

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 27, 2018

Volume 11 Issue 229

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	7

Tonight's Research Points

- Monday's gap-n-go move in the SPY has historically favored a pullback.
- Monday's low volume suggests a possible pullback in the next few days.

Short-term Outlook

The Bottom Line

Evidence has weakened substantially and the market is now overbought. This is leaving me neutral and looking to exit my index positions.

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 26, 2018	Gap < 50-day low with partial reversal	1-2 days	Bullish			
November 23, 2018	Low volume Thanksgiving Wednesday	1-2 days	Bearish			
November 23, 2018	2x 1.5% down. Up close < open.	1-2 days	Bullish			
November 23, 2018	Close bottom 10% range on up day	1-3 days	Bullish			
November 21, 2018	Unfilled gap down 2x < 200ma	1-5 days	Bullish			
November 21, 2018	1% Unfilled Gap Dn from 10-day Low	1-5 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 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 start strong and finish stronger. The SPX rose 1.6%, the NASDAQ gained 2.1%, and the Russell 2000 climbed 1.2%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 71%. NYSE volume rose from Friday but was still fairly light.

One way to look at the pattern of the last two days is by focusing on the 2 unfilled gaps, the first of which was down and the second of which was up. The study below from the 9/8/11 letter does this, and also requires a close above the high of two days ago, suggesting the reversal has been strong.

After posting an unfilled gap down yesterday SPY posts an unfilled gap up today. It closes > the high of 2 days ago. Close < 200ma. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

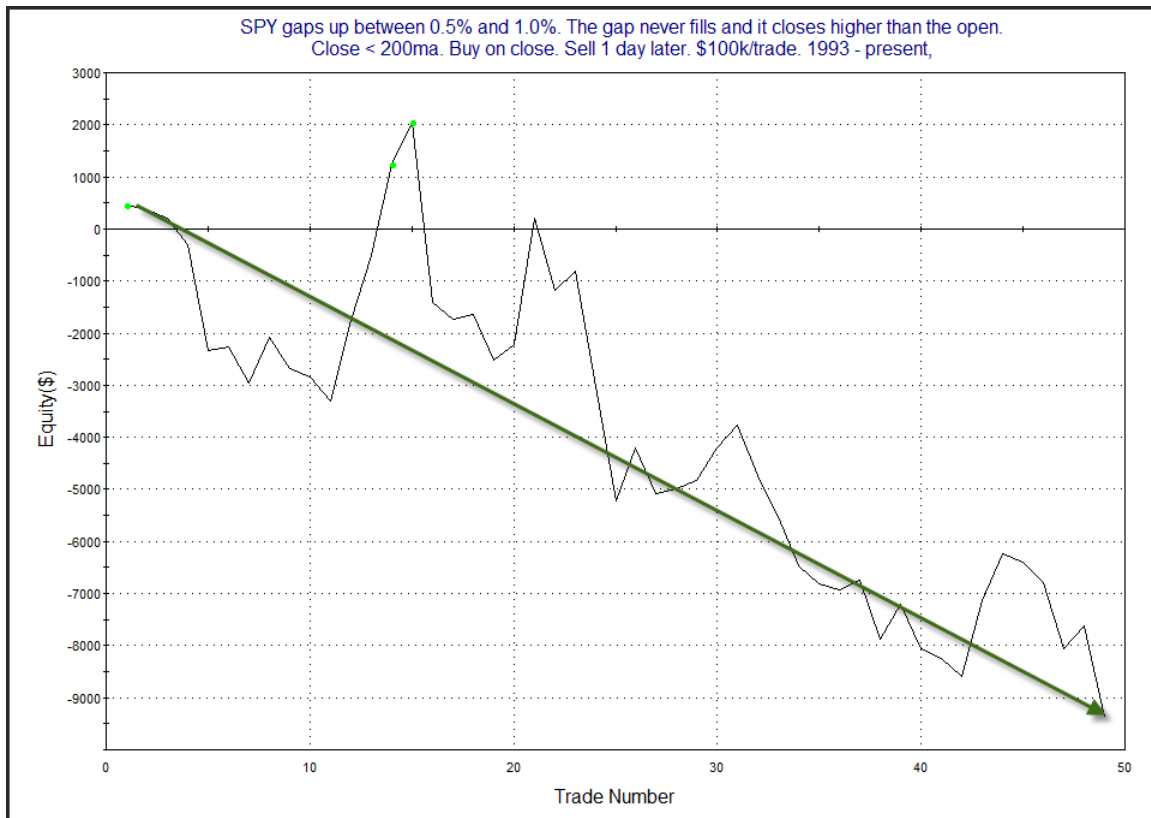
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/5/1994	Buy	\$44.81	0.02%	\$223.10
4/6/1994	Sell	\$44.82		(\$691.61)
10/4/1999	Buy	\$130.75	-0.09%	\$863.32
10/5/1999	Sell	\$130.63		(\$1,573.84)
10/22/1999	Buy	\$130.09	-0.50%	\$291.84
10/25/1999	Sell	\$129.44		(\$1,029.12)
11/13/2001	Buy	\$114.55	0.10%	\$741.20
11/14/2001	Sell	\$114.66		(\$741.20)
11/27/2002	Buy	\$94.28	-0.32%	\$710.20
11/29/2002	Sell	\$93.98		(\$540.60)
12/16/2002	Buy	\$91.65	-0.87%	\$98.19
12/17/2002	Sell	\$90.85		(\$992.81)
3/18/2008	Buy	\$133.63	-2.48%	\$762.96
3/19/2008	Sell	\$130.32		(\$2,685.32)
8/5/2008	Buy	\$128.36	0.44%	\$732.26
8/6/2008	Sell	\$128.93		(\$685.52)
3/23/2009	Buy	\$82.22	-1.97%	\$170.24
3/24/2009	Sell	\$80.60		(\$2,079.36)
9/7/2011	Buy	\$120.29	-1.04%	\$540.15
9/8/2011	Sell	\$119.04		(\$1,263.12)

