

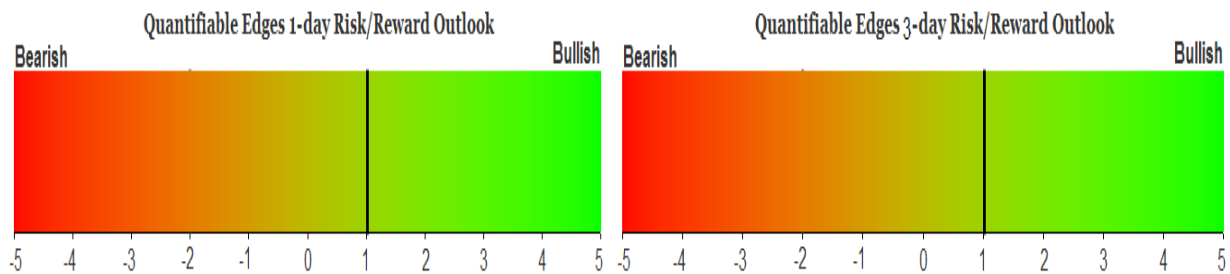
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 17, 2021

Volume 14 Issue 242

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- During uptrends, opex Friday has often seen selling after the open.
- We have entered a seasonal period where RUT tends to do quite well.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but that could easily change on Friday, and the current setup does not seem appealing.

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 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			

The Evidence

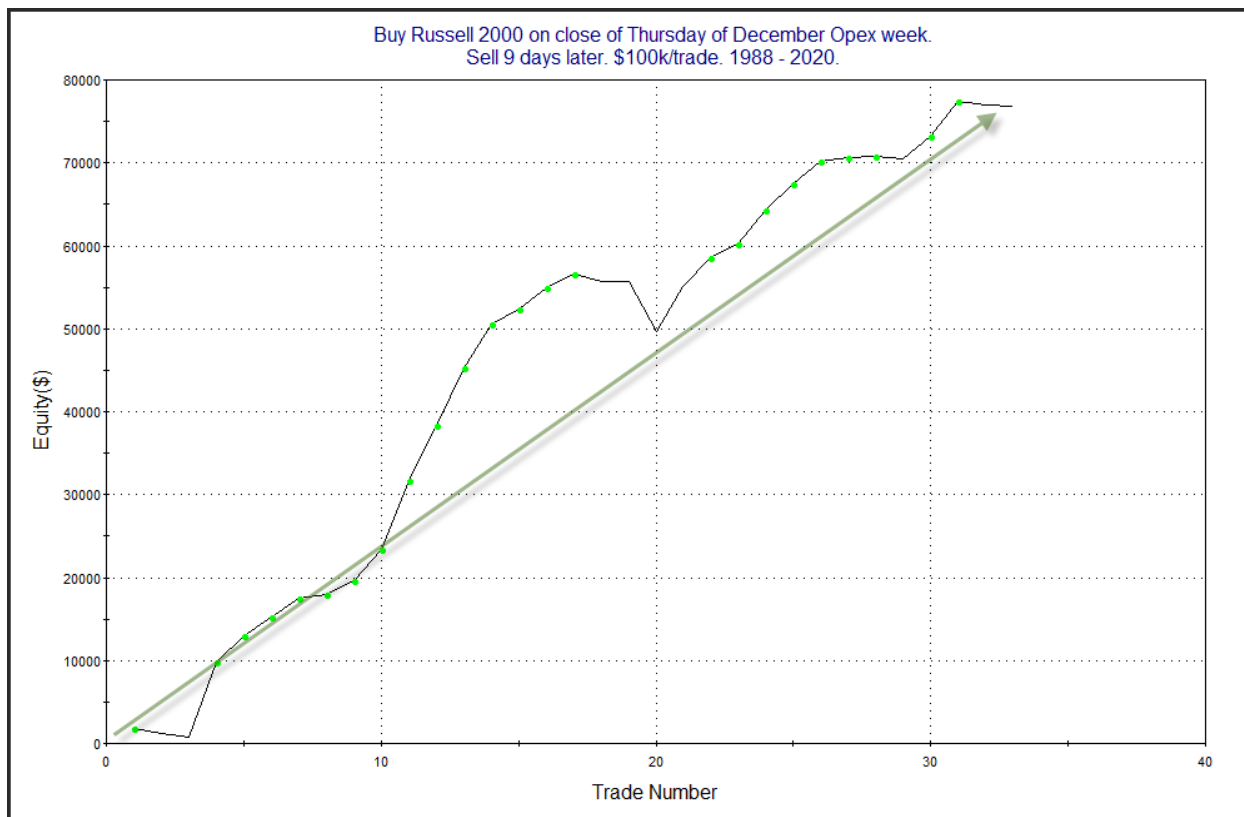
After Wednesday's big move up, Thursday was a disappointing day for the bulls. The SPX declined 0.9%, the NASDAQ tumbled 2.5%, and the Russell 2000 dropped 1.95%. Breadth was mildly negative with the NYSE Up Issues % coming in at 45% and the Up Volume % at 49%. NYSE total volume rose for the 5th day in a row.

