

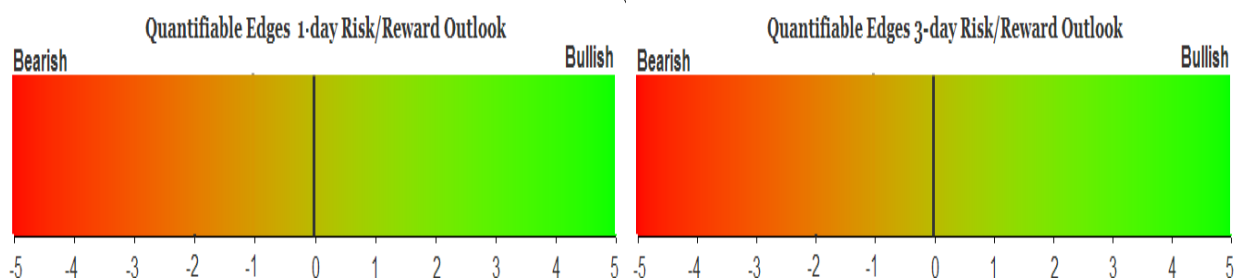
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 4, 2020

Volume 13 Issue 236

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Strong breadth near a short-term high and a down close suggest short-term bullish implications.
- Equity Put/Call Ratios have been historically low, suggesting complacency and a possible selloff.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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						
December 4, 2020	5-day high down close strong breadth	1 day	Bullish			
December 2, 2020	Breakout with close above old intra-high	1-3 days	Bullish	0.85%	-0.60%	-1.30%
November 30, 2020	SPX up 1.5% then sideways 2 days	1-5 days	Bearish	-2.10%	1.20%	2.30%
Active - Long Term						
November 23, 2020	NASDAQ Leading	int term	Bullish			
November 16, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
November 2, 2020	Best 6 Months	1-6 months	Bullish			
September 28, 2020	4 weeks down > 40-week ma	1-10 weeks	Bullish	8.60%	-3.10%	-7.40%
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
December 3, 2020	Close up < 0.25% in top 10% days	1 day	Bearish			

