

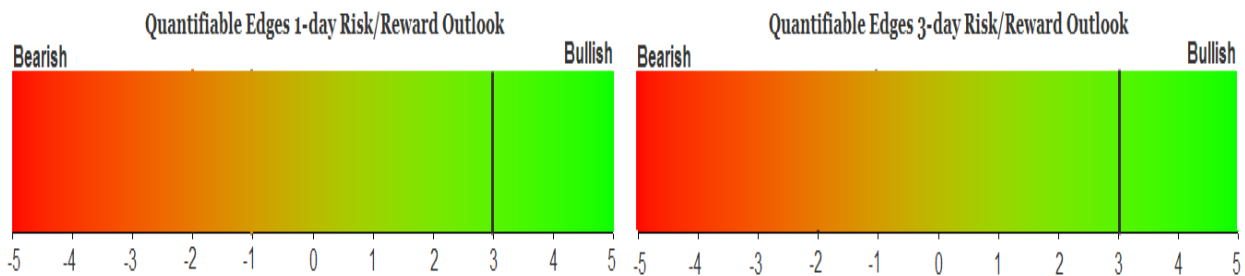
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 20, 2022

Volume 15 Issue 13

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	4

## Tonight's Research Points

- Multiple studies are pointing to an oversold bounce.
- A Russell “Death Cross” triggered on Wednesday, but that has been a better bullish signal than bearish signal over the years.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I like the long side. I am holding some long exposure to try and take advantage of a probable bounce.

**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
<b>Active - Short Term</b>						
January 20, 2022	4 lower lows and a 20-day low > 200	1-6 days	Bullish			
January 20, 2022	10low > 200ma on Opex Wednesday	1-5 days	Bullish			
January 20, 2022	20-low. Btm 10% intraday range	1-6 days	Bullish			
January 19, 2022	Dn 1% & advancers 2x decliners. 4-lo	1-5 days	Bullish	2.30%	-2.00%	-4.50%
January 19, 2022	Gap<5-day low. Close < open > 200	1-2 days	Bullish			
<b>Active - Long Term</b>						
January 19, 2022	SPX dn > 1% 3x in 10 days > 200ma	1-20 days	Bullish	4.30%	-3.40%	-8.40%
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			

