

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2021

Volume 14 Issue 182

## Market Overview



## Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long       | 11          |

## Tonight's Research Points

- The “failed” bounce off Friday’s 20-day low appears to be another opportunity to take long exposure.
- Three 20-day lows in a row will commonly be followed by a bounce over the next few days.
- Since 1982, 3+ down days combined with a Fed Day has resulted in consistent gains over the next 3-4 days.
- Poor closes the day before a Fed Day have led to strong Fed Days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, evidence is strong, and the market is extremely oversold. I like 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 |
|--|--|-----------------|----------------|---------------|--------------|------------------------|
| <b>Active - Short Term</b>   |  |                 |                |               |              |                        |
| September 21, 2021   | 20 low big drop on Monday              | 1-5 days        | Bullish        |               |              |                        |
| September 21, 2021   | Gap dn from 20-low. Close < open > 200 | 1-5 days        | Bullish        |               |              |                        |
| September 20, 2021   | 20-day low. Biggest drop in 10. > 200  | 1-7 days        | Bullish        | 2.00%         | -1.30%       | -2.70%                 |
| <b>Active - Long Term</b>  |  |                 |                |               |              |                        |
| August 30, 2021  | NASDAQ Leading                         | int term        | Bullish        |               |              |                        |
| May 3, 2021  | Worst 6 Months                         | 1-6 months      | Bearish        |               |              |                        |
| July 9, 2020   | Golden Cross                           | int term        | Bullish        |               |              |                        |
| March 23, 2020   | QE4                                    | int term        | Bullish        |               |              |                        |
| <b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b> |  |                 |                |               |              |                        |
| <b>September 20, 2021</b>  | <b>Weakest Week</b>                    | <b>1-4 days</b> | <b>Bearish</b> | <b>-2.10%</b> | <b>0.80%</b> | <b>2.00%</b>           |
| September 14, 2021   | CBI hits 10+                           | 1-5 days        | Bullish        |               |              |                        |