One study to note is one I discussed this past weekend. It shows that the Russell is coming into a strong seasonal period. I have copied that study from Sunday below.

Next is a study I last showed in the 12/14/20 subscriber letter that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on close Thursday of December Opex week. Sell X days later. \$100k/trade. 1988 - 2019.												
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	78,224.94	32	24	8	75.00	10,279.71	-5,643.30	3,852.72	-1,780.04	2.16	6.49	2,444.53
9	77,009.25	32	26	6	81.25	9,009.63	-5,973.50	3,290.51	-1,423.98	2.31	10.01	2,406.54
8	64,037.07	32	26	6	81.25	7,115.85	-2,948.40	2,658.16	-845.84	3.14	13.62	2,001.16
7	60,300.62	32	27	5	84.38	7,790.58	-1,809.60	2,416.17	-987.18	2.45	13.22	1,884.39
6	45,688.09	32	24	8	75.00	6,599.88	-2,720.64	2,184.77	-843.29	2.59	7.77	1,427.75
5	34,165.21	32	23	9	71.88	4,892.25	-3,194.64	1,948.08	-1,182.30	1.65	4.21	1,067.66
4	27,329.69	32	23	9	71.88	4,413.75	-3,892.32	1,759.89	-1,460.86	1.20	3.08	854.05
3	23,029.68	32	22	10	68.75	3,814.20	-2,650.68	1,629.22	-1,281.31	1.27	2.80	719.68
2	8,106.30	32	19	13	59.38	3,495.70	-4,431.00	1,341.83	-1,337.57	1.00	1.47	253.32
1	9,354.22	32	18	14	56.25	2,299.70	-2,543.25	917.94	-512.05	1.79	2.30	292.32

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



That is a strong looking curve. I'll re-post this study again Thursday night when it actually triggers.

