

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 2, 2021

Volume 14 Issue 231

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- A VIX crossing over 35% above its 10ma and with a reading over 30 suggests strong reward/risk for the bulls.
- SPY's big outside day reversal pattern suggests a short-term upside edge, based on a few different studies.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is strong and the market is extremely oversold. Reward/risk favors the bulls. But the market has not been adhering to historical norms over the past few days, and is highly volatile, so some caution is warranted.

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						
December 2, 2021	VIX 35% > 10ma and > 30	1 day	Bullish			
December 2, 2021	Outside day and btm 10% of 10-day rng	1-2 days	Bullish			
December 2, 2021	SPY gaps up reverses dn to 10-low	1-5 days	Bullish			
December 1, 2021	1.5% drop 2 days in 5 above 200ma	1-5 days	Bullish	3.70%	-1.90%	-4.40%
November 29, 2021	System 1100524	1-7 days	Bullish	2.40%	-1.60%	-3.40%
November 29, 2021	1% drop 4th Fri of month	1-6 days	Bullish	2.65%	-1.20%	-2.40%
November 29, 2021	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish	2.50%	-1.75%	-3.90%
November 29, 2021	VIX up > 20% on a Friday	1-4 days	Bullish	1.85%	-1.35%	-3.00%
November 29, 2021	1st 10-low in 30+ days	1-8 days	Bullish	3.00%	-2.10%	-4.40%
November 23, 2021	Gap higher and reverse > 10low > 200	1-6 days	Bullish	2.60%	-1.30%	-2.30%
Active - Long Term						
November 22, 2021	Hindenburg Omen Cluster	1-35 days	Bearish	-6.90%	3.20%	5.80%
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			
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 30, 2021	Dn > 2%. Up > 1% less than 2 ago	1-5 days	Bullish	3.00%	-1.40%	-2.60%
November 30, 2021	Unfill gap up from 10-inta low < 10	1-4 days	Bullish	1.60%	-1.20%	-2.30%
December 1, 2021	20-low, up day, new 20-low	1 day	Bullish			
December 1, 2021	End of month 1% drop	1 day	Bullish			
December 1, 2021	End of month 10-low > 200. Btm half	1 day	Bullish			

The Evidence

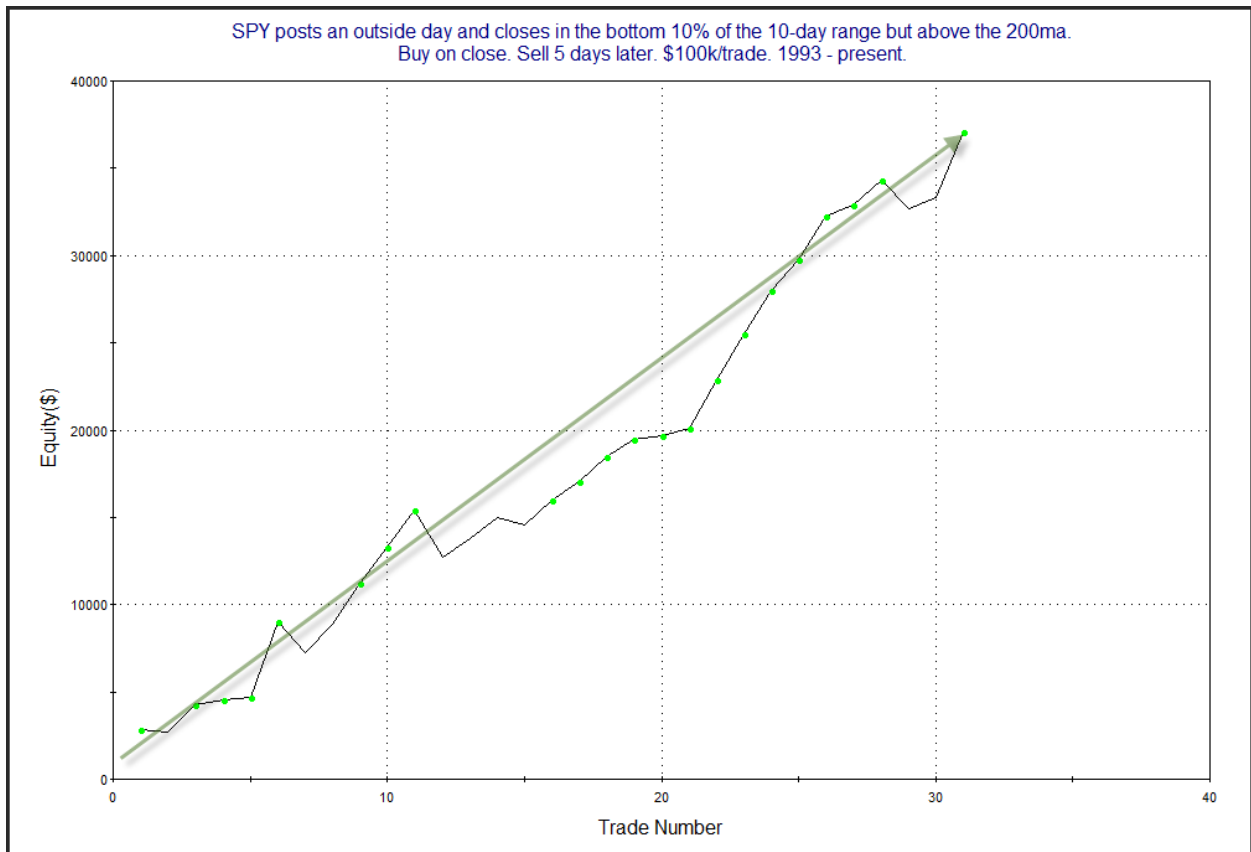
Wednesday started off great, with the SPX up over 1.75% in the morning. Unfortunately, the trading session did not end at 11am. And between Powell comments and an Omicron COVID case in California, the market came completely unraveled. The SPX finished down 1.2%, the NASDAQ declined 1.8%, and the Russell 2000 dropped 2.3%. Breadth was negative with the NYSE Up Issues % coming in at 29% and the Up Volume % at 18%. NYSE total volume declined from Tuesday's level.

