

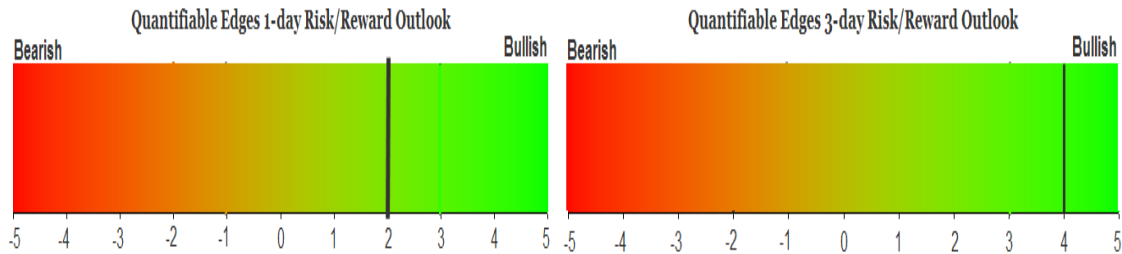
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 30, 2018

Volume 11 Issue 210

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	21

## Tonight's Research Points

- End of October can provide some bullish seasonality
- A potential Turnaround Tuesday is on tap.
- Using SPY and taking into account the strong gap up and the finish well off the lows the implications appears substantially more bearish.
- An extremely high intraday TICK near an intermediate-term low carries bearish implications for the next day.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is leaning bullish, but is mixed over the next few days. There still appears to be a short-term 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 29, 2018	Monday after 4th Friday in October	1 day	Bearish			
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%
<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			

