

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 20, 2021

Volume 14 Issue 160

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- Breadth is extremely oversold by several measures with SPX having been barely affected.
- Four lower lows and a 20-day low in an uptrend has often been followed by a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is suggesting a further bounce in the coming days.

The Evidence

Thursday saw a lot of back and forth, and in the end the market finished mixed. The SPX closed up 0.1%, the NASDAQ also rose 0.1%, and the Russell 2000 declined 1.2%. Breadth was strongly negative with the NYSE Up Issues % coming in at 29% and the Up Volume % at 20%. NYSE total volume rose for the 4th day in a row.

Breadth was incredibly weak. To have an Up Volume % that low on a day the SPX closed up is nearly unheard of. In fact, this is the 1st time the NYSE Up Volume % has closed that low on a day SPX closed higher since...1957. But it is not just a 1-day phenomenon. Breadth has been consistently weak over the last couple of weeks. In fact the 10-day exponential moving average of the Up Issues % and the Up Volume % are now both below 40%. There has only been 1 other day since 1930 where that happened while SPX closed within 2% of its 200-day high. That was on 8/10/2017.

You can also see the poor breadth in the performance of the Russell 2000 vs the SPX. The Russell has closed down 6 days in a row, and over that 6-day period it has lost over 5%. Meanwhile, SPX has not even lost 1% over the same 6-day period. I looked back at other such divergences. They have been rare, and are all posted below.

