

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 4, 2021

Volume 14 Issue 148

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Back to back outside days in SPY have almost always been followed by short-term gains. And having occur with a short-term high seems to be an additional positive.
- The reversal from short-term low to high is giving mixed messages.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but time is running out. The Differential Pivot is inverted, so SPX will be overbought on Wednesday unless it closes down a bit.

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						
August 4, 2021	5-low yest. 50-high today	1-2 days	Bearish			
August 4, 2021	5 intraday low and 5-hi close	1-5 days				
August 4, 2021	Today and yest outside days	1-4 days	Bullish			
August 3, 2021	5-low bottom range on Monday > 200	1-5 days	Bullish	2.10%	-1.05%	-2.15%
July 29, 2021	Fed Day. SPX down 2+ days	1-6 days	Bullish			
Active - Long Term						
July 8, 2021	Russell btm 25% 20-day rng. SPX top 25%	1- 40 days	Bullish			
July 6, 2021	SPX 200 hi. Mc Osc < 0 12 days in row	1-45 days	Bearish	-6.50%	2.45%	4.50%
June 28, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.80%
June 14, 2021	NASDAQ leading	int term	Bullish			
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
April 22, 2021	% of SPX stocks > 100ma exceeds 94%	int term	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

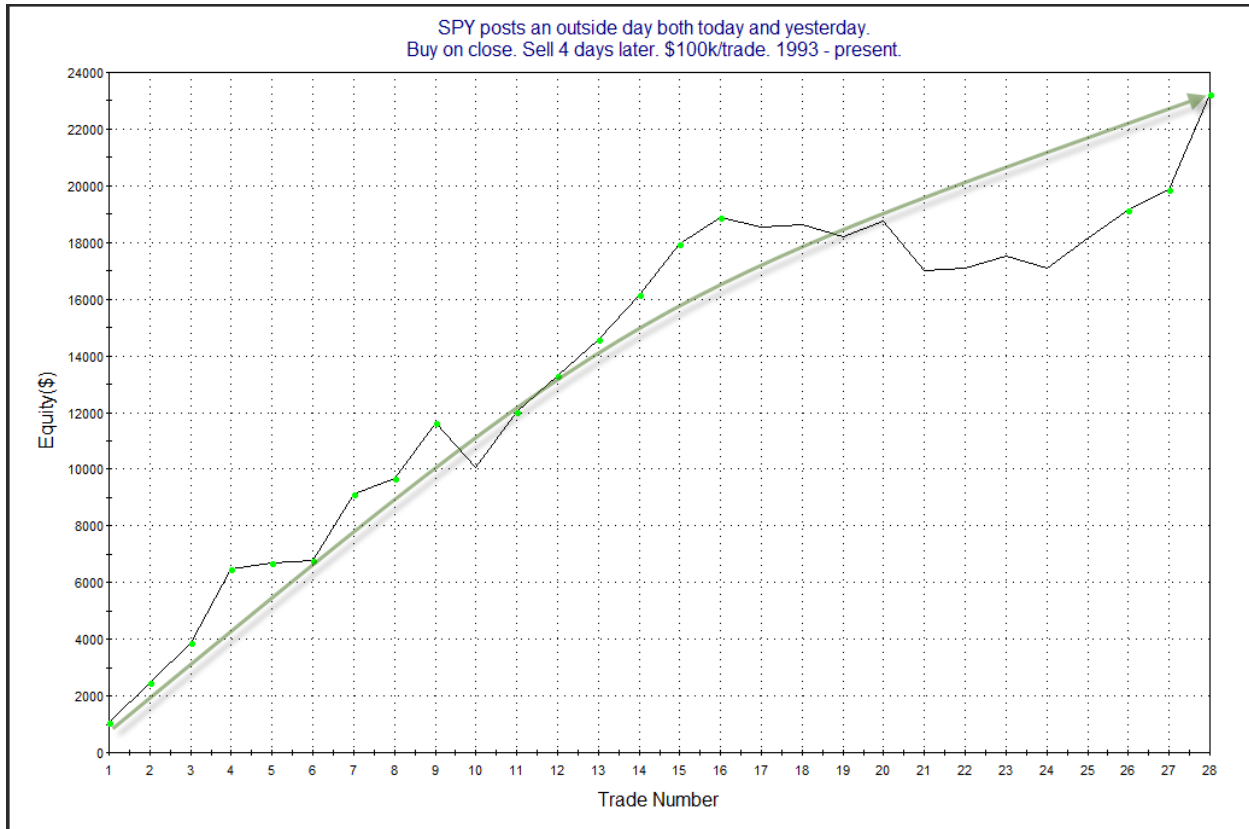
The Evidence

A rough start Tuesday reversed and turned into a strong close. The SPX finished up 0.8%, the NASDAQ rose 0.55%, and the Russell 2000 gained 0.4%. Breadth was positive with the NYSE Up Issues % coming in at 60% and the Up Volume % at 66%. NYSE total volume rose some from Monday's level.

