

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 30, 2019

Volume 12 Issue 145

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- Tuesday's action should help establish the odds of a strong Fed Day.

Short-term Outlook

The Bottom Line

The Aggregator remains neutral. Me too.

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						
July 30, 2019	SPY unfill up. Then unfill dn frm 20-high	1-3 days	Bearish			
July 29, 2019	NDX up 1%. SOX down.	1-6 days	Bearish	-3.10%	1.80%	3.90%
July 22, 2019	Bottom 10% daily 2x in 3 days <10>200	1-8 days	Bullish	2.90%	-1.30%	-2.80%
Active - Long Term						
July 29, 2019	QT winding down. Rate cut coming.	int term	Neutral			
July 8, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

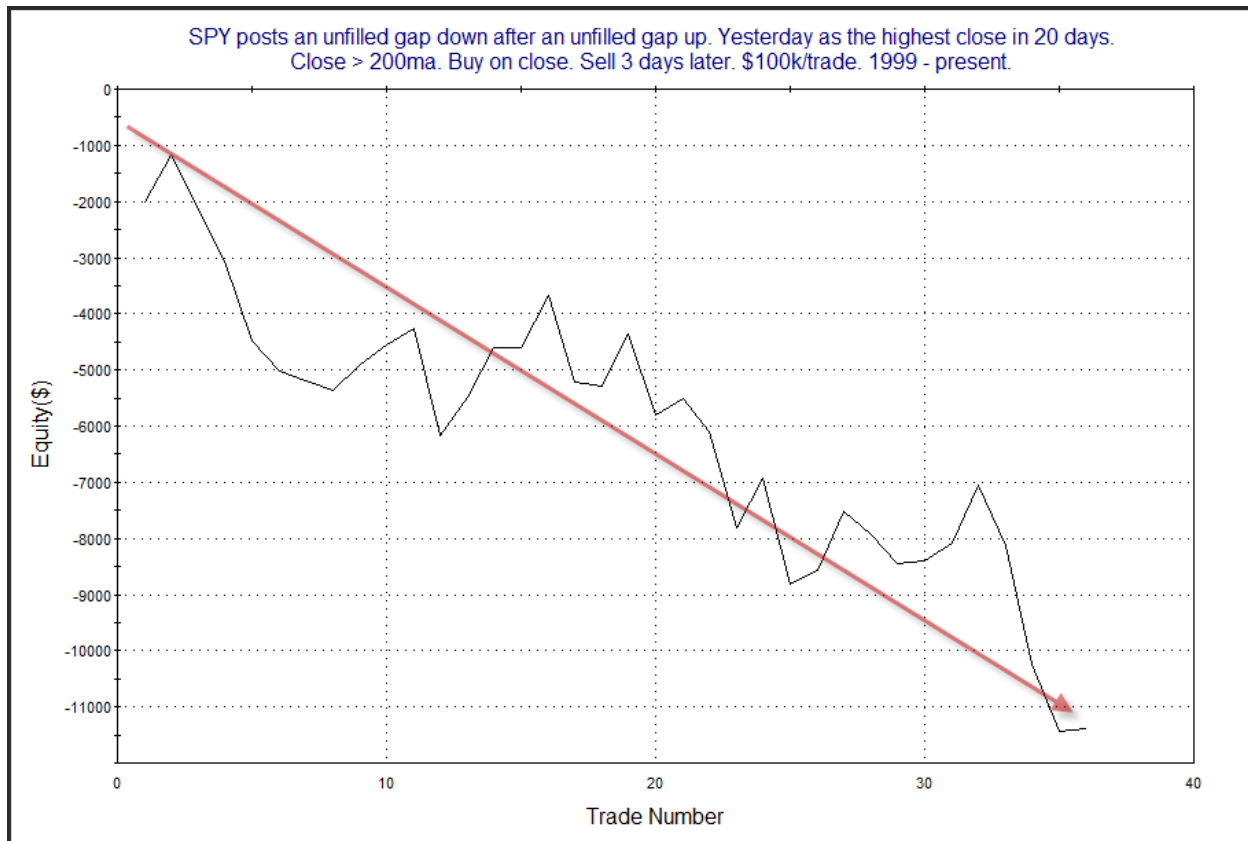
The Evidence

Monday saw a bit of selling. The SPX finished down 0.2%, the NASDAQ fell 0.4%, and the Russell 2000 lost 0.6%. Breadth was mixed as the NYSE Up Issues % was 50.4% and the Up Volume % came in at 38%. NYSE volume declined some from Friday's level.

