

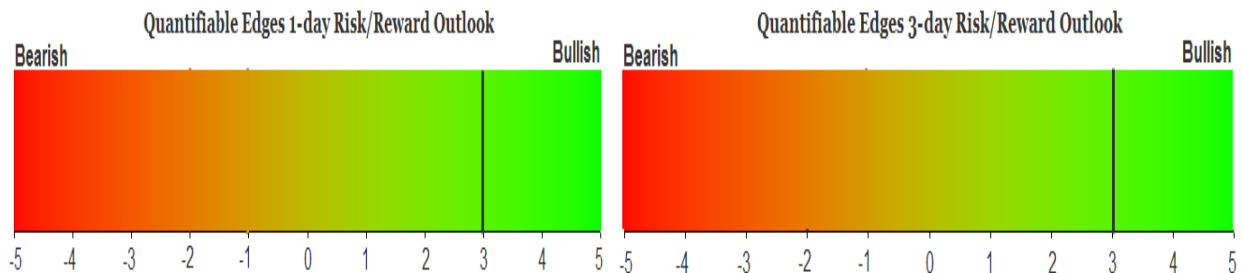
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 1, 2019

Volume 12 Issue 147

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 3-day pullbacks from 50-day highs like the current one have typically been followed by a bounce in the past.
- Down 2+ days on a Fed Day has often been followed by a rally.
- A combination of factors is suggesting turn of the month is likely to see gains.
- QT is done, and it will take some time to measure the impact of these changes.

Short-term Outlook

The Bottom Line

The Aggregator has turned bullish. I believe there is an upside edge over the next few days.

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						
August 1, 2019	End of month. Poor close dn day > 200	1-2 days	Bullish			
August 1, 2019	Dn 3 days from 50-day high. C > 10-low	1-4 days	Bullish			
August 1, 2019	Fed Day SPX down 2+	1-6 days	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						
August 1, 2019	QT over.	int term	Neutral			
July 8, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

