

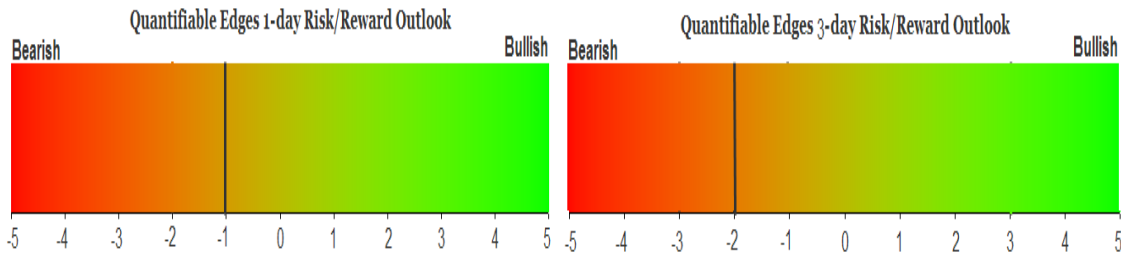
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 14, 2018

Volume 12 Issue 31

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- The intraday high, unfilled gap, and weak close imply short-term strength.
- NASDAQ's recent streak of higher closes suggests a pullback is likely.

## *Short-term Outlook*

### *The Bottom Line*

There appears to be a small bearish edge, but I still do not find the overall setup compelling.

*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 14, 2019	NASDAQ up 4 days < 200ma	1-2 days	Bearish			
February 14, 2019	Unfill up, 20-day high, Close < open.	1-2 days	Bullish			
February 12, 2019	VIX up SPX up Monday < 200ma	1-5 days	Bearish	-3.40%	1.90%	3.80%
February 7, 2019	Low Range Low Volm Inside SPY < 200	1-8 days	Bullish	3.40%	-2.55%	-5.90%
<b>Active - Long Term</b>						
January 9, 2019	Up Issues > 70% for 3 days	1-85 days	Bullish			
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 was another up for the market. The SPX rose 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 64%. NYSE volume declined some from Tuesday's level.

One study that provided some compelling results is the one below. It was last seen in the 3/22/16 subscriber letter. It looks at other instances in which the NASDAQ rose exactly 4 days in a row and closed under the 200ma. All results have been updated.

NASDAQ closes higher for exactly the 4th day in a row. It did NOT close at a 50-day low 4 days ago. Close < 200ma. Buy NASDAQ on close. Sell X days later. \$100k/trade. 2002 - 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	-40,878.13	22	8	14	36.36	1,981.79	4,498.82	-4,052.32	-9,279.70	0.49	0.28	-1,858.10
9	-35,413.25	22	9	13	40.91	1,538.99	3,123.20	-3,789.55	-7,688.92	0.41	0.28	-1,609.69
8	-27,900.95	23	11	12	47.83	1,558.96	3,823.79	-3,754.13	-7,746.48	0.42	0.38	-1,213.08
7	-29,977.37	24	10	14	41.67	1,375.23	3,529.97	-3,123.55	-5,934.18	0.44	0.31	-1,249.06
6	-36,444.31	24	8	16	33.33	1,184.02	4,086.93	-2,869.78	-6,362.65	0.41	0.21	-1,518.51
5	-24,086.68	25	9	16	36.00	1,189.30	2,029.98	-2,174.40	-5,753.20	0.55	0.31	-963.47
4	-16,953.13	25	11	14	44.00	873.35	1,870.87	-1,897.14	-4,907.27	0.46	0.36	-678.13
3	-18,862.80	25	9	16	36.00	1,252.04	2,032.68	-1,883.20	-4,090.24	0.66	0.37	-754.51
2	-22,303.48	25	10	15	40.00	738.38	2,042.04	-1,979.15	-5,242.88	0.37	0.25	-892.14
1	-15,909.38	25	9	16	36.00	603.61	1,809.18	-1,333.87	-3,232.00	0.45	0.25	-636.38

