

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 20, 2020

Volume 13 Issue 76

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- SPX far outperforming the SOX has often been followed by a dip in the past.
- SPY's large gap and go pattern Friday suggest a possible pullback on Monday.
- 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, the Differential Pivot is a good distance away, and chop is prevalent. There appears to be a 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 20, 2020	1% Gap up 10-high close < 200ma	1 day	Bearish			
April 20, 2020	SPX outperforms SOX by 1.5%	1-3 days	Bearish			
April 16, 2020	SPX dn 2% from 5-high. No 5-low.	1-4 days	Bearish	-3.30%	2.20%	3.90%
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 17, 2020	SPX up. Up Iss & Up Vol < 45%. SP<200	1-4 days	Bearish	-3.60%	1.60%	2.80%
April 17, 2020	SPX up. Up Iss & Up Vol < 40%.	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			

The Evidence

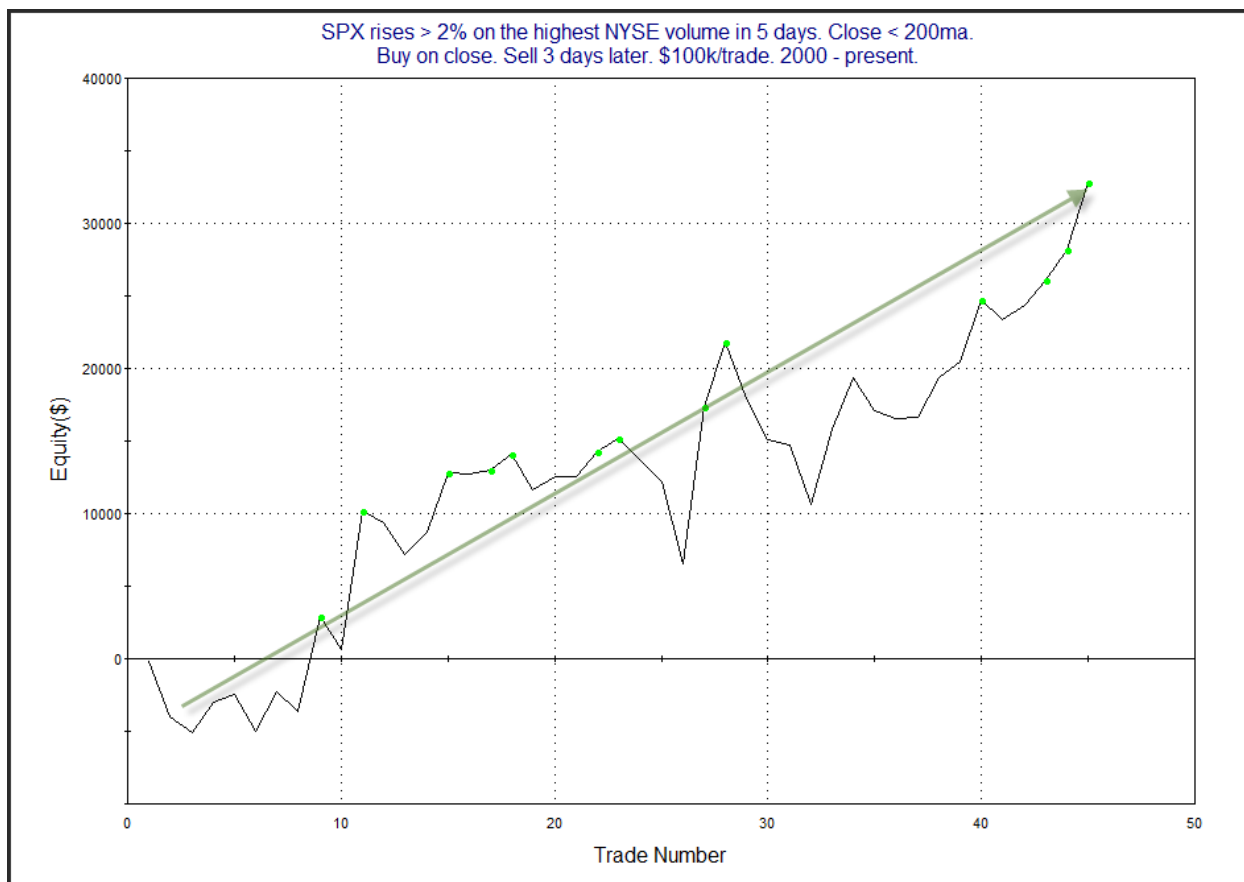
Friday was a strong rally day for the market. The SPX finished up 2.7%, the NASDAQ rose 1.4%, and the Russell 2000 rallied 4.3%. Breadth was positive as the NYSE Up Issues % was 85% and the Up Volume % came in at 90%. NYSE volume rose some as it typically does on opex Friday.

