

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 24, 2020

Volume 13 Issue 143

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPX intraday high and a big NDX down day have made for a solid intermediate-term bullish signal in the past.
- The 1st down day from an intermediate-term high is sometimes the 1st of several down days. It appears a bit early to anticipate a high-probability of a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is long, but I think it is a little early to get excited about a bounce, with the SPX only 1-day removed from a 50-day high.

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 21, 2020	SPX breakout on lowest volum in 10	1-5 days	Bullish	1.90%	-0.80%	-1.50%
Active - Long Term						
July 9, 2020	Golden Cross	int term	Bullish			
July 7, 2020	5 up < 50-high. > 3% gain.	1-15 days	Bullish	3.20%	-1.80%	-3.10%
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

Thursday was mostly lower. The SPX finished down 1.2%, the NASDAQ tumbled 2.3%, but the Russell 2000 eeked out a 0.06 *point* gain. Breadth was negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 41%. NYSE total volume declined some from Wednesday’s level.

The 1st day down from a 50-day high does not always generate a compelling buy signal. It is often a tossup as to whether the previous rally quickly re-asserts itself, or whether the down day is the beginning of a deeper selloff. One study I looked at tonight was from the 10/2/19 letter. It looked at other times that SPY made a 3-day high, 3-day low, and then a 3-day low close. I decided to filter that study further to break it down into times it was coming off a 50-day closing high vs times it was not. The broken down results can be seen below.

After closing up yesterday but not at a 50-day high, SPY makes a 3-day high, a 3-day low, and the lowest close in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	24,470.53	22	15	7	68.18	4,273.50	-1,606.11	1,880.09	-532.98	3.53	7.56	1,112.30
4	18,134.83	22	15	7	68.18	4,533.98	-2,123.52	1,629.12	-900.28	1.81	3.88	824.31
3	9,331.97	22	15	7	68.18	3,903.34	-3,386.88	1,344.27	-1,547.43	0.87	1.86	424.18
2	6,068.70	23	14	9	60.87	3,244.78	-3,521.52	1,039.35	-942.46	1.10	1.72	263.86
1	2,379.54	23	14	9	60.87	2,359.84	-1,774.08	642.03	-734.33	0.87	1.36	103.46

After closing at a 50-day high yesterday, SPY makes a 3-day high, a 3-day low, and the lowest close in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	10,910.63	13	7	6	53.85	3,861.00	-1,463.76	1,975.41	-486.21	4.06	4.74	839.28
4	5,514.58	13	7	6	53.85	2,392.92	-1,326.96	1,288.84	-584.55	2.20	2.57	424.20
3	783.09	13	8	5	61.54	2,166.14	-3,393.78	929.43	-1,330.46	0.70	1.12	60.24
2	-552.42	13	6	7	46.15	2,361.64	-3,737.28	1,301.05	-1,194.10	1.09	0.93	-42.49
1	-2,216.84	13	7	6	53.85	1,347.56	-3,909.03	514.83	-970.11	0.53	0.62	-170.53

