

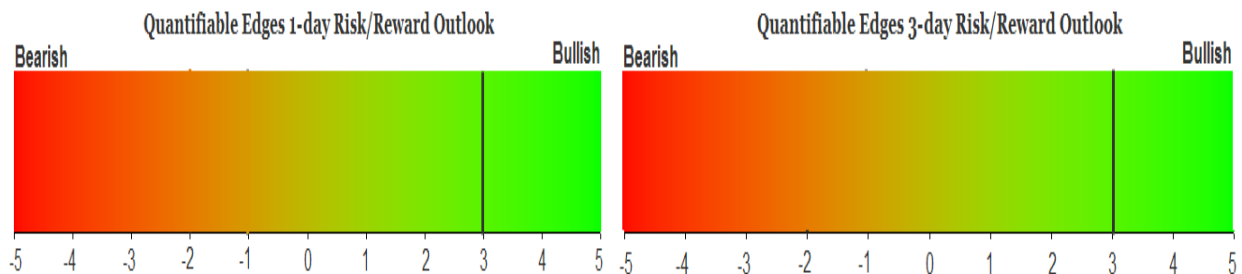
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 18, 2021

Volume 14 Issue 116

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.
- Opex Friday has often seen bearish intraday returns, especially for the NASDAQ 100.
- Some strong sector rotation took place on Thursday, with leaders getting smacked.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, and reward/risk appears favorable. I like long-side odds for the next few days.

