

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 3, 2018

Volume 12 Issue 2

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- A move higher on the first day of the year is typically followed by another day or two of strength before the market undergoes a pullback.
- 3 days of strong NASDAQ breadth are often followed by a down day.
- The low 3/10 Offset HV combined with the short-term overbought condition in a long-term downtrend is warning of a possible sharp drop.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish, though it appears to be a fairly weak signal.

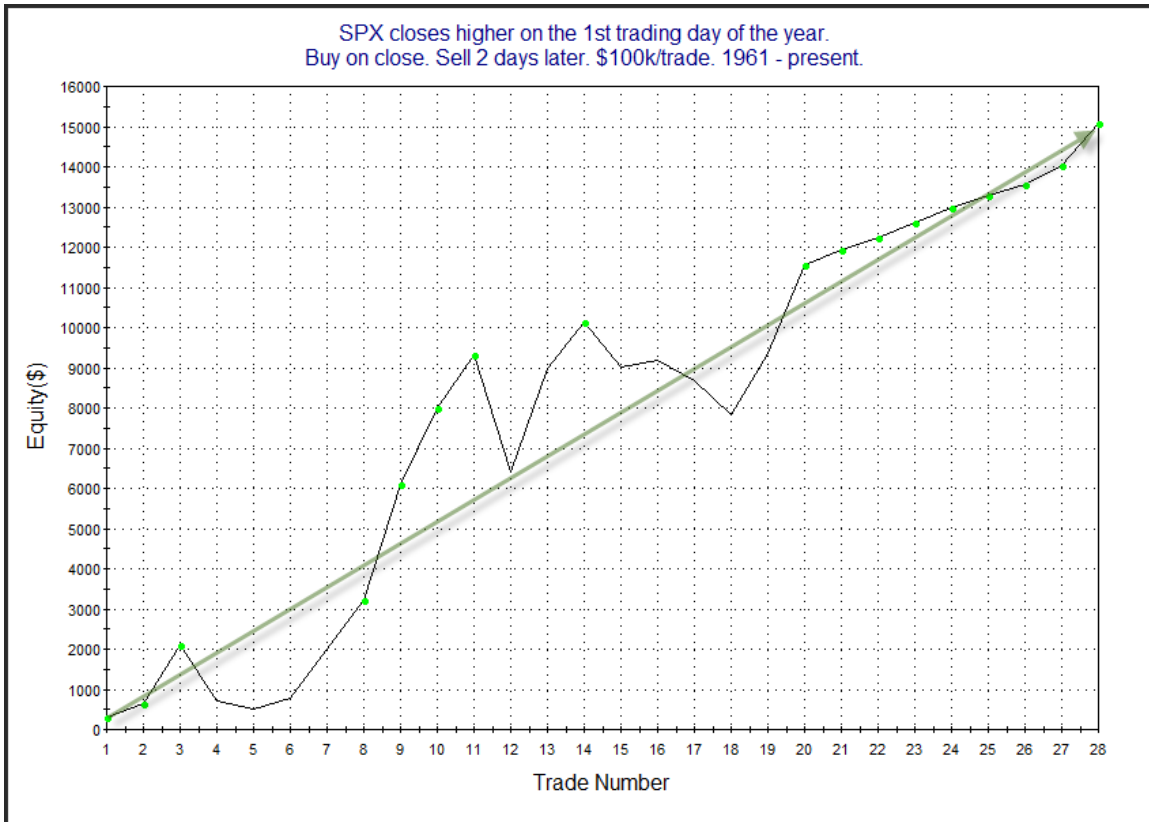
The Evidence

Wednesday started with a huge gap down, but finished positive. The SPX closed up 0.1%, the NASDAQ rose 0.5%, and the Russell 2000 also rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 69.0% and the Up Volume % came in at 69.4%. NYSE volume rose some from Monday’s level.

In the 1/3/18 Subscriber Letter I examined early-January following a positive 1st day to the year. Results were intriguing and I have updated those results below.

