

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2020

Volume 13 Issue 115

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Friday's action suggests possible high volatility over the next few days.
- Strong moves up through the 200ma have often been punished the next day in recent years.
- A 5%+ down day followed by a 1%+ up day has generally led to more selling over the next 1-2 days.
- Breadth saw a rapid deterioration this past week, and that could be a bad sign.
- The Fed has been pumping at a greatly reduced rate over the last 3 weeks.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and so am I. Risks appear high, and direction uncertain.

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 15, 2020	5% drop then 1% up	1-2 days	Bearish			
June 15, 2020	1% up through 200ma	1 day	Bearish			
Active - Long Term						
June 15, 2020	Anti-Zweig Breadth Collapse	1-21 days	Bearish			
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			
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			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
June 12, 2020	5% drop for SPX	1 day	Bullish			
June 12, 2020	VIX 35% above 10ma and > 30	1 day	Bullish			

The Evidence

Friday saw some wild back and forth. A big gap up turned negative and then the market rallied late to finish strong. The SPX closed up 1.3%, the NASDAQ rose 1.0%, and the Russell 2000 gained 2.3%. Breadth was strongly positive as the NYSE Up Issues % was 76% and the Up Volume % came in just barely under 90%. NYSE total volume came in at the lightest level of the week.

Thursday night it looked like there was a strong chance of a bounce on Friday, but visibility beyond that was not great. We got the bounce (though not in a traditional way). But I'm not sure visibility improved much beyond the next day or two. Volatility is certainly back. And price action has very few comparisons.

For instance, SPY closed up over 1% on Friday, but still 1% below the open. That has only happened 1 other time – Sep 19th, 2008. The market completely crumbled in the following days and weeks, but with a sample size of 1, that really does not mean anything.

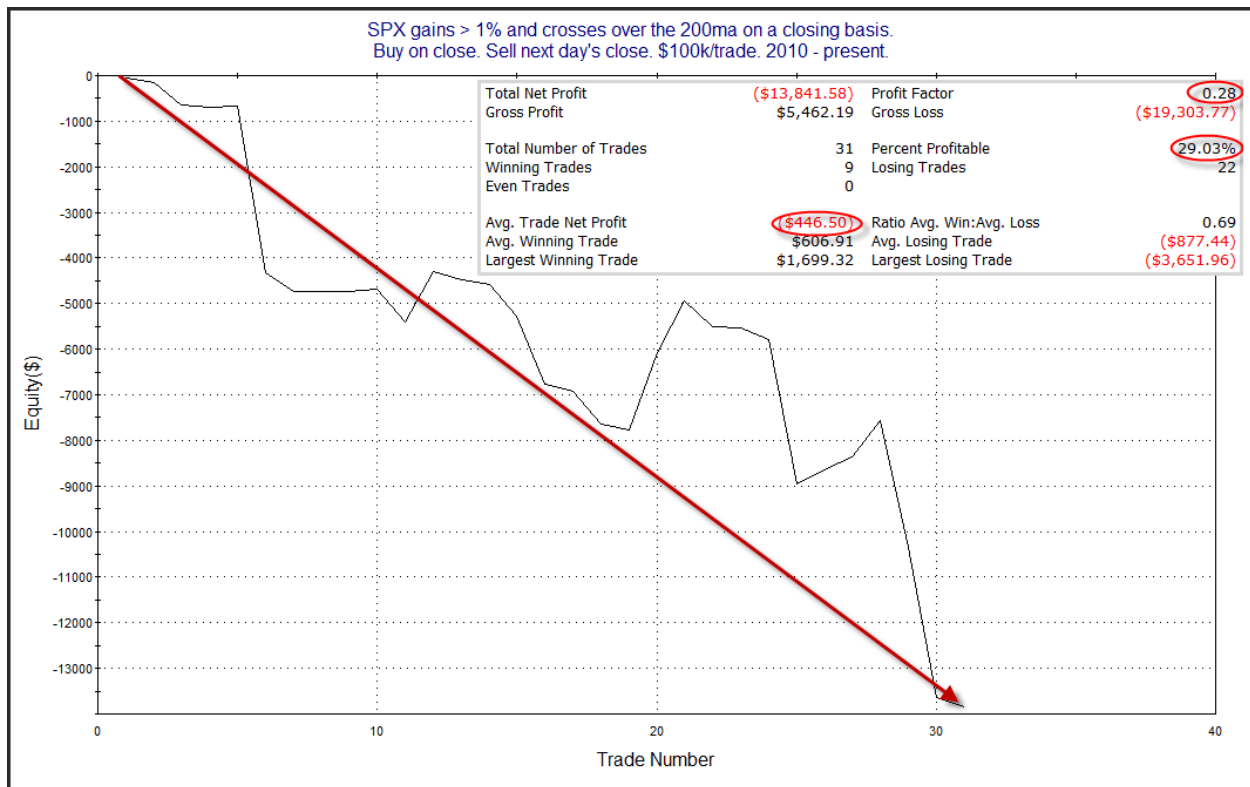
It is also unusual that such a large opening gap (+2.54%) filled, and then SPY still managed to close positive at all. This can be seen in the study below.

