

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 9, 2020

Volume 13 Issue 175

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Strong multi-day pullback during a long-term uptrend are often followed by a bounce.
- Big drops from short-term lows during an uptrend suggest a sizable bounce.

Short-term Outlook

The Bottom Line

The Aggregator bullish. SPX is strongly oversold. There appears to be a short-term long side 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
Active - Short Term						
September 9, 2020	SPX dn 1.5% 2x in 5 days. 5-day low.	1-4 days	Bullish	2.65%	-1.90%	-4.50%
September 9, 2020	SPX dn > 2.5% today from 5-low > 200	1-2 days	Bullish			
September 8, 2020	1st 10-low in 30 days > 200. ADX>14.	1-6 days	Bullish	2.20%	-1.40%	-3.10%
Active - Long Term						
September 8, 2020	SPX down 0.75% with VIX down 7.5%	1-10 days	Bullish	7.80%	-1.20%	-3.10%
September 8, 2020	1st 10-low in 30 days > 200. ADX>14.	1-10 days	Bullish	3.00%	-1.90%	-4.20%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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

The market saw more hard selling on Tuesday. The SPX lost 2.8%, the NASDAQ tumbled 4.1%, and the Russell 2000 fell 2.0%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 22%. NYSE total volume rose from Friday's level.

There were several studies that triggered that noted the hard selloff over the last 3 days. I have highlighted some of the more intriguing ones below.

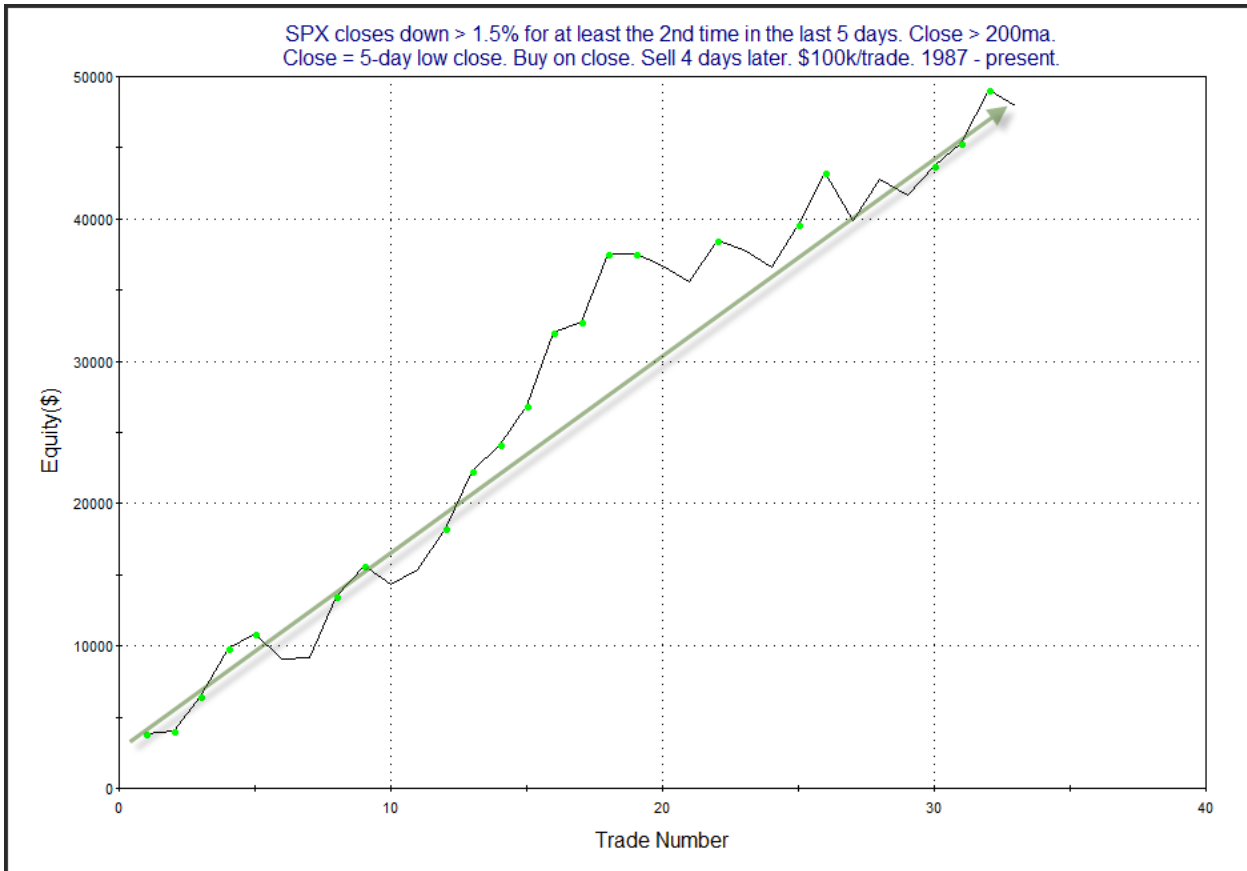
In the 10/9/19 letter I looked at some studies that examined multiple strong down days in a short time period. I found there to be a notable difference in results for times SPX finished at a short-term low vs times it did not. This can be seen in the studies below.

SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma. Close > 5-day low close. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	2,403.90	9	7	2	77.78	3,499.62	-4,284.84	1,239.37	-3,135.84	0.40	1.38	267.10
9	7,241.29	9	7	2	77.78	3,864.44	-2,457.00	1,540.65	-1,771.63	0.87	3.04	804.59
8	6,663.16	9	6	3	66.67	3,166.76	-1,261.68	1,508.68	-796.30	1.89	3.79	740.35
7	8,343.09	10	6	4	60.00	3,872.96	-2,784.75	2,424.31	-1,550.69	1.56	2.35	834.31
6	8,685.61	10	6	4	60.00	3,558.40	-3,286.40	2,914.25	-2,199.97	1.32	1.99	868.56
5	2,471.25	10	6	4	60.00	3,777.40	-6,368.04	2,712.38	-3,450.76	0.79	1.18	247.13
4	166.43	10	6	4	60.00	4,297.70	-4,917.36	1,748.39	-2,580.97	0.68	1.02	16.64
3	3,484.27	10	5	5	50.00	4,077.70	-1,805.40	2,017.47	-1,320.62	1.53	1.53	348.43
2	6,758.24	11	5	6	45.45	3,883.00	-1,099.56	1,941.61	-491.63	3.95	3.29	614.39
1	4,951.95	11	7	4	63.64	1,469.34	-797.60	902.28	-341.00	2.65	4.63	450.18

SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma.
 Close = 5-day low close. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	35,941.26	30	19	11	63.33	5,656.16	-7,625.38	3,483.53	-2,749.62	1.27	2.19	1,198.04
9	32,780.00	30	21	9	70.00	5,761.56	-11,831.15	3,150.58	-3,709.14	0.85	1.98	1,092.67
8	53,003.18	32	24	8	75.00	6,960.84	-5,882.94	3,123.63	-2,745.51	1.14	3.41	1,656.35
7	71,742.65	33	25	8	75.76	7,598.58	-3,232.37	3,422.55	-1,727.63	1.98	6.19	2,174.02
6	61,282.05	33	25	8	75.76	7,272.06	-3,322.53	2,923.78	-1,476.56	1.98	6.19	1,857.03
5	46,512.91	33	23	10	69.70	7,070.28	-3,870.04	2,686.41	-1,527.46	1.76	4.05	1,409.48
4	47,910.31	33	24	9	72.73	5,187.49	-3,351.72	2,518.43	-1,392.44	1.81	4.82	1,451.83
3	31,833.37	35	26	9	74.29	5,471.10	-5,393.69	2,072.05	-2,448.89	0.85	2.44	909.52
2	28,151.70	36	26	10	72.22	4,809.66	-4,632.95	1,850.64	-1,996.50	0.93	2.41	781.99
1	26,241.24	39	30	9	76.92	5,117.46	-5,829.81	1,357.42	-1,609.05	0.84	2.81	672.85

Without closing at a low area, evidence is not compelling. But the strong selloff to a short-term low during a long-term uptrend is generally a decent setup for buying. And that is what we are seeing in the numbers from the 2nd study. Below is a look at the 4-day profit curve.



The strong, steady upslope serves as some confirmation of the bullish edge.

Of course SPX did not just finish at a 5-day low. It was already at one on Friday. This triggered the following study, last seen in the 3/23/18 letter.

