

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2020

Volume 13 Issue 85

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- The 1st trade day in May could provide a 1-day upside edge.
- Forward returns after giant up months have not been consistent.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

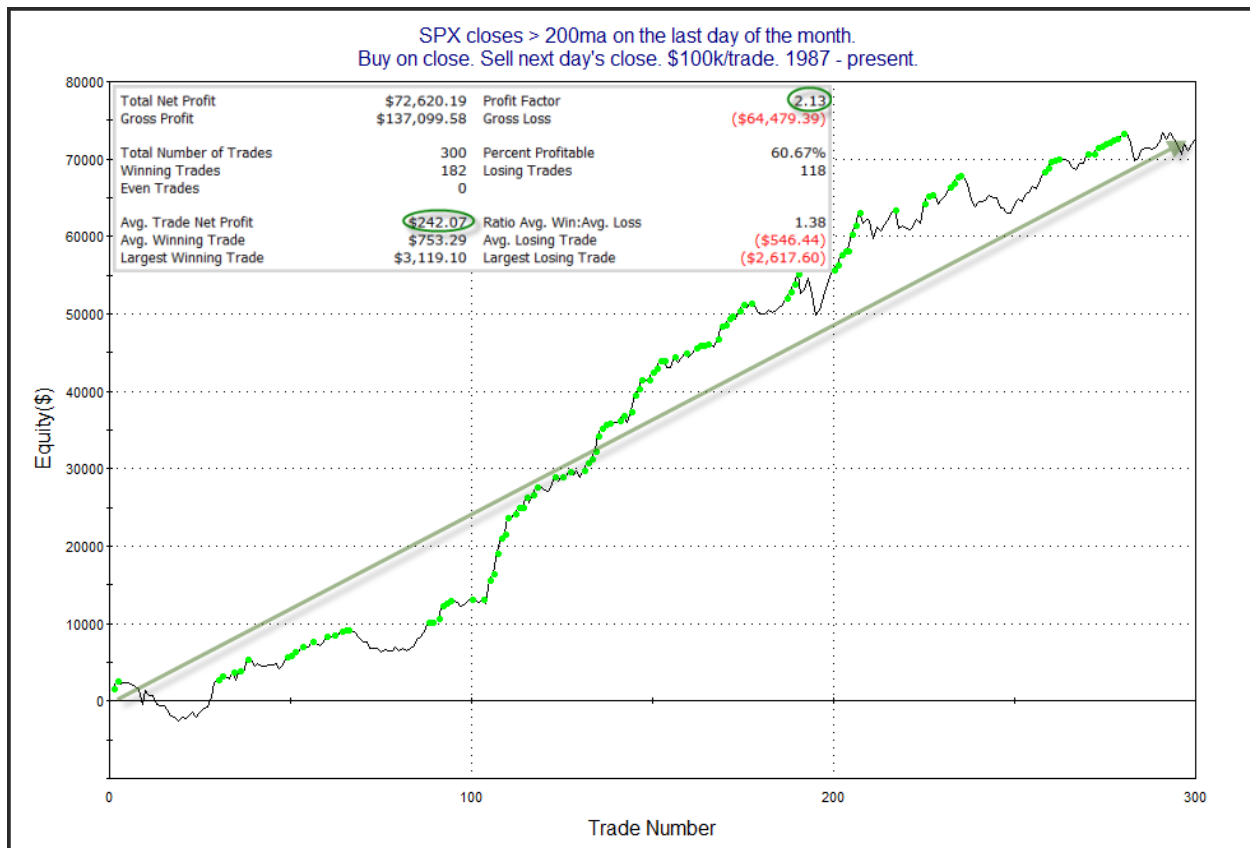
The Evidence

April closed with some selling on Thursday. The SPX lost 0.9%, the NASDAQ declined 0.3%, and the Russell 2000 tumbled 3.7%. Breadth was negative as the NYSE Up Issues % was 26% and the Up Volume % came in at 34%. NYSE volume declined some from Wednesday’s level.

