

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 1, 2020

Volume 13 Issue 170

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.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.
- The 1st day of month edge has set up bullish based on Monday's close.

Short-term Outlook

The Bottom Line

The Aggregator neutral, but the market remains strongly overbought. I'd like more of a pullback before getting excited.

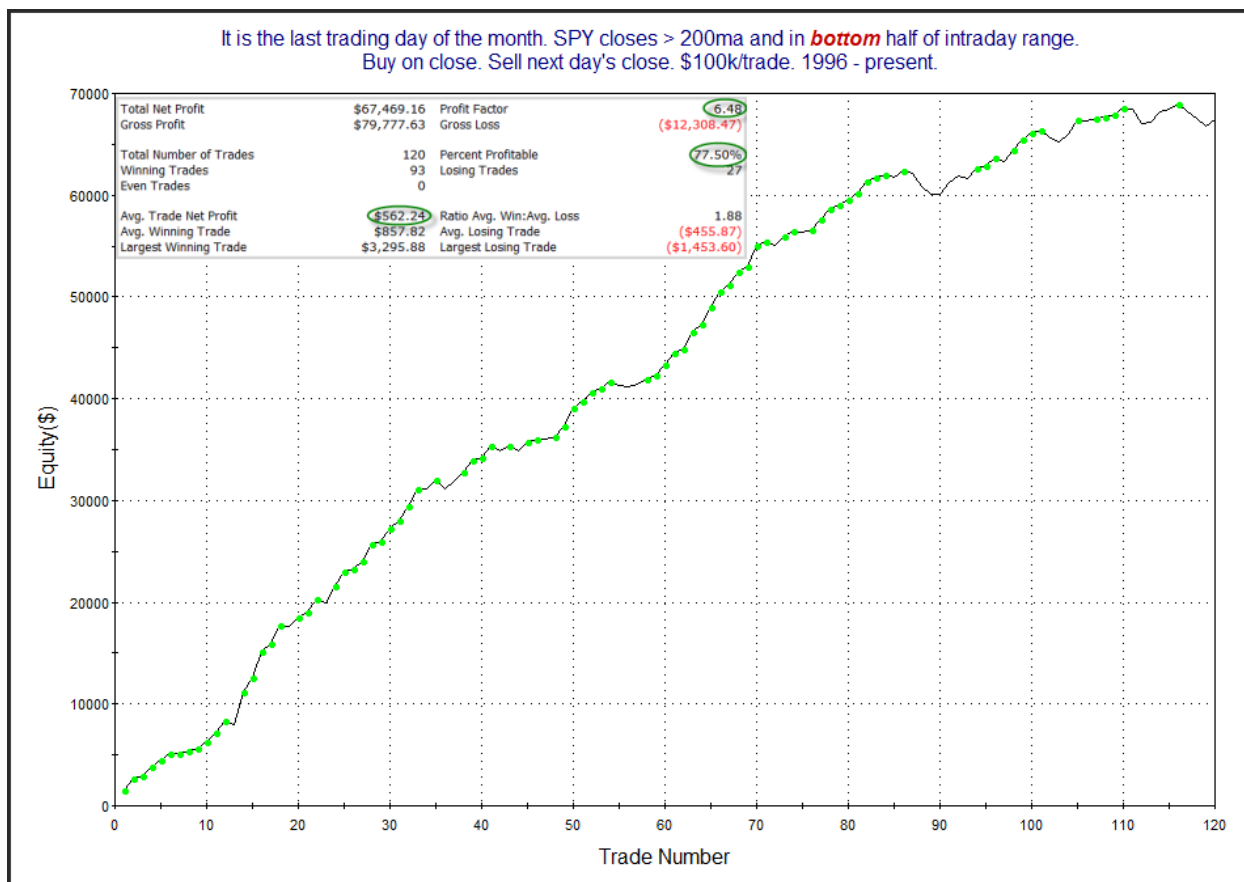
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 1, 2020	Poor close on last day of month	1 day	Bullish			
September 1, 2020	5 up to 50-hi then dn 1	1-4 days	Bullish			
September 1, 2020	3 Higher Hi, Lo, Cls. Then dn cls only	1-4 days	Bullish			
August 31, 2020	SPX up 3 to 50-hi. Volume up 3.	1-2 days	Bullish			
Active - Long Term						
September 1, 2020	5 up to 50-hi then dn 1	1-10 days	Bullish			
August 31, 2020	SPX up 7 days in a row > 200	1-20 days	Bullish	3.00%	-2.00%	-4.20%
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			

The Evidence

Monday saw some mixed action in the market. The SPX finished down 0.2%, the NASDAQ gained 0.7%, and the Russell 2000 lost 1.0%. Breadth was quite negative as the NYSE Up Issues % was 29% and the Up Volume % came in at 30%. NYSE total volume rose some from Friday's level.

