

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 8, 2023

Volume 16 Issue 172

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	5

Tonight's Research Points

- 3-day pullbacks with a low 3/10 Offset HV suggest a bullish edge.

Short-term Outlook

The Bottom Line

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

The Evidence

Thursday saw the market gap lower and only partially recover the morning losses. The SPX closed down 0.3%, the NASDAQ lost 0.9%, and the Russell 2000 fell 1.0%. Breadth was negative with the NYSE Up Issues % coming in at 36% and the Up Volume % at 30%. NYSE total volume rose some from Wednesday's level.

A positive about the SPX pullback over the last 3 days is that the 3/10 Offset HV Indicator is extremely low. As a brief review the 3/10 Offset HV compares the current 3-day historical volatility to the historical volatility of the 10 days prior to these three. When very low readings occur that means there has been a sharp contraction in volatility. This often leads to a volatility expansion. It isn't often useful in determining direction. It does suggest that a large move could occur, though. The 0.25 level is one I tend to use. Historically it has reached 0.25 or lower about 9% of the time. The 3 days following such low readings have seen the 3-day HV expand 5.5 times over the next 3 days.

So let's take a look and see how the market has reacted following 3-day pullbacks with low readings vs. those without low readings. I last did this in the 12/10/15 letter and have updated the studies below. First I'll show times when the 3/10 Offset HV is above 0.25.

SPX closes down exactly 3 days in a row and HV Offset 3/10 Indicator > 0.25. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	46,990.03	192	108	84	56.25	10,849.26	-18,329.76	2,875.46	-3,137.62	0.92	1.18	244.74
9	75,041.41	200	118	82	59.00	12,144.60	-15,942.36	2,602.97	-2,830.60	0.92	1.32	375.21
8	78,142.47	205	120	84	58.54	12,293.93	-14,092.68	2,594.70	-2,776.44	0.93	1.34	381.18
7	80,621.77	215	124	91	57.67	12,277.87	-12,544.56	2,395.93	-2,378.83	1.01	1.37	374.98
6	56,429.22	221	124	97	56.11	10,326.58	-11,683.62	2,161.95	-2,181.99	0.99	1.27	255.34
5	44,617.70	235	125	110	53.19	9,830.18	-18,000.90	2,105.79	-1,987.33	1.06	1.20	189.86
4	69,849.72	247	152	95	61.54	7,119.69	-17,037.90	1,682.14	-1,956.17	0.86	1.38	282.79
3	26,560.58	247	140	107	56.68	7,687.63	-10,286.10	1,550.80	-1,780.86	0.87	1.14	107.53
2	28,766.09	247	139	108	56.28	7,249.63	-9,270.00	1,267.29	-1,364.70	0.93	1.20	116.46
1	49,802.63	247	143	104	57.89	6,901.83	-3,810.60	1,021.10	-925.14	1.10	1.52	201.63

