

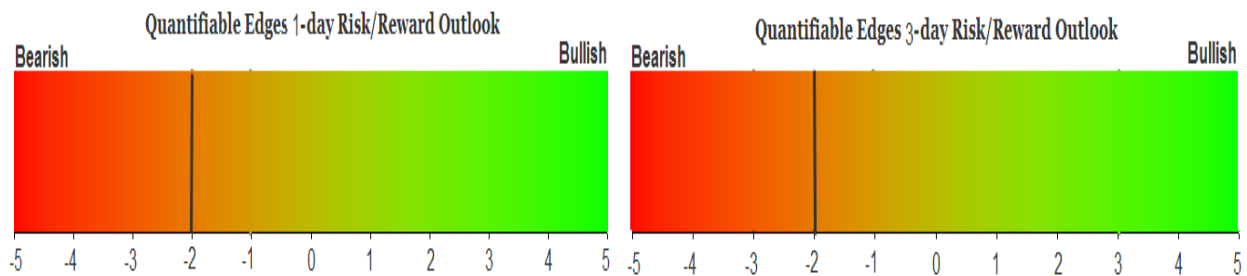
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2020

Volume 13 Issue 59

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	2

Tonight's Research Points

- The VIX rose with the SPX for the 2nd day in a row. This has often been followed by selling in the following days.
- The CBI dropped from 13 to a neutral 2.

Short-term Outlook

The Bottom Line

The Aggregator is now bearish. I am looking to exit nearly all longs.

The Evidence

Wednesday saw some follow through to the massive Tuesday rally, but a late-day swoon left the final numbers mixed. The SPX rose 1.15%, while the NASDAQ lost 0.45% and the Russell 2000 gained 1.26%. Breadth was positive as the NYSE Up Issues % was 80% and the Up Volume % came in at 82%. NYSE volume rose a little from Tuesday's level.

Especially notable about the action on Wednesday is that we again saw the VIX rise along with the SPX. I showed a study last night indicating this kind of action could be potentially bearish for the short-term. The study below is updated from the 12/7/11 letter. It looks at times SPX and VIX managed to close up for 2 days in a row while SPX was under the 200ma.

SPX and VIX both close higher 2 days in a row. SPX < 200ma. Buy SPX 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	-18,543.07	9	3	6	33.33	2,590.50	-6,118.00	1,670.75	-3,925.89	0.43	0.21	-2,060.34
4	-21,832.91	9	3	6	33.33	1,884.00	-5,742.75	1,202.22	-4,239.93	0.28	0.14	-2,425.88
3	-18,782.40	9	2	7	22.22	1,290.54	-8,395.18	1,084.54	-2,993.07	0.36	0.10	-2,086.93
2	-20,363.46	9	1	8	11.11	209.28	-5,947.00	209.28	-2,571.59	0.08	0.01	-2,262.61
1	-9,664.18	10	3	7	30.00	912.33	-3,035.25	543.94	-1,613.72	0.34	0.14	-966.42

As you can see, it is quite rare. But the numbers over the 1st 2 days strongly hint at a downside edge. Below is the full list of instances.

SPX and VIX both close higher 2 days in a row. SPX < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/27/1990	Buy	\$318.10	-0.53%	\$580.90
11/29/1990	Sell	\$316.41		(\$963.98)
12/31/1990	Buy	\$330.21	-2.52%	\$163.08
1/3/1991	Sell	\$321.90		(\$2,512.64)
8/9/1994	Buy	\$457.92	0.21%	\$760.82
8/11/1994	Sell	\$458.88		(\$226.72)
9/29/1998	Buy	\$1,049.00	-5.97%	\$0.00
10/1/1998	Sell	\$986.40		(\$6,431.50)
7/31/2002	Buy	\$911.62	-5.20%	\$0.00
8/2/2002	Sell	\$864.24		(\$6,286.03)
11/5/2002	Buy	\$915.39	-1.39%	\$1,120.52
11/7/2002	Sell	\$902.65		(\$1,817.03)
5/19/2008	Buy	\$1,426.63	-2.52%	\$0.00
5/21/2008	Sell	\$1,390.71		(\$2,647.40)
12/6/2011	Buy	\$1,258.47	-1.92%	\$678.61
12/8/2011	Sell	\$1,234.35		(\$2,133.00)
3/7/2016	Buy	\$2,001.76	-0.62%	\$0.00
3/9/2016	Sell	\$1,989.26		(\$1,192.17)

Not only has the move lower played out on a consistent basis, but risk/reward is massively in favor of the bears. Four of the 9 instances started with a gap down and never saw any run-up at all over the 1st 2 days. And with the *largest* run-up being just 1.1% while the *average* drawdown sits at 2.7%, the odds are clearly against the bulls.

