

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 12, 2018

Volume 12 Issue 48

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- The bounce was strong enough over the last 2 days that much of the upside edge has been realized and the potential for further gains is reduced.
- Strong moves up through the 200ma have often led to pullbacks in recent years.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but SPX is nearing overbought levels. I am looking to take profits in my SPY position both during the day and near the close if I can get the fills I am looking for.

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 12, 2019	Strong move up through 200ma	1 day	Bearish			
March 11, 2019	2 unfilled gaps down. Close < 200ma	1-5 days	Bullish	3.00%	-1.90%	-4.00%
March 11, 2019	March Opex bullish	1-4 days	Bullish	1.60%	-1.10%	-2.40%
March 11, 2019	Down 4+ days going into Opex Week	1-2 days	Bullish			
Active - Long Term						
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

After closing down every day last week, Monday opened with a gap up and kept rising almost all day. The SPX finished up 1.5%, the NASDAQ rallied 2.0%, and the Russell 2000 rose 1.8%. Breadth was strong as the NYSE Up Issues % was 79% and the Up Volume % came in at 85%. NYSE volume rose some from Friday's level.

After being squarely oversold the market has bounced back quite nicely the last 1½ days. The effect has basically been to work off the oversold condition and leave several indices back above their 10-day moving averages. Had the reversal not been so strong then the current upside potential would be a little better. But since the move was so good (and that has helped our SPY position nicely), it took out much of the upside edge. I demonstrated this in the 11/17/17 subscriber letter.

There I looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma). I broke it down by instances that closed above the 10ma versus instances that closed below it. I have updated those tables below.

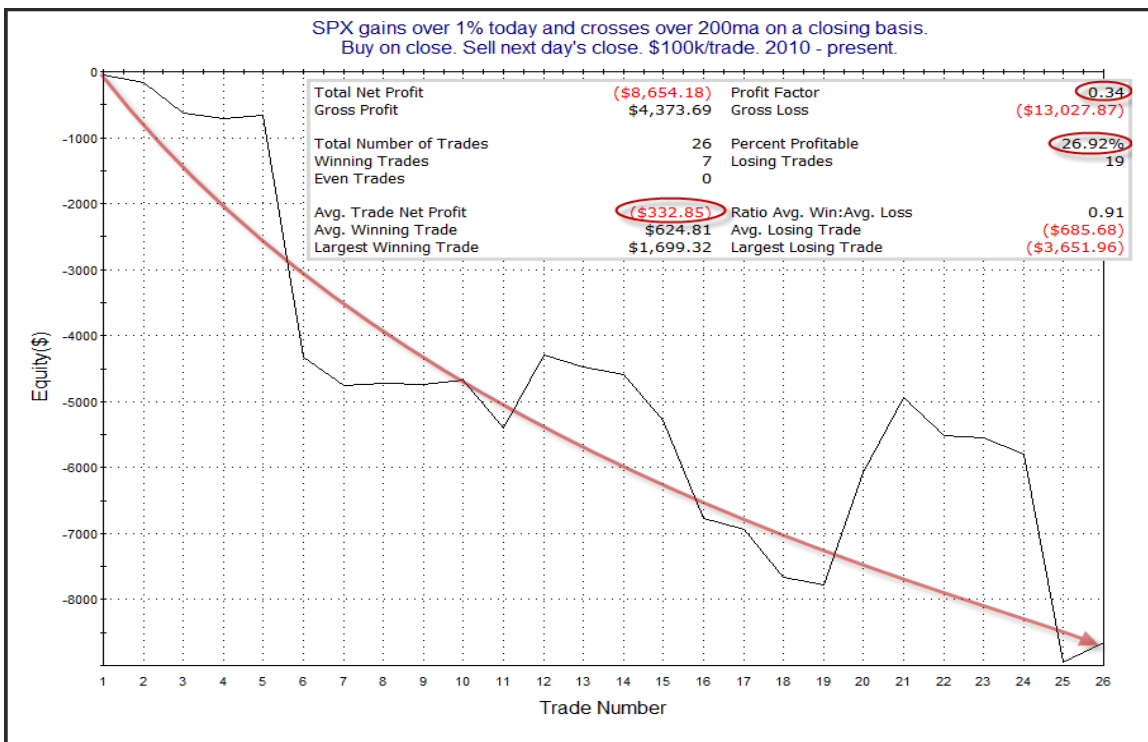
After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes < 10ma and closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % 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	23,179.43	60	37	23	61.67	1,525.92	4,106.63	-1,446.95	-3,739.32	1.05	1.70	386.32
4	24,481.98	62	39	23	62.90	1,407.94	3,904.83	-1,322.95	-2,744.82	1.06	1.80	394.87
3	12,645.36	66	38	28	57.58	1,136.63	3,914.92	-1,090.95	-3,070.92	1.04	1.41	191.60
2	6,105.93	68	38	30	55.88	1,055.47	3,089.76	-1,133.40	-2,818.42	0.93	1.18	89.79
1	906.46	68	30	37	44.12	910.28	2,470.05	-713.57	-2,895.33	1.28	1.03	13.33

