

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 22, 2021

Volume 14 Issue 245

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.
- Strong seasonality kicked in at the close on Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is solid, but the market is already nearing short-term overbought. So we could easily see the Aggregator formation turn neutral on Wednesday.

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 22, 2021	Unfilled gap up from 10-low < 10ma	1-5 days	Bullish	1.60%	-1.40%	-2.55%
December 22, 2021	Twas 3 Nights Before Christmas	1-8 days	Bullish	2.40%	-1.20%	-2.40%
December 21, 2021	Dn 3. Big drop. 10-low	1-5 days	Bullish	2.10%	-1.30%	-2.90%
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 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			

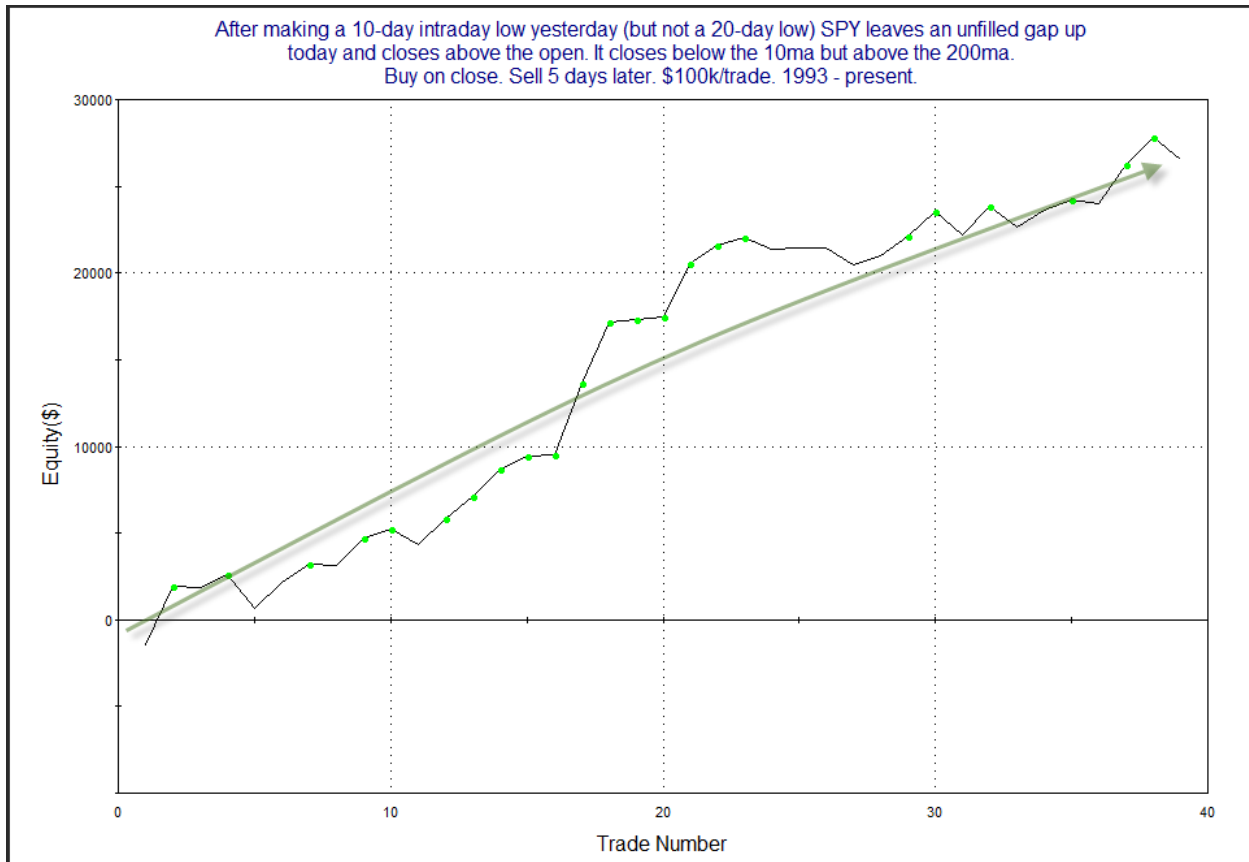
The Evidence

Tuesday was a big rebound day. The SPX finished up 1.8%, the NASDAQ gained 2.4%, and the Russell 2000 rallied 2.95%. Breadth was strong with the NYSE Up Issues % coming in at 81% and the Up Volume % at 86%. NYSE total volume declined some from Monday's level.

