

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2018

Volume 11 Issue 212

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	9

## Tonight's Research Points

- The 1<sup>st</sup> day of new months appear somewhat bearish under similar circumstances.
- The “Best 6 Months” during Presidential Year 3s has been a very strong combo.
- The intermediate-term indicators are improving.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral, but I believe the bounce could have further to go.

*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>						
November 1, 2018	Up 2. End of Month. < 200ma	1 day	Bearish			
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	Day After 4th Fri in October	1-5 days	Bullish			
October 26, 2018	Inside day. NR3 < 200ma	1-6 days	Bearish			
<b>Active - Long Term</b>						
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
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***

Wednesday saw the market rally for much of the day, but a good portion of the gains were shaved off in the last hour. The SPX closed up 1.1%, the NASDAQ rose 2.0%, and the Russell 2000 climbed 0.3%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 62%. NYSE volume declined some from Tuesday's level.

The morning rally caused several of the Catapult triggers we have been tracking to reach their targets. I notified subscribers of this a little before 11am EST. In the end, the CBI fell a good amount, dropping from 20 on Tuesday to 9 on Wednesday. Nine still suggests an upside edge, and that the bounce should be extended further in the coming days and/or weeks.

The tough last hour saw the market put in an unusual pattern. SPY managed to close up over 1%, while also closing in the bottom 25% of the daily range and below the 200ma. I looked back at other times these conditions were present. It has been very rare, with only 3 previous instances: 10/12/1998, 4/18/2008, and 9/19/2008. (What's with years ending in 8?) I am not going to read anything into just 3 instances. I did think it was interesting how rarely such a simple set has occurred.

There were a few studies that examined the 1st day of the trading month, which has often been a bullish day. Two things this upcoming month has going against it are 1) SPX is trading below its 200ma (which I mentioned as a negative in last night's letter), and 2) SPX has closed up the last 2 days. In the 2/1/16 letter I combined both of these negative factors and ran a study to see how the 1st of the month has performed under similar circumstances. Updated results are below.

SPX closes up the last 2 days of the month but < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$8,496.71)	Profit Factor	0.54
Gross Profit	\$10,006.71	Gross Loss	(\$18,503.42)
Total Number of Trades	19	Percent Profitable	31.58%
Winning Trades	6	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$447.20)	Ratio Avg. Win:Avg. Loss	1.17
Avg. Winning Trade	\$1,667.78	Avg. Losing Trade	(\$1,423.34)
Largest Winning Trade	\$3,300.73	Largest Losing Trade	(\$8,883.33)

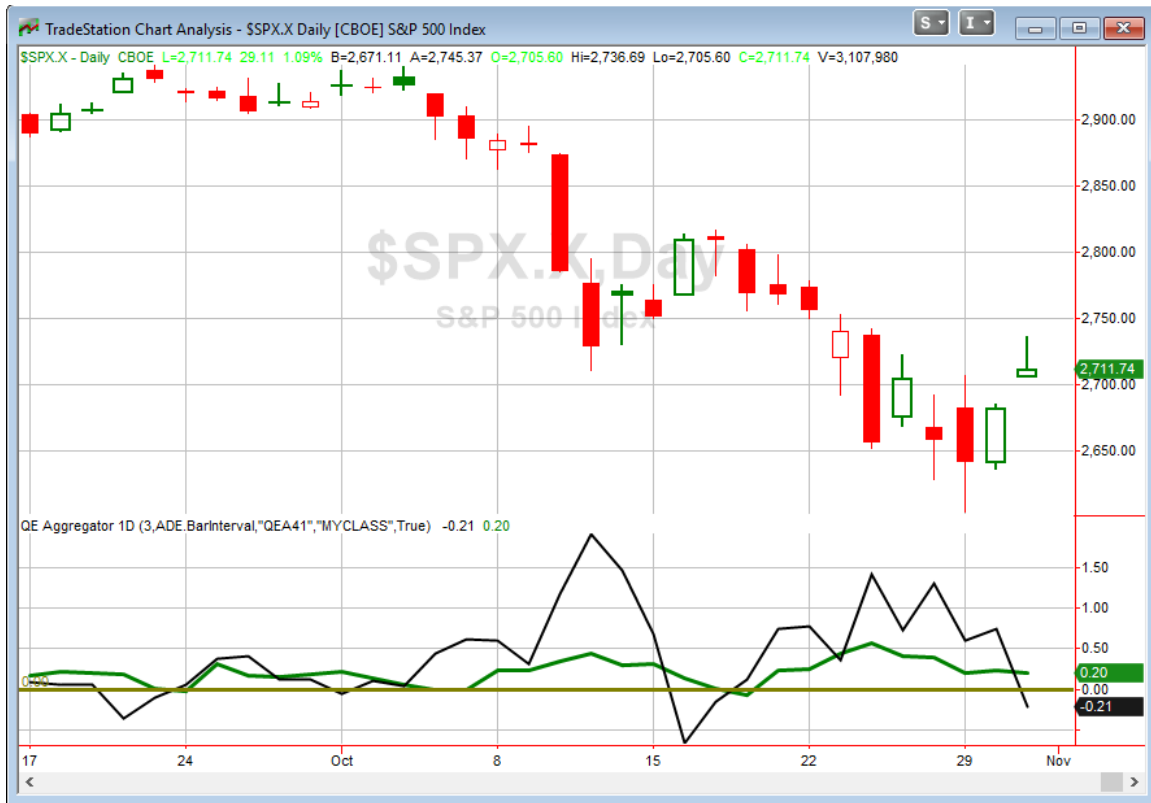
Stats here are somewhat suggestive of a downside edge. Below is the full list of instances.

