

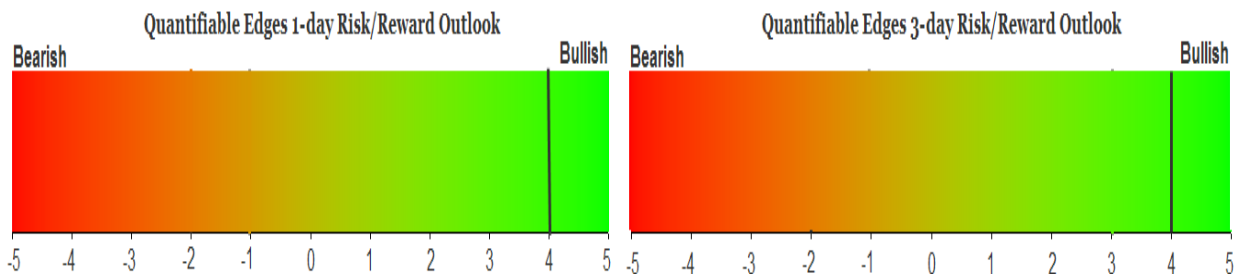
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 10, 2020

Volume 13 Issue 47

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	24

Tonight's Research Points

- A potential Turnaround Tuesday is on tap.
- Multiple price action studies suggest the selling is overdone and the market is primed for a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish and a big bounce should arrive shortly. Monday's action is probably at least a temporary washout.

The Evidence

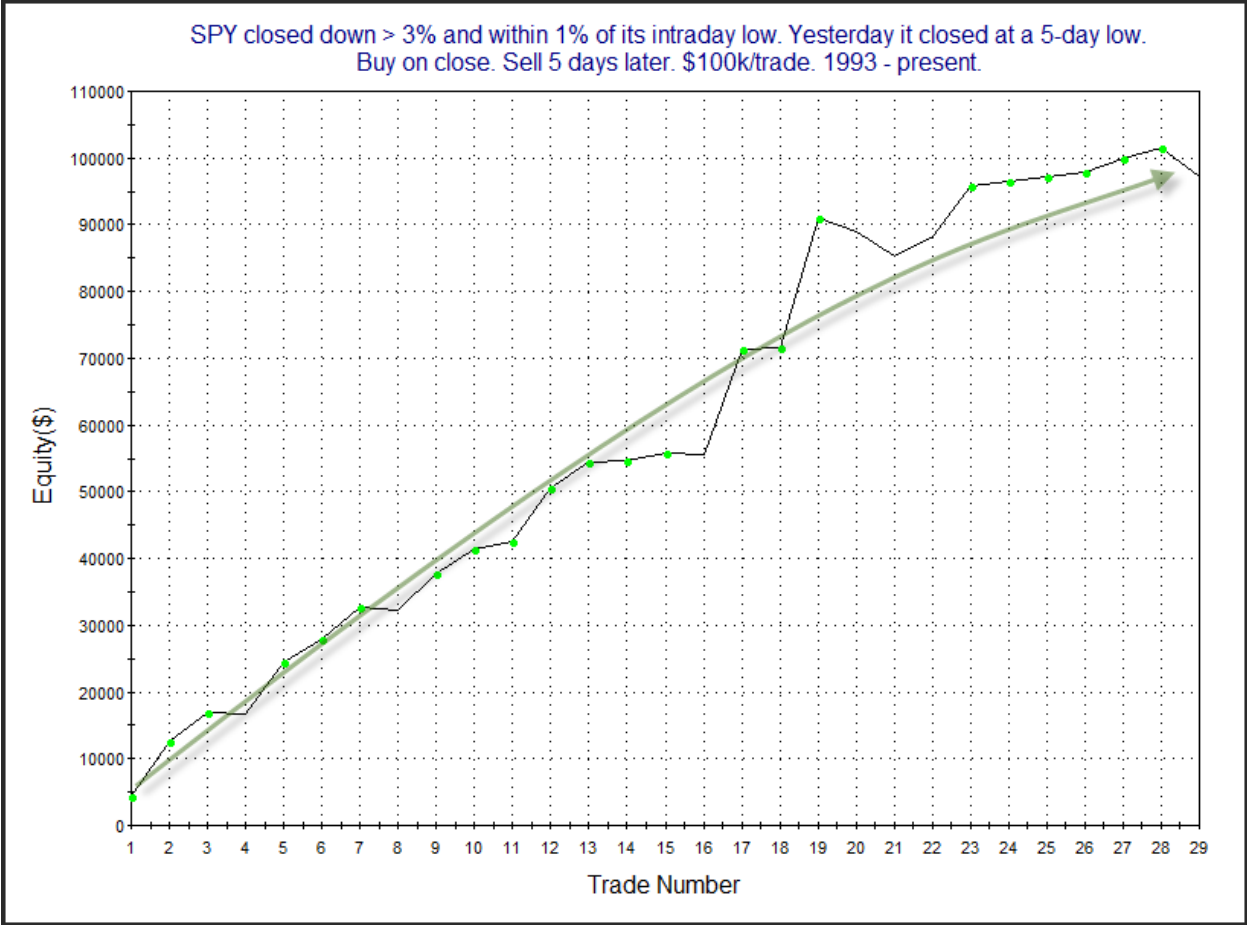
Ugh. On Monday SPX tumbled 7.6%, the NASDAQ fell 7.3% and the Russell 2000 lost 9.4%. Breadth was strongly negative as the NYSE Up Issues % was 2.5% and the Up Volume % came in at 2.4%. NYSE volume rose for the 3rd day in a row.

