

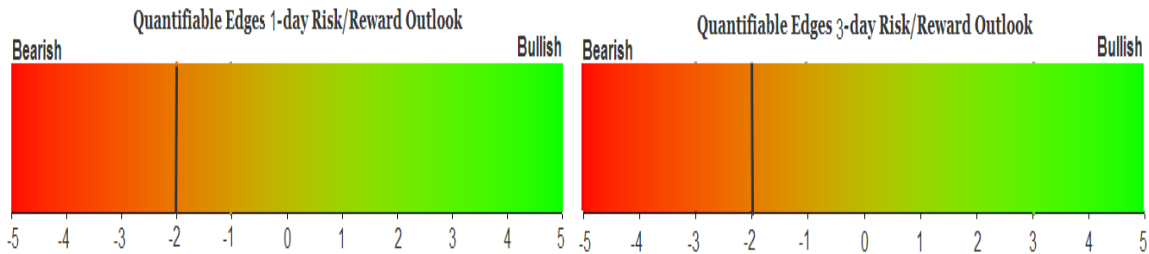
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 9, 2018

Volume 12 Issue 6

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- SPY's low range on the 3<sup>rd</sup> day of the rally suggest a brief downside edge.
- Rising prices and dropping volume over the last few days suggest a short-term bearish edge.
- The strong breadth the last few days may be a good intermediate-term sign.

### *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
<b>Active - Short Term</b>						
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			
<b>Active - Long Term</b>						
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**

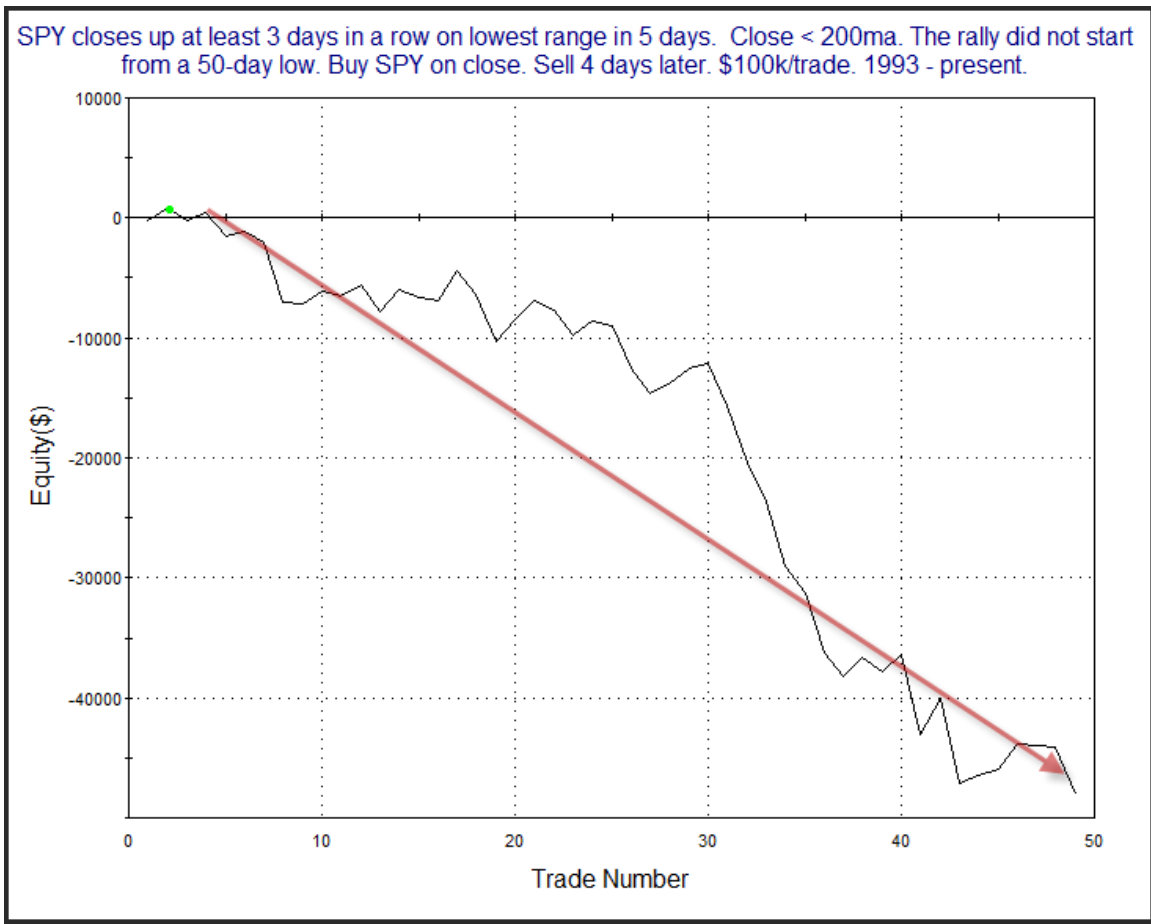
Tuesday saw prices move higher for the 3<sup>rd</sup> day in a row. The SPX gained 1.0%, the NASDAQ climbed 1.1%, and the Russell 2000 rose 1.5%. Breadth was positive as the NYSE Up Issues % was 77% and the Up Volume % came in at 66%. NYSE volume rose a little from Monday's level.

