

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2021

Volume 14 Issue 96

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 3-day pullback is not ideal, but it does suggest we could see some upside on Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence still isn't great, but reward/risk appears decent for a possible trade to 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
Active - Short Term						
May 20, 2021	3-day pullback not frm 20-hi. HV>0.25	1 day	Bullish			
May 14, 2021	2% dn to 10-low then 1% up	1-5 days	Bullish	3.00%	-1.40%	-2.70%
May 13, 2021	3 dn from 50-high to 10 low	1-8 days	Bullish	2.45%	-1.40%	-3.50%
Active - Long Term						
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
April 22, 2021	% of SPX stocks > 100ma exceeds 94%	int term	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
May 17, 2021	2 unfilled up gaps from 20-low	1-7 days	Bullish	2.60%	-0.80%	-1.60%

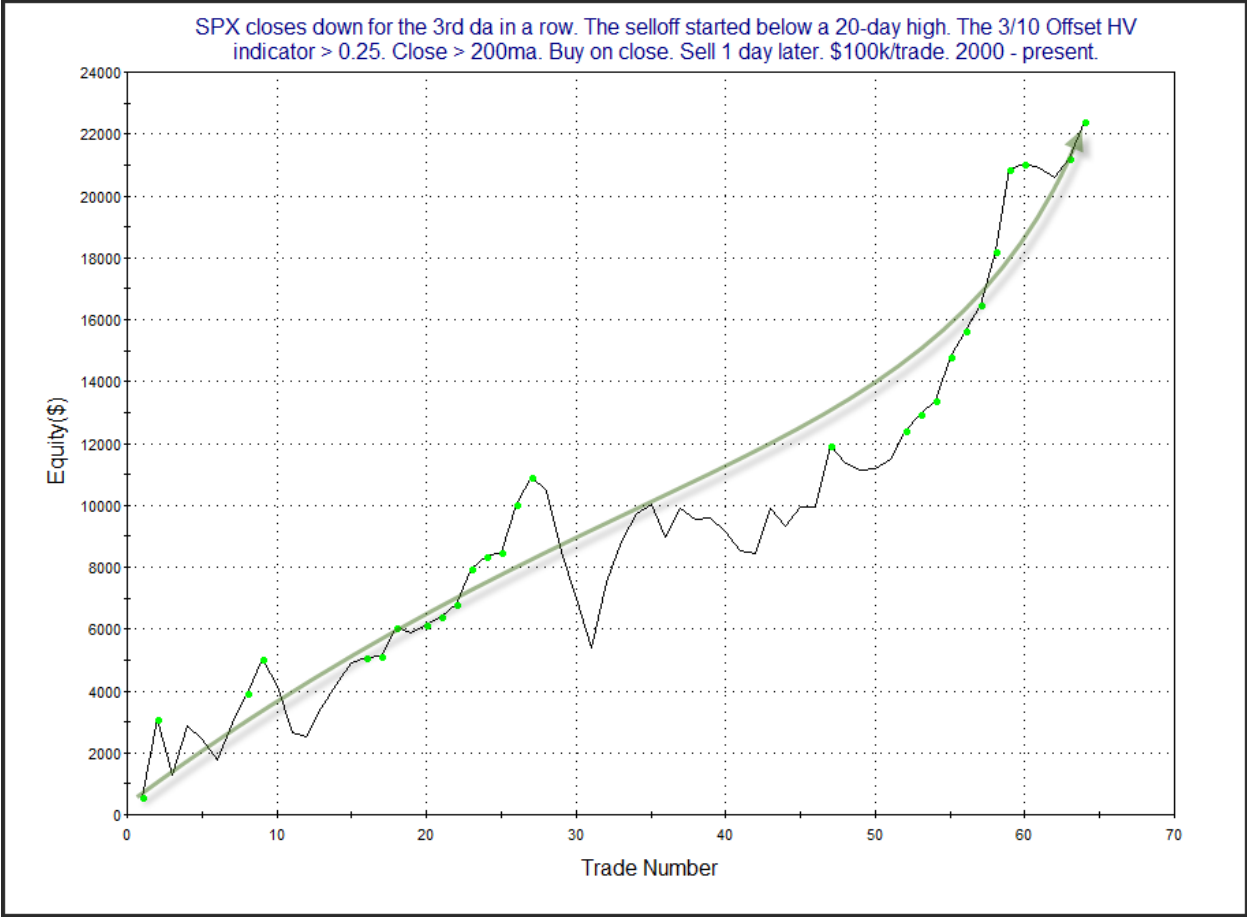
The Evidence

Wednesday started poorly, but most of the damage was alleviated by the close. SPX finished down 0.3%, the NASDAQ lost 0.03%, and the Russell 2000 dropped 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 35% and the Up Volume % at 22%. NYSE total volume rose some from Tuesday's level.

Often when the SPX sells off for 3 days in a row while above the 200ma we see studies suggesting an upside edge. Those upside edges tend to be more prominent if we see conditions like 1) the drop originates from a 20-day high, or 2) the pullback is mild and the 3/10 Offset HV comes in < 0.25. Neither of those conditions are currently present. So I ran a little study looking at times like now, that are sub-optimal. Results can be seen below.