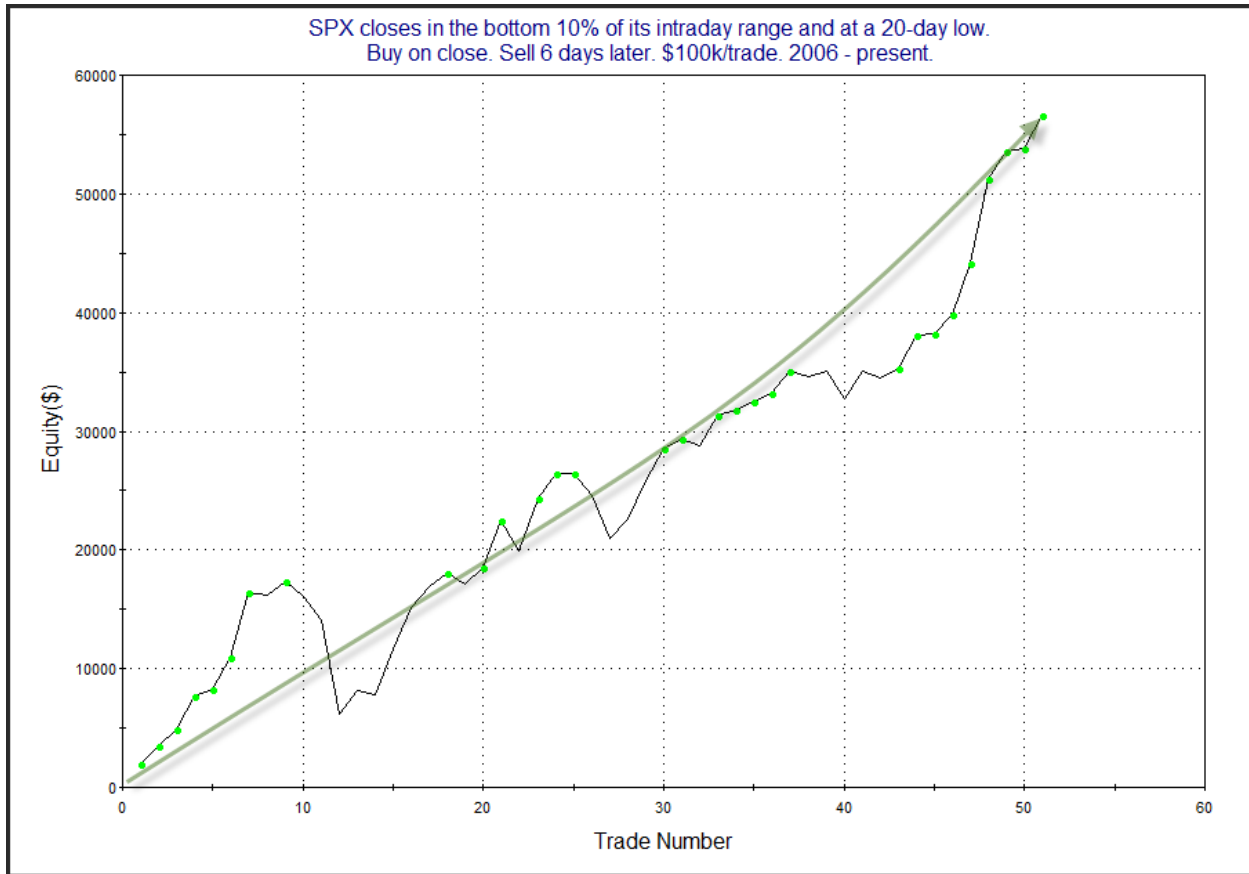
**The Evidence**

Wednesday started strong, but the good feeling did not last long, and selling accelerated into the close, leaving the numbers looking quite bad. The SPX closed down 1.0%, the NASDAQ dropped 1.15%, and the Russell 2000 tumbled 1.6%. Breadth was negative with the NYSE Up Issues % coming in at 32% and the Up Volume % at 28%. NYSE total volume declined some from Tuesday's level.

In addition to the strong selloff, we also saw some studies suggesting the close near the low of the day could also offer a bullish edge. Over the last several years when SPX has closed near the bottom of its daily range and at an intermediate-term low, it has typically been followed by a bounce in the next few days. This can be seen in the study below, from the 9/29/21 letter.

SPX closes in the bottom 10% of its intraday range and at a 20-day low. Buy on close. Sell X days later. \$100k/trade. 2006 - 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	54,343.92	49	36	13	73.47	9,048.90	-13,993.88	2,576.81	-2,955.48	0.87	2.41	1,109.06
9	53,680.86	49	37	12	75.51	8,235.00	-11,831.15	2,398.91	-2,923.22	0.82	2.53	1,095.53
8	64,778.88	49	38	10	77.55	8,384.10	-14,092.68	2,480.91	-2,949.57	0.84	3.20	1,322.02
7	50,638.22	49	35	14	71.43	7,152.30	-8,018.76	2,202.06	-1,888.14	1.17	2.92	1,033.43
6	56,674.61	51	38	13	74.51	7,182.60	-7,966.32	2,142.20	-1,902.22	1.13	3.29	1,111.27
5	44,812.76	53	37	16	69.81	5,172.30	-3,870.04	1,813.93	-1,393.91	1.30	3.01	845.52
4	35,338.24	56	37	19	66.07	5,290.00	-3,863.84	1,711.03	-1,472.09	1.16	2.26	631.04
3	27,037.21	58	38	20	65.52	4,895.50	-5,393.69	1,424.03	-1,353.79	1.05	2.00	466.16
2	28,126.52	63	39	24	61.90	4,424.50	-4,632.95	1,281.68	-910.79	1.41	2.29	446.45
1	25,915.87	72	49	23	68.06	2,671.02	-2,050.91	915.09	-822.76	1.11	2.37	359.94

Numbers here show the market has often bounced over the next several days. Below is a look at the 6-day profit curve.



