

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 31, 2020

Volume 13 Issue 62

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Volume, price action, and sentiment are all pointing lower.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. While there are risks, the edge appears strong enough to look to take advantage of with a small position.

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 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			
Active - Long Term						
March 27, 2020	370% 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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
March 27, 2020	SPX up 3 days from 50-day low	1-5 days	Bullish	3.20%	-1.50%	-3.00%

The Evidence

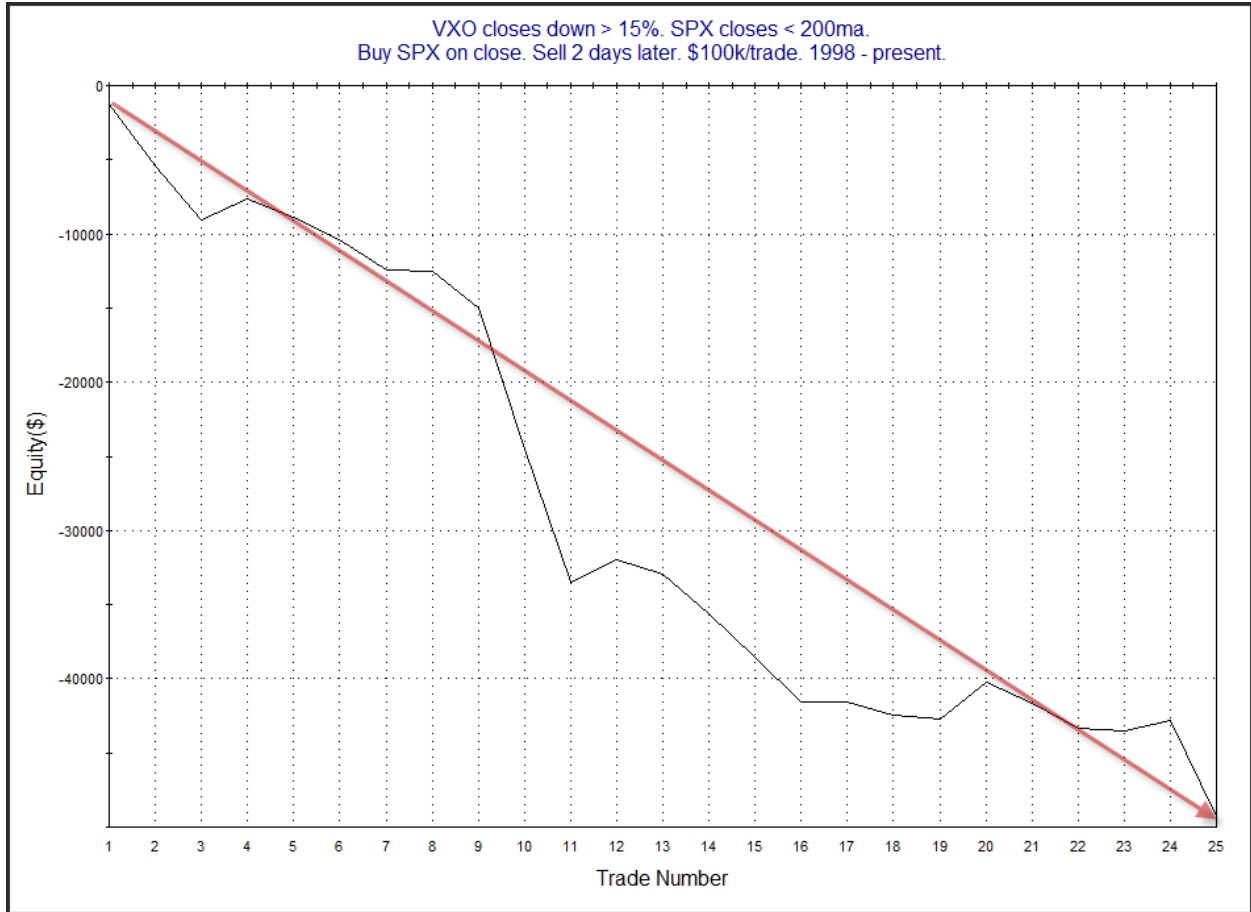
The market gapped up to start the week and generally rose throughout the day, closing near the intraday highs. The SPX finished up 3.4%, while the NASDAQ gained 3.8% and the Russell 2000 climbed 2.3%. Breadth was just mixed as the NYSE Up Issues % was 58% and the Up Volume % came in at 48%. NYSE volume came in at the lightest level in over a month.

