

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 8, 2018

Volume 11 Issue 217

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- 3 days up into a Fed Day has typically led to a strong Fed Day.
- The Follow Through Day Tuesday looks promising.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now leaning bullish but the market is overbought. This is leaving the Aggregator neutral, and me sidelined.

*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 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			
<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**

The market put in a big day on Wednesday. The SPX rose 2.1%, the NASDAQ gained 2.6%, and the Russell 2000 climbed 1.7%. Breadth was positive as the NYSE Up Issues % was 77% and the Up Volume % came in at 75%. NYSE volume rose some, but still came in below average.

Thursday is a Fed Day, with the Fed finishing their meeting and making a policy announcement in the afternoon. In general Fed Days have been strongly positive days. But both closes in the upper part of the daily range, and at intermediate-term highs can reduce that upside edge. In the 10/29/14 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. I have updated that study below.

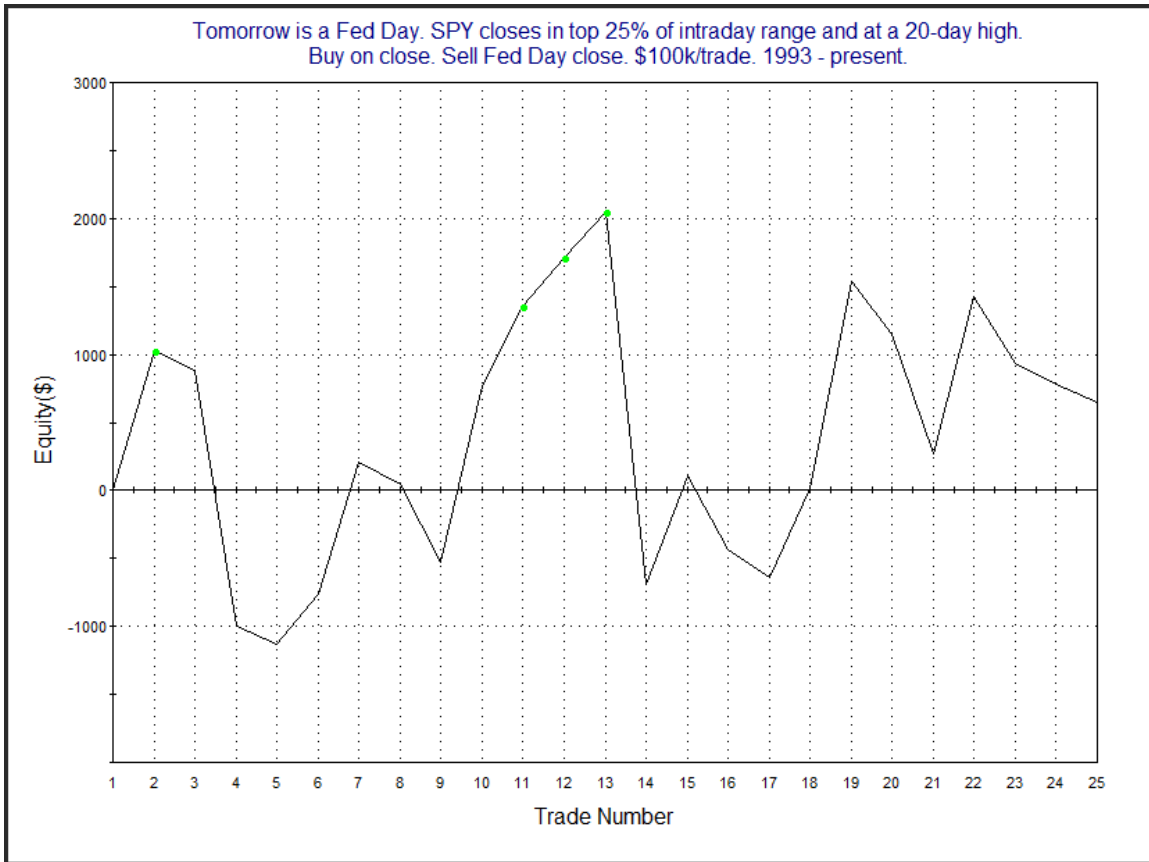
Tomorrow is a Fed Day. SPY closes in top 25% of intraday range and at a 20-day high.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

**TradeStation Performance Summary** Expand ▾

All Trades

Total Net Profit	\$652.15	Profit Factor	1.08
Gross Profit	\$9,064.77	Gross Loss	(\$8,412.62)
Total Number of Trades	25	Percent Profitable	44.00%
Winning Trades	11	Losing Trades	13
Even Trades	1		
Avg. Trade Net Profit	\$26.09	Ratio Avg. Win:Avg. Loss	1.27
Avg. Winning Trade	\$824.07	Avg. Losing Trade	(\$647.12)
Largest Winning Trade	\$1,522.40	Largest Losing Trade	(\$2,739.69)

The numbers here are nearly breakeven and not compelling. Below is the profit curve.



