

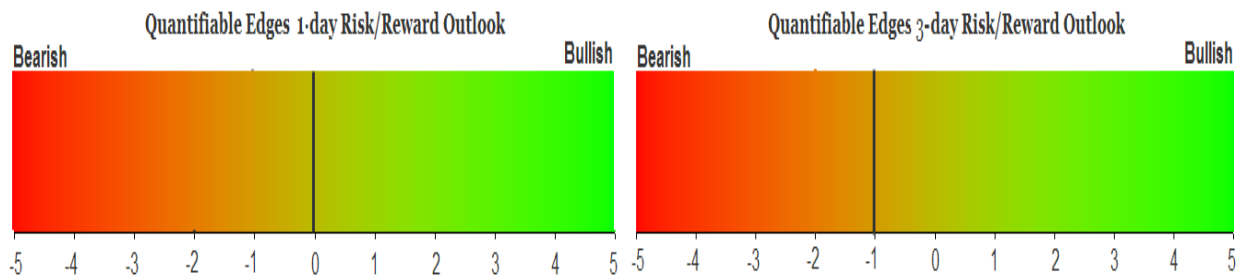
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 12, 2021

Volume 14 Issue 7

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	1

Tonight's Research Points

- Unfilled gaps down from 50-day highs have historically struggled the following day.
- When SOX has rallied despite the NDX falling a fair amount it has typically led to a bounce the next day.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but reward/risk is not appealing.

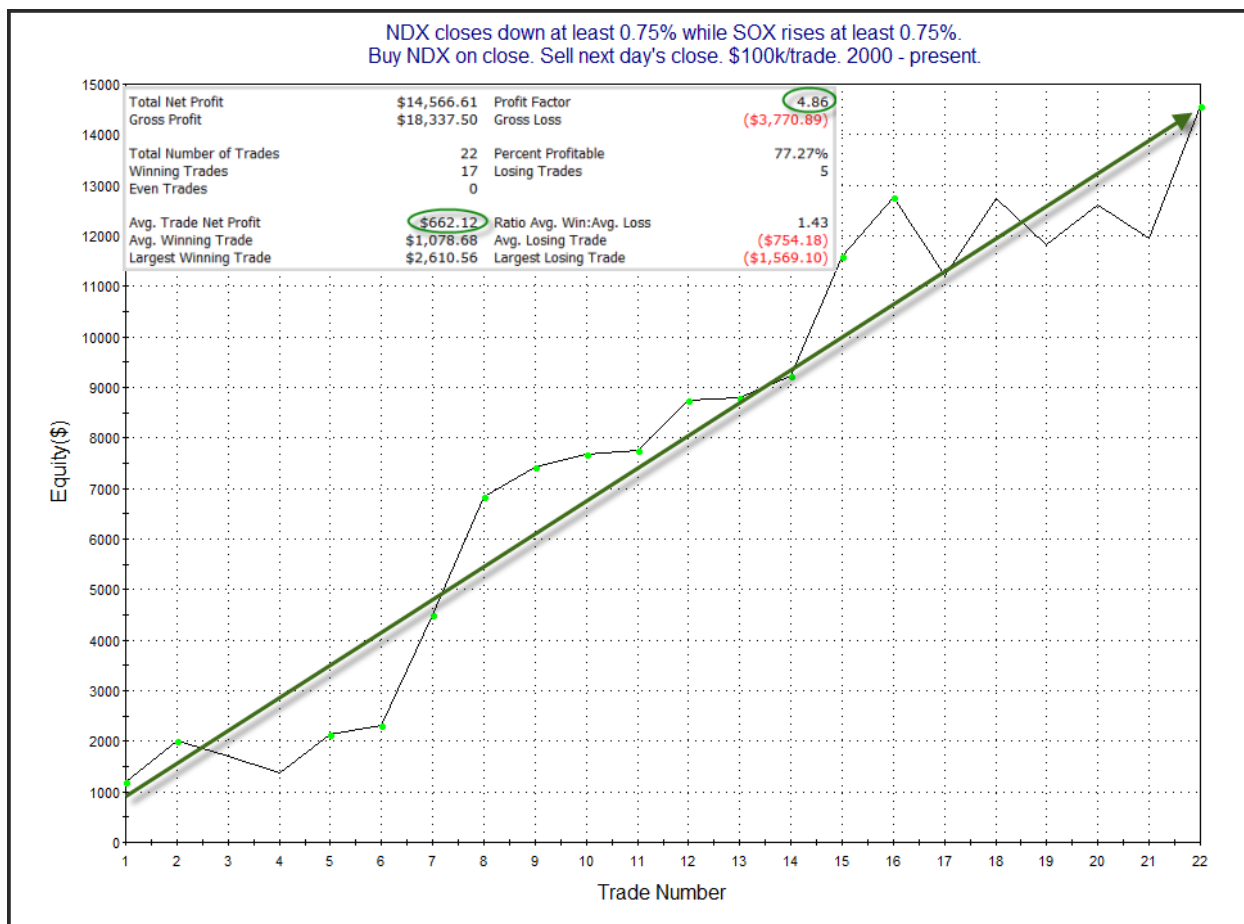
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 11, 2021	NDX up > 1%. SOX down.	1-6 days	Bearish			
January 5, 2021	3-day Hi, Low, close	1-5 days	Bullish			
Active - Long Term						
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 4, 2021	SPY closes month at high of month	1-5 days	Bullish	2.00%	-1.00%	-2.20%