The NYSE Up Volume % breadth on Monday was the lowest there was since 1955 on a day that SPX gained at least 2%. Volume, price action, and sentiment all generated bearish evidence tonight, with a large number of Quantifinder studies triggering. I'll go through several of the more compelling ones.

There were a few VXO (old calculation for the VIX) studies that triggered. The one below was seen recently in the 3/16/20 letter. It looks at big drops in the VXO when SPX is below its 200ma. I have updated the results.

VXO closes down > 15%. SPX closes < 200ma. Buy SPX on close. 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	-39,808.00	22	11	11	50.00	6,915.44	-14,619.60	2,004.29	-5,623.20	0.36	0.36	-1,809.45
4	-45,825.37	24	9	15	37.50	4,104.78	-10,971.63	1,921.06	-4,207.66	0.46	0.27	-1,909.39
3	-45,288.88	25	8	17	32.00	2,993.44	-11,265.12	1,254.98	-3,254.63	0.39	0.18	-1,811.56
2	-49,311.32	25	5	20	20.00	2,466.36	-9,455.49	1,214.59	-2,769.21	0.44	0.11	-1,972.45
1	-29,715.61	25	7	18	28.00	2,404.65	-11,696.04	833.06	-1,974.83	0.42	0.16	-1,188.62

Numbers here appear quite bearish. Sharps drops in fear are often met by short-term selling. Below is a look at the profit curve.



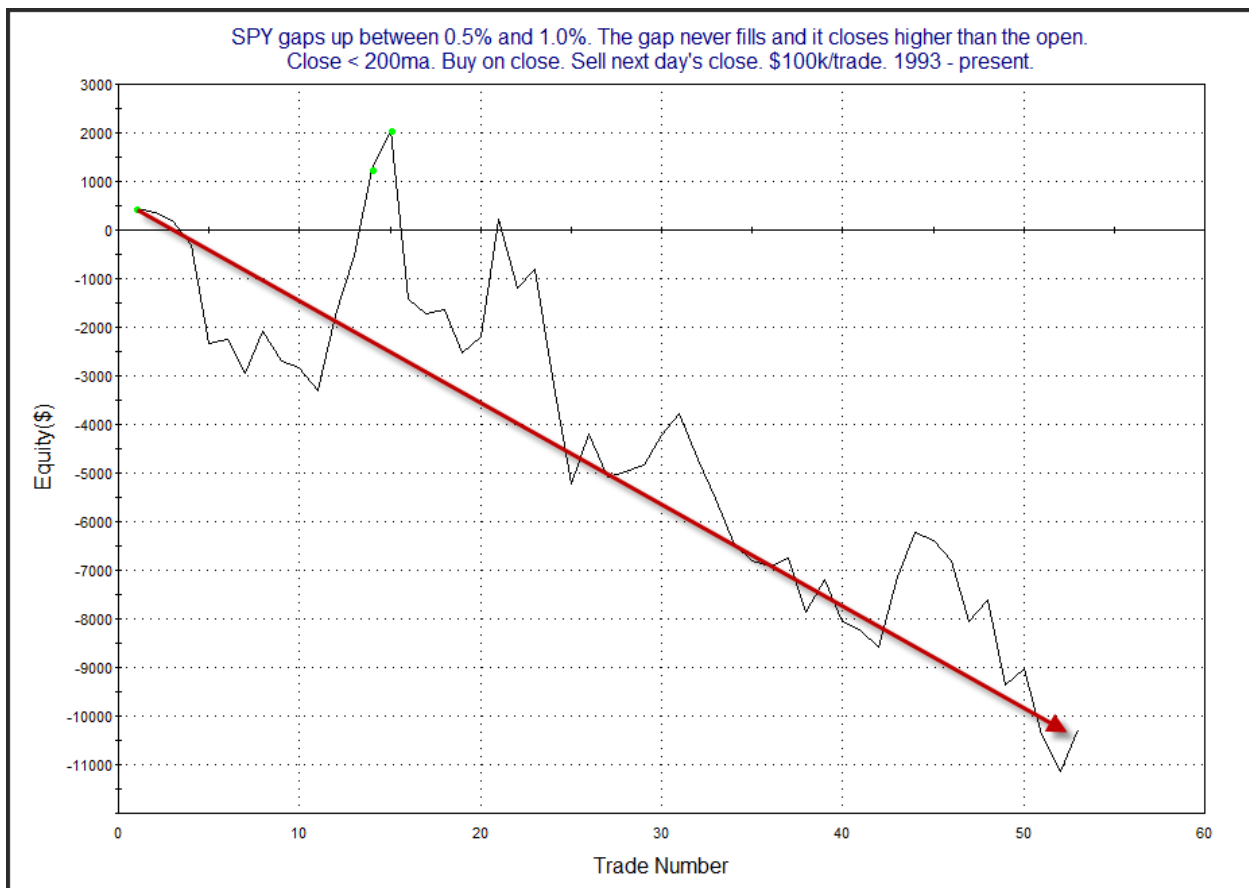
The move from upper left to lower right serves as some confirmation of the downside edge.

