

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 15, 2020

Volume 13 Issue 95

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The gap to a new short-term low and strong reversal up suggest selling in the next few days.
- The Fed's SOMA rose dramatically this past week, showing that they are continuing massive efforts to support markets.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am too. Mixed evidence and poor reward/risk have me sidelined.

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 15, 2020	Gap down, 10-low then reverse up <200	1-3 days	Bearish			
May 13, 2020	1% drop to 4-low. No 20-high. 2:1 neg.	1-5 days	Bullish	2.30%	-2.10%	-4.60%
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 14, 2020	Two days Up Iss% < 30. SP > 20-low	1 day	Bullish			
May 13, 2020	2% drop from 5-high. No 5-low	1-4 days	Bearish	-3.30%	2.30%	3.90%

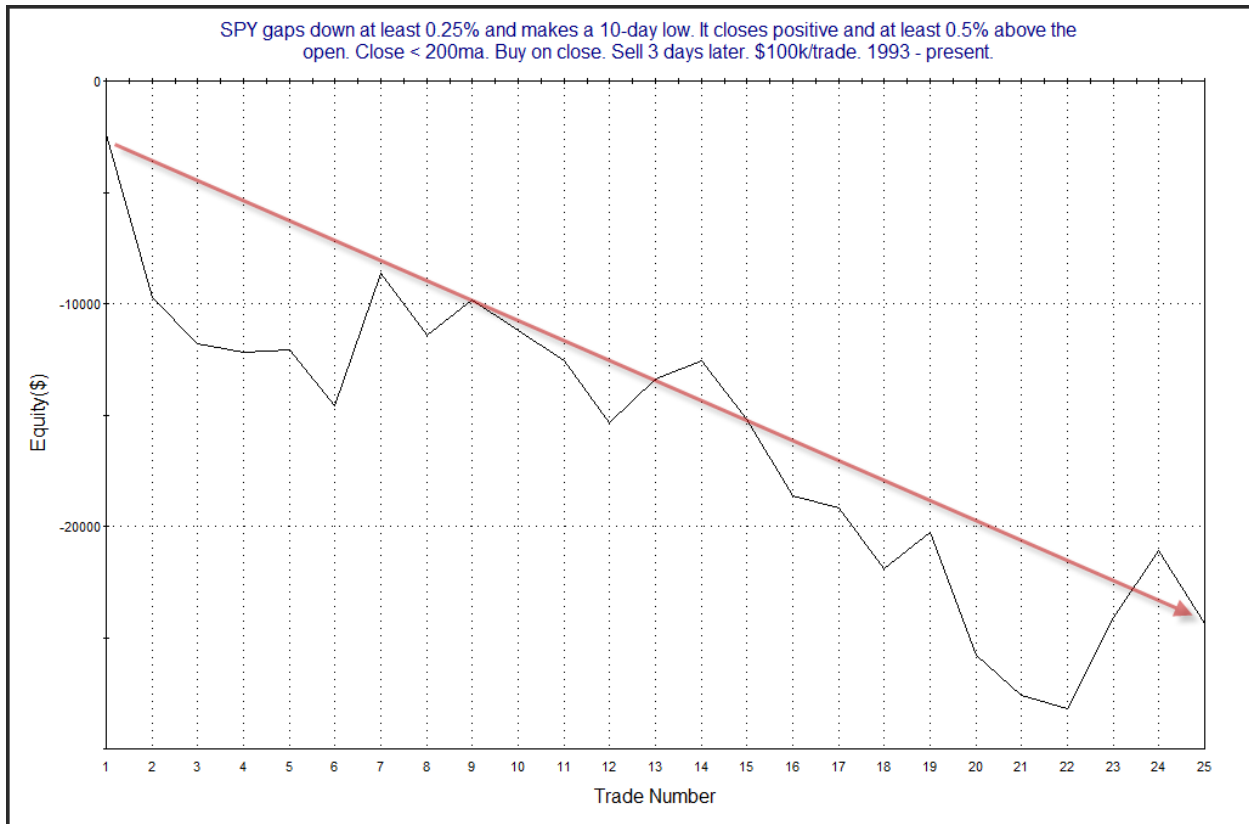
The Evidence

Thursday saw a big gap down to start and then a massive reversal. The SPX closed up 1.2%, the NASDAQ rallied 0.9%, and the Russell 2000 climbed 0.3%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 68%. NYSE volume declined a bit from Wednesday's level.

The gap down and reversal triggered some studies in the Quantifinder. The one below I found to be the most compelling. It was last seen in the 11/16/18 letter. Results are updated.

SPY gaps down at least 0.25% and makes a 10-day low. It closes positive and at least 0.5% above the open. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-18,865.83	20	7	13	35.00	9,113.60	-11,627.35	4,612.85	-3,935.06	1.17	0.63	-943.29
9	-27,961.55	21	8	13	38.10	7,022.10	-9,607.80	3,281.33	-4,170.17	0.79	0.48	-1,331.50
8	-27,990.06	21	8	13	38.10	9,104.70	-13,901.92	3,463.31	-4,284.35	0.81	0.50	-1,332.86
7	-6,119.47	22	9	13	40.91	7,271.30	-7,536.40	3,300.40	-2,755.62	1.20	0.83	-278.16
6	-9,562.23	23	11	12	47.83	7,484.90	-10,766.95	3,155.54	-3,689.43	0.86	0.78	-415.75
5	-21,653.93	24	10	14	41.67	7,599.20	-11,595.16	2,987.20	-3,680.43	0.81	0.58	-902.25
4	-18,335.19	24	9	15	37.50	7,339.60	-10,296.72	3,038.64	-3,045.53	1.00	0.60	-763.97
3	-24,359.37	25	8	17	32.00	5,959.00	-7,354.80	2,396.37	-2,560.61	0.94	0.44	-974.37
2	-17,884.67	27	10	17	37.04	3,693.50	-5,448.00	1,943.47	-2,195.26	0.89	0.52	-662.40
1	-13,766.85	27	10	17	37.04	3,978.60	-5,221.00	1,519.85	-1,703.85	0.89	0.52	-509.88

Implications here appear bearish. This kind of reversal off a short-term low during a long-term downtrend has often been followed by more selling in the next few days. Below is an equity curve using a 3-day exit strategy.



