

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 21, 2023

Volume 16 Issue 138

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- 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.
- During uptrends, opex Friday has often seen selling after the open.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I don't see great reward/risk with the current 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						
July 21, 2023	Unfilled gap down from a 50-day high	1 day	Bearish			
Active - Long Term						
July 19, 2023	DJI close up 7 days in a row & > 200ma	1-19 days	Bullish			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Whaley ADT ₅ > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

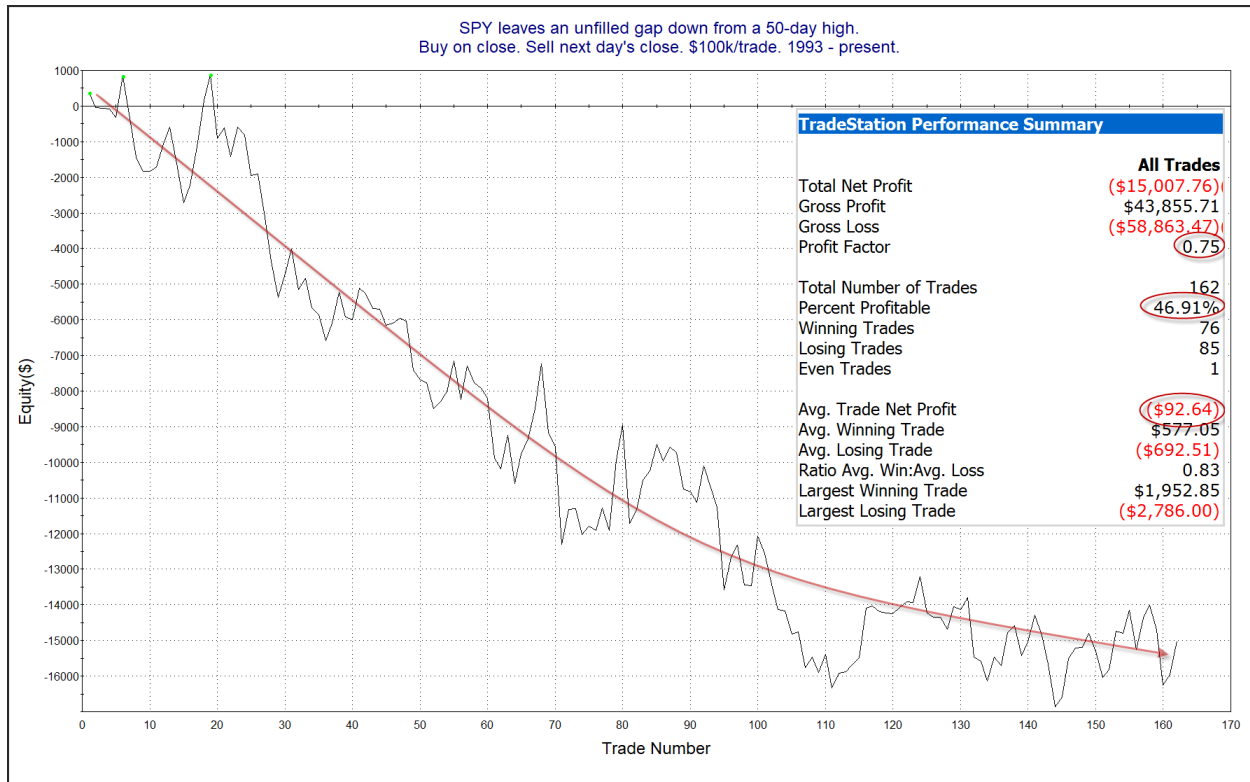
The Evidence

Thursday saw some sizable selling. The SPX lost 0.7%, the NASDAQ tumbled 2.05%, and the Russell 2000 dropped 0.9%. Breadth was slightly negative with the NYSE Up Issues % coming in at 42% and the Up Volume % at 44%. NYSE total volume declined some from Wednesday's level.

The 1st day down from a high does not often suggest a strong edge. 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 6/1/23 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 is back near new lows. 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 Wednesday did *not* include an unfilled gap lower.

