

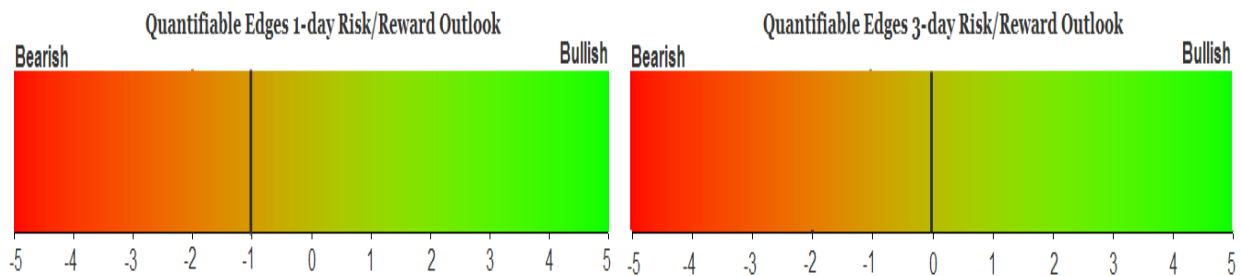
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2020

Volume 13 Issue 61

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The 1<sup>st</sup> down day after a strong move off a bottom is often short-term buyable.
- Sharp drops that only partially retrace gains from the day before are often followed by more selling the next day.
- We are entering a seasonally bullish week.
- Sharp drops that only partially retrace the day before often see more selling the next day.
- Low-range inside days under the 200ma show downside risk.
- Breadth was strong this week, which is a good sign for the intermediate-term.
- The Fed is pumping at an unprecedented rate.
- Day to day chop continues to dominate.

## *Short-term Outlook*

### *The Bottom Line*

Volatility is high and short-term evidence is mixed. The Aggregator is neutral, and so a 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
<b>Active - Short Term</b>						
March 30, 2020	SPX dn 2.5% on a Friday	1-5 days	Bullish	3.70%	-2.55%	-5.60%
March 30, 2020	3 days up from 50-low then 1 down	1-2 days	Bullish			
March 30, 2020	Week after 4th Friday in March bullish	1-5 days	Bullish	2.00%	-1.00%	-2.10%
March 30, 2020	Low range inside < 200ma	1-2 days	Bearish			
March 30, 2020	1% down < 3/4 of yesterdays rally	1 day	Bearish			
<b>Active - Long Term</b>						
March 27, 2020	3 7 0% Up Issues Days	1-85 days	Bullish			
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 (will flip on 3/30)	int term	Bullish			
<b>Dropped Tonight (expired or Avg move + 1 std dev exceeded)</b>						
March 27, 2020	SPX up 3 days from 50-day low	1-5 days	Bullish	3.20%	-1.50%	-3.00%

**The Evidence**

Friday saw a pullback after the 3-day massive bounce. The SPX declined 3.4%, while the NASDAQ lost 3.8% and the Russell 2000 fell 4.1%. Breadth was negative as the NYSE Up Issues % was 22% and the Up Volume % came in at 19%. NYSE volume was the lightest in the last couple of weeks.

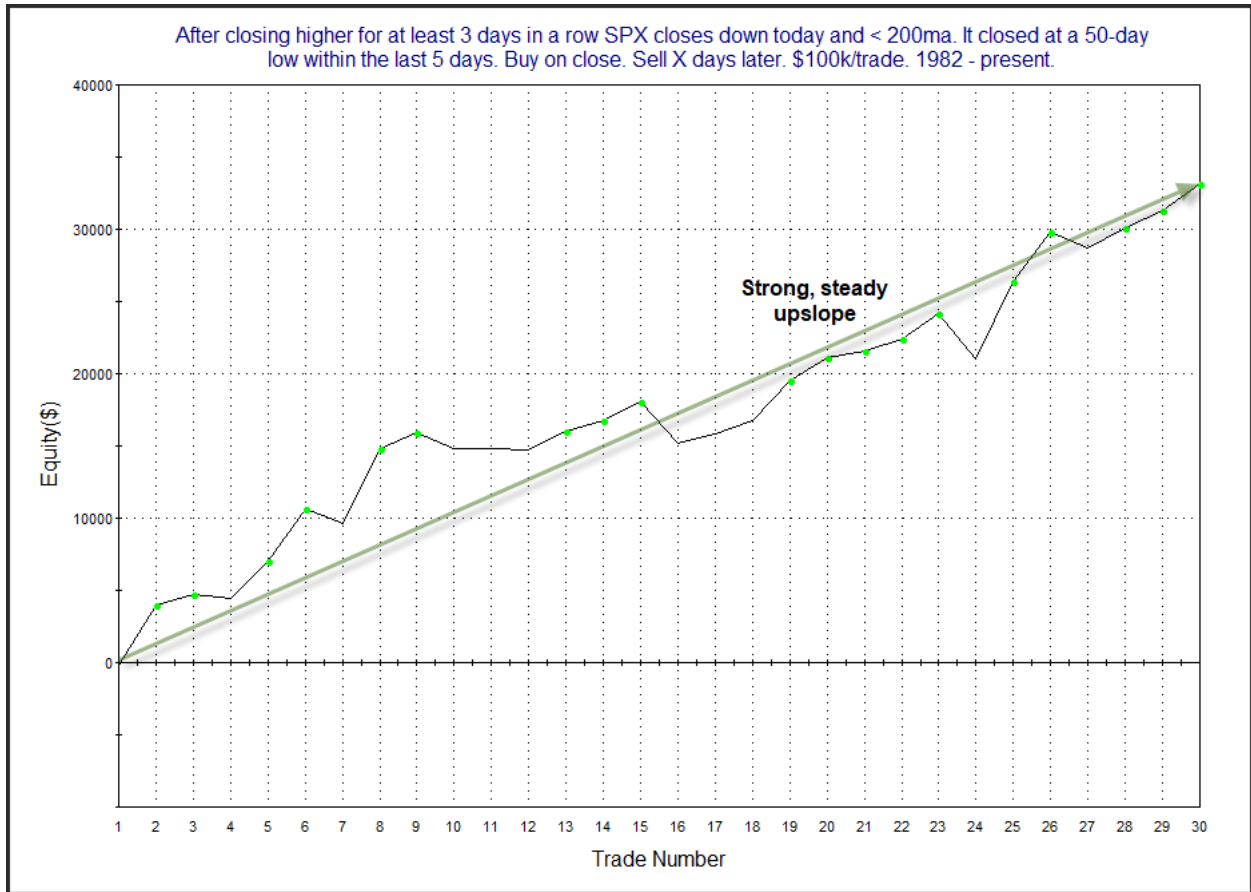
I've spent some time talking about initial thrusts off intermediate-term lows over the last few days. After 3 strong days higher, Friday was the 1<sup>st</sup> day to take a break from the buying. In the 11/5/18 letter I looked back at other instances of 3+ day thrusts following 50-day lows and what happened after they experienced their 1<sup>st</sup> down day. Updated stats are below.

