

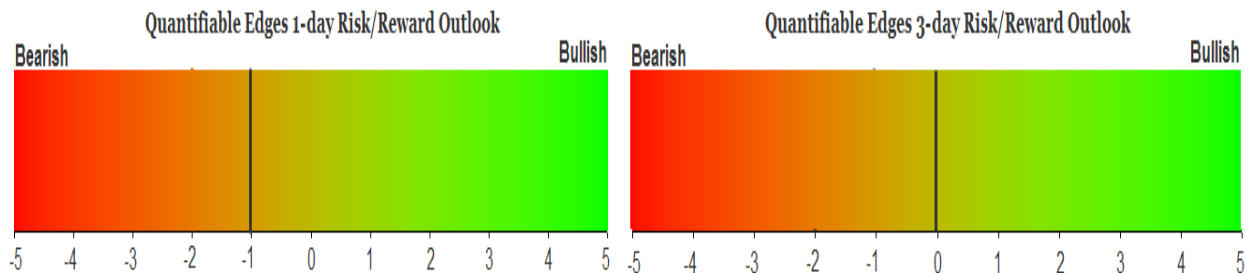
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 9, 2019

Volume 12 Issue 68

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 8 consecutive up days and a 50-day high suggests momentum so strong that it often continues higher over the next several days.
- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

Tuesday looks like it could see a pullback, but beyond that evidence is leaning slightly positive. The market remains overbought. Reward/risk does not appear compelling.

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						
April 9, 2019	SPX up < 0.25%. Close top 10% daily rng	1 day	Bearish			
April 9, 2019	SPX 50-day high. VIX up Monday	1-2 days	Bearish			
April 9, 2019	8th higher close & 50-day high	1-4 days	Bullish			
April 4, 2019	Gap up close high < open 2x	1-5 days	Bullish			
Active - Long Term						
April 8, 2019	SPX > 200ma. RSI(2) > 99	1-15 days	Bullish	2.25%	-1.40%	-2.70%
April 2, 2019	Golden Cross	int term	Bullish			
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

Monday started poorly, but an afternoon rally left the indices mixed. The SPX closed up 0.1%, the NASDAQ climbed 0.2%, and the Russell 2000 fell 0.2%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 56%. NYSE volume rose some from Friday's level.

I discussed over the weekend that overbought conditions will often trigger some bearish studies. But when overbought becomes extremely overbought, then that momentum will often create an upside edge. There was a Quantifinder study tonight that exemplified this. It was last seen in the 10/6/17 letter and looked at other instances where SPX rose 8 days in a row and closed at a 50-day high. This study looks all the way back to the 60s, and my Tradestation data back that far was having issues tonight. So I ran the test using Amibroker. Results were slightly different, but very much in line with what the Tradestation data has previously shown.

