

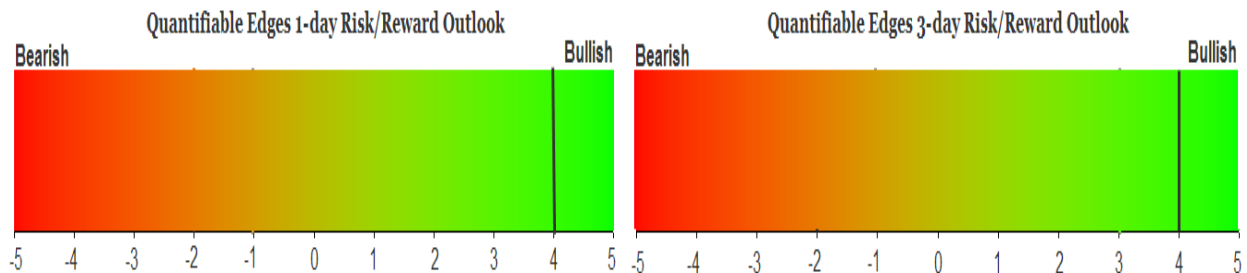
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 10, 2019

Volume 12 Issue 90

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	10

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.
- The CBI entered bullish territory at 10 on Thursday.

Short-term Outlook

The Bottom Line

This market is strongly oversold and appears primed for a bounce. I am long and looking to get longer.

The Evidence

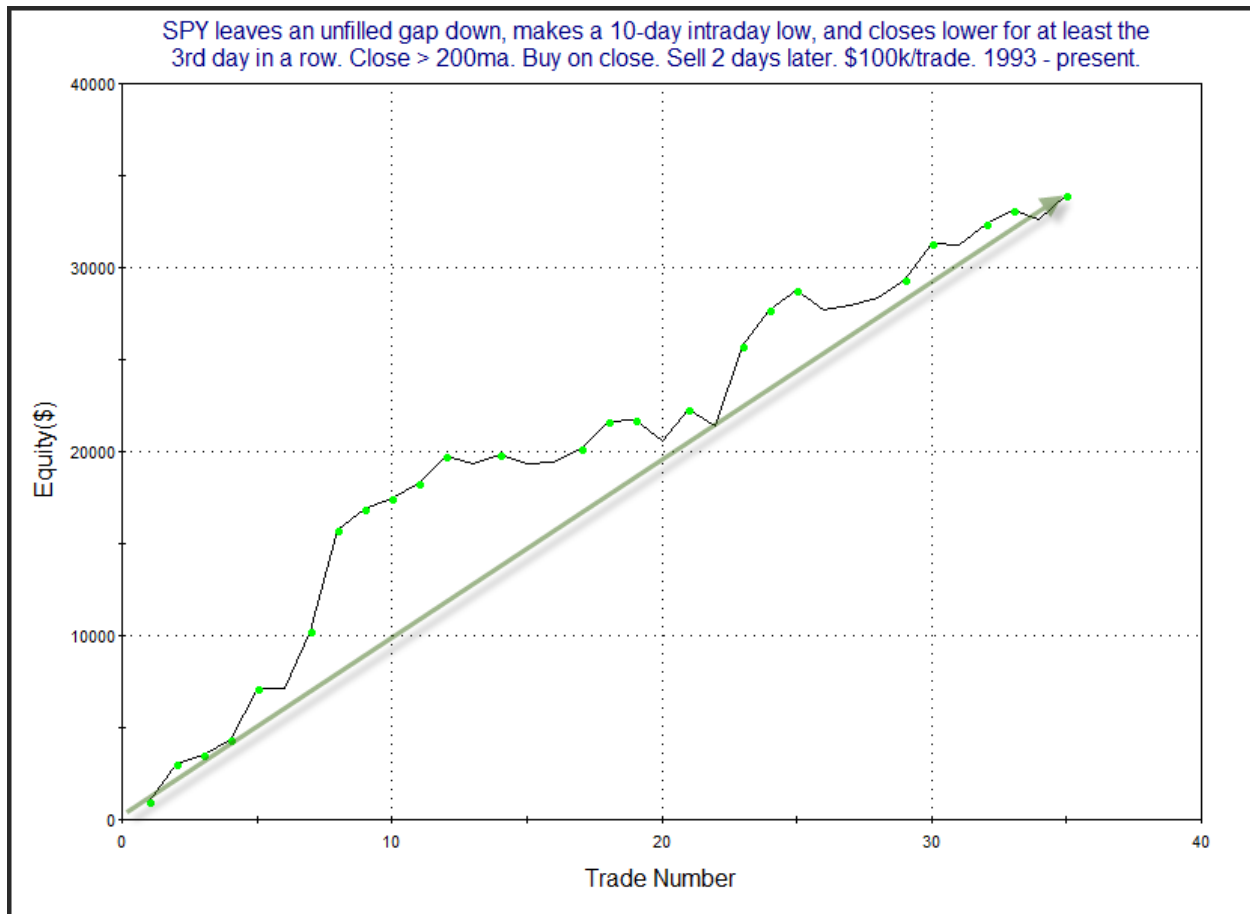
Thursday saw more selling for the market. The SPX lost 0.3%, the NASDAQ dropped 0.4%, and the Russell 2000 fell 0.3%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 36%. NYSE volume rose some from Wednesday's level.

