

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2021

Volume 14 Issue 153

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 3/10 HV indicator suggests a big move could be on the horizon.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but it does not appear to be a very good 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						
August 4, 2021	5 intraday low and 5-hi close	1-5 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			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

The Evidence

Tuesday was another mixed day. The SPX rose 0.1%, the NASDAQ declined 0.5%, and the Russell 2000 gained 0.2%. Breadth was positive with the NYSE Up Issues % coming in at 53% and the Up Volume % at 69%. NYSE total volume rose some from the last couple of days.

One factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.23 on Tuesday. This suggests a volatility expansion is likely to occur in the next few days.

I [first introduced the 3/10 Offset HV in July of 2009](#). It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. While lower, the point remained the same – relatively big moves often emerged after tight consolidations.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

[Quantifiable Edges ORBs Study](#)

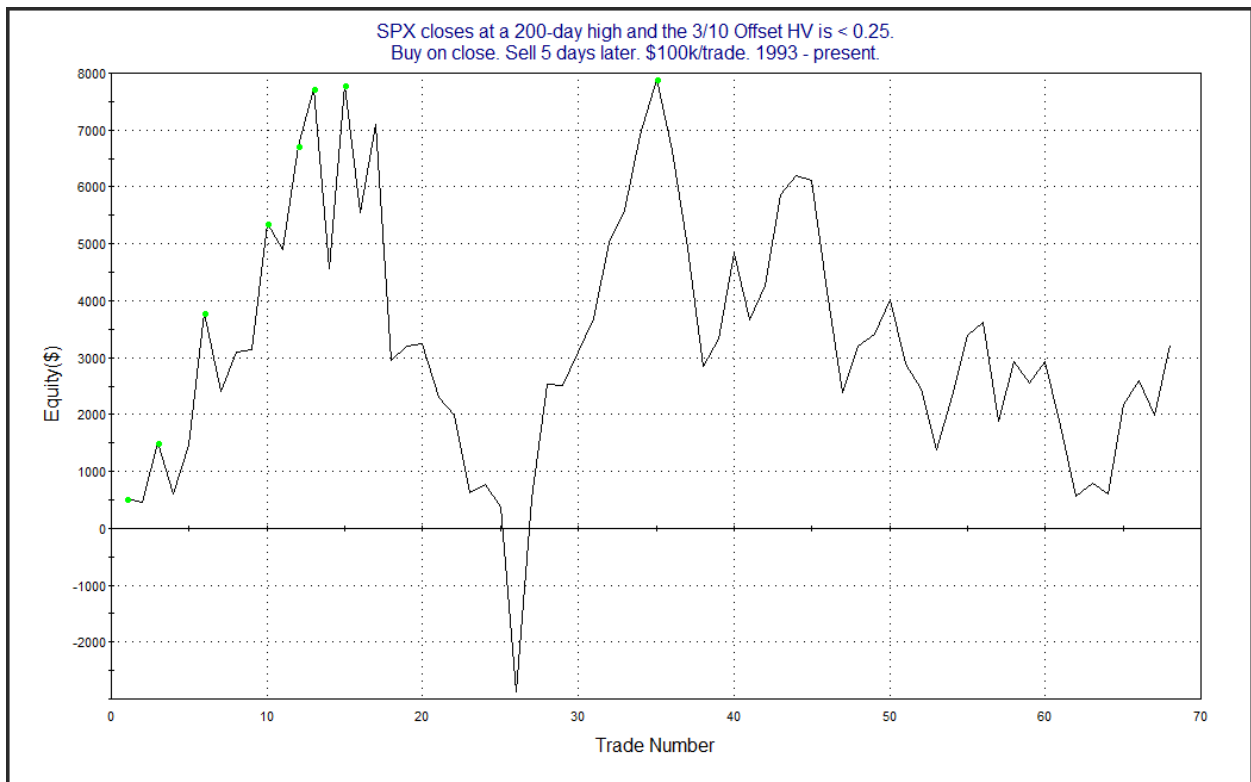
It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The Aggregator is bullish tonight, so perhaps the odds favor a

burst higher rather than lower. Regardless, the low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

Tonight I also decided to take a look at how the market has performed when the 3/10 Offset HV was extremely low and the SPX was at a 200-day high. Results can be seen below.

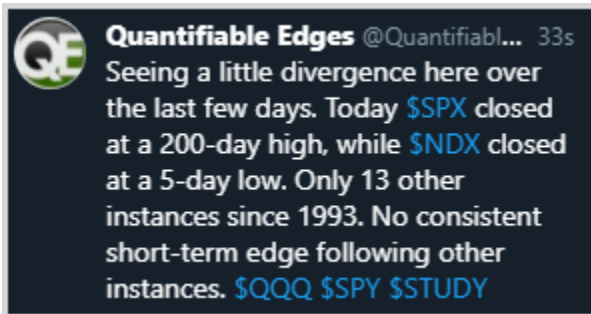
SPX closes at a 200-day high and the 3/10 Offset HV is < 0.25. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	3,213.80	68	39	29	57.35	3,397.44	-4,149.36	1,020.28	-1,261.28	0.81	1.09	47.26
4	10,479.71	71	43	28	60.56	2,832.90	-4,240.48	934.43	-1,060.75	0.88	1.35	147.60
3	6,159.00	72	45	27	62.50	2,777.04	-4,423.40	700.16	-938.82	0.75	1.24	85.54
2	12,887.88	78	48	30	61.54	2,701.80	-1,988.80	563.14	-471.43	1.19	1.91	165.23
1	5,725.76	102	54	48	52.94	1,582.32	-1,398.60	382.88	-311.45	1.23	1.38	56.13

No edge apparent and no strong consistency in the results. Here is a look at the 5-day curve.

