

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 17, 2019

Volume 12 Issue 95

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	11

Tonight's Research Points

- SPX up 3 days but below the close of 4 days ago is often followed by more upside.
- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- A SOX decline combined with a strong NDX has often been followed by a market pullback over the last 16 years.

Short-term Outlook

The Bottom Line

The overbought market has turned the Aggregator neutral. But evidence suggests we could have a bit more to rise in the coming days. Still, reward/risk is no longer great, and I have begun to lighten up.

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						
May 17, 2019	NDX up 1%. SOX down	1-6 days	Bearish			
May 17, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-6 days	Bullish			
May 17, 2019	3 up < 4 ago	1 day	Bullish			
May 16, 2019	2 up from low < 3 ago	1-3 days	Bullish			
May 14, 2019	1.5% dn 2x in 5 days. 10-day low	1-7 days	Bullish			
May 14, 2019	20-low big down Mon	1-5 days	Bullish			
Active - Long Term						
May 17, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-19 days	Bullish			
May 14, 2019	CBI 11+	1-17 days	Bullish			
May 13, 2019	20-low reversal day	1-10 days	Bullish	2.80%	-1.80%	-3.40%
May 8, 2019	1st 10-day low close in 30+ days	1-10 days	Bullish			
May 2, 2019	1st 5-low in 10 days. 20-high yesterday	1-11 days	Bullish	2.00%	-1.70%	-3.40%
April 24, 2019	SPX closes above 50-day Bollinger Bnd	1-50 days	Bullish	5.00%	-4.30%	-8.10%
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			
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
Dropped Tonight						
May 13, 2019	20-low reversal day	1-4 days	Bullish	1.70%	-1.40%	-2.50%
May 10, 2019	CBI Spike 10+. SPX > 200	1-5 days	Bullish			