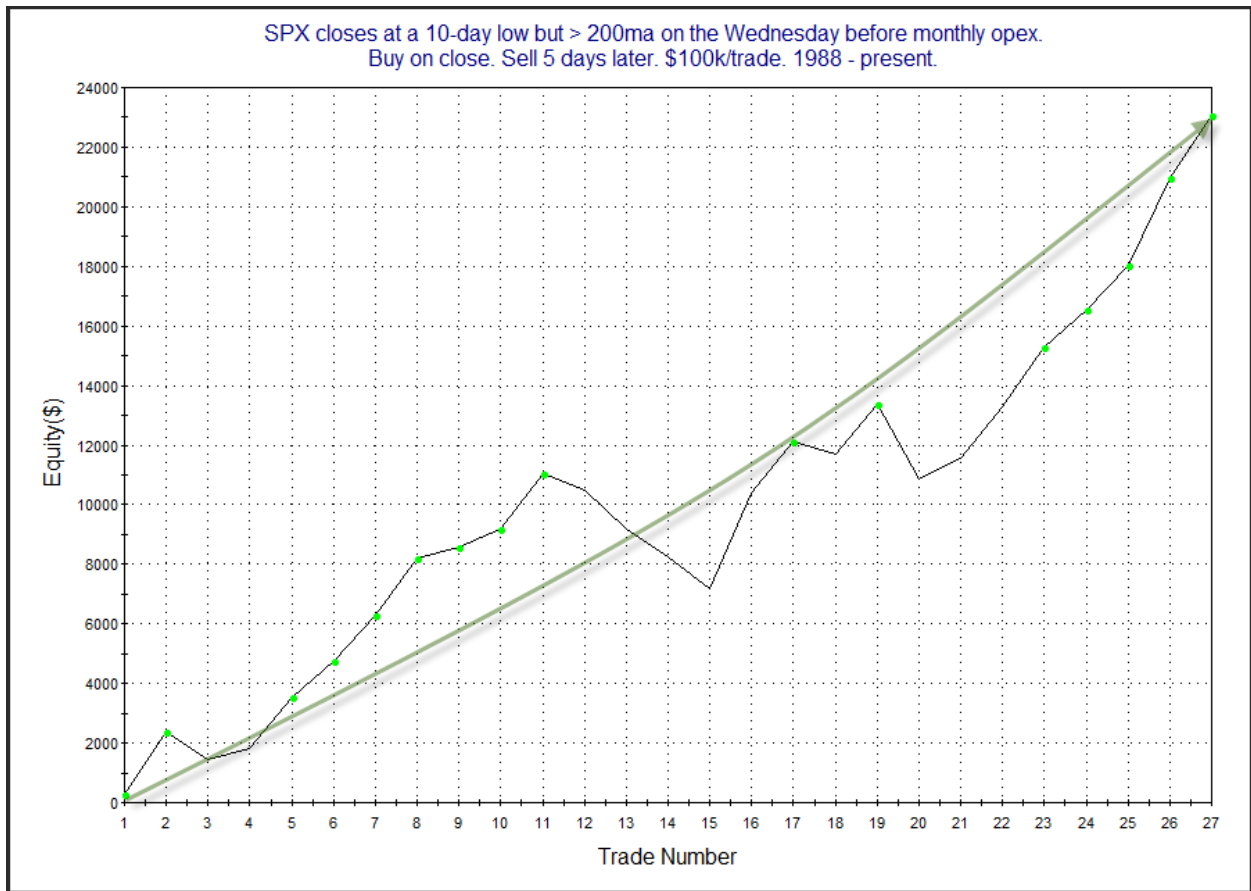
That's a strong and impressive upslope, which serves as some confirmation on the upside edge suggested by the numbers.

When looking at evidence tonight, it struck me as unusual that we would see such strong selling during opex week. Opex week is often a bullish time of the month. So I looked back at other instances of SPX hitting a 10-day low on Wednesday just before monthly options expiration. Below are the results.

