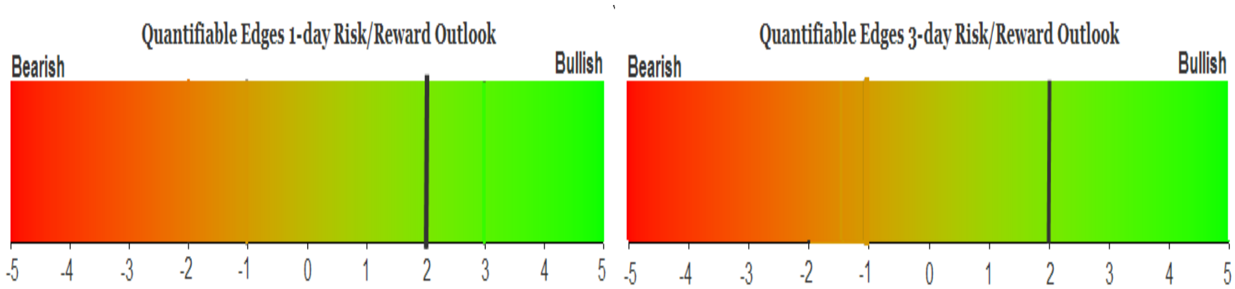
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2020 Volume 13 Issue 64

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Sharp drops that close poorly have often seen a reversal the next day – even when they do not follow a short-term low.
- A simple trading system that looks to take advantage of choppy conditions is shared.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the edge is not strong enough for me to get excited just yet.

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						
April 2, 2020	3% drop, NOT from low, closes poorly	1 day	Bullish			
Active - Long Term						
March 27, 2020	3 70% 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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
April 1, 2020	1% drop < 3/4 of yesterday's gain	1 day	Bearish			
April 1, 2020	Early April Bullish	1-4 days	Bullish	1.70%	-1.20%	-2.75%
March 31, 2020	1% up on 10-day low volume	1-3 days	Bearish	-2.30%	1.10%	2.10%
March 31, 2020	VXO 15% drop. SPX < 200ma	1-2 days	Bearish			
March 30, 2020	SPX dn 2.5% on a Friday	1-5 days	Bullish	3.70%	-2.55%	-5.60%

