

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2021

Volume 14 Issue 239

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Coming from an intermediate-term high, an unfilled gap down after an unfilled gap up appears to be somewhat bearish.
- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the setup is not compelling. If SPX struggles Tuesday though, that could compel me to take on a position.

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 14, 2021	Unfilled gap up to 20 hi - unfilled gap dn	1-2 days	Bearish			
December 13, 2021	Dec opex bullish	1-5 days	Bullish	1.90%	-1.20%	-2.70%
December 13, 2021	Breakaway gap	1-5 days	Bullish	1.20%	-1.10%	-2.40%
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%
Active - Long Term						
December 13, 2021	Dec opex wk + 2 more weeks bullish	1-15 days	Bullish	3.30%	-1.80%	-4.00%
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			

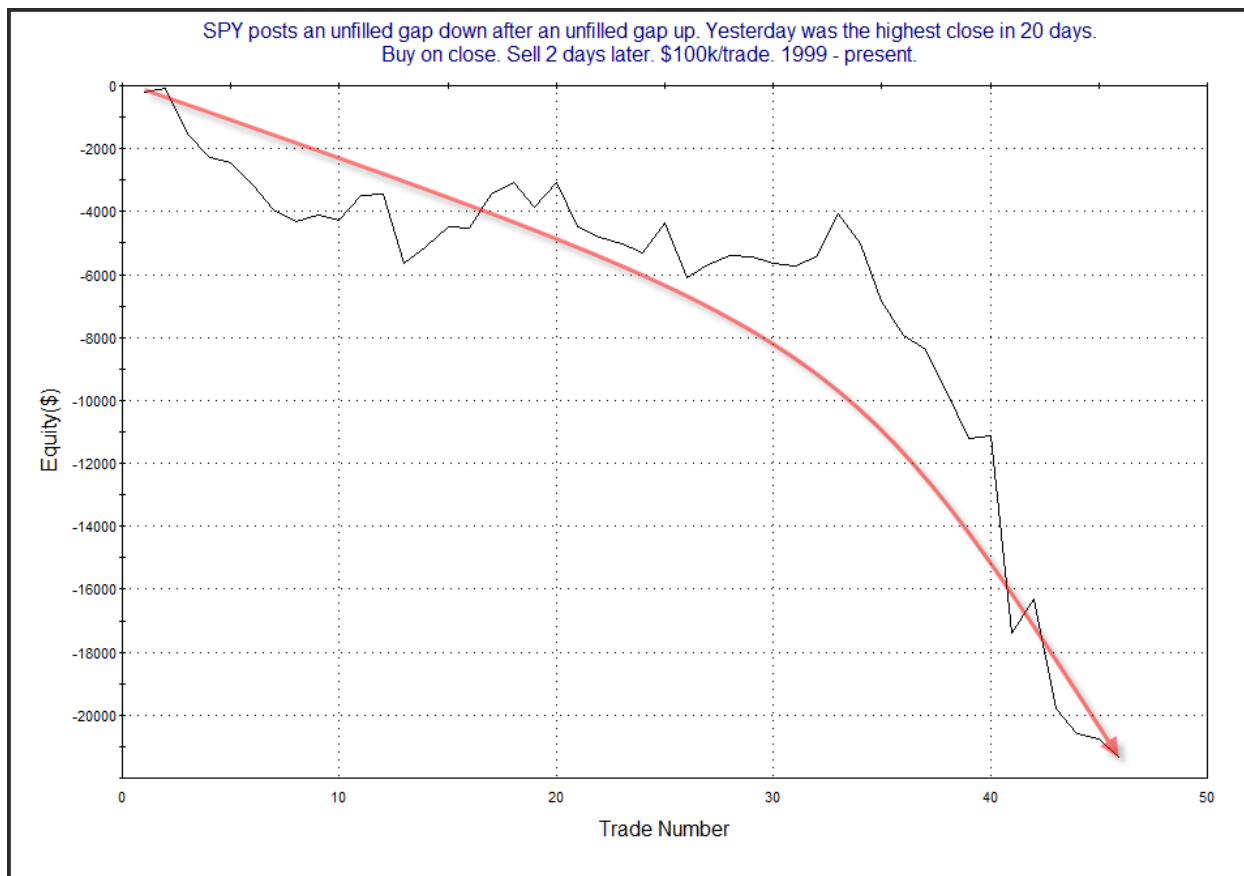
The Evidence

Monday saw the market struggle. The SPX lost 0.9%, the NASDAQ fell 1.39%, and the Russell 2000 declined 1.42%. Breadth was weak with the NYSE Up Issues % coming in at 30% and the Up Volume % at 23%. NYSE total volume rose a little from Friday's level.

The Quantifinder showed a compelling study that suggested the action the last couple of days could lead to more selling. This study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 12/8/20 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-26,398.86	45	22	23	48.89	1,827.28	-7,283.25	799.53	-1,912.54	0.42	0.40	-586.64