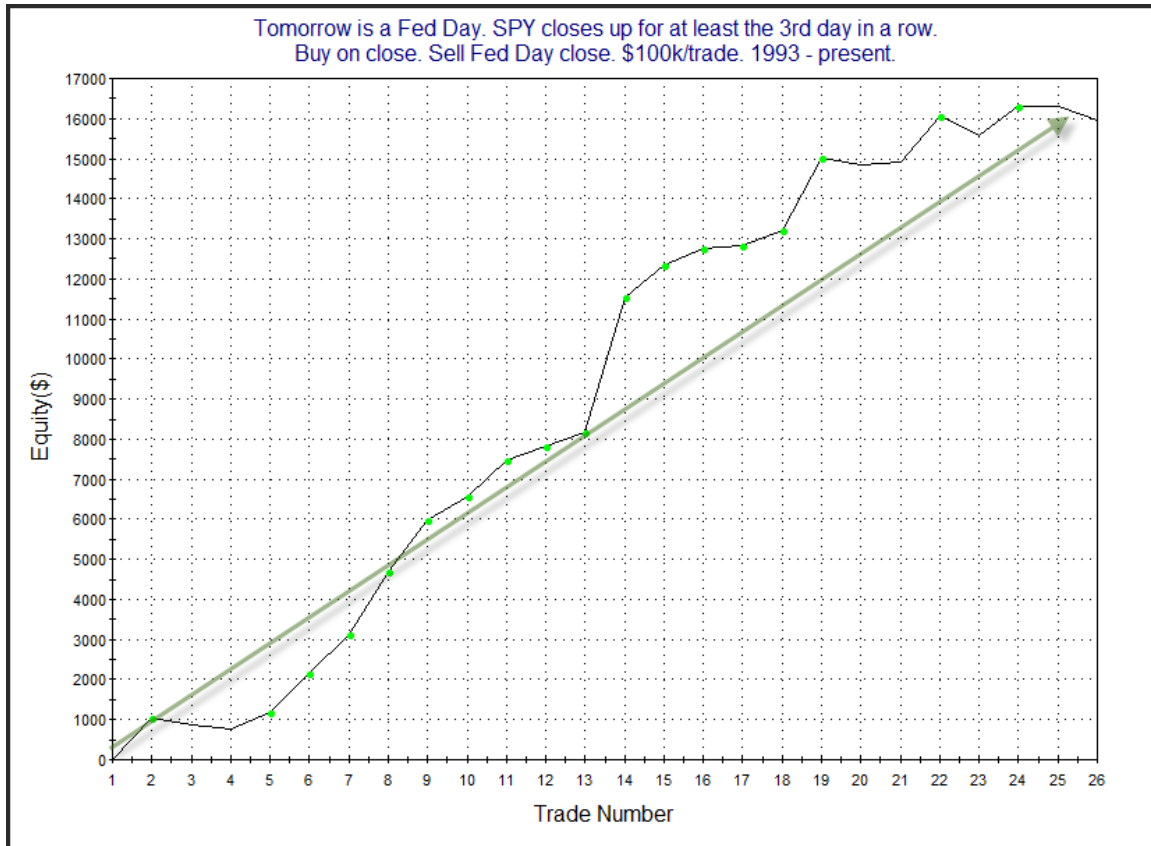
Same story here. I see nothing compelling about this study.

Ironically, another study today suggested the move higher over the last few days may actually improve Thursday's Fed Day outlook. The study requires at least three up days. It was last seen in the 12/13/17 Letter, and is updated below.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$15,969.60	Profit Factor	13.62
Gross Profit	\$17,234.57	Gross Loss	(\$1,264.97)
Total Number of Trades	26	Percent Profitable	73.08%
Winning Trades	19	Losing Trades	6
Even Trades	1		
Avg. Trade Net Profit	\$614.22	Ratio Avg. Win:Avg. Loss	4.30
Avg. Winning Trade	\$907.08	Avg. Losing Trade	(\$210.83)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$496.32)

The average trade shown here is about twice as strong as the average Fed Day. Below is a profit curve.