SPX closes up the last 2 days of the month but < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/31/1990	Buy	\$330.21	-1.14%	\$163.08
1/2/1991	Sell	\$326.44		(\$1,138.54)
7/29/1994	Buy	\$459.33	0.37%	\$364.56
8/1/1994	Sell	\$461.01		(\$271.25)
10/31/2000	Buy	\$1,429.39	-0.57%	\$14.49
11/1/2000	Sell	\$1,421.22		(\$1,306.86)
9/28/2001	Buy	\$1,040.94	-0.23%	\$0.00
10/1/2001	Sell	\$1,038.55		(\$1,361.28)
1/31/2002	Buy	\$1,130.20	-0.71%	\$0.00
2/1/2002	Sell	\$1,122.20		(\$1,028.72)
7/31/2002	Buy	\$911.62	-2.96%	\$0.00
8/1/2002	Sell	\$884.66		(\$3,176.26)
12/31/2002	Buy	\$879.82	3.32%	\$3,300.73
1/2/2003	Sell	\$909.03		\$0.00
2/28/2003	Buy	\$841.15	-0.75%	\$1,320.42
3/3/2003	Sell	\$834.81		(\$992.38)
7/30/2004	Buy	\$1,101.72	0.44%	\$619.20
8/2/2004	Sell	\$1,106.62		(\$394.20)
11/30/2007	Buy	\$1,481.11	-0.59%	\$3.35
12/3/2007	Sell	\$1,472.41		(\$739.01)
5/30/2008	Buy	\$1,400.35	-1.05%	\$0.00
6/2/2008	Sell	\$1,385.68		(\$1,601.76)
10/31/2008	Buy	\$968.75	-0.25%	\$702.46
11/3/2008	Sell	\$966.30		(\$1,022.79)
11/28/2008	Buy	\$896.24	-8.93%	\$0.00
12/1/2008	Sell	\$816.21		(\$8,941.05)
12/31/2008	Buy	\$903.25	3.16%	\$3,462.80
1/2/2009	Sell	\$931.80		(\$429.00)
5/29/2009	Buy	\$919.14	2.58%	\$3,092.04
6/1/2009	Sell	\$942.87		\$0.00
8/31/2011	Buy	\$1,218.89	-1.19%	\$852.80
9/1/2011	Sell	\$1,204.42		(\$1,233.28)
11/30/2011	Buy	\$1,246.96	-0.19%	\$330.40
12/1/2011	Sell	\$1,244.58		(\$578.40)
9/30/2015	Buy	\$1,920.03	0.20%	\$373.36
10/1/2015	Sell	\$1,923.82		(\$1,005.16)
1/29/2016	Buy	\$1,940.24	-0.04%	\$354.96
2/1/2016	Sell	\$1,939.38		(\$1,016.94)

There seems to be a moderate downside edge suggested by the study. I have included it on the active list tonight.

