

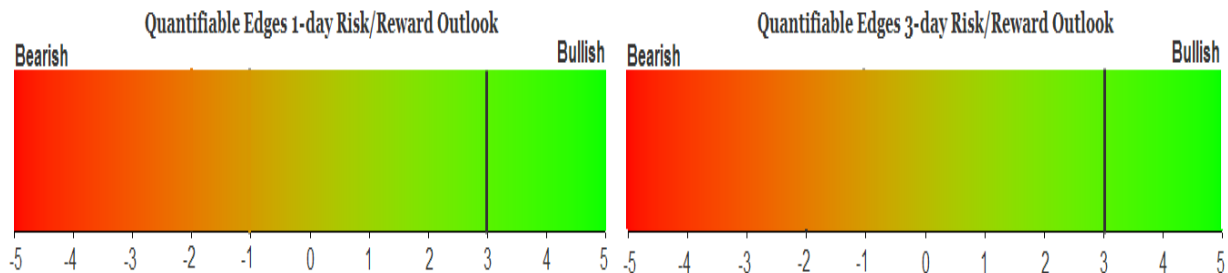
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 15, 2019

Volume 12 Issue 157

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	5

Tonight's Research Points

- 2% drops above the 200ma have not been as reliable in recent years.
- NYSE Up Volume < 5% has been rare with SPX above the 200ma, and has often led to a bounce in the short-term.

Short-term Outlook

The Bottom Line

Evidence is beginning to arise suggesting a bounce, and there is plenty of room to the upside before SPX would turn overbought. I am leaning bullish.

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 15, 2019	NYSE Up Vol % < 5%. SPX > 200ma	1-2 days	Bullish			
Active - Long Term						
August 13, 2019	3rd 1% dn day in last 10. Close > 200ma	1-20 days	Bullish			
August 7, 2019	SPX < lower Bollinger Band 4 days	1-18 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			

