

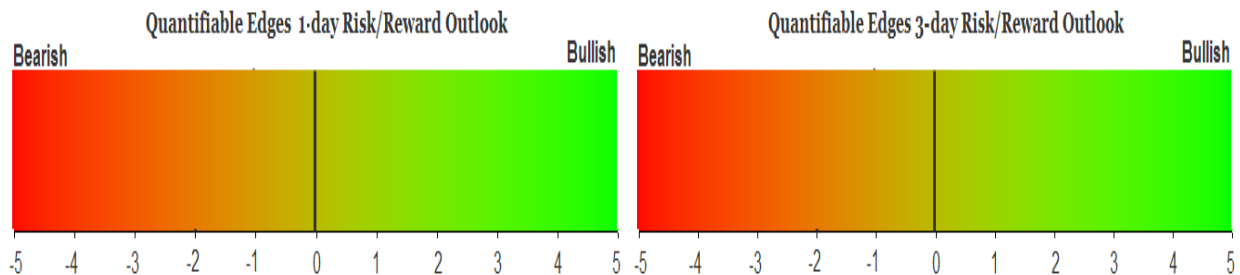
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 21, 2019

Volume 12 Issue 119

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Breakouts to 50-day highs that occur with an unfilled up gap have often led to more short-term buying.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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						
June 21, 2019	SPY breakaway gap	1-5 days	Bullish			
June 20, 2019	10-high not 100-high on Fed Day	1-2 days	Bearish			
Active - Long Term						
June 21, 2019	SPX RSI2 crosses over 99.	1-15 days	Bullish			
June 11, 2019	Up 5 > 200 < 50-high	1-15 days	Bullish	3.00%	-1.70%	-3.20%
June 5, 2019	20-day low to 4-day high	1-20 days	Bullish	3.70%	-2.10%	-4.40%
June 3, 2019	CBI >= 10 and SPX 50-day low	1-18 days	Bullish	7.10%	-4.30%	-8.20%
April 24, 2019	SPX closes above 50-day Bollinger Bnd	1-50 days	Bullish	5.00%	-4.30%	-8.10%
April 2, 2019	Golden Cross	int term	Bullish			
October 1, 2018	Quantitative Tightening	int term	Bearish			