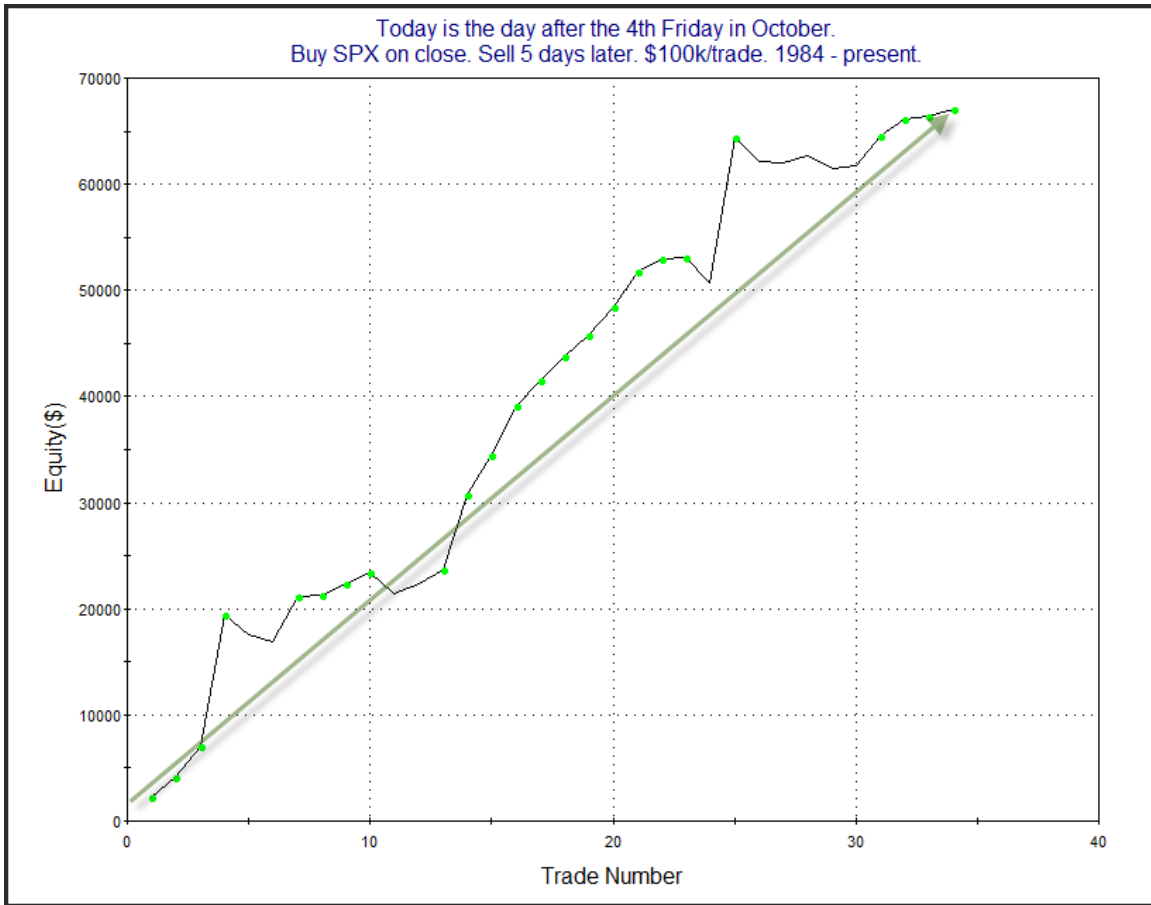
**The Evidence**

Monday started strong, but could not maintain those early levels. The SPX closed down 0.7%, the NASDAQ lost 1.6%, and the Russell fell 0.4%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 42%. NYSE volume declined some from Friday's level.

In last night's letter I noted the positive end-of-October seasonality we are about to move into. That study is copied below.

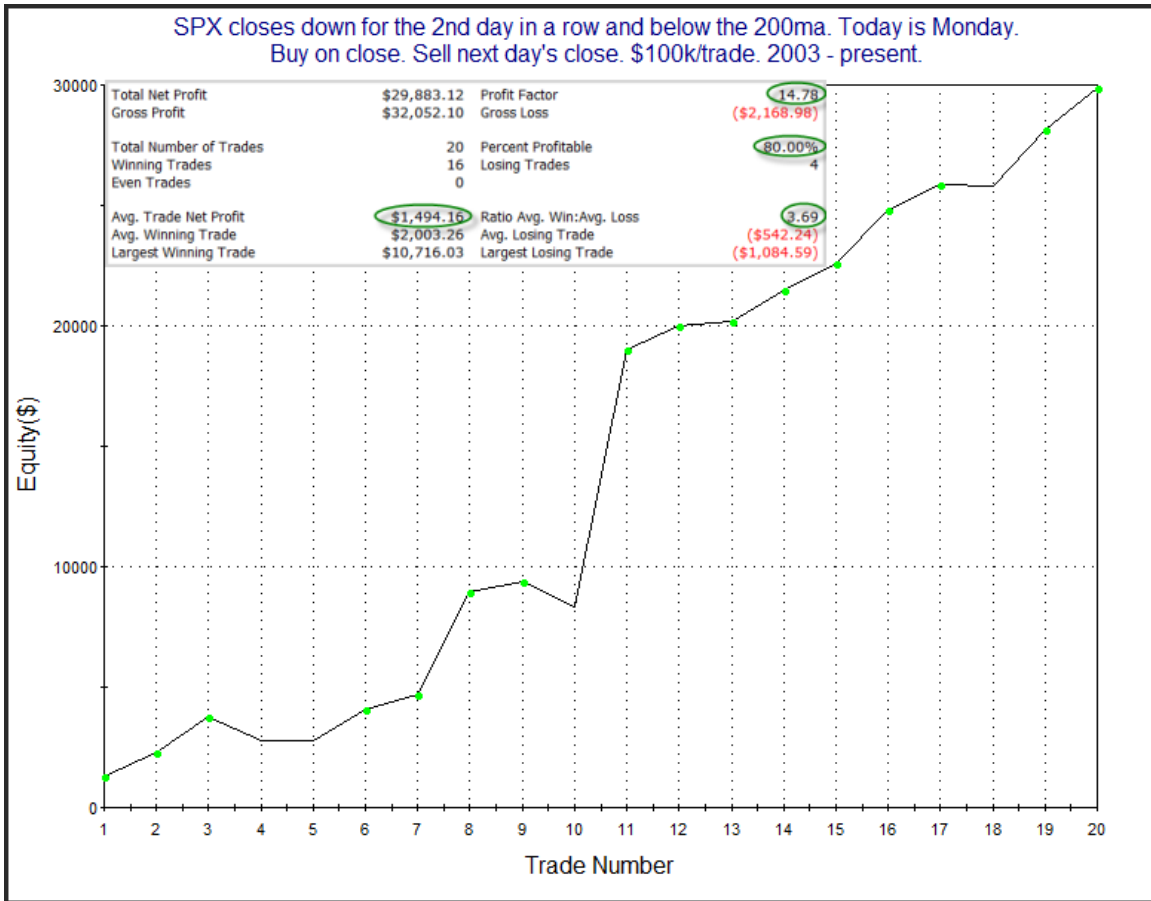
Today is the day after the 4th Friday in October. Buy SPX on close. Sell X days later. \$100k/trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	67,098.06	34	27	7	79.41	2,876.13	13,733.46	-1,508.22	-2,483.20	1.91	7.36	1,973.47
4	54,112.38	34	25	9	73.53	2,607.50	14,020.11	-1,230.56	-2,860.68	2.12	5.89	1,591.54
3	45,277.77	34	26	8	76.47	1,994.79	12,304.89	-823.34	-2,081.28	2.42	7.87	1,331.70
2	25,156.76	34	26	8	76.47	1,318.56	9,496.89	-1,140.73	-2,261.76	1.16	3.76	739.90
1	21,802.85	34	22	12	64.71	1,459.06	10,716.03	-858.05	-2,766.58	1.70	3.12	641.26
<b>32 of 34 instances (94%) closed above the entry price at some point in the next 5 days.</b>												

