

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 12, 2020

Volume 13 Issue 92

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- 3 up days with similar circumstances during a long-term downtrend have typically led to a pullback over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. I believe there is a downside edge.

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 12, 2020	Up 3 < 200. Today small. Not frm 50-lo	1-3 days	Bearish	-2.55%	0.90%	1.70%
Active - Long Term						
April 30, 2020	3 7 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			

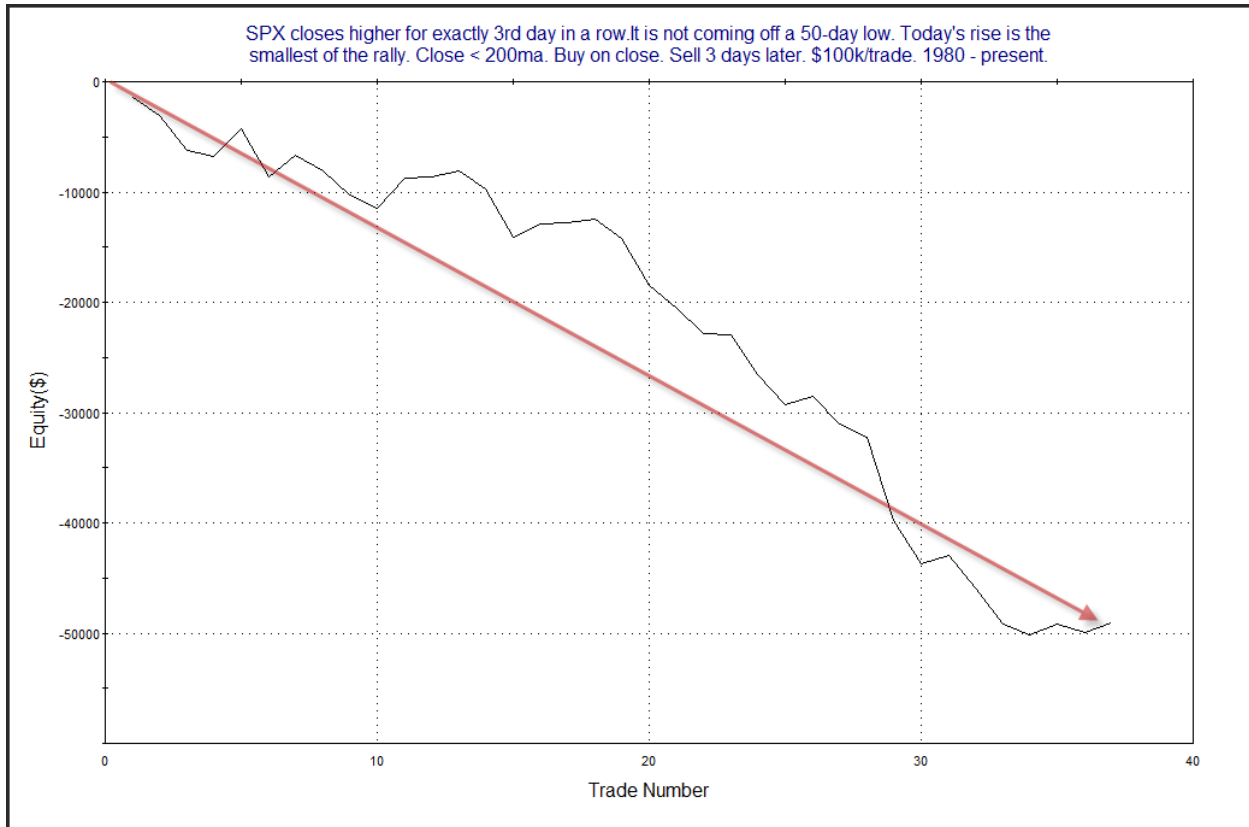
The Evidence

Friday was a mixed day for the indices. The SPX was nearly flat, closing up just 0.52 points, the NASDAQ gained 0.8%, and the Russell 2000 lost 0.6%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 29%. NYSE volume rose some from Friday’s level.

There were a good number of formerly “bearish” studies that appeared in the Quantifinder. But many of them have not persisted in a very bearish manner over the last several years. The ones that did look compelling looked at 3-day rallies during long-term downtrends (under the 200ma) that did not originate from a “bottom”. The one below was last seen in the 2/4/19 letter. I have updated the results.

SPX closes higher for exactly 3rd day in a row. It is not coming off a 50-day low. Today's rise is the smallest of the rally. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	-51,009.93	36	14	22	38.89	2,934.54	-9,202.08	1,190.44	-3,076.19	0.39	0.25	-1,416.94
4	-49,384.88	37	12	25	32.43	2,766.03	-7,499.80	1,273.89	-2,586.86	0.49	0.24	-1,334.73
3	-49,032.51	37	12	25	32.43	2,685.76	-7,527.12	1,084.48	-2,481.85	0.44	0.21	-1,325.20
2	-41,713.31	37	9	28	24.32	2,060.80	-5,979.14	958.53	-1,797.86	0.53	0.17	-1,127.39
1	-13,088.46	37	18	19	48.65	2,170.08	-4,871.22	742.91	-1,392.68	0.53	0.51	-353.74

The results suggest a downside edge. Often this will be the case when “overbought during a downtrend”. The recent 50-day low filter is used because a strong move off a bottom will often continue further than at other times, since it will be fueled by both bottom-pickers and shorts that are covering. Below is a look at the 3-day profit curve.



