

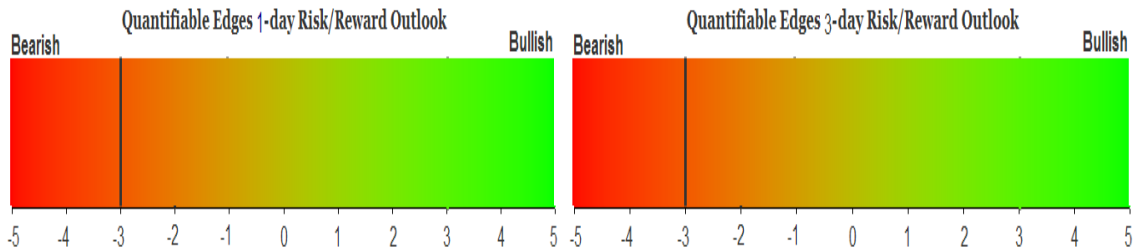
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2018

Volume 12 Issue 7

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- When the QQQ has closed higher 4 days in a row and under its 200ma it has consistently been followed by a pullback – both in QQQ and in SPY.
- Low 3/10 Offset HV and a strongly overbought RSI(2) during a long-term downtrend has almost always seen the market lower 2 days later.

Short-term Outlook

The Bottom Line

The Aggregator is again bearish. A pullback appears highly likely in the coming few days.

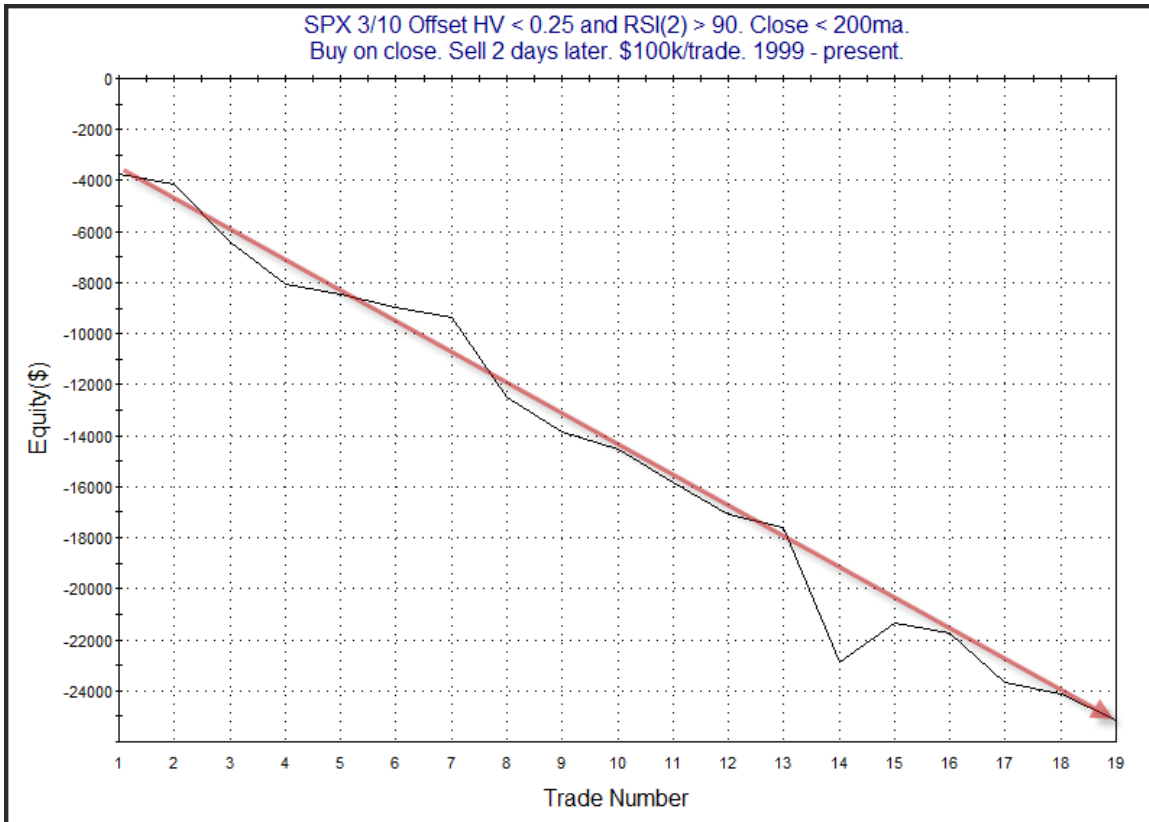
The Evidence

Wednesday saw prices move higher for the 4th day in a row. The SPX gained 0.4%, the NASDAQ climbed 0.9%, and the Russell 2000 rose 0.9%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 72%. NYSE volume declined some from Tuesday’s level.

An 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 it is often soon followed by a volatility expansion. This volatility expansion can occur in either direction. The indicator does not predict direction. But when combined with other indicators it can provide some powerful signals. The study below looks at the combination of low a 3/10 Offset HV, a short-term overbought market, and a long-term downtrend. It was last seen in the 2/18/16 subscriber letter. I have updated all results.

