

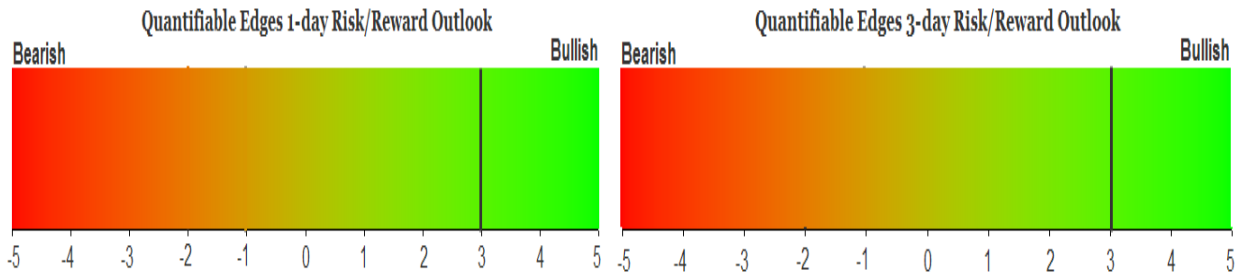
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 2, 2019

Volume 12 Issue 148

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- The 1st 10-day low in a while is often buyable.
- The employment report could bring some interesting action Friday, but it has not provided a consistent edge over the years.
- The CBI remains at zero, despite the strong selling the last few days.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish. I believe there is an upside edge. I have some long exposure and may add to it if SPX struggles again on Friday.

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 2, 2019 | 1st 10-low close in 30+ days | 1-6 days | Bullish | | | |
| 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 2, 2019 | 1st 10-low close in 30+ days | 1-6 days | Bullish | | | |