The big outside day that SPX put in is notable. The study below is from the 10/2/19 letter. It examines the implications of an outside day occurring and putting the SPY near the lower end of its range during a long-term uptrend. While I previously used SPX for the study, I decided to use SPY tonight.

SPY posts an outside day and closes in the bottom 10% of the 10-day range but above the 200ma.
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	37,080.70	31	26	5	83.87	4,273.50	-2,695.68	1,682.35	-1,332.08	1.26	6.57	1,196.15
4	30,593.07	31	22	9	70.97	4,533.98	-1,697.28	1,596.20	-502.59	3.18	7.76	986.87
3	13,359.87	32	21	11	65.63	3,858.36	-3,132.00	1,215.85	-1,106.64	1.10	2.10	417.50
2	15,252.10	35	23	12	65.71	2,080.69	-1,212.60	941.23	-533.02	1.77	3.38	435.77
1	5,575.51	35	25	10	71.43	1,347.56	-1,766.38	537.91	-787.21	0.68	1.71	159.30

Results here appear strongly bullish. Not only is the consistency impressive, but the size of the average trade substantial. And it isn't just the numbers that look good. Here is the profit curve.



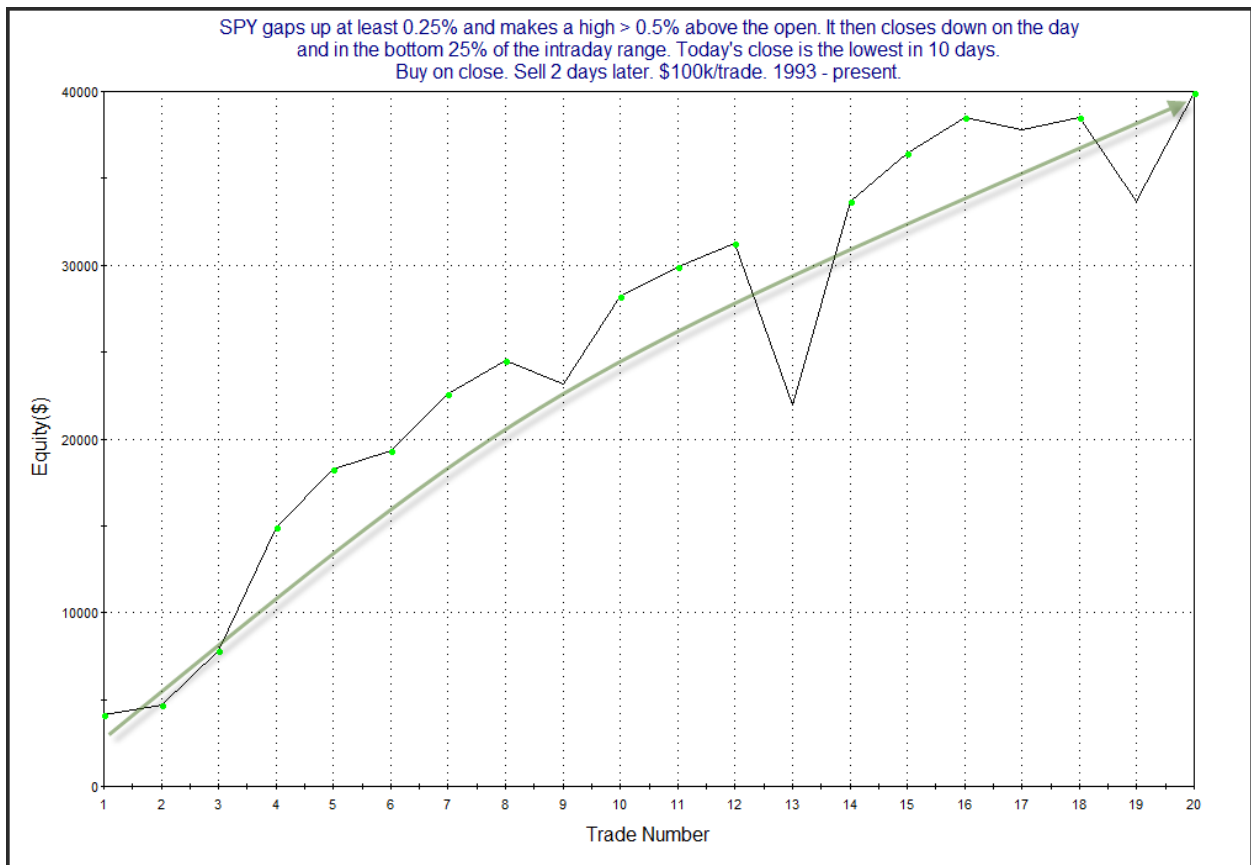
That is a nice straight profit curve.

The next study was from the 2/27/20 subscriber letter. It examined SPY's big reversal a bit differently than the 1st study.

SPY gaps up at least 0.25% and makes a high > 0.5% above the open. It then closes down on the day and in the bottom 25% of the intraday range. Today's close is the lowest in 10 days.
