

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 6, 2018

Volume 12 Issue 25

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- The narrow-range day after pushing higher the last several is suggesting a dip.
- SPY at a 20-day high below the 200ma is often followed by a short-term pullback.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator remains bearish. I am still looking for 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
<b>Active - Short Term</b>						
February 6, 2019	SPX up 3+. NR7 < 200ma	1-3 days	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			
<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			

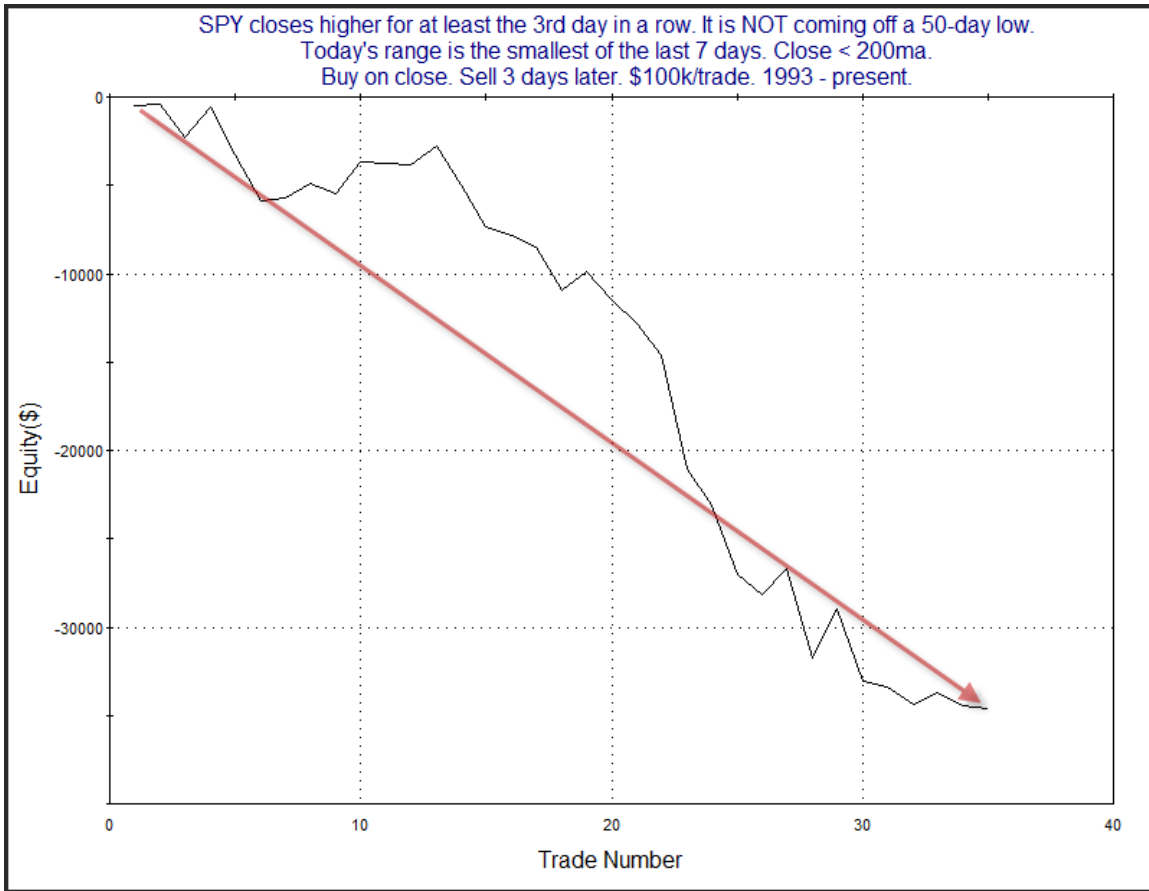
**The Evidence**

The push upwards continued on Tuesday, despite plenty of evidence suggesting a pullback is overdue. The SPX gained 0.5%, the NASDAQ rallied 0.7%, and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % was 63.0% and the Up Volume % came in at 62.7%. NYSE volume rose a bit from Monday's level.

I am continuing to see many of the same kind of studies appear. SPX is strongly overbought but still (now just slightly) below its 200ma. Nothing is suggesting this is a bullish setup. And several studies again point lower. The study below is from the 3/4/16 letter. It is similar to some other studies we have seen recently. It considers that the recent rally has not originated from an intermediate-term low, a long-term downtrend is in place, and that Tuesday was an NR7 day. An NR7 day is a day that shows the narrowest range of the last 7 days. I have updated all results.