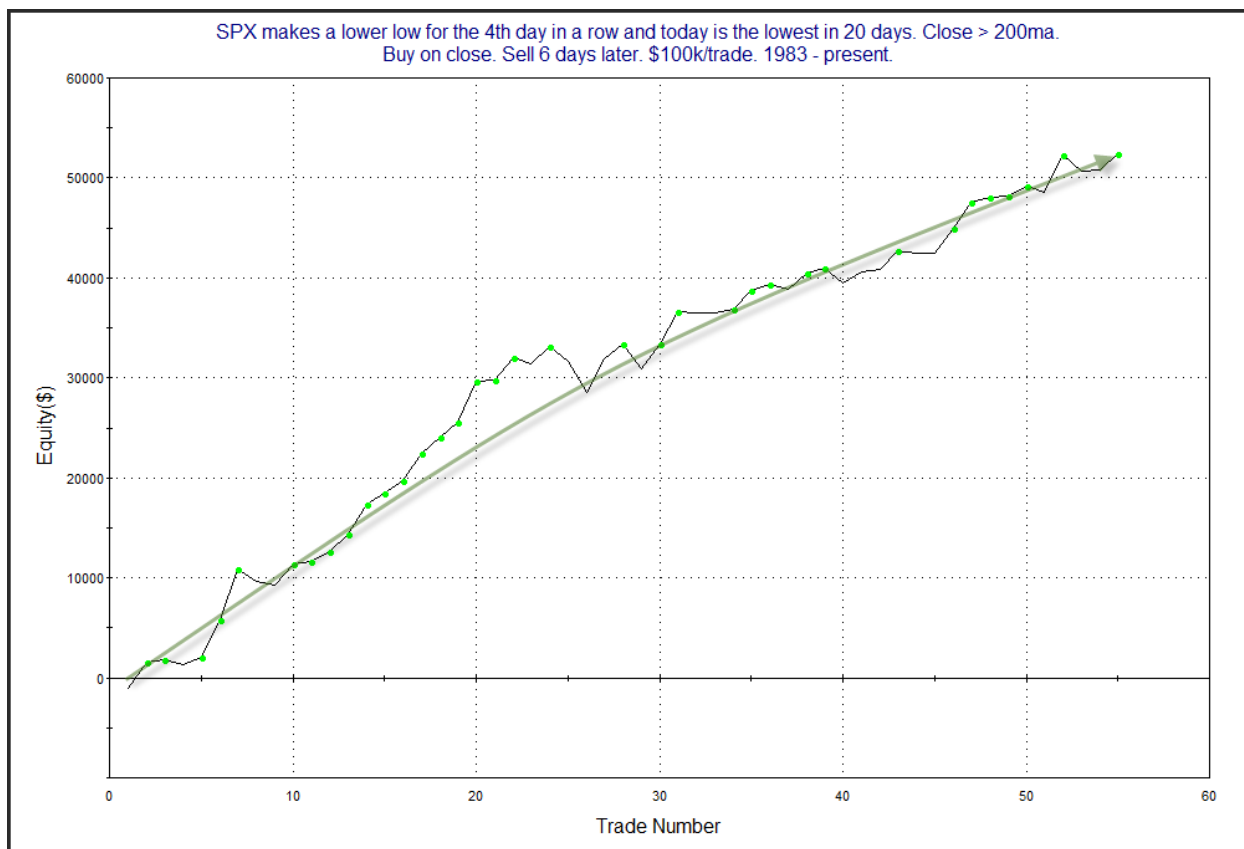
| Russell 2000 closes down over 5% in the last 6 days while SPX does not even close down 1% over the same period. Forward SPX returns shown. 1987 - present. | | | | | | | | | |
|--|------------|----------------|---------------------|----------------|--------------|-------------|--------------|--------------|--|
| Ticker | Date/Time | 6-Day SPX %Chg | 6-Day RUT %Chg | Next Day % Chg | 2-Day %Chg | 3-Day %Chg | 4-Day %Chg | 5-Day %Chg | |
| \$SPX | 10/27/1987 | 3.71 | -18.78 | 0.04 | 4.97 | 7.98 | 9.67 | 7.56 | |
| \$SPX | 10/30/1987 | 1.43 | -5.07 | 1.57 | -0.39 | -1.12 | 1.07 | -0.55 | |
| \$SPX | 10/9/1998 | -0.21 | -9.04 | 1.36 | 1.06 | 2.15 | 6.42 | 7.32 | |
| \$SPX | 10/12/1998 | -0.49 | -6.89 | -0.29 | 0.78 | 4.99 | 5.88 | 6.48 | |
| \$SPX | 3/15/2000 | 2.7 | -6.15 | 4.76 | 5.19 | 4.63 | 7.31 | 7.79 | |
| \$SPX | 3/17/2000 | 4.48 | -5.16 | -0.54 | 2.01 | 2.47 | 4.29 | 4.3 | |
| \$SPX | 3/20/2000 | 4.41 | -9.05 | 2.56 | 3.02 | 4.86 | 4.86 | 4.62 | |
| \$SPX | 3/21/2000 | 7.97 | -6.33 | 0.45 | 2.24 | 2.25 | 2.01 | 0.93 | |
| \$SPX | 3/30/2000 | -0.85 | -6.94 | 0.72 | 1.21 | 0.46 | -0.04 | 0.9 | |
| \$SPX | 3/29/2021 | 1.48 | -5.63 | -0.32 | 0.05 | 1.23 | 2.69 | 2.59 | |
| | | | Average | 1.031 | 2.014 | 2.99 | 4.416 | 4.194 | |
| | | | % Profitable | 70% | 90% | 90% | 90% | 90% | |

There are only 10 instances, and if you eliminate overlap, we are really only looking at 4 periods here. They are 10/1987, 10/1998, 3/2000, 3/2021 and now. So I am not going to make too much of the results. But they clearly do NOT suggest a short-term bearish edge. From an intermediate-term standpoint, I would rather have strong breadth confirming the rally. From a short-term standpoint, the selling seems to be strongly overdone by several measures. And it seems there is a decent chance that could lead to a bit of a rebound in the coming days.

