

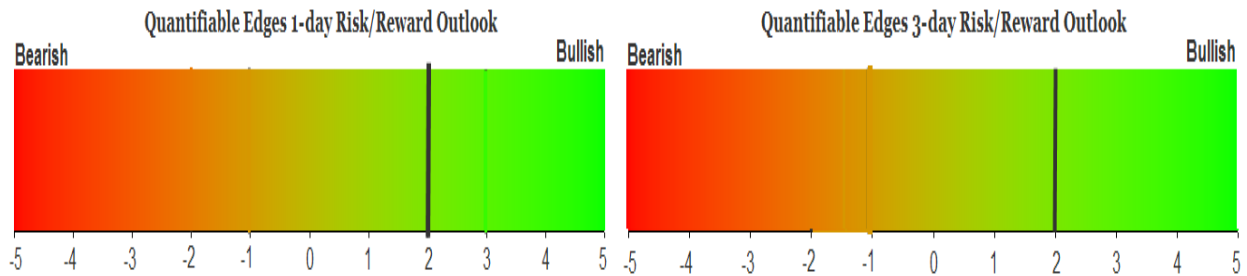
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2019

Volume 12 Issue 189

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.
- Turn of the month does not look to have a strong edge on Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I still think the market should go higher in the next few days. But with the rally on Monday I am not inclined to chase higher at this point.

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						
October 1, 2019	After 10-low, unfill up gap < 10ma.	1-5 days	Bullish	1.70%	-1.20%	-2.30%
October 1, 2019	Gap up. Inside day Close > open.	1 day	Bearish			
September 26, 2019	HigherThnDn. Lower then Up. < 10ma	1-5 days	Bullish			
September 25, 2019	Down3. Big today. 10-low not frm 20-hi	1-5 days	Bullish			
Active - Long Term						
September 20, 2019	RUT down 3. SPX 3-day high.	1-10 days	Bullish	3.60%	-0.90%	-1.95%
September 13, 2019	DJI up 7 days in a row	1-19 days	Bullish			
September 13, 2019	SPX RSI(2) > 99	1-15 days	Bullish			
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 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

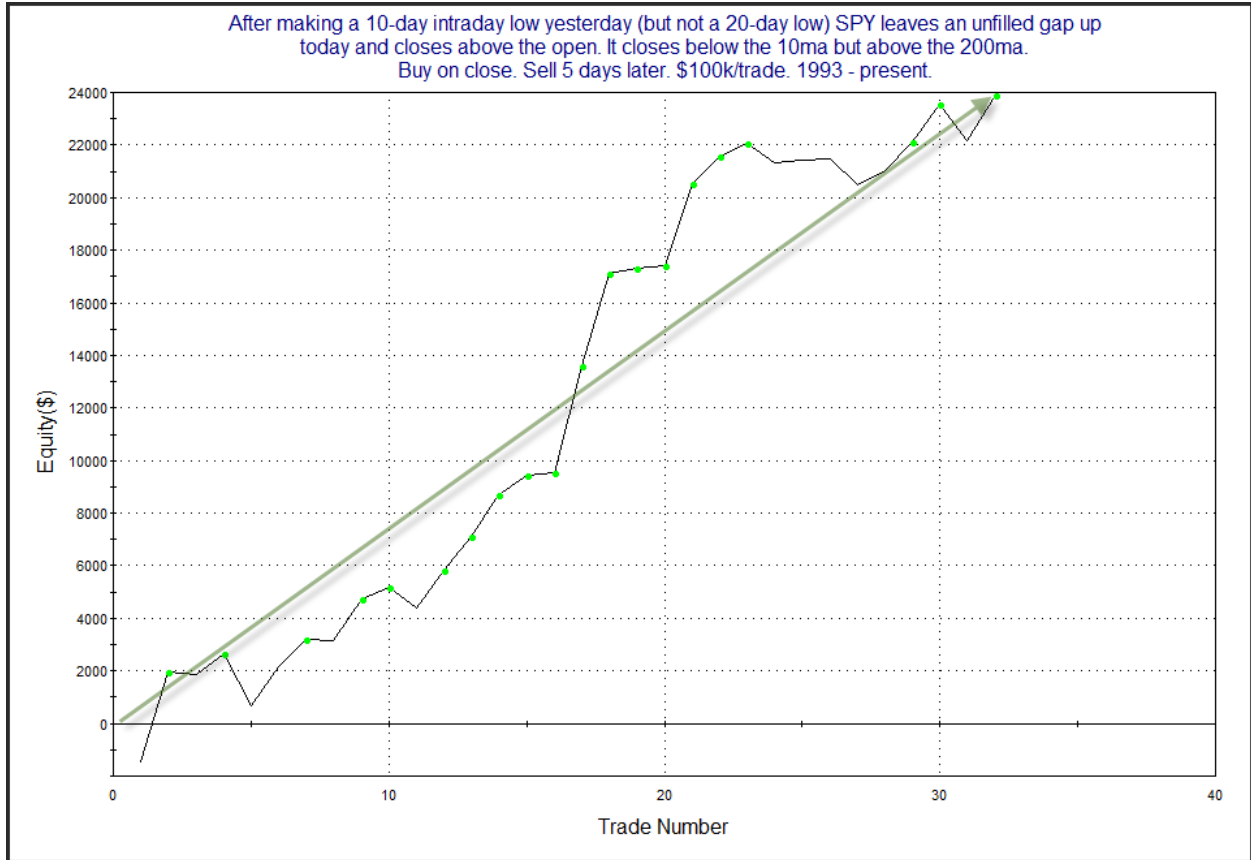
As we indicated was likely over the weekend, there was some selling in the last hour, but that did not take away all the gains for the indices for the day. The SPX closed up 0.5%, the NASDAQ rose 0.75%, and the Russell 2000 climbed 0.2%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 52%. NYSE volume declined a little from Friday's level.

