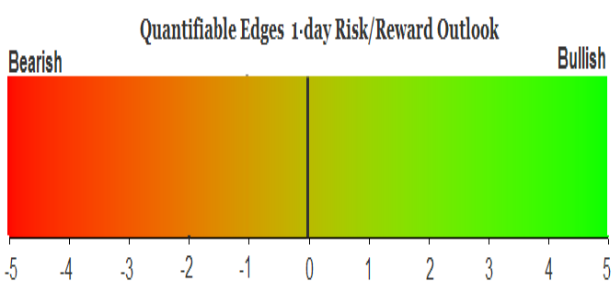
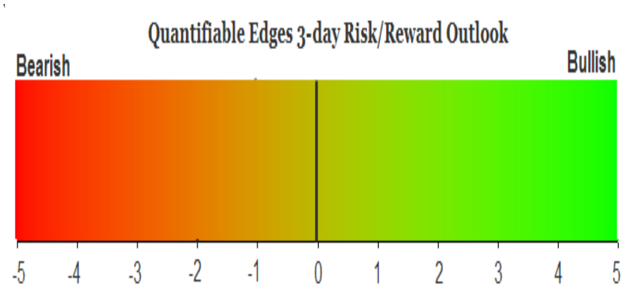
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 6, 2020 Volume 13 Issue 66

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Sharp drops that only partially retrace gains from the day before are often followed by more selling the next day.
- Big drops on employment days often see further selling in the next few days.
- Multiple sharp drops on low volume suggest a short-term bullish edge.
- SOMA flows and government stimulus is massive.
- COVID-19 uncertainty and potential economic impacts are discussed.
- Past bear markets are examined to consider length and depth.

Short-term Outlook
The Bottom Line
The Aggregator is neutral and so am I.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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 6, 2020	1% decline on employment day	1-3 days	Bearish	-2.50%	1.35%	2.70%
April 6, 2020	1% drop is < 3/4 of yesterdays gain	1 day	Bearish			
April 6, 2020	1.25% drop on low volume 3x in 10 days	1-2 days	Bullish	3.00%	-1.90%	-3.90%
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			

The Evidence

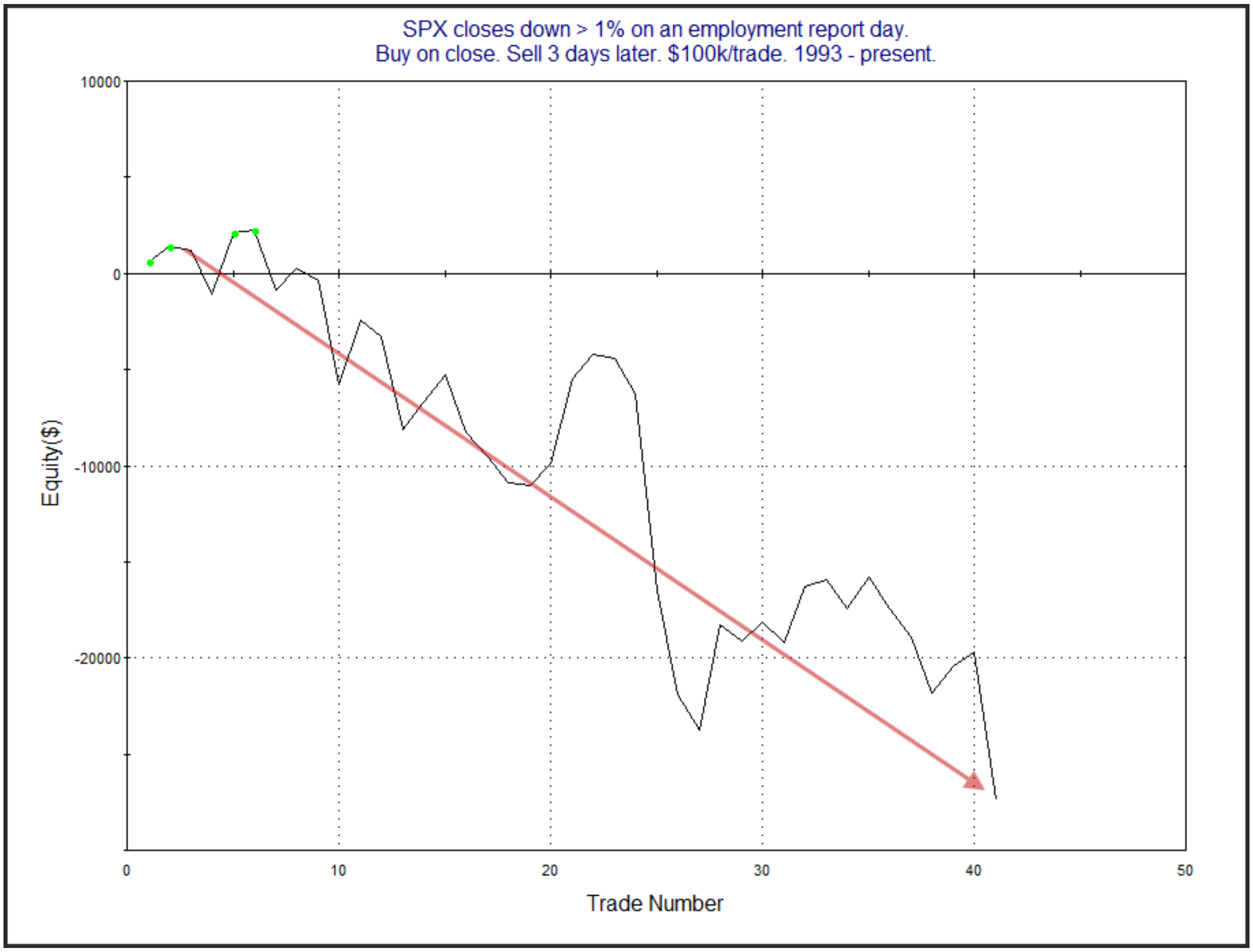
Friday was a down day for the market. The SPX lost 1.5%, the NASDAQ also fell 1.5%, and the Russell 2000 dropped 3.1%. Breadth was negative as the NYSE Up Issues % was 20% and the Up Volume % came in at 36%. NYSE volume declined some from Thursday's level.

