

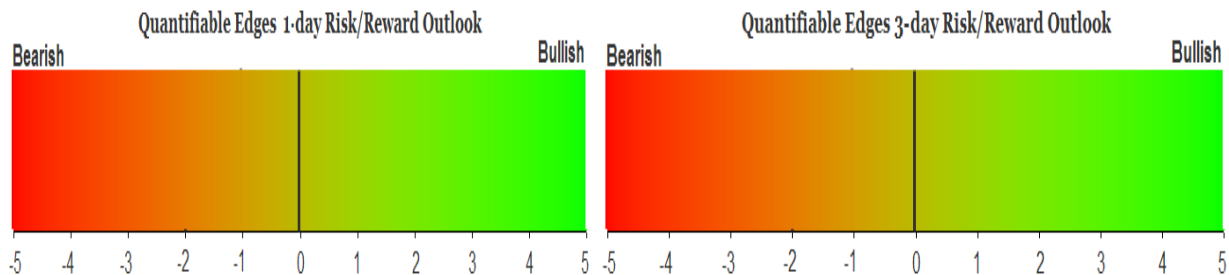
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 20, 2019

Volume 12 Issue 160

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>CBI Reading</b>
<b>Flat</b>	<b>3</b>

## Tonight's Research Points

- SPX up 3 days but below the close of 4 days ago is often followed by more upside.

## *Short-term Outlook*

### *The Bottom Line*

After 3 days higher, SPX is now strongly overbought versus expectations. While evidence suggests we could see more of a rally, I don't love reward/risk and am now neutral.

*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 20, 2019	Up 3 < 4 ago	1 day	Bullish			
August 19, 2019	Up 2 from 20-low. Close < 3 ago > 200	1-4 days	Bullish	1.90%	-1.00%	-1.85%
August 16, 2019	CBOE Equity Put/Call > 0.9. SPX>200	1-4 days	Bullish			
August 16, 2019	SPX dn 1.75% yest. Bounce < 1/4 loss	1-3 days	Bearish			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						

**The Evidence**

Monday saw the market start substantially higher, and then hold onto the gains. The SPX rose 1.2%, the NASDAQ rallied 1.35%, and the Russell 2000 jumped 1.0%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 77%. NYSE volume declined some for the 3<sup>rd</sup> day in a row.

SPX is now testing the level where the last 2 bounces failed after the rallies on 8/8 and 8/13. The NASDAQ is putting in a similar formation. But the Russell 2000 is lagging behind the other two and is not near its 8/8 high yet.

The back to back 1% up days for the SPX is quite unusual when it is trading above the 200ma (and volatility is typically lower). Also notable is the fact that even two strong up days failed to generate a short-term high. The times when this has occurred in the past, returns over the next week were about breakeven on average. This can be seen in the table below.

