

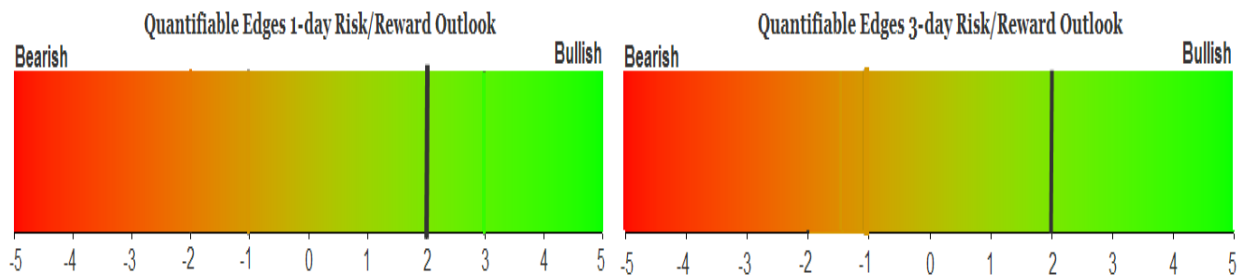
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2020

Volume 13 Issue 46

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	20

## Tonight's Research Points

- The gap down and partial reversal on Friday is triggering a few studies suggesting a bounce on Monday.
- Two unfilled down gaps for SPY suggest a short-term reversal.
- The CBI is locked in at 20 the last few days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish and a big bounce will happen at some point. But the market is acting far outside historical norms, and that is making timing very difficult..

*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 9, 2020	SPY unfilled gap down today and yest	1-5 days	Bullish	3.00%	-1.80%	-3.90%
March 9, 2020	Gap dn to 50-low and partial reversal	1-2 days	Bullish			
March 9, 2020	SP up > 1% open to close but still down	1-2 days	Bullish			
March 6, 2020	Dn 1.75% 2x in 3 days. Low > 10-low	1-2 days	Bullish			
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 3, 2020	20-low. Gap up fill then higher	1-5 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***

Friday was another tough day for the markets, but it was looking a lot worse before SPX rallied 70 points (over 2%) in the last 45 minutes. Still, SPX closed down 1.7%, the NASDAQ fell 1.9% and the Russell 2000 dropped 2.0%. Breadth was strongly negative as the NYSE Up Issues % was 18% and the Up Volume % came in at 13%. NYSE volume rose for the 2<sup>nd</sup> day in a row.

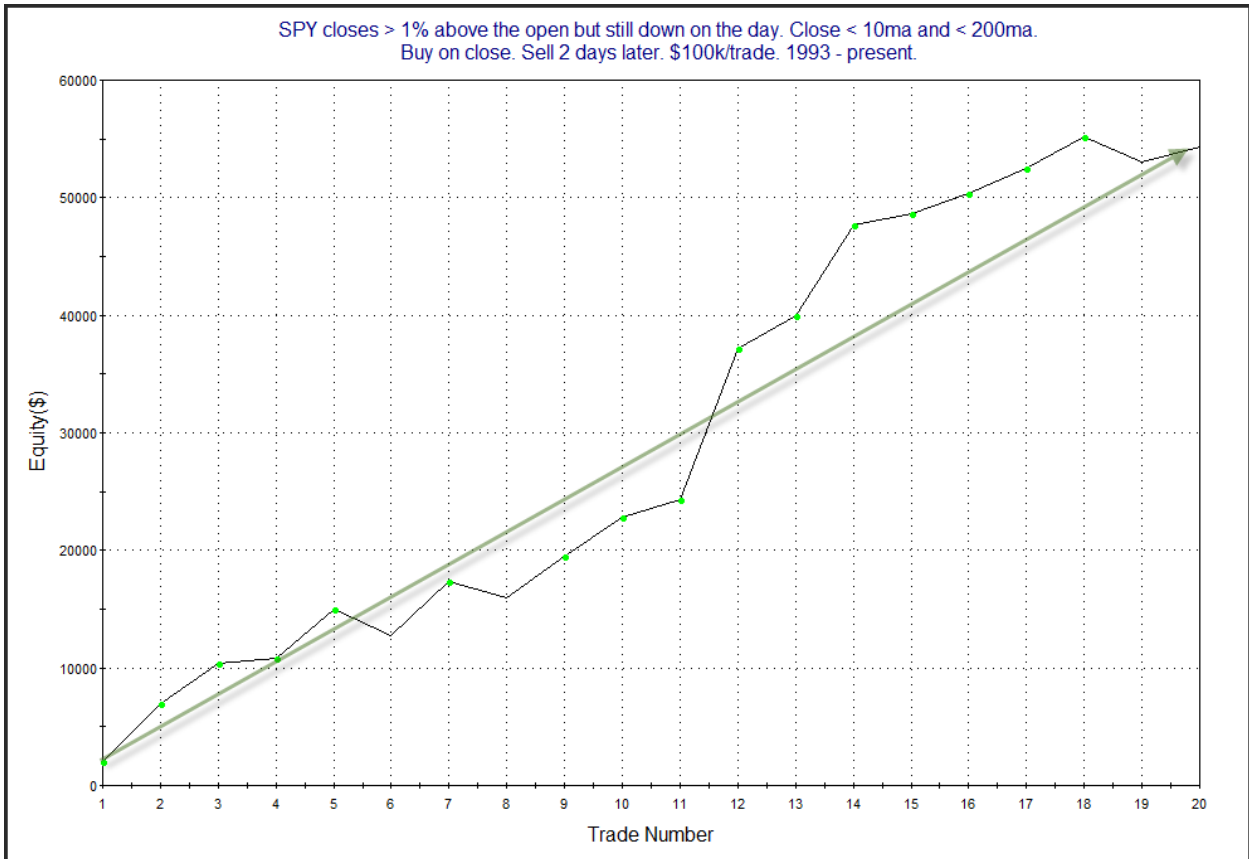
The big down move and sizable late (partial) rebound was very similar action to what we saw last Friday. And we saw several of the same studies trigger. So this weekend's short-term section will read quite similar to last weekend's.