The selling triggered some more compelling bullish evidence. The study below was seen most recently in the 3/8/19 letter. It looked for multiple down days, short-term lows, and an unfilled gap down. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and 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	31,803.67	35	25	10	71.43	1,811.31	8,239.74	-1,347.92	-4,770.78	1.34	3.36	908.68
4	26,162.09	35	24	11	68.57	1,799.92	5,581.02	-1,548.73	-4,430.01	1.16	2.54	747.49
3	35,995.77	35	27	8	77.14	1,575.32	4,249.44	-817.24	-1,847.47	1.93	6.51	1,028.45
2	33,908.40	35	27	7	77.14	1,421.69	5,477.88	-639.61	-1,118.36	2.22	8.57	968.81
1	18,493.54	36	27	9	75.00	888.65	5,764.38	-611.10	-1,677.36	1.45	4.36	513.71

34 of 36 instances (94%) closed above the entry price at some point in the next 3 days.

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



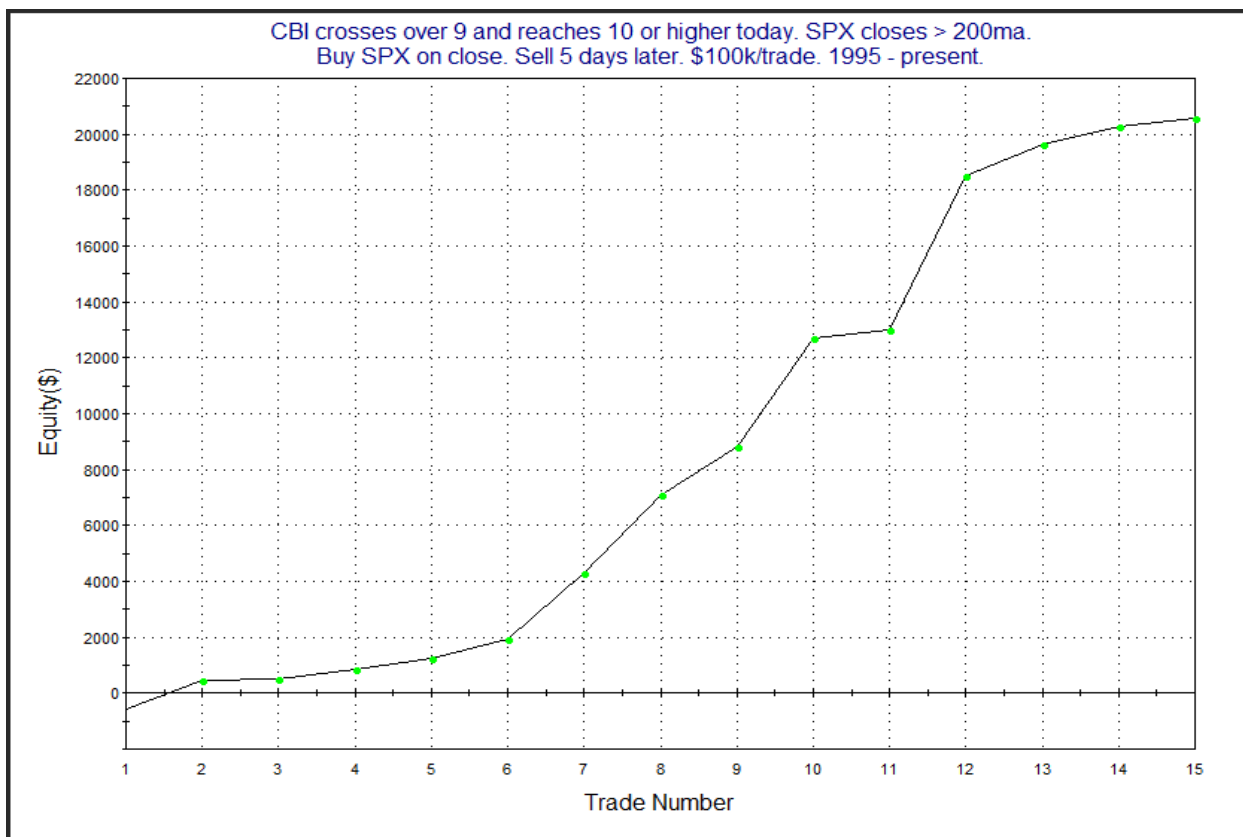
The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