**All 25 instances closed below the entry price at some point in the next week.**

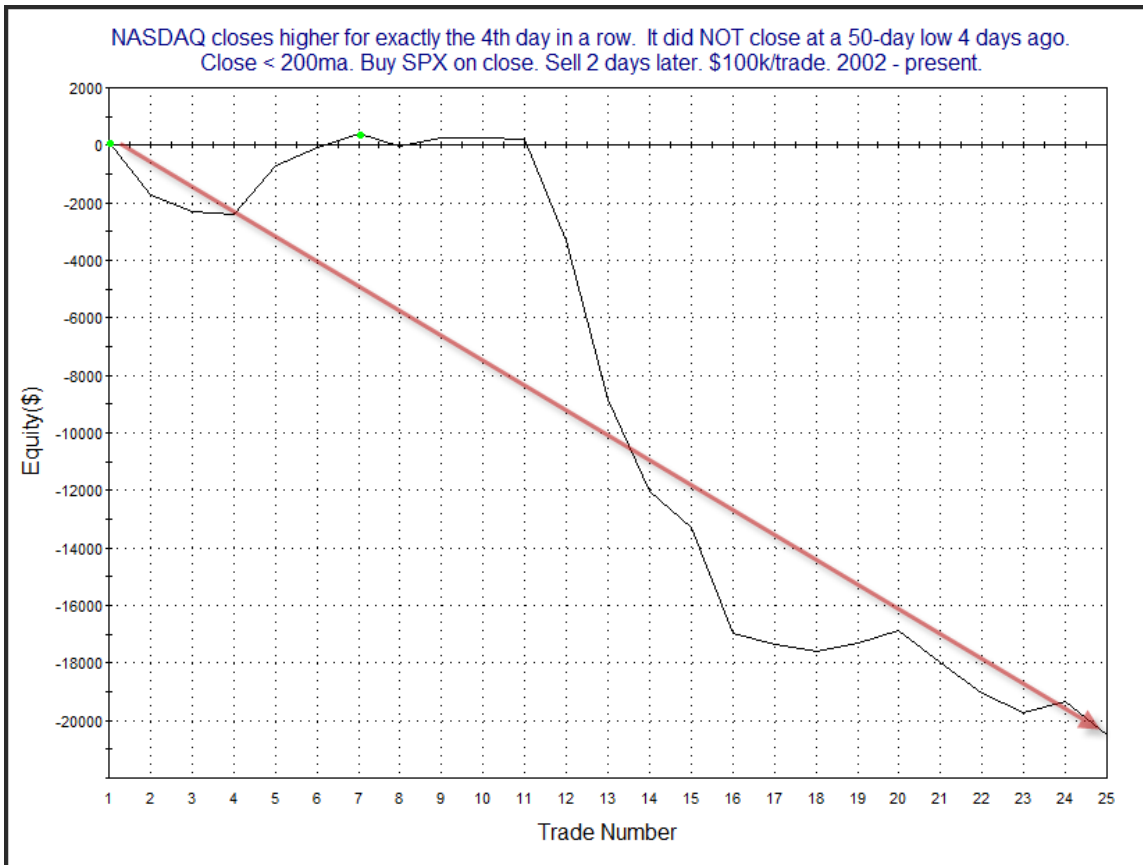
Results here appears to be strongly bearish. And the edge persists for up to 2 weeks. I also examined how the SPX might have performed when the Nasdaq had set up this way. The updated results below show this.

