

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2020

Volume 13 Issue 184

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- The large unfilled down gap from a short-term low suggests a bullish edge over the next few days.
- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- Monday's especially weak Russell 2000 appears to be a positive.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish, and evidence is mounting. I like the chances of a bounce, and believe the bulls now have an 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 22, 2020 | SPX down 4. Today biggest drop. | 1-5 days | Bullish | 2.00% | -0.95% | -1.70% |
| September 22, 2020 | Unfilled gap dn from 10-low > 200 | 1-5 days | Bullish | 3.50% | -2.90% | -7.00% |
| September 22, 2020 | SPX dn 3, RUT dn > 1.5% more today | 1 day | Bullish | | | |
| September 21, 2020 | 3dn. Big drop to 10-low > 200 | 1-5 days | Bullish | 1.90% | -1.30% | -3.00% |
| Active - Long Term | | | | | | |
| 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 | | | |
| April 29, 2020 | Sell in May after 5% drop Jan-Apr | 6 months | Bearish | | | |
| March 23, 2020 | QE4 | int term | Bullish | | | |
| Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded) | | | | | | |
| September 21, 2020 | Weakest Week | 1-4 days | Bearish | -2.10% | 0.80% | 2.10% |
| September 21, 2020 | Fed Day 2 ago. Down 3 days. | 1-3 days | Bullish | 1.90% | -1.00% | -2.05% |

The Evidence

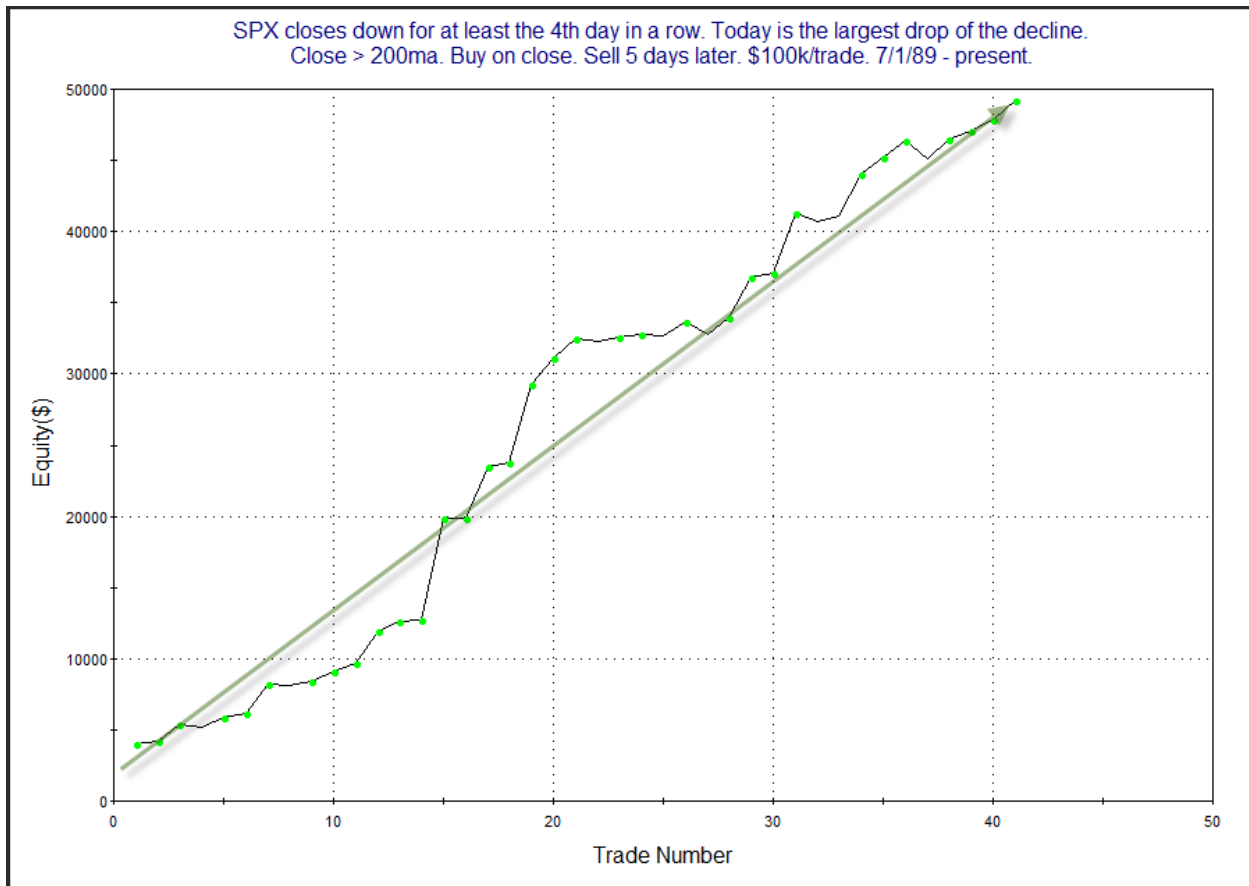
Monday saw some strong selling in the morning, but a last-hour rally made the finishing numbers look better. The SPX still finished down 1.2%, the NASDAQ fell 0.1%, and the Russell 2000 lost 3.35%. Breadth was negative as the NYSE Up Issues % was 14% and the Up Volume % came in at 11%. NYSE total volume declined from Friday's very high levels.