While the SPX selloff has been mild compared to the Russell, we have seen 4 lower lows and a 20-day intraday low on Thursday. This triggered the study below, last seen in the 6/30/15 letter.

| SPX makes a lower low for the 4th day in a row and today is the lowest in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - 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 |
| 10 | 54,244.13 | 54 | 35 | 19 | 64.81 | 5,268.12 | -7,625.38 | 2,481.19 | -1,715.67 | 1.45 | 2.66 | 1,004.52 |
| 9 | 51,765.45 | 54 | 39 | 15 | 72.22 | 6,263.40 | -11,831.15 | 2,272.98 | -2,458.71 | 0.92 | 2.40 | 958.62 |
| 8 | 61,913.21 | 54 | 41 | 13 | 75.93 | 6,529.38 | -4,831.04 | 2,186.82 | -2,134.35 | 1.02 | 3.23 | 1,146.54 |
| 7 | 61,903.75 | 54 | 36 | 18 | 66.67 | 5,954.52 | -3,232.37 | 2,206.83 | -974.56 | 2.26 | 4.53 | 1,146.37 |
| 6 | 52,374.25 | 55 | 41 | 14 | 74.55 | 5,148.00 | -3,084.00 | 1,654.61 | -1,104.61 | 1.50 | 4.39 | 952.26 |
| 5 | 36,634.87 | 55 | 34 | 21 | 61.82 | 3,725.69 | -3,870.04 | 1,751.69 | -1,091.55 | 1.60 | 2.60 | 666.09 |
| 4 | 32,368.35 | 55 | 34 | 21 | 61.82 | 3,868.10 | -1,828.50 | 1,557.34 | -980.06 | 1.59 | 2.57 | 588.52 |
| 3 | 13,067.02 | 55 | 30 | 25 | 54.55 | 3,939.79 | -5,393.69 | 1,395.55 | -1,151.98 | 1.21 | 1.45 | 237.58 |
| 2 | 11,127.83 | 55 | 30 | 25 | 54.55 | 2,794.56 | -4,632.95 | 1,162.75 | -950.19 | 1.22 | 1.47 | 202.32 |
| 1 | 7,612.82 | 55 | 35 | 20 | 63.64 | 2,536.10 | -2,968.54 | 786.53 | -995.78 | 0.79 | 1.38 | 138.41 |

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming a 6-day exit strategy.

