

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2020

Volume 13 Issue 43

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	36

## Tonight's Research Points

- Sharp drops that only partially retrace gains from the day before are often followed by more selling the next day.
- The CBI remains extremely high at 36.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is still bullish, but evidence is mixed and the Differential Pivot is inverted. I will reduce my long index exposure further if I can get a good fill.

**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>						
March 4, 2020	Big drop < 7.5% of yesterday's rally	1 day	Bearish			
March 3, 2020	20-low. Gap up fill then higher	1-5 days	Bullish			
March 2, 2020	SPX < Bollinger Band 4 days	1-4 days	Bullish			
February 26, 2020	SPX dn > 1.5% 2x. 10-day low > 200	1-7 days	Bullish			
<b>Active - Long Term</b>						
March 2, 2020	SPX < Bollinger Band 4 days	1-18 days	Bullish			
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**

A Fed rate cut was met with much skepticism on Tuesday as an early rally turned into another big down day. The SPX closed down 2.8%, the NASDAQ tumbled 3.0% and the Russell 2000 lost 2.1%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 19%. NYSE volume rose some from Monday's level.

Today was a big disappointment, on several fronts. Evidence was mixed last night, but there appeared to be a decent chance of some follow-through. That obviously did not happen. But the way it happened, well, that was not good.

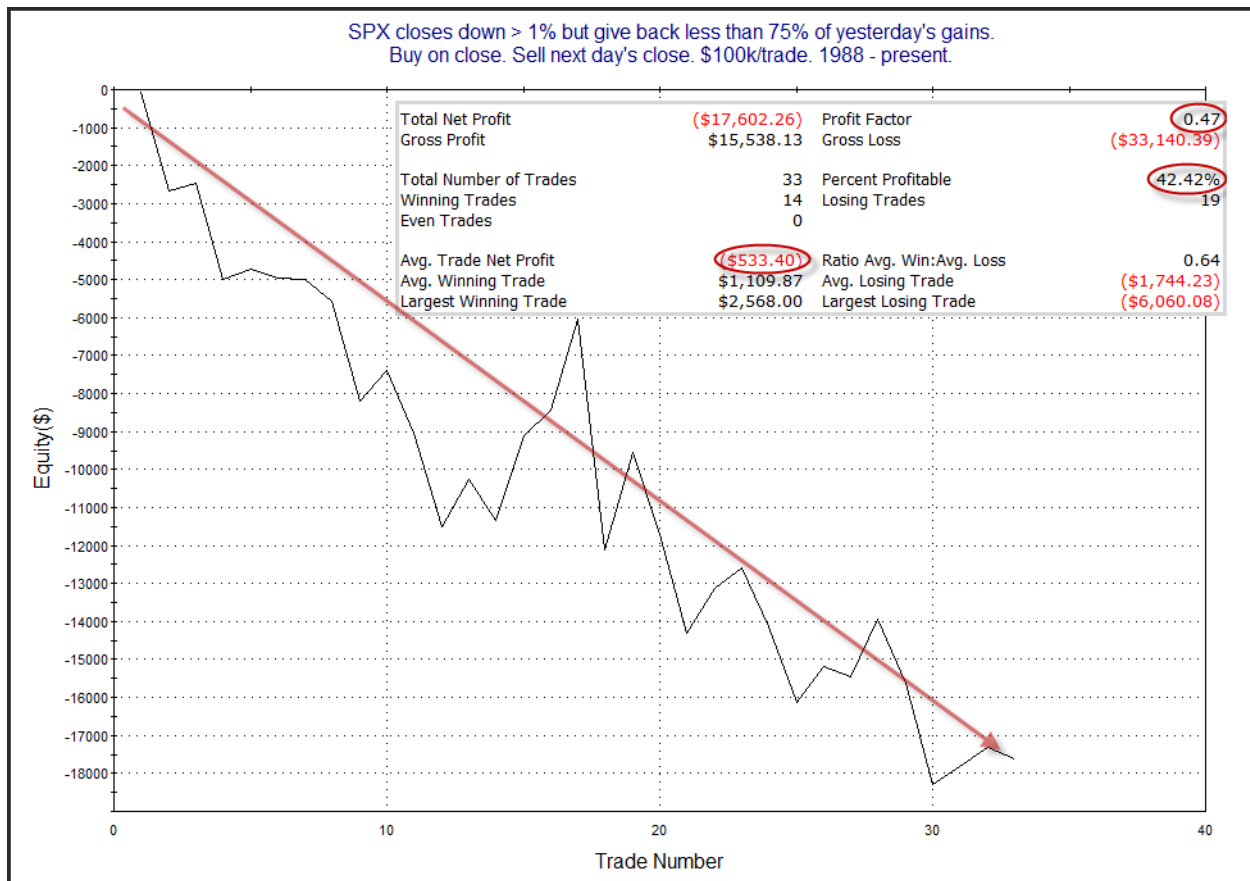
In the weekend letter I discussed the Fed's strategy some. I said timing would be key, and I felt the reason they threw the statement out there last Friday rather than immediately doing a rate cut in the face of the decline was as a trial balloon. I also said "*What is worse than putting out the above statement and having the market continue to collapse? How about cutting rates and having the market continue to collapse?*" And that is what happened on Tuesday. I thought the timing was terrible. The market already put in a huge rally on Monday, and when the Fed announced at 10am this morning, the SPX was not even down 1%.

