

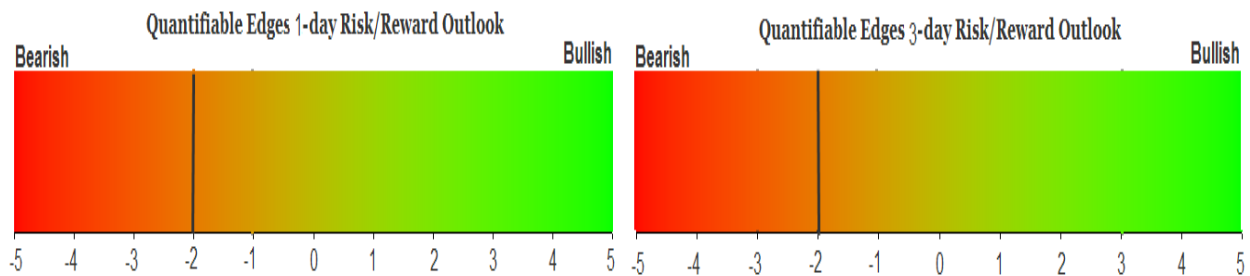
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 7, 2020

Volume 13 Issue 67

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Monday's rally was massive. That has recently led to a dip the next day.
- The sizable drop in the VXO suggests a possible short-term downside edge.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bearish edge.

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 7, 2020	VXO drops 15%-20%	1-2 days	Bearish	-2.50%	1.35%	2.70%
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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
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%

The Evidence

Monday was a massive rally day. The SPX gained 7.0%, the NASDAQ rose 7.3%, and the Russell 2000 surged 8.2%. Breadth was extremely positive as the NYSE Up Issues % was 90.5% and the Up Volume % came in at 88.8%. NYSE volume rose to the highest level in a week.

A 7% rise for the SPX is a magnitude that is rarely seen. Below I have listed all SPX 1-day rallies of 6% or more that closed below the 200ma.

SPX closes up at least 6% on the day but below the 200ma.

Ticker	Date/Time	Close	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg
\$\$SPX	10/30/1929	22.99	5.05	-0.48	-10.35	-7.05	-7.87	-11.7
\$\$SPX	11/14/1929	19.24	5.51	4.42	7.59	10.55	12.32	8.89
\$\$SPX	6/3/1931	13.12	3.28	2.13	3.35	1.68	4.42	2.97
\$\$SPX	6/22/1931	14.61	-1.37	3.29	2.6	5.07	3.29	3.35
\$\$SPX	9/23/1931	11.52	-7.29	-5.21	-8.85	-12.67	-15.71	-15.1
\$\$SPX	10/6/1931	9.91	-1.31	7.16	6.46	1.92	-0.4	9.59
\$\$SPX	10/8/1931	10.62	-0.66	-4.9	-7.06	-5.37	-2.45	2.07
\$\$SPX	12/18/1931	8.36	-2.51	-0.84	-4.9	-4.78	-7.18	-9.69
\$\$SPX	1/6/1932	8.08	1.73	6.06	4.95	3.84	8.91	6.81
\$\$SPX	2/11/1932	8.12	4.68	8.87	4.43	7.27	7.39	2.09
\$\$SPX	5/6/1932	6.09	-2.13	-1.31	-1.48	-4.76	-8.05	-10.02
\$\$SPX	6/10/1932	4.92	-2.03	0.41	4.07	4.07	-1.83	-6.5
\$\$SPX	8/3/1932	6.39	2.03	6.42	16.28	15.65	19.72	17.53
\$\$SPX	10/11/1932	6.88	-3.05	3.63	1.74	3.63	7.56	0.15
\$\$SPX	4/10/1933	6.54	-0.46	-1.99	1.99	-0.15	1.83	18.04
\$\$SPX	10/20/1937	11.93	2.01	-0.75	0.59	-1.59	-1.42	-3.94
\$\$SPX	10/21/1987	258.38	-3.92	-3.93	-11.89	-9.75	-9.71	-3.65
\$\$SPX	10/13/2008	1003.35	-0.53	-9.52	-5.67	-6.26	-1.79	-15.39
\$\$SPX	10/28/2008	940.51	-1.11	1.44	3	2.74	6.94	-4.42
\$\$SPX	11/13/2008	911.29	-4.17	-6.64	-5.72	-11.49	-17.43	-1.65
\$\$SPX	11/21/2008	800.03	6.47	7.17	10.96	12.03	2.02	13.71
\$\$SPX	11/24/2008	851.81	0.66	4.21	5.22	-4.18	-0.35	4.33
\$\$SPX	3/10/2009	719.6	0.24	4.33	5.13	4.77	8.13	12.02
\$\$SPX	3/23/2009	822.92	-2.04	-1.1	1.21	-0.85	-4.3	1.53
\$\$SPX	3/13/2020	2711.02	-11.98	-6.71	-11.54	-11.13	-14.98	-6.25
\$\$SPX	3/24/2020	2447.33	1.15	7.47	3.85	7.33	5.61	1.69
\$\$SPX	3/26/2020	2630.07	-3.37	-0.13	-1.73	-6.07	-3.92	-5.38
		Avg	-0.56	0.87	0.53	-0.21	-0.34	0.41
		Win Pct	40.74%	51.85%	62.96%	48.15%	44.44%	55.56%

