

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 3, 2021

Volume 14 Issue 170

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The intraday high, unfilled gap, and weak close imply short-term strength.
- The SPY gap and partial reversal pattern over the last few days have almost always led to higher prices a week later.
- Friday's Employment Report could provide a boost to the market.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Higher appears more likely, but reward/risk is not appealing.

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						
September 3, 2021	20-high and partial reversal	1-5 days	Bullish	1.60%	-0.70%	-1.30%
September 3, 2021	20-high and partial reversal	1-2 days	Bullish			
September 3, 2021	Employment days bullish	1 day	Bullish			
Active - Long Term						
August 30, 2021	NASDAQ Leading	int term	Bullish			
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%
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 mostly higher. The SPX finished up 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 rose 0.7%. Breadth was positive with the NYSE Up Issues % coming in at 65% and the Up Volume % at 66%. NYSE total declined from Wednesday’s level and was light overall.

Back in the 11/8/19 Letter, I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. I updated those studies below.

First let’s look at times (unlike Thursday) where the finish was relatively strong:

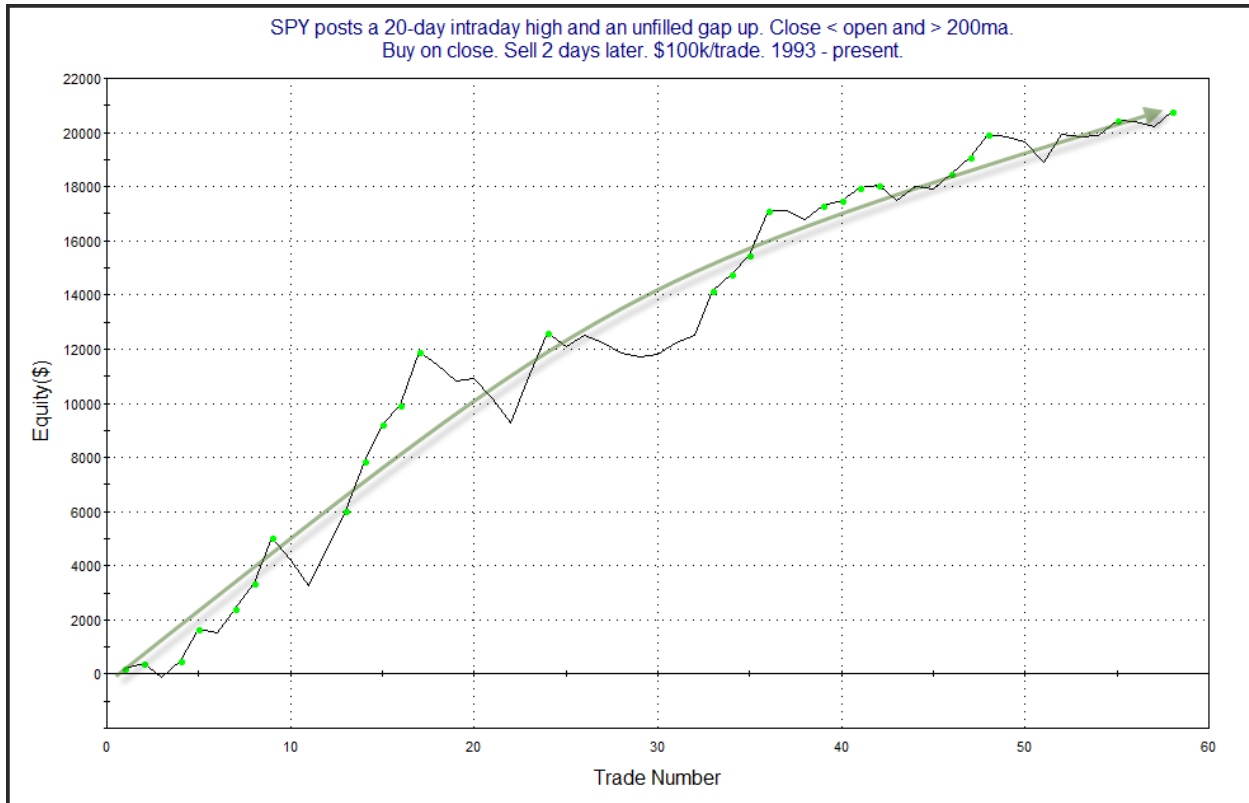
SPY posts a 20-day intraday high and an unfilled gap up. Close > open and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	
10	27,851.30	198	121	75	61.11	6,056.96	-8,727.84	1,430.03	-1,935.76	0.74	1.19	140.66	
9	18,260.16	207	127	79	61.35	5,404.74	-11,239.50	1,318.94	-1,889.18	0.70	1.12	88.21	
8	10,881.55	217	129	86	59.45	5,456.48	-8,628.75	1,224.37	-1,710.03	0.72	1.07	50.15	
7	6,067.22	226	136	88	60.18	5,145.60	-12,413.60	1,176.96	-1,749.99	0.67	1.04	26.85	
6	3,471.72	243	138	103	56.79	4,931.26	-12,044.85	1,025.77	-1,340.62	0.77	1.03	14.29	
5	17,961.32	255	141	112	55.29	4,539.48	-6,642.99	958.13	-1,045.85	0.92	1.15	70.44	
4	22,179.50	279	161	117	57.71	4,627.26	-7,578.55	864.09	-999.48	0.86	1.19	79.50	
3	-12,799.66	297	168	127	56.57	3,526.40	-6,980.31	664.77	-980.17	0.68	0.90	-43.10	
2	-40.39	330	179	148	54.24	2,545.92	-4,221.27	527.94	-638.79	0.83	1.00	-0.12	
1	4,438.23	358	182	175	50.84	2,380.38	-3,434.49	369.62	-359.04	1.03	1.07	12.40	