The Evidence

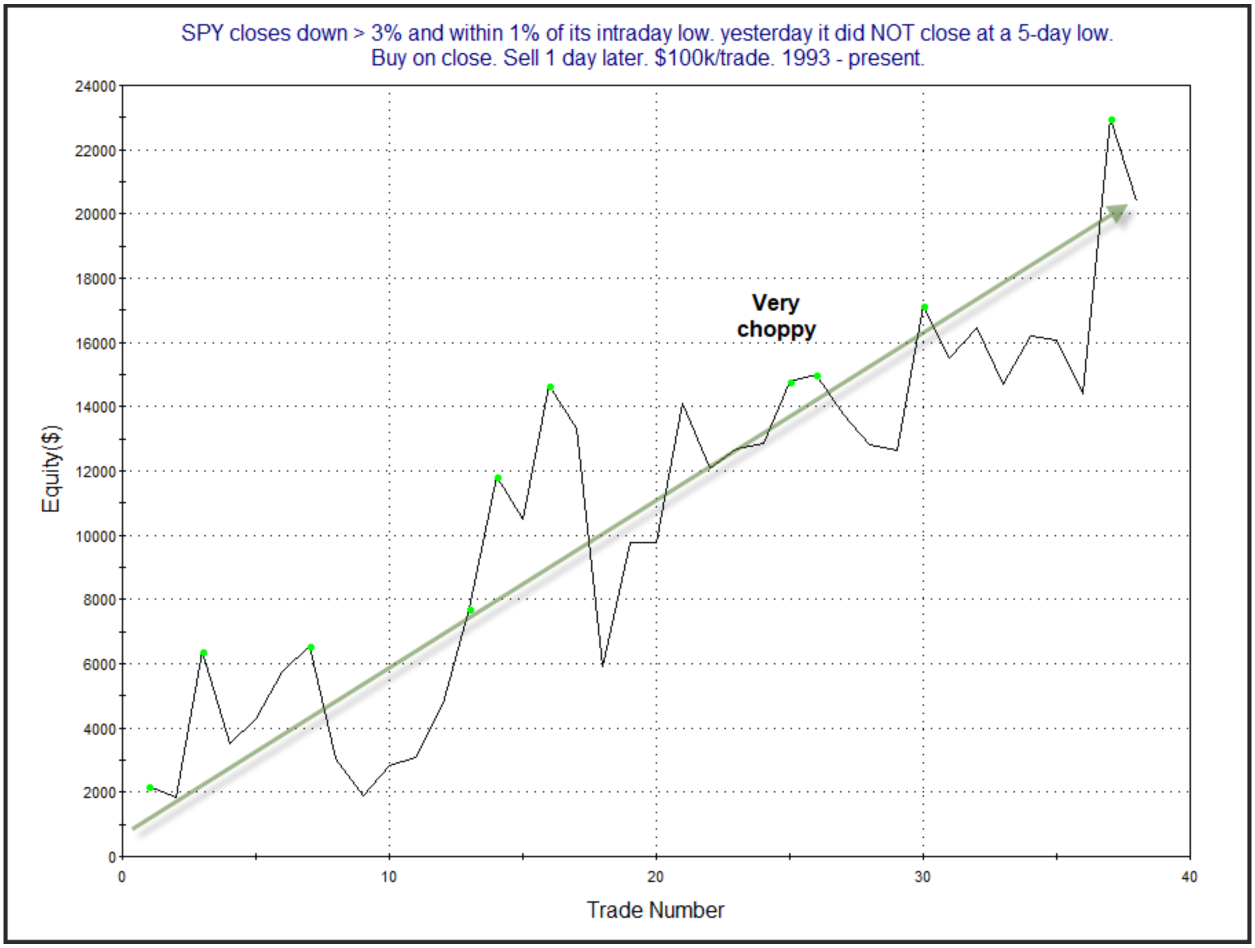
The market posted a sizable gap down to open the day, and then never managed to recover much. And then it closed worse than it opened. The SPX dropped 4.4% on Wednesday, while the NASDAQ also declined 4.4% and the Russell 2000 fell 7.0%. Breadth was extremely negative as the NYSE Up Issues % was 7.2% and the Up Volume % came in at 7.5%. NYSE volume rose a little for the 2nd day in a row.

There were several studies tonight that looked at strong moves lower. A couple of aspects of large selloffs that have influenced the odds of a strong bounce the next day (or several days) are 1) whether the drop occurred from a point that was already low (such as a 5-day low close the day before, and 2) whether the market closed near the low end of its range. (Within 1% of its intraday low was used in a few studies.) In the 11/10/11 letter I looked at the combination that we saw on Wednesday, which was a close within 1% of the intraday low, but without a 5-day low occurring the day before. I have updated that study below.

SPY closes down > 3% and within 1% of its intraday low. yesterday it did NOT close 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	-3,357.67	33	17	16	51.52	10,819.13	-17,935.50	3,759.52	-4,204.35	0.89	0.95	-101.75
4	18,747.74	34	17	17	50.00	14,158.80	-12,890.18	4,506.06	-3,403.25	1.32	1.32	551.40
3	21,521.09	37	22	15	59.46	9,756.90	-10,567.08	3,317.60	-3,431.08	0.97	1.42	581.65
2	4,825.68	38	20	18	52.63	6,436.07	-9,315.90	3,048.09	-3,118.67	0.98	1.09	126.99
1	20,403.74	38	22	16	57.89	8,547.63	-7,417.30	2,296.45	-1,882.38	1.22	1.68	536.94

We see here what appears to be a moderate 1-day upside edge. A profit curve using a 1-day holding period is below.



The chart here is quite choppy. Still, it does appear to have demonstrated an upslope over longer periods. Overall this study appears worthy of 1 day of consideration.