Notable about Tuesday's action is that it marked the 2nd day in a row that SPY posted an outside day. (An outside day is a day where the security or index makes a higher high and a lower low than the day before.) I last discussed back-to-back outside days in the 7/28/16 letter. I have updated those results below.

SPY posts an outside day both today and yesterday. 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	25,335.04	28	21	7	75.00	3,826.52	-2,621.04	1,446.52	-720.26	2.01	6.02	904.82
4	23,246.96	28	23	5	82.14	3,379.37	-1,736.64	1,205.95	-897.98	1.34	6.18	830.25
3	21,198.19	28	21	7	75.00	3,447.12	-1,475.32	1,254.15	-734.15	1.71	5.12	757.08
2	8,841.90	28	16	12	57.14	1,779.33	-1,902.99	966.64	-552.02	1.75	2.33	315.78
1	6,007.74	28	16	12	57.14	1,585.08	-1,221.57	678.89	-404.55	1.68	2.24	214.56
The only instance NOT to post a higher close at some point in the next week triggered on 1/3/2005.												

The numbers look very impressive. Most of the upside edge has been realized in the 1st 4 days. Below is a profit curve using a 4-day holding period.



The move up is impressive and encouraging for the bullish case. In the 10/31/19 letter added another filter to that study to see times there were multiple outside days and SPY closed at a 10-day high. Updated 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	9,513.77	8	6	2	75.00	3,826.52	-686.34	1,745.74	-480.34	3.63	10.90	1,189.22
4	8,638.71	8	8	0	100.00	2,617.44	0.00	1,079.84	0.00	100.00	100.00	1,079.84
3	12,181.08	8	7	1	87.50	3,447.12	-509.66	1,812.96	-509.66	3.56	24.90	1,522.64
2	6,902.94	8	7	1	87.50	1,749.06	-584.61	1,069.65	-584.61	1.83	12.81	862.87
1	2,635.78	8	5	3	62.50	1,387.52	-929.38	769.01	-403.08	1.91	3.18	329.47

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 3 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)
10/30/2019	Buy	\$304.14	1.06%	\$1,266.08
11/4/2019	Sell	\$307.37		(\$790.48)