If they felt they had to cut today, I believe should have waited until near the end of the day when any market boost, regardless of what level it came from, would not even have time to flip direction.

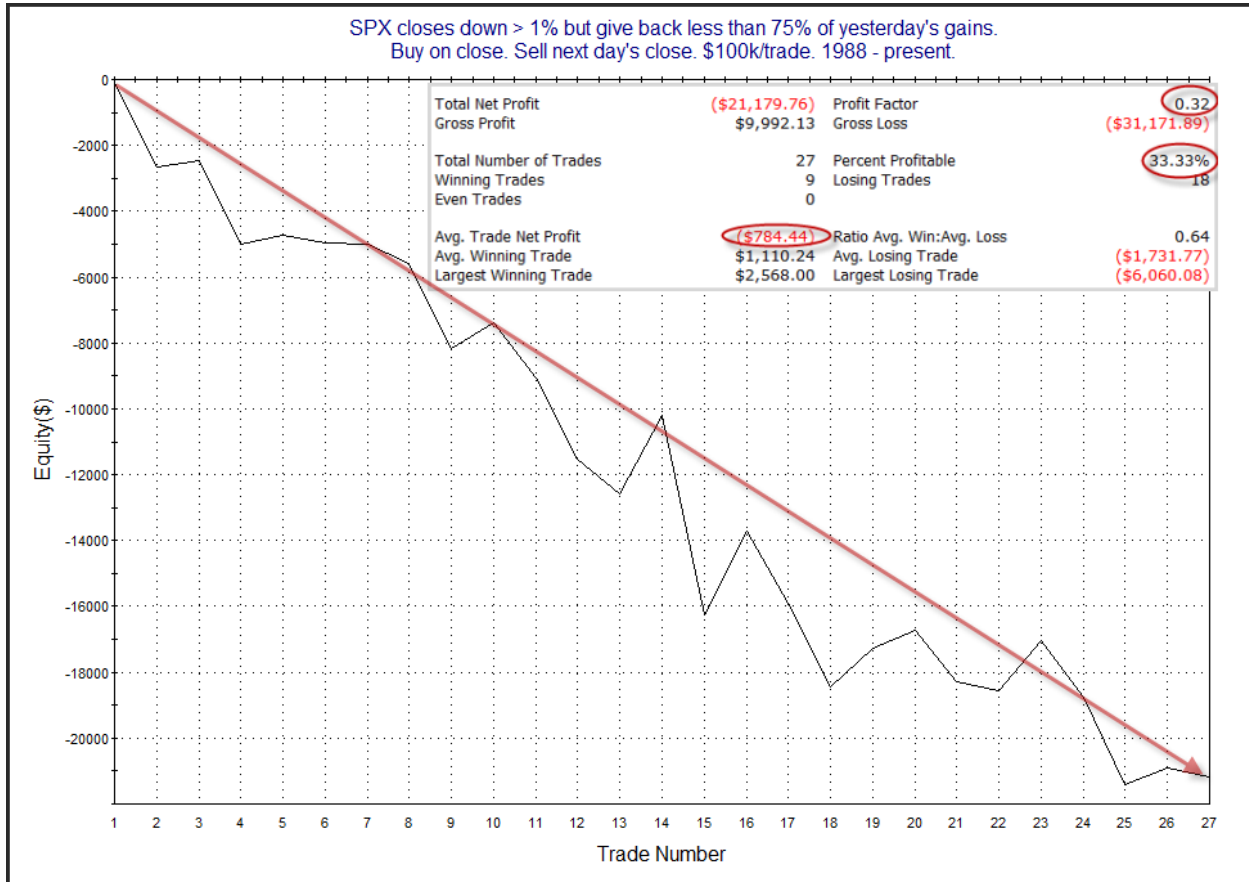
Let me be clear. I do not believe the timing of the rate cut a few hours here or there would matter at all when considering overall economic impact. But one part of what the Fed looks to do is calm markets during a time of crisis. So timing the rate cut in a way that would ensure the reaction *looks* positive would at least provide *the appearance* that the Fed is helping. Certainly the futures could still have tanked overnight. But with Super Tuesday voting and constant coronavirus news hitting the wires, the media would likely have latched onto one of those things as the cause of the decline.

