

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 22, 2020

Volume 13 Issue 78

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Multiple days of SPY declining $> 1.75\%$, but closing above its 10ma, have commonly been followed by a bounce in the past.
- The 1st 5-day low in over 2 weeks will often suggest an upside edge.

Short-term Outlook

The Bottom Line

The Aggregator has now flipped to bullish. I believe there is an upside 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 22, 2020	SPY dn 1.75% x 2. Close > 10ma < 200	1-2 days	Bullish			
April 22, 2020	1st 5 low in 2 weeks < 200ma	1-2 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 20, 2020	SPY dn but yest gap up unfilled	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%

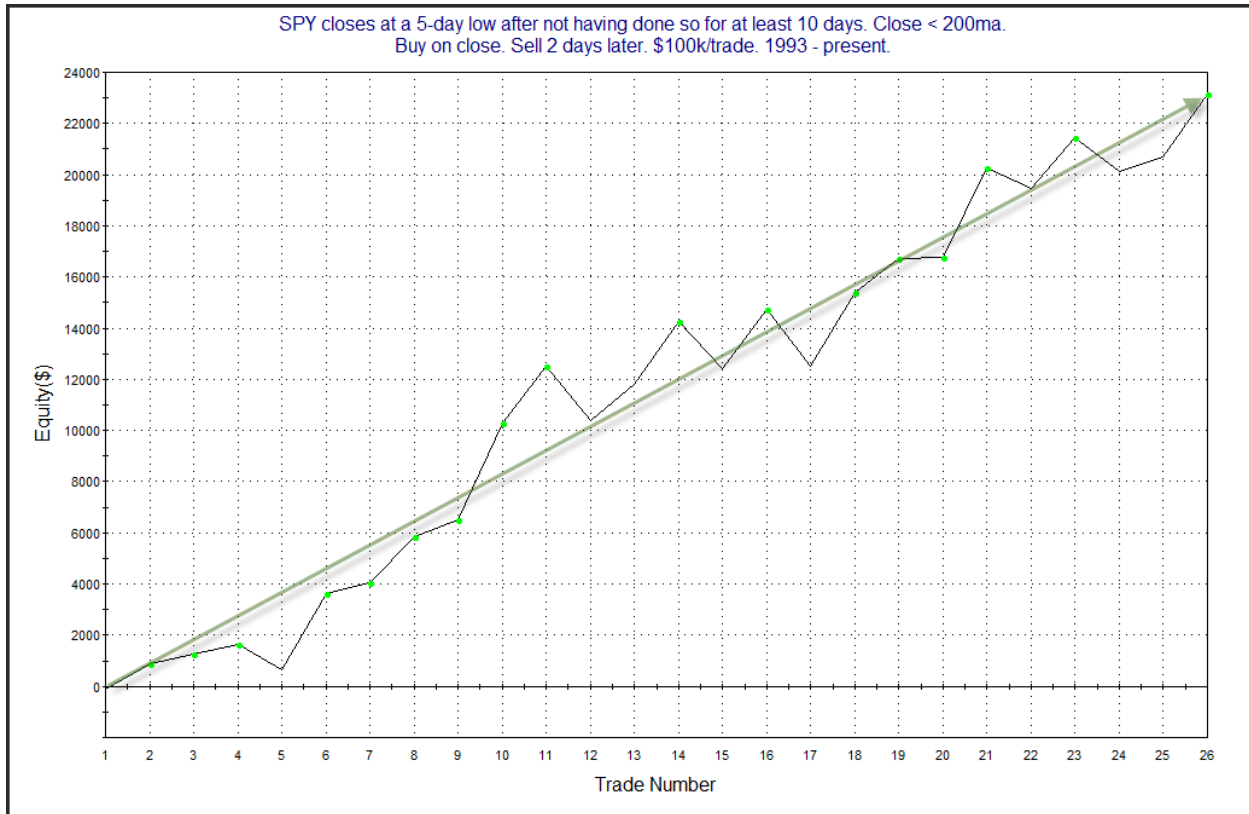
The Evidence

Tuesday was more selling (and more wild action in the oil markets). The SPX lost 3.1%, the NASDAQ fell 3.5%, and the Russell 2000 declined 2.3%. Breadth was negative as the NYSE Up Issues % was 20% and the Up Volume % came in at 21%. NYSE volume declined some from Monday's level.

Price action in SPY did trigger some interesting studies. The one below looked at times SPY closed at a 5-day low for the 1st time in over 2 weeks. It is updated from the 1/30/19 letter.

SPY closes at a 5-day low after not having done so for at least 10 days. Close < 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	22,556.08	26	17	9	65.38	6,103.89	-4,906.44	2,661.86	-2,521.73	1.06	1.99	867.54
4	21,454.18	26	18	8	69.23	6,941.43	-6,244.56	2,577.12	-3,116.75	0.83	1.86	825.16
3	27,500.02	26	18	8	69.23	5,888.16	-5,295.84	2,509.57	-2,209.02	1.14	2.56	1,057.69
2	23,161.76	26	19	7	73.08	3,809.72	-2,221.56	1,717.88	-1,353.98	1.27	3.44	890.84
1	15,240.63	26	20	6	76.92	2,812.20	-2,887.08	1,266.13	-1,680.32	0.75	2.51	586.18

The odds here point to an upside edge over the next few days. Below is a look at the 2- day profit curve.



