

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2019

Volume 12 Issue 83

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- The strong close on Tuesday hurt the odds for both the Fed Day and 1st of month bullish edges.
- When a Fed Day has occurred on the 1st day of a new month, that has generally been followed by a good start to the month.
- When the last day of the month marks the highest close of the month, then the momentum often carries through into the 1st week of the new month.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and the Fed announcement could spark volatile afternoon trading. I'll wait to see how that plays out and what new evidence emerges as a result before taking on new index exposure.

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 1, 2019	Fed Day & Turn of Month	1-3 days	Bullish			
May 1, 2019	SPY finish month at high of month	1-5 days	Bullish			
April 30, 2019	SPX 50-day high. VIX up Monday	1-2 days	Bearish			
Active - Long Term						
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			

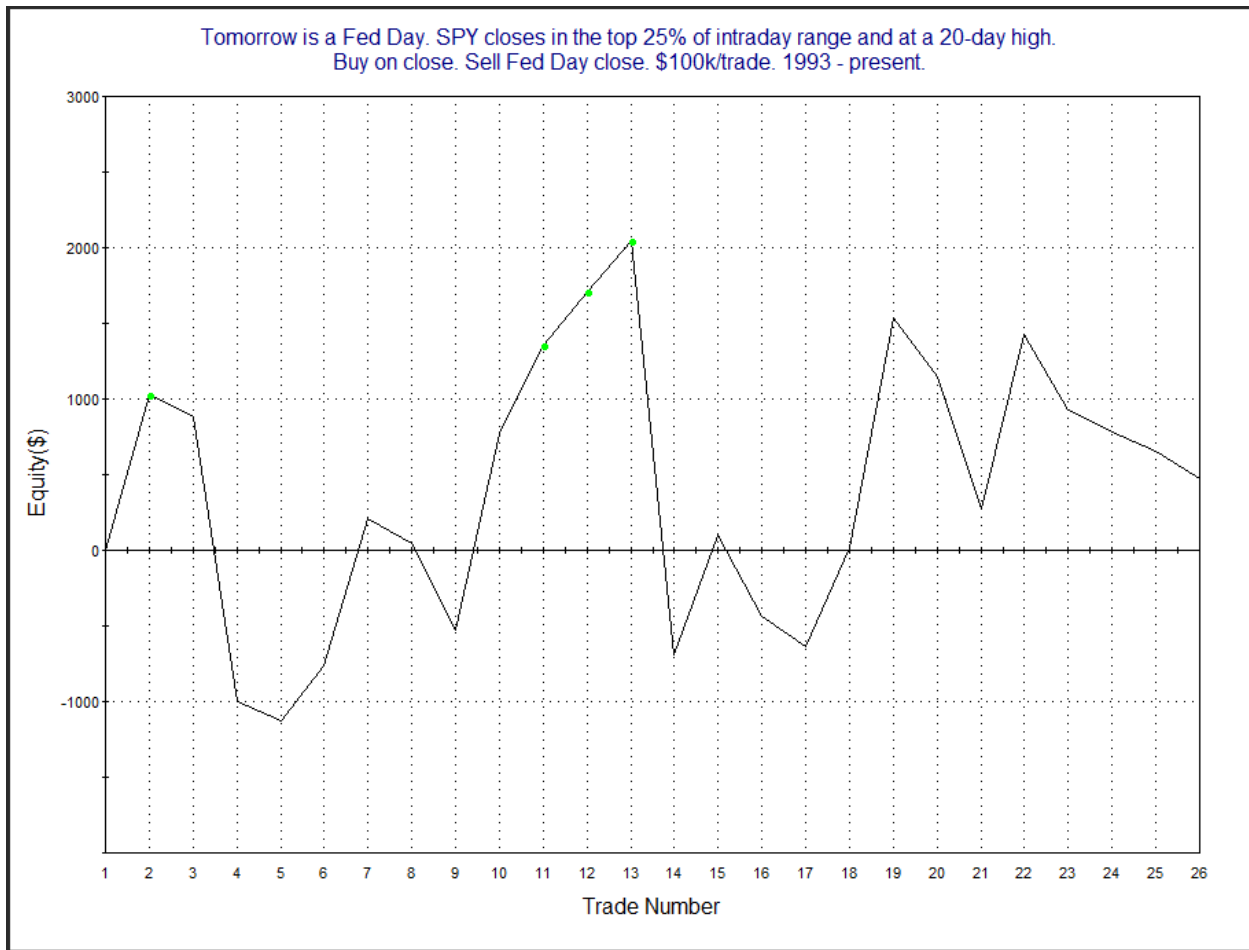
The Evidence

A morning selloff saw a big bounce back in the afternoon with the market closing mixed but near its highs for the day. The SPX closed up 0.1%, the NASDAQ lost 0.8%, and the Russell 2000 fell 0.45%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 55%. NYSE volume came in quite high.

