

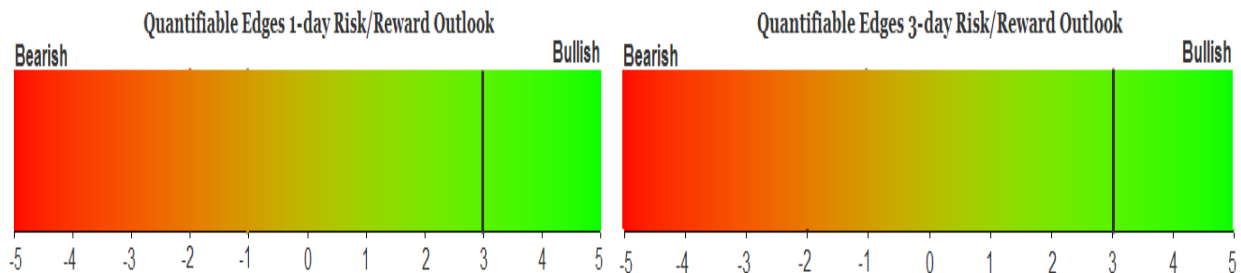
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 6, 2019

Volume 12 Issue 150

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	3

## Tonight's Research Points

- Tuesdays are the best days to see a turnaround, and one study shows a very positive outlook over the next few days.
- Big drops under similar circumstances have typically been followed by sharp rebounds.
- The VIX spike unlike most we have seen in the past.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is again bullish. The market is wild. News rules, but we are overdone to the point that almost everything is suggesting a sizable bounce should occur in the next week.

**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
<b>Active - Short Term</b>						
August 6, 2019	4+ Hindenburg Omen Signals	1-35 days	Bearish			
August 6, 2019	QQQ down 5. Today biggest drop.	1-20 days	Bullish	10.60%	-4.40%	-7.70%
<b>Active - Long Term</b>						
August 5, 2019	4+ Hindenburg Omen Signals	1-35 days	Bearish			
August 5, 2019	QQQ down 5. Today biggest drop.	1-20 days	Bullish	10.60%	-4.40%	-7.70%
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			
<b>Dropped Tonight</b>						
August 5, 2019	SPX dn 3. Fed Day 2 days ago	1-3 days	Bullish	2.00%	-0.80%	-1.70%
August 5, 2019	Gp down frm 20-low. Close < open	1-5 days	Bullish	2.70%	-1.00%	-2.10%
August 5, 2019	SPY unfill dn. 10-low. 3rd dn close.	1-2 days	Bullish	1.60%	-0.60%	-1.40%
August 2, 2019	1st 10-low close in 30+ days	1-6 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 29, 2019	NDX up 1%. SOX down.	1-6 days	Bearish	-3.10%	1.80%	3.90%

**The Evidence**

News of currency manipulation out of China slammed the markets on Monday. The SPX lost 3.2%, the NASDAQ fell 3.5%, and the Russell 2000 declined 3.0%. Breadth was negative as the NYSE Up Issues % was 9.9% and the Up Volume % came in at 8%. NYSE volume rose some from Friday's level.

The selling got serious. After reaching levels that would typically lead to a quick bounce, the market fell apart on Monday. It is acting in a historically abnormal way, and that will impact risk over the next few days.

When I say "historically abnormal", that is not just because Monday crapped out when we saw so much evidence pointing higher over the weekend, but we are seeing the VIX spike in a way rarely seen before. On Monday it closed more than 61% above its 10-day moving average. I looked back to 1990 to find other times the VIX spiked up high enough to exceed the 60% level. The full list is below.

