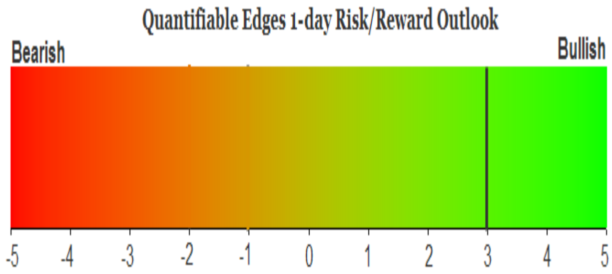
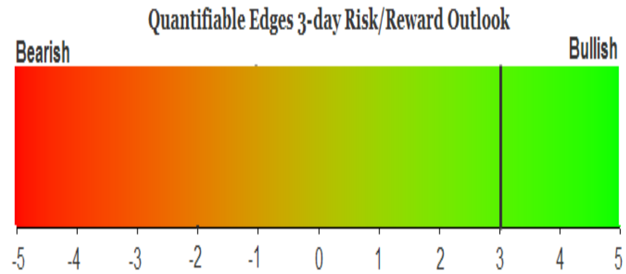
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2020 Volume 13 Issue 18

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	8

Tonight's Research Points

- The 1st 10-day low in a while is often buyable.
- Action on Tuesday will impact potential odds of a Fed Day rally on Wednesday.
- The sharp VIX spike suggests a bounce in the next few days.
- The CBI is starting to spike and could easily reach bullish territory on Tuesday.

Short-term Outlook
The Bottom Line
The Aggregator is bullish, and the setup is appealing. I like the long side.

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						
January 28, 2020	1st 10-low in 30 days	1-8 days	Bullish			
January 28, 2020	VIX 35% above 10ma	1-2 days	Bullish			
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%
January 27, 2020	SPY system 11111	1-3 days	Bullish			
January 23, 2020	20-high close in bottom 10% intraday	1-6 days	Bullish	1.50%	-1.00%	-2.00%
Active - Long Term						
January 27, 2020	1st close < 10ma in over 25 days	1-19 days	Bullish	3.90%	-1.60%	-4.20%
January 17, 2020	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 11, 2019	"not QE"	int term	Bullish			
November 4, 2019	Presidential cycle + Best 6 mos bullish	6 months	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

Monday was a tough day for the market. The SPX closed down 1.6%, the NASDAQ declined 1.9% and the Russell 2000 lost 1.1%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 11%. NYSE volume rose some from Friday's level.

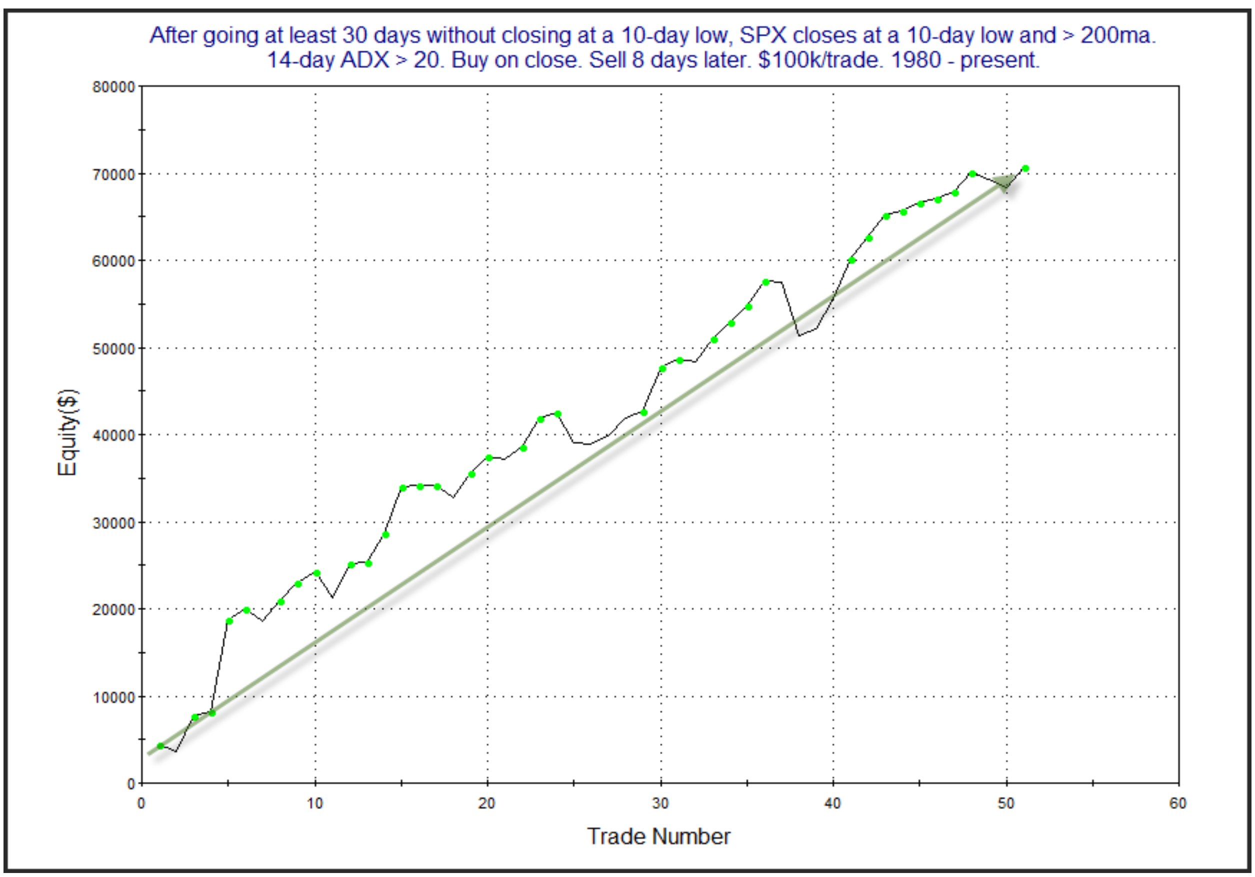
Notable about the low close on Monday is that it was the 1st 10-day low close since 12/3/19. Before Monday SPX had gone 35 trading days without closing at a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after a long time without one has provided a solid upside edge. In the past I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. I last shared the study below in the 12/4/19 letter. Results are updated.