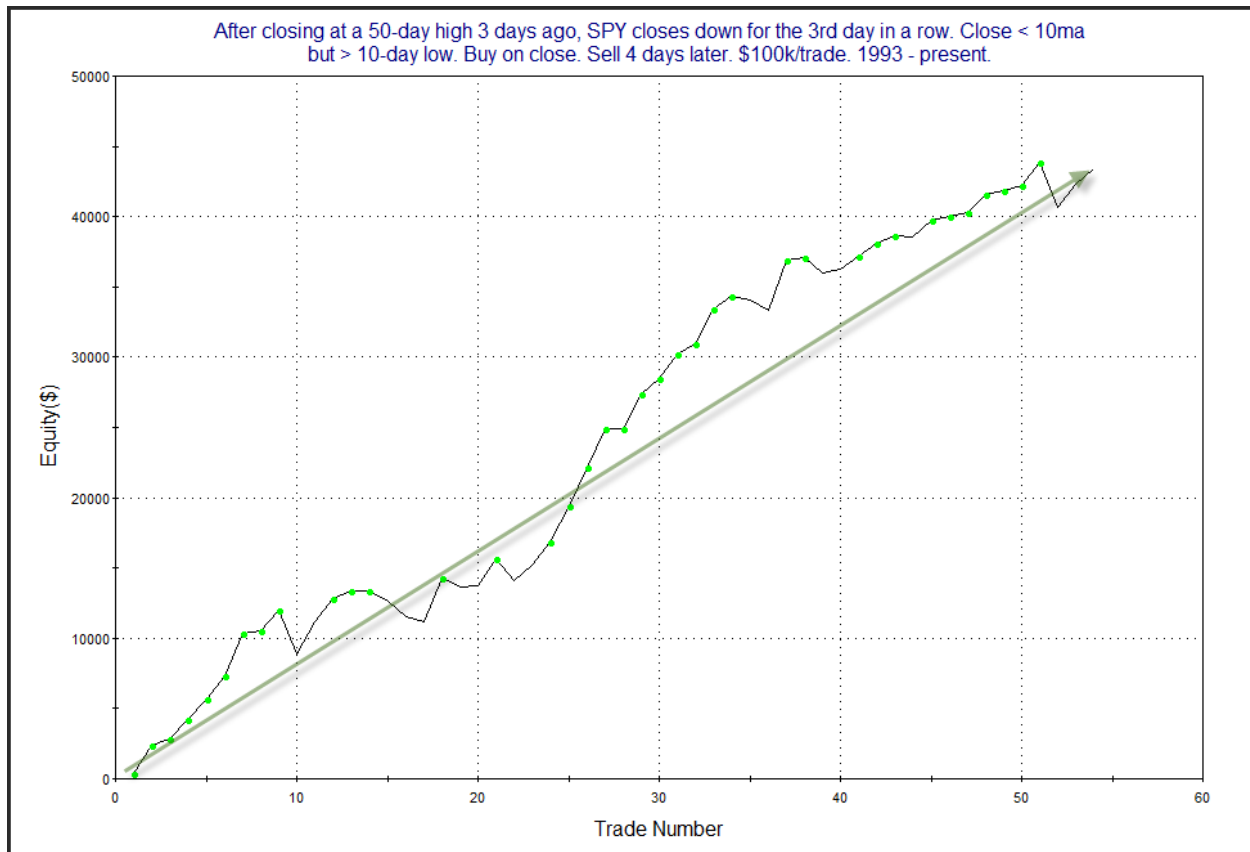
### ***The Evidence***

Thursday saw split action. The SPX finished down 0.04%, the NASDAQ gained 0.9%, and the Russell 2000 declined 1.2%. Breadth was negative with the NYSE Up Issues % coming in at 35% and the Up Volume % at 28%. NYSE total volume rose some for the 4<sup>th</sup> day in a row.

There were a few studies that triggered in the Quantifinder suggesting an upside edge. The 3-day pullback study below is one I found especially compelling. It considered the fact that the 3-day pullback was occurring right after a high was hit. Additionally, it required that the pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. It was last seen in the 8/13/18 subscriber letter, and I have updated the stats.

After closing at a 50-day high 3 days ago, SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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	37,219.74	54	37	17	68.52	3,522.94	-3,453.71	1,556.39	-1,198.05	1.30	2.83	689.25
4	43,420.98	54	43	11	79.63	3,543.50	-3,235.68	1,309.97	-1,173.43	1.12	4.36	804.09
3	26,108.21	54	36	18	66.67	3,543.50	-4,572.96	1,252.84	-1,055.23	1.19	2.37	483.49
2	14,563.18	54	37	17	68.52	2,332.48	-2,781.35	864.14	-1,024.12	0.84	1.84	269.69
1	9,322.09	54	34	20	62.96	2,060.16	-2,031.09	694.00	-713.69	0.97	1.65	172.63

Under these circumstances, it appears bounces have been both reliable and powerful. The 1<sup>st</sup> four days show some very impressive stats. Below is a look at the profit curve assuming a 4-day exit technique.



