

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 13, 2018

Volume 11 Issue 240

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Positive days that close poorly will often be followed by buying in the next few days.
- SPY closing well off the highs on an up day has typically been followed by a rise in the next few days.
- SPY's low range on the 3<sup>rd</sup> day of the rally suggest a brief downside edge.
- Rising prices and dropping volume over the last few days suggest a short-term bearish edge.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is looking more bearish, and this has turned the Aggregator neutral. I am looking to get flat and await the next strongly favorable setup.

*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 13, 2018	SPY up 3 with volume down 3 days	1-3 days	Bearish			
December 13, 2018	Up 3. Small range < 200ma	1-2 days	Bearish			
December 13, 2018	SPY up but 1% below high	1-2 days	Bullish			
December 13, 2018	SPY up but bottom 10% of range	1-3 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			

**The Evidence**

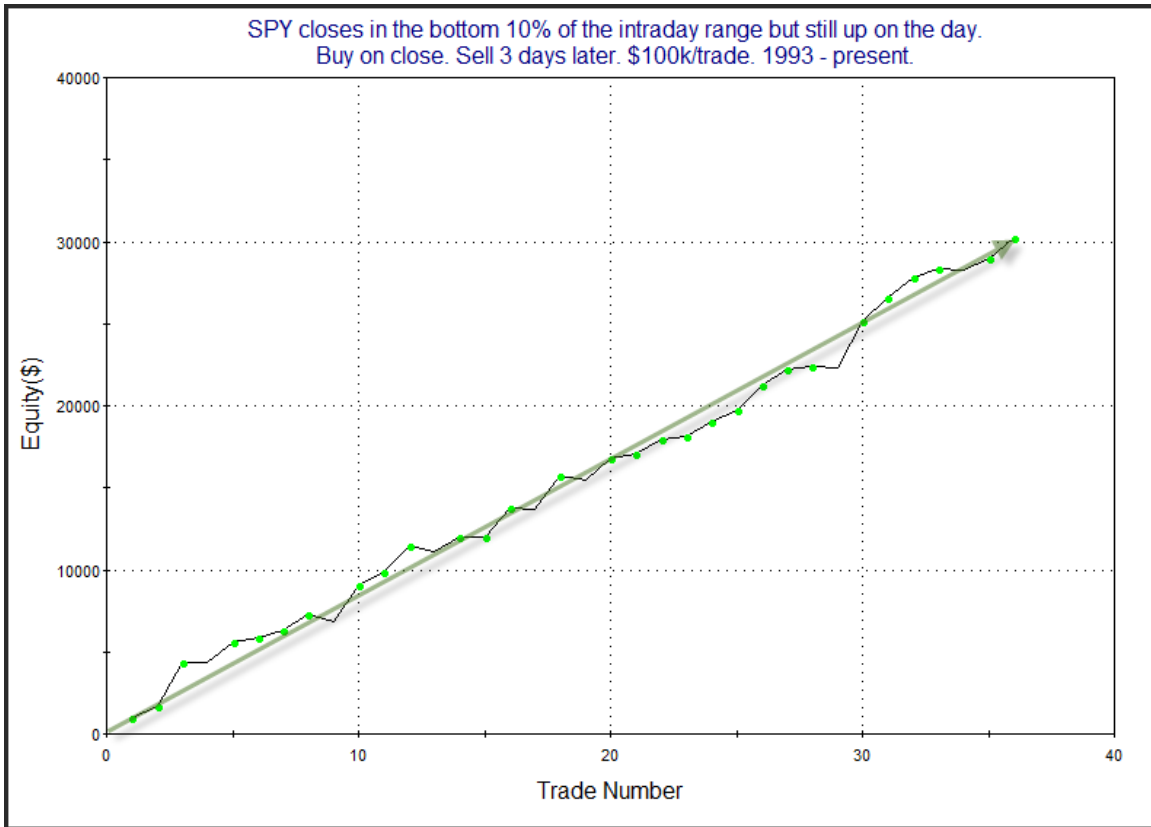
Wednesday started with strong gains, but much of those gains were given back in the afternoon. The SPX finished up 0.5%, the NASDAQ rose 0.95%, and the Russell 2000 gained 1.05%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 70%. NYSE volume rose a little from Tuesday's level.

