

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 9, 2019

Volume 12 Issue 89

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	9

## Tonight's Research Points

- The 3-day pullback appears to be offering a mild upside edge.
- The CBI of 9 is also suggesting a bullish edge.

## *Short-term Outlook*

### *The Bottom Line*

Bullish evidence is mounting and the market is again strongly oversold. There appears to be a solid upside edge.

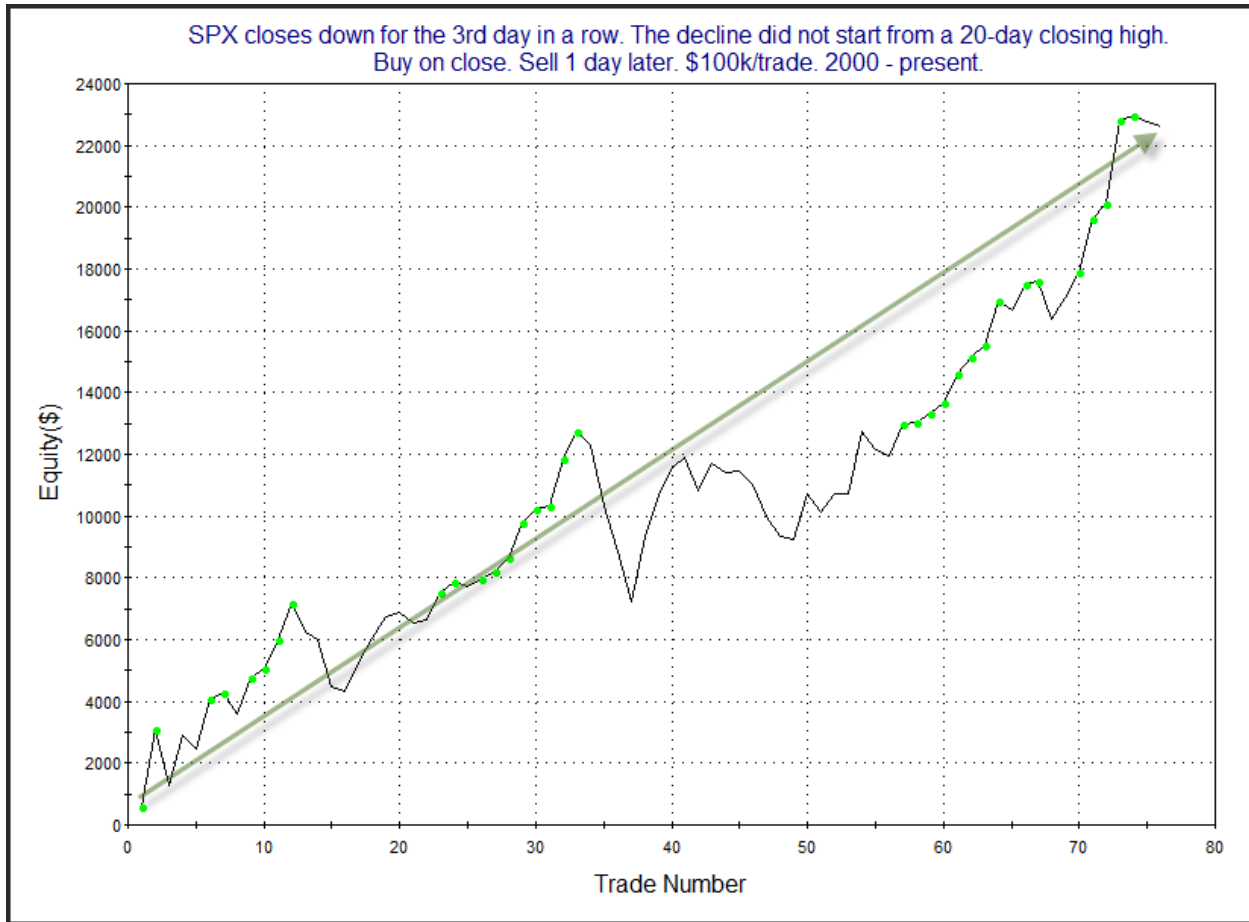
**The Evidence**

A late dip caused most indices to finish a quiet day on a down note. The SPX lost 0.2%, the NASDAQ dropped 0.3%, and the Russell 2000 fell 0.5%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 45%. NYSE volume declined from Tuesday’s level.

