

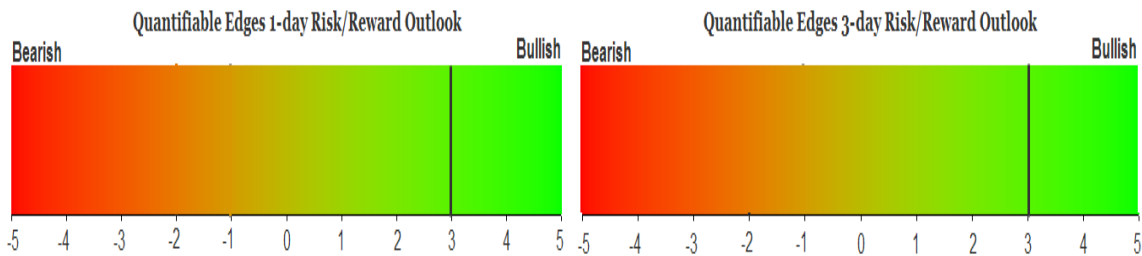
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 13, 2018

Volume 11 Issue 220

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- 2 unfilled gaps down like we have seen the last 2 days have often been followed by a bounce.
- Turnaround Tuesday is offering some compelling studies.
- A down Fed Day and the next 2 days also down have led to a bounce nearly every other time since 1982.

Short-term Outlook

The Bottom Line

With the studies looking bullish and the SPX oversold, the Aggregator is in a bullish formation. I like reward/risk and am looking to start scaling into an index position.

Summary of Recent Active Studies (see Letters from listed dates for details)-not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
November 8, 2018	FTD with 20-day high	1-6 days	Bullish			
November 8, 2018	FTD with strong breadth	1-4 days	Bullish			
November 7, 2018	5-Low NYSE vol. SPX 10-hi < 200	1-5 days	Bearish			
November 6, 2018	VIX upSPX up. Monday. < 200ma	1-5 days	Bearish			
Active - Long Term						
November 8, 2018	FTD with strong breadth & 20-day high	int term	Bullish			
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 sizable selling from the morning all through the afternoon. The SPX finished down 2.0%, the NASDAQ lost 2.8%, and the Russell 2000 dropped 2.0%. Breadth was negative as the NYSE Up Issues % was 27% and the Up Volume % came in at 16%. NYSE volume declined some from Friday's level.

In the 10/14/14 letter study I looked at the concept of Turnaround Tuesdays, which suggests that Tuesday is the most likely day of the week for the market to reverse a selloff. I found the old market adage really seemed to provide an edge. And while that edge had been prevalent since at least the 60's, it had become even stronger since 2000. Below I've rerun one of the tests from that letter. In this case I looked for exactly 3 down days in a row and today being Monday.