NASDAQ closes higher for exactly the 4th day in a row. It did NOT close at a 50-day low 4 days ago.  
 Close < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2002 - 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	-26,291.93	22	6	16	27.27	3,573.24	7,245.00	-2,983.21	-7,631.40	1.20	0.45	-1,195.09
9	-22,926.75	22	10	12	45.45	1,951.83	4,733.40	-3,537.09	-5,350.02	0.55	0.46	-1,042.13
8	-18,669.21	23	9	14	39.13	1,970.03	6,129.50	-2,599.97	-7,676.64	0.76	0.49	-811.70
7	-19,974.47	24	10	14	41.67	1,545.36	4,320.55	-2,530.57	-6,238.08	0.61	0.44	-832.27
6	-25,871.45	24	6	18	25.00	1,988.74	4,716.15	-2,100.21	-5,959.76	0.95	0.32	-1,077.98
5	-19,011.35	25	10	15	40.00	998.83	1,915.14	-1,933.31	-6,523.10	0.52	0.34	-760.45
4	-13,772.25	25	10	15	40.00	751.34	1,659.08	-1,419.04	-4,056.12	0.53	0.35	-550.89
3	-15,898.04	25	12	13	48.00	704.33	1,802.76	-1,873.08	-5,547.24	0.38	0.35	-635.92
2	-20,503.89	25	9	16	36.00	490.42	1,695.10	-1,557.35	-5,495.94	0.31	0.18	-820.16
1	-11,439.53	25	9	16	36.00	574.84	1,736.36	-1,038.32	-3,300.30	0.55	0.31	-457.58

All 25 instances closed below the entry price at some point in the next week.

Though not quite as powerful, these results appear just as consistently bearish as the NASDAQ results. Below is an equity curve that assumes a 2-day holding period.



Certainly not the straightest curve we have seen, but it does wind its way from upper left to lower right. And the fact that both the NASDAQ and the SPX have closed below the entry price in every instance has me accepting of this study and including it on the Active List.

Looking at the 1-day SPY pattern hinted at a bullish edge. In the 3/31/16 Letter I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. I updated those studies below.

First let's look at times (unlike Wednesday) where the finish was relatively strong:

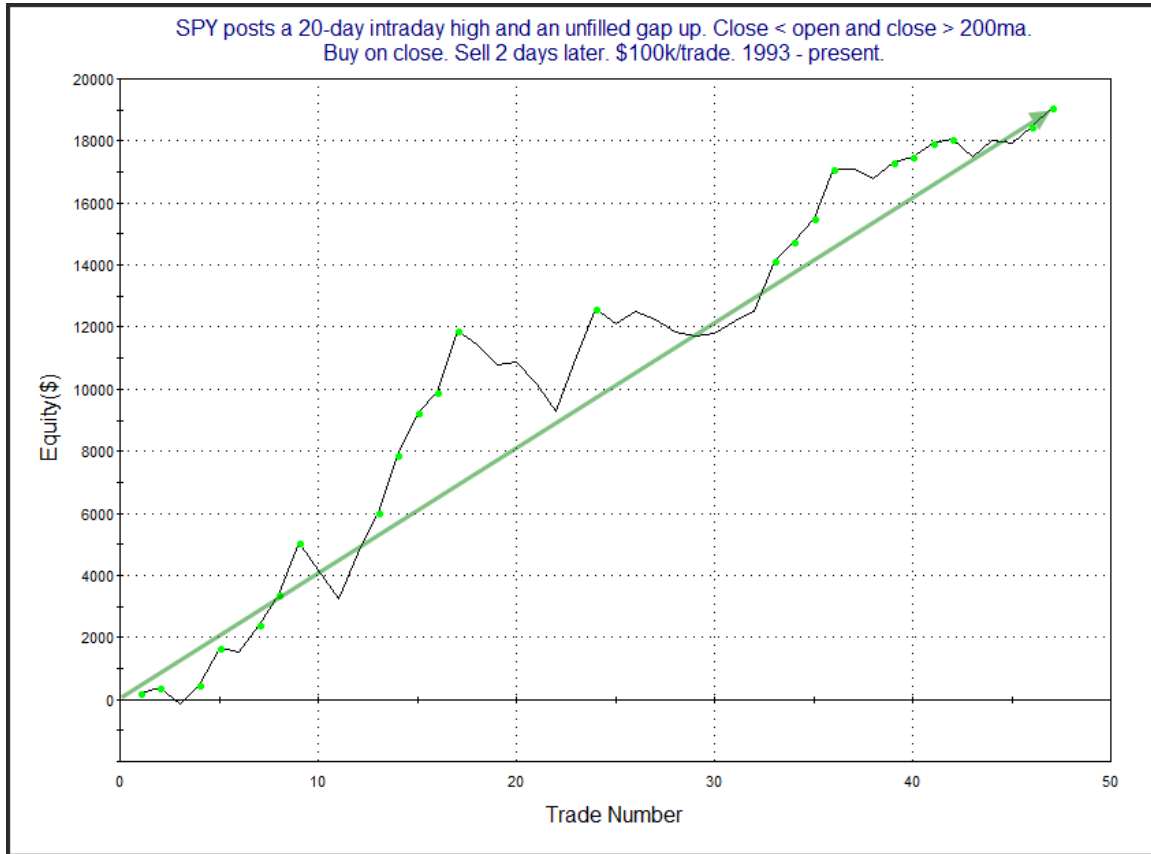
SPY posts a 20-day intraday high and an unfilled gap up. Close > open and close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	18,910.73	168	102	64	60.71	1,442.61	6,056.96	-2,003.68	-8,727.84	0.72	1.15	112.56
9	14,175.05	176	108	67	61.36	1,327.25	5,404.74	-1,927.87	-10,074.60	0.69	1.11	80.54
8	10,700.07	183	108	73	59.02	1,240.04	5,456.48	-1,688.01	-6,580.68	0.73	1.09	58.47
7	11,534.84	190	114	74	60.00	1,156.18	5,145.60	-1,625.26	-6,072.60	0.71	1.10	60.71
6	13,243.10	202	111	89	54.95	1,033.86	4,931.26	-1,140.62	-7,882.20	0.91	1.13	65.56
5	12,725.98	212	117	93	55.19	932.35	4,539.48	-1,036.11	-3,873.24	0.90	1.13	60.03
4	17,243.94	229	126	102	55.02	892.17	4,627.26	-933.03	-3,532.12	0.96	1.18	75.30
3	-5,005.09	244	135	107	55.33	660.45	2,659.03	-880.06	-5,080.34	0.75	0.95	-20.51
2	-3,517.27	270	145	123	53.70	512.72	2,545.92	-633.02	-3,016.48	0.81	0.95	-13.03
1	1,892.88	292	146	145	50.00	364.96	2,380.38	-354.43	-2,817.32	1.03	1.04	6.48

