

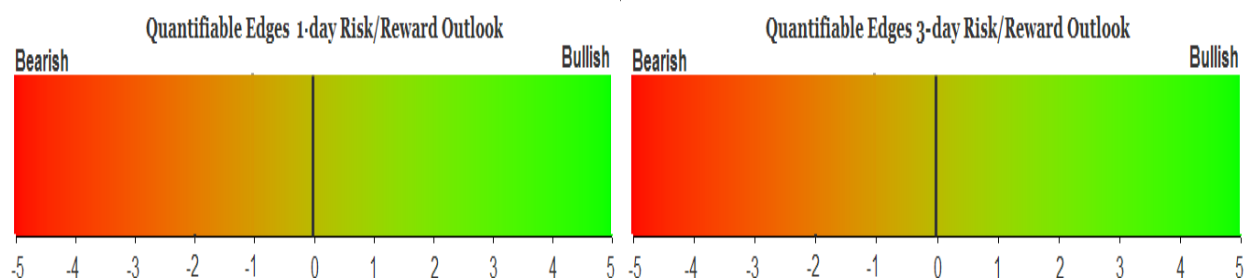
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2020

Volume 13 Issue 108

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 3+ days of strong Nasdaq breadth are often followed by a down day.
- The strong breadth the last few days may be a good intermediate-term sign.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I. The market appears too strong to short and too overbought to buy.

Summary of Recent Active Studies (see Letters from listed dates for details)

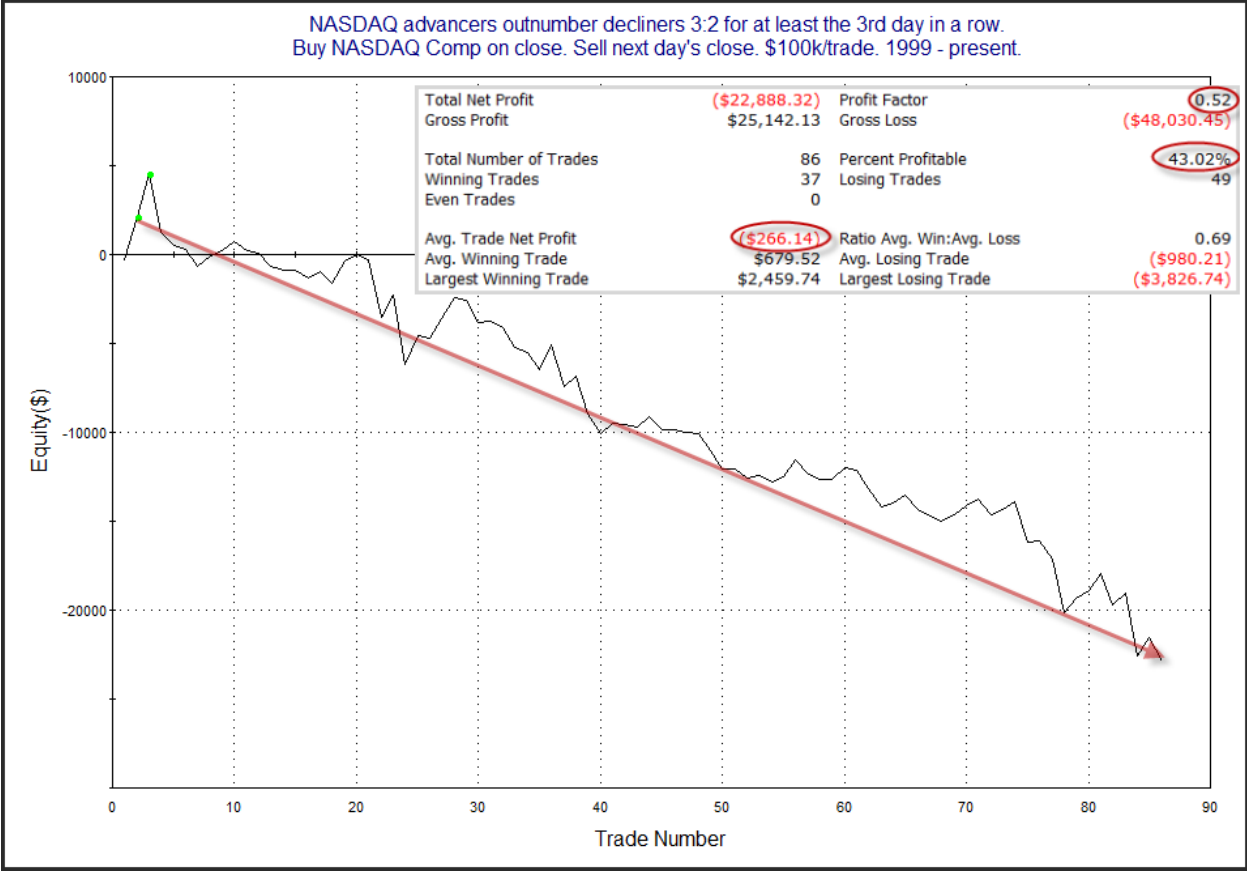
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 4, 2020	NASDAQ Adv/Decl 3:2 3+ days	1 day	Bearish			
June 1, 2020	Finish month at high of month	1-5 days	Bullish			
May 29, 2020	Gap up, run higher, then reverse down	1-4 days	Bullish			
Active - Long Term						
June 4, 2020	SPX RSI2 crosses 99	1-18 days	Bullish			
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

