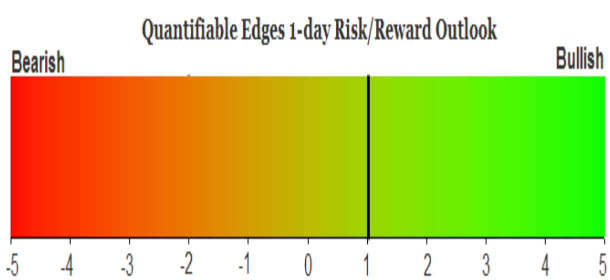
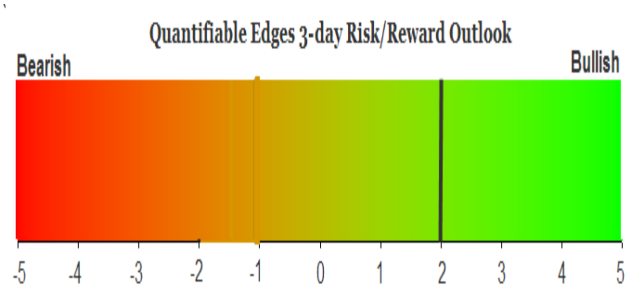
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2020 Volume 13 Issue 19

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	8

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.
- The Fed Day setup is not very appealing.

Short-term Outlook
The Bottom Line

The Aggregator is bullish, but with Fed Day uncertainty I am inclined to take profits on my current index position.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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						
January 29, 2020	10-low. Unfilled gap up and close < 10	1-5 days	Bullish			
January 28, 2020	1st 10-low in 30 days	1-8 days	Bullish			
January 28, 2020	VIX 35% above 10ma	1-2 days	Bullish			
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%
January 27, 2020	SPY system 11111	1-3 days	Bullish			
January 23, 2020	20-high close in bottom 10% intraday	1-6 days	Bullish	1.50%	-1.00%	-2.00%
Active - Long Term						
January 27, 2020	1st close < 10ma in over 25 days	1-19 days	Bullish	3.90%	-1.60%	-4.20%
January 17, 2020	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 11, 2019	"not QE"	int term	Bullish			
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

Tuesday saw the market bounce ahead of the big Fed announcement on Wednesday. The SPX rose 1.0%, the NASDAQ rallied 1.4% and the Russell 2000 gained 0.9%. Breadth was negative as the NYSE Up Issues % was 70% and the Up Volume % came in at 73%. NYSE volume declined some from Monday's level.

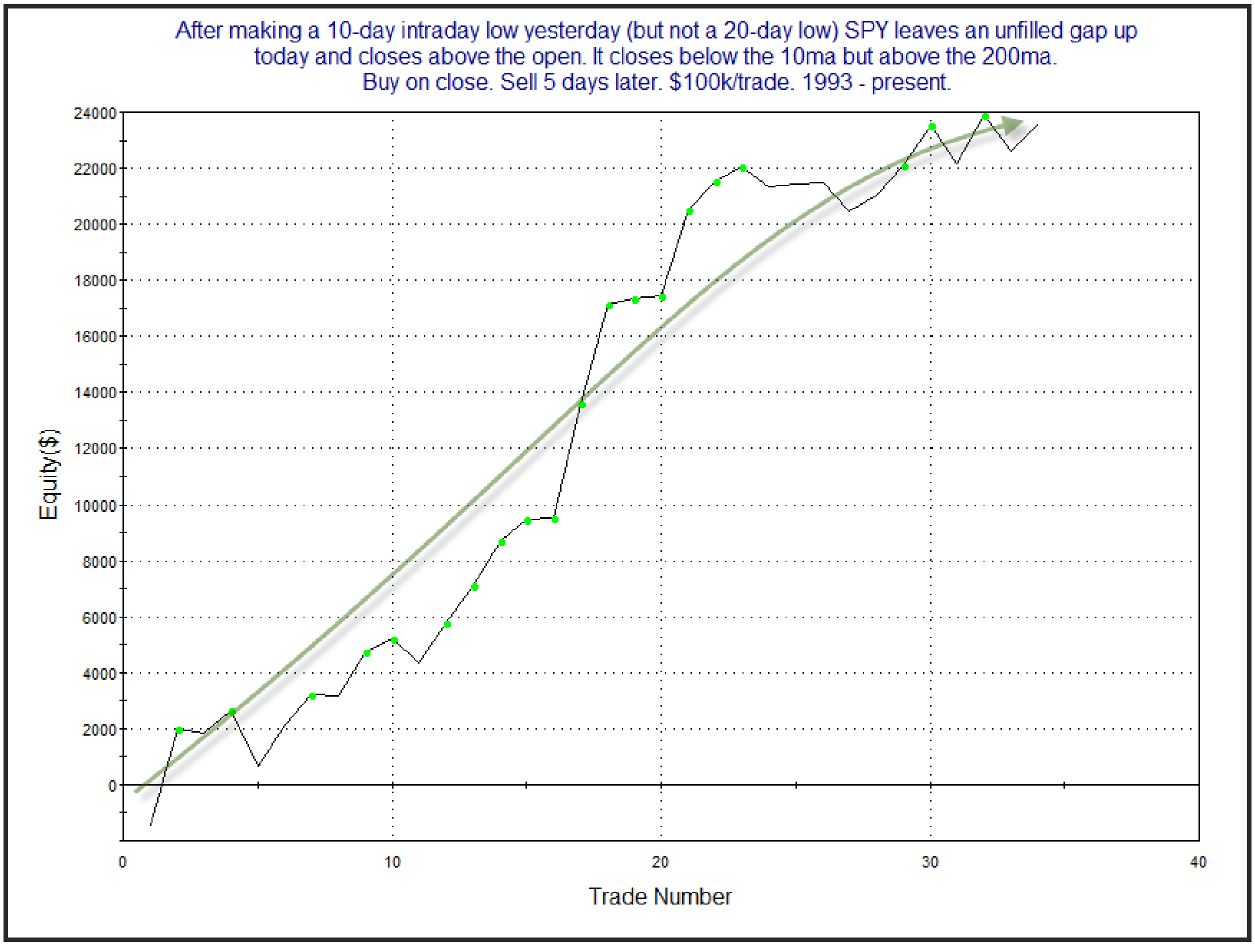
Monday's rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 10/1/19 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. 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	23,593.47	34	25	9	73.53	4,106.63	-1,949.70	1,294.27	-973.70	1.33	3.69	693.93
4	22,913.57	34	23	11	67.65	3,904.83	-2,096.99	1,408.06	-861.08	1.64	3.42	673.93
3	14,366.74	35	22	13	62.86	3,914.92	-2,133.60	1,172.05	-878.33	1.33	2.26	410.48
2	7,277.55	35	20	15	57.14	2,828.00	-2,926.56	1,141.69	-1,037.09	1.10	1.47	207.93
1	498.44	35	18	16	51.43	1,773.46	-2,895.33	750.53	-813.20	0.92	1.04	14.24

