

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2021

Volume 14 Issue 10

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower suggests a 1-day upside edge.
- Opex Friday has often seen bearish intraday returns, especially for the NASDAQ 100.
- Weak closes at 5-day lows often lead to a bounce.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is now bullish, but reward/risk remains less than desirable.

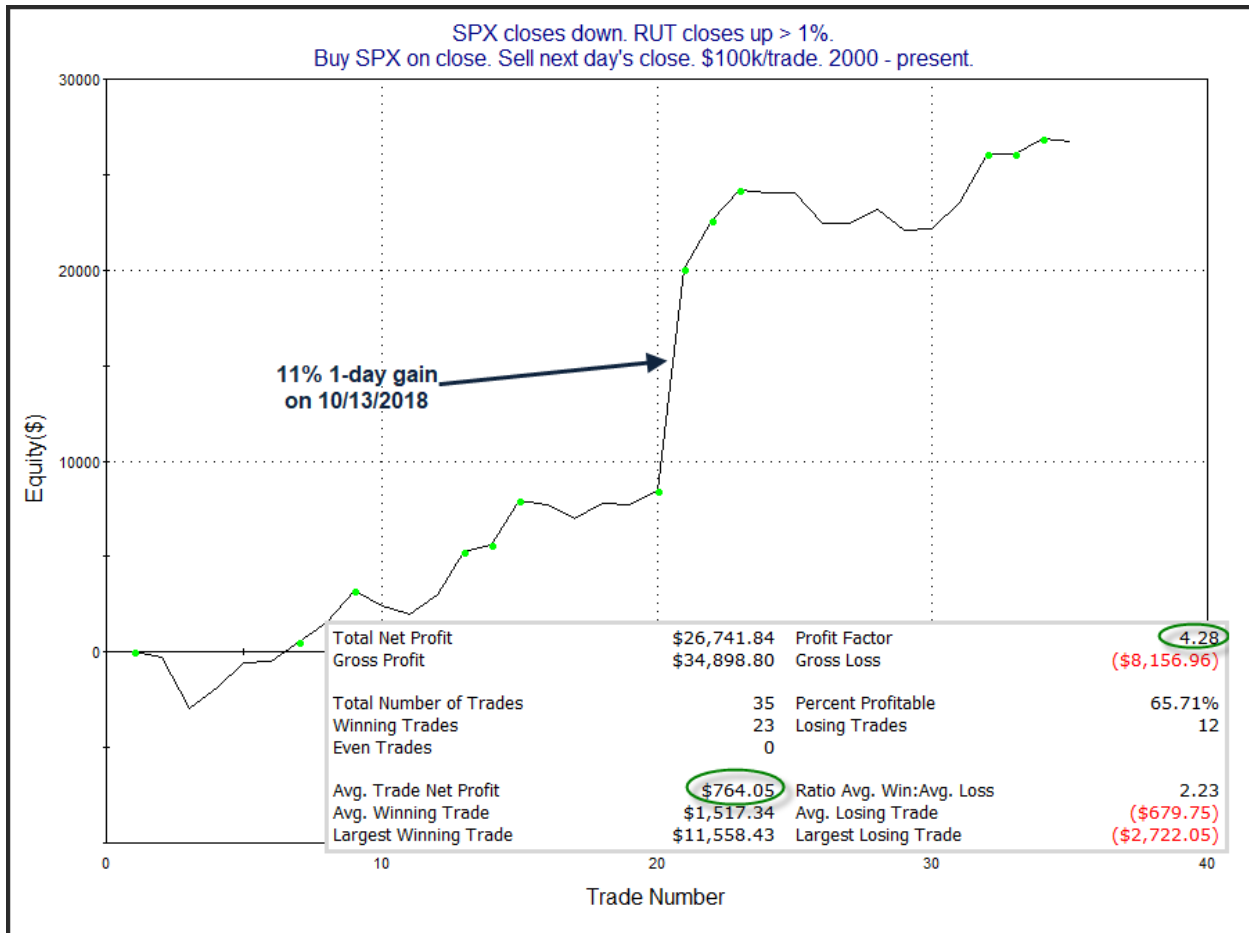
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 15, 2021	SPX dn. RUT up > 1%	1 day	Bullish			
January 15, 2021	SPX bottom 10% rng, 5-low > 200	1-5 days	Bullish	1.60%	-1.40%	-3.00%
January 14, 2021	SPY 2 up < 3 ago. Over 200ma.	1-2 days	Bullish			
January 11, 2021	NDX up > 1%. SOX down.	1-6 days	Bearish			
<b>Active - Long Term</b>						
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			

