

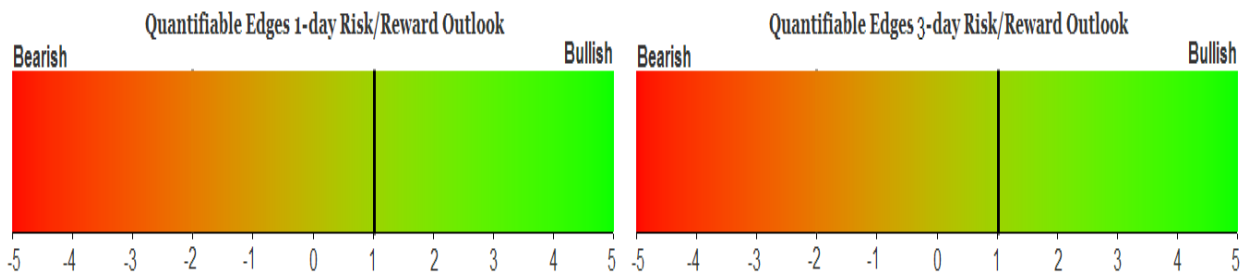
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 5, 2020

Volume 13 Issue 87

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The gap down and reversal pattern for SPY under similar circumstances is one that has often seen a move lower in the next 1-2 days.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is mixed and SPX is right in the middle of its 10-day range. The setup does not appear to offer great reward/risk.

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						
May 5, 2020	SPY gap down, sell further, revs positive	1-2 days	Bearish			
May 4, 2020	SPX down 2.5% on a Friday	1-5 days	Bullish	3.70%	-2.60%	-5.55%
Active - Long Term						
April 30, 2020	370% Up Issues Days	1-85 days	Bullish	10.40%	-4.30%	-11.00%
April 29, 2020	Sell in May after 5% drop Jan-Apr	6 months	Bearish			
April 13, 2020	4th consecutive 70% up day	1-21 days	Bullish			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			

