

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 22, 2018

Volume 12 Issue 36

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- The unfilled gap down on Thursday from a 50-day high left some bulls stuck underwater. Often that leads to more downside the next day.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bullish, but it is not a very convincing setup. I'm basically neutral.

**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 22, 2019	Unfilled gap dn from 50-day high	1 day	Bearish			
February 19, 2019	Breakaway Gap	1-5 days	Bullish			
<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**

Thursday was a pullback day. The SPX declined 0.35%, the NASDAQ lost 0.4%, and the Russell 2000 dropped 0.4%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 31%. NYSE volume dipped some from Wednesday’s level.

Interesting about Thursday’s action for SPY was not just that it closed down after closing at a 50-day high on Wednesday, but that it did so while also leaving an unfilled gap down. The unfilled down gap means that there are bulls that bought into the market on Wednesday that found themselves underwater all day on Thursday, never having the chance to exit at their entry price. I have found that having a bunch of “stuck” longs typically makes it more likely that there will be another down day. The stuck longs are generally not let off the hook very easily. The two studies below show this in a simple manner. The first looks at performance following a down day from a 50-day high that did not include an unfilled gap lower.

SPY close down from a 50-day high but does not leave an unfilled gap.  
Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.

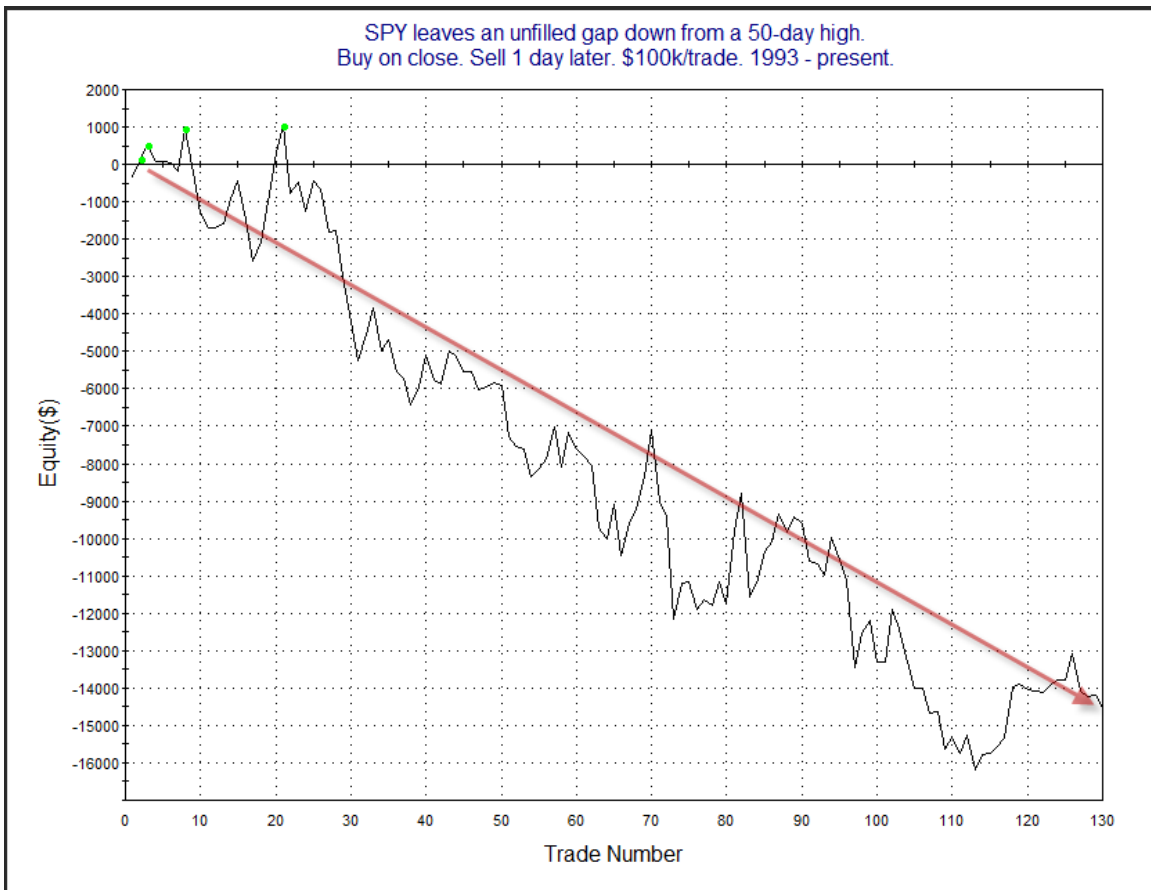
TradeStation Performance Summary				Expand
<b>All Trades</b>				
Total Net Profit	\$3,633.14	Profit Factor		1.04
Gross Profit	\$92,593.79	Gross Loss		(\$88,960.65)
Total Number of Trades	321	Percent Profitable		52.65%
Winning Trades	169	Losing Trades		149
Even Trades	3			
Avg. Trade Net Profit	\$11.32	Ratio Avg. Win:Avg. Loss		0.92
Avg. Winning Trade	\$547.89	Avg. Losing Trade		(\$597.05)
Largest Winning Trade	\$2,332.00	Largest Losing Trade		(\$3,909.03)

