

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2020

Volume 13 Issue 44

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	20

Tonight's Research Points

- The huge up day on Wednesday after a big down Tuesday triggered some bullish pattern studies.
- But the light volume on Wednesday could be bearish.
- The CBI remains extremely high at 20.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. I am looking to reduced exposure once again.

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						
March 5, 2020	Up 3% on weak volume	1-3 days	Bearish			
March 5, 2020	Down 1.75% yesterday. Up 3/4+ today	1-5 days	Bullish			
March 5, 2020	Up 1%. Dn 1%. Up 1%	1 day	Bullish			
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			
Active - Long Term						
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			

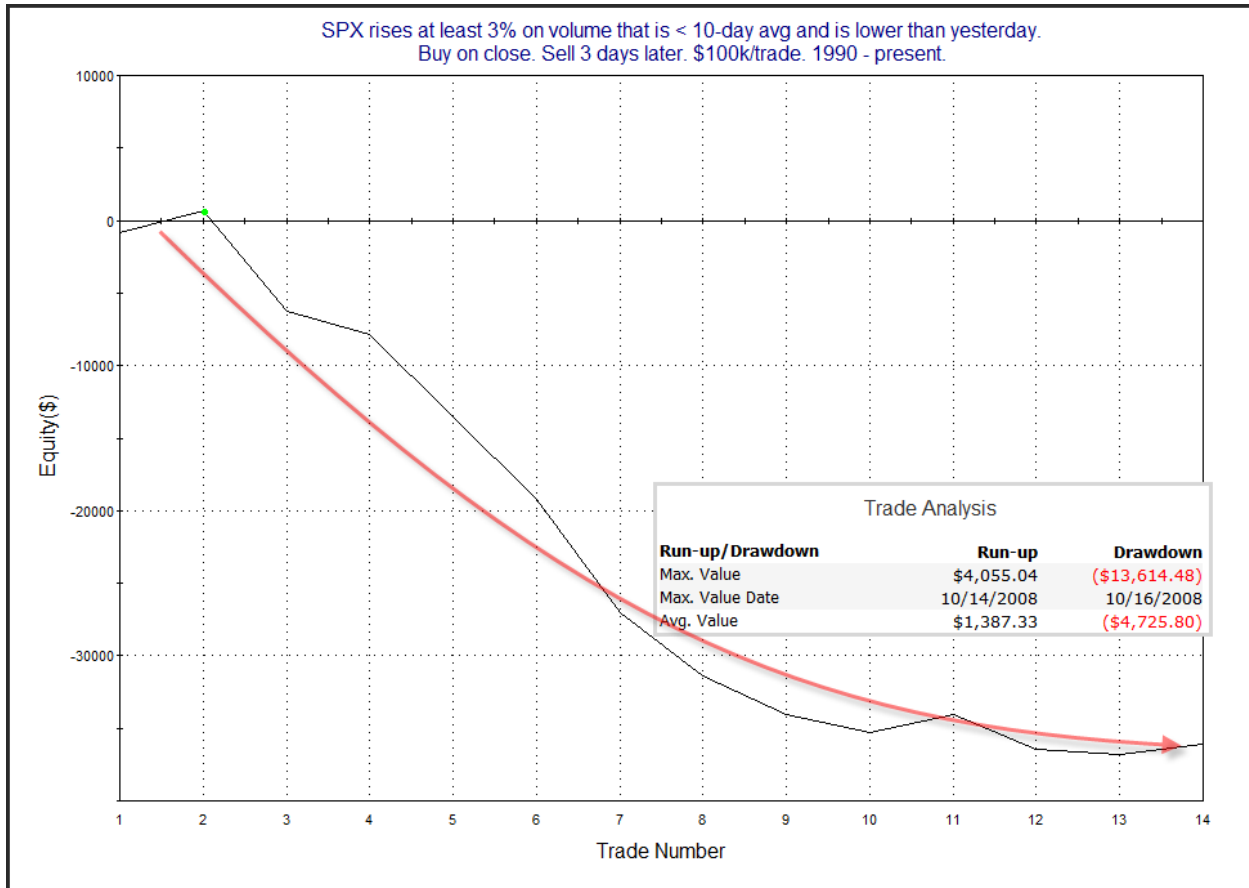
The Evidence

While the Fed cannot cure COVID-19, it appears the market believes that Joe Biden can. Wednesday started off strong and kept getting stronger, culminating in a run-up right into the close. When it was done the SPX had gained 4.2%, the NASDAQ rallied 3.85% and the Russell 2000 rose 3.0%. Breadth was positive as the NYSE Up Issues % was 85% and the Up Volume % came in at 83%. NYSE volume came in at the lightest level in a week.

The big move up on low volume triggered some studies from way back in 2011. The one below was featured in the 8/24/11 letter. It looked at other times SPX rallied at least 3% on the day while posting lower than average volume that was also lower than the day before. Results are updated.

