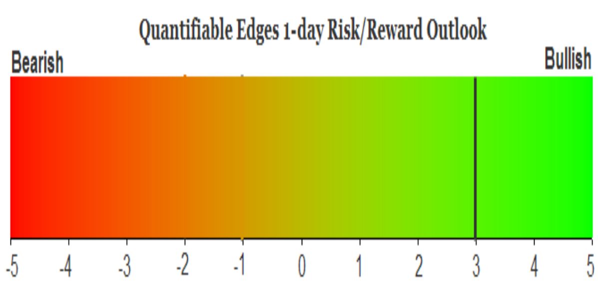
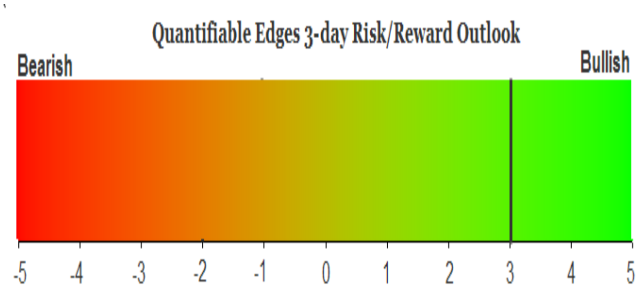
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2020 Volume 13 Issue 202

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower also suggests a 1-day upside edge.
- The 3-day pullback has a lot going for it suggesting an upside edge, including the quiet action on the pullback and the fact that is coming from a high level.

Short-term Outlook
The Bottom Line

The Aggregator is bullish, and I like the upside potential over the next few days.

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 16, 2020	RUT up > 1%. SPX down	1 day	Bullish			
October 16, 2020	Down 3 from 20-high. Offset HV low	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			

The Evidence

Thursday started with a gap down and finished mixed. SPX closed down 0.2%, the NASDAQ lost 0.5%, and the Russell 2000 rose 1.1%. Breadth was positive with the NYSE Up Issues % coming in at 53% and the Up Volume % at 65%. NYSE total volume rose some from Wednesday's level.