There were a number of studies that triggered in the Quantifinder. I'll review the most notable ones.

Back in the 8/28/15 letter I examined 2% up days, and the impact that volume had over the next few days. I found those that came on the highest volume of the last 5 days had positive results over the short-term, while lower volume rallies often struggled. The high-volume filter triggered on Friday, and I have updated those results.

SPX rises > 2% on the highest NYSE volume in 5 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	37,979.39	44	32	12	72.73	9,334.72	-17,314.65	2,666.57	-3,945.90	0.68	1.80	863.17
4	36,602.16	44	28	16	63.64	11,930.04	-11,413.39	2,721.73	-2,475.39	1.10	1.92	831.87
3	32,815.30	45	25	20	55.56	10,868.60	-5,686.53	2,947.26	-2,043.31	1.44	1.80	729.23
2	5,214.60	47	22	25	46.81	7,112.64	-6,598.86	2,098.44	-1,638.04	1.28	1.13	110.95
1	1,925.42	47	23	24	48.94	6,420.72	-4,142.00	1,181.05	-1,051.62	1.12	1.08	40.97

The numbers here look moderately bullish. In looking at the orift curves, the 3-day was the smoothest.



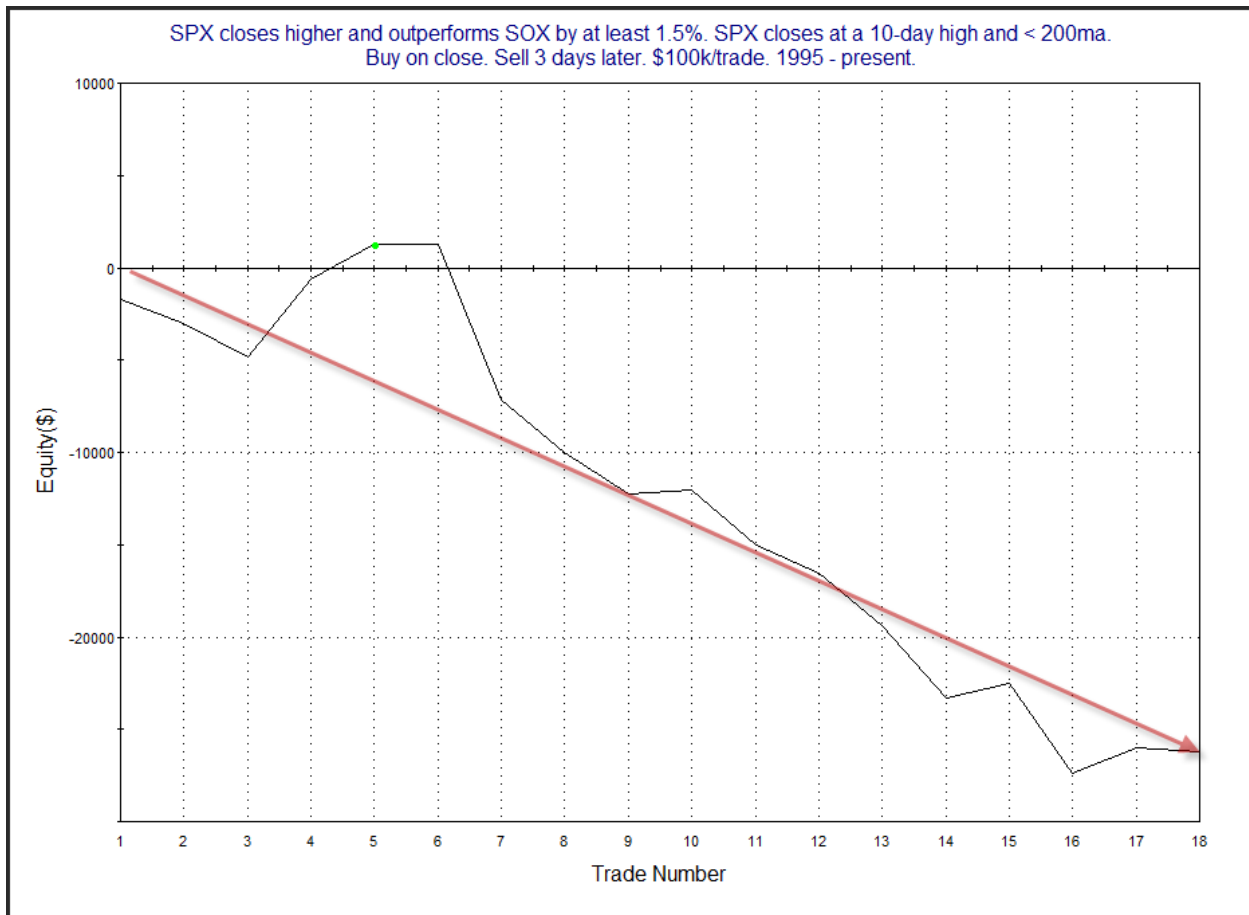
Choppy, but somewhat confirming. Of course the real trouble I have with this study is that it is predicated on high volume. And the high volume was thanks to opex, and it wasn't even that high. In fact, while it was the highest in 5 days, it was NOT the highest in 6 days. So I am not terribly comfortable including this as evidence. I did look for other times the setup triggered on opex Friday. There was only one, so that really doesn't give me valuable information.