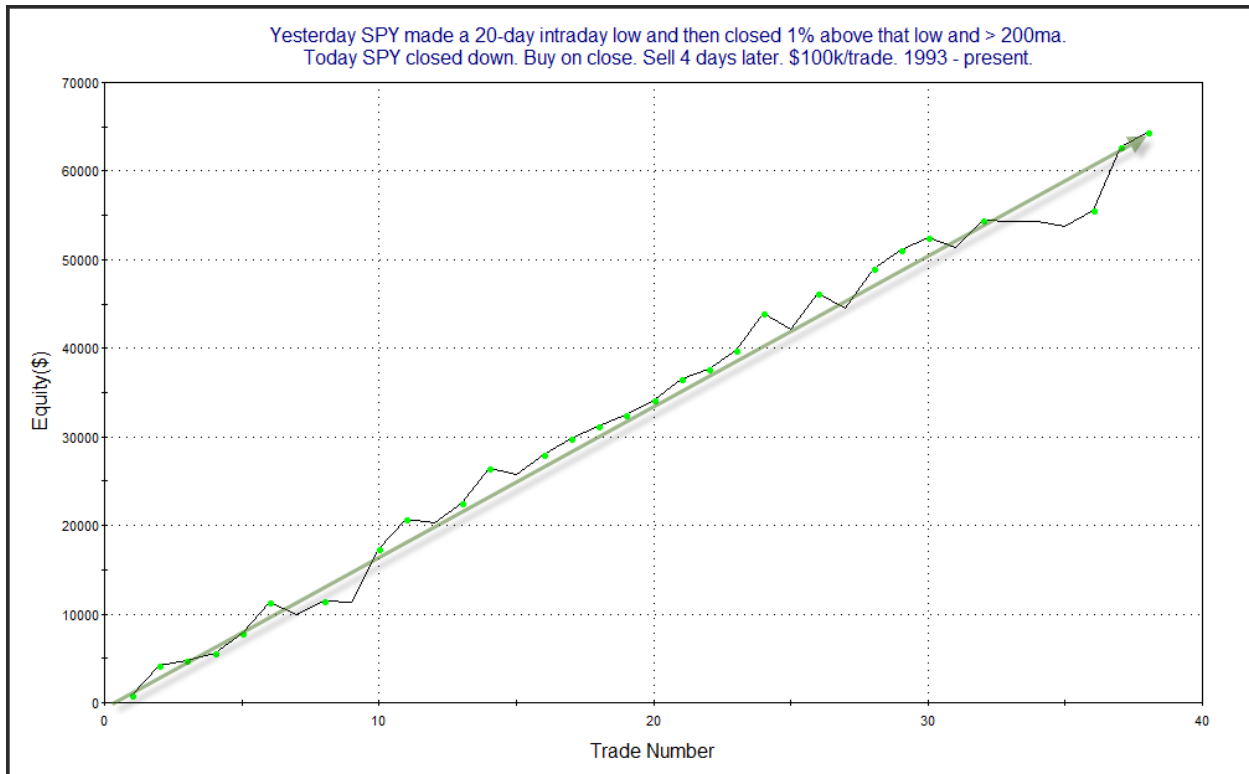
**The Evidence**

The market tried to bounce, but could only manage a mixed finish. The SPX finished down 0.1%, the NASDAQ gained 0.2%, and the Russell 2000 rose 0.2%. Breadth was positive with the NYSE Up Issues % coming in at 55% and the Up Volume % at 52%. NYSE total volume declined from Monday's level.

“Turnaround Tuesday” did not play out as planned, as it failed to hold onto the early gains, and slipped into negative territory in the last few minutes of the day. That made the attempted bounce look like a failure, and also likely frustrated many bulls. But it also triggered a number of studies that still suggested an upside edge. The study below is from the 11/2/20 letter.

| Yesterday SPY made a 20-day intraday low and then closed 1% above that low and > 200ma.<br>Today SPY closed down. 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  | 56,848.37       | 38                | 27                  | 11                 | 71.05             | 7,227.72               | -5,283.45             | 2,653.48               | -1,345.04             | 1.97                | 4.84              | 1,496.01       |
| 4  | 64,375.41       | 38                | 29                  | 9                  | 76.32             | 7,252.20               | -1,766.40             | 2,497.80               | -895.65               | 2.79                | 8.99              | 1,694.09       |
| 3  | 54,775.57       | 38                | 28                  | 9                  | 73.68             | 5,630.94               | -1,689.60             | 2,191.26               | -731.09               | 3.00                | 9.32              | 1,441.46       |
| 2  | 42,865.21       | 41                | 32                  | 9                  | 78.05             | 6,435.36               | -2,972.16             | 1,658.62               | -1,134.50             | 1.46                | 5.20              | 1,045.49       |
| 1  | 19,075.30       | 41                | 29                  | 12                 | 70.73             | 4,400.20               | -3,744.92             | 1,062.23               | -977.46               | 1.09                | 2.63              | 465.25         |
| <b>3/4/11 was the only instance NOT to close above the entry price at some point in the next week.</b>   |                 |                   |                     |                    |                   |                        |                       |                        |                       |                     |                   |                |

The stats here are suggestive of a bullish edge. Below is the curve for the 4-day holding period.



