

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 25, 2021

Volume 14 Issue 57

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- RUT's sharp decline from a recent long-term high suggests a bounce soon, but volatile conditions ahead.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish. I believe there is an upside edge and am looking to take advantage of it.

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						
March 23, 2021	SPX up & > 200ma. Up Vol % < 40%	1-7 days	Bullish	1.80%	-1.05%	-2.20%
March 22, 2021	Opex week lower in Mar, Apr, Oct, Dec	1-5 days	Bullish			
March 22, 2021	Week after Quad-witch Mar, Jun, Sep	1-5 days	Bearish			
March 19, 2021	SPX bottom 10% intraday 5-day low	1-5 days	Bullish			
March 18, 2021	100-day high on a Fed Day	1-8 days	Bullish			
Active - Long Term						
March 25, 2021	RUT down 9% from 200hi in < 10 days	int term	Warning			
March 17, 2021	5 up to 50-high then down 1	1-10 days	Bullish			
March 16, 2021	DJI closes up 7 days in a row	1-19 days	Bullish			
March 8, 2021	Rally from 1-month low starts on Fri	1-20 days	Bullish	4.70%	-3.20%	-6.90%
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%
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			

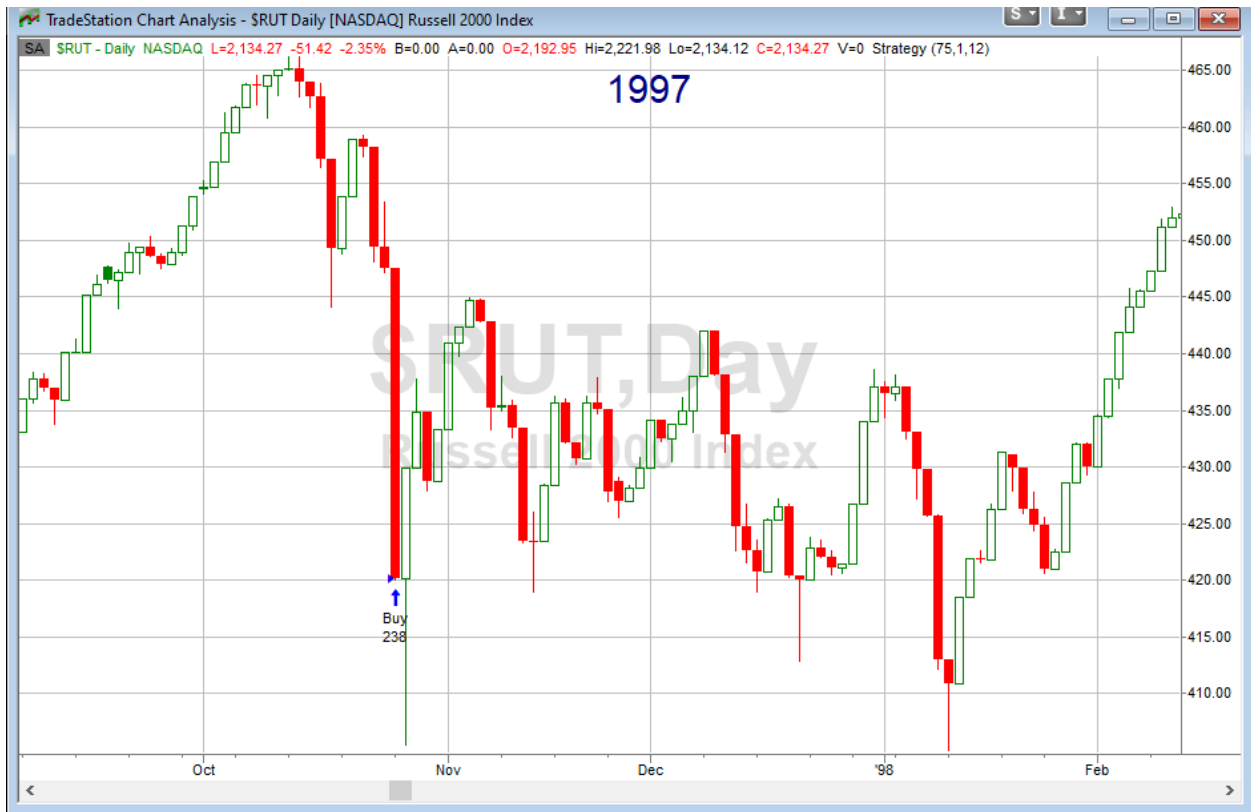
The Evidence

The market started Wednesday well but finished poorly. The SPX closed down 0.55%, the NASDAQ lost 2.0%, and the Russell 2000 tumbled 2.35%. Breadth was negative with the NYSE Up Issues % coming in at 43% and the Up Volume % at 32%. NYSE total volume declined some from Tuesday's level.

