

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 15, 2019

Volume 12 Issue 222

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The tight consolidation near a 50-day high suggests an upside edge.
- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- The low 3/10 Offset HV reading suggest we could see a sharp move in the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Risk seems elevated and direction is unclear. I don't view this as a very opportune setup.

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 15, 2019	SPY up < 0.25%, but top 10% daily rng	1 day	Bearish			
November 15, 2019	50-high then 5-day consolidation	1-3 days	Bullish	1.10%	-0.70%	-1.35%
Active - Long Term						
November 11, 2019	"not QE"	int term	Bullish			
November 5, 2019	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 4, 2019	Presidential cycle + Best 6 mos bullish	6 months	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

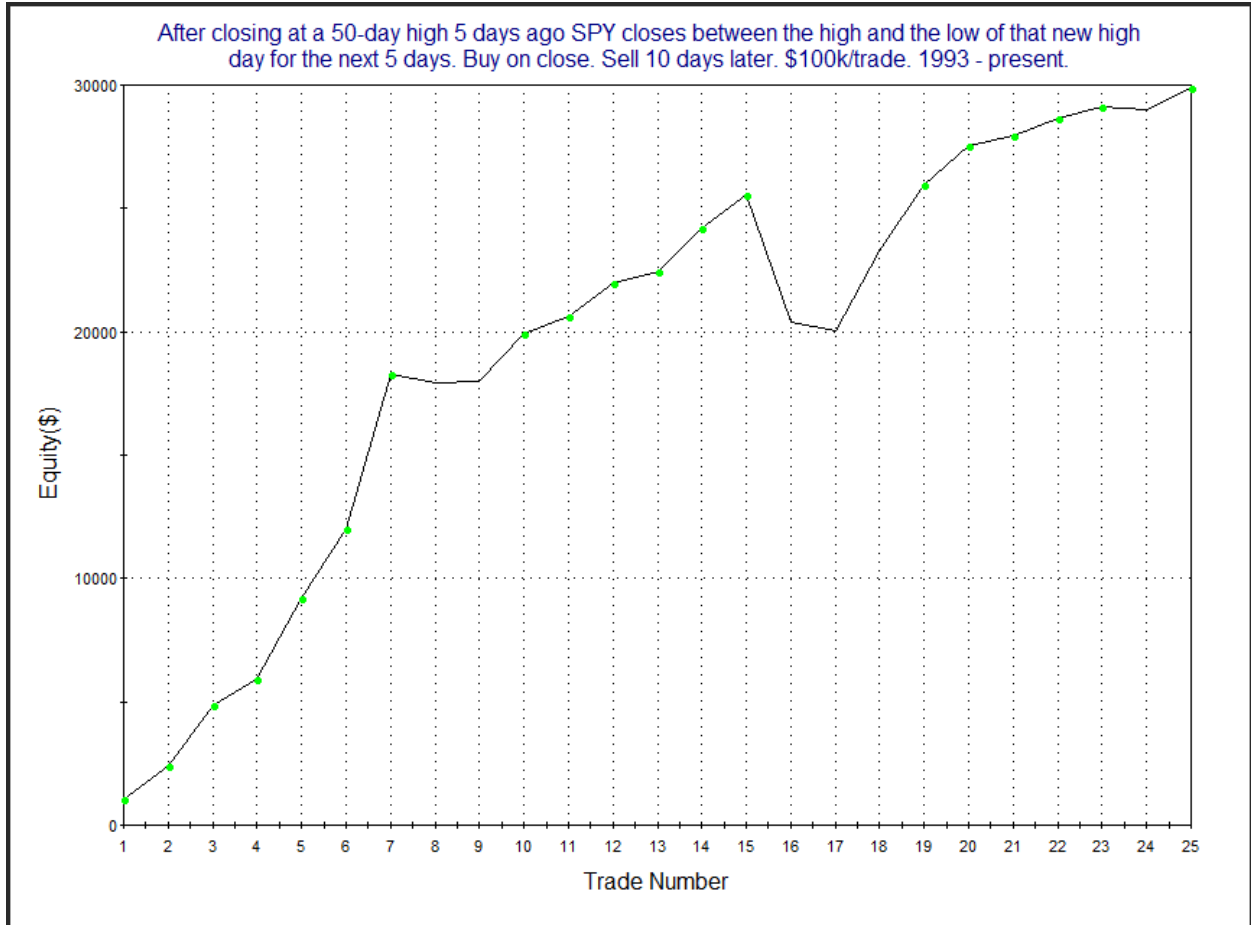
Thursday was mixed and mild. The SPX closed up while the NASDAQ and Russell 2000 closed down – all by less than 0.1%. Breadth was also mixed as the NYSE Up Issues % was 52% and the Up Volume % came in at 39%. NYSE volume declined from Wednesday’s level.

