

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 15, 2018

Volume 11 Issue 222

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- Persistent pullbacks under the 200ma are rare, and have generally suggested a short-term upside edge.

Short-term Outlook

The Bottom Line

With the studies looking bullish and the SPX oversold, the Aggregator is again in a bullish formation. I have some long exposure and am looking to benefit from a bounce in the next few days.

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 15, 2018	5 Lower Closes. 5 Lower highs. < 200	1-2 days	Bullish			
November 14, 2018	Down 4 days. No turn on Tuesday	1-6 days	Bullish	2.30%	-1.30%	-2.70%
November 13, 2018	3 days down. Fed 2 days ago	1-3 days	Bullish			
November 13, 2018	Unfilled gap down 2x < 200ma	1-5 days	Bullish			
November 13, 2018	Down 3. Turnaround Tuesday	1-5 days	Bullish			
November 8, 2018	FTD with 20-day high	1-6 days	Bullish			
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			

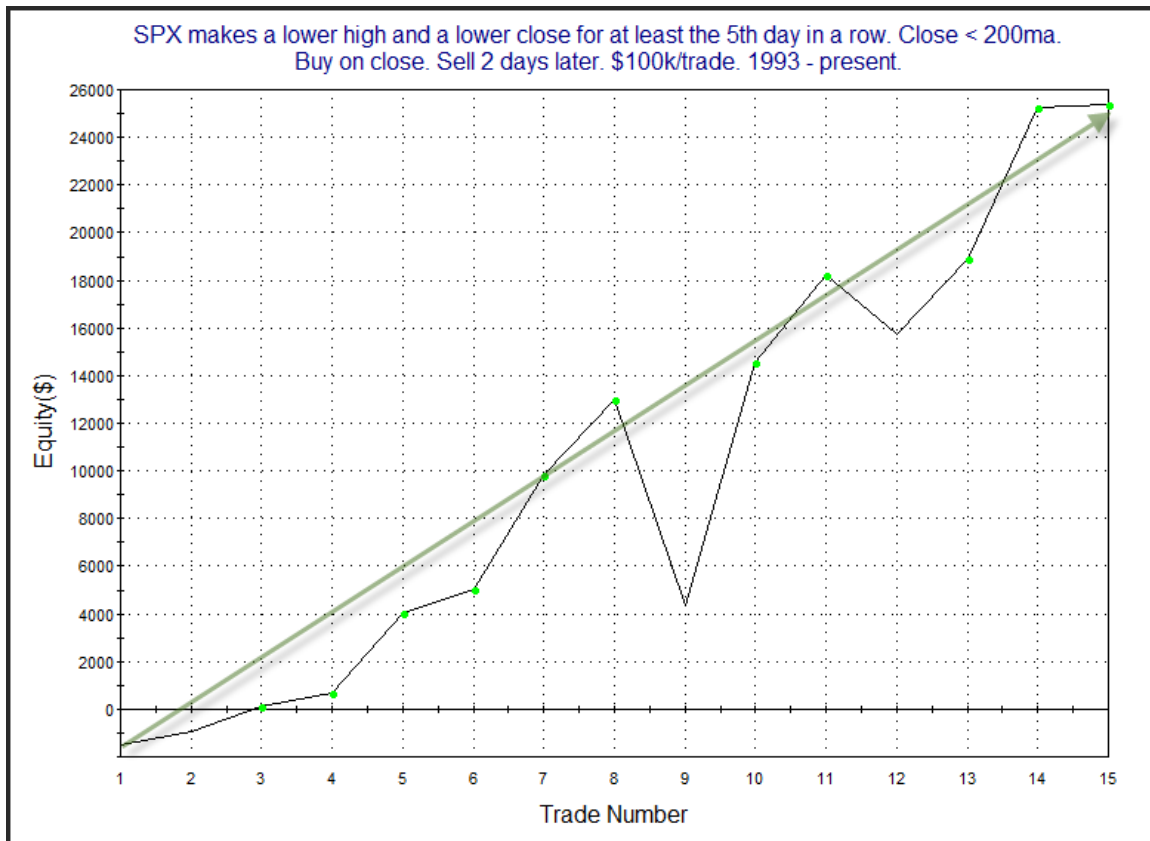
The Evidence

Wednesday started strong but finished poorly. The SPX closed down 0.8%, the NASDAQ lost 0.9%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 37%. NYSE volume rose some from Tuesday's level.