SPY gaps up > 2%. It fills the gap but closes positive on the day.
Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/17/2002	Buy	\$90.74	-6.65%	\$396.72
7/19/2002	Sell	\$84.71		(\$7,096.88)
12/12/2007	Buy	\$149.37	-1.47%	\$13.38
12/14/2007	Sell	\$147.17		(\$1,518.63)
9/8/2008	Buy	\$126.99	-2.58%	\$291.19
9/10/2008	Sell	\$123.72		(\$3,494.28)
10/30/2008	Buy	\$96.30	0.84%	\$2,356.26
11/3/2008	Sell	\$97.11		(\$1,889.16)
11/21/2008	Buy	\$79.52	7.72%	\$10,043.43
11/25/2008	Sell	\$85.66		\$0.00
11/25/2008	Buy	\$85.66	5.17%	\$5,216.49
11/28/2008	Sell	\$90.09		(\$1,657.14)
3/4/2009	Buy	\$71.73	-3.92%	\$0.00
3/6/2009	Sell	\$68.92		(\$6,454.22)
8/22/2011	Buy	\$112.73	4.75%	\$4,887.37
8/24/2011	Sell	\$118.08		(\$133.05)
3/10/2020	Buy	\$288.42	-13.98%	\$0.00
3/12/2020	Sell	\$248.11		(\$14,096.04)
3/17/2020	Buy	\$252.80	-4.86%	\$0.00
3/19/2020	Sell	\$240.51		(\$9,788.10)
Run-up/Drawdown			Run-up	Drawdown
Max. Value			\$10,043.43	(\$14,096.04)
Max. Value Date			11/25/2008	3/12/2020
Avg. Value			\$2,320.48	(\$4,612.75)
1 Std. Deviation			\$3,397.98	\$4,650.00
Avg. + 1 Std. Deviation			\$5,718.47	\$37.25
Avg. - 1 Std. Deviation			(\$1,077.50)	(\$9,262.75)

Four instances closed higher, and 6 closed lower over the next 2 days. So there does not appear to be a strong directional bias. But the takeaway is that the volatility did not just disappear. At the bottom you'll see I circled stats looking at avg "run-up + 1 standard deviation" and avg drawdown - 1 std deviation". What those mean is that it would not be unusual to see the market rise as much as 6% or decline as much as 9% over the next couple of days. That is a huge spread for a 2-day time span. It speaks to the potential risk of being wrong.

There was one Quantifinder study that was somewhat compelling. It was last seen recently in the 5/28/20 letter. It looked at strong moves up through the well-watched 200ma, which SPX had just crossed below on Thursday. I have updated it below.



The move from upper left to lower right is impressive and so are the stats. This would suggest a bearish tendency for the day after such a strong move through the 200ma.