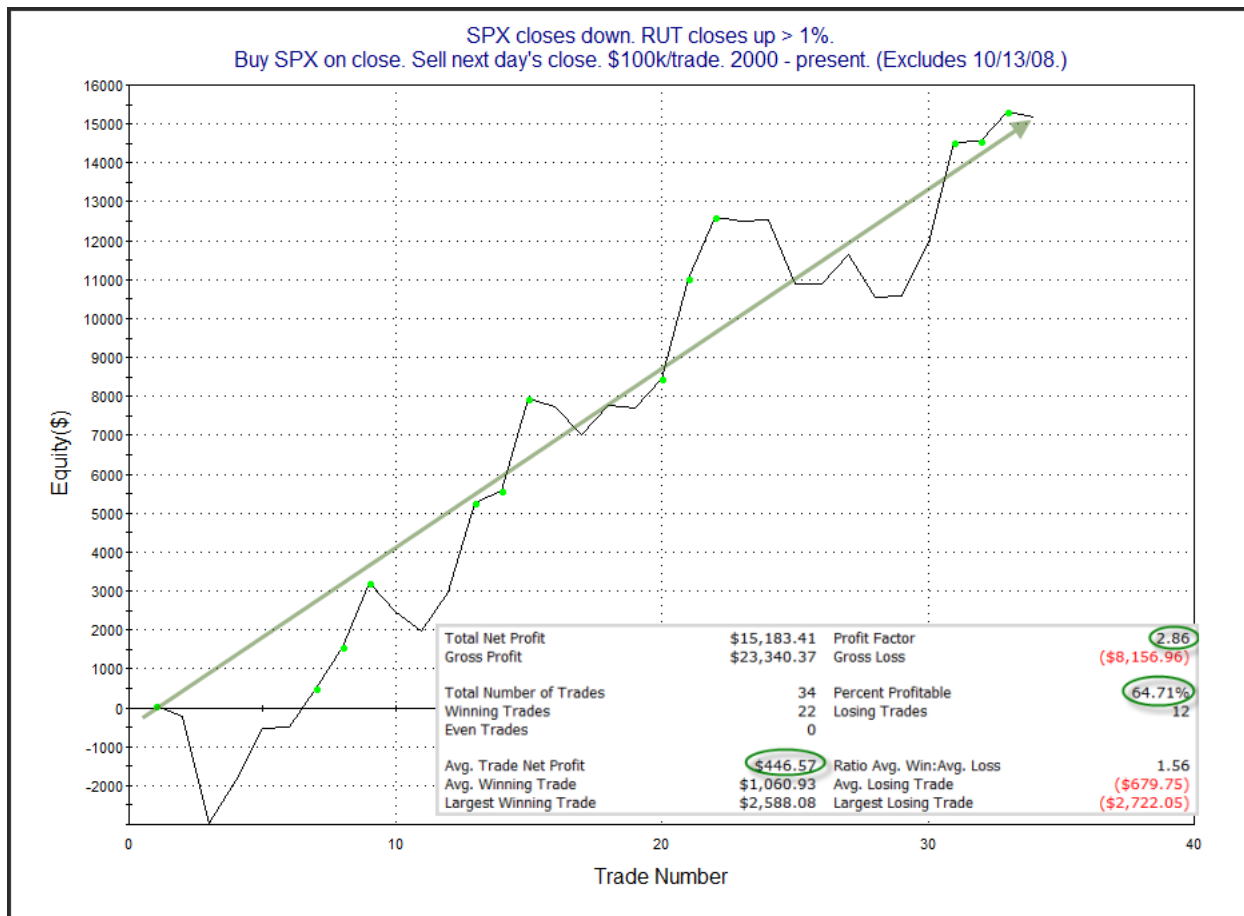
***The Evidence***

Thursday was another mixed day. The SPX lost 0.4%, the NASDAQ fell 0.1%, and the Russell 2000 rallied 2.05%. Breadth was positive with the NYSE Up Issues % coming in at 66% and the Up Volume % at 74%. NYSE total volume rose some from Wednesday's level.

The split market triggered an interesting study from the 11/11/20 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.



Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.