Last night I showed some studies that suggested when positive seasonality (like Fed Days or turn of the month) has been front run the afternoon before, then that has removed much or all of the bullish edge for the next day. Unfortunately, that may be the case with Tuesday's action. Not only did SPY close in the upper end of its intraday range, but it also closed at a new high on Tuesday. Both closes in the upper part of the daily range, and at intermediate-term highs can reduce the Fed Day edge. In the 11/8/18 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. I have updated that study below.

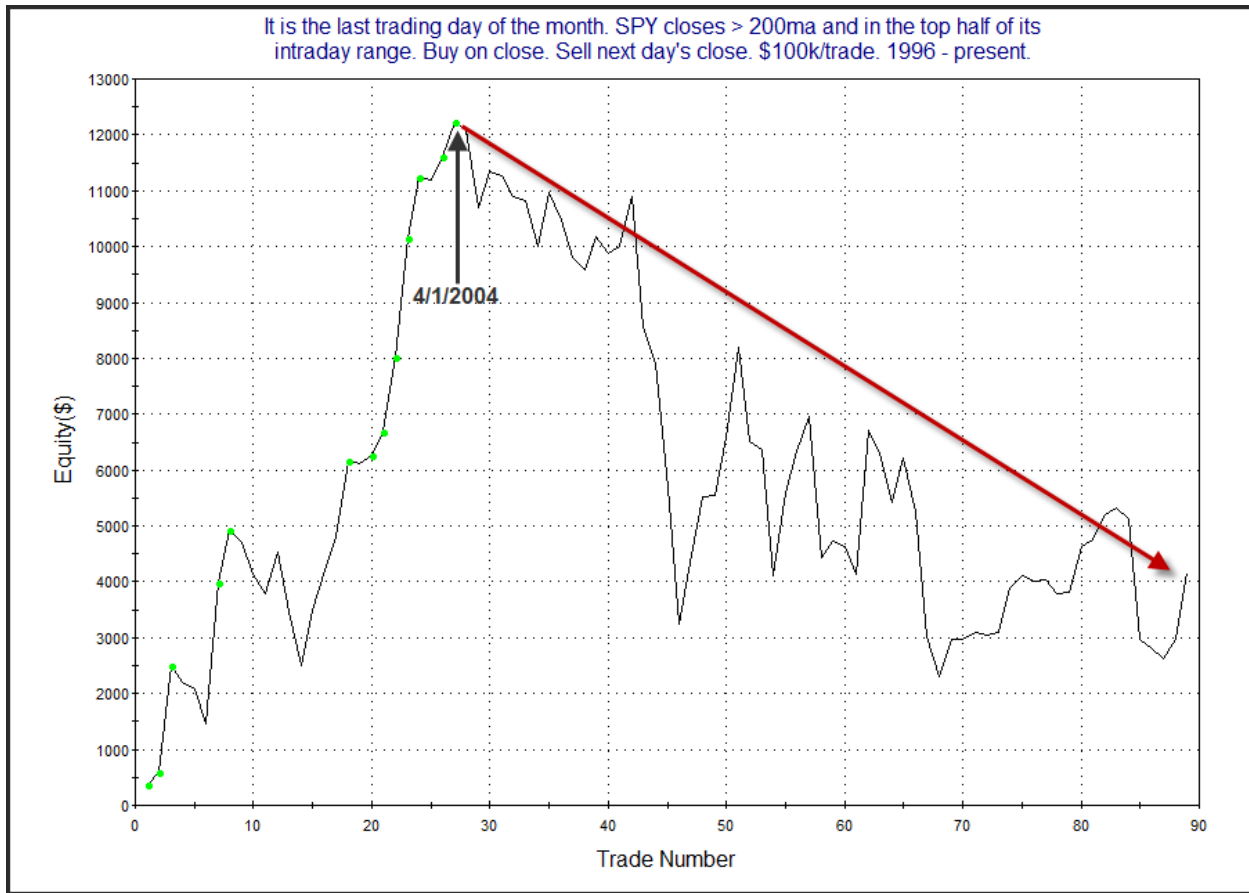
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$471.10	Profit Factor	1.05
Gross Profit	\$9,064.77	Gross Loss	(\$8,593.67)
Total Number of Trades	26	Percent Profitable	42.31%
Winning Trades	11	Losing Trades	14
Even Trades	1		
Avg. Trade Net Profit	\$18.12	Ratio Avg. Win:Avg. Loss	1.34
Avg. Winning Trade	\$824.07	Avg. Losing Trade	(\$613.83)
Largest Winning Trade	\$1,522.40	Largest Losing Trade	(\$2,739.69)

