

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 24, 2022

Volume 15 Issue 15

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- Multiple studies are pointing to an oversold bounce.
- The Fed is on tap this week, and we will likely get confirmation of the end of the QE schedule.

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.

The Evidence

Friday was a tough day...like every other this past week. The SPX lost 1.9%, the NASDAQ dropped 2.7%, and the Russell 2000 tumbled 1.8%. Breadth was negative with the NYSE Up Issues % coming in at 20% and the Up Volume % at 12%. NYSE total volume rose strongly as it often does on opex Friday.

Quite a bit triggered in the Quantifinder. I'll discuss some of the more compelling studies.

Thursday night I showed a study that looked at SPX closing at a 50-day low while the 2-day RSI finished under 2. The happened again on Friday, triggering the study below, which was last seen in the 2/27/20 subscriber letter. Results are updated.

SPX 2-day RSI < 2 and SPX closes at a 50-day low. This happens for the 2nd day in a row. 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	36,490.92	16	12	4	75.00	13,135.00	-5,696.34	3,831.40	-2,371.47	1.62	4.85	2,280.68
4	26,717.31	16	11	5	68.75	12,657.50	-4,574.36	3,335.67	-1,995.01	1.67	3.68	1,669.83
3	36,512.85	16	14	2	87.50	9,601.81	-3,090.08	2,888.57	-1,963.60	1.47	10.30	2,282.05
2	19,377.03	16	11	5	68.75	10,183.87	-5,189.44	3,053.95	-2,843.29	1.07	2.36	1,211.06
1	7,043.58	16	7	9	43.75	5,716.25	-4,404.16	2,867.64	-1,447.77	1.98	1.54	440.22

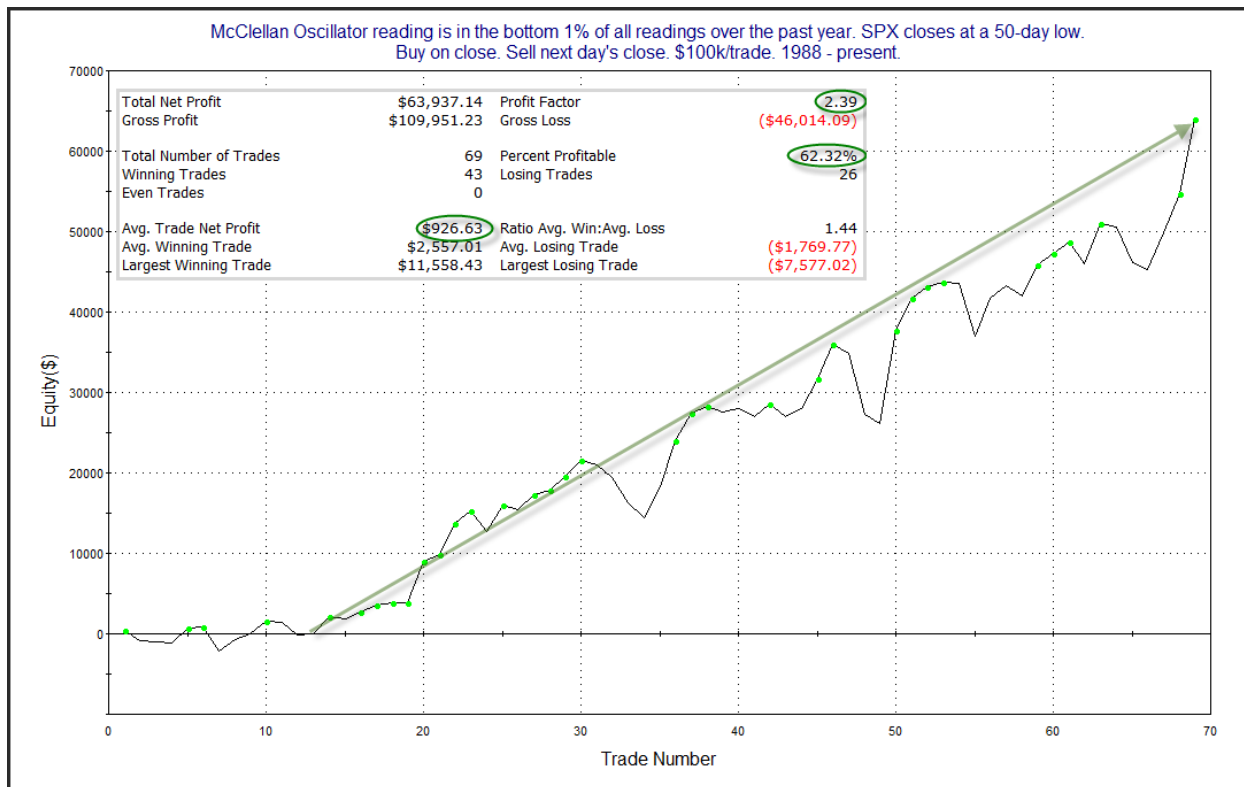
Instances are a little lower than I typically like, but the numbers are incredibly bullish and seem worthy of consideration. Below I have listed all 16 instances assuming a 3-day holding period.