There were a ton of studies that triggered in the Quantifinder on Monday. I will first note that we are hitting some massive extremes. The SPX is now down over 18% from its all-time closing high just 13 days ago. That is the fastest ever drawdown of that magnitude from an all-time high. The VIX closed at the highest level since 2008. The Russell 2000 is now down over 24% from its August 2018 all-time high. And the Quantifiable Edges CBI bumped up to 24. Most of these things suggest a bounce is due. Let’s talk about a few of the more compelling studies from the Quantifinder below.

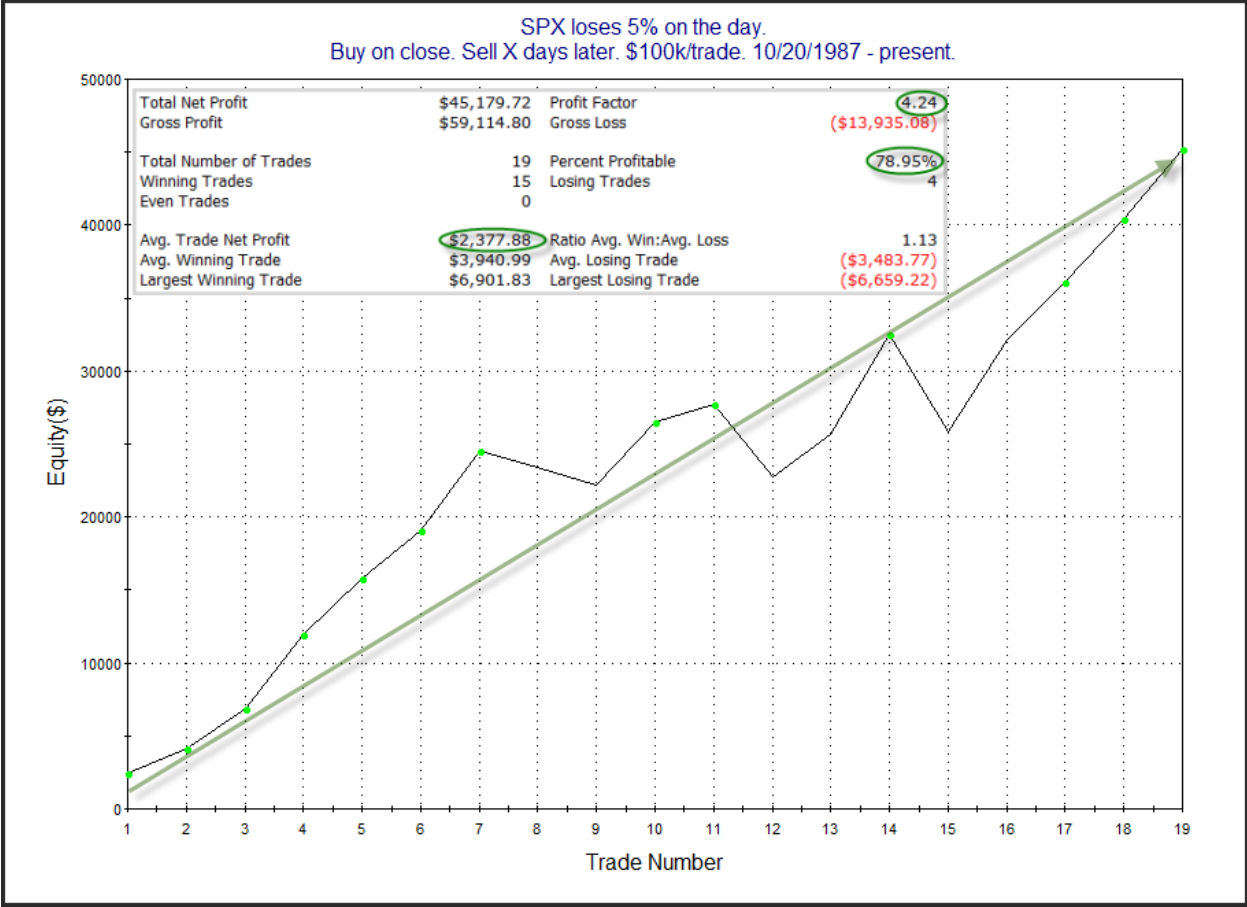
One bit of evidence to consider is that not only was the selling extremely sharp on Monday, it also originated from a place where the market was already short-term oversold. The study below was last seen in the 2/25/20 letter, and it takes these kind of measures into account.