| 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 bullish studies we saw last night seemed to be taking hold during the morning and early afternoon as the market rallied. But a Trump tariff tweet caused it all to fall apart. The SPX lost 0.9%, the NASDAQ fell 0.8%, and the Russell 2000 declined 1.5%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 25%. NYSE volume declined a little from Wednesday's level.

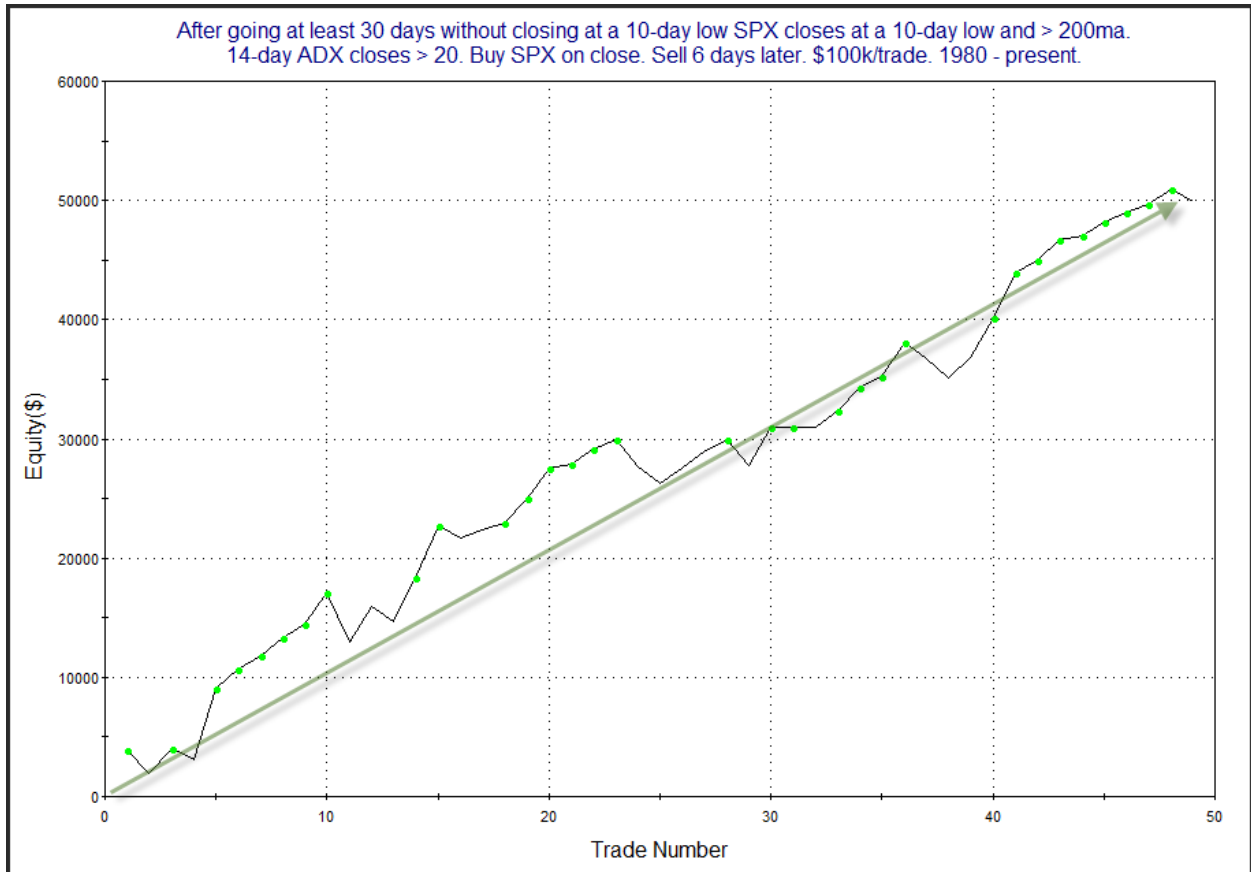
Notable about the low close on Thursday is that it was the 1st 10-day low close since June 3rd. Before today SPX had gone 41 trading days without closing at a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after a long time without one has provided a solid upside edge. In the past I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. I last shared the study below in the 5/8/19 letter. Results are updated.