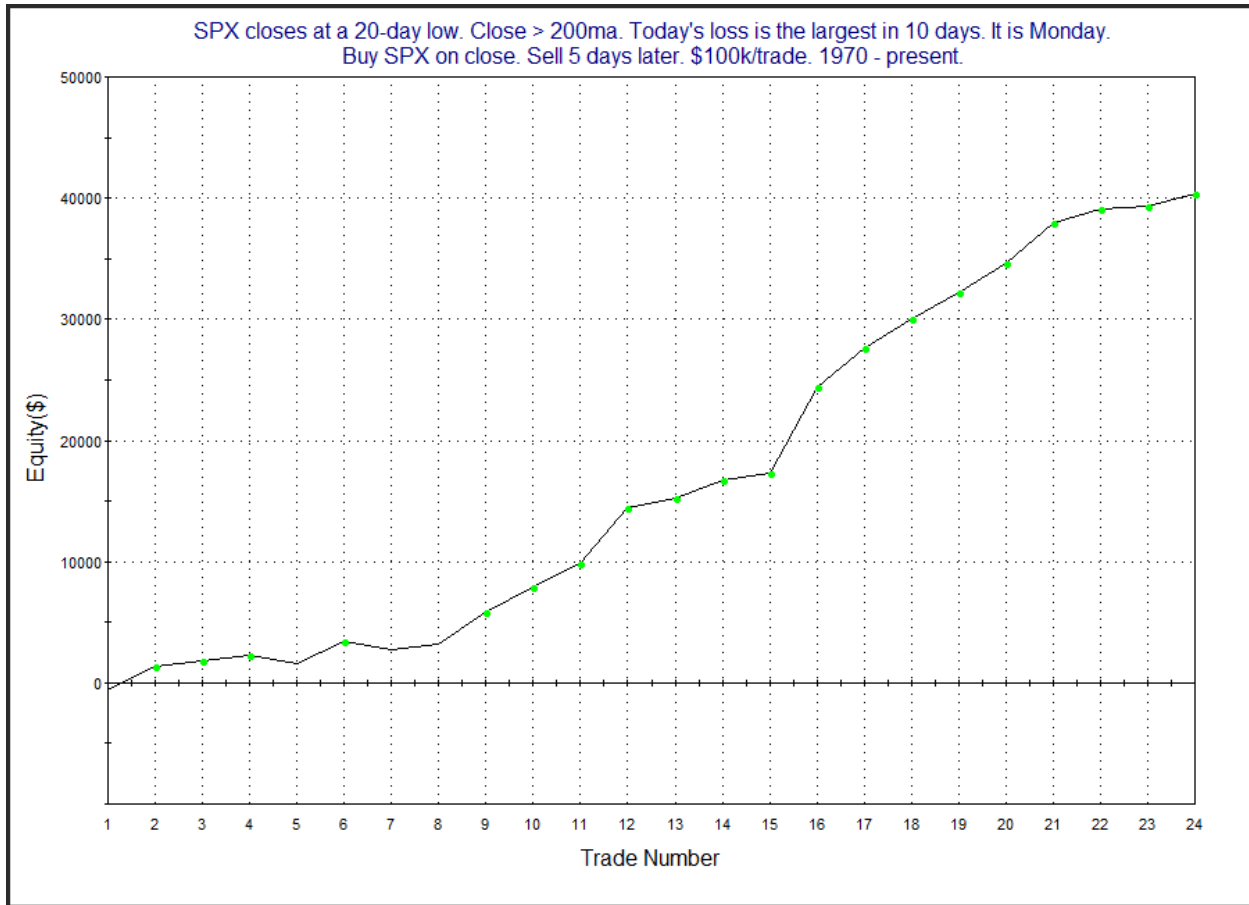
VIX crosses through and closes above the "60% higher than 10ma" level. Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/27/2007	Buy	\$1,399.14	0.55%	\$1,189.25
2/28/2007	Sell	\$1,406.82		(\$176.79)
5/7/2010	Buy	\$1,110.88	4.40%	\$4,767.30
5/10/2010	Sell	\$1,159.73		\$0.00
2/5/2018	Buy	\$2,648.94	1.74%	\$1,927.70
2/6/2018	Sell	\$2,695.14		(\$2,067.19)

Three instances is too few to generate estimates from. But it does demonstrate how unusual the market action has been. Lower level VIX spikes suggest a short-term reversal is likely, and we have some other evidence pointing that way as well. The Quantifinder showed a huge number of bullish studies today. I intend to highlight a couple of the most compelling ones.