SPX rises at least 3% on volume that is < 10-day avg and is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	-48,458.64	13	5	8	38.46	3,612.16	-14,461.05	1,633.28	-7,078.13	0.23	0.14	-3,727.59
4	-31,913.19	14	4	10	28.57	5,734.40	-10,971.63	3,065.40	-4,417.48	0.69	0.28	-2,279.51
3	-36,099.17	14	3	11	21.43	1,500.84	-7,806.29	1,143.83	-3,593.70	0.32	0.09	-2,578.51
2	-34,469.39	14	6	8	42.86	1,405.26	-9,455.49	784.98	-4,897.41	0.16	0.12	-2,462.10
1	-4,774.59	14	5	9	35.71	2,077.44	-3,065.35	877.46	-1,017.99	0.86	0.48	-341.04

The numbers suggest a possible bearish inclination over the next few days. Below is a look at a 3-day profit curve.



The curve supports the bearish inclination suggested by the stats table. Of course the price and volume criteria both understate just what transpired on Wednesday. The study below is similar, but a bit more strict with the filters.

SPX rises 3.5%+ on the lowest NYSE volume in 5 days.
Buy on close. Sell X days later. \$100k/trade. 1990 - 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	-35,234.75	5	0	5	0.00	0.00	-13,784.48	0.00	-7,046.95	0.00	0.00	-7,046.95
4	-21,145.09	5	1	4	20.00	1,805.40	-10,971.63	1,805.40	-5,737.62	0.31	0.08	-4,229.02
3	-18,961.39	5	1	4	20.00	1,710.20	-7,806.29	1,710.20	-5,167.90	0.33	0.08	-3,792.28
2	-16,498.95	5	2	3	40.00	2,707.25	-8,950.62	2,056.25	-6,870.49	0.30	0.20	-3,299.79
1	-2,375.21	5	3	2	60.00	958.72	-3,065.35	635.73	-2,141.20	0.30	0.45	-475.04