The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

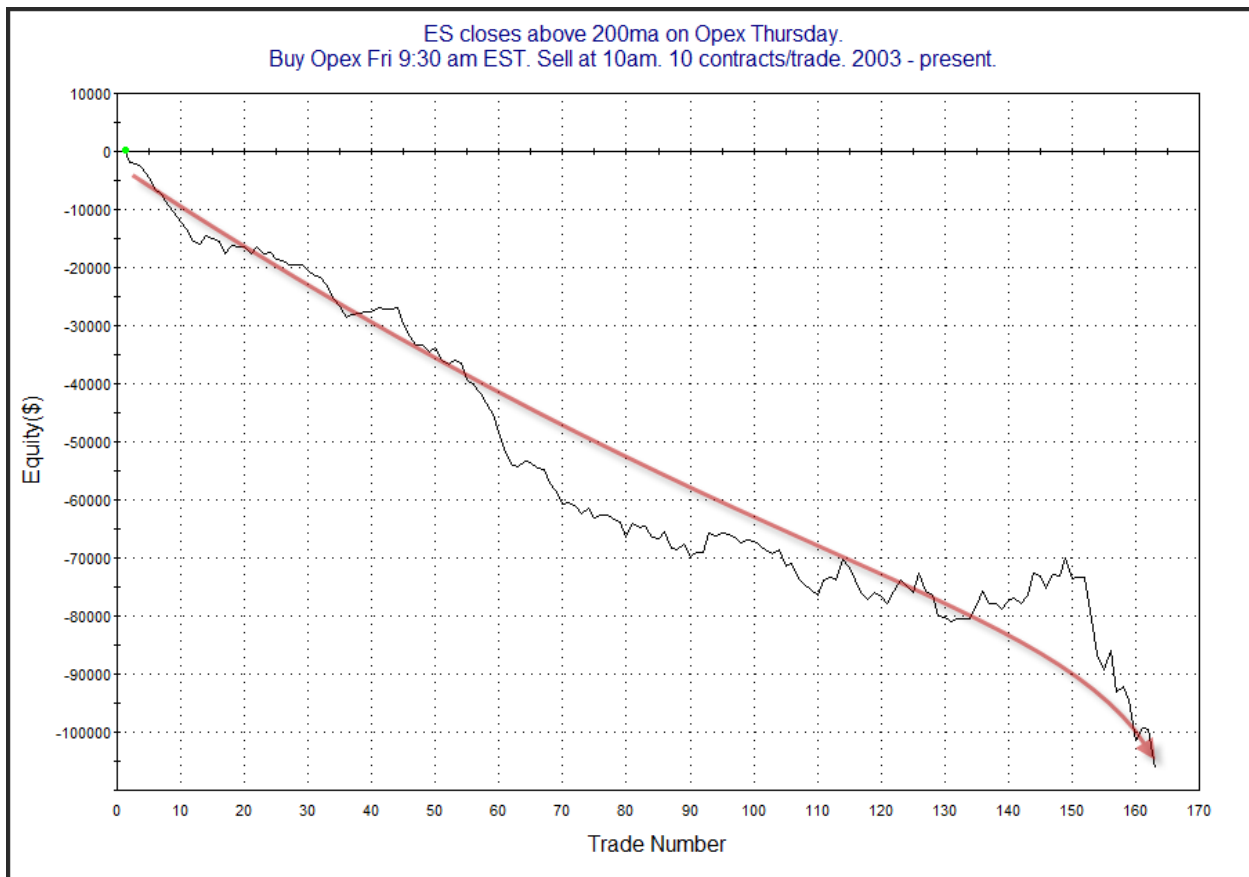
Below is research I published last month with regards to opex Friday action. Due to lack of time tonight, I have not updated the studies. The last instance would not have changed much, anyway...

*It is notable that Friday is options expiration. Options expiration has long been a day that has seen weakness after the opening bell (and strength before it). Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. The tables and charts are updated from the 1/15/21 letter.*

