

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2018

Volume 11 Issue 243

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 2 |

Tonight's Research Points

- Several Turnaround Tuesday studies emerged.
- Persistently weak closes suggest a good chance of a bounce on Tuesday.
- Wednesday is a Fed Day, which means more bullish seasonality.
- The CBI remains a very docile "2", despite the strong selling.

Short-term Outlook

The Bottom Line

The Aggregator is bullish and there is ample room to the upside. I believe there is a good chance of a bounce in the upcoming days. I am long and may get longer.

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 | | | | | | |
| December 17, 2018 | SPY gap dn bottom range 50-low close | 1-3 days | Bullish | 2.50% | -2.50% | -5.30% |
| December 17, 2018 | SPX < 10ma heading into Dec Opex | 1-6 days | Bullish | 2.50% | -1.10% | -2.00% |
| December 13, 2018 | SPY up 3 with volume down 3 days | 1-3 days | Bearish | | | |
| December 13, 2018 | SPY up but bottom 10% of range | 1-3 days | Bullish | | | |
| Active - Long Term | | | | | | |
| December 13, 2018 | SPY up 3 with volume down 3 days | 1-20 days | Bearish | -7.30% | 2.40% | 3.70% |
| 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

Monday was another big down day. The SPX finished down 2.1%, the NASDAQ lost 2.3%, and the Russell 2000 fell 2.3%. Breadth was negative as the NYSE Up Issues % was 13% and the Up Volume % came in at 15%. NYSE volume rose a good amount from Friday's level.

In the 11/13/18 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 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 | 58,558.99 | 48 | 34 | 14 | 70.83 | 2,573.97 | 13,815.90 | -2,068.28 | -6,435.17 | 1.24 | 3.02 | 1,219.98 |
| 9 | 65,305.27 | 48 | 36 | 12 | 75.00 | 2,381.30 | 11,206.23 | -1,701.79 | -6,486.13 | 1.40 | 4.20 | 1,360.53 |
| 8 | 66,959.22 | 48 | 36 | 11 | 75.00 | 2,403.77 | 11,382.35 | -1,779.67 | -4,450.18 | 1.35 | 4.42 | 1,394.98 |
| 7 | 60,030.02 | 48 | 36 | 12 | 75.00 | 2,235.85 | 11,104.17 | -1,705.06 | -5,996.62 | 1.31 | 3.93 | 1,250.63 |
| 6 | 47,555.45 | 48 | 32 | 16 | 66.67 | 2,097.63 | 10,034.53 | -1,223.04 | -3,625.02 | 1.72 | 3.43 | 990.74 |
| 5 | 46,064.23 | 51 | 33 | 18 | 64.71 | 2,124.91 | 9,572.31 | -1,336.55 | -4,543.76 | 1.59 | 2.91 | 903.22 |
| 4 | 37,472.44 | 51 | 37 | 14 | 72.55 | 1,579.29 | 8,810.76 | -1,497.23 | -4,440.87 | 1.05 | 2.79 | 734.75 |
| 3 | 28,544.85 | 51 | 31 | 20 | 60.78 | 1,645.63 | 8,432.34 | -1,123.49 | -5,306.04 | 1.46 | 2.27 | 559.70 |
| 2 | 22,878.74 | 51 | 33 | 18 | 64.71 | 1,193.52 | 5,018.23 | -917.08 | -3,357.50 | 1.30 | 2.39 | 448.60 |
| 1 | 20,473.01 | 51 | 32 | 19 | 62.75 | 1,022.99 | 4,723.23 | -645.40 | -2,680.15 | 1.59 | 2.67 | 401.43 |