Also notable about the rally is that the Semiconductor Index (SOX) lagged badly. While SPX closed up 2.7%, the SOX gained less than 1%. That is very unusual on a day the market rallies strongly, though it has now happened for the 2nd Friday in a row. The study below you may recognize from last weekend. I have updated the results.

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.

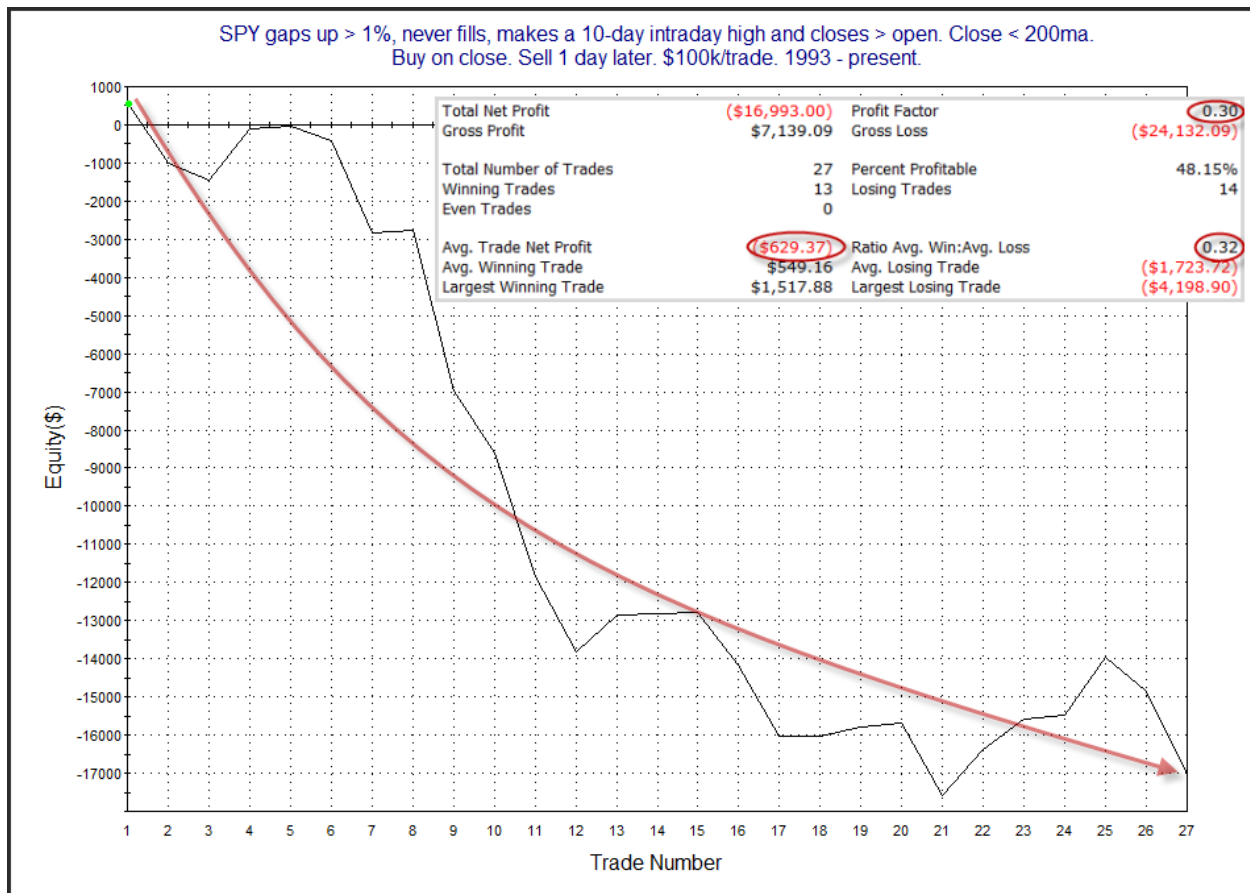
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-27,844.98	18	6	12	33.33	2,965.90	-6,365.52	1,697.80	-3,169.32	0.54	0.27	-1,546.94
4	-29,741.40	18	8	10	44.44	2,702.48	-5,673.45	1,132.57	-3,880.20	0.29	0.23	-1,652.30
3	-26,198.01	18	5	13	27.78	4,243.79	-8,395.18	1,713.62	-2,674.32	0.64	0.25	-1,455.45
2	-18,843.61	18	5	13	27.78	5,136.87	-5,264.73	2,011.74	-2,223.26	0.90	0.35	-1,046.87
1	-17,345.62	18	7	11	38.89	3,850.37	-8,883.33	1,462.45	-2,507.52	0.58	0.37	-963.65