It is also notable that the Quantifiable Edges Capitulative Breadth Indicator (CBI) closed at 10 on Thursday. Below is a study that shows other times the CBI reached 10 while the SPX was above its 200ma.

CBI crosses over 9 and reaches 10 or higher today. 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
15	33,384.83	15	13	2	86.67	2,726.27	5,851.05	-1,028.31	-1,165.82	2.65	17.23	2,225.66
14	35,032.32	15	14	1	93.33	2,512.65	5,330.64	-144.84	-144.84	17.35	242.87	2,335.49
13	30,902.97	15	14	1	93.33	2,279.12	5,328.36	-1,004.65	-1,004.65	2.27	31.76	2,060.20
12	27,907.05	15	14	1	93.33	2,079.42	5,470.29	-1,204.87	-1,204.87	1.73	24.16	1,860.47
11	25,699.36	15	13	2	86.67	2,244.63	4,822.77	-1,740.42	-2,732.40	1.29	8.38	1,713.29
10	21,624.73	15	11	4	73.33	2,466.59	5,023.98	-1,376.94	-2,278.80	1.79	4.93	1,441.65
9	23,374.72	15	12	3	80.00	2,370.60	5,380.50	-1,690.82	-2,554.04	1.40	5.61	1,558.31
8	23,321.61	15	13	2	86.67	2,140.10	5,891.50	-2,249.87	-3,230.74	0.95	6.18	1,554.77
7	20,589.42	15	12	3	80.00	2,014.12	5,801.50	-1,193.33	-2,205.64	1.69	6.75	1,372.63
6	17,267.32	15	12	3	80.00	1,766.76	5,457.00	-1,311.27	-2,115.86	1.35	5.39	1,151.15
5	20,551.10	15	14	1	93.33	1,509.76	5,471.50	-585.58	-585.58	2.58	36.10	1,370.07
4	20,055.09	15	13	2	86.67	1,687.47	5,290.00	-941.01	-1,087.43	1.79	11.66	1,337.01
3	13,136.67	15	10	5	66.67	1,777.92	4,895.50	-928.51	-2,513.78	1.91	3.83	875.78
2	9,114.55	15	9	6	60.00	1,716.67	4,424.50	-1,055.91	-3,119.03	1.63	2.44	607.64
1	6,295.42	15	9	6	60.00	1,144.56	2,007.50	-667.61	-2,587.68	1.71	2.57	419.69

A very high percentage of instances closed higher when looking out 4 or more days. The numbers certainly seem to point to a bullish edge. Below is a profit curve that assumes a 5-day holding period.



As you can see, the lone loser was the 1st instance, which took place in 1996. Overall, the curve looks great.

I also wrote about CBI spikes to 10 or higher in the CBI Research Paper. Below is an updated excerpt...

CBI spikes are more common when the market is in a long-term downtrend. This is because downtrends tend to be more emotional, and therefore are more prone to generating the kind of sharp, capitulative, selloffs that Catapults look to take advantage of. But CBI spikes do occur both above and below the 200-day moving average. (I note all those that are above the 200ma on the [CBI Spikes Spreadsheet](#).)

Below are comparison metrics that break down the CBI spikes into 2 buckets. They assume SPX was entered at the close on the day the CBI 1st rose to 10 or higher, and then was exited on the day that it returned to 3 or lower.

