

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 9, 2019

Volume 12 Issue 153

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	4

## Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is still bullish, but that could easily turn to neutral on Thursday unless SPX sells off.

**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 8, 2019	Up 2 from 20-low. Close < 3 ago > 200	1-4 days	Bullish			
August 7, 2019	SPX < lower Bollinger Band 4 days	1-2 days	Bullish	3.10%	-2.00%	-4.60%
August 6, 2019	Down 3% after 5-low yesterday	1-5 days	Bullish			
August 6, 2019	20-low. Biggest loss in 10 days. Monday	1-5 days	Bullish			
<b>Active - Long Term</b>						
August 7, 2019	SPX < lower Bollinger Band 4 days	1-2 days	Bullish	6.30%	-3.80%	-7.75%
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			

**The Evidence**

Thursday was a big rally day. The SPX gained 1.9%, the NASDAQ rose 2.2%, and the Russell 2000 advanced 2.1%. Breadth was positive as the NYSE Up Issues % was 82% and the Up Volume % came in at 85%. NYSE volume rose some from Wednesday's level.

On Monday I showed some studies suggesting a big bounce was likely over the next few days. And the bounce certainly has played out according to those studies. The one that looked at 20-day lows on Mondays has already met its 5-day objective, so that was removed from the Active List tonight. And last night's study has nearly met its objective, and could be removed Friday with any kind of intraday rally. So that's all nice, but the rally the last few days has now turned the market from short-term oversold to short-term overbought (by some measures). With SPX closing up 3 days in a row and having erased Monday's massive down day, I am not seeing any compelling short-term evidence for tonight. What I am seeing is action that could be viewed as short-term bearish if the SPX was in a downtrend. But with the SPX above its 200ma, such bearish tendencies seem to fade away.

For instance, the rally Thursday was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 7/10/17 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,127.04	27	15	12	55.56	2,031.92	6,915.44	-3,967.15	-13,784.48	0.51	0.64	-634.33
4	-29,181.03	29	14	15	48.28	1,665.91	4,104.78	-3,500.25	-10,971.63	0.48	0.44	-1,006.24
3	-33,812.52	30	10	20	33.33	1,269.38	2,993.44	-2,325.32	-7,806.29	0.55	0.27	-1,127.08
2	-41,144.44	30	9	21	30.00	946.61	2,466.36	-2,364.95	-9,455.49	0.40	0.17	-1,371.48
1	-18,999.82	30	8	22	26.67	890.80	2,404.65	-1,187.56	-4,400.45	0.75	0.27	-633.33

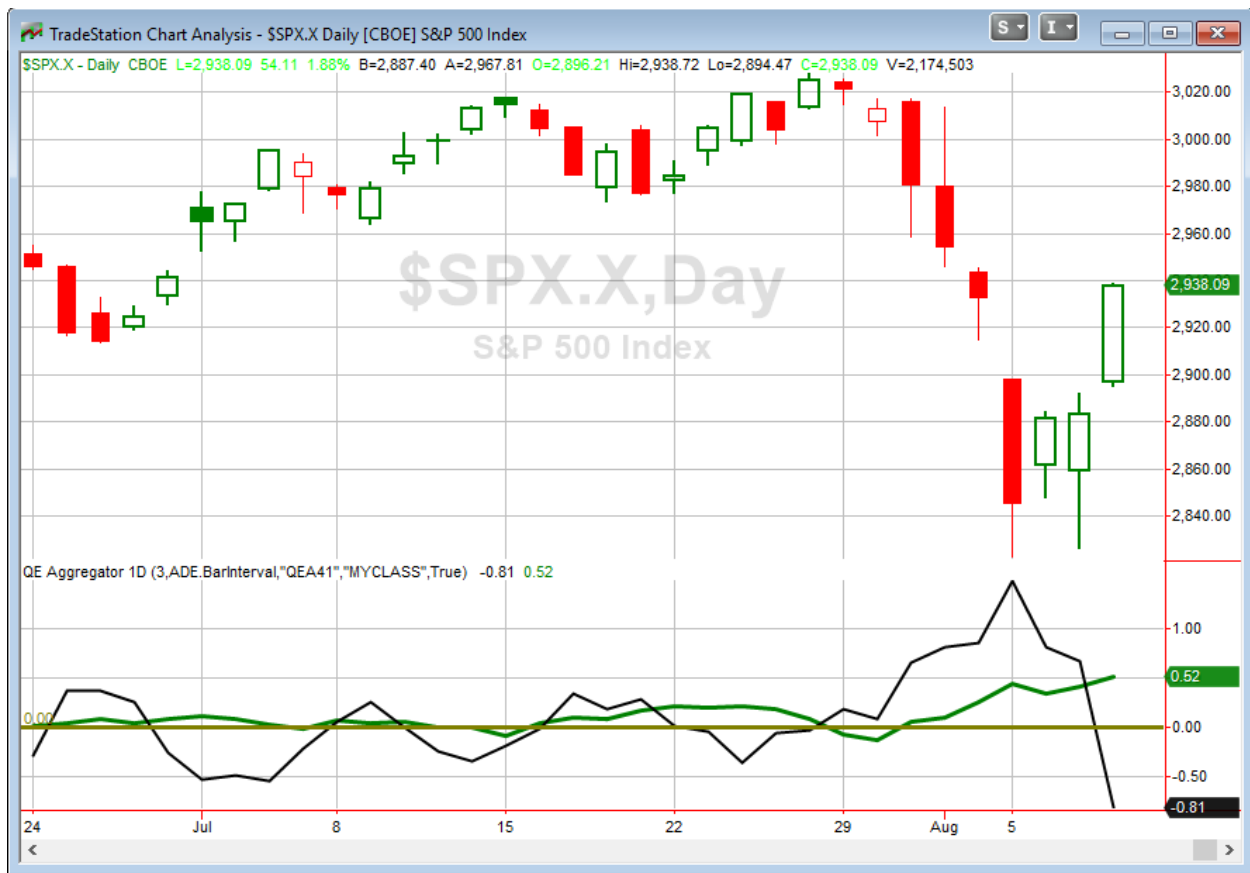
We see here some bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

