

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 4, 2019

Volume 12 Issue 192

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- The intraday reversal from the 20-day low suggest more of a bounce in the next few days.
- The very low volume on Thursday's rise could mean short-term trouble.

Short-term Outlook

The Bottom Line

The bounce arrived Thursday. While studies are mixed, overall evidence suggests there should be more upside in the coming 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 4, 2019	SPY 20-low yest. 20 intra today thn up	1-7 days	Bullish			
October 4, 2019	SPX up > 0.5%. Lowest volume 20 days	1-3 days	Bearish			
October 3, 2019	3-high, 3-low, 3-low close > 200	1-5 days	Bullish			
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			

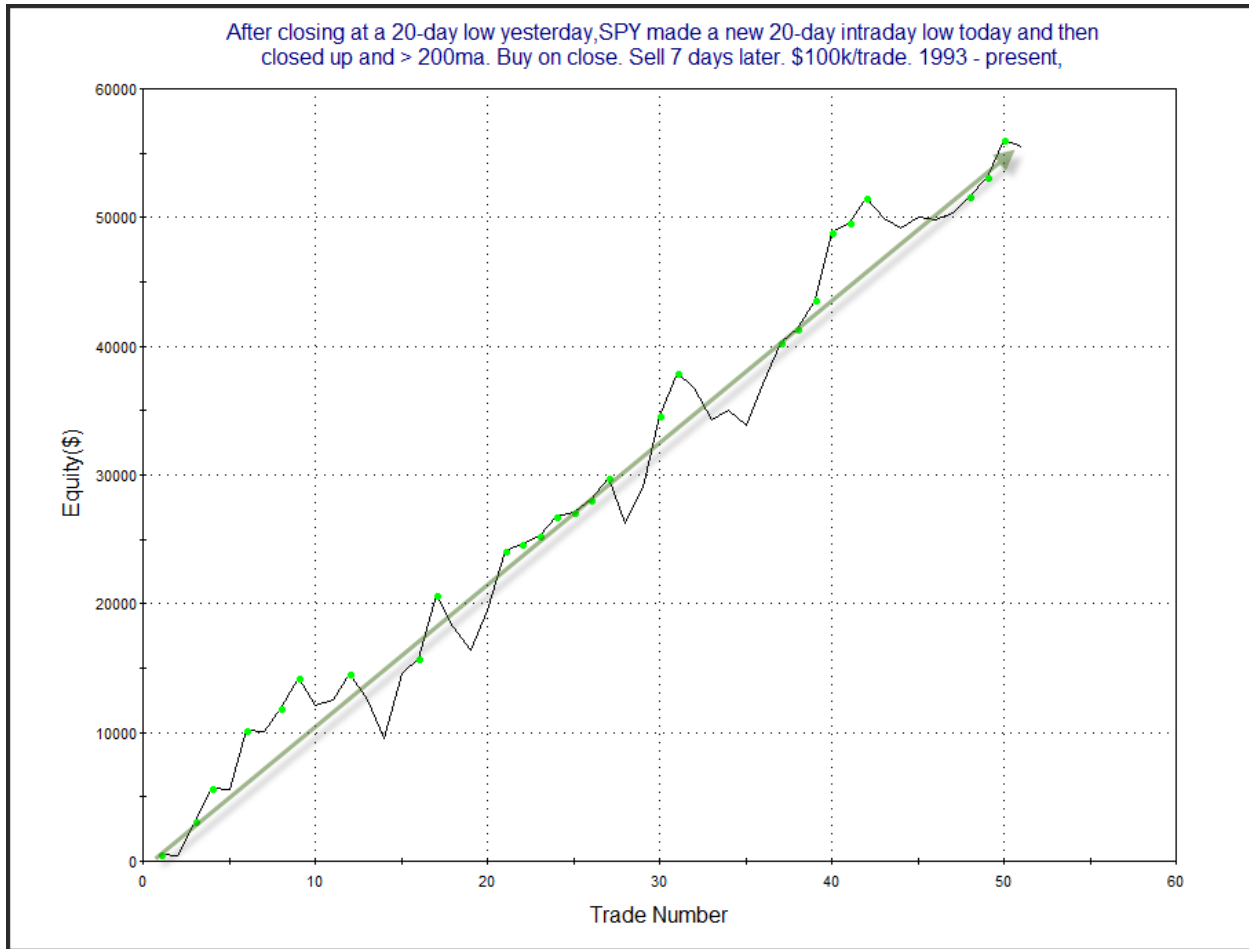
The Evidence

The market bounced back some on Thursday. The SPX rose 0.8%, the NASDAQ gained 1.1%, and the Russell 2000 climbed 0.45%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 68%. NYSE volume came in at the lightest level in a long while.