SPX 2-day RSI < 2 and SPX closes at a 50-day low. This happens for the 2nd day in a row. Buy on close. Sell X days later. \$100k/trade. 1985 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/16/1985	Buy	\$182.88	0.27%	\$278.46
9/19/1985	Sell	\$183.38		(\$1,152.06)
3/28/1994	Buy	\$460.00	-3.10%	\$69.44
3/31/1994	Sell	\$445.76		(\$5,173.28)
11/23/1994	Buy	\$449.19	1.33%	\$1,327.56
11/29/1994	Sell	\$455.17		\$0.00
10/12/2000	Buy	\$1,329.64	1.53%	\$3,851.25
10/17/2000	Sell	\$1,349.97		(\$212.25)
9/21/2001	Buy	\$965.80	4.27%	\$5,612.47
9/26/2001	Sell	\$1,007.04		\$0.00
4/29/2002	Buy	\$1,065.45	1.79%	\$2,415.21
5/2/2002	Sell	\$1,084.56		(\$185.07)
7/23/2002	Buy	\$797.70	6.91%	\$7,016.25
7/26/2002	Sell	\$852.84		(\$2,752.50)
10/9/2008	Buy	\$909.92	9.68%	\$14,648.51
10/14/2008	Sell	\$998.01		(\$7,643.08)
2/23/2009	Buy	\$743.33	1.28%	\$4,929.86
2/26/2009	Sell	\$752.83		\$0.00
7/1/2010	Buy	\$1,027.37	3.20%	\$3,251.44
7/7/2010	Sell	\$1,060.27		(\$1,109.68)
5/17/2012	Buy	\$1,304.86	0.90%	\$1,795.88
5/22/2012	Sell	\$1,316.63		(\$978.88)
8/24/2015	Buy	\$1,893.21	4.99%	\$5,012.28
8/27/2015	Sell	\$1,987.66		(\$1,358.76)
11/2/2016	Buy	\$2,097.94	1.60%	\$1,600.82
11/7/2016	Sell	\$2,131.52		(\$665.05)
10/11/2018	Buy	\$2,728.37	2.99%	\$3,063.24
10/16/2018	Sell	\$2,809.92		\$0.00
12/20/2018	Buy	\$2,467.42	0.01%	\$1,479.60
12/26/2018	Sell	\$2,467.70		(\$4,833.60)
2/26/2020	Buy	\$3,116.39	-0.84%	\$0.00
3/2/2020	Sell	\$3,090.23		(\$8,337.60)

This has shown a strong edge over time. Of course the last instance saw the market completely fall apart after the 3-day period as March 2020 broke all kinds of records for market selloffs. But most instances have been far less dramatic and the market has seen some nice bounces over the 3-day period and beyond.

There were also a few studies suggesting negative breadth readings have reached an extreme. I constructed the one below to describe the current setup.



