

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2018

Volume 12 Issue 5

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The Zweig Breadth Thrust suggests bullish intermediate-term implications.
- When both the VIX and SPX close higher on a Monday that often suggests a bearish edge.
- QQQ closing at a 10-day high on low volume below the 200ma has often led to dips the next day.
- Back to back days of strong breadth, and a new short-term high in a long-term downtrend has often combined for a pullback in the following days.

Short-term Outlook

The Bottom Line

The Aggregator is now suggesting a bearish edge. But with a bullish Zweig thrust signal emerging, the edge is somewhat muted. I'm waiting another day to see if more compelling short evidence continues to emerge before taking on new index exposure.

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						
January 8, 2019	Zweig Thrust	1-6 days	Bullish	3.70%	-1.45%	-2.50%
January 8, 2019	QQQ 10-high < 200ma. Lowest vol 10.	1 day	Bearish			
January 8, 2019	SPX up VIX up. Monday. SPX < 200ma	1-5 days	Bearish			
January 8, 2019	Up Iss > 70% 2 days. 10-high < 200	1-5 days	Bearish			
January 7, 2019	SPX up 2.5%-3.5% on vol < 10ma	1-2 days	Bearish			
Active - Long Term						
January 8, 2019	Zweig Thrust	1-20 days	Bullish	7.50%	-1.45%	-2.50%
December 21, 2018	CBI 10+. SPX 50-day low.	1-18 days	Bullish			
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			

The Evidence

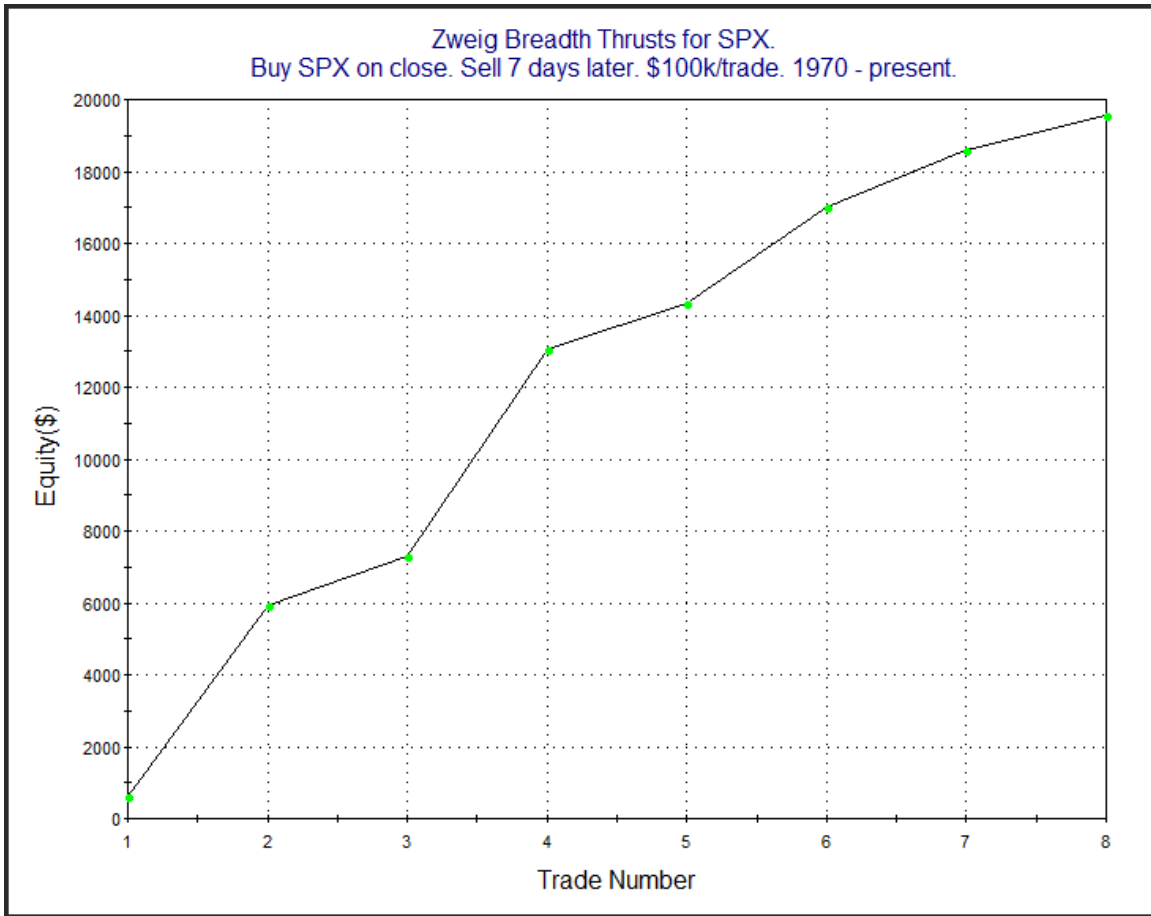
Monday was another day of rallying. The SPX gained 0.7%, the NASDAQ climbed 1.3%, and the Russell 2000 rose 1.8%. Breadth was positive as the NYSE Up Issues % was 79% and the Up Volume % came in at 79%. NYSE volume declined some from Friday's level.