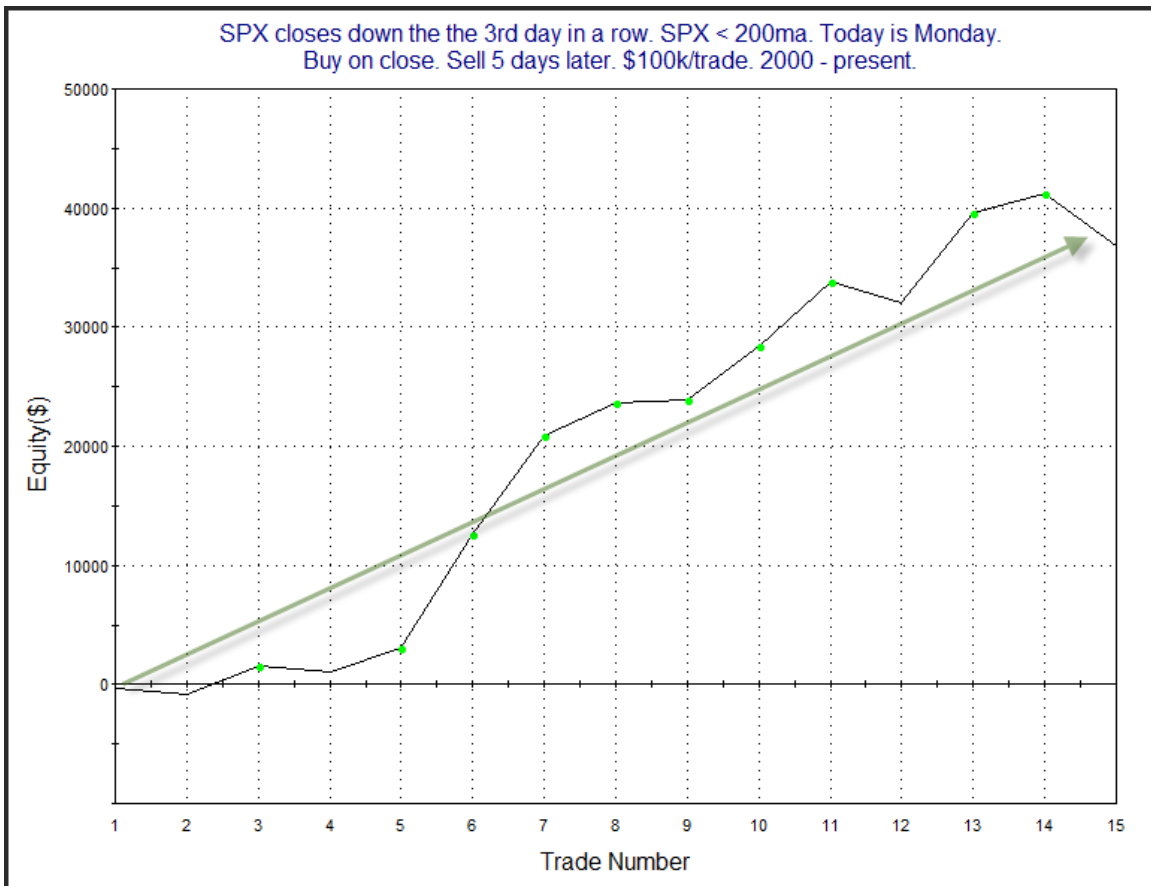
SPX closes down the the 3rd day in a row. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	60,143.71	47	34	13	72.34	2,573.97	13,815.90	-2,105.47	-6,435.17	1.22	3.20	1,279.65
9	67,204.99	47	36	11	76.60	2,381.30	11,206.23	-1,683.80	-6,486.13	1.41	4.63	1,429.89
8	70,330.98	47	36	10	76.60	2,403.77	11,382.35	-1,620.46	-4,450.18	1.48	5.34	1,496.40
7	62,776.46	47	36	11	76.60	2,235.85	11,104.17	-1,610.39	-5,996.62	1.39	4.54	1,335.67
6	50,591.33	47	32	15	68.09	2,097.63	10,034.53	-1,102.19	-3,625.02	1.90	4.06	1,076.41
5	47,341.87	50	33	17	66.00	2,124.91	9,572.31	-1,340.01	-4,543.76	1.59	3.08	946.84
4	37,110.64	50	36	14	72.00	1,613.11	8,810.76	-1,497.23	-4,440.87	1.08	2.77	742.21
3	28,401.56	50	30	20	60.00	1,695.71	8,432.34	-1,123.49	-5,306.04	1.51	2.26	568.03
2	23,765.78	50	33	17	66.00	1,193.52	5,018.23	-918.85	-3,357.50	1.30	2.52	475.32
1	20,618.45	50	32	18	64.00	1,022.99	4,723.23	-673.18	-2,680.15	1.52	2.70	412.37

These results are quite compelling and suggest a solid upside edge. In the 10/14/14 subscriber letter I showed it has actually been a bit more powerful below the 200ma. This is probably due to the heightened volatility below vs. above the 200ma. Below is an updated look with the 200ma filter.