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

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 5-day holding period.



Despite a few recent failures, the strong upslope is impressive and the curve is near new highs.

Also in the 10/1/19 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today
and closes above the open. It closes below the 10ma but above the 200ma.
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	4,829.98	36	19	17	52.78	3,178.32	-3,739.32	1,768.45	-1,692.39	1.04	1.17	134.17
4	3,508.36	38	22	16	57.89	2,950.20	-2,880.28	1,350.01	-1,636.99	0.82	1.13	92.33
3	192.41	40	21	19	52.50	3,306.24	-3,070.92	1,130.29	-1,239.14	0.91	1.01	4.81
2	-2,662.81	42	22	20	52.38	3,089.76	-2,818.42	1,067.89	-1,307.82	0.82	0.90	-63.40
1	-2,272.03	42	17	25	40.48	2,470.05	-1,777.90	879.86	-689.19	1.28	0.87	-54.10

In the 10/1/19 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up
today and closes above the open. It closes ***above*** the 10ma and above the 200ma.
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: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,899.51	21	11	10	52.38	869.86	1,753.14	-1,346.79	-3,691.98	0.65	0.71	-185.69
4	-1,323.25	21	11	10	52.38	649.26	1,903.47	-846.51	-1,788.75	0.77	0.84	-63.01
3	-4,285.02	21	10	11	47.62	642.61	1,393.05	-973.73	-2,475.20	0.66	0.60	-204.05
2	-2,630.12	21	10	11	47.62	604.06	1,325.28	-788.25	-2,293.20	0.77	0.70	-125.24
1	-5,777.61	21	8	13	38.10	465.78	949.00	-731.07	-2,591.68	0.64	0.39	-275.12

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

Of course Wednesday is a Fed Day. I wrote a good amount about Fed Days last night, so I won't repeat it all here. I noted in the studies posted last night that Fed Days have done substantially better when SPY closes low in its range. Tuesday saw SPY close in the top quartile, which has not been a good thing. Below are the top quartile results I showed last night.

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.

