

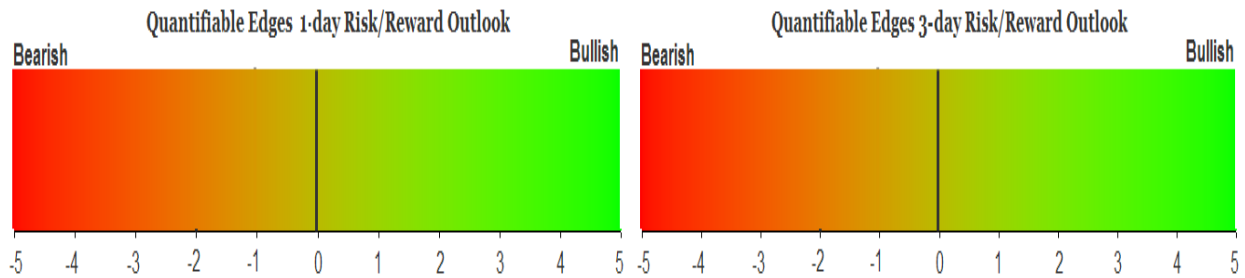
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 31, 2019

Volume 12 Issue 211

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- 100-day highs on Fed Days have often led to follow-on buying.
- Bask to back outside days and a short-term high have typically been followed by further rallying in the next few days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is again neutral. Me too. Patient and alert remains my mantra.

*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
<b>Active - Short Term</b>						
October 31, 2019	SPX 100-day high on Fed Day	1-8 days	Bullish	1.70%	-0.95%	-1.60%
October 31, 2019	2 outside days & close at 10-day high	1-3 days	Bullish			
October 29, 2019	Monday after 4th Friday in October	1-5 days	Bullish			
October 28, 2019	SPX breakout above intraday high	1-4 days	Bullish			
<b>Active - Long Term</b>						
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			

