

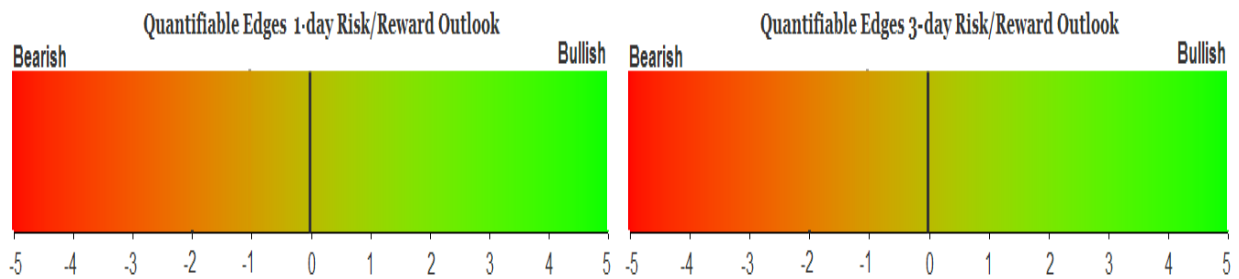
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 31, 2020

Volume 13 Issue 21

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	6

Tonight's Research Points

- The SPX price pattern the last 2 days suggests a failure by the bears. Bulls have a chance to take charge over the next few days.

Short-term Outlook

The Bottom Line

With expectations still bullish, but the market short-term overbought the setup now appears neutral.

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 31, 2020	Higher high dn close, lower low up close	1-5 days	Bullish			
January 30, 2020	NASDAQ up 2 from 10-low < 10ma	1-2 days	Bullish			
January 29, 2020	10-low. Unfilled gap up and close < 10	1-5 days	Bullish			
January 28, 2020	1st 10-low in 30 days	1-8 days	Bullish			
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%
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			

