QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 19, 2021 Volume 14 Issue 33

Market Overview

Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 3-day pullback is showing mixed indications depending on how you view it.
- Opex Friday has often seen bearish intraday returns, especially for the NASDAQ 100.

Short-term Outlook
The Bottom Line
The Aggregator is bullish, but the setup is less than ideal, and may be short-lived unless more bullish evidence emerges on Friday.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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 19, 2021	SPX dn 3. Last 2 close top 30% rng	1-5 days	Bearish	-1.85%	1.00%	1.60%
February 19, 2021	3dn from 50-high. Close > 10ma	1-3 days	Bullish	1.05%	-0.70%	-1.50%
February 18, 2021	SPX down 2 from 50-hi < 0.25%	1-2 days	Bullish			
Active - Long Term						
February 10, 2021	5 up to 50-high then down 1	1-10 days	Bullish	1.90%	-1.00%	-2.20%
February 8, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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

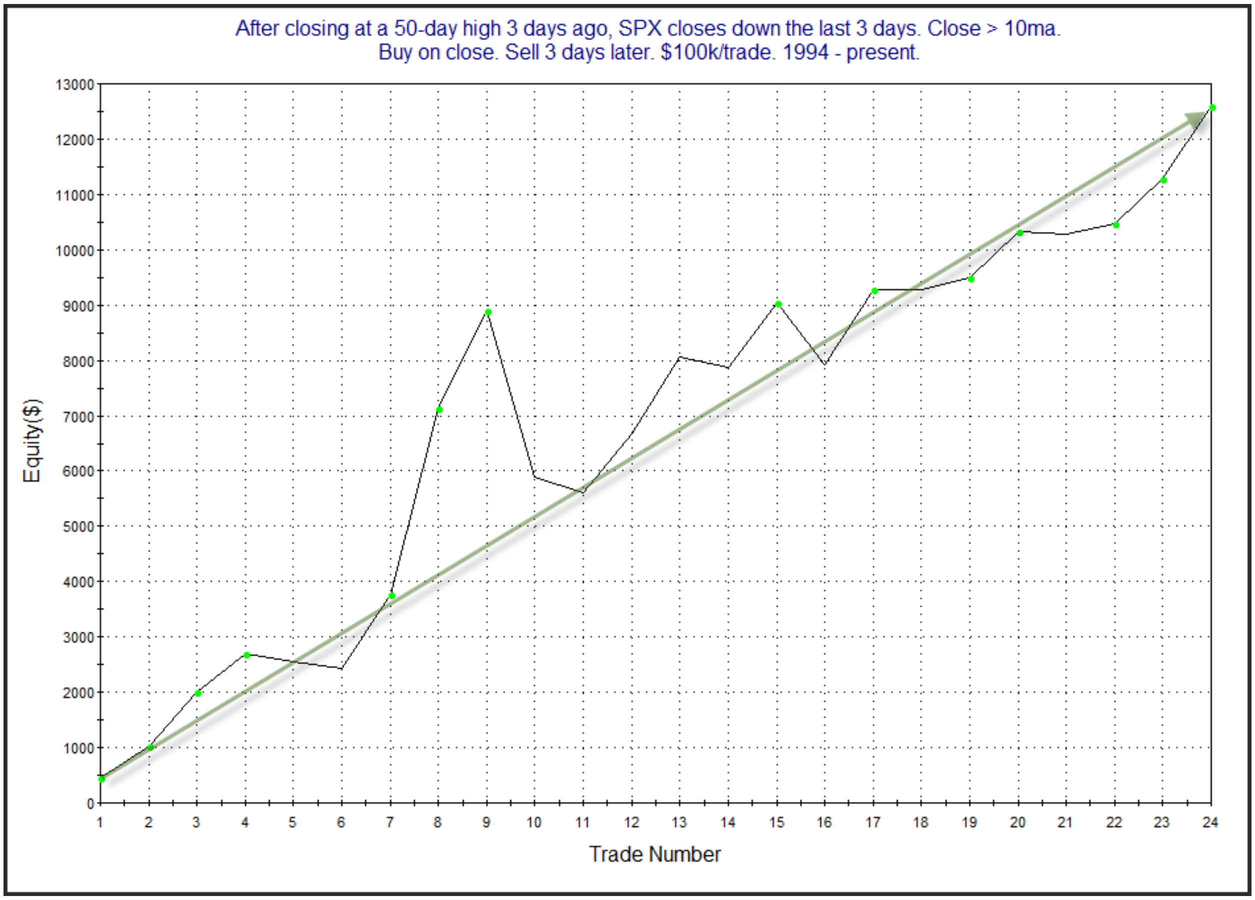
The indices all sold off on Thursday, but they finished well off their lows of the day. The SPX closed down 0.4%, the NASDAQ lost 0.7%, and the Russell 2000 declined 1.7%. Breadth was negative with the NYSE Up Issues % coming in at 32% and the Up Volume % at 23%. NYSE total volume declined some from Wednesday's level.