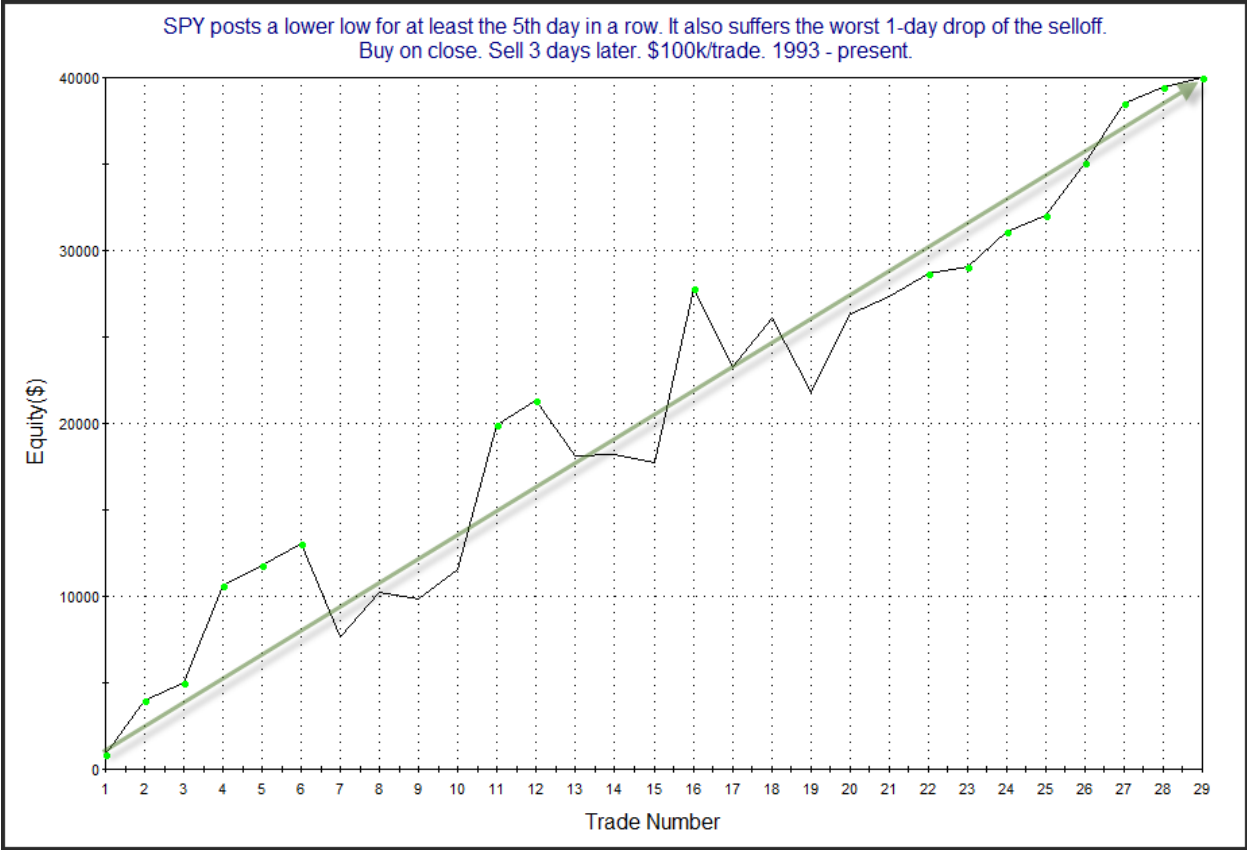
There have been some sizable next-day moves higher after this setup, though the curve is certainly choppy. Still, the negative breadth is worth considering, and if it continues, I suspect I'll be talking about it more in the coming days.

One concept I have discussed a number of times in the past is that when short-term moves that are already a bit extended see a quick acceleration, it often leads to a reversal. Both SPY and QQQ made at least their fifth lower low on Thursday. They also suffered their worst decline of the short-term down move. This triggered the study below. Both the SPY and NASDAQ versions were last discussed in the 3/14/14 letter. First let's look at the SPY setup.

SPY posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff.
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	33,688.13	27	20	7	74.07	10,816.00	-6,375.96	2,578.75	-2,555.28	1.01	2.88	1,247.71
4	31,606.31	28	20	8	71.43	13,568.00	-10,531.08	2,805.18	-3,062.17	0.92	2.29	1,128.80
3	39,985.38	29	23	6	79.31	10,083.30	-5,355.22	2,533.16	-3,046.21	0.83	3.19	1,378.81
2	39,588.62	30	23	7	76.67	11,736.30	-6,648.00	2,380.79	-2,167.07	1.10	3.61	1,319.62
1	20,879.79	32	20	12	62.50	5,043.84	-2,639.40	1,641.58	-995.98	1.65	2.75	652.49

The numbers here look very strong. I also produced the profit curve for the 3-day holding period.