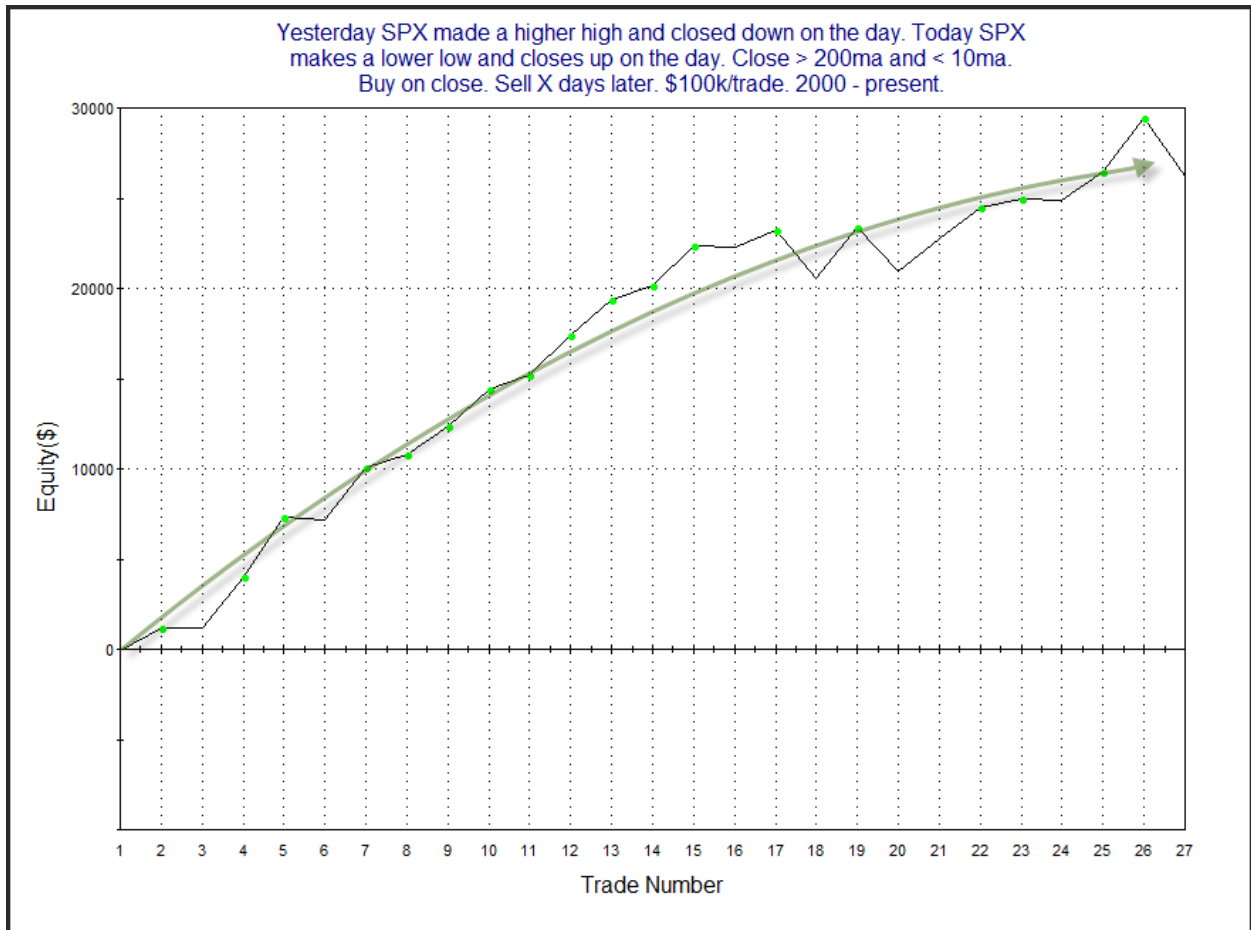
The Evidence

Thursday saw a morning selloff reverse, with most of the indices closing higher. The SPX rose 0.3%, the NASDAQ also gained 0.3% and the Russell 2000 lost 0.1%. Breadth was mixed as the NYSE Up Issues % was 50.4% and the Up Volume % came in at 49%. NYSE volume rose some from Wednesday's level.

On Wednesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Thursday the opposite happened. The bears failed in their attempt at a move lower. In the 9/26/19 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range it has been consistently bullish over the next 4-5 days. This can be seen in the below test, which I have updated.

Yesterday SPX made a higher high and closed down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and < 10ma. 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
5	26,207.38	27	19	8	70.37	3,344.64	-3,209.58	1,836.30	-1,085.30	1.69	4.02	970.64
4	19,948.88	28	23	5	82.14	2,345.07	-2,618.70	1,238.79	-1,708.68	0.73	3.34	712.46
3	7,990.32	28	18	10	64.29	2,224.32	-3,490.90	1,043.45	-1,079.17	0.97	1.74	285.37
2	4,796.92	28	17	11	60.71	2,967.00	-2,246.00	1,045.20	-1,179.22	0.89	1.37	171.32
1	4,524.36	28	15	13	53.57	1,712.28	-1,970.00	822.79	-601.35	1.37	1.58	161.58

Odds strongly favor a move higher and the profit factors are very impressive over the next 4-5 days. Below is an equity curve using a 5-day exit strategy to see how the edge has played out over time.



The persistent upslope is impressive. The failure of the bears to take control when the market pressed downward and made a lower low on Thursday has potentially opened the door for the bulls.

Also below are the results when the pattern occurred and the SPX closed above the 10ma. This table is updated from the 9/26/19 letter as well.

Yesterday SPX made a higher high and closed down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and > 10ma.
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
5	775.98	54	32	22	59.26	2,143.70	-3,770.60	934.43	-1,323.90	0.71	1.03	14.37
4	-2,965.56	60	35	25	58.33	1,984.54	-4,575.48	759.31	-1,181.65	0.64	0.90	-49.43
3	-2,145.35	60	33	27	55.00	1,918.21	-2,726.23	798.21	-1,055.04	0.76	0.92	-35.76
2	6,086.31	61	36	25	59.02	2,723.04	-2,362.36	661.13	-708.58	0.93	1.34	99.78
1	1,789.13	61	31	30	50.82	1,560.24	-1,275.95	507.65	-464.93	1.09	1.13	29.33

