

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 12, 2020

Volume 13 Issue 156

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- The NASDAQ posted its 1st 3-day losing streak since March, and it could falling into a lagging position vs SPX on the weekly chart if it continues to underperform the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. More selling on Wednesday could easily turn it bullish.

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 11, 2020	SPX down 1 after 5+ up to 50-high	1-4 days	Bullish	1.10%	-0.70%	-1.50%
Active - Long Term						
August 12, 2020	SPX down 1 after 5+ up to 50-high	1-10 days	Bullish	1.90%	-1.00%	-2.10%
August 11, 2020	DJI & SPX up 7 days in a row > 200	1-20 days	Bullish	3.00%	-2.00%	-4.20%
August 11, 2020	RSI2 crosses over 99	1-15 days	Bullish	2.20%	-1.50%	-3.00%
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 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

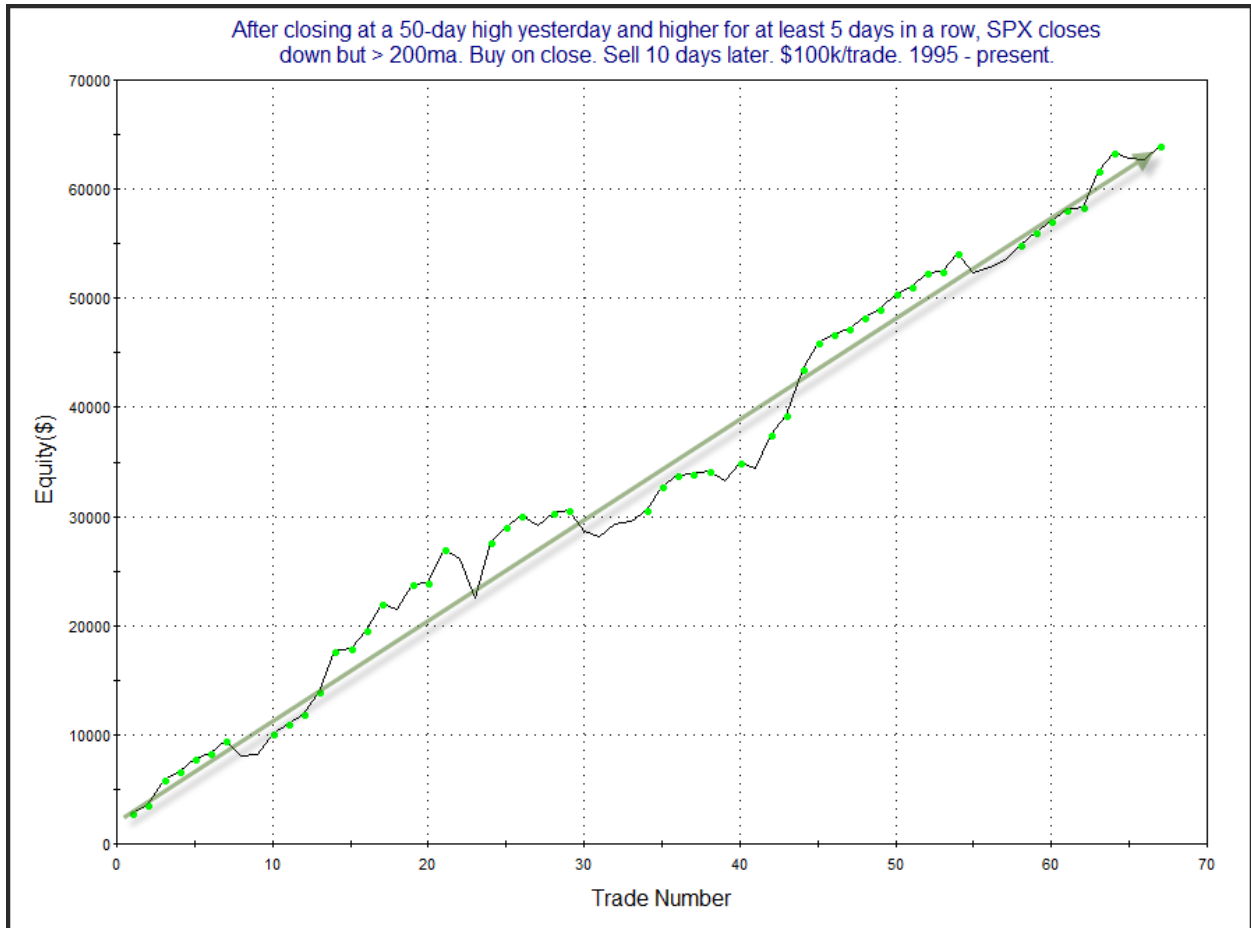
Tuesday saw some selling take hold. The SPX fell 0.8%, the NASDAQ lost 1.7%, and the Russell 2000 declined 0.6%. Breadth was positive as the NYSE Up Issues % was 50.2% and the Up Volume % came in at 50.5%. NYSE total volume rose some from Monday's level.

