

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2020

Volume 13 Issue 116

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Big gaps like we have seen the last couple of days are rare, and have only occurred in very volatile environments.
- Large gaps down that turn and finish higher will often struggle to see further gains the next day.
- 2-day bounces after big drops to short-term lows often see further rallying in similar situations.

Short-term Outlook

The Bottom Line

The Aggregator bullish, but evidence is mixed and SPX is likely to flip from short-term oversold to short-term overbought on Tuesday. Not a great entry point.

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 16, 2020	Dn 1.75% & 10-low 2 ago. Thn up 2 < 3 ago	1-4 days	Bullish	2.10%	-1.10%	-2.40%
June 16, 2020	SPY gaps down 1.5% and finishes up	1 day	Bearish			
June 15, 2020	5% drop then 1% up	1-2 days	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 15, 2020	1% up through 200ma	1 day	Bearish			

The Evidence

Monday started poorly, but an announcement from the Fed about corporate bond buying helped spark a big reversal and the indices all posted solid gains. The SPX closed up 0.8%, the NASDAQ rose 1.4%, and the Russell 2000 rallied 2.3%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 64%. NYSE total volume rose some from Friday's level.

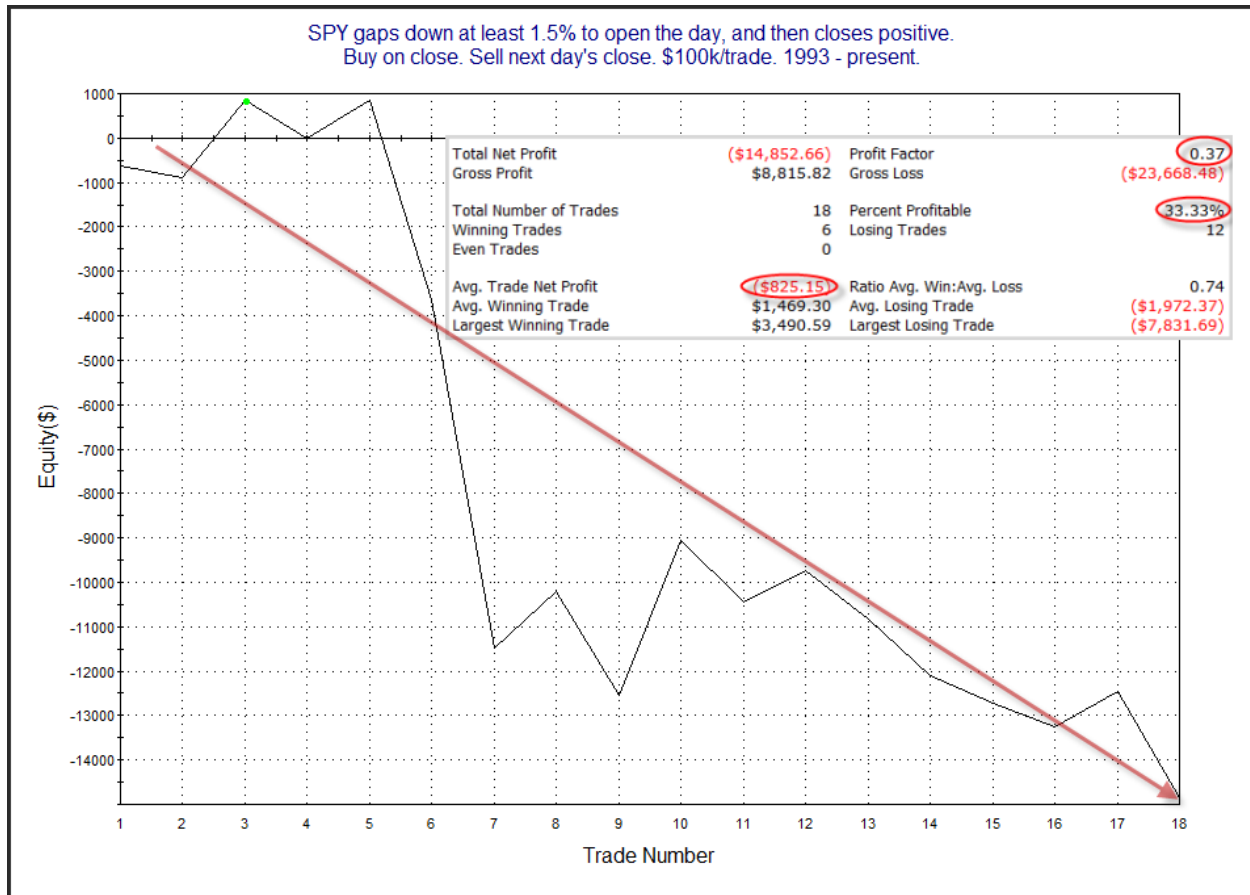
This was the 2nd day in a row in which SPY opened with a gap of greater than 2%. Friday it was a gap up, and Monday was a gap down. That is quite unusual to see these kind of wild pre-market swings. In fact, it has only happened like this 6 times prior...and I found the dates to be quite interesting.