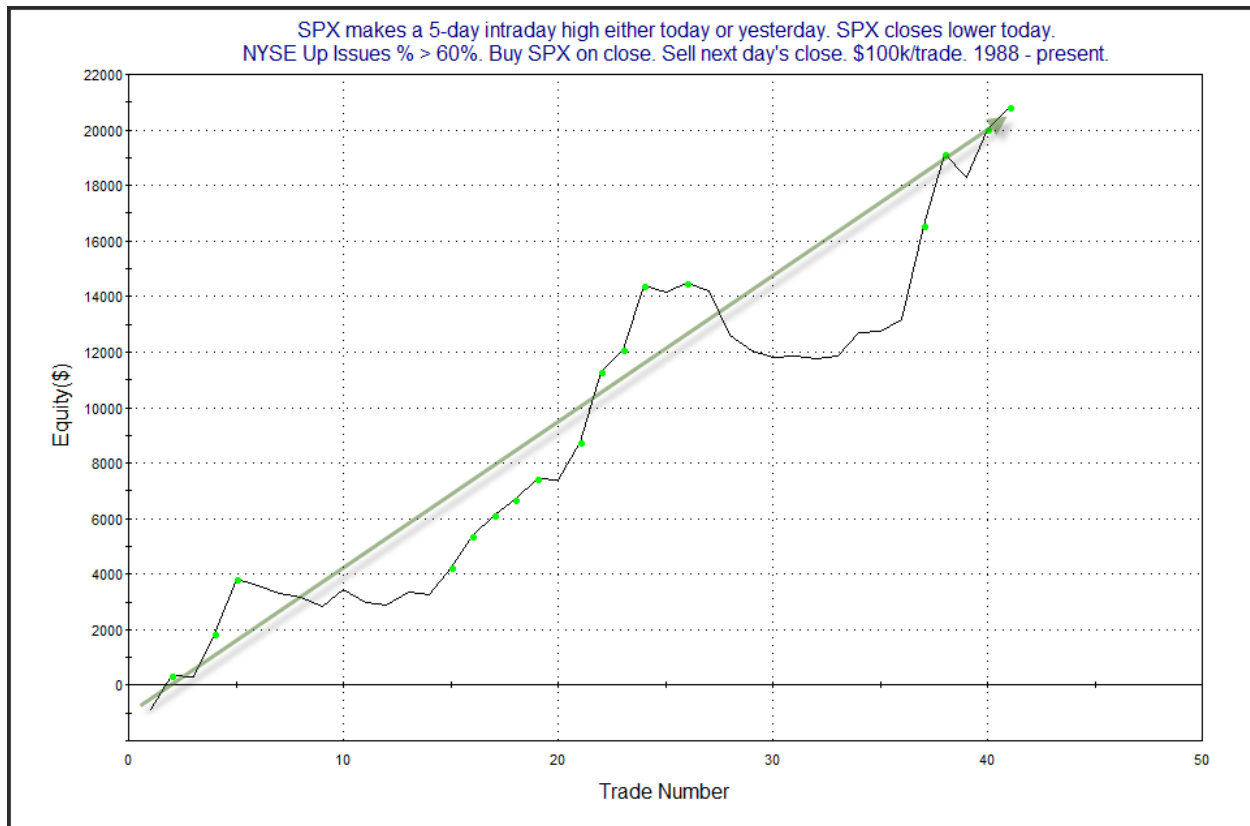
The Evidence

Thursday was doing pretty well until late in the day when the market sold off in the last half hour. The SPX finished down 0.1%, the NASDAQ rose 0.2%, and the Russell 2000 climbed 0.6%. Breadth was positive with the NYSE Up Issues % coming in at 65% and the Up Volume % at 60%. NYSE total volume declined for the 3rd day in a row.

The action triggered an interesting study that we saw fairly recently in the 11/11/20 letter. It noted the positive breadth that accompanied the move lower from the short-term high. I have updated the results below.