SPX closes higher on the 1st trading day of the year. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	7,532.91	28	14	14	50.00	4,620.54	11,194.20	-4,082.48	-11,381.59	1.13	1.13	269.03
19	4,204.50	28	15	13	53.57	4,080.42	11,254.95	-4,384.75	-11,333.44	0.93	1.07	150.16
18	3,878.05	28	15	13	53.57	3,992.53	11,724.75	-4,308.46	-9,418.64	0.93	1.07	138.50
17	9,652.79	28	15	13	53.57	4,002.20	11,060.55	-3,875.40	-9,340.80	1.03	1.19	344.74
16	-1,329.12	28	13	15	46.43	4,037.90	9,658.00	-3,588.12	-9,211.63	1.13	0.98	-47.47
15	352.13	28	12	16	42.86	4,204.82	9,582.30	-3,131.61	-10,189.61	1.34	1.01	12.58
14	-4,843.26	28	12	16	42.86	3,890.70	11,121.30	-3,220.73	-10,683.95	1.21	0.91	-172.97
13	-11,601.23	28	12	16	42.86	3,395.55	8,667.00	-3,271.74	-11,160.10	1.04	0.78	-414.33
12	-8,583.73	28	11	17	39.29	3,624.13	9,153.00	-2,849.95	-9,796.92	1.27	0.82	-306.56
11	1,355.83	28	16	12	57.14	2,560.70	9,274.50	-3,301.28	-13,544.06	0.78	1.03	48.42
10	6,640.86	28	16	12	57.14	2,541.90	8,035.20	-2,835.79	-8,739.76	0.90	1.20	237.17
9	1,834.48	28	16	12	57.14	2,422.45	7,711.20	-3,077.06	-9,422.42	0.79	1.05	65.52
8	-2,307.67	28	17	11	60.71	2,311.98	6,853.00	-3,782.85	-9,542.26	0.61	0.94	-82.42
7	-2,652.80	28	16	12	57.14	2,175.10	5,475.75	-3,121.20	-6,421.07	0.70	0.93	-94.74
6	-5,140.00	28	17	11	60.71	1,985.02	5,973.00	-3,535.04	-6,584.78	0.56	0.87	-183.57
5	-4,126.43	28	16	12	57.14	1,741.41	4,973.40	-2,665.75	-4,851.44	0.65	0.87	-147.37
4	527.35	28	15	13	53.57	1,488.75	4,390.20	-1,677.22	-4,894.50	0.89	1.02	18.83
3	10,851.10	28	19	9	67.86	1,287.16	3,600.45	-1,511.67	-3,101.34	0.85	1.80	387.54
2	15,092.20	28	22	6	78.57	1,002.38	2,893.00	-1,160.02	-2,897.84	0.86	3.17	539.01
1	12,667.46	28	22	6	78.57	725.65	2,328.75	-549.49	-2,189.66	1.32	4.84	452.41

26 of the 28 instances (93%) closed higher than the entry price on either day 1 or day 2. Interestingly, the 2 instances that didn’t also didn’t manage to post a profitable close at any point during the rest of the month. The basic pattern that is evident among the instances above is that immediate follow through is often followed by weakness. What is not obvious above is that the 1-2 day strength has continued over recent instances, but the mid-month dip has *not* happened recently as the last 5 instances (2011, 12, 13, 17 & 18) managed to avoid it. Below is a look at the 2-day profit curve.



