

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2020

Volume 13 Issue 60

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The last 3 days have been the strongest since the 30s.
- The strong breadth the last few days may be a good intermediate-term sign.
- Three days up in a downtrend will often suggest a downside edge – but not when the rally originates from an intermediate-term low.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 23, 2020	SPX up 3 days from 50-day low	1-5 days	Bullish			
Active - Long Term						
March 23, 2020	QE4	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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
March 26, 2020	SPX up VIX up 2x < 200ma	1-2 days	Bearish	-2.70%	0.40%	0.80%
March 25, 2020	SPX up ViX up midweek < 200	1-4 days	Bearish	-3.20%	1.30%	2.50%
March 25, 2020	20-low then SPX up 2.5% on low volume	1-2 days	Bearish			

The Evidence

Thursday was rally day #3. The SPX rose 6.2%, while the NASDAQ gained 5.6% and the Russell 2000 jumped 6.3%. Breadth was positive as the NYSE Up Issues % was 86% and the Up Volume % came in at 83%. NYSE volume declined some from Wednesday's level.

The 3-day rally has been quite remarkable. In fact, it was the largest 3-day rally for SPX since its inception in 1957. Using the predecessor S&P 90 index, you'd find a few such instances in the 30s. I have listed them below.

SPX closes up > 17.5% over a 3-day period.											
Ticker	Date/Time	Close	3- Day % Change	Close Tomorrow	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg	21-Day %Chg
SSPX	10/8/1931	10.62	20.41	10.55	-0.66	-4.90	-7.06	-5.37	-2.45	2.07	6.21
SSPX	2/16/1932	8.84	17.87	8.48	-4.07	-1.47	-1.36	-7.01	-4.64	-1.47	-6.33
SSPX	3/15/1933	6.81	18.02	6.93	1.76	-2.64	-4.55	-8.96	-10.13	-10.87	-2.06
SSPX	3/16/1933	6.93	22.65	6.63	-4.33	-6.20	-10.53	-11.69	-9.81	-12.70	-5.77
SSPX	4/20/1933	7.82	19.75	7.44	-4.86	1.15	-1.28	-0.64	-1.53	10.61	12.79

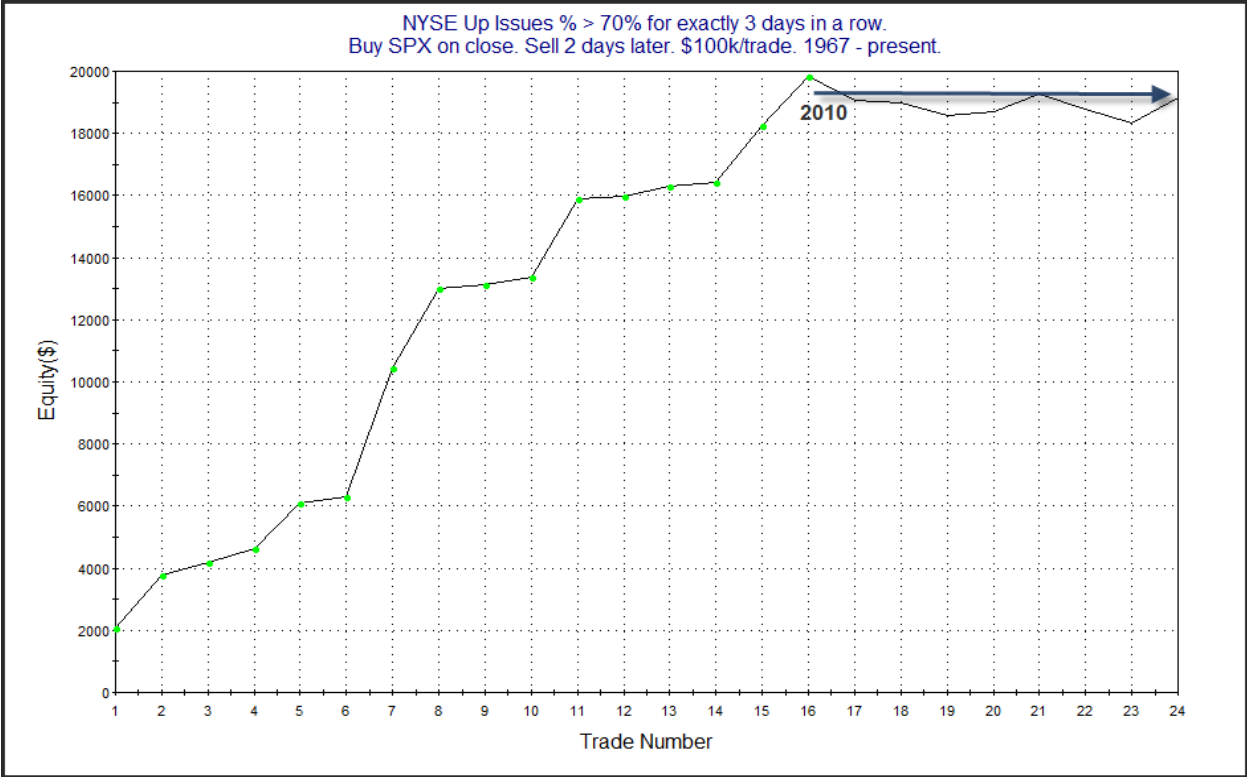
The numbers here look quite negative over the next 1-5 days. But there is overlap among two instances, and I am not inclined to make much of a study with just 4 results, and all of them in the 1930s. Still, it makes the point how incredible the rebound has been.