Tuesday's rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 11/30/21 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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	26,547.40	39	28	11	71.79	4,106.63	-1,949.70	1,315.90	-936.15	1.41	3.58	680.70
4	24,742.21	40	27	13	67.50	3,904.83	-2,403.70	1,387.51	-978.50	1.42	2.95	618.56
3	15,930.57	41	25	16	60.98	3,914.92	-2,133.60	1,234.47	-933.20	1.32	2.07	388.55
2	7,026.38	42	24	18	57.14	2,828.00	-3,031.50	1,152.85	-1,146.78	1.01	1.34	167.29
1	-1,793.38	42	21	20	50.00	1,773.46	-2,895.33	808.29	-938.38	0.86	0.90	-42.70
39 of 42 instances (93%) instances closed above the entry price at some point in the next week.												

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. I will note that the current instance did post a 20-day closing low, but it just missed making the 20-day intraday low used as a filter in the study. Below is an equity curve that assumes a 4-day holding period.



That is a nice move from lower left to upper right over a long period of time.

Also in the 11/30/21 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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	2,775.03	39	21	18	53.85	3,178.32	-3,739.32	1,663.58	-1,786.68	0.93	1.09	71.15
4	1,711.05	41	24	17	58.54	2,950.20	-2,880.28	1,258.62	-1,676.22	0.75	1.06	41.73
3	917.69	43	23	20	53.49	3,306.24	-3,070.92	1,097.14	-1,215.83	0.90	1.04	21.34
2	-4.49	45	25	20	55.56	3,089.76	-2,818.42	1,046.08	-1,307.82	0.80	1.00	-0.10
1	177.32	45	20	25	44.44	2,470.05	-1,777.90	870.35	-689.19	1.26	1.01	3.94

In the 11/30/21 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes **above** the 10ma and above the 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	-3,295.91	23	12	11	52.17	2,615.76	-3,691.98	1,015.35	-1,407.28	0.72	0.79	-143.30
4	-1,679.69	23	12	11	52.17	1,903.47	-1,788.75	692.39	-908.03	0.76	0.83	-73.03
3	-7,494.10	23	11	12	47.83	1,393.05	-3,297.28	592.20	-1,167.36	0.51	0.47	-325.83
2	-5,034.08	23	10	13	43.48	1,325.28	-2,293.20	604.06	-851.90	0.71	0.55	-218.87
1	-6,606.25	23	8	15	34.78	949.00	-2,591.68	465.78	-688.83	0.68	0.36	-287.23

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

Tonight marks the beginning of the "Twas 3 Night's Before Christmas" study that I showed in Sunday's letter. I have copied it again below.

The study below is the "Twas 3 Nights Before Christmas" study. I have shown it each year in the letter. It will trigger on Tuesday's close. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX on close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	39,680.45	34	26	8	76.47	7,830.30	-4,698.12	2,353.70	-2,689.46	0.88	2.84	1,167.07
9	44,965.60	34	25	9	73.53	7,974.78	-3,644.64	2,530.64	-2,033.37	1.24	3.46	1,322.52
8	47,725.32	34	25	9	73.53	8,333.40	-2,782.08	2,313.95	-1,124.83	2.06	5.71	1,403.69
7	39,474.47	34	24	10	70.59	7,796.76	-1,580.04	2,003.92	-861.97	2.32	5.58	1,161.01
6	27,578.02	34	22	12	64.71	7,752.90	-1,768.23	1,726.46	-867.01	1.99	3.65	811.12
5	32,777.65	34	27	7	79.41	7,247.22	-2,846.94	1,496.26	-1,088.78	1.37	5.30	964.05
4	24,826.79	34	24	10	70.59	5,070.22	-2,258.85	1,396.20	-868.20	1.61	3.86	730.20
3	21,469.81	34	25	9	73.53	4,592.40	-1,794.00	1,151.78	-813.86	1.42	3.93	631.47
2	13,535.17	34	25	9	73.53	3,257.17	-4,652.80	938.24	-1,102.31	0.85	2.36	398.09
1	9,375.47	34	25	9	73.53	2,523.24	-2,033.60	644.33	-748.09	0.86	2.39	275.75

32 of 34 instances (94%) closed above the entry price at some point in the next week.

The stats all appear quite strong. But as I discussed a few times recently, smallcaps rule this time of year (and we sure saw that on Friday). So let's examine some other indices. First let's look at the Russell 2000.

