

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2020

Volume 13 Issue 91

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Strong moves to new intermediate-term highs for the NASDAQ on employment days often see follow through over the next week.
- Opex week is often bullish, but has not been so historically in May.
- Despite massive unemployment, the last 33 days have seen the biggest 33-day rally since the 1930s.
- Chop continues to reign.
- The Fed continues to pumping, while still massive, has slowed substantially from what we had seen over the last several weeks.

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						
None						
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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
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 lowet 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%

The Evidence

Friday was a day of gains for the indices. The SPX rose 1.7%, the NASDAQ gained 1.6%, and the Russell 2000 jumped 3.6%. Breadth was positive as the NYSE Up Issues % was 83% and the Up Volume % came in at 89%. NYSE volume declined some from Thursday's level.

Despite a horrific unemployment report on Friday, the market rallied hard, and the NASDAQ closed at a new 50-day high. This triggered the study below, from the 5/6/19 letter. I never thought I would update it on such a horrible employment report day...but here it is.

Today is an employment day. NASDAQ closes up > 1% and at a 50-day high. Buy NASDAQ on close. Sell 5 days later. \$100k/trade. 1995 - 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	24,032.90	21	18	3	85.71	3,803.52	-2,964.72	1,560.16	-1,349.97	1.16	6.93	1,144.42
4	16,277.17	21	15	6	71.43	3,040.00	-3,040.92	1,518.73	-1,083.97	1.40	3.50	775.10
3	9,116.63	21	14	7	66.67	1,943.61	-2,648.16	1,146.08	-989.78	1.16	2.32	434.13
2	1,924.61	21	14	7	66.67	1,856.12	-3,675.86	760.96	-1,246.97	0.61	1.22	91.65
1	3,544.02	21	14	7	66.67	1,333.76	-1,485.83	513.69	-521.09	0.99	1.97	168.76

The results above appear quite compelling for the bulls. Below is the full list of trades.

Today is an employment day. NASDAQ closes up > 1% and at a 50-day high.
Buy NASDAQ on close. Sell 5 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/7/1995	Buy	\$969.76	3.05%	\$3,086.91
7/14/1995	Sell	\$999.33		\$0.00
10/4/1996	Buy	\$1,247.56	0.06%	\$732.80
10/11/1996	Sell	\$1,248.27		(\$1,193.60)
2/6/1998	Buy	\$1,694.32	0.95%	\$1,226.61
2/13/1998	Sell	\$1,710.42		(\$478.49)
7/2/1999	Buy	\$2,741.02	1.81%	\$2,567.88
7/12/1999	Sell	\$2,790.61		(\$562.32)
11/5/1999	Buy	\$3,102.29	3.83%	\$3,862.40
11/12/1999	Sell	\$3,221.15		(\$1,069.76)
12/3/1999	Buy	\$3,520.63	2.83%	\$3,553.76
12/10/1999	Sell	\$3,620.23		(\$361.48)
3/3/2000	Buy	\$4,903.99	2.95%	\$4,570.60
3/10/2000	Sell	\$5,048.62		(\$3,637.00)
5/2/2003	Buy	\$1,502.88	1.15%	\$1,910.04
5/9/2003	Sell	\$1,520.15		(\$1,054.02)
7/8/2005	Buy	\$2,112.88	2.08%	\$2,411.10
7/15/2005	Sell	\$2,156.78		\$0.00
1/6/2006	Buy	\$2,305.62	0.50%	\$1,173.90
1/13/2006	Sell	\$2,317.04		(\$107.07)
10/5/2007	Buy	\$2,780.32	0.91%	\$1,878.80
10/12/2007	Sell	\$2,805.68		(\$789.60)
4/3/2009	Buy	\$1,621.87	1.94%	\$2,376.56
4/13/2009	Sell	\$1,653.31		(\$3,807.01)
3/5/2010	Buy	\$2,326.35	1.78%	\$2,097.06
3/12/2010	Sell	\$2,367.66		(\$25.62)
2/3/2012	Buy	\$2,905.66	-0.06%	\$850.68
2/10/2012	Sell	\$2,903.88		(\$696.66)
2/1/2013	Buy	\$3,179.10	0.46%	\$551.49
2/8/2013	Sell	\$3,193.87		(\$1,504.43)
5/3/2013	Buy	\$3,378.63	1.72%	\$1,681.13
5/10/2013	Sell	\$3,436.58		\$0.00
8/5/2016	Buy	\$5,221.12	0.23%	\$330.98
8/12/2016	Sell	\$5,232.90		(\$519.08)
3/9/2018	Buy	\$7,560.81	-1.04%	\$993.98
3/16/2018	Sell	\$7,481.99		(\$1,269.06)
6/1/2018	Buy	\$7,554.33	1.21%	\$1,860.04
6/8/2018	Sell	\$7,645.51		\$0.00
5/3/2019	Buy	\$8,164.00	-3.03%	\$0.00
5/10/2019	Sell	\$7,916.94		(\$4,855.92)
11/1/2019	Buy	\$8,386.40	1.06%	\$1,064.36
11/8/2019	Sell	\$8,475.31		(\$77.77)
Total Net Profit		\$24,032.90	Profit Factor	6.93
Gross Profit		\$28,082.80	Gross Loss	(\$4,049.90)
Total Number of Trades		21	Percent Profitable	85.71%
Winning Trades		18	Losing Trades	3
Even Trades		0		
Avg. Trade Net Profit		\$1,144.42	Ratio Avg. Win:Avg. Loss	1.16
Avg. Winning Trade		\$1,560.16	Avg. Losing Trade	(\$1,349.97)
Largest Winning Trade		\$3,803.52	Largest Losing Trade	(\$2,964.72)

