

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 13, 2020

Volume 13 Issue 93

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Strong selloffs that don't originate from high levels and leave the market short-term oversold will often produce an upside edge in the coming days. But those that come from new highs and don't leave the market short-term oversold are often followed by more selling.

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 13, 2020	1% drop to 4-low. No 20-high. 2:1 neg.	1-5 days	Bullish	2.30%	-2.10%	-4.60%
May 13, 2020	2% drop from 5-high. No 5-low	1-4 days	Bearish	-3.30%	2.30%	3.90%
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	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			

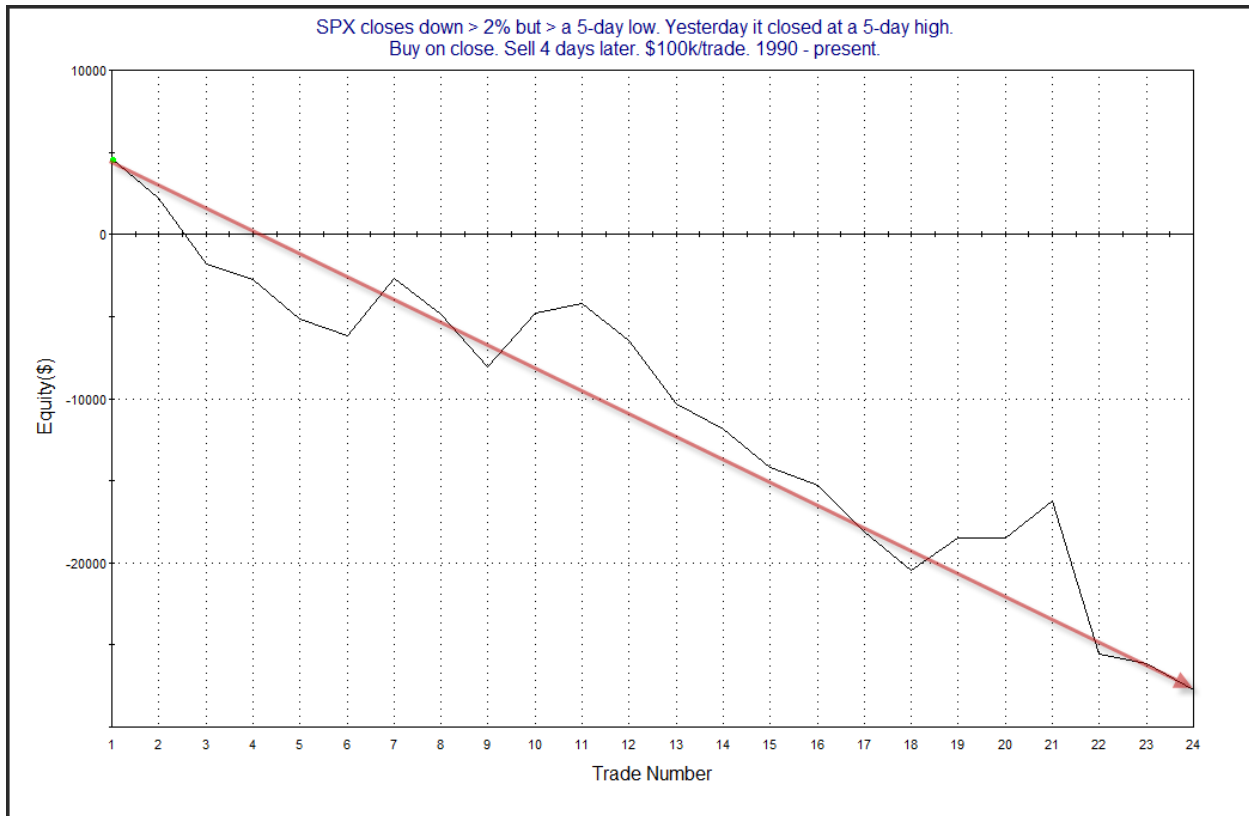
The Evidence

Tuesday saw a sizable selloff. The SPX closed down 2.1%, the NASDAQ also lost 2.1%, and the Russell 2000 tumbled 3.5%. Breadth was negative as the NYSE Up Issues % was 23% and the Up Volume % came in at 21%. NYSE volume declined some from Monday's level.