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 dropped below 0. The positive Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

With the current active studies, expectations are slated to remain bullish on Thursday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2667.26 on Thursday. That is 1.6% below Wednesday's close. Therefore, SPX would need to close down 1.6% on Thursday to flip from overbought to oversold versus recent expectations.

The bounce arrived to some degree. The Differential measure now suggests SPX is short-term overbought, and that has the Aggregator neutral. But, as I noted last night, strong rebounds from intermediate-term lows that are accompanied by a high CBI will often manage to bounce beyond your typical short-term overbought level. The selloff overshot to the downside. And now I expect the rebound to overshoot to the upside. So I will be looking to take off some of my SPY exposure on Thursday. But, barring some

compelling bearish evidence emerging, I also aim to hold a portion of the position until the CBI returns to a more neutral level (probably between 3 and 5).

### *Intermediate-Term Studies To Note*

With the calendar moving from October to November, it has now entered its “Best 6 Months”. The “Best 6 Months” tendency was first published by Yale Hirsch, founder of the Stock Trader’s Almanac, in 1986. The concept behind the “Best 6 Months” is simple. Seasonality suggests that over the last several decades the market has made a massive portion of its gains between November and April. And during the remaining 6 months, it has generally struggled to make headway.

Additionally, the market shifted into the 3<sup>rd</sup> year of the Presidential cycle. Here at Quantifiable Edges we measure the Presidential Cycle years from November – October rather than January – December. That allows the cycle years to better match up with the elections, which take place in early November. It also makes for easy evaluation when combining it with the “Best 6 Months” cycles. The 3<sup>rd</sup> year of the Presidential Cycle has been a strong one.

When the Best 6 Months and the 3<sup>rd</sup> Year of the Presidential Cycle have been active at the same time, the results since 1960 have been outstanding. In the table below I have listed out each instance.

SPX Performance Nov - Apr (Best 6 Months) during 3rd year of Presidential Cycle.  
\$100k/trade. 1960 - 2017.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/1962	Buy	\$56.52	23.50%	\$24,164.54
4/30/1963	Sell	\$69.80		(\$583.77)
10/31/1966	Buy	\$80.20	17.22%	\$18,154.22
4/28/1967	Sell	\$94.01		(\$1,071.56)
10/30/1970	Buy	\$83.25	24.86%	\$26,842.35
4/30/1971	Sell	\$103.95		(\$1,225.02)
10/31/1974	Buy	\$73.90	18.13%	\$20,146.17
4/30/1975	Sell	\$87.30		(\$13,218.81)
10/31/1978	Buy	\$93.15	9.24%	\$11,588.40
4/30/1979	Sell	\$101.76		(\$1,480.74)
10/29/1982	Buy	\$133.72	22.97%	\$22,940.37
4/29/1983	Sell	\$164.43		(\$620.01)
10/31/1986	Buy	\$243.97	18.19%	\$24,405.03
4/30/1987	Sell	\$288.36		(\$3,464.23)
10/31/1990	Buy	\$304.00	23.47%	\$28,621.28
4/30/1991	Sell	\$375.35		(\$783.92)
10/31/1994	Buy	\$472.35	8.97%	\$9,060.34
4/28/1995	Sell	\$514.71		(\$6,218.17)
10/30/1998	Buy	\$1,098.65	21.53%	\$24,844.82
4/30/1999	Sell	\$1,335.18		\$0.00
10/31/2002	Buy	\$885.77	3.52%	\$7,677.60
4/30/2003	Sell	\$916.92		(\$10,849.44)
10/31/2006	Buy	\$1,377.94	7.58%	\$8,645.76
4/30/2007	Sell	\$1,482.37		(\$1,221.12)
10/29/2010	Buy	\$1,183.26	15.24%	\$15,229.20
4/29/2011	Sell	\$1,363.61		(\$861.84)
10/31/2014	Buy	\$2,018.05	3.34%	\$5,285.63
4/30/2015	Sell	\$2,085.51		(\$2,229.01)

All 14 instances since 1960 have shown gains. Of course there have been drawdowns along the way. The 1974-75 period saw SPX pull back 13.2% from its October closing price before rebounding and finishing April 18.1% above the October closing price. And in 2002-03 there was a 10.85% drawdown from the October close before finishing April 3.5% above it. But overall the stats have been incredibly lopsided. The average 6-month period saw a net gain of 15.5%. The average run-up (from the October close) was 17.7% and the average drawdown just 3.1%. Long-term seasonality does not get any better.