There doesn’t appear to be any edge in either direction here. Now let’s examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 200ma.
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
10	46,492.34	49	34	15	69.39	4,838.35	-4,810.68	1,854.02	-1,102.95	1.68	3.81	948.82
9	38,443.92	50	38	12	76.00	3,741.10	-5,564.16	1,442.49	-1,364.24	1.06	3.35	768.88
8	33,907.59	50	36	13	72.00	3,352.48	-6,021.40	1,417.32	-1,316.60	1.08	2.98	678.15
7	29,172.96	52	33	19	63.46	3,751.55	-4,952.36	1,471.90	-1,021.04	1.44	2.50	561.02
6	28,925.68	52	34	18	65.38	4,159.10	-6,414.24	1,429.58	-1,093.33	1.31	2.47	556.26
5	22,889.25	52	31	21	59.62	3,754.17	-4,540.20	1,218.88	-709.33	1.72	2.54	440.18
4	22,049.95	53	38	15	71.70	3,436.02	-2,228.24	862.09	-713.97	1.21	3.06	416.04
3	25,838.68	57	41	15	71.93	2,362.10	-2,427.88	850.33	-601.67	1.41	3.86	453.31
2	20,798.36	58	36	22	62.07	1,998.70	-926.12	821.08	-398.21	2.06	3.37	358.59
1	8,022.67	59	37	22	62.71	1,708.92	-1,015.84	424.98	-350.07	1.21	2.04	135.98

These results are substantially better than earlier where the finish was above the open. The somewhat weak finish should not concern bulls, in fact it appears they should be excited by it. Below is an equity curve that shows how the edge has played out over time.



