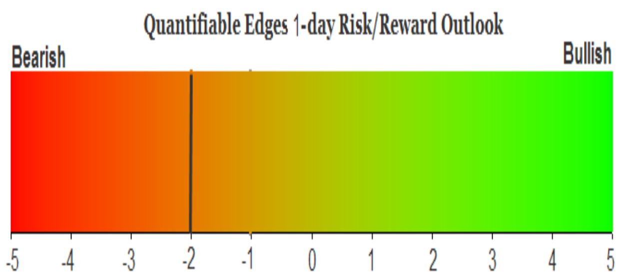
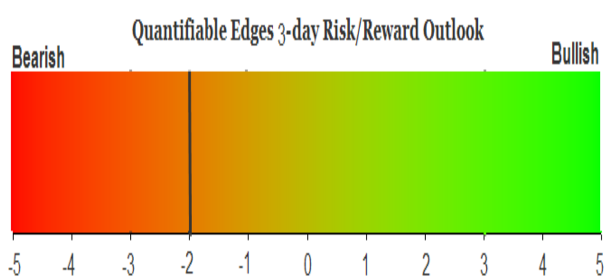
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2020 Volume 13 Issue 168

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Action in VIX, SPX and TLT has been unusual, but not necessarily suggestive of a directional edge.

Short-term Outlook
The Bottom Line

The Aggregator is bearish, but that won't last beyond Friday unless new bearish evidence emerges.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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	NDX up > 1%. SOX down	1-6 days	Bearish	-3.00%	1.80%	3.90%
Active - Long Term						
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
August 27, 2020	SPX up 1%. BKX down 1%.	1 day	Bearish			

The Evidence

The market seemed to have some trouble deciding what to do on Thursday. After a good bit of back and forth, he SPX finished up 0.2%, the NASDAQ gained 0.3%, and the Russell 2000 lost 0.3%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 63%. NYSE total volume rose some from Wednesday's level.

Last night I shared a couple of studies that suggested the strong momentum was a good sign for the intermediate-term. Momentum remains strong. And the Fed is continuing to provide liquidity. In a policy release Thursday, the Fed indicated that employment is its #1 concern as of right now. Containing inflation is secondary. They have used a 2% inflation target for a long time now. But Thursday they indicated that " **…following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."** My interpretation of this is that they are focused on job growth and that increased inflation could be a result, and they are ok with that for the time being. Now is a time for stimulus.

The rising VIX once again triggered a few studies in the Quantifinder. But in looking at those VIX-related studies, they simply have not seen the downside edge persist in recent years. They have all seen there curves flatten or turn up. I did note that both the VIX and the SPX closed at their highest levels in August. The study below was one I tweeted out mid-day on Thursday.

SPX and VIX bloth close at highest closing price in the last 21 days.
SPX forward returns shown. 1990 - present.

Ticker	Date/Time	SPX Close	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg	21-Day %Chg	63-Day %Chg	126-Day %Chg	252-Day %Chg
$SPX	3/8/1993	454.71	-0.07	0.36	-0.22	-1.07	-0.72	-1.28	-2.98	-1.54	1.46	2.21
$SPX	8/9/1993	450.72	-0.28	-0.06	-0.39	-0.13	0.37	1	1.32	1.96	4.24	1.59
$SPX	6/5/1995	535.6	-0.01	-0.46	-0.61	-1.43	-0.88	1.8	2.18	5.27	13.33	24.66
$SPX	7/13/1995	561	-0.2	0.31	-0.45	-1.79	-1.33	0.75	-1.05	3.29	7.43	15.09
$SPX	12/30/1999	1464.47	0.33	-0.64	-4.44	-4.26	-4.17	-1.01	-4.78	1.6	-1.51	-8.89
$SPX	12/31/2003	1111.92	-0.31	0.93	1.06	1.3	1.8	1.81	2.1	1.82	1.21	8.99
$SPX	2/27/2017	2369.75	-0.26	1.11	0.51	0.56	0.23	0.16	-0.47	1.94	3.09	15.8
$SPX	1/17/2018	2802.56	-0.16	0.28	1.09	1.3	1.25	0.76	-2.55	-3.35	0.47	-5.94
		Average	-0.12	0.23	-0.43	-0.69	-0.43	0.50	-0.78	1.37	3.72	6.69

It actually just missed triggering because the VIX closed just under the 7/30/20 close. But the spirit of it remained intact. And what it was showing to me is that we are seeing action that has rarely been seen before. But I don't see a strong directional edge in the numbers.

Same with the study below that looks at times SPX gained more than 1% over the last 2 days while VIX closed up more than 10%.

SPX rises > 1% over the last 2 days while VIX rises > 10%..
SPX forward returns shown. 1990 - present.

