

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 5, 2021

Volume 14 Issue 24

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- SPX new closing high on very low volume appears short-term positive.
- Strong 4-day rallies when SPX > 200ma have led to further gains in the past.
- SPX 1% gain on the lowest volume in over a month suggests a short-term downside edge.
- 3+ days of strong Nasdaq breadth are often followed by a down day.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

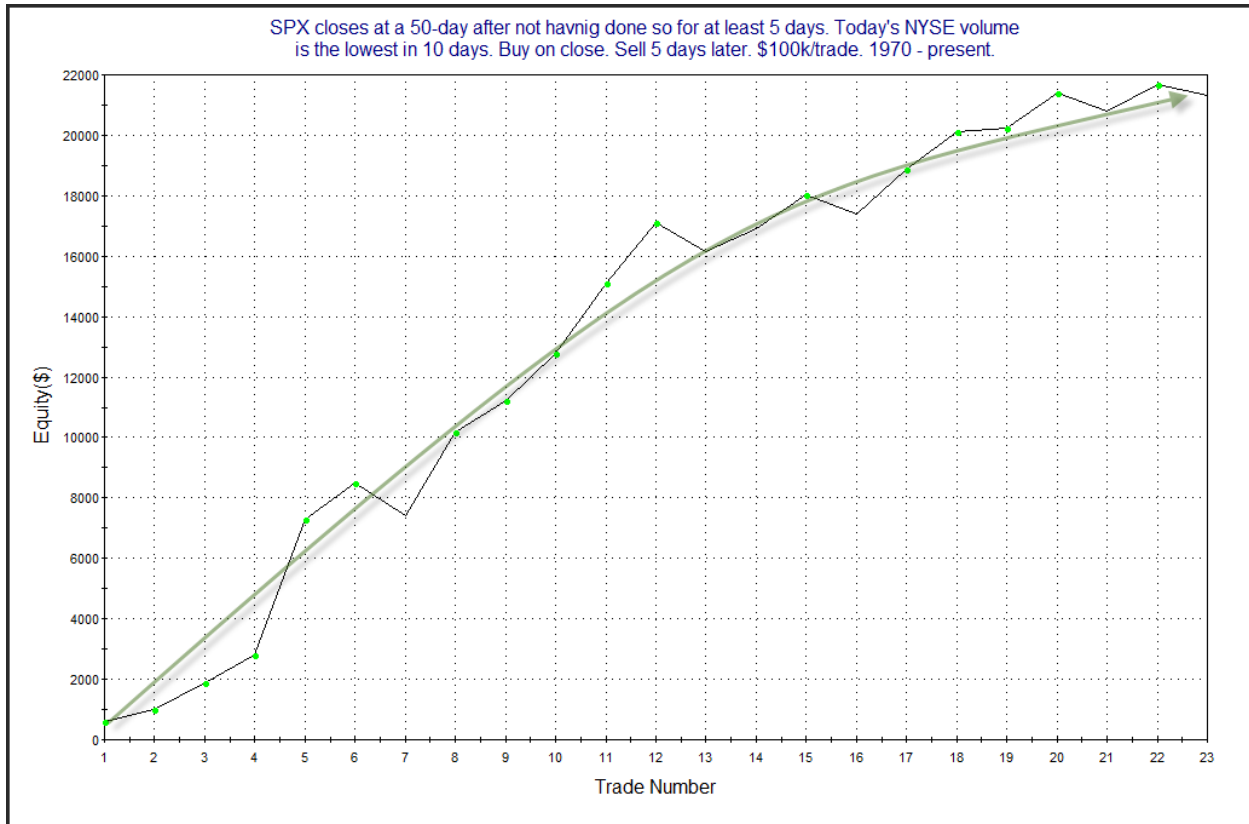
The Evidence

The rally continued on Thursday. The SPX gained 1.1%, the NASDAQ climbed 1.2%, and the Russell 2000 rose 2.0%. Breadth was positive with the NYSE Up Issues % coming in at 72% and the Up Volume % at 63%. NYSE total volume came in at the lowest level in a month.

SPX managed to break out to a new all-time closing high. This triggered a few studies in the Quantifinder. Interestingly, new highs that are accompanied by lower volume often fare better over the short-term than those that occur on rising volume. This is something I have shown a number of times over the years. (An exception to this rule is if the volume is extremely high.) But Monday's volume was not just lower, it was actually the lowest volume in a few weeks. This triggered the study below, which I last featured in the 8/8/17 letter. Results are updated.