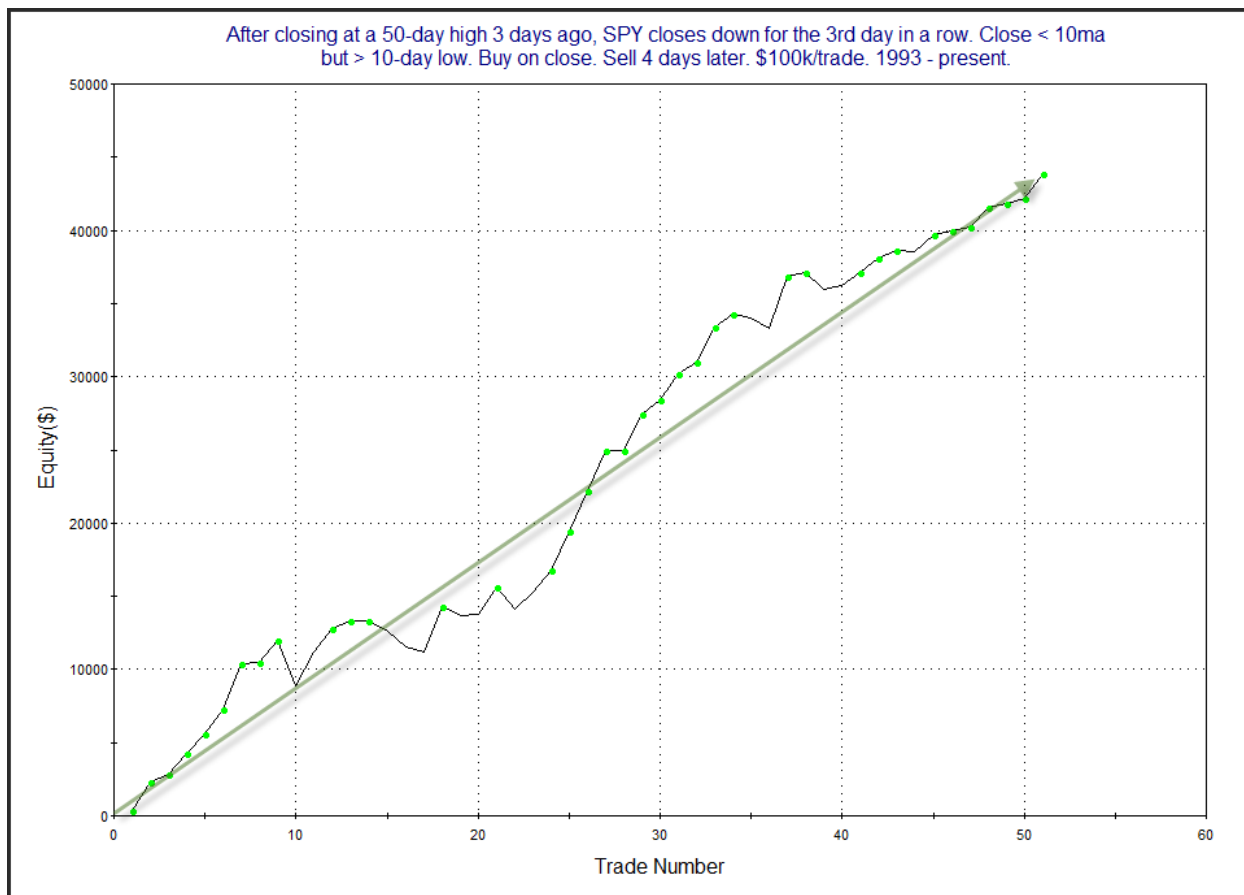
The Evidence

The market still does not like Chairman Powell. After the Fed announcement, the market cratered, with the damage really coming while he was speaking. A last-hour bounce took stocks off their lows, but still down on the day. The SPX lost 1.1%, the NASDAQ fell 1.2%, and the Russell 2000 declined 0.7%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 26%. NYSE volume rose strongly from Tuesday's level.

Wednesday marked the 3rd lower close in a row for SPY. Three-day pullbacks will often trigger a few bullish studies. I found the one below especially compelling because it also considered the fact that the 3-day pullback was occurring right after a high was hit. Additionally, it required that the pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. It was last seen in the 6/23/17 subscriber letter, and I have updated the stats.

After closing at a 50-day high 3 days ago, SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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: 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	38,320.06	51	35	16	68.63	3,522.94	-3,453.71	1,585.95	-1,074.27	1.48	3.23	751.37
4	43,887.20	51	41	10	80.39	3,543.50	-3,076.63	1,306.32	-967.21	1.35	5.54	860.53
3	28,283.69	51	34	17	66.67	3,543.50	-2,027.68	1,256.02	-848.30	1.48	2.96	554.58
2	14,802.45	51	35	16	68.63	2,332.48	-2,781.35	874.18	-987.12	0.89	1.94	290.24
1	10,550.29	51	33	18	64.71	2,060.16	-2,031.09	712.31	-719.77	0.99	1.81	206.87

Under these circumstances, it appears bounces have been both reliable and powerful. Much of the edge was realized in the 1st 4 days. Below is a look at the 4-day profit curve.



That is a strong, steady move higher. I have included this study on the Active List tonight.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is experiencing a short-term pullback, and 3) when it closes weakly on the last day of the month. In the study below I took these concepts, which were learned from past studies, and combined them. It was last seen in the 6/1/18 letter. The very strong results have all been updated.

Today is the last trading day of the month. SPY close > 200ma and positive on the month.
 It also closes < 10ma, down on the day, and in the lower 50% of its intraday range.
 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: 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	44,790.65	32	26	6	81.25	5,025.88	-6,349.55	2,090.02	-1,591.62	1.31	5.69	1,399.71
4	40,298.11	32	25	7	78.13	3,718.84	-4,936.67	1,871.95	-928.66	2.02	7.20	1,259.32
3	34,583.54	32	25	7	78.13	4,245.00	-1,673.59	1,604.12	-788.50	2.03	7.27	1,080.74
2	30,816.04	32	30	2	93.75	3,135.34	-1,084.89	1,079.87	-790.04	1.37	20.50	963.00
1	24,413.34	32	30	2	93.75	1,792.50	-257.40	828.24	-216.95	3.82	57.26	762.92