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



*The curve has headed upwards for a long time.*

I have shown in the past that Tuesday’s have a well-deserved reputation as a day where the market will often bounce following a market selloff. As such, they are often referred to as “Turnaround Tuesdays”. The studies below consider the Turnaround Tuesday phenomenon.

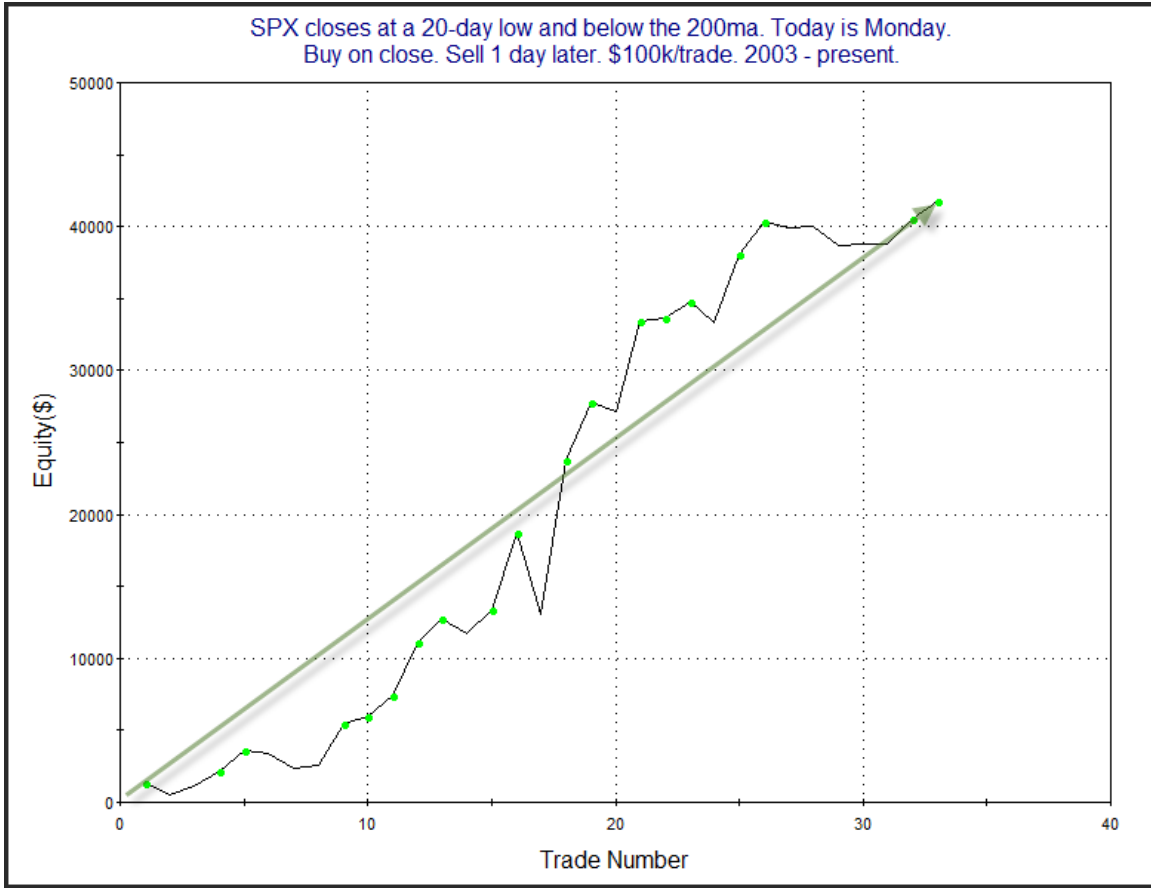


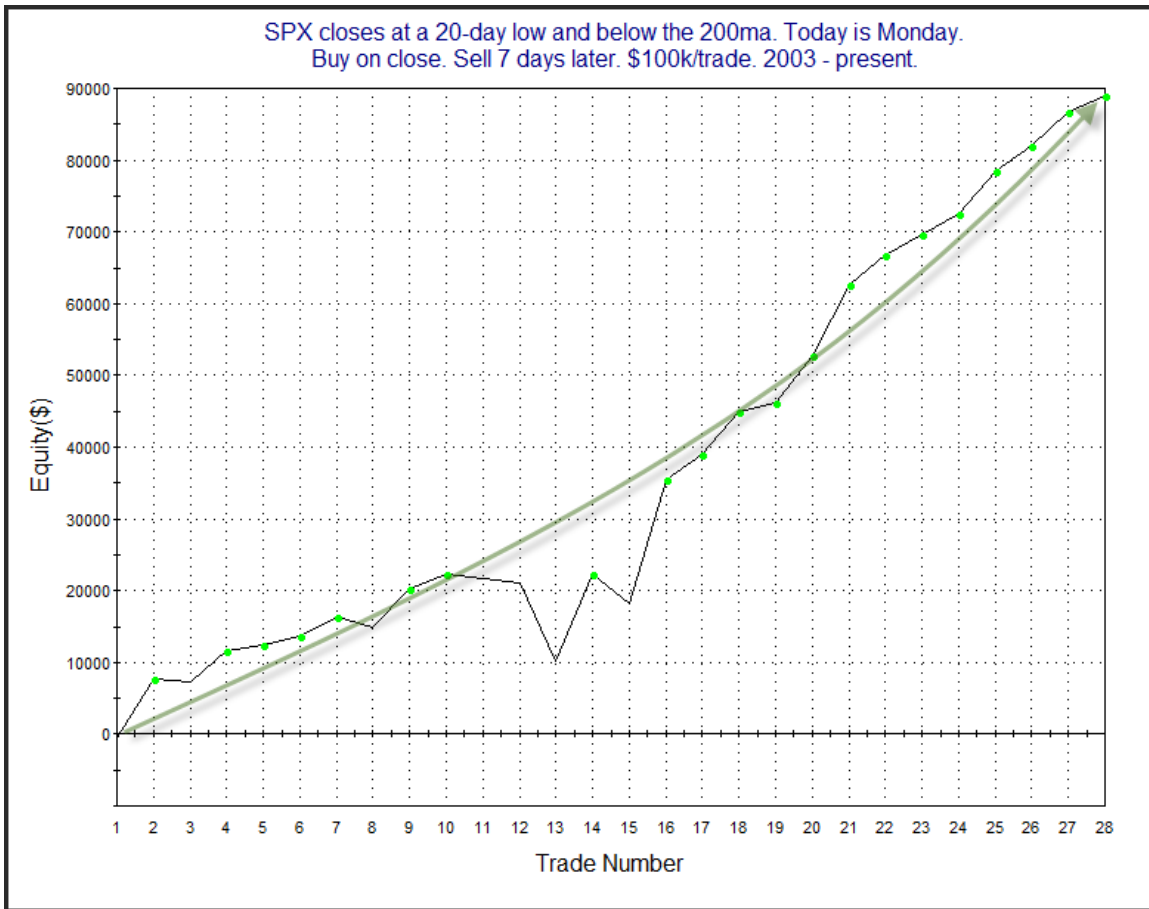
We see here that there has been a strong inclination to bounce any time the market has had 2 down days going into Tuesday while the SPX is under the 200ma. Another Turnaround Tuesday setup I examined looked at 20-day lows below the 200ma. Results for that can be seen below.