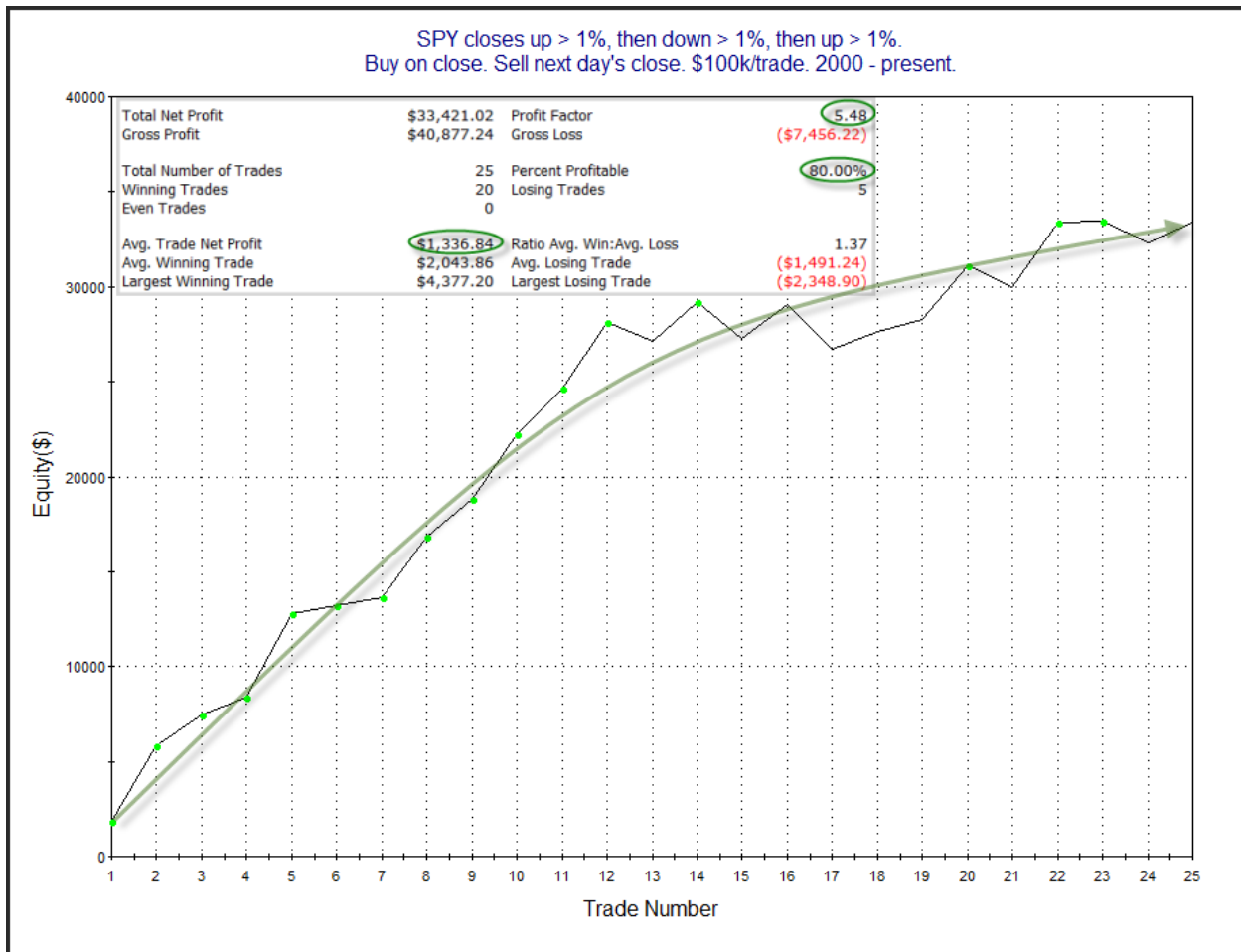
Instances are extremely low...but wow. One week later every trade was a loser, and by an average of 7%! Below is the list of instances along with their run-up/drawdown numbers.

SPX rises 3.5%+ on the lowest NYSE volume in 5 days.
Buy on close. Sell 5 days later. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/5/2002	Buy	\$989.03	-6.84%	\$457.53
7/12/2002	Sell	\$921.39		(\$8,897.09)
7/29/2002	Buy	\$898.96	-7.16%	\$1,407.48
8/5/2002	Sell	\$834.60		(\$7,272.72)
10/20/2008	Buy	\$985.40	-13.85%	\$4.04
10/27/2008	Sell	\$848.92		(\$13,921.84)
11/26/2008	Buy	\$887.68	-4.78%	\$959.84
12/4/2008	Sell	\$845.22		(\$8,062.88)
8/11/2011	Buy	\$1,172.64	-2.73%	\$3,045.55
8/18/2011	Sell	\$1,140.65		(\$3,536.85)

You can see that all the instances occurred during some pretty horrific market periods. Instances here are too few to generate estimates from. For that I used the 1st study. But the numbers are strong enough to make a point that Wednesday's rally is not exactly an all-clear signal. The market may not be out of the woods just yet.

There were also some studies (that did not consider volume) that liked the pattern of the last few days and suggested an upside edge. This first one was last seen in the 4/4/18 letter. It examined ping-pong activity like we have seen the last few days. Results are updated.



