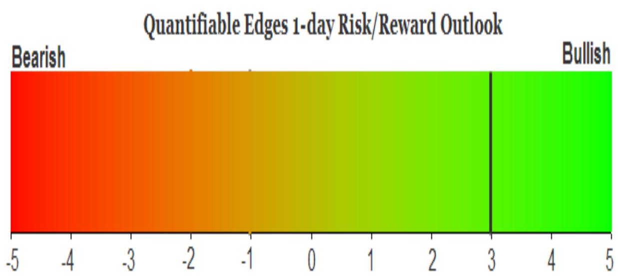
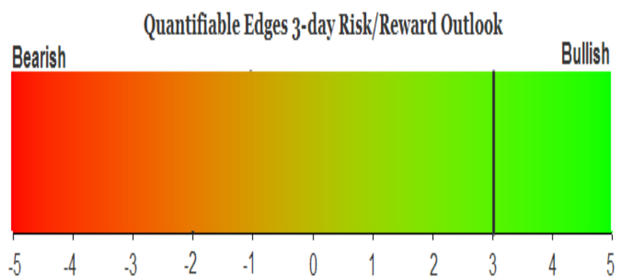
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 21, 2022 Volume 15 Issue 14

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- Multiple studies are pointing to an oversold bounce.
- The NASDAQ recent weak breadth combined with the 100-day low are somewhat suggestive of a rally in the coming weeks.

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) – list not updated

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
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			
Active - Long Term						
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

Thursday started strong, with the S&P and NASDAQ both up well over 1% in the morning. But the afternoon saw a big reversal of fortune and the indices closed poorly. The SPX lost 1.1%, the NASDAQ dropped 1.3%, and the Russell 2000 tumbled 1.9%. Breadth was negative with the NYSE Up Issues % coming in at 26% and the Up Volume % at 20.5%. NYSE total volume declined some from Wednesday's level.

This selloff is going beyond any we have seen for quite a while. The SPX made a 50-day low on Thursday, closing at the lowest level since mid-October. The NASDAQ posted a 100+ day low, and the Russell 2000 made a 1-year low. The NDX dropped below its 200ma, and the SPX is not very far above its 200ma. Much more of a decline and it will break below that line for the 1st time Since June 2020. This all sounds like a downtrend.

I also find it interesting that the selloff has not caused too large of a spike in the VIX to this point. The Tweet below is from @VolatilityWiz (a very good follow) just after the close on Thursday.

As you can see, the VIX futures curve today is well below where it was with the smaller selloff on December 1st. And the current curve is mostly in contango while the Dec 1 curve was mostly in backwardation. In other words, this selloff has not scared options traders as much as the last one.

I looked through a lot of studies this evening. They all seemed to suggest the market is due for a bounce (but its been due for a bounce for a while now). Below are some of the most compelling ones.

To start, I looked at other time the SPX sold off in a similar manner heading into Opex Friday.

SPX closes down at least 3rd day in a row and at a 10-day low, but > 200ma. It is opex Thursday. Buy on close. Sell X days later. $100k/trade. 1984 - 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	8,086.26	8	6	2	75.00	2,957.50	-1,113.79	1,535.53	-563.46	2.73	8.18	1,010.78
4	10,107.28	8	7	1	87.50	3,524.00	-255.96	1,480.46	-255.96	5.78	40.49	1,263.41
3	8,594.08	8	7	1	87.50	3,643.26	-413.17	1,286.75	-413.17	3.11	21.80	1,074.26
2	7,617.51	8	7	1	87.50	3,173.40	-295.93	1,130.49	-295.93	3.82	26.74	952.19
1	5,851.88	8	7	1	87.50	2,547.74	-732.64	940.65	-732.64	1.28	8.99	731.49

Instances are low, but initial results certainly seem to favor the bullish case. Below is the list of instances with the 4-day returns.