The strong move on Wednesday led to a mix of studies. I saw clues emerge based on price action, range, volume, and breadth.

The study below was last featured in the 12/24/15 subscriber letter. It looks at low range days when the market has moved up for three days in a row. I have updated all the stats.

SPY closes up at least 3 days in a row on lowest range in 5 days. Close < 200ma. The rally did not start from a 50-day low. Buy SPY 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	-49,777.54	49	22	26	44.90	1,256.03	3,702.72	-2,977.32	-9,046.24	0.42	0.36	-1,015.87
4	-48,034.62	49	19	30	38.78	1,295.23	3,045.60	-2,421.47	-7,118.52	0.53	0.34	-980.30
3	-40,852.90	49	17	32	34.69	1,212.87	2,774.88	-1,920.99	-6,431.25	0.63	0.34	-833.73
2	-38,343.92	49	13	36	26.53	903.24	1,574.20	-1,391.28	-5,350.20	0.65	0.23	-782.53
1	-14,667.27	50	19	31	38.00	1,022.12	3,395.70	-1,099.60	-8,857.80	0.93	0.57	-293.35

Over the next few days there has been a propensity for the market to close lower. Below is a look at the 4-day equity curve.



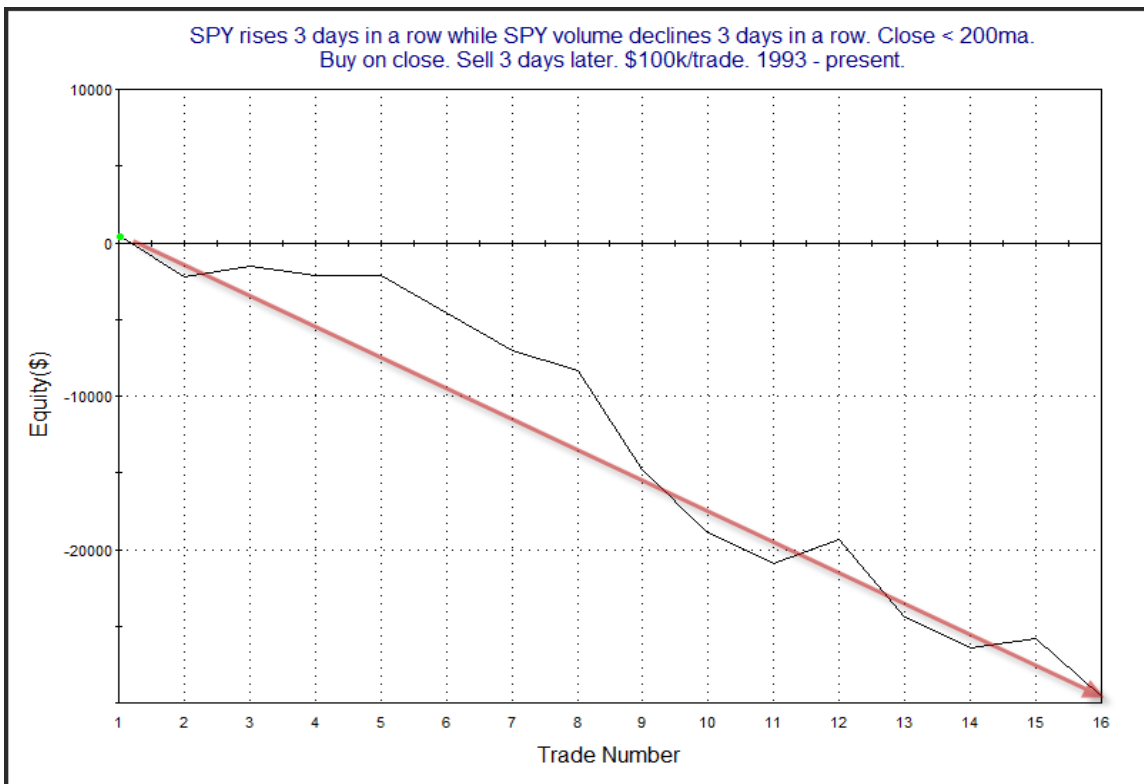
The persistent downslope suggest the bearish edge is for real. I have included this study on the Active List tonight.

