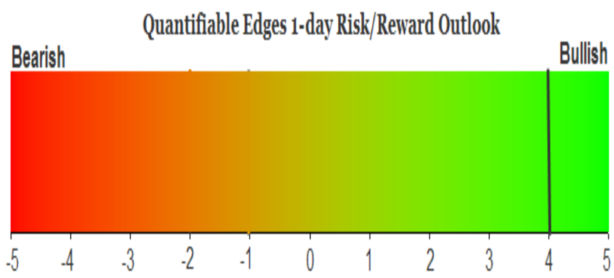
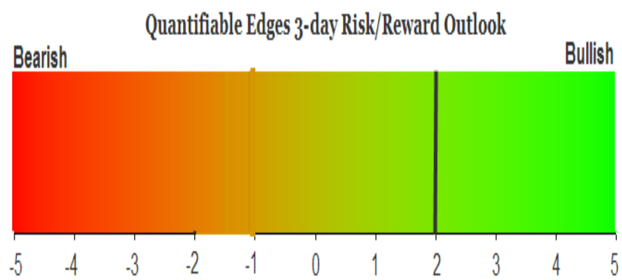
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2020 Volume 13 Issue 114

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- A VIX crossing over 35% above its 10ma and with a reading over 30 suggests strong reward/risk for the bulls.
- 5% down days for SPX have typically been followed by a strong bounce the next day.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but visibility is not great beyond Friday. I have a small long position that I intend to hold for the time being.

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

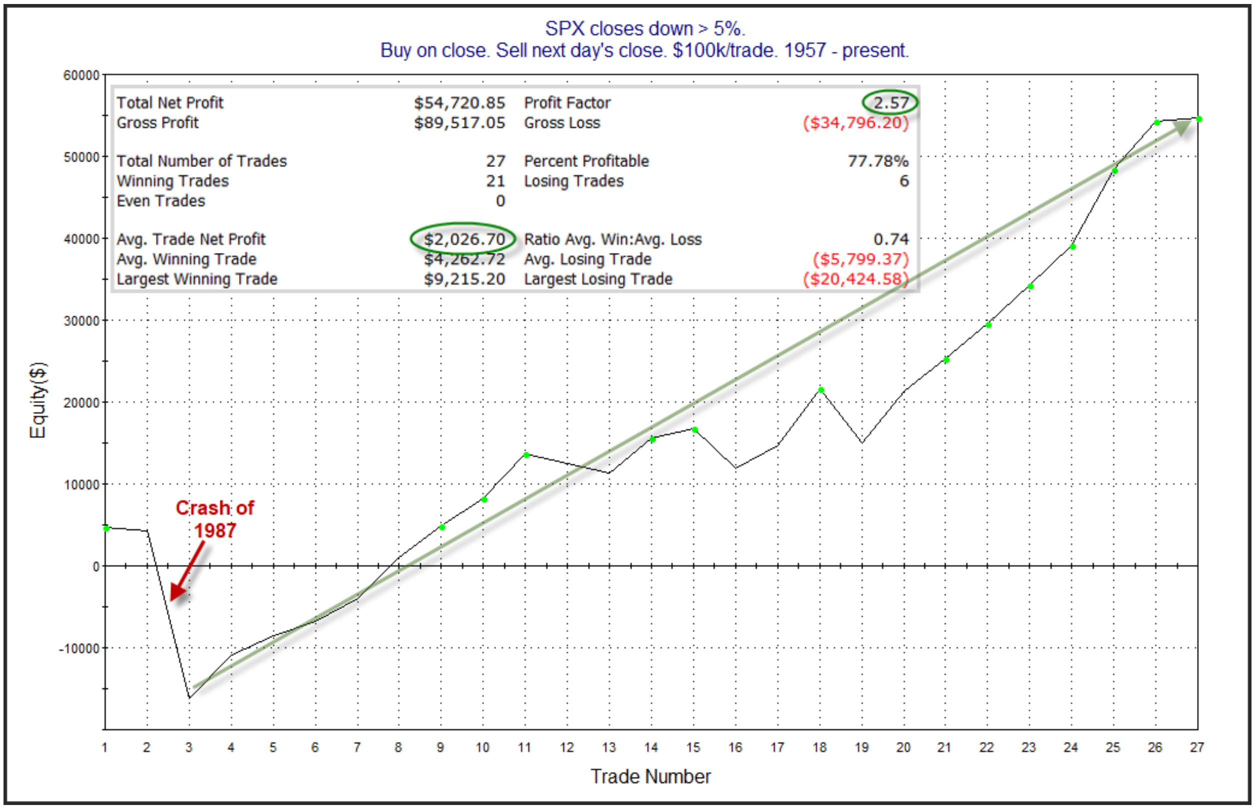
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 12, 2020	5% drop for SPX	1 day	Bullish			
June 12, 2020	VIX 35% abive 10ma and > 30	1 day	Bullish			
Active - Long Term						
June 8, 2020	3 Breadth Sigs (BAM/90%Day/A-D Hi)	1-63 days	Bullish			
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	3 70% 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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
June 11, 2020	**Fed Day. Down 2+ > 200ma.**	**1-6 days**	**Bullish**	**1.90%**	**-1.10%**	**-2.30%**
June 9, 2020	**2 unfilled gaps up to a 50-day high**	**1-3 days**	**Bullish**	**0.80%**	**-0.60%**	**-1.15%**