Several studies appeared in the Quantifinder. I'll discuss the most compelling ones. The study below examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 3/22/17 Subscriber Letter.

| SPX closes down for at least the 4th day in a row. Today is the largest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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 | 49,260.03 | 41 | 34 | 7 | 82.93 | 7,070.28 | -1,218.72 | 1,548.77 | -485.45 | 3.19 | 15.50 | 1,201.46 |
| 4 | 42,208.74 | 41 | 31 | 10 | 75.61 | 5,187.49 | -2,665.92 | 1,647.95 | -887.77 | 1.86 | 5.75 | 1,029.48 |
| 3 | 40,818.09 | 41 | 30 | 11 | 73.17 | 5,339.18 | -1,565.28 | 1,616.41 | -697.67 | 2.32 | 6.32 | 995.56 |
| 2 | 34,242.71 | 42 | 31 | 11 | 73.81 | 4,809.66 | -1,343.84 | 1,336.08 | -652.34 | 2.05 | 5.77 | 815.30 |
| 1 | 18,797.23 | 45 | 30 | 15 | 66.67 | 5,117.46 | -2,005.85 | 986.05 | -718.95 | 1.37 | 2.74 | 417.72 |
| 100% of instances closed above the entry price at some point in the next 6 days. | | | | | | | | | | | | |

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 12 years since beginning Quantifiable Edges. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact, just before the period shown