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	97,300.38	29	23	6	79.31	19,398.00	-4,132.30	4,698.43	-1,793.92	2.62	10.04	3,355.19
4	61,131.00	31	20	11	64.52	17,914.00	-8,109.60	4,519.07	-2,659.13	1.70	3.09	1,971.97
3	45,940.63	32	19	13	59.38	14,708.85	-11,518.47	4,164.48	-2,552.66	1.63	2.38	1,435.64
2	60,381.42	33	26	7	78.79	12,693.50	-9,320.67	3,325.22	-3,724.91	0.89	3.32	1,829.74
1	47,168.31	34	23	11	67.65	11,683.71	-4,080.40	2,939.45	-1,858.10	1.58	3.31	1,387.30

Very substantial looking numbers here. Below is the profit curve.



The strong steady upslope suggests a short-term bullish edge. Of course the drop was much bigger than 3%. The study below is from the 8/9/11 letter. It looks at drops of at least 5%.



On average, the next day earned back 2.4% of the loss.

It is also notable that the selloff the last 3 days has been both very strong and very persistent. Each day the SPX declined at least 1.5%. It is quite unusual to see the SPX decline that much for 3 consecutive days. Below is a look at other times the this has occurred. (From the 12/24/18 letter.)

SPX closes down > 1.5% for exactly the 3rd day in a row.
Buy on close. Sell X days later. \$100k/trade. 10/20/1987 - 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	66,523.80	11	11	0	100.00	13,815.90	0.00	6,047.62	0.00	100.00	100.00	6,047.62
9	60,836.64	11	10	1	90.91	11,206.23	-116.13	6,095.28	-116.13	52.49	524.87	5,530.60
8	64,473.01	11	10	1	90.91	11,382.35	-1,097.31	6,557.03	-1,097.31	5.98	59.76	5,861.18
7	55,298.25	11	10	1	90.91	11,104.17	-1,665.32	5,696.36	-1,665.32	3.42	34.21	5,027.11
6	52,280.97	11	10	1	90.91	10,034.53	-1,121.01	5,340.20	-1,121.01	4.76	47.64	4,752.82
5	43,029.15	11	9	2	81.82	9,572.31	-3,449.18	5,298.91	-2,330.52	2.27	10.23	3,911.74
4	39,439.76	11	10	1	90.91	8,810.76	-2,476.48	4,191.62	-2,476.48	1.69	16.93	3,585.43
3	35,009.54	11	10	1	90.91	8,432.34	-2,594.34	3,760.39	-2,594.34	1.45	14.49	3,182.69
2	35,670.47	11	10	1	90.91	6,245.15	-774.99	3,644.55	-774.99	4.70	47.03	3,242.77
1	6,842.54	11	6	5	54.55	3,877.95	-2,684.68	2,395.65	-1,506.28	1.59	1.91	622.05