SPX closes at a 20-day low and below the 200ma. Today is Monday.  
Buy on close. Sell X days later. \$100k/trade. 2003 - 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	80,716.19	27	21	6	77.78	5,220.39	21,519.33	-4,818.65	-9,276.30	1.08	3.79	2,989.49
9	83,447.92	28	23	5	82.14	5,002.97	13,525.47	-6,324.07	-18,648.00	0.79	3.64	2,980.28
8	76,801.51	28	23	5	82.14	4,546.40	15,803.97	-5,553.14	-17,685.00	0.82	3.77	2,742.91
7	89,034.01	28	21	7	75.00	5,130.23	17,319.54	-2,671.54	-10,933.20	1.92	5.76	3,179.79
6	82,926.46	28	21	7	75.00	5,026.32	18,349.11	-3,232.34	-9,917.10	1.56	4.67	2,961.66
5	63,660.57	32	23	9	71.88	3,833.88	13,733.46	-2,724.30	-5,696.34	1.41	3.60	1,989.39
4	61,262.01	33	23	10	69.70	3,687.00	14,020.11	-2,353.91	-14,820.98	1.57	3.60	1,856.42
3	55,756.70	33	24	9	72.73	3,349.84	12,304.89	-2,737.72	-13,815.18	1.22	3.26	1,689.60
2	41,520.04	33	21	12	63.64	2,853.38	9,496.89	-1,533.42	-6,763.30	1.86	3.26	1,258.18
1	41,742.95	33	23	10	69.70	2,368.22	10,716.03	-1,272.60	-5,702.04	1.86	4.28	1,264.94

Not only do the numbers look strong on Tuesday, but the setup has seen good follow through over the next several days. Below are profit curves for the 1-day and 7-day holding periods.





The strong upslope serves as some confirmation of the bullish edge suggested by the numbers.

But not all evidence that emerged on Monday was short-term bullish. The market started off very strong this morning. At one point the NYSE TICK spiked to 1377, meaning there were 1377 more stocks that had just been sold at the offer price versus the bid price. This was the highest intraday high since April. The study below was last seen in the 2/12/18 letter. It looked at other instances where SPY was at or near a new 50-day low while the NYSE TICK hit its highest intraday level in at least 100 days. The 1-day returns were the most interesting. I have listed all instances below.

