

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 6, 2018

Volume 11 Issue 215

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- When both the VIX and SPX close higher on a Monday that often suggests a bearish edge.
- SPX inside day in the upper end of its range has short-term bearish implications.

Short-term Outlook

The Bottom Line

I am seeing hints of a downside edge, and the market is currently overbought. But it will need to close up substantially on Tuesday to remain overbought. So short-side reward/risk does not appear very favorable.

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 6, 2018	Inside day. Top 20% 10-day rng. < 200	1-3 days	Bearish			
November 6, 2018	VIX upSPX up. Monday. < 200ma	1-5 days	Bearish			
November 5, 2018	1st dn after thrust from 50-low	1-2 days	Bullish			
October 30, 2018	Turn Tues 20-low < 200ma	1-7 days	Bullish			
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

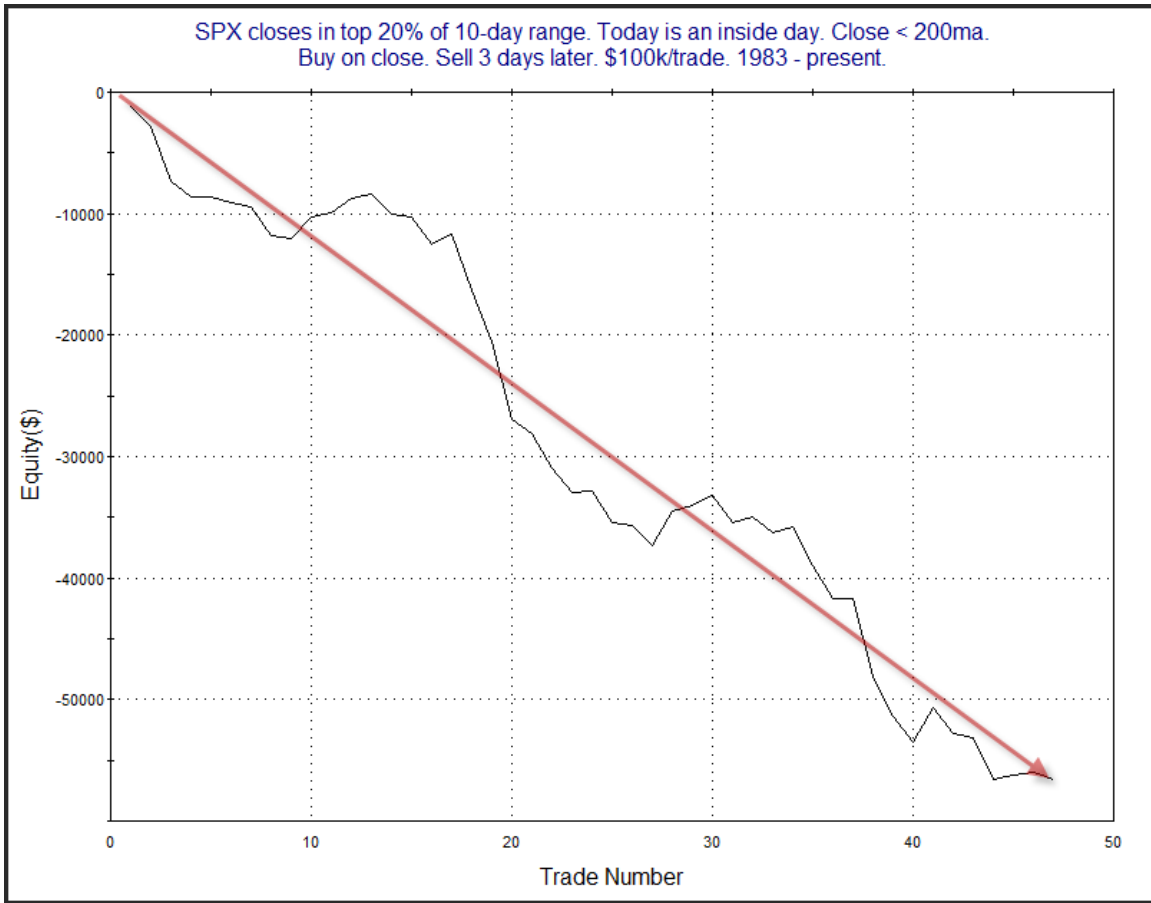
Monday saw the market finish mixed. The SPX rose 0.6%, the NASDAQ fell 0.4%, and the Russell 2000 was near breakeven with a 0.03% loss. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 74%. NYSE volume declined for the 4th day in a row.

