QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 20, 2018 Volume 11 Issue 245

Market Overview

Signals Overview

Aggregator	CBI Reading
Long	7

Tonight's Research Points

- 20-day lows on Fed Days have historically been followed by a rally in the next week.
- The strong move lower from a high on a Fed Day suggests a bounce in the coming days.
- The 50-day low and low RSI(2) suggest a 1-2 day bullish edge.
- SPY triggered a Catapult signal.
- This has been one of the worst Decembers on record.

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 remain partially long.

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The Evidence

The Fed disappointed and the market tumbled again. The SPX finished down 1.5%, the NASDAQ lost 2.2%, and the Russell 2000 fell 2.0%. All 3 indices also finished at long-term lows. Breadth was negative as the NYSE Up Issues % was 28% and the Up Volume % came in at 26%. NYSE volume hit the highest level so far this month.

The selling triggered a number of studies again in the Quantifinder. Interestingly, none were bearish. Below are some of the more compelling ones.

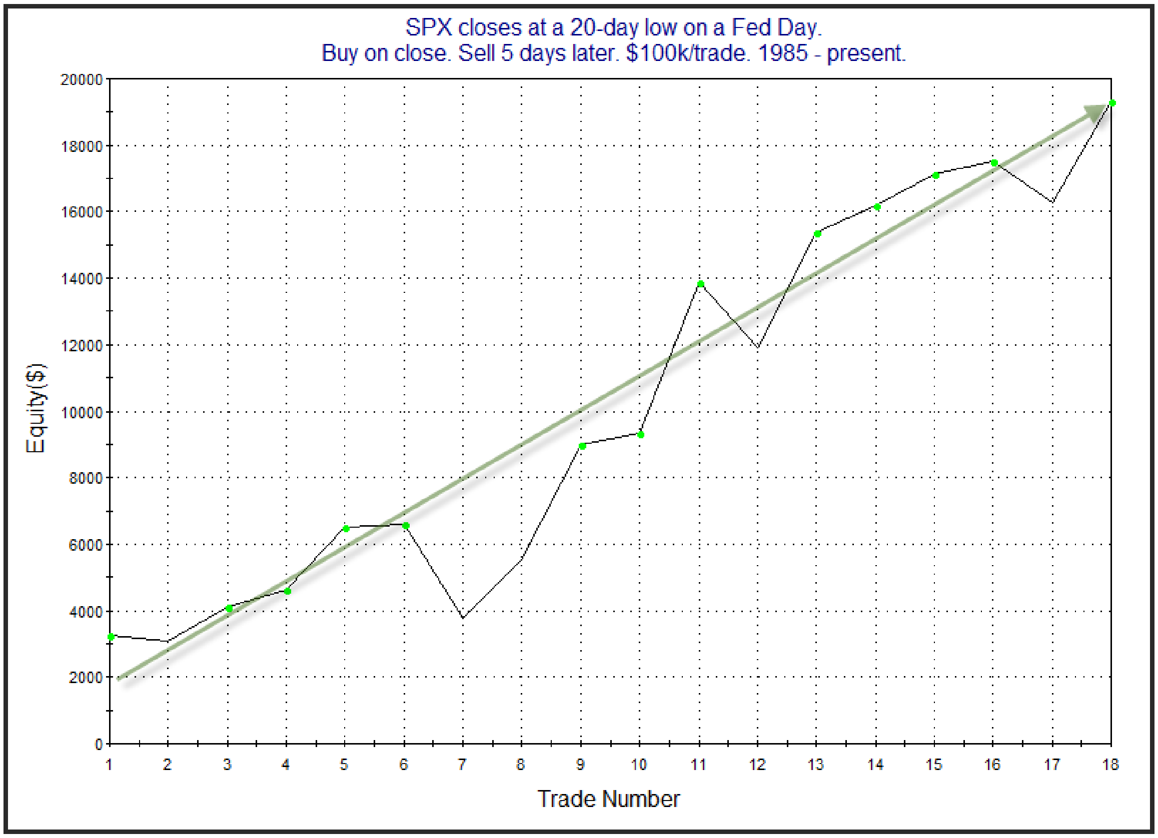
One potential positive about the long-term low today is that it came on a Fed Day. In the 11/3/16 letter I looked back at other times SPX made an intermediate-term low on a Fed Day. I have updated that study tonight.

