

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2020

Volume 13 Issue 163

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback.
- Such negative breadth on an up day is rare, but has often been followed by some selling the next day.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is pointing lower, but SPX is oversold. So this does not look like a great entry opportunity for a new index trade.

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 21, 2020	SPX up on weak breadth	1 day	Bearish			
August 21, 2020	NDX up > 1%. SOX down	1-6 days	Bearish	-3.00%	1.80%	3.90%
Active - Long Term						
August 12, 2020	SPX Dn 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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
August 18, 2020	SPY 20-high. Close < open	1-3 days	Bullish	1.00%	-0.60%	-1.10%

The Evidence

Thursday was another day of mixed results. The SPX rose 0.3%, the NASDAQ gained 1.1%, and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % was 39.5% and the Up Volume % came in at 34%. NYSE total volume declined some from Wednesday's level.

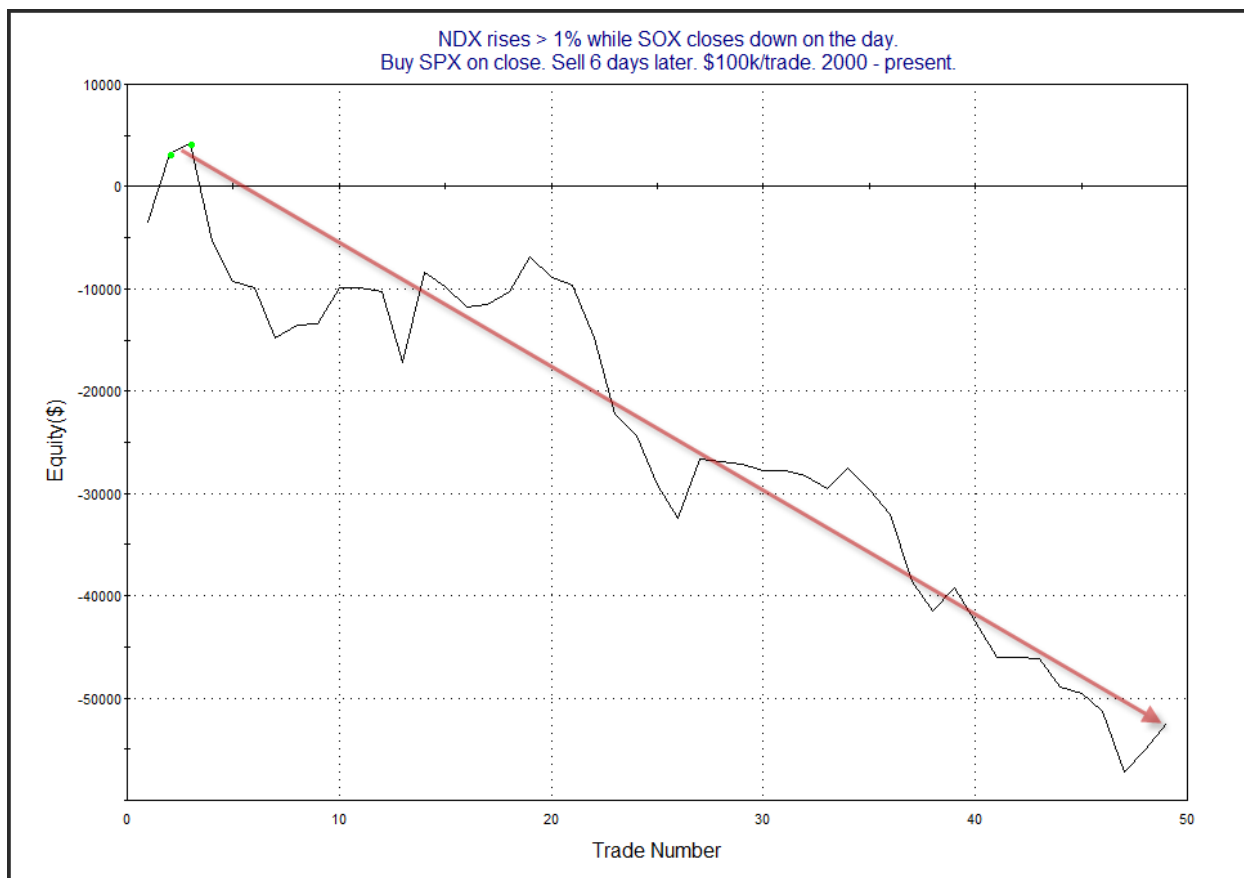
An interesting aspect of Thursday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.4% on Wednesday, the SOX declined 0.9%. This is somewhat unusual action. It brought about a study last seen recently in the 8/3/20 Letter, which I have updated below.