SPX closes at a 10-day low but > 200ma on the Wednesday before monthly opex.  
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	23,088.70	27	20	7	74.07	3,212.14	-2,512.81	1,541.21	-1,105.09	1.39	3.98	855.14
4	17,206.38	27	20	7	74.07	2,914.31	-1,949.36	1,293.94	-1,238.93	1.04	2.98	637.27
3	14,910.56	27	20	7	74.07	3,278.50	-2,320.47	1,147.87	-1,149.56	1.00	2.85	552.24
2	9,298.46	27	20	7	74.07	1,764.07	-2,290.68	807.52	-978.84	0.82	2.36	344.39
1	2,475.09	27	19	8	70.37	1,330.36	-1,495.50	443.90	-744.87	0.60	1.42	91.67

Weakness at this time of the month has very often been followed by a bounce over the next week or so. Below is a look at the 5-day profit curve.



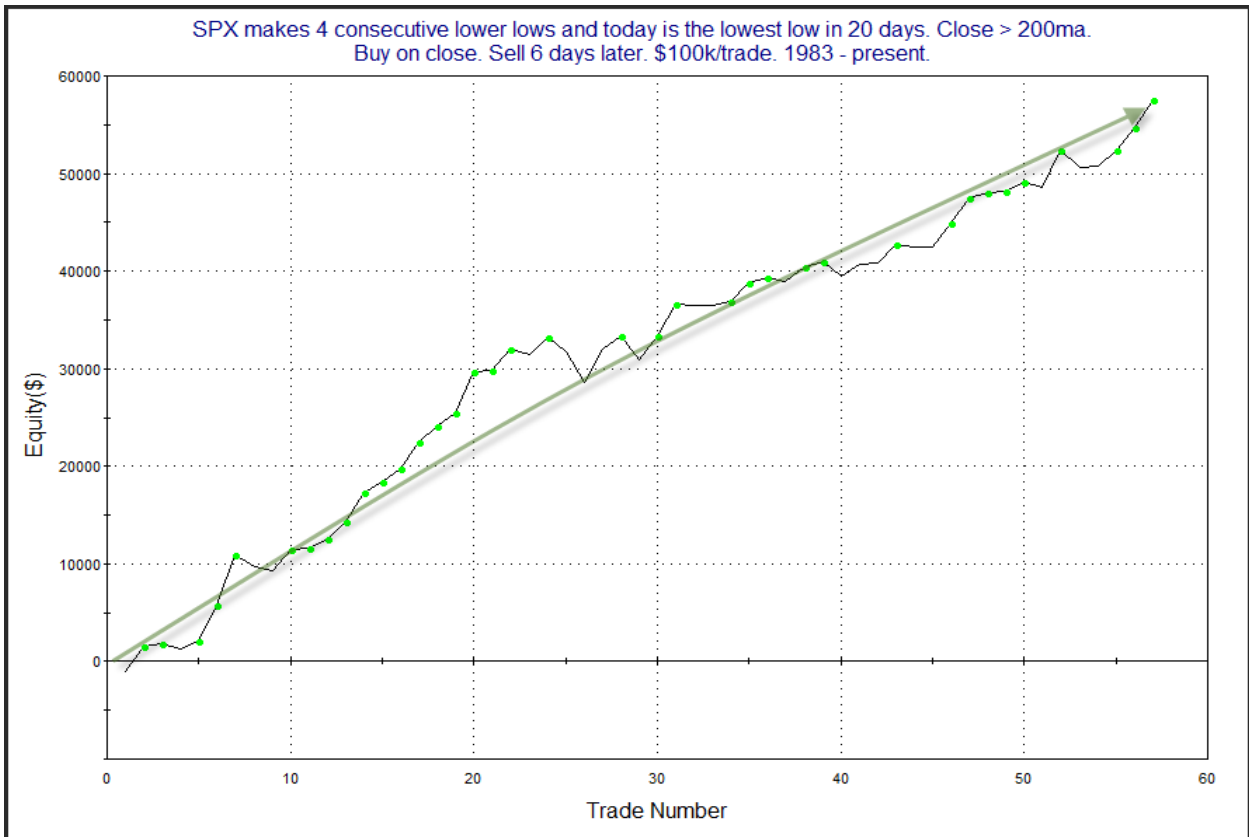
Another impressive curve that heads from lower left to upper right on the chart.