I also decided to see how the market has performed when seasonality has been this strong while the SPX was in a Golden Cross formation, but the NASDAQ was lagging. This is the current formation of the Market Timing Course indicators.

NASDAQ is lagging SPX, but SPX is in Golden Cross formation. It is Best 6 Months during a favorable Presidential Year. \$100k/trade in SPX. 1970 - present.

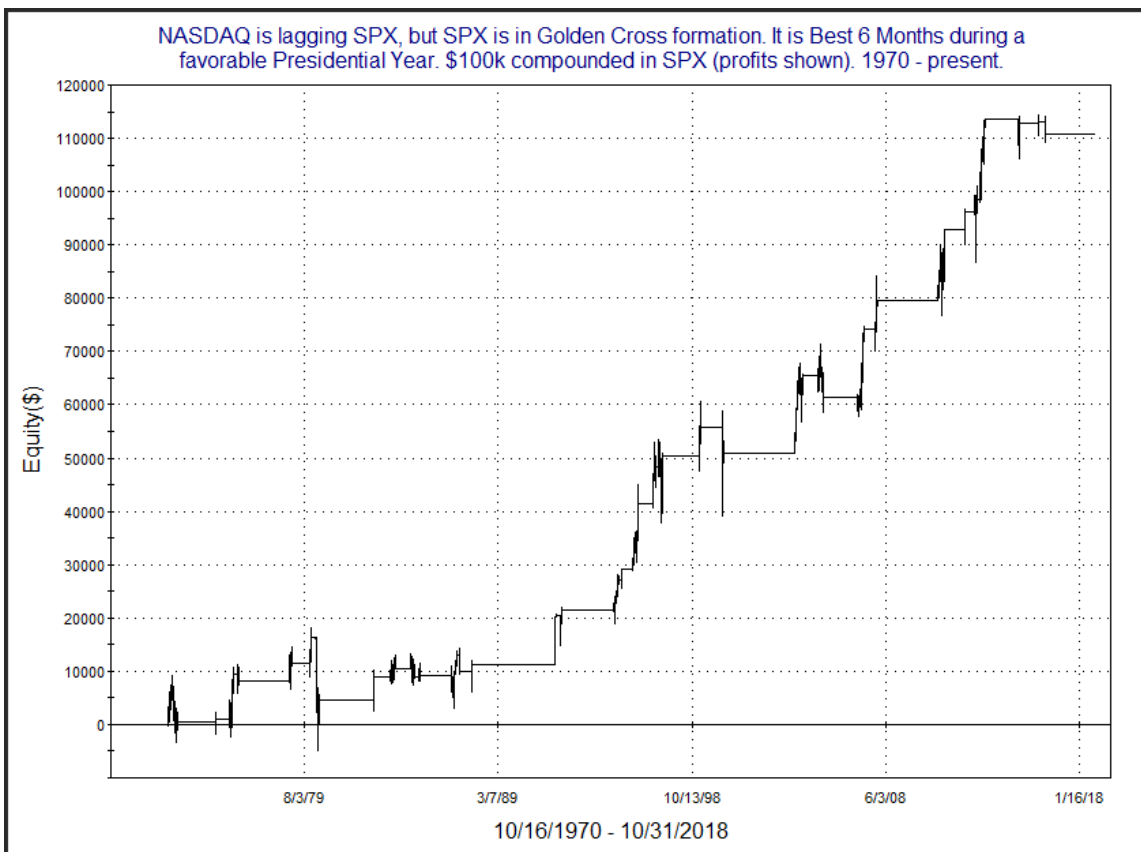
TradeStation Performance Summary

Expand

All Trades

Total Net Profit	\$78,019.74	Profit Factor	3.13
Gross Profit	\$114,660.68	Gross Loss	(\$36,640.94)
Total Number of Trades	53	Percent Profitable	71.70%
Winning Trades	38	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	\$1,472.07	Ratio Avg. Win:Avg. Loss	1.24
Avg. Winning Trade	\$3,017.39	Avg. Losing Trade	(\$2,442.73)
Largest Winning Trade	\$8,333.40	Largest Losing Trade	(\$10,089.09)

Odds suggest a bullish environment, even with the lagging NASDAQ. Here is a long-term profit curve, which assumes reinvestment and compounding.



