

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 27, 2021

Volume 14 Issue 165

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- Unfilled gaps down from 50-day highs have historically struggled the following day, but that has not been the case as much in recent years.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the edge appears fairly mild at this point.

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 27, 2021 | Unfilled gap down from 50-high | 1 day | Bearish | | | |
| August 27, 2021 | 5+ days to 50-high, then down 1. | 1-4 days | Bullish | 1.10% | -0.80% | -1.65% |
| Active - Long Term | | | | | | |
| August 18, 2021 | Up 5 days then down < 3 days ago | 1-11 days | Bullish | | | |
| 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 | | | |

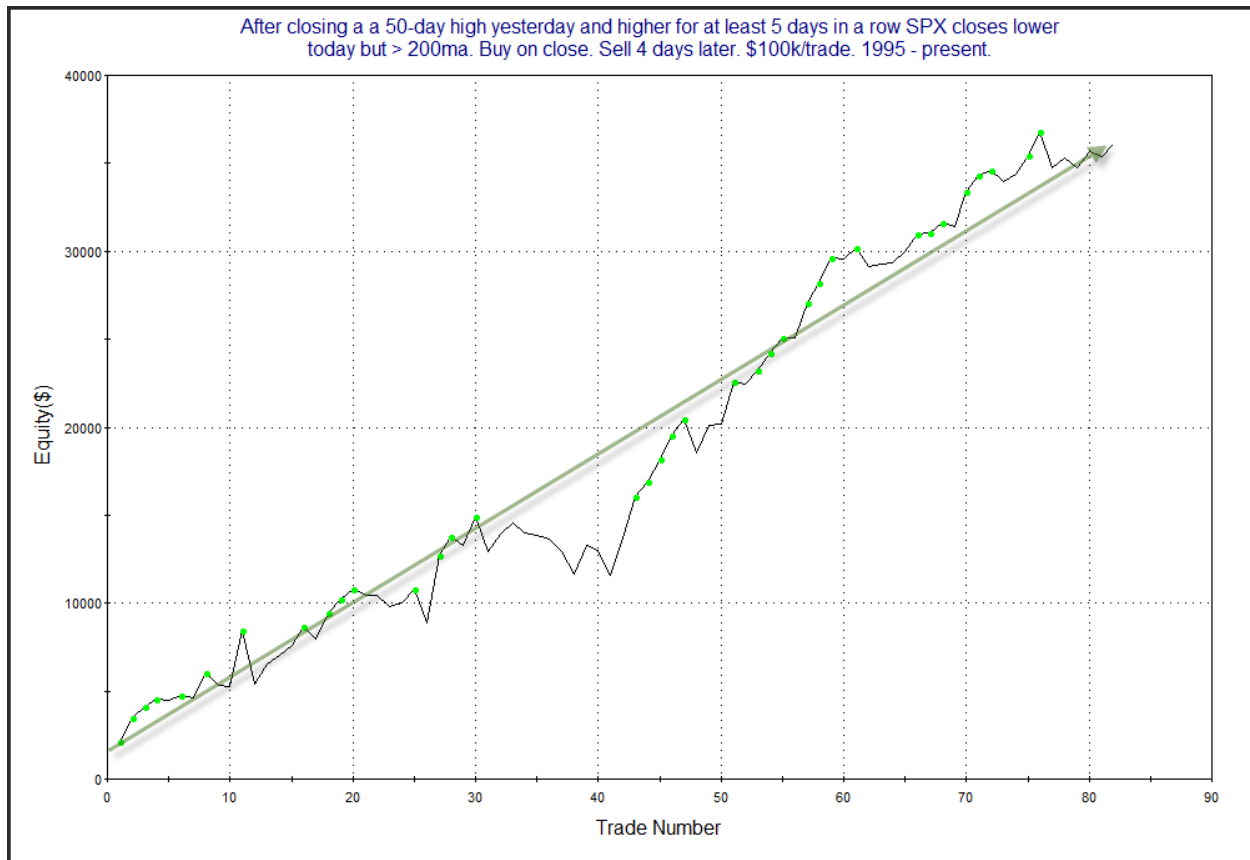
The Evidence

Thursday was the first down day in a week. The SPX closed down 0.58%, the NASDAQ lost 0.64%, and the Russell 2000 tumbled 1.1%. Breadth was negative with the NYSE Up Issues % coming in at 26% and the Up Volume % at 19%. NYSE total volume declined some from Wednesday's level.

Last night I showed a study that examined 5-day up moves to a 50-day high. Today was the 1st down day after such a move. This triggered a study I have shown several times in the last few months. It was last seen in the 8/18/21 letter. I have updated the stats in the table below.