Odds here are basically breakeven. There does not appear to be a substantial edge for either bulls or bears, But now let’s look at times like now, where there was an unfilled gap down.

SPY leaves an unfilled gap down from a 50-day high.  
Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.

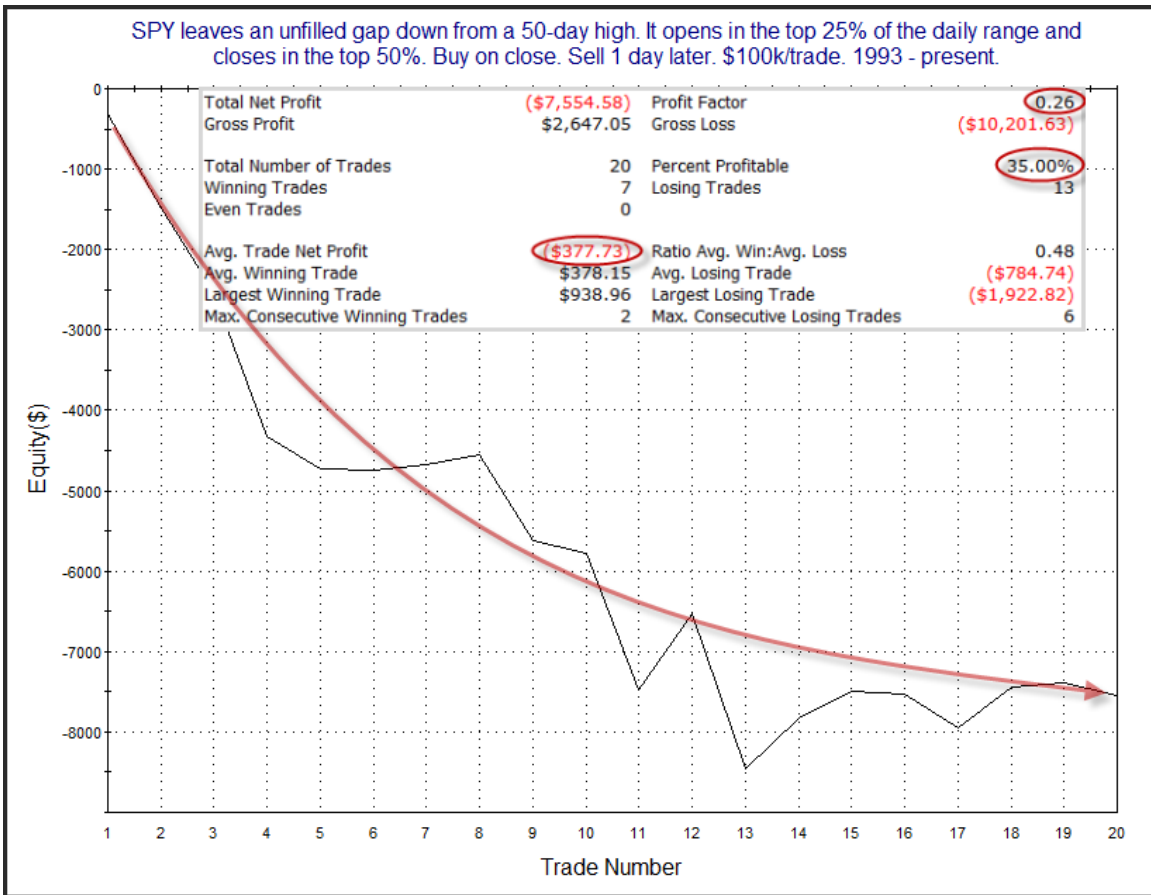
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$14,537.49)	Profit Factor	0.70
Gross Profit	\$33,959.43	Gross Loss	(\$48,496.92)
Total Number of Trades	130	Percent Profitable	44.62%
Winning Trades	58	Losing Trades	71
Even Trades	1		
Avg. Trade Net Profit	(\$111.83)	Ratio Avg. Win:Avg. Loss	0.86
Avg. Winning Trade	\$585.51	Avg. Losing Trade	(\$683.06)
Largest Winning Trade	\$1,952.85	Largest Losing Trade	(\$2,786.00)

The numbers here suggest a moderate downside inclination. Below is a look at the profit curve.