SPY gaps up > 2% yesterday and gaps down > 2% today. All instances shown. 1993 - present.		
Ticker	Date/Time	Next Day % Chg
SPY	10/8/2008	-6.98
SPY	10/10/2008	14.52
SPY	10/15/2008	4.17
SPY	3/11/2020	-9.57
SPY	3/16/2020	5.40
SPY	3/18/2020	0.21

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All of these instances were clustered in 2 of the wildest months since the inception of SPY in 1993. This study is not predictive, but it is notable in that it is more evidence that we are currently in an emotional and volatile market environment.

Simply gapping down large and reversing to close positive on the day is something that often does not see much follow through the next day. In the 12/15/08 letter I looked at this some. Tonight I updated the 1-day returns following days SPY gapped down > 1.5% and closed positive.



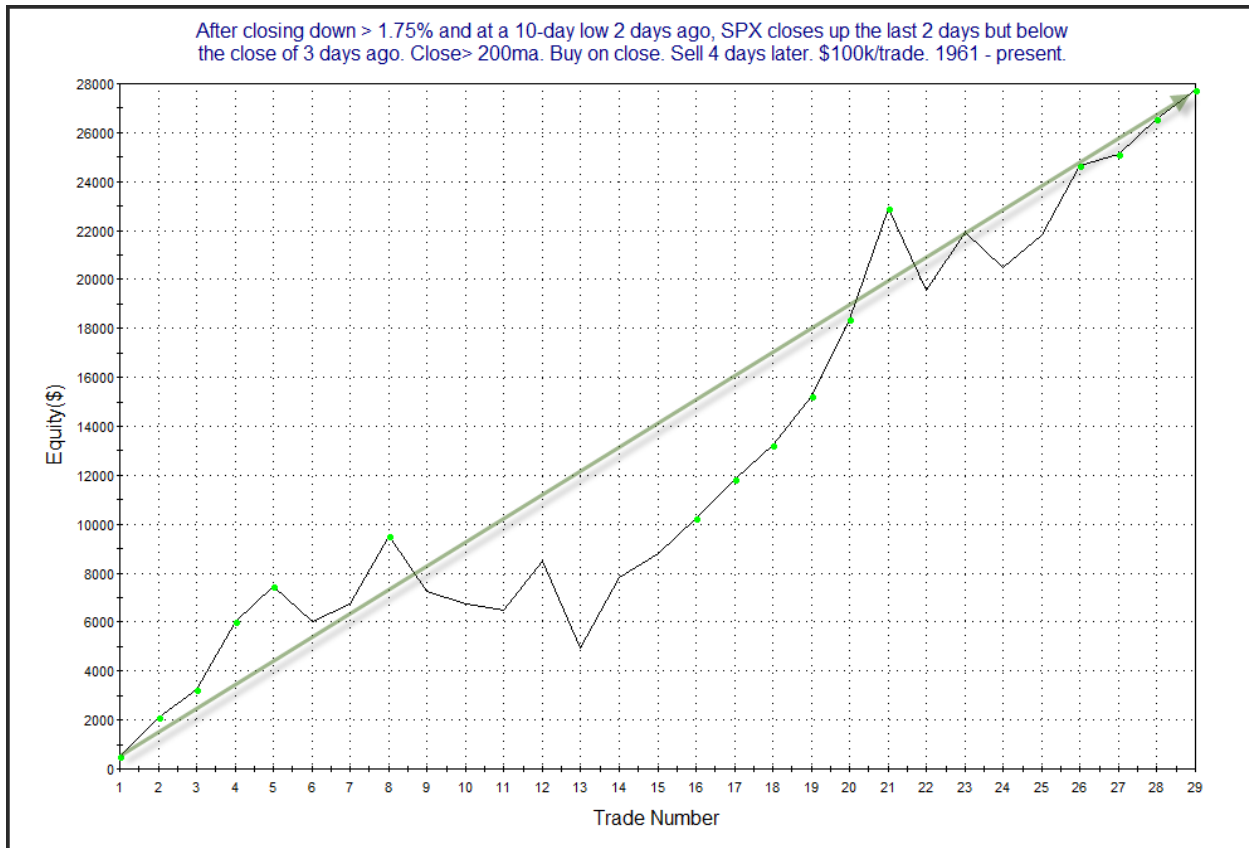
The numbers and the curve both seem to suggest a bearish edge for Tuesday. I have included this study on the Active List tonight.

But not everything was bearish. The study below, last seen in the 5/16/19 letter, looked at a times a sharp selloff was followed by a 2-day rally that failed to close above the close of 3 days ago. Results are updated.

After closing down > 1.75% and at a 10-day low 2 days ago, SPX closes up the last 2 days but below the close of 3 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - present.