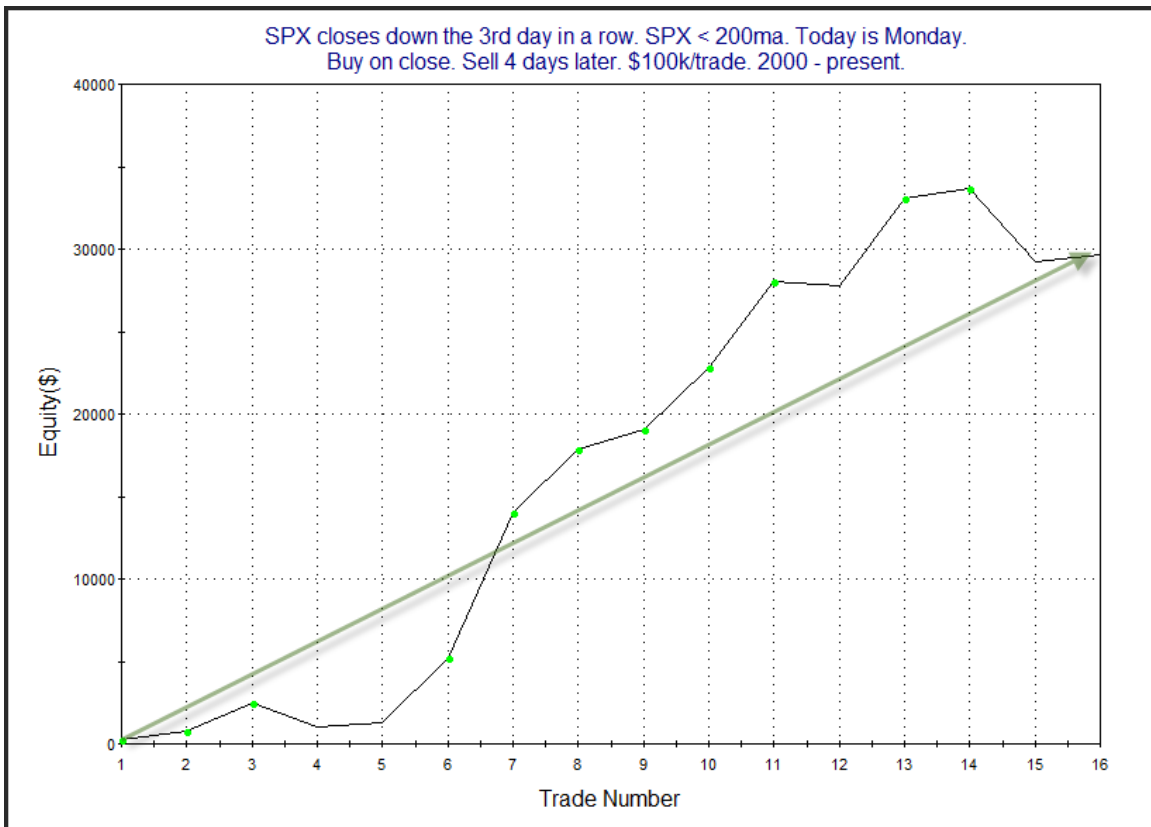
These results are quite compelling and suggest a solid upside edge. In the 11/13/18 subscriber letter I showed it has actually been a bit more powerful below the 200ma.

