

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 22, 2021

Volume 14 Issue 14

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Breadth was exceptionally weak for a day the SPX made a new high.
- The high SPX, low VIX and low volume are a combination that has often led to a dip the next day.

Short-term Outlook

The Bottom Line

The Aggregator is short, but the edge is only expected to last one day.

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

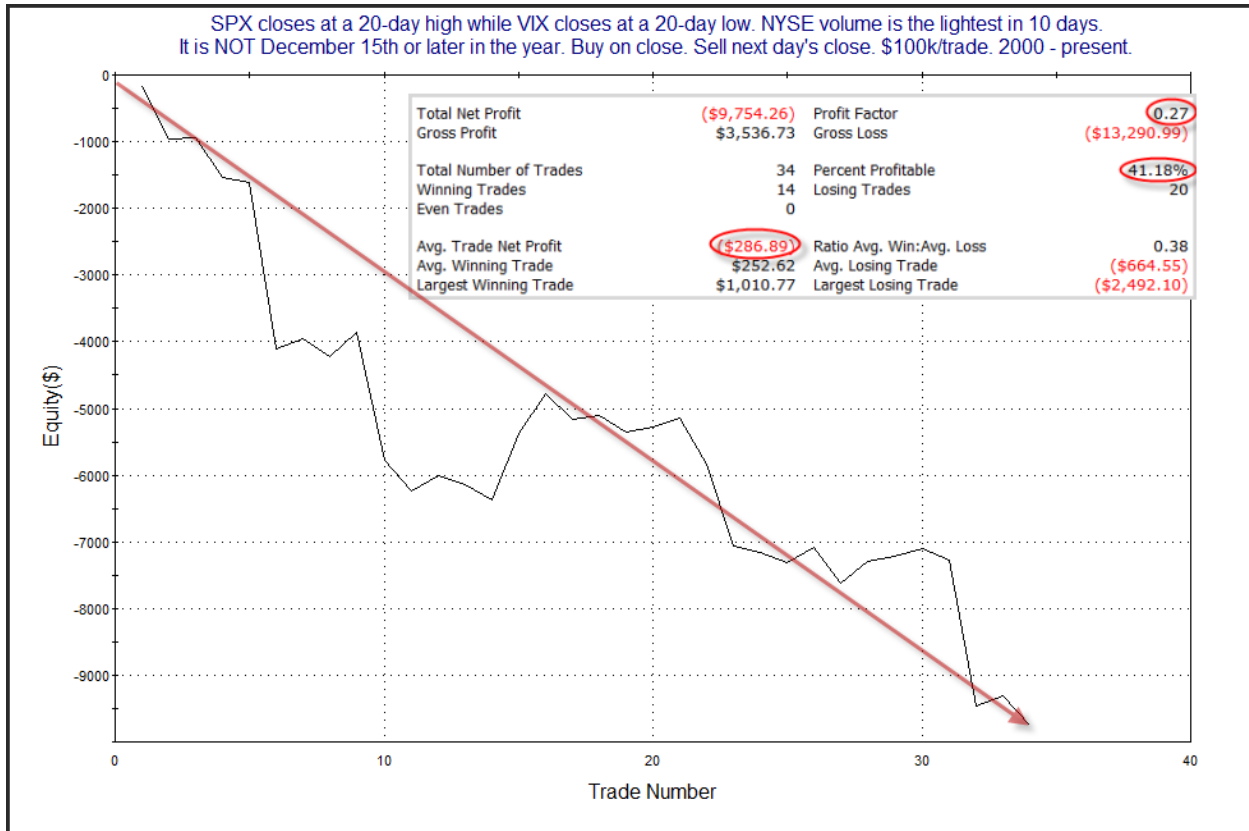
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 22, 2021	SPX 20-hi VIX 20-low Volume 10-low	1 day	Bearish			
Active - Long Term						
December 10, 2020	SPX 20 intra-high. NDX biggest dn 20	1-50 days	Bullish	6.20%	-2.80%	-5.40%
November 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			

The Evidence

Thursday was a mixed day for the market. The SPX rose 0.03%, the NASDAQ gained 0.55%, and the Russell 2000 lost 0.89%. Breadth was negative with the NYSE Up Issues % coming in at 38% and the Up Volume % at 38%. NYSE total volume came in at the lowest level so far in January.

