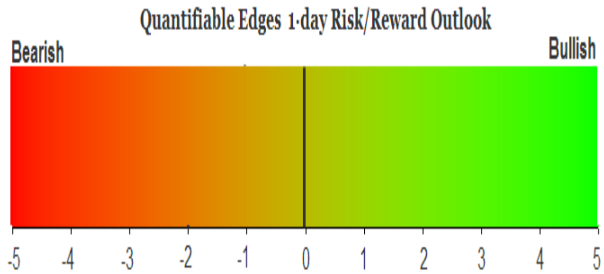
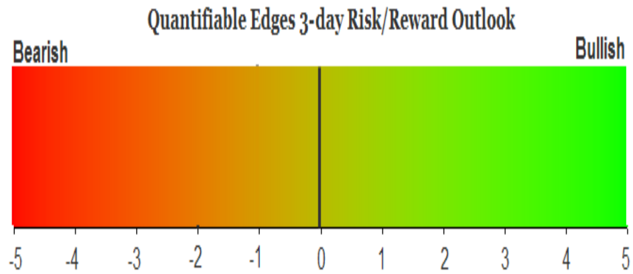
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 7, 2024 Volume 17 Issue 216

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The VIX has quickly moved from overbought to oversold. In the past, that has been followed by short-term SPX strength.
- 2 unfilled up gaps and a 50-day high are a short-term positive.
- Breakouts to 50-day highs that occur with an unfilled up gap have often led to more short-term buying.
- Breakouts on high volume often see follow through over the next couple of days.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I agree.

The Evidence

The market seemed to love the election results and we saw a big rally on Wednesday with SPX and NASDAQ both making new all-time highs. The SPX rose 2.5%, the NASDAQ gained 2.95%, and the Russell 2000 jumped 5.8%. Breadth was positive as the NYSE Up Issues % was 61.5% and the Up Volume % came in at 68%. NYSE total volume came in high.

