

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2020

Volume 13 Issue 84

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The weak VXO suggests a possible bearish edge over the next few days.
- The 10-day high, but not a 100-day high, on a Fed Day suggest a short-term downside edge.
- The strong breadth the last few days may be a good intermediate-term sign.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but I am not overly excited about taking on new positions yet, especially with AMZN and AAPL set to report on Thursday after bullish reactions the last few days to GOOGL and FB.

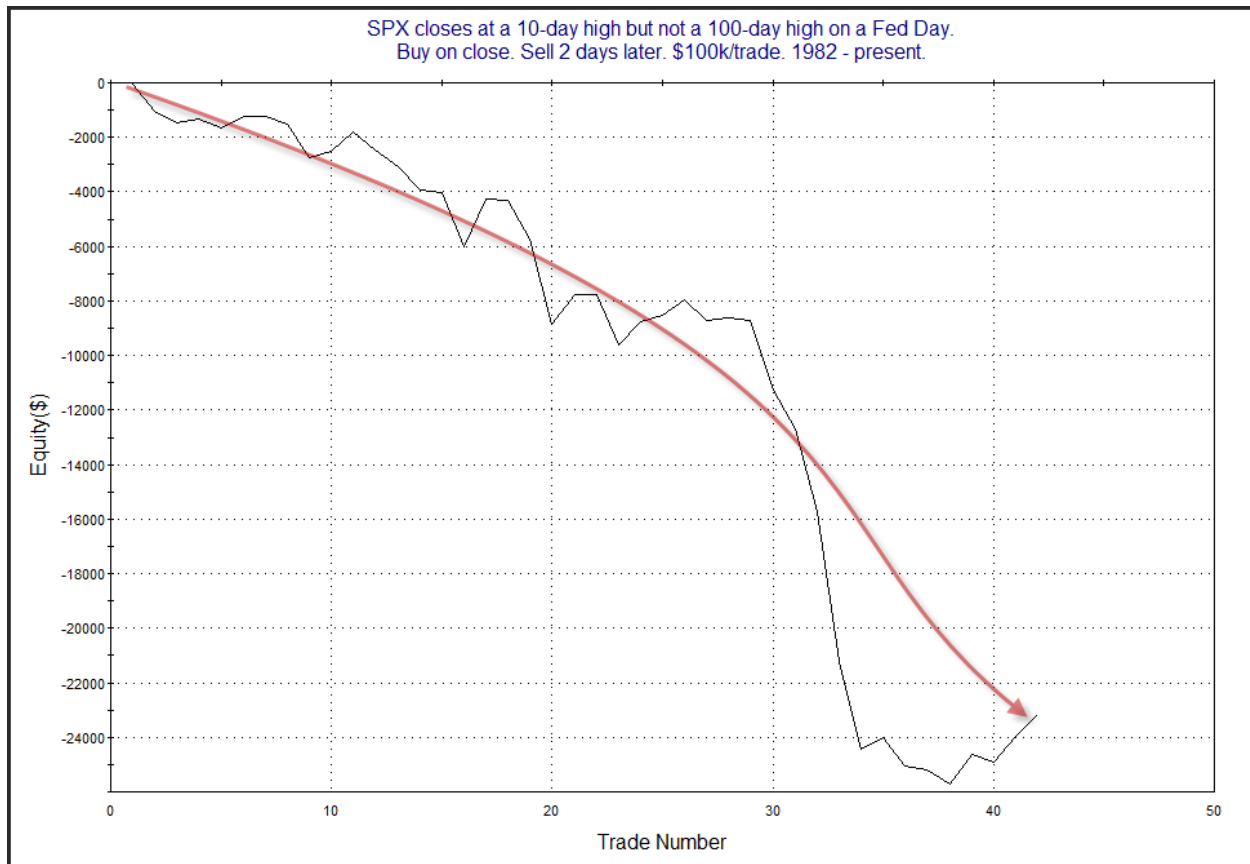
The Evidence

Wednesday started with a large gap up on good news with regards to Remdesivir effectiveness in treating COVID, and it continued higher for much of the day, with some help from a supportive Fed statement. The SPX closed up 2.7%, the NASDAQ rose 3.6%, and the Russell 2000 rallied 4.8%. Breadth was strongly positive as the NYSE Up Issues % was 88% and the Up Volume % came in at 84%. NYSE volume rose for the 2nd day in a row.

