

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 27, 2020

Volume 13 Issue 209

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- A big drop to a short-term low on a Monday is normally followed by a bounce.
- Positive late-October seasonality is kicking in.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, and there appears to be a substantial upside 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
<b>Active - Short Term</b>						
October 27, 2020	Mon after 4th Fri in October	1-5 days	Bullish	2.80%	-1.00%	-2.05%
October 27, 2020	10-Low dn 1%. Mon > 200	1-5 days	Bullish	2.40%	-1.25%	-3.30%
October 22, 2020	SPY closes btm 1/4 rng 4 days in row	1-5 days	Bullish	3.60%	-1.40%	-2.90%
October 20, 2020	SPX close btm 10% rng 5-low Monday	1-5 days	Bullish	2.10%	-1.00%	-2.10%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
October 26, 2020	Monday after 4th Friday in October	1 day	Bearish			
October 21, 2020	SPY gap up 0.75% rise, close < open	1-3 days	Bullish	1.90%	-1.60%	-3.40%
October 21, 2020	VIX up 7 in a row	1-3 days	Bullish	1.90%	-0.50%	-1.10%

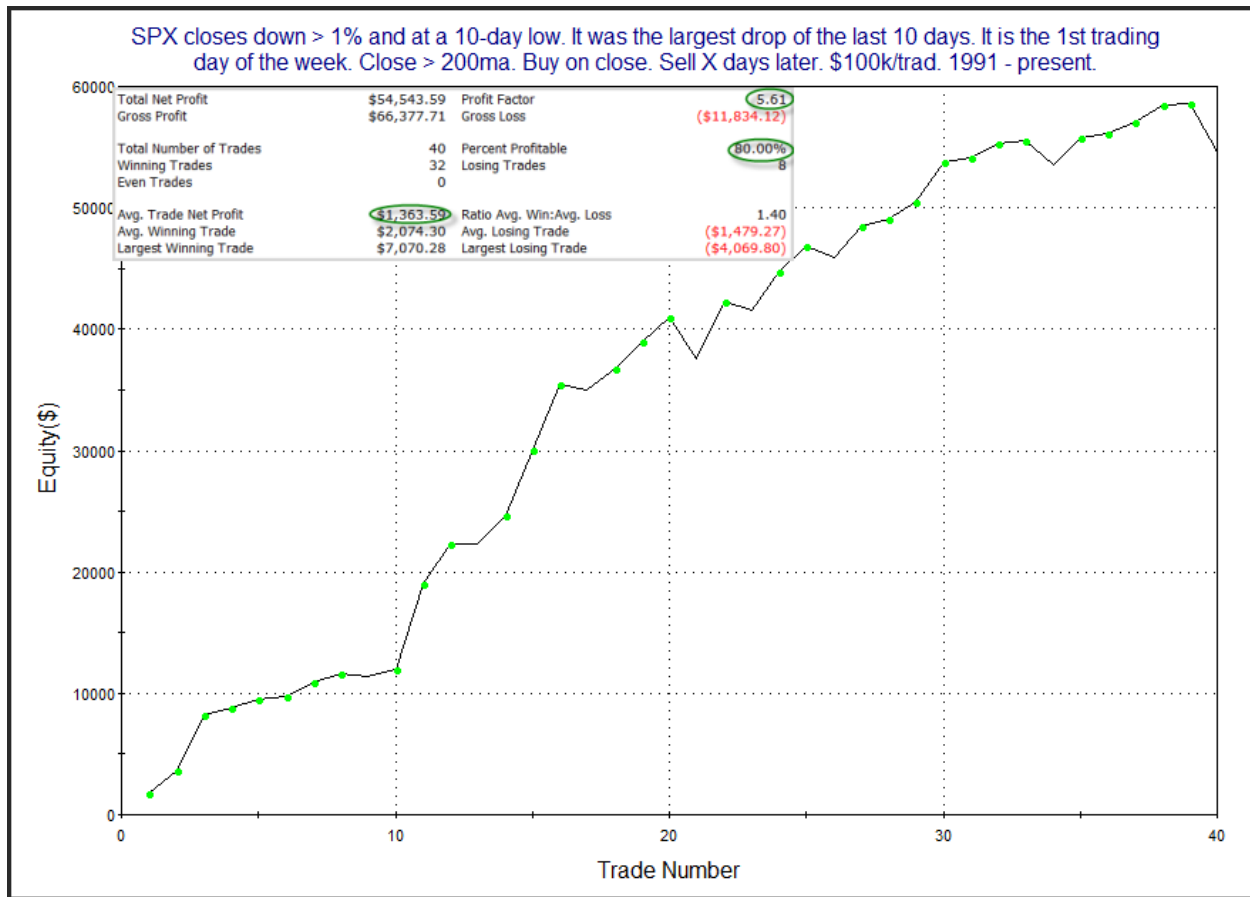
**The Evidence**

The study we saw over the weekend suggesting poor seasonality for Monday certainly played out, as Monday started bad and got worse. A late surge in the last 10 minutes dulled the losses some. SPX closed down 1.9%, the NASDAQ dropped 1.6%, and the Russell 2000 tumbled 2.15%. Breadth was extremely negative with the NYSE Up Issues % coming in at 12.5% and the Up Volume % at 8.5%. NYSE total volume rose from Friday's light level.