SPY did post a higher close, but not before making a new intermediate-term intraday low. The 10am EST release from the ISM caused a sharp selloff. But the selling only lasted about 10 minutes before the market started to rebound. The study below was last seen in the 6/29/18 letter. It looks at reversals from intermediate-term lows like we saw on Thursday. All stats are updated.

After closing at a 20-day low yesterday, SPY made a new 20-day intraday low today and then closed up and > 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
10	61,259.48	48	36	12	75.00	6,600.62	-3,844.83	2,234.91	-1,599.79	1.40	4.19	1,276.24
9	57,451.11	49	34	15	69.39	5,915.43	-4,258.20	2,476.55	-1,783.43	1.39	3.15	1,172.47
8	52,126.73	50	36	14	72.00	5,306.40	-4,268.86	2,253.43	-2,071.19	1.09	2.80	1,042.53
7	55,525.31	51	35	16	68.63	5,585.14	-3,531.11	2,252.39	-1,456.77	1.55	3.38	1,088.73
6	46,188.83	52	37	15	71.15	5,411.67	-3,952.19	1,969.30	-1,778.36	1.11	2.73	888.25
5	40,988.46	52	35	16	67.31	5,029.50	-3,450.35	1,777.98	-1,327.56	1.34	2.93	788.24
4	33,389.71	52	34	18	65.38	3,213.00	-2,284.36	1,522.02	-1,019.95	1.49	2.82	642.11
3	20,040.33	56	33	23	58.93	4,462.50	-3,560.24	1,344.83	-1,058.22	1.27	1.82	357.86
2	18,114.07	58	36	22	62.07	4,105.50	-4,266.50	1,263.76	-1,244.61	1.02	1.66	312.31
1	13,341.93	58	35	23	60.34	2,562.30	-2,512.28	935.05	-842.82	1.11	1.69	230.03

Results here seem to suggest a solid upside edge over the next 2 weeks. Much of the gains occurred in the 1st 7 days. Below is the 7-day profit curve.



