

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 21, 2017

Volume 10 Issue 139

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- When an overbought market has pulled back as little as it did Thursday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.

Short-term Outlook

The Bottom Line

Similar to the last few nights, evidence is pointing higher but the market remains overbought. Reward/risk is not great overall.

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						
July 21, 2017	Down close and RSI2 > 90.	1-2 days	Bullish			
July 17, 2017	3 up, 50-high breakout on low volume	1-5 days	Bullish	1.70%	-0.90%	-2.00%
Active - Long Term						
July 20, 2017	RSI2 crosses over 99. SPX > 200ma.	1-15 days	Bullish	2.30%	-1.40%	-2.70%
July 17, 2017	NASDAQ Leading	int term	Bullish			
June 24, 2017	Hindenburg Omen cluster	1-35 days	Bearish	-7.00%		
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

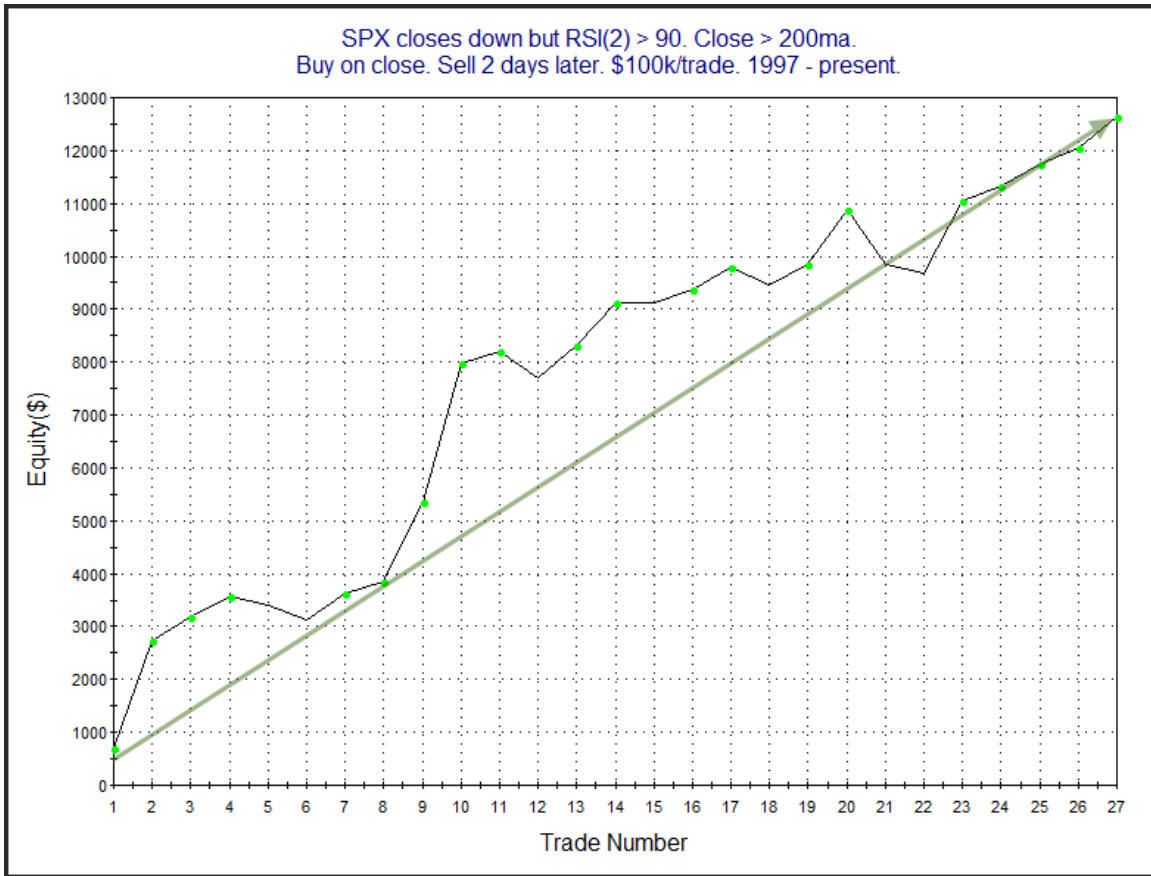
The Evidence

Thursday saw the market finish mixed and very mild. The SPX closed down 0.02%, the NASDAQ gained 0.08%, and the Russell 2000 rose 0.04%. Breadth was negative as the NYSE Up Issues % was 49.7% and the Up Volume % came in at 41%. NYSE volume rose some from Wednesday's level.