QuantifiableEdges.com

This certainly appears to suggest NASDAQ momentum could continue into next week. I also checked to see how SPX performed after the NASDAQ action. Results here were interesting.

Today is an employment day. NASDAQ closes up > 1% and at a 50-day high. Buy SPX on close. Sell 5 days later. \$100k/trade. 1995 - 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	6,187.51	20	14	6	70.00	1,915.14	-2,119.92	853.12	-959.37	0.89	2.07	309.38
4	1,646.35	20	12	8	60.00	1,659.08	-2,472.36	853.09	-1,073.84	0.79	1.19	82.32
3	-4,268.45	20	11	9	55.00	1,358.28	-2,971.50	671.35	-1,294.81	0.52	0.63	-213.42
2	-7,684.24	20	10	10	50.00	848.70	-3,748.50	461.83	-1,230.25	0.38	0.38	-384.21
1	-3,199.59	20	7	13	35.00	621.56	-1,252.30	359.18	-439.53	0.82	0.44	-159.98

What is immediately evident is that none of the numbers are nearly as strong. While the indices often move together, the NASDAQ momentum did not seem to carry over very well for the SPX.

But I will also note that Friday was the 5th day in a row that QQQ closed up. Such streaks when resulting in a new 50-day high are often followed by a pause. This can be seen in the table below.

QQQ closes up for the 5th day in a row and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-7,581.42	65	43	22	66.15	4,595.15	-12,611.82	1,250.51	-2,788.79	0.45	0.88	-116.64
4	-865.88	65	41	24	63.08	5,537.25	-7,020.75	1,167.65	-2,030.81	0.57	0.98	-13.32
3	-27.71	65	40	25	61.54	2,331.56	-8,935.50	897.66	-1,437.36	0.62	1.00	-0.43
2	-1,322.44	65	43	22	66.15	5,920.20	-6,595.25	804.71	-1,632.94	0.49	0.96	-20.35
1	1,085.47	65	39	25	60.00	1,780.20	-2,707.56	484.71	-712.73	0.68	1.06	16.70

No substantial edge suggested by these numbers. So if momentum is going to carry forward, the NASDAQ may benefit. But that is no sure thing.