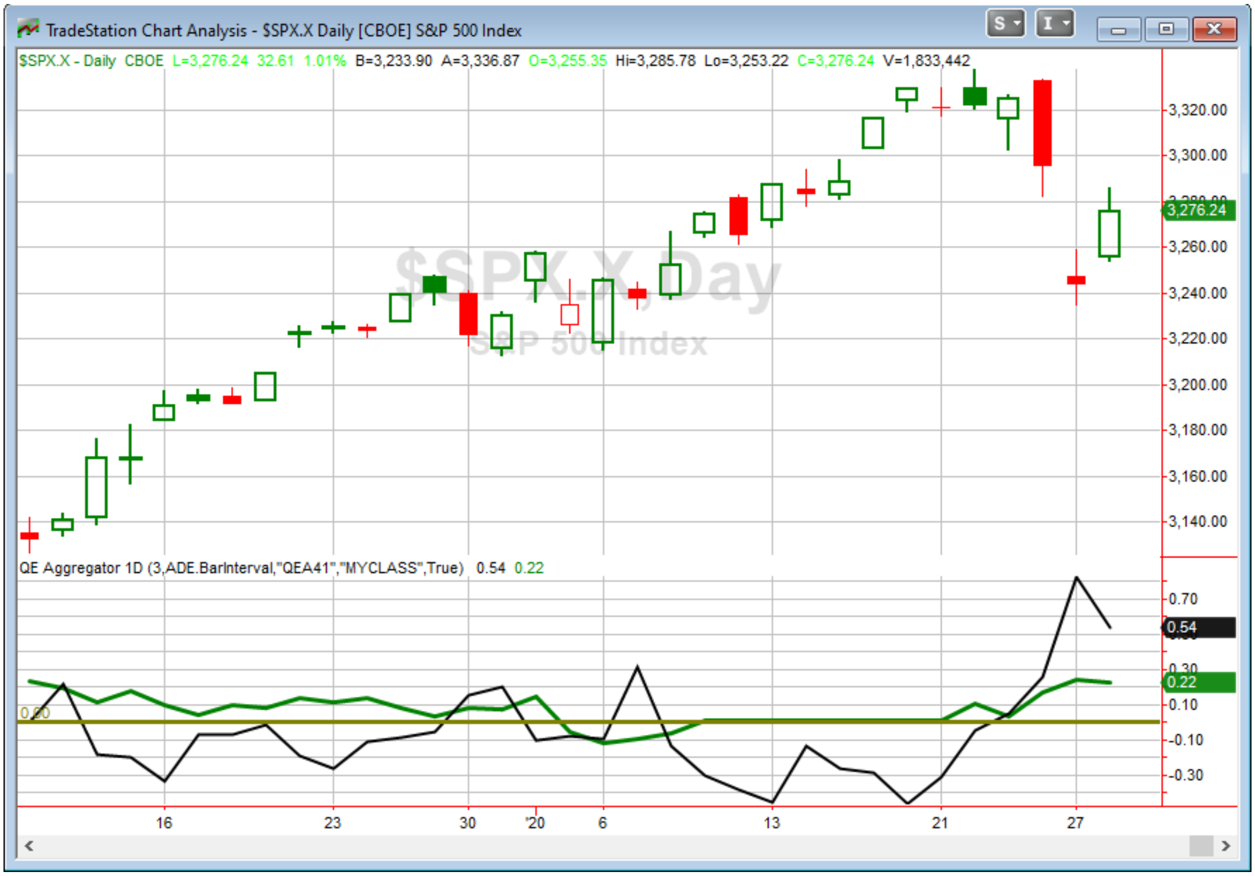
TradeStation Performance Summary Expand

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)

When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the typical Fed Day edge. So I am not viewing this as a bullish Fed Day edge for Wednesday.

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 is still very far above 0. The positive Differential Line reading means SPX is (strongly) oversold versus recent expectations. So expectations are positive and SPX is still oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Wednesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3304.83 on Wednesday. That is 0.9% above Tuesday's close. So SPX will need to close up at least 0.9% on Wednesday in order to flip from oversold to overbought versus expectations.

So the Aggregator is still suggesting an upside edge. Short-term evidence has been dominated by bullish studies, and despite the bounce on Tuesday, SPX still needs to go a bit further to reach short-term "overbought". But the Fed is a wildcard. The record under Powell has not been great, and a strong reaction could go either way for a day or so. So I am inclined to look to take profits on my SPY index position prior to the Fed announcement if I can get a solid fill. If the reaction to the Fed does cause a selloff, I might be buying right back in tomorrow. A strong positive reaction is probably something I would sell at the close anyway.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/27 – bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

OXY – 1/3 @ $43.29 (bought at limit)
OXY – 1/3 @ $42.52 (bought at limit)
OXY – 1/3 @ $42.22 (bought at limit)
AGN – 1/3 @ $188.19 (buy at limit) – not filled / cancel for now
C – 1/3 @ $76.71 (buy at limit) – not filled / cancel for now
FB – 1/3 @ $214.87 (bought at limit)
NKE – 1/3 @ $100.24 (bought at limit)
WFC – 1/3 @ $47.10 (buy at limit) – not filled / cancel for now

Broad Market Large Cap CBI – 8(OXY-3, AGN, C, FB, NKE, WFC)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
OXY(1/3)	1/23/2020	$42.62	$41.20	-3.33%		Catapult
OXY(1/3)	1/24/2020	$42.47	$41.20	-2.99%		Catapult
OXY(1/3)	1/27/2020	$41.02	$41.20	0.44%		Catapult
SPY(1/4)	1/27/2020	$323.03	$326.89	1.19%		see note below
FB(1/3)	1/28/2020	$214.87	$217.79	1.36%		Catapult
NKE(1/3)	1/28/2020	$100.24	$100.41	0.17%		Catapult

I will look to exit SPY if I can get a favorable fill on Wednesday before the Fed Announcement. This means I will SELL AT $327.15 LIMIT. If not filled by 2pm, I will lower the price to SELL @ $325.75 LIMIT at 2pm. If still not filled, I will just cancel the order and hold my index position through the close.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.