This next study simply considered the price action on Monday, including the unfilled up-gap and the long-term downtrend. It was last seen in the 11/27/18 letter, and is updated below.

SPY gaps up between 0.5% and 1.0%. The gap never fills and it closes higher than the open.
Close < 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
5	-10,998.81	46	28	18	60.87	6,298.95	-9,558.90	1,500.54	-2,945.21	0.51	0.79	-239.10
4	-9,953.91	47	27	20	57.45	3,039.95	-8,875.20	1,560.21	-2,603.98	0.60	0.81	-211.79
3	-2,312.80	49	30	19	61.22	2,784.87	-5,549.95	1,261.95	-2,114.28	0.60	0.94	-47.20
2	-11,346.02	52	24	28	46.15	2,803.08	-4,871.91	1,241.82	-1,469.63	0.84	0.72	-218.19
1	-10,269.80	53	23	30	43.40	2,416.96	-3,474.68	745.65	-913.99	0.82	0.63	-193.77

Consistency appeared somewhat weak, which gave me some pause. So let's consider the equity curve when deciding whether to incorporate the study into the Aggregator.



The curve actually looks fairly compelling. I decided this study was worth consideration.

There were also a good number of studies that noted the light volume on the sharp rally on Monday. The one below was from the 5/19/2009 letter. It examined other times SPX rose > 2.5% while NYSE volume came in at a 5-day low.