The 1<sup>st</sup> study from last weekend examined times when SPY rose over 1% from open to close but still finished down on the day and below the 10ma. Updated stats are below.

SPY closes > 1% above the open but still down on the day. Close < 10ma and < 200ma.  
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
10	34,373.01	16	10	6	62.50	12,037.05	-8,387.90	5,570.28	-3,554.97	1.57	2.61	2,148.31
9	40,614.60	16	13	3	81.25	10,391.40	-6,874.60	3,910.21	-3,406.04	1.15	4.97	2,538.41
8	46,961.31	16	12	4	75.00	10,774.35	-5,461.20	4,859.65	-2,838.62	1.71	5.14	2,935.08
7	59,231.45	16	13	3	81.25	15,348.76	-5,357.60	5,203.94	-2,806.59	1.85	8.03	3,701.97
6	57,008.40	16	14	2	87.50	11,639.99	-3,466.90	4,494.16	-2,954.90	1.52	10.65	3,563.02
5	46,476.41	19	14	5	73.68	11,238.92	-6,614.24	4,439.98	-3,136.65	1.42	3.96	2,446.13
4	46,884.30	20	14	6	70.00	10,630.48	-6,725.16	4,217.93	-2,027.79	2.08	4.85	2,344.22
3	35,875.78	20	14	6	70.00	6,933.92	-5,355.22	3,476.41	-2,132.32	1.63	3.80	1,793.79
2	54,335.54	20	17	3	85.00	12,814.15	-2,251.30	3,532.72	-1,906.89	1.85	10.50	2,716.78
1	45,558.96	20	16	4	80.00	14,507.65	-3,547.32	3,304.20	-1,827.07	1.81	7.23	2,277.95

Here we see very strong numbers on a somewhat small sample size. (Thought the sample size is 1 larger than it was a week ago.) Below is a profit curve showing a 2-day holding period.