Three-day pullbacks during uptrends will often generate bullish evidence. And this was the 1st 3-day pullback for SPX since mid-December. Interestingly, the evidence that has emerged from the pullback is mixed. The study below is one for the bulls. It looks at pullbacks from 50-day highs that don't actually pull back all that much.

After closing at a 50-day high 3 days ago, SPX closes down the last 3 days. Close > 10ma.
Buy on close. Sell X days later. $100k/trade. 1994 - 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	6,822.59	24	17	7	70.83	2,898.18	-4,353.36	1,313.87	-2,216.17	0.59	1.44	284.27
4	9,314.04	24	17	7	70.83	3,806.19	-3,265.36	1,186.77	-1,551.57	0.76	1.86	388.09
3	12,590.97	24	16	8	66.67	3,372.03	-3,017.16	1,095.81	-617.76	1.77	3.55	524.62
2	7,300.91	24	15	8	62.50	3,583.44	-3,539.40	900.08	-775.03	1.16	2.18	304.20
1	1,848.32	24	13	11	54.17	1,351.08	-969.14	439.18	-351.00	1.25	1.48	77.01

The numbers lean to the long side over the first few days. Below is a look at a 3-day profit curve.



While a bit choppy, it has been a persistent move higher with the green arrow heading from lower left to upper right. I have included this study on the Active List tonight.

But one thing I found unusual about this pullback is that SPX has closed high within its intraday range both of the last two days. Wednesday it closed in the 93rd percentile and Thursday in the 78th percentile. I looked back at other times in which a 3+ day pullback finished high in its range on the last two days. The table below requires closes in the top 25% of the intraday range.

SPX closes down for at least 3rd day in a row. The last 2 days it closed in the top 25% of the intraday range. Buy on close. Sell X days later. $100k/trade. 1980 - 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	-5,698.93	5	0	5	0.00	0.00	-1,980.30	0.00	-1,139.79	0.00	0.00	-1,139.79
4	-1,981.50	5	2	3	40.00	658.26	-1,638.00	569.25	-1,040.00	0.55	0.36	-396.30
3	-1,254.96	5	2	3	40.00	703.34	-1,527.66	495.97	-748.97	0.66	0.44	-250.99
2	-293.97	5	2	3	40.00	997.60	-1,474.53	858.06	-670.03	1.28	0.85	-58.79
1	2,321.40	5	4	1	80.00	1,771.20	-667.92	747.33	-667.92	1.12	4.48	464.28

Other than Day 1, the table numbers are quite poor. Five days later all 5 instances were lower, and by an average of more than 1%. Of course that is just 5 measly instances. I loosened the requirement to 70% to see if I could get a few more instances.

SPX closes down for at least 3rd day in a row. The last 2 days it closed in the top 30% of the intraday range. Buy on close. Sell X days later. $100k/trade. 1980 - 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	-7,961.40	8	1	7	12.50	611.03	-1,980.30	611.03	-1,224.63	0.50	0.07	-995.17
4	-3,199.41	8	3	5	37.50	658.26	-1,638.00	575.72	-985.32	0.58	0.35	-399.93
3	-2,360.90	8	3	5	37.50	797.65	-1,881.90	596.53	-830.10	0.72	0.43	-295.11
2	-135.88	8	4	4	50.00	997.60	-1,474.53	652.15	-686.12	0.95	0.95	-16.98
1	2,445.01	9	6	3	66.67	1,771.20	-712.98	638.05	-461.10	1.38	2.77	271.67

Instances are still lower than I would like, but early returns suggest perhaps a bearish inclination over the next week. Below is the list of all 8 instances and their 5-day returns.

