

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2019

Volume 12 Issue 175

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- There is a massive rotation among stocks that has taken place under the hood the last couple of days.
- The 3/10 Offset HV indicator suggests we could see a sharp move in the next few days.
- September 11th has shown strong SPX performance since 2001.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish, but with risk seemingly elevated I do not view this as an "all clear" signal.

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 11, 2019	9/11 Bullish since 2001	1 day	Bullish			
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

Tuesday was another mixed day. The SPX rose 0.03%, the NASDAQ fell 0.04% and the Russell 2000 rallied 1.23%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 65%. NYSE volume rose some from Monday's level.

The 0.03% rise in SPX makes it sound as if it hardly moved. And yesterday it closed down, but the down close was even smaller than today's up close. So if you trade ES futures, or you trade SPY or some other S&P 500 derivative, you are looking at back-to-back flat days. But if you are a long/short trader that trades S&P 500 constituents... well then you have seen a huge rotation over the last two days. The tables below show the top and bottom 10 S&P 500 stocks, ranked by their 252-day (approx. 1-year) performance as of 2 days ago. The right hand columns show the returns over the last 2 days. First let's look at the top ranked stocks.


Top 10 SPX constituents based on 252-day % Change as of 2 days ago along with their 2-day % Change since.

Ticker	Date/Time	252 Day ROC 2 Days Ago 	2-Day %Chg
MKTX	9/10/2019	119.36	-18.44
BLL	9/10/2019	86.65	-8.19
SBUX	9/10/2019	77.99	-5.63
CMG	9/10/2019	75.01	-5.78
SBAC	9/10/2019	67.41	-8.11
EW	9/10/2019	61.87	-3.54
TDG	9/10/2019	60.75	-5.43
AMT	9/10/2019	57.58	-7.04
HSY	9/10/2019	54.54	-4.05
CDNS	9/10/2019	50.44	-6.04

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The top stocks have all taken a beat-down. EW has held up the best, losing “only” 3.54% over the last 2 days. The top stock, MKTX, has lost 18.44% in the last 2 days. Meanwhile, here are the bottom 10 ranked stocks.

Bottom 10 SPX constituents based on 252-day % Change as of 2 days ago along with their 2-day % Change since.

Ticker	Date/Time	252 Day ROC 2 Days Ago 	2-Day %Chg
NKTR	9/10/2019	-74.82	17.05
DXC	9/10/2019	-62.11	5.57
CPRI	9/10/2019	-61.67	11.86
M	9/10/2019	-57.01	11.11
ALGN	9/10/2019	-53.06	1.57
TPR	9/10/2019	-53.02	6.25
KHC	9/10/2019	-52.14	6.16
NOV	9/10/2019	-52.08	7.08
JWN	9/10/2019	-52.07	10.20
XEC	9/10/2019	-50.92	6.60

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All of these had lost over half their value during the last year as of Friday’s close. ALGN has seen the smallest bounce, rising 1.57% over the last 2 days. The rest have all gained over 5.5%. And the bottom ranked stock in the SPX over the last year is up 17.05% over the last 2 days. So while the SPX has not barely budged, this tops-down / bottoms-up shift has been massive, and I am sure

there are plenty of momentum or long/short traders that have seen huge changes in portfolio value. I am not sure what it means as far as an edge over the next few days or weeks, but it is certainly notable and worth keeping an eye on.

The tight SPX range did trigger some studies in the Quantifinder that noted the very low 3/10 Offset HV reading. This can be seen in the chart below. The 3/10 Offset HV measures the 3-day historical volatility reading and compares it to the 10-day historical volatility reading from 3 days ago. When it drops under 0.25 that is considered extremely low, and such readings have typically been followed by some kind of volatility expansion (big move) over the next few days.




Tonight's reading is the lowest we have seen in months. So there is a good chance we see a sharp move ensue in the next few days. The indicator does not predict direction. For that we look to the Aggregator. (Spoiler alert – the Aggregator is bullish tonight.) The big move potential does suggest possible increased risk, though, and that is worth keeping in mind.

The Quantifinder tonight also showed a few studies that noted the SPX closed at a 3-day high while the NDX closed down for the 3rd day in a row. In updating those studies tonight, I noted that

the formerly bullish edge had not played out well recently. So I elected to ignore those studies for the time being.

I did have someone ask me on Twitter Tuesday afternoon about SPX performance on 9/11 since the 2001 tragedy. I took a quick look and found that 9/11 performance has actually been quite good from 2002 – present. Below is a table listing the year-by-year returns.

