

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 6, 2020

Volume 13 Issue 194

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The rising VIX with SPX at a 10-day high under similar circumstances has shown a downside tendency the next day.

Short-term Outlook

The Bottom Line

The Aggregator flipped to bearish. But it appears to be a very short-term edge, so I will not be looking to take advantage.

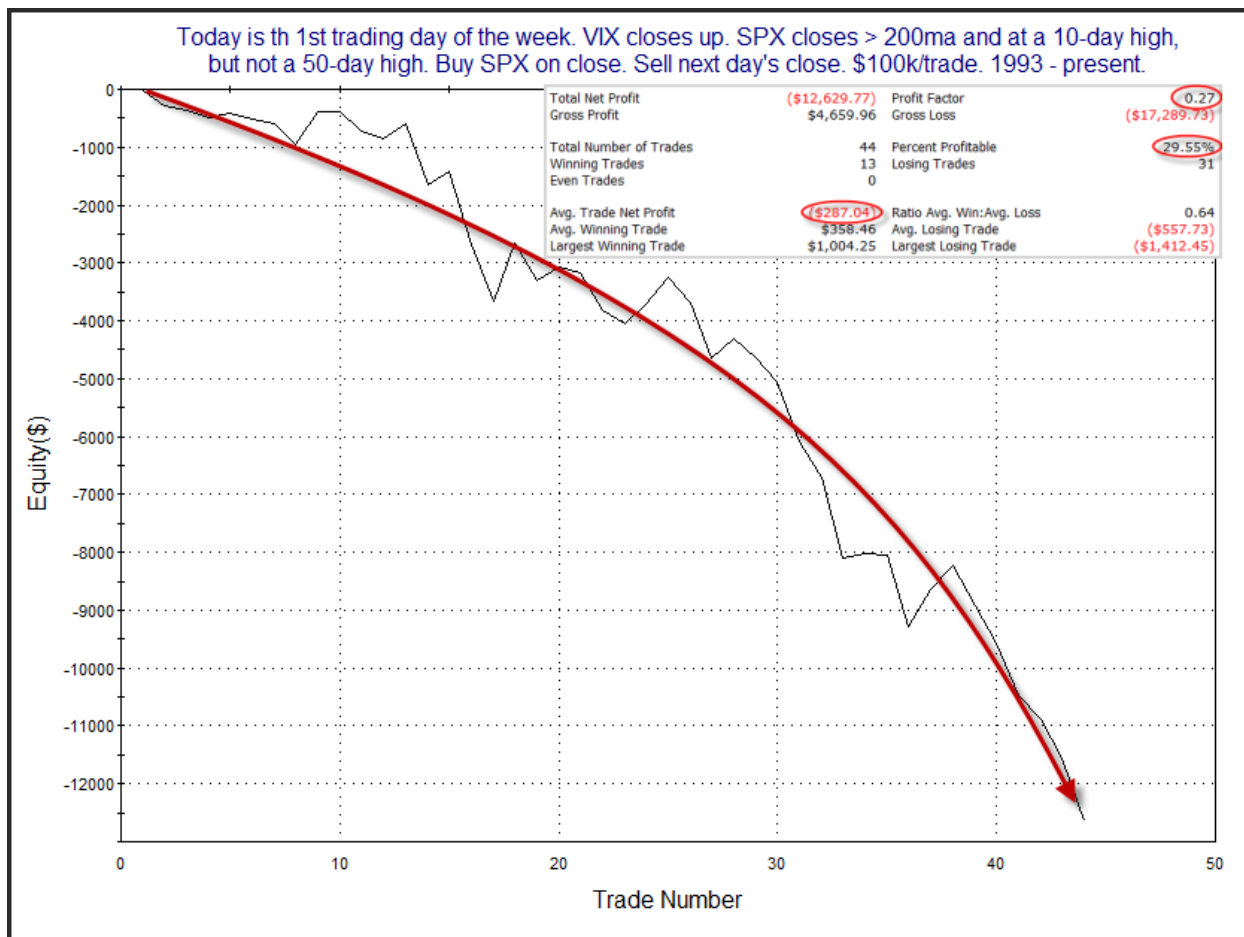
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 6, 2020	SPX up VIX up Mon. 10-hi but not 50	1 day	Bearish			
October 5, 2020	5-high then down close with + breadth	1-2 days	Bullish			
Active - Long Term						
September 28, 2020	NASDAQ Leading	int term	Bullish			
September 28, 2020	4 weeks down > 40-week ma	1-10 weeks	Bullish	8.60%	-3.10%	-7.40%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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)						
October 5, 2020	1% unfilled gap down on Jobs Day	1 day	Bearish			

