

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 5, 2018

Volume 12 Issue 24

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The gap up and close high in the 1-day and 10-day range for SPY suggests a pullback.
- The stretched VXO does not appear to be as bearish a sign as it once did.
- Persistent upmoves under the 200ma like we're seeing have been very rare.

Short-term Outlook

The Bottom Line

The Aggregator remains bearish. I believe there is a good chance of a dip in the next 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						
February 5, 2019	Gap up. Top 10% 1-day & 10-day range.	1 day	Bearish			
February 4, 2019	SPY up 3 < 200. low range & small up.	1-3 days	Bearish			
February 4, 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

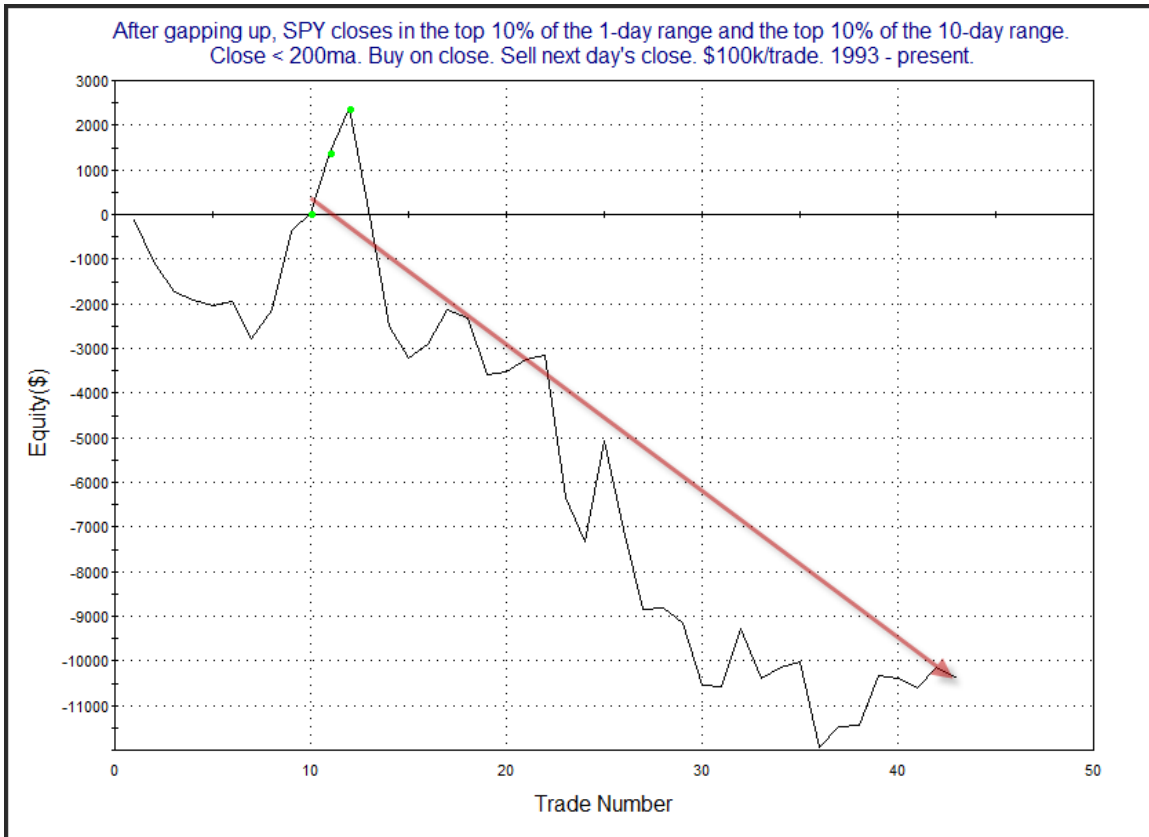
Monday saw another solid move higher for the market. The SPX gained 0.7%, the NASDAQ rallied 1.2%, and the Russell 2000 rose 1.0%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 67%. NYSE volume declined a bit from Friday's level.

There were several studies that appeared in the Quantifinder tonight, but many were either repeats, or I did not find terribly compelling.

The study below did appear worthy of mention. It is from the 11/29/18 letter. It looked at days the SPY gapped higher and then closed near the top of both the 1-day and 10-day range, but below the 200ma. Results are updated.

