

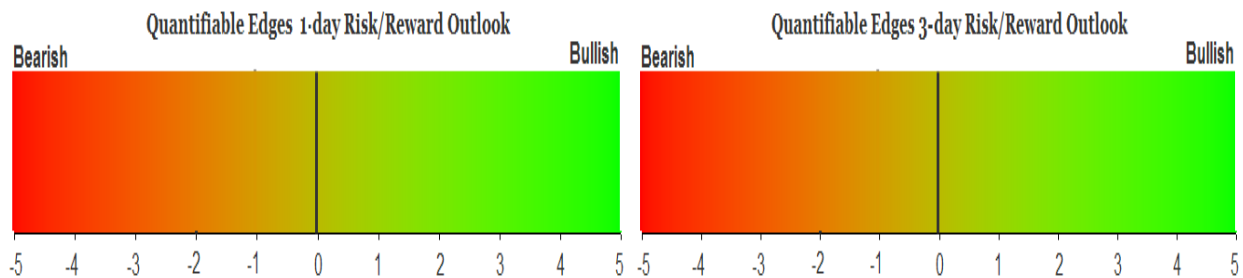
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 29, 2019

Volume 12 Issue 209

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- The next several days look seasonally strong.
- Action on Tuesday will impact potential odds of a Fed Day rally on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. We could see a long edge emerge if we get some selling soon. But with the market extended upwards, this does not appear to be a great place to enter a swing trade.

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 29, 2019	Monday after 4th Friday in October	1-5 days	Bullish			
October 28, 2019	1st of week. VIX up. SPX 50-day high.	1-2 days	Bearish			
October 28, 2019	SPX breakout above intraday high	1-3 days	Bullish			
Active - Long Term						
October 28, 2019	NASDAQ Leading	int term	Bullish			
October 9, 2019	3rd 1% Drop in 10 days > 200ma	1-20 days	Bullish	3.85%	-3.00%	-5.70%
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			

