

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 29, 2020

Volume 13 Issue 252

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, but it could easily turn to bearish at the close on Tuesday unless additional bullish evidence emerges or SPX sells off over 0.9%.

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 29, 2020	NDX up > 1%. SOX dn > 1%.	1-6 days	Bearish			
December 23, 2020	Dn 3 frm 50-high < 10ma > 10-low	1-4 days	Bullish	1.60%	-0.90%	-2.00%
December 23, 2020	Twas 3 nights before Christmas	1-8 days	Bullish	2.40%	-1.20%	-2.40%
Active - Long Term						
December 14, 2020	December opex week and more bullish	1-15 days	Bullish			
December 10, 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			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

The Evidence

Monday started strong and finished mixed. The SPX closed up 0.9%, the NASDAQ rose 0.7%, and the Russell 2000 lost 0.4%. Breadth was mixed with the NYSE Up Issues % coming in at 53% and the Up Volume % at 48%. NYSE total volume was a little higher than Christmas Eve.

An interesting aspect of Monday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.01% on Monday, the SOX declined 0.22%. This is somewhat unusual action. It brought about a study last seen in the 8/21/20 Letter, which I have updated below.

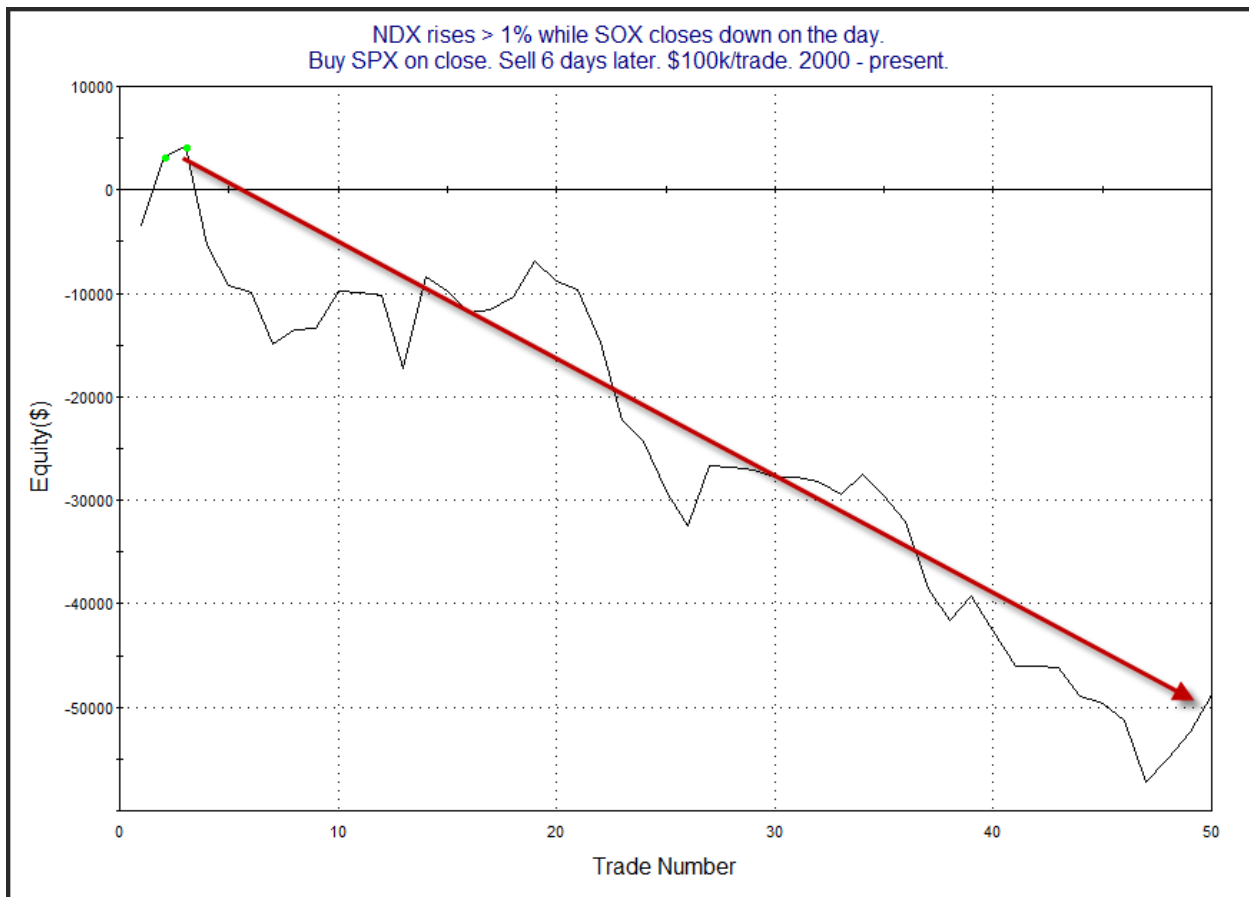
NDX rises > 1% while SOX closes down on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-90,200.56	48	19	29	39.58	18,826.33	-13,954.56	4,524.78	-6,074.87	0.74	0.49	-1,879.18
9	-79,044.02	48	16	32	33.33	22,154.89	-15,780.45	5,385.37	-5,162.81	1.04	0.52	-1,646.75
8	-79,748.87	49	15	34	30.61	30,307.45	-13,288.50	5,747.42	-4,881.18	1.18	0.52	-1,627.53
7	-96,819.80	50	12	38	24.00	31,628.02	-17,436.00	6,969.03	-4,748.64	1.47	0.46	-1,936.40
6	-122,143.76	50	13	37	26.00	23,421.19	-21,090.48	6,049.40	-5,426.65	1.11	0.39	-2,442.88
5	-82,793.97	51	18	33	35.29	12,749.43	-12,790.08	4,022.44	-4,702.97	0.86	0.47	-1,623.41
4	-49,022.70	52	23	29	44.23	11,322.33	-12,796.24	3,120.36	-4,165.20	0.75	0.59	-942.74
3	-30,127.79	53	22	31	41.51	15,615.69	-15,779.50	3,824.73	-3,686.19	1.04	0.74	-568.45
2	-2,280.20	55	26	29	47.27	16,624.43	-9,160.50	3,084.72	-2,844.23	1.08	0.97	-41.46
1	-528.11	57	27	30	47.37	9,397.52	-6,256.64	2,334.74	-2,118.87	1.10	0.99	-9.27