Of course the big moves the last few days suggest to me that chop could be coming back as well. So that is worth keeping an eye on. Chop is basically the result of overreactions in both directions as emotions and uncertainty run high. And we saw that with the big moves and reversals the last couple of days. I decided to take a look back at other times SPX followed a 5%+ drop with a 1%+ gain. I found the next couple of days often saw another swing lower. This can be seen in the results table below.

SPX closes down over 5% yesterday and up over 1% today.
Buy on close. Sell X days later. \$100k/trade. 1988 - present.

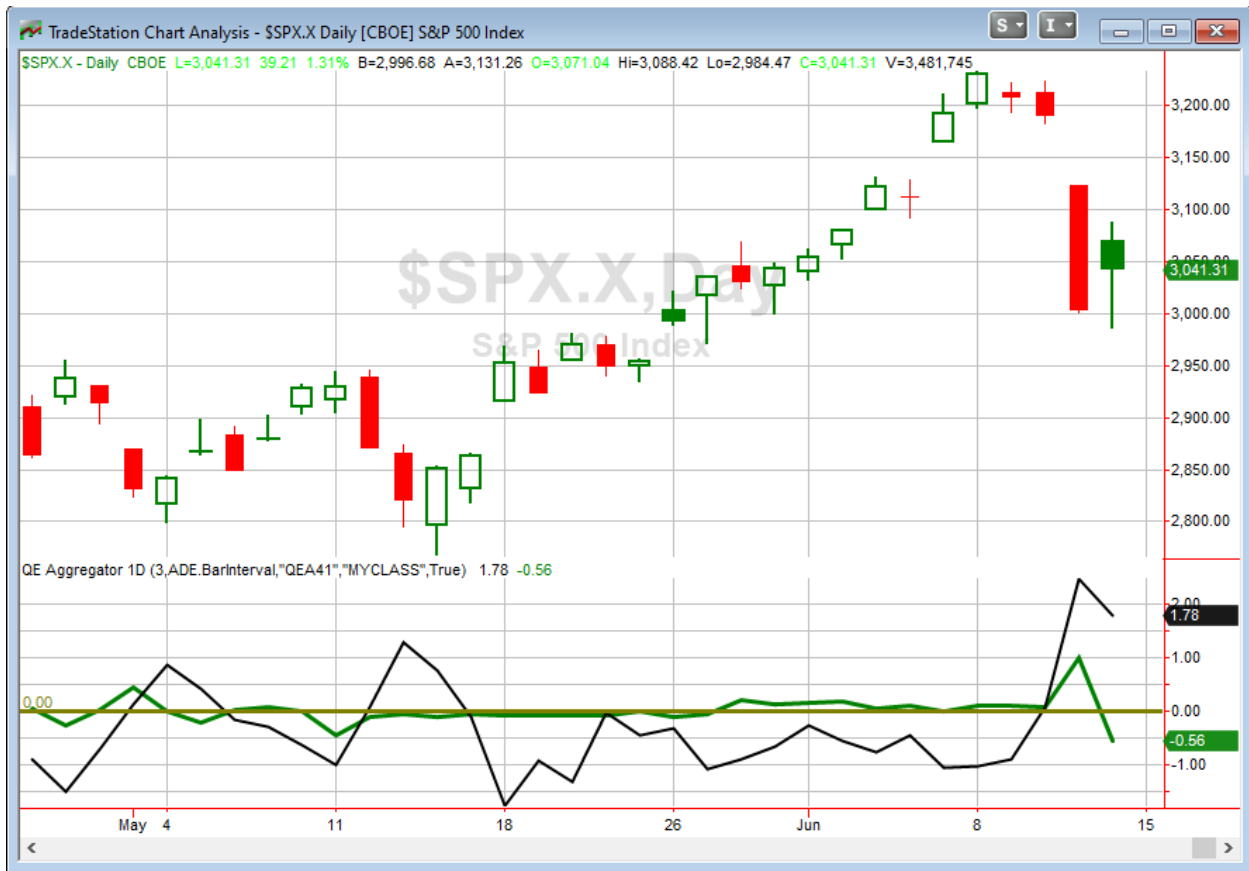
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-11,396.36	15	10	5	66.67	5,396.71	-14,461.05	2,845.81	-7,970.89	0.36	0.71	-759.76
4	-21,568.64	16	10	6	62.50	11,930.04	-16,867.40	3,471.81	-9,381.12	0.37	0.62	-1,348.04
3	-18,155.56	16	7	9	43.75	10,868.60	-11,265.12	3,235.31	-4,533.64	0.71	0.56	-1,134.72
2	-38,350.25	17	4	13	23.53	7,112.64	-13,654.06	3,263.89	-3,954.29	0.83	0.25	-2,255.90
1	-27,603.97	17	3	14	17.65	6,420.72	-11,696.04	3,943.12	-2,816.67	1.40	0.30	-1,623.76