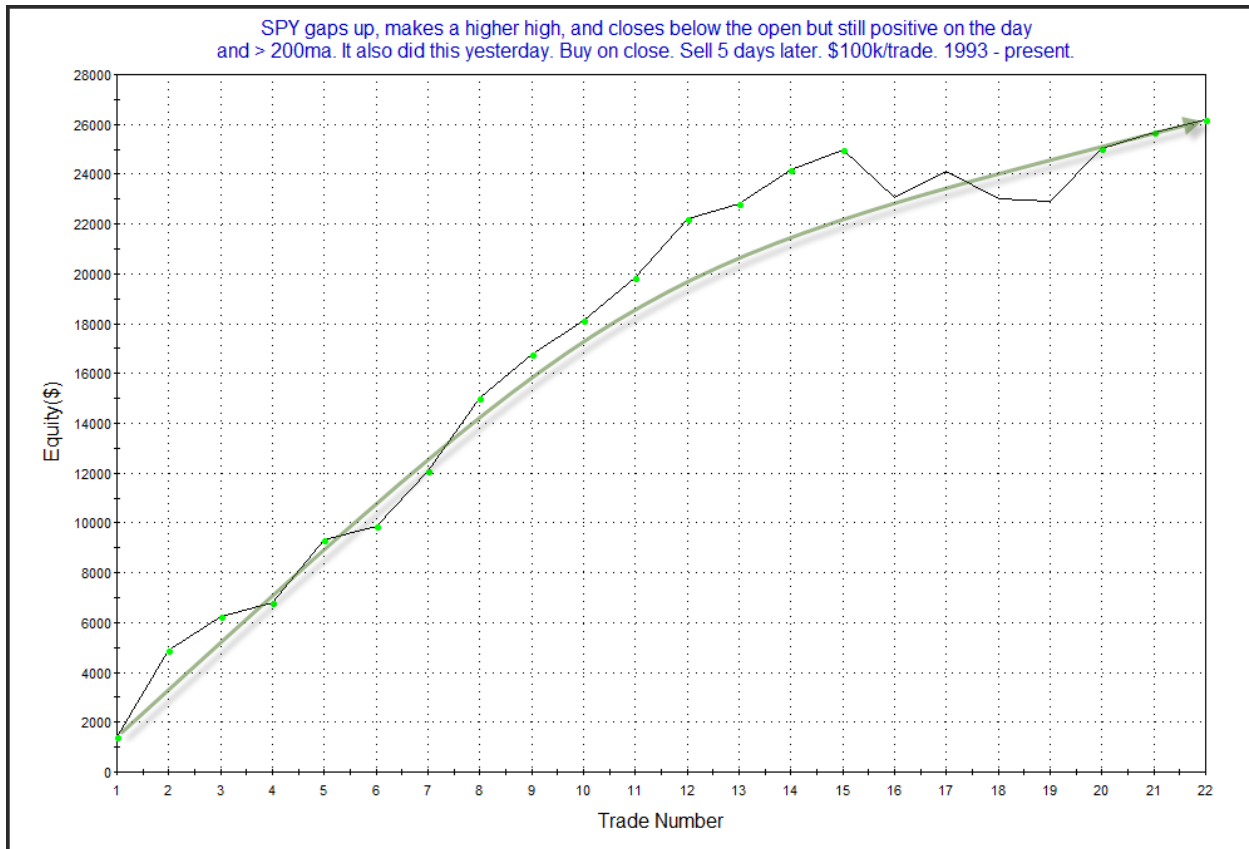
The upslope here is persistent and rather impressive.

Another study that stood out tonight looked at the gap and partial reverse SPY pattern of the last 2 days. Both days had a gap higher, a move up above the previous day's high, and then a reversal that led the SPY to close below its open but still in positive territory. I looked at this 2-day setup last in the 4/4/19 subscriber letter using a long-term trend filter. I have updated that study below.

SPY gaps up, makes a higher high, and closes below the open but still positive on the day and > 200ma. It also did this 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	26,170.20	22	19	3	86.36	3,458.95	-1,911.60	1,541.27	-1,037.97	1.48	9.40	1,189.55
4	18,471.01	22	17	5	77.27	3,132.80	-1,635.48	1,301.28	-730.14	1.78	6.06	839.59
3	17,197.05	22	15	7	68.18	3,282.40	-520.38	1,252.56	-227.33	5.51	11.81	781.68
2	13,426.73	22	17	5	77.27	2,640.00	-855.50	927.75	-469.01	1.98	6.73	610.31
1	7,958.62	24	15	9	62.50	2,570.70	-721.00	711.73	-301.93	2.36	3.93	331.61

