

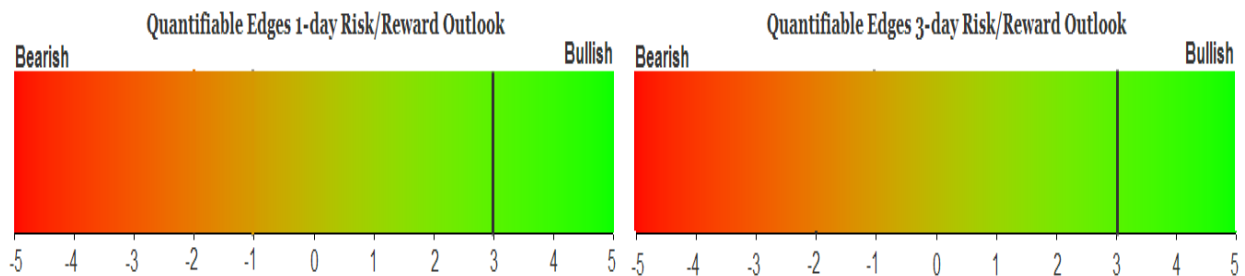
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2019

Volume 12 Issue 190

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- SPY's big outside day reversal pattern suggests a short-term upside edge, based on a few different studies.

Short-term Outlook

The Bottom Line

Solid evidence tonight, an oversold market, and a bullish Aggregator formation have me believing there is a worthwhile short-term upside edge.

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 2, 2019	Outside day close bottom 10% 10-day	1-6 days	Bullish	2.40%	-0.80%	-1.60%
October 2, 2019	3-high, 3-low, 3-low close > 200	1-5 days	Bullish	1.70%	-1.20%	-2.40%
October 1, 2019	After 10-low, unfill up gap < 10ma.	1-5 days	Bullish	1.70%	-1.20%	-2.30%
September 26, 2019	HigherThnDn. Lower then Up. < 10ma	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			
Dropped Tonight						
October 1, 2019	Gap up. Inside day Close > open.	1 day	Bearish			
September 25, 2019	Down3. Big today. 10-low not frm 20-hi	1-5 days	Bullish			