The 1-2 day results are fairly bearish. The size of the moves are impressive. Below is a list of all the instances along with their 1-day returns.

SPX closes down over 5% yesterday and up over 1% today. Buy on close. Sell next day's close. \$100k/trade. 1988 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/11/1988	Buy	\$247.49	-0.84%	\$0.00
1/12/1988	Sell	\$245.41		(\$2,840.12)
10/16/1989	Buy	\$342.85	-0.50%	\$0.00
10/17/1989	Sell	\$341.15		(\$2,086.47)
10/28/1997	Buy	\$921.86	-0.29%	\$1,445.04
10/29/1997	Sell	\$919.16		(\$861.84)
9/1/1998	Buy	\$994.25	-0.38%	\$1,895.00
9/2/1998	Sell	\$990.50		(\$585.00)
4/17/2000	Buy	\$1,401.53	2.86%	\$2,842.84
4/18/2000	Sell	\$1,441.57		(\$264.12)
9/30/2008	Buy	\$1,166.36	-0.45%	\$56.95
10/1/2008	Sell	\$1,161.06		(\$2,175.15)
10/16/2008	Buy	\$946.43	-0.62%	\$4,012.05
10/17/2008	Sell	\$940.55		(\$2,907.45)
10/23/2008	Buy	\$908.11	-3.45%	\$0.00
10/24/2008	Sell	\$876.77		(\$6,078.60)
11/7/2008	Buy	\$930.99	-1.27%	\$2,242.72
11/10/2008	Sell	\$919.21		(\$2,516.64)
11/13/2008	Buy	\$911.29	-4.17%	\$609.31
11/14/2008	Sell	\$873.29		(\$4,513.69)
11/21/2008	Buy	\$800.03	6.47%	\$8,130.68
11/24/2008	Sell	\$851.81		\$0.00
12/2/2008	Buy	\$848.81	2.58%	\$2,844.27
12/3/2008	Sell	\$870.74		(\$2,481.57)
1/21/2009	Buy	\$840.24	-1.52%	→ \$0.00
1/22/2009	Sell	\$827.50		(\$3,445.05)
8/9/2011	Buy	\$1,172.53	-4.42%	→ \$0.00
8/10/2011	Sell	\$1,120.76		(\$4,634.20)
3/10/2020	Buy	\$2,882.23	-4.89%	→ \$0.00
3/11/2020	Sell	\$2,741.38		(\$5,950.34)
3/13/2020	Buy	\$2,711.02	-11.98%	→ \$0.00
3/16/2020	Sell	\$2,386.13		(\$11,882.88)
3/17/2020	Buy	\$2,529.19	-5.18%	→ \$0.00
3/18/2020	Sell	\$2,398.10		(\$9,698.13)
Total Net Profit		(\$27,603.97)	Profit Factor	0.30
Gross Profit		\$11,829.37	Gross Loss	(\$39,433.34)
Total Number of Trades		17	Percent Profitable	17.65%
Winning Trades		3	Losing Trades	14
Even Trades		0		
Avg. Trade Net Profit		(\$1,623.76)	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade		\$3,943.12	Avg. Losing Trade	(\$2,816.67)
Largest Winning Trade		\$6,420.72	Largest Losing Trade	(\$11,696.04)

The reason I showed the 1-day results here instead of the 2-day is that I wanted to point out the action in the last 5 instances. Not only did they all close down, but they all gapped down and never filled during the day. This is seen with the fact that none of them showed any run-up. Volatility is back. And there is not much I see yet with implications beyond a day or two. But the next day or two could certainly see some selling.

