

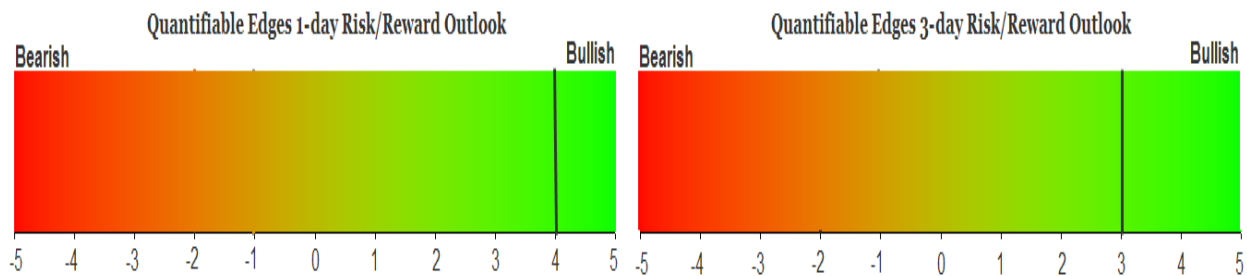
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 25, 2020

Volume 13 Issue 37

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	5

## Tonight's Research Points

- The sharp VIX spike suggests a bounce in the next few days.
- Tuesdays are the best days to see a turnaround, and one study shows a very positive outlook over the next few days.
- Big drops under similar circumstances have typically been followed by sharp rebounds.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bullish, and the upside edge now appears substantial.

**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
<b>Active - Short Term</b>						
February 25, 2020	VIX crosses > 35% above 10ma	1-2 days	Bullish			
February 25, 2020	3 Lower HiLo-Cl. 10-low. Monday	1-3 days	Bullish			
February 25, 2020	3% drop and 1% from low. 5-Low yest	1-5 days	Bullish			
<b>Active - Long Term</b>						
February 3, 2020	Hindenburg cluster 4+ (triggered Feb 3)	1-35 days	Bearish			
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			

