

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 3, 2019

Volume 12 Issue 191

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 2 |

Tonight's Research Points

- The gap down and weak close following a 20-day low suggest an upside edge.
- The strongly negative closing TICK values of late have triggered a bullish setup for our TICK Tomoscillator.

Short-term Outlook

The Bottom Line

This selloff is abnormally large. But I still believe a sharp bounce is likely in the next few days.

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 3, 2019 | 3-high, 3-low, 3-low close > 200 | 1-5 days | Bullish | 1.70% | -1.20% | -2.40% |
| October 3, 2019 | 3-high, 3-low, 3-low close > 200 | 1-5 days | Bullish | 1.70% | -1.20% | -2.40% |
| October 2, 2019 | 3-high, 3-low, 3-low close > 200 | 1-5 days | Bullish | 1.70% | -1.20% | -2.40% |
| 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 | | | | | | |
| September 26, 2019 | HigherThnDn. Lower then Up. < 10ma | 1-5 days | Bullish | | | |
| October 2, 2019 | Outside day close bottom 10% 10-day | 1-6 days | Bullish | 2.40% | -0.80% | -1.60% |
| October 1, 2019 | After 10-low, unfill up gap < 10ma. | 1-5 days | Bullish | 1.70% | -1.20% | -2.30% |

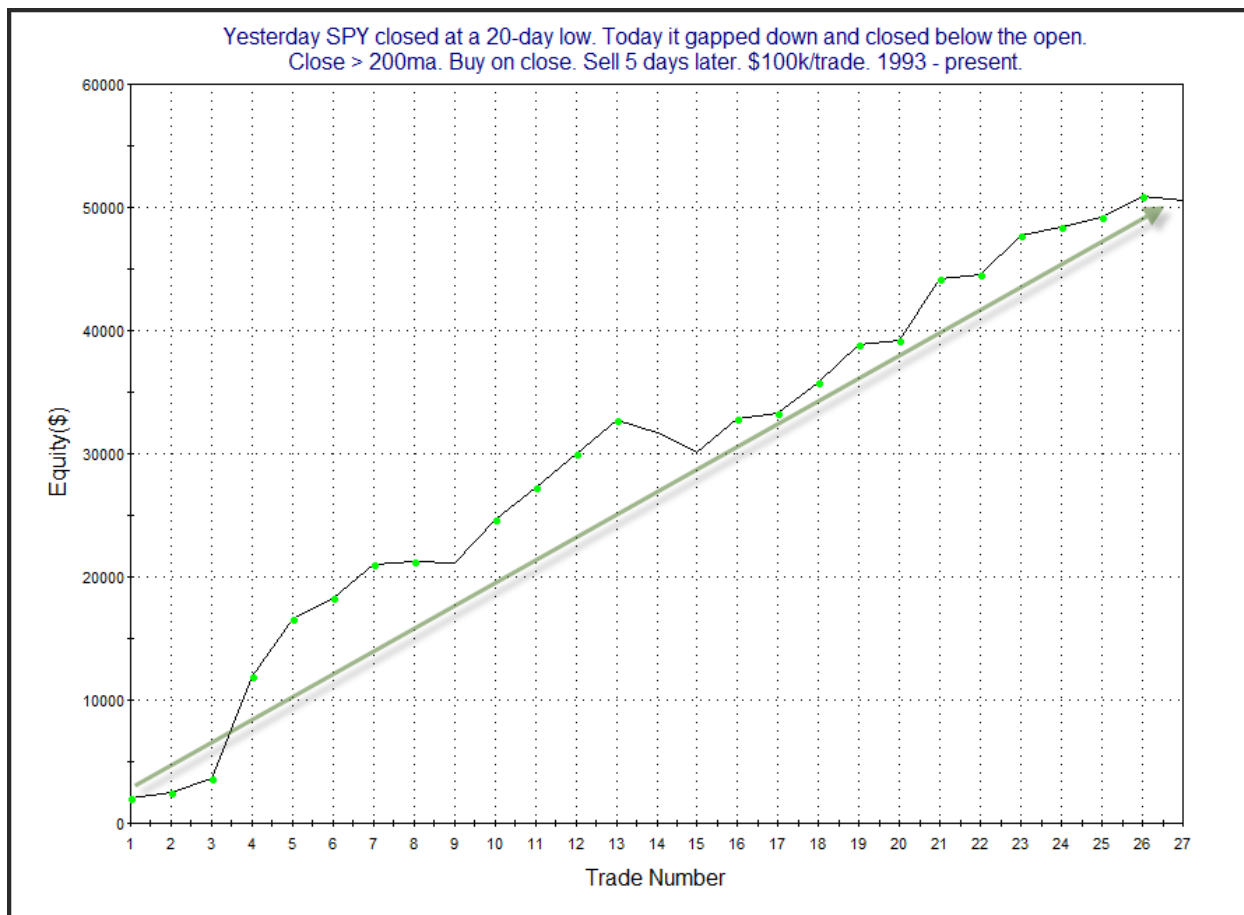
The Evidence