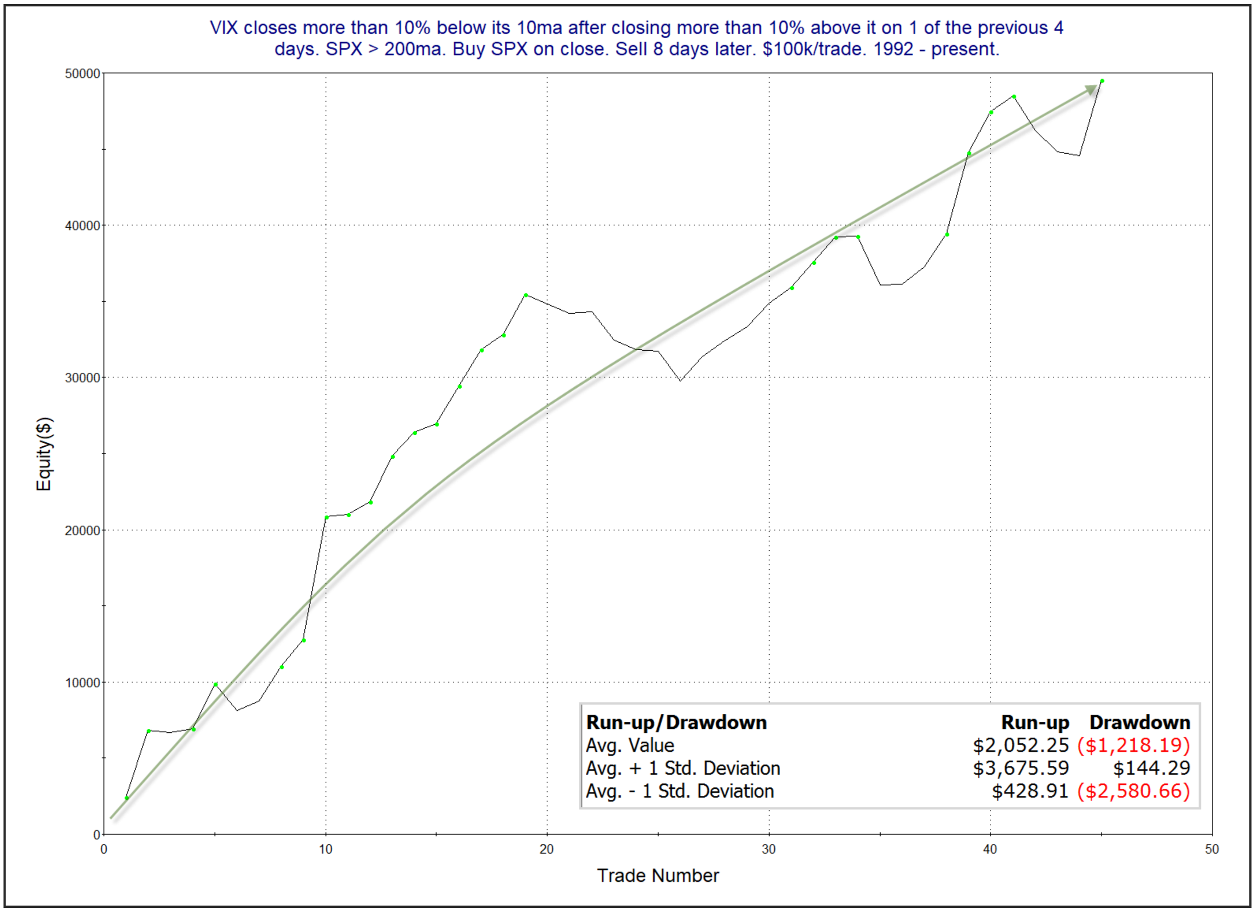
There were several studies with compelling bullish outlooks based on Wednesday's action. Let's discuss a few of them. One study from the Quantifinder worth a review considered the sharp drop in the VIX over the last couple of days after a sharp rise just prior to that. It was last seen in the 8/12/24 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. SPX > 200ma. Buy SPX on close. Sell X days later. $100k/trade. 1992 - 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	37,717.18	45	28	17	62.22	8,115.80	-4,224.84	2,265.76	-1,513.19	1.50	2.47	838.16
9	39,412.79	45	30	15	66.67	8,397.40	-2,973.64	2,000.13	-1,372.75	1.46	2.91	875.84
8	49,556.21	45	33	12	73.33	8,076.20	-3,172.20	1,950.56	-1,234.34	1.58	4.35	1,101.25
7	46,271.86	45	33	12	73.33	7,749.50	-3,267.44	1,872.66	-1,293.82	1.45	3.98	1,028.26
6	42,063.91	45	32	13	71.11	5,305.30	-3,271.68	1,748.14	-1,067.42	1.64	4.03	934.75
5	34,310.53	45	29	16	64.44	5,361.40	-3,111.68	1,733.12	-996.88	1.74	3.15	762.46
4	22,804.50	46	31	15	67.39	4,981.90	-2,927.52	1,318.48	-1,204.55	1.09	2.26	495.75
3	14,854.52	47	29	18	61.70	3,799.40	-3,629.81	1,053.26	-871.67	1.21	1.95	316.05
2	12,166.31	47	30	17	63.83	3,839.00	-5,300.66	914.01	-897.29	1.02	1.80	258.86
1	9,290.95	47	29	18	61.70	2,952.40	-3,572.94	712.60	-631.92	1.13	1.82	197.68

91% of instances closed above the entry price at some point in the next week.

The market condition that would typically accompany such VIX movement is one where you see SPX post a strong rebound from a sharp decline during a long-term uptrend. In this case, the VIX drop was also thanks to the election results becoming known. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8-day holding period.