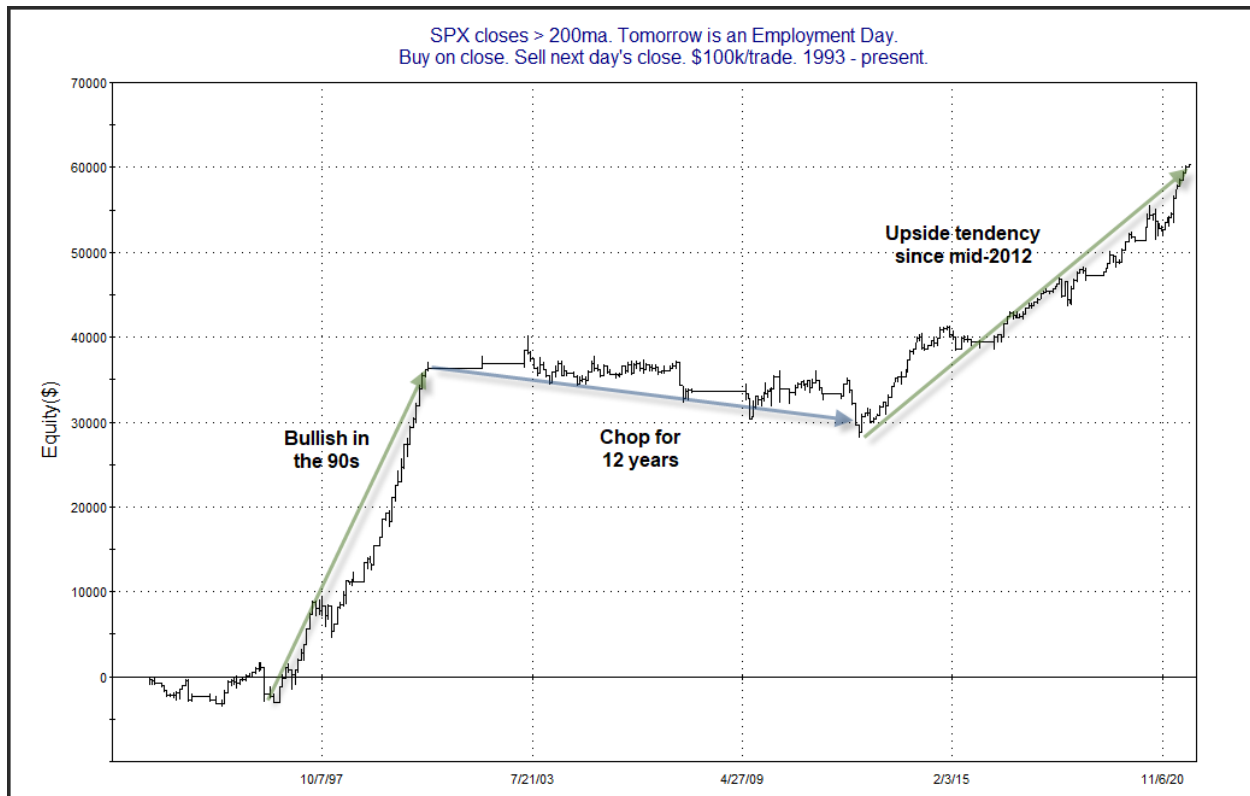
The results have been very positive. Below is the 5-day the profit curve.