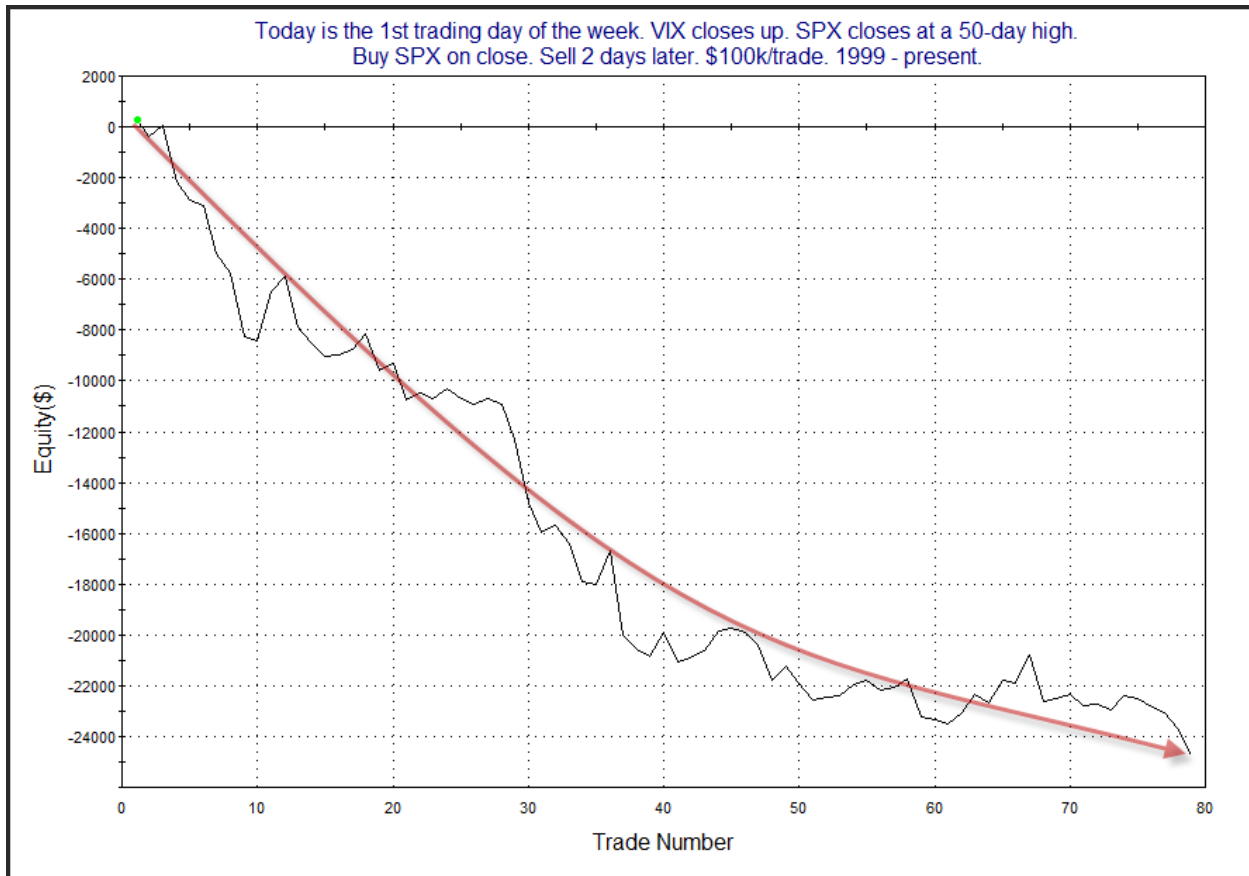
The Evidence

Monday was another solid up day. The SPX rose 0.6% and broke out to a new all-time high, the NASDAQ gained 1.0% and just missed a new all-time high, and the Russell 2000 climbed 0.85%. Breadth was positive as the NYSE Up Issues % was 53.5% and the Up Volume % came in at 54.1%. NYSE volume rose some from Friday's level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 8/28/18 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-19,709.47	73	31	42	42.47	3,260.25	-5,048.68	1,043.00	-1,239.11	0.84	0.62	-269.99
4	-12,182.53	79	38	41	48.10	2,953.65	-4,271.52	851.54	-1,086.37	0.78	0.73	-154.21
3	-13,355.17	79	36	43	45.57	2,641.80	-3,887.84	675.84	-876.40	0.77	0.65	-169.05
2	-24,700.52	79	33	46	41.77	1,981.72	-3,372.16	457.26	-865.00	0.53	0.38	-312.66
1	-9,911.12	79	29	50	36.71	769.70	-1,580.04	296.25	-370.05	0.80	0.46	-125.46

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which flattened out the current look of the curve some. But it is again back at new lows and seems worthy of consideration. I have included this study on the Active List.

In last night's letter I noted the positive seasonality that takes place during the week after the 4th Friday in October. I have copied that study below...