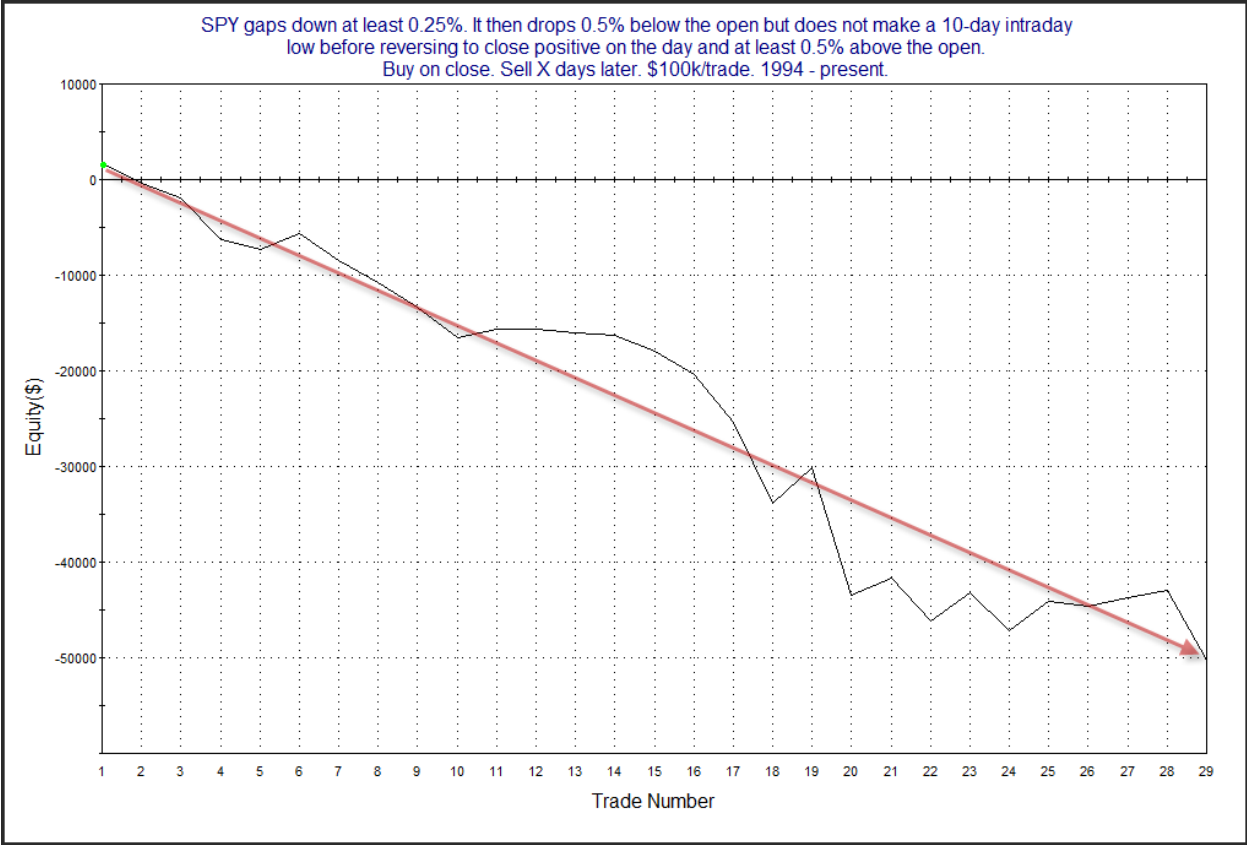
The Evidence

Monday started with a morning selloff, but that reversed in the afternoon and the indices all finished higher. The SPX rose 0.4%, the NASDAQ rallied 1.2%, and the Russell 2000 gained 0.3%. Breadth was a little negative as the NYSE Up Issues % was 46.3% and the Up Volume % came in at 45.6%. NYSE volume rose a little from Friday's level.

The somewhat mild closing numbers and the fact that the market again closed near the middle of its recent range did not help to trigger very many compelling studies. There was one interesting study that appeared in the Quantifinder. It looked at the gap down, move lower, and then a reversal. It was last seen in the 3/20/20 letter. I have updated the results below.