After closing higher for at least 3 days in a row SPX closes down today and < 200ma. It closed at a 50-day low within the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	35,395.48	29	16	13	55.17	9,111.96	-6,711.66	3,904.93	-2,083.33	1.87	2.31	1,220.53
4	29,893.18	30	17	13	56.67	8,086.40	-4,848.66	3,255.02	-1,957.08	1.66	2.17	996.44
3	35,376.66	30	19	11	63.33	6,971.97	-5,403.51	2,651.41	-1,363.64	1.94	3.36	1,179.22
2	33,161.94	30	22	8	73.33	5,340.72	-3,098.39	1,963.90	-1,255.48	1.56	4.30	1,105.40
1	13,659.05	30	19	11	63.33	3,443.56	-4,302.72	1,431.07	-1,230.12	1.16	2.01	455.30

**7 instances failed to close above the entry price on either Day 1 or Day 2. None of those 7 managed to do so until at least Day 7.**

As we can see, most of the time that 1<sup>st</sup> down day acted only as a quick pause. It did not ignite more immediate selling. Combine that with the fact that the moves up outsized the moves down

and there appears to be a clear upside edge over the 1<sup>st</sup> 1-3 days. Most of the edge is realized within 2 days. Also interesting is the failures. When there was not a bounce in the next day or two, then there hasn't been one for over a week. To get a better feel for how the 2-day edge has played out I have produced a profit curve below.



The strong, steady upslope serves as confirmation of the upside edge.

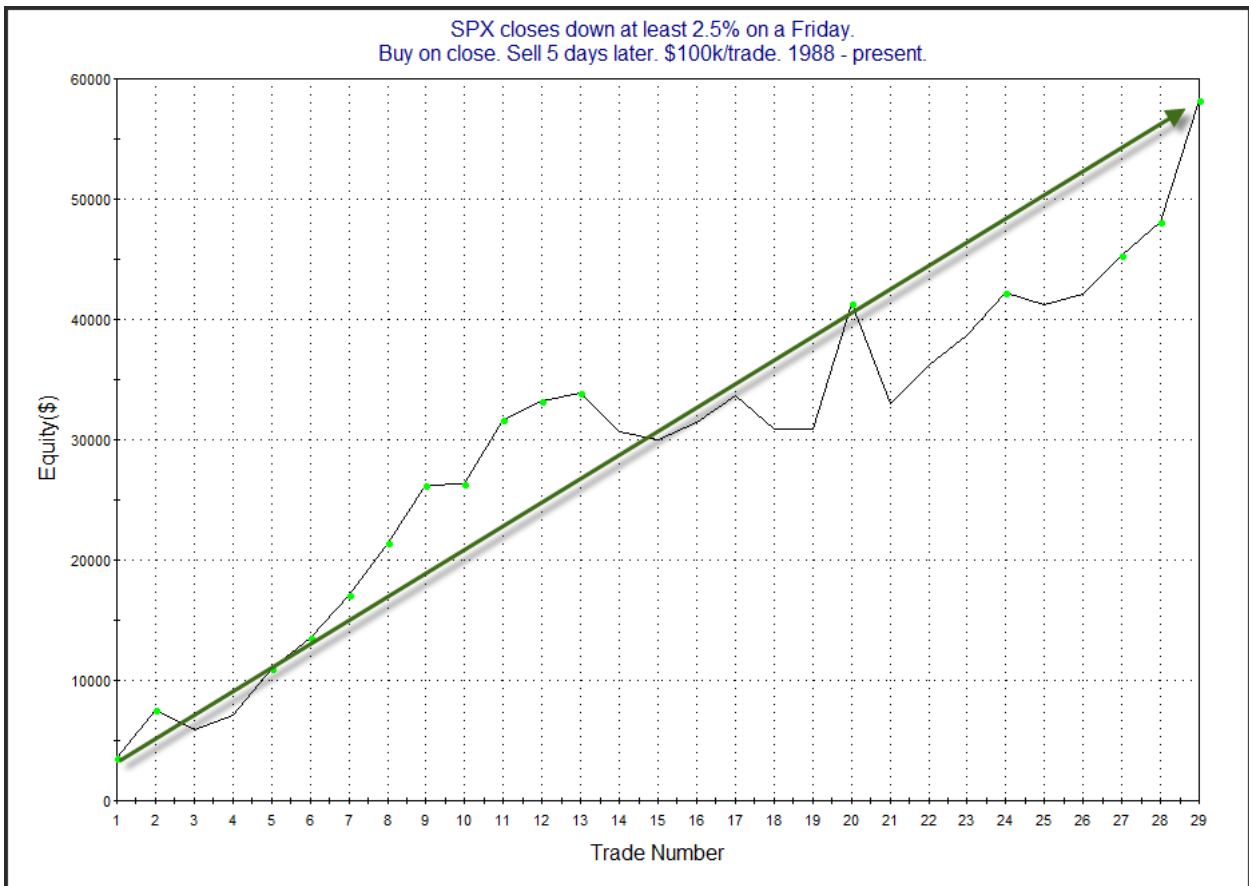
Fridays are often viewed as the day most likely to have a downside overreaction. This is because people may be looking to bail out ahead of the weekend and avoid getting hurt by further bad news. The study below was seen just last week in the 3/23/20 letter and it considers selloffs of 2.5% or greater on Fridays. Stats are updated.

SPX closes down at least 2.5% on a Friday.  
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
10	54,396.87	28	21	7	75.00	9,241.60	-6,507.12	3,515.89	-2,776.69	1.27	3.80	1,942.75
9	62,597.09	28	20	8	71.43	7,602.40	-2,814.00	3,753.36	-1,558.75	2.41	6.02	2,235.61
8	67,063.19	28	20	8	71.43	8,664.00	-6,073.20	4,165.61	-2,031.14	2.05	5.13	2,395.11
7	73,017.31	28	20	8	71.43	14,703.72	-3,458.40	4,289.37	-1,596.27	2.69	6.72	2,607.76
6	64,689.21	28	21	7	75.00	10,206.42	-5,050.80	3,744.11	-1,991.00	1.88	5.64	2,310.33
5	58,245.82	29	22	7	75.86	10,485.72	-8,351.64	3,454.13	-2,534.99	1.36	4.28	2,008.48
4	49,612.54	30	21	9	70.00	13,981.45	-13,776.90	3,532.05	-2,728.95	1.29	3.02	1,653.75
3	43,650.22	30	24	6	80.00	7,337.52	-7,604.94	2,375.96	-2,228.81	1.07	4.26	1,455.01
2	36,187.41	30	21	9	70.00	7,266.36	-5,855.85	2,417.00	-1,618.84	1.49	3.48	1,206.25
1	-709.26	30	19	11	63.33	3,322.23	-3,884.00	1,170.19	-2,085.72	0.56	0.97	-23.64