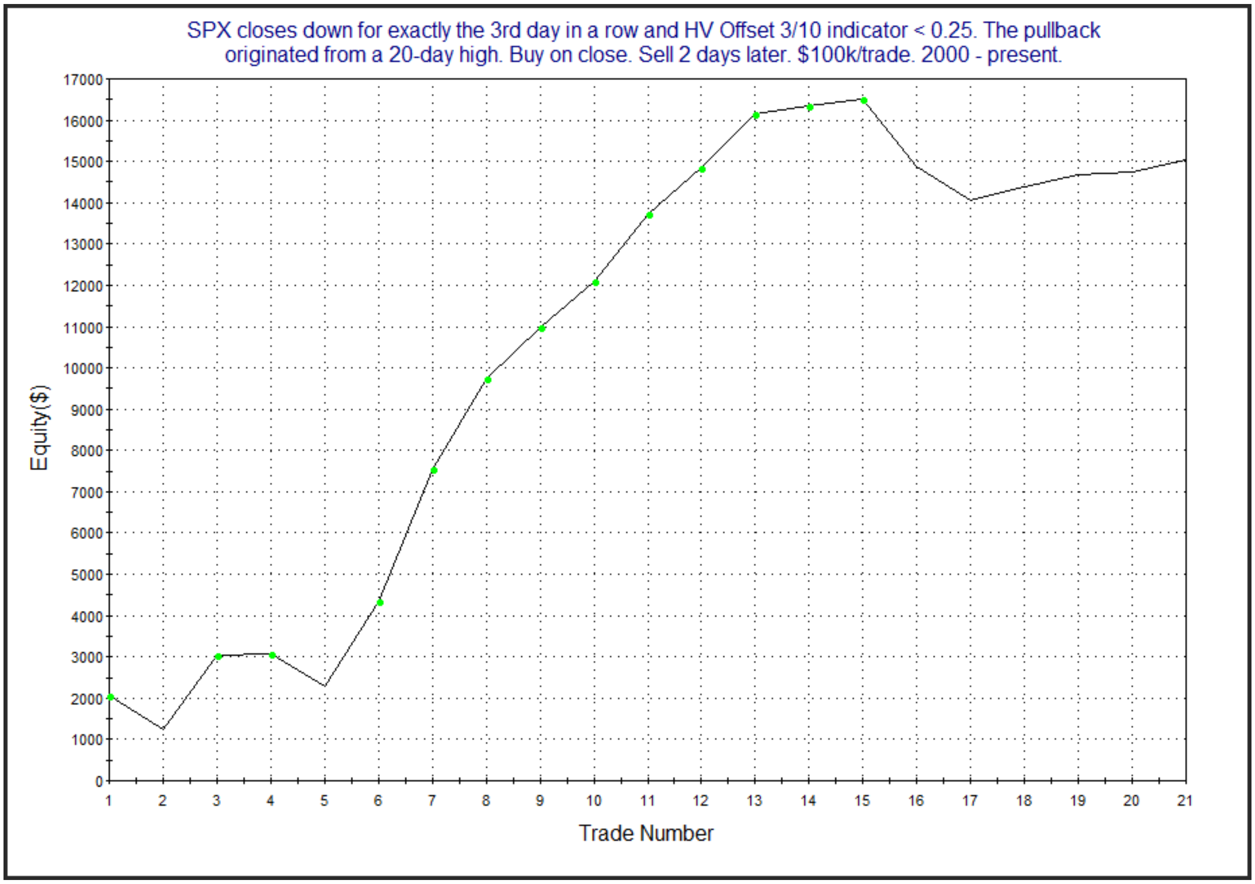
Three-day pullbacks for SPX will often trigger some bullish studies. And that was the case on Thursday night. The most compelling of those studies was the one below. It considered the facts that 1) the pullback is coming off an intermediate-term high and 2) it occurred on relatively low volatility as shown by the Quantifiable Edges 3/10 Offset HV calculation. (This indicator compares Historical Volatility over the last 3 days versus Historical Volatility over the 10 days previous to these 3.) The study was last seen in the 3/1/19 letter. It has been updated.

SPX closes down for exactly the 3rd day in a row and HV Offset 3/10 indicator < 0.25. The pullback originated from a 20-day high. Buy on close. Sell X days later. $100k/trade. 2000 - 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	11,432.81	21	13	8	61.90	4,674.00	-3,579.52	1,824.49	-1,535.69	1.19	1.93	544.42
4	13,857.29	21	12	9	57.14	3,783.20	-2,501.81	1,818.95	-885.56	2.05	2.74	659.87
3	12,633.65	21	13	8	61.90	3,576.02	-1,438.78	1,411.50	-714.48	1.98	3.21	601.60
2	15,048.69	21	17	4	80.95	3,212.80	-1,621.97	1,122.66	-1,009.11	1.11	4.73	716.60
1	8,165.87	21	15	6	71.43	2,861.60	-1,057.50	765.02	-551.58	1.39	3.47	388.85

