

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2020

Volume 13 Issue 30

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The 3/10 HV indicator suggests a big move could be on the horizon.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. The market is extended, and evidence is weakly bullish. No strong edge apparent.

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						
February 5, 2020	SPY 2 unfilled gaps up from 20-low	1-7 days	Bullish	2.00%	-0.90%	-1.70%
Active - Long Term						
February 3, 2020	Hindenburg cluster 4+ (triggered Feb 3)	1-35 days	Bearish			
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

Wednesday saw the rally continue. The SPX finished up 0.65%, the NASDAQ gained 0.9% and the Russell 2000 climbed 0.7%. Breadth was also positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 68%. NYSE volume rose some from Tuesday's level.

One factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.23 on Wednesday. This suggests a volatility expansion is likely to occur in the next few days.

I [first introduced the 3/10 Offset HV in July of 2009](#). It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. While lower, the point remained the same – relatively big moves often emerged after tight consolidations.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

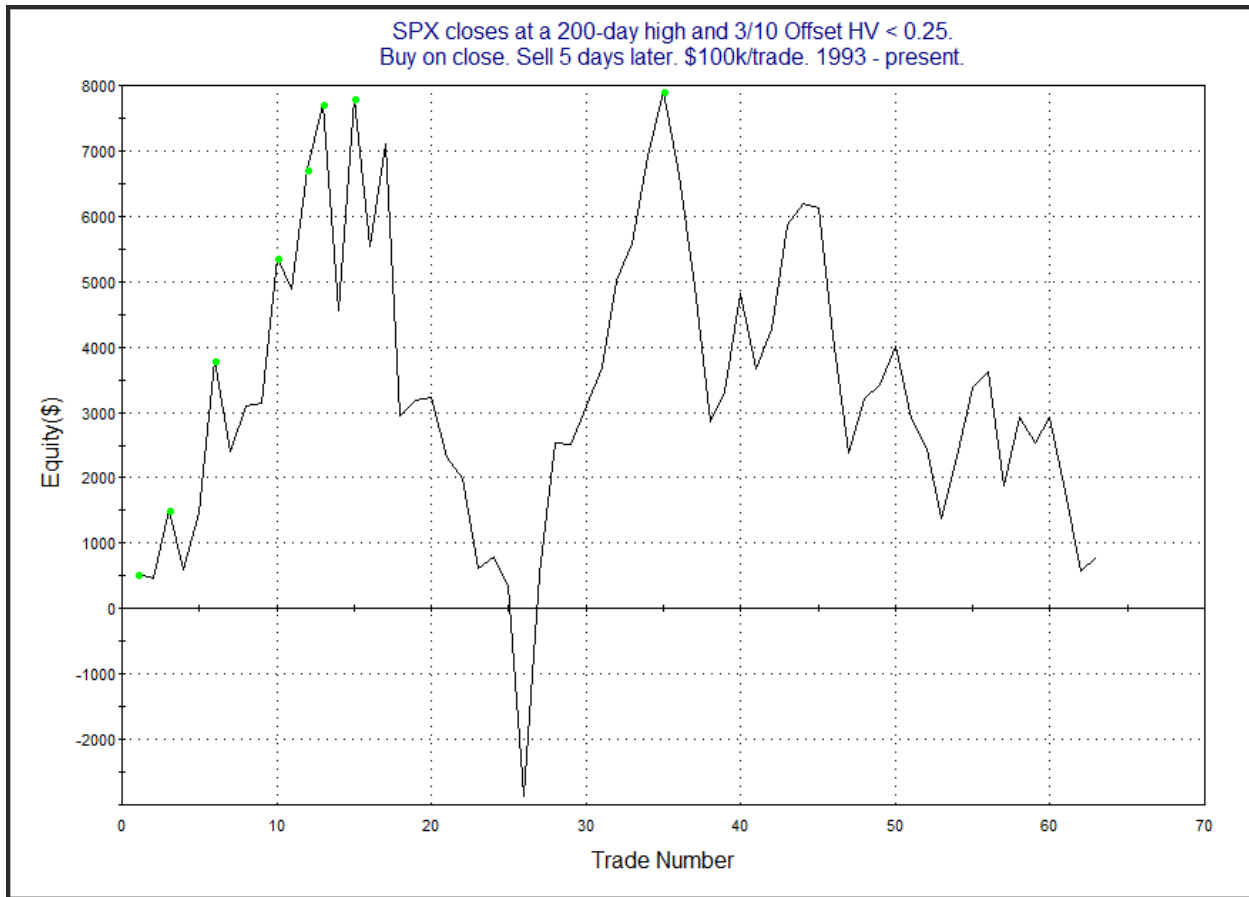
[Quantifiable Edges ORBs Study](#)

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. Of course tonight the Aggregator is neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

Tonight I also decided to take a look at how the market has performed when the 3/10 Offset HV was extremely low and the SPX was at a 200-day high. Results can be seen below.