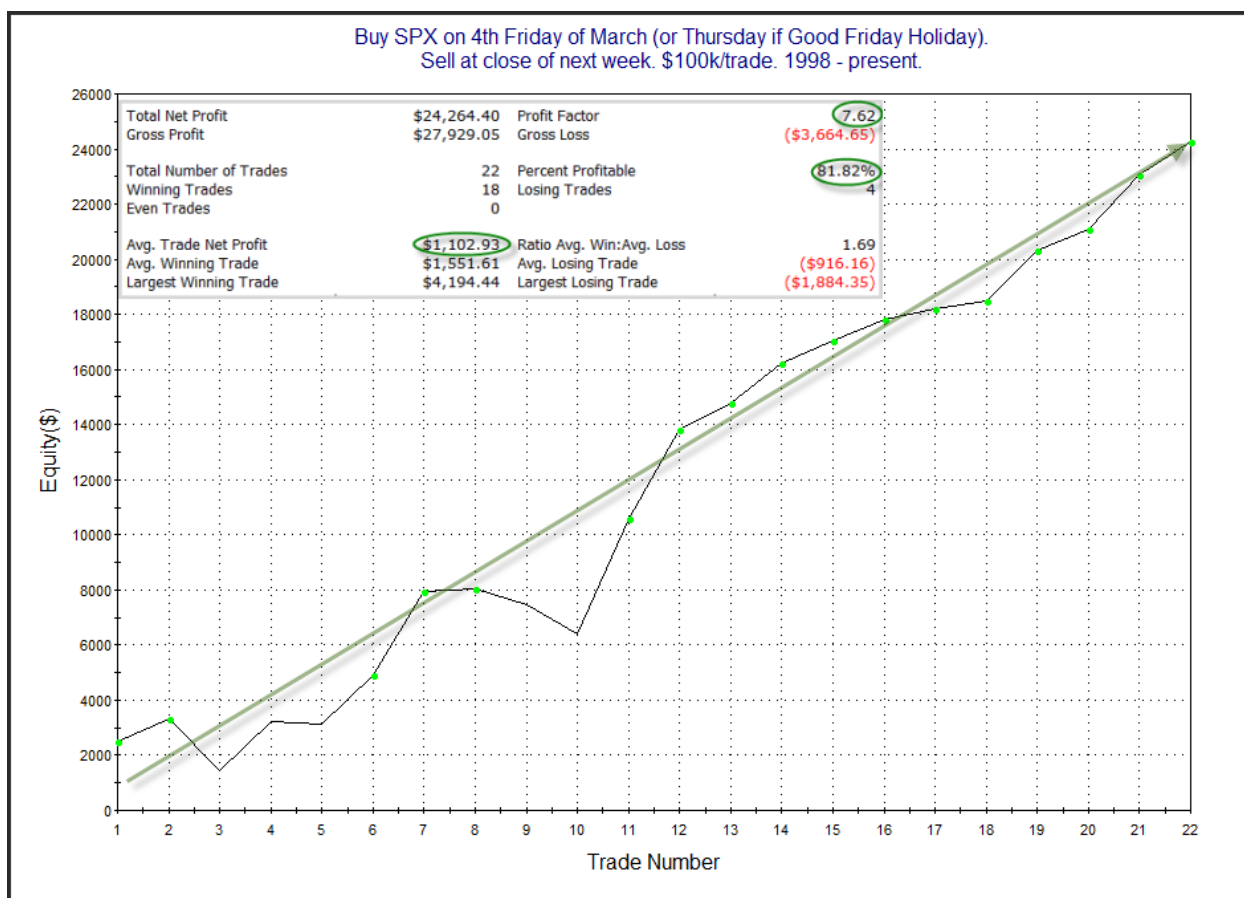
29 of 30 instances (97%) closed above the entry price at some point in the next 5 trading days. The 11/14/08 instance took 8 days.

These stats appear quite bullish for the short-term, though Monday does not show an upside edge. Below is an equity curve that assumes a 5-day holding period.



That is an impressive upslope, and supportive of the bullish case.

With regards to possible seasonality, we are in an interesting period right now. The last couple of weeks the market did not play out well according to seasonal patterns. They were massively overshadowed by COVID-19 news. But I will note that the week after the 4<sup>th</sup> Friday in March has been a strong one over the last 22 years. (Not as much before that.) We can see this in the study below, updated from the 3/25/19 letter.

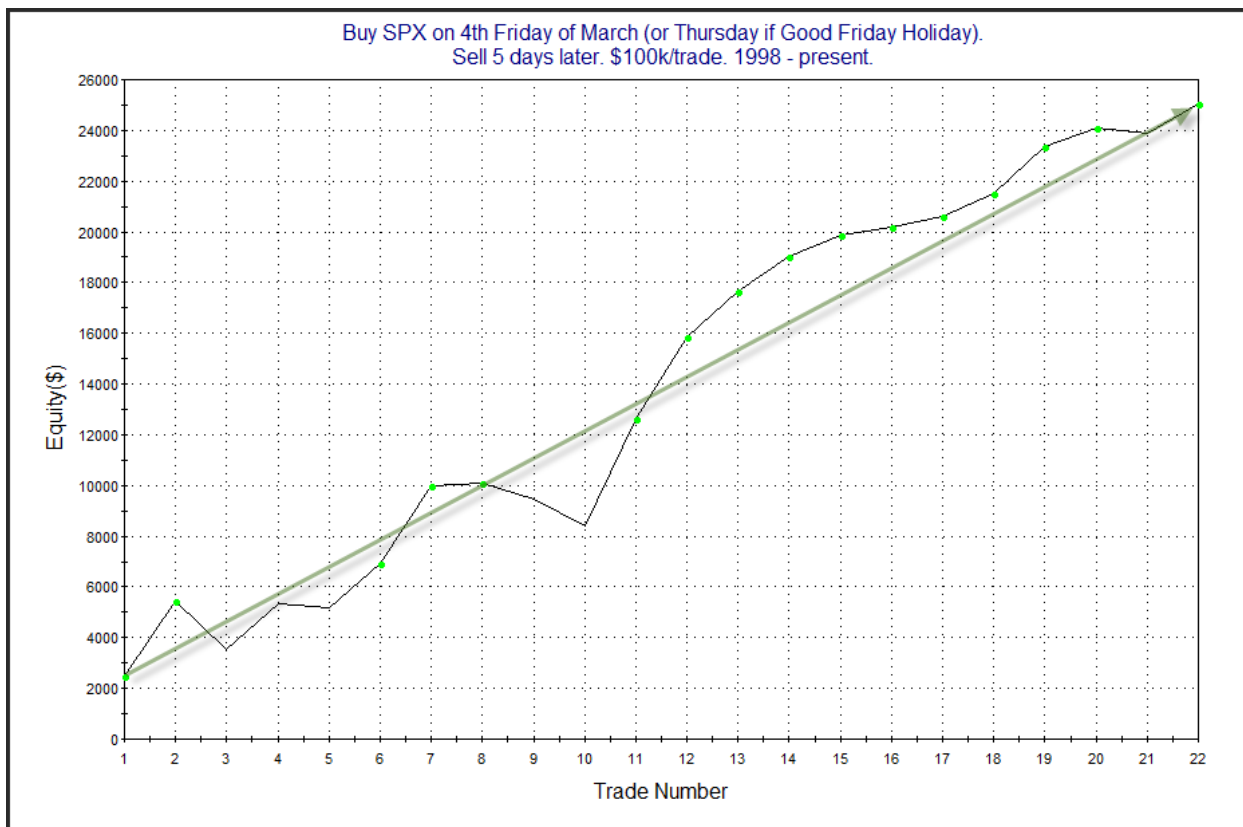


That is an encouraging looking curve and bullish stats. Let's see how it has broken down on a daily basis.