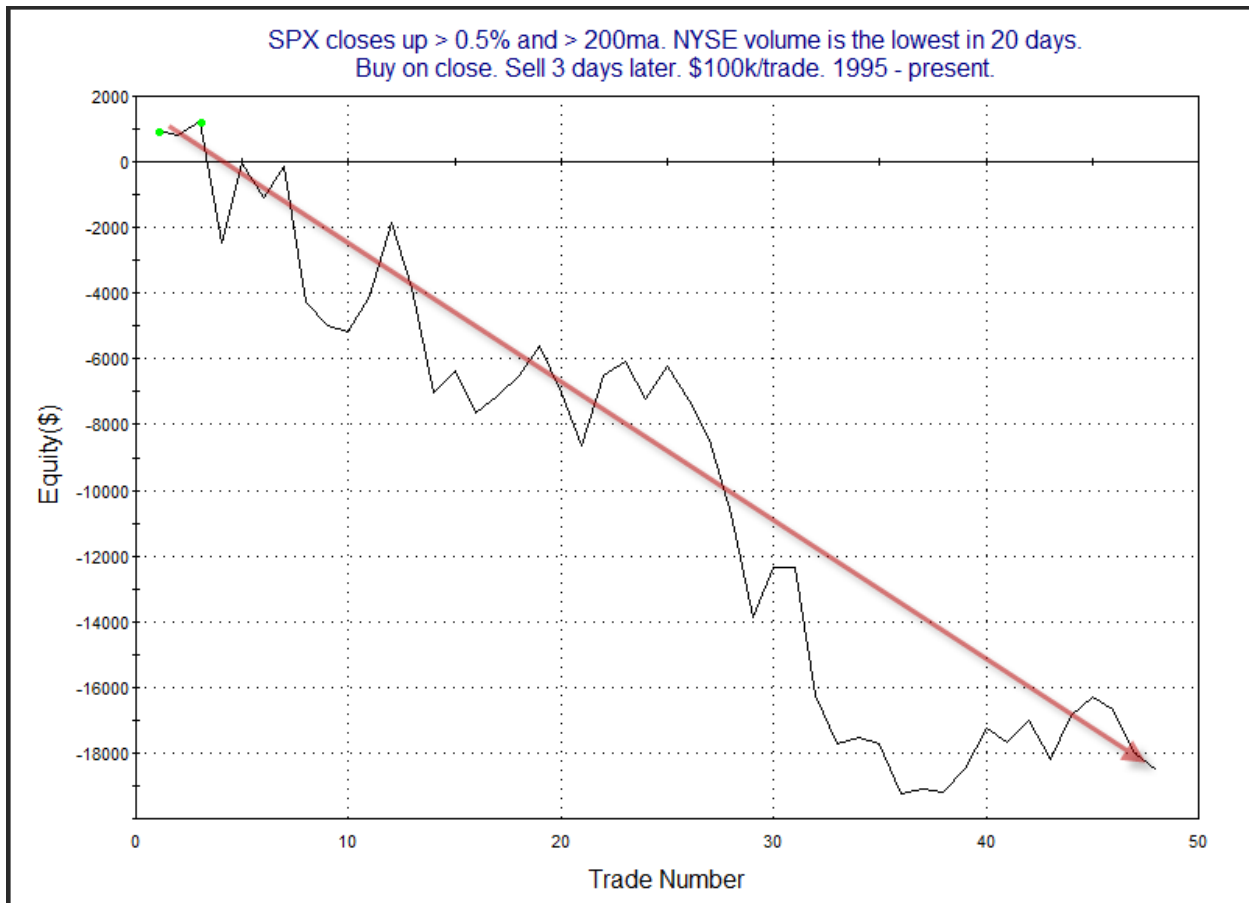
The impressive upslope serves as some confirmation of the upside edge.

But while the reversal was impressive, the very light volume on Thursday could be an issue. The study below is from the 3/18/14 letter. It looks at other times the SPX rose more than 0.5% on the day and closed above the 200ma while posting the lightest NYSE volume in 20 days.

SPX closes up > 0.5% and > 200ma. NYSE volume is the lowest in 20 days.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	-12,463.85	46	25	21	54.35	2,927.68	-11,883.69	1,267.05	-2,101.91	0.60	0.72	-270.95
4	-12,106.59	48	25	22	52.08	3,209.48	-5,540.99	1,159.59	-1,868.02	0.62	0.71	-252.22
3	-18,527.20	48	21	27	43.75	2,417.36	-4,145.96	983.58	-1,451.20	0.68	0.53	-385.98
2	-10,982.32	48	21	27	43.75	2,653.20	-3,372.16	793.46	-1,023.89	0.77	0.60	-228.80
1	-5,480.44	50	21	29	42.00	1,472.66	-1,939.20	598.41	-622.31	0.96	0.70	-109.61