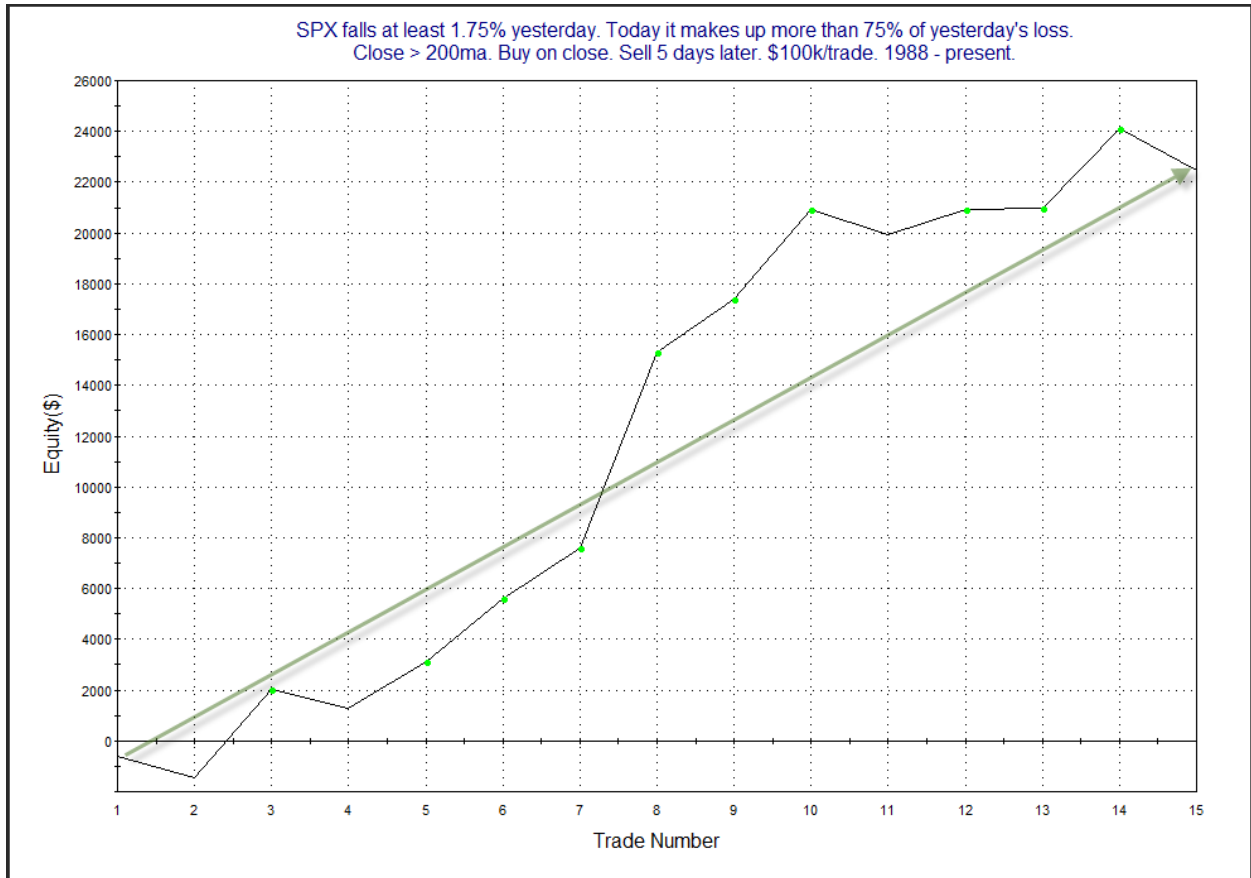
The numbers are very impressive. And while the curve has flattened out some lately, this certainly seems worthy of consideration. I have added it to the Active List tonight.

This last study was from the 6/29/16 letter. It looked at times a big drop was immediately followed by a strong bounce that made up more than 75% of the drop on the next day. Results are updated.

