

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2018

Volume 12 Issue 20

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The 1<sup>st</sup> 5-day low in over two weeks will often suggest an upside edge. This remains true below the 200ma and above the 10ma.
- Indications are mixed for the Fed Day on Wednesday.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I don't see a compelling reason to get involved until a more substantial edge emerges.

*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 30, 2019	1st 5-low in > 10-days. Close < 200ma	1-2 days	Bullish			
January 28, 2019	Up 3 < 200. Largest gain of 3 days	1-3 days	Bearish			
<b>Active - Long Term</b>						
January 9, 2019	Up Issues > 70% for 3 days	1-85 days	Bullish			
January 9, 2019	SPY up 3 < 200. SPY volume dn 3.	1-20 days	Bearish			
January 8, 2019	Zweig Thrust	1-20 days	Bullish	7.50%	-1.45%	-2.50%
January 2, 2019	NASDAQ leading	int term	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**

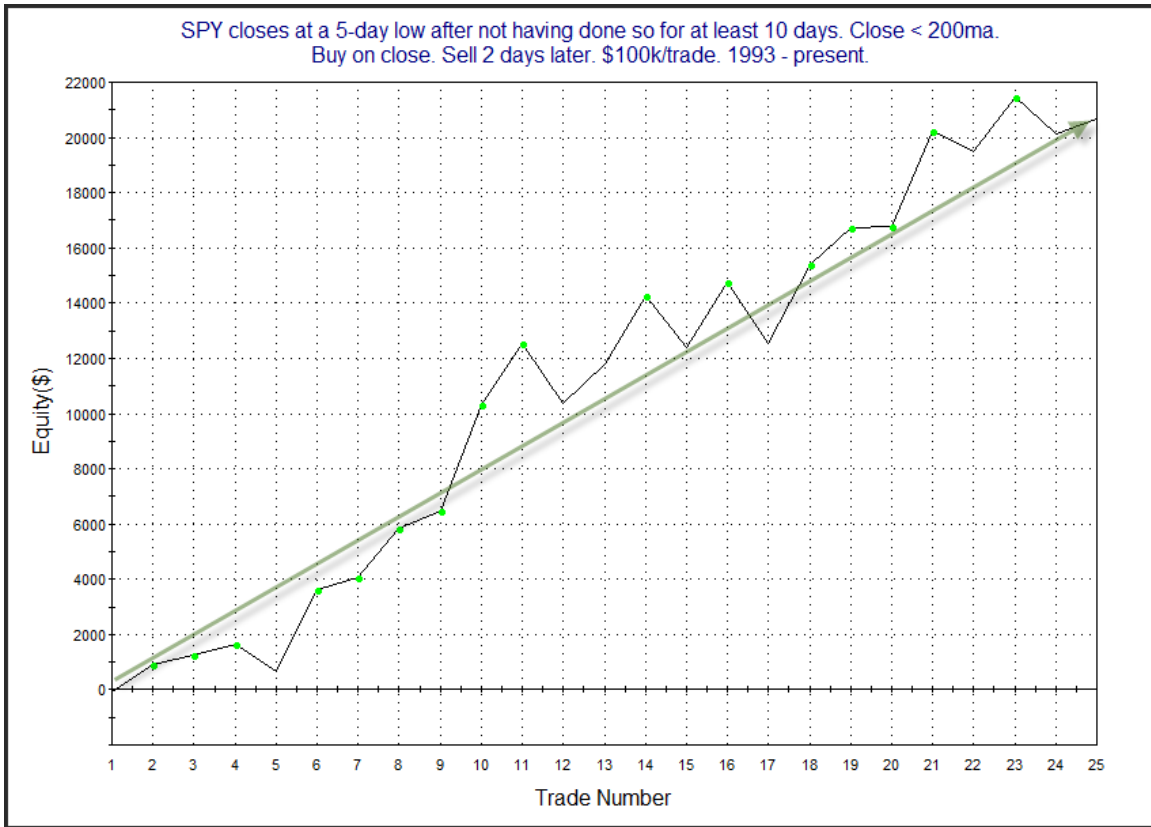
Tuesday saw mostly mild losses. The SPX dropped 0.2% the NASDAQ fell 0.8%, and the Russell 2000 declined 0.1%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 57%. NYSE volume declined some from Monday's level.

