

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2024

Volume 17 Issue 137

## 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.
- Coming from an intermediate-term high, an unfilled gap down after an unfilled gap up appears bearish.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator formation is neutral. I am as well.

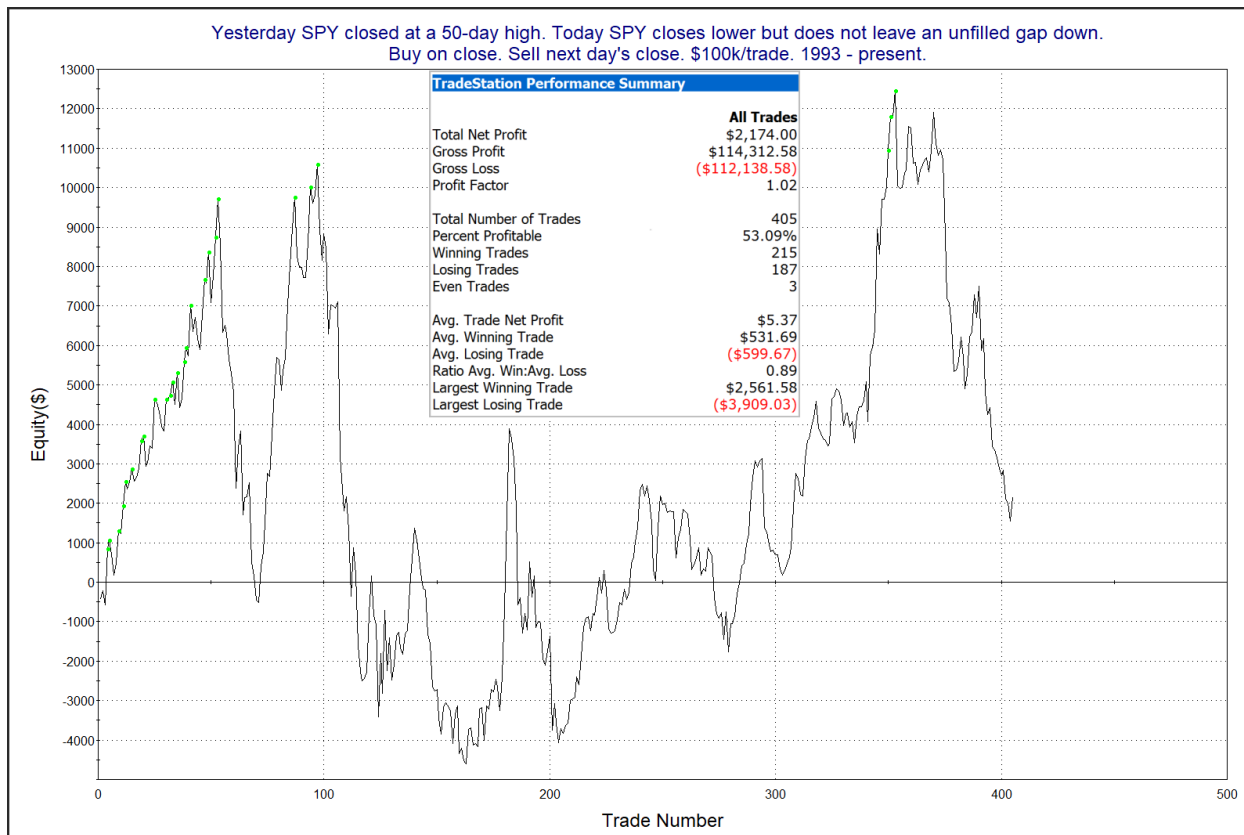
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
July 18, 2024	SPY unfilled gap dn from 50-high	1 day	Bearish			
July 18, 2024	SPY unfilled gap dn after unfilled up 20-hi	1-2 days	Bearish			
July 17, 2024	SPX and VXX both close at 5-day high	1-4 days	Bearish			
<b>Active - Long Term</b>						
July 15, 2024	Triple 70 Breadth Thrust	1-80 days	Bullish	10.10%	-4.80%	-11.20%
July 12, 2024	SPX 50-day intraday hi. NDX biggest dn 50	1-50 days	Bullish	6.35%	-2.60%	-5.20%
July 12, 2024	5+ up to 50-day, then down 1 day	1-10 days	Bullish	1.85%	-1.10%	-2.25%
July 11, 2024	50-day %b crosses > 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
July 11, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.10%	-1.90%	-4.00%
July 11, 2024	RSI(2) crosses over 99	1-15 days	Bullish	2.30%	-1.50%	-2.90%
July 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
June 26, 2024	SPY 50-high then 5 sideways	1-10 days	Bullish	2.10%	-1.15%	-2.50%
June 24, 2024	Seasonality Calendar strong end June-July	int term	Bullish			
June 20, 2024	Hindenburg Omen with SPX trend mod	1-35 days	Bearish	-7.40%	2.80%	4.90%
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
June 7, 2024	RUT btm 25% 20-day rng. SPX top 25%.	1-40 days	Bullish	5.30%	-3.30%	-6.60%
May 6, 2024	NASDAQ Leading	int term	Bullish			
April 29, 2024	May-October selloff potential when 5% dn	1-6 months	Bearish			
March 4, 2024	Jan & Feb both close positive	1-10 months	Bullish			
February 2, 2024	SPX up > 15% last 3 months	1-6 months	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