The main theme of the studies in the Quantifinder is that the SPX is now experiencing a 3-day pullback. A simple 3-day pullback will often suggest a short-term upside edge. And times when the market is in a long-term uptrend that edge is often more consistent. Below is a pullback study that appeared in the 3/2/18 letter. It examined pullbacks during uptrends that did not originate at intermediate-term highs.

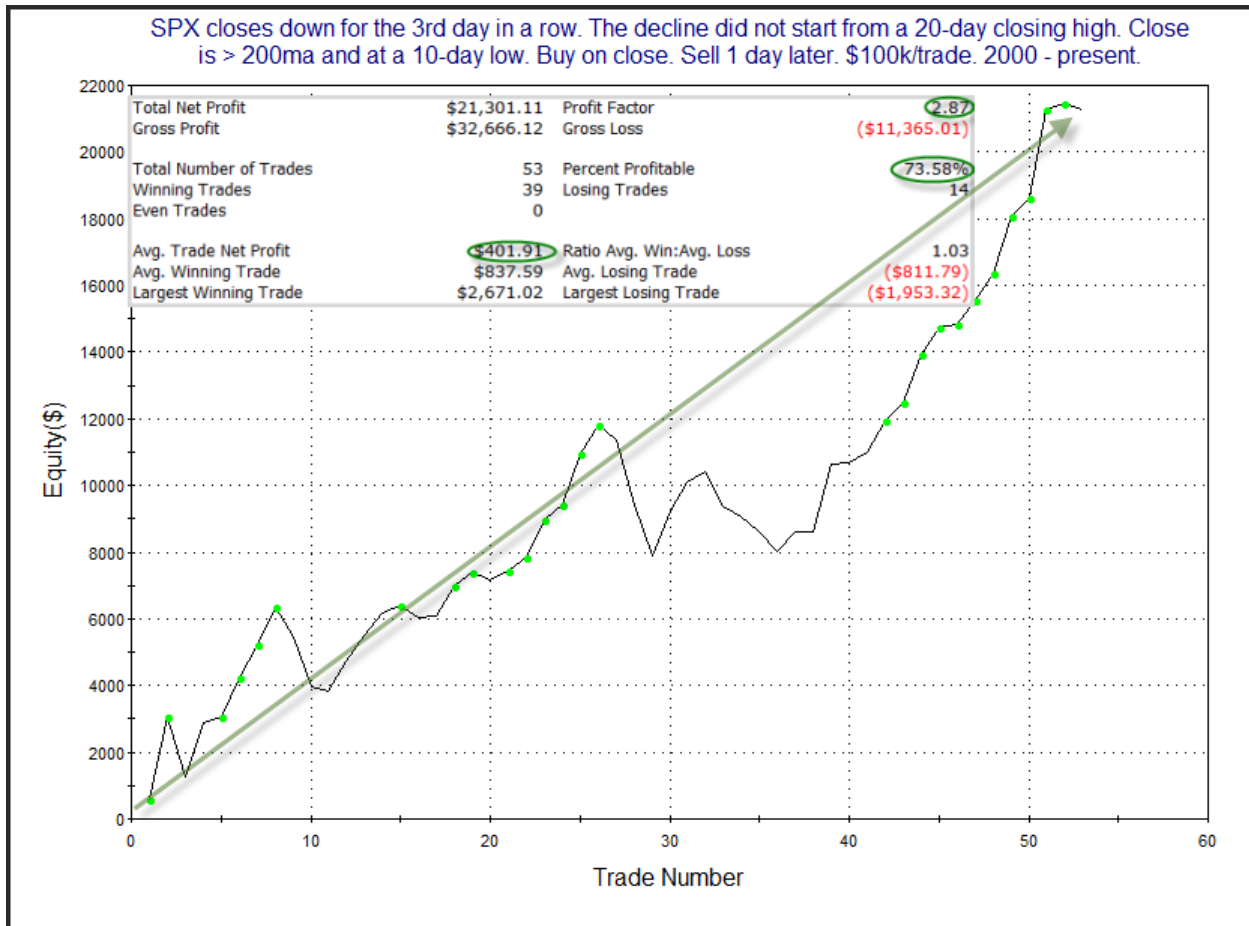
SPX closes down fo the 3rd day in a row. It is not coming off a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	23,438.57	72	41	31	56.94	1,494.76	5,555.16	-1,220.86	-4,543.76	1.22	1.62	325.54
4	23,718.01	76	46	30	60.53	1,384.31	5,290.00	-1,332.00	-3,988.20	1.04	1.59	312.08
3	20,781.23	76	45	31	59.21	1,283.56	4,895.50	-1,192.87	-5,306.04	1.08	1.56	273.44
2	14,825.17	76	43	33	56.58	1,093.85	4,424.50	-976.07	-7,559.56	1.12	1.46	195.07
1	22,618.30	76	50	26	65.79	826.47	2,671.02	-719.44	-1,953.32	1.15	2.21	297.61