SPX closes at a 20-day low on a Fed Day.
Buy on close. Sell X days later. $100k/trade. 1985 - 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	19,325.47	18	14	4	77.78	1,825.71	4,540.05	-1,558.61	-2,816.80	1.17	4.10	1,073.64
4	9,322.16	18	11	7	61.11	1,456.40	3,387.93	-956.89	-2,594.88	1.52	2.39	517.90
3	426.73	18	11	7	61.11	792.79	2,379.62	-1,184.85	-3,208.50	0.67	1.05	23.71
2	1,452.83	18	12	6	66.67	988.46	4,350.52	-1,734.78	-4,588.00	0.57	1.14	80.71
1	882.47	18	10	8	55.56	1,184.68	3,739.20	-1,370.54	-3,103.08	0.86	1.08	49.03

The only instance NOT to close above the entry price at some point in the next week triggered on 8/21/90.

Results over the first few days are underwhelming, but once you get out 1 week they look quite impressive. Below is a profit curve for the 1-week holding period.



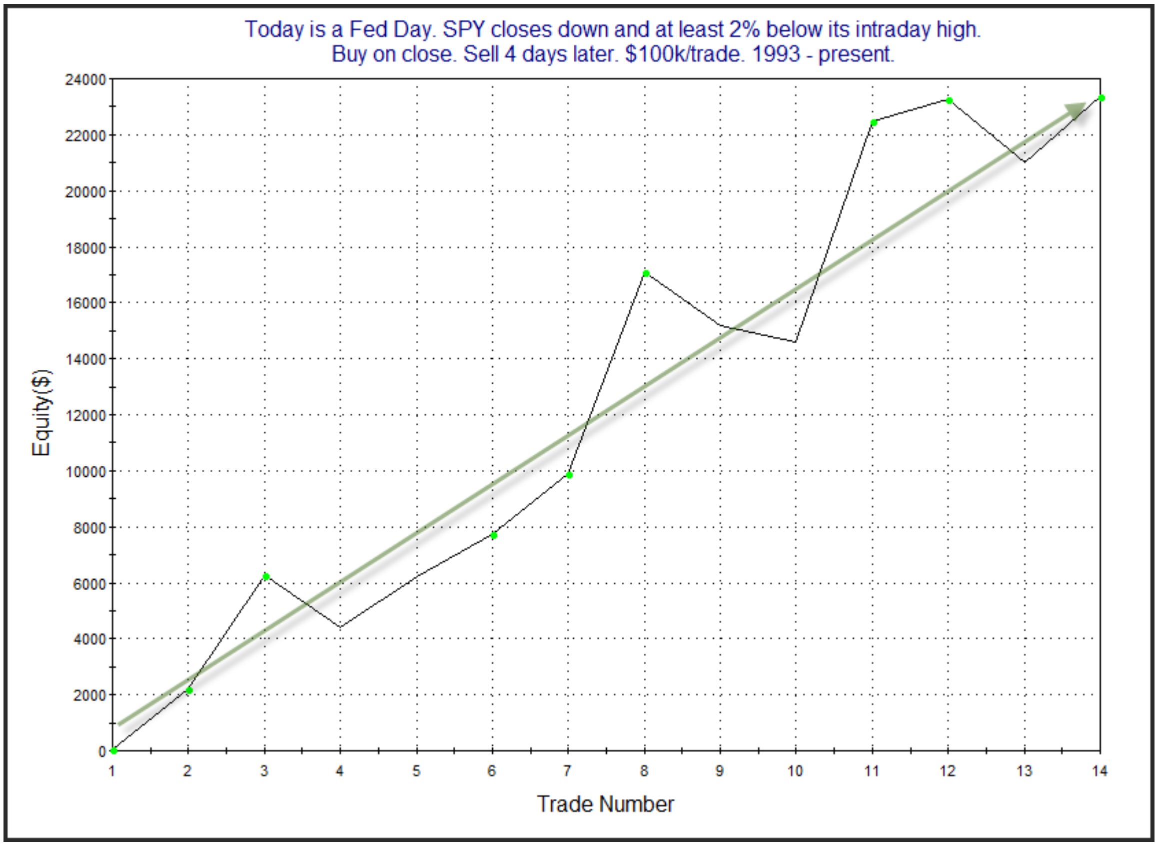
The strong upslope serves as nice confirmation of the possible bullish edge.