The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. Closes in the bottom half of the day's range have shown a strong tendency to bounce the next day. This can be seen in the study below, which I last shared in the 8/3/20 letter.



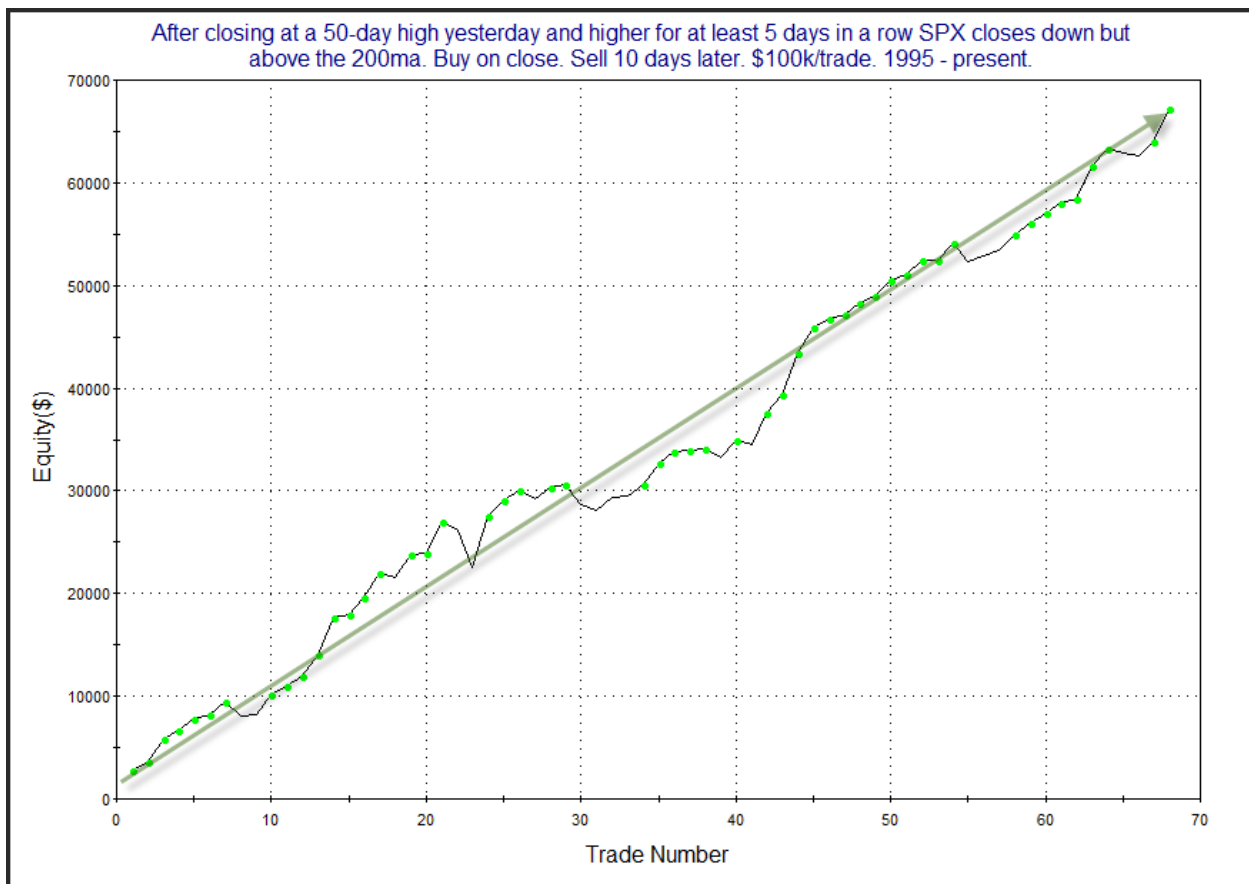
The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6.5x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 120 instances. And despite a few recent failures, the curve has shown progress over a long period of time. This setup certainly appears to be providing a 1-day bullish edge.

Another 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 from the 5/31/17 Letter. I have updated the stats in the table below.