The numbers here are nearly breakeven and not compelling. Below is the profit curve.



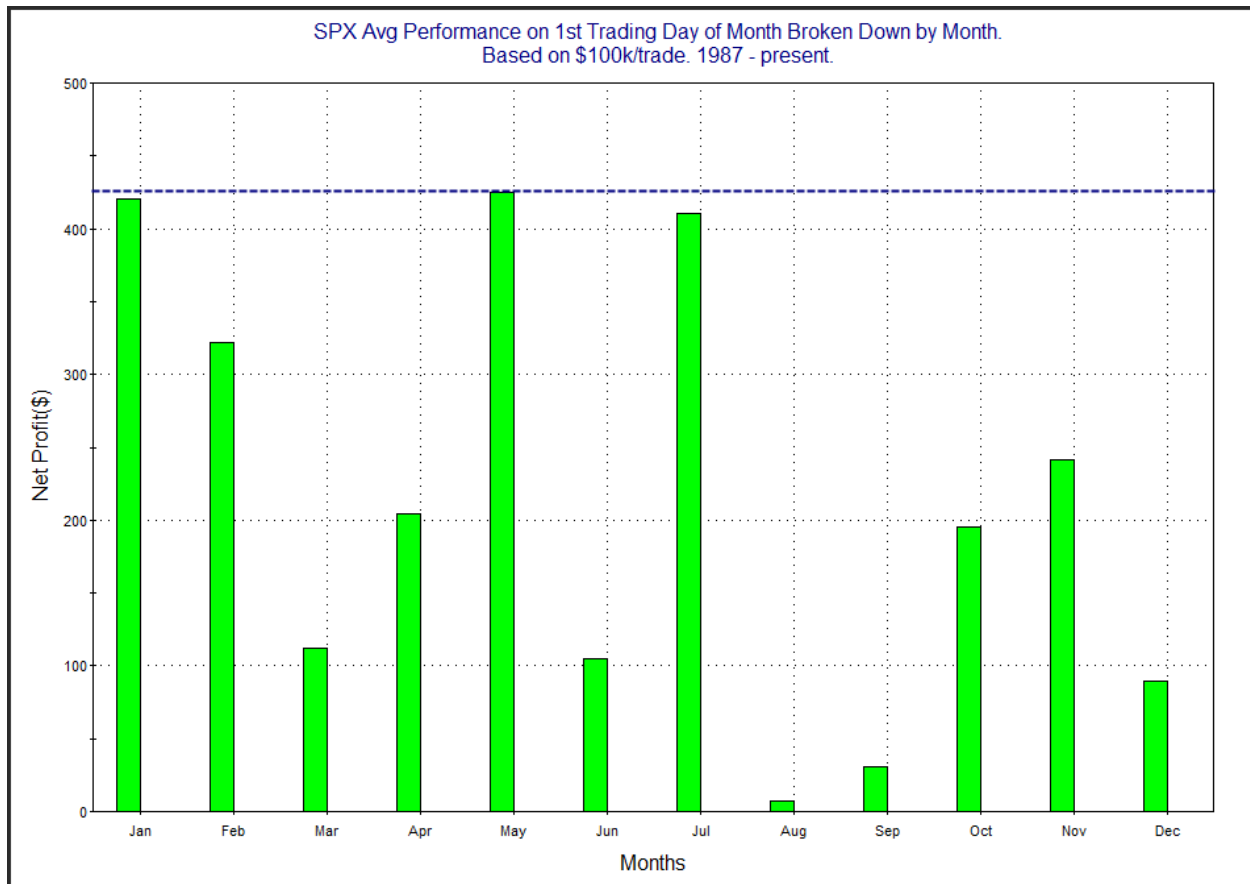
Same story here. I see nothing compelling about this study.

The turn of the month study I showed last night was also not compelling since SPY closed high in the intraday range. I have copied the profit curve from last night below.