**Buy SPX on 4th Friday of March (or Thursday if Good Friday Holiday).  
Sell X days later. \$100k/trade. 1998 - 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	25,058.93	22	17	5	77.27	4,194.44	-1,884.35	1,708.23	-796.21	2.15	7.29	1,139.04
4	20,517.10	22	18	4	81.82	4,111.60	-2,575.30	1,352.70	-957.87	1.41	6.35	932.60
3	14,494.40	22	16	6	72.73	3,977.08	-1,302.72	1,128.45	-593.46	1.90	5.07	658.84
2	12,247.69	22	15	7	68.18	4,175.44	-2,204.54	1,265.08	-961.22	1.32	2.82	556.71
1	4,115.89	22	12	10	54.55	2,671.02	-3,466.02	1,009.28	-799.55	1.26	1.51	187.09

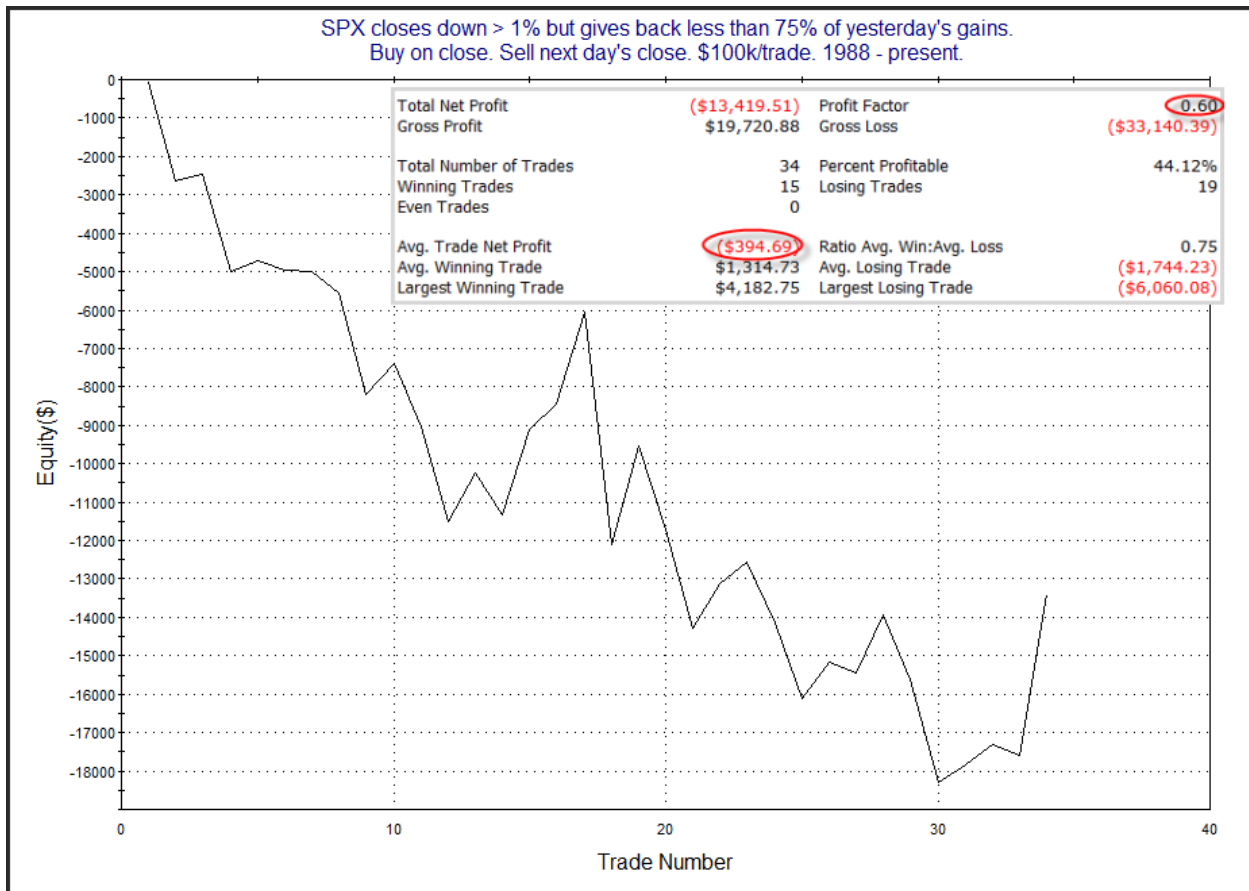
Numbers here are very good. Though they are slightly different than those above. That is because Easter will sometime fall during this period and sometimes the following week is 4 days and sometimes it is 5 days. Below is a look at the 5-day profit curve.



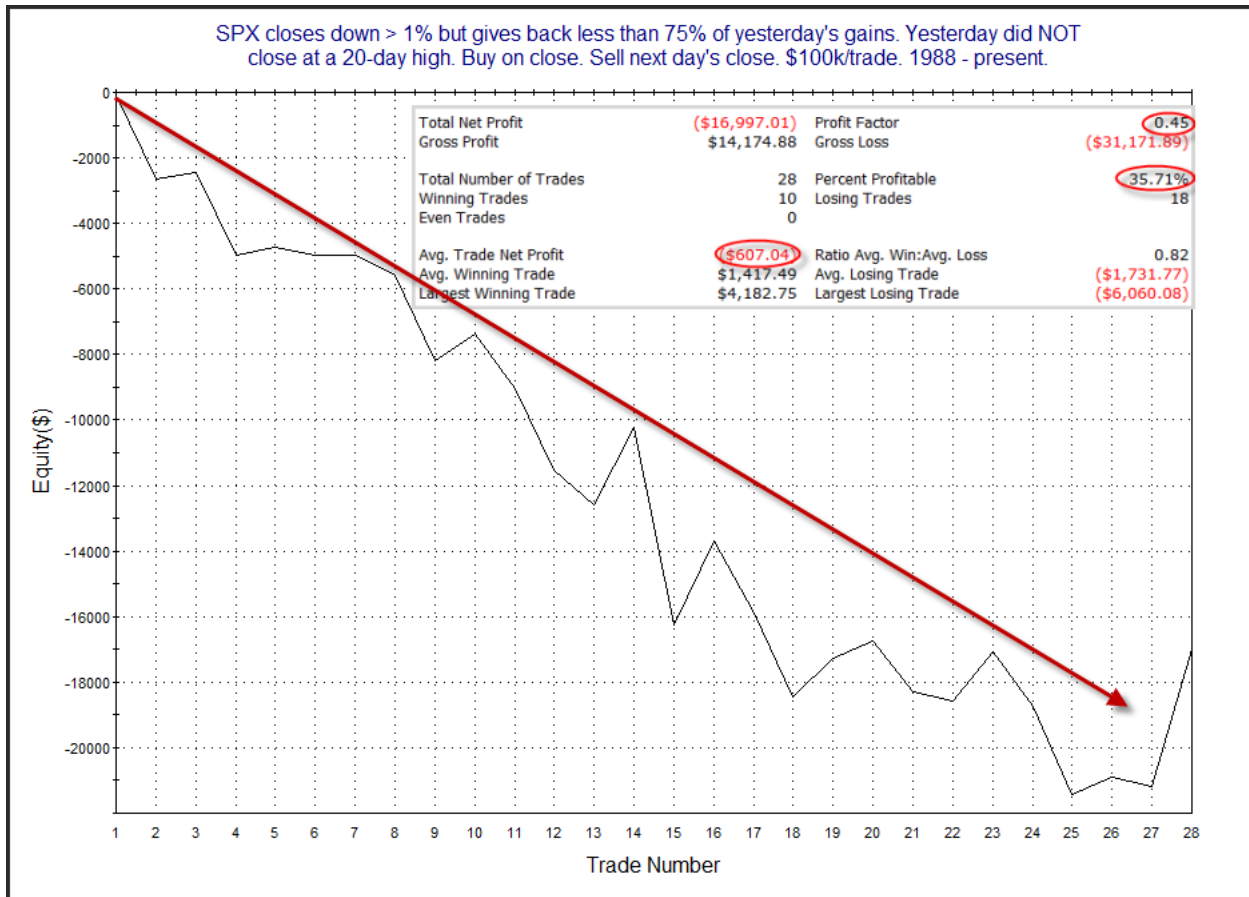
Again, no red flags based on the curve. There appears to be a good chance the market will have a seasonal wind at its back this upcoming week. But I do have 2 concerns about the above study: 1) As already mentioned, Easter sometimes falls during this time, so some of the positive seasonality may be due to the holiday. 2) Not sure how much seasonality matters right now. So the market

