

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 1, 2018

Volume 12 Issue 22

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Short | 0 |

Tonight's Research Points

- Ending the month at a high has often led to more highs early in the next month, but this has not necessarily been the case when below the 200-day moving average.
- The 1st of the month, while often bullish, has struggled when below the 200ma and when the last couple of days have been up days.

Short-term Outlook

The Bottom Line

The Aggregator remains bearish, but evidence is waning.

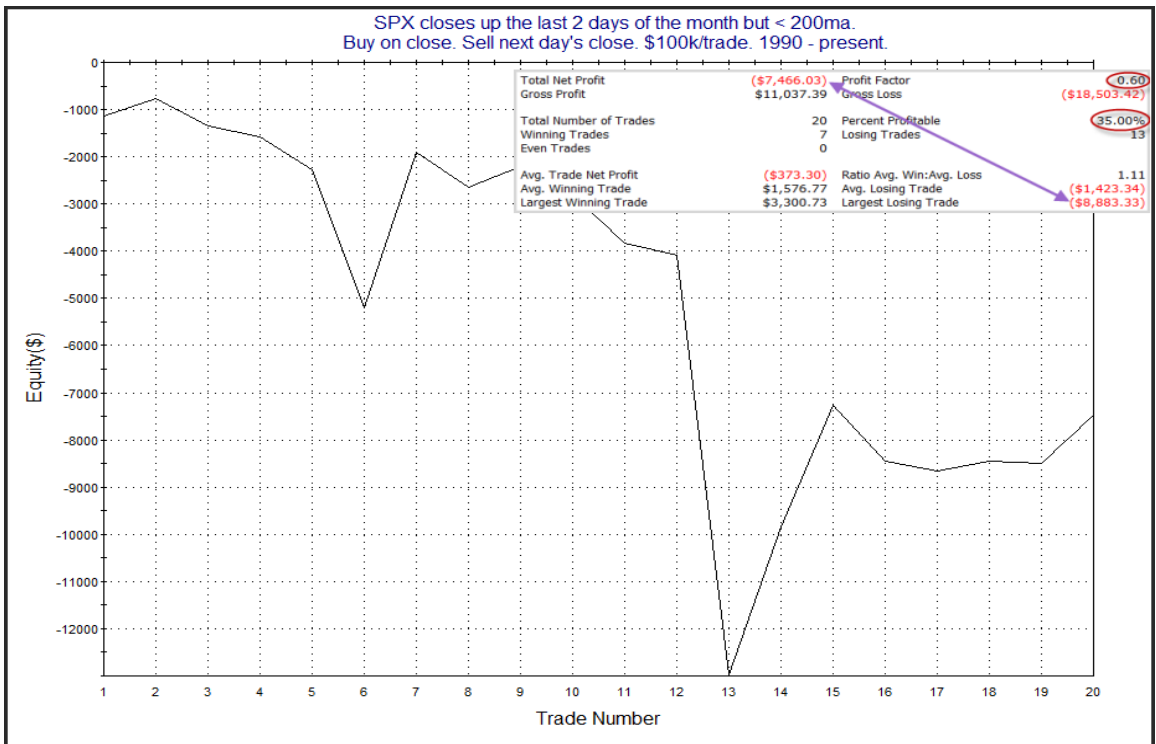
Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|--|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| January 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 | | | |
| Active - Long Term | | | | | | |
| 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

Thursday was another up day for the market, as January closed out strongly. The SPX gained 0.9% the NASDAQ rose 1.4%, and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 66%. NYSE volume came in at the highest level of the month.

There were a few studies that examined the 1st day of the trading month, which has often been a bullish day. Two things this upcoming month has going against are 1) SPX is trading below its 200ma, and 2) SPX has closed up the last 2 days. In the 2/1/16 letter I combined both of the negative factors and ran a study to see how the 1st of the month has performed under similar circumstances. Results are updated below.

