

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 10, 2019

Volume 12 Issue 174

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When an overbought market has pulled back as little as it did Wednesday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- Strong breadth near a short-term high and a down close suggest short-term bullish implications.

Short-term Outlook

The Bottom Line

Overbought with positive expectations has the Aggregator neutral and me sidelined.

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						
September 10, 2019	Dn close. RSI2 > 90.	1-2 days	Bullish			
September 10, 2019	5-high, down close. Up Issue % > 60%	1-3 days	Bullish			
Active - Long Term						
September 9, 2019	NYSE Advance/Decline Line breakout	1-40 days	Bullish			
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 5, 2019	4+ Hindenburg Omen Signals	1-35 days	Bearish			
August 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

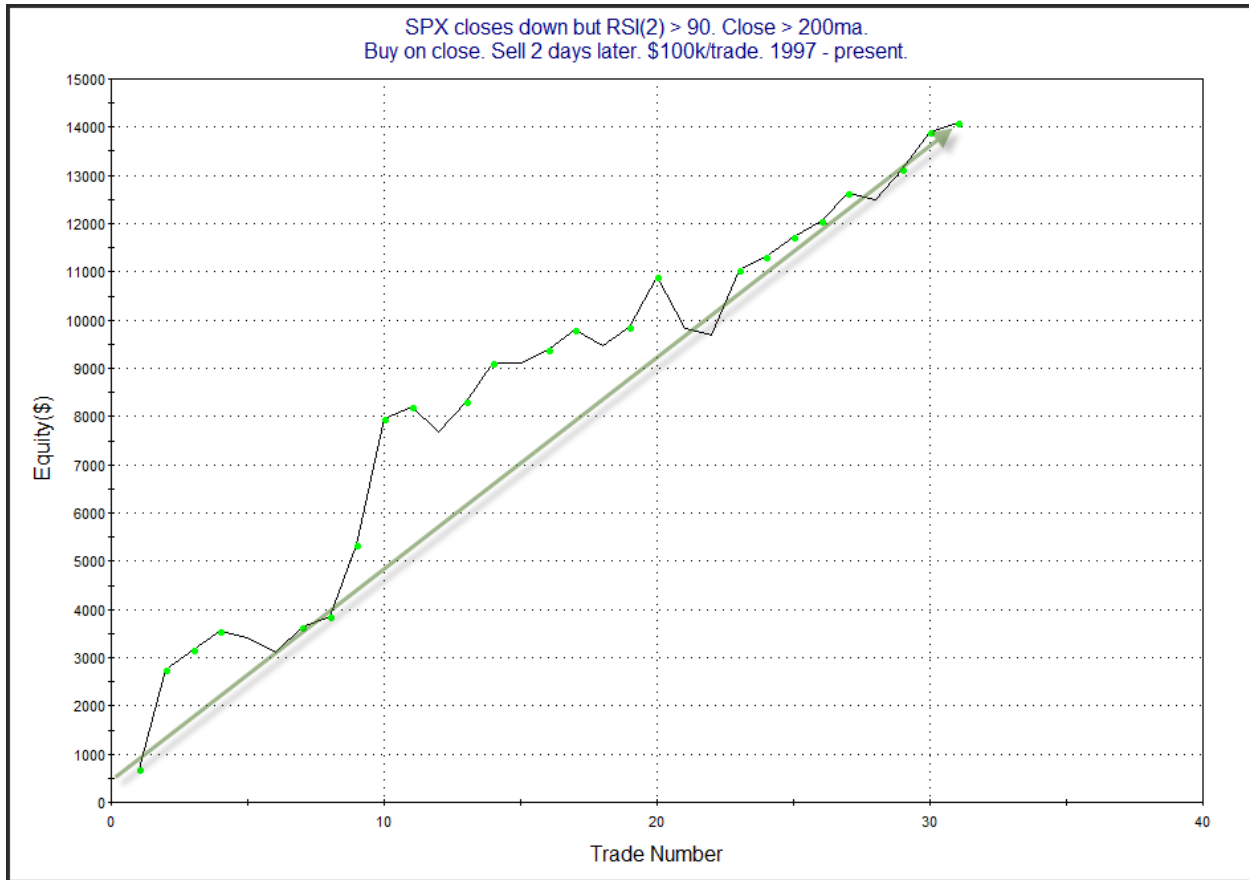
The Evidence

Monday was a mixed day, with smallcaps rallying and largecaps consolidating. The SPX lost less than 1 point, while the NASDAQ fell 0.2% and the Russell 2000 rallied 1.3%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 70%. NYSE volume rose some from Friday's level.