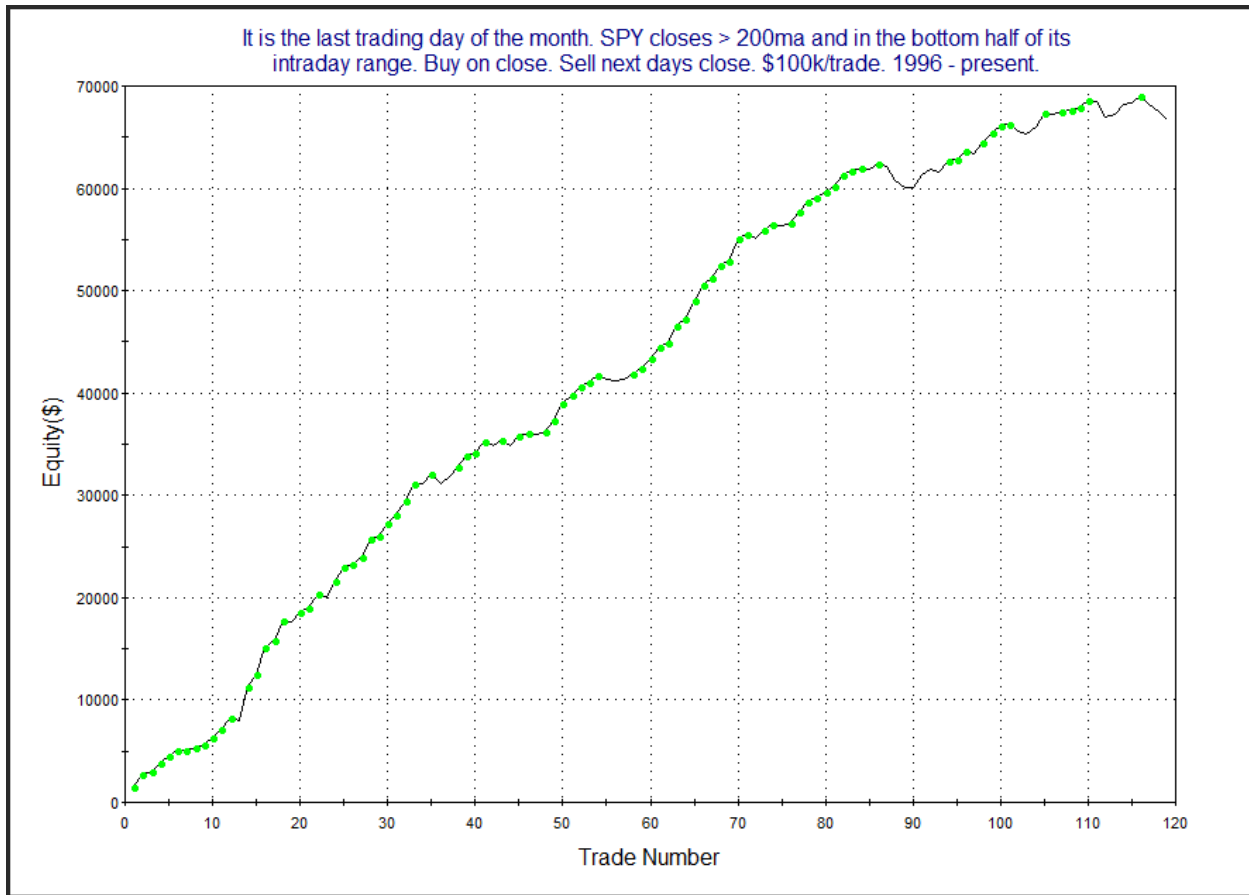
We see here that performance moving forward has been a tossup. The 1st setup is the one that triggered, and I have added it to the Active List.

The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They were last seen in the 9/30/19 letter, and have been updated. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next days close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$66,728.26	Profit Factor	6.42
Gross Profit	\$79,036.73	Gross Loss	(\$12,308.47)
Total Number of Trades	119	Percent Profitable	77.31%
Winning Trades	92	Losing Trades	27
Even Trades	0		
Avg. Trade Net Profit	\$560.74	Ratio Avg. Win:Avg. Loss	1.88
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$455.87)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6.4x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 119 instances. Below is a profit curve.

