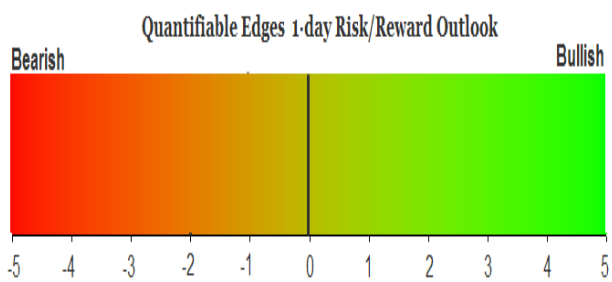
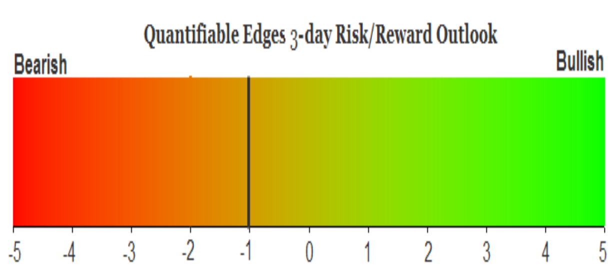
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2019 Volume 12 Issue 54

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	2

Tonight's Research Points

- When an overbought market has pulled back as little as it did Wednesday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- Tomorrow's Fed Day shows some bullish potential.

Short-term Outlook
The Bottom Line
The Aggregator is again bearish, but evidence is now mixed. Reward/risk is not as strong as last night.

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 20, 2019	Fed Day	1 day	Bullish			
March 20, 2019	SPX down. RSI(2) > 90.	1-2 days	Bullish			
March 19, 2019	Monday. VIX up. SPX 50-day high	1-2 days	Bearish			
March 18, 2019	SPX 5-high on Quad Witch	1-4 days	Bearish			
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

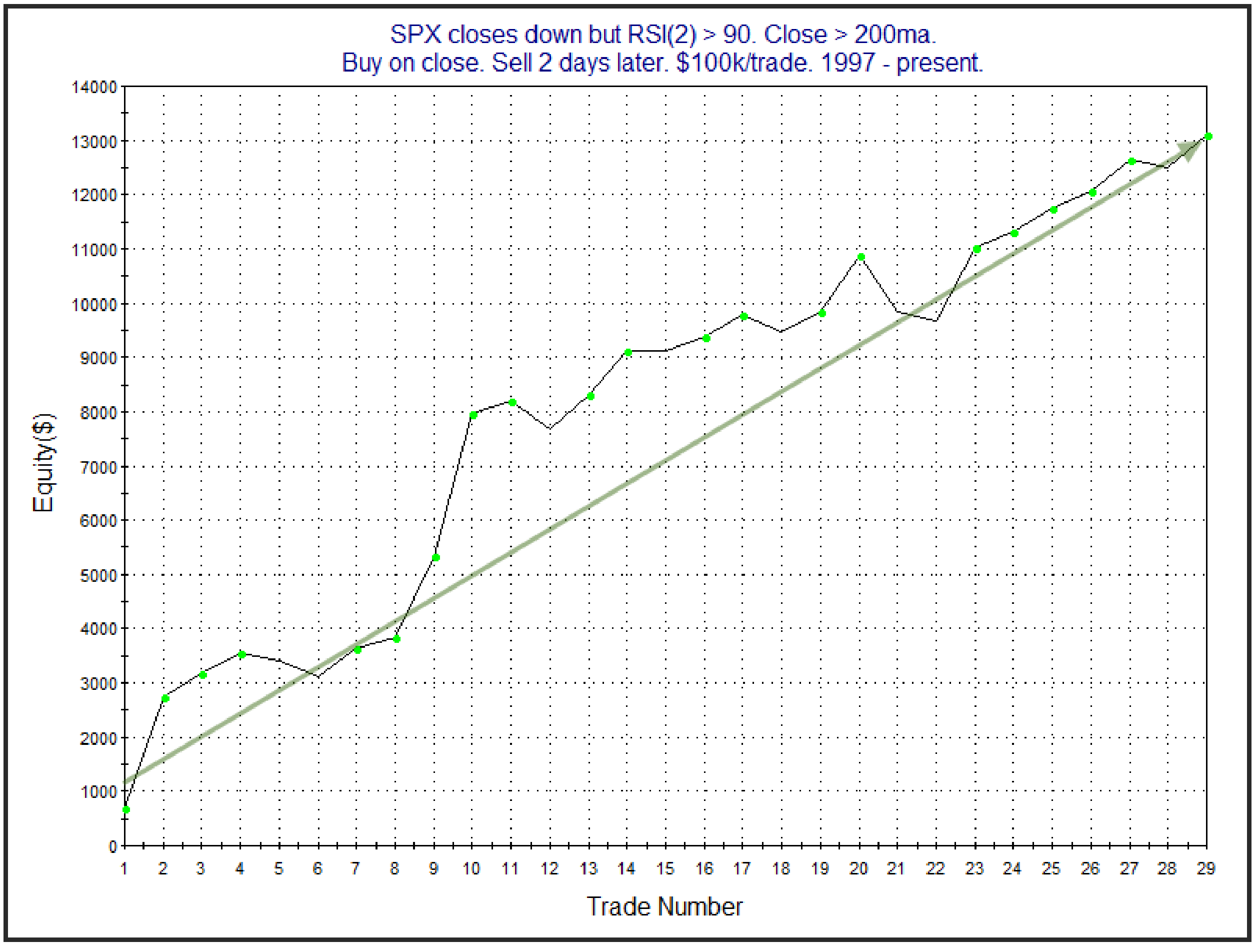
Tuesday started strong, but could not hold on to most of its early gains. SPX was about flat with a 0.37 point loss, the NASDAQ rose 0.1%, and the Russell 2000 declined 0.6%. Breadth was positive as the NYSE Up Issues % was 40% and the Up Volume % came in at 41%. NYSE volume rose some from Monday's level.