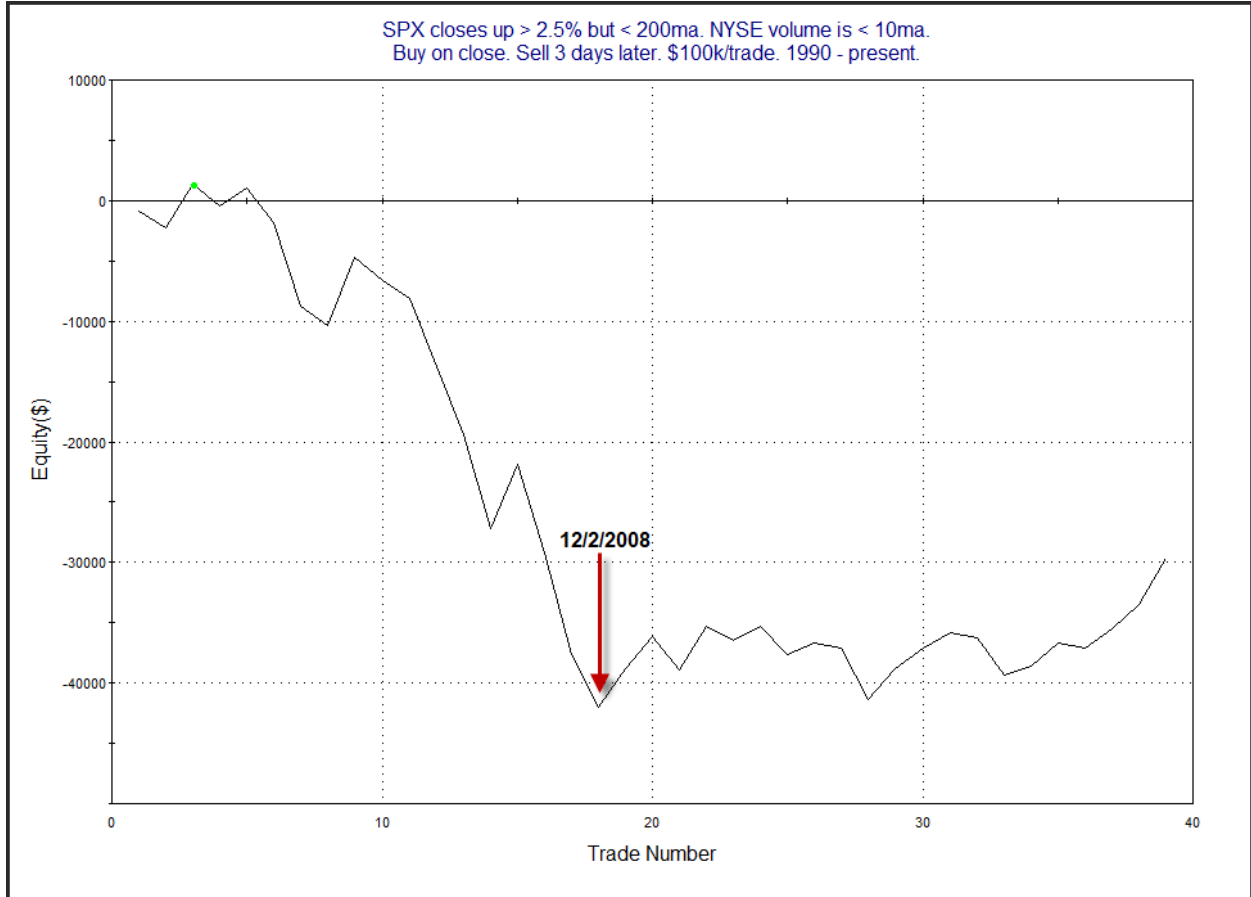
SPX closes up > 2.5% on the lightest NYSE volume in 5 days. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-66,871.19	22	7	15	31.82	3,612.16	-13,784.48	1,475.09	-5,146.45	0.29	0.13	-3,039.60
4	-36,186.37	22	7	15	31.82	5,734.40	-10,971.63	2,430.47	-3,546.64	0.69	0.32	-1,644.83
3	-43,951.07	22	6	16	27.27	5,372.64	-11,890.36	2,469.39	-3,672.96	0.67	0.25	-1,997.78
2	-24,633.74	22	12	10	54.55	2,707.25	-8,950.62	1,143.55	-3,835.63	0.30	0.36	-1,119.72
1	-1,330.64	22	14	8	63.64	2,077.44	-3,291.58	645.08	-1,295.22	0.50	0.87	-60.48

The stats certainly favor the bearish case. One concern I had when looking at this study, though, is the fact that many volume studies have not held up as well in recent years. So I decided to examine the individual instances.