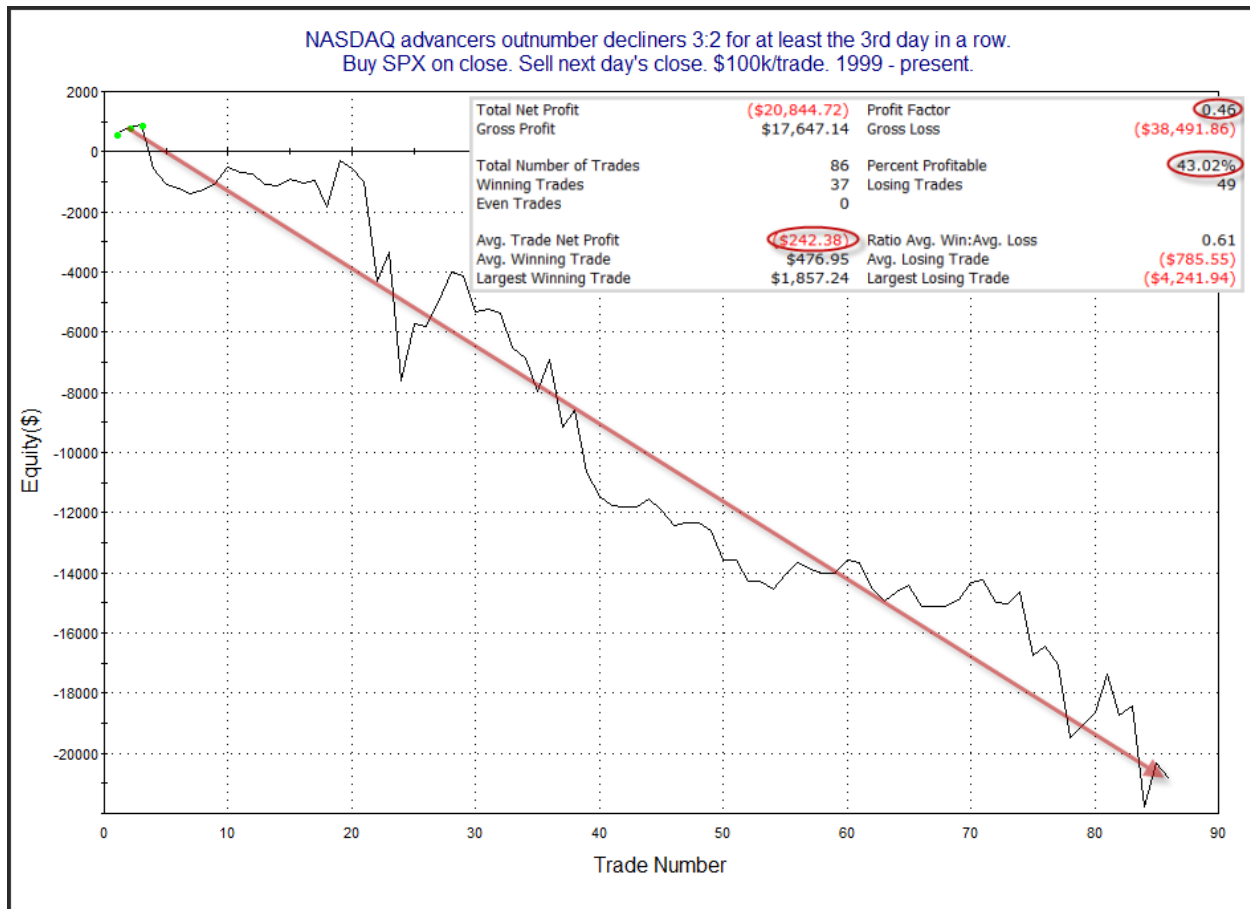
Wednesday was another rally day. The SPX rose 1.4%, the NASDAQ gained 0.8%, and the Russell 2000 climbed 2.4%. Breadth was strongly positive as the NYSE Up Issues % was 80% and the Up Volume % came in at 86%. NYSE volume rose some from Tuesday's level.

