

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 4, 2018

Volume 12 Issue 3

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The “gap n crap” strong selloff on Thursday coming from a high short-term level suggests more downside in the coming days.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

The Evidence

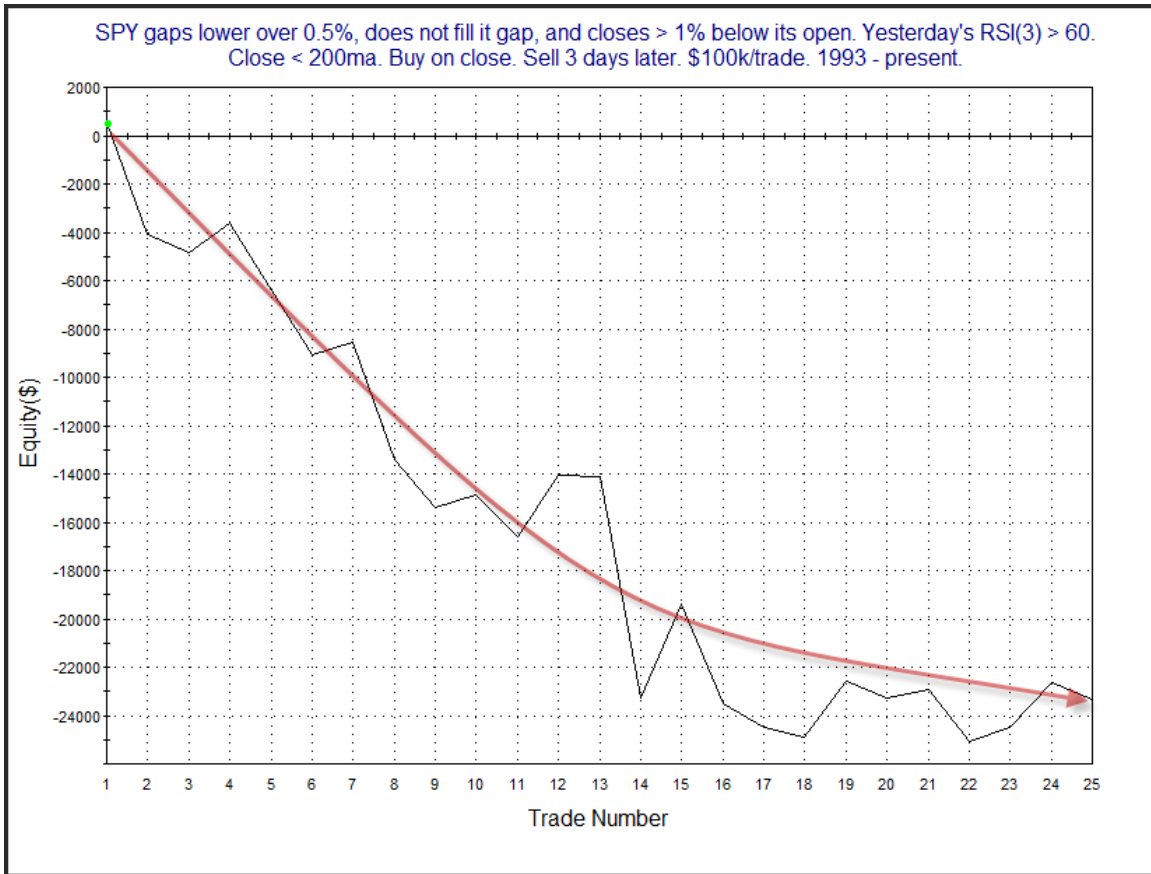
Thursday was a big down day. The SPX lost 2.5%, the NASDAQ dropped 3.0%, and the Russell 2000 also fell 1.9%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 33%. NYSE volume declined some from Wednesday’s level.

When a market gaps down and then continues to sell off throughout the day it is sometimes referred to as a “gap –n- crap”. When it occurs with the SPY not already oversold short-term it is commonly followed by more selling. The study below is from the 12/9/11 letter and has been updated.

SPY gaps lower over 0.5%, does not fill it gap, and closes > 1% below its open. Yesterday's RSI(3) > 60. 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	-16,542.66	24	10	14	41.67	2,523.42	10,819.13	-2,984.06	-6,942.60	0.85	0.60	-689.28
4	-20,504.44	24	9	15	37.50	2,865.53	7,082.94	-3,086.28	-12,422.13	0.93	0.56	-854.35
3	-23,349.49	25	10	15	40.00	1,430.83	3,882.23	-2,510.52	-9,199.26	0.57	0.38	-933.98
2	-2,437.13	25	12	13	48.00	1,800.00	6,340.57	-1,849.01	-4,349.31	0.97	0.90	-97.49
1	-8,062.69	25	13	12	52.00	1,097.05	3,845.72	-1,860.37	-5,444.46	0.59	0.64	-322.51