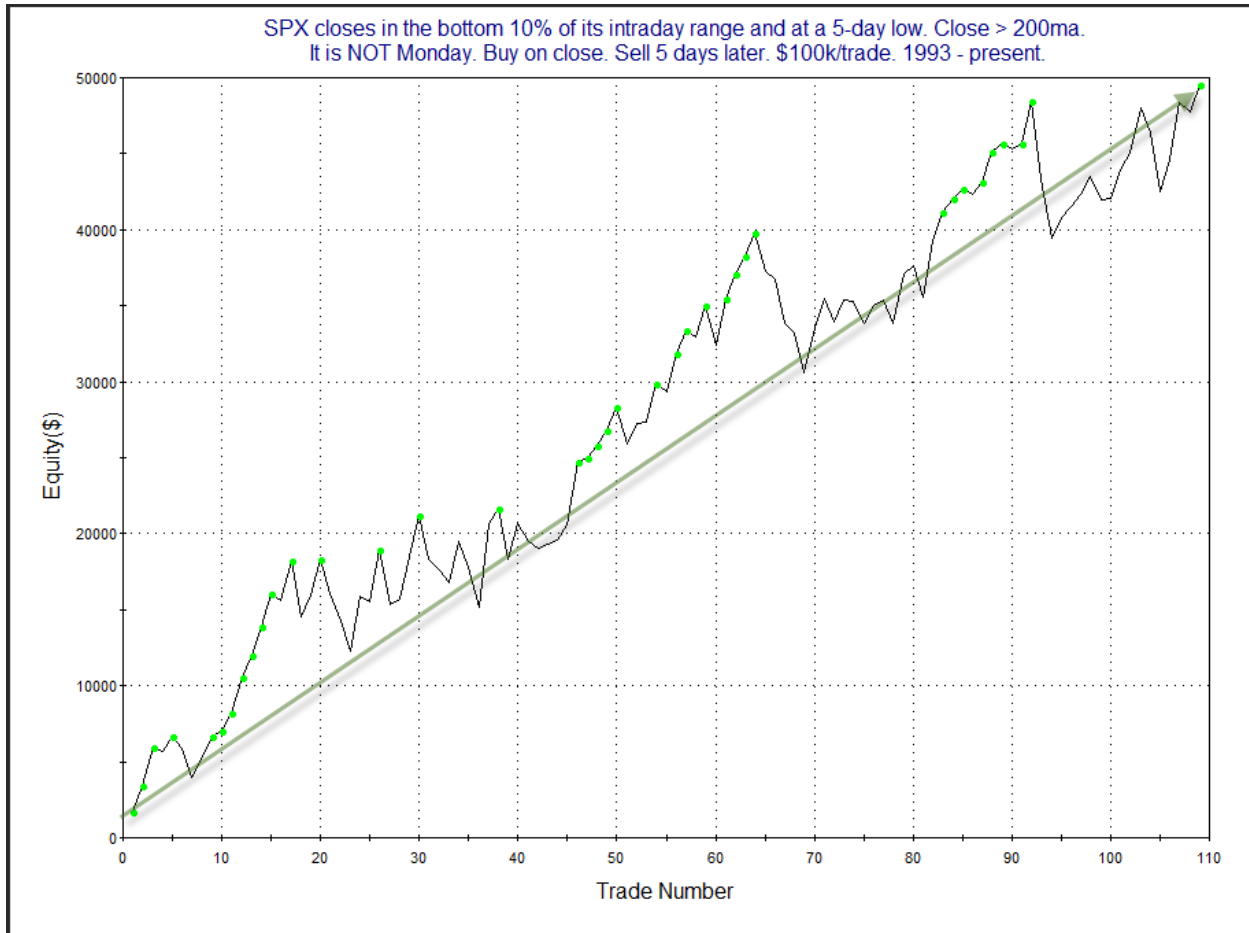
This seems worth paying attention to. The profit curve is again at new highs and the average instance has led to nearly a 0.5% gain the next day. I have included this on the Active List.

In the 10/28/20 letter I shared a study that looked at times SPX closed at a 5-day low and near the lows of the day. I have updated that study below.

SPX closes in the bottom 10% of its intraday range and at a 5-day low. Close > 200ma.  
It is NOT Monday. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	49,562.18	109	69	40	63.30	5,555.16	-5,132.88	1,730.88	-1,746.71	0.99	1.71	454.70
4	42,356.83	114	71	43	62.28	5,290.00	-6,520.68	1,561.77	-1,593.69	0.98	1.62	371.55
3	27,521.06	116	74	42	63.79	4,895.50	-5,393.69	1,185.46	-1,433.41	0.83	1.46	237.25
2	26,883.05	125	73	52	58.40	4,424.50	-4,632.95	1,080.34	-999.65	1.08	1.52	215.06
1	18,752.45	136	83	53	61.03	2,671.02	-4,074.84	764.21	-842.97	0.91	1.42	137.89

The stats table shows moderate odds of a move higher over the next few days. Below is a look at the 5-day profit curve.