SPX closes down the the 3rd day in a row. SPX < 200ma. Today is Monday.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	38,089.84	15	12	3	80.00	4,123.71	13,815.90	-3,798.21	-6,435.17	1.09	4.34	2,539.32
9	42,202.27	15	12	3	80.00	4,211.95	11,206.23	-2,780.37	-6,486.13	1.51	6.06	2,813.48
8	45,233.47	15	12	2	80.00	4,309.58	11,382.35	-3,240.74	-4,450.18	1.33	7.98	3,015.56
7	41,234.14	15	12	3	80.00	4,209.75	11,104.17	-3,094.27	-5,996.62	1.36	5.44	2,748.94
6	36,746.01	15	11	4	73.33	3,936.02	10,034.53	-1,637.54	-3,625.02	2.40	6.61	2,449.73
5	36,818.02	15	10	5	66.67	4,424.01	9,572.31	-1,484.42	-4,360.51	2.98	5.96	2,454.53
4	29,270.56	15	12	3	80.00	2,952.99	8,810.76	-2,055.10	-4,440.87	1.44	5.75	1,951.37
3	22,600.46	15	10	5	66.67	3,036.88	8,432.34	-1,553.68	-3,408.93	1.95	3.91	1,506.70
2	16,101.12	15	10	5	66.67	2,071.56	5,018.23	-922.89	-1,499.98	2.24	4.49	1,073.41
1	14,041.23	15	11	4	73.33	1,703.33	4,723.23	-1,173.86	-2,680.15	1.45	3.99	936.08

Additionally, I generated a profit curve using a 5-day exit strategy.