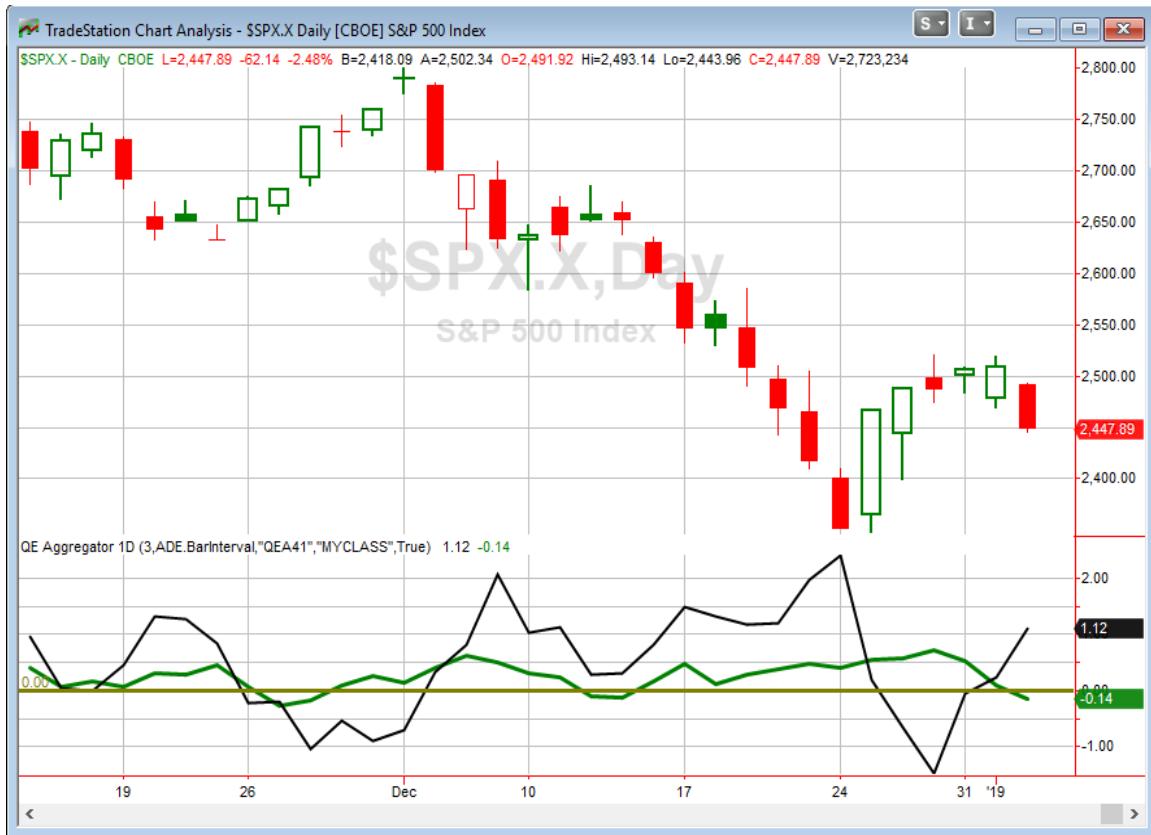
While not the most consistent setup it appears the size of the drops make it worth considering. Below is a profit curve assuming a 3-day holding period.



The edge does not appear to be as strong lately, but it still seems to exist and is worth considering.

The one positive the market may have going for it is that we are now in a week (through Wednesday) where I expect to see a respite from Quantitative Tightening (QT). We could even see the Fed's System Open Market Account (SOMA) rise a small amount. I mentioned this in the intermediate-term outlook last weekend and I will cover it again in more detail this upcoming weekend.

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



With tonight's evidence considered the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line remained 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 Friday. This could change if new bullish evidence emerges. The Differential Pivot will be 2550.16 on Friday. That is a whopping 4.2% above Thursday's close. So SPX would need to close up at least 4.2% on Friday in order to change from oversold to overbought versus expectations. That is very unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So despite the strong selloff on Thursday, we are not seeing evidence suggesting an immediate bounce. Interestingly, the strong selling also failed to move the CBI off zero. And tonight's study suggests further downside in the next few days. Of course with the market already strongly oversold this leaves the Aggregator neutral. I do still have 1 lot of SPY. The edge there now appears to be gone, which means I need to look to exit it.

So I will be selling at the open, and waiting for the next favorable reward/risk opportunity to emerge before taking on new exposure.

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	\$244.21	-5.86%		<i>sell on open</i>
SLB(1/3)	12/19/2018	\$37.84	\$37.31	-1.40%		<i>sold on open</i>
SLB(1/3)	12/20/2018	\$37.34	\$37.31	-0.08%		<i>sold on open</i>
AGN(1/3)	12/20/2018	\$135.00	\$135.86	0.64%		<i>sold on open</i>
SLB(1/3)	12/21/2018	\$35.47	\$37.31	5.19%		<i>sold on open</i>
AGN(1/3)	12/21/2018	\$135.20	\$135.86	0.49%		<i>sold on open</i>
RTN(1/3)	12/21/2018	\$151.01	\$153.11	1.39%		<i>sold on open</i>
RTN(1/3)	12/24/2018	\$150.15	\$153.11	1.97%		<i>sold on open</i>
AGN(1/3)	12/24/2018	\$129.99	\$135.86	4.52%		<i>sold on open</i>
HAL(1/3)	12/24/2018	\$25.61	\$27.36	6.83%		<i>sold on open</i>
HAL(1/3)	12/26/2018	\$25.14	\$27.36	8.83%		<i>sold on open</i>
RTN(1/3)	12/26/2018	\$146.67	\$153.11	4.39%		<i>sold on open</i>
USB(1/3)	12/26/2018	\$43.76	\$46.20	5.58%		<i>sold on open</i>

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