Part of what triggered the selling on Friday was the release of the employment report. It was worse than expected, and it did not even account for the last couple of weeks. So next month's numbers should be much, much worse. This triggered the study below, which was last seen in the 4/9/18 letter and looks at performance following other sizable selloffs on employment days.

SPX closes down > 1% on an employment report day.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

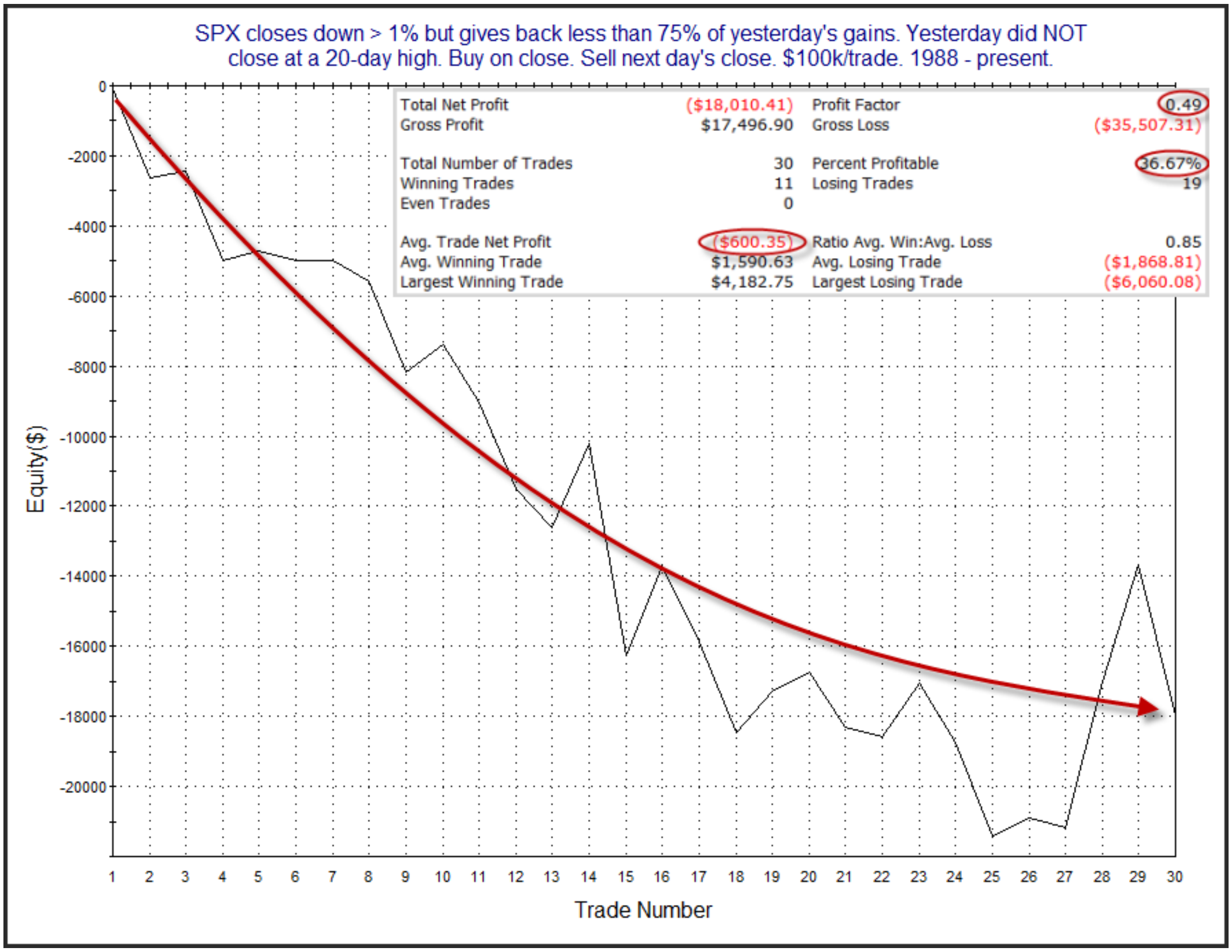
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-32,846.78	41	19	22	46.34	5,106.00	-18,000.90	2,154.09	-3,353.38	0.64	0.55	-801.14
4	-43,541.68	41	16	25	39.02	4,847.92	-17,037.90	2,213.20	-3,158.12	0.70	0.45	-1,061.99
3	-27,342.48	41	18	23	43.90	5,471.10	-10,286.10	1,798.54	-2,596.36	0.69	0.54	-666.89
2	-16,310.74	41	16	25	39.02	4,041.90	-9,270.00	1,537.60	-1,636.49	0.94	0.60	-397.82
1	-19,900.62	41	22	19	53.66	4,396.50	-7,451.73	784.68	-1,955.97	0.40	0.46	-485.38

Numbers here appear quite bearish. In looking at the curves, the 4-day results were much choppier than the 3-day, so I have featured the 3-day curve below.