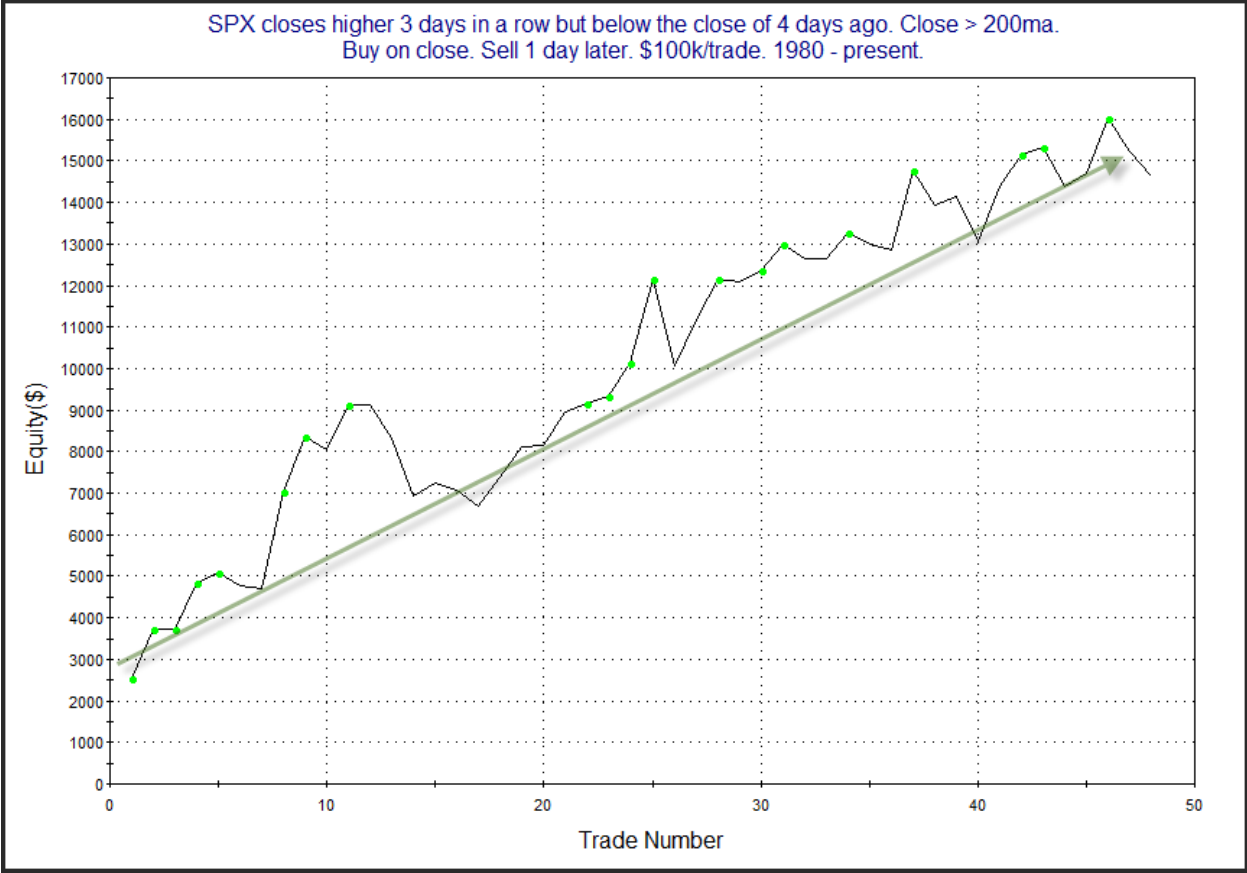
SPX closes up > 1% today and yesterday. Close < 10-day high and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	214.99	21	11	10	52.38	3,718.25	-5,142.84	1,743.64	-1,896.50	0.92	1.01	10.24
4	793.48	21	13	8	61.90	3,278.48	-9,721.62	1,762.86	-2,765.47	0.64	1.04	37.78
3	-2,157.94	22	10	12	45.45	3,120.75	-3,341.70	1,517.59	-1,444.48	1.05	0.88	-98.09
2	-5,302.58	22	11	11	50.00	1,577.31	-3,618.90	1,012.55	-1,494.60	0.68	0.68	-241.03
1	2,314.74	24	14	10	58.33	1,909.95	-1,515.80	714.70	-769.10	0.93	1.30	96.45

So this little study does not seem to suggest an edge.

But there was some evidence that suggested a bit of an edge. Last night we saw a study that examined times SPX rose 2 days in a row, but failed to make up the loss from the day prior to that. Despite the rise on Monday, SPX again failed to close above the level of 4 days ago. This brought out the study below, which was last seen in the 5/17/19 letter. I have updated the results.