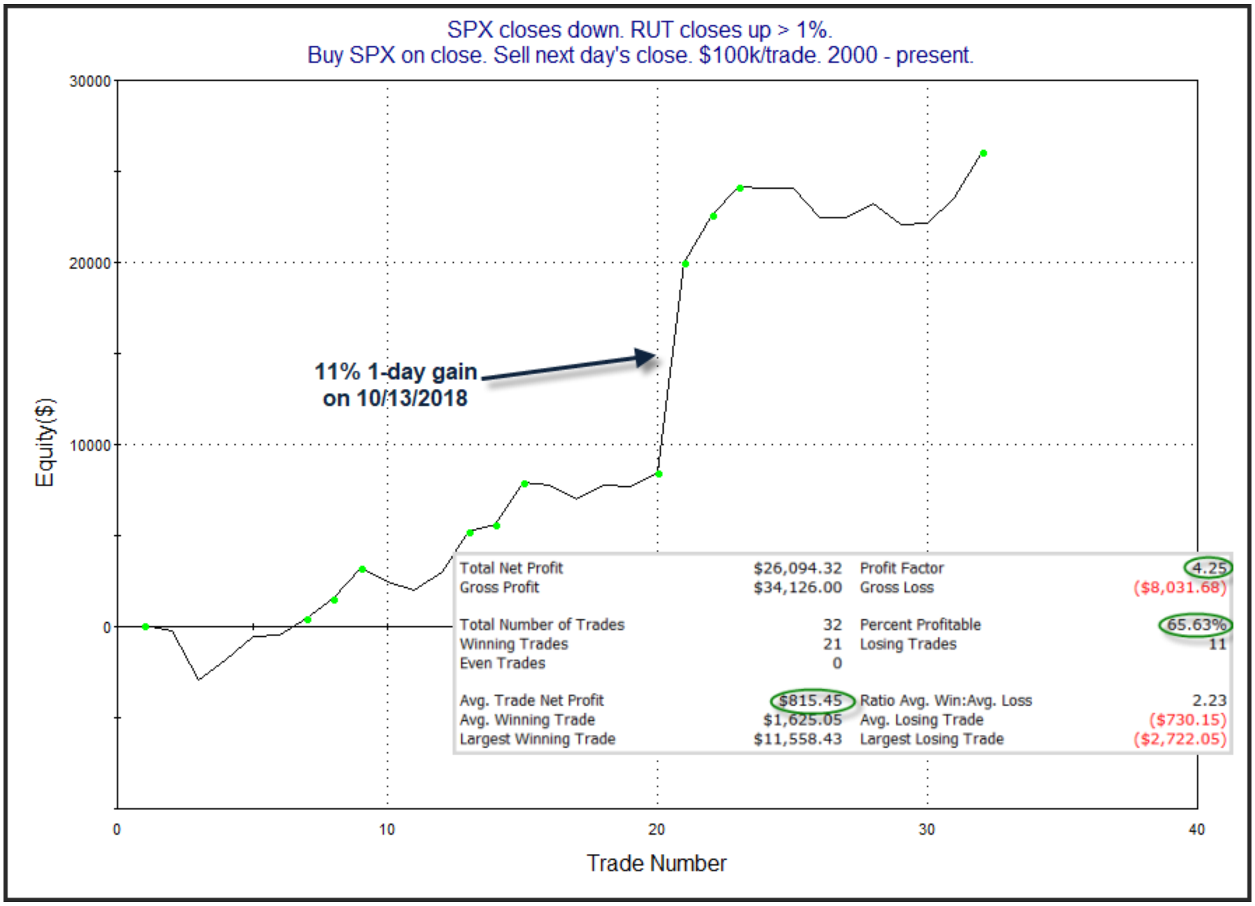
20 of 21 instances (95%) closed above the entry price at some point in the next week.

The numbers appear quite strong. Below is a look at the profit curve.