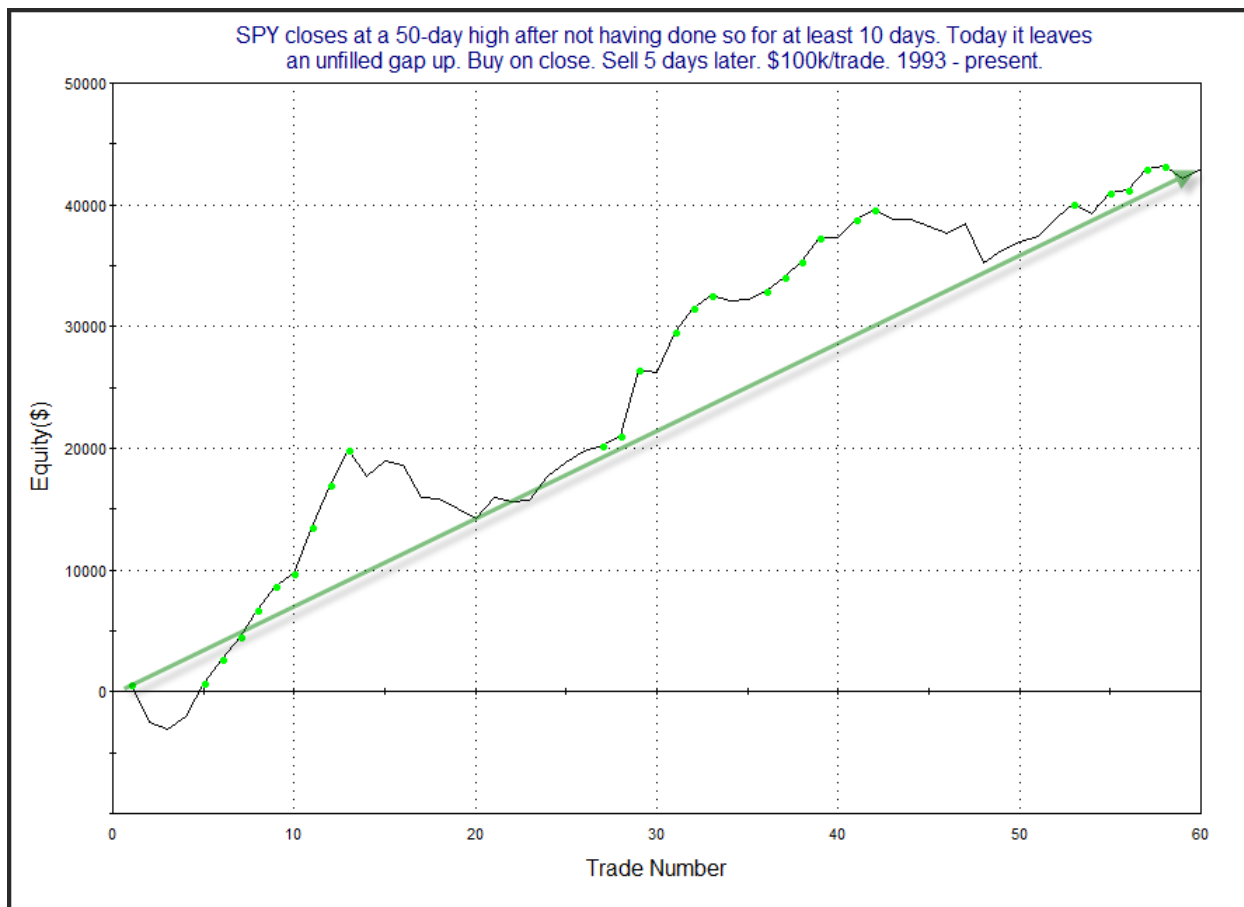
The Evidence

Thursday saw more buying and new all-time highs. The SPX finished up 0.95%, the NASDAQ gained 0.8%, and the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 78%. NYSE volume rose some from Wednesday's level.

The S&P 500 broke out to new all-time highs on Thursday. The breakout was accompanied by some mixed clues about follow-through in the coming days. Volume was not great. NYSE volume rose, but not to an extreme level. In the past I have shown that follow-through odds increase when the breakout either occurs on 1) lower volume, or 2) a 20-day high in volume. Thursday saw neither, so that dampens the odds some. But SPY action provided some bullish evidence. This is because the breakout came with an unfilled gap up. I last showed the importance of an unfilled gap in the 2/19/19 subscriber letter. I have updated those studies below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	42,930.60	60	42	18	70.00	1,475.35	5,434.00	-1,057.46	-3,218.88	1.40	3.26	715.51
4	28,659.36	60	41	19	68.33	1,171.99	3,637.92	-1,020.65	-3,267.84	1.15	2.48	477.66
3	22,436.87	60	41	19	68.33	996.20	3,992.56	-968.81	-2,538.18	1.03	2.22	373.95
2	17,985.42	60	40	20	66.67	746.41	2,545.92	-593.55	-2,293.20	1.26	2.52	299.76
1	7,374.86	60	42	18	70.00	450.05	1,816.10	-640.41	-2,591.68	0.70	1.64	122.91

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was a bit lower here. This study also appeared in the 2/19/19 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	3,252.85	45	27	18	60.00	1,018.49	2,671.20	-1,347.02	-4,285.26	0.76	1.13	72.29
4	201.59	45	26	19	57.78	979.18	2,072.07	-1,329.32	-4,518.34	0.74	1.01	4.48
3	4,861.85	45	27	18	60.00	994.33	2,927.90	-1,221.39	-5,133.72	0.81	1.22	108.04
2	-2,131.58	45	23	22	51.11	641.90	2,324.90	-767.97	-3,640.86	0.84	0.87	-47.37
1	2,202.16	45	24	21	53.33	477.52	1,586.97	-440.88	-2,448.72	1.08	1.24	48.94