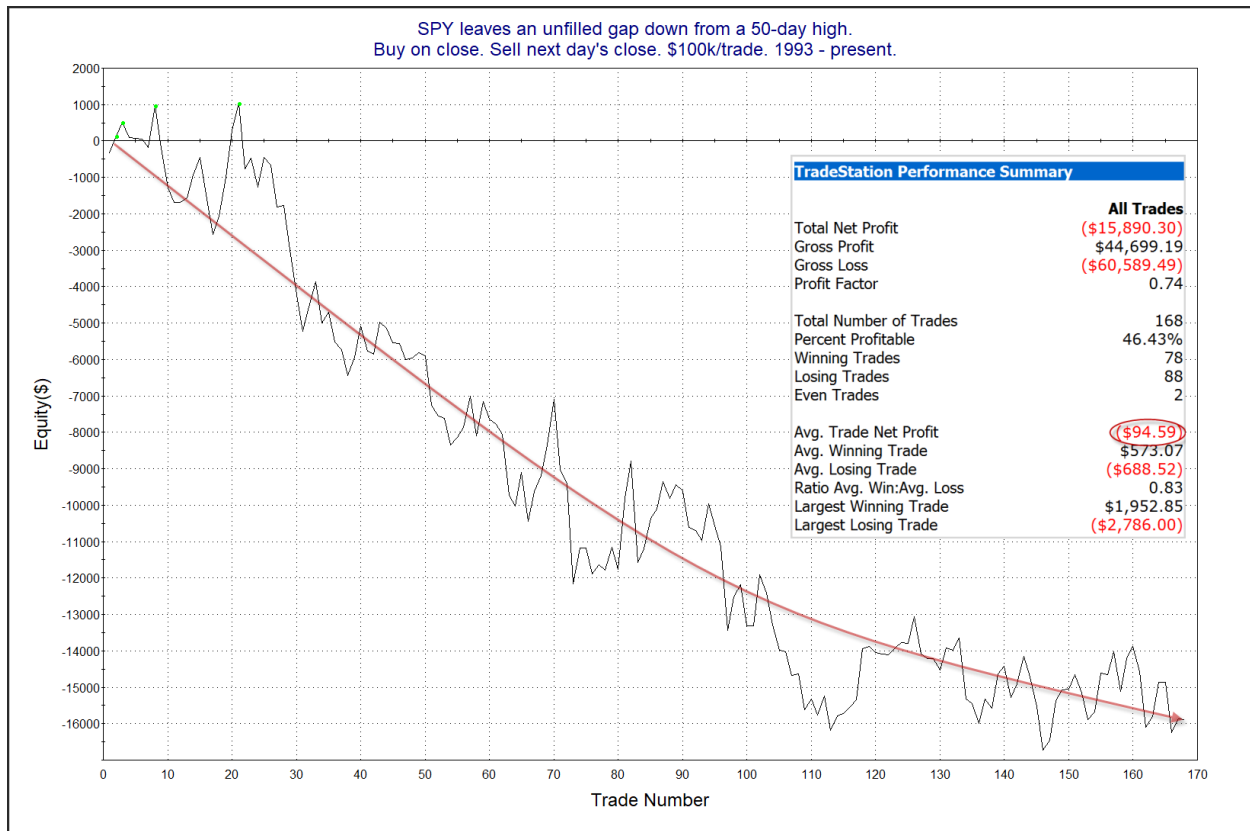
**The Evidence**

Wednesday saw strong selling. SPX finished down 1.4%, the NASDAQ tumbled 2.8%, and the Russell 2000 dropped 1.1%. Breadth was negative with the NYSE Up Issues % coming in at 41% and the Up Volume % at 45%. NYSE volume rose some from Tuesday's level.