I am only showing the 1-day results here because beyond that no strong edge was apparent. Instances are a bit low, but risk/reward appears to strongly favor the downside.

Another study that considered Monday's unfilled gap up last appeared in the 8/12/11 letter. I have updated the results.

SPY gaps up between 0.5% and 1.0%. The gap never fills and it closes higher than the open. 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	-16,312.39	43	26	17	60.47	1,372.65	6,298.95	-3,058.90	-9,558.90	0.45	0.69	-379.36
4	-14,299.26	44	25	19	56.82	1,501.01	2,871.00	-2,727.61	-8,875.20	0.55	0.72	-324.98
3	-5,949.13	45	27	18	60.00	1,227.07	2,784.87	-2,171.12	-5,549.95	0.57	0.85	-132.20
2	-12,877.03	48	22	26	45.83	1,192.63	2,803.08	-1,504.41	-4,871.91	0.79	0.67	-268.27
1	-9,372.53	49	21	28	42.86	758.94	2,416.96	-903.94	-3,474.68	0.84	0.63	-191.28

Consistency appeared somewhat weak, which gave me some pause. Therefore, I thought it important to consider the equity curve when considering whether to incorporate the study into the Aggregator.



The curve actually looks fairly compelling. I decided this study was worth consideration.

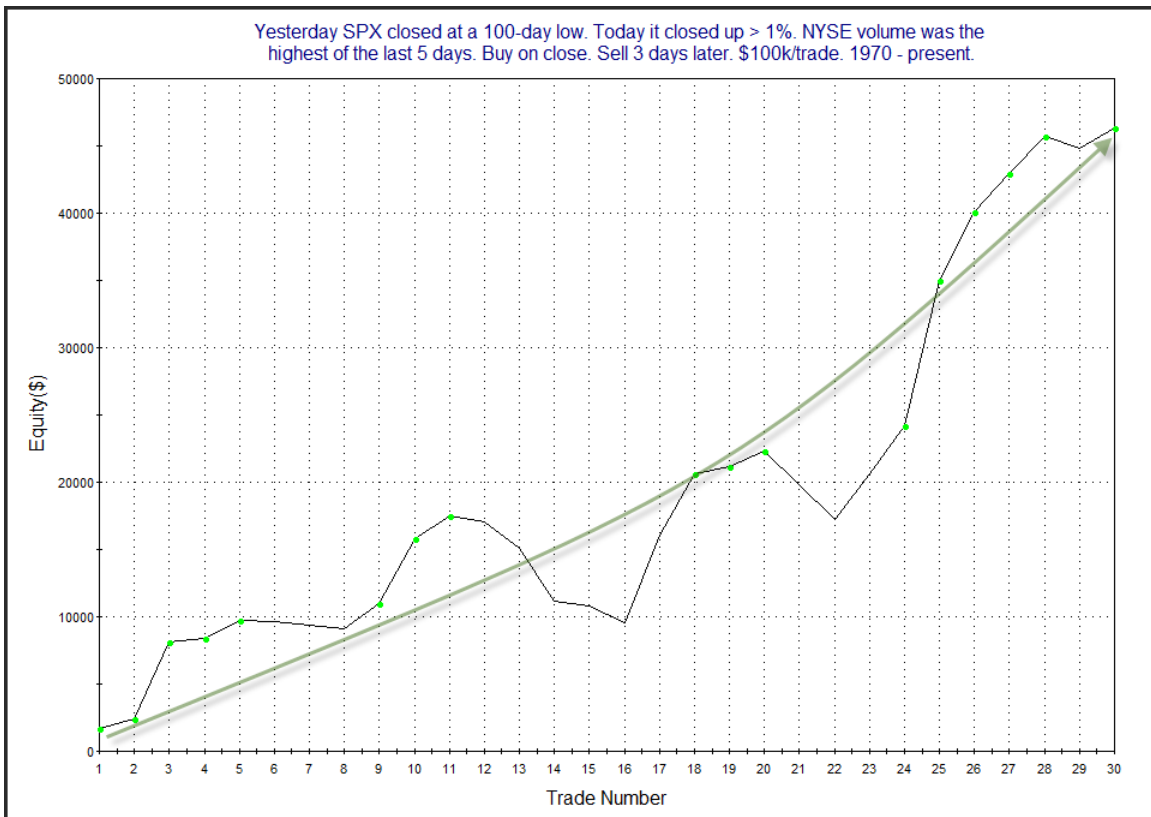
Another potential issue with the rally on Monday is that it occurred on low volume. In the 2/16/16 letter I looked at strong moves up from 100-day lows, and the impact that volume had on the follow-through potential. I looked at times the move came on strong volume (highest is 5 days) versus times it did not. I have updated the results of those studies below. Let's first look at times (UNlike now) where the rally came on the highest volume in 5 days.

Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE volume was the highest of the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	57,833.56	26	17	9	65.38	4,699.02	13,599.08	-2,449.97	-4,104.48	1.92	3.62	2,224.37
9	58,375.70	28	18	10	64.29	4,903.52	14,258.16	-2,988.76	-8,786.30	1.64	2.95	2,084.85
8	55,430.27	28	19	9	67.86	4,228.55	10,740.40	-2,768.02	-6,902.00	1.53	3.23	1,979.65
7	52,336.17	28	17	11	60.71	4,341.53	10,081.25	-1,951.81	-6,696.44	2.22	3.44	1,869.15
6	42,177.58	29	19	10	65.52	3,611.16	10,315.50	-2,643.45	-6,274.80	1.37	2.60	1,454.40
5	43,367.14	29	20	9	68.97	3,354.61	10,340.00	-2,636.12	-4,585.62	1.27	2.83	1,495.42
4	42,646.33	29	19	10	65.52	3,301.65	11,930.04	-2,008.50	-3,869.74	1.64	3.12	1,470.56
3	46,354.12	30	19	11	63.33	3,205.33	10,868.60	-1,322.47	-3,910.96	2.42	4.19	1,545.14
2	23,719.48	32	18	14	56.25	2,448.38	7,112.64	-1,453.66	-6,510.90	1.68	2.17	741.23
1	19,151.40	32	20	12	62.50	2,031.00	9,089.88	-1,789.05	-4,686.30	1.14	1.89	598.48

90% of instances closed above the entry price at some point in the next week.

Results here appear to suggest an upside edge. Below is an equity curve to see how the edge has played out over time.