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 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 | 36,505.12 | 16 | 12 | 4 | 75.00 | 4,123.71 | 13,815.90 | -3,244.84 | -6,435.17 | 1.27 | 3.81 | 2,281.57 |
| 9 | 40,302.55 | 16 | 12 | 4 | 75.00 | 4,211.95 | 11,206.23 | -2,560.21 | -6,486.13 | 1.65 | 4.94 | 2,518.91 |
| 8 | 41,861.71 | 16 | 12 | 3 | 75.00 | 4,309.58 | 11,382.35 | -3,284.41 | -4,450.18 | 1.31 | 5.25 | 2,616.36 |
| 7 | 38,487.70 | 16 | 12 | 4 | 75.00 | 4,209.75 | 11,104.17 | -3,007.31 | -5,996.62 | 1.40 | 4.20 | 2,405.48 |
| 6 | 33,710.13 | 16 | 11 | 5 | 68.75 | 3,936.02 | 10,034.53 | -1,917.21 | -3,625.02 | 2.05 | 4.52 | 2,106.88 |
| 5 | 35,540.38 | 16 | 10 | 6 | 62.50 | 4,424.01 | 9,572.31 | -1,449.96 | -4,360.51 | 3.05 | 5.09 | 2,221.27 |
| 4 | 29,632.36 | 16 | 13 | 3 | 81.25 | 2,753.67 | 8,810.76 | -2,055.10 | -4,440.87 | 1.34 | 5.81 | 1,852.02 |
| 3 | 22,743.74 | 16 | 11 | 5 | 68.75 | 2,773.83 | 8,432.34 | -1,553.68 | -3,408.93 | 1.79 | 3.93 | 1,421.48 |
| 2 | 15,214.08 | 16 | 10 | 6 | 62.50 | 2,071.56 | 5,018.23 | -916.91 | -1,499.98 | 2.26 | 3.77 | 950.88 |
| 1 | 13,895.79 | 16 | 11 | 5 | 68.75 | 1,703.33 | 4,723.23 | -968.17 | -2,680.15 | 1.76 | 3.87 | 868.49 |

Additionally, I generated a profit curve using a 4-day exit strategy.



This is a pretty solid looking curve.

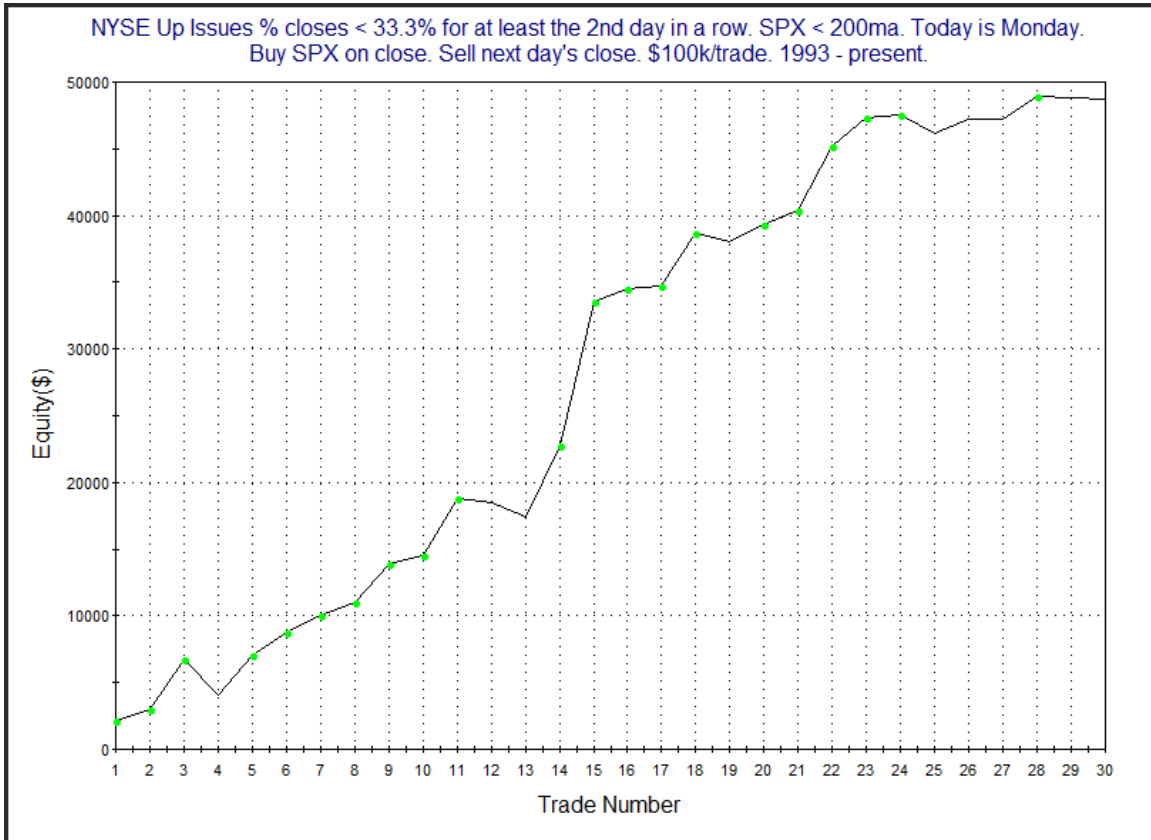
In the 12/11/18 letter last week I showed another Turnaround Tuesday related study. It required the Up Issues % close below 33.3% for at least the 2nd day in a row. Results are updated.

