

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 2, 2021

Volume 14 Issue 21

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	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 neutral, but it could easily turn back to bullish on Tuesday. I think think bounce has further to go.

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						
February 2, 2021	Unfill up from 10-low < 10ma > 200	1-4 days	Bullish	1.60%	-1.20%	-2.30%
February 1, 2021	2 days (of 5) dn 1.5%. 10-day low	1-6 days	Bullish	3.30%	-1.95%	-4.50%
January 28, 2021	2% drop to 5-low > 200	1-6 days	Bullish	2.40%	-2.10%	-4.30%
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 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

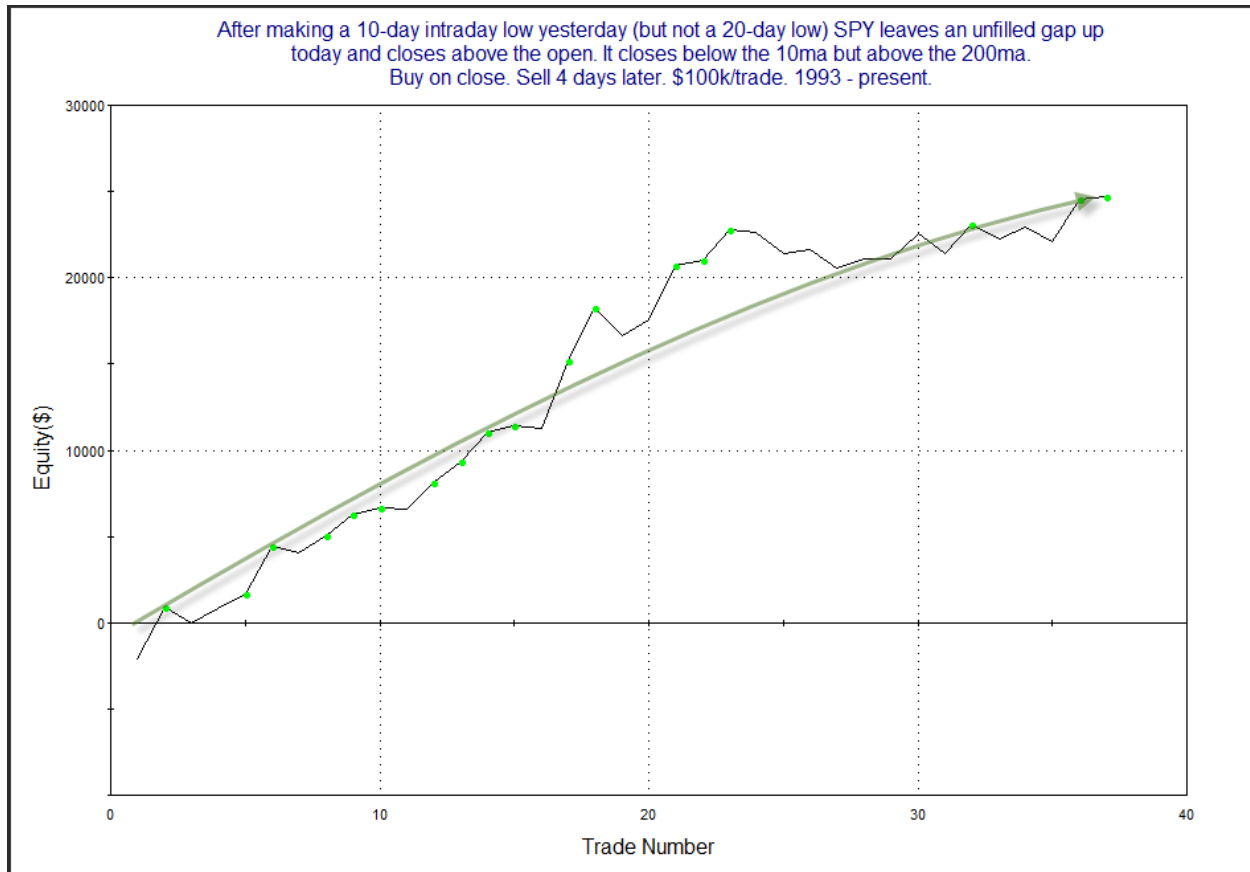
The market recovered a good amount on Monday. The SPX gained 1.6%, the NASDAQ rallied 2.55%, and the Russell 2000 rose 2.5%. Breadth was positive with the NYSE Up Issues % coming in at 78% and the Up Volume % at 82%. NYSE total volume declined some from Friday's level.

Not much triggered in my research database that was compelling. Interestingly, we did see a study that I featured in Thursday night's letter trigger once again. It got taken off the Active List after the big tumble on Friday. With it setting up again, I have added it back. Below I have copied the commentary and results shown in Thursday night's letter.

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.

