

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2021

Volume 14 Issue 79

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Short | 3 |

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.
- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but expectations could easily flip on Tuesday with Wednesday's Fed Day approaching.

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 | | | | | | |
| April 26, 2021 | SPX up 1% on lowest volume in 20 days | 1-2 days | Bearish | | | |
| Active - Long Term | | | | | | |
| April 22, 2021 | % of SPX stocks > 100ma exceeds 94% | int term | Bullish | | | |
| April 19, 2021 | SPX 4 weekly 1% gains and new highs | 1-2 weeks | Bearish | | | |
| 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 | | | |

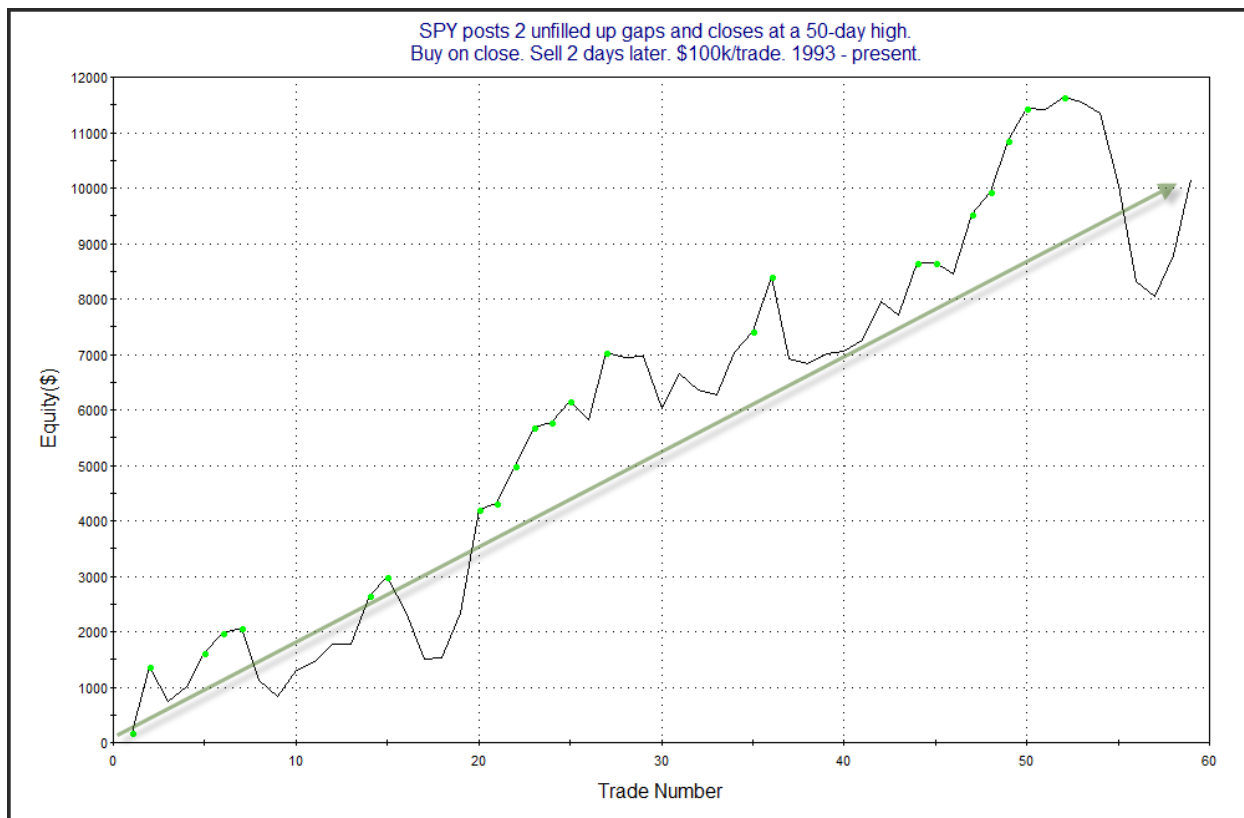
The Evidence

Monday saw the indices mostly higher. SPX closed up 0.2%, the NASDAQ gained 0.9%, and the Russell 2000 rallied 1.15%. Breadth was positive with the NYSE Up Issues % coming in at 63% and the Up Volume % at 71%. NYSE total volume rose some from Friday's low level.

Evidence appearing in the Quantifinder was mixed tonight. Monday not only saw SPY make a 50-day high, but it was also the 2nd day in a row with an unfilled gap up. The study below was last seen in the 2/4/20 letter. It examined other times SPY left at least 2 unfilled up gaps and closed at a 50-day high.