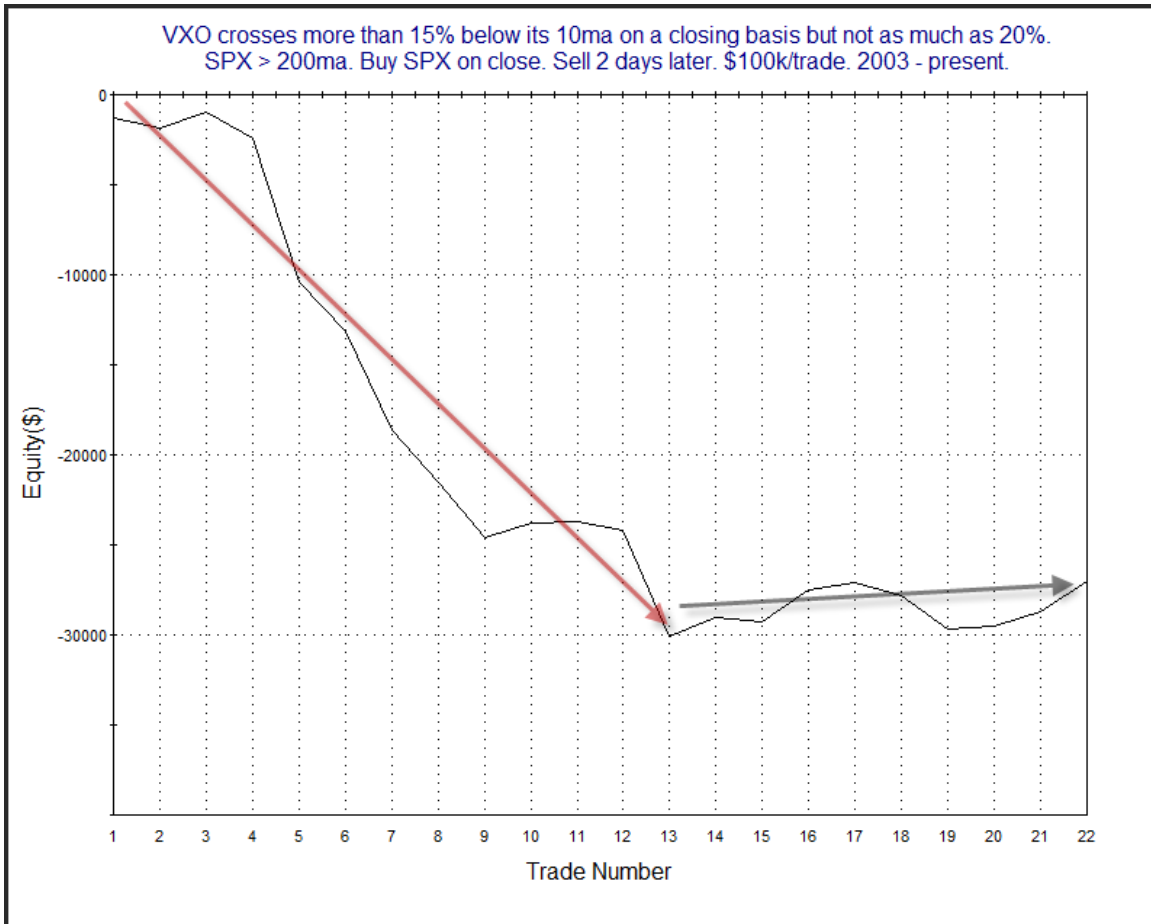
After gapping up, SPY closes in the top 10% of the 1-day range and the top 10% of the 10-day range. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,364.33	34	19	15	55.88	1,298.05	3,095.18	-2,735.15	-8,223.36	0.47	0.60	-481.30
4	-13,279.28	37	17	20	45.95	1,505.87	5,167.16	-1,943.95	-5,244.16	0.77	0.66	-358.90
3	-20,857.39	39	15	24	38.46	1,351.17	3,447.12	-1,713.54	-5,133.72	0.79	0.49	-534.80
2	-21,100.81	41	19	22	46.34	802.87	2,075.22	-1,652.52	-5,196.96	0.49	0.42	-514.65
1	-10,376.95	43	20	23	46.51	636.95	2,238.25	-1,005.04	-3,187.90	0.63	0.55	-241.32

Stats suggest a downside edge. In looking at the profit curves, the 1-day appears to be the most appealing. Below is a look at that.



Recent instances have not shown much downward progress, and this bears watching. But for the time being I still believe this study is worth consideration, and have included it on the Active List tonight.

Another study that appeared looked at the recent drop in the VXO (the old measure of the VIX). It is not showing the same bearish inclinations that it once did. This can be seen below.



This study is on probation for the time being. Unless the downside edge reasserts itself soon, I will likely remove it from the Quantifinder.

One thing about the current market that I've noted is the unusually strong persistence – especially for a time in which the SPX remains under its 200ma. Monday afternoon I ran a little study to see how many other times the SPX had closed above its 10ma for 21 straight days, but below its 200ma. Below is the full list, going back to 1928.