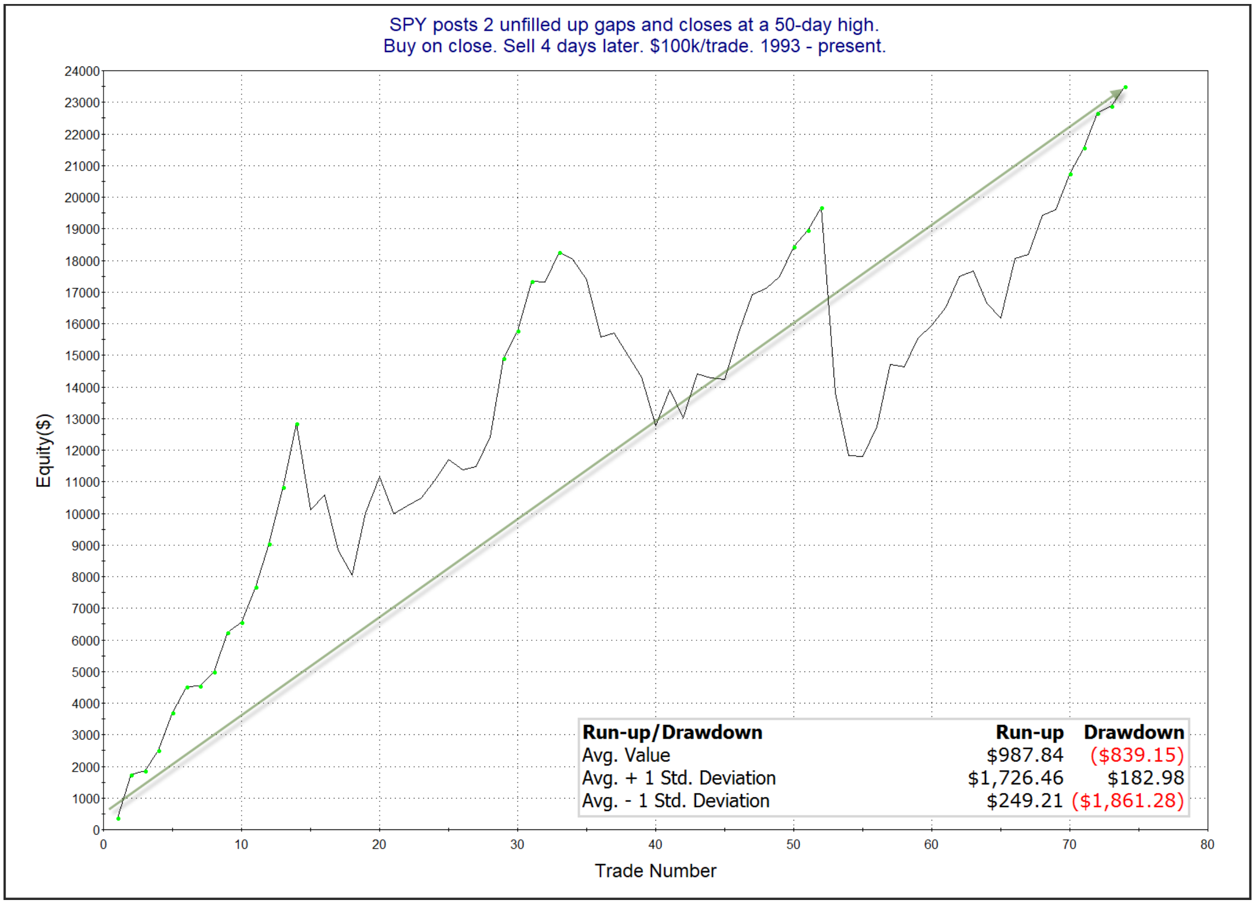
This curve struggled for some time in the middle of the chart, but it recovered nicely and has persisted higher. I have included this study on the Active List tonight.

Wednesday not only saw SPY make a 50-day high, but it was also the 2nd day in a row with an unfilled gap up. The study below was last seen in the 7/11/24 letter. It examined other times SPY left at least 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high.
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	17,987.89	73	51	22	69.86	2,709.12	-4,990.35	898.99	-1,266.38	0.71	1.65	246.41
4	23,505.28	74	53	21	71.62	2,475.56	-5,867.91	875.48	-1,090.25	0.80	2.03	317.64
3	14,106.18	74	52	22	70.27	2,419.84	-6,980.31	630.00	-847.91	0.74	1.76	190.62
2	9,678.77	75	45	29	60.00	1,858.87	-1,729.75	523.79	-479.03	1.09	1.70	129.05
1	75.78	87	45	42	51.72	1,431.75	-1,942.24	322.66	-343.90	0.94	1.01	0.87

The size of the follow-through isn't terribly large, but the numbers appear consistent enough to warrant further examination. Below is the 4-day profit curve.



