

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 8, 2021

Volume 14 Issue 235

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	1

Tonight's Research Points

- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.
- While the market bounced nicely, volume failed to confirm the move up. That could mean trouble.

Short-term Outlook

The Bottom Line

The Aggregator has turned bearish. SPX is overbought, and expectations are suddenly lower. There appears to be a moderate downside edge.

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 8, 2021	NASDAQ up 3% on 5-low volume	1-5 days	Bearish	-5.50%	1.70%	3.30%
December 8, 2021	VIX 10% above 10ma to 10% below 1wk	1-8 days	Bullish	2.00%	-1.20%	-2.60%
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	1st 10-low in 30+ days	1-8 days	Bullish	3.00%	-2.10%	-4.40%
Active - Long Term						
November 22, 2021	Hindenburg Omen Cluster	1-35 days	Bearish	-6.90%	3.20%	5.80%
November 8, 2021	QE4 tapering	int term	Bullish but Weakening			
November 4, 2021	SPX 50-day %b > 100	1-50 days	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
November 29, 2021	System 1100524	1-7 days	Bullish	2.40%	-1.60%	-3.40%
December 3, 2021	Higher Hi down. Lower low up. < 10	1-5 days	Bullish	1.90%	-1.20%	-2.40%
December 2, 2021	SPY gaps up reverses dn to 10-low	1-5 days	Bullish			
December 6, 2021	4 lower lows & 20-day low > 200ma	1-7 days	Bullish	2.10%	-1.50%	-3.00%
December 7, 2021	20-Low then 3 closes inside 20-low	1-5 days	Bullish	2.10%	-1.30%	-2.70%

The Evidence

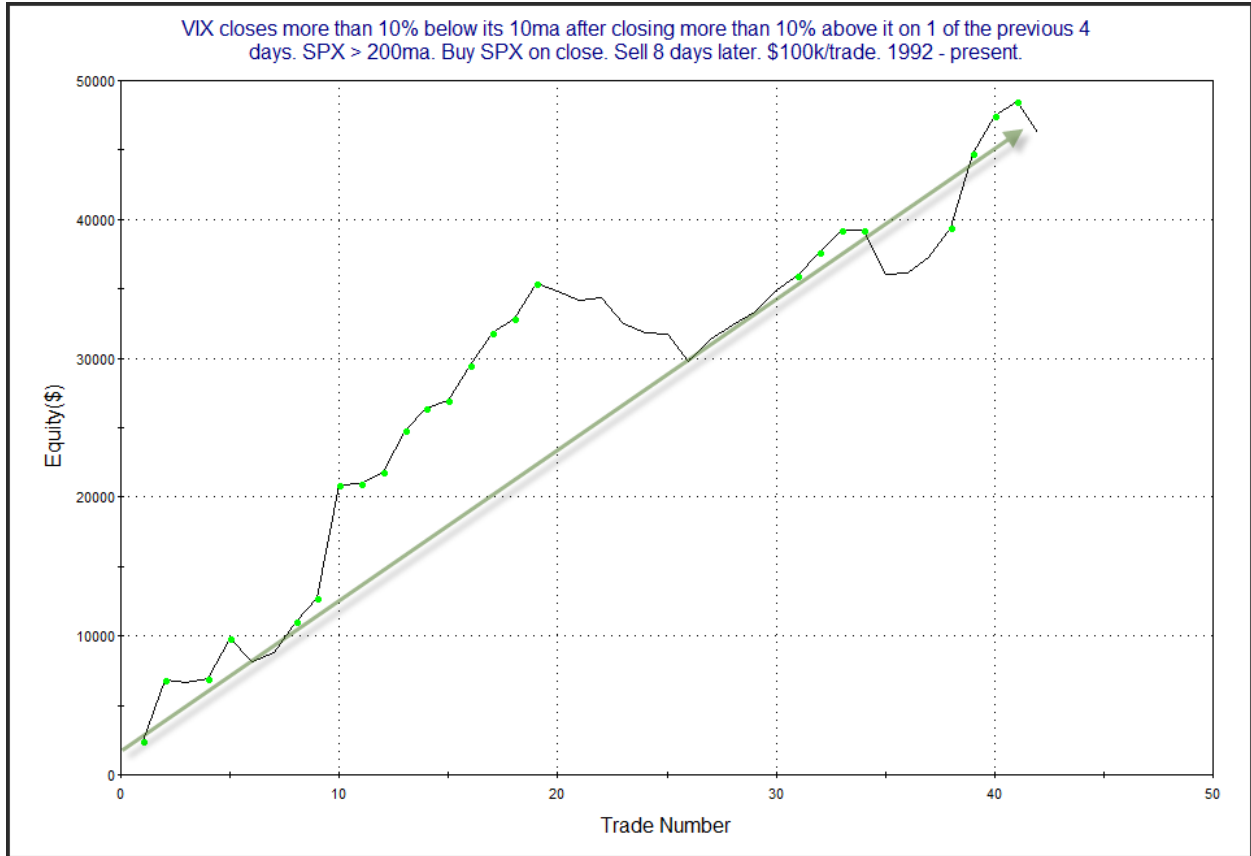
Last night I mentioned we could soon see a panicked short-covering rally, and that certainly seemed to happen on Tuesday. The SPX rose 2.1%, the NASDAQ gained 3.0%, and the Russell 2000 rallied 2.3%. Breadth was strong with the NYSE Up Issues % coming in at 79% and the Up Volume % at 86%. But NYSE total volume declined for the 5th day in a row.

