

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 20, 2020

Volume 13 Issue 204

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Tuesdays have often sparked rallies after a decline of 5 or more days.
- Weak closes at 5-day lows often lead to a bounce – especially heading into a “Turnaroud” Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe the bulls have an edge 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 20, 2020	SPY 5 lower closes. Monday.	1-3 days	Bullish	2.80%	-1.15%	-2.90%
October 20, 2020	SPX close btm10% rng 5-low Monday	1-5 days	Bullish	2.10%	-1.00%	-2.10%
October 19, 2020	SPY 5 low after not in 10 days	1-4 days	Bullish	1.30%	-1.00%	-2.00%
October 19, 2020	Gap up move up intra, close dn > 10Lo	1-5 days	Bullish	2.00%	-1.40%	-2.30%
Active - Long Term						
October 19, 2020	SPY 5 low after not in 10 days	1-10 days	Bullish	2.10%	-1.30%	-2.60%
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 16, 2020	Down 3 from 20-high. Offset HV low	1-2 days	Bullish			

The Evidence

Monday opened strong, but sellers arrived about 15 minutes into the trading day and pushed the market lower for much of the next 6 hours. SPX finished down 1.6%, the NASDAQ lost 1.7%, and the Russell 2000 fell 1.2%. Breadth was negative with the NYSE Up Issues % coming in at 27% and the Up Volume % at 22%. NYSE total volume declined some from Friday's elevated opex level.

I've discussed many times before the propensity for Tuesday to serve as a day where short-term selloffs reverse. Historically it has outperformed every other day of the week in this regard. The study below examines SPY performance following at least 5 straight down days going into Tuesday. It is updated from the 8/2/11 letter.

SPY closes down for at least the 5th day in a row. Today is Monday. 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	447.60	15	9	6	60.00	5,554.26	-12,819.52	2,541.78	-3,738.07	0.68	1.02	29.84
4	14,538.37	15	10	5	66.67	5,127.71	-6,751.20	2,475.12	-2,042.57	1.21	2.42	969.22
3	23,983.63	15	13	2	86.67	5,141.52	-6,611.52	2,380.45	-3,481.13	0.68	4.44	1,598.91
2	20,926.85	15	11	4	73.33	4,153.36	-2,025.36	2,187.54	-784.01	2.79	7.67	1,395.12
1	5,491.91	15	10	5	66.67	3,789.37	-2,553.04	1,363.46	-1,628.55	0.84	1.67	366.13

Instances are a little low but the stats are overwhelmingly bullish over the 1st 3 days. I examined each instance in a bit more detail and have listed them below assuming a 3-day holding period.

SPY closes down for at least the 5th day in a row. Today is Monday.
Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/9/1994	Buy	\$44.37	0.36%	\$1,058.91
5/12/1994	Sell	\$44.53		(\$428.07)
4/19/1999	Buy	\$129.50	5.14%	\$5,311.36
4/22/1999	Sell	\$136.16		(\$386.00)
6/14/1999	Buy	\$129.72	3.73%	\$4,496.80
6/17/1999	Sell	\$134.56		\$0.00
11/13/2000	Buy	\$135.56	1.34%	\$3,338.61
11/16/2000	Sell	\$137.38		\$0.00
6/18/2001	Buy	\$121.26	2.11%	\$2,513.20
6/21/2001	Sell	\$123.82		(\$304.88)
9/23/2002	Buy	\$83.66	2.47%	\$2,760.45
9/26/2002	Sell	\$85.73		(\$2,162.95)
6/12/2006	Buy	\$123.99	1.72%	\$1,910.22
6/15/2006	Sell	\$126.12		(\$1,329.90)
1/7/2008	Buy	\$141.19	0.07%	\$1,210.68
1/10/2008	Sell	\$141.29		(\$2,470.92)
2/23/2009	Buy	\$74.65	1.30%	\$5,048.03
2/26/2009	Sell	\$75.62		\$0.00
8/16/2010	Buy	\$108.26	-0.35%	\$1,965.99
8/19/2010	Sell	\$107.88		(\$766.09)
8/1/2011	Buy	\$128.78	-6.62%	\$0.00
8/4/2011	Sell	\$120.26		(\$6,766.72)
7/27/2015	Buy	\$206.79	1.95%	\$2,052.75
7/30/2015	Sell	\$210.82		\$0.00
8/24/2015	Buy	\$189.55	5.13%	\$5,201.49
8/27/2015	Sell	\$199.27		(\$1,386.01)
9/28/2015	Buy	\$188.01	2.19%	\$2,378.88
10/1/2015	Sell	\$192.13		(\$573.48)
8/5/2019	Buy	\$283.82	3.45%	\$3,449.60
8/8/2019	Sell	\$293.62		(\$626.56)

8/1/2011 was the only instance that failed to close above the entry price at some point in the next 3 days.