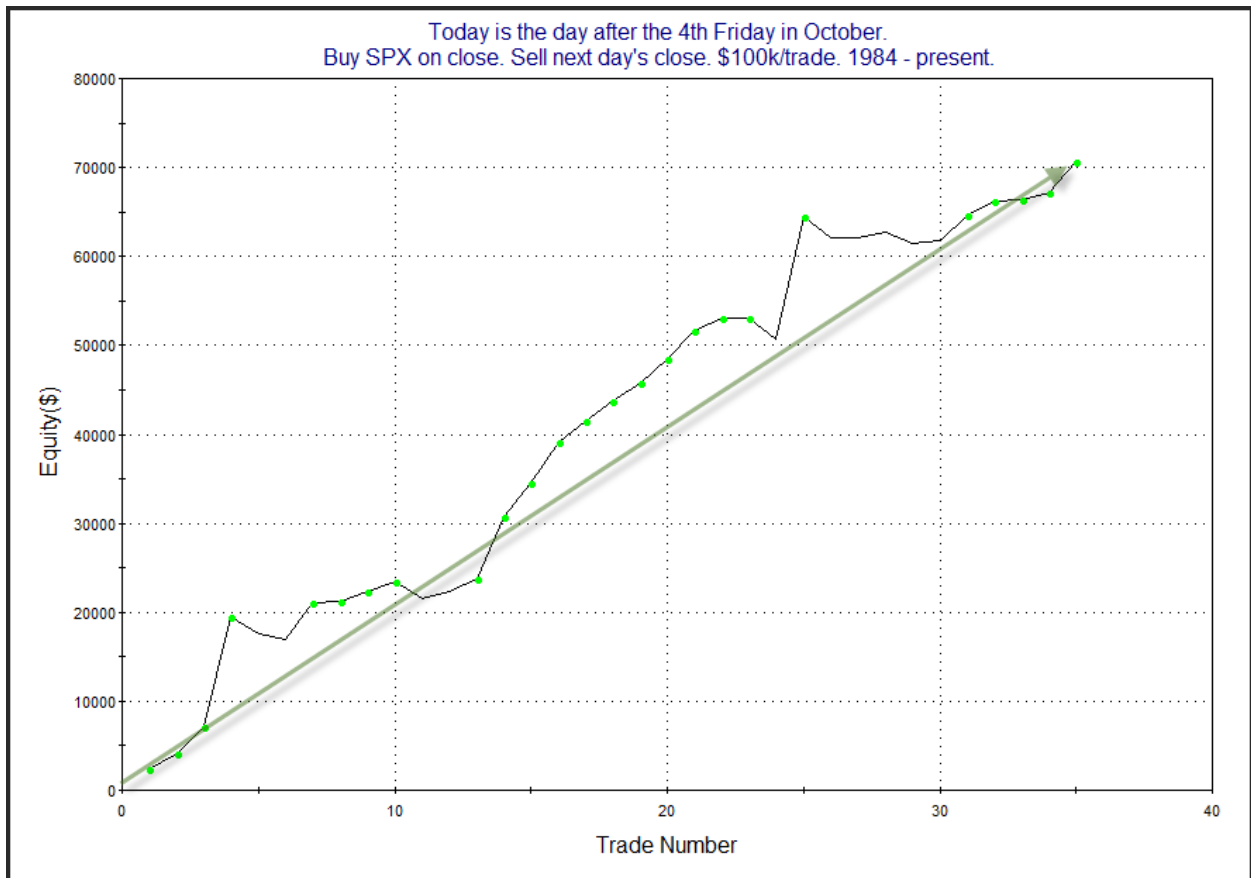
...But Tuesday through the following Monday have much more positive seasonality. This can be seen below.

Today is the day after the 4th Friday in October.
Buy SPX on close. Sell next day's close. \$100k/trade. 1984 - 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	70,689.28	35	28	7	80.00	13,733.46	-2,483.20	2,901.67	-1,508.22	1.92	7.70	2,019.69
4	57,139.35	35	26	9	74.29	14,020.11	-2,860.68	2,623.63	-1,230.56	2.13	6.16	1,632.55
3	48,945.21	35	27	8	77.14	12,304.89	-2,081.28	2,056.74	-823.34	2.50	8.43	1,398.43
2	27,764.89	35	27	8	77.14	9,496.89	-2,261.76	1,366.32	-1,140.73	1.20	4.04	793.28
1	23,333.91	35	23	12	65.71	10,716.03	-2,766.58	1,462.19	-858.05	1.70	3.27	666.68