The market got smacked on Wednesday. The SPX lost 1.8%, the NASDAQ fell 1.6%, and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % was 23% and the Up Volume % came in at 16%. NYSE volume rose for the 2nd day in a row.

SPY was already oversold before Wednesday's action. Wednesday saw it gap down from a 20-day low the day before and then continue the selling. This triggered the below study, from the 5/30/19 letter. Results are updated.

| Yesterday SPY closed at a 20-day low. Today it gapped down and closed below the open. Close > 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 | 50,567.89 | 27 | 23 | 4 | 85.19 | 8,239.74 | -1,594.30 | 2,329.34 | -751.75 | 3.10 | 17.82 | 1,872.88 |
| 4 | 40,508.81 | 27 | 22 | 5 | 81.48 | 5,581.02 | -3,255.65 | 2,081.18 | -1,055.44 | 1.97 | 8.68 | 1,500.33 |
| 3 | 28,672.83 | 27 | 18 | 9 | 66.67 | 4,348.05 | -2,421.25 | 2,063.58 | -941.30 | 2.19 | 4.38 | 1,061.96 |
| 2 | 20,879.89 | 28 | 15 | 13 | 53.57 | 5,477.88 | -1,643.62 | 1,962.21 | -657.94 | 2.98 | 3.44 | 745.71 |
| 1 | 18,156.80 | 33 | 22 | 11 | 66.67 | 5,764.38 | -3,000.80 | 1,257.34 | -864.07 | 1.46 | 2.91 | 550.21 |
| The only instance NOT to close above the entry price at some point in the next week triggered on 5/14/12. | | | | | | | | | | | | |

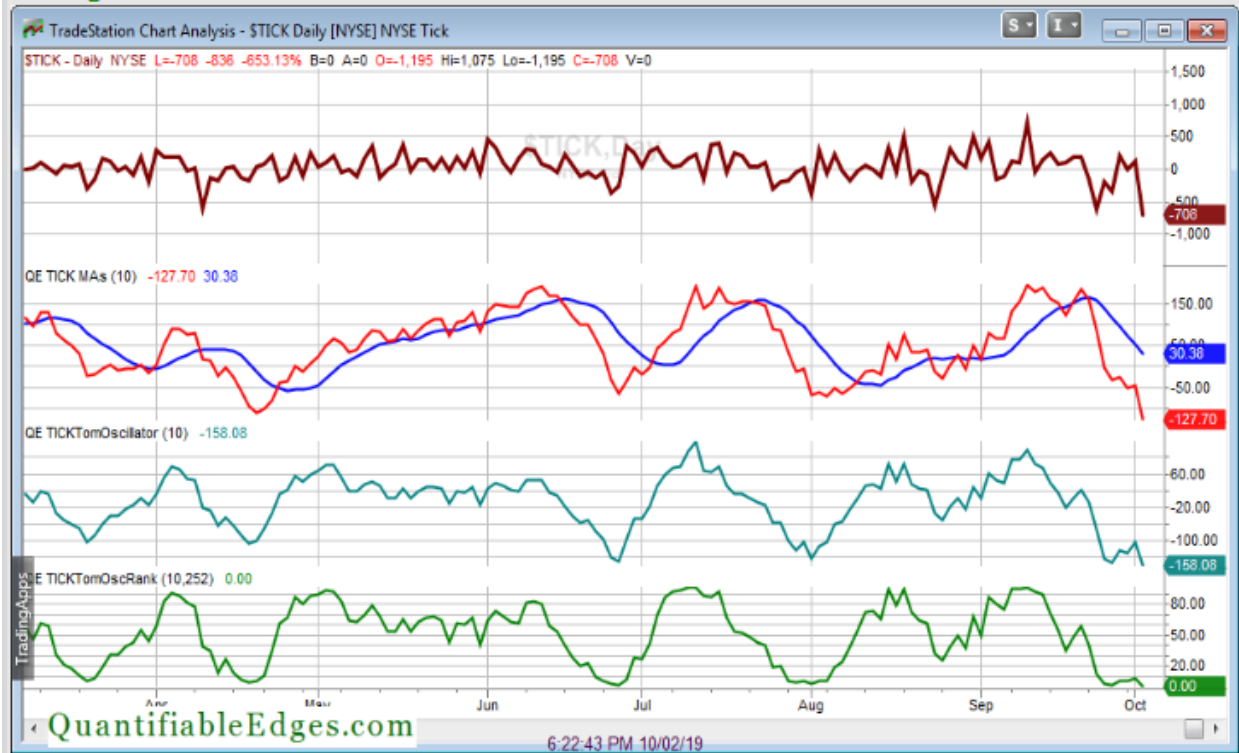
Results here appear consistent and powerful. Below is a look at the profit curve assuming a 5-day holding period.