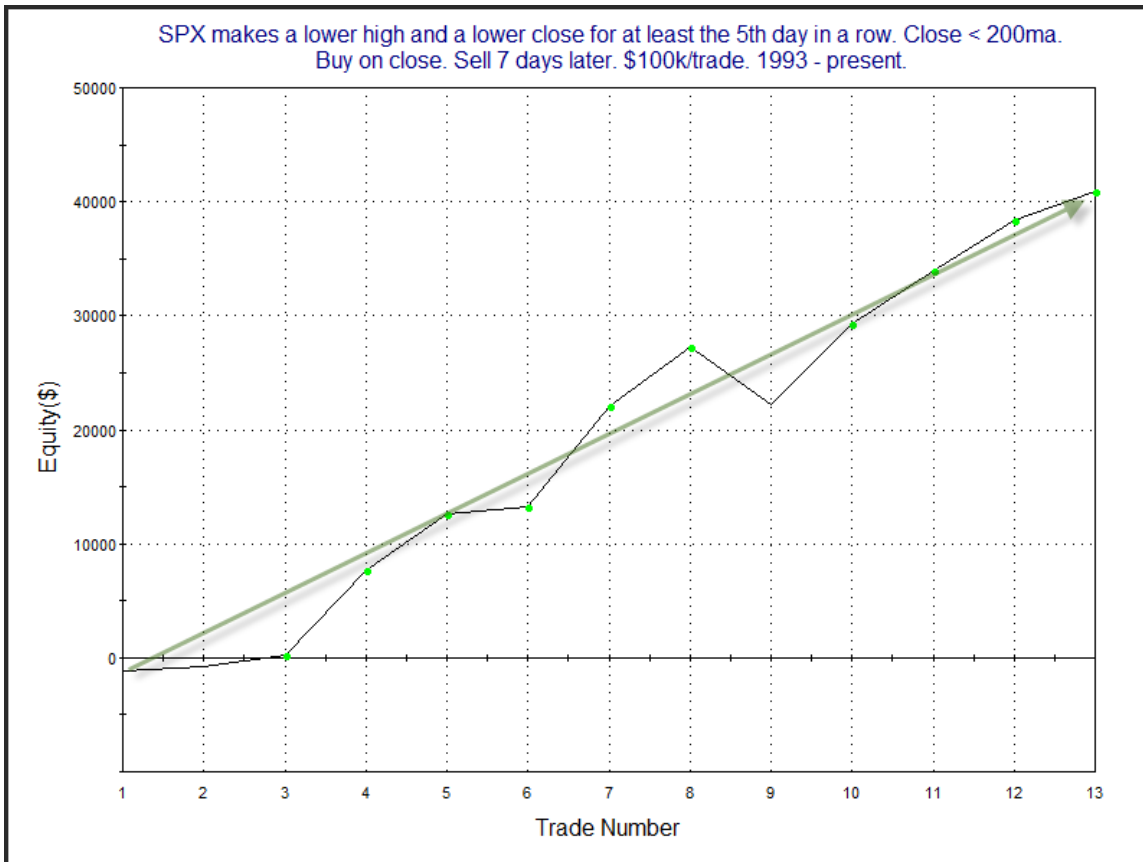
The move down over the last 5 days has been steady and persistent. That is unusual, especially during a volatile period. More often when fear grips the market you will see choppy action whipping the market back and forth. You won't as often see 5 days of movement heading in the same direction. Wednesday marked the 5th day in a row with a lower close, the 5th day in a row with a lower high, and the 4th day in a row with a lower low for SPX. A few studies appeared in the Quantifinder that looked at 4 or 5 day pullbacks. I looked at it a number of ways. The results of the study below are similar to a number of versions that I examined.

