

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 1, 2018

Volume 12 Issue 41

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 3-day pullback has a lot going for it suggesting an upside edge, including the quiet action on the pullback and the fact that is coming from a high level.
- Pullbacks into the end of the months have typically been followed by a good start to the next month.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the market is still so overdue a deeper pullback that I am again putting off getting long.

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						
March 1, 2019	Pullback into end of month > 200ma.	1 day	Bullish			
March 1, 2019	Dn 3 from 20-high. 3/10 HV is low.	1-2 days	Bullish			
February 28, 2019	50-high then down 2 days < 0.25%	1-2 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			

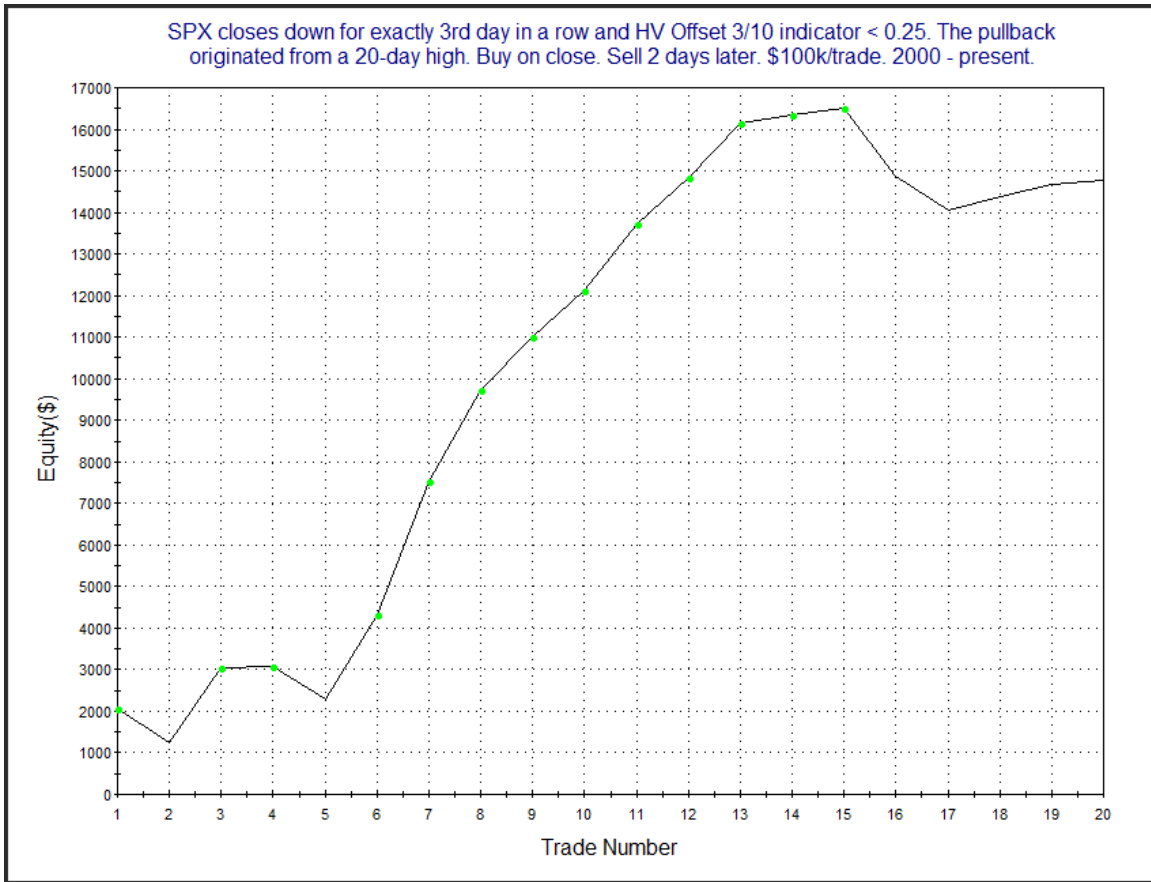
The Evidence

Thursday saw the market dip a little bit. The SPX closed down 0.3%, the NASDAQ also lost 0.3% and the Russell 2000 fell 0.4%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 39%. NYSE volume rose some from Wednesday’s level.

