

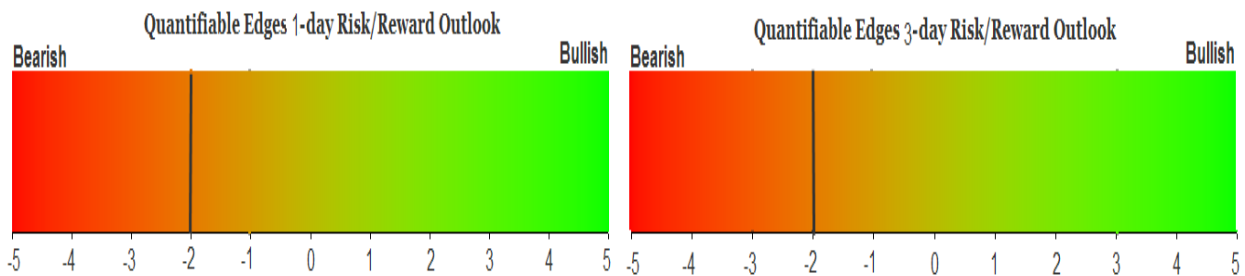
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 13, 2020

Volume 13 Issue 71

## Market Overview



## Signals Overview

Aggregator	CBI Reading
<b>Short</b>	<b>0</b>

## Tonight's Research Points

- Multiple strong up days to a 10-day high under the 200ma are often followed by a pullback.
- SPX far outperforming the SOX has also often been followed by a dip in the past.
- NYSE Up Issues % exceeded 70% for the 4<sup>th</sup> day in a row. Historically that has been rare but bullish both short and intermediate-term.
- Daily chop continues to dominate.
- The Fed continues to pump incredible amounts of money to support the markets.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bearish, but expectations could easily flip on Monday, especially if the market closes lower.

**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>						
April 13, 2020	SPY up 1% 2x. 10-high < 200ma	1-4 days	Bearish	-3.35%	1.10%	2.00%
April 13, 2020	SPX > 1.5% > SOX. SPX 10-high < 200	1-2 days	Bearish	-2.70%	0.90%	2.30%
April 13, 2020	4th consecutive 70% up day	1-5 days	Bullish			
<b>Active - Long Term</b>						
April 13, 2020	4th consecutive 70% up day	1-21 days	Bullish			
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			
<b>Dropped Tonight (expired or Avg move + 1 std dev exceeded)</b>						
April 9, 2020	Holy Thursday	1 day	Bullish			
April 9, 2020	1% gap up and go. 10-high < 200ma	1 day	Bearish			
April 9, 2020	3% up on low volume	1-3 days	Bearish	-5.20%	1.20%	2.40%