Definitely still choppy, but potential for outsized losses appears to be the bearish edge here. I have included this study on the Active List.

A couple of times recently I have showed a study that examined times a sharp drop occurred, but the drop was not even able to erase as much as three quarters of the previous day's gains. That study has quickly triggered again, and I have updated the results.

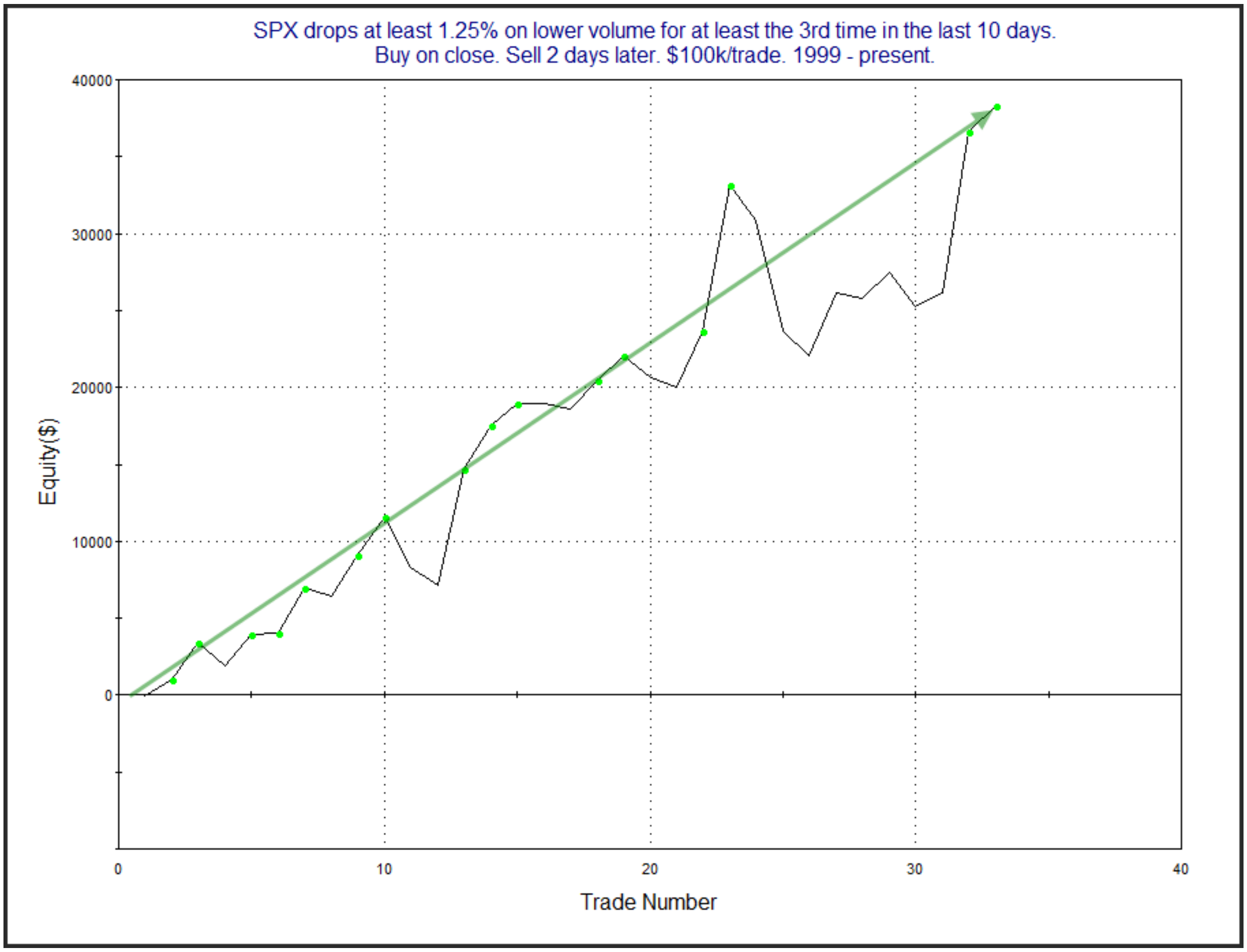


Stats remain bearish, but there has certainly been some recent chop. I am monitoring this study closely to see if it loses its edge. But for now, it still seems good enough to give some consideration.

Way back in the 6/4/09 blog I looked at clusters of days where SPX fell at least 1.25% on decreasing volume. The results seemed to provide a bit of an upside edge. I took a new look at that study tonight and have updated the results.

