

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2019

Volume 12 Issue 195

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPX closed down > 1% for the 3rd time recently. Other bouts of similar volatility above the 200ma have typically been followed by short and intermediate-term gains.
- Strong selling days will often mark exhaustion. But without making a short-term low or having the CBI elevated, the chances are reduced.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 9, 2019	3rd 1% Drop in 10 days	1 day	Bullish			
October 4, 2019	SPY 20-low yest. 20 intra today thn up	1-7 days	Bullish			
October 3, 2019	20LoGapDn and Close<Open	1-5 days	Bullish			
Active - Long Term						
October 9, 2019	3rd 1% Drop in 10 days > 200ma	1-20 days	Bullish	3.85%	-3.00%	-5.70%
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 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			
Dropped Tonight						
October 7, 2019	2 Up from 10-Low < 10ma > 200ma	1-2 days	Bullish			
October 7, 2019	SPX up > 1%. Lowest volume 20 day	1-3 days	Bearish	-1.40%	0.80%	1.55%
October 2, 2019	3-high, 3-low, 3-low close > 200	1-5 days	Bullish	1.70%	-1.20%	-2.40%

The Evidence

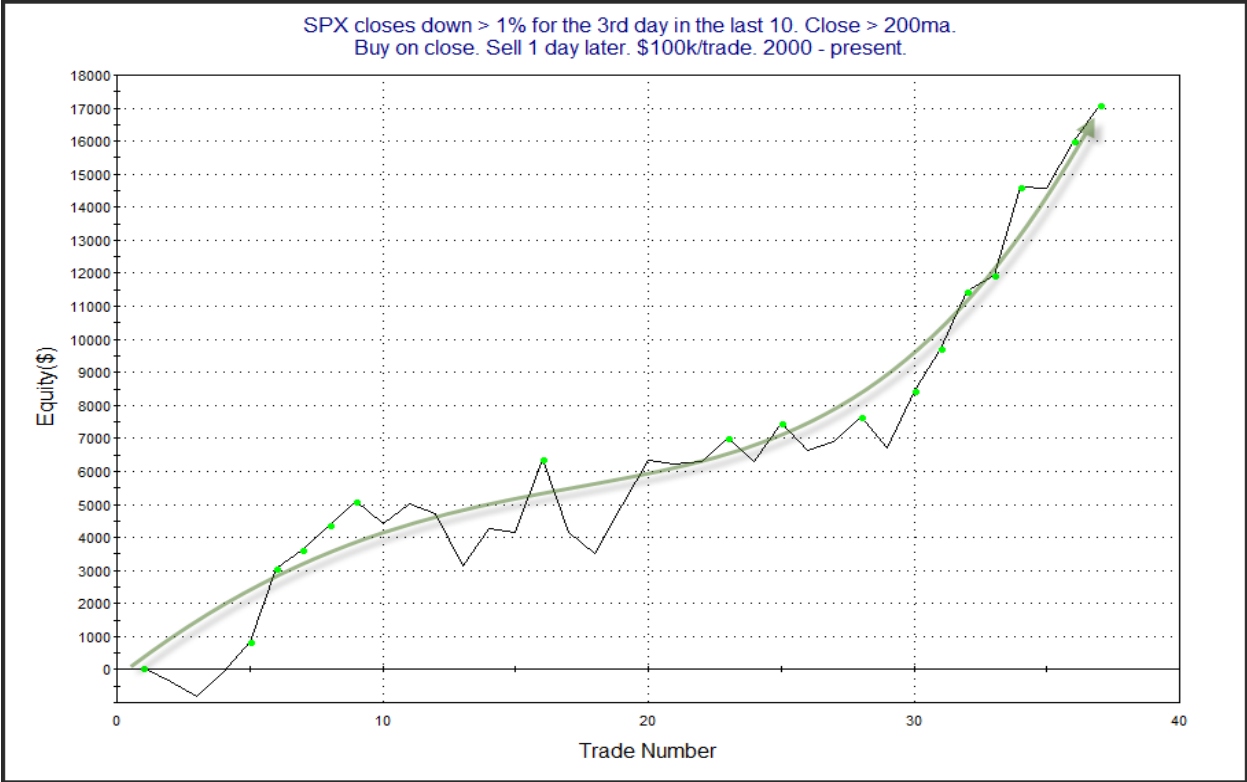
Tuesday saw some accelerated selling. The SPX closed down 1.6%, the NASDAQ lost 1.7%, and the Russell 2000 dropped 1.7%. Breadth was negative as the NYSE Up Issues % was 26% and the Up Volume % came in at 15%. NYSE volume rose some from Monday's level.