Wednesday saw a 3rd day in a row of strong NASDAQ breadth. This triggered a study that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3+ days. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. I last showed the study in the 4/28/20 letter and have updated the results below.

First let's look at how the NASDAQ has performed the day after such a run of strong breadth.



The stats are lopsided to the downside, suggesting a bearish edge. The curve has persisted lower for a good long time. Overall, this seems to suggest a downside edge. I also looked to see how the SPX performed following the setup.



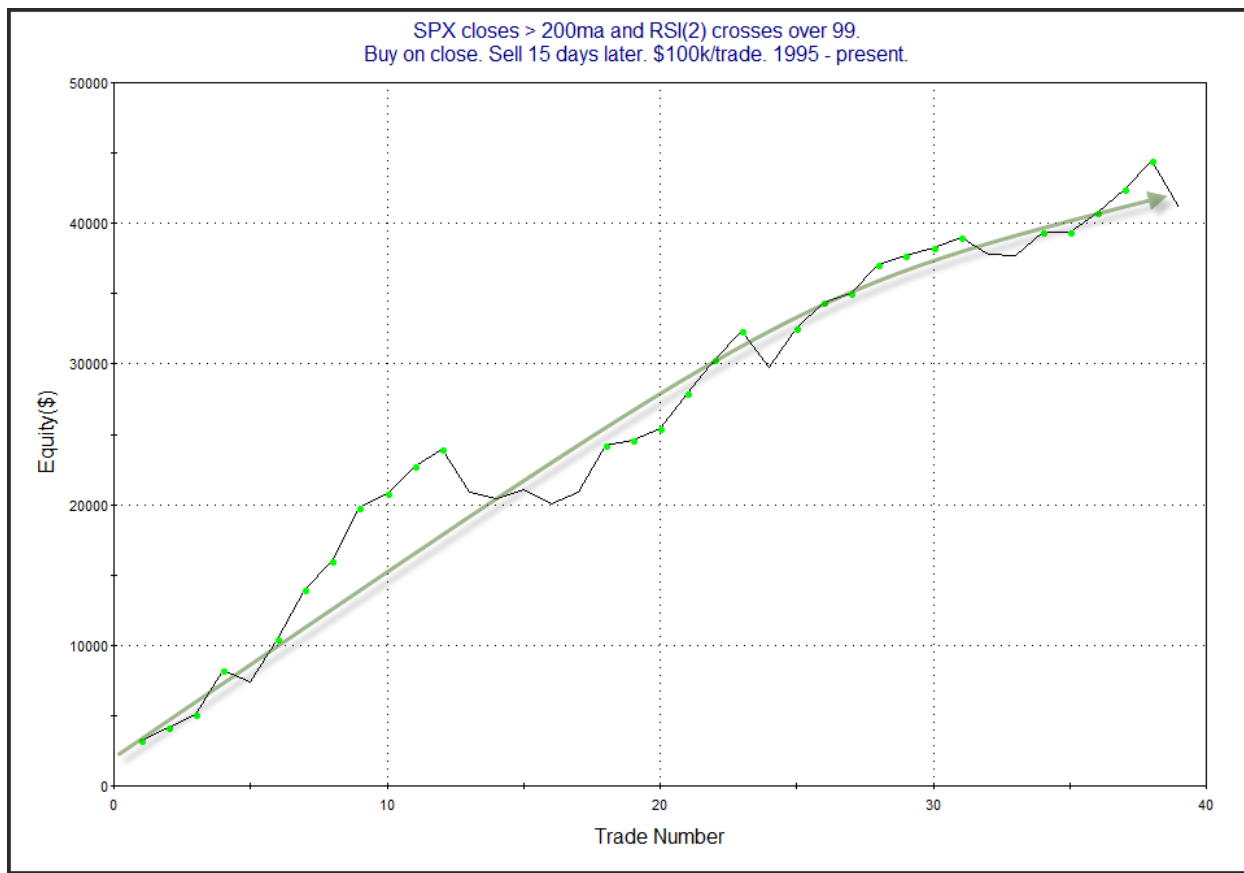
Very similar numbers and curve. It appears the NASDAQ breadth setup has also led to a pullback in the SPX.

The recent rally has left the market short-term overbought by most measures. And short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 9/13/19 Letter, which uses RSI(2).

SPX closes > 200ma and RSI(2) crosses over 99.
Buy on close. Sell X 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
15	41,151.05	39	31	8	79.49	3,782.11	-3,265.02	1,732.56	-1,569.80	1.10	4.28	1,055.16
