

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2021

Volume 14 Issue 5

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- 3+ days of strong Nasdaq breadth are often followed by a down day.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Expectations are net positive over the next few days, but SPX is now strongly overbought on a short-term basis.

Summary of Recent Active Studies (see Letters from listed dates for details)

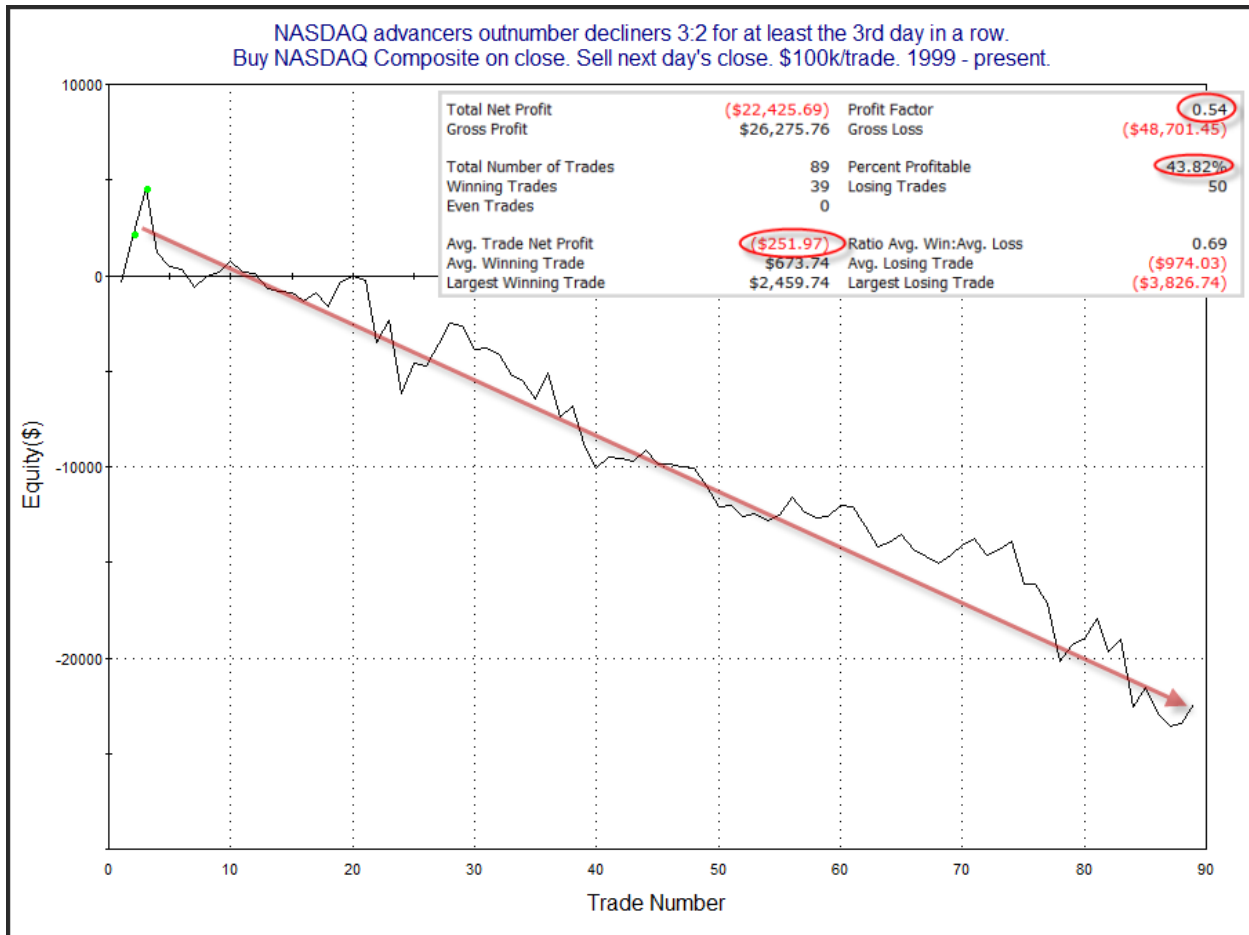
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 8, 2021	NASDAQ Adv/Decl 3:2 3x	1 day	Bearish			
January 5, 2021	3-day Hi, Low, close	1-5 days	Bullish			
January 4, 2021	SPY closes month at high of month	1-5 days	Bullish	2.00%	-1.00%	-2.20%
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
January 7, 2021	SPY up 2 < 3 ago	1-2 days	Bullish			

