

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2021

Volume 14 Issue 19

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	15

## Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I still like the long side and will try again for an entry into some long index exposure.

***The Evidence***

Thursday was strong for most of the day, but late selling left the indices mixed. The SPX gained 0.98%, the NASDAQ rose 0.5%, and the Russell 2000 declined 0.1%. Breadth was widely mixed with the NYSE Up Issues % coming in at 69% and the Up Volume % at 49%. NYSE total volume declined some from Wednesday’s level.

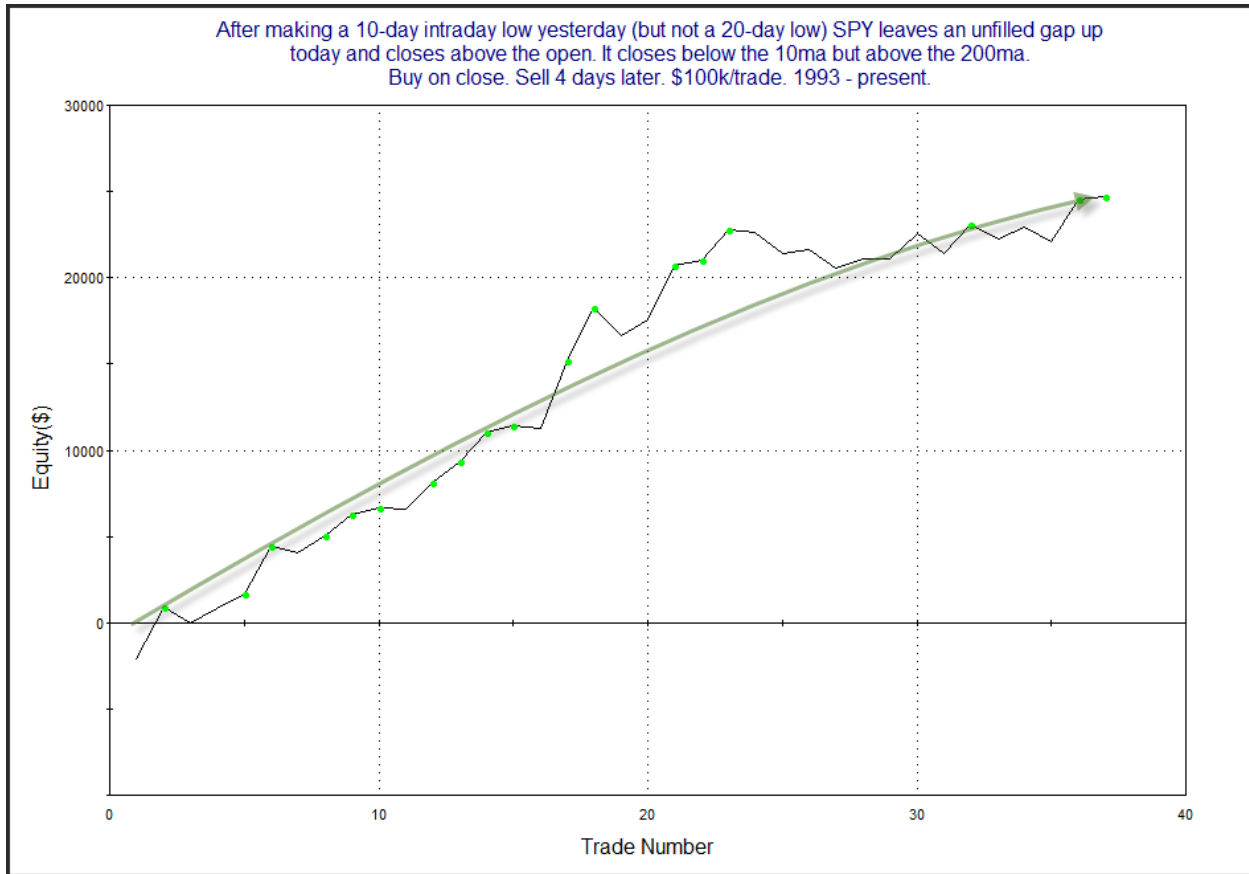
Thursday’s rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 12/5/19 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.  
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	23,970.14	36	26	10	72.22	4,106.63	-1,949.70	1,269.95	-904.85	1.40	3.65	665.84
4	24,669.08	37	25	12	67.57	3,904.83	-2,096.99	1,399.43	-859.73	1.63	3.39	666.73
3	15,438.80	38	23	15	60.53	3,914.92	-2,133.60	1,253.13	-892.21	1.40	2.15	406.28
2	8,525.80	38	22	16	57.89	2,828.00	-2,926.56	1,171.22	-1,077.56	1.09	1.49	224.36
1	203.01	38	19	18	50.00	1,773.46	-2,895.33	791.11	-823.78	0.96	1.01	5.34

36 of 38 instances (95%) closed above the entry price at some point in the next week.