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and close above the open. **It closes > 10ma** and closes > 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	1,025.18	36	17	19	47.22	1,217.34	3,113.39	-1,035.24	-3,691.98	1.18	1.05	28.48
4	2,001.25	36	18	18	50.00	913.10	2,584.17	-801.92	-2,586.55	1.14	1.14	55.59
3	-4,342.90	36	16	20	44.44	958.56	2,533.50	-984.00	-2,475.20	0.97	0.78	-120.64
2	-3,558.87	36	18	18	50.00	720.70	1,514.87	-918.41	-2,293.20	0.78	0.78	-98.86
1	-4,881.80	36	16	19	44.44	516.23	1,238.60	-691.66	-2,591.68	0.75	0.63	-135.61

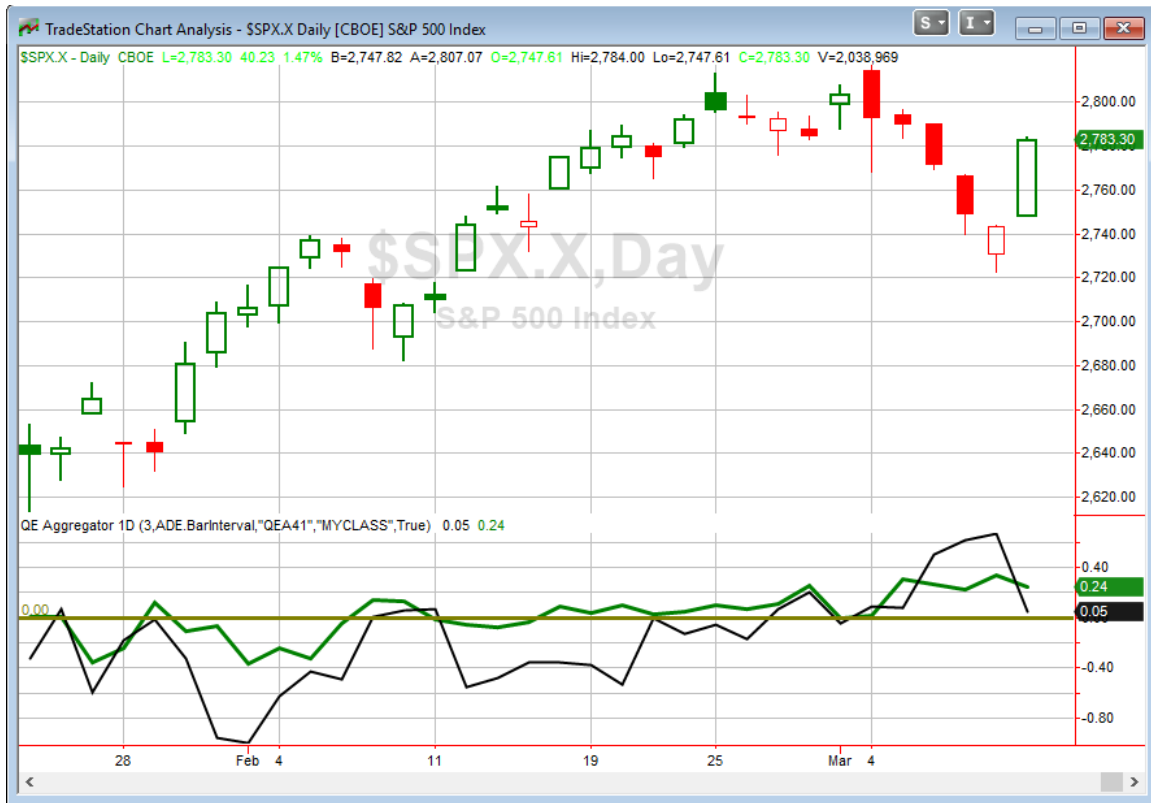
So the current situation falls into the 2nd category. Most of the stats are basically breakeven. Had we not bounced so much, we would have a better chance of seeing more follow-through. As is, the study does not appear to be suggesting a substantial edge.