Here we see what appears to be a strong downside edge over the next few days. Below is a 3-day profit curve.



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

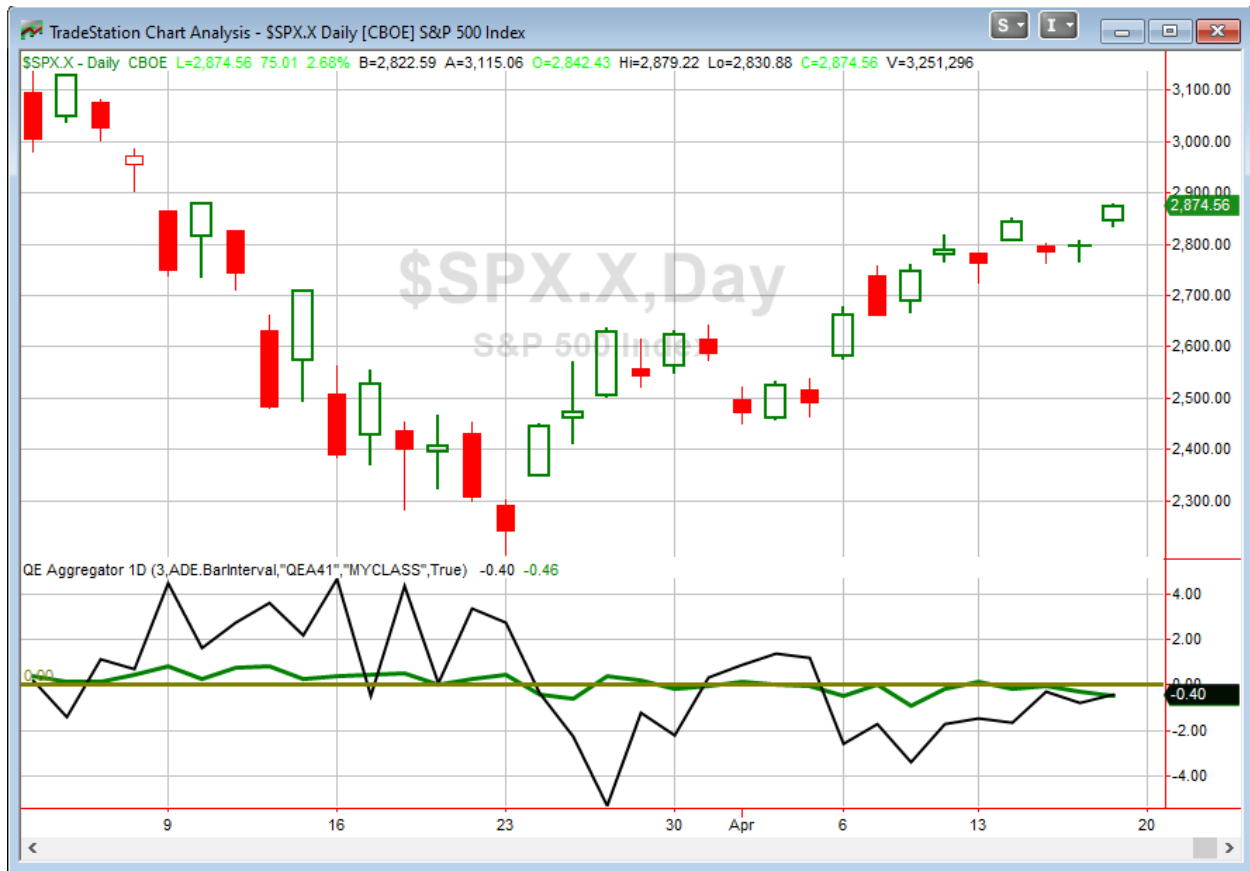
The unfilled gap up for SPY also triggered an interesting study. When the market gaps up and moves strongly higher during a long-term downtrend then you will often see a pullback over the next few days. Updated from the 10/24/11 subscriber letter...