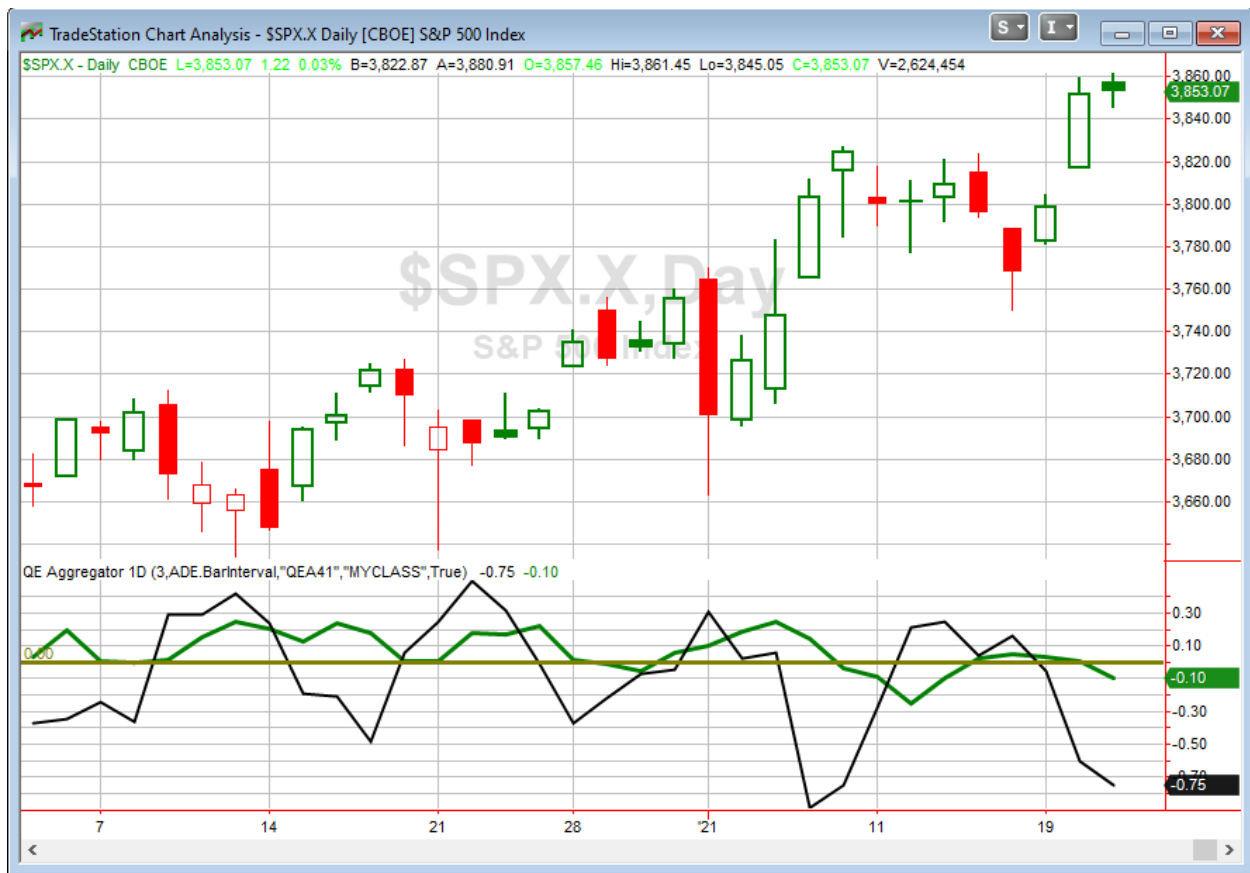
The poor breadth on a day where the SPX hit a long-term high was interesting. Looking back to 1931, Thursday was just the 3rd day ever in which SPX closed at a 200day while both the NYSE Up Issues % and Up Volume % came in below 40%. The other 2 days were 8/18/20 and 8/21/20. Of course it is dangerous to draw conclusions from just 2 instances. Loosening the breadth and trend criteria gave more instances. But what I found when I looked is that such weak breadth days were often followed by some weakness up until about 2010, but since then that tendency has not played out.

Also notable Thursday was that 1) SPX closed at a long-term high, 2) VIX closed at an intermediate-term low, and 3) NYSE volume was light. Low volume and a low VIX can both be potential signs of complacency and suggest a short-term pullback. This triggered the study below, which was last seen in the 5/14/18 letter.



Beyond day 1 there did not appear to be a substantial edge. But the odds and curve for the 1-day hold suggest a downside edge. I have included this study on the Active List tonight.

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



With tonight's evidence considered the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line held 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 active studies, expectations are set to turn back to slightly positive on Friday. Of course that could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 3802.51 on Friday. That is 1.3% below Thursday's close. Therefore, SPX will need to close down at least 1.3% on Friday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is now bearish. There appears to be a bit of a downside edge for Friday. But that's about it. Nimble traders could attempt a quick short on Friday. I am not inclined to try and take advantage of such a tight window, especially considering this would be a counter-trend trade. I'll continue to wait for a more compelling setup before taking on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/19 – slightly bullish

The intermediate-term outlook was last updated in the 1/19/21 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

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 tonight.

Current Open Trade Ideas

None

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