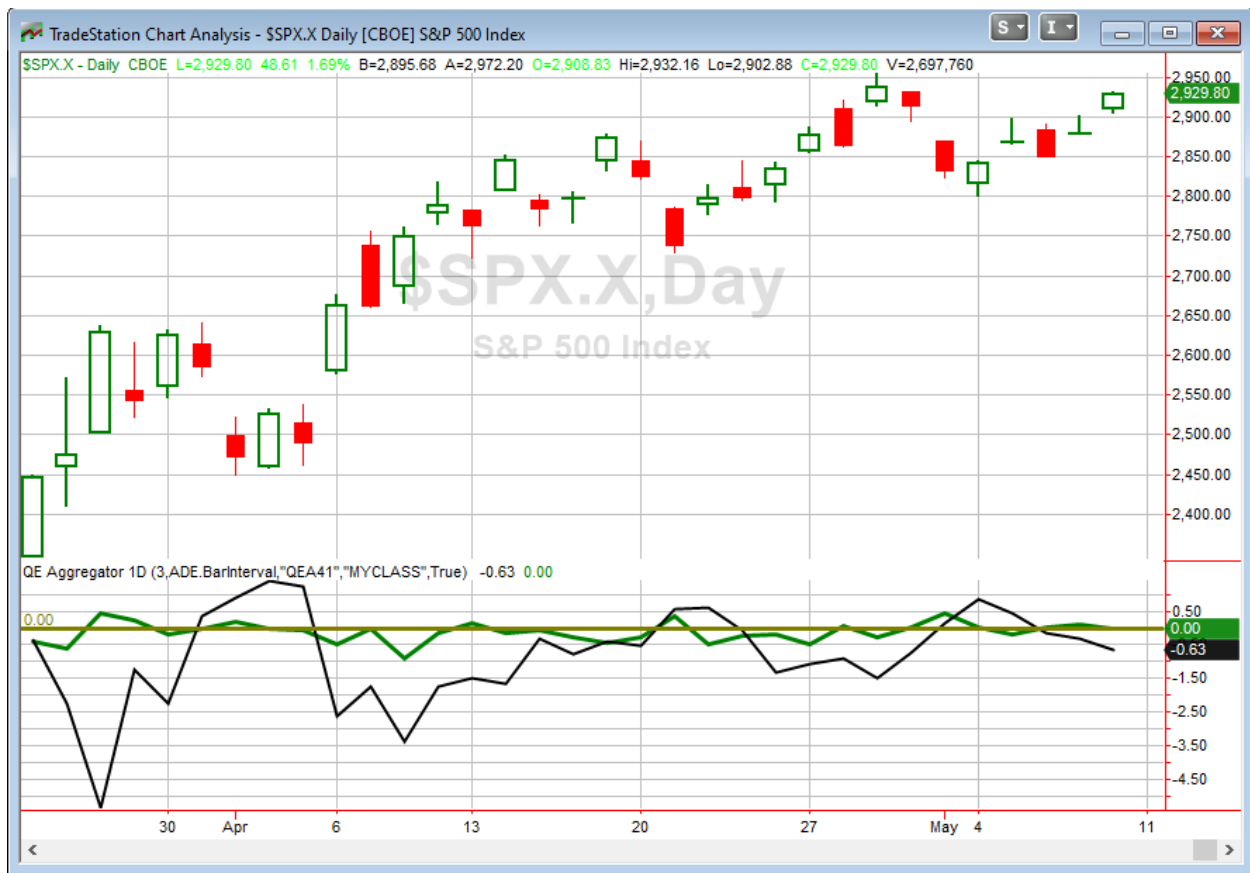
Of course next week is options expiration week. Opex week can often be a bullish week for the market. But that has not typically been the case in May. This can be seen in the table below, which I copied directly from the 3/16/20 letter (and have not updated).