Buy Russell 2000 on close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	66,584.09	34	26	8	76.47	11,169.90	-6,361.44	3,444.35	-2,871.14	1.20	3.90	1,958.36
9	69,379.98	34	25	9	73.53	10,353.42	-5,973.50	3,525.64	-2,084.54	1.69	4.70	2,040.59
8	71,845.49	34	27	7	79.41	9,130.50	-2,948.40	3,008.37	-1,340.07	2.24	8.66	2,113.10
7	61,788.75	34	27	7	79.41	7,189.56	-2,529.09	2,607.55	-1,230.72	2.12	8.17	1,817.32
6	58,268.31	34	24	10	70.59	8,941.50	-1,300.32	2,647.61	-527.43	5.02	12.05	1,713.77
5	50,642.42	34	26	8	76.47	11,299.50	-2,385.63	2,173.69	-734.18	2.96	9.62	1,489.48
4	33,914.62	34	24	10	70.59	7,987.50	-1,845.90	1,777.92	-875.55	2.03	4.87	997.49
3	32,688.21	34	29	5	85.29	5,136.75	-1,591.20	1,228.26	-586.29	2.09	12.15	961.42
2	22,134.63	34	25	9	73.53	4,317.75	-4,431.00	1,211.85	-906.84	1.34	3.71	651.02
1	12,553.71	34	26	8	76.47	2,299.70	-2,543.25	724.45	-785.26	0.92	3.00	369.23

All 34 instances closed above the entry price at some point in the next week.

Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

Buy NASDAQ on close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	79,004.18	34	28	6	82.35	12,374.58	-5,921.92	3,496.08	-3,147.70	1.11	5.18	2,323.65
9	80,643.58	34	27	7	79.41	11,558.04	-5,039.77	3,536.94	-2,121.99	1.67	6.43	2,371.87
8	82,600.64	34	29	5	85.29	11,915.40	-3,773.60	3,176.93	-1,906.05	1.67	9.67	2,429.43
7	52,843.90	34	23	11	67.65	9,428.34	-2,577.00	2,828.81	-1,110.79	2.55	5.32	1,554.23
6	47,162.36	34	26	8	76.47	9,407.88	-2,010.42	2,134.00	-1,040.22	2.05	6.67	1,387.13
5	46,033.48	34	24	10	70.59	9,436.56	-2,882.56	2,227.46	-742.55	3.00	7.20	1,353.93
4	36,401.74	34	24	10	70.59	8,665.86	-2,063.36	1,796.35	-671.06	2.68	6.42	1,070.64
3	33,526.89	34	26	8	76.47	6,748.14	-1,927.36	1,484.64	-634.21	2.34	7.61	986.08
2	23,982.46	34	24	10	70.59	7,726.74	-5,032.35	1,426.92	-1,026.36	1.39	3.34	705.37
1	12,165.05	34	25	9	73.53	2,423.79	-2,931.30	814.68	-911.33	0.89	2.48	357.80

Since its inception in 1971, 1986 was the only year the NASDAQ failed to close above its entry price at some point in the next week.

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week.

Lastly, let's look at the NDX.

