

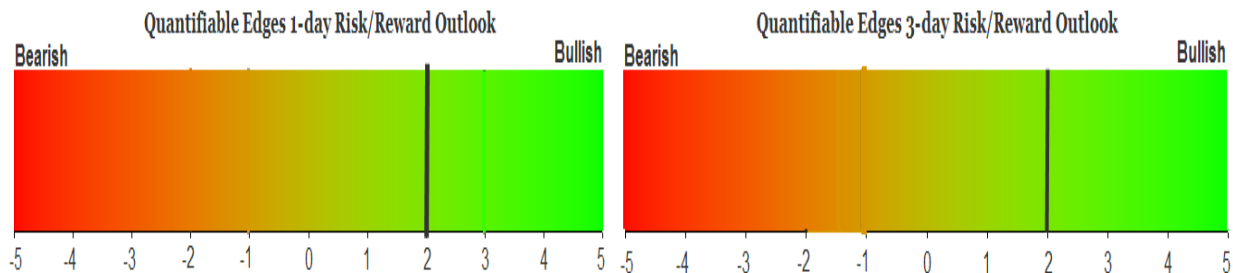
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2019

Volume 12 Issue 87

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	5

Tonight's Research Points

- The big reversal from the open could be a positive.
- Coming from an intermediate-term high, an unfilled gap down after an unfilled gap up appears to be somewhat bullish.

Short-term Outlook

The Bottom Line

Evidence is now mixed, but the Aggregator remains bullish. I believe there remains a mild upside edge, and am continuing to hold my small short position.

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 3, 2019	Unfilled gp dn after unfilled up 20-high	1-4 days	Bearish			
May 6, 2019	NASDAQ rises 1% to 50-hi on Jobs Day	1-5 days	Bullish			
May 3, 2019	50-high to 8-low in 2 days	1-5 days	Bullish			
May 2, 2019	Up Yest. 3 hi, 3 low, 3 low close today	1-5 days	Bullish	1.70%	-1.20%	-2.40%
May 2, 2019	15+ days > 10ma then close below	1-5 days	Bullish	1.40%	-1.00%	-2.40%
May 1, 2019	SPY finish month at high of month	1-5 days	Bullish			
Active - Long Term						
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 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			
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			

