

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 27, 2020

Volume 13 Issue 167

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.
- By a few measures, PX is now so overbought that it is likely we will see more strength in the coming weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bearish, and there appears to be a bit of a short-term downside edge.

**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 27, 2020	SPX up 1%. BKX down 1%.	1 day	Bearish			
August 21, 2020	NDX up > 1%. SOX down	1-6 days	Bearish	-3.00%	1.80%	3.90%
<b>Active - Long Term</b>						
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
August 27, 2020	RSI2 crosses over 99	1-11 days	Bullish	1.80%	-1.30%	-2.70%
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 25, 2020	SPX up 3 to 200-high on Monday	1-2 days	Bullish			
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%

**The Evidence**

The market saw large variances on returns Wednesday. The SPX rose 1.0%, the NASDAQ gained 1.7%, and the Russell 2000 lost 0.7%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 43%. NYSE total volume rose some from Tuesday's level.

While large caps were excited about...um...something, banks were not. The BKX Bank Index declined 1.65% on Wednesday. This brought about a study from the Quantifinder that looked at SPX gains of 1% while the BKX fell at least 1%. Last seen 7/15/20, I have updated the results.

SPX closes up > 1% while BKX closes down over 1%.  
Buy SPX on close. Sell next day's close. \$100k/trade. 1994 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>				
All Trades				
Total Net Profit	(\$15,066.75)	Profit Factor	0.24	
Gross Profit	\$4,699.64	Gross Loss	(\$19,766.39)	
Total Number of Trades	13	Percent Profitable	15.38%	
Winning Trades	2	Losing Trades	11	
Even Trades	0			
Avg. Trade Net Profit	(\$1,158.98)	Ratio Avg. Win:Avg. Loss	1.31	
Avg. Winning Trade	\$2,349.82	Avg. Losing Trade	(\$1,796.94)	
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$4,244.80)	
Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/19/1994	Buy	\$453.86	-0.50%	\$66.00
7/20/1994	Sell	\$451.60		(\$697.40)
8/25/1999	Buy	\$1,381.79	-1.43%	\$0.00
8/26/1999	Sell	\$1,362.01		(\$1,452.24)
1/10/2000	Buy	\$1,457.60	-1.31%	\$72.08
1/11/2000	Sell	\$1,438.56		(\$1,576.24)
4/7/2000	Buy	\$1,516.35	-0.78%	\$704.60
4/10/2000	Sell	\$1,504.46		(\$845.00)
1/18/2001	Buy	\$1,347.97	-0.40%	\$486.92
1/19/2001	Sell	\$1,342.56		(\$831.02)
10/23/2008	Buy	\$908.11	-3.45%	\$0.00
10/24/2008	Sell	\$876.77		(\$6,078.60)
12/10/2008	Buy	\$899.24	-2.85%	\$598.29
12/11/2008	Sell	\$873.59		(\$3,386.61)
2/3/2009	Buy	\$838.51	-0.75%	\$1,587.46
2/4/2009	Sell	\$832.23		(\$1,110.27)
3/4/2009	Buy	\$712.87	-4.25%	\$0.00
3/5/2009	Sell	\$682.55		(\$4,891.60)
4/8/2009	Buy	\$825.16	3.81%	\$3,841.75
4/9/2009	Sell	\$856.56		\$0.00
3/21/2019	Buy	\$2,854.88	-1.90%	\$0.00
3/22/2019	Sell	\$2,800.71		(\$1,904.35)
4/14/2020	Buy	\$2,846.06	-2.20%	\$0.00
4/15/2020	Sell	\$2,783.36		(\$2,958.20)
7/14/2020	Buy	\$3,197.52	0.91%	\$1,263.56
7/15/2020	Sell	\$3,226.56		\$0.00