Monday's rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 3/27/19 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	23,883.15	32	24	8	75.00	4,106.63	-1,949.70	1,308.61	-940.44	1.39	4.17	746.35
4	23,062.22	32	22	10	68.75	3,904.83	-2,096.99	1,441.86	-865.88	1.67	3.66	720.69
3	15,723.52	33	21	12	63.64	3,914.92	-1,874.00	1,190.87	-773.73	1.54	2.69	476.47
2	9,109.50	33	19	14	57.58	2,828.00	-2,183.21	1,144.17	-902.13	1.27	1.72	276.05
1	1,504.76	33	17	15	51.52	1,773.46	-2,895.33	784.11	-788.34	0.99	1.13	45.60

32 of 33 instances (97%) closed above the entry price at some point in the next week. The lone failure triggered on 5/2/16.

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 5-day holding period.



Despite a few recent failures, the strong upslope is impressive and the curve is back at new highs.

Also in the 3/27/19 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	4,175.71	35	18	17	51.43	3,178.32	-3,739.32	1,830.35	-1,692.39	1.08	1.15	119.31
4	3,884.65	37	22	15	59.46	2,950.20	-2,880.28	1,350.01	-1,721.04	0.78	1.15	104.99
3	1,236.53	39	21	18	53.85	3,306.24	-3,070.92	1,130.29	-1,249.98	0.90	1.05	31.71
2	-689.83	41	22	19	53.66	3,089.76	-2,818.42	1,067.89	-1,272.81	0.84	0.97	-16.83
1	-1,841.50	41	17	24	41.46	2,470.05	-1,777.90	879.86	-699.96	1.26	0.89	-44.91