The strong breadth we have seen recently has caused the 10-day exponential moving average of the Up Issues % to rise up to 62%. A move through 61.5% after being below 40% within the last 2 weeks is considered a Zweig Breadth Thrust trigger. This is a signal created by Martin Zweig. Over the long haul it has been a rare but powerful signal. Below is a stats table summarizing the signals. The table is updated from the 10/9/15 letter.

Zweig Breadth Thrusts for SPX.
Buy SPX on close. Sell 20 days later. \$100k/trade. 1970 - 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	48,594.64	8	8	0	100.00	6,074.33	8,868.75	0.00	0.00	100.00	100.00	6,074.33
19	45,296.60	8	8	0	100.00	5,662.08	8,424.52	0.00	0.00	100.00	100.00	5,662.08
18	46,912.53	8	8	0	100.00	5,864.07	9,503.00	0.00	0.00	100.00	100.00	5,864.07
17	44,416.39	8	8	0	100.00	5,552.05	9,962.68	0.00	0.00	100.00	100.00	5,552.05
16	41,476.94	8	8	0	100.00	5,184.62	8,910.72	0.00	0.00	100.00	100.00	5,184.62
15	33,488.42	8	8	0	100.00	4,186.05	8,150.48	0.00	0.00	100.00	100.00	4,186.05
14	28,717.56	8	8	0	100.00	3,589.70	7,027.80	0.00	0.00	100.00	100.00	3,589.70
13	30,054.97	8	8	0	100.00	3,756.87	7,911.80	0.00	0.00	100.00	100.00	3,756.87
12	26,684.27	8	7	1	87.50	3,814.06	8,115.12	-14.14	-14.14	269.74	1,888.15	3,335.53
11	23,958.23	8	8	0	100.00	2,994.78	7,381.40	0.00	0.00	100.00	100.00	2,994.78
10	18,888.70	8	8	0	100.00	2,361.09	8,539.44	0.00	0.00	100.00	100.00	2,361.09
9	15,127.09	8	8	0	100.00	1,890.89	6,426.68	0.00	0.00	100.00	100.00	1,890.89
8	14,298.70	8	7	1	87.50	2,164.46	4,782.88	-852.50	-852.50	2.54	17.77	1,787.34
7	19,577.48	8	8	0	100.00	2,447.18	5,737.16	0.00	0.00	100.00	100.00	2,447.18
6	19,543.18	8	8	0	100.00	2,442.90	4,813.75	0.00	0.00	100.00	100.00	2,442.90
5	14,637.98	8	8	0	100.00	1,829.75	3,615.56	0.00	0.00	100.00	100.00	1,829.75
4	9,161.02	8	6	2	75.00	1,700.72	4,888.52	-521.66	-940.31	3.26	9.78	1,145.13
3	8,134.41	8	4	4	50.00	2,518.06	4,031.04	-484.46	-947.38	5.20	5.20	1,016.80
2	4,305.22	8	6	2	75.00	1,287.86	4,224.40	-1,710.97	-3,226.25	0.75	2.26	538.15
1	3,552.96	8	6	2	75.00	901.37	2,731.56	-927.63	-1,288.75	0.97	2.92	444.12

Over both the short and intermediate-term there have been strong gains. Below is a profit curve that assumes a 7-day holding period.



