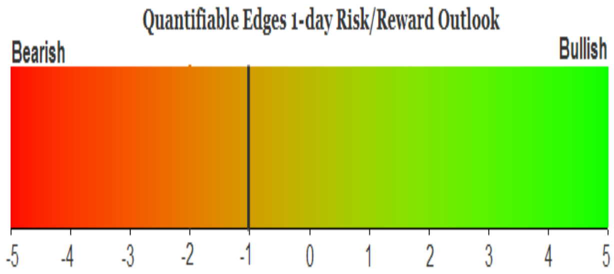
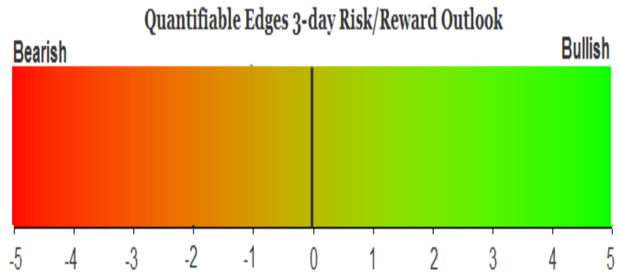
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2021 Volume 14 Issue 224

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	4

Tonight's Research Points

- The very weak breadth suggests Friday could see the SPX struggle.
- During uptrends, opex Friday has often seen selling after the open.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. So am I.

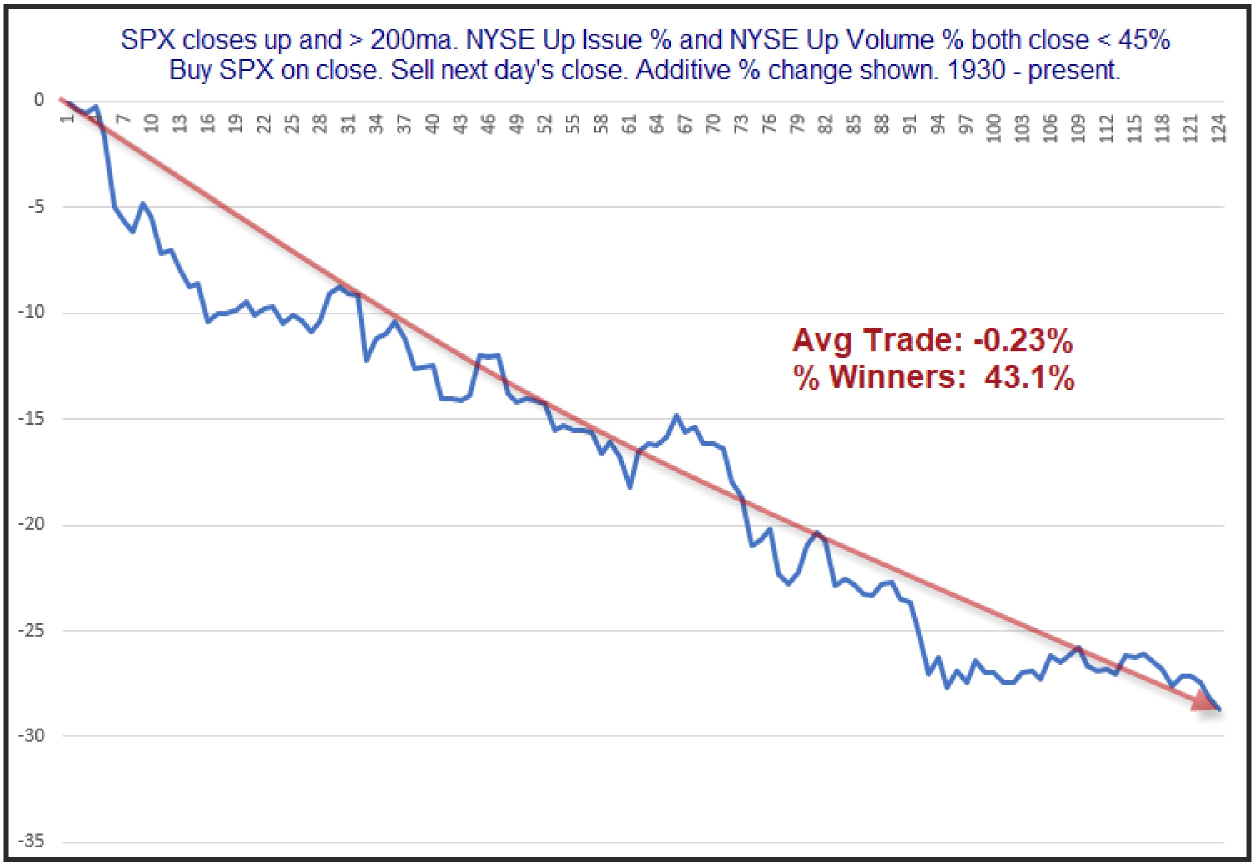
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
November 19, 2021	Up Vol % and Up Iss % weak. SPX up	1 day	Bearish			
November 17, 2021	SPX up. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.15%	-2.25%
Active - Long Term						
November 10, 2021	5 up to 50-high then down 1	1-10 days	Bullish	1.80%	-1.10%	-2.30%
November 4, 2021	SPX up 14 of 16 days and new high	1-10 days	Bullish			
November 4, 2021	SPX 50-day %b > 100	1-50 days	Bullish			
November 1, 2021	NASDAQ Leading	int term	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
October 4, 2021	21-day low Thursday. Up Friday	1-25 days	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)						
November 18, 2021	Unfilled gap down from 50-high	1 day	Bearish			