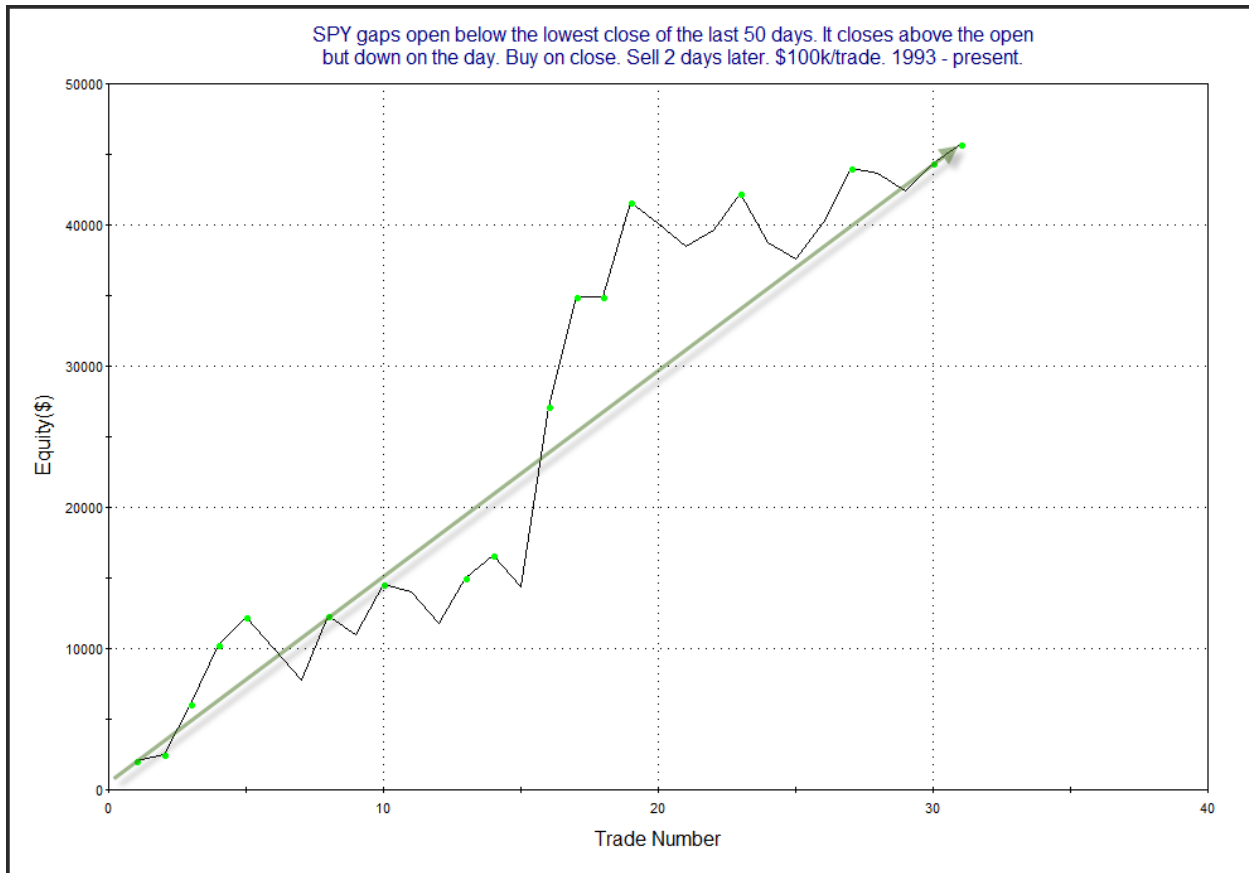


The strong steady upslope shows the gains were not due to just a few outliers.

The 2<sup>nd</sup> study from the 3/2/20 letter looked for gaps to 50-day lows and partial reversals. It showed similar strength. I have also updated that study below.

SPY gaps open below the lowest close of the last 50 days. It closes above the open but down on the day. 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	45,316.91	29	18	11	62.07	11,377.00	-5,014.98	4,104.46	-2,596.68	1.58	2.59	1,562.65
4	53,056.02	30	19	11	63.33	11,714.64	-6,725.16	4,178.84	-2,394.72	1.75	3.01	1,768.53
3	43,483.87	30	17	13	56.67	10,848.52	-5,355.22	3,853.95	-1,694.86	2.27	2.97	1,449.46
2	45,692.31	31	19	12	61.29	12,814.15	-3,463.80	3,464.21	-1,677.30	2.07	3.27	1,473.95
1	34,244.68	32	21	11	65.63	14,507.65	-3,576.07	2,592.44	-1,836.04	1.41	2.70	1,070.15

Again the edge appears to largely play out over the next 2 days. Below is a profit curve.