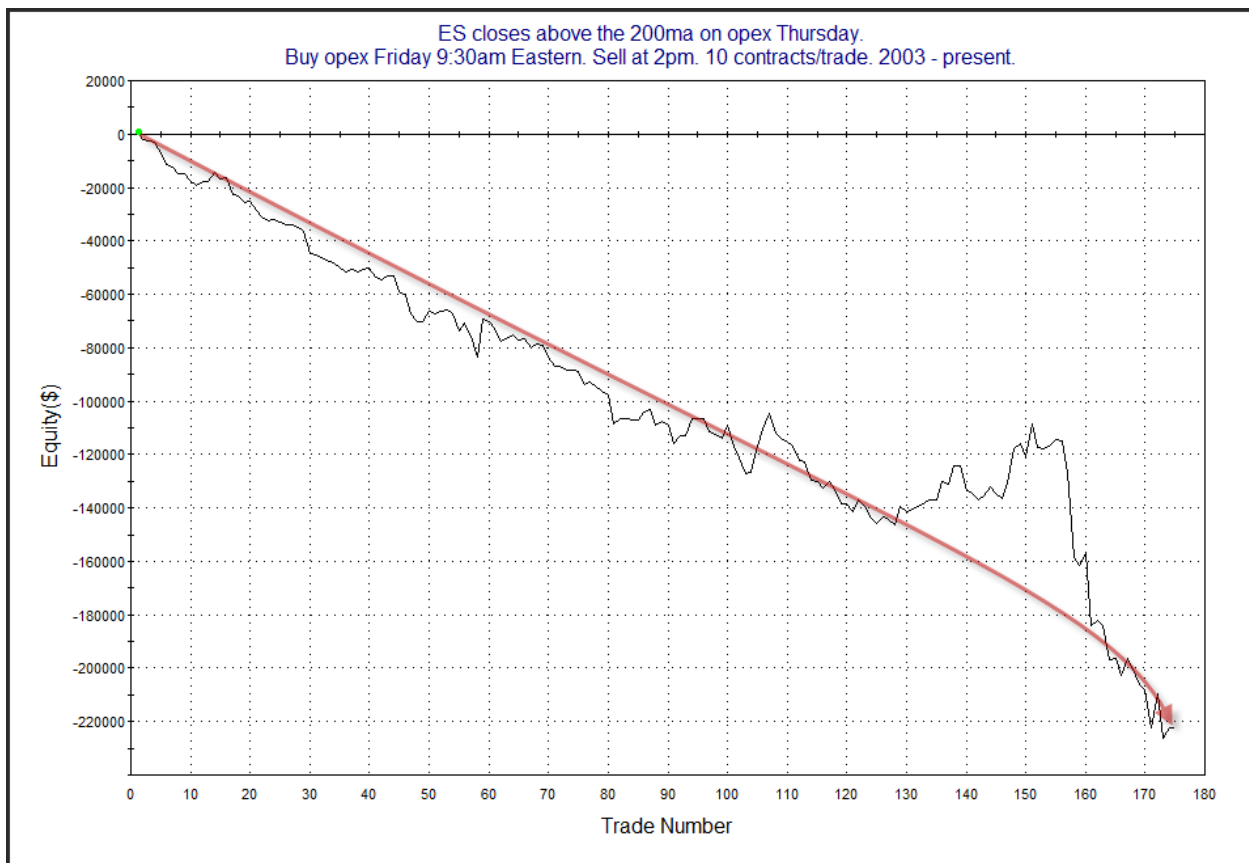
It is also notable that Friday is monthly options expiration. The studies below are updated from the 11/19/21 letter.

Options expiration has long been a day that has seen weakness after the opening bell (and strength the night before it). Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