The strong, steady upslope is impressive. It serves as some confirmation of the bullish edge. I have included this study on the Active List tonight.

There were also some studies that used the TICK TomOscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of McClellan Financial Publications ([click for Tom's article on the indicator](#)). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The Tomoscillator % Rank Wednesday came in below 1%, meaning Wednesday's reading is among the lowest 1% in the last year. (In fact it was the lowest reading of the last year.) Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:

Closing TICK TomOscillator Indicators



The study below uses the Tomoscillator % Rank reading rather than just the raw reading. It is updated from the 3/26/18 letter.

**TICK Tom Oscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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 | 17,158.59 | 17 | 10 | 7 | 58.82 | 5,308.60 | -4,360.44 | 2,575.06 | -1,227.43 | 2.10 | 3.00 | 1,009.33 |
| 9 | 19,920.61 | 17 | 13 | 4 | 76.47 | 4,786.10 | -5,073.84 | 2,091.16 | -1,816.12 | 1.15 | 3.74 | 1,171.80 |
| 8 | 18,419.20 | 18 | 12 | 6 | 66.67 | 4,792.75 | -5,882.94 | 2,669.51 | -2,269.15 | 1.18 | 2.35 | 1,023.29 |
| 7 | 19,466.58 | 18 | 12 | 6 | 66.67 | 4,205.84 | -2,375.10 | 2,155.58 | -1,066.73 | 2.02 | 4.04 | 1,081.48 |
| 6 | 18,007.29 | 18 | 14 | 4 | 77.78 | 3,839.52 | -1,781.60 | 1,605.97 | -1,119.06 | 1.44 | 5.02 | 1,000.40 |
| 5 | 10,112.28 | 18 | 12 | 6 | 66.67 | 3,199.60 | -2,274.60 | 1,328.08 | -970.79 | 1.37 | 2.74 | 561.79 |
| 4 | 8,945.66 | 19 | 13 | 6 | 68.42 | 2,288.36 | -3,019.20 | 1,289.02 | -1,301.93 | 0.99 | 2.15 | 470.82 |
| 3 | 10,610.44 | 20 | 14 | 6 | 70.00 | 2,450.24 | -1,332.24 | 1,080.99 | -753.92 | 1.43 | 3.35 | 530.52 |
| 2 | 14,384.30 | 21 | 16 | 5 | 76.19 | 1,963.50 | -806.48 | 1,018.43 | -382.13 | 2.67 | 8.53 | 684.97 |
| 1 | 17,474.46 | 22 | 21 | 1 | 95.45 | 2,671.02 | -939.60 | 876.86 | -939.60 | 0.93 | 19.60 | 794.29 |

