

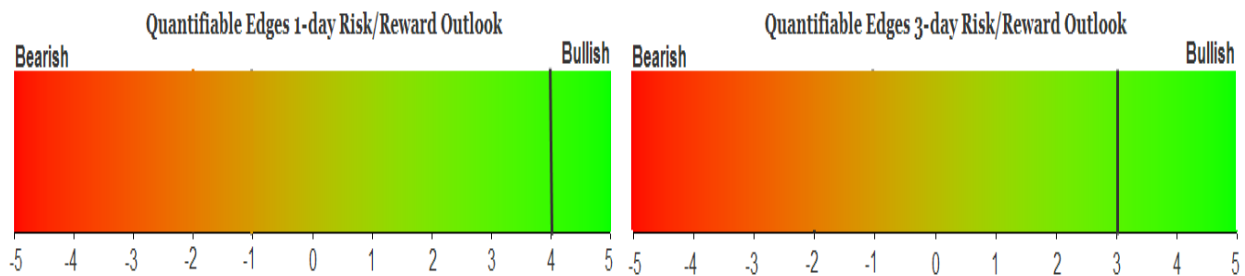
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 23, 2021

Volume 14 Issue 35

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- Multiple studies are suggesting the pullback has reached a point where a bounce is likely.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bullish, evidence is building, and there is ample room to the upside before SPX would turn overbought. Reward/risk appears favorable for the bulls. I like the long side.

**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
<b>Active - Short Term</b>						
February 23, 2021	Dn 4th day. Biggest drop. > 200ma	1-5 days	Bullish	2.00%	-1.00%	-1.70%
February 23, 2021	Btm 10%, 5-day low. Monday	1-5 days	Bullish	2.10%	-1.00%	-2.10%
February 23, 2021	Dn 5 days. > 200ma & > 20-low	1-2 days	Bullish			
February 22, 2021	System 11111	1-3 days	Bullish			
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%
<b>Active - Long Term</b>						
February 22, 2021	RUT 50ma 25% above 200ma	int term	Warning			
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**

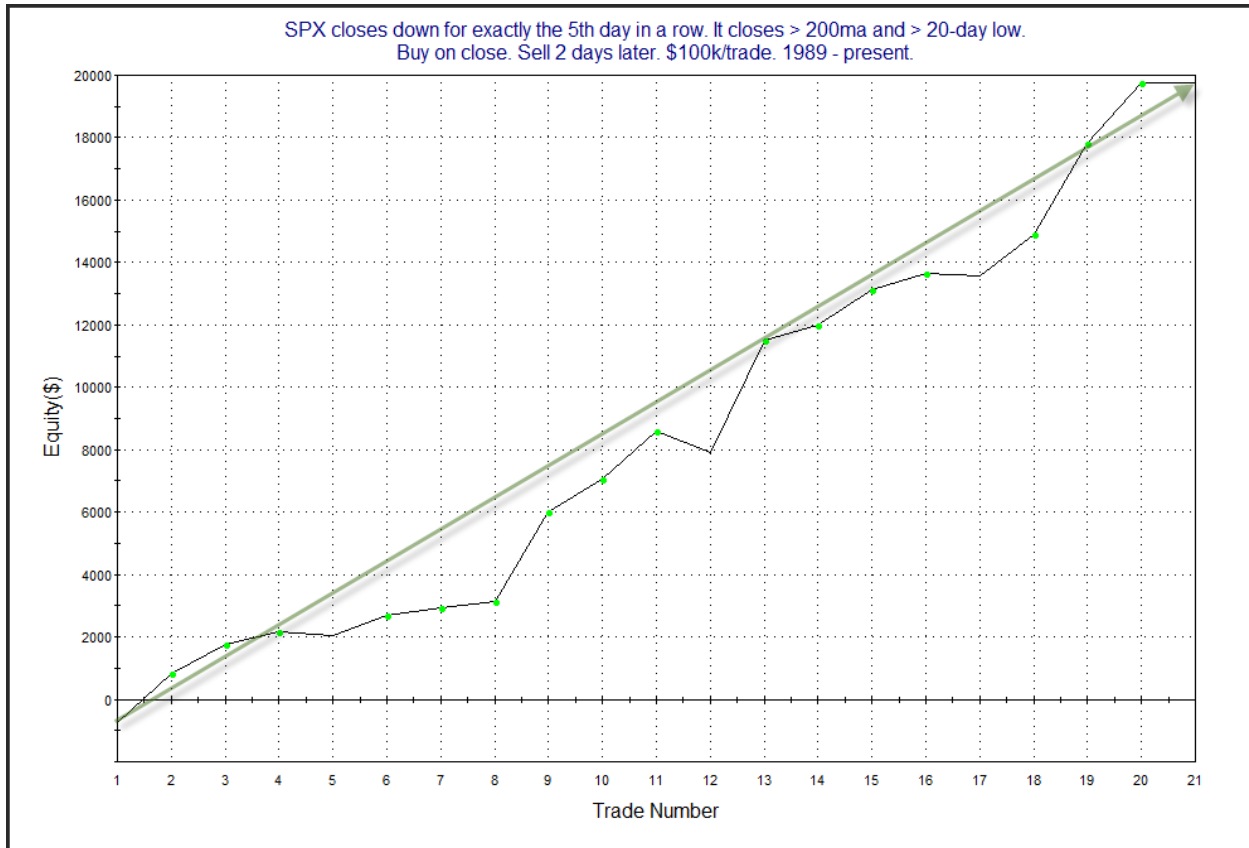
Monday saw the selling accelerate in most of the indices. The SPX closed down 0.8%, the NASDAQ tumbled 2.5%, and the Russell 2000 dropped 0.7%. Breadth was surprisingly mixed with the NYSE Up Issues % coming in at 48% and the Up Volume % at 55%. NYSE total volume rose some from Friday's level.