There were a couple of studies that emerged that seemed worth discussion. This first one considers the sharp drop in the VIX over the last couple of days after a sharp rise just prior to that. It was last seen in the 9/24/21 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	35,782.36	42	27	15	64.29	8,115.80	-4,224.84	2,156.05	-1,495.39	1.44	2.60	851.96
9	39,961.50	42	29	13	69.05	8,397.40	-2,973.64	1,928.53	-1,228.14	1.57	3.50	951.46
8	46,216.44	42	32	10	76.19	8,076.20	-3,172.20	1,855.87	-1,317.15	1.41	4.51	1,100.39
7	40,522.40	42	31	11	73.81	7,749.50	-3,267.44	1,795.76	-1,376.92	1.30	3.68	964.82
6	36,693.40	42	29	13	69.05	5,305.30	-3,271.68	1,743.79	-1,067.42	1.63	3.64	873.65
5	32,331.73	42	28	14	66.67	5,361.40	-3,111.68	1,659.96	-1,010.52	1.64	3.29	769.80
4	19,925.24	43	30	13	69.77	4,981.90	-2,927.52	1,242.99	-1,335.72	0.93	2.15	463.38
3	13,163.37	44	27	17	61.36	3,799.40	-3,629.81	1,037.59	-873.63	1.19	1.89	299.17
2	9,322.49	44	28	16	63.64	3,839.00	-5,300.66	863.26	-928.04	0.93	1.63	211.87
1	8,301.37	44	26	18	59.09	2,952.40	-3,572.94	756.76	-631.92	1.20	1.73	188.67

91% of instances closed above the entry price at some point in the next week.

The market condition that would typically accompany such VIX movement is one where you see SPX post a strong rebound from a sharp decline during a long-term uptrend. That is a pretty good description of the current setup. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8-day holding period.