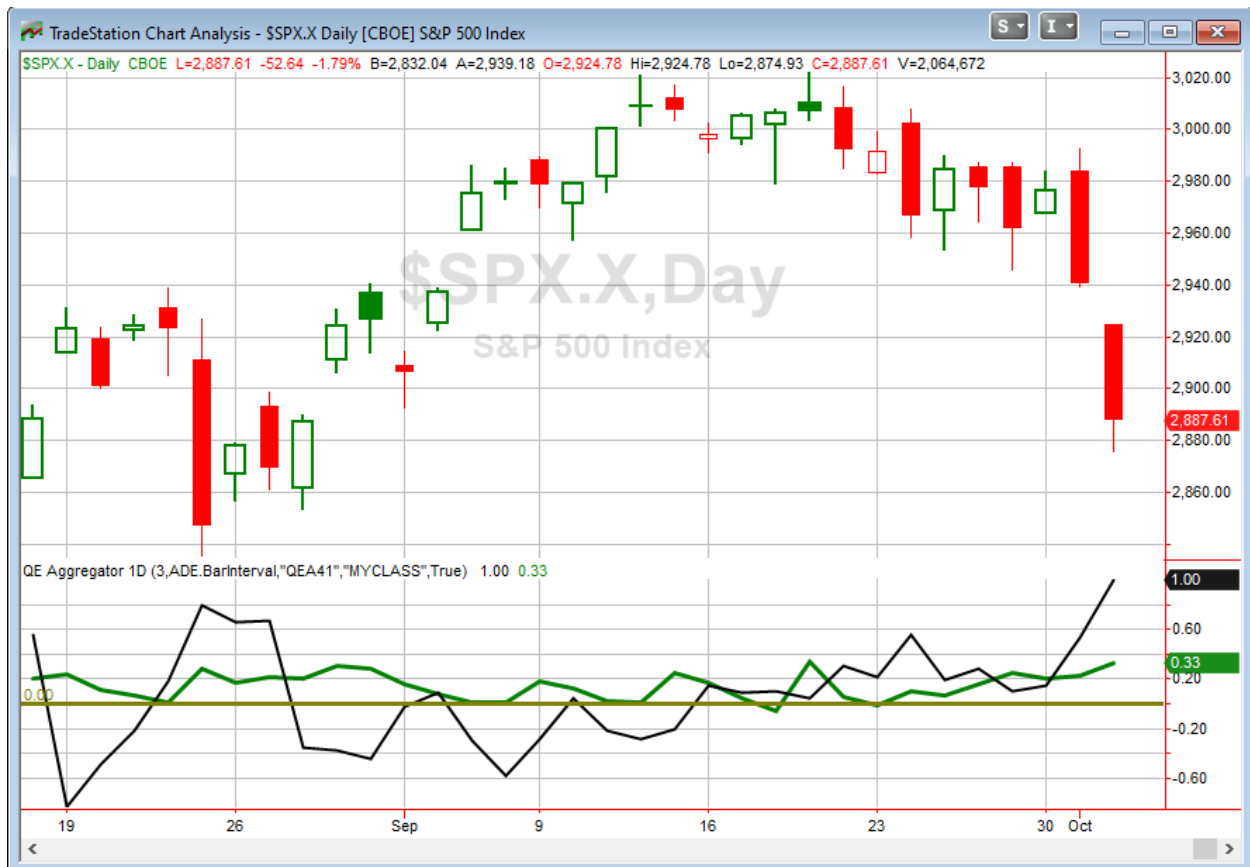
All 22 instances closed above the entry price on either Day 1 or Day 2.

There appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

| TICK Tom Oscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - present. | | | | |
|---|--------|------------|----------|--------------------|
| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
| 7/23/1998 | Buy | \$1,139.74 | 0.09% | \$904.80 |
| 7/24/1998 | Sell | \$1,140.80 | | (\$925.68) |
| 8/4/1998 | Buy | \$1,072.12 | 0.87% | \$1,179.24 |
| 8/5/1998 | Sell | \$1,081.42 | | (\$1,374.54) |
| 5/25/1999 | Buy | \$1,284.38 | 1.59% | \$1,574.65 |
| 5/26/1999 | Sell | \$1,304.76 | | (\$450.45) |
| 7/24/2000 | Buy | \$1,464.29 | 0.70% | \$811.92 |
| 7/25/2000 | Sell | \$1,474.47 | | → \$0.00 |
| 6/25/2003 | Buy | \$975.32 | 1.08% | \$1,143.42 |
| 6/26/2003 | Sell | \$985.82 | | (\$155.04) |
| 6/30/2003 | Buy | \$974.50 | 0.80% | \$893.52 |
| 7/1/2003 | Sell | \$982.32 | | (\$1,264.80) |
| 10/24/2003 | Buy | \$1,028.91 | 0.22% | \$857.48 |
| 10/27/2003 | Sell | \$1,031.13 | | → \$0.00 |
| 2/22/2005 | Buy | \$1,184.17 | 0.56% | \$785.40 |
| 2/23/2005 | Sell | \$1,190.80 | | → \$0.00 |
| 2/27/2007 | Buy | \$1,399.14 | 0.55% | \$1,189.25 |
| 2/28/2007 | Sell | \$1,406.82 | | (\$176.79) |
| 3/2/2007 | Buy | \$1,387.17 | -0.94% | \$337.68 |
| 3/5/2007 | Sell | \$1,374.12 | | (\$950.40) |
| 3/5/2007 | Buy | \$1,374.12 | 1.55% | \$1,712.16 |
| 3/6/2007 | Sell | \$1,395.41 | | → \$0.00 |
| 7/27/2007 | Buy | \$1,458.95 | 1.03% | \$1,287.24 |
| 7/30/2007 | Sell | \$1,473.91 | | (\$314.84) |
| 10/28/2009 | Buy | \$1,042.63 | 2.25% | \$2,299.00 |
| 10/29/2009 | Sell | \$1,066.11 | | → \$0.00 |
| 4/18/2011 | Buy | \$1,305.14 | 0.57% | \$574.56 |
| 4/19/2011 | Sell | \$1,312.62 | | (\$88.92) |
| 6/10/2011 | Buy | \$1,270.98 | 0.07% | \$472.68 |
| 6/13/2011 | Sell | \$1,271.83 | | (\$416.52) |
| 5/31/2013 | Buy | \$1,630.74 | 0.59% | \$590.48 |
| 6/3/2013 | Sell | \$1,640.42 | | (\$489.22) |
| 11/7/2013 | Buy | \$1,747.15 | 1.34% | \$1,346.91 |
| 11/8/2013 | Sell | \$1,770.61 | | → \$0.00 |
| 9/25/2014 | Buy | \$1,965.99 | 0.86% | \$1,019.00 |
| 9/26/2014 | Sell | \$1,982.85 | | → \$0.00 |
| 6/29/2015 | Buy | \$2,057.64 | 0.27% | \$798.72 |
| 6/30/2015 | Sell | \$2,063.12 | | (\$63.36) |
| 6/15/2016 | Buy | \$2,071.50 | 0.31% | \$389.76 |
| 6/16/2016 | Sell | \$2,077.99 | | (\$1,014.24) |
| 6/17/2016 | Buy | \$2,071.22 | 0.58% | \$1,413.12 |
| 6/20/2016 | Sell | \$2,083.25 | | → \$0.00 |
| 3/23/2018 | Buy | \$2,588.26 | 2.72% | \$2,777.80 |
| 3/26/2018 | Sell | \$2,658.55 | | → \$0.00 |

Not only did 21 of 22 close up the next day, but the 9 with the blue arrows next to them did so by leaving an unfilled gap up. I see no red flags here, and have 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 the recent strong selling, the black Differential Line is now very far above 0. The positive Differential Line reading means SPX is extremely 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 Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be 2992.71 on Thursday. That is a whopping 3.6% above Wednesday's close. Therefore, SPX will need to close up a massive 3.6% on Thursday in order to flip from oversold to overbought versus recent expectations. That is very unlikely to happen. A more likely way to work off the oversold condition is a multi-day rally or consolidation.

I will also note that 2 studies were removed from the Active List tonight because the market moved more than 1 standard deviation beyond their average drawdown. This suggests we are experiencing somewhat abnormal market conditions. So I really like the new evidence we are seeing. And with the market now so oversold, reward/risk appears very favorable. But in an abnormal market I am more inclined to tread somewhat cautiously. I will be looking to add a 2nd lot to my SPY position, but I am not looking to get heavily long just yet.

*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 @ \$288.25 LIMIT. Based on the short-term section above, I will look add a bit more to my SPY position. The limit price is a little above Wednesday's close to give me a better chance at getting filled.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-----------------------|
| UNH(1/3) | 9/27/2019 | \$215.48 | \$216.75 | 0.59% | Catapult |
| UNH(1/3) | 9/30/2019 | \$213.64 | \$216.75 | 1.46% | Catapult |
| SPY(1/4) | 10/2/2019 | \$291.50 | \$288.06 | -1.18% | <i>bought on open</i> |

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

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.