SPX makes a lower high and a lower close for at least the 5th day in a row. 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
10	34,847.99	13	8	5	61.54	5,390.82	10,874.74	-1,655.72	-4,118.00	3.26	5.21	2,680.61
9	42,060.54	13	10	3	76.92	4,581.49	10,693.46	-1,251.46	-1,586.27	3.66	12.20	3,235.43
8	42,863.46	13	10	3	76.92	5,034.28	10,967.44	-2,493.12	-5,568.00	2.02	6.73	3,297.19
7	40,914.91	13	11	2	84.62	4,280.35	8,809.59	-3,084.49	-4,980.00	1.39	7.63	3,147.30
6	32,445.83	13	10	3	76.92	4,196.48	7,493.25	-3,173.00	-8,839.00	1.32	4.41	2,495.83
5	33,109.95	13	10	3	76.92	3,505.05	7,739.42	-646.86	-979.03	5.42	18.06	2,546.92
4	26,444.55	13	11	2	84.62	2,520.09	5,541.68	-638.20	-925.99	3.95	21.72	2,034.20
3	8,739.54	14	10	4	71.43	2,242.91	6,426.25	-3,422.40	-9,701.00	0.66	1.64	624.25
2	25,348.70	15	12	3	80.00	3,160.99	10,183.87	-4,194.40	-8,631.00	0.75	3.01	1,689.91
1	20,736.98	19	13	6	68.42	2,662.63	11,558.43	-2,312.86	-7,577.02	1.15	2.49	1,091.42

Instances are somewhat low. Of course this is not a surprise, since as I just discussed, it is unusual to see steady and persistent selling like this during a downtrend, rather than violent chop. The stats are impressive. Below I show the 2-day and 7-day profit curves.