This does not inspire confidence.

One positive about the 1st day of May is that since 1987 May has posted the highest average gains on the 1st day of any month. This can be seen in the chart below.



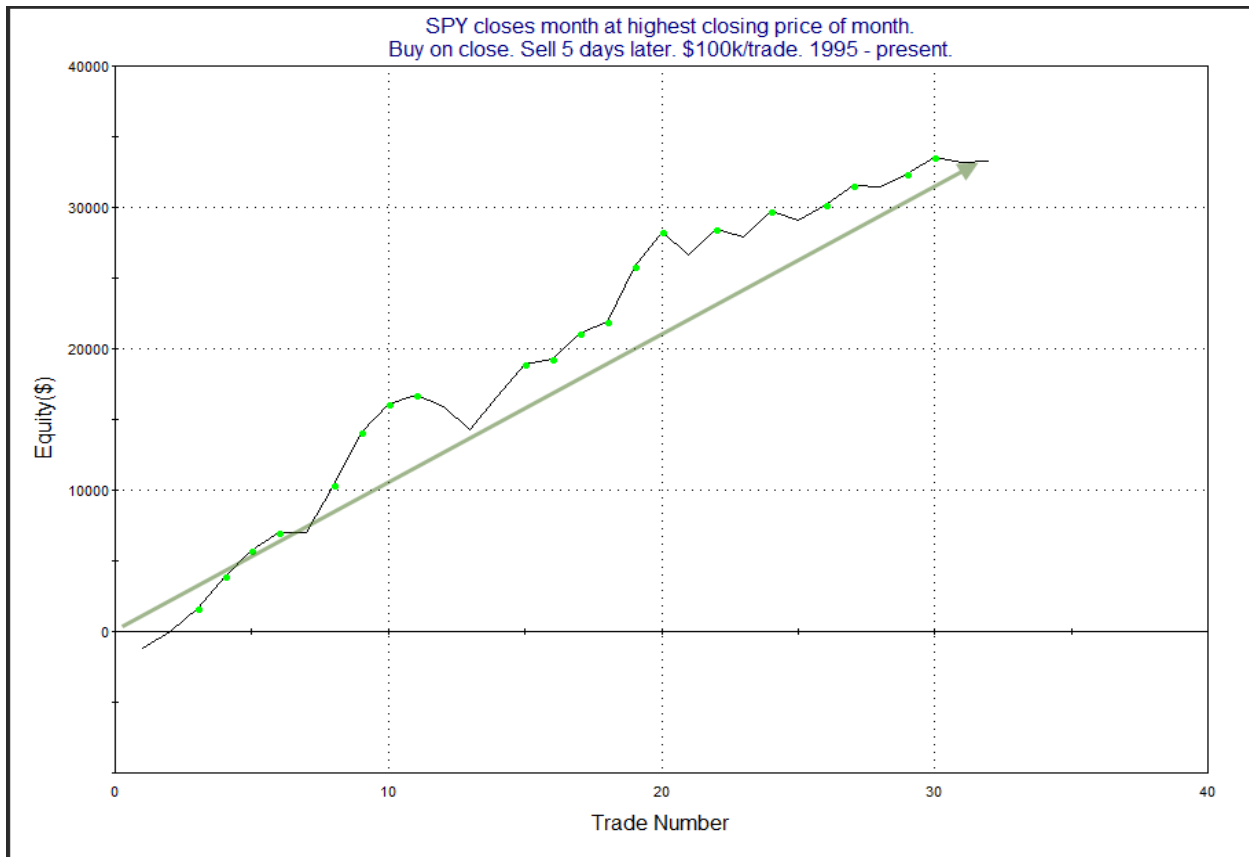
The only months that really come close are January and July. Still, I am not overly encouraged by Tuesday's strong close.

But while the outlook for Wednesday may not be great, there are some indications that we could see further rallying in the next few days. The study below last seen in the 2/1/19 letter. Results suggested strong end of month momentum has typically carried through into the following month. I have updated the results below.

SPY closes month at highest closing price of month.
Buy 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
5	33,297.50	32	23	8	71.88	1,745.53	3,931.92	-856.20	-1,659.68	2.04	5.86	1,040.55
4	28,338.93	32	22	10	68.75	1,789.20	5,394.96	-1,102.36	-4,338.40	1.62	3.57	885.59
3	17,418.55	32	21	11	65.63	1,447.32	4,105.92	-1,179.56	-4,678.40	1.23	2.34	544.33
2	11,559.47	32	18	14	56.25	1,278.55	3,954.78	-818.17	-4,848.40	1.56	2.01	361.23
1	4,797.13	32	17	15	53.13	746.81	1,850.94	-526.58	-1,049.76	1.42	1.61	149.91

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



The steady upslope is comforting. I have added this study to the active list tonight. Also being added to the active list is the study below, which I copied from Sunday night's letter.

