

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2020

Volume 13 Issue 166

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- The market is stretched on weak breadth in a way that is rarely seen.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bearish, but I am still not terribly excited about the downside edge. I would like to see more supporting evidence before getting involved in a new index position.

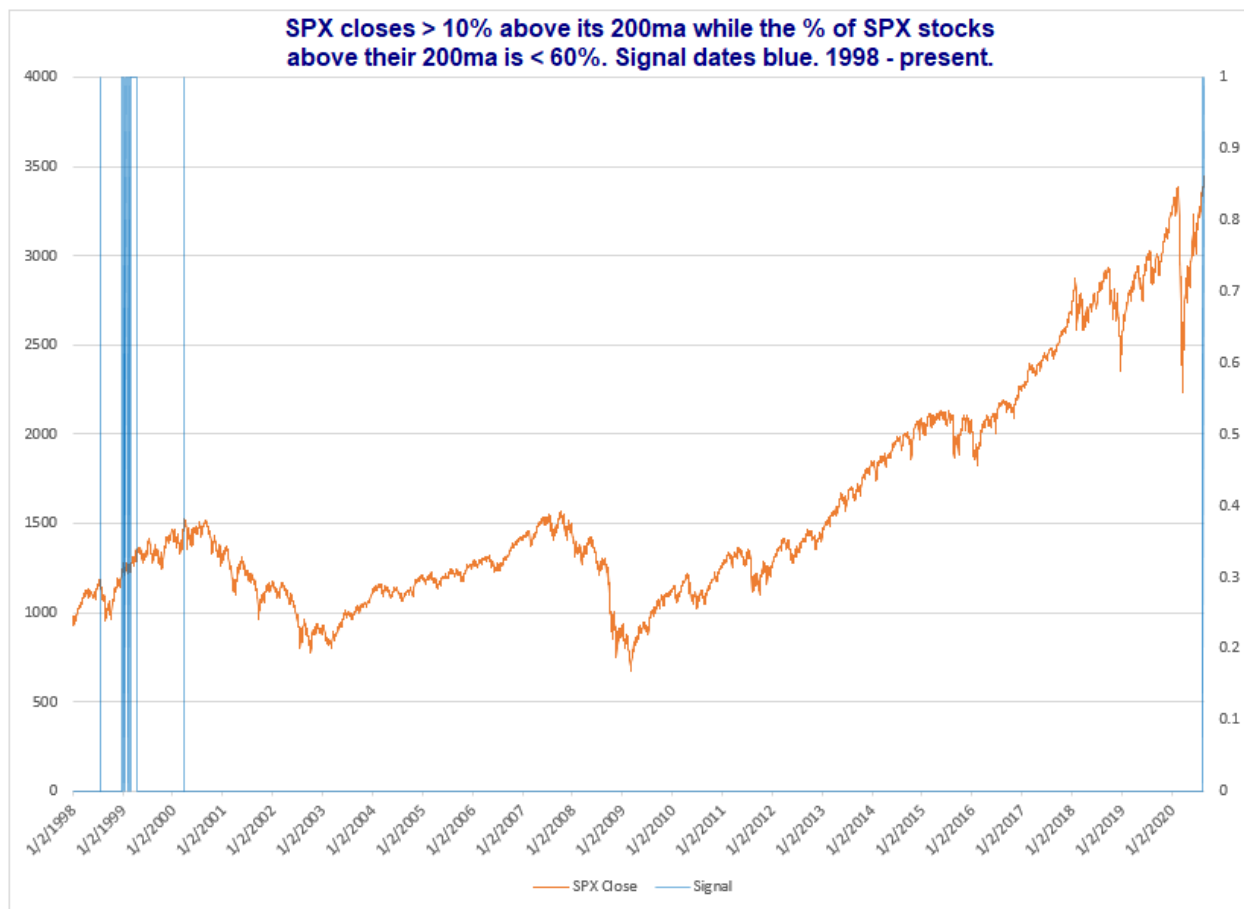
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
August 25, 2020	SPX up 3 to 200-high on Monday	1-2 days	Bullish			
August 21, 2020	NDX up > 1%. SOX down	1-6 days	Bearish	-3.00%	1.80%	3.90%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
August 24, 2020	SPX new high. NYSE NLS 50-day high	1-2 days	Bearish			

