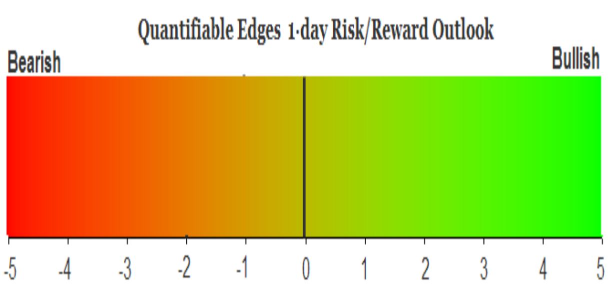
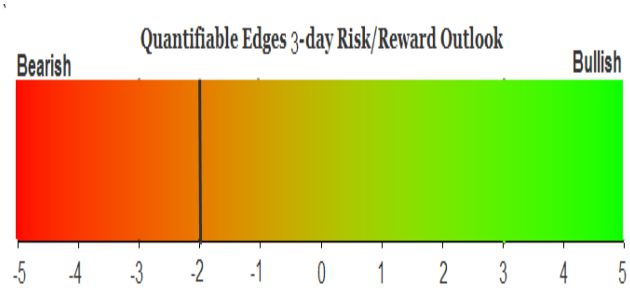
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 2, 2020 Volume 13 Issue 128

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback.
- A strong close heading into an employment day has often seen employment day gains.

Short-term Outlook
The Bottom Line
The Aggregator is bearish. But Thursday actually has bullish expectations. So I will hold off on shorting for now.

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						
July 2, 2020	NDX up > 1%. SOX dn.	1-6 days	Bearish	-3.15%	1.80%	3.90%
July 2, 2020	Employment tomorrow. Strg close 2day	1 day	Bullish			
June 30, 2020	2% dn to 10-low. 1% up < 2 ago. > 200	1-3 days	Bullish	2.40%	-1.20%	-2.50%
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			
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			

The Evidence

July started mostly positive. The SPX rose 0.5%, the NASDAQ gained 1.0%, but the Russell 2000 lost 1.0%. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 37%. NYSE total volume declined some from Tuesday's level.

An interesting aspect of Wednesday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.2% on Wednesday, the SOX declined 1.5%. This is somewhat unusual action. It brought about a study last seen in the 7/29/19 Letter, which I have updated below.

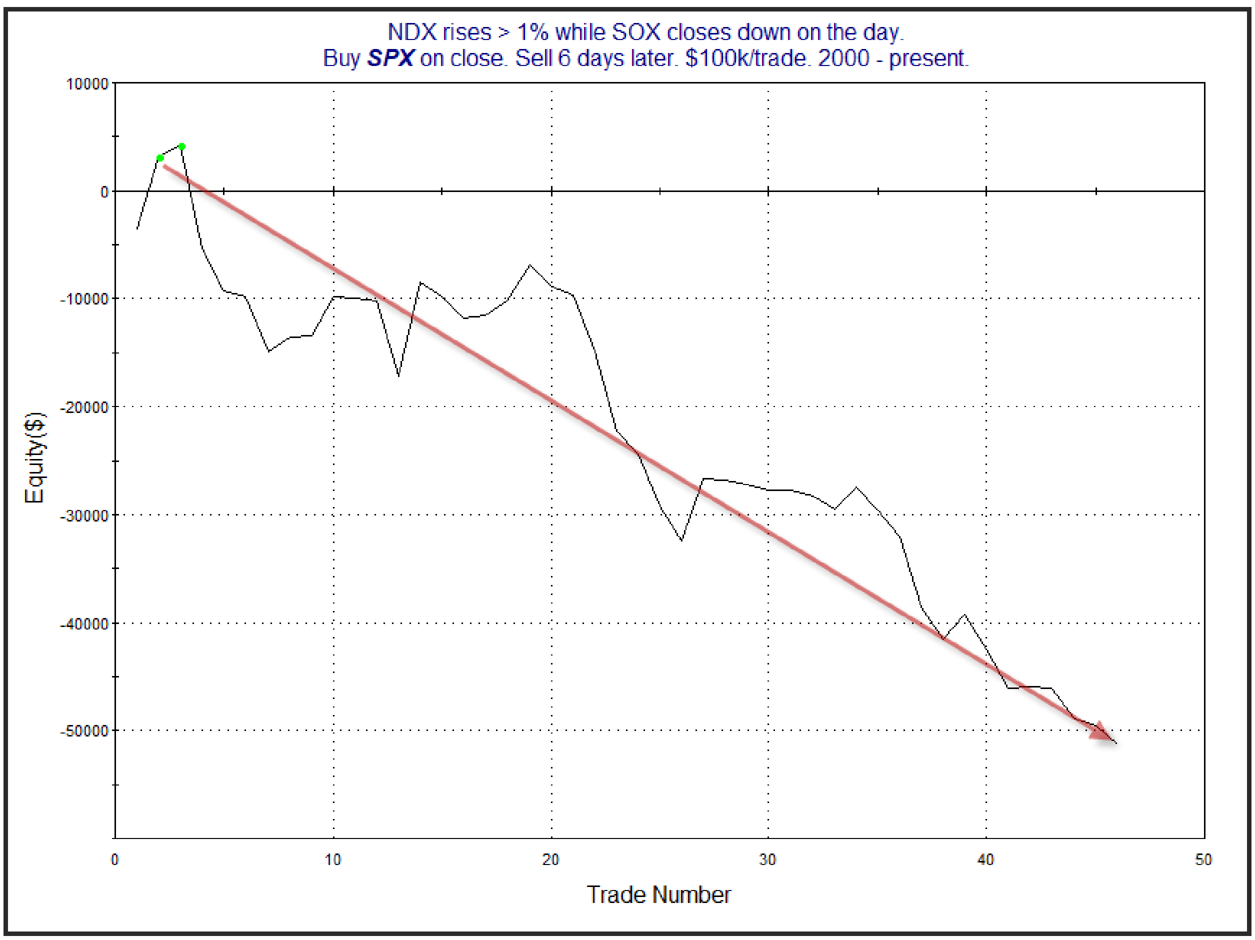
NDX rises > 1% while SOX closes down on the day.
Buy ***SPX*** on close. Sell X days later. $100k/trade. 2000 - present.

