

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2019

Volume 12 Issue 82

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- Fed Days and the 1<sup>st</sup> day of the month both show seasonally bullish tendencies, especially when the market closes poorly the day before.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. But a bad day on Tuesday would likely turn it bullish.

**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
<b>Active - Short Term</b>						
April 30, 2019	SPX 50-day high. VIX up Monday	1-2 days	Bearish			
<b>Active - Long Term</b>						
April 24, 2019	SPX closes above 50-day Bollinger Bnd	1-50 days	Bullish	5.00%	-4.30%	-8.10%
April 23, 2019	RUT down 3 days. SPX 3-day high	1-10 days	Bullish	3.80%	-0.90%	-2.00%
April 23, 2019	50-day high, then 5 closes inside rng	1-10 days	Bullish	2.20%	-1.10%	-2.40%
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			

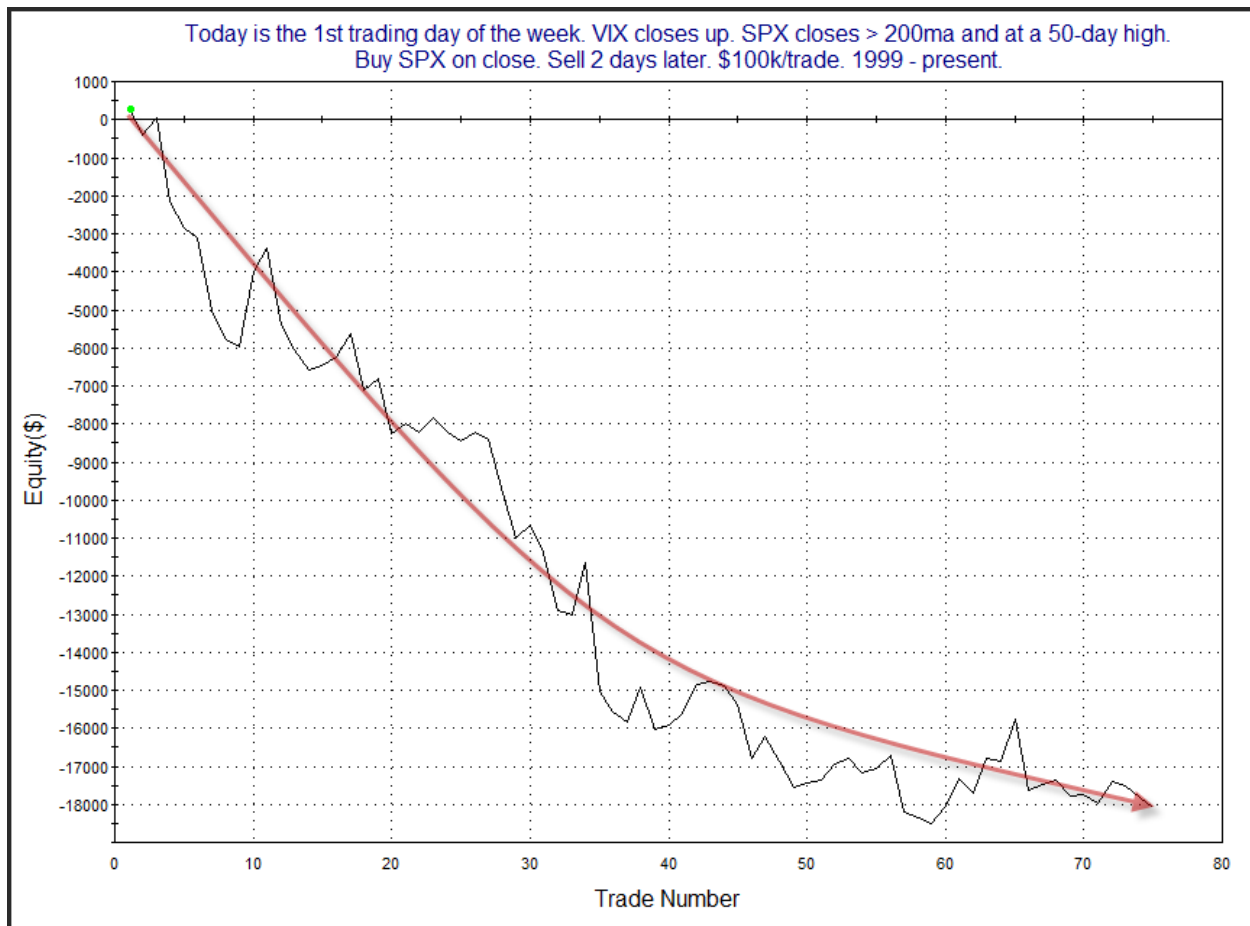
**The Evidence**

Monday was a quiet day with mostly mild gains. The SPX closed up 0.1%, the NASDAQ gained 0.2%, and the Russell 2000 rallied 0.4%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 55%. NYSE volume declined some from Friday's level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has often been followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 4/9/19 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-13,138.76	69	31	38	44.93	1,043.00	3,260.25	-1,196.63	-5,048.68	0.87	0.71	-190.42
4	-5,930.46	75	37	38	49.33	872.23	2,953.65	-1,005.34	-4,271.52	0.87	0.84	-79.07
3	-8,139.55	75	36	39	48.00	675.84	2,641.80	-832.56	-3,887.84	0.81	0.75	-108.53
2	-18,077.78	75	33	42	44.00	457.26	1,981.72	-789.70	-3,372.16	0.58	0.45	-241.04
1	-8,059.12	75	28	47	37.33	303.53	769.70	-352.30	-1,580.04	0.86	0.51	-107.45

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

In last night's letter I noted that Wednesday is both a Fed Day and the 1<sup>st</sup> day of a new month. These are both potentially bullish days. But they are both impacted by SPY movement the day before. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 8/1/18 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of intraday range.  