In that 11/10/11 letter I also looked at the low close when it did follow a 5-day low. You can see those updated results below.

SPY closes 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	84,786.06	30	23	7	76.67	19,398.00	-12,514.32	4,698.43	-3,325.40	1.41	4.64	2,826.20
4	59,343.76	32	20	12	62.50	17,914.00	-8,109.60	4,519.07	-2,586.47	1.75	2.91	1,854.49
3	36,432.95	33	19	14	57.58	14,708.85	-11,518.47	4,164.48	-3,049.45	1.37	1.85	1,104.03
2	60,428.74	34	27	7	79.41	12,693.50	-9,320.67	3,203.82	-3,724.91	0.86	3.32	1,777.32
1	52,333.47	35	24	11	68.57	11,683.71	-4,080.40	3,032.19	-1,858.10	1.63	3.56	1,495.24

Quite a contrast. These numbers are much stronger. Not only is the 1-day about 3x better on average, but the edge has persisted out to 5 days as well.

I will also note that all of the other studies on the Short-Term Active List tonight were removed. The strong moves the last few days have caused them to either reach their targets, or go more than a standard deviation beyond a typical max drawdown. In volatile markets like we are in, it is fairly common to see studies being removed early for these reasons. Among other benefits, it allows for a more flexible mindset when considering the evidence on a day to day basis.

I have updated the Aggregator chart below.

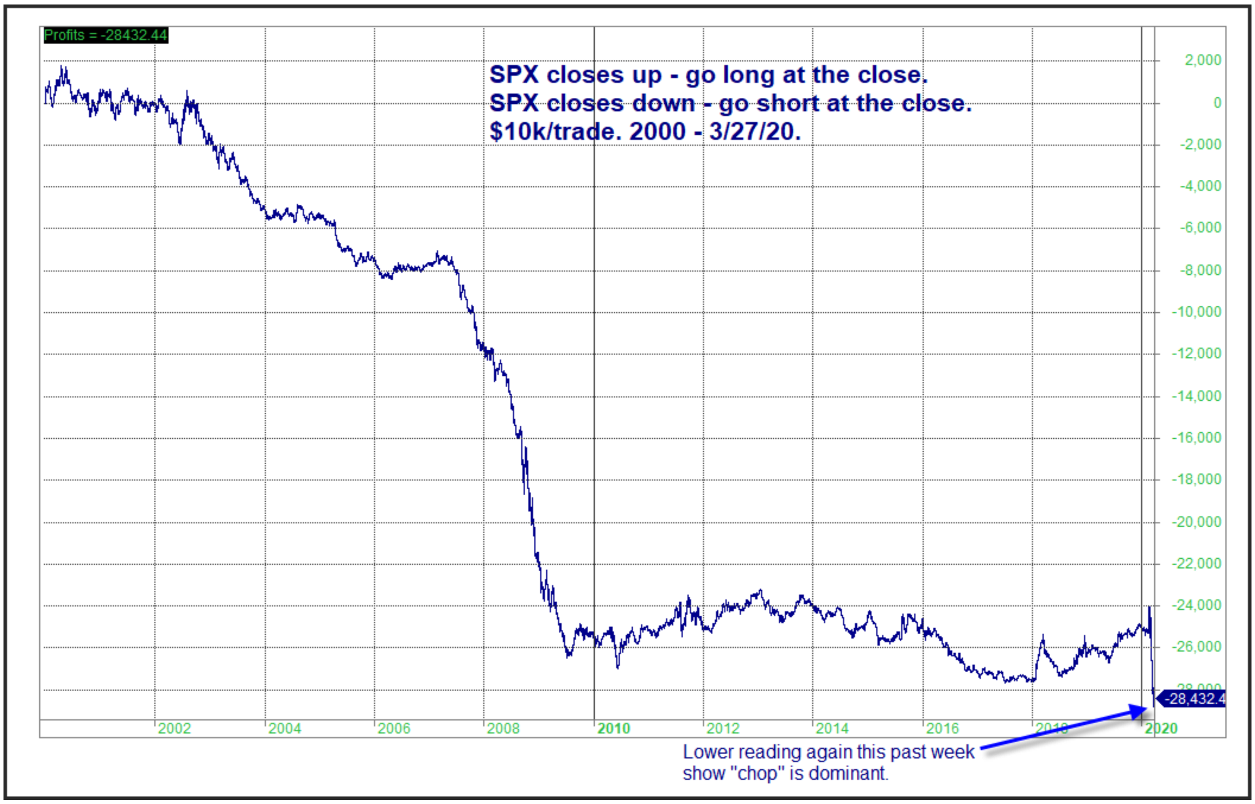
With tonight's evidence considered, the green Aggregator Line moved above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