there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



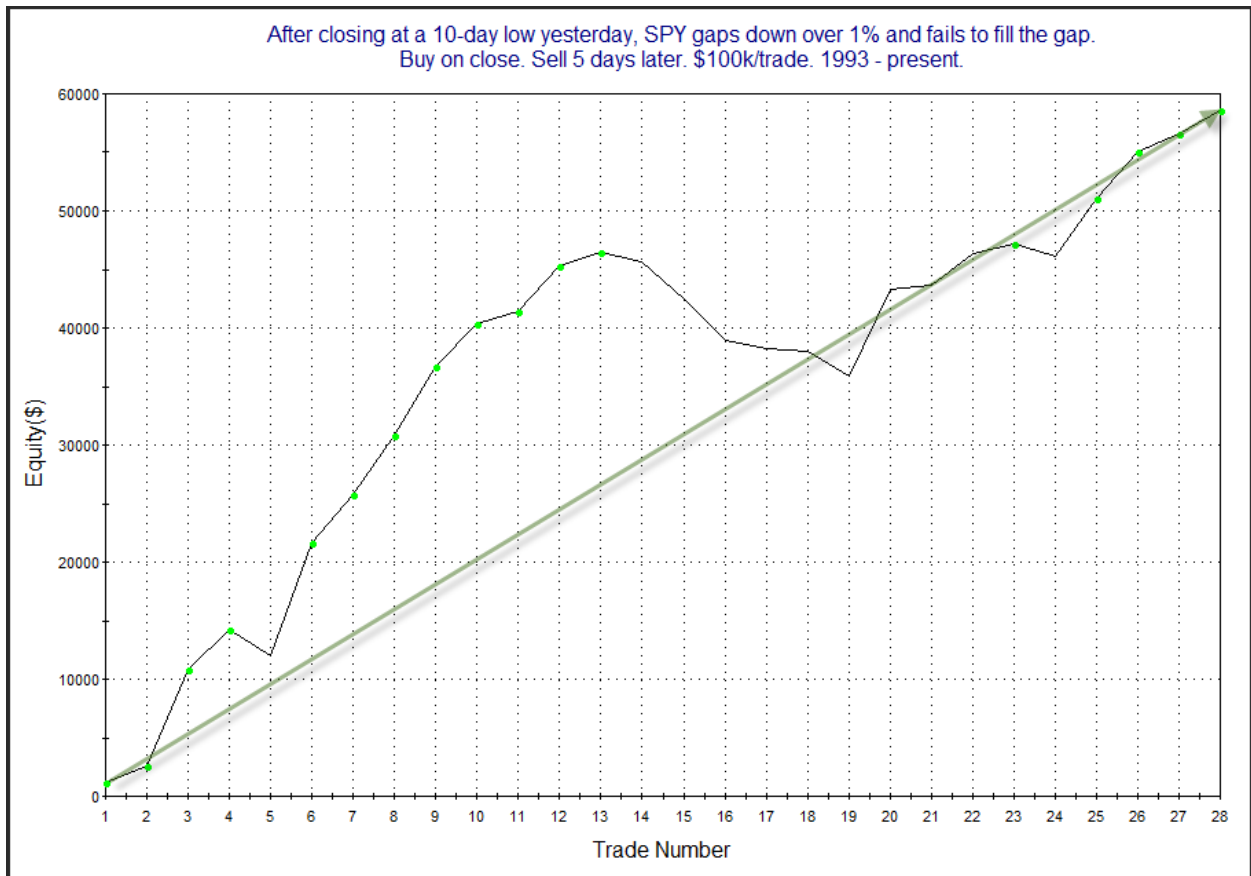
The consistently strong upslope makes this an appealing looking equity curve.

It is also notable that the gap down was large, and it came after SPY was already at a short-term low. This triggered the study below, from the 11/21/18 subscriber letter. All stats are updated.

After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap.
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 | 58,630.09 | 28 | 20 | 8 | 71.43 | 9,708.30 | -3,525.84 | 3,629.40 | -1,744.73 | 2.08 | 5.20 | 2,093.93 |
| 4 | 31,191.88 | 28 | 19 | 9 | 67.86 | 6,132.78 | -15,473.88 | 2,930.93 | -2,721.76 | 1.08 | 2.27 | 1,114.00 |
| 3 | 24,974.59 | 29 | 20 | 9 | 68.97 | 5,630.94 | -13,375.08 | 2,535.59 | -2,859.69 | 0.89 | 1.97 | 861.19 |
| 2 | 12,683.71 | 29 | 17 | 12 | 58.62 | 6,435.36 | -6,878.34 | 2,300.91 | -2,202.64 | 1.04 | 1.48 | 437.37 |
| 1 | 13,398.21 | 30 | 17 | 13 | 56.67 | 5,764.38 | -4,474.26 | 1,875.07 | -1,421.38 | 1.32 | 1.73 | 446.61 |

The numbers here all point higher, suggesting a short-term bullish edge. Below is a look at a profit curve assuming a 5-day holding strategy.