**The Evidence**

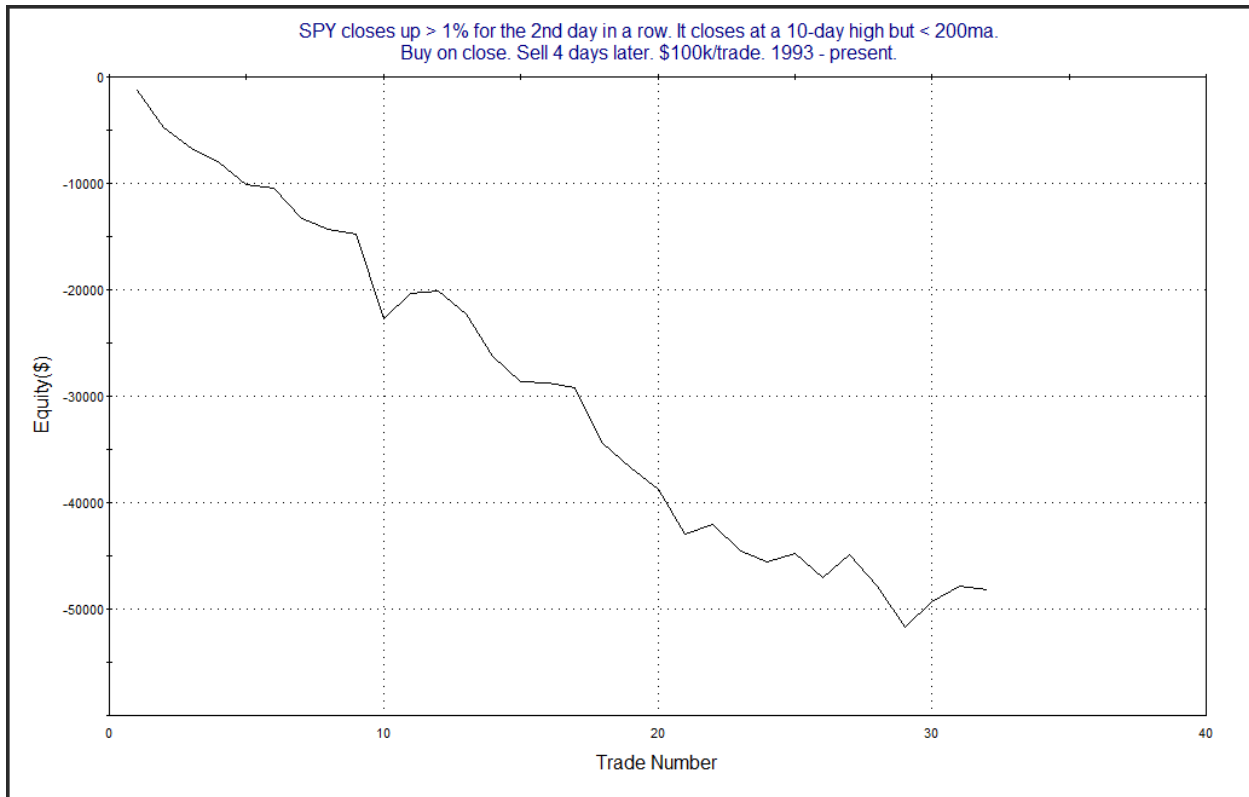
A gap up Thursday morning never filled and the market put in another strong up day. The SPX rose 1.4%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 4.6%. Breadth was extremely positive as the NYSE Up Issues % was 86% and the Up Volume % came in at 82%. NYSE volume came in high despite the holiday weekend.

There were a good number of studies that triggered in the Quantifinder – most of them pointing to the market being short-term overbought in a longer-term downtrend. I have chosen a few of the more compelling ones to highlight.

This first one looks at strong multi-day moves below the 200ma. It requires 2 days of 1% gains and a 10-day high. It was last seen in the 10/6/15 letter. All stats are updated.

SPY closes up > 1% for the 2nd day in a row. It closes at a 10-day high but < 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	-38,825.74	31	12	19	38.71	3,399.42	-7,053.11	1,419.31	-2,939.87	0.48	0.30	-1,252.44
4	-48,134.65	32	7	25	21.88	2,475.56	-7,879.83	1,474.74	-2,338.31	0.63	0.18	-1,504.21
3	-38,980.54	32	8	24	25.00	2,864.79	-5,502.64	1,338.66	-2,070.41	0.65	0.22	-1,218.14
2	-36,563.71	32	10	22	31.25	2,505.60	-5,350.20	868.40	-2,056.71	0.42	0.19	-1,142.62
1	-22,378.69	33	12	21	36.36	2,052.00	-8,857.80	591.27	-1,403.52	0.42	0.24	-678.14
Only 1 instance failed to closed below the entry price at some point in the next 3 days. It triggered on 5/29/09.												

The numbers here all suggest a downside edge. The equity curve is below.