Most of these occurred in the 1930s, with 1987 and 2008-09 providing the only other instances until last month. Overall returns appear inconsistent over the next several days. I did note that the 1-day returns have been on a bit of a cold streak since 1987. And 2 of the 3 instances in March also saw a large decline the next day.

There were a number of studies that looked at sharp rallies and took volume into account. In general, very strong volume on a strong up day is a good thing. Less than that it not. Monday's volume was odd in that while it was the highest volume in the last 5 days, it actually came in below the 10-day moving average. So you could make an argument that it was "high" or "low". I ran a couple of studies that described it. You can see them below.

SPX closes up > 3%. NYSE volume < 10-day average but > 5-day low.
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	-814.97	18	11	7	61.11	5,490.40	-14,461.05	3,540.21	-5,679.61	0.62	0.98	-45.28
4	15,348.32	18	12	6	66.67	7,172.80	-9,304.95	3,555.39	-4,552.73	0.78	1.56	852.68
3	3,473.60	19	12	7	63.16	4,039.00	-7,401.24	2,421.88	-3,655.56	0.66	1.14	182.82
2	-12,669.33	20	10	10	50.00	7,309.60	-9,986.13	2,039.72	-3,306.65	0.62	0.62	-633.47
1	1,283.63	20	12	8	60.00	3,833.82	-5,245.02	1,354.00	-1,870.54	0.72	1.09	64.18

SPX closes up > 3%. NYSE volume is a 5-day high but not 10-day high.
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	8,242.42	15	10	5	66.67	8,075.76	-5,452.18	2,389.96	-3,131.44	0.76	1.53	549.49
4	4,822.99	15	11	4	73.33	4,732.02	-4,894.50	1,648.69	-3,328.15	0.50	1.36	321.53
3	31.60	15	9	6	60.00	5,099.10	-3,935.99	1,396.39	-2,089.32	0.67	1.00	2.11
2	2,529.56	15	8	7	53.33	4,297.32	-3,081.26	1,578.46	-1,442.58	1.09	1.25	168.64
1	-2,817.82	15	8	7	53.33	1,045.20	-2,292.27	449.29	-916.02	0.49	0.56	-187.85