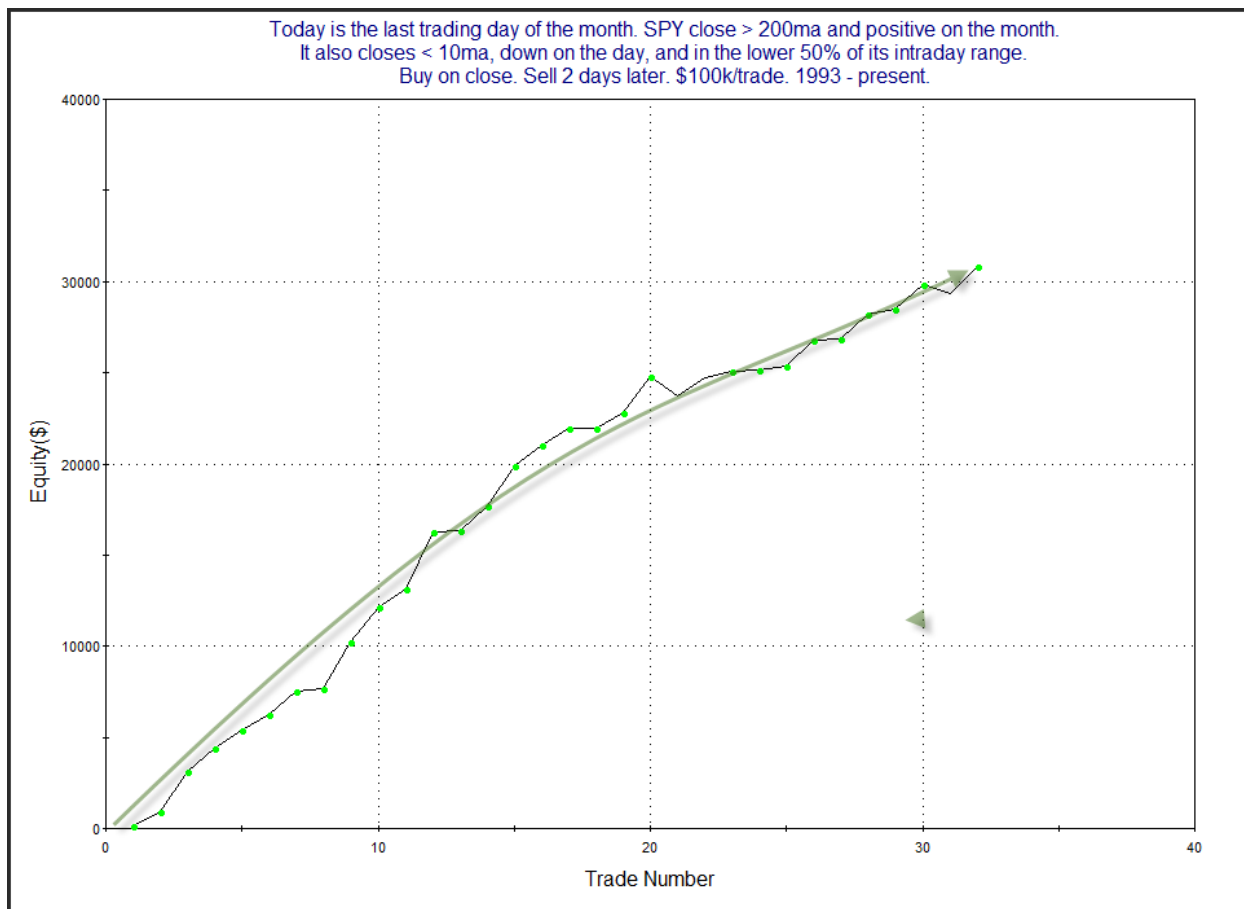
All 32 instances closed above the entry price on either Day 1 or Day 2.

The reliability of a bounce over the next 1-2 days has been remarkable. So were the 2-day Run-up/Drawdown stats, which I have pasted below:

Today is the last trading day of the month. SPY close > 200ma and positive on the month.
 It also closes < 10ma, down on the day, and in the lower 50% of its intraday range.
 Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Run-up/Drawdown	Run-up	Drawdown
Max. Value	\$3,275.38	(\$1,589.49)
Max. Value Date	4/5/1999	5/4/2010
Avg. Value	\$1,441.85	(\$344.19)

The Avg Run-Up was nearly the size of the MAX Drawdown, and over 4x the size of the Avg Drawdown. Those are some impressive numbers. Here also is a profit curve.