This next study was last seen in the 6/10/15 Subscriber Letter. It examines times when SPX posted four consecutive lower lows and a 20-day low as it did on Wednesday. I have updated the stats table below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1983 - 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	58,938.04	56	37	19	66.07	5,268.12	-7,625.38	2,473.94	-1,715.67	1.44	2.81	1,052.47
9	57,233.12	56	41	15	73.21	6,263.40	-11,831.15	2,295.46	-2,458.71	0.93	2.55	1,022.02
8	68,255.82	56	43	13	76.79	6,529.38	-4,831.04	2,232.61	-2,134.35	1.05	3.46	1,218.85
7	66,714.05	56	38	18	67.86	5,954.52	-3,232.37	2,217.27	-974.56	2.28	4.80	1,191.32
6	57,524.67	57	43	14	75.44	5,148.00	-3,084.00	1,697.42	-1,104.61	1.54	4.72	1,009.20
5	41,866.25	57	36	21	63.16	3,818.98	-3,870.04	1,799.69	-1,091.55	1.65	2.83	734.50
4	37,195.37	57	36	21	63.16	3,868.10	-1,828.50	1,604.91	-980.06	1.64	2.81	652.55
3	18,417.64	57	32	25	56.14	3,939.79	-5,393.69	1,475.54	-1,151.98	1.28	1.64	323.12
2	16,012.93	57	32	25	56.14	3,263.04	-4,632.95	1,242.74	-950.19	1.31	1.67	280.93
1	9,573.24	57	37	20	64.91	2,536.10	-2,968.54	797.00	-995.78	0.80	1.48	167.95

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming a 6-day exit strategy.



That curve is as impressive as other we've seen.

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 still very far above zero. The positive Differential Line reading means that SPX is strongly 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 Thursday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4686.07 on Thursday. That is 3.4% above Wednesday's close. Therefore, SPX will need to close up 3.4% on Thursday to flip from oversold to overbought vs recent expectations. A move that large is quite unlikely. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is still long. I am seeing more evidence that this selloff is near a point where a bounce is likely to occur. But it is a bit of a dangerous market. Volatility is high and indices other than SPX have struggled quite a bit. NDX is down over 10% and the Russell 2000 is down more than 15% from its highs. I took a 2<sup>nd</sup> lot of SPX near the close on Wednesday. I'm content to hold onto my current 2-lot position for the time being, unless we see some new and overwhelming evidence emerge.

Intermediate-term study: Russell Death Cross

I have seen a fair amount of hubbub about the Russell “Death Cross” that is happening today and the potential bearish implications for the market. A “Death Cross” is a catchy (though perhaps not terribly accurate) term for when the 50-day moving average of a security crosses below its 200-day moving average. It is being promoted as a warning of a potential bear market. Of course all bear markets will see this happen at some point, because a bear market is an extended decline. But the real question when considering the implications of the Death Cross are whether it serves any value in *predicting* a bear market. A few years ago I did an examination of past Russell Death Crosses, and what they meant for the S&P 500. I have updated that study from the 10/4/19 letter below.