MAY have a bullish seasonal wind at its back this week, but there are other things that are overshadowing seasonality..

The decline Friday was sizable, and followed a day where the market posted very strong gains. In the 3/28/18 subscriber letter I looked at other instances where a sharp drop occurred, but the drop was not even able to erase as much as three quarters of the previous day's gains. I have updated the results of that study below.



Despite the failure of the last instance, the numbers and the curve both support the idea of a downside edge. I also examined another derivation of this study in that 3/28/18 letter. In this next study I added a filter to eliminate instances where the big move up the day before put the market at an intermediate-term high. I have updated that study as well below.



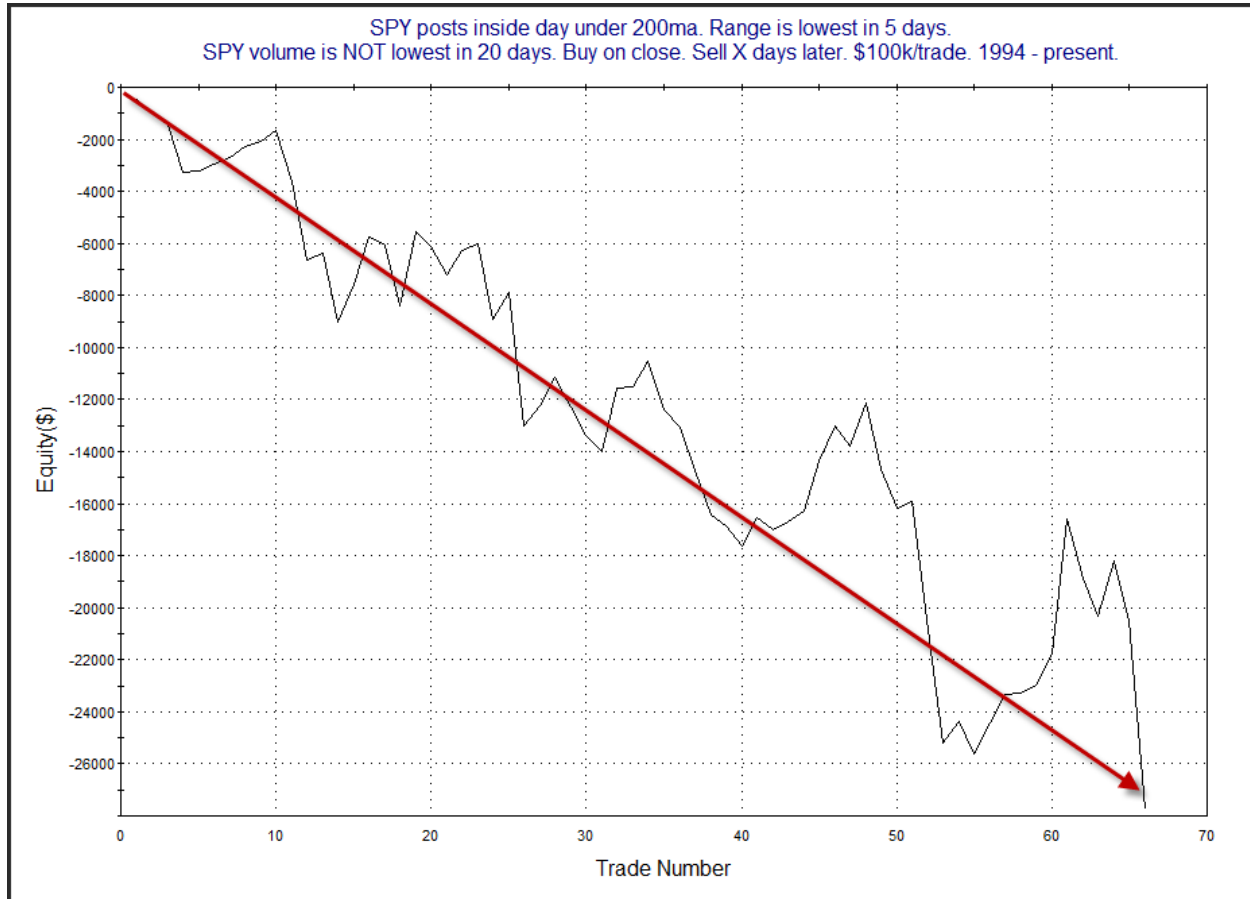
Stats here are even more bearish, and the downside edge appears stronger. I have included this study on the Active List tonight.

In the 1/25/19 letter I showed some research with regards to low-range inside days that occur under the 200ma. The study below is the one that most matches the current situation. Stats are all updated.

SPY posts inside day under 200ma. Range is lowest in 5 days.  
 SPY volume is NOT lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - present.