SPY closes higher for at least the 3rd day in a row. It is NOT coming off a 50-day low. Today's range is the smallest of the last 7 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	-33,912.26	35	17	17	48.57	1,323.38	3,702.72	-3,318.22	-9,046.24	0.40	0.40	-968.92
4	-36,971.83	35	13	22	37.14	1,298.23	3,045.60	-2,447.68	-7,118.52	0.53	0.31	-1,056.34
3	-34,629.06	35	10	25	28.57	1,150.41	2,774.88	-1,845.33	-6,431.25	0.62	0.25	-989.40
2	-25,227.92	36	10	26	27.78	681.68	1,417.71	-1,232.49	-4,018.00	0.55	0.21	-700.78
1	-2,489.47	37	14	23	37.84	1,109.29	3,395.70	-783.46	-4,580.52	1.42	0.86	-67.28

As you can see the results table suggests a substantial downside edge over the next 1-3 days. Below is an equity curve using a 3-day exit strategy that shows how the edge has played out over time.



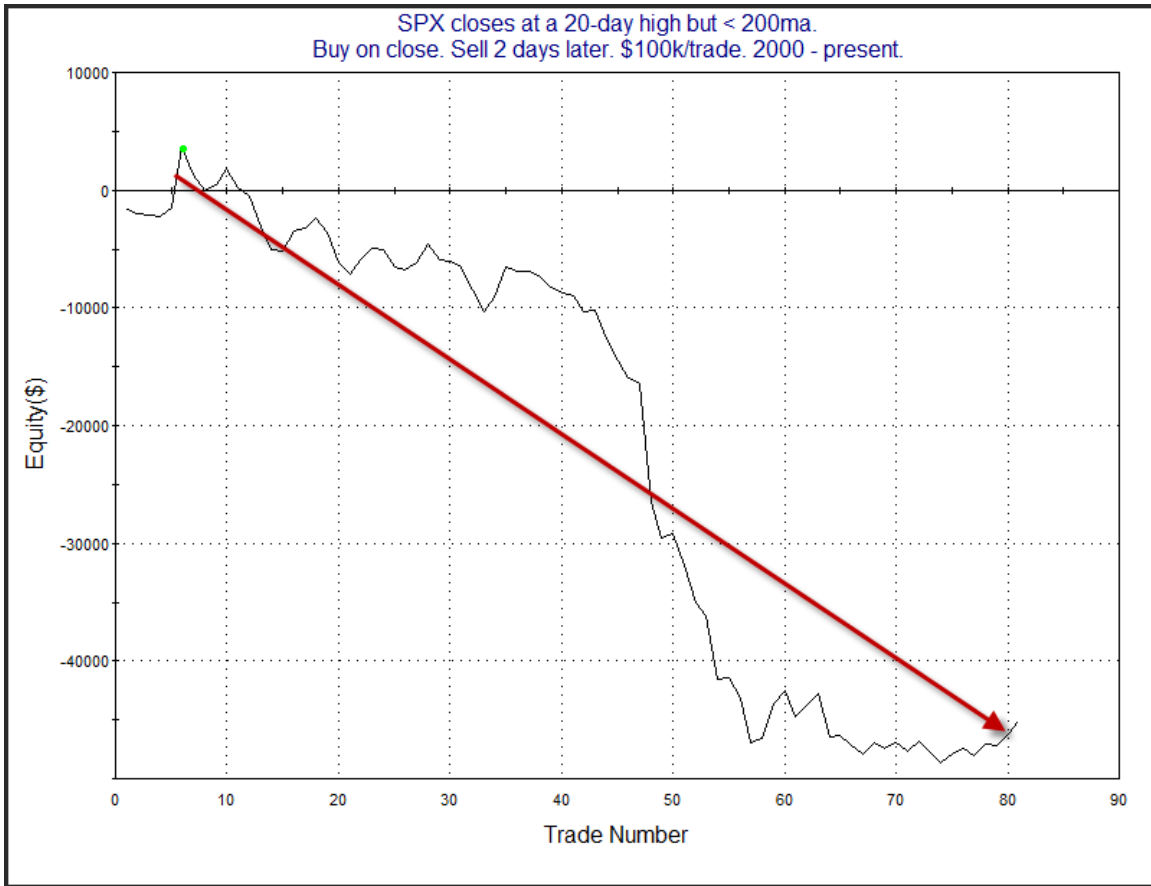
The strong, steady downslope supports the idea of a bearish inclination.

The rally also caused the study below to repeat. Last seen just a few days ago in the 2/4/19 letter, it looks at times SPX is making new 20-day closing highs while below the 200ma. Results are updated.