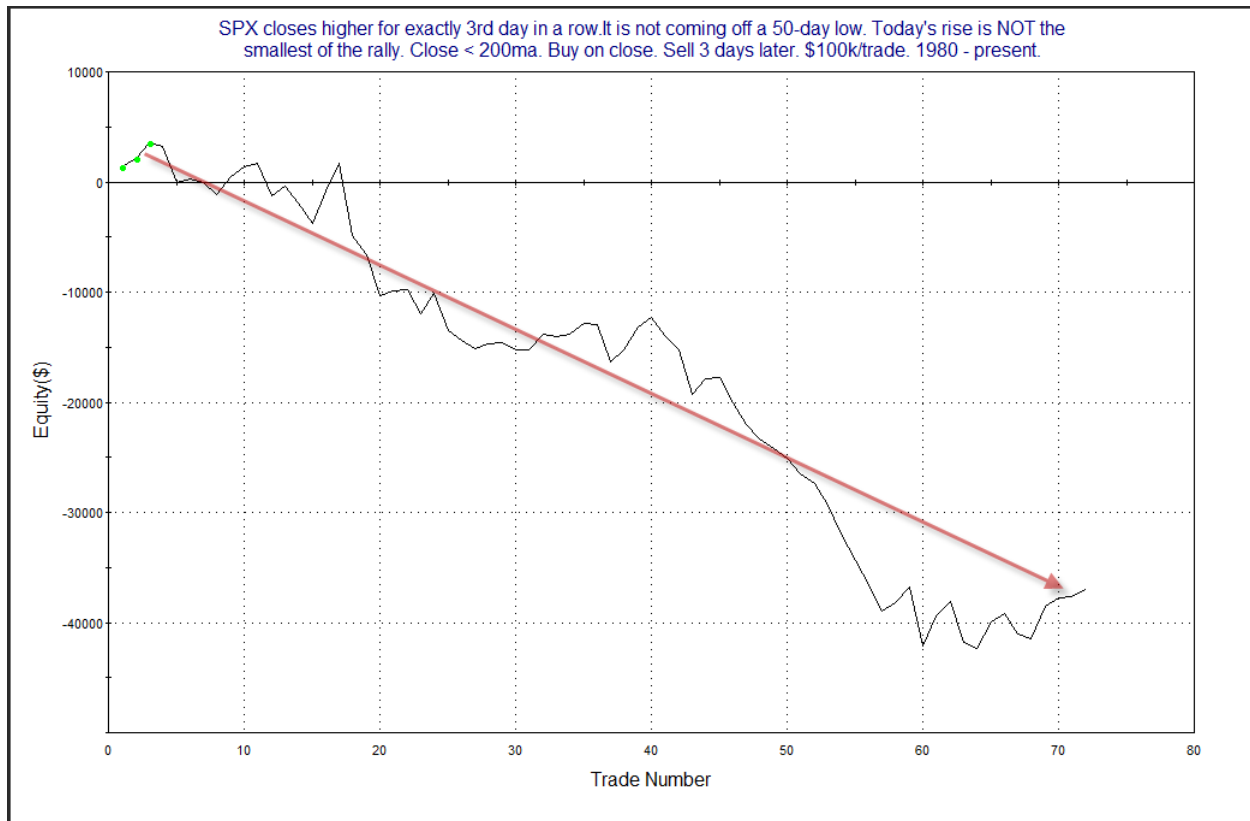
That is a pretty impressive curve, and it remains near another new low. This seems worth consideration on the active list.

The requirement looking at today's rise being the smallest of the 3 up days is also worth some discussion. That suggests upside momentum may be slowing, allowing for the market to swing back the other way. Here is a look at the same setup, but with that filter flipped, so that today is NOT the smallest gain of the last 3.

SPX closes higher for exactly 3rd day in a row. It is not coming off a 50-day low. Today's rise is NOT the smallest of the rally. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.