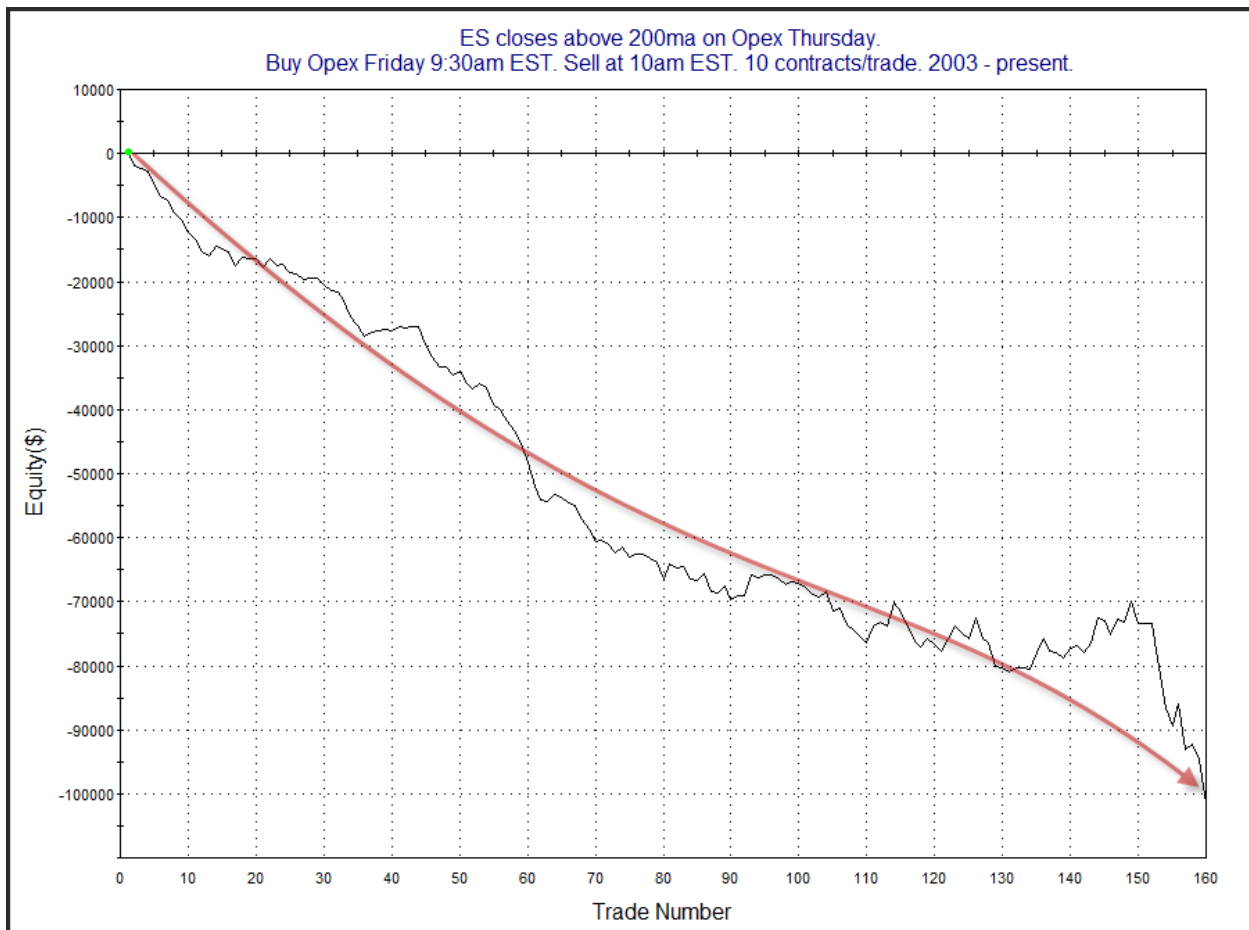
The stats were not overwhelming, but I do like the profit curve. While it is certainly choppy, it is also very persistent in its move higher. The curve increased my confidence in the study, and I have included it on the Active List tonight.

It is also notable that Friday is options expiration. Options expiration has long been a day that has seen weakness after the opening bell (and strength before it). Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. This table is updated from the 12/18/20 letter.