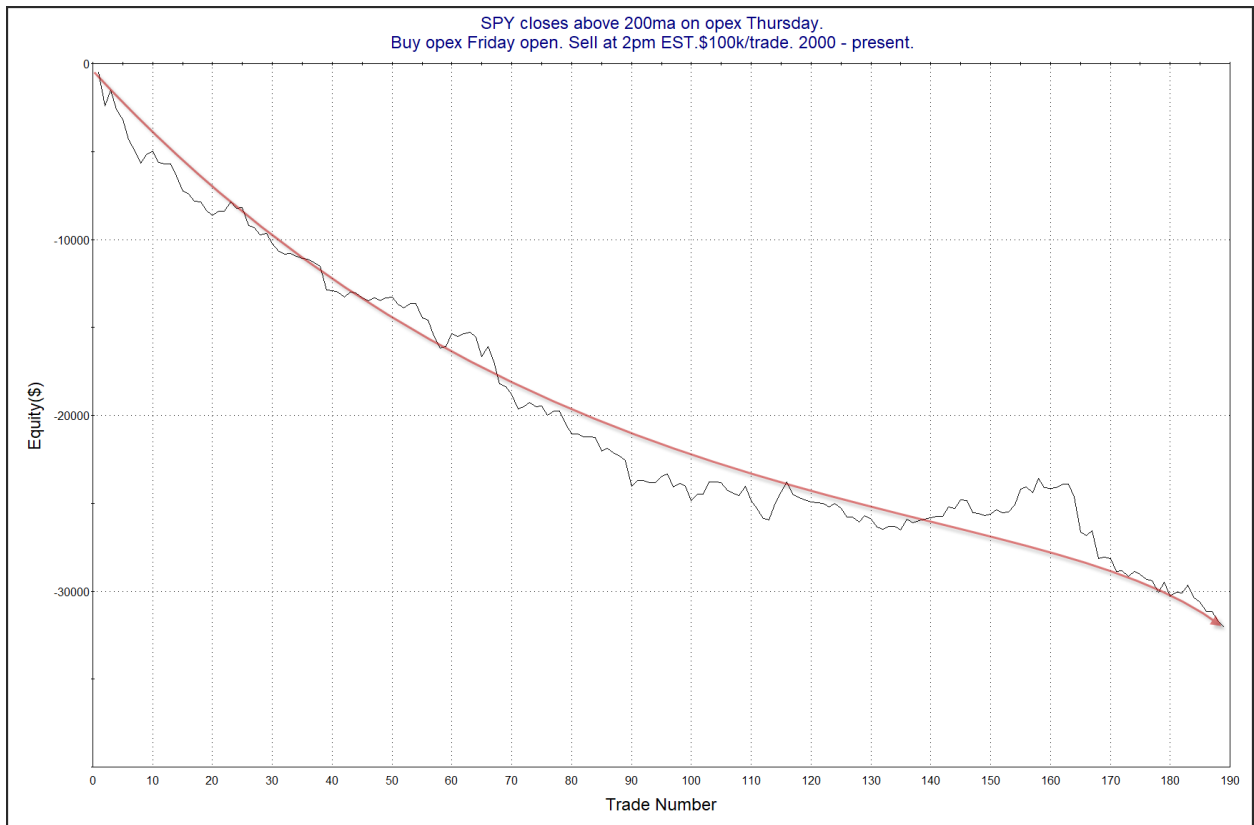
It is notable that Friday is monthly options expiration. Options expiration has long been a day that has seen weakness after the opening bell. I last discussed this in the 6/16/23 letter. I have updated the studies from that letter below.

This first study show results of purchasing SPY at the open and then exiting at different times during the day.

