

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 15, 2021

Volume 14 Issue 240

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 2 unfilled gaps down while above the 200ma has often been followed by a bounce in the next few days.
- Wednesday's Fed Day appears to have a mild upside edge since it closed in the top half of the range.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the Fed wildcard has me waiting another day before committing to a new 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 15, 2021	2 unfilled gaps down > 200ma	1 day	Bullish			
December 15, 2021	Fed Day bullish	1 day	Bullish			
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	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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
December 8, 2021	NASDAQ up 3% on 5-low volume	1-5 days	Bearish	-5.50%	1.70%	3.30%

The Evidence

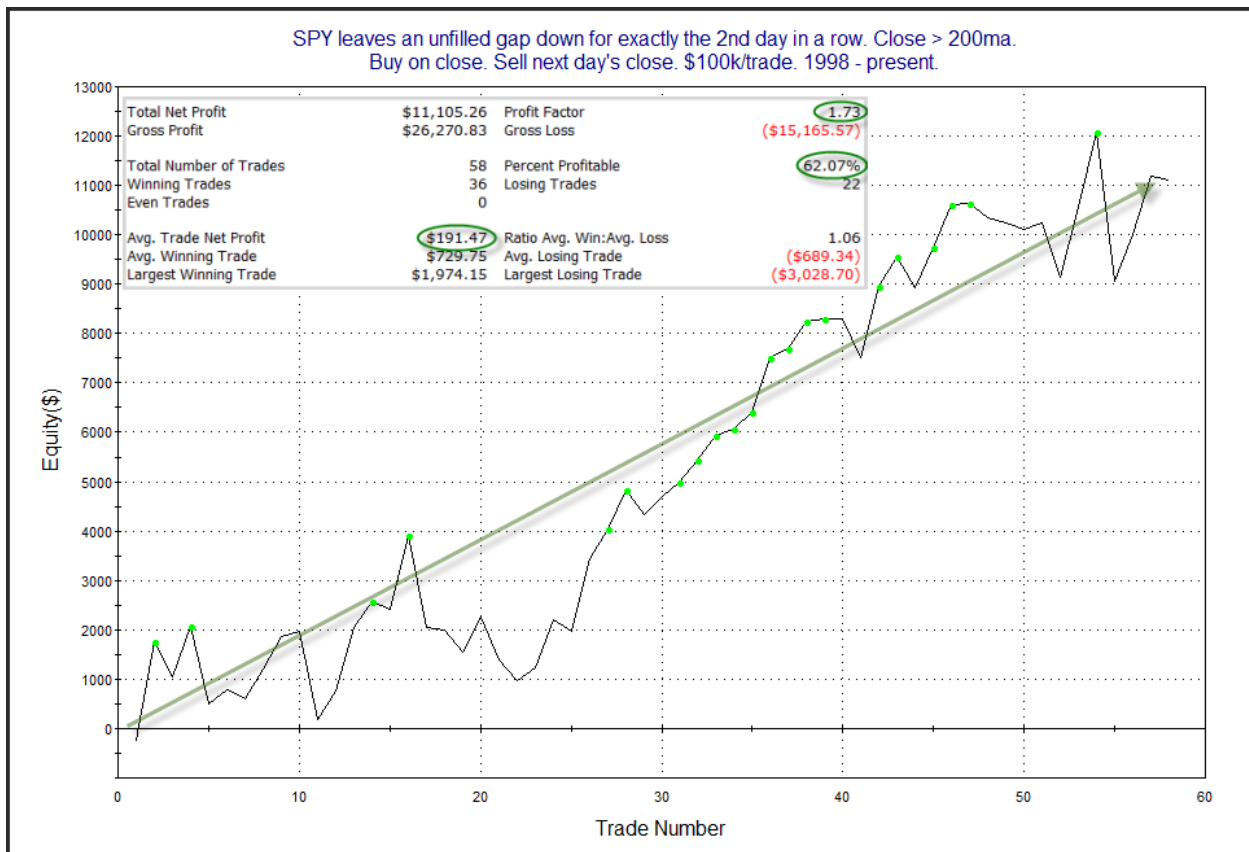
Tuesday was a 2nd down day for the market. The SPX lost 0.75%, the NASDAQ fell 1.1%, and the Russell 2000 declined 1.0%. Breadth was weak with the NYSE Up Issues % coming in at 28% and the Up Volume % at 36%. NYSE total volume rose a little from Monday's level.

The market was a good bit lower before it turned bottomed out a little after noon Eastern. The afternoon rally was disappointing to me, since led SPY to close slightly above its midpoint of the day, which kept me out of establishing a new position at the close. Since it closed high in the range, it triggered the study below, which I showed last night.

