

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 31, 2018

Volume 12 Issue 21

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- SPY at a 20-day high below the 200ma is often followed by a short-term pullback.
- Short-term highs on a Fed Day are often met by a pullback over the next few days.

### *Short-term Outlook*

#### *The Bottom Line*

Expectations are for a pullback, and the market is strongly overbought. There appears to be a downside edge over the next couple of 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
<b>Active - Short Term</b>						
January 31, 2019	10-high NOT 100-high on Fed Day	1-2 days	Bearish			
January 31, 2019	20-day closing high < 200ma	1-2 days	Bearish			
January 30, 2019	1st 5-low in > 10-days. Close < 200ma	1-2 days	Bullish			
<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			

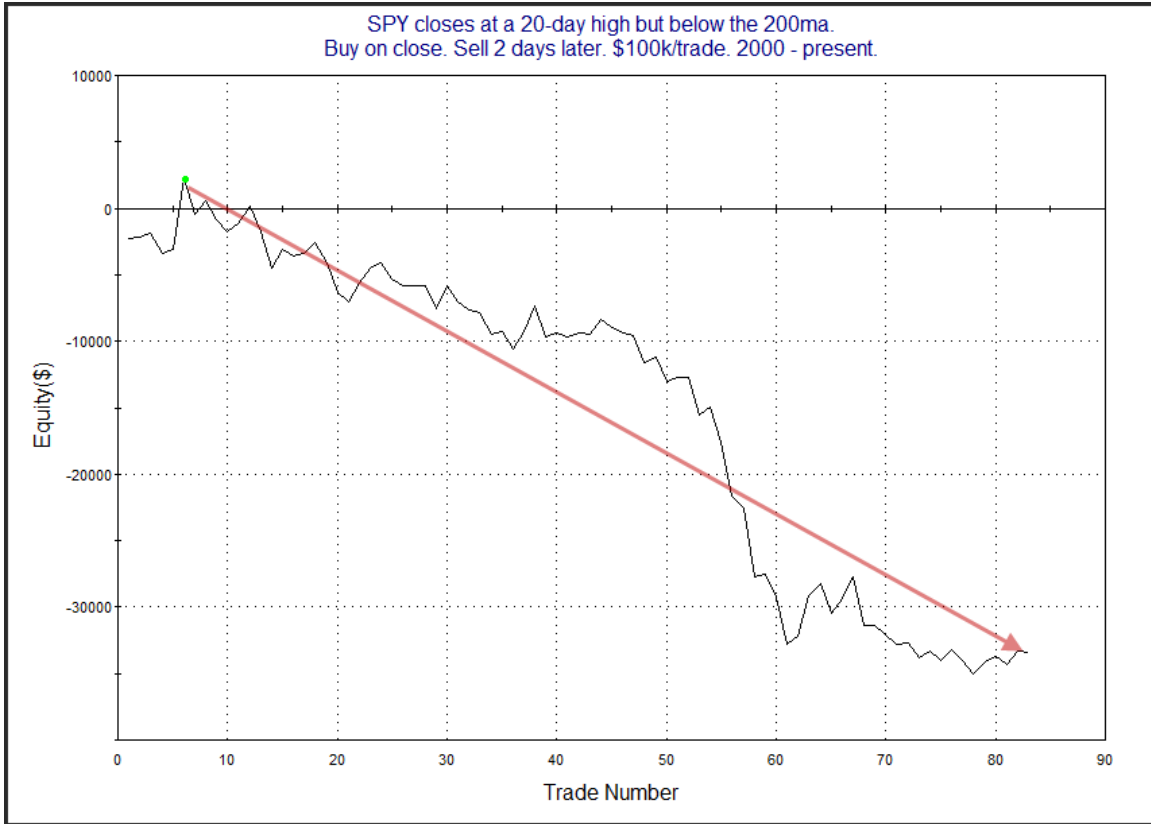
**The Evidence**

The Fed talked about patience, and the market could not wait to run higher. The SPX gained 1.6% the NASDAQ rose 2.2%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 79% and the Up Volume % came in at 76%. NYSE volume rose some from Tuesday's level.

A theme we keep seeing in the Quantifinder is that the market is short-term overbought in a long-term downtrend, and that is suggesting a pullback. The study below is one I showed recently in the 1/16/19 letter. It looks at times SPX closed at a 20-day high, but below the 200ma. Results are updated.

SPY closes at a 20-day high but below the 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-8,701.27	51	28	23	54.90	1,555.41	5,434.00	-2,271.85	-6,223.36	0.68	0.83	-170.61
4	-12,433.15	57	28	29	49.12	1,459.30	5,718.80	-1,837.71	-5,244.16	0.79	0.77	-218.13
3	-26,465.08	68	27	41	39.71	1,594.12	4,331.15	-1,695.28	-5,133.72	0.94	0.62	-389.19
2	-33,393.96	83	37	45	44.58	915.84	5,354.82	-1,495.11	-5,196.96	0.61	0.50	-402.34
1	-26,451.84	118	54	64	45.76	726.81	3,972.12	-1,026.55	-4,190.20	0.71	0.60	-224.17

The 1-month high while the market is below the 200ma has typically been followed by a dip in the next 1-2 days. Below is a look at a 2-day profit curve.



