

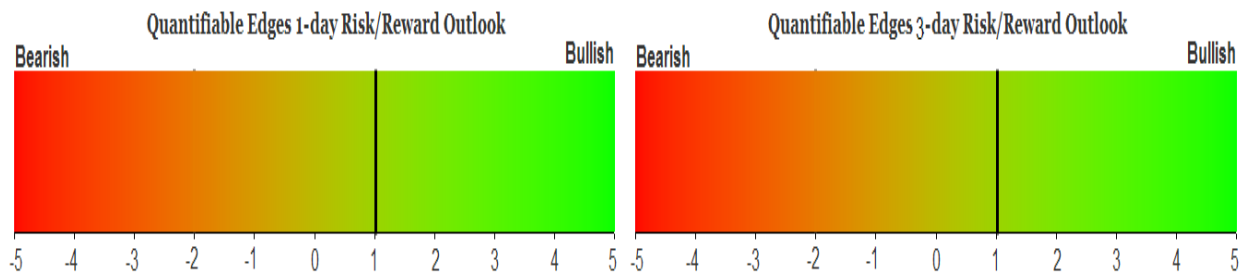
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 10, 2020

Volume 13 Issue 240

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPX intraday high and a big NDX down day have made for a solid intermediate-term bullish signal in the past.
- The 1st down day from an intermediate-term high is sometimes the 1st of several down days. It appears a bit early to anticipate a high-probability of a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is light and the pullback could deepen. I'm still in "wait and see" mode.

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 7, 2020	NDX up 8 and 50-day high	1-4 days	Bullish	1.40%		
Active - Long Term						
November 16, 2020	SPX 20 intra-high. NDX biggest dn 20	1-50 days	Bullish	6.20%	-2.80%	-5.40%
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 8, 2020	Unfill up to 20 high. Unfill down.	1-2 days	Bearish			

The Evidence

The market struggled some on Wednesday. The SPX finished down 0.8%, the NASDAQ tumbled 1.9%, and the Russell 2000 fell 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 51% and the Up Volume % at 46%. NYSE total volume rose some from Tuesday's level.

The 1st day down from a 50-day high does not always generate a compelling buy signal. It is often a tossup as to whether the previous rally quickly re-asserts itself, or whether the down day is the beginning of a deeper selloff. One study I looked at tonight was from the 7/24/20 letter. It looked at other times that SPY made a 3-day high, 3-day low, and then a 3-day low close. I filtered that study further to break it down into times it was coming off a 50-day closing high vs times it was not. The broken down results can be seen below.

After closing up yesterday but not at a 50-day high, SPY makes a 3-day high, a 3-day low, and the lowest close in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	24,470.53	22	15	7	68.18	4,273.50	-1,606.11	1,880.09	-532.98	3.53	7.56	1,112.30
4	18,134.83	22	15	7	68.18	4,533.98	-2,123.52	1,629.12	-900.28	1.81	3.88	824.31
3	9,331.97	22	15	7	68.18	3,903.34	-3,386.88	1,344.27	-1,547.43	0.87	1.86	424.18
2	6,068.70	23	14	9	60.87	3,244.78	-3,521.52	1,039.35	-942.46	1.10	1.72	263.86
1	2,379.54	23	14	9	60.87	2,359.84	-1,774.08	642.03	-734.33	0.87	1.36	103.46

After closing at a 50-day high yesterday, SPY makes a 3-day high, a 3-day low, and the lowest close in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	12,971.63	15	9	6	60.00	3,861.00	-1,463.76	1,765.43	-486.21	3.63	5.45	864.78
4	7,715.02	15	9	6	60.00	2,392.92	-1,326.96	1,246.92	-584.55	2.13	3.20	514.33
3	1,441.98	15	9	6	60.00	2,166.14	-3,393.78	960.82	-1,200.90	0.80	1.20	96.13
2	736.92	15	8	7	53.33	2,361.64	-3,737.28	1,136.95	-1,194.10	0.95	1.09	49.13
1	-1,467.56	15	8	7	53.33	1,392.00	-3,909.03	624.48	-923.34	0.68	0.77	-97.84