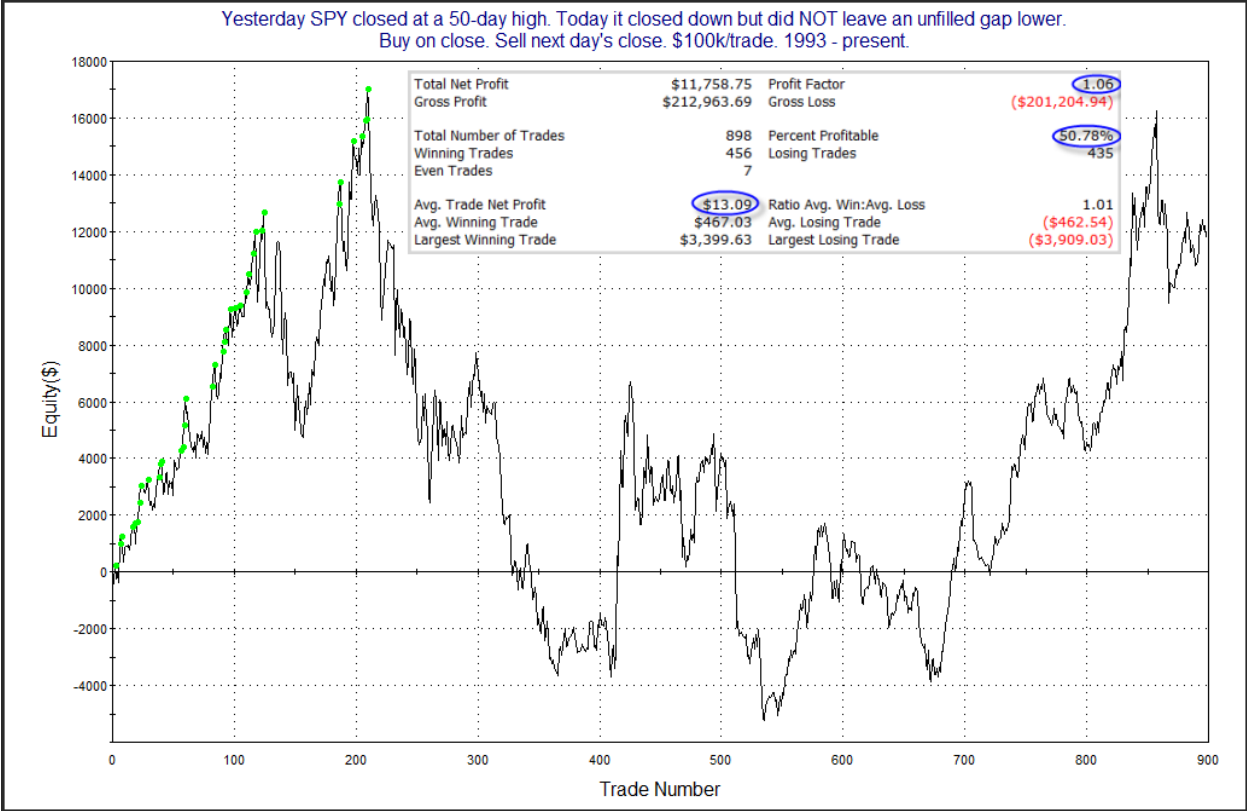
| After closing a 50-day high yesterday and higher for at least 5 days in a row SPX closes lower today but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | 64,967.56 | 73 | 58 | 15 | 79.45 | 5,131.35 | -3,672.90 | 1,412.70 | -1,131.26 | 1.25 | 4.83 | 889.97 |
| 9 | 61,171.55 | 76 | 60 | 16 | 78.95 | 5,023.20 | -4,151.40 | 1,391.83 | -1,396.14 | 1.00 | 3.74 | 804.89 |
| 8 | 51,806.00 | 77 | 53 | 24 | 68.83 | 4,878.08 | -4,874.10 | 1,522.87 | -1,204.43 | 1.26 | 2.79 | 672.81 |
| 7 | 40,917.68 | 80 | 55 | 25 | 68.75 | 3,874.76 | -4,511.36 | 1,317.56 | -1,261.93 | 1.04 | 2.30 | 511.47 |
| 6 | 42,662.38 | 82 | 59 | 23 | 71.95 | 4,307.20 | -3,637.71 | 1,198.20 | -1,218.75 | 0.98 | 2.52 | 520.27 |
| 5 | 32,962.92 | 82 | 55 | 27 | 67.07 | 4,252.50 | -4,717.16 | 1,064.10 | -946.76 | 1.12 | 2.29 | 401.99 |
| 4 | 36,070.54 | 82 | 53 | 29 | 64.63 | 3,843.00 | -3,003.39 | 1,091.36 | -750.73 | 1.45 | 2.66 | 439.88 |
| 3 | 21,073.13 | 82 | 51 | 31 | 62.20 | 2,472.85 | -1,992.34 | 850.71 | -719.77 | 1.18 | 1.94 | 256.99 |
| 2 | 20,938.75 | 82 | 54 | 28 | 65.85 | 2,437.50 | -2,614.95 | 755.07 | -708.39 | 1.07 | 2.06 | 255.35 |
| 1 | 12,358.94 | 82 | 52 | 29 | 63.41 | 1,751.19 | -1,744.10 | 508.97 | -486.46 | 1.05 | 1.88 | 150.72 |