But now let's consider times like the present where SPX is in an uptrend.

VXO closes down over 15%. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	3,617.39	61	32	29	52.46	5,396.71	-4,561.65	1,457.44	-1,483.47	0.98	1.08	59.30
4	3,934.86	66	37	29	56.06	3,394.72	-3,209.85	1,174.34	-1,362.61	0.86	1.10	59.62
3	6,341.02	68	36	32	52.94	3,276.14	-3,629.81	1,210.61	-1,163.78	1.04	1.17	93.25
2	4,149.37	71	40	31	56.34	3,075.73	-5,300.66	1,041.87	-1,210.49	0.86	1.11	58.44
1	-556.96	76	39	37	51.32	2,842.84	-3,724.42	754.25	-810.08	0.93	0.98	-7.33

Here there is no hint of a short-term bearish inclination. In fact the setup is basically neutral across the board. So the big drop in the VXO does not seem to help or hurt the SPX's chances over the next few days.

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 dove below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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 turned flat at the close.

Based on the current active list, expectations are slated to remain positive on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2912.18 on Friday. That is 0.9% below Thursday's close. Therefore, SPX will need to close down at least 0.9% on Friday to flip from overbought to oversold versus expectations.

So the Aggregator is neutral and there does not appear to be a substantial short-term edge in either direction. The expected bounce arrived, but after 3 rally days it may need to take a brief rest, even if the ultimate direction is higher. I took some long exposure off at the close on Thursday. I will look to take off the remaining on Friday if I can get a favorable fill. With all the short-term evidence currently pointing higher (or neutral), I am not inclined to sell into a big gap down. So I will try and use some patience with this exit to see if I can get a good fill.

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

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***OpenCatapult Triggers***

ABBV @ \$64.77 (bought 1/3 @ limit)

PFE @ \$36.95 (bought 1/3 @ limit)

ABBV @ \$64.46 (bought 1/3 @ limit)

PFE @ \$36.58 (buy 1/3 @ limit) – *Not filled. Cancel for now*

### ***Broad Market Large Cap CBI – 4(ABBV-2, PFE-2)***

### **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 tonight.**

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<b>SPY(1/4)</b>	<b>8/1/2019</b>	<b>\$297.00</b>	<b>\$293.62</b>	<b>-1.14%</b>	<b><i>sold on close</i></b>
SPY(1/4)	8/2/2019	\$292.62	\$293.62	0.34%	<b><i>sell @ \$293.62 LIMIT</i></b>
<b>COST(1/3)</b>	<b>8/5/2019</b>	<b>\$270.09</b>	<b>\$273.04</b>	<b>1.09%</b>	<b><i>sold on open</i></b>
<b>COST(1/3)</b>	<b>8/6/2019</b>	<b>\$265.10</b>	<b>\$273.04</b>	<b>3.00%</b>	<b><i>sold on open</i></b>
ABBV(1/3)	8/7/2019	\$64.38	\$65.45	1.66%	Catapult
PFE(1/3)	8/7/2019	\$36.65	\$36.87	0.60%	Catapult
ABBV(1/3)	8/7/2019	\$64.46	\$65.45	1.54%	Catapult

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