It is also worth noting that the Quantifiable Edges Capitulative Breadth Indicator (CBI) finally returned to neutral today, dropping from 13 to just 2. The CBI spiked several weeks ago and had not fallen below 10 since late February. The selloff that came so strongly off the top that it exceeded all other historical selloffs with its speed and ferocity coming from a high, also wreaked havoc on a good number of Catapult triggers. This is the 1st multi-day bounce for SPX since 2/12, and it took a huge 2-day bounce to get the CBI to drop back to neutral.

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



Tonight the green Aggregator stayed below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed short at the close.

Based on the current list of studies, expectations are set to remain bearish on Thursday. This could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2234.43 on Thursday. That is 9.7% below Wednesday's close. Therefore, SPX will need to close down a huge 9.7% on Thursday in order to change to oversold versus expectations.

Short-side evidence has built up the last couple of days, and the Aggregator is now bearish. Still, I am not inclined to get overexcited about the short side right here. The 1st bounce following an extended move down to a long-term low will often be a powerful move. We saw that the last couple of days. And the bounce can be nearly as painful for shorts as the selloff was for longs. Also, as my colleague Jeff Pietsch pointed out to me today, we are nearing the end of a quarter, and with stocks down so much, blended funds may need to do a large rebalancing to get their portfolio allocations back in sync. This could also serve as a boost to stocks over the next several

days. In any case, I am not yet ready to jump to the short side, but I am inclined to exit most of my remaining long positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/23 – neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

USB 1/3 @ \$46.44 (bought @ limit)

USB 1/3 @ \$36.32 (bought @ limit)

Broad Market Large Cap CBI – 2

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	\$246.79	-21.07%		<i>Sell @ \$244.00 Limit</i>
SPY	2/27/2020	\$305.46	\$244.87	-19.84%		<i>sold on open</i>
DD	2/25/2020	\$50.45	\$33.23	-34.13%		<i>sell on open</i>
XOM	2/25/2020	\$56.36	\$36.51	-35.22%		<i>sold on open</i>
DD	2/26/2020	\$47.47	\$33.23	-30.00%		<i>sell on open</i>
XOM	2/26/2020	\$54.20	\$36.51	-32.64%		<i>sold on open</i>
ALL	2/26/2020	\$117.31	\$77.86	-33.63%		<i>sold on open</i>
BLK	2/26/2020	\$506.00	\$401.38	-20.68%		<i>sell on open</i>
COP	2/26/2020	\$53.83	\$31.23	-41.98%		<i>sold on open</i>
ALL	2/27/2020	\$114.59	\$77.86	-32.05%		<i>sold on open</i>
COP	2/27/2020	\$49.60	\$31.23	-37.04%		<i>sold on open</i>
DD	2/27/2020	\$45.82	\$33.23	-27.48%		<i>sell on open</i>
XOM	2/27/2020	\$51.71	\$36.51	-29.39%		<i>sold on open</i>
COP	2/28/2020	\$45.42	\$31.23	-31.24%		<i>sold on open</i>
MDT	2/28/2020	\$98.97	\$86.82	-12.28%		<i>sell on open</i>
WFC	2/28/2020	\$41.31	\$29.00	-29.80%		<i>sold on open</i>
AXP	3/2/2020	\$109.93	\$87.61	-20.30%		<i>sold on open</i>
BLK	3/2/2020	\$463.01	\$401.38	-13.31%		<i>sell on open</i>
MDT	3/2/2020	\$100.67	\$86.82	-13.76%		<i>sell on open</i>
USB	3/2/2020	\$46.44	\$32.03	-31.03%		Catapult
WFC	3/2/2020	\$40.85	\$29.00	-29.01%		<i>sold on open</i>
ALL	3/6/2020	\$104.21	\$77.86	-25.29%		<i>sold on open</i>
GE	3/10/2020	\$8.21	\$7.45	-9.26%		<i>sold on open</i>
SLB	3/10/2020	\$17.31	\$14.60	-15.66%		<i>sell on open</i>
USB	3/10/2020	\$36.32	\$32.03	-11.81%		Catapult
KMI	3/13/2020	\$13.86	\$12.88	-7.07%		<i>sell on open</i>
OXY	3/17/2020	\$12.02	\$12.00	-0.17%		<i>sell on open</i>
BA	3/17/2020	\$129.61	\$154.90	19.51%		<i>sold on open</i>

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