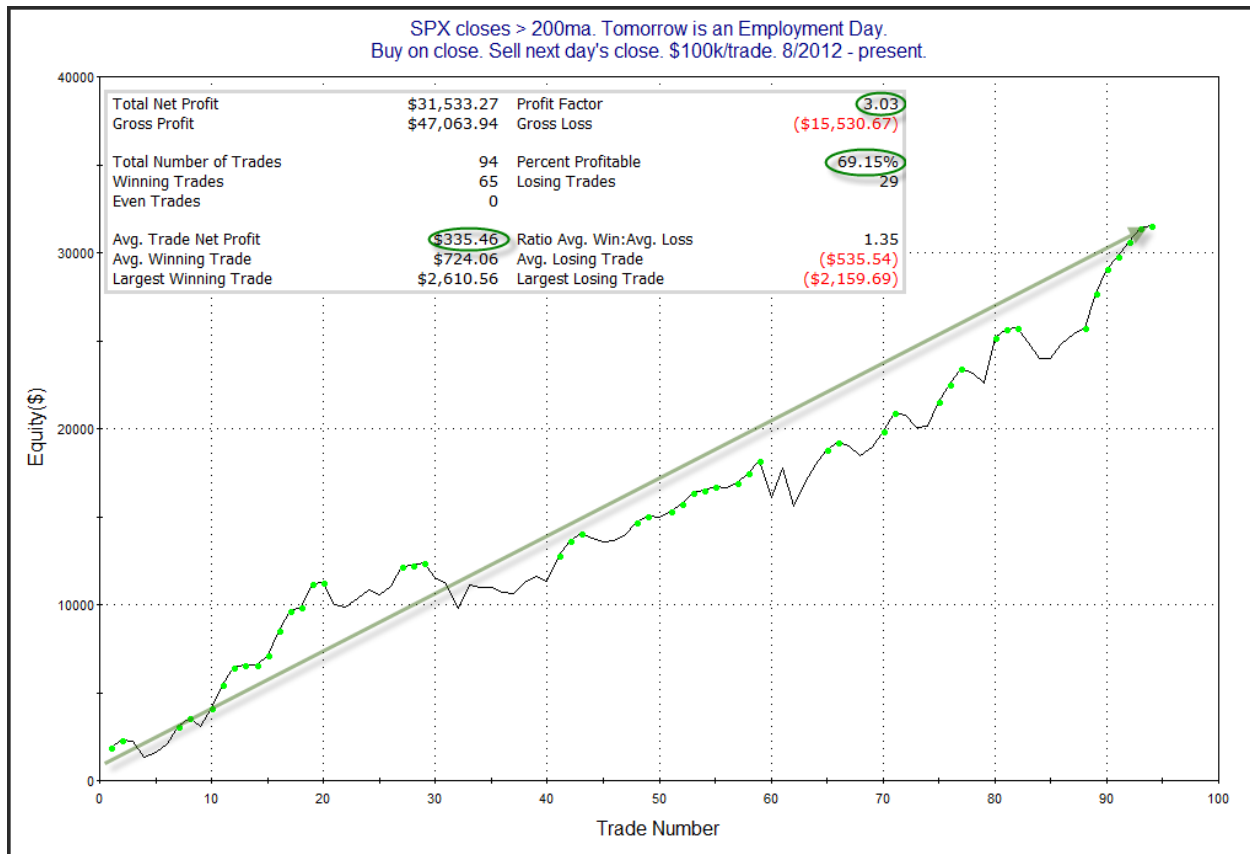
Despite some fairly recent floundering, the curve is back at a new high and the edge still appears strong enough to warrant consideration. I have added the study to the short-term active list.

Friday is an employment day. I discussed this last night, and have copied my notes below.

Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPX performance on Employment Days. I last posted this chart in the 8/6/21 subscriber letter. For this equity curve, which is updated, I filtered to only include days where SPX was > its 200ma. Each trade was a fictional \$100k.