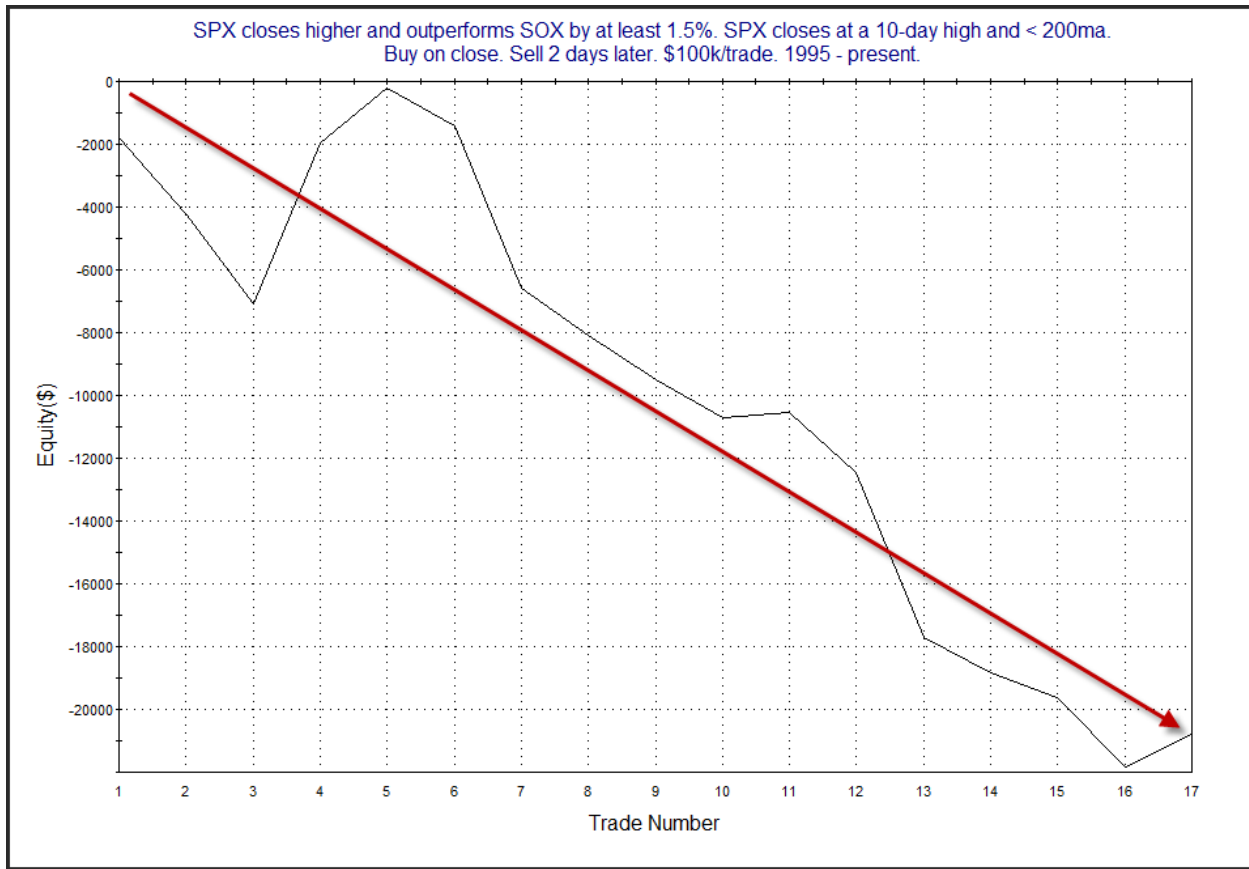
The strong, fairly steady downslope serves as some confirmation of the bearish edge.

Also notable about the rally is that the Semiconductor Index (SOX) failed to participate. It closed down 2.3%. That is very unusual on a day the market rallies strongly. It triggered the study below, which I last featured way back in the 12/9/08 letter.

SPX closes higher and outperforms SOX by at least 1.5%. SPX closes at a 10-day high and < 200ma.  
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	-30,810.88	17	5	12	29.41	2,219.46	-6,365.52	1,444.18	-3,169.32	0.46	0.19	-1,812.40
4	-30,081.95	17	7	10	41.18	2,702.48	-5,673.45	1,245.72	-3,880.20	0.32	0.22	-1,769.53
3	-25,971.91	17	5	12	29.41	4,243.79	-8,395.18	1,713.62	-2,878.33	0.60	0.25	-1,527.76
2	-20,812.01	17	4	13	23.53	5,136.87	-5,264.73	2,022.58	-2,223.26	0.91	0.28	-1,224.24
1	-16,358.97	17	7	10	41.18	3,850.37	-8,883.33	1,462.45	-2,659.61	0.55	0.38	-962.29

Here, too we see what appears to be a strong downside edge over the next few days. Below is a 2-day profit curve.



Again the curve is supportive of the bearish numbers. I have added this study to the Active List as well.

