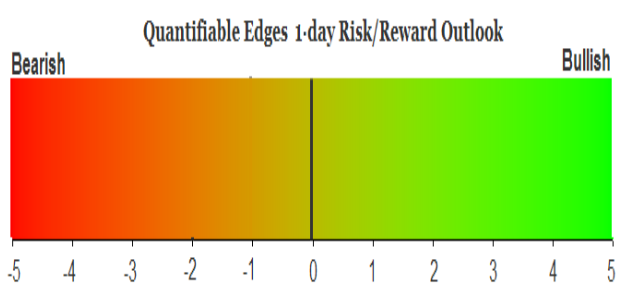
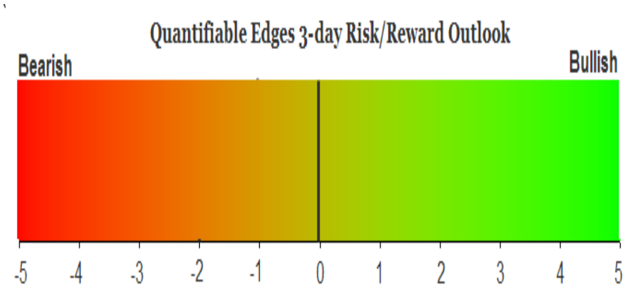
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 30, 2019 Volume 12 Issue 168

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Potential turn of the month and Labor Day week studies will depend greatly on Friday's action.

Short-term Outlook
The Bottom Line
The Aggregator is neutral and so am I.

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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 29, 2019	Reverse dn. Reverse up. Close >200 <10	1-5 days	Bullish	1.80%	-1.10%	-2.30%
August 26, 2019	Big Friday selloff	1-6 days	Bullish			
Active - Long Term						
August 26, 2019	SPX down 4 weeks but > 40-week ma	1-10 weeks	Bullish	8.65%	-3.30%	-7.70%
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 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

The market popped higher Thursday morning and managed to add to the gains during the day. The SPX closed up 1.3%, the NASDAQ rose 1.5%, and the Russell 2000 rallied 1.6%. Breadth was positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 83%. NYSE volume rose some from Wednesday's level.

Despite the strong move, we did not see any new studies that were strongly suggestive of a short-term edge. But there are definitely still some things to watch out for on Friday. Over the last few years, and most recently in the 9/4/18 letter, I showed that Labor Day week performance has been somewhat dependent on whether the market has rallied over the 20 trading days leading up to it. Below is a look at post-Labor Day performance when the previous 20 days have seen gains versus losses.

Today is Friday before Labor Day. SPX closes < the close 20 trading days ago.
Buy on close. Sell X days later. $100k/trade. 1980 - 2018.

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	18,079.72	17	12	5	70.59	5,691.60	-3,611.52	2,010.07	-1,208.22	1.66	3.99	1,063.51
4	8,886.80	17	12	5	70.59	3,585.30	-4,206.40	1,494.19	-1,808.69	0.83	1.98	522.75
3	6,053.88	17	11	6	64.71	3,485.40	-2,391.84	972.03	-773.08	1.26	2.31	356.11
2	10,057.93	17	10	7	58.82	3,294.60	-1,389.44	1,427.82	-602.89	2.37	3.38	591.64
1	7,227.97	17	9	8	52.94	5,054.10	-1,738.88	1,517.16	-803.31	1.89	2.12	425.17

Late summer weakness has often been followed by post Labor Day strength. And here is how it looks when the SPX had shown a net increase over the 20-day lead-up.

Today is Friday before Labor Day. SPX closes > the close 20 trading days ago. Buy on close. Sell X days later. $100k/trade. 1980 - 2018.												
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	-5,782.55	22	8	14	36.36	3,228.12	-2,048.15	1,404.70	-1,215.73	1.16	0.66	-262.84
4	-6,156.95	22	9	13	40.91	2,580.34	-3,113.11	1,345.71	-1,405.25	0.96	0.66	-279.86
3	-3,590.70	22	10	12	45.45	2,718.52	-4,024.28	1,335.54	-1,412.17	0.95	0.79	-163.21
2	-4,523.71	22	6	15	27.27	3,055.58	-2,471.03	1,612.58	-946.61	1.70	0.68	-205.62
1	-3,770.39	22	9	13	40.91	1,751.34	-4,147.45	904.57	-916.27	0.99	0.68	-171.38

Just the opposite here. The market appears to lean bearish during Labor Day week under such circumstances. This is something traders may want to keep in mind on Friday. The SPX level to watch here is 2932.05, which is where it closed on August 2nd. That is about 8 points above Thursday's close. If it rallies above there, then the 20-day lead-up will finish positive. A close below there would trigger the 1st (bullish) study.