One potential issue with Monday's decline is that it included an unfilled gap down. Generally, an unfilled gap down from a high has more trouble quickly rebounding than a decline that does not include an unfilled gap. Unfilled gaps from high levels will often trap some recent bulls that bought the day before. The unfilled gap meant they were not given an opportunity to exit their positions with a profit. And if they are feeling anxious right now, that could lead to some more selling the following days. At the very least, they are more unlikely to be let off the hook as easily as if there was not an unfilled gap. You can see this exemplified in the study below, which was last seen recently in the 7/8/19 letter.

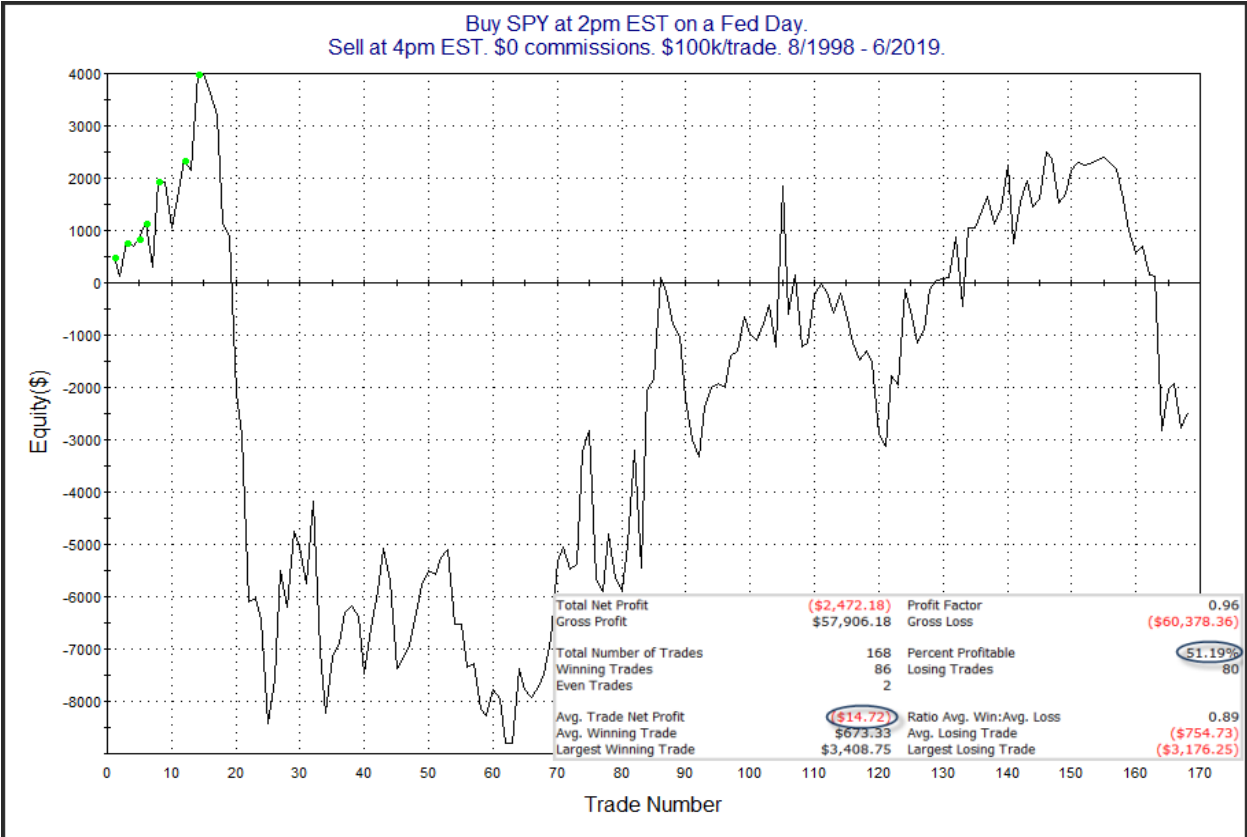
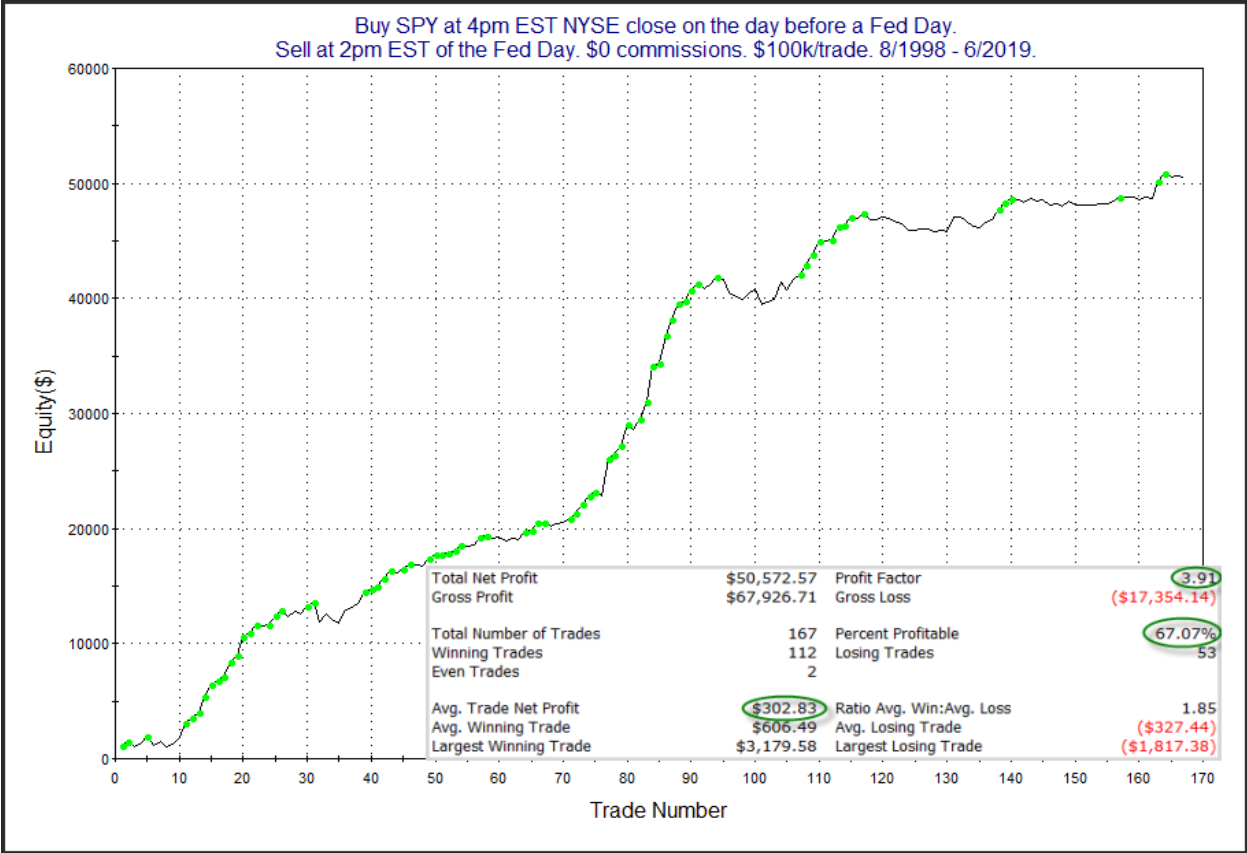
SPY posts an unfilled gap down after an unfilled gap up. Yesterday as the highest close in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,358.82	36	17	19	47.22	1,827.28	-7,283.25	816.78	-1,644.42	0.50	0.44	-482.19
4	-13,608.38	36	16	20	44.44	1,998.36	-3,746.95	754.02	-1,283.63	0.59	0.47	-378.01
3	-11,386.22	36	16	20	44.44	1,044.24	-2,100.56	586.95	-1,038.87	0.56	0.45	-316.28
2	-8,371.22	37	14	23	37.84	1,383.20	-2,232.00	562.66	-706.46	0.80	0.48	-226.25
1	-6,689.27	37	15	22	40.54	1,008.68	-1,807.92	438.20	-602.83	0.73	0.50	-180.79

The numbers suggest a bit of a downside edge. The 3-day profit curve can be seen below.