Another Fed-based study noted the large intraday reversal downward. It was from the 1/29/15 letter. I have updated it below.

Today is a Fed Day. SPY closes down and at least 2% below its intraday high.
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	21,082.20	14	10	4	71.43	2,772.99	6,086.66	-1,661.91	-2,628.75	1.67	4.17	1,505.87
4	23,349.28	14	10	4	71.43	2,993.19	7,872.42	-1,645.64	-2,241.12	1.82	4.55	1,667.81
3	19,465.70	14	10	4	71.43	2,261.43	4,772.75	-787.15	-1,185.52	2.87	7.18	1,390.41
2	11,829.36	14	9	5	64.29	2,271.69	5,087.19	-1,723.17	-2,695.00	1.32	2.37	844.95
1	6,396.02	14	10	4	71.43	1,529.50	3,649.75	-2,224.73	-3,230.89	0.69	1.72	456.86

Instances here are lower than I would prefer, but the overall numbers appear strongly positive. I figured it was at least worth looking at the equity curve.



While a bit choppy, this curve does head from lower left to upper right. This study combined with the 1st Fed study appears worth some consideration.

As I will show in the Catapult & CBI section down lower, the CBI only reached 7 on Wednesday. It still has not spiked up to the 10+ number that I typically consider to be a bullish reading.

Of course the CBI is a count of all the Catapult triggers in S&P 100 stocks. But interestingly, the SPY itself triggered a Catapult on Wednesday afternoon. Below are results of SPY Catapult triggers since 1993.

