

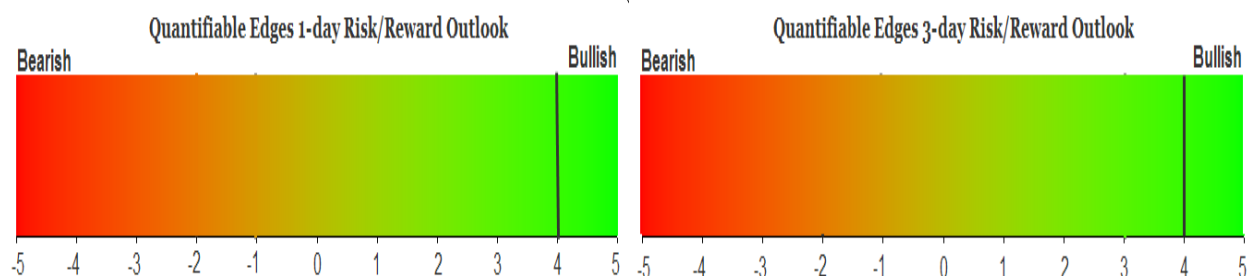
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2020

Volume 13 Issue 40

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	41

Tonight's Research Points

- The CBI is flashing strong signs of a bounce.
- The selloff is steeper than any from a long-term high that we have seen, but others that were a bit less intense all bounced very soon after and very strongly.
- The VIX is at extreme levels and also suggests a strong bounce is at hand.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish. The market is acting outside of historical norms, but there should be a strong bounce coming soon.

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 27, 2020	SPY gap up, move higher, reverse dn	1-2 days	Bullish			
February 27, 2020	SPX 50-low & RSI2 < 2 for 2nd day	1-3 days	Bullish			
February 26, 2020	SPX 50-low. CBI >= 19	1-5 days	Bullish			
February 26, 2020	SPX dn > 1.5% 2x. 10-day low > 200	1-7 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			
Active - Long Term						
February 26, 2020	CBI gains 10+ points in 1 day	1-18 days	Bullish			
February 26, 2020	SPX 50-low. CBI >= 19	1-18 days	Bullish			
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

The coronavirus crash steepened on Thursday. The SPX closed down 4.4%, the NASDAQ lost 4.6% and the Russell 2000 dropped 3.5%. Breadth was extremely negative as the NYSE Up Issues % was 9% and the Up Volume % came in at 6%. NYSE volume was extremely high.

The selloff was extreme a few days ago. Now it is historic. Below is a note I posted on Twitter Thursday morning.