The 200ma is not a magic number, but it is a well-watched line. So price movement around it can often be volatile. In the 2/13/19 letter I looked at other times where the 200ma was broken on a sizable rally day (1% + gain). Interestingly, despite being in a bull market most of the time in recent years, this action has often led to short-term reversals – especially on Day 1. This can be seen in the study below, which also triggered on Monday.



The stats are decidedly negative, but the curve is choppy. Still, it recently made new lows. And for a 1-day edge this appears worth some consideration.

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



Even 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 also held just above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is slightly 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 Tuesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2770.61 on Monday. That is 0.5% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down about 0.5% in order to remain

“oversold” versus recent expectations. Anything less than that and it will flip to being considered overbought as of Tuesday’s close.

I generally view inverted pivots as opportune times to take profits. Of course an upside edge is still suggested overall. So I have no motivation to sell into a large gap down if that occurs. The Catapults have not yet reached their exit triggers (and one more triggered on Monday). So there still seems to be some upside potential left despite tonight’s mildly bearish study. My approach on Tuesday will be to take some profits early in the day if I can get a good fill, and then exit the remaining lot if we close above the Differential Pivot.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/11 – bullish

The intermediate-term outlook was last updated in the 3/11/19 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)

CVS – 1/3 @ \$52.36 (bought @ limit)

RTN – 1/3 @ \$180.22 (bought @ limit)

New

BA – 1/3 @ \$400.01 (buy @ limit)

Broad Market Large Cap CBI – 4(CVS-2, RTN, BA)

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.

BA – buy 1/3 Catapult position @ \$400.01. From the Catapult section above, this is the 1st of up to 3 lots for BA.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2019	\$277.33	\$278.44	0.40%		see below
SPY(1/4)	3/7/2019	\$275.01	\$278.44	1.25%		see below
CVS(1/3)	3/7/2019	\$54.00	\$53.75	-0.46%		Catapult
CVS(1/3)	3/8/2019	\$52.06	\$53.75	3.25%		Catapult
RTN(1/3)	3/8/2019	\$178.85	\$182.14	1.84%		Catapult

SPY –

- 1) I will look to sell the 1st lot @ \$278.44 LIMIT.
- 2) I will look to sell the 2nd lot on an SPX close \geq 2770.61.
- 3) If the 1st lot is not sold prior to the close, I will also sell that if SPX closes \geq 2770.61 (the Differential Pivot.)

RTN is very close to reaching its exit trigger. Any move \geq \$182.56 on Tuesday will trigger an exit for Wednesday morning.

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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