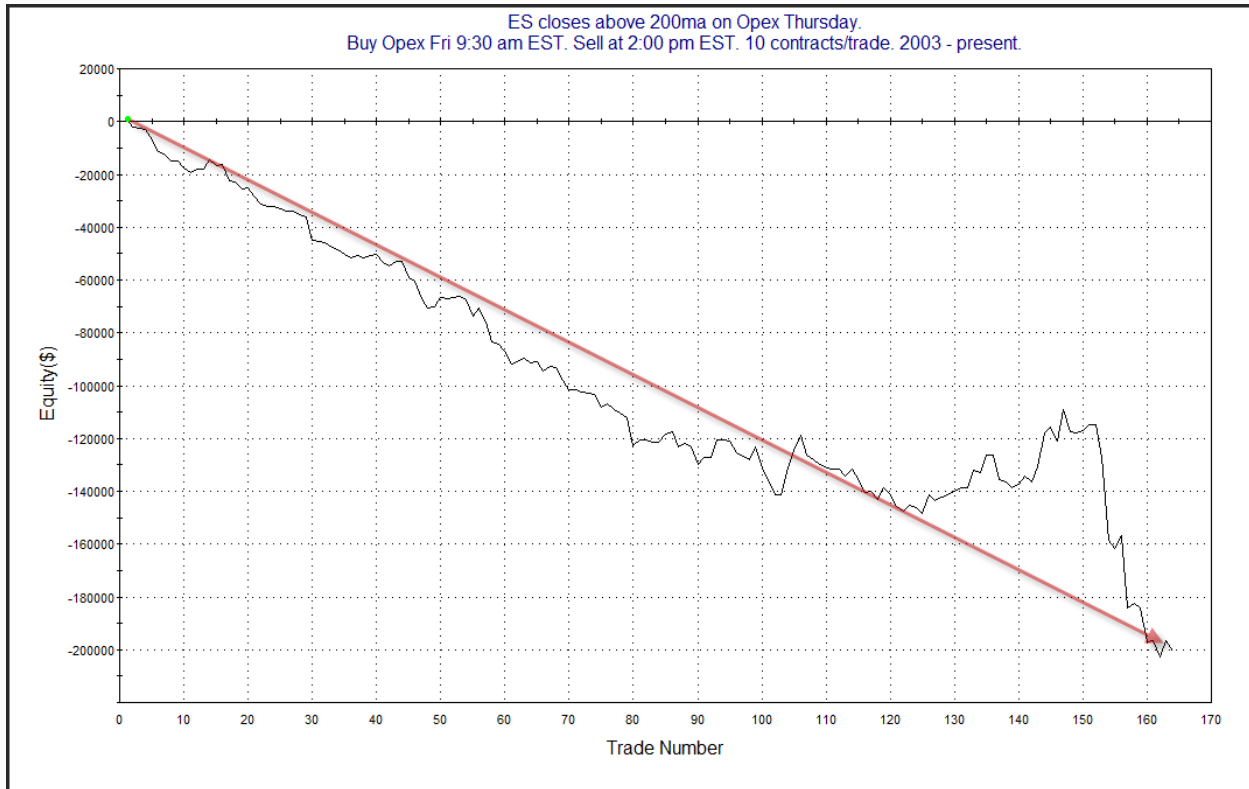
ES closes above 200ma on Opex Thursday.  
Buy Opex Fri 9:30 am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-214,000.00	163	68	92	41.72	13,875.00	-28,500.00	2,875.00	-4,451.09	0.65	0.48	-1,312.88
1,500	-158,375.00	163	64	94	39.26	11,625.00	-24,250.00	3,171.88	-3,844.41	0.83	0.56	-971.63
1,400	-196,625.00	163	55	101	33.74	12,500.00	-31,625.00	2,877.27	-3,513.61	0.82	0.45	-1,206.29
1,300	-160,250.00	163	57	105	34.97	11,375.00	-22,125.00	2,813.60	-3,053.57	0.92	0.50	-983.13
1,200	-138,875.00	163	58	105	35.58	12,000.00	-12,750.00	2,545.26	-2,728.57	0.93	0.52	-851.99
1,100	-119,500.00	163	61	100	37.42	14,625.00	-12,625.00	2,090.16	-2,470.00	0.85	0.52	-733.13
1,000	-106,250.00	163	49	110	30.06	3,875.00	-7,000.00	1,255.10	-1,525.00	0.82	0.37	-651.84

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) The largest downside totals would have been achieved by exiting at 2pm. Below is a look at a profit curve for the 1<sup>st</sup> half-hour.



The strong move from upper left to lower right supports the bearish case. Next is the 2pm exit.