The Evidence

The bears woke up on Thursday and made a lot of noise. The SPX lost 5.9%, the NASDAQ dropped 5.3%, and the Russell 2000 crumbled 7.6%. Breadth was massively negative as the NYSE Up Issues % was 3% and the Up Volume % came in at 2%. This was the lowest Up Volume % since 11/9/2011. NYSE total volume rose some from Wednesday's level.

Thursday stood out in a lot of ways, from breadth, to the size of the drops, to the big spike in volatility. In examining the Quantifinder studies and exploring ideas, I find it important to consider just how extreme the action is when determining how well a study might represent the current setup. Of the studies I examined, the ones that stood out as the most compelling, really had very short-term edges.

A 5% down day for the SPX is quite extreme on its own. Since its inception in 1957, the modern SPX has only seen 27 other days where there was a 5% decline. The study below looks at performance on the day after the 5%+ drop.



The numbers and the curve are very impressive. Of course the setup is not perfect. In fact, it triggered on the day before the 1987 market crash. But since then the market has bounced fairly reliably, and the next-day returns have been quite strong. And the most impressive streak is the current 8-trade win streak. Even factoring in the 20% down day in 1987, the average instance gained over 2% the next day. That's compelling.

Also notable was the action in the VIX, which rose 48% on Thursday. An interesting study from the Quantifinder was from the 12/26/18 letter. It notes not only that the VIX is relatively stretched on a short-term basis, but that the VIX reading is also somewhat high on an absolute basis. Over the years I have found that short-term stretches are not as impactful when the stretch is coming from a very low level. This is the reason the VIX > 30 is also included as a filter. Results are updated.