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 | 73,370.23 | 30 | 21 | 9 | 70.00 | 4,874.26 | 13,733.46 | -3,221.03 | -7,414.56 | 1.51 | 3.53 | 2,445.67 |
| 4 | 67,225.98 | 30 | 22 | 8 | 73.33 | 3,856.85 | 14,020.11 | -2,203.09 | -5,934.24 | 1.75 | 4.81 | 2,240.87 |
| 3 | 52,338.63 | 30 | 23 | 7 | 76.67 | 3,231.75 | 12,304.89 | -3,141.67 | -11,502.27 | 1.03 | 3.38 | 1,744.62 |
| 2 | 46,678.52 | 30 | 23 | 7 | 76.67 | 2,516.83 | 9,496.89 | -1,601.21 | -5,167.89 | 1.57 | 5.16 | 1,555.95 |
| 1 | 48,748.18 | 30 | 22 | 8 | 73.33 | 2,500.29 | 10,716.03 | -782.27 | -2,680.15 | 3.20 | 8.79 | 1,624.94 |

All 30 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.)



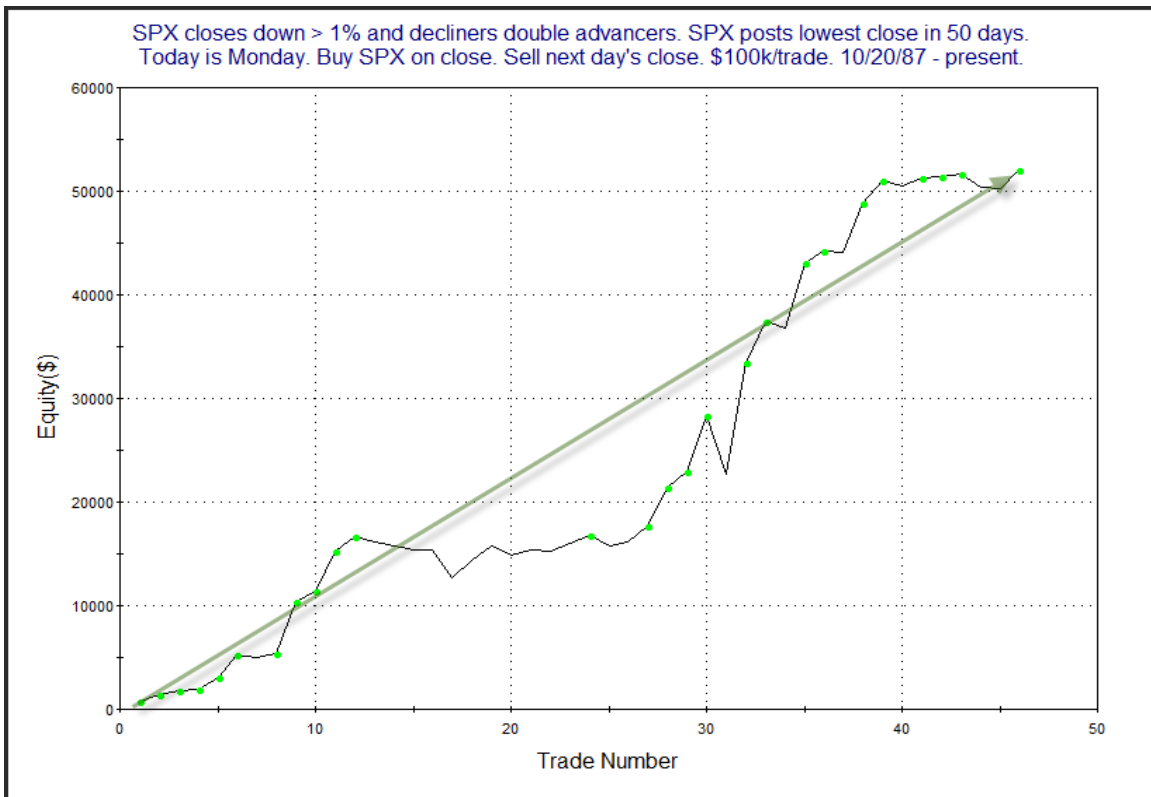
Here again we see a strong, consistent upslope that confirms the bullish tendency.

