

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 29, 2020

Volume 13 Issue 83

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower also suggests a 1-day upside edge.
- A poor close on the day before a Fed Day has typically resulted in positive Fed Day results.
- Strong breadth near a short-term high and a down close suggest short-term bullish implications.
- The reversal from a new 20-day high also suggests an upside edge.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and the potential for volatility is high. I am not inclined to take on new index positions.

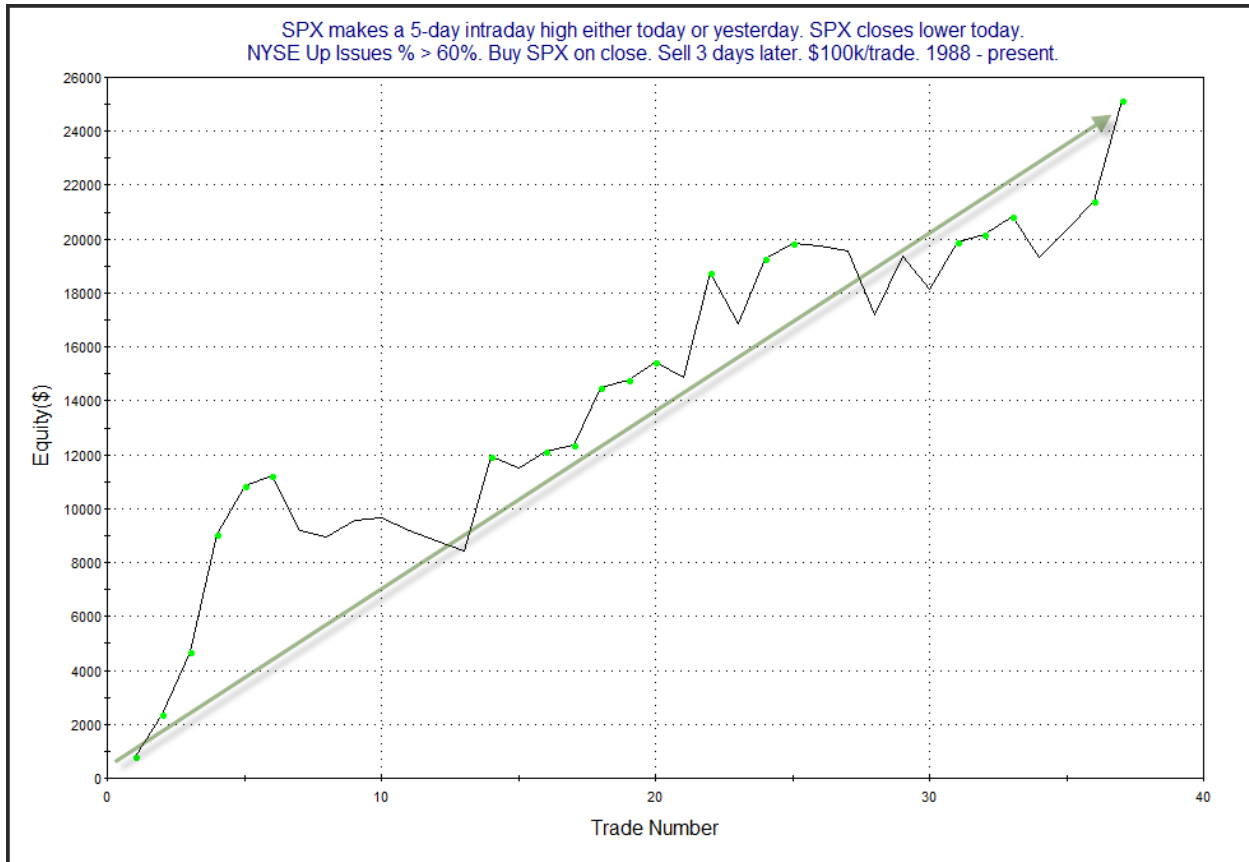
The Evidence

Tuesday starting strong, but reversed quickly and finished mixed. The SPX closed down 0.5%, the NASDAQ lost 1.4%, and the Russell 2000 rallied 1.3%. Breadth was positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 79%. NYSE volume rose some from Monday's level.