I also added a filter to view instances that also closed at 20-day highs. It reduced the instances, but the results remained strong. So I decided to include this study on the active list tonight.

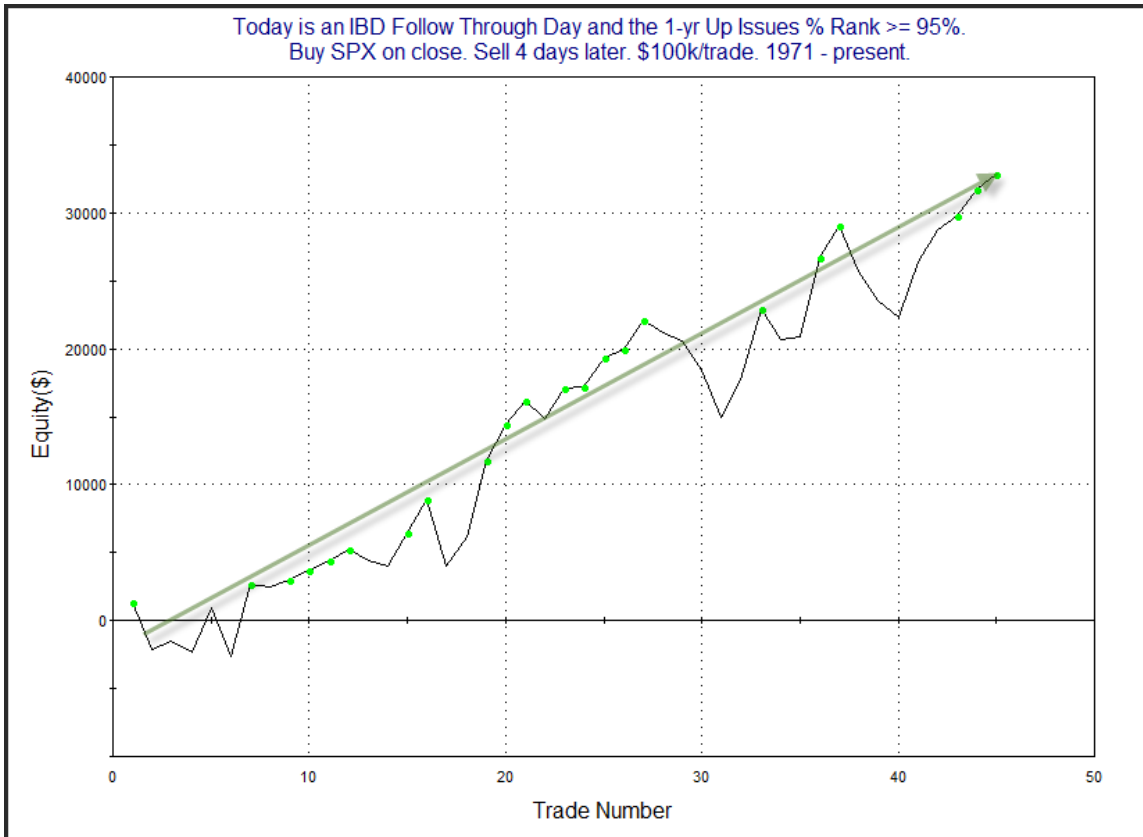
Another notable bit of evidence that emerged on Wednesday was the fact that it qualified as an IBD Follow Through Day (FTD). I have done a lot of research on FTDs over the years. Much of that research can be found on the blog. Here is a link.

<http://quantifiableedges.com/category/ibd-follow-through-day/>

One potential positive with today's FTD is that it was accompanied by very strong breadth. The study below is from the 2/15/18 letter. It noted that when very strong breadth accompanied a FTD it increased the chances of success – both short and intermediate-term.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank >= 95%. 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
10	31,654.63	45	26	19	57.78	2,963.75	10,921.96	-2,389.63	-11,137.06	1.24	1.70	703.44
9	31,252.26	45	27	18	60.00	2,805.66	10,571.08	-2,472.25	-9,568.46	1.13	1.70	694.49
8	25,135.29	45	24	21	53.33	3,140.12	8,372.32	-2,391.79	-9,554.20	1.31	1.50	558.56
7	29,749.92	45	26	19	57.78	2,906.18	9,599.94	-2,411.09	-9,340.30	1.21	1.65	661.11
6	23,706.58	45	29	16	64.44	2,261.47	7,437.54	-2,617.25	-7,343.90	0.86	1.57	526.81
5	23,814.43	45	28	17	62.22	2,141.91	4,977.83	-2,127.00	-5,410.30	1.01	1.66	529.21
4	32,847.52	45	29	16	64.44	2,220.39	5,800.13	-1,971.49	-4,832.59	1.13	2.04	729.94
3	31,662.45	45	30	15	66.67	2,034.46	7,252.08	-1,958.09	-4,359.81	1.04	2.08	703.61
2	23,582.97	45	28	17	62.22	1,666.71	5,367.23	-1,357.94	-4,195.25	1.23	2.02	524.07
1	17,022.12	45	26	19	57.78	1,105.37	3,911.26	-616.71	-1,673.25	1.79	2.45	378.27
<b>39 of 45 instances (87%) closed above the entry price at some point in the next week.</b>												

