

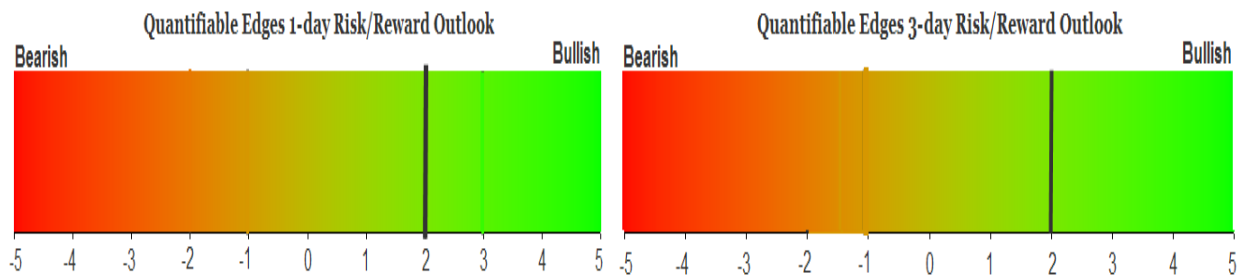
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2021

Volume 14 Issue 17

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	13

## Tonight's Research Points

- When SPX has posted a 20-day high and a poor close in the past it has typically led to more gains.
- The high CBI with the SPX barely pulling back suggests a split market.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. Despite the high CBI, I am not overly excited about index positions, but feel there is plenty of opportunity among individual stocks that are oversold.