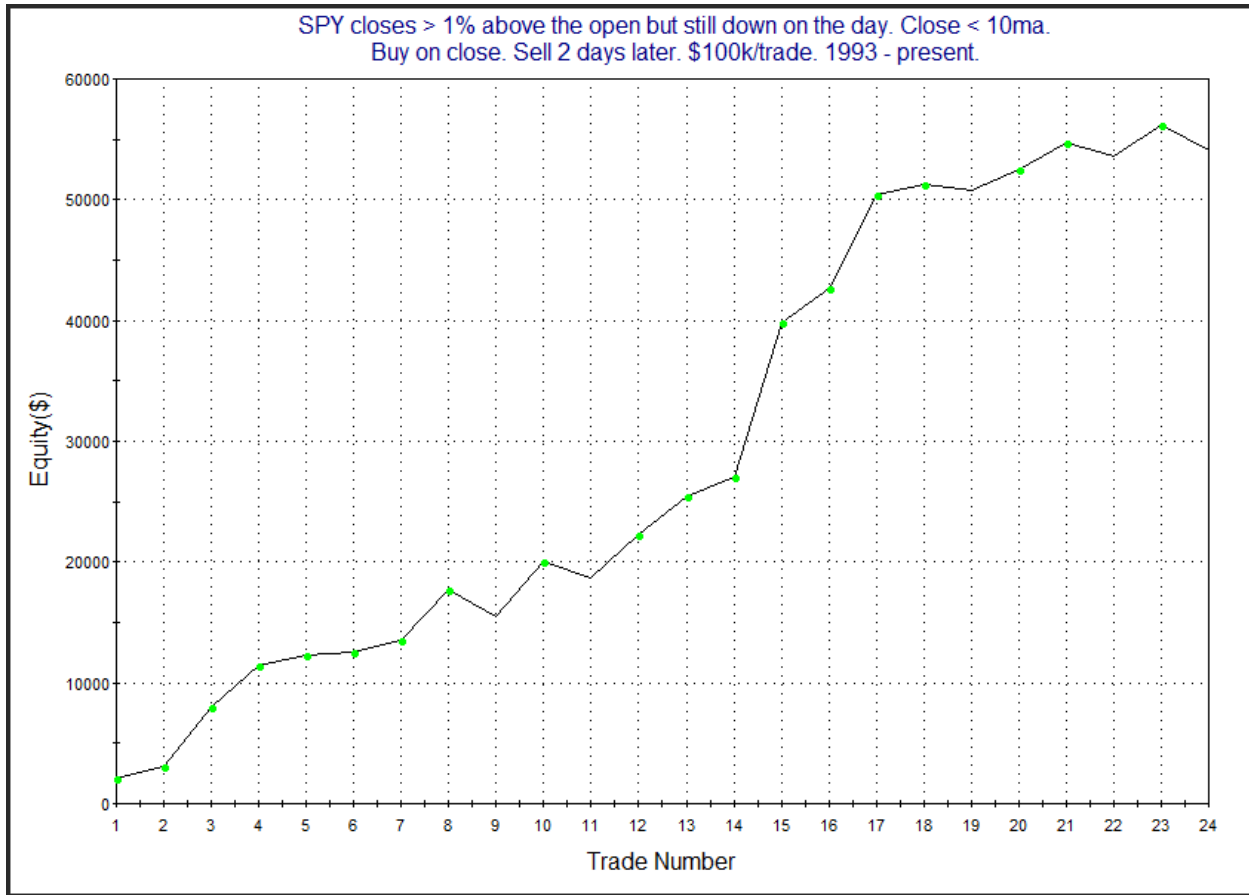
The Evidence

The market recovered a large chunk from its big gap down Monday morning, but still finished mostly lower. The SPX lost 0.45%, the NASDAQ dropped 0.5%, and the Russell 2000 rose 0.1%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 34%. NYSE volume rose some from Friday's level.

There were a few studies that triggered in the Quantifinder that examined SPY's big gap down and partial reversal. The study below is one I last showed in the 12/10/14 subscriber letter. It examined times when SPY rose over 1% from open to close but still finished down on the day and below its 10-day moving average. All results are updated.

SPY closes > 1% above the open but still down on the day. Close < 10ma. 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
5	46,193.38	23	15	8	65.22	4,520.14	11,238.92	-2,701.08	-6,614.24	1.67	3.14	2,008.41
4	49,052.47	24	16	8	66.67	4,135.94	10,630.48	-2,140.31	-6,725.16	1.93	3.86	2,043.85
3	34,080.36	24	16	8	66.67	3,137.29	6,933.92	-2,014.53	-5,355.22	1.56	3.11	1,420.02
2	54,037.45	24	19	5	79.17	3,232.28	12,814.15	-1,475.17	-2,251.30	2.19	8.33	2,251.56
1	36,060.34	24	16	8	66.67	3,123.92	14,507.65	-1,740.29	-3,547.32	1.80	3.59	1,502.51

The numbers here all look strong. Much of the gains have been realized in the first 2 days. Below is an equity curve for the 2-day holding period.



So this looks pretty good. But it should be understood that this kind of action typically takes place during volatile downtrends. Not near new highs like the market is now. Below is a look at the same study with a 200ma filter.