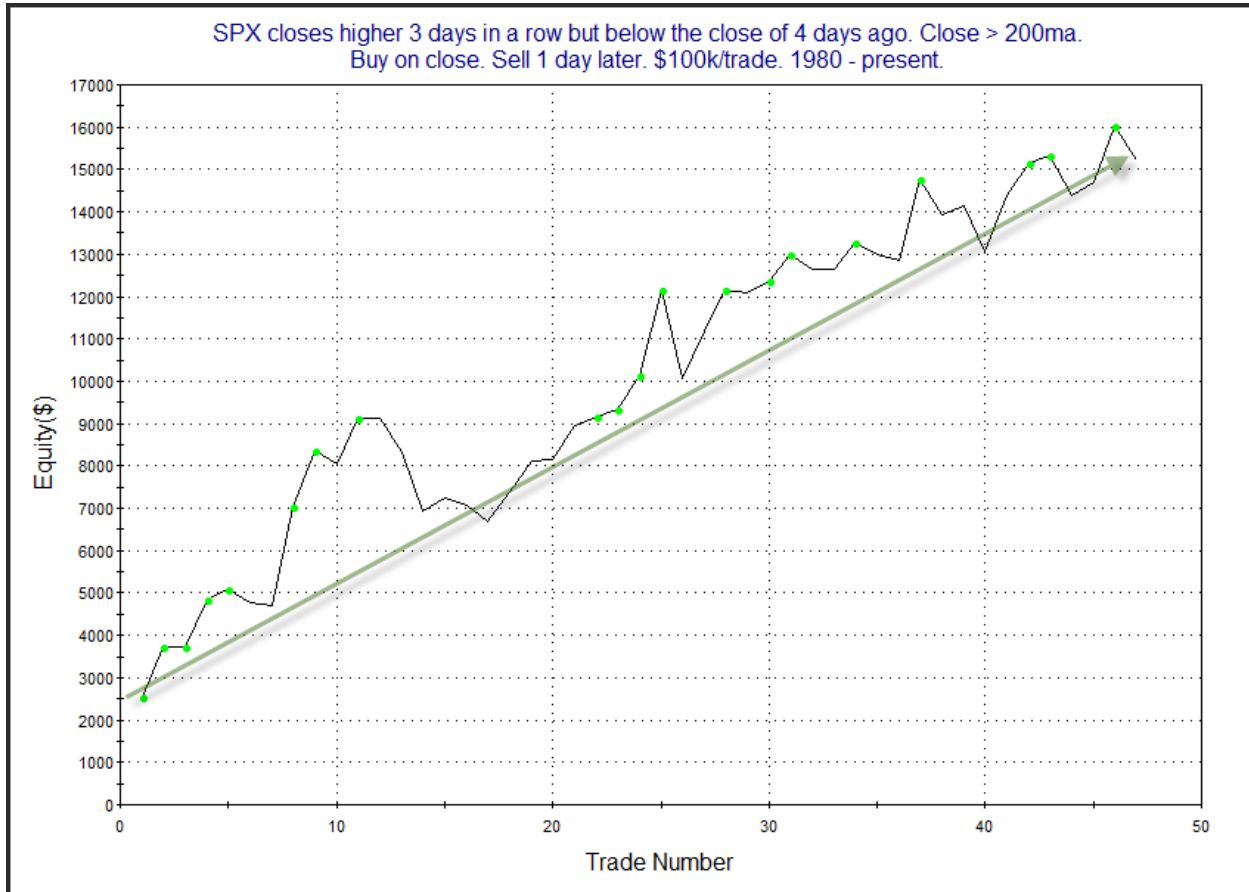
The Evidence

Thursday saw the market rise for a 3rd day. The SPX closed up 0.9%, the NASDAQ climbed 1.0%, and the Russell 2000 rose 0.6%. Breadth was positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 67%. NYSE volume rose some from Wednesday's level.

Last night we saw a couple of studies that examined times SPX rose 2 days in a row, but failed to make up the loss from the day prior to that. Thursday the market again rose, but again failed to close above the level of 4 days ago. This brought out the study below, which was last seen in the 4/30/18 letter. I have updated the results.

SPX closes higher 3 days in a row but below the close of 4 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	18,765.29	47	28	19	59.57	1,568.38	6,422.84	-1,323.65	-3,864.28	1.18	1.75	399.26
4	20,114.96	47	31	16	65.96	1,463.60	4,938.89	-1,578.55	-4,304.58	0.93	1.80	427.98
3	15,639.97	47	28	19	59.57	1,436.01	4,482.29	-1,293.07	-4,052.24	1.11	1.64	332.77
2	16,047.98	47	30	17	63.83	1,038.60	3,980.03	-888.82	-2,257.55	1.17	2.06	341.45
1	15,211.62	47	30	16	63.83	839.99	2,534.13	-624.25	-2,068.30	1.35	2.52	323.65

I found it interesting that despite the fact the market had already risen for 3 days in a row, the fourth day showed gains nearly 2/3 of the time. This even held true over the 1-4 day period, although most of the gains were realized on day 1. To see how this potential edge has played out over time I ran an equity curve using a 1-day hold.