The Quantifinder showed some studies worth discussing. There was one study I found interesting from the 4/8/20 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	11,833.78	36	22	14	61.11	4,586.15	-6,119.33	1,626.86	-1,711.22	0.95	1.49	328.72
4	28,916.94	37	22	15	59.46	8,095.62	-3,969.70	2,148.87	-1,223.88	1.76	2.58	781.54
3	25,166.23	37	24	13	64.86	4,370.82	-2,373.00	1,540.86	-908.80	1.70	3.13	680.17
2	23,376.74	37	26	11	70.27	4,825.17	-2,625.30	1,315.00	-983.03	1.34	3.16	631.80
1	16,539.45	37	21	16	56.76	3,351.09	-1,606.00	1,054.67	-350.54	3.01	3.95	447.01

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



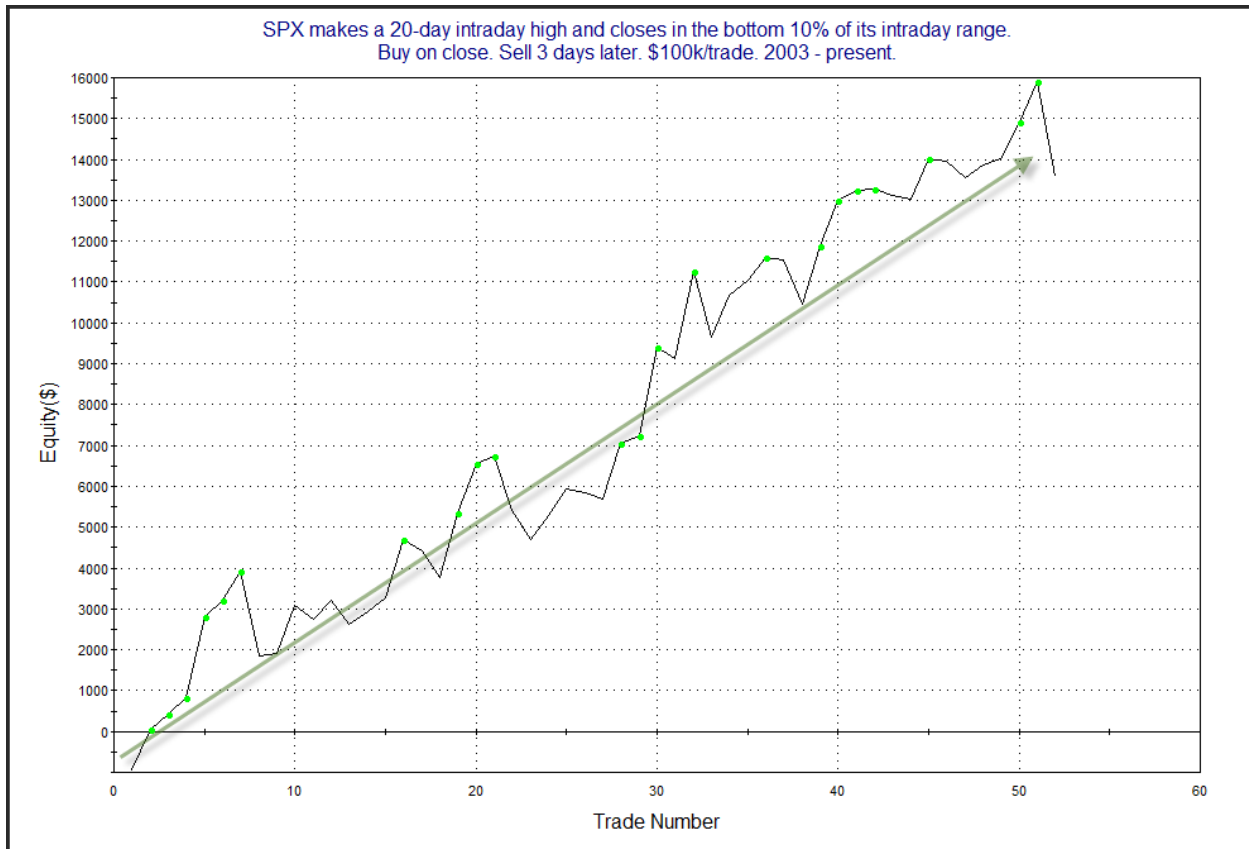
The curve has made its way from lower left to upper right for a long time, and actually made a big new high on its last instance. It supports the idea of an upside edge suggested by the stats.