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)

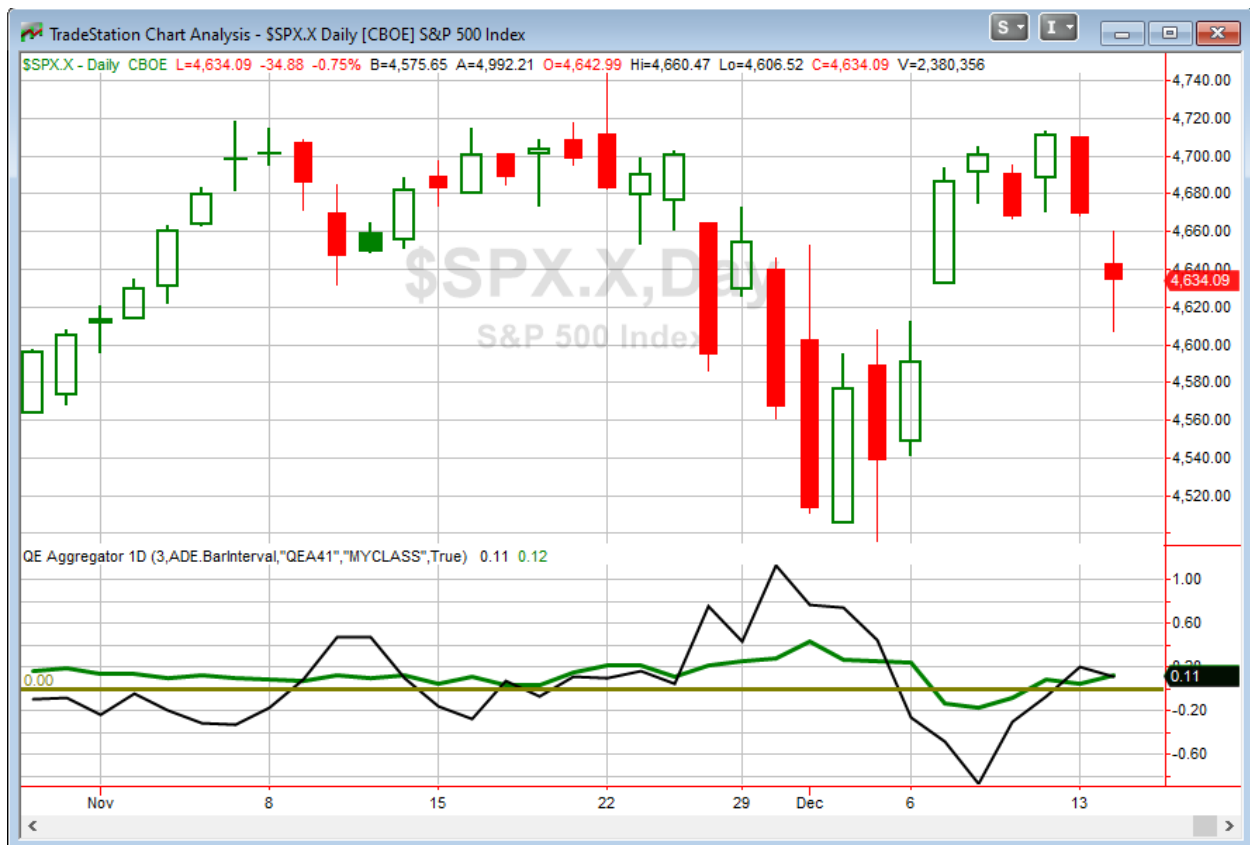
As a reminder, a lower close would have generated stronger odds for Wednesday. Still, there does appear to be a mild upside edge. And the two days of selling going into the meeting seems to confirm there is a bit of anxiety about the announcement. Often when that is the case the market decided reality is not as bad as feared, and a bounce ensues.

From a price action standpoint, it was notable that Tuesday marked the 2nd day in a row that SPY left an unfilled gap down from the previous day's close. In the 8/13/19 letter I showed a study that suggested bullish implications when this occurred during a long-term uptrend. I took a fresh look at that study tonight.



The curve is certainly choppy, but I find the overall evidence strong enough to add it to the Active List as a 1-day edge.

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



With tonight's evidence considered, the green Aggregator Line held 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 stayed long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Wednesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4703.44 on Tuesday. That is 1.5% above Tuesday's close. Therefore, SPX will need to close up at least 1.5% on Wednesday in order to flip from oversold to overbought at the close.

So the Aggregator is bullish. And after a couple of good-sized down days, the market appears short-term oversold. A bounce appears probable, but I am not inclined to step in Wednesday morning just ahead of the 2pm Fed announcement. A fill on Tuesday afternoon in the low part of the range would have shown better odds. Additionally, much of the Fed Day edge comes in the overnight and the morning hours prior to the announcement. So I will wait to see how the market reacts to the policy announcement and consider any new evidence that emerges on Wednesday before taking on new index exposure.

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.

None.

Current Open Trade Ideas

None

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