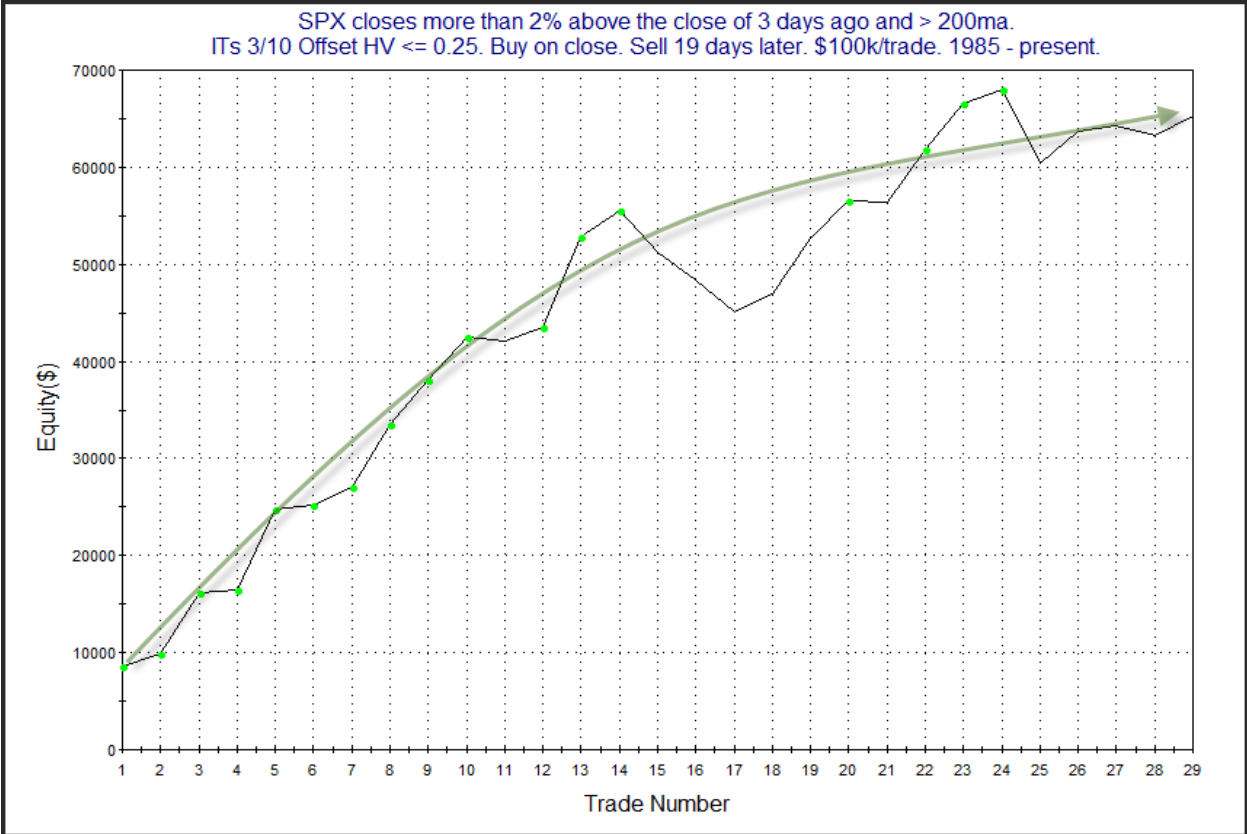
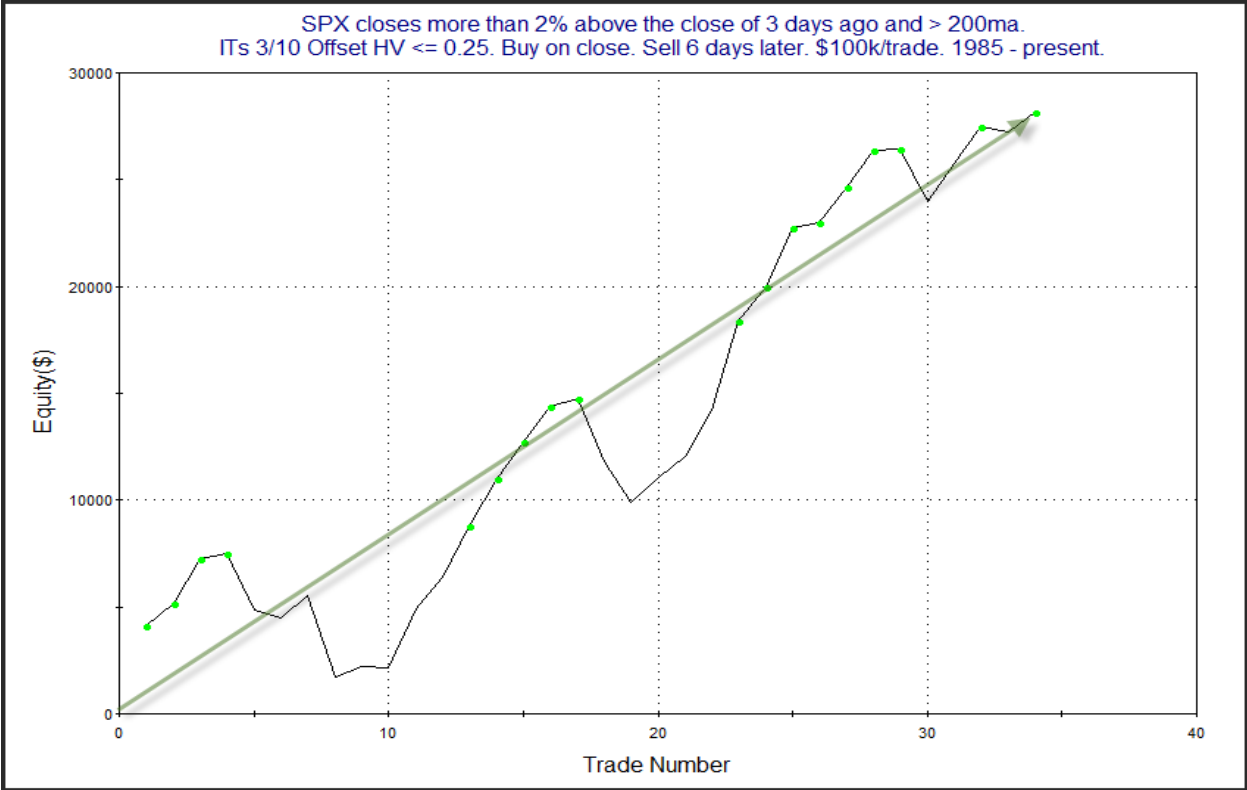
The equity curve appears steady and solid.