Several studies viewed the strong selling and closing lows to be potentially bullish. And Turnaround Tuesday is typically the best day for a bounce to begin. The study below considered the long-term uptrend, intermediate-term low, and strong selling on Monday. It was last seen in the 5/14/19 letter. All stats are now updated.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. It is Monday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	40,373.30	24	21	3	87.50	7,070.28	-734.40	2,018.85	-674.18	2.99	20.96	1,682.22
4	33,189.87	24	23	1	95.83	4,690.50	-1,087.43	1,490.32	-1,087.43	1.37	31.52	1,382.91
3	24,709.28	24	19	5	79.17	3,940.55	-2,513.78	1,532.18	-880.42	1.74	6.61	1,029.55
2	22,324.92	24	20	4	83.33	4,809.66	-925.32	1,230.26	-570.05	2.16	10.79	930.21
1	11,434.54	24	17	7	70.83	5,117.46	-2,264.50	868.67	-476.12	1.82	4.43	476.44

The only instance that did not close higher 4 days later was the one that triggered on 2/5/18. (Recognize that date from the VIX study above?) But as you can see in the 5-day profit curve below, it did close higher on day 5.



Nothing here makes me think any less of the numbers. This study is strongly suggestive of a bounce.

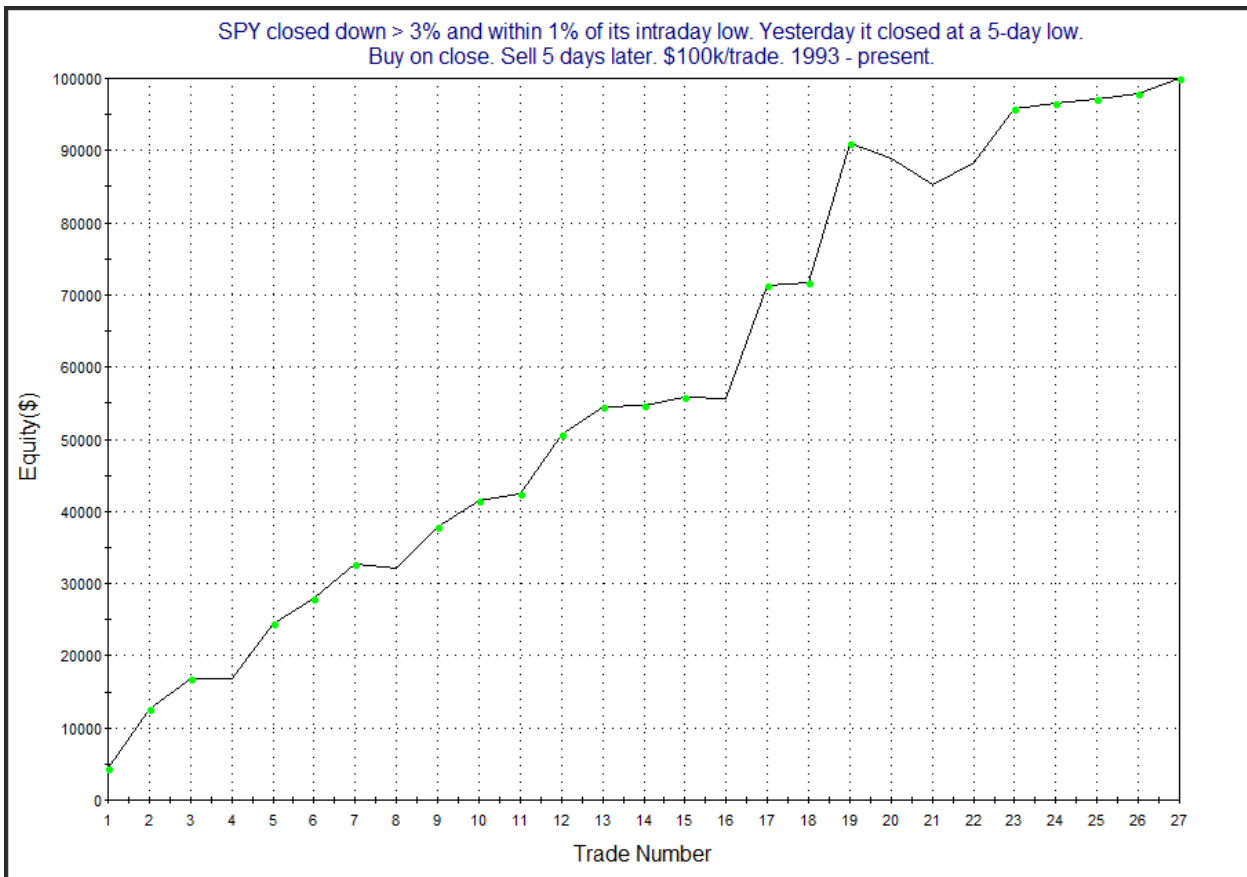
Another bit of evidence to consider is that not only was the selling extremely sharp on Monday, it also originated from a place where the market was already short-term oversold. The study below was last seen in the 10/25/18 letter, and it takes these kind of measures into account.

