

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 31, 2018

Volume 11 Issue 211

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	20

Tonight's Research Points

- Tuesday'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.
- New months are not nearly as bearish when below the 200ma.

Short-term Outlook

The Bottom Line

Evidence is mixed but leaning bullish. 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
Active - Short Term						
October 31, 2018	1% gain on high volume from 100-low	1-3 days	Bullish			
October 30, 2018	Turn Tues 20 Low < 200ma	1-7 days	Bullish			
October 30, 2018	End of October seasonality	1-4 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	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%
Active - Long Term						
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

Tuesday was a day of broad gains. The SPX closed up 1.6%, the NASDAQ rose 1.6%, and the Russell 2000 rallied 2.0%. Breadth was positive as the NYSE Up Issues % was 69% and the Up Volume % came in at 75%. NYSE volume spiked up to the highest level since September opex.

The market is making another attempt to put together a decent bounce. It has spent most of October selling off. October 3rd was the last day that SPX managed to close above its 10-day moving average. The last bounce attempt, which began last Thursday, was quickly ruined by GOOG and AMZN. Prior to that the 10/12 to 10/17 bounce attempt nearly got back above the 10ma, but fell just shy. I am inclined to believe the 3rd time may be the charm. And with the CBI still posting a 20 reading, my favorite “oversold” indicator suggests a good chance this bounce has more in it as well. But the studies that emerged on Tuesday were mixed, much as they were last week on the 10/25 bounce.

The study below is a potentially bearish one from the 10/26 letter. It is still active. I have copied it again from that letter.

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.

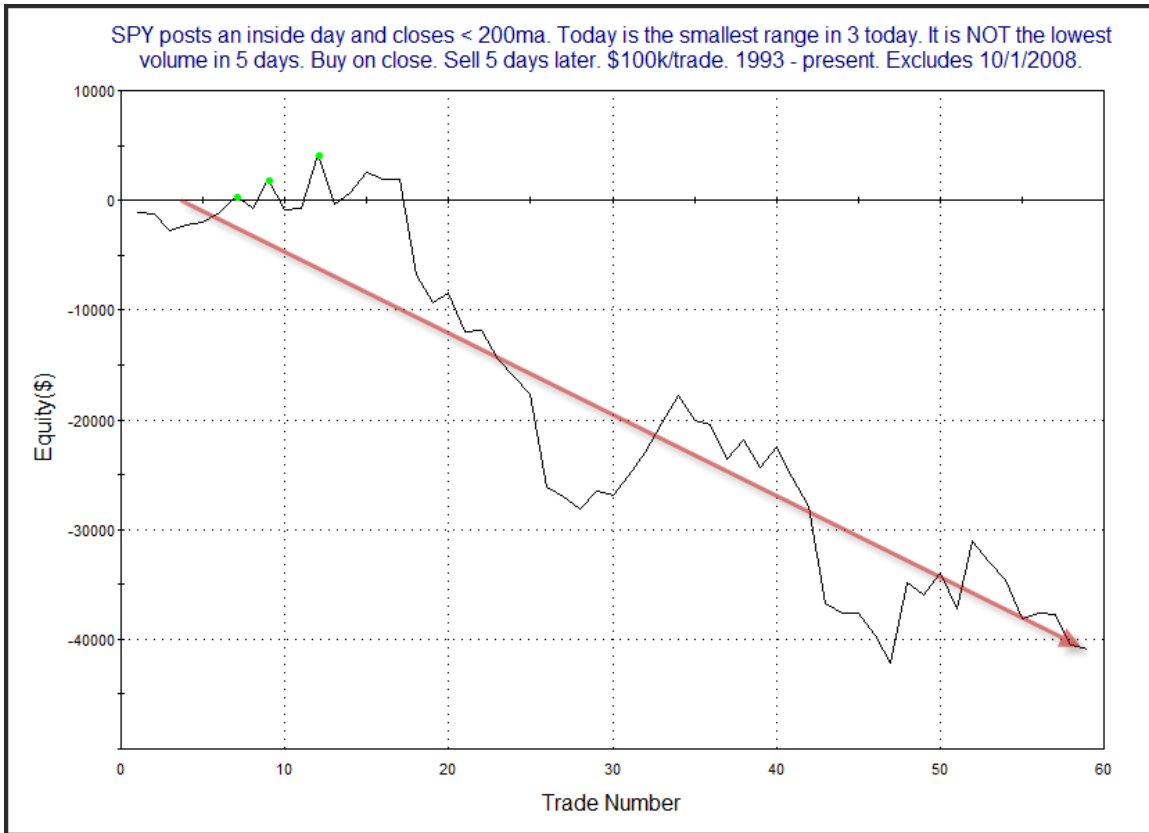
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-55,190.68	52	24	28	46.15	2,543.00	6,523.20	-4,150.81	-22,420.44	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.