Another study used the weak breadth and the Turnaround Tuesday, but it also looked for a 50-day low for SPX. It was last seen in the 2/9/16 letter and has been updated below.

SPX closes down > 1% and decliners double advancers. SPX posts lowest close in 50 days.
Today is Monday. Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 - present.

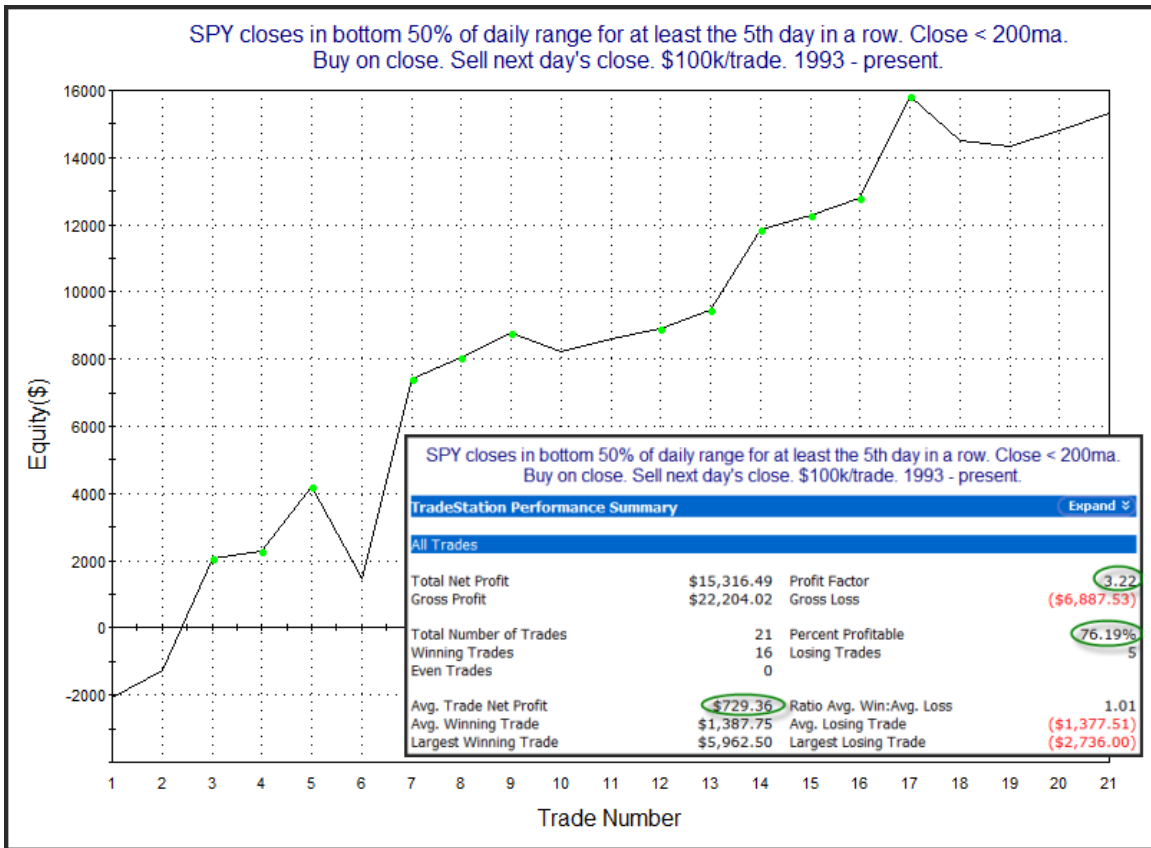
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 92,068.31 | 45 | 31 | 14 | 68.89 | 3,943.89 | 13,733.46 | -2,156.58 | -5,696.34 | 1.83 | 4.05 | 2,045.96 |
| 4 | 63,310.86 | 46 | 35 | 11 | 76.09 | 2,876.16 | 14,020.11 | -3,395.87 | -14,820.98 | 0.85 | 2.69 | 1,376.32 |
| 3 | 60,825.78 | 46 | 33 | 13 | 71.74 | 2,834.45 | 12,304.89 | -2,516.24 | -13,815.18 | 1.13 | 2.86 | 1,322.30 |
| 2 | 53,671.30 | 46 | 30 | 16 | 65.22 | 2,485.30 | 9,496.89 | -1,305.49 | -6,763.30 | 1.90 | 3.57 | 1,166.77 |
| 1 | 52,002.02 | 46 | 32 | 14 | 69.57 | 2,080.38 | 10,716.03 | -1,040.73 | -5,702.04 | 2.00 | 4.57 | 1,130.48 |