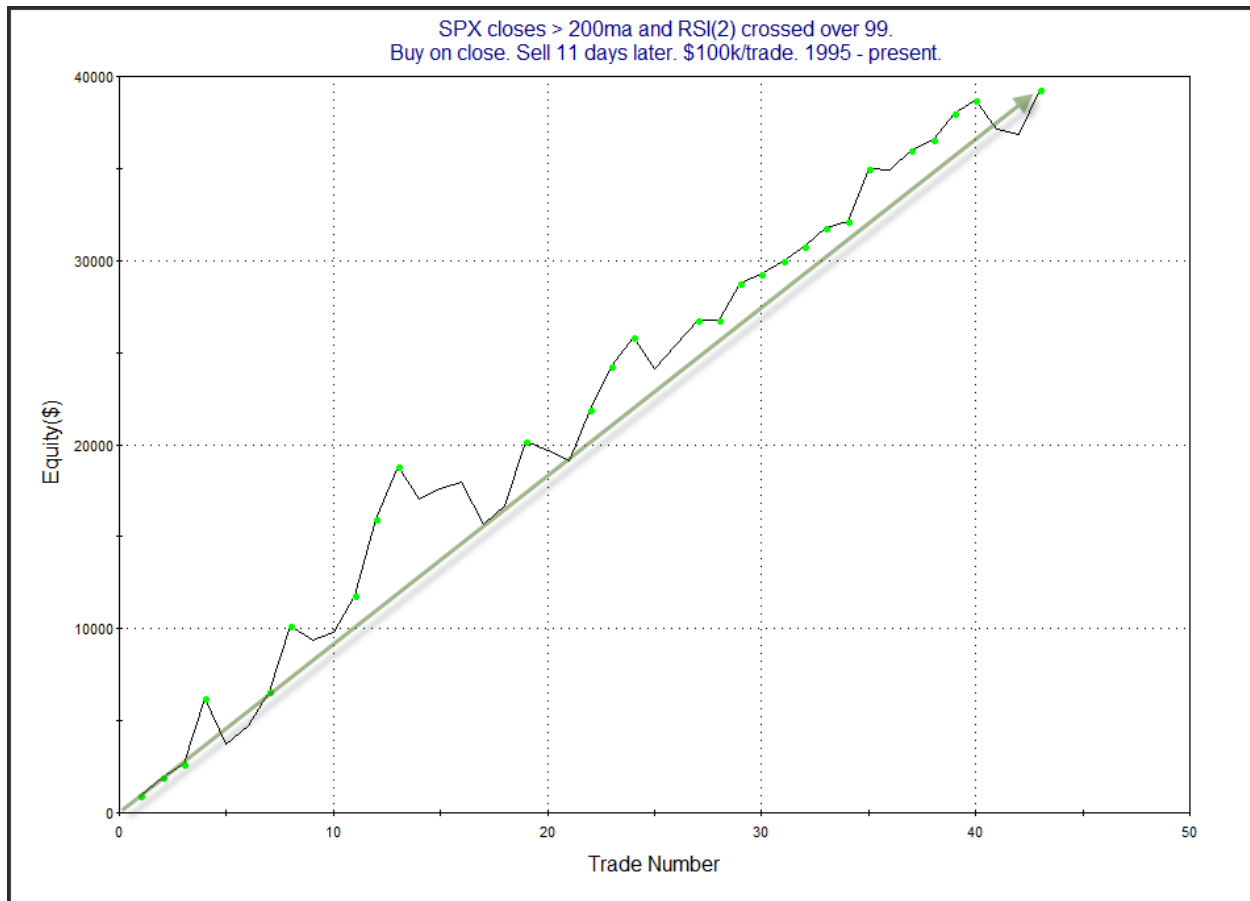
The numbers and list of instances all suggest a downside edge.

The recent rally has left the market short-term overbought by most measures. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some

point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 8/11/20 Letter, which uses RSI(2).