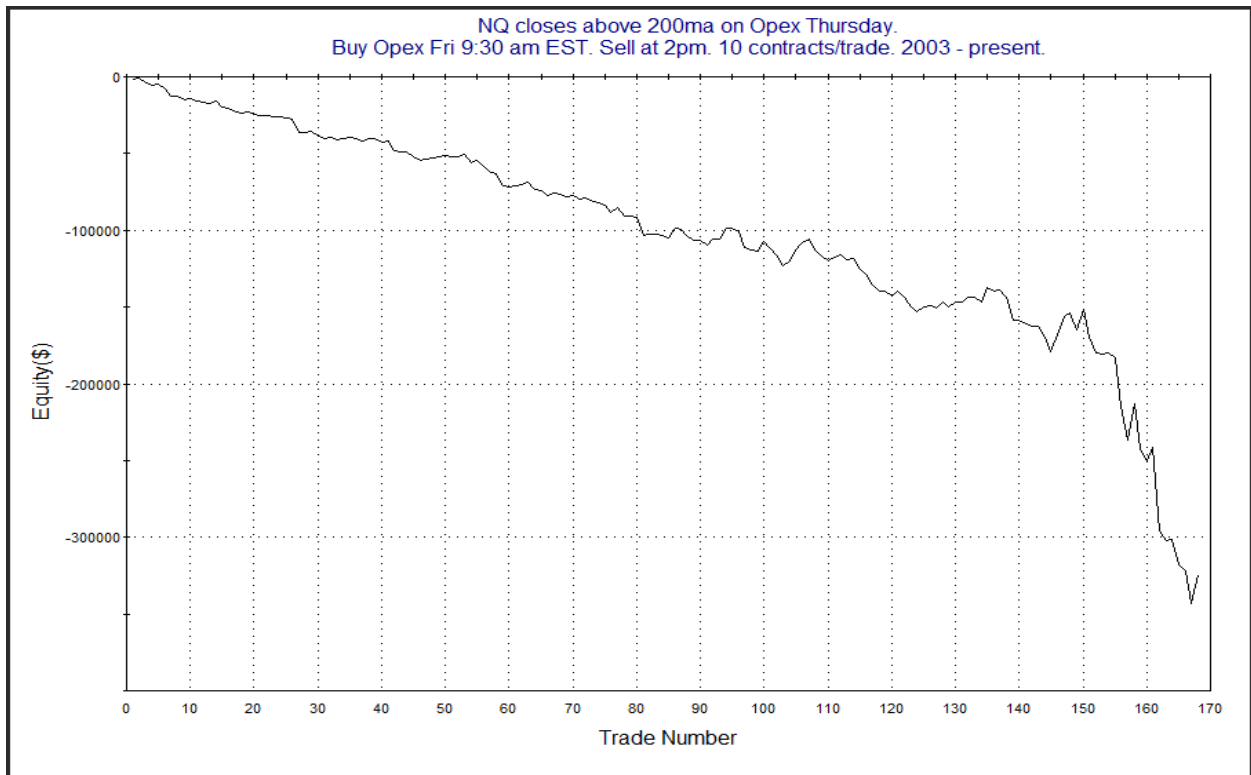
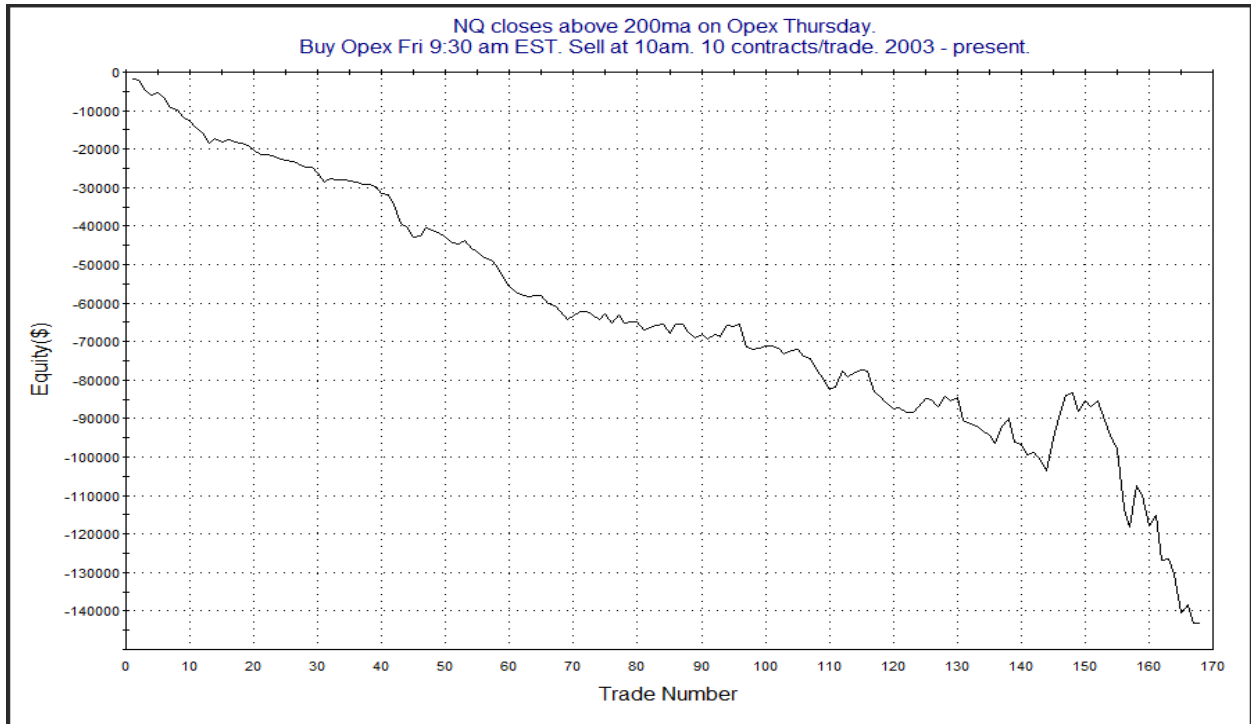