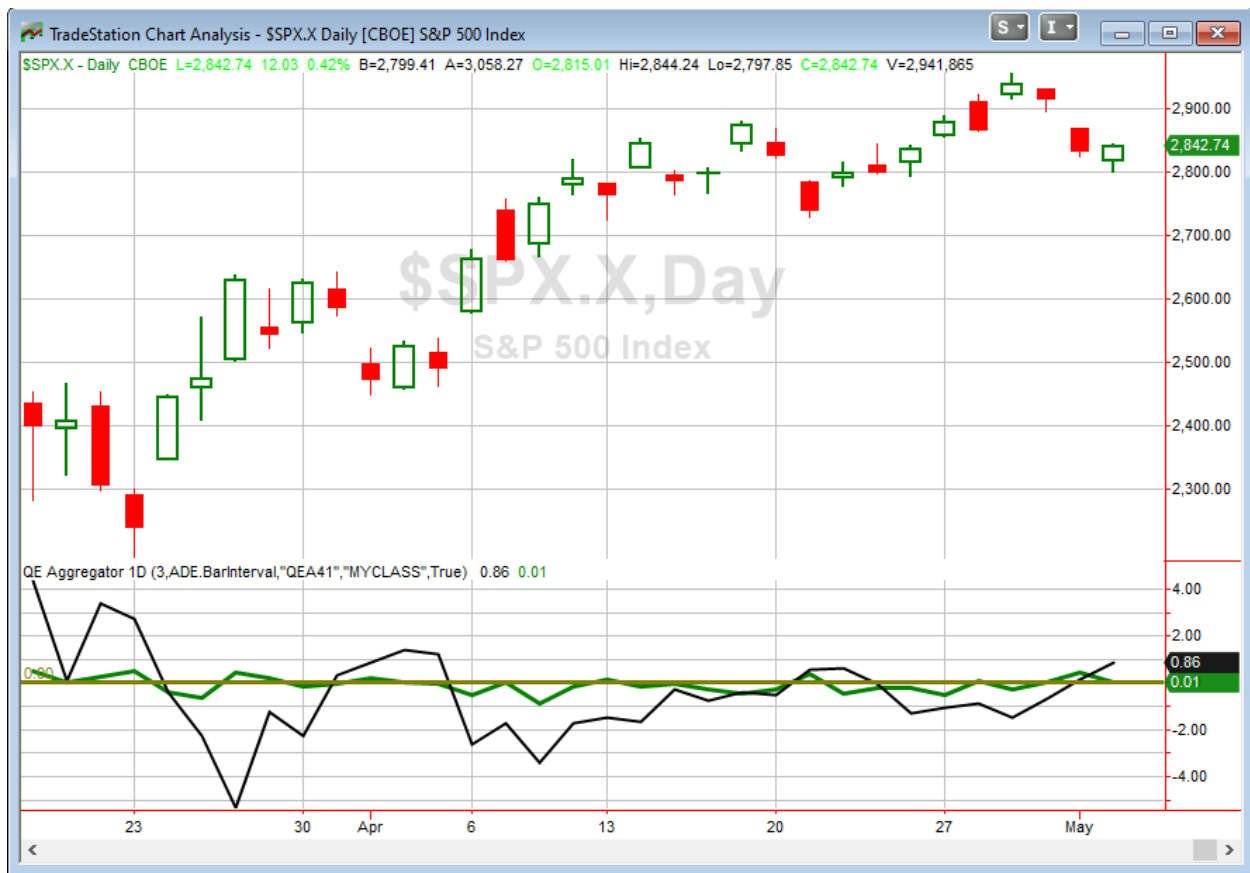
SPY gaps down at least 0.25%. It then drops 0.5% below the open but does not make a 10-day intraday low before reversing to close positive on the day and at least 0.5% above the open. Buy on close. Sell X days later. \$100k/trade. 1994 - present.												
X Days	All: Net Profit	All: Total Trades	All: 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	-20,994.53	26	12	14	46.15	8,586.35	-15,971.55	2,355.72	-3,518.80	0.67	0.57	-807.48
4	-48,712.57	27	10	17	37.04	2,606.20	-13,801.83	1,601.38	-3,807.44	0.42	0.25	-1,804.17
3	-34,314.22	28	13	15	46.43	3,599.75	-9,763.74	1,541.08	-3,623.22	0.43	0.37	-1,225.51
2	-50,228.46	29	9	19	31.03	3,694.56	-13,351.24	1,968.23	-3,575.92	0.55	0.26	-1,732.02
1	-19,069.24	31	14	17	45.16	3,490.59	-6,405.84	1,391.26	-2,267.46	0.61	0.51	-615.14

The stats appear to suggest a downside edge, especially over the 1st 2 days. Below I have produced an profit curve to show how the edge has played out over time.



The curve is a bit choppy but it has made its way from upper left to middle right, and again hit a new low on the last instance. Overall, this seems to support the idea of a 1-2 day bearish edge.

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



Even with tonight's bearish study considered, the green Aggregator line held slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also remained 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 stayed long at the close.

Based on the current active list, expectations are set to remain positive on Tuesday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2905.25 on Tuesday. That is 2.2% above Monday's close. Therefore, SPX would need to close up 2.2% on Tuesday in order to flip from oversold to overbought vs recent expectations.

I was a bit conservative with my entry idea over the weekend, looking for a down close Monday to get long. As it turns out, the gap down open would have been a pretty good long entry. The edge still appears to be higher, but evidence is certainly mixed. In this environment I would prefer to have 1) a bit more clarity on the short-term edge, and 2) a more favorable entry point (not chasing higher while already mid-range). So I will sit out Tuesday and observe any new evidence that emerges before determining my next move for an index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/4 – neutral

The intermediate-term outlook was last updated in the 5/4/20 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.

None tonight.

Current Open Trade Ideas

None.

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