

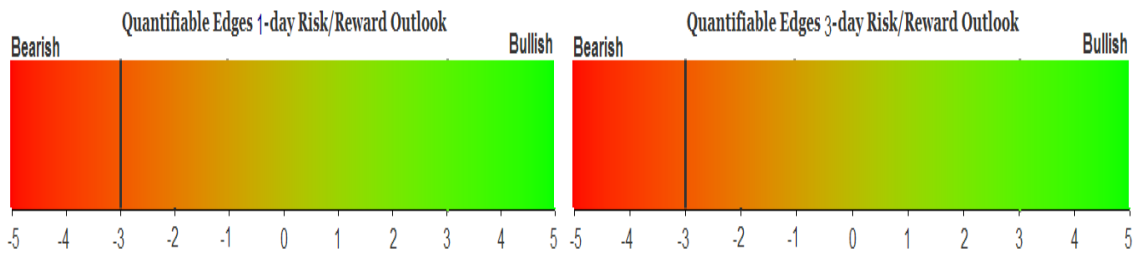
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 11, 2018

Volume 12 Issue 8

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- SPY's gap down and reverse to a new high pattern suggests a 1-day downside edge.
- One of the most bearish weeks of the year is coming next week.

Short-term Outlook

The Bottom Line

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

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 11, 2019	SPY gap dn reverse 10-high	1 day	Bearish			
January 10, 2019	3/10 Offset HV low. RSI2>90. < 200	1-2 days	Bearish			
January 10, 2019	QQQ up 4 days < 200	1-2 days	Bearish			
January 9, 2019	SPY up 3. SPY volume dn 3. < 200	1-3 days	Bearish			
January 9, 2019	SPY up 3. Low rng 5. < 200ma	1-5 days	Bearish			
January 8, 2019	Zweig Thrust	1-6 days	Bullish	3.70%	-1.45%	-2.50%
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			
Active - Long Term						
January 9, 2019	Up Iss > 70% 3 days.	1-85 days	Bullish			
January 9, 2019	SPY up 3. SPY volume dn 3. < 200	1-20 days	Bearish			
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

Thursday saw prices move higher for the 5th day in a row. The SPX gained 0.5%, the NASDAQ climbed 0.4%, and the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 58%. NYSE volume declined some from Wednesday's level.

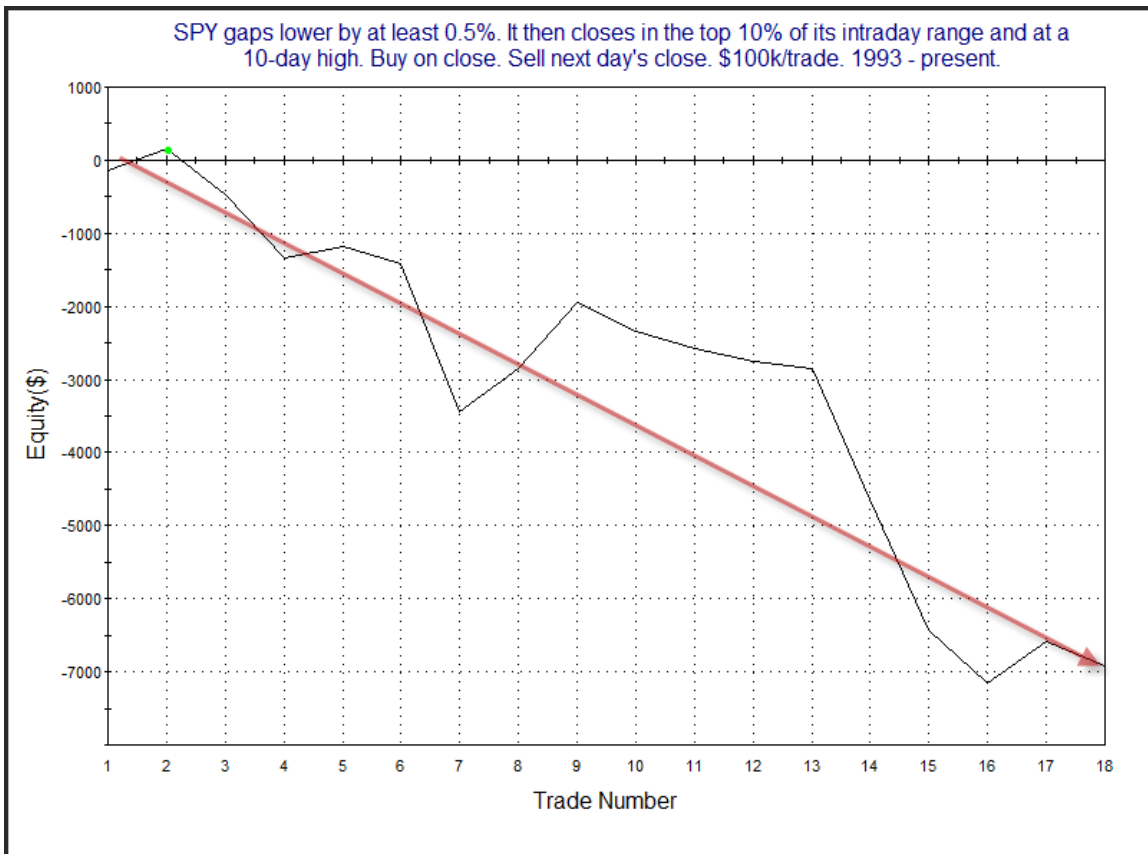
Action on Thursday generated many of the same (bearish) studies that we already have active. We are continuing to see the market push higher on low volume and decreasing volatility. All the bearish themes from the past few days, which have not yet mattered, are showing up again. There was one study that stood apart some in that it looked at the gap down and reverse higher pattern SPY exhibited on Thursday.