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



With today's evidence considered, the green Aggregator line dove below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line is still far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is strongly oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close above 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 Monday. This could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential

Pivot will be 3190.25 on Friday. That is a very large 4.9% above Friday's close. Therefore, SPX will need to close up at least 4.9% in order to flip from overbought to oversold vs recent expectations on Monday. 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 neutral. And with volatility spiking, risk has now increased. I have a small long index position that I took at the close on Thursday. Looks like it is time to get out of that and wait for the next favorable setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/15 - neutral

Combo #1	Combo #2	Combo #3
Long	Long	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week there were no changes to the Combo system statuses.*

This last week was a tough one for the market. The SPX declined 4.8%, the NASDAQ dropped 2.3%, and the Russell 2000 rumbled 7.9%. So they are now all well below the 50-day highs they were at on Monday afternoon. The intermediate-term trend is not 100% clear, but we have more indicators still pointing up than down.

Last weekend I discussed in much detail the broad buying that was occurring, and triggering many breadth thrust signals. This past week we saw a huge breadth reversal with broad selling on Tuesday, Wednesday, and Thursday. Some of the breadth thrust signals I follow use a 10-day average of either the NYSE Up Issue % or the Up Volume %. The Zweig Breadth Thrust, which is one of my favorites, looks at a 10-day exponential moving average of the Up Issue %. It looks for moves in the EMA from under 40% to over 61.5% in a 10-day period. The last time it triggered was in January of 2019, and [I wrote a blog post about it at the time](#).

In looking at the 10ema of the Up Issues %, it reached a high of 71% on Monday and then dropped to 46% on Thursday. That is a sizable decline from a high level. I first thought I would look at other instances that had large declines after reaching a level of at least 70%. Unfortunately, Monday was the 1st time the 10-ema of the Up Issues % had reached 70% since 1940. So I decided I would loosen the criteria some and came up with kind of an anti-Zweig thrust. Below is the study as I created it.

The 10-day Exponential Moving Avg (EMA) of the NYSE Up Issue % closes at least 21.5% below the 10-day high of the EMA. The 10-day high of the EMA was at least 61.5%. SPX forward returns shown.

Ticker	Date/Time	5-Day % Chg	10-Day % Chg	21-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg
\$\$SPX	11/16/1931	-7	-10.07	-23.97	-18.7	-47.75	-31.45
\$\$SPX	9/12/1932	-9.94	-1.35	-15.58	-14.23	-25.28	24.66
\$\$SPX	6/15/1933	4.93	10.27	23.31	14.27	3.39	4.62
\$\$SPX	4/30/1934	-6.21	-9.66	-6.41	-17.11	-16.25	-9.94
\$\$SPX	8/31/1934	-4.92	-7.65	-3.17	4.48	-6.67	27.32
\$\$SPX	1/18/1938	-2.86	-5.71	-5.89	-12.47	9.7	10.39
\$\$SPX	3/7/1938	-0.92	-4.6	-12.87	-10.48	12.68	20.4
\$\$SPX	3/17/1939	-1.15	-10.07	-12.69	-7.62	7.04	-0.57
\$\$SPX	1/12/1940	0.16	0.16	1.65	1.57	-17.72	-12.04
\$\$SPX	9/12/1940	2.82	4.56	2.72	3.79	-2.62	-0.58
\$\$SPX	1/21/1941	0.58	-3.86	-6.27	-10.13	0.77	-14.75
\$\$SPX	4/9/1943	1.71	3.05	7.09	12.12	5.21	8.26
\$\$SPX	7/27/1943	-1.68	-1.76	-1.76	0	-1.34	7.13
\$\$SPX	3/29/1944	0.25	0	-0.67	8.37	6.53	15.4
\$\$SPX	7/18/1944	-1.39	-1.54	-0.62	0.15	4.55	12.94
\$\$SPX	3/9/1945	1.95	-0.58	0.29	8.03	14.91	26.27
\$\$SPX	10/24/1974	5.24	7.11	-1.88	3.93	23.36	29.93
\$\$SPX	1/14/2009	-1.79	0.3	-1.87	2.69	11.64	36.3
\$\$SPX	7/18/2011	2.45	-1.42	-8.63	-6.19	-0.9	4.46
	Avg	-0.94	-1.73	-3.54	-1.98	-0.99	8.36
	Median	-0.92	-1.42	-1.88	0.15	3.39	8.26
	Win %	47.37%	31.58%	26.32%	52.63%	57.89%	68.42%