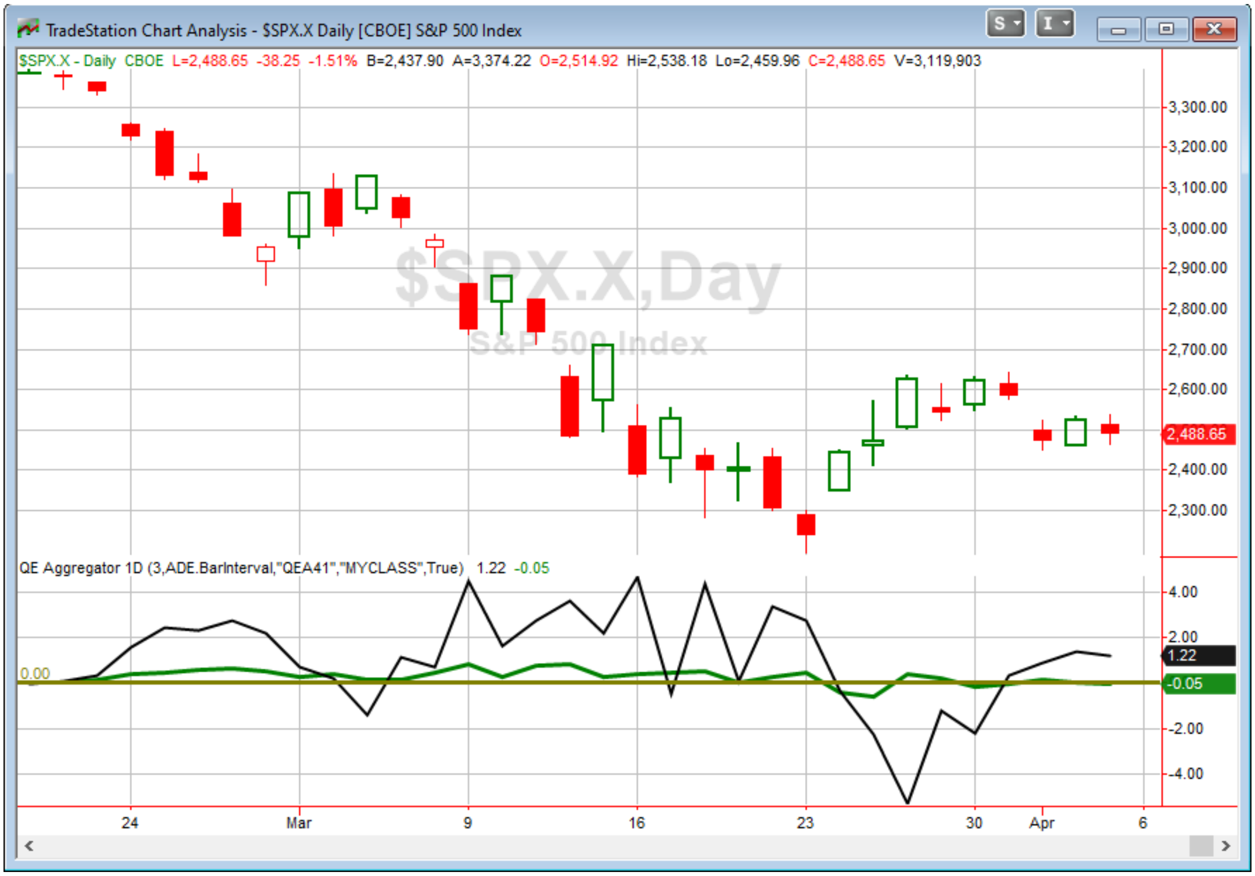
SPX drops at least 1.25% on lower volume for at least the 3rd time in the last 10 days. Buy on close. Sell X days later. $100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	14,036.44	20	14	6	70.00	13,815.90	-15,203.76	3,543.70	-5,929.23	0.60	1.39	701.82
9	28,101.82	21	13	8	61.90	11,055.00	-9,739.60	4,141.15	-3,216.64	1.29	2.09	1,338.18
8	34,531.55	22	12	10	54.55	15,738.88	-6,481.20	5,424.41	-3,056.13	1.77	2.13	1,569.62
7	36,813.52	24	13	11	54.17	13,776.64	-8,265.92	5,057.80	-2,630.72	1.92	2.27	1,533.90
6	60,370.50	25	16	9	64.00	18,349.11	-5,050.80	5,148.18	-2,444.48	2.11	3.74	2,414.82
5	39,096.00	26	16	10	61.54	17,127.00	-10,448.88	4,470.75	-3,243.61	1.38	2.21	1,503.69
4	36,065.02	28	17	11	60.71	14,020.11	-13,776.90	4,073.32	-3,016.50	1.35	2.09	1,288.04
3	37,231.26	31	21	10	67.74	17,277.48	-7,604.94	3,180.37	-2,955.66	1.08	2.26	1,201.01
2	38,322.96	33	19	14	57.58	10,479.04	-7,226.28	3,206.11	-1,613.79	1.99	2.70	1,161.30
1	28,680.82	37	21	16	56.76	10,716.03	-4,980.56	2,770.41	-1,843.61	1.50	1.97	775.16
Note: There were zero instances between 6/2009 and 3/2020.												

The numbers look strong right away, and the edge has the potential to persist up to 6 days. I am a bit wary of this one, because 1) it went so long without triggering, and 2) I have seen a lot of volume studies fall by the wayside in recent years. I did look at the curves. The 2-day curve was the most appealing. You can see it below.



While I have some trepidation about this study, the overall numbers and curve appear strong enough to also include this on the Active List.

I have updated the Aggregator chart below.



With this weekend's mix of studies factored in, the green Aggregator Line moved slightly below zero. Negative readings mean net expectations are for downside 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 negative but SPX is oversold. 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 negative on Monday. This could change fairly easily if new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 2469.06 on Monday. That is 0.8% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 0.8% in order to remain oversold vs expectations. Unless that happens, it will flip to "overbought" as of Monday's close.

So the Aggregator is neutral, evidence is mixed, the Differential Pivot is inverted, and the market is volatile. Not exactly the kind of setup that gets me excited about taking on a new index position. I'll continue to wait for evidence and reward/risk to line up better before looking to take on new index exposure.

