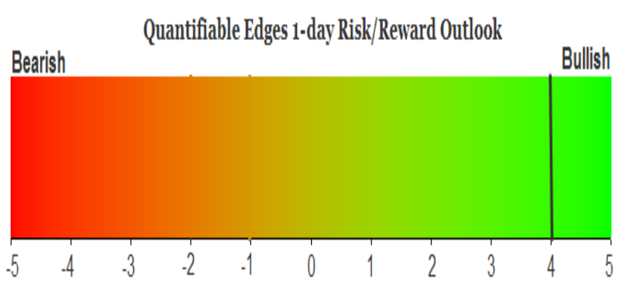
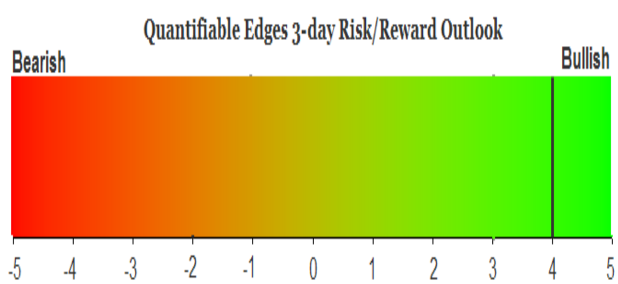
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 29, 2020 Volume 13 Issue 211

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The VIX is suggesting a bounce.
- Big drops from short-term lows during an uptrend suggest a sizable bounce.

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
Active - Short Term						
October 29, 2020	VIX 30% over 10m and over 30	1 day	Bullish			
October 29, 2020	10-Low dn 1%. Mon > 200	1-5 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

Wednesday was a rough day for the market. SPX closed down 3.5%, the NASDAQ tumbled 3.7%, and the Russell 2000 dropped 3.0%. Breadth was extremely negative with the NYSE Up Issues % coming in at 9% and the Up Volume % at 15%. NYSE total volume spiked higher on the selloff.

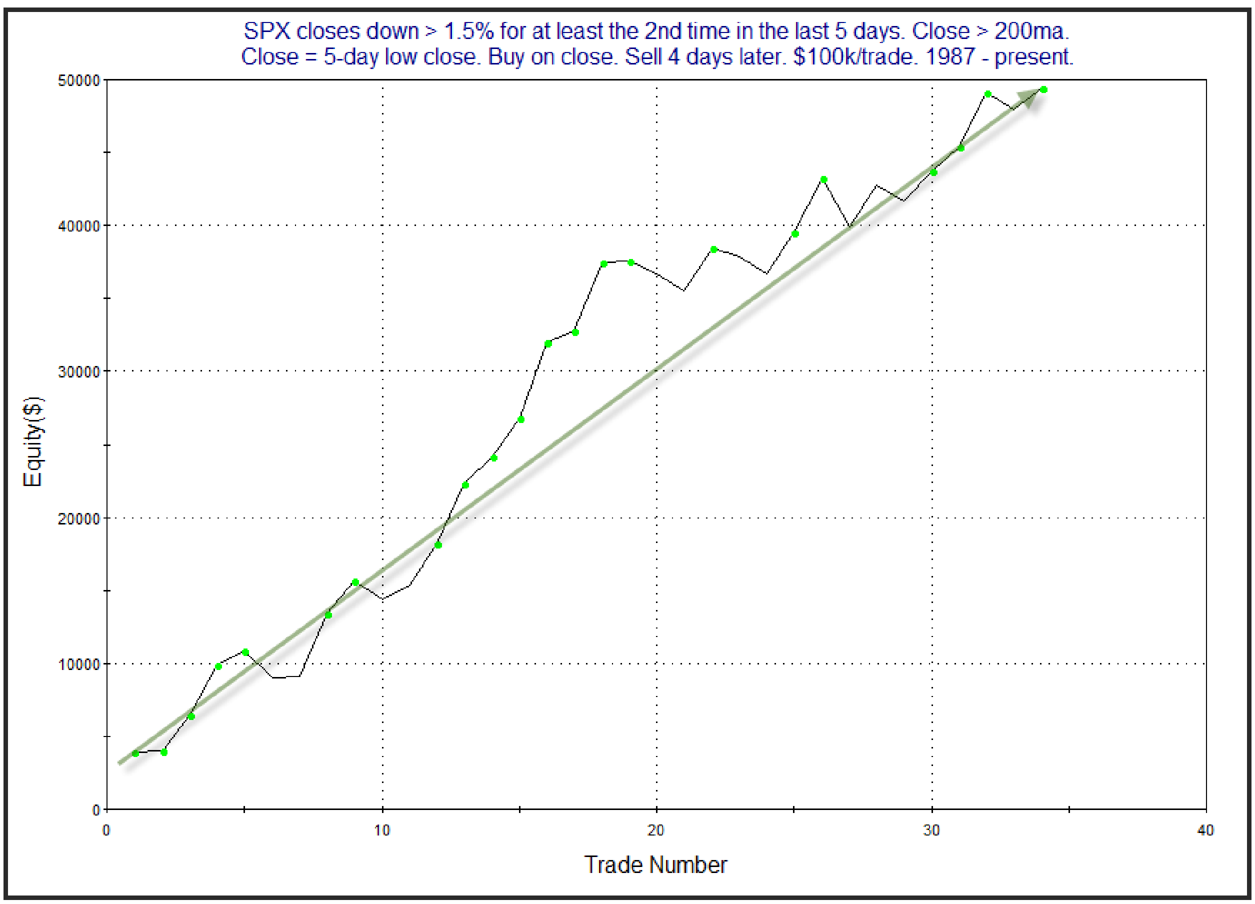
In the 9/9/20 letter I looked at some studies that examined multiple strong down days in a short time period. I found there to be a notable difference in results for times SPX finished at a short-term low vs times it did not. This can be seen in the studies below.

SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma. Close > 5-day low close. Buy on close. Sell X days later. $100k/trade. 1987 - 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
10	-281.50	10	7	3	70.00	3,499.62	-4,284.84	1,239.37	-2,985.70	0.42	0.97	-28.15
9	4,275.46	10	7	3	70.00	3,864.44	-2,965.83	1,540.65	-2,169.69	0.71	1.66	427.55
8	5,978.18	10	6	4	60.00	3,166.76	-1,261.68	1,508.68	-768.47	1.96	2.94	597.82
7	6,657.32	11	6	5	54.55	3,872.96	-2,784.75	2,424.31	-1,577.71	1.54	1.84	605.21
6	8,113.73	11	6	5	54.55	3,558.40	-3,286.40	2,914.25	-1,874.35	1.55	1.87	737.61
5	2,988.03	11	7	4	63.64	3,777.40	-6,368.04	2,398.72	-3,450.76	0.70	1.22	271.64
4	1,509.13	11	7	4	63.64	4,297.70	-4,917.36	1,690.43	-2,580.97	0.65	1.15	137.19
3	5,282.56	11	6	5	54.55	4,077.70	-1,805.40	1,980.94	-1,320.62	1.50	1.80	480.23
2	8,044.39	12	6	6	50.00	3,883.00	-1,099.56	1,832.37	-491.63	3.73	3.73	670.37
1	5,003.57	12	8	4	66.67	1,469.34	-797.60	795.95	-341.00	2.33	4.67	416.96