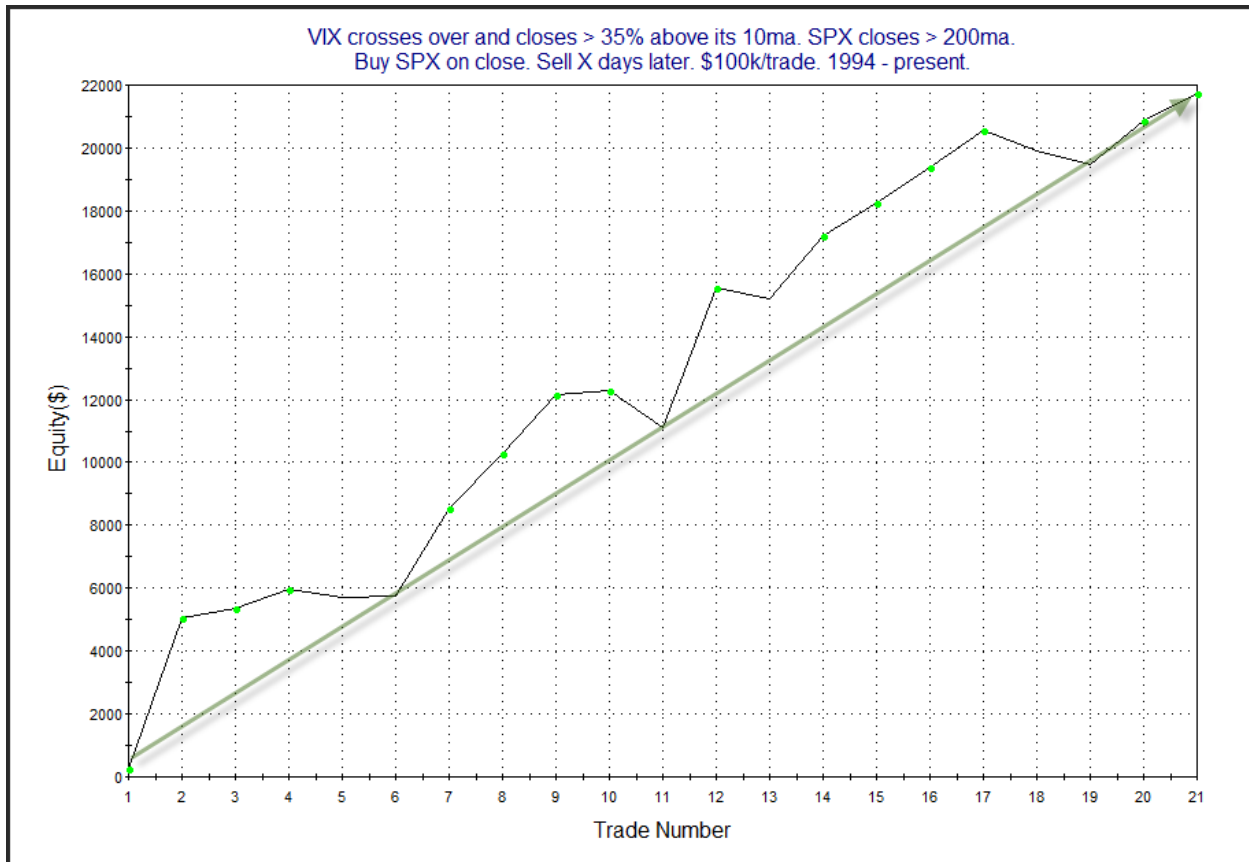
**The Evidence**

Monday saw a big gap down and some additional selling, sparked by corona virus pandemic fears. The SPX closed down 3.35%, the NASDAQ lost 3.7% and the Russell 2000 dropped 3.0%. Breadth was extremely negative as the NYSE Up Issues % was 10.4% and the Up Volume % came in at 7%. NYSE volume rose some from Friday's level.

The VIX underwent a large spike on Monday. This left it 58% above its 10-day ma. That is greatly stretched. In the 1/28/20 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	17,195.06	19	12	7	63.16	7,070.28	-1,759.84	1,995.37	-964.20	2.07	3.55	905.00