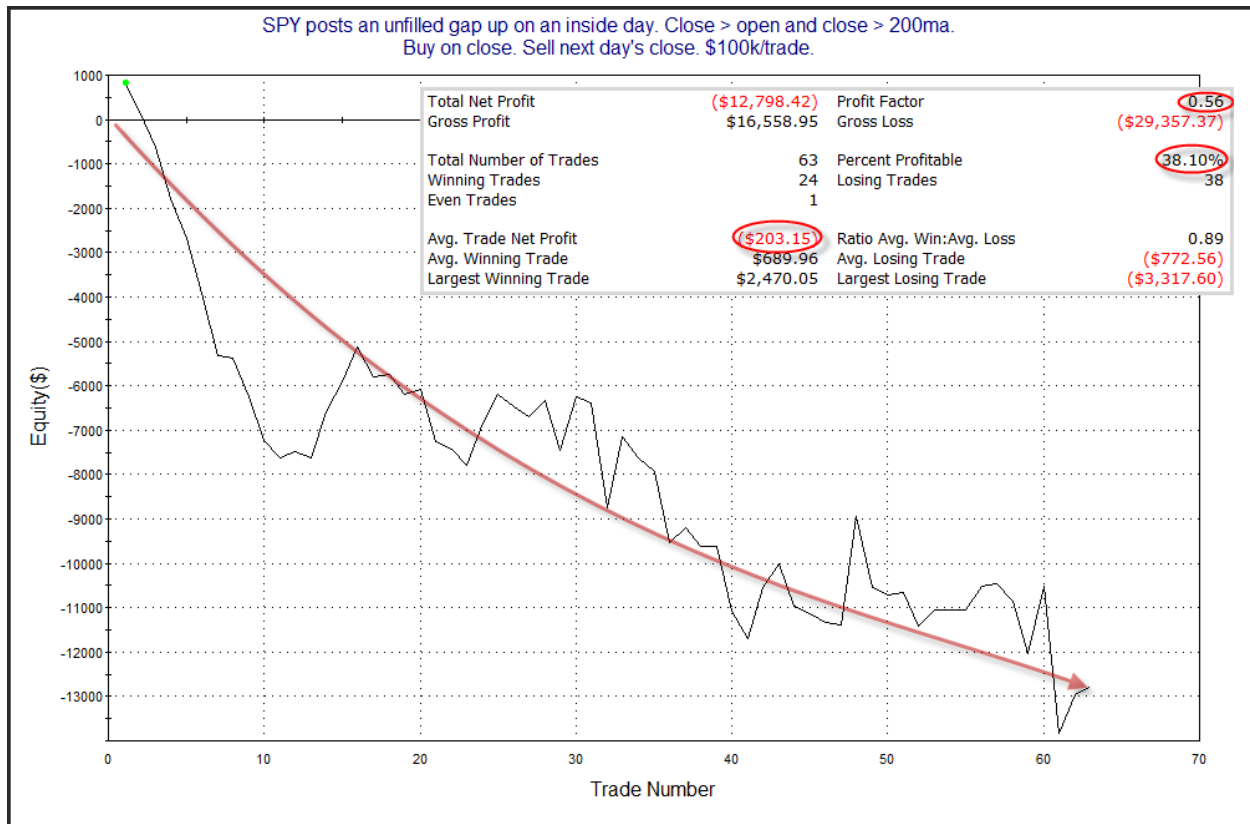
| SPY posts 2 unfilled up gaps and closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1993 - present. | | | | | | | | | | | | | |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|--|
| 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 | 8,369.34 | 58 | 38 | 20 | 65.52 | 2,709.12 | -4,990.35 | 931.13 | -1,350.69 | 0.69 | 1.31 | 144.30 | |
| 4 | 13,475.38 | 58 | 39 | 19 | 67.24 | 2,475.56 | -5,867.91 | 923.98 | -1,187.36 | 0.78 | 1.60 | 232.33 | |
| 3 | 10,408.85 | 58 | 40 | 18 | 68.97 | 2,419.84 | -6,980.31 | 673.43 | -918.24 | 0.73 | 1.63 | 179.46 | |
| 2 | 10,157.96 | 59 | 38 | 20 | 64.41 | 1,858.87 | -1,729.75 | 550.24 | -537.57 | 1.02 | 1.94 | 172.17 | |
| 1 | 3,115.75 | 70 | 38 | 32 | 54.29 | 1,431.75 | -1,942.24 | 351.71 | -320.29 | 1.10 | 1.30 | 44.51 | |

The size of the follow-through isn't terribly large, but it has been consistent that some follow through was achieved in the next few days. Below is the 2-day profit curve.