SPX 3/10 Offset HV < 0.25 and RSI(2) > 90. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-36,186.91	19	6	13	31.58	681.52	1,138.84	-3,098.16	-7,519.22	0.22	0.10	-1,904.57
4	-30,640.28	19	3	16	15.79	1,004.61	1,209.90	-2,103.38	-5,663.22	0.48	0.09	-1,612.65
3	-20,123.95	19	5	14	26.32	971.26	1,631.16	-1,784.30	-6,445.61	0.54	0.19	-1,059.16
2	-25,170.75	19	1	18	5.26	1,510.64	1,510.64	-1,482.30	-5,264.73	1.02	0.06	-1,324.78
1	-17,440.39	21	6	15	28.57	815.80	2,286.84	-1,489.01	-8,883.33	0.55	0.22	-830.49

As you can see, the results are overwhelmingly bearish over the next couple of days. Below is a profit curve.



Results are strongly negative and consistent. The curve is nearly as straight as an arrow. The consistent move from upper right to lower left serve as some confirmation of the bearish edge.

Another study that provided some compelling results looked at times the NASDAQ closed up 4 days in a row but below the 200ma. Tonight I looked at that setup with QQQ instead of \$COMPX.

QQQ closes up for exactly the 4th day in a row but < 200ma. It did not close at a 50-day low 4 days ago.
Buy on close. Sell X days later. \$100k/trade. 2002 - 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	-14,719.21	20	7	12	35.00	1,931.65	4,908.80	-2,353.40	-7,750.05	0.82	0.48	-735.96
4	-14,066.19	20	8	12	40.00	1,734.03	4,947.15	-2,328.21	-6,394.85	0.74	0.50	-703.31
3	-18,760.05	20	10	10	50.00	1,168.26	3,449.46	-3,044.27	-8,274.96	0.38	0.38	-938.00
2	-21,905.98	20	8	12	40.00	1,220.33	3,079.23	-2,639.05	-5,363.40	0.46	0.31	-1,095.30
1	-9,500.03	20	9	11	45.00	527.53	2,648.80	-1,295.25	-3,562.83	0.41	0.33	-475.00

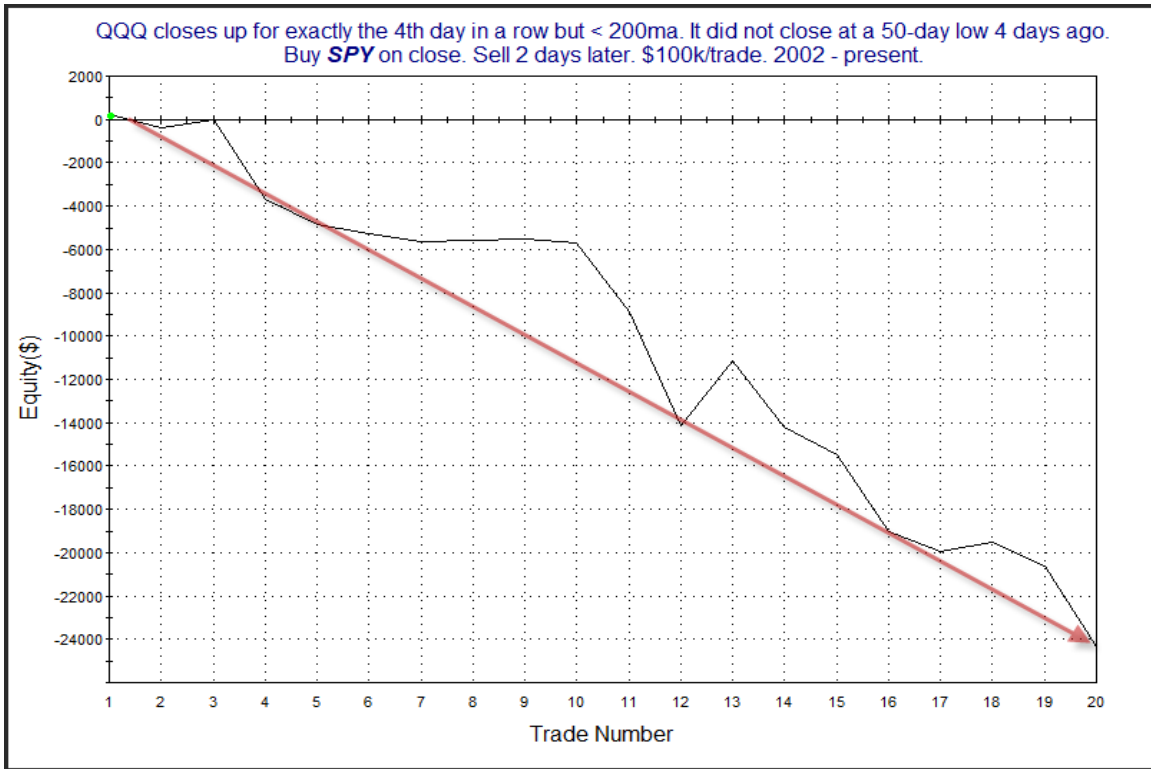
19 of 20 instances (95%) closed below the entry price at some point in the next 5 trading days.