4	-22,149.98	45	19	26	42.22	1,998.36	-4,273.14	863.27	-1,482.78	0.58	0.43	-492.22
3	-20,492.23	45	19	26	42.22	1,312.42	-5,156.38	645.26	-1,259.70	0.51	0.37	-455.38
2	-21,374.28	46	16	30	34.78	1,383.20	-6,275.98	567.15	-1,014.95	0.56	0.30	-464.66
1	-9,117.24	46	19	27	41.30	1,008.68	-1,807.92	411.21	-627.04	0.66	0.46	-198.20

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. We have tracked this study for a while, and the edge has seen an acceleration to the downside in recent times. This all suggests we could see further selling over the next few days. I added this to the Active List tonight.

It is also worth noting that Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are updated stats for the 4 quartiles from highest to lowest in the daily range.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$6,679.00	Profit Factor	1.26
Gross Profit	\$32,533.41	Gross Loss	(\$25,854.41)
Total Number of Trades	88	Percent Profitable	47.73%
Winning Trades	42	Losing Trades	44
Even Trades	2		
Avg. Trade Net Profit	\$75.90	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	\$774.61	Avg. Losing Trade	(\$587.60)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$14,449.06	Profit Factor	1.91
Gross Profit	\$30,261.13	Gross Loss	(\$15,812.07)
Total Number of Trades	52	Percent Profitable	51.92%
Winning Trades	27	Losing Trades	24
Even Trades	1		
Avg. Trade Net Profit	\$277.87	Ratio Avg. Win:Avg. Loss	1.70
Avg. Winning Trade	\$1,120.78	Avg. Losing Trade	(\$658.84)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