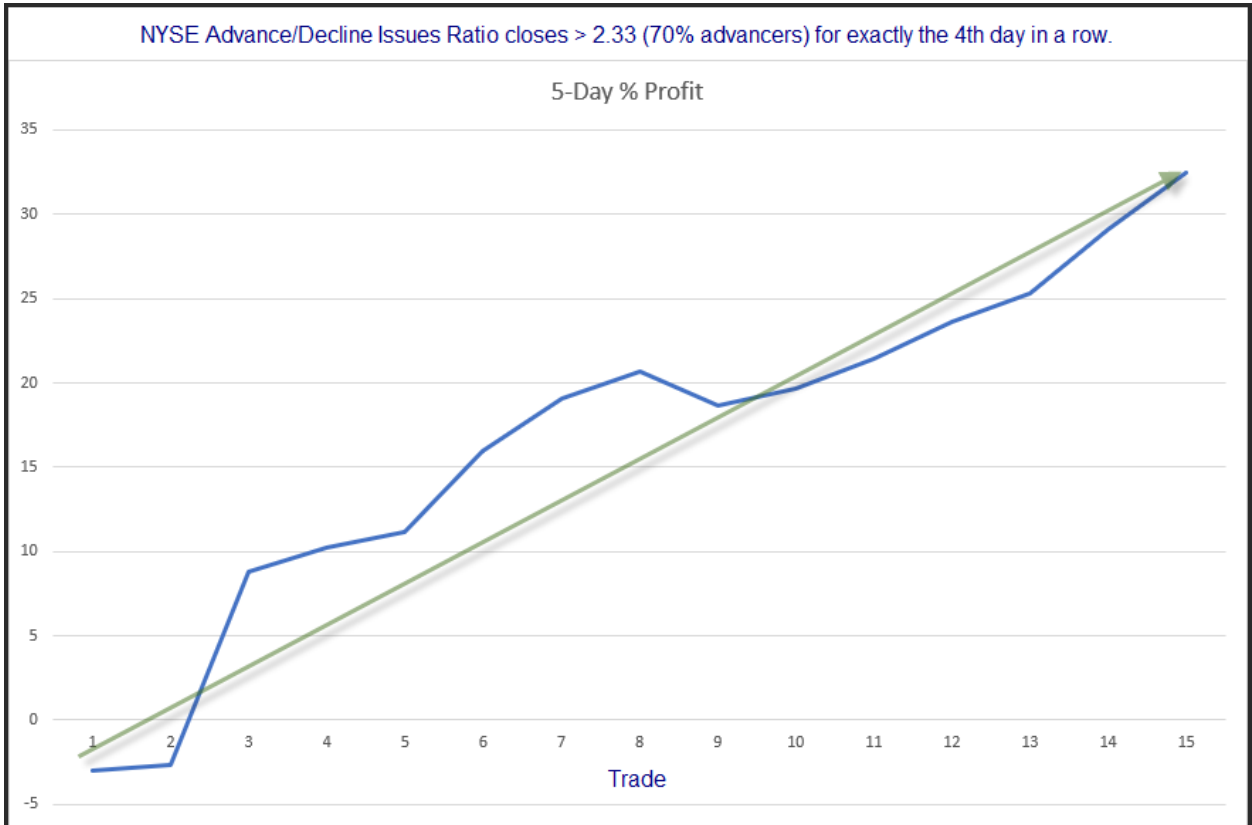
But while there are some overbought-type studies suggesting a downside edge, breadth continues to show exceptionally strong numbers. And that is generally a good thing for both the short and long-term. It was the 4<sup>th</sup> day in a row that the NYSE Up Issues % closed above 70%. That's quite rare, and something we have not seen since 2009. Below is a look at all instances since 1928 where we saw such a 4-day breadth thrust.