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	-98,007.15	45	16	29	35.56	18,826.33	-13,954.56	4,885.26	-6,074.87	0.80	0.44	-2,177.94
9	-92,846.22	45	13	32	28.89	22,154.89	-15,780.45	5,566.44	-5,162.81	1.08	0.44	-2,063.25
8	-92,234.34	46	12	34	26.09	30,307.45	-13,288.50	6,143.82	-4,881.18	1.26	0.44	-2,005.09
7	-104,527.44	47	10	37	21.28	31,628.02	-17,436.00	7,565.25	-4,869.73	1.55	0.42	-2,223.99
6	-132,921.56	47	10	37	21.28	23,421.19	-21,090.48	6,786.44	-5,426.65	1.25	0.34	-2,828.12
5	-92,766.50	48	15	33	31.25	12,749.43	-12,790.08	4,162.09	-4,702.97	0.88	0.40	-1,932.64
4	-58,844.80	48	20	28	41.67	11,322.33	-12,796.24	3,053.56	-4,282.71	0.71	0.51	-1,225.93
3	-33,136.67	49	19	30	38.78	15,615.69	-15,779.50	4,105.64	-3,704.79	1.11	0.70	-676.26
2	-6,657.02	51	23	28	45.10	16,624.43	-9,160.50	3,233.50	-2,893.84	1.12	0.92	-130.53
1	-2,037.95	53	24	29	45.28	9,397.52	-6,256.64	2,521.10	-2,156.70	1.17	0.97	-38.45

Six days later 79% of the instances were losers and the average occurrence was a 2.8% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