Big drops to short-term lows during a long-term uptrend are often buying opportunities. And Tuesdays are often good days to look for an oversold bounce to occur. The study below combines these concepts.

SPX closes down > 1% and at a 10-day low. It was the largest drop of the last 10 days. It is the 1st trading day of the week. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	54,543.60	40	32	8	80.00	7,070.28	-4,069.80	2,074.30	-1,479.26	1.40	5.61	1,363.59
4	38,520.18	40	31	9	77.50	5,187.49	-8,150.10	1,881.46	-2,200.58	0.85	2.94	963.00
3	38,467.94	40	30	10	75.00	5,339.18	-7,413.90	1,854.30	-1,716.10	1.08	3.24	961.70
2	32,264.98	40	28	12	70.00	4,809.66	-3,285.00	1,524.40	-868.19	1.76	4.10	806.62
1	20,595.66	40	29	11	72.50	5,117.46	-2,930.40	996.43	-754.62	1.32	3.48	514.89

The numbers here all suggest a probable bounce. Below is a look at the 5-day profit curve.



The last instance triggered on 2/24/20 at the beginning of the COVID crash. But leading up to that, the everything appeared quite impressive. I have added this study to the Active List tonight.

I'll also note that positive seasonality is now kicking in, with the study I showed in Sunday's letter copied below. It looks at the week after the 4<sup>th</sup> Friday in October. It found Monday to be bad, but the next 5 days to be seasonally strong.