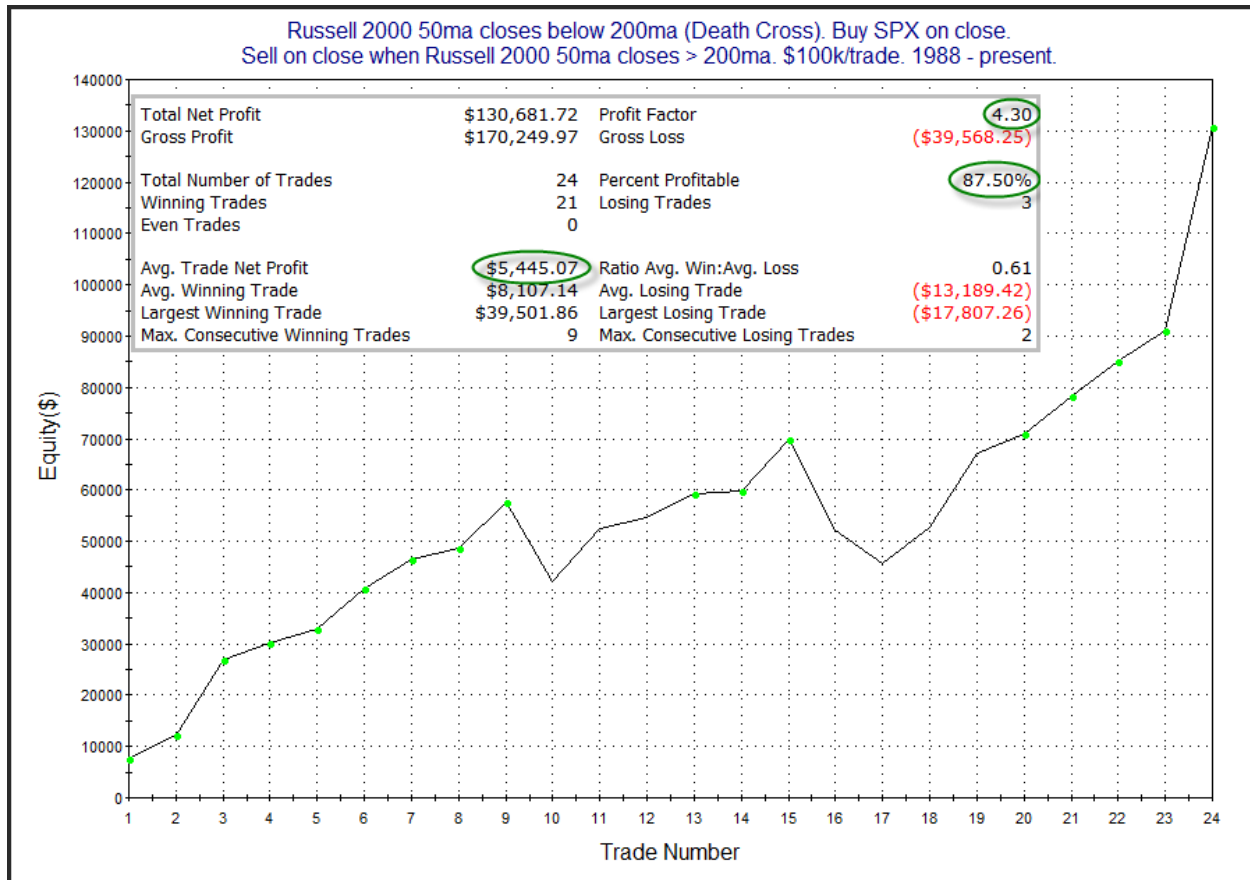
Both of my data sources show Russell data back to late 1987. And since I need 200 days to calculate a 200-day moving average, the earliest the study could look back to was 1988.

Here is the list of all Russell Death Crosses and how the SPX performed from the time of the initial cross until the Russell Death Cross was no longer in effect (meaning the 50-day moving average closed back above the 200-day moving average).

