

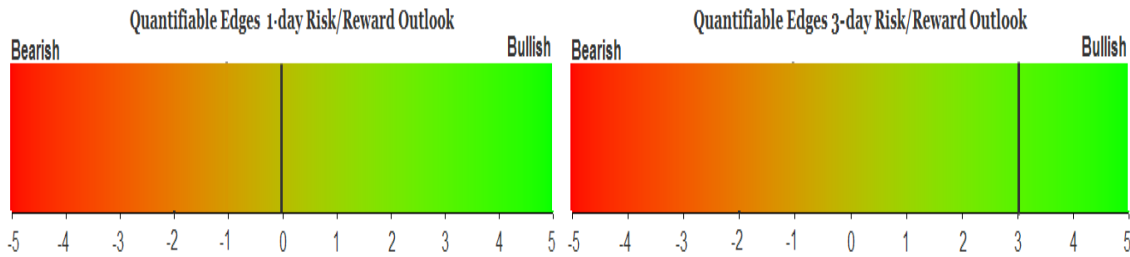
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 11, 2018

Volume 11 Issue 238

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- Back to back poor breadth days have typically resulted in successful Turnaround Tuesday's.
- Weak breadth on an up day is often a bearish indication for the following day.
- The relatively weak bounce on Monday is not a positive sign.
- SPY's large dip and long-term intraday low suggest a 1-day bearish edge.
- The 11/7/18 Follow Through Day has now officially "failed".

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, but there is plenty of evidence suggesting Tuesday could be a tough day for the market. I believe there is a bit of an upside edge looking out over 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
<b>Active - Short Term</b>						
December 11, 2018	Weak breadth 2x. Today is Monday	1 day	Bullish			
December 11, 2018	Up Issue % < 33%. SPX closes higher.	1 day	Bearish			
December 11, 2018	Big dip to long-term low reverses up	1 day	Bearish			
December 10, 2018	Dn 1.75% 2 of 3 days but > 10-low	1-2 days	Bullish			
December 10, 2018	SPX dn 3 < 200ma. 1% dn 2day > 20-low	1-4 days	Bullish			
December 7, 2018	Unfilled gap dn 2 days < 200ma	1-5 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 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%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
December 7, 2018	Close > 1% above open but down on day	1-2 days	Bullish			
November 8, 2018	FTD with strong breadth & 20-day high	int term	Bullish			

**The Evidence**

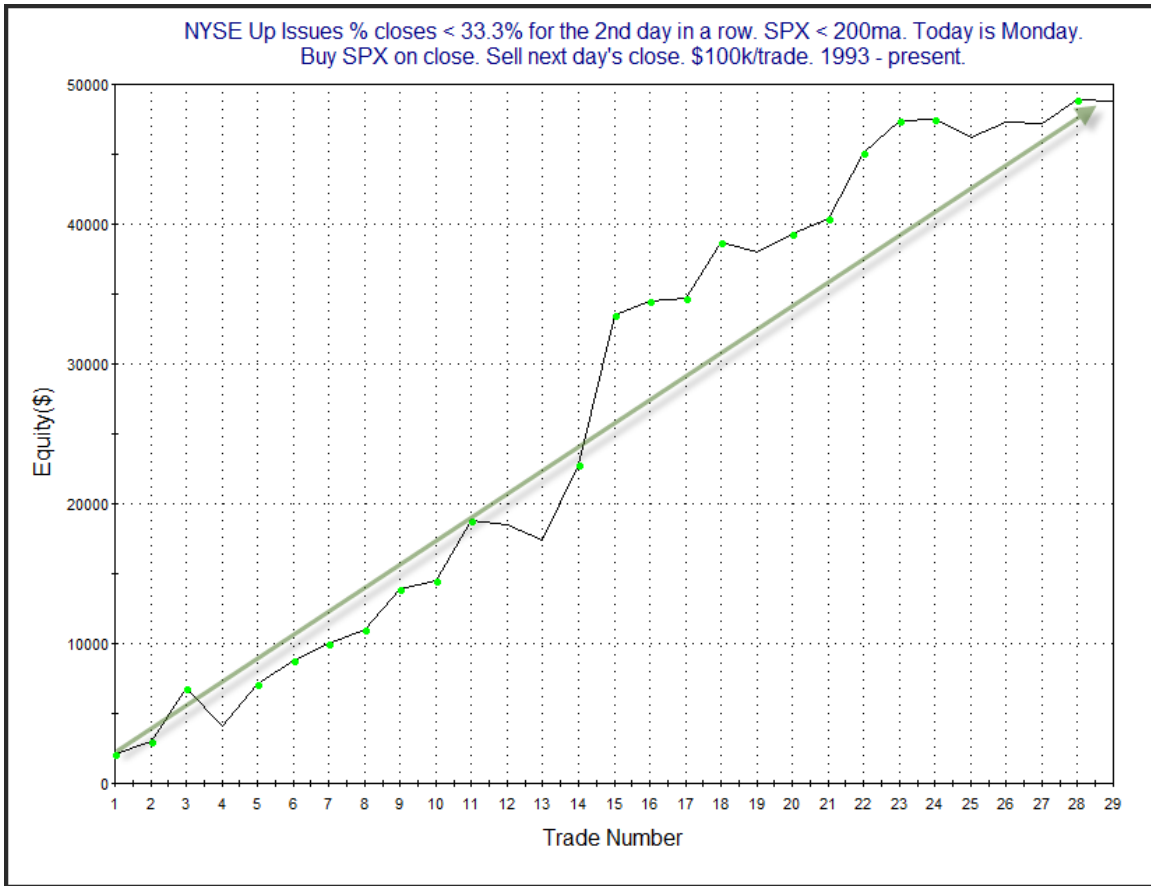
A big drop in the morning was followed by a bigger rebound in the afternoon for the big caps. But the small caps still suffered. The SPX finished up 0.2%, the NASDAQ rose 0.7%, and the Russell 2000 dropped 0.3%. Breadth was unusually negative as the NYSE Up Issues % was 32% and the Up Volume % came in at 24%. NYSE volume rose a little from Friday's level.