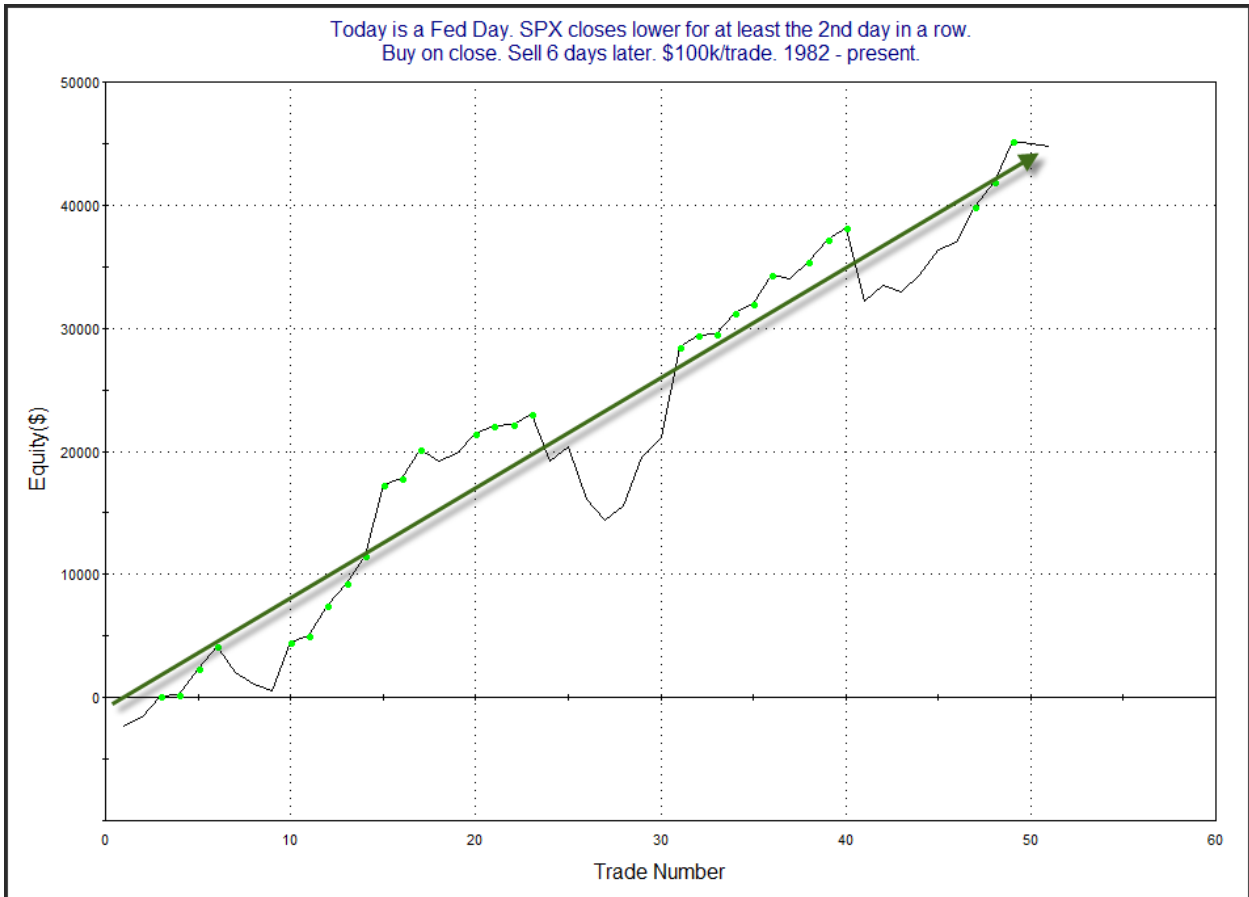
This is a very impressive curve. This study certainly seems worthy of consideration.

Of course Wednesday was also a Fed Day. Fed Days have historically had a bullish bias. So it is unusual that a Fed Day would continue a string of down days. I looked at this in the study below. It was last seen in the 6/16/16 letter and results have been updated.

Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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
10	48,353.30	51	34	17	66.67	9,012.33	-5,334.70	2,545.33	-2,246.36	1.13	2.27	948.10
9	42,229.11	51	36	15	70.59	8,967.96	-5,671.36	2,285.38	-2,669.63	0.86	2.05	828.02
8	33,276.82	51	37	14	72.55	8,456.40	-6,514.96	2,024.92	-2,974.65	0.68	1.80	652.49
7	40,049.19	51	39	12	76.47	8,869.37	-6,757.80	1,810.22	-2,545.77	0.71	2.31	785.28
6	44,731.73	51	38	13	74.51	7,361.95	-5,884.97	1,813.15	-1,859.08	0.98	2.85	877.09
5	36,764.70	51	37	14	72.55	6,013.86	-5,581.03	1,617.02	-1,647.50	0.98	2.59	720.88
4	25,071.73	51	32	19	62.75	7,513.37	-4,622.80	1,540.18	-1,274.42	1.21	2.04	491.60
3	15,550.78	51	31	20	60.78	5,035.28	-2,737.00	1,125.31	-966.69	1.16	1.80	304.92
2	15,318.20	51	31	20	60.78	5,202.52	-2,942.24	1,099.01	-937.55	1.17	1.82	300.36
1	11,502.00	51	33	18	64.71	4,001.33	-3,162.00	883.25	-980.28	0.90	1.65	225.53

When Fed Days fail to produce a bounce, you normally see a rally shortly after. And below is a profit curve assuming a 6-day exit strategy.



The strong upslope serves as some confirmation of the bullish stats.

In their statement on Wednesday the Fed announced 1) that they were cutting rates by 0.25%, which everyone expected, and 2) that they were ending the QT program, which was not expected. The note below is from the Fed announcement.

The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Also interesting is the fact that they will be rolling MBS principal payments into treasury debt. And they will be doing this according to a published schedule. This can be seen below.

The Desk will announce the planned monthly amount of secondary market Treasury reinvestment purchases up to the \$20 billion maximum on or around the ninth business day of each month. At that time, the Desk will also release a tentative schedule of purchase operations that will be conducted over the one-month period until the next announcement. The Desk plans to release the first schedule of Treasury purchase operations on August 13, 2019.

It is too early to determine whether we will be able to exploit this schedule in a way that was possible with Operation Twist several years ago. Back then we found that strings of POMO days led to upside momentum, and bunches of days that did not show POMO buying often served as a headwind. This can be seen in the presentation slides from the old [QE Buying Power Index page](#), which was last updated when Operation Twist ended in late 2014. I may discuss this a little more this weekend, but I anticipate it will take a bit of time to see how the schedule is set, and whether the flows will be substantial enough to possibly impact short-term market movement.