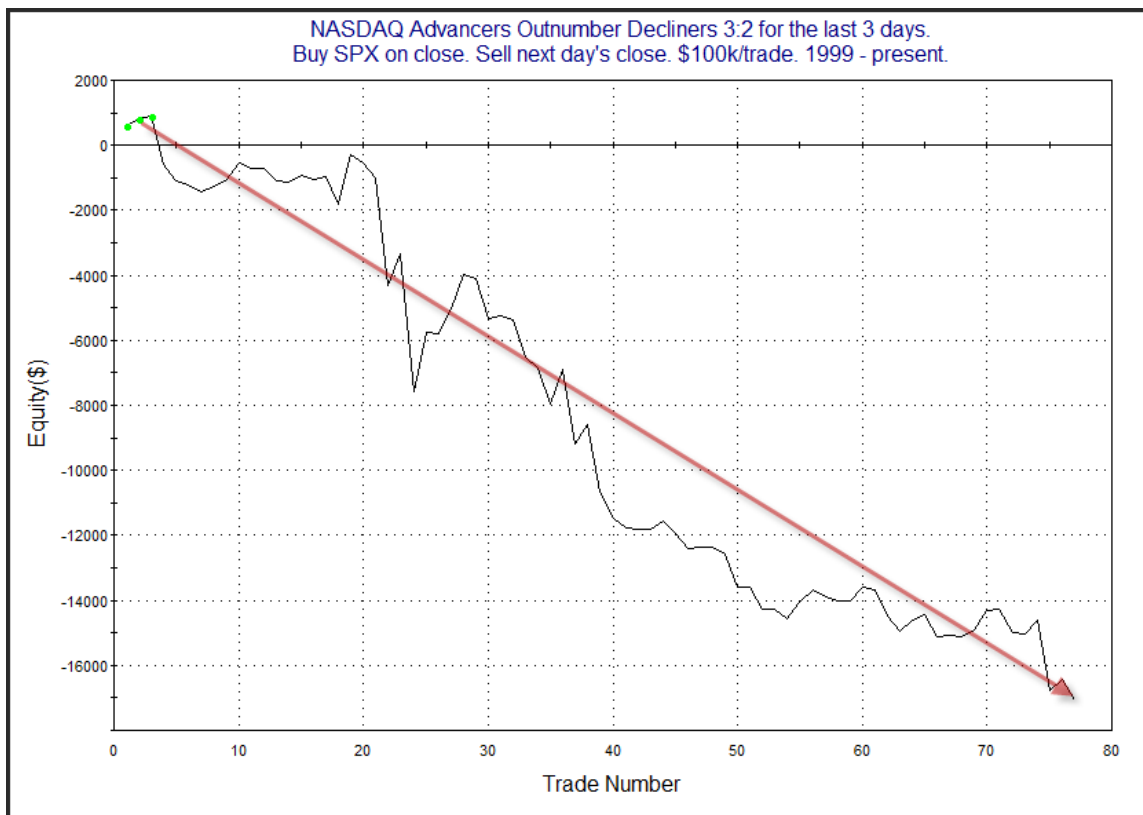
The curve supports the numbers. It also illustrates the recent hot streak. I have included the 2-day study on the Active List tonight.

There were also a few bearish studies that emerged on Wednesday. The one below looks at NASDAQ breadth. It last appeared in the 11/2/18 letter and has been updated.

NASDAQ Advancers Outnumber Decliners 3:2 for the last 3 days.
Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$17,055.43)	Profit Factor	0.45
Gross Profit	\$13,734.14	Gross Loss	(\$30,789.57)
Total Number of Trades	77	Percent Profitable	41.56%
Winning Trades	32	Losing Trades	45
Even Trades	0		
Avg. Trade Net Profit	(\$221.50)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$429.19	Avg. Losing Trade	(\$684.21)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a downside edge. Below is a profit curve.