Opex week SPX performance by month. 1984 - present.
(Excludes September 2001)

Month	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
12	23,690.73	36	27	9	75.00	5,868.16	-6,968.06	1,464.22	-1,760.35	0.83	2.50	658.08
11	5,097.93	36	22	14	61.11	3,718.25	-8,351.64	1,394.28	-1,826.87	0.76	1.20	141.61
10	26,794.86	36	27	9	75.00	7,282.10	-9,109.98	2,004.08	-3,035.03	0.66	1.98	744.30
9	15,510.55	35	22	13	62.86	5,313.08	-4,975.04	1,492.41	-1,332.49	1.12	1.90	443.16
8	-2,383.49	36	19	17	52.78	4,329.72	-5,670.55	1,387.73	-1,691.20	0.82	0.92	-66.21
7	314.19	36	19	16	52.78	6,921.25	-7,953.12	1,344.99	-1,577.54	0.85	1.01	8.73
6	186.18	36	21	15	58.33	3,786.09	-3,998.19	1,164.20	-1,617.47	0.72	1.01	5.17
5	1,071.21	36	17	19	47.22	4,850.40	-4,959.45	1,821.90	-1,573.74	1.16	1.04	29.76
4	31,748.45	36	24	12	66.67	5,731.96	-3,580.15	2,079.09	-1,512.48	1.37	2.75	881.90
3	32,107.04	36	25	11	69.44	7,515.60	-6,711.66	1,970.53	-1,559.66	1.26	2.87	891.86
2	17,413.45	37	22	15	59.46	4,281.46	-6,814.80	1,643.32	-1,249.31	1.32	1.93	470.63
1	10,235.41	37	18	19	48.65	5,389.00	-5,383.93	2,125.65	-1,475.07	1.44	1.37	276.63

So the studies that triggered just are not showing much of an edge for SPX over the next few days. There is some evidence that the NASDAQ momentum may continue, but even that is questionable after the streak we have seen.

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



With all 4 short-term studies expiring and the intermediate-term outlook neutral, the green Aggregator line is now exactly at zero. So expectations are flat 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. Flat expectations mean a neutral Aggregator formation. Therefore, the Aggregator signal stayed flat at the close.

Of course expectations over the next few days will be largely dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be 2841.76 on Monday. That is 3.0% below Friday's close. Therefore, SPX will need to close down a very sizable 3.0% in order to flip from overbought to oversold vs expectations on Monday.

So the Aggregator is neutral. But SPX is strongly overbought at this point. Therefore, a long setup is not going to happen without a strong pullback. SPX is up 2 days in a row, and is has not closed up 3 in a row since March 26th. If I had to pick a short-term direction it would be down for the next day or two. Of course other evidence supporting downside is lacking, and the NASDAQ momentum could carry through the next few days. Overall, I do not see a strong edge, and am not inclined to take on new positions here.

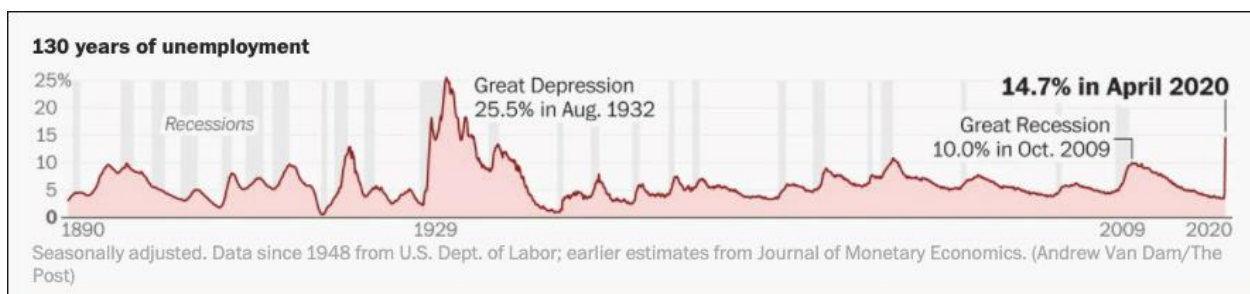
Intermediate-term Outlook (2 weeks – 2 months) – updated 5/11 – neutral