SPX closes up > 2.5% on the lightest NYSE volume in 5 days.
Buy on close. Sell 3 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/27/1990	Buy	\$321.43	-0.85%	\$1,368.40
8/30/1990	Sell	\$318.70		(\$1,122.71)
11/3/1997	Buy	\$938.99	-0.10%	\$1,126.78
11/6/1997	Sell	\$938.03		(\$670.98)
1/15/1999	Buy	\$1,243.26	-0.65%	\$2,465.60
1/21/1999	Sell	\$1,235.16		(\$885.60)
1/31/2000	Buy	\$1,394.46	2.19%	\$2,223.72
2/3/2000	Sell	\$1,424.97		(\$465.05)
3/21/2000	Buy	\$1,493.82	2.26%	\$3,897.30
3/24/2000	Sell	\$1,527.57		(\$428.34)
6/17/2002	Buy	\$1,036.17	-2.88%	\$447.36
6/20/2002	Sell	\$1,006.29		(\$3,031.68)
7/5/2002	Buy	\$989.03	-6.93%	\$457.53
7/10/2002	Sell	\$920.47		(\$6,942.74)
7/29/2002	Buy	\$898.96	-1.59%	\$1,407.48
8/1/2002	Sell	\$884.66		(\$1,829.28)
11/27/2002	Buy	\$938.87	-1.93%	\$1,637.70
12/3/2002	Sell	\$920.75		(\$2,129.54)
10/20/2008	Buy	\$985.40	-7.84%	\$4.04
10/23/2008	Sell	\$908.11		(\$12,822.96)
10/30/2008	Buy	\$954.09	5.41%	\$5,555.68
11/4/2008	Sell	\$1,005.75		(\$988.00)
11/7/2008	Buy	\$930.99	-8.45%	\$2,242.72
11/12/2008	Sell	\$852.30		(\$8,614.57)
11/26/2008	Buy	\$887.68	-4.38%	\$959.84
12/2/2008	Sell	\$848.81		(\$8,062.88)
3/17/2009	Buy	\$778.12	-1.23%	\$3,215.36
3/20/2009	Sell	\$768.54		(\$1,597.44)
5/18/2009	Buy	\$909.71	-2.35%	\$1,623.01
5/21/2009	Sell	\$888.33		(\$3,280.90)
6/2/2010	Buy	\$1,098.38	-4.36%	\$663.39
6/7/2010	Sell	\$1,050.47		(\$4,415.32)
6/10/2010	Buy	\$1,086.84	2.61%	\$2,645.00
6/15/2010	Sell	\$1,115.23		(\$894.24)
8/11/2011	Buy	\$1,172.64	1.72%	\$2,707.25
8/16/2011	Sell	\$1,192.76		(\$161.50)
8/29/2011	Buy	\$1,210.08	-0.47%	\$1,691.66
9/1/2011	Sell	\$1,204.42		(\$1,173.42)
9/7/2011	Buy	\$1,198.62	-3.03%	\$479.74
9/12/2011	Sell	\$1,162.27		(\$5,191.65)
10/10/2011	Buy	\$1,194.89	0.73%	\$2,104.88
10/13/2011	Sell	\$1,203.66		(\$629.97)
3/4/2020	Buy	\$3,130.12	-12.25%	\$0.00
3/9/2020	Sell	\$2,746.56		(\$12,266.39)

The red flag for me here is simply that there as only been one instance since 2011. So I looked at instances below the 200ma where volume was just below average, rather than at a 5-day low to see if I could get bearish confirmation from additional instances.