The rally was attributed to both positive news about a COVID drug, and to the Fed statement. Historically, rallies on Fed Days that lead to new short-term highs, but not long-term highs, have been susceptible to pullbacks in the following days. This can be seen in the updated study below, from the 6/20/19 letter.

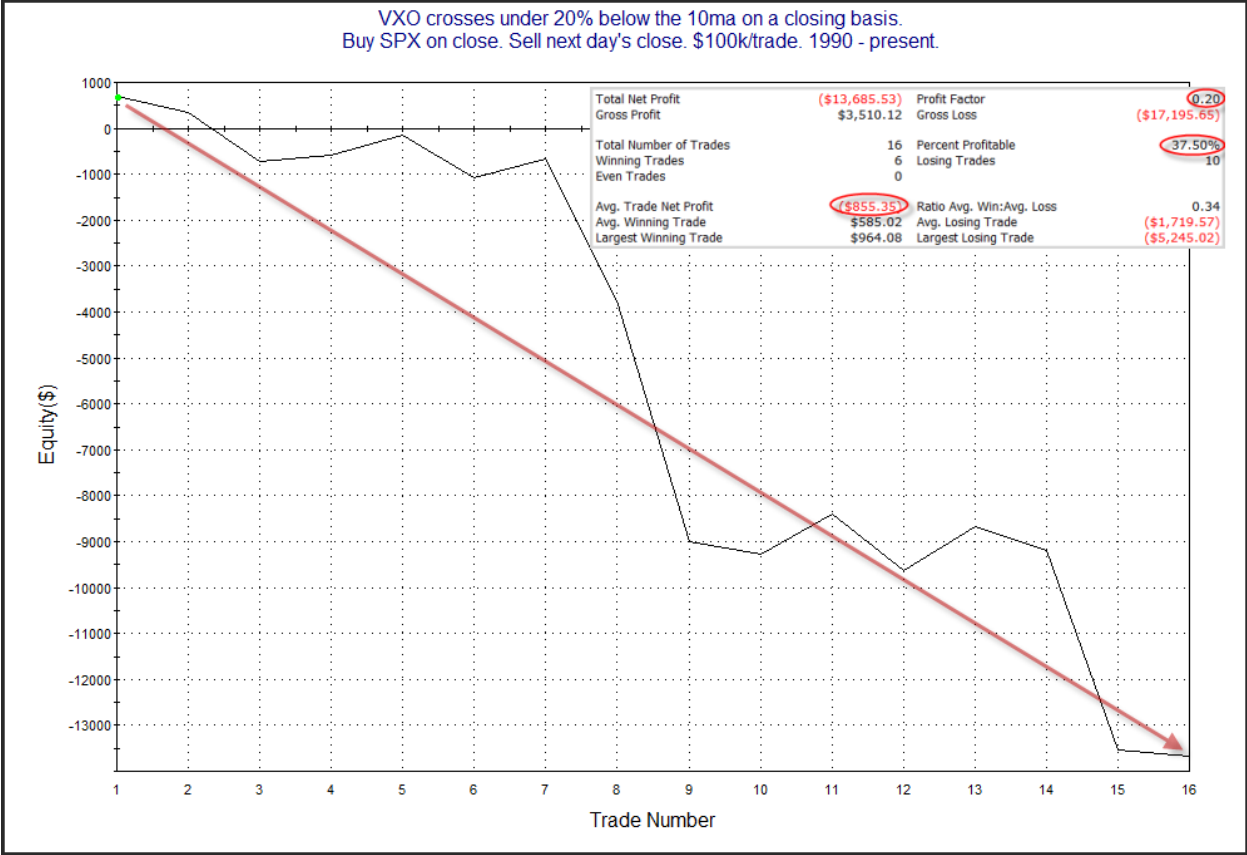
SPX closes at a 10-day high but not a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1982 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-23,228.97	42	19	23	45.24	4,389.95	-9,625.50	1,619.81	-2,348.06	0.69	0.57	-553.07
9	-27,005.00	42	18	24	42.86	3,956.94	-12,928.50	1,623.55	-2,342.87	0.69	0.52	-642.98
8	-21,657.88	42	18	24	42.86	4,058.40	-7,050.88	1,334.38	-1,903.19	0.70	0.53	-515.66
7	-12,646.22	42	20	22	47.62	6,337.26	-6,122.88	1,446.72	-1,890.03	0.77	0.70	-301.10
6	-12,693.05	42	21	21	50.00	4,813.75	-4,908.27	1,298.19	-1,902.63	0.68	0.68	-302.22
5	-22,666.94	42	19	23	45.24	5,231.46	-6,268.92	1,297.54	-2,057.40	0.63	0.52	-539.69
4	-22,668.64	42	18	24	42.86	3,438.24	-4,528.95	1,140.60	-1,799.98	0.63	0.48	-539.73
3	-17,000.09	42	20	22	47.62	3,830.40	-5,547.24	1,066.22	-1,742.02	0.61	0.56	-404.76
2	-23,153.03	42	15	27	35.71	1,737.55	-5,495.94	626.01	-1,205.30	0.52	0.29	-551.26
1	-14,041.71	42	12	30	28.57	1,990.25	-3,300.30	770.78	-776.37	0.99	0.40	-334.33