Combo #1	Combo #2	Combo #3
Long	Long	Flat

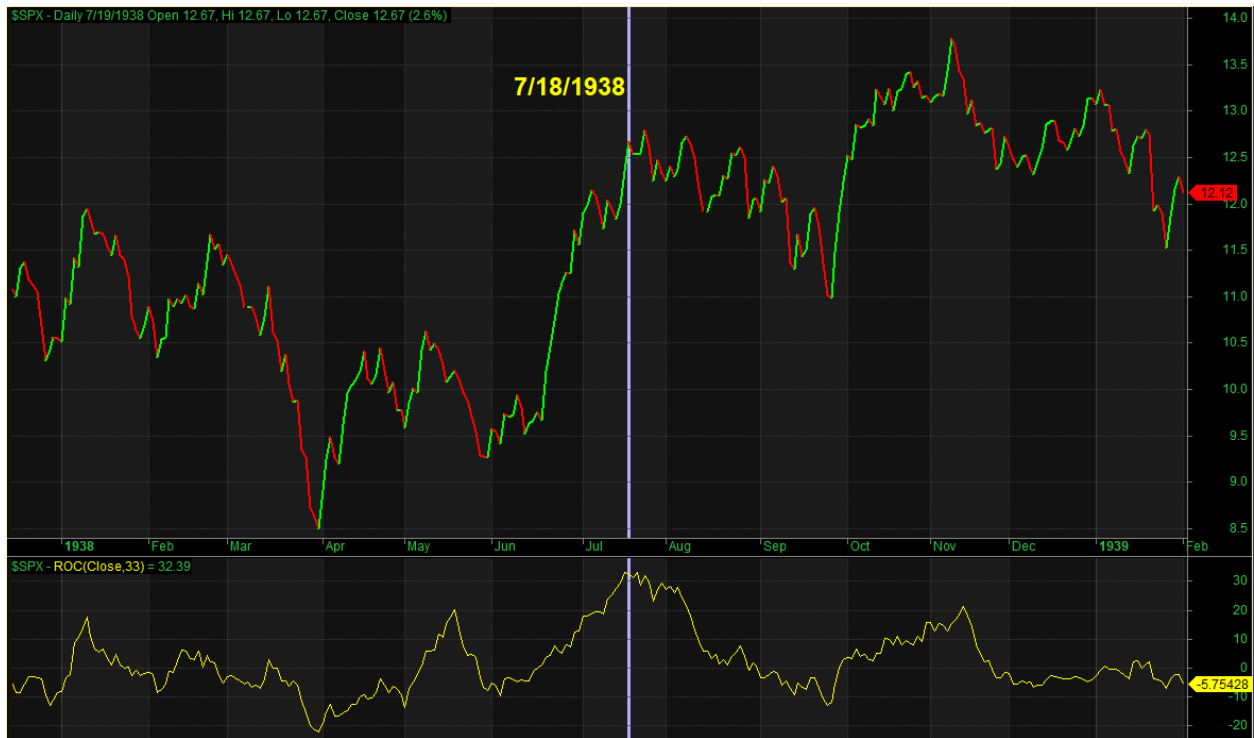
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week Combo System #3 flipped from “Long” to “Flat” at the close on Thursday.*

It was a strong week for the market. The SPX gained 3.5%, and the NASDAQ rose 6.0%, and the Russell 2000 closed up 5.5%. The trend has certainly been up since the March bottom. The NASDAQ is now back at a 50-day high, and the SPX is further above its 50ma that it has been in all of 2020 (though still below its 200ma).

As I discussed in the short-term section, the employment report on Friday was (expectedly) horrifying. 14.7% of the work force is now unemployed. The most interesting chart I saw with regards to unemployment came from [@adrewvandam](#) (h/t [@byheatherlong](#)). It showed that this is the highest unemployment rate since the Great Depression. I have copied it below.



When looking at a chart like this it appears quite shocking. 14.7% unemployment can't be good for the economy, and most people would think that the stock market would be struggling mightily in the face of such a number. But the SPX has now risen nearly 31% in the 33 trading days since the March 23rd bottom. Using S&P 90 data as a substitute for the S&P 500 pre-1954, I looked back to 1928 to identify other times the SPX has risen > 30% in 33 days. There have only been 3 other instances. All during the Great Depression. They were in 1938, 1933, and 1932. I have produced charts of those periods below. Let's start with 1938.