We see a lot of chop, but the downside risks have substantially outsized the upside rewards. This seems to be worth some consideration as well.

Speaking of chop, as I will show in the intermediate-term section below, it continues to dominate. And with the strong move over the last two days, that also suggests a downward reversion.

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



With tonight's evidence considered, the green Aggregator Line held 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 remain negative on Monday. This could change if compelling bullish evidence emerges. Meanwhile, the Differential Pivot will be 2779.67 on Monday. That is 3.3% below Friday's close. So SPX would need to close down a sizable 3.3% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is suggesting a downside edge. This may be worth playing with a small position, but traders will need to remain nimble, and make sure they do not try and hold on too long if it goes in their direction. I will look to take on a small short position if I can get a favorable fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/20 – 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 market posted mostly strong numbers for the week, with much of the gains coming on Friday. The SPX rose 3.0%, and the NASDAQ gained 6.1%, but the Russell 2000 closed down 1.4%. The SPX is now 28.4% above the lows of just 18 trading days ago. It will need to rally another 18% from here to get back to the February highs.

The SPX has only twice ever rallied as much as 28% in an 18-day period. Those rallies happened in 1932 and 1933 (when it was the S&P 90 Index). They can be seen in the chart below.



Both of these instances saw rallies of over 100% in a few months. So the 28% start was just the beginning for them. Neither came close to reaching the 1929 peak. And both instances were

followed by substantial bear markets in their own right. I am not going to make much of these instances. Current conditions are a lot different than 1932/33. The big takeaway for me is how incredibly strong the move up has been compared to anything else for nearly 90 years. But I thought you might find the chart interesting anyway.

Next is a copy of the “Trend vs Chop” chart I have been showing lately, updated again this week.



This line has made new lows 4 weeks in a row now. So once again, “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 04/08/2020