Results are very strong across the board, but most of the edge is realized on day one. Below is a profit curve using a 1-day exit strategy.



While it is not the straightest line I have ever shown, it has moved persistently higher. The study does seem worth consideration.

The market has continually closed poorly over the last week. The study below is from the 12/14/15 letter. It examines consistent closes in the lower half of the daily range.

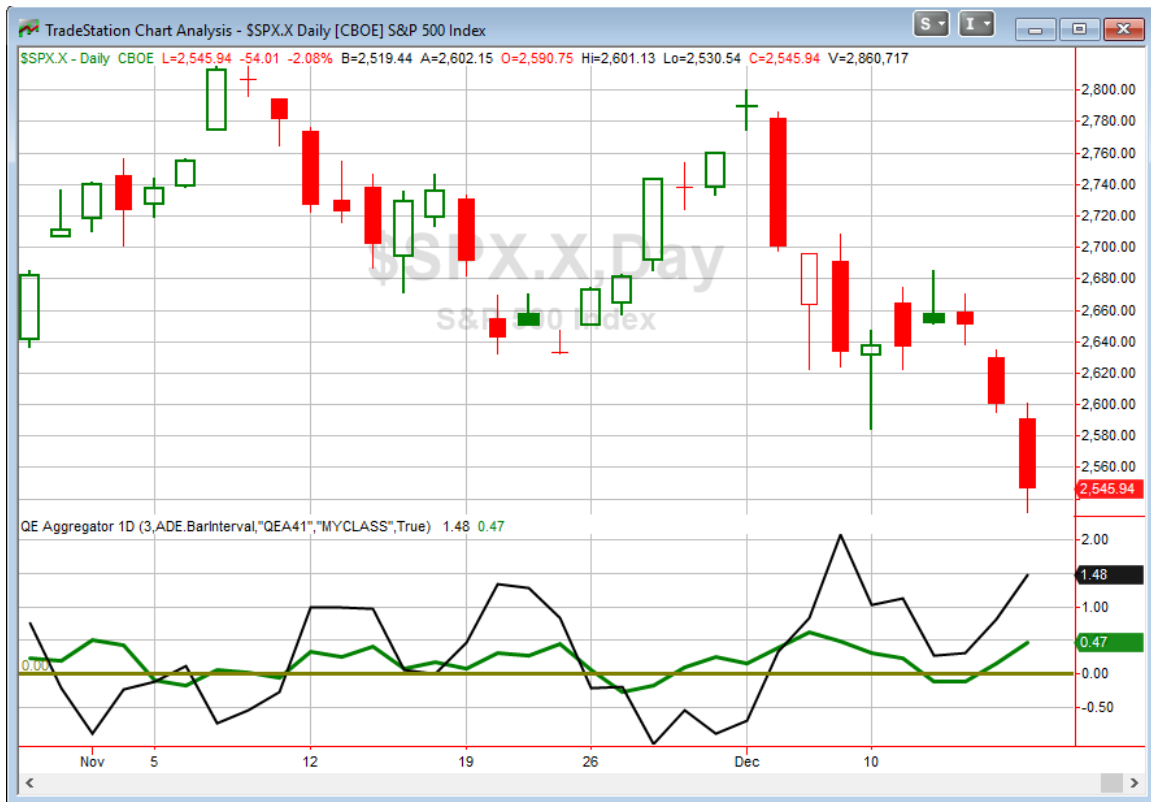


The strong numbers and fairly steady curve suggest an upside edge.

It is also worth keeping in mind that Wednesday is a Fed Day. Fed Day's have had a substantial bullish tendency over the years, especially when the market has pulled back heading into the Fed Day. Just looking at the 1-day range, the lower in the range SPY has closed, the day before a Fed Day, the better the Fed Day performance has been. And being a bit oversold on a multi-day timeframe has helped as well. It is notable that 100-day lows have been rare just prior to a Fed Day. Looking back to 1982, that has only

happened 4 times: 5/6/2002, 6/25/2002, 9/15/2008, and 8/8/2011. Three days later all 4 instances were higher, but just 4 instances is too few to put any faith in the results.

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



With tonight's studies 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 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 Tuesday. It would take some very compelling new bearish evidence to change this. The Differential Pivot will be 2647.61 on Tuesday. That is a whopping 4.0% above Monday's close. A 4% 1-day move higher is extremely unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence continues to build