

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 3, 2021

Volume 14 Issue 232

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- The SPX price pattern the last 2 days suggests a failure by the bears. Bulls have a chance to take charge over the next few days.
- Friday's Employment Report could provide a boost to the market.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. The bounce should have a little further to go if historical odds play out. I'll be looking to get flat pretty quickly if they do.

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 3, 2021	Higher Hi down. Lower low up. < 10ma	1-5 days	Bullish	1.90%	-1.20%	-2.40%
December 3, 2021	Employment Days Bullish	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	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)						
December 2, 2021	VIX 35% > 10ma and > 30	1 day	Bullish			
November 29, 2021	VIX up > 20% on a Friday	1-4 days	Bullish	1.85%	-1.35%	-3.00%

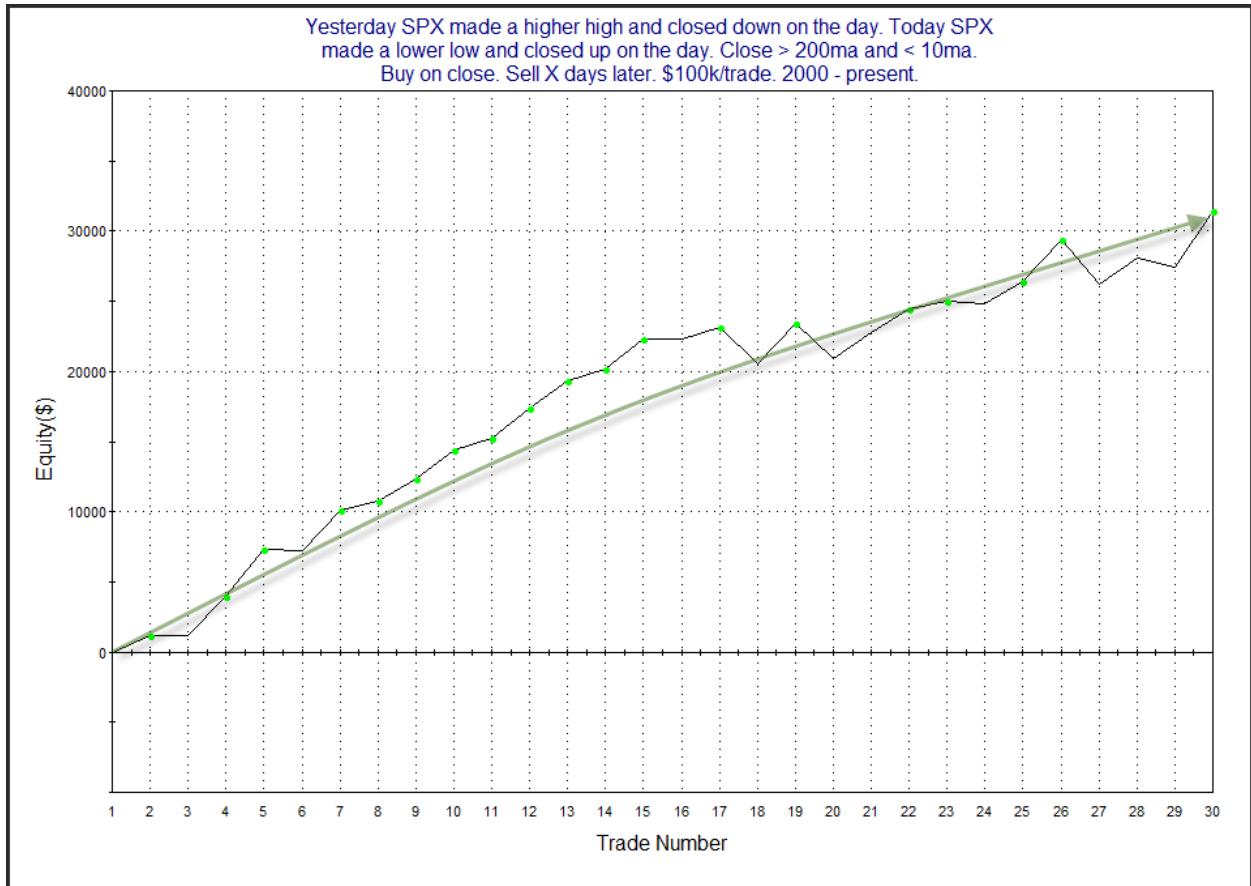
The Evidence

Thursday saw the market put in a decent bounce. The SPX closed up 1.4%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 1.7%. Breadth was positive with the NYSE Up Issues % coming in at 7% and the Up Volume % at 84%. NYSE total volume declined from Wednesday's level.

On Wednesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Thursday the opposite happened. The bears failed in their attempt at a move lower. In the 1/31/20 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range it has been consistently bullish over the next 4-5 days. This can be seen in the below test, which I have updated.

Yesterday SPX made a higher high and closed down on the day. Today SPX made a lower low and closed up on the day. Close > 200ma and < 10ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	31,473.78	30	21	9	70.00	4,026.30	-3,209.58	1,941.89	-1,033.99	1.88	4.38	1,049.13
4	25,437.24	31	26	5	83.87	3,492.30	-2,618.70	1,306.95	-1,708.68	0.76	3.98	820.56
3	12,365.70	31	21	10	67.74	2,666.40	-3,490.90	1,102.73	-1,079.17	1.02	2.15	398.89
2	8,651.69	31	19	12	61.29	3,150.30	-2,246.00	1,192.91	-1,167.81	1.02	1.62	279.09
1	5,570.79	31	17	14	54.84	1,712.28	-1,970.00	890.15	-682.98	1.30	1.58	179.70

Odds strongly favor a move higher and the profit factors are very impressive over the next 4-5 days. Below is an equity curve using a 5-day exit strategy to see how the edge has played out over time.



The persistent upslope is impressive. The failure of the bears to take control when the market pressed downward and made a lower low on Thursday has potentially opened the door for the bulls.

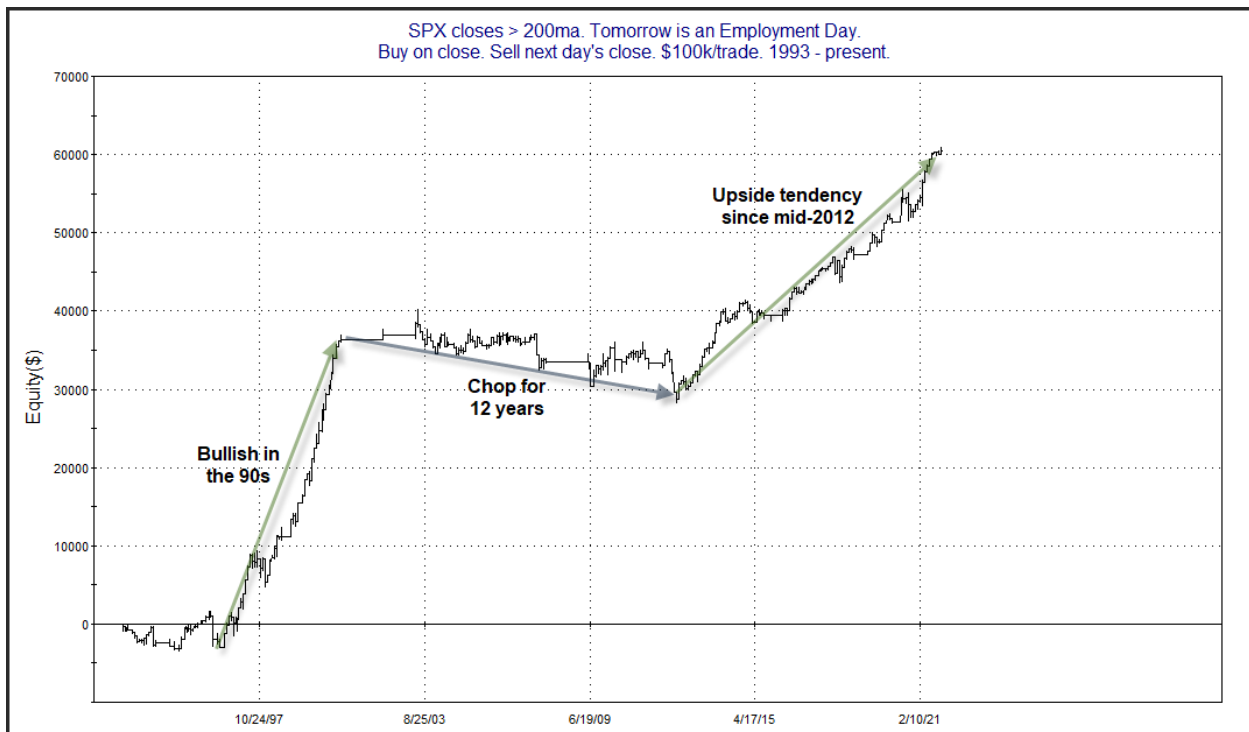
Also below are the results when the pattern occurred and the SPX closed above the 10ma. This table is updated from the 1/31/20 letter as well.