VIX crosses up > 35% above its 10ma and closes > 30.
Buy SPX on close. Sell next day's close. $100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/27/1997	Buy	$876.97	5.12%	$5,257.68
10/28/1997	Sell	$921.86		($2,473.80)
9/17/2001	Buy	$1,038.77	-0.58%	$734.40
9/18/2001	Sell	$1,032.74		($913.92)
9/17/2008	Buy	$1,156.42	4.33%	$4,705.92
9/18/2008	Sell	$1,206.51		($1,971.12)
10/10/2008	Buy	$899.22	11.58%	$11,855.91
10/13/2008	Sell	$1,003.35		$0.00
5/6/2010	Buy	$1,128.15	-1.53%	$614.24
5/7/2010	Sell	$1,110.88		($2,992.00)
5/20/2010	Buy	$1,071.59	1.50%	$1,727.01
5/21/2010	Sell	$1,087.69		($1,459.17)
8/4/2011	Buy	$1,200.07	-0.06%	$1,497.32
8/5/2011	Sell	$1,199.38		($2,654.34)
8/8/2011	Buy	$1,119.46	4.74%	$4,754.38
8/9/2011	Sell	$1,172.53		($1,594.88)
8/10/2011	Buy	$1,120.76	4.63%	$5,832.17
8/11/2011	Sell	$1,172.64		$0.00
2/5/2018	Buy	$2,648.94	1.74%	$1,927.70
2/6/2018	Sell	$2,695.14		($2,067.19)
