

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 28, 2018

Volume 11 Issue 250

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	26

## Tonight's Research Points

- The gap down and reverse up action in the SPY suggests a short-term downside edge.

## *Short-term Outlook*

### *The Bottom Line*

The bounce over the last couple of days has taken much of the edge out of the market.

I am looking to reduce my long exposure further on Friday, and even more than that if enough stocks rally that the CBI turns back to neutral in the coming days.

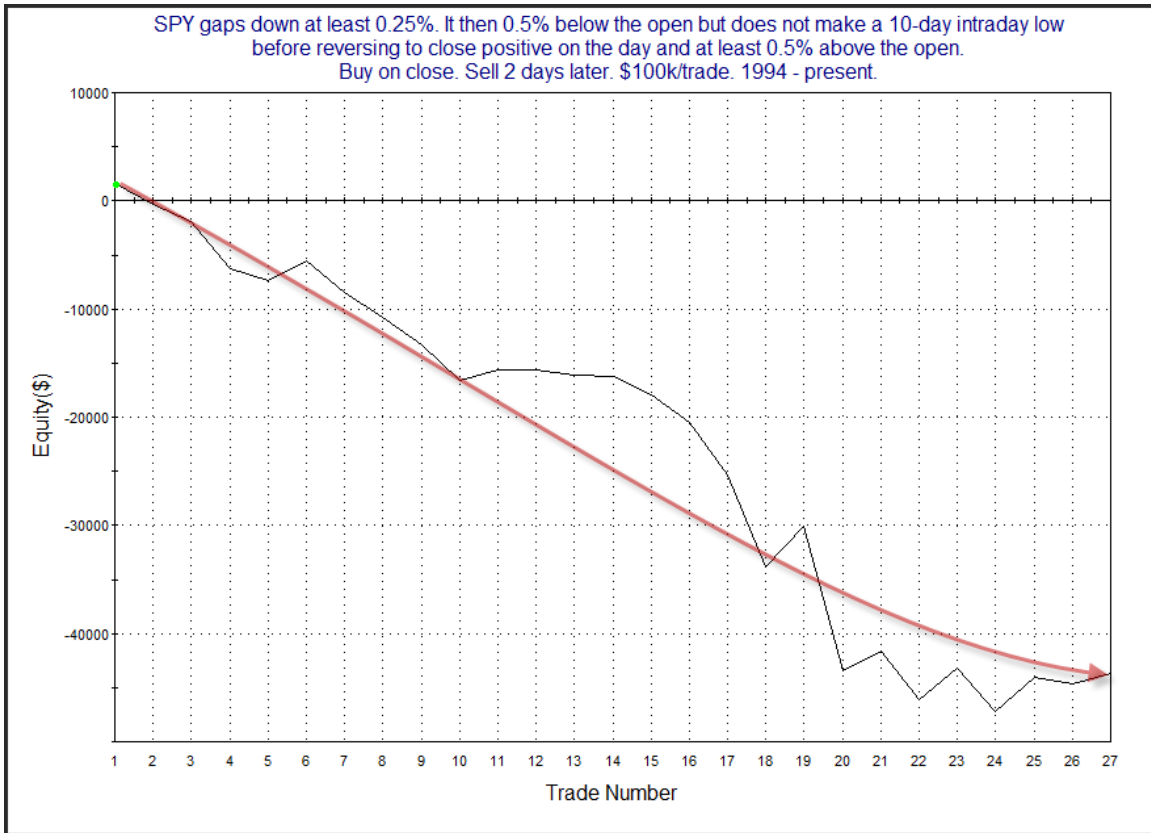
**The Evidence**

Thursday spent most of the day in the red, but a late-afternoon rally turned some indices green. The SPX rose 0.9%, the NASDAQ rallied 0.4%, and the Russell 2000 gained 0.2%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 62%. NYSE volume declined some from Wednesday’s level.

The Quantifinder identified a few similar studies that examined the action in the SPY. They required a gap down, a move lower after the open, and then a strong finish. The one below was the most compelling. It was last seen in the 2/25/16 letter. Results are updated.

