

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 21, 2021

Volume 14 Issue 244

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- The 3-day pullback has characteristics that suggest a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is building and the market is strongly oversold. I like the long side.

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 21, 2021 | Dn 3. Big drop. 10-low | 1-5 days | Bullish | | | |
| December 21, 2021 | Dn 3. Unfilled gap lower. 10-low. | 1-2 days | Bullish | | | |
| December 21, 2021 | Dn 3. 10-low. Not 20-low. Monday | 1-2 days | Bullish | | | |
| December 20, 2021 | Gap dn to 5 low. Close < open > 200ma | 1-2 days | Bullish | | | |
| 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 | | | |

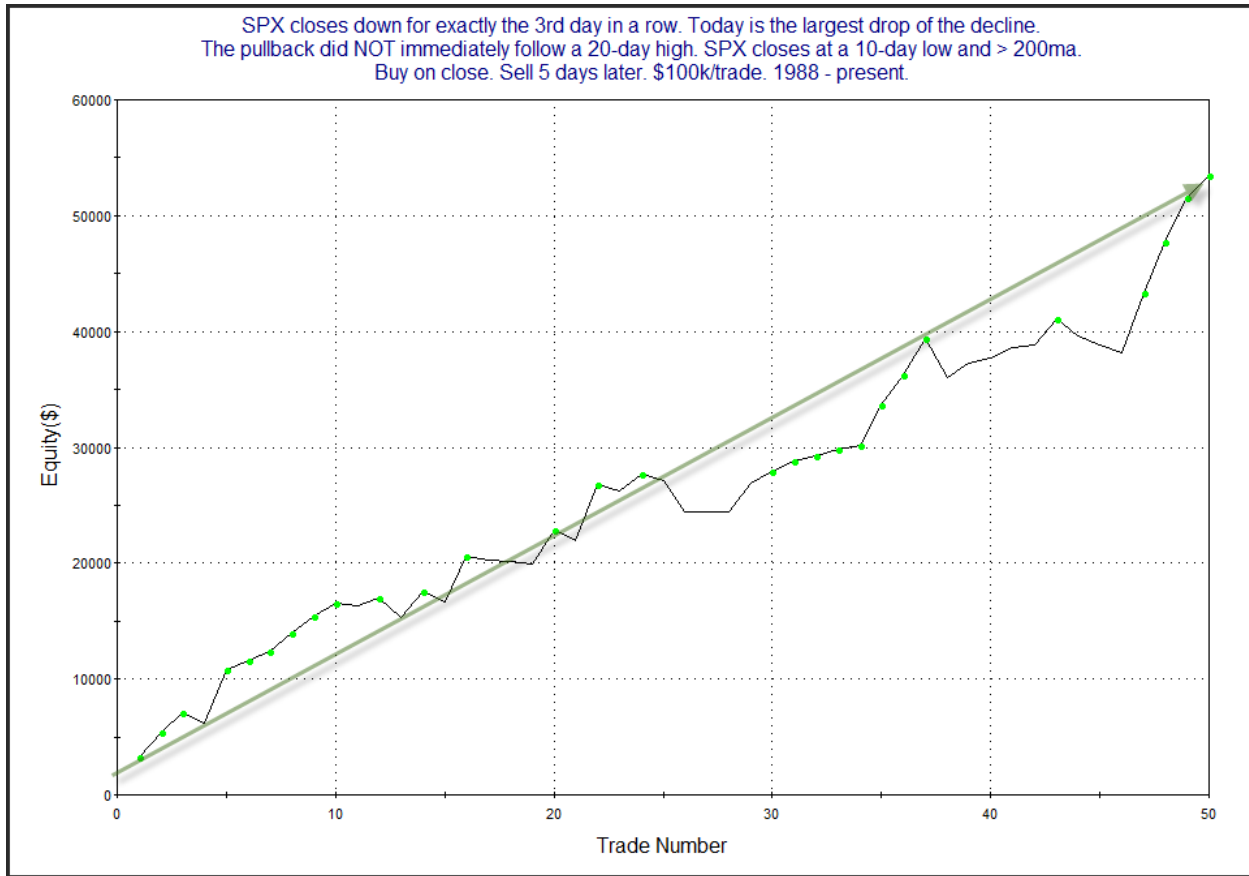
The Evidence

Monday saw a sizable selloff, though a late afternoon bump left the numbers better than they looked for most of the day. The SPX finished down 1.1%, the NASDAQ lost 1.2%, and the Russell 2000 dropped 1.6%. Breadth was negative with the NYSE Up Issues % coming in at 20% and the Up Volume % at 18%. NYSE total volume came in well below Friday’s big opex number.