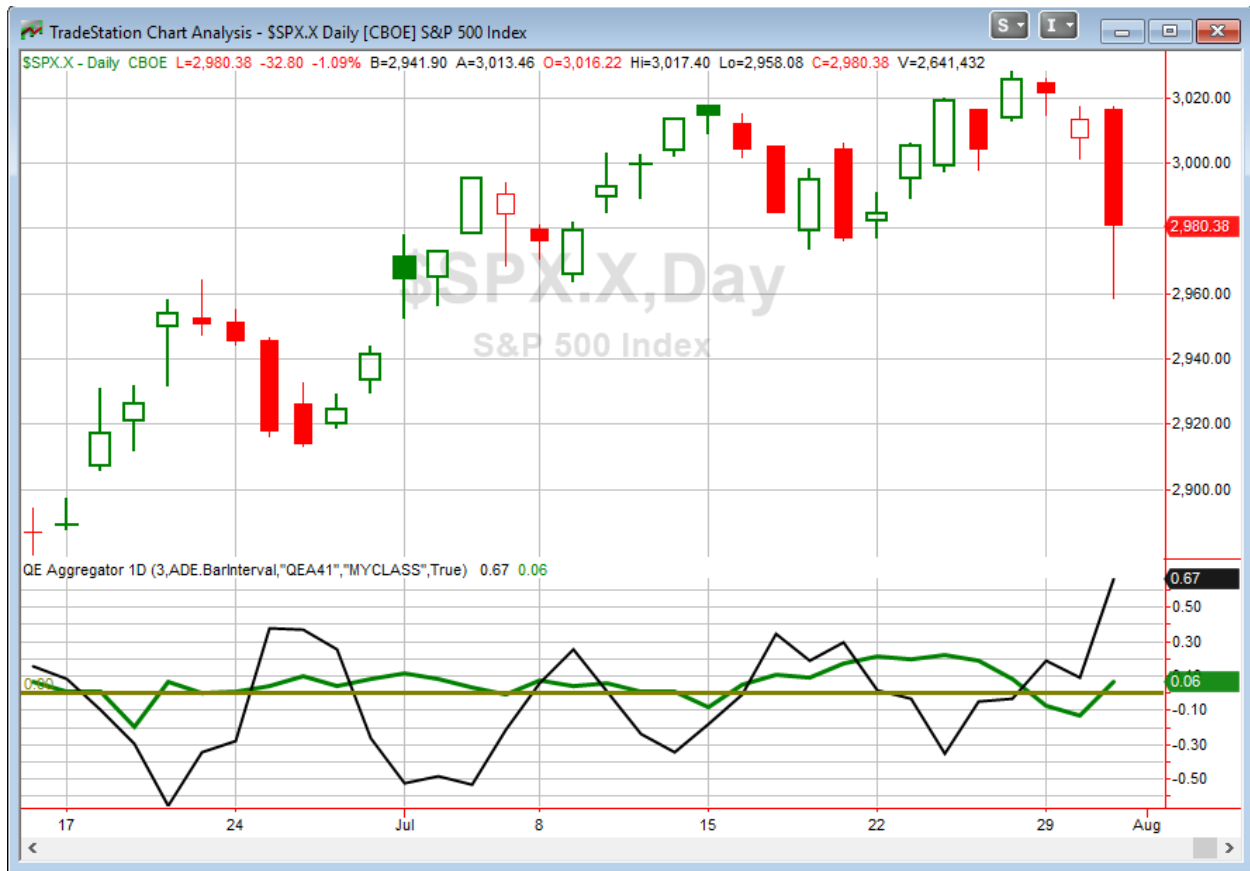
Lastly, as I noted in the weekend letter a few days ago, early August has struggled some over the years. Below I have copied my comments from Sunday.

From a seasonality standpoint I also took a look at how the market has performed during the 1st week in August over the years. SPX results can be seen in the chart below.



This chart topped in 1989. Since then the slope has generally been headed lower. But as I note on the chart, 2011, and the 7.2% loss that week, was a big outlier and had a major impact on the look of the curve. Five of the last 7 instances were actually higher. So I don't see early August as necessarily bearish, but it is neutral at best.

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



With tonight's new evidence considered, the green Aggregator Line jumped above zero. Positive readings mean net expectations are for upside 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. And it is now as oversold as we have seen it in a long time. 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 turned long at the close.

Based on the current active list of studies, expectations are slated to remain positive on Thursday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 3026.47 on Thursday. That is 1.55% above Wednesday's close. So SPX would need to close up at least 1.55% on Thursday in order to flip from oversold to overbought versus recent expectations.

So the new evidence now has the Aggregator setup bullish. The bearish evidence we saw a few days ago managed to keep me sidelined and avoid the selling the last 3 days. Now with the market strongly oversold and the evidence turning bullish, it appears it is time to start looking to take advantage on the long side. I'd be a little more excited about the current SPX reading as an entry point if it did not finish so far off its lows on Wednesday. It actually managed to close 20 points above the lows that were hit just before 3pm EST. I suspect we could see a minor retracement into

that range on Thursday, so I'll be looking to get long a bit below Wednesday's closing level, but well above the low on Wednesday. If the market continues to sell off over the next few days, I will likely continue to scale into a larger long position.

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.

SPY – Buy ¼ index position @ \$297.00 LIMIT. If not filled before close, up limit price to \$297.42 LIMIT ON CLOSE. Based on the short-term outlook above, I'll be looking to get long SPY if it dips much during the day or closes down at all.

Current Open Trade Ideas

None

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.