

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 8, 2018

Volume 12 Issue 46

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	3

## Tonight's Research Points

- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- Opex week is often bullish, and March especially so.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. Evidence is pointing higher and SPX is oversold. Reward/risk appears favorable and I like the long side.

*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>						
March 8, 2019	Unfilled gap down, 10-low. Down 3+	1-2 days	Bullish			
March 7, 2019	3 dn from 50-high. 10-low today.	1-2 days	Bullish			
March 6, 2019	1st close under 10ma in > 25 days	1-4 days	Bullish	1.75%	-0.45%	-1.20%
<b>Active - Long Term</b>						
March 6, 2019	1st close under 10ma in > 25 days	1-19 days	Bullish	4.40%	-0.80%	-2.00%
March 4, 2019	NASDAQ up 10 weeks in a row	13 weeks	Bullish	11.70%	-2.10%	-4.40%
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			

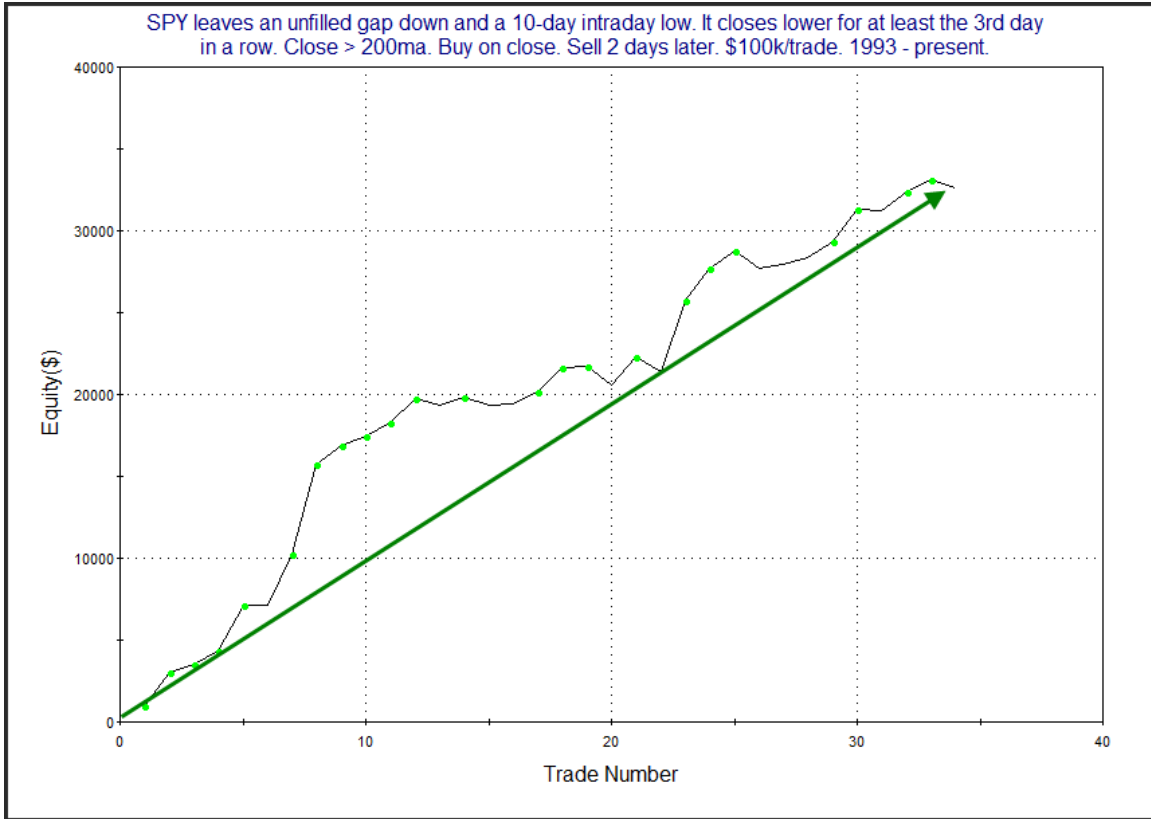
**The Evidence**

Thursday saw further selling despite the market already being short-term oversold. The SPX fell 0.8%, the NASDAQ closed down 1.1%, and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 28%. NYSE volume rose some from Wednesday's level.