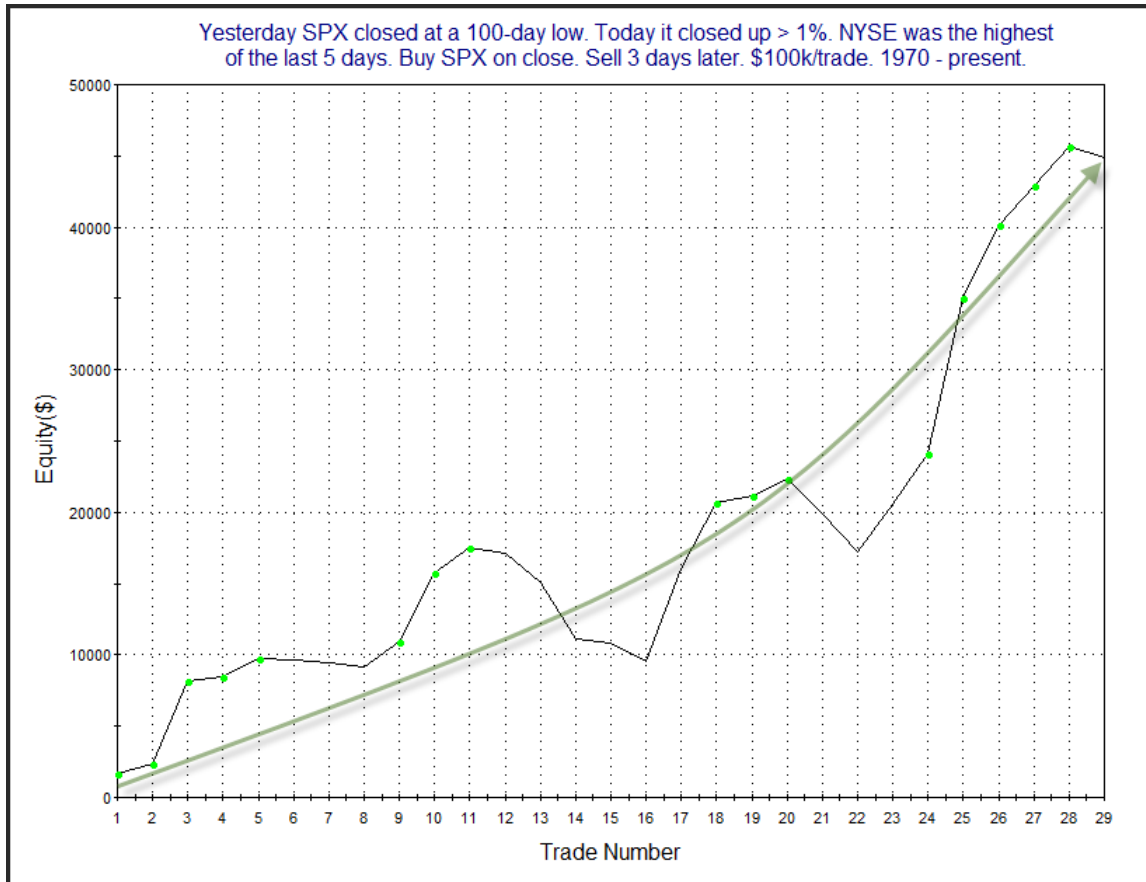
Definitely choppy, but downsloping. This seems to offer some confirmation of the bearish inclination.