Buy on close. Sell Fed day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand

All Trades

Total Net Profit	\$6,728.13	Profit Factor	1.27
Gross Profit	\$31,707.93	Gross Loss	(\$24,979.80)
Total Number of Trades	82	Percent Profitable	47.56%
Winning Trades	39	Losing Trades	41
Even Trades	2		
Avg. Trade Net Profit	\$82.05	Ratio Avg. Win:Avg. Loss	1.33
Avg. Winning Trade	\$813.02	Avg. Losing Trade	(\$609.26)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand

All Trades

Total Net Profit	\$15,344.96	Profit Factor	2.04
Gross Profit	\$30,036.07	Gross Loss	(\$14,691.11)
Total Number of Trades	49	Percent Profitable	53.06%
Winning Trades	26	Losing Trades	22
Even Trades	1		
Avg. Trade Net Profit	\$313.16	Ratio Avg. Win:Avg. Loss	1.73
Avg. Winning Trade	\$1,155.23	Avg. Losing Trade	(\$667.78)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$11,652.40	Profit Factor	2.11
Gross Profit	\$22,196.43	Gross Loss	(\$10,544.03)
Total Number of Trades	39	Percent Profitable	66.67%
Winning Trades	26	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$298.78	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$853.71	Avg. Losing Trade	(\$811.08)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in bottom 25% of intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$23,346.14	Profit Factor	4.34
Gross Profit	\$30,327.24	Gross Loss	(\$6,981.10)
Total Number of Trades	39	Percent Profitable	74.36%
Winning Trades	29	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$598.62	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,045.77	Avg. Losing Trade	(\$698.11)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

So what we see here, is that in general, the lower SPY has closed in its range the day before, The stronger the Fed day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced.

A similar tendency occurs with the 1<sup>st</sup> trading day of the month. This can be seen in the studies below, which also use a 200ma filter. They are from the 3/29/19 letter. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