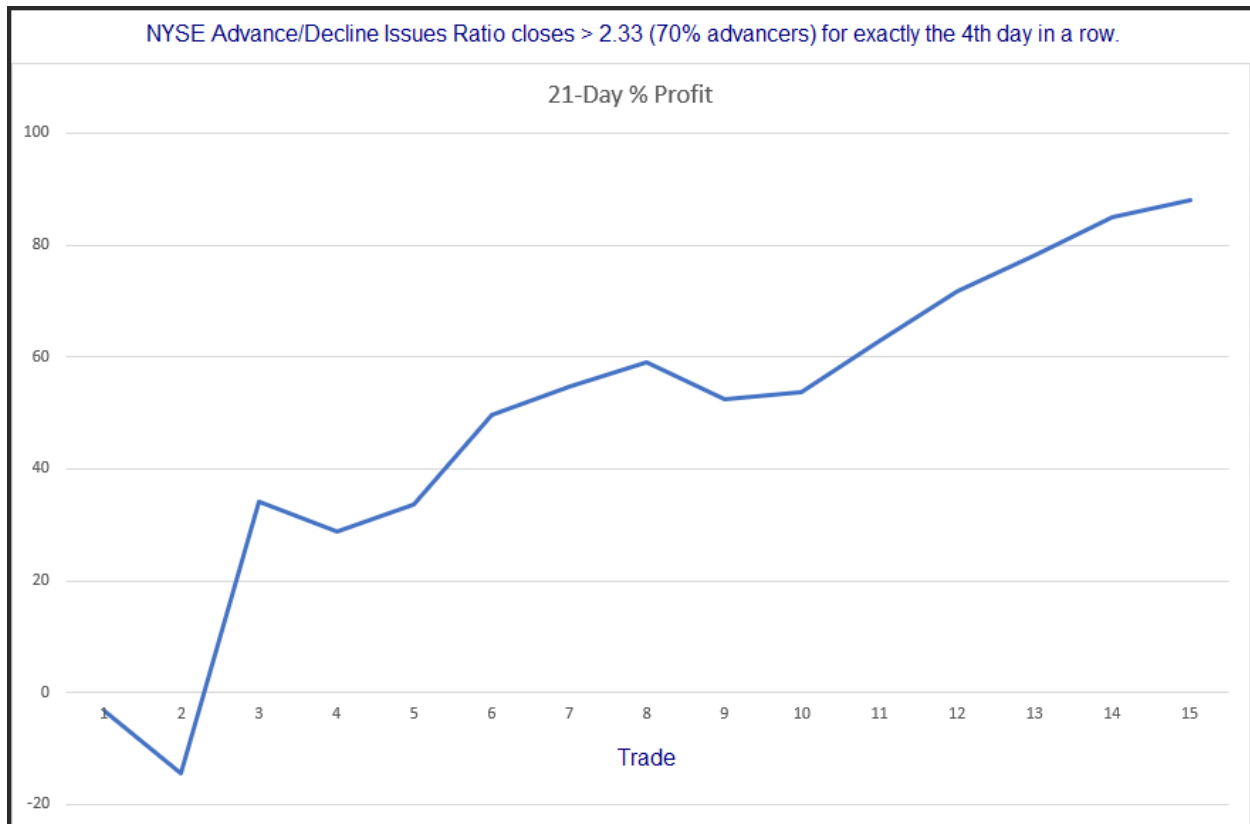
NYSE Advance/Decline Issues Ratio closes > 2.33 (70% advancers) for exactly the 4th day in a row.  
SPX forward performance shown.