The intraday high in SPX was more than just a 5-day high. The study below, from the 12/5/17 letter, looked at 20-day highs that reversed to close poorly. Results are all updated.

SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range.
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

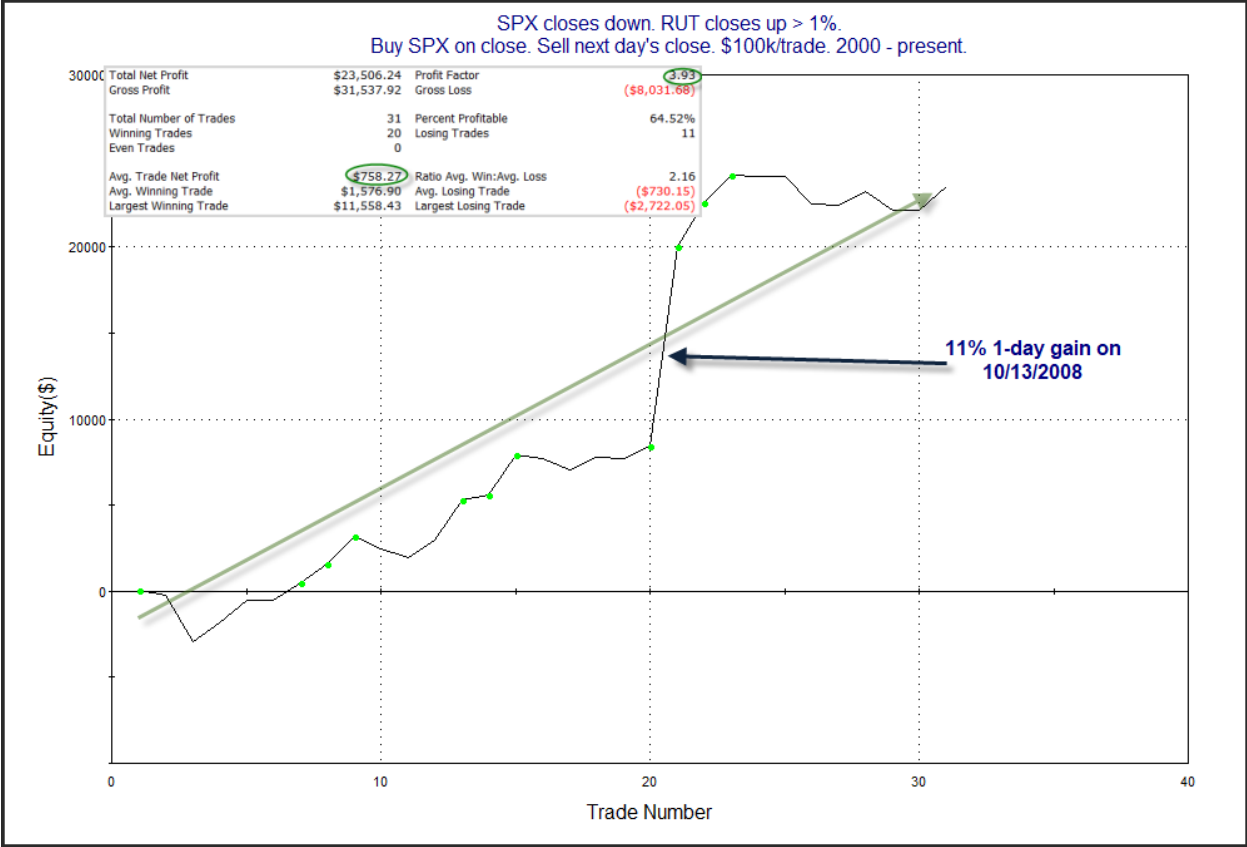
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	41,411.28	47	34	13	72.34	4,119.18	-3,210.80	1,784.05	-1,480.49	1.21	3.15	881.09
9	38,235.70	47	34	13	72.34	3,613.36	-3,775.10	1,706.48	-1,521.89	1.12	2.93	813.53
8	34,682.59	48	35	13	72.92	4,483.84	-3,803.24	1,646.29	-1,764.42	0.93	2.51	722.55
7	27,536.95	49	36	13	73.47	3,761.94	-4,159.32	1,423.26	-1,823.12	0.78	2.16	561.98
6	28,348.84	50	37	13	74.00	3,331.38	-2,942.40	1,256.20	-1,394.65	0.90	2.56	566.98
5	16,406.25	50	34	16	68.00	2,693.34	-3,566.84	953.74	-1,001.31	0.95	2.02	328.13
4	11,897.37	52	34	18	65.38	2,531.61	-2,332.44	883.84	-1,008.51	0.88	1.66	228.80
3	13,578.32	52	33	19	63.46	2,159.82	-2,343.60	813.75	-698.70	1.16	2.02	261.12
2	9,933.58	52	29	23	55.77	3,288.48	-1,575.22	761.83	-528.68	1.44	1.82	191.03
1	6,453.15	53	34	19	64.15	1,710.72	-1,194.83	458.79	-481.35	0.95	1.71	121.76