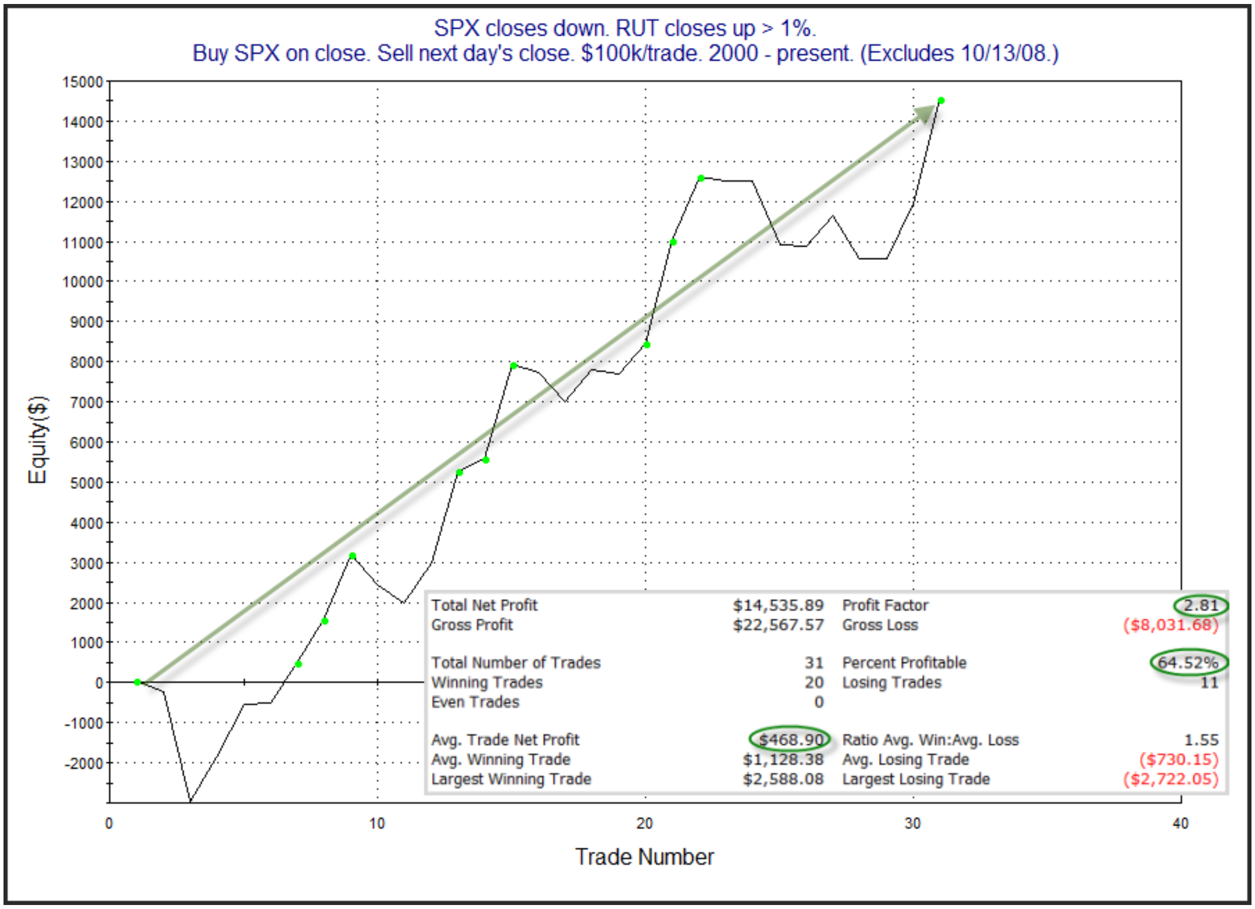


There were a couple of recent instances that struggled some, but the long-term upslope still appears to suggest a bullish edge. I believe it is worth taking under consideration and have added it to the Active List.

Of course, while SPX sank, the Russell put it a solid up day. The split market triggered an interesting study from the 4/29/20 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