*This is also impressive.*

*NQ (the NASDAQ 100 future) has seen an even stronger tendency to sell off. This can be seen in the table and profit curves below.*

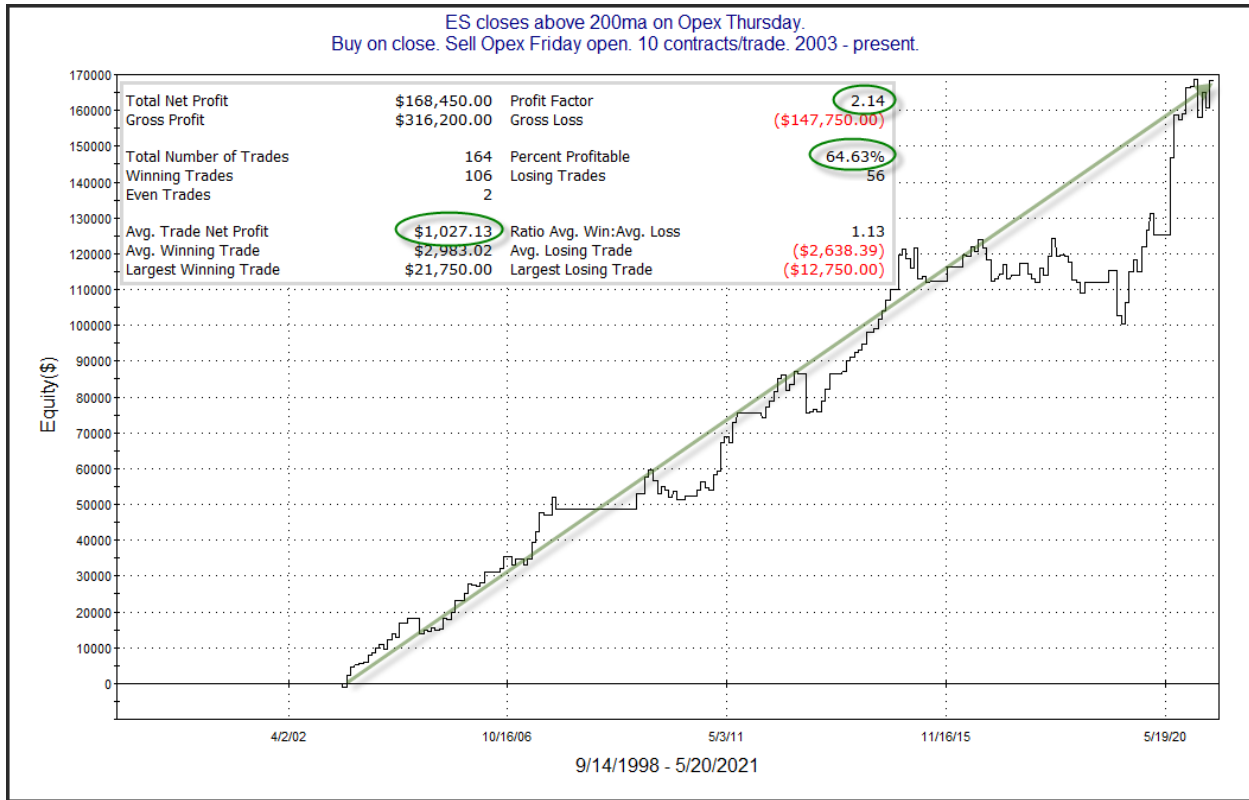
NQ closes above 200ma on Opex Thursday.  
Buy Opex Fri 9:30 am EST. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-345,500.00	168	66	102	39.29	36,850.00	-39,500.00	3,493.18	-5,647.55	0.62	0.40	-2,056.55
1,500	-290,950.00	168	63	104	37.50	22,850.00	-44,750.00	3,611.90	-4,985.58	0.72	0.44	-1,731.85
1,400	-324,350.00	168	56	112	33.33	23,550.00	-54,100.00	3,345.54	-4,568.75	0.73	0.37	-1,930.65
1,300	-263,300.00	168	61	105	36.31	20,750.00	-53,400.00	3,243.44	-4,391.90	0.74	0.43	-1,567.26
1,200	-239,150.00	168	63	104	37.50	13,750.00	-32,550.00	2,653.97	-3,907.21	0.68	0.41	-1,423.51
1,100	-176,700.00	168	59	109	35.12	17,650.00	-31,300.00	2,936.44	-3,210.55	0.91	0.50	-1,051.79
1,000	-143,150.00	168	51	113	30.36	10,700.00	-15,500.00	1,680.39	-2,025.22	0.83	0.37	-852.08