Over the last couple of nights I have looked at some Fed Day studies. SPY closed Tuesday in the bottom half (but not the bottom quartile) of its intraday range. As I showed last night, that sets up good, but not great, odds for Wednesday. In contrast to this, I showed over the weekend how SPX has lost every Fed Day since Powell took over in early 2018. With the current push and pull among these studies, I do not see a clear edge. I have left the Fed Day studies off the Active List for tonight.

But price action in SPY did trigger some interesting studies. The one below looked at times SPY closed at a 5-day for the 1st time in over 2 weeks. And like in the 3/9/16 letter, it also used the 200ma as a filter. Results are updated.

SPY closes at a 5-day low after not having done so for at least 10 days. 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	18,883.57	25	16	9	64.00	2,598.69	6,103.89	-2,521.73	-4,906.44	1.03	1.83	755.34
4	18,213.73	25	17	8	68.00	2,538.10	6,941.43	-3,116.75	-6,244.56	0.81	1.73	728.55
3	24,979.67	25	17	8	68.00	2,508.93	5,888.16	-2,209.02	-5,295.84	1.14	2.41	999.19
2	20,690.68	25	18	7	72.00	1,676.03	3,809.72	-1,353.98	-2,221.56	1.24	3.18	827.63
1	13,660.20	25	19	6	76.00	1,249.59	2,812.20	-1,680.32	-2,887.08	0.74	2.35	546.41

The odds here point to an upside edge over the next few days. Below is a look at the 2-day profit curve.



The strong upslope supports the bullish hypothesis.

Another similar study looked at times the market made its 5-day low, but still closed above the 10-day moving average. I decided tonight to apply the 10ma filter to the study above. Below are those results.

SPY closes at a 5-day low after not having done so for at least 10 days. Close < 200ma but > 10ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

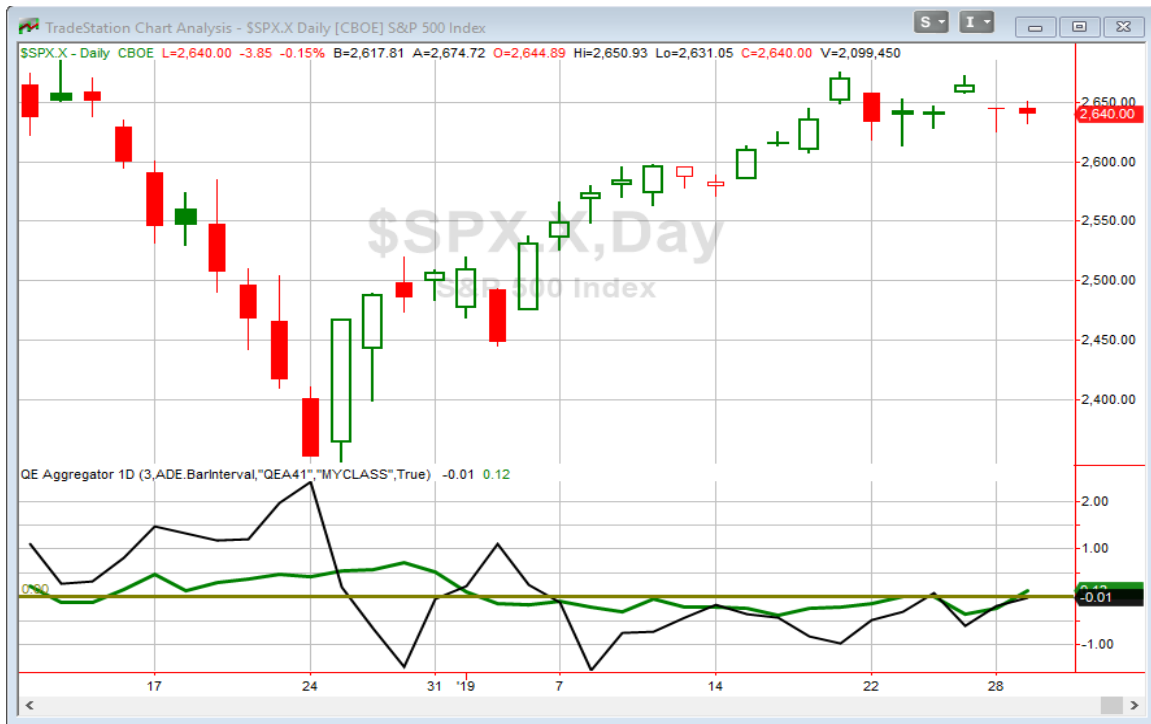
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	22,121.09	8	8	0	100.00	2,765.14	4,839.66	0.00	0.00	100.00	100.00	2,765.14
9	24,613.71	8	8	0	100.00	3,076.71	5,293.08	0.00	0.00	100.00	100.00	3,076.71
8	21,657.59	8	8	0	100.00	2,707.20	4,734.72	0.00	0.00	100.00	100.00	2,707.20
7	18,987.91	8	8	0	100.00	2,373.49	4,118.22	0.00	0.00	100.00	100.00	2,373.49
6	16,039.23	8	8	0	100.00	2,004.90	4,307.28	0.00	0.00	100.00	100.00	2,004.90
5	13,281.90	8	7	1	87.50	1,897.41	4,496.34	0.00	0.00	915,136.00	794,560.00	1,660.24
4	12,732.22	8	8	0	100.00	1,591.53	3,149.62	0.00	0.00	100.00	100.00	1,591.53
3	13,525.41	8	8	0	100.00	1,690.68	3,452.40	0.00	0.00	100.00	100.00	1,690.68
2	11,302.48	8	8	0	100.00	1,412.81	3,809.72	0.00	0.00	100.00	100.00	1,412.81
1	8,538.63	8	8	0	100.00	1,067.33	2,225.48	0.00	0.00	100.00	100.00	1,067.33