Wednesday's late-day selling and weak close may have felt like a negative, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often, though this is now the 2<sup>nd</sup> time in the last month. It is something I explored in the 11/23/18 letter. Results below are all updated.

SPY closes in the bottom 10% of the intraday range but still up on the day. 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	24,787.61	35	25	10	71.43	1,516.57	3,611.20	-1,312.67	-3,968.25	1.16	2.89	708.22
4	25,172.25	36	29	7	80.56	1,174.49	3,604.12	-1,269.72	-3,623.88	0.93	3.83	699.23
3	30,247.88	36	29	6	80.56	1,088.61	2,820.64	-220.28	-472.68	4.94	23.89	840.22
2	19,664.97	36	25	11	69.44	938.74	3,028.76	-345.78	-683.92	2.71	6.17	546.25
1	10,455.82	37	25	12	67.57	619.96	3,476.36	-420.27	-903.90	1.48	3.07	282.59

**All 37 instances closed above the entry price at some point in the next 4 days.**

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



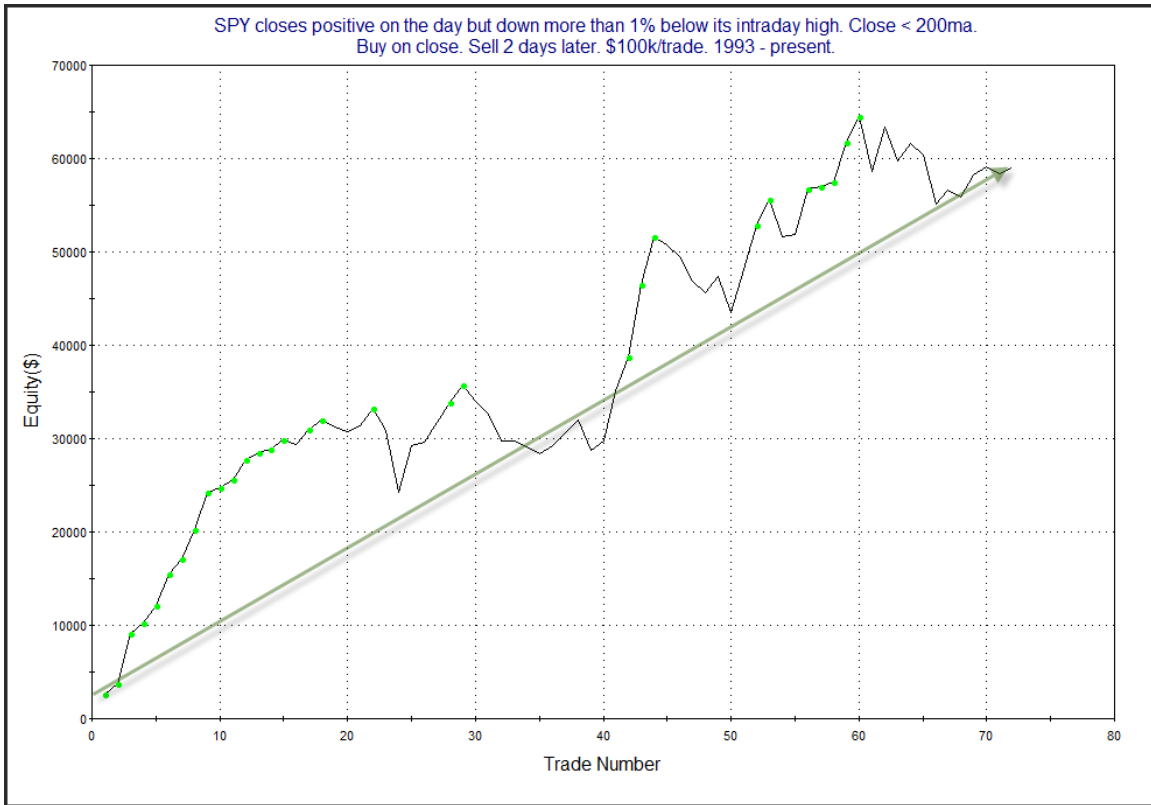
This curve is almost as straight as the arrow, and acts as confirmation of the upside edge.