*The bearish edge appears alive and well here.*

Not many people realize this downside edge even exists. I think the reason for that is that it is basically imperceptible on a daily chart. The downside intraday edge is almost completely obscured by the upside edge that occurs in the night prior to opex Friday. This can be seen below:



So the common action for opex Friday is a gap up followed by a selloff. We'll see if that plays out tomorrow.

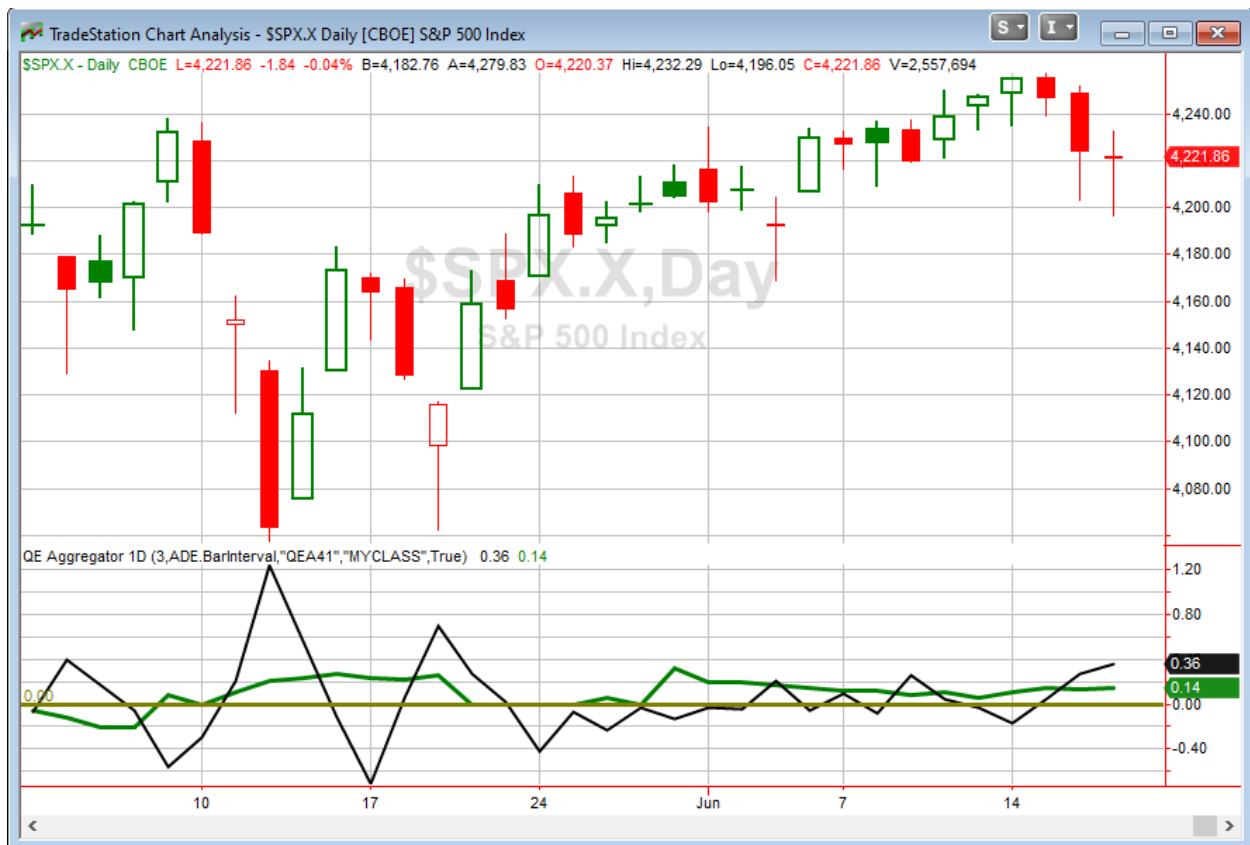
Lastly, I will note that while the SPX change was muted on Thursday, there was a lot of rotation under the hood, with leaders being sold hard while money flowed into other areas. This can be seen in the table below.