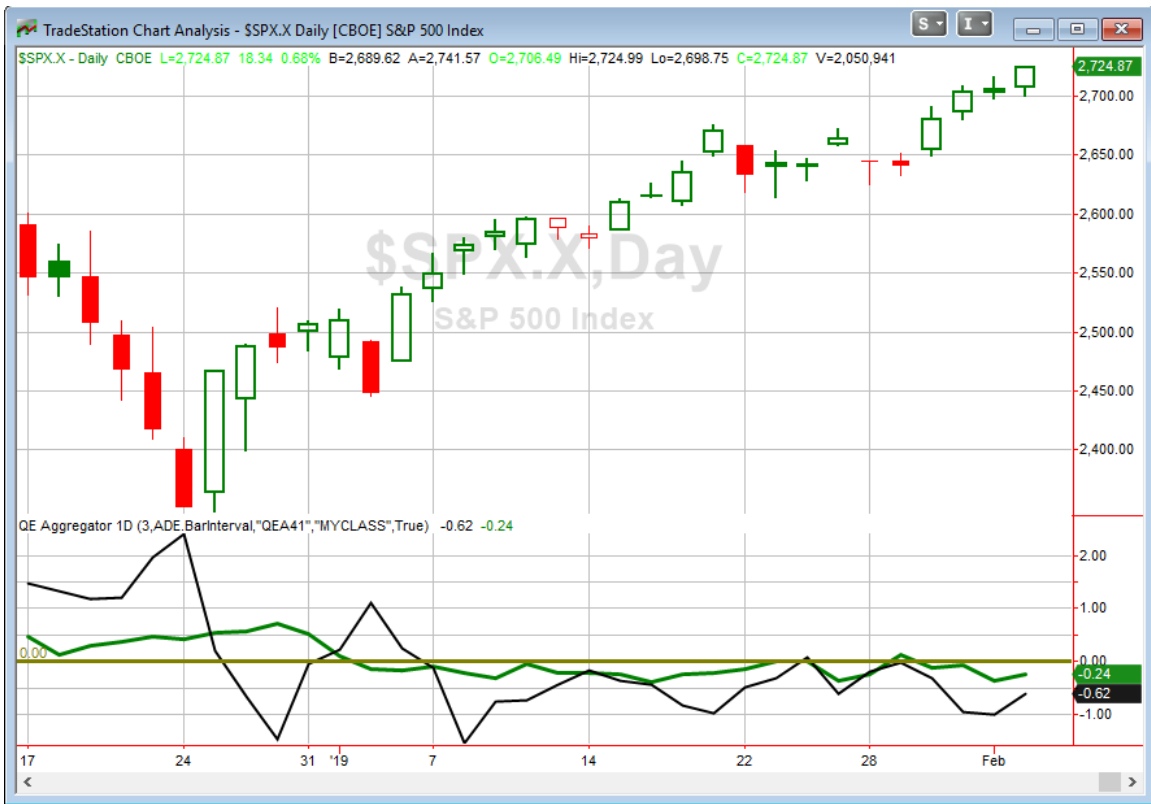
**SPX closes > 10ma for 21st day in a row and < the 200ma.
1928 - present. (S&P 90 used before 1957.)**

Ticker	Date/Time	Close	Days until close < 10ma
SSPX	2/18/1930	23.28	1
SSPX	11/6/1953	24.61	2
SSPX	4/25/1957	45.56	22
SSPX	11/10/1966	81.89	6
SSPX	3/15/2016	2,015.93	14
SSPX	2/4/2019	??	????

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There have only been 5 instances in total, and just one since 1966. So the SPX is certainly overdue for a pullback. But as 1957 and 2016 demonstrated, just because we are sorely overdue, does not mean it is definitely going to happen immediately.

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.

Based on the current list of Active Studies, expectations are set to remain bearish on Tuesday. Of course this could change if bullish new evidence emerges. The Differential Pivot will be 2702.61 on Tuesday. That is 0.8% below Monday's close. Therefore, SPX will need to close down at least 0.8% on Tuesday in order to flip from overbought to oversold versus recent expectations.

Despite the rally on Monday, my short-term outlook remains much the same as Sunday. The Aggregator is again bearish and there still appears to be a short-term downside edge. I find the evidence to be compelling. There is ample room to the downside before SPX would turn oversold. And as demonstrated in the last study, the market is certainly long overdue for a pullback. I have a small short position already. Being that the position is counter to my intermediate-term outlook, I intend to keep it small. I will not be adding to it on Tuesday, and will only look to cover it if SPX closes below the Differential Pivot.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/4– somewhat bullish

The intermediate-term outlook was last updated in the 2/4 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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	\$271.96	-1.64%		cover on SPX close<=2702.61

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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