The fact that Monday was the 3rd down day in a row was notable. I’ve discussed 3-day pullbacks many times before and a few studies associated with them came up tonight. They tend to provide a nice upside edge under the right conditions. The study below is from the 9/25/19 letter. It considers 1) the fact that today's drop was especially large compared to the previous 2 days, 2) the 10-day low close, and 3) that the pullback did not originate from a 20-day closing high.

| SPX closes down for exactly the 3rd day in a row. Today is the largest drop of the decline. The pullback did NOT immediately follow a 20-day high. SPX closes at a 10-day low and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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 | 53,428.34 | 50 | 33 | 17 | 66.00 | 5,172.30 | -3,385.80 | 2,089.77 | -913.77 | 2.29 | 4.44 | 1,068.57 |
| 4 | 41,944.50 | 51 | 35 | 16 | 68.63 | 4,731.13 | -3,863.84 | 1,803.10 | -1,322.75 | 1.36 | 2.98 | 822.44 |
| 3 | 34,463.87 | 51 | 33 | 18 | 64.71 | 3,940.55 | -4,464.88 | 1,629.65 | -1,073.04 | 1.52 | 2.78 | 675.76 |
| 2 | 30,884.27 | 51 | 33 | 18 | 64.71 | 3,744.45 | -7,559.56 | 1,328.38 | -719.56 | 1.85 | 3.38 | 605.57 |
| 1 | 16,973.73 | 51 | 35 | 16 | 68.63 | 2,503.90 | -1,814.24 | 799.26 | -687.52 | 1.16 | 2.54 | 332.82 |

The stats suggest an upside edge over the next week. Below is a look at a 5-day profit curve.



That is a nice move from lower left to upper right. This serves as some confirmation of the edge suggested by the numbers. I have added this study to the Active List tonight.

