

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 23, 2019

Volume 12 Issue 77

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- When the Russell has fallen for 3 days while SPX has closed at a 3-day high then the market has rallied over the next couple of days and weeks.
- The tight consolidation near a 50-day high suggests an upside edge.

Short-term Outlook

The Bottom Line

Expectations remain positive and the Differential reading is oversold versus recent expectations. This is leaving the Aggregator bullish. I believe there is a mild short-term bullish edge, but still would prefer a bit of a pullback to buy into.

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 22, 2019	RUT down 3 days. SPX 3-day high	1-4 days	Bullish	2.30%	-0.60%	-1.30%
April 22, 2019	50-day high, then 5 closes inside rng	1-3 days	Bullish	1.10%	-0.70%	-1.40%
April 18, 2019	3-high, 3-low, 3-low close > 200ma	1-5 days	Bullish			
Active - Long Term						
April 22, 2019	RUT down 3 days. SPX 3-day high	1-10 days	Bullish	3.80%	-0.90%	-2.00%
April 22, 2019	50-day high, then 5 closes inside rng	1-10 days	Bullish	2.20%	-1.10%	-2.40%
April 10, 2019	5 up to 50-high, then down 1	1-10 days	Bullish	1.90%	-1.00%	-2.10%
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

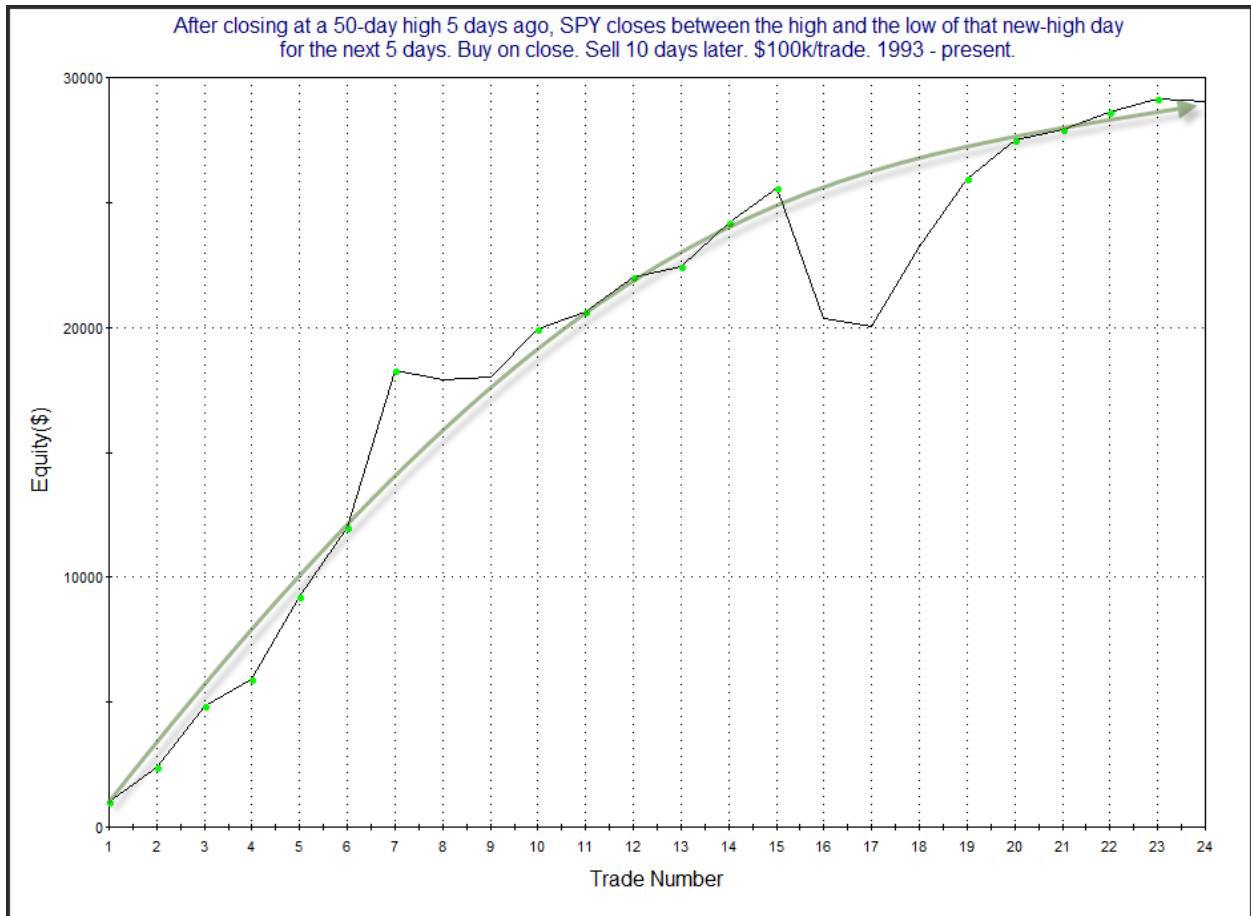
Monday was another quiet trading day with mixed results. The SPX rose 0.1%, the NASDAQ climbed 0.2%, and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 46%. NYSE volume come in quite light.