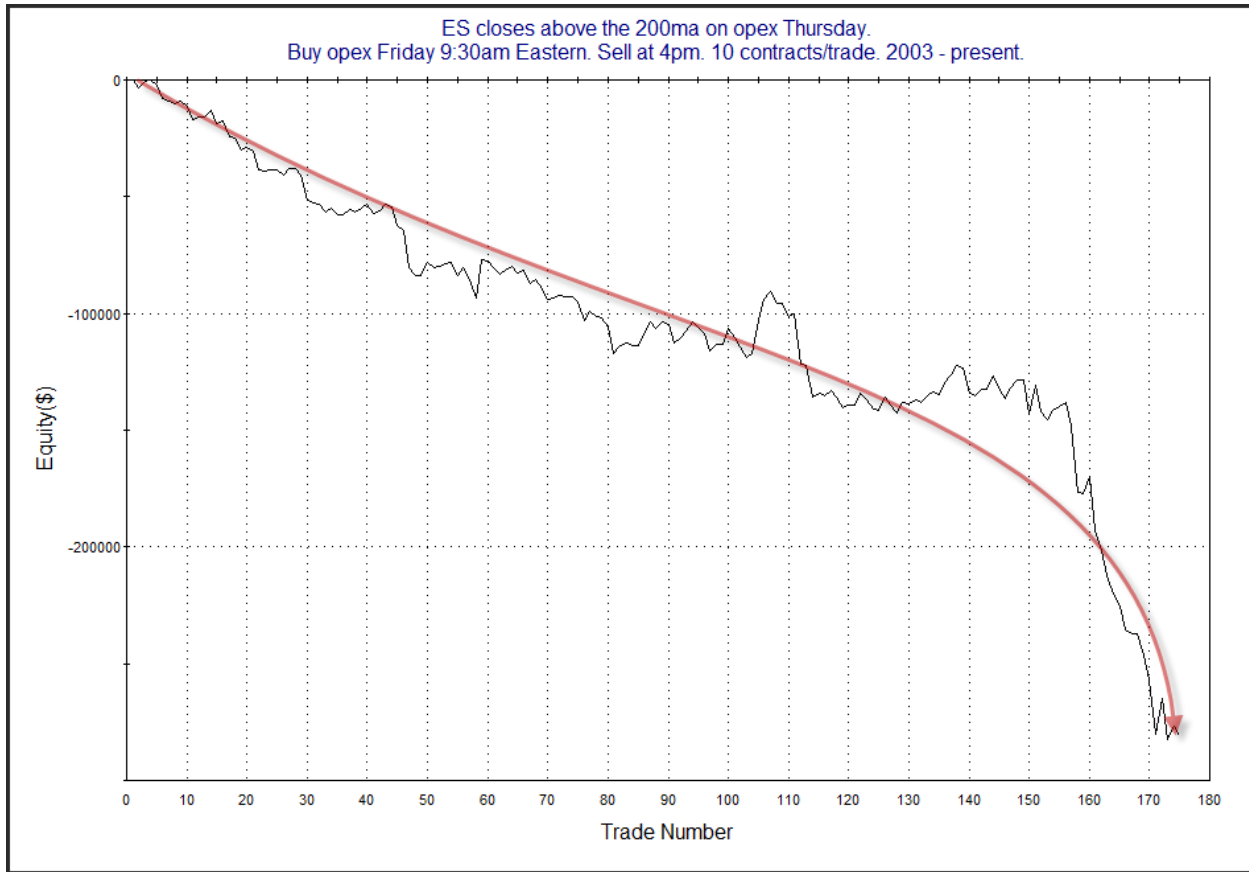
ES closes above the 200ma on opex Thursday.
Buy opex Friday 9:30am Eastern. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short: timeofday	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
1,600	-280,500.00	175	72	100	41.14	16,125.00	-28,500.00	3,234.38	-5,133.75	0.63	0.45	-1,602.86
1,500	-199,125.00	175	68	102	38.86	13,250.00	-24,250.00	3,448.53	-4,251.23	0.81	0.54	-1,137.86
1,400	-222,500.00	175	58	110	33.14	14,250.00	-31,625.00	3,271.55	-3,747.73	0.87	0.46	-1,271.43
1,300	-183,625.00	175	61	113	34.86	15,250.00	-22,125.00	3,202.87	-3,353.98	0.95	0.52	-1,049.29
1,200	-151,750.00	175	63	112	36.00	15,875.00	-13,375.00	2,880.95	-2,975.45	0.97	0.54	-867.14
1,100	-126,750.00	175	66	107	37.71	14,625.00	-12,625.00	2,412.88	-2,672.90	0.90	0.56	-724.29
1,000	-84,750.00	175	57	114	32.57	9,250.00	-7,250.00	1,769.74	-1,628.29	1.09	0.54	-484.29

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Most of the downside would have been achieved by exiting at 2pm. Below is a look at a profit curve the 2pm exit.



The strong move from upper left to lower right supports the bearish case. Next is the 4pm exit.