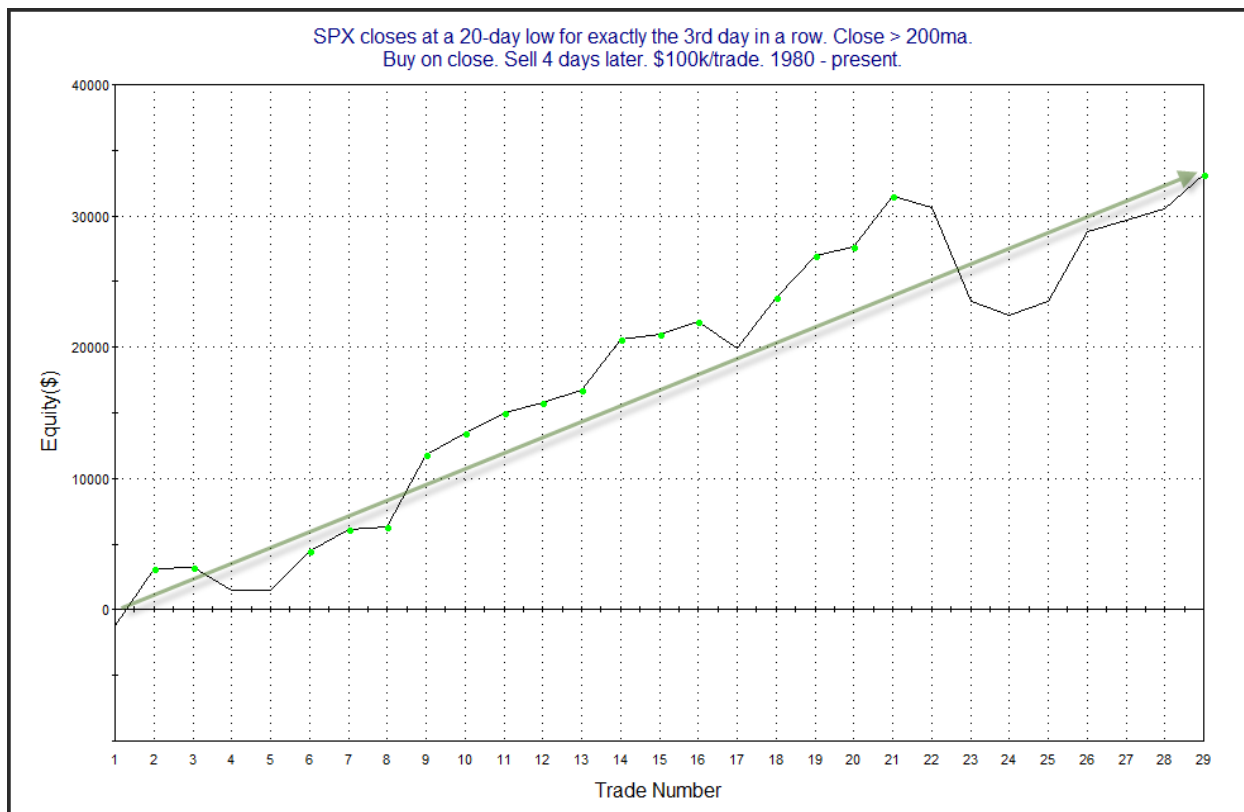
This is also impressive, and supports the idea of a short-term upside edge. I have included this study on the active list tonight.

It is also notable that Tuesday marked the 3<sup>rd</sup> day in a row that SPX closed at a 20-day low. I looked at times SPX continually closed at a 20-day low way back in the 5/16/2012 letter. I have updated that study below.

SPX closes at a 20-day low for exactly the 3<sup>rd</sup> day in a row. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1980 - 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      | 30,390.51       | 29                | 19                  | 10                 | 65.52             | 6,229.44               | -7,153.30             | 2,471.74               | -1,657.25             | 1.49                | 2.83              | 1,047.95       |
| 4      | 33,135.18       | 29                | 23                  | 6                  | 79.31             | 5,426.04               | -7,100.17             | 2,052.55               | -2,345.58             | 0.88                | 3.35              | 1,142.59       |
| 3      | 26,800.12       | 29                | 19                  | 10                 | 65.52             | 4,895.50               | -2,658.00             | 2,032.46               | -1,181.67             | 1.72                | 3.27              | 924.14         |
| 2      | 14,482.36       | 29                | 17                  | 12                 | 58.62             | 4,424.50               | -2,943.71             | 1,571.26               | -1,019.08             | 1.54                | 2.18              | 499.39         |
| 1      | 7,427.04        | 29                | 16                  | 13                 | 55.17             | 2,007.50               | -2,005.85             | 981.76                 | -637.01               | 1.54                | 1.90              | 256.10         |

