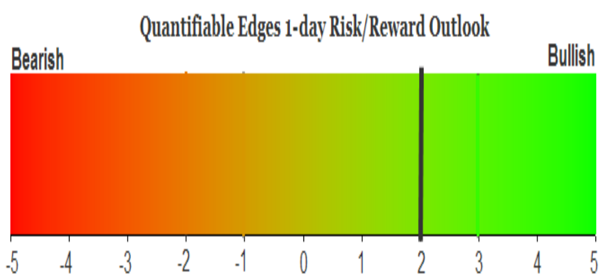
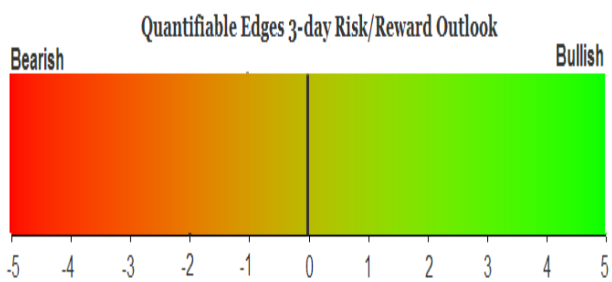
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2019 Volume 12 Issue 146

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower also suggests a 1-day upside edge.
- The Fed Day Wednesday is somewhat bullish.
- Two unfilled gaps lower above the 200ma often lead to a bounce the next day

Short-term Outlook

The Bottom Line

The Aggregator remains neutral, but Wednesday looks like it has a pretty good chance to rally.

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 31, 2019	RUT up > 1%. SPX down.	1 day	Bullish			
July 31, 2019	2 unfilled down gaps > 200ma	1 day	Bullish			
July 31, 2019	Fed Day Wednesday	1 day	Bullish			
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

Tuesday was a mixed day ahead of the Fed on Wednesday. The SPX finished down 0.3%, the NASDAQ fell 0.2%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 56%. NYSE volume rose some from Monday's level.

While SPY finished down on the day, it did finish in the 73rd percentile of its intraday range. This triggered the study below, which I have copied from Sunday's letter.