Ticker	Date/Time	Close	A/D Ratio	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg	21-Day %Chg	50-Day %Chg
\$\$PX	7/21/1931	14.62	3.7	-2.33	-2.33	-4.45	-4.04	-3.01	-5.34	-3.28	-33.58
\$\$PX	1/11/1932	8.48	2.52	-1.06	3.77	4.95	5.19	0.35	-3.3	-11.2	-6.37
\$\$PX	7/25/1932	5.48	6.94	-1.46	3.47	6.75	10.04	11.5	35.58	48.72	46.9
\$\$PX	4/4/1934	10.87	2.44	0.28	0.74	0	1.47	1.38	1.47	-5.34	-7.54
\$\$PX	7/6/1937	16.25	11.95	0.74	0.92	0.43	1.78	0.92	4.25	4.74	-10.09
\$\$PX	6/23/1938	11.03	11.27	1.09	2.09	1.99	6.26	4.81	7.8	16.05	11.15
\$\$PX	10/3/1938	12.52	4.73	-0.32	2.72	2.4	2.64	3.12	5.83	5.03	3.04
\$\$PX	8/27/1945	15.27	6.09	0.33	0.2	0.52	-0.79	1.57	3.99	4.26	11.85
\$\$PX	6/1/1970	77.84	3.09	0	0.87	-0.62	-2.15	-1.99	-4.19	-6.58	-2.6
\$\$PX	10/14/1974	72.74	3.55	-1.79	-3.31	-2.16	-0.63	1.04	-3.64	1.28	-8.06
\$\$PX	1/6/1975	71.07	3.94	-0.07	-1.45	0.14	2.17	1.74	0.01	9.2	19.78
\$\$PX	1/6/1976	93.53	4.34	0.45	1.12	1.52	2.99	2.18	5.7	8.96	7.84
\$\$PX	10/11/1982	134.47	5.15	-0.02	1.67	0.07	-0.67	1.68	-0.86	6.36	3.08
\$\$PX	7/16/2009	940.74	2.37	-0.04	1.1	1.47	1.42	3.78	4.89	6.73	11.02
\$\$PX	9/9/2009	1033.37	2.59	1.04	0.91	1.55	1.86	3.42	2.66	3.11	7.4
			<b>Avg</b>	<b>-0.21</b>	<b>0.83</b>	<b>0.97</b>	<b>1.84</b>	<b>2.17</b>	<b>3.66</b>	<b>5.87</b>	<b>3.59</b>
			<b>Median</b>	<b>-0.02</b>	<b>0.92</b>	<b>0.52</b>	<b>1.78</b>	<b>1.68</b>	<b>2.66</b>	<b>4.74</b>	<b>3.08</b>

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Other than the 1-day returns, the numbers all appear quite bullish. Looking out 5 days, the bulls saw 13 winners and just 2 losers. Below are profit curves for the 5-day and 21-day results.





The 5-day is a little steadier, but both seem to serve as confirmation of an upside edge. This study has been added to the short and long-term active list.

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



With tonight's evidence considered, the green Aggregator Line held just a little below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line remained 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 stayed short at the close.

Based on the current list of studies, expectations are set to flip to positive on Monday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 2639.13 on Monday. That is 5.4% below Thursday's close. So SPX will need to close down a very sizable 5.4% to flip from overbought to oversold on Monday.

The Aggregator is bearish, and there appears to be a bit of a downside edge. Certainly a pullback is due, and as I discuss in the intermediate-term section, the overall environment remains extremely choppy. So a move back down in the next day or two appears likely. But with the exceptional breadth we have seen, expectations are set to flip to bullish as early as Monday. So this does not appear a time to be aggressive. I have a small short position from Thursday. I won't be looking to add to it on Monday.