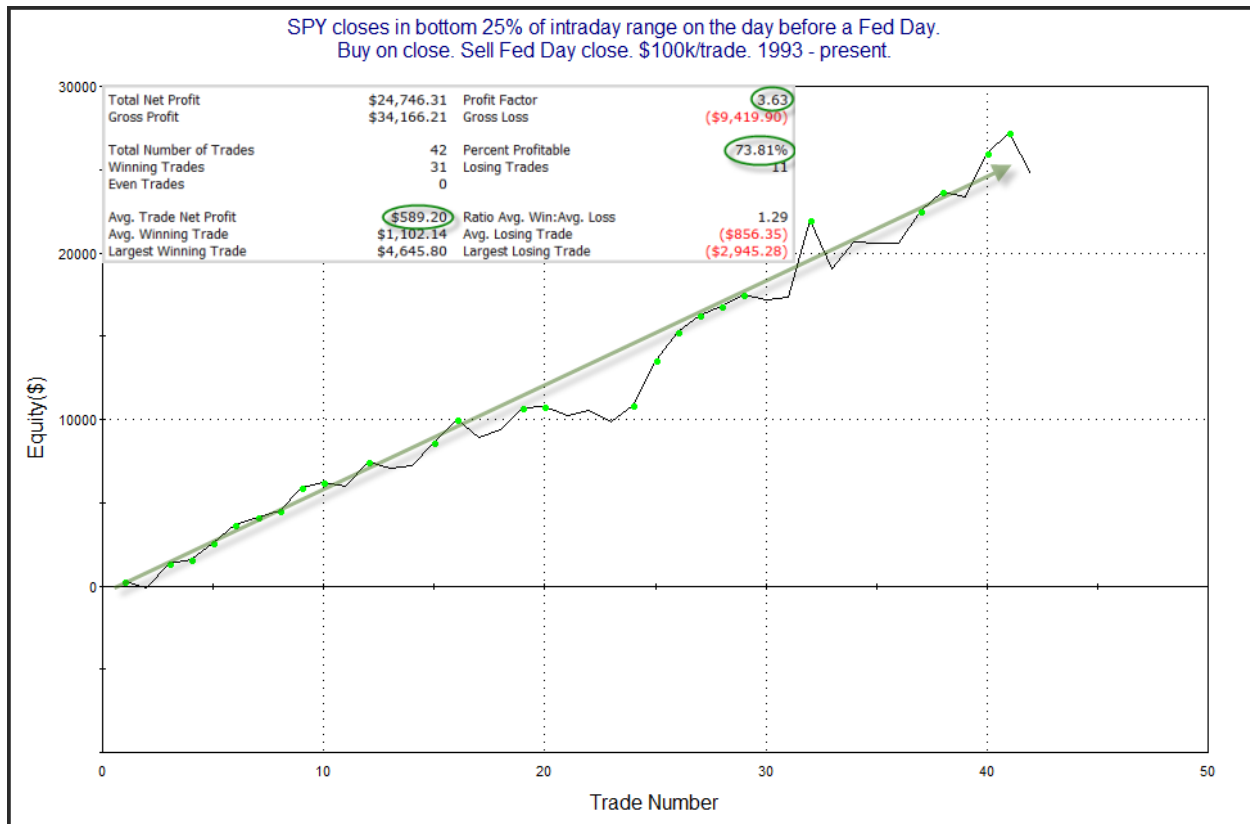
The persistent selling and three 20-day lows has been followed by a bounce on a fairly consistent basis. Below is a look at the 4-day profit curve.



Those 3 consecutive losers occurred in 2011 & 2012. Since then we have seen 5 straight winners and the curve appears to be back on track. This study appears worth consideration, and I have added it to the active list tonight.

The most compelling studies tonight were related to Fed Days. A Fed Day is one of eight days per year that the Federal Reserve concludes one of their scheduled meetings and makes a policy announcement. Wednesday is a Fed Day. Historically, Fed Days have had a bullish inclination. That inclination has been even stronger when there has been selling heading into the Fed Day.

One metric I have found useful in estimating Fed Day odds is the closing range on the day before the Fed Day. Several times over the years, and most recently in the 7/27/21 letter, I broke down performance by quartile. The lower in the range, the better the results were for the next day. On Tuesday, SPY closed in the bottom quartile of its intraday range. Below are updated results along with a chart.



We see here the strong upside tendency when there has been a weak close heading into a Fed Day.

There was another very interesting Fed Day-related study that emerged. It examined other times that SPX was in a long-term uptrend, but closed down for at least the third day in a row going into the Fed Day. I last showed this study in the 9/26/18 subscriber letter, and have updated the results below.

SPX closes down for at least the 3rd day in a row but > 200ma. Tomorrow is a Fed Day.  
Buy on close. Sell X days later. \$100k/trade. 1982 - present.