SPX closes at a 50-day high after not havnig done so for at least 5 days. Today's NYSE volume is the lowest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	21,324.40	23	18	5	78.26	4,482.50	-1,081.20	1,387.79	-731.17	1.90	6.83	927.15
4	16,147.61	23	17	6	73.91	4,440.00	-1,583.60	1,248.49	-846.11	1.48	4.18	702.07
3	16,995.30	23	15	8	65.22	3,950.00	-1,708.00	1,430.83	-558.39	2.56	4.80	738.93
2	14,208.59	23	19	4	82.61	1,888.00	-1,350.00	882.50	-639.73	1.38	6.55	617.76
1	4,133.63	23	16	7	69.57	1,384.02	-1,921.32	549.14	-664.65	0.83	1.89	179.72

As you can see, the low volume has not in any way seemed to hinder a continuation of the breakout. Looking out 1-5 days the numbers all appear strong. Below is a look at the 5-day profit curve.



That is an impressive upslope, which serves as some confirmation of the upside edge. I have added this study to the Active List.

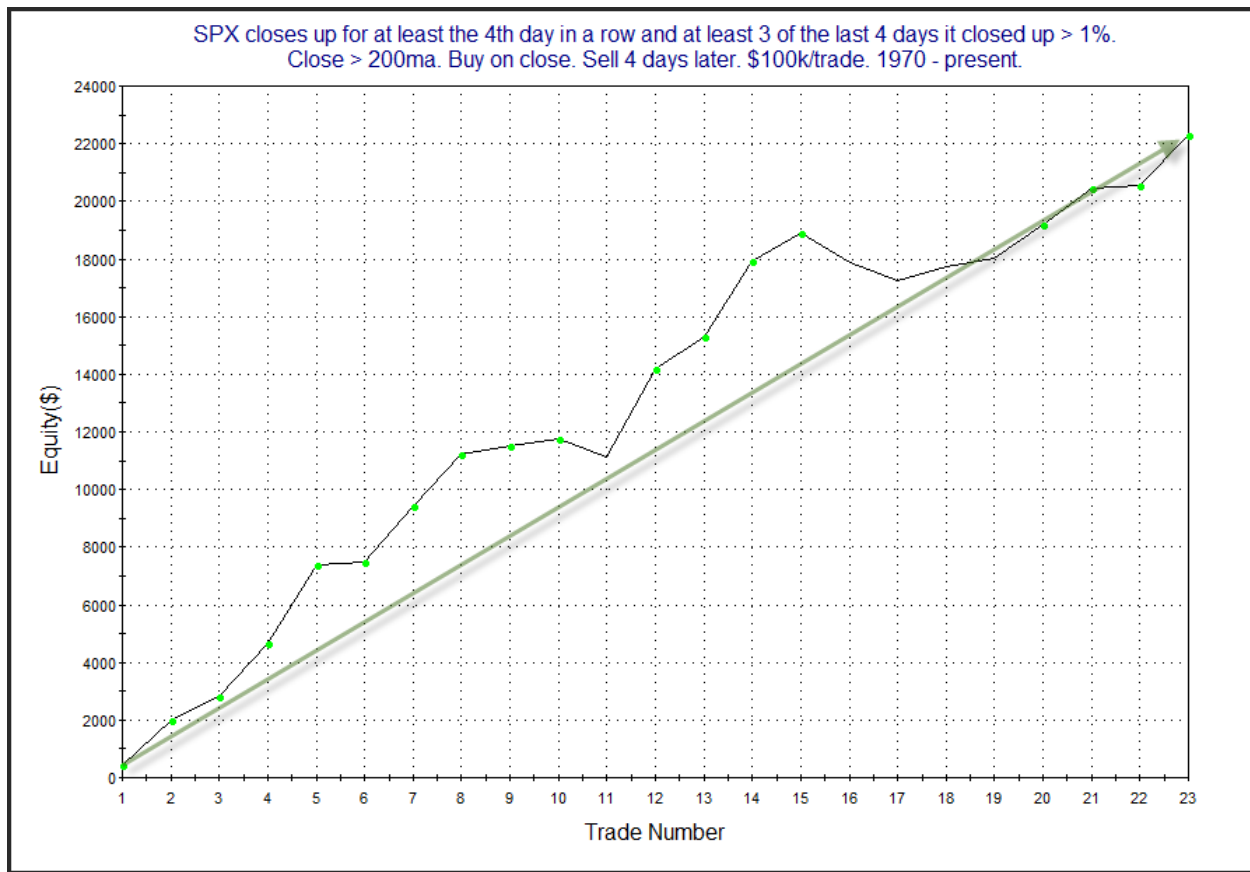
Another study that provided interesting results is was from the 12/15/18 letter. It looked at strong price thrusts in SPX like we have seen over the last 4 days. Below are updated results.