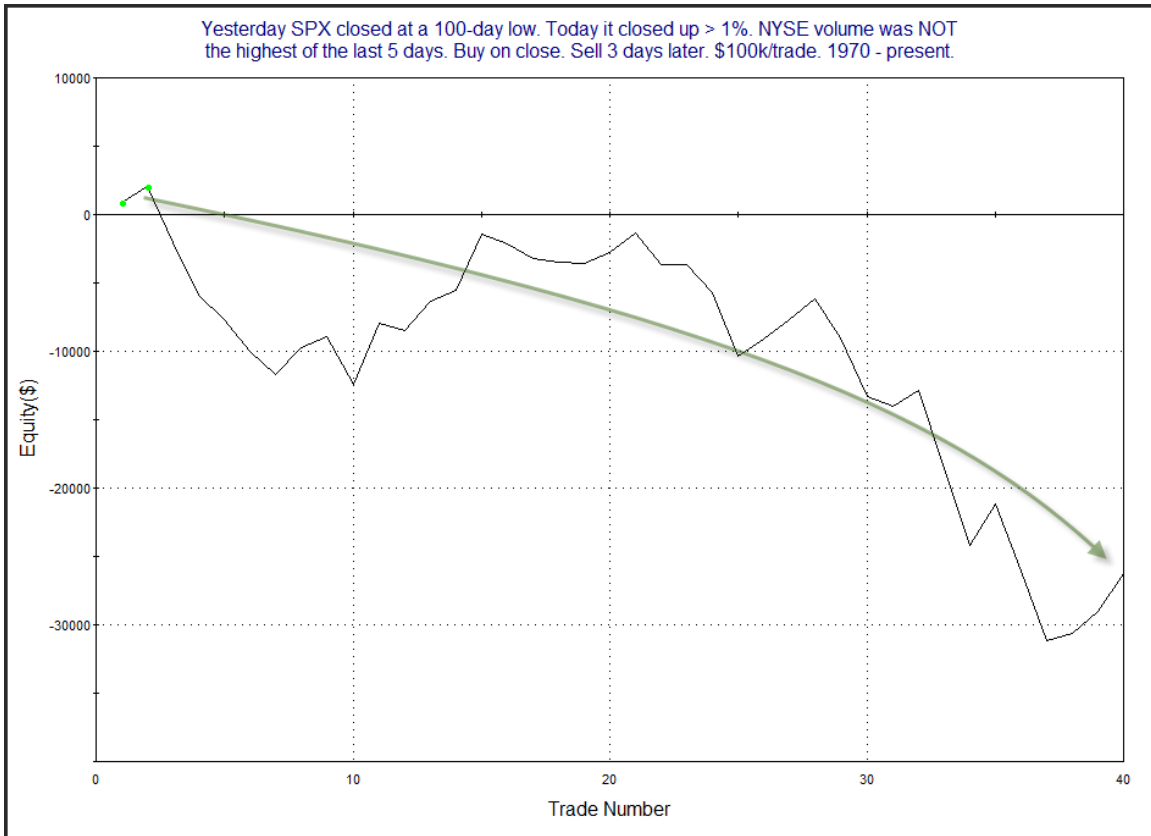


The strong upward slope confirms the edge suggested by the numbers. But volume was not close to a 5-day high on Monday. So here is what it looked like without the 5-day high in volume.

Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE volume was NOT the highest of the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1970 - present.

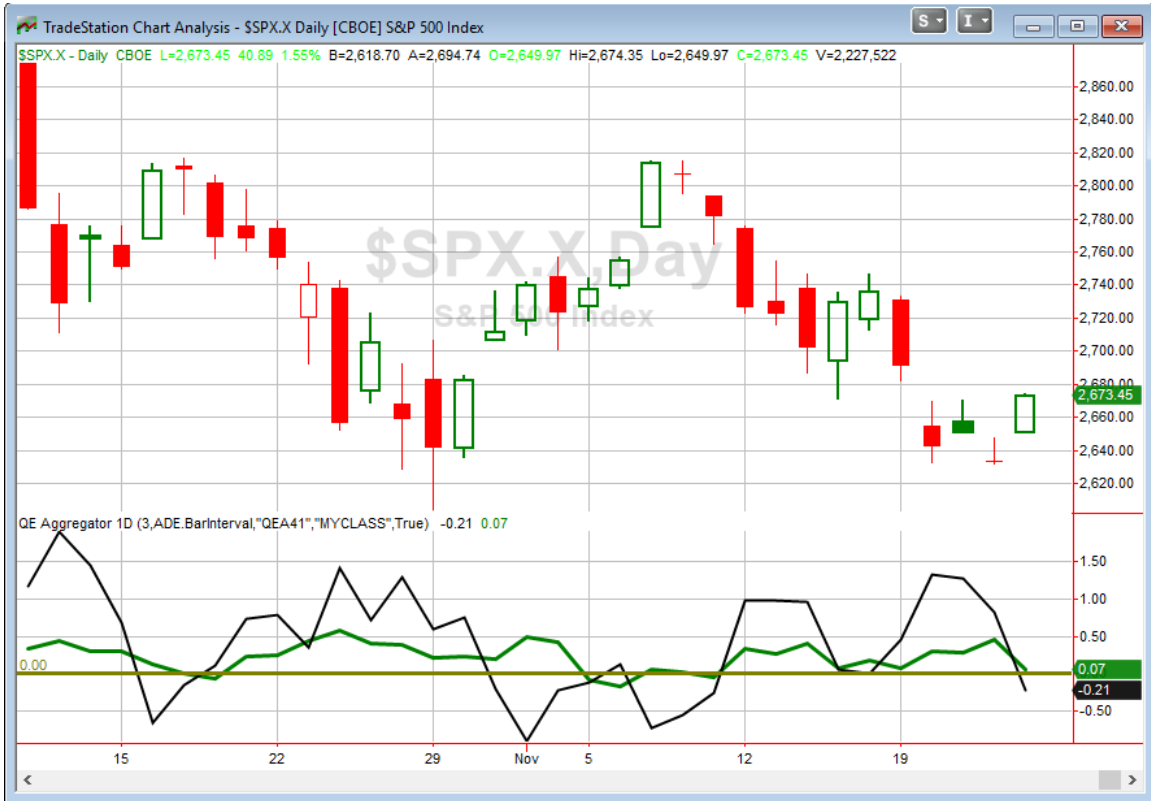
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-21,229.18	32	17	15	53.13	2,720.73	9,080.86	-4,498.77	-14,309.75	0.60	0.69	-663.41
9	-22,137.82	34	19	15	55.88	3,184.19	14,141.40	-5,509.16	-13,855.85	0.58	0.73	-651.11
8	-34,685.82	35	17	18	48.57	3,239.35	13,208.26	-4,986.38	-22,706.90	0.65	0.61	-991.02
7	-30,103.17	35	17	18	48.57	3,272.14	11,063.00	-4,762.76	-21,797.40	0.69	0.65	-860.09
6	-3,125.29	36	20	16	55.56	2,743.15	11,794.12	-3,624.27	-15,420.70	0.76	0.95	-86.81
5	-598.09	36	18	18	50.00	3,050.12	8,821.54	-3,083.35	-14,461.05	0.99	0.99	-16.61
4	-17,709.74	38	20	18	52.63	2,084.43	5,108.22	-3,299.91	-9,329.28	0.63	0.70	-466.05
3	-26,214.18	40	18	21	45.00	1,763.10	4,511.78	-2,759.52	-5,706.05	0.64	0.55	-655.35
2	-19,526.52	40	19	21	47.50	1,796.63	4,992.78	-2,555.36	-9,455.49	0.70	0.64	-488.16
1	-5,792.69	40	17	23	42.50	1,165.76	3,184.32	-1,113.51	-4,400.45	1.05	0.77	-144.82