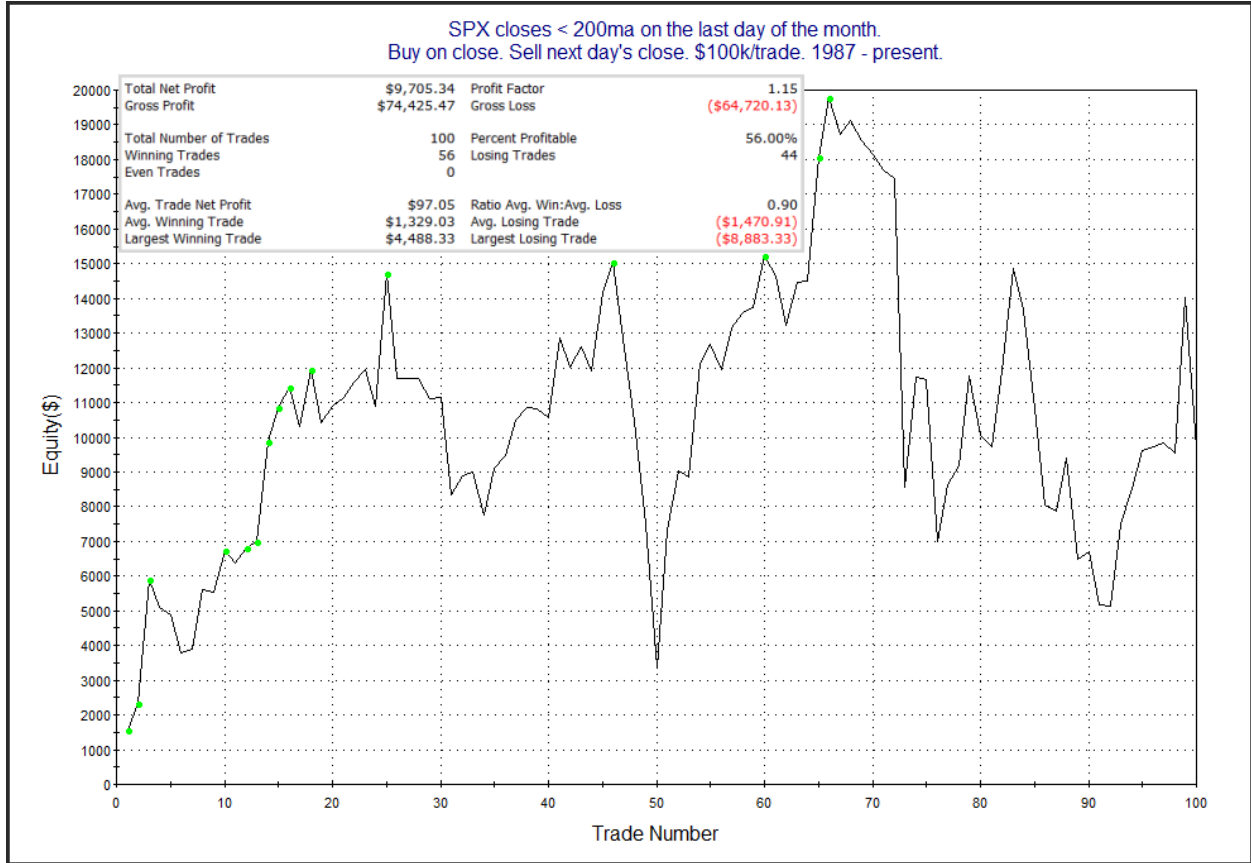
The back and forth action over the last few days has not done much to trigger new price-based studies. But the end of the month did bring about a few seasonal studies worth examining.

Friday is the 1st trading day of May. The 1st trading day of the month is renowned for having a bullish tendency, though this edge has weakened some in recent years. It is also notable that this tendency has primarily played out during uptrending markets. During down times the 1st of the month has not been particularly bullish. The studies below are from the 12/3/18 letter. They use the 200ma as our measure of uptrend versus downtrend in order to demonstrate this concept. Stats have all been updated.

This first study shows performance since 1988 of the 1st of the month if the SPX is trading above its 200ma.

