

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 28, 2020

Volume 13 Issue 82

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Unfilled gaps up on low volume have seen the market struggle in the following days under similar market conditions.
- 3+ days of strong Nasdaq breadth are often followed by a down day

Short-term Outlook

The Bottom Line

There appears to be a short-side edge. I am looking to take advantage of it.

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 28, 2020	NASDAQ Breadth 3:2 Advancers 3x	1 day	Bearish			
April 28, 2020	SPY unfill gap up > 10 < 200. Low vol	1-3 days	Bearish	-2.60%	1.10%	-2.05%
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			

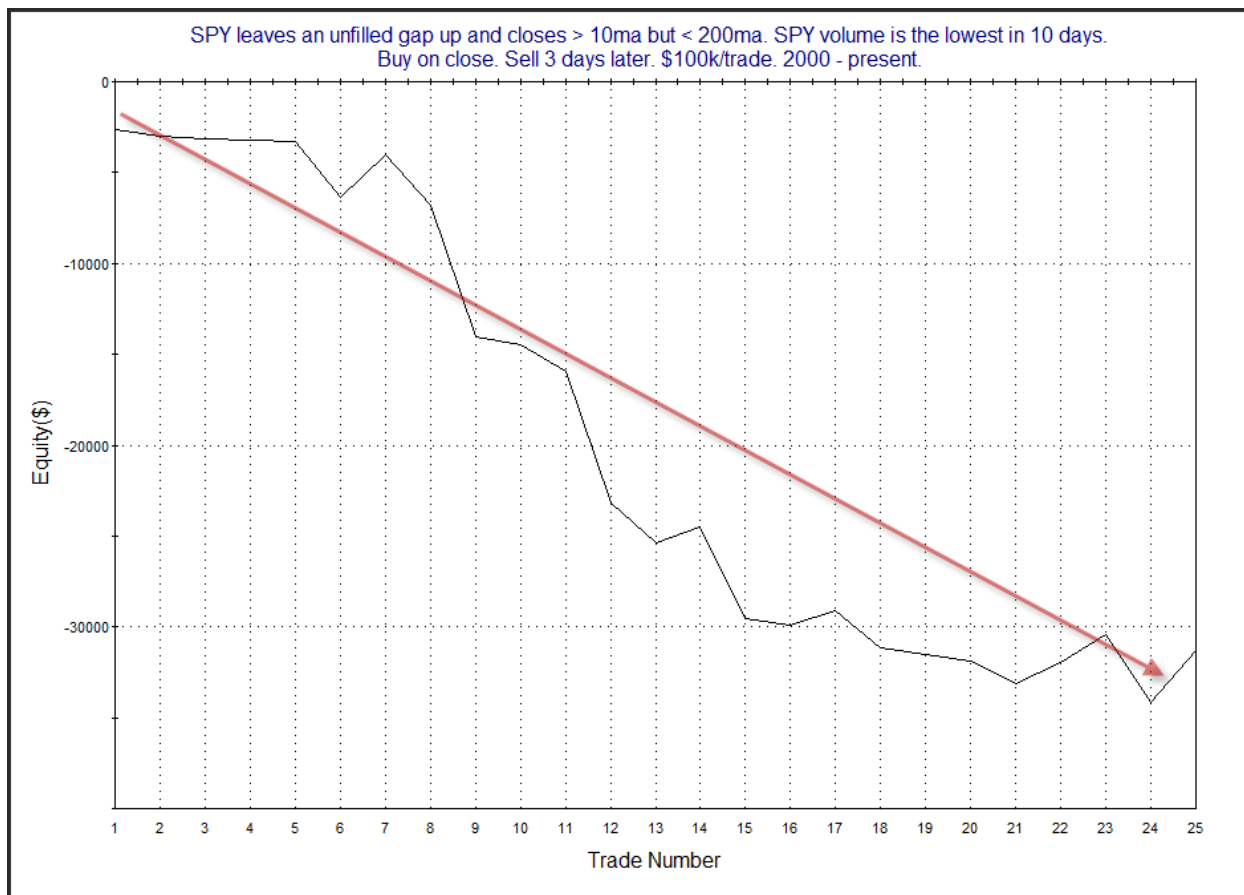
The Evidence

Monday was a trend day higher. The SPX closed up 1.5%, the NASDAQ gained 1.1%, and the Russell 2000 rallied 4.0%. Breadth was positive as the NYSE Up Issues % was 78.6% and the Up Volume % came in at 79.5%. NYSE volume declined some for the 2nd day in a row.

There were a few studies that triggered in the Quantifinder that looked at things like the unfilled gap up, the low SPY volume and the long-term downtrend. The one below, from just 3 days ago in the 4/23/20 letter, stood out.