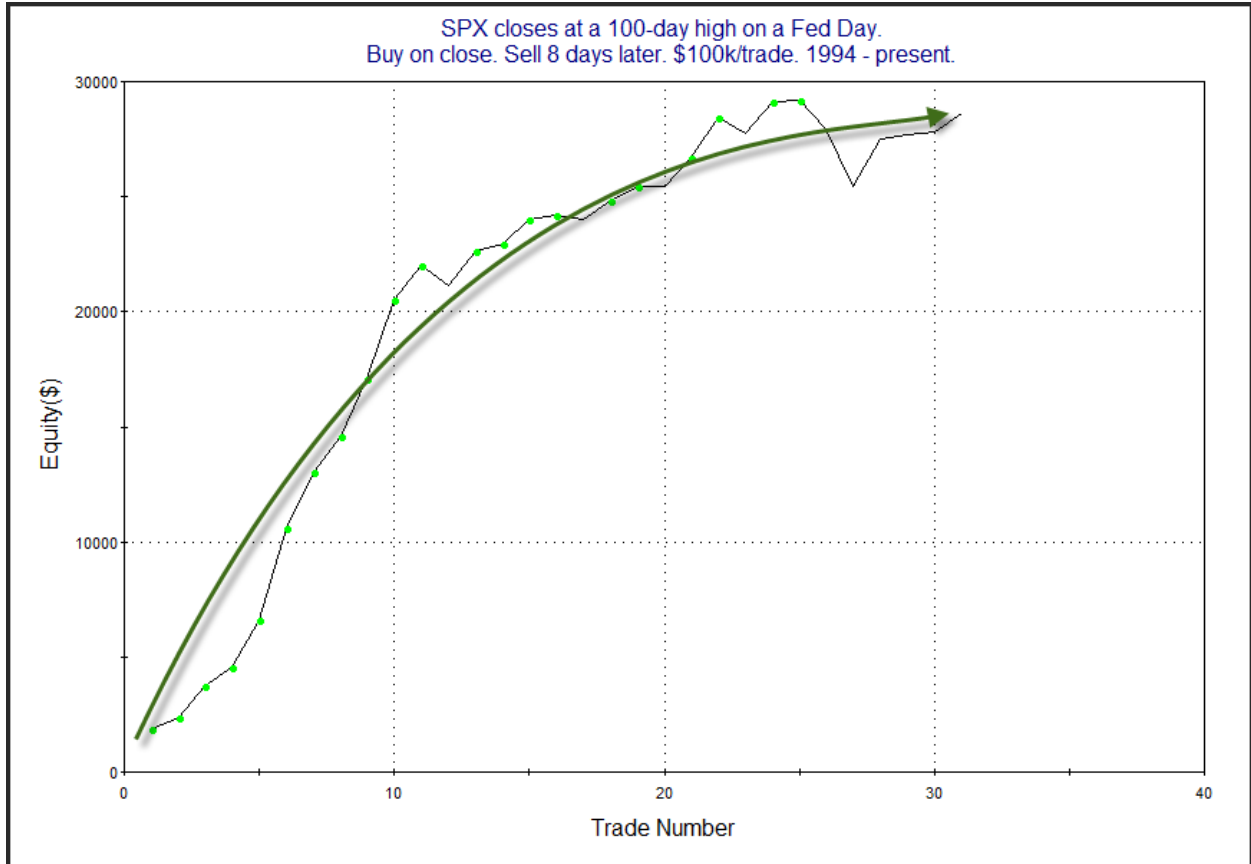
**The Evidence**

The Fed cut another quarter point on Wednesday as expected and the reaction from the market was mostly positive. The SPX rose 0.3%, the NASDAQ gained 0.3% and the Russell 2000 lost 0.3%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 51%. NYSE volume rose some from Tuesday’s level.

In “The Quantifiable Edges Guide to Fed Days” I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 9/21/17 Subscriber Letter.

SPX closes at a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	26,573.05	31	22	9	70.97	5,492.11	-2,161.08	1,698.82	-1,200.11	1.42	3.46	857.20
9	27,528.50	31	23	8	74.19	5,708.74	-2,346.69	1,710.42	-1,476.39	1.16	3.33	888.02
8	28,607.10	31	25	6	80.65	3,995.65	-2,506.29	1,363.83	-914.77	1.49	6.21	922.81
7	22,336.91	31	23	8	74.19	3,198.09	-1,924.89	1,207.97	-680.80	1.77	5.10	720.55
6	22,179.40	31	25	6	80.65	3,147.85	-1,530.45	1,070.18	-762.50	1.40	5.85	715.46
5	18,880.25	31	23	8	74.19	2,353.88	-1,866.75	1,034.08	-612.95	1.69	4.85	609.04
4	15,021.43	31	20	11	64.52	3,173.92	-1,601.70	1,111.07	-654.54	1.70	3.09	484.56
3	7,892.65	31	18	13	58.06	2,227.50	-1,349.76	859.66	-583.17	1.47	2.04	254.60
2	9,389.61	31	19	12	61.29	2,314.87	-1,562.33	848.11	-560.37	1.51	2.40	302.89
1	5,335.87	31	18	13	58.06	2,073.34	-1,393.26	577.43	-389.07	1.48	2.05	172.12

This suggests further upside is likely over the next 1-2 weeks. Below is the profit curve assuming an 8-day holding strategy.



There was a bit of a stumble a few instances back, but the curve still appears to be heading upwards and I believe this study is worth some consideration.

I mentioned above that short-term highs don't often see the same follow through. This can be seen in the study below, also taken from the Quantifiable Edges Guide to Fed Days.

SPX closes at a 10-day high but not a 100-day high on a Fed Day.  
Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-18,008.61	30	14	16	46.67	4,389.95	-9,625.50	1,647.74	-2,567.31	0.64	0.56	-600.29
9	-22,279.03	30	14	16	46.67	3,956.94	-12,928.50	1,591.17	-2,784.71	0.57	0.50	-742.63
8	-19,160.92	30	14	16	46.67	4,058.40	-7,050.88	1,258.41	-2,298.67	0.55	0.48	-638.70
7	-9,914.00	30	17	13	56.67	6,337.26	-6,122.88	1,366.82	-2,550.00	0.54	0.70	-330.47
6	-10,692.01	30	15	15	50.00	4,813.75	-4,908.27	1,332.74	-2,045.54	0.65	0.65	-356.40
5	-21,750.36	30	13	17	43.33	5,231.46	-6,268.92	1,317.72	-2,287.10	0.58	0.44	-725.01
4	-17,496.27	30	13	17	43.33	3,438.24	-4,528.95	1,208.70	-1,953.49	0.62	0.47	-583.21
3	-9,337.74	30	17	13	56.67	3,830.40	-5,547.24	1,139.27	-2,208.10	0.52	0.67	-311.26
2	-20,697.17	30	11	19	36.67	1,737.55	-5,495.94	714.95	-1,503.24	0.48	0.28	-689.91
1	-10,416.92	30	9	21	30.00	1,990.25	-3,300.30	888.88	-876.99	1.01	0.43	-347.23