SPY makes a low at or within 0.5% of a 50-day low.  
 NYSE TICK makes its highest intraday high in 100 days.  
 Buy SPY on close. Sell next day's close. \$100k/trade. 2003 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/1/2007	Buy	\$140.51	-1.31%	\$106.65
3/2/2007	Sell	\$138.67		(\$1,315.35)
2/24/2009	Buy	\$77.48	-0.79%	\$1,212.60
2/25/2009	Sell	\$76.87		(\$2,386.50)
5/21/2010	Buy	\$109.12	-1.29%	\$247.32
5/24/2010	Sell	\$107.71		(\$1,383.16)
3/15/2011	Buy	\$128.56	-1.85%	\$7.77
3/16/2011	Sell	\$126.18		(\$2,548.56)
6/23/2011	Buy	\$128.30	-1.16%	\$54.53
6/24/2011	Sell	\$126.81		(\$1,308.72)
8/3/2011	Buy	\$126.17	-4.68%	\$0.00
8/4/2011	Sell	\$120.26		(\$4,839.12)
8/9/2011	Buy	\$117.48	-4.42%	\$0.00
8/10/2011	Sell	\$112.29		(\$4,706.03)
5/8/2012	Buy	\$136.55	-0.59%	\$43.92
5/9/2012	Sell	\$135.74		(\$1,507.92)
5/23/2012	Buy	\$132.27	0.20%	\$430.92
5/24/2012	Sell	\$132.53		(\$642.60)
2/6/2018	Buy	\$269.13	-0.54%	\$1,198.33
2/7/2018	Sell	\$267.67		(\$575.05)
2/9/2018	Buy	\$261.50	1.47%	\$2,104.82
2/12/2018	Sell	\$265.34		\$0.00
<b>Run-up/Drawdown</b>			<b>Run-up</b>	<b>Drawdown</b>
Max. Value			\$2,104.82	(\$4,839.12)
Max. Value Date			2/12/2018	8/4/2011
Avg. Value			\$491.53	(\$1,928.46)

The consistent and sizable weakness the next day has been very impressive. Run-up / drawdown stats are heavily skewed to the downside. It sure doesn't look like the initial strong intraday buying and high TICK is a positive. Instances are a bit low, but the results are compelling enough to include this study in the Quantifinder.

Two important notables with the action were 1) the fact that the market gapped up large to start the day, and 2) that while it went from strongly positive to solidly negative the market did close well off its lows. In the past I've shown how bounces in the last few minutes of the day will often reduce an upside edge. In this case we see that the late day bounce has always been followed by a pullback in the next couple of days.

SPY gaps up > 1% and then closes down on the day but above the bottom 15% of the intraday range.  
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	-25,584.15	9	4	5	44.44	1,969.89	2,996.70	-6,692.74	-12,819.52	0.29	0.24	-2,842.68
4	-24,456.57	10	3	7	30.00	913.90	1,399.32	-3,885.47	-6,751.20	0.24	0.10	-2,445.66
3	-32,421.68	10	0	10	0.00	0.00	0.00	-3,242.17	-6,646.64	0.00	0.00	-3,242.17
2	-29,666.98	10	0	10	0.00	0.00	0.00	-2,966.70	-7,347.99	0.00	0.00	-2,966.70
1	-30,833.97	10	2	8	20.00	1,438.92	2,368.82	-4,213.97	-9,839.83	0.34	0.09	-3,083.40