In the 10/26/18 letter I also 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. This can be seen in the study below. Stats are updated.

Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE was the highest of the last 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

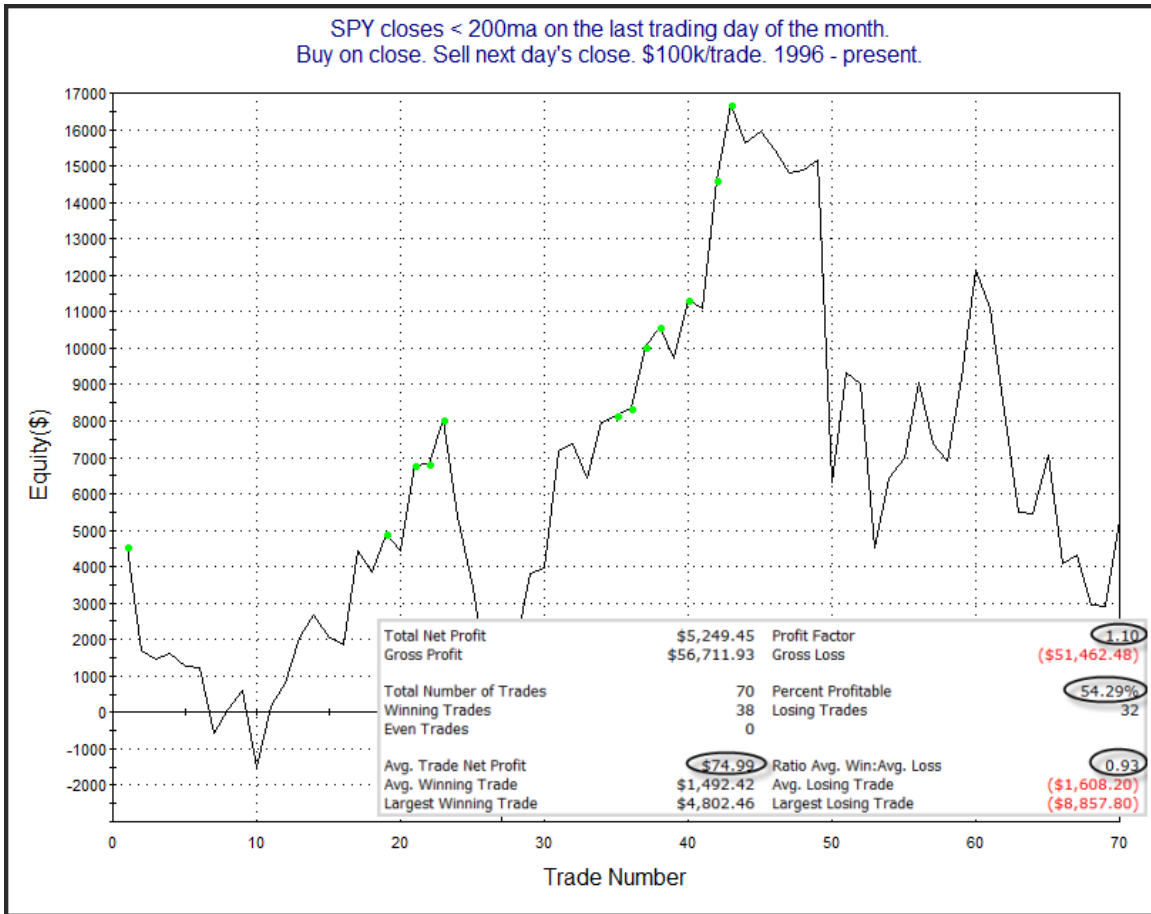
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	42,114.34	28	19	9	67.86	3,465.23	10,340.00	-2,636.12	-4,585.62	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	44,858.21	29	18	11	62.07	3,300.30	10,868.60	-1,322.47	-3,910.96	2.50	4.08	1,546.83
2	21,583.11	31	17	14	54.84	2,466.73	7,112.64	-1,453.66	-6,510.90	1.70	2.06	696.23
1	18,074.33	31	19	12	61.29	2,081.20	9,089.88	-1,789.05	-4,686.30	1.16	1.84	583.04

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.