A few things to note in these results. First, the next 2-4 weeks have generally struggled. Second, only 3 of the 19 instances have occurred after 1945. Overall, the awful breadth we saw this past week appears to be a bit of warning. I don't find it to be an overwhelming short signal, nor do I think it completely invalidates the recent breadth thrust signals we saw. But even just rarity of such a strong flip is alarming. Like we saw with some of the short-term studies, recent action is remarkable, and that can increase risk.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

« As of 06/03/2020

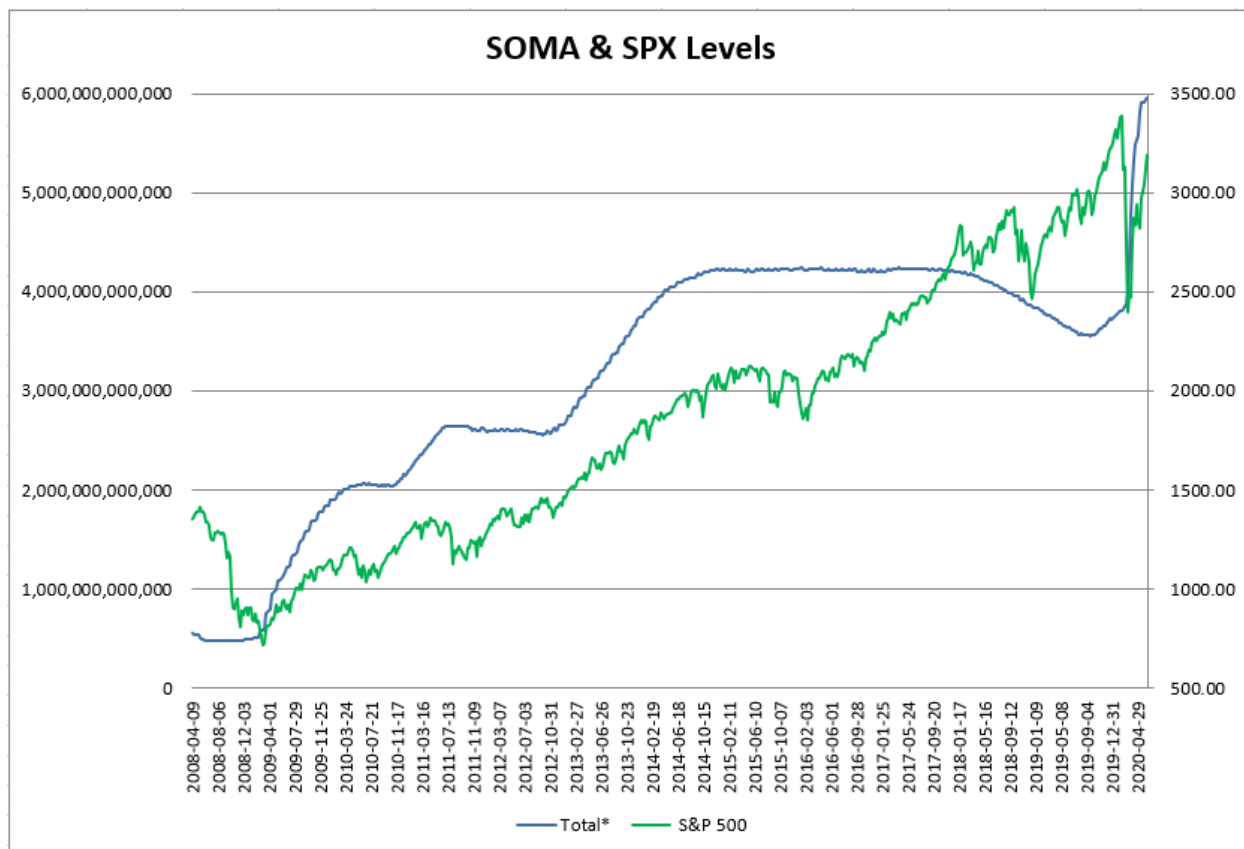
DOMESTIC SECURITIES HOLDINGS AS OF
June 10, 2020 📅

