

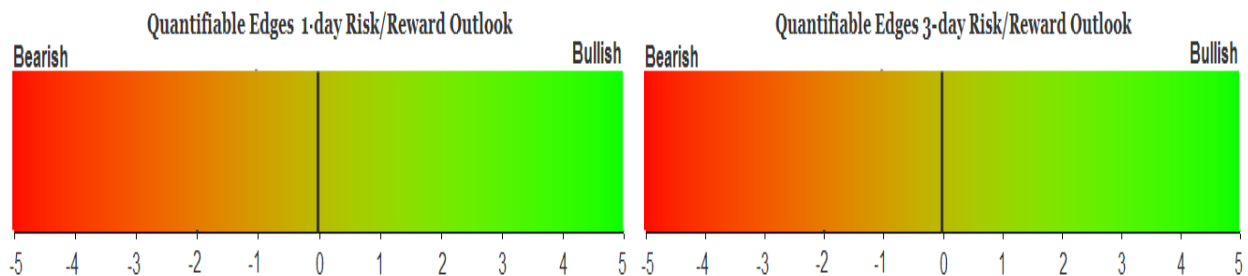
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2021

Volume 14 Issue 157

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The Russell / SPX divergence of late might seem concerning, but most often such action has been followed by strong returns for SPX.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is mixed but leaning bullish. The market is overbought, but not much. No strong edge.

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 16, 2021	SPX high. VIX and volume low.	1 day	Bearish			
August 13, 2021	SPX up. NYSE Up Volume < 40%	1-7 days	Bullish	1.70%	-1.10%	-2.25%
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%
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
June 14, 2021	NASDAQ leading	int term	Bullish			

The Evidence

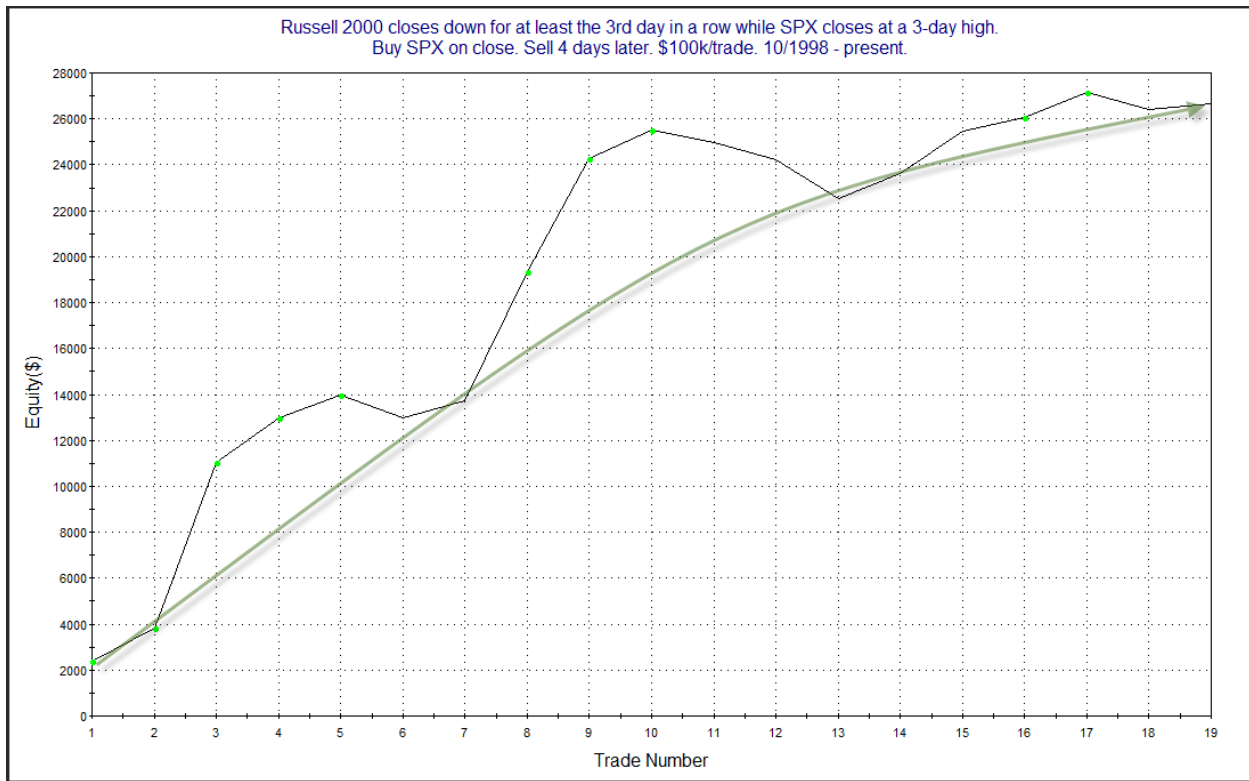
The “mixed and mild” theme continued on Monday. The SPX rose 0.3%, the NASDAQ lost 0.2%, and the Russell 2000 declined 0.9%. Breadth was negative with the NYSE Up Issues % coming in at 36% and the Up Volume % at 27%. NYSE total volume rose some from Friday’s level.