SPX closes down for at least 3rd day in a row. The last 2 days it closed in the top 30% of the intraday range. Buy on close. Sell 5 days later. $100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/12/1989	Buy	$326.23	-1.33%	$0.00
6/19/1989	Sell	$321.88		($2,310.30)
2/10/1992	Buy	$413.77	-1.55%	$1,038.71
2/18/1992	Sell	$407.37		($1,790.63)
9/22/2000	Buy	$1,448.71	-0.84%	$895.62
9/29/2000	Sell	$1,436.48		($2,019.63)
2/23/2001	Buy	$1,245.47	-0.90%	$2,183.20
3/2/2001	Sell	$1,234.20		($2,477.60)
5/24/2013	Buy	$1,649.60	-0.56%	$1,476.60
6/3/2013	Sell	$1,640.42		($1,612.80)
9/1/2016	Buy	$2,170.86	-1.98%	$782.46
9/9/2016	Sell	$2,127.81		($1,980.30)
1/31/2017	Buy	$2,278.87	0.62%	$882.79
2/7/2017	Sell	$2,293.08		($310.46)
6/19/2018	Buy	$2,762.57	-1.43%	$442.44
6/26/2018	Sell	$2,723.06		($2,300.40)

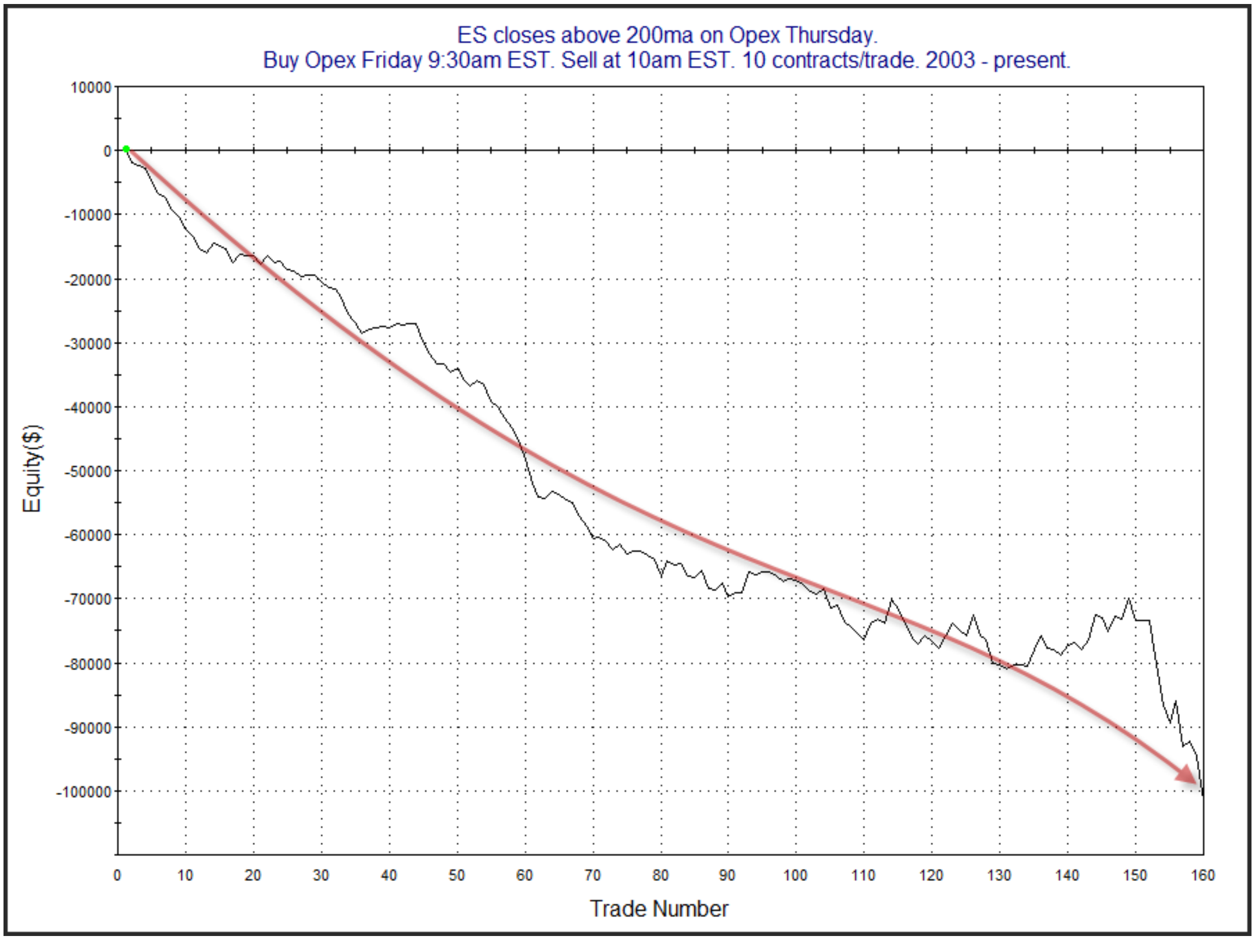
I did include this study on the Active List tonight, though it was a borderline decision since the instances were low.

