

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2018

Volume 12 Issue 26

Market Overview



Signals Overview

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

Tonight's Research Points

- Narrow range inside days below the 200ma are often bearish. But situations with low volume and down closes have been exceptions in the past.

Short-term Outlook

The Bottom Line

The Aggregator remains bearish. I am still looking for a dip. But expectations may turn bullish as soon as Thursday afternoon if now new bearish evidence 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 |
|----------------------------|--|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| February 7, 2019 | Low Range Low Volm Inside SPY < 200 | 1-8 days | Bullish | 3.40% | -2.55% | -5.90% |
| 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 | | | |
| 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

Wednesday saw a quiet and mild pullback. The SPX lost 0.2%, the NASDAQ fell 0.4%, and the Russell 2000 declined 0.15%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 35%. NYSE volume declined some from Tuesday's level.

There were several studies that appeared in the Quantifinder that looked at the fact that Thursday was an inside day with a low range. The series of studies below was last seen in the 6/29/10 letter. I have updated them all tonight.

| SPY posts an inside day under the 200ma. Range is lowest in 5 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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 | 21,324.73 | 56 | 33 | 23 | 58.93 | 2,913.88 | 6,816.15 | -3,253.62 | -22,420.44 | 0.90 | 1.28 | 380.80 |
| 9 | -289.79 | 57 | 35 | 21 | 61.40 | 2,378.21 | 6,953.00 | -3,977.49 | -13,956.81 | 0.60 | 1.00 | -5.08 |
| 8 | -7,233.97 | 61 | 35 | 26 | 57.38 | 2,102.09 | 8,479.60 | -3,107.96 | -12,665.31 | 0.68 | 0.91 | -118.59 |
| 7 | -31,266.96 | 63 | 32 | 30 | 50.79 | 1,981.00 | 7,760.40 | -3,155.30 | -23,729.16 | 0.63 | 0.67 | -496.30 |
| 6 | -37,286.43 | 66 | 30 | 36 | 45.45 | 1,845.84 | 7,888.00 | -2,573.94 | -21,834.96 | 0.72 | 0.60 | -564.95 |
| 5 | -28,871.20 | 67 | 32 | 34 | 47.76 | 1,756.40 | 6,568.20 | -2,502.24 | -15,971.55 | 0.70 | 0.66 | -430.91 |
| 4 | -24,537.49 | 70 | 35 | 35 | 50.00 | 1,784.45 | 6,497.00 | -2,485.52 | -13,801.83 | 0.72 | 0.72 | -350.54 |
| 3 | -29,735.12 | 74 | 34 | 40 | 45.95 | 1,897.02 | 7,413.70 | -2,355.84 | -9,763.74 | 0.81 | 0.68 | -401.83 |
| 2 | -20,707.95 | 80 | 39 | 40 | 48.75 | 1,225.73 | 5,440.00 | -1,712.79 | -5,131.74 | 0.72 | 0.70 | -258.85 |
| 1 | -20,627.09 | 81 | 37 | 44 | 45.68 | 978.18 | 4,485.60 | -1,291.36 | -5,444.46 | 0.76 | 0.64 | -254.66 |

This study would suggest that low range inside days below the 200ma have struggled in the past. But I also looked at the day's low volume. For the SPY it was the lowest volume in over 20 days. I therefore re-ran the above test and segregated it by times it was accompanied by the lowest volume in a month and times it wasn't.