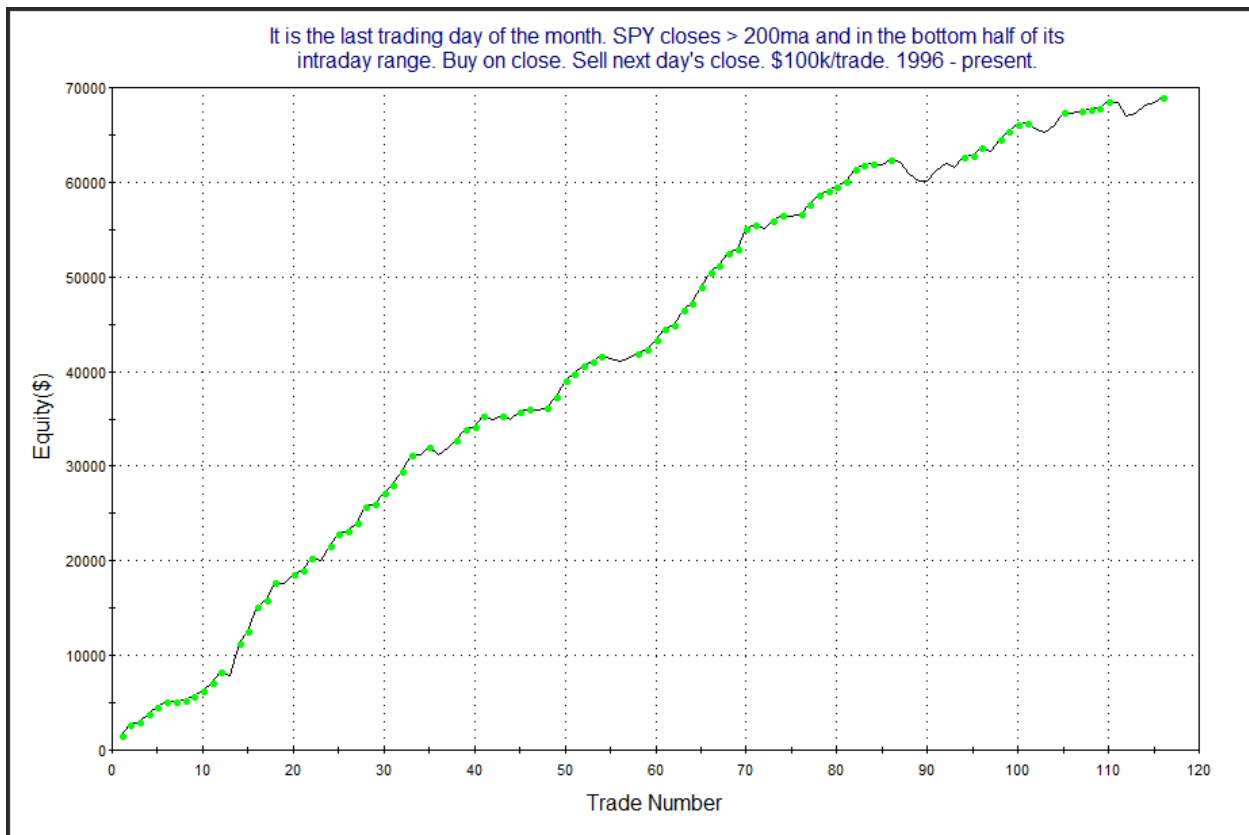
**TradeStation Performance Summary**

Expand ▾

All Trades

Total Net Profit	\$69,030.67	Profit Factor	7.90
Gross Profit	\$79,036.73	Gross Loss	(\$10,006.06)
Total Number of Trades	116	Percent Profitable	79.31%
Winning Trades	92	Losing Trades	24
Even Trades	0		
Avg. Trade Net Profit	\$595.09	Ratio Avg. Win:Avg. Loss	2.06
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$416.92)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 8x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 116 instances. Below is a profit curve.

