

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 7, 2023

Volume 16 Issue 171

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- 2 unfilled gaps down while above the 200ma has often been followed by a bounce the next day.
- A gap below a short-term low and further selling in a long-term uptrend is often followed by a move up over the next few days.
- Wednesday was the 1st time SPY closed at a 5-day low in a while, while still closing above its 10ma. That has typically meant a bounce in the next several days.

Short-term Outlook

The Bottom Line

Evidence is leaning higher and the market is substantially oversold. There appears to be a long-side edge.

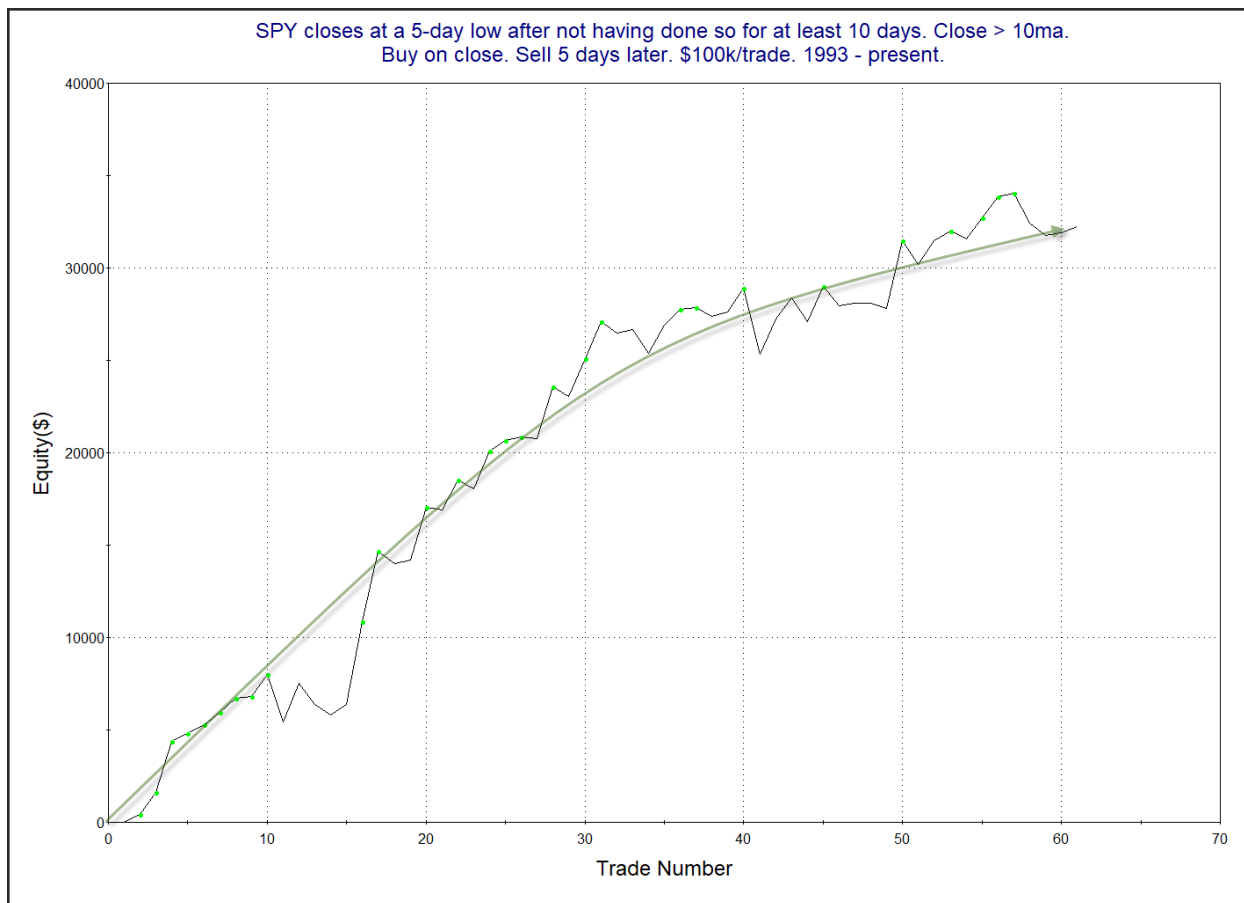
The Evidence