Despite the recent bump up, the curve shows some downside persistency. I have included this study on the Active List tonight.

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 05/06/2020

DOMESTIC SECURITIES HOLDINGS AS OF
May 13, 2020

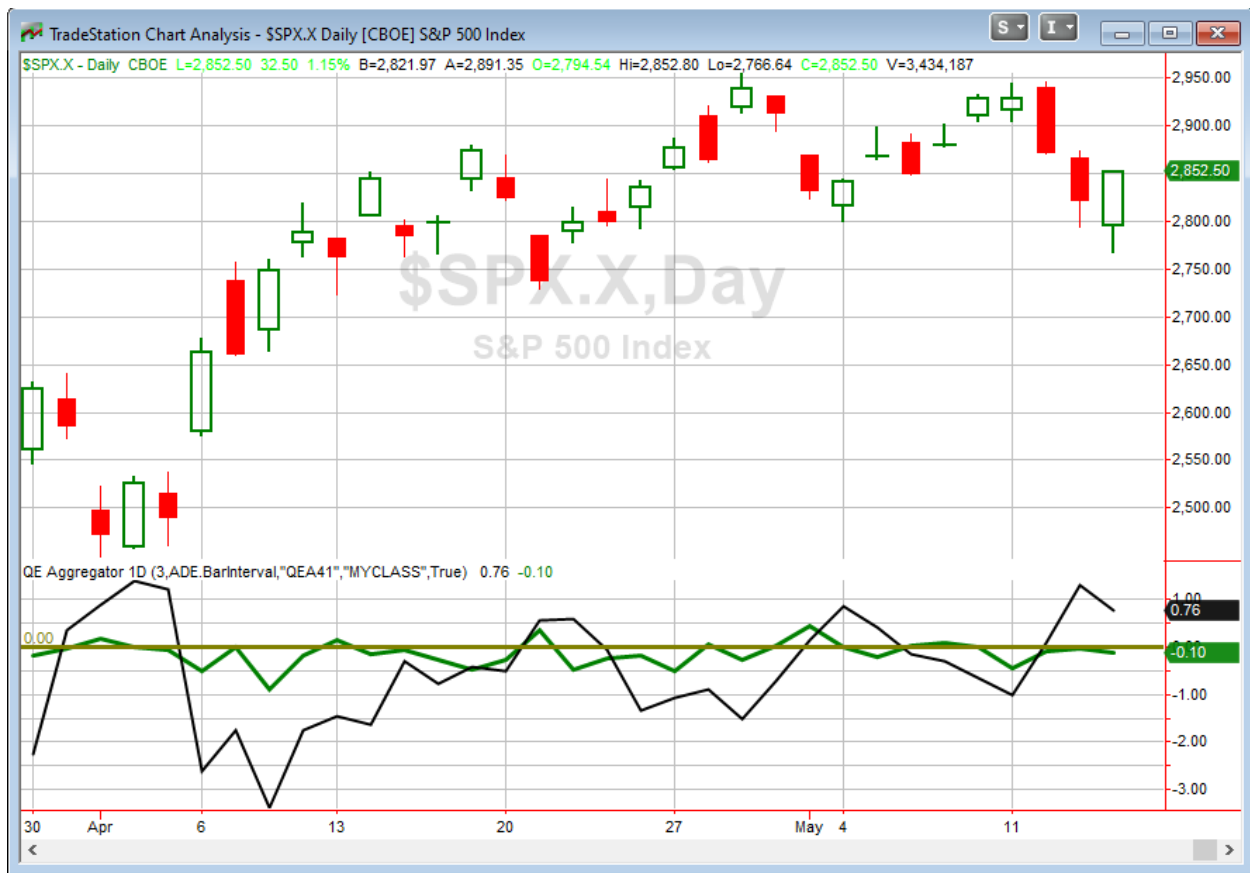
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,427,070,049.6
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	252,015,919.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,775,150,564.9
Agency Commercial Mortgage-Backed Securities***	8,610,232.4
Total SOMA Holdings	5,806,783,512.0
Change From Prior Week	215,230,619.6

*Does not reflect inflation compensation of 36,592,359.3
**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 05/14/2020 4:30pm.

The \$215 billion increase this week is massive, and well above the \$40 billion to \$50 billion we saw the last couple of weeks. It is more indicative of the huge weeks we saw at the beginning of this QE campaign in late March and early April. The Fed is still doing all it can to support the economy, and the market is benefitting.

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 is still 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain negative on Friday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 2854.24 on Friday. That is just 0.1% (2 points) above Thursday's close. Therefore, SPX will only need to close up a couple of points in order to flip from oversold to overbought vs expectations on Friday.

The 1-day upside edge I discussed last night played out nicely for traders that were nimble. But tonight the Aggregator is again neutral, and I am as well. Evidence is mixed but leaning bearish, and the SPX could easily flip to overbought on Friday. Reward/risk is not very good here. I will hold off another day to see if a more favorable opportunity emerges.

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

None

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