We have tracked this study for a long time, and it has persisted higher. This study seems worth consideration, and I have included on the Active List.

But we did have another study suggesting possible *1-day* bearish implications based on Monday's action. The study looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. Last seen in the 2/4/20 letter, results below are updated.



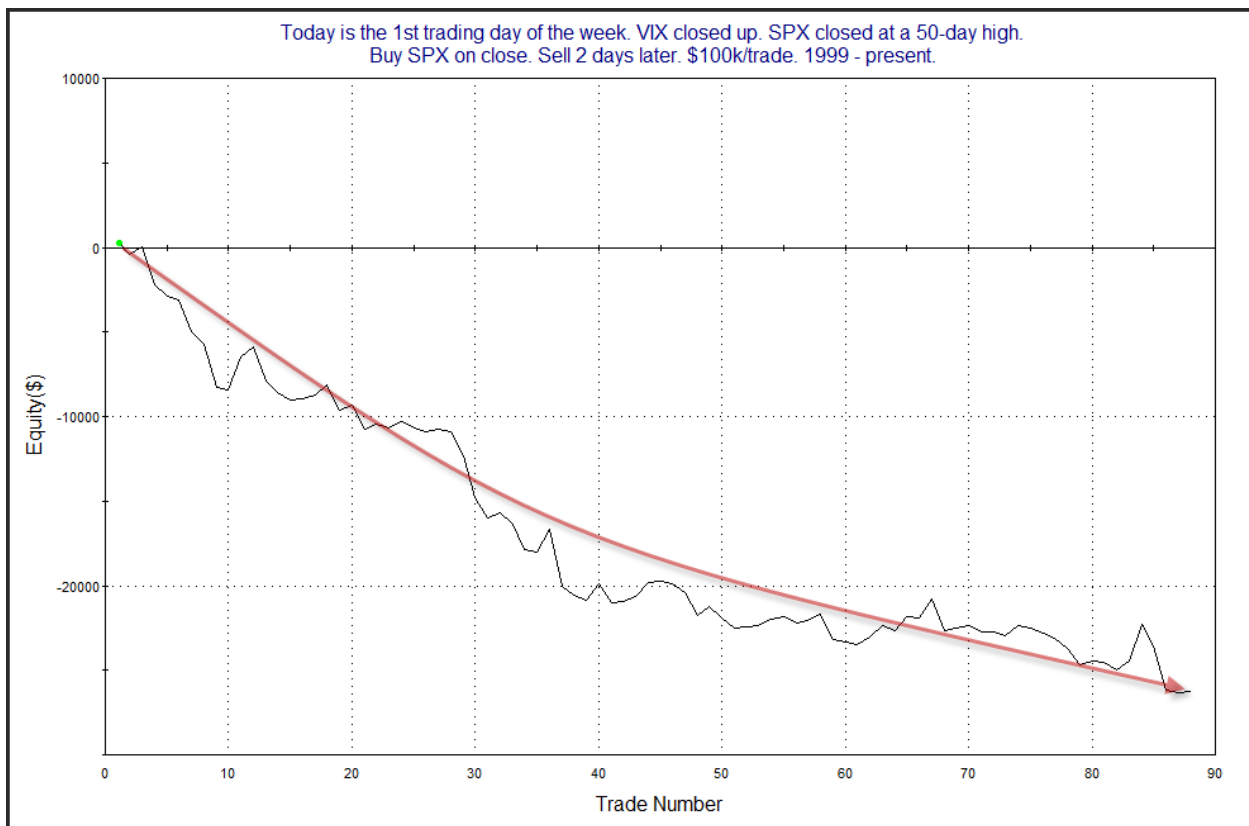
Implications here appear somewhat bearish. The profit curve is not ideal, but it still appears to suggest a downside edge. Overall, this study appears to be worth some consideration, and I have included it on the active list tonight.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen recently in the 4/6/21 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closed up. SPX closed at a 50-day high.
Buy SPX 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 | -17,336.65 | 82 | 38 | 44 | 46.34 | 5,653.12 | -5,048.68 | 1,097.82 | -1,342.14 | 0.82 | 0.71 | -211.42 |
| 4 | -14,424.56 | 88 | 43 | 45 | 48.86 | 4,422.40 | -5,732.40 | 926.44 | -1,205.81 | 0.77 | 0.73 | -163.92 |
| 3 | -19,603.31 | 88 | 41 | 47 | 46.59 | 2,641.80 | -6,908.70 | 666.86 | -998.82 | 0.67 | 0.58 | -222.76 |
| 2 | -26,281.89 | 88 | 37 | 51 | 42.05 | 2,148.48 | -3,372.16 | 486.90 | -868.57 | 0.56 | 0.41 | -298.66 |
| 1 | -10,488.81 | 88 | 30 | 58 | 34.09 | 802.88 | -1,580.04 | 313.14 | -342.81 | 0.91 | 0.47 | -119.19 |

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see bump up a short while back, which flattened out the current look of the curve some. But it made new lows recently and seems worthy of consideration. I have also included this study on the Active List.