Much of the upside edge has been realized on Day 1. And the 1-day hold showed the most impressive looking equity curve as well. It can be seen below.



Not perfect, but not bad as it makes its way from lower left to upper right.

Notable about tonight is that not only has the SPX closed lower for 3 days in a row, but it also closed at a 10-day low. I added a 10-day low filter to the study to see how that might change the results. Here too, the edge primarily played out on the 1<sup>st</sup> day. Below are stats and a profit curve.



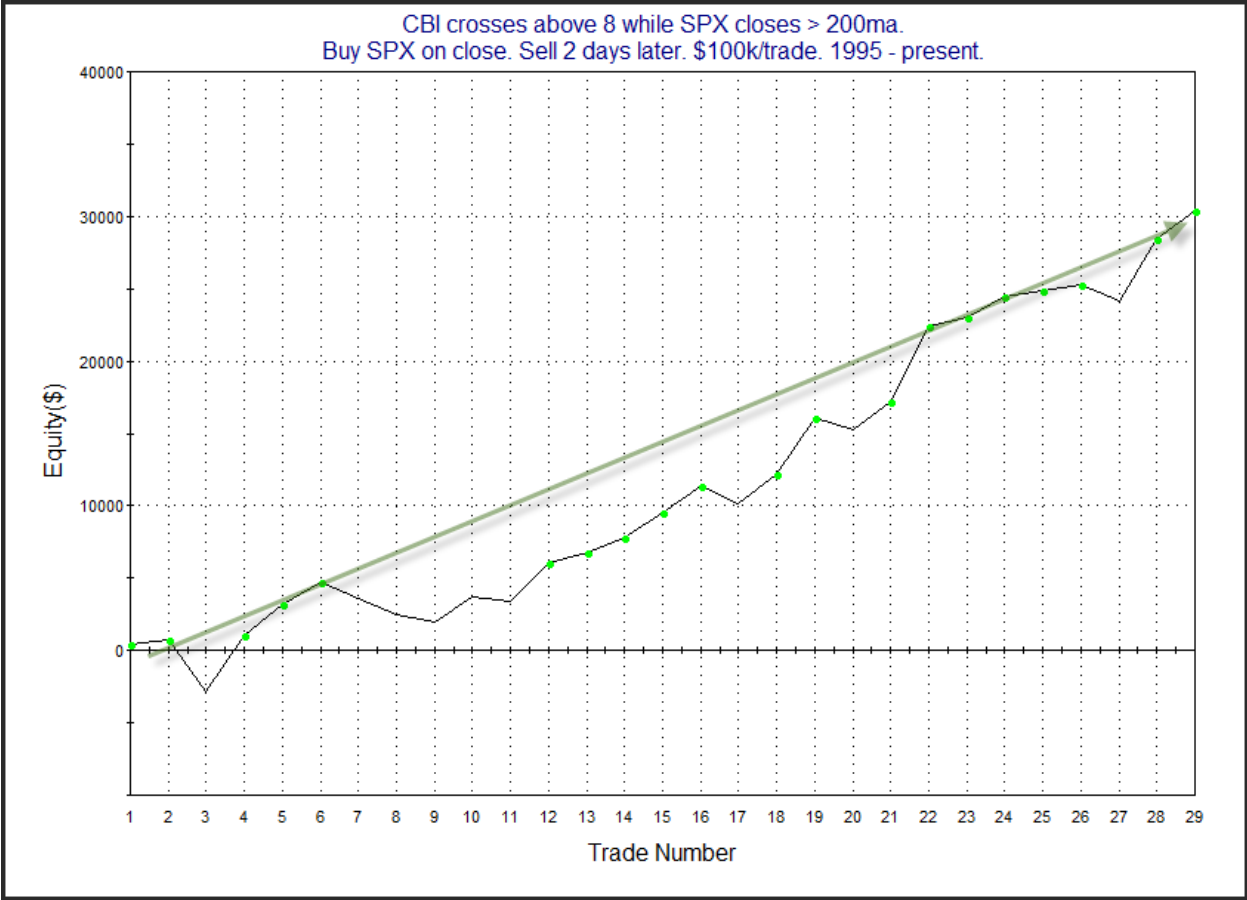
Results here are even stronger. I have added this study to the Active List tonight.