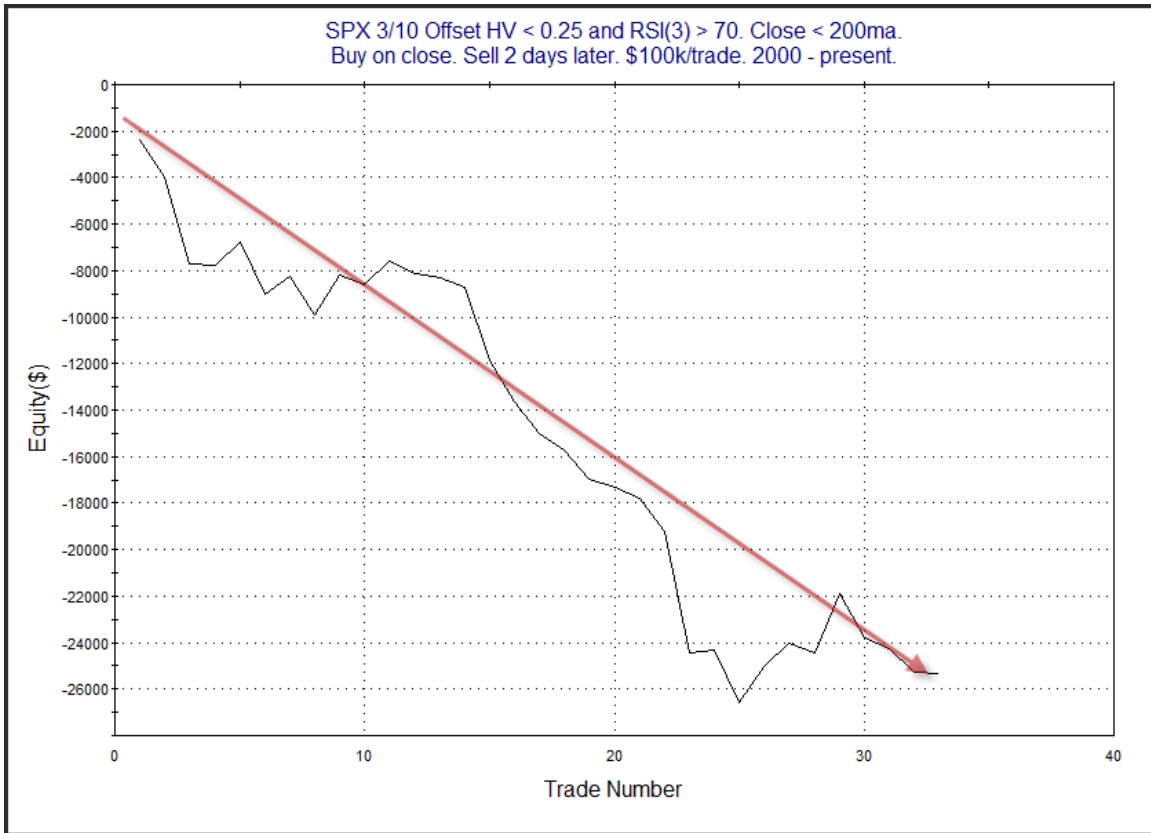


The strong, long-term downslope is impressive. This study appears worth consideration, and I have again put it on the Active List.

One indicator that is providing a notable reading is the 3/10 Offset HV for the SPX. I first introduced this indicator in the 7/13/2009 blog. It looks for periods where short-term historical volatility is contracting sharply. When that happens there is often a volatility expansion on the way. This volatility expansion can see the market move in either direction. The indicator does not predict direction. But when combined with other indicators it can provide some powerful signals. The study below was last published in the 10/7/11 subscriber letter. I have updated all stats.

SPX 3/10 Offset HV < 0.25 and RSI(3) > 70. Close < 200ma. 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
5	-32,948.07	30	13	17	43.33	1,608.37	3,288.65	-3,168.05	-7,519.22	0.51	0.39	-1,098.27
4	-30,181.52	31	10	21	32.26	1,522.05	3,593.80	-2,162.00	-5,663.22	0.70	0.34	-973.60
3	-33,219.88	31	10	21	32.26	1,143.18	2,598.45	-2,126.27	-6,445.61	0.54	0.26	-1,071.61
2	-25,359.09	33	8	25	24.24	1,208.95	2,543.20	-1,401.23	-5,264.73	0.86	0.28	-768.46
1	-18,345.05	39	15	24	38.46	1,055.65	4,063.35	-1,424.16	-8,883.33	0.74	0.46	-470.39

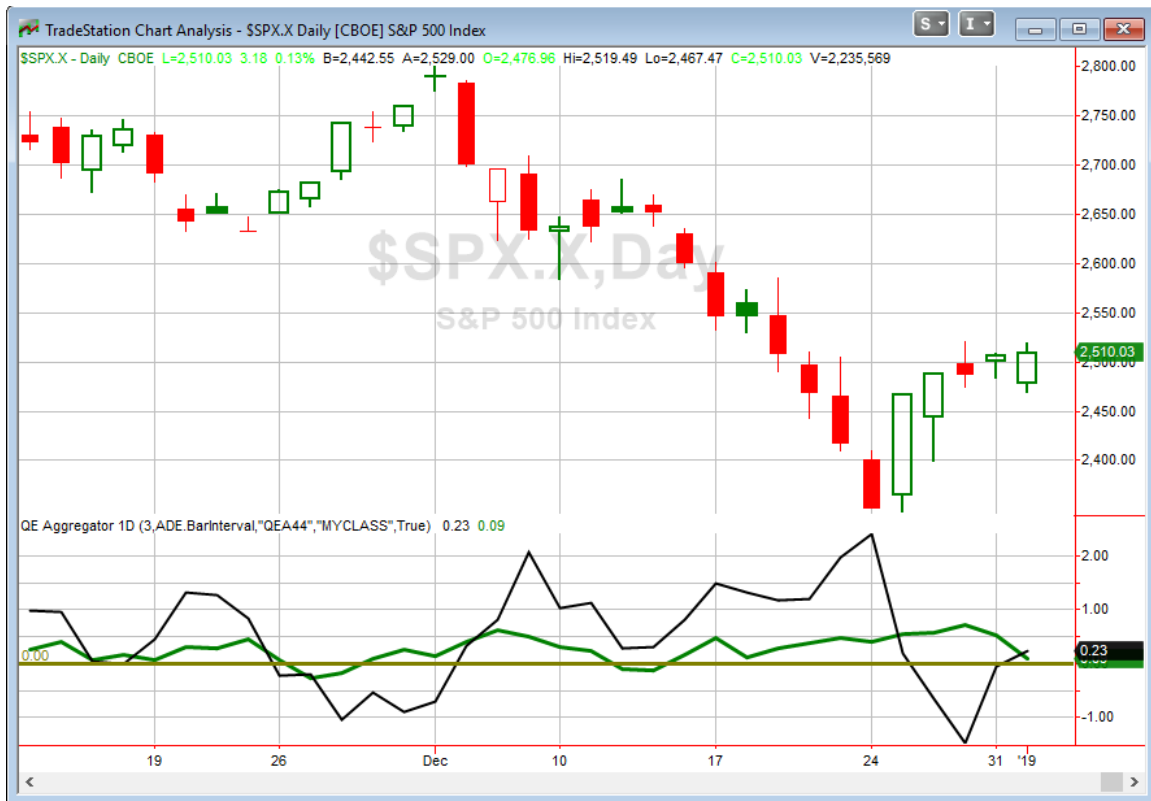
The 3-period RSI being over 70 suggests the market is at least moderately overbought short-term. Combining the short-term overbought condition with the long-term downtrend and the possibility of a volatility spike appears to yield some bearish results. Below is a 2-day profit curve.