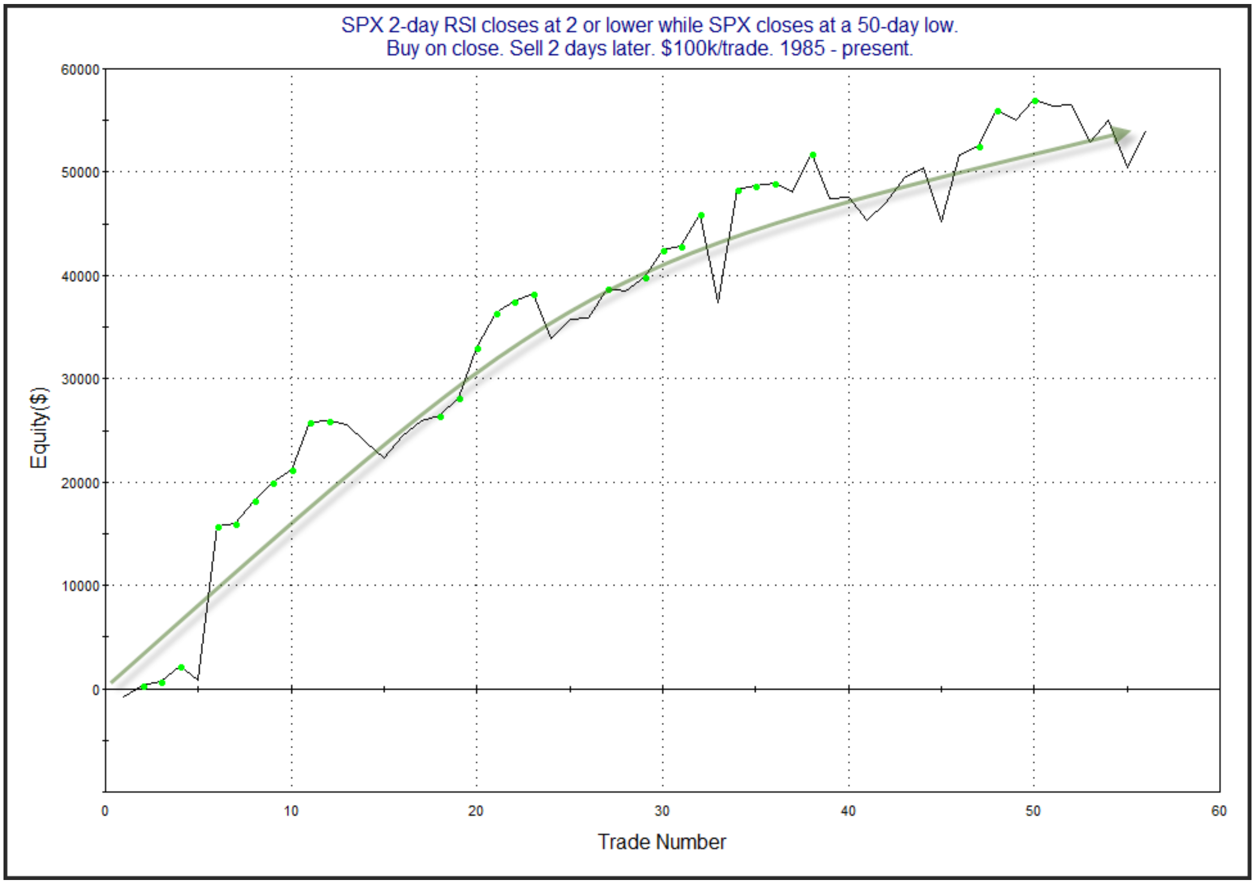
SPX closes down at least 3rd day in a row and at a 10-day low, but > 200ma. It is opex Thursday. Buy on close. Sell 4 days later. $100k/trade. 1984 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
6/15/1989	Buy	$320.08	0.12%	$842.40
6/21/1989	Sell	$320.47		($436.80)
2/18/1993	Buy	$431.89	2.08%	$2,074.38
2/24/1993	Sell	$440.87		($50.82)
3/20/1997	Buy	$782.65	1.01%	$1,963.42
3/26/1997	Sell	$790.53		($236.22)
1/14/1999	Buy	$1,212.19	1.89%	$5,074.98
1/21/1999	Sell	$1,235.16		$0.00
7/17/2003	Buy	$981.73	0.70%	$1,264.52
7/23/2003	Sell	$988.61		($616.10)
5/18/2006	Buy	$1,261.81	-0.26%	$936.94
5/24/2006	Sell	$1,258.57		($1,301.13)
5/17/2012	Buy	$1,304.86	1.07%	$1,795.88
5/23/2012	Sell	$1,318.86		($978.88)
1/15/2015	Buy	$1,992.67	3.54%	$3,597.50
1/22/2015	Sell	$2,063.15		($227.50)

Not much in recent years, but this still may be worth keeping in mind.