It is also worth noting that Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are stats for the 4 quartiles from highest to lowest in the daily range. (They were last updated in March.)

**Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.**

| TradeStation Performance Summary Expand ▾ | | | |
|--|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$6,110.74 | Profit Factor | 1.24 |
| Gross Profit | \$31,924.29 | Gross Loss | (\$25,813.55) |
| Total Number of Trades | 86 | Percent Profitable | 47.67% |
| Winning Trades | 41 | Losing Trades | 43 |
| Even Trades | 2 | | |
| Avg. Trade Net Profit | \$71.06 | Ratio Avg. Win:Avg. Loss | 1.30 |
| Avg. Winning Trade | \$778.64 | Avg. Losing Trade | (\$600.32) |
| Largest Winning Trade | \$2,238.25 | Largest Losing Trade | (\$2,739.69) |

**Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.**

| TradeStation Performance Summary Expand ▾ | | | |
|--|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$14,477.74 | Profit Factor | 1.92 |
| Gross Profit | \$30,261.13 | Gross Loss | (\$15,783.39) |
| Total Number of Trades | 51 | Percent Profitable | 52.94% |
| Winning Trades | 27 | Losing Trades | 23 |
| Even Trades | 1 | | |
| Avg. Trade Net Profit | \$283.88 | Ratio Avg. Win:Avg. Loss | 1.63 |
| Avg. Winning Trade | \$1,120.78 | Avg. Losing Trade | (\$686.23) |
| Largest Winning Trade | \$4,704.07 | Largest Losing Trade | (\$2,246.40) |

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

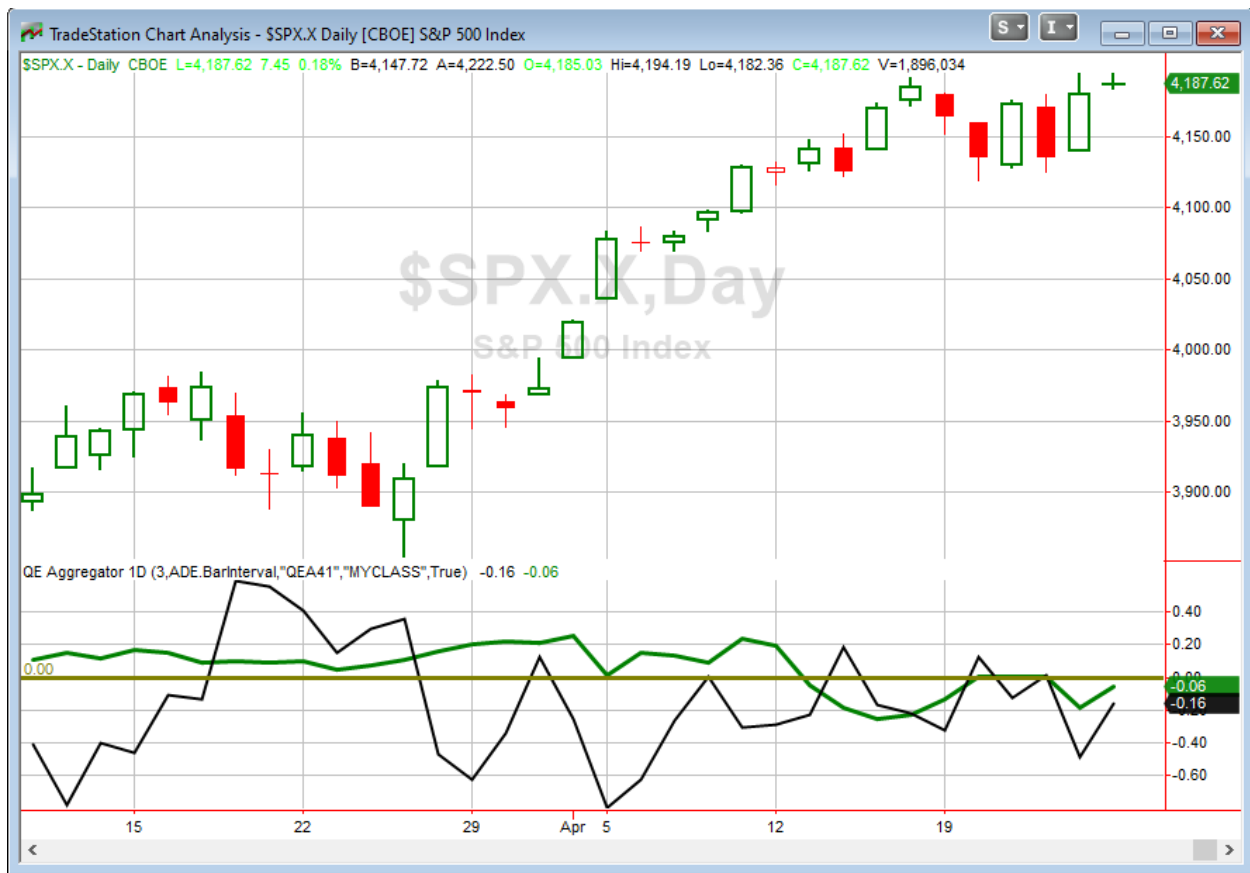
| TradeStation Performance Summary | | | | Expand ▾ |
|----------------------------------|-------------|--------------------------|--|---------------|
| All Trades | | | | |
| Total Net Profit | \$13,238.85 | Profit Factor | | 2.15 |
| Gross Profit | \$24,735.12 | Gross Loss | | (\$11,496.27) |
| Total Number of Trades | 44 | Percent Profitable | | 65.91% |
| Winning Trades | 29 | Losing Trades | | 15 |
| Even Trades | 0 | | | |
| Avg. Trade Net Profit | \$300.88 | Ratio Avg. Win:Avg. Loss | | 1.11 |
| Avg. Winning Trade | \$852.94 | Avg. Losing Trade | | (\$766.42) |
| Largest Winning Trade | \$2,943.00 | Largest Losing Trade | | (\$2,066.62) |