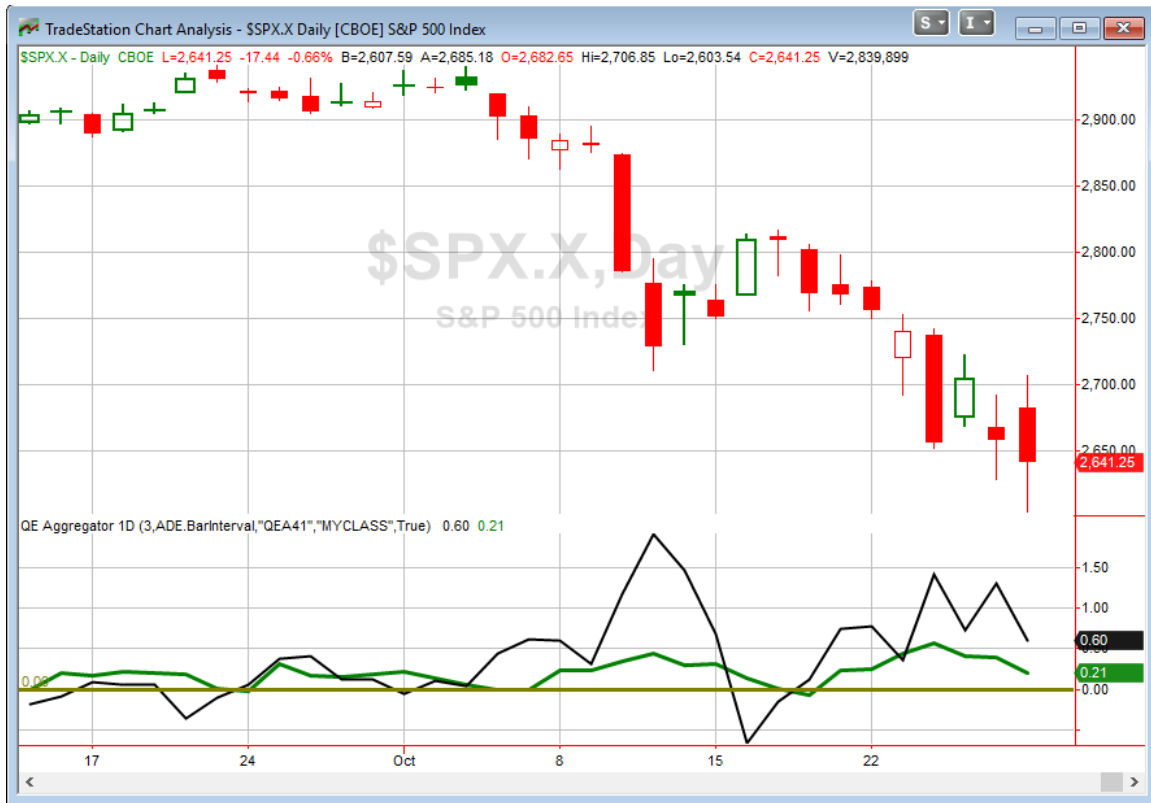
Instances are low but when stats are this overwhelming I make sure not to ignore them. Below I have listed all the instances along with a 2-day exit strategy.

SPY gaps up > 1% and then closes down on the day but above the bottom 15% of the intraday range. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/13/1997	Buy	\$92.28	-2.84%	\$1,115.49
8/15/1997	Sell	\$89.66		(\$2,869.95)
8/28/1998	Buy	\$103.38	-3.21%	\$628.55
9/1/1998	Sell	\$100.06		(\$9,428.25)
10/6/1998	Buy	\$98.59	-2.03%	\$1,460.16
10/8/1998	Sell	\$96.59		(\$6,459.18)
10/28/2002	Buy	\$89.61	-0.20%	\$390.25
10/30/2002	Sell	\$89.43		(\$2,910.15)
10/14/2008	Buy	\$99.85	-6.09%	\$0.00
10/16/2008	Sell	\$93.77		(\$13,323.31)
11/10/2008	Buy	\$92.63	-7.35%	\$0.00
11/12/2008	Sell	\$85.82		(\$8,103.29)
3/3/2009	Buy	\$70.07	-1.81%	\$3,995.60
3/5/2009	Sell	\$68.80		(\$2,711.30)
6/21/2010	Buy	\$111.41	-1.96%	\$439.53
6/23/2010	Sell	\$109.23		(\$2,628.21)
8/1/2011	Buy	\$128.78	-2.03%	\$0.00
8/3/2011	Sell	\$126.17		(\$4,074.00)
8/5/2011	Buy	\$120.08	-2.17%	\$0.00
8/9/2011	Sell	\$117.48		(\$8,161.92)

You'll note that not only was every instance a loser, but every instance saw an intraday low at least 2.7% below the entry price at some point in the next 2 days. This would suggest there is potential for additional selling in the next day or two.