Several studies appeared in the Quantifinder related to SPY volume. The one below I found to be especially appealing because it seems to suggest not just a short-term edge, but an intermediate-term one as well. It is updated from the 8/16/11 letter.

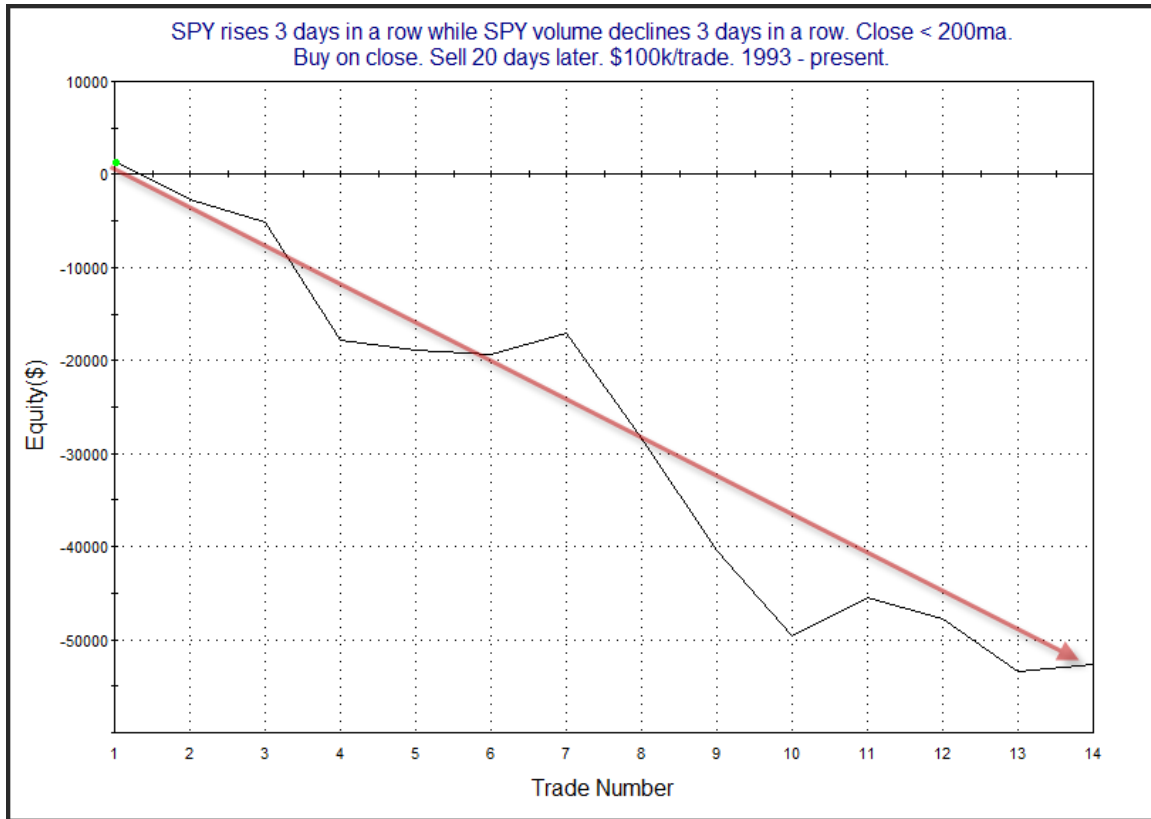
SPY rises 3 days in a row while SPY volume declines 3 days in a row. Close < 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
20	-52,682.08	14	4	10	28.57	2,166.56	4,102.18	-6,134.83	-12,586.76	0.35	0.14	-3,763.01
19	-47,115.78	14	5	9	35.71	1,842.16	4,528.14	-6,258.51	-15,435.00	0.29	0.16	-3,365.41
18	-44,817.27	15	6	9	40.00	1,546.31	4,639.26	-6,010.57	-11,688.04	0.26	0.17	-2,987.82
17	-42,592.10	16	4	12	25.00	1,691.46	3,944.76	-4,113.16	-8,411.13	0.41	0.14	-2,662.01
16	-36,598.75	16	4	12	25.00	2,837.21	4,444.80	-3,995.63	-11,782.05	0.71	0.24	-2,287.42
15	-43,113.22	16	4	12	25.00	2,592.29	6,220.11	-4,456.86	-12,430.32	0.58	0.19	-2,694.58
14	-49,514.61	16	4	12	25.00	2,745.78	7,258.74	-5,041.48	-18,100.11	0.54	0.18	-3,094.66
13	-43,777.37	16	6	10	37.50	1,253.09	2,657.62	-5,129.59	-22,288.14	0.24	0.15	-2,736.09
12	-28,342.50	16	8	8	50.00	1,442.10	3,886.11	-4,984.91	-16,062.69	0.29	0.29	-1,771.41
11	-19,290.81	16	8	8	50.00	1,694.85	3,333.60	-4,106.20	-10,320.87	0.41	0.41	-1,205.68
10	-21,488.93	16	7	9	43.75	2,098.85	5,193.15	-4,020.10	-11,977.56	0.52	0.41	-1,343.06
9	-22,851.28	16	7	9	43.75	2,044.09	4,481.28	-4,128.88	-10,794.21	0.50	0.39	-1,428.20
8	-27,670.25	16	5	11	31.25	2,685.60	6,231.78	-3,736.20	-11,701.12	0.72	0.33	-1,729.39
7	-27,223.60	16	7	9	43.75	1,169.49	2,649.09	-3,934.44	-11,617.41	0.30	0.23	-1,701.48
6	-24,472.93	16	5	11	31.25	1,401.73	1,720.62	-2,861.96	-7,552.86	0.49	0.22	-1,529.56
5	-24,899.22	16	5	10	31.25	1,294.86	2,551.35	-3,137.35	-6,540.81	0.41	0.21	-1,556.20
4	-26,375.98	16	3	13	18.75	1,663.01	2,737.50	-2,412.69	-6,615.42	0.69	0.16	-1,648.50
3	-29,586.19	16	4	12	25.00	831.23	1,564.94	-2,742.59	-6,431.25	0.30	0.10	-1,849.14
2	-12,821.10	17	5	12	29.41	1,581.66	5,169.81	-1,727.45	-5,350.20	0.92	0.38	-754.18
1	1,492.50	19	9	10	47.37	1,758.58	3,862.77	-1,433.47	-8,857.80	1.23	1.10	78.55

