

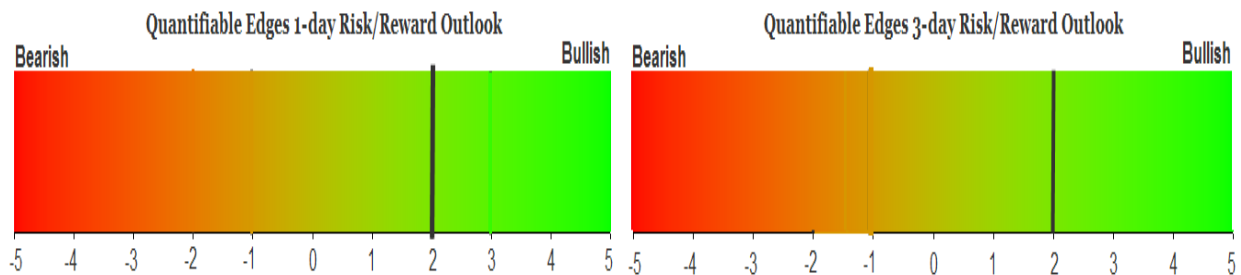
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 21, 2021

Volume 14 Issue 138

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

Short-term Outlook

The Bottom Line

The Aggregator is still bullish. More is expected of this bounce, but I am not seeing confirming evidence tonight.

The Evidence

The market put in a pretty good rebound on Tuesday. The SPX rose 1.5%, the NASDAQ gained 1.6%, and the Russell 2000 rallied 3.0%. Breadth was positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 91%. NYSE total volume declined some from Monday's level.

The rally was accompanied by a sizable drop in the VIX (and even more so for the VXO, which is the old calculation for the VIX). In the 7/9/18 letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-23,591.44	30	17	13	56.67	6,915.44	-14,619.60	2,272.59	-4,786.57	0.47	0.62	-786.38
4	-41,659.56	32	15	17	46.88	4,104.78	-10,971.63	1,796.46	-4,035.68	0.45	0.39	-1,301.86
3	-44,200.96	33	11	22	33.33	4,667.18	-11,265.12	1,578.27	-2,798.27	0.56	0.28	-1,339.42
2	-50,430.92	33	10	23	30.30	3,193.10	-9,455.49	1,171.26	-2,701.89	0.43	0.19	-1,528.21
1	-32,452.13	33	8	25	24.24	2,404.65	-11,696.04	890.80	-1,583.14	0.56	0.18	-983.40