After going at least 30 days without closing at a 10-day low, SPX closes at a 10-day low and > 200ma. 14-day ADX > 20. Buy on close. Sell X days later. $100k/trade. 1980 - 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	74,592.40	51	34	17	66.67	12,395.76	-5,362.24	2,848.13	-1,308.48	2.18	4.35	1,462.60
9	71,931.99	51	37	14	72.55	10,529.82	-3,753.36	2,521.72	-1,526.55	1.65	4.37	1,410.43
8	70,770.14	51	39	12	76.47	10,554.48	-6,117.72	2,304.50	-1,592.10	1.45	4.70	1,387.65
7	50,714.82	51	36	15	70.59	7,743.24	-8,141.12	2,244.78	-2,006.49	1.12	2.69	994.41
6	50,257.37	51	38	13	74.51	5,893.74	-4,111.40	1,861.72	-1,576.00	1.18	3.45	985.44
5	43,461.35	51	35	16	68.63	4,608.35	-3,502.11	1,788.97	-1,197.03	1.49	3.27	852.18
4	37,579.71	51	39	12	76.47	4,690.50	-2,616.60	1,490.20	-1,711.52	0.87	2.83	736.86
3	18,935.28	51	34	17	66.67	3,940.55	-4,464.88	1,179.24	-1,244.64	0.95	1.89	371.28
2	5,489.57	51	31	20	60.78	3,744.45	-7,559.56	976.69	-1,239.39	0.79	1.22	107.64
1	5,013.74	51	29	22	56.86	2,287.60	-1,922.40	677.90	-665.70	1.02	1.34	98.31

47 of 51 instances (93%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is an 8-day profit curve.