The recent move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Monday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very 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 Thursday. If this all sounds familiar, it is because the same thing happened on Monday, triggering the below study, which I have updated.

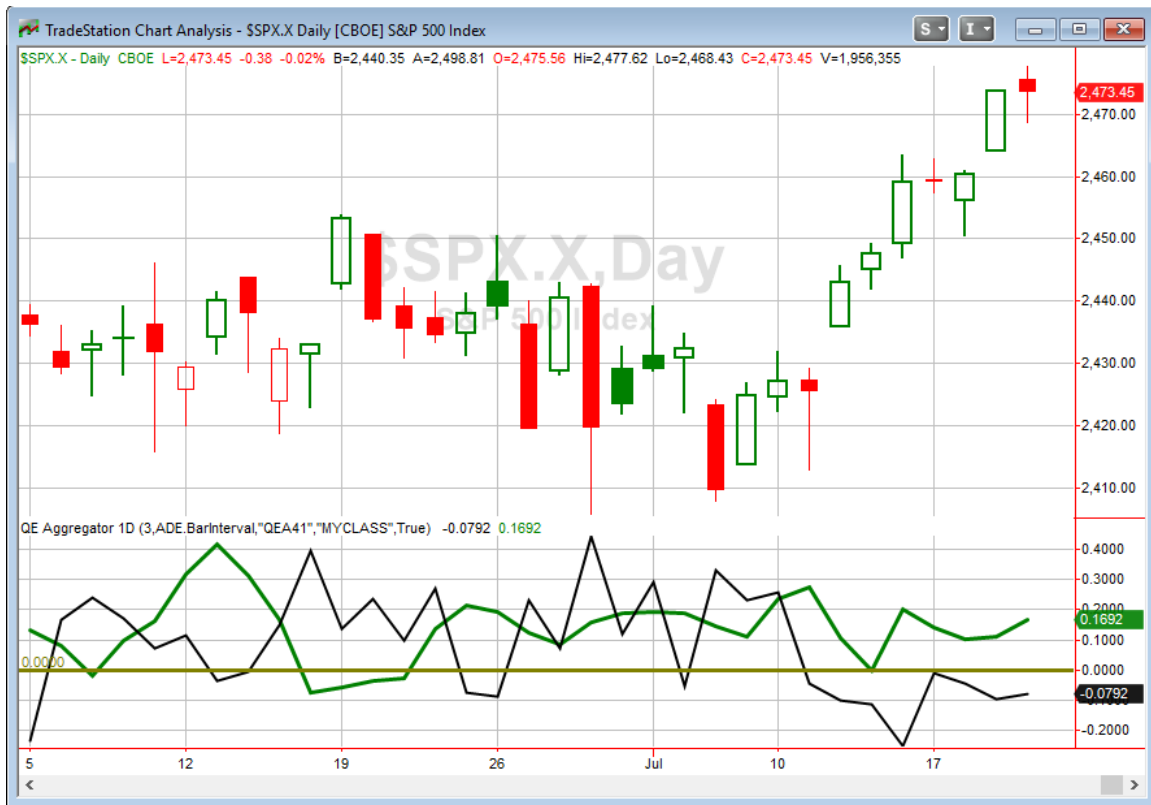
SPX closes down but RSI(2) > 90. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	4,659.40	24	10	14	41.67	1,486.48	4,121.28	-728.96	-2,008.73	2.04	1.46	194.14
4	6,154.46	25	13	12	52.00	1,130.17	3,806.46	-711.48	-1,717.70	1.59	1.72	246.18
3	12,765.48	27	16	11	59.26	1,059.80	2,923.44	-381.03	-1,123.50	2.78	4.05	472.80
2	12,643.94	27	20	7	74.07	757.08	2,619.76	-356.81	-1,054.68	2.12	6.06	468.29
1	5,810.21	27	19	8	70.37	456.92	2,310.88	-358.90	-704.76	1.27	3.02	215.19

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 and is making new highs. I have added this study to the Active List.

I have updated the Aggregator chart below.



With tonight's evidence to consider the green Aggregator line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Of course compelling new bearish studies could change this. The Differential Pivot will be 2471.59 on Friday. That is 0.1% below Thursday's close. So SPX would only need to close down 0.1% on Friday in order to move from overbought to oversold versus recent expectations.

Like the last several nights, we are looking at evidence favoring the bulls, but an overbought market. This is not a strongly favorable reward/risk scenario. I'll continue to exercise patience until a more favorable setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/17 –somewhat bullish

The intermediate-term outlook was last updated in the 7/17 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

Open Catapult 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.

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