Now the Fed looks ineffective. Their announcement caused the market to spike for 5 minutes. And by the time Powell was done speaking the gains were already wiped away. So rather than looking like potential heroes, they have created even more worry. The talk has gone from “I hope the Fed comes to help out”, to “it looks like the Fed is powerless to help in this case”. Even a slightly delayed decline could have left Wall St. feeling, “Well, the election/coronavirus/whatever news erased the Fed rally, but at least we have the Fed on our side and the last cut got us going in the right direction until X happened”. Instead they have created the appearance that they can’t do anything to help this decline. And that makes the anxiety even worse. Instilling confidence is important, and it is a bad look when the market sells off in reaction to your stimulus / press conference.

The decline Tuesday sizable, and followed a day where the market posted very strong gains. In the 3/28/18 subscriber letter I looked at other instances where a sharp drop occurred, but the drop was not even able to erase as much as three quarters of the previous day's gains. I have updated the results of that study below.

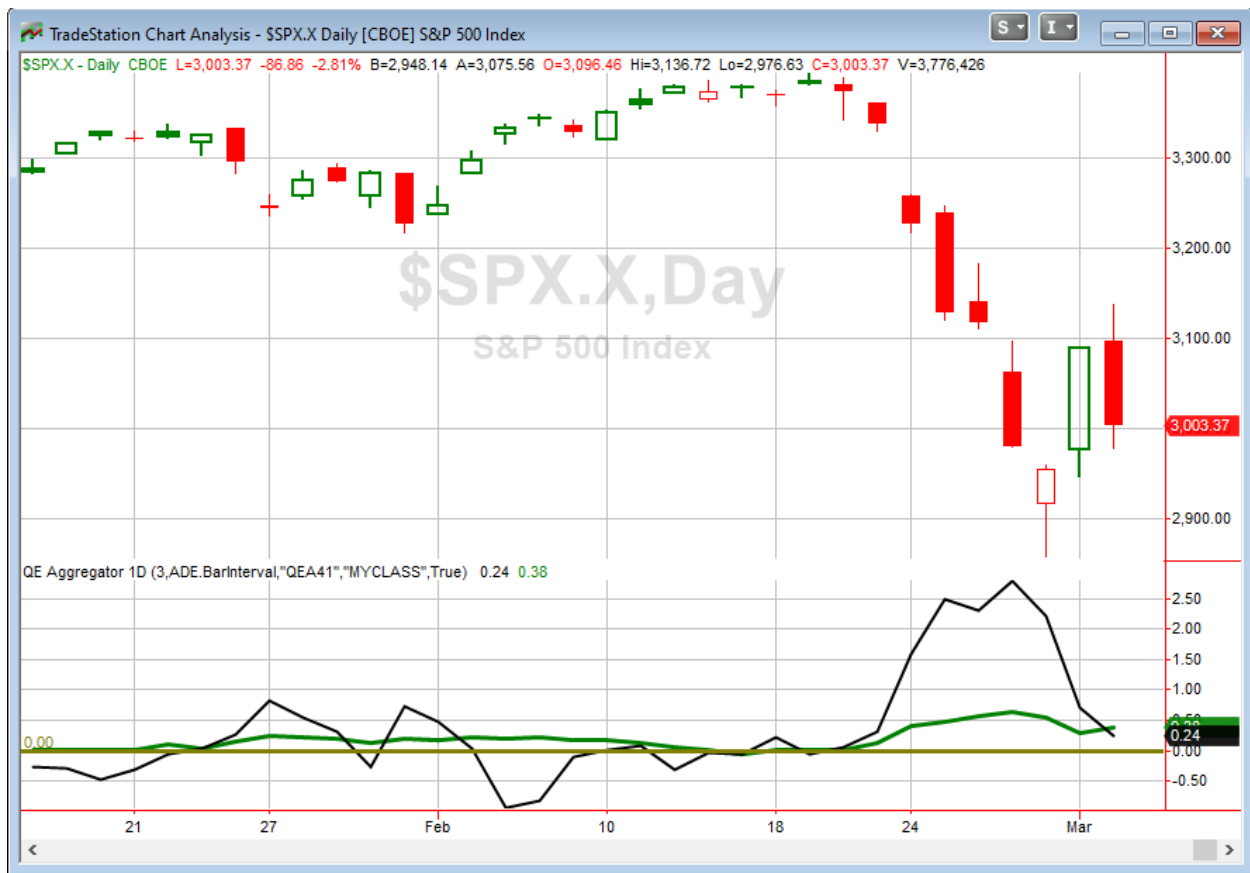


The numbers and the curve both support the idea of a downside edge. I also examined another derivation of this study in that 3/28/18 letter. In this next study I added a filter to eliminate instances where the big move up the day before put the market at an intermediate-term high. I have updated that study as well below.



Stats here are even more bearish, and the downside edge appears consistent and strong. I have included this study on the Active List tonight.

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



Once again the green Aggregator Line is well above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is still above 0, but headed lower. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is 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 Wednesday. It would take some compelling bearish evidence in order to change this. Meanwhile, the Differential Pivot will be *slightly inverted* at 3002.94 on Wednesday. That is less than 1 point *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down a very small amount in order to remain oversold. Any flat or up close would cause it to flip to overbought as of Wednesday's close.

So Wednesday is somewhat sketchy. And any up close would leave the market overbought. This would seem like a combination that could warrant reducing exposure. On the other hand, the Aggregator formation is bullish. While Wednesday looks dicey, evidence is bullish looking out a few more days. Also, the "overbought" reading will need to see SPX rise another 125 points or so if it wants to remain "overbought" vs expectations as of Thursday's close. And the CBI is still at

an incredibly high 36, suggesting there should be plenty of bounce coming in the next few days. If Wednesday does buck tonight's short-term study and manages to rally, I will look to reduce my long exposure if I can get a favorable fill. Details of my exit approach are at the bottom of the trade ideas section down below.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 3/2 – neutral*