I like using short-term RSI as one way to measure overbought and oversold. I have found the 2-period and 3-period RSI to be especially useful. The 2-period RSI for the SPX closed at 1.03 on Wednesday. Combined with the 50-day low, this triggered the below study, which I last discussed in the 12/20/18 subscriber letter. All stats are updated.

SPX 2-day RSI closes at 2 or lower while SPX closes at a 50-day low. Buy on close. Sell X days later. $100k/trade. 1985 - 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	20,509.72	46	31	15	67.39	9,572.31	-27,309.65	2,929.96	-4,687.94	0.62	1.29	445.86
4	42,076.15	47	33	14	70.21	10,385.16	-10,632.61	2,432.23	-2,727.67	0.89	2.10	895.24
3	45,728.97	50	32	18	64.00	10,398.48	-6,078.54	2,656.25	-2,181.73	1.22	2.16	914.58
2	54,075.37	56	40	16	71.43	14,891.76	-8,657.72	2,385.61	-2,584.31	0.92	2.31	965.63
1	47,864.49	76	47	29	61.84	11,558.43	-7,577.02	2,039.03	-1,654.14	1.23	2.00	629.80

The positive implications are primarily seen in the first 2 days. Below is a profit curve using a 2-day holding strategy.



Some recent instances have struggled, but the curve still seems to be trending higher.

The next study was from the 12/1/21 subscriber letter. It examined SPY's big reversal.

SPY gaps up at least 0.25% and makes a high > 0.5% above the open. It then closes down on the day and in the bottom 25% of the intraday range. Today's close is the lowest in 10 days. 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	39,716.05	20	14	6	70.00	13,737.50	-19,787.04	5,269.04	-5,675.09	0.93	2.17	1,985.80
4	34,359.39	21	12	9	57.14	14,158.80	-17,793.84	5,605.96	-3,656.91	1.53	2.04	1,636.16
3	45,587.84	21	16	5	76.19	10,083.30	-11,623.98	3,844.20	-3,183.88	1.21	3.86	2,170.85
2	40,560.92	21	17	4	80.95	11,736.30	-9,340.86	3,346.80	-4,083.69	0.82	3.48	1,931.47
1	5,199.47	21	13	8	61.90	5,962.50	-5,091.72	1,787.80	-2,255.25	0.79	1.29	247.59

Instances are a little light, but the numbers are extremely bullish. Below is a look at all the 2-day instances.

SPY gaps up at least 0.25% and makes a high > 0.5% above the open. It closes down on the day and in the bottom 25% of the intraday range. Today's close is the lowest in 10 days. Buy on close. Sell X days later. $100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/19/1999	Buy	$129.50	4.15%	$4,732.36
4/21/1999	Sell	$134.88		($386.00)
9/23/1999	Buy	$127.88	0.56%	$1,460.47
9/27/1999	Sell	$128.59		($1,226.17)
2/25/2000	Buy	$133.33	3.08%	$3,082.50
2/29/2000	Sell	$137.44		($457.50)
3/14/2000	Buy	$136.63	7.11%	$7,463.51
3/16/2000	Sell	$146.34		($416.67)
5/25/2000	Buy	$137.84	3.38%	$3,697.50
5/30/2000	Sell	$142.50		($369.75)
10/3/2000	Buy	$142.63	1.09%	$1,549.21
10/5/2000	Sell	$144.19		($616.88)
10/31/2001	Buy	$105.80	3.26%	$3,383.10
11/2/2001	Sell	$109.25		($349.65)
6/25/2002	Buy	$97.56	1.92%	$1,978.25
6/27/2002	Sell	$99.43		($2,429.25)
7/12/2002	Buy	$91.85	-1.40%	$598.40
7/16/2002	Sell	$90.56		($4,308.48)
7/23/2002	Buy	$79.95	5.07%	$7,375.00
7/25/2002	Sell	$84.00		($2,837.50)
1/8/2008	Buy	$138.91	1.71%	$2,796.91
1/10/2008	Sell	$141.29		($869.99)
1/18/2008	Buy	$132.06	1.36%	$1,612.41
1/23/2008	Sell	$133.86		($4,587.42)
10/3/2008	Buy	$110.34	-9.34%	$0.00
10/7/2008	Sell	$100.03		($9,685.14)
10/9/2008	Buy	$90.70	11.74%	$11,736.30
10/13/2008	Sell	$101.35		($7,846.24)
1/29/2010	Buy	$107.39	2.78%	$2,979.20
2/2/2010	Sell	$110.38		$0.00
5/26/2010	Buy	$107.17	2.05%	$3,386.79
5/28/2010	Sell	$109.37		$0.00
12/13/2011	Buy	$123.05	-0.70%	$121.80
12/15/2011	Sell	$122.19		($1,282.96)
2/10/2016	Buy	$185.27	0.73%	$743.82
2/12/2016	Sell	$186.63		($2,253.02)
2/26/2020	Buy	$311.50	-4.89%	$19.26
2/28/2020	Sell	$296.26		($8,333.16)
3/20/2020	Buy	$228.80	6.27%	$6,686.10
3/24/2020	Sell	$243.15		($4,605.98)
12/1/2021	Buy	$450.50	0.65%	$2,165.80
12/3/2021	Sell	$453.42		($349.18)