It is also notable that Friday is options expiration. Options expiration has long been a day that has seen weakness after the opening bell (and strength before it). Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. The tables and charts are *not* updated from last month's 1/15/21 letter.

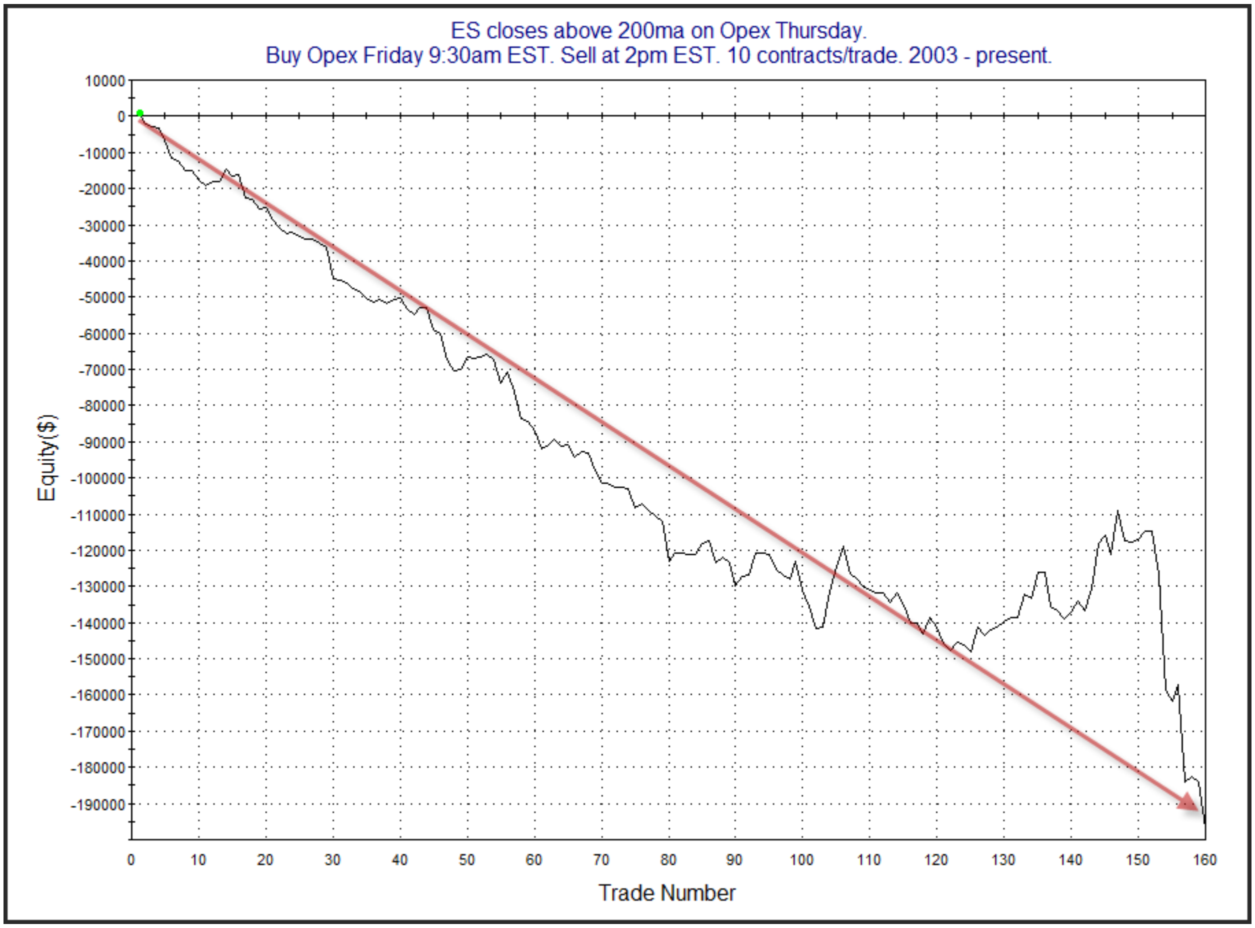
ES closes above 200ma on Opex Thursday.
Buy Opex Friday 9:30am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-196,875.00	160	68	89	42.50	13,875.00	-28,500.00	2,875.00	-4,408.71	0.65	0.50	-1,230.47
1,500	-157,125.00	160	63	92	39.38	11,625.00	-24,250.00	3,095.24	-3,827.45	0.81	0.55	-982.03
1,400	-197,000.00	160	53	100	33.13	12,500.00	-31,625.00	2,860.85	-3,486.25	0.82	0.43	-1,231.25
1,300	-158,750.00	160	56	103	35.00	11,375.00	-22,125.00	2,756.70	-3,040.05	0.91	0.49	-992.19
1,200	-138,500.00	160	57	103	35.63	12,000.00	-12,750.00	2,528.51	-2,743.93	0.92	0.51	-865.63
1,100	-112,375.00	160	60	98	37.50	14,625.00	-12,625.00	2,122.92	-2,446.43	0.87	0.53	-702.34
1,000	-101,500.00	160	48	108	30.00	3,875.00	-7,000.00	1,236.98	-1,489.58	0.83	0.37	-634.38