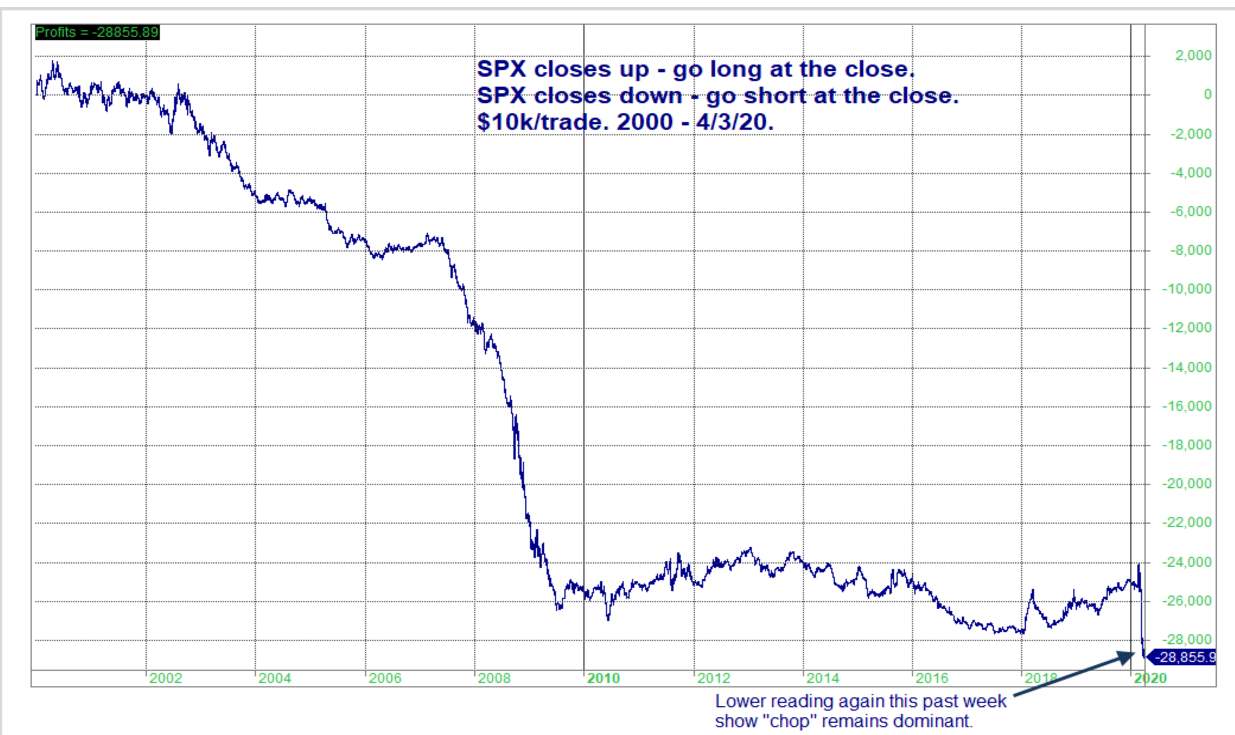
***Intermediate-term Outlook (2 weeks – 2 months) –** updated 4/6 – neutral*

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. The Golden Cross did turn to a "Death Cross" on Monday, but with the other 3 indicators all positive, that did not alter any of the Combo System filters. I did a detailed write-up a while back on Death Crosses that you can find here on the blog.*

After the huge gains the previous week, the market pulled back a bit this past week. The SPX closed down 2.1%, the NASDAQ declined 1.7%, and the Russell 2000 lost an outsized 7.1%. The market remains a long way from looking like it is in a long-term uptrend. There were no new studies this past week with intermediate-term implications.

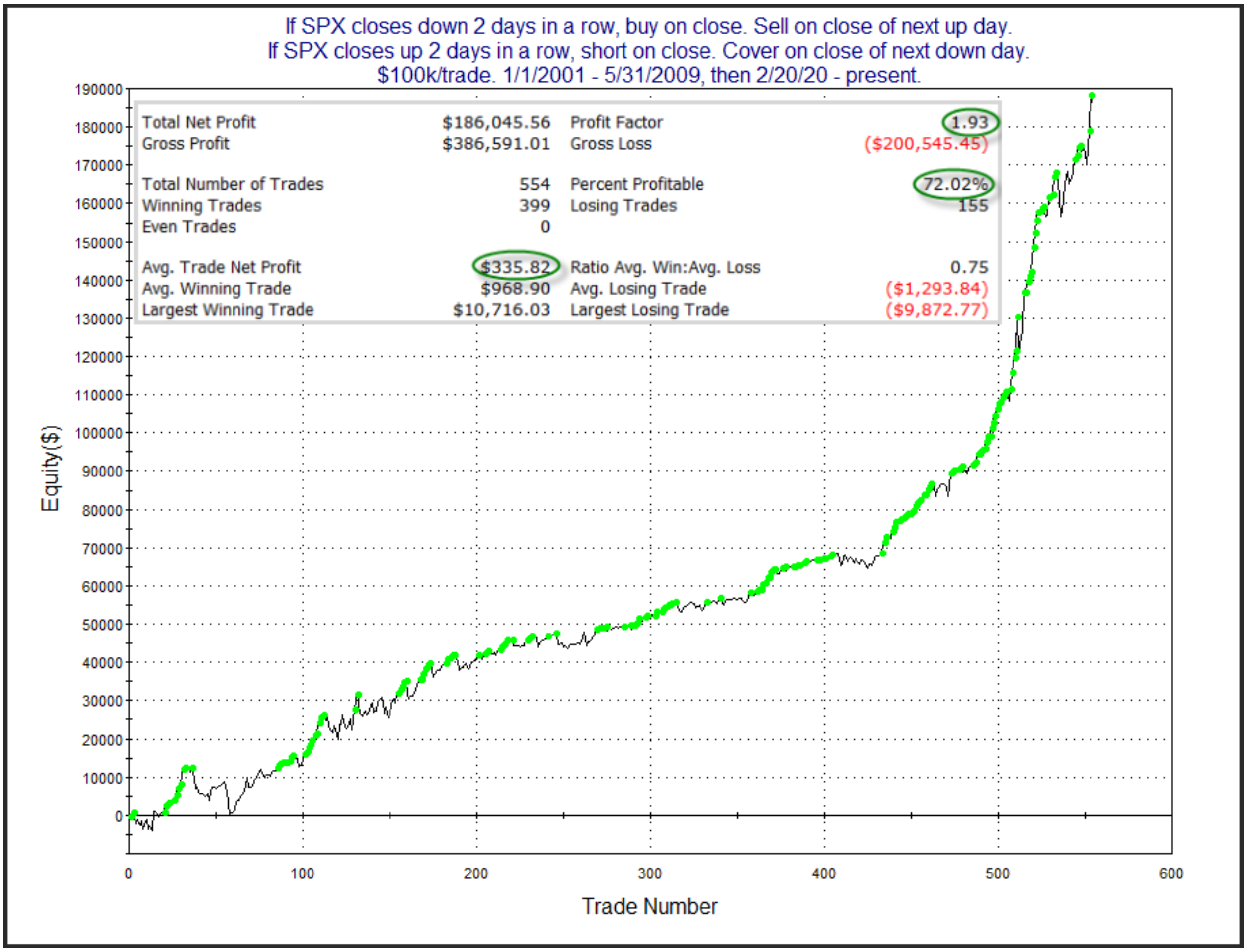
I have been discussing recently how choppy the market has become, and some implications for traders. Below is a copy of the "Trend vs Chop" chart I have been showing lately, updated again this week.



