

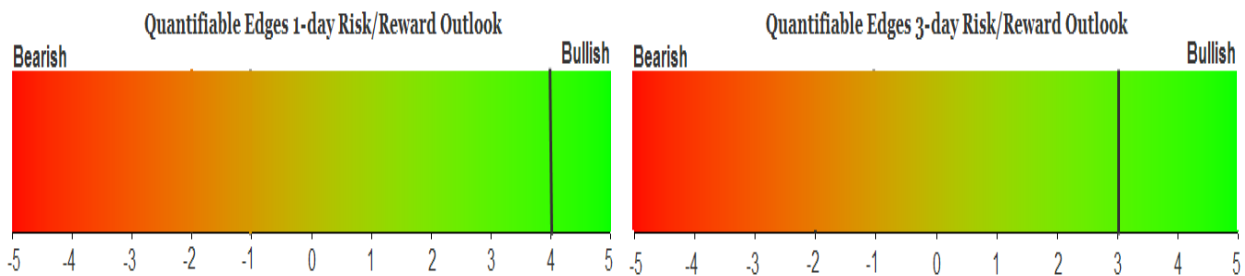
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2021

Volume 14 Issue 18

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	17

Tonight's Research Points

- A VIX crossing over 35% above its 10ma and with a reading over 30 suggests strong reward/risk for the bulls.
- A strong 2%+ selloff to a 5-day low is often followed by gains in the coming days.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. The market is strongly oversold. The CBI is high, and there appears to be an upside edge.