SPY closed down > 3% and within 1% of its intraday low. Yesterday it closed at a 5-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	99,919.08	27	22	5	81.48	19,398.00	-3,525.84	4,843.19	-1,326.24	3.65	16.07	3,700.71
4	66,494.99	29	19	10	65.52	17,914.00	-5,767.34	4,612.41	-2,114.08	2.18	4.15	2,292.93
3	49,295.85	29	17	12	58.62	14,708.85	-11,518.47	4,397.55	-2,121.87	2.07	2.94	1,699.86
2	58,414.94	30	24	6	80.00	12,693.50	-9,320.67	3,379.34	-3,781.53	0.89	3.57	1,947.16
1	49,582.90	30	22	8	73.33	11,683.71	-4,080.40	3,009.39	-2,077.95	1.45	3.98	1,652.76

96% of instances closed above the entry price at some point in the next week. The lone failure triggered on 2/17/09.

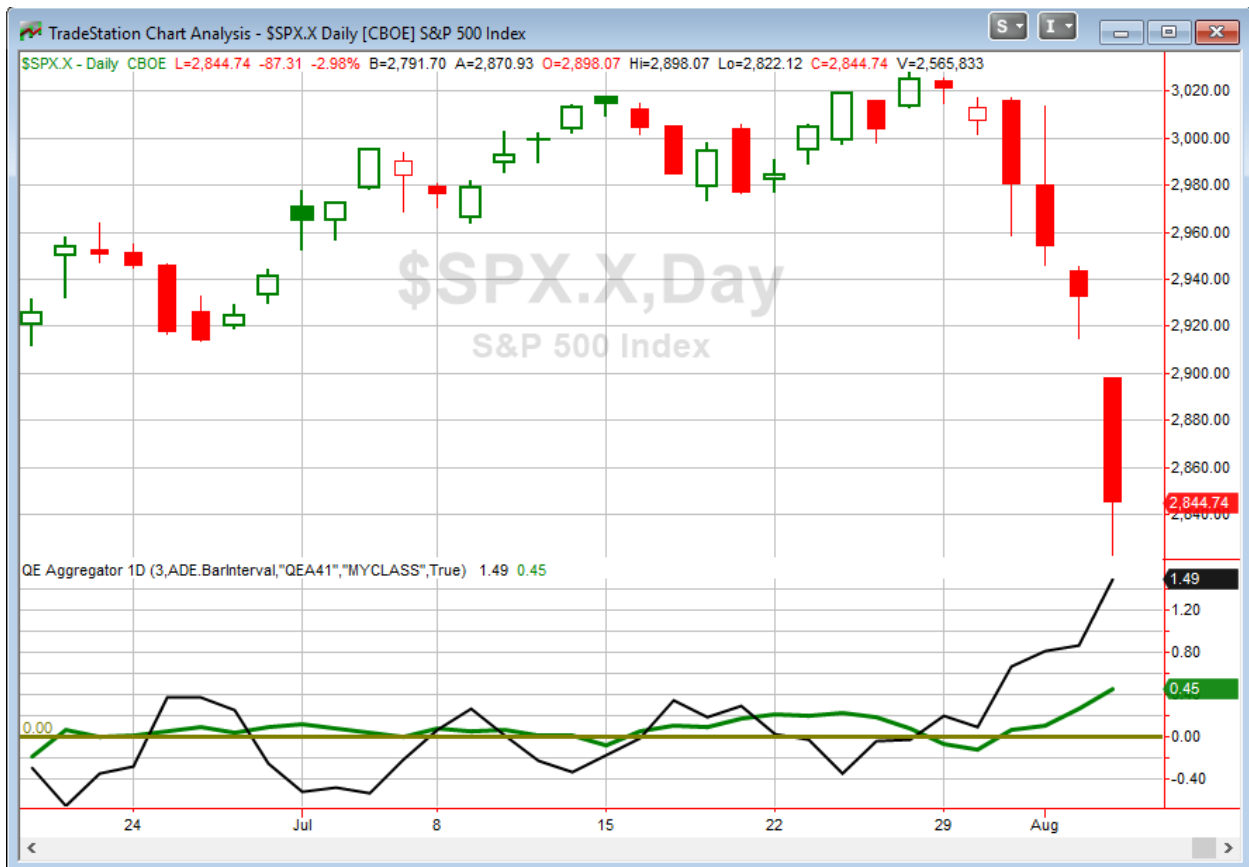
More very substantial looking numbers here. Below is the profit curve.