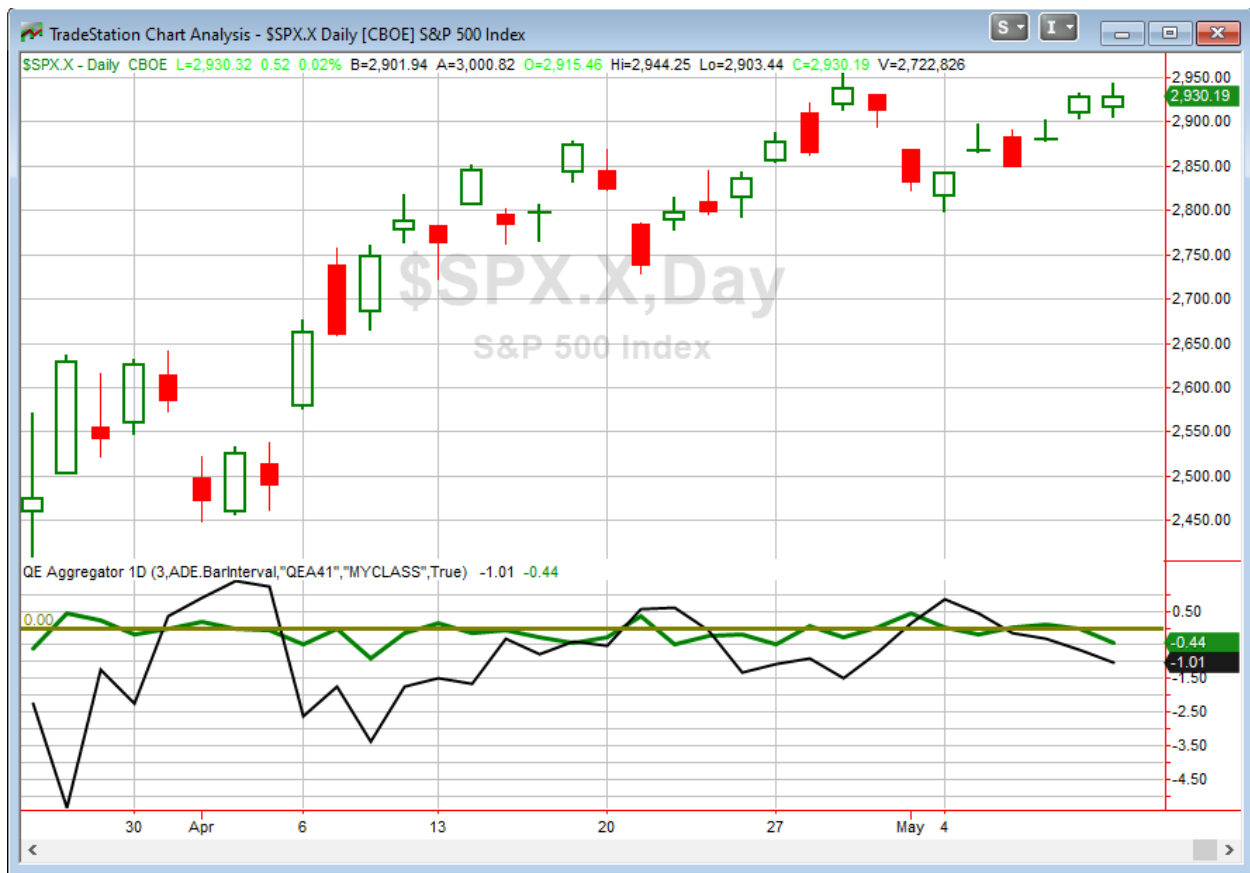
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,375.07	68	37	31	54.41	4,771.60	-6,911.94	1,449.12	-2,290.09	0.63	0.76	-255.52
4	-30,878.05	72	39	33	54.17	3,672.51	-6,719.68	1,242.65	-2,404.28	0.52	0.61	-428.86
3	-37,025.51	72	33	39	45.83	2,989.36	-6,512.40	1,149.52	-1,922.04	0.60	0.51	-514.24
2	-13,262.54	72	30	42	41.67	4,479.84	-4,033.80	1,054.65	-1,069.09	0.99	0.70	-184.20
1	-4,322.73	72	29	43	40.28	3,535.65	-2,367.90	1,154.39	-879.07	1.31	0.89	-60.04

There still appears to be a downside edge. It just is not as substantial. Here is the 3-day curve for this setup.



This saw some pretty steady negative results up until a few recent instances. I would probably still consider this a bearish setup. Of course, this is not the current setup. The current setup is the more bearish version that I looked at originally.

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



With tonight's evidence considered, the green Aggregator line fell below zero. Negative readings mean net expectations are for downside 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 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.

With just the one study currently on the short-term active list, expectations are set to remain negative on Tuesday. Of course this could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2877.91 on Tuesday. That is 1.8% below Monday's close. Therefore, SPX will need to close down 1.8% in order to flip from overbought to oversold vs expectations on Tuesday.

So the Aggregator is bearish. Evidence is a bit light, but we also can consider the fact that SPX has now closed up 3 days in a row in a "choppy" environment. (This is the 1st 3-day rally for SPX since March 26th.) And with a decent amount of room to the downside before SPX would turn "oversold" vs expectations, potential reward is solid. So I like the short side here. I already have a small short position, and I will simply hold that for the time being.

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

The intermediate-term outlook was last updated in the 5/11/20 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	\$292.50	-1.55%		<i>see note below</i>

I will look to cover the SPY position if SPX closes <= 2877.91 (the Differential Pivot).

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