

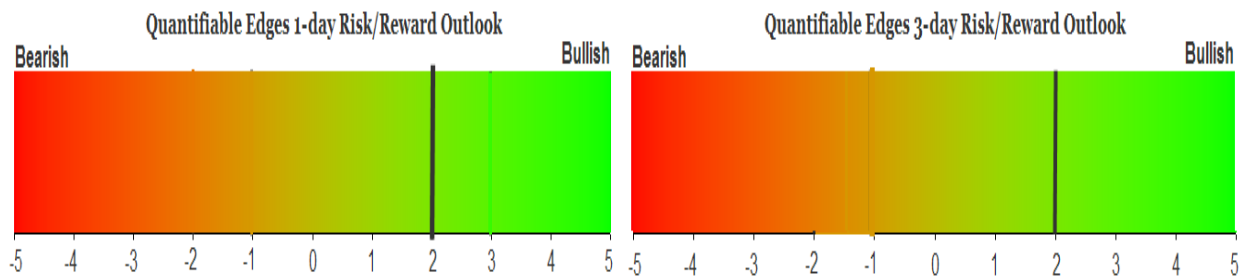
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2019

Volume 12 Issue 212

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Unfilled gaps down from 50-day highs will often be followed by more selling the next day.
- The strong close on Thursday seems to have eliminated a potential turn of month bullish tendency.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I still believe some caution is warranted. But I may be a buyer if SPY closes down a decent amount on Friday.

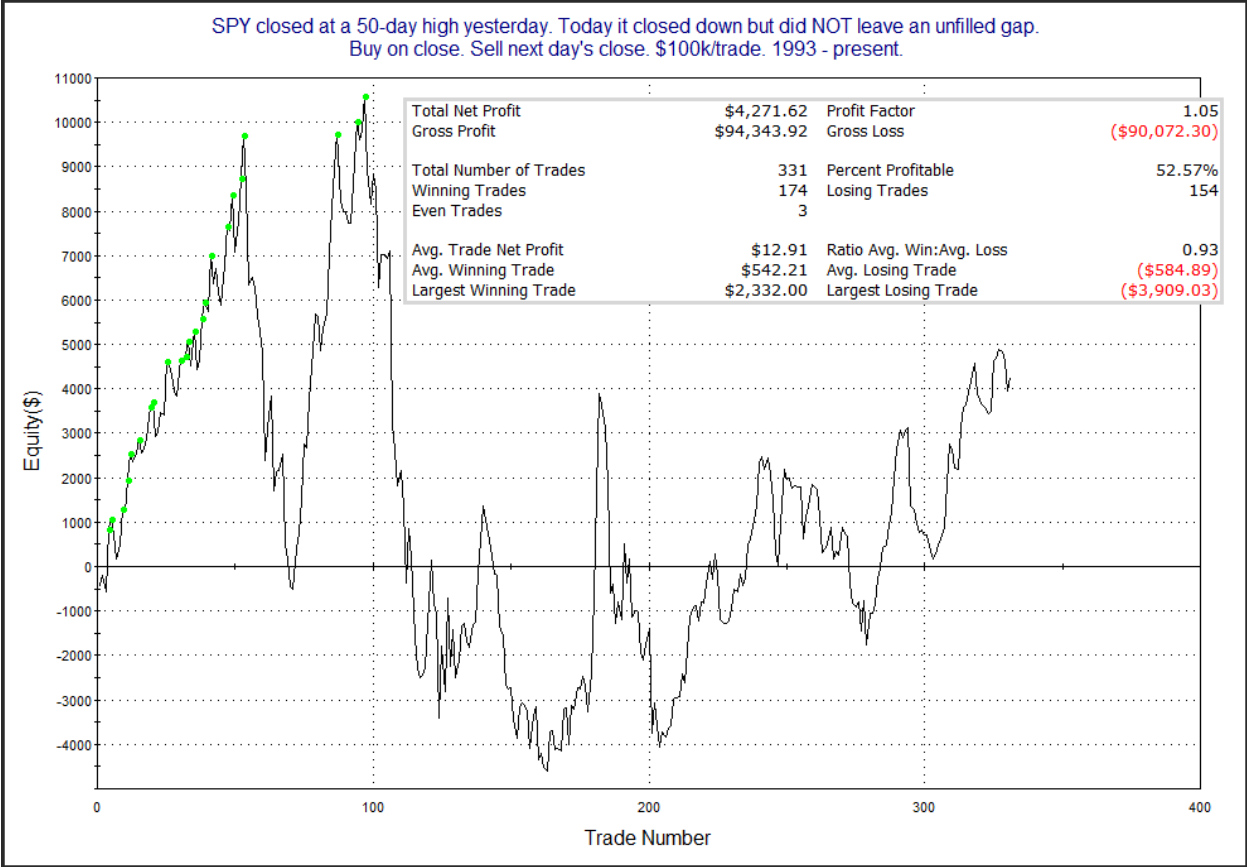
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
November 1, 2019	Unfilled gap down from 50-day high	1 day	Bearish			
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			
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			
Dropped Tonight						
October 28, 2019	SPX breakout above intraday high	1-4 days	Bullish			