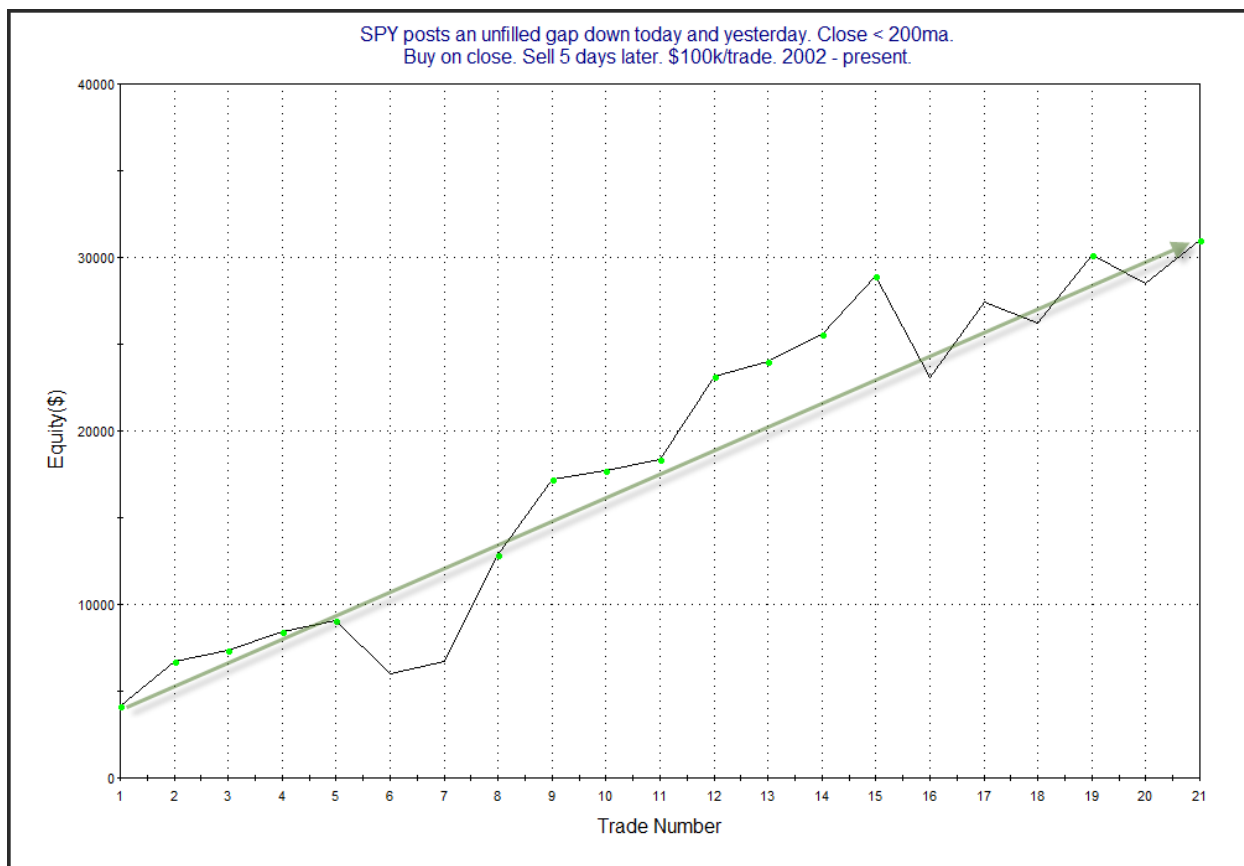


This study also appears compelling. And with both studies utilizing the same concept and showing similar results, I remain confident they provide an upside edge.

Another notable about the action was that both Thursday and Friday saw SPY leave an unfilled gap down. It is fairly unusual to see 2 unfilled gaps down in a row. In the 12/7/18 letter I looked at times SPY gapped down 2 days in a row and finished below the 200ma. I have updated that research below.

SPY posts an unfilled gap down today and yesterday. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2002 - 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	30,978.76	21	17	4	80.95	6,103.89	-5,855.50	2,519.31	-2,962.40	0.85	3.61	1,475.18
4	24,233.02	22	14	8	63.64	6,941.43	-4,811.80	2,750.67	-1,784.54	1.54	2.70	1,101.50
3	20,480.41	22	13	9	59.09	5,888.16	-2,474.50	2,437.07	-1,244.61	1.96	2.83	930.93
2	14,248.23	23	11	12	47.83	5,091.84	-5,231.80	2,772.61	-1,354.20	2.05	1.88	619.49
1	5,743.35	27	15	12	55.56	2,818.20	-4,080.40	1,249.64	-1,083.44	1.15	1.44	212.72

The numbers are compelling. I find it especially intriguing considering how simple of a setup it is. Here is the profit curve.



As you would expect with such a high percentage of winners, the curve looks strong too.

I saw a good amount of people note the massive rally in TLT (iShares Long-Term Bond ETF). TLT rose 5.2% on Friday, which was the largest 1-day rise since its inception in 2002. I decided to look at other times TLT rallied strongly and to a new high to see if it provided any edge when considering forward stock movement.

TLT rises by at least 2.5% and closes at a 50-day high.  
Buy SPX on close. Sell X days later. \$100k/trade. 2002 - present. (Inception of TLT.)

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
100	-16,160.88	4	2	2	50.00	9,110.12	-26,987.45	5,415.26	-13,495.70	0.40	0.40	-4,040.22
95	-23,774.95	4	2	2	50.00	8,760.52	-30,533.21	4,891.98	-16,779.46	0.29	0.29	-5,943.74
90	-20,987.74	4	1	3	25.00	11,218.36	-30,029.40	11,218.36	-10,735.37	1.04	0.35	-5,246.94
85	-23,315.64	4	1	3	25.00	9,678.60	-29,050.83	9,678.60	-10,998.08	0.88	0.29	-5,828.91
80	-26,675.36	4	1	3	25.00	11,159.08	-23,573.66	11,159.08	-12,611.48	0.88	0.29	-6,668.84
75	-19,228.88	4	1	3	25.00	11,586.20	-24,111.50	11,586.20	-10,271.69	1.13	0.38	-4,807.22
70	-14,907.98	5	2	3	40.00	9,469.60	-27,438.97	9,396.90	-11,233.93	0.84	0.56	-2,981.60
65	-19,731.16	6	2	4	33.33	9,104.32	-23,287.31	7,826.24	-8,845.91	0.88	0.44	-3,288.53
60	-21,292.51	6	2	4	33.33	12,329.84	-25,321.64	9,537.80	-10,092.03	0.95	0.47	-3,548.75
55	-35,334.05	6	2	4	33.33	10,505.48	-28,630.02	9,135.96	-13,401.49	0.68	0.34	-5,889.01
50	-18,193.46	6	3	3	50.00	9,775.92	-28,381.02	6,297.32	-12,361.81	0.51	0.51	-3,032.24
45	-24,806.48	6	3	3	50.00	7,959.84	-28,469.00	5,566.84	-13,835.66	0.40	0.40	-4,134.41
40	-28,515.39	6	2	4	33.33	8,315.88	-22,786.82	5,932.54	-10,095.12	0.59	0.29	-4,752.56
35	-4,876.56	7	4	3	57.14	7,832.64	-18,878.35	6,355.00	-10,098.86	0.63	0.84	-696.65
30	-5,892.65	7	4	3	57.14	14,867.01	-28,620.89	7,207.20	-11,573.81	0.62	0.83	-841.81
25	-667.40	7	4	3	57.14	8,145.06	-17,293.05	6,055.25	-8,296.14	0.73	0.97	-95.34
20	-16,046.51	7	3	4	42.86	9,680.10	-15,803.20	4,975.54	-7,743.28	0.64	0.48	-2,292.36
15	-10,687.33	8	3	5	37.50	8,242.23	-11,359.38	4,202.89	-4,659.20	0.90	0.54	-1,335.92
10	-11,357.82	9	4	5	44.44	4,752.72	-7,248.39	2,610.82	-4,360.22	0.60	0.48	-1,261.98
5	17,846.44	11	6	5	54.55	11,405.78	-6,440.08	5,285.18	-2,772.92	1.91	2.29	1,622.40