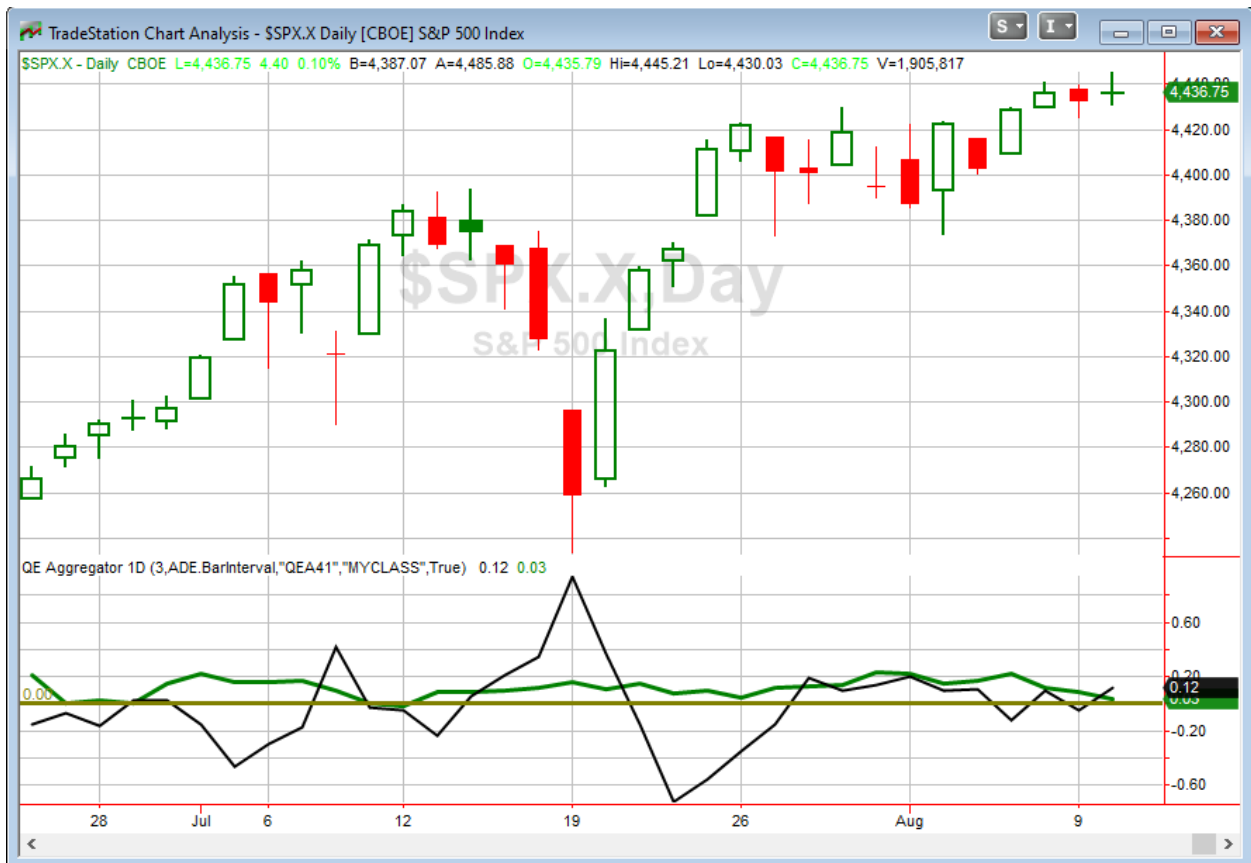


Just as choppy and inconsistent as the numbers suggested. No strong edge here.

As I noted on Twitter, the NDX/SPX divergence over the last few days is interesting, but does not yet appear predictive of anything.



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



With tonight's evidence considered, the green Aggregator Line held slightly 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 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 below zero. Therefore, the Aggregator formation turned long at the close.

The lone remaining short-term study on the Active List is set to expire on Wednesday. So expectations would remain slightly positive based on the intermediate-term evidence. But any new studies that emerge over the next few days could have a substantial impact on short-term expectations. Meanwhile, the Differential Pivot will be 4459.39 on Wednesday. That is 0.5% above Tuesday's close. Therefore, SPX would need to close up at least 0.5% on Wednesday in order to flip from oversold to overbought vs expectations.

So the Aggregator is back to bullish. But evidence is light, the SPX is at an all-time high, and reward/risk does not seem particularly favorable. Additionally, the 3/10 Offset HV suggests we could see a sharp move in the next few days. So I would rather not be on the wrong side of that. Therefore, I will remain sidelined and awaiting a more favorable reward/risk opportunity before looking for new index positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/9 – somewhat bullish

The intermediate-term outlook was last updated in the 8/9 Letter. It can be found in the most recent weekly letter on the website.

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

None

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