Another Quantifinder study looked at the fact that SPY managed to close positive, but still far below its intraday high. This is the 2<sup>nd</sup> day in a row that this study has triggered. Below I have copied the study from last night's letter.

SPY closes positive on the day but down more than 1% below its intraday high. 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	45,680.03	61	34	26	55.74	3,521.23	10,362.52	-2,847.76	-6,798.84	1.24	1.62	748.85
4	37,364.15	63	37	26	58.73	3,044.00	13,286.49	-2,894.76	-11,890.58	1.05	1.50	593.08
3	44,489.43	65	38	27	58.46	2,907.15	11,878.65	-2,443.79	-9,411.08	1.19	1.67	684.45
2	58,940.43	72	48	24	66.67	2,332.78	7,717.98	-2,209.71	-6,645.06	1.06	2.11	818.62
1	27,234.63	79	47	32	59.49	1,749.77	6,926.07	-1,718.89	-5,275.75	1.02	1.50	344.74

Based on the stats table this pattern appears to suggest a solid upside edge over the next couple of days. Below I have produced an equity curve to see how the edge has played out over time.



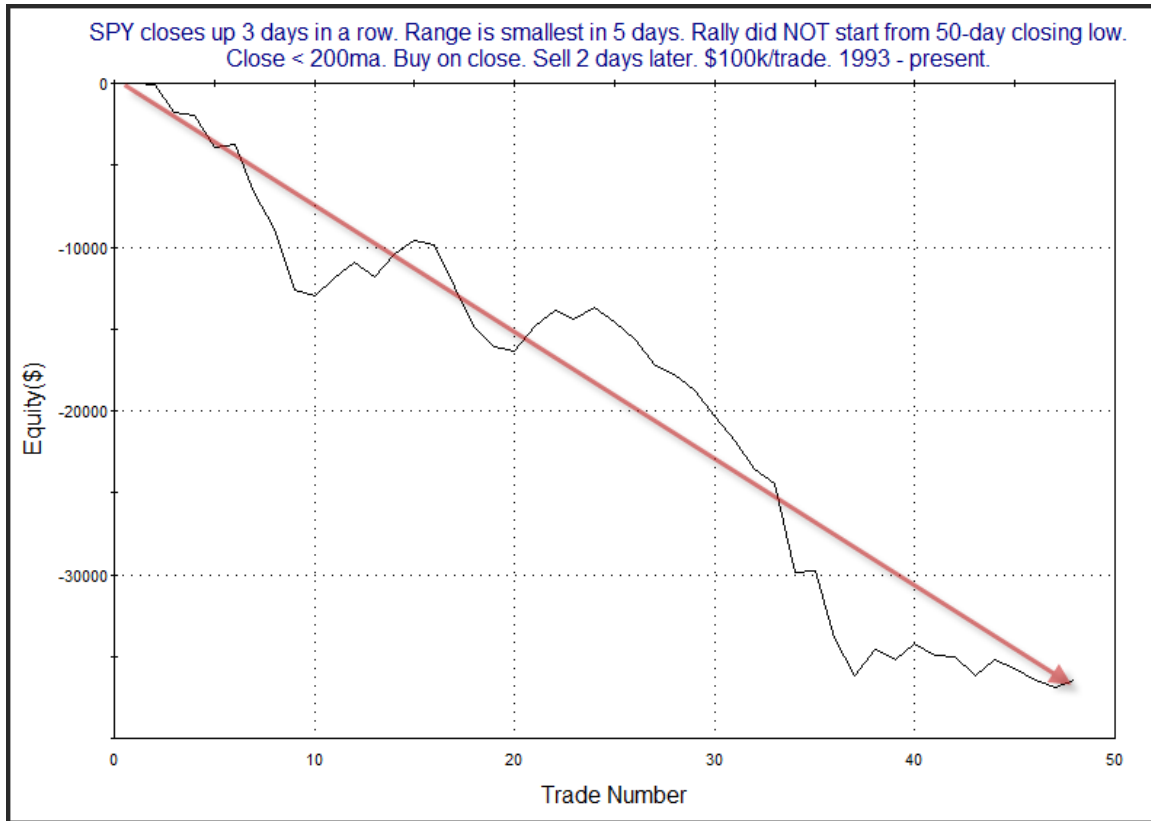
The long-term upslope serves as some confirmation of the bullish edge. But there has been some lack of progress lately. Still, the edge appears strong enough to deserve some consideration. And unlike last night, the SPX also confirmed with a higher close. So I did include this on the Active List tonight.