The Evidence

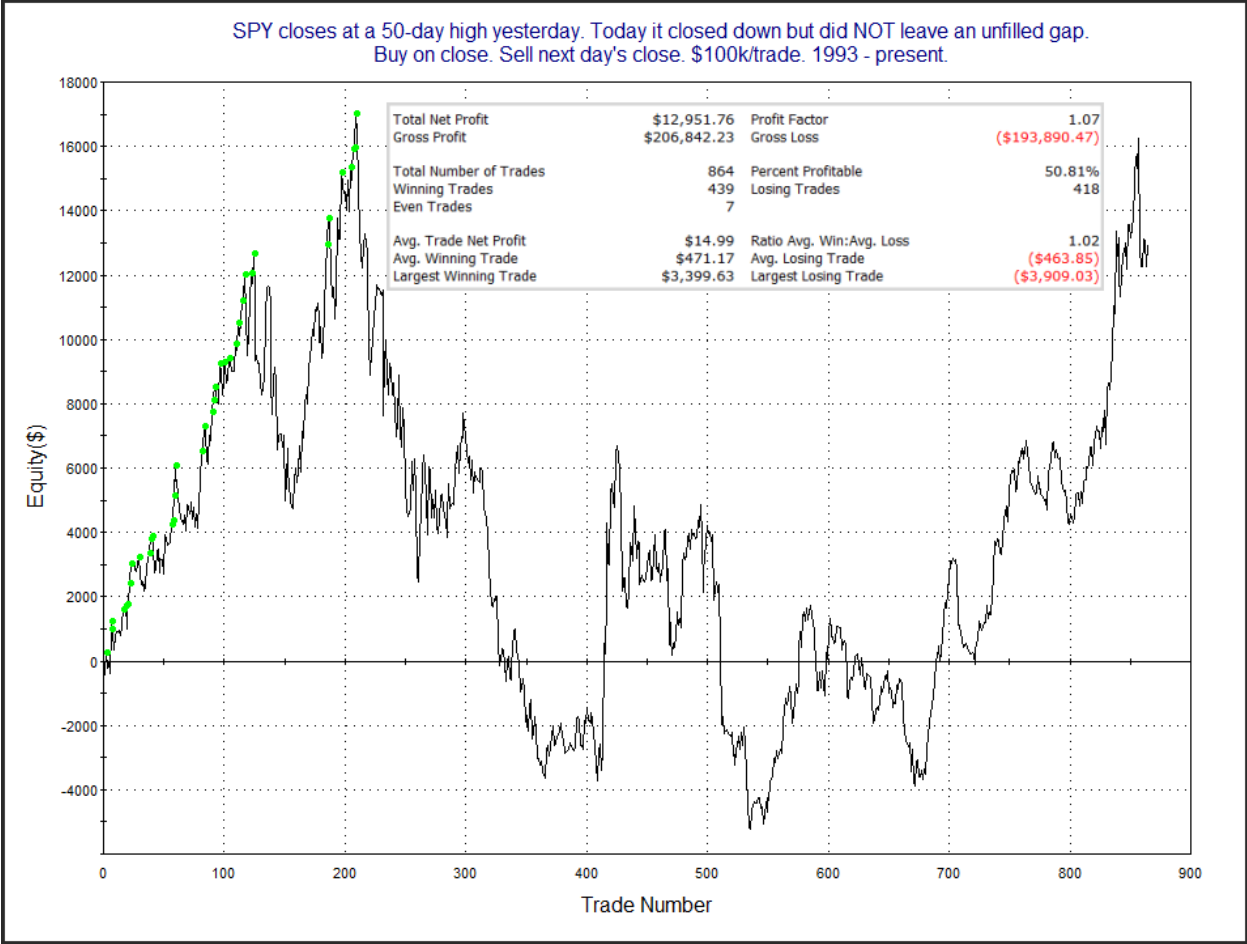
Monday was a pullback day. The SPX lost 0.7%, the NASDAQ declined 1.25%, and the Russell 2000 dipped 0.03%. Breadth was mixed with the NYSE Up Issues % coming in at 40% and the Up Volume % at 56%. NYSE total volume declined for the 3rd day in a row.

Last night we saw bearish results from a study that looked at a strong NDX and a weak SOX on the same day. Tonight we are seeing the opposite scenario unfold. The study below is updated from the 7/27/18 letter.