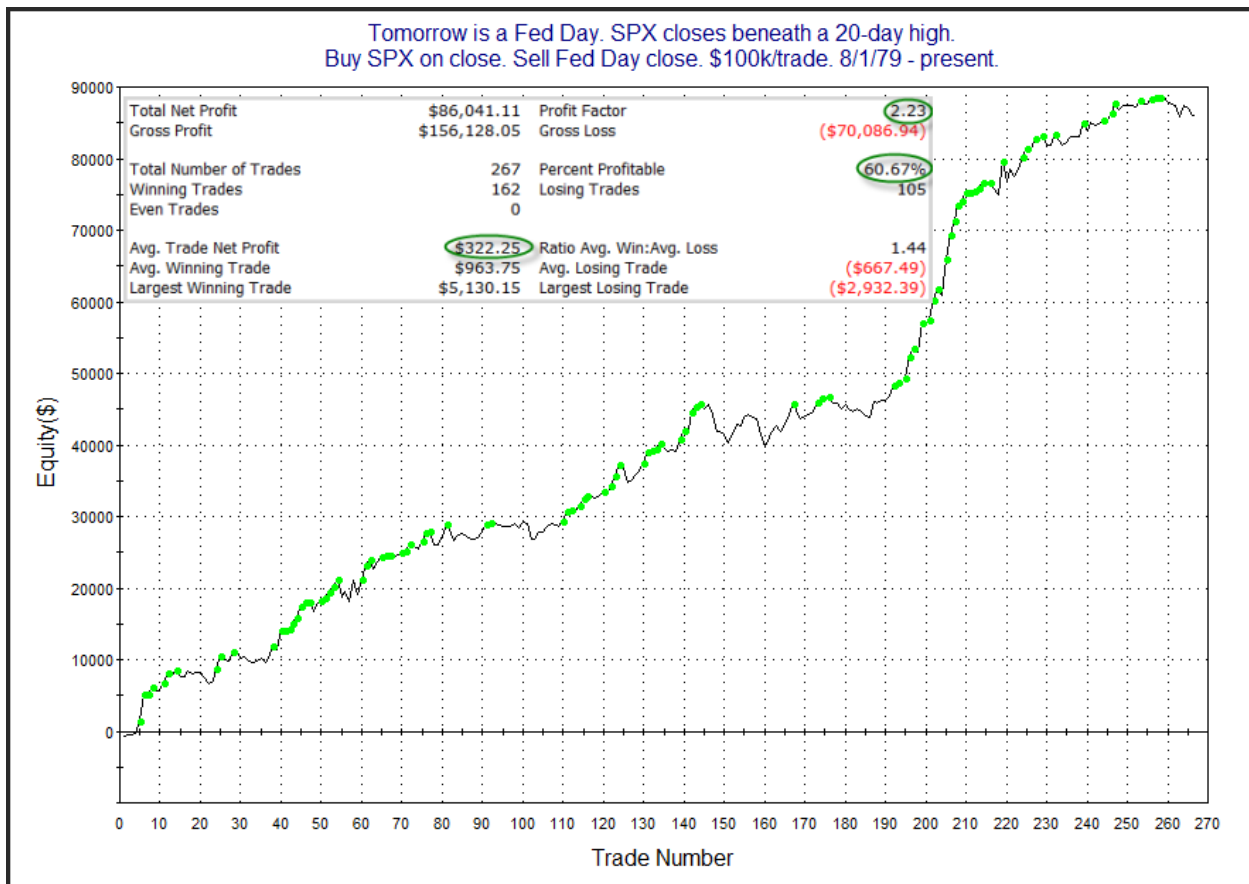
33 of 35 instances (94%) closed above the entry price at some point in the next week.

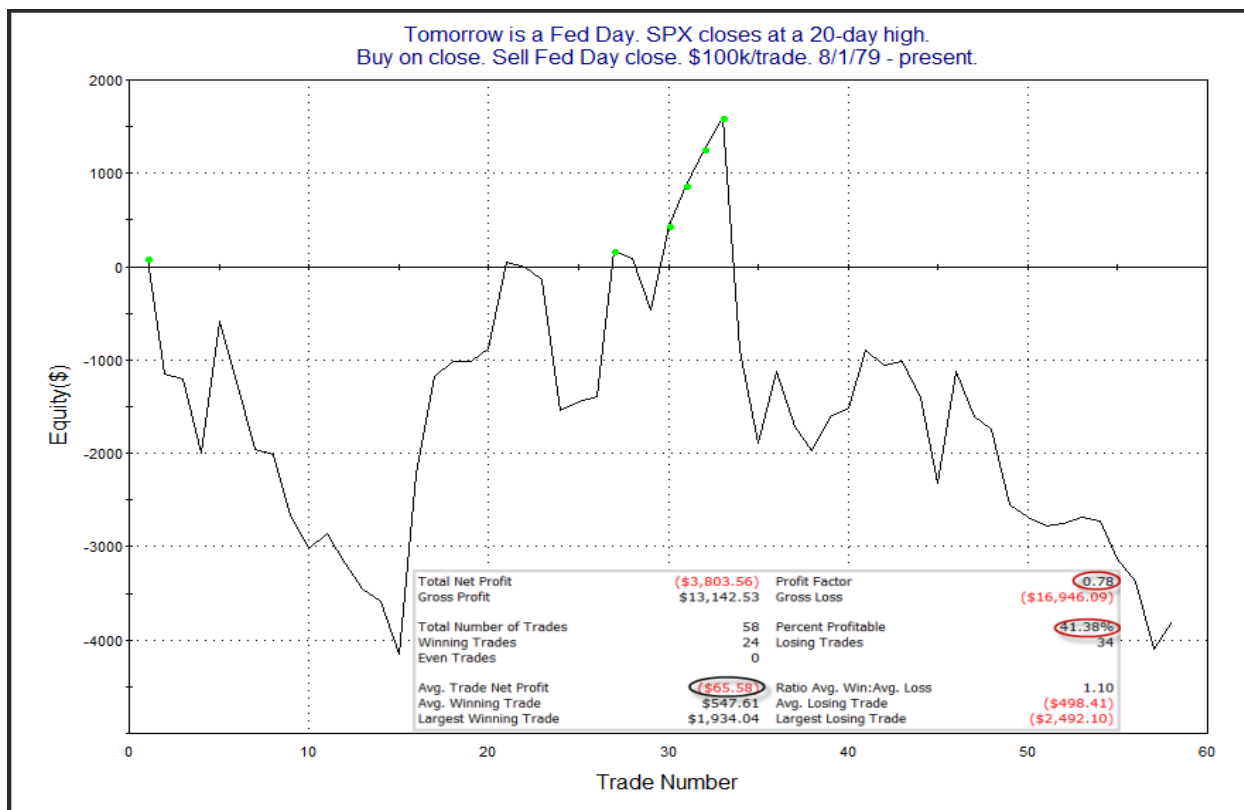
The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