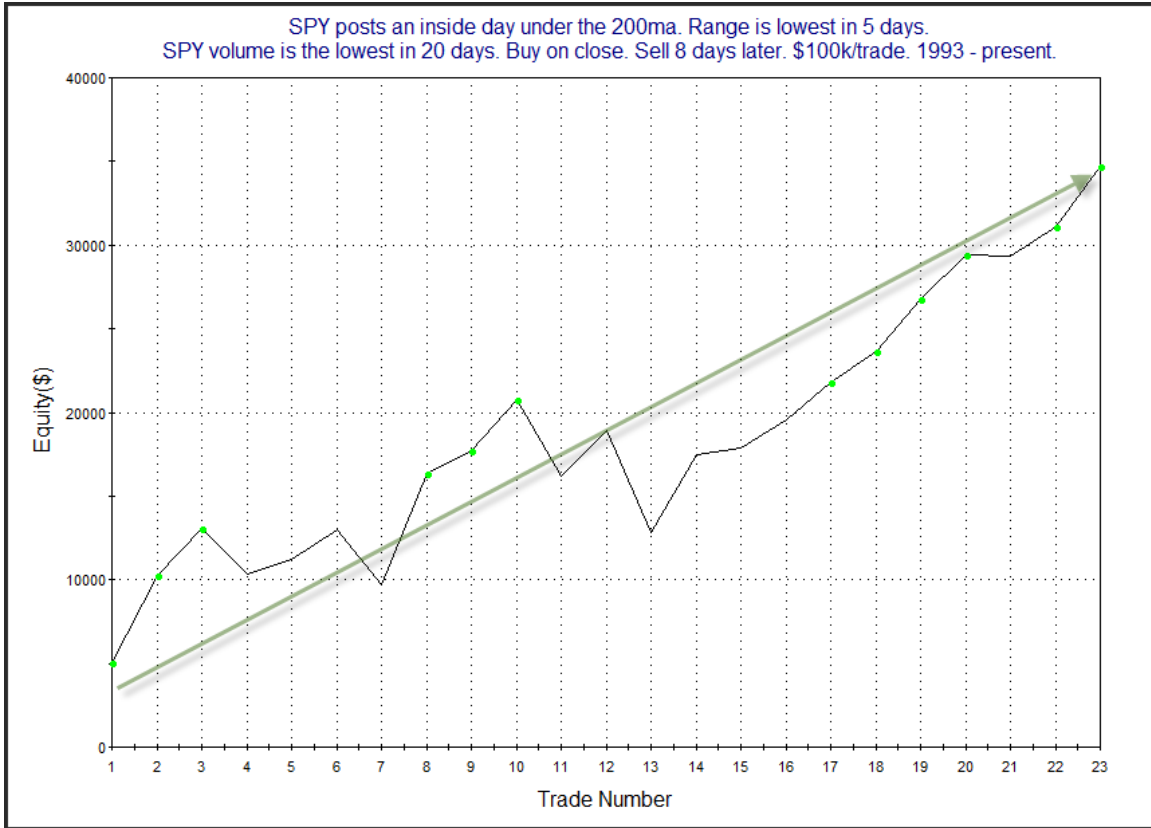
First let's look at times where SPY did NOT post the lowest volume in a month.

| SPY posts an inside day under the 200ma. Range is lowest in 5 days. SPY volume is NOT the lowest in 20 days. 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 | -7,748.40 | 47 | 25 | 22 | 53.19 | 2,581.60 | 6,523.20 | -3,285.84 | -22,420.44 | 0.79 | 0.89 | -164.86 |
| 9 | -12,670.19 | 48 | 28 | 19 | 58.33 | 2,095.94 | 6,293.68 | -3,755.61 | -13,956.81 | 0.56 | 0.82 | -263.96 |
| 8 | -14,830.83 | 52 | 28 | 24 | 53.85 | 1,956.77 | 8,479.60 | -2,900.84 | -12,665.31 | 0.67 | 0.79 | -285.21 |
| 7 | -36,595.27 | 54 | 26 | 27 | 48.15 | 1,962.42 | 7,760.40 | -3,245.12 | -23,729.16 | 0.60 | 0.58 | -677.69 |
| 6 | -37,012.45 | 55 | 24 | 31 | 43.64 | 1,817.25 | 7,888.00 | -2,600.85 | -21,834.96 | 0.70 | 0.54 | -672.95 |
| 5 | -21,246.93 | 56 | 26 | 29 | 46.43 | 1,807.22 | 6,568.20 | -2,352.92 | -15,971.55 | 0.77 | 0.69 | -379.41 |
| 4 | -26,930.95 | 57 | 28 | 29 | 49.12 | 1,608.31 | 6,497.00 | -2,481.51 | -13,801.83 | 0.65 | 0.63 | -472.47 |
| 3 | -34,305.26 | 61 | 28 | 33 | 45.90 | 1,590.37 | 7,413.70 | -2,388.96 | -9,763.74 | 0.67 | 0.56 | -562.38 |
| 2 | -20,464.20 | 65 | 33 | 32 | 50.77 | 1,045.71 | 5,188.70 | -1,717.89 | -5,131.74 | 0.61 | 0.63 | -314.83 |
| 1 | -16,950.33 | 65 | 32 | 33 | 49.23 | 814.63 | 4,485.60 | -1,303.59 | -5,444.46 | 0.62 | 0.61 | -260.77 |

