

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 15, 2020

Volume 13 Issue 73

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The low volume on such a big rally day could be a problem for the next few days.
- SPX at a new intermediate-term high with VIX and volume low suggests a possible short-term pullback.
- SPX up > 1% with BKX down > 1% has typically been followed by a drop in SPX the next day.

Short-term Outlook

The Bottom Line

Looks like there might be a short-term downside edge.

Summary of Recent Active Studies (see Letters from listed dates for details)

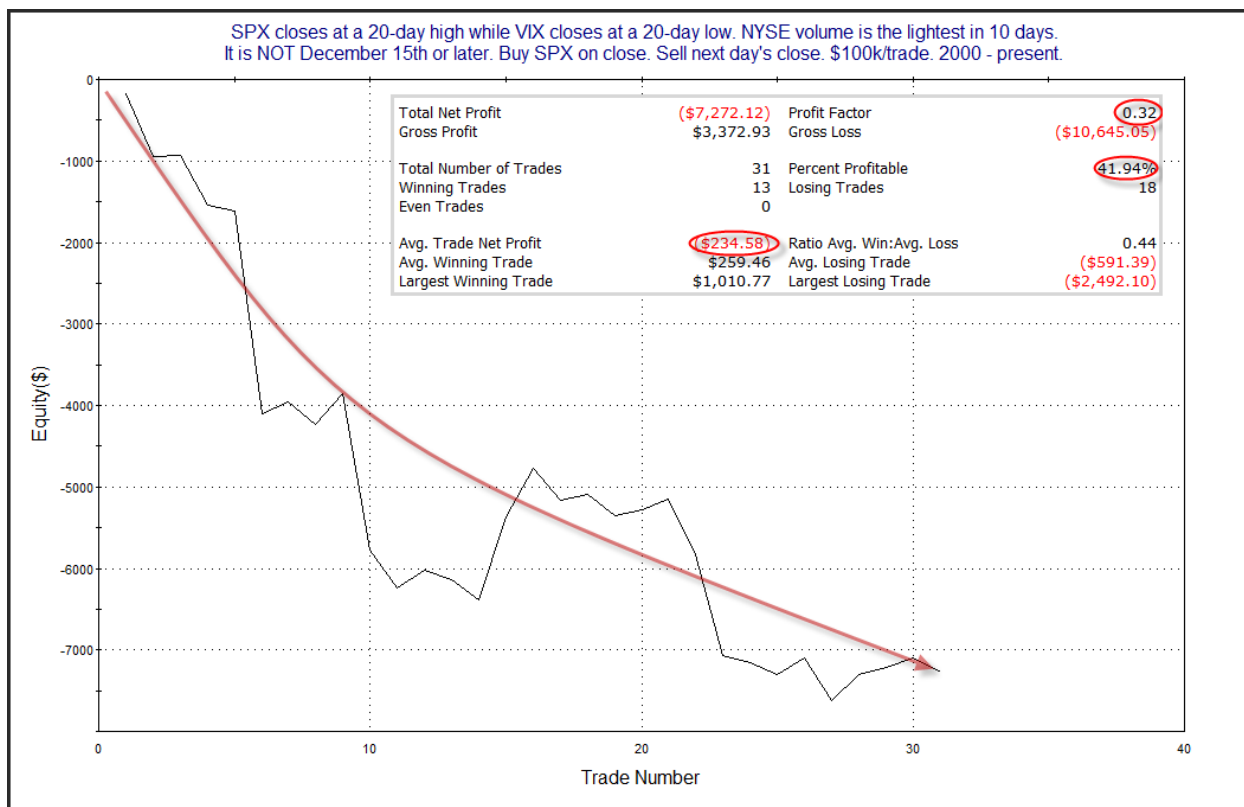
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
April 15, 2020	SPX up 1%. BKX down 1%	1 day	Bearish			
April 15, 2020	SPX 20-high. VIX 20-low. Low volume	1 day	Bearish			
April 15, 2020	SPX up 3% on weak volume	1-3 days	Bearish	-4.90%	1.40%	2.65%
April 14, 2020	SPX down 1%. SOX up.	1-4 days	Bullish	4.40%	-1.70%	-4.20%
April 13, 2020	4th consecutive 70% up day	1-5 days	Bullish			
Active - Long Term						
April 13, 2020	4th consecutive 70% up day	1-21 days	Bullish			
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 14, 2020	Gap up close higher. Gap dn cls lower.	1-2 days	Bearish			
April 13, 2020	SPX > 1.5% > SOX. SPX 10-high < 200	1-2 days	Bearish	-2.70%	0.90%	2.30%
April 13, 2020	SPY up 1% 2x. 10-high < 200ma	1-4 days	Bearish	-3.35%	1.10%	2.00%

The Evidence

The bulls scored a big win on Tuesday. The SPX finished up 3.1%, the NASDAQ gained 3.95%, and the Russell 2000 rose 2.1%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 58%. NYSE volume came in at the lowest level since February.