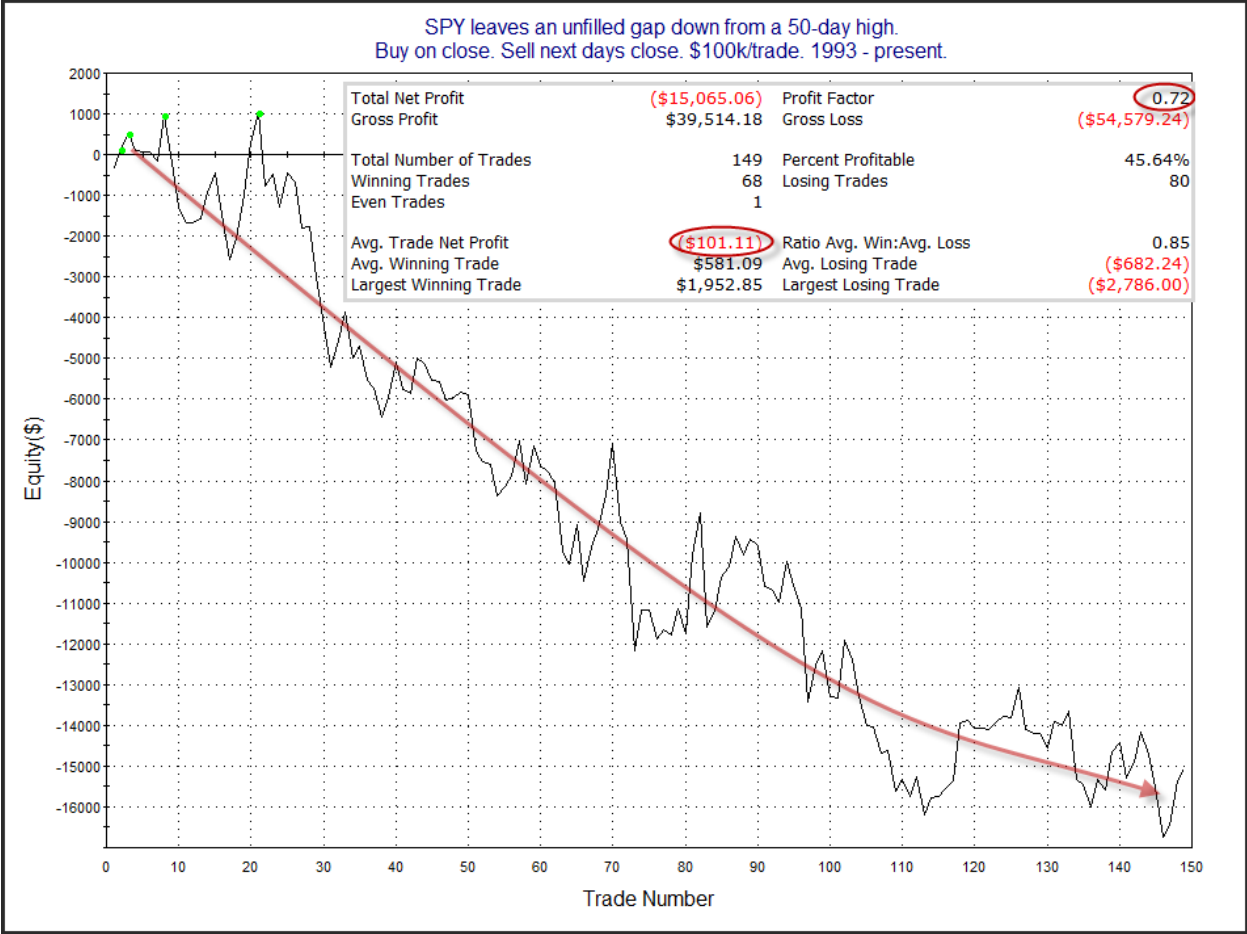


The numbers and the profit curve are both impressive. I have added this study to the active list tonight.

Of course Monday was the 1st down day from a high. When the 1st day down is accompanied by an unfilled gap, then it has more often been followed by another day of selling. The unfilled gap will sometimes leave buyers from the day before with losing positions where they had no opportunity to exit. The studies below demonstrate this. They are updated from the 11/12/19 letter. The 1st one shows performance following down closes from a 50-day high that do not include an unfilled gap lower.



There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



While the last few instances have moved higher, we see here an overall downward tendency. The curve and numbers appear weak enough to suggest a possible downside edge. So evidence is mixed tonight.

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



With tonight's evidence considered, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line is below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Tuesday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3825.80 on Tuesday. That is 0.7% *above* Monday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.7% in order to remain overbought versus expectations. Anything less than that and it will be considered oversold as of Tuesday's close.

So the Aggregator is bearish. But the inverted pivot means potential reward would be limited to just one day if the edge plays out. I rarely look to enter if there is an inverted pivot. Combined with the facts that 1) this would be a counter-trend trade, and 2) 1-day expectations are actually positive, this does not even approach what I would call an appealing setup. I'll wait for a better reward/risk opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/11 – slightly bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

KHC – 1/3 @ \$33.69 (bought 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	1/8/2021	\$33.51	\$32.85	-1.97%		Catapult

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