

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 7, 2020

Volume 13 Issue 195

Market Overview



Signals Overview

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

Tonight's Research Points

- The big outside day down is suggesting a move up over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator flipped to bullish, but reward/risk is not appealing, and evidence is light. I don't love the setup.

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 28, 2020 | Up yest. Outside day 1% dn > 200. | 1-5 days | Bullish | 1.95% | -1.10% | -2.10% |
| 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 6, 2020 | SPX up VIX up Mon. 10-hi but not 50 | 1 day | Bearish | | | |

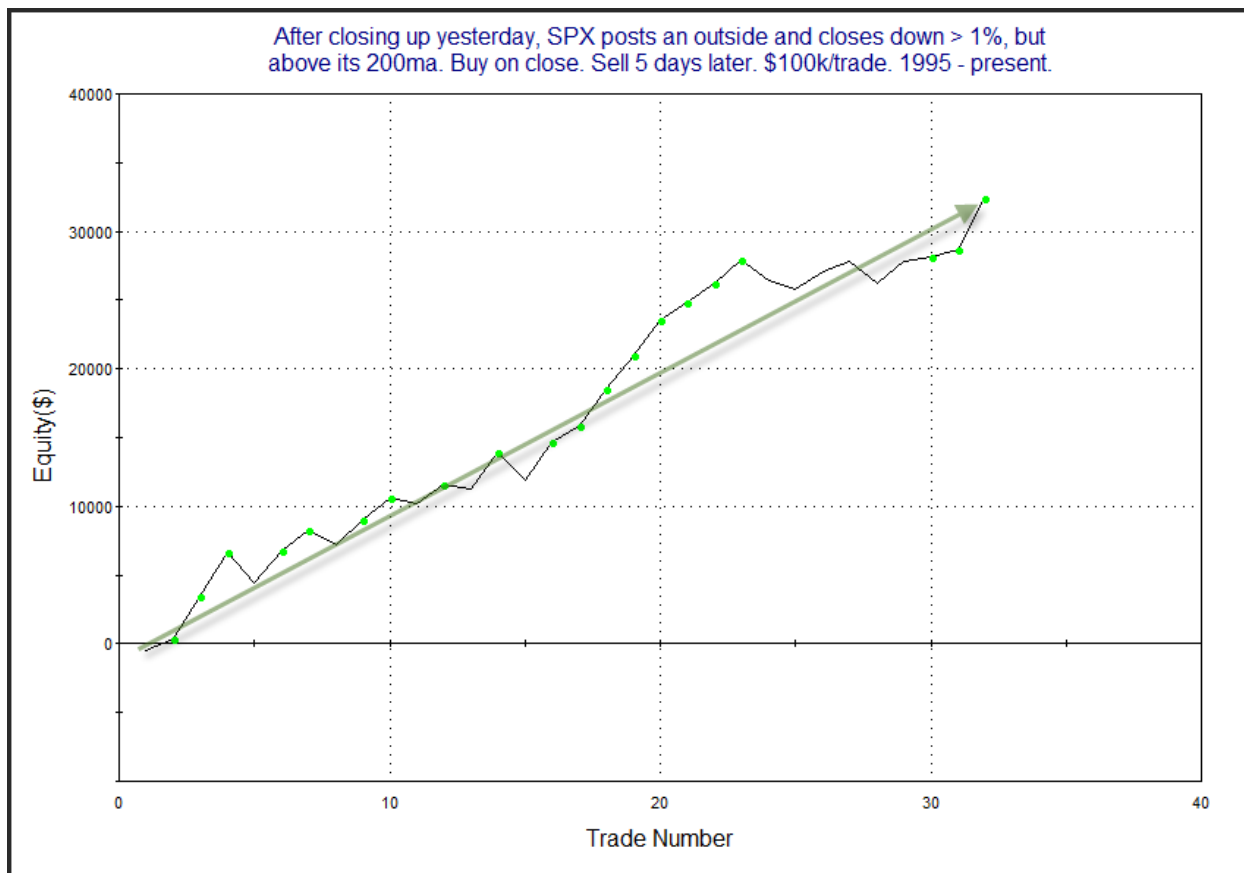
The Evidence

The market was having a good day, and then in perhaps one of the most ironic Tweets of all time, Trump stated (in part) “Our economy is doing very well. The stock market is at record levels...”, and the stock market immediately went into a tailspin. The main part of the tweet stated that he was instructing republicans to stop negotiating a new stimulus bill. And the recent move up was partially thanks to optimism about that bill. (In tweets later on Tuesday night he seemed to be back to negotiating – so who knows?) After being up as much as 0.67% intraday, the SPX lost 1.4%, the NASDAQ fell 1.6%, and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 28%. NYSE total volume rose some from Monday’s level.

Evidence was a bit light, but I did look at the outside day reversal and found some interesting results with that pattern. Below is one way I examined it.

| After closing up yesterday, SPX posts an outside and closes down > 1%, but above its 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 |
| 5 | 32,426.90 | 32 | 23 | 9 | 71.88 | 3,762.40 | -2,309.04 | 1,856.93 | -1,142.49 | 1.63 | 4.15 | 1,013.34 |
| 4 | 29,278.24 | 32 | 24 | 8 | 75.00 | 3,819.15 | -1,316.70 | 1,429.69 | -629.29 | 2.27 | 6.82 | 914.94 |
| 3 | 22,049.55 | 32 | 23 | 9 | 71.88 | 3,896.91 | -1,909.08 | 1,409.60 | -1,152.35 | 1.22 | 3.13 | 689.05 |
| 2 | 16,818.24 | 32 | 22 | 10 | 68.75 | 2,437.50 | -2,397.96 | 1,186.57 | -928.62 | 1.28 | 2.81 | 525.57 |
| 1 | 459.20 | 32 | 18 | 14 | 56.25 | 1,592.21 | -1,799.08 | 661.87 | -818.17 | 0.81 | 1.04 | 14.35 |

The numbers point to a possible upside edge. Below is a profit curve using a 5-day holding strategy.



The move from lower left to upper right is impressive. I have added this study to the active list tonight. I'll note that I also adjusted the criteria a few different ways and saw similar results. For instance, I required the day before to be a 5-day closing high. That just reduced the instances some. The variables overall appeared robust.

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



With tonight's evidence considered, the green Aggregator Line rose back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also climbed over 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 turned long at the close.

Based on the current active list, expectations are set to remain positive on Wednesday. Of course, this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 3352.93* on Wednesday. That is about 0.2% *below* Tuesday'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 down at least 0.2% in order to remain oversold. Anything less than that and it will flip to overbought as of Wednesday's close.

So we have a bullish Aggregator signal. But it is not a compelling one. Evidence is light, with just 1 short-term study active. And the inverted pivot is even more dissuading. I generally view inverted pivots as opportune times to take profits – not to enter new positions. This is because potential rewards are limited to just one day. Any move in the anticipated direction means an end to the trade. But a big move against could see a longer hold. So reward/risk is skewed poorly. Therefore, I am not inclined to act on the bullish Aggregator, and will wait to see how Wednesday plays out and what new evidence emerges before looking to take on any new index positions.

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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