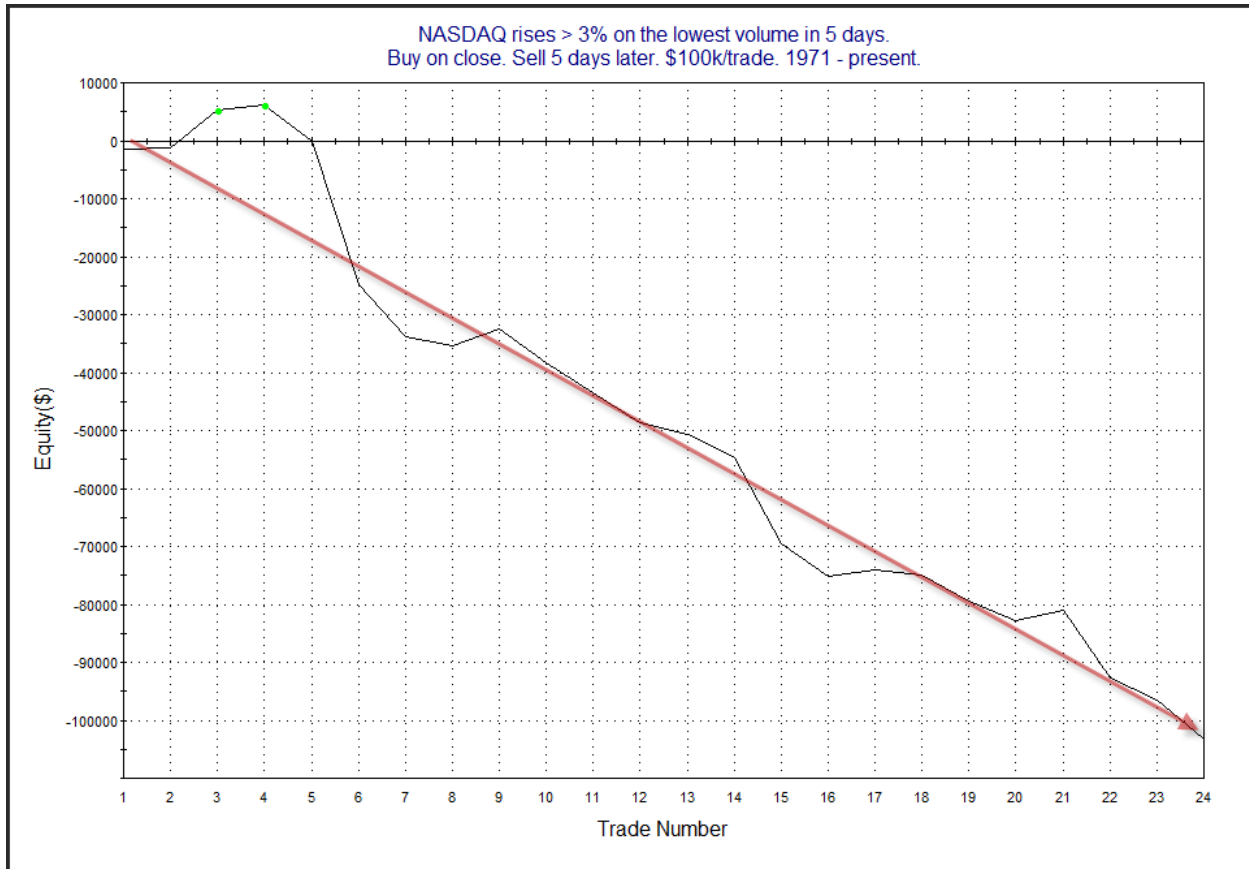
This curve struggled for some time in the middle of the chart, but it recovered nicely and has persisted higher. I have included this study on the Active List tonight. I will also note that the strong bounce the last couple of days has caused a few of the studies from previous nights to reach their typical upside, so they have been removed a little early.

So the price action was strong and the breadth was strong. The NASDAQ volume on the other hand was exceptionally weak. The following study is an old one that I last featured in the 5/11/10 letter. I have updated the stats.

NASDAQ rises > 3% on the lowest volume in 5 days.
Buy on close. Sell X days later. \$100k/trade. 1971 - 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	-103,348.71	24	6	18	25.00	6,569.60	-24,754.62	2,231.77	-6,485.52	0.34	0.11	-4,306.20
4	-89,431.70	24	4	20	16.67	5,331.00	-16,933.84	3,685.77	-5,208.74	0.71	0.14	-3,726.32
3	-78,777.39	24	6	18	25.00	4,674.00	-14,891.14	2,220.25	-5,116.60	0.43	0.14	-3,282.39
2	-60,721.89	25	8	17	32.00	4,381.20	-11,659.68	1,854.16	-4,444.42	0.42	0.20	-2,428.88
1	-24,743.40	25	11	14	44.00	3,990.60	-5,682.60	885.80	-2,463.37	0.36	0.28	-989.74

Results here appear strongly bearish. Below is a look at the 5-day profit curve.



