

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2020

Volume 13 Issue 90

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The gap up and close below the open pattern of the last 3 days often leads to a rise the following day.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am too.

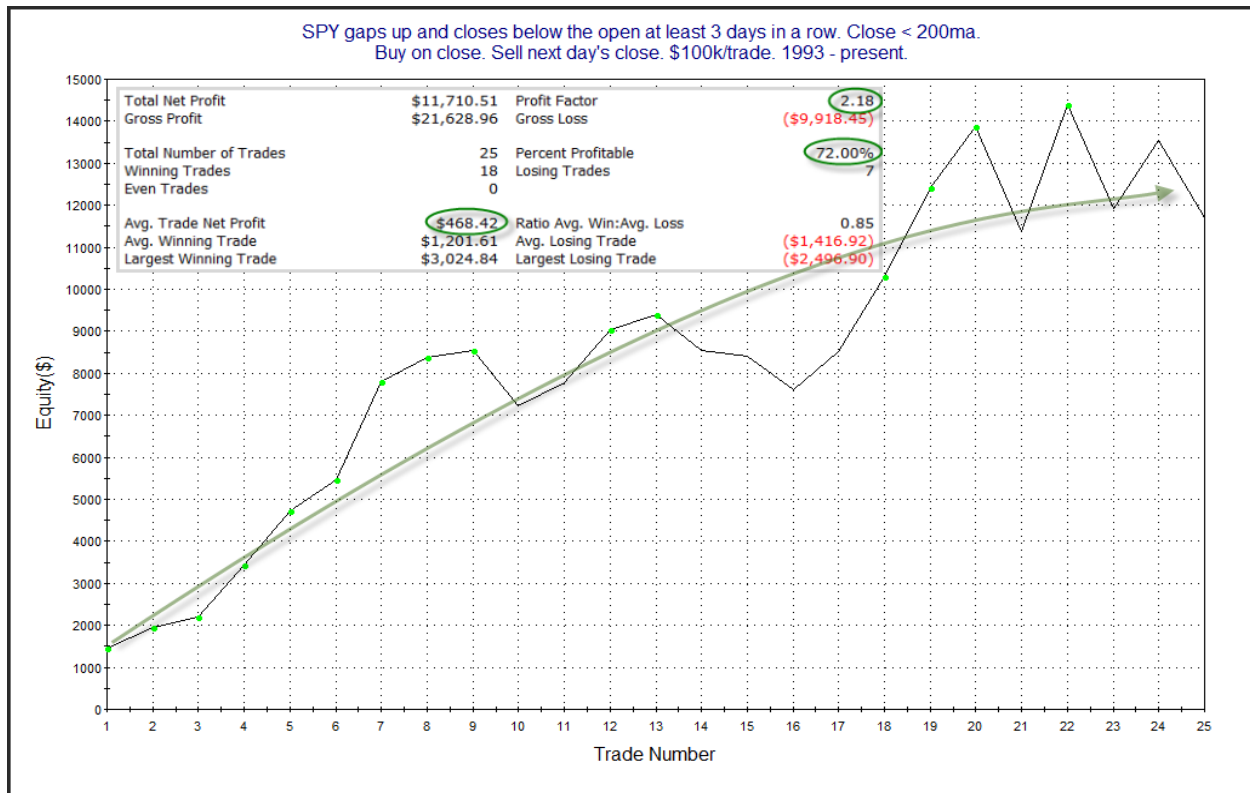
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
May 8, 2020	Gap up and lower close 3x < 200	1 day	Bullish			
May 7, 2020	Gap up 0.5%. Close down lower vol < 200	1-2 days	Bullish			
May 6, 2020	SPY unfill up lower vol 10. Cl > 10 < 200	1-3 days	Bearish	1.20%	-2.60%	-5.50%
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	37.0% 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 7.0% up day	1-21 days	Bullish			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			

The Evidence

Thursday was a day of gains for the indices. The SPX finished rose 1.2%, the NASDAQ gained 1.4%, and the Russell 2000 jumped 1.6%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % also came in at 73%. NYSE volume rose some from Wednesday’s level.

For the 3rd day in a row, SPY gapped up and then closed below its opening price. The study below looks at other instances of this happening when SPY has been below its 200ma.



The numbers are strong and the curve is pretty good, although it has faded some in the last few instances. I am only showing 1-day results here because the edge did not persist beyond that. Still, this study appears to be worth some consideration for Friday.

Also notable is that the Fed released the SOMA data for this past week on Thursday after the close. You can see the numbers below.

« As of 04/29/2020

DOMESTIC SECURITIES HOLDINGS AS OF
May 6, 2020

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,393,970,049.6
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	248,265,919.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,597,206,156.0
Total SOMA Holdings	5,583,378,870.7
Change From Prior Week	48,445,000.1

*Does not reflect inflation compensation of 36,365,239.3
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 05/07/2020 4:30pm.

The \$48 billion increase this week is a little above what we saw last week. After some monstrous numbers over the previous 5 weeks, the last two have seen substantially lower inflows. Still the \$40-\$50 billion range would be considered quite high for any other Quantitative Easing program that has been done in the past. The Fed is still doing all it can to support the economy, and the market is benefitting.

I should also note the employment report is set to be released at 8:30am on Friday. The numbers are going to be massive, but the market already knows that. So I really have no idea how the market is going to react to them. The reaction could be sharp, though. It often is, especially in already-volatile environments.

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



With tonight's evidence considered, the green Aggregator line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 stayed flat at the close.

All 4 active short-term studies are set to expire on Friday. So with the intermediate-term outlook neutral, that means expectations will be largely dependent on any new evidence that emerges over the next few days. Meanwhile, the Differential Pivot will be 2874.94 on Friday. That is 0.2% below Thursday's close. Therefore, SPX will only need to close down about 0.2% in order to flip from overbought to oversold vs expectations on Friday.

So the Aggregator is neutral and it seems that it could easily swing either way on Friday. The Differential Pivot is not far off, and expectations will depend largely on new evidence that emerges. I am neutral on the market, looking to get flat, and not inclined to take on new index exposure heading into the weekend.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(s)	5/6/2020	\$288.04	\$287.68	0.12%		<i>see note below</i>

It is unfortunate that the exit from last night just missed getting filled. I am not inclined to chase a big gap up if it happens in this choppy market. Obviously, I will cover on any gap down. Otherwise, I will use a limit of \$288.00 to look to cover the current SPY short position. Traders may consider exiting before the employment report is released pre-NYSE hours if there is a favorable cover to be had. The employment report could create a big move in either direction.

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