Results appear mildly bullish. Below is a look at the 3-day profit curve.

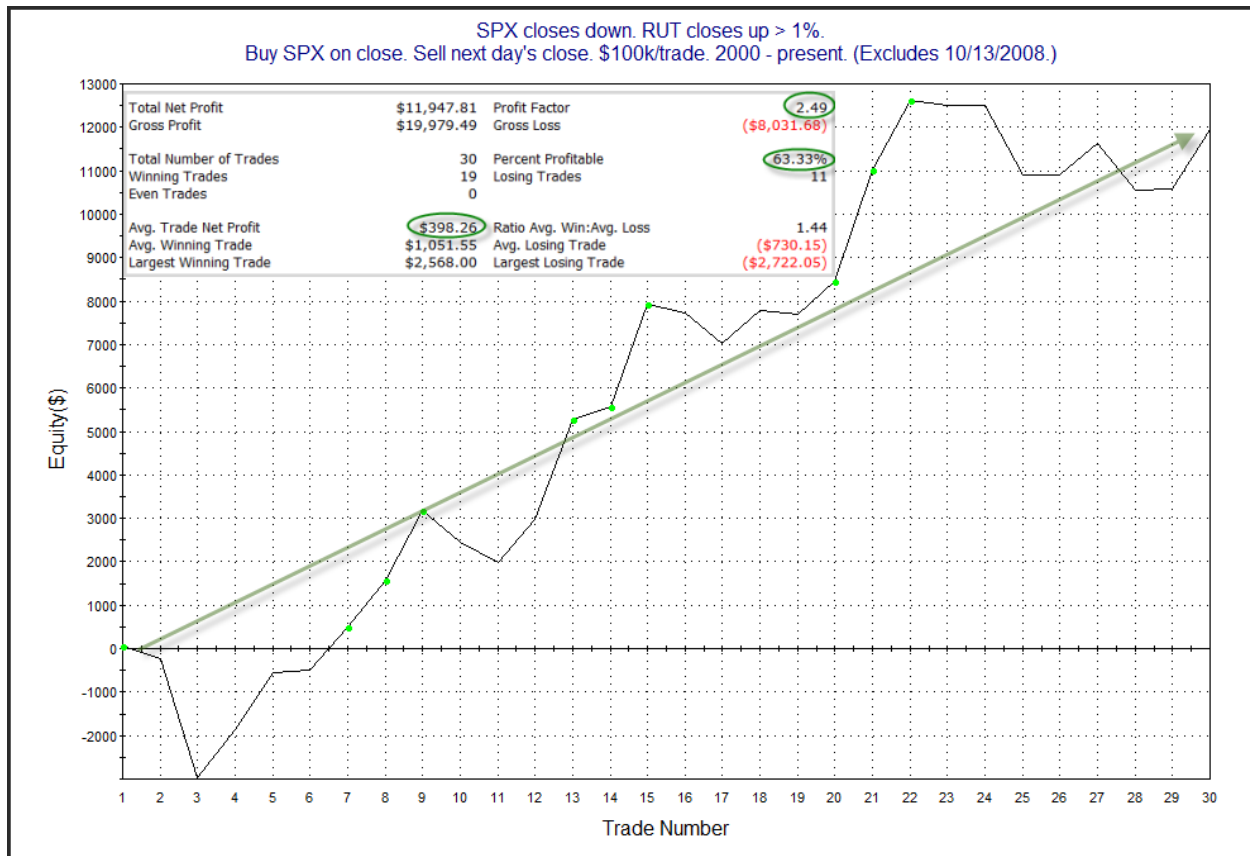


The last instance was a big disappointment, but the long-term upward sloping curve still appears impressive. I have added this study to the active list.