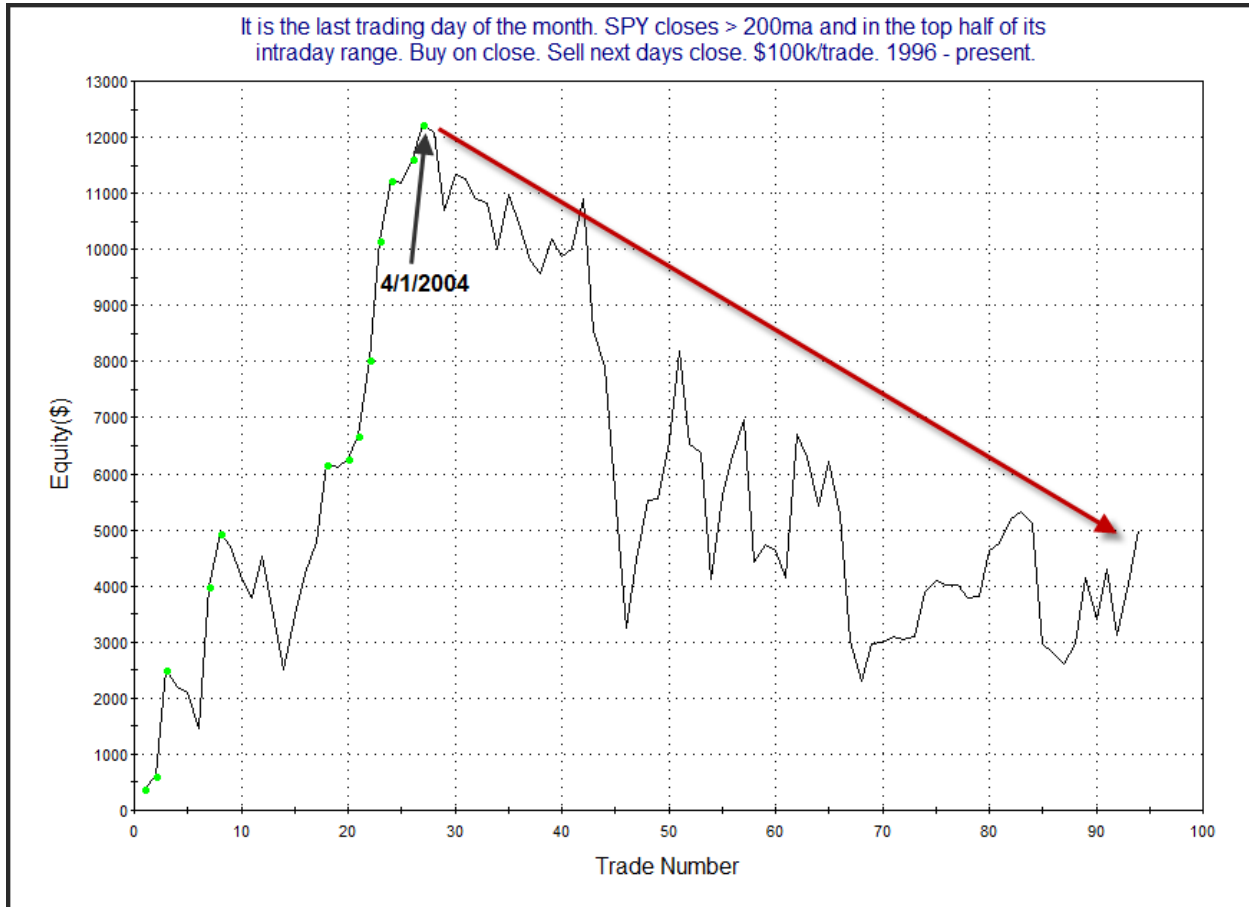


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Friday?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next days close. \$100k/trade. 1996 - present.