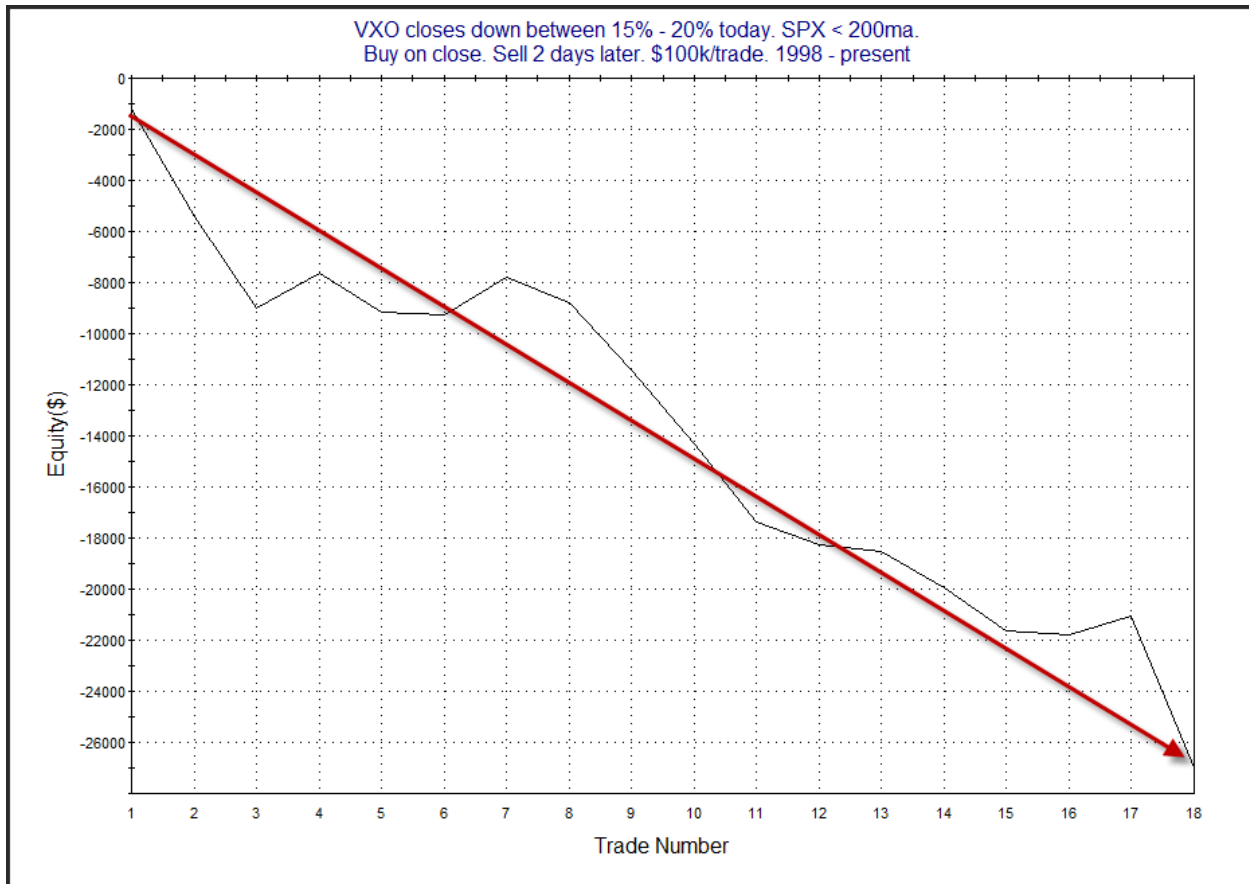
However you define it, the volume just did not get to that 10+ day high level that would have yielded much more bullish results. So it does not seem that the strong rise on basically moderate volume is suggesting a strong edge in either direction. But there was an edge to be found when examining VIX and VXO behavior.

Several studies triggered that noted the sharp drops in the both the VIX and VXO (the old version of the VIX). They are viewed as “fear indices”. So when there is a sharp decline in them that generally means fear is quickly leaving the market. More accurately, options traders are no longer willing to pay large premiums for protection, and option prices are dropping rapidly. The study below was last covered in the 1/25/16 letter. I found it the most compelling and the most comparable to the current situation. Stats are all updated.

VXO closes down between 15% - 20% today. SPX < 200ma.
Buy 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	-10,569.13	16	10	6	62.50	6,915.44	-9,908.49	2,130.90	-5,313.02	0.40	0.67	-660.57
4	-17,318.38	17	8	9	47.06	4,104.78	-9,329.28	1,821.62	-3,543.48	0.51	0.46	-1,018.73
3	-21,503.02	18	6	12	33.33	2,993.44	-5,298.72	1,315.14	-2,449.49	0.54	0.27	-1,194.61
2	-26,988.81	18	3	15	16.67	1,439.48	-5,933.70	1,199.08	-2,039.07	0.59	0.12	-1,499.38
1	-11,968.53	18	6	12	33.33	1,311.50	-2,415.00	571.13	-1,282.94	0.45	0.22	-664.92

We see here some very bearish statistics over the 1-2 day period. Below is a look at the profit curve.



This equity curve seems to strengthen the bearish case. It appears there is rarely upside follow-through when fear dissipates so quickly during a downtrend.

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



With tonight's evidence considered, the green Aggregator Line moved further below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line dropped 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 negative on Tuesday. This could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 2520.89 on Tuesday. That is 5.4% below Monday's close. So SPX will need to close down a very sizable 5.4% on Tuesday to flip from overbought to oversold on Tuesday.

So the Aggregator is now in a bearish formation. Evidence is not overwhelming, though. And stepping in front of this kind of momentum can be a tough thing. Still, reward/risk appears to favor the bears. So with these choppy market conditions that have been persisting, I will look to take on a small amount of short exposure on Tuesday, but only if SPX closes higher for the 2nd day in a row.

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

SPY – Short $\frac{1}{4}$ index position @ \$265.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on some short exposure in SPY if it closes up a bit more on Tuesday.

Current Open Trade Ideas

None

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