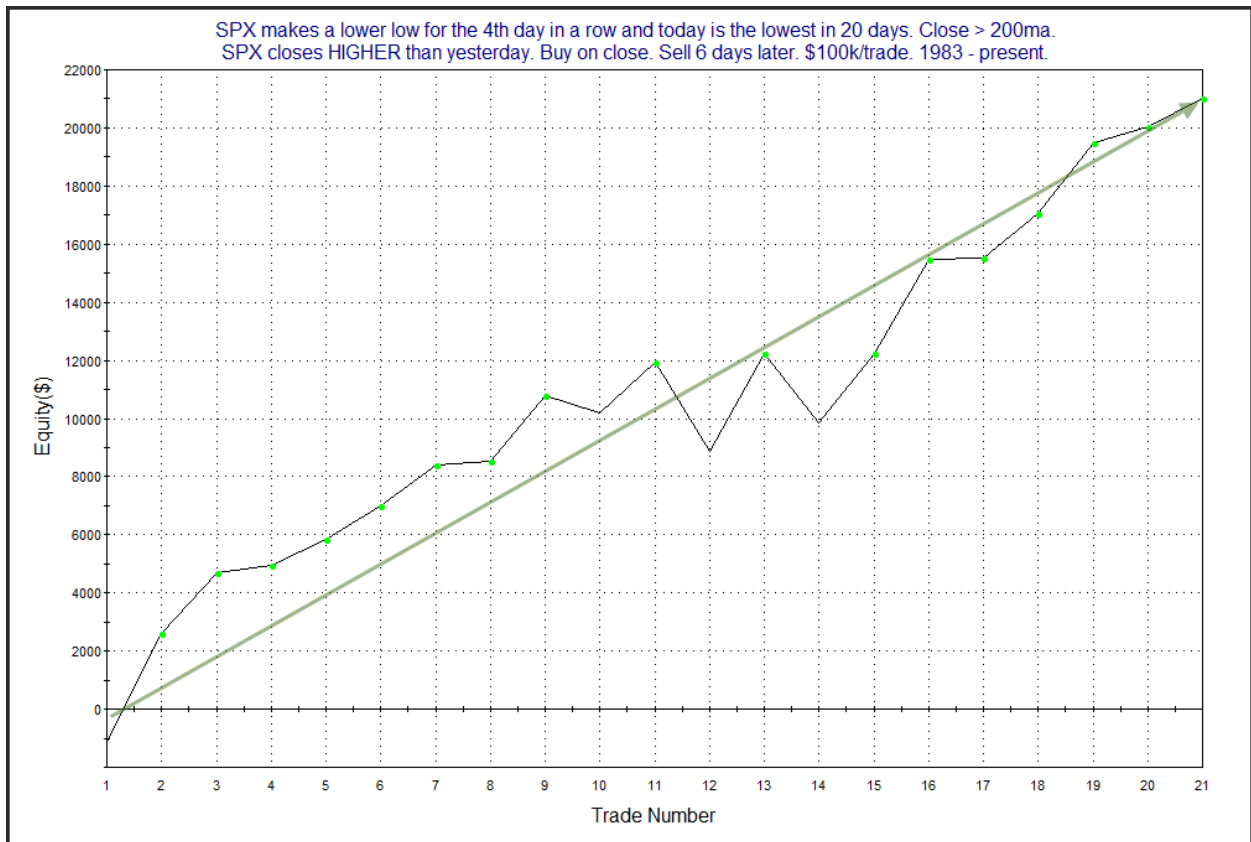


The strong, steady rise helps to confirm the upside edge suggested by the stats table. But while Thursday made a 20-day intraday low, SPX actually closed up on the day. So I went ahead and filtered this study to see all the instances that also posted a higher close. Those results are below.

SPX makes a lower low for the 4th day in a row and today is the lowest in 20 days. Close > 200ma.
SPX closes HIGHER than yesterday. Buy on close. Sell X days later. \$100k/trade. 1983 - present.