Yesterday SPX made a higher high and closed down on the day. Today SPX made a lower low and closed up on the day. Close > 200ma and > 10ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

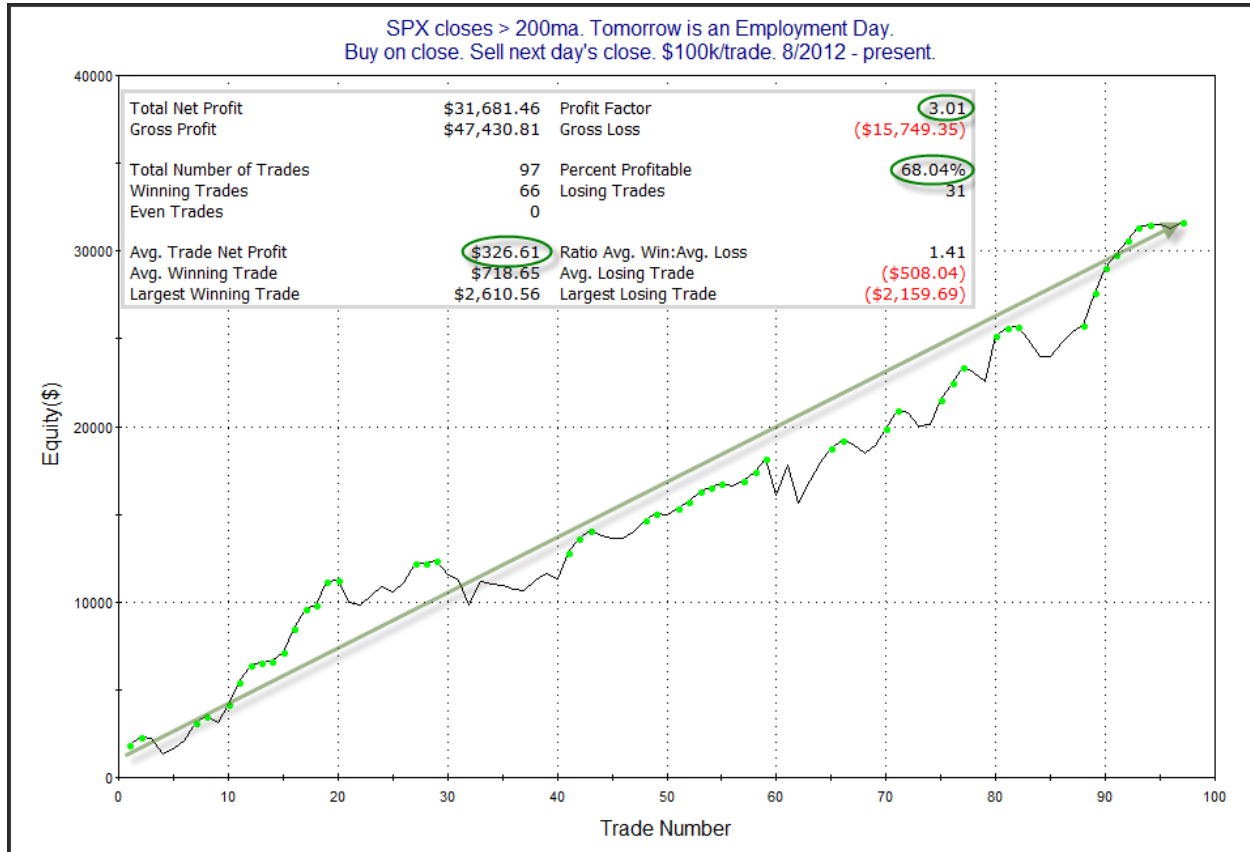
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	1,997.23	63	36	27	57.14	4,787.84	-3,770.60	1,100.45	-1,393.30	0.79	1.05	31.70
4	-5,149.74	70	40	30	57.14	2,703.38	-4,575.48	854.94	-1,311.58	0.65	0.87	-73.57
3	-3,562.85	70	37	33	52.86	2,513.92	-2,726.23	856.15	-1,067.89	0.80	0.90	-50.90
2	2,566.66	71	41	30	57.75	2,723.04	-2,362.36	669.63	-829.61	0.81	1.10	36.15
1	565.67	71	36	35	50.70	1,560.24	-1,466.50	499.90	-498.02	1.00	1.03	7.97