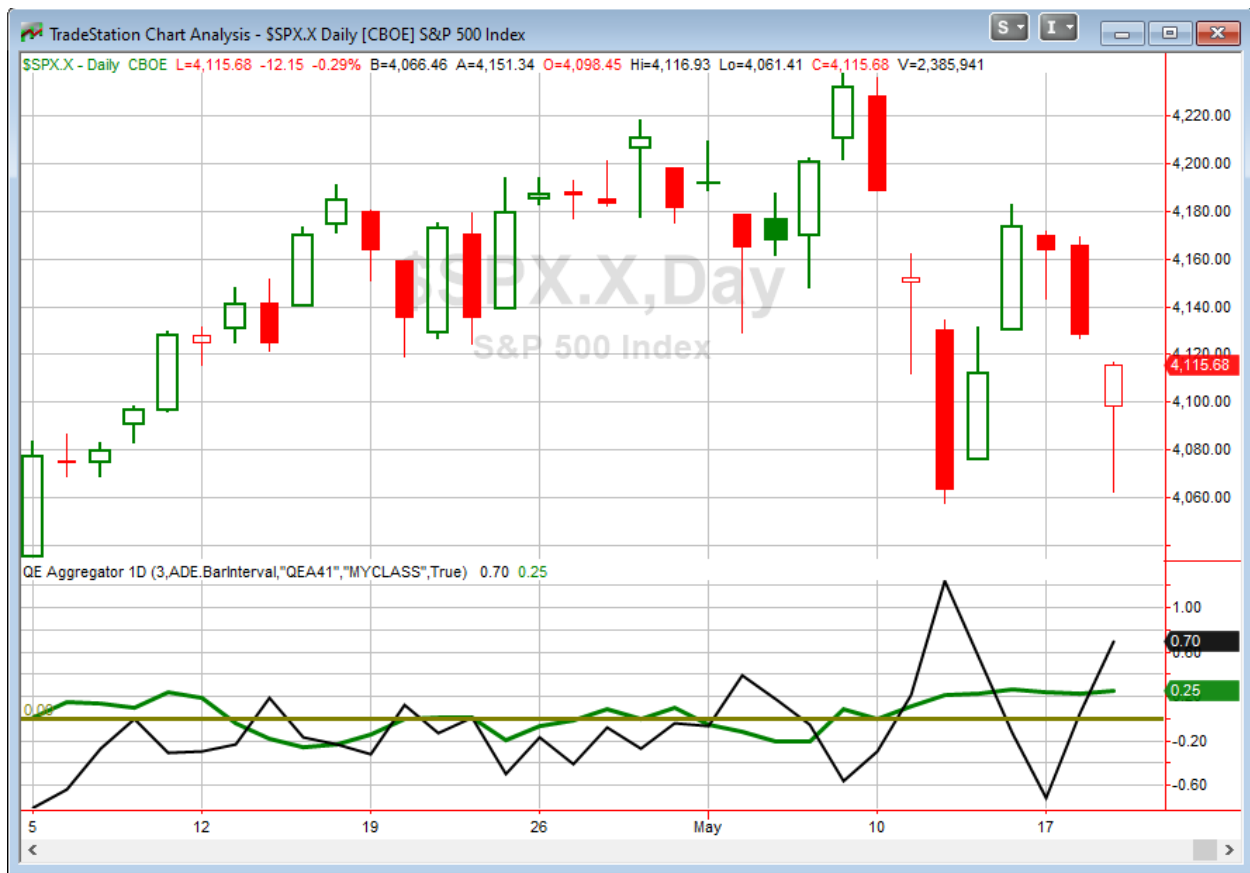
SPX closes down for the 3rd da in a row. The selloff started below a 20-day high. The 3/10 Offset HV indicator > 0.25. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	25,187.82	60	33	27	55.00	5,555.16	-4,543.76	1,717.33	-1,166.08	1.47	1.80	419.80
4	26,725.57	64	38	26	59.38	5,290.00	-3,988.20	1,566.41	-1,261.46	1.24	1.81	417.59
3	16,213.56	64	38	26	59.38	4,895.50	-5,306.04	1,329.30	-1,319.22	1.01	1.47	253.34
2	13,810.60	64	38	26	59.38	4,424.50	-7,559.56	1,087.90	-1,058.84	1.03	1.50	215.79
1	22,387.21	64	43	21	67.19	2,671.02	-1,953.32	883.07	-742.14	1.19	2.44	349.80

Under other circumstances we might see results suggesting a multi-day bounce. Here the upside edge is basically exhausted in one day. Below is a look at the profit curve.



The curve is impressive. There does seem to be a 1-day edge. Just nothing beyond that based on this setup.

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 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.

Based on the current list of active studies, expectations are set to remain positive on Thursday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 4193.05 on Thursday. That is 1.9% above Wednesday's close. Therefore, SPX would need to close up at least 1.9% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish for the 2nd day in a row. I believe there is an upside edge. But I still don't love the evidence. I looked at studies beyond the one I showed, and they just were not compelling enough to even discuss. Still, the level of "oversold" is substantial, and that helps reward/risk. A favorable entry would help it even more. So I'll look to take on a small position on Thursday if I can get a favorable fill. And if evidence continues to build over the next few days, I will likely scale in more.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/17 – neutral

The intermediate-term outlook was last updated in the 5/17/21 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.

SPY – buy ¼ index position @ \$408.50. This is a little above Wednesday’s midpoint, and also just above Wednesday’s VWAP. I’ll look to enter on Thursday if it dips back down around here at any point.

Current Open Trade Ideas

None.

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