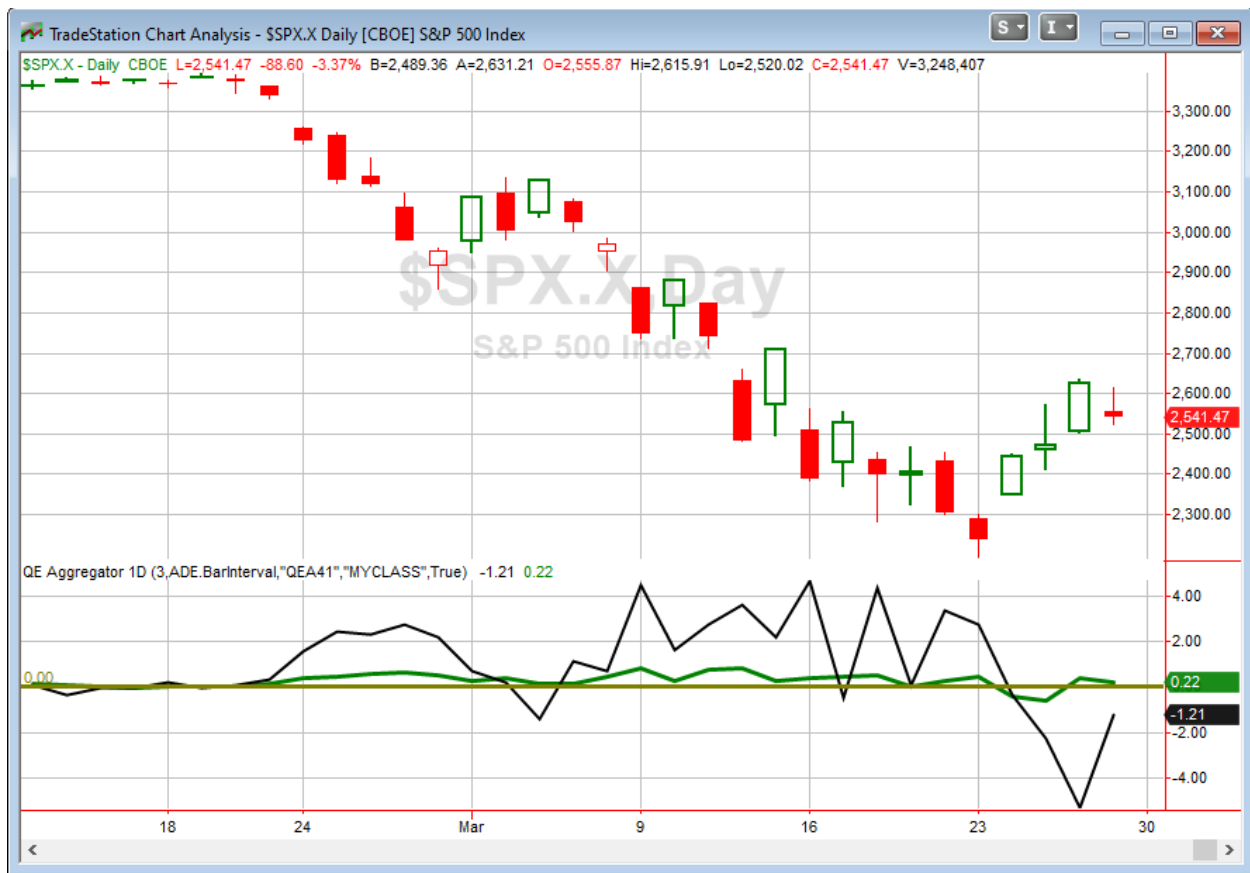
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,660.57	57	27	29	47.37	8,586.35	-15,971.55	2,058.30	-2,352.92	0.87	0.81	-222.12
4	-24,324.75	58	29	29	50.00	6,497.00	-13,801.83	1,642.72	-2,481.51	0.66	0.66	-419.39
3	-33,209.66	62	29	33	46.77	7,413.70	-9,763.74	1,573.31	-2,388.96	0.66	0.58	-535.64
2	-27,751.59	66	33	33	50.00	5,188.70	-7,287.40	1,045.71	-1,886.67	0.55	0.55	-420.48
1	-21,809.98	66	32	34	48.48	4,485.60	-5,444.46	814.63	-1,408.18	0.58	0.54	-330.45

We see here that up vs down chances are about even over the next few days, but the losers have been substantially larger than the winners. Below is a look at a 2-day profit curve to see how it has played out over time.



Certainly choppy as you would expect, but it has managed to work its way from upper left to lower right. This study also appears to be worth some consideration. So we have quite the mix of short-term studies based on recent action.

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



Tonight the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is still 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 stayed flat at the close.

Based on the current list of studies, expectations are set to remain bullish on Monday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2455.44 on Monday. That is 3.4% below Friday's close. Therefore, SPX will need to close down 3.4% on Monday in order to change to oversold versus expectations.

So we are seeing a real mix of evidence for the short-term. And while the weight of the evidence is higher over the next several days, it is actually skewed negative for the 1-day. This does not appear to be a low-risk or high-probability entry point. I am standing aside for the time being and waiting for more short-term clarity and more favorable reward/risk before looking to take on a new index position.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 3/30 – neutral**

Combo #1	Combo #2	Combo #3
Long	Long	Long

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. I will note that the Golden Cross formation for the SPX will turn to a Death Cross on Monday.*** Of course this is a very late signal, but that is what happens when you use such long-term moving averages and the market drops sharply from a high level.

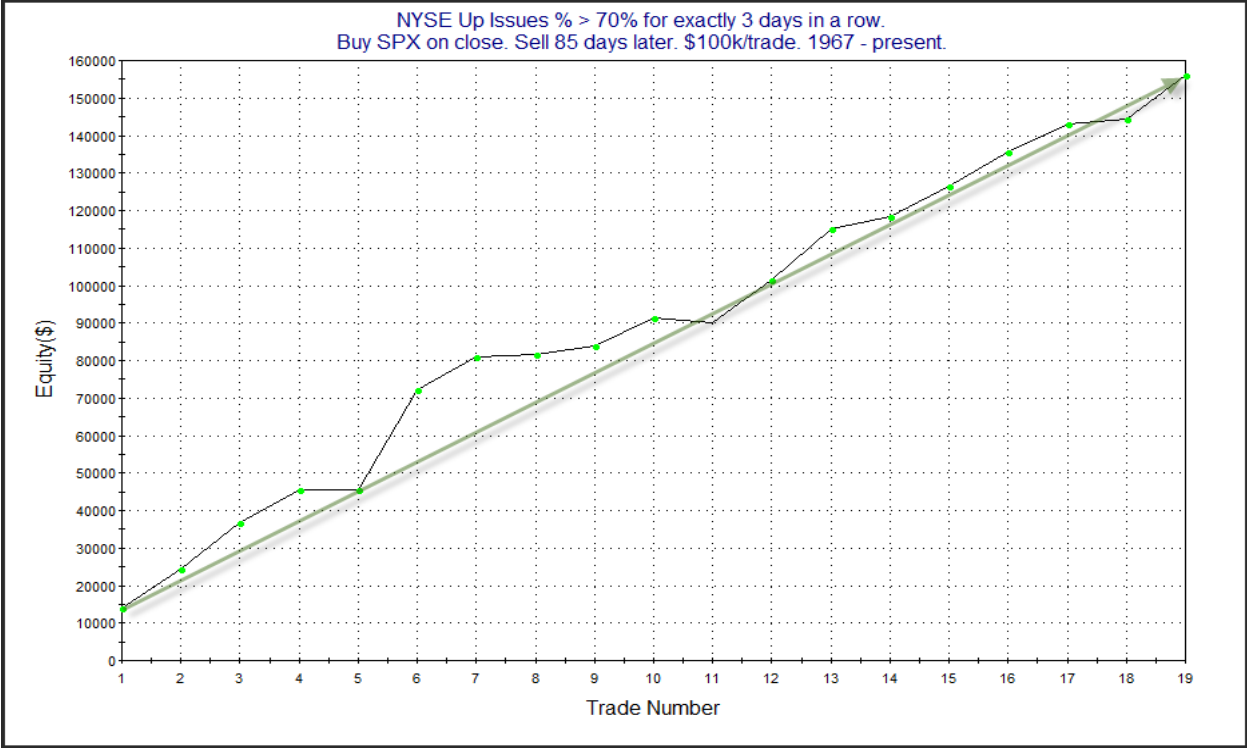
This week saw a massive bounce. Tuesday-Thursday SPX rose over 17.5%, which was the largest 3-day rally for the market since 1933. For the week as a whole, SPX closed up 10.3%, the NASDAQ rose 9.1%, and the Russell 2000 rallied 11.6%. The 3-day rally also posted some very strong breadth numbers, which triggered a compelling intermediate-term study that I showed in the Thursday night letter. I have copied that study below.