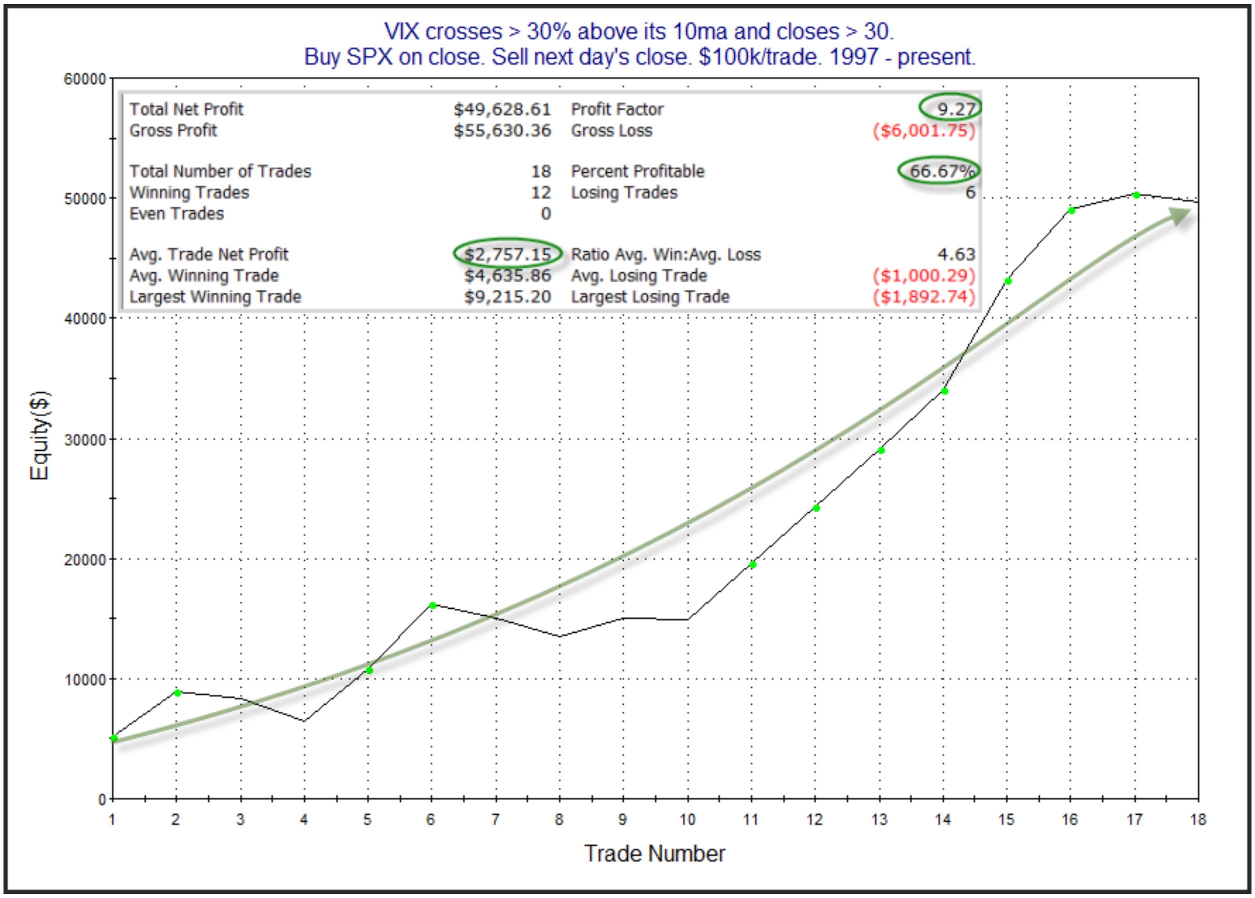
SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma. Close = 5-day low close. Buy on close. Sell X days later. $100k/trade. 1987 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	35,453.16	31	19	12	61.29	5,656.16	-7,625.38	3,483.53	-2,561.16	1.36	2.15	1,143.65
9	31,256.60	31	21	10	67.74	5,761.56	-11,831.15	3,150.58	-3,490.56	0.90	1.90	1,008.28
8	52,632.08	33	24	9	72.73	6,960.84	-5,882.94	3,123.63	-2,481.68	1.26	3.36	1,594.91
7	72,497.75	34	26	8	76.47	7,598.58	-3,232.37	3,319.95	-1,727.63	1.92	6.25	2,132.29
6	62,891.55	34	26	8	76.47	7,272.06	-3,322.53	2,873.23	-1,476.56	1.95	6.32	1,849.75
5	48,593.71	34	24	10	70.59	7,070.28	-3,870.04	2,661.18	-1,527.46	1.74	4.18	1,429.23
4	49,461.31	34	25	9	73.53	5,187.49	-3,351.72	2,479.73	-1,392.44	1.78	4.95	1,454.74
3	32,107.26	36	27	9	75.00	5,471.10	-5,393.69	2,005.46	-2,448.89	0.82	2.46	891.87
2	28,372.20	37	27	10	72.97	4,809.66	-4,632.95	1,790.27	-1,996.50	0.90	2.42	766.82
1	28,254.84	40	31	9	77.50	5,117.46	-5,829.81	1,378.59	-1,609.05	0.86	2.95	706.37