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***OpenCatapult Triggers***

*DD – 1/3 @ \$50.45 (bought @ limit)*

*MDLZ – 1/3 @ \$57.74 (bought @ limit)*

*XOM – 1/3 @ \$56.36 (bought @ limit)*

*DD – 1/3 @ \$47.47 (bought @ limit)*

*MDLZ – 1/3 @ \$57.02 (bought @ limit)*

*XOM – 1/3 @ \$54.20 (bought @ limit)*

*ALL – 1/3 @ \$117.31 (bought @ limit)*

*BLK – 1/3 @ \$506 (bought @ limit)*

*COP – 1/3 @ \$53.83 (bought @ limit)*

*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)*

*MDLZ – 1/3 @ \$56.86 (buy @ limit)*

*XOM – 1/3 @ \$53.01 (buy @ limit)*

*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)*

*KO – 1/3 @ \$54.93 (buy @ limit)*

*LMT – 1/3 @ \$384.60 (buy @ limit)*

*MDT – 1/3 @ \$100.98 (buy @ limit)*

*WFC – 1/3 @ \$42.47 (buy @ limit)*

*AXP 1/3 @ \$109.93 (buy @ limit)*

*BLK 1/3 @ \$463.01 (buy @ limit)*

CHTR 1/3 @ \$493.17 (buy @ limit)  
CVX 1/3 @ \$93.34 (buy @ limit)  
DUK 1/3 @ \$91.70 (buy @ limit)  
EXC 1/3 @ \$43.11 (buy @ limit)  
KO 1/3 @ \$53.49 (buy @ limit) – no fill – cancel for now  
LMT 1/3 @ \$369.87 (buy @ limit)  
MDT 1/3 @ \$100.67 (buy @ limit)  
SO 1/3 @ \$60.36 (buy @ limit)  
USB 1/3 @ \$46.44 (buy @ limit)  
WFC 1/3 @ \$40.85 (buy @ limit)