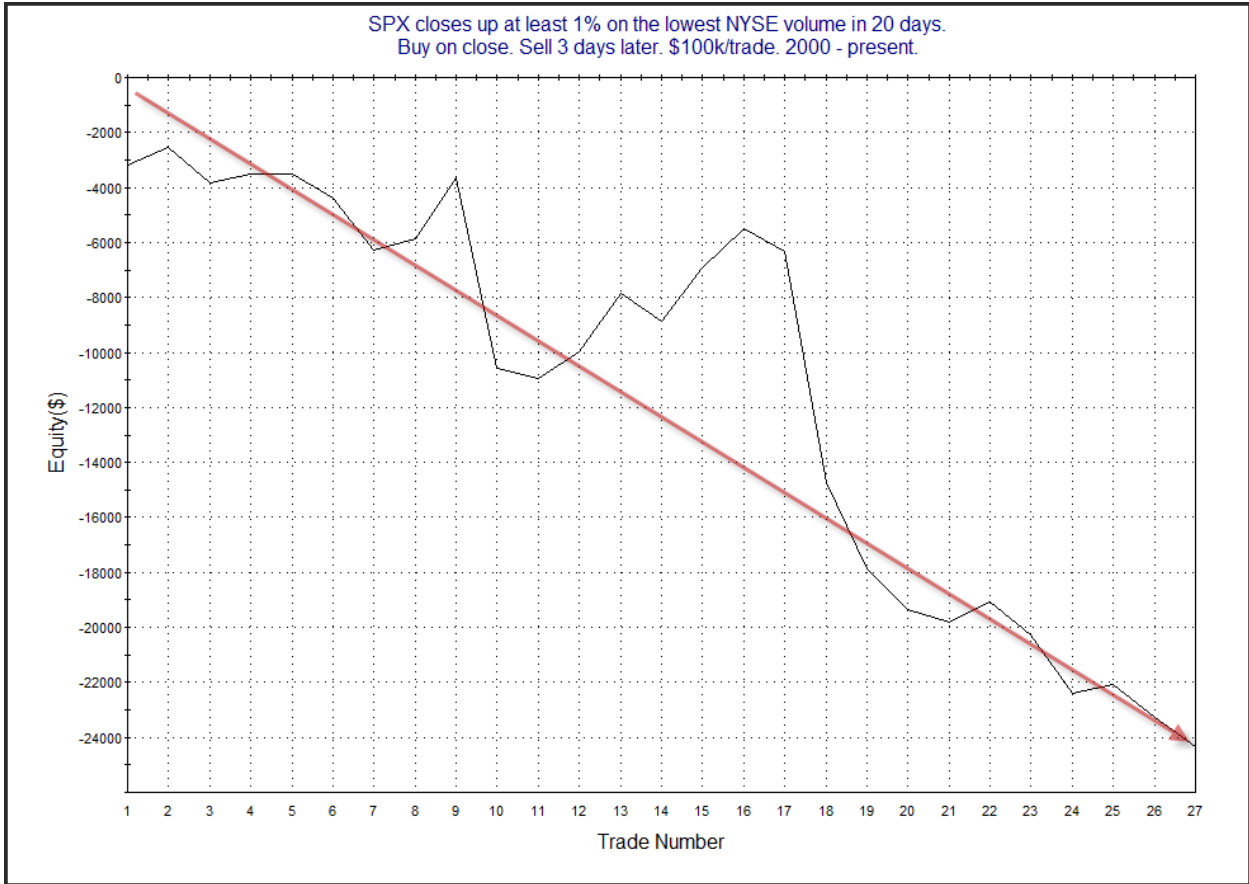


As you can see, just moderately bearish volume has not provided an edge in recent years. But another study that required less downside and more extremely low volume did show promising results. It was from the 2/23/16 letter. I have updated it below.

SPX closes up at least 1% on the lowest NYSE volume in 20 days.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-28,851.80	26	11	15	42.31	2,927.68	-10,421.45	1,501.51	-3,024.56	0.50	0.36	-1,109.68
4	-22,197.86	27	11	16	40.74	2,978.79	-6,227.66	1,238.83	-2,239.06	0.55	0.38	-822.14
3	-24,355.10	27	10	16	37.04	2,201.31	-8,419.83	1,107.18	-2,214.18	0.50	0.31	-902.04
2	-17,733.55	27	7	20	25.93	1,688.95	-3,656.20	854.50	-1,185.75	0.72	0.25	-656.80
1	-11,084.71	27	9	18	33.33	2,112.96	-2,311.50	694.71	-963.17	0.72	0.36	-410.54

Numbers here are somewhat encouraging for the bears. Below is the profit curve.