There were a few studies that emerged that looked at gaps down to new short-term lows. The study below was perhaps the most compelling of the bunch. It looked for multiple down days, short-term lows, and an unfilled gap down. It was last seen in the 9/12/16 letter. I have updated the results.

SPY leaves an unfilled gap down and a 10-day intraday low. It closes lower for at least the 3rd day in a row. 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
5	29,571.22	34	24	10	70.59	1,793.77	8,239.74	-1,347.92	-4,770.78	1.33	3.19	869.74
4	23,864.30	34	23	11	67.65	1,778.28	5,581.02	-1,548.73	-4,430.01	1.15	2.40	701.89
3	34,369.53	34	26	8	76.47	1,573.36	4,249.44	-817.24	-1,847.47	1.93	6.26	1,010.87
2	32,663.31	34	26	7	76.47	1,428.48	5,477.88	-639.61	-1,118.36	2.23	8.30	960.69
1	18,693.19	35	27	8	77.14	888.65	5,764.38	-662.53	-1,677.36	1.34	4.53	534.09
<b>33 of 35 instances (94%) closed above the entry price at some point in the next 3 days.</b>												

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

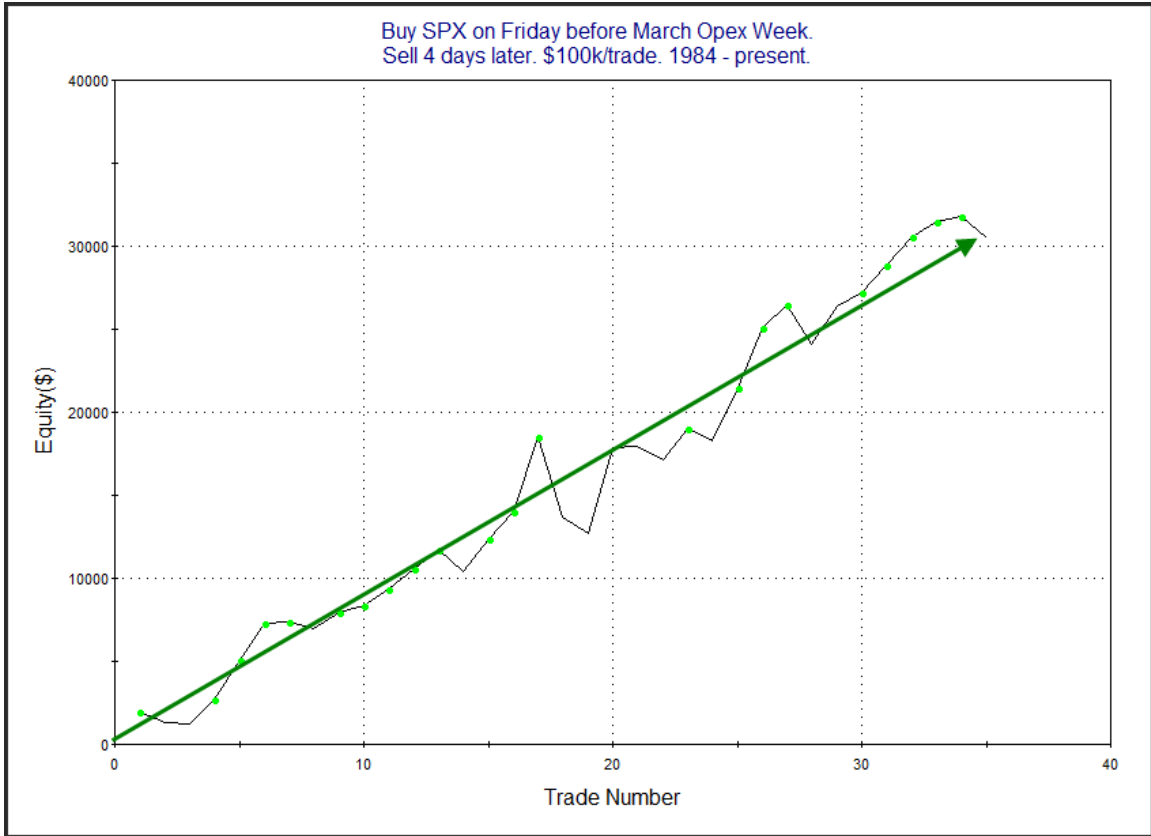
But there is a seasonal influence that could have a bullish impact on the market next week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/12/18 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. I will show it again in this weekend's letter, but I thought I would update it tonight ahead of the weekend.

