

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2018

Volume 12 Issue 40

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Very mild 2-day declines from 50-day highs have typically been followed by mild rises over the next couple of days.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the market is so overdue a deeper pullback that I am not inclined to get long just yet.

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 28, 2019	50-high then down 2 days < 0.25%	1-2 days	Bullish			
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			

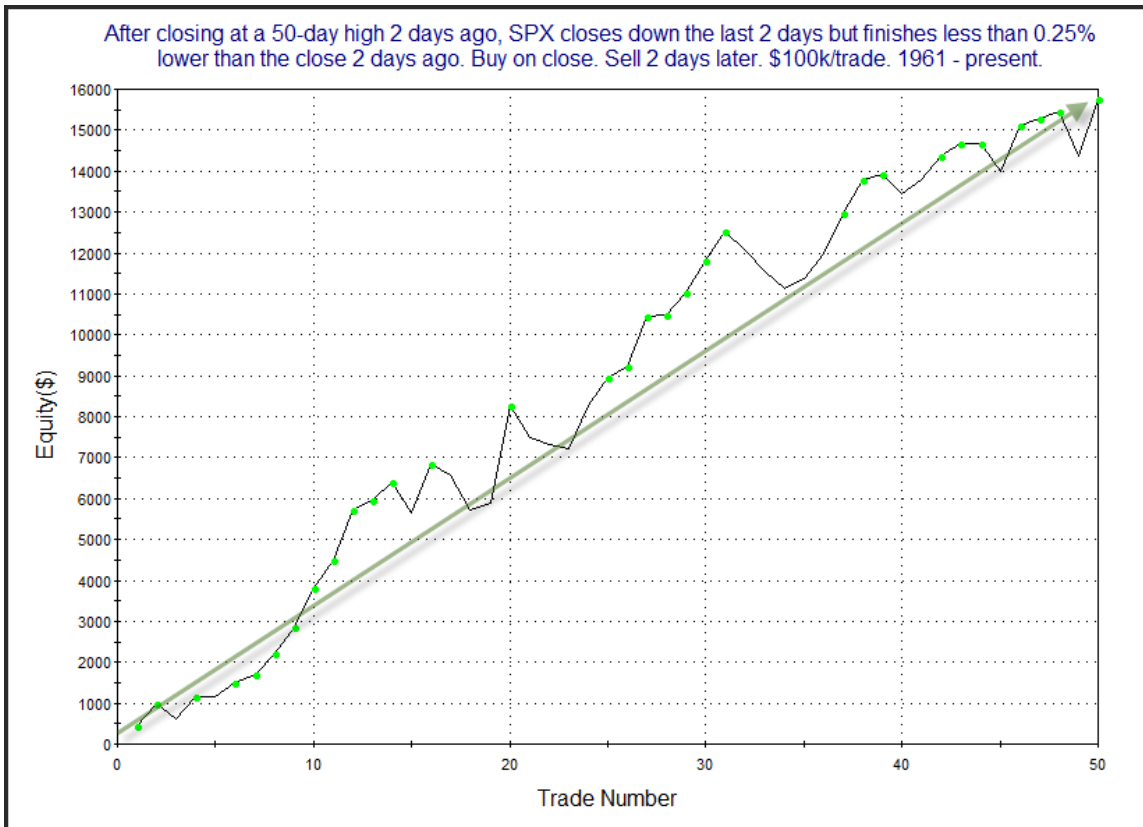
The Evidence

Wednesday the market did not accomplish much. The SPX closed down 0.1%, the NASDAQ gained 0.1% and the Russell 2000 rose 0.2%. Breadth was positive as the NYSE Up Issues % was 50.4% and the Up Volume % came in at 55.5%. NYSE volume declined for the 2nd day in a row.

It's 2019 and sideways is the new down. SPX closed at a 50-day high 2 days ago, and while it has closed lower the last 2 days, the combined 2-day selloff has it only 0.13% below Monday's close. Often if an uptrending market tries to pull back, and it just cannot, then the next move will be higher. Tonight I looked at other instances of SPX closing down 2 days in a row from a 50-day high, but still closing less than 0.25% below that closing high. Results can be seen below.