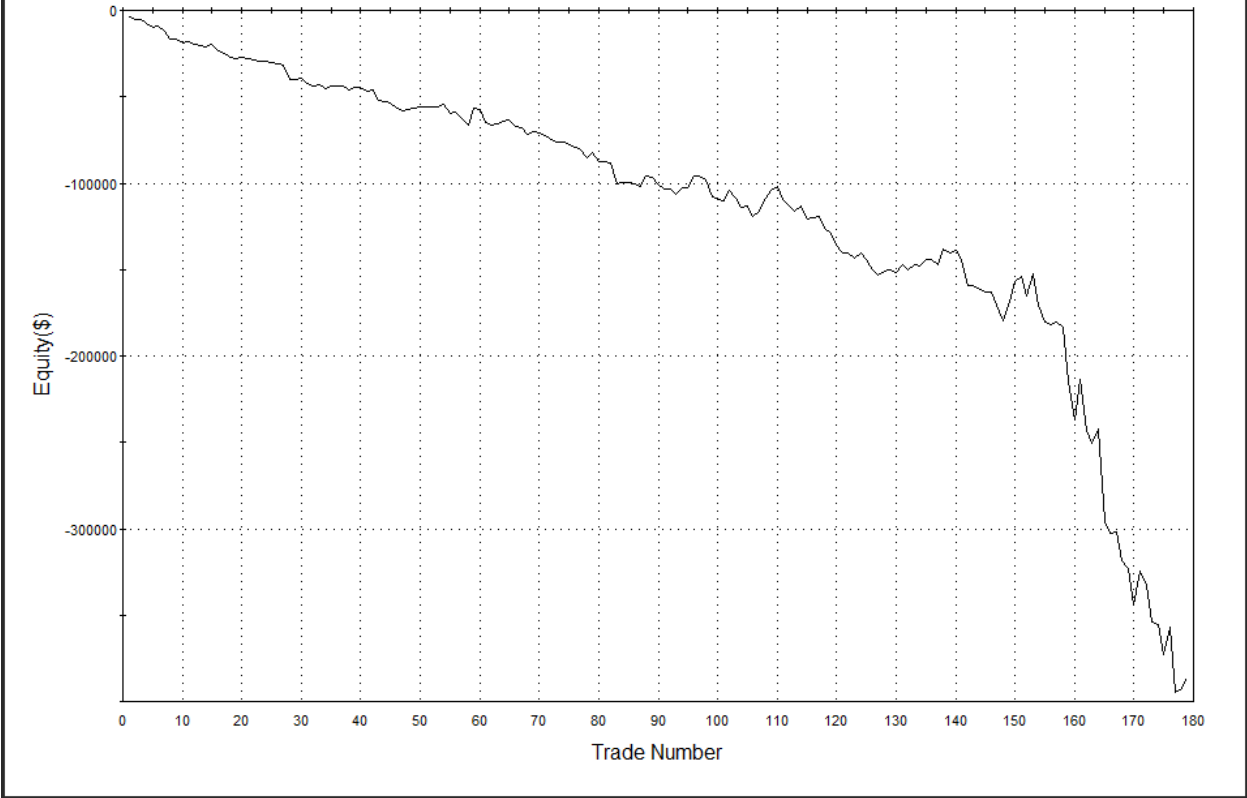
This is also impressive.