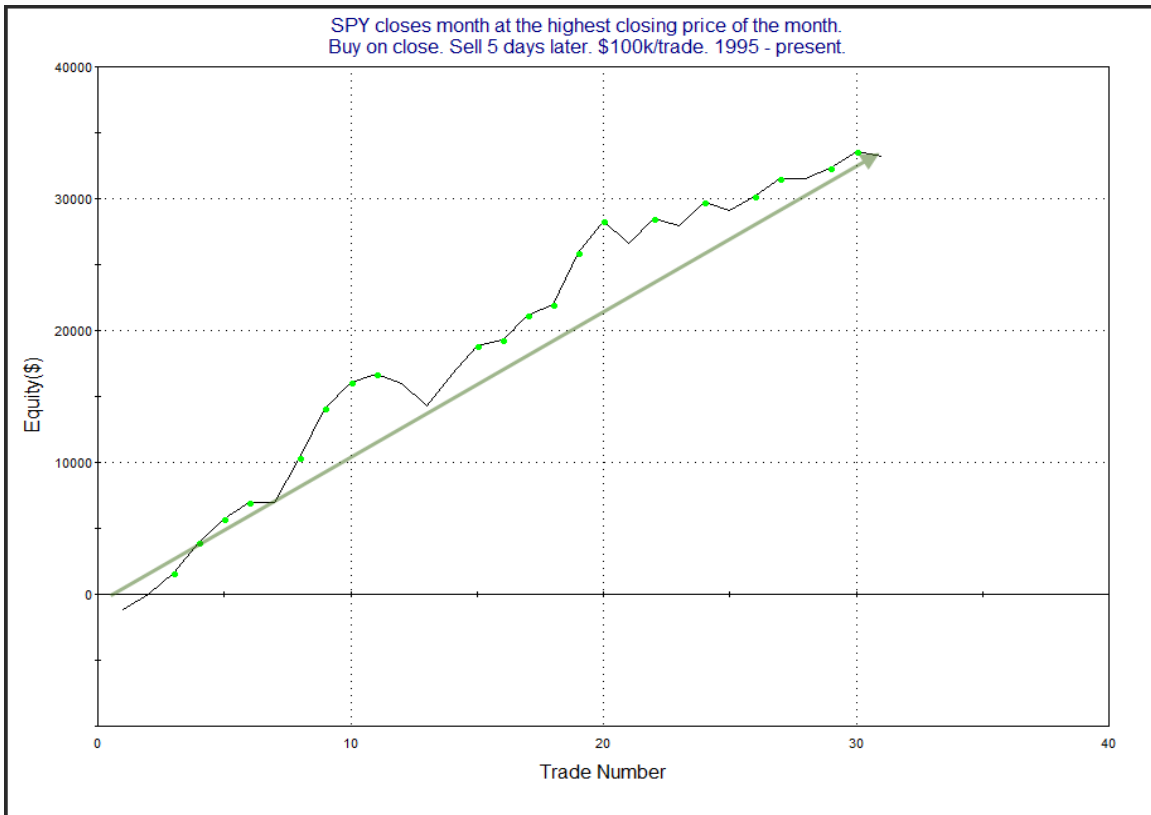


Most of the numbers look quite bearish. But we can see that the profit curve is not consistent. So it may not be a playable downside edge, but it is certainly not encouraging for the bulls.

This next study examined other times SPY closed at its highest level of the month on the last day of the month. It was last seen in the 12/1/17 letter. Results suggested strong end of month momentum has typically carried through into the following month. I have updated the results below.

