

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 22, 2024

Volume 17 Issue 162

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- VXX hitting a 5-day high at the same time as SPX has been followed by SPX pullbacks in the following days.

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
Active - Short Term						
August 22, 2024	SPX and VXX 5-day closing highs	1-4 days	Bearish			
August 21, 2024	3 Higher hi, lo, close. Dn 1 but higher hi&lo	1-4 days	Bullish	1.20%	-0.80%	-1.70%
August 21, 2024	5 up, no 50-high. Down 1 > 200ma	1-5 days	Bullish	1.80%	-0.90%	-1.90%
August 15, 2024	5 up > 3% above 200ma < 50-high	1-10 days	Bullish	2.50%	-1.50%	-2.75%
Active - Long Term						
August 20, 2024	RSI(2) crosses over 99.	1-15 days	Bullish	2.25%	-1.55%	-3.00%
August 19, 2024	SPX up 7 days in a row	1-20 days	Bullish	3.00%	-2.10%	-4.40%
August 15, 2024	5 up > 3% above 200ma < 50-high	1-15 days	Bullish	3.30%	-1.65%	-3.00%
August 12, 2024	SPX dn 4 weeks in a row > 40-week ma	1-10 weeks	Bullish	8.70%	-3.10%	-7.10%
July 22, 2024	NASDAQ Lagging	int term	Neutral			
July 15, 2024	Triple 70 Breadth Thrust	1-80 days	Bullish	10.10%	-4.80%	-11.20%
July 8, 2024	NDX 18% above 200ma	1-90 days	Bullish	14.50%	-9.40%	-18.90%
June 14, 2024	SPX new high with < 50% stocks > 100ma	1-18 months	Bearish			
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, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

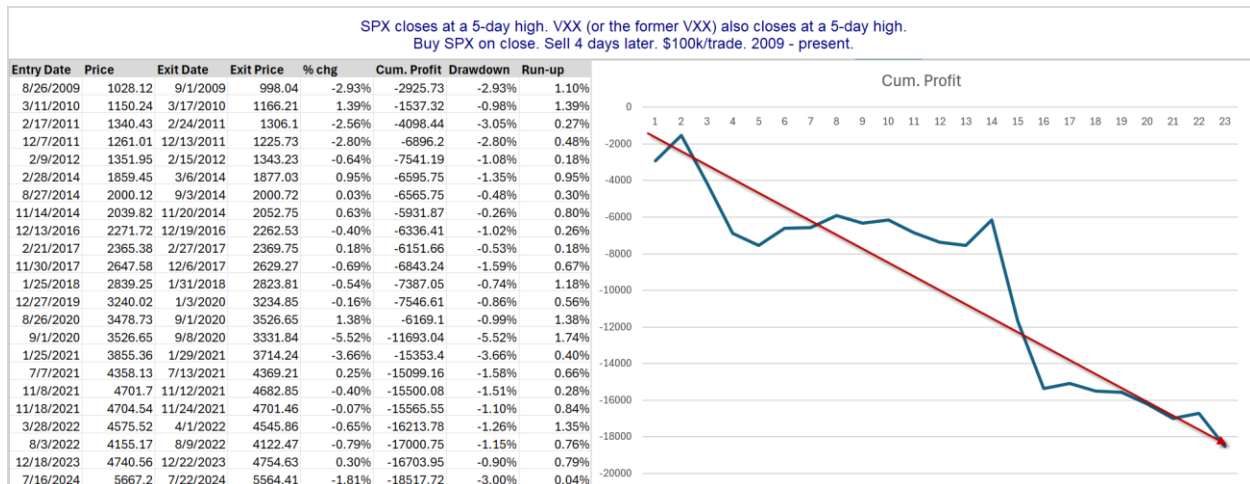
The Evidence

After just 1 down day, the market got back to rallying on Wednesday. SPX rose 0.4%, the NASDAQ gained 0.6%, and the Russell 2000 jumped 1.3%. Breadth was positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 74%. NYSE total volume rose some from Tuesday's level.

What stood out to me was that the VIX and VIX futures rose alongside the SPX. It is unusual that they are not only rising but both making short-term highs at the same time. I noticed this action could be a warning sign years ago when looking at the old XIV and SPX moving in opposite directions. The study below looks at VXX (and the old VXX which expired in 2019) vs SPX. It is updated from the 7/17/24 letter.