The range over the last week has been extremely tight. Every SPY close in the 5 days since 11/7 has been within the daily range of that 11/7/19 bar. It is said that consolidations are often resolved in the direction of the trend. This guideline suggests that we’re more likely to see another leg up from here than a breakdown. The study below tests this concept. It was last seen in the 6/12/17 letter and has been updated.

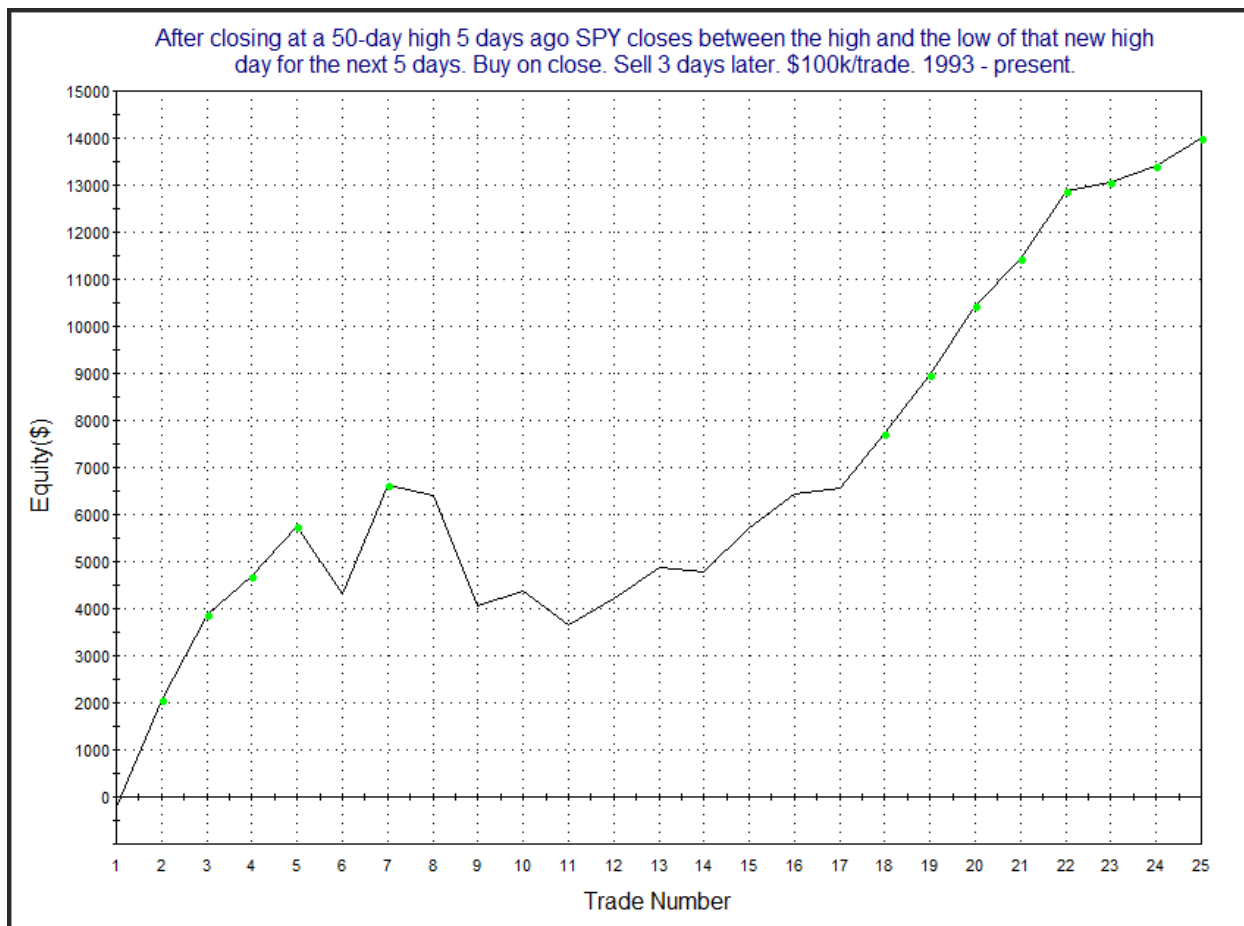
After closing at a 50-day high 5 days ago SPY closes between the high and the low of that new high day for the next 5 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	29,904.72	25	21	4	84.00	6,287.04	-5,182.56	1,710.17	-1,502.23	1.14	5.98	1,196.19
9	27,816.80	25	22	3	88.00	6,322.56	-2,251.44	1,406.02	-1,038.54	1.35	9.93	1,112.67
8	26,030.22	25	21	4	84.00	6,287.04	-2,060.28	1,459.97	-1,157.31	1.26	6.62	1,041.21
7	18,077.25	25	19	6	76.00	5,339.84	-3,472.29	1,352.06	-1,268.65	1.07	3.37	723.09
6	11,329.22	25	17	8	68.00	3,362.56	-2,992.38	1,214.25	-1,164.12	1.04	2.22	453.17
5	12,320.67	25	14	11	56.00	3,031.04	-2,425.20	1,439.65	-712.22	2.02	2.57	492.83
4	14,566.85	25	17	8	68.00	2,806.08	-1,541.60	1,152.56	-628.33	1.83	3.90	582.67
3	14,008.37	25	19	6	76.00	2,296.96	-2,368.80	1,001.19	-835.71	1.20	3.79	560.33
2	7,339.54	26	18	7	69.23	1,817.10	-1,627.93	747.58	-873.84	0.86	2.20	282.29
1	918.28	26	14	12	53.85	1,433.49	-1,100.97	496.03	-502.18	0.99	1.15	35.32