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



Despite a few recent failures, the strong upslope is impressive.

Also in the 12/5/19 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

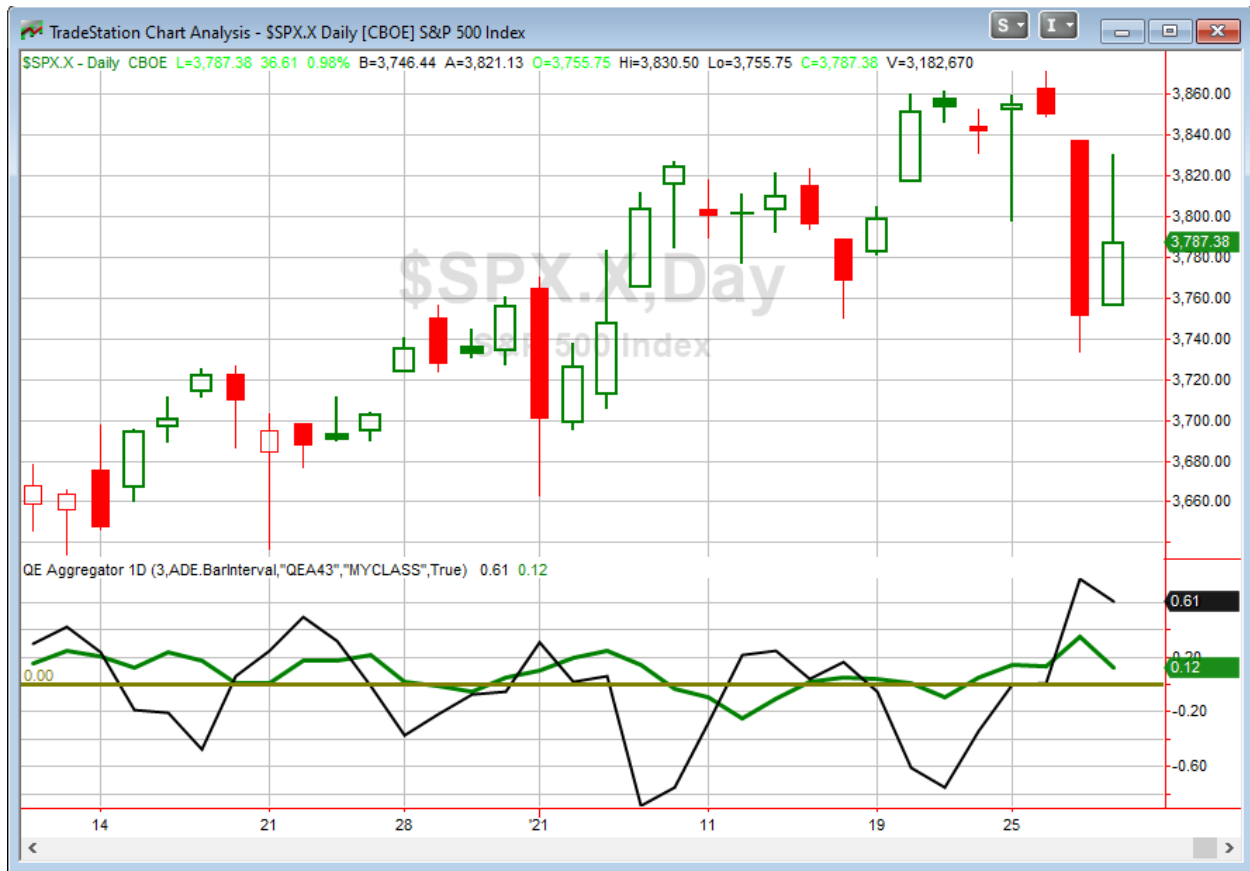
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	1,440.43	37	19	18	51.35	3,178.32	-3,739.32	1,768.45	-1,786.68	0.99	1.04	38.93
4	1,204.41	39	22	17	56.41	2,950.20	-2,880.28	1,350.01	-1,676.22	0.81	1.04	30.88
3	-580.49	41	21	20	51.22	3,306.24	-3,070.92	1,130.29	-1,215.83	0.93	0.98	-14.16
2	-2,556.61	43	23	20	53.49	3,089.76	-2,818.42	1,026.08	-1,307.82	0.78	0.90	-59.46
1	-1,767.58	43	18	25	41.86	2,470.05	-1,777.90	859.00	-689.19	1.25	0.90	-41.11

