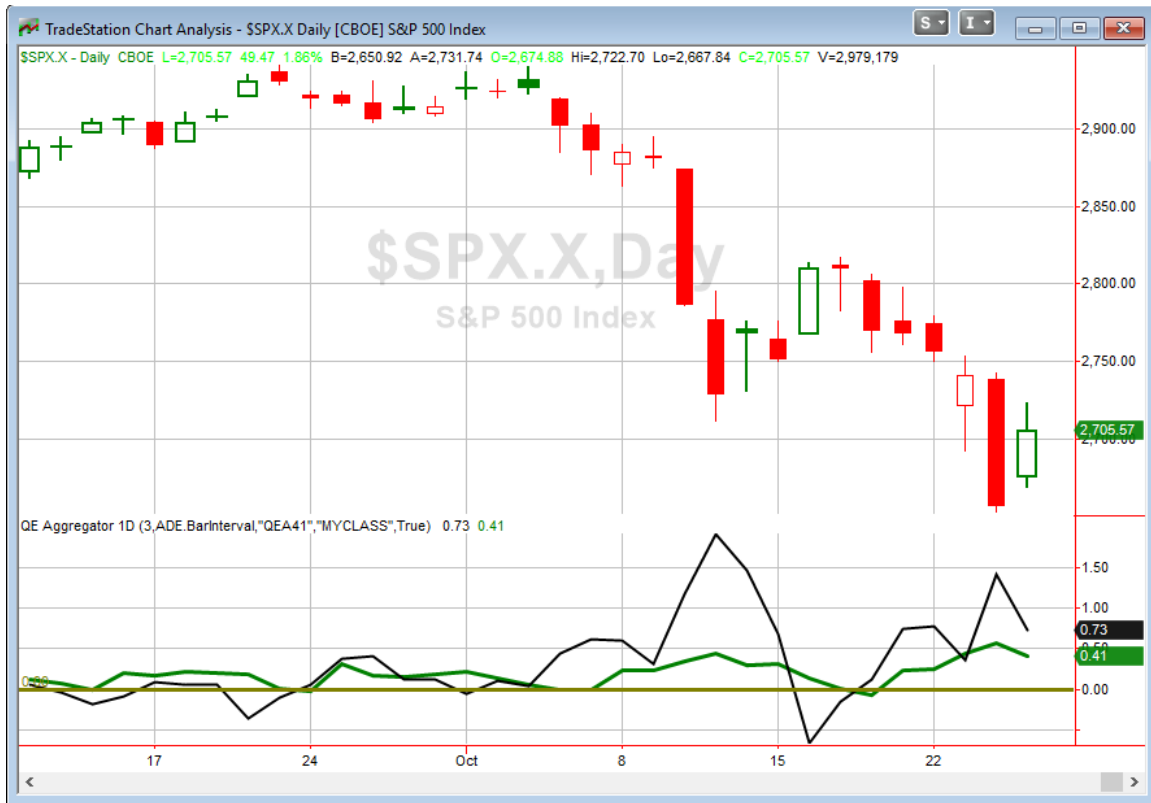


The strong upward slope confirms the edge suggested by the numbers.

So we have some conflicting evidence tonight. I included results of both in the Aggregator.

I will also note that despite the strong rally, the CBI actually rose from 10 to 12, with two new Catapult signals triggering (RTN and GD). The elevated CBI continues to suggest the bounce should have further to go.

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



With tonight's evidence considered, the green Aggregator Line held well above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is also strongly 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 Friday. This could change if strong new bearish evidence emerges. The Differential Pivot will be 2763.87 on Friday. That is a whopping 2.2% above Thursday's close. Therefore, SPX would need to close up 2.2% on Friday to flip from oversold to overbought versus recent expectations.

Not mentioned earlier is the fact that GOOG and AMZN released earnings after the bell and that caused a big drop in the futures. So Friday will likely be off to a rough start. This could derail the rally temporarily, but with so much of the evidence continuing to point higher, I still favor the bullish case for the short-term. I won't be looking to add new index exposure on Friday. I'll prefer to let it shake out a little and see what things look like over the weekend. As I mentioned above, there are a couple of new Catapult triggers, and I will look to take advantage of them.

***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)

DWDP @ \$54.68 (bought @ limit)

UNP @ \$143.92 (bought @ limit)

DWDP @ \$52.68 (bought @ limit)

UNP @ \$140.45 (bought @ limit)

HON @ \$145.34 (buy @ limit) – not filled – keep open

HD @ \$176.97 (bought @ limit)

BMV @ \$48.83 (bought @ limit)

***New***

RTN @ \$176.52 (buy @ limit)

GD @ \$170.60 (buy @ limit)

***Broad Market Large Cap CBI – 12(LOW-3, DWDP-2, UNP-2, HON, HD, BMV)***

**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.*

**RTN – buy 1/3 Catapult position @ \$176.52 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of up to 3 possible lot for RTN.

**GD – buy 1/3 Catapult position @ \$170.60 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of up to 3 possible lot for GD.

**HON – buy 1/3 Catapult position @ \$145.34 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of up to 3 possible lot for HON. I am keeping it active from last night, since it was not filled on Thursday.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$97.95	-11.47%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$97.95	-10.56%		Catapult
LOW(1/3)	10/11/2018	\$106.29	\$97.95	-7.85%		Catapult
SPY(1/4)	10/23/2018	\$270.95	\$270.08	-0.32%		Aggregator
DWDP(1/3)	10/24/2018	\$54.55	\$52.92	-2.99%		Catapult
UNP(1/3)	10/24/2018	\$143.92	\$144.15	0.16%		Catapult
UNP(1/3)	10/25/2018	\$136.50	\$144.15	5.60%		Catapult
DWDP(1/3)	10/25/2018	\$52.68	\$52.92	0.46%		Catapult
BMY(1/3)	10/25/2018	\$48.83	\$49.21	0.78%		Catapult
HD(1/3)	10/25/2018	\$176.97	\$179.07	1.19%		Catapult

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).*

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.