The SPX has made some substantial moves over the last couple of weeks as volatility has been high. It is unusual to see such high volatility when the SPX is trading above its 200ma. Tuesday marked the 3rd day in the last 6 in which SPX closed down over 1%. In the 8/13/19 letter I decided to look back at other times where SPX closed down more than 1% for the 3rd time in the last 10 days, but above its 200ma. Below are updated results of that study.

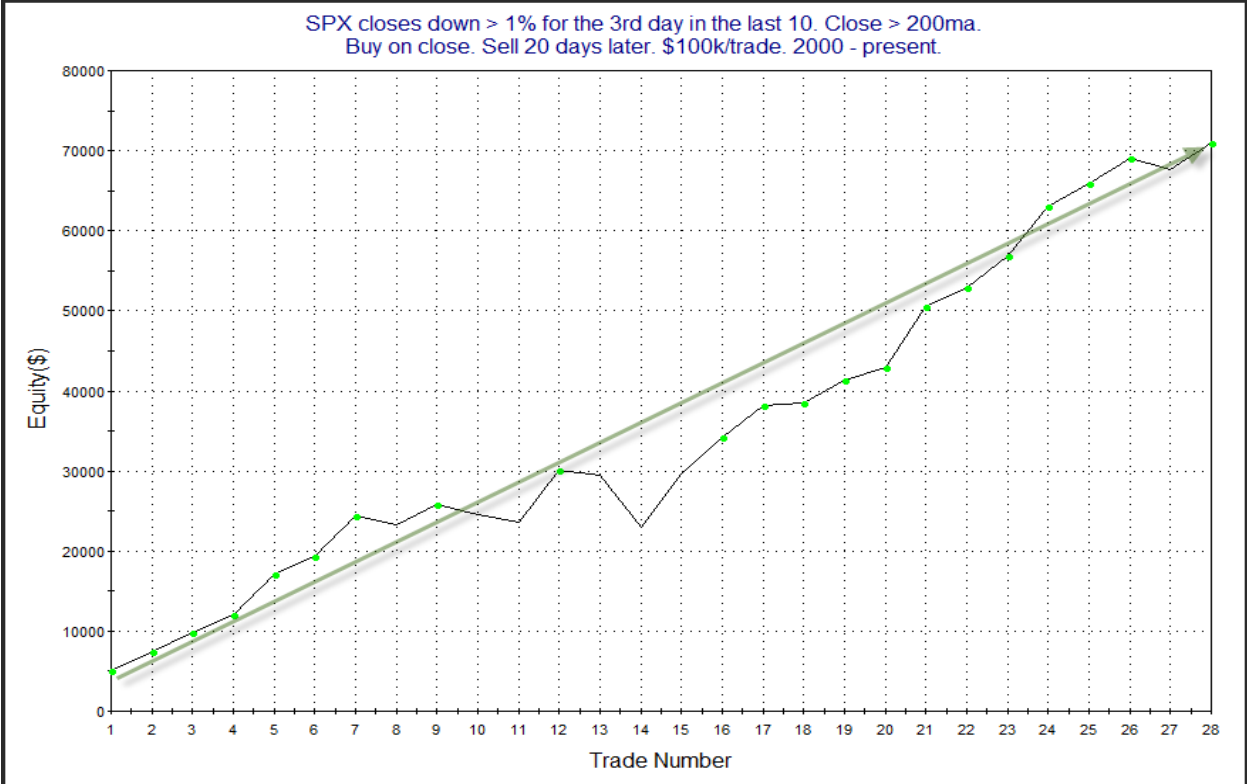
SPX closes down > 1% for the 3rd day in the last 10. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