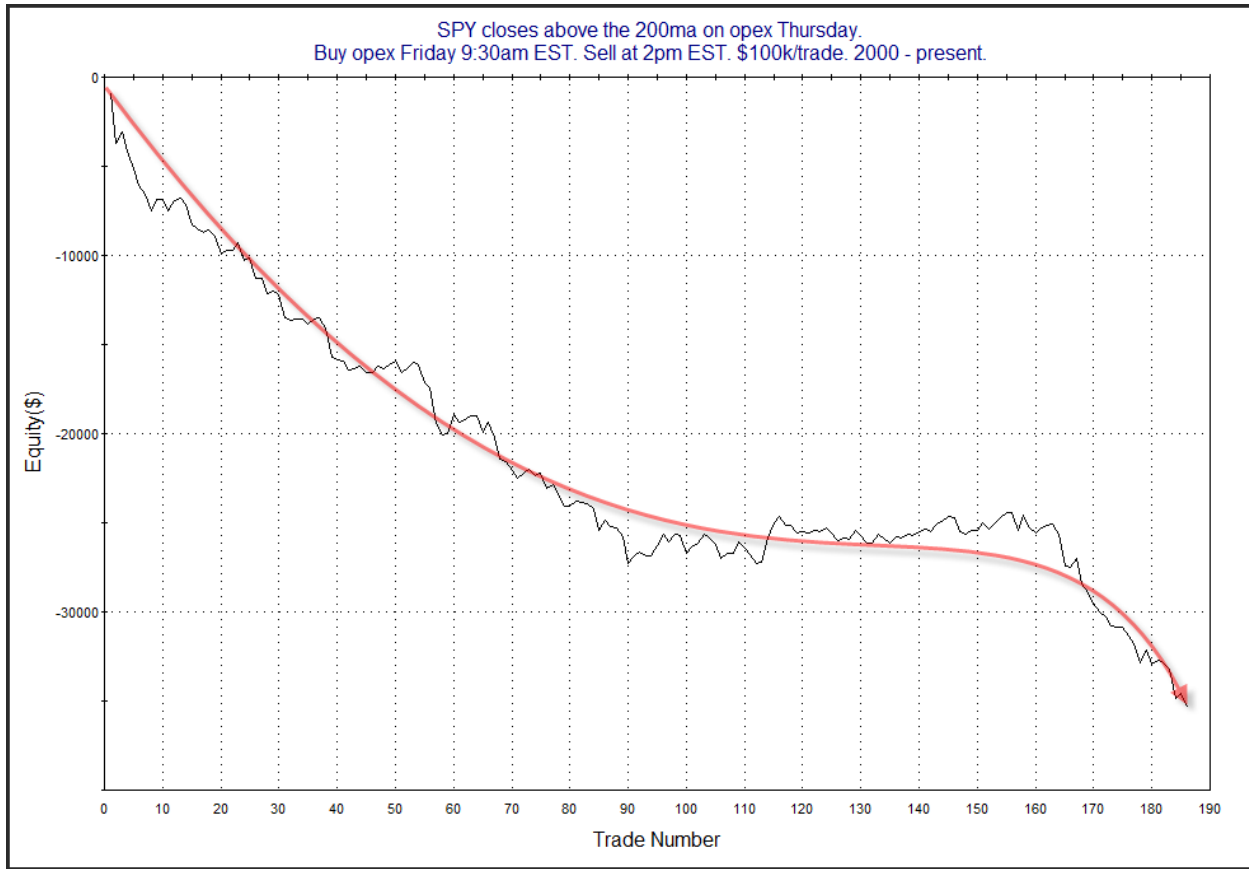
SPY closes above 200ma on opex Thursday.
Buy opex Friday open. Sell at time shown on left. \$100k/trade. 2000 - present.

OE Op-Ex Fri Intra Short: timeofday	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
1,600	-36,559.11	189	76	113	40.21	1,400.58	-2,746.58	315.39	-535.66	0.59	0.40	-193.43
1,500	-31,424.99	189	77	111	40.74	983.92	-2,315.18	291.19	-485.11	0.60	0.42	-166.27
1,400	-32,058.32	189	63	126	33.33	993.96	-2,000.00	290.16	-399.51	0.73	0.36	-169.62
1,300	-28,340.97	189	66	122	34.92	968.86	-1,324.62	276.86	-382.08	0.72	0.39	-149.95
1,200	-26,833.05	189	65	124	34.39	1,243.06	-1,318.40	262.22	-353.85	0.74	0.39	-141.97
1,100	-20,385.59	189	70	118	37.04	1,020.18	-968.50	220.44	-303.53	0.73	0.43	-107.86
1,000	-17,082.24	189	54	135	28.57	365.47	-629.00	136.18	-181.01	0.75	0.30	-90.38

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Most of the downside would have been achieved by exiting at 2pm. Below is a look at a profit curve the 2pm exit.



The strong move from upper left to lower right supports the bearish case. Next is the 4pm exit.