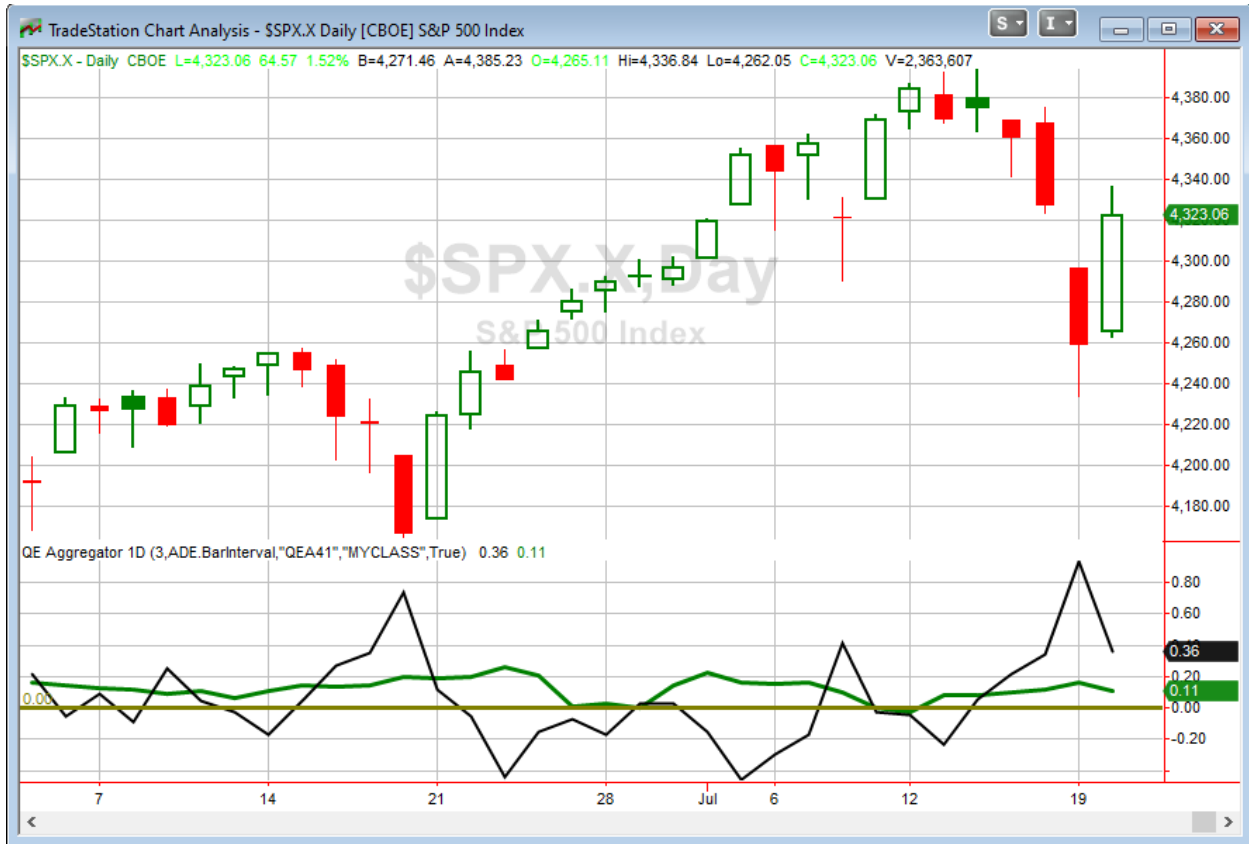
We see here some bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

But now let's consider times like the present where SPX is in an uptrend.

VXO closes down over 15%. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-3,779.45	70	36	34	51.43	5,396.71	-10,997.44	1,513.18	-1,713.35	0.88	0.94	-53.99
4	2,348.31	75	41	34	54.67	3,394.72	-3,771.52	1,165.16	-1,335.98	0.87	1.05	31.31
3	3,039.94	77	41	36	53.25	3,276.14	-3,629.81	1,179.36	-1,258.72	0.94	1.07	39.48
2	-5,768.57	81	43	38	53.09	3,075.73	-5,300.66	1,038.16	-1,326.57	0.78	0.89	-71.22
1	-10,913.60	86	42	44	48.84	2,842.84	-3,724.42	753.30	-967.09	0.78	0.74	-126.90

Here there is no hint of a short-term bearish inclination. The numbers are instead basically neutral across the board.

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



Without any new studies making the cut, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means that 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 formation stayed long at the close.

Based on the current active list, expectations are set to remain positive on Wednesday. This could certainly change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 4339.03 on Wednesday. That is 0.4% above Tuesday's close. Therefore, SPX will need to close up at least 0.4% if it is to flip from oversold to overbought vs recent expectations on Wednesday afternoon.

So the bounce we were looking for has arrived. Nothing terribly compelling emerged tonight suggesting it would continue, nor anything saying it was likely to quickly roll over. The active studies are still looking for more upside, and the market remains a little oversold. So I'll hold onto my current long index positions, but will take profits on Wednesday afternoon if SPX closes above the Differential Pivot.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/19 – somewhat bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

WBA – 1/3 @ \$45.58 (buy @ limit)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/16/2021	\$431.34	\$431.06	-0.06%		sell SPX close > 4339.02
SPY(1/4)	7/16/2021	\$424.97	\$431.06	1.43%		sell SPX close > 4339.02
LRCX	7/19/2021	\$577.99	\$607.09	5.03%		Sell on close > \$609.41
WBA(1/3)	7/20/2021	\$45.58	\$46.06	1.05%		Catapult

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