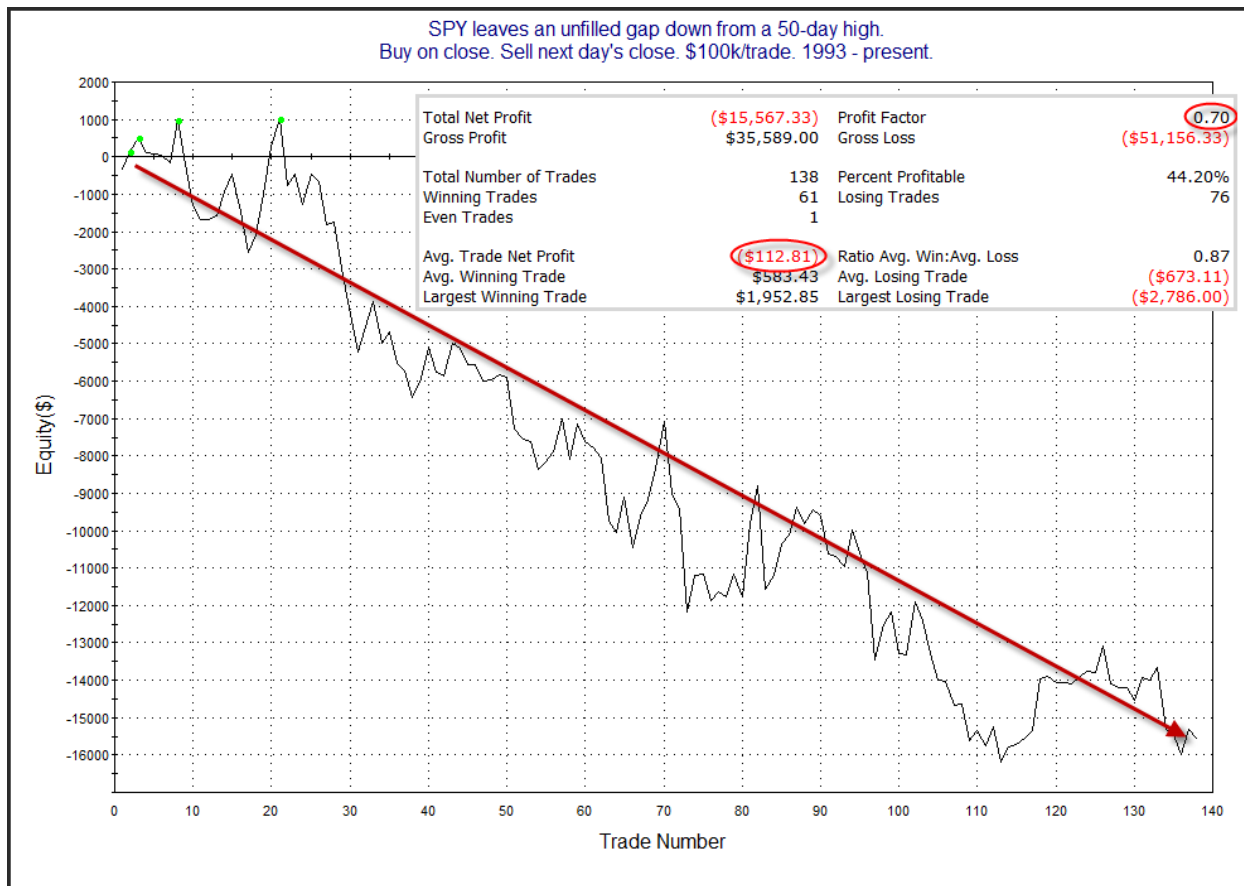
The Evidence

Thursday the market was mostly lower. The SPX lost 0.3%, the NASDAQ declined 0.1% and the Russell 2000 fell 0.7%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 31%. NYSE volume rose some from Wednesday's level.

The 1st day down from a high does not often suggest a strong edge. But when the 1st day down is accompanied by an unfilled gap, then it will often be followed by another day of selling. The unfilled gap will leave buyers from the day before with losing positions where they had no opportunity to exit. The studies below demonstrate this. They are updated from the 7/26/19 letter. The 1st one shows performance following down closes from a 50-day high that do not include an unfilled gap lower.