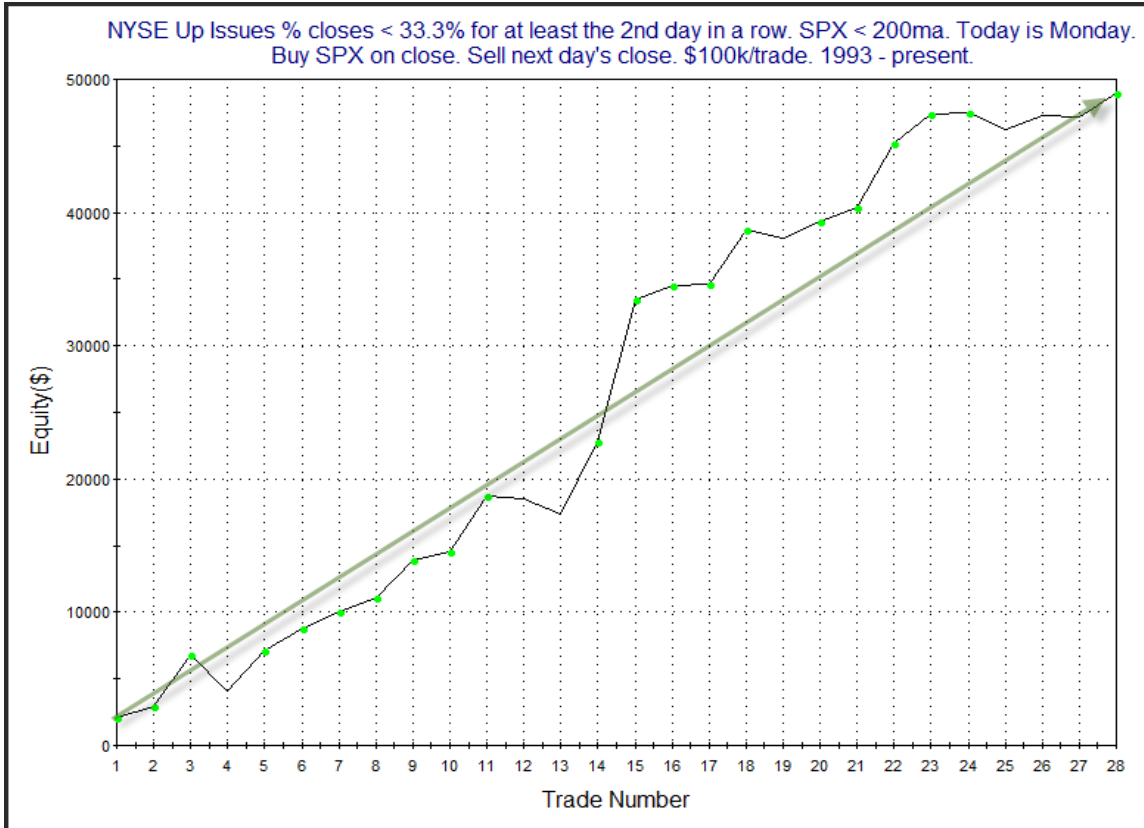


This is a pretty solid looking curve.

In the 2/9/16 letter I showed another Turnaround Tuesday related study. It required the Up Issues % close below 33.3% for at least the 2nd day in a row. Results are updated.

NYSE Up Issues % closes < 33.3% for at least the 2nd day in a row. SPX < 200ma. Today is Monday. Buy SPX 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	78,043.73	28	21	7	75.00	4,874.26	13,733.46	-3,473.68	-7,414.56	1.40	4.21	2,787.28
4	68,261.67	28	21	7	75.00	4,023.28	14,020.11	-2,318.18	-5,934.24	1.74	5.21	2,437.92
3	51,721.00	28	21	7	75.00	3,510.13	12,304.89	-3,141.67	-11,502.27	1.12	3.35	1,847.18
2	47,071.61	28	22	6	78.57	2,608.78	9,496.89	-1,720.24	-5,167.89	1.52	5.56	1,681.13
1	48,928.40	28	22	6	78.57	2,500.29	10,716.03	-1,012.99	-2,680.15	2.47	9.05	1,747.44
All 28 instances closed above the entry price at some point in the next 4 days.												

This appears to have been a powerful combination. The curve below assumes a 1-day holding period (Turnaround Tuesday.)



Here again we see a strong, consistent upslope that confirms the bullish tendency.