Results here still appear strong. Below is a 4-day profit curve.



The persistent upslope is impressive, and serves as some confirmation of the upside edge.

If Wednesday's breadth would have fallen short of the 95<sup>th</sup> percentile, the results would look like those below (not updated since the last instance).

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank < 95%.  
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
10	3,621.01	46	24	22	52.17	3,317.87	8,942.91	-3,454.90	-24,546.70	0.96	1.05	78.72
9	-3,523.98	46	22	24	47.83	3,431.25	10,103.37	-3,292.14	-18,395.06	1.04	0.96	-76.61
8	9,109.88	46	25	21	54.35	2,994.79	9,347.15	-3,131.42	-17,469.28	0.96	1.14	198.04
7	8,811.97	46	27	19	58.70	2,674.37	9,614.11	-3,336.63	-12,495.16	0.80	1.14	191.56
6	24,083.79	46	30	16	65.22	2,686.33	9,598.49	-3,531.64	-9,023.28	0.76	1.43	523.56
5	12,608.25	46	28	18	60.87	2,505.03	8,325.84	-3,196.25	-7,789.18	0.78	1.22	274.09
4	2,429.34	46	23	23	50.00	2,461.52	7,217.86	-2,355.89	-7,745.95	1.04	1.04	52.81
3	-4,338.91	46	21	25	45.65	2,110.17	6,971.97	-1,946.10	-5,299.32	1.08	0.91	-94.32
2	-5,057.54	46	20	26	43.48	1,851.45	5,134.01	-1,618.71	-8,433.70	1.14	0.88	-109.95
1	1,261.51	46	19	27	41.30	1,091.35	4,708.01	-721.26	-2,475.86	1.51	1.06	27.42

As you can see, there is no discernible short-term edge here. From an intermediate-term perspective, I would also note that breadth seemed to play a part there as well. When the

Up Issues % Rank was > 95% then 24 of 45 instances (53.3%) managed to post successful rallies. When breadth was not as strong on a FTD, then only 20 of 46 instances (43.5%) went on to successful rallies.

Unusual about this FTD is that it occurred in conjunction with SPX making a new 20-day high. This triggered the study below, from the 10/19/11 letter.

Today is an IBD Follow Through Day. SPX closes at a 20-day high. 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
20	40,662.71	13	11	2	84.62	4,245.22	8,443.49	-3,017.38	-4,916.46	1.41	7.74	3,127.90
19	40,325.79	13	10	3	76.92	4,488.38	8,644.68	-1,519.33	-2,535.28	2.95	9.85	3,101.98
18	41,079.32	13	10	2	76.92	4,565.01	8,021.64	-2,285.38	-2,534.61	2.00	9.99	3,159.95
17	39,352.69	13	11	2	84.62	3,859.61	8,716.07	-1,551.48	-1,983.40	2.49	13.68	3,027.13
16	37,150.76	13	11	2	84.62	3,459.19	8,462.96	-450.18	-464.20	7.68	42.26	2,857.75
15	39,110.58	13	11	2	84.62	3,612.52	8,424.02	-313.55	-584.91	11.52	63.37	3,008.51
14	41,256.76	13	11	2	84.62	3,900.68	8,923.75	-825.38	-1,629.66	4.73	25.99	3,173.60
13	34,881.01	13	11	2	84.62	3,332.48	7,484.65	-888.15	-1,660.80	3.75	20.64	2,683.15
12	26,703.29	13	8	5	61.54	3,891.54	6,528.94	-885.80	-2,117.52	4.39	7.03	2,054.10
11	22,764.44	13	9	4	69.23	3,161.58	6,288.81	-1,422.44	-2,947.92	2.22	5.00	1,751.11
10	14,367.87	13	7	6	53.85	3,054.79	5,659.28	-1,169.28	-2,571.84	2.61	3.05	1,105.22
9	19,090.82	13	8	5	61.54	3,097.46	6,710.66	-1,137.77	-3,011.76	2.72	4.36	1,468.52
8	21,509.43	13	8	5	61.54	3,432.01	7,366.15	-1,189.33	-2,687.04	2.89	4.62	1,654.57
7	24,565.41	13	10	3	76.92	2,663.86	7,359.66	-691.07	-1,142.35	3.85	12.85	1,889.65
6	20,559.59	13	12	1	92.31	1,807.26	7,437.54	-1,127.52	-1,127.52	1.60	19.23	1,581.51
5	15,265.56	13	12	1	92.31	1,299.79	4,977.83	-331.92	-331.92	3.92	46.99	1,174.27
4	16,474.44	13	11	2	84.62	1,592.88	5,607.36	-523.64	-552.82	3.04	16.73	1,267.26
3	15,738.59	13	10	3	76.92	1,759.38	5,529.48	-618.41	-998.20	2.85	9.48	1,210.66
2	11,306.07	13	8	5	61.54	1,721.07	5,367.23	-492.50	-809.19	3.49	5.59	869.70
1	6,015.13	13	8	5	61.54	1,013.02	2,537.59	-417.80	-1,255.50	2.42	3.88	462.70