Three-day pullbacks for SPX will often trigger some bullish studies. And that was the case on Thursday night. The most compelling of those studies was the one below. It considered the facts that 1) the pullback is coming off an intermediate-term high and 2) it occurred on relatively low volatility as shown by the Quantifiable Edges 3/10 Offset HV calculation. (This indicator compares Historical Volatility over the last 3 days versus Historical Volatility over the 10 days previous to these 3.) The study was last seen in the 3/15/18 letter. It has been updated.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator < 0.25. The pullback originated from a 20-day high. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	12,677.41	20	13	7	65.00	1,824.49	4,674.00	-1,577.28	-3,579.52	1.16	2.15	633.87
4	14,313.69	20	12	8	60.00	1,818.95	3,783.20	-939.21	-2,501.81	1.94	2.91	715.68
3	12,453.05	20	12	8	60.00	1,514.08	3,576.02	-714.48	-1,438.78	2.12	3.18	622.65
2	14,757.49	20	16	4	80.00	1,174.62	3,212.80	-1,009.11	-1,621.97	1.16	4.66	737.87
1	7,493.87	20	14	6	70.00	771.67	2,861.60	-551.58	-1,057.50	1.40	3.26	374.69
19 of 20 instances (95%) closed above the entry price at some point in the next week.												

The numbers appear quite strong. Below is a look at the profit curve.



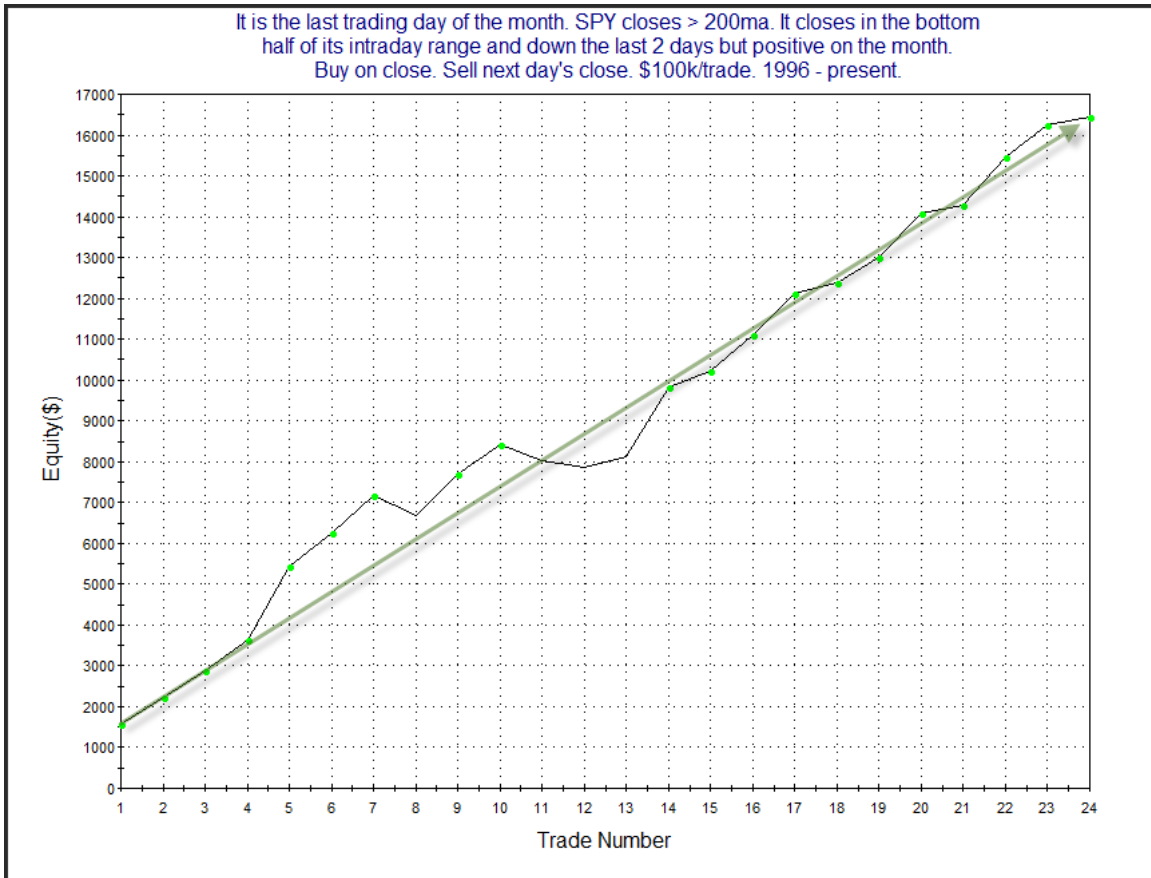
There were a couple of recent instances that struggled some, but the long-term upslope still appears to suggest a bullish edge. I believe it is worth taking under consideration and have added it to the Active List.