SPX closes up for at least the 4th day in a row and at least 3 of the last 4 days it closed up > 1%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	23,377.95	23	18	5	78.26	3,581.50	-1,493.32	1,605.22	-1,103.19	1.46	5.24	1,016.43
4	22,289.87	23	20	3	86.96	3,067.74	-1,043.86	1,227.33	-752.27	1.63	10.88	969.12
3	20,785.35	23	17	6	73.91	4,318.58	-1,698.57	1,433.10	-596.21	2.40	6.81	903.71
2	10,188.44	23	14	9	60.87	2,586.57	-1,301.14	999.03	-421.99	2.37	3.68	442.98
1	2,818.51	27	13	14	48.15	2,609.46	-1,362.90	690.23	-439.61	1.57	1.46	104.39

25 of 27 instances (93%) closed above the entry price at some point in the next week.

The above stats are impressive. Below is a profit curve assuming a 4-day holding period.



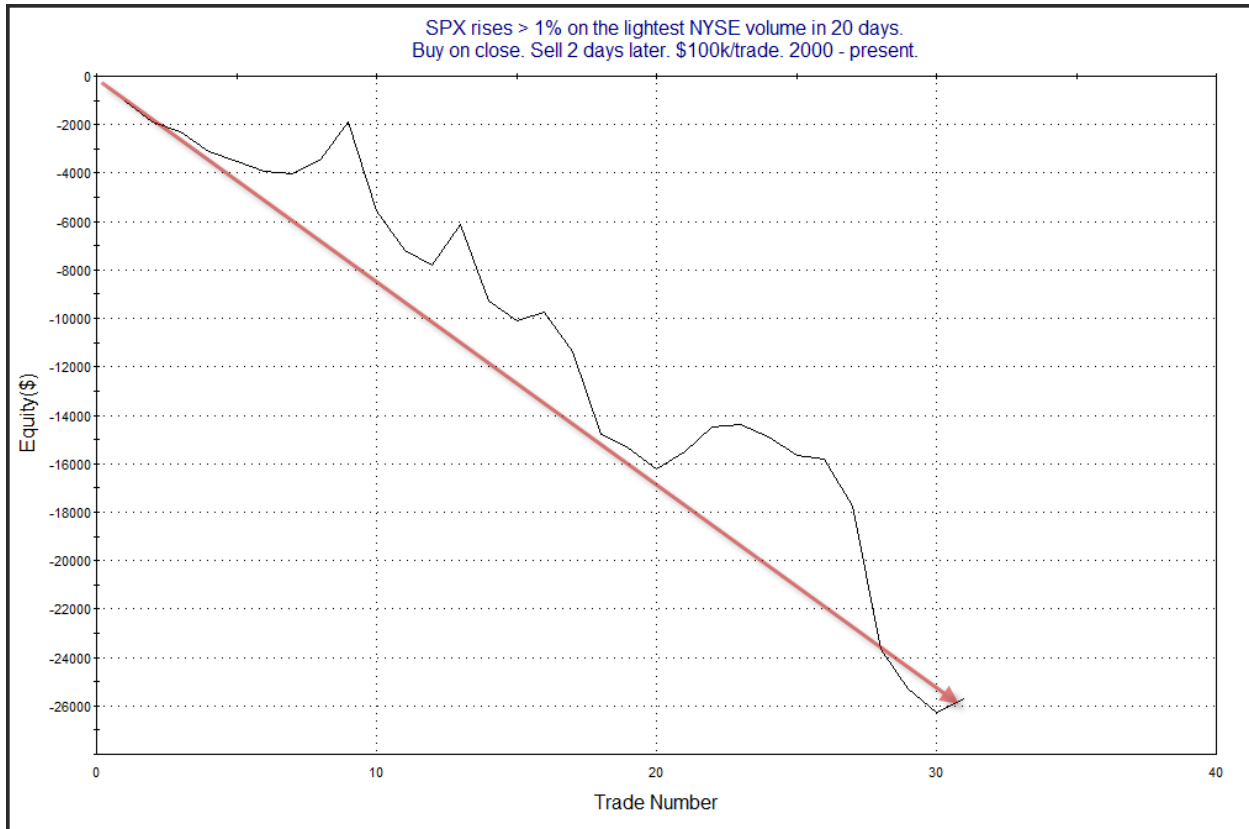
I do like the curve. It appears this study is worth taking under some consideration. Price thrusts as we have seen over the last few days have led to further upside on a fairly consistent basis. I have included this study on the Short-Term Active List. But not everything looked so encouraging.