- 23 of 26 instances (88%) closed above the entry price within 3 days.
 - All instances closed above the entry price at some point in the next 2 weeks.
 - 23 of 26 instances (88%) also closed at a new 50-day high within the next 2 weeks.

It certainly appears to confirm the old technical adage. Results favor the long side over the immediate 3-day period and they are even more impressive when looking out 8 to 10 days. Below are some equity curves to see how the edge has played out over time. First, the 10-day.

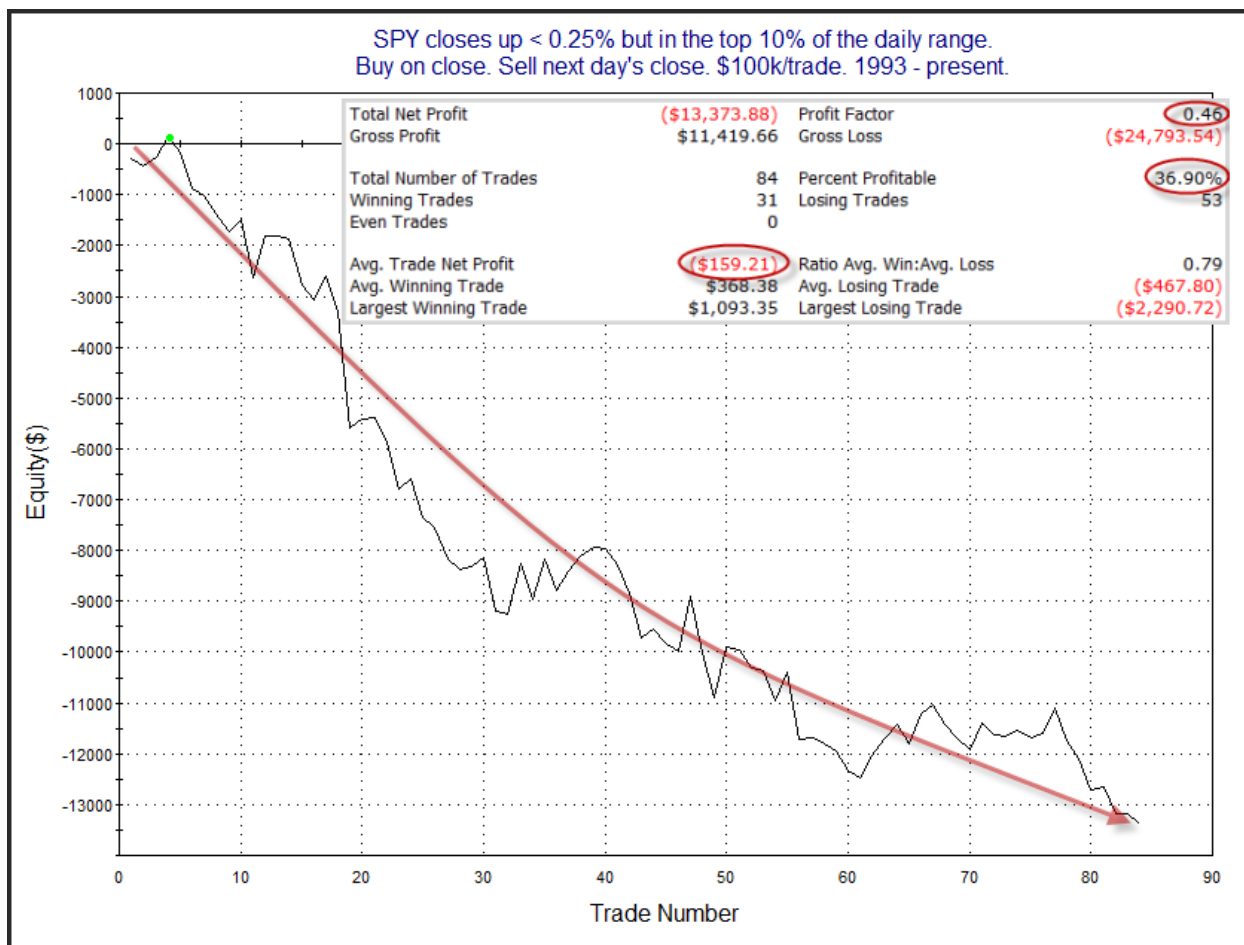


The persistent move from lower left to upper right serves as some confirmation of the upside edge. Next is the 3-day curve.