I like this curve. Next let's look at the QQQ version.

QQQ posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	149,120.43	24	21	3	87.50	32,745.57	-5,951.82	7,842.84	-5,193.04	1.51	10.57	6,213.35
19	145,626.31	24	20	4	83.33	31,061.82	-6,666.66	8,004.66	-3,616.72	2.21	11.07	6,067.76
18	138,177.81	24	19	5	79.17	31,573.68	-6,377.35	8,107.64	-3,173.46	2.55	9.71	5,757.41
17	109,816.62	24	18	6	75.00	26,522.43	-5,596.45	7,142.82	-3,125.70	2.29	6.86	4,575.69
16	103,051.13	24	17	7	70.83	25,848.93	-6,793.83	7,320.59	-3,056.99	2.39	5.82	4,293.80
15	81,380.71	24	17	7	70.83	22,818.18	-9,344.77	6,593.98	-4,388.14	1.50	3.65	3,390.86
14	105,574.00	24	19	5	79.17	26,522.43	-7,080.16	6,696.55	-4,332.07	1.55	5.87	4,398.92
13	91,784.76	24	18	6	75.00	21,807.93	-6,429.41	6,201.06	-3,305.72	1.88	5.63	3,824.37
12	80,139.44	24	16	8	66.67	25,848.93	-7,357.68	6,752.71	-3,487.99	1.94	3.87	3,339.14
11	65,646.10	24	15	9	62.50	25,175.43	-7,718.34	6,526.70	-3,583.82	1.82	3.04	2,735.25
10	63,935.85	24	15	9	62.50	25,754.64	-8,010.21	6,550.04	-3,812.75	1.72	2.86	2,663.99
9	69,961.07	25	16	9	64.00	22,481.43	-7,199.46	6,061.17	-3,001.96	2.02	3.59	2,798.44
8	68,813.43	25	15	10	60.00	25,997.10	-8,820.96	6,009.31	-2,132.63	2.82	4.23	2,752.54
7	61,525.43	25	18	7	72.00	25,673.82	-8,204.79	4,594.06	-3,023.94	1.52	3.91	2,461.02
6	63,511.09	25	17	8	68.00	17,255.07	-6,748.20	4,805.34	-2,272.46	2.11	4.49	2,540.44
5	40,055.26	25	15	10	60.00	11,530.32	-5,156.37	3,728.26	-1,586.87	2.35	3.52	1,602.21
4	33,656.06	25	14	11	56.00	14,897.82	-9,761.43	4,095.37	-2,152.64	1.90	2.42	1,346.24
3	24,093.83	25	15	10	60.00	11,520.90	-7,231.89	3,044.20	-2,156.91	1.41	2.12	963.75
2	30,473.24	27	18	9	66.67	15,687.50	-6,651.64	2,756.63	-2,127.34	1.30	2.59	1,128.64
1	32,838.27	28	19	9	67.86	12,236.25	-3,528.46	2,336.80	-1,284.56	1.82	3.84	1,172.80

Decent odds of a quick pop here as well. But the QQQ instances have really shown an edge over the intermediate-term. Below is the full list of 20-day instances.