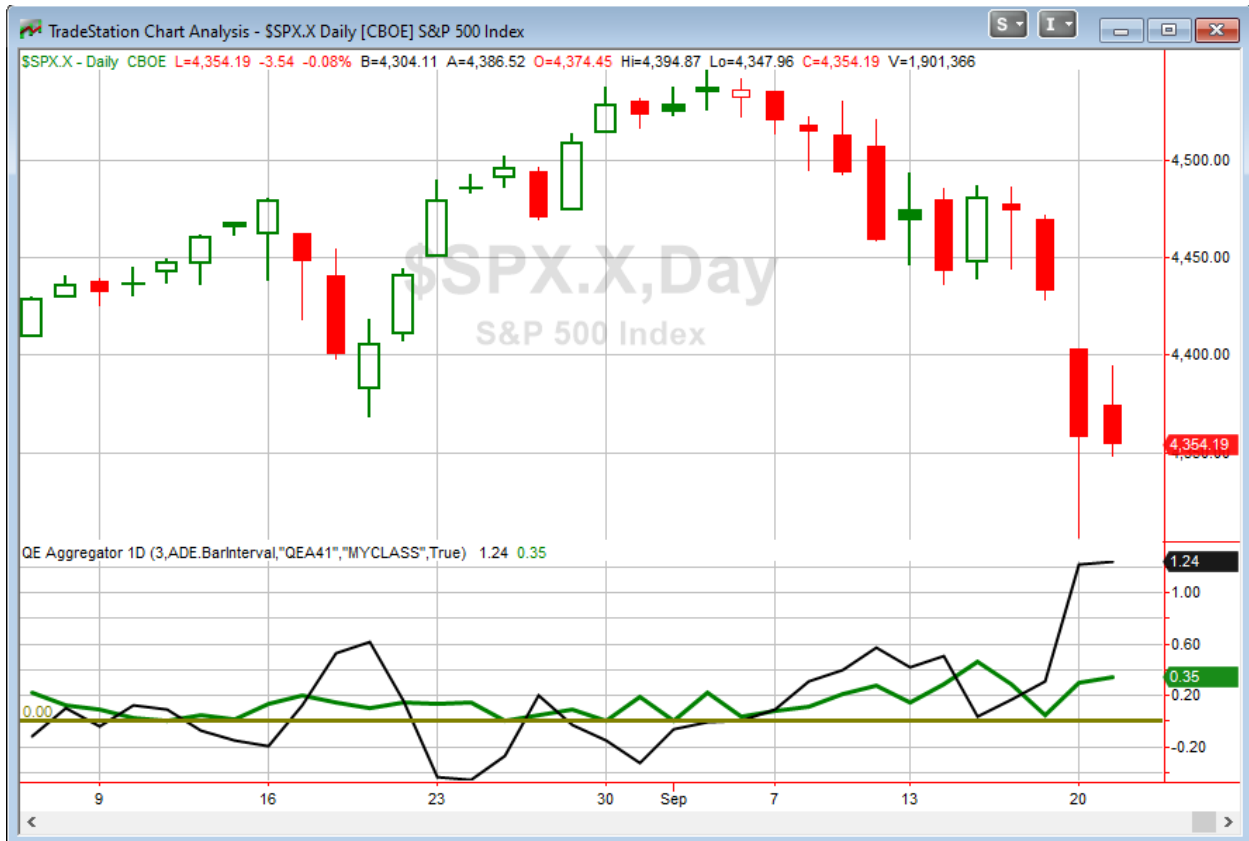
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Max Losing Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 5      | 30,291.69       | 21                | 18                  | 3                  | 85.71             | 5,471.50               | -3,270.96             | 2,025.68               | -2,056.86             | 0.98                | 5.91              | 1,442.46       |
| 4      | 30,513.16       | 21                | 19                  | 2                  | 90.48             | 5,290.00               | -1,433.11             | 1,727.99               | -1,159.35             | 1.49                | 14.16             | 1,453.01       |
| 3      | 28,033.07       | 21                | 18                  | 3                  | 85.71             | 4,895.50               | -1,247.38             | 1,640.61               | -499.30               | 3.29                | 19.71             | 1,334.91       |
| 2      | 18,417.07       | 21                | 15                  | 6                  | 71.43             | 4,424.50               | -1,083.82             | 1,345.69               | -294.72               | 4.57                | 11.41             | 877.00         |
| 1      | 9,029.90        | 21                | 15                  | 6                  | 71.43             | 2,007.50               | -647.66               | 760.51                 | -396.30               | 1.92                | 4.80              | 430.00         |

These are some very encouraging numbers for the bulls. Below is the list of instances.