**The Evidence**

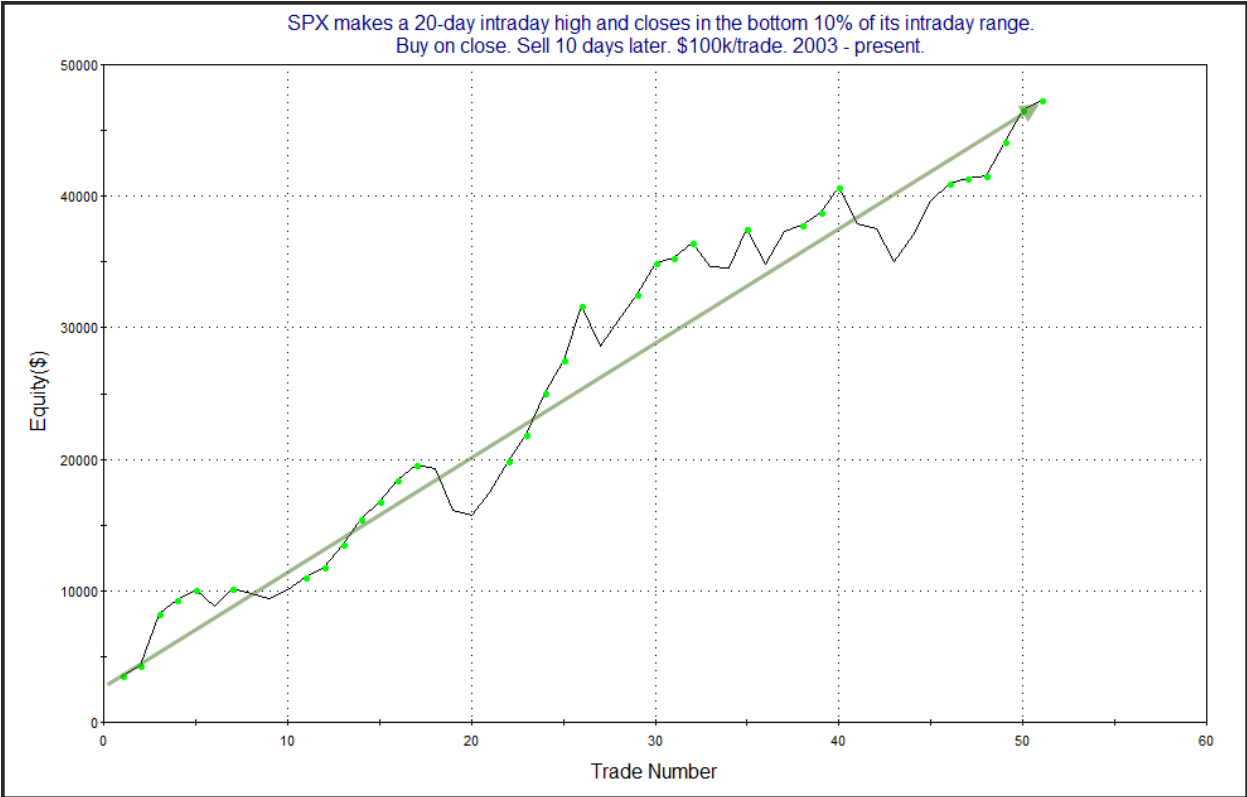
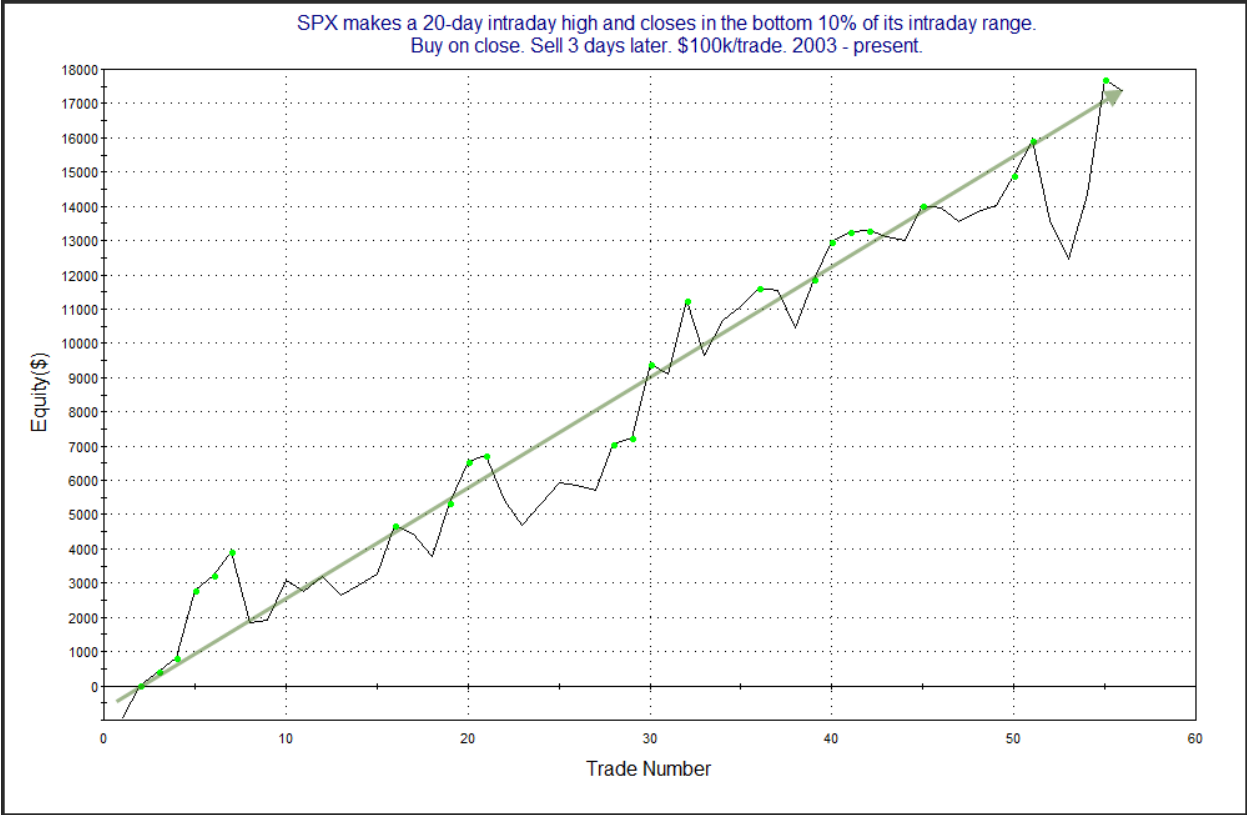
Tuesday saw mostly mild pullbacks in the indices. The SPX dipped 0.15%, the NASDAQ sank 0.1%, and the Russell 2000 declined 0.6%. Breadth was negative with the NYSE Up Issues % coming in at 41% and the Up Volume % at 49.8%. NYSE total volume declined some from Monday’s high level.