What stood out most to me on Monday was the strongly negative breadth despite the SPX and NASDAQ closing higher. And that triggered a few studies in the Quantifinder as well. The 1<sup>st</sup> was a "Turnaround Tuesday" study from the 2/9/16 letter. It required the Up Issues % to close below 33.3% for at least the 2<sup>nd</sup> day in a row. Results are updated.

NYSE Up Issues % closes < 33.3% for 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	76,766.09	29	21	8	72.41	4,874.26	13,733.46	-3,199.18	-7,414.56	1.52	4.00	2,647.11
4	68,623.47	29	22	7	75.86	3,856.85	14,020.11	-2,318.18	-5,934.24	1.66	5.23	2,366.33
3	51,864.29	29	22	7	75.86	3,357.09	12,304.89	-3,141.67	-11,502.27	1.07	3.36	1,788.42
2	46,184.57	29	22	7	75.86	2,608.78	9,496.89	-1,601.21	-5,167.89	1.63	5.12	1,592.57
1	48,782.96	29	22	7	75.86	2,500.29	10,716.03	-889.05	-2,680.15	2.81	8.84	1,682.17

**All 29 instances closed above the entry price at some point in the next 4 days.**

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



Here we see a strong, consistent upslope that acts as some confirmation of the bullish tendency. Of course, the study ignores the fact that SPX closed up on Monday.

The study below was from the 12/15/15 letter. It used the same breadth requirement, but it noted the positive close for the SPX. Stats are updated.

SPX closes up on a day where the NYSE Up Issues % closes < 33.3%.  
 Buy SPX on close. Sell next day's close. \$100k/trade. 1970 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$9,610.66)	Profit Factor	0.55
Gross Profit	\$11,977.79	Gross Loss	(\$21,588.45)
Total Number of Trades	20	Percent Profitable	25.00%
Winning Trades	5	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$480.53)	Ratio Avg. Win:Avg. Loss	1.66
Avg. Winning Trade	\$2,395.56	Avg. Losing Trade	(\$1,439.23)
Largest Winning Trade	\$9,089.88	Largest Losing Trade	(\$8,783.02)

The numbers here look squarely bearish. Below is a look at all the individual instances.