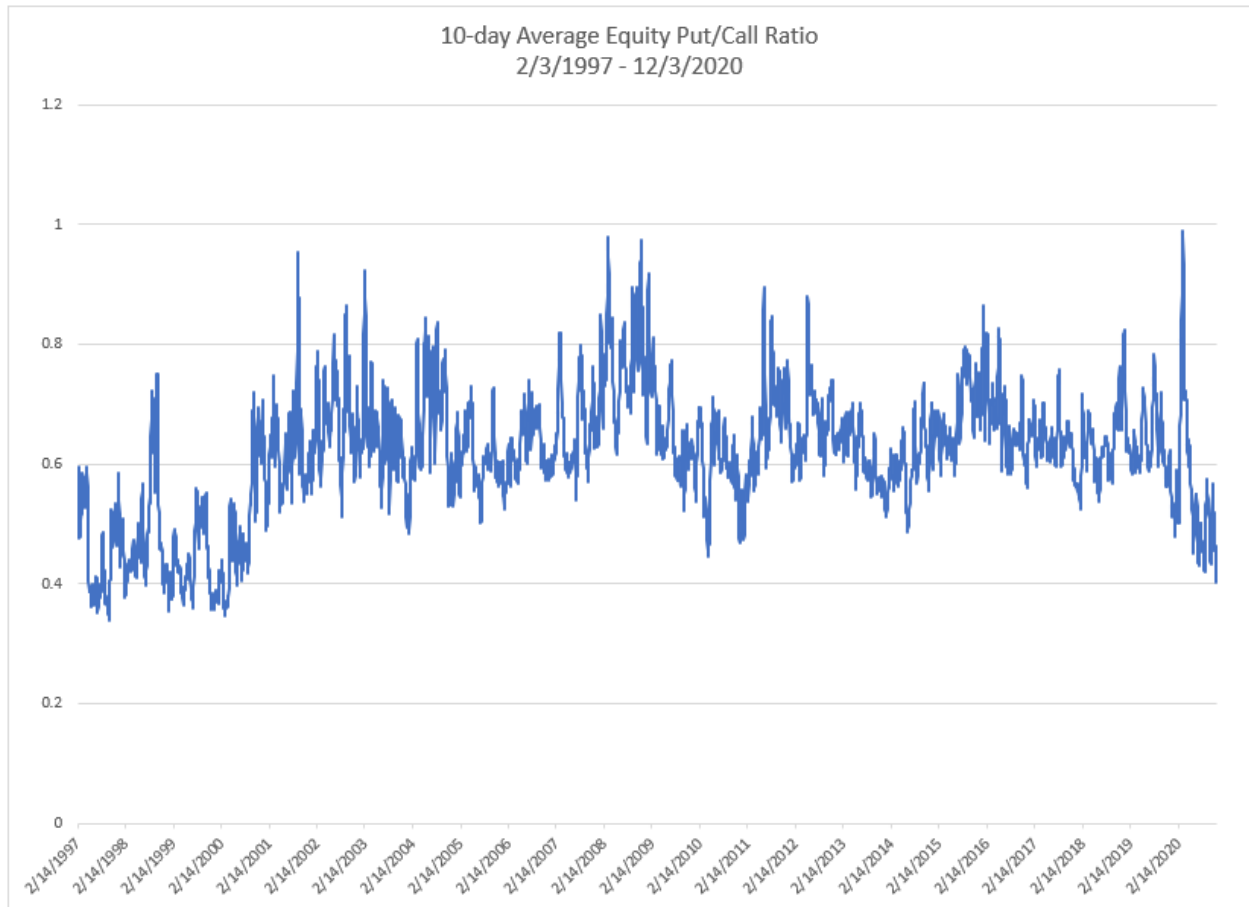
SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	13,221.83	40	25	15	62.50	4,586.15	-6,119.33	1,659.50	-1,884.37	0.88	1.47	330.55
4	31,319.69	41	24	17	58.54	8,095.62	-3,969.70	2,183.65	-1,240.47	1.76	2.49	763.89
3	24,195.58	41	26	15	63.41	4,370.82	-3,028.47	1,544.21	-1,063.60	1.45	2.52	590.14
2	23,254.91	41	28	13	68.29	4,825.17	-2,625.30	1,293.62	-997.42	1.30	2.79	567.19
1	20,806.47	41	24	17	58.54	3,351.09	-1,606.00	1,135.04	-378.50	3.00	4.23	507.47

Stats here are solidly bullish. A big chunk of the gains have come on the 1st day. Below is a look at a 1-day profit curve.

