

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 2, 2020

Volume 13 Issue 106

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- A rising VIX and a 50-day SPX high (on the first day of the week) suggests a pullback.
- The % of S&P 500 stocks above their 50-day moving averages is near an all-time high. Strong breadth like this is generally a positive.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I. Evidence is leaning bullish, but the SPX remains overbought.

**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
<b>Active - Short Term</b>						
June 2, 2020	VIX up. SPX 50-high. 1st day of week.	1-2 days	Bearish			
June 1, 2020	Finish month at high of month	1-5 days	Bullish			
June 1, 2020	Gap reverse 2x. Today to 10-hi > 200	1-2 days	Bearish			
May 29, 2020	1% higher to 50-high then down close	1-3 days	Bullish			
May 29, 2020	Gap up, run higher, then reverse down	1-4 days	Bullish			
<b>Active - Long Term</b>						
May 19, 2020	Breakout on 90% Up Volume	1-40 days	Bullish	7.90%	-1.90%	-4.50%
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			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			

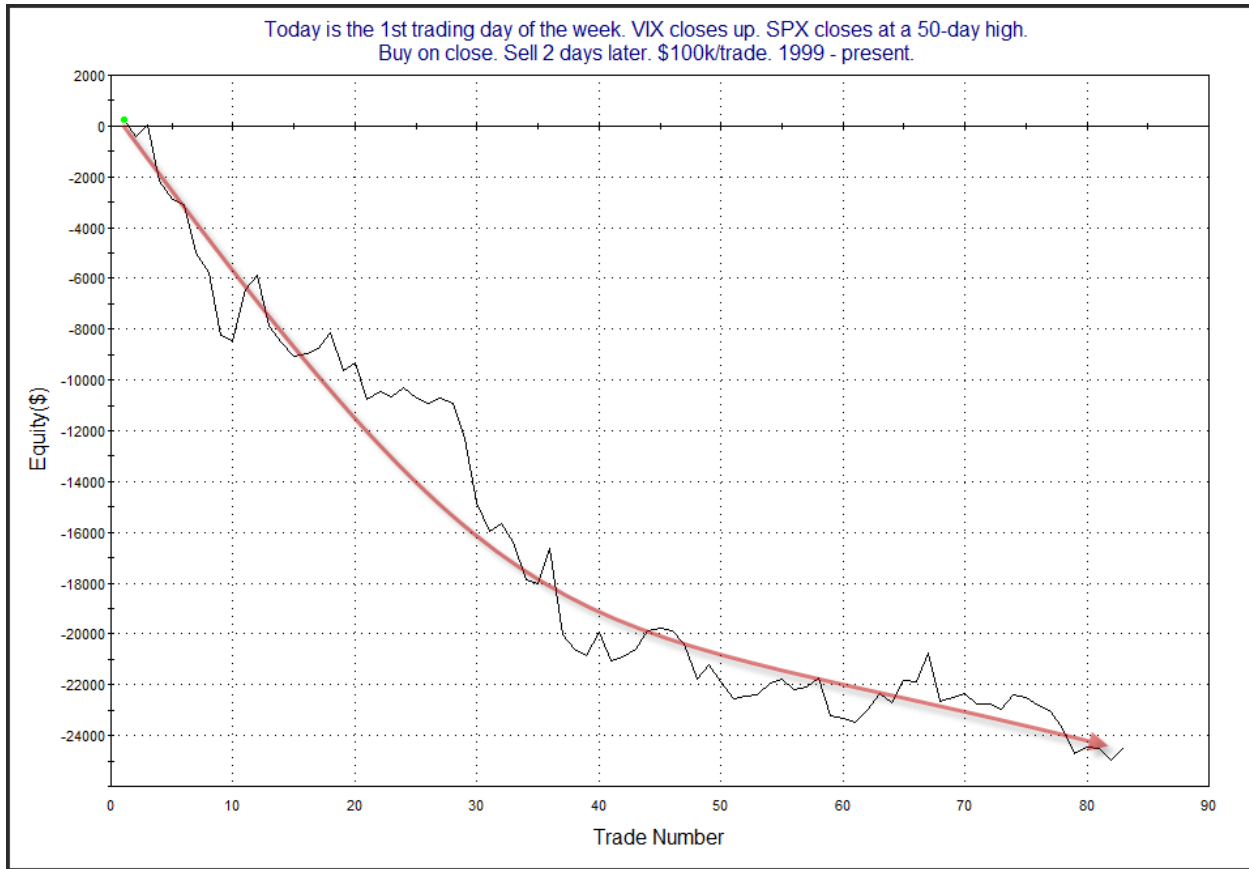