The 1st study I am going to discuss noted a few things 1) SPX closed at an intermediate-term high, 2) VIX closed at an intermediate-term low, and 3) NYSE volume was light. Low volume and a low VIX can both be potential signs of complacency and suggest a short-term pullback. SPX highs can be a good thing when you are looking out more than just a few days.

This setup is not all that uncommon in late December, which is known for being bullish, with low volatility and holiday-light volume. Hence, late-December instances were excluded from the study. On a 1-day basis the complacency appeared to suggest a downside edge. This can be seen below.



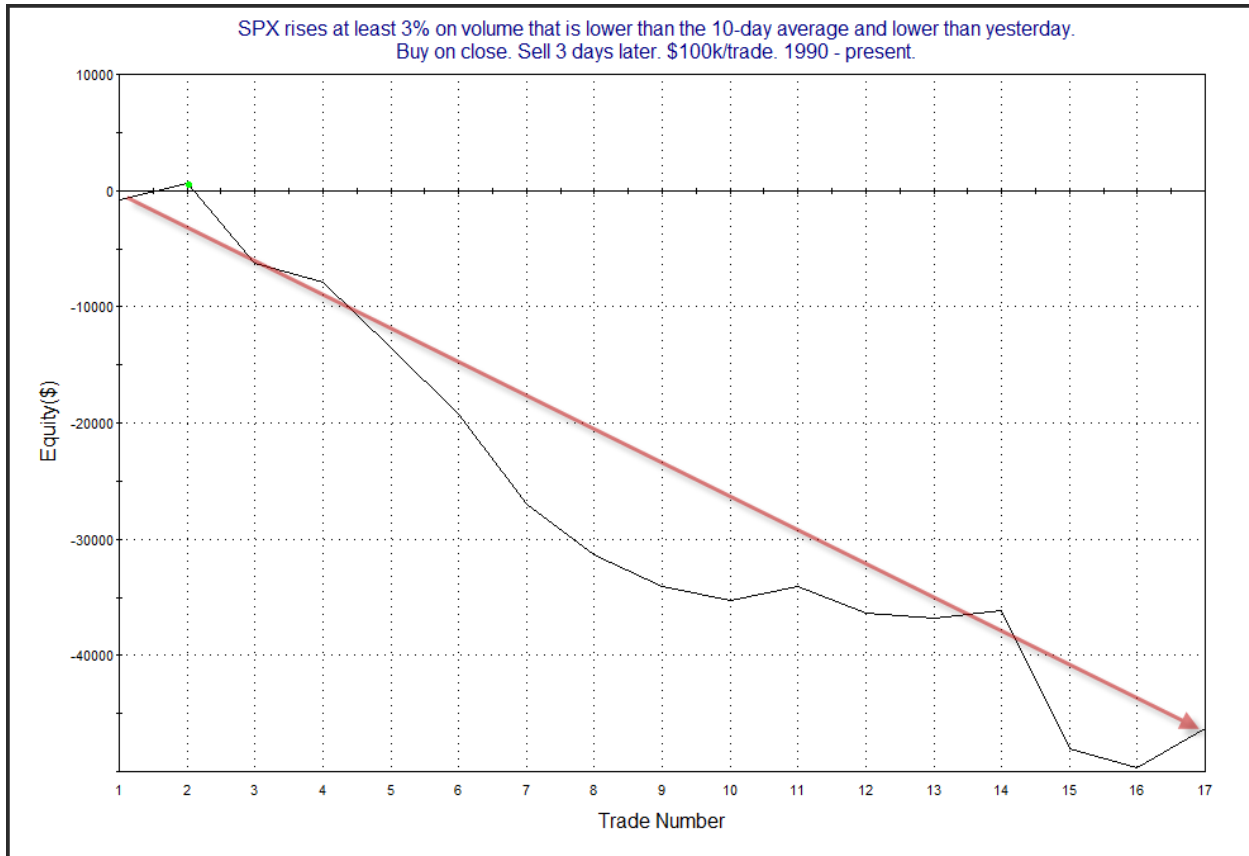
The persistent move lower seems to support the bearish case.