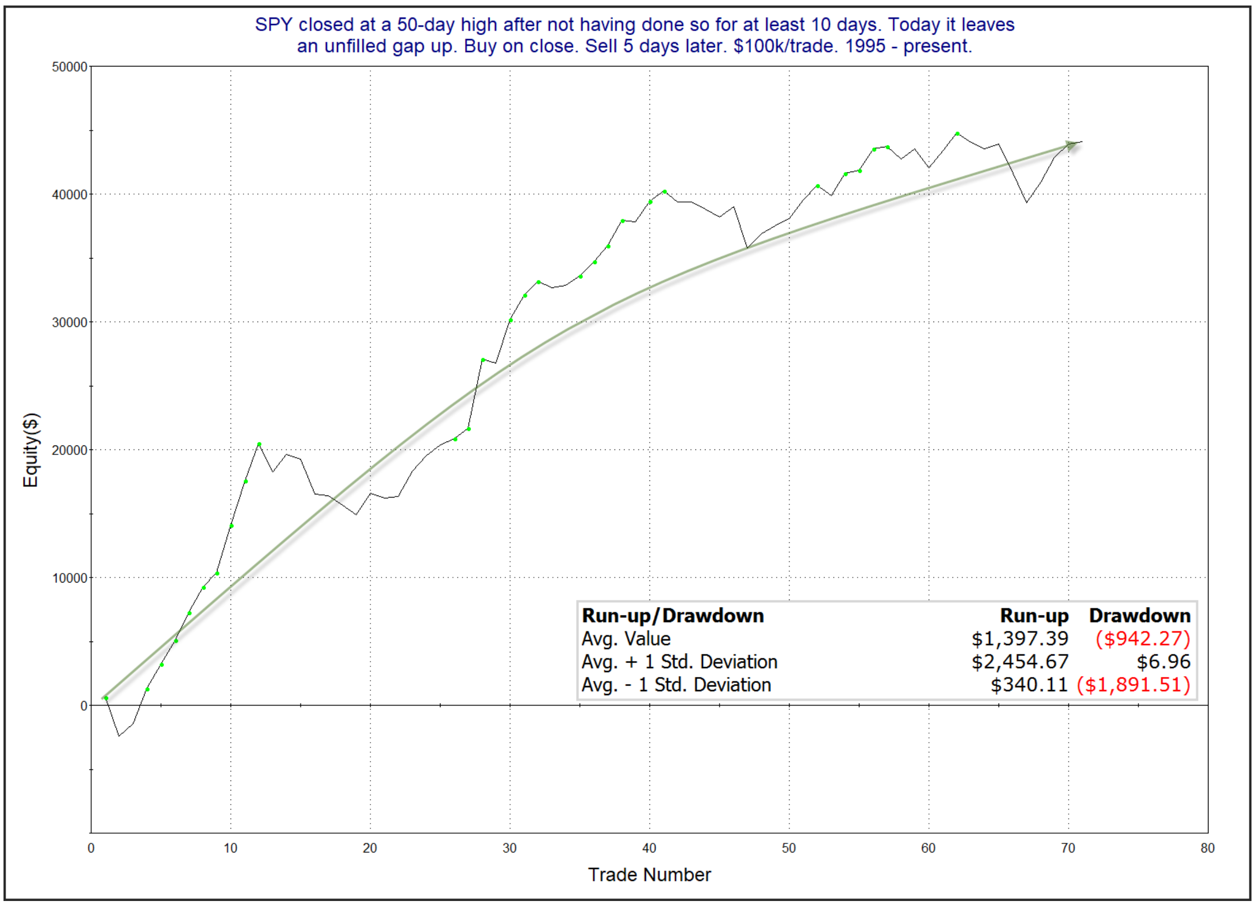
There were some sizable losers in 2020, including one in June of that year which lost nearly 6%. But the curve has certainly righted itself since then, rallying impressively since early 2021. I have decided to add this study to the active list tonight as well.