On Thursday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. This triggered the study below, which I last discussed in the 5/24/15 letter.

SPX closes more than 2% above the close of 3 days ago and > 200ma.
 Its 3/10 Offset HV <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1985 - 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
20	60,230.73	29	22	7	75.86	3,890.65	9,311.76	-3,623.38	-8,986.08	1.07	3.37	2,076.92
19	65,271.76	29	22	7	75.86	3,861.43	9,258.48	-2,811.39	-7,554.72	1.37	4.32	2,250.75
18	60,970.63	30	23	7	76.67	3,627.57	10,412.64	-3,209.08	-9,374.40	1.13	3.71	2,032.35
17	48,077.52	30	22	8	73.33	3,400.19	10,683.36	-3,340.82	-9,838.08	1.02	2.80	1,602.58
16	50,947.80	30	22	8	73.33	3,418.22	10,667.52	-3,031.62	-8,782.08	1.13	3.10	1,698.26
15	50,443.80	30	22	8	73.33	3,229.77	8,742.96	-2,576.40	-8,832.00	1.25	3.45	1,681.46
14	48,122.07	31	23	8	74.19	2,870.07	8,253.36	-2,236.19	-6,837.60	1.28	3.69	1,552.32
13	43,607.23	31	21	10	67.74	2,934.32	6,434.62	-1,801.36	-8,352.48	1.63	3.42	1,406.68
12	45,181.27	31	23	8	74.19	2,571.08	6,140.16	-1,744.21	-6,029.28	1.47	4.24	1,457.46
11	38,211.47	31	23	8	74.19	2,390.40	5,708.16	-2,095.97	-6,749.76	1.14	3.28	1,232.63
10	35,456.77	32	24	8	75.00	2,216.32	5,768.50	-2,216.86	-6,828.48	1.00	3.00	1,108.02
9	29,315.41	32	21	11	65.63	2,227.21	5,859.48	-1,586.92	-5,817.60	1.40	2.68	916.11
8	19,581.51	32	23	9	71.88	1,525.63	4,162.27	-1,723.11	-3,819.90	0.89	2.26	611.92
7	22,407.32	33	25	8	75.76	1,450.28	3,983.52	-1,731.21	-4,227.28	0.84	2.62	679.01
6	28,149.42	34	26	8	76.47	1,633.56	4,206.89	-1,790.41	-3,782.08	0.91	2.97	827.92
5	24,755.17	34	27	7	79.41	1,399.24	3,481.56	-1,860.60	-2,842.40	0.75	2.90	728.09
4	19,675.01	34	22	12	64.71	1,531.68	2,616.60	-1,168.49	-2,910.70	1.31	2.40	578.68
3	13,534.97	34	24	10	70.59	1,174.46	2,315.72	-1,465.20	-3,701.10	0.80	1.92	398.09
2	11,791.37	35	21	14	60.00	1,030.09	2,451.76	-702.89	-1,838.16	1.47	2.20	336.90
1	-0.02	37	19	18	51.35	537.27	1,857.24	-567.12	-2,159.69	0.95	1.00	0.00

The numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.



Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

Another interesting aspect of Thursday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.0% on Thursday, the SOX declined 1.7% - which is very unusual action. It brought about a study last seen in the 1/29/16 Letter, which I have updated below.