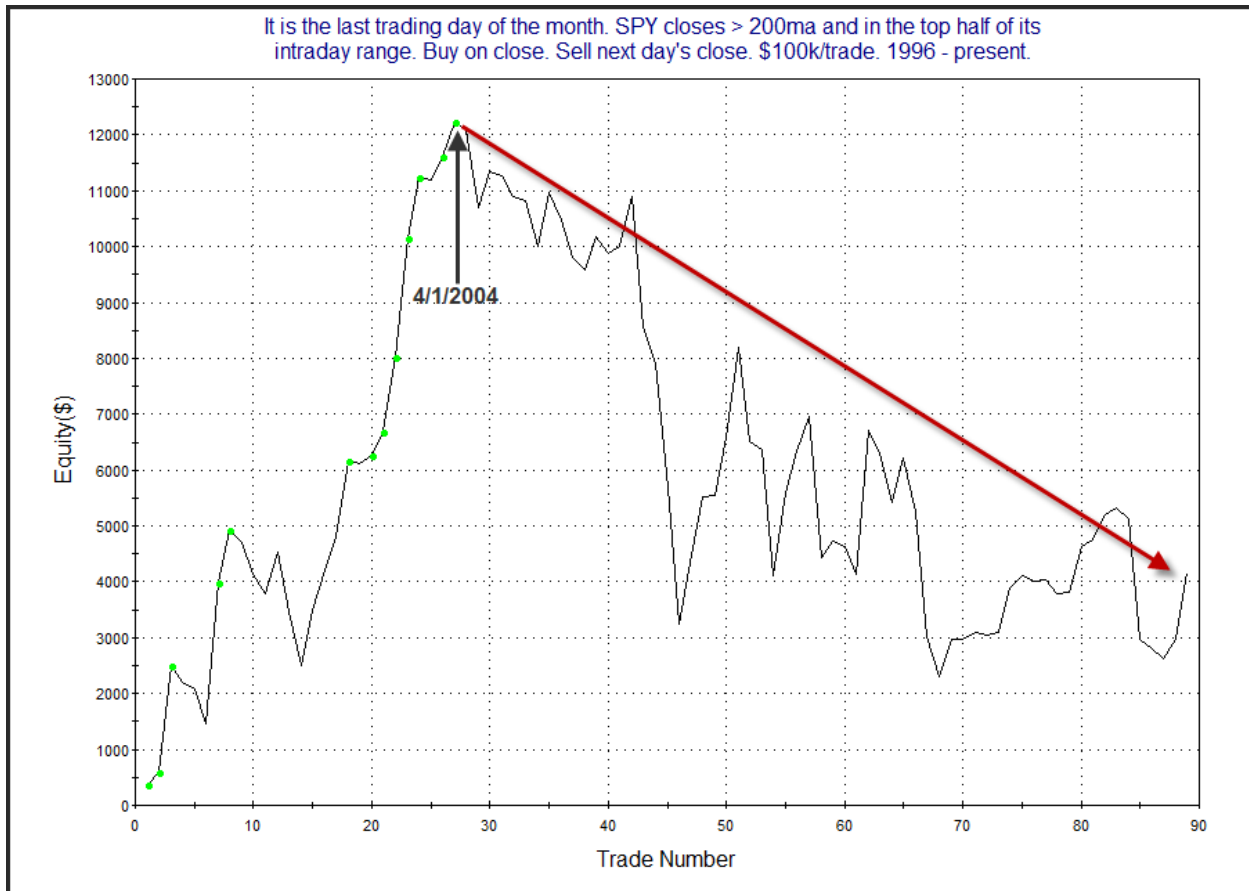


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Tuesday?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