The recent move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Monday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Wednesday. It triggered the study below from the 11/30/17 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	5,806.97	28	13	15	46.43	4,121.28	-2,008.73	1,269.71	-713.28	1.78	1.54	207.39
4	5,760.41	29	16	13	55.17	3,806.46	-1,717.70	968.47	-748.85	1.29	1.59	198.63
3	12,346.48	31	19	12	61.29	2,923.44	-1,123.50	929.10	-442.20	2.10	3.33	398.27
2	14,098.17	31	23	8	74.19	2,619.76	-1,054.68	727.72	-329.91	2.21	6.34	454.78
1	6,099.37	31	20	11	64.52	2,310.88	-704.76	474.94	-309.04	1.54	2.79	196.75

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



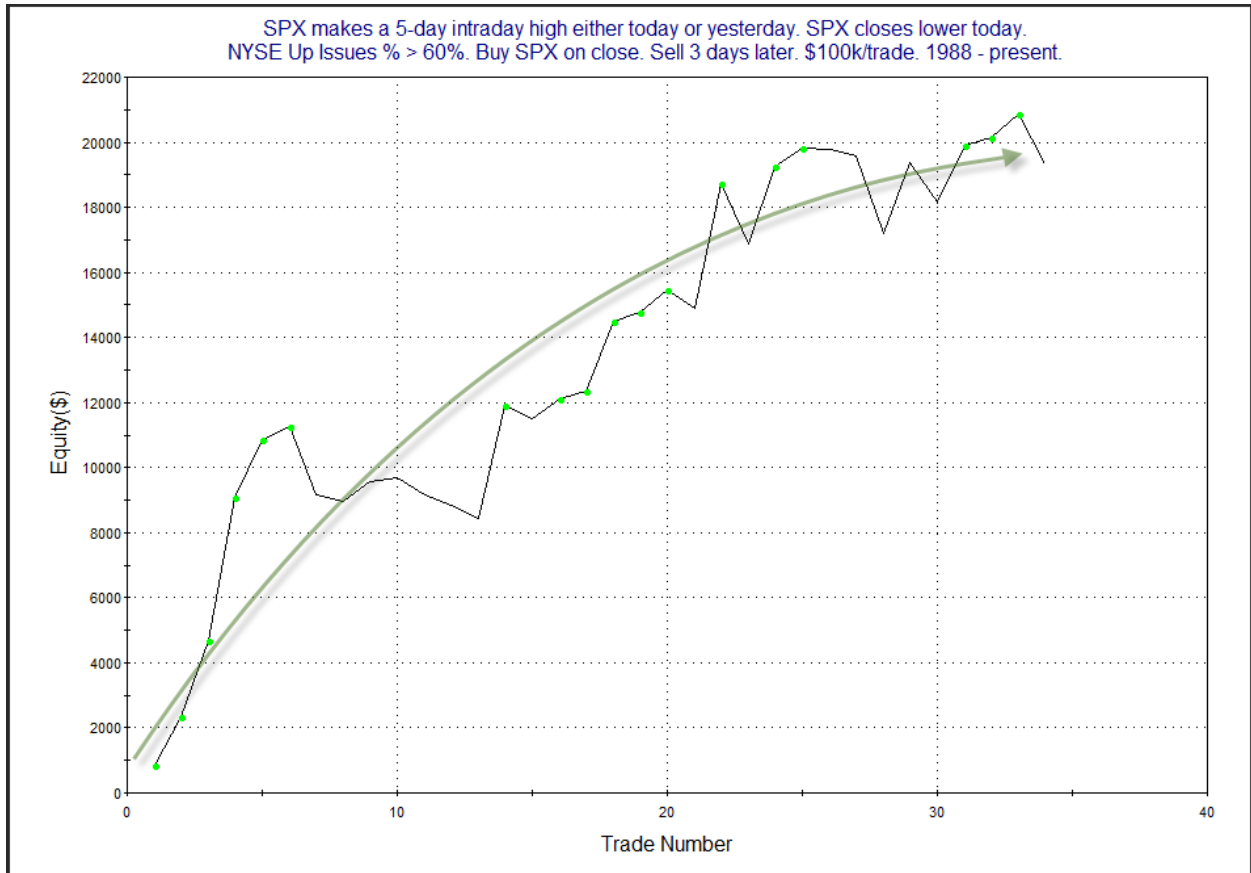
The profit curve shows a strong upslope. I have added this study to the Active List.

Another study with interesting results that appeared was from the 11/20/17 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today.
NYSE Up Issues % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.