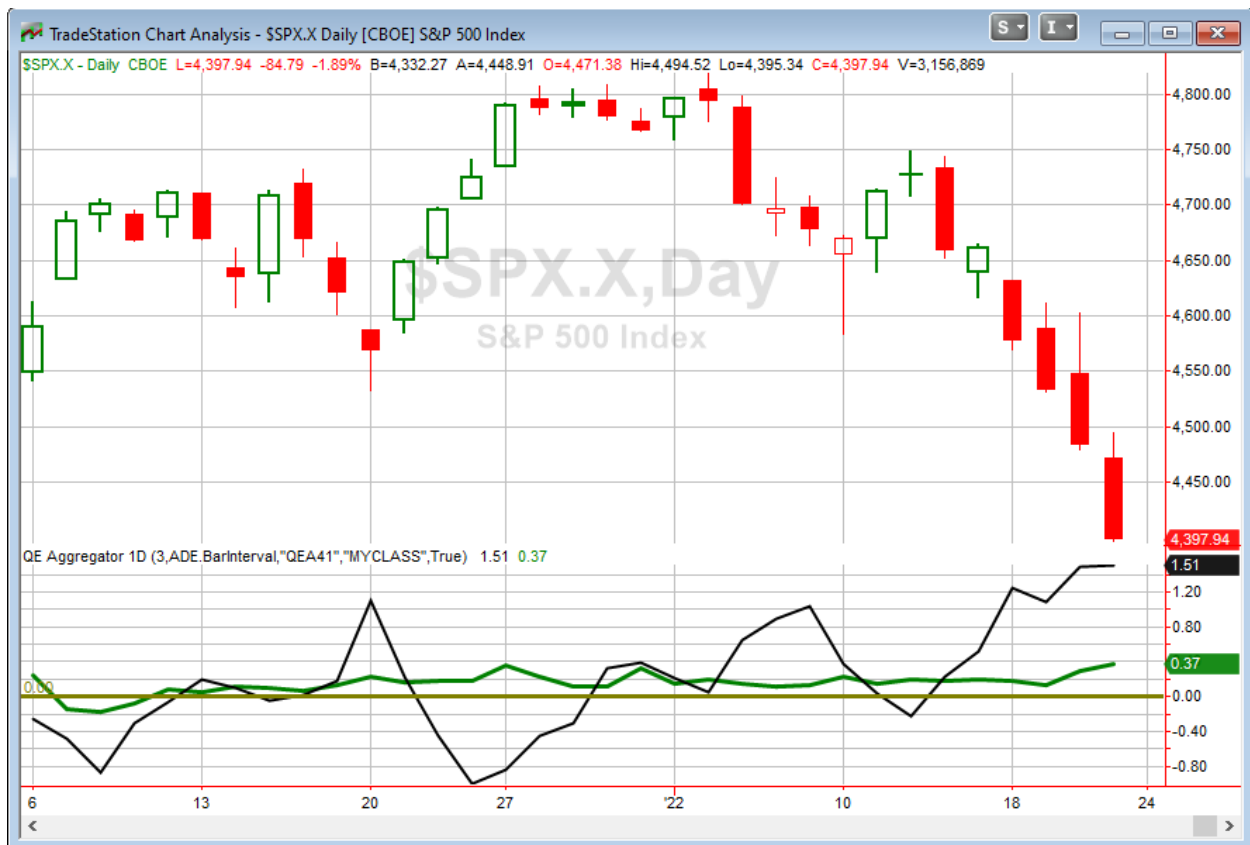
QQQ posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff. Buy on close. Sell 20 days later. \$100k/trade. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/14/2000	Buy	\$79.63	10.44%	\$21,171.85
5/15/2000	Sell	\$87.94		(\$2,510.00)
5/23/2000	Buy	\$74.19	32.77%	\$33,890.52
6/21/2000	Sell	\$98.50		(\$3,111.57)
7/28/2000	Buy	\$86.38	13.06%	\$15,272.40
8/25/2000	Sell	\$97.66		(\$3,980.08)
9/17/2001	Buy	\$30.83	10.38%	\$13,134.15
10/15/2001	Sell	\$34.03		(\$13,620.60)
1/16/2002	Buy	\$38.41	-4.95%	\$3,097.57
2/14/2002	Sell	\$36.51		(\$9,917.43)
2/21/2002	Buy	\$33.11	10.69%	\$17,244.20
3/21/2002	Sell	\$36.65		(\$1,177.80)
4/26/2002	Buy	\$30.67	0.65%	\$8,443.40
5/24/2002	Sell	\$30.87		(\$8,541.20)
7/23/2002	Buy	\$22.03	12.66%	\$14,479.41
8/20/2002	Sell	\$24.82		(\$4,992.90)
9/23/2002	Buy	\$20.65	15.84%	\$16,608.06
10/21/2002	Sell	\$23.92		(\$6,100.92)
12/9/2002	Buy	\$24.85	2.74%	\$6,881.04
1/8/2003	Sell	\$25.53		(\$3,782.56)
3/10/2003	Buy	\$23.64	8.80%	\$14,255.10
4/7/2003	Sell	\$25.72		(\$1,988.10)
12/9/2003	Buy	\$34.06	10.42%	\$10,477.95
1/8/2004	Sell	\$37.61		(\$880.50)
8/6/2004	Buy	\$32.35	4.39%	\$6,676.56
9/3/2004	Sell	\$33.77		(\$1,143.67)
1/14/2009	Buy	\$28.26	6.86%	\$10,790.90
2/12/2009	Sell	\$30.20		(\$2,370.46)
6/29/2010	Buy	\$43.00	6.23%	\$7,788.75
7/28/2010	Sell	\$45.68		(\$3,720.00)
11/12/2010	Buy	\$52.14	3.43%	\$4,274.91
12/13/2010	Sell	\$53.93		(\$2,453.76)
4/8/2011	Buy	\$56.58	3.08%	\$4,223.13
5/9/2011	Sell	\$58.32		(\$2,880.21)
8/4/2011	Buy	\$53.80	0.72%	\$2,917.06
9/1/2011	Sell	\$54.19		(\$7,877.92)
5/4/2012	Buy	\$64.33	-5.95%	\$574.98
6/4/2012	Sell	\$60.50		(\$7,241.64)
3/13/2014	Buy	\$89.28	-4.68%	\$1,545.60
4/10/2014	Sell	\$85.10		(\$4,950.40)
9/25/2014	Buy	\$97.74	0.08%	\$1,595.88
10/23/2014	Sell	\$97.82		(\$7,672.50)
1/15/2015	Buy	\$99.65	7.29%	\$7,301.84
2/13/2015	Sell	\$106.91		(\$290.87)
6/29/2015	Buy	\$106.69	4.16%	\$7,214.90
7/28/2015	Sell	\$111.13		(\$805.82)
8/2/2019	Buy	\$187.35	0.06%	\$1,241.89
8/30/2019	Sell	\$187.47		(\$4,343.95)