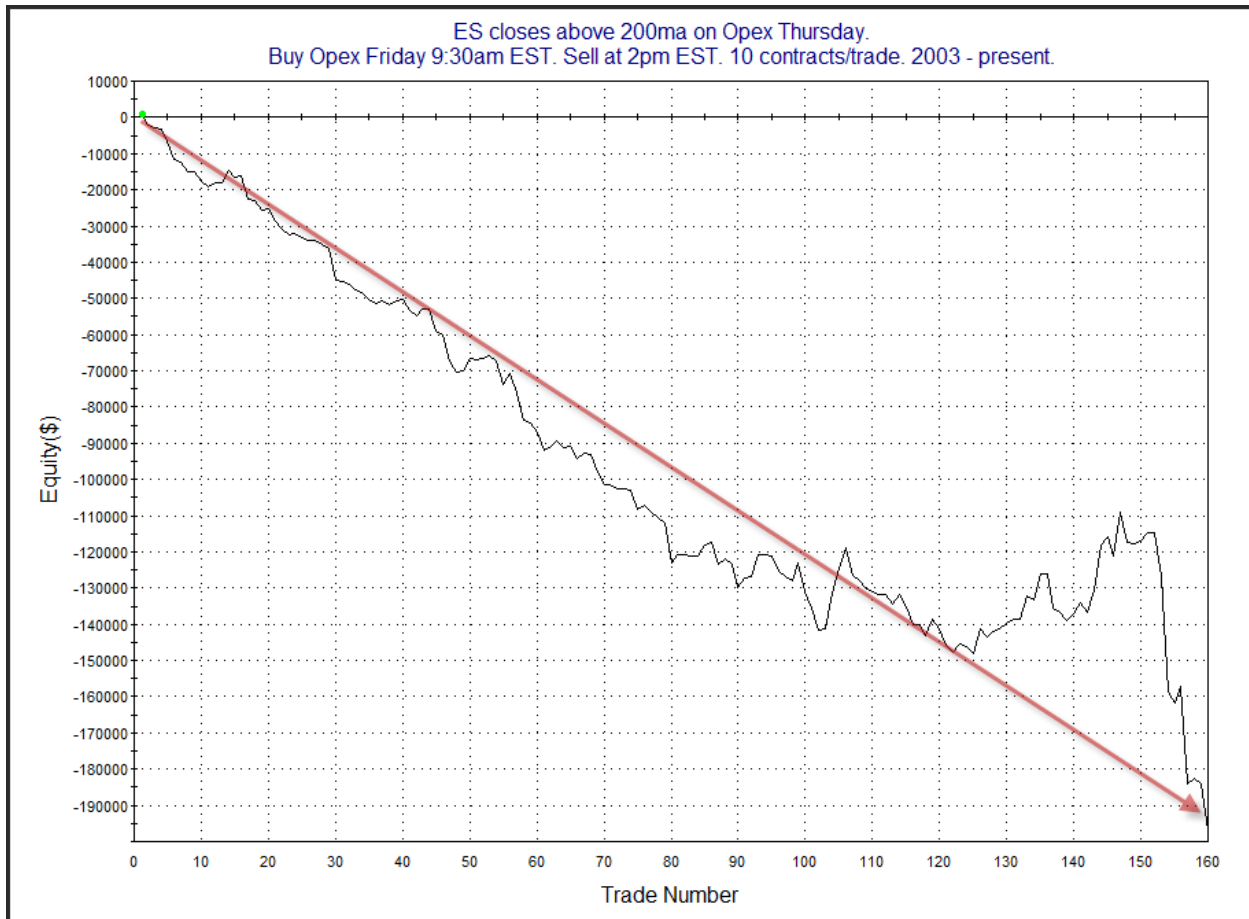
ES closes above 200ma on Opex Thursday.  
Buy Opex Friday 9:30am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-196,875.00	160	68	89	42.50	13,875.00	-28,500.00	2,875.00	-4,408.71	0.65	0.50	-1,230.47
1,500	-157,125.00	160	63	92	39.38	11,625.00	-24,250.00	3,095.24	-3,827.45	0.81	0.55	-982.03
1,400	-197,000.00	160	53	100	33.13	12,500.00	-31,625.00	2,860.85	-3,486.25	0.82	0.43	-1,231.25
1,300	-158,750.00	160	56	103	35.00	11,375.00	-22,125.00	2,756.70	-3,040.05	0.91	0.49	-992.19
1,200	-138,500.00	160	57	103	35.63	12,000.00	-12,750.00	2,528.51	-2,743.93	0.92	0.51	-865.63
1,100	-112,375.00	160	60	98	37.50	14,625.00	-12,625.00	2,122.92	-2,446.43	0.87	0.53	-702.34
1,000	-101,500.00	160	48	108	30.00	3,875.00	-7,000.00	1,236.98	-1,489.58	0.83	0.37	-634.38

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) The largest downside totals would have been achieved by exiting at 2pm. Below is a look at a profit curve for the 1<sup>st</sup> half-hour.



