

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 7, 2018

Volume 11 Issue 216

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The 10-day high on Tuesday is not necessarily a good thing for the bulls.
- The high price and low volume in SPY suggest a short-term dip is likely.
- Low volume at a 20-day high < 200ma has often been followed by short-term drops.

Short-term Outlook

The Bottom Line

Evidence remains bearish, but the SPX is not overbought. So reward/risk is not great. This is leaving me largely neutral.

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 7, 2018	5-Low NYSE vol. SPX 10-hi < 200	1-5 days	Bearish			
November 7, 2018	SPY 10-high. Low volume 20. <200	1-2 days	Bearish			
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			
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

Tuesday was a solid up day for the market. The SPX rose 0.6%, the NASDAQ gained 0.6%, and the Russell 2000 climbed 0.75%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 64%. NYSE volume declined for the 5th day in a row.

SPX closed at a 10-day high on Tuesday. New short-term (and intermediate-term) highs will sometimes get traders excited. When the market is in long-term downtrend mode, this excitement is often misplaced. In the 9/16/15 letter I showed hypothetical results of a number of “systems” that looked to sell short when the SPX made X-day highs but was below the 200ma. I have updated the results table of those little systems below.

SPX closes < 200ma but at a X-day high. Sell Short on close. Cover on close < Y-day moving avg. 100\$/trade.													
X	Y	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	5	38,143.12	104	70	34	67.31	1,807.19	9,455.49	-2,598.84	-9,743.92	0.70	1.43	366.76
10	10	63,994.51	48	33	15	68.75	2,915.26	9,986.13	-2,147.28	-6,035.85	1.36	2.99	1,333.22
10	5	52,008.82	59	43	16	72.88	1,719.76	8,883.33	-1,371.30	-4,097.68	1.25	3.37	881.51
15	10	44,054.08	38	27	11	71.05	2,414.44	9,986.13	-1,921.43	-5,083.17	1.26	3.08	1,159.32
15	5	44,757.93	49	37	12	75.51	1,590.42	5,245.02	-1,173.98	-4,058.40	1.35	4.18	913.43
20	10	23,450.45	27	18	9	66.67	2,265.99	9,986.13	-1,926.37	-5,083.17	1.18	2.35	868.54
20	5	31,034.33	38	27	11	71.05	1,638.03	5,245.02	-1,199.32	-4,058.40	1.37	3.35	816.69