That is quite the decline. I also decided to list all the instances, since the results appear so powerful.

NASDAQ rises > 3% on the lowest volume in 5 days.
Buy on close. Sell 5 days later. \$100k/trade. 1971 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/1/1978	Buy	\$114.65	-1.45%	\$732.48
11/8/1978	Sell	\$112.99		(\$1,587.04)
8/27/1990	Buy	\$381.30	0.10%	\$576.40
9/4/1990	Sell	\$381.70		(\$1,048.00)
10/12/1998	Buy	\$1,546.08	6.64%	\$6,621.44
10/19/1998	Sell	\$1,648.73		(\$3,167.36)
1/15/1999	Buy	\$2,348.20	0.90%	\$5,300.40
1/25/1999	Sell	\$2,369.30		(\$1,864.80)
3/9/2000	Buy	\$5,046.86	-6.53%	\$1,627.54
3/16/2000	Sell	\$4,717.39		(\$11,243.44)
4/7/2000	Buy	\$4,446.50	-25.31%	\$631.40
4/14/2000	Sell	\$3,321.29		(\$25,971.44)
11/24/2000	Buy	\$2,904.38	-8.92%	\$3,208.58
12/1/2000	Sell	\$2,645.29		(\$12,965.56)
3/19/2001	Buy	\$1,951.19	-1.67%	\$1,170.45
3/26/2001	Sell	\$1,918.67		(\$8,005.98)
5/13/2002	Buy	\$1,652.54	2.97%	\$6,407.40
5/20/2002	Sell	\$1,701.59		\$0.00
6/17/2002	Buy	\$1,553.29	-5.98%	\$940.80
6/24/2002	Sell	\$1,460.34		(\$8,870.40)
7/5/2002	Buy	\$1,448.36	-5.17%	\$289.80
7/12/2002	Sell	\$1,373.50		(\$8,609.13)
11/27/2002	Buy	\$1,487.94	-5.19%	\$2,244.50
12/5/2002	Sell	\$1,410.75		(\$5,183.12)
3/24/2008	Buy	\$2,326.75	-2.05%	\$841.26
3/31/2008	Sell	\$2,279.10		(\$2,934.96)
10/13/2008	Buy	\$1,844.25	-4.02%	\$2,845.80
10/20/2008	Sell	\$1,770.03		(\$15,040.62)
10/20/2008	Buy	\$1,770.03	-14.92%	\$0.00
10/27/2008	Sell	\$1,505.90		(\$15,469.44)
11/26/2008	Buy	\$1,532.10	-5.65%	\$225.55
12/4/2008	Sell	\$1,445.56		(\$8,711.95)
5/18/2009	Buy	\$1,732.36	1.04%	\$2,001.27
5/26/2009	Sell	\$1,750.43		(\$3,124.74)
5/10/2010	Buy	\$2,374.67	-0.86%	\$2,504.04
5/17/2010	Sell	\$2,354.23		(\$2,956.38)
8/11/2011	Buy	\$2,492.68	-4.50%	\$2,500.80
8/18/2011	Sell	\$2,380.43		(\$5,188.40)
8/29/2011	Buy	\$2,562.11	-3.45%	\$1,929.33
9/6/2011	Sell	\$2,473.83		(\$5,764.20)
10/10/2011	Buy	\$2,566.05	1.90%	\$3,868.40
10/17/2011	Sell	\$2,614.92		(\$536.18)
3/4/2020	Buy	\$9,018.09	-11.82%	\$0.00
3/11/2020	Sell	\$7,952.05		(\$12,838.54)
3/26/2020	Buy	\$7,797.54	-3.98%	\$993.24
4/2/2020	Sell	\$7,487.31		(\$5,946.72)
3/1/2021	Buy	\$13,588.83	-7.21%	\$87.50
3/8/2021	Sell	\$12,609.16		(\$8,342.46)