The curve has headed upwards for a long time. As I mentioned earlier, we will have some additional seasonal forces hitting in the next week, but this short-term look at seasonality suggests the market could have some wind at its back after Monday.

Of course Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, with the most complete documentation coming in [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). Of course part of what the Fed does is it uses policy to calm panics or to cool off overdone exuberance. One study I have shown in the past compares Fed Day performance when the SPX is at a 20-day high vs performance when it closes below a 20-day high on the day before a Fed Day. The idea here is that when the market closes at a 20-day high, it typically means there isn't a lot of worry present. Updated stats and charts of the two setups can be found below.





We see here a huge difference. The historically bullish Fed Day edge has been wiped away when the SPX has closed at a new high the day before. Monday closed at a new high. So any up close on Tuesday would trigger the 2nd scenario here. This is one thing to keep in mind as Tuesday afternoon approaches.

Another study well worth considering is the one below, which broke down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 9/16/19 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of its intraday range.
Buy on close. Sell Fed Day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$6,104.41	Profit Factor	1.24
Gross Profit	\$31,767.69	Gross Loss	(\$25,663.28)
Total Number of Trades	83	Percent Profitable	48.19%
Winning Trades	40	Losing Trades	41
Even Trades	2		
Avg. Trade Net Profit	\$73.55	Ratio Avg. Win:Avg. Loss	1.27
Avg. Winning Trade	\$794.19	Avg. Losing Trade	(\$625.93)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$14,477.74	Profit Factor	1.92
Gross Profit	\$30,261.13	Gross Loss	(\$15,783.39)
Total Number of Trades	51	Percent Profitable	52.94%
Winning Trades	27	Losing Trades	23
Even Trades	1		
Avg. Trade Net Profit	\$283.88	Ratio Avg. Win:Avg. Loss	1.63
Avg. Winning Trade	\$1,120.78	Avg. Losing Trade	(\$686.23)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$11,652.40	Profit Factor	2.11
Gross Profit	\$22,196.43	Gross Loss	(\$10,544.03)
Total Number of Trades	39	Percent Profitable	66.67%
Winning Trades	26	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$298.78	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$853.71	Avg. Losing Trade	(\$811.08)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