Volume was especially disappointing for a day that the market made such a large move. This triggered a study we saw just a few days ago in the 4/9/20 letter. It looked at big moves up on disappointing volume. I have updated it below.

SPX rises at least 3% on volume that is lower than the 10-day average and lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	-64,430.04	15	5	10	33.33	3,612.16	-14,461.05	1,633.28	-7,259.64	0.22	0.11	-4,295.34
4	-45,661.44	16	4	12	25.00	5,734.40	-10,971.63	3,065.40	-4,826.92	0.64	0.21	-2,853.84
3	-46,258.89	17	4	13	23.53	3,458.88	-11,890.36	1,722.59	-4,088.40	0.42	0.13	-2,721.11
2	-45,003.90	18	7	11	38.89	1,405.26	-9,455.49	732.75	-4,557.56	0.16	0.10	-2,500.22
1	-11,597.01	18	6	12	33.33	2,077.44	-3,366.80	970.26	-1,451.55	0.67	0.33	-644.28

Numbers here are extremely bearish. Below is a look at the 3-day profit curve.



That is a convincing move from upper left to lower right. I have added this study to the active list as well.

While much of the market seems excited about...um...something, banks were not. The BKX Bank Index declined 1.4% on Tuesday. This brought about a study from the Quantifinder that looked at SPX gains of 1% while the BKX fell at least 1%. Last seen 3/22/19, I have updated the results.

SPX closes up > 1% while BKX closes down over 1%.
Buy SPX on close. Sell next day's close. \$100k/trade. 1994 - present.