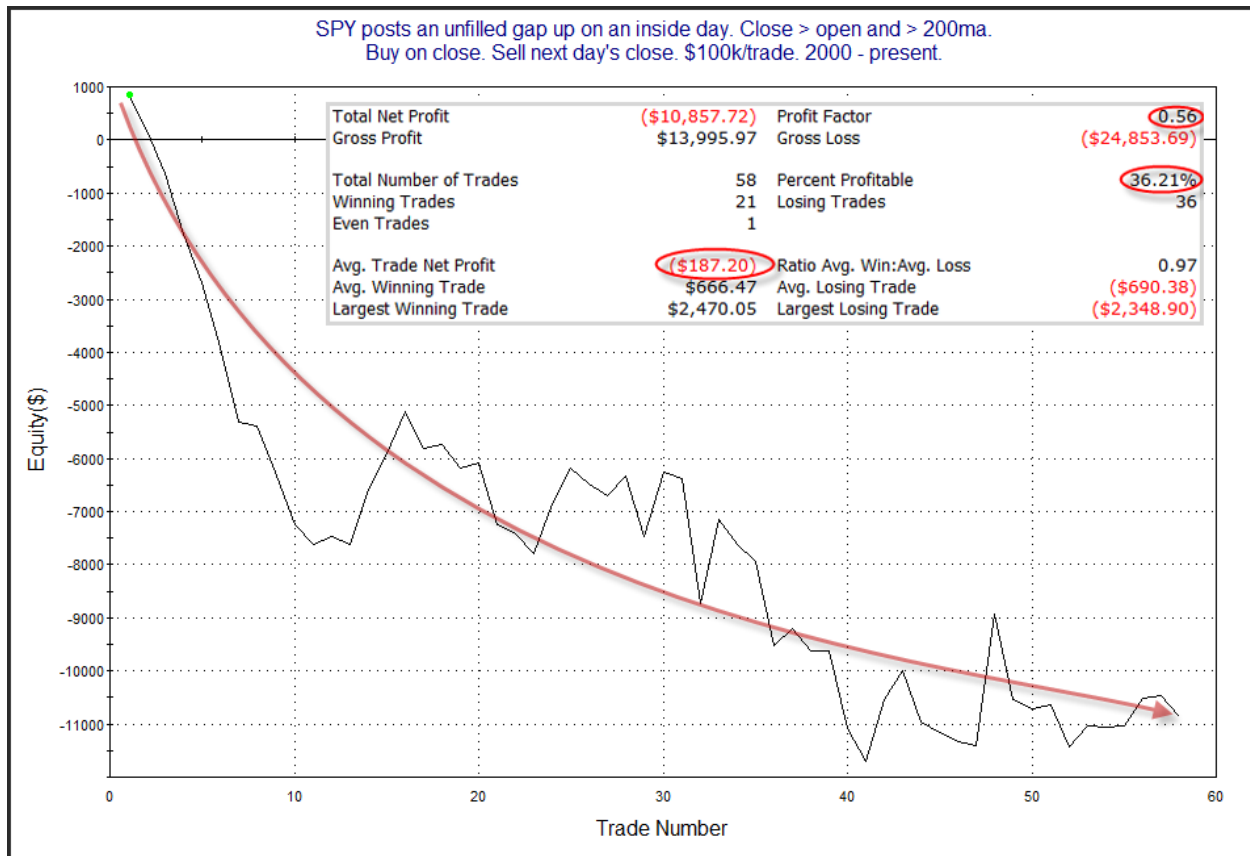
In the 3/27/19 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes **above** the 10ma and above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,899.51	21	11	10	52.38	869.86	1,753.14	-1,346.79	-3,691.98	0.65	0.71	-185.69
4	-1,323.25	21	11	10	52.38	649.26	1,903.47	-846.51	-1,788.75	0.77	0.84	-63.01
3	-4,285.02	21	10	11	47.62	642.61	1,393.05	-973.73	-2,475.20	0.66	0.60	-204.05
2	-2,630.12	21	10	11	47.62	604.06	1,325.28	-788.25	-2,293.20	0.77	0.70	-125.24
1	-5,777.61	21	8	13	38.10	465.78	949.00	-731.07	-2,591.68	0.64	0.39	-275.12

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

But we did have another study suggesting possible 1-day bearish implications based on Monday's action. The study looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. Last seen in the 8/27/19 letter, results below are updated.



Implications here appear somewhat bearish. The profit curve is not ideal, but it still appears to suggest a downside edge. Overall, this study appears to be worth some consideration, and I have included it on the active list tonight.

Also worth noting is that Tuesday is the 1st trading day of the month. Last night I discussed 1st days of the month. I have copied that discussion below.

The 1st trading day of the 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 were last seen in the 6/28/19 letter, and have been updated. 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.