SPX closes down > 2.5% today after closing at a 5-day low yesterday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	20,325.34	14	9	5	64.29	7,070.28	-4,069.80	2,842.81	-1,051.99	2.70	4.86	1,451.81
4	16,325.39	15	10	5	66.67	4,731.13	-8,150.10	3,173.51	-3,081.95	1.03	2.06	1,088.36
3	10,824.53	15	9	6	60.00	3,574.08	-7,413.90	2,690.07	-2,231.02	1.21	1.81	721.64
2	19,788.26	15	13	2	86.67	4,809.66	-3,285.00	1,824.81	-1,967.13	0.93	6.03	1,319.22
1	8,427.14	16	11	5	68.75	5,117.46	-2,930.40	1,572.77	-1,774.67	0.89	1.95	526.70

It is fairly rare to see such a large decline during a long-term uptrend when volatility is typically lower. But instances where it has occurred have seen prices rise over the next few days. Below is a list of all the instances.

SPX closes down > 2.5% today after closing at a 5-day low yesterday. Close > 200ma.
Buy on close. Sell 2 days later. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/13/1989	Buy	\$333.64	2.25%	\$2,759.77
10/17/1989	Sell	\$341.15		(\$1,949.48)
10/27/1997	Buy	\$876.97	4.81%	\$6,642.78
10/29/1997	Sell	\$919.16		(\$2,473.80)
1/9/1998	Buy	\$927.69	2.63%	\$2,614.01
1/13/1998	Sell	\$952.12		(\$1,590.02)
8/4/1998	Buy	\$1,072.12	1.63%	\$1,750.26
8/6/1998	Sell	\$1,089.62		(\$1,374.54)
3/23/1999	Buy	\$1,262.14	2.21%	\$2,201.73
3/25/1999	Sell	\$1,289.99		(\$443.98)
1/4/2000	Buy	\$1,399.42	0.29%	\$983.35
1/6/2000	Sell	\$1,403.45		(\$1,543.54)
1/24/2000	Buy	\$1,401.91	0.16%	\$876.85
1/26/2000	Sell	\$1,404.09		(\$952.82)
1/28/2000	Buy	\$1,360.16	3.61%	\$3,820.09
2/1/2000	Sell	\$1,409.28		(\$738.03)
2/27/2007	Buy	\$1,399.14	0.29%	\$1,189.25
3/1/2007	Sell	\$1,403.17		(\$1,297.17)
5/6/2010	Buy	\$1,128.15	2.80%	\$3,141.60
5/10/2010	Sell	\$1,159.73		(\$2,992.00)
2/5/2018	Buy	\$2,648.94	1.24%	\$2,913.01
2/7/2018	Sell	\$2,681.66		(\$2,067.19)
3/22/2018	Buy	\$2,643.69	0.56%	\$653.79
3/26/2018	Sell	\$2,658.55		(\$2,138.60)
10/10/2018	Buy	\$2,785.68	-0.67%	\$331.10
10/12/2018	Sell	\$2,767.13		(\$2,630.95)
8/5/2019	Buy	\$2,844.74	1.38%	\$1,660.05
8/7/2019	Sell	\$2,883.98		(\$666.05)
2/24/2020	Buy	\$3,225.89	-3.39%	\$633.00
2/26/2020	Sell	\$3,116.39		(\$3,507.00)

We have seen a couple of trades go south in the last few instances, including the one near the end of February. But overall, this appears worth consideration as well. I have included this study on the Active List tonight.

I did have a subscriber note that despite the strong selling, the CBI is still sitting at zero. That is somewhat surprising, but it speaks to how overbought things were just a few days ago. If the market continues to sell off another day or two, we could certainly see several new Catapult signals trigger.

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



With tonight's studies 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 is now very far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. It would take some strongly compelling new bearish evidence in order to change this. Meanwhile, the Differential Pivot will be 3468.99 on Wednesday. That is a massive 4.1% above Tuesday's close. It is highly unlikely we will see a 1-day rally of that magnitude. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

The Aggregator is bullish. Evidence is starting to build, and the market is getting extremely oversold. I believe the market is ripe for a short-term bounce. I began scaling in some on Tuesday. I may add to that position on Wednesday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/8 – slightly bullish

The intermediate-term outlook was last updated in the 8/3/20 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.

SPY – Buy ¼ index position @ \$331.00 LIMIT ON OPEN. If not filled on open, cancel trade and then look to buy @ \$333.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add to my long exposure on either a large gap down or a lower close on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/8/2020	\$336.71	\$333.21	-1.04%		Aggregator

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