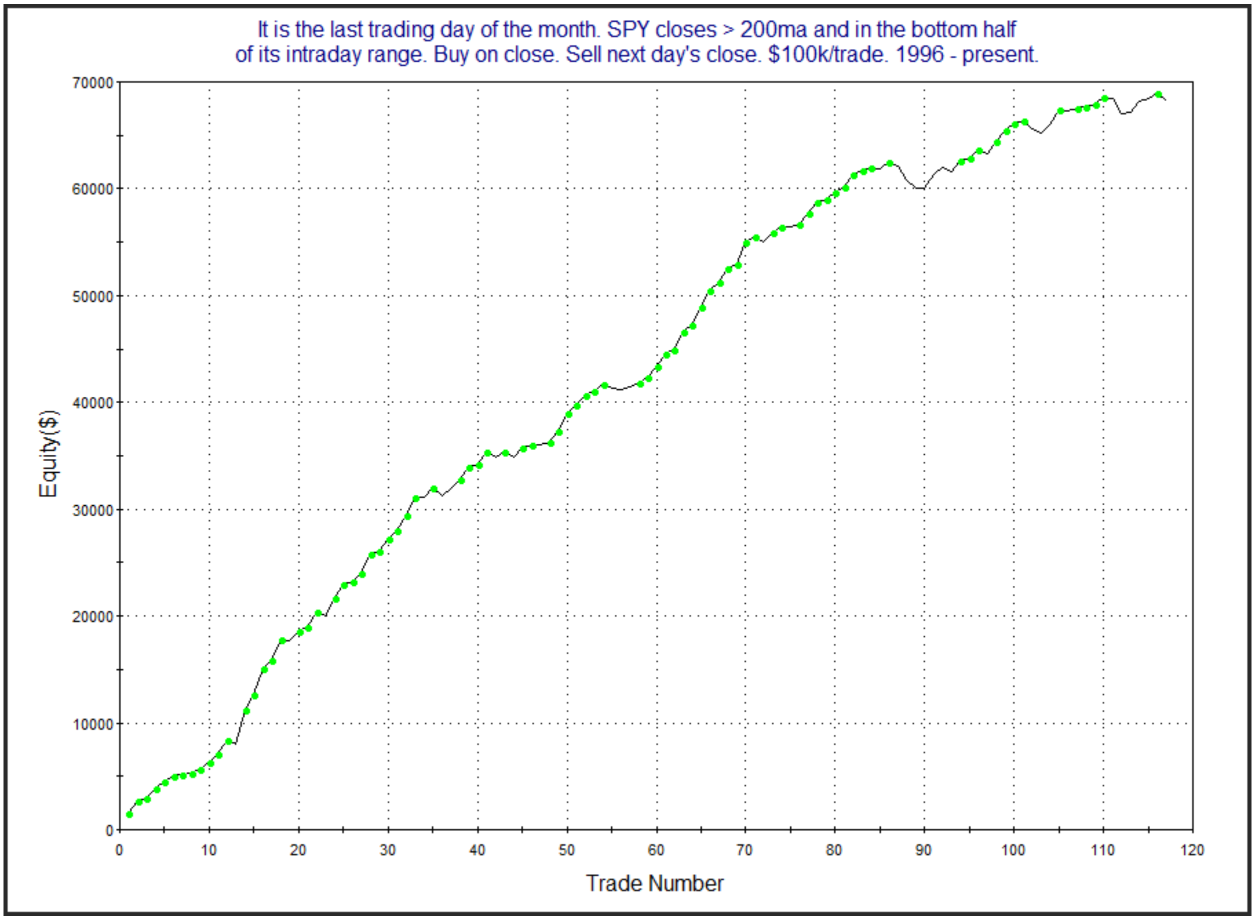
Of course Friday is also the end of the trading month. The 1st trading day of a new month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They are from the 6/28/19 letter. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades			
Total Net Profit	$68,160.43	Profit Factor	7.27
Gross Profit	$79,036.73	Gross Loss	($10,876.30)
Total Number of Trades	117	Percent Profitable	78.63%
Winning Trades	92	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	$582.57	Ratio Avg. Win:Avg. Loss	1.97
Avg. Winning Trade	$859.09	Avg. Losing Trade	($435.05)
Largest Winning Trade	$3,295.88	Largest Losing Trade	($1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 117 instances. Below is a profit curve.