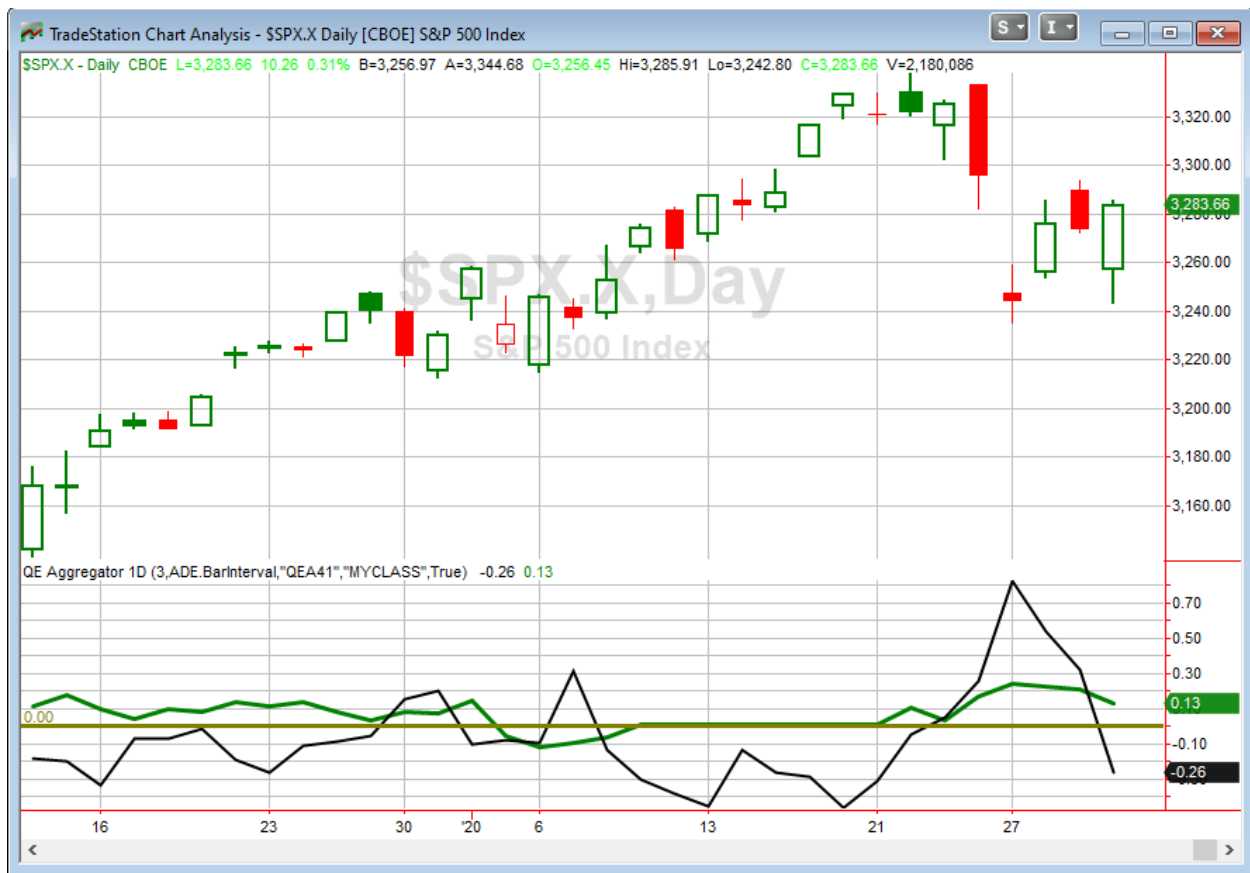
TradeStation Performance Summary			Expand
All Trades			
Total Net Profit	\$4,981.81	Profit Factor	1.15
Gross Profit	\$38,850.23	Gross Loss	(\$33,868.42)
Total Number of Trades	94	Percent Profitable	53.19%
Winning Trades	50	Losing Trades	44
Even Trades	0		
Avg. Trade Net Profit	\$53.00	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$777.00	Avg. Losing Trade	(\$769.74)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture. So it appears Friday's action may be important when considering the odds of a rally on Monday. The 1st day of the month has performed much better with some afternoon selling leading up to the day.

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 below 0. The positive Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is still 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 signal turned flat at the close.

Based on the current list of active studies, expectations are set to remain bullish on Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be *inverted* at 3296.80 on Friday. That is 0.4% *above* Thursday's close. An inverted pivot means that the Differential Line would cross through zero if SPX closes flat. In this case, SPX will need to close up at least 0.4% in order to remain "overbought" vs recent expectations. Anything less than that and it will be considered "oversold" as of Friday's close.

So the Aggregator is neutral. With the bullish evidence and the inverted pivot it could get back to a "long" signal pretty quickly and easily. But it is not there yet, and I am not inclined to jump the gun and allocate to a new index trade ahead of the signal. I'll see how Friday plays out and then consider my options for Monday.

*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

C – 1/3 @ \$76.71 (buy at limit) – not filled / cancel for now

NKE – 1/3 @ \$100.24 (bought at limit)

Broad Market Large Cap CBI – 6(OXY-3, AGN, C, NKE)

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	Stop	Notes
OXY(1/3)	1/23/2020	\$42.62	\$40.59	-4.76%		Catapult
OXY(1/3)	1/24/2020	\$42.47	\$40.59	-4.43%		Catapult
OXY(1/3)	1/27/2020	\$41.02	\$40.59	-1.05%		Catapult
FB(1/3)	1/28/2020	\$214.87	\$206.53	-3.88%		<i>sold on open</i>
NKE(1/3)	1/28/2020	\$100.24	\$98.19	-2.05%		Catapult

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

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