There were a number of bearish studies that emerged on Monday. Several were related to inside days, tight ranges, and/or overbought conditions. The study below incorporated all 3 and showed some compelling odds. It was last seen in the 7/15/10 Subscriber Letter and I have updated the results below.

SPX closes in top 20% of 10-day range. Today is an inside day. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - 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	-23,851.87	45	22	23	48.89	1,404.69	5,159.00	-2,380.66	-7,519.22	0.59	0.56	-530.04
4	-39,081.52	46	22	24	47.83	1,035.98	2,746.70	-2,578.05	-5,562.78	0.40	0.37	-849.60
3	-56,633.63	47	15	32	31.91	859.13	2,909.50	-2,172.52	-6,445.61	0.40	0.19	-1,204.97
2	-46,817.13	47	13	34	27.66	910.51	2,678.62	-1,725.11	-5,979.14	0.53	0.20	-996.11
1	-8,881.45	47	23	24	48.94	791.14	4,063.35	-1,128.24	-3,178.80	0.70	0.67	-188.97

93.5% of instances closed below the entry price at some point in the next week.

The numbers here suggest a solid downside edge over the next few days. Below is a profit curve for a 5-day holding period.

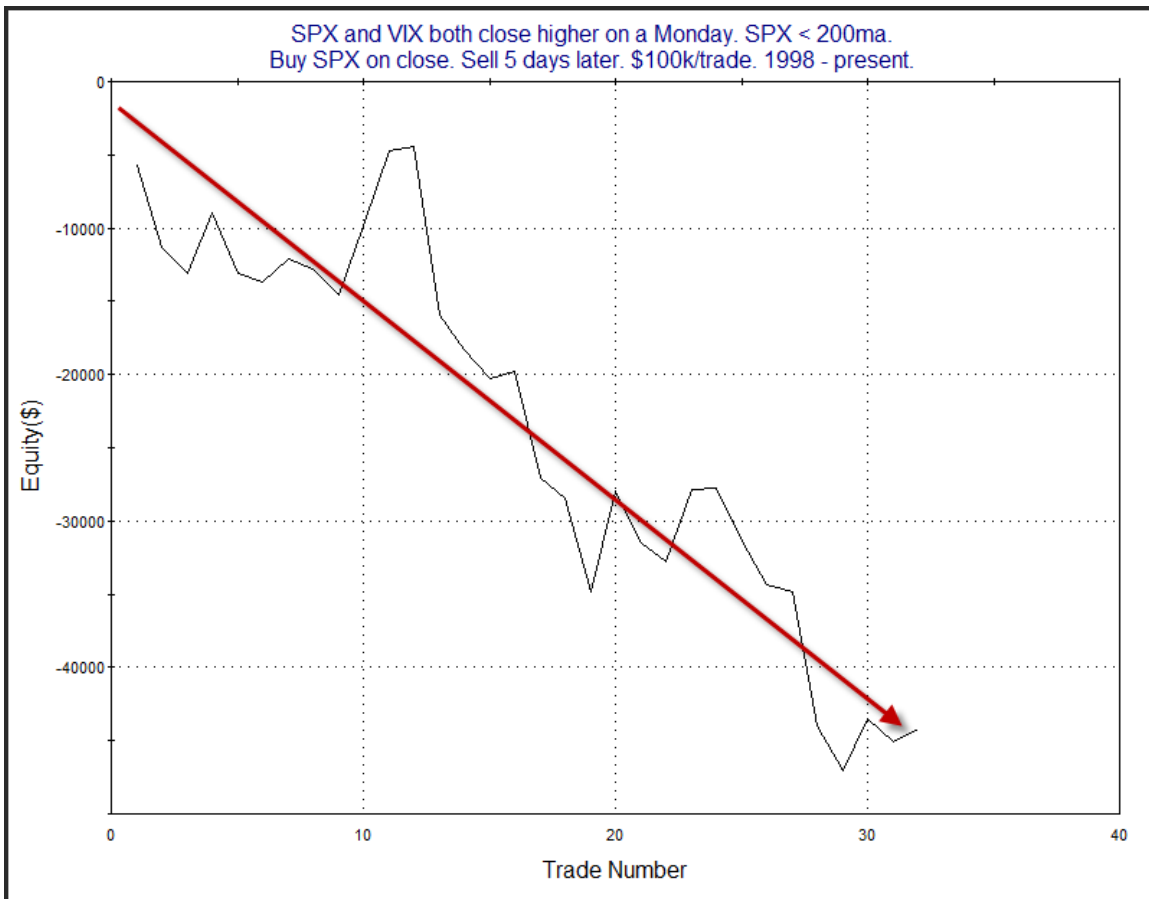


The strong, steady downslope supports the idea of a bearish edge.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will typically move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-week. Anyway, the action on Monday triggered the following study from the 3/8/16 subscriber letter. I have updated the results.

SPX and VIX both close higher on a Monday. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-44,240.85	32	11	21	34.38	2,982.31	6,877.04	-3,668.87	-11,533.34	0.81	0.43	-1,382.53
4	-28,348.49	33	12	21	36.36	2,856.54	5,607.06	-2,982.23	-9,828.00	0.96	0.55	-859.05
3	-28,887.29	33	12	21	36.36	2,125.13	4,455.68	-2,589.95	-6,956.04	0.82	0.47	-875.37
2	-18,167.72	33	14	19	42.42	1,573.64	3,349.32	-2,115.72	-5,441.80	0.74	0.55	-550.54
1	-10,497.35	33	15	18	45.45	1,157.35	4,699.94	-1,547.64	-4,893.07	0.75	0.62	-318.10

The numbers here all appear to suggest a strong bearish tendency. Below is a profit curve that assumes a 5-day holding period.



The curve supports the idea of a bearish inclination.

Between the VIX action and the SPX putting in a narrow range day near the top of its recent range, we are seeing some compelling evidence suggesting a downside edge.