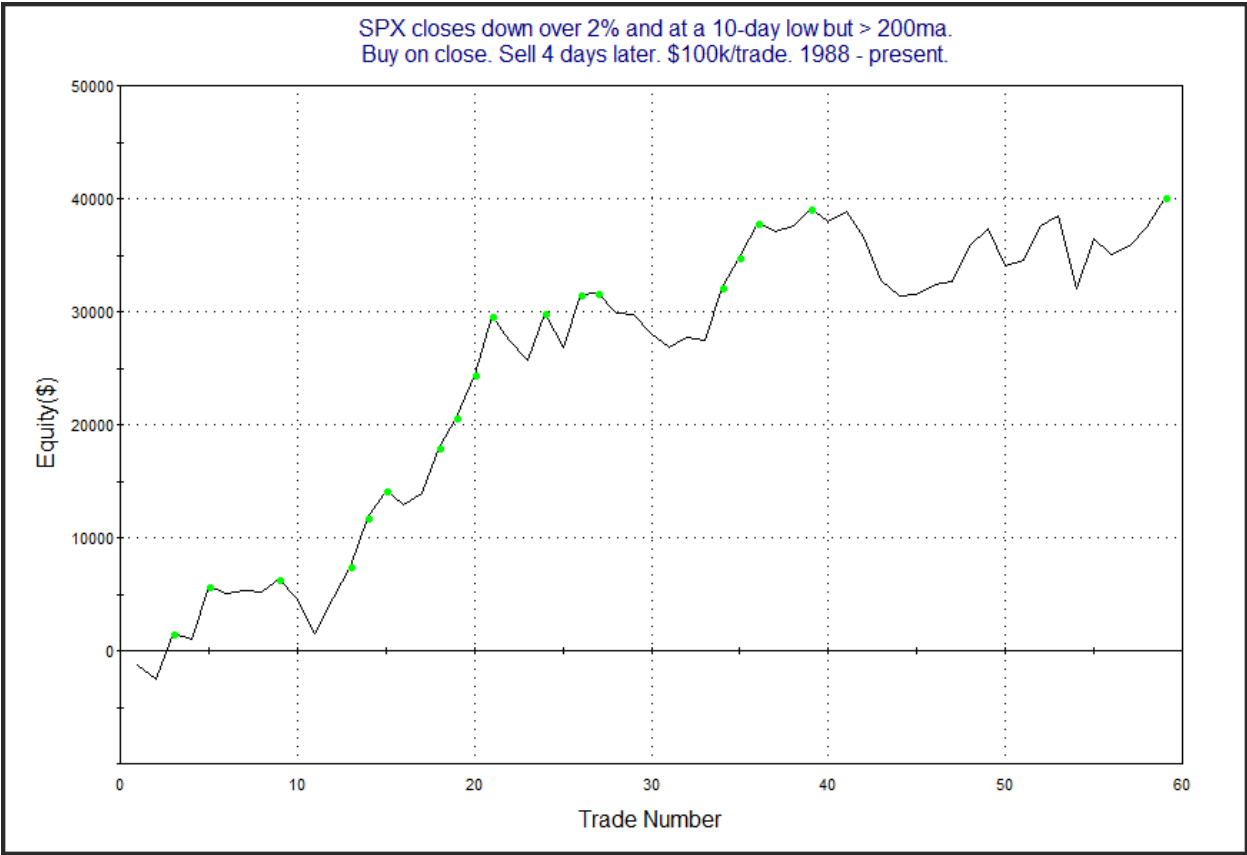
The Evidence

A 2/10 yield curve inversion triggered some selling, and the market crumbled on Wednesday. The SPX fell 2.9%, the NASDAQ dropped 3.0%, and the Russell 2000 lost 2.85%. Breadth was extremely negative as the NYSE Up Issues % was 14.4% and the Up Volume % came in at 4.6%. NYSE volume rose quite a bit from Tuesday's level.

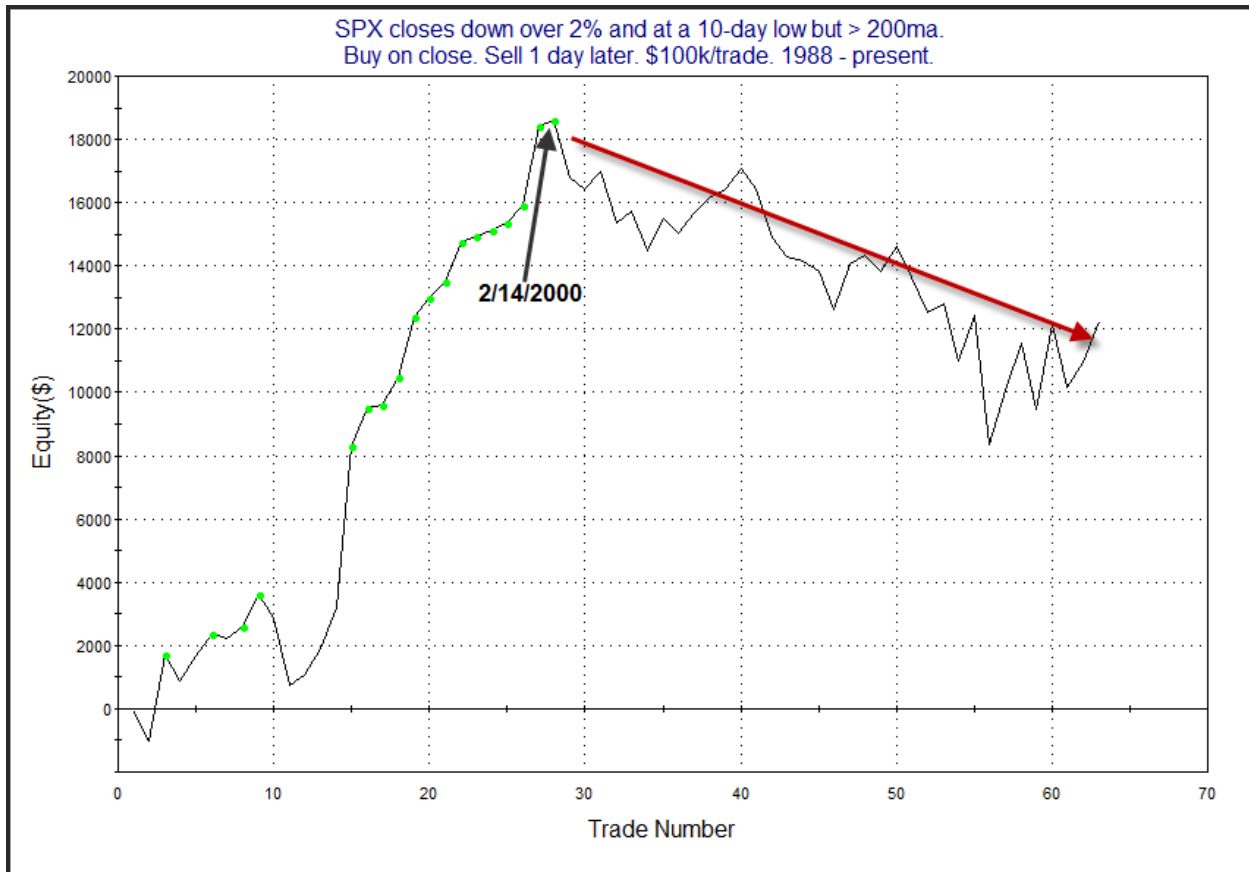
Big down days are starting to seem commonplace. It was only a little over a week ago that SPX posted a 3% loss. And it just missed it again today with a 2.9% decline. But big drops don't often happen when the market is trading above its 200ma. There were several studies tonight that looked at sizable drops during a long-term uptrend. I noted a theme among a few of them that simply seeing a big down day and a new low in recent years has not led to as reliable of a rebound as it did in the past. The study below is an example of what I looked at.