Again we see what appears to be a strong downside inclination. Below is a look at the 3-day profit curve.



The strong, steady move lower serve as some confirmation of the downside edge. Let's also look at the 20-day curve.



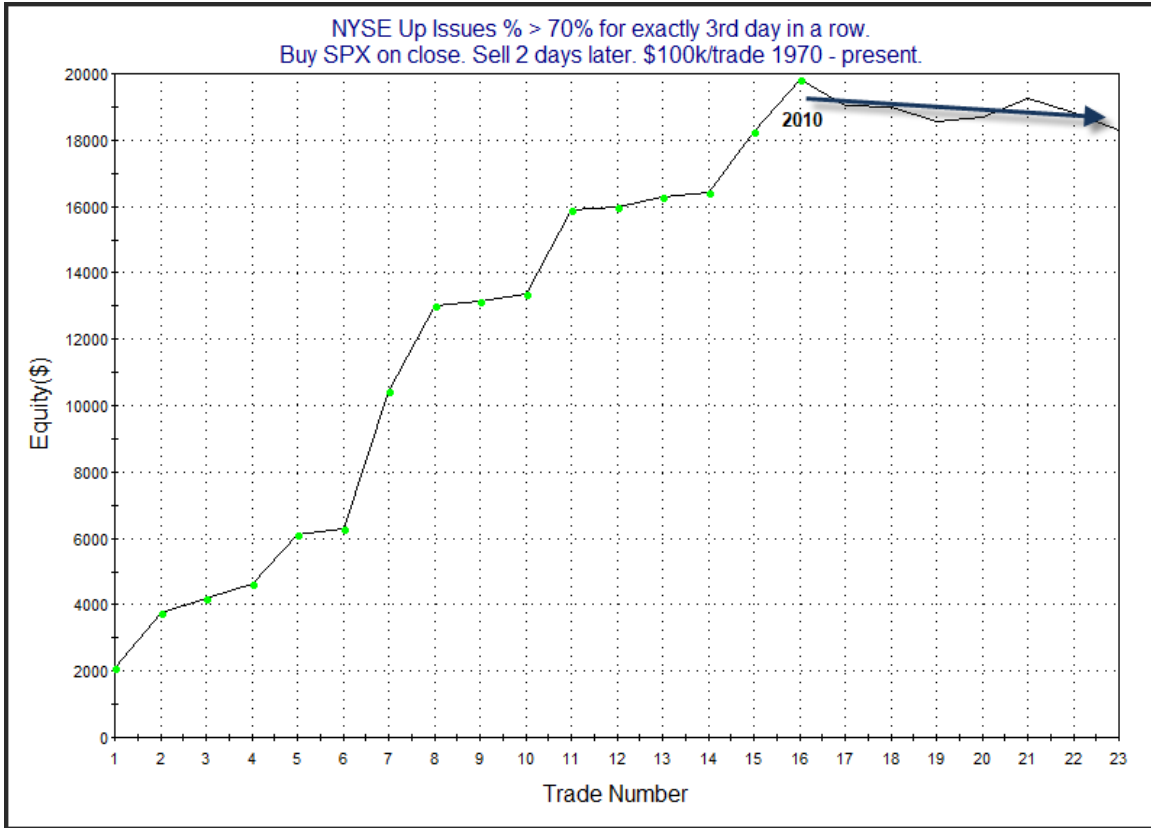
Same here. While instances are a little light, initial indications suggest a downside edge for both the short and intermediate-term.