But not everything from Wednesday looked bullish. I have not featured this next study since the 12/24/15 letter, but the results were compelling enough that it seemed worth review. It looked at low range days when the market moved up for three days in a row.

SPY closes up 3 days in a row. Range is smallest in 5 days. Rally did NOT start from 50-day closing low. 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	-44,438.34	48	22	25	45.83	1,256.03	3,702.72	-2,882.84	-9,046.24	0.44	0.38	-925.80
4	-44,131.73	48	19	29	39.58	1,295.23	3,045.60	-2,370.39	-7,118.52	0.55	0.36	-919.41
3	-37,055.30	48	17	31	35.42	1,212.87	2,774.88	-1,860.45	-6,431.25	0.65	0.36	-771.99
2	-36,467.69	48	13	35	27.08	903.24	1,574.20	-1,377.42	-5,350.20	0.66	0.24	-759.74
1	-14,633.43	49	19	30	38.78	1,022.12	3,395.70	-1,135.13	-8,857.80	0.90	0.57	-298.64

Two days later there has been a propensity for the market to close lower. Below is a look at the equity curve.



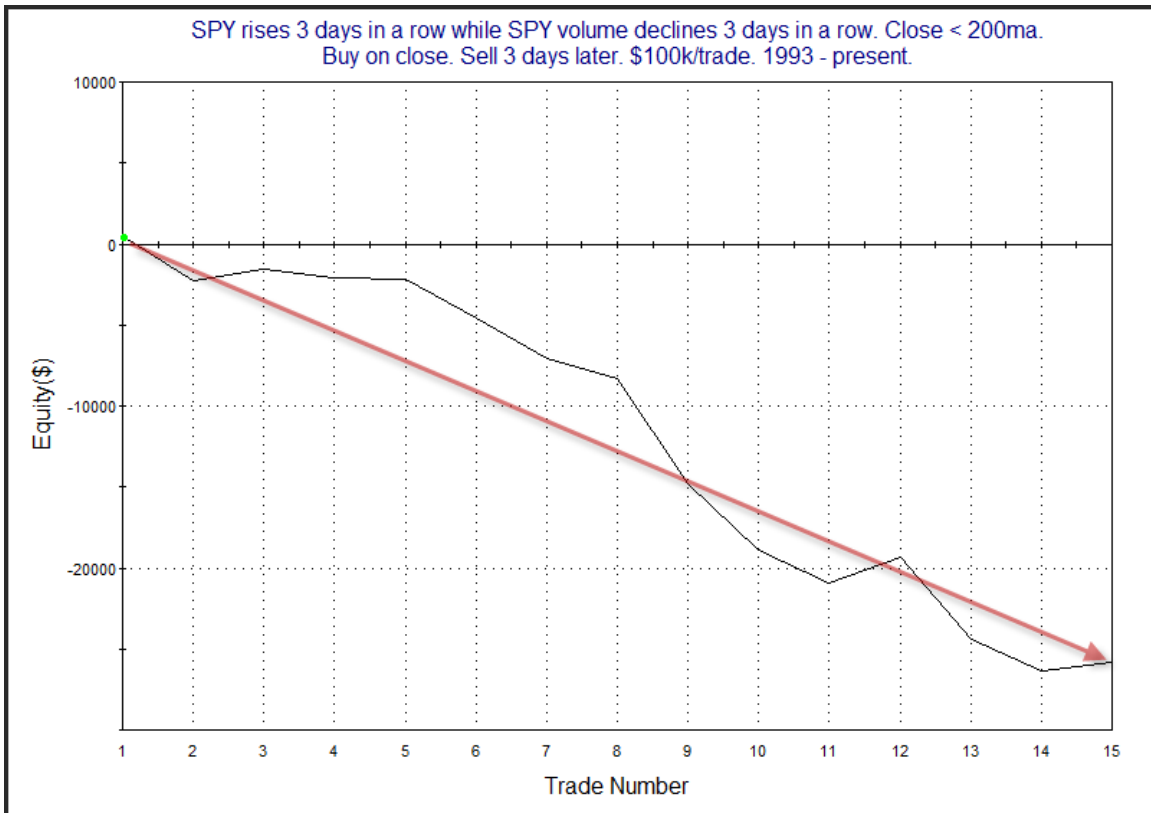
The persistent downslope suggests the bearish edge is for real. I have also included this study on the Active List tonight.