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) The largest downside totals would have been achieved by exiting at 2pm. Below is a look at a profit curve for the 1st half-hour.



The strong move from upper left to lower right supports the bearish case. Next is the 2pm exit.

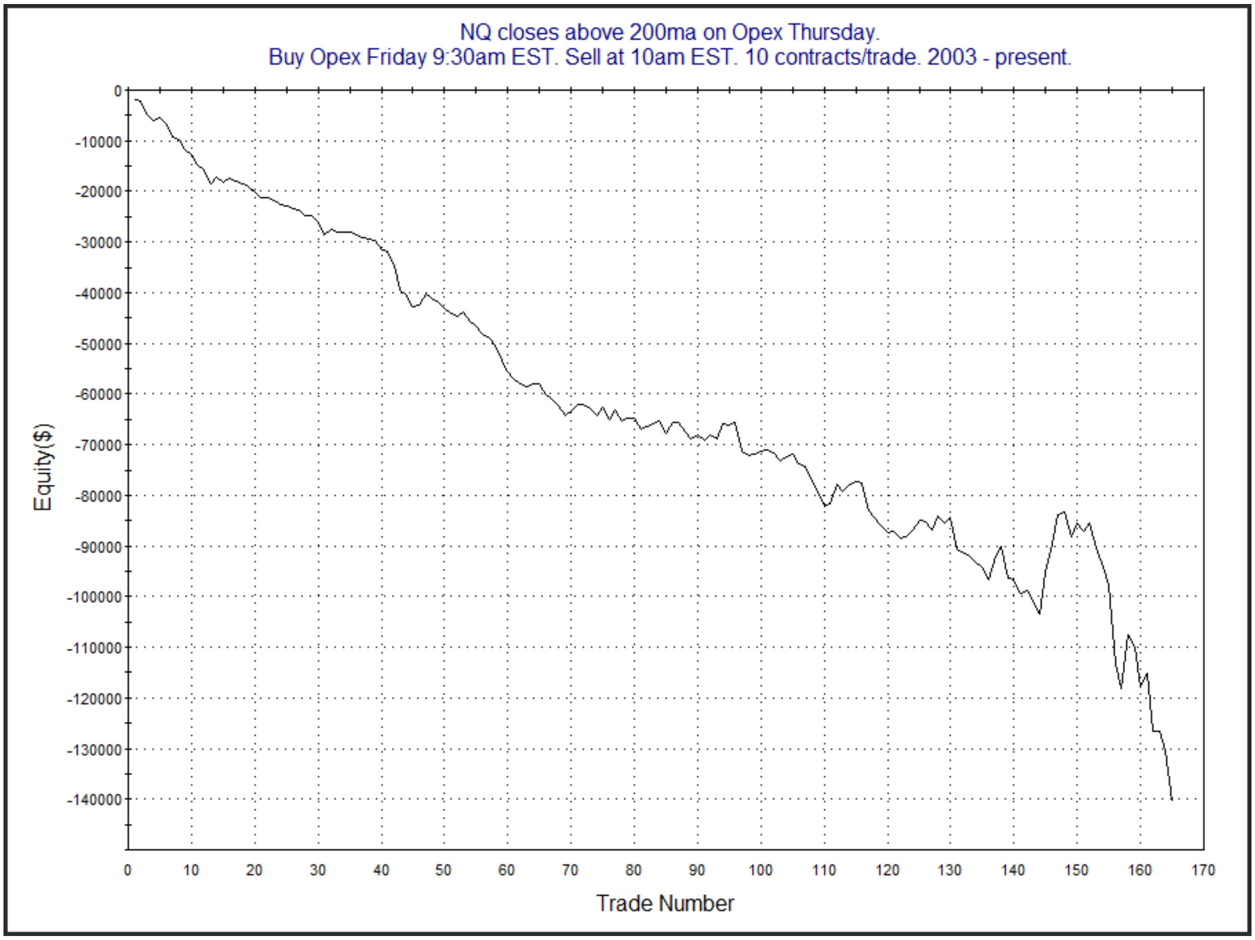


