

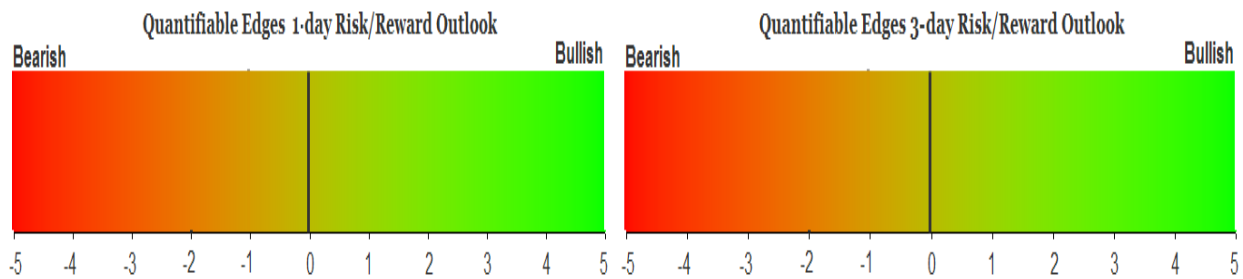
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 17, 2020

Volume 13 Issue 181

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The reversal from a short-term high on a Fed Day is something that has often led to a bounce the following day.
- Strong breadth near a short-term high and a down close suggest short-term bullish implications.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am too. While evidence is bullish, this does not appear to be a great entry point. And bearish seasonality is on the horizon.

**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>						
September 17, 2020	Fed Day 5-high reversal down	1 day	Bullish			
September 17, 2020	5-high then close down. 60% Breadth	1-2 days	Bullish			
September 15, 2020	1.75% dn, then up 2 < 3 ago. Cls > 200	1-4 days	Bullish	2.30%	-1.00%	-2.30%
<b>Active - Long Term</b>						
September 14, 2020	SPY gap up close up, lowest low 20	1-10 days	Bullish	2.90%	-1.70%	-3.30%
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
September 16, 2020	Fed Day tomorrow	1 day	Bullish			
September 10, 2020	Gap up after 10 low. Close < 10ma>200	1-5 days	Bullish	1.70%	-1.30%	-2.40%

**The Evidence**

The initial reaction to the Fed announcement on Wednesday was positive, as the SPX rallied up to around a 25-point intraday gain. But that did not last and there was a sizable reversal down in the last 75 minutes of trading. The SPX finished down 0.5%, and the NASDAQ fell 1.25%, but the Russell 2000 managed to close up 0.9%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 72%. NYSE total volume rose some from Tuesday's level.

The Fed Day reversal triggered an interesting study from the 9/10/19 letter. I have updated that study below.

After making a 5-day intraday high, SPY closes down at least 1% below its high on a Fed Day.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>				
All Trades				
Total Net Profit	\$8,213.02	Profit Factor		4.49
Gross Profit	\$10,568.48	Gross Loss		(\$2,355.46)
Total Number of Trades	10	Percent Profitable		80.00%
Winning Trades	8	Losing Trades		2
Even Trades	0			
Avg. Trade Net Profit	\$821.30	Ratio Avg. Win:Avg. Loss		1.12
Avg. Winning Trade	\$1,321.06	Avg. Losing Trade		(\$1,177.73)
Largest Winning Trade	\$3,458.28	Largest Losing Trade		(\$2,140.00)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/5/1997	Buy	\$77.64	0.67%	\$720.72
2/6/1997	Sell	\$78.16		(\$296.01)
3/25/1997	Buy	\$78.75	0.43%	\$1,154.79
3/26/1997	Sell	\$79.09		(\$469.53)
1/31/2001	Buy	\$137.02	0.66%	\$677.97
2/1/2001	Sell	\$137.93		(\$561.33)
12/11/2007	Buy	\$147.91	0.99%	\$2,609.36
12/12/2007	Sell	\$149.37		(\$479.96)
1/30/2008	Buy	\$134.91	1.77%	\$2,689.83
1/31/2008	Sell	\$137.30		(\$1,267.11)
4/30/2008	Buy	\$138.26	2.07%	\$2,067.78
5/1/2008	Sell	\$141.12		\$0.00
10/29/2008	Buy	\$93.08	3.46%	\$3,716.04
10/30/2008	Sell	\$96.30		(\$193.32)
9/17/2015	Buy	\$199.73	-2.14%	\$0.00
9/18/2015	Sell	\$195.45		(\$2,385.00)
1/27/2016	Buy	\$188.13	0.52%	\$1,099.17
1/28/2016	Sell	\$189.11		(\$515.07)
5/1/2019	Buy	\$291.81	-0.22%	\$304.38
5/2/2019	Sell	\$291.18		(\$783.18)

Sample sizes are low, but most of the time in which we have seen the market make a new short-term high and then sell off like it did on Wednesday, there has been a rebound the next day. It is a little questionable with the low number of instances, but I did elect to include this study on the Active List tonight.