The numbers here all point to a downside edge, primarily over the 1st 2 days. Below is a profit curve showing how the edge has played out over time.



Not the smoothest curve, but it still appears to suggest a bearish edge. I found this study compelling enough to include on the Active List.

Between positive COVID drug news, certain states beginning to re-open, the very accommodative Fed, options traders have determined the market has become much less risky. This can be seen in the fact that the VIX (and VXO) are stretched to the downside. The VXO actually closed more than 20% below its 10-day moving average on Wednesday. This triggered the study below.



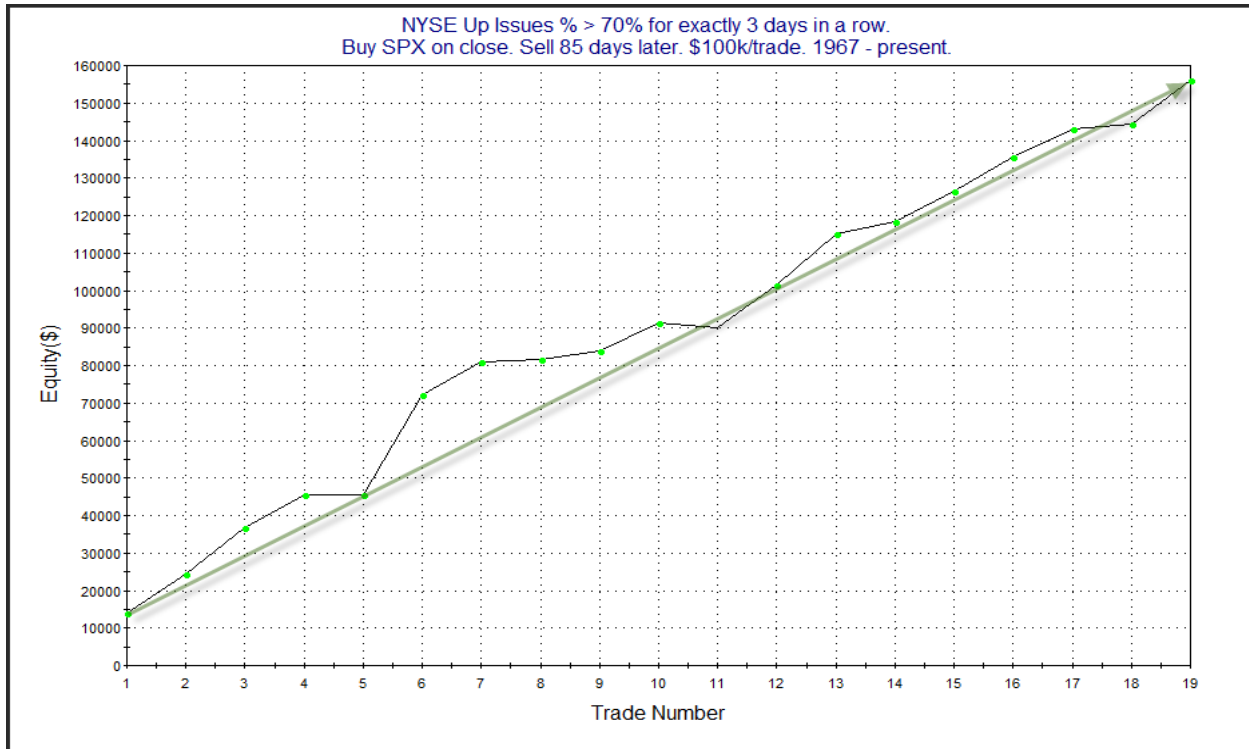
While the curve is choppy, the numbers are quite weak. This study, too, seems to be worth some attention.