That is a very impressive curve. Nearly as straight as an arrow. And it supports the idea of an upside edge.

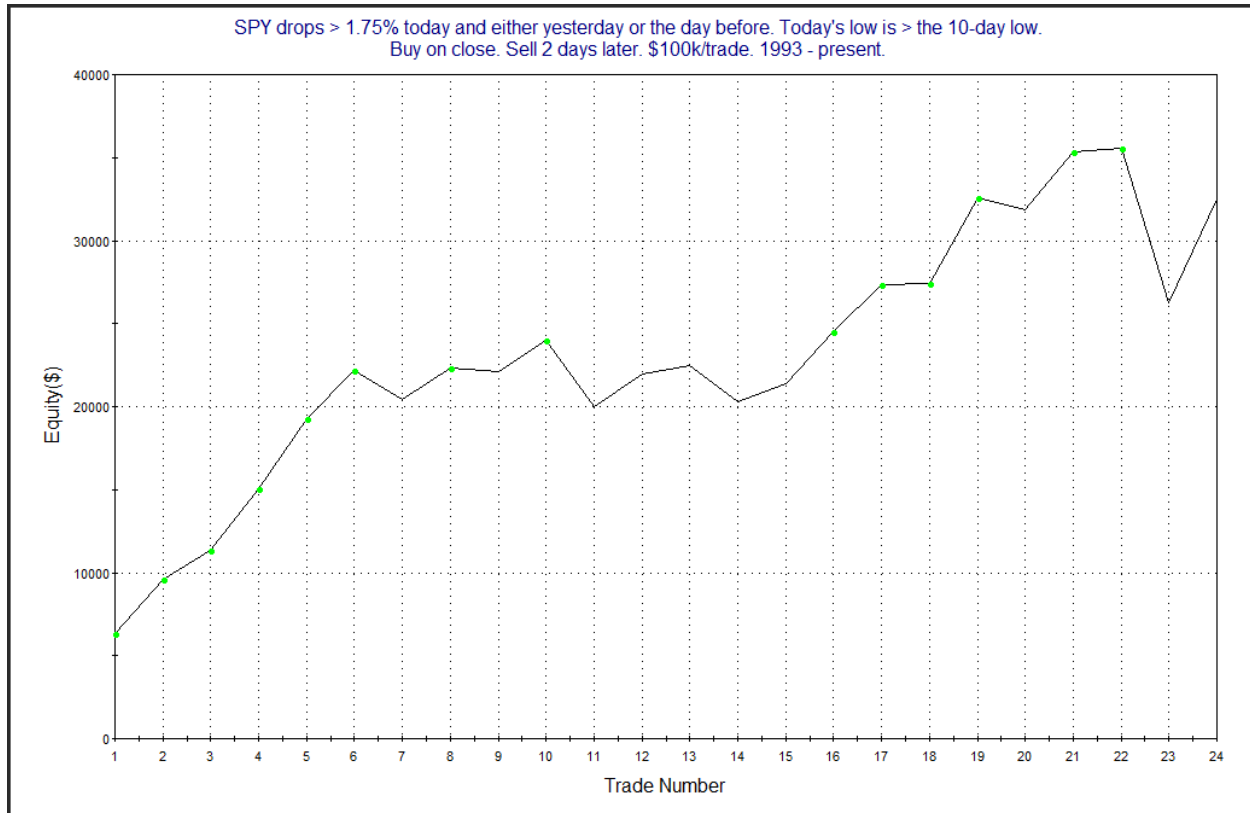
Also interesting about the big selloff on Tuesday was that it was the 2nd one in a row, and it did not even manage to make a 10-day low. This triggered the study below, which was last seen a few weeks ago in the 3/23/20 letter.

SPY drops > 1.75% today and either yesterday or the day before. Today's low is > the 10-day low.
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	16,691.45	22	14	8	63.64	10,758.94	-17,935.50	3,912.39	-4,760.25	0.82	1.44	758.70
4	23,637.36	23	16	7	69.57	14,158.80	-12,890.18	4,074.44	-5,936.24	0.69	1.57	1,027.71
3	24,985.65	23	17	6	73.91	7,861.63	-7,379.07	2,998.36	-4,331.08	0.69	1.96	1,086.33
2	32,527.29	24	18	6	75.00	6,363.32	-9,315.90	2,817.40	-3,030.99	0.93	2.79	1,355.30
1	17,806.24	26	19	7	73.08	4,803.44	-3,479.04	1,703.42	-2,079.81	0.82	2.22	684.86