An important factor when interpreting sizable market moves, like the one we saw on Tuesday, is the position of the market heading into the move and at the end of the day. This was seen in a few studies that appeared in the Quantifinder today. The one below was last discussed in the 4/9/18 letter. It looked at 2%+ drops that originate from a 5-day high and *don't* leave the SPX at a new 5-day low.

SPX closes down > 2% but > a 5-day low. Yesterday it closed at a 5-day high. Buy on close. Sell X days later. \$100k/trade. 1990 - 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
10	-4,167.93	22	15	7	68.18	8,586.24	-20,280.15	3,224.26	-7,504.54	0.43	0.92	-189.45
9	-7,520.98	22	13	9	59.09	9,685.65	-20,652.72	3,301.94	-5,605.14	0.59	0.85	-341.86
8	-14,127.94	22	10	12	45.45	8,131.89	-16,326.75	4,052.48	-4,554.40	0.89	0.74	-642.18
7	-11,176.75	22	12	10	54.55	4,599.66	-21,047.73	2,688.46	-4,343.83	0.62	0.74	-508.03
6	-7,793.27	22	14	8	63.64	4,766.19	-10,326.36	1,804.72	-4,132.41	0.44	0.76	-354.24
5	-38,573.77	23	11	12	47.83	4,189.92	-17,928.90	1,597.75	-4,679.08	0.34	0.31	-1,677.12
4	-27,774.87	24	6	18	25.00	4,630.50	-9,324.48	2,693.76	-2,440.97	1.10	0.37	-1,157.29
3	-6,733.53	25	12	13	48.00	4,605.20	-4,676.43	1,932.58	-2,301.89	0.84	0.77	-269.34
2	-5,395.91	25	12	13	48.00	4,498.74	-9,153.54	2,365.20	-2,598.33	0.91	0.84	-215.84
1	-1,444.41	25	15	10	60.00	3,322.02	-3,466.02	1,032.86	-1,693.72	0.61	0.91	-57.78

So the selloff began from a short-term overbought position, and it failed to generate a short-term oversold condition. This has often led to further selling in the next few days. Below I have generated a profit curve for the 4-day holding period.



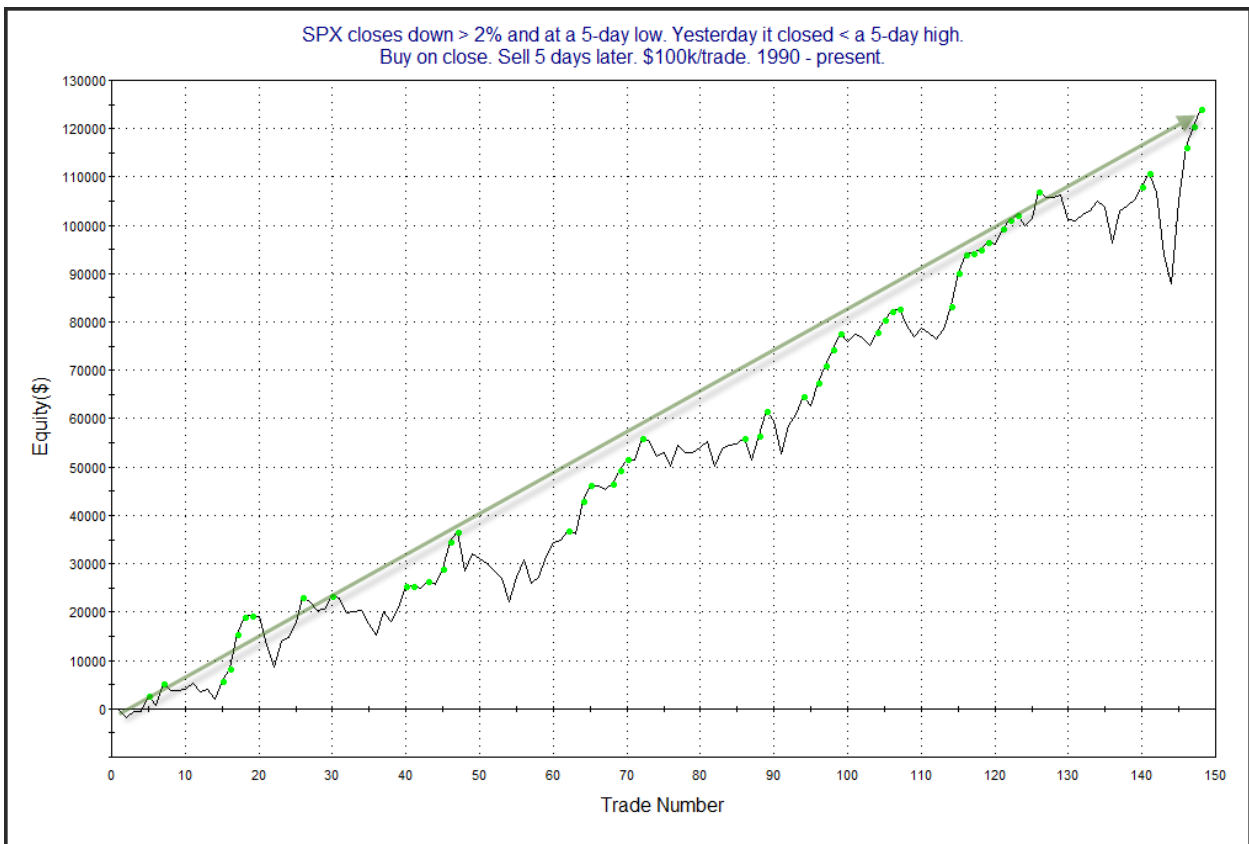
That is a fairly steady move from upper left to lower right. This study seems to be worth consideration.