Of course while SPX sank, the Russell put it a solid up day. The split market triggered an interesting study from the recent 4/24/20 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.



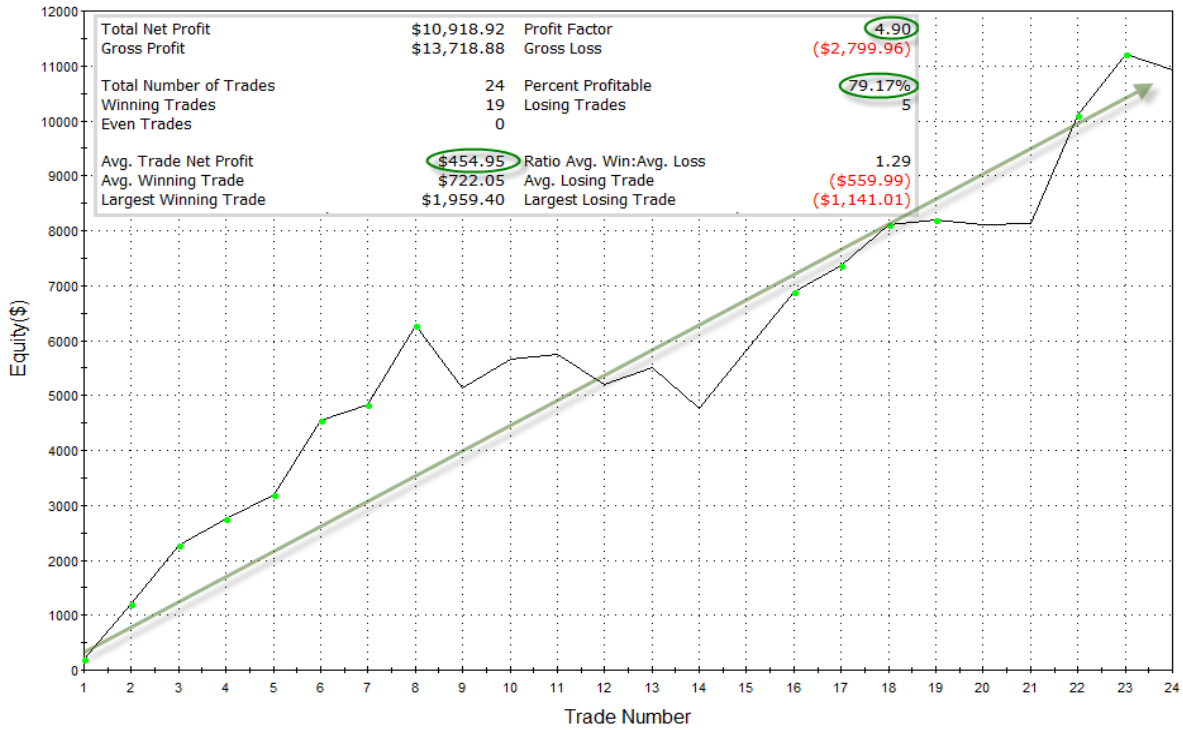
Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.