OpEx Week SPX Performance by Month. 1984 - present. (Excludes September 2001)												
Month	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
12	22,065.71	35	26	9	74.29	1,458.03	5,868.16	-1,760.35	-6,968.06	0.83	2.39	630.45
11	4,221.77	35	21	14	60.00	1,418.95	3,718.25	-1,826.87	-8,351.64	0.78	1.17	120.62
10	26,269.17	35	26	9	74.29	2,060.94	7,282.10	-3,035.03	-9,109.98	0.68	1.96	750.55
9	16,016.11	34	22	12	64.71	1,492.41	5,313.08	-1,401.40	-4,975.04	1.06	1.95	471.06
8	-1,364.51	35	19	16	54.29	1,387.73	4,329.72	-1,733.21	-5,670.55	0.80	0.95	-38.99
7	1,540.47	35	19	15	54.29	1,344.99	6,921.25	-1,600.96	-7,953.12	0.84	1.06	44.01
6	-1,972.14	35	20	15	57.14	1,114.49	3,786.09	-1,617.47	-3,998.19	0.69	0.92	-56.35
5	1,814.79	35	17	18	48.57	1,821.90	4,850.40	-1,619.86	-4,959.45	1.12	1.06	51.85
4	30,644.47	35	23	12	65.71	2,121.49	5,731.96	-1,512.48	-3,580.15	1.40	2.69	875.56
3	29,248.28	35	24	11	68.57	1,933.52	7,515.60	-1,559.66	-6,711.66	1.24	2.70	835.67
2	18,643.34	36	22	14	61.11	1,643.32	4,281.46	-1,250.70	-6,814.80	1.31	2.06	517.87
1	8,307.31	36	17	19	47.22	2,137.27	5,389.00	-1,475.07	-5,383.93	1.45	1.30	230.76

While October and December have been more reliable, March op-ex week has seen the most in total gains. As I did in that 3/12/18 Subscriber Letter, I also broke down March performance in more detail below.

