

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2020

Volume 13 Issue 117

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 3+ days of strong Nasdaq breadth are often followed by a down day.
- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.

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 17, 2020	Up 2% + in 3 days. 3/10 HV < 0.25	1-6 days	Bullish			
June 17, 2020	NASDAQ Adv/Decl 3:2 for 3+ days	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 16, 2020	Dn 1.75% & 10-low 2 ago. Thn up 2<	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			

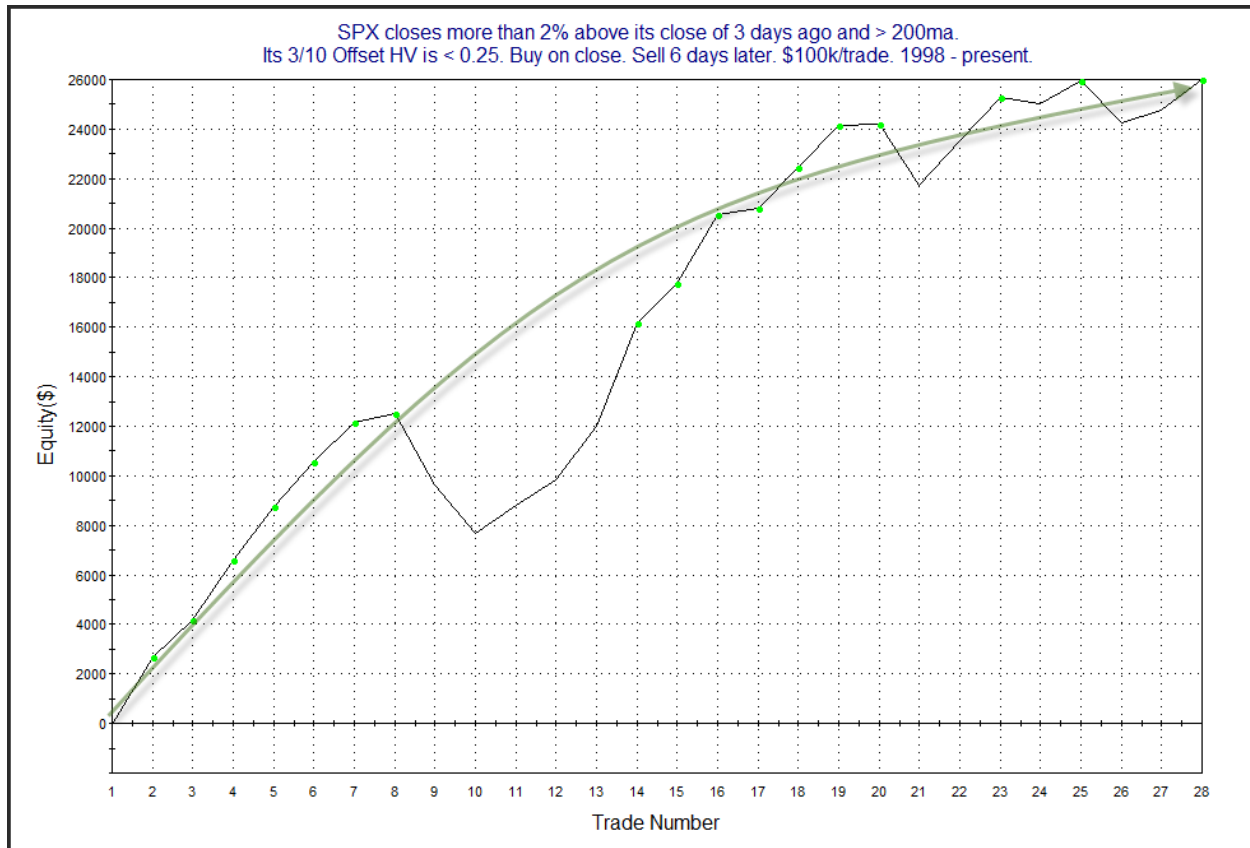
The Evidence

Tuesday had another big gap up and more wild back and forth movement. Indices finished strongly higher. The SPX closed up 1.9%, the NASDAQ rose 1.7%, and the Russell 2000 rallied 2.3%. Breadth was positive as the NYSE Up Issues % was 83% and the Up Volume % came in at 86%. NYSE total volume rose some from Monday's level.