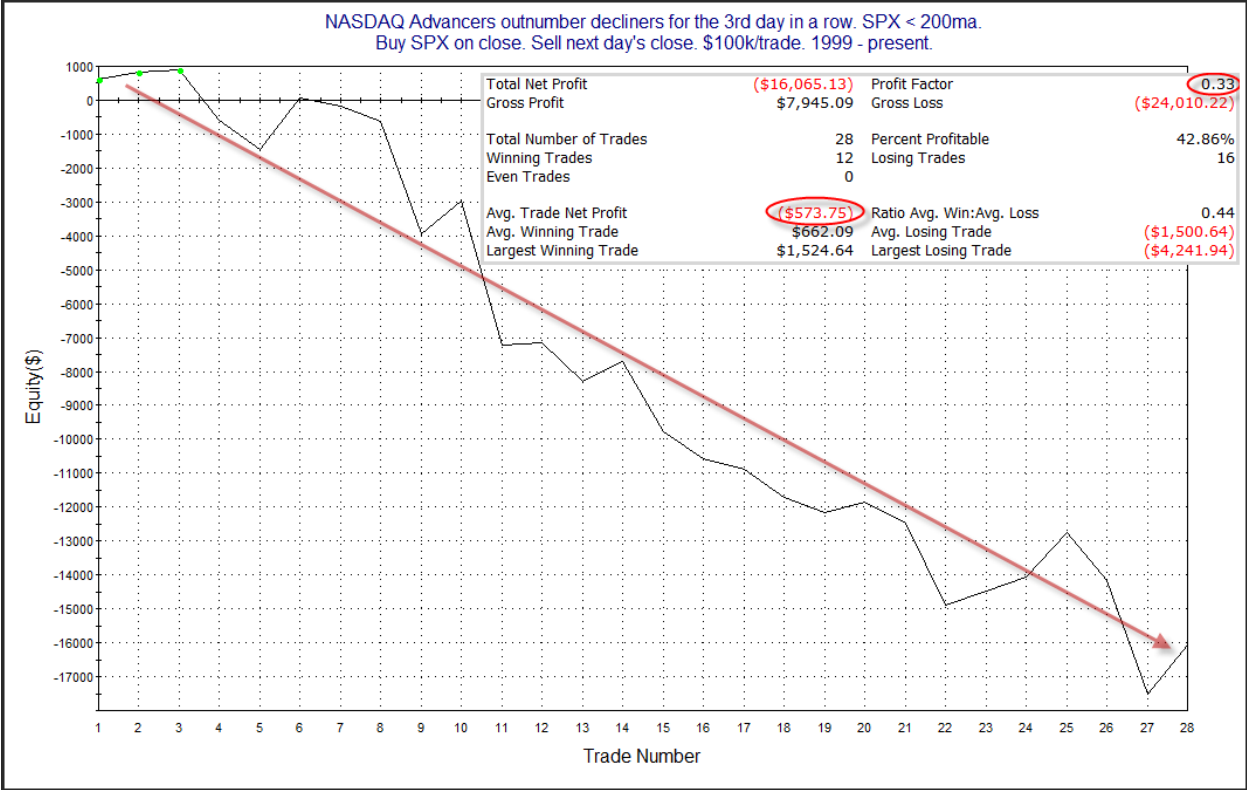
SPY leaves an unfilled gap up and closes > 10ma but < 200ma. SPY volume is the lowest in 10 days. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-39,301.71	23	13	10	56.52	3,702.72	-15,038.32	1,179.26	-5,463.21	0.22	0.28	-1,708.77
4	-40,743.70	24	10	14	41.67	2,808.81	-11,911.24	1,499.41	-3,981.27	0.38	0.27	-1,697.65
3	-31,281.08	25	6	19	24.00	2,864.00	-7,233.14	1,589.79	-2,148.41	0.74	0.23	-1,251.24
2	-21,576.70	25	9	16	36.00	1,779.84	-8,268.04	1,018.61	-1,921.51	0.53	0.30	-863.07
1	-2,081.09	25	13	12	52.00	2,178.45	-2,985.40	841.28	-1,084.81	0.78	0.84	-83.24

Over the first few days there certainly appears to be a downside edge. Below is a look at a 3-day profit curve.