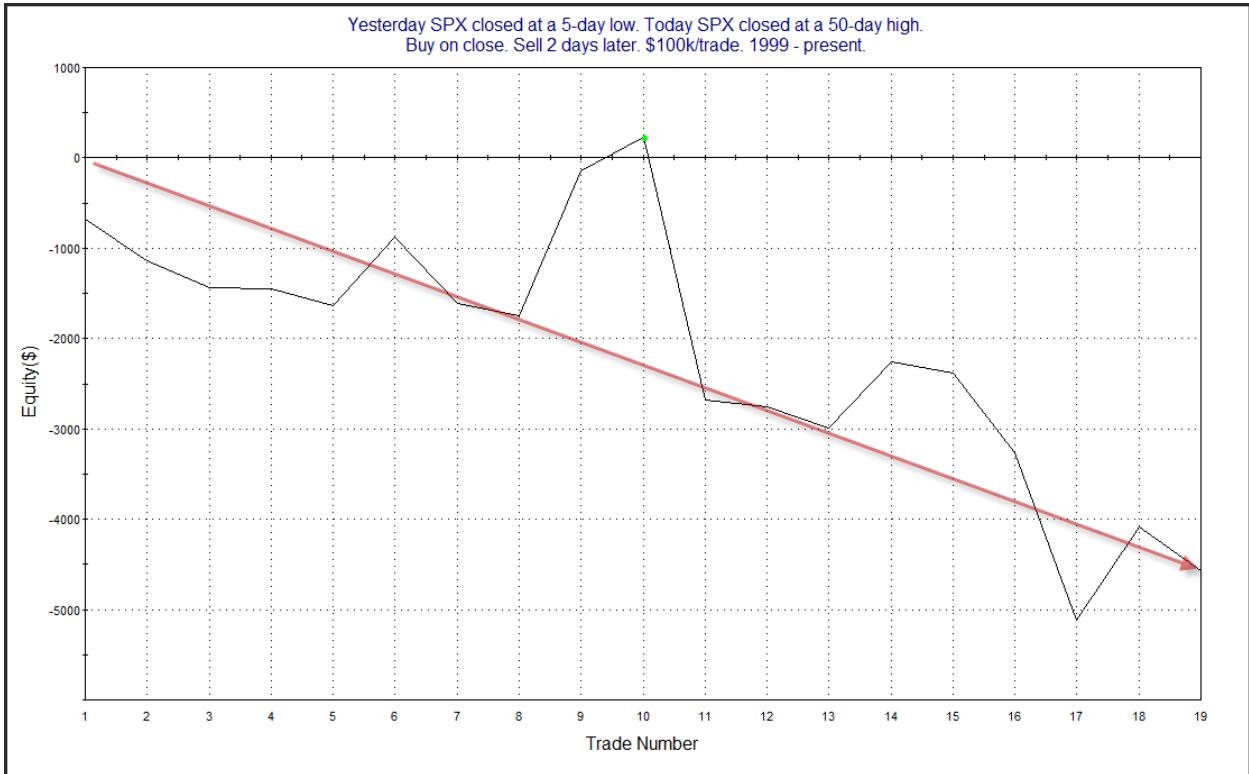
I don't see anything alarming here. While I don't often consider studies with such low instances, the broader study also suggested an upside edge, and the numbers could not be better for this one. So I have a bit more confidence in the edge.

Another notable about the action on Tuesday was that it took us from a short-term low to a high. This was noted in a couple of studies – and they had conflicting messages. Let's first look at the bearish SPX study.

Yesterday SPX closed at a 5-day low. Today SPX closed at a 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-11,738.54	19	9	10	47.37	2,053.50	-4,993.16	962.60	-2,040.19	0.47	0.42	-617.82
4	-11,274.64	19	7	12	36.84	1,921.04	-4,596.70	1,002.99	-1,524.63	0.66	0.38	-593.40
3	-7,287.90	19	9	10	47.37	1,908.90	-5,028.42	877.86	-1,518.86	0.58	0.52	-383.57
2	-4,571.03	19	5	14	26.32	1,603.88	-2,902.50	902.91	-648.97	1.39	0.50	-240.58
1	-2,033.98	19	9	10	47.37	747.75	-1,214.72	363.63	-530.67	0.69	0.62	-107.05

We see here that moves from a short-term low one day to a long-term high the next day has often been followed by a brief pullback. Below is a look at the 2-day profit curve.