The recent move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Tuesday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Tuesday. It triggered the study below from the 11/30/17 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1997 - 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	5,211.80	26	12	14	46.15	1,284.77	4,121.28	-728.96	-2,008.73	1.76	1.51	200.45
4	6,823.46	27	15	12	55.56	1,024.08	3,806.46	-711.48	-1,717.70	1.44	1.80	252.72
3	13,418.74	29	18	11	62.07	978.34	2,923.44	-381.03	-1,123.50	2.57	4.20	462.72
2	13,116.04	29	21	8	72.41	750.25	2,619.76	-329.91	-1,054.68	2.27	5.97	452.28
1	6,591.19	29	20	9	68.97	474.94	2,310.88	-323.07	-704.76	1.47	3.27	227.28

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong upslope. I have added this study to the Active List.

It is also notable that Wednesday is a Fed Day. Fed Days have generally shown a bullish inclination since the early 80s. In general, this bullish inclination has been especially strong when there has been selling going into a Fed Day. The selling might suggest a market fearful of Fed action, and then the bounce could be thanks to a relief rally. The reason does not matter a whole lot. I have measured the "selling" a number of ways over the years. The current setup is interesting because it can be view as pre-Fed selling or a pre-Fed rally depending on your time frame. The studies below have conflicting views on the subject. Let's look at them.

One way I have examined action going into Fed Days over the years is simply looking at where SPY closed within its daily range. I have typically broken it down into quartiles, and I have found that the lower the quartile, the better the Fed day performance. Tuesday closed in the second quartile, so I have updated the performance for that below.