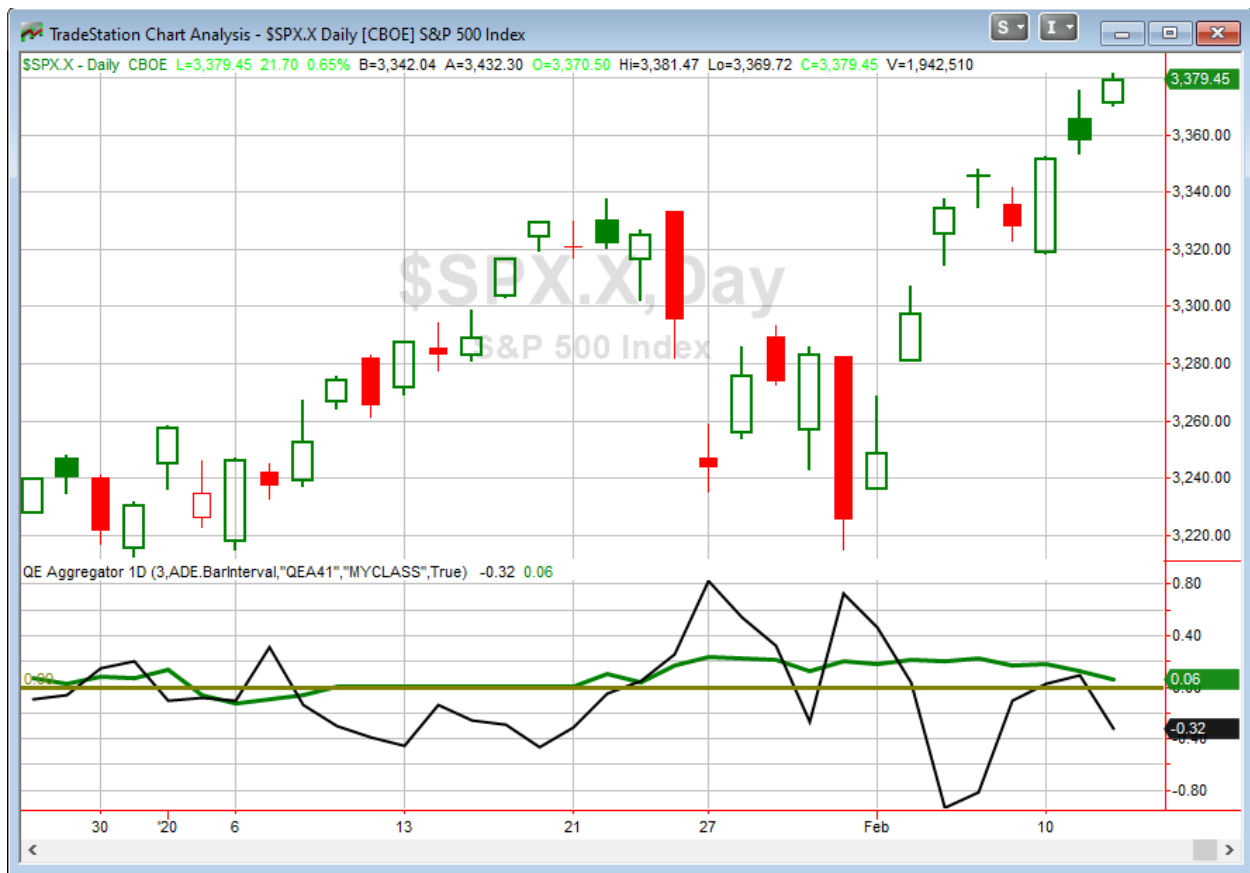
SPX closes at a 200-day high and 3/10 Offset HV < 0.25. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	787.43	63	36	27	57.14	3,397.44	-4,149.36	1,016.31	-1,325.92	0.77	1.02	12.50
4	7,014.62	65	38	27	58.46	2,832.90	-4,240.48	947.70	-1,074.00	0.88	1.24	107.92
3	4,558.28	66	40	26	60.61	2,777.04	-4,423.40	741.02	-964.72	0.77	1.18	69.06
2	10,568.83	71	43	28	60.56	2,701.80	-1,988.80	568.49	-495.58	1.15	1.76	148.86
1	4,607.68	92	48	44	52.17	1,582.32	-1,398.60	391.66	-322.54	1.21	1.32	50.08

No edge apparent and no strong consistency in the results. Here is a look at the 5-day curve.



Just as choppy and inconsistent as the numbers suggested. No strong edge here.

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



Without any new studies being added tonight, 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 negative Differential Line reading means 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 signal turned flat at the close.

The last of the active short-term studies are set to expire on Thursday. So expectations over the next few days will be greatly impacted by any new evidence that emerges. Meanwhile, the Differential Pivot will be 3371.40 on Thursday. That is 0.2% below Wednesday's close. So SPX would just need to close down a little over 0.2% on Thursday in order to flip back to "oversold" vs recent expectations.

So the Aggregator is now neutral. I am too. Bearish evidence is still missing and the market is just pushing higher. But with the indices so extended, this does not appear to be a great reward/risk setup for longs. I am sidelined and will remain so another day. Having capital available to put to work when the next great opportunity arrives is important. Patience is key. I will remain patient and alert for that next opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/10 – bullish

The intermediate-term outlook was last updated in the 2/10/20 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult 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

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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