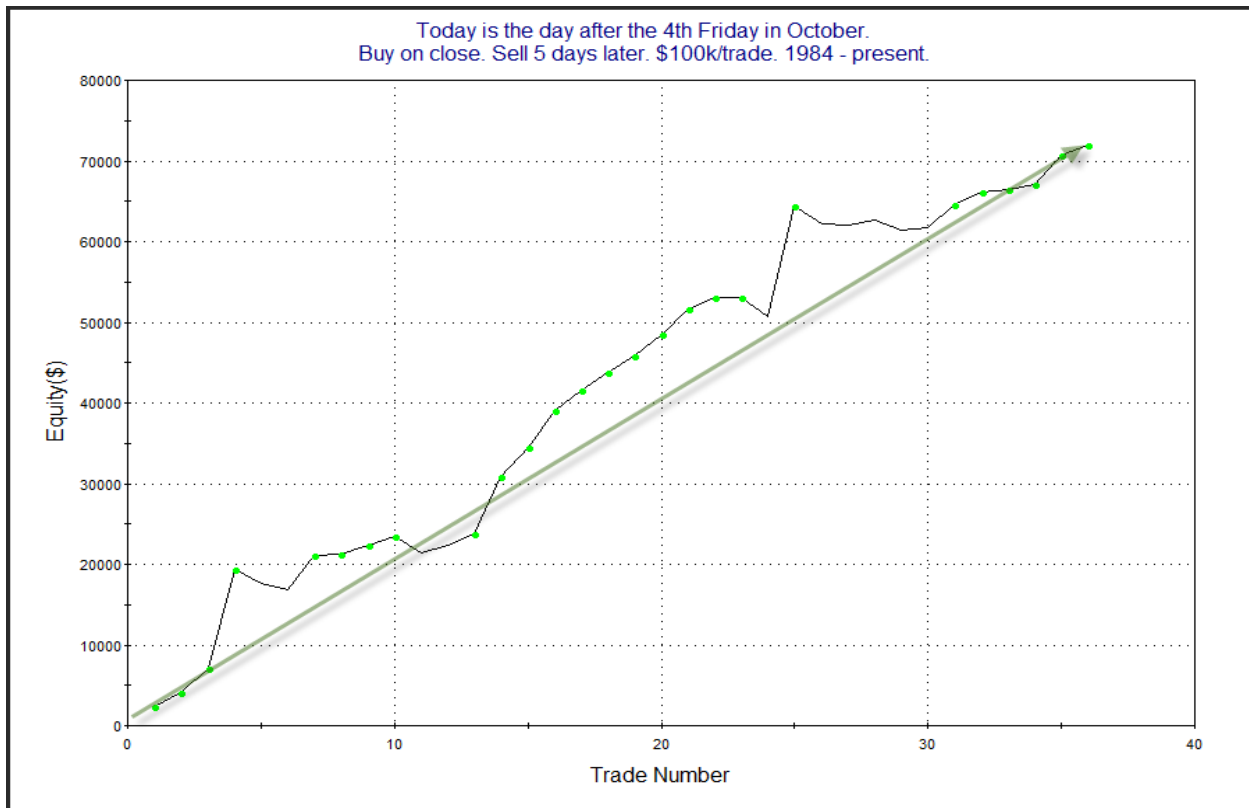
*But Tuesday through the following Monday have shown very positive seasonality. This can be seen below.*

Today is the day after the 4th Friday in October.  
Buy on close. Sell X days later. \$100k/trade. 1984 - 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	71,932.48	36	29	7	80.56	13,733.46	-2,483.20	2,844.48	-1,508.22	1.89	7.81	1,998.12
4	58,019.03	36	27	9	75.00	14,020.11	-2,860.68	2,559.04	-1,230.56	2.08	6.24	1,611.64
3	48,885.69	36	27	9	75.00	12,304.89	-2,081.28	2,056.74	-738.47	2.79	8.36	1,357.94
2	28,000.09	36	28	8	77.78	9,496.89	-2,261.76	1,325.93	-1,140.73	1.16	4.07	777.78
1	23,252.95	36	23	13	63.89	10,716.03	-2,766.58	1,462.19	-798.27	1.83	3.24	645.92