The Evidence

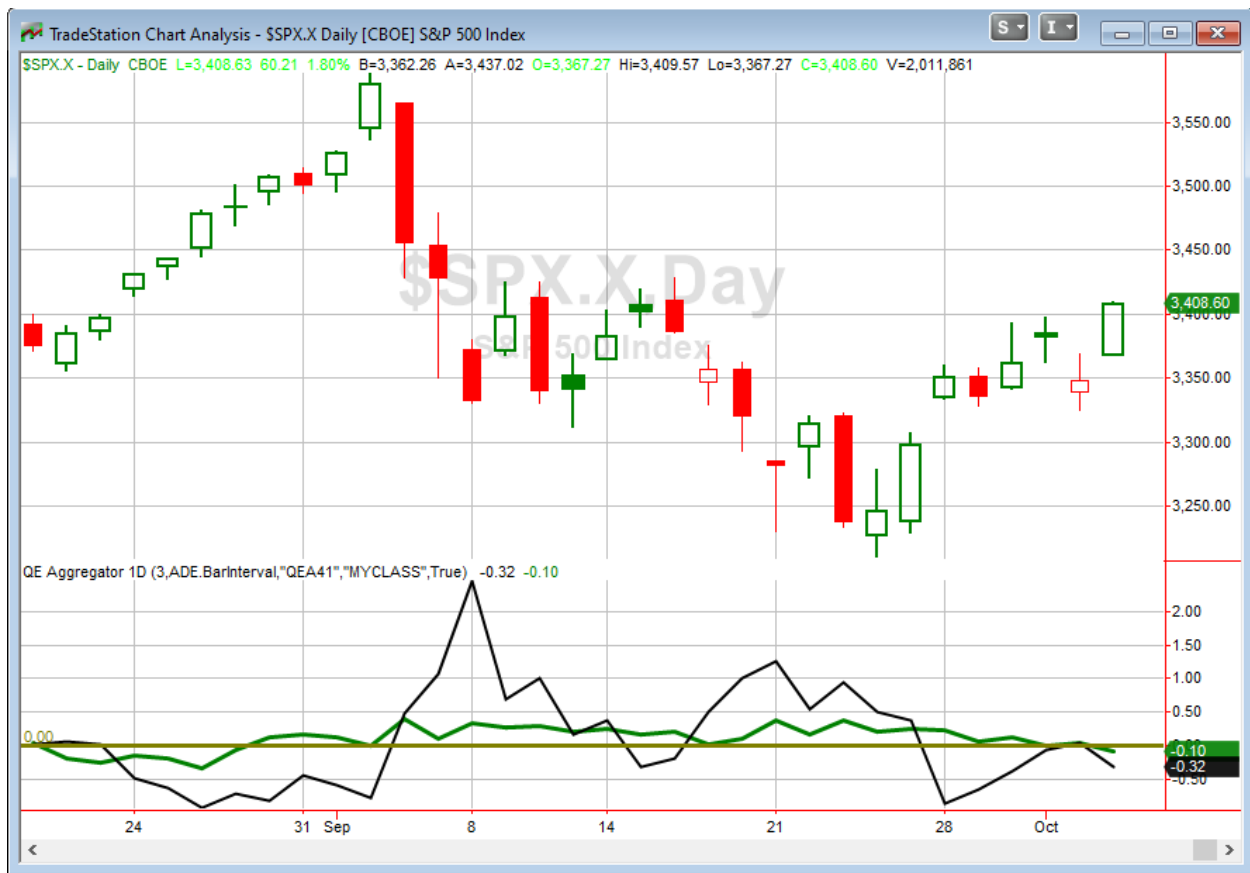
The market shot higher on Monday. The SPX gained 1.8%, the NASDAQ rose 2.3%, and the Russell 2000 rallied 2.8%. Breadth was positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 80%. NYSE total volume rose some from Friday's level.

While the SPX closed higher, so did the VIX. This is against the norm as they will most often close in the same direction. But the VIX has a natural tendency to decline on Friday afternoons ahead of the weekend and then rise on Mondays after the weekend. So occurrences are much less abnormal on Monday than on any other day of the week. In a strong bull market with SPX hitting 50-day or greater highs, the fact that they both close higher on a Monday has not mattered a whole heck of a lot. But when the SPX has been short-term overbought without making intermediate-term highs as it is now, the inclination has appeared bearish for the next day. This can be seen in the study below, which was last featured in the 5/15/18 letter..



The strong, persistent downslope is impressive and the curve is continuing to make new lows. There have been more than 2x as many losers as winners and the losers were larger on average. Both the curve and the numbers support the idea of a bearish tendency. I have included this study on the Active List tonight.

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



With tonight's evidence considered, the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also fell below 0. The negative Differential Line reading means that 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 turned short at the close.

Based on the current active list, expectations are set to turn neutral on Tuesday. Of course, this could change if new evidence emerges. Meanwhile, the Differential Pivot will be 3386.13 on Tuesday. That is about 0.7% below Monday's close. Therefore, SPX would need to close down about 0.7% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is bearish. There appears to be a downside edge for Tuesday. But it is just a 1-day edge. So traders looking to take advantage of it need to be nimble. With a nightly letter, I am not often inclined to try and take advantage of such a short-term setup. If I had the backing of the intermediate-term bias, then I might be inclined to take such a trade. But with the current neutral outlook and volatile environment, I'm not feeling compelled to put capital at risk on a very quick trade. I'll remain sidelined and alert to new evidence that may arise on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/5– “temporarily” neutral

The intermediate-term outlook was last updated in the 10/5/20 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

None.

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