The speed in which the Russell 2000 has fallen from its high just 7 trading days ago is quite remarkable. Wednesday it closed 9.6% below its 3/15/21 close. I decided to look back at other sharp selloffs from 200-day highs for the RUT. Based on the criteria I used, there were a very short list of instances. Here are all 4 along with their 4-day returns.

After closing at a 200-day high at some point in the last 10 days, RUT crosses down more than 9% below that high on a closing basis. Buy on close. Sell 4 days later. \$100k/trade. 1988 - present.					
Date/Time	Signal	Price	% Profit	Run-up Drawdown	
10/27/1997	Buy	\$420.13	3.13%	\$4,203.08	
10/31/1997	Sell	\$433.26		(\$3,512.88)	
3/20/2000	Buy	\$549.21	4.52%	\$6,198.92	
3/24/2000	Sell	\$574.01		(\$3,345.16)	
10/28/2009	Buy	\$566.49	0.71%	\$2,648.80	
11/3/2009	Sell	\$570.52		(\$2,319.68)	
5/6/2010	Buy	\$672.46	6.48%	\$6,476.48	
5/12/2010	Sell	\$716.05		(\$3,673.36)	

So 4 days later all 4 instances closed up by between 0.7% and 6.5%. That seems impressive. But I'll also note that every instance saw a drawdown during those 4 days of between 2.3% - 3.7%. So they all bounced, but they all also had further to sell off before the bounce arrived. Let's take a look at the 4 charts.





Tough to put much faith in just 4 instances. But what I will note is that none of them turned out to be an “ordinary” looking pullback that saw the market quickly recover to new highs. There was generally a good bit more volatility ahead following these instances. Such a strong selloff from a long-term high is rare. Good chance we see a short-term bounce. But there also seems to be a good chance that the damage that was done will take some time to recover from, and the market could be in for some additional choppy, and perhaps scary, trading ahead.

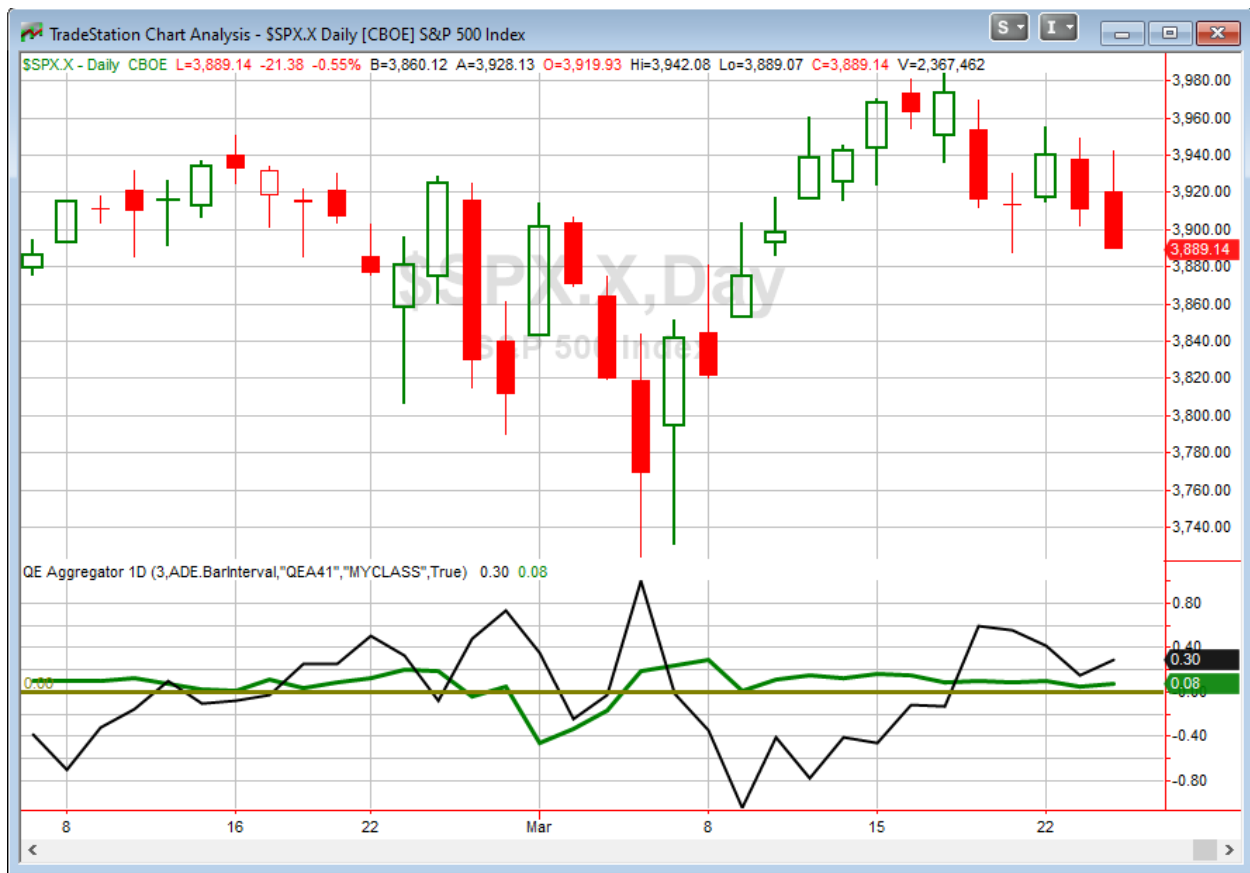
One last note about this...below is a look at what happens if I loosened the criteria to an 8% drop instead of 9%.