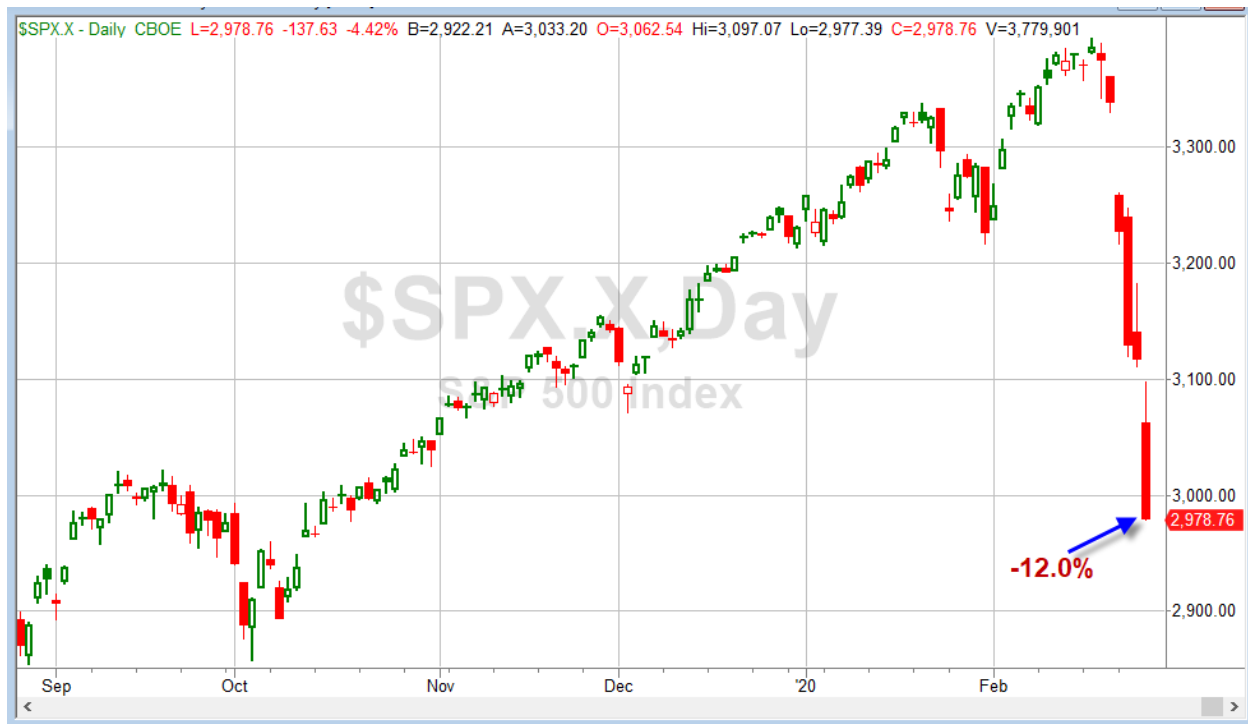


Among the other extremes, the comments, retweets, and “likes” that tweet received are probably 3-4 times as much as any other tweet I have ever sent. Everyone is scared, and everyone is looking at Fintwit.

Of course the message in the tweet is similar to what you have been hearing here the last few days. The selloff is historic. The Quantifinder shows a massive number of bullish studies again tonight, but almost all of them fail to capture the severity of the current move. But there was one, from the 2/9/18 letter, that I thought was worth updating. It looked at sharp drops from long-term highs like the note above, but with somewhat loosened criteria.



Looking back to the inception of the SPX in 1957, these were the only other instances of such a sharp decline from a long-term high. All 3 saw immediate and sizable upside reversals. Below is a look at the current chart.



Of course the current selloff is more severe than any of these others. So there is no telling how much more selling will need to occur before the bounce arrives. But I continue to believe it is just days away.

Other indicators are hitting extreme levels and also supporting this view. This includes the CBI, which reached a whopping 41 on Thursday. A CBI of 41 has only been accomplished 3 other times. On 7/23/2002 it hit 52. On 10/10/2008 it hit 48. And on 8/24/15 it posted a 45 reading, which actually peaked the next day at 73. But in all 3 cases a bounce ensued within the next few days.

The VIX index is also at extreme levels. I will show this a couple of different ways. The chart below shows the VIX (and its 10-day moving average) in the middle pane. The bottom pane shows how far the VIX closed above its 10-day moving average.