The range over the last week has been extremely tight. Every SPY close in the 5 days since 6/2 has been within the daily range of that 6/2/17 bar. It is said that consolidations are often resolved in the direction of the trend. This guideline suggests that we're more likely to see another leg up from here than a breakdown. The study below tests this concept. It was last seen in the 7/28/16 letter and has been updated.

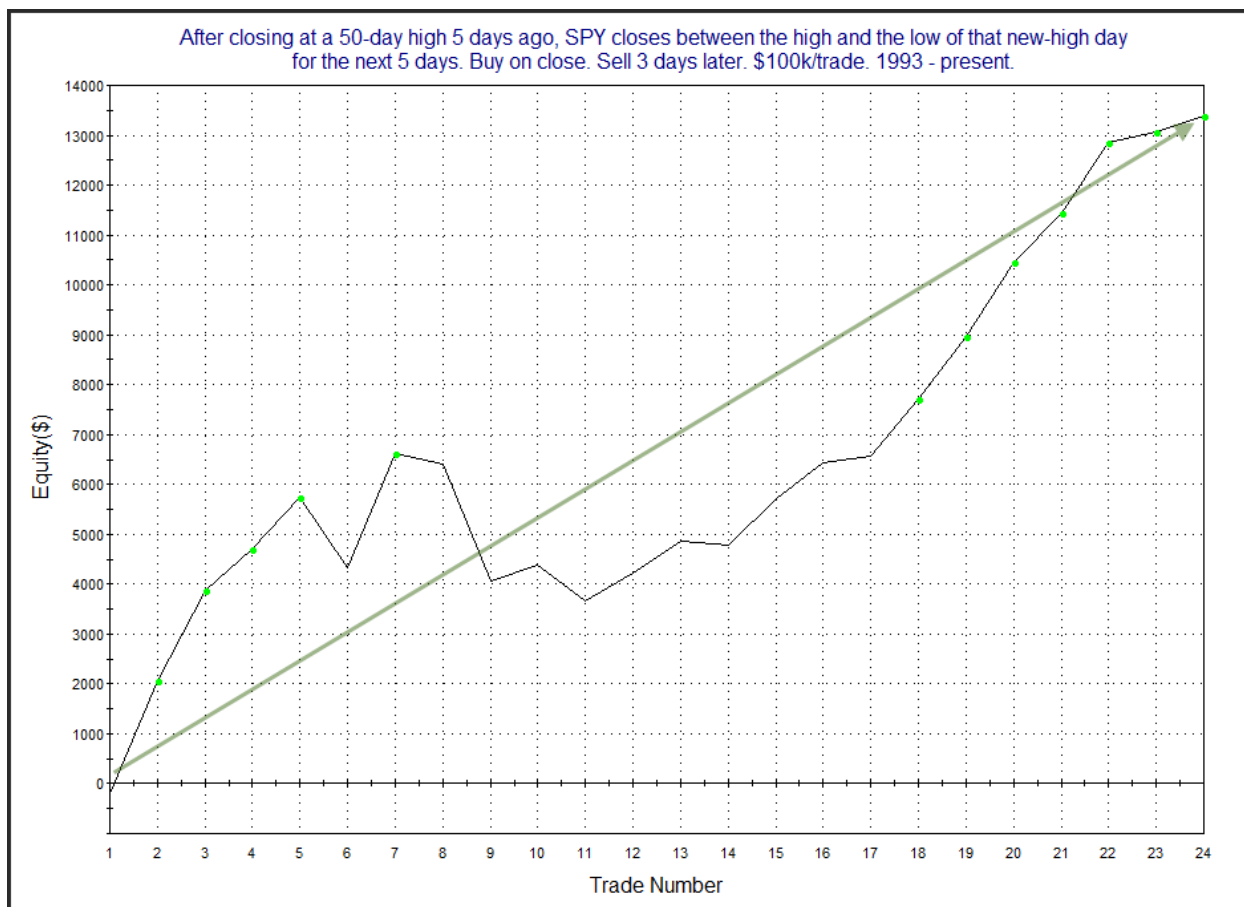
After closing at a 50-day high 5 days ago, SPY closes between the high and the low of that new-high day for the next 5 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	29,027.52	24	20	4	83.33	1,751.82	6,287.04	-1,502.23	-5,182.56	1.17	5.83	1,209.48
9	26,523.36	24	21	3	87.50	1,411.38	6,322.56	-1,038.54	-2,251.44	1.36	9.51	1,105.14
8	25,717.18	24	20	4	83.33	1,517.32	6,287.04	-1,157.31	-2,060.28	1.31	6.56	1,071.55
7	17,547.49	24	18	6	75.00	1,397.74	5,339.84	-1,268.65	-3,472.29	1.10	3.31	731.15
6	10,039.22	24	16	8	66.67	1,209.51	3,362.56	-1,164.12	-2,992.38	1.04	2.08	418.30
5	11,082.27	24	13	11	54.17	1,455.13	3,031.04	-712.22	-2,425.20	2.04	2.41	461.76
4	13,486.69	24	16	8	66.67	1,157.08	2,806.08	-628.33	-1,541.60	1.84	3.68	561.95
3	13,396.05	24	18	6	75.00	1,022.80	2,296.96	-835.71	-2,368.80	1.22	3.67	558.17
2	6,665.30	25	17	7	68.00	751.89	1,817.10	-873.84	-1,627.93	0.86	2.09	266.61
1	20.44	25	13	12	52.00	465.12	1,433.49	-502.18	-1,100.97	0.93	1.00	0.82

- 22 of 25 instances (88%) closed above the entry price within 3 days.
- All instances closed above the entry price at some point in the next 2 weeks.
- 22 of 25 instances (88%) closed at a new 50-day high within the next 2 weeks..

It certainly appears to confirm the old technical adage. Results favor the long side over the immediate 3-day period and they are even more impressive when looking out 8 to 10 days. Below are some equity curves to see how the edge has played out over time. First, the 10-day.



The persistent move from lower left to upper right serves as some confirmation of the upside edge. Next is the 3-day curve.