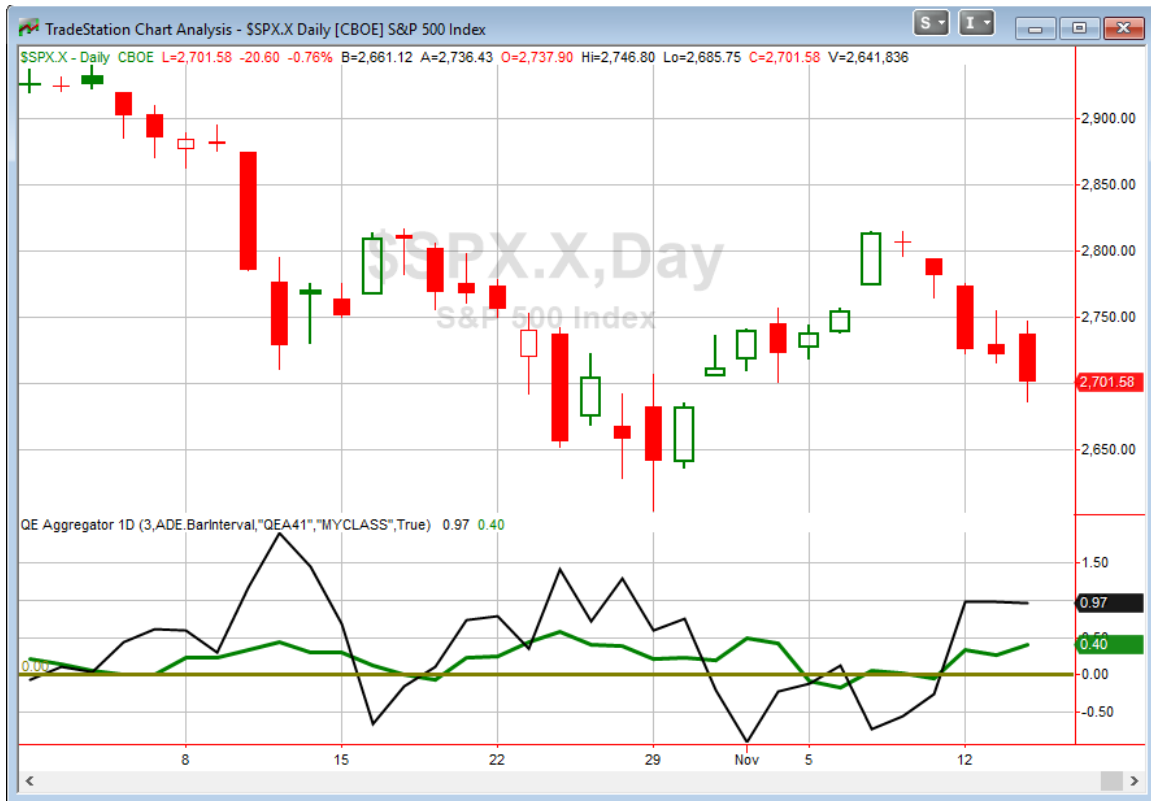


The 2-day curve is impressive and appears to support the bullish inclination suggested by the stats table. Here is the 7-day curve.



This one is even smoother. With a good chunk of the gains occurring in the 1st two days, I added that to the Short-Term Active List tonight.

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



With tonight's new evidence to consider the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also held 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 stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Thursday. This is unlikely to change. The Differential Pivot will be 2734.35 on Thursday. That is 1.2% above Wednesday's close. So SPX will need to close up at least 1.2% on Thursday to flip from oversold to overbought versus recent expectations.

The market continues to provide short-term bullish hints, while short-term bearish evidence is completely lacking. Combined with the oversold nature of the market, the Aggregator is suggesting an upside edge. I still believe we are primed for a bounce. I am 50% into an index position at the time being. I am not inclined to up it further on Thursday, but will look to get more aggressive if the CBI heads much higher in the coming days.

Intermediate-term study: Russell Death Cross

I have seen a fair amount of hubbub about the Russell “Death Cross” that is happening today and the potential bearish implications for the market. A “Death Cross” is a catchy (though perhaps not terribly accurate) term for when the 50-day moving average of a security crosses below its 200-day moving average. It is being promoted as a warning of a potential bear market. Of course all bear markets will see this happen at some point, because a bear market is an extended decline. But the real question when considering the implications of the Death Cross are whether it serves any value in *predicting* a bear market. To answer this I did an examination of past Russell Death Crosses, and what they meant for the S&P 500.