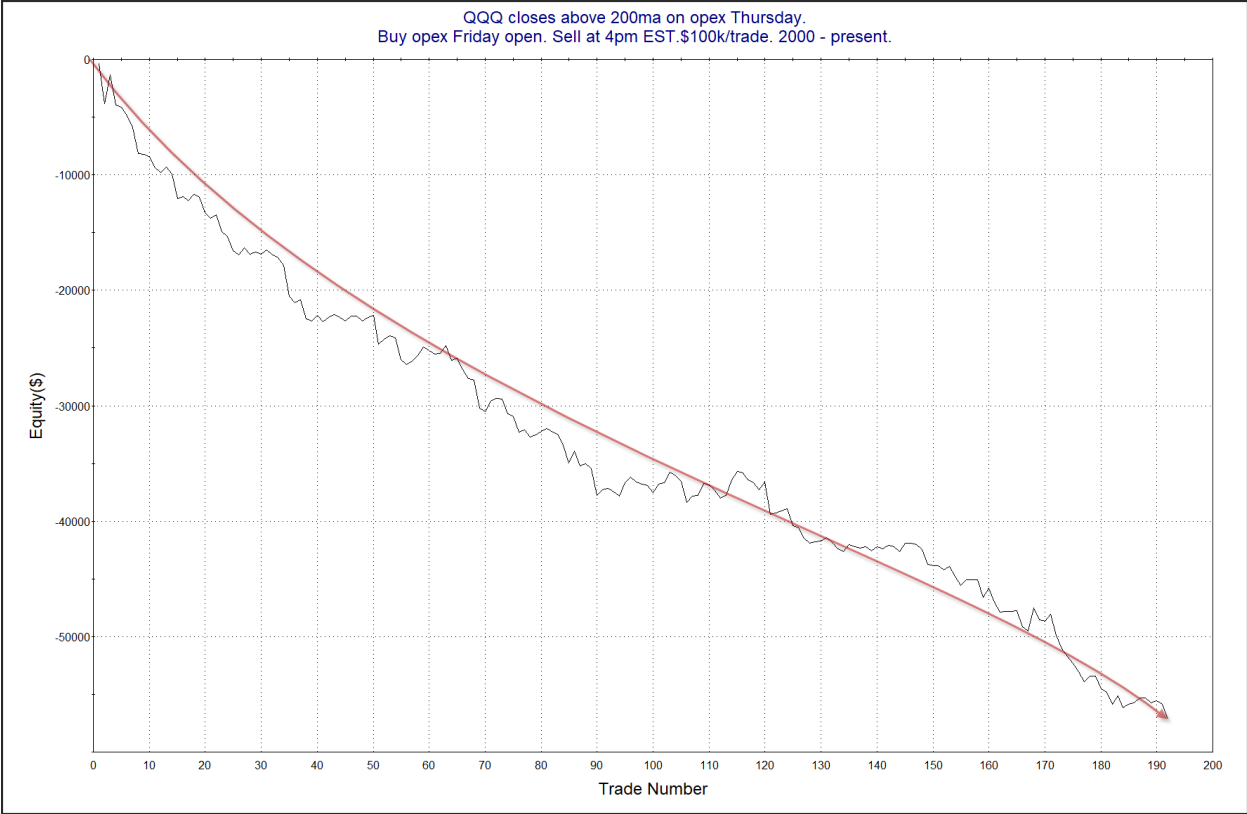