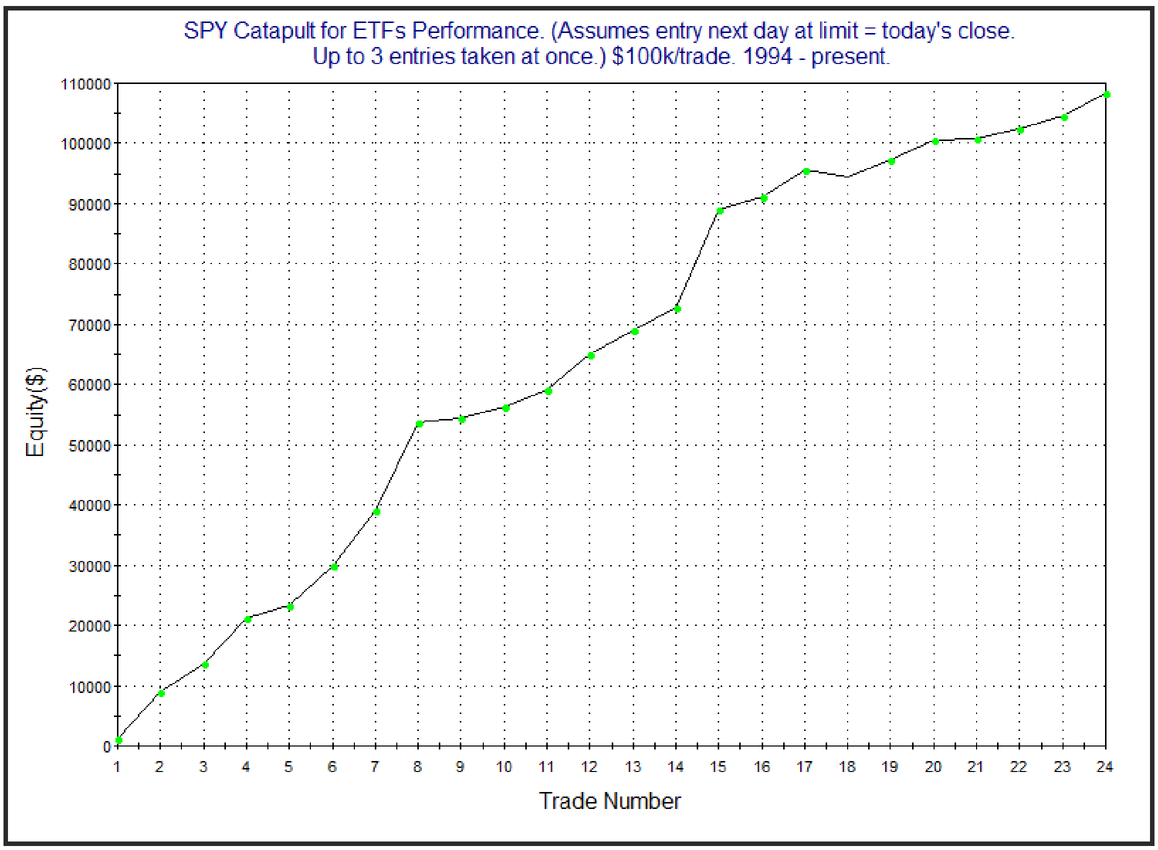
SPY Catapult for ETFs Performance. (Assumes entry next day at limit = today's close. Up to 3 entries taken at once.) $100k/trade. 1994 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$108,246.04	Profit Factor	89.85
Gross Profit	$109,464.34	Gross Loss	($1,218.30)
Total Number of Trades	24	Percent Profitable	95.83%
Winning Trades	23	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	$4,510.25	Ratio Avg. Win:Avg. Loss	3.91
Avg. Winning Trade	$4,759.32	Avg. Losing Trade	($1,218.30)
Largest Winning Trade	$16,078.18	Largest Losing Trade	($1,218.30)

Numbers are fantastic. Here is the curve.



The curve is also very impressive. While the CBI is still fairly low, the SPY Catapult trigger is suggesting a bounce is probable.