TradeStation Performance Summary

Expand

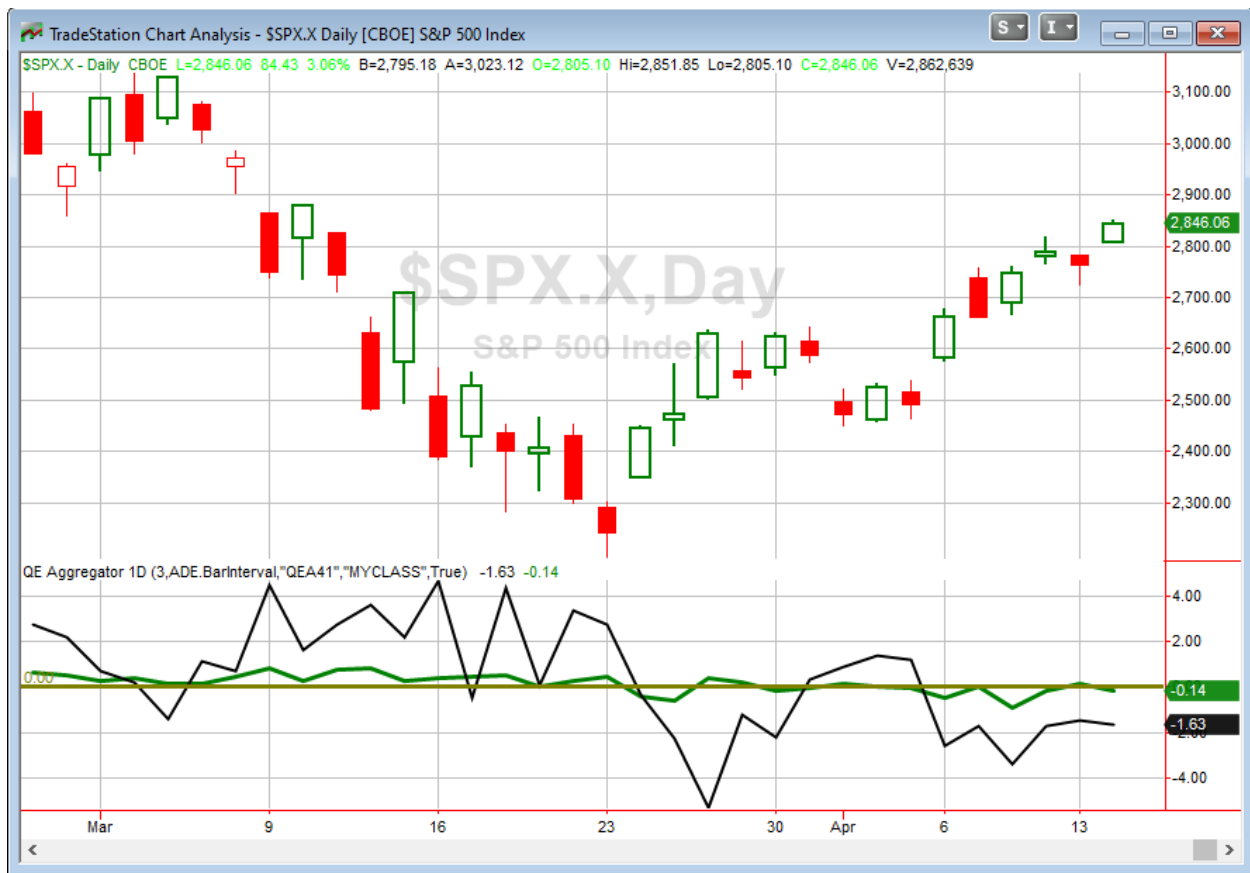
All Trades

Total Net Profit	(\$13,772.49)	Profit Factor	0.22
Gross Profit	\$3,799.40	Gross Loss	(\$17,571.89)
Total Number of Trades	11	Percent Profitable	9.09%
Winning Trades	1	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	(\$1,252.04)	Ratio Avg. Win:Avg. Loss	2.16
Avg. Winning Trade	\$3,799.40	Avg. Losing Trade	(\$1,757.19)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$4,244.80)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/19/1994	Buy	\$453.86	-0.50%	\$66.00
7/20/1994	Sell	\$451.60		(\$697.40)
8/25/1999	Buy	\$1,381.79	-1.43%	\$0.00
8/26/1999	Sell	\$1,362.01		(\$1,452.24)
1/10/2000	Buy	\$1,457.60	-1.31%	\$72.08
1/11/2000	Sell	\$1,438.56		(\$1,576.24)
4/7/2000	Buy	\$1,516.35	-0.78%	\$704.60
4/10/2000	Sell	\$1,504.46		(\$845.00)
1/18/2001	Buy	\$1,347.97	-0.40%	\$486.92
1/19/2001	Sell	\$1,342.56		(\$831.02)
10/23/2008	Buy	\$908.11	-3.45%	\$0.00
10/24/2008	Sell	\$876.77		(\$6,078.60)
12/10/2008	Buy	\$899.24	-2.85%	\$598.29
12/11/2008	Sell	\$873.59		(\$3,386.61)
2/3/2009	Buy	\$838.51	-0.75%	\$1,587.46
2/4/2009	Sell	\$832.23		(\$1,110.27)
3/4/2009	Buy	\$712.87	-4.25%	\$0.00
3/5/2009	Sell	\$682.55		(\$4,891.60)
4/8/2009	Buy	\$825.16	3.81%	\$3,841.75
4/9/2009	Sell	\$856.56		\$0.00
3/21/2019	Buy	\$2,854.88	-1.90%	\$0.00
3/22/2019	Sell	\$2,800.71		(\$1,904.35)

The numbers and list of instances all suggest a downside edge.

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



With tonight's evidence considered, the green Aggregator Line dropped 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 turned short at the close.

Based on the current list of studies, expectations are set to remain negative on Wednesday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 2757.70 on Wednesday. That is 3.1% below Tuesday's close. So SPX will need to close down at least 3.1% to flip from overbought to oversold on Wednesday.

So the Aggregator is bearish. New evidence in the form of VIX action, volume and the BKX divergence are all pointing lower. And with the market so overbought there is ample room to the downside to profit. Of course there are still a couple of studies pointing higher, and this move up off the lows has been incredible. As I noted on Twitter, SPX is up over 27% in the last 15 days, and that has not happened since 1933. So shorts need to be choosy with the entries and quick to exit. I will look to take a small short position on Wednesday if I can get a favorable entry.

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

The intermediate-term outlook was last updated in the 4/13/20 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 – short ¼ index position @ \$288.00 LIMIT ON OPEN. If not filled on open, cancel order and short at the close if SPX closes > 2846.06. Based on the short-term outlook, I will be looking to take on a small short position Wednesday if SPY

Current Open Trade Ideas

None

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