12/24/2018	Buy	$2,351.10	4.96%	$4,899.72
12/26/2018	Sell	$2,467.70		($189.84)
3/9/2020	Buy	$2,746.56	4.94%	$4,897.08
3/10/2020	Sell	$2,882.23		($452.16)
3/12/2020	Buy	$2,480.64	9.29%	$9,227.60
3/13/2020	Sell	$2,711.02		$0.00
3/16/2020	Buy	$2,386.13	6.00%	$6,879.80
3/17/2020	Sell	$2,529.19		($782.69)

Total Net Profit	$56,236.95	Profit Factor	27.09
Gross Profit	$58,392.86	Gross Loss	($2,155.91)
Total Number of Trades	14	Percent Profitable	78.57%
Winning Trades	11	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	$4,016.93	Ratio Avg. Win:Avg. Loss	7.39
Avg. Winning Trade	$5,308.44	Avg. Losing Trade	($718.64)
Largest Winning Trade	$11,558.43	Largest Losing Trade	($1,519.76)

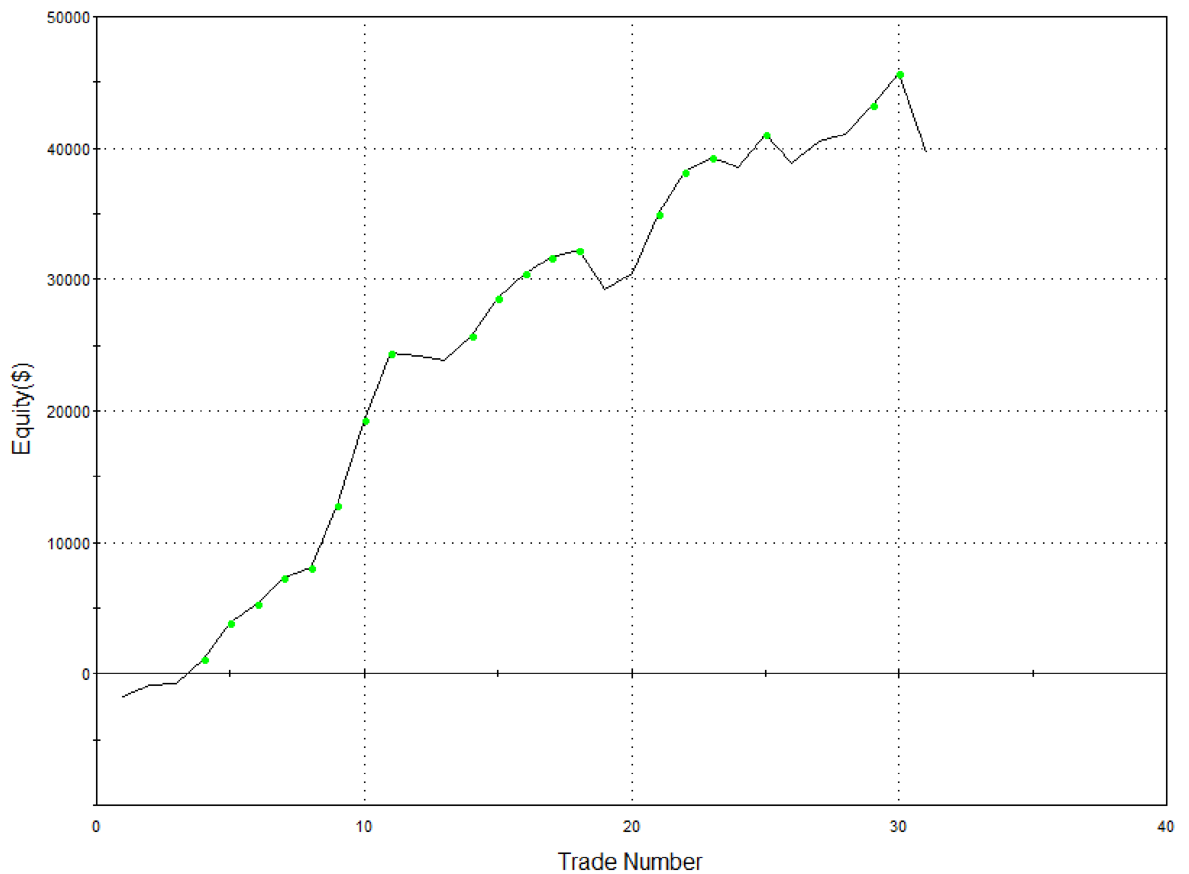
Instances are a little lower than I'd prefer, but the stats are very strong. The average performance the day after the setup has been a 4% gain. That is a huge average for just a 1-day trade.