The bears might be able to point to the light volume as a potential problem. The study below was last seen in the 10/7/19 letter. Results are updated.

SPX rises > 1% on the lightest NYSE volume in 20 days.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

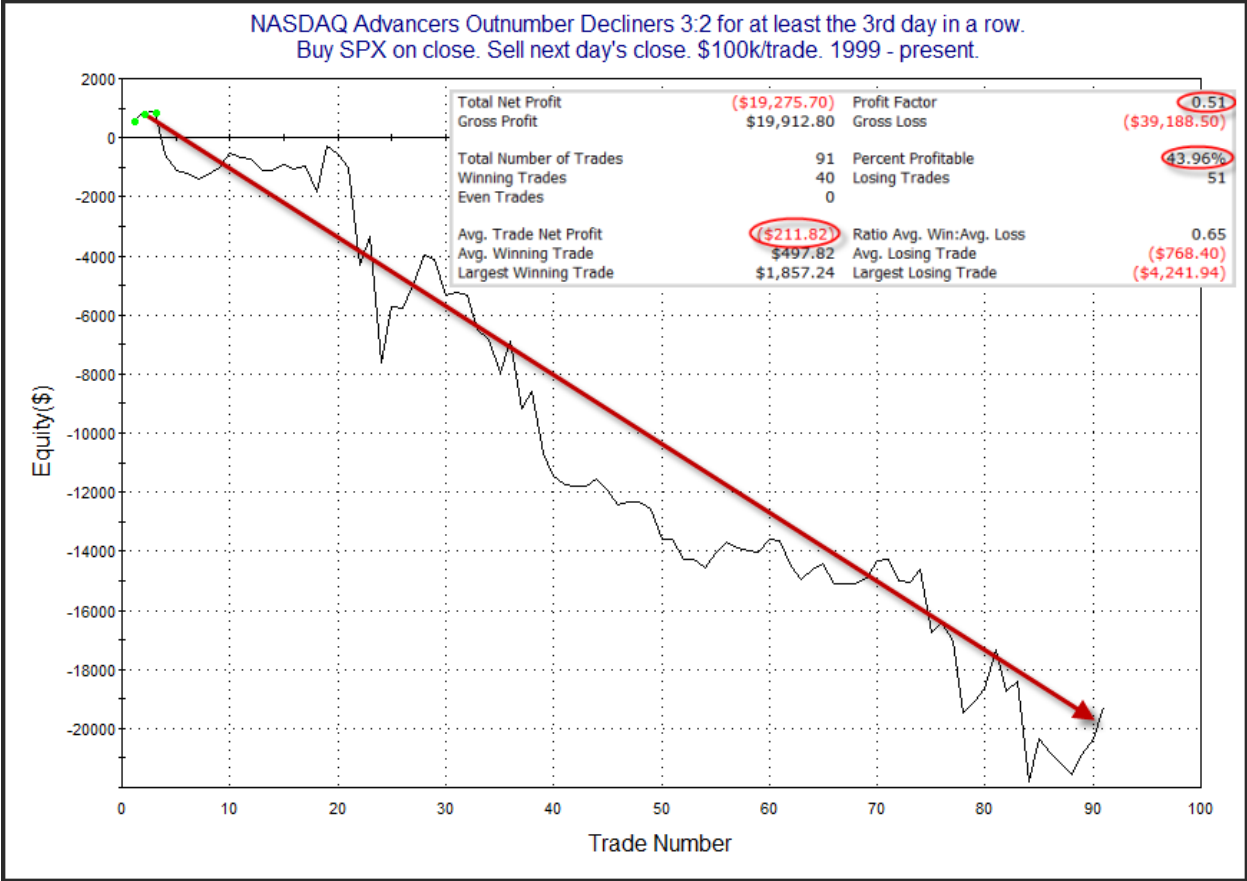
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-27,943.98	30	14	16	46.67	2,927.68	-10,421.45	1,518.35	-3,075.05	0.49	0.43	-931.47
4	-25,532.24	31	13	18	41.94	2,978.79	-6,227.66	1,256.79	-2,326.14	0.54	0.39	-823.62
3	-25,775.63	31	13	17	41.94	2,201.31	-8,419.83	1,033.98	-2,306.91	0.45	0.34	-831.47
2	-25,712.19	31	8	23	25.81	1,688.95	-5,933.70	817.63	-1,402.31	0.58	0.20	-829.43
1	-16,367.97	31	10	21	32.26	2,112.96	-2,390.72	715.27	-1,120.03	0.64	0.30	-528.00

Numbers here appear to suggest a downside edge. Below is an equity curve.