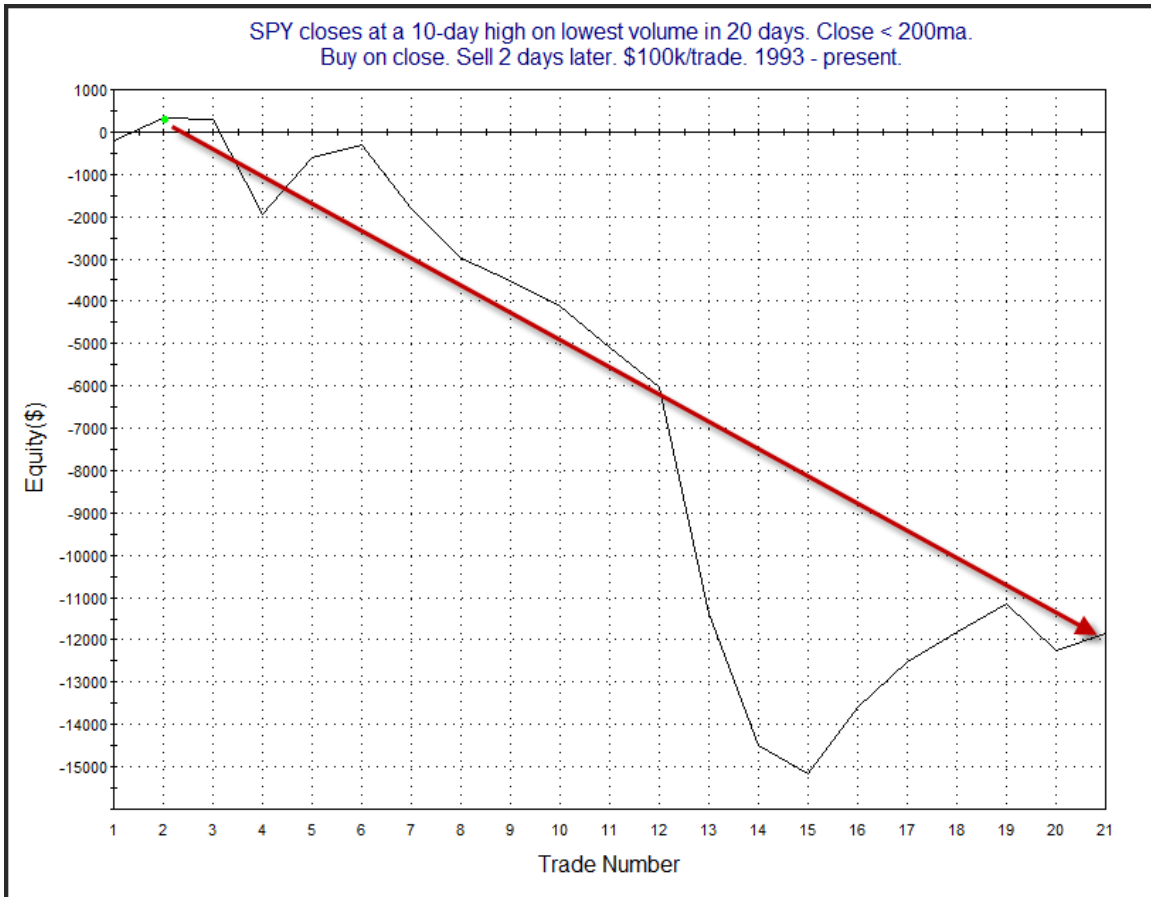
Stats here are solid across the board. The Win Rate, Profit Factors, and Average Trade stats all suggest a good chance at market dip. Hitting new short-term highs is generally not something that bulls should get excited about while the long-term trend appears down.

The short-term high above the long-term average action triggered a few studies in the Quantifinder. The most compelling ones also looked at the low volume. The study below is updated from the 3/9/10 letter.

SPY closes at a 10-day high on lowest volume in 20 days. Close < 200ma.
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	-14,934.87	19	9	10	47.37	1,113.24	2,404.80	-2,495.40	-5,712.90	0.45	0.40	-786.05
4	-9,058.48	20	12	8	60.00	991.13	1,838.30	-2,619.01	-5,316.90	0.38	0.57	-452.92
3	-10,546.73	21	9	12	42.86	921.74	2,396.45	-1,570.20	-6,431.25	0.59	0.44	-502.23
2	-11,848.00	21	8	13	38.10	819.18	1,574.20	-1,415.49	-5,350.20	0.58	0.36	-564.19
1	-3,178.51	23	13	10	56.52	883.50	3,395.70	-1,466.40	-8,857.80	0.60	0.78	-138.20

The stats point to a downside edge over the next few days. Below is a profit curve assuming a 2-day holding period.