Many traders view reversals like Thursday as a positive. The fact that the market overcame a gap down and was able to close in the black and near its highs is interpreted as a sign of strength. I've looked at days similar to this in the past and found that most often they are actually followed by short-term market weakness. The study below was last seen in the 4/4/16 letter. I have updated the stats so they are current.

SPY gaps lower by at least 0.5%. It then closes in the top 10% of its intraday range and at a 10-day high. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$6,918.40)	Profit Factor	0.27
Gross Profit	\$2,520.24	Gross Loss	(\$9,438.64)
Total Number of Trades	18	Percent Profitable	27.78%
Winning Trades	5	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$384.36)	Ratio Avg. Win:Avg. Loss	0.69
Avg. Winning Trade	\$504.05	Avg. Losing Trade	(\$726.05)
Largest Winning Trade	\$918.96	Largest Losing Trade	(\$2,038.72)

There certainly appears to be a bearish tendency based on the numbers. Below is a profit curve.



The move from upper left to lower right serves as some confirmation of the downside edge.

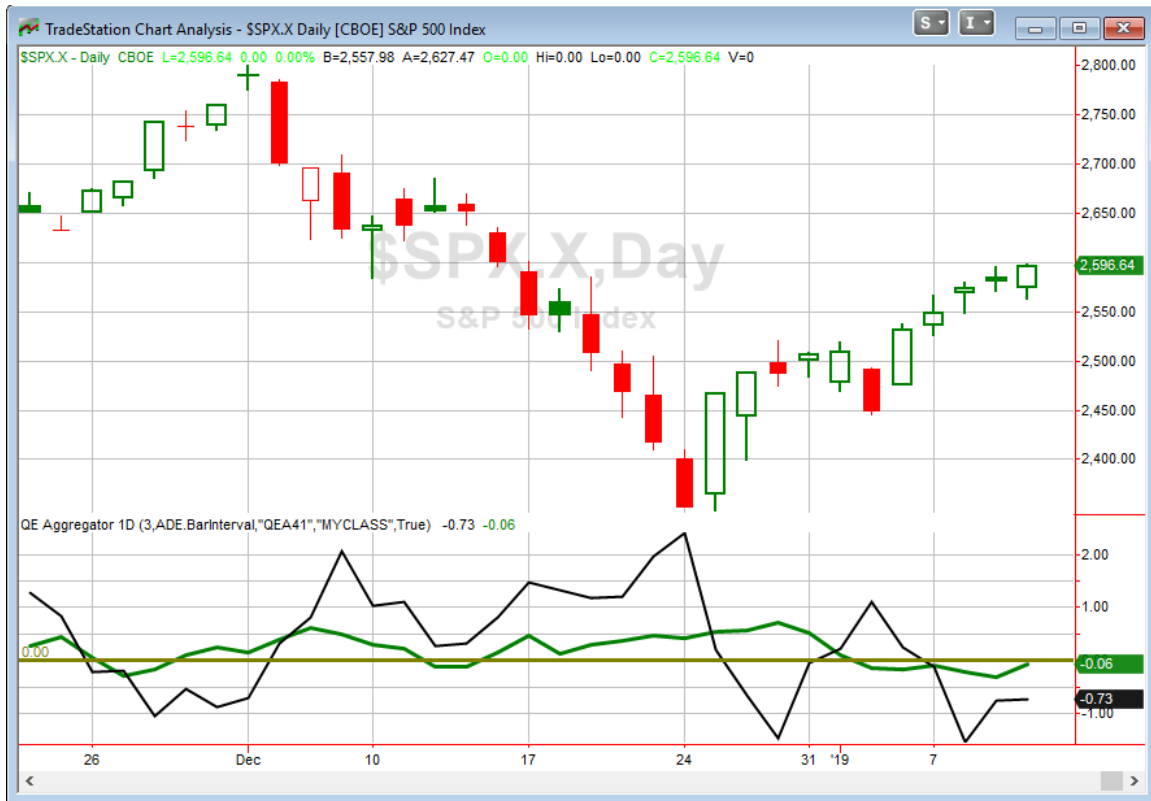
With so much evidence still pointing south, the market has shown incredible strength in bucking historical probabilities and persisting upwards. The ability to continue to move against historical odds in this way can be a sign that there is real strength behind the move. I'll get into it more over the weekend, but the intermediate-term outlook seems to be improving. In addition to overrunning short-term bearish indications, we also saw breadth thrusts occurring this week. Additionally, the NASDAQ/SPX relative strength indicator actually turned bearish this past week (something I missed last weekend and had pointed out to me yesterday). So things are starting to look up. But for the short-term, we remain at a place where evidence is strongly bearish and while it has not mattered yet, I fully expect it will sometime in the coming days.