4	19,682.17	20	12	8	60.00	5,290.00	-2,616.60	2,448.40	-1,212.33	2.02	3.03	984.11
3	19,506.77	21	14	7	66.67	4,895.50	-2,513.78	1,921.93	-1,057.17	1.82	3.64	928.89
2	21,743.31	21	16	5	76.19	4,809.66	-1,166.69	1,539.10	-576.46	2.67	8.54	1,035.40
1	10,977.82	21	14	7	66.67	5,117.46	-2,005.85	1,173.12	-777.98	1.51	3.02	522.75

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.

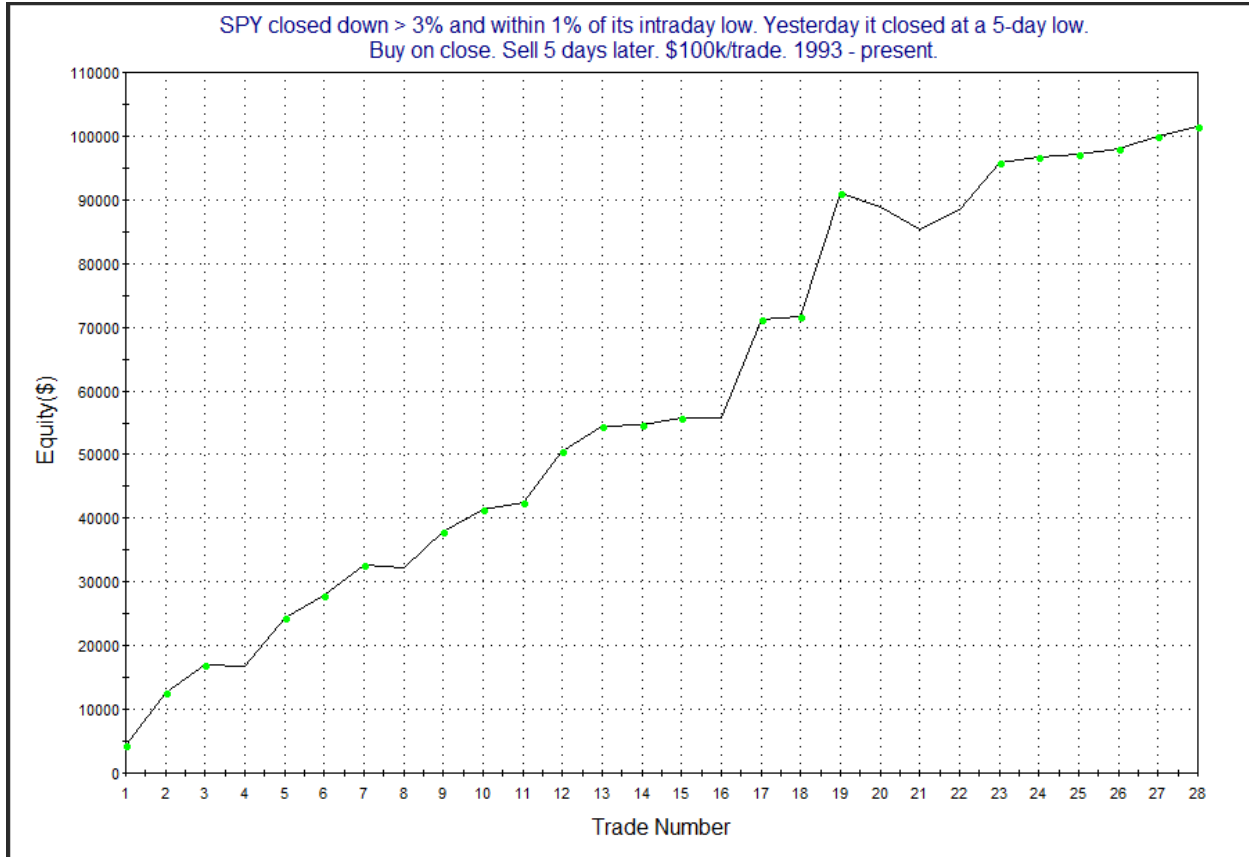
Another bit of evidence to consider is that not only was the selling extremely sharp on Monday, it also originated from a place where the market was already short-term oversold. The study below was last seen in the 8/6/19 letter, and it takes these kind of measures into account.