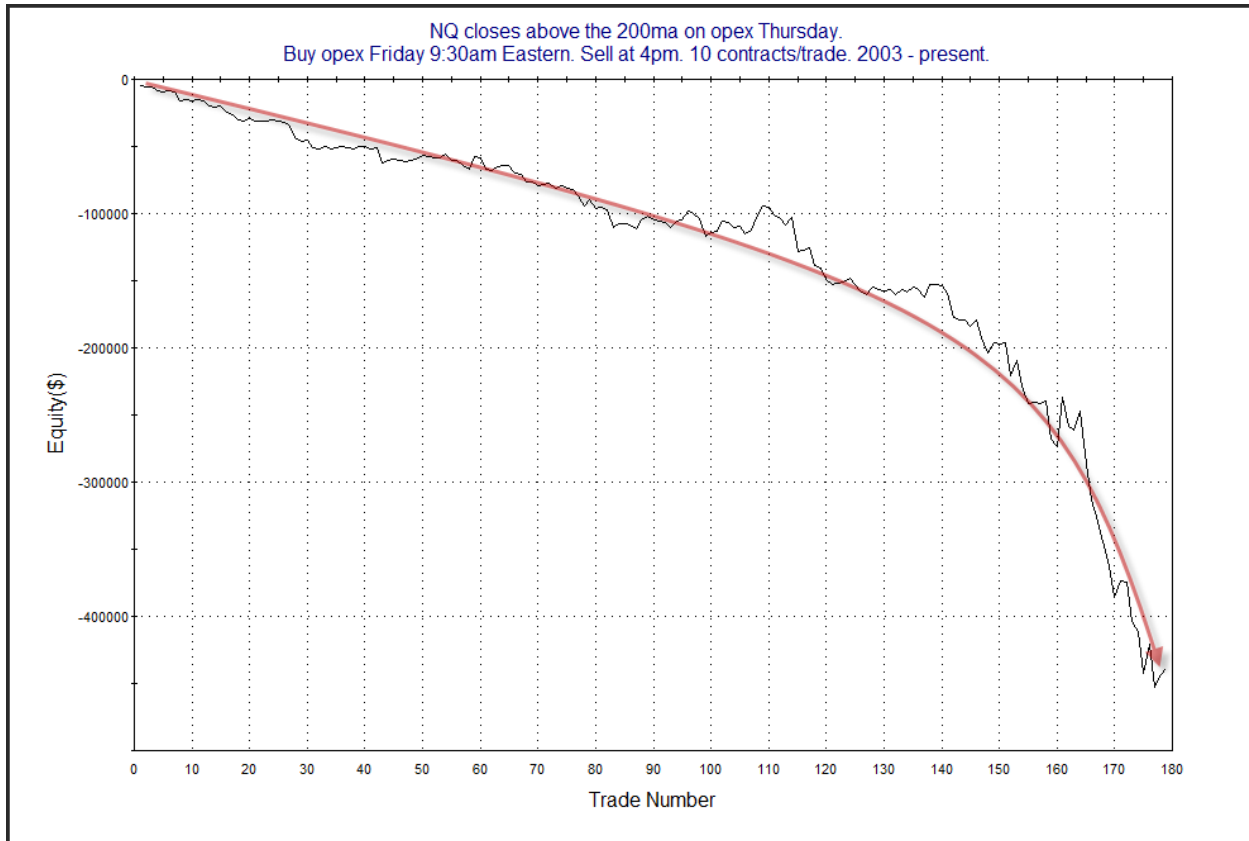
NQ (the NASDAQ 100 future) has seen an even stronger tendency to sell off. This can be seen in the table and profit curves below.

NQ closes above the 200ma on opex Thursday.
Buy opex Friday 9:30am Eastern. Sell at time shown on left. 10 contracts/trade. 2003 - present.

OE Op-Ex Fri Intra Short: timeofday	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
1,600	-439,100.00	179	69	110	38.55	36,850.00	-39,500.00	3,942.03	-6,464.55	0.61	0.38	-2,453.07
1,500	-367,800.00	179	67	111	37.43	22,850.00	-44,750.00	3,923.88	-5,681.98	0.69	0.42	-2,054.75
1,400	-386,050.00	179	60	119	33.52	23,550.00	-54,100.00	3,691.67	-5,105.46	0.72	0.36	-2,156.70
1,300	-309,250.00	179	66	111	36.87	20,750.00	-53,400.00	3,609.85	-4,932.43	0.73	0.44	-1,727.65
1,200	-317,450.00	179	65	113	36.31	13,750.00	-34,600.00	3,082.31	-4,582.30	0.67	0.39	-1,773.46
1,100	-211,050.00	179	64	115	35.75	18,900.00	-31,300.00	3,267.97	-3,653.91	0.89	0.50	-1,179.05
1,000	-143,900.00	179	55	120	30.73	13,700.00	-16,200.00	2,259.09	-2,234.58	1.01	0.46	-803.91