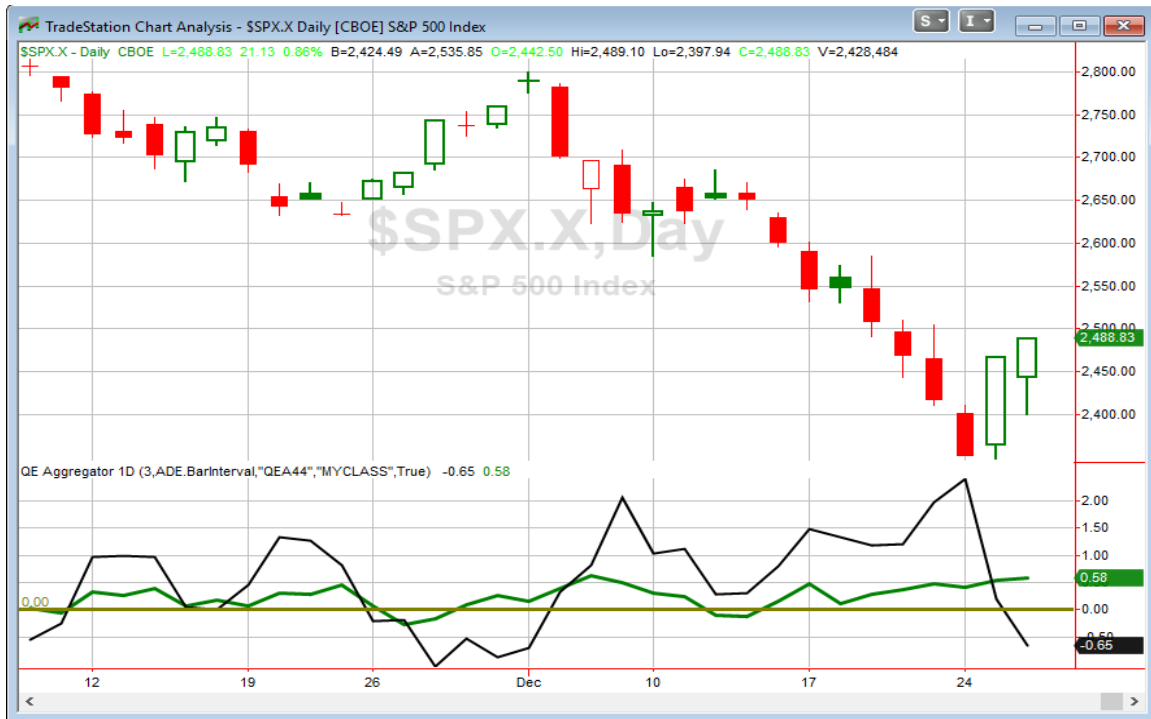
SPY gaps down at least 0.25%. It then 0.5% below the open but does not make a 10-day intraday low before reversing to close positive on the day and at least 0.5% above the open. Buy on close. Sell X days later. \$100k/trade. 1994 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning 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	-31,321.84	24	10	14	41.67	1,794.13	5,024.90	-3,518.80	-15,971.55	0.51	0.36	-1,305.08
4	-49,763.20	25	9	16	36.00	1,489.74	2,538.47	-3,948.18	-13,801.83	0.38	0.21	-1,990.53
3	-36,260.15	26	11	15	42.31	1,644.38	3,599.75	-3,623.22	-9,763.74	0.45	0.33	-1,394.62
2	-43,686.61	27	8	18	29.63	2,121.07	3,694.56	-3,369.73	-13,351.24	0.63	0.28	-1,618.02
1	-14,080.63	29	14	15	48.28	1,391.26	3,490.59	-2,237.21	-6,405.84	0.62	0.58	-485.54

The stats appear to strongly suggest a downside edge, especially over the 1st 2 days. Below I have produced an equity curve to show how the edge has played out over time.



The strong downslope provides some confirmation of the bearish edge.

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 dropped below 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 Friday. It would take very compelling new bearish evidence to change this. The Differential Pivot will be 2375.74 on Friday. That is 4.5% below Thursday's close. So SPX will need to close down a whopping 4.5% in order to flip from overbought to oversold vs expectations. Of course a more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So after the sizable bounce the last couple of days, the Aggregator is no longer suggesting a strong edge. Under most circumstances this would be enough to entice me to close out all index positions. But the CBI is still very high. When the CBI spikes up and the market gets extremely oversold, then the bounce back up is typically capable of going farther and lasting longer than a bounce that originates from a less extreme oversold condition. I sold one of my index lots at the close on Thursday. I'll be looking to exit another one on Friday. My last open lot (the SPY one) I intend to continue to hold until the CBI falls to a more "normal" reading.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 12/24– neutral*

