

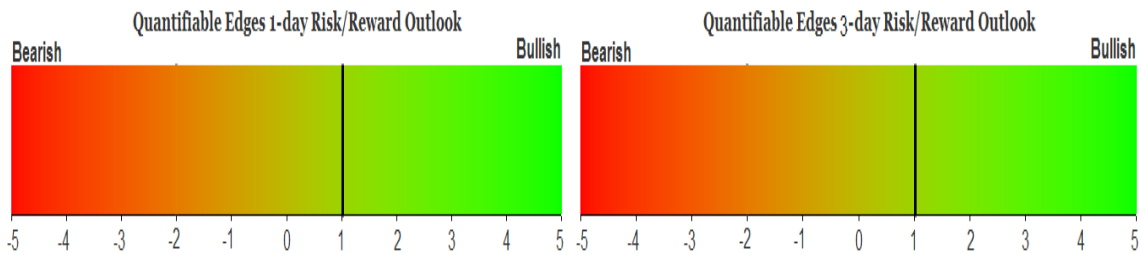
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2018

Volume 11 Issue 213

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	5

Tonight's Research Points

- 3-day rallies off of a 50-day low will often continue rallying for a few more days.
- 3 days of strong NASDAQ breadth are often followed by a down day.
- The CBI fell to 5 (just mildly bullish). It could easily turn neutral on Friday.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral. I'll be looking to take profits on my SPY position if we have further rallying on Friday.

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						
November 1, 2018	3 days strong NASDAQ breadth	1 day	Bearish			
October 31, 2018	3 up days from 50-low < 200ma	1-2 days	Bullish			
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			
Active - Long Term						
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			