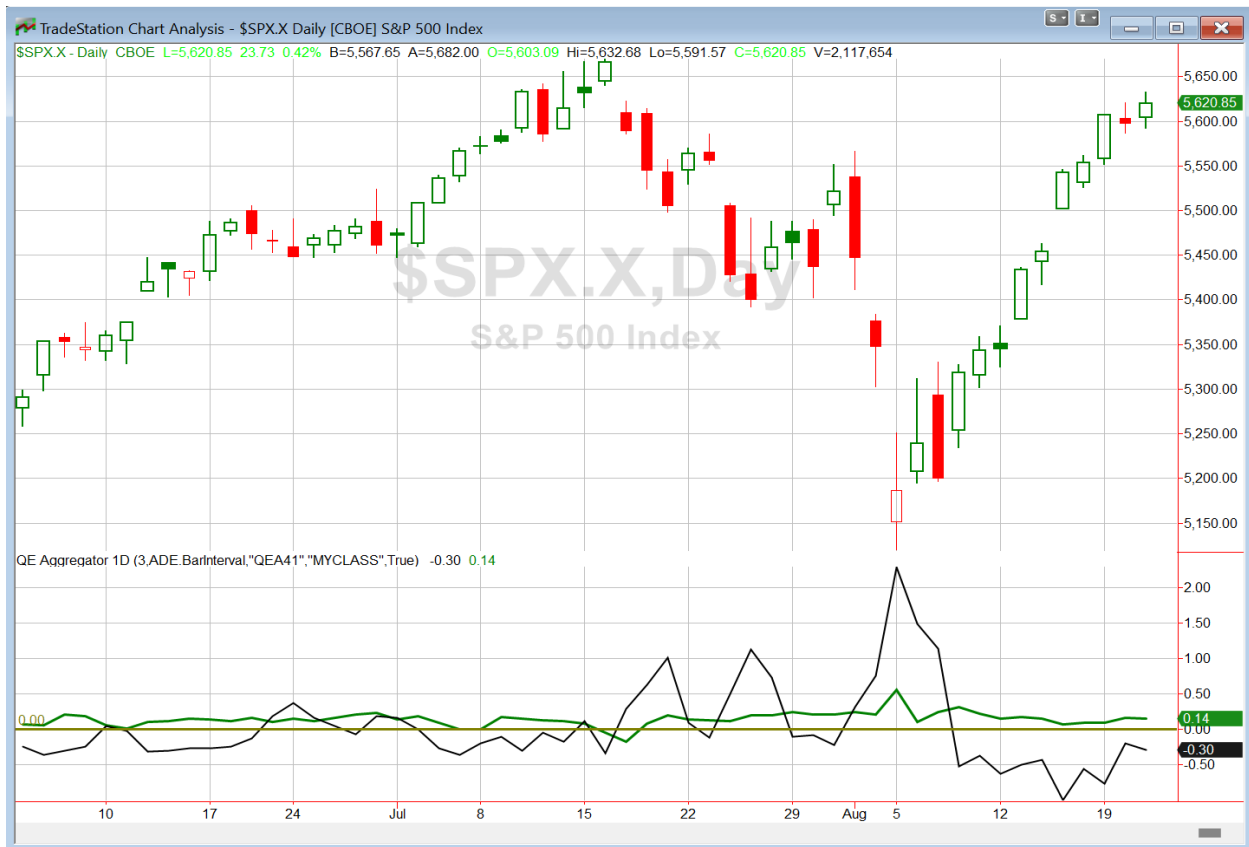
SPX closes at a 5-day high. VXX (or the former VXX) also closes at a 5-day high. Buy SPX on close. Sell "Days In" days later. \$100k/trade. 2009 - present.									
Days In	# Trades	# of winners	# of losers	% of Winner	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss	
5	23	10	13	43.48	0.97	-1.81	0.4	-\$581.56	
4	23	8	15	34.78	0.64	-1.58	0.22	-\$749.39	
3	23	9	14	39.13	0.46	-1.24	0.24	-\$545.30	
2	23	9	14	39.13	0.42	-0.94	0.29	-\$389.68	
1	28	9	19	32.14	0.66	-0.85	0.36	-\$351.27	

The numbers seem to point lower. Below is the list of instances along with a profit curve for assuming a 4-day exit strategy.



Choppy, but it has generally headed lower for a long time and is back at new lows. The average drawdown has also been about 2 ½ times the average run-up. The rise in VXX (and VIX and VIX futures) could simply be due to anxiety over the Jackson Hole Fed meeting and Powell’s speech on Friday. It could also be that someone “in the know” anticipates some kind of shock, and they are buying volatility and pushing these securities higher ahead of the coming shock. That sounds far-fetched, but the setup has occurred ahead of some fairly sizable market drawdowns. So the study certainly seems worth consideration when estimating risk/reward over the next few days. I have included this study on the active list tonight.

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



Despite tonight's bearish evidence, 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 held below zero. The negative Differential Line reading means that SPX is strongly 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 list of active studies, expectations are set to remain positive on Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be slightly inverted at 5621.66. That is 1 point above Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up about a point in order to remain overbought. If it fails to do that, it will change to "oversold" versus expectations as of Thursday's close.

So the Aggregator is neutral. Evidence is now mixed. And I find tonight's bearish evidence compelling. So I am losing some enthusiasm about taking new long positions. I will want to see more than just a sideways market and zero new evidence on Thursday if I am going to consider taking on a new index position. For now, like the Aggregator, I remain neutral.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 8/19 – **bullish***

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 tonight.

Current Open Trade Ideas

None

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