The 1<sup>st</sup> day down from a high does not often suggest a strong edge. But when the 1<sup>st</sup> 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 were last seen in the 12/5/23 letter. The 1<sup>st</sup> 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.



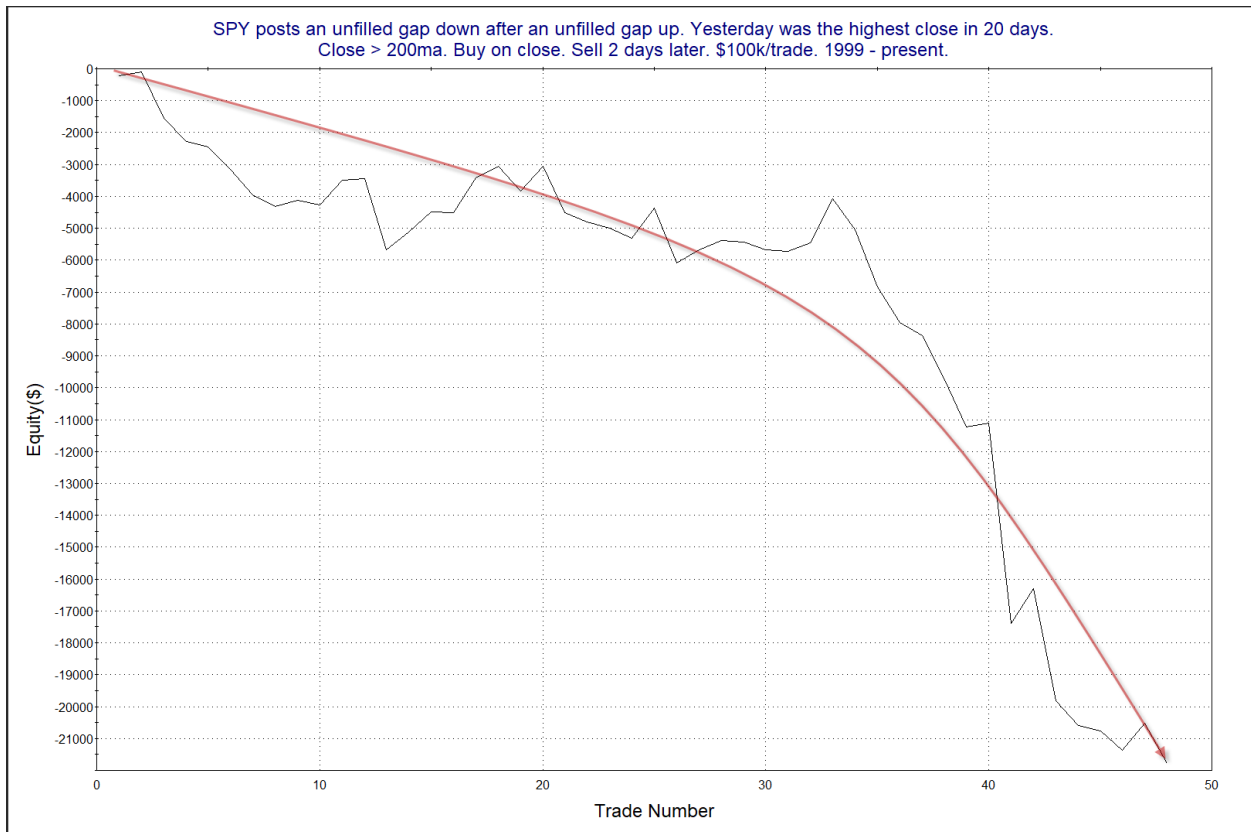
While the curve has flattened some in recent years, it is back near new lows. The move lower has persisted for a long time. This is impressive considering the market must be in an uptrend since it was at a 50-day high the day before. Overall, this study seems to suggest a mild downside edge, and at the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

This study below considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 3/31/22 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days.  
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.