The vertical line is the date that the 33-day rate-of-change 1st exceeded 30% (7/18/1938). The 33-day rate of change can be seen in yellow on the bottom pane of the chart. This 33-day rally in 1938 was basically it for that move. It immediately began chopping lower for the next few months. Next let's look at 1933.



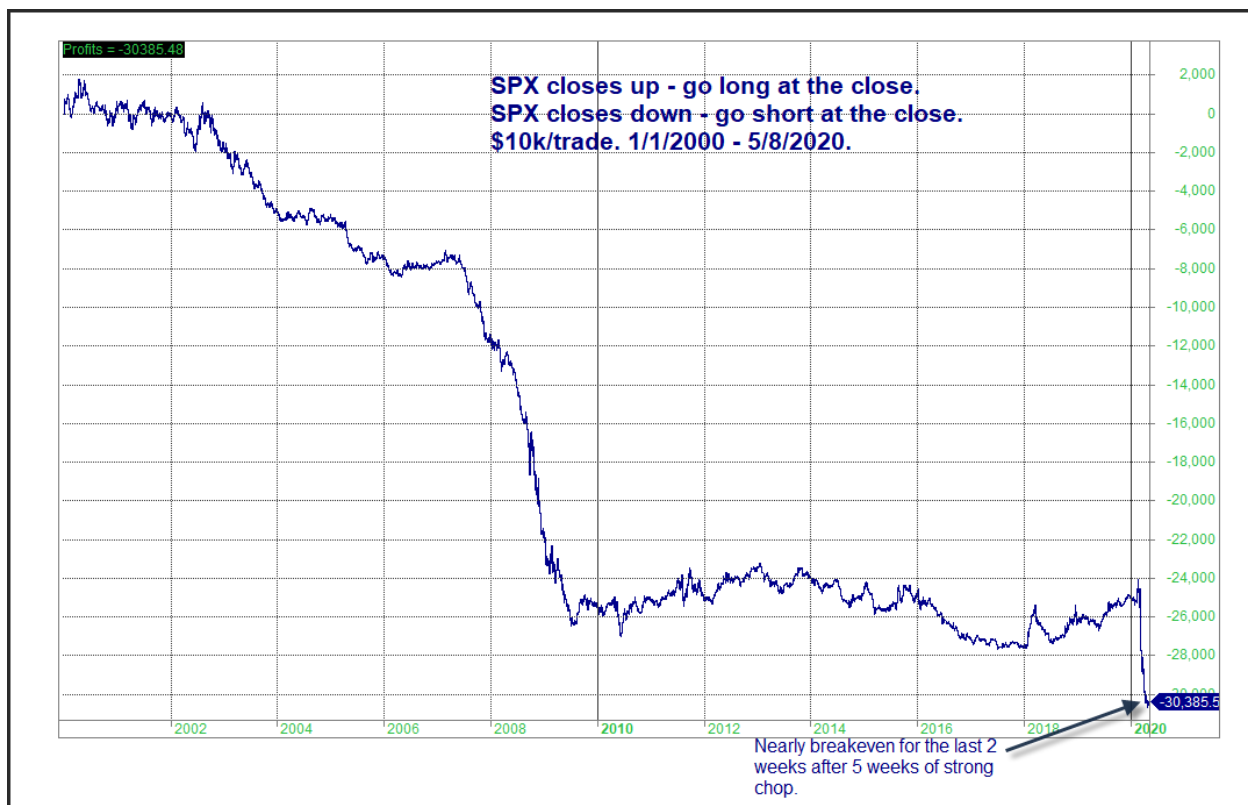
April 1933 was followed by significantly more rallying over the next few months before the next bear market emerged starting in July. Lastly, let's look at 1932.