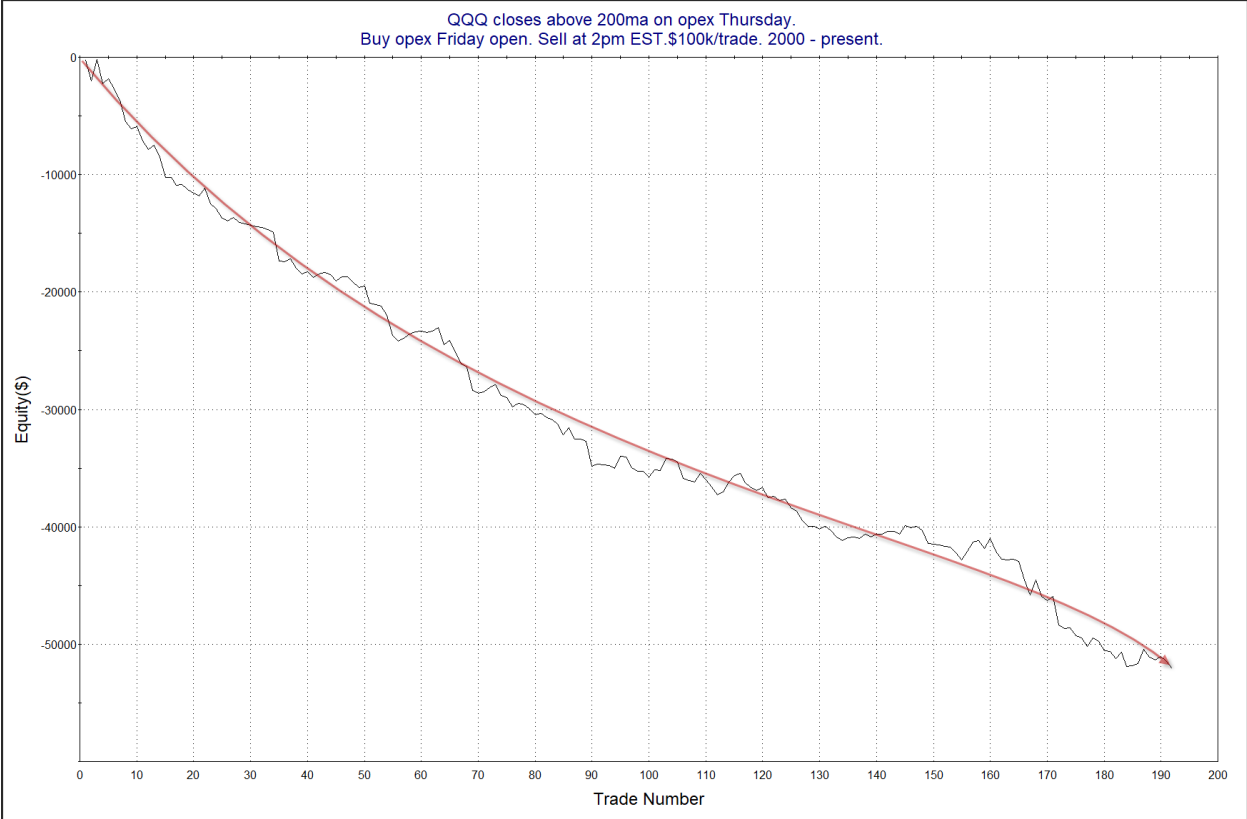