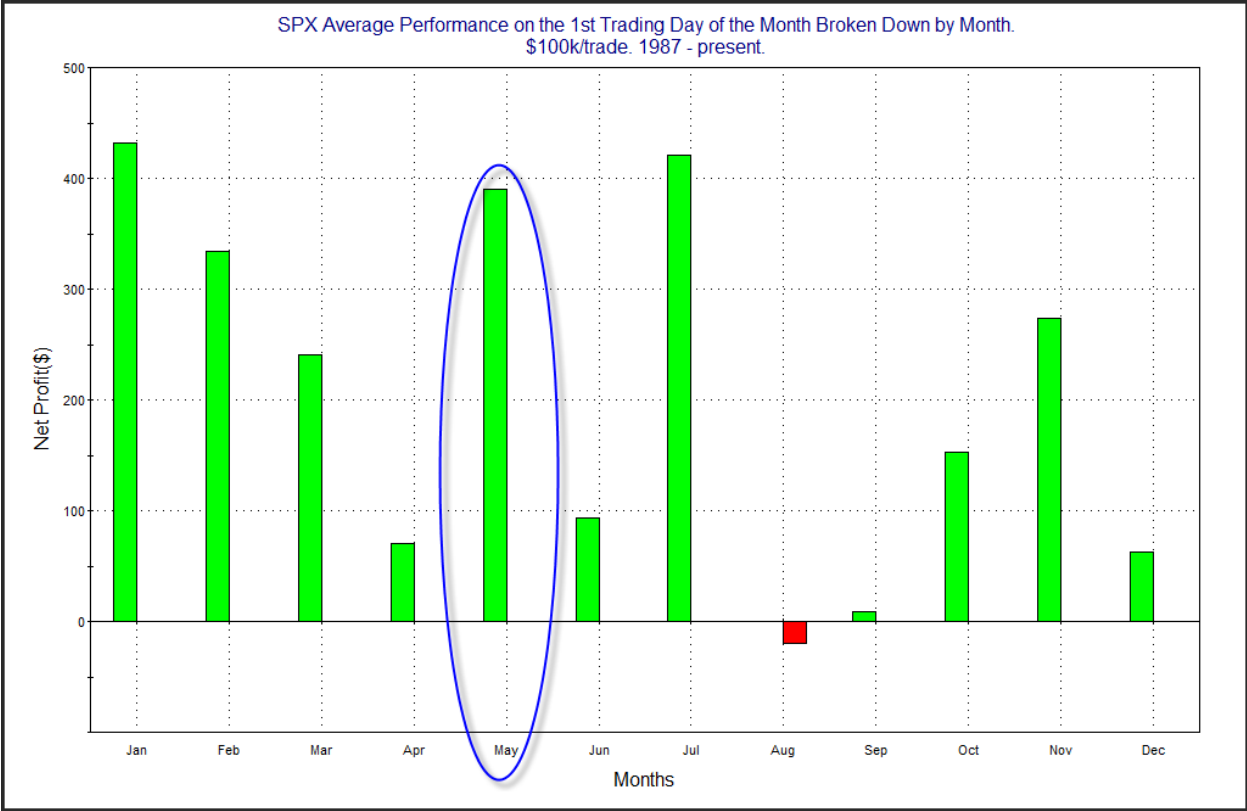


The numbers all look very solid. About 61% of the trades were winners, and the winners were about 1.4 times the size of the losers, making for a profit factor of 2.13. But now let's examine results when SPX is below the 200ma.