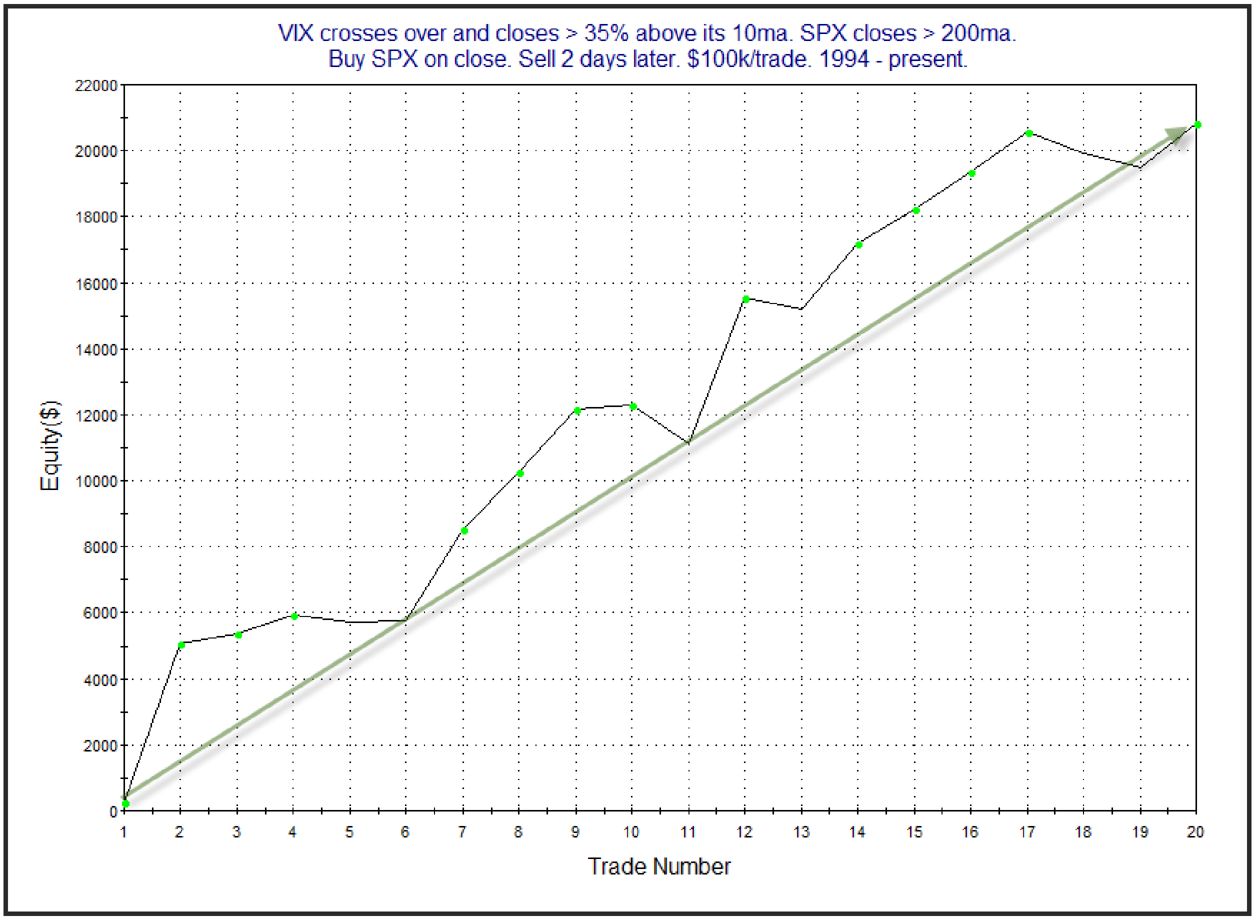
This profit curve shows a strong steady upslope. This study also confirms other we have seen in recent days that note 1st pullbacks after a long run higher are typically buyable.

The VIX underwent a large spike on Monday. This left it 37% above its 10-day ma. That is greatly stretched. In the 5/8/19 letter I looked at other stretches that took the VIX more than 35% above its 10ma while the SPX was above the 200ma. Tonight I updated that study.

VIX crosses over and closes > 35% above its 10ma. SPX closes > 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 1994 - 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	17,036.36	18	11	7	61.11	7,070.28	-1,759.84	2,162.34	-964.20	2.24	3.52	946.46
4	20,225.47	19	12	7	63.16	5,290.00	-2,616.60	2,448.40	-1,307.91	1.87	3.21	1,064.50
3	18,305.87	20	13	7	65.00	4,895.50	-2,513.78	1,977.39	-1,057.17	1.87	3.47	915.29
2	20,850.21	20	15	5	75.00	4,809.66	-1,166.69	1,582.17	-576.46	2.74	8.23	1,042.51
1	9,999.52	20	13	7	65.00	5,117.46	-2,005.85	1,188.11	-777.98	1.53	2.84	499.98

This appears to suggest an edge, especially over the next 2 days. Below is a profit curve for the 2-day holding period.



That is a good looking upslope. I have included this study on the Active List tonight.

Another thing to note here is that the Quantifiable Edges Capitulative Breadth indicator rose from 4 to 8 on Monday. I have generally shown 10 and above as a strong indication that a bounce is near. So we are getting pretty close. And if Tuesday is another down day, then we could easily see the CBI reach 10 higher. Much more information on the CBI and be found in the CBI research paper.