As you can see, there was plenty more upside over the next month and a half before the index gave back most of the gains. Incredibly, the 33-day rate-of-change actually *spiked up to over 80%* at one point during August of 1932. Bottom line with the instances shown is that the market was wild, and it seemed to remain wild for months to come. Now let's recall the 1st chart I showed, with the unemployment data. Do you remember where the unemployment data hit its peak during the Great Depression? It was August of 1932. And from early July to early September of 1932 the SPX rallied over 100%.

The market has had a massive decline (like none seen since the 1930s), followed by a massive rally (like none seen since the 1930s). We have unemployment like none seen since the 1930s. Outsized declines and outsized rallies could very well persist for many months, if not years, to come. Being able to remain open-minded and adapting to changing conditions may be more important over the next several years than it has been for a long time.

Next is a copy of the “Trend vs Chop” chart I have been showing lately, updated again this week. If you want to read more about the background of this chart, you can check out the [“Daily Chop vs Trend in Bear Markets”](#) special report I did in March.



The profit curve line this week closed very close to where it finished the last 2 weeks. Still, the recent steepness suggests to me that chop is likely to continue ruling for some time longer. This is worth keeping in mind when considering short-term trading approaches.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. I have copied it below.

« As of 04/29/2020

DOMESTIC SECURITIES HOLDINGS AS OF

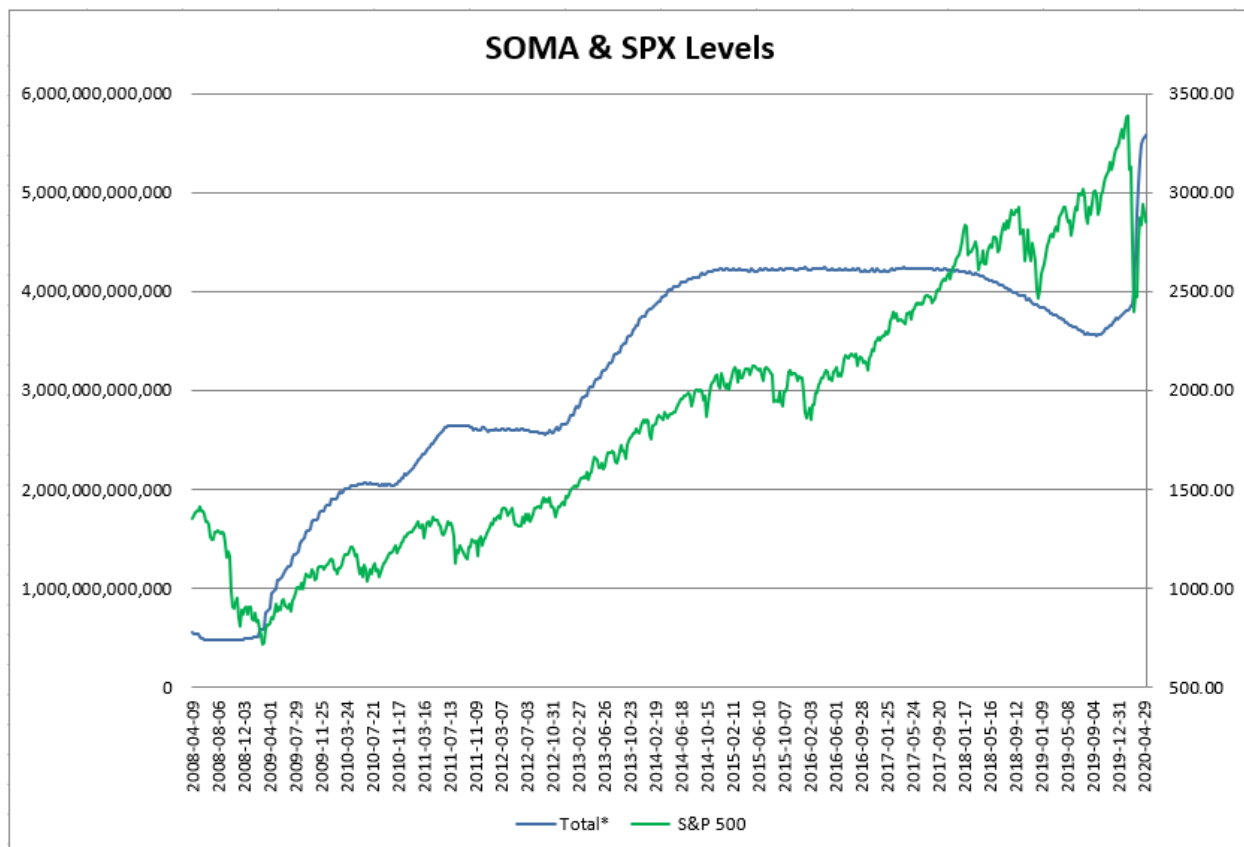
May 6, 2020 📅

Summary	T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
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. This will be worth keeping an eye on over the next several weeks. Our SOMA/SPX chart is updated below.



The SOMA is clearly at new highs. Massive QE stimulus in the past has always provided a huge boost for the market. And it certainly seems to have helped in the move off the bottom this time. Of course, the battle the Fed is fighting now is different than any we have seen since Fed SOMA data has been available (2003). Having the Fed so dovish is a big positive for the market. But there is a massive amount of uncertainty regarding the re-start of the economy, and the lasting impacts of even the shutdown to this point.

So here are a few things I am watching with regards to upcoming data and the economy:

- Re-openings have begun in many states. It will be important to monitor how quickly economic activity ramps back up.
- Just because businesses are “allowed” to re-open, does not mean they will. We saw bankruptcy filings this past week from giants like Gold’s Gym and J. Crew, and huge layoffs from Air BNB. Gyms, restaurants, travel services, and retail businesses can’t make money when they are closed. But restricted openings that allow only a fraction of former customers could cause them to lose money even faster.