The Evidence

Thursday saw mixed results for the market. The SPX gained 0.3%, the NASDAQ rose 0.45%, and the Russell 2000 declined 0.6%. Breadth was quite weak with the NYSE Up Issues % coming in at 35% and the Up Volume % at 28%. NYSE total volume rose some from Wednesday's level.

The weak breadth triggered a few studies. I decided to look at it several ways, and they all showed similar answers. With the Up Issues % and Up Volume % so low, there appears to be a decent chance for the market to struggle on Friday. The first study below used fairly loose criteria and showed a large sample size.



The persistent downslope over the long time period and large number of instances is impressive. But breadth was quite a bit weaker than even described above. This next study showed all instances since 1957 in which the Up Issue % and Up Volume % both came in under 35% on a day the SPX closed higher.

SPX closes up while NYSE Up Issue % and NYSE Up Volume % both close < 35% SPX next-day returns shown. 1930 - present.			
Ticker	Date/Time	Close	Next Day % Chg
$SPX	6/10/1957	47.9	0.08
$SPX	6/1/1965	88.72	-1.84
$SPX	1/25/1982	115.41	-0.19
$SPX	3/23/2005	1172.53	-0.09
$SPX	7/20/2015	2128.28	-0.43
$SPX	1/19/2016	1881.33	-1.17
$SPX	5/18/2016	2047.63	-0.37
$SPX	12/10/2018	2637.72	-0.04
$SPX	5/11/2020	2930.19	-2.05
$SPX	7/22/2021	4367.48	1.01
$SPX	8/19/2021	4405.8	0.81
		Average	-0.39%
		Median	-0.19%
		Win %	27.27%