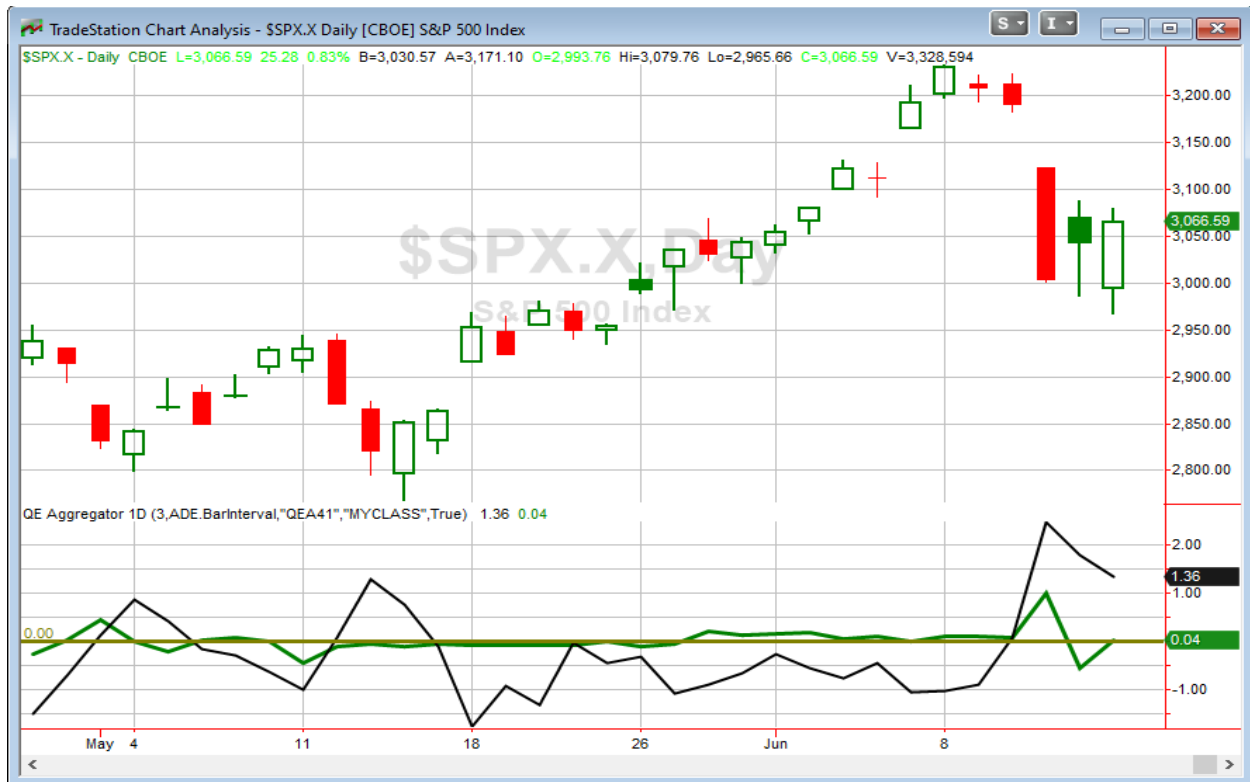
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	25,052.35	29	20	9	68.97	5,601.62	-6,447.66	2,191.07	-2,085.46	1.05	2.33	863.87
4	27,722.02	29	22	7	75.86	4,528.65	-3,541.48	1,846.76	-1,843.82	1.00	3.15	955.93
3	23,448.68	29	22	7	75.86	3,269.52	-3,973.16	1,564.52	-1,567.26	1.00	3.14	808.58
2	20,645.86	29	20	9	68.97	3,844.65	-1,919.22	1,390.14	-795.21	1.75	3.88	711.93
1	9,051.54	29	18	11	62.07	2,699.42	-1,647.38	960.43	-748.74	1.28	2.10	312.12

Results look very favorable for the bulls. Below is a look at a 4-day profit curve.



Not perfect, but still a solid looking move up that is again making new highs. I have included this study on the active list tonight.

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



With today's evidence considered, the green Aggregator inched back up above zero. Positive readings mean net expectations are for upside 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 positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Tuesday. This could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3038.22 on Tuesday. That is 0.9% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down over 0.9% in order to remain oversold vs recent expectations. Anything other than that and it will flip to "overbought" as of Tuesday's close.

I generally view inverted pivots as good times to look to take profits. But I already did that on Monday. Despite the bullish Aggregator formation, I don't love reward/risk for new entries, because any move in the anticipated direction would mean the Aggregator signal would no longer be bullish. Upside potential is limited to 1 day, and even a down close of < 0.9% would leave SPX overbought and the bullish Aggregator signal would expire. Additionally, while 3-day expectations are positive, 1-day expectations are actually negative. So I'll sit back and see how action unfolds on Tuesday and what new evidence emerges before deciding on my next move.

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

The intermediate-term outlook was last updated in the 6/15 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
<i>SPY(1/4)</i>	<i>6/11/2020</i>	<i>\$300.61</i>	<i>\$301.21</i>	<i>0.20%</i>		<i>sold at limit</i>

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