This is also impressive.

QQQ has seen an even stronger tendency to sell off. This can be seen in the table and profit curves below.

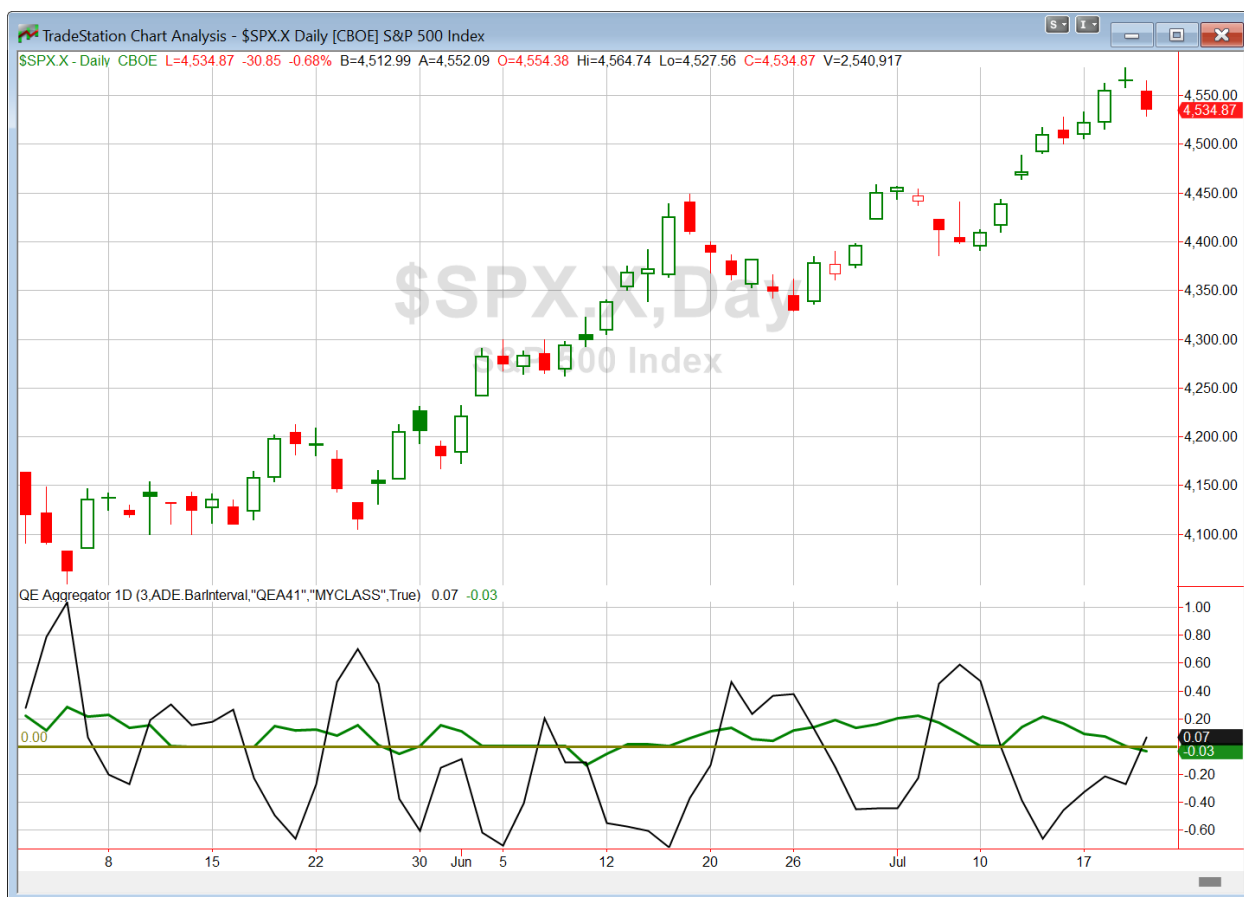
QQQ closes above 200ma on opex Thursday.
Buy opex Friday open. Sell at time shown on left. \$100k/trade. 2000 - present.

OE Op-Ex Fri Intra Short: timeofday	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
1,600	-57,139.84	192	74	118	38.54	2,510.56	-3,518.64	435.47	-757.33	0.58	0.36	-297.60
1,500	-51,671.17	192	69	121	35.94	1,726.01	-2,575.80	406.05	-658.58	0.62	0.35	-269.12
1,400	-52,105.09	192	62	128	32.29	1,818.31	-2,418.42	387.05	-594.55	0.65	0.32	-271.38
1,300	-44,855.38	192	66	125	34.38	1,652.17	-2,376.36	359.55	-548.69	0.66	0.35	-233.62
1,200	-44,031.78	192	65	123	33.85	2,473.64	-1,834.30	350.05	-542.97	0.64	0.34	-229.33
1,100	-34,792.67	192	65	127	33.85	1,984.45	-1,928.16	360.07	-458.25	0.79	0.40	-181.21
1,000	-27,605.44	192	59	132	30.73	1,319.89	-1,192.98	223.97	-309.24	0.72	0.32	-143.78



The bearish edge appears alive and well here with most every curve making new lows. It is something traders may want to consider on Friday morning.

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



With tonight's bearish evidence considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line inched above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 studies, expectation are slated to turn back to positive on Friday. This could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4569.84 on Friday. That is 0.8% above Thursday's close. Therefore, SPX will need to close up at least 0.8% on Friday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is again neutral. But now expectations are lower and the market is oversold. And it could all easily change again on Friday. Thursday's selloff could easily see a continuation. It is not yet offering a high-probability entry. I will continue to wait until it does.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/17 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

F @ \$14.03 (buy @ limit)

Broad Market Large Cap CBI – 1(F)

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.

F – Buy 1/3 Catapult position @ \$14.03 LIMIT. From the Catapult section above. This is the 1st of up to 3 possible lots of F.

Current Open Trade Ideas

None.

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