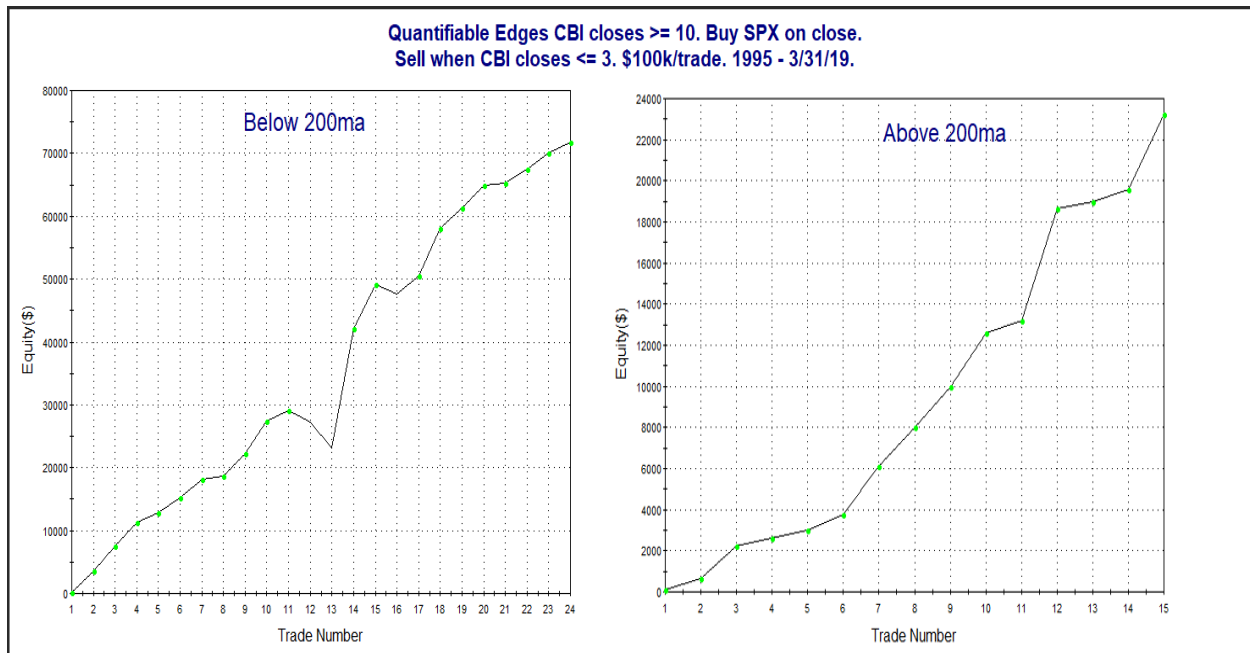
Quantifiable Edges CBI closes >= 10. Buy SPX on close. Sell when CBI closes <= 3. \$100k/trade. 1995 - 3/31/19.							
Below 200ma				Above 200ma			
TradeStation Performance Summary Expand				TradeStation Performance Summary Expand			
All Trades				All Trades			
Total Net Profit	\$71,709.19	Profit Factor	10.48	Total Net Profit	\$23,238.36	Profit Factor	n/a
Gross Profit	\$79,269.91	Gross Loss	(\$7,560.72)	Gross Profit	\$23,238.36	Gross Loss	\$0.00
Total Number of Trades	24	Percent Profitable	87.50%	Total Number of Trades	15	Percent Profitable	100.00%
Winning Trades	21	Losing Trades	3	Winning Trades	15	Losing Trades	0
Even Trades	0			Even Trades	0		
Avg. Trade Net Profit	\$2,987.88	Ratio Avg. Win:Avg. Loss	1.50	Avg. Trade Net Profit	\$1,549.22	Ratio Avg. Win:Avg. Loss	n/a
Avg. Winning Trade	\$3,774.76	Avg. Losing Trade	(\$2,520.24)	Avg. Winning Trade	\$1,549.22	Avg. Losing Trade	\$0.00
Largest Winning Trade	\$18,981.60	Largest Losing Trade	(\$4,214.00)	Largest Winning Trade	\$5,471.50	Largest Losing Trade	\$0.00
Max. Consecutive Winning Trades	11	Max. Consecutive Losing Trades	2	Max. Consecutive Winning Trades	15	Max. Consecutive Losing Trades	0
Avg. Bars in Winning Trades	7.48	Avg. Bars in Losing Trades	15.00	Avg. Bars in Winning Trades	7.07	Avg. Bars in Losing Trades	0.00
Avg. Bars in Total Trades	8.42			Avg. Bars in Total Trades	7.07		

The most apparent difference above is the substantial reduction in the average trade above the 200ma versus below it. To understand why this is, we can examine some of the more advanced stats below.