One compelling study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 5/31/17 Letter. I have updated the stats in the table below.

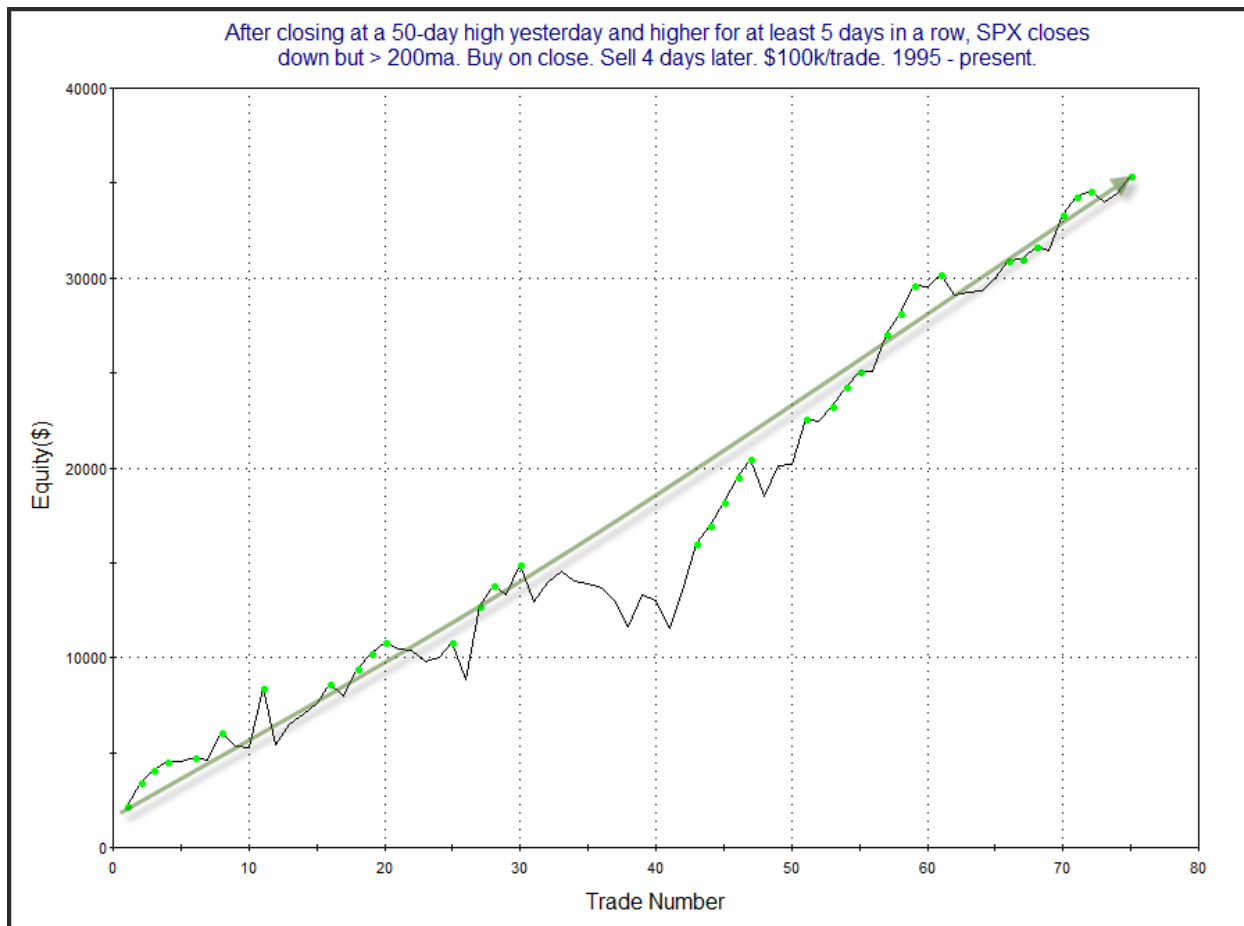
After closing at a 50-day high yesterday and higher for at least 5 days in a row, SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	63,998.33	67	55	12	82.09	5,131.35	-3,672.90	1,411.22	-1,134.90	1.24	5.70	955.20
9	63,424.57	70	57	13	81.43	5,023.20	-4,151.40	1,399.84	-1,258.93	1.11	4.88	906.07
8	54,604.80	71	50	21	70.42	4,878.08	-4,874.10	1,556.09	-1,104.75	1.41	3.35	769.08
7	43,899.42	73	51	22	69.86	3,874.76	-3,912.48	1,362.62	-1,163.37	1.17	2.72	601.36
6	44,285.00	75	54	21	72.00	4,307.20	-3,637.71	1,252.58	-1,112.10	1.13	2.90	590.47
5	34,948.83	75	50	25	66.67	4,252.50	-2,466.75	1,089.79	-781.62	1.39	2.79	465.98
4	35,420.28	75	49	26	65.33	3,843.00	-3,003.39	1,107.55	-725.00	1.53	2.88	472.27
3	21,533.93	75	48	27	64.00	2,472.85	-1,992.34	855.46	-723.27	1.18	2.10	287.12
2	19,647.49	75	50	25	66.67	2,437.50	-2,614.95	736.97	-688.04	1.07	2.14	261.97
1	10,751.07	75	48	26	64.00	1,751.19	-1,744.10	494.89	-500.15	0.99	1.83	143.35