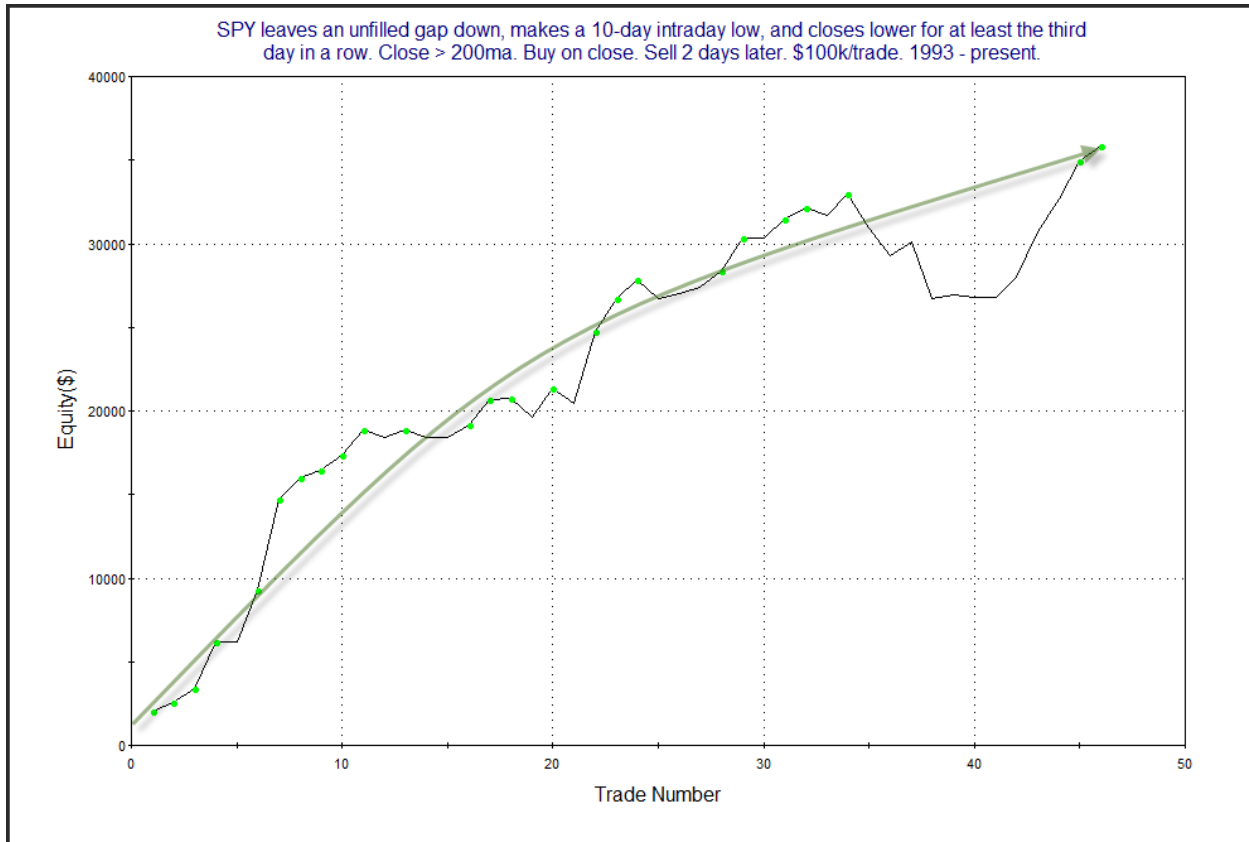
In addition to 3 down days, this next study requires an unfilled gap down (and a short-term low). It was last seen in the 9/12/16 letter. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the third day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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 | 45,565.31 | 46 | 33 | 13 | 71.74 | 8,239.74 | -4,770.78 | 1,942.35 | -1,425.56 | 1.36 | 3.46 | 990.55 |
| 4 | 29,036.99 | 46 | 31 | 15 | 67.39 | 5,581.02 | -8,109.60 | 1,890.95 | -1,972.17 | 0.96 | 1.98 | 631.24 |
| 3 | 32,884.68 | 46 | 33 | 13 | 71.74 | 4,249.44 | -7,722.10 | 1,621.11 | -1,585.52 | 1.02 | 2.60 | 714.88 |
| 2 | 35,839.33 | 46 | 33 | 12 | 71.74 | 5,477.88 | -3,385.20 | 1,439.58 | -972.24 | 1.48 | 4.07 | 779.12 |
| 1 | 21,421.93 | 49 | 36 | 13 | 73.47 | 5,764.38 | -3,028.70 | 948.81 | -979.62 | 0.97 | 2.68 | 437.18 |

42 of 46 instances (91%) closed above the entry price at some point in the next week.