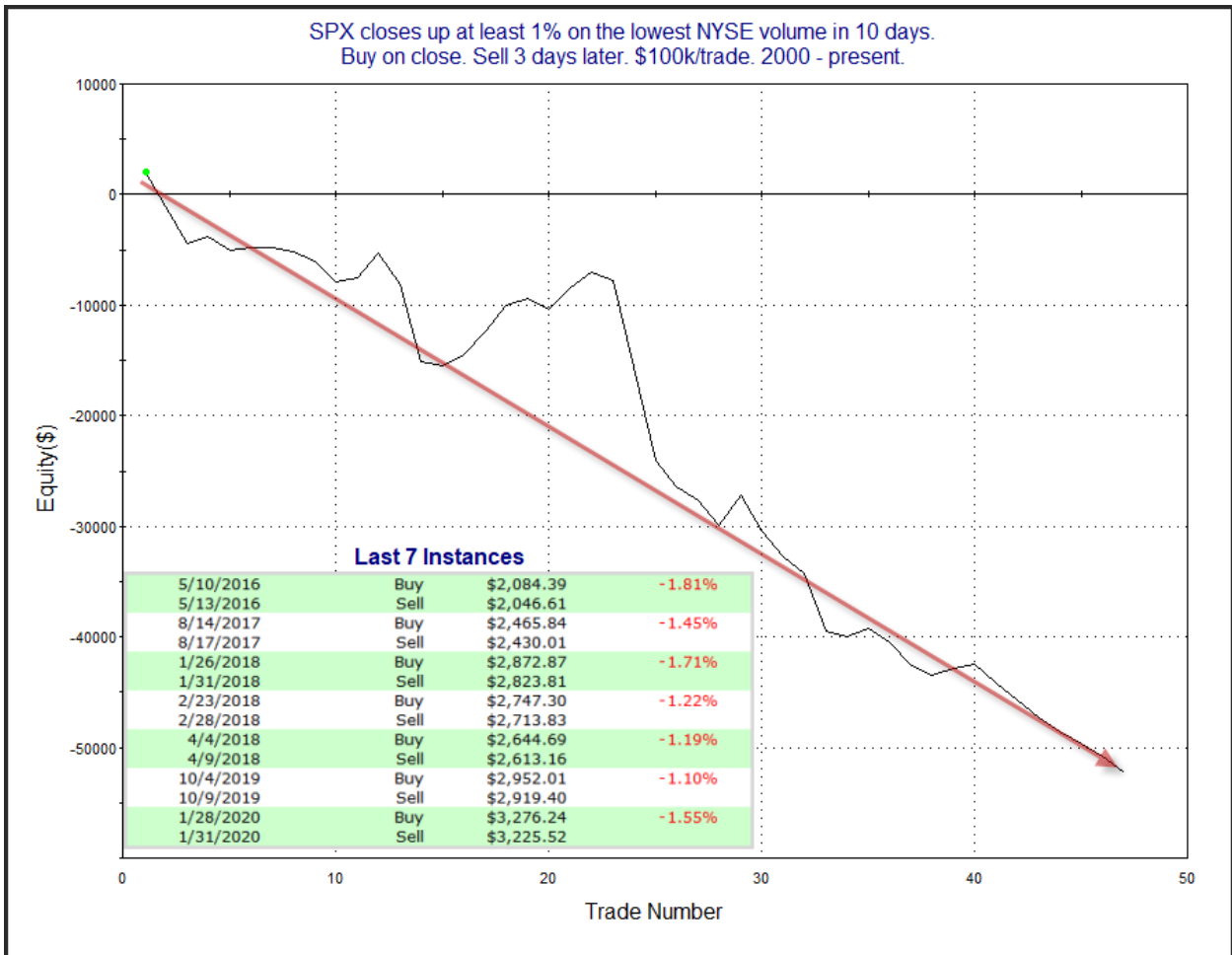


The curve looks solid. But again there were not a lot of recent instances. So finally, I lowered the volume requirement to just a 10-day low.

SPX closes up at least 1% on the lowest NYSE volume in 10 days.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-55,762.38	46	17	29	36.96	3,612.16	-13,784.48	1,682.79	-2,909.31	0.58	0.34	-1,212.23
4	-43,612.42	47	18	29	38.30	5,734.40	-10,971.63	1,577.57	-2,483.06	0.64	0.39	-927.92
3	-52,317.10	47	15	31	31.91	2,718.52	-8,419.83	1,310.24	-2,321.64	0.56	0.27	-1,113.13
2	-29,771.55	47	16	31	34.04	2,341.58	-8,950.62	829.25	-1,388.37	0.60	0.31	-633.44
1	-5,701.47	47	19	28	40.43	3,348.84	-3,065.35	1,009.48	-888.63	1.14	0.77	-121.31

The stats here are just as bearish. Next...the curve.