There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



We see here that there has been a steady propensity for the market to put in another day of selling under these circumstances. Of course the caveat for tonight is that the size of the unfilled gap was only \$0.01. Still, I have included this study on the short-term active list tonight.

Turn of the month seasonality is also worth a little discussion. Below I have copied some studies from the 9/30/19 letter. (They are not updated.)

The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They were last seen in the 6/28/19 letter, and have been updated. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

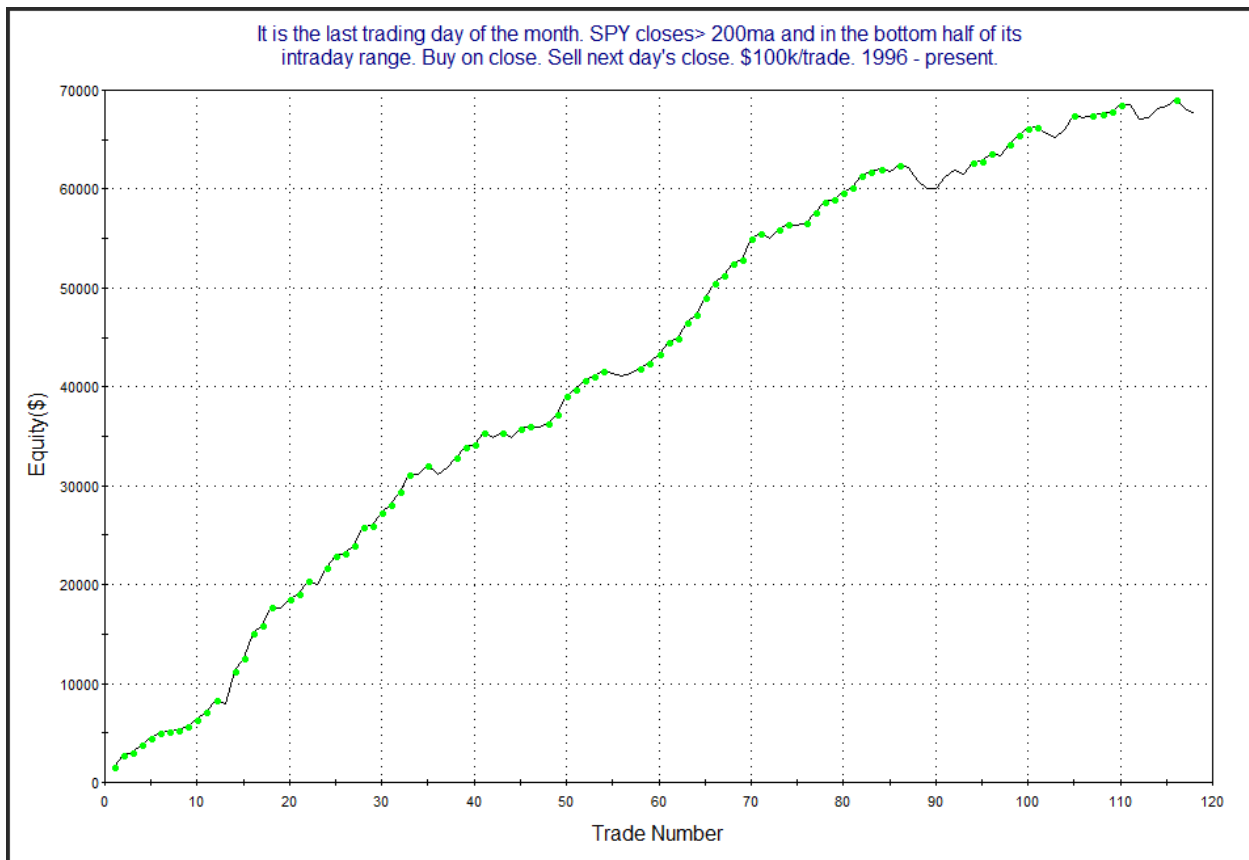
TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$67,577.32	Profit Factor	6.90
Gross Profit	\$79,036.73	Gross Loss	(\$11,459.41)
Total Number of Trades	118	Percent Profitable	77.97%
Winning Trades	92	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$572.69	Ratio Avg. Win:Avg. Loss	1.95
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$440.75)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 118 instances. Below is a profit curve.