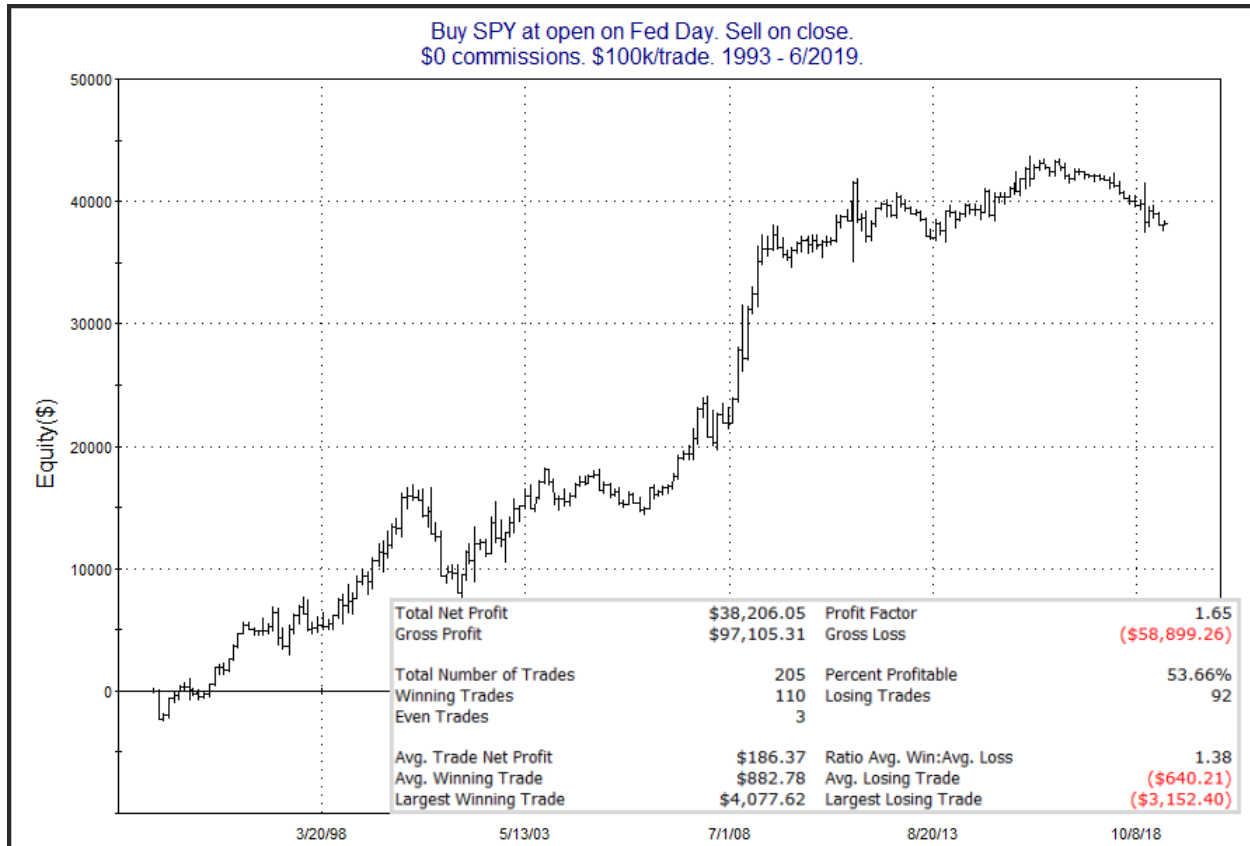


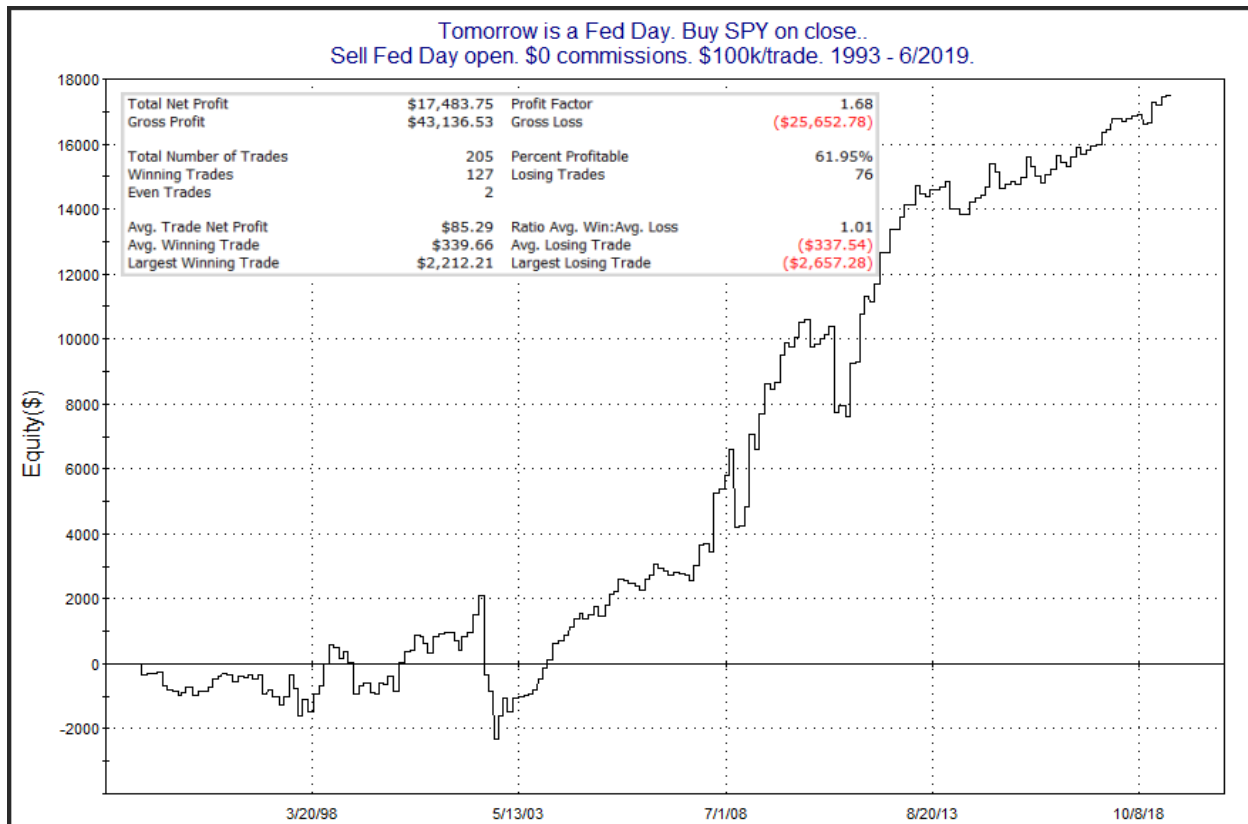
While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling over the next few days. I have added this study to the Short-Term Active List tonight.

As I discussed last night, Wednesday is a Fed Day. Last night I showed studies that suggested the Fed Day edge is greatly improved if 1) SPX closes below a 20-day high on the day before the Fed Day (Tuesday), and 2) the lower SPY closes in the intraday range, the better the odds of a Fed Day rally. In the Fed Day Prep webinar I gave Monday afternoon, I also shared a few intraday Fed related studies. I have copied them below. The 1st two compare performance prior to the announcement vs performance after the announcement.



We see here that the upside Fed Day edge has completely played out prior to the Fed announcement. Returns following the announcement have been volatile and inconsistent. I also broke it down by night (before Fed Day) vs day (of Fed Day).





