

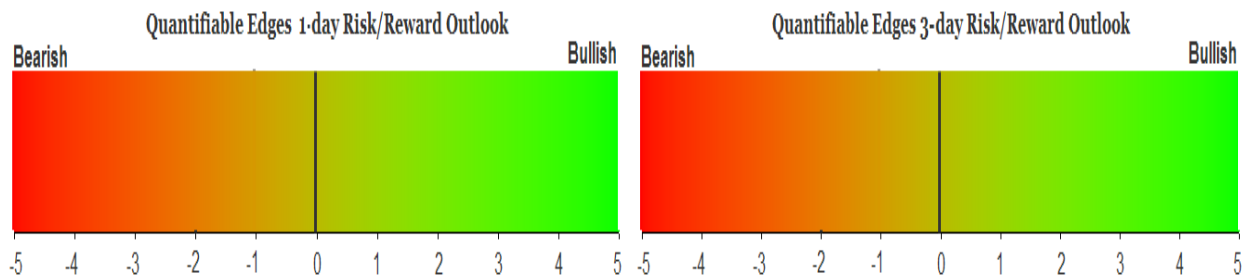
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2021

Volume 14 Issue 38

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- SPX's extra large drop from a 5-day high to a 5-day low suggests more short-term selling is likely.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral. I suspect a bounce will come soon, but odds don't favor one immediately.

Summary of Recent Active Studies (see Letters from listed dates for details)

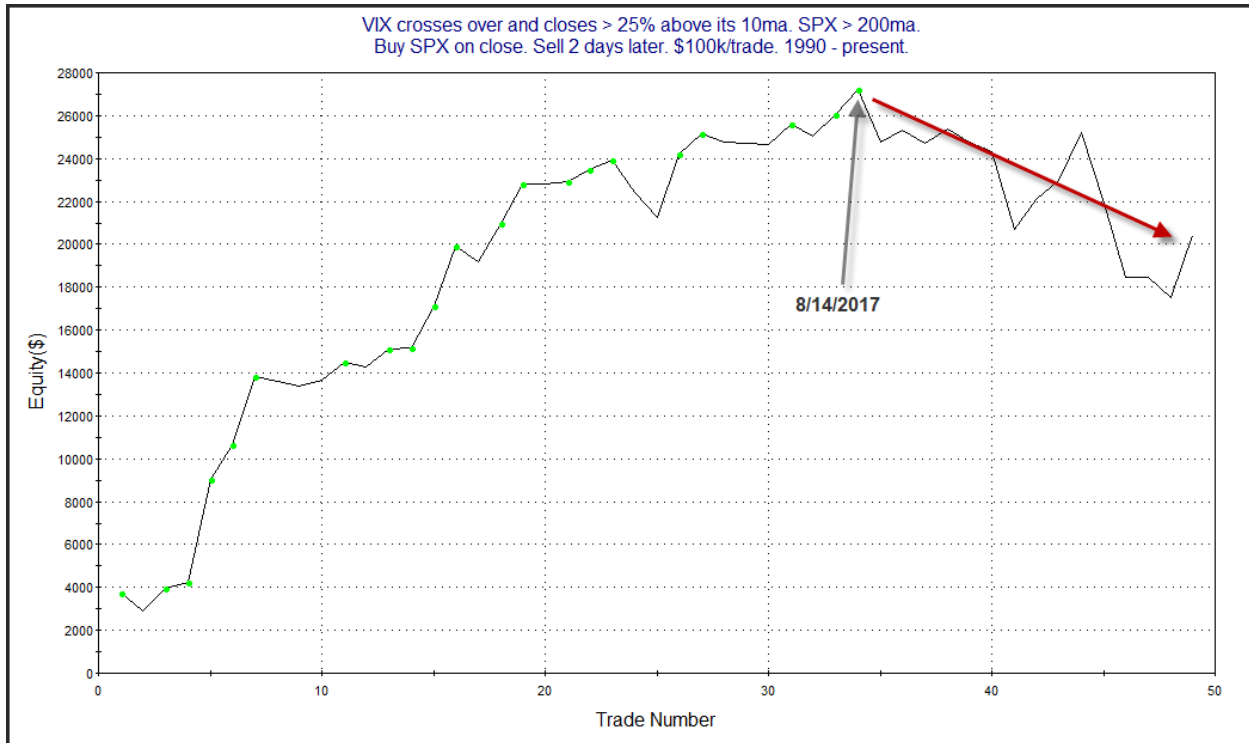
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 26, 2021	2%+ drop from 5-high to 5-low > 200	1-2 days	Bearish			
February 23, 2021	Dn 4th day. Biggest drop. > 200ma	1-5 days	Bullish	2.00%	-1.00%	-1.70%
February 23, 2021	Btm 10%, 5-day low. Monday	1-5 days	Bullish	2.10%	-1.00%	-2.10%
Active - Long Term						
February 22, 2021	RUT 50ma 25% above 200ma	int term	Warning			
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 market got slammed on Thursday. The SPX lost 2.45%, the NASDAQ tumbled 3.5%, and the Russell 2000 collapsed 3.7%. Breadth was negative with the NYSE Up Issues % coming in at 12% and the Up Volume % at 13%. NYSE total volume spiked higher from Wednesday’s level.