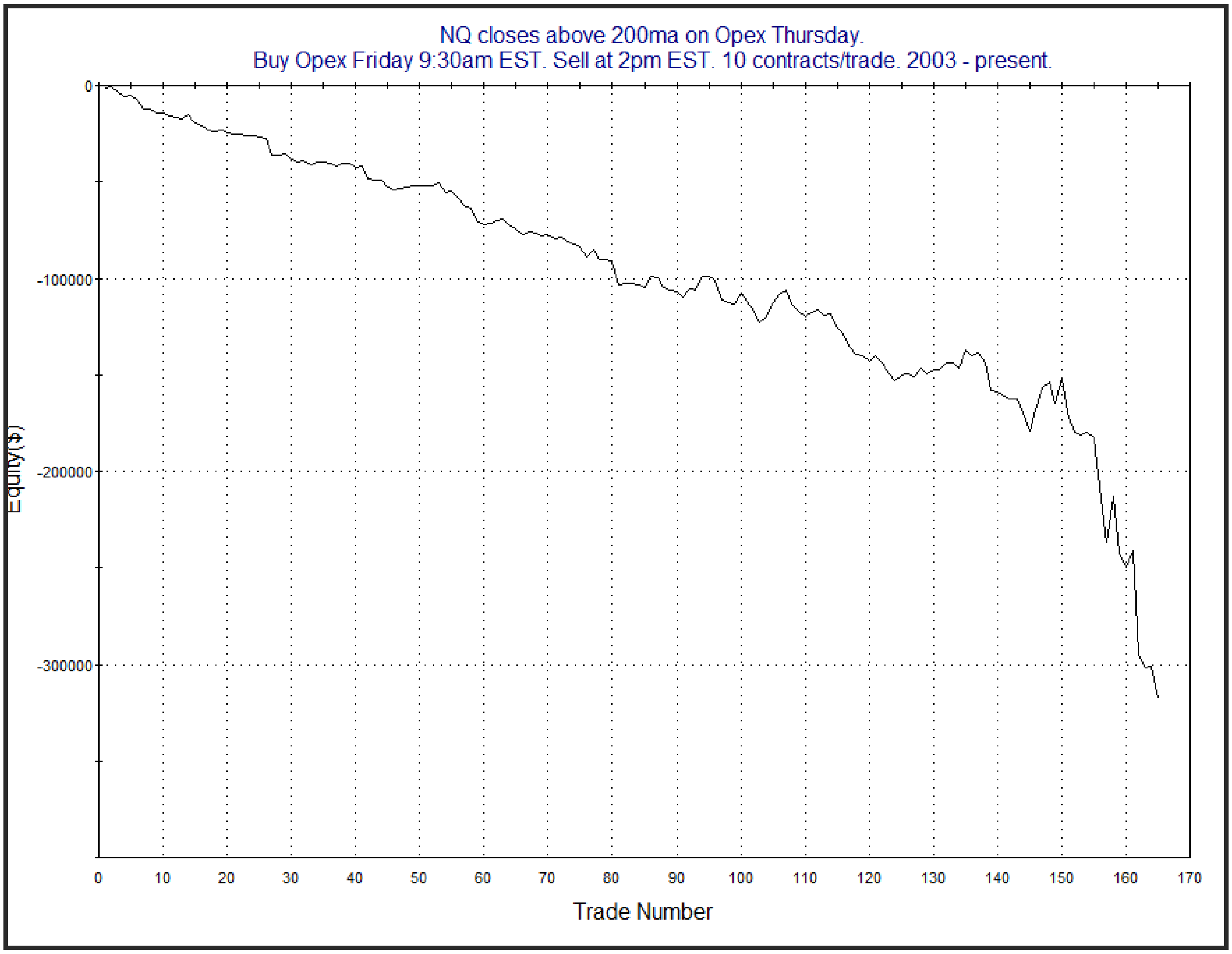
This is also impressive.

NQ (the NASDAQ 100 future) has seen an even stronger tendency to sell off. This can be seen in the table and profit curves below.

NQ closes above 200ma on Opex Thursday.
Buy Opex Friday 9:30am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