### ***Broad Market Large Cap CBI – 36***

#### **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
<b>SPY</b>	<b>2/24/2020</b>	<b>\$323.14</b>	<b>\$309.50</b>	<b>-4.22%</b>		<b>sold on open</b>
SPY	2/25/2020	\$312.65	\$300.24	-3.97%		Aggregator
SPY	2/26/2020	\$311.50	\$300.24	-3.61%		Aggregator
SPY	2/27/2020	\$305.46	\$300.24	-1.71%		<i>see note below</i>
DD	2/25/2020	\$50.45	\$43.64	-13.50%		Catapult
GOOGL	2/25/2020	\$1,419.86	\$1,337.72	-5.79%		<b>sell on open</b>
MDLZ	2/25/2020	\$57.72	\$54.79	-5.08%		Catapult
<b>MSFT</b>	<b>2/25/2020</b>	<b>\$170.89</b>	<b>\$173.80</b>	<b>1.70%</b>		<b>sold on open</b>
XOM	2/25/2020	\$56.36	\$51.30	-8.98%		Catapult
DD	2/26/2020	\$47.47	\$43.64	-8.07%		Catapult
GOOGL	2/26/2020	\$1,386.32	\$1,337.72	-3.51%		<b>sell on open</b>
MDLZ	2/26/2020	\$57.02	\$54.79	-3.91%		Catapult
XOM	2/26/2020	\$54.20	\$51.30	-5.35%		Catapult
ALL	2/26/2020	\$117.31	\$109.20	-6.91%		Catapult
AMZN	2/26/2020	\$1,970.28	\$1,908.99	-3.11%		<b>sell on open</b>
BLK	2/26/2020	\$506.00	\$482.07	-4.73%		Catapult
COP	2/26/2020	\$53.83	\$48.12	-10.61%		Catapult
F	2/26/2020	\$7.23	\$6.97	-3.60%		<b>sell on open</b>
<b>MA</b>	<b>2/26/2020</b>	<b>\$302.00</b>	<b>\$314.59</b>	<b>4.17%</b>		<b>sold on open</b>
<b>MSFT</b>	<b>2/27/2020</b>	<b>\$163.32</b>	<b>\$173.80</b>	<b>6.42%</b>		<b>sold on open</b>
<b>ADBE</b>	<b>2/27/2020</b>	<b>\$340.00</b>	<b>\$361.76</b>	<b>6.40%</b>		<b>sold on open</b>
ALL	2/27/2020	\$114.59	\$109.20	-4.70%		Catapult
COP	2/27/2020	\$49.60	\$48.12	-2.98%		Catapult
DD	2/27/2020	\$45.82	\$43.64	-4.76%		Catapult
EXC	2/27/2020	\$47.05	\$44.19	-6.08%		Catapult
F	2/27/2020	\$7.13	\$6.97	-2.24%		<b>sell on open</b>
<b>MA</b>	<b>2/27/2020</b>	<b>\$285.03</b>	<b>\$314.59</b>	<b>10.37%</b>		<b>sold on open</b>
MDLZ	2/27/2020	\$56.54	\$54.79	-3.10%		Catapult
XOM	2/27/2020	\$51.71	\$51.30	-0.79%		Catapult