Without closing at a low area, evidence is not compelling. But the strong selloff to a short-term low during a long-term uptrend is generally a decent setup for buying. And that is what we are seeing in the numbers from the 2nd study. Below is a look at the 4-day profit curve.



The strong, steady upslope serves as some confirmation of the bullish edge.

Also notable was the action in the VIX, which rose over 20% on Wednesday. An interesting study from the Quantifinder was from the 9/4/20 letter. It notes not only that the VIX is relatively stretched on a short-term basis, but that the VIX reading is also somewhat high on an absolute basis. Over the years I have found that short-term stretches are not as impactful when the stretch is coming from a very low level. This is the reason the VIX > 30 is also included as a filter. Results are updated.



Instances are a little lower than I'd prefer, but the stats are very strong, and the curve is fairly smooth. The average performance the day after the setup has been a 2.8% gain. That is a huge average for just a 1-day trade.

I also noted that with the VIX closing over 40 on Wednesday, that made it 35 days in 2020 that it has closed over 40. We have also seen just 35 days in which it closed under 20. (They were the 1st

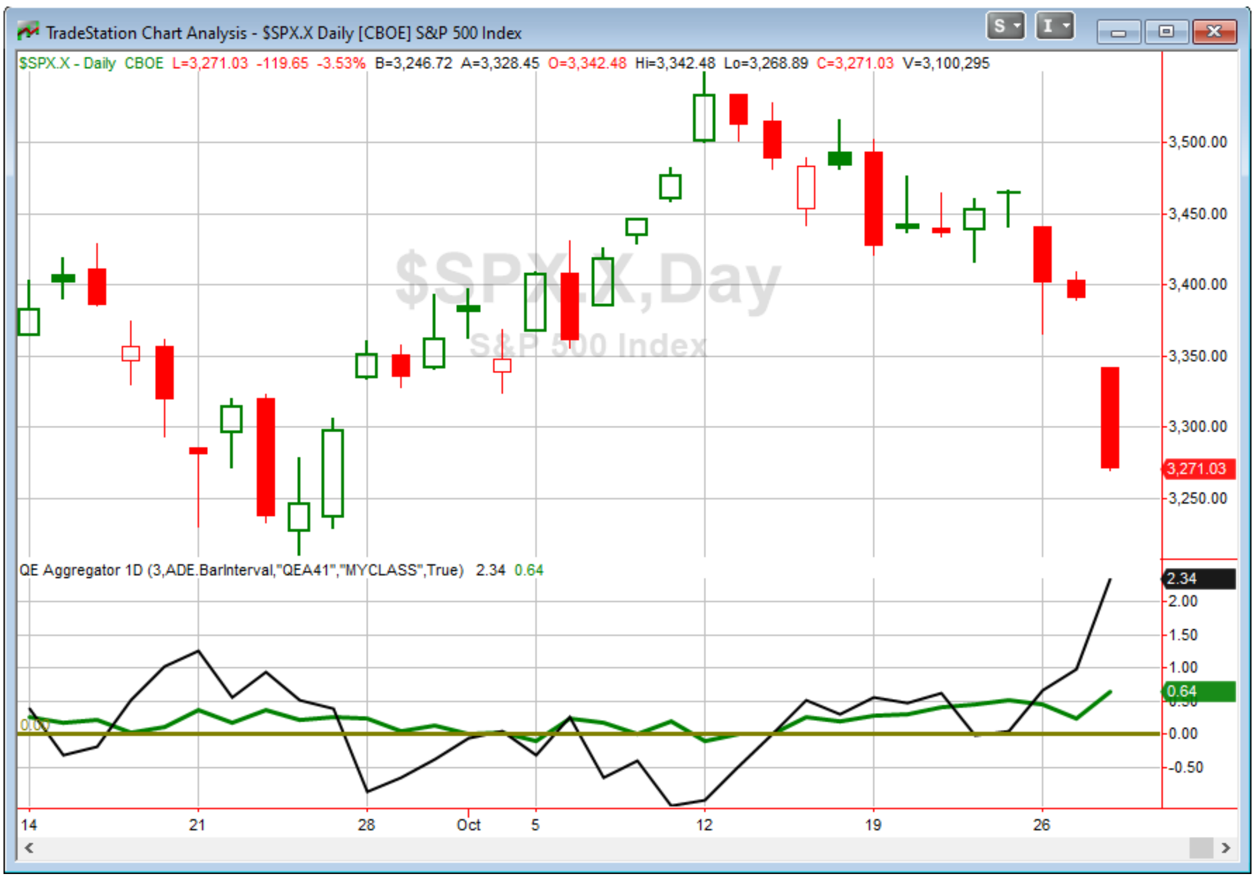
35 days of the year.) It is very rare to see so many closes over 40, and also very rare that there would be as many over 40 in a year as there are closes under 20. Below is a breakdown by year, with 2020 so far.