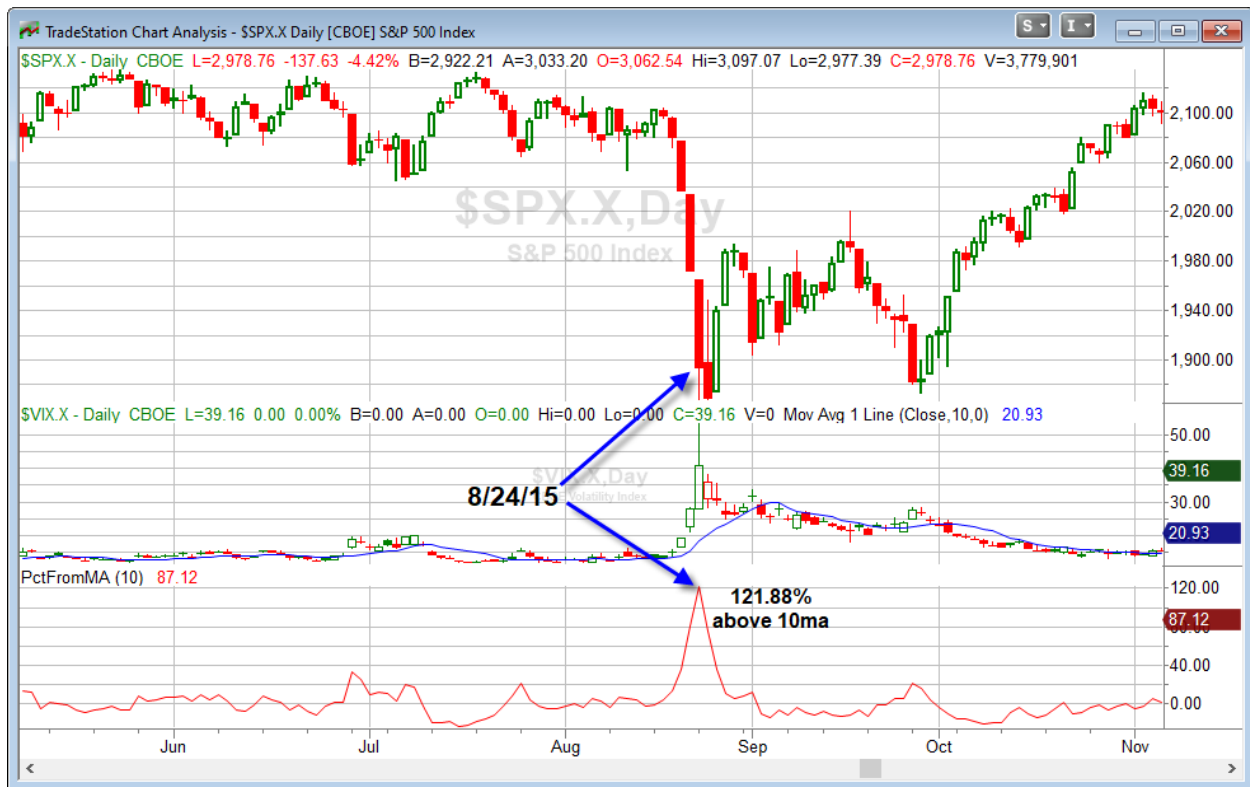


As you can see, the VIX close of 39.16 on Thursday was over 87% above its 10ma. Looking back to the inception of the VIX in 1990, that is the 3rd highest reading ever. Let's take a quick look at the two that saw higher spikes.



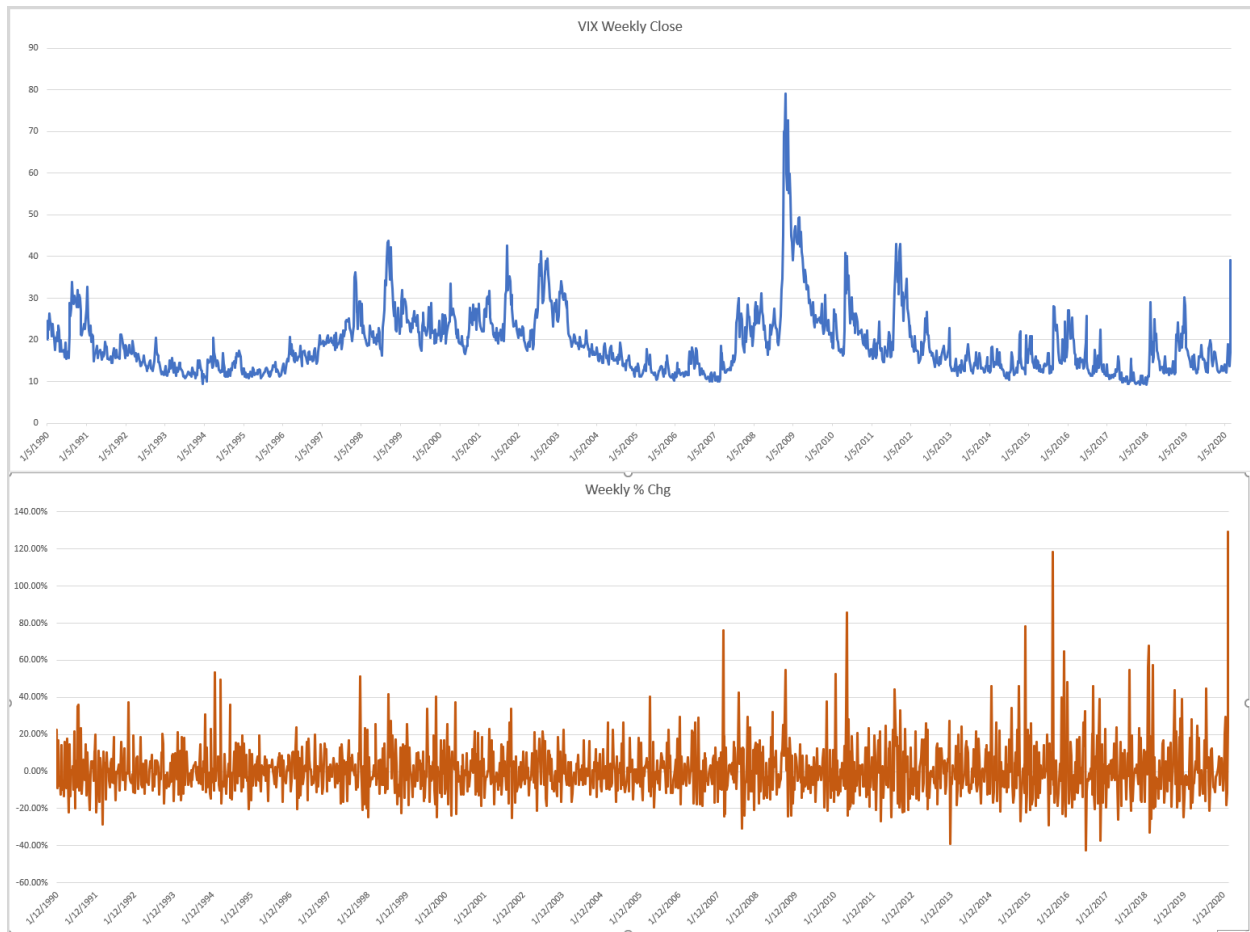
The VIXplosion selloff a couple of years ago was a recent one that many traders will remember. This was followed by a mild 1-day bounce, another quick leg down, and then a more impressive multi-day bounce.