Another strong, steady curve suggesting a short-term bullish edge. I could show a ton of studies like this – all basically suggesting the market is overdone to the downside and very likely to bounce.

One indicator that typically kicks in around now is the Quantifiable Edges Capitulative Breadth Indicator (CBI). But as you will see in the CBI section below, the CBI is still in neutral territory, with a reading of just 3. That does not necessarily invalidate the other studies suggesting a high probability of a bounce. We certainly could get a bounce and never see the CBI get any higher. But I would be substantially more comfortable if the CBI spiked and we were looking at a 10+ reading.

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 shot further 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 Tuesday. I will note that the list is fairly short, because all of the studies from this weekend were taken off after going more than 1 std deviation beyond their typical drawdowns. The Differential Pivot will be 2951.28 on Tuesday. That is 3.75% above Monday's close. That would be a huge 1-day gain. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence is strongly suggesting the selloff is overdone and there should be a large bounce coming in the next few days. As I mentioned above, the low CBI reading is a bit frustrating. But I expect more selling on Tuesday would get it up to at least 5. I already have a ½ size index position long (and felt over-exposed with that as I saw the market cratering on Monday). I'm itching to up it some after seeing tonight's evidence. But I have decided I will only look to take on more index exposure on Tuesday if the SPX closes down again (which would likely cause the CBI to rise to 5 or higher). There are a couple of small Catapult positions I will be looking to take in the morning.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 8/5– slightly bullish***

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***OpenCatapult Triggers***

COST @ \$272.50 (bought 1/3 @ limit)

***New***

COST @ \$265.10 (buy 1/3 @ limit)

TXN @ \$116.93(buy 1/3 @ limit)

***Broad Market Large Cap CBI – 1(COST-2, TXN)***

### **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.

**COST – Buy 1/3 Catapult position @ \$265.10 LIMIT.** From the Catapult section above. This is the 2<sup>nd</sup> of up to 3 possible lots of COST.

**TXN – Buy 1/3 Catapult position @ \$116.93 LIMIT.** From the Catapult section above. This is the 1<sup>st</sup> of up to 3 possible lots of TXN.

**SPY – Buy ¼ index position @ \$283.75 LIMIT ON CLOSE.** Based on the short-term outlook above, I'll look to take on a 3<sup>rd</sup> lot of SPY if we close down much at all on Tuesday.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/1/2019	\$297.00	\$283.82	-4.44%		Aggregator
SPY(1/4)	8/2/2019	\$292.62	\$283.82	-3.01%		Aggregator
COST(1/3)	8/5/2019	\$270.09	\$265.10	-1.85%		Catapult

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