SPX falls at least 1.75% yesterday. Today it makes up more than 75% of yesterday's loss.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

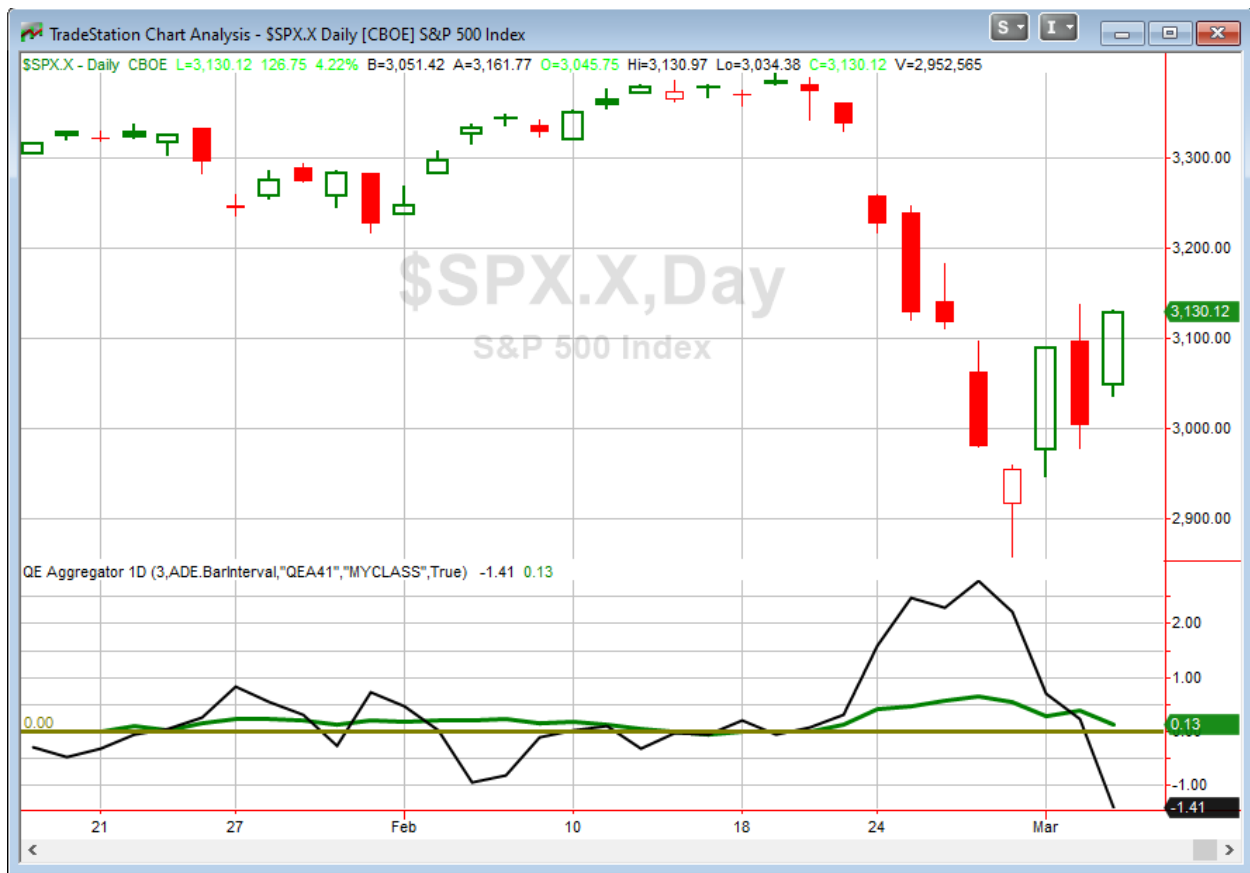
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,469.96	15	10	5	66.67	7,700.66	-1,631.70	2,730.00	-966.01	2.83	5.65	1,498.00
4	14,865.03	15	9	6	60.00	7,217.86	-2,836.79	2,682.91	-1,546.86	1.73	2.60	991.00
3	13,948.43	15	8	7	53.33	4,581.63	-1,925.10	2,508.45	-874.16	2.87	3.28	929.90
2	9,602.12	15	9	6	60.00	5,134.01	-2,160.39	2,006.02	-1,408.68	1.42	2.14	640.14
1	993.49	15	7	8	46.67	4,708.01	-2,782.56	1,505.57	-1,193.18	1.26	1.10	66.23

Not as jaw-dropping as some of the other results, but impressive anyway. Below is a look at the 5-day profit curve.