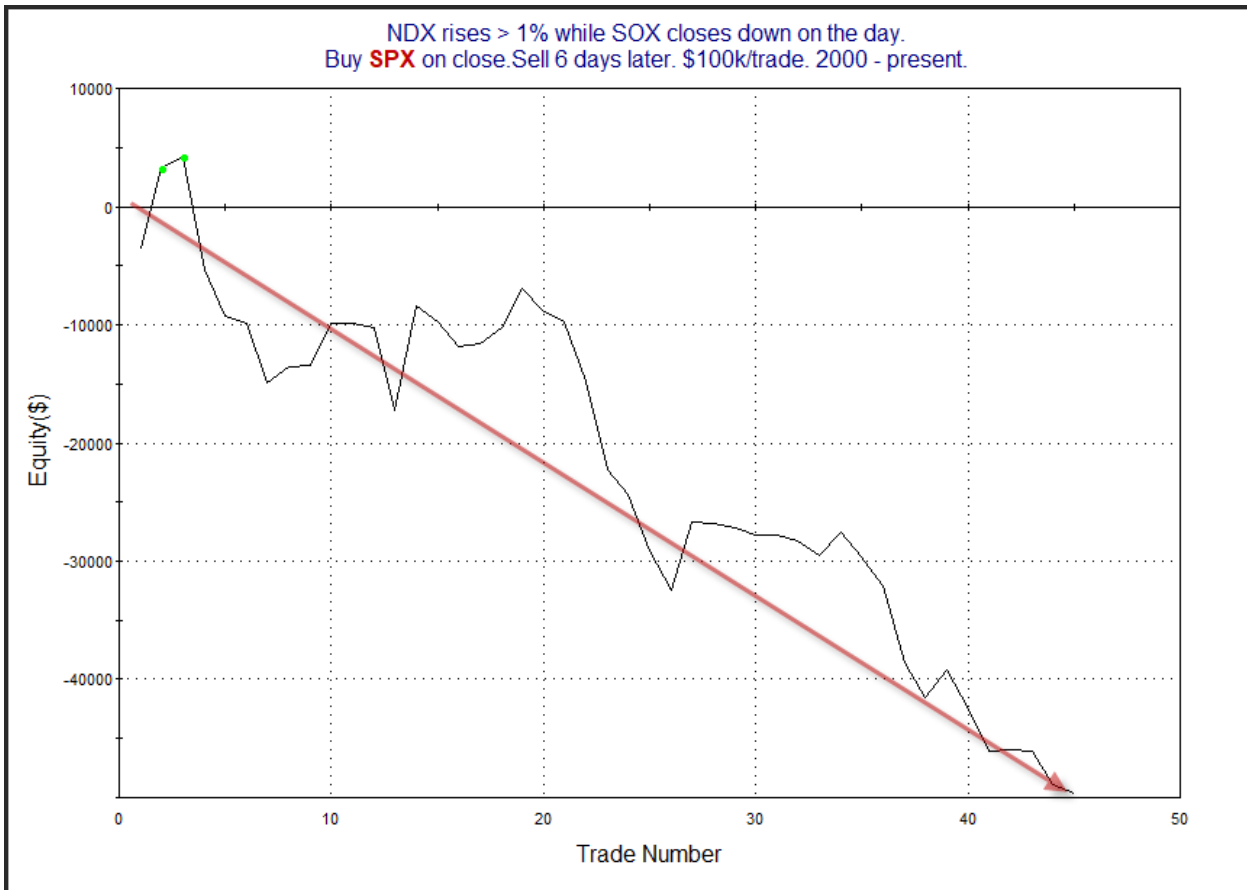
NDX rises > 1% while SOX closes down on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-87,680.65	43	16	27	37.21	4,885.26	18,826.33	-6,142.40	-13,954.56	0.80	0.47	-2,039.08
9	-84,989.16	43	13	30	30.23	5,566.44	22,154.89	-5,245.09	-15,780.45	1.06	0.46	-1,976.49
8	-81,931.10	44	12	32	27.27	6,143.82	30,307.45	-4,864.28	-13,288.50	1.26	0.47	-1,862.07
7	-94,657.00	45	10	35	22.22	7,565.25	31,628.02	-4,865.99	-17,436.00	1.55	0.44	-2,103.49
6	-122,077.09	45	10	35	22.22	6,786.44	23,421.19	-5,426.90	-21,090.48	1.25	0.36	-2,712.82
5	-85,337.97	46	15	31	32.61	4,162.09	12,749.43	-4,766.75	-12,790.08	0.87	0.42	-1,855.17
4	-54,181.95	46	20	26	43.48	3,053.56	11,322.33	-4,432.81	-12,796.24	0.69	0.53	-1,177.87
3	-29,440.07	47	19	28	40.43	4,105.64	15,615.69	-3,837.40	-15,779.50	1.07	0.73	-626.38
2	-3,238.55	49	23	26	46.94	3,233.50	16,624.43	-2,984.96	-9,160.50	1.08	0.96	-66.09
1	-709.52	51	24	27	47.06	2,521.10	9,397.52	-2,267.26	-6,256.64	1.11	0.99	-13.91

Six days later 78% of the instances were losers and the average occurrence was a 2.7% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.
Buy **SPX** on close. Sell X days later. \$100k/trade. 2000 - present.