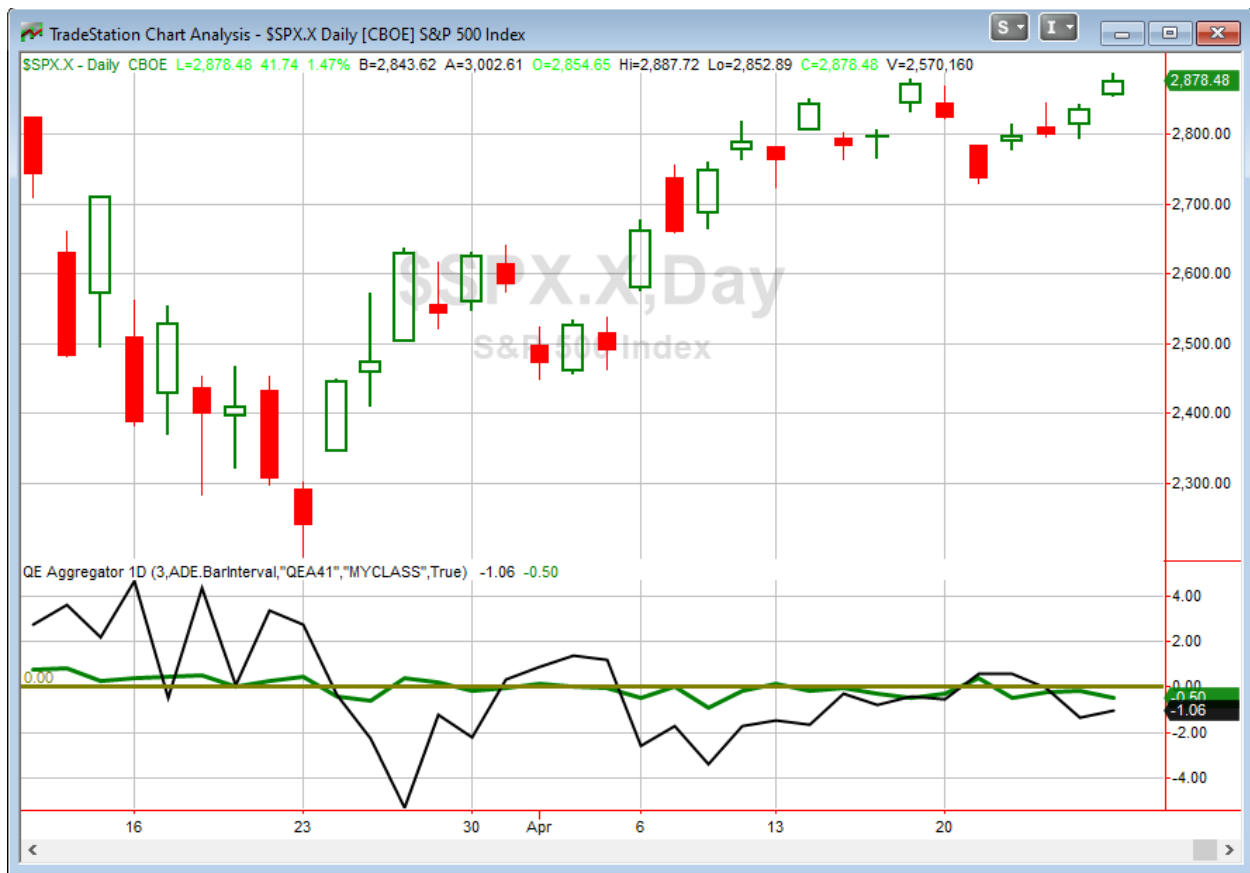
The 2.9% move higher over the most recent 3 days was the largest move up for any of the 25 instances. Still, the persistent downslope is quite impressive. I have added this to the Active List tonight.

We also saw a 4th day in a row of strong NASDAQ breadth. This re-triggered a study I showed over the weekend that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3+ days. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. I showed a few different versions last night. Tonight I will just focus on the last one I showed, examining SPX performance when below the 200ma.



Obviously Monday did not work out as usual, but the numbers and chart still point down, and perhaps this one will play out better on Tuesday.

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



With tonight's evidence considered, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also 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 active list, expectations are set to remain negative on Tuesday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2786.29 on Tuesday. That is 3.2% below Monday's close. So SPX would need to close down 3.2% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is suggesting a short-side edge. With evidence solidly bearish and the Differential Pivot a good distance away reward/risk appears good. But there are wildcards that we need to keep in mind over the next few days, including a Wednesday Fed announcement and some earnings reports from giants coming out this week including MSFT, AAPL, AMZN, TSLA and BA all on Wednesday or Thursday. So news could add volatility in either direction. I will look to take advantage of the current bearish setup, but I will be quick to take profits in this choppy environment if the market heads in my direction.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/27 – 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 @ \$287.10 LIMIT ON OPEN. If not filled on open, cancel order and look to enter @ \$287.10 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take a small position short if I can get a favorable fill on Tuesday. *Note if I am filled at the open, then I will look to cover the position on the close if SPY closes \leq \$287.09.*

Current Open Trade Ideas

None

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