After a short period of struggle, the curve got back on track, and the last several instances have shown solid upside. This supports the idea of a bullish edge. I have included this study on the Active List tonight.

It is also worth noting that Monday's smallcap underperformance was outsized and that triggered this study from the 8/2/12 letter.

SPX closes down for at least the 3rd day in a row. RUT loses > 1.5% more than SPX today.
Buy SPX on close. Sell next day's close. \$100k/trade. 1988 - present.

TradeStation Performance Summary

Expand ▾

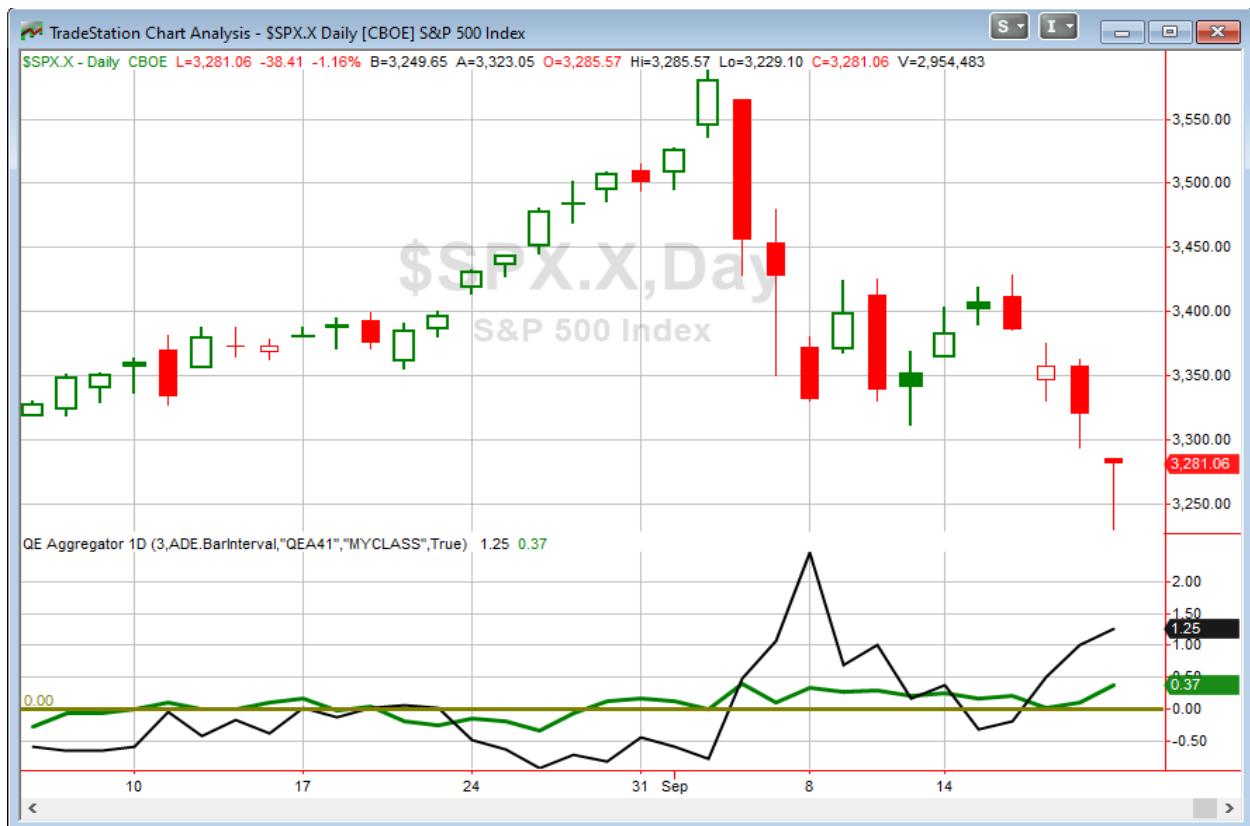
All Trades

| | | | |
|------------------------|-------------|--------------------------|--------------|
| Total Net Profit | \$17,636.39 | Profit Factor | 10.27 |
| Gross Profit | \$19,538.18 | Gross Loss | (\$1,901.79) |
| Total Number of Trades | 10 | Percent Profitable | 80.00% |
| Winning Trades | 8 | Losing Trades | 2 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,763.64 | Ratio Avg. Win:Avg. Loss | 2.57 |
| Avg. Winning Trade | \$2,442.27 | Avg. Losing Trade | (\$950.89) |
| Largest Winning Trade | \$4,884.12 | Largest Losing Trade | (\$1,158.75) |

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|------------|--------|------------|----------|--------------------|
| 10/7/1998 | Buy | \$970.70 | -1.16% | \$0.00 |
| 10/8/1998 | Sell | \$959.45 | | (\$4,882.20) |
| 10/8/1998 | Buy | \$959.45 | 2.59% | \$2,594.80 |
| 10/9/1998 | Sell | \$984.30 | | (\$665.60) |
| 6/12/2000 | Buy | \$1,446.00 | 1.62% | \$1,684.98 |
| 6/13/2000 | Sell | \$1,469.44 | | (\$249.78) |
| 7/17/2003 | Buy | \$981.73 | 1.18% | \$1,264.52 |
| 7/18/2003 | Sell | \$993.32 | | (\$3.03) |
| 5/13/2009 | Buy | \$883.92 | 1.04% | \$1,631.72 |
| 5/14/2009 | Sell | \$893.07 | | (\$158.20) |
| 10/28/2009 | Buy | \$1,042.63 | 2.25% | \$2,299.00 |
| 10/29/2009 | Sell | \$1,066.11 | | \$0.00 |
| 8/8/2011 | Buy | \$1,119.46 | 4.74% | \$4,754.38 |
| 8/9/2011 | Sell | \$1,172.53 | | (\$1,594.88) |
| 8/1/2012 | Buy | \$1,375.32 | -0.75% | \$0.00 |
| 8/2/2012 | Sell | \$1,365.00 | | (\$1,488.24) |
| 3/9/2020 | Buy | \$2,746.56 | 4.94% | \$4,897.08 |
| 3/10/2020 | Sell | \$2,882.23 | | (\$452.16) |