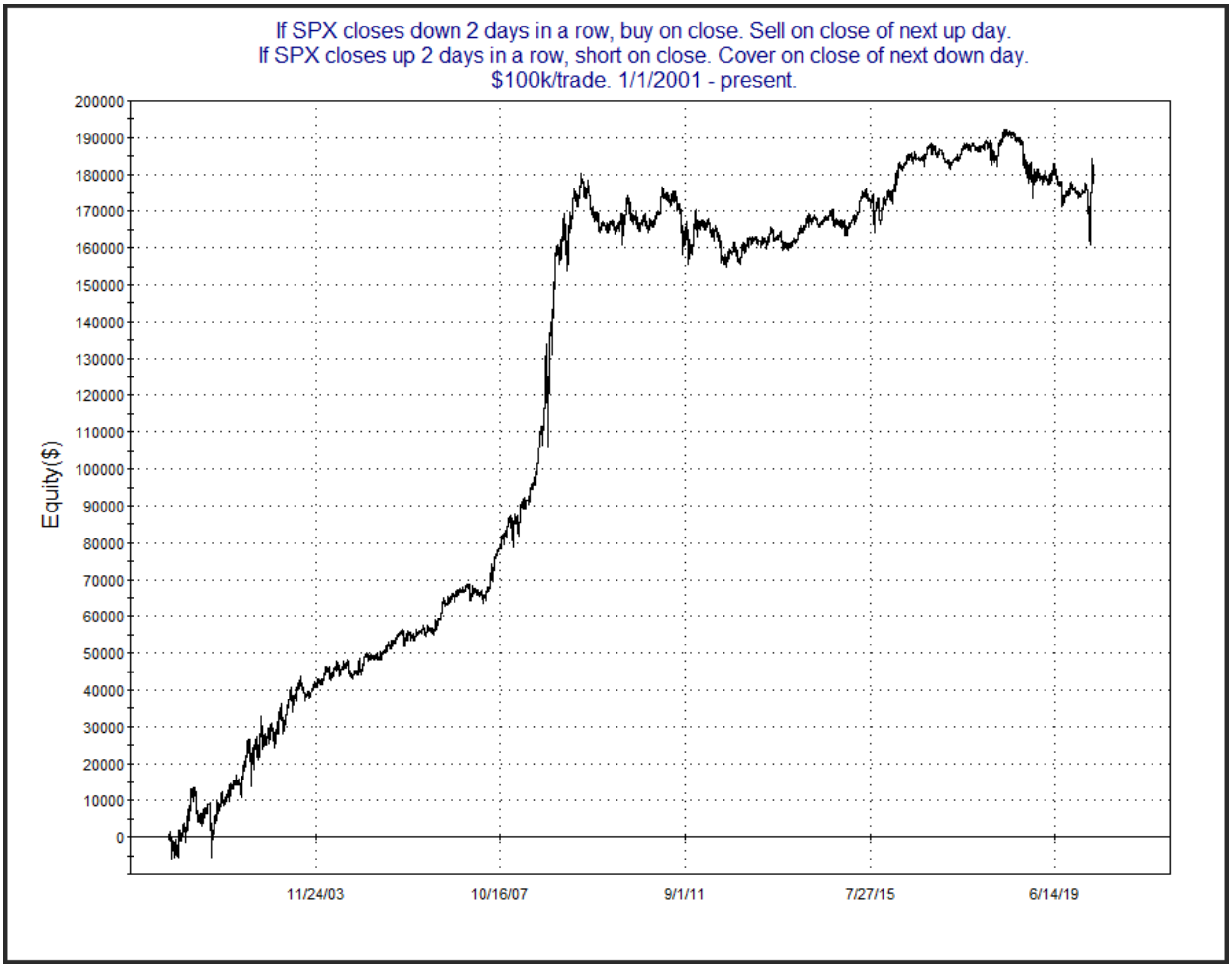
We see once again that "chop" continues to dominate. In Wednesday night's letter I shared a simple system as an example of a way that traders could look to take advantage of a choppy environment. I have copied that commentary below.

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.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. I have copied it below.