Instances are rare, but initial results could not be any more bullish. Below is a look at all the individual trades with their 2-day holding period.

SPY closes at 5-day low after not having done so for at least 10 days. Close < 200ma but > 10ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/1/1994	Buy	\$45.79	0.98%	\$1,331.63
6/3/1994	Sell	\$46.24		\$0.00
7/20/1994	Buy	\$45.18	0.35%	\$531.12
7/22/1994	Sell	\$45.34		(\$199.17)
8/5/1994	Buy	\$45.78	0.42%	\$436.80
8/9/1994	Sell	\$45.97		(\$109.20)
4/24/2001	Buy	\$121.58	1.76%	\$2,992.08
4/26/2001	Sell	\$123.72		(\$517.86)
10/9/2001	Buy	\$105.96	3.81%	\$4,092.62
10/11/2001	Sell	\$110.00		(\$414.92)
10/24/2002	Buy	\$88.36	1.41%	\$3,313.83
10/28/2002	Sell	\$89.61		(\$475.02)
10/14/2015	Buy	\$199.29	2.00%	\$2,004.00
10/16/2015	Sell	\$203.27		\$0.00
3/8/2016	Buy	\$198.40	0.57%	\$1,345.68
3/10/2016	Sell	\$199.54		(\$514.08)

Other than the low number of instances, I do not see any red flags here. I have used the 1<sup>st</sup> study to generate estimates, but this 2<sup>nd</sup> study provides some comfort that the close above the 10ma is not a negative in this case.

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



With tonight's research included, the green Aggregator Line inched just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line held just below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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.

Based on the current Active Studies list, expectations are set to remain positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 2655.45 on Wednesday. That is 0.6% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.6% on Wednesday in order to remain overbought versus recent expectations. Anything less than that and it will be considered oversold as of Wednesday's close.

So the Aggregator is now neutral. And based on the close proximity of the two lines to zero, you could not get a much more neutral looking setup. With no substantial edge and news pending with the Fed announcement, I am not interested in taking on new positions just yet. The announcement could help to trigger a strong reaction (or over-reaction), and that could possibly lead to the next favorable trading opportunity. I'll be ready if it does. For now I am sidelined and observing.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 1/28– somewhat bullish***

### **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

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).*

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