That is a strong, steady move from lower left to upper right. I have also included this study on the Active List tonight.

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



Once again the green Aggregator Line is above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is dropped well 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.

Based on the current list of studies, expectations are set to remain mildly bullish on Thursday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be *slightly inverted* at 3132.39 on Thursday. That is about 2 points *above* Wednesday'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 up a very small amount in order to remain overbought. Any flat or down close would cause it to flip back to "oversold" as of Thursday's close.

So the Aggregator is now neutral. And the volume studies at the top of the letter were certainly eye-opening. Therefore, I definitely want to lighten up on my long exposure. But with 2 lots of SPY currently open, it took some deliberation to decide how I'd like to handle it. I decided to take one lot off even if we get a bit of a gap down. So for the 1st lot I'll sell as low as \$310.00. But the ping-pong study suggested Thursday could see some strong gains. And despite the rally on

Wednesday, the CBI still stands at an extremely high 20 (though that is down substantially from 58 last Friday). Often I will look to hold one lot until the CBI gets back to neutral (somewhere at 5 or less). But this market has been acting well beyond historical norms and risks still appear high. So I'll be content to get out before that. A down close on Thursday would likely turn the Aggregator back to bullish. Therefore, I will look to close out the last lot of SPY only if it closes higher.

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)
XOM – 1/3 @ \$56.36 (bought @ limit)
DD – 1/3 @ \$47.47 (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)
XOM – 1/3 @ \$53.01 (buy @ limit)
COP – 1/3 @ \$47.13 (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)
MDT 1/3 @ \$100.67 (buy @ limit)
USB 1/3 @ \$46.44 (buy @ limit)
WFC 1/3 @ \$40.85 (buy @ limit)
ALL 1/3 @ \$109.92 (missed signal)