The rotten breadth has been common lately. Not only are we seeing it in the advance/decline numbers, but the selloff in the Russell 2000 also shows that there are a lot of stocks struggling right now. If that does not get righted, then there is concern that the selling could spill over into the SPX and other largecap indices. But one study tonight suggests that more often the oversold Russell 2000 tends to bounce and the SPX will continue higher along with it.

The study below looks at 3-day Russell declines that coincide with a 3-day SPX high. It was last seen in the 7/8/21 letter, and has been updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/1998 - 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	42,663.74	19	16	3	84.21	10,577.93	-3,173.28	3,073.56	-2,171.07	1.42	7.55	2,245.46
9	34,211.07	19	13	6	68.42	8,209.02	-3,932.94	3,237.85	-1,313.50	2.47	5.34	1,800.58
8	30,964.62	19	13	6	68.42	9,347.15	-2,195.82	2,923.71	-1,173.94	2.49	5.40	1,629.72
7	34,424.29	19	12	7	63.16	9,614.11	-2,783.20	3,351.66	-827.94	4.05	6.94	1,811.80
6	31,062.54	19	14	5	73.68	9,598.49	-3,491.60	2,779.63	-1,570.45	1.77	4.96	1,634.87
5	26,380.84	19	14	5	73.68	7,700.66	-2,075.04	2,410.96	-1,474.51	1.64	4.58	1,388.47
4	26,675.27	19	14	5	73.68	7,217.86	-1,680.10	2,240.25	-937.65	2.39	6.69	1,403.96
3	20,618.24	19	14	5	73.68	4,839.33	-1,326.27	1,728.75	-716.86	2.41	6.75	1,085.17
2	19,070.35	19	14	5	73.68	5,134.01	-551.73	1,481.98	-335.48	4.42	12.37	1,003.70
1	11,827.77	20	13	7	65.00	4,708.01	-820.82	1,153.10	-451.79	2.55	4.74	591.39

Numbers here suggest an upside edge over the next couple of weeks. And much of the edge has played out in just the 1st four days. Below is a look at a 4-day profit curve.