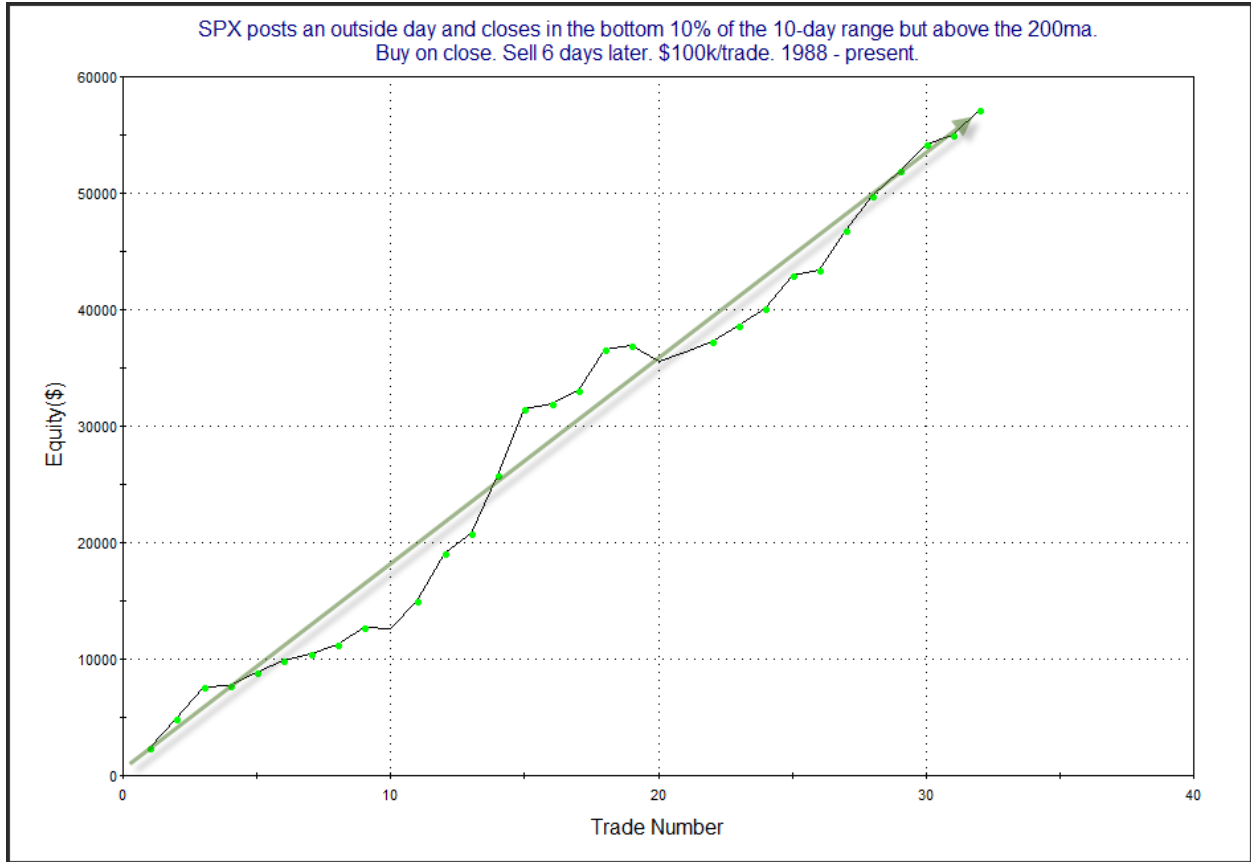
The Evidence

The morning started strong, but the release of the manufacturing data at 10am on Tuesday sparked a substantial selloff. The SPX closed down 1.2%, the NASDAQ fell 1.1%, and the Russell 2000 dropped 2.0% and tumbled through its 200ma. Breadth was negative as the NYSE Up Issues % was 26% and the Up Volume % came in at 16%. NYSE volume rose some from Monday's level.

The big outside day that SPX put in is notable. The study below is from the 6/28/18 letter. It examines the implications of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of the 10-day range but above the 200ma. Buy 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
10	59,831.41	31	26	5	83.87	6,549.66	-2,142.23	2,558.07	-1,335.69	1.92	9.96	1,930.05
9	59,152.96	31	26	5	83.87	6,622.56	-3,224.13	2,511.05	-1,226.88	2.05	10.64	1,908.16
8	59,325.19	31	26	5	83.87	5,596.29	-2,364.18	2,515.72	-1,216.72	2.07	10.75	1,913.72
7	56,205.66	32	28	4	87.50	5,846.58	-2,644.46	2,204.59	-1,380.73	1.60	11.18	1,756.43
6	57,189.04	32	30	2	93.75	5,645.64	-1,353.73	1,958.04	-776.09	2.52	37.84	1,787.16
5	53,345.67	32	29	3	90.63	5,460.84	-869.01	1,905.07	-633.81	3.01	29.06	1,667.05
4	39,038.58	32	25	7	78.13	5,187.49	-2,964.25	1,759.93	-708.53	2.48	8.87	1,219.96
3	30,478.18	32	22	10	68.75	5,339.18	-1,665.30	1,688.70	-667.31	2.53	5.57	952.44
2	23,651.04	35	24	11	68.57	3,591.28	-1,105.36	1,183.39	-431.84	2.74	5.98	675.74
1	9,666.71	35	28	7	80.00	1,337.22	-1,799.08	575.54	-921.19	0.62	2.50	276.19

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a “> 200ma” filter. And it isn’t just the numbers that look good. Here is the profit curve.