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

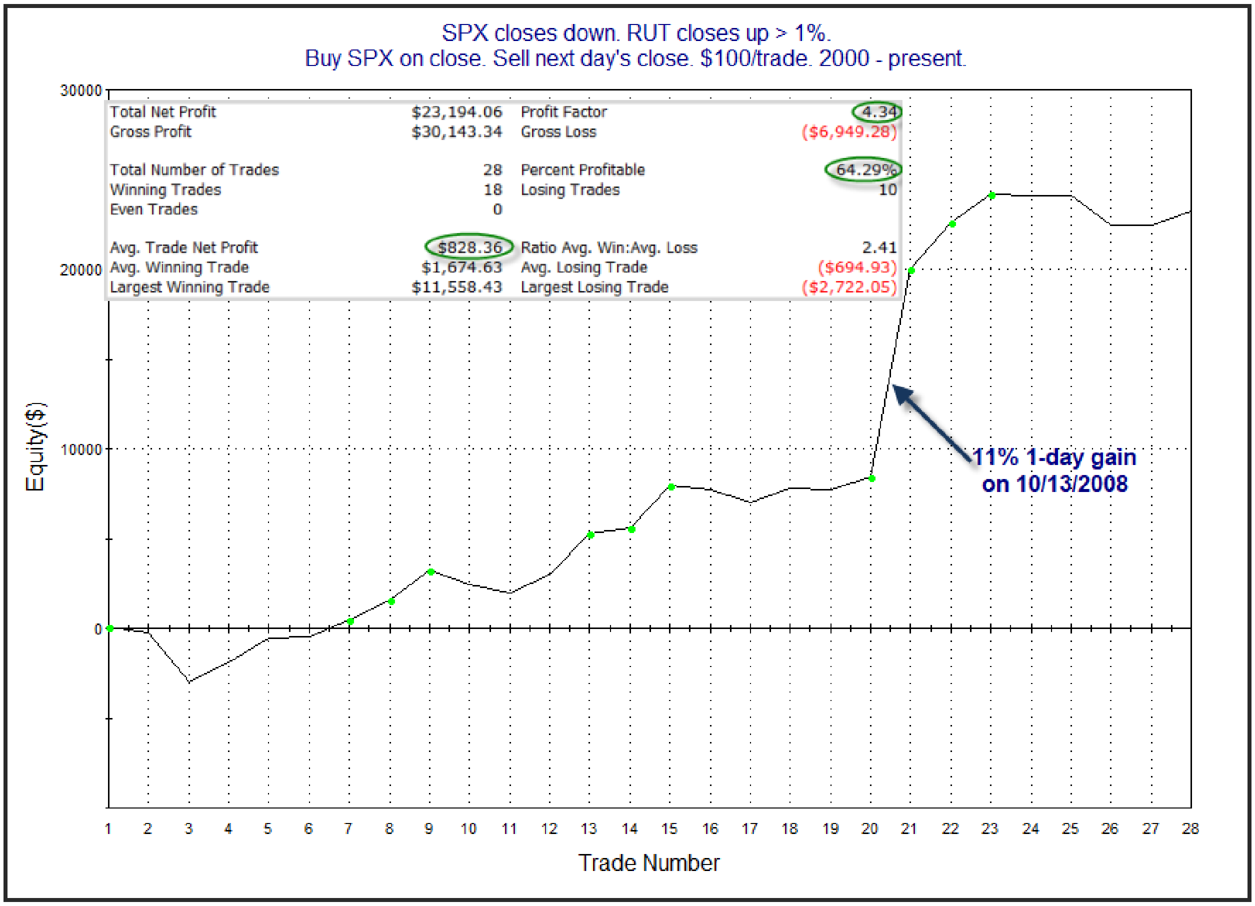
TradeStation Performance Summary Expand

All Trades

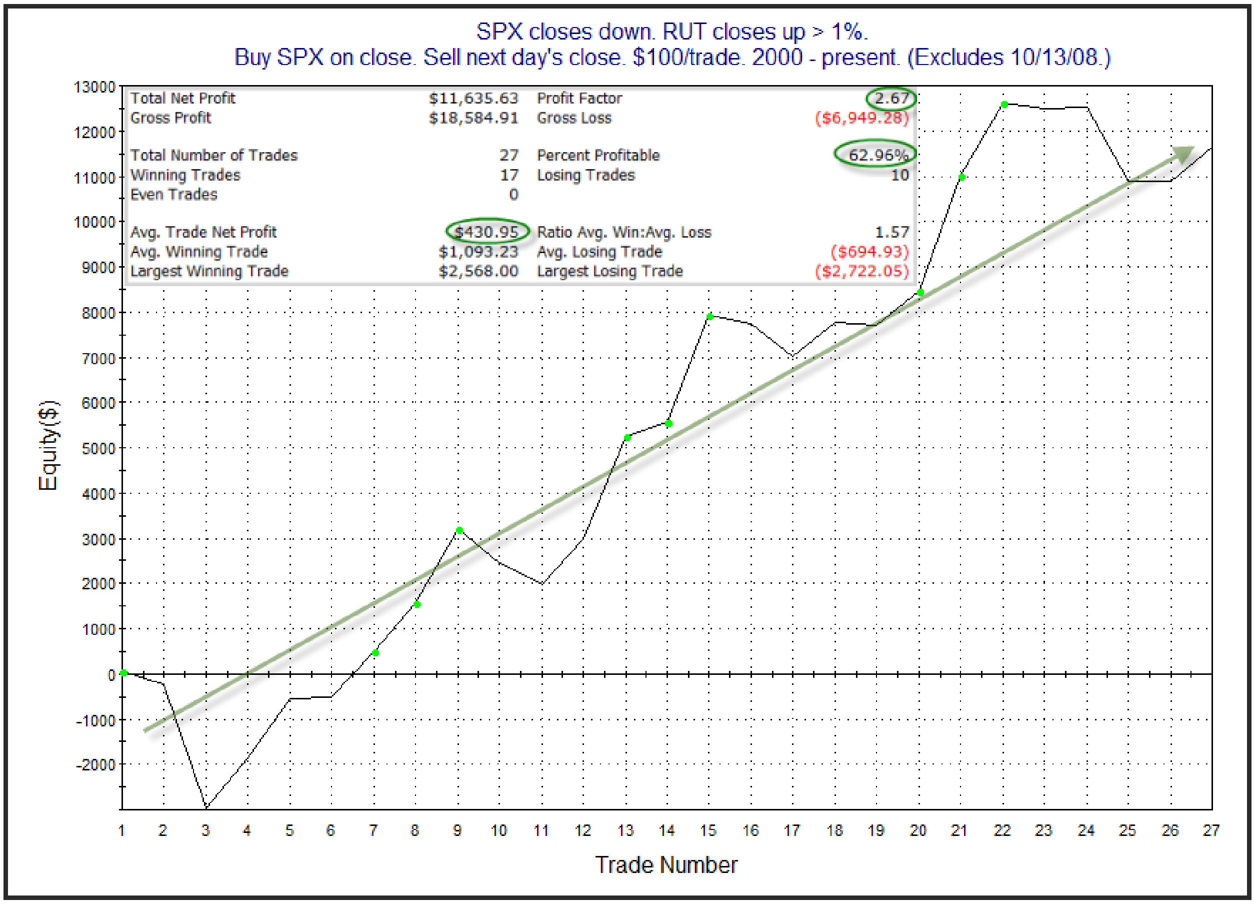
Total Net Profit	$15,570.02	Profit Factor	2.06
Gross Profit	$30,261.13	Gross Loss	($14,691.11)
Total Number of Trades	50	Percent Profitable	54.00%
Winning Trades	27	Losing Trades	22
Even Trades	1		
Avg. Trade Net Profit	$311.40	Ratio Avg. Win:Avg. Loss	1.68
Avg. Winning Trade	$1,120.78	Avg. Losing Trade	($667.78)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

We see here what appears to be a moderate Fed Day edge.

The split market triggered an interesting study from the 11/14/16 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