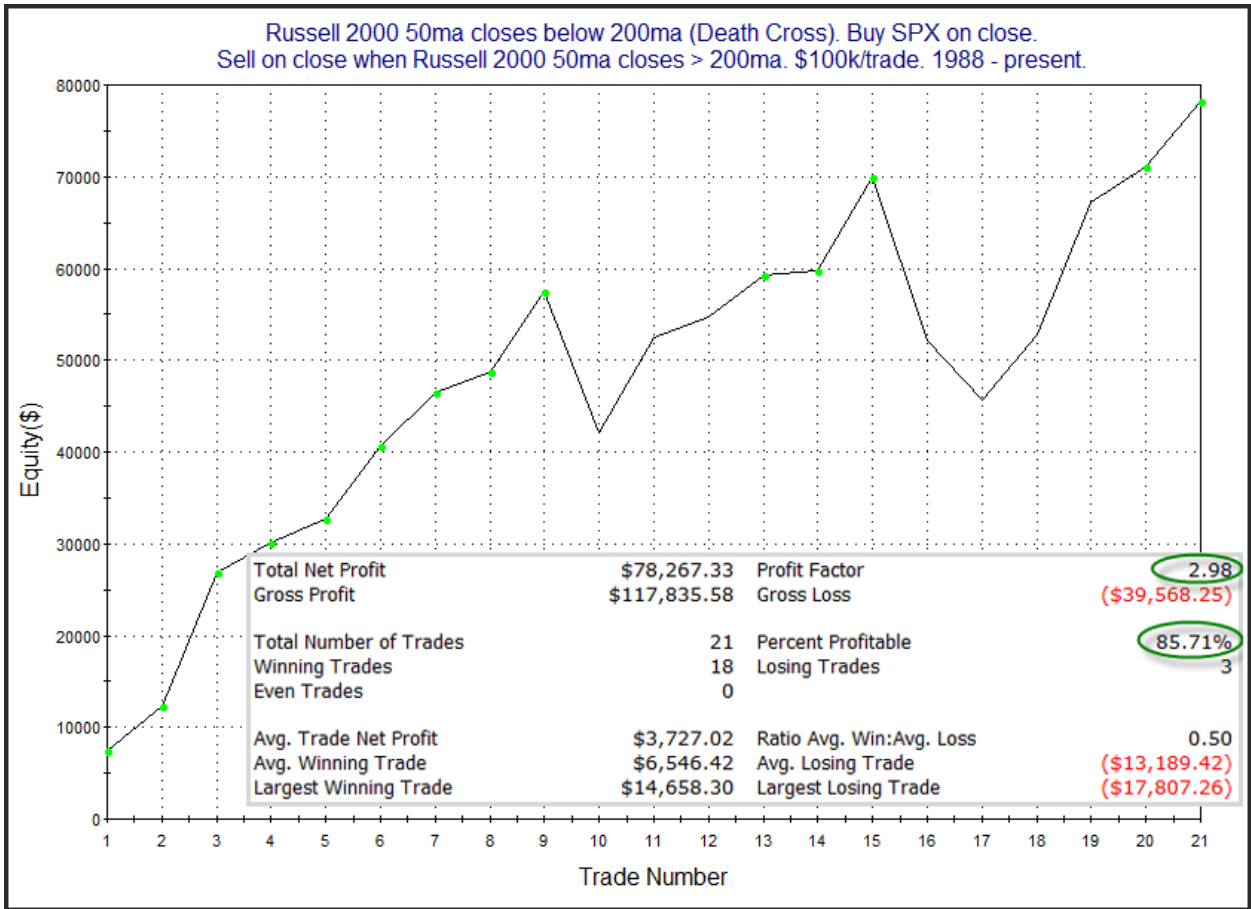
Both of my data sources show Russell data back to late 1987. And since I need 200 days to calculate a 200-day moving average, the earliest the study could look back to was 1988.

Here is the list of all Russell Death Crosses and how the SPX performed from the time of the initial cross until the Russell Death Cross was no longer in effect (meaning the 50-day moving average closed back above the 200-day moving average).