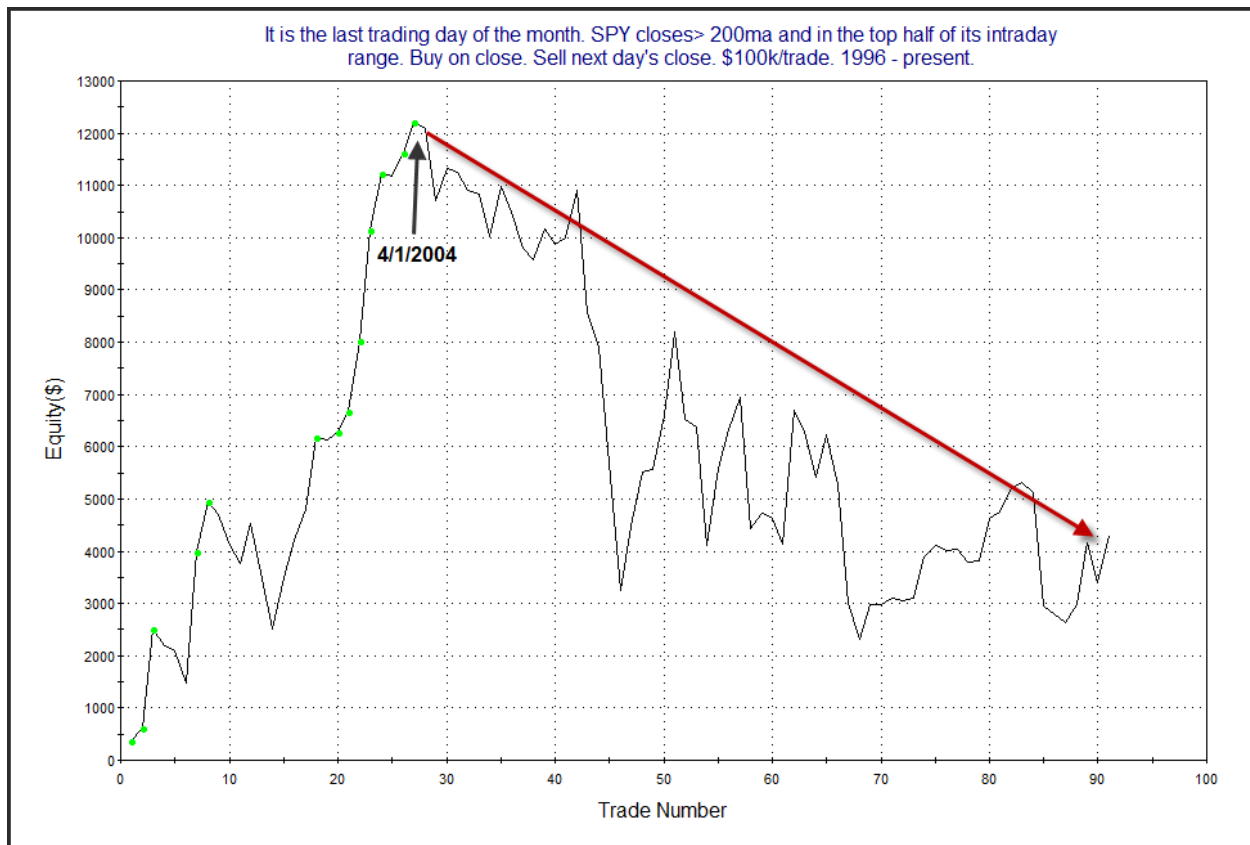


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Monday?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$4,310.30	Profit Factor	1.13
Gross Profit	\$36,992.64	Gross Loss	(\$32,682.34)
Total Number of Trades	91	Percent Profitable	52.75%
Winning Trades	48	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	\$47.37	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$770.68	Avg. Losing Trade	(\$760.05)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture.

So with SPY closing in the upper part of its range on Thursday, there does not appear to be a strong turn of month edge for Friday.

Another thing worth noting for Friday is that the employment report is due to be released in the morning. The employment report will often generate some strong reactions, and we could see the market move off this report, which will be released an hour before the NYSE open.

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



With tonight's 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 rose 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.

With the current list of studies, expectations are slated to remain positive on Friday. Compelling new bearish evidence would be needed to change this. Meanwhile, the Differential Pivot will be 3048.48 on Friday. That is 0.4% above Thursday's close. So SPX will need to close up at least 0.4% on Friday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. And there appears to be an overall upside edge. But there are still some reasons for caution. While "oversold" as measured by the Differential, the market is not oversold by most any other measures. It is only one day down from an all-time high. We saw in the study tonight that often there is another day of selling after similar gaps down from high levels. And risk is a bit elevated with the employment report capable of causing a big move on Friday. So while I think there is a bit of a bullish edge here, I will only be a buyer on Friday if SPX closes down a fair amount, meaning a multi-day pullback would be in play.

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.

SPY – Buy ¼ index position @ \$301.64 LIMIT ON CLOSE. Based on the short-term outlook above, I'll be looking to buy on Friday if SPY closes down a fair amount. The limit price I am using is just below the 10ma.

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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