Several studies appeared in the Quantifinder related to SPY volume. The one below I found to be especially appealing, and worth showing again because it seems to suggest not just a short-term edge, but perhaps an intermediate-term one as well. It is updated from the 8/16/11 letter.

SPY rises 3 days in a row while SPY volume declines 3 days in a row. Close < 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

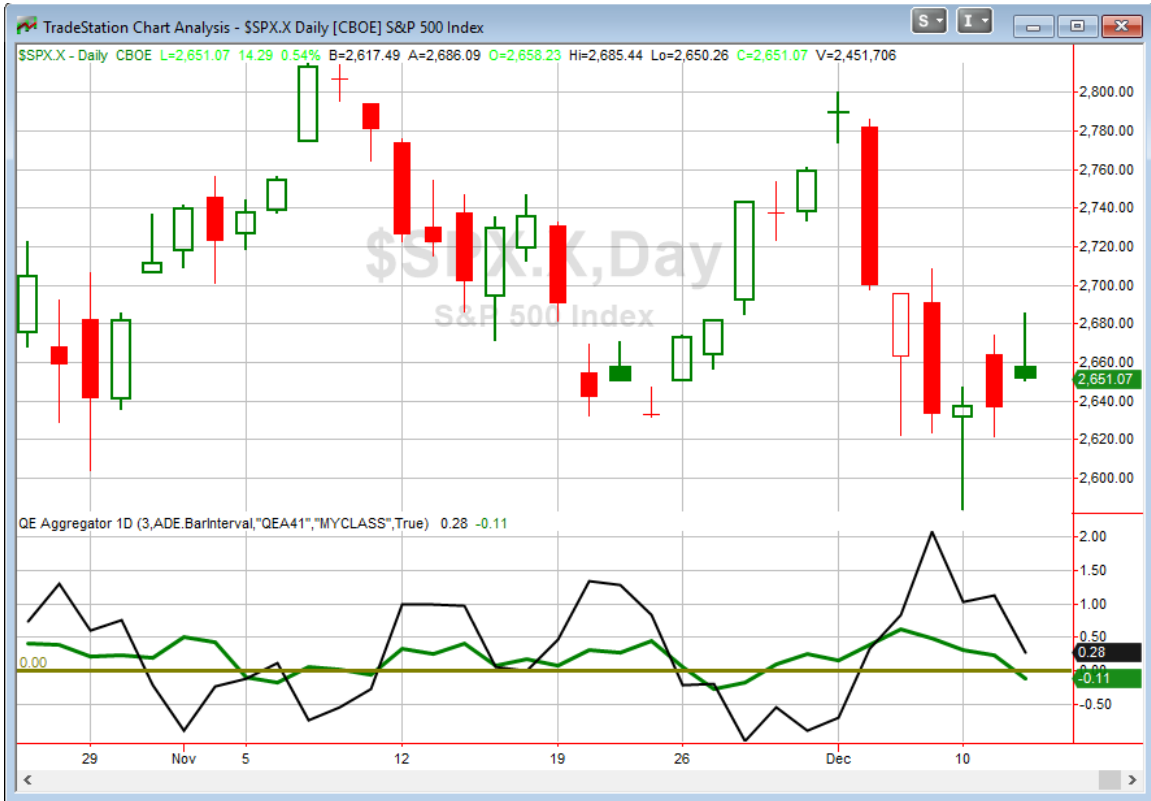
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	-52,682.08	14	4	10	28.57	2,166.56	4,102.18	-6,134.83	-12,586.76	0.35	0.14	-3,763.01
19	-47,115.78	14	5	9	35.71	1,842.16	4,528.14	-6,258.51	-15,435.00	0.29	0.16	-3,365.41
18	-44,817.27	15	6	9	40.00	1,546.31	4,639.26	-6,010.57	-11,688.04	0.26	0.17	-2,987.82
17	-39,324.66	15	4	11	26.67	1,691.46	3,944.76	-4,190.05	-8,411.13	0.40	0.15	-2,621.64
16	-32,432.67	15	4	11	26.67	2,837.21	4,444.80	-3,980.14	-11,782.05	0.71	0.26	-2,162.18
15	-38,198.90	15	4	11	26.67	2,592.29	6,220.11	-4,415.28	-12,430.32	0.59	0.21	-2,546.59
14	-41,524.61	15	4	11	26.67	2,745.78	7,258.74	-4,773.43	-18,100.11	0.58	0.21	-2,768.31
13	-38,032.09	15	6	9	40.00	1,253.09	2,657.62	-5,061.18	-22,288.14	0.25	0.17	-2,535.47
12	-22,499.46	15	8	7	53.33	1,442.10	3,886.11	-4,862.32	-16,062.69	0.30	0.34	-1,499.96
11	-12,631.85	15	8	7	53.33	1,694.85	3,333.60	-3,741.52	-10,320.87	0.45	0.52	-842.12
10	-14,950.29	15	7	8	46.67	2,098.85	5,193.15	-3,705.28	-11,977.56	0.57	0.50	-996.69
9	-15,602.00	15	7	8	46.67	2,044.09	4,481.28	-3,738.82	-10,794.21	0.55	0.48	-1,040.13
8	-15,969.13	15	5	10	33.33	2,685.60	6,231.78	-2,939.71	-6,112.26	0.91	0.46	-1,064.61
7	-17,913.84	15	7	8	46.67	1,169.49	2,649.09	-3,262.53	-11,617.41	0.36	0.31	-1,194.26
6	-17,595.89	15	5	10	33.33	1,401.73	1,720.62	-2,460.45	-7,552.86	0.57	0.28	-1,173.06
5	-19,560.02	15	5	9	33.33	1,294.86	2,551.35	-2,892.70	-6,540.81	0.45	0.25	-1,304.00
4	-22,473.10	15	3	12	20.00	1,663.01	2,737.50	-2,288.51	-6,615.42	0.73	0.18	-1,498.21