| SPX closes down for at least the 3rd day in a row but > 200ma. Tomorrow is a Fed Day.<br>Buy on close. Sell 4 days later. \$100k/trade. 1982 - present. |        |            |          |                    |
|---|--------|------------|----------|--------------------|
| Date/Time   | Signal | Price      | % Profit | Run-up<br>Drawdown |
| 11/16/1982  | Buy    | \$135.42   | -0.89%   | \$2,590.38         |
| 11/22/1982  | Sell   | \$134.22   |          | (\$892.98)         |
| 10/3/1983   | Buy    | \$165.81   | 3.01%    | \$3,189.87         |
| 10/7/1983   | Sell   | \$170.80   |          | \$0.00             |
| 7/8/1986  | Buy    | \$241.58   | -1.44%   | \$780.57           |
| 7/14/1986   | Sell   | \$238.11   |          | (\$1,466.15)       |
| 2/10/1987   | Buy    | \$275.07   | 3.78%    | \$3,778.83         |
| 2/17/1987   | Sell   | \$285.48   |          | (\$431.97)         |
| 12/18/1989  | Buy    | \$343.68   | 1.09%    | \$1,116.50         |
| 12/22/1989  | Sell   | \$347.41   |          | (\$1,177.40)       |
| 8/19/1991   | Buy    | \$376.46   | 4.70%    | \$5,003.20         |
| 8/23/1991   | Sell   | \$394.16   |          | \$0.00             |
| 11/4/1991   | Buy    | \$390.27   | 0.67%    | \$1,574.40         |
| 11/8/1991   | Sell   | \$392.88   |          | (\$688.64)         |
| 7/6/1993  | Buy    | \$441.43   | 1.71%    | \$1,735.68         |
| 7/12/1993   | Sell   | \$448.98   |          | (\$6.78)           |
| 9/20/1993   | Buy    | \$455.05   | 0.57%    | \$797.16           |
| 9/24/1993   | Sell   | \$457.63   |          | (\$1,186.98)       |
| 11/14/1995  | Buy    | \$589.29   | 1.28%    | \$1,877.59         |
| 11/20/1995  | Sell   | \$596.85   |          | (\$157.17)         |
| 12/18/1995  | Buy    | \$606.82   | 0.85%    | \$1,221.80         |
| 12/22/1995  | Sell   | \$611.95   |          | (\$290.28)         |
| 12/16/1996  | Buy    | \$720.99   | 3.87%    | \$4,749.96         |
| 12/20/1996  | Sell   | \$748.87   |          | (\$593.40)         |
| 3/30/1998   | Buy    | \$1,093.60 | 2.66%    | \$2,981.16         |
| 4/3/1998  | Sell   | \$1,122.70 |          | (\$4.55)           |
| 5/18/1998   | Buy    | \$1,105.82 | 0.42%    | \$1,676.70         |
| 5/22/1998   | Sell   | \$1,110.47 |          | \$0.00             |
| 8/8/2005  | Buy    | \$1,223.13 | 0.59%    | \$1,584.36         |
| 8/12/2005   | Sell   | \$1,230.39 |          | \$0.00             |
| 3/19/2013   | Buy    | \$1,548.34 | 0.22%    | \$1,060.48         |
| 3/25/2013   | Sell   | \$1,551.69 |          | (\$306.56)         |
| 12/16/2014  | Buy    | \$1,972.74 | 5.36%    | \$5,301.00         |
| 12/22/2014  | Sell   | \$2,078.54 |          | \$0.00             |
| 6/14/2016   | Buy    | \$2,075.32 | 0.38%    | \$1,216.32         |
| 6/20/2016   | Sell   | \$2,083.25 |          | (\$1,197.60)       |
| 11/1/2016   | Buy    | \$2,111.72 | 0.94%    | \$953.16           |
| 11/7/2016   | Sell   | \$2,131.52 |          | (\$1,312.71)       |
| 1/31/2017   | Buy    | \$2,278.87 | 0.60%    | \$835.92           |
| 2/6/2017  | Sell   | \$2,292.56 |          | (\$310.46)         |
| 9/25/2018   | Buy    | \$2,915.56 | 0.31%    | \$731.00           |
| 10/1/2018   | Sell   | \$2,924.59 |          | (\$417.52)         |

The setup has certainly been potent over a long period of time. There has not been a loser for the 4-day holding period since 1986. And every instance back to 1982 has closed higher than the entry price *at some point* in the next 4 days. I have included both of these Fed Day studies on the Active List tonight.