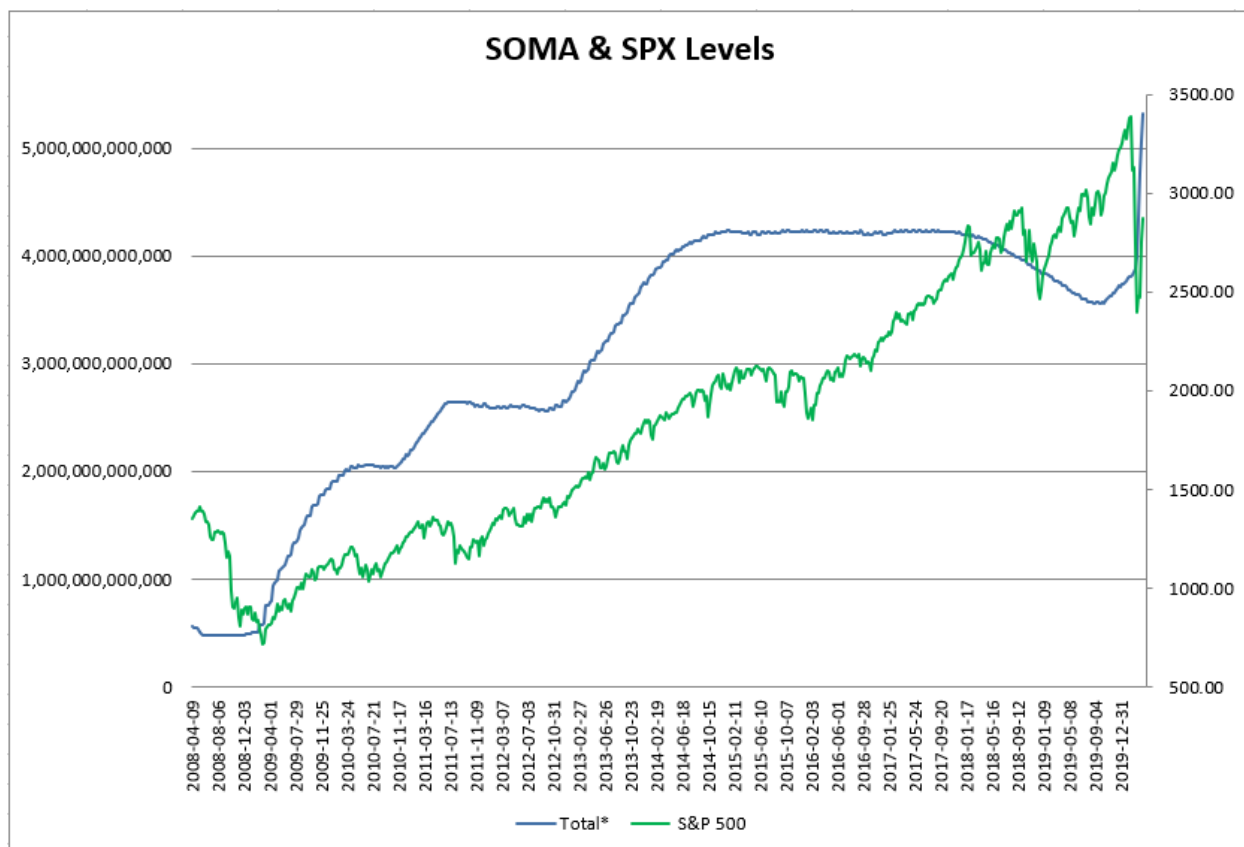
DOMESTIC SECURITIES HOLDINGS AS OF
April 15, 2020

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,190,326,149.5
US Treasury Floating Rate Notes (FRN)	15,817,998.3
US Treasury Inflation-Protected Securities (TIPS)*	222,691,566.9
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,562,460,573.8
Total SOMA Holdings	5,319,687,288.5
Change From Prior Week	259,569,058.5

*Does not reflect inflation compensation of 33,977,993.2
**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 04/16/2020 4:30pm.

The \$260 billion increase is the smallest we have seen in the last 4 weeks, but it is still bigger than any week ever before QE4 began a month ago. The Fed is continuing to throw unheard of amounts of money at the problem in many different ways to keep liquidity flowing. And to this point, it has worked. 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, as I have mentioned the last few weeks, 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. And it has certainly provided a huge boost the last few weeks. But 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, and the chances that even after a restart, there may be future shut-downs.

Overall, I remain neutral intermediate-term, and my outlook is very similar to last week. 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.

SPY – short ¼ index position @ \$286.65 LIMIT ON OPEN. If not filled on open, cancel order and short at the close if SPX closes > 2874.57. Based on the short-term outlook, I will be looking to take on a small short position Monday if SPY gaps up or closes higher. **Note: If I am filled on a gap-up open and then SPX closes < 2850, I will take the quick “chop” profit and cover at the close.**

Current Open Trade Ideas

None

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