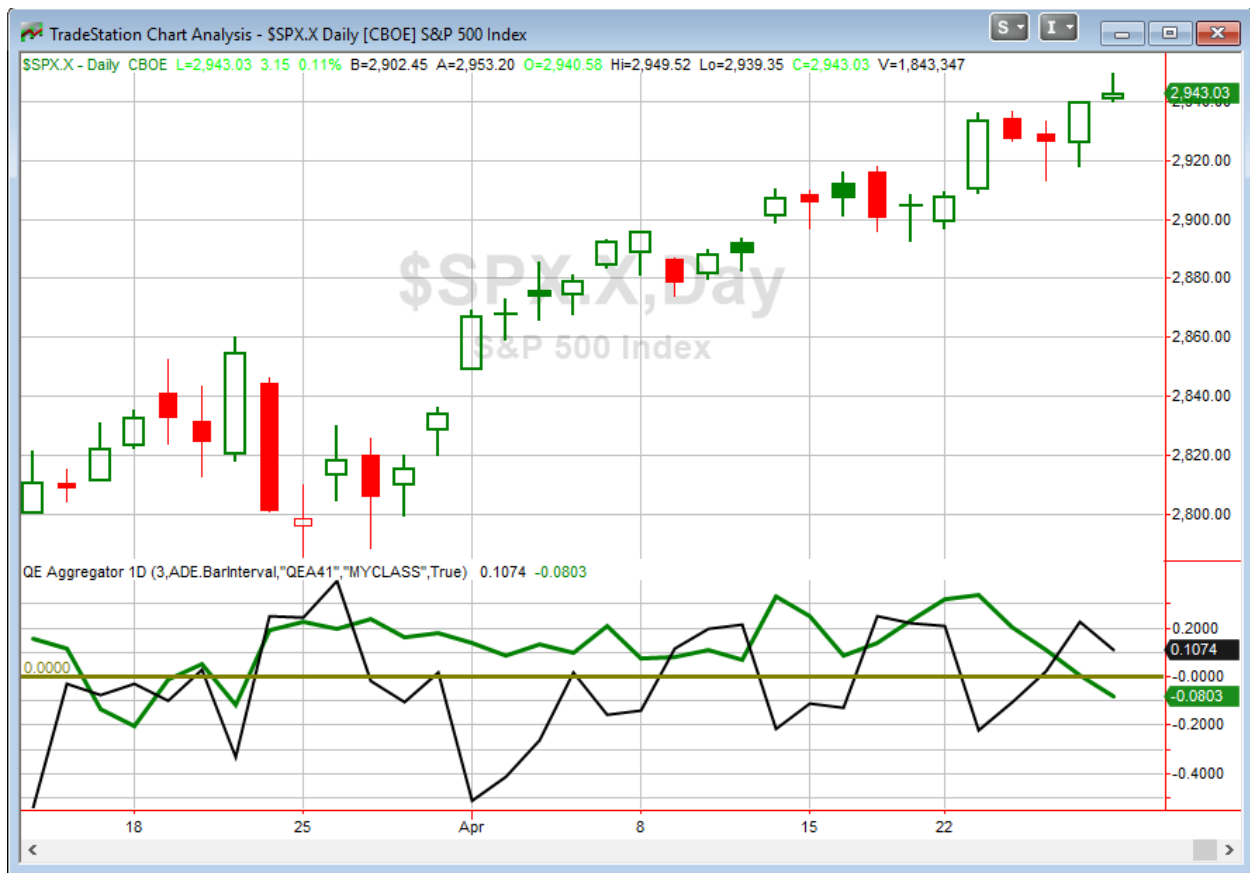
TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$4,154.64	Profit Factor	1.13
Gross Profit	\$36,085.58	Gross Loss	(\$31,930.94)
Total Number of Trades	89	Percent Profitable	52.81%
Winning Trades	47	Losing Trades	42
Even Trades	0		
Avg. Trade Net Profit	\$46.68	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$767.78	Avg. Losing Trade	(\$760.26)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture. So it appears Tuesday's action may be important when considering the odds of a rally on Wednesday. Whether we look at Fed Days or turn of month studies, these seasonal setups perform much better with some afternoon selling leading up to the day.

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



With tonight's new evidence to consider the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line remained above 0. The positive Differential Line reading means SPX is "oversold" versus recent expectations. So expectations are negative but SPX is oversold. 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 studies we are seeing, expectations are likely to flip to bullish on Tuesday. Of course, this could easily change if new bearish evidence emerges. The Differential Pivot will be 2945.34 on Tuesday. That is just 0.1% above Monday's close. So SPX would flip from oversold to overbought with just a small rise on Tuesday.

The study I showed last night that looks at the 1<sup>st</sup> of month / Fed Day combination will become active at the close on Tuesday. And a poor close would see some of the studies I showed tonight take effect. Google disappointed after the close, and that caused futures to drop some tonight. Perhaps that could get a bit of a selloff started for Tuesday. While the Aggregator formation is neutral right now, it will likely be bullish on a down day Tuesday. If we do see a substantial selloff, then I may look to get long at the close for a trade that could last less than 1 day.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/29 – bullish***

The intermediate-term outlook was last updated in the 4/29/19 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***

*New*

INTC – 1/3 @ \$51.11 (buy @ limit)

***Broad Market Large Cap CBI – 1(INTC)***

**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.*

**INTC – buy 1/3 Catapult position @ \$51.11 LIMIT.** From the Catapult section above, this would be the 1st of up to 3 lots of INTC.

**SPY – buy ¼ index position @ \$291.50 LIMIT ON CLOSE.** Based on the short-term outlook above. This would take SPY down below its 10ma and below the midpoint of its 10-day range. Additionally, a close down this much would likely mean a finish in the bottom half of the day's range, which would be a positive for both the 1<sup>st</sup> day of the month and the Fed Day. I am anticipating a bullish outlook here and will not wait for confirmation to get long. But I might exit this trade fairly quickly (before 2pm Wednesday), since the reaction to the Fed is often difficult to predict.

## **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](#).*

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.