

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2018

Volume 12 Issue 38

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- An up day for SPY that makes a new high but closes near the bottom of the range has always been followed by a move higher in the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am not seeing very compelling evidence nor a favorable reward/risk setup.

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 26, 2019	SPX 50-high, VIX up, Monday	1-2 days	Bearish			
February 26, 2019	SPY 5-high, close up, bottom 10% rng	1-3 days	Bullish			
Active - Long Term						
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

Monday saw a morning rally that lost steam and finished with mixed results. The SPX closed up 0.1%, the NASDAQ rose 0.4%, and the Russell 2000 fell 0.1%. Breadth was also mixed as the NYSE Up Issues % was 49.9% and the Up Volume % came in at 59.5%. NYSE volume rose some from Friday’s low level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 1/9/18 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma nad at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-12,146.50	66	30	36	45.45	1,066.65	3,260.25	-1,226.28	-5,048.68	0.87	0.72	-184.04
4	-5,463.47	72	35	37	48.61	903.19	2,953.65	-1,002.03	-4,271.52	0.90	0.85	-75.88
3	-8,247.45	72	35	37	48.61	673.21	2,641.80	-859.72	-3,887.84	0.78	0.74	-114.55
2	-17,385.34	72	33	39	45.83	457.26	1,981.72	-832.69	-3,372.16	0.55	0.46	-241.46
1	-7,371.44	72	28	44	38.89	303.53	769.70	-360.69	-1,580.04	0.84	0.54	-102.38

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

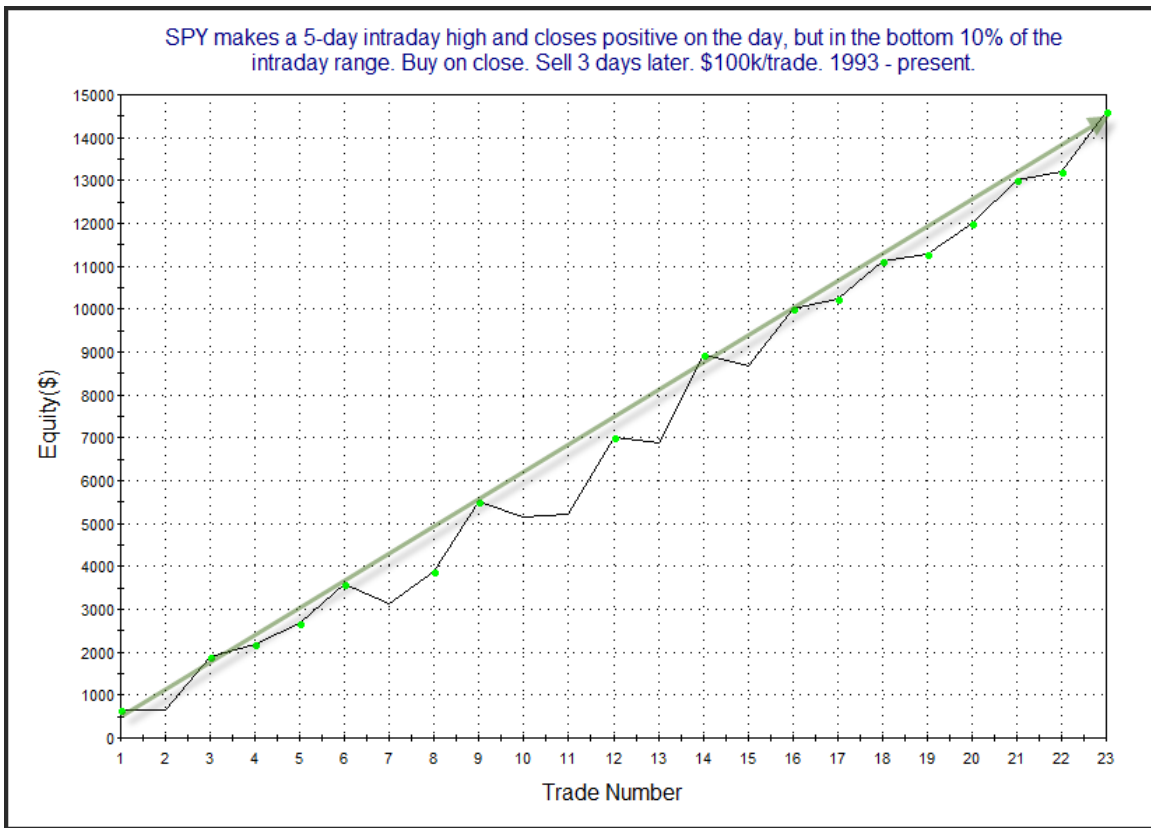
But while the VIX is suggesting a possible pullback, there are some studies that looked at the poor close in SPY that suggested an upside edge. One considered the fact that SPX made a new recent intraday high, and the other one noted that SPY closed up on the day. I decided to see how a combination of these factors would look. And the combination looked very appealing. Below is the study I ran.