*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 85-day results to take a closer look at them...



*You don't get curves that look much better than that. So I will list this study on the intermediate-term active list...*

The Fed posted the latest update to the SOMA holdings after the close on Thursday.

« As of 03/18/2020

DOMESTIC SECURITIES HOLDINGS AS OF

**March 25, 2020**

Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,440,306,871.2
US Treasury Floating Rate Notes (FRN)	15,817,998.3
US Treasury Inflation-Protected Securities (TIPS)*	166,932,063.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,384,563,450.3
Total SOMA Holdings	4,336,011,383.0
Change From Prior Week	352,796,874.1

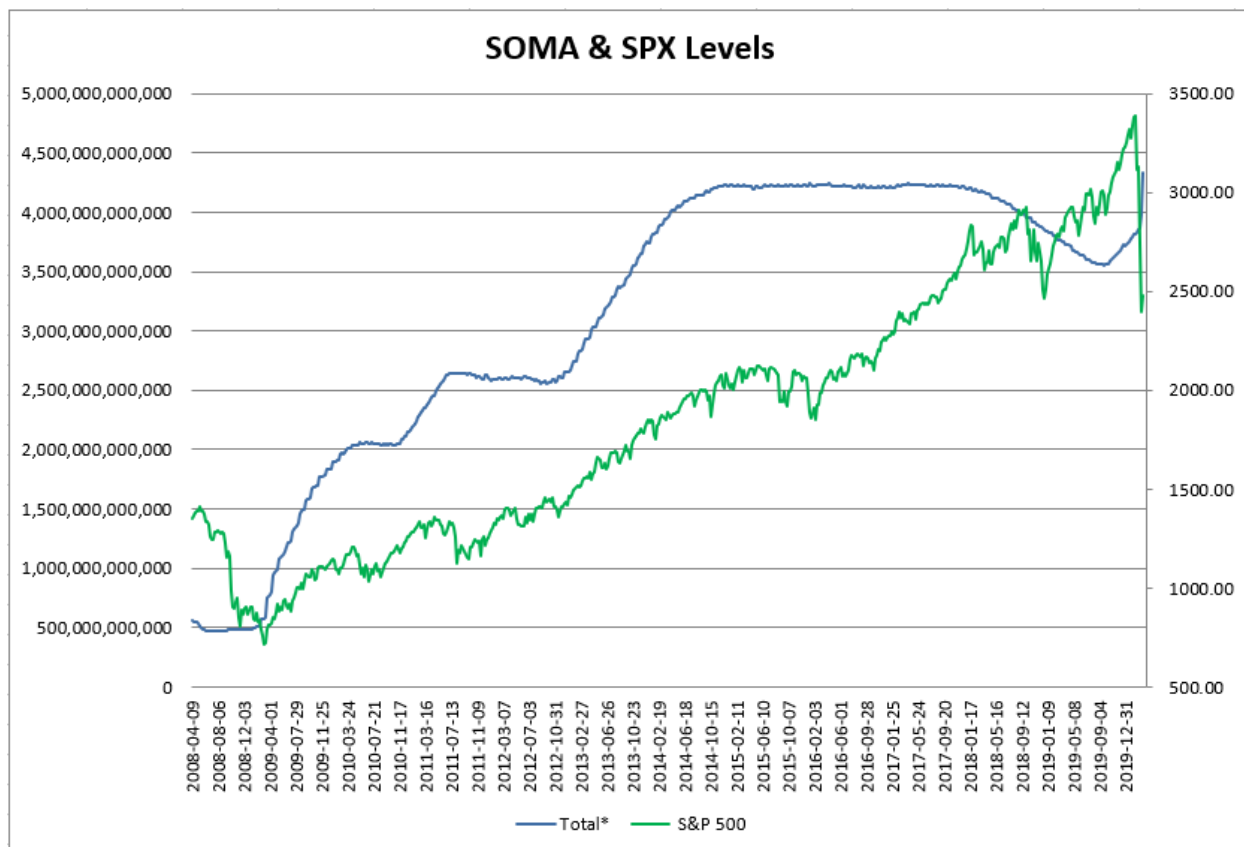
\*Does not reflect inflation compensation of 29,270,818.5

\*\*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.

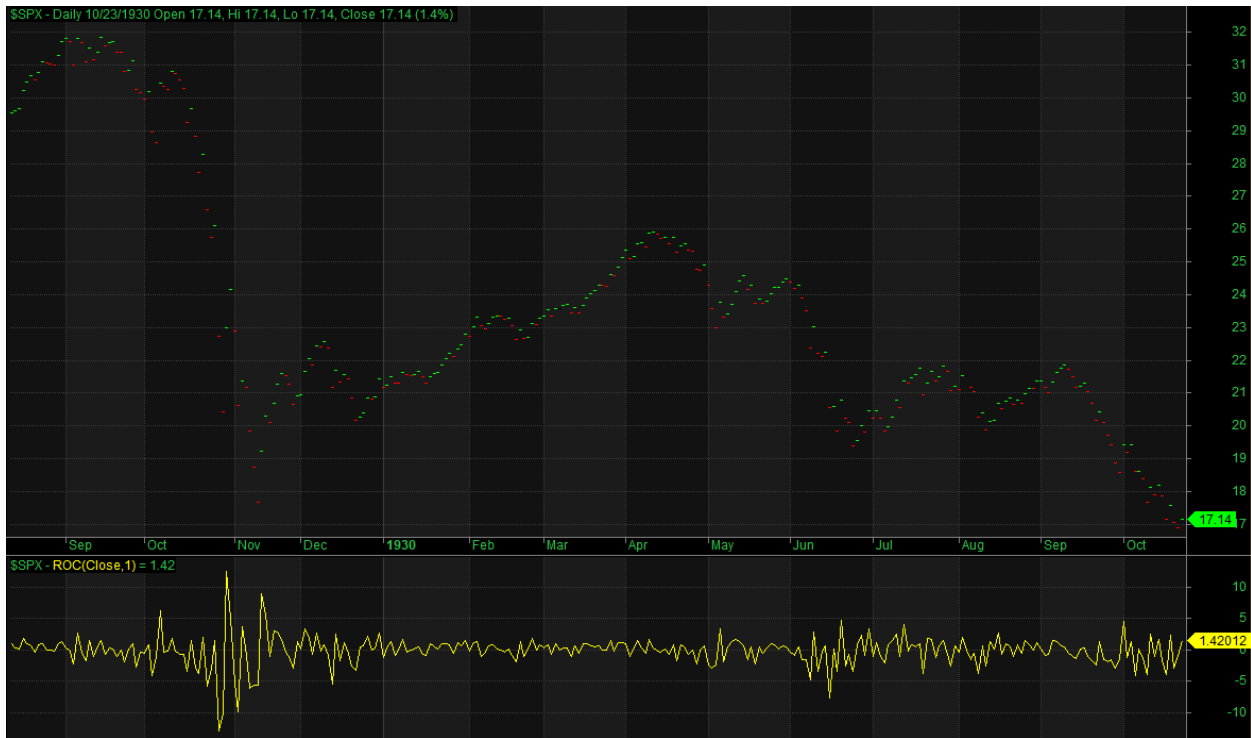
Data posted on 03/26/2020 4:30pm.