« As of 03/25/2020

DOMESTIC SECURITIES HOLDINGS AS OF
April 1, 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)	2,776,041,522.7
US Treasury Floating Rate Notes (FRN)	15,817,998.3
US Treasury Inflation-Protected Securities (TIPS)*	191,725,411.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,456,262,773.4
Total SOMA Holdings	4,768,238,706.1
Change From Prior Week	432,227,323.1

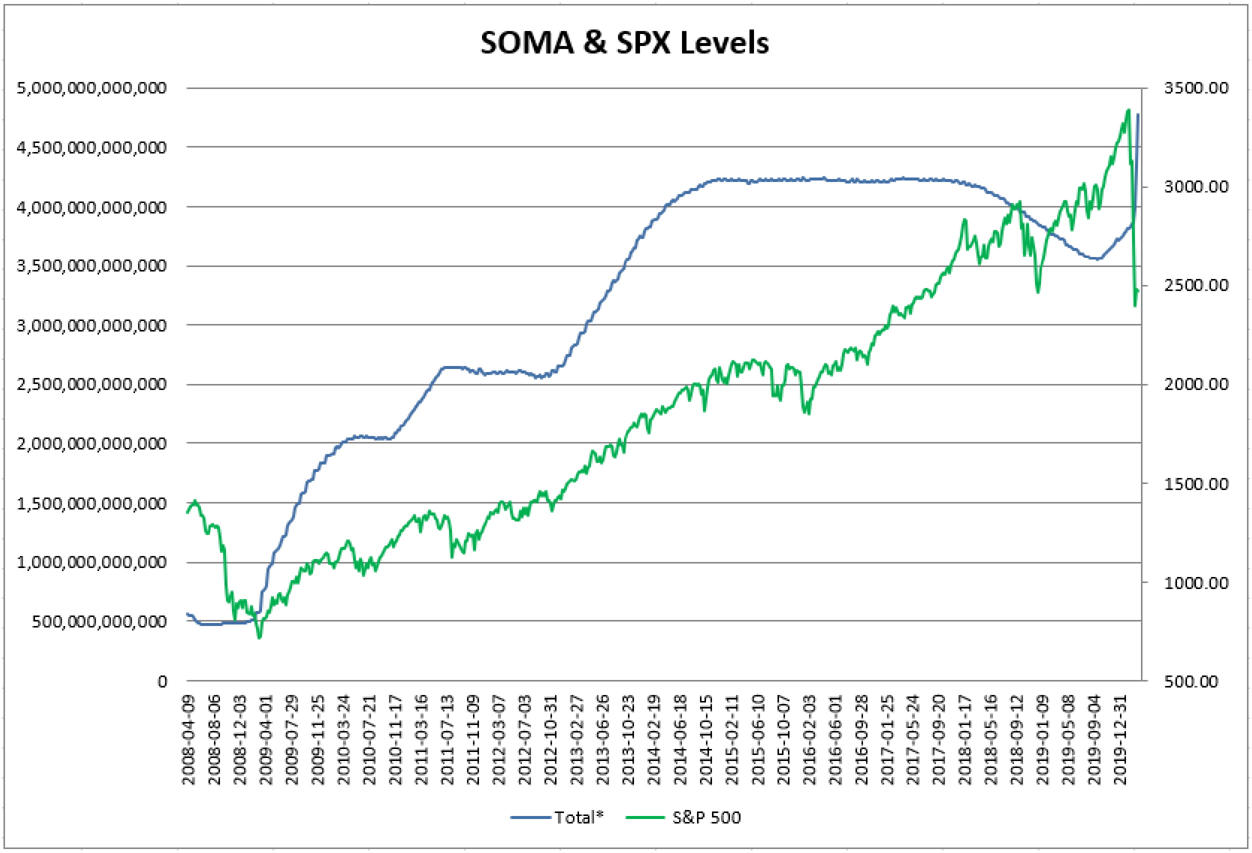
*Does not reflect inflation compensation of 31,203,560.4

**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 04/02/2020 4:30pm.

The $432 billion increase is the largest 1-week gain of all-time, easily surpassing the previous record from last week of $353 billion. Prior to last week, the largest 1-week inflow was $171 billion in 2009. Large parts of the economy have been shut down. But the Fed is throwing unheard of amounts of money at the problem in many different ways to keep liquidity flowing. You can see the spike up in the SOMA levels in the chart below.



The SOMA is clearly at new highs. Massive QE stimulus in the past has always provided a huge boost for the market. Of course the battle that is being fought now is different than any we have seen since Fed SOMA data has been available (2003). Having the Fed so dovish is a big positive for the market. But will it be enough? A few points I am considering, in no particular order…

- There remains a massive amount of uncertainty about the spread of COVID-19. The primary goal of all the social distancing is to "flatten the curve". But how long will that take? We are already past the initial "15 days" or 3-week closures that were first discussed for schools and businesses. Some states (Vermont, California, etc) have already said school is done for the year, while others (Massachusetts) are still hoping for a return in May.
- Once we begin to re-open schools and businesses, will the curve start to steepen again? What are the chances of re-closures?
- Even when open, how many people will have the desire to go sit in a crowded movie theater, or sit in a restaurant or bar, or go to the gym, or walk around a busy shopping center? I believe some portion (perhaps a sizable portion) of the population will be apprehensive about these activities.