SPX closes at a 20-day high but < 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	-22,149.85	51	26	25	50.98	1,570.96	5,231.46	-2,519.79	-10,573.20	0.62	0.65	-434.31
4	-21,584.14	60	29	31	48.33	1,521.05	5,895.12	-2,119.18	-8,567.46	0.72	0.67	-359.74
3	-31,893.27	72	34	38	47.22	1,316.63	4,593.12	-2,017.33	-7,401.24	0.65	0.58	-442.96
2	-45,130.52	81	30	51	37.04	1,082.08	5,136.87	-1,521.43	-9,986.13	0.71	0.42	-557.17
1	-32,752.55	113	50	63	44.25	756.13	3,850.37	-1,119.98	-5,245.02	0.68	0.54	-289.85

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.



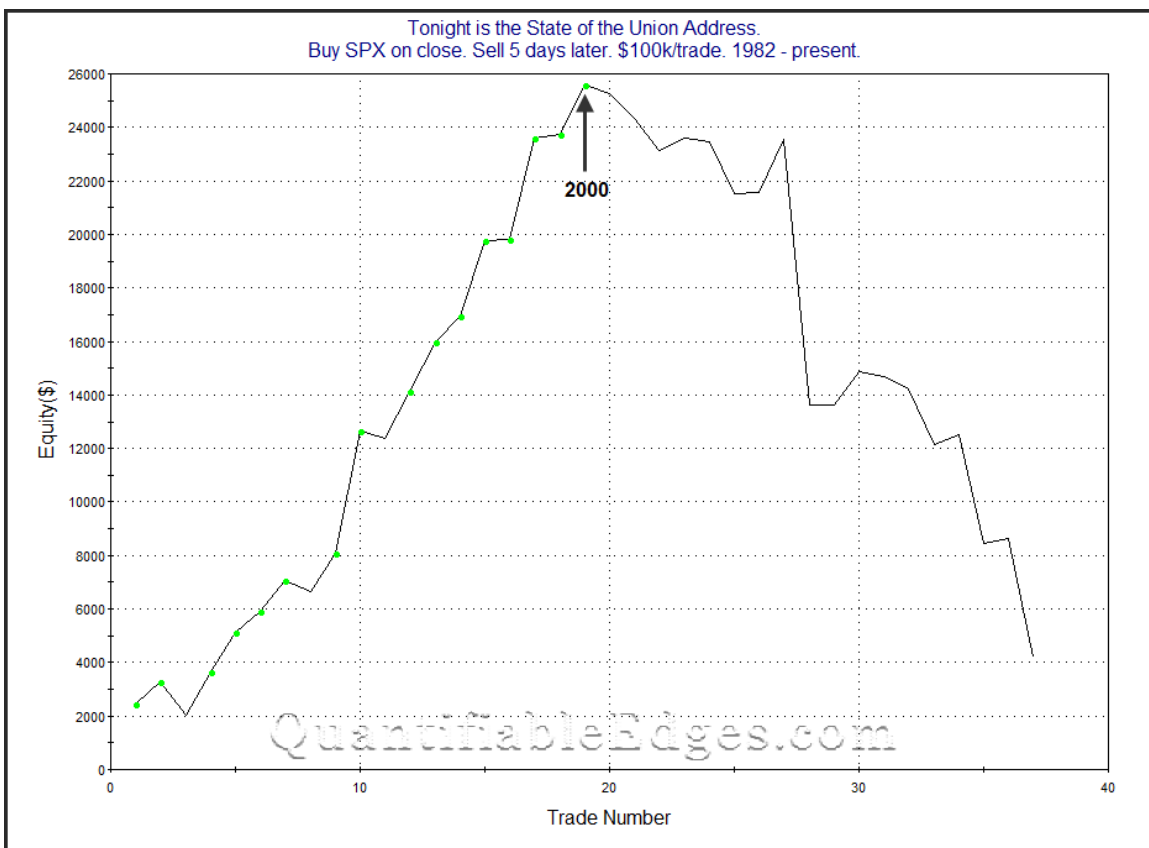
The last few instances have struggled as the market has run higher over the last month. But the overall downslope serves as some confirmation of the bearish edge suggested by the numbers. Overbought and overdue a pullback, the odds again seem to point down.

With tonight being the State of the Union Address I decided to take another look at an old study that examined SPX performance following past speeches. The data table below looks back to 1982. There were a few instances, such as 2001 and 2009 where the speech was not an official “State of the Union”, but was delivered under a different name. I have included those speeches in the results as well.

Tonight is the State of the Union Address.  
Buy SPX on close. Sell X days later. \$100k/trade. 1982 - present.