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-4 day timeframe

suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



Results are choppy. But even with the additional chop, this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

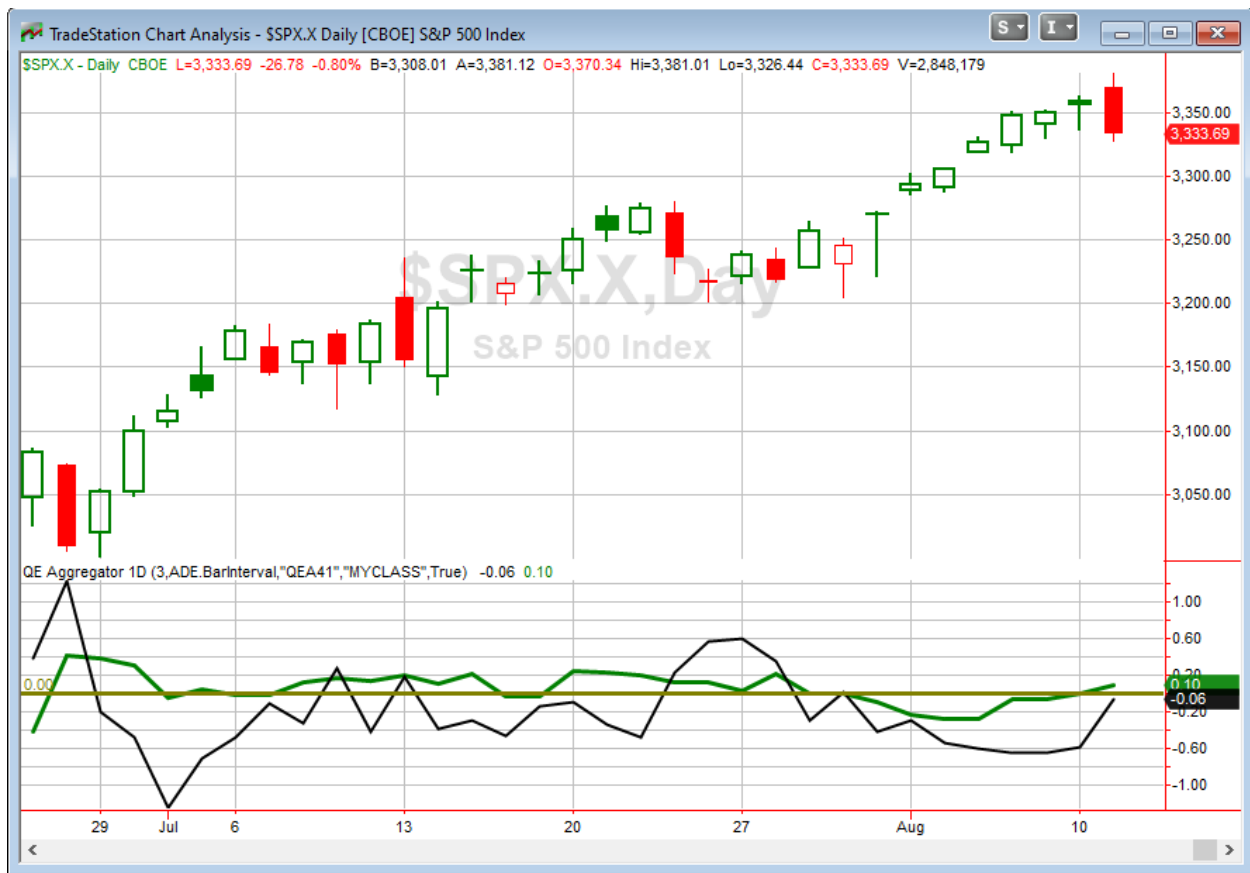
The NASDAQ weakness the last couple of days is also notable. In the weekend letter I noted that the NASDAQ had gone 106 days since last closing down 3 days in a row. That streak made it to 107 on Monday before ending on Tuesday.

Also Sunday I also noted the NASDAQ/SPX Relative Strength indicator we track on the website has shown the NASDAQ leading since October. (Historically, the NASDAQ leading has been bullish.) This streak is the 2nd longest of all time, just a couple of weeks shorter than the longest, which ended on 3/31/2000, marking the 2000 top which was followed by a multi-year bear market. I will note that this indicator only updates at the close of the week. But if the week ended on Tuesday, this is what we would see.



In other words, unless the NASDAQ outperforms the SPX over the next 3 days, we are going to see this indicator flip. The market often struggles when the NASDAQ lags. And crumbling leadership makes it tough for the continued advances. Bulls would like to see the NASDAQ bounce over the next few days – at least relative to the SPX.

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



With tonight's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside 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 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.

With the current list of active studies, expectations are slated to remain positive on Wednesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 3337.50* on Wednesday. That is 0.1% above Tuesday's close. An inverted pivot means that the black Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up about 4 points on Wednesday in order to remain "overbought". Anything less than that and it will be considered oversold as of Wednesday's close.

So the Aggregator is still neutral, but a continued pullback would likely set us up for a long signal. I am not going to jump the gun and look for an entry just yet. I'll wait to see how SPX closes Wednesday and what new evidence emerges. But if it closes lower, there is a good chance I'll look to start building a long position as early as Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/10 – slightly bullish

The intermediate-term outlook was last updated in the 8/10/20 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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