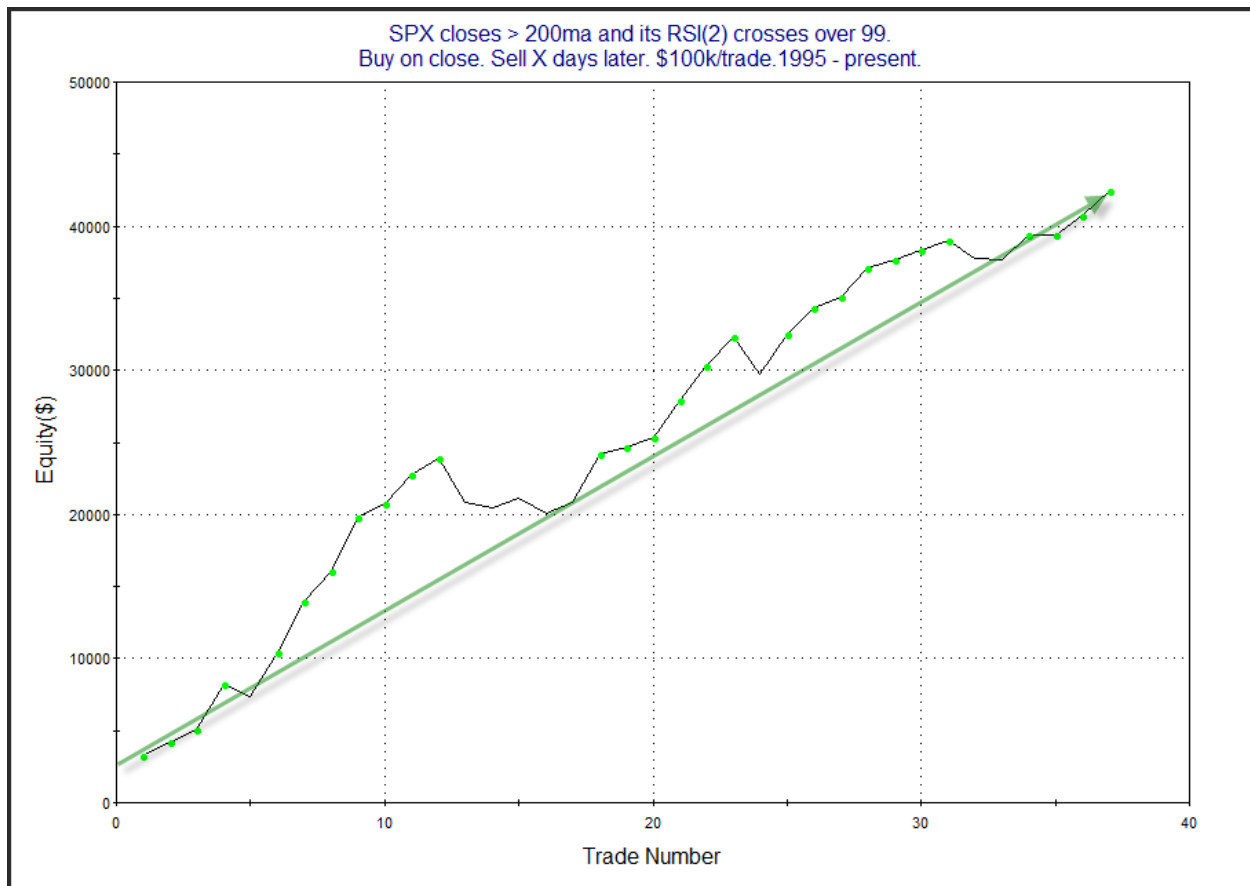
Moves to new highs that don't start with an unfilled gap are much less reliable.

Of course the recent rally and breakout has left the market short-term overbought by most measures. And short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 4/8/19 Letter, which uses RSI(2).

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. \$100k/trade. 1995 - present.