SPX closes down over 2% and at a 10-day low but > 200ma. Buy 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	29,747.05	57	30	27	52.63	7,070.28	-5,132.88	2,505.06	-1,681.66	1.49	1.66	521.88
4	40,115.20	59	35	24	59.32	5,187.49	-6,520.68	2,365.57	-1,778.33	1.33	1.94	679.92
3	25,500.83	59	33	26	55.93	5,339.18	-5,331.20	1,963.90	-1,511.84	1.30	1.65	432.22
2	24,746.39	60	36	24	60.00	4,809.66	-7,559.56	1,576.15	-1,333.13	1.18	1.77	412.44
1	12,231.07	63	39	24	61.90	5,117.46	-4,074.84	1,015.13	-1,139.96	0.89	1.45	194.14

Numbers here appear solid, though not overwhelming. The win rate of 60% is ok, but not as high as we often see with many of the bullish studies I utilize. Below is a look at the 4-day profit curve.



The curve is back to making new highs, but upside progress has certainly slowed in recent years. Under many circumstances, I might consider this “good enough”. But the 1-day curve gave me some pause.



Since 2000, there have been net losses on the day after the setup. So this does not seem like a great signal when simply taking price action into account.

But the stats that were the most extreme were the breadth numbers, with NYSE Up Volume % coming in at under 5% for the 1st time since 2/5/18. The study below is from the 7/12/11 letter. It looks at other instances where the NYSE Up Volume % was < 5% while SPX closed above the 200ma. Stats are updated.