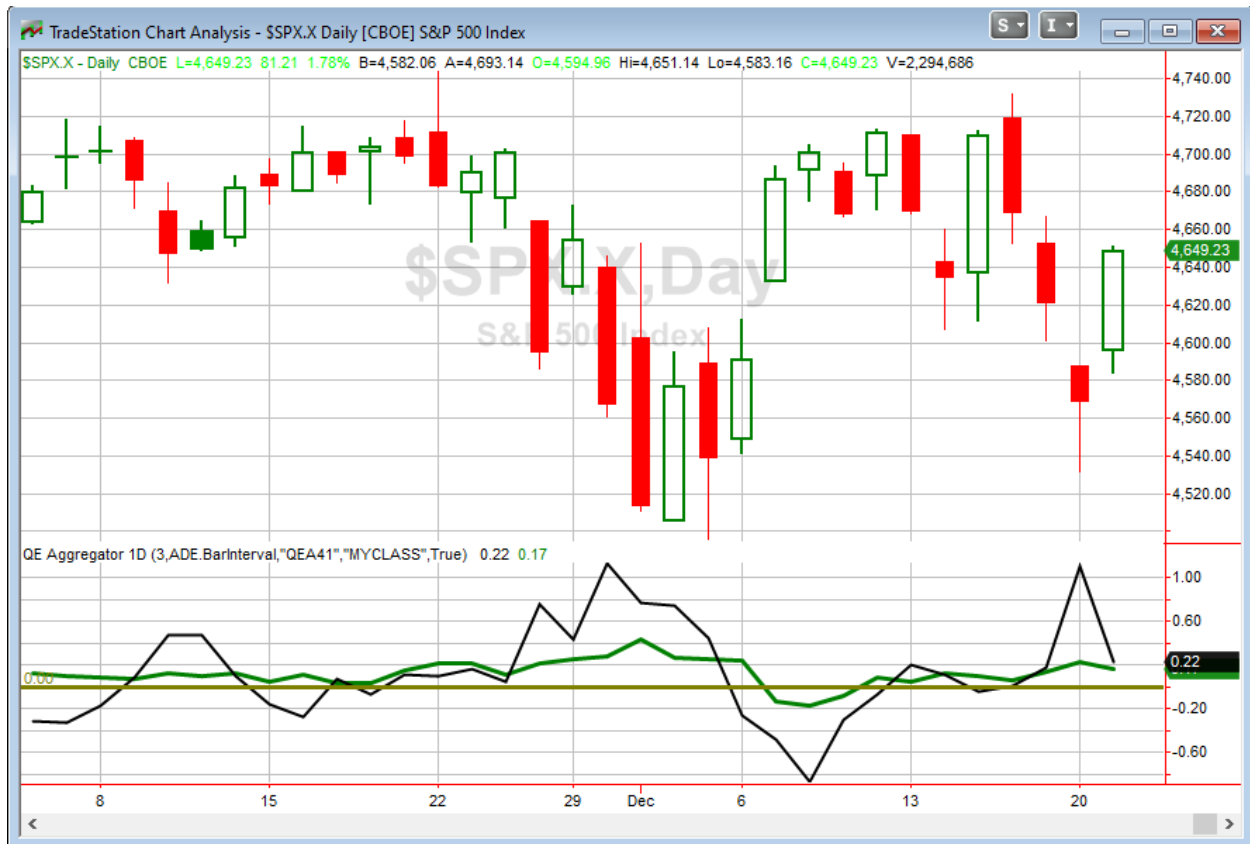
Buy NDX on close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - present.

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	79,732.02	34	27	7	79.41	14,814.54	-5,954.34	3,781.98	-3,197.36	1.18	4.56	2,345.06
9	85,225.93	34	26	8	76.47	13,885.04	-5,095.68	3,972.94	-2,258.80	1.76	5.72	2,506.64
8	89,462.78	34	27	7	79.41	14,312.70	-3,052.33	3,712.93	-1,540.90	2.41	9.29	2,631.26
7	57,053.94	34	23	11	67.65	12,691.90	-3,669.30	3,079.42	-1,252.07	2.46	5.14	1,678.06
6	42,969.69	34	24	10	70.59	11,843.52	-2,893.94	2,346.00	-1,333.44	1.76	4.22	1,263.81
5	51,206.50	34	24	10	70.59	11,443.50	-3,226.03	2,589.88	-1,095.07	2.37	5.68	1,506.07
4	41,552.37	34	24	10	70.59	11,245.05	-2,242.57	2,125.24	-945.35	2.25	5.40	1,222.13
3	36,681.22	34	24	10	70.59	8,742.60	-2,203.20	1,913.97	-925.40	2.07	4.96	1,078.86
2	26,402.02	34	23	11	67.65	10,167.30	-5,501.44	1,735.72	-1,229.04	1.41	2.95	776.53
1	14,766.88	34	24	10	70.59	2,863.84	-3,146.24	1,041.49	-1,022.90	1.02	2.44	434.32

32 of 34 instances (94%) closed above the entry price at some point in the next week.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

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 also remained 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 studies on the active list, expectations are scheduled to remain positive on Wednesday. This is unlikely to change, unless some very compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4633.34 on Wednesday. That is 0.3% *below* Tuesday'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 0.3% in order to remain

oversold vs recent expectations. Anything other than that and it will flip to “overbought” vs expectations as of Wednesday’s close.

So the Aggregator is again bullish. But the inverted pivot limits potential upside. Since inverted pivots mean the bullish signal will expire with any up day (and even a small down day), I sometimes look to take profits a little early in these situations. But with two new bullish studies triggering tonight, I will look to hold on until near the close before exiting my QQQ position.

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

The intermediate-term outlook was last updated in the 12/20/21 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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
QQQ(1/4)	12/20/2021	\$379.57	\$389.21	2.54%	<i>sell @ \$389.22 limit on close</i>

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