NDX rises > 1% while SOX closes down on the day. Buy NDX 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	-92,555.13	47	18	29	38.30	18,826.33	-13,954.56	4,645.35	-6,074.87	0.76	0.47	-1,969.26
9	-86,591.95	47	15	32	31.91	22,154.89	-15,780.45	5,241.20	-5,162.81	1.02	0.48	-1,842.38
8	-86,275.34	48	14	34	29.17	30,307.45	-13,288.50	5,691.78	-4,881.18	1.17	0.48	-1,797.40
7	101,889.00	49	11	38	22.45	31,628.02	-17,436.00	7,141.74	-4,748.64	1.50	0.44	-2,079.37
6	126,294.23	49	12	37	24.49	23,421.19	-21,090.48	6,207.64	-5,426.65	1.14	0.37	-2,577.43
5	-86,386.85	50	17	33	34.00	12,749.43	-12,790.08	4,047.71	-4,702.97	0.86	0.44	-1,727.74
4	-52,981.82	51	22	29	43.14	11,322.33	-12,796.24	3,082.23	-4,165.20	0.74	0.56	-1,038.86
3	-32,085.87	52	21	31	40.38	15,615.69	-15,779.50	3,913.62	-3,686.19	1.06	0.72	-617.04
2	-3,473.16	54	25	29	46.30	16,624.43	-9,160.50	3,160.39	-2,844.23	1.11	0.96	-64.32
1	-1,152.98	56	26	30	46.43	9,397.52	-6,256.64	2,400.50	-2,118.87	1.13	0.98	-20.59

Six days later 75.5% of the instances were losers and the average occurrence was a 2.6% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