After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low and > 200ma.
 14-day ADX closes > 20. Buy SPX on close. Sell X days later. \$100k/trade. 1980 - present.

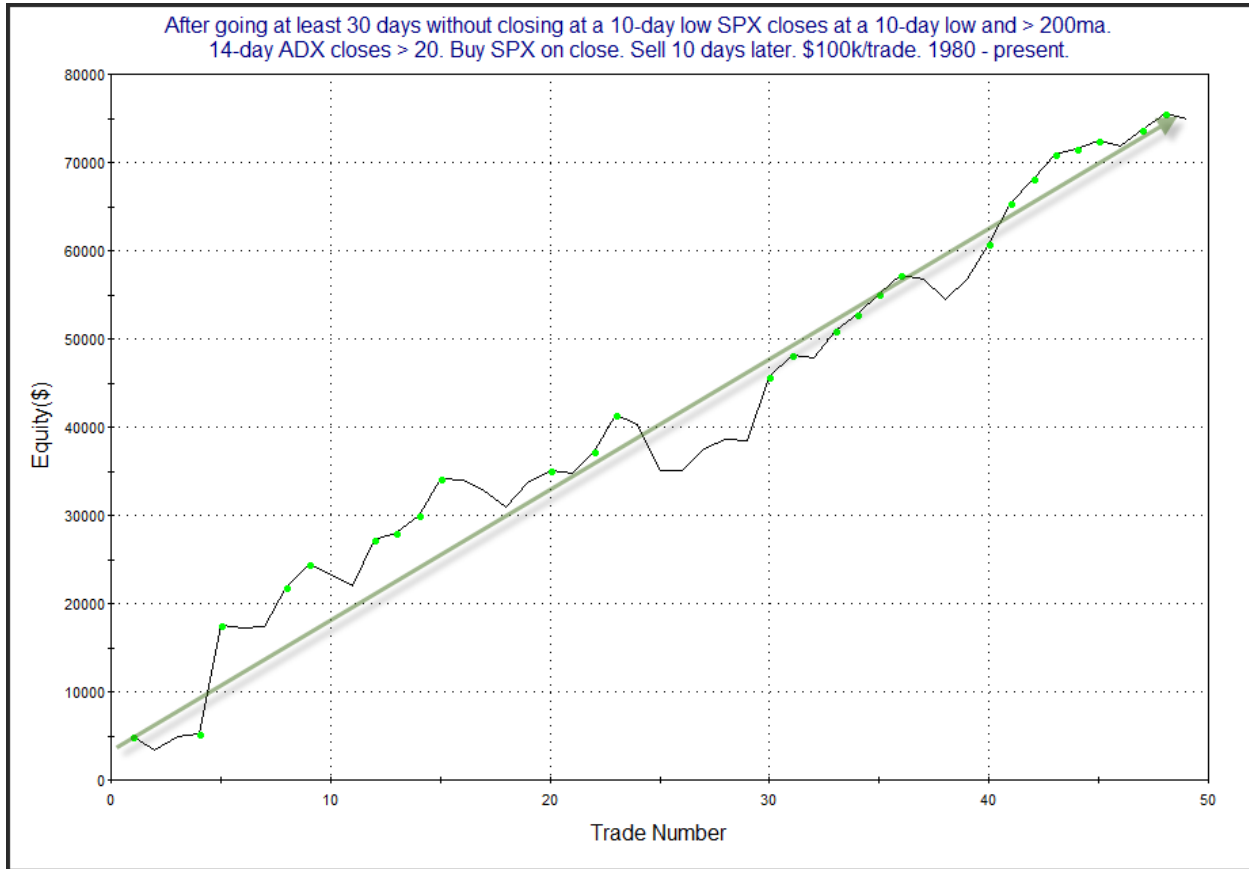
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Max Losing Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 74,910.84 | 49 | 33 | 16 | 67.35 | 12,395.76 | -5,362.24 | 2,838.13 | -1,171.71 | 2.42 | 5.00 | 1,528.79 |
| 9 | 72,515.67 | 49 | 36 | 13 | 73.47 | 10,529.82 | -3,753.36 | 2,504.43 | -1,357.23 | 1.85 | 5.11 | 1,479.91 |
| 8 | 69,249.86 | 49 | 38 | 11 | 77.55 | 10,554.48 | -6,117.72 | 2,301.48 | -1,655.12 | 1.39 | 4.80 | 1,413.26 |
| 7 | 50,606.71 | 49 | 35 | 14 | 71.43 | 7,743.24 | -8,141.12 | 2,240.01 | -1,985.26 | 1.13 | 2.82 | 1,032.79 |
| 6 | 49,859.64 | 49 | 37 | 12 | 75.51 | 5,893.74 | -4,111.40 | 1,870.15 | -1,611.33 | 1.16 | 3.58 | 1,017.54 |
| 5 | 42,713.62 | 49 | 34 | 15 | 69.39 | 4,608.35 | -3,502.11 | 1,804.58 | -1,242.80 | 1.45 | 3.29 | 871.71 |
| 4 | 38,507.53 | 49 | 38 | 11 | 77.55 | 4,690.50 | -2,616.60 | 1,493.41 | -1,658.37 | 0.90 | 3.11 | 785.87 |
| 3 | 19,617.63 | 49 | 33 | 16 | 67.35 | 3,940.55 | -4,464.88 | 1,163.86 | -1,174.36 | 0.99 | 2.04 | 400.36 |
| 2 | 8,305.27 | 49 | 30 | 19 | 61.22 | 3,744.45 | -7,559.56 | 983.40 | -1,115.61 | 0.88 | 1.39 | 169.50 |
| 1 | 5,097.65 | 49 | 28 | 21 | 57.14 | 2,287.60 | -1,922.40 | 679.76 | -663.60 | 1.02 | 1.37 | 104.03 |

46 of 49 instances (94%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a 6-day profit curve.