The numbers on the table suggest 1) there has been a high probability of a bounce, and 2) the bounces have been very strong when they arrived. Below is a look at the full list of instances with the 2-day results.

SPX closes down > 1.5% for exactly the 3rd day in a row.
Buy on close. Sell 2 days later. \$100k/trade. 10/20/1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/10/1987	Buy	\$239.00	3.98%	\$4,552.02
11/12/1987	Sell	\$248.52		\$0.00
8/23/1990	Buy	\$307.06	4.68%	\$5,216.25
8/27/1990	Sell	\$321.43		(\$289.25)
10/11/1990	Buy	\$295.45	2.63%	\$3,156.92
10/15/1990	Sell	\$303.22		(\$81.12)
4/14/2000	Buy	\$1,356.02	6.31%	\$6,245.15
4/18/2000	Sell	\$1,441.57		(\$694.96)
2/21/2001	Buy	\$1,255.28	-0.78%	\$368.14
2/23/2001	Sell	\$1,245.47		(\$3,147.36)
9/21/2001	Buy	\$965.80	4.81%	\$5,288.02
9/25/2001	Sell	\$1,012.27		\$0.00
7/22/2002	Buy	\$819.85	2.88%	\$2,960.87
7/24/2002	Sell	\$843.43		(\$5,344.57)
8/5/2002	Buy	\$834.60	5.05%	\$5,252.66
8/7/2002	Sell	\$876.77		\$0.00
3/2/2009	Buy	\$700.82	1.72%	\$3,308.60
3/4/2009	Sell	\$712.87		(\$1,209.84)
8/24/2015	Buy	\$1,893.21	2.50%	\$2,851.16
8/26/2015	Sell	\$1,940.51		(\$1,358.76)
12/21/2018	Buy	\$2,416.58	2.12%	\$2,098.38
12/26/2018	Sell	\$2,467.70		(\$2,870.00)

Everything above suggests a strong upside edge. But there is a dirty little secret with this study. Below is a look at the 10-day results...and a reveal of the dirty little secret.

SPX closes down > 1.5% for exactly the 3rd day in a row. Buy on close. Sell 2 days later. \$100k/trade. 10/20/1987 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/10/1987	Buy	\$239.00	3.09%	\$4,552.02
11/24/1987	Sell	\$246.38		(\$1,304.16)
8/23/1990	Buy	\$307.06	5.32%	\$6,100.25
9/7/1990	Sell	\$323.39		(\$289.25)
10/11/1990	Buy	\$295.45	4.98%	\$6,888.44
10/25/1990	Sell	\$310.16		(\$81.12)
4/14/2000	Buy	\$1,356.02	8.28%	\$9,265.16
5/1/2000	Sell	\$1,468.25		(\$694.96)
2/21/2001	Buy	\$1,255.28	0.53%	\$1,380.92
3/7/2001	Sell	\$1,261.89		(\$3,221.62)
9/21/2001	Buy	\$965.80	10.93%	\$12,186.96
10/5/2001	Sell	\$1,071.38		\$0.00
7/22/2002	Buy	\$819.85	1.80%	\$11,106.59
8/5/2002	Sell	\$834.60		(\$5,344.57)
8/5/2002	Buy	\$834.60	13.91%	\$13,871.83
8/19/2002	Sell	\$950.70		\$0.00
3/2/2009	Buy	\$700.82	7.57%	\$10,466.82
3/16/2009	Sell	\$753.89		(\$4,832.26)
8/24/2015	Buy	\$1,893.21	4.02%	\$5,214.04
9/8/2015	Sell	\$1,969.41		(\$1,358.76)
12/21/2018	Buy	\$2,416.58	6.53%	\$6,692.84
1/8/2019	Sell	\$2,574.41		(\$2,870.00)

Avg Run-Up: 8.0% Avg Drawdown: -1.8% Max Drawdown: -5.3% but...