The long-term move lower acts as some confirmation of the bearish edge.

The last bit of evidence worth mentioning is that the small rally actually caused the Quantifiable Edges Capitulative Breadth Indicator (CBI) to drop from 12 all the way down to a neutral 0. The expected bounces all arrived, and any further upside is no longer due to the extreme and broad selling we saw leading up to Christmas.

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



With the mix of studies tonight the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line moved up 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 turned long at the close.

With the current active studies, expectations are slated to remain bullish on Thursday. This could change very easily if new bearish evidence emerges. The Differential Pivot will be 2531.93 on Thursday. That is 0.9% above Wednesday's close. So SPX would

need to close up at least 0.9% on Wednesday in order to change from oversold to overbought versus expectations.

So my original plan was to sell my last lot of SPY when the CBI returned to a neutral state. Interestingly, the CBI turned neutral, but the Aggregator turned bullish. I don't love the bullish setup, since the evidence is mixed and tenuous. And despite the "oversold" Differential reading, the market still seems like it has risen a lot without much of a pause in the last few days. I am not interested in selling into a large gap down with the Aggregator in a bullish formation. But I will still look exit my SPY position if it manages to close higher on Thursday. I will be exiting all of my remaining Catapult triggers near the open on Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/31– neutral

The intermediate-term outlook was last updated in the 12/31/18 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 Pri	% Gain/Los	Stop	Notes
SPY(1/4)	12/17/2018	\$259.40	\$250.18	-3.55%		<i>sell @ \$250.18 Limit on Close</i>
SLB(1/3)	12/19/2018	\$37.84	\$37.20	-1.69%		<i>sell on open</i>
SLB(1/3)	12/20/2018	\$37.34	\$37.20	-0.37%		<i>sell on open</i>
AGN(1/3)	12/20/2018	\$135.00	\$135.88	0.65%		<i>sell on open</i>
SLB(1/3)	12/21/2018	\$35.47	\$37.20	4.88%		<i>sell on open</i>
AGN(1/3)	12/21/2018	\$135.20	\$135.88	0.50%		<i>sell on open</i>
RTN(1/3)	12/21/2018	\$151.01	\$154.14	2.07%		<i>sell on open</i>
RTN(1/3)	12/24/2018	\$150.15	\$154.14	2.66%		<i>sell on open</i>
AGN(1/3)	12/24/2018	\$129.99	\$135.88	4.53%		<i>sell on open</i>
HAL(1/3)	12/24/2018	\$25.61	\$27.30	6.60%		<i>sell on open</i>
OXY(1/3)	12/24/2018	\$59.42	\$60.52	1.85%		<i>sold on open</i>
AAPL(1/3)	12/26/2018	\$146.83	\$154.89	5.49%		<i>sold on open</i>
HAL(1/3)	12/26/2018	\$25.14	\$27.30	8.59%		<i>sell on open</i>
OXY(1/3)	12/26/2018	\$57.11	\$60.52	5.97%		<i>sold on open</i>
RTN(1/3)	12/26/2018	\$146.67	\$154.14	5.09%		<i>sell on open</i>
USB(1/3)	12/26/2018	\$43.76	\$46.35	5.92%		<i>sell on open</i>

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