It is also notable that the Quantifiable Edges Capitulative Breadth Indicator (CBI) is starting to become elevated. On Wednesday it closed at 9. I typically consider 10 or higher to be a strong bullish signal. But 9 can still be an impactful number, especially when SPX is above the 200ma. Below is a look at other times the CBI rose above 8 with SPX > 200ma.

CBI crosses above 8 while SPX closes > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - present.

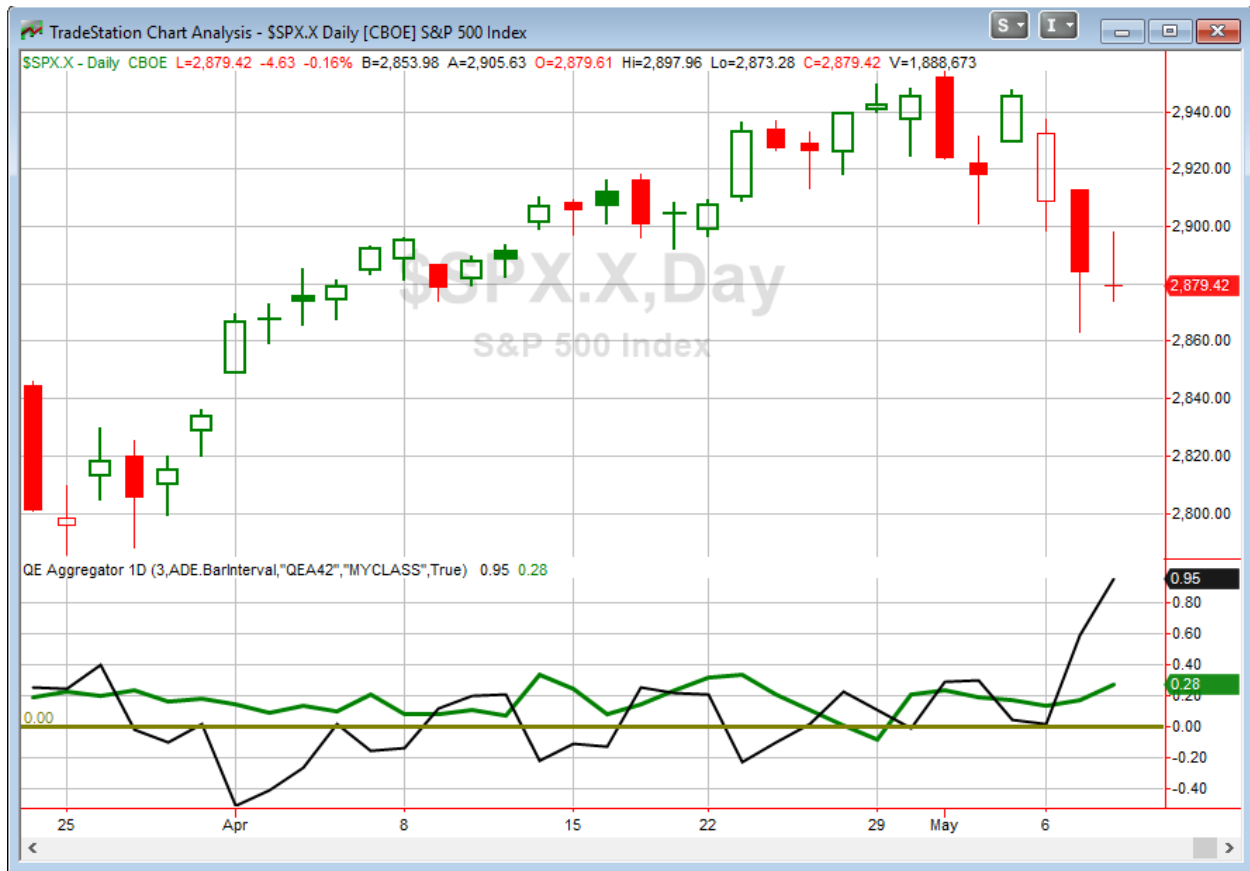
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	25,190.34	23	19	4	82.61	1,430.27	5,471.50	-496.17	-1,104.18	2.88	13.69	1,095.23
4	20,802.78	23	16	7	69.57	1,678.85	5,290.00	-865.54	-1,169.63	1.94	4.43	904.47
3	11,783.52	23	18	5	78.26	1,058.44	4,895.50	-1,453.69	-3,490.90	0.73	2.62	512.33
2	16,555.32	23	16	7	69.57	1,284.38	4,424.50	-570.68	-1,326.24	2.25	5.14	719.80
1	9,352.97	23	14	9	60.87	1,099.58	2,671.02	-671.24	-2,587.68	1.64	2.55	406.65