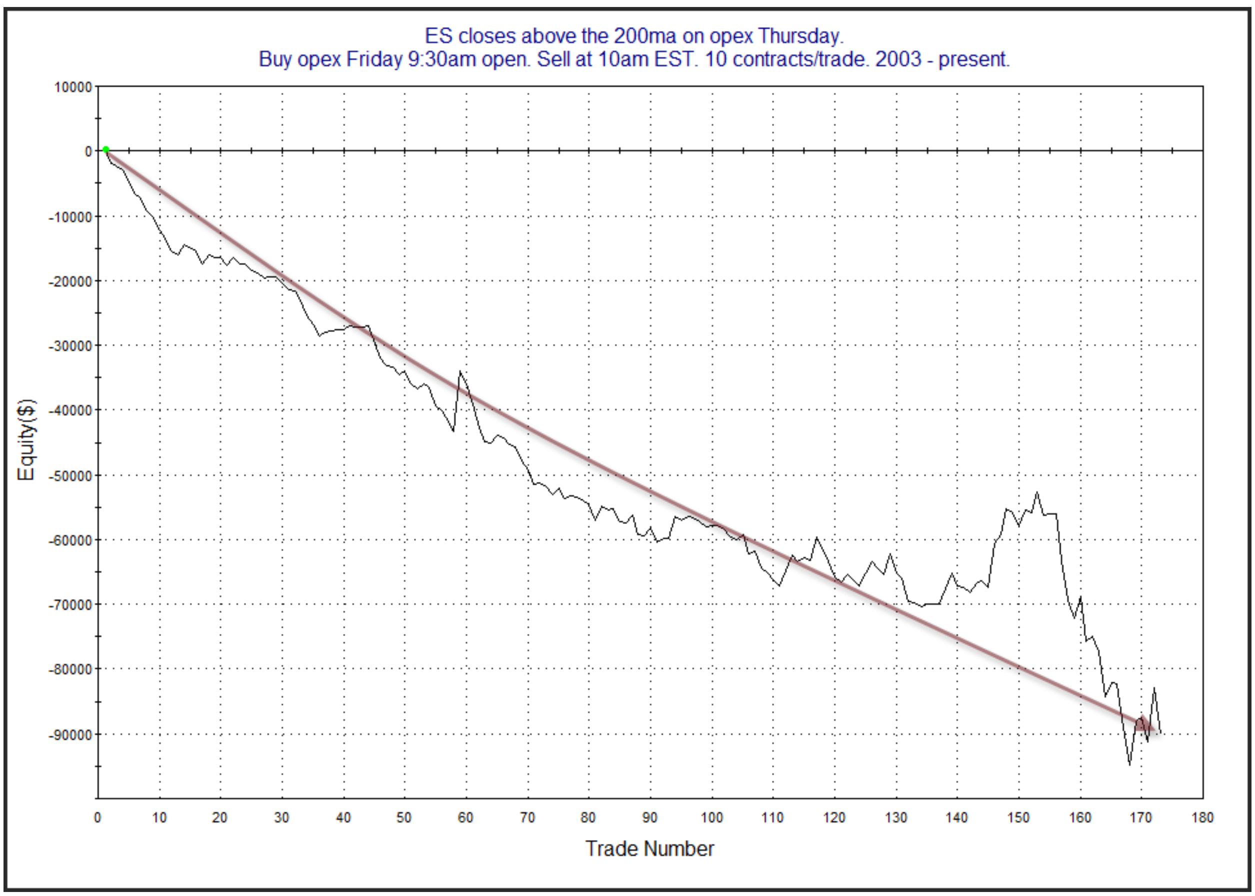
This setup is quite rare. But results seem to match well with the previous study. Overall, Thursday's weak breadth appears to suggest a decent likelihood of a move lower on Friday.

It is also notable that Friday is monthly options expiration. The studies below are copied from the 10/15/21 letter. Due to time constraints, I was not able to update them all tonight. They have not changed much based on just the October instance, and the point remains the same…