The 2nd instance occurred in August, 2015, and can be seen below.



Here we see one more day of selling before a strong rebound.

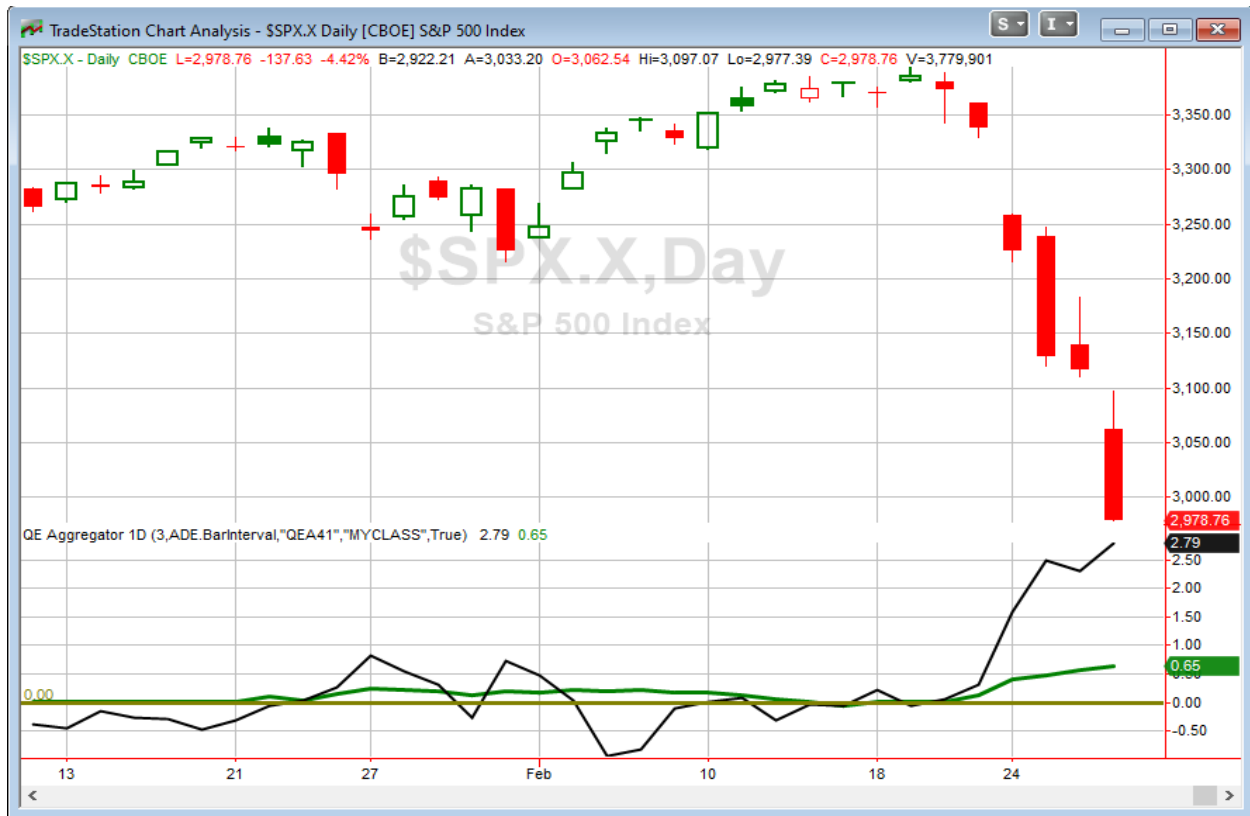
Another way to look at the VIX is by examining its weekly % gain. Through Thursday the VIX is up 129% this week. As you can see below, that would be the largest 1-week gain ever.