**The Evidence**

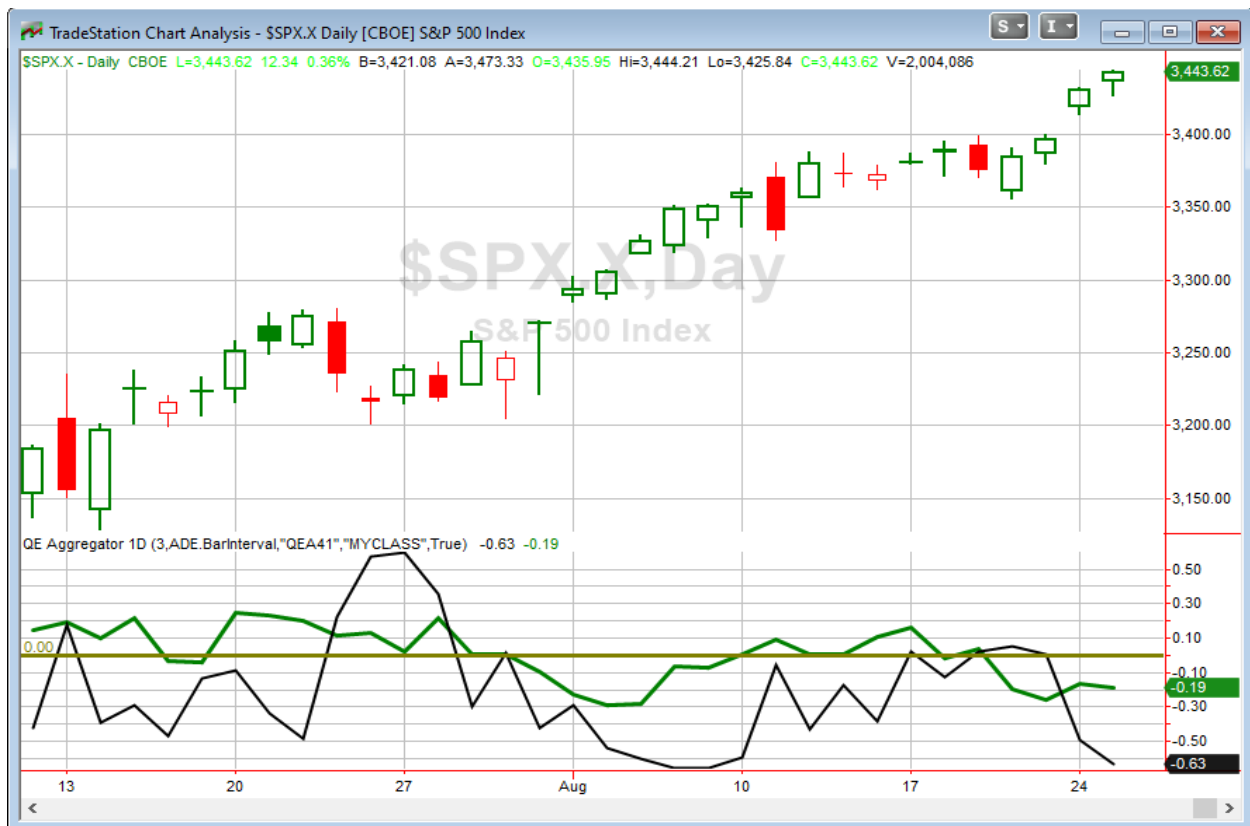
Tuesday saw more gains for the indices. The SPX rose 0.4%, the NASDAQ gained 0.8%, and the Russell 2000 climbed 0.2%. Breadth was negative as the NYSE Up Issues % was 49.1% and the Up Volume % came in at 49.9%. NYSE total volume declined some from Monday's level.

The market keeps grinding higher. It has been a over a month since the SPX closed down 2 days in a row, and Tuesday was the 3<sup>rd</sup> day in a row that it closed at new all-time highs. It seems like it could use a breather, but timing reversals in such persistent rallies can be tricky. Of course it is also notable how narrow the rally is. I have showed this a few different ways recently. Tonight I noted that SPX is far above its 200ma (nearly 12%) while less than 60% of SPX stocks are above their 200ma. That is fairly remarkable. Using data back to 1957, I looked for other times the below conditions existed. There were none between 1957 – 1997. There were a few instances in '98, '99, and 2000. And we have now seen it again this week. The chart below shows when the instances took place looking back to 1998.



The setup is very rare, and I did not see great consistency when looking out over the next several days following previous instances. Divergences like this can help to identify when the market may be running into trouble. But they are not necessarily great timing devices. So I am not adding this to the active list tonight, but I did think it was notable as another example of the weak breadth the market is dealing with.

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



Without any new studies making the active list 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, short-term expectations are set to remain negative on Wednesday. Of course, this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3382.48 on Wednesday. That is 1.8% below Tuesday's close. Therefore, SPX would need to close down a fairly sizable 1.8% on Wednesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is again bearish. But 1-day expectations are actually slightly positive. This is leaving the 1-day reward/risk at the top of the letter at zero, while the 3-day is a negative 2. While I expect a pullback at some point in the next few days is likely, I am still not enthused about taking a counter-trend trade with only a mild amount of evidence in my favor. I considered looking for an entry if SPX closes up again on Wednesday, but it is nearing a point where we may start seeing studies suggesting the rally is so strong that more strength could be expected. So while I feel like

a broken record, I will continue to wait for a more favorable reward/risk scenario before taking on new index exposure.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 8/24 – slightly bullish***

The intermediate-term outlook was last updated in the 8/24/20 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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