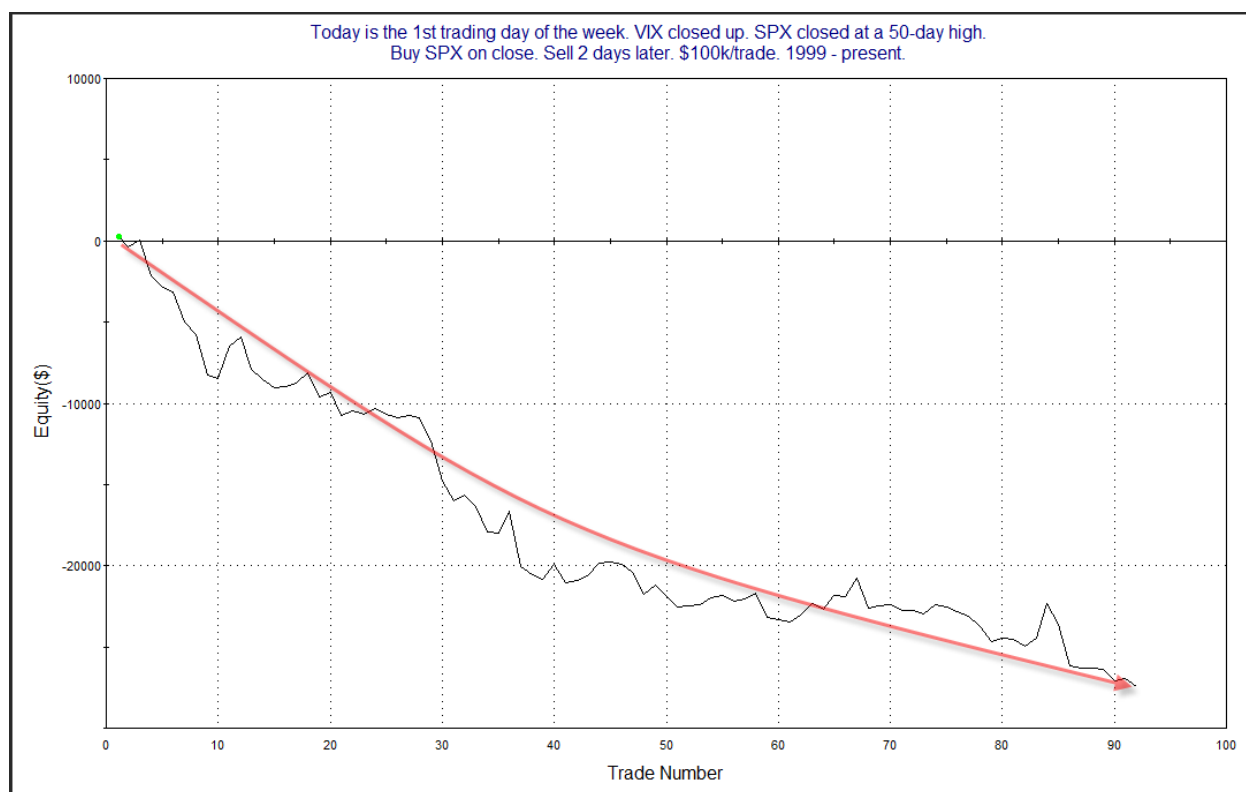
The curve is a little choppy, but the move from lower left to upper right seems strong enough to merit some consideration. So I have added this study to the active list tonight.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 6/29/21 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closed up. SPX closed at a 50-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.