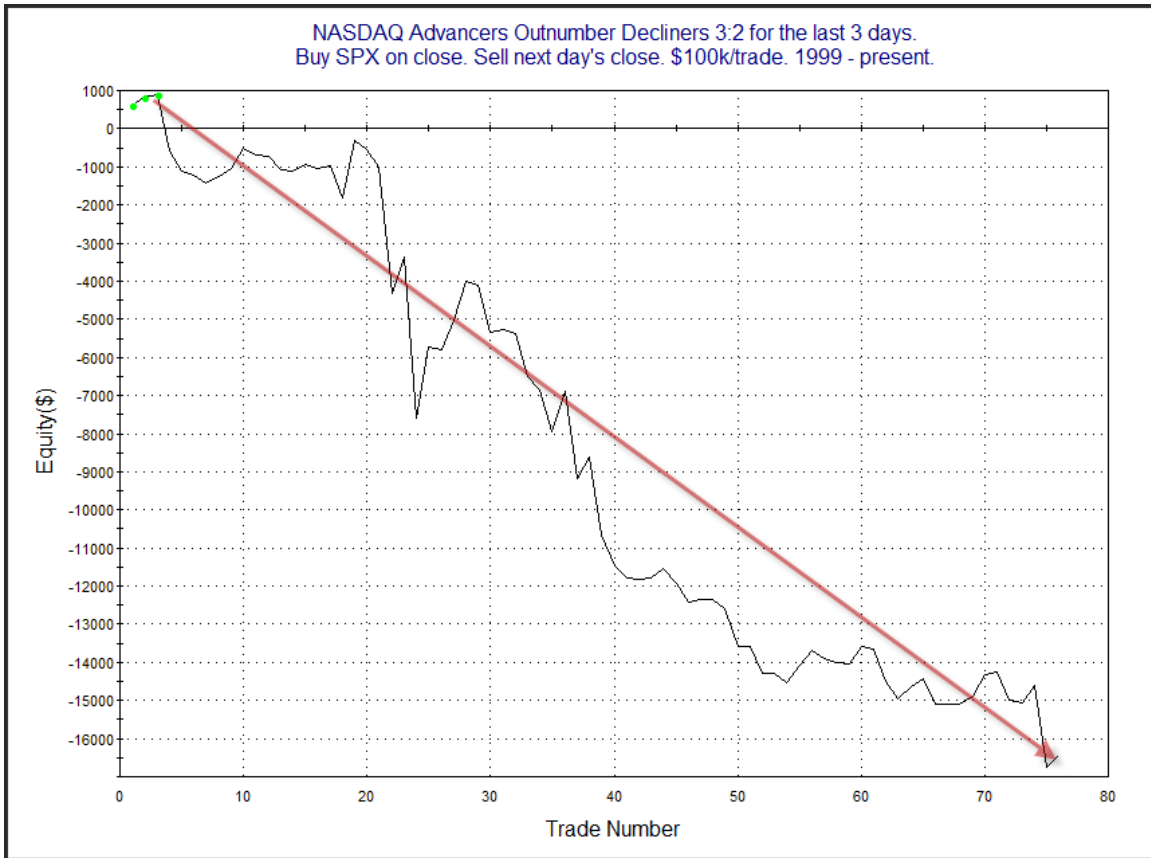
The Evidence

The bounce continued on Thursday. The SPX closed up 1.1%, the NASDAQ rose 1.75%, and the Russell 2000 climbed 2.2%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 70%. NYSE volume declined for the 2nd day in a row.

There was a mix of studies that emerged on Thursday. One bearish study that appeared that has seemed to hold up well over the years is one that looks at NASDAQ breadth. It last appeared in the 9/5/17 letter and has been updated below.

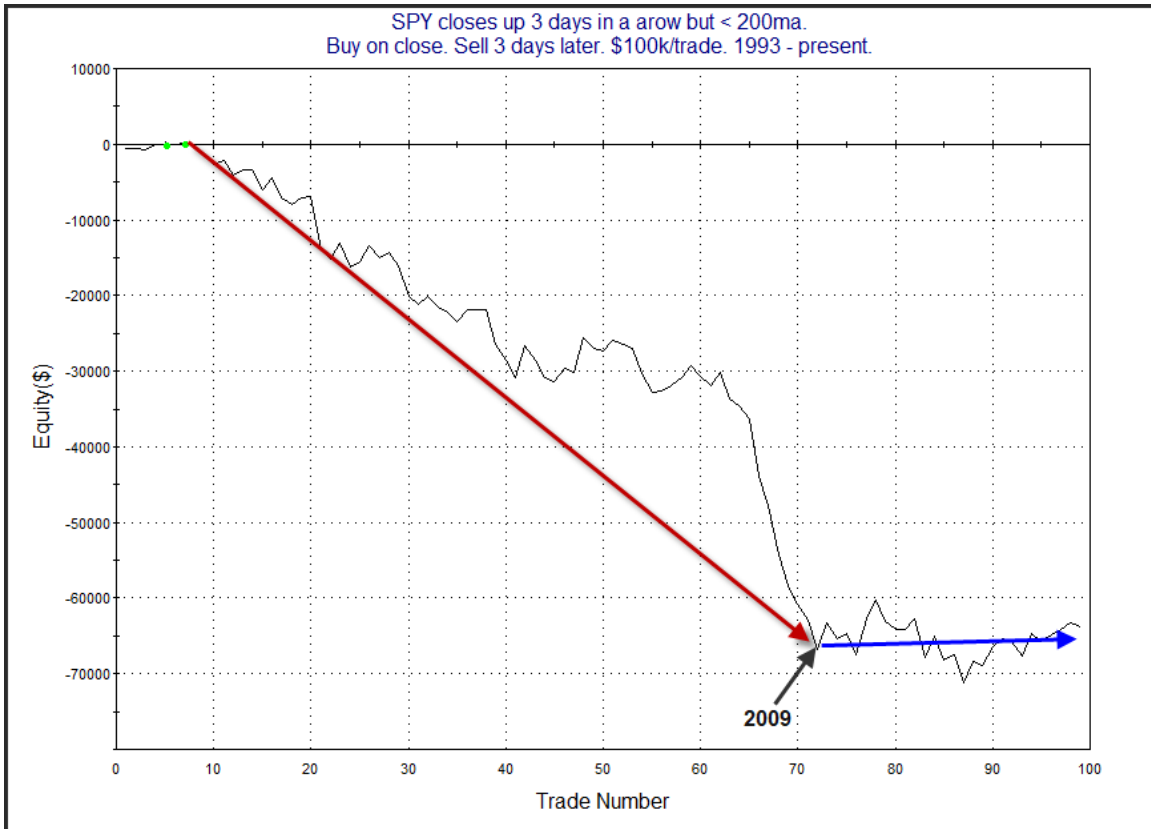
NASDAQ Advancers Outnumber Decliners 3:2 for the last 3 days. Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$16,432.27)	Profit Factor	0.46
Gross Profit	\$13,734.14	Gross Loss	(\$30,166.41)
Total Number of Trades	76	Percent Profitable	42.11%
Winning Trades	32	Losing Trades	44
Even Trades	0		
Avg. Trade Net Profit	(\$216.21)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$429.19	Avg. Losing Trade	(\$685.60)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a downside edge. Below is a profit curve.