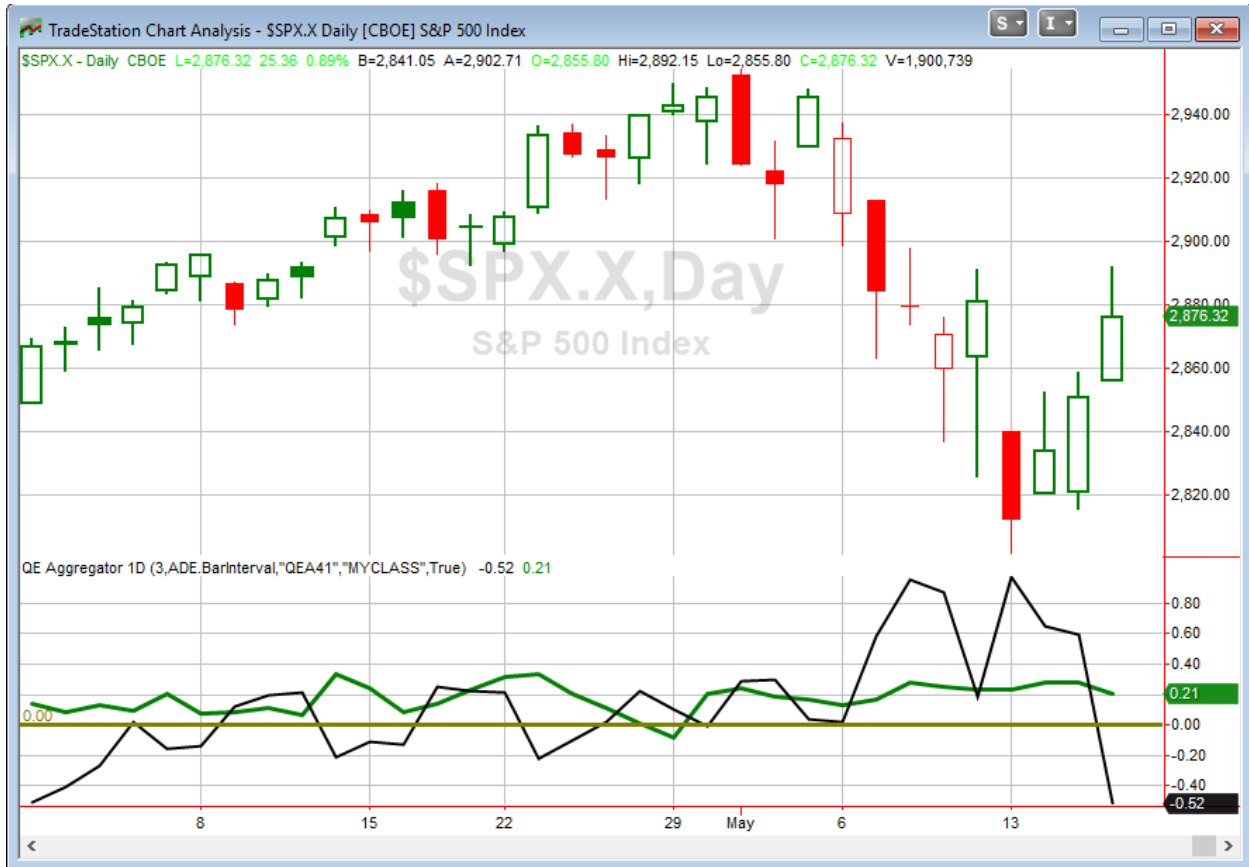
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-22,337.03	43	17	26	39.53	2,831.05	9,774.70	-2,710.19	-8,478.02	1.04	0.68	-519.47
9	-29,716.58	43	18	25	41.86	2,641.24	9,278.30	-3,090.36	-8,963.07	0.85	0.62	-691.08
8	-37,056.80	44	19	25	43.18	2,220.79	9,165.45	-3,170.07	-7,574.41	0.70	0.53	-842.20
7	-45,743.05	45	19	26	42.22	2,102.23	10,101.57	-3,295.59	-11,391.59	0.64	0.47	-1,016.51
6	-49,596.33	45	13	32	28.89	2,802.31	8,753.07	-2,688.32	-9,589.14	1.04	0.42	-1,102.14
5	-42,477.20	46	19	27	41.30	1,719.23	6,877.04	-2,783.06	-7,519.22	0.62	0.43	-923.42
4	-27,312.68	46	22	24	47.83	1,629.13	5,068.10	-2,631.40	-11,917.40	0.62	0.57	-593.75
3	-13,440.02	47	21	26	44.68	1,822.69	6,877.26	-1,989.10	-9,480.90	0.92	0.74	-285.96
2	-4,940.24	49	21	28	42.86	1,640.52	5,842.98	-1,406.83	-6,411.90	1.17	0.87	-100.82
1	5,481.38	51	26	25	50.98	1,270.52	5,396.04	-1,102.08	-2,692.80	1.15	1.20	107.48