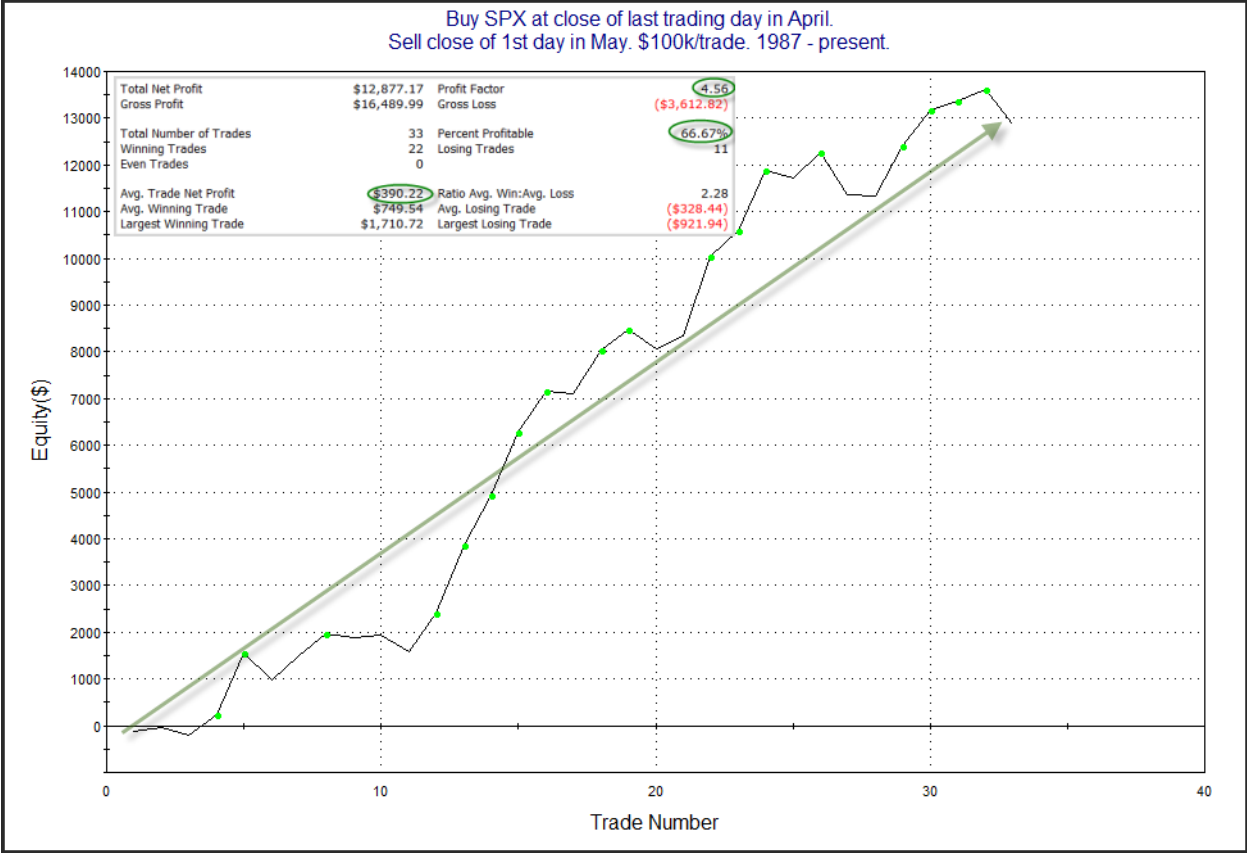


The extremely inconsistent results show this setup to be unreliable.

But as I pointed out in the 5/1/19 letter last year, May has been a strong month when looking at 1st-day performance. This can be seen in the graph below.



Average gains for May were only slightly behind January and July. The stats table and profit curve below show how May has performed over the years.



Both the stats and the upslope are strong, suggesting a bullish edge. But in light of the study showing the edge has generally struggled to play out when SPX is below the 200ma, I decided to filter the May results to see how it has done when below the 200ma.

It is the last day of April. SPX < 200ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1987 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|-----------|--------|------------|----------|--------------------|
| 4/29/1988 | Buy | \$261.33 | 0.09% | \$87.86 |
| 5/2/1988 | Sell | \$261.56 | | (\$515.70) |
| 4/30/1990 | Buy | \$330.80 | 0.44% | \$613.06 |
| 5/1/1990 | Sell | \$332.25 | | \$0.00 |
| 4/29/1994 | Buy | \$450.91 | 0.47% | \$587.86 |
| 5/2/1994 | Sell | \$453.02 | | (\$411.06) |
| 4/30/2001 | Buy | \$1,249.48 | 1.36% | \$1,359.20 |
| 5/1/2001 | Sell | \$1,266.46 | | (\$474.40) |
| 4/30/2002 | Buy | \$1,076.92 | 0.89% | \$1,048.80 |
| 5/1/2002 | Sell | \$1,086.46 | | (\$1,069.96) |
| 4/30/2008 | Buy | \$1,385.58 | 1.71% | \$1,763.28 |
| 5/1/2008 | Sell | \$1,409.34 | | (\$180.72) |
| 4/30/2009 | Buy | \$872.81 | 0.54% | \$874.38 |
| 5/1/2009 | Sell | \$877.52 | | (\$764.94) |

Only 7 instances, but they were all winners. Therefore, I decided to give the 1st of May some consideration on the Active List.

April finished with a 12.7% gain for the SPX. That is the strongest 1-month gain since January of 1987. I decided to look back at all other instances following 1-month SPX (or its predecessor the S&P 90) gains of 10% or more. The table below shows all instances since 1928.

SPX closes up > 10% on the month.
1, 3, 6, & 12-month forward returns examined.