SPX closes up on a day where the NYSE Up Issues % closes < 33.3%.  
Buy SPX on close. Sell next day's close. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/25/1976	Buy	\$99.49	-0.15%	\$653.25
5/26/1976	Sell	\$99.34		(\$844.20)
10/23/1978	Buy	\$98.18	-0.70%	\$783.86
10/24/1978	Sell	\$97.49		(\$1,068.90)
10/30/1978	Buy	\$95.06	-2.01%	\$777.74
10/31/1978	Sell	\$93.15		(\$2,459.34)
3/4/1980	Buy	\$112.78	-1.46%	\$1,027.76
3/5/1980	Sell	\$111.13		(\$1,949.20)
1/25/1982	Buy	\$115.41	-0.19%	\$1,030.54
1/26/1982	Sell	\$115.19		(\$796.72)
4/27/1987	Buy	\$281.83	0.24%	\$1,454.94
4/28/1987	Sell	\$282.51		\$0.00
10/20/1987	Buy	\$236.83	9.10%	\$9,465.46
10/21/1987	Sell	\$258.37		\$0.00
3/31/1994	Buy	\$445.76	-1.53%	\$0.00
4/4/1994	Sell	\$438.92		(\$2,217.60)
10/4/1994	Buy	\$461.77	-1.79%	\$0.00
10/5/1994	Sell	\$453.52		(\$2,700.00)
6/7/1996	Buy	\$673.30	-0.17%	\$45.88
6/10/1996	Sell	\$672.16		(\$466.20)
7/27/1998	Buy	\$1,147.26	-1.48%	\$0.00
7/28/1998	Sell	\$1,130.24		(\$2,420.34)
9/16/1999	Buy	\$1,318.48	1.28%	\$1,429.50
9/17/1999	Sell	\$1,335.42		\$0.00
3/23/2005	Buy	\$1,172.53	-0.09%	\$644.30
3/24/2005	Sell	\$1,171.42		(\$94.35)
12/13/2007	Buy	\$1,488.42	-1.38%	\$0.00
12/14/2007	Sell	\$1,467.95		(\$1,382.88)
6/23/2008	Buy	\$1,318.02	-0.28%	\$600.00
6/24/2008	Sell	\$1,314.29		(\$1,020.00)
9/26/2008	Buy	\$1,213.53	-8.83%	\$0.00
9/29/2008	Sell	\$1,106.42		(\$8,783.02)
7/20/2015	Buy	\$2,128.28	-0.43%	\$9.66
7/21/2015	Sell	\$2,119.21		(\$592.48)
12/14/2015	Buy	\$2,021.94	1.06%	\$1,564.57
12/15/2015	Sell	\$2,043.41		\$0.00
1/19/2016	Buy	\$1,881.33	-1.17%	\$0.00
1/20/2016	Sell	\$1,859.33		(\$3,659.12)
3/9/2017	Buy	\$2,364.87	0.33%	\$503.58
3/10/2017	Sell	\$2,372.60		(\$76.86)

It is interesting that there were 2 huge outliers with a trade with so low a sample size. Other than those there appears to be a pretty steady downside edge. I have added this study to the Active List.

The size of the bounce in SPX was uninspiring. Often the initial bounce will provide hints as to the power and the likelihood of a continuation. Monday's bounce was very small compared to Friday's decline. The studies below show the difference between making up a small portion of the previous day's loss versus a more substantial recovery.

**SPX closes down at least 1.75% yesterday. Today it closes higher and makes up greater than 25% of yesterday's loss. Buy on close. Sell X days later. \$100k/trade. 1982 - present.**