Results here are impressive over both the short and intermediate-term. To get a better feel for the short-term returns I have listed the instances below.

Today is an IBD Follow Through Day. SPX closes at a 20-day high.  
Buy SPX on close. Sell 6 days later. \$100k/trade. 1971 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/1/1971	Buy	\$95.54	1.49%	\$2,750.98
12/9/1971	Sell	\$96.96		(\$847.26)
11/10/1977	Buy	\$94.71	0.65%	\$1,877.90
11/18/1977	Sell	\$95.33		(\$126.60)
12/1/1978	Buy	\$96.28	0.86%	\$2,387.40
12/11/1978	Sell	\$97.11		(\$944.58)
8/1/1984	Buy	\$154.08	7.44%	\$7,658.20
8/9/1984	Sell	\$165.54		\$0.00
10/16/1985	Buy	\$187.97	0.28%	\$780.57
10/24/1985	Sell	\$188.50		(\$631.89)
8/11/1986	Buy	\$240.67	2.42%	\$2,971.40
8/19/1986	Sell	\$246.50		(\$132.80)
10/8/1986	Buy	\$236.67	1.20%	\$1,477.00
10/16/1986	Sell	\$239.52		(\$974.82)
12/5/2007	Buy	\$1,485.00	0.23%	\$2,584.19
12/13/2007	Sell	\$1,488.42		(\$1,123.59)
4/1/2008	Buy	\$1,370.15	-1.14%	\$1,194.48
4/9/2008	Sell	\$1,354.49		(\$1,452.96)
7/15/2009	Buy	\$932.68	4.68%	\$5,001.18
7/23/2009	Sell	\$976.29		(\$559.61)
10/18/2011	Buy	\$1,225.38	1.36%	\$2,524.77
10/26/2011	Sell	\$1,242.00		(\$2,271.24)
12/11/2012	Buy	\$1,427.84	0.56%	\$1,411.20
12/19/2012	Sell	\$1,435.81		(\$1,117.20)
3/1/2016	Buy	\$1,978.35	0.55%	\$1,539.00
3/9/2016	Sell	\$1,989.26		(\$477.50)
<b>Avg Runup: 2.6%</b>				<b>Avg Drawdown: -0.8%</b>

The run-up to drawdown ratio here is quite impressive. I'll also note that 10 of the 13 instances went on to have "successful" rallies. ("Success" means it either hit a new 200-day high or at least rose 2x as much as it had already risen off the bottom.) The 3 instances whose rallies did not succeed (circled in red) all saw run-ups of at least 2% before they eventually rolled over and made new lows.

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



With tonight's evidence considered, the green Aggregator Line inched just above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dove below 0. The negative 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 Thursday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2760.41 on Thursday. That is 1.9% below Wednesday's close. So SPX would need to close down a sizable 1.9% on Thursday to flip from overbought to oversold.

The momentum going into the Fed Day could provide a small boost on Thursday. And the Follow Through Day being accompanied by especially strong breadth and a 20-day closing high seems to have quickly changed the outlook from the last few days. Of course the overbought nature of the market reduces reward/risk. This is leaving the Aggregator neutral, and it has me waiting for a more favorable entry opportunity before putting new capital to work.

*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**

**None**

*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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