On Tuesday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. The 3/10 Offset HV compares the 3-day historical volatility to the 10-day historical volatility number of 3 days ago. A low reading suggests there has been a contraction in volatility. Of course almost anything would have been a contraction after the massive decline on Thursday. This all triggered the study below, which I last featured in the 10/14/19 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma. Its 3/10 Offset HV is < 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	25,416.58	27	20	7	74.07	5,768.50	-6,828.48	2,292.71	-2,919.67	0.79	2.24	941.35
9	21,832.55	27	19	8	70.37	3,809.19	-5,817.60	2,081.14	-2,213.63	0.94	2.23	808.61
8	16,488.62	27	20	7	74.07	4,162.27	-3,819.90	1,515.88	-1,975.56	0.77	2.19	610.69
7	22,399.61	28	23	5	82.14	3,889.70	-2,513.62	1,365.39	-1,800.86	0.76	3.49	799.99
6	25,983.80	28	22	6	78.57	4,206.89	-2,898.50	1,603.28	-1,548.05	1.04	3.80	927.99
5	23,403.18	28	23	5	82.14	3,481.56	-2,287.35	1,357.51	-1,563.92	0.87	3.99	835.83
4	18,643.08	28	18	10	64.29	2,616.60	-1,697.04	1,402.66	-660.49	2.12	3.82	665.82
3	17,524.24	28	21	7	75.00	2,315.72	-1,476.45	1,097.63	-789.44	1.39	4.17	625.87
2	13,511.04	29	19	10	65.52	2,451.76	-1,838.16	1,089.97	-719.84	1.51	2.88	465.90
1	2,196.69	31	17	14	54.84	1,857.24	-2,159.69	517.61	-471.62	1.10	1.33	70.86

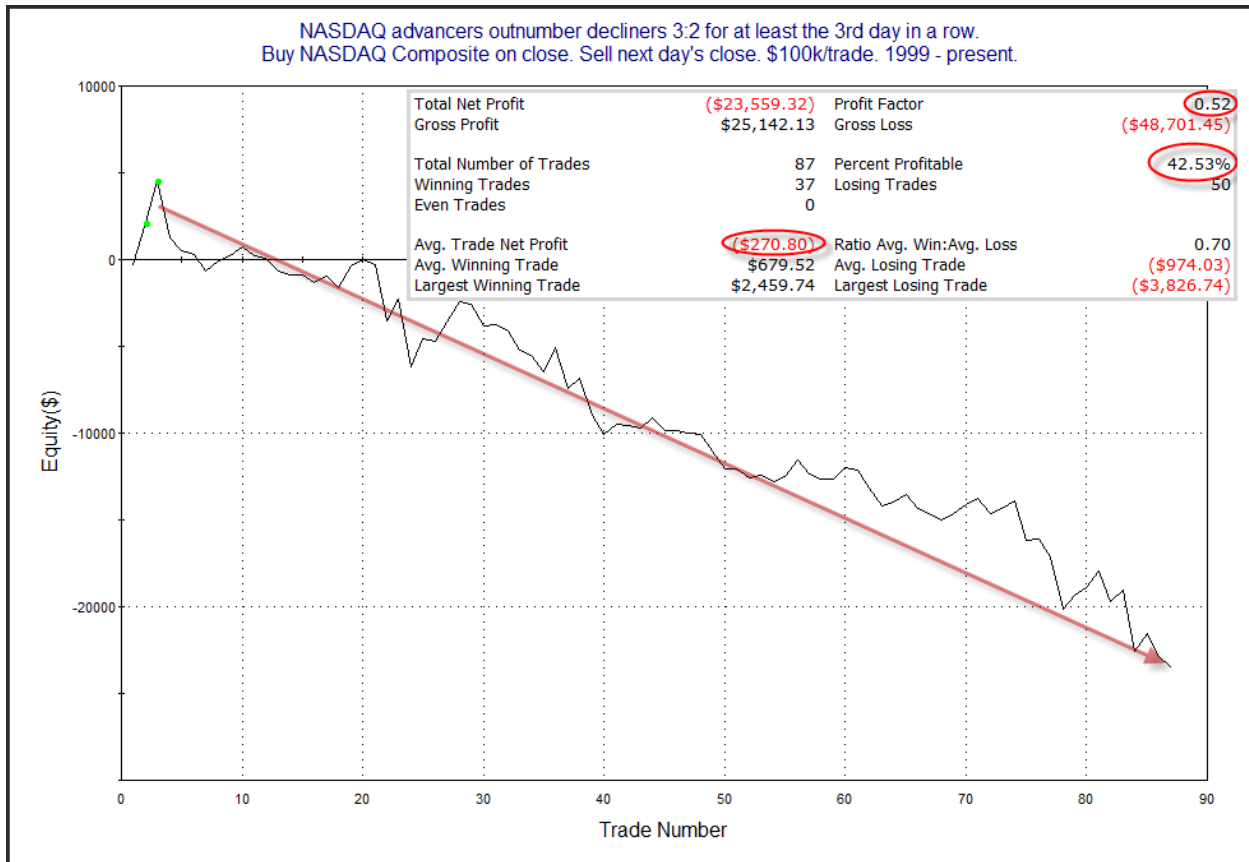
The numbers here all seem to suggest an upside edge. To get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below is the profit curve for the 6-day period.