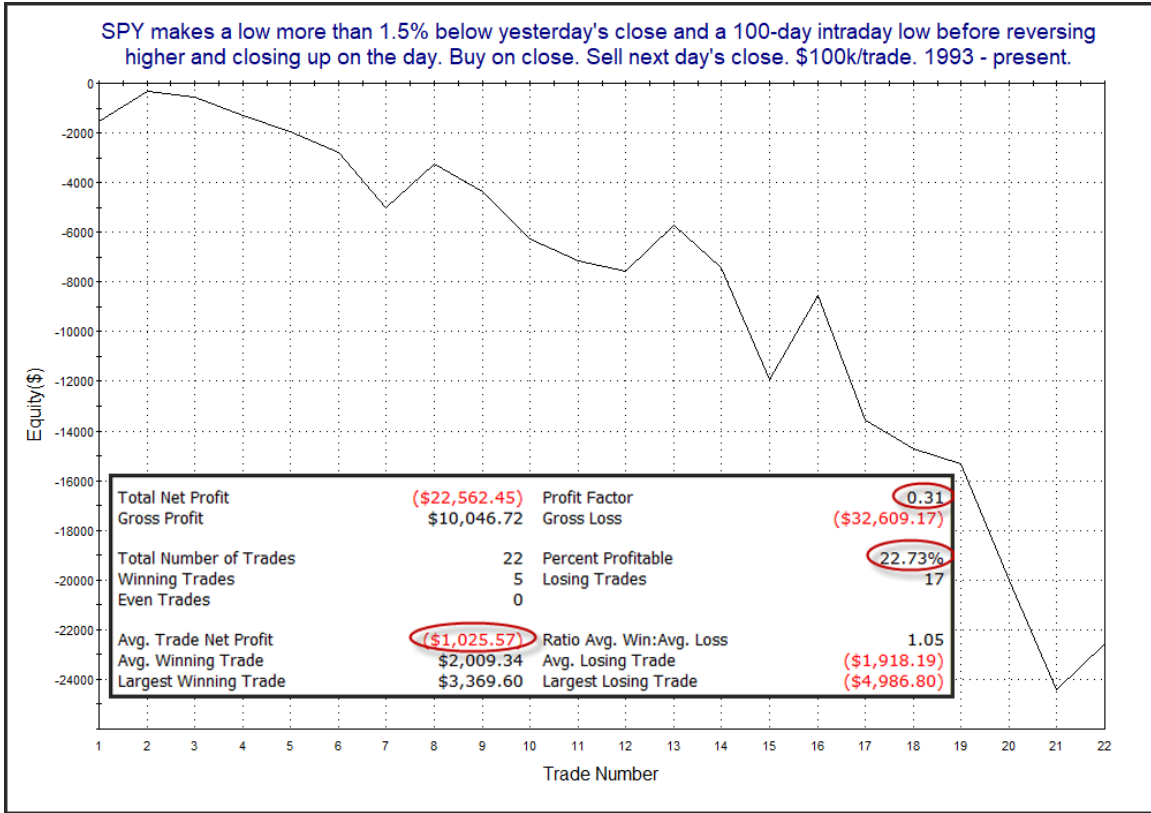
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	76,516.76	103	64	39	62.14	2,954.78	13,599.08	-2,886.90	-14,309.75	1.02	1.68	742.88
9	83,679.11	106	65	41	61.32	3,404.65	12,646.25	-3,356.66	-19,104.85	1.01	1.61	789.43
8	69,788.92	110	67	43	60.91	3,071.68	10,730.00	-3,163.10	-22,706.90	0.97	1.51	634.44
7	68,966.00	112	73	39	65.18	2,887.79	10,101.57	-3,636.99	-21,797.40	0.79	1.49	615.77
6	76,269.66	117	75	42	64.10	2,746.73	8,753.07	-3,088.94	-15,420.70	0.89	1.59	651.88
5	85,937.17	124	84	40	67.74	2,481.02	10,340.00	-3,061.72	-14,461.05	0.81	1.70	693.04
4	73,826.38	128	80	48	62.50	2,512.17	11,930.04	-2,648.90	-11,917.40	0.95	1.58	576.77
3	70,586.80	133	83	49	62.41	2,356.07	10,868.60	-2,550.34	-9,480.90	0.92	1.56	530.73
2	39,067.23	138	78	60	56.52	2,071.29	7,112.64	-2,041.55	-12,374.88	1.01	1.32	283.10
1	26,086.73	138	74	64	53.62	1,586.91	6,420.72	-1,427.26	-6,094.64	1.11	1.29	189.03

**SPX closes down at least 1.75% yesterday. Today it closes higher but makes up less than 25% of yesterday's loss. 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
10	-18,573.55	73	33	40	45.21	3,468.30	12,433.36	-3,325.69	-9,628.29	1.04	0.86	-254.43
9	-2,132.85	75	37	38	49.33	3,279.19	14,696.36	-3,249.02	-8,981.58	1.01	0.98	-28.44
8	23,935.32	79	41	38	51.90	3,311.58	16,201.62	-2,943.15	-13,874.69	1.13	1.21	302.98
7	2,739.55	81	42	39	51.85	3,088.97	13,832.04	-3,256.34	-11,504.64	0.95	1.02	33.82
6	2,345.09	81	40	41	49.38	2,794.25	10,294.46	-2,668.90	-8,519.34	1.05	1.02	28.95
5	-11,737.84	85	43	42	50.59	2,258.18	10,682.82	-2,591.41	-11,026.82	0.87	0.89	-138.09
4	-15,038.69	85	40	45	47.06	2,212.10	9,834.56	-2,300.50	-7,314.99	0.96	0.85	-176.93
3	-18,751.66	86	40	46	46.51	1,992.31	5,545.08	-2,140.09	-11,129.52	0.93	0.81	-218.04
2	-8,305.98	88	44	44	50.00	1,570.90	5,288.12	-1,759.67	-6,510.90	0.89	0.89	-94.39
1	-12,406.32	88	42	46	47.73	1,087.68	9,089.88	-1,262.81	-4,761.33	0.86	0.79	-140.98

Obviously a larger bounce seems to carry more momentum into the following days and mark a potential short-term bottom on a more reliable basis.