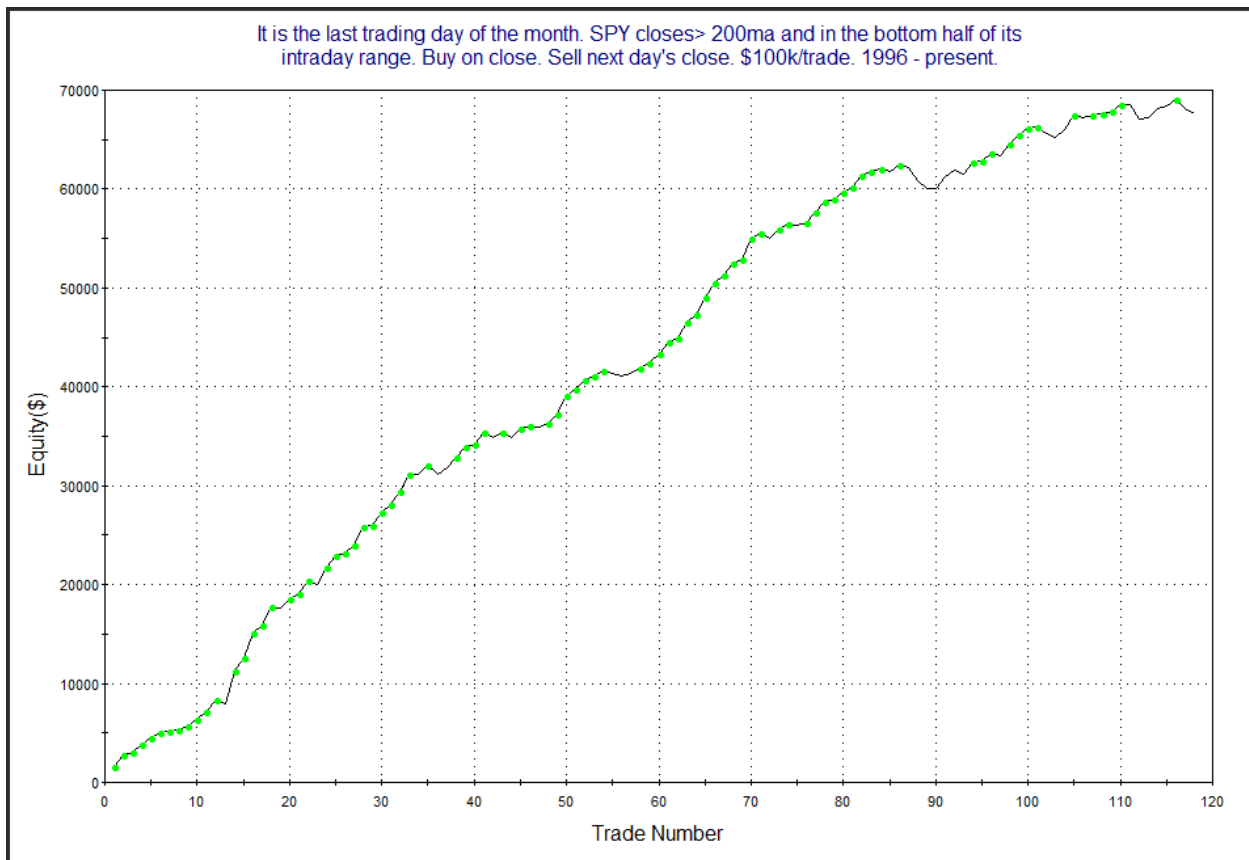
TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$67,577.32	Profit Factor	6.90
Gross Profit	\$79,036.73	Gross Loss	(\$11,459.41)
Total Number of Trades	118	Percent Profitable	77.97%
Winning Trades	92	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$572.69	Ratio Avg. Win:Avg. Loss	1.95
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$440.75)
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 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 118 instances. Below is a profit curve.