Four weeks out the average trade has produced a gain in the QQQ of over 6%. Often the outsized gains were partially due to the volatile environment that was present when the study triggered. Many of these occurred during the wild 2000 – 2002 bear market in the Nasdaq. Let's hope we are not going back to a time like that. But even if we are, there is a chance we could see a relief rally here for the next few weeks, like was seen back then.

So we have a good amount of evidence suggesting a short-term low is here or near. But there are a few things we are still not seeing. The CBI just hit 6. That's not terribly high. I have always viewed 10+ as an extremely high number where a sizable upside edge emerged. Additionally, while some of the studies are "washout"-type setups (like the SPY making 5 lower lows and today being the biggest drop of the decline), the big drop is not all that big. Friday's selloff was less than 2% in SPX. Lastly, the VIX has still not even hit 30. The selling recently has been relentless, but there is still a chance that the "throw in the towel" capitulation has not arrived yet. Often you see a 3% or larger 1-day drop and a spike in the CBI, and the VIX. The late November / early December selloff scared the market more than this one so far. So despite a good amount of evidence suggesting a bounce, there remains a real possibility that things get even worse before the washout and reflex bounce finally occur. I anticipate we are close. And many of my models got me into positions a bit early. So I would love to see an immediate bounce. And odds favor that. But there is a possibility of more pain before the bounce arrives.

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 Monday. This is highly unlikely to change. Meanwhile, the Differential Pivot will be 4552.10 on Monday. That is 3.5% above Friday's close. Therefore, SPX will need to close up 3.5% on Monday to flip from oversold to overbought vs recent expectations. A move that large is unlikely. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is still long. We should get a bounce at some point shortly. But there is still a danger that a big down day that spikes the VIX even further will happen before the big reversal. If Monday is a big down day, I'll look to buy some more at the close. If not, I'm content to just hold onto my current index position.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/24 – neutral*

Combo #1	Combo #2	Combo #3
Long	Long	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week there were no changes to the Combo Systems.*

This past week was a rough one for the indices. The SPX lost 5.7%, the NASDAQ tumbled 7.55%, and the Russell 2000 dropped 8.1%. All the indices are now below their long-term moving averages and at multi-month lows. The trend has turned fairly quickly. Other than the QQQ study discussed above, there were a few other studies with intermediate-term implications that triggered this week.