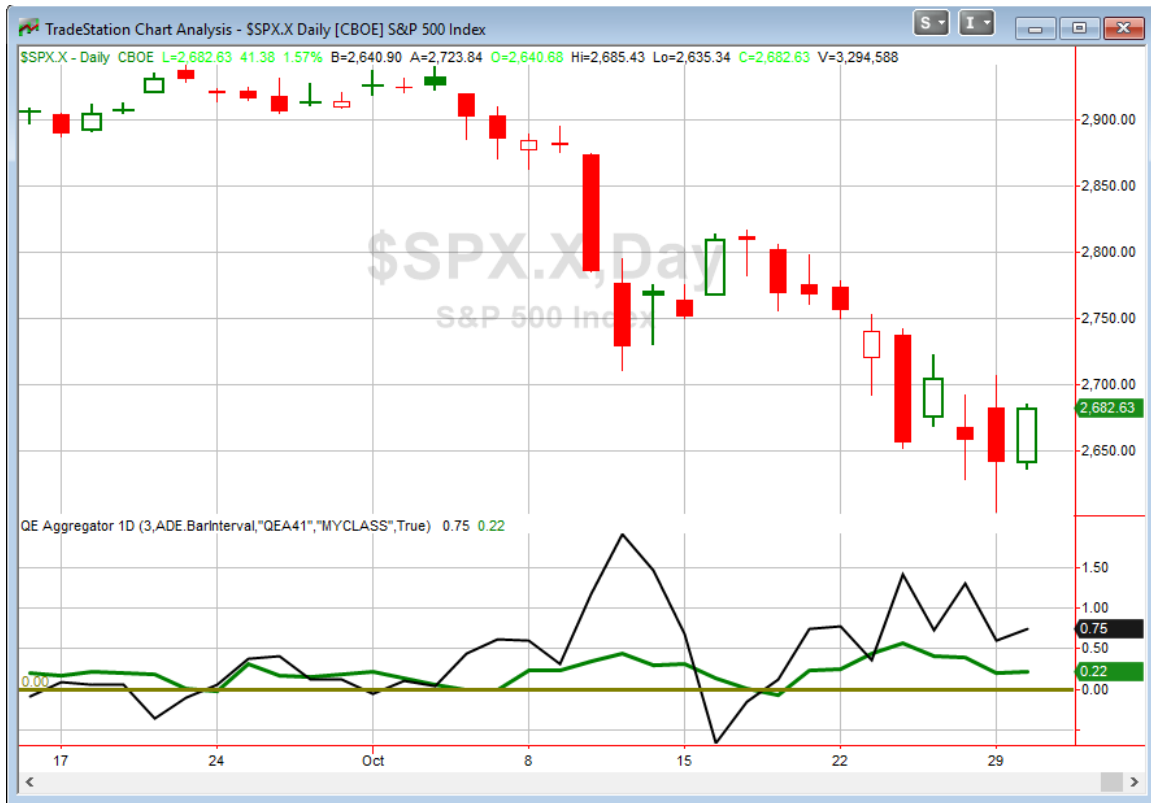
The strong upward slope confirms the edge suggested by the numbers.

It is also worth noting that Wednesday is the last trading day of the month. The start of a new month often brings about bullish implications. But it is worth noting that this bullish tendency has not been consistent when the market has been below its 200ma. This can be seen in the study below.