SPY breakout action to a fresh high also provided some bullish evidence. This is because the breakout came with an unfilled gap up. I last showed the importance of an unfilled gap in the 9/20/24 subscriber letter. I have updated those studies below.

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	44,128.81	71	49	22	69.01	5,434.00	-3,218.88	1,426.68	-1,171.75	1.22	2.71	621.53
4	30,243.93	71	47	24	66.20	3,637.92	-3,267.84	1,139.92	-972.19	1.17	2.30	425.97
3	21,983.88	71	46	25	64.79	3,992.56	-2,538.18	973.36	-911.62	1.07	1.96	309.63
2	18,556.83	71	46	25	64.79	2,545.92	-2,293.20	755.35	-647.57	1.17	2.15	261.36
1	6,293.68	71	47	23	66.20	1,816.10	-2,591.68	456.62	-659.46	0.69	1.41	88.64

SPY closed at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. $100k/trade. 1995 - present.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



It has been a bit choppy as of late, but overall the move up is still impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn't immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let's look at instances where the 50-day high breakout was ***not*** accompanied by an unfilled gap. Interestingly, the number of instances was a good bit lower here. This study also appeared in the 9/20/24 letter (not updated).

SPY closed at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	4,660.77	54	31	23	57.41	2,671.20	-4,285.26	1,045.08	-1,205.94	0.87	1.17	86.31
4	-2,382.20	54	31	23	57.41	2,072.07	-4,518.34	950.42	-1,384.57	0.69	0.93	-44.11
3	3,919.36	54	31	23	57.41	2,927.90	-5,133.72	978.01	-1,147.79	0.85	1.15	72.58
2	157.71	54	29	25	53.70	2,324.90	-3,640.86	636.70	-732.27	0.87	1.01	2.92
1	6,085.69	54	29	24	53.70	1,586.97	-2,448.72	541.16	-400.33	1.35	1.63	112.70

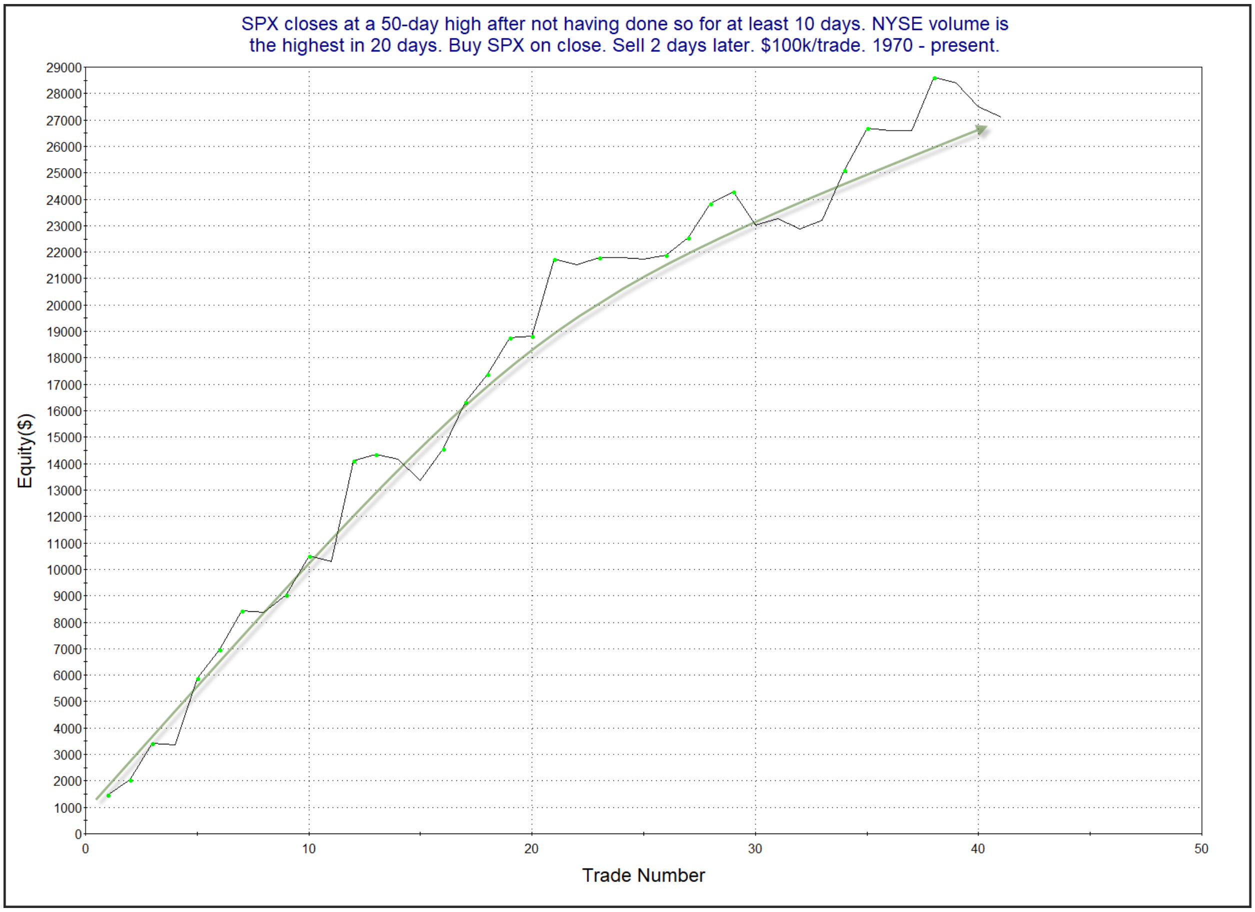
Moves to new highs that don't start with an unfilled gap are much less reliable. I have been showing this study for 16 years or so, and it never fails to amaze me how more breakouts occur with an unfilled gap up than without one.