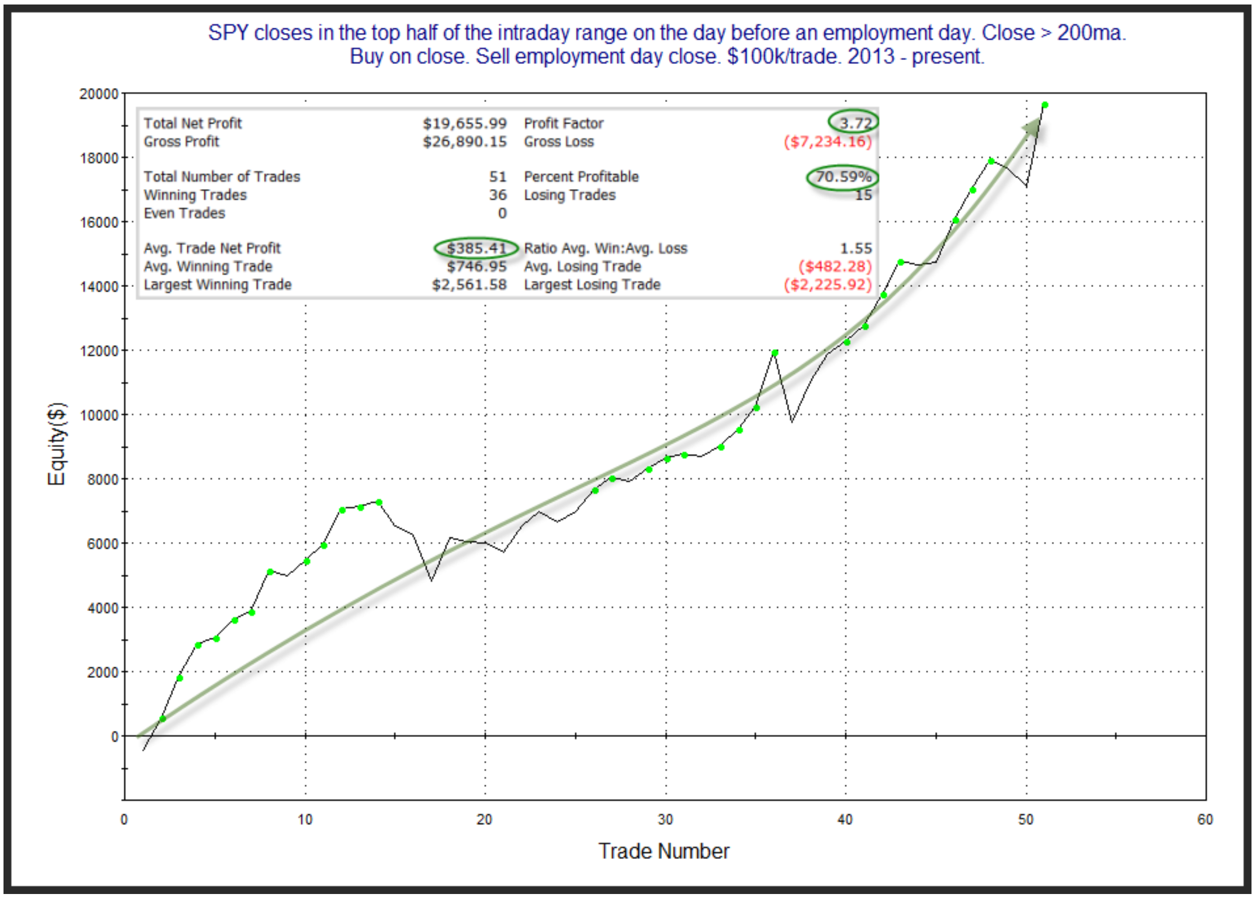
NDX rises > 1% while SOX closes down on the day. Buy ***SPX*** on close. Sell X days later. $100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-30,099.80	45	17	28	37.78	9,774.70	-8,478.02	2,831.05	-2,793.85	1.01	0.62	-668.88
9	-35,586.63	45	18	27	40.00	9,278.30	-8,963.07	2,641.24	-3,078.85	0.86	0.57	-790.81
8	-44,911.04	46	19	27	41.30	9,165.45	-7,574.41	2,220.79	-3,226.15	0.69	0.48	-976.33
7	-53,011.64	47	19	28	40.43	10,101.57	-11,391.59	2,102.23	-3,319.78	0.63	0.43	-1,127.91
6	-57,282.14	47	13	34	27.66	8,753.07	-9,589.14	2,802.31	-2,756.24	1.02	0.39	-1,218.77
5	-47,411.65	48	19	29	39.58	6,877.04	-7,519.22	1,719.23	-2,761.28	0.62	0.41	-987.74
4	-30,380.27	48	22	26	45.83	5,068.10	-11,917.40	1,629.13	-2,546.97	0.64	0.54	-632.92
3	-15,347.50	49	21	28	42.86	6,877.26	-9,480.90	1,822.69	-1,915.14	0.95	0.71	-313.21
2	-6,585.74	51	21	30	41.18	5,842.98	-6,411.90	1,640.52	-1,367.89	1.20	0.84	-129.13
1	4,749.15	53	26	27	49.06	5,396.04	-2,692.80	1,270.52	-1,047.57	1.21	1.17	89.61