SPY closes > 1% above the open but still down on the day. Close < 10ma
and > 200ma. 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	16,337.42	5	5	0	100.00	3,267.48	9,625.35	0.00	0.00	100.00	100.00	3,267.48
9	15,173.46	5	5	0	100.00	3,034.69	10,793.37	0.00	0.00	100.00	100.00	3,034.69
8	13,405.90	5	4	1	80.00	3,617.11	10,144.47	-1,062.55	-1,062.55	3.40	13.62	2,681.18
7	8,778.82	5	4	1	80.00	2,652.00	8,291.50	-1,829.20	-1,829.20	1.45	5.80	1,755.76
6	3,214.23	5	2	3	40.00	4,248.65	7,642.60	-1,761.02	-2,353.75	2.41	1.61	642.85
5	121.37	5	2	3	40.00	3,023.41	5,479.60	-1,975.15	-4,143.04	1.53	1.02	24.27
4	4,257.57	5	3	2	60.00	3,071.10	6,020.35	-2,477.87	-3,368.64	1.24	1.86	851.51
3	3,798.78	5	3	2	60.00	2,373.70	5,587.75	-1,661.16	-2,700.72	1.43	2.14	759.76
2	1,043.18	5	3	2	60.00	899.46	1,008.75	-827.59	-1,103.52	1.09	1.63	208.64