The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Friday?

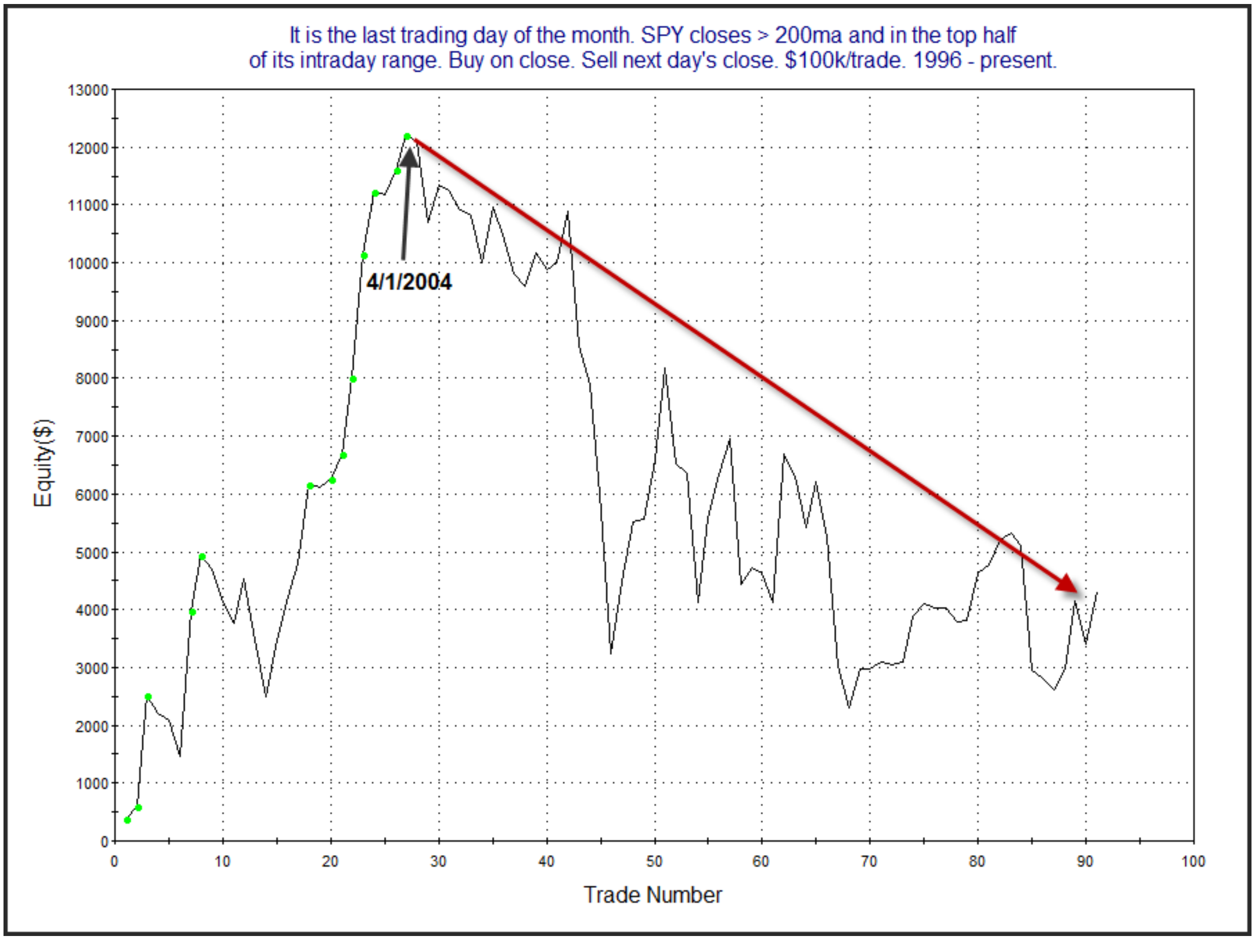
It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades

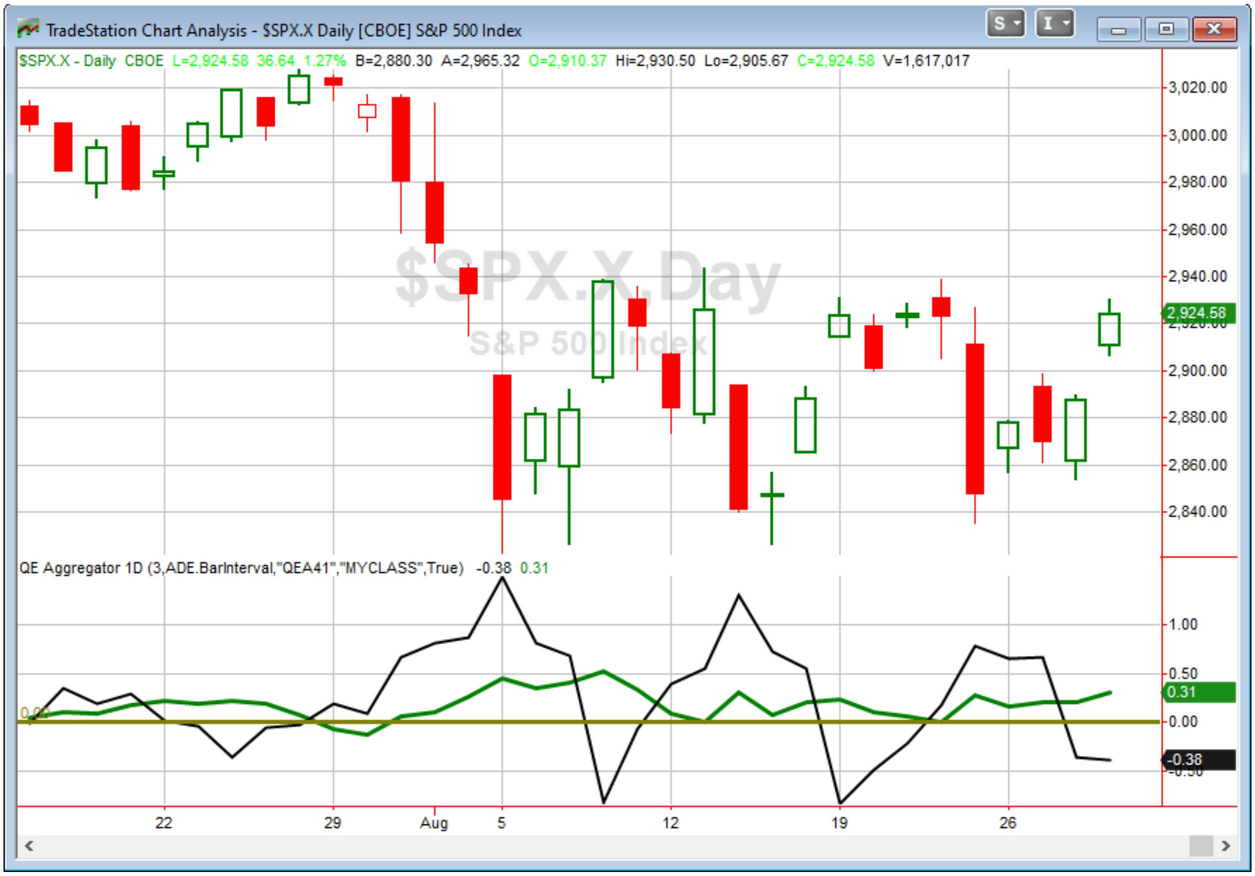
Total Net Profit	$4,310.30	Profit Factor	1.13
Gross Profit	$36,992.64	Gross Loss	($32,682.34)
Total Number of Trades	91	Percent Profitable	52.75%
Winning Trades	48	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	$47.37	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	$770.68	Avg. Losing Trade	($760.05)
Largest Winning Trade	$2,562.30	Largest Losing Trade	($2,515.60)

We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture. So it appears Friday's action may be important when considering the odds of a rally on Tuesday. The 1st day of the month has performed much better with some afternoon selling the day before.

I have updated the Aggregator chart below.



Without any new studies being added tonight, 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 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will 2887.74 on Friday. That is 1.3% below Thursday's close. Therefore, SPX would need to close at least 1.3% lower on Friday in order to change from overbought to oversold vs expectations.

So the Aggregator is neutral, and there is nothing new suggesting a compelling edge for Friday. But the Labor Day and Turn of the Month studies from above suggest Friday's action could have a substantial impact on the chances that we see a rally on Tuesday and beyond next week. A bad day Friday could set up a bounce next week, while a rally into the long weekend could be followed by a pause or a pullback. There is nothing for me to do yet, other than remain patient and ready for the next favorable opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/26– slightly bullish

The intermediate-term outlook was last updated in the 8/26/19 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

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*.

None tonight.

Current Open Trade Ideas

None.

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