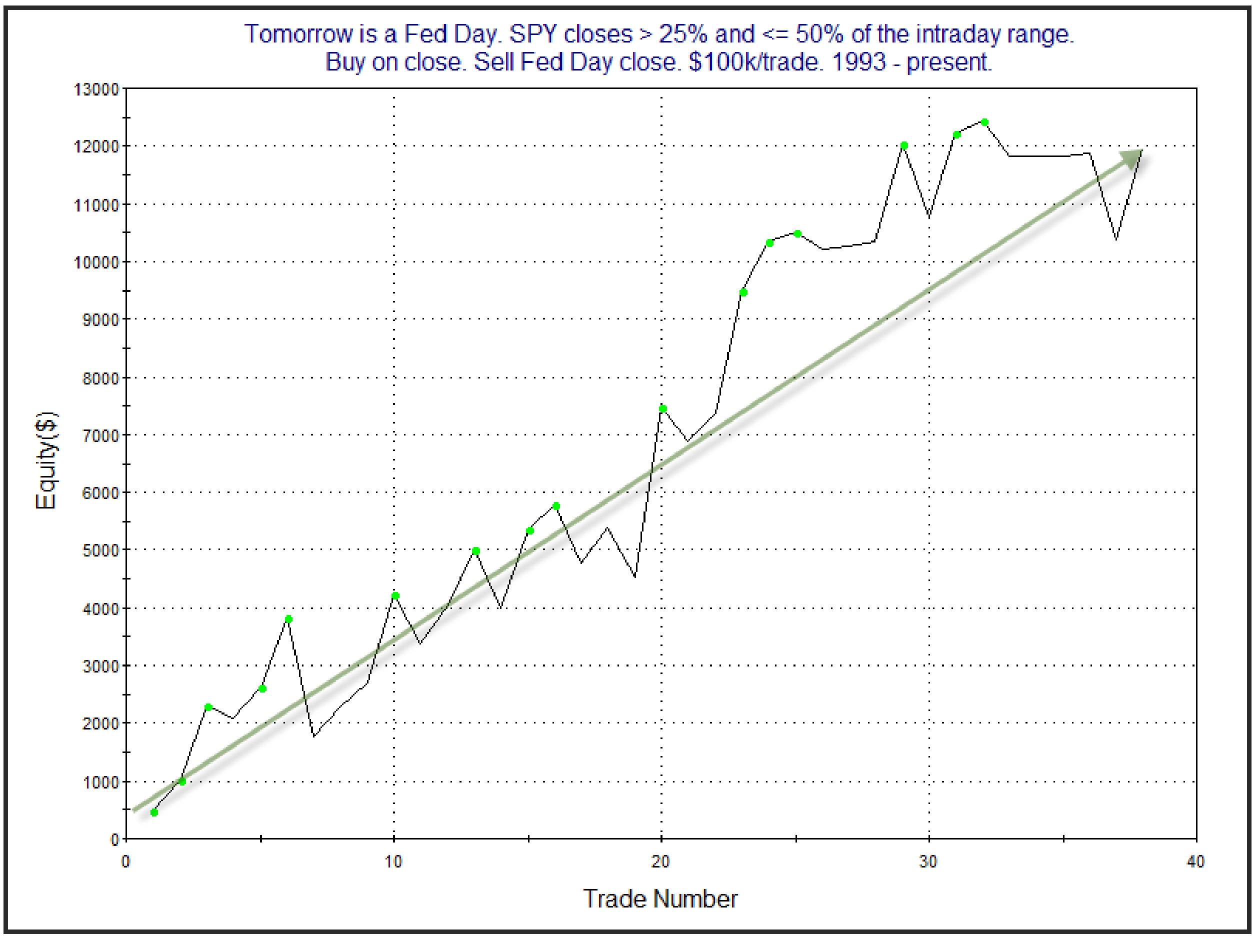
Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

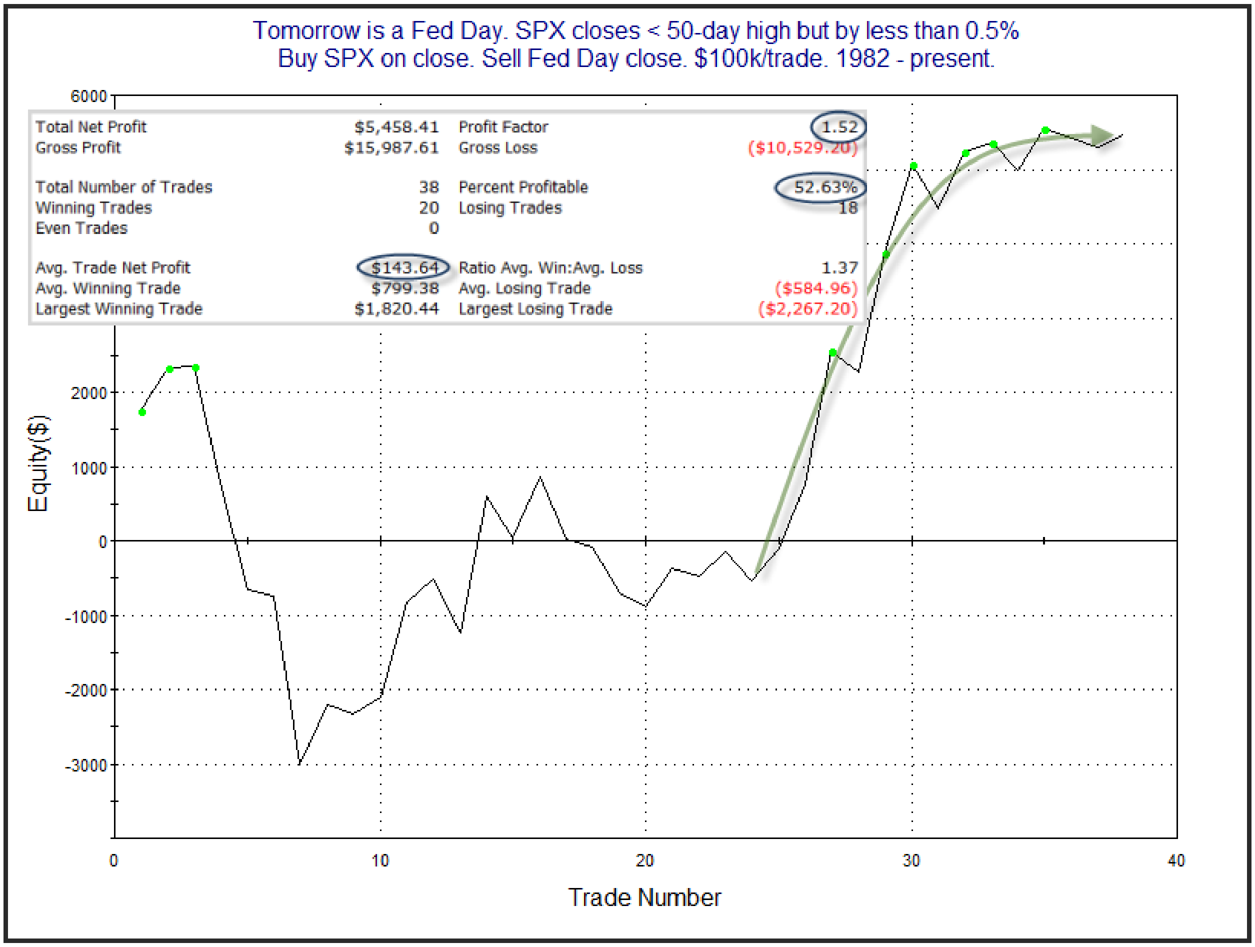
Total Net Profit	$11,953.30	Profit Factor	2.17
Gross Profit	$22,196.43	Gross Loss	($10,243.13)
Total Number of Trades	38	Percent Profitable	68.42%
Winning Trades	26	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	$314.56	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	$853.71	Avg. Losing Trade	($853.59)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