Tomorrow is a Fed Day. SPY closes in the bottom 25% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

| TradeStation Performance Summary | | | | Expand ▾ |
|----------------------------------|-------------|--------------------------|--|--------------|
| All Trades | | | | |
| Total Net Profit | \$24,746.31 | Profit Factor | | 3.63 |
| Gross Profit | \$34,166.21 | Gross Loss | | (\$9,419.90) |
| Total Number of Trades | 42 | Percent Profitable | | 73.81% |
| Winning Trades | 31 | Losing Trades | | 11 |
| Even Trades | 0 | | | |
| Avg. Trade Net Profit | \$589.20 | Ratio Avg. Win:Avg. Loss | | 1.29 |
| Avg. Winning Trade | \$1,102.14 | Avg. Losing Trade | | (\$856.35) |
| Largest Winning Trade | \$4,645.80 | Largest Losing Trade | | (\$2,945.28) |

So what we see here, is that the lower SPY has closed in its range the day before, the stronger the Fed day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

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



With today's evidence considered, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed short at the close.

Expectations are currently set to remain negative on Tuesday. That could easily change if new bullish evidence emerges. And as we saw above, a weak close going into a Fed Day could provide us some bullish evidence for Wednesday. Meanwhile, the Differential Pivot will be 4134.92 on Tuesday. That is 1.3% below Monday's close. Therefore, SPX will need to close down about 1.3% in order to flip from overbought to oversold vs recent expectations.

So the Aggregator formation is bearish. Nimble traders could look to take advantage of this edge with a short trade. I'm not enthused enough to take a trade myself. It won't take much for expectations to turn back to bullish, and we could likely see that happen with any weak close on Tuesday thanks to Wednesday's Fed Day. So I'll remain flat on index trades and wait and see how Tuesday plays out.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/26 – somewhat bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

LMT @ \$379.88 (bought @ Limit)

LMT @ \$377.29 (bought @ Limit)

New

LMT @ \$371.98 (buy @ Limit)

Broad Market Large Cap CBI – 3(LMT-3)

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.

LMT – Buy 1/3 Catapult position @ \$371.98. From the Catapult section above, this is the 3rd and final lot for LMT.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|----------|
| LMT(1/3) | 4/23/2021 | \$378.59 | \$371.98 | -1.75% | | Catapult |
| LMT(1/3) | 4/26/2021 | \$374.28 | \$371.98 | -0.61% | | Catapult |
| | | | | | | |

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