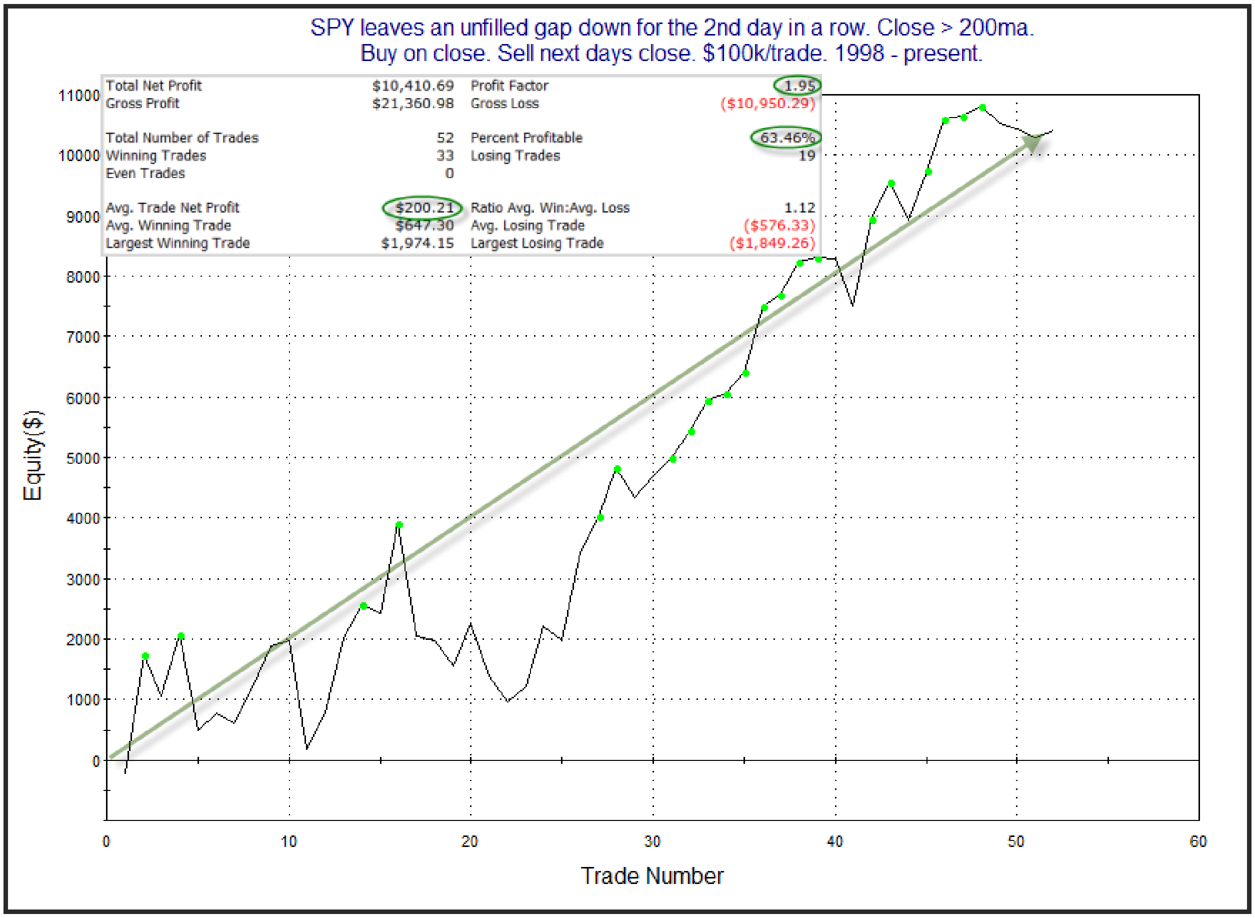


Stats here are very strong, but he one instance noted certainly inflates all the stats and skews the curve. So let’s look at the curve if we exclude that 2008 instance.



This still seems worth paying some attention to. And the average instance has led to a $431 gain (0.4%) the next day. I have included this on the Active List.

It was also notable that Tuesday marked the 2nd day in a row that SPY left an unfilled gap down. In the 9/27/16 letter I showed a study that suggested bullish implications when it occurred during a long-term uptrend. Upon review tonight I found that the 1-day returns have held up much better over the years than when looking further out. So below are the 1-day results updated.



A bit choppy, but there has been a persistent upside edge for a good long time. I have also included this study on the Active List tonight.

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

Despite the new bullish evidence tonight, the green Aggregator Line is again below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line held 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 slated to remain negative on Wednesday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 3040.62 on Wednesday. That is 0.9% above Tuesday's close. So SPX would need to close up at least 0.9% on Wednesday in order to flip from oversold to overbought versus recent expectations.

There is some solid evidence pointing to an upside edge on Wednesday. And net expectations do show that, hence the positive 1-day Risk/Reward Outlook at the top of the letter. But none of the current bullish short-term studies have favorable visibility beyond Wednesday. Meanwhile, the current active bearish studies do. And that is leaving 3-day expectations negative, and the Aggregator neutral. The Fed announcement could cause volatility on Wednesday afternoon. And volatility often begets opportunity. So I will be alert to any new evidence that emerges and ready to put some sidelined capital to work on Thursday if a favorable reward/risk opportunity does arise.

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

None