To further demonstrate the importance of market position, I reversed the market position criteria and re-ran the study. Below are results for when it did not originate from “overbought”, but it did leave the SPX “oversold”.

SPX closes down > 2% and at a 5-day low. Yesterday it closed < a 5-day high.
Buy on close. Sell X days later. \$100k/trade. 1990 - 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
10	114,519.77	119	67	52	56.30	18,756.32	-18,329.76	4,754.66	-3,923.90	1.21	1.56	962.35
9	127,848.42	122	78	44	63.93	12,095.67	-15,899.04	3,972.38	-4,136.30	0.96	1.70	1,047.94
8	136,201.88	130	84	46	64.62	15,022.40	-14,092.68	3,728.90	-3,848.38	0.97	1.77	1,047.71
7	119,983.70	132	80	52	60.61	12,025.81	-14,010.70	3,461.91	-3,018.63	1.15	1.76	908.97
6	108,514.36	143	86	57	60.14	13,834.39	-10,967.40	3,237.58	-2,981.01	1.09	1.64	758.84
5	124,153.05	148	91	57	61.49	17,127.00	-12,975.48	2,920.31	-2,484.13	1.18	1.88	838.87
4	89,853.50	158	97	61	61.39	13,981.45	-14,820.98	2,640.25	-2,725.43	0.97	1.54	568.69
3	78,028.66	168	98	70	58.33	13,853.40	-13,815.18	2,664.75	-2,615.95	1.02	1.43	464.46
2	68,709.86	181	105	76	58.01	10,183.87	-8,077.85	2,033.22	-1,904.97	1.07	1.47	379.61
1	74,493.92	203	125	78	61.58	10,716.03	-9,386.64	1,644.79	-1,680.82	0.98	1.57	366.97

A 2% drop under these circumstances has had a bullish implication over the next several days. Below is a look at a 5-day profit curve.