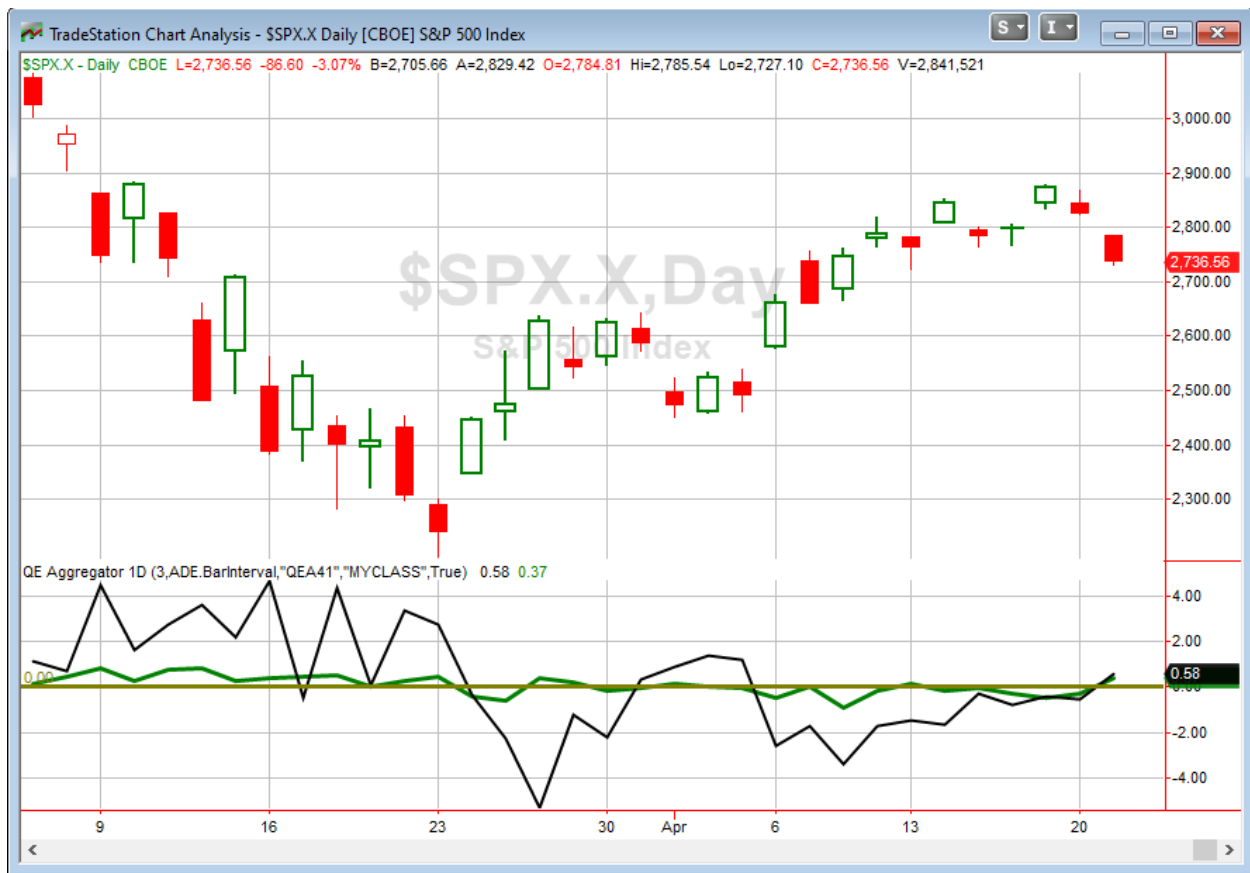
24 of 26 instances (92%) closed above the entry price at some point in the next 3 days.

Over the 1st few days the consistency and the results were strong. Below is a profit curve for the 2-day holding period.



Not the greatest curve, but I felt it was good enough to merit some consideration.

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



With tonight's evidence considered, the green Aggregator Line moved up through zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

Based on the current list of studies, expectations are set to remain positive on Wednesday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2848.63 on Wednesday. That is 4.1% above Tuesday's close. So SPX would need to rally a very sizable 4.1% on Wednesday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is now bullish. We have a couple of studies tonight suggesting an upside edge, and the Differential Pivot is a good distance away. Additionally, the market has not posted 3 consecutive down days since March 9th (when the NBA was still playing, and my kids were still in school). So between the bullish evidence, the solid profit potential, and the extremely choppy conditions, I like the bulls chances over the short-term. I will look to take on a small index position on Wednesday if I can get a favorable fill. I may add to this position in the coming days, but will start it small.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/20 – 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 – buy ¼ index position @ \$272.25 LIMIT ON OPEN. If not filled, cancel order and look to enter at \$273.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take a small long position on Wednesday. *While the Differential Pivot is a good distance away, I am being extra cautious about trading in these extremely choppy market conditions. So if I get filled at the open on Wednesday, and SPY closes \geq \$273.05, I will sell the position on the close.*

Current Open Trade Ideas

None

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