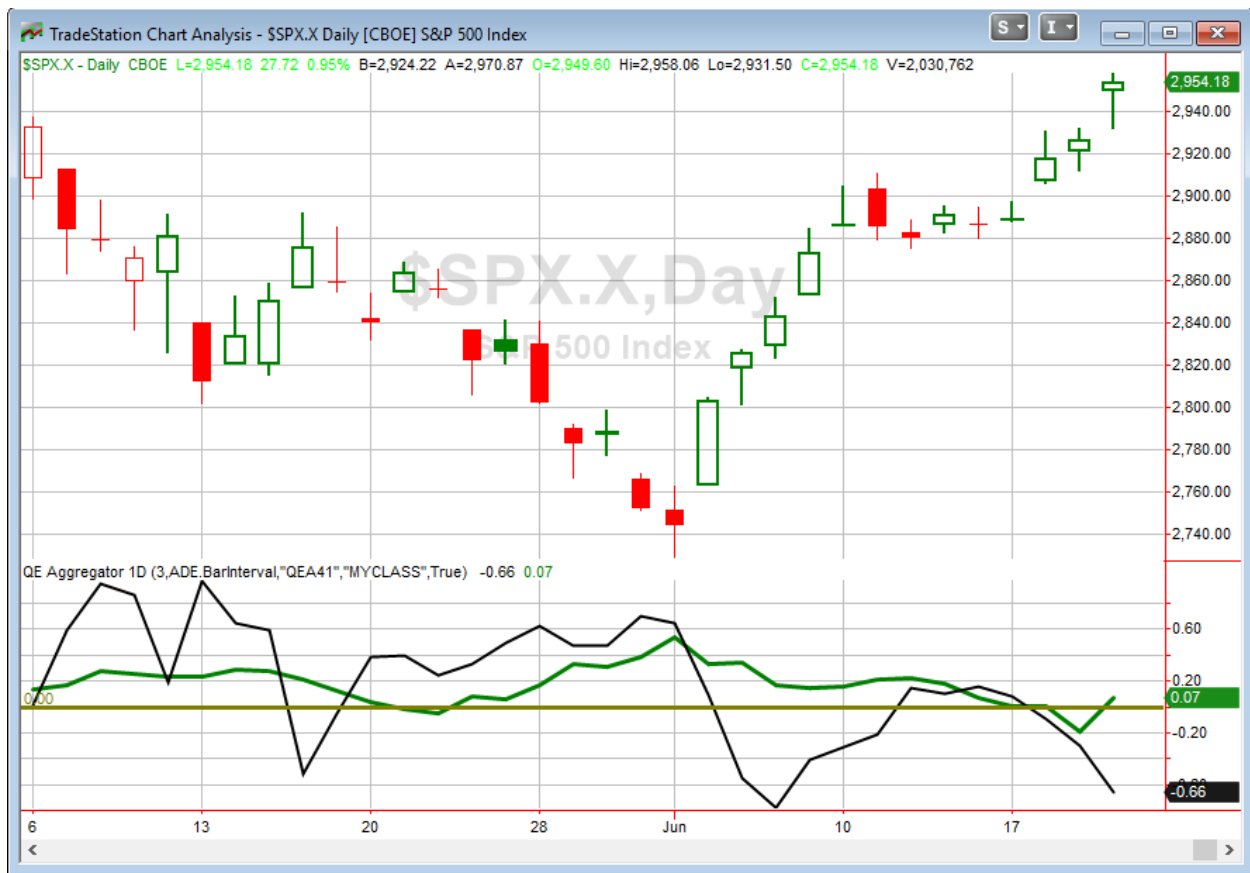
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	42,449.60	37	30	7	81.08	1,724.77	3,782.11	-1,327.63	-3,063.60	1.30	5.57	1,147.29
14	36,645.65	37	29	8	78.38	1,653.45	4,461.36	-1,413.04	-2,699.52	1.17	4.24	990.42
13	37,477.27	39	32	7	82.05	1,522.57	3,989.82	-1,606.42	-3,320.01	0.95	4.33	960.96
12	35,180.79	39	31	8	79.49	1,455.42	4,058.61	-1,242.16	-3,175.53	1.17	4.54	902.07
11	37,967.97	39	31	8	79.49	1,554.12	4,106.40	-1,276.22	-2,523.21	1.22	4.72	973.54
10	29,961.94	40	31	9	77.50	1,363.61	3,770.55	-1,367.79	-2,793.28	1.00	3.43	749.05
9	25,918.49	40	30	10	75.00	1,262.86	3,453.27	-1,196.74	-3,440.07	1.06	3.17	647.96
8	26,403.67	40	28	12	70.00	1,325.29	3,547.80	-892.03	-3,460.32	1.49	3.47	660.09
7	19,614.84	41	27	14	65.85	1,179.24	3,564.39	-873.19	-4,153.62	1.35	2.60	478.41
6	11,024.47	41	26	15	63.41	1,039.17	2,634.36	-1,066.26	-5,296.92	0.97	1.69	268.89
5	7,718.25	41	28	13	68.29	811.99	1,782.39	-1,155.19	-3,596.40	0.70	1.51	188.25
4	5,048.55	41	27	14	65.85	794.86	2,442.90	-1,172.34	-3,039.18	0.68	1.31	123.14
3	-1,012.86	42	24	18	57.14	694.71	1,982.20	-982.54	-2,880.45	0.71	0.94	-24.12
2	1,190.94	42	24	18	57.14	632.24	1,998.39	-776.83	-2,348.76	0.81	1.09	28.36
1	1,511.66	42	22	20	52.38	514.54	2,096.10	-490.41	-3,515.37	1.05	1.15	35.99

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

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



With tonight's research included, the green Aggregator Line moved back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line held 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 turned flat at the close.

Based on the current Active Studies list, expectations are set to remain positive on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2919.70 on Friday. That is 1.2% below Thursday's close. Therefore, SPX will need to close down at least 1.6% on Friday to flip from overbought to oversold vs recent expectations.

The Aggregator is back to neutral and that is where I am at as well. Evidence is suggesting a good chance that the rally continues, but we may get an entry point with better reward/risk by waiting a few days. I'll continue to exercise patience until the next compelling opportunity arises.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 6/17– somewhat bullish***

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 tonight

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