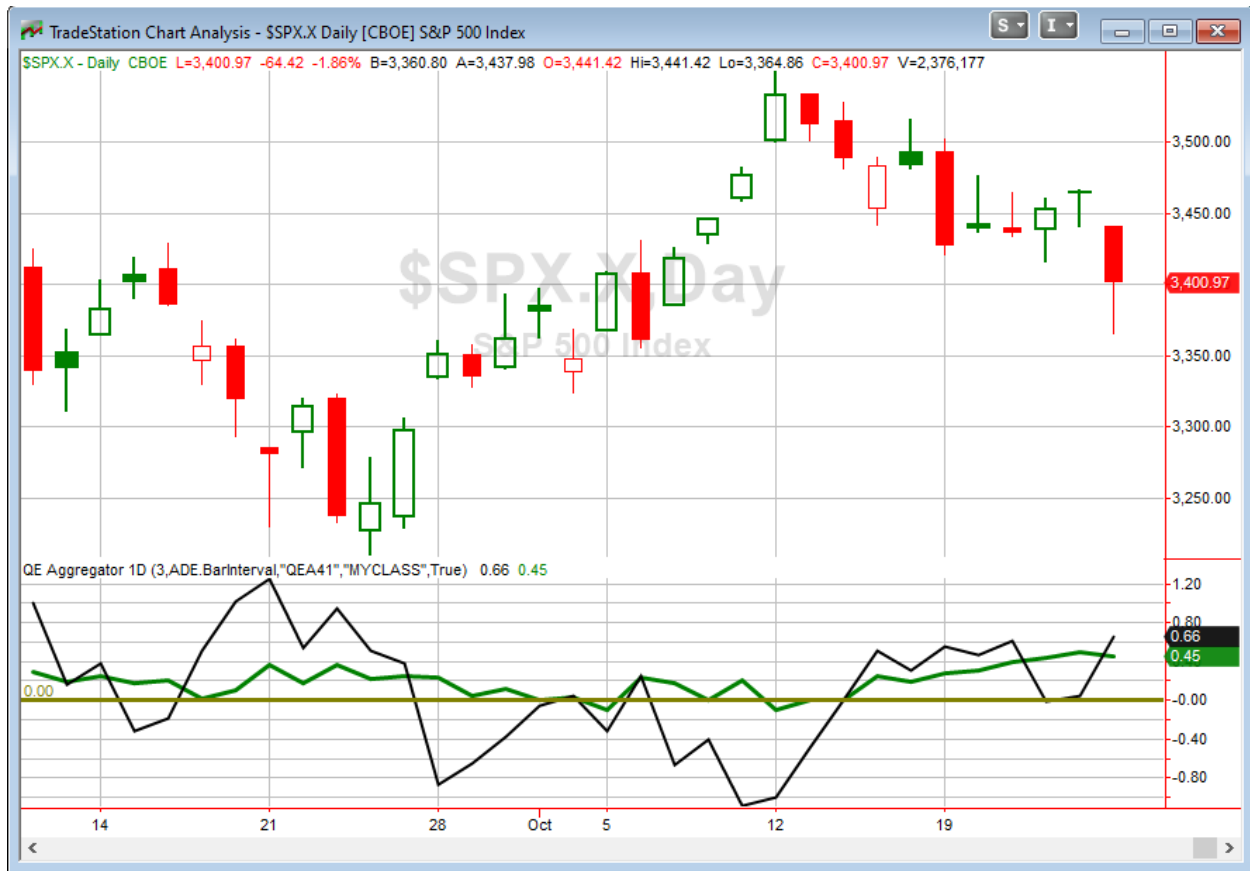
**34 of 36 instances (94%) closed above the entry price at some point in the next week.**

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



The curve has headed upwards for a long time. While there is an election and a Fed meeting to consider the following week, this short-term look at seasonality suggests the market could have some wind at its back after Monday.

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



With tonight's evidence considered, the green Aggregator Line remained well 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. This is unlikely to change on Tuesday. Meanwhile, the Differential Pivot will be 3491.44 on Tuesday. That is 2.7% above Monday's close. That would be a very large move for just 1 day. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is still bullish. I like the long side. I missed a partial exit on Friday by \$0.01, and that small miss is hurting right now. I may look to take on a 3<sup>rd</sup> lot on Tuesday, but only if there is a sizable gap down or a close lower for an entry. In any case, I like the long side, and believe we are likely to see a bounce in the coming days.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 10/26– slightly bullish*

## **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 @ \$338.00 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$339.25 LIMIT ON CLOSE.** Based on the short-term section above, I will look to add another lot of SPY if I can get a favorable fill.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/19/2020	\$347.29	\$339.39	-2.27%		Aggregator
SPY(1/4)	10/21/2020	\$342.73	\$339.39	-0.97%		Aggregator

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