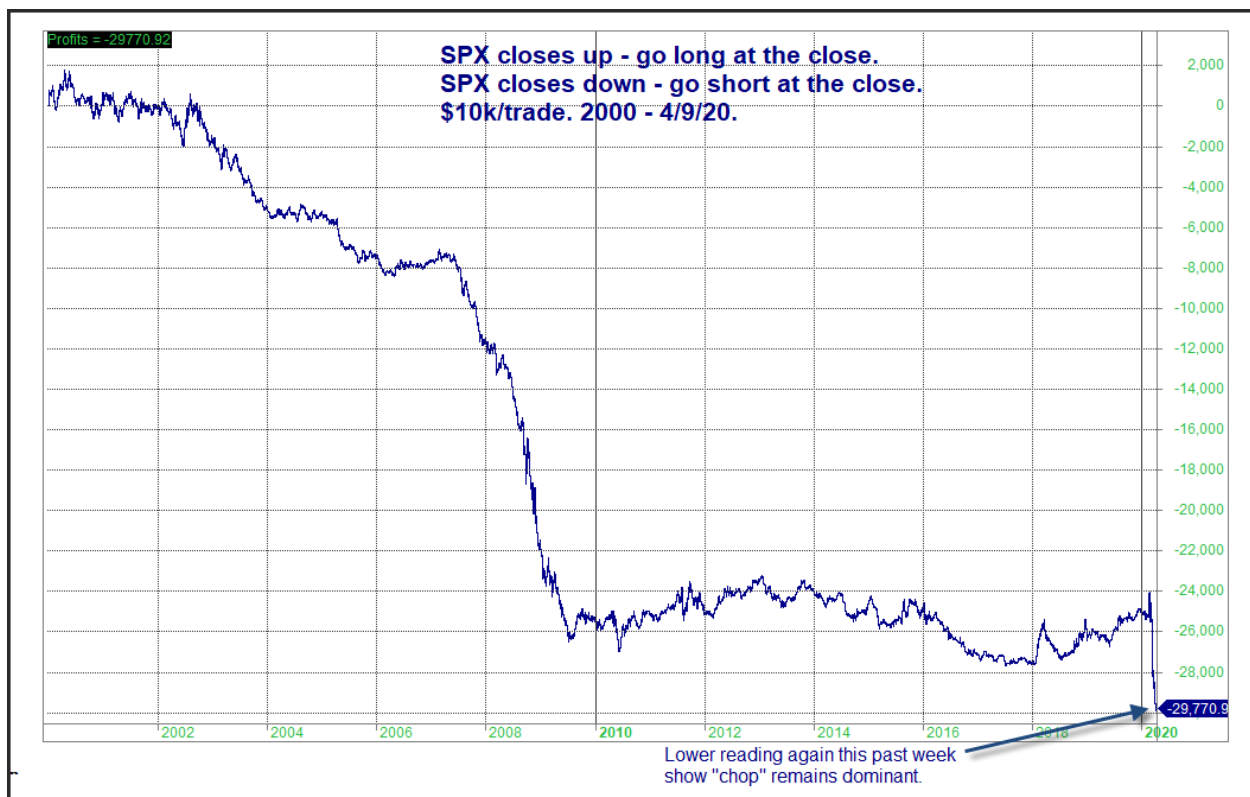
**Intermediate-term Outlook (2 weeks – 2 months) – updated 4/13 – neutral**

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.*

With 3 strong up days, the market put in a massive move this past week. The SPX rose 12.1%, the NASDAQ gained 10.6%, and the Russell 2000 rose an astounding 18.5%. The SPX has suddenly risen to a point where it is midway between the February top and the March low. This could be a real inflection point.

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. That is worth keeping in mind as we consider entry/exit points for short-term trades.

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

« As of 04/01/2020

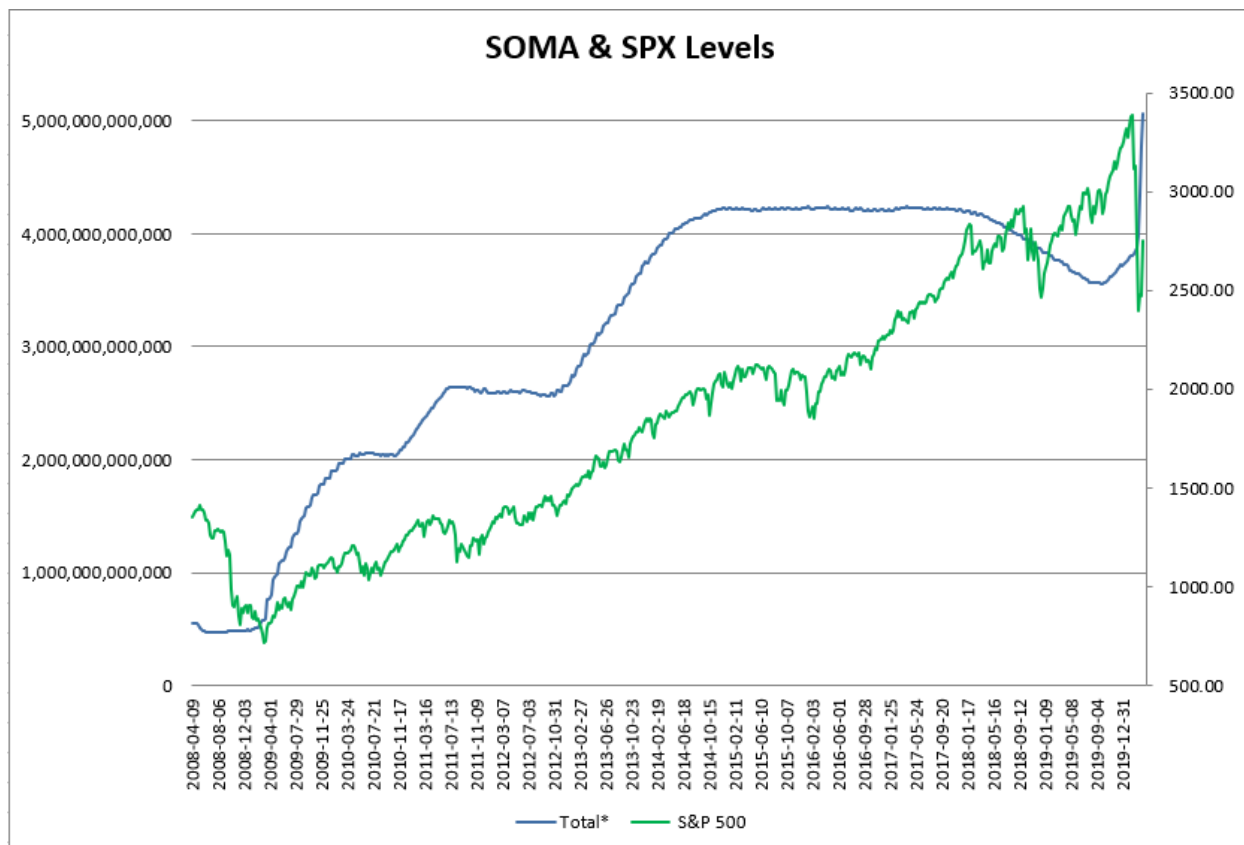
DOMESTIC SECURITIES HOLDINGS AS OF  
**April 8, 2020** 📅