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



With tonight's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is again 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 Tuesday. This is highly unlikely to change. The Differential Pivot will be 2742.17 on Tuesday. That is 3.8% above Monday's close. Therefore, SPX would need to close up 3.8% on Tuesday to flip from oversold to overbought versus recent expectations.

So there are certainly mixed indications with the outlook over the next couple of days. But there is ample evidence still providing a bullish tilt, which includes the Turnaround Tuesday and end of October seasonal studies tonight. Additionally, the CBI rose yet again. It moved up from 14 to 21 on Monday. That is a strongly oversold reading and suggestive of a sizable bounce coming at some point in the coming days. Overall, I believe there is an upside edge. I already have some long exposure. With the next couple of days looking possibly sketchy, I am not inclined to add more SPY just yet. But with the 7 new Catapults, there of plenty of potential trade candidates to choose from.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 10/29– neutral*

**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)  
HD @ \$176.97 (bought @ limit)  
BMY @ \$48.83 (bought @ limit)  
RTN @ \$176.52 (bought @ limit)  
GD @ \$170.60 (bought @ limit)  
GD @ \$169.86 (bought @ limit)  
CELG @ \$72.45 (bought @ limit)

***New***

AIG @ \$39.91 (buy @ limit)  
CELG @ \$71.43 (buy @ limit)  
GD @ \$167.04 buy @ limit)  
IBM @ \$119.64 (buy @ limit)  
LMT @ \$286.67 buy @ limit)  
RTN @ \$168.35 (buy @ limit)  
UPS @ \$105.13 (buy @ limit)

***Broad Market Large Cap CBI – 21(LOW-3, DWDP-2, UNP-2, HON, HD, BMY, GD-3, RTN-2, CELG-2, AIG, IBM, LMT, UPS)***

### **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.

**AIG @ \$39.91 (buy @ limit)**

**CELG @ \$71.43 (buy @ limit)**

**GD @ \$167.04 buy @ limit)**

**IBM @ \$119.64 (buy @ limit)**

**LMT @ \$286.67 buy @ limit)**

**RTN @ \$168.35 (buy @ limit)**

**UPS @ \$105.13 (buy @ limit)**

All of the trades listed above are from the Catapult section. I typically take a 1/3 Catapult position for each one, since I scale into them over a period of days. But I will also sometimes limit the positions I take per day. To do that, I generally will typically look to buy everything in smaller position size. So rather than buy all 7 with a 1/3 size position each, I might do it with a 1/5 or 1/7 position size. Of course traders should handle all trade ideas however they best see fit. None of this is investment advice.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$92.86	-16.07%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$92.86	-15.21%		Catapult
LOW(1/3)	10/11/2018	\$106.29	\$92.86	-12.64%		Catapult
SPY(1/4)	10/23/2018	\$270.95	\$263.86	-2.62%		Aggregator
DWDP(1/3)	10/24/2018	\$54.55	\$52.07	-4.55%		Catapult
UNP(1/3)	10/24/2018	\$143.92	\$141.34	-1.79%		Catapult
UNP(1/3)	10/25/2018	\$136.50	\$141.34	3.55%		Catapult
DWDP(1/3)	10/25/2018	\$52.68	\$52.07	-1.16%		Catapult
BMY(1/3)	10/25/2018	\$48.83	\$49.73	1.84%		Catapult
HD(1/3)	10/25/2018	\$176.97	\$173.20	-2.13%		Catapult
RTN(1/3)	10/26/2018	\$173.33	\$168.35	-2.87%		Catapult
HON(1/3)	10/26/2018	\$145.74	\$141.06	-3.21%		Catapult
GD(1/3)	10/26/2018	\$168.71	\$167.04	-0.99%		Catapult
GD(1/3)	10/29/2018	\$169.86	\$167.04	-1.66%		Catapult
CELG(1/3)	10/29/2018	\$72.45	\$71.43	-1.41%		Catapult
SPY(1/4)	10/29/2018	\$265.33	\$263.86	-0.55%		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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