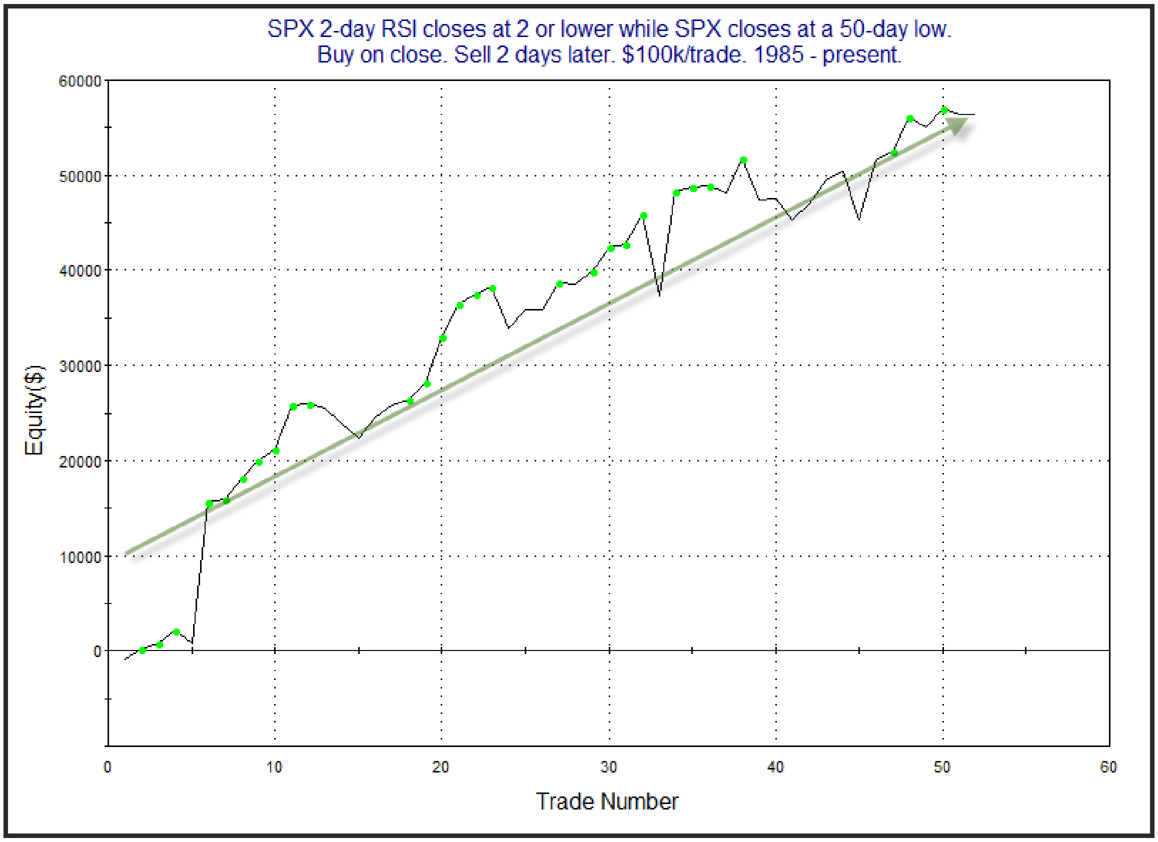
I like using short-term RSI as one way to measure overbought and oversold. I have found the 2-period and 3-period RSI to be especially useful. The 2-period RSI for the SPX closed at 1.03 on Wednesday. Combined with the 50-day low, this triggered the below study, which I last discussed in the 8/24/15 subscriber letter. All stats are updated.

SPX 2-day RSI closes at 2 or lower while SPX closes at a 50-day low.
Buy on close. Sell X days later. $100k/trade. 1985 - 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	25,086.83	44	31	13	70.45	2,929.96	9,572.31	-5,057.08	-27,309.65	0.58	1.38	570.16
4	44,784.67	45	33	12	73.33	2,432.23	10,385.16	-2,956.57	-10,632.61	0.82	2.26	995.21
3	45,741.62	46	30	16	65.22	2,451.35	10,398.48	-1,737.43	-4,879.68	1.41	2.65	994.38
2	56,458.71	52	38	14	73.08	2,359.21	14,891.76	-2,370.80	-8,657.72	1.00	2.70	1,085.74
1	50,319.70	68	45	23	66.18	1,921.09	11,558.43	-1,570.84	-7,577.02	1.22	2.39	740.00

Only 2 instances failed to close above the entry price at some point in the next 4 days: 3/25/94 and 5/16/12.

The positive implications are primarily seen in the first 2 days. And the consistency is quite strong. I say this because of the stat noted in red at the bottom of the table. Below is a profit curve using a 2-day holding strategy.



The consistency of the edge is also demonstrated by this equity curve.

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So other than the lack of a strong spike in the CBI, there is an awful lot pointing towards an upside edge. But the market is struggling in a way that is extremely rare this time of year. The table below looks back to 1928 at the worst December pullbacks. You'll note we are right now at #4 and could easily reach #2 or #3 with a bit more selling.

Top Ten December % Pullbacks From November Closing Price. $SPX. 1928 - 2018.