We see here that performance moving forward has been a tossup. The 1st setup is the one that triggered, and I have added it to the Active List.

Among all the other news the market is dealing with these days, Friday is an employment day (a day in which the BLS releases their monthly employment report). Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPX performance on Employment Days. I last posted this chart in the 11/5/21 subscriber letter. For this equity curve, which is updated, I filtered to only include days where SPX was > its 200ma. Each trade was a fictional \$100k.

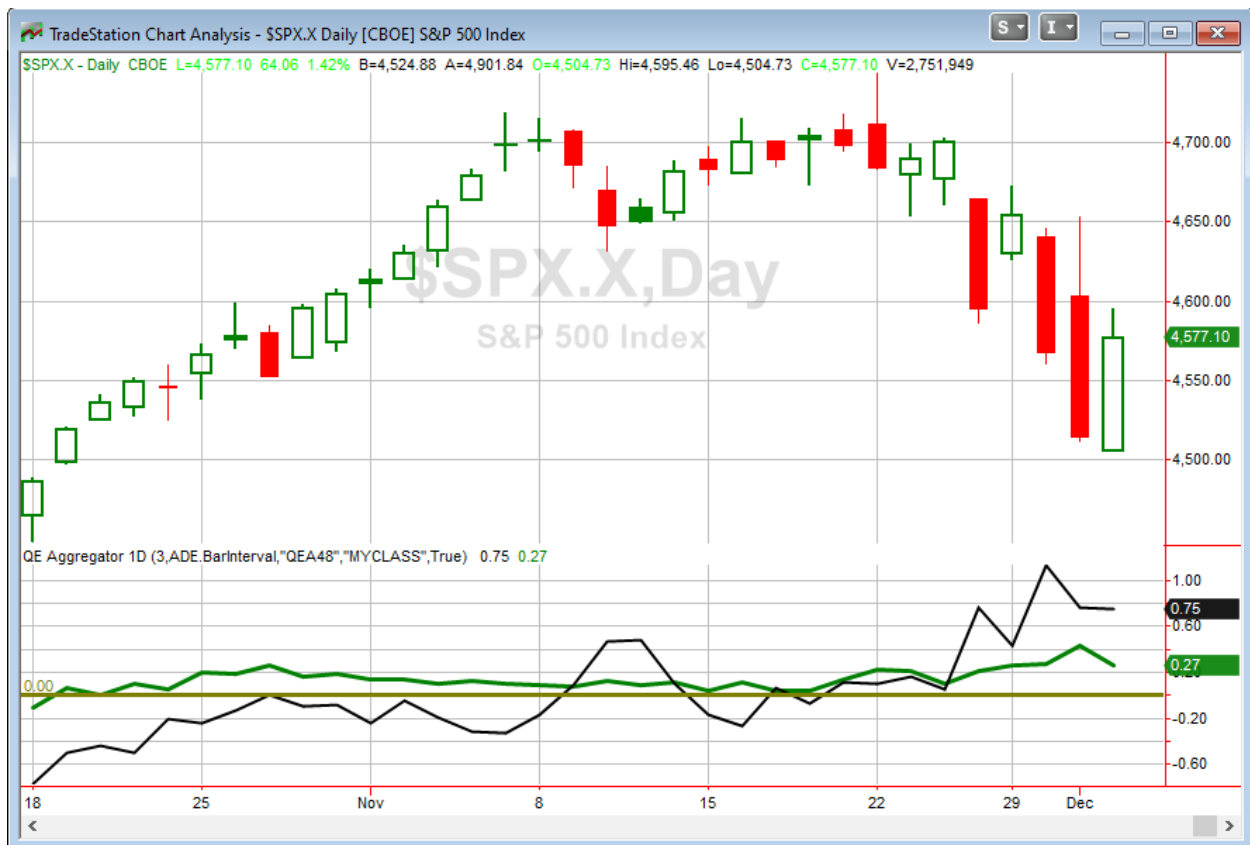


What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. Here is a zoomed in look at performance since mid-2012 when the recent bullish tendency began.



Based on what we know of history, I would not expect this edge to last forever. But it may be worth factoring in for as long as the current behavior seems to persist. The broader study is also a nice reminder that market dynamics change over time. But in recent times, Employment Days have seen good results. So I'll view Employment Days as bullish until the curve appears to turn.

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 also held above zero. 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 list of active studies, expectations are set to remain positive on Friday. This will almost certainly not change. Meanwhile, the Differential Pivot will be 4600.37 on Friday. That is 0.5% above Thursday's close. So SPX will need to close at least 0.5% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. We