The strong breadth was have seen the last few days also triggered a few studies. The study below was last seen in the 3/27/20 letter. It looks at other times that breadth came in strong for 3 days in a row. Stats are updated.

NYSE Up Issues % > 70% for exactly 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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
100	142,186.57	18	15	3	83.33	35,219.04	-9,681.98	10,304.03	-4,124.64	2.50	12.49	7,899.25
95	135,501.46	18	16	2	88.89	27,445.80	-7,569.87	9,131.42	-5,300.59	1.72	13.78	7,527.86
90	152,866.89	19	17	2	89.47	30,973.23	-5,123.16	9,352.23	-3,060.54	3.06	25.97	8,045.63
85	155,981.34	19	18	1	94.74	26,662.95	-1,312.89	8,738.57	-1,312.89	6.66	119.81	8,209.54
80	146,217.65	19	18	1	94.74	28,578.63	-6,223.12	8,468.93	-6,223.12	1.36	24.50	7,695.67
75	138,720.11	20	19	1	95.00	27,768.15	-9,442.75	7,798.05	-9,442.75	0.83	15.69	6,936.01
70	113,910.43	20	18	2	90.00	24,259.14	-8,532.18	6,944.25	-5,543.08	1.25	11.28	5,695.52
65	109,650.75	20	17	3	85.00	27,445.80	-12,438.75	7,241.65	-4,485.79	1.61	9.15	5,482.54
60	115,489.07	21	18	3	85.71	30,586.41	-14,330.51	7,439.06	-6,137.98	1.21	7.27	5,499.48
55	115,387.50	22	18	4	81.82	30,678.51	-13,424.22	7,528.96	-5,033.43	1.50	6.73	5,244.89
50	114,529.93	22	17	5	77.27	23,071.05	-16,443.76	8,414.40	-5,702.98	1.48	5.02	5,205.91
45	108,321.17	22	19	3	86.36	28,108.92	-22,705.40	7,249.33	-9,805.37	0.74	4.68	4,923.69
40	88,602.07	22	19	3	86.36	23,973.63	-25,195.29	6,455.77	-11,352.52	0.57	3.60	4,027.37
35	85,777.49	23	19	4	82.61	18,659.46	-16,976.62	5,774.32	-5,983.64	0.97	4.58	3,729.46
30	88,093.98	23	18	5	78.26	15,257.06	-15,261.41	6,119.68	-4,412.04	1.39	4.99	3,830.17
25	85,186.69	23	19	4	82.61	14,063.67	-6,624.37	5,248.47	-3,633.55	1.44	6.86	3,703.77
20	85,809.52	24	20	4	83.33	14,026.83	-11,381.59	5,099.95	-4,047.37	1.26	6.30	3,575.40
15	69,730.41	24	21	3	87.50	12,369.03	-10,189.61	3,981.48	-4,626.90	0.86	6.02	2,905.43
10	44,854.72	25	20	5	80.00	8,942.91	-8,739.76	3,252.06	-4,037.30	0.81	3.22	1,794.19
5	23,824.07	26	19	7	73.08	8,325.84	-6,523.10	2,248.64	-2,700.00	0.83	2.26	916.31