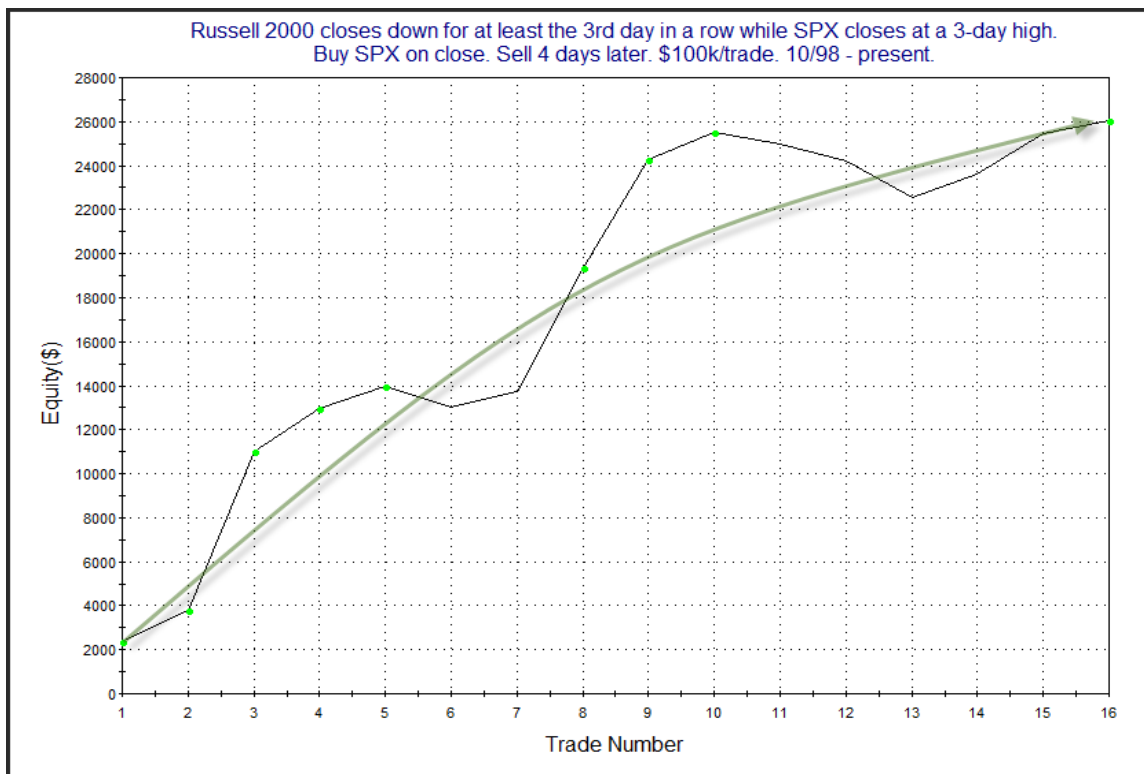
While mostly up the curve is a bit choppy. Of the 6 losses, two of them were fairly large. This suggests perhaps a little more risk in this setup than in some others we examine. Over the 3-day period the average run-up was 1.1% and the average drawdown was 0.7%. That is a comparatively large drawdown. It isn't very surprising though. Risks tend to be higher when you are trading near the upper end of a range. And a tight consolidation near a 50-day high seems to qualify. I will also note that the last 10 instances have all been winners 3 days out. All considered, I find this study appealing and believe it is worth considering over both very short and intermediate-term timeframes.

Another aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 10/17/17 Subscriber Letter. Stats are updated.