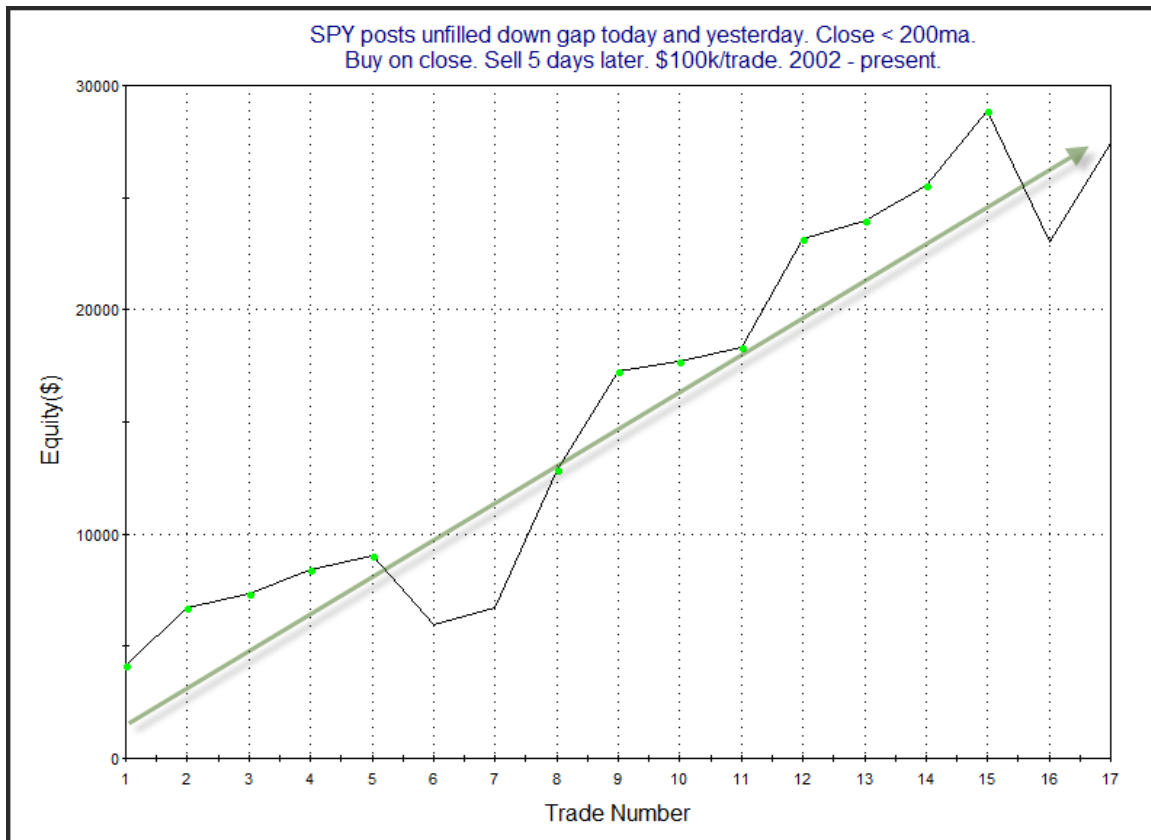
Both Friday and Monday saw SPY leave an unfilled gap down. That is fairly unusual. In the 1/4/16 letter I looked at times SPY gapped down 2 days in a row. I have updated that research below.

SPY posts unfilled down gap today and yesterday. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2002 - 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	27,455.40	17	15	2	88.24	2,425.40	6,103.89	-4,462.83	-5,855.50	0.54	4.08	1,615.02
4	21,372.42	18	11	7	61.11	3,093.47	6,941.43	-1,807.96	-4,811.80	1.71	2.69	1,187.36
3	18,646.45	18	10	8	55.56	2,773.53	5,888.16	-1,136.10	-2,474.50	2.44	3.05	1,035.91
2	15,748.49	19	10	9	52.63	2,866.77	5,091.84	-1,435.47	-5,231.80	2.00	2.22	828.87
1	6,460.99	23	13	10	56.52	1,304.28	2,818.20	-1,049.47	-4,080.40	1.24	1.62	280.91

94% on instances closed above the entry price at some point in the next week.

Every instance but one was higher 5 days later. The numbers are compelling. Here is the profit curve.



As you would expect with such a high percentage of winners, the curve looks strong too.