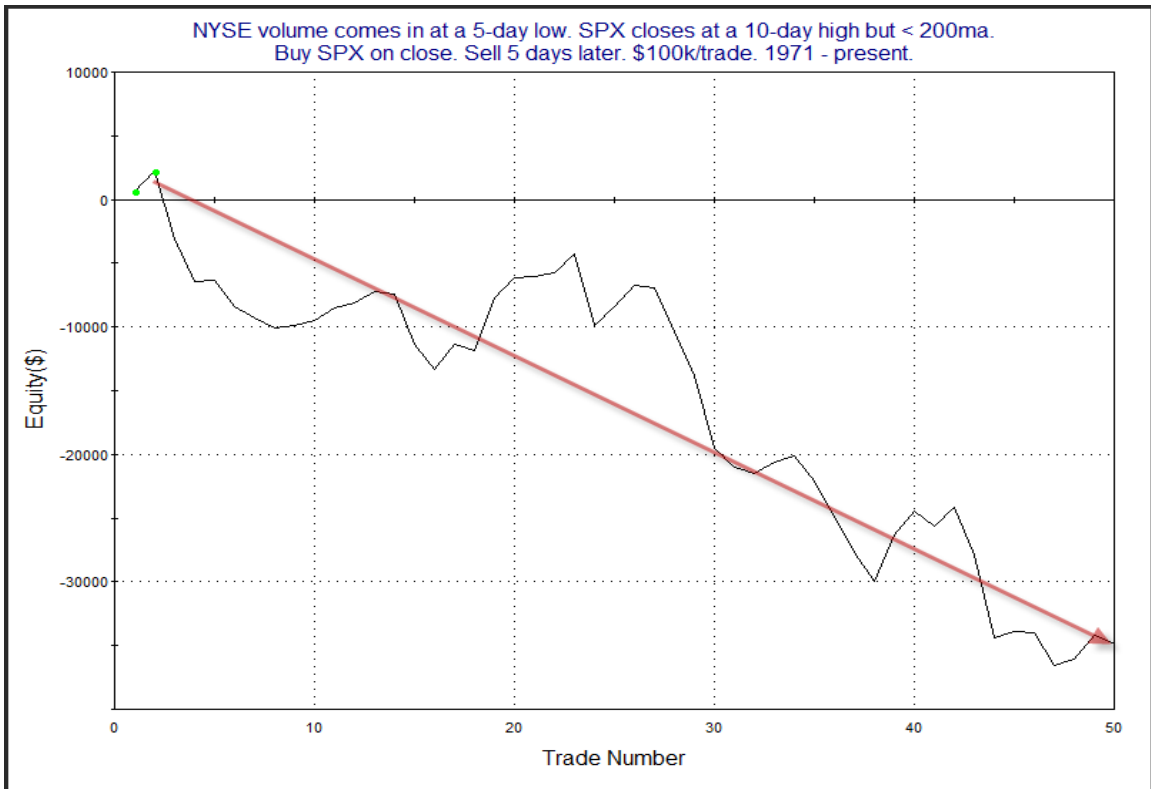
Recent instances have not been great, but the curve still appears strong enough to take this study into consideration.

Another study, from the 10/9/15 letter, also looked at the short-term high under the long-term moving average. This one considered NYSE volume.

NYSE volume comes in at a 5-day low. SPX closes at a 10-day high but < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-34,869.29	50	24	26	48.00	1,217.10	4,166.46	-2,464.60	-6,523.10	0.49	0.46	-697.39
4	-22,215.14	51	26	25	50.98	1,378.01	5,734.40	-2,321.74	-5,663.22	0.59	0.62	-435.59
3	-20,349.79	51	19	32	37.25	1,081.51	4,243.79	-1,278.08	-5,681.40	0.85	0.50	-399.02
2	-19,610.36	52	21	31	40.38	1,122.90	5,136.87	-1,393.27	-5,264.73	0.81	0.55	-377.12
1	-13,591.41	58	28	29	48.28	583.68	3,850.37	-1,032.23	-8,883.33	0.57	0.55	-234.33

Losses outsize gains here by a sizable amount, suggesting a possible downside edge. Below is a profit curve for the 5-day holding period.



The downslope has persisted for a long time.

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



With tonight's evidence considered, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line inched above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 bearish on Wednesday. Some strong new bullish evidence would need to emerge to change this. The Differential Pivot will be *inverted* at 2753.94 on Wednesday. That is 0.1% *below* Tuesday'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 down at least 0.1% to remain oversold. Anything shy of that and it will be considered "overbought" versus recent expectations at Wednesday's close.

So evidence is suggesting a pullback appears likely over the next few days. But the market performance lagging expectations over the last few days reduces reward/risk potential. If the market rallies, or even just holds where it is, on Wednesday, then there is a good chance the Aggregator will finish with a bearish formation. I am not going to jump the gun just yet. And with the often-bullish Fed Day on Thursday, that may be a tough day to short. (More on that tomorrow night.) So I'll continue to wait for a more favorable reward/risk scenario for entry.

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
IBM(1/3)	10/30/2018	\$119.64	\$120.70	0.89%		<i>sold on open</i>
IBM(1/3)	10/31/2018	\$115.40	\$120.70	4.59%		<i>sold on open</i>
IBM(1/3)	11/1/2018	\$115.43	\$120.70	4.57%		<i>sold on open</i>

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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