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
20	70,939.36	28	22	6	78.57	7,525.14	-8,393.70	3,760.44	-1,965.06	1.91	7.02	2,533.55
19	52,274.66	28	22	6	78.57	6,205.08	-8,745.65	3,182.91	-2,958.21	1.08	3.95	1,866.95
18	46,782.96	28	21	7	75.00	6,700.92	-7,156.15	3,127.75	-2,699.98	1.16	3.48	1,670.82
17	37,059.37	28	19	9	67.86	6,406.80	-5,995.90	2,979.62	-2,172.60	1.37	2.90	1,323.55
16	44,253.56	30	22	8	73.33	6,053.77	-8,980.25	3,104.05	-3,004.45	1.03	2.84	1,475.12
15	45,466.19	30	21	9	70.00	6,381.15	-8,463.45	3,330.65	-2,719.72	1.22	2.86	1,515.54
14	35,559.99	30	20	10	66.67	6,430.55	-8,495.75	3,252.06	-2,948.12	1.10	2.21	1,185.33
13	31,040.61	30	17	13	56.67	6,333.65	-7,302.35	3,351.76	-1,995.33	1.68	2.20	1,034.69
12	34,190.79	31	21	10	67.74	5,966.87	-8,670.85	2,705.38	-2,262.23	1.20	2.51	1,102.93
11	37,293.27	31	21	10	67.74	5,447.05	-4,976.75	2,735.99	-2,016.25	1.36	2.85	1,203.01
10	32,699.65	31	21	10	67.74	5,639.02	-4,749.93	2,512.66	-2,006.61	1.25	2.63	1,054.83
9	41,040.82	33	22	11	66.67	5,514.18	-3,235.44	2,634.28	-1,537.57	1.71	3.43	1,243.66
8	36,793.75	33	22	11	66.67	5,012.58	-3,223.20	2,483.60	-1,622.31	1.53	3.06	1,114.96
7	28,913.02	34	23	11	67.65	4,496.68	-4,591.08	2,274.40	-2,127.11	1.07	2.24	850.38
6	19,238.42	34	23	11	67.65	4,438.02	-3,963.24	1,869.84	-2,160.73	0.87	1.81	565.84
5	12,857.05	35	19	16	54.29	4,328.00	-2,927.40	1,987.91	-1,557.07	1.28	1.52	367.34
4	8,182.12	36	20	16	55.56	3,838.00	-4,056.48	1,663.69	-1,568.23	1.06	1.33	227.28
3	3,293.91	36	22	14	61.11	3,388.00	-5,331.20	1,138.80	-1,554.26	0.73	1.15	91.50
2	6,594.68	37	21	16	56.76	2,752.00	-3,863.25	1,190.21	-1,149.98	1.03	1.36	178.23
1	17,115.65	37	24	13	64.86	2,671.02	-2,200.08	1,089.57	-694.92	1.57	2.89	462.59

Often the next day has seen a bounce. Then chop for the next 4 days or so. And then the market has often risen for the next few weeks. The 1 and 20-day numbers appear quite bullish. I also produced the profit curves.



This is not the smoothest curve, but it has been improving and has certainly done well lately.



This is a very smooth ride from lower left to upper right, supporting the idea of an upside edge. I have included this study on both the short and intermediate-term active lists tonight.