There were several studies that triggered suggesting the pullback has reached a point where it is likely to reverse on a short-term basis. I'll discuss three of the most compelling ones below.

The 1<sup>st</sup> study to highlight was from the 6/16/16 letter. It does not trigger often. It requires 5 lower closes above the 200ma and also above a 20-day low. Results below are updated.

SPX closes down for exactly the 5th day in a row. It closes > 200ma and > 20-day low. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	16,384.70	21	14	7	66.67	5,460.84	-1,479.60	1,552.89	-765.12	2.03	4.06	780.22
4	18,724.70	21	16	5	76.19	5,187.49	-1,389.15	1,410.84	-769.76	1.83	5.87	891.65
3	20,449.93	21	17	4	80.95	5,339.18	-1,169.92	1,389.03	-790.91	1.76	7.46	973.81
2	19,759.58	21	16	5	76.19	3,591.28	-763.84	1,338.58	-331.52	4.04	12.92	940.93
1	8,847.46	21	15	6	71.43	1,367.55	-1,155.00	788.27	-496.11	1.59	3.97	421.31

Based on the stats table there appears to be a bullish inclination, especially over the first 2-3 days. Below is a profit curve to see how the edge has evolved.



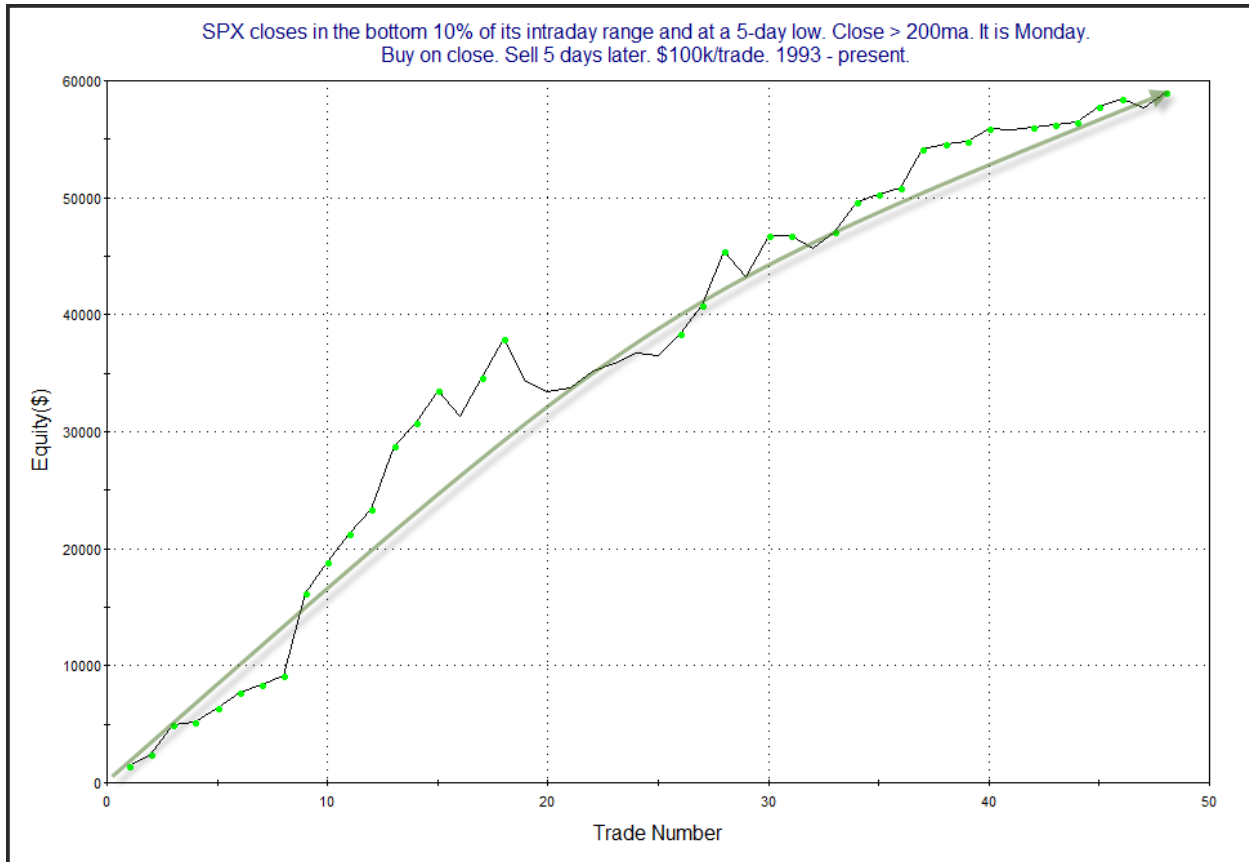
The profit curve supports the idea of a bullish edge.