14	34,130.06	39	30	9	76.92	4,461.36	-4,024.68	1,648.64	-1,703.22	0.97	3.23	875.13
13	36,473.08	41	33	8	80.49	3,989.82	-3,320.01	1,515.32	-1,691.56	0.90	3.70	889.59
12	34,937.26	41	32	9	78.05	4,058.61	-3,175.53	1,436.19	-1,224.52	1.17	4.17	852.13
11	37,109.64	41	32	9	78.05	4,106.40	-2,523.21	1,528.00	-1,309.61	1.17	4.15	905.11
10	30,103.18	42	32	10	76.19	3,770.55	-2,793.28	1,358.36	-1,336.45	1.02	3.25	716.74
9	26,477.51	42	31	11	73.81	3,453.27	-3,440.07	1,266.45	-1,162.05	1.09	3.07	630.42
8	25,607.05	42	29	13	69.05	3,547.80	-3,460.32	1,301.02	-932.49	1.40	3.11	609.69
7	19,362.72	43	28	15	65.12	3,564.39	-4,153.62	1,149.09	-854.11	1.35	2.51	450.30
6	10,037.11	43	26	17	60.47	2,634.36	-5,296.92	1,039.17	-998.89	1.04	1.59	233.42
5	6,660.93	43	28	15	65.12	1,782.39	-3,596.40	811.99	-1,071.65	0.76	1.41	154.91
4	3,621.63	43	27	16	62.79	2,442.90	-3,039.18	794.86	-1,114.98	0.71	1.20	84.22
3	-2,354.97	44	24	20	54.55	1,982.20	-2,880.45	694.71	-951.39	0.73	0.88	-53.52
2	516.42	44	24	20	54.55	1,998.39	-2,348.76	632.24	-732.87	0.86	1.04	11.74
1	1,316.96	44	22	22	50.00	2,096.10	-3,515.37	514.54	-454.68	1.13	1.13	29.93