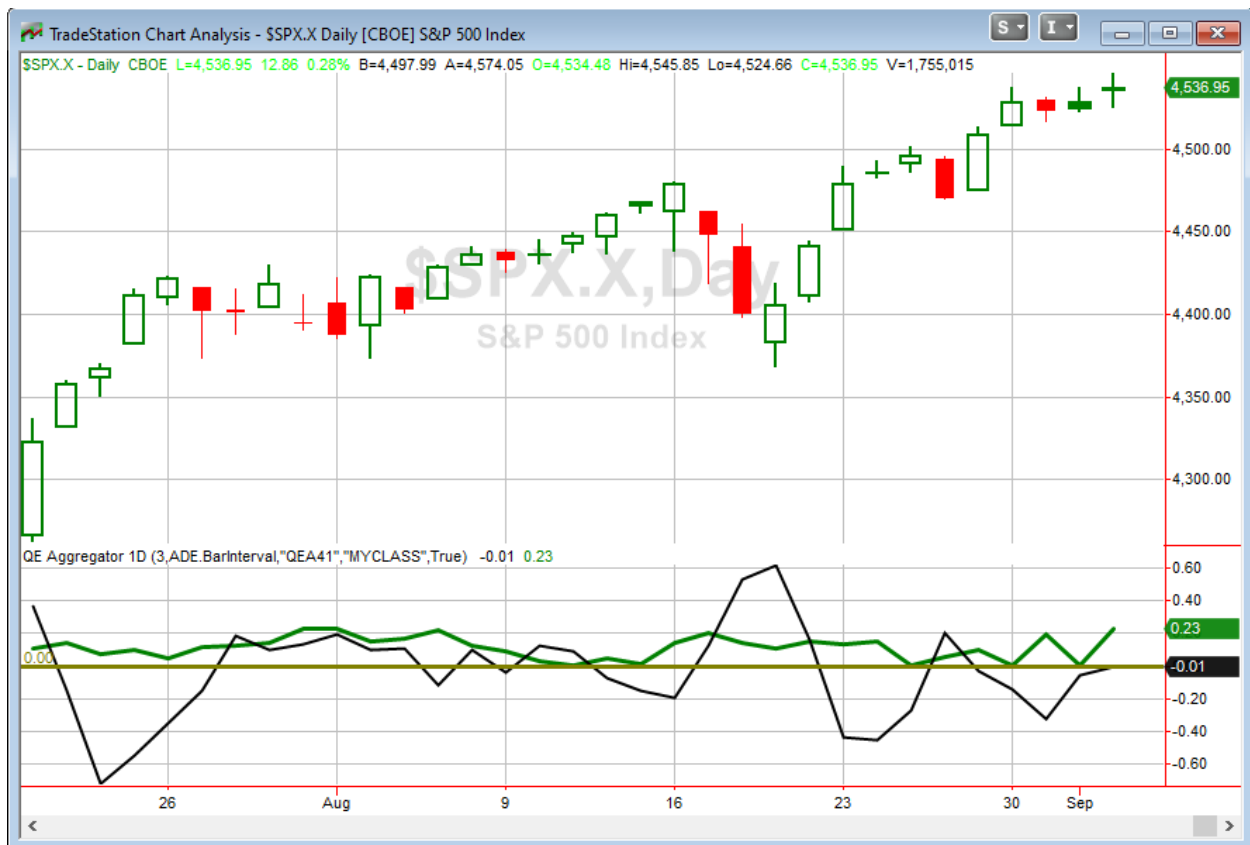


What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. Here is a zoomed in look at performance since mid-2012 when the recent bullish tendency began.



Based on what we know of history, I would not expect this edge to last forever. But it may be worth factoring in for as long as the current behavior seems to persist. The broader study is also a nice reminder that market dynamics change over time. But in recent times, Employment Days have seen good results. In fact, the last Employment Day to finish lower was November 2020, when SPX lost 1 point. So I'll view Employment Days as bullish until the curve appears to turn.

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 slightly 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 lit of active studies, expectations are set to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4536.03 on Friday. That is less than 1 point below Thursday's close. Therefore, SPX would only need to close down a very small amount to flip from overbought to oversold vs expectations.

So the Aggregator is neutral. Higher appears more likely based on the studies I am seeing. But the market is overbought and at new highs. Reward/risk does not appear great. The trade idea from last night did not fill, though it looked like it might until the last 10 minutes of trading. So perhaps I missed out. That's is ok. I'll just wait for the next high probability setup before committing to a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/30 – somewhat 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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