Wednesday was a tough day for the market. The SPX dropped 0.7%, the NASDAQ lost 1.1%, and the Russell 2000 fell 0.3%. Breadth was negative with the NYSE Up Issues % coming in at 38% and the Up Volume % at 33%. NYSE total volume declined for the 3rd day in a row.

Wednesday’s action was reminiscent of action we last saw on 6/21/23. I say this because I am going to highlight 3 studies below. And the last time I shared these three studies was in the 6/22/23 letter. Wednesday’s price movement caused SPY to close in an interesting position. Traders could look at the chart and say it is “short-term oversold” due to the fact that it closed at a 5-day low. They might also say it is “short-term overbought” since it closed above its 10-day moving average. I have found that edges often arise when something is short-term overdone in one timeframe, but overdone in another direction in another timeframe. The study below looks at the current discrepancy.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma. 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	32,243.47	61	40	21	65.57	4,496.34	-3,570.00	1,277.02	-897.01	1.42	2.71	528.58
4	25,126.81	61	38	23	62.30	3,240.45	-2,475.20	1,202.60	-894.44	1.34	2.22	411.91
3	19,515.55	61	39	22	63.93	3,452.40	-3,393.78	1,078.22	-1,024.31	1.05	1.87	319.93
2	12,561.66	61	36	25	59.02	3,809.72	-3,737.28	973.52	-899.40	1.08	1.56	205.93
1	6,565.57	61	35	26	57.38	2,225.48	-3,909.03	668.70	-647.65	1.03	1.39	107.63

Results here suggest a solid edge over the next 1-5 days. Below is the 5-day profit curve.



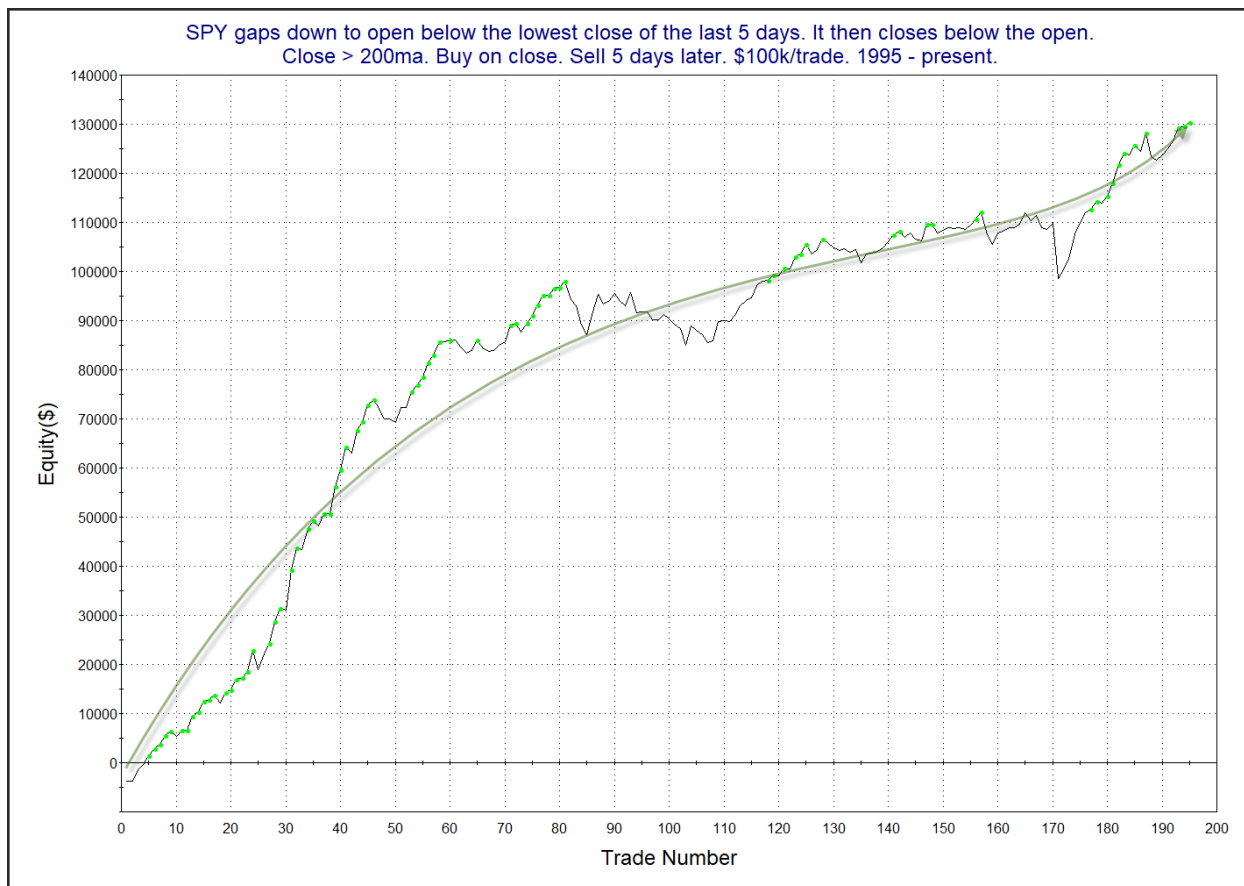
The persistent upslope is impressive, and serves as some confirmation of the bullish edge suggested by the numbers. I have added this study to the Active List tonight.