| 6/11/2020 | Buy | \$3,002.10 | 1.31% | \$2,848.56 |
| 6/12/2020 | Sell | \$3,041.31 | | (\$581.79) |

Not a lot of instances, but the stats to this point certainly suggest an upside edge.

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



With tonight's evidence considered, the green Aggregator Line remained moved higher above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also moved farther above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is 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 Tuesday. Of course this could change if strong new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3369.17 on Tuesday. That is 2.7% above Monday's close. So SPX would need to close up a sizable 2.7% on Tuesday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is again bullish. And there is again ample room to the upside for profits until the Differential Line would turn back to overbought. Evidence is improving as well. Not only did we see 3 compelling bullish studies added tonight, but the bearish "weakest week" study already reached its target and has now been removed from the active list. (The pullback following a Fed Day study was also removed early since it moved more than 1 standard deviation beyond its typical drawdown.) I took some long index exposure on Monday. With the improving evidence, I will look to add to that on Tuesday if I can get a favorable fill at either the open or the close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/21 – neutral

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 @ \$325.00 LIMIT ON OPEN. If not filed on open, cancel order and look to buy @ \$325.50 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add a small amount of SPY exposure if it gaps down sizably, or closes lower by a decent amount.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|-----------------------|
| SPY(1/4) | 9/21/2020 | \$325.70 | \$326.97 | 0.39% | | <i>bought on open</i> |
| | | | | | | |
| | | | | | | |

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Hanna Capital Management, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2020 Quantifiable Edges, LLC.