Based on the current list of studies, expectations are set to turn neutral on Thursday. So any directional edge would be thanks to new evidence that emerges. Meanwhile, the Differential Pivot will be 2630.67 on Thursday. That is 6.5% above Wednesday's close. So for SPX to flip from oversold to overbought versus expectation on Thursday it would need to close up a very, very sizable 6.5%. Of course anything seems possible these days.

There does appear to be a mild upside edge here. But it may not last for more than 1 day, since we will need new bullish evidence to appear on Thursday to support a signal continuation. Of course a 1-day move in these markets is like a 1-month move in a low-volatility environment like 2017. Weekly jobless claims are due to be released on Thursday before the NYSE open, and then the monthly employment report is scheduled for Friday. So the tone for both days could be set early. I have no idea how to estimate the numbers or even how the market will react to them, but they will make headlines, and the market reaction could be very volatile. (Of course that is nothing new at this point.) With much uncertainty, I will not be looking to play off this bullish Aggregator signal just yet. But for those of you that might be looking for more ways to play in this environment, I decided to expand on the “choppy environment” theme below.

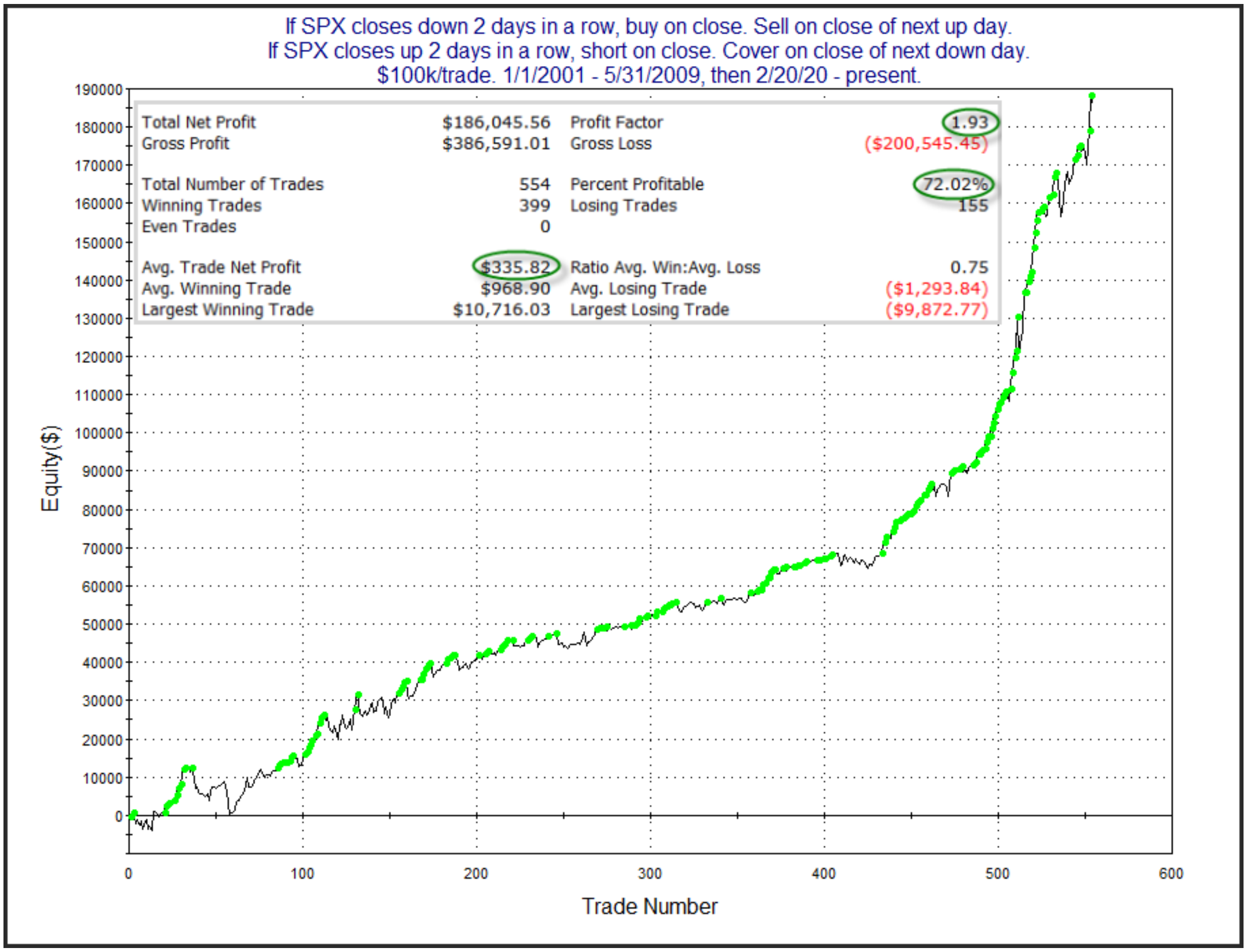
A Simple System To Take Advantage Of A Choppy Environment