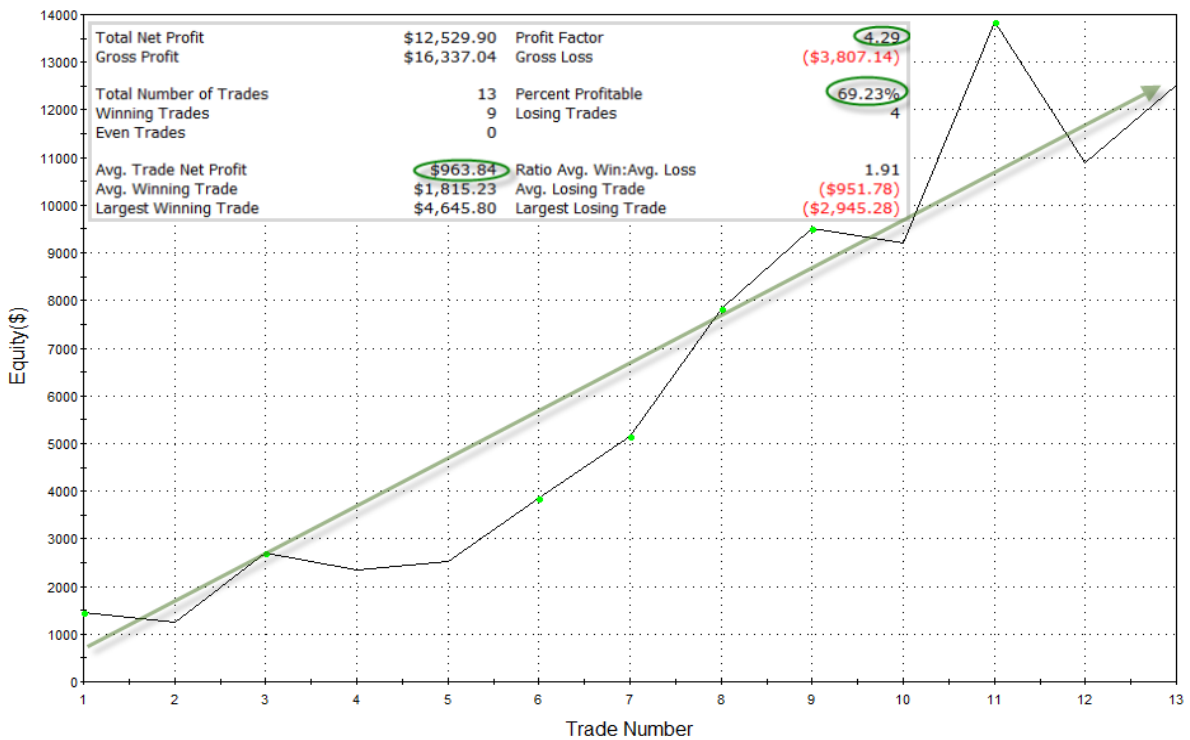
Despite some recent struggles, this still seems worth paying attention to. And the average instance has led to a 0.4% gain the next day. I have included this on the Active List.

It is also worth considering the fact that Wednesday is a Fed Day. Fed Day's have historically had a bullish tilt. This has especially been so when the market has done poorly the day before. I've broken down performance several times over the years, based on the % quartile that SPY closed in the day before the Fed Day. I found that closes in the bottom quartile have been the most bullish. But I have also found that the Fed Day setup in general has been more reliable when the market is in a long-term uptrend. So tonight I decided to focus on bottom-quartile finishes and break it down based on whether SPY is above or below the 200-day moving average. You can see the results in the 2 tests below.