Not only has the rate of change been impressive over the last 3 days, the breadth has also been strong. The study below was last seen in the 1/9/19 letter. It looks at other times that breadth came in strong for 3 days in a row. Stats are updated.

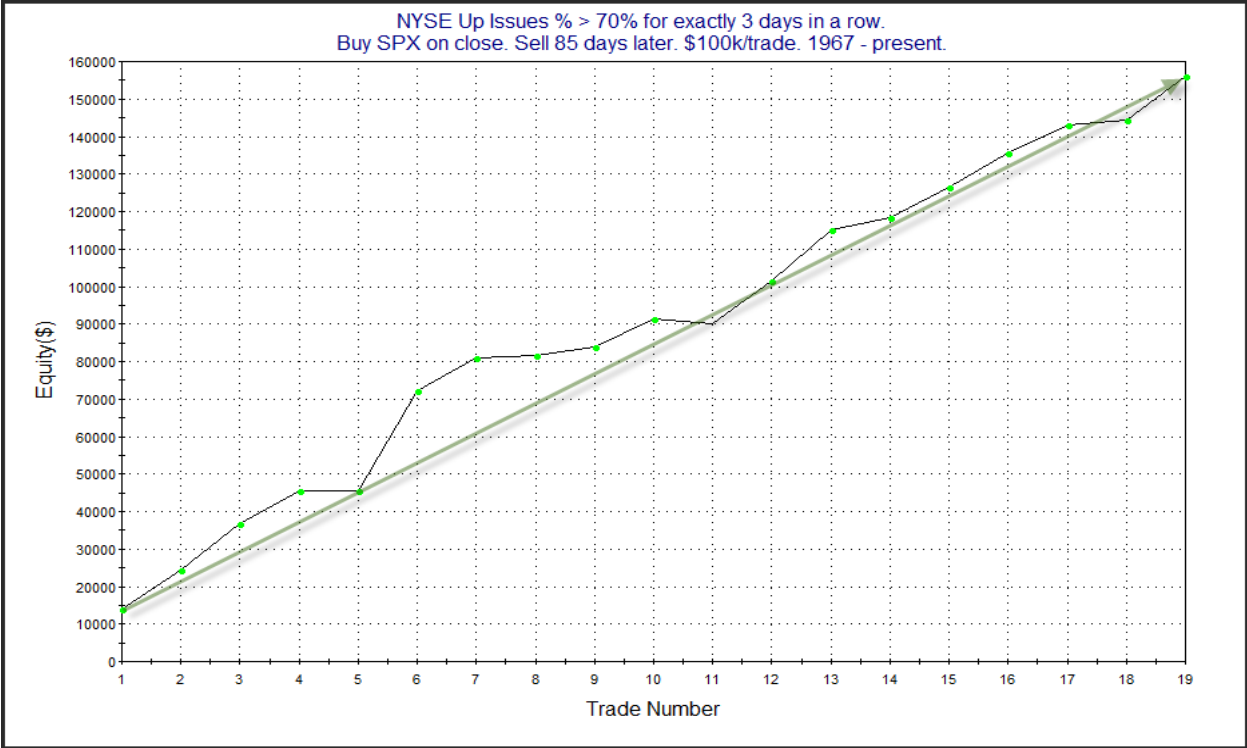
NYSE Up Issues % > 70% for exactly 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - present.