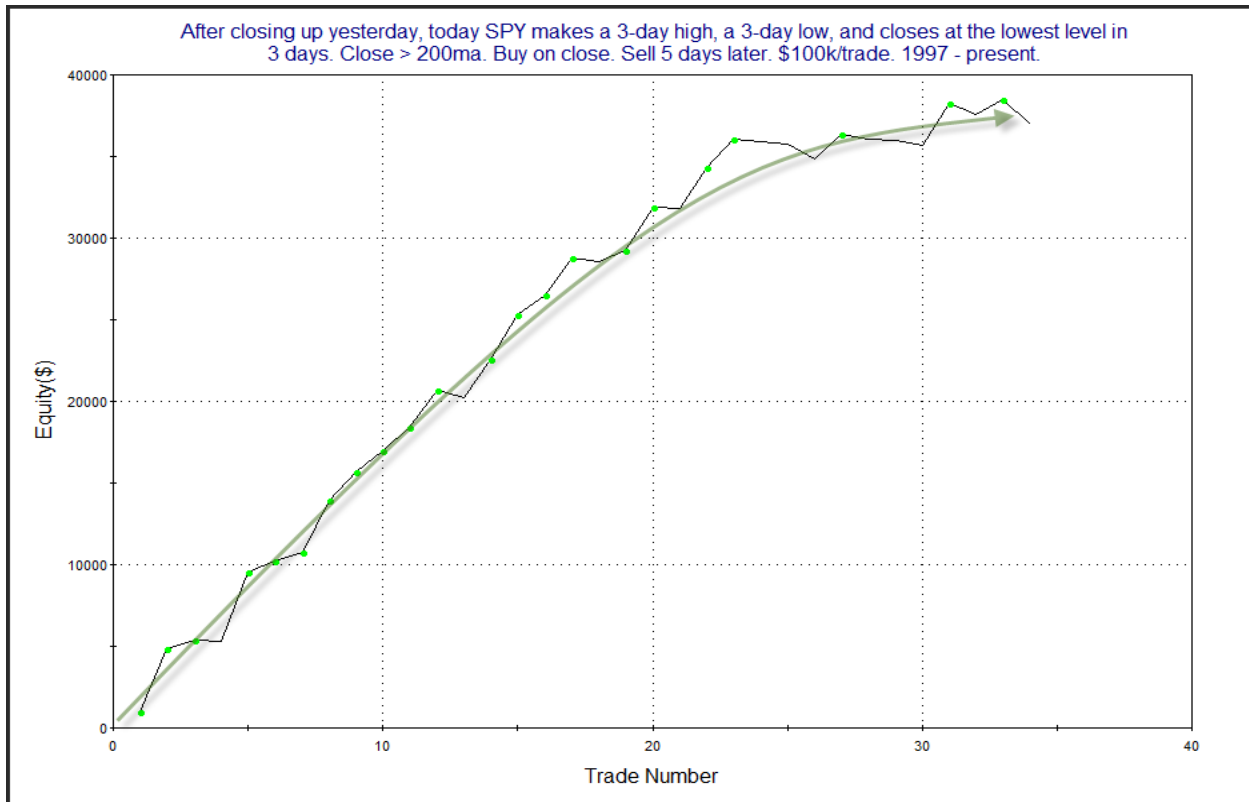
That is a nice straight profit curve.

Another study, from the 4/18/19 letter, also saw the big outside day as a positive. It looked for a reversal day that engulfs both of the last two days, closes at a three-day low, and remains above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