Tomorrow is a Fed Day. SPY closes in the bottom quartile of the daily range, but **above** the 200ma.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

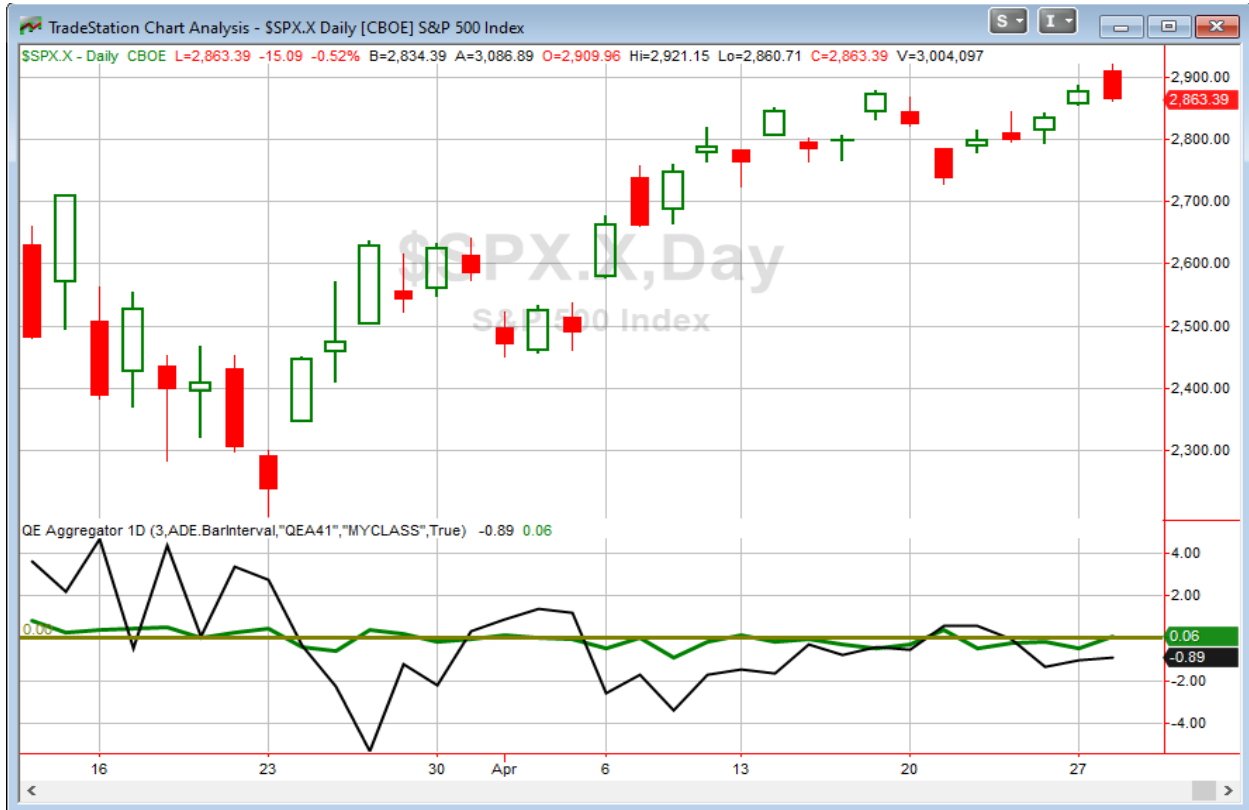


Tomorrow is a Fed Day. SPY closes in the bottom quartile of the daily range, and **below** the 200ma.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.



Results look fairly similar except the magnitude of the moves has been more sizable below the 200ma. The poor close does seem to suggest an upside edge, regardless of the long-term trend.

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



With tonight's evidence considered, the green Aggregator Line inched above zero. Positive readings mean net expectations are for upside 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 positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are set to remain slightly positive on Wednesday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2810.51 on Wednesday. That is 1.85% below Tuesday's close. So SPX would need to close down 1.85% on Wednesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is pointing higher, and upside evidence is solid, but the market is still overbought, and the potential for volatility is very high. That increases risk. Not only could the

market react strongly to the Fed announcement, but there is a slew of giant companies on Wednesday that are set to report earnings. This includes MSFT, FB, TSLA, and MA just to name a few So I am content to sit the day out and see if a more favorable reward/risk setup emerges.

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(s)	4/28/2020	\$291.02	\$285.73	1.82%		<i>bought open / sold close</i>

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