In the 12/5/19 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes <b>above</b> the 10ma and above the 200ma. 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: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,899.51	21	11	10	52.38	869.86	1,753.14	-1,346.79	-3,691.98	0.65	0.71	-185.69
4	-1,323.25	21	11	10	52.38	649.26	1,903.47	-846.51	-1,788.75	0.77	0.84	-63.01
3	-4,285.02	21	10	11	47.62	642.61	1,393.05	-973.73	-2,475.20	0.66	0.60	-204.05
2	-2,630.12	21	10	11	47.62	604.06	1,325.28	-788.25	-2,293.20	0.77	0.70	-125.24
1	-5,777.61	21	8	13	38.10	465.78	949.00	-731.07	-2,591.68	0.64	0.39	-275.12

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Thursday.

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 Friday. That is unlikely to change. Meanwhile, the Differential Pivot will be 3859.92 on Friday. That is 1.9% above Thursday's close. So SPX would need to close up a sizable 1.9% on Friday in order to flip from oversold to overbought vs expectations.

So the Aggregator is again bullish. While SPX rose nicely on Thursday, it remains oversold with ample room to the upside before it would turn overbought. I like the long side. In addition to the evidence discussed, a poor close on Friday would set up good odds for a "1<sup>st</sup> trading day of the month" rally. I'll look to take on some long exposure if I can get a favorable fill on Friday – either at the open or close of trading. Details in the Trade Ideas section down below.

*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

GS

JPM

MS

BAC – 2<sup>nd</sup> lot

CAT – 2<sup>nd</sup> lot

GS – 2<sup>nd</sup> lot

JPM – 2<sup>nd</sup> lot

MS – 2<sup>nd</sup> lot

BAC – 3<sup>rd</sup> lot – no fill

GS – 3<sup>rd</sup> lot

JPM – 3<sup>rd</sup> lot – no fill

MS – 3<sup>rd</sup> lot – no fill

***Broad Market Large Cap CBI – 15(BAC-3, BK, CAT-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.*

**SPY – Buy ¼ index position @ \$376.00 LIMIT ON OPEN. If not filled on open, cancel trade and then look to buy at \$377.00 LIMIT ON CLOSE if SPX also closes in the lower half of its intraday range.** From the short-term outlook above, I will look to take on some long index exposure if I can get filled on a good-sized gap down or close lower and in the bottom half of the intraday range.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BAC(1/3)	1/26/2021	\$31.16	\$30.32	-2.70%		Catapult
BK(1/3)	1/26/2021	\$41.30	\$40.38	-2.23%		Catapult
JPM(1/3)	1/26/2021	\$132.12	\$130.11	-1.52%		Catapult
COF(1/3)	1/26/2021	\$102.53	\$106.84	4.20%		sell on open
CAT(1/3)	1/26/2021	\$187.34	\$184.34	-1.60%		Catapult
MS(1/3)	1/26/2021	\$72.38	\$69.32	-4.23%		Catapult
GS(1/3)	1/26/2021	\$283.04	\$275.02	-2.83%		Catapult
BAC(1/3)	1/27/2021	\$30.31	\$30.32	0.03%		Catapult
JPM(1/3)	1/27/2021	\$129.59	\$130.11	0.40%		Catapult
CAT(1/3)	1/27/2021	\$184.20	\$184.34	0.08%		Catapult
MS(1/3)	1/27/2021	\$69.73	\$69.32	-0.59%		Catapult
GS(1/3)	1/27/2021	\$276.00	\$275.02	-0.36%		Catapult
GS(1/3)	1/28/2021	\$273.33	\$275.02	0.62%		Catapult

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