

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 4, 2020

Volume 13 Issue 150

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- For breakouts to generate a short-term upside edge, they should have longer bases than what we saw with SPX.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But evidence is light and I am just not enthused yet about a counter-trend position.

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						
August 3, 2020	NDX up 1% with SOX down	1-6 days	Bearish	-3.10%	1.80%	3.90%
Active - Long Term						
July 24, 2020	NDX big dn day. SPX new high.	1-50 days	Bullish	6.00%	-2.85%	-5.50%
July 9, 2020	Golden Cross	int term	Bullish			
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

Monday was a rally day for the market. The SPX gained 0.7%, the NASDAQ rose 1.5%, and the Russell 2000 climbed 1.8%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 64%. NYSE total volume declined a good bit from Friday's level.

SPX made a new 50-day high on Monday after having a short, 7-day base. In the 9/29/17 letter I examined the importance of base length when considering odds of a low-volume breakout seeing a continuation over the next few days. I have updated those studies below. First, let's look at breakout from short basing periods, like the current one.

SPX closes at a 50-day high after not doing so for at least 5 days (<i>but less than 10 days</i>). NYSE volume declines. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	10,390.21	30	16	14	53.33	3,687.06	-2,508.38	1,293.26	-735.86	1.76	2.01	346.34
4	6,383.73	30	19	11	63.33	3,349.50	-2,300.20	824.97	-844.61	0.98	1.69	212.79
3	6,376.51	30	18	12	60.00	3,803.64	-2,125.44	857.81	-755.34	1.14	1.70	212.55
2	4,008.91	30	22	8	73.33	1,658.22	-2,752.74	541.52	-988.08	0.55	1.51	133.63
1	4,319.67	30	21	9	70.00	1,415.70	-1,721.70	396.69	-445.66	0.89	2.08	143.99

Odds for these shorter bases appear very mild. Now let's look at the longer bases.

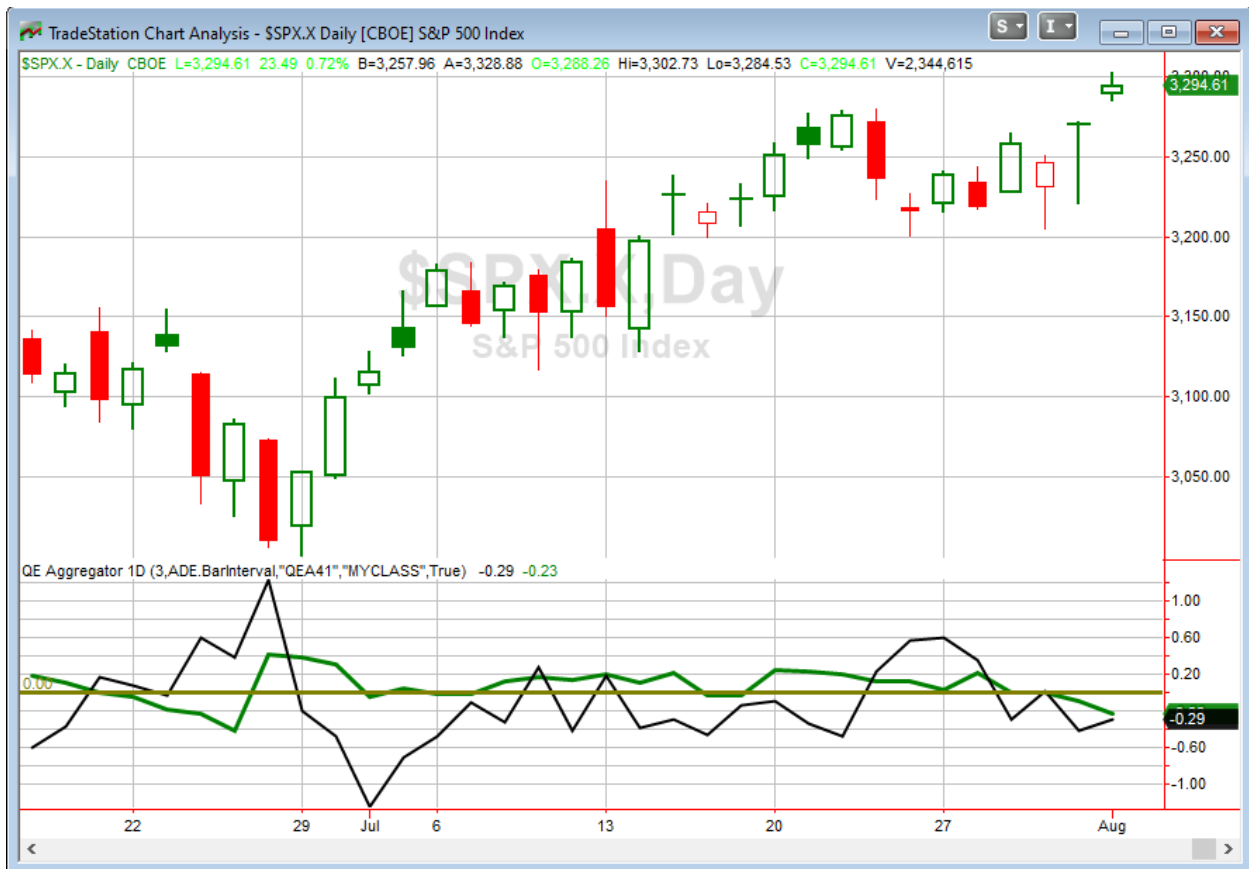
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X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	32,791.08	46	32	14	69.57	3,260.25	-3,070.40	1,340.45	-721.67	1.86	4.25	712.85
4	20,638.25	46	32	14	69.57	2,953.65	-2,913.85	1,094.24	-1,026.95	1.07	2.44	448.66
3	22,603.04	46	32	14	69.57	2,641.80	-1,802.37	1,049.50	-784.35	1.34	3.06	491.37
2	13,579.11	46	31	15	67.39	2,212.98	-1,912.60	703.65	-548.93	1.28	2.65	295.20
1	1,987.15	46	29	17	63.04	1,384.02	-1,921.32	339.07	-461.52	0.73	1.25	43.20

The odds here appear substantially better.

So in a situation like we have tonight, with a short base, there does not appear to be a substantial edge. Additionally, I am not seeing any other studies suggesting Monday's action dropped strong hints. So there is nothing new being added to the Active List tonight.

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



Without any new evidence being added tonight, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed short at the close.

Based on the current list of active studies, expectations are slated to remain negative on Tuesday. This could certainly change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3253.19 on Tuesday. That is 1.3% below Monday's close. Therefore, SPX would need to close down at least 1.3% on Tuesday in order to flip from short-term overbought to short-term oversold versus recent expectations.

So the Aggregator is again bearish. And reward/risk appears decent here. But it would be an aggressive play to short the market at this point. We don't have a whole lot of short-term bearish evidence, and it would clearly be a counter-trend trade. So aggressive traders could consider adding some short exposure here, or possibly hedging long positions. I'll take a more conservative approach and give it another day before considering a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/3 – slightly bullish

The intermediate-term outlook was last updated in the 8/3/20 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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