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



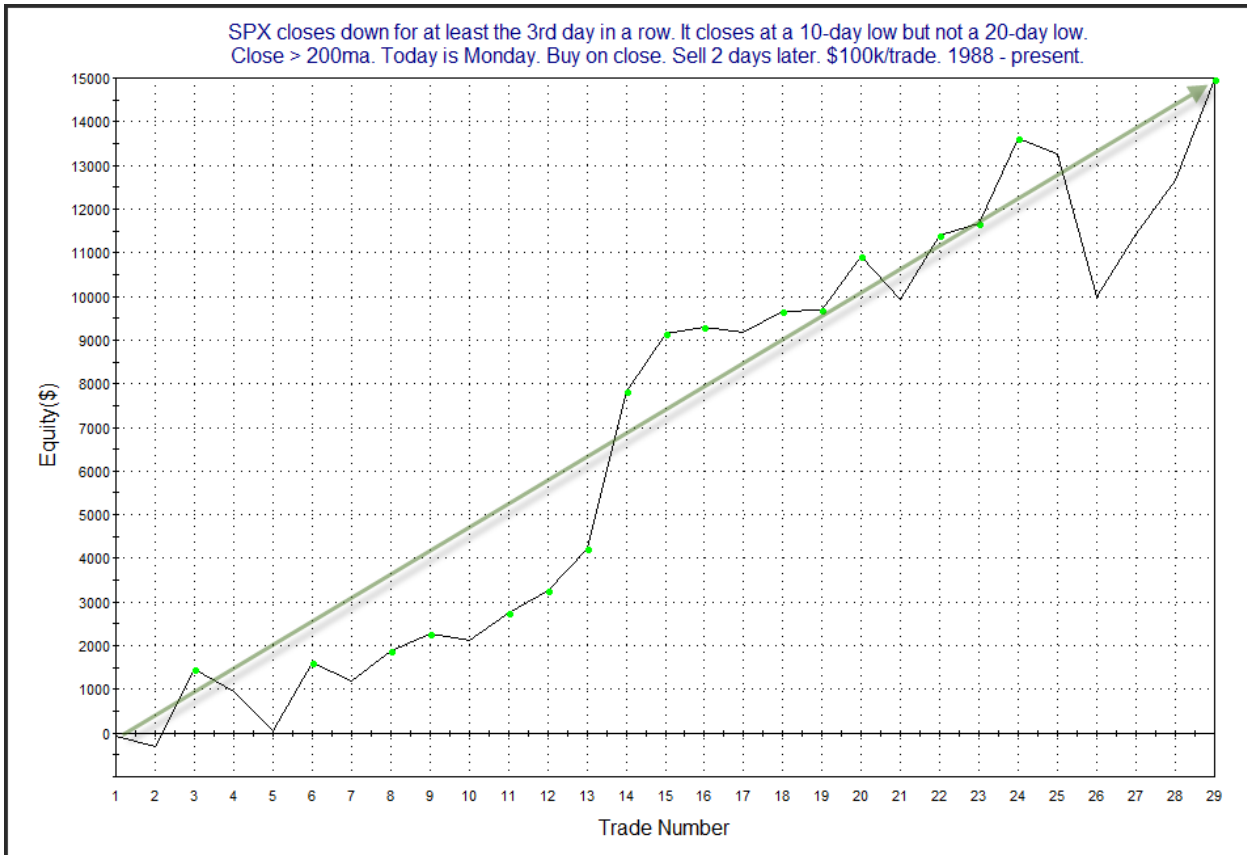
The curve is a little choppy, but it has made its way from lower left to upper right. The study certainly seems strong enough to include on the Active List tonight.

There were also a few studies that triggered tonight that noted that tomorrow is a potential “Turnaround Tuesday”. (Tuesdays tend to see oversold markets bounce more reliably than other days.) The study below combines a few of them.

SPX closes down for at least the 3rd day in a row. It closes at a 10-day low but not a 20-day low.
Close > 200ma. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