So with SPY squarely below its 200ma, most of the bullish turn-of-month studies that we often see won't likely be triggering on Wednesday

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 Wednesday. This is unlikely to change. The Differential Pivot will be 2695.11 on Wednesday. That is 0.5% above Tuesday's close. Therefore, SPX would need to close up 0.5% on Wednesday to flip from oversold to overbought versus recent expectations.

Indications are again somewhat mixed. This bounce looks a lot like the bounce we saw last Thursday. We'll see if the bulls can get some upside momentum here in the next few days. With the CBI so high, and the market having gone so long without a substantial bounce, I am inclined to believe that some upside follow through is likely in the next few days. I have some long index exposure. I will look to hold that for now. Typically, when the market gets overbought via the Differential Line on the Aggregator chart, I take that as my cue to exit my index positions. But at a time like this, with the market so oversold and the CBI so strong, I may hold onto at least a portion of my index position

until the CBI returns to neutral. In many cases that will allow for some additional opportunity. Of course we have not even reached the Differential Pivot yet. So no new index trades set up for Wednesday. There was some action among the Catapults, and I will have buying and selling going on there on Wednesday.

*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)
DWDP @ \$52.68 (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)
LMT @ \$286.67 (bought @ limit)
RTN @ \$168.35 (bought @ limit)
UPS @ \$105.13 (bought @ limit)
AIG @ \$39.91 (bought @ limit)
CELG @ \$71.43 (bought @ limit)
GD @ \$167.04 (bought @ limit)
IBM @ \$119.64 (bought @ limit)

New

IBM @ \$119.64 (buy @ limit)

Broad Market Large Cap CBI – 20(Low-3, DWDP-2, HON, HD, BMY, GD-3, RTN-2, CELG-2, AIG, IBM-2, 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.

IBM – buy 1/3 Catapult position @ \$115.40. This is from the Catapult section above. It is the 2nd of up to 3 lots of IBM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$94.74	-14.37%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$94.74	-13.50%		Catapult
LOW(1/3)	10/11/2018	\$106.29	\$94.74	-10.87%		Catapult
SPY(1/4)	10/23/2018	\$270.95	\$267.77	-1.17%		Aggregator
DWDP(1/3)	10/24/2018	\$54.55	\$52.63	-3.52%		Catapult
UNP(1/3)	10/24/2018	\$143.92	\$146.28	1.64%		sell on open
UNP(1/3)	10/25/2018	\$136.50	\$146.28	7.16%		sell on open
DWDP(1/3)	10/25/2018	\$52.68	\$52.63	-0.09%		Catapult
BMY(1/3)	10/25/2018	\$48.83	\$50.02	2.44%		Catapult
HD(1/3)	10/25/2018	\$176.97	\$176.24	-0.41%		Catapult
RTN(1/3)	10/26/2018	\$173.33	\$173.14	-0.11%		Catapult
HON(1/3)	10/26/2018	\$145.74	\$142.96	-1.91%		Catapult
GD(1/3)	10/26/2018	\$168.71	\$171.89	1.88%		Catapult
GD(1/3)	10/29/2018	\$169.86	\$171.89	1.20%		Catapult
CELG(1/3)	10/29/2018	\$72.45	\$72.34	-0.15%		Catapult
SPY(1/4)	10/29/2018	\$265.33	\$267.77	0.92%		Aggregator
AIG(1/3)	10/30/2018	\$39.91	\$40.96	2.63%		Catapult
CELG(1/3)	10/30/2018	\$71.43	\$72.34	1.27%		Catapult
GD(1/3)	10/30/2018	\$167.04	\$171.89	2.90%		Catapult
IBM(1/3)	10/30/2018	\$119.64	\$115.40	-3.54%		Catapult
LMT(1/3)	10/30/2018	\$285.61	\$291.07	1.91%		Catapult
RTN(1/3)	10/30/2018	\$167.51	\$173.14	3.36%		Catapult
UPS(1/3)	10/30/2018	\$105.13	\$107.07	1.85%		Catapult

UNP reached its exit trigger. It will be sold at the open on Wednesday.

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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