**NYSE Up Vol % < 5%. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.**

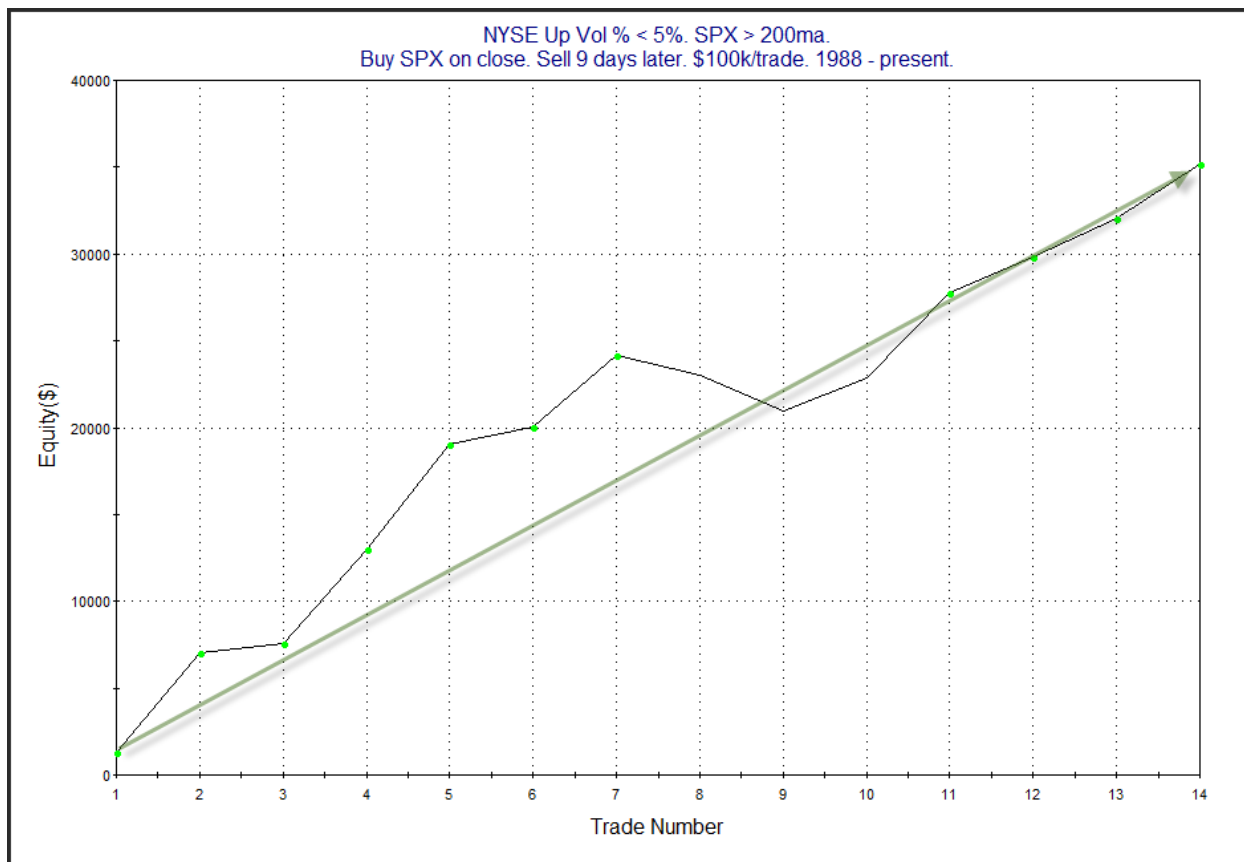
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	27,068.03	14	11	3	78.57	7,072.00	-4,977.28	3,389.43	-3,405.22	1.00	3.65	1,933.43
9	35,163.53	14	12	2	85.71	6,030.49	-2,027.68	3,195.33	-1,590.24	2.01	12.06	2,511.68
8	31,042.51	14	12	2	85.71	6,960.84	-3,246.72	2,911.34	-1,946.76	1.50	8.97	2,217.32
7	27,096.32	14	12	2	85.71	7,500.06	-3,311.32	2,559.29	-1,807.58	1.42	8.50	1,935.45
6	19,078.67	15	11	4	73.33	7,272.06	-5,458.64	2,501.25	-2,108.78	1.19	3.26	1,271.91
5	21,050.30	15	11	4	73.33	7,070.28	-4,223.12	2,659.20	-2,050.24	1.30	3.57	1,403.35
4	11,290.39	15	10	5	66.67	4,292.10	-5,639.92	2,229.58	-2,201.08	1.01	2.03	752.69
3	9,193.70	15	9	6	60.00	3,046.08	-2,513.78	1,935.56	-1,371.05	1.41	2.12	612.91
2	14,858.36	16	11	5	68.75	4,809.66	-1,309.44	1,639.03	-634.19	2.58	5.69	928.65
1	10,369.06	16	10	6	62.50	5,117.46	-1,519.76	1,328.78	-486.45	2.73	4.55	648.07

The stats suggest a quick bounce, and then eventually further gains. Below is the full list of instances along with their 2-day results.