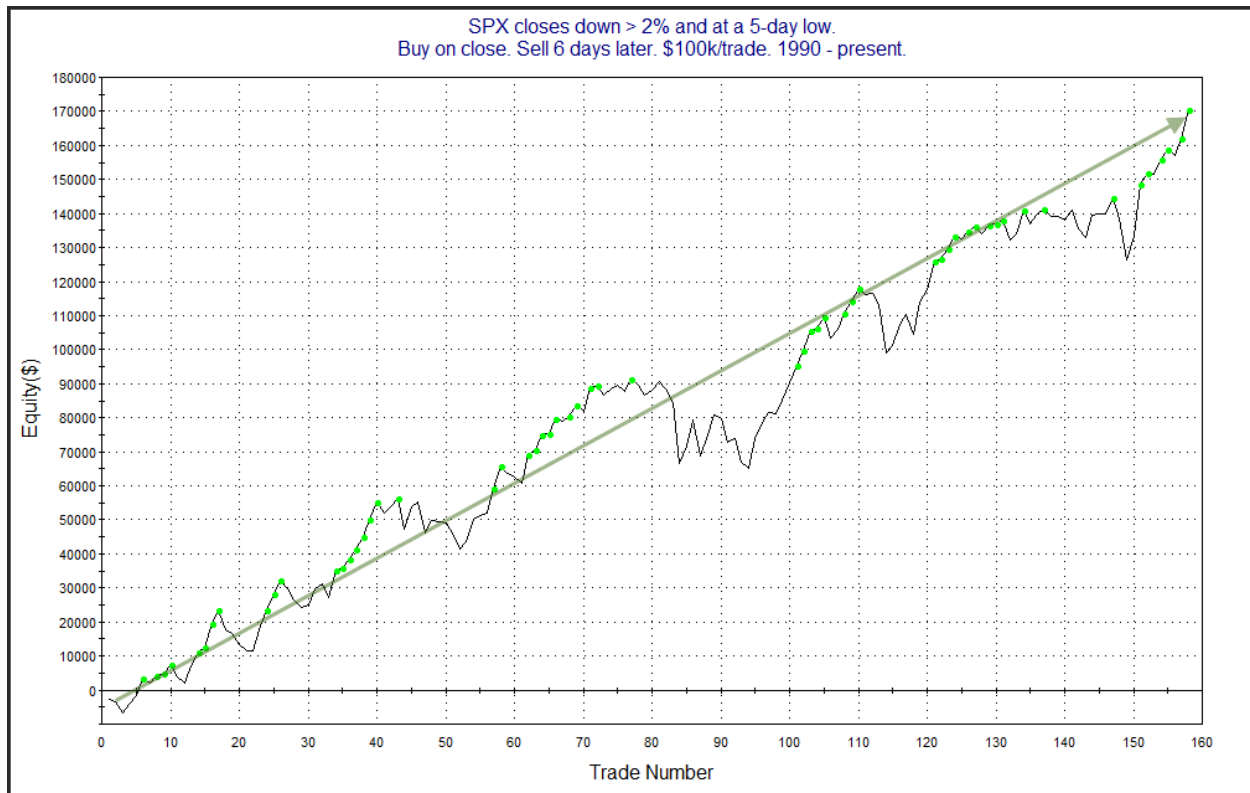
The Evidence

Wednesday saw some strong selling. The SPX and NASDAQ each lost 2.6%, and the Russell 2000 declined 1.9%. Breadth was widely mixed with the NYSE Up Issues % coming in at 17% and the Up Volume % at 55%. NYSE total volume rose some from Tuesday's level.

There were a fair number of studies that triggered in the Quantifinder. Since the hour is late, I am just going to cover a couple of the most compelling ones. This first one is from the 4/9/18 letter, and it looked at times SPX declined at least 2% and closed at a 5-day low.

SPX closes down > 2% and at a 5-day low. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	39,406.45	53	34	19	64.15	9,012.33	-5,334.70	2,545.33	-2,480.78	1.03	1.84	743.52
9	38,620.78	53	36	17	67.92	8,967.96	-5,671.36	2,285.38	-2,567.81	0.89	1.88	728.69
8	27,847.35	53	37	16	69.81	8,456.40	-6,514.96	2,024.92	-2,942.16	0.69	1.59	525.42
7	35,147.70	53	39	14	73.58	8,869.37	-6,757.80	1,810.22	-2,532.20	0.71	1.99	663.16
6	41,017.36	53	38	15	71.70	7,361.95	-5,884.97	1,813.15	-1,858.83	0.98	2.47	773.91
5	31,207.35	53	37	16	69.81	6,013.86	-5,581.03	1,617.02	-1,788.89	0.90	2.09	588.82
4	19,790.20	53	32	21	60.38	7,513.37	-4,622.80	1,540.18	-1,404.54	1.10	1.67	373.40
3	7,244.61	53	31	22	58.49	5,035.28	-4,476.12	1,125.31	-1,256.36	0.90	1.26	136.69
2	9,109.58	53	31	22	58.49	5,202.52	-4,613.73	1,099.01	-1,134.53	0.97	1.36	171.88
1	4,787.70	53	33	20	62.26	4,001.33	-5,829.24	883.25	-1,217.97	0.73	1.20	90.33

Results here suggests a bullish edge. Below is a look at the profit curve assuming a 6-day holding period.



This curve has persistently pushed higher for a long time. This study appears worthy of consideration, and I have included it on the Active List.

Also notable was the action in the VIX, which rose 61.6% on Wednesday. That is the 3rd largest % gain for the VIX of all time. An interesting VIX-related study was from the 6/12/20 letter. It notes not only that the VIX is relatively stretched on a short-term basis, but that the VIX reading is also somewhat high on an absolute basis. Over the years I have found that short-term stretches are not as impactful when the stretch is coming from a very low level. This is the reason the VIX > 30 is also included as a filter. Results are updated.