Returns for SPX Sector ETFs.  
Ordered by 200-day % Change. 6/17/2021

Ticker	Name	200-Day %Chg	1-Day % Chg
XLE	Energy Select Sector SPDR ETF	57.65	-3.4
XLF	Financial Select Sector SPDR ETF	46.27	-2.96
XLB	Materials Select Sector SPDR ETF	32.11	-2.23
XLI	Industrial Select Sector SPDR ETF	31.15	-1.54
XLRE	Real Estate Select Sector SPDR ETF	27.88	0.38
XLV	Health Care Select Sector SPDR ETF	16.96	0.76
XLK	Technology Select Sector SPDR ETF	16.84	1.16
XLY	Consumer Discretionary Select Sector SPDR ETF	15.95	0.38
XLU	Utilities Select Sector SPDR ETF	13.82	0.55
XLP	Consumer Staples Select Sector SPDR ETF	8.92	0.36

The 4 sectors with the strongest 200-day returns were the 4 that finished down on the day on Thursday. And they all dropped a sizable amount. Meanwhile, technology (XLK), which had been a laggard, was clearly the winner on Thursday.

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 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain bullish on Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4260.07 on Friday. That is 0.9% above Thursday's close. Therefore, SPX would need to close up about 0.9% on Friday in order to turn from oversold to overbought versus recent expectations.

So the Aggregator is bullish. Evidence continues to point higher, and the market is oversold. I have some long exposure, and I still like the long side. But with the bearish opex intraday tendency, I am not inclined to add to my current position until the end of the day, and only if SPY closes down a good amount.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/14 – somewhat bullish**

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

ALL – 1/3 @ \$131.41 (bought @ limit)

### ***Broad Market Large Cap CBI – 1(ALL)***

## **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 ON CLOSE IF SPX CLOSES <= 4210.00.** Based on the short-term outlook above, I will look to add to my long SPY position on Friday if it closes down a fair amount. I am using SPX for the trigger because SPY is going ex-div in the morning.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ALL(1/3)	6/15/2021	\$131.00	\$126.55	-3.40%		Catapult
SPY(1/4)	6/17/2021	\$421.67	\$421.97	0.07%		Aggregator

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