After closing at a 50-day high 2 days ago, SPX closes down the last 2 days but finishes less than 0.25% lower than the close 2 days ago. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	10,157.86	31	18	13	58.06	1,078.04	4,579.74	-711.29	-3,618.28	1.52	2.10	327.67
4	8,939.20	31	17	14	54.84	1,111.55	3,712.50	-711.23	-3,370.08	1.56	1.90	288.36
3	4,753.05	31	20	11	64.52	739.84	2,141.37	-913.07	-3,892.32	0.81	1.47	153.32
2	9,860.28	31	22	9	70.97	665.27	2,399.76	-530.62	-1,107.75	1.25	3.06	318.07
1	4,520.77	31	16	15	51.61	631.76	1,502.82	-372.49	-960.05	1.70	1.81	145.83

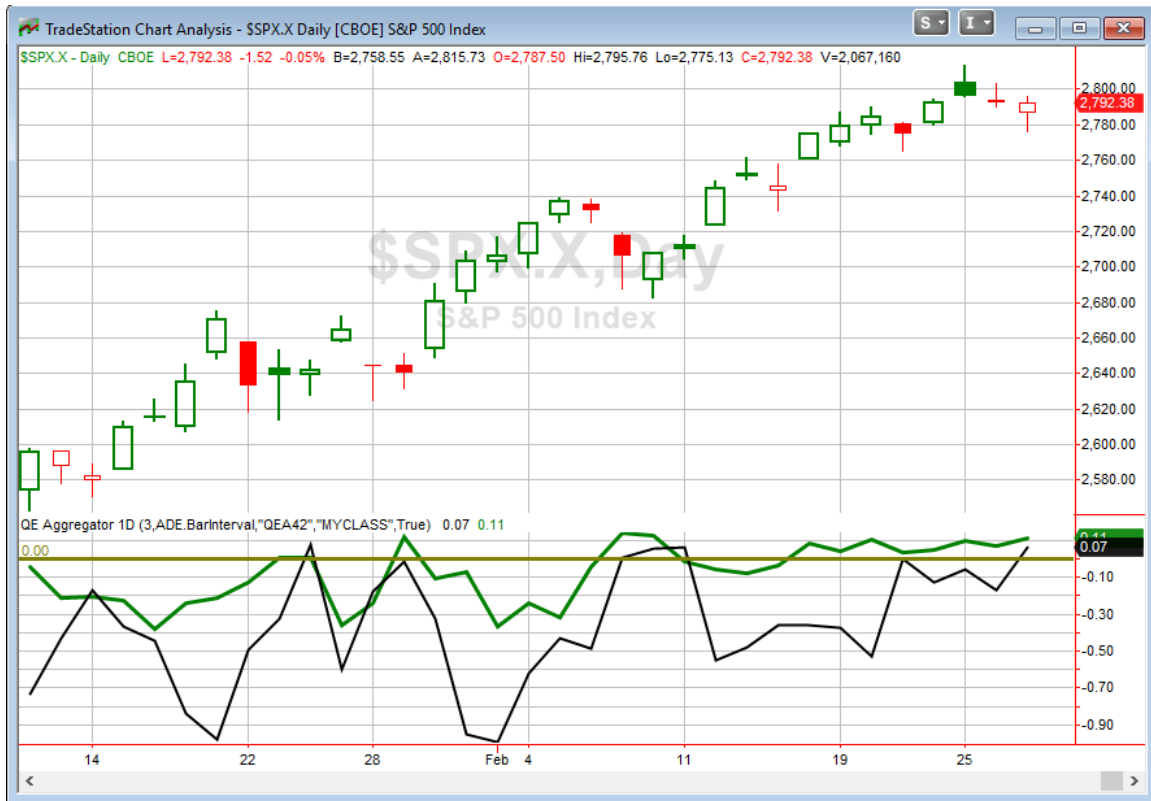
Such mild 2-day pullbacks from 50-day highs have been fairly rare. But the stats suggest a propensity for a rise over the next 2 days. Below is a look at the 2-day profit curve.



The strong, steady upslope serves as some confirmation of the upside edge. And in looking at the list of instances, I noted that they were fairly well spread out. It has not all been in the near past or distant past. It is perhaps also notable that 27 of the 31 instances (87%) closed at a new 50-day high within the next week. Of course that is not much of an accomplishment since all the instances were already very near 50-day highs.

The market is long overdue a pullback, but they have certainly been hard to come by. SPX has not had 3 consecutive down days since Christmas Eve. Maybe it will accomplish that on Thursday, but there continues to be a lack of compelling short-term bearish evidence.

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



With tonight's new evidence to consider 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 up through 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 bullish on Thursday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2801.18 on Thursday. That is 0.3% above Wednesday's close. Therefore, the SPX will need to close up a little over 0.3% on Thursday to flip from oversold to overbought versus recent expectations.

So the Aggregator is now bullish. But as I have been documenting, the SPX has gone a very long time without a pullback even taking it below its 10ma. The streak is now 37 days. In 2010 there was a 42-day streak. Prior to that, you'd need to go back to 1972 to find a streak of 37 days or longer. With the market so overdue a deeper pullback, I am not inclined to get excited about a mild long signal here. I'd prefer a deeper pullback offering more favorable reward/risk before putting new capital at risk on the long side.

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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