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



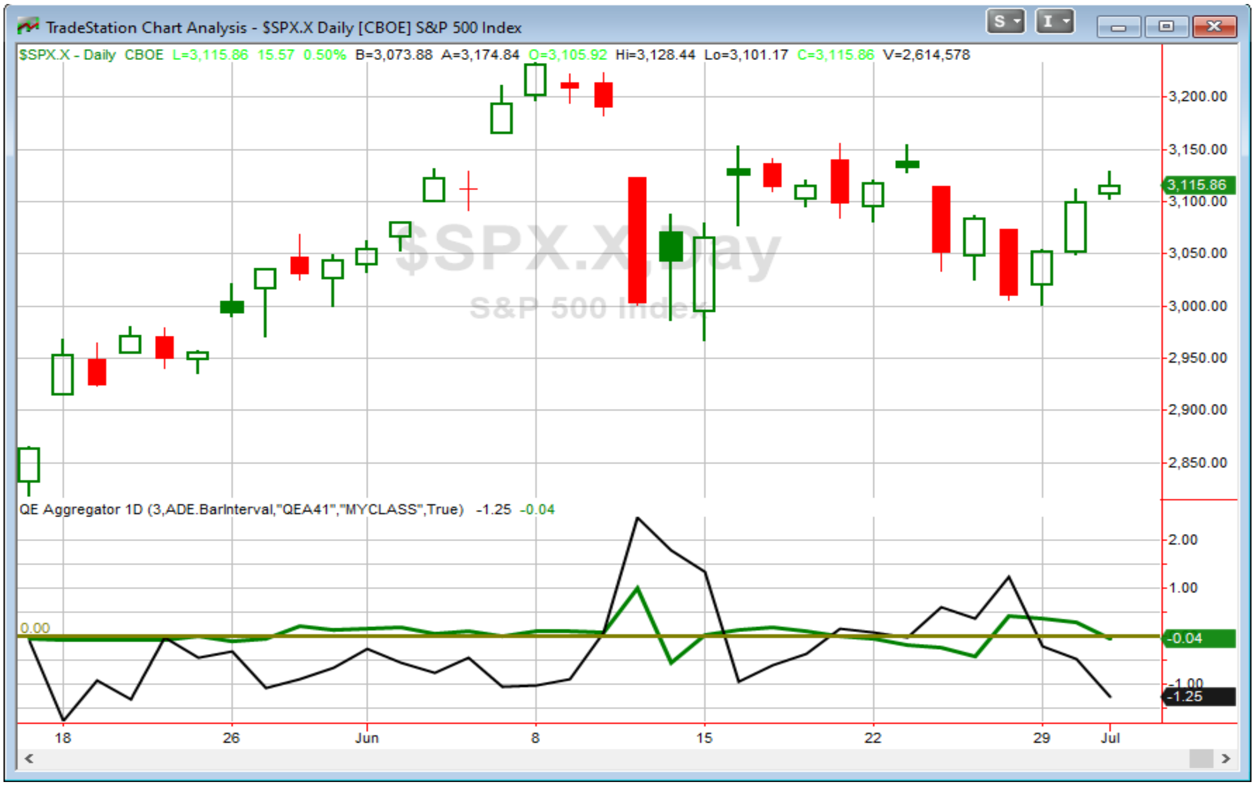
That is a fairly steady downslope, and the curve is once again at new lows. Overall, this study appears worthy of consideration.

It is also notable that Thursday morning we will see the release of BLS employment report. It is normally released on the 1st Friday of the month, but with Friday being a holiday, it is coming out on Thursday this month. Employment days have often seen the market rally in recent years. Interestingly, this tendency has been stronger when there has been some optimism the day before. The study below looks back to 2013 at all other times SPY closed above the 200ma and in the top half of its intraday range on the day before an employment day.



Both the numbers and the curve are impressive. They suggest a 1-day upside edge.

I have updated the Aggregator chart below.



With tonight's mix of studies considered, the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Thursday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3064.04 on Thursday. That is 1.7% below Wednesday's close. Therefore, SPX will need to close down at least 1.7% in order to flip from overbought to oversold versus expectations on Thursday.

So the Aggregator is suggesting a short-term bearish edge. But I will note that while 3-day expectations are negative, expectations for Thursday are actually positive. Under many circumstances, I might consider looking to short SPY at the close on Thursday if it closes up again. But I am a little wary of doing that with the 3-day weekend on tap for U.S. markets. Three days seems like a long time in this news-driven environment. I'll give it the weekend, see if any additional evidence emerges on Thursday, and then I may look to take advantage of this short setup on Monday if it still holds. Of course more aggressive traders could consider taking on shorts ahead of the long weekend.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/29 – neutral

The intermediate-term outlook was last updated in the 6/29 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