CHTR	2/28/2020	\$500.70	\$495.03	-1.13%		Catapult
COP	2/28/2020	\$45.42	\$48.12	5.94%		Catapult
DUK	2/28/2020	\$93.30	\$95.61	2.48%		Catapult
EXC	2/28/2020	\$44.34	\$44.19	-0.34%		Catapult
F	2/28/2020	\$6.84	\$6.97	1.90%		<b>sell on open</b>
KO	2/28/2020	\$53.83	\$56.06	4.14%		Catapult
LMT	2/28/2020	\$369.86	\$377.40	2.04%		Catapult
<b>MA</b>	<b>2/28/2020</b>	<b>\$274.89</b>	<b>\$314.59</b>	<b>14.44%</b>		<b>sold on open</b>
MDT	2/28/2020	\$98.97	\$100.40	1.44%		Catapult
MO	2/28/2020	\$39.37	\$41.90	6.43%		<b>sell on open</b>
<b>MRK</b>	<b>2/28/2020</b>	<b>\$76.68</b>	<b>\$81.40</b>	<b>6.16%</b>		<b>sold on open</b>
NEE	2/28/2020	\$248.15	\$265.15	6.85%		<b>sell on open</b>
UPS	2/28/2020	\$88.63	\$91.30	3.01%		<b>sell on open</b>
WFC	2/28/2020	\$41.31	\$40.53	-1.89%		Catapult
AXP	3/2/2020	\$109.93	\$108.01	-1.75%		Catapult
BLK	3/2/2020	\$463.01	\$482.07	4.12%		Catapult
CHTR	3/2/2020	\$493.17	\$495.03	0.38%		Catapult
CVX	3/2/2020	\$93.34	\$94.39	1.12%		Catapult
DUK	3/2/2020	\$91.70	\$95.61	4.26%		Catapult
EMR	3/2/2020	\$64.11	\$63.74	-0.58%		<b>sell on open</b>
EXC	3/2/2020	\$43.11	\$44.19	2.51%		Catapult
<b>KHC</b>	<b>3/2/2020</b>	<b>\$24.77</b>	<b>\$26.00</b>	<b>4.97%</b>		<b>sold on open</b>
LMT	3/2/2020	\$369.87	\$377.40	2.04%		Catapult
MDT	3/2/2020	\$100.67	\$100.40	-0.27%		Catapult
MO	3/2/2020	\$40.37	\$41.90	3.79%		<b>sell on open</b>
NEE	3/2/2020	\$252.76	\$265.15	4.90%		<b>sell on open</b>
SO	3/2/2020	\$60.36	\$63.90	5.86%		Catapult
UPS	3/2/2020	\$90.49	\$91.30	0.90%		<b>sell on open</b>
USB	3/2/2020	\$46.44	\$46.10	-0.73%		Catapult
WFC	3/2/2020	\$40.85	\$40.53	-0.78%		Catapult



*SPY – I will look to exit one lot @ \$312.00 LIMIT. If not filled by the end of the day, I will exit that 1 lot at a limit price of \$304.00 on the close.*

*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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