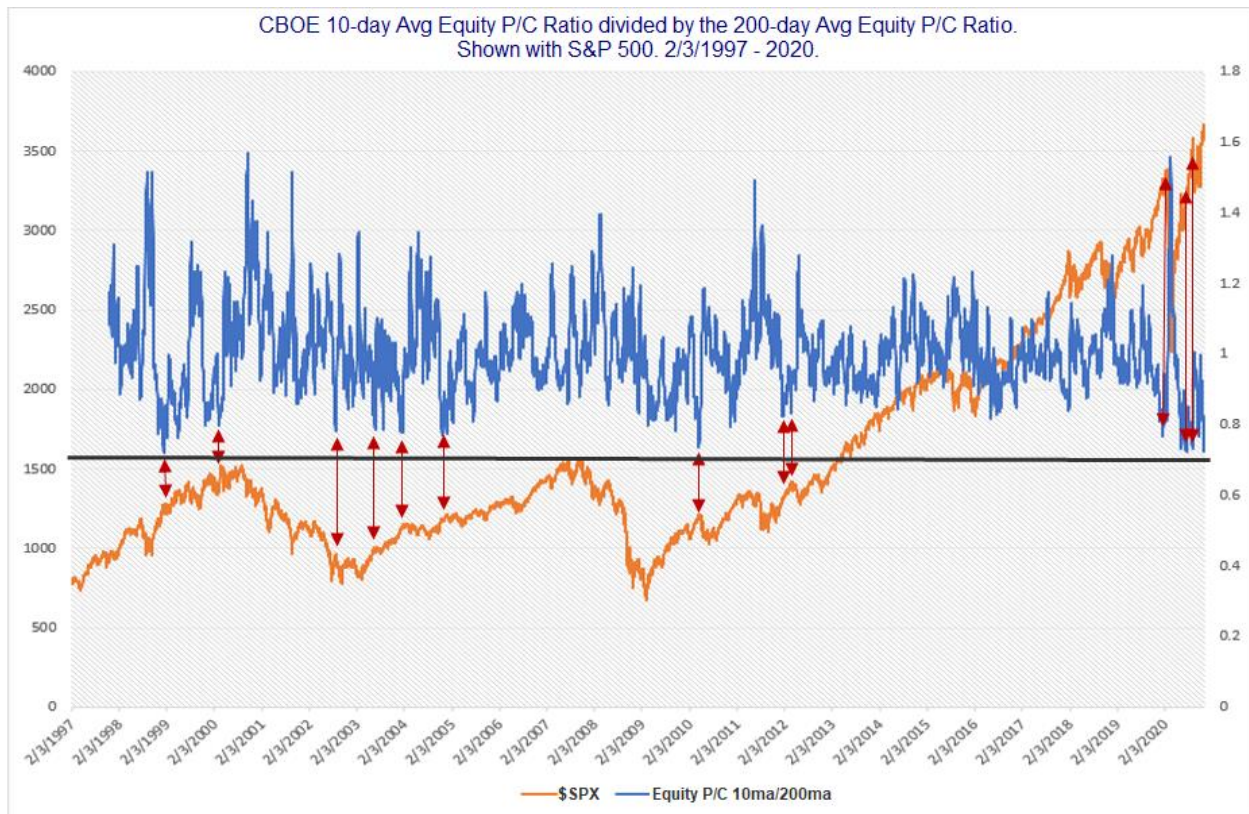


The curve is certainly choppy. But it has made its way from lower left to upper right, and 8 of the last 9 instances have closed higher. I have included this study on the active list tonight.

One indicator that I thought I would mention tonight is the CBOE Equity-Only Put/Call Ratio. Lately it has been coming in very low, meaning options traders have been buying a lot more calls than puts. (Why waste your money on a put when stocks only go up?) Below is a look at the 10-day average of the ratio.