After closing at a 200-day high at some point in the last 10 days, RUT crosses down more than 8% below that high on a closing basis. Buy on close. Sell 4 days later. \$100k/trade. 1988 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/4/1994	Buy	\$247.04	3.09%	\$3,623.88
4/8/1994	Sell	\$254.68		\$0.00
10/27/1997	Buy	\$420.13	3.13%	\$4,203.08
10/31/1997	Sell	\$433.26		(\$3,512.88)
3/20/2000	Buy	\$549.21	4.52%	\$6,198.92
3/24/2000	Sell	\$574.01		(\$3,345.16)
5/18/2006	Buy	\$718.47	-1.00%	\$1,257.95
5/24/2006	Sell	\$711.27		(\$3,114.99)
3/5/2007	Buy	\$760.13	3.29%	\$3,584.16
3/9/2007	Sell	\$785.11		\$0.00
7/27/2007	Buy	\$777.87	0.77%	\$2,144.00
8/2/2007	Sell	\$783.87		(\$1,617.92)
10/28/2009	Buy	\$566.49	0.71%	\$2,648.80
11/3/2009	Sell	\$570.52		(\$2,319.68)
5/6/2010	Buy	\$672.46	6.48%	\$6,476.48
5/12/2010	Sell	\$716.05		(\$3,673.36)

Doesn't change the short-term much. Bounce likely. Chop likely.

I did not think these studies showed a consistent enough edge to warrant inclusion on the short-term list. I did put the study on the intermediate-term list as a potential warning.

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



Once again tonight 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 also 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.

Expectations are currently set to remain positive on Thursday. This is unlikely to change without some extremely compelling new bearish evidence emerging. Meanwhile, the Differential Pivot will be 3951.39 on Thursday. That is 1.6% above Wednesday's close. Therefore, SPX will need to close up at least 1.6% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. Expectations remain positive, and SPX is now oversold enough that there is ample room to the upside before it would flip to overbought. This suggests solid reward/risk opportunity. Therefore, I will look to add a 2nd lot to my index position on Thursday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/22 – somewhat bullish

The intermediate-term outlook was last updated in the 3/22/21 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

AXP @ \$136.08 (buy @ limit) – *not filled (cancel for now)*

XOM @ \$55.22 (buy @ limit) – *not filled (cancel for now)*

COP @ \$51.71 (buy @ limit) – *not filled (cancel for now)*

Broad Market Large Cap CBI – 3 (AXP, XOM, COP)

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 @ \$387.50 LIMIT. Based on the short-term outlook, I will look to add a 2nd lot if I can get a fill on Thursday if SPY dips at all from Wednesday’s closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/19/2021	\$389.48	\$387.52	-0.50%		Aggregator

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