**The Evidence**

Monday saw the market continue to forge ahead in the face of tough times in the US. The SPX rose 0.4%, the NASDAQ gained 0.7%, and the Russell 2000 climbed 0.8%. Breadth was strongly positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 82%. NYSE volume came in light.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 11/19/19 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes 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	-17,605.20	77	35	42	45.45	3,260.25	-5,048.68	983.92	-1,239.11	0.79	0.66	-228.64
4	-11,288.92	83	40	43	48.19	2,953.65	-4,271.52	842.81	-1,046.54	0.81	0.75	-136.01
3	-13,288.94	83	38	45	45.78	2,641.80	-3,887.84	659.15	-851.92	0.77	0.65	-160.11
2	-24,454.34	83	35	48	42.17	1,981.72	-3,372.16	451.94	-839.00	0.54	0.39	-294.63
1	-10,187.61	83	29	54	34.94	769.70	-1,580.04	296.25	-347.76	0.85	0.46	-122.74

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. It is just off of new lows and seems worthy of consideration. I have included this study on the Active List.

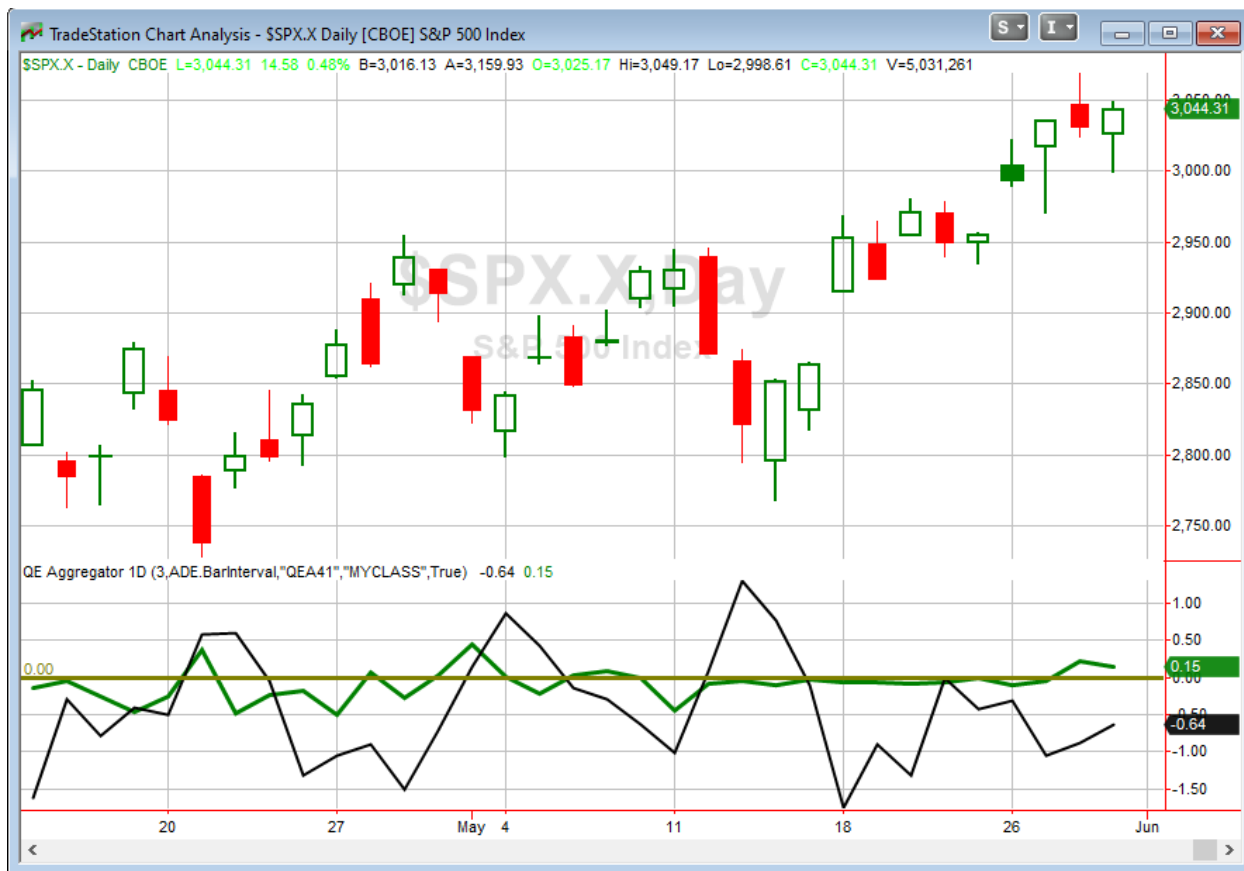
I also noticed that the % of S&P 500 stocks closing above their 50-day moving average reached a whopping 96.24% today. That is nearly the highest reading of all-time (data back to 1957). Only the 3 days from 2/11 – 2/13/91 saw higher readings, with 2/13/91 posting the highest at 97.6%. Below is the short list of spikes up to 95% or greater.