Here I wanted to look at a study last seen in the 7/31/18 letter. It looked at other instances where the Fed Day and the turn of the month came at the same time. It will become effective for Wednesday. Stats are updated below.

Tomorrow is a Fed Day & it is the 1st day of the month.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	14,715.29	11	9	2	81.82	2,122.51	3,603.60	-2,193.65	-4,027.50	0.97	4.35	1,337.75
9	11,948.38	11	9	2	81.82	1,950.47	3,848.24	-2,802.92	-3,955.90	0.70	3.13	1,086.22
8	11,560.99	11	9	2	81.82	1,703.32	2,757.04	-1,884.45	-1,890.24	0.90	4.07	1,051.00
7	9,009.98	11	9	2	81.82	1,540.88	2,683.12	-2,428.98	-2,842.42	0.63	2.85	819.09
6	10,364.50	11	9	2	81.82	1,509.16	2,283.24	-1,608.98	-1,850.40	0.94	4.22	942.23
5	8,953.82	11	9	2	81.82	1,434.07	2,861.76	-1,976.42	-2,148.52	0.73	3.27	813.98
4	7,478.47	11	9	2	81.82	1,125.10	2,272.64	-1,323.73	-1,698.77	0.85	3.82	679.86
3	9,482.18	11	10	1	90.91	1,035.60	2,064.48	-873.80	-873.80	1.19	11.85	862.02
2	2,891.03	11	10	1	90.91	392.21	1,107.92	-1,031.04	-1,031.04	0.38	3.80	262.82
1	1,354.78	11	6	5	54.55	502.93	1,293.60	-332.55	-921.94	1.51	1.81	123.16

Obviously there are not a lot of instances, but they certainly appear encouraging – especially over the 1st 3 days. Below is the list of instances with their 3-day results.