The numbers here look compelling, especially the 1<sup>st</sup> two days. Below is a 2-day profit curve.



This is also appealing, and suggestive of an upside edge.

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 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 list of active studies, expectations are set to remain bullish on Thursday. This is not likely to change. The Differential Pivot will be 2945.83 on Thursday. That is a very large 2.3% above Wednesday's close. Therefore, SPX would need to close up 2.3% on Thursday to flip from oversold to overbought versus recent expectations.

Bullish evidence continues to build and the CBI is nearing an area that has typically been followed by bounces on a reliable basis. Risk/reward appears favorable for the bulls, with ample room to the upside before SPX would turn overbought. I already have some long index exposure. I will look to up it if Thursday closes down much. Of course a down close could very easily see the CBI reach 10 or higher.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 5/6 – bullish*

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***OpenCatapult Triggers***

INTC – 1/3 @ \$51.11 (bought @ limit)  
INTC – 1/3 @ \$51.04 (bought @ limit)  
INTC – 1/3 @ \$50.76 (bought @ limit)  
MMM – 1/3 @ \$184.75 (bought @ limit)  
CSCO – 1/3 @ \$54.59 (bought @ limit)  
CSCO – 1/3 @ \$53.45 (bought @ limit)  
ACN – 1/3 @ \$173.94 (bought @ limit)

*New*

MMM – 1/3 @ \$178.59 (buy @ limit)  
ACN – 1/3 @ \$173.88 (buy @ limit)

***Broad Market Large Cap CBI – 9(INTC-3, MMM-2, CSCO-2, ACN-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.*

**MMM – buy 1/3 Catapult position @ \$178.59 LIMIT.** This is from the Catapult section above. It is the 2<sup>nd</sup> of up to 3 possible lots for MMM.

**ACN – buy 1/3 Catapult position @ \$173.88 LIMIT.** This is from the Catapult section above. It is the 2<sup>nd</sup> of up to 3 possible lots for ACN.

**SPY – buy 1/4 index position @ \$286.50 LIMIT ON CLOSE.** Based on the short-term outlook above, I'll be looking to add a 3<sup>rd</sup> lot of SPY if it closes down a fair amount.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
INTC(1/3)	4/30/2019	\$51.00	\$49.24	-3.45%		Catapult
INTC(1/3)	5/1/2019	\$51.04	\$49.24	-3.53%		Catapult
INTC(1/3)	5/2/2019	\$50.76	\$49.24	-2.99%		Catapult
SPY(1/4)	5/2/2019	\$291.68	\$287.53	-1.42%		Aggregator
MMM(1/3)	5/3/2019	\$184.75	\$178.59	-3.33%		Catapult
CSCO(1/3)	5/7/2019	\$53.86	\$53.47	-0.72%		Catapult
CSCO(1/3)	5/8/2019	\$53.17	\$53.47	0.56%		Catapult
ACN(1/3)	5/8/2019	\$173.94	\$173.88	-0.03%		Catapult
SPY(1/4)	5/8/2019	\$287.53	\$287.53	0.00%		Aggregator

*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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