Numbers here are not impressive. I don't see the big move in bonds signaling an immediate end to the stock selloff. And instances are not large enough to consider these results bearish. This is not something that is being added to the Active List, but I thought it was worth sharing.

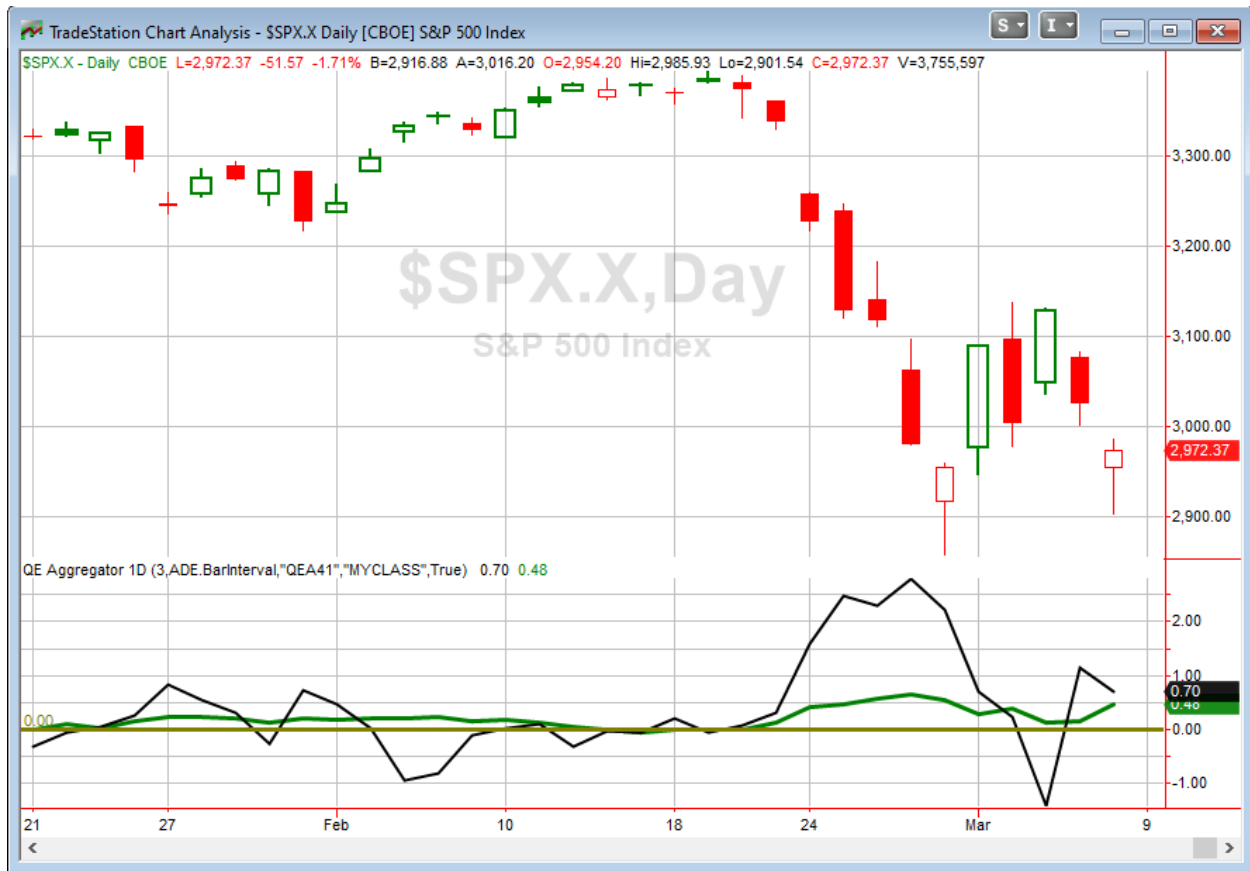
As you'll see in the Catapult and CBI section lower down, the CBI held steady at 20 for the 3<sup>rd</sup> day in a row. It is quite unusual to see such an elevated reading go unchanged like this for multiple days. So let's talk about why, and some of the forces that are in play.