The strong move from upper left to lower right supports the bearish case. Next is the 2pm exit.



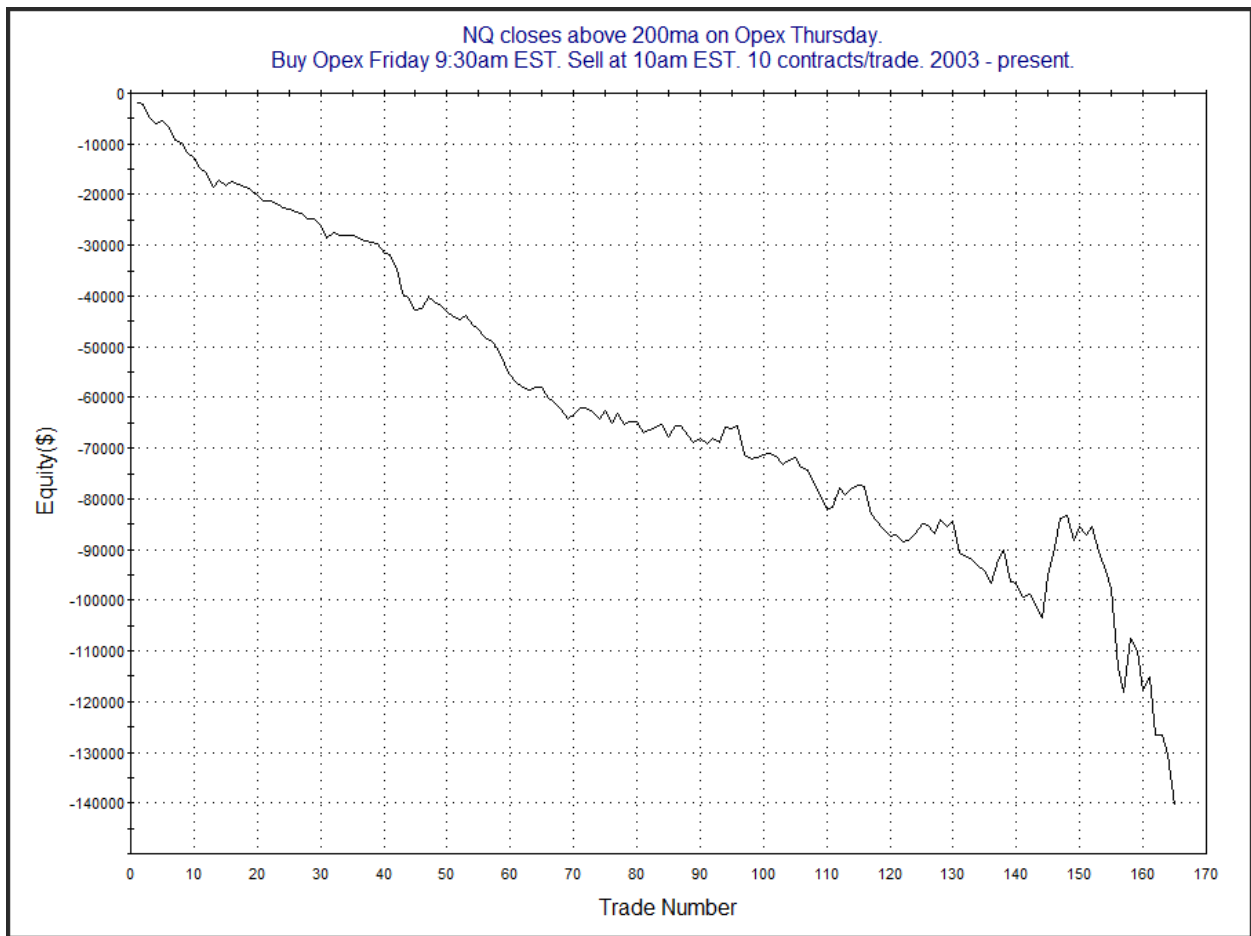
This is also impressive.