Lastly, I will note that we are headed into one of the most bearish weeks of the year – January opex. Below is a little preview of a study I will be looking at further this weekend.

Buy SPX on close of Friday before options expiration week in January.
Sell options expiration Friday. \$100k/trade. 1999 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$19,819.08)	Profit Factor	0.27
Gross Profit	\$7,198.93	Gross Loss	(\$27,018.01)
Total Number of Trades	20	Percent Profitable	25.00%
Winning Trades	5	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$990.95)	Ratio Avg. Win:Avg. Loss	0.80
Avg. Winning Trade	\$1,439.79	Avg. Losing Trade	(\$1,801.20)
Largest Winning Trade	\$2,024.33	Largest Losing Trade	(\$5,383.93)

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, along with the upcoming bearish Jan opex week study, expectations are slated to remain bearish on Friday. This could change if very strong bullish evidence emerges. The Differential Pivot will be 2562.86 on Friday. That is 1.3% below Thursday's close. So SPX would need to close down at least 1.3% on Friday in order to change from overbought to oversold versus expectations.

The outlook remains quite similar to last night. 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. Tonight we can add the SPY reversal pattern and the upcoming bearish short-term seasonality to the mix. I have some short exposure and am looking to take advantage of the anticipated selling. I considered adding more short exposure on Friday, but I am becoming a little wary about fighting the broad strength of

this upmove. More aggressive traders may consider upping their exposure. I will put off that decision until at least this weekend. I will cover the trade if there is a big down day on Friday 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	\$258.88	-0.51%		Aggregator

I will cover my SPY short position on the close if SPX closes <= 2562.86.

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