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



With tonight's evidence considered, the green Aggregator Line again remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is still far above 0. The strongly positive Differential Line reading means that SPX is extremely 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 list of active studies, expectations are set to remain positive on Wednesday. This is highly unlikely to change. Meanwhile, the Differential Pivot will be 4466.72 on Wednesday. That is a sizable 2.6% above Tuesday's close. Therefore, SPX would need to close

up 2.6% on Wednesday in order to flip from oversold to overbought vs expectations. A more likely scenario to work off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is bullish. The bounce is a little late, but evidence continues to build. We have some very compelling active studies right now with high historical odds. But high odds does not make for a guarantee. We saw several studies about a week ago that suggested a bounce, and that never materialized. So I am taking a shot with new positions and new evidence here, but cognizant of the fact that the market is showing more weakness than it has in several months, and anything can happen. Still, I like the long side, and am positioning myself to try and take advantage of a bounce over the next 1-5 days.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 9/20 – somewhat bullish***

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

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

LLY – 1/3 @ \$240.00 (bought @ limit)

TMUS – 1/3 @ \$131.44 (bought @ limit)

LLY – 1/3 @ \$239.50 (bought @ limit)

TMUS – 1/3 @ \$130.81 (bought @ limit)

FDX – 1/3 @ \$257.55 (bought @ limit)

LLY – 1/3 @ \$237.96 (bought @ limit)

TMUS – 1/3 @ \$130.02 (bought @ limit)

PFE – 1/3 @ \$44.58 (bought @ limit)

NEE – 1/3 @ \$81.64 (bought @ limit)

#### ***New***

LMT – 1/3 @ \$336.05 (buy @ limit)

UNP – 1/3 @ \$196.61 (buy @ limit)

***Broad Market Large Cap CBI – 11(LLY-3, TMUS-3, FDX, PFE, NEE, LMT, UNP)***

## **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 @ \$433.50 LIMIT ON CLOSE.** I like the long side and will look for another lot if SPX fails to rally after the Fed announcement.

**LMT – Buy 1/3 Catapult position @ \$336.05 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of LMT.

**UNP – Buy 1/3 Catapult position @ \$196.61 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of UNP.

## **Current Open Trade Ideas**

| Symbol    | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes                 |
|-----------|------------|-------------|---------------|-------------|------|-----------------------|
| LLY(1/3)  | 9/10/2021  | \$240.00    | \$230.17      | -4.10%      |      | Catapult              |
| TMUS(1/3) | 9/10/2021  | \$131.44    | \$124.90      | -4.98%      |      | Catapult              |
| LLY(1/3)  | 9/13/2021  | \$239.50    | \$230.17      | -3.90%      |      | Catapult              |
| TMUS(1/3) | 9/13/2021  | \$130.81    | \$124.90      | -4.52%      |      | Catapult              |
| PFE(1/3)  | 9/14/2021  | \$44.58     | \$43.92       | -1.48%      |      | Catapult              |
| LLY(1/3)  | 9/14/2021  | \$237.96    | \$230.17      | -3.27%      |      | Catapult              |
| TMUS(1/3) | 9/14/2021  | \$130.02    | \$124.90      | -3.94%      |      | Catapult              |
| FDX(1/3)  | 9/20/2021  | \$252.11    | \$252.07      | -0.02%      |      | Catapult              |
| NEE(1/3)  | 9/20/2021  | \$81.54     | \$81.92       | 0.47%       |      | Catapult              |
| SPY(1/4)  | 9/21/2021  | \$434.04    | \$433.63      | -0.09%      |      | <i>see note below</i> |
| SPY(1/4)  | 9/21/2021  | \$433.63    | \$433.63      | 0.00%       |      | Aggregator            |
|           |            |             |               |             |      |                       |
|           |            |             |               |             |      |                       |

*I will look to exit one lot of SPY before the Fed announcement on Wednesday. My plan to exit will be to sell @ \$437.50 LIMIT. If not filled by 1:45pm EST, I will sell at that point ahead of the announcement. If the reaction to the Fed is positive, I will be letting the other lot of SPY ride. If the reaction is negative, then I'll be adding this lot back at the close of the day.*

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