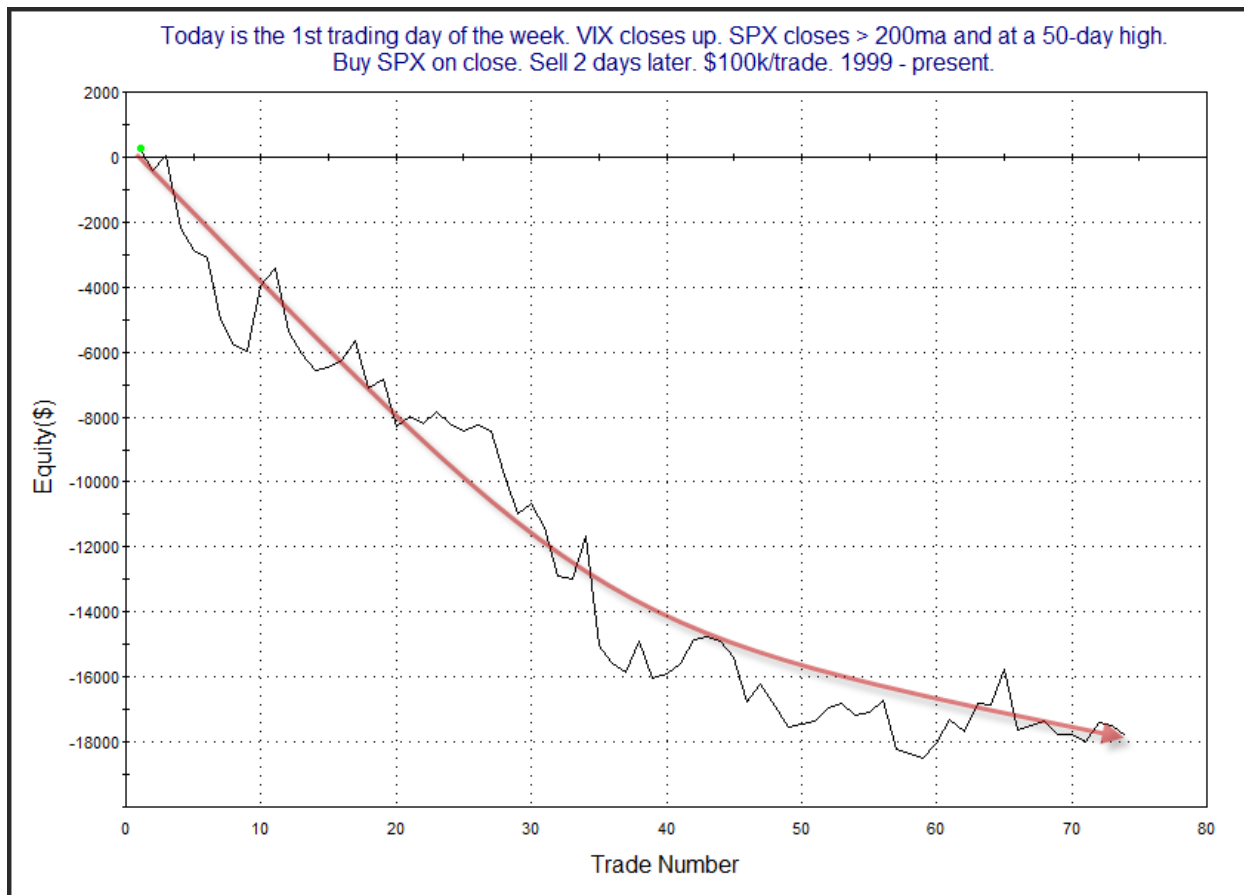
SPX close up for the 8th day in a row and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1961 - present.									
X Days	Net Profit	# Trades	# of winners	# of losers	% of Winners	W. Avg. Profit	L. Avg. Loss	Profit Factor	Avg Profit/Loss
5	\$ 10,385.02	36	21	15	58.33	\$ 1,200.50	\$ (988.37)	1.7	\$ 288.47
4	\$ 14,246.79	36	26	10	72.22	\$ 934.78	\$ (1,005.75)	2.42	\$ 395.74
3	\$ 12,097.60	36	21	15	58.33	\$ 828.63	\$ (353.57)	3.28	\$ 336.04
2	\$ 6,703.20	36	21	15	58.33	\$ 593.27	\$ (383.69)	2.16	\$ 186.20
1	\$ 812.12	36	20	16	55.56	\$ 364.58	\$ (404.97)	1.13	\$ 22.56

The net numbers are not all that powerful from an average trade standpoint, but the consistency is impressive. This makes sense as it would be difficult to spark a big move up when the market is already so overbought.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has often been followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 3/19/19 letter. Results are all updated.