There doesn't appear to be any edge in either direction here. Now let's examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and 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
10	34,457.87	41	26	15	63.41	1,961.62	4,838.35	-1,102.95	-4,810.68	1.78	3.08	840.44
9	27,804.79	42	31	11	73.81	1,418.22	3,741.10	-1,469.09	-5,564.16	0.97	2.72	662.02
8	23,892.01	42	28	13	66.67	1,464.57	3,352.48	-1,316.60	-6,021.40	1.11	2.40	568.86
7	21,762.58	42	26	16	61.90	1,538.94	3,751.55	-1,140.62	-4,952.36	1.35	2.19	518.16
6	20,827.79	42	26	16	61.90	1,514.05	4,159.10	-1,158.60	-6,414.24	1.31	2.12	495.90
5	17,056.37	42	23	19	54.76	1,323.48	3,754.17	-704.41	-4,540.20	1.88	2.27	406.10
4	18,903.46	43	30	13	69.77	925.10	3,436.02	-680.74	-2,228.24	1.36	3.14	439.62
3	24,128.51	46	33	12	71.74	931.95	2,362.10	-552.14	-2,427.88	1.69	4.64	524.53
2	19,079.79	47	31	16	65.96	853.18	1,998.70	-460.55	-926.12	1.85	3.59	405.95
1	8,827.32	48	33	15	68.75	454.52	1,708.92	-411.46	-1,015.84	1.10	2.43	183.90