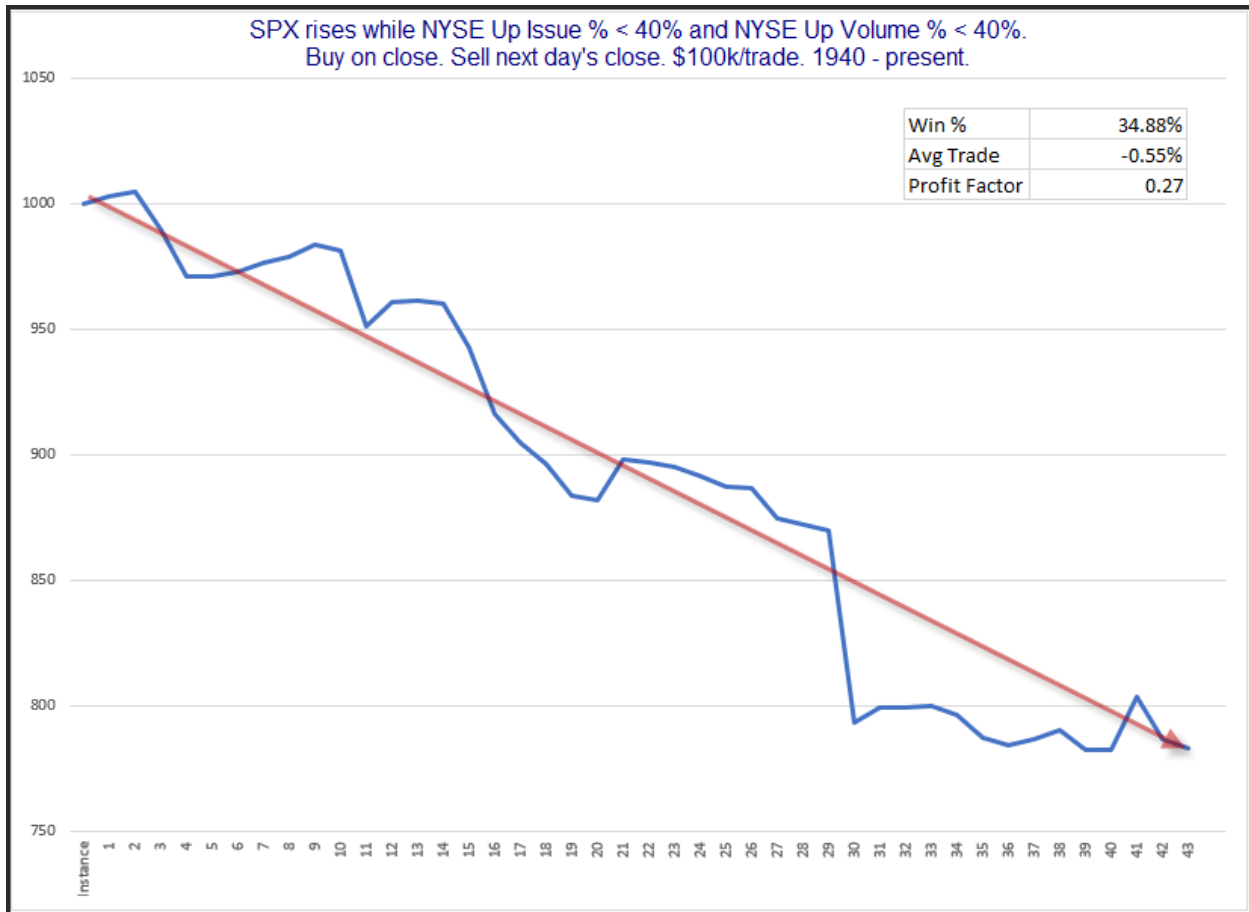
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X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-23,857.19	47	19	28	40.43	9,774.70	-8,478.02	2,861.60	-2,793.85	1.02	0.70	-507.60
9	-28,974.93	47	20	27	42.55	9,278.30	-8,963.07	2,707.70	-3,078.85	0.88	0.65	-616.49
8	-39,021.02	48	21	27	43.75	9,165.45	-7,574.41	2,289.76	-3,226.15	0.71	0.55	-812.94
7	-49,875.02	49	21	28	42.86	10,101.57	-11,391.59	2,051.38	-3,319.78	0.62	0.46	-1,017.86
6	-52,387.88	49	15	34	30.61	8,753.07	-9,589.14	2,754.95	-2,756.24	1.00	0.44	-1,069.14
5	-43,848.77	50	21	29	42.00	6,877.04	-7,519.22	1,725.15	-2,761.28	0.62	0.45	-876.98
4	-25,404.00	51	25	26	49.02	5,068.10	-11,917.40	1,632.69	-2,546.97	0.64	0.62	-498.12
3	-13,153.91	52	23	29	44.23	6,877.26	-9,480.90	1,779.08	-1,864.57	0.95	0.76	-252.96
2	-3,152.53	54	24	30	44.44	5,842.98	-6,411.90	1,578.51	-1,367.89	1.15	0.92	-58.38
1	5,968.13	56	29	27	51.79	5,396.04	-2,692.80	1,181.12	-1,047.57	1.13	1.21	106.57

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.