- Beyond desire, how many will have the means to do any of the above? Without jobs, or even with lowered income, everything above is discretionary spending. How much of it will be cut?
- It is not just small businesses. There is a massive flow-through effect that still has not been fully grasped. Big business depends on small business. It is not just the stores that are hurting, it is everyone that supplies those stores. It is property managers who can no longer collect the rent on those stores. Then it is the banks that see property loans default (commercial and residential). It is the falling real estate prices as defaults rise. It is the lowered municipal revenue as property tax receipts decline (and state revenue as sales receipts decline). And while it is easier to think in terms of retail, real estate, and other "goods", services will decline as well. You gonna pay someone to paint or clean your house when you don't have a job, but have more time to do things yourself? Even tech companies, ones we think of as "doing well" in a time like this, will likely suffer greatly. I saw a stat the other day (which I can't find now) that said something in excess of 30% of Facebook and Google's ad revenues were from small businesses. People may be using Facebook more right now, but advertisers are going to be paying less if there are less advertisers and less money available to buy advertisements. And this all goes on and on to parts of the economy that people don't even realize yet.
- I don't believe the markets have absorbed all this, and the realizations won't come all at once. Different sectors will be hit at different times.
- How fast will jobs come back when social distancing measures begin to be lifted? I don't believe it will be, "Ok…everybody go back to what you were doing." Many small businesses may fail to re-open. Others will re-open, but with reduced staff. You don't need as many waiters and cooks if there are not as many people coming into the restaurant. Most businesses will likely ramp up slowly.
- The one real game-changer would be a vaccine/cure. That would give people enough comfort that it is safe to go to the movies or the mall or the ball game. That will cause business to ramp up faster than anything else. But most estimates have said another 11-17 months. How much irreparable damage will be done to the economy before a vaccine is widely available?
- The good news about potential vaccines is that COVID-19 is the number 1 problem in the world right now. And the whole world is trying to solve it. A massive number of scientists, governments, and businesses are all working to solve this same problem. So I have great hope that it will be solved quicker than anticipated. If a cure can come quickly and the Fed and the government stimulus can keep people and businesses afloat until then, lots of the potential damage could be avoided.

But with all this in mind, what are the chances that the Feb-March decline has bottomed out and that a new bull is ready to emerge? I decided look back at all other bear markets, using SPX data back to 1928. I defined a bear market as any 20%+ decline from a 252-day (1-year) high. I was most interested in how long these bear markets lasted and how long it took to rebound back to a new 252-day high. (Not an all-time high.) Below is the results table.

All Bear markets, as defined by a 20%+ (close to close) decline from a 252-day high.
S&P 90 from 1928 - 1957, then S&P 500 1957 - present.

Ticker	Bull Top Date	Bear Low Date	Bull Top	Bear Low	Bear % Drop	Trade Days To Bottom	New 252-Day High Close	Date of Next 252-Day High	Days Frm Bear Low To 252-Day High
$SPX	9/16/1929	6/1/1932	31.86	4.4	-86.19	677	9.34	5/26/1933	240
$SPX	7/18/1933	3/14/1935	12.2	8.06	-33.93	411	10.38	6/21/1935	69
$SPX	3/10/1937	3/31/1938	18.67	8.5	-54.47	266	12.91	10/10/1938	133
$SPX	11/9/1938	4/28/1942	13.79	7.47	-45.83	863	9.58	11/6/1942	135
$SPX	5/29/1946	5/19/1947	19.25	13.77	-28.47	242	16.39	5/14/1948	247
$SPX	6/15/1948	6/13/1949	17.06	13.55	-20.57	249	16.2	11/1/1949	98
$SPX	8/3/1956	10/22/1957	49.64	38.98	-21.47	305	47.49	8/1/1958	196
$SPX	12/12/1961	6/26/1962	72.64	52.32	-27.97	134	68.77	4/11/1963	200
$SPX	2/9/1966	10/7/1966	94.06	73.2	-22.18	166	92.3	4/21/1967	134
$SPX	11/29/1968	5/26/1970	108.37	69.29	-36.06	368	92.38	1/7/1971	157
$SPX	1/11/1973	10/3/1974	120.24	62.28	-48.2	435	93.62	6/23/1975	181
$SPX	11/28/1980	8/12/1982	140.52	102.42	-27.11	429	128.8	10/7/1982	39
$SPX	8/25/1987	12/4/1987	336.77	223.92	-33.51	70	279.38	10/18/1988	220
$SPX	3/24/2000	10/9/2002	1527.46	776.76	-49.15	636	1021.99	9/2/2003	225
$SPX	10/9/2007	3/9/2009	1565.15	676.53	-56.78	354	1076.19	10/12/2009	151
				Avg	*-39.46*	*373.7*			*161.7*

Additional notes:
July 16, 1990 - October 10, 1990 saw a 19.92% decline (just missing). It bottomed after 61 days.
Sep 20, 2018 - December 24, 2018 saw a 19.78% decline (just missing). It bottomed after 64 days.
The current top to bottom move was Feb 19 - March 23, a 33.9% decline over just 23 days.

If the March bottom is THE bottom, then this will be the shortest bear market of all time – by a LOT. If this is an average bear market, then we may not see the bottom for another 16-17 months, and if it is severe, like the 1929, 1938, or 2000 tops, then it could be 2 or 3 years.

Based on the above, it seems optimistic to think that this bear has bottomed. The problem is all the uncertainty. The hope is that government stimulus can keep us going until a vaccine or very reliable treatment is found.

Overall, I remain neutral intermediate-term. Huge government stimulus and Fed liquidity pumping favor the bulls. We saw one compelling breadth study emerge with the 3-day rocket move off the bottom, but other breadth signals, like a Zweig Breadth Thrust, have not materialized to confirm the initial breadth thrust. 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 continue to believe it will be more important to remain selective with entries, and then nimble and ready to close out or reverse positions quickly. 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

None