Percent of SPX stocks above their 50ma exceeds 95% for the 1st time in at least 2 months.  
SPX forward results shown. 1957 - present.

Date/Time	%Issues>50ma	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg	21-Day %Chg	63-Day %Chg	126-Day %Chg	252-Day %Chg
12/4/1962	95.59	-0.4	0.46	0.67	-0.59	-0.51	-0.91	2.38	3.53	12.6	18.58
1/7/1972	95.39	-0.14	0.17	0.12	-0.46	-0.08	0.17	1.03	5.94	5.04	15.71
2/5/1975	95.19	-0.49	-0.41	-0.75	-0.47	1.23	4.13	6.78	12.83	9.25	29.08
1/14/1976	95.17	-0.54	-0.13	1.23	1.78	1.14	1.44	3.21	4.04	9.08	6.46
9/15/1982	95.97	-0.42	-1.4	-1.43	0.47	-0.24	-2.14	8.27	10.55	21.79	32.59
2/11/1991	96.8	-0.84	0.12	-1.18	0.13	0.22	-1.57	1.63	2.22	5.27	12.26
5/28/2020	95.63	0.48	0.86								
<b>Avg</b>		-0.34	-0.05	-0.22	0.14	0.29	0.19	3.88	6.52	10.51	19.11
<b>Median</b>		-0.42	0.12	-0.32	-0.17	0.07	-0.37	2.80	4.99	9.17	17.15

Of course with the massive rally the market has had over the last 50 days, it is no surprise that most everything is above its 50ma. The stats above appear very strong when looking out over the next 1-month to 1-year, with all instances showing gains. But it's a bit dangerous reading too much into long-term results of a study with just 6 instances. Of course, we know that strong breadth is a good thing for the market, and even if the reading was a bit lower it would still favor upside. But there have been instances with slightly lower reading that have not panned out so well. These include the summer of '87 (before the big fall crash), and October of 1973. But overall, you're better off see strong breadth numbers, and this is just another example of the exceptionally strong breadth that is being seen now.

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



With tonight's evidence included, the green Aggregator line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is again 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.

Based on the current list of active studies, expectations are set to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3031.78 on Tuesday. That is 0.8% below Monday's close. Therefore, it will take a drop of at least 0.8% on Tuesday to see SPX flip from overbought to oversold vs expectations.

So the Aggregator is again neutral. I am too. Evidence is mixed, and with the market short-term overbought, I am not inclined to take on new long exposure. I'll continue to wait for a more compelling reward/risk setup to emerge before jumping into my next index trade.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/1 – neutral***

The intermediate-term outlook was last updated in the 6/1 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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