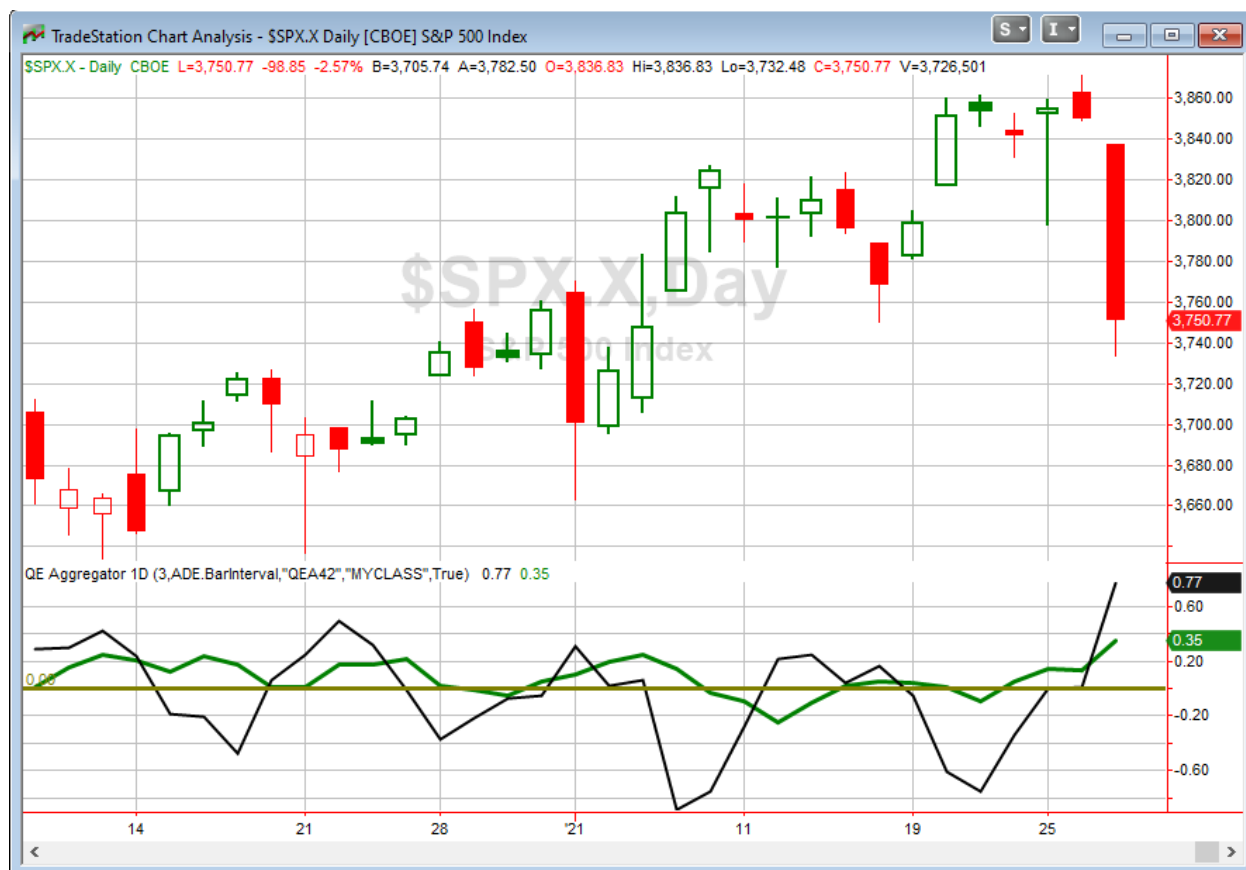
VIX crosses over and closes > 35% above 10ma. It also closes > 30.
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

Total Net Profit	\$57,530.88	Profit Factor	27.69
Gross Profit	\$59,686.79	Gross Loss	(\$2,155.91)
Total Number of Trades	15	Percent Profitable	80.00%
Winning Trades	12	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$3,835.39	Ratio Avg. Win:Avg. Loss	6.92
Avg. Winning Trade	\$4,973.90	Avg. Losing Trade	(\$718.64)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$1,519.76)
Max. Consecutive Winning Trades	8	Max. Consecutive Losing Trades	1