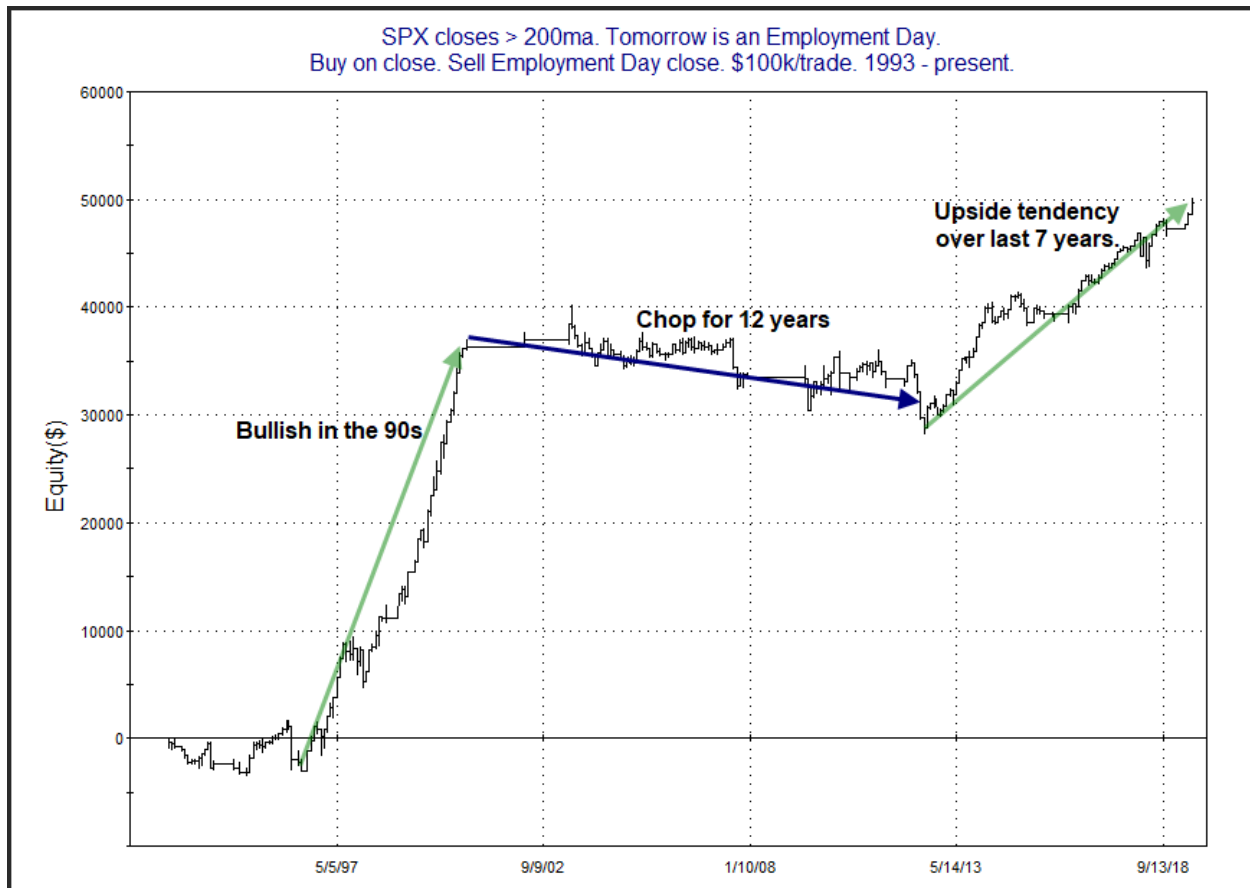


This profit curve also shows a strong steady upslope. And here is the 10-day.



This curve is just as impressive. I have added this study to both the short and intermediate-term active lists.