Russell 2000 50ma closes below 200ma (Death Cross). Buy SPX on close.
 Sell on close when Russell 2000 50ma closes > 200ma. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/13/1988	Buy	\$276.31	7.52%	\$7,949.22
2/1/1989	Sell	\$297.09		(\$902.50)
12/18/1989	Buy	\$343.68	4.79%	\$7,279.00
7/3/1990	Sell	\$360.15		(\$6,916.50)
8/17/1990	Buy	\$327.83	14.66%	\$15,805.10
3/7/1991	Sell	\$375.89		(\$10,162.60)
7/17/1992	Buy	\$415.62	3.26%	\$3,307.20
11/25/1992	Sell	\$429.18		(\$4,516.80)
5/23/1994	Buy	\$453.20	2.58%	\$5,365.80
10/21/1994	Sell	\$464.89		(\$2,941.40)
11/25/1994	Buy	\$452.29	7.95%	\$8,154.90
2/24/1995	Sell	\$488.26		(\$2,079.61)
9/3/1996	Buy	\$654.73	5.81%	\$6,093.68
10/3/1996	Sell	\$692.78		(\$887.68)
5/16/1997	Buy	\$829.75	2.23%	\$2,654.40
5/30/1997	Sell	\$848.28		(\$400.80)
7/30/1998	Buy	\$1,142.86	8.83%	\$12,247.86
2/8/1999	Sell	\$1,243.77		(\$19,101.72)
9/29/2000	Buy	\$1,436.48	-15.46%	\$1,265.46
6/15/2001	Sell	\$1,214.36		(\$24,515.01)
9/17/2001	Buy	\$1,038.77	10.28%	\$13,267.20
1/11/2002	Sell	\$1,145.60		(\$9,025.92)
7/15/2002	Buy	\$917.93	2.33%	\$5,083.56
5/14/2003	Sell	\$939.28		(\$16,120.08)
8/5/2004	Buy	\$1,080.70	4.61%	\$5,644.20
11/2/2004	Sell	\$1,130.56		(\$1,838.16)
5/25/2005	Buy	\$1,190.01	0.37%	\$2,484.72
7/1/2005	Sell	\$1,194.44		(\$143.64)
7/21/2006	Buy	\$1,240.29	10.35%	\$10,606.40
10/20/2006	Sell	\$1,368.60		\$0.00
9/5/2007	Buy	\$1,472.29	-18.05%	\$6,954.60
9/18/2008	Sell	\$1,206.51		(\$22,698.93)
10/8/2008	Buy	\$984.94	-6.47%	\$5,996.37
6/19/2009	Sell	\$921.23		(\$32,133.15)
7/28/2010	Buy	\$1,106.13	7.19%	\$8,100.90
10/25/2010	Sell	\$1,185.62		(\$5,978.70)
8/12/2011	Buy	\$1,178.81	14.52%	\$14,463.96
2/8/2012	Sell	\$1,349.96		(\$8,739.36)
9/22/2014	Buy	\$1,994.29	3.83%	\$4,259.00
12/19/2014	Sell	\$2,070.65		(\$8,681.50)
9/2/2015	Buy	\$1,948.86	7.25%	\$8,548.62
5/26/2016	Sell	\$2,090.10		(\$7,076.76)

Eighteen winners. Only three losers. So 86% of the “predictions” were wrong. Here is a look at the summary stats and a profit curve for this setup.



I am having a hard time seeing the Russell 2000 Death Cross as a bearish indication. You would have a much easier time convincing me this is a bullish indication for the intermediate-term. (I don't really view it as bullish though. Drawdowns were generally sizable, even for a good portion of the "winners".)

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)

QCOM – 1/3 @ \$54.49 (bought @ limit)

GE – 1/3 @ \$7.99 (bought @ limit)

QCOM – 1/3 @ \$54.49 (bought @ limit)

SLB – 1/3 @ \$47.34 (buy @ limit) – not filled, cancel for now

New

CELG – 1/3 @ \$69.63 (buy @ limit)

Broad Market Large Cap CBI – 6(QCOM-3, GE, SLB, CELG)

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.

CELG – buy 1/3 Catapult position @ \$69.63 limit. This is from the Catapult section above. It is the 1st of up to 3 possible lots for CELG.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QCOM(1/3)	11/12/2018	\$56.37	\$53.94	-4.31%		Catapult
QCOM(1/3)	11/13/2018	\$54.49	\$53.94	-1.01%		Catapult
GE(1/3)	11/13/2018	\$7.99	\$8.32	4.13%		Catapult
SPY(1/4)	11/13/2018	\$272.57	\$270.20	-0.87%		Aggregator
SPY(1/4)	11/14/2018	\$270.20	\$270.20	0.00%		Aggregator
QCOM(1/3)	11/14/2018	\$54.16	\$53.94	-0.41%		Catapult

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.