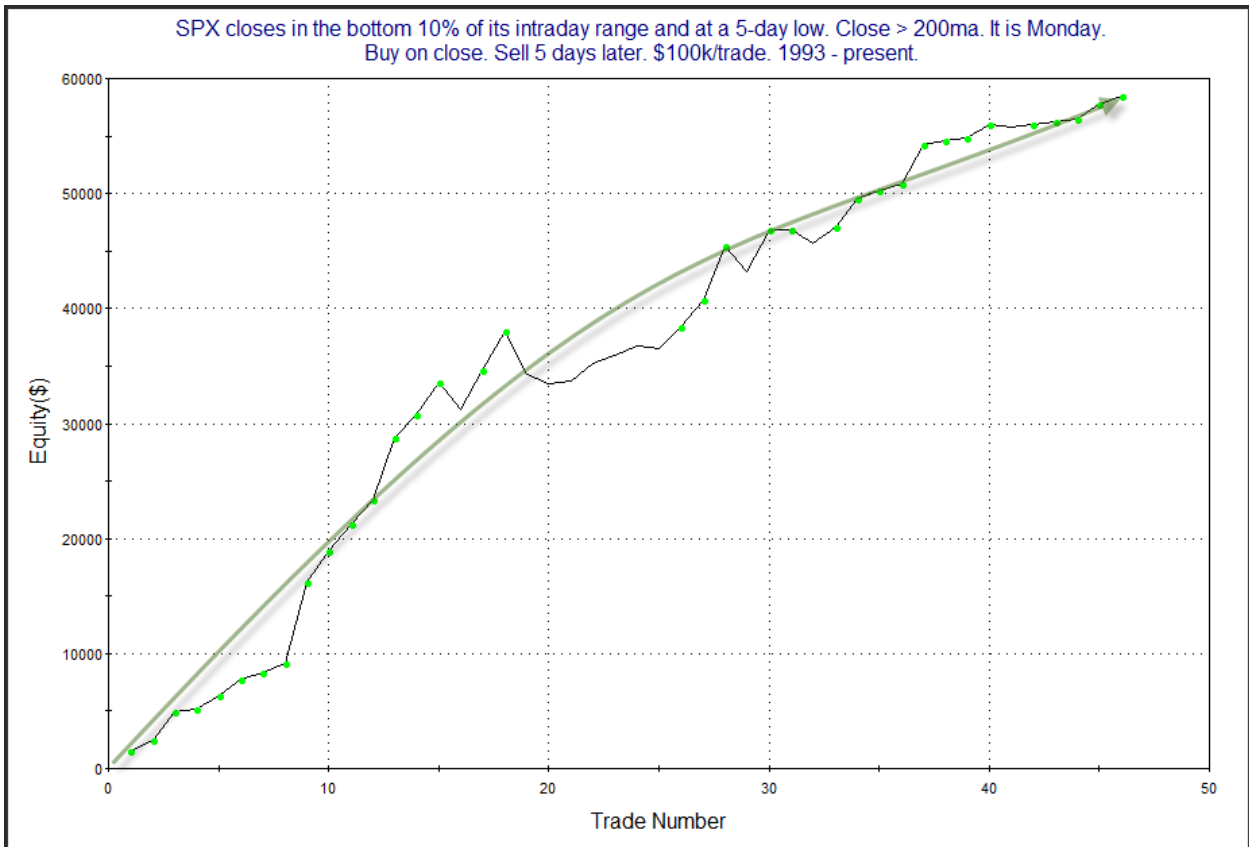
The individual trade stats are also very compelling. I like the fact that 14 of 15 have bounced within 3 days.

Another “Turnaround Tuesday” study that appeared looked at SPX’s closing near the bottom of its intraday range and at a short-term low. It is updated from the 12/3/19 letter.