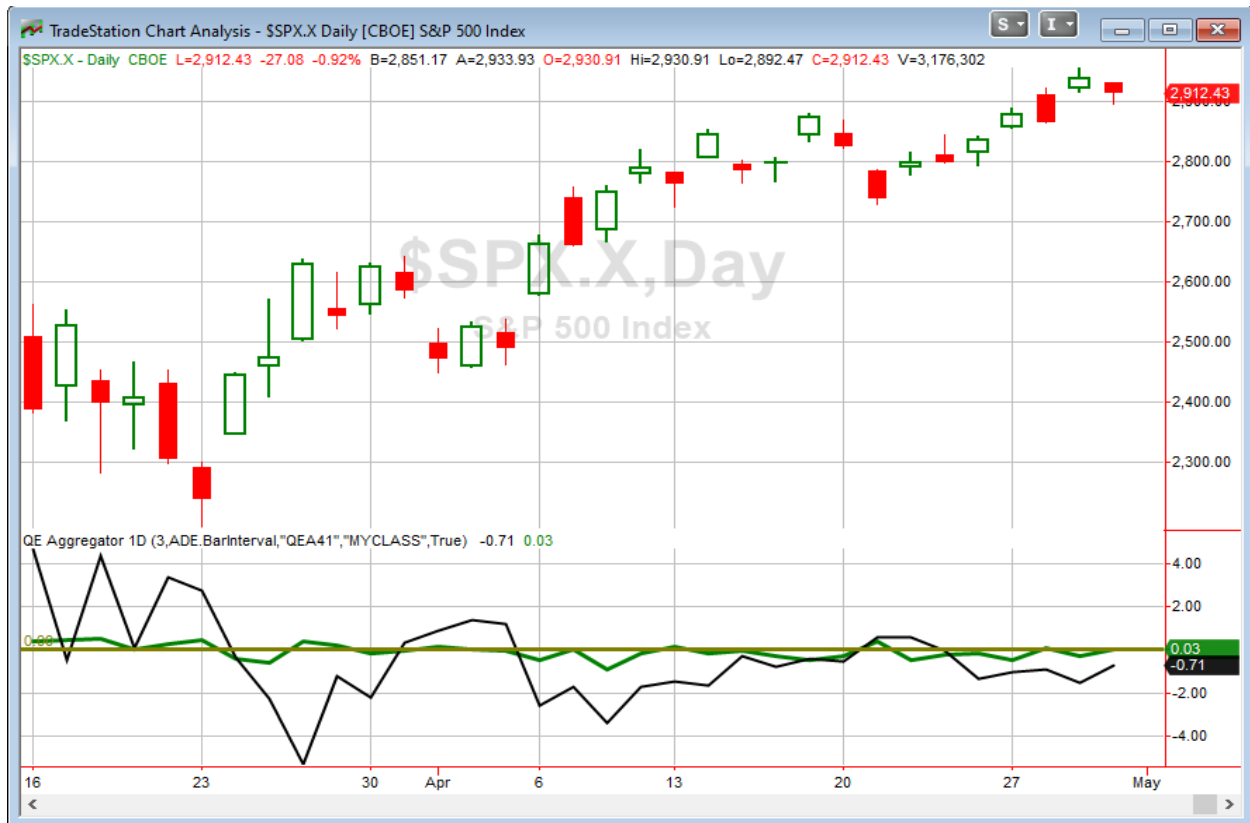
| Ticker | Date/Time | Last Month %Chg | Close | 21-Day %Chg | 63-Day %Chg | 126-Day %Chg | 252-Day %Chg |
|---------|------------|-----------------|---------------|---------------|---------------|---------------|---------------|
| \$\$SPX | 3/30/1928 | 11.7 | 19.28 | 2.59 | -0.73 | 9.65 | 31.22 |
| \$\$SPX | 11/30/1928 | 11.99 | 24.28 | 2.18 | 4.28 | 5.6 | -9.93 |
| \$\$SPX | 6/28/1929 | 10.39 | 27.41 | 3.98 | 10.43 | -22.73 | -25.36 |
| \$\$SPX | 2/27/1931 | 11.37 | 18.03 | -7.6 | -26.18 | -24.02 | -54.02 |
| \$\$SPX | 6/30/1931 | 13.9 | 14.83 | -7.35 | -29.2 | -45.38 | -70.13 |
| \$\$SPX | 7/29/1932 | 36.12 | 6.03 | 42.29 | 17.58 | 15.09 | 75.62 |
| \$\$SPX | 8/31/1932 | 39.14 | 8.39 | -3.69 | -22.88 | -17.4 | 32.66 |
| \$\$SPX | 4/28/1933 | 33.85 | 7.83 | 24.9 | 33.21 | 21.84 | 30.91 |
| \$\$SPX | 5/31/1933 | 23.12 | 9.64 | 11.41 | 16.18 | 2.49 | -1.56 |
| \$\$SPX | 6/30/1933 | 13.17 | 10.91 | -6.05 | -10.91 | -8.62 | -9.99 |
| \$\$SPX | 8/31/1933 | 11.46 | 11.09 | -13.26 | -10.73 | -4.42 | -16.95 |
| \$\$SPX | 11/29/1933 | 10.27 | 9.88 | 2.33 | 11.44 | -3.95 | -3.24 |
| \$\$SPX | 1/31/1934 | 12.04 | 11.17 | -1.43 | -7.88 | -19.34 | -20.41 |
| \$\$SPX | 4/29/1938 | 15.06 | 9.78 | -5.21 | 26.07 | 34.36 | 15.03 |
| \$\$SPX | 6/30/1938 | 24.7 | 11.56 | 5.97 | 2.94 | 14.45 | -3.2 |
| \$\$SPX | 7/31/1939 | 10.87 | 12.04 | -4.65 | 7.64 | 0.08 | -14.78 |
| \$\$SPX | 9/29/1939 | 14.4 | 12.79 | 0.31 | -0.16 | -2.11 | -15.09 |
| \$\$SPX | 11/30/1962 | 10.16 | 62.26 | 0.69 | 3.95 | 13.54 | 18.25 |
| \$\$SPX | 10/31/1974 | 16.3 | 73.9 | -7.83 | 4.17 | 20.73 | 20.85 |
| \$\$SPX | 1/31/1975 | 12.28 | 76.98 | 8.55 | 15.9 | 14.3 | 31.02 |
| \$\$SPX | 1/30/1976 | 11.83 | 100.86 | -0.28 | 0.77 | 2.56 | 1.06 |
| \$\$SPX | 11/28/1980 | 10.24 | 140.52 | -3.69 | -6.06 | -5.77 | -10.98 |
| \$\$SPX | 8/31/1982 | 11.6 | 119.51 | 0.76 | 15.91 | 26.25 | 35.76 |
| \$\$SPX | 10/29/1982 | 11.04 | 133.72 | 3.6 | 8.07 | 22.97 | 23.27 |
| \$\$SPX | 8/31/1984 | 10.63 | 166.68 | -1.85 | -1.86 | 9.23 | 13.17 |