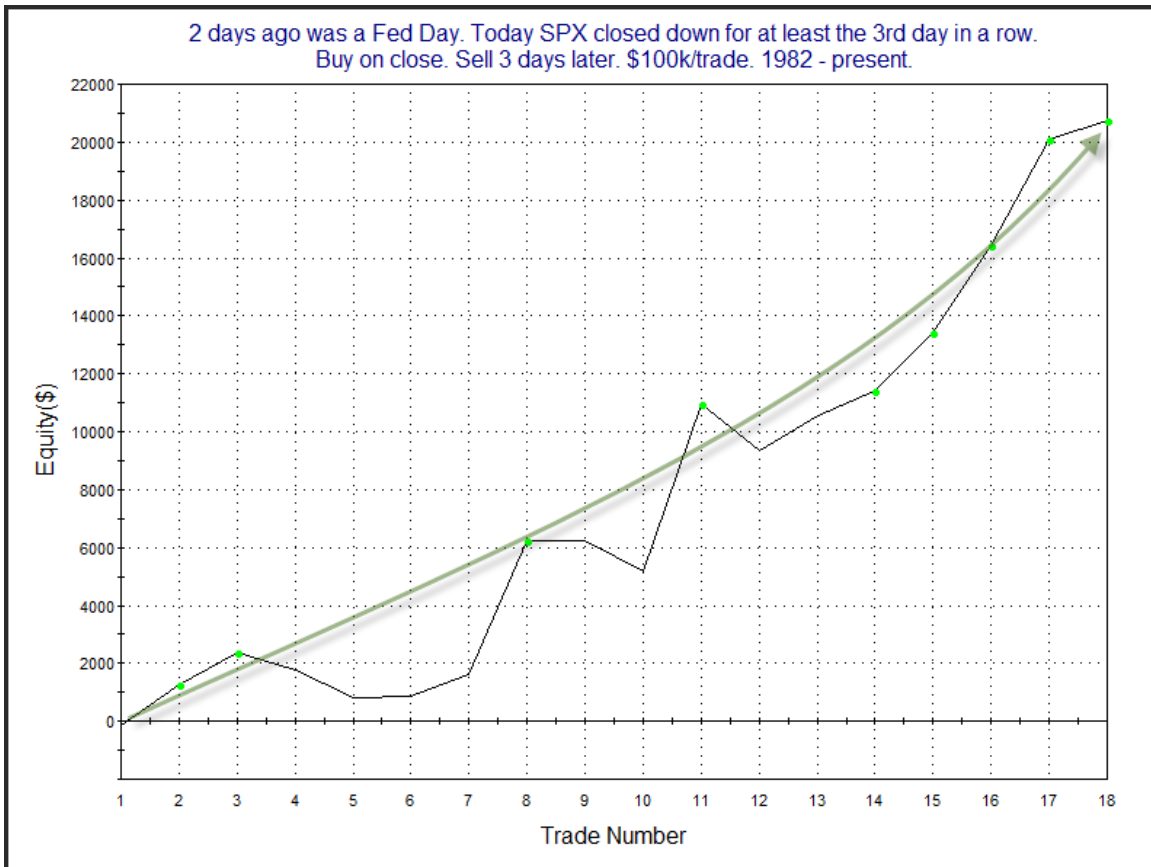
It's interesting that the selling has continued right through and after a (typically bullish) Fed Day. In the 11/7/16 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	11,915.34	18	10	8	55.56	2,536.63	5,555.16	-1,681.37	-3,477.69	1.51	1.89	661.96
4	19,132.55	18	11	7	61.11	2,438.18	5,564.00	-1,098.21	-2,266.11	2.22	3.49	1,062.92
3	20,748.85	18	12	6	66.67	2,094.70	5,801.02	-731.25	-1,610.84	2.86	5.73	1,152.71
2	17,369.63	18	14	4	77.78	1,387.39	4,670.25	-513.45	-971.48	2.70	9.46	964.98
1	14,930.31	18	14	4	77.78	1,110.15	2,671.02	-152.95	-401.12	7.26	25.40	829.46