**Quantifiable Edges CBI closes ≥ 10 . Buy SPX on close.
Sell on close when CBI closes ≤ 3 . \$100k/trade. 1995 - 3/31/19.**

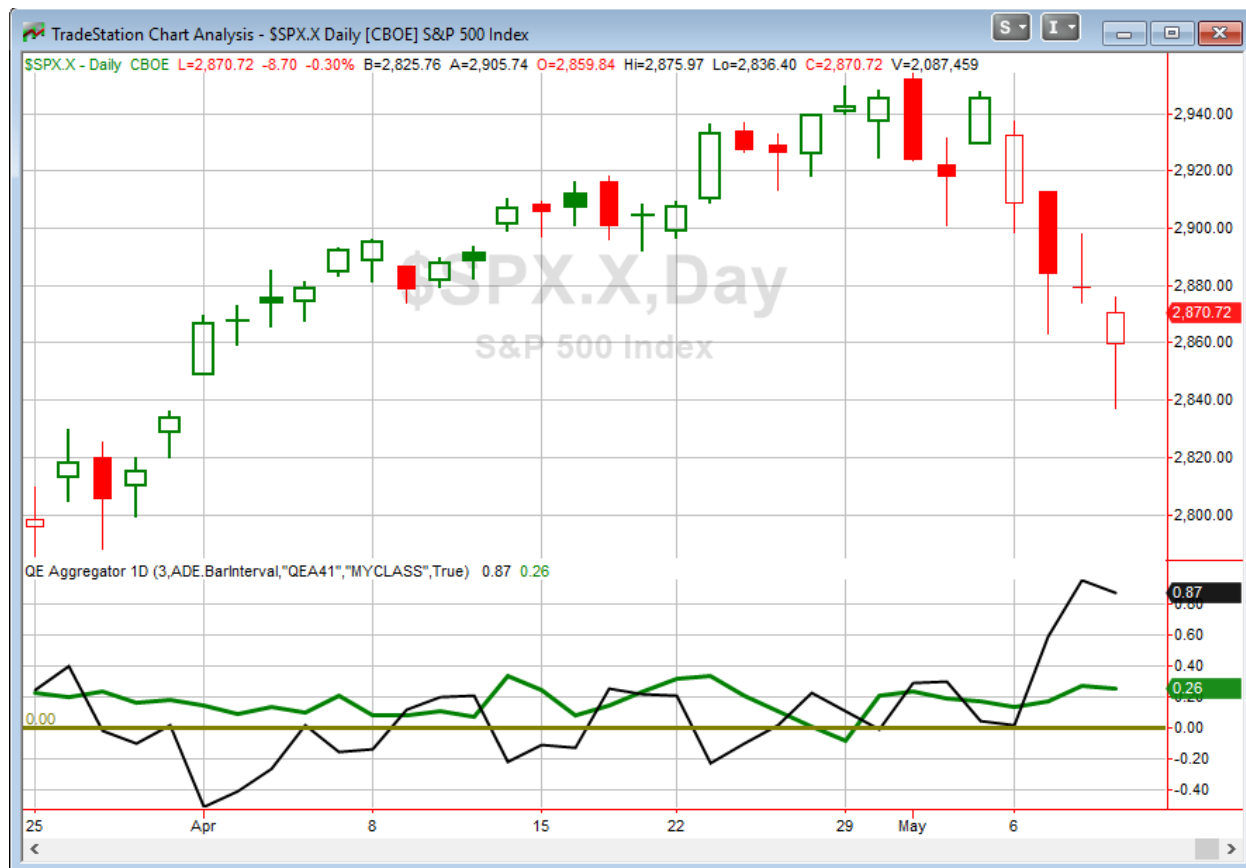
Below 200				Above 200			
TradeStation Trade Analysis Collapse ^				TradeStation Trade Analysis Collapse ^			
	All Trades	Winners	Losers	All Trades	Winners	Losers	
Total Number of Trades	24	21	3	15	15	0	
Avg. Trade Net Profit	\$2,987.88	\$3,774.76	(\$2,520.24)	\$1,549.22	\$1,549.22	\$0.00	
1 Std. Deviation of Avg. Trade	\$4,290.82	\$3,968.98	\$1,479.70	\$1,498.58	\$1,498.58	\$0.00	
Avg. Trade + 1 Std. Deviation	\$7,278.70	\$7,743.74	(\$1,040.54)	\$3,047.80	\$3,047.80	\$0.00	
Avg. Trade - 1 Std. Deviation	(\$1,302.94)	(\$194.23)	(\$3,999.94)	\$50.64	\$50.64	\$0.00	
Coefficient of Variation	143.61%	105.15%	58.71%	96.73%	96.73%	n/a	
Time Averages							
Avg. Time in Trades	10 days, 20 hours	9 days, 12 hours, 34 Minutes	20 days	8 days, 22 hours, 24 Minutes	8 days, 22 hours, 24 Minutes	n/a	
Avg. Time Between Trades	311 days, 19 hours, 49 Minutes	361 days, 14 hours, 24 Minutes	324 days	544 days, 1 hour, 42 Minutes	544 days, 1 hour, 42 Minutes	n/a	
Avg. Time Between Trade Profit Peaks	932 days			1315 days, 14 hours, 24 Minutes			
Outliers							
Number of Outliers	Total: 1	Positive: 1	Negative: 0	Total: 0	Positive: 0	Negative: 0	
Outlier Profit/Loss	\$18,981.60	\$18,981.60	\$0.00	\$0.00	\$0.00	\$0.00	
Run-up/Drawdown							
Max. Value		\$18,982.92	(\$15,643.00)		Run-up: \$5,699.50	Drawdown: (\$4,301.25)	
Max. Value Date		11/28/2008	10/10/2008		12/23/2014	2/9/2018	
Avg. Value		\$4,070.04	(\$3,771.52)		\$2,049.38	(\$1,462.75)	
1 Std. Deviation		\$3,651.80	\$3,993.79		\$1,369.42	\$1,615.03	
Avg. + 1 Std. Deviation		\$7,721.84	\$222.27		\$3,418.80	\$152.28	
Avg. - 1 Std. Deviation		\$418.24	(\$7,765.32)		\$679.96	(\$3,077.78)	
Coefficient of Variation		89.72%	105.89%		66.82%	110.41%	