Just another example of just how extreme this week has been.

So price action, (capitulative) breadth, and sentiment (VIX) are all suggesting a very sharp rebound is soon at hand. But there is no guarantee it begins on Friday...or Monday. It should be soon, but even if it is one more day, there could be more pain to endure with the speed of this selloff. Still, I expect the rebound to be historic as well. My timing has not been great, but I certainly believe that the rebound will get the market above where it is now. And it could get it substantially higher. Other than the charts from the 80s, the other selloffs we have been comparing to are all selloffs I have traded through in the past. This could turn into an extended bear market. But even bear markets don't go straight down. Volatility goes both ways.

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



Once again the green Aggregator Line moved higher above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is still 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 Friday. This is not going to change. Meanwhile, the Differential Pivot will be 3152.03 on Friday. That is a whopping 5.8% above Thursday's close. So SPX would need to close up a massive 5.8% on Friday in order to flip from oversold to overbought versus expectations. That's a highly unlikely 1-day move. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Being wrong the last couple of days has been painful. But I fully believe the time to sell is not when the market has already sold off hard. Evidence continues to point to a relief bounce coming. Some good news could help, whether that come from the Fed, or with regards to the corona virus. Even without a great headline, history suggests a very large bounce should begin within days. So I do not believe now is the time to sell. But I will keep a short-term focus, and re-evaluate nightly. And when the indicators say the short-term edge is no longer there, I will exit.

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 (bought @ limit)

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

MDLZ – 1/3 @ \$57.74 (bought @ limit)

MSFT – 1/3 @ \$170.89 (bought @ limit)

XOM – 1/3 @ \$56.36 (bought @ limit)

DD – 1/3 @ \$47.47 (bought @ limit)

GOOGL – 1/3 @ \$1386.32 bought @ limit)

MDLZ – 1/3 @ \$57.02 (bought @ limit)

MSFT – 1/3 @ \$168.07 (bought @ limit)

XOM – 1/3 @ \$54.20 (bought @ limit)

ADBE – 1/3 @ \$347.80 (bought @ limit)

ALL – 1/3 @ \$117.31 (bought @ limit)

AMZN – 1/3 @ \$1972.74 (bought @ limit)

BLK – 1/3 @ \$506 (bought @ limit)

COP – 1/3 @ \$53.83 (bought @ limit)

F – 1/3 @ \$7.23 (bought @ limit)

MA – 1/3 @ \$302.89 (bought @ limit)

MMM – 1/3 @ \$146.85 (buy @ limit) not filled – keep open

NFLX – 1/3 @ \$360.09 (buy @ limit) not filled – keep open

ALL – 1/3 @ \$115.73 (buy @ limit)

COP – 1/3 @ \$51.17 (buy @ limit)

DD – 1/3 @ \$47.26 (buy @ limit)

EXC – 1/3 @ \$47.05 (buy @ limit)

F – 1/3 @ \$7.21 (buy @ limit)

MA – 1/3 @ \$298.04 (buy @ limit)

MDLZ – 1/3 @ \$56.86 (buy @ limit)

XOM – 1/3 @ \$53.01 (buy @ limit)

New

MMM – 1/3 @ \$146.85 (buy @ limit) not filled – keep open

NFLX – 1/3 @ \$360.09 (buy @ limit) not filled – keep open

CHTR – 1/3 @ \$508.55 (buy @ limit)