I'll note that the Fed was very accommodative in their statement. Below is a brief excerpt.

achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

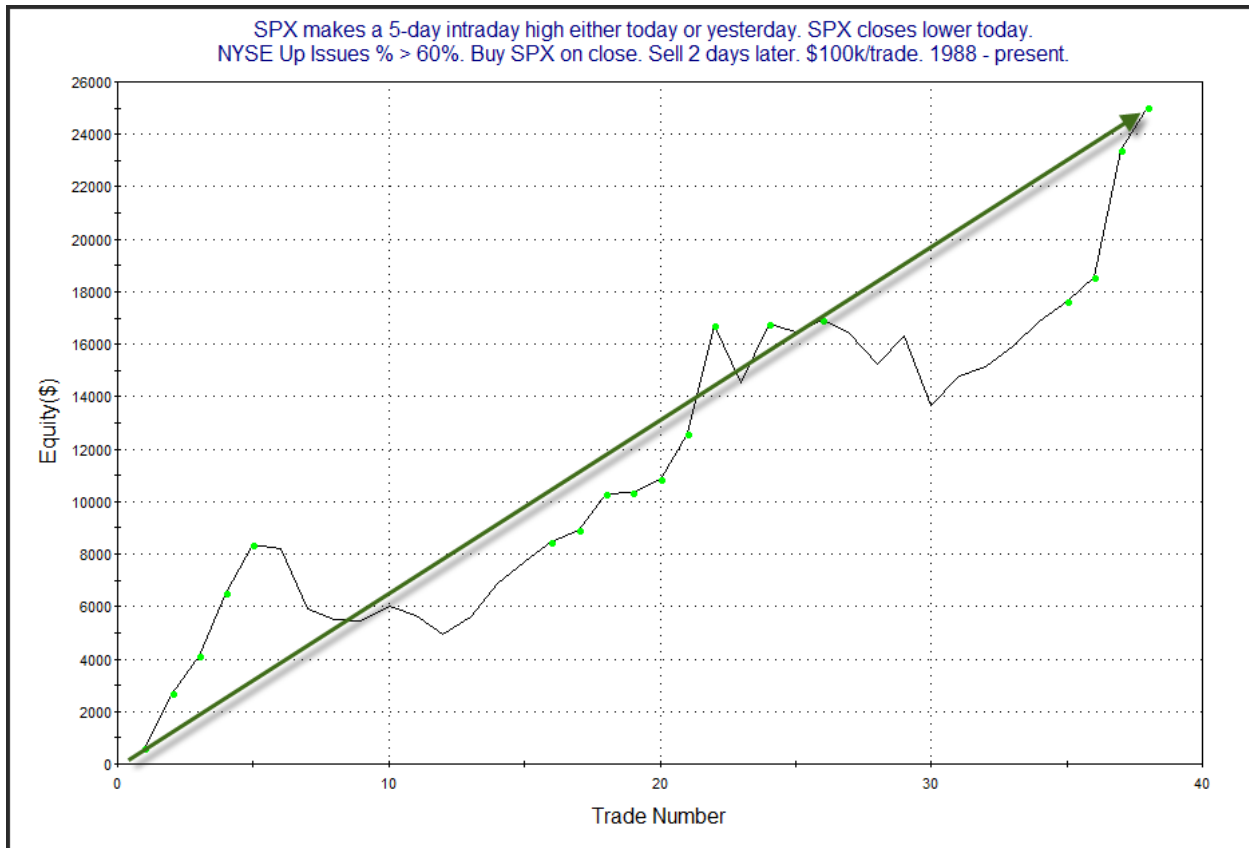
So rates will remain low for an extended period and they are going to continue to pump liquidity via quantitative easing. Those are policies that have been supportive of bullish market conditions, and the Fed should remain a positive when considering an intermediate-term market bias.

The reversal down on Wednesday also triggered another interesting study, last seen in the 9/10/19 letter. This study did not care about the Fed Day. It noted the positive breadth that accompanied the move lower from the short-term high. I have updated the results below.

**SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.**

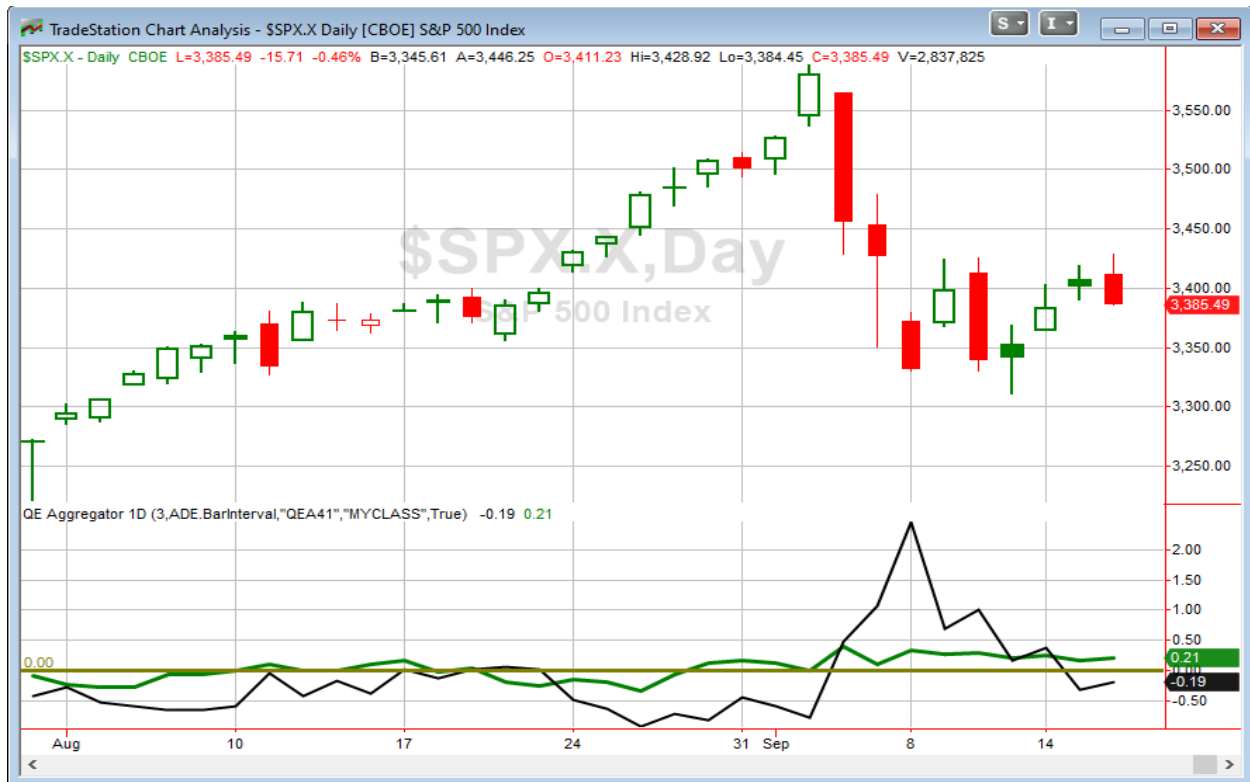
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,005.48	37	23	14	62.16	4,586.15	-6,119.33	1,563.59	-1,711.22	0.91	1.50	324.47
4	28,214.84	38	22	16	57.89	8,095.62	-3,969.70	2,148.87	-1,191.27	1.80	2.48	742.50
3	24,055.11	38	24	14	63.16	4,370.82	-2,373.00	1,540.86	-923.25	1.67	2.86	633.03
2	25,044.10	38	27	11	71.05	4,825.17	-2,625.30	1,328.05	-983.03	1.35	3.32	659.06
1	19,127.53	38	22	16	57.89	3,351.09	-1,606.00	1,124.37	-350.54	3.21	4.41	503.36

Stats here are solidly bullish. Below is a look at a 2-day profit curve.



The curve is certainly choppy. But it has made its way from lower left to upper right, and the streak over the last 8 trades has been especially impressive. I have also included this study on the active list tonight.

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 that 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 Thursday. It would take compelling new bearish evidence in order to change this. Meanwhile, the Differential Pivot will be *inverted* at 3408.57 on Thursday. That is 0.7% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.7% in order to remain overbought vs recent expectations. Anything short of that and it will be considered "oversold" as of Thursday's close.

So the Aggregator is again neutral. Evidence is mildly positive, but the SPX is overbought. There is a lot of chop right now. And with options expiration on Friday, we could see more chop. I'll also note that we are heading into a seasonally weak time of year. The week after options expiration in September has been the worst performing week of the year for the stock market. I'll provide more details on this tomorrow night, but I thought I would mention it since it is on my radar. Anyway, I'm not inclined to take on new index exposure until a more favorable opportunity avails itself.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/14 – neutral**

The intermediate-term outlook was last updated in the 9/14/20 Letter. It can be found in the [most recent weekly letter](#) on the website.

**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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BKNG(1/3)	9/11/2020	\$1,813.52	\$1,806.66	-0.38%		sell on open
BKNG(1/3)	9/14/2020	\$1,783.74	\$1,806.66	1.28%		sell on open

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