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	35,512.63	19	13	6	68.42	13,737.50	-19,787.04	5,351.01	-5,675.09	0.94	2.04	1,869.09
4	30,430.01	20	11	9	55.00	14,158.80	-17,793.84	5,758.38	-3,656.91	1.57	1.92	1,521.50
3	43,755.75	20	15	5	75.00	10,083.30	-11,623.98	3,978.34	-3,183.88	1.25	3.75	2,187.79
2	39,915.60	20	16	4	80.00	11,736.30	-9,340.86	3,515.65	-4,083.69	0.86	3.44	1,995.78
1	3,674.57	20	12	8	60.00	5,962.50	-5,091.72	1,809.71	-2,255.25	0.80	1.20	183.73

Instances are a little light, but the numbers are extremely bullish. Below is a look at the 2-day profit curve.



Aside from the oversized loser on the 13th instance, results appear to be strong and steady. I have added this study to the active list tonight.

Also notable was the action in the VIX, which rose another 14.45% on Wednesday. An interesting VIX-related study was from the 6/12/20 letter. It notes not only that the VIX is relatively stretched on a short-term basis, but that the VIX reading is also somewhat high on an absolute basis. Over the years I have found that short-term stretches are not as impactful when the stretch is coming from a very low level. This is the reason the $VIX > 30$ is also included as a filter. You may recall I mentioned this a few days ago when a similar study triggered but with the VIX below 30. But with VIX below 30, that study was not nearly as powerful as the one below.