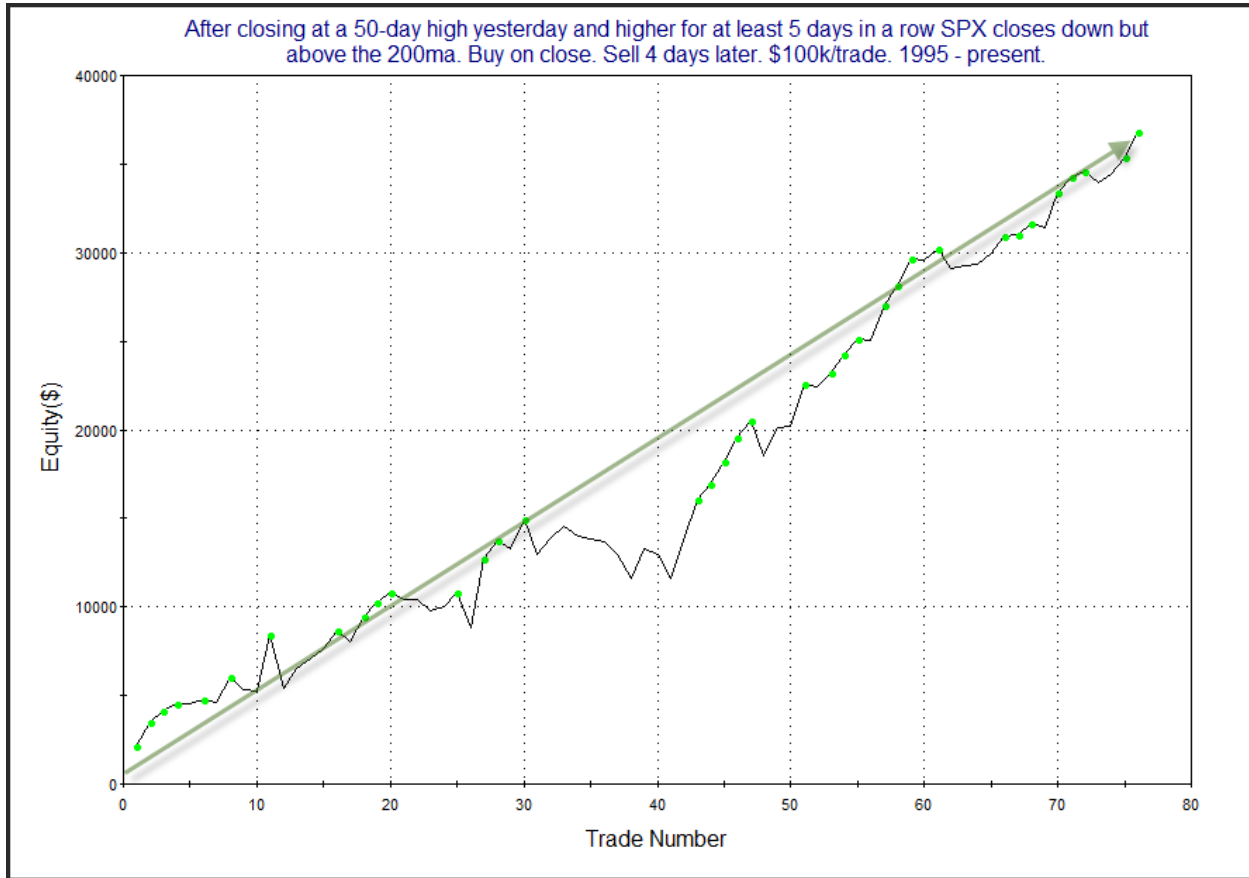
After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.

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	67,186.30	68	56	12	82.35	5,131.35	-3,672.90	1,442.95	-1,134.90	1.27	5.93	988.03
9	66,254.68	71	58	13	81.69	5,023.20	-4,151.40	1,424.49	-1,258.93	1.13	5.05	933.16
8	56,445.44	72	51	21	70.83	4,878.08	-4,874.10	1,561.67	-1,104.75	1.41	3.43	783.96
7	45,402.20	74	52	22	70.27	3,874.76	-3,912.48	1,365.31	-1,163.37	1.17	2.77	613.54
6	45,478.64	76	55	21	72.37	4,307.20	-3,637.71	1,251.51	-1,112.10	1.13	2.95	598.40
5	36,575.44	76	51	25	67.11	4,252.50	-2,466.75	1,100.31	-781.62	1.41	2.87	481.26
4	36,820.97	76	50	26	65.79	3,843.00	-3,003.39	1,113.42	-725.00	1.54	2.95	484.49
3	22,669.57	76	49	27	64.47	2,472.85	-1,992.34	861.18	-723.27	1.19	2.16	298.28
2	20,799.96	76	51	25	67.11	2,437.50	-2,614.95	745.12	-688.04	1.08	2.21	273.68
1	12,104.21	76	49	26	64.47	1,751.19	-1,744.10	512.41	-500.15	1.02	1.93	159.27

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 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.