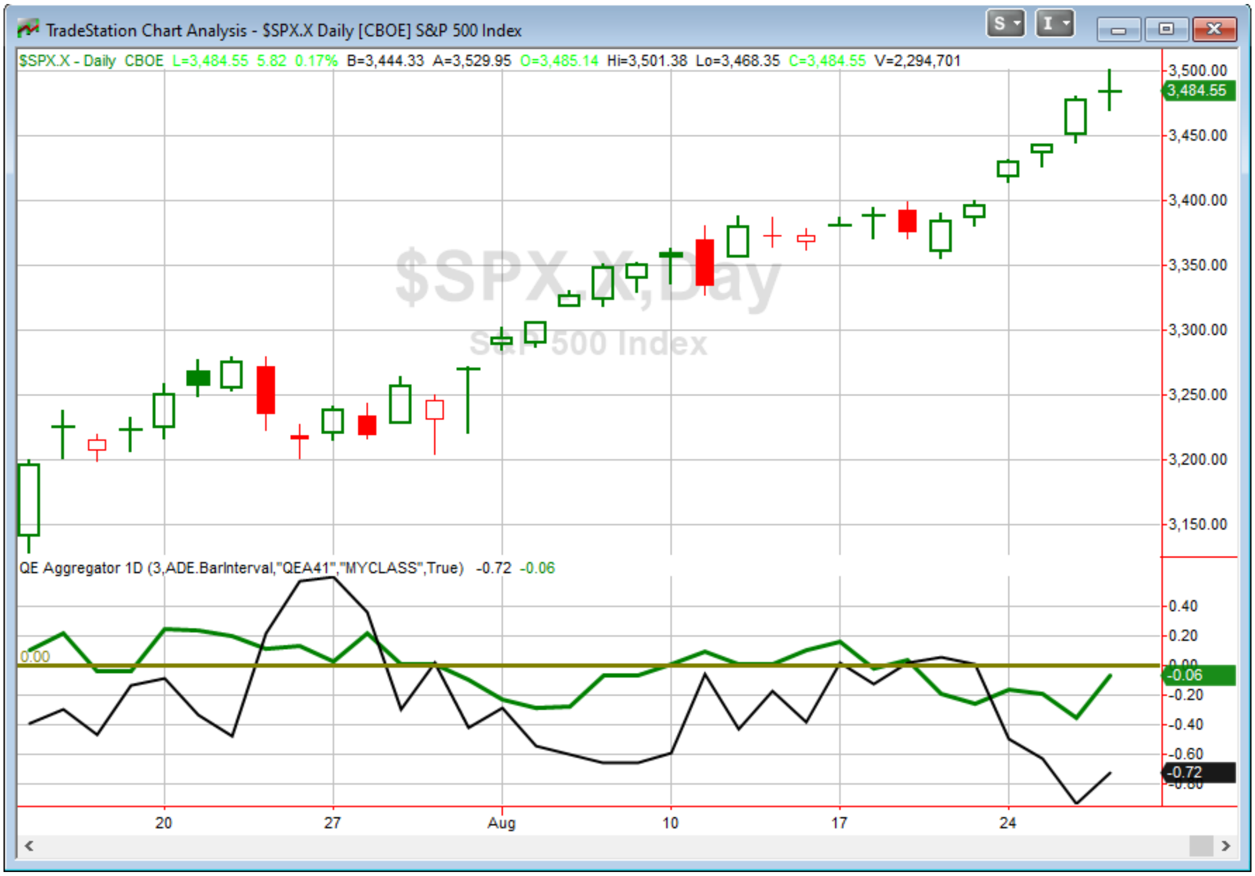
Ticker	Date/Time	SPX Close	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg	21-Day %Chg	63-Day %Chg	126-Day %Chg
$SPX	12/30/1991	415.14	0.47	0.51	1.01	0.68	0.54	1.28	-1.16	-2.92	-1.49
$SPX	12/31/1991	417.09	0.04	0.54	0.21	0.07	0.24	0.88	-1.31	-3.21	-2.15
$SPX	3/8/1993	454.71	-0.07	0.36	-0.22	-1.07	-0.72	-1.28	-2.98	-1.54	1.46
$SPX	12/6/1995	620.18	-0.65	-0.44	-0.11	-0.23	0.24	-2.3	-0.28	5.4	8.52
$SPX	2/6/1996	646.33	0.56	1.51	1.55	2.34	2.19	0.27	1.13	-1.25	2.48
$SPX	3/19/1996	651.69	-0.26	-0.38	-0.16	-0.25	0.2	0.55	-1.24	1.59	4.8
$SPX	5/6/1997	827.76	-1.47	-0.91	-0.36	1.2	0.65	1.68	1.89	15.05	13.44

Rare activity – and no instances since 1997, but no strong directional edge.

Of course we are nearing the end of August. I found it notable that SPX is have such a strong month (up over 6%), while TLT (long-term treasury ETF) is have a very weak month (down over 5%). So I looked back at other instances where with two days left in the month, SPX was up over 5% and TLT was down over 5%. Looking back to 2002 when TLT began, there have only been three other instances: 4/2009, 10/2011, and 2/2015. Results going forward were not at all consistent. So this is just another example of unusual action.

With all this considered, there was nothing new and compelling that made the short-term active list tonight.

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.

With the last of the short-term studies expiring on Friday, expectations are set up to flip to slightly positive based on the intermediate-term studies. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3422.15 on Friday. That is 1.8% below Thursday's close. Therefore, SPX would need to close down a sizable 1.8% on Friday in order to flip from overbought to oversold vs recent expectations.

So there still appears to be a bit of a downside edge. And the market will pull back eventually. But more evidence will be needed for the downside edge to remain in place beyond Friday. So I will once again sit it out, re-evaluate over the weekend, and wait for a more favorable setup 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