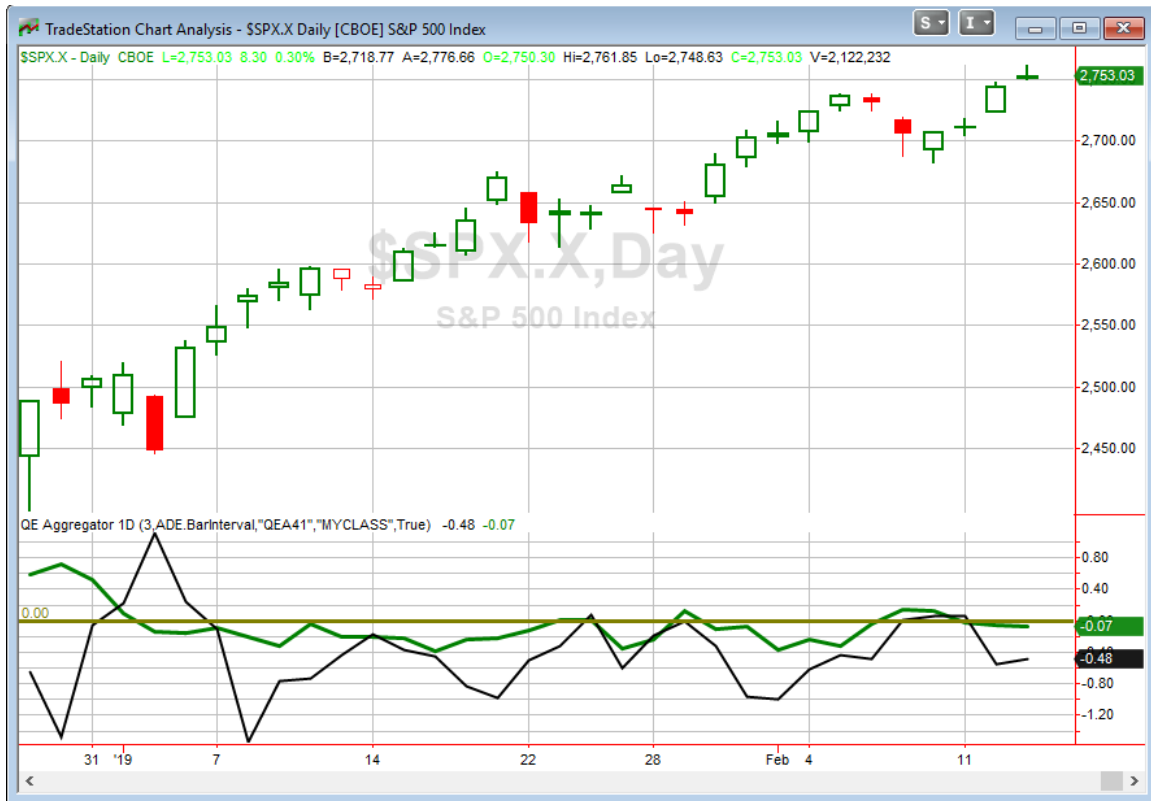
**43 of 48 instances (90%) closed above the entry price at some point in the next 3 days.**

These results are substantially better than earlier where the finish was above the open. The weak finish should not concern bulls, in fact it appears they should be excited by it. Below is an equity curve that shows how the edge has played out over time.



The upslope here is persistent and rather impressive. I have included this study on the Short-Term Active List.

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



With tonight's evidence considered 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 also 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 turned short at the close.

Based on the current active studies, expectations are set to remain slightly bearish on Thursday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2716.22 on Thursday. That is 1.3% below Wednesday's close. Therefore, SPX would need to close down at least 1.3% on Thursday in order to flip from overbought to oversold versus recent expectations.

The market is overdone to the upside, overdue for a pullback, and showing signs that a dip is likely. Additionally, we are now entering a large QT week, which could finally help the bears put together some kind of substantial pullback. So I strongly considered taking on new short exposure on Thursday. But the mixed evidence and intermediate-term bullish outlook have me being quite conservative. I am not inclined to try another counter-trend trade just yet. I'll see what new evidence emerges on Thursday before looking to take on new positions.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/11– 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**

None

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).*

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.