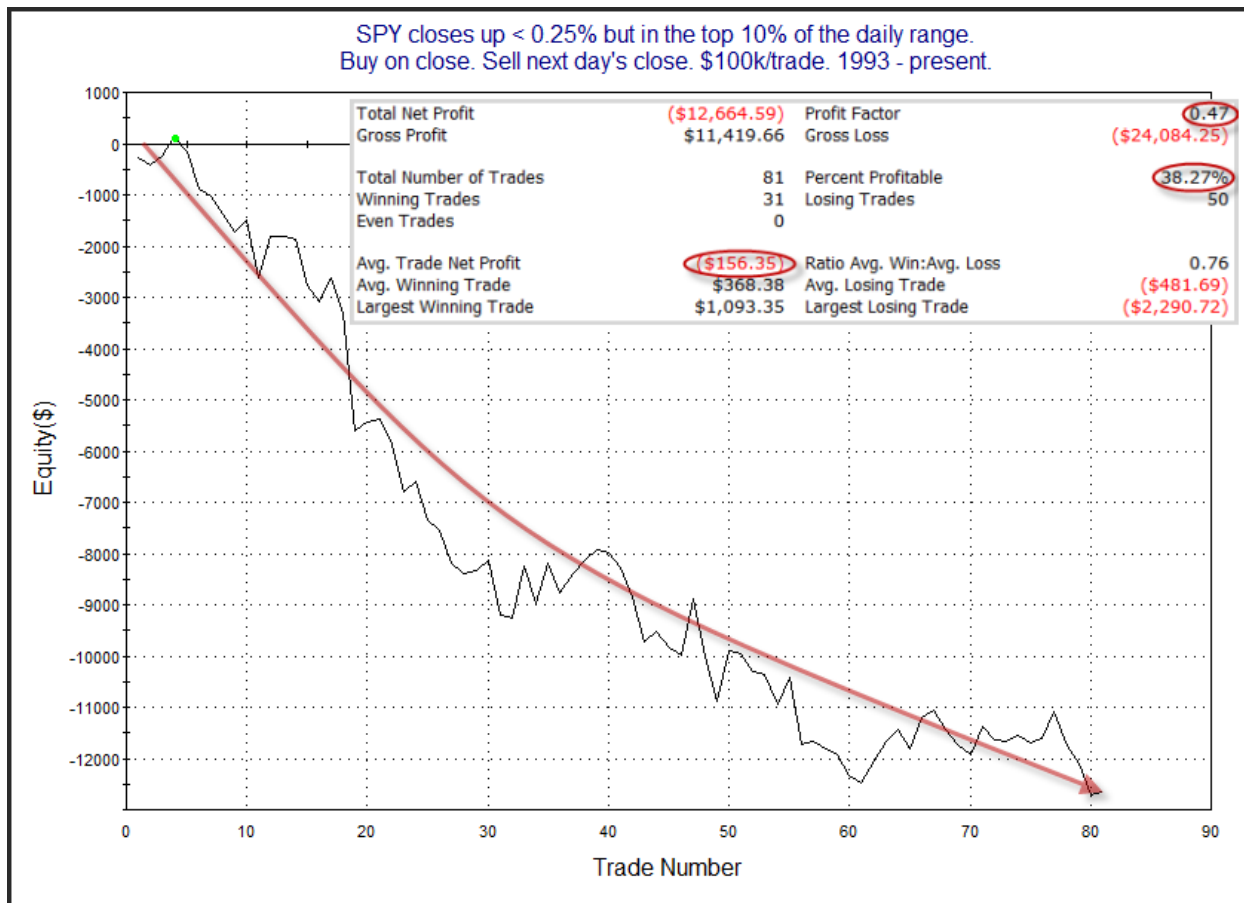
Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,472.30	68	30	38	44.12	1,066.65	3,260.25	-1,196.63	-5,048.68	0.89	0.70	-198.12
4	-6,326.22	74	36	38	48.65	885.47	2,953.65	-1,005.34	-4,271.52	0.88	0.83	-85.49
3	-7,886.25	74	36	38	48.65	675.84	2,641.80	-847.80	-3,887.84	0.80	0.76	-106.57
2	-17,820.74	74	33	41	44.59	457.26	1,981.72	-802.69	-3,372.16	0.57	0.46	-240.82
1	-7,461.74	74	28	46	37.84	303.53	769.70	-346.97	-1,580.04	0.87	0.53	-100.83