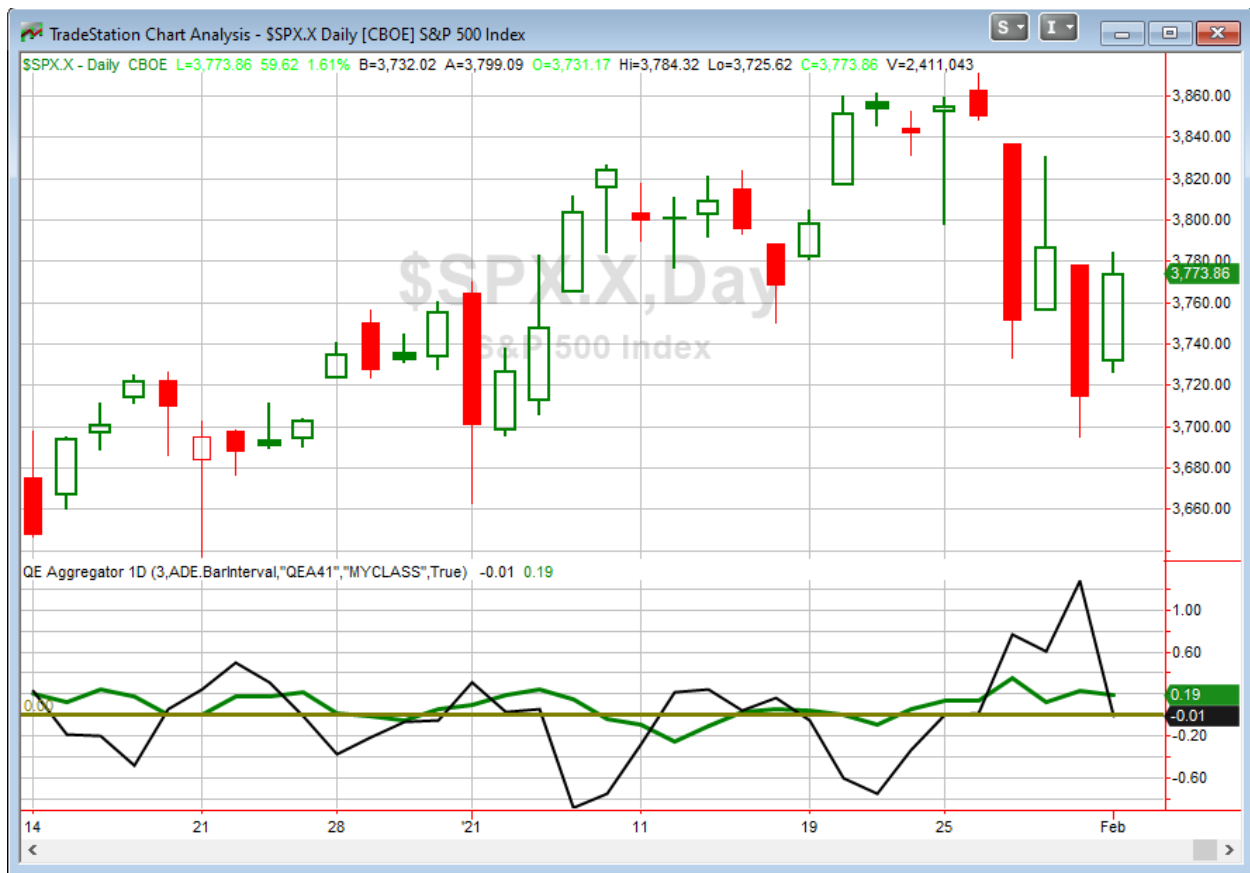
After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing 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 above 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 dropped just barely below 0. The negative Differential Line reading means that SPX is now slightly overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. This could change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 3808.95* on Tuesday. That is 0.9% *above* Monday'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 up at least 0.9% in order to remain overbought. Anything less than that and it will flip back to "oversold" as of Tuesday's close.

So the Aggregator is neutral. But with expectations positive and the Differential Pivot inverted, the Aggregator formation is primed to turn back to bullish on Tuesday. I typically would take profits on long index positions when the Aggregator turns neutral. But in this case, I am more inclined to look for a higher exit. In addition to the inverted Differential Pivot, we also still have a

CBI reading of 15. The CBI spike was unusual this time in that it came near a top and that it was primarily focused on financial stocks. But I don't think it is meaningless, and it could help fuel more upside in the coming days. So I'll hold on to my current small SPY position on Tuesday – only selling if it again rallies and closes above the Differential Pivot.

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

The intermediate-term outlook was last updated in the 1/4/21 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

BAC

BK

CAT

GS

JPM

MS

BAC – 2nd lot

CAT – 2nd lot

GS – 2nd lot

JPM – 2nd lot

MS – 2nd lot

BAC – 3rd lot – no fill (try again)

GS – 3rd lot

JPM – 3rd lot – no fill

MS – 3rd lot – no fill (try again)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BAC(1/3)	1/26/2021	\$31.16	\$29.87	-4.14%		Catapult
BK(1/3)	1/26/2021	\$41.30	\$40.47	-2.01%		Catapult
JPM(1/3)	1/26/2021	\$132.12	\$129.62	-1.89%		Catapult
CAT(1/3)	1/26/2021	\$187.34	\$184.72	-1.40%		Catapult
MS(1/3)	1/26/2021	\$72.38	\$67.67	-6.51%		Catapult
GS(1/3)	1/26/2021	\$283.04	\$274.73	-2.94%		Catapult
BAC(1/3)	1/27/2021	\$30.31	\$29.87	-1.45%		Catapult
JPM(1/3)	1/27/2021	\$129.59	\$129.62	0.02%		Catapult
CAT(1/3)	1/27/2021	\$184.20	\$184.72	0.28%		Catapult
MS(1/3)	1/27/2021	\$69.73	\$67.67	-2.95%		Catapult
GS(1/3)	1/27/2021	\$276.00	\$274.73	-0.46%		Catapult
GS(1/3)	1/28/2021	\$273.33	\$274.73	0.51%		Catapult
SPY(1/4)	1/29/2021	\$375.63	\$376.23	0.16%		sell if SPX closes > 3808.95
BAC(1/3)	2/1/2021	\$29.57	\$29.87	1.01%		Catapult

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