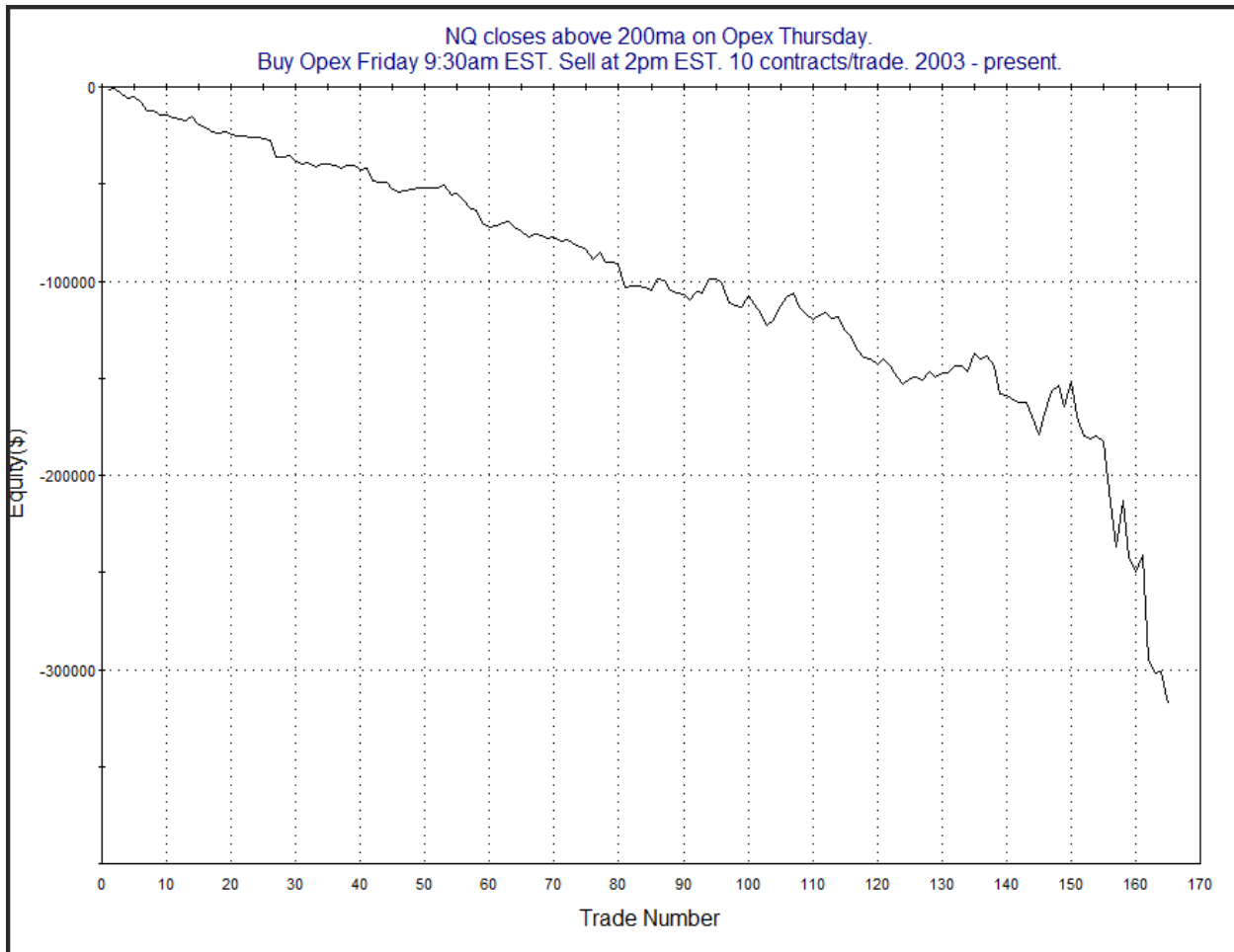
NQ (the NASDAQ 100 future) has seen an even stronger tendency to sell off. This can be seen in the table and profit curves below.

NQ closes above 200ma on Opex Thursday.  
Buy Opex Friday 9:30am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-316,050.00	165	65	100	39.39	36,850.00	-39,500.00	3,359.23	-5,344.00	0.63	0.41	-1,915.45
1,500	-278,000.00	165	62	102	37.58	22,850.00	-44,750.00	3,341.94	-4,756.86	0.70	0.43	-1,684.85
1,400	-318,000.00	165	55	110	33.33	23,550.00	-54,100.00	3,062.73	-4,422.27	0.69	0.35	-1,927.27
1,300	-253,500.00	165	60	103	36.36	19,200.00	-53,400.00	2,951.67	-4,180.58	0.71	0.41	-1,536.36
1,200	-236,200.00	165	62	102	37.58	11,050.00	-32,550.00	2,475.00	-3,820.10	0.65	0.39	-1,431.52
1,100	-167,400.00	165	58	107	35.15	17,650.00	-31,300.00	2,786.21	-3,074.77	0.91	0.49	-1,014.55
1,000	-140,450.00	165	50	111	30.30	10,700.00	-15,500.00	1,670.00	-2,017.57	0.83	0.37	-851.21