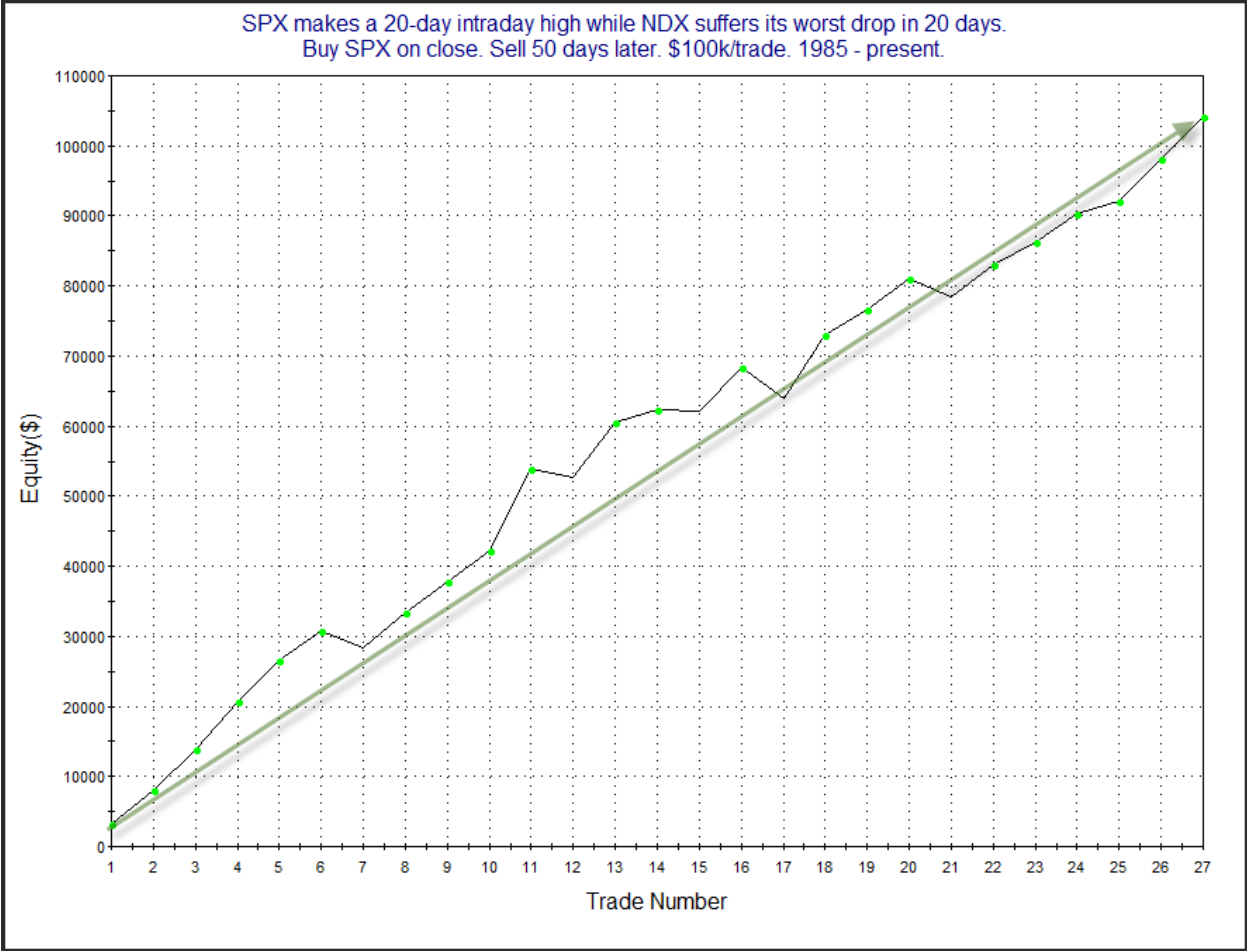
The 1st set of results, where the market was NOT coming off a 50-day high, look fairly bullish. But the times the pattern triggered right after a 50-day high show more random returns. The 2nd setup is the current one. So I am not adding anything new to the short-term active list tonight.

But there was one study that suggested a possible intermediate-term impact. It noted that SPX made a 20-day intraday high on a day where NDX had its worst decline in the last 20 days. I looked at this setup in the 11/30/17 letter, and have updated the results below.

SPX makes a 20-day intraday high while NDX suffers its worst drop in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.