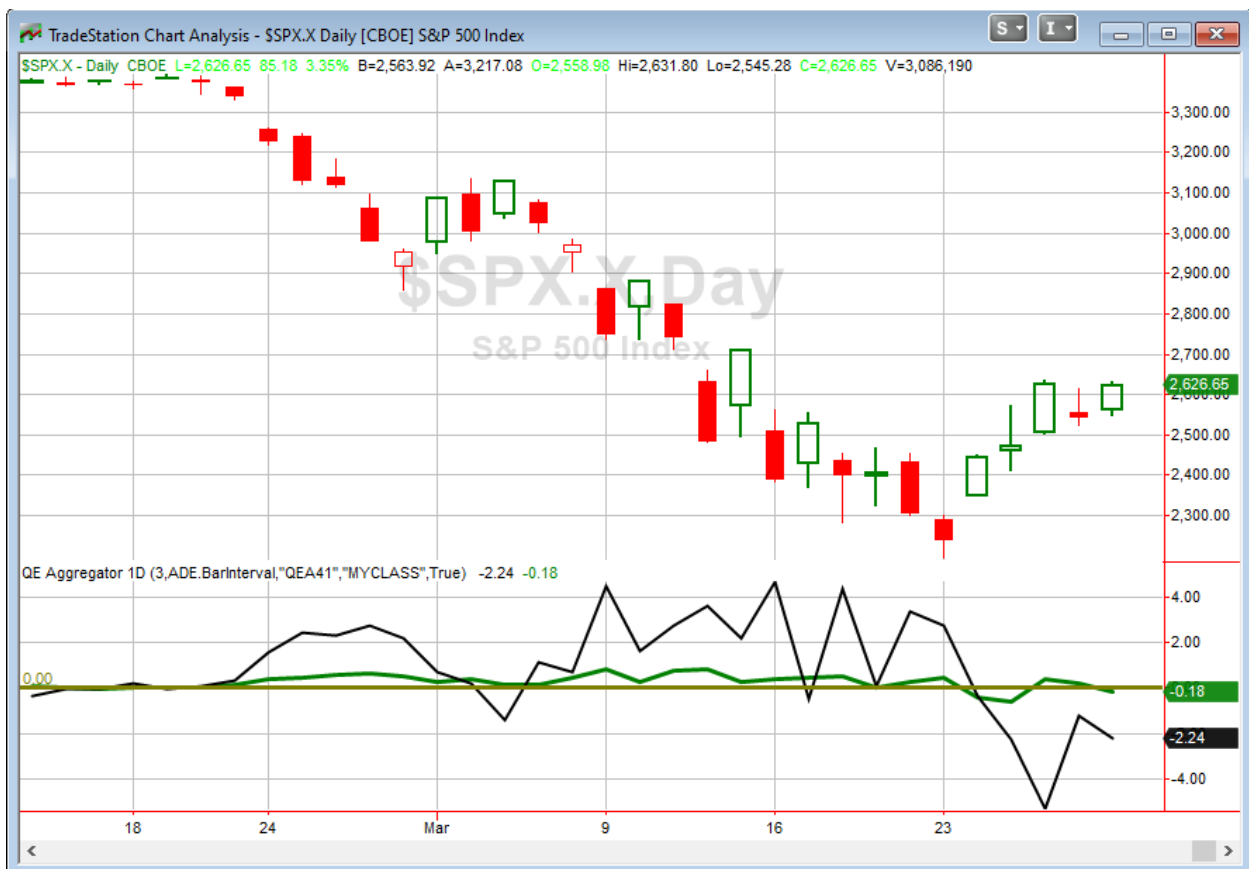
The strong, steady downslope serves as some confirmation. And as I have listed, the last 7 instances, all of which occurred since 2016, have closed lower between 1%-2% three days later.

All the studies looking at strong up days on extremely low volume showed bearish promise. This last one also showed it has played out in recent years. I have included the last one on the Active List tonight.

I will also note that the SPX Golden Cross formation turned into a Death Cross on Monday, as the 50ma dropped below the 200ma. I am not going to make too much of it. The signal is late in noting the long-term trend is down. The Death Cross is something that has done a decent job over the years of side-stepping some of the worst damage in long-term bear markets. But most of the time it has been a sub-par timing device. I did a detailed write-up on Death Crosses when the last one occurred in December of 2018. You can find it here on the blog.

<https://quantifiableedges.com/90-years-of-death-crosses/>

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



Tonight the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside 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 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 turned short at the close.

Based on the current list of studies, expectations are set to remain bearish on Tuesday. This could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2612.09 on Tuesday. That is 0.6% below Monday's close. Therefore, SPX will need to close down 0.6% on Tuesday in order to change to oversold versus expectations.

There really is a substantial amount pointing towards a downside edge here. Sentiment (VXO), price action, and volume all suggest we could be headed lower in the next few days. And with the market solidly overbought there appears to be a decent downside edge. But I still have some strong reservations about getting aggressively short. For one, we are still only a few days off the bottom. First thrusts can be powerful as we saw with the Tues – Thurs move last week. Friday was down, so there has been some chop now, but this is still very early stage of a potential rally, so this move up has the potential to persist longer than usual. I am also concerned about the massive amount of QE that the Fed is pumping into the system right now. Shorting into a Fed-induced liquidity expansion has never been a great opportunity. In fact, for most QE sessions since 2009 I have avoided shorting altogether. And perhaps that is the best play here. But with evidence strong, and chop recently becoming dominant, I decided I would look to dip my toe slightly on Tuesday into a short position. I will likely keep this position very small, but will look to take advantage of the apparent downside edge to some degree.

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

The intermediate-term outlook was last updated in the 3/30/20 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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.

SPY – sell short ¼ index position @ \$261.65 LIMIT. Based on the short-term outlook above, I will look to take advantage of the apparent downside edge with a very small index position on Tuesday.

Current Open Trade Ideas

None

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