That is a nice, steady rise. I have also listed all of the signals since 1970 below, along with their 4 week results.

Zweig Breadth Thrusts for SPX.
Buy SPX on close. Sell 20 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/3/1971	Buy	\$97.06	4.75%	\$5,963.70
1/3/1972	Sell	\$101.67		(\$1,709.80)
10/10/1974	Buy	\$69.79	7.77%	\$10,911.84
11/7/1974	Sell	\$75.21		(\$1,417.68)
1/3/1975	Buy	\$70.71	8.87%	\$11,283.72
1/31/1975	Sell	\$76.98		(\$2,361.38)
8/20/1982	Buy	\$113.02	8.40%	\$10,484.24
9/20/1982	Sell	\$122.51		(\$327.08)
8/3/1984	Buy	\$162.35	2.67%	\$3,966.75
8/31/1984	Sell	\$166.68		(\$947.10)
3/18/2009	Buy	\$794.35	8.93%	\$9,500.00
4/16/2009	Sell	\$865.30		(\$3,518.75)
10/18/2013	Buy	\$1,744.50	3.08%	\$3,062.04
11/15/2013	Sell	\$1,798.18		(\$228.00)
10/8/2015	Buy	\$2,013.43	4.30%	\$5,049.45
11/5/2015	Sell	\$2,099.93		(\$1,112.30)

All 8 instances saw a runup of at least 3% over the next 4 weeks, and only once did the market pull back as much as even 2.5%.

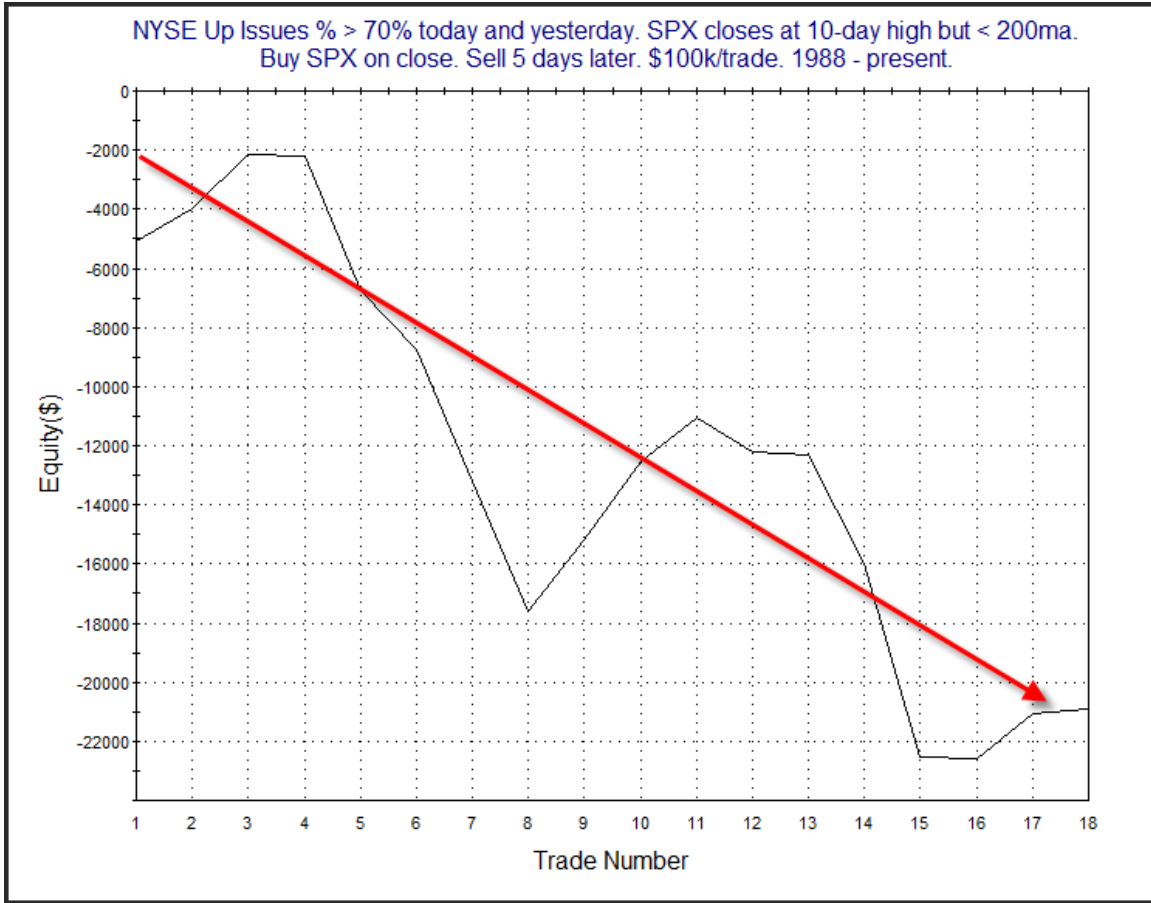
So the Zweig Breadth Thrust appears to have some bullish potential. But I am a little concerned at the low number of instances. I am also wary for the short-term because another breadth study triggered that was also from the 10/9/15 letter. I have updated its results below.