Like last night, I did see some breadth indications suggesting a bullish edge. The study below was last seen in the 7/1/16 letter. Stats are updated.

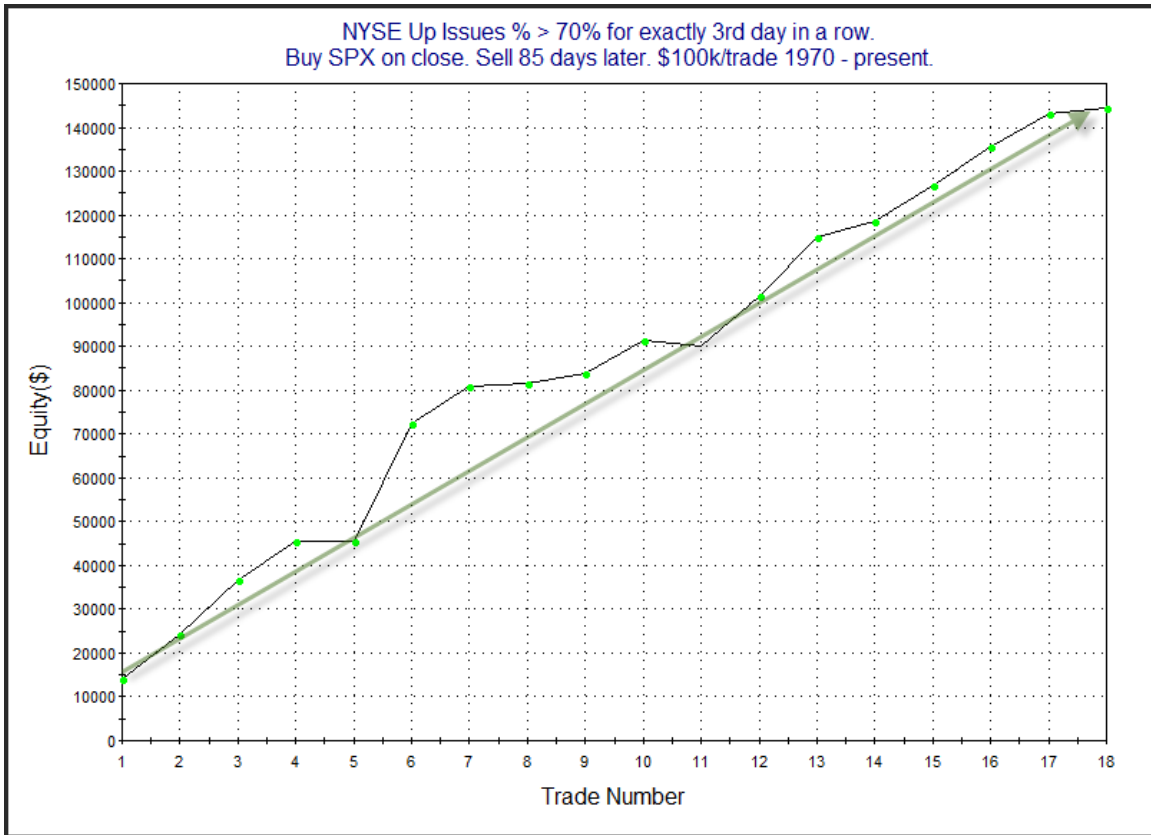
NYSE Up Issues % > 70% for exactly 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade 1970 - present.