Russell 2000 50ma closes below 200ma (Death Cross). Buy SPX on close.  
 Sell on close when Russell 2000 50ma closes > 200ma. \$100k/trade. 1988 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/13/1988	Buy	\$276.31	7.52%	\$7,949.22
2/1/1989	Sell	\$297.09		(\$902.50)
12/18/1989	Buy	\$343.68	4.79%	\$7,279.00
7/3/1990	Sell	\$360.15		(\$6,916.50)
8/17/1990	Buy	\$327.83	14.66%	\$15,805.10
3/7/1991	Sell	\$375.89		(\$10,162.60)
7/17/1992	Buy	\$415.62	3.26%	\$3,307.20
11/25/1992	Sell	\$429.18		(\$4,516.80)
5/23/1994	Buy	\$453.20	2.58%	\$5,365.80
10/21/1994	Sell	\$464.89		(\$2,941.40)
11/25/1994	Buy	\$452.29	7.95%	\$8,154.90
2/24/1995	Sell	\$488.26		(\$2,079.61)
9/3/1996	Buy	\$654.73	5.81%	\$6,093.68
10/3/1996	Sell	\$692.78		(\$887.68)
5/16/1997	Buy	\$829.75	2.23%	\$2,654.40
5/30/1997	Sell	\$848.28		(\$400.80)
7/30/1998	Buy	\$1,142.86	8.83%	\$12,247.86
2/8/1999	Sell	\$1,243.77		(\$19,101.72)
9/29/2000	Buy	\$1,436.48	-15.46%	\$1,265.46
6/15/2001	Sell	\$1,214.36		(\$24,515.01)
9/17/2001	Buy	\$1,038.77	10.28%	\$13,267.20
1/11/2002	Sell	\$1,145.60		(\$9,025.92)
7/15/2002	Buy	\$917.93	2.33%	\$5,083.56
5/14/2003	Sell	\$939.28		(\$16,120.08)
8/5/2004	Buy	\$1,080.70	4.61%	\$5,644.20
11/2/2004	Sell	\$1,130.56		(\$1,838.16)
5/25/2005	Buy	\$1,190.01	0.37%	\$2,484.72
7/1/2005	Sell	\$1,194.44		(\$143.64)
7/21/2006	Buy	\$1,240.29	10.35%	\$10,606.40
10/20/2006	Sell	\$1,368.60		\$0.00
9/5/2007	Buy	\$1,472.29	-18.05%	\$6,954.60
9/18/2008	Sell	\$1,206.51		(\$22,698.93)
10/8/2008	Buy	\$984.94	-6.47%	\$5,996.37
6/19/2009	Sell	\$921.23		(\$32,133.15)
7/28/2010	Buy	\$1,106.13	7.19%	\$8,100.90
10/25/2010	Sell	\$1,185.62		(\$5,978.70)
8/12/2011	Buy	\$1,178.81	14.52%	\$14,463.96
2/8/2012	Sell	\$1,349.96		(\$8,739.36)
9/22/2014	Buy	\$1,994.29	3.83%	\$4,259.00
12/19/2014	Sell	\$2,070.65		(\$8,681.50)
9/2/2015	Buy	\$1,948.86	7.25%	\$8,548.62
5/26/2016	Sell	\$2,090.10		(\$7,076.76)
11/14/2018	Buy	\$2,701.58	6.75%	\$9,344.35
5/7/2019	Sell	\$2,884.05		(\$13,135.00)
10/3/2019	Buy	\$2,910.63	6.23%	\$6,527.32
11/12/2019	Sell	\$3,091.84		(\$610.98)
3/19/2020	Buy	\$2,409.39	39.99%	\$40,118.50
8/14/2020	Sell	\$3,372.85		(\$8,918.73)

Twenty-one winners. Only three losers. So 87.5% of the “predictions” were wrong. Here is a look at the summary stats and a profit curve for this setup.



I am having a hard time seeing the Russell 2000 Death Cross as a bearish indication. You would have a much easier time convincing me this is a bullish indication for the intermediate-term. (I don't really view it as bullish though. Drawdowns were generally sizable, even for a good portion of the “winners”.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/18 – neutral***

The intermediate-term outlook was last updated in the 1/18/22 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***

AVGO – 1/3 @ \$597.19 (bought @ limit)

NFLX – 1/3 @ \$519.20 (bought @ limit)

AVGO – 1/3 @ \$596.37 (bought @ limit)

AVGO – 1/3 @ \$596.37 (bought @ limit)

### ***Broad Market Large Cap CBI – 4(AVGO-3, NFLX)***

### **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
AVGO(1/3)	1/14/2022	\$595.78	\$563.97	-5.34%	Catapult
NFLX(1/3)	1/14/2022	\$517.60	\$515.86	-0.34%	Catapult
CL(1/3)	1/14/2022	\$82.61	\$84.06	1.76%	<i>sell on open</i>
AVGO(1/3)	1/18/2022	\$588.32	\$563.97	-4.14%	Catapult
SPY(1/4)	1/18/2022	\$459.74	\$451.75	-1.74%	Aggregator
SPY(1/4)	1/19/2022	\$451.75	\$451.75	0.00%	Aggregator
AVGO(1/3)	1/19/2022	\$577.79	\$563.97	-2.39%	Catapult

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2022 Quantifiable Edges, LLC.