SPY closed down > 3% and within 1% of its intraday low. Yesterday it closed at a 5-day low.  
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	101,432.68	28	23	5	82.14	19,398.00	-3,525.84	4,698.43	-1,326.24	3.54	16.30	3,622.60
4	69,240.60	30	20	10	66.67	17,914.00	-5,767.34	4,519.07	-2,114.08	2.14	4.28	2,308.02
3	52,745.45	30	18	12	60.00	14,708.85	-11,518.47	4,344.88	-2,121.87	2.05	3.07	1,758.18
2	59,875.73	31	25	6	80.65	12,693.50	-9,320.67	3,302.60	-3,781.53	0.87	3.64	1,931.48
1	50,983.86	31	23	8	74.19	11,683.71	-4,080.40	2,939.45	-2,077.95	1.41	4.07	1,644.64

97% of instances closed above the entry price at some point in the next week. The lone failure triggered on 2/17/09.

More very substantial looking numbers here. Below is the profit curve.



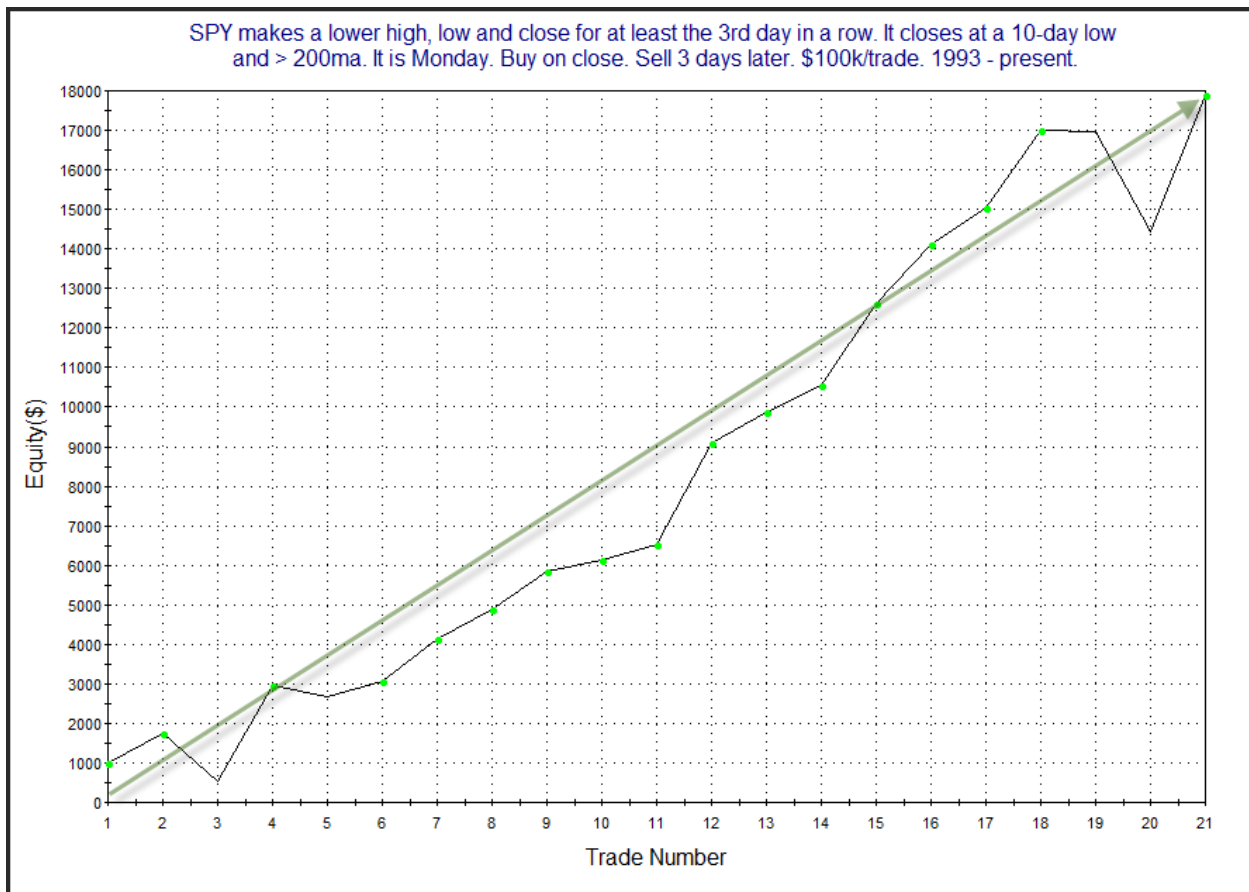
Another strong, steady curve suggesting a short-term bullish edge. I could show a ton of studies like this – all basically suggesting the market is overdone to the downside and very likely to bounce.