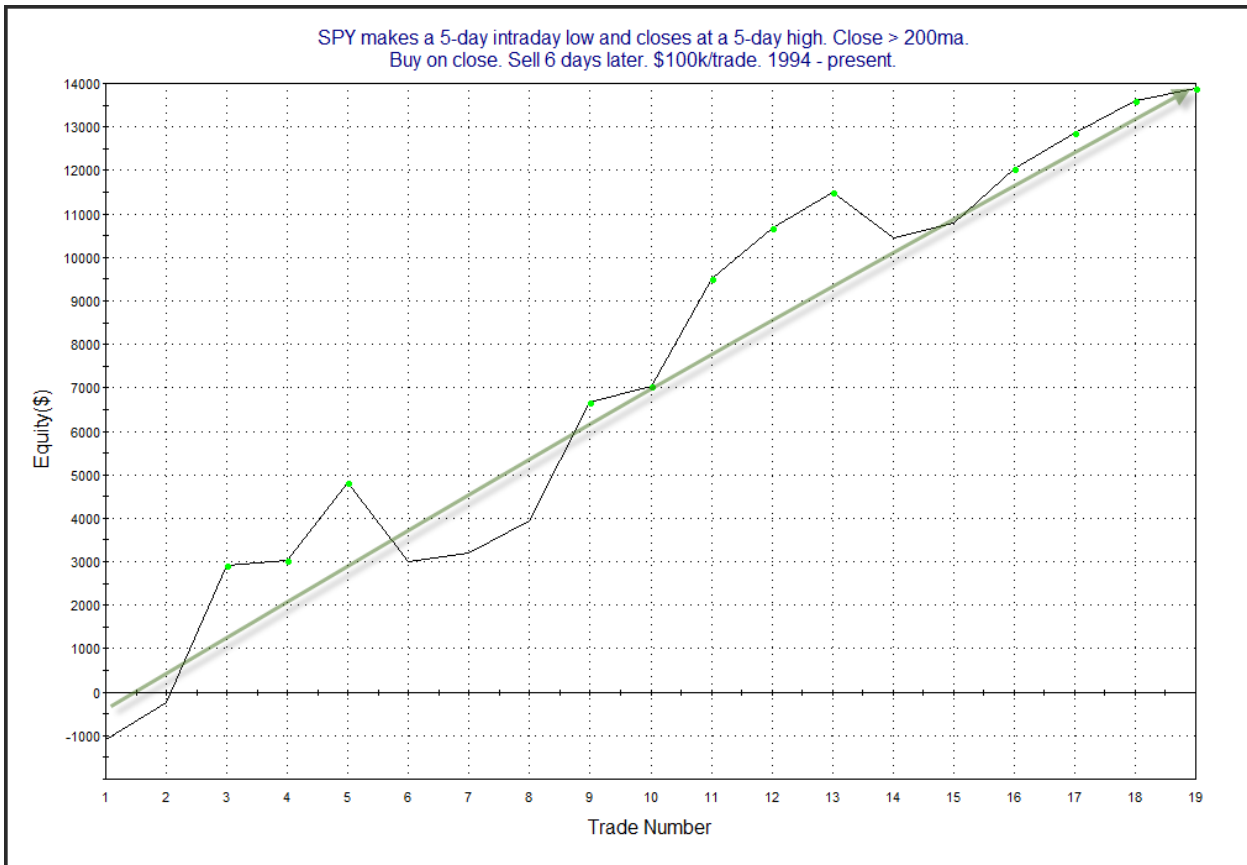
Choppy, but suggestive of a possible downside edge.

But as I mentioned the reversal also triggered some bullish evidence. Below is a study I looked at this afternoon that noted SPY moved from a 5-day intraday low to a 5-day closing high.

SPY makes a 5-day intraday low and closes at a 5-day high. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1994 - present.