Aside from the oversized loser on the 13th instance, results appear to be strong and fairly steady. I have added this study to the active list tonight.

Thursday's strong selloff also saw an old study trigger that examined the recent strongly negative NASDAQ breadth. It uses a 10-period exponential moving average of the NASDAQ Up Issues %. It found that when this number gets oversold at the same time the NASDAQ is hitting long-term lows, that has typically been followed by a move up. Last seen in the 1/19/16 letter I have updated the research below.

NASDAQ 10-day EMA of its Up Issues % crosses under 37.5%
NASDAQ closes at a 100-day low.
Buy NASDAQ on close. Sell X days later. $100k/trade. 1998 - 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
20	70,186.79	19	14	5	73.68	23,031.04	-14,944.68	7,049.07	-5,700.03	1.24	3.46	3,694.04
19	84,671.88	20	16	4	80.00	19,152.76	-15,201.72	7,676.07	-9,536.33	0.80	3.22	4,233.59
18	82,973.23	20	16	4	80.00	18,307.38	-14,799.18	7,311.05	-8,500.91	0.86	3.44	4,148.66
17	66,850.42	20	15	5	75.00	15,367.96	-15,193.92	6,555.96	-6,297.79	1.04	3.12	3,342.52
16	72,159.47	21	14	7	66.67	18,666.36	-22,515.99	7,947.47	-5,586.45	1.42	2.85	3,436.17
15	72,374.27	21	15	6	71.43	21,843.16	-20,163.36	7,180.48	-5,888.83	1.22	3.05	3,446.39
14	62,846.34	21	14	7	66.67	17,431.36	-17,517.48	7,085.87	-5,193.69	1.36	2.73	2,992.68
13	60,595.06	21	15	6	71.43	16,486.68	-16,913.64	6,034.22	-4,986.37	1.21	3.03	2,885.48
12	46,538.53	21	15	6	71.43	19,469.68	-12,786.21	5,657.21	-6,386.60	0.89	2.21	2,216.12
11	44,754.14	21	15	6	71.43	13,924.80	-9,045.36	5,348.19	-5,911.46	0.90	2.26	2,131.15
10	33,406.11	21	13	8	61.90	19,103.70	-13,080.12	5,658.38	-5,019.11	1.13	1.83	1,590.77
9	43,682.64	22	13	9	59.09	16,181.10	-12,853.92	6,458.79	-4,475.73	1.44	2.08	1,985.57
8	40,850.34	23	16	7	69.57	13,582.50	-16,272.06	5,469.77	-6,666.56	0.82	1.88	1,776.10
7	19,715.73	23	12	11	52.17	14,597.76	-11,530.08	5,884.25	-4,626.84	1.27	1.39	857.21
6	52,257.11	24	16	8	66.67	13,144.00	-12,022.56	5,747.89	-4,963.65	1.16	2.32	2,177.38
5	35,082.89	26	17	9	65.38	11,091.84	-15,461.16	5,483.10	-6,458.86	0.85	1.60	1,349.34
4	34,431.84	28	19	9	67.86	9,677.70	-15,415.77	4,079.77	-4,787.09	0.85	1.80	1,229.71
3	36,165.02	29	18	11	62.07	11,553.60	-11,055.00	4,603.26	-4,244.87	1.08	1.77	1,247.07
2	44,390.91	38	24	14	63.16	14,168.40	-9,818.01	4,496.53	-4,537.56	0.99	1.70	1,168.18
1	68,423.95	50	28	22	56.00	12,001.20	-6,814.08	4,482.93	-2,595.37	1.73	2.20	1,368.48

