

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2020

Volume 13 Issue 151

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The 3/10 HV indicator suggests a big move could be on the horizon.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But like last night, evidence is light and I am not enthused 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	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			

The Evidence

Tuesday saw the indices rise. The SPX gained 0.4%, the NASDAQ rose 0.4%, and the Russell 2000 climbed 0.7%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 69%. NYSE total volume declined some from Monday's level.

One factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.24 on Tuesday. This suggests a volatility expansion is likely to occur in the next few days.

I [first introduced the 3/10 Offset HV in July of 2009](#). It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. While lower, the point remained the same – relatively big moves often emerged after tight consolidations.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

[Quantifiable Edges ORBs Study](#)

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward). The bearish Aggregator tonight suggests that the sharp move is more likely to be down than up.

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



Without any new studies 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 Wednesday. This could certainly change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3268.04 on Wednesday. That is 1.2% below Tuesday's close. Therefore, SPX would need to close down at least 1.2% on Wednesday in order to flip from short-term overbought to short-term oversold versus recent expectations.

Very little has changed since last night. The Aggregator is again bearish. And reward/risk appears decent here. But it would still be an aggressive play to short the market. 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.

I'd like to see some confirming bearish studies before trying a counter-trend trade. I will note for more aggressive traders that there are several attractive-looking short setups for individual stocks listed on the [numbered systems triggers spreadsheet](#) tonight.

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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