A Catapult will trigger when a security is stretched to the downside. You see the big selloff that reached a (perhaps temporary) bottom on 2/28 caused a huge spike in the CBI. It reached 58, which is the 2<sup>nd</sup> highest reading ever (data back to 1995). The strong selloff the last couple of days has not triggered any new Catapults. While the drop has been large, stocks are not as stretched as they were on the previous drop. It will take more selling to reach a point where that occurs.

To exit a Catapult there needs to be a reversion. The bounces on Monday and Wednesday saw a majority of the Catapults come off, as many stocks reached a point where they qualified. But to get a real reversion it often takes a multi-day rally. And we have not had one of those yet. So we are at a point now where we need to see a strong market bounce for the CBI to drop or more strong selling for it to rise. Based on both the high CBI, and the other evidence we are seeing, the strong bounce appears more probable.

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 back above 0. 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 Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3147.31 on Monday. That is a whopping 5.9% above Friday's close. Even in this market, that seems highly doubtful. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is again bullish. There is plenty of room to the upside before SPX would turn overbought. And short-term evidence suggests a strong bounce could ensue at any time. It is pretty rare that I would look at a setup with substantial short-term bullish evidence, plenty of room to the upside, and a CBI of 20 and be content to just be 50% long an index position. But with the market acting outside of norms and the intermediate-term outlook now neutral, I am not inclined to up it further at this point. I'm sure Monday will be interesting. I'll see how it plays out before planning my next move.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/9 – neutral***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

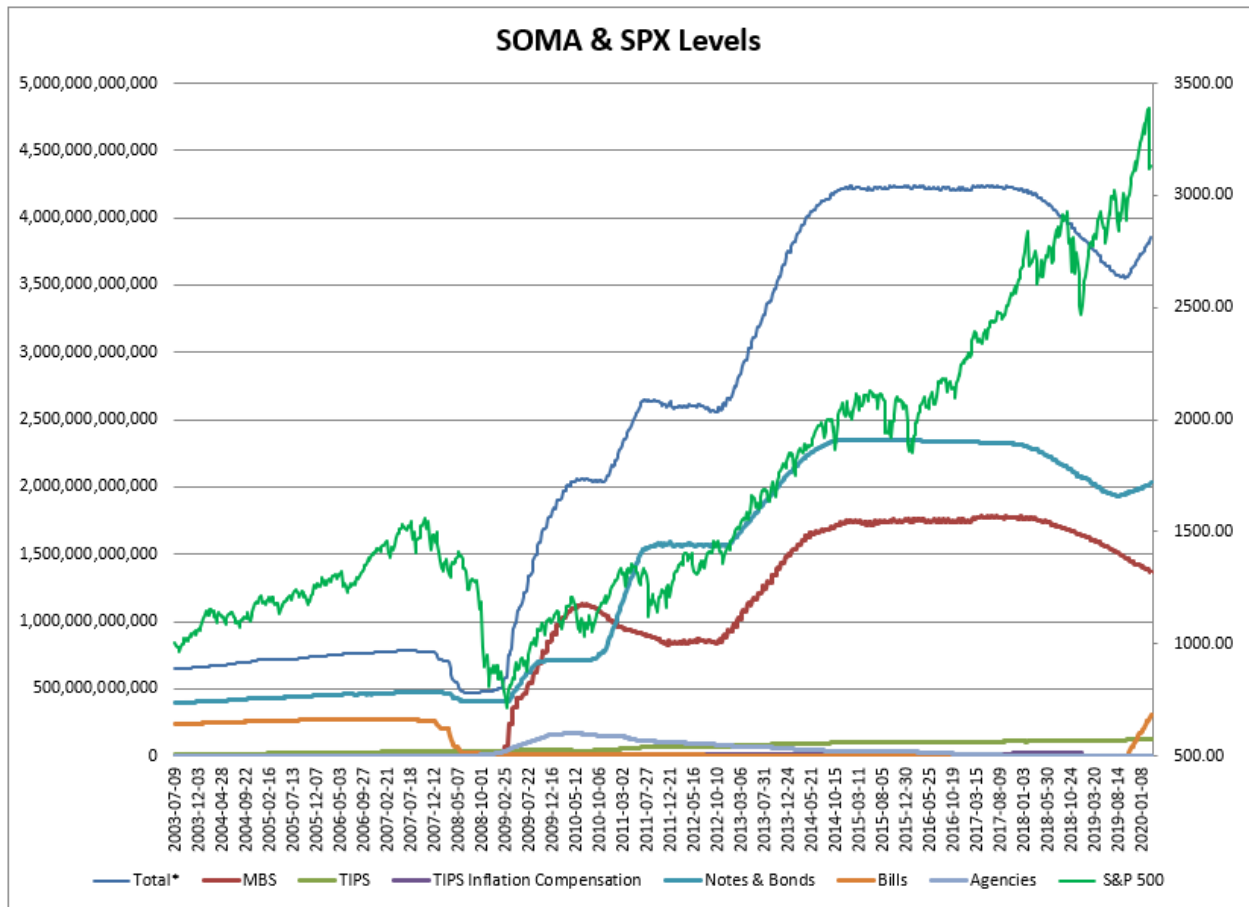
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 Combo Systems remained on long signals.*