It is also notable that the breakout came on huge volume. In the 5/21/23 letter I showed a study that looked at other times SPX broke out while NYSE volume came in at a 20-day high. Updated results can be found below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in 20 days. Buy SPX on close. Sell X days later. $100k/trade. 1970 - present.

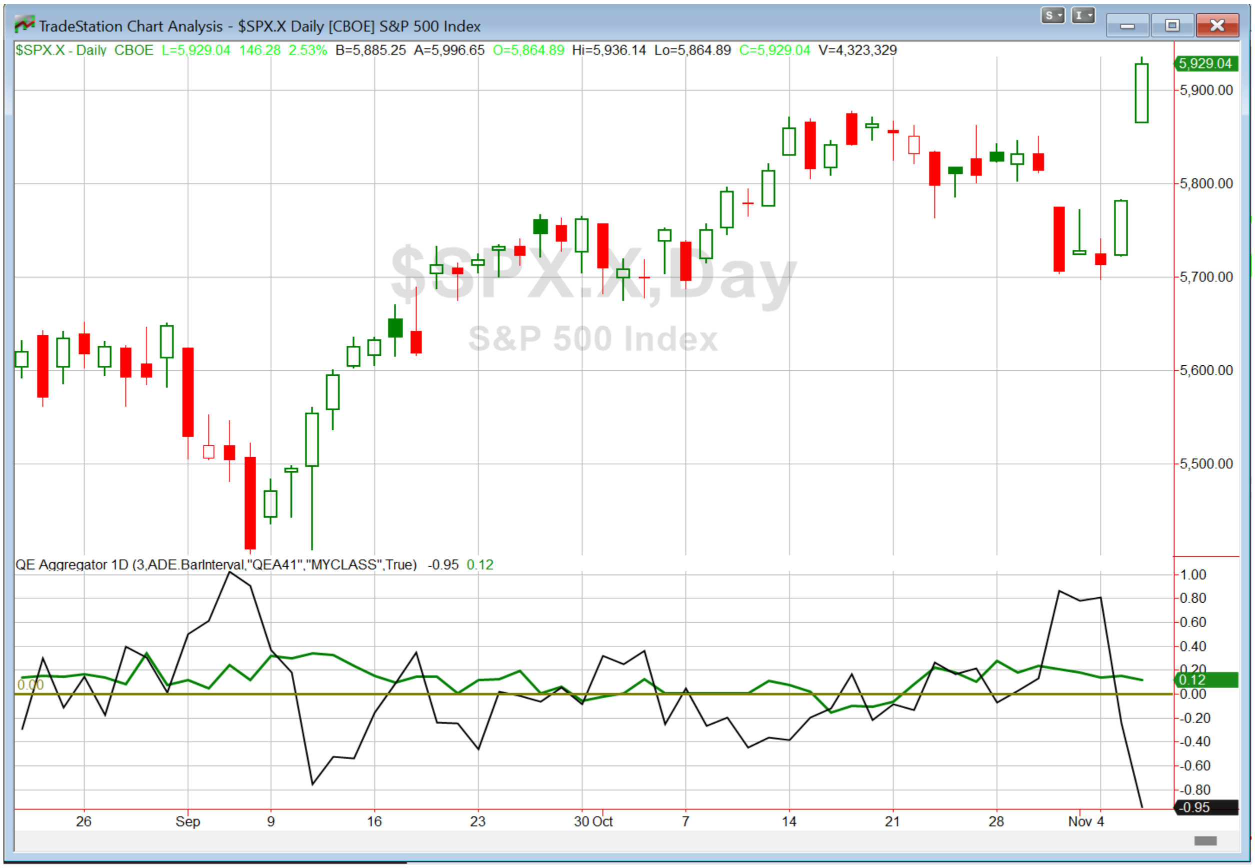
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	29,294.27	41	26	15	63.41	4,771.60	-2,562.72	1,655.48	-916.55	1.81	3.13	714.49
4	20,358.72	41	26	15	63.41	3,165.12	-1,948.21	1,266.35	-837.76	1.51	2.62	496.55
3	17,058.61	41	26	15	63.41	2,989.36	-2,188.15	1,086.30	-745.67	1.46	2.53	416.06
2	27,121.51	41	27	13	65.85	3,813.53	-1,259.60	1,181.81	-368.26	3.21	6.67	661.50
1	15,065.40	41	29	12	70.73	2,755.52	-1,292.50	648.11	-310.81	2.09	5.04	367.45

There has often been follow through over the next few days. Below is a look at the 2-day profit curve.



The last few instances have not immediately panned out, but the curve remains impressive nonetheless. I have given this study consideration in the Aggregator tonight as well.

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 dropped further below zero. The negative Differential Line reading means that SPX is 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 active studies, expectations are slated to