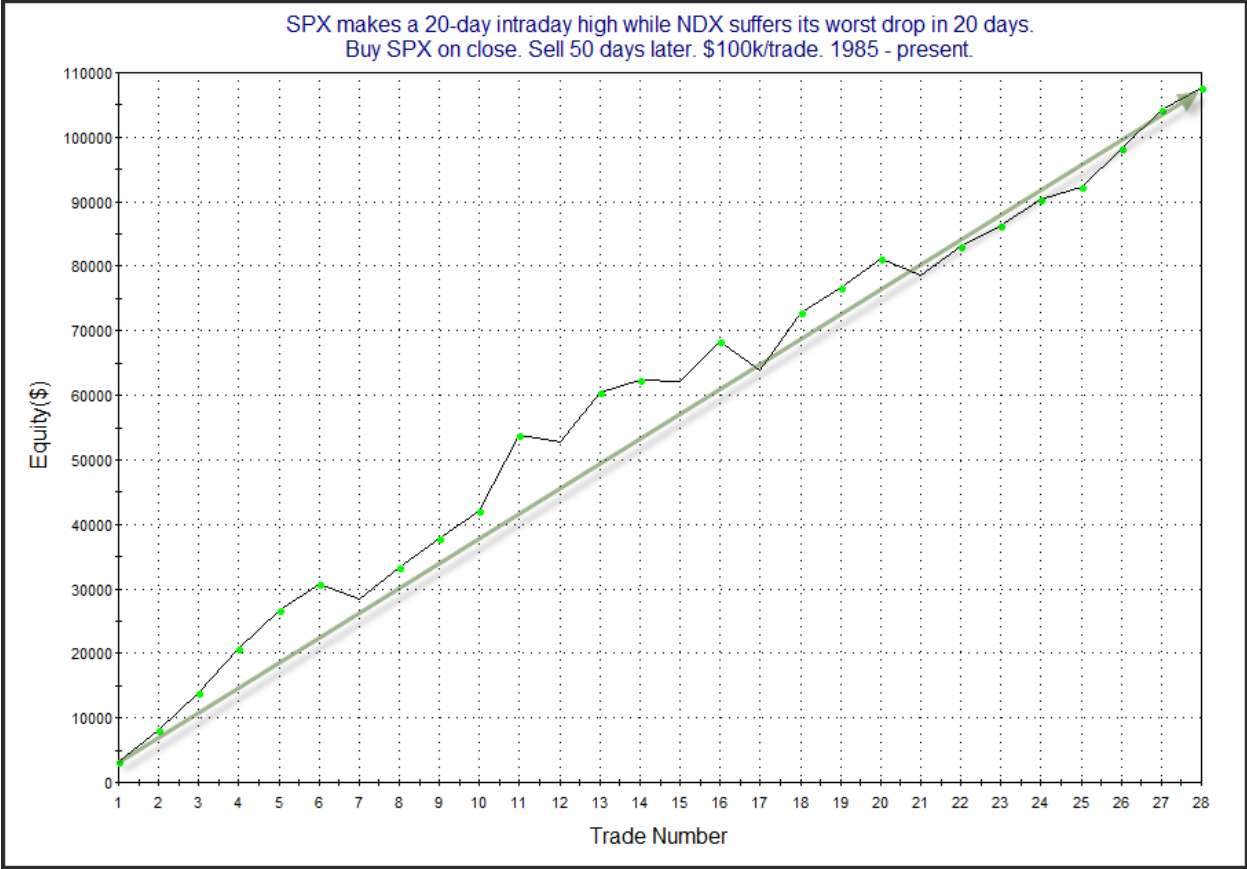
The 1st set of results, where the market was NOT coming off a 50-day high, look fairly bullish. But the times the pattern triggered right after a 50-day high show more random returns. The 2nd setup is the current one. So I am not adding anything new to the short-term active list tonight.

But there was one study that suggested a possible intermediate-term impact. It noted that SPX made a 20-day intraday high on a day where NDX had its worst decline in the last 20 days. Interestingly, I also looked at this setup in the 7/24/20 letter, and have updated the results below.

SPX makes a 20-day intraday high while NDX suffers its worst drop in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.