got a bit of a bounce on Thursday, but evidence is suggesting there should be more to come in the next few days. Friday's employment report has potential to help provide a boost as well. But there seems to be plenty more news the market is dealing with, and another swing down on Friday is certainly possible. I am not inclined to add further to my position at this moment. If Friday manages to rally and hold above the Differential Pivot, then I will exit my SPY position at the close.

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)
- DIS – 1/3 @ \$142.15 (not filled – cancel for now)
- SPG – 1/3 @ \$147.72 (not filled – cancel for now)
- PYPL – 1/3 @ \$179.32 (not filled – cancel for now)
- T – 1/3 @ \$22.23 (not filled – cancel for now)

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.

None tonight

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/23/2021	\$467.22	\$457.40	-2.10%		sell on SPX close > 4600.36
SPY(1/4)	11/30/2021	\$455.56	\$457.40	0.40%		see note below
DIS(1/3)	12/1/2021	\$144.90	\$147.20	1.59%		Catapult
SPG(1/3)	12/1/2021	\$152.84	\$151.86	-0.64%		Catapult

I will look to sell one lot of SPY if SPX closes above the Differential Pivot (4600.37 or higher). The 2nd lot I will also sell as long as SPY does NOT close in the lower half of the day's range. If it closes low in the range, I will view that as fear ahead of the weekend, will instead hold until Monday's open in anticipation of a likely gap high to start next week. (Selloffs ahead of the weekend often open strong the next week.)

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