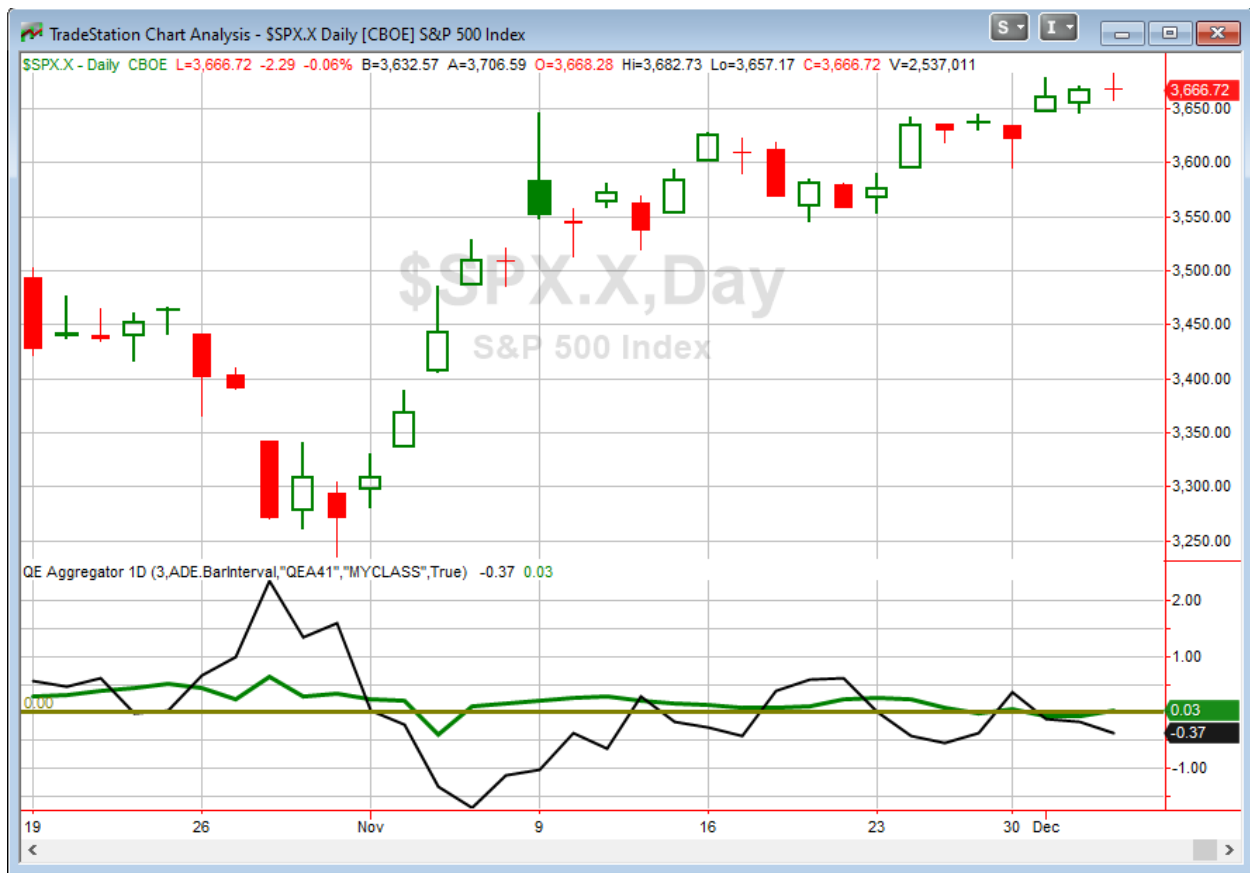


As you can see, we are reaching levels not seen since the late the late 90s and 2000. But it is also notable that such readings were fairly common back then. When I look at P/C Ratios, I will often normalize them, to see how they look vs recent times. A simple way to do this is to divide the 10-day average shown above by the 200-day average. This is what I did in the chart below, and it is shown by the blue line. The orange line is the S&P 500 index.



The black line that goes across near the middle of the chart shows that the lowest 10/200 P/C reading, which came on 1/11/99, was just barely below Thursday's. Thursday's is the 2nd lowest ever. When readings get this extreme it is difficult to run numbers, because we only have the one other instance to look at. But I drew red arrows at many of the other points where the 10/200ma of the Equity P/C Ratio got near where it is now. As you'll note, many (not all) of them were soon followed by some short-term selling. That certainly seems to be a danger based on the extreme complacency that options traders are currently showing.

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



With tonight's evidence considered, the green Aggregator Line inched slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

All 3 active short-term studies are set to expire on Friday. With the intermediate-term evidence currently pointing higher, this means expectations would remain bullish. Of course this could easily change if new evidence emerges. Meanwhile, the Differential Pivot will be 3661.22 on Friday. That is 0.15% below Thursday's close. Therefore, SPX will need to close down at least 0.15% on Friday in order to turn from overbought to oversold vs recent expectations.

Wednesday night the Aggregator was bearish. I was conservative in my entry strategy, and did not see my short order get filled on Thursday. With the Aggregator now neutral, the potential reward of that trade seems quite limited. Evidence is again mixed tonight. The neutral outlook means I won't be looking to take on new index exposure on Friday. Instead, I will wait to see what new evidence emerges and how the market sets up as we head into next week.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/30 – slightly bullish

The intermediate-term outlook was last updated in the 11/30/20 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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.

Current Open Trade Ideas

None.

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