I came into this evening expecting a good amount of bullish evidence would be triggering. The Quantifinder was showing a few green studies after the big selloff on Thursday. And big selling days during uptrends often trigger bullish evidence. But the Quantifinder studies did not impress with more recent performance, and as I dug deeper it appeared that bearish evidence was more compelling.

An example of an underwhelming “bullish” study is the one below, from the 6/28/18 letter. It looked at times the VIX rose to more than 25% above its 10ma while SPX was in a long-term uptrend. Below are updated 2-day results.



This one seems to have rolled over, and is no longer worthy of consideration in my book.

I said earlier that strong selling days will often trigger bullish short-term evidence. But one thing that needs to be taken into consideration when looking at days like Thursday is where the selling originated from. A simple filter I have used in the past was to see whether the day before closed at a short-term high or low level. The studies below look at 2%+ selloffs that left SPX at a 5-day low. The 1st one shows results if the day before was also a 5-day low (unlike Thursday). The 2nd one look at times like Thursday where the previous day SPX had closed at a 5-day high.

After closing at a 5-day low yesterday, SPX closes down over 2% today and at a 5-day low.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	10,885.44	19	10	9	52.63	5,460.84	-5,132.88	2,798.01	-1,899.41	1.47	1.64	572.92
4	9,635.97	20	12	8	60.00	5,187.49	-8,150.10	2,757.25	-2,931.37	0.94	1.41	481.80
3	5,473.57	20	12	8	60.00	5,339.18	-7,413.90	2,049.39	-2,389.89	0.86	1.29	273.68
2	3,944.84	20	15	5	75.00	3,591.28	-7,559.56	1,192.16	-2,787.51	0.43	1.28	197.24
1	-771.97	23	13	10	56.52	2,671.02	-4,074.84	1,168.75	-1,596.57	0.73	0.95	-33.56

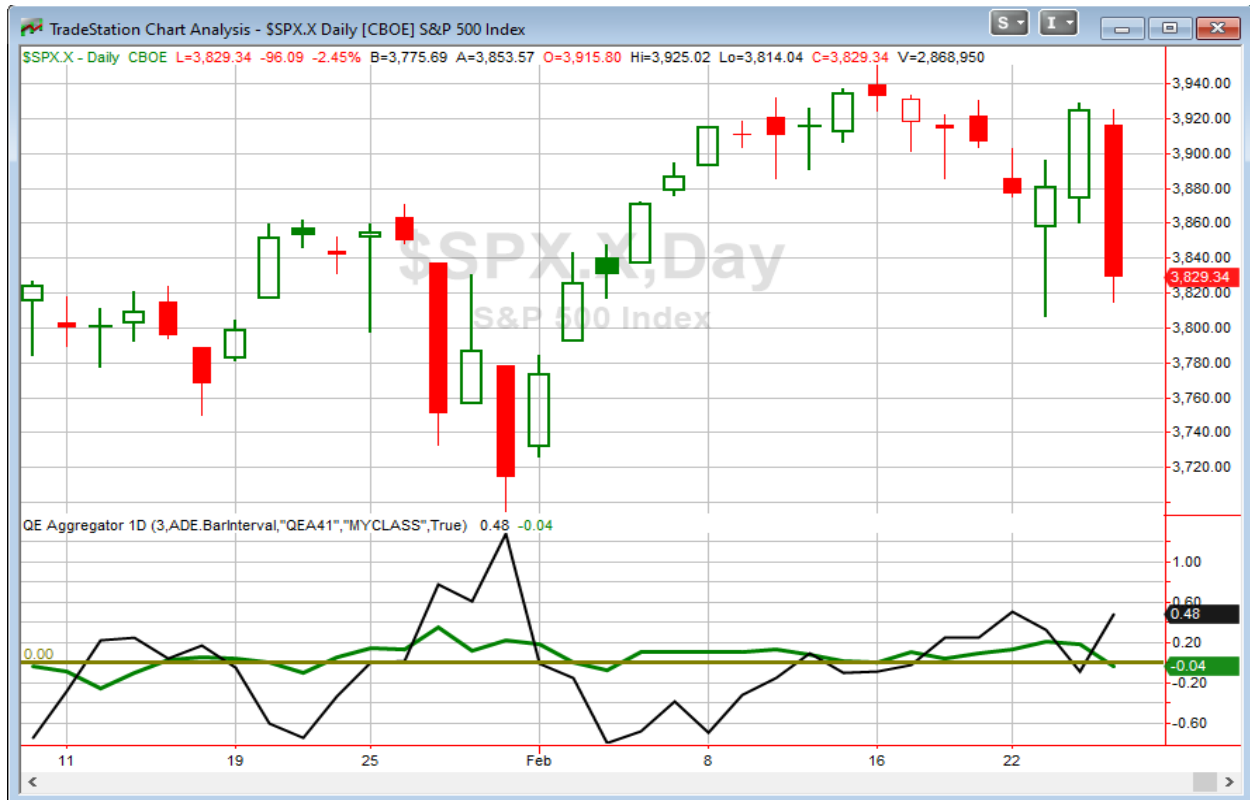
After closing at a 5-day high yesterday, SPX closes down over 2% today and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,743.00	12	3	9	25.00	3,216.85	-3,337.95	2,563.03	-2,270.23	1.13	0.38	-1,061.92
4	-6,053.78	12	5	7	41.67	3,016.44	-3,351.72	1,464.52	-1,910.91	0.77	0.55	-504.48
3	-5,462.49	12	6	6	50.00	1,640.03	-2,576.01	662.42	-1,572.84	0.42	0.42	-455.21
2	-13,243.76	12	1	11	8.33	1,031.76	-3,450.16	1,031.76	-1,297.77	0.80	0.07	-1,103.65
1	-4,641.34	12	5	7	41.67	1,069.76	-1,801.24	456.72	-989.28	0.46	0.33	-386.78