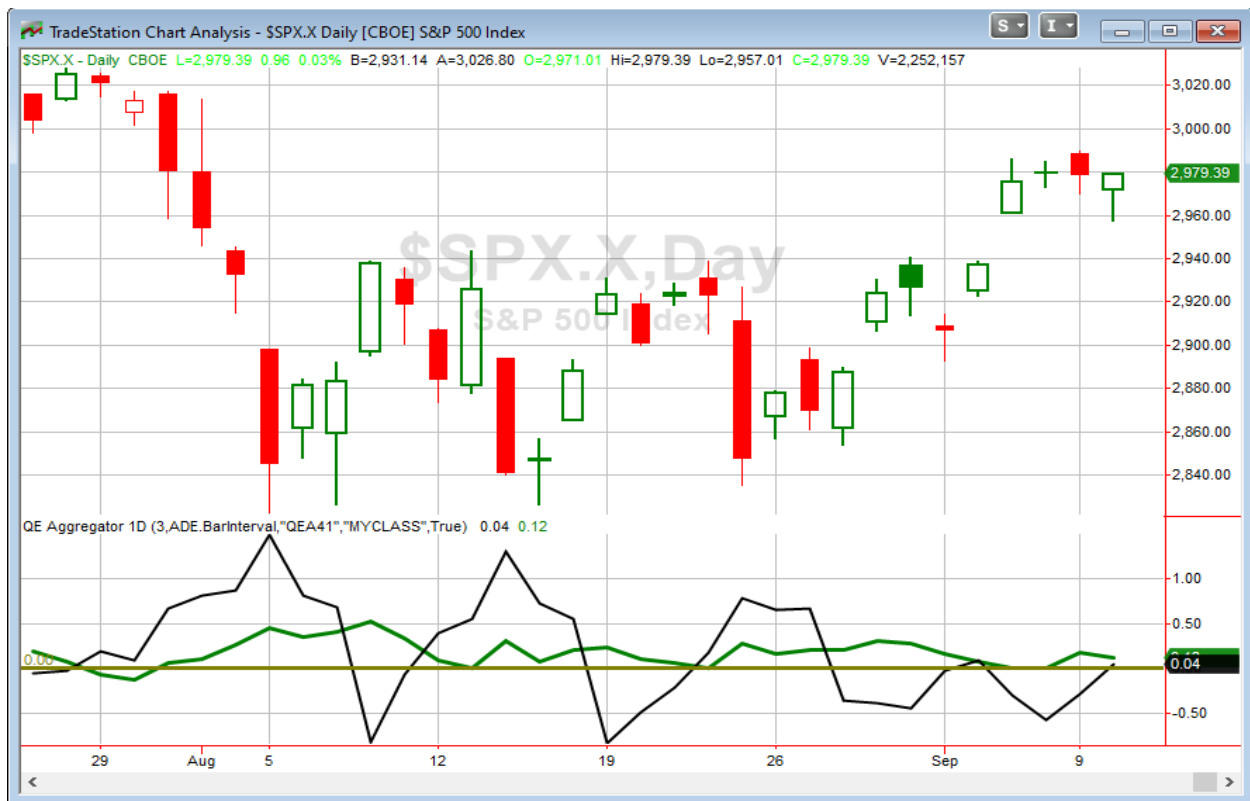
SPX % Return on 9/11 since 2001.
(Years 9/11 was not a trading day not included.)

Symbol	Ex. d... 	% chg
SSPX	9/11/2002	-0.01%
SSPX	9/11/2003	0.54%
SSPX	9/11/2006	0.05%
SSPX	9/11/2007	1.36%
SSPX	9/11/2008	1.38%
SSPX	9/11/2009	-0.14%
SSPX	9/11/2012	0.31%
SSPX	9/11/2013	0.31%
SSPX	9/11/2014	0.09%
SSPX	9/11/2015	0.45%
SSPX	9/11/2017	1.08%
SSPX	9/11/2018	0.37%

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Ten winners and two losers with the average gain being 0.5%. With the 2 losers being so small, the stats are fairly lopsided. I'm not sure whether this is truly worthy of consideration, but I did place it on the Active List tonight. Might as well keep an eye on it over the next few years to see if it holds up.

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 moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

With the current list of active studies, expectations are primed to finish positive again on Wednesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2981.46 on Wednesday. That is less than 0.1% above Tuesday's close. Therefore, SPX won't even need to close up as much as 0.1% to flip from oversold to overbought on Wednesday.

So the Aggregator formation is bullish, but I am not exactly jazzed about the setup. The Differential Line says we are oversold, but SPX is oversold at a 20-day closing high. So it is tough to say it is oversold by most measures. I also see risk as elevated. The low 3/10 Offset HV suggests a big move could be on tap in the next few days. And the violent rotation among the SPX constituents also exhibits highly unusual activity. This is not your typical, quiet, short-term pullback within a long-term uptrend suggesting a bounce. I'm not sure what this is, and I don't feel compelled to bet until I can better quantify the market action. I'll put off any index trades for at least another day while I await more clarity.

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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