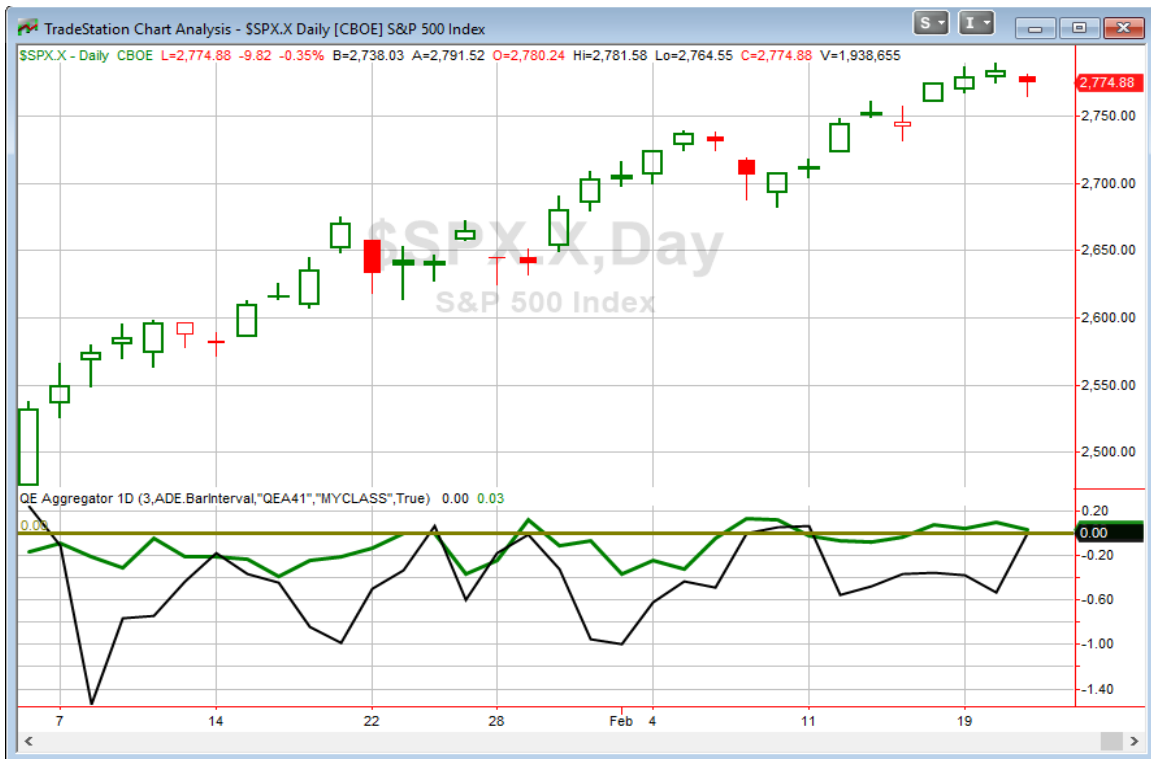
The persistent move lower serves as some confirmation that an unfilled gap down from a 50-day high has shown a downside tendency for a long time.

The study below is a bit more specific to the current setup. It was last seen in the 7/26/16 letter. It looked at unfilled gaps down from high levels that both open and close in the upper part of the day's range. Results are updated.



Numbers are strongly bearish, but the curve has flattened out some in recent times. Still, this appears compelling enough to give some consideration.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line moved just barely above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain mildly bullish on Friday. This could change if new bearish evidence emerges. The Differential Pivot will be 2782.39 on Friday. That is 0.3% above Thursday's close. Therefore, SPX would need to close up at least 0.3% on Friday in order to flip from oversold to overbought versus recent expectations.

The Aggregator has turned bullish, but it is about as weak of a signal as you are going to find. Both lines are very close to 0. And with tonight's study, 1-day expectations are actually negative. Despite being labeled "oversold" by the Differential calculation, SPY closed above its 10ma for the 33<sup>rd</sup> day in a row on Thursday. As I noted last week, very few instances have lasted much longer than this, and I expect to see a reversion below that line sometime soon. It is unlikely I will get enthused about a long position until a pullback of at least that magnitude occurs. So I will remain sidelined and awaiting a more favorable reward/risk setup to emerge.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/19– somewhat bullish***

The intermediate-term outlook was last updated in the 2/19 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.