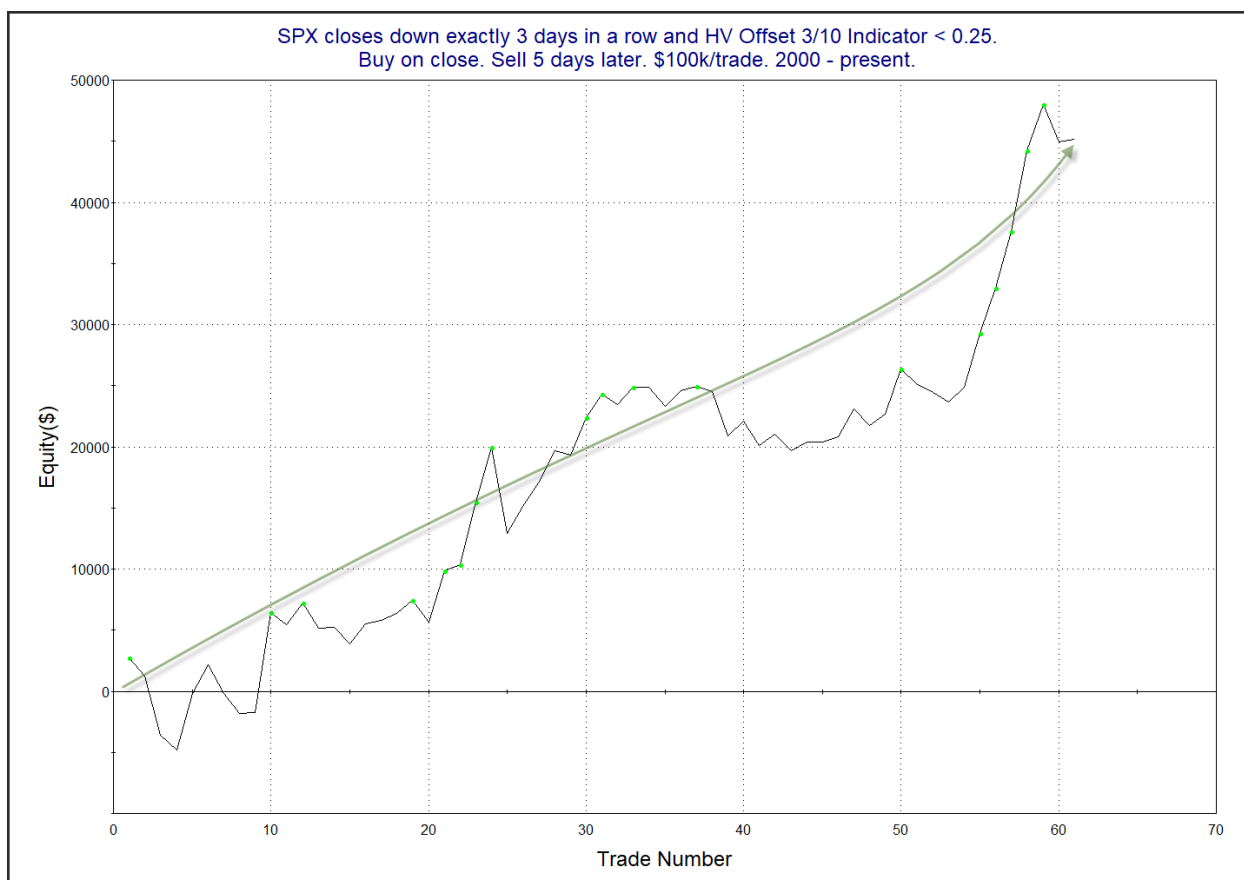
As we knew from past studies there is a mild upside bias after a 3-day pullback. It appears over the last 15 years that the edge has really only lasted 1-day. Returns after the 1st day are fairly flat.

Now let's look at times like now where the 3/10 Offset HV is very low.

SPX closes down exactly 3 days in a row and HV Offset 3/10 Indicator < 0.25.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