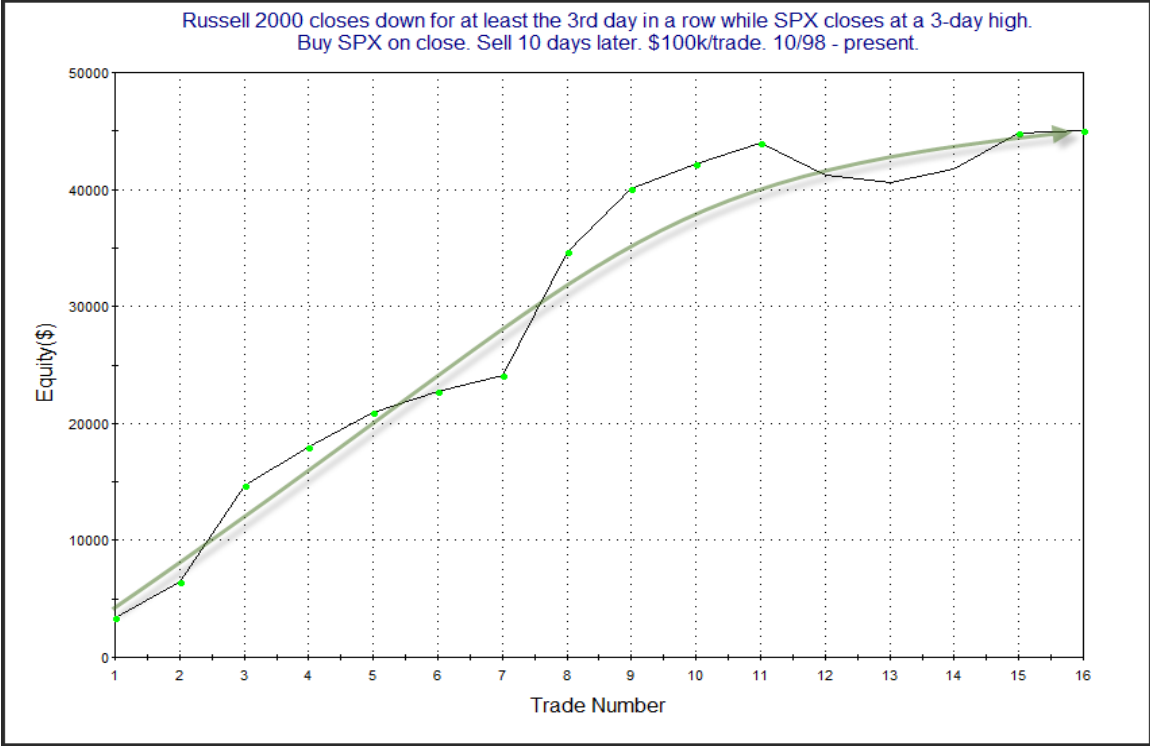
Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 10/98 - present.

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	44,991.70	16	14	2	87.50	3,452.26	10,577.93	-1,669.96	-2,723.00	2.07	14.47	2,811.98
9	37,634.77	16	12	4	75.00	3,400.94	8,209.02	-794.13	-2,674.70	4.28	12.85	2,352.17
8	35,027.82	16	12	4	75.00	3,140.30	9,347.15	-663.94	-1,463.00	4.73	14.19	2,189.24
7	35,561.44	16	11	5	68.75	3,607.64	9,614.11	-824.52	-2,783.20	4.38	9.63	2,222.59
6	31,218.50	16	12	4	75.00	3,132.15	9,598.49	-1,591.81	-3,491.60	1.97	5.90	1,951.16
5	25,795.67	16	12	4	75.00	2,683.80	7,700.66	-1,602.48	-2,075.04	1.67	5.02	1,612.23
4	26,069.93	16	12	4	75.00	2,502.90	7,217.86	-991.23	-1,680.10	2.53	7.58	1,629.37
3	20,742.71	16	12	4	75.00	1,916.73	4,839.33	-564.51	-887.22	3.40	10.19	1,296.42
2	18,658.92	16	12	4	75.00	1,653.42	5,134.01	-295.52	-551.73	5.59	16.78	1,166.18
1	12,260.21	17	12	5	70.59	1,176.35	4,708.01	-371.19	-764.46	3.17	7.61	721.19

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a little bit low, but the stats at this point are very impressive. Below is a profit curve using a 4-day exit.