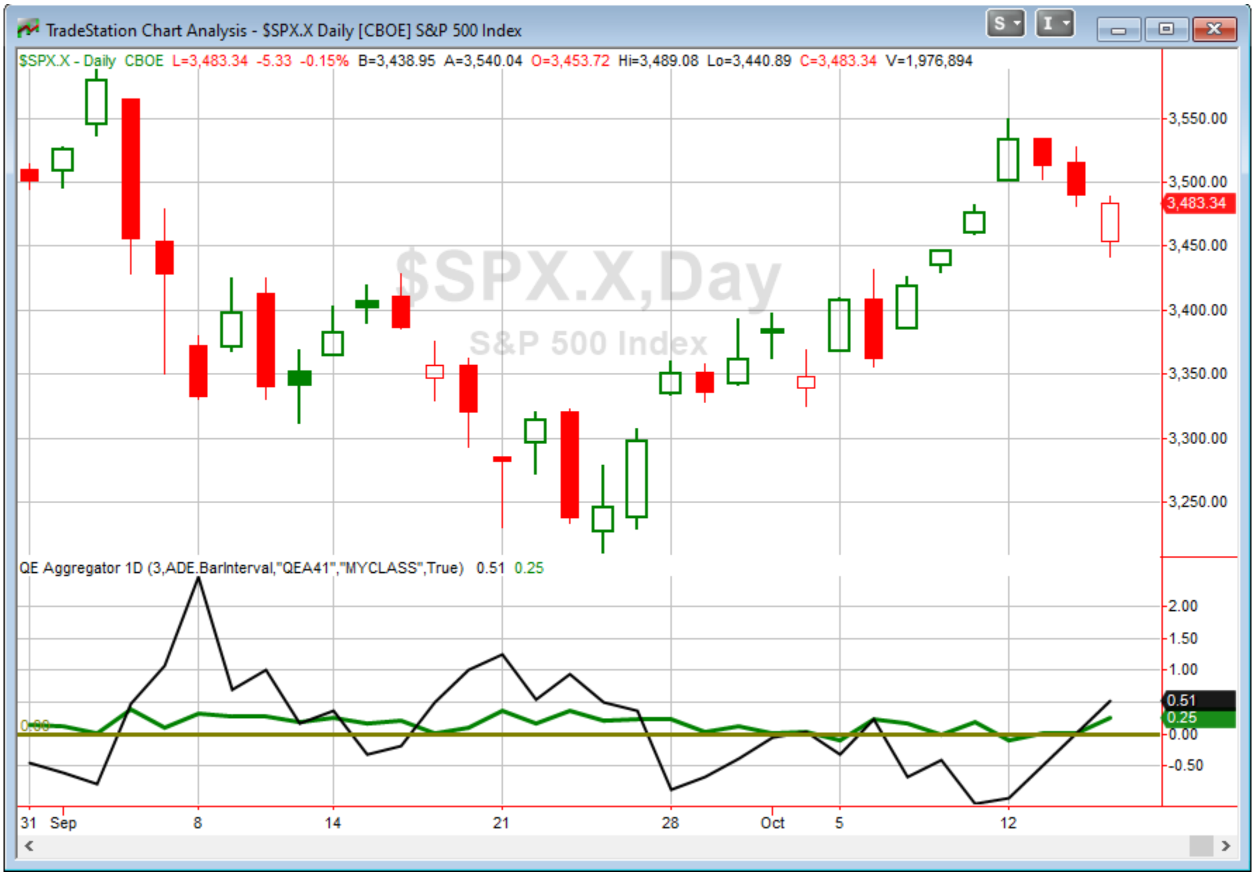


Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.



Despite some recent struggles, this still seems worth paying attention to. And the average instance has led to a 0.47% gain the next day. I have included this on the Active List.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line moved further above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is also 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 studies, expectations are slated to remain bullish on Friday. Of course, this could change is compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3515.40 on Friday. That is 0.9% above Thursday's close. Therefore, SPX will need to close up at least 0.9% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator now appears solidly bullish. Evidence tonight is decent, and there is ample room to the upside before SPX would turn overbought. This all suggests short-term edge for the bulls. I'll look to take advantage of it if I can get a favorable fill on Friday. With SPX still fairly high in its range (above the 10ma), I won't look to get too aggressive just yet. But I will look to scale in to a long SPY position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/12– slightly bullish

The intermediate-term outlook was last updated in the 10/12/20 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.

SPY – buy ¼ index position @ $346.50 LIMIT. This would be a partial retracement of Thursday's open to close rally. If there is a gap down, or selloff after the close I'll look to get in at $1.00 below Thursday's close.

Current Open Trade Ideas

None.