The strong, long-term downslope is impressive. This study appears worth consideration, and I have again put it on the Active List.

Several of the “bearish” ones I looked at have not been as effective in recent years. These were primarily studies that used very short-term measures of “overbought” during a long-term downtrend. One example is the study below, which simply looks for 3 up days under the 200ma. It is a broader version of some studies shown in the 4/14/09 letter. (They both showed similar tendencies.)



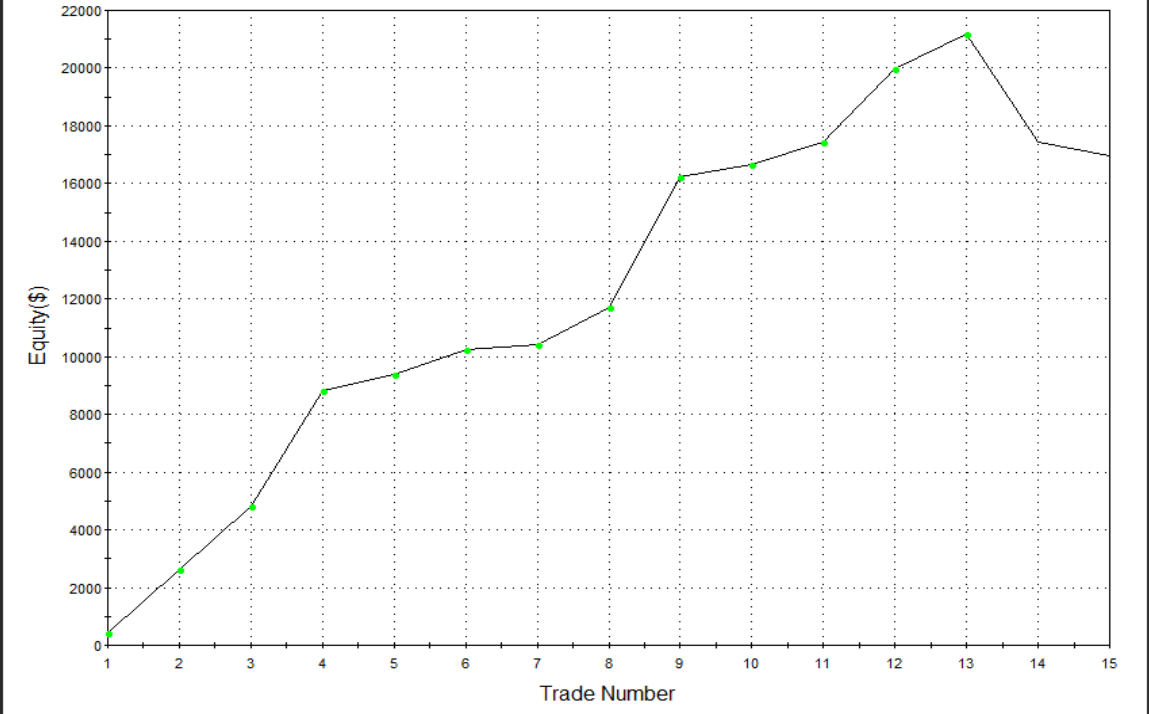
In recent letters I have discussed the concept that since the market has come from a very oversold level, it is more prone to overcompensating in the opposite direction. In other words, there is a good chance it will become “very overbought” before it gives out. The study below is very similar to the one above, but it also factors in that the market is rebounding from a 50-day low. It was last seen in the 2/18/16 letter and has been updated.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closes at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - present.