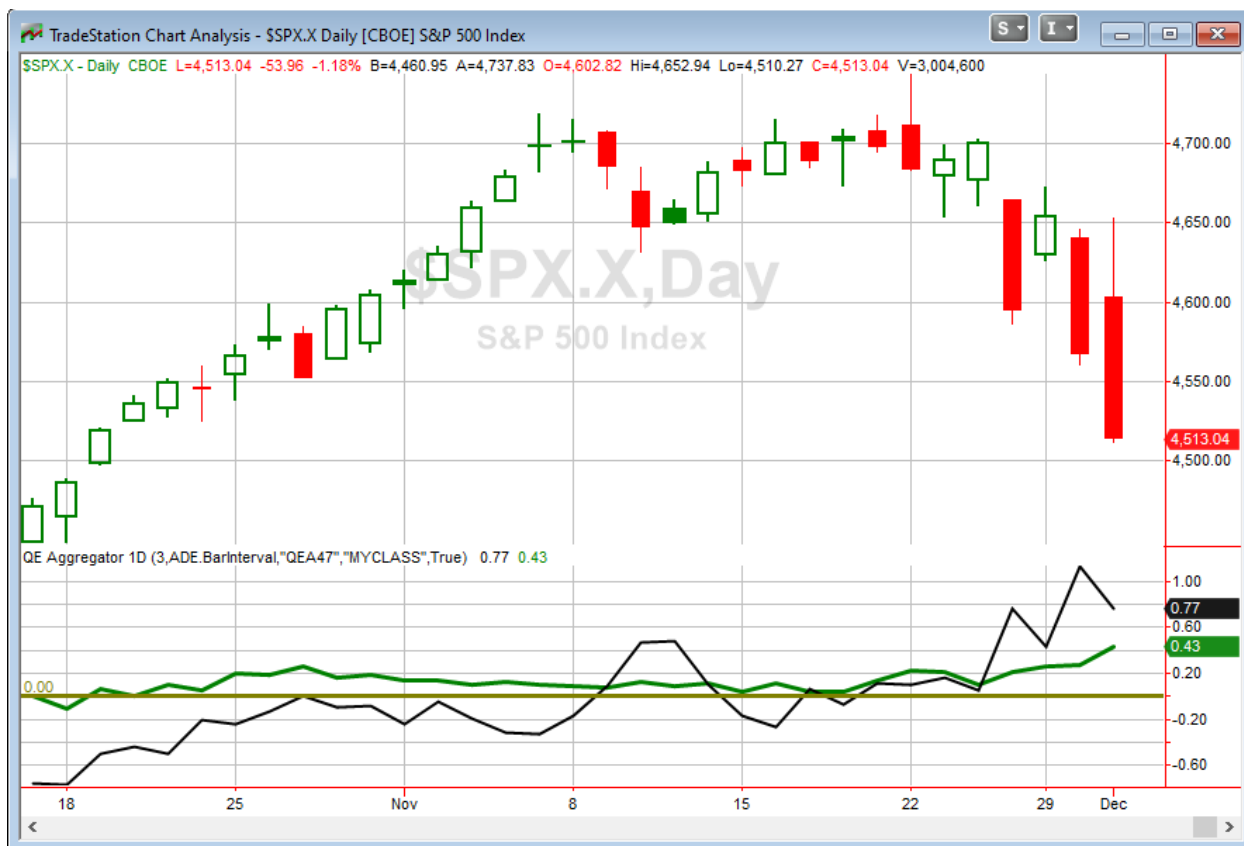
VIX cross over and closes > 35% above 10ma. It also closes > 30.
Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.