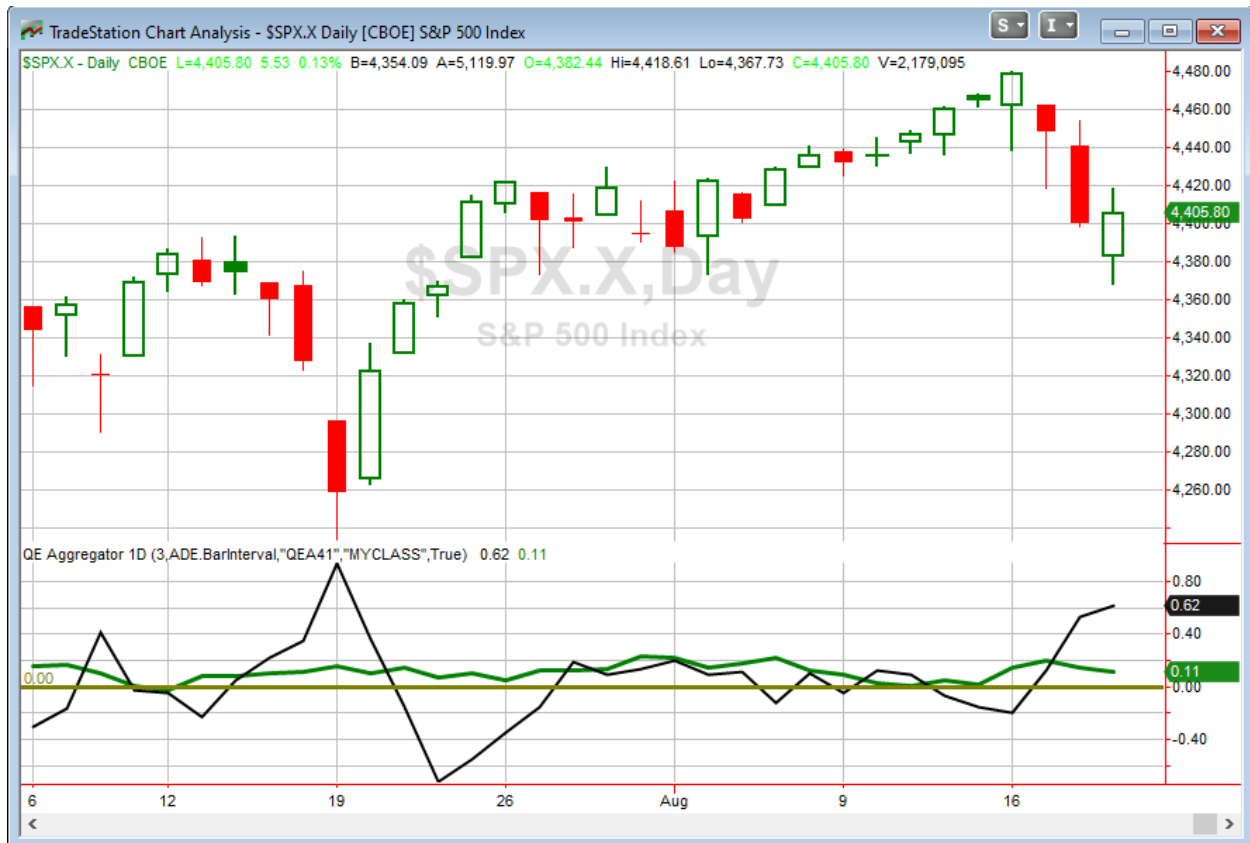
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Max Losing Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 25,240.20 | 21 | 15 | 6 | 71.43 | 4,508.58 | -3,910.79 | 2,348.46 | -1,664.46 | 1.41 | 3.53 | 1,201.91 |
| 9 | 23,976.44 | 21 | 16 | 5 | 76.19 | 4,259.19 | -3,859.20 | 2,251.49 | -2,409.48 | 0.93 | 2.99 | 1,141.74 |
| 8 | 20,333.81 | 21 | 17 | 4 | 80.95 | 4,171.17 | -3,075.97 | 1,790.95 | -2,528.07 | 0.71 | 3.01 | 968.28 |
| 7 | 26,207.36 | 21 | 16 | 5 | 76.19 | 4,748.19 | -2,637.75 | 2,079.03 | -1,411.44 | 1.47 | 4.71 | 1,247.97 |
| 6 | 21,018.40 | 21 | 17 | 4 | 80.95 | 3,677.28 | -3,084.00 | 1,658.86 | -1,795.54 | 0.92 | 3.93 | 1,000.88 |
| 5 | 16,074.59 | 21 | 16 | 5 | 76.19 | 2,749.23 | -2,828.25 | 1,439.06 | -1,390.07 | 1.04 | 3.31 | 765.46 |
| 4 | 15,674.04 | 21 | 14 | 7 | 66.67 | 2,948.67 | -1,677.68 | 1,563.50 | -887.85 | 1.76 | 3.52 | 746.38 |
| 3 | 8,492.22 | 21 | 12 | 9 | 57.14 | 3,939.79 | -2,708.81 | 1,514.56 | -1,075.83 | 1.41 | 1.88 | 404.39 |
| 2 | 7,126.95 | 21 | 12 | 9 | 57.14 | 2,794.56 | -1,962.36 | 1,268.23 | -899.10 | 1.41 | 1.88 | 339.38 |
| 1 | 7,026.38 | 21 | 14 | 7 | 66.67 | 2,536.10 | -1,774.60 | 875.22 | -746.68 | 1.17 | 2.34 | 334.59 |

Numbers here are similar, but a bit better. Below is the 6-day profit curve.



The up close on Thursday did not take anything away from the original study. In fact, it may have helped the bullish case.

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



With tonight's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved further 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 formation stayed long at the close.

Based on the current active list, expectations are slated to remain bullish on Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4463.32 on Friday. That is 1.3% above Thursday's close. Therefore, SPX would need to close up at least 1.3% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is still bullish. Evidence is continuing to point higher. Thursday was an attempt at a bounce for the SPX. If the short-term studies are correct, we should have a bit further to bounce. I have a small index position at the moment. I will not look to add to that just yet. I will instead hold on and try and take advantage of the anticipated bounce.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/16 – neutral

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.

None.

Current Open Trade Ideas

SPY – Bought at close on Wednesday

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