I have been discussing recently how choppy the market has become, and some implications for traders. Below is a copy of the “Trend vs Chop” chart I have been showing lately (from Sunday’s letter).

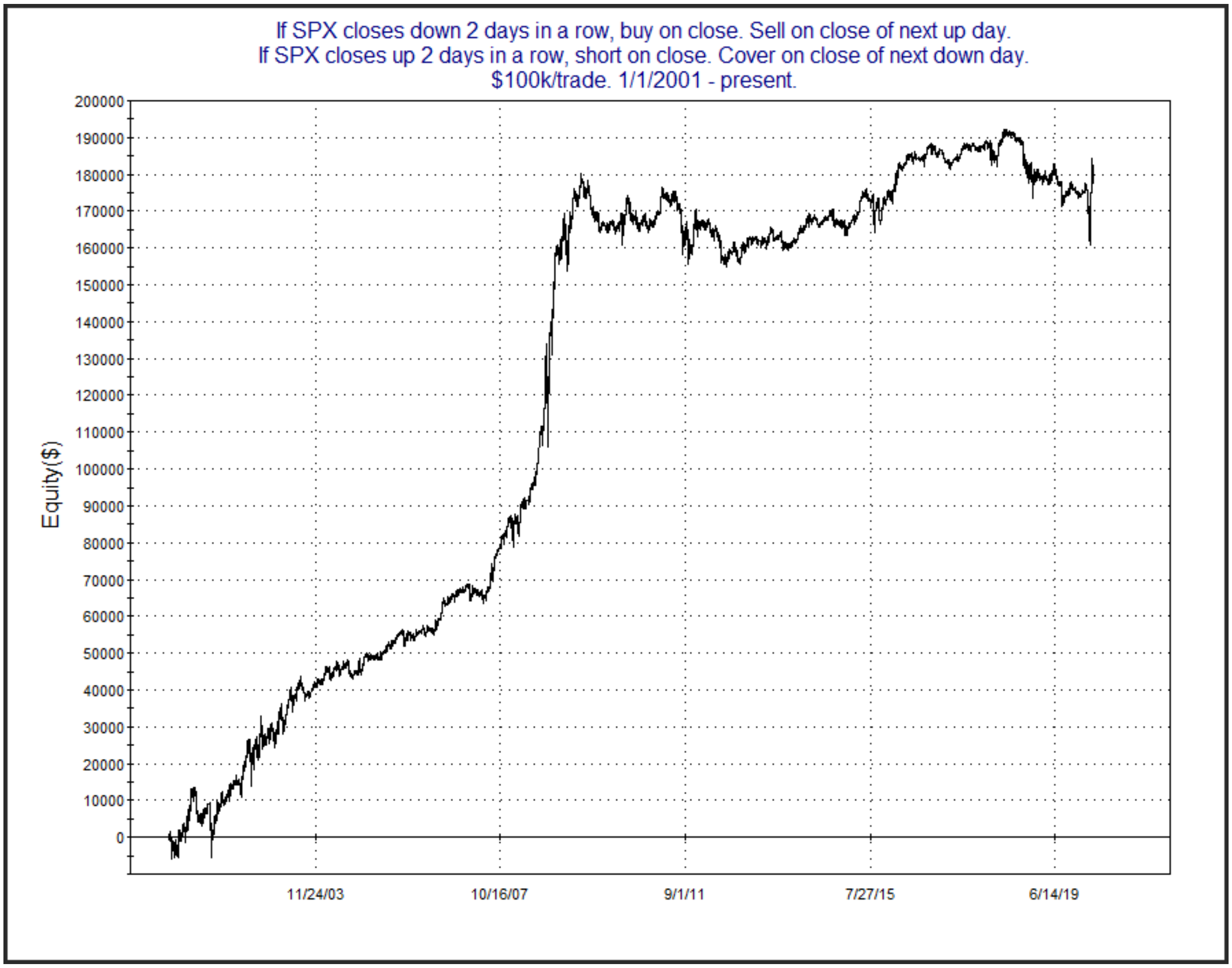


The “system” shown above is not designed to be traded. It is simply designed to see if day to day trend or day to day chop is favored. As I have noted, during the bear markets of the 2000 – 2009 decade, there was a tremendous amount of chop in the market. Sharp moves were often quickly reversed in both directions. So tonight let’s look at a very simple system that could take advantage of this kind of environment.

To generate an entry, you’ll 1st need to identify an overbought or oversold condition. You’ll then look to play for a reversal. With basically every move likely to be reversed, both entries and exits can be quick. Of course, actually entering each afternoon in anticipation of a reversal the next day is a bit much. So you could pick a favorite short-term indicator to trigger an entry, and wait for it to get somewhat stretched. But the simplest “stretch” is perhaps just seeing the market close in the same direction 2 days in a row. Two up days will trigger a short, and two down days will trigger a long for our simple system. Exits should be even easier. Every day the trade goes against us, we know that odds increase for a sharp reversal, and every time the trade moves in our favor we know that it is starting to set up to head back the other way. So an incredibly simple exit for the system is just to exit at the close of any day the trade goes in our favor, whether it is profitable at that point or not. We wait for the reversal, and we get out as soon as it happens. And since the reversals are often sharper than the continuations, this could show some decent profits. The curve and stats below are the results of this incredibly simple system.



Quick in and quicker out. In a choppy environment you see that the win % is high (72%), and the average win (0.97%) is 75% of the size of the average loss (-1.29%), which is pretty good since you are getting out as soon as the trade goes in your direction. So the sharp reversals pay off. As you can see, I excluded the 6/2009 – 2/19/2020 period in these results. The system looks great above. But in a market that is not choppy, it is not very good. This can be seen below.



Almost 11 years of zero progress until recently. I am not suggesting anyone trade this exact system. But in this kind of environment, it does a nice job of demonstrating the kind of quick in / quicker out approach that could yield trading profits. I'd encourage traders to utilize these concepts when considering strategies to employ.

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.*

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(s)	*3/31/2020*	*$261.65*	*$247.98*	*5.22%*		*covered on open*