Summary		T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)					
US Treasury Bills (T-Bills)	326,044,000.0					
US Treasury Notes and Bonds (Notes/Bonds)	3,511,228,049.6					
US Treasury Floating Rate Notes (FRN)	15,545,746.1					
US Treasury Inflation-Protected Securities (TIPS)*	261,150,919.0					
Federal Agency Securities**	2,347,000.0					
Agency Mortgage-Backed Securities***	1,826,489,558.4					
Agency Commercial Mortgage-Backed Securities***	9,105,615.7					
Total SOMA Holdings	5,951,910,888.8					
Change From Prior Week	16,350,935.6					

*Does not reflect inflation compensation of 36,440,304.7
 **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 06/11/2020 4:30pm.

The SOMA rose by \$16.3 billion this past week. That is quite low for a week during this latest round of QE. The Fed is continuing to pump, but the pressure has been dialed back a good amount over the last few weeks from where it was in April. It will be interesting to see whether the market can still rally with the support reduced. Our SOMA/SPX chart is updated below.



The SOMA is again new highs, having risen over \$2 trillion in just the last 13 weeks. In their statement on Wednesday the Fed indicated they intended to continue supply massive amounts of liquidity “at least at the current pace”. Strong QE stimulus in the past has always provided a huge boost for the market. And the recent SOMA expansion was the largest on record, helping pull the market up out of the March crash. But the last 3 weeks, the SOMA has expanded by an average of \$11 billion/week. In the 10 weeks prior to that it rose an average of over \$200 billion/week. I think the \$200 billion weeks are probably over. It will be interesting to see where the “current pace” settles and whether that will be enough to support a rising market environment.

Intermediate-term I am back to neutral. Bulls saw some compelling breadth thrusts the last few months, but the anti-Zweig signal this past week casts some doubt. The Fed still appears to be a strong positive, but the liquidity has certainly been dialed back the last 3 weeks. There is a bit more bullish than bearish, but there is now enough doubt that I don’t necessarily want to trade with a bullish bias. And there remain a lot of wildcards out there that could quickly turn the market back to selloff mode. This includes COVID, China relations, economic and re-opening news, and more. Lastly, summer seasonality is generally not good. I may go back to slightly bullish as early as next week if breadth does not continue to fall apart, but for now I’ll be as cautious about new longs as I am new shorts.

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	\$304.21	1.20%		see note below

I will look to exit my SPY position based on the short-term outlook above. I will place a limit order below Friday's closing price to increase my odds of getting filled if there is an unfilled gap down. I will not use an outright market order, since we are in such a choppy environment. Traders can adjust their exit parameters during the day, but that is difficult to do in letter form, so I will simply say: **Sell SPY @ \$301.21 LIMIT**, which is \$3.00, or about 1%, below Friday's close.

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