There were some other studies that were interesting, but none that 1) I determined to be a great descriptor of the current setup, and 2) showed strongly compelling results. The one below came close. It was from the 3/7/19 letter, and I have updated the results.

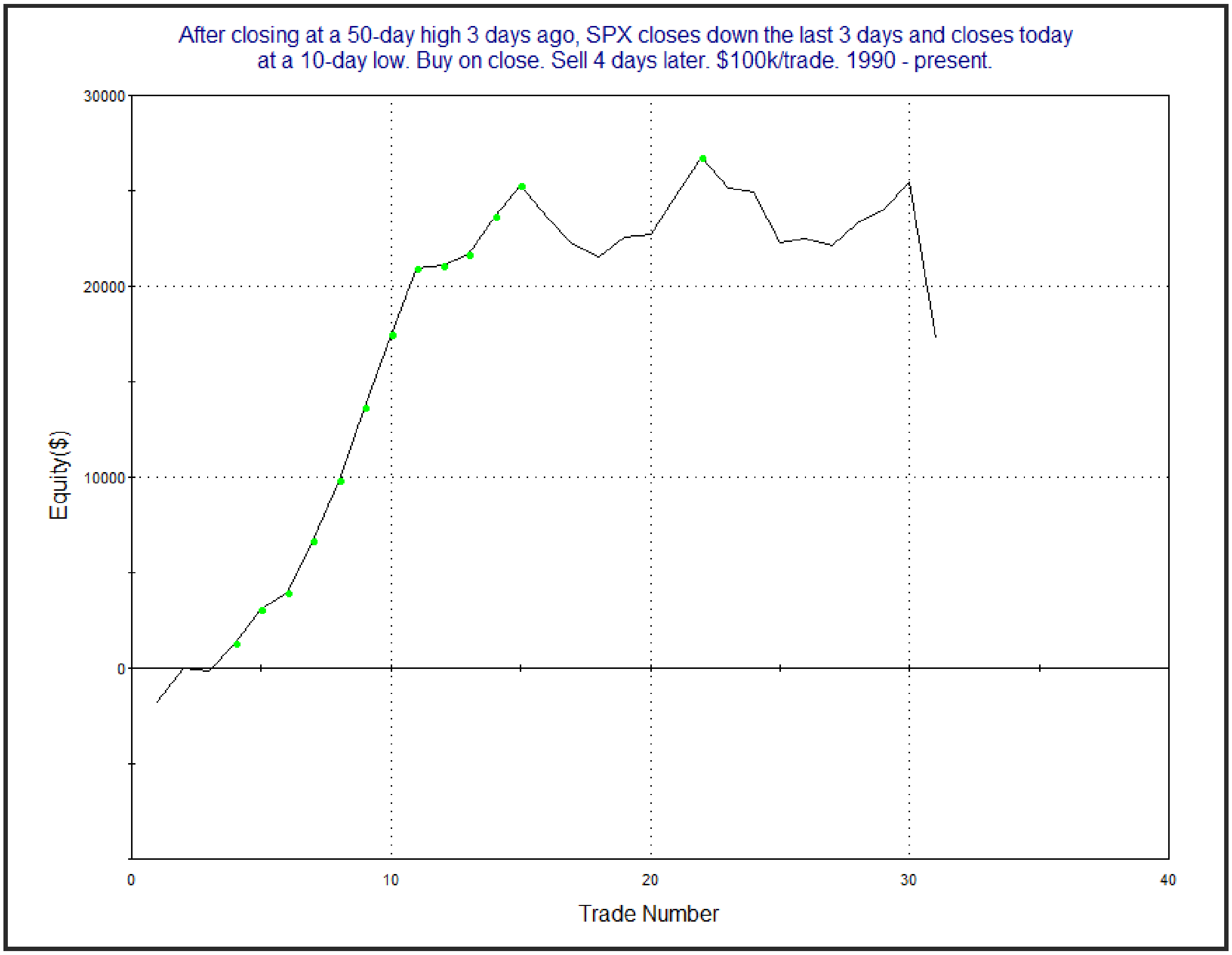
After closing at a 50-day high 3 days ago, SPX closes down the last 3 days and closes today at a 10-day low. Buy on close. Sell X days later. $100k/trade. 1990 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	26,580.74	31	20	11	64.52	7,183.08	-14,379.90	2,847.78	-2,761.35	1.03	1.88	857.44
9	34,155.16	31	22	9	70.97	6,197.04	-7,605.60	2,511.65	-2,344.56	1.07	2.62	1,101.78
8	39,670.78	31	24	7	77.42	6,562.98	-6,058.50	2,249.91	-2,046.71	1.10	3.77	1,279.70
7	32,884.51	31	22	9	70.97	4,736.88	-2,873.10	2,023.06	-1,291.41	1.57	3.83	1,060.79
6	21,191.58	31	19	12	61.29	3,768.08	-6,675.60	1,935.23	-1,298.14	1.49	2.36	683.60
5	21,562.16	31	19	12	61.29	3,892.40	-4,069.80	1,882.31	-1,183.48	1.59	2.52	695.55
4	17,275.00	31	21	10	67.74	3,834.96	-8,150.10	1,708.32	-1,859.98	0.92	1.93	557.26
3	11,238.75	31	22	9	70.97	3,201.12	-7,413.90	1,253.11	-1,814.40	0.69	1.69	362.54
2	10,288.11	31	20	11	64.52	2,200.15	-3,285.00	1,134.11	-1,126.73	1.01	1.83	331.87
1	6,032.54	31	20	11	64.52	1,767.00	-2,930.40	710.26	-742.98	0.96	1.74	194.60

Numbers here look pretty good. And when I looked at the 8-day curve, it was not bad…

After closing at a 50-day high 3 days ago, SPX closes down the last 3 days and closes today at a 10-day low. Buy on close. Sell 8 days later. $100k/trade. 1990 - present.