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows strong stats. But much of the gains have actually been realized in the first 4 days. Below is a look at the profit curve for the 4-day exit strategy.

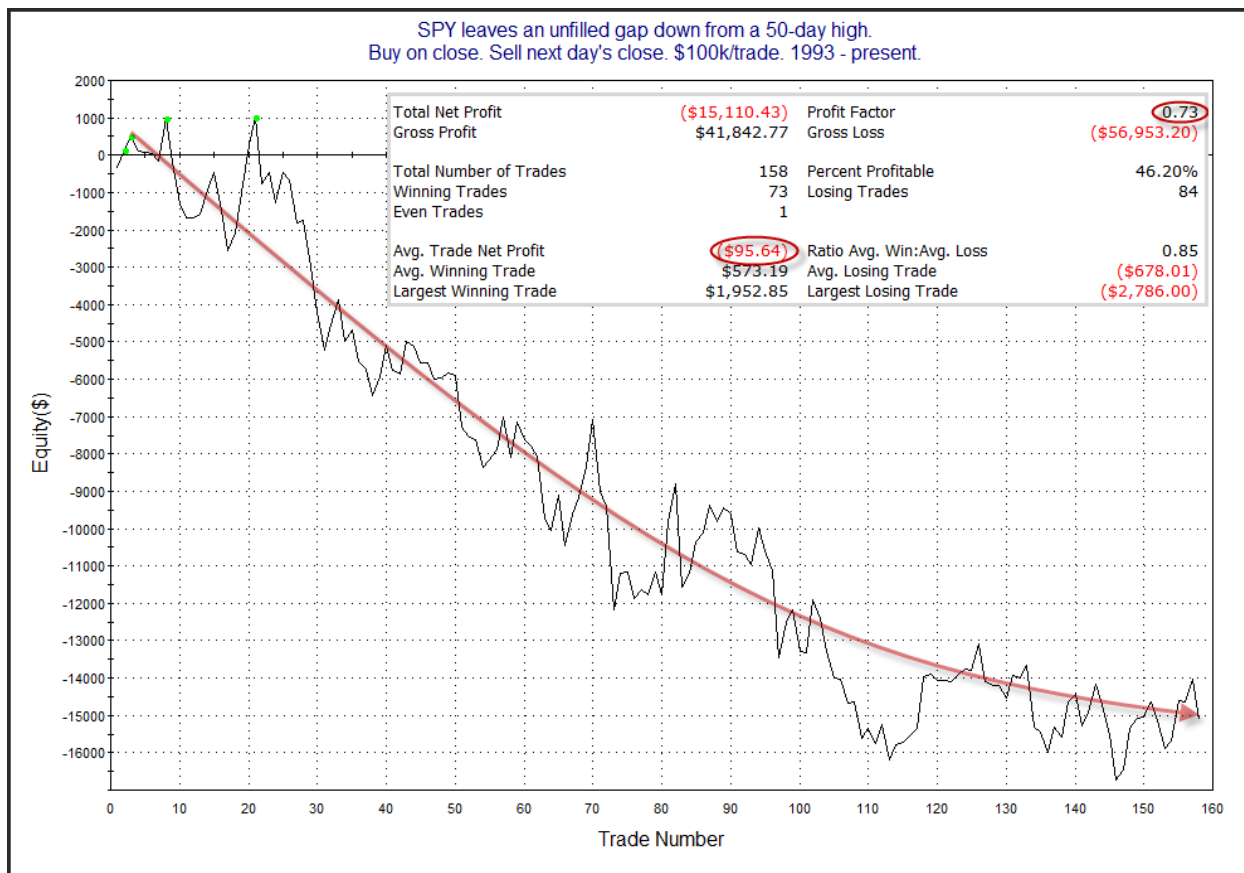


The strong upslope appears to confirm the bullish edge. I have included this study on the Active List again tonight.