The 2<sup>nd</sup> study considered 1) SPX closed poorly and at a short-term low, and 2) “Turnaround” Tuesday is coming up. Tuesday has historically been the most reliable day of the week for an oversold bounce to begin. This is one of many Turnaround Tuesday studies I have shared over the years. Last seen in the 12/3/19 letter, I results are updated.

SPX closes in the bottom 10% of its intraday range and at a 5-day low. Close > 200ma. It is Monday.  
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	58,979.07	48	40	8	83.33	7,070.28	-3,720.99	1,757.64	-1,415.81	1.24	6.21	1,228.73
4	45,347.55	48	40	8	83.33	5,187.49	-3,019.20	1,455.38	-1,608.45	0.90	4.52	944.74
3	34,594.67	48	34	14	70.83	5,339.18	-3,515.67	1,434.62	-1,013.03	1.42	3.44	720.72
2	26,880.36	48	32	16	66.67	4,809.66	-2,261.76	1,220.90	-761.78	1.60	3.21	560.01
1	26,832.51	48	36	12	75.00	5,117.46	-1,611.03	908.67	-489.96	1.85	5.56	559.01

These numbers are quite impressive from day 1. And 1 week out they are very strong. Below is a look at a profit curve that assumes a 5-day hold.



The strong upslope and persistent new highs serve as some confirmation of the bullish edge suggested by the stats table. I have included this study on the Active List tonight.