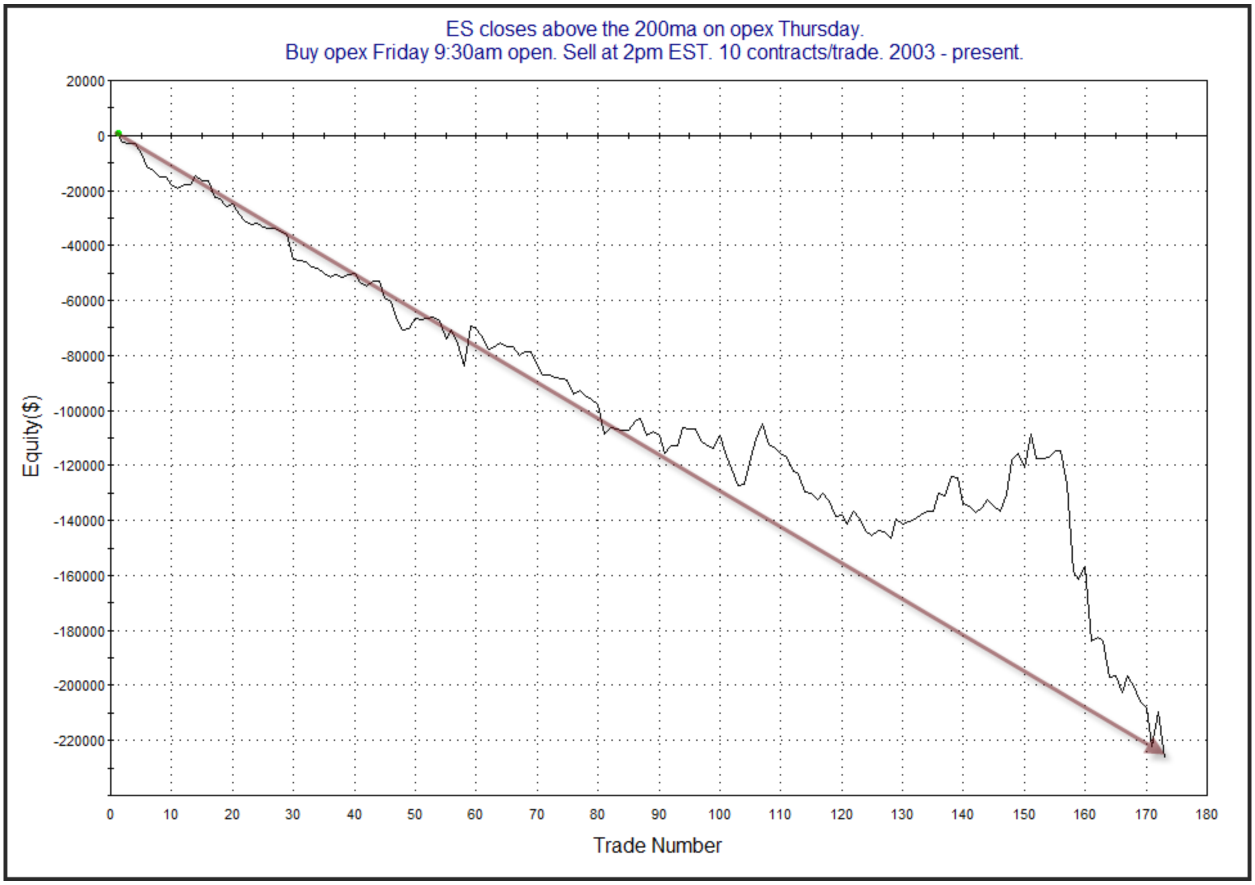
Options expiration has long been a day that has seen weakness after the opening bell (and strength the night before it). Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

ES closes above the 200ma on opex Thursday. Buy opex Friday 9:30am open. Sell at time shown on left. 10 contracts/trade. 2003 - present.												
OE Op-Ex Fri Intra Short: 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	-282,375.00	173	71	99	41.04	16,125.00	-28,500.00	3,202.46	-5,148.99	0.62	0.45	-1,632.23
1,500	-204,625.00	173	67	101	38.73	13,250.00	-24,250.00	3,402.99	-4,283.42	0.79	0.53	-1,182.80
1,400	-226,375.00	173	57	109	32.95	14,250.00	-31,625.00	3,254.39	-3,778.67	0.86	0.45	-1,308.53
1,300	-190,000.00	173	59	113	34.10	15,250.00	-22,125.00	3,203.39	-3,353.98	0.96	0.50	-1,098.27
1,200	-153,875.00	173	61	112	35.26	15,875.00	-13,375.00	2,940.57	-2,975.45	0.99	0.54	-889.45
1,100	-128,750.00	173	65	106	37.57	14,625.00	-12,625.00	2,398.08	-2,685.14	0.89	0.55	-744.22
1,000	-90,125.00	173	55	114	31.79	9,250.00	-7,250.00	1,736.36	-1,628.29	1.07	0.51	-520.95