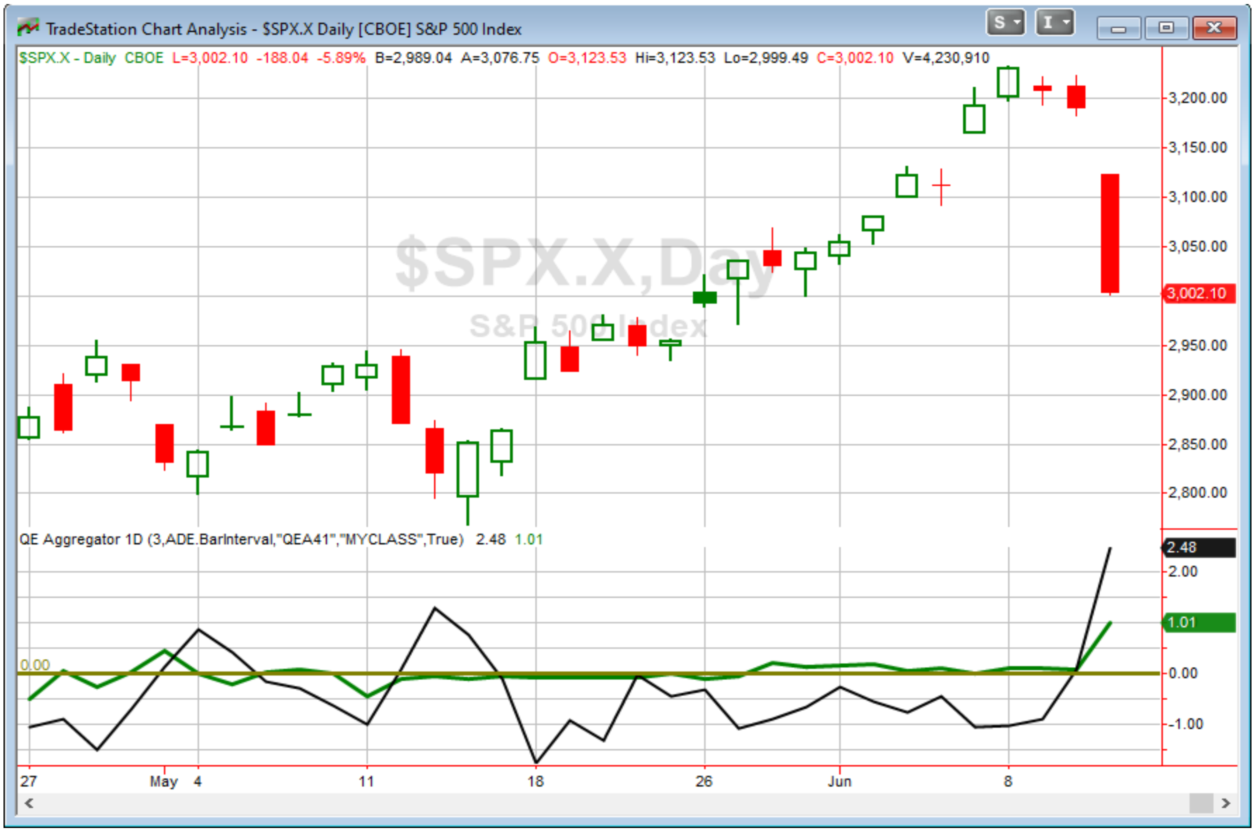
…so I considered adding it to the Active List. But all the curves for the shorter periods had seen more significant recent struggles. For instance, here is a look at the 4-day curve.



This has gone a good amount of time without any real progress. So I left this, and some others off the list tonight.

Bottom line is that while some studies showed strong edges for Friday, I did not feel there was great visibility beyond that. I'd like to be able to evaluate Friday's action before getting to excited about an upside edge.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator line moved further above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is now far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Friday. This could easily change if compelling new bearish evidence emerges. Both short-term studies are set to expire on Friday, so any new short-term evidence that emerges will have a strong impact on expectations. Meanwhile, the Differential Pivot will be 3201.62 on Friday. That is a massive 6.65% above Thursday's close. Therefore, SPX will need to close up at least 6.65% in order to flip from overbought to oversold vs recent expectations on Friday. A move that large is unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is bullish. Odds look pretty good for a bounce on Friday. But I don't have great visibility beyond that. I took a small index position at the close on Thursday. I am content at this point to let that ride without adding more to it. I'd like to see how Friday plays out and what new evidence emerges before taking on additional exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/8 - slightly bullish

The intermediate-term outlook was last updated in the 6/8 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(1/4)	6/11/2020	$300.61	$300.61	0.00%		bought on close