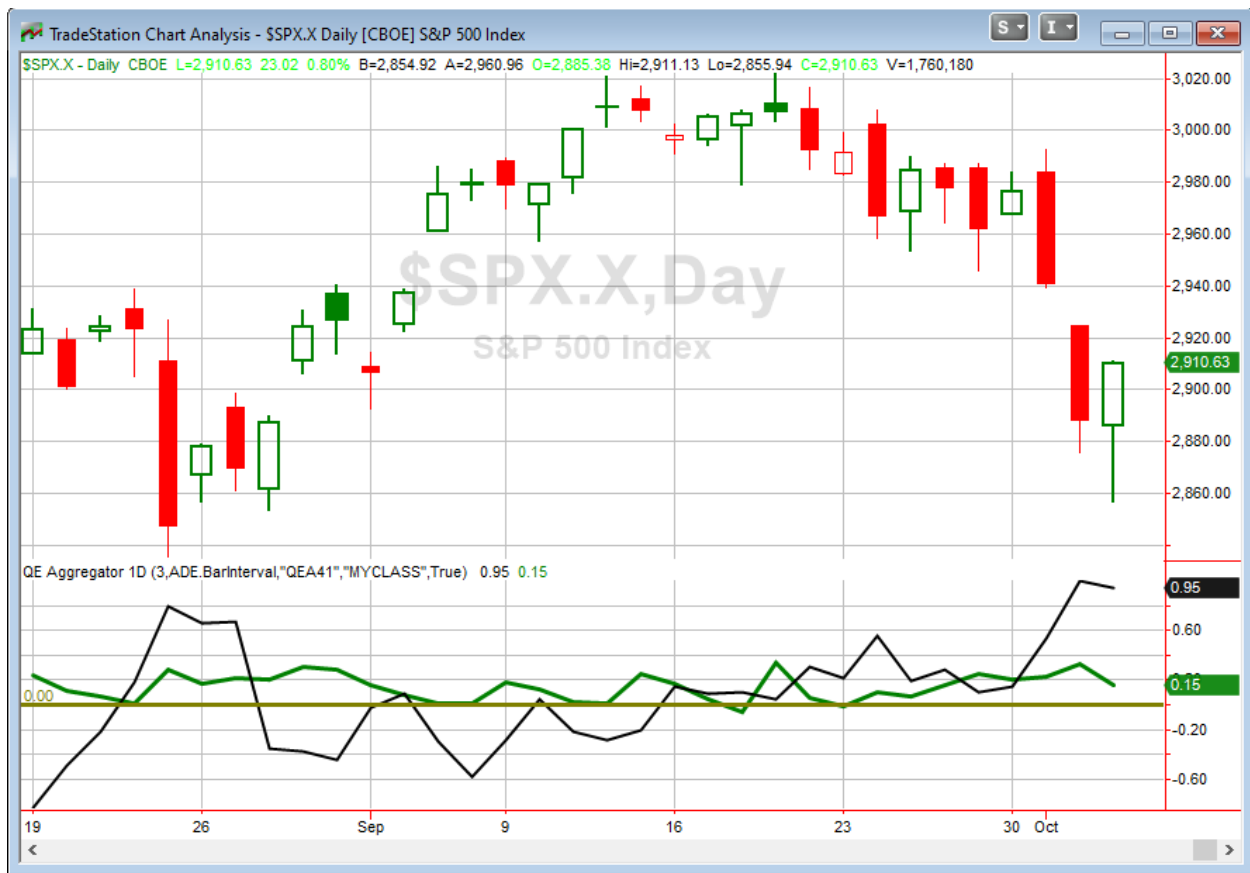
We see here what appears to be a moderate tendency to pull back over the next few days. Below is a look at the 3-day profit curve.



Definitely choppy, but it is again near a new low. I have included this study on the Active List tonight as well.

It is also notable that Friday the BLS employment report will be released an hour before the NYSE open. The employment report typically generates more volatility than any other report. So far this week we have seen substantial reactions from two “lesser” reports. As I have noted a few times recently, the Fed indicated they will be watching the data before determining their next move. And that means the market is also watching the data very carefully...and reacting strongly to any surprises. So there is a good chance tomorrow that one of the above studies I showed is going to look very right and the other is going to look very wrong. Friday could see some strong action.

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



With tonight's mix of 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 is still well 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 Friday. This could change if strong new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2959.52 on Friday. That is a whopping 1.7% above Thursday's close. Therefore, SPX will need to close up at least 1.7% on Friday in order to flip from oversold to overbought versus recent expectations.

We had a good bit of evidence pointing to a bounce coming onto Thursday. And it finally arrived. Now the market is faced with an impending employment report that could cause a big stir on Friday. While the studies are mixed, overall evidence is suggesting this bounce has further to go, and the Aggregator formation remains bullish. I have some long index exposure. I won't be adding to it. But I will look to hold onto it another day to try and profit from the anticipated bounce continuation.

Intermediate-term study: Russell Death Cross

I have seen a fair amount of hubbub about the Russell “Death Cross” that is happening today and the potential bearish implications for the market. A “Death Cross” is a catchy (though perhaps not terribly accurate) term for when the 50-day moving average of a security crosses below its 200-day moving average. It is being promoted as a warning of a potential bear market. Of course all bear markets will see this happen at some point, because a bear market is an extended decline. But the real question when considering the implications of the Death Cross are whether it serves any value in *predicting* a bear market. Last November I did an examination of past Russell Death Crosses, and what they meant for the S&P 500. I have updated that study from the 11/15/18 letter below.