NYSE Up Vol % < 5%. SPX > 200ma.
Buy SPX on close. Sell 2 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/13/1989	Buy	\$333.64	2.25%	\$2,759.77
10/17/1989	Sell	\$341.15		(\$1,949.48)
10/27/1997	Buy	\$876.97	4.81%	\$6,642.78
10/29/1997	Sell	\$919.16		(\$2,473.80)
2/27/2007	Buy	\$1,399.14	0.29%	\$1,189.25
3/1/2007	Sell	\$1,403.17		(\$1,297.17)
9/1/2009	Buy	\$998.04	0.52%	\$539.00
9/3/2009	Sell	\$1,003.24		(\$607.00)
10/1/2009	Buy	\$1,029.85	1.03%	\$1,234.81
10/5/2009	Sell	\$1,040.46		(\$960.30)
11/27/2009	Buy	\$1,091.50	1.59%	\$1,890.98
12/1/2009	Sell	\$1,108.86		(\$477.75)
2/4/2010	Buy	\$1,063.11	-0.60%	\$760.46
2/8/2010	Sell	\$1,056.74		(\$1,749.34)
5/6/2010	Buy	\$1,128.15	2.80%	\$3,141.60
5/10/2010	Sell	\$1,159.73		(\$2,992.00)
5/14/2010	Buy	\$1,135.68	-1.31%	\$1,142.24
5/18/2010	Sell	\$1,120.80		(\$1,823.36)
6/1/2011	Buy	\$1,314.55	-1.09%	\$264.48
6/3/2011	Sell	\$1,300.16		(\$1,265.40)
7/11/2011	Buy	\$1,319.49	-0.13%	\$899.25
7/13/2011	Sell	\$1,317.72		(\$462.00)
3/6/2012	Buy	\$1,343.36	1.68%	\$1,876.64
3/8/2012	Sell	\$1,365.91		\$0.00
6/29/2015	Buy	\$2,057.64	0.96%	\$1,206.72
7/1/2015	Sell	\$2,077.42		(\$63.36)
9/9/2016	Buy	\$2,127.81	-0.04%	\$1,632.54
9/13/2016	Sell	\$2,127.02		(\$399.74)
9/13/2016	Buy	\$2,127.02	0.95%	\$1,141.63
9/15/2016	Sell	\$2,147.26		(\$334.64)
2/5/2018	Buy	\$2,648.94	1.24%	\$2,913.01
2/7/2018	Sell	\$2,681.66		(\$2,067.19)

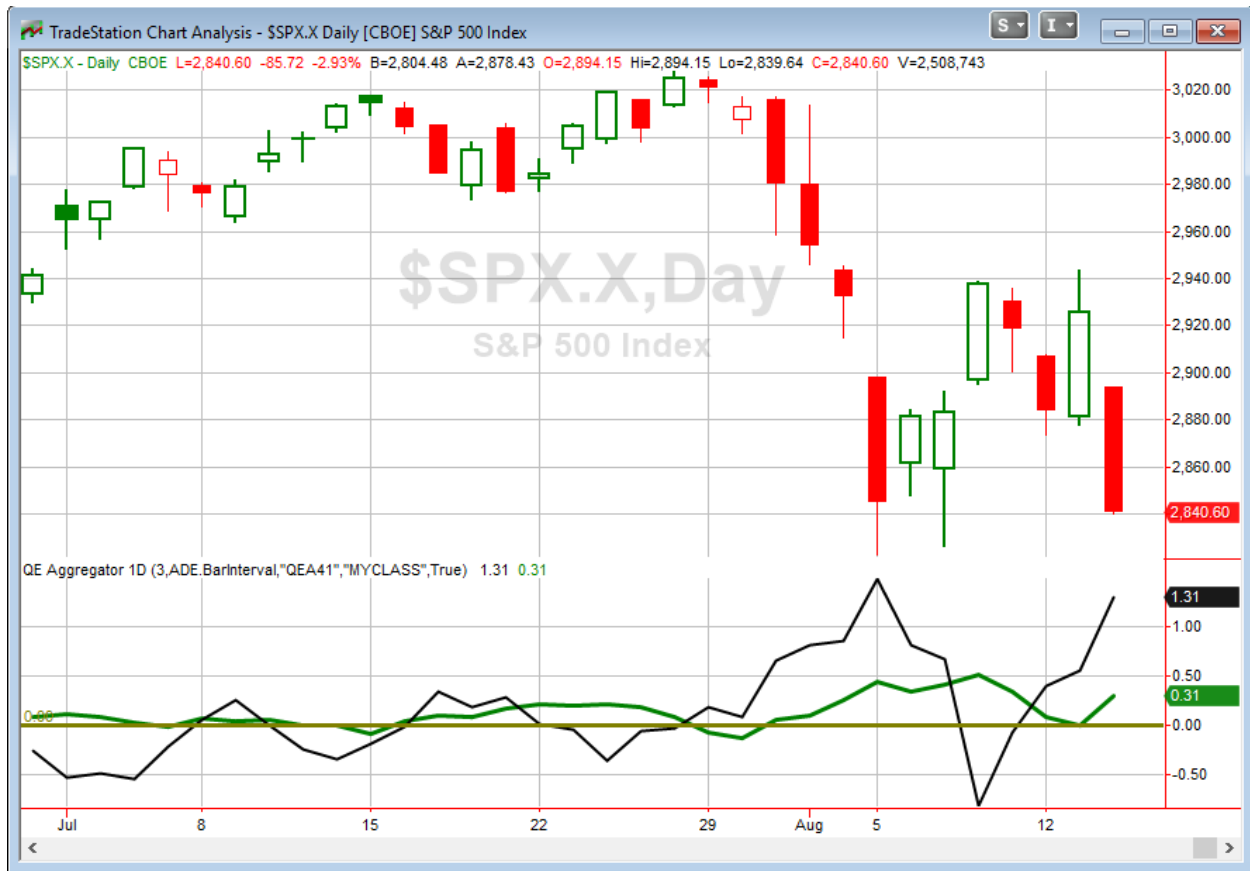
Overall, an impressive list. I also ran a profit curve for the 9-day hold.