These stats are even more compelling for the bears. So what does that mean for times like Thursday when the volume did come in very low?

| SPY posts an inside day under the 200ma. Range is lowest in 5 days. SPY volume is the lowest in 20 days. 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 | 27,628.63 | 22 | 17 | 5 | 77.27 | 3,020.02 | 6,816.15 | -4,742.35 | -11,977.56 | 0.64 | 2.17 | 1,255.85 |
| 9 | 28,152.91 | 22 | 18 | 4 | 81.82 | 2,700.75 | 6,953.00 | -5,115.13 | -10,794.21 | 0.53 | 2.38 | 1,279.68 |
| 8 | 34,695.71 | 23 | 18 | 5 | 78.26 | 2,861.69 | 6,684.18 | -3,362.94 | -6,112.26 | 0.85 | 3.06 | 1,508.51 |
| 7 | 24,505.69 | 23 | 17 | 6 | 73.91 | 2,747.71 | 7,851.93 | -3,700.90 | -11,617.41 | 0.74 | 2.10 | 1,065.46 |
| 6 | 23,977.73 | 23 | 16 | 7 | 69.57 | 2,753.20 | 7,137.07 | -2,867.65 | -7,552.86 | 0.96 | 2.19 | 1,042.51 |
| 5 | 19,074.49 | 23 | 16 | 7 | 69.57 | 2,551.58 | 7,263.90 | -3,107.25 | -4,858.65 | 0.82 | 1.88 | 829.33 |
| 4 | 15,475.67 | 23 | 16 | 7 | 69.57 | 2,116.03 | 5,865.00 | -2,625.84 | -4,951.57 | 0.81 | 1.84 | 672.86 |
| 3 | 10,140.67 | 23 | 14 | 9 | 60.87 | 2,287.87 | 6,842.50 | -2,432.16 | -6,431.25 | 0.94 | 1.46 | 440.90 |
| 2 | 6,398.63 | 23 | 14 | 9 | 60.87 | 1,587.78 | 5,440.00 | -1,758.92 | -4,065.25 | 0.90 | 1.40 | 278.20 |
| 1 | -1,613.11 | 23 | 10 | 13 | 43.48 | 1,285.21 | 3,512.48 | -1,112.71 | -3,084.28 | 1.16 | 0.89 | -70.14 |

Instances are a bit low here, but there certainly doesn't appear to be a downside edge. In fact these statistics look fairly bullish. Below is a look at the 8-day profit curve.



The upslope is impressive and supports the idea of a bullish edge.

I didn't stop there, though. I also filtered to find just those times that the close was down from the day before.

SPY closes down and posts an inside day under the 200ma. Range is lowest in 5 days.
 SPY volume is lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - present.