SPX closes > 200ma and RSI(2) crossed over 99. 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
15	38,829.77	40	31	9	77.50	3,782.11	-3,265.02	1,732.56	-1,653.30	1.05	3.61	970.74
14	34,399.50	40	31	9	77.50	4,461.36	-4,024.68	1,604.14	-1,703.22	0.94	3.24	859.99
13	36,312.76	42	33	9	78.57	3,989.82	-3,320.01	1,515.32	-1,521.42	1.00	3.65	864.59
12	37,562.63	43	33	10	76.74	4,058.61	-3,175.53	1,496.59	-1,182.48	1.27	4.18	873.55
11	39,280.03	43	33	10	76.74	4,106.40	-2,523.21	1,554.77	-1,202.74	1.29	4.27	913.49
10	31,856.50	44	33	11	75.00	3,770.55	-2,793.28	1,379.43	-1,242.24	1.11	3.33	724.01
9	27,601.36	44	33	11	75.00	3,453.27	-3,440.07	1,223.75	-1,162.05	1.05	3.16	627.30
8	24,532.25	44	30	14	68.18	3,547.80	-3,460.32	1,281.85	-994.53	1.29	2.76	557.55
7	17,169.82	45	29	16	64.44	3,564.39	-4,153.62	1,123.84	-963.85	1.17	2.11	381.55
6	7,022.46	45	27	18	60.00	2,634.36	-5,296.92	1,032.16	-1,158.10	0.89	1.34	156.05
5	9,437.65	45	30	15	66.67	2,152.64	-3,596.40	850.41	-1,071.65	0.79	1.59	209.73
4	6,678.57	45	29	16	64.44	2,697.92	-3,039.18	845.46	-1,114.98	0.76	1.37	148.41
3	1,525.51	46	26	20	56.52	3,504.64	-2,880.45	790.52	-951.39	0.83	1.08	33.16
2	3,366.86	46	26	20	56.52	2,273.92	-2,348.76	693.24	-732.87	0.95	1.23	73.19
1	203.70	46	22	24	47.83	2,096.10	-3,515.37	514.54	-463.18	1.11	1.02	4.43

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 11-day holding period.



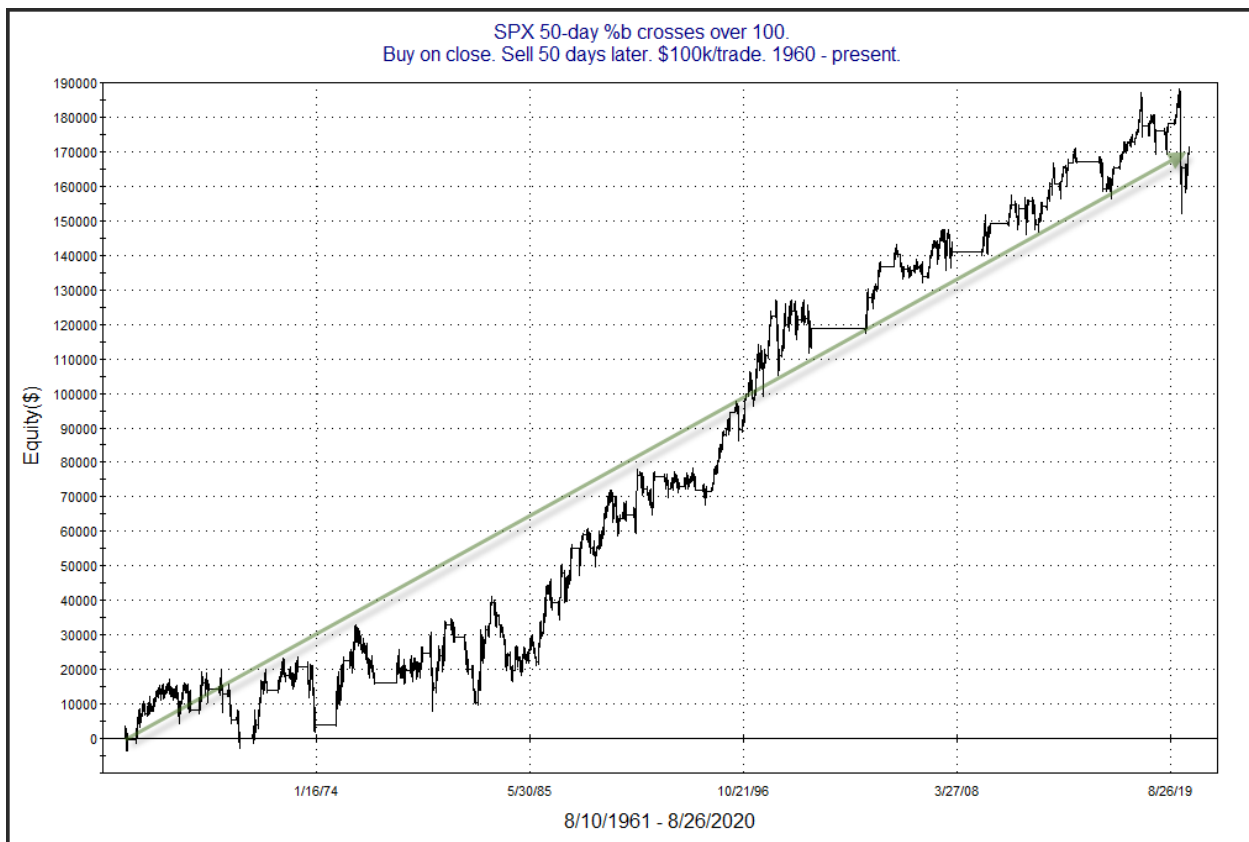
The upside edge has been apparent for a while, and it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