remain positive on Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be 5737.92. That is a whopping 3.2% below Wednesday's close. Therefore, SPX will need to close down at least 3.2% on Thursday in order to flip from overbought to oversold versus recent expectations. More likely, it will take a multi-day pullback or consolidation to work off the overbought condition.

So the Aggregator is neutral. While evidence is pointing higher, SPX is already substantially overbought. That increases risk on a potential entry. I will wait for the overbought condition to work off before considering a long entry. Also notable is that all the Catapult positions hit their intraday exit targets on Wednesday, so the CBI dropped to zero and all Catapult trade ideas will be closed out at the open on Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/4 – 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
IBM(1/3)	10/28/2024	$214.67	$213.60	-0.50%	*sell on open*
ACN(1/3)	10/28/2024	$360.80	$356.13	-1.29%	*sell on open*
IBM(1/3)	10/29/2024	$211.99	$213.60	0.76%	*sell on open*
LMT(1/3)	10/29/2024	$552.80	$551.82	-0.18%	*sell on open*
IBM(1/3)	10/30/2024	$209.48	$213.60	1.97%	*sell on open*
LMT(1/3)	10/30/2024	$546.80	$551.82	0.92%	*sell on open*
LMT(1/3)	10/31/2024	$545.94	$551.82	1.08%	*sell on open*
CL(1/3)	11/4/2024	$93.28	$90.22	-3.28%	*sell on open*