Here we see that the Standard Deviation of the trades below the 200ma is about 3 times the size of those above the 200ma. Additionally, run-ups and drawdowns were much larger below the 200ma. As I mentioned above, downtrends tend to be more emotional environments. So to see moves appear so much more volatile should not be a great surprise. Below are profit curves showing the trades.



Both curves look very appealing. What is especially encouraging from the standpoint of utilizing the CBI, is that it appears to offer compelling reward/risk opportunities regardless of the long-term trend...

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 Friday. This is not likely to change. The Differential Pivot will be 2897.66 on Friday. That is 0.9% above Thursday's close. Therefore, SPX would need to close up 0.9% on Friday to flip from oversold to overbought versus recent expectations.

The short-term evidence is all pointing to a bounce. And with the CBI so strong, odds seem pretty high. There also remains ample room to the upside before SPX would turn overbought. So reward/risk looks good. I continue to favor long positions here. I have a partial position in SPY at the moment. I did not receive a fill on a 3rd lot on Thursday since it closed just above my limit price. I will look to take on a 3rd lot on Friday if I can get a favorable entry.

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

New

MMM – 1/3 @ \$178.59 (buy @ limit)

Broad Market Large Cap CBI – 10(INTC-3, MMM-3, 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 @ \$175.28 LIMIT. This is from the Catapult section above. It is the 3rd and final lot for MMM.

SPY – buy ¼ index position @ \$286.50 LIMIT ON CLOSE. Based on the short-term outlook above, I'll be looking to add a 3rd lot of SPY if it closes down much on Friday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
INTC(1/3)	4/30/2019	\$51.00	\$46.62	-8.59%		Catapult
INTC(1/3)	5/1/2019	\$51.04	\$46.62	-8.66%		Catapult
INTC(1/3)	5/2/2019	\$50.76	\$46.62	-8.16%		Catapult
SPY(1/4)	5/2/2019	\$291.68	\$286.66	-1.72%		Aggregator
MMM(1/3)	5/3/2019	\$184.75	\$175.28	-5.13%		Catapult
CSCO(1/3)	5/7/2019	\$53.86	\$52.92	-1.75%		Catapult
CSCO(1/3)	5/8/2019	\$53.17	\$52.92	-0.47%		Catapult
ACN(1/3)	5/8/2019	\$173.94	\$174.46	0.30%		Catapult
SPY(1/4)	5/8/2019	\$287.53	\$286.66	-0.30%		Aggregator
ACN(1/3)	5/9/2019	\$172.10	\$174.46	1.37%		Catapult
MMM(1/3)	5/9/2019	\$177.30	\$175.28	-1.14%		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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