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



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

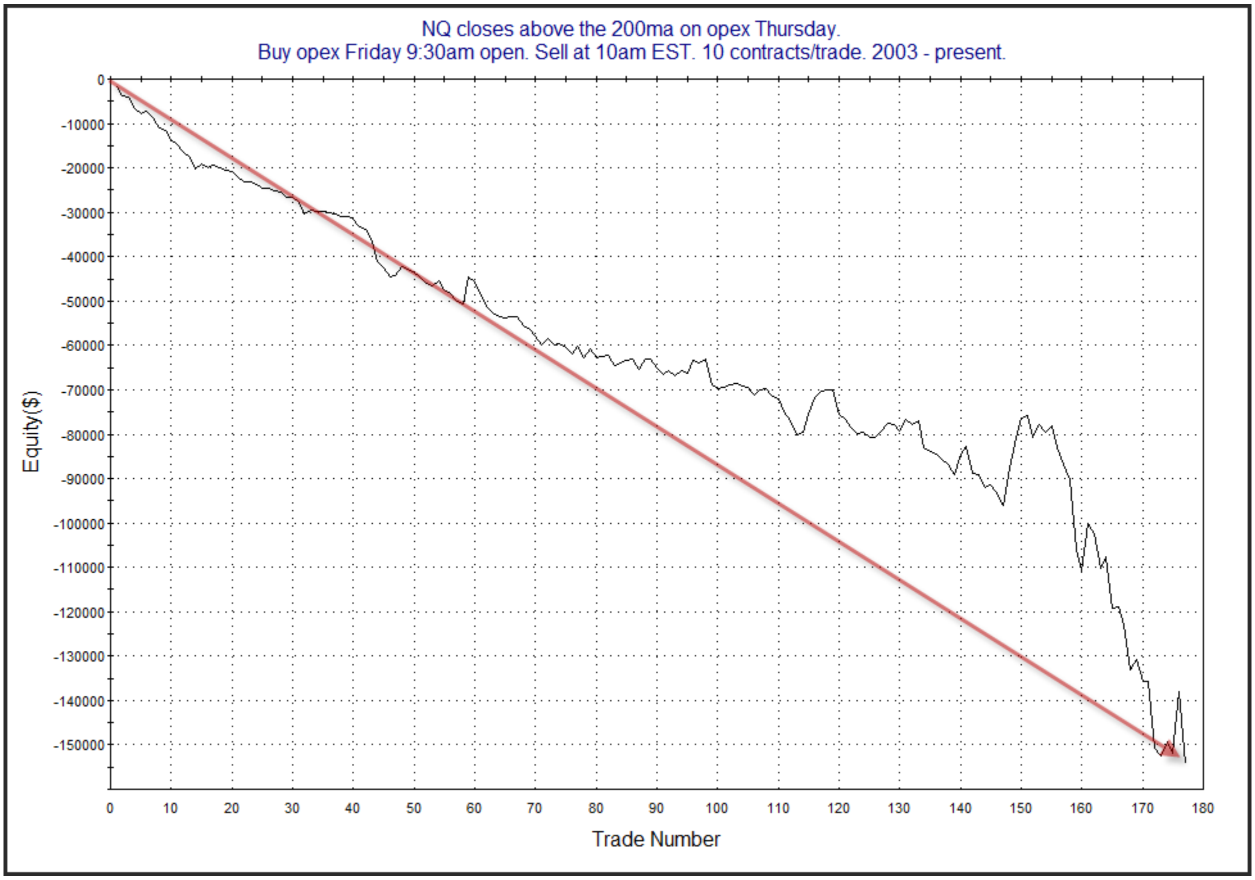


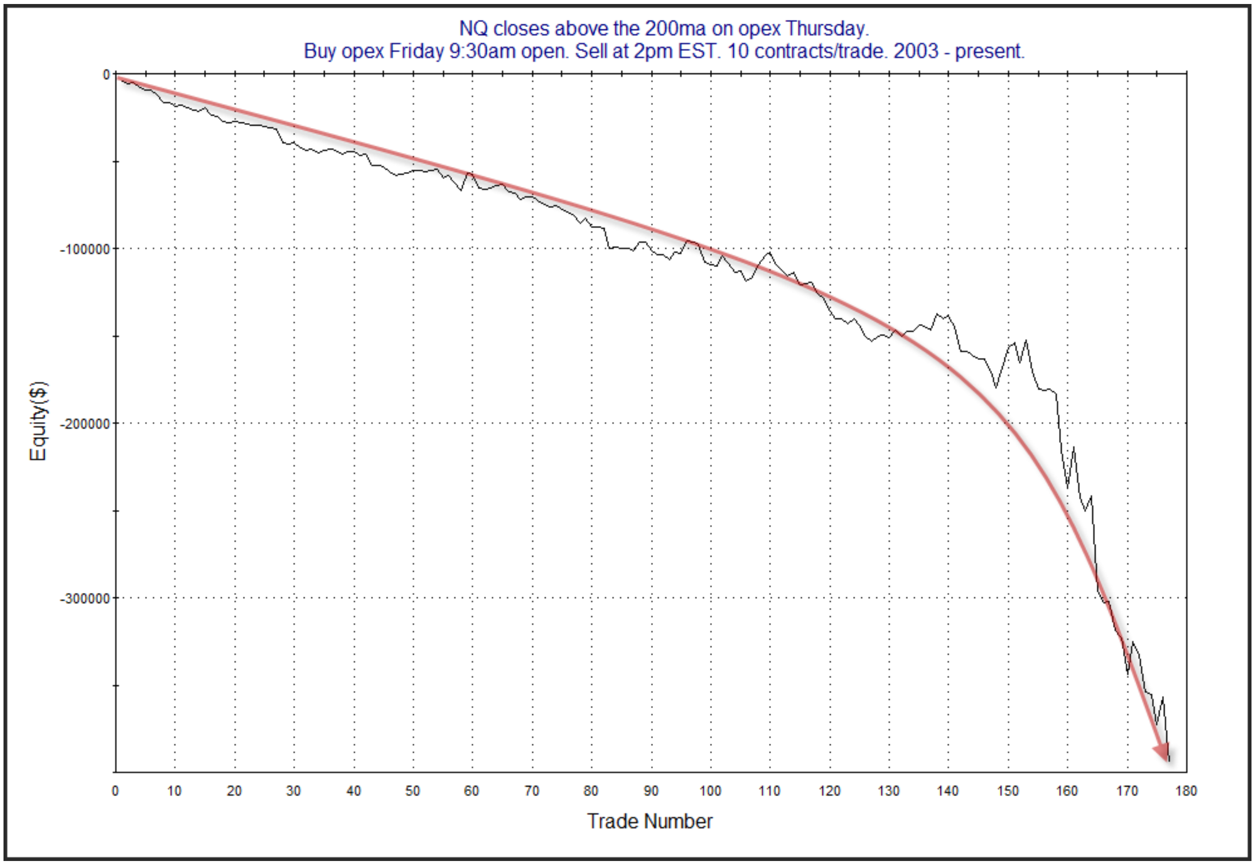
This is also impressive.

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.

ES closes above the 200ma on opex Thursday.
Buy opex Friday 9:30am open. Sell at time shown on left. 10 contracts/trade. 2003 - present.