...the instance prior to those above triggered on 10/16/87 and was followed by the Crash of '87 the next day.

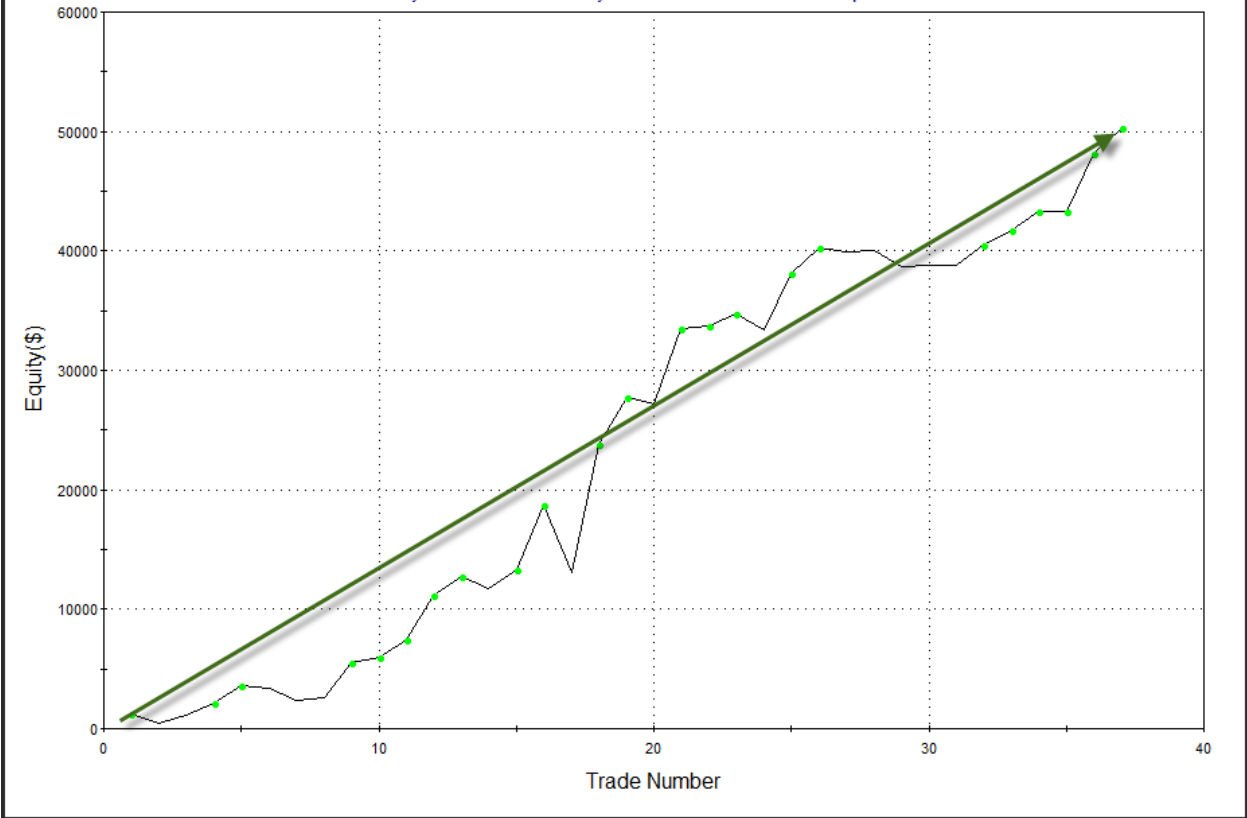
There appears to be a high probability of a strong bounce. But probable does not mean definite. And the last time the bounce failed to come...it was because the market crashed in a historic way. I think we are already done to the point where an even more accelerated crash appears unlikely.