COP – 1/3 @ \$47.13 (buy @ limit)
DUK – 1/3 @ \$94.99 (buy @ limit)
EXC – 1/3 @ \$45.14 (buy @ limit)
F – 1/3 @ \$6.97 (buy @ limit)
KO – 1/3 @ \$54.93 (buy @ limit)
LMT – 1/3 @ \$384.60 (buy @ limit)
MA – 1/3 @ \$285.82 (buy @ limit)
MDT – 1/3 @ \$100.98 (buy @ limit)
MO – 1/3 @ \$40.30 (buy @ limit)
MRK – 1/3 @ \$78.08 (buy @ limit)
NEE – 1/3 @ \$255.85 (buy @ limit)
UPS – 1/3 @ \$90.24 (buy @ limit)
WFC – 1/3 @ \$42.47 (buy @ limit)

Broad Market Large Cap CBI – 41(DD-3, GOOGL-2, MDLZ-3, MSFT-2, XOM-3, ADBE, ALL-2, AMZN, BLK, COP-3, F-3, MA-3, MMM, NFLX, EXC-2, CHTR, DUK, LMT, MDT, MO, MRK, NEE, UPS, 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.

I will be looking for the following Catapults:

CHTR – 1/3 @ \$508.55 (buy @ limit)
COP – 1/3 @ \$47.13 (buy @ limit)
DUK – 1/3 @ \$94.99 (buy @ limit)
EXC – 1/3 @ \$45.14 (buy @ limit)
F – 1/3 @ \$6.97 (buy @ limit)
KO – 1/3 @ \$54.93 (buy @ limit)
LMT – 1/3 @ \$384.60 (buy @ limit)
MA – 1/3 @ \$285.82 (buy @ limit)
MDT – 1/3 @ \$100.98 (buy @ limit)
MO – 1/3 @ \$40.30 (buy @ limit)
MRK – 1/3 @ \$78.08 (buy @ limit)
NEE – 1/3 @ \$255.85 (buy @ limit)
UPS – 1/3 @ \$90.24 (buy @ limit)
WFC – 1/3 @ \$42.47 (buy @ limit)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	2/24/2020	\$323.14	\$297.51	-7.93%		Aggregator
SPY	2/25/2020	\$312.65	\$297.51	-4.84%		Aggregator
SPY	2/26/2020	\$311.50	\$297.51	-4.49%		Aggregator
SPY	2/27/2020	\$305.46	\$297.51	-2.60%		Aggregator
DD	2/25/2020	\$50.45	\$45.07	-10.66%		Catapult
GOOGL	2/25/2020	\$1,419.86	\$1,314.95	-7.39%		Catapult
MDLZ	2/25/2020	\$57.72	\$54.46	-5.65%		Catapult
MSFT	2/25/2020	\$170.89	\$158.18	-7.44%		Catapult
XOM	2/25/2020	\$56.36	\$49.82	-11.60%		Catapult
DD	2/26/2020	\$47.47	\$45.07	-5.06%		Catapult
GOOGL	2/26/2020	\$1,386.32	\$1,314.95	-5.15%		Catapult
MDLZ	2/26/2020	\$57.02	\$54.46	-4.49%		Catapult
XOM	2/26/2020	\$54.20	\$49.82	-8.08%		Catapult
ALL	2/26/2020	\$117.31	\$109.92	-6.30%		Catapult
AMZN	2/26/2020	\$1,970.28	\$1,884.30	-4.36%		Catapult
BLK	2/26/2020	\$506.00	\$475.82	-5.96%		Catapult
COP	2/26/2020	\$53.83	\$47.13	-12.45%		Catapult
F	2/26/2020	\$7.23	\$6.97	-3.60%		Catapult
MA	2/26/2020	\$302.00	\$285.82	-5.36%		Catapult
MSFT	2/27/2020	\$163.32	\$158.18	-3.15%		Catapult
ADBE	2/27/2020	\$340.00	\$337.52	-0.73%		Catapult
ALL	2/27/2020	\$114.59	\$109.92	-4.08%		Catapult
COP	2/27/2020	\$49.60	\$47.13	-4.98%		Catapult
DD	2/27/2020	\$45.82	\$45.07	-1.64%		Catapult
EXC	2/27/2020	\$47.05	\$45.14	-4.06%		Catapult
F	2/27/2020	\$7.13	\$6.97	-2.24%		Catapult
MA	2/27/2020	\$285.03	\$285.82	0.28%		Catapult
MDLZ	2/27/2020	\$56.54	\$54.46	-3.68%		Catapult
XOM	2/27/2020	\$51.71	\$49.82	-3.65%		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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