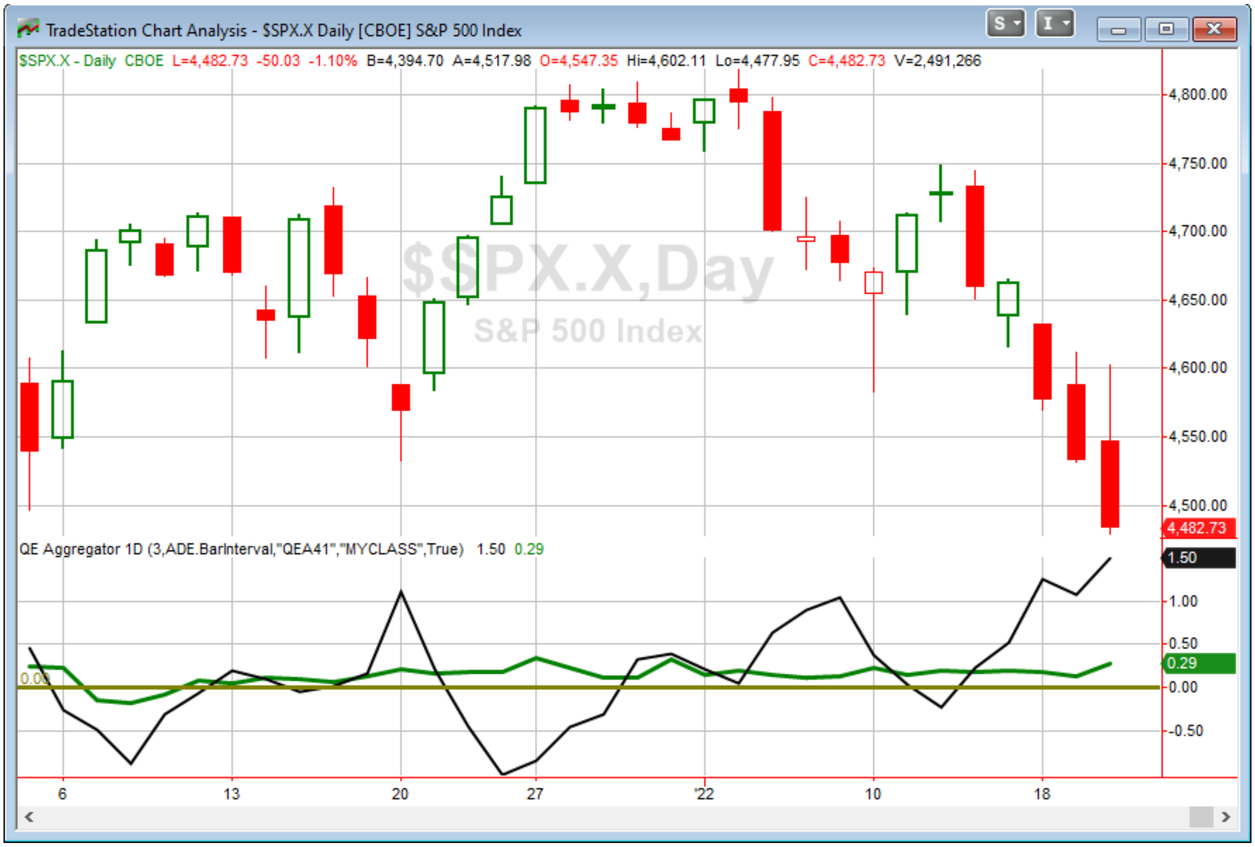
Nineteen days later we see 16 of 20 instances higher, and the average of those 16 instances saw the market up 7.7%. The four instances that did not close higher, were down 9.5% on average. Here is a list of all the instances.