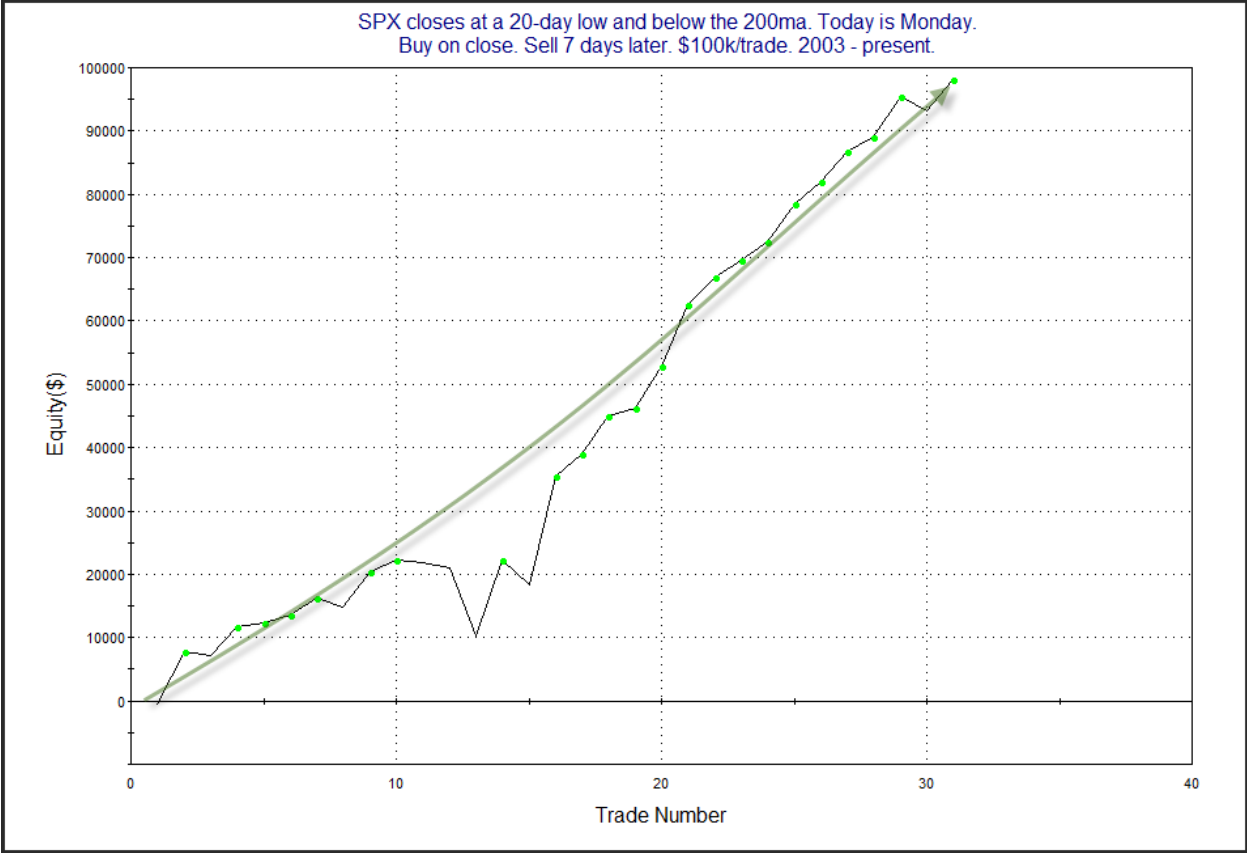
Another potential positive is the fact that a possible Turnaround Tuesday is on tap. In the Turnaround Tuesday study below I looked at 20-day lows below the 200ma. Results are updated from the 10/30/18 letter.