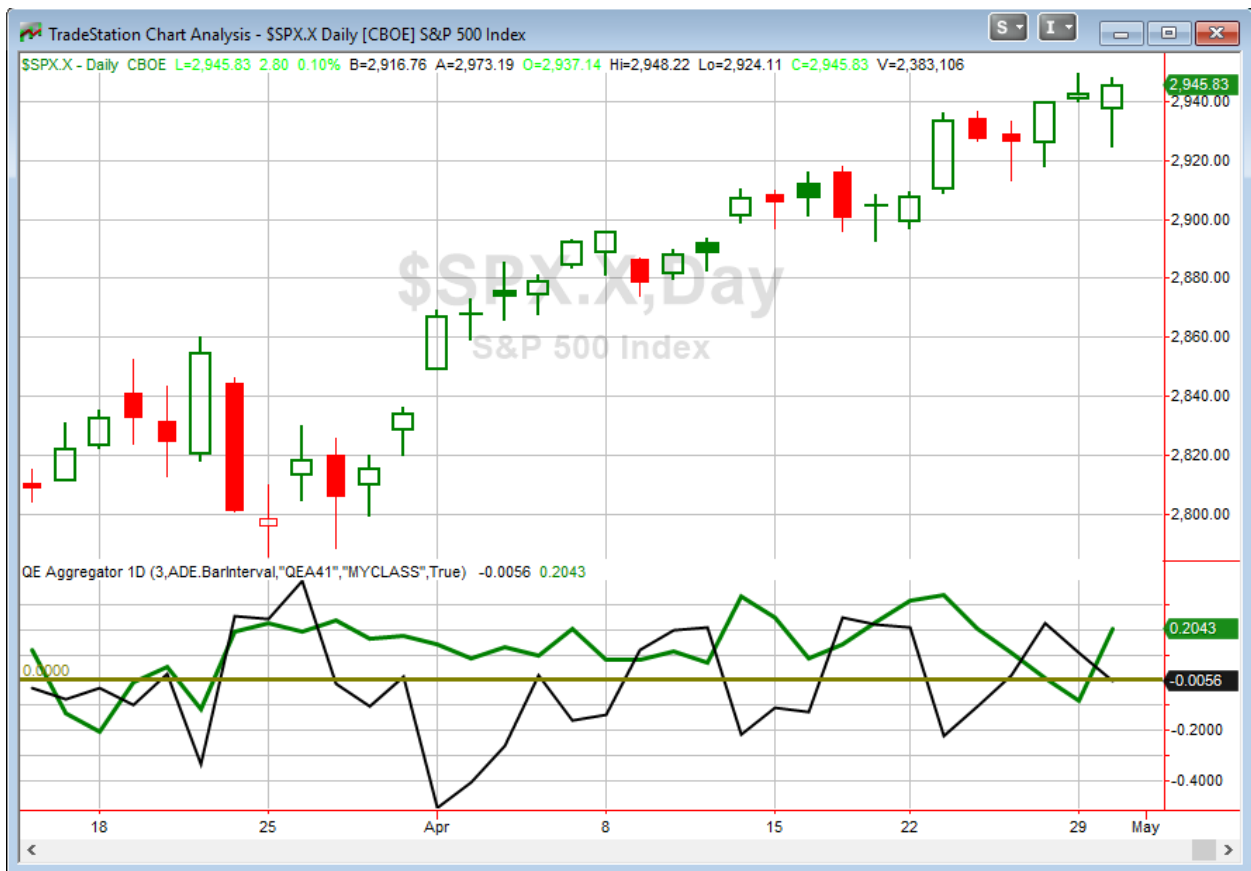
Tomorrow is a Fed Day & it is the 1st day of the month.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/1988	Buy	\$278.96	0.08%	\$504.78
11/3/1988	Sell	\$279.19		(\$673.04)
9/30/1991	Buy	\$387.86	-0.88%	\$557.69
10/3/1991	Sell	\$384.46		(\$873.80)
6/30/1992	Buy	\$408.13	1.40%	\$1,854.65
7/6/1992	Sell	\$413.84		\$0.00
1/31/1995	Buy	\$470.42	1.75%	\$2,011.88
2/3/1995	Sell	\$478.65		(\$239.56)
6/30/1998	Buy	\$1,133.86	2.07%	\$2,064.48
7/6/1998	Sell	\$1,157.32		(\$1.76)
10/31/2005	Buy	\$1,206.98	1.07%	\$1,453.04
11/3/2005	Sell	\$1,219.94		(\$484.62)
7/31/2012	Buy	\$1,379.32	0.85%	\$1,068.48
8/3/2012	Sell	\$1,390.99		(\$1,776.24)
4/30/2013	Buy	\$1,597.57	1.05%	\$1,295.18
5/3/2013	Sell	\$1,614.42		(\$1,009.98)
1/31/2017	Buy	\$2,278.87	0.81%	\$835.92
2/3/2017	Sell	\$2,297.42		(\$310.46)
10/31/2017	Buy	\$2,575.26	0.49%	\$500.08
11/3/2017	Sell	\$2,587.84		(\$345.42)
7/31/2018	Buy	\$2,816.29	0.85%	\$843.15
8/3/2018	Sell	\$2,840.35		(\$698.25)

Results here appear encouraging. I'll note that every instance saw a run-up of at least 0.5% over the entry price at some point during the 3-day period.

I'll also note there were a few studies that looked at VIX and a few that looked at Tuesday's high volume that appeared in the Quantifinder, but they have not performed according to previous norms recently, so I decided not to include them as evidence tonight.

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



With tonight's new evidence to consider the green Aggregator Line rose back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line fell 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 zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are likely to remain bullish on Wednesday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 2949.35 on Wednesday. That is 0.1% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up about 3.5 points in order to remain overbought. Anything less than that, and it will be considered "oversold" versus expectations as of Wednesday's close.

So the Aggregator formation remains neutral. The outlook for Wednesday is murky, and there is high potential for afternoon volatility with the release of the Fed minutes. Of course there is a good chance the day starts quite a bit higher since AAPL sent the futures market higher on earnings after the close on Tuesday. I'll wait to see how all the news settles out on Wednesday, and what new evidence emerges before considering taking on any new index exposure.

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

INTC – 1/3 @ \$51.11 (bought @ limit)

New

INTC – 1/3 @ \$51.04 (buy @ limit)

Broad Market Large Cap CBI – 2(INTC-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.

INTC – buy 1/3 Catapult position @ \$51.04 LIMIT. From the Catapult section above, this would be the 2nd of up to 3 lots of INTC.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
INTC(1/3)	4/30/2019	\$51.00	\$51.04	0.08%		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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