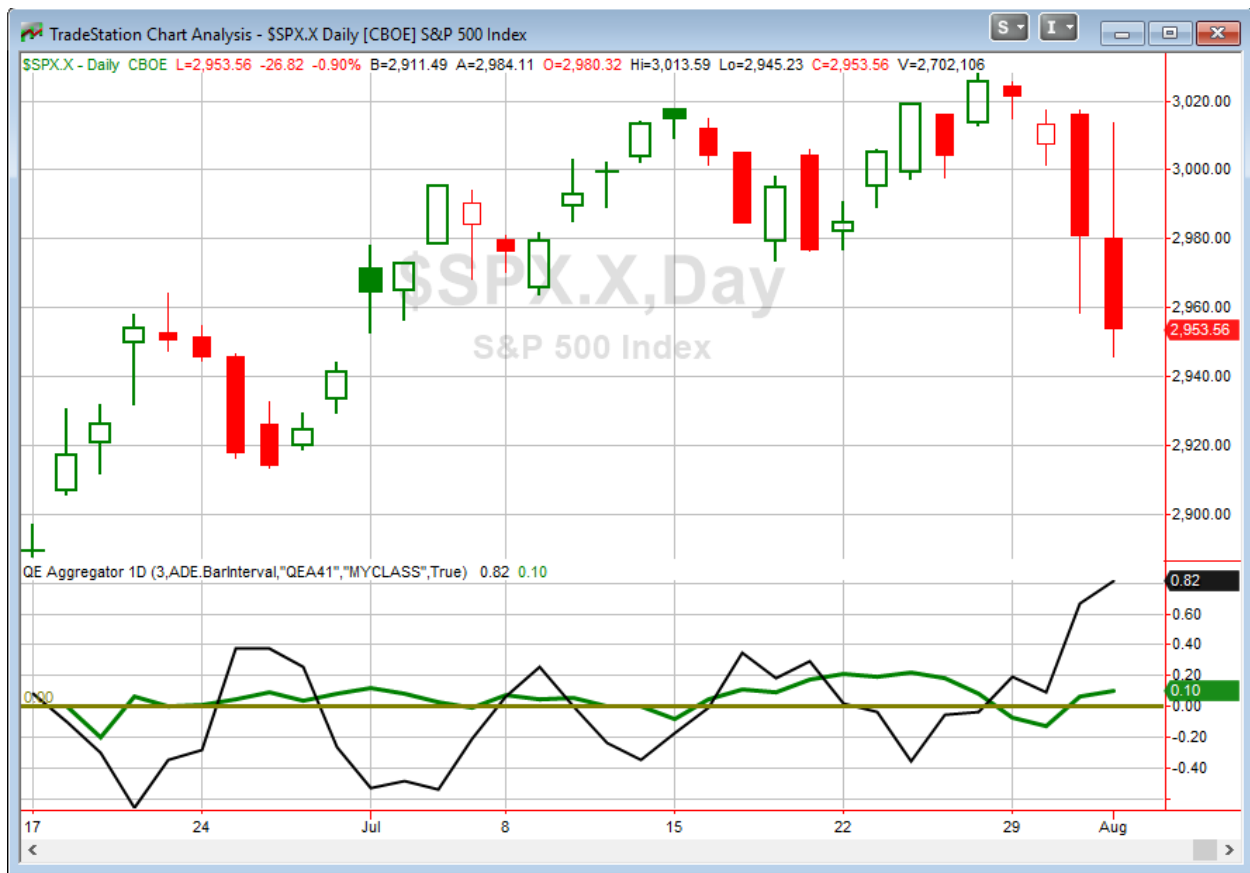
It is also notable that tomorrow will be the release of the BLS Employment Report. Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPX performance on Employment Days. I posted this chart in the 7/5/19 subscriber letter. (It is NOT updated with the most recent instance, which was a very slight decline.) For this equity curve I filtered to only include days where SPX was > its 200ma. Each trade was a fictional \$100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. Friday’s employment report may be suggesting an upside edge, but the history has not been consistent enough for me to factor it into the Aggregator. While it’s a bit unusual to see such abrupt changes in market dynamics, it does serve as a nice reminder that such changes are always possible.

I also think it is worth mentioning that despite the strong selling over the last few days, the Quantifiable Edges Capitulative Breadth Indicator (CBI) remains at 0. This can be seen in the Catapult & CBI section below. That is somewhat discouraging when evaluating the chances of a bounce. But it is not a huge surprise. It has felt like a sizable pullback the last couple of afternoons, but SPX closed Thursday down just 2.4% from its all-time high. So expecting broad capitulation at this point is unrealistic. Friday could see some stocks trigger Catapults. But it will take several more days of selling before I think we would see a substantial spike in the CBI.

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



With tonight's new evidence considered, 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 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 stayed long at the close.

Based on the current active list of studies, expectations are slated to remain positive on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 3008.92 on Friday. That is 1.9% above Thursday's close. So SPX would need to close up at least 1.9% on Friday in order to flip from oversold to overbought versus recent expectations. That would be a sizable 1-day move. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the evidence continues to point higher and the market is strongly oversold. This is leaving the Aggregator bullish. I believe there is a solid upside edge. I don't like the fact that the CBI is stuck at zero. And the employment report on Friday could help to produce a strong reaction. If that reaction is downward, it could easily turn into a strong overreaction with traders concerned about

taking home long exposure over the weekend. So I am wary of upping my position early in the day on Friday. But if a substantial selloff does arise, then I'll be happy to buy into that overreaction and take on some more long exposure. Details in the trade ideas section.

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 @ \$293.00 LIMIT ON CLOSE. Based on the short-term outlook above, I'll be looking to add to my SPY long position if it closes down a fair amount on Friday.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 8/1/2019 | \$297.00 | \$294.84 | -0.73% | | Aggregator |
| | | | | | | |
| | | | | | | |

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