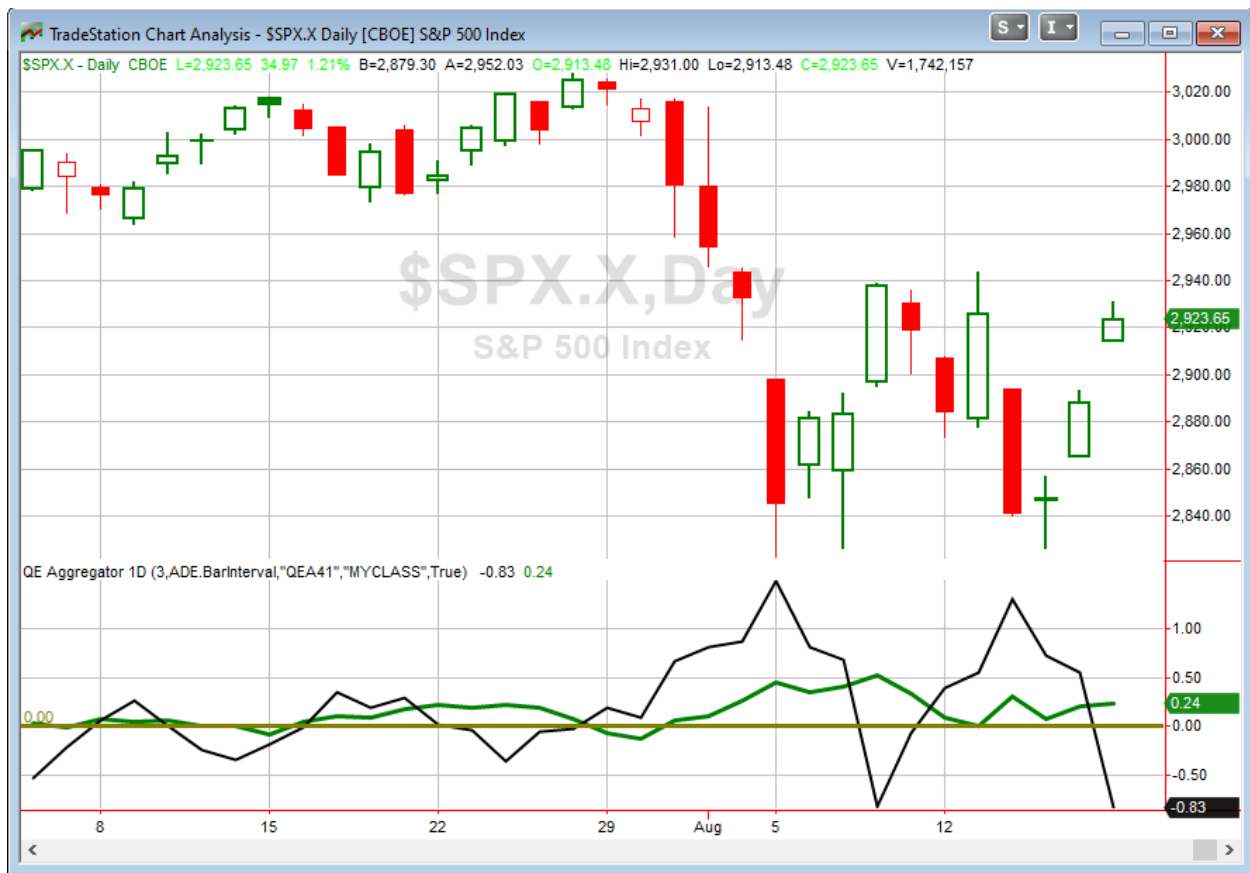
SPX closes higher 3 days in a row but below the close of 4 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	16,926.57	48	28	20	58.33	6,422.84	-3,864.28	1,568.38	-1,349.40	1.16	1.63	352.64
4	19,433.26	48	31	17	64.58	4,938.89	-4,304.58	1,463.60	-1,525.79	0.96	1.75	404.86
3	15,233.33	48	28	20	58.33	4,482.29	-4,052.24	1,436.01	-1,248.75	1.15	1.61	317.36
2	14,820.92	48	30	18	62.50	3,980.03	-2,257.55	1,038.60	-907.61	1.14	1.91	308.77
1	14,640.76	48	30	17	62.50	2,534.13	-2,068.30	839.99	-621.11	1.35	2.39	305.02

I found it interesting that despite the fact the market had already risen for 3 days in a row, the fourth day showed gains nearly 2/3 of the time. This even held true over the 1-4 day period, although most of the gains were realized on day 1. To see how this potential edge has played out over time I ran an equity curve using a 1-day hold.



The equity curve appears steady and solid. I have added this to the short-term Active List as a 1-day edge.

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 dove down 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.

With the current evidence on the active list, expectations are slated to remain positive on Tuesday. Of course that could change if compelling new bearish evidence emerges. The Differential Pivot will be 2857.70 on Tuesday. That is 2.2% below Monday's close. So it would take a very sizable 2.2% decline on Tuesday to flip SPX from overbought to oversold vs expectations.

Evidence says this bounce could go higher. But it has already risen so much over the last 3 days that the SPX is short-term overbought and the Aggregator is neutral. This seems like a good time to stand aside and wait for the next high probability entry opportunity to arise. It will be interesting to see whether the elevated volatility continues, or whether we get some slow summer trading as we near the end of August. Either way, I'll remain patient and alert for the next favorable setup.

### **Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/19– slightly bullish***

The intermediate-term outlook was last updated in the 8/19/19 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***

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

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

KHC @ \$25.06 (buy 1/3 @ limit) – *Not filled. Cancel for now.*

#### ***Broad Market Large Cap CBI – 3(KHC-3)***

### **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
PFE(1/3)	8/7/2019	\$36.65	\$35.18	-4.01%	<i>sell on open</i>
PFE(1/3)	8/8/2019	\$35.40	\$35.18	-0.62%	<i>sell on open</i>
KHC(1/3)	8/14/2019	\$25.85	\$25.71	-0.54%	Catapult
PFE(1/3)	8/15/2019	\$34.24	\$35.18	2.75%	<i>sell on open</i>
KHC(1/3)	8/15/2019	\$25.50	\$25.71	0.82%	Catapult
<b>SPY(1/4)</b>	<b>8/15/2019</b>	<b>\$283.90</b>	<b>\$292.19</b>	<b>2.92%</b>	<b><i>sold on open</i></b>

*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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