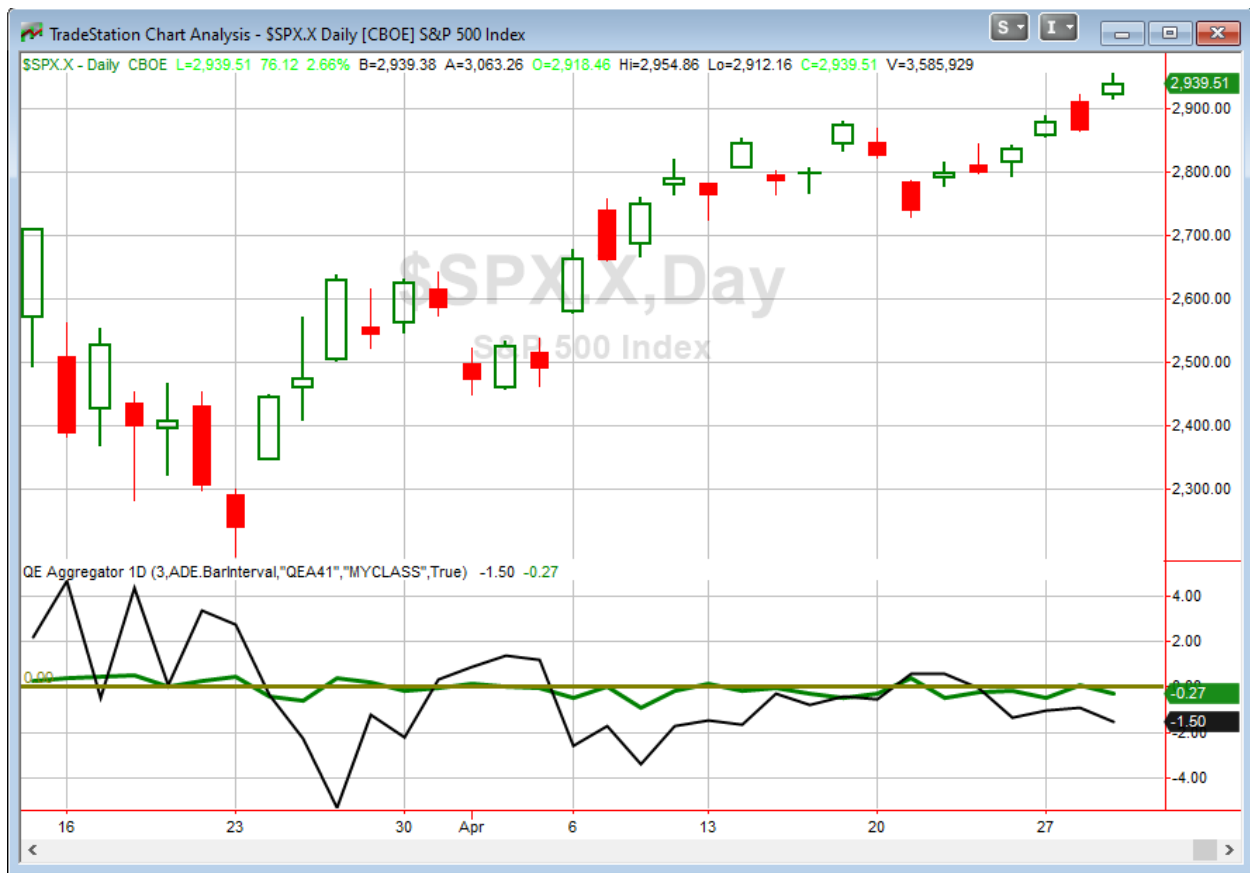
There are a lot of green numbers and the edge generally appears to be to the upside. I noted the last time I discussed this study that the short-term results have struggled some over the last 9 years or so. That is still the case. But here are the 85-day results.



You don't get curves that look much better than that. This could have come off the intermediate-term active list tonight because it has already reached its 10% target from the 3/26 trigger. With the new trigger I will list it again with the new trigger date.

I will also note that the strong move on Wednesday caused all of the short-term studies from the previous few days to either meet their targets or their stops, and they have been removed. So the short-term active list right now is just the 2 studies I discussed above.

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



With tonight's evidence considered, the green Aggregator Line dipped back 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 active list, expectations are set to remain slightly negative on Thursday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2849.61 on Thursday. That is 3.1% below Wednesday's close. So SPX would need to close down 3.1% on Thursday in order to flip from overbought to oversold vs recent expectations.

The Aggregator is bearish. Evidence is mild, but pointing lower, and there is ample room to the downside. So there does appear to be a bit of a downside edge. But with the market so strong as of late, and two more tech giants looking to report on Thursday, I'll be waiting until at least Friday before looking to take on new positions.

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

None.

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