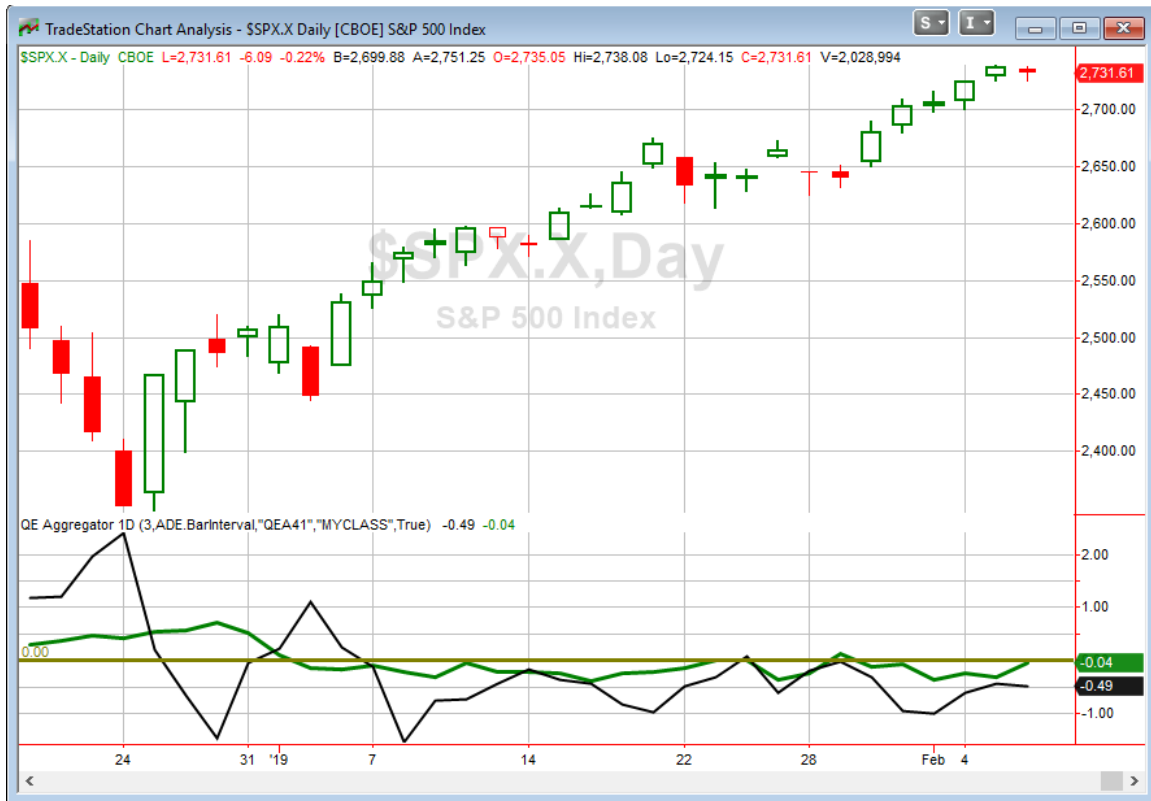
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 28,422.29 | 9 | 8 | 1 | 88.89 | 3,863.72 | 6,816.15 | -2,487.45 | -2,487.45 | 1.55 | 12.43 | 3,158.03 |
| 9 | 24,355.41 | 9 | 8 | 1 | 88.89 | 3,271.84 | 6,953.00 | -1,819.30 | -1,819.30 | 1.80 | 14.39 | 2,706.16 |
| 8 | 22,809.85 | 9 | 8 | 1 | 88.89 | 3,192.35 | 6,684.18 | -2,728.95 | -2,728.95 | 1.17 | 9.36 | 2,534.43 |
| 7 | 20,710.03 | 9 | 7 | 2 | 77.78 | 3,221.58 | 5,658.39 | -920.52 | -1,497.30 | 3.50 | 12.25 | 2,301.11 |
| 6 | 15,479.07 | 9 | 6 | 3 | 66.67 | 3,255.14 | 4,712.40 | -1,350.59 | -2,342.55 | 2.41 | 4.82 | 1,719.90 |
| 5 | 6,915.14 | 9 | 6 | 3 | 66.67 | 2,667.88 | 5,272.34 | -3,030.71 | -4,604.60 | 0.88 | 1.76 | 768.35 |
| 4 | 4,351.15 | 9 | 5 | 4 | 55.56 | 2,999.24 | 5,865.00 | -2,661.26 | -4,951.57 | 1.13 | 1.41 | 483.46 |
| 3 | 7,990.83 | 9 | 5 | 4 | 55.56 | 3,361.59 | 6,842.50 | -2,204.28 | -4,431.33 | 1.53 | 1.91 | 887.87 |
| 2 | 2,632.69 | 9 | 6 | 3 | 66.67 | 1,804.77 | 5,440.00 | -2,731.99 | -4,065.25 | 0.66 | 1.32 | 292.52 |
| 1 | -6,573.01 | 9 | 3 | 6 | 33.33 | 899.46 | 1,411.00 | -1,545.23 | -3,084.28 | 0.58 | 0.29 | -730.33 |