SPY makes a 5-day intraday high and closes positive on the day, but in the bottom 10% of the intraday range. 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	4,862.55	22	14	8	63.64	1,203.96	1,833.40	-1,499.11	-3,968.25	0.80	1.41	221.02
4	7,855.30	23	17	6	73.91	921.80	1,906.08	-1,302.56	-3,623.88	0.71	2.01	341.53
3	14,620.69	23	18	4	78.26	878.85	2,056.39	-299.67	-472.68	2.93	13.20	635.68
2	10,343.73	23	16	7	69.57	771.24	3,028.76	-285.16	-531.70	2.70	6.18	449.73
1	5,720.05	23	16	7	69.57	494.81	3,476.36	-313.85	-903.90	1.58	3.60	248.70

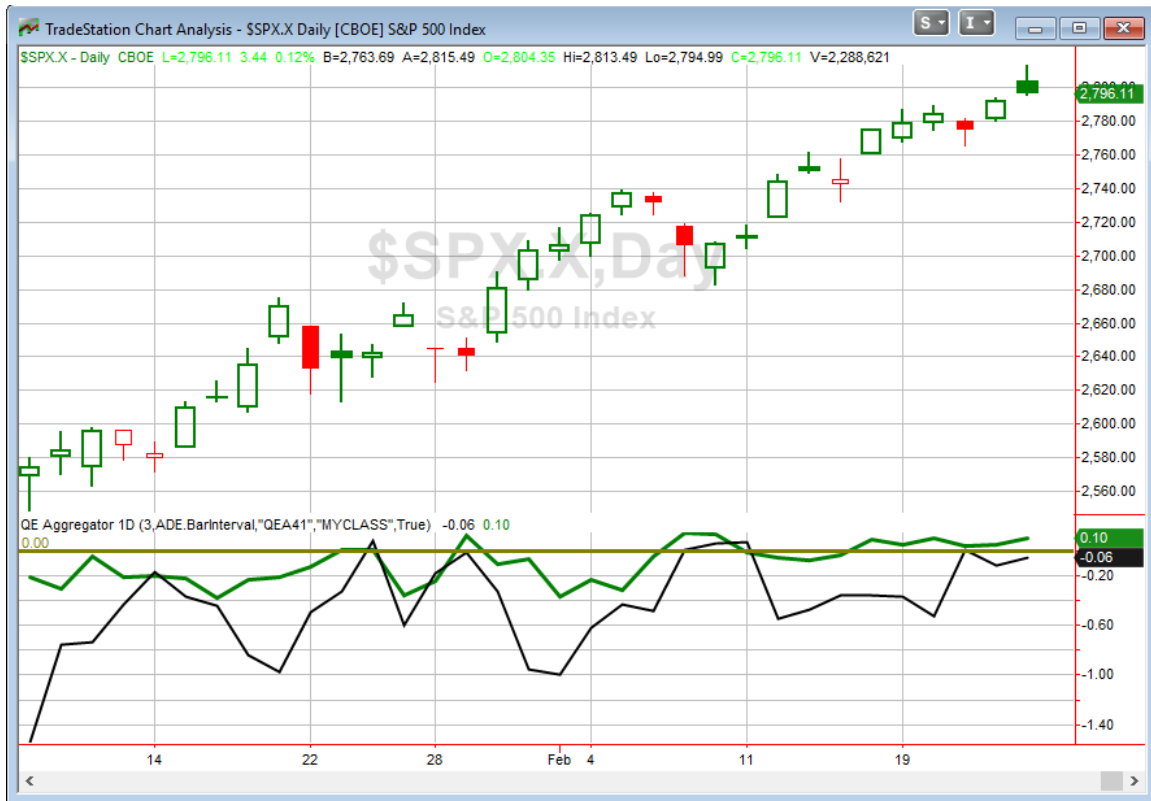
All 23 instances closed above the entry price at some point in the next week.

Those are some impressive stats over the 1st few days. Below is a look at the 3-day profit curve.



Profits curves don't look any better than that. I have also added this study to the Active List tonight.

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



With tonight's mix of 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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. This could easily change if additional bearish evidence emerges. The Differential Pivot will be 2779.80 on Tuesday. That is 0.6% below Monday's close. Therefore, SPX would need to close down at least 0.6% on Tuesday in order to flip from overbought to oversold versus recent expectations.

Monday changed very little with the overall picture. The Aggregator is still neutral. Evidence is again mixed but leaning bullish. SPX is long overdue a deeper pullback. I am unlikely to get enthused about new longs until we see a close below the 10ma. And I am not seeing strong enough evidence to get me excited about shorts. So I'll remain sitting on my hands but being watchful for the next favorable reward/risk opportunity.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 2/25– somewhat bullish***

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](#).

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