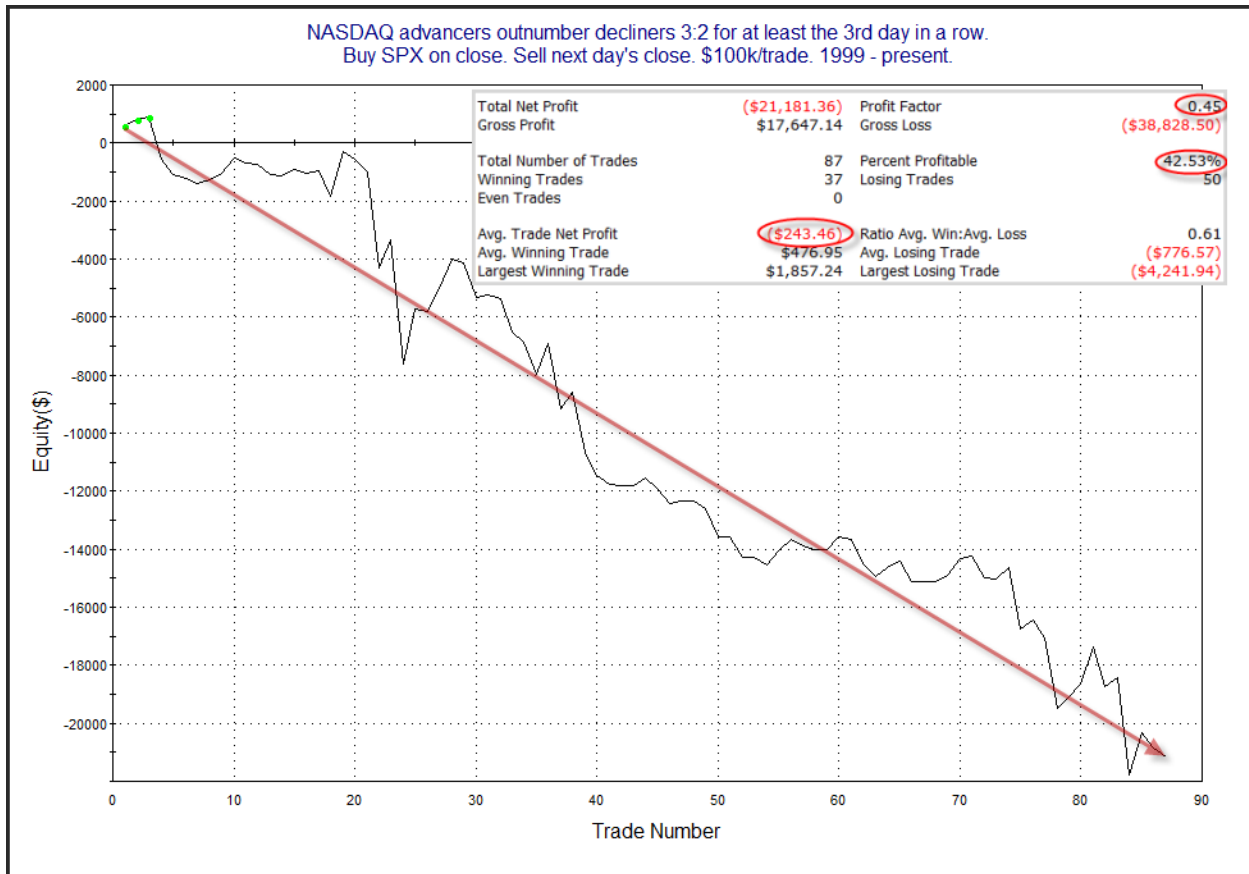
Despite the mild fade, this curve is back at new highs and looks solid. I have added this study to the Active List tonight.

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 6/4/20 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 pullbacks in the SPX. So again tonight we see mixed evidence.

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



With today's evidence considered, the green Aggregator remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is dropped 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. This could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3056.57 on Wednesday. That is 2.2% below Tuesday's close. So SPX would need to close down a sizable 2.2% on Wednesday in order to flip from overbought to oversold vs recent expectations.

The Aggregator is neutral and evidence is mixed. I am neutral also, and not enthused about a new directional bet here. Volatility remains high, and I'd rather have a more favorable edge before looking to put on new positions.

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

None

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