These are some very compelling numbers. Next let's look at the profit curve.



The curve is nearly as appealing, since it has worked its way from lower left to upper right on a fairly steady basis over the years. While it has gone a little sideways lately, it still appears strong.

But another study took a bit broader look at the market. It looked at times that SPX closed very near a 50-day high. I last showed this study in the 11/1/17 subscriber letter, and have updated it below.



Performance here has improved dramatically over the last 12 instances or so, though the overall numbers still are not that impressive. I certainly would not use this study to suggest at bullish edge, but I am not convinced that being near at the 50 day high necessarily eliminates the bullish edge suggested by the previous study. Therefore, I have decided to include the first study on the active list tonight. Though frankly, whether I include it or not does not greatly change the 3-day expectations for the Aggregator.

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

With tonight's new evidence considered, the green Aggregator Line remained just slightly below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed short at the close.

Based on the current active studies, expectations are set to remain bearish on Wednesday. This could very easily change if new bullish evidence emerges. The Differential Pivot will be 2826.47 on Wednesday. That is 0.2% below Tuesday's close. Therefore, SPX would only need to close down about 0.2% on Wednesday in order to move from overbought to oversold versus expectations.

So the Aggregator is still suggesting a downside edge, though expectations for Wednesday alone are actually slightly bullish. The fact that it is a Fed Day certainly increases risk on short positions. I currently hold a small index short position from Tuesday's open. Being that this is a counter-trend trade, I am not inclined to overstay my welcome, nor take an undue risk in the hope of squeaking out a little more profit. The trade would be coming off on a close lower of as little as 0.2% on Wednesday. While I may miss out on a strongly negative reaction to the Fed, I would prefer to get out ahead of the announcement, in case it sparks a rally. With the bearish Aggregator I won't look to cover into a giant gap up if that occurs, but I will be looking to close out my position if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/18 – bullish

The intermediate-term outlook was last updated in the 3/18/19 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

BA – 1/3 @ $400.01 (bought @ limit)
BA – 1/3 @ $375.41 (bought @ limit)

Broad Market Large Cap CBI – (BA-2)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	3/8/2019	$178.85	$180.17	0.74%		sell on open
BA(1/3)	3/12/2019	$384.70	$373.43	-2.93%		Catapult
BA(1/3)	3/13/2019	$375.41	$373.43	-0.53%		Catapult
SPY(1/4)(s)	3/19/2019	$283.51	$282.40	0.39%		cover @ $282.90 limit

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.