Six days later 74% of the instances were losers and the average occurrence was a 2.4% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.

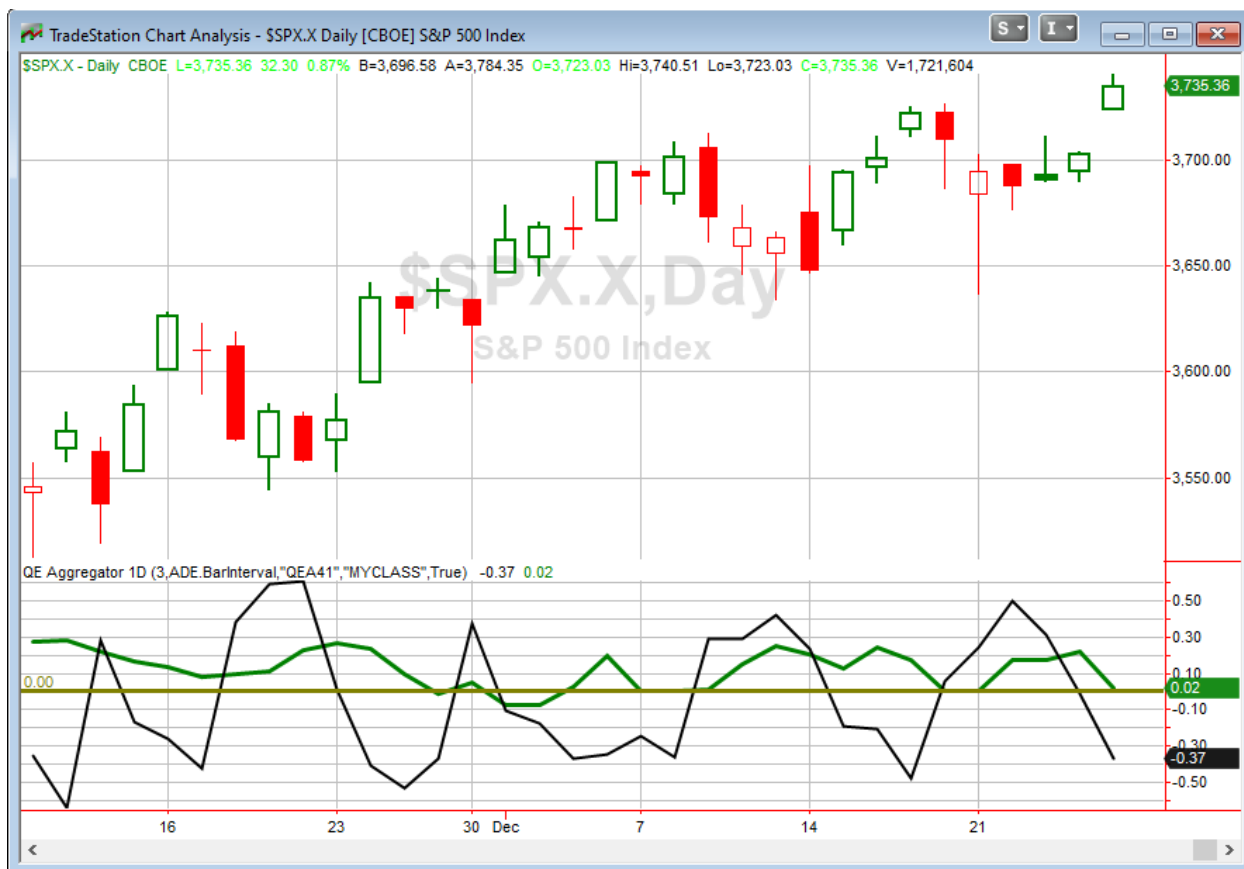
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-21,840.24	48	20	28	41.67	9,774.70	-8,478.02	2,819.37	-2,793.85	1.01	0.72	-455.00
9	-23,310.36	48	21	27	43.75	9,278.30	-8,963.07	2,848.50	-3,078.85	0.93	0.72	-485.63
8	-34,927.96	49	22	27	44.90	9,165.45	-7,574.41	2,371.73	-3,226.15	0.74	0.60	-712.82
7	-46,545.82	50	22	28	44.00	10,101.57	-11,391.59	2,109.46	-3,319.78	0.64	0.50	-930.92
6	-48,835.38	50	16	34	32.00	8,753.07	-9,589.14	2,804.80	-2,756.24	1.02	0.48	-976.71
5	-40,976.61	51	22	29	43.14	6,877.04	-7,519.22	1,777.29	-2,761.28	0.64	0.49	-803.46
4	-22,700.63	52	26	26	50.00	5,068.10	-11,917.40	1,673.87	-2,546.97	0.66	0.66	-436.55
3	-11,468.72	53	24	29	45.28	6,877.26	-9,480.90	1,775.16	-1,864.57	0.95	0.79	-216.39
2	-1,825.20	55	25	30	45.45	5,842.98	-6,411.90	1,568.46	-1,367.89	1.15	0.96	-33.19
1	6,305.98	57	30	27	52.63	5,396.04	-2,692.80	1,153.01	-1,047.57	1.10	1.22	110.63

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



That is a fairly steady downslope. And despite failing on the last 3 instances, this study appears worthy of consideration.

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



Even with tonight's bearish evidence, the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved further 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to flip to negative on Tuesday. This could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3702.85 on Tuesday. That is 0.9% below Thursday's close. Therefore, SPX will need to close down at least 0.9% on Monday to flip from overbought to oversold vs expectations.

So the Aggregator is neutral. Evidence is leaning higher, but that will only last 1 day. So with the market already overbought, and expectations in danger of turning negative on Tuesday, I don't view this as a long opportunity. I'd want to see more compelling evidence before getting involved in a counter-trend short trade. So I am sidelined for now and keeping my eyes open, waiting for the next favorable opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/28 – slightly bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

PFE – 1/3 @ \$37.84 (bought at limit)

Broad Market Large Cap CBI – 1(PFE)

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
PFE(1/3)	12/18/2020	\$37.84	\$36.82	-2.70%		Catapult
SPY(1/4)	12/21/2020	\$367.86	\$371.74	1.05%		sold on open
SPY(1/4)	12/22/2020	\$367.24	\$371.74	1.23%		sold on open

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