1	-5,174.91	5	1	4	20.00	1,439.15	1,439.15	-1,653.52	-1,849.26	0.87	0.22	-1,034.98

Instances drop steeply to just a handful, which makes it difficult to draw any conclusions. The 1st couple of days no longer look bullish. But when you look out two weeks the set is 5 for 5. Below I listed all the instances and their 10-day returns.

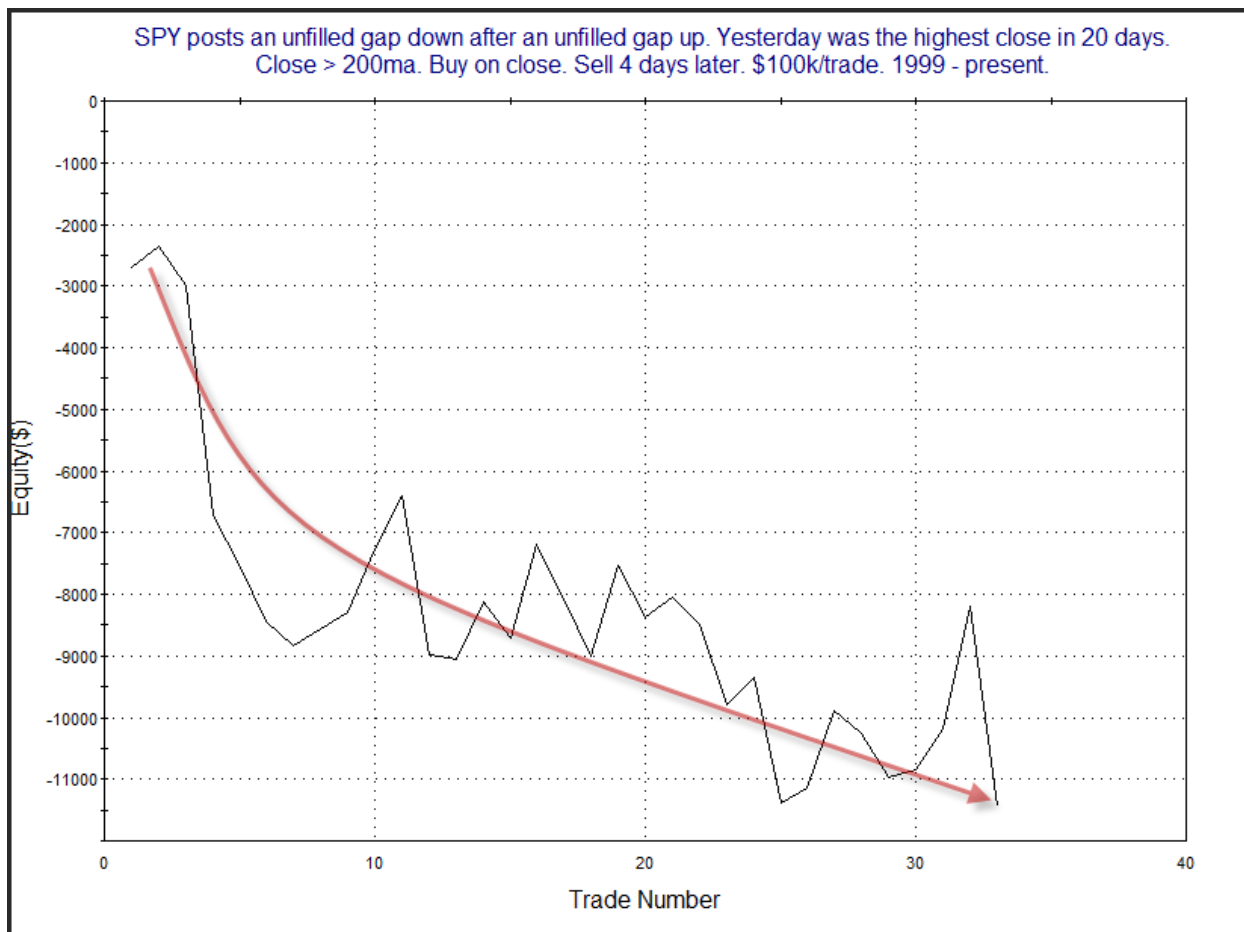
SPY closes > 1% above the open but still down on the day. Close < 10ma and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/6/1996	Buy	\$74.31	0.85%	\$1,896.45
12/20/1996	Sell	\$74.94		(\$3,268.35)
1/13/1999	Buy	\$123.38	2.68%	\$3,693.60
1/28/1999	Sell	\$126.69		(\$2,000.70)
3/13/2000	Buy	\$138.59	9.63%	\$12,372.36
3/27/2000	Sell	\$151.94		(\$1,824.13)
3/15/2011	Buy	\$128.56	2.57%	\$2,610.72
3/29/2011	Sell	\$131.86		(\$2,548.56)
12/9/2014	Buy	\$206.47	0.62%	\$3,146.00
12/23/2014	Sell	\$207.75		(\$4,167.24)