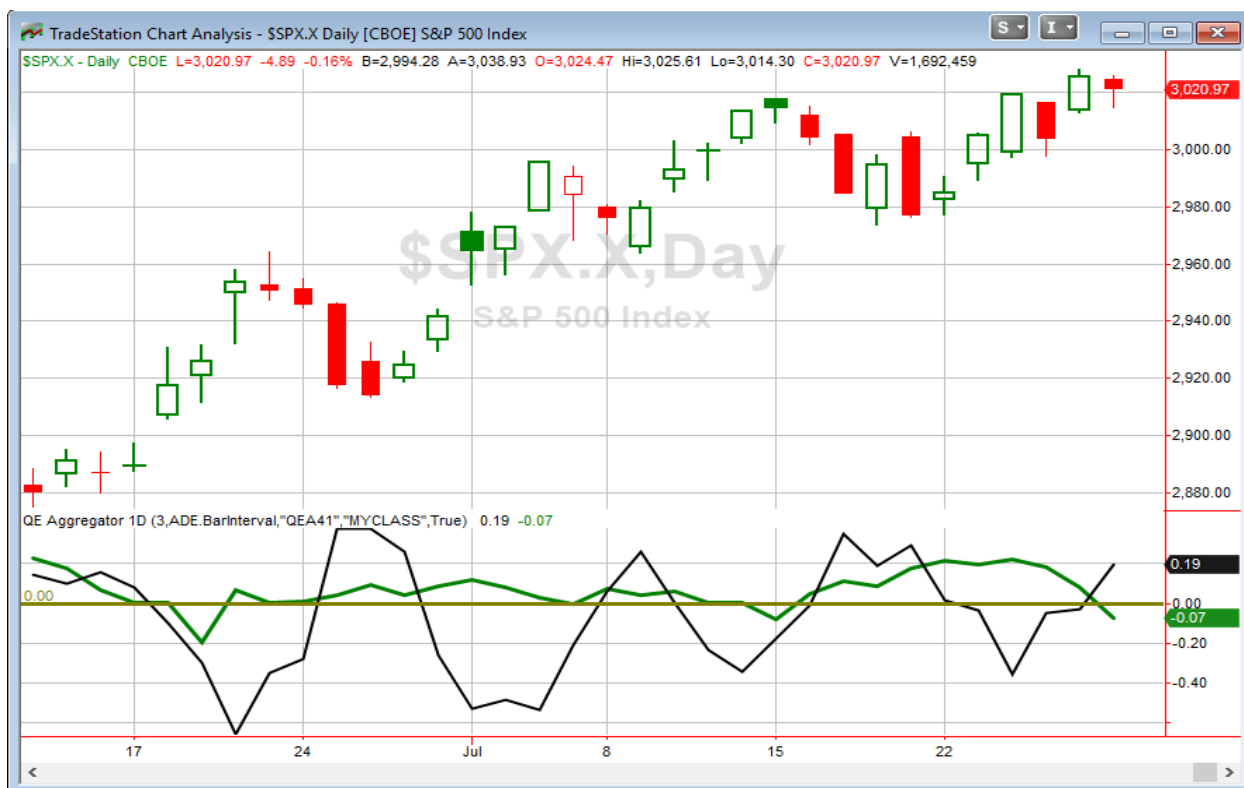
Here we see that 2003 the overnight has exhibited a much greater edge. And since 2009, the overnight has delivered all of the edge, while the day has just chopped.

In summary, it is worth keeping the following points in mind:

- The Fed Day edge has been impacted intermediate-term market positioning, with the edge effectively eliminated when already at new highs.
- In general, the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been.
- The bullish edge has almost entirely played out prior to the announcement.

Of course even if we do get a selloff on Tuesday, and a bullish Fed Day setup emerges, the market will still be contending with the bearish studies that make up the Short-Term Active List at the moment.

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



With tonight's bearish study included, the green Aggregator Line dropped zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line held rose 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 stayed flat at the close.

Based on the current active list of studies, expectations are currently slated to remain negative on Tuesday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 3021.78 on Tuesday. That is about 1 point above Monday's close. So SPX would only need to close up about a point in order to flip from oversold to overbought versus recent expectations on Tuesday.

So despite expectations flipping to bearish, the Aggregator is again neutral. Often I will look to jump into a possible short-term Fed trade if the market closes poorly heading into a Fed Day. But with the rest of the evidence leaning bearish, I am not inclined to take on a position for such a small amount of time. So I will remain sidelined tomorrow. And likely on Wednesday as well while I see how the announcement is received by the market and what new evidence emerges based on that action.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/29 – 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

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
WMT(1/3)	7/26/2019	\$112.00	\$112.84	0.75%	<i>sold on open</i>

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