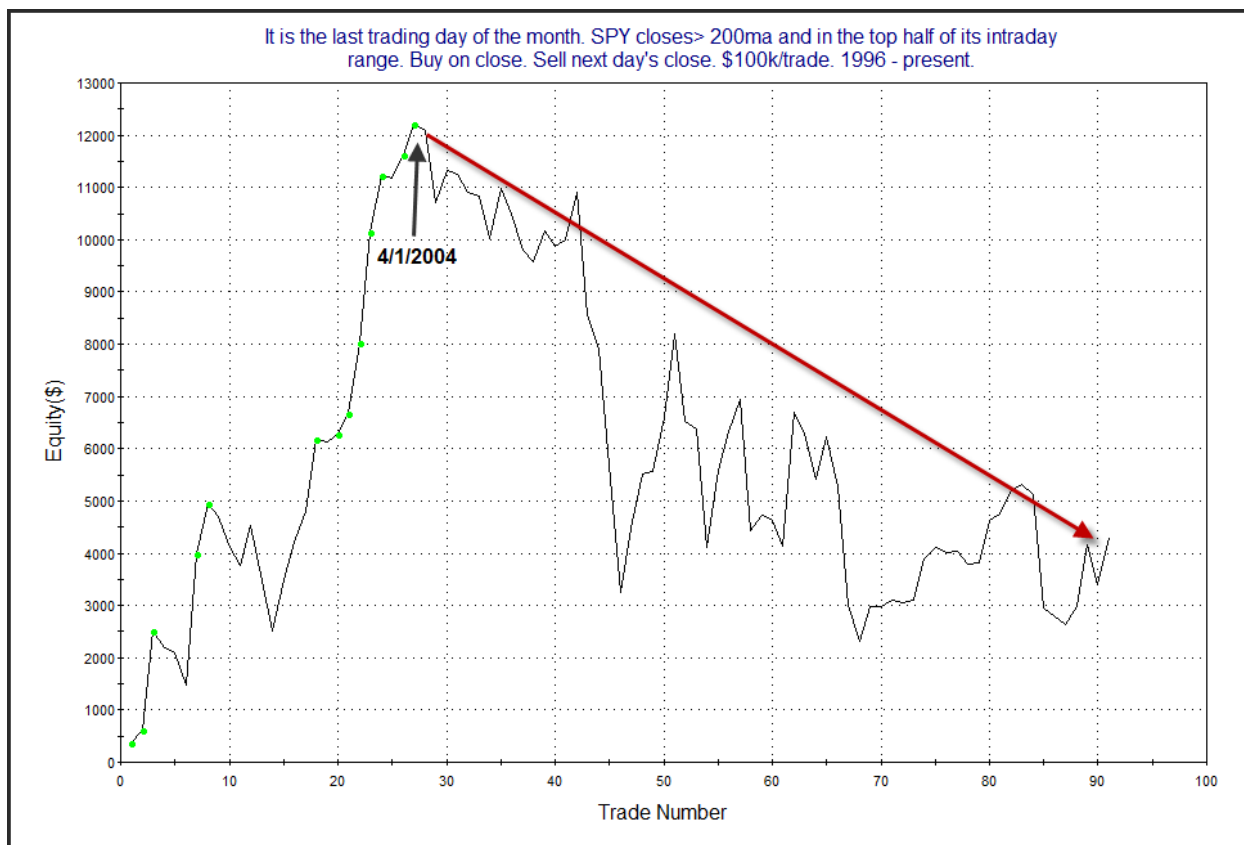


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Monday?

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)