What stands out to me in the above results is the volatility. Every instance saw a run-up and a drawdown of at least 1.8% from the entry point during the next two weeks. Bottom line with these studies is that I don't feel they provide a reliable directional edge. But I do think they suggest Monday's action is not likely the end of the volatility for the next few weeks.

There was some moderately bearish evidence that emerged. This next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 1/11/18 Subscriber Letter. Below are updated results.

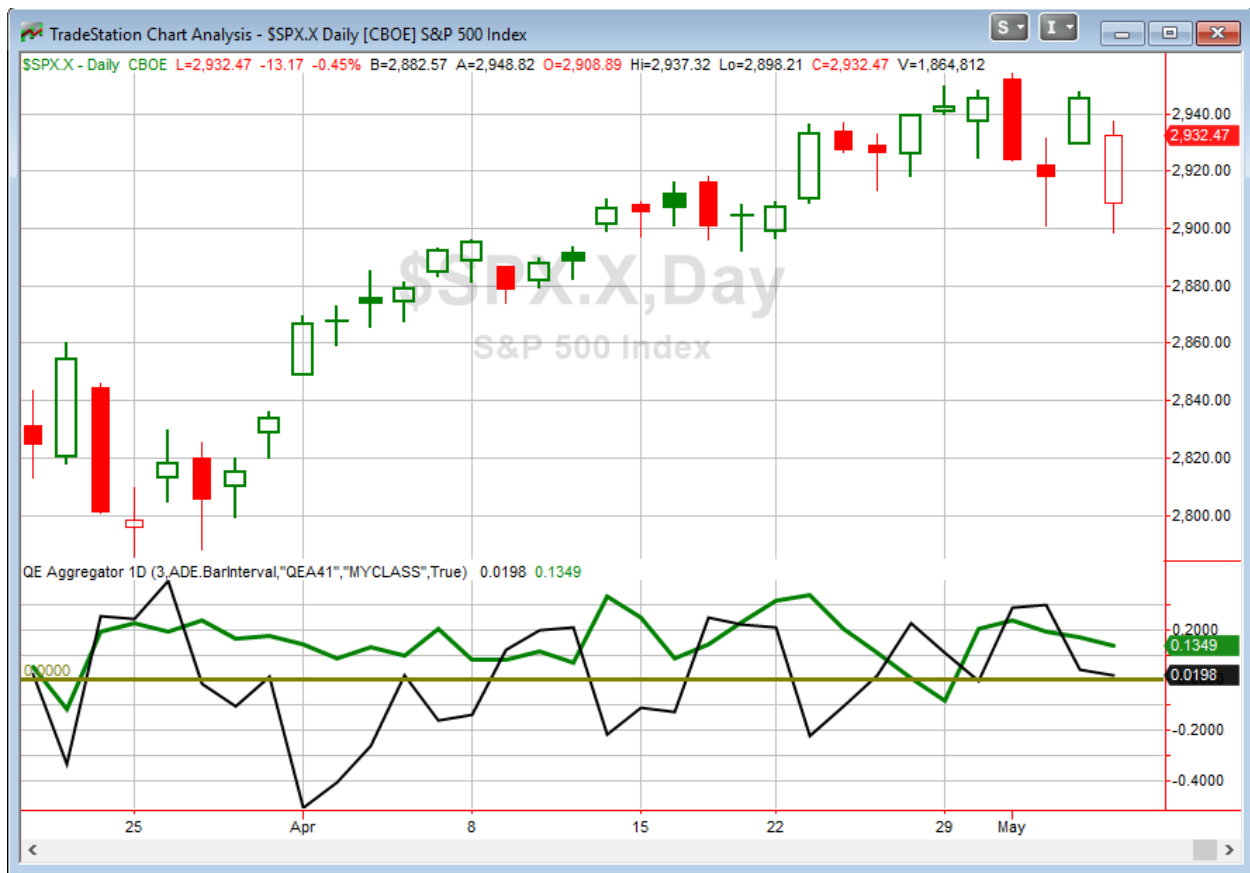
SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,674.11	33	16	17	48.48	821.97	1,827.28	-1,577.98	-7,283.25	0.52	0.49	-414.37
4	-11,433.61	33	15	18	45.45	785.30	1,998.36	-1,289.62	-3,746.95	0.61	0.51	-346.47
3	-8,135.71	33	15	18	45.45	622.73	1,044.24	-970.93	-2,017.28	0.64	0.53	-246.54
2	-5,040.28	34	14	20	41.18	562.66	1,383.20	-645.88	-2,232.00	0.87	0.61	-148.24
1	-4,349.98	34	15	19	44.12	438.20	1,008.68	-574.90	-1,807.92	0.76	0.60	-127.94

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling over the next few days. I did add this to the Active List tonight.

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



Despite the bearish study to consider, 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 also 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 list of active studies, expectations are set to remain bullish on Tuesday. This could change if very compelling new bearish evidence emerges. The Differential Pivot will be 2935.95 on Tuesday. That is just 0.1% above Monday’s close. So it will only take a small close higher in order for the market to flip from oversold to overbought versus expectations on Tuesday.

So the bulk of the evidence remains bullish, and the mild oversold condition has the Aggregator signal long. It seems to me there is an upside edge over the next few days, but news on trade talks has already been disruptive, and could be again in the next few days. I have a small index position on right now. I will not be adding to it for now. I’ll continue to hold it on Tuesday, and then evaluate further tomorrow night.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/6 – 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)

New

CSCO – 1/3 @ \$54.59 (buy @ limit)

Broad Market Large Cap CBI – 5(INTC-3, MMM, CSCO)

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.

CSCO – buy 1/3 Catapult position @ \$54.59 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 possible lots for CSCO.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
INTC(1/3)	4/30/2019	\$51.00	\$51.22	0.43%		Catapult
INTC(1/3)	5/1/2019	\$51.04	\$51.22	0.35%		Catapult
INTC(1/3)	5/2/2019	\$50.76	\$51.22	0.91%		Catapult
SPY(1/4)	5/2/2019	\$291.68	\$292.82	0.39%		Aggregator
MMM(1/3)	5/3/2019	\$184.75	\$183.04	-0.93%		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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