The \$353 billion increase is the largest on record, and it is not even close. The 2<sup>nd</sup> largest occurred the week of 3/18/2009, and that was \$171 billion, or less than half of this past week. The Fed is pumping at a rate that we probably never dreamed of in the past. But you need to squint to see the sharp spike in the chart below, which goes back to 2009, because it has been so steep over such a short period of time.



There is no more “unwind”. The SOMA is at new highs. Despite getting overwhelmed by a global pandemic and near-complete economic shutdown in the past month, strong rises in the SOMA have always panned out well for the stock market. So it is tough to bet against the market being able to mount another bull move with liquidity so flush.

That does not mean I expect a straight shot higher. Nor am I yet convinced “the” bottom is in. Unemployment claims this week came in 5x higher than the prior worst week on record. Volatility is massive. And the 1<sup>st</sup> bounce is rarely the start of a new bull. The only other markets that dropped from a high to a bear anywhere near as fast as what we have seen are the 1929 and the 1987 crashes. I posted charts of those 2 below. The indicator on the bottom is the 1-day % change.



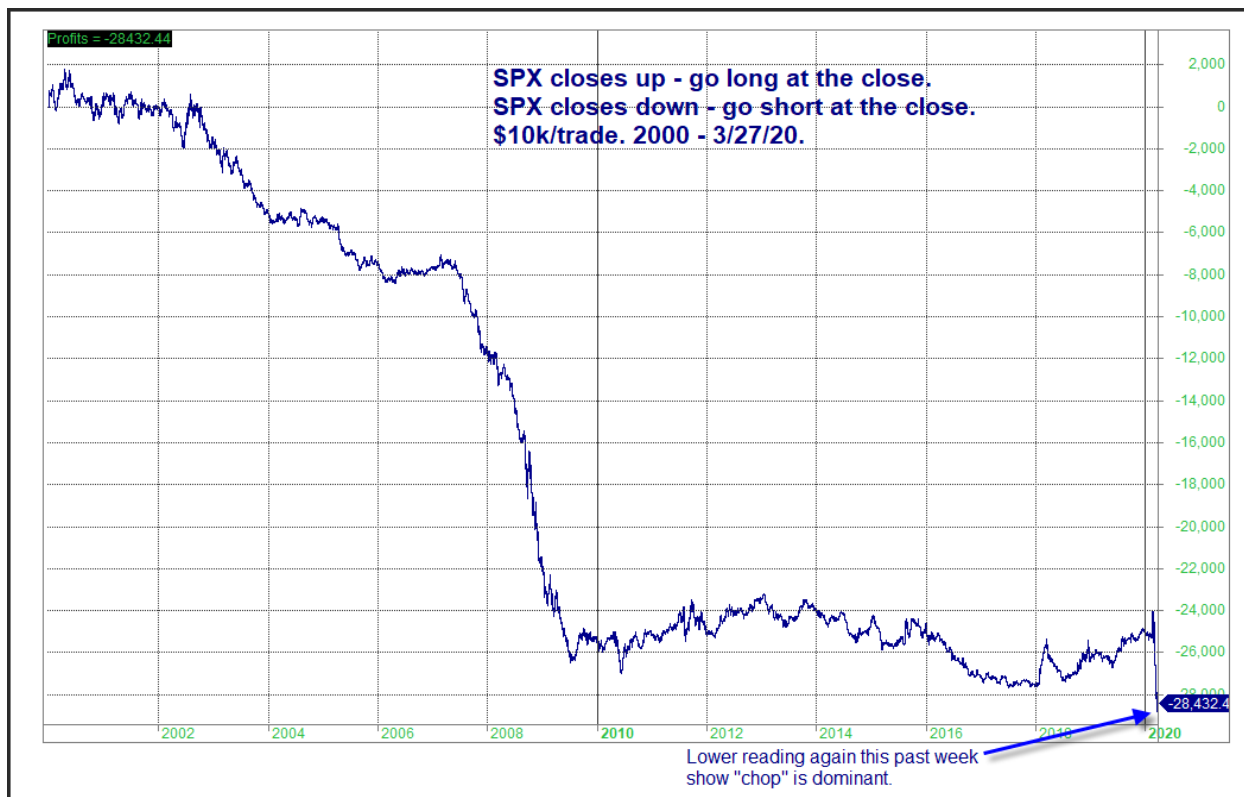
Not to make too much of just two instances, but in both cases the rebound was anything but a straight shot. 1987 reached a bottom rather quickly, but it was retested about a month and a half

later, and the subsequent move up was very choppy. 1929 saw a semi-retest about a month later. Then it put in a few good months before completely rolling back over. Here is today.



The biggest 3-day rally since the 30s did not make back much of the decline. There is a long way to go, and I expect moves will remain violent in both directions for a while. Implications of news, federal programs, and business interruptions on different parts of the economy are still largely unknown.

I have updated the “Trend vs Chop” chart that I featured in the last few letters, and discussed further in [the free special report](#) a couple of weeks ago.



Despite 3 consecutive up days, we see that “chop” still won out this week, as the line has moved even lower. Reversals are strong right now in a market that is emotional and reactive.

Overall, I am starting to see some evidence that the intermediate-term could rally. We saw one breadth-thrust study emerge this week, and I will be on the lookout for others, including a possible [Zweig Breadth Thrust](#) in the coming days. Huge government stimulus and Fed liquidity pumping also favor the bulls. But volatility and chop are at extremely high levels. Sharp reversals have become the norm as traders overreact in both directions, with uncertainty and fear continuing to rule. Therefore, flexibility is essential. I don’t need to know where the market will be 3-4 weeks from now. I believe in this environment it will be more important to remain selective with entries, and then nimble and ready to close out or reverse positions quickly. The market had an unprecedented and unrelenting selloff like was never seen before. This was followed this week by one of the largest short-term bounces ever. I’ll be careful not to short too quickly into this initial bounce. But I expect one-way moves are nearing an end, and both sides may be played here soon. So my bias will remain neutral, and I will stand ready to take advantage of opportunities in either direction.

## **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
USB	3/2/2020	\$46.44	\$34.46	-25.80%		<i>sold on open</i>
USB	3/10/2020	\$36.32	\$34.46	-5.12%		<i>sold on open</i>

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