3	-25,788.59	15	4	11	26.67	831.23	1,564.94	-2,646.68	-6,431.25	0.31	0.11	-1,719.24
2	-10,944.86	16	5	11	31.25	1,581.66	5,169.81	-1,713.92	-5,350.20	0.92	0.42	-684.05
1	1,526.34	18	9	9	50.00	1,758.58	3,862.77	-1,588.99	-8,857.80	1.11	1.11	84.80

Here we see what appears to be a strong downside inclination. Below is the 3-day profit curve.



Instances are a little low, but the persistent downslope is impressive. I have included this study on the Active List tonight.

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



With tonight's mix of studies considered, the green Aggregator Line dipped a little below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line is still above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 bearish on Thursday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 2675.50 on Thursday. That is 0.9% above Wednesday's close. So it would take a close higher of at least 0.9% on Thursday for SPX to flip from oversold to overbought versus recent expectations.

To me it still seems this market should have a bounce in it. And we have a fair amount of evidence suggesting just that. But the weight of the short-term evidence has turned bearish. And we are in a volatile market with a trend that has begun to look more down than up. This is not the time to hold onto long positions and hope they eventually work out. Volatile markets offer plenty of opportunity. But to take advantage of opportunities traders need to avoid crushing drawdowns and maintain their account balances. A big part of surviving a bear market is getting out when reward/risk is no longer favorable. I believe the best course of action for my own trading is to exit my current small SPY position and wait for a more compelling edge to emerge before jumping back in.

***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	\$265.46	-1.48%		<i>Sell 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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