Numbers here are very weak, especially over the 1<sup>st</sup> few days. The bottom line is that a positive reaction to the Fed that takes SPX to a new high generally does not cause an abrupt end to the trend. When in a long-term uptrend, the rise has often continued over the next few days. And when the uptrend is not necessarily long-term, then the next few days have often struggled.

One old study from the Quantifinder also looked at the fact that SPY made an outside day for the 2<sup>nd</sup> day in a row. An outside day is a day where SPY makes both a higher high and a lower low than the day before. Tonight I decided to add another filter to that study to see times there were multiple outside days and SPY closed at a 10-day high. Results can be seen below.

SPY posts back to back outside days and closes at a 10-day high.  
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	8,542.89	7	5	2	71.43	3,826.52	-686.34	1,900.71	-480.34	3.96	9.89	1,220.41
4	7,690.79	7	7	0	100.00	2,617.44	0.00	1,098.68	0.00	100.00	100.00	1,098.68
3	11,121.64	7	6	1	85.71	3,447.12	-509.66	1,938.55	-509.66	3.80	22.82	1,588.81
2	6,246.94	7	6	1	85.71	1,749.06	-584.61	1,138.59	-584.61	1.95	11.69	892.42
1	2,901.46	7	5	2	71.43	1,387.52	-929.38	769.01	-471.79	1.63	4.07	414.49

The number of instances is quite small. It is quite unusual to see this kind of increasing range occur along with a short-term high. But the times it has happened it has always been higher 4 days later. And the 1-3 day results have also been very strong. Below is a look at the 3-day individual trade results.

SPY posts back to back outside days and closes at a 10-day high.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/5/1996	Buy	\$64.16	2.62%	\$2,742.08
2/8/1996	Sell	\$65.84		(\$109.06)
8/12/1996	Buy	\$66.70	-0.51%	\$0.00
8/15/1996	Sell	\$66.36		(\$1,049.30)
10/16/1996	Buy	\$70.66	0.64%	\$1,372.55
10/21/1996	Sell	\$71.11		(\$155.65)
8/14/2002	Buy	\$92.22	3.45%	\$3,826.52
8/19/2002	Sell	\$95.40		(\$238.48)
11/1/2002	Buy	\$90.27	3.07%	\$3,099.60
11/6/2002	Sell	\$93.04		\$0.00
4/12/2007	Buy	\$144.66	1.68%	\$1,893.34
4/17/2007	Sell	\$147.09		(\$207.30)
2/20/2015	Buy	\$211.24	0.18%	\$473.00
2/25/2015	Sell	\$211.63		(\$359.48)

I don't see anything alarming here. While I don't often include studies with such low instances on the Active List, the broader study also suggested an upside edge, and the numbers could not be better for this one. So I did add this study to the Active List.

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



With tonight's new studies 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 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 stayed flat at the close.

With the current list of studies, expectations are slated to remain positive on Thursday. Compelling new bearish evidence would be needed to change this. Meanwhile, the Differential Pivot will be 3046.04 on Thursday. That is less than 1 point below Wednesday's close. So SPX will only need to close down a small amount on Thursday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator remains neutral. I do too. While the evidence remains solid and pointing higher, the market is just too extended to get me excited about taking on new short-term positions. I will continue to wait for a pullback to get long into, or for some very compelling bearish evidence to emerge. It can sometimes be annoying to watch the market make a strong move without me. But I have found that patience often pays. And chasing extended moves rarely pays. So I will continue to exercise patience while I remain alert for the next favorable opportunity.

***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.](#)*

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.