SPX closes in the bottom 10% of its intraday range and at a 5-day low. Close > 200ma. It is Monday.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

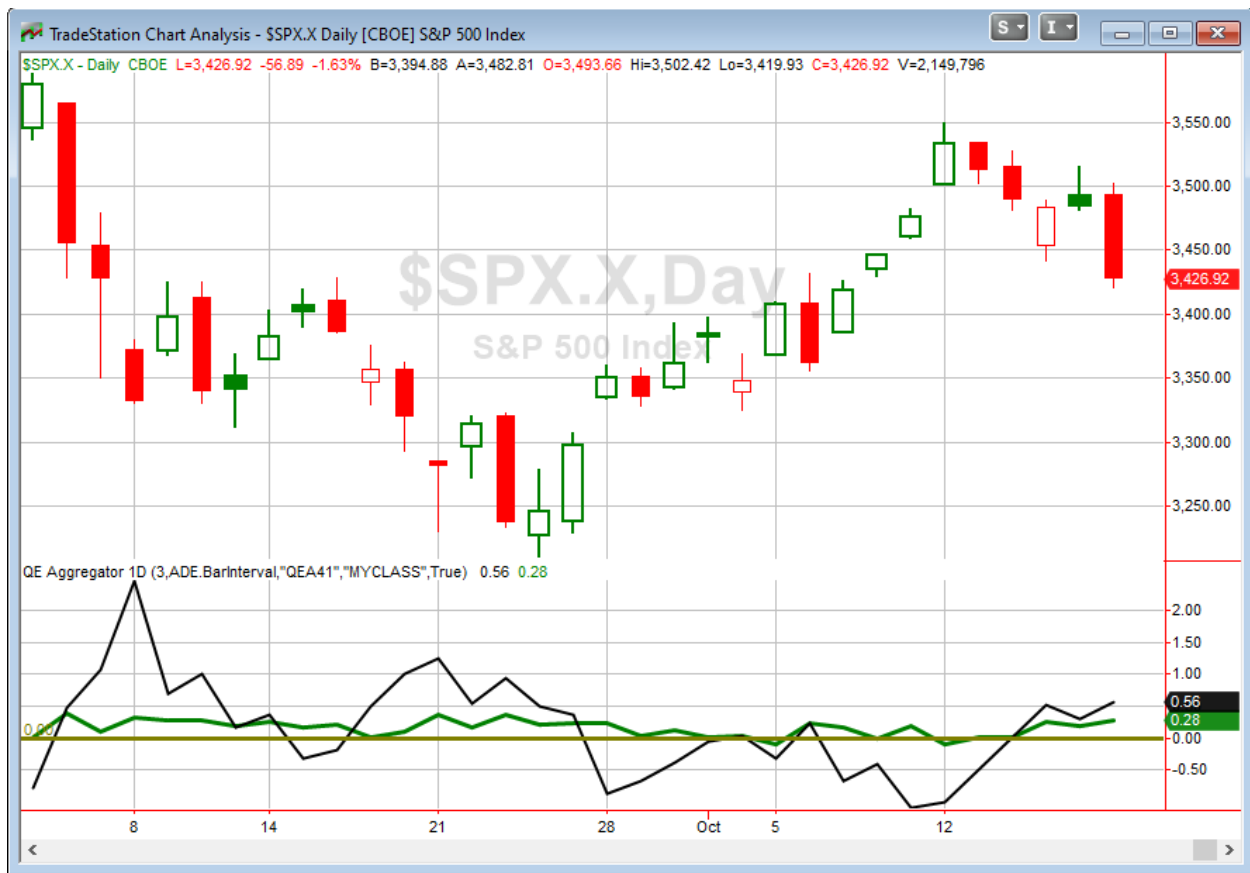
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	58,451.01	46	39	7	84.78	7,070.28	-3,720.99	1,769.87	-1,510.56	1.17	6.53	1,270.67
4	42,560.08	46	38	8	82.61	5,187.49	-3,019.20	1,458.62	-1,608.45	0.91	4.31	925.22
3	31,799.40	46	32	14	69.57	5,339.18	-3,515.67	1,436.93	-1,013.03	1.42	3.24	691.29
2	25,180.44	46	30	16	65.22	4,809.66	-2,261.76	1,245.63	-761.78	1.64	3.07	547.40
1	25,090.20	46	34	12	73.91	5,117.46	-1,611.03	910.87	-489.96	1.86	5.27	545.44

These numbers are quite impressive from day 1. And 1 week out they are very strong. Below is a look at a profit curve that assumes a 5-day hold.



The strong upslope and persistent new highs serve as some confirmation of the bullish edge suggested by the stats table. 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 remained 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 active studies, expectations are slated to remain bullish on Tuesday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3491.47 on Tuesday. That is 1.9% above Monday's close. Therefore, SPX will need to close up at least 1.9% on Tuesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. Evidence continues to build, and there is now ample room to the upside before SPX would turn overbought. I already have a small index position that was entered on Monday. I'll look to add to that on Tuesday if I can get a decent fill price.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/19– slightly bullish*

The intermediate-term outlook was last updated in the 10/19/20 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 @ \$342.00 LIMIT. Based on the short-term outlook above, I will look to add to my index position on Tuesday near Monday’s closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/19/2020	\$347.29	\$342.01	-1.52%		bought @ limit

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