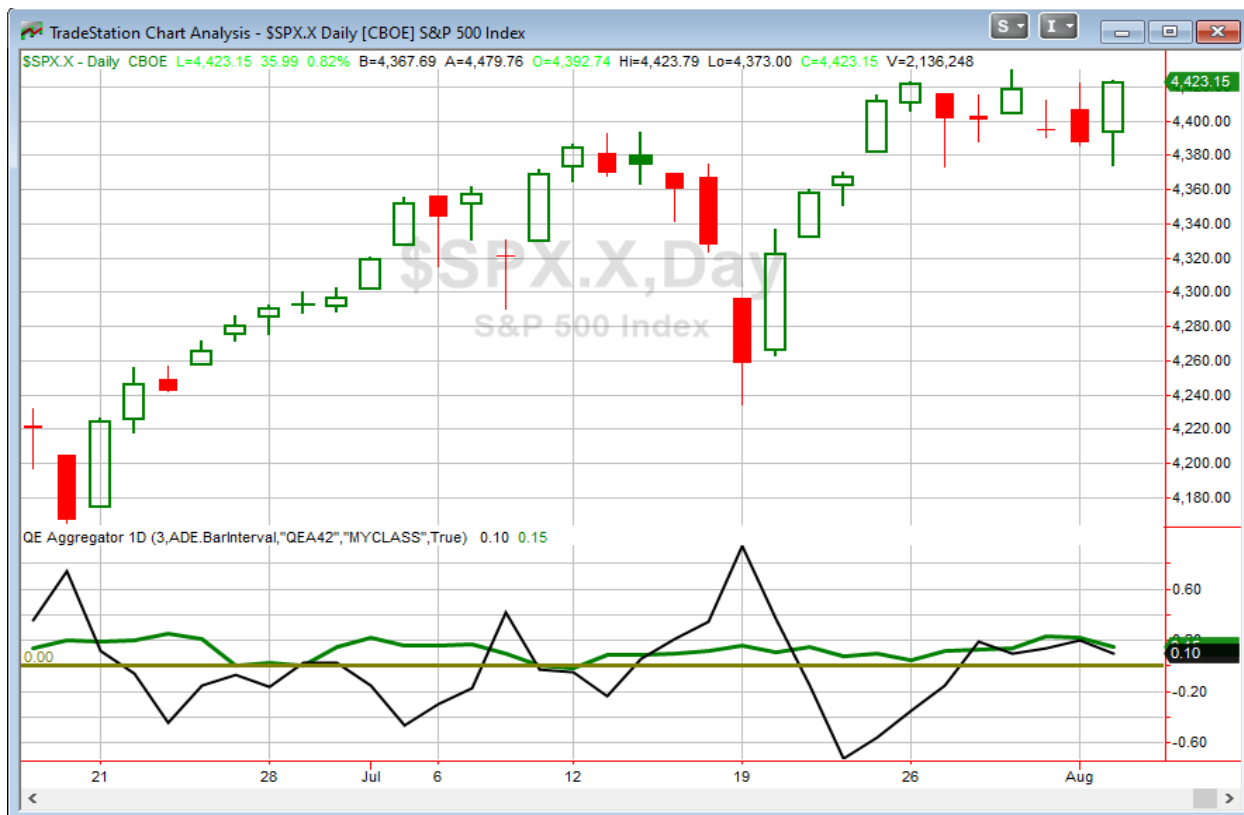
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	11,783.81	18	11	7	61.11	5,246.20	-4,342.14	1,921.50	-1,336.11	1.44	2.26	654.66
9	12,649.94	18	11	7	61.11	4,258.68	-5,665.25	1,875.66	-1,140.33	1.64	2.58	702.77
8	13,188.94	18	13	5	72.22	4,412.98	-4,137.46	1,592.06	-1,501.58	1.06	2.76	732.72
7	15,926.36	19	14	5	73.68	3,718.63	-2,492.71	1,444.18	-858.43	1.68	4.71	838.23
6	13,882.43	19	16	3	84.21	3,147.72	-1,827.50	1,115.74	-1,323.12	0.84	4.50	730.65
5	12,082.56	19	14	5	73.68	2,931.70	-1,423.08	1,155.38	-818.56	1.41	3.95	635.92
4	8,748.73	19	12	7	63.16	3,055.14	-2,054.11	1,182.97	-778.12	1.52	2.61	460.46
3	6,230.32	19	11	8	57.89	2,779.92	-1,911.60	1,171.39	-831.87	1.41	1.94	327.91
2	1,570.18	19	11	8	57.89	2,330.64	-2,171.07	826.74	-940.50	0.88	1.21	82.64
1	676.64	19	9	10	47.37	2,562.30	-1,675.20	618.47	-488.96	1.26	1.14	35.61

Instances here have been fairly rare. But there has very often been follow through once you look out a week or so. Below is a look at the 6-day profit curve.



The strong and persistent upmove serve as confirmation of the stats table. I have added both of these reversal studies to the active list tonight.

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



With tonight's evidence considered, 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 also 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 change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *slightly inverted* at 4416.98 on Wednesday. That is 0.1% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down a little over 0.1% in order to remain "oversold" vs recent expectations. Anything less than that and it will be considered overbought versus expectations as of the close on Wednesday.

So there still appears to be an upside edge. But time is running short. I sometimes view inverted pivots as opportune times to take profits. This is because potential upside is limited. I currently have 2 lots of SPY. I will look to exit one of them early on Wednesday if we get any kind of move up from Tuesday's close. I will look to exit the 2nd lot if SPX finishes the day higher.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/2 – somewhat bullish

The intermediate-term outlook was last updated in the 8/2 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](#)

Open Catapult 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/30/2021	\$438.51	\$441.15	0.60%		see below for exit criteria
SPY(1/4)	8/3/2021	\$437.50	\$441.15	0.83%		see below for exit criteria

I will look to exit 1 lot early in the day if I can get a fill, and then hold onto the 2nd lot until at least the end of the day on Wednesday. Here is the plan:

- 1) Sell 1 lot of SPY @ \$441.25 LIMIT*
- 2) Sell 1 lot of SPY @ \$441.15 LIMIT ON CLOSE*

With an agreeable market, I will out of both lots of SPY by the close on Wednesday.

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