This has generally sloped upward the entire time. The calendar turning to November could be a boost to the intermediate-term outlook.

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

### **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

#### ***OpenCatapult Triggers***

HON @ \$145.34 (bought @ limit)

RTN @ \$176.52 (bought @ limit)

CELG @ \$72.45 (bought @ limit)

LMT @ \$286.67 bought @ limit)

RTN @ \$168.35 (bought @ limit)

CELG @ \$71.43 (bought @ limit)

IBM @ \$119.64 (bought @ limit)

IBM @ \$115.40 (bought @ limit)

#### ***New***

IBM @ \$115.43 (buy @ limit)

***Broad Market Large Cap CBI – 9(HON, RTN-2, CELG-2, IBM-3, LMT)***

### **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 @ \$115.43 .*** This is from the Catapult section above. It is the 3<sup>rd</sup> and final lot 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	\$95.15	-14.00%		<i>sell on open</i>
LOW(1/3)	10/8/2018	\$109.52	\$95.15	-13.12%		<i>sell on open</i>
LOW(1/3)	10/11/2018	\$106.29	\$95.15	-10.48%		<i>sell on open</i>
SPY(1/4)	10/23/2018	\$270.95	\$270.63	-0.12%		<i>sell @ \$271.50 LIMIT</i>
DWDP(1/3)	10/24/2018	\$54.55	\$53.92	-1.15%		<i>sell on open</i>
<b>UNP(1/3)</b>	<b>10/24/2018</b>	<b>\$143.92</b>	<b>\$147.30</b>	<b>2.35%</b>		<i>sold on open</i>
<b>UNP(1/3)</b>	<b>10/25/2018</b>	<b>\$136.50</b>	<b>\$147.30</b>	<b>7.91%</b>		<i>sold on open</i>
DWDP(1/3)	10/25/2018	\$52.68	\$53.92	2.35%		<i>sell on open</i>
BMV(1/3)	10/25/2018	\$48.83	\$50.54	3.50%		<i>sell on open</i>
HD(1/3)	10/25/2018	\$176.97	\$175.88	-0.62%		<i>sell on open</i>
RTN(1/3)	10/26/2018	\$173.33	\$175.04	0.99%		Catapult
HON(1/3)	10/26/2018	\$145.74	\$144.82	-0.63%		Catapult
GD(1/3)	10/26/2018	\$168.71	\$172.58	2.29%		<i>sell on open</i>
GD(1/3)	10/29/2018	\$169.86	\$172.58	1.60%		<i>sell on open</i>
CELG(1/3)	10/29/2018	\$72.45	\$71.60	-1.17%		Catapult
SPY(1/4)	10/29/2018	\$265.33	\$270.63	2.00%		Aggregator
AIG(1/3)	10/30/2018	\$39.91	\$41.29	3.46%		<i>sell on open</i>
CELG(1/3)	10/30/2018	\$71.43	\$71.60	0.24%		Catapult
GD(1/3)	10/30/2018	\$167.04	\$172.58	3.32%		<i>sell on open</i>
IBM(1/3)	10/30/2018	\$119.64	\$115.43	-3.52%		Catapult
LMT(1/3)	10/30/2018	\$285.61	\$293.85	2.89%		Catapult
RTN(1/3)	10/30/2018	\$167.51	\$175.04	4.50%		Catapult
UPS(1/3)	10/30/2018	\$105.13	\$106.54	1.34%		<i>sell on open</i>
IBM(1/3)	10/31/2018	\$115.40	\$115.43	0.03%		Catapult

*The 1 lot of SPY I am looking to sell tomorrow I placed a limit price around the middle of Wednesday's range.*

*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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