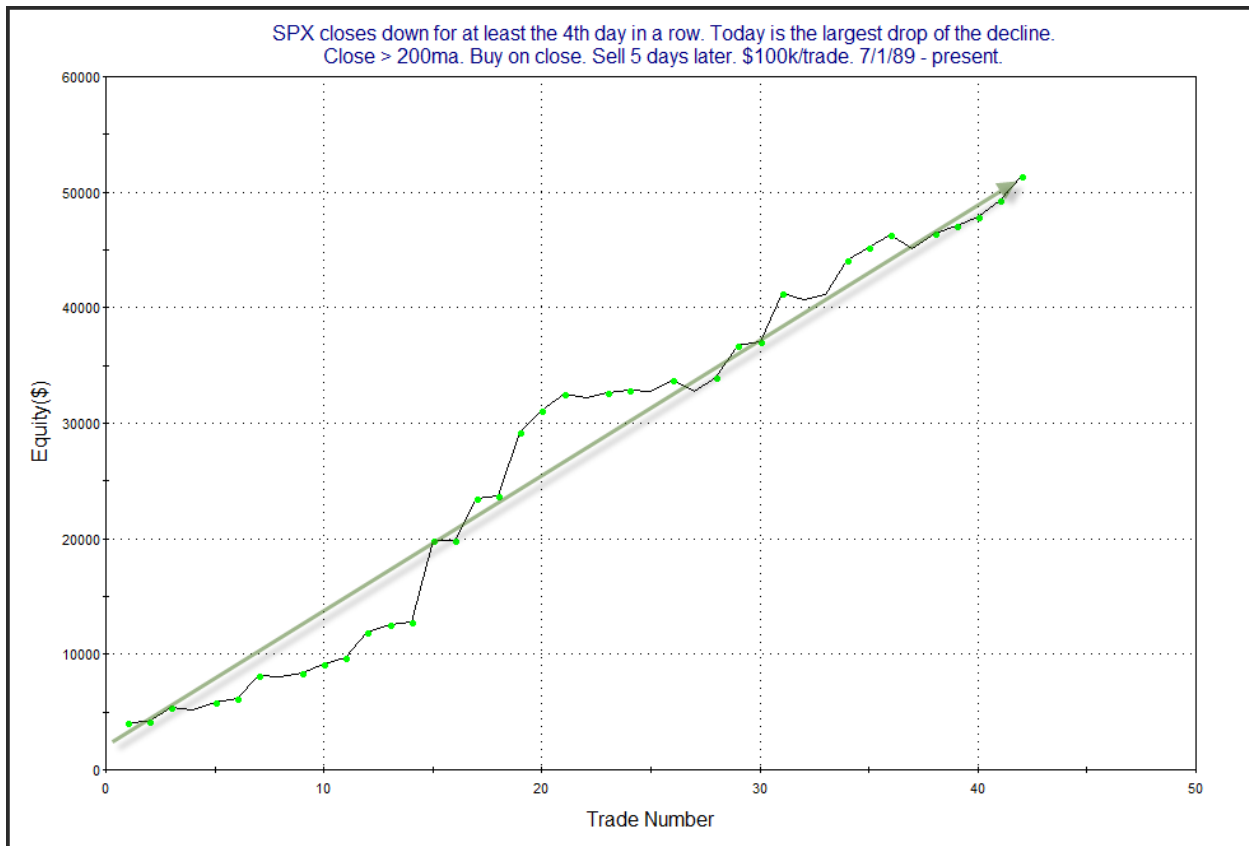
The last study was perhaps the most impressive. It examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 3/22/17 Subscriber Letter.

SPX closes down for at least the 4th day in a row. Today is the largest drop of the decline.  
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	51,376.23	42	35	7	83.33	7,070.28	-1,218.72	1,564.98	-485.45	3.22	16.12	1,223.24
4	42,730.74	42	32	10	76.19	5,187.49	-2,665.92	1,612.76	-887.77	1.82	5.81	1,017.40
3	39,783.99	42	30	12	71.43	5,339.18	-1,565.28	1,616.41	-725.70	2.23	5.57	947.24
2	32,918.51	43	31	12	72.09	4,809.66	-1,343.84	1,336.08	-708.33	1.89	4.87	765.55
1	19,832.53	46	31	15	67.39	5,117.46	-2,005.85	987.64	-718.95	1.37	2.84	431.14