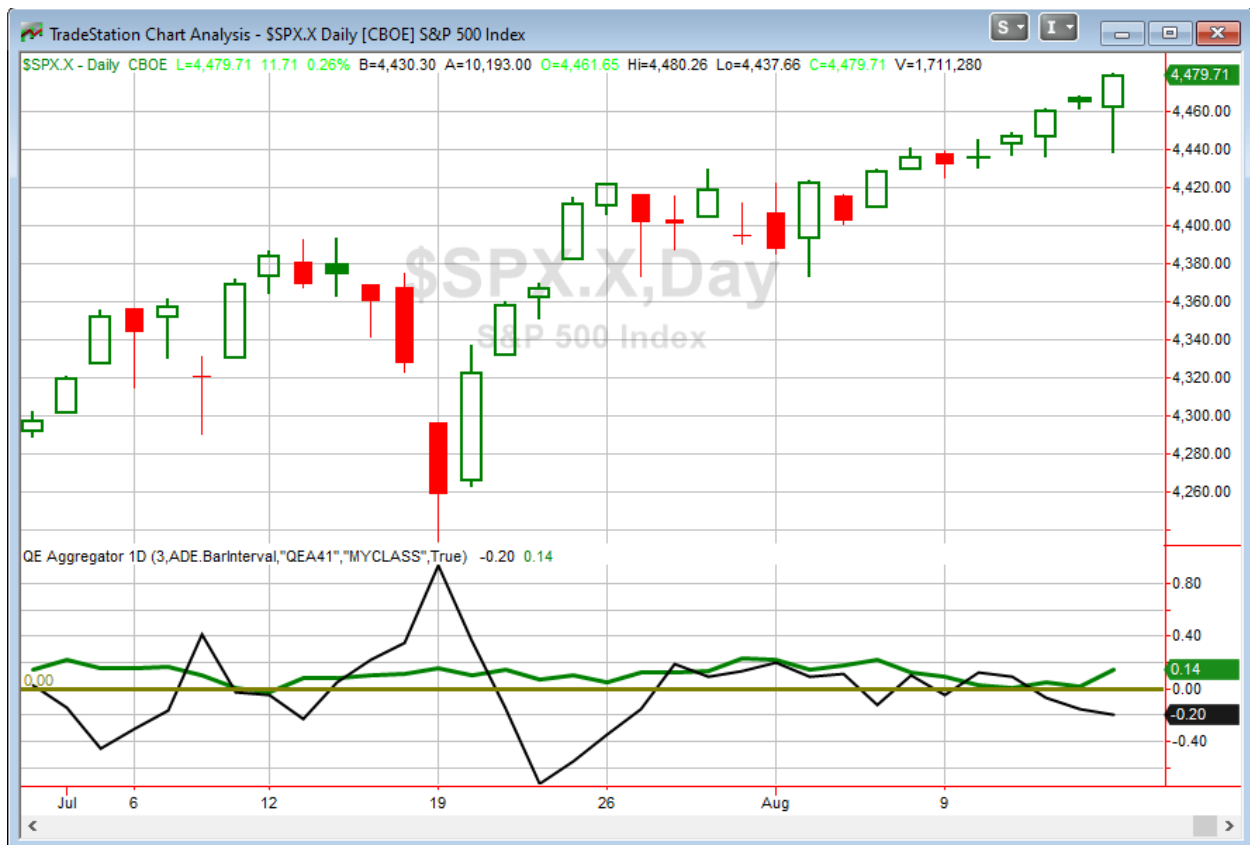
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,474.70	86	40	46	46.51	5,653.12	-5,048.68	1,076.27	-1,315.77	0.82	0.71	-203.19
4	-15,788.11	92	44	48	47.83	4,422.40	-5,732.40	937.66	-1,188.44	0.79	0.72	-171.61
3	-19,215.14	92	43	49	46.74	2,641.80	-6,908.70	664.29	-975.10	0.68	0.60	-208.86
2	-27,425.42	92	38	54	41.30	2,148.48	-3,372.16	478.26	-844.43	0.57	0.40	-298.10
1	-11,137.50	92	31	61	33.70	802.88	-1,580.04	303.92	-337.03	0.90	0.46	-121.06

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. It is again back at new lows and seems worthy of consideration. I have also included this study on the Active List.

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 remained below 0. The negative Differential Line reading means that 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 formation stayed flat at the close.

Based on the current active list, expectations are slated to remain bullish on Tuesday. Of course that could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4464.47 on Tuesday. That is 0.3% below Monday's close. Therefore, SPX would need to close down at least 0.3% on Tuesday in order to flip from overbought to oversold vs recent expectations.

Monday did not really change anything for me. The Aggregator is neutral. Evidence remains mixed and SPX is just moderately overbought. I am still not seeing a compelling setup to take on new index positions. So I will continue to wait until a compelling setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/16 – neutral

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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