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
100	142,186.57	18	15	3	83.33	35,219.04	-9,681.98	10,304.03	-4,124.64	2.50	12.49	7,899.25
95	135,501.46	18	16	2	88.89	27,445.80	-7,569.87	9,131.42	-5,300.59	1.72	13.78	7,527.86
90	152,866.89	19	17	2	89.47	30,973.23	-5,123.16	9,352.23	-3,060.54	3.06	25.97	8,045.63
85	155,981.34	19	18	1	94.74	26,662.95	-1,312.89	8,738.57	-1,312.89	6.66	119.81	8,209.54
80	146,217.65	19	18	1	94.74	28,578.63	-6,223.12	8,468.93	-6,223.12	1.36	24.50	7,695.67
75	138,720.11	20	19	1	95.00	27,768.15	-9,442.75	7,798.05	-9,442.75	0.83	15.69	6,936.01
70	113,910.43	20	18	2	90.00	24,259.14	-8,532.18	6,944.25	-5,543.08	1.25	11.28	5,695.52
65	109,650.75	20	17	3	85.00	27,445.80	-12,438.75	7,241.65	-4,485.79	1.61	9.15	5,482.54
60	115,489.07	21	18	3	85.71	30,586.41	-14,330.51	7,439.06	-6,137.98	1.21	7.27	5,499.48
55	115,387.50	22	18	4	81.82	30,678.51	-13,424.22	7,528.96	-5,033.43	1.50	6.73	5,244.89
50	114,529.93	22	17	5	77.27	23,071.05	-16,443.76	8,414.40	-5,702.98	1.48	5.02	5,205.91
45	108,321.17	22	19	3	86.36	28,108.92	-22,705.40	7,249.33	-9,805.37	0.74	4.68	4,923.69
40	88,602.07	22	19	3	86.36	23,973.63	-25,195.29	6,455.77	-11,352.52	0.57	3.60	4,027.37
35	85,777.49	23	19	4	82.61	18,659.46	-16,976.62	5,774.32	-5,983.64	0.97	4.58	3,729.46
30	88,093.98	23	18	5	78.26	15,257.06	-15,261.41	6,119.68	-4,412.04	1.39	4.99	3,830.17
25	85,186.69	23	19	4	82.61	14,063.67	-6,624.37	5,248.47	-3,633.55	1.44	6.86	3,703.77
20	77,956.06	23	19	4	82.61	14,026.83	-11,381.59	4,955.03	-4,047.37	1.22	5.82	3,389.39
15	60,439.79	23	20	3	86.96	12,369.03	-10,189.61	3,716.02	-4,626.90	0.80	5.35	2,627.82
10	38,784.22	24	19	5	79.17	8,942.91	-8,739.76	3,103.72	-4,037.30	0.77	2.92	1,616.01
5	25,960.01	24	18	6	75.00	8,325.84	-6,523.10	2,274.42	-2,496.59	0.91	2.73	1,081.67
4	18,699.58	24	15	9	62.50	6,272.01	-3,472.70	1,868.24	-1,036.01	1.80	3.01	779.15
3	16,179.14	24	15	9	62.50	6,971.97	-2,691.05	1,809.92	-1,218.86	1.48	2.47	674.13
2	19,160.54	24	19	5	79.17	4,126.08	-790.32	1,124.88	-442.45	2.54	9.66	798.36
1	11,460.76	24	17	7	70.83	2,609.46	-465.45	801.94	-310.33	2.58	6.28	477.53

There are a lot of green numbers and the edge generally appears to be to the upside. I have highlighted the 2-day and 85-day results to take a closer look at them. First let's look at the 2-day curve.



The short-term results have struggled some over the last 9 years or so. Here are the 85-day results.