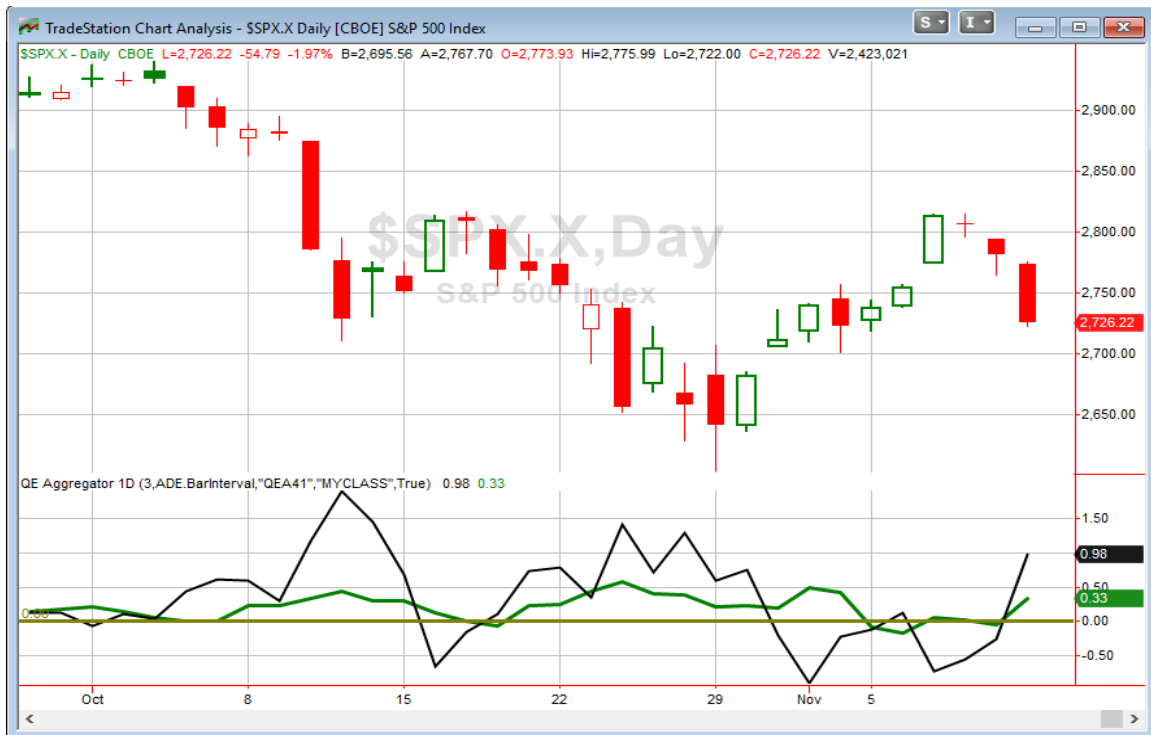
17 of 18 instances closed above the entry price at some point in the next 3 days. The lone instance that failed, triggered on 11/9/84 and continued to sell off for several weeks.

The edge looks quite strong over the next 1-3 days. Below is a look at a 3-day profit curve.



Recent instances have made this one look even better. I have included this study on the active list tonight.

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



With tonight's new evidence to consider the green Aggregator Line shot above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal flipped long at the close.

With the current active studies, expectations are slated to remain bullish on Tuesday. This is unlikely to change. The Differential Pivot will be 2802.76 on Tuesday. That is 2.8% above Monday's close. So it would take a very large rally on Tuesday for SPX to turn back to overbought. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Between the unfilled gaps lower, the Turnaround Tuesday inclinations, and the Fed Day edges, evidence appears quite compelling for the short-term. And with plenty of room to the upside before SPX would turn overbought, reward/risk appears favorable for the bulls. Of course the environment is especially volatile, and this could turn into another

sharp selloff and new lows in the coming days for the market. But the odds seem against that right now. In my view, this appears to be a solid opportunity to start scaling into a long position. I'll be looking to get positioned with some long index exposure on Tuesday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/12– slightly bullish

The intermediate-term outlook was last updated in the 11/12/18 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

QCOM – 1/3 @ \$56.72 (bought @ limit)

New

QCOM – 1/3 @ \$54.49 (buy @ limit)

GE – 1/3 @ \$7.99 (buy @ limit)

Broad Market Large Cap CBI – 3(QCOM-2, GE)

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.

QCOM – buy 1/3 Catapult position @ \$54.49 limit. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for QCOM.

GE – buy 1/3 Catapult position @ \$7.99 limit. This is from the Catapult section above. It is the 1st of up to 3 possible lots for GE.

SPY – buy ¼ index position @ \$272.57 LIMIT. Based on the short-term outlook above, I'll be looking to get long SPY at a limit equal to Monday's closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QCOM(1/3)	11/12/2018	\$56.37	\$54.49	-3.34%		<i>bought 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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