NYSE Up Issues % > 70% today and yesterday. SPX closes at 10-day high but < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-20,928.98	18	7	11	38.89	1,601.78	2,639.42	-2,921.95	-6,523.10	0.55	0.35	-1,162.72
4	-17,452.73	18	6	12	33.33	1,665.67	2,440.31	-2,287.23	-4,850.32	0.73	0.36	-969.60
3	-11,523.25	19	8	11	42.11	1,340.37	3,571.25	-2,022.38	-5,878.78	0.66	0.48	-606.49
2	-8,932.59	19	9	10	47.37	626.65	1,599.88	-1,457.24	-4,170.54	0.43	0.39	-470.14
1	-5,446.29	19	9	10	47.37	400.34	1,111.50	-904.94	-1,986.06	0.44	0.40	-286.65

**All 19 instances closed below the entry price
at some point in the next week.**

Instances here are a bit larger. The combination of strong breadth and short-term overbought during a downtrend have consistently led to a short-term pullback.



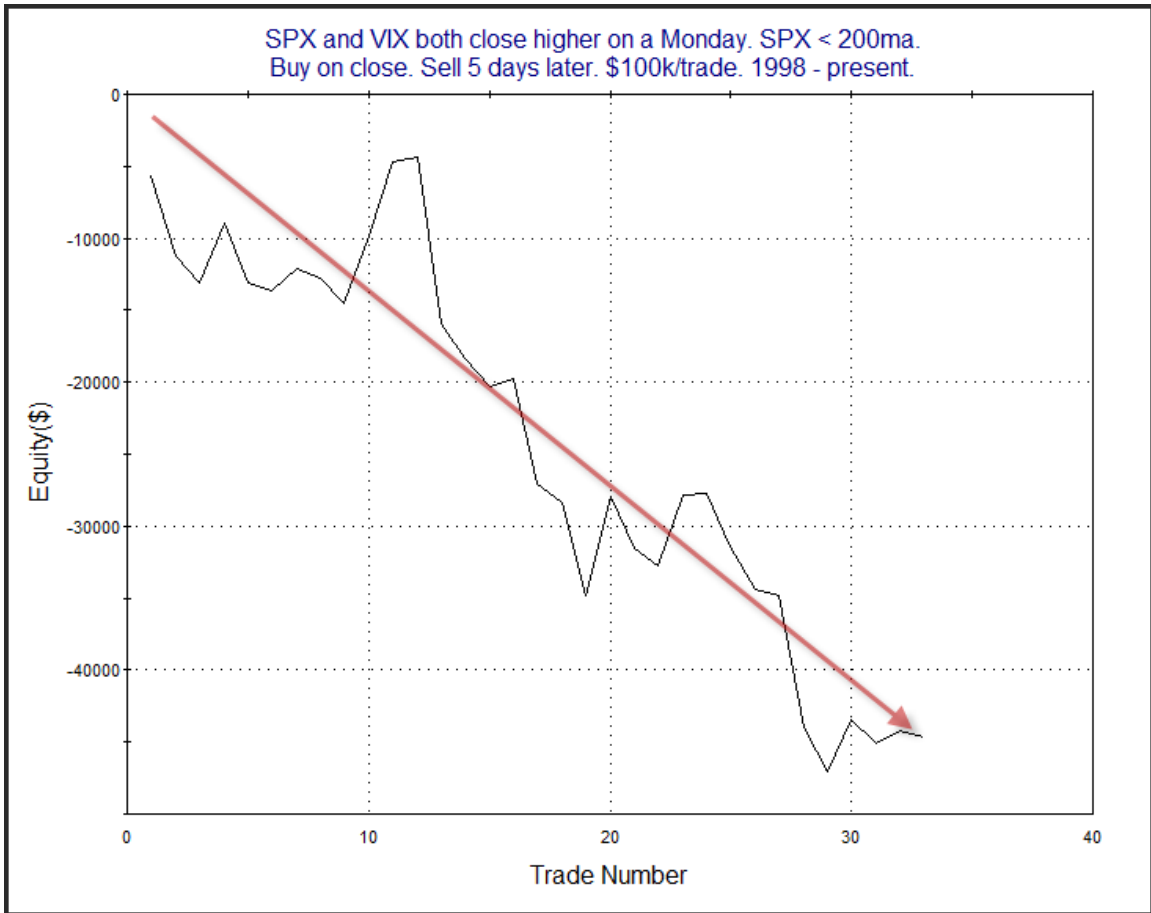
With this in mind, I elected not to include either breadth study on the short-term Active List. But since there were no conflicting breadth signals for the intermediate-term, I did add the Zweig Breadth Thrust to the intermediate-term list.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will often move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-week. Anyway, the action on Monday triggered the following study from the 3/8/16 subscriber letter. I have updated the results.