The results primarily all flipped from positive to negative. A quick look at the equity curve below also shows that also appears to have flipped.



This suggests a possible downside edge for the next 3 days and I have included it on Active List.

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



With tonight's evidence considered the green Aggregator Line remained just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line is dropped below above 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 turned flat at the close.

With the current active studies, expectations are slated to remain bullish on Tuesday. This could change if compelling bearish evidence emerges. The Differential Pivot will be 2667.30 on Tuesday. That is 0.2% below Monday's close. So SPX would need to close down at least 0.2% on Tuesday in order to flip from overbought to oversold versus recent expectations.

The market is now short-term overbought. And we see a build-up of bearish evidence tonight that is turning total expectations near neutral. It is not quite a short signal, but I do not see a compelling reason to continue to hold my long index exposure. I'll be looking to exit my current SPY longs as long as there is not a sizable unfilled gap down on Tuesday. I will continue to hold some long Catapult exposure, as there were no changes to the CBI on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/26– neutral

The intermediate-term outlook was last updated in the 11/26/18 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

GE – 1/3 @ \$7.99 (bought @ limit)

CELG – 1/3 @ \$69.63 (bought @ limit)

WMT – 1/3 @ \$97.69 (bought @ limit)

WMT – 1/3 @ \$96.78 (bought @ limit)

WMT – 1/3 @ \$94.16 (bought @ limit)

CELG – 1/3 @ \$66.75 (buy @ limit) – *not filled – cancel for now*

HD – 1/3 @ \$169.05 (buy @ limit) – *not filled – cancel for now*

Broad Market Large Cap CBI – 7(GE, CELG-2, WMT-3, HD)

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
GE(1/3)	11/13/2018	\$7.99	\$7.58	-5.13%		Catapult
SPY(1/4)	11/14/2018	\$270.20	\$267.50	-1.00%		<i>sell @ \$266.75 LIMIT</i>
CELG(1/3)	11/15/2018	\$69.28	\$68.00	-1.85%		Catapult
WMT(1/3)	11/19/2018	\$97.69	\$95.15	-2.60%		Catapult
WMT(1/3)	11/20/2018	\$94.98	\$95.15	0.18%		Catapult
SPY(1/4)	11/20/2018	\$264.12	\$267.50	1.28%		<i>sell @ \$266.75 LIMIT</i>
WMT(1/3)	11/21/2018	\$94.16	\$95.15	1.05%		Catapult

I am looking to exit my SPY positions, but don't want to sell into a large gap down. I'll look to exit at \$266.75 or better, which is \$0.75 below Monday's close.

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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