Broad Market Large Cap CBI – 20

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
SPY	2/25/2020	\$312.65	\$312.86	0.07%		<i>sell @ \$312.87 LMTonClose</i>
<i>SPY</i>	<i>2/26/2020</i>	<i>\$311.50</i>	<i>\$312.00</i>	<i>0.16%</i>		<i>sold at LIMIT</i>
SPY	2/27/2020	\$305.46	\$312.86	2.42%		<i>sell @ \$310.00 LIMIT</i>
DD	2/25/2020	\$50.45	\$44.16	-12.47%		Catapult
<i>GOOGL</i>	<i>2/25/2020</i>	<i>\$1,419.86</i>	<i>\$1,358.96</i>	<i>-4.29%</i>		<i>sold on open</i>
MDLZ	2/25/2020	\$57.72	\$58.01	0.50%		<i>sell on open</i>
XOM	2/25/2020	\$56.36	\$52.42	-6.99%		Catapult
DD	2/26/2020	\$47.47	\$44.16	-6.97%		Catapult
<i>GOOGL</i>	<i>2/26/2020</i>	<i>\$1,386.32</i>	<i>\$1,358.96</i>	<i>-1.97%</i>		<i>sold on open</i>
MDLZ	2/26/2020	\$57.02	\$58.01	1.74%		<i>sell on open</i>
XOM	2/26/2020	\$54.20	\$52.42	-3.28%		Catapult
ALL	2/26/2020	\$117.31	\$114.51	-2.39%		Catapult
<i>AMZN</i>	<i>2/26/2020</i>	<i>\$1,970.28</i>	<i>\$1,946.57</i>	<i>-1.20%</i>		<i>sold on open</i>
BLK	2/26/2020	\$506.00	\$495.31	-2.11%		Catapult
COP	2/26/2020	\$53.83	\$49.43	-8.17%		Catapult
<i>F</i>	<i>2/26/2020</i>	<i>\$7.23</i>	<i>\$7.09</i>	<i>-1.94%</i>		<i>sold on open</i>
ALL	2/27/2020	\$114.59	\$114.51	-0.07%		Catapult
COP	2/27/2020	\$49.60	\$49.43	-0.34%		Catapult
DD	2/27/2020	\$45.82	\$44.16	-3.62%		Catapult
EXC	2/27/2020	\$47.05	\$46.82	-0.49%		<i>sell on open</i>
<i>F</i>	<i>2/27/2020</i>	<i>\$7.13</i>	<i>\$7.09</i>	<i>-0.56%</i>		<i>sold on open</i>
MDLZ	2/27/2020	\$56.54	\$58.01	2.60%		<i>sell on open</i>
XOM	2/27/2020	\$51.71	\$52.42	1.37%		Catapult
CHTR	2/28/2020	\$500.70	\$522.84	4.42%		<i>sell on open</i>
COP	2/28/2020	\$45.42	\$49.43	8.83%		Catapult
DUK	2/28/2020	\$93.30	\$101.65	8.95%		<i>sell on open</i>
EXC	2/28/2020	\$44.34	\$46.82	5.59%		<i>sell on open</i>
<i>F</i>	<i>2/28/2020</i>	<i>\$6.84</i>	<i>\$7.09</i>	<i>3.65%</i>		<i>sold on open</i>
KO	2/28/2020	\$53.83	\$58.92	9.46%		<i>sell on open</i>
LMT	2/28/2020	\$369.86	\$402.03	8.70%		<i>sell on open</i>
MDT	2/28/2020	\$98.97	\$103.59	4.67%		Catapult
<i>MO</i>	<i>2/28/2020</i>	<i>\$39.37</i>	<i>\$42.40</i>	<i>7.70%</i>		<i>sold on open</i>
<i>NEE</i>	<i>2/28/2020</i>	<i>\$248.15</i>	<i>\$269.20</i>	<i>8.48%</i>		<i>sold on open</i>
<i>UPS</i>	<i>2/28/2020</i>	<i>\$88.63</i>	<i>\$92.29</i>	<i>4.13%</i>		<i>sold on open</i>
WFC	2/28/2020	\$41.31	\$41.40	0.22%		Catapult
AXP	3/2/2020	\$109.93	\$115.70	5.25%		Catapult
BLK	3/2/2020	\$463.01	\$495.31	6.98%		Catapult
CHTR	3/2/2020	\$493.17	\$522.84	6.02%		<i>sell on open</i>
CVX	3/2/2020	\$93.34	\$98.53	5.56%		<i>sell on open</i>
DUK	3/2/2020	\$91.70	\$101.65	10.85%		<i>sell on open</i>
<i>EMR</i>	<i>3/2/2020</i>	<i>\$64.11</i>	<i>\$64.72</i>	<i>0.95%</i>		<i>sold on open</i>
EXC	3/2/2020	\$43.11	\$46.82	8.61%		<i>sell on open</i>
LMT	3/2/2020	\$369.87	\$402.03	8.69%		<i>sell on open</i>
MDT	3/2/2020	\$100.67	\$103.59	2.90%		Catapult
<i>MO</i>	<i>3/2/2020</i>	<i>\$40.37</i>	<i>\$42.40</i>	<i>5.03%</i>		<i>sold on open</i>
<i>NEE</i>	<i>3/2/2020</i>	<i>\$252.76</i>	<i>\$269.20</i>	<i>6.50%</i>		<i>sold on open</i>
SO	3/2/2020	\$60.36	\$67.80	12.33%		<i>sell on open</i>
<i>UPS</i>	<i>3/2/2020</i>	<i>\$90.49</i>	<i>\$92.29</i>	<i>1.99%</i>		<i>sold on open</i>
USB	3/2/2020	\$46.44	\$46.66	0.47%		Catapult
WFC	3/2/2020	\$40.85	\$41.40	1.35%		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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