SPX and VIX both close higher on a Monday. SPX < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-44,676.09	33	11	22	33.33	2,982.31	6,877.04	-3,521.89	-11,533.34	0.85	0.42	-1,353.82
4	-26,811.29	34	13	21	38.24	2,755.05	5,607.06	-2,982.23	-9,828.00	0.92	0.57	-788.57
3	-26,420.57	34	13	21	38.24	2,151.41	4,455.68	-2,589.95	-6,956.04	0.83	0.51	-777.08
2	-15,446.84	34	15	19	44.12	1,650.13	3,349.32	-2,115.72	-5,441.80	0.78	0.62	-454.32
1	-9,880.31	34	16	18	47.06	1,123.58	4,699.94	-1,547.64	-4,893.07	0.73	0.65	-290.60

The numbers here all appear to suggest a strong bearish tendency. Below is a profit curve that assumes a 5-day holding period.



The curve supports the idea of a downside edge.

In the 3/15/16 subscriber letter I looked at times QQQ posted a short-term high on light volume during a long-term downtrend. The very low QQQ volume on Monday caused me to look at that study again tonight. Below are updated stats for a 1-day holding period.

QQQ closes at a 10-day high but < 200ma. It posts lightest volume in 10 days.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

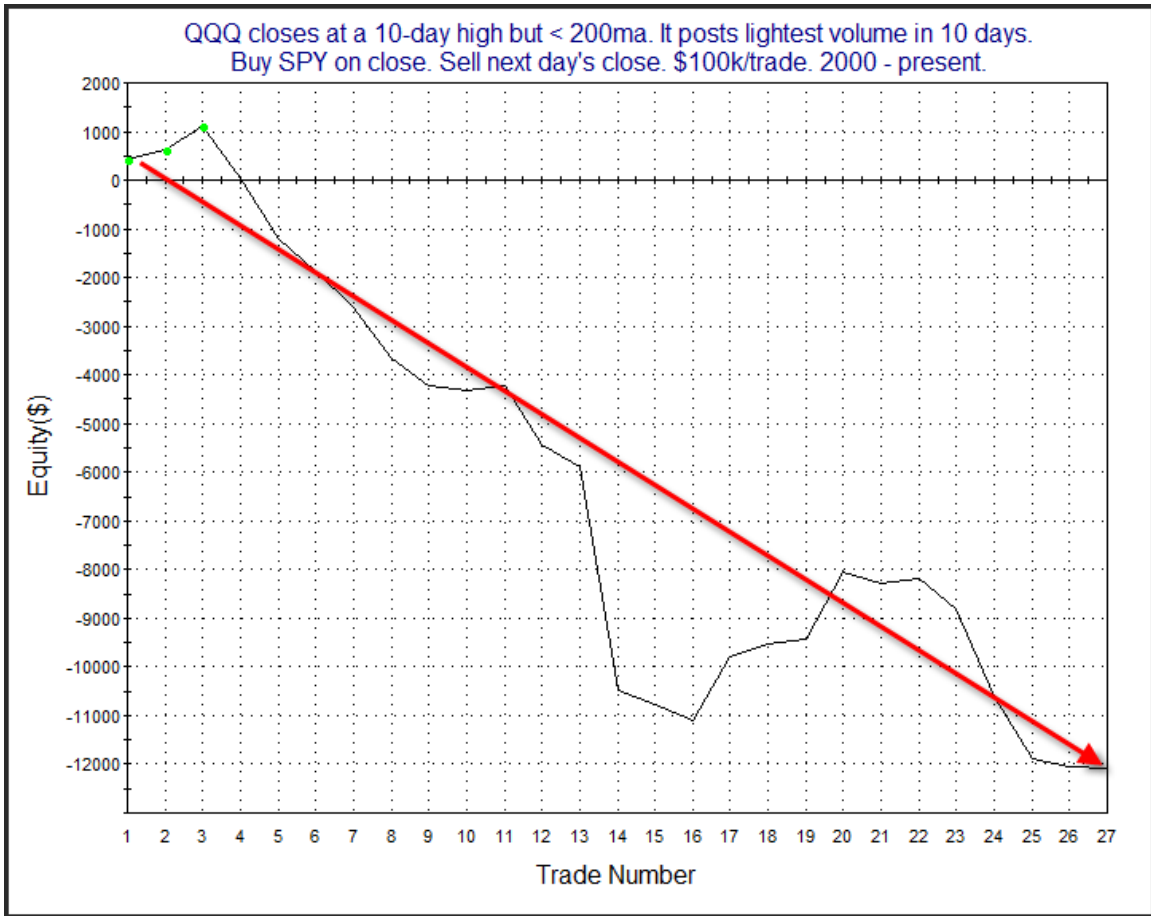
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$14,308.21)	Profit Factor	0.39
Gross Profit	\$8,960.51	Gross Loss	(\$23,268.72)
Total Number of Trades	27	Percent Profitable	37.04%
Winning Trades	10	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	(\$529.93)	Ratio Avg. Win:Avg. Loss	0.65
Avg. Winning Trade	\$896.05	Avg. Losing Trade	(\$1,368.75)
Largest Winning Trade	\$2,653.20	Largest Losing Trade	(\$3,725.92)

Results look quite bearish. I also looked to see how SPY performed when QQQ acted this way. So here is the 1-day performance of SPY based on the action in QQQ.

QQQ closes at a 10-day high but < 200ma. It posts lightest volume in 10 days.
Buy SPY on close. Sell X days later. \$100k/trade. 2000 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$12,089.64)	Profit Factor	0.26