| \$\$SPX | 1/30/1987 | 13.18 | 274.08 | 3.66 | 5.09 | 16.27 | -6.21 |
| \$\$SPX | 12/31/1991 | 11.16 | 417.09 | -1.31 | -3.21 | -2.15 | 5.01 |
| \$\$SPX | 10/31/2011 | 10.77 | 1253.3 | -0.51 | 5.65 | 11.89 | 13.91 |
| | | | Avg | 1.73 | 2.48 | 3.05 | 3.07 |
| | | | Median | 0.02 | 4.06 | 4.08 | -0.25 |
| | | | % Wins | 39.29% | 57.14% | 57.14% | 50.00% |

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The averages, medians, and % wins all look very mild, suggesting there may not be a clear edge looking forward. Of course a lot of the instances occurred in the 1930s. If you only look back to 1962, then the forward returns other than the 21-day (1-month) all look quite favorable. So for a 3-12 month view, perhaps it is worth considering whether the current market environment is more

similar to the one we have seen over the last 60 years, or the one seen in the 1930s. I would say that arguments could be made in either direction.

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



With tonight's evidence considered, the green Aggregator Line inched slightly 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.

Both of the studies on the short-term active list are set to expire on Friday. And with the intermediate-term outlook neutral, that means expectations are currently slated to turn neutral as well. Of course expectations over the next few days will be largely influenced by any new evidence that emerges. Meanwhile, the Differential Pivot will be 2843.63 on Friday. That is 2.4% below Thursday's close. So SPX would need to close down 2.4% on Friday in order to flip from overbought to oversold vs recent expectations.

The Aggregator is neutral and so am I. I see no reason to jump into a trade without a compelling edge, especially in such a choppy and volatile environment. I'll wait to see how Friday plays out, and the evaluate my options over the weekend.

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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