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

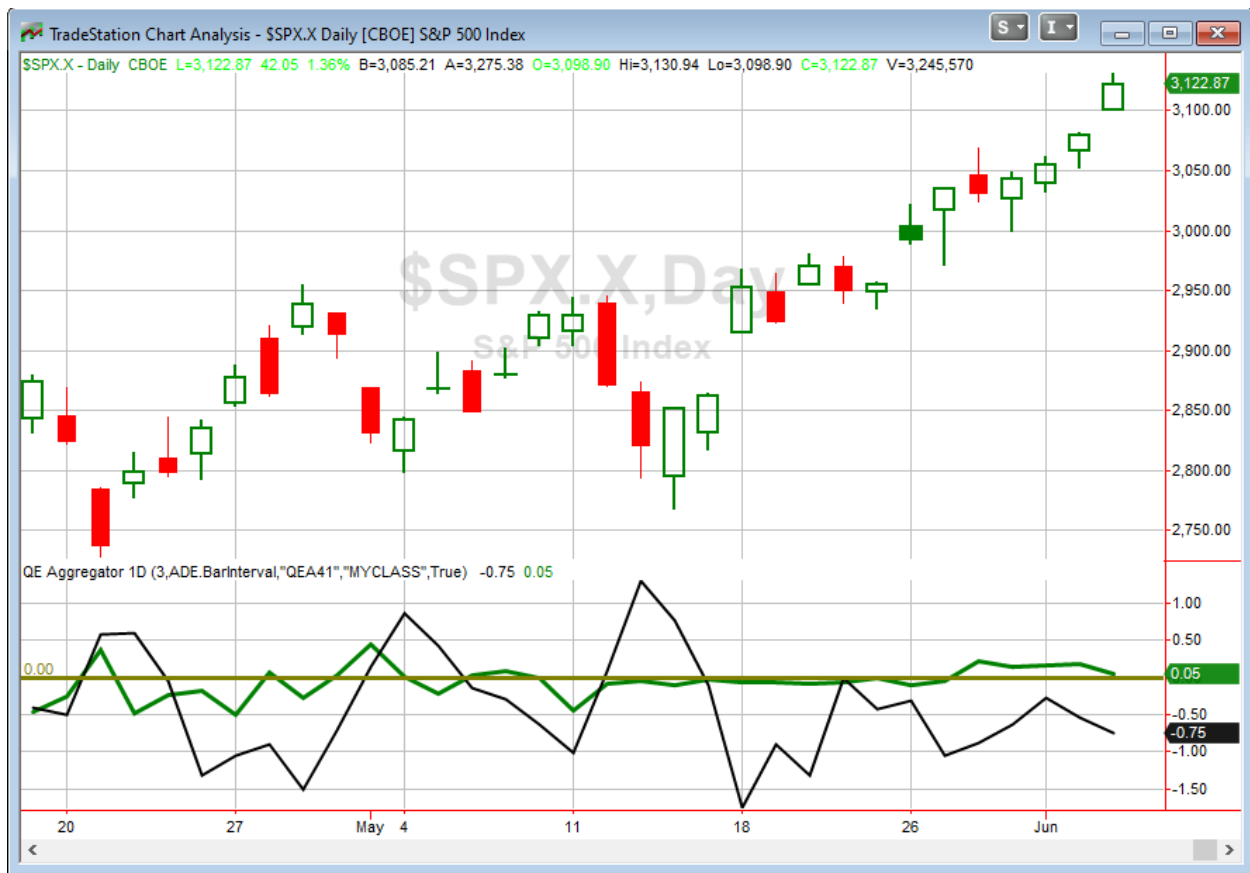
Lastly, I thought I would note that the NYSE Up Issues % closed above 70% for exactly the 3rd day in a row on Wednesday. That triggered a study from the 4/30/20 letter, which I have copied below. (Not updated.)