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



While choppy, it has persisted lower and continues to make new lows. Overall, this study appears worthy of consideration.

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



With tonight's 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 dove down below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive and 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain bullish on Friday. This could change if more compelling bearish evidence emerges. The Differential Pivot will be 2855.45 on Friday. That is 0.7% below Thursday's close. Therefore, SPX would need to close down at least 0.7% on Friday in order to flip from overbought to oversold vs recent expectations.

So the market is now overbought versus expectations and short-term evidence is mixed. This is leaving the Aggregator neutral. I took off part of my long SPY position on Thursday at the close. My intention has been to keep a portion of it until the CBI turns more neutral. This typically means a return to 3 or lower. But despite the rally over the last 3 days, the CBI has hardly declined. This is highly unusual. I looked back for other times the SPX closed up 3 days in a row and the CBI closed above 10. There have only been 3 other instances: 12/19/14, 8/28/15, and 2/13/18. Returns going forward were mixed, but you can't really take anything from just 3 instances anyway. What it does stress is how unusual this is. Typically, the most oversold stocks will bounce the hardest when the market reverses. That has not really been the case this time. I still think the move up could have a bit further to go, and I will continue to hold my small SPY long position, but I may not require the CBI to drop all the way down to 3 in before I exit this time. I'll hold for now and see what other evidence emerges over the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/13 – 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)

MMM – 1/3 @ \$178.59 (bought @ limit)

MMM – 1/3 @ \$178.59 (bought @ limit)

BLK – 1/3 @ \$442.78 (buy @ limit) – *not filled – cancel for now*

JPM – 1/3 @ \$109.45 (buy @ limit) – *not filled – cancel for now*

TGT – 1/3 @ \$71.04 – (bought @ limit)

TGT – 1/3 @ \$71.26 – (buy @ limit) – *not going to enter due to div adjustment*

TGT – 1/3 @ \$70.81 – (buy @ limit) – *not going to enter due to div adjustment*

Broad Market Large Cap CBI – 11(INTC-3, MMM-3, BLK, JPM, TGT-3)

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
INTC(1/3)	4/30/2019	\$51.00	\$45.53	-10.73%		Catapult
INTC(1/3)	5/1/2019	\$51.04	\$45.53	-10.80%		Catapult
INTC(1/3)	5/2/2019	\$50.76	\$45.53	-10.30%		Catapult
SPY(1/4)	5/2/2019	\$291.68	\$287.70	-1.36%		sold on close
MMM(1/3)	5/3/2019	\$184.75	\$171.81	-7.00%		Catapult
CSCO(1/3)	5/7/2019	\$53.86	\$55.93	3.84%		sell on open
CSCO(1/3)	5/8/2019	\$53.17	\$55.93	5.19%		sell on open
ACN(1/3)	5/8/2019	\$173.94	\$176.27	1.34%		sold on open
SPY(1/4)	5/8/2019	\$287.53	\$287.70	0.06%		Aggregator
ACN(1/3)	5/9/2019	\$172.10	\$176.27	2.42%		sold on open
MMM(1/3)	5/9/2019	\$177.30	\$171.81	-3.10%		Catapult
MMM(1/3)	5/10/2019	\$175.02	\$171.81	-1.83%		Catapult
TGT(1/3)	5/14/2019	\$70.97	\$70.78	-0.27%		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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