That is a lot of big red. One thing I noted when looking at these dates is that many of them occurred during some sizable market decline (2000, 2002, 2011, 2020, etc). So I thought perhaps it was something that only might have played out in bear markets. Therefore, I added the 200ma as a filter to see what's occurred when the setup as triggered during uptrends. Of course this cut down the list quite a bit. But here it is:

NASDAQ rises > 3% on the lowest volume in 5 days. <i>Close > 200ma.</i> Buy on close. Sell 5 days later. \$100k/trade. 1971 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/15/1999	Buy	\$2,348.20	0.90%	\$5,300.40
1/25/1999	Sell	\$2,369.30		(\$1,864.80)
3/9/2000	Buy	\$5,046.86	-6.53%	\$1,627.54
3/16/2000	Sell	\$4,717.39		(\$11,243.44)
4/7/2000	Buy	\$4,446.50	-25.31%	\$631.40
4/14/2000	Sell	\$3,321.29		(\$25,971.44)
5/18/2009	Buy	\$1,732.36	1.04%	\$2,001.27
5/26/2009	Sell	\$1,750.43		(\$3,124.74)
5/10/2010	Buy	\$2,374.67	-0.86%	\$2,504.04
5/17/2010	Sell	\$2,354.23		(\$2,956.38)
3/4/2020	Buy	\$9,018.09	-11.82%	\$0.00
3/11/2020	Sell	\$7,952.05		(\$12,838.54)
3/1/2021	Buy	\$13,588.83	-7.21%	\$87.50
3/8/2021	Sell	\$12,609.16		(\$8,342.46)

Amazingly, the uptrend filter did not seem to help results at all. This setup often seemed to be a prelude to a massive decline. Four of the seven instances saw a drawdown over 8% in the next 5 days. I have highlighted those instances.

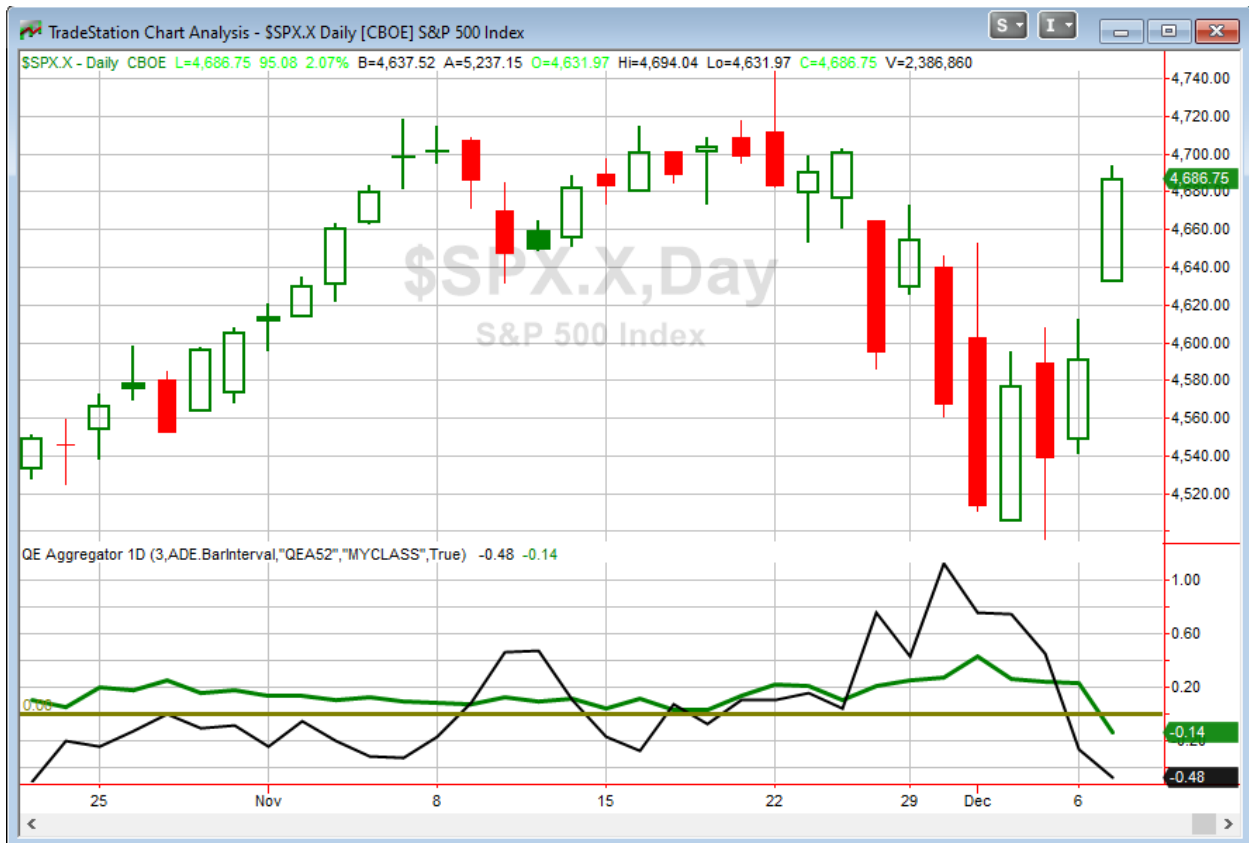
I also ran these results on the S&P 500, based off the Nasdaq signal.