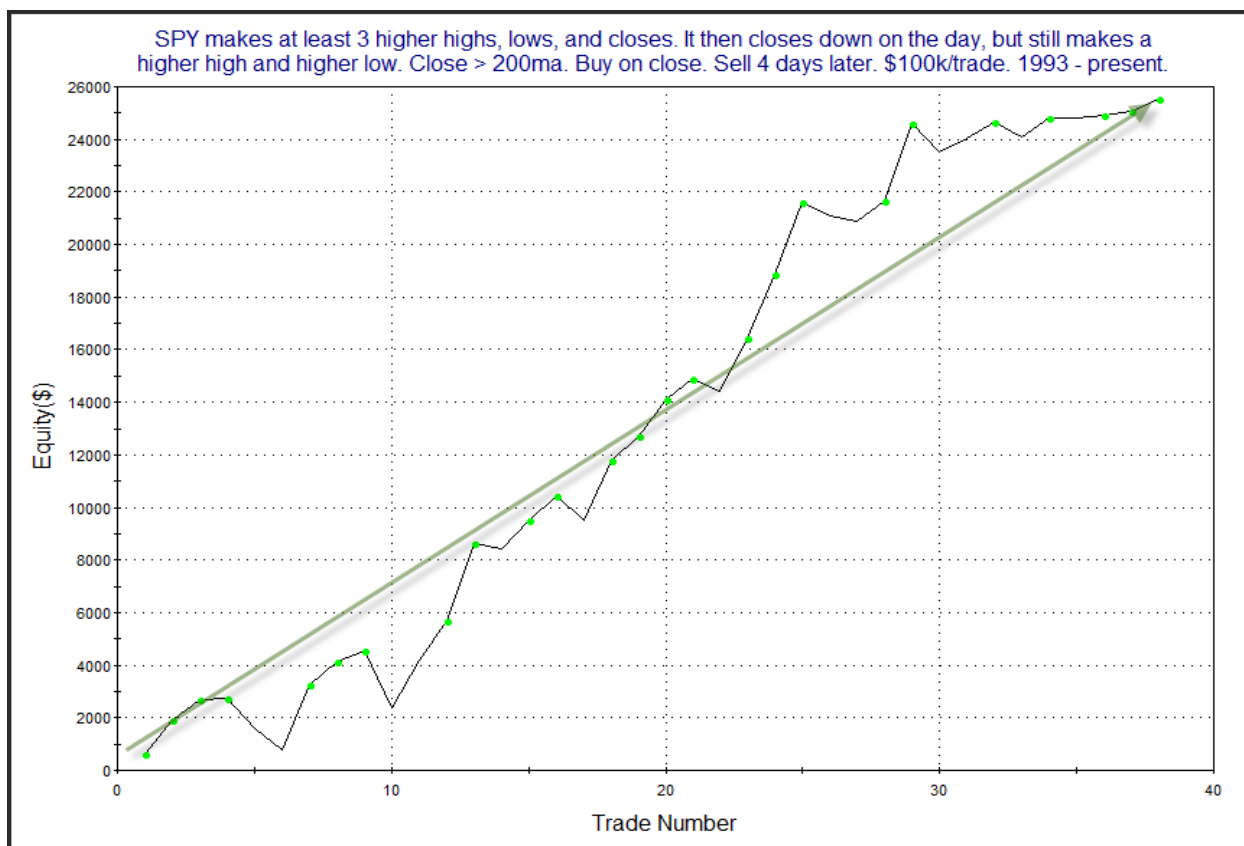
Results are choppy. But even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

SPY finished lower, but SPY did manage to register a higher high and a higher low. The study below was last seen in the 12/14/17 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day, but still makes a higher high and higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