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
100	135,725.05	17	14	3	82.35	10,578.50	35,219.04	-4,124.64	-9,681.98	2.56	11.97	7,983.83
95	125,938.76	17	15	2	88.24	9,102.66	27,445.80	-5,300.59	-7,569.87	1.72	12.88	7,408.16
90	142,032.33	18	16	2	88.89	9,259.59	30,973.23	-3,060.54	-5,123.16	3.03	24.20	7,890.68
85	144,315.72	18	17	1	94.44	8,566.39	26,662.95	-1,312.89	-1,312.89	6.52	110.92	8,017.54
80	132,110.91	18	17	1	94.44	8,137.30	28,578.63	-6,223.12	-6,223.12	1.31	22.23	7,339.50
75	124,832.25	19	18	1	94.74	7,459.72	27,768.15	-9,442.75	-9,442.75	0.79	14.22	6,570.12
70	101,346.86	19	17	2	89.47	6,613.71	24,259.14	-5,543.08	-8,532.18	1.19	10.14	5,334.05
65	97,722.17	19	16	3	84.21	6,948.72	27,445.80	-4,485.79	-12,438.75	1.55	8.26	5,143.27
60	103,899.84	20	17	3	85.00	7,194.93	30,586.41	-6,137.98	-14,330.51	1.17	6.64	5,194.99
55	106,228.37	21	17	4	80.95	7,433.06	30,678.51	-5,033.43	-13,424.22	1.48	6.28	5,058.49
50	103,872.07	21	16	5	76.19	8,274.19	23,071.05	-5,702.98	-16,443.76	1.45	4.64	4,946.29
45	99,426.51	21	18	3	85.71	7,157.92	28,108.92	-9,805.37	-22,705.40	0.73	4.38	4,734.60
40	81,970.32	21	18	3	85.71	6,445.99	23,973.63	-11,352.52	-25,195.29	0.57	3.41	3,903.35
35	77,794.46	22	18	4	81.82	5,651.61	18,659.46	-5,983.64	-16,976.62	0.94	4.25	3,536.11
30	80,476.13	22	17	5	77.27	6,031.55	15,257.06	-4,412.04	-15,261.41	1.37	4.65	3,658.01
25	78,399.13	22	18	4	81.82	5,162.96	14,063.67	-3,633.55	-6,624.37	1.42	6.39	3,563.60
20	71,982.46	22	18	4	81.82	4,898.44	14,026.83	-4,047.37	-11,381.59	1.21	5.45	3,271.93
15	56,387.47	22	19	3	86.36	3,698.32	12,369.03	-4,626.90	-10,189.61	0.80	5.06	2,563.07
10	36,341.21	23	18	5	78.26	3,140.43	8,942.91	-4,037.30	-8,739.76	0.78	2.80	1,580.05
5	24,596.19	23	17	6	73.91	2,327.98	8,325.84	-2,496.59	-6,523.10	0.93	2.64	1,069.40
4	18,387.98	23	14	9	60.87	1,979.43	6,272.01	-1,036.01	-3,472.70	1.91	2.97	799.48
3	15,348.84	23	14	9	60.87	1,879.90	6,971.97	-1,218.86	-2,691.05	1.54	2.40	667.34
2	18,315.80	23	18	5	78.26	1,140.45	4,126.08	-442.45	-790.32	2.58	9.28	796.34
1	11,059.86	23	16	7	69.57	827.01	2,609.46	-310.33	-465.45	2.66	6.09	480.86

There are a lot of green numbers and the edge generally appears to be to the upside. I have highlighted the 2-day and 85-day results to take a closer look at them. First let's look at the 2-day curve.