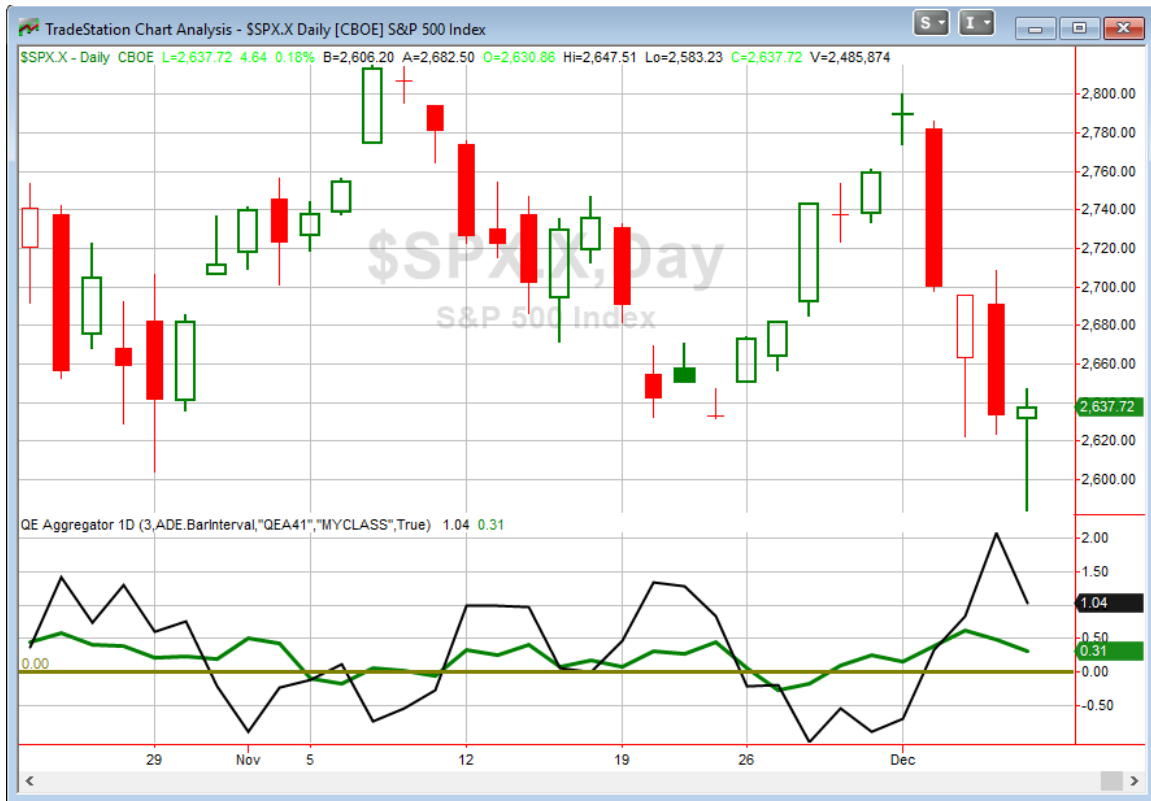
I also found it notable that SPY made a long-term intraday low on Monday before reversing and finishing slightly higher. And it took a large rally just to get back to breakeven on the day. I decided to look at other times that SPY came back from a long-term low and a large intraday dip to finish the day positively. I found that it often struggled to carry that afternoon momentum into the following day. This can be seen in the study below.



The numbers clearly suggest a downside edge, and the profit curve appears quite bearish as well.

One other note about making a new intermediate-term low is that is meant the 11/7/18 Follow Through Day was a failure. So that bit of intermediate-term bullish evidence was removed from the Active List tonight.

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



With tonight's evidence considered 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 is still far above 0. The positive Differential Line reading means SPX is strongly 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 Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2725.51 on Tuesday. That is a whopping 3.3% above Monday's close, and it is unlikely we will see a rally that large on Tuesday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator remains bullish, and with so much room to the upside reward/risk appears favorable. But tonight's studies certainly call Tuesday's edge into question, with some compelling evidence suggesting a 1-day bearish tendency. I currently have a small SPY position. Tonight's evidence is leaving me no desire to increase that position. But with the favorable 3-day reward/risk and bullish Aggregator I will continue to hold it at least another day.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 12/10– neutral***

The intermediate-term outlook was last updated in the 12/10/18 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***

*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
SPY(1/4)	12/7/2018	\$269.45	\$264.07	-2.00%		Aggregator

*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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