NASDAQ 10-day EMA of its Up Issues % crosses under 37.5%
NASDAQ closes at a 100-day low.
Buy NASDAQ on close. Sell X days later. $100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/14/2000	Buy	$3,321.29	6.26%	$19,832.70
5/12/2000	Sell	$3,529.07		($2,827.50)
10/12/2000	Buy	$3,072.10	5.21%	$14,816.32
11/8/2000	Sell	$3,232.05		($1,471.68)
11/22/2000	Buy	$2,755.25	-15.33%	$9,846.00
12/20/2000	Sell	$2,332.98		($15,938.64)
12/20/2000	Buy	$2,332.98	18.81%	$21,347.34
1/19/2001	Sell	$2,771.89		($3,413.34)
9/17/2001	Buy	$1,579.55	7.84%	$8,056.44
10/12/2001	Sell	$1,703.40		($12,126.87)
7/23/2002	Buy	$1,229.05	13.46%	$13,608.81
8/19/2002	Sell	$1,394.54		($2,967.03)
5/10/2004	Buy	$1,896.07	6.57%	$6,476.60
6/7/2004	Sell	$2,020.62		($1,594.84)
4/15/2005	Buy	$1,908.15	2.92%	$3,850.60
5/12/2005	Sell	$1,963.88		($952.64)
6/13/2006	Buy	$2,072.47	2.72%	$5,636.64
7/11/2006	Sell	$2,128.86		($353.28)
3/10/2008	Buy	$2,169.34	9.01%	$10,239.14
4/7/2008	Sell	$2,364.83		($640.32)
10/3/2008	Buy	$1,947.39	-12.78%	$0.00
10/30/2008	Sell	$1,698.52		($23,133.60)
11/12/2008	Buy	$1,499.21	4.42%	$6,844.86
12/10/2008	Sell	$1,565.48		($13,446.18)
3/5/2009	Buy	$1,299.59	19.39%	$21,843.16
4/1/2009	Sell	$1,551.60		($2,589.32)
8/4/2011	Buy	$2,556.39	0.90%	$2,152.41
8/31/2011	Sell	$2,579.46		($8,764.86)
10/3/2011	Buy	$2,335.83	17.18%	$17,536.68
10/28/2011	Sell	$2,737.15		($1,551.48)
8/21/2015	Buy	$4,706.04	2.58%	$5,351.43
9/18/2015	Sell	$4,827.23		($8,691.90)
1/15/2016	Buy	$4,488.42	-3.36%	$3,267.22
2/12/2016	Sell	$4,337.51		($6,130.52)
10/11/2018	Buy	$7,329.06	3.30%	$4,438.59
11/7/2018	Sell	$7,570.75		($5,280.99)
12/17/2018	Buy	$6,753.73	4.00%	$3,809.68
1/15/2019	Sell	$7,023.83		($7,889.84)
3/9/2020	Buy	$7,950.68	-7.26%	$4,760.64
4/3/2020	Sell	$7,373.08		($15,831.12)

We see here some massive rallies and some epic fails. Volatility is high and we could see a strong move occur in either direction. The more likely direction is up, but it could get even uglier if it goes the other way.

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 Friday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4600.71 on Friday. That is 2.6% above Thursday's close. Therefore, SPX will need to close up 2.6% on Friday to flip from oversold to overbought vs recent expectations. A move that large is fairly unlikely. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is still long. A bounce is due but the environment is different than we have seen in a while. I have some long exposure already. I'll hold that another day. Good chance if the selloff continues Friday I will look to add to my long index position early next week.

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	$547.72	-8.07%	Catapult
NFLX(1/3)	1/14/2022	$517.60	$508.25	-1.81%	Catapult
CL(1/3)	***1/14/2022***	***$82.61***	***$83.90***	***1.56%***	***sold on open***
AVGO(1/3)	1/18/2022	$588.32	$547.72	-6.90%	Catapult
SPY(1/4)	1/18/2022	$459.74	$446.75	-2.83%	Aggregator
SPY(1/4)	1/19/2022	$451.75	$446.75	-1.11%	Aggregator
AVGO(1/3)	1/19/2022	$577.79	$547.72	-5.20%	Catapult