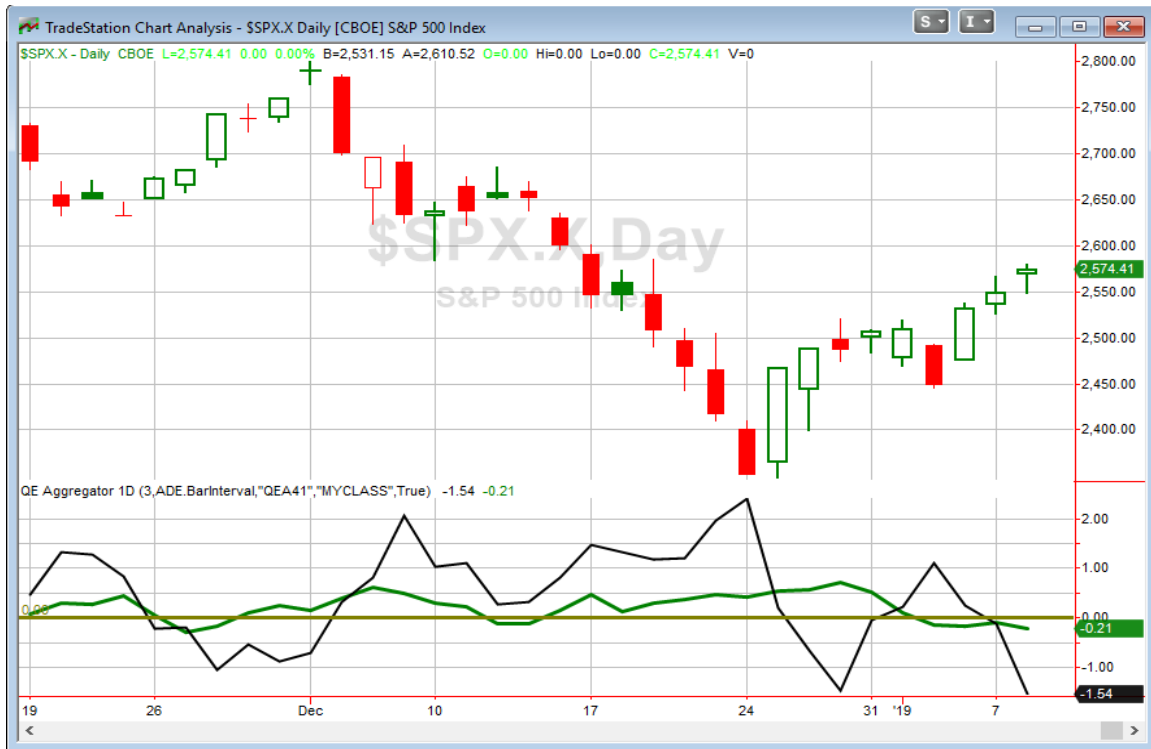


The short-term results have struggled some over the last 9 years or so. Here are the 85-day results.



You don't get curves that look much better than that. So I will list this study on the intermediate-term active list, but I will not consider for the short-term 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 also remained 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 stayed short at the close.

With the current active studies, expectations are slated to remain bearish on Wednesday. This could change if very strong bullish evidence emerges. The Differential Pivot will be 2526.51 on Wednesday. That is 1.9% below Tuesday's close. So SPX would need to close down at least 1.9% on Wednesday in order to change from overbought to oversold versus expectations.

The Aggregator is again bearish. Short-term evidence continues to build for the bears. And the market certainly seems extended. Of course the strong breadth we have seen over the last few days suggests the up move has the kind of momentum that could continue to propel it higher. But it certainly appears to need a pullback in the short-term. While I remain wary of betting heavily against such strong breadth, there does appear to be ample evidence to convince me to take a small index position on the short side to try and capture a selloff in the coming days. So I'll be looking to get short on Wednesday if I can get a decent fill.

*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.*

**SPY – short ¼ index position @ \$256.77 LIMIT.** Based on the short-term outlook above, I will be looking to take on some short exposure on Wednesday if I can get filled at Tuesday's close or better.

### **Current Open Trade Ideas**

*None*

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