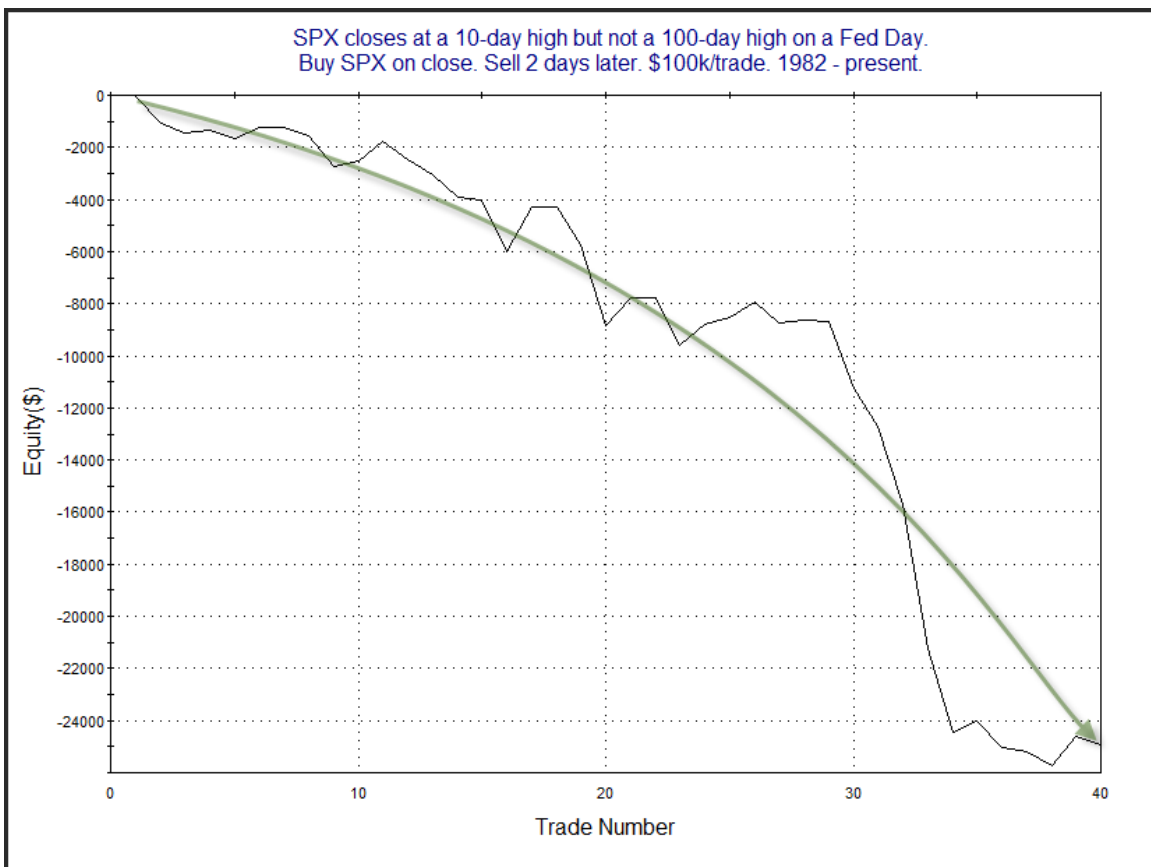
The strong, steady downslope serves as some confirmation of the bearish edge suggested by the numbers. Overbought and overdue a pullback, the odds point down.

Of course a big reason that the market closed at a high level on Wednesday was the positive reaction to the Fed announcement. Historically, rallies on Fed Days that lead to new short-term highs, but not long-term highs, have been susceptible to pullbacks in the following days. This can be seen in the updated study below, from the 3/16/17 letter.

SPX closes at a 10-day high but not a 100-day high on a Fed Day.  
Buy SPX on close. Sell X days later. \$100k/trade. 1982 - present.