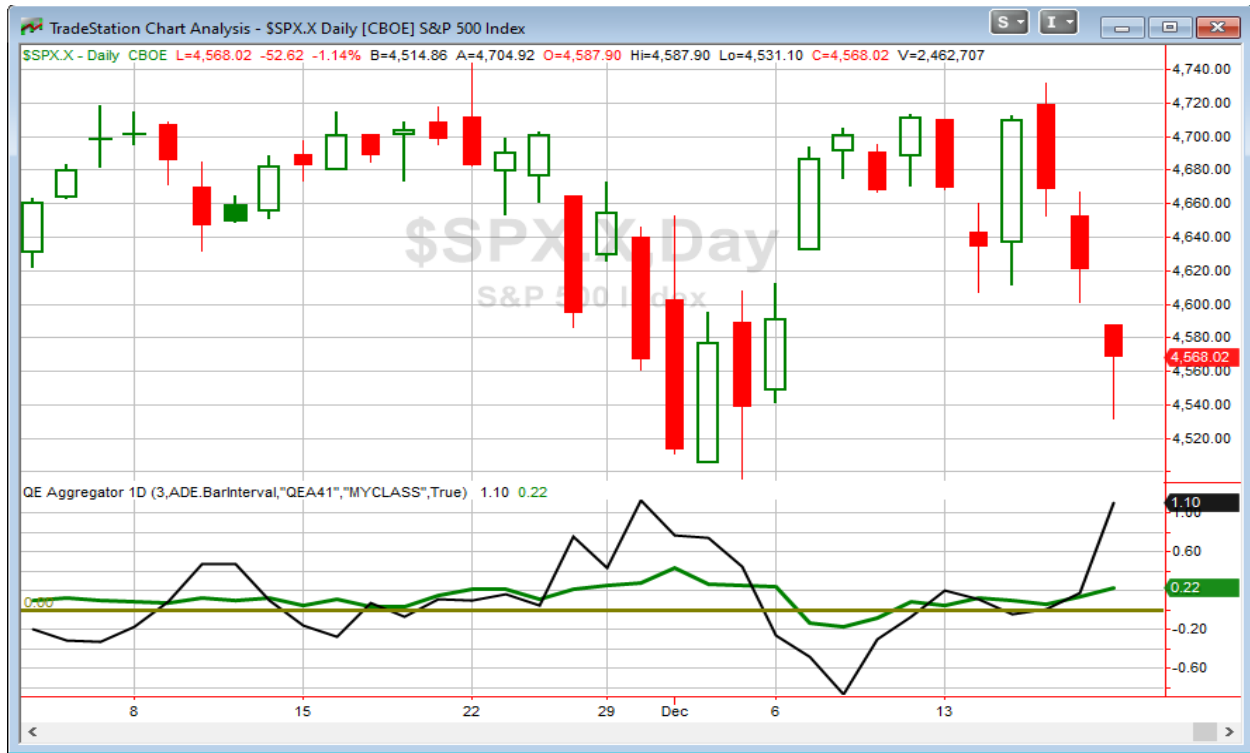
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Max Losing Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 20,762.34 | 29 | 20 | 9 | 68.97 | 5,206.22 | -14,379.90 | 2,411.37 | -3,051.68 | 0.79 | 1.76 | 715.94 |
| 9 | 29,560.65 | 29 | 19 | 10 | 65.52 | 4,964.98 | -7,605.60 | 2,390.84 | -1,586.53 | 1.51 | 2.86 | 1,019.33 |
| 8 | 29,475.74 | 29 | 21 | 8 | 72.41 | 4,345.77 | -6,058.50 | 2,091.86 | -1,806.68 | 1.16 | 3.04 | 1,016.40 |
| 7 | 28,487.63 | 29 | 21 | 8 | 72.41 | 4,730.11 | -3,139.82 | 1,809.93 | -1,190.11 | 1.52 | 3.99 | 982.33 |
| 6 | 26,466.39 | 29 | 22 | 7 | 75.86 | 5,645.64 | -6,675.60 | 1,668.82 | -1,463.95 | 1.14 | 3.58 | 912.63 |
| 5 | 26,322.73 | 29 | 22 | 7 | 75.86 | 5,460.84 | -4,069.80 | 1,599.90 | -1,267.86 | 1.26 | 3.97 | 907.68 |
| 4 | 14,252.15 | 29 | 19 | 10 | 65.52 | 5,187.49 | -8,150.10 | 1,757.85 | -1,914.70 | 0.92 | 1.74 | 491.45 |
| 3 | 14,979.04 | 29 | 18 | 11 | 62.07 | 5,339.18 | -7,413.90 | 1,528.16 | -1,138.90 | 1.34 | 2.20 | 516.52 |
| 2 | 14,959.46 | 29 | 19 | 10 | 65.52 | 3,591.28 | -3,285.00 | 1,156.64 | -701.68 | 1.65 | 3.13 | 515.84 |
| 1 | 3,791.97 | 29 | 17 | 12 | 58.62 | 1,485.11 | -2,930.40 | 781.59 | -791.26 | 0.99 | 1.40 | 130.76 |

Results here are also impressive. Below is a look at the 2-day profit curve.



There was a big drop during the 2020 COVID Crash, but the curve quickly rebounded to new highs. I've also taken this study under consideration tonight.

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 is now far above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 studies on the active list, expectations are scheduled to remain positive on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4679.85 on Tuesday. That is 2.4% above Monday's close. Therefore, Tuesday would have to be a huge rally day in order for SPX to flip from oversold to overbought versus recent expectations. More likely, it will take a multi-day bounce or consolidation to work off the oversold condition.

So the Aggregator is again bullish. Now evidence is building. And the "3 Night Before Christmas" study I shared last night will be kicking in at the close on Tuesday, further helping the bull case. So I'm starting to like the long side more here. I took a small amount of QQQ exposure on Monday. I will look add some more exposure on Tuesday if there is additional weakness and I can get a favorable entry.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/20 – somewhat bullish

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.

QQQ – Buy ¼ index position @ \$380.50 LIMIT ON CLOSE. Based on the short-term section above, I will look to add to my QQQ position if it closes down some on Tuesday.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| QQQ(1/4) | 12/20/2021 | \$379.57 | \$380.69 | 0.30% | | Aggregator |
| | | | | | | |
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