You don't get curves that look much better than that. So I will list this study on the intermediate-term active list, but I will not consider for the short-term tonight.

Several studies emerged in the Quantifinder that looked at 3-day rallies. Typically, when you get a 3-day rally and the SPX is below its 200ma, there has been a bearish edge. But not always. One factor that is potentially impacting the edge over the next few days is that SPX has rallied from an intermediate-term low. The studies below show why the intermediate-term low may matter. The first one looks at times that SPX closed up 3 days in a row and finished < 200ma when the rally did *not* originate from a 50-day low. (This is NOT the current market setup.)

SPX closes up for exactly the 3rd day in a row but < 200ma. It did NOT close at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - 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	-39,196.68	49	25	24	51.02	4,570.11	-9,202.08	1,357.81	-3,047.58	0.45	0.46	-799.93
4	-52,341.93	52	23	29	44.23	3,672.51	-7,499.80	1,242.07	-2,789.98	0.45	0.35	-1,006.58
3	-59,215.38	52	18	34	34.62	2,861.10	-7,527.12	1,064.33	-2,305.10	0.46	0.24	-1,138.76
2	-32,680.01	52	14	38	26.92	3,224.73	-4,121.10	1,103.81	-1,266.67	0.87	0.32	-628.46
1	-19,618.94	52	22	30	42.31	3,348.84	-4,871.22	935.83	-1,340.24	0.70	0.51	-377.29

We see here some impressively bearish numbers. But what of times like now when the rally originated from a 50-day low? This was shown in the 11/29/18 letter and has been updated below.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closed at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - 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	31,159.75	17	13	4	76.47	7,515.60	-3,382.50	2,943.70	-1,777.10	1.66	5.38	1,832.93
4	25,791.53	17	11	6	64.71	5,800.13	-1,887.00	2,848.35	-923.39	3.08	5.66	1,517.15
3	21,795.24	17	13	4	76.47	4,890.00	-4,776.88	2,239.27	-1,828.81	1.22	3.98	1,282.07
2	17,486.90	17	14	3	82.35	4,506.60	-3,751.00	1,555.22	-1,428.73	1.09	5.08	1,028.64
1	14,164.87	17	9	8	52.94	4,699.94	-834.50	1,923.53	-393.36	4.89	5.50	833.23

Prior to 2001 the setup did not appear to suggest any edge.

It has been quite a hot streak since 2001 with these setups. Prior to that, no edge was evident in either direction. Below is the list of instances along with their 5-day results.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closed at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/27/2001	Buy	\$1,205.82	0.71%	\$1,676.90
8/3/2001	Sell	\$1,214.35		(\$443.62)
10/14/2002	Buy	\$841.44	6.93%	\$6,989.14
10/21/2002	Sell	\$899.72		\$0.00
1/2/2003	Buy	\$909.03	2.04%	\$2,501.40
1/9/2003	Sell	\$927.57		(\$655.60)
3/14/2003	Buy	\$833.27	7.52%	\$7,515.60
3/21/2003	Sell	\$895.90		(\$732.00)
7/29/2004	Buy	\$1,100.43	-1.79%	\$735.30
8/5/2004	Sell	\$1,080.70		(\$1,840.50)
8/17/2004	Buy	\$1,081.71	1.34%	\$1,811.48
8/24/2004	Sell	\$1,096.19		(\$255.76)
11/29/2007	Buy	\$1,469.72	2.56%	\$2,604.40
12/6/2007	Sell	\$1,507.34		(\$616.08)
7/18/2008	Buy	\$1,260.66	-0.23%	\$2,410.29
7/25/2008	Sell	\$1,257.77		(\$934.57)
11/25/2008	Buy	\$857.39	1.56%	\$4,507.76
12/3/2008	Sell	\$870.74		(\$4,837.20)
3/12/2009	Buy	\$750.74	4.44%	\$6,982.50
3/19/2009	Sell	\$784.04		(\$1,101.24)
7/8/2010	Buy	\$1,070.25	2.45%	\$2,716.53
7/15/2010	Sell	\$1,096.48		(\$199.95)
10/6/2011	Buy	\$1,164.97	3.32%	\$4,698.80
10/13/2011	Sell	\$1,203.66		(\$1,250.35)
10/20/2014	Buy	\$1,904.01	3.03%	\$3,185.52
10/27/2014	Sell	\$1,961.63		\$0.00
8/28/2015	Buy	\$1,988.87	-3.40%	\$0.00
9/4/2015	Sell	\$1,921.22		(\$4,290.00)
2/17/2016	Buy	\$1,926.82	0.15%	\$1,013.88
2/24/2016	Sell	\$1,929.80		(\$1,826.82)
11/1/2018	Buy	\$2,740.37	2.43%	\$2,692.08
11/8/2018	Sell	\$2,806.83		(\$1,437.48)
11/28/2018	Buy	\$2,743.78	-1.74%	\$2,030.40
12/6/2018	Sell	\$2,695.95		(\$4,401.00)