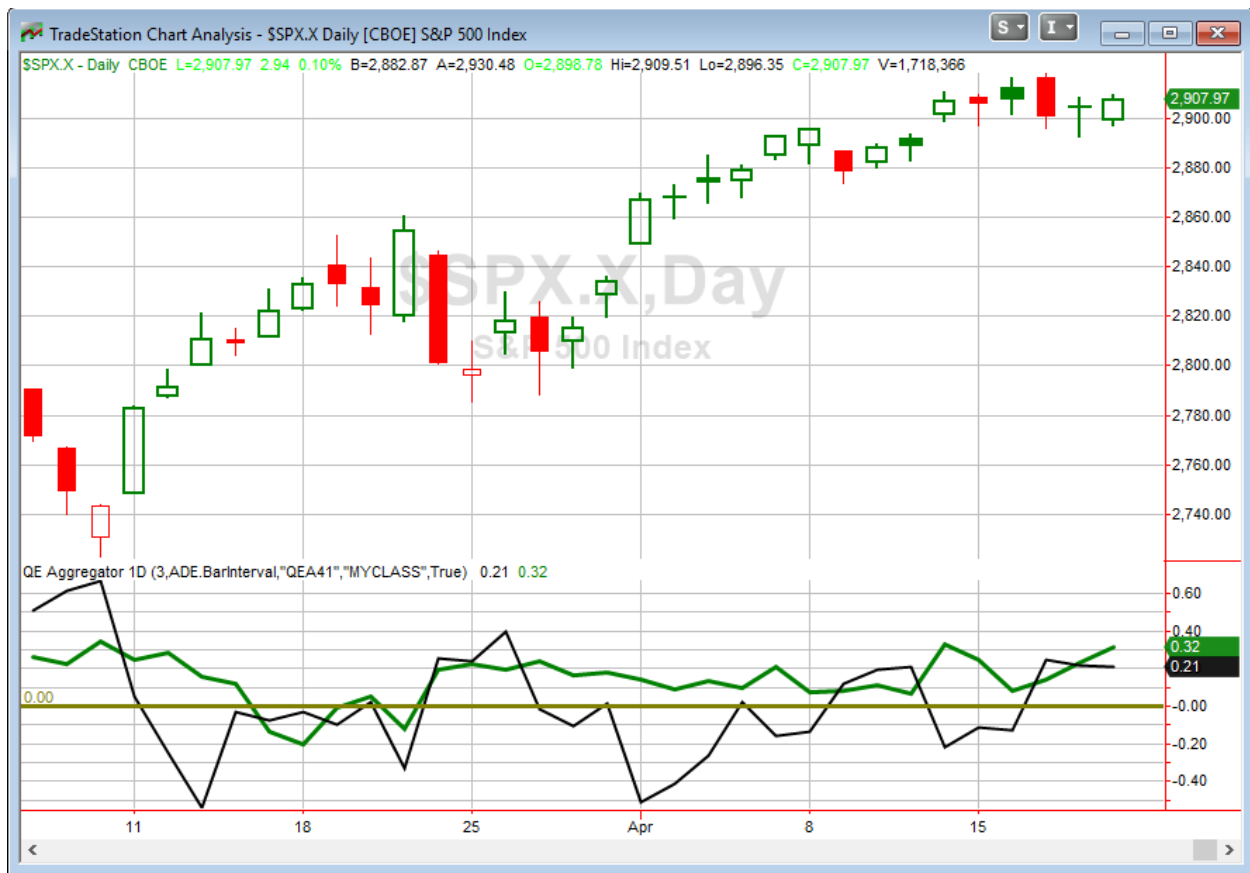


This looks pretty solid. I also produced a profit curve for a 10-day holding period.



The move up has been impressive. I have included this study on both the short-term and the intermediate-term active list.

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



With tonight's new studies being 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 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 active studies, expectations are set to remain bullish on Tuesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2914.20 on Tuesday. That is 0.2% above Monday's close. Therefore, SPX would only need to close up 0.2% on Tuesday in order to flip from oversold to overbought versus recent expectations.

My outlook is similar to last night. The Aggregator is again bullish. And there appears to be an upside edge. But I do not love reward/risk here. The SPX is near a high, which often hinders potential reward and increases potential risk. And this can also be seen with the consolidation near new high study I showed. Of course the strength of the market has been incredible, so hoping for an "ideal" buying opportunity could mean missing out. So it likely won't take much of a pullback to get me interested. If we get moderate decline on Tuesday, then I will likely look to take on new long index exposure on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/22 – bullish

The intermediate-term outlook was last updated in the 4/22/19 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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