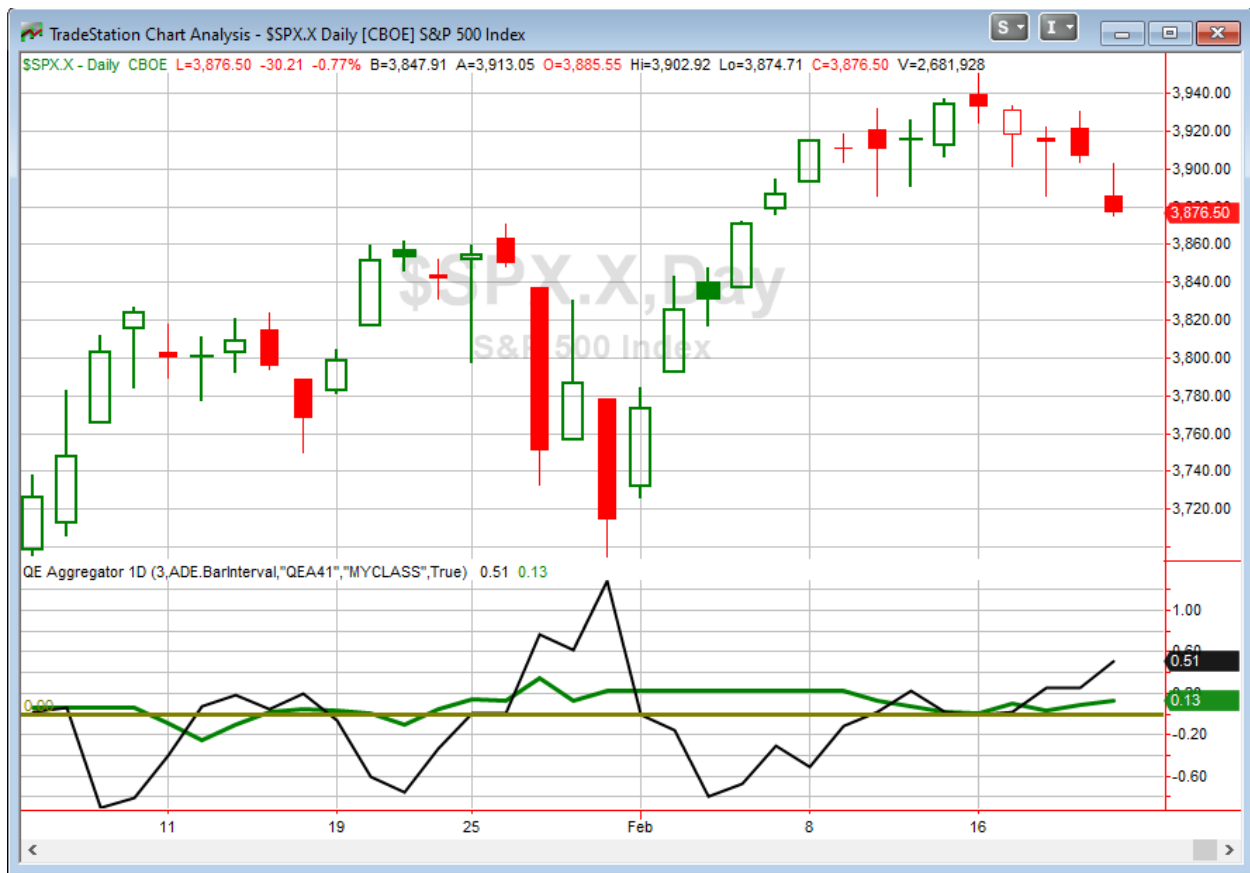
**100% of instances closed above the entry price at some point in the next 6 days.**

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 13+ years since beginning Quantifiable Edges. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact, just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The consistently strong upslope makes this an appealing looking equity curve.

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



With tonight's evidence considered, the green Aggregator Line moved further above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line 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 bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3919.67 on Tuesday. That is 1.1% above Monday's close. Therefore, SPX will need to close up 1.1% on Tuesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. And this time the evidence looks solid, and is not expected to flip tomorrow. There is also ample room to the upside before SPX would change from oversold to overbought. This all helps to make reward/risk appealing. I like the setup for the long side, and I will be looking to take on long exposure multiple ways on Tuesday. Some trade ideas are included near the bottom of the letter.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/22 – 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***

*New*

MSFT – 1/3 @ \$234.51 (buy @ limit)

***Broad Market Large Cap CBI – 1(MSFT)***

**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 @ \$387.25 LIMIT.** Base on the short-term outlook above, I like the long side enough that I am willing to pay up a small amount tomorrow if SPX gaps up, rather than wait for a fill.

**MSFT – Buy 1/3 Catapult position @ \$234.51 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots for MSFT.

**VXX – short ½ position @ \$15.73 LIMIT.** I used to post XIV/VXX ideas more often in the letter. A bullish Aggregator and steep contango are often a good combination for a VXX decline. Note these trades can be extremely volatile. Position size accordingly.

## **Current Open Trade Ideas**

**None.**

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