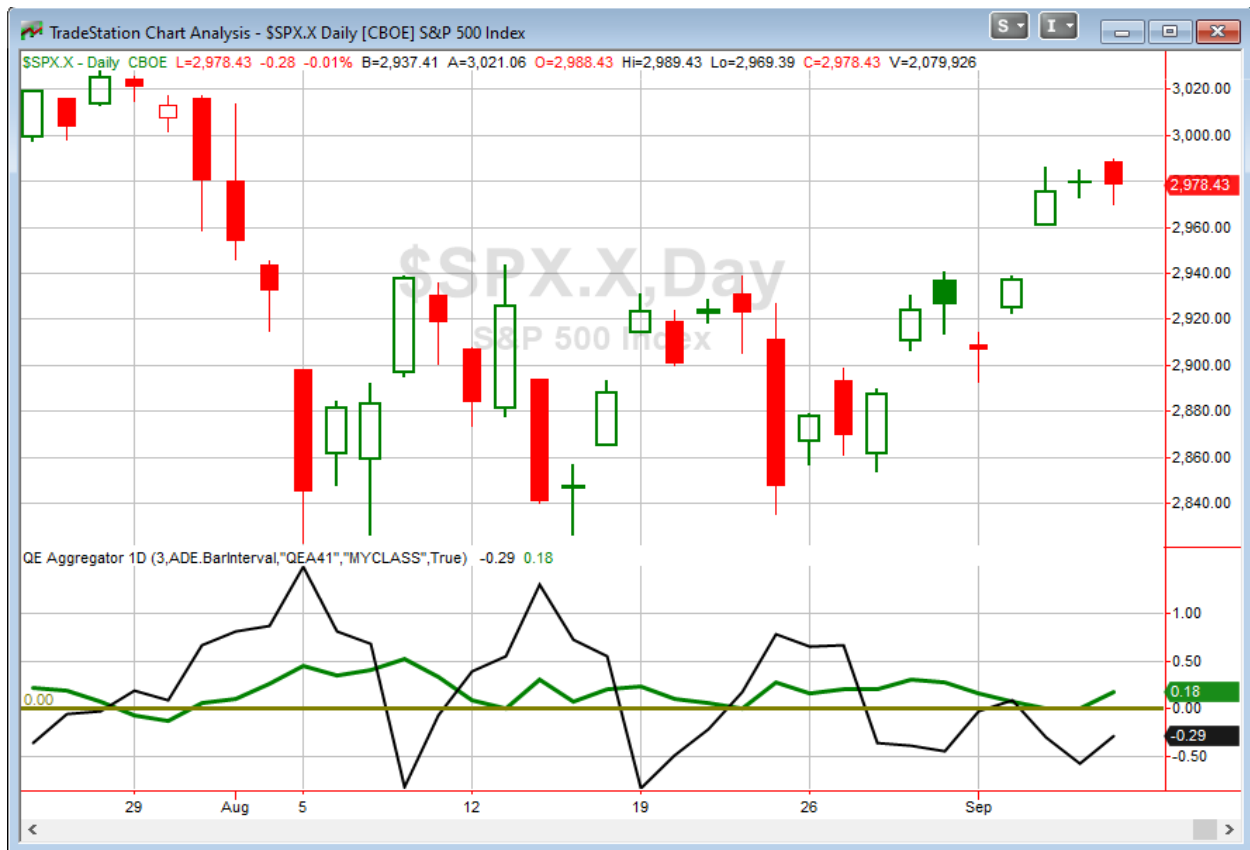
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	5,091.27	33	19	14	57.58	3,714.66	-6,119.33	1,528.86	-1,711.22	0.89	1.21	154.28
4	20,055.77	34	19	15	55.88	8,095.62	-3,969.70	2,021.79	-1,223.88	1.65	2.09	589.88
3	19,337.50	34	21	13	61.76	4,370.82	-2,373.00	1,483.42	-908.80	1.63	2.64	568.75
2	16,876.59	34	23	11	67.65	4,136.62	-2,625.30	1,203.91	-983.03	1.22	2.56	496.37
1	12,715.55	34	18	16	52.94	2,568.00	-1,606.00	1,018.01	-350.54	2.90	3.27	373.99

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



Certainly choppy, but it has moved from lower left to upper right and again made new highs just recently. I have decided this study is worth some consideration and have included it on the Active List.

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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive and 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.

With the current list of active studies, expectations are primed to finish positive again on Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted at 2983.31* on Tuesday. That is 0.2% *above* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.2% in order to remain overbought. Anything less than that and it will be considered "oversold" vs expectations as of Tuesday's close.

So the market is short-term overbought. And while that will often suggest a downside edge, there are times like now where strength is likely to beget more strength. Even so, the overbought nature of the market makes for a sub-par entry point when considering a short-term trade. The Aggregator is neutral. And I am not enthused about jumping in here with the SPX overbought. Of course the inverted pivot means that SPX could easily flip to oversold on Tuesday. A more compelling entry

opportunity may be available at that point. For now, I'll continue to exercise patience, remain alert, and wait for the next strongly favorable reward/risk set before considering new index positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/9– moderately bullish

The intermediate-term outlook was last updated in the 9/9/19 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.](#)

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