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/27/1997	Buy	\$876.97	5.12%	\$5,257.68
10/28/1997	Sell	\$921.86		(\$2,473.80)
9/17/2001	Buy	\$1,038.77	-0.58%	\$734.40
9/18/2001	Sell	\$1,032.74		(\$913.92)
9/17/2008	Buy	\$1,156.42	4.33%	\$4,705.92
9/18/2008	Sell	\$1,206.51		(\$1,971.12)
10/10/2008	Buy	\$899.22	11.58%	\$11,855.91
10/13/2008	Sell	\$1,003.35		\$0.00
5/6/2010	Buy	\$1,128.15	-1.53%	\$614.24
5/7/2010	Sell	\$1,110.88		(\$2,992.00)
5/20/2010	Buy	\$1,071.59	1.50%	\$1,727.01
5/21/2010	Sell	\$1,087.69		(\$1,459.17)
8/4/2011	Buy	\$1,200.07	-0.06%	\$1,497.32
8/5/2011	Sell	\$1,199.38		(\$2,654.34)
8/8/2011	Buy	\$1,119.46	4.74%	\$4,754.38
8/9/2011	Sell	\$1,172.53		(\$1,594.88)
8/10/2011	Buy	\$1,120.76	4.63%	\$5,832.17
8/11/2011	Sell	\$1,172.64		\$0.00
2/5/2018	Buy	\$2,648.94	1.74%	\$1,927.70
2/6/2018	Sell	\$2,695.14		(\$2,067.19)
12/24/2018	Buy	\$2,351.10	4.96%	\$4,899.72
12/26/2018	Sell	\$2,467.70		(\$189.84)
3/9/2020	Buy	\$2,746.56	4.94%	\$4,897.08
3/10/2020	Sell	\$2,882.23		(\$452.16)
3/12/2020	Buy	\$2,480.64	9.29%	\$9,227.60
3/13/2020	Sell	\$2,711.02		\$0.00
3/16/2020	Buy	\$2,386.13	6.00%	\$6,879.80
3/17/2020	Sell	\$2,529.19		(\$782.69)
6/11/2020	Buy	\$3,002.10	1.31%	\$2,848.56
6/12/2020	Sell	\$3,041.31		(\$581.79)

Instances are a little lower than I'd prefer, but the stats are very strong. The average performance the day after the setup has been a 3.8% gain. That is a huge average for just a 1-day trade.

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



With tonight's evidence considered 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 also held 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 Thursday. That is unlikely to change. Meanwhile, the Differential Pivot will be 3856.25 on Thursday. That is 2.8% above Wednesday's close. So SPX would need to close up a whopping 2.8% on Thursday in order to flip from oversold to overbought vs expectations.

So the Aggregator is bullish. Evidence continues to build, and the market is now quite oversold. I like the long side, and will look to start scaling into an index position if I can get a decent fill.

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

BAC – 2nd lot

CAT – 2nd lot

COF – 2nd lot

GS – 2nd lot

JPM – 2nd lot

MS – 2nd lot

New

BAC – 3rd lot

GS – 3rd lot

JPM – 3rd lot

MS – 3rd lot

Broad Market Large Cap CBI – 17(BAC-3, BK, CAT-2, COF-2, GS-3, JPM-3, MS-3)

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 @ \$29.83 LIMIT. From the Catapult section above, this is the final lot of BAC.

GS – Buy 1/3 Catapult @ \$273.33 LIMIT. From the Catapult section above, this is the final lot of GS.

JPM – Buy 1/3 Catapult @ \$127.86 LIMIT. From the Catapult section above, this is the final lot of JPM.

MS – Buy 1/3 Catapult @ \$68.42 LIMIT. From the Catapult section above, this is the final lot of MS.

SPY – Buy ¼ index position @ \$374.41 LIMIT. From the short-term outlook above, I am looking to start scaling into a long position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BAC(1/3)	1/26/2021	\$31.16	\$29.83	-4.27%		Catapult
BK(1/3)	1/26/2021	\$41.30	\$39.82	-3.58%		Catapult
JPM(1/3)	1/26/2021	\$132.12	\$127.86	-3.22%		Catapult
COF(1/3)	1/26/2021	\$102.53	\$102.69	0.16%		Catapult
CAT(1/3)	1/26/2021	\$187.34	\$180.63	-3.58%		Catapult
MS(1/3)	1/26/2021	\$72.38	\$68.42	-5.47%		Catapult
GS(1/3)	1/26/2021	\$283.04	\$273.33	-3.43%		Catapult
BAC(1/3)	1/26/2021	\$30.31	\$29.83	-1.58%		Catapult
JPM(1/3)	1/26/2021	\$129.59	\$127.86	-1.33%		Catapult
CAT(1/3)	1/26/2021	\$184.20	\$180.63	-1.94%		Catapult
MS(1/3)	1/26/2021	\$69.73	\$68.42	-1.88%		Catapult
GS(1/3)	1/26/2021	\$276.00	\$273.33	-0.97%		Catapult

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