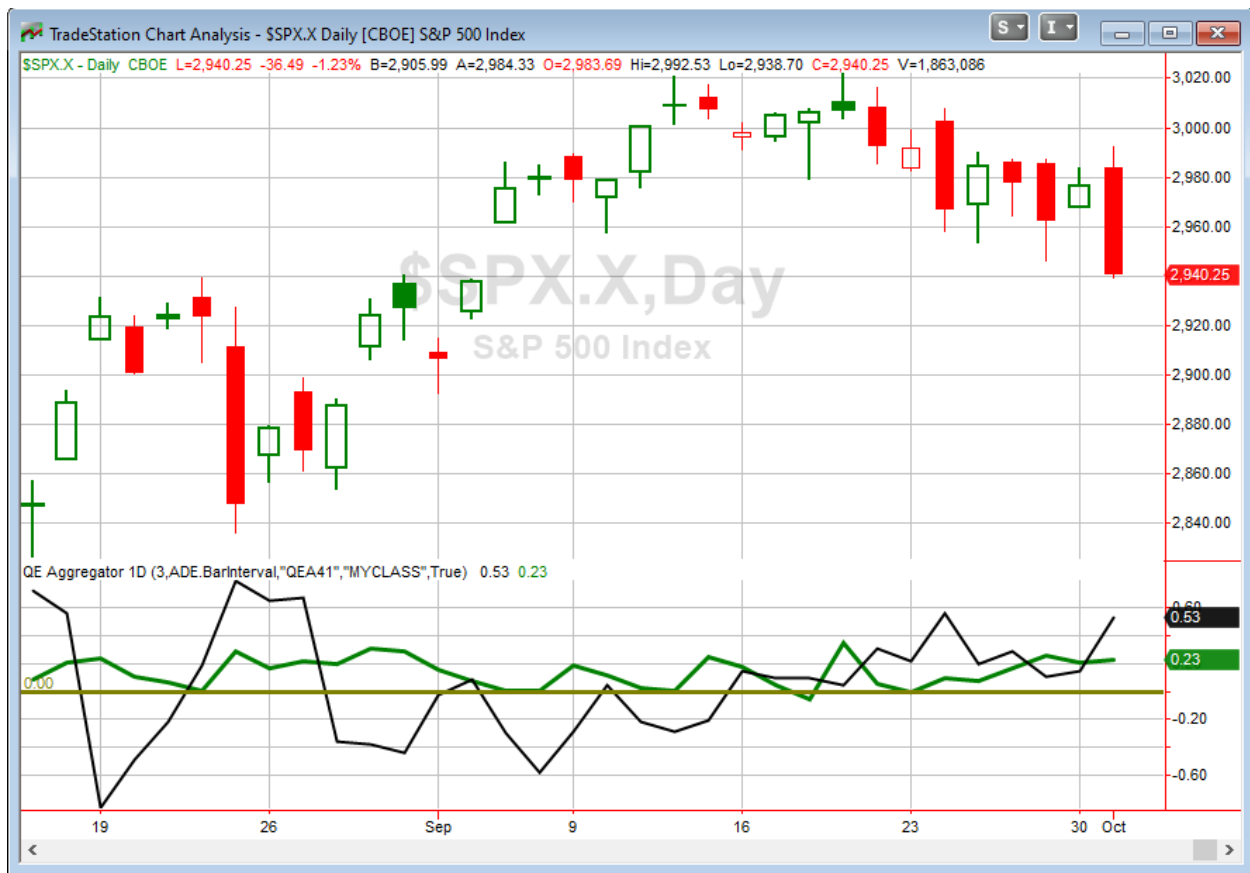
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	36,987.27	34	22	12	64.71	4,273.50	-1,463.76	1,910.42	-420.17	4.55	8.34	1,087.86
4	23,703.97	34	22	12	64.71	4,533.98	-2,123.52	1,520.85	-812.89	1.87	3.43	697.18
3	9,736.55	34	22	12	64.71	3,903.34	-3,393.78	1,237.31	-1,457.03	0.85	1.56	286.37
2	6,477.90	35	20	15	57.14	3,244.78	-3,737.28	1,117.86	-1,058.62	1.06	1.41	185.08
1	1,929.08	35	21	14	60.00	2,359.84	-3,909.03	599.63	-761.66	0.79	1.18	55.12

After the first couple of days there appears to be a strong and consistent upside edge. It is notable that with 34 instances, the only instance that lost more than 1% was the last one. Below is a profit curve that assumes a 5-day holding period.



While the curve has flattened some lately, it still appears strong enough to suggest the upside edge is real. I have also included this study 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, with Tuesday's strong selling, the black Differential Line moved further 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 Wednesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 2975.81 on Wednesday. That is 1.2% above Tuesday's close. So SPX will need to close up a sizable 1.2% on Wednesday in order to flip from oversold to overbought versus recent expectations.

While the Aggregator was in a bullish formation last night, I was hesitant to chase an entry after the move higher on Monday. That is no longer an issue with SPY at a new pullback low. The Aggregator remains bullish, there is now ample room to the upside to profit, and the evidence we see tonight is very appealing. I'll look to take on some long exposure on Wednesday if I can get a decent fill.

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 (bought 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.

SPY – buy ¼ index position @ \$293.24 LIMIT. Based on the short-term section above, I will look to start a SPY position if I can get filled at a price equal to Tuesday's close or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
UNH(1/3)	9/27/2019	\$215.48	\$217.21	0.80%	Catapult
UNH(1/3)	9/30/2019	\$213.64	\$217.21	1.67%	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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