Of course Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the years, with the most complete documentation coming in The Quantifiable Edges Guide to Fed Days. One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 12/10/19 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day.SPY closes in the top 25% of its intraday range.
Buy on close. Sell Fed Day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$6,104.41	Profit Factor	1.24
Gross Profit	$31,767.69	Gross Loss	($25,663.28)
Total Number of Trades	83	Percent Profitable	48.19%
Winning Trades	40	Losing Trades	41
Even Trades	2		
Avg. Trade Net Profit	$73.55	Ratio Avg. Win:Avg. Loss	1.27
Avg. Winning Trade	$794.19	Avg. Losing Trade	($625.93)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$14,477.74	Profit Factor	1.92
Gross Profit	$30,261.13	Gross Loss	($15,783.39)
Total Number of Trades	51	Percent Profitable	52.94%
Winning Trades	27	Losing Trades	23
Even Trades	1		
Avg. Trade Net Profit	$283.88	Ratio Avg. Win:Avg. Loss	1.63
Avg. Winning Trade	$1,120.78	Avg. Losing Trade	($686.23)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of intraday range.
Buy SPY on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$12,241.39	Profit Factor	2.16
Gross Profit	$22,785.42	Gross Loss	($10,544.03)
Total Number of Trades	41	Percent Profitable	68.29%
Winning Trades	28	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	$298.57	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	$813.77	Avg. Losing Trade	($811.08)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

Tomorrow is a Fed Day. SPY closes in bottom 25% of intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$23,346.14	Profit Factor	4.34
Gross Profit	$30,327.24	Gross Loss	($6,981.10)
Total Number of Trades	39	Percent Profitable	74.36%
Winning Trades	29	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$598.62	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	$1,045.77	Avg. Losing Trade	($698.11)
Largest Winning Trade	$4,645.80	Largest Losing Trade	($2,945.28)

So what we see here, is that the lower SPY has closed in its range the day before, the stronger the Fed day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced.

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 is now very far above 0. The positive Differential Line reading means SPX is (strongly) oversold versus recent expectations. So expectations are positive and SPX is still oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Tuesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3328.69 on Tuesday. That is a whopping 2.6% above Monday's close. A move of that magnitude on Tuesday is highly unlikely. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is again suggesting an upside edge. We have another study suggesting strong uptrends don't just reverse and never look back. They at least bounce around first. The VIX has spiked to a point that often sees SPX bounce in the next couple of days. The CBI is nearly hitting bullish territory, and likely will if Tuesday closes lower. And the Fed Day on Wednesday could provide a bullish seasonal backdrop – especially if Tuesday closes poorly. I like the long side evidence. And I like the fact that that there is ample room to the upside before we'd reach the Differential Pivot. Plenty of profit opportunity. I took some long exposure on Monday. And if we close down again on Tuesday, I will increase it. And if we close really poorly on Tuesday, I'll look to up it further with the Fed Day coming on Wednesday. Though there is a good chance I would exit that 3rd lot prior to the Fed announcement on Wednesday. Fed Day edges generally play out before the announcement, and I would rather not carry a very large position into an announcement like that. Anyway, I like the long-side for the short-term. Details on my entry ideas are in the Trade Ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/27 – bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

OXY – 1/3 @ $43.29 (bought at limit)
OXY – 1/3 @ $42.52 (bought at limit)
OXY – 1/3 @ $42.22 (bought at limit)
AGN – 1/3 @ $188.19 (buy at limit) – not filled / cancel for now
New
C – 1/3 @ $76.71 (buy at limit)
FB – 1/3 @ $214.87 (buy at limit)
NKE – 1/3 @ $100.24 (buy at limit)
WFC – 1/3 @ $47.10 (buy at limit)

Broad Market Large Cap CBI – 8(OXY-3, AGN, C, FB, NKE, WFC)

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.*

SPY – Buy ¼ index position @ $323.49 LIMIT ON CLOSE. From the short-term section above. I'll be looking to scale further into a long position on a down close on Tuesday.

SPY – Buy ¼ index position @ $323.49 LIMIT ON CLOSE IF IT ALSO CLOSES IN THE BOTTOM 25% OF THE INTRADAY RANGE. With the Fed Day on Wednesday and the bullish edge it can provide, I will up exposure further if SPY closes low in the intraday range. This trade will likely be exited on Wednesday before the Fed announcement.

C – Buy 1/3 Catapult position @ $76.71 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of C.

FB – Buy 1/3 Catapult position @ $214.87 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of FB.

NKE – Buy 1/3 Catapult position @ $100.24 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of NKE.

WFC – Buy 1/3 Catapult position @ $47.10 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of WFC.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
OXY(1/3)	1/23/2020	$42.62	$41.24	-3.24%		Catapult
OXY(1/3)	1/24/2020	$42.47	$41.40	-2.52%		Catapult
OXY(1/3)	1/27/2020	$41.02	$41.24	0.54%		Catapult
SPY(1/4)	1/27/2020	$323.03	$323.50	0.15%		Aggregator

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here.]