NYSE Up Issues % > 70% for exactly 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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
100	142,186.57	18	15	3	83.33	35,219.04	-9,681.98	10,304.03	-4,124.64	2.50	12.49	7,899.25
95	135,501.46	18	16	2	88.89	27,445.80	-7,569.87	9,131.42	-5,300.59	1.72	13.78	7,527.86
90	152,866.89	19	17	2	89.47	30,973.23	-5,123.16	9,352.23	-3,060.54	3.06	25.97	8,045.63
85	155,981.34	19	18	1	94.74	26,662.95	-1,312.89	8,738.57	-1,312.89	6.66	119.81	8,209.54
80	146,217.65	19	18	1	94.74	28,578.63	-6,223.12	8,468.93	-6,223.12	1.36	24.50	7,695.67
75	138,720.11	20	19	1	95.00	27,768.15	-9,442.75	7,798.05	-9,442.75	0.83	15.69	6,936.01
70	113,910.43	20	18	2	90.00	24,259.14	-8,532.18	6,944.25	-5,543.08	1.25	11.28	5,695.52
65	109,650.75	20	17	3	85.00	27,445.80	-12,438.75	7,241.65	-4,485.79	1.61	9.15	5,482.54
60	115,489.07	21	18	3	85.71	30,586.41	-14,330.51	7,439.06	-6,137.98	1.21	7.27	5,499.48
55	115,387.50	22	18	4	81.82	30,678.51	-13,424.22	7,528.96	-5,033.43	1.50	6.73	5,244.89
50	114,529.93	22	17	5	77.27	23,071.05	-16,443.76	8,414.40	-5,702.98	1.48	5.02	5,205.91
45	108,321.17	22	19	3	86.36	28,108.92	-22,705.40	7,249.33	-9,805.37	0.74	4.68	4,923.69
40	88,602.07	22	19	3	86.36	23,973.63	-25,195.29	6,455.77	-11,352.52	0.57	3.60	4,027.37
35	85,777.49	23	19	4	82.61	18,659.46	-16,976.62	5,774.32	-5,983.64	0.97	4.58	3,729.46
30	88,093.98	23	18	5	78.26	15,257.06	-15,261.41	6,119.68	-4,412.04	1.39	4.99	3,830.17
25	85,186.69	23	19	4	82.61	14,063.67	-6,624.37	5,248.47	-3,633.55	1.44	6.86	3,703.77
20	85,809.52	24	20	4	83.33	14,026.83	-11,381.59	5,099.95	-4,047.37	1.26	6.30	3,575.40
15	69,730.41	24	21	3	87.50	12,369.03	-10,189.61	3,981.48	-4,626.90	0.86	6.02	2,905.43
10	44,854.72	25	20	5	80.00	8,942.91	-8,739.76	3,252.06	-4,037.30	0.81	3.22	1,794.19
5	23,824.07	26	19	7	73.08	8,325.84	-6,523.10	2,248.64	-2,700.00	0.83	2.26	916.31

This is already on the intermediate-term active list, so I am not adding it again. But what is so remarkable about the current instance is that it is the 4th time it has triggered in the last 50 days. Since 1967, it has happened 27 times, and 4 of those 27 were in the last 50 days. That is some pretty remarkable breadth. And as we can see, that has typically been a good thing for the intermediate-term.

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



With tonight's new 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 Thursday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3071.42 on Thursday. That is 1.65% below Wednesday's close. Therefore, it will take a drop of at least 1.65% on Thursday to see SPX flip from overbought to oversold vs expectations.

This market is too strong to short and too overbought to buy at the moment. The Aggregator remains neutral, and I don't see a very favorable reward/risk setup here. I'll continue to wait until a more favorable opportunity arises.

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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