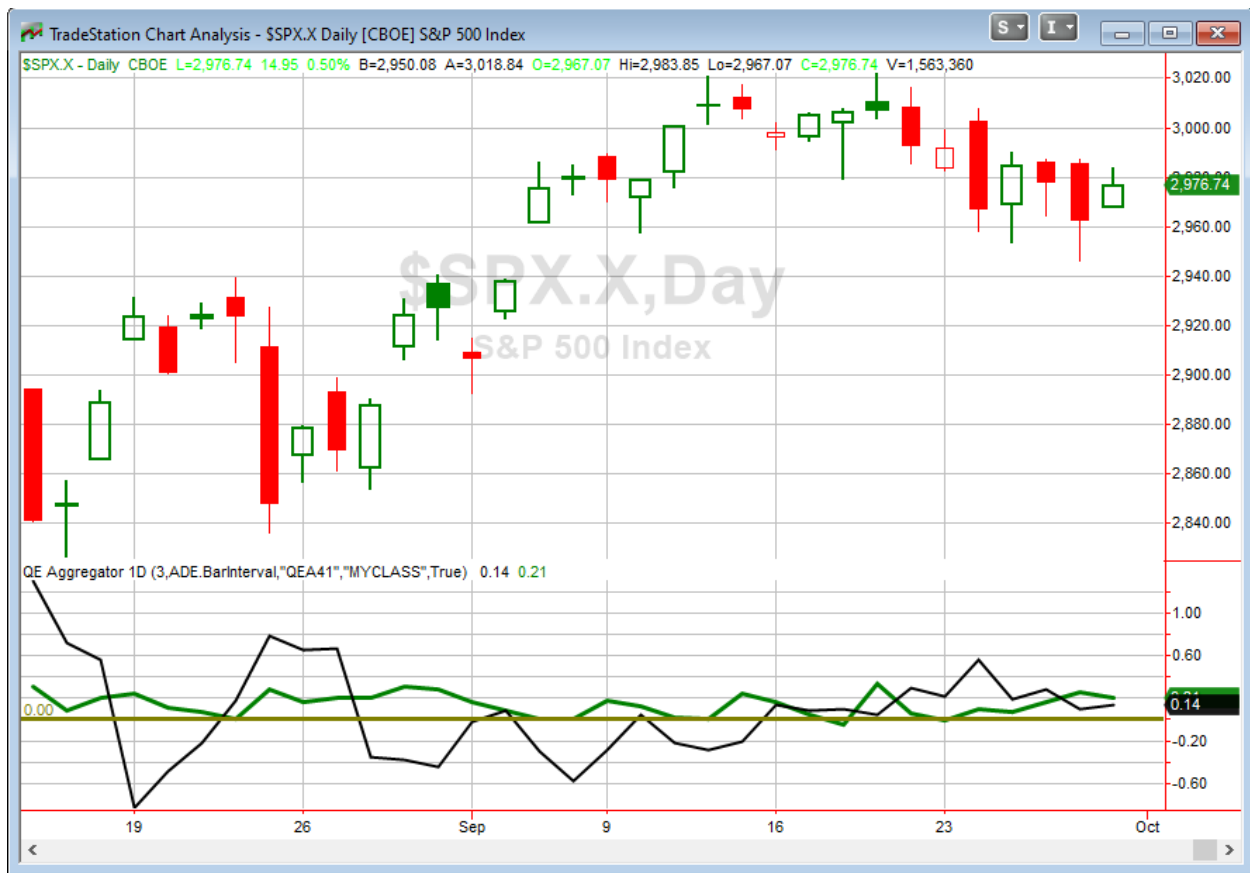
We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture. So it appears Monday'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 leading up to the day.

Monday saw SPY finished just barely in the top half of its intraday range (52nd percentile). I don't view the midpoint as some magic line. So there may be a moderate upside edge thanks to turn of the month seasonality on Tuesday. But I did not include any turn of the month studies on the Active List.

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



With tonight's new 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 also held 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 stayed long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2987.49 on Tuesday. That is 0.4% above Monday's close. So SPX will need to close up 0.4% on Tuesday in order to flip from oversold to overbought versus recent expectations.

There still appears to be an upside edge for Tuesday, and perhaps beyond. It's unfortunate I did not get a fill on Monday with a long position. Even if I had used a simple limit order, I still would not have been filled thanks to the unfilled gap up. Right now I am not inclined to chase it higher after a strong up day. I'll give it another day and see what new evidence arrives and how reward/risk looks at that point. Of course more aggressive traders could look to the long side on Tuesday. After having caught a portion of the bounce last week, I may miss out on the last part of this move up before the bullish Aggregator signal expires.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/30 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

UNH @ \$215.48 (bought 1/3 @ limit)

UNH @ \$215.26 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 2(UNH-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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
UNH(1/3)	9/27/2019	\$215.48	\$217.32	0.85%	Catapult
UNH(1/3)	9/30/2019	\$213.64	\$217.32	1.72%	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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