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)	3,049,041,522.7					
US Treasury Floating Rate Notes (FRN)	15,817,998.3					
US Treasury Inflation-Protected Securities (TIPS)*	210,625,411.7					
Federal Agency Securities**	2,347,000.0					
Agency Mortgage-Backed Securities***	1,456,242,297.3					
<b>Total SOMA Holdings</b>	<b>5,060,118,230.0</b>					
<b>Change From Prior Week</b>	<b>291,879,524.0</b>					

\*Does not reflect inflation compensation of 32,856,641.  
 \*\*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 04/09/2020 4:30pm.*

The \$292 billion increase is down substantially from the \$432 billion the week before. But \$292 billion is still the 3<sup>rd</sup> largest 1-week gain of all-time. And all of the top 3 have occurred in the last 3 weeks. The Fed is continuing to throw 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 as I laid out last weekend, there is a massive amount of uncertainty regarding the re-start of the economy, and the lasting impacts of even a shutdown of moderate length.

This weekend I read [a paper produced by the San Fran Fed](#) that examined longer-run economic impacts of past pandemics. It looked all the way back to the Black Plague. It found that asset returns were generally lower but wages generally higher in the following decades. But the major difference between COVID-19 and all past pandemics is the fact that this is hitting the elderly so hard. Many past pandemics occurred when life expectancy was shorter. And even more recent ones that were studied, like the Spanish Flu, killed off large swaths of working-age people. At the end of these pandemics, there were less workers. COVID-19 has not hit the working age very hard. Instead it has largely impacted the 70+ group. From an economic standpoint, this may be the 1<sup>st</sup> pandemic to create mass unemployment, while all the past pandemics created job vacancies. So comparisons remain difficult. Uncertainty is high as we are in uncharted waters.

Overall, I remain neutral intermediate-term. Huge government stimulus and Fed liquidity pumping favor the bulls. We continue to see compelling breadth evidence emerge. 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 know where the market will be 3-4 weeks from now. I believe there are too many unknowns to be out of the woods yet. I anticipate opportunities in both directions should emerge – primarily playing overreactions. So my bias will remain neutral, and I will stand ready to take advantage of opportunities both long and short.

### **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)	4/9/2020	\$277.58	\$278.20	-0.22%		cover @ \$278.19 LOC

With chop dominating and the possibility of expectations flipping to bullish, I will look to cover the SPY position on any down close on Monday. (\$278.19 LIMIT ON CLOSE)

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