This next study looked at times that SPY gapped down to a short-term low, and then sold off further during the day, while in a long-term uptrend. I have updated the results of the study below.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.

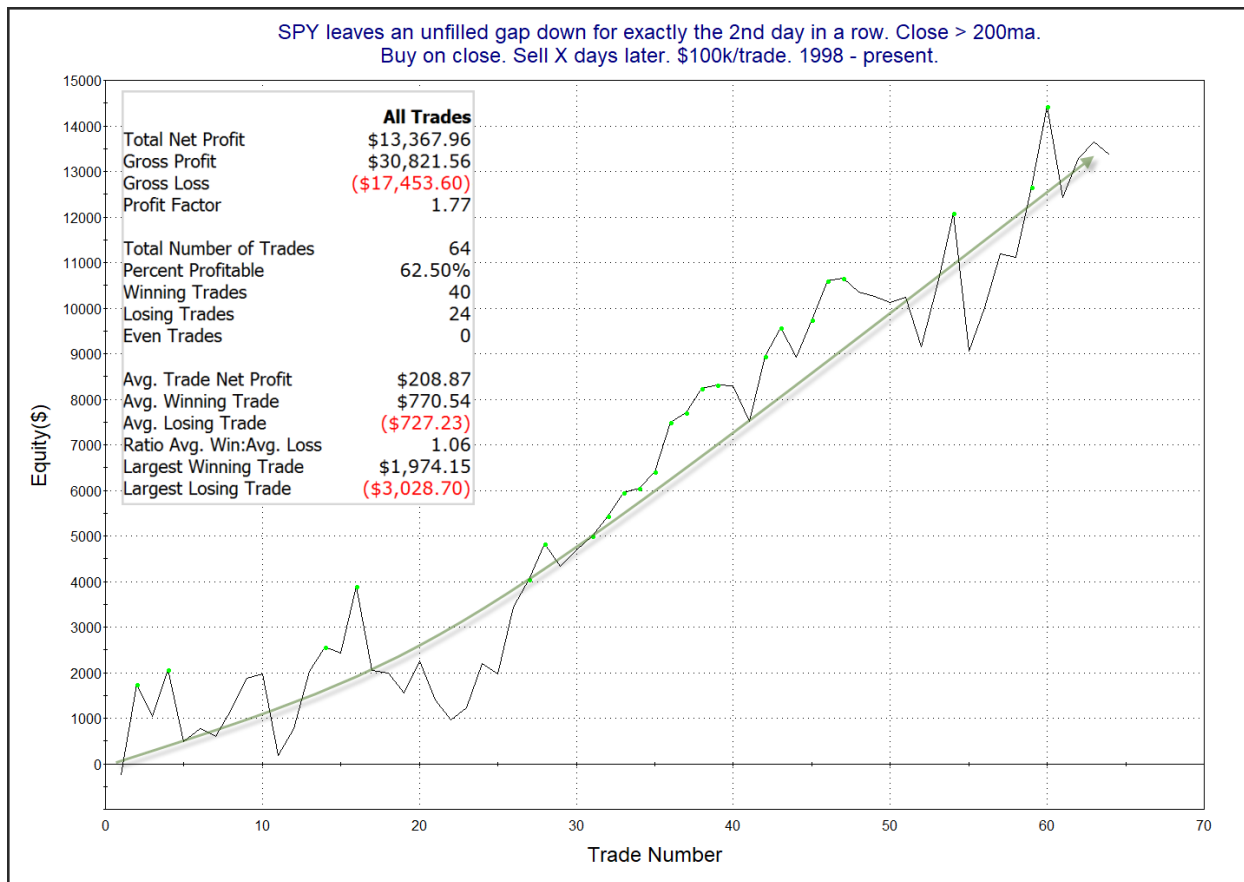
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	130,347.30	195	132	62	67.69	8,239.74	-11,128.78	1,731.29	-1,583.60	1.09	2.33	668.45
4	115,783.72	204	137	67	67.16	5,581.02	-10,755.03	1,613.19	-1,570.51	1.03	2.10	567.57
3	100,219.63	214	131	82	61.21	5,117.85	-6,572.02	1,519.93	-1,205.99	1.26	2.01	468.32
2	94,803.23	227	144	80	63.44	5,477.88	-6,228.17	1,174.76	-929.52	1.26	2.27	417.64
1	60,118.73	246	158	88	64.23	5,764.38	-4,181.76	826.40	-800.59	1.03	1.85	244.39

The numbers here look fairly bullish. Here is the 5-day profit curve.