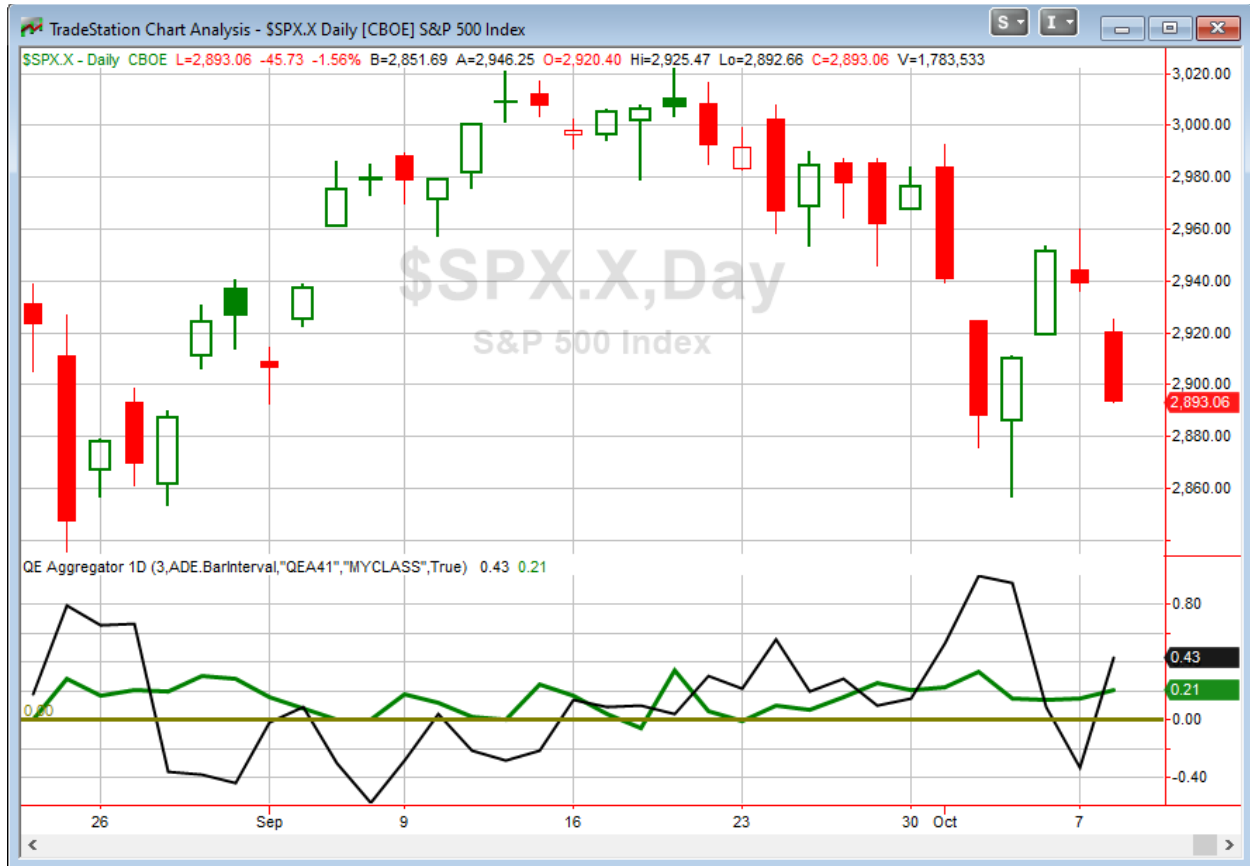
But the first several days other than day 1 are a little bit of a concern. In the 4/9/18 letter I looked at some other studies that examined multiple strong down days in a short time period. I found there to be a notable difference in results for times SPX finished at a short-term low vs times it did not. This can be seen in the studies below.

SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma. Close = 5-day low close. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	38,772.79	28	18	10	64.29	5,656.16	-4,488.00	3,410.73	-2,262.04	1.51	2.71	1,384.74
9	40,010.13	28	20	8	71.43	5,761.56	-5,073.84	3,078.06	-2,693.88	1.14	2.86	1,428.93
8	53,062.39	30	23	7	76.67	6,960.84	-5,882.94	3,051.97	-2,447.57	1.25	4.10	1,768.75
7	70,875.89	31	24	7	77.42	7,598.58	-2,375.10	3,394.36	-1,512.66	2.24	7.69	2,286.32
6	57,299.17	31	23	8	74.19	7,272.06	-3,322.53	3,004.85	-1,476.56	2.04	5.85	1,848.36
5	47,215.06	31	22	9	70.97	7,070.28	-3,337.95	2,664.53	-1,267.17	2.10	5.14	1,523.07
4	45,359.63	31	23	8	74.19	5,187.49	-3,351.72	2,465.84	-1,419.32	1.74	4.99	1,463.21
3	33,842.79	33	25	8	75.76	5,471.10	-5,331.20	2,019.57	-2,080.79	0.97	3.03	1,025.54
2	30,550.48	34	25	9	73.53	4,809.66	-3,863.25	1,835.30	-1,703.56	1.08	2.99	898.54
1	25,882.26	37	29	8	78.38	5,117.46	-5,829.81	1,379.22	-1,764.38	0.78	2.83	699.52

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10	-1,095.72	8	6	2	75.00	1,425.60	-4,284.84	862.66	-3,135.84	0.28	0.83	-136.97
9	3,376.85	8	6	2	75.00	2,952.80	-2,457.00	1,153.35	-1,771.63	0.65	1.95	422.11
8	3,496.40	8	5	3	62.50	2,209.90	-1,261.68	1,177.06	-796.30	1.48	2.46	437.05
7	4,776.83	9	5	4	55.56	3,872.96	-2,784.75	2,195.92	-1,550.69	1.42	1.77	530.76
6	5,400.19	9	5	4	55.56	3,558.40	-3,286.40	2,840.01	-2,199.97	1.29	1.61	600.02
5	-1,017.83	9	5	4	55.56	3,777.40	-6,368.04	2,557.04	-3,450.76	0.74	0.93	-113.09
4	-2,318.63	9	5	4	55.56	4,297.70	-4,917.36	1,601.05	-2,580.97	0.62	0.78	-257.63
3	859.13	9	4	5	44.44	4,077.70	-1,805.40	1,865.55	-1,320.62	1.41	1.13	95.46
2	5,225.86	10	4	6	40.00	3,883.00	-1,099.56	2,043.92	-491.63	4.16	2.77	522.59
1	4,056.39	10	6	4	60.00	1,469.34	-797.60	903.40	-341.00	2.65	3.97	405.64

Instances are low for the 2nd sample, but the edge no longer seems apparent. And that is the current situation. So despite the increased volatility and some strong selling days, this selloff could have further to go. I'll also note that the CBI remained at zero on Tuesday. And while the market can certainly bounce without an elevated CBI, bounces are much more reliable when the CBI is elevated.

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



With tonight's new evidence to consider, 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 back 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.

Based on the current list of active studies, expectations are set to remain bullish on Wednesday. This could change if strong new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2969.14 on Wednesday. That is a whopping 2.6% above Tuesday's close. Therefore, SPX would need to close down 2.6% on Wednesday in order to flip from oversold to overbought vs recent expectations. That not likely to happen. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is bullish. And there does appear to be a bit of an upside edge. Evidence is moderate, but tilting bullish, and there is ample room to the upside before SPX would flip to overbought. This helps reward/risk potential. But we do have some evidence suggesting a rebound is not yet a high probability, and there could be some additional selling in the next few days. With this in mind, I will look to take on some long index exposure on Wednesday, but only if SPY closes down, providing a 3rd down day and a favorable entry price.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/7 – bullish

The intermediate-term outlook was last updated in the 10/7/19 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.

SPY – Buy ¼ index position @ \$288.52 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to start scaling into a long index position if SPY closes down on Wednesday.

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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