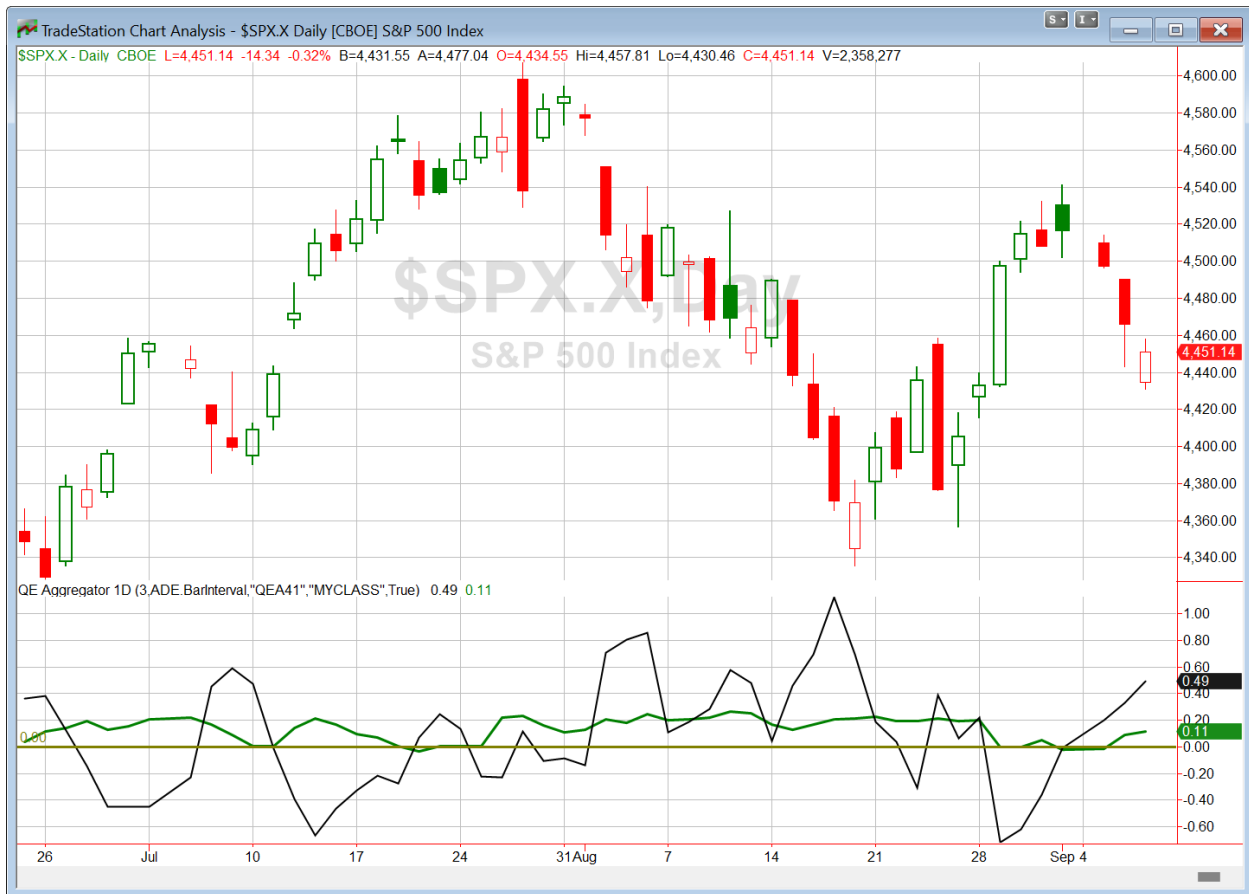
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	69,991.47	56	38	18	67.86	13,815.90	-5,143.04	2,711.49	-1,835.84	1.48	3.12	1,249.85
9	63,442.11	57	39	18	68.42	11,206.23	-5,944.68	2,501.08	-1,894.44	1.32	2.86	1,113.02
8	59,683.17	58	39	19	67.24	11,382.35	-4,624.64	2,455.17	-1,898.35	1.29	2.65	1,029.02
7	32,927.80	58	33	25	56.90	10,117.38	-5,803.92	2,472.36	-1,946.40	1.27	1.68	567.72
6	42,603.94	59	35	24	59.32	7,785.50	-7,964.16	2,593.66	-2,007.26	1.29	1.88	722.10
5	45,185.35	61	38	23	62.30	8,234.80	-7,032.56	2,298.20	-1,832.45	1.25	2.07	740.74
4	38,482.17	61	38	23	62.30	8,810.76	-7,145.44	2,001.20	-1,633.19	1.23	2.02	630.86
3	36,140.87	61	34	27	55.74	8,432.34	-3,021.92	1,969.10	-1,141.06	1.73	2.17	592.47
2	30,077.55	61	37	24	60.66	5,018.23	-5,271.36	1,496.60	-1,054.02	1.42	2.19	493.07
1	9,511.75	61	38	23	62.30	2,971.43	-4,660.72	822.27	-944.98	0.87	1.44	155.93

These numbers appear to be quite a bit better - both immediately and after a couple of weeks. Below is a profit curve assuming a 5-day exit strategy.



The push higher has seen the curve steepen in recent years. This supports the bullish inclination suggested by the stats table. The current pullback appears to be providing a favorable entry point for longs.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also 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 stayed long at the close.

Based on the studies on the active list, expectations are slated to remain positive on Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4497.40 on Friday. That is 1.0% above Thursday's close. Therefore, SPX will need to close up at least 1.0% on Friday 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. I took a small amount of index exposure at the open on Thursday. I may look to add to that position if SPX closes down much on Friday.

*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)

WBA – 1/3 @ \$22.64 (bought @ limit)

New

WBA – 1/3 @ \$22.04 (buy @ limit)

Broad Market Large Cap CBI – 5(KHC-2, WBA-3)

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 @ \$22.04 LIMIT. From the Catapult section above, this is the 3rd and final lot of WBA.

SPY – Buy ¼ Index position @ \$443.10 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add to my long position at the close on Friday if SPY closes below where it opened on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
KHC(1/3)	9/5/2023	\$32.58	\$32.68	0.31%	Catapult
KHC(1/3)	9/6/2023	\$32.55	\$32.68	0.40%	Catapult
WBA(1/3)	9/6/2023	\$22.61	\$22.04	-2.52%	Catapult
WBA(1/3)	9/7/2023	\$22.60	\$22.04	-2.48%	Catapult
SPY(1/4)	9/7/2023	\$443.11	\$444.85	0.39%	Catapult

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