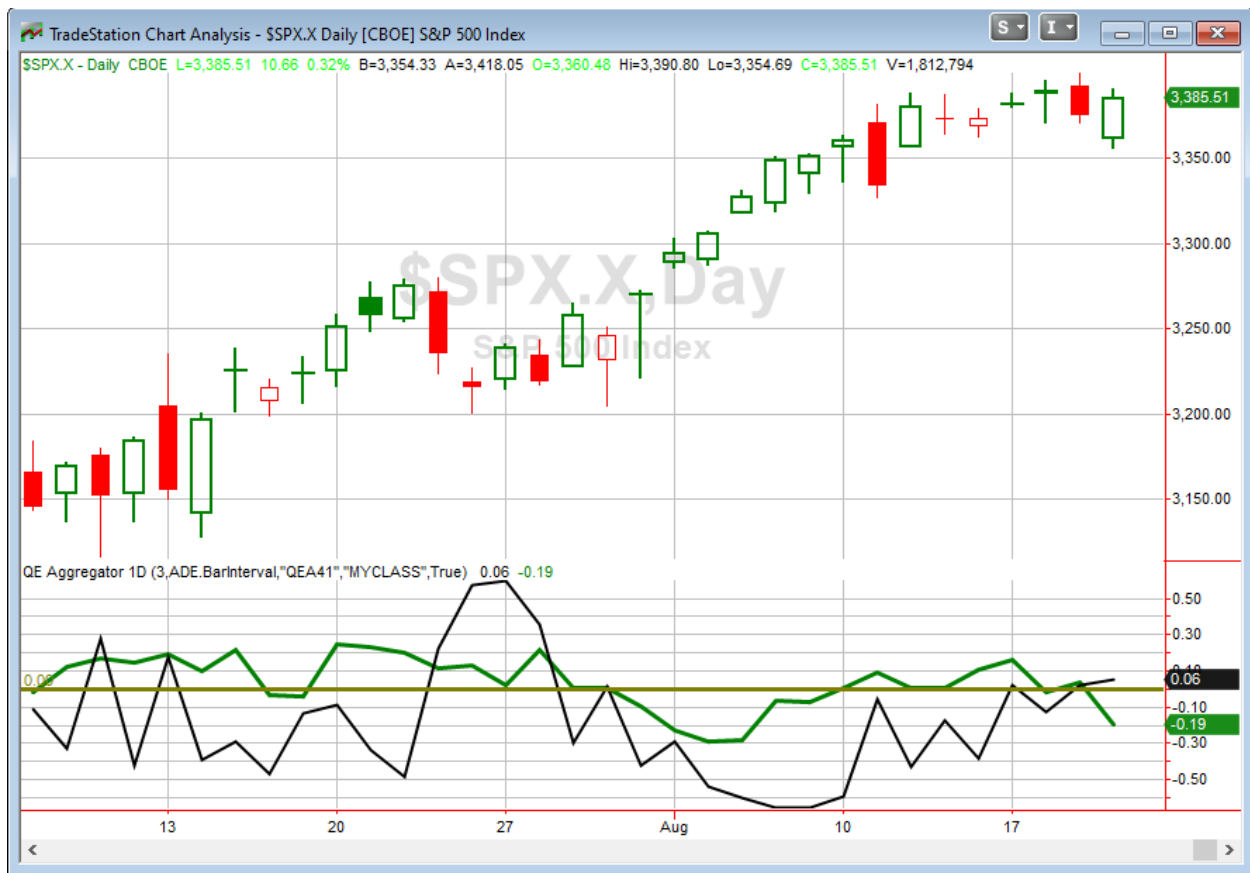
That is a fairly steady downslope. And despite failing on the last 2 instances, this study appears worthy of consideration.

The divergence between breadth and the big-cap indices was fairly remarkable on Thursday, and was reminiscent of just two days ago. It is rare to see such negative numbers when SPX rises, but it is now the second time it has occurred in the last 3 days. This triggered a few studies in the Quantifinder. The most compelling of these studies was from the 8/19/20 subscriber letter. It looked at times when the SPX closed higher on a day that both the NYSE Up Issues % and Up Volume % closed < 40%. Using my Norgate database I was able to run the results back to 1940.



The low win %, strong downsloping curve and weak profit factor all point to a 1-day downside edge. I have again added this study to the active list tonight.

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



With tonight's new evidence considered, the green Aggregator Line dropped back below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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.

Based on the current list of active studies, short-term expectations are set to remain negative on Friday. Of course, this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3398.22 on Thursday. That is 0.4% above Thursday's close. So SPX will need to close up at least 0.4% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is now neutral. I am as well. While evidence tonight is pointing downwards, it would be a counter-trend trade, and SPX is not overbought – so reward/risk is poor. Last night I mentioned VXX as a potential short setup. Unfortunately I was looking for an entry at the close rather than the open. And it gapped up and sold off substantially. With contango still strong for the VIX futures, I will keep an eye out for another potentially entry point there in the next couple of weeks.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/17 – slightly bullish

The intermediate-term outlook was last updated in the 8/17/20 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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