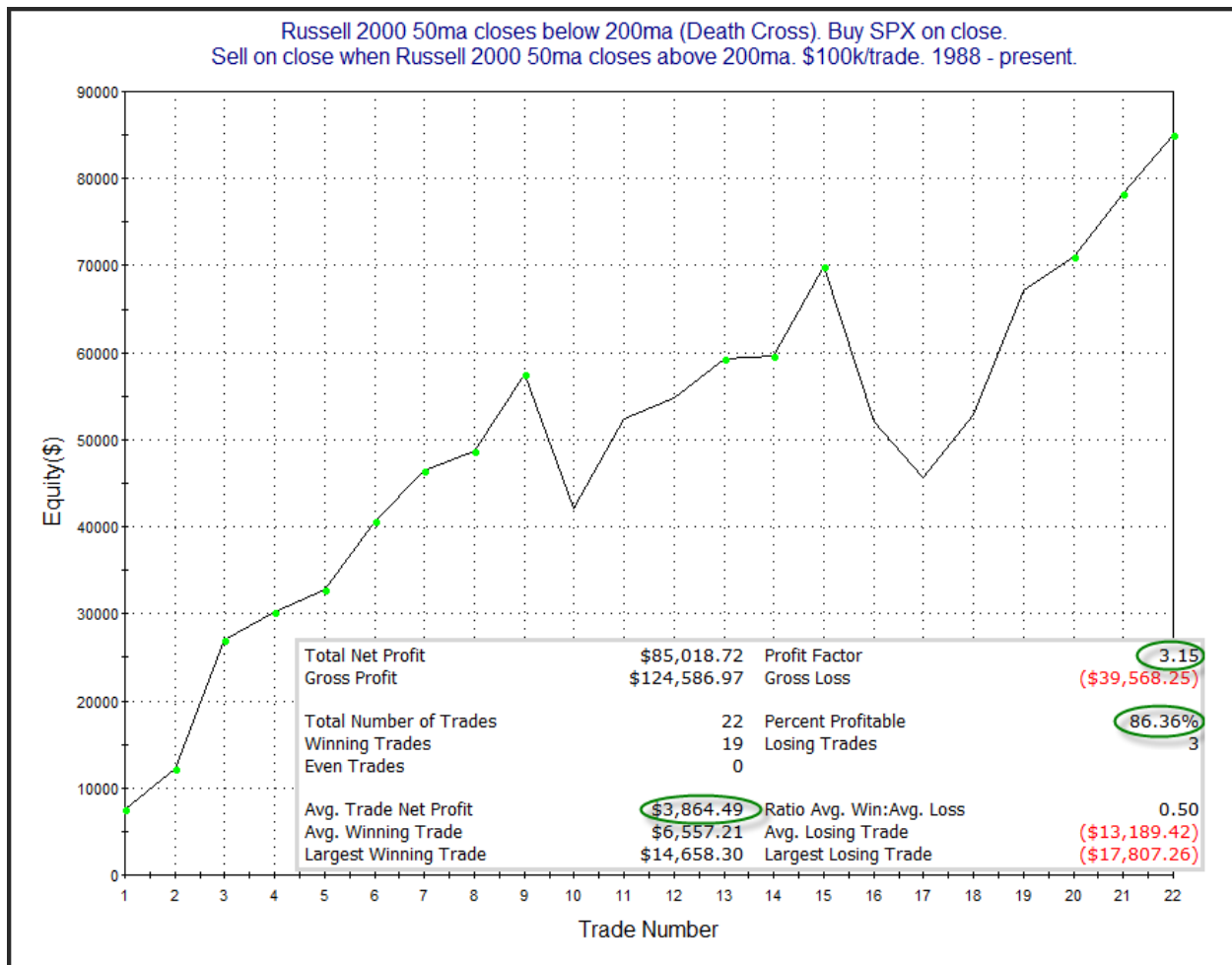
Both of my data sources show Russell data back to late 1987. And since I need 200 days to calculate a 200-day moving average, the earliest the study could look back to was 1988.

Here is the list of all Russell Death Crosses and how the SPX performed from the time of the initial cross until the Russell Death Cross was no longer in effect (meaning the 50-day moving average closed back above the 200-day moving average).