But when the 1st day down is accompanied by an unfilled gap, then that has increased the odds of additional selling. The unfilled gap will sometimes leave buyers from the day before with losing positions where they had no opportunity to exit. And they may not be let off the hook too quickly. The studies below demonstrate this. They are updated from the 8/5/21 letter. The 1st one shows performance following down closes from a 50-day high that do not include an unfilled gap lower.

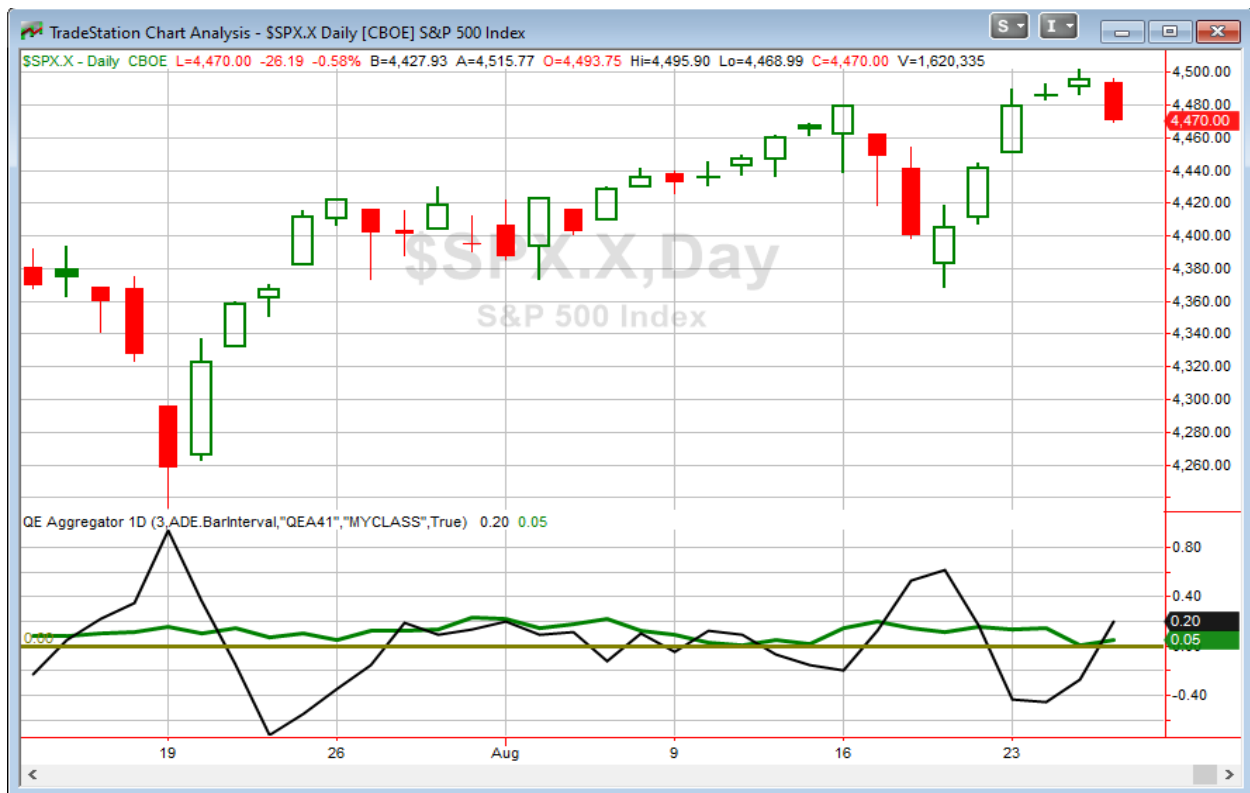


There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



While the curve has flattened some in recent years, it did make a new low fairly recently. The move lower has persisted for a long time. This is impressive considering the market must be in an uptrend since it was at a 50-day high the day before. Overall, this study seems to suggest a mild downside edge, and at the very least, bulls would have preferred that Thursday did *not* include an unfilled gap lower.

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 moved up 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 turned long at the close.

Based on the current active list, expectations are slated to remain bullish on Friday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4505.60 on Friday. That is about 0.8% above Thursday's close. Therefore, SPX will need to close up about 0.8% on Friday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. But Friday is a little dicey with the unfilled gap down from the 50-day high on Thursday. Additionally, the much-awaited Jackson Hole meeting speech from Jay Powell could illicit a strong reaction from the market. So while the bulls may have a slight edge, this does not appear to be a strongly favorable setup just yet. I considered putting in an order to get long if the market closes down on Friday. But instead I'll take a more conservative approach and see what evidence emerges and then perhaps look to get long on Monday if reward/risk still appears to favor the bulls.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/23 – slightly bullish

The intermediate-term outlook was last updated in the 8/23 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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