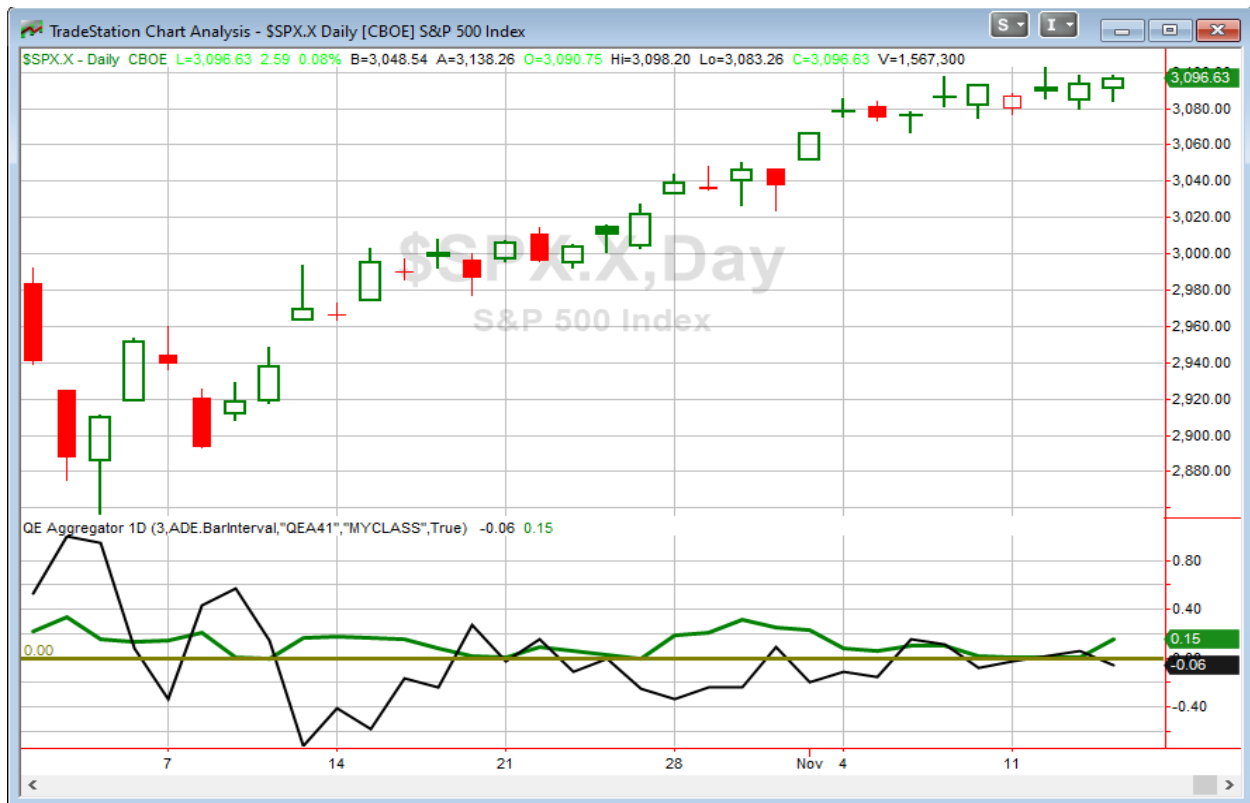
While mostly up the curve is a bit choppy. Of the 5 losses, two of them were fairly large. This suggests perhaps a little more risk in this setup than in some others we examine. Over the 3-day period the average run-up was 1.1% and the average drawdown was 0.7%. That is a comparatively large drawdown. It isn't very surprising though. Risks tend to be higher when you are trading near the upper end of a range. And a tight consolidation near a 50-day high seems to qualify. I will also note that the last 11 instances have all been winners. All considered, I find this study appealing and believe it is worth considering over both very short and intermediate-term timeframes.

But I also saw some bearish evidence emerge tonight. The study below suggests that when SPY closes strong (in the top 10% of its intraday range) but still only manages a small gain on the day, the next day has shown a downside tendency. It appeared just a few days ago in the 11/11 letter. I have updated the stats and the profit curve.



This bearish edge has persisted since the inception of SPY in 1993. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have also added this study to the Active List tonight.

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



With the mix of evidence seen tonight, the green Aggregator Line again remained just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dipped 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.

Based on the current list of active studies, expectations are set to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3092.86 on Friday. That is 0.1% below Thursday's close. So SPX will only need to close down about 0.1% in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is now neutral. I am too. For the very short-term, expectations for Friday are actually slightly negative, and that is reflected in the 1-day outlook at the top of the letter. But the 3-day expectations are higher as I laid out above. The tight consolidation we have seen makes it possible a move in either direction right now could be quite sharp. This is not only evident with the 1st study above, but the QE 3/10 Offset HV indicator also came in very low, indicating strong potential for a big move in the next few days. I'm not overly confident in which direction it will occur. So I will wait and look to perhaps play off this next move if it triggers in the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/11 – bullish

The intermediate-term outlook was last updated in the 11/11/19 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 tonight.

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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