The consistent gains serve as some confirmation of an upside edge.

Of course I have shown a study several times in the last few weeks that looked at strong moves off 20-day bottoms that occurred on weak volume. Implications were bearish. So since volume was weak tonight, I took the same study and said the strong 1-day move did NOT occurred directly after a 20-day low. Those results can be seen below.

After closing **above** a 20-day low yesterday, SPX closes up > 2.5% today. NYSE volume is NOT the highest in the last 5 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	-20,583.36	41	22	19	53.66	5,935.55	-9,713.70	2,650.42	-4,152.24	0.64	0.74	-502.03
4	2,517.42	42	22	20	52.38	7,124.13	-9,744.66	2,944.30	-3,112.86	0.95	1.04	59.94
3	-9,324.21	46	26	20	56.52	5,692.12	-11,884.77	2,350.64	-3,522.04	0.67	0.87	-202.70
2	-19,079.37	49	26	23	53.06	5,468.05	-9,986.13	1,962.54	-3,048.06	0.64	0.73	-389.37
1	-9,559.95	50	27	23	54.00	3,833.82	-5,245.02	1,190.65	-1,813.37	0.66	0.77	-191.20

What was strongly bearish immediately following a 20-day low, no longer shows a downside edge.

Overall, while the move the last few days was strong enough that a pullback would seem likely, multi-day moves that originate from intermediate-term lows are highly capable of following through further. The first bounce can carry momentum quite strongly. We have already seen a massive move up, so perhaps it will lose steam here and pull back. But the odds favor more upside on this first thrust. Subsequent wiggles will likely provide more reliable short-side evidence.

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



Tonight the green Aggregator moved above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is hugely below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is massively 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 bullish on Friday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2445.70 on Friday. That is 7.0% below Thursday's close. Therefore, SPX will need to close down a huge 7.0% on Friday in order to change to oversold versus expectations.

The VIX studies from the last couple of nights were run over and removed from the Active List, since SPX rose several deviations above their typical run-up. Tonight's evidence suggests the momentum off the new low could continue a few more days. Of course after the biggest 3-day rally since the 30s, SPX is massively overbought. This is all leaving the Aggregator neutral and me sidelined for the time being.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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	\$249.52	-20.19%		<i>sold on open</i>
DD	2/25/2020	\$50.45	\$33.53	-33.54%		<i>sold on open</i>
DD	2/26/2020	\$47.47	\$33.53	-29.37%		<i>sold on open</i>
BLK	2/26/2020	\$506.00	\$408.06	-19.36%		<i>sold on open</i>
DD	2/27/2020	\$45.82	\$33.53	-26.82%		<i>sold on open</i>
MDT	2/28/2020	\$98.97	\$89.04	-10.03%		<i>sold on open</i>
BLK	3/2/2020	\$463.01	\$408.06	-11.87%		<i>sold on open</i>
MDT	3/2/2020	\$100.67	\$89.04	-11.55%		<i>sold on open</i>
USB	3/2/2020	\$46.44	\$36.18	-22.09%		<i>sell on open</i>
SLB	3/10/2020	\$17.31	\$14.51	-16.18%		<i>sold on open</i>
USB	3/10/2020	\$36.32	\$36.18	-0.39%		<i>sell on open</i>
KMI	3/13/2020	\$13.86	\$13.94	0.58%		<i>sold on open</i>
OXY	3/17/2020	\$12.02	\$12.05	0.25%		<i>sold on open</i>

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