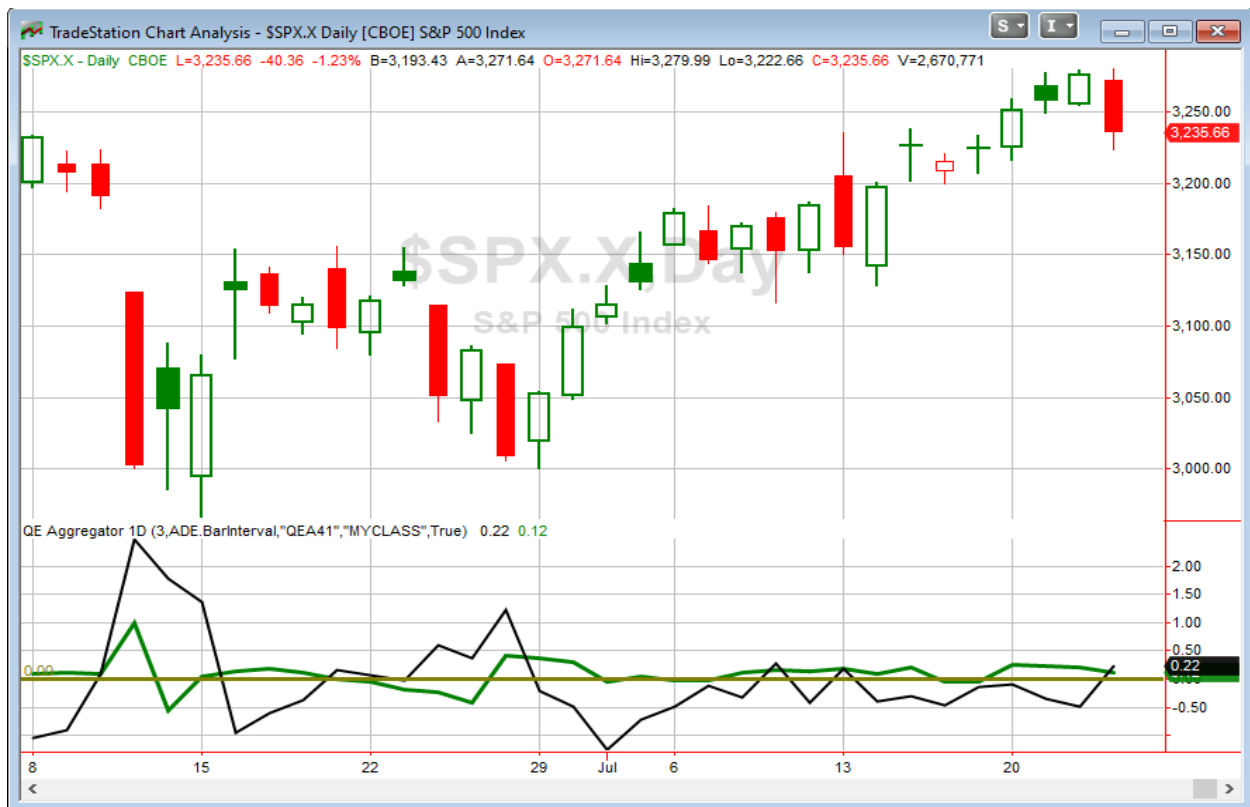
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	104,251.00	27	22	5	81.48	11,736.48	-4,474.24	5,227.99	-2,152.97	2.43	10.68	3,861.15
45	82,244.14	27	21	6	77.78	10,640.84	-5,533.44	4,734.86	-2,864.66	1.65	5.78	3,046.08
40	65,009.64	28	21	7	75.00	9,682.40	-9,804.11	4,199.46	-3,311.29	1.27	3.80	2,321.77
35	56,333.42	29	20	9	68.97	8,919.96	-5,508.07	4,134.63	-2,928.81	1.41	3.14	1,942.53
30	49,872.80	29	21	8	72.41	9,146.60	-9,849.67	4,009.00	-4,289.51	0.93	2.45	1,719.75
25	46,313.00	31	22	9	70.97	7,045.95	-9,670.78	3,568.85	-3,577.97	1.00	2.44	1,493.97
20	39,164.71	31	22	9	70.97	7,296.33	-5,098.24	2,755.13	-2,383.13	1.16	2.83	1,263.38
15	36,050.09	31	23	8	74.19	7,393.84	-3,229.81	2,155.94	-1,692.07	1.27	3.66	1,162.91
10	24,869.80	32	22	10	68.75	4,119.18	-2,561.28	1,520.73	-858.62	1.77	3.90	777.18
5	12,667.80	33	19	14	57.58	4,189.92	-2,618.20	1,257.41	-801.64	1.57	2.13	383.87

The numbers here look impressive over the intermediate-term. Below is a look at the 50-day profit curve.



The curve does not disappoint, since it is a straight shot from lower left to upper right. I have added this study to the intermediate-term active list.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line rose 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 Friday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3271.38 on Friday. That is 1.1% above Thursday's close. Therefore, SPX will need to close up at least 1.1% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But evidence is light. This could be the start of a multi-day selloff. (Remember those?) I'd like to see more evidence suggesting a bounce. I suspect another down day on Friday would help generate some of that evidence. But I am not inclined to jump the gun just yet. Instead, I will take the weekend to evaluate, and if the selling continues, there is a good chance I may look to take on some index exposure on Monday. I will also note that I examined the Numbered Systems Triggers spreadsheet tonight, and there were only 2 stocks that were triggering any of the systems. Aggressive traders could think about buying into some kind of down move on Friday. I am not there yet. Still too early for me.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/20 – slightly bullish

The intermediate-term outlook was last updated in the 7/20 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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