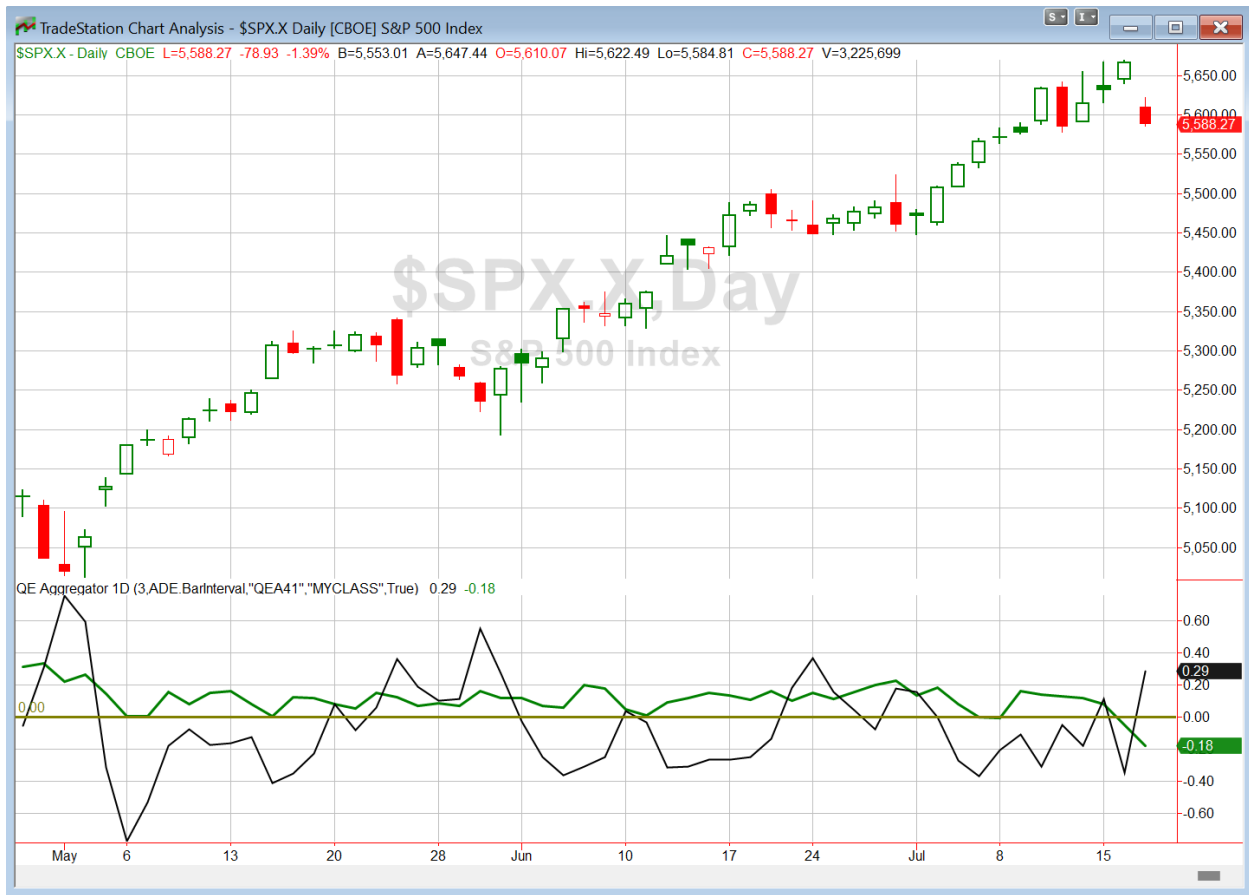
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-31,534.36	47	22	25	46.81	1,827.28	-7,283.25	799.53	-1,964.96	0.41	0.36	-670.94
4	-25,255.84	47	19	28	40.43	1,998.36	-4,273.14	863.27	-1,487.79	0.58	0.39	-537.36
3	-20,932.11	47	19	28	40.43	1,312.42	-5,156.38	645.26	-1,185.43	0.54	0.37	-445.36
2	-21,771.90	48	17	31	35.42	1,383.20	-6,275.98	584.52	-1,022.86	0.57	0.31	-453.58
1	-11,343.26	48	19	29	39.58	1,008.68	-1,807.92	411.21	-660.56	0.62	0.41	-236.32

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is a little choppy, it has persisted downwards. We have tracked this study for a while, and the edge has seen an acceleration to the downside over the years. This all suggests we could see further selling over the next few days. I added this to the Active List tonight.

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



With tonight's evidence considered, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line shot 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain negative on Thursday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 5648.68 on Thursday. That is 1.1% above Wednesday's close. So SPX will need to close up 1.1% on Thursday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is now neutral. While SPX has quickly flipped to oversold, the short-term evidence we are seeing is all suggesting a few more days of selling is likely. So it is still not yet time to take on new index exposure. I continue to exercise patience and await the next favorable entry opportunity.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 7/15 – **bullish***

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

NFLX @ \$647.60 (bought 1/3 @ limit)

### ***Broad Market Large Cap CBI – 1 (NFLX)***

## **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 tonight.**

## **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
NFLX(1/3)	7/15/2024	\$647.50	\$647.46	-0.01%	Catapult

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