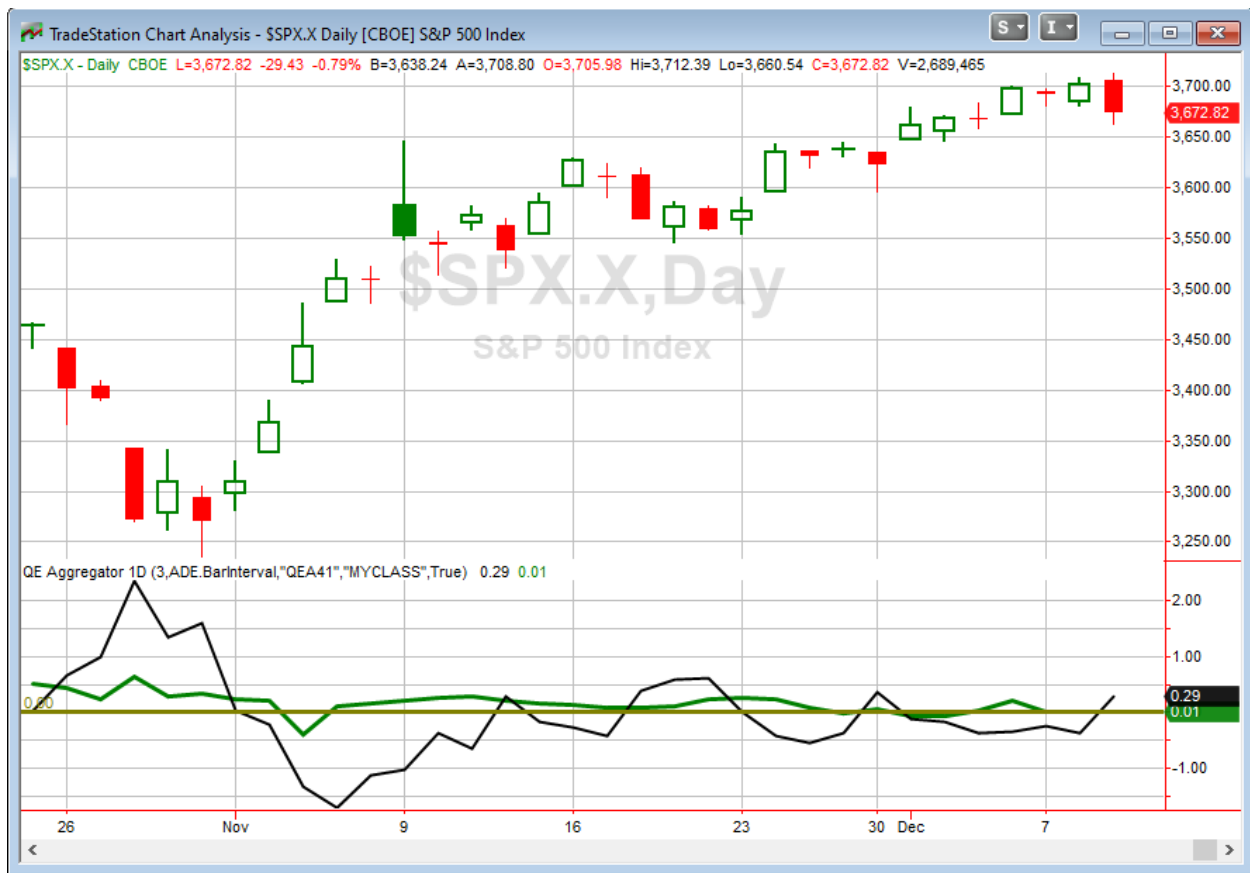
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	107,633.80	28	23	5	82.14	11,736.48	-4,474.24	5,147.77	-2,152.97	2.39	11.00	3,844.06
45	84,128.14	28	22	6	78.57	10,640.84	-5,533.44	4,605.28	-2,864.66	1.61	5.89	3,004.58
40	67,523.94	29	22	7	75.86	9,682.40	-9,804.11	4,122.86	-3,311.29	1.25	3.91	2,328.41
35	59,492.72	30	21	9	70.00	8,919.96	-5,508.07	4,088.19	-2,928.81	1.40	3.26	1,983.09
30	56,454.80	30	22	8	73.33	9,146.60	-9,849.67	4,125.95	-4,289.51	0.96	2.65	1,881.83
25	53,779.70	32	23	9	71.88	7,466.70	-9,670.78	3,738.32	-3,577.97	1.04	2.67	1,680.62
20	43,660.21	32	23	9	71.88	7,296.33	-5,098.24	2,830.80	-2,383.13	1.19	3.04	1,364.38
15	40,183.19	32	24	8	75.00	7,393.84	-3,229.81	2,238.32	-1,692.07	1.32	3.97	1,255.72
10	28,274.80	33	23	10	69.70	4,119.18	-2,561.28	1,602.65	-858.62	1.87	4.29	856.81
5	12,984.60	34	20	14	58.82	4,189.92	-2,618.20	1,210.38	-801.64	1.51	2.16	381.90

The numbers here look impressive over the intermediate-term. Below is a look at the 50-day profit curve.



The curve does not disappoint, since it is a straight shot from lower left to upper right. I have added this study to the intermediate-term active list.

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



With tonight's evidence considered, the green Aggregator Line remained just barely above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved 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 turned long at the close.

The last of the short-term studies is set to expire on Thursday. This would leave expectations slightly positive on Thursday based on the intermediate-term outlook. Of course this could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3700.44 on Thursday. That 0.75% above Wednesday's close. Therefore, SPX will need to close up at least 0.75% on Thursday to flip from oversold to overbought vs expectations.

So the Aggregator is bullish. But evidence is light. And as we saw above, the 1st day down after a high is often not the best buying point. I'll wait to see if we get a little more of a pullback accompanied by additional bullish evidence in the next few days. If so, I'll be ready to buy as we head into the seasonally bullish 2nd half of December. But I am not convinced just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/7 – slightly bullish

The intermediate-term outlook was last updated in the 12/7/20 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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