Did this week feel like an up week for the market? Not to me. But most indices eeked out small gains. The SPX closed up 0.6% on the week, and the NASDAQ rose 0.1%, while the Russell 2000 lost 1.8%. Of course SPX had 2 days (Monday and Wednesday) where it gained over 4% each day. So the 0.6% net for the week is not so impressive. Long-term trend measures are now mixed, depending on how you define it.

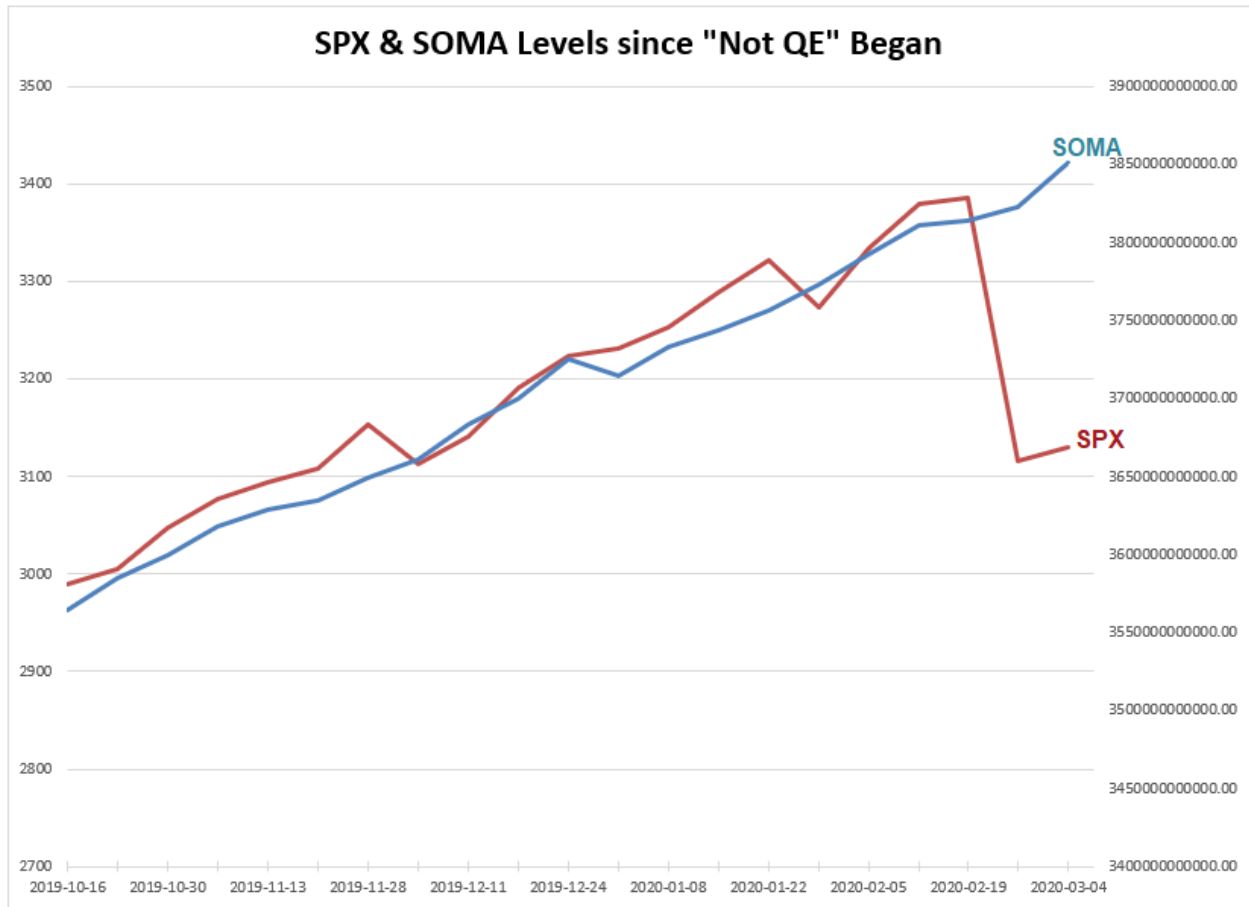
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don’t fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.*

*The Quantitative Tightening program that began in October 2017 was ended in August 2019. In October 2019 a new Fed policy, nicknamed “not QE” was put in place and it has generated further SOMA expansion.*



And here is a zoomed in version since “not QE” began in October.