NASDAQ rises > 3% on the lowest volume in 5 days.
 Buy **SPX** on close. Sell X days later. \$100k/trade. 1971 - 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	-67,059.83	24	6	18	25.00	6,470.00	-13,784.48	2,197.75	-4,458.13	0.49	0.16	-2,794.16
4	-58,723.28	24	5	19	20.83	5,870.00	-10,971.63	2,693.98	-3,799.64	0.71	0.19	-2,446.80
3	-55,624.53	24	4	19	16.67	4,980.00	-11,890.36	2,404.85	-3,433.89	0.70	0.15	-2,317.69
2	-44,257.67	25	8	17	32.00	2,707.25	-9,455.49	1,215.86	-3,175.56	0.38	0.18	-1,770.31
1	-14,534.77	25	9	16	36.00	2,112.96	-3,366.80	594.30	-1,242.72	0.48	0.27	-581.39

Here too you see there is solid evidence of a downside edge. Hiding out in the SPX has not been possible when the NASDAQ was tanking this way.

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



With tonight's evidence considered, the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line remained below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4579.36 on Wednesday. That is 2.3% below Tuesday's close. So SPX would need to close down over 2.3% on Wednesday in order to flip from overbought to oversold. That's certainly possible, though more likely it will take a few days to work over the overbought condition.

So the Aggregator is bearish for the 1st time in a while. I am not inclined to jump into a short position just yet. I'd prefer to see a little more evidence confirm the downside edge. Especially since we are faced with a mix of bullish and bearish studies at the moment. I did exit the rest of my SPY position at the close on Tuesday. So I'll sit out Wednesday and see what new evidence emerges before considering a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/6 – neutral

The intermediate-term outlook was last updated in the 12/6/21 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

BIIB – 1/3 @ \$223.92 (bought @ limit)

Broad Market Large Cap CBI – 1(BIIB)

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
<i>SPY(1/4)</i>	<i>11/30/2021</i>	<i>\$455.56</i>	<i>\$468.28</i>	<i>2.79%</i>		<i>sold on close</i>
<i>DIS(1/3)</i>	<i>12/1/2021</i>	<i>\$144.90</i>	<i>\$151.84</i>	<i>4.79%</i>		<i>sold on open</i>
SPG(1/3)	12/1/2021	\$152.84	\$156.25	2.23%		<i>sell on open</i>
BIIB(1/3)	12/6/2021	\$223.20	\$226.83	1.63%		Catapult

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