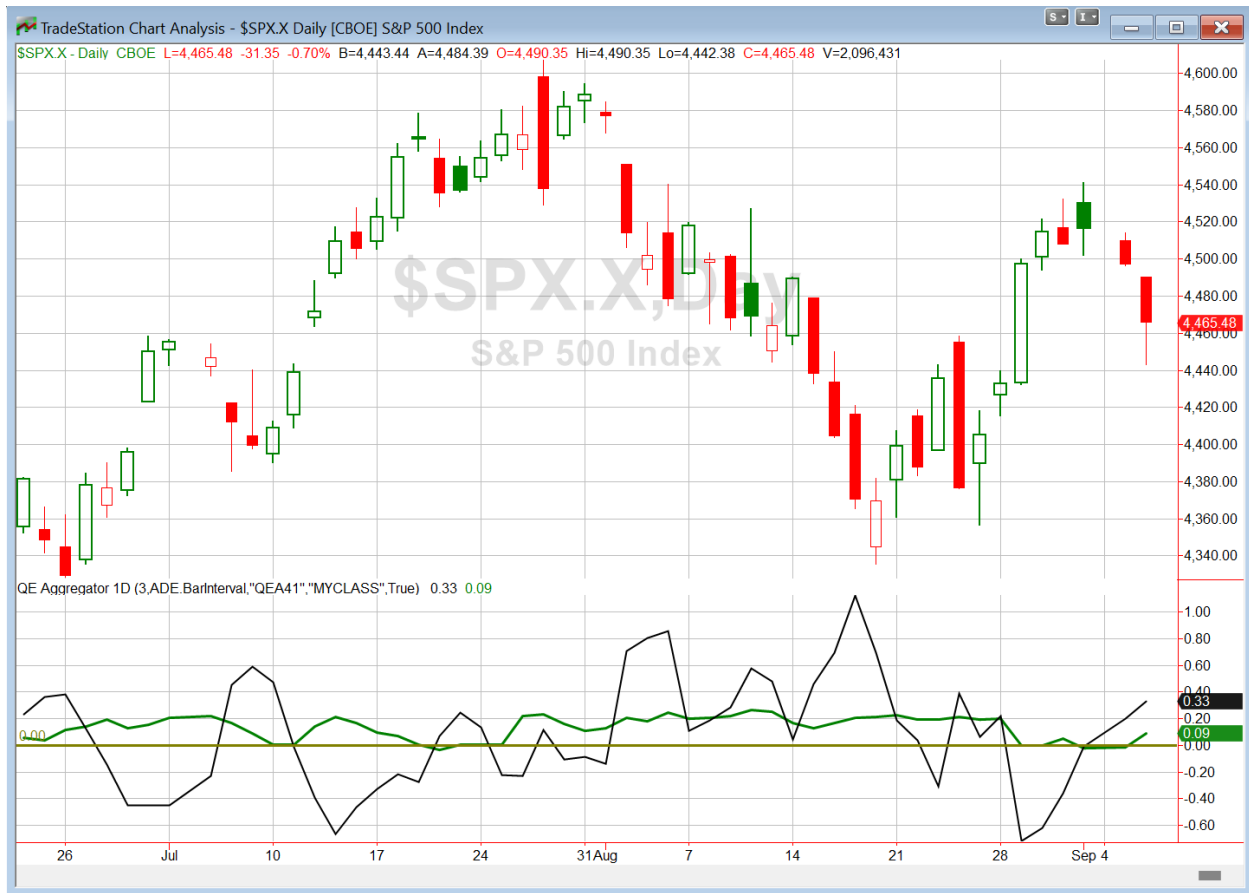
Not the straightest line, but it has made it way from lower left to upper right and is again at new highs.

Also notable about Wednesday's action is that it was the 2nd day in a row that SPY left an unfilled gap down. This 3rd study suggested bullish implications when this occurred during a long-term uptrend. I took another look at the study tonight.



The curve is certainly choppy, but I find the overall evidence strong enough to add it to the Active List as a 1-day edge.

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



With tonight's evidence considered, the green Aggregator Line rose above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held above zero. 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 studies on the active list, expectations are slated to remain positive on Thursday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4516.80 on Thursday. That is 1.15% above Wednesday's close. Therefore, SPX will need to close up at least 1.15% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is bullish. Evidence is solidly positive and there is ample room to the upside before SPX would flip from oversold to overbought. This appears to be a favorable scenario for the bulls. I like the long side, and will look to take on some index exposure if I can get a favorable fill on Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/5 – neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

KHC – 1/3 @ \$32.58 (bought @ limit)

KHC – 1/3 @ \$32.55 (bought @ limit)

WBA – 1/3 @ \$22.73 (bought @ limit)

New

WBA – 1/3 @ \$22.64 (buy @ limit)

Broad Market Large Cap CBI – 4(KHC-2, WBA-2)

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.

WBA – Buy 1/3 Catapult position @ \$22.64 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of WBA.

SPY – Buy ¼ Index position @ \$446.22 LIMIT. Based on the short-term outlook above, I will look to take on some long index exposure if SPY is available at the level it closed at on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
KHC(1/3)	9/5/2023	\$32.58	\$32.57	-0.03%	Catapult
KHC(1/3)	9/6/2023	\$32.55	\$32.57	0.06%	Catapult
WBA	9/6/2023	\$22.61	\$22.64	0.13%	Catapult

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