**Catapult and Capitulative Breadth Statistics**

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

***OpenCatapult Triggers***

SLB – 1/3 @ \$37.84 (bought @ limit)  
FOXA – 1/3 @ \$48.78 (bought @ limit)  
SLB – 1/3 @ \$37.79 (bought @ limit)  
AGN – 1/3 @ \$136.56 (bought @ limit)  
SLB – 1/3 @ \$36.20 (bought @ limit)  
C – 1/3 @ \$52.27 (bought @ limit)  
FOXA – 1/3 @ \$48.00 (bought @ limit)  
KHC – 1/3 @ \$44.85 (bought @ limit)  
RTN – 1/3 @ \$157.95 (bought @ limit)  
AGN – 1/3 @ \$135.63 (bought @ limit)  
C – 1/3 @ \$50.24 (bought @ limit)  
FOXA – 1/3 @ \$46.90 (bought @ limit)  
KHC – 1/3 @ \$44.05 (bought @ limit)  
RTN – 1/3 @ \$151.52 (bought @ limit)  
AGN – 1/3 @ \$131.46 (bought @ limit)  
HAL – 1/3 @ \$25.85 (bought @ limit)  
OXY – 1/3 @ \$59.98 (bought @ limit)  
C – 1/3 @ \$50.24 (bought @ limit)  
FOXA – 1/3 @ \$46.90 (bought @ limit)  
KHC – 1/3 @ \$44.05 (bought @ limit)  
RTN – 1/3 @ \$151.52 (bought @ limit)  
AGN – 1/3 @ \$131.46 (bought @ limit)  
HAL – 1/3 @ \$25.85 (bought @ limit)  
OXY – 1/3 @ \$59.98 (bought @ limit)  
AAPL – 1/3 @ \$146.83 (buy @ limit)  
C – 1/3 @ \$49.26 (buy @ limit)  
FDX – 1/3 @ \$152.70 (buy @ limit)  
HAL – 1/3 @ \$25.14 (buy @ limit)  
HON – 1/3 @ \$124.83 (buy @ limit)  
KHC – 1/3 @ \$42.54 (buy @ limit)  
OXY – 1/3 @ \$57.11 (buy @ limit)  
RTN – 1/3 @ \$146.67 (buy @ limit)  
USB – 1/3 @ \$43.76 (buy @ limit)

***Broad Market Large Cap CBI – 26( SLB-3, FOXA-3, AGN-3, C-3, KHC-3, RTN-3, HAL-2, OXY-2, AAPL, FDX, HON, USB)***

**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 Pri	% Gain/Los	Stop	Notes
SPY(1/4)	12/17/2018	\$259.40	\$248.21	-4.31%		Aggregator
EMR(1/3)	12/18/2018	\$58.72	\$59.33	1.04%		<i>sell on open</i>
IWM(1/4)	12/18/2018	\$136.85	\$132.43	-3.23%		<i>sell @ \$132.43 LIMIT</i>
EMR(1/3)	12/19/2018	\$58.49	\$59.33	1.44%		<i>sell on open</i>
FOXA(1/3)	12/19/2018	\$48.78	\$48.01	-1.58%		Catapult
SLB(1/3)	12/19/2018	\$37.84	\$36.33	-3.99%		Catapult
SLB(1/3)	12/20/2018	\$37.34	\$36.33	-2.70%		Catapult
EMR(1/3)	12/20/2018	\$57.22	\$59.33	3.69%		<i>sell on open</i>
AGN(1/3)	12/20/2018	\$135.00	\$132.67	-1.73%		Catapult
<b>IWM(1/4)</b>	<b>12/21/2018</b>	<b>\$131.79</b>	<b>\$132.43</b>	<b>0.49%</b>		<b><i>sold on close</i></b>
SLB(1/3)	12/21/2018	\$35.47	\$36.33	2.42%		Catapult
AGN(1/3)	12/21/2018	\$135.20	\$132.67	-1.87%		Catapult
C(1/3)	12/21/2018	\$51.90	\$51.77	-0.25%		Catapult
FOXA(1/3)	12/21/2018	\$48.00	\$48.01	0.02%		Catapult
KHC(1/3_	12/21/2018	\$44.85	\$43.76	-2.43%		Catapult
RTN(1/3)	12/21/2018	\$151.01	\$153.57	1.70%		Catapult
C(1/3)	12/24/2018	\$49.40	\$51.77	4.80%		Catapult
FOXA(1/3)	12/24/2018	\$46.90	\$48.01	2.37%		Catapult
KHC(1/3_	12/24/2018	\$44.05	\$43.76	-0.66%		Catapult
RTN(1/3)	12/24/2018	\$150.15	\$153.57	2.28%		Catapult
AGN(1/3)	12/24/2018	\$129.99	\$132.67	2.06%		Catapult
HAL(1/3)	12/24/2018	\$25.61	\$26.36	2.93%		Catapult
OXY(1/3)	12/24/2018	\$59.42	\$60.76	2.26%		Catapult
AAPL(1/3)	12/26/2018	\$146.83	\$156.15	6.35%		Catapult
C(1/3)	12/26/2018	\$49.26	\$51.77	5.10%		Catapult
FDX(1/3)	12/26/2018	\$152.70	\$161.02	5.45%		Catapult
HAL(1/3)	12/26/2018	\$25.14	\$26.36	4.85%		Catapult
HON(1/3)	12/26/2018	\$124.83	\$131.57	5.40%		Catapult
KHC(1/3)	12/26/2018	\$42.54	\$43.76	2.87%		Catapult
OXY(1/3)	12/26/2018	\$57.11	\$60.76	6.39%		Catapult
RTN(1/3)	12/26/2018	\$146.67	\$153.57	4.70%		Catapult
USB(1/3)	12/26/2018	\$43.76	\$45.65	4.32%		Catapult

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