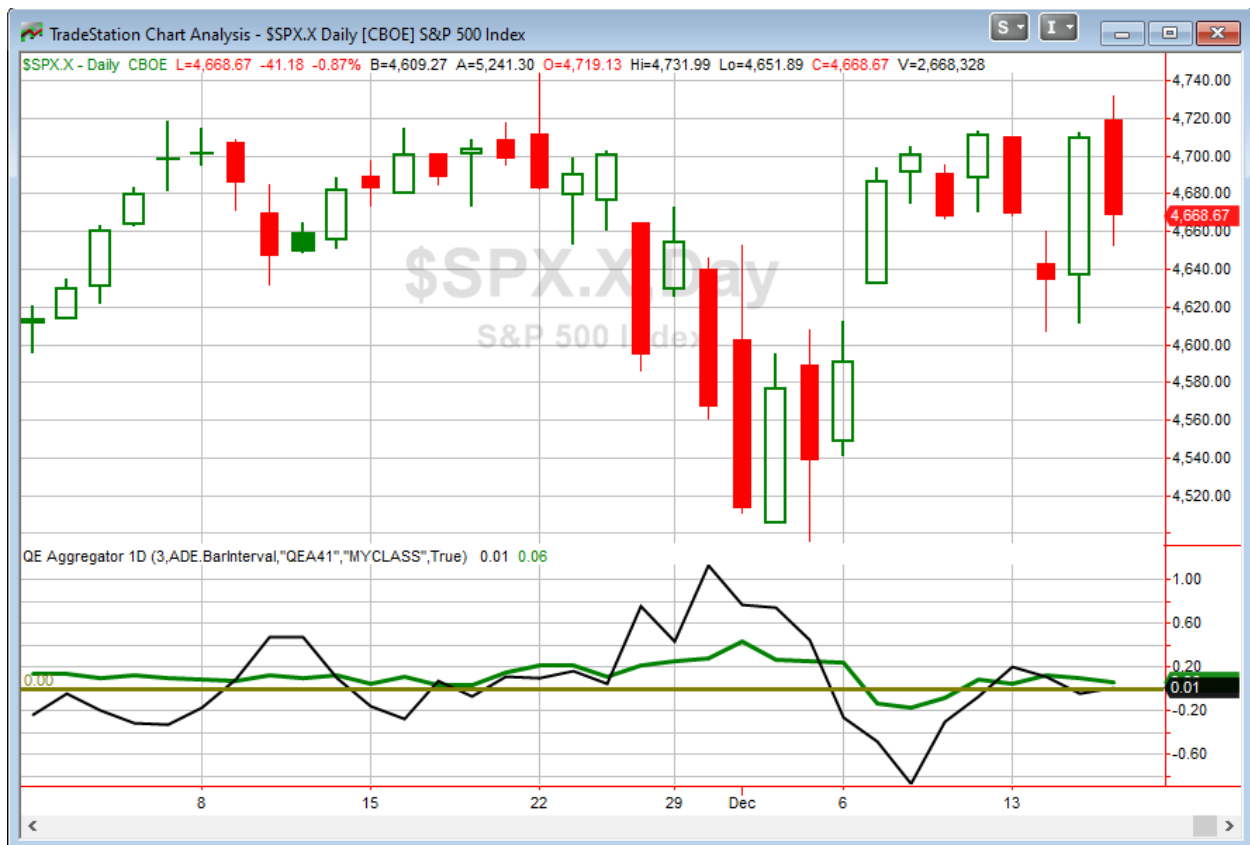
NQ closes above the 200ma on opex Thursday.
Buy opex Friday 9:30am Eastern. Sell at 2pm. 10 contracts/trade. 2003 - present.





The bearish edge appears alive and well here.

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 rose 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.

All three of the current short-term studies are set to expire on Friday. So any new studies that emerge will have a strong influence on expectations over the next few days. Meanwhile, the Differential Pivot will be *inverted* at 4645.00 on Friday. That is 0.5% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down over 0.5% in order to remain "oversold". Anything other than that and it will flip to "overbought" vs recent expectations as of Friday's close.

So the Aggregator is bullish. But expectations are questionable after Friday, the Differential Pivot is inverted, which hurts reward/risk, and tonight's evidence suggests weakness is likely during the day on Friday. This is not a compelling combination. I'll remain sidelined until a more compelling setup emerges.

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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