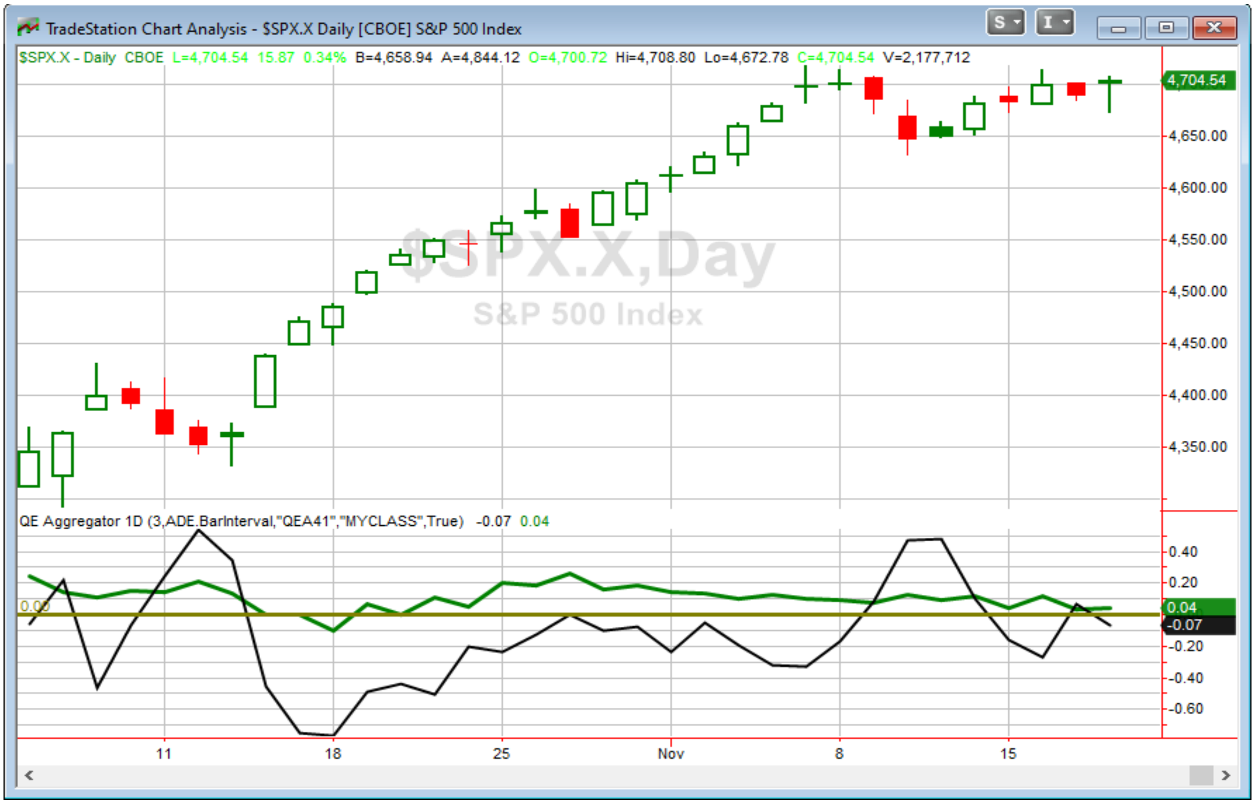
OE Op-Ex Fri Intra Short: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-452,900.00	177	67	110	37.85	36,850.00	-39,500.00	3,853.73	-6,464.55	0.60	0.36	-2,558.76
1,500	-379,700.00	177	65	111	36.72	22,850.00	-44,750.00	3,861.54	-5,681.98	0.68	0.40	-2,145.20
1,400	-394,350.00	177	58	119	32.77	23,550.00	-54,100.00	3,675.86	-5,105.46	0.72	0.35	-2,227.97
1,300	-319,200.00	177	64	111	36.16	20,750.00	-53,400.00	3,567.19	-4,932.43	0.72	0.42	-1,803.39
1,200	-322,950.00	177	64	112	36.16	13,750.00	-34,600.00	2,963.28	-4,576.79	0.65	0.37	-1,824.58
1,100	-218,500.00	177	62	115	35.03	18,900.00	-31,300.00	3,253.23	-3,653.91	0.89	0.48	-1,234.46
1,000	-154,300.00	177	54	119	30.51	13,700.00	-16,200.00	2,069.44	-2,235.71	0.93	0.42	-871.75


NQ closes above the 200ma on opex Thursday.
Buy opex Friday 9:30am open. Sell at 10am EST. 10 contracts/trade. 2003 - present.
Equity($)
Trade Number
0
-10000
-20000
-30000
-40000
-50000
-60000
-70000
-80000
-90000
-100000
-110000
-120000
-130000
-140000
-150000
0
10
20
30
40
50
60
70
80
90
100
110
120
130
140
150
160
170
180



The bearish edge appears alive and well here.

I have updated the Aggregator chart below.



Even 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 dipped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Friday. Of course this course change if bearish new evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 4713.77 on Friday. That is 0.2% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up about 0.2% in order to remain overbought versus recent expectations. Anything less than that and it will be considered "oversold" as of Friday's close.

So the Aggregator is back to neutral. Friday is showing some downside potential, but beyond that evidence is pointing higher. And Thanksgiving week is typically a strong one for the market – especially from Tuesday's close through Friday's close. I'll discuss that in more detail this weekend. I don't see a great directional edge based on the current setup. But a dip over the next couple of days could set us up nicely for a Thanksgiving bounce. Nothing to do yet, except keep ready for the next compelling opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/15 – somewhat bullish

The intermediate-term outlook was last updated in the 11/15 Letter. It can be found in the most recent weekly letter on the website.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

AIG – 1/3 @ $57.19 (bought at limit)

AIG – 1/3 @ $56.95 (bought at limit)

New

AIG – 1/3 @ $56.12 (buy at limit)

IBM – 1/3 @ $116.66 (buy at limit)

Broad Market Large Cap CBI – 4 (AIG-3, IBM)

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*.

AIG – But 1/3 Catapult position @ $56.12 LIMIT. From the Catapult section above, this is the 3rd and final lot of AIG.

IBM – But 1/3 Catapult position @ $116.66 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of IBM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AIG(1/3)	11/17/2021	$56.98	$56.12	-1.51%		Catapult
AIG(1/3)	11/18/2021	$56.95	$56.12	-1.46%		Catapult