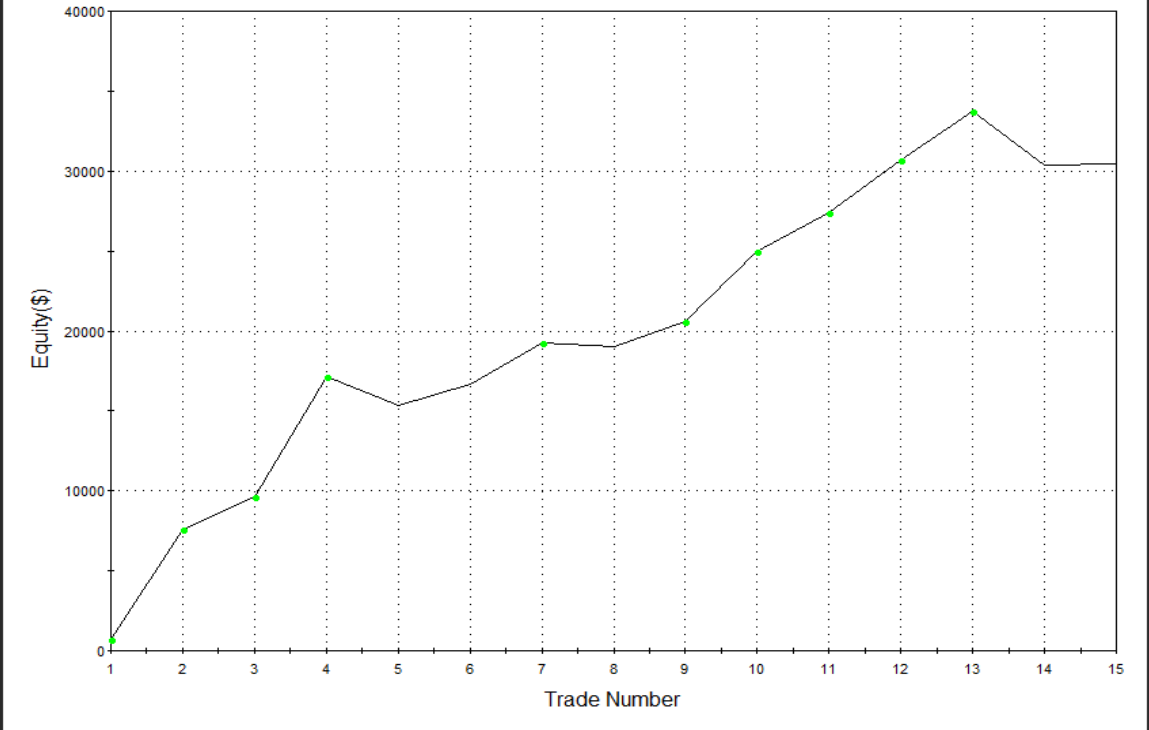
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	30,489.07	15	12	3	80.00	2,989.63	7,515.60	-1,795.50	-3,382.50	1.67	6.66	2,032.60
4	24,718.73	15	10	5	66.67	2,868.52	5,800.13	-793.29	-1,887.00	3.62	7.23	1,647.92
3	19,575.12	15	11	4	73.33	2,444.58	4,890.00	-1,828.81	-4,776.88	1.34	3.68	1,305.01
2	16,971.38	15	13	2	86.67	1,629.49	4,506.60	-2,106.02	-3,751.00	0.77	5.03	1,131.43
1	15,003.31	15	9	6	60.00	1,923.53	4,699.94	-384.75	-834.50	5.00	7.50	1,000.22

Numbers here strongly favor a continuation of the bounce. Below are 2-day and 5-day profit curves.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closes at a 50-day low just prior to the rally. Buy on close. Sell 2 days later. \$100k/trade. 7/1/2001 - present.