SPX closes at a 20-day low and below the 200ma. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	87,687.51	30	23	7	76.67	21,519.33	-9,276.30	5,130.43	-4,330.34	1.18	3.89	2,922.92
9	92,225.61	31	25	6	80.65	13,525.47	-18,648.00	5,014.82	-5,524.14	0.91	3.78	2,975.02
8	85,879.01	31	25	6	80.65	15,803.97	-17,685.00	4,639.70	-5,018.92	0.92	3.85	2,770.29
7	98,068.44	31	23	8	74.19	17,319.54	-10,933.20	5,173.76	-2,616.01	1.98	5.69	3,163.50
6	89,186.22	31	23	8	74.19	18,349.11	-9,917.10	4,994.08	-3,209.71	1.56	4.47	2,876.97
5	71,450.17	36	26	10	72.22	13,733.46	-7,598.76	3,983.37	-3,211.75	1.24	3.22	1,984.73
4	70,425.48	37	26	11	70.27	14,020.11	-14,820.98	3,808.06	-2,598.56	1.47	3.46	1,903.39
3	65,582.18	37	27	10	72.97	12,304.89	-13,815.18	3,454.96	-2,770.18	1.25	3.37	1,772.49
2	51,333.81	37	24	13	64.86	9,496.89	-6,763.30	2,968.96	-1,532.40	1.94	3.58	1,387.40
1	50,297.30	37	27	10	72.97	10,716.03	-5,702.04	2,334.20	-1,272.60	1.83	4.95	1,359.39

Not only do the numbers look strong on Tuesday, but the setup has seen good follow through over the next several days. Below are profit curves for the 1-day and 7-day holding periods.

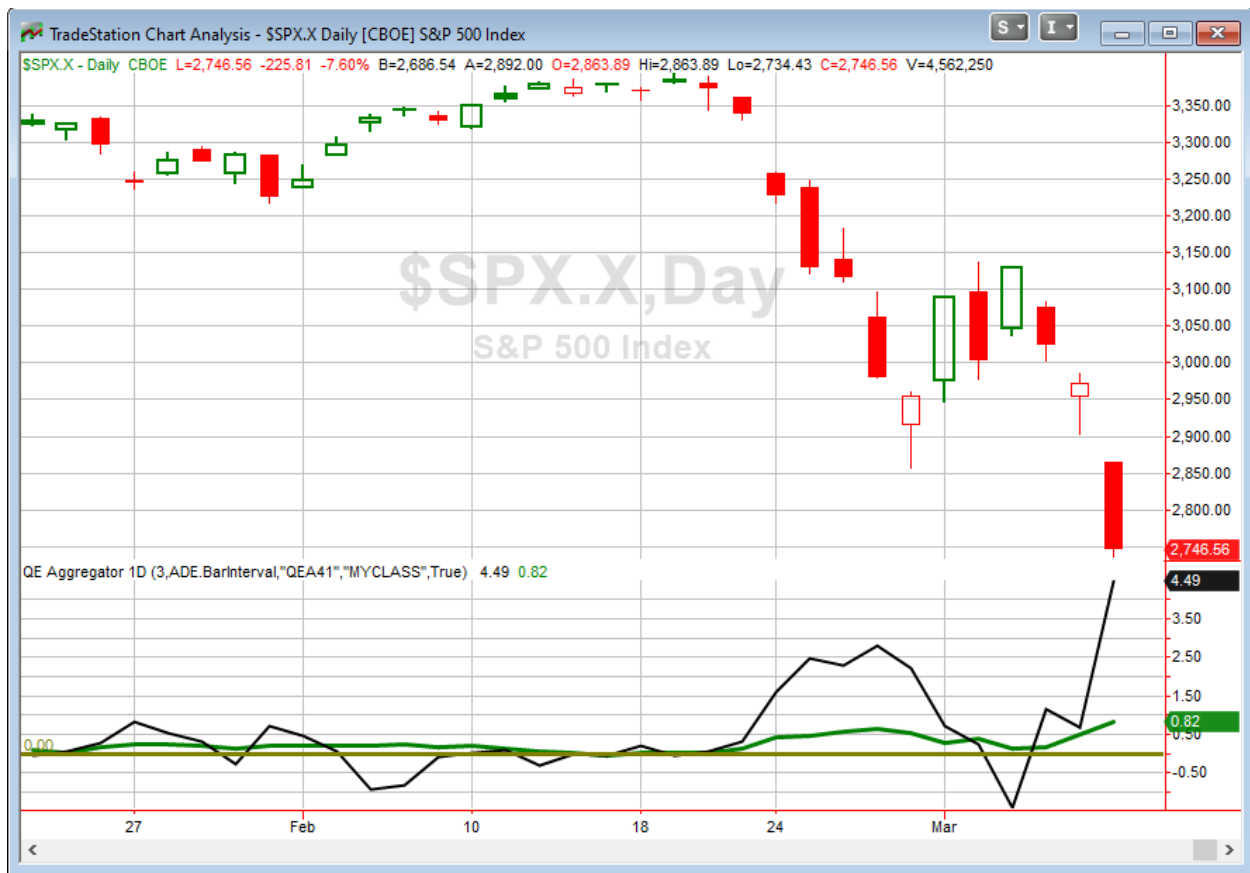
SPX closes at a 20-day low and below the 200ma. Today is Monday.
Buy on close. Sell 1 day later. \$100k/trade. 2003 - present.