Russell 2000 50ma closes below 200ma (Death Cross). Buy SPX on close.
 Sell on close when Russell 2000 50ma closes > 200ma. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/13/1988	Buy	\$276.31	7.52%	\$7,949.22
2/1/1989	Sell	\$297.09		(\$902.50)
12/18/1989	Buy	\$343.68	4.79%	\$7,279.00
7/3/1990	Sell	\$360.15		(\$6,916.50)
8/17/1990	Buy	\$327.83	14.66%	\$15,805.10
3/7/1991	Sell	\$375.89		(\$10,162.60)
7/17/1992	Buy	\$415.62	3.26%	\$3,307.20
11/25/1992	Sell	\$429.18		(\$4,516.80)
5/23/1994	Buy	\$453.20	2.58%	\$5,365.80
10/21/1994	Sell	\$464.89		(\$2,941.40)
11/25/1994	Buy	\$452.29	7.95%	\$8,154.90
2/24/1995	Sell	\$488.26		(\$2,079.61)
9/3/1996	Buy	\$654.73	5.81%	\$6,093.68
10/3/1996	Sell	\$692.78		(\$887.68)
5/16/1997	Buy	\$829.75	2.23%	\$2,654.40
5/30/1997	Sell	\$848.28		(\$400.80)
7/30/1998	Buy	\$1,142.86	8.83%	\$12,247.86
2/8/1999	Sell	\$1,243.77		(\$19,101.72)
9/29/2000	Buy	\$1,436.48	-15.46%	\$1,265.46
6/15/2001	Sell	\$1,214.36		(\$24,515.01)
9/17/2001	Buy	\$1,038.77	10.28%	\$13,267.20
1/11/2002	Sell	\$1,145.60		(\$9,025.92)
7/15/2002	Buy	\$917.93	2.33%	\$5,083.56
5/14/2003	Sell	\$939.28		(\$16,120.08)
8/5/2004	Buy	\$1,080.70	4.61%	\$5,644.20
11/2/2004	Sell	\$1,130.56		(\$1,838.16)
5/25/2005	Buy	\$1,190.01	0.37%	\$2,484.72
7/1/2005	Sell	\$1,194.44		(\$143.64)
7/21/2006	Buy	\$1,240.29	10.35%	\$10,606.40
10/20/2006	Sell	\$1,368.60		\$0.00
9/5/2007	Buy	\$1,472.29	-18.05%	\$6,954.60
9/18/2008	Sell	\$1,206.51		(\$22,698.93)
10/8/2008	Buy	\$984.94	-6.47%	\$5,996.37
6/19/2009	Sell	\$921.23		(\$32,133.15)
7/28/2010	Buy	\$1,106.13	7.19%	\$8,100.90
10/25/2010	Sell	\$1,185.62		(\$5,978.70)
8/12/2011	Buy	\$1,178.81	14.52%	\$14,463.96
2/8/2012	Sell	\$1,349.96		(\$8,739.36)
9/22/2014	Buy	\$1,994.29	3.83%	\$4,259.00
12/19/2014	Sell	\$2,070.65		(\$8,681.50)
9/2/2015	Buy	\$1,948.86	7.25%	\$8,548.62
5/26/2016	Sell	\$2,090.10		(\$7,076.76)
11/14/2018	Buy	\$2,701.58	6.75%	\$9,344.35
5/7/2019	Sell	\$2,884.05		(\$13,135.00)

Nineteen winners. Only three losers. So 86% of the “predictions” were wrong. Here is a look at the summary stats and a profit curve for this setup.



I am having a hard time seeing the Russell 2000 Death Cross as a bearish indication. You would have a much easier time convincing me this is a bullish indication for the intermediate-term. (I don't really view it as bullish though. Drawdowns were generally sizable, even for a good portion of the "winners". And the last instance from November 2018 – May 2019 is a good example of this.)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
UNH(1/3)	9/27/2019	\$215.48	\$214.00	-0.69%	Catapult
UNH(1/3)	9/30/2019	\$213.64	\$214.00	0.17%	Catapult
SPY(1/4)	10/2/2019	\$291.50	\$290.42	-0.37%	Aggregator
SPY(1/4)	10/3/2019	\$287.81	\$290.42	0.91%	Aggregator

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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