The Evidence

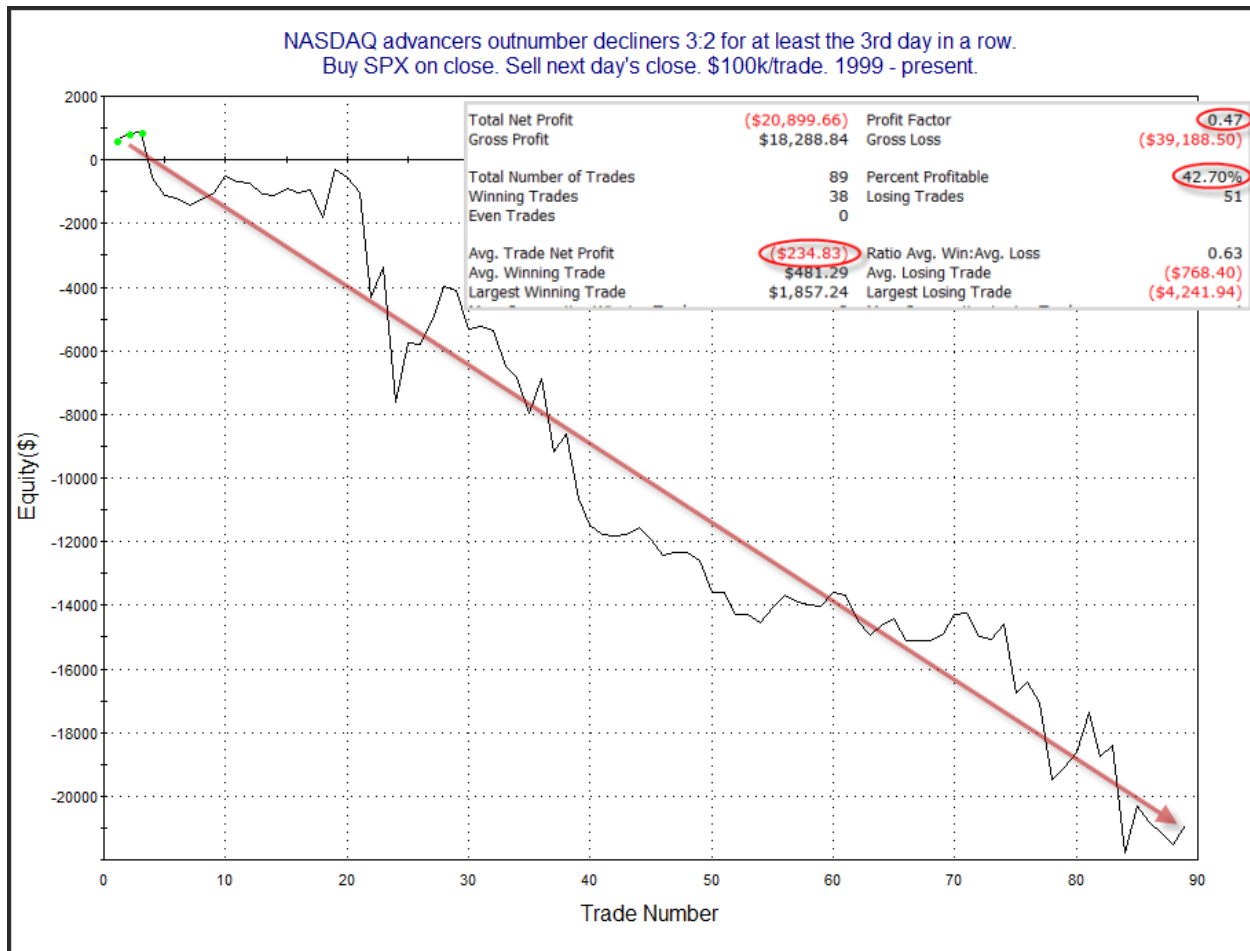
Thursday was a big day for the market. The SPX gained 1.5%, the NASDAQ rallied 2.6%, and the Russell 2000 rose 1.9%. Breadth was positive with the NYSE Up Issues % coming in at 61% and the Up Volume % at 67%. NYSE total volume declined some from Wednesday's level.

Wednesday saw a 3rd day in a row of strong NASDAQ breadth. This triggered a study that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3+ days. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. I last showed the study in the 8/6/20 letter and have updated the results below.

First let's look at how the NASDAQ has performed the day after such a run of strong breadth.



The stats are lopsided to the downside, suggesting a bearish edge. The curve has persisted lower for a good long time. Overall, this seems to suggest a downside edge. I also looked to see how the SPX performed following the setup.



Very similar numbers and curve. It appears the NASDAQ breadth setup has also led to pullback in the SPX much of the time. I have added this study to the Active List tonight.

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



Even with tonight's bearish evidence, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dove far 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.

Based on the current list of active studies, expectations are set to remain positive on Friday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3738.72 on Friday. That is 1.7% below Thursday's close. So SPX will need to close down a sizeable 1.7% on Friday in order to flip from overbought to oversold vs expectations.

So the Aggregator is neutral. Me too. The bulls certainly have momentum, but as can be seen by the Differential Line reading, the SPX is more overbought right now than it has been in a long time. I'll be waiting for it to consolidate a bit before considering a new long index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/4 – slightly bullish

The intermediate-term outlook was last updated in the 1/4/21 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](#)

Open Catapult Triggers

New

KHC – 1/3 @ \$33.69 (buy at limit)

Broad Market Large Cap CBI – 1(KHC)

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.

KHC – Buy 1/3 Catapult position @ \$33.69 LIMIT. From the Catapult section above, this is the 1st of up to potentially 3 lots of KHC.

Current Open Trade Ideas

None

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