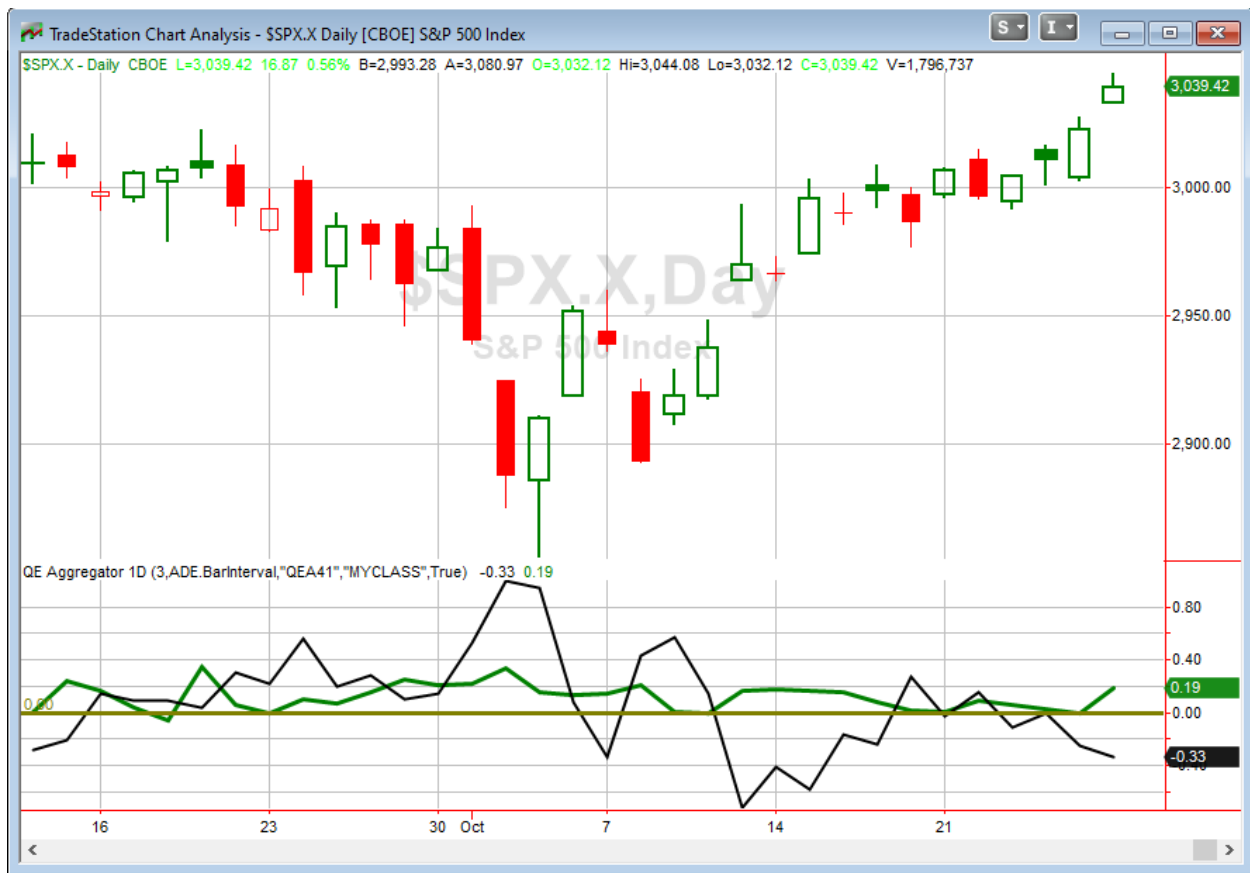
Tomorrow is a Fed Day. SPY closes in bottom 25% of intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$23,346.14	Profit Factor	4.34
Gross Profit	\$30,327.24	Gross Loss	(\$6,981.10)
Total Number of Trades	39	Percent Profitable	74.36%
Winning Trades	29	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$598.62	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,045.77	Avg. Losing Trade	(\$698.11)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

So what we see here, is that the lower SPY has closed in its range the day before, the stronger the Fed day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced.

And of course we have more seasonality to discuss at the end of the week as Friday is the 1st day of a new month. It should be an interesting few days.

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



With tonight's mix of evidence to consider, the green Aggregator Line popped back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

With the current list of studies, expectations are slated to remain positive on Tuesday. Compelling new bearish evidence could possibly change this. Meanwhile, the Differential Pivot will be 3015.71 on Tuesday. That is 0.8% below Monday's close. So SPX will need to close down at least 0.8% on Tuesday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral. Wednesday could set up nicely if SPX closes down a good amount and near the lower end of its range on Tuesday. Aggressive traders could look to take a position in that case. Since we are not near where I would normally consider taking on a new swing trade, I am not inclined to put in an official trade idea for Tuesday. But if we do get a pullback in the next few days, that could create a favorable reward/risk setup for a long trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/28 – bullish

The intermediate-term outlook was last updated in the 10/28/19 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.

None.

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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