This last study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100.  
Buy on close. Sell X days later. \$100k/trade. 1960 - 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
50	171,084.97	140	84	56	60.00	18,408.18	-20,704.80	4,858.86	-4,233.20	1.15	1.72	1,222.04
45	124,439.41	146	83	63	56.85	15,816.57	-32,382.30	4,963.40	-4,563.86	1.09	1.43	852.32
40	137,938.19	151	90	61	59.60	17,624.67	-27,920.40	4,446.33	-4,298.88	1.03	1.53	913.50
35	148,407.47	158	95	63	60.13	15,782.13	-13,617.00	4,035.38	-3,729.42	1.08	1.63	939.29
30	99,262.63	165	98	67	59.39	11,920.74	-10,485.00	3,338.21	-3,401.23	0.98	1.44	601.59
25	63,080.66	173	98	75	56.65	10,859.94	-8,732.16	2,999.31	-3,078.02	0.97	1.27	364.63
20	58,996.09	184	105	79	57.07	9,501.30	-10,205.38	2,584.99	-2,688.96	0.96	1.28	320.63
15	60,148.63	203	119	84	58.62	7,843.46	-9,763.44	2,321.46	-2,572.68	0.90	1.28	296.30
10	44,317.47	227	139	88	61.23	8,239.16	-9,133.53	1,685.07	-2,158.04	0.78	1.23	195.23
5	20,054.06	277	156	121	56.32	5,030.81	-5,817.77	1,118.68	-1,276.53	0.88	1.13	72.40

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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



With tonight's evidence considered, 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 Thursday. Of course, this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3409.58 on Thursday. That is 2.0% below Wednesday's close. Therefore, SPX would need to close down a very sizable 2.0% on Thursday in order to flip from overbought to oversold vs recent expectations.

I have been very slow to take on a short trade. We have mixed evidence tonight, but the market is so overbought, it certainly seems like reward/risk favors the bears. So I did consider looking for a short entry on Thursday. A gap up open might get me excited. But I just think this market is too strong, with too much liquidity, to try and bet against it for more than a day or two. Of course there is tons in the news that could trigger a sharp move. Politics, civil unrest, massive hurricanes and wildfires, and the Fed's annual Jackson Hole conference are just a sampling of the news stories

that could swing things on Thursday. So aggressive traders could consider a quick short on Thursday. For purposes of the letter, I will remain flat.

***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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