There is a stark difference in the results. The current situation suggests there may be some bulls that got stuck at a high level. And the market may have a little further to drop in order to wash the weak ones out. I also took a detailed look at the instances.

After closing at a 5-day high yesterday, SPX closes down over 2% today and at a 5-day low. Close > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/14/1999	Buy	\$1,337.80	-0.33%	\$566.84
5/18/1999	Sell	\$1,333.32		(\$1,229.88)
2/9/2000	Buy	\$1,411.71	-1.74%	\$725.90
2/11/2000	Sell	\$1,387.12		(\$2,297.40)
3/13/2007	Buy	\$1,377.95	1.04%	\$1,280.16
3/15/2007	Sell	\$1,392.28		(\$1,005.84)
11/1/2007	Buy	\$1,508.45	-0.42%	\$310.20
11/5/2007	Sell	\$1,502.17		(\$1,221.00)
6/15/2009	Buy	\$923.72	-1.41%	\$462.24
6/17/2009	Sell	\$910.71		(\$2,153.52)
2/22/2011	Buy	\$1,315.44	-0.71%	\$187.72
2/24/2011	Sell	\$1,306.10		(\$1,609.68)
6/1/2011	Buy	\$1,314.55	-1.09%	\$264.48
6/3/2011	Sell	\$1,300.16		(\$1,265.40)
11/7/2012	Buy	\$1,394.53	-1.05%	\$475.70
11/9/2012	Sell	\$1,379.85		(\$1,526.50)
10/9/2014	Buy	\$1,928.21	-2.77%	\$447.27
10/13/2014	Sell	\$1,874.74		(\$2,757.57)
6/24/2016	Buy	\$2,037.30	-0.06%	\$0.00
6/28/2016	Sell	\$2,036.09		(\$2,235.38)
6/24/2020	Buy	\$3,050.33	-1.35%	\$1,149.44
6/26/2020	Sell	\$3,009.05		(\$1,462.40)
9/3/2020	Buy	\$3,455.06	-3.57%	\$674.52
9/8/2020	Sell	\$3,331.84		(\$3,522.12)

What is most interesting to me here is that every single instance saw a drawdown of greater than 1% over the next two days – even the one instance that finished the 2-day period higher. This seems worth consideration to me and I have included it on the active list tonight.

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



With tonight's evidence considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line rose back above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bearish on Friday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3895.78 on Friday. That is 1.7% above Thursday's close. Therefore, SPX will need to close up 1.7% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is neutral. The market got hit hard Thursday and quickly flipped to oversold. But tonight's evidence suggests there could be a bit more selling before the bounce arrives. So I'll stand aside for a day. I do think another down day Friday would likely generate enough bullish evidence that the Aggregator would turn bullish. But I'll wait for confirmation on that before looking to take on new index positions.

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

MSFT – 1/3 @ \$234.51 (bought @ limit)

MSFT – 1/3 @ \$233.27 (buy @ limit)

ABT – 1/3 @ \$120.80 (buy @ limit)

Broad Market Large Cap CBI – 3(MSFT-2, ABT)

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
SPY(1/4)	2/23/2021	\$384.66	\$390.41	1.49%		<i>sold on open</i>
MSFT(1/3)	2/23/2021	\$230.32	\$228.99	-0.58%		Catapult
VXX(S)(1/2)	2/23/2021	\$15.82	\$15.50	2.02%	\$15.50	<i>stopped out</i>
MSFT(1/3)	2/24/2021	\$230.01	\$228.99	-0.44%		Catapult
ABT(1/3)	2/24/2021	\$120.80	\$121.58	0.65%		Catapult

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