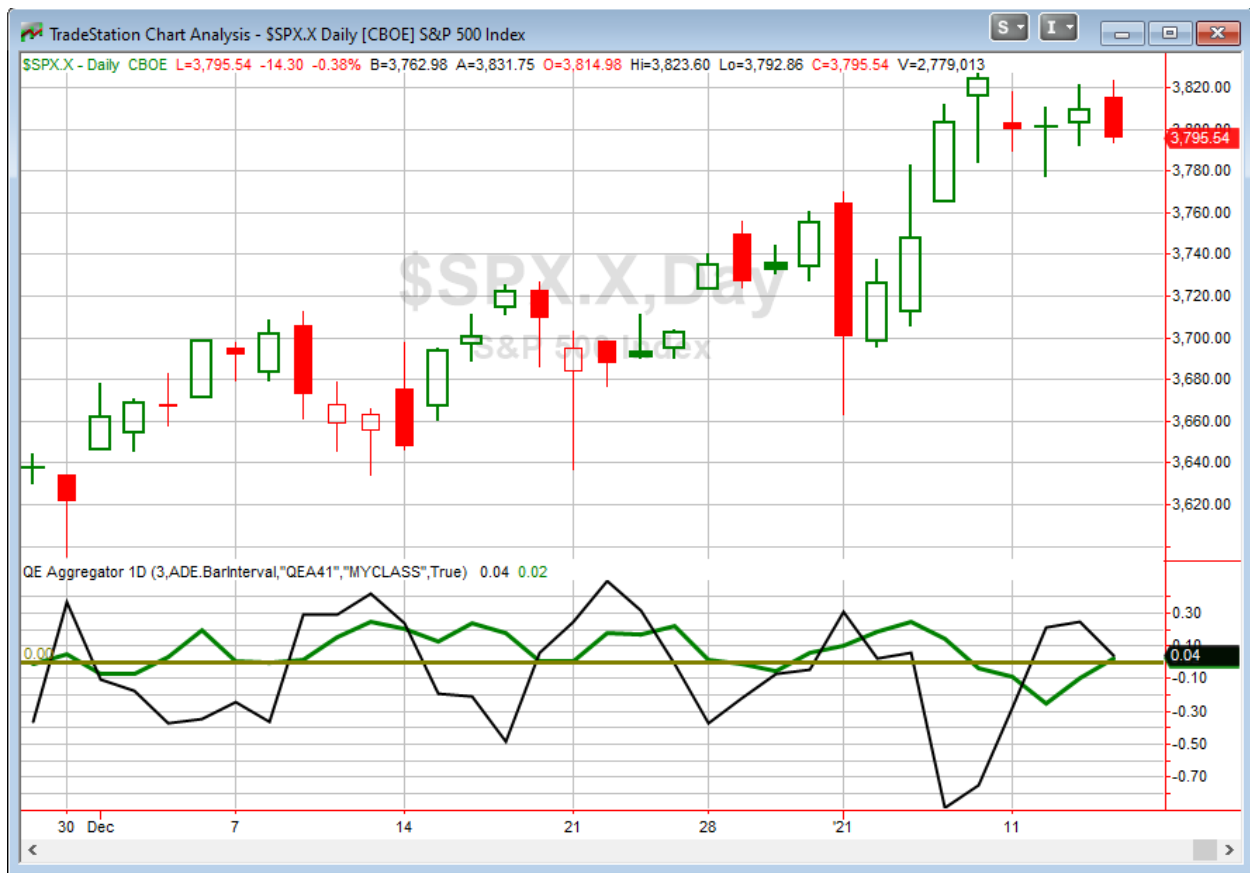
NQ closes above 200ma on Opex Thursday.  
Buy Opex Friday 9:30am EST. Sell at 10am EST. 10 contracts/trade. 2003 - present.





The bearish edge appears alive and well here. So traders may want to remain aware of this during the day on Friday.

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



With tonight's evidence considered the green Aggregator Line inched above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held slightly 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.

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 *inverted at 3786.90* on Friday. That is 0.2% *below* Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down about 0.2% in order to remain oversold. Anything other than that, and it will be considered "overbought" vs expectations as of Friday's close.

So the Aggregator is bullish. But evidence is still mixed, and the Differential Pivot is inverted. I generally don't like entering new trades with an inverted pivot, because potential reward is quite limited. Any move in my direction would mean an end to the signal. So I'll give it another day. Further selling on Friday could easily set up a trade for early next week.

*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	\$32.08	-4.27%		Catapult

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