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



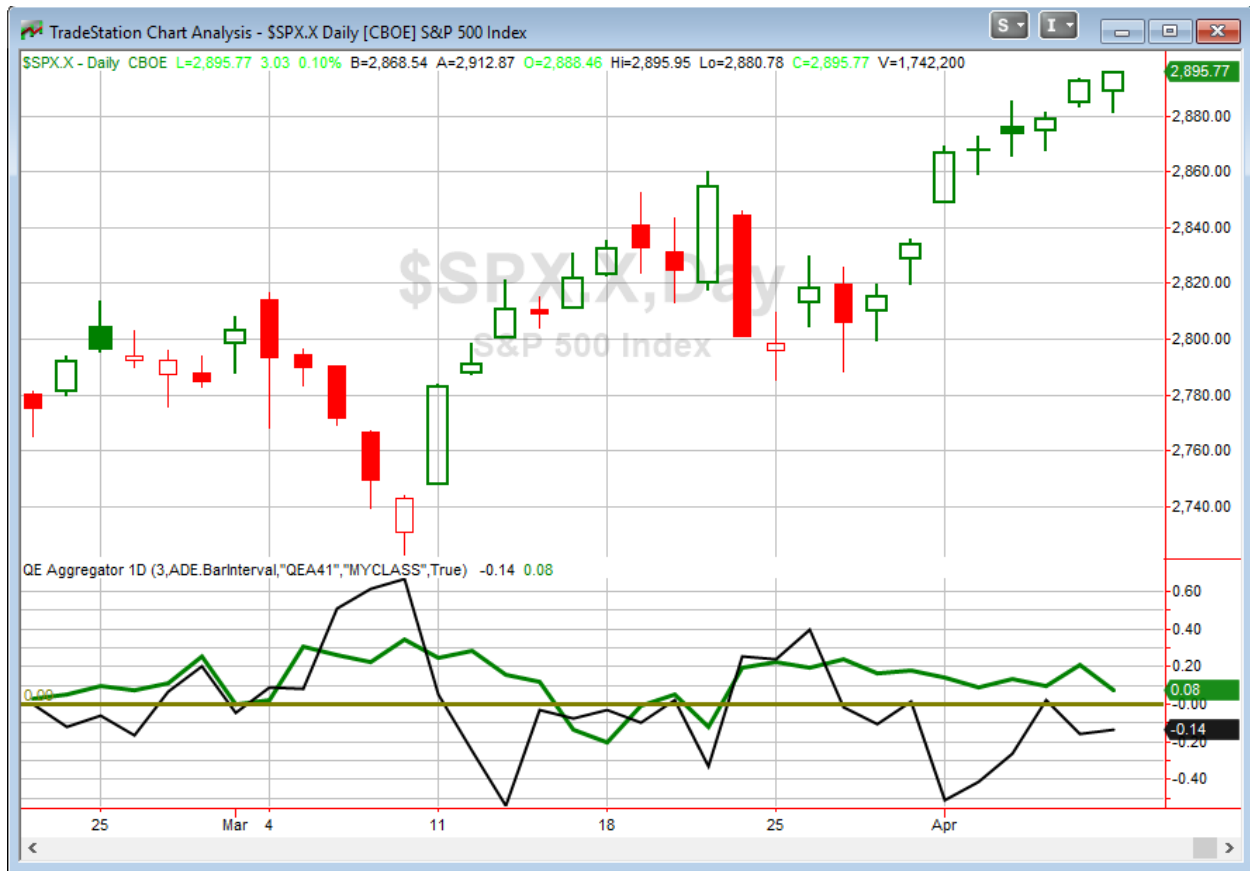
The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

The mild up close may have seemed like a win for the bulls, but the study below suggests that when SPY closes strong (in the top 10% of its intraday range) but still only manages a small gain on the day, the next day has shown a downside tendency. It last appeared in the 2/11/19 letter. I have updated the stats and the profit curve.



This bearish edge has persisted since the inception of SPY in 1993. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have added this study to the Active List tonight.

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



With tonight's new evidence considered, 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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be 2888.52 on Tuesday. That is 0.25% below Monday's close. Therefore, it will only take a moderate decline of 0.25% on Tuesday to flip the SPX back to "oversold" versus recent expectations.

The Aggregator is neutral. And looking out 3 days I am as well. But Tuesday looks like there is a decent chance of a pullback. And while net expectations from the studies are positive over the next 3 days, they are negative on Tuesday. This is reflected in the negative 1-day risk/reward reading at the top of the letter. I don't often look to take advantage of 1-day edges in the letter, and I am less inclined to do so when it is a counter-trend trade. So I'll remain patient and watchful for the next strongly favorable reward/risk opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/8 – bullish

The intermediate-term outlook was last updated in the 4/8/19 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

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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