Turn of the month will often trigger some bullish studies. Most especially when the market is above its long-term moving average and closes poorly on the last day of the month. In the 11/2/15 letter I shared a study that showed 2+ down days into the end of a month when the month closed overall positive, was often followed by a rebound. Below are updated results to that study.

It is the last trading day of the month. SPY closes > 200ma. It closes in the bottom half of its intraday range and down the last 2 days but positive on the month.
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

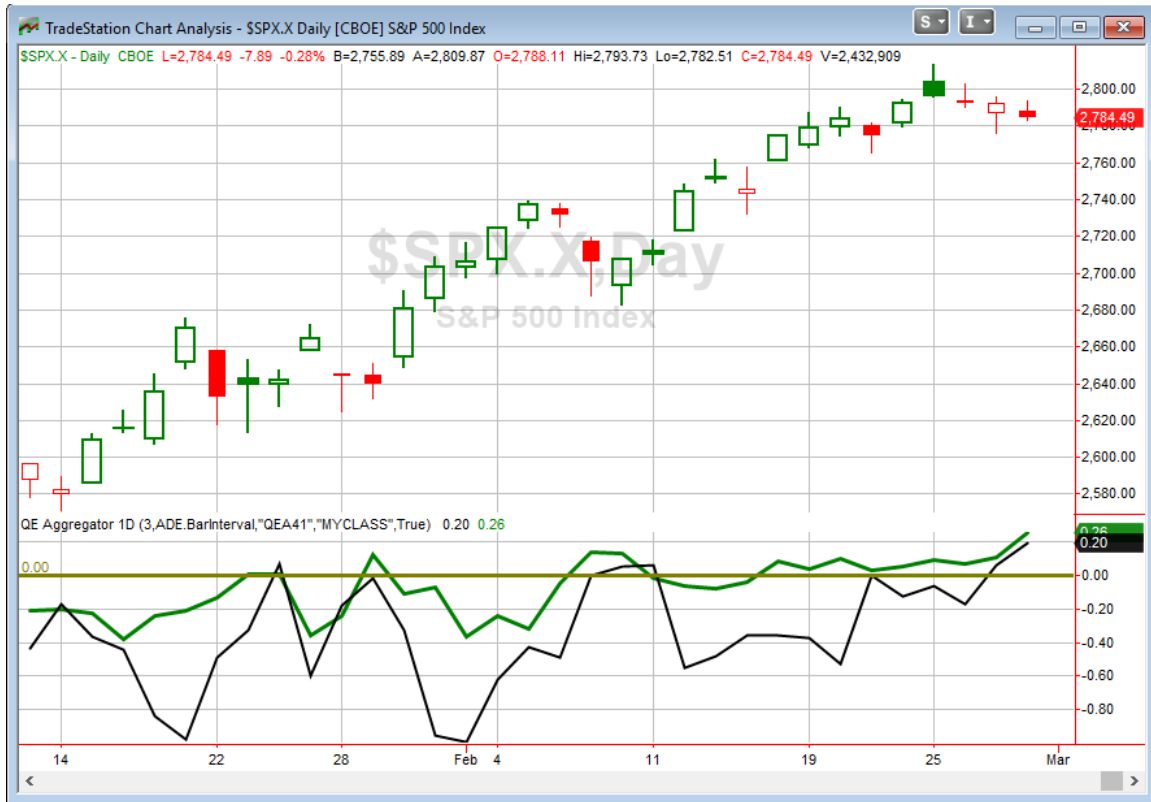
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$16,458.49	Profit Factor	17.11
Gross Profit	\$17,480.38	Gross Loss	(\$1,021.89)
Total Number of Trades	24	Percent Profitable	87.50%
Winning Trades	21	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$685.77	Ratio Avg. Win:Avg. Loss	2.44
Avg. Winning Trade	\$832.40	Avg. Losing Trade	(\$340.63)
Largest Winning Trade	\$1,792.50	Largest Losing Trade	(\$471.39)

The numbers here are extremely encouraging for the bullish case. Below is a look at the profit curve.



The curve is nearly as straight as the arrow. This study would also seem worth taking into consideration.

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 also held 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2800.03 on Friday. That is 0.6% above Thursday's close. Therefore, the SPX will need to close up about 0.6% on Friday to flip from oversold to overbought versus recent expectations.

My outlook is little changed from last night. The Aggregator is again 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 38 days, which is the 2nd longest streak since 1972. With the market still so overdue a deeper pullback, I am not inclined to get excited about getting long just yet. I'd prefer a further decline offering more favorable reward/risk before putting new capital at risk on the long side. Of course if we get more selling on Friday and finally close below the 10ma, then there is a good chance I'll be looking to take on some long exposure early next week.

*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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