- Even in places where restrictions may be minimal, demand might not come back for a long while.

- How much of re-opening leads to re-hiring?
- What happens to commercial real estate if restaurants and retailers are filing for bankruptcy?
- How fast will Americans adapt and find new lines of revenue and new innovations?
- What happens to banks if commercial real estate (and home) mortgages cannot be paid?
- What happens to budgets and debts of states and municipalities in the face of higher expenses due to COVID combined with lower tax revenues?
- Can the Fed continue to pump money and support financial markets, states, and business until the economy is back on good footing?
- What will be the implications for the economy/markets/inflation after all the pumping is done?

That's a lot to try and figure out. And it will take a long time to work through it all. Hence my continued neutral stance for the intermediate-term. We know huge government stimulus and Fed liquidity pumping favor the bulls. We have also seen some compelling long-term evidence based on breadth thrusts off the bottom. But volatility and chop are at extremely high levels. Sharp reversals have become the norm as traders overreact in both directions, with uncertainty and fear continuing to rule. Therefore, flexibility remains essential. As I laid out, there are a lot of unknowns. And the first batch of re-openings could be encouraging, or they could be a hard smack in the face. I do anticipate opportunities in both directions should continue to emerge – primarily playing overreactions. So I will stand ready to take advantage of opportunities both long and short.

A few fun links from this week

Walter Deemer ([@WalterDeemer](#)) pointed out this article on Twitter. I found it heart-warming: [173 years, \\$170: Why Irish people are donating to help Native Americans hit by coronavirus](#)

Another cool humanity story: [The real Lord of the Flies: what happened when six boys were shipwrecked for 15 months](#)

I am now related to the new Gerber Baby! (You'll note she looks nothing like me.) The father is my cousin, who is my age, and who I grew up with and remain close with. He texted me Thursday night and told me to watch the 3rd hour of the Today Show on Friday, but could not tell me why. Here is what happened:

<https://www.today.com/video/meet-the-2020-gerber-baby-the-1st-adopted-baby-chosen-83199557850>

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	\$292.44	-1.53%		<i>see note below</i>

So the entry here was great, but my exit was terrible, and was missed for 2 days in a row. Now we again see 2 days higher in a choppy environment. I will look to cover on any down close on Monday.

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