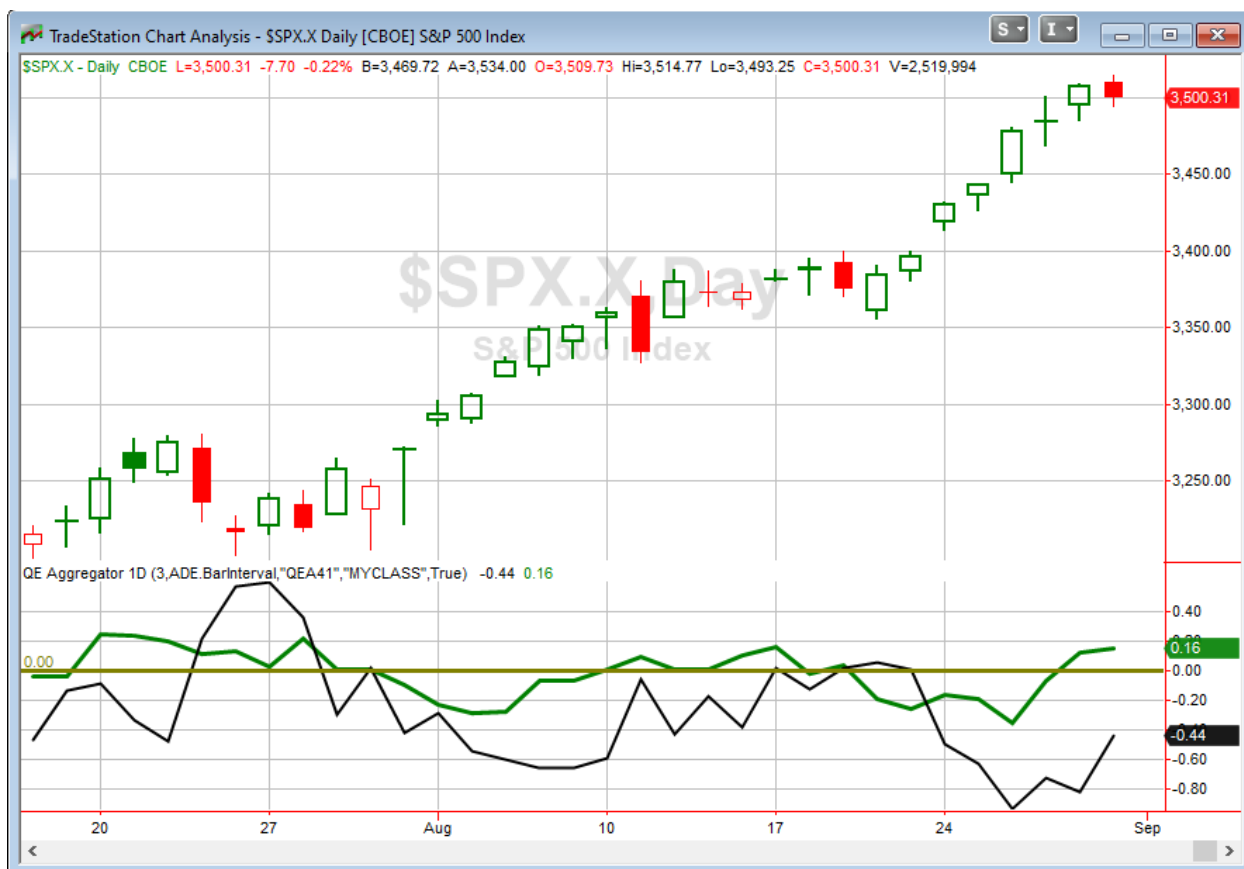
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,031.56	38	24	14	63.16	3,602.64	-2,800.26	1,369.38	-773.82	1.77	3.03	579.78
4	25,546.74	38	27	11	71.05	2,962.96	-2,191.22	1,247.10	-738.62	1.69	4.14	672.28
3	17,401.44	38	26	12	68.42	2,762.41	-2,640.33	954.52	-618.00	1.54	3.35	457.93
2	12,835.85	38	28	9	73.68	2,073.28	-1,804.67	689.91	-720.18	0.96	2.98	337.79
1	8,511.89	38	24	14	63.16	1,395.93	-1,137.92	526.42	-294.44	1.79	3.06	224.00

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study appears worthy of consideration and I have included it on the Active List.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Tuesday. Of course, this could change if very compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3463.31 on Tuesday. That is 1.1% below Monday's close. Therefore, SPX would need to close 1.1% lower on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. We finally saw a down day for SPX. And evidence is suggesting a move higher over the next few days, but the market is still too overbought for a lower-risk entry. Therefore, I'll remained sidelined and see if we can get a bit more of a pullback before looking to take on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/31 – slightly bullish

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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