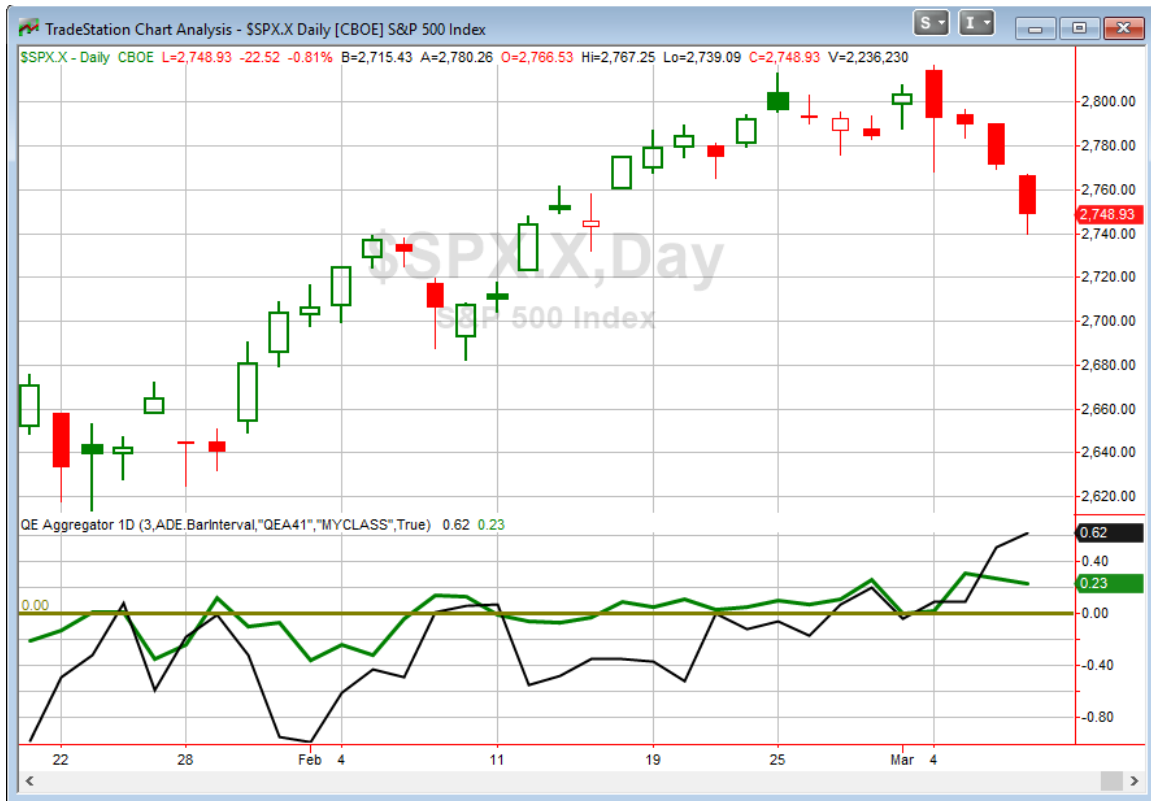
Buy SPX on Friday before March Opex Week. Sell X days later. \$100k/trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	30,816.77	35	24	11	68.57	1,998.87	7,515.60	-1,559.66	-6,711.66	1.28	2.80	880.48
4	30,460.48	35	25	10	71.43	1,758.37	5,108.40	-1,349.87	-4,848.66	1.30	3.26	870.30
3	13,702.19	35	22	13	62.86	1,352.58	4,989.60	-1,234.96	-5,403.51	1.10	1.85	391.49
2	11,473.29	35	22	13	62.86	1,157.24	3,981.60	-1,075.84	-2,894.94	1.08	1.82	327.81
1	3,872.96	35	23	12	65.71	634.50	3,542.40	-893.39	-4,302.72	0.71	1.36	110.66

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.



The curve is impressive. Bottom line here is that seasonality next week could provide a bit of a wind at the markets' back.

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



With tonight's 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 is now very far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2798.20 on Friday. That is 1.8% above Thursday's close. Therefore, the SPX will need to close up 1.8% on Friday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is again long. Evidence continues to point north, and there is plenty of room to the upside before SPX turns overbought. I have taken on some long exposure over the last couple of days, and I continue to like the long side. Going into the weekend, I will be looking to take on 2 new Catapult positions, but I will keep my index position at the 2 (of up to 4) lots that I already have. I may add to the position next week depending on how things play out Friday and what new evidence emerges.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/4 – bullish***

The intermediate-term outlook was last updated in the 3/4/19 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***

CVS – 1/3 @ \$54.00 (bought @ limit)

*New*

CVS – 1/3 @ \$52.36 (buy @ limit)

RTN – 1/3 @ \$180.22 (buy @ limit)

***Broad Market Large Cap CBI – 3(CVS-2, RTN)***

**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.*

**RTN – Buy 1/3 Catapult position @ \$180.22 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots for RTN.

**CVS – Buy 1/3 Catapult position @ \$52.36 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots for CVS.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2019	\$277.33	\$275.01	-0.84%		Aggregator
SPY(1/4)	3/7/2019	\$275.01	\$275.01	0.00%		bought on close
CVS(1/3)	3/7/2019	\$54.00	\$52.36	-3.04%		Catapult

*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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