Results here appears to be quite bearish. I also examined how the SPY might have performed when QQQ had set up this way. Those results are below.

QQQ closes up for exactly the 4th day in a row but < 200ma. It did not close at a 50-day low 4 days ago.
Buy **SPY** on close. Sell X days later. \$100k/trade. 2002 - present.

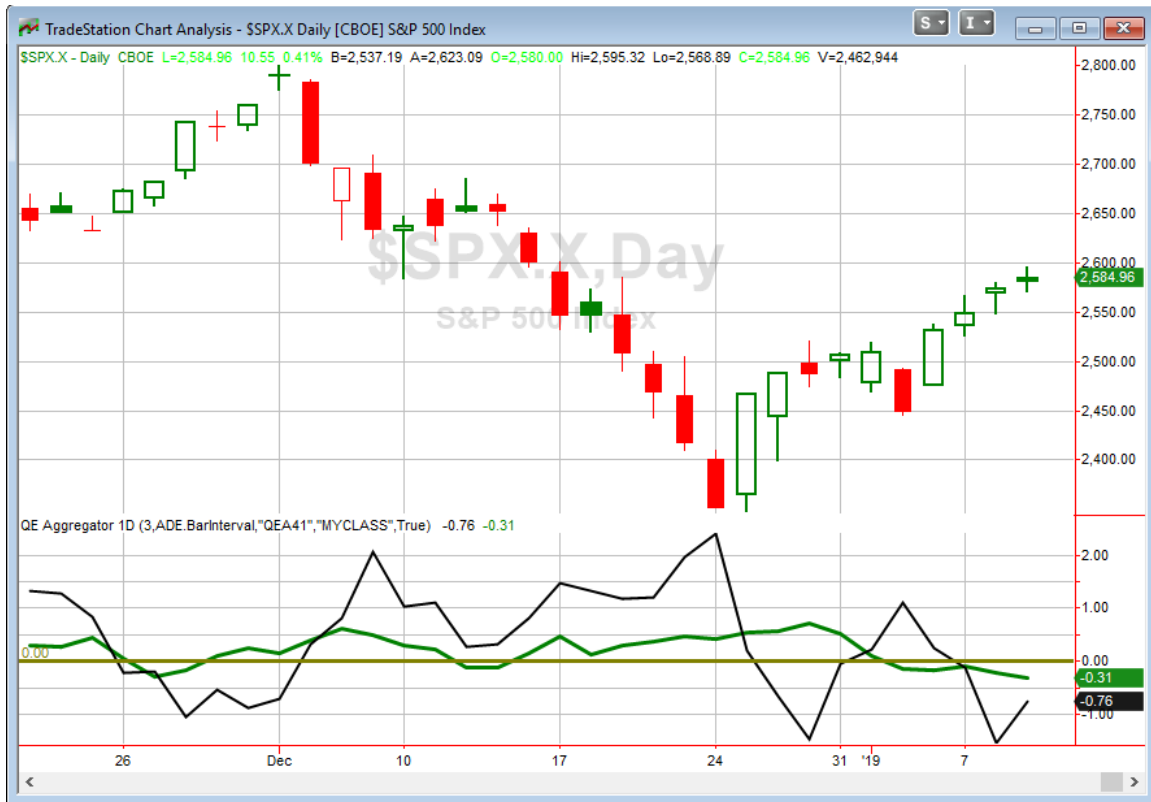
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,688.33	20	6	14	30.00	1,360.18	2,209.88	-2,274.96	-7,053.11	0.60	0.26	-1,184.42
4	-19,616.88	20	7	13	35.00	1,308.20	2,942.86	-2,213.41	-5,305.36	0.59	0.32	-980.84
3	-22,585.53	20	9	11	45.00	715.31	1,378.22	-2,638.48	-5,502.64	0.27	0.22	-1,129.28
2	-24,369.96	20	6	14	30.00	693.05	2,990.46	-2,037.73	-5,216.64	0.34	0.15	-1,218.50
1	-11,344.06	20	6	14	30.00	664.71	2,848.62	-1,095.16	-3,248.96	0.61	0.26	-567.20

These results appear just as consistently bearish as the QQQ results. Below is an equity curve that assumes a 2-day holding period.



This curve has moved steadily lower for a long time and is again at new lows. It supports the bearish inclination suggested by the numbers.

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 Thursday. This could change if very strong bullish evidence emerges. The Differential Pivot will be 2539.89 on Thursday. That is 1.7% below Wednesday's close. So SPX would need to close down at least 1.7% on Thursday in order to change from overbought to oversold versus expectations.

The Aggregator is again bearish. Short-term evidence continues to build for the bears. Studies related to multiple up days, short-term overbought measures, breadth, volume, volatility and more are all pointing towards a likely dip in the coming days. I have some short exposure and am looking to take advantage of the anticipated selling. I will not add

any more to my position on Thursday. But I will cover the trade if there is a big down day on Thursday that places SPX below the Differential Pivot.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(s)(1/4)	1/9/2019	\$257.56	\$257.97	-0.16%		shorted on open

I will cover my SPY short position on the close if SPX closes <= 2539.89.

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