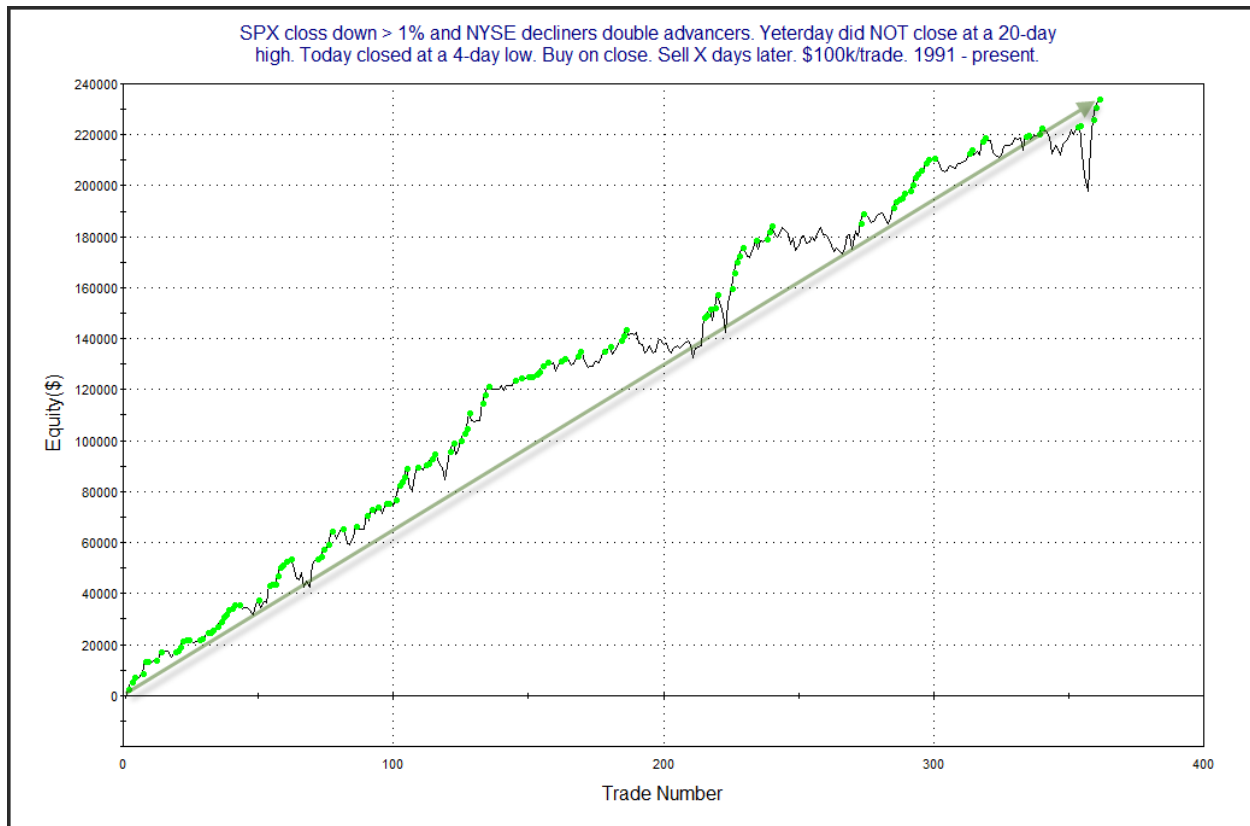


Lower left to upper right. Just the opposite. Of course the setup we are looking at is the first one, not this one.

There was another study that appeared in the Quantifinder with a bit looser criteria when considering both the size of the move, and the position of the market. It was from the 10/19/18 letter. I have updated it below.