# of VIX Closes Below 20 and Above 40 by Year		
Year	Days VIX<20	Days VIX>40
1990	74	0
1991	195	0
1992	250	0
1993	253	0
1994	250	0
1995	252	0
1996	239	0
1997	80	0
1998	48	15
1999	13	0
2000	49	0
2001	9	4
2002	40	10
2003	128	0
2004	247	0
2005	252	0
2006	248	0
2007	166	0
2008	30	63
2009	5	61
2010	96	3
2011	117	11
2012	205	0
2013	249	0
2014	241	0
2015	210	1
2016	210	0
2017	251	0
2018	192	0
2019	237	0
2020	35	35

2008 and 2009 are the only other years that had even 15 days where the VIX closed above 40.

With the market selling off so hard, the studies that were all on the short-term active list last night got run over and have been removed. So the list is limited, but evidence I am seeing tonight is all pointing to the fact that the selling is overdone, and that a rebound is likely. Of course there is always a chance that we see a market cascade like occurred in March, but that is a very recent memory, COVID risks are better known, the Fed is backstopping the market, and while politicians have avoided putting together a stimulus package for months, they will likely find it easier to agree on one after the election (hopefully before January). So while I would not completely rule out a larger crash, I think odds greatly favor a bounce quite soon. The SPX is down nearly 7.5% over the last 12 days. That is already a fairly sizable drop when the market is in an uptrend. I will note that the CBI is stuck at zero. I would prefer to see that spiking a bit to have greater confidence in the timing of the bounce. But there was no CBI spike in June or September when the market sold off. So we certainly don't need one in order to bounce.

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 way, way far above 0. The positive Differential Line reading means that SPX is strongly 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 Thursday. This could change if very compelling new bearish evidence emerged. Meanwhile, the Differential Pivot will be 3441.75 on Thursday. That is 5.2% above Wednesday's close. That's almost certainly not going to happen just on Thursday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is again bullish. I like the long side, but I was a bit early with my entries. Still I'll continue to look for a bounce in the coming days, and will continue to re-evaluate as the action unfolds and the evidence changes.

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*.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/19/2020	$347.29	$326.66	-5.94%		Aggregator
SPY(1/4)	10/21/2020	$342.73	$326.66	-4.69%		Aggregator
SPY(1/4)	10/27/2020	$338.22	$326.66	-3.42%		Aggregator