Before the dip near the end of the day, the SPX managed to make a new 20-day intraday high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 12/19/19 subscriber letter. Results are all updated.

SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	47,319.58	51	38	13	74.51	4,119.18	-3,210.80	1,751.73	-1,480.49	1.18	3.46	927.83
9	44,609.73	51	38	13	74.51	3,613.36	-3,775.10	1,694.59	-1,521.89	1.11	3.25	874.70
8	43,500.02	52	39	13	75.00	4,483.84	-3,803.24	1,703.53	-1,764.42	0.97	2.90	836.54
7	35,919.80	53	40	13	75.47	3,761.94	-4,159.32	1,490.51	-1,823.12	0.82	2.52	677.73
6	36,360.48	54	40	14	74.07	3,703.30	-2,942.40	1,375.00	-1,331.39	1.03	2.95	673.34
5	26,090.49	54	38	16	70.37	4,377.84	-3,566.84	1,108.20	-1,001.31	1.11	2.63	483.16
4	19,344.53	56	37	19	66.07	5,024.25	-2,332.44	1,032.43	-992.38	1.04	2.03	345.44
3	17,329.26	56	35	21	62.50	3,368.93	-2,343.60	916.95	-703.05	1.30	2.17	309.45
2	16,922.90	56	33	23	58.93	3,288.48	-1,575.22	881.29	-528.68	1.67	2.39	302.19
1	11,909.00	57	37	20	64.91	2,588.08	-1,194.83	572.81	-464.24	1.23	2.28	208.93

**55 of 57 instances (96.5%) closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30 and 12/31/2004.**

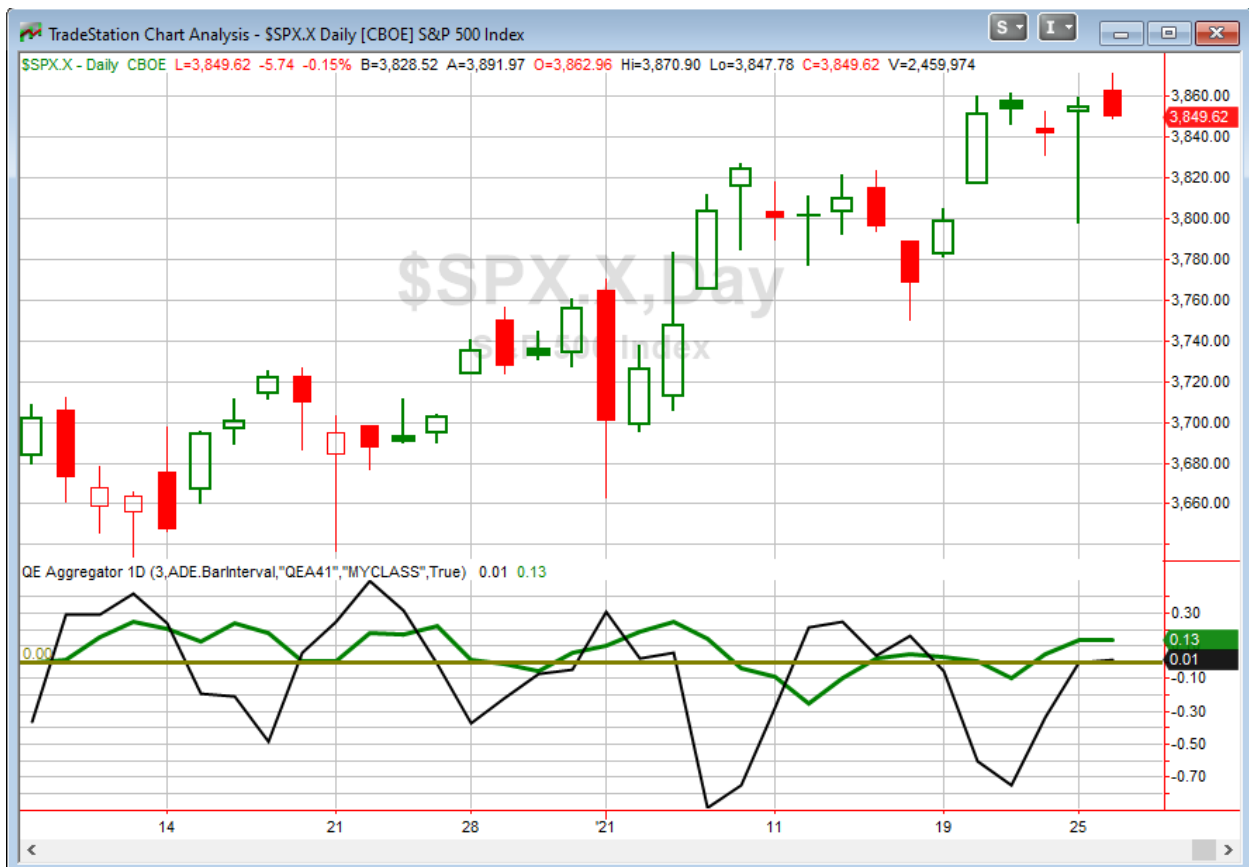
Results here seem to suggest an upside edge. Below are profit curves for both the 3-day and 10-day holding periods.