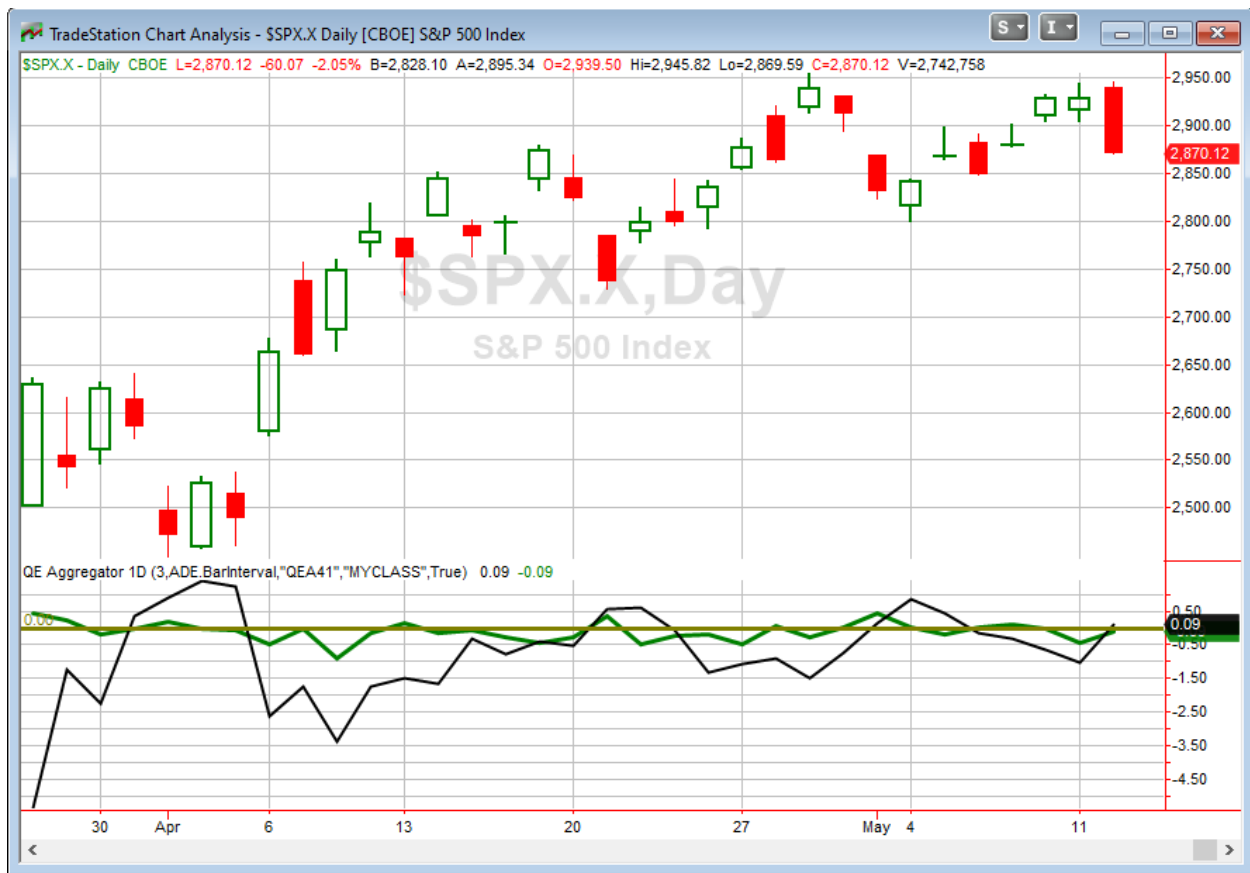
SPX close down > 1% and NYSE decliners double advancers. Yeterday did NOT close at a 20-day high. Today closed at a 4-day low. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	266,588.38	279	184	95	65.95	18,756.32	-22,025.85	3,044.66	-3,090.83	0.99	1.91	955.51
9	272,867.53	284	194	90	68.31	12,095.67	-18,578.34	2,792.93	-2,988.46	0.93	2.01	960.80
8	206,598.63	297	191	105	64.31	12,738.00	-18,950.91	2,638.92	-2,832.71	0.93	1.69	695.62
7	227,114.22	321	198	123	61.68	11,645.20	-14,624.94	2,681.69	-2,470.41	1.09	1.75	707.52
6	223,839.81	338	211	127	62.43	14,933.73	-19,345.92	2,494.25	-2,381.47	1.05	1.74	662.25
5	234,311.50	361	219	142	60.66	17,127.00	-11,122.37	2,349.97	-1,974.17	1.19	1.84	649.06
4	163,281.66	388	228	160	58.76	13,379.08	-16,227.09	2,160.82	-2,058.66	1.05	1.50	420.83
3	167,414.94	424	254	170	59.91	17,277.48	-13,815.18	1,943.10	-1,918.43	1.01	1.51	394.85
2	140,491.38	480	267	213	55.63	10,479.04	-8,657.72	1,621.57	-1,373.09	1.18	1.48	292.69
1	132,028.05	541	321	220	59.33	10,716.03	-9,386.64	1,182.11	-1,124.67	1.05	1.53	244.04

The looser criteria create a much larger sample size. The implications here appear to be moderately bullish. Below is a look at the 5-day profit curve.



The long-term upslope is impressive. I have decided to include this study on the active list as well. The contrasting results we see tonight are an example of how parameter selection can sometimes skew results. In reality, the action on Tuesday may not be as bearish as the 1st study suggested, and it may not be as bullish as the last study suggested. So I placed them both on the active list and let the Aggregator generate the expectations.

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



With tonight's evidence considered, the green Aggregator line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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.

Based on the current list of active studies, expectations are set to remain negative on Wednesday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2932.16 on Wednesday. That is 2.2% above Tuesday's close. Therefore, SPX will need to close up 2.2% in order to flip from overbought to oversold vs expectations on Wednesday.

So the Aggregator is back to flat. I don't see a favorable reward/risk setup here. The odds appear to point lower, but we know how sharply things can reverse in this choppy environment, and the SPX is already oversold. I will see how Wednesday plays out, and then weigh the evidence again tomorrow night before considering another move.

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	\$286.67	0.48%		covered on close

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