Ticker	Date/Time	Nov Close	Dec Low	Pullback
$SPX	12/31/1931	9.50	7.72	-18.74
$SPX	12/31/1930	16.38	14.44	-11.84
$SPX	12/31/1980	140.52	125.32	-10.82
$SPX	12/19/2018	2,760.16	2,488.96	-9.83
$SPX	12/31/2008	896.24	815.69	-8.99
$SPX	12/31/1974	69.97	64.13	-8.35
$SPX	12/31/1941	9.12	8.37	-8.22
$SPX	12/31/1928	24.28	22.31	-8.11
$SPX	12/31/1937	11.11	10.31	-7.20

Russell 2000 data only goes back to 1987. As I noted in the weekend letter, we are entering a very strong seasonal period for the Russell 2000. But we have already reached the worst December pullback for that index.

Top Five December % Pullbacks From November Closing Price. $RUT. 1987 - 2018.

Ticker	Date/Time	Nov Close	Dec Low	Pullback
$RUT	12/19/2018	1,533.27	1,344.14	-12.34
$RUT	12/31/2008	473.14	415.99	-12.08
$RUT	12/31/2015	1,198.11	1,108.76	-7.46
$RUT	12/31/2002	406.36	379.67	-6.57
$RUT	12/31/1987	111.70	106.43	-4.72

When the market acts historically abnormal as it is currently doing, it is often a good idea to proceed with a bit more caution than usual. So as I will discuss below, I am not inclined to up my index exposure just yet – and won't unless we at least see more of a CBI spike.

I have updated the Aggregator chart below.

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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 Thursday. It would take some very compelling new bearish evidence to change this. The Differential Pivot will be 2558.23 on Thursday. That is 2.0% above Wednesday's close. Therefore, SPX would need to close up about 2.0% on Thursday in order to flip from oversold to overbought versus expectations.

So the Aggregator is again bullish. Expectations are positive and there is plenty of upside potential before SPX would turn overbought. A bounce certainly appears overdue. I am partially long already and looking to take advantage of a bounce. I considered adding more index exposure here, but as I noted earlier, with the market acting historically abnormal, I will wait for the CBI to get a little higher before looking to buy a 3rd lot. There were a few new Catapults to trigger, and I will be looking to trade them on Thursday.

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

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

EMR – 1/3 @ $58.72 (bought @ limit)
EMR – 1/3 @ $58.49 (bought @ limit)
SLB – 1/3 @ $37.84 (bought @ limit)
FOXA – 1/3 @ $48.78 (bought @ limit)
New
EMR – 1/3 @ $57.68 (buy @ limit)
SLB – 1/3 @ $37.79 (buy @ limit)
AGN – 1/3 @ $136.56 (buy @ limit)

Broad Market Large Cap CBI – 7(EMR-3, SLB-2, FOXA, AGN)

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 @ $57.68 LIMIT. This is from the Catapult & CBI section above. It is the last of 3 possible positions for EMR.

SLB – buy 1/3 Catapult position @ $37.79 LIMIT. This is from the Catapult & CBI section above. It is the 2nd of up to 3 possible positions for SLB.

AGN – buy 1/3 Catapult position @ $136.56 LIMIT. This is from the Catapult & CBI section above. It is the 1st of up to 3 possible positions for AGN.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ALL(1/3)	***12/17/2018***	***$79.17***	***$81.59***	***3.06%***		***sold on open***
SPY(1/4)	12/17/2018	$259.40	$251.26	-3.14%		Aggregator
EMR(1/3)	12/18/2018	$58.72	$57.68	-1.77%		Catapult
IWM(1/4)	12/18/2018	$136.85	$134.00	-2.08%		Aggregator
EMR(1/3)	10/24/2018	$58.49	$57.68	-1.38%		Catapult
FOXA(1/3)	10/24/2018	$48.78	$48.52	-0.53%		Catapult
SLB(1/3)	10/25/2018	$37.84	$37.79	-0.13%		Catapult

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