It is also notable that Monday marked the 3rd down day in a row. In the past, I have documented the tendency for the market to bounce 1) after 3 days lower, 2) after making a short-term low, and 3) going into a Tuesday. Tonight I combined some of these concepts. The study I concocted can be found below.

SPY makes a lower high, low and close for at least the 3rd day in a row. It closes at a 10-day low and > 200ma. It is Monday. 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	5,878.57	21	13	8	61.90	3,308.40	-4,057.15	1,408.46	-1,553.93	0.91	1.47	279.93
4	7,630.86	21	14	7	66.67	3,363.54	-4,590.36	1,316.99	-1,543.87	0.85	1.71	363.37
3	17,892.06	21	17	4	80.95	3,449.60	-2,516.58	1,287.85	-1,000.34	1.29	5.47	852.00
2	10,923.75	21	14	7	66.67	1,958.88	-904.24	1,003.76	-446.98	2.25	4.49	520.18
1	5,153.38	21	14	7	66.67	1,400.96	-1,677.36	620.43	-504.66	1.23	2.46	245.40

The Tuesday-Thursday timeframe has shown a solid tendency for a bounce. Below is a look at a profit curve, assuming a 3-day holding period.

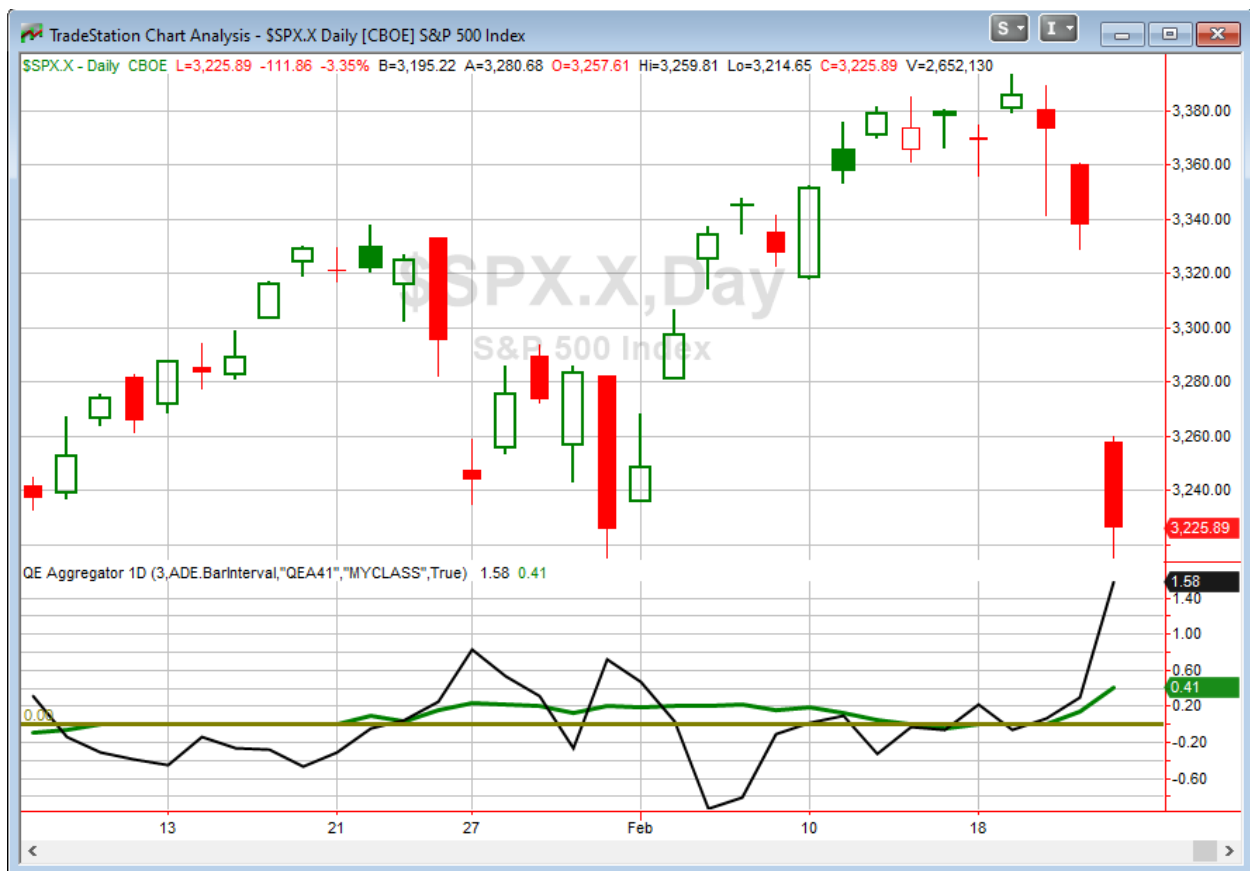


The move from lower left to upper right serves as some confirmation of the bullish edge suggested by the numbers. I have also added this study to the Active List tonight.

It is also worth mentioning that one indicator that typically kicks in around now is the Quantifiable Edges Capitulative Breadth Indicator (CBI). But as you will see in the CBI section below, the CBI is still fairly mild, with a reading of just 5. That does *not* invalidate the other studies suggesting a high probability of a bounce. We certainly could get a bounce and never see the CBI get any higher. I am generally more comfortable getting aggressively long if the CBI is showing a 10+ reading. But further selling in the next day or two could see the CBI reach 10+ fairly easily. Subscribers can find intraday readings (posted around 2pm and then again a few minutes before the close) on the widget on the Catapult & CBI page on the website.

<https://quantifiableedges.com/catapult-system/>

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



With tonight's new evidence to consider, the green Aggregator Line jumped higher above zero than we have seen in a while. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also is stretched extremely far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 studies, expectations are set to remain bullish on Tuesday. This is highly unlikely to change. Meanwhile, the Differential Pivot will be 3368.52 on Tuesday. That is a whopping 4.4% above Monday's close. So SPX would need to close up a massive 4.4% on Tuesday in order to flip from oversold to overbought versus expectations. That's a very unlikely 1-day move. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Monday's selloff brought about more compelling bullish evidence. And the big drop left the market strongly oversold. So the Aggregator is suggesting an upside edge, and I certainly believe we should see a bounce arrive in the coming days. The SPY trade idea on Monday entered on the initial large gap down. And the close was not very far below that. With the edge looking strong, I will look to up my position size on Tuesday. But I am not looking to buy into an intraday selloff in this highly emotional environment. Instead, I will approach the trade similar to Monday, where I was looking for a gap down or a close lower in order to get a favorable entry price.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/24 – bullish***

The intermediate-term outlook was last updated in the 2/18/20 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***

*DD – 1/3 @ \$50.45 (buy @ limit)*

*GOOGL – 1/3 @ \$1419.86 (buy @ limit)*

*MDLZ – 1/3 @ \$57.74 (buy @ limit)*

*MSFT – 1/3 @ \$170.89 (buy @ limit)*

*XOM – 1/3 @ \$56.36 (buy @ limit)*

***Broad Market Large Cap CBI – 5(DD, GOOGL, MDLZ, MSFT, XOM)***

### **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 @ \$322.00 LIMIT ON OPEN. If not filled on open, cancel order and look to enter at \$322.40 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to take on a 2<sup>nd</sup> lot if I can get a favorable fill on Tuesday.

**DD – Buy 1/3 Catapult position @ \$50.45 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of DD.

**GOOGL – Buy 1/3 Catapult position @ \$1419.86 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of GOOGL.

**MDLZ – Buy 1/3 Catapult position @ \$57.74 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of MDLZ.

**MSFT – Buy 1/3 Catapult position @ \$170.89 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of MSFT.

**XOM – Buy 1/3 Catapult position @ \$56.36 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of XOM.

## **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY(1/4)	2/24/2020	\$323.14	\$322.42	-0.22%		bought on open

*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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