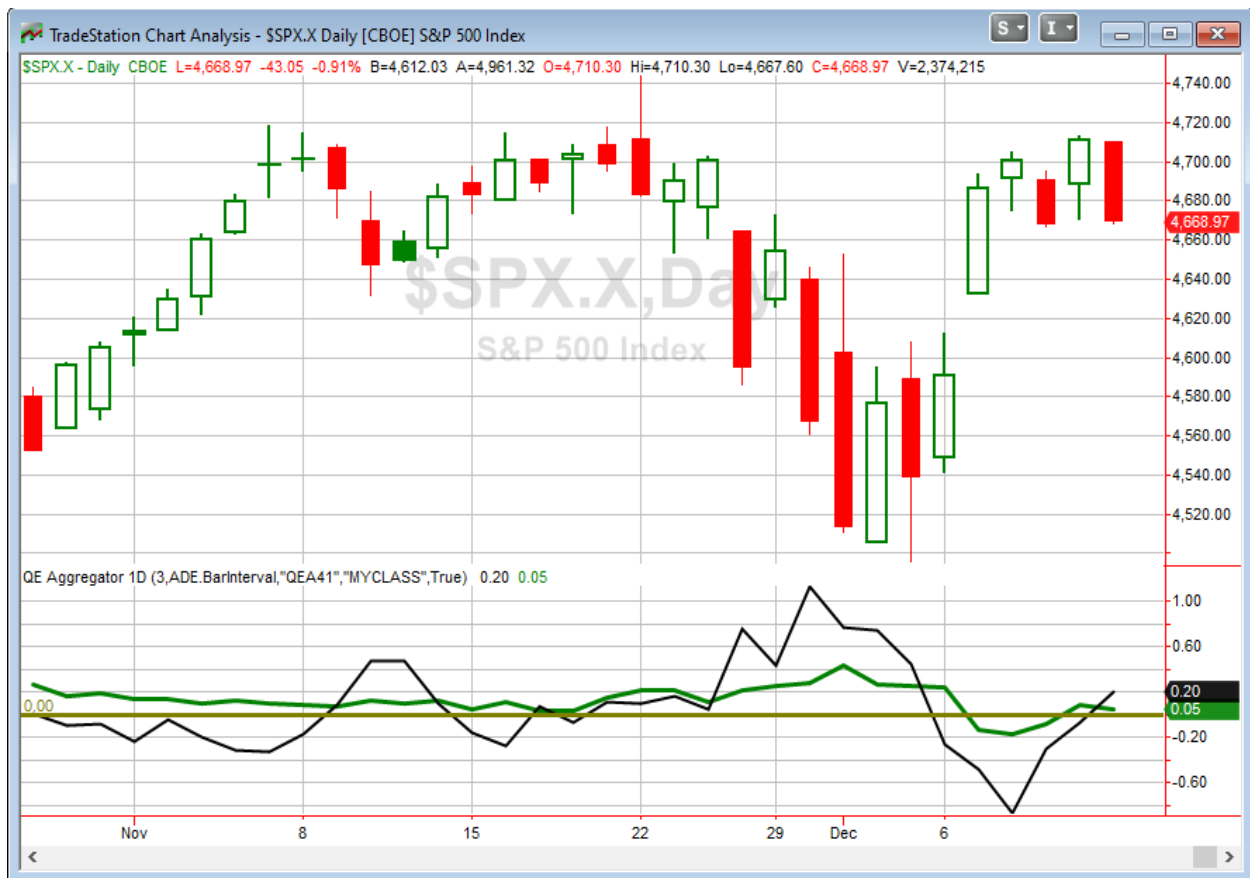
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$13,022.10	Profit Factor	2.08
Gross Profit	\$25,075.32	Gross Loss	(\$12,053.22)
Total Number of Trades	46	Percent Profitable	65.22%
Winning Trades	30	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	\$283.09	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$835.84	Avg. Losing Trade	(\$753.33)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in the bottom 25% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$25,719.21	Profit Factor	3.73
Gross Profit	\$35,139.11	Gross Loss	(\$9,419.90)
Total Number of Trades	43	Percent Profitable	74.42%
Winning Trades	32	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$598.12	Ratio Avg. Win:Avg. Loss	1.28
Avg. Winning Trade	\$1,098.10	Avg. Losing Trade	(\$856.35)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

So what we see here is that the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

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



Even with tonight's evidence considered, the green Aggregator Line held slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also closed 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 4648.99* on Tuesday. That is 0.4% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down over 0.4% in order to remain "oversold" vs recent expectations. Anything other than that and it will flip to "overbought" as of Tuesday's close.

So the Aggregator is bullish. But the setup is pretty dicey. The inverted pivot has the SPX primed to flip to overbought on Tuesday unless there is a sizable decline. Meanwhile, while overall evidence is leaning bullish, tonight's study suggests a decent chance of a move lower over the next couple of days. Of course the Fed Day on Wednesday is another wild card. So I am not interested

immediately, but I will look to take on some SPY exposure if SPX closes below its differential pivot *and* SPY finishes in the lower half of its intraday range. That could very well lead to a quick exit before the Fed announcement on Wednesday, but I like the odds for a potential quick trade if SPY struggles on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/13 – somewhat bullish

The intermediate-term outlook was last updated in the 12/13/21 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

None

Broad Market Large Cap CBI – 0

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 on close if SPX closes < 4649.00 and SPY closes in the bottom half of its intraday range. Based on the short-term section above, this would lead to a bullish Aggregator and likely a bullish Fed Day. I could exit this trade quickly on Wednesday if it is profitable.

Current Open Trade Ideas

None

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