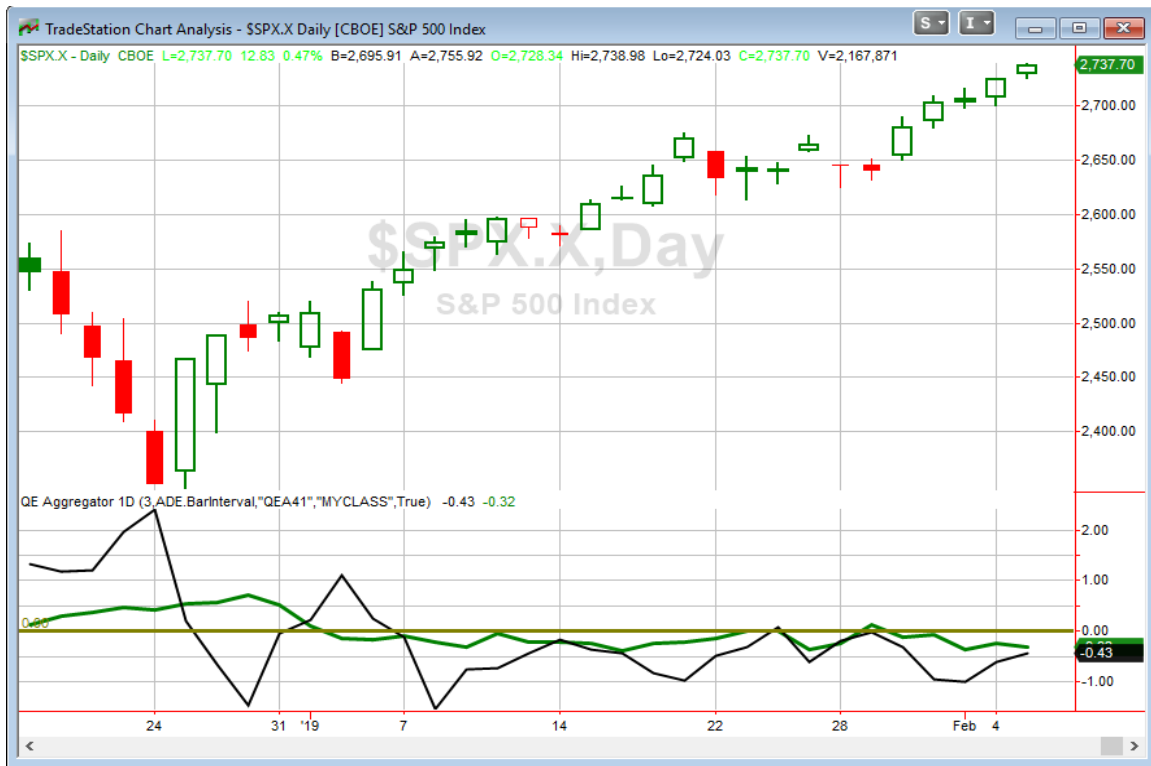
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	4,199.36	37	22	15	59.46	1,447.70	4,579.74	-1,843.34	-9,908.49	0.79	1.15	113.50
4	1,490.96	37	22	15	59.46	1,421.43	3,712.50	-1,985.36	-9,329.28	0.72	1.05	40.30
3	1,989.19	37	23	14	62.16	1,062.20	4,522.28	-1,602.96	-4,908.45	0.66	1.09	53.76
2	5,937.21	37	22	15	59.46	993.27	3,237.64	-1,060.99	-2,619.99	0.94	1.37	160.47
1	-1,724.28	37	22	15	59.46	646.91	1,502.82	-1,063.76	-2,726.40	0.61	0.89	-46.60

The stats do not suggest much of an edge. But the profit curves seem to tell a more interesting story. Here is the 5-day curve.



All the curves look something like this in that since the turn of the century there has not been a quantifiable edge. I guess they just don't write speeches like they used to. I'll note this nearing the point where I might begin viewing it as a bearish study. Perhaps a couple more instances will convince me. Not yet, though, especially with the upside inclination from '82-'00.

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 Wednesday. Of course this could change if bullish new evidence emerges. The Differential Pivot will be 2691.54 on Wednesday. That is 1.7% below Tuesday's close. Therefore, SPX will need to close down at least 1.7% on Wednesday in order to flip from overbought to oversold versus recent expectations.

Once again, the short-term outlook is largely the same. The Aggregator is again bearish and there still appears to be a short-term downside edge. As frustrating and unusual as this persistent push higher has been without any of the typical chop, I still find the evidence to be compelling. There is ample room to the downside before SPX would turn oversold. The market remains 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 Wednesday.

**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	\$273.10	-2.06%		

*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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