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



With tonight's evidence considered, the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

With the current active studies, expectations are slated to remain bearish on Tuesday. Some strong new bullish evidence would need to emerge to change this. The Differential Pivot will be *inverted* at 2765.82 on Tuesday. That is 1.0% *above* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 1.0% to remain overbought.

Anything shy of that and it will be considered “oversold” versus recent expectations at Tuesday’s close.

I generally do not view inverted pivots as great entry opportunities. While the Aggregator is suggesting a downside edge, there is very little profit potential. If SPX actually closes down on Tuesday, it will turn oversold and the Aggregator formation will finish neutral or bearish. And it could even rise as much as 1% and still the Aggregator formation would finish neutral or bearish. With my intermediate-term outlook now leaning slightly bullish, I will be a bit more conservative with short-side entries. This is not near the kind of entry opportunity that I would find compelling. I will remain sidelined for the time being, while I await a more favorable reward/risk setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/5– slightly bullish (changed from neutral)

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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
<i>HON(1/3)</i>	<i>10/26/2018</i>	<i>\$145.74</i>	<i>\$149.51</i>	<i>2.59%</i>		<i>*\$3.92/shr REZI val</i>
IBM(1/3)	10/30/2018	\$119.64	\$120.06	0.35%		<i>sell on open</i>
<i>LMT(1/3)</i>	<i>10/30/2018</i>	<i>\$285.61</i>	<i>\$302.00</i>	<i>5.74%</i>		<i>sold on open</i>
IBM(1/3)	10/31/2018	\$115.40	\$120.06	4.04%		<i>sell on open</i>
IBM(1/3)	11/1/2018	\$115.43	\$120.06	4.01%		<i>sell on open</i>

HON's exit price includes sales of REZI spinoff. REZI opened at \$23.53. HON shareholders received 1 share of REZI for every 6 shares of HON. So $\$23.53 / 6 = \3.9217 per HON share in value if REZI was also sold at the open. Therefore, the HON price was adjusted upwards by that amount.

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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