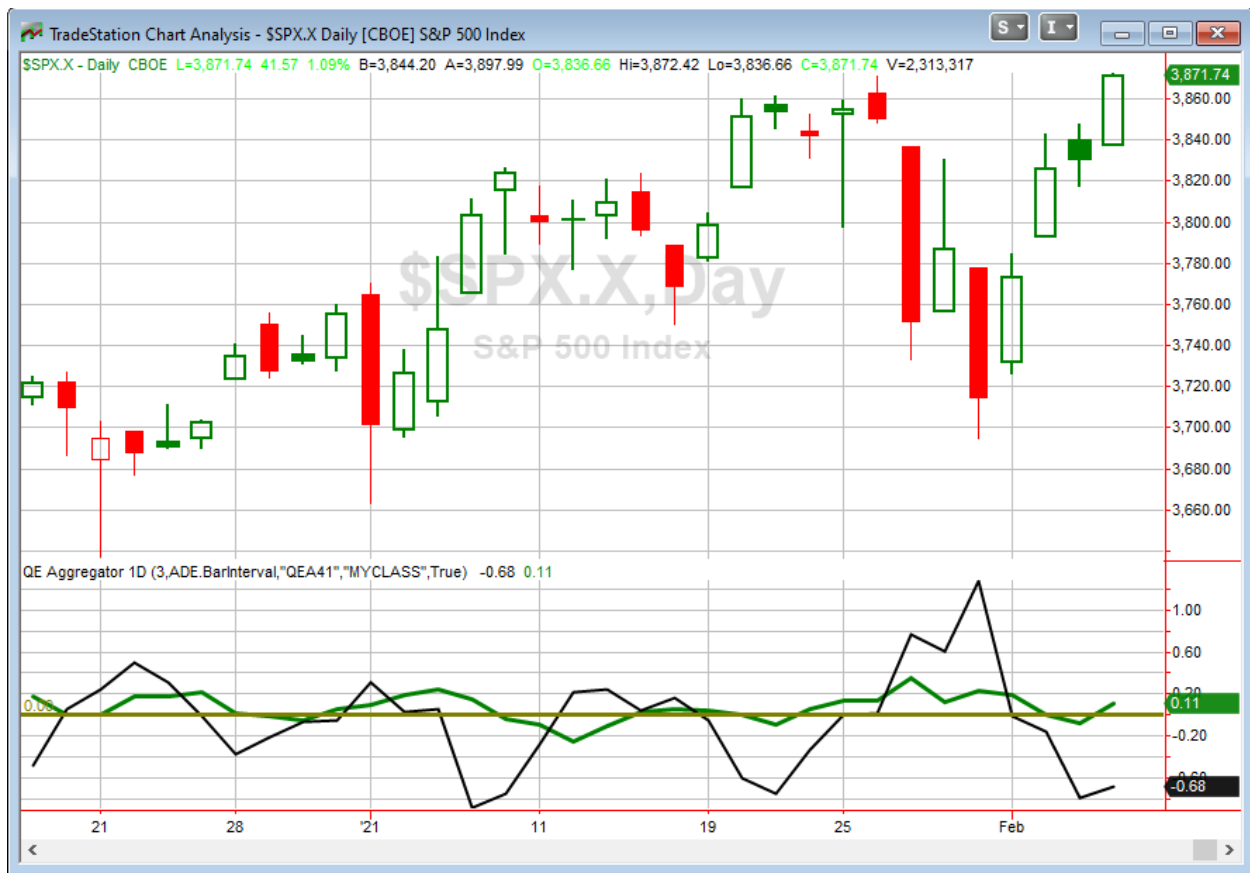
The curve appears to serve as confirmation of the bearish edge suggested by the numbers. I have also included this study on the short-term active list.

Lastly, the persistently strong NASDAQ breadth study that I discussed last night also triggered again. I won't go over it all again tonight, but I have updated the SPX numbers and chart below.



This is again on the Active List as well.

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



With tonight's evidence considered the green Aggregator Line moved back above zero. Positive readings mean net expectations are for upside 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 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 zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain slightly positive on Friday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3842.04 on Friday. That is 0.8% below Thursday's close. So SPX would need to close down about 0.8% on Friday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is mixed, and the market is overbought in an uptrend. I don't see a strong short-term edge here worth playing. I'll wait for a better reward/risk setup to emerge before looking to take on new index trades.

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

New

AMGN

Broad Market Large Cap CBI – 1(AMGN)

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.

AMGN – Buy 1/3 Catapult position @ \$237.22 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for AMGN.

Current Open Trade Ideas

None tonight.

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