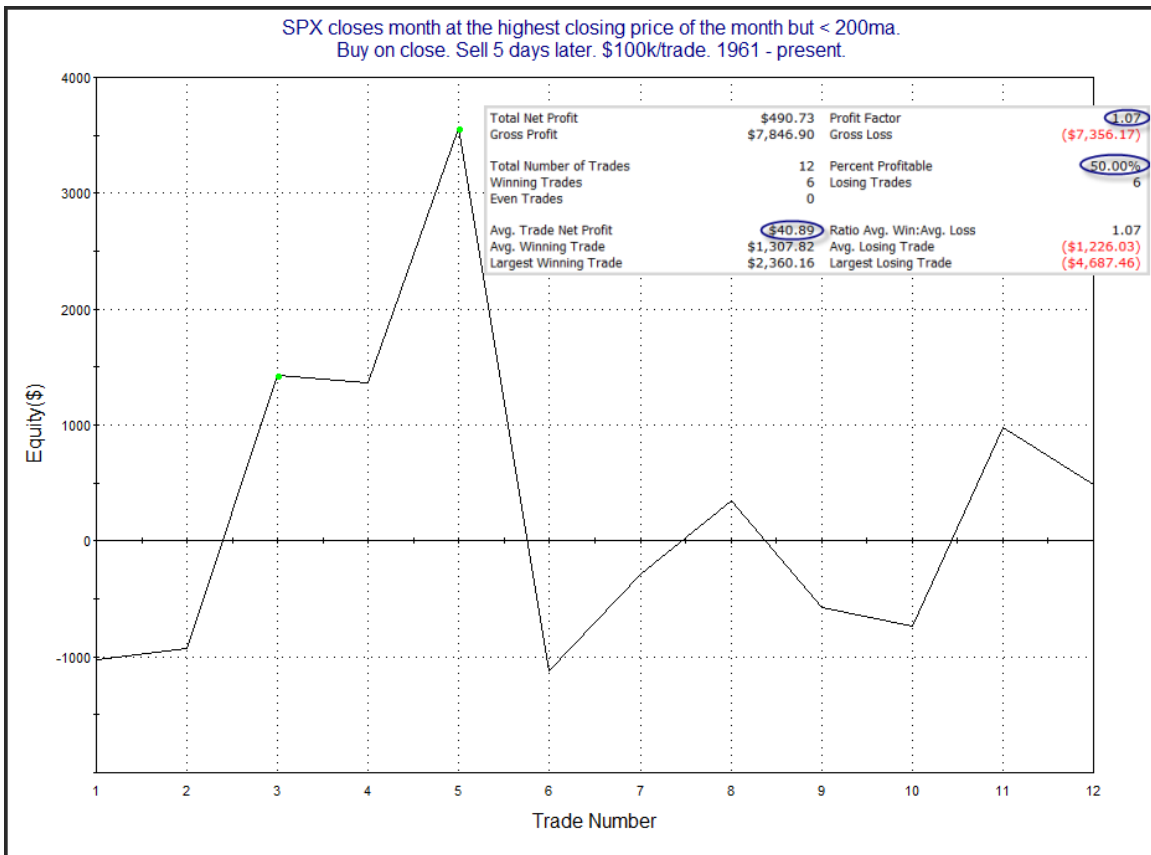
| SPY closes month at the highest closing price of the month. Buy on close. Sell X days later. \$100k/trade. 1995 - present. | | | | | | | | | | | | |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | 33,219.80 | 31 | 22 | 8 | 70.97 | 1,821.34 | 3,931.92 | -856.20 | -1,659.68 | 2.13 | 5.85 | 1,071.61 |
| 4 | 27,299.23 | 31 | 21 | 10 | 67.74 | 1,824.89 | 5,394.96 | -1,102.36 | -4,338.40 | 1.66 | 3.48 | 880.62 |
| 3 | 16,245.65 | 31 | 20 | 11 | 64.52 | 1,461.04 | 4,105.92 | -1,179.56 | -4,678.40 | 1.24 | 2.25 | 524.05 |
| 2 | 10,808.37 | 31 | 17 | 14 | 54.84 | 1,309.58 | 3,954.78 | -818.17 | -4,848.40 | 1.60 | 1.94 | 348.66 |
| 1 | 4,749.03 | 31 | 16 | 15 | 51.61 | 790.48 | 1,850.94 | -526.58 | -1,049.76 | 1.50 | 1.60 | 153.19 |

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



The steady upslope is comforting.

One potential issue with the above study is that the setup has only *once* ever occurred when below the 200ma. To see if I could get a better sampling below the 200ma, I used SPX and ran the data back to 1961. Below are those results for the 5-day returns.



There have only been 12 instances, but there has been no consistency for follow-through, and no edge is suggested here. After some consideration, I decided that it would be difficult to include the bullish study based on what I was seeing with these other two studies, and the fact that the bullish study triggered almost exclusively in long-term uptrending environments. So I have not added any new studies to the Active List tonight.

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



With tonight's research included, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line held 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.

Both of the current studies on the short-term Active List are set to expire on Friday. This would cause expectations to turn slightly bullish if no new studies emerge. Of course expectations over the next few days will be largely impacted by new short-term studies if they do emerge. The Differential Pivot will be 2625.92 on Friday. That is 2.9% below Thursday's close. This means SPX would need to close down a very substantial 2.9% or more on Friday in order to flip from overbought to oversold versus expectations. That is very unlikely. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

With the market now strongly overbought here still appears to be a bit of a downside edge. But that edge could be short lived if we do not see additional bearish evidence emerge on Friday. I have a small short position at the moment. I will look to exit at the close on Friday if we get a strong move lower. Otherwise, I will wait to see what new evidence emerges, keeping in mind a strong likelihood of exiting this small counter-trend trade on Monday.

*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

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-------------|------------|-------------|---------------|-------------|------|--------------------------|
| SPY(s)(1/4) | 1/31/2019 | \$267.58 | \$269.93 | -0.88% | | cover on close<=\$267.00 |
| | | | | | | |
| | | | | | | |

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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