The strong upslope serves as some confirmation of the bullish edge suggested by the numbers.

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



With tonight's evidence to consider, the green Aggregator is now far above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is also as high above 0 as it has been in a very long time. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold – both to extreme levels. 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 unlikely to change. Meanwhile, the Differential Pivot will be 3020.08 on Tuesday. That is a whopping 10.0% above Monday'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 following the dive we took on Monday. Breadth, volatility, Turnaround Tuesday seasonality, and price action are all suggesting a strong upside edge. I am already long 2 lots of SPY. I will look to add a 3rd if SPY closes much lower on Tuesday.

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

New

GE 1/3 @ \$8.21 (buy @ limit)
OXY 1/3 @ \$12.51 (buy @ limit)
SLB 1/3 @ \$17.31 (buy @ limit)
USB 1/3 @ \$36.32 (buy @ limit)

Broad Market Large Cap CBI – 24

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.

GE – buy 1/3 Catapult position @ \$8.21 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of GE.

OXY – buy 1/3 Catapult position @ \$12.51 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of OXY.

SLB – buy 1/3 Catapult position @ \$17.31 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of SLB.

USB – buy 1/3 Catapult position @ \$36.32 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of USB.

SPY – buy 1/3 Catapult position @ \$274.00 LIMIT ON CLOSE. Based on the short-term outlook above. I like the setup. It is a wild market, but I will look to up my exposure a little further if SPY closes down again.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	2/25/2020	\$312.65	\$274.23	-12.29%		Aggregator
SPY	2/27/2020	\$305.46	\$274.23	-10.22%		Aggregator
DD	2/25/2020	\$50.45	\$35.15	-30.33%		Catapult
XOM	2/25/2020	\$56.36	\$41.86	-25.73%		Catapult
DD	2/26/2020	\$47.47	\$35.15	-25.95%		Catapult
XOM	2/26/2020	\$54.20	\$41.86	-22.77%		Catapult
ALL	2/26/2020	\$117.31	\$95.61	-18.50%		Catapult
BLK	2/26/2020	\$506.00	\$419.01	-17.19%		Catapult
COP	2/26/2020	\$53.83	\$34.07	-36.71%		Catapult
ALL	2/27/2020	\$114.59	\$95.61	-16.56%		Catapult
COP	2/27/2020	\$49.60	\$34.07	-31.31%		Catapult
DD	2/27/2020	\$45.82	\$35.15	-23.29%		Catapult
XOM	2/27/2020	\$51.71	\$41.86	-19.05%		Catapult
COP	2/28/2020	\$45.42	\$34.07	-24.99%		Catapult
MDT	2/28/2020	\$98.97	\$92.40	-6.64%		Catapult
WFC	2/28/2020	\$41.31	\$32.48	-21.37%		Catapult
AXP	3/2/2020	\$109.93	\$98.29	-10.59%		Catapult
BLK	3/2/2020	\$463.01	\$419.01	-9.50%		Catapult
MDT	3/2/2020	\$100.67	\$92.40	-8.21%		Catapult
USB	3/2/2020	\$46.44	\$36.32	-21.79%		Catapult
WFC	3/2/2020	\$40.85	\$32.48	-20.49%		Catapult
ALL	3/6/2020	\$104.21	\$95.61	-8.25%		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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