Total Net Profit	\$58,482.74	Profit Factor	28.13
Gross Profit	\$60,638.65	Gross Loss	(\$2,155.91)
Total Number of Trades	16	Percent Profitable	81.25%
Winning Trades	13	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$3,655.17	Ratio Avg. Win:Avg. Loss	6.49
Avg. Winning Trade	\$4,664.51	Avg. Losing Trade	(\$718.64)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$1,519.76)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/27/1997	Buy	\$876.97	5.12%	\$5,257.68
10/28/1997	Sell	\$921.86		(\$2,473.80)
9/17/2001	Buy	\$1,038.77	-0.58%	\$734.40
9/18/2001	Sell	\$1,032.74		(\$913.92)
9/17/2008	Buy	\$1,156.42	4.33%	\$4,705.92
9/18/2008	Sell	\$1,206.51		(\$1,971.12)
10/10/2008	Buy	\$899.22	11.58%	\$11,855.91
10/13/2008	Sell	\$1,003.35		\$0.00
5/6/2010	Buy	\$1,128.15	-1.53%	\$614.24
5/7/2010	Sell	\$1,110.88		(\$2,992.00)
5/20/2010	Buy	\$1,071.59	1.50%	\$1,727.01
5/21/2010	Sell	\$1,087.69		(\$1,459.17)
8/4/2011	Buy	\$1,200.07	-0.06%	\$1,497.32
8/5/2011	Sell	\$1,199.38		(\$2,654.34)
8/8/2011	Buy	\$1,119.46	4.74%	\$4,754.38
8/9/2011	Sell	\$1,172.53		(\$1,594.88)
8/10/2011	Buy	\$1,120.76	4.63%	\$5,832.17
8/11/2011	Sell	\$1,172.64		\$0.00
2/5/2018	Buy	\$2,648.94	1.74%	\$1,927.70
2/6/2018	Sell	\$2,695.14		(\$2,067.19)
12/24/2018	Buy	\$2,351.10	4.96%	\$4,899.72
12/26/2018	Sell	\$2,467.70		(\$189.84)
3/9/2020	Buy	\$2,746.56	4.94%	\$4,897.08
3/10/2020	Sell	\$2,882.23		(\$452.16)
3/12/2020	Buy	\$2,480.64	9.29%	\$9,227.60
3/13/2020	Sell	\$2,711.02		\$0.00
3/16/2020	Buy	\$2,386.13	6.00%	\$6,879.80
3/17/2020	Sell	\$2,529.19		(\$782.69)
6/11/2020	Buy	\$3,002.10	1.31%	\$2,848.56
6/12/2020	Sell	\$3,041.31		(\$581.79)
1/27/2021	Buy	\$3,750.77	0.98%	\$2,072.98
1/28/2021	Sell	\$3,787.38		\$0.00

Instances are a little lower than I'd prefer, but the stats are very strong. The average performance the day after the setup has been a 3.7% gain. That is a huge average for just a 1-day trade.

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



With tonight's evidence considered, the green Aggregator Line moved further above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is still very far above zero. The positive Differential Line reading means that SPX is strongly 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 Thursday. This will almost certainly not change. Meanwhile, the Differential Pivot will be 4678.15 on Thursday. That is a whopping 3.7% above Wednesday's close. So SPX will need to close up over 3.7% on Thursday in order to flip from oversold to overbought vs recent expectations. That is a highly unlikely 1-day gain. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is again bullish. SPX is more oversold than it has been in months, and there is a substantial amount of evidence suggesting a bounce. Therefore, reward/risk appears to favor the

bulls. But we have seen a number of studies get run over the last several days. I noted last night that the market was emotional and highly reactive to news. We saw that play out on Wednesday, as it turned from a rally to a rout. I still like the long side, and at some point soon I expect a very strong bounce, but with a market that is acting abnormally, and not adhering to historical norms, a bit of extra caution is warranted. I'll take on a 3rd lot (of up to 4) for SPY, but only if I can get a favorable entry at either the open or the close on Thursday. It is unlikely I'll add a 4th lot unless we see the CBI reach 10 or higher.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/29 – somewhat bullish

The intermediate-term outlook was last updated in the 11/29/21 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

DIS – 1/3 @ \$144.90 (bought @ limit)

SPG – 1/3 @ \$152.84 (bought @ limit)

New

DIS – 1/3 @ \$142.15 (buy @ limit)

SPG – 1/3 @ \$147.72 (buy @ limit)

PYPL – 1/3 @ \$179.32 (buy @ limit)

T – 1/3 @ \$22.23 (buy @ limit)

Broad Market Large Cap CBI – 6(DIS-2, SPG-2, PYPL, T)

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.

DIS – Buy 1/3 Catapult position @ \$142.15 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for DIS.

SPG – Buy 1/3 Catapult position @ \$147.72 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for SPG.

T – Buy 1/3 Catapult position @ \$22.23 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for T.

PYPL – Buy 1/3 Catapult position @ \$179.32 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for PYPL.

SPY – Buy ¼ index position @ \$449.50 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$450.50 LIMIT ON CLOSE. I will be looking to take on a 3rd lot of SPY if it gaps substantially lower or if it closes down on Thursday

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/23/2021	\$467.22	\$450.50	-3.58%		Aggregator
SPY(1/4)	11/30/2021	\$455.56	\$450.50	-1.11%		Aggregator
DIS(1/3)	12/1/2021	\$144.90	\$142.15	-1.90%		Catapult
SPG(1/3)	12/1/2021	\$152.84	\$147.72	-3.35%		Catapult

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