Both curves show strong, persistent moves from lower left to upper right. I have added this study to both the short and intermediate-term active lists.

Despite SPX making a new long-term intraday high, the Quantifiable Edges CBI rose strongly for the 2<sup>nd</sup> day in a row. It is now at 13, which is typically considered a very bullish number. I looked back to 1995 for other instances where the CBI reached 10 or higher and the SPX posted a 200-day intraday high. There were none. I tried 50 days. None. 20 days. None. When you have a good number of stocks that are selling off strongly enough that it spikes the CBI up to 10 or so, that typically requires the general market to be selling off. My interpretation right now is that the high CBI is indicative of a very split market. And the market is managing to make new highs, because the stocks that are selling off are financials, rather than the technology and FAANG-type stocks that make up such a large percentage of the index. The strong selling suggests a bounce. But it may be rotational. So rather than playing the broad market for a bounce, the stronger edge right now might be to play the group of stocks that are experiencing the oversold selling.

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



With tonight's evidence considered the green Aggregator Line stayed above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line again held barely 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. That could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 3840.01* on Wednesday. That is 0.25% *below* Tuesday'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 0.25% in order to remain "oversold" versus recent expectations. Anything other than that, and it will flip to "overbought" as of Monday's close.

My overall outlook is very similar to last night. The Aggregator is bullish. But SPX is still near an all-time high, and it is setup to turn from "oversold" to "overbought" vs expectations on Wednesday. I don't love taking on new positions with an inverted pivot. This setup is no exception to that rule. I'd prefer reward/risk to be a bit more compelling before looking to get involved with a new index position. Of course there were several Catapult triggers that could be trade opportunities. I'll focus on individual stocks rather than the index at this point.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/25 – slightly bullish***

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

BAC

BK

CAT

COF

GS

JPM

MS

*New*

BAC – 2<sup>nd</sup> lot

CAT – 2<sup>nd</sup> lot

COF – 2<sup>nd</sup> lot  
GS – 2<sup>nd</sup> lot  
JPM – 2<sup>nd</sup> lot  
MS – 2<sup>nd</sup> lot

**Broad Market Large Cap CBI – 13(BAC-2, BK, CAT-2, COF-2, GS-2, JPM-2, MS-2)**

### **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.

**BAC – Buy 1/3 Catapult @ \$30.94 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of BAC.

**CAT – Buy 1/3 Catapult @ \$187.21 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of CAT.

**COF – Buy 1/3 Catapult @ \$99.93 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of COF.

**GS – Buy 1/3 Catapult @ \$281.76 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of GS.

**JPM – Buy 1/3 Catapult @ \$131.51 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of JPM.

**MS – Buy 1/3 Catapult @ \$71.21 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 lots of MS.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BAC(1/3)	1/26/2021	\$31.16	\$30.94	-0.71%		Catapult
BK(1/3)	1/26/2021	\$41.30	\$41.34	0.10%		Catapult
JPM(1/3)	1/26/2021	\$132.12	\$131.58	-0.41%		Catapult
COF(1/3)	1/26/2021	\$102.53	\$99.93	-2.54%		Catapult
CAT(1/3)	1/26/2021	\$187.34	\$187.21	-0.07%		Catapult
MS(1/3)	1/26/2021	\$72.38	\$71.21	-1.62%		Catapult
GS(1/3)	1/26/2021	\$283.04	\$281.76	-0.45%		Catapult

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