That is a strong, steady upslope. Bottom line is that breadth numbers as extreme as we saw on Wednesday often suggest an overdone market that is primed to bounce. I have added this study to the Active List tonight as a 2-day edge.

Not supportive of this is the fact that the CBI only moved up to 5 on Wednesday. That is a little better than neutral, but it is only about halfway to a strong bullish reading. Despite all the turmoil we have seen in the last couple of weeks, the CBI has not managed to spike above 5 at any point. I would obviously prefer a higher CBI reading before getting terribly excited about taking on substantial index exposure.

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



With tonight's 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. So expectations are positive and SPX is strongly 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.

With the limited short-term evidence on the active list, expectations are slated to remain positive on Thursday. Of course that could quickly change if compelling new bearish evidence emerges. The Differential Pivot will be 2907.92 on Thursday. That is 2.4% above Wednesday's close. So SPX will need to close up a very strong 2.4% on Thursday to flip from oversold to overbought vs recent expectations.

We are starting to see some evidence that the market should put in at least a short-term bounce at some point in the next few days. But it is interesting that the evidence I am seeing now is nowhere near as compelling as I saw after last Monday's big drop. I do think taking on some long exposure here offers favorable reward/risk. But I'll be keeping plenty of powder dry in case the market fails to generate a quick rebound. Further selling accompanied by additional bullish evidence and a spiking CBI would get me more interested in taking on a larger position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/12– slightly bullish

The intermediate-term outlook was last updated in the 8/12/19 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

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

PFE @ \$36.58 (bought 1/3 @ limit)

KHC @ \$25.96 (buy 1/3 @ limit)

New

PFE @ \$34.24 (buy 1/3 @ limit)

KHC @ \$25.52 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 5(PFE-3, KHC-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.

PFE – Buy 1/3 Catapult position @ \$34.24 LIMIT. From the Catapult section above, this is the 3rd and final lot of PFE.

KHC – Buy 1/3 Catapult position @ \$25.52 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of KHC.

SPY – Buy ¼ index position @ \$283.90 LIMIT. Based on the short-term outlook above, I will look to start scaling into a long index position if I can get filled at Wednesday’s close or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
PFE(1/3)	8/7/2019	\$36.65	\$34.24	-6.58%	Catapult
PFE(1/3)	8/8/2019	\$35.40	\$34.24	-3.28%	Catapult
KHC(1/3)	8/14/2019	\$25.85	\$25.52	-1.28%	Catapult

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found [here](#).

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