for the bulls and the market is very stretched to the downside. A snap-back rally appears likely in the coming days. The low CBI is a bit of a concern. I generally don't like to get too aggressive without some kind of spike there. But between the strong seasonality and the severe oversold condition I am tempted to take on a bit more exposure. If the market sells off a fair amount during the day Tuesday, or closes lower, then I will be a buyer. With smallcaps now coming into season, I'll be looking to add some IWM instead of SPY.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/17– neutral

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

OpenCatapult Triggers

ALL – 1/3 @ \$79.30 (bought @ limit)

New

EMR – 1/3 @ \$58.72 (buy @ limit)

Broad Market Large Cap CBI – 2(ALL, EMR)

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.

EMR – buy 1/3 Catapult position @ \$58.72 LIMIT. This is from the Catapult & CBI section above. It is the 1st of up to 3 possible positions for EMR.

IWM – buy ¼ index position @ \$136.00 LIMIT intraday or \$137.00 LIMIT ON CLOSE if not filled intraday. Based on the short-term outlook above, I'll be looking get long if I can get near Friday's closing price. I've placed the limit a little above the close in case of a gap higher that does not quite fill. If I look to add further to the index position this week, I will likely do so using IWM instead of SPY.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|-----------------------|
| ALL(1/3) | 12/18/2018 | \$79.17 | \$80.16 | 1.25% | | <i>bought on open</i> |
| SPY(1/4) | 12/18/2018 | \$259.40 | \$255.36 | -1.56% | | <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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