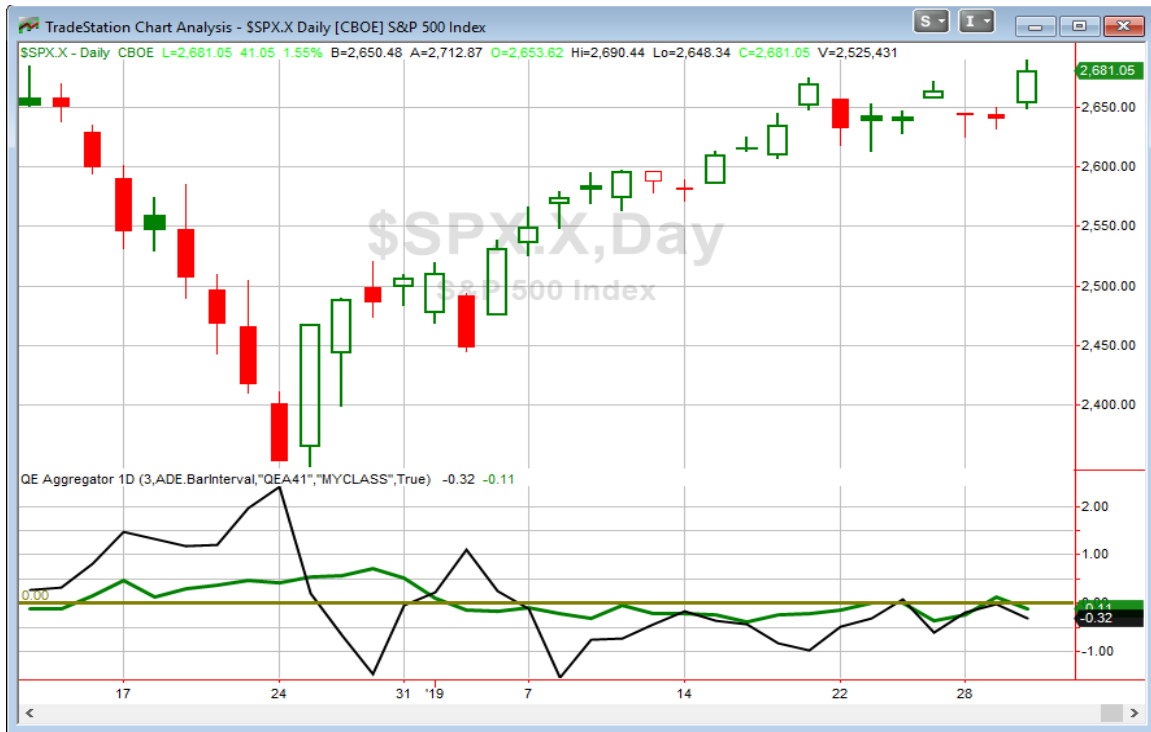
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-28,250.47	40	17	23	42.50	1,514.99	4,389.95	-2,348.06	-9,625.50	0.65	0.48	-706.26
9	-30,943.86	40	16	24	40.00	1,580.31	3,956.94	-2,342.87	-12,928.50	0.67	0.45	-773.60
8	-24,009.21	40	16	24	40.00	1,354.21	4,058.40	-1,903.19	-7,050.88	0.71	0.47	-600.23
7	-14,159.13	40	18	22	45.00	1,523.42	6,337.26	-1,890.03	-6,122.88	0.81	0.66	-353.98
6	-13,565.69	40	20	20	50.00	1,316.85	4,813.75	-1,995.14	-4,908.27	0.66	0.66	-339.14
5	-24,106.54	40	18	22	45.00	1,265.69	5,231.46	-2,131.32	-6,268.92	0.59	0.49	-602.66
4	-24,455.97	40	17	23	42.50	1,084.40	3,438.24	-1,864.82	-4,528.95	0.58	0.43	-611.40
3	-19,263.69	40	18	22	45.00	1,058.93	3,830.40	-1,742.02	-5,547.24	0.61	0.50	-481.59
2	-24,911.79	40	13	27	32.50	587.03	1,737.55	-1,205.30	-5,495.94	0.49	0.23	-622.79
1	-15,837.04	40	10	30	25.00	745.40	1,990.25	-776.37	-3,300.30	0.96	0.32	-395.93

The numbers here all point to a downside edge, primarily over the 1st 2 days. Below is a profit curve showing how the edge has played out over time.



Not the smoothest curve, but I prefer a steepening one like this to a flattening one. I think this study is compelling enough to include on the Active List.

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



With tonight's research included, the green Aggregator Line fell back below zero. Negative readings mean net expectations are for downside 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 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.

Based on the current Active Studies list, expectations are set to remain negative on Thursday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2627.34 on Thursday. That is 2.0% below Wednesday's close. This means SPX would need to close down a very substantial 2.0% or more on Thursday in order to flip from overbought to oversold versus expectations.

The Aggregator is bearish. Expectations are for downside over the next couple of days. And there is plenty of room the downside before SPX would flip from overbought to oversold. Of course with the intermediate-term outlook leaning bullish, any attempt to short is a counter-trend trade. I like the odds, and I like the reward/risk potential. So I will look to take on some short exposure on Thursday if I can get a favorable fill. But I will be quick to pull the plug on this trade once the edge is no longer apparent.

*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.*

**SPY – sell short ¼ index position @ \$267.58 LIMIT.** Based on the short-term outlook above, I will look to take on some short exposure in SPY if I can get filled at Wednesday’s closing price or better.

### **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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