Gross Profit	\$4,336.30	Gross Loss	(\$16,425.94)
Total Number of Trades	27	Percent Profitable	33.33%
Winning Trades	9	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	(\$447.76)	Ratio Avg. Win:Avg. Loss	0.53
Avg. Winning Trade	\$481.81	Avg. Losing Trade	(\$912.55)
Largest Winning Trade	\$1,362.30	Largest Losing Trade	(\$4,580.52)

Stats here are very similar and suggest that SPY has suffered along with QQQ when QQQ has triggered these signals. Below is a profit curve for SPY.



It has headed from upper left to lower right for a long time. This study appears worthy of some consideration and I have added it to the Active List tonight.

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



With tonight's evidence considered the green Aggregator Line held below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

With the current active studies, expectations are slated to remain bearish on Tuesday. This could change if new bullish evidence emerges. The Differential Pivot will be 2456.72 on Tuesday. That is a whopping 3.6% below Monday's close. So SPX would need to close down at least 3.6% on Tuesday in order to change from overbought to oversold versus expectations. A drop that big is very unlikely. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So the Aggregator is now leaning bearish. And there seems to be ample room to the downside before SPX would flip back to oversold. If not for the Zweig breadth signal, then I would be looking to take some short index exposure here. And perhaps I should anyway. But with the overall Aggregator reading somewhat tenuous, and the market emerging from a potential bottom, I'd prefer to wait another day and see what new evidence emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/7– neutral

None

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

None

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