SPX closes up for exactly the 3rd day in a row but < 200ma. It closes at a 50-day low just prior to the rally. Buy on close. Sell 5 days later. \$100k/trade. 7/1/2001 - present.



Despite subpar performance the last couple of instances, there appears to be an upside edge. I have included the 2-day version on the Active List.

The CBI declined once again on Thursday, dropping from 9 down to 5. Five still suggests a mild upside edge, but we are fast approaching the “neutral” reading of 3 or lower, which could easily be achieved on Friday.

One other thing to keep in mind for Friday is that the employment report is due before the bell. This could cause a substantial pre-market reaction.

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 remained 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 stayed flat at the close.

With the current active studies, expectations are slated to remain bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2704.57 on Friday. That is 1.3% below Thursday's close. Therefore, SPX would need to close down 1.3% on Friday to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral for the 2nd day in a row. I indicated last night that I would like to hold on to my remaining SPY lot until the CBI returned to somewhere between 3 and 5. It fell to 5 on Thursday, and it could get to 3 fairly easily on Friday. I also noted above that the employment report could lead to a strong pre-market reaction. If we get a sizable gap up to start the day, then that would likely mean the CBI has a good chance of closing at 3 or lower. Rather than get greedy, I'll look to take a bonus at the open. So I intend to place a sell order for my SPY position a ways above Thursday's closing price. I'll also be getting out of a few more Catapults. Details in the trade ideas section down below.

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)

LMT @ \$286.67 bought @ limit)

IBM @ \$119.64 (bought @ limit)

IBM @ \$115.40 (bought @ limit)

IBM @ \$115.43 (bought @ limit)

Broad Market Large Cap CBI – 5(HON, 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
LOW(1/3)	10/5/2018	\$110.64	\$95.29	-13.87%		sold on open
LOW(1/3)	10/8/2018	\$109.52	\$95.29	-12.99%		sold on open
LOW(1/3)	10/11/2018	\$106.29	\$95.29	-10.35%		sold on open
SPY(1/4)	10/23/2018	\$270.95	\$271.60	0.24%		sold on open
DWDP(1/3)	10/24/2018	\$54.55	\$58.53	7.30%		sold on open
DWDP(1/3)	10/25/2018	\$52.68	\$58.53	11.10%		sold on open
BMY(1/3)	10/25/2018	\$48.83	\$50.68	3.79%		sold on open
HD(1/3)	10/25/2018	\$176.97	\$176.84	-0.07%		sold on open
RTN(1/3)	10/26/2018	\$173.33	\$180.83	4.33%		sell on open
HON(1/3)	10/26/2018	\$145.74	\$144.45	-0.89%		Catapult
GD(1/3)	10/26/2018	\$168.71	\$173.27	2.70%		sold on open
GD(1/3)	10/29/2018	\$169.86	\$173.27	2.01%		sold on open
CELG(1/3)	10/29/2018	\$72.45	\$75.61	4.36%		sell on open
SPY(1/4)	10/29/2018	\$265.33	\$273.51	3.08%		sell @ \$274.25 limit
AIG(1/3)	10/30/2018	\$39.91	\$43.36	8.64%		sold on open
CELG(1/3)	10/30/2018	\$71.43	\$75.61	5.85%		sell on open
GD(1/3)	10/30/2018	\$167.04	\$173.27	3.73%		sold on open
IBM(1/3)	10/30/2018	\$119.64	\$116.47	-2.65%		Catapult
LMT(1/3)	10/30/2018	\$285.61	\$299.42	4.84%		Catapult
RTN(1/3)	10/30/2018	\$167.51	\$180.83	7.95%		sell on open
UPS(1/3)	10/30/2018	\$105.13	\$106.89	1.67%		sold on open
IBM(1/3)	10/31/2018	\$115.40	\$116.47	0.93%		Catapult
IBM(1/3)	11/1/2018	\$115.43	\$116.47	0.90%		Catapult

I will be looking to sell SPY if it opens at or moves up to \$274.25 on Friday.

RTN and CELG both reached their exit triggers and will be sold at the open.

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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