The table below is from the Fed's website and shows the SOMA changes this past week.

« As of 02/26/2020

DOMESTIC SECURITIES HOLDINGS AS OF

**March 4, 2020** 📅

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	303,042,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,027,663,871.2
US Treasury Floating Rate Notes (FRN)	15,416,998.3
US Treasury Inflation-Protected Securities (TIPS)*	131,052,063.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,371,845,552.8
Total SOMA Holdings	3,851,367,485.5
Change From Prior Week	28,502,999.7

\*Does not reflect inflation compensation of 25,448,572.7  
\*\*Fannie Mae, Freddie Mac and Federal Home Loan Bank  
\*\*\*Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 03/05/2020 4:30pm.

The \$28.5 billion rise in the SOMA this past week is the largest since QE3 in 2014. Perhaps that is just coincidence, but it seems to me the Fed is doing everything they can to infuse liquidity into the system. As we have seen over the last 12 years or so, liquidity infusions have typically been a strong positive for the market. “Not QE” seemed to have the same strong influence over the last few months until the corona virus scare hit.

My intermediate-term outlook is similar to last week. While we have a decent amount of studies pointing higher, I have too many concerns to maintain a bullish stance. Movements down from the 2/19 high have been historic. The market is acting far outside norms. Pandemics, supply-side shocks, politics, oil prices, bond prices, and other forces are creating massive amount of uncertainty at the moment. So I am inclined to remain neutral. This means I’m a bit more cautious about timing new entries for both longs and shorts. This could change in the near future. I’ll be on the lookout for evidence suggesting a long-term bottom, or a bearish continuation. But I am not overly confident in either of those right now.

## **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 (bought @ limit)*  
*COP – 1/3 @ \$51.17 bought @ limit*  
*DD – 1/3 @ \$47.26 (bought @ limit)*  
*XOM – 1/3 @ \$53.01 (bought @ limit)*  
*COP – 1/3 @ \$47.13 (bought @ limit)*  
*MDT – 1/3 @ \$100.98 (bought @ limit)*  
*WFC – 1/3 @ \$42.47 (bought @ limit)*  
*AXP 1/3 @ \$109.93 (bought @ limit)*  
*BLK 1/3 @ \$463.01 (bought @ limit)*  
*MDT 1/3 @ \$100.67 (bought @ limit)*  
*USB 1/3 @ \$46.44 (bought @ limit)*  
*WFC 1/3 @ \$40.85 (bought @ limit)*  
*ALL 1/3 @ \$109.92 (filled)*

### ***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	\$297.46	-4.86%		Aggregator
SPY	2/27/2020	\$305.46	\$297.46	-2.62%		Aggregator
DD	2/25/2020	\$50.45	\$40.50	-19.72%		Catapult
XOM	2/25/2020	\$56.36	\$47.69	-15.38%		Catapult
DD	2/26/2020	\$47.47	\$40.50	-14.68%		Catapult
XOM	2/26/2020	\$54.20	\$47.69	-12.01%		Catapult
ALL	2/26/2020	\$117.31	\$107.14	-8.67%		Catapult
BLK	2/26/2020	\$506.00	\$450.41	-10.99%		Catapult
COP	2/26/2020	\$53.83	\$45.33	-15.79%		Catapult
ALL	2/27/2020	\$114.59	\$107.14	-6.50%		Catapult
COP	2/27/2020	\$49.60	\$45.33	-8.61%		Catapult
DD	2/27/2020	\$45.82	\$40.50	-11.61%		Catapult
XOM	2/27/2020	\$51.71	\$47.69	-7.77%		Catapult
COP	2/28/2020	\$45.42	\$45.33	-0.20%		Catapult
MDT	2/28/2020	\$98.97	\$99.06	0.09%		Catapult
WFC	2/28/2020	\$41.31	\$37.09	-10.22%		Catapult
AXP	3/2/2020	\$109.93	\$108.24	-1.54%		Catapult
BLK	3/2/2020	\$463.01	\$450.41	-2.72%		Catapult
MDT	3/2/2020	\$100.67	\$99.06	-1.60%		Catapult
USB	3/2/2020	\$46.44	\$42.45	-8.59%		Catapult
WFC	3/2/2020	\$40.85	\$37.09	-9.20%		Catapult
ALL	3/6/2020	\$104.21	\$107.14	2.81%		Catapult

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found [here](#).*

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Hanna Capital Management, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2020 Quantifiable Edges, LLC.