So now we are getting a bit low on instances, but the stats keep getting more and more bullish the more I compare action to Wednesday's. For those who might want to dig further, I've listed all the instances below assuming a 10-day exit.

| SPY closes down and posts an inside day under the 200ma. Range is lowest in 5 days.SPY volume is lowest in 20 days. Buy on close. Sell 10 days later. \$100k/trade. 1993 - present. | | | | |
|---|--------|----------|----------|--------------------|
| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
| 10/23/1998 | Buy | \$106.84 | 6.82% | \$7,218.20 |
| 11/6/1998 | Sell | \$114.13 | | (\$757.35) |
| 4/16/2001 | Buy | \$117.60 | 6.22% | \$8,551.00 |
| 4/30/2001 | Sell | \$124.91 | | (\$493.00) |
| 5/8/2001 | Buy | \$126.18 | 4.20% | \$4,680.72 |
| 5/22/2001 | Sell | \$131.48 | | (\$1,409.76) |
| 7/3/2001 | Buy | \$124.10 | -2.49% | \$0.00 |
| 7/18/2001 | Sell | \$121.01 | | (\$5,643.05) |
| 10/8/2001 | Buy | \$106.53 | 2.76% | \$4,333.56 |
| 10/22/2001 | Sell | \$109.47 | | (\$947.38) |
| 12/24/2001 | Buy | \$114.73 | 0.73% | \$2,839.46 |
| 1/9/2002 | Sell | \$115.57 | | (\$801.32) |
| 8/12/2002 | Buy | \$90.62 | 5.12% | \$7,202.59 |
| 8/26/2002 | Sell | \$95.26 | | (\$2,867.80) |
| 7/25/2008 | Buy | \$125.48 | 3.10% | \$3,542.20 |
| 8/8/2008 | Sell | \$129.37 | | (\$1,639.76) |
| 6/28/2010 | Buy | \$107.53 | 1.98% | \$2,378.24 |
| 7/13/2010 | Sell | \$109.66 | | (\$5,945.60) |
| 2/18/2016 | Buy | \$192.09 | 4.00% | \$4,009.20 |
| 3/3/2016 | Sell | \$199.78 | | (\$1,440.40) |

As with any series of tests, these are open to interpretation. The general pattern of low range, inside day below the 200ma appears to have potential bearish connotations. Days like Wednesday, though, appear to be the kind that are the exception to the rule. And the last couple of studies I found impressive enough that I have added the one with the larger sample size to the Active List tonight.

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



With tonight's research included, the green Aggregator Line still 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 flip to bullish on Thursday. Of course this could change if bearish new evidence emerges. The Differential Pivot will be 2706.47 on Thursday. That is 0.9% below Wednesday's close. Therefore, SPX will need to close down at least 0.9% on Thursday in order to flip from overbought to oversold versus recent expectations.

So there still appears to be a downside edge. But that edge is unlikely to persist beyond Thursday unless additional bearish evidence emerges. I still have a small short position. I will hold onto it for now, only looking to cover on Thursday 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 | \$272.74 | -1.93% | | cover on SPX close <= 2706.47 |
| | | | | | | |
| | | | | | | |

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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