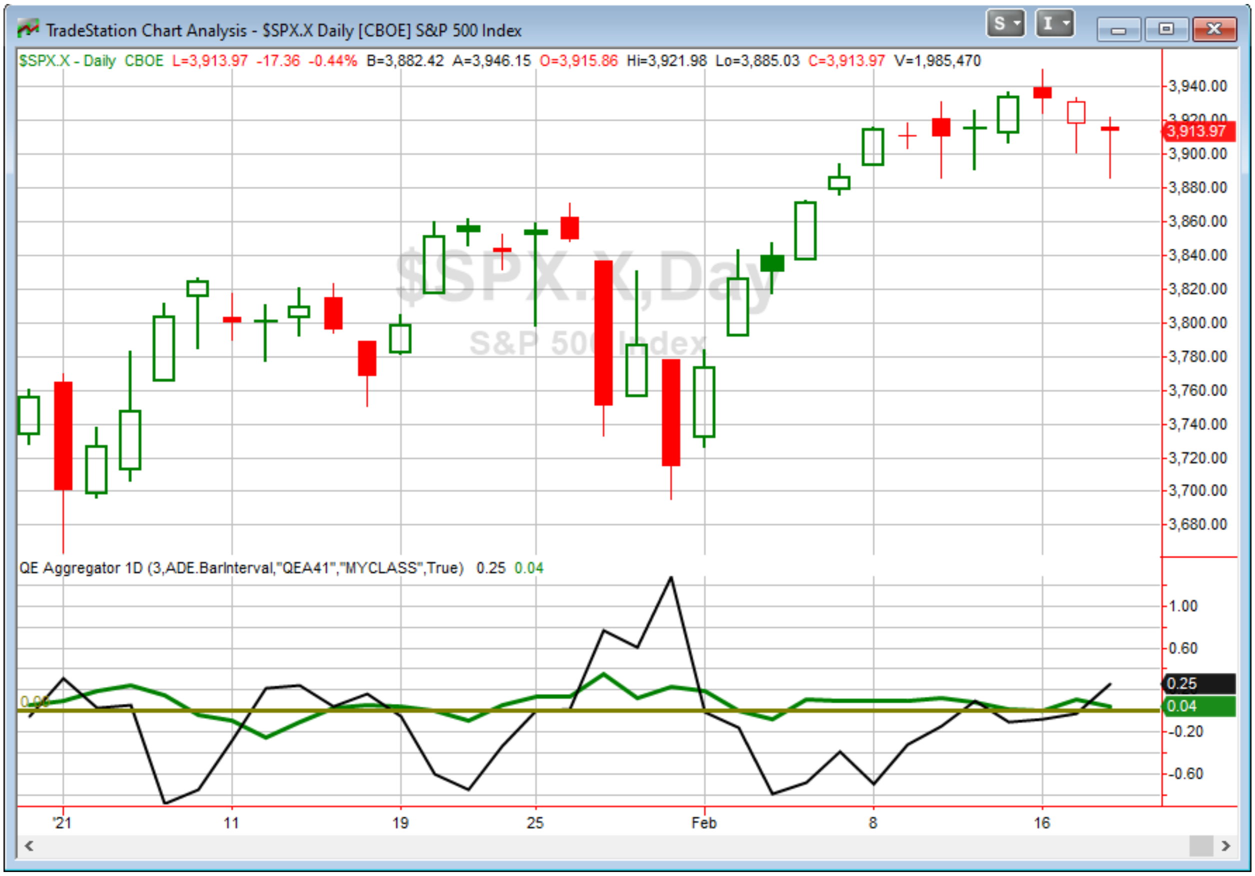
OE Op-Ex Fri Intra Short2: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-316,050.00	165	65	100	39.39	36,850.00	-39,500.00	3,359.23	-5,344.00	0.63	0.41	-1,915.45
1,500	-278,000.00	165	62	102	37.58	22,850.00	-44,750.00	3,341.94	-4,756.86	0.70	0.43	-1,684.85
1,400	-318,000.00	165	55	110	33.33	23,550.00	-54,100.00	3,062.73	-4,422.27	0.69	0.35	-1,927.27
1,300	-253,500.00	165	60	103	36.36	19,200.00	-53,400.00	2,951.67	-4,180.58	0.71	0.41	-1,536.36
1,200	-236,200.00	165	62	102	37.58	11,050.00	-32,550.00	2,475.00	-3,820.10	0.65	0.39	-1,431.52
1,100	-167,400.00	165	58	107	35.15	17,650.00	-31,300.00	2,786.21	-3,074.77	0.91	0.49	-1,014.55
1,000	-140,450.00	165	50	111	30.30	10,700.00	-15,500.00	1,670.00	-2,017.57	0.83	0.37	-851.21


NQ closes above 200ma on Opex Thursday.
Buy Opex Friday 9:30am EST. Sell at 10am EST. 10 contracts/trade. 2003 - present.
Equity($)
0
-10000
-20000
-30000
-40000
-50000
-60000
-70000
-80000
-90000
-100000
-110000
-120000
-130000
-140000
0
10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
Trade Number



The bearish edge appears alive and well here. So traders may want to remain aware of this during the day on Friday.

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 moved 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 turned long at the close.

Based on the current active studies, expectations are set to flip to negative on Friday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3936.48 on Friday. That is 0.6% above Thursday's close. Therefore, SPX will need to close up 0.6% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Unfortunately, it is not yet looking like a great signal. We could see some pressure in the morning based on opex seasonality. And the positive expectations will turn negative at the close unless more bullish evidence emerges on Friday. Traders could consider a quick trade here. I'll give it another day to see if any additional evidence emerges. I'm not ready just yet to commit to an index position with evidence currently looking uncertain.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/16 – somewhat bullish

The intermediate-term outlook was last updated in the 2/16/21 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

None

Broad Market Large Cap CBI – 0

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

None.