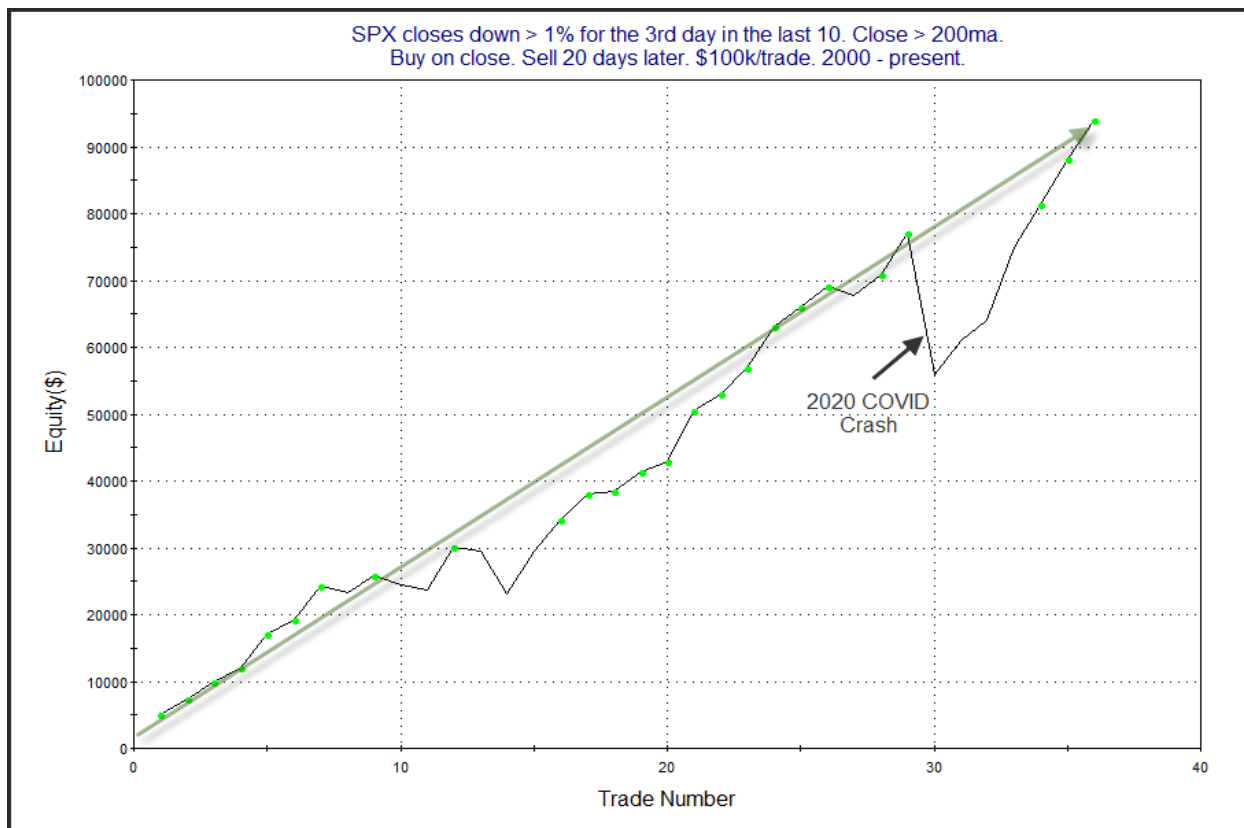
This 1st on was from the 1/19/22 letter.

The SPX has made some sizable moves over the last couple of weeks as volatility has been high. It is unusual to see such high volatility when the SPX is trading above its 200ma. Tuesday marked the 3rd day in the last 9 in which SPX closed down over 1%. In the 10/1/21 letter I looked back at other times where SPX closed down more than 1% for the 3rd time in the last 10 days, but above its 200ma. Results appeared compelling both short and intermediate-term. Below are updated results of that study.

SPX closes down > 1% for the 3rd day in the last 10. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	93,908.00	36	29	7	80.56	10,758.60	-21,107.28	4,372.61	-4,699.67	0.93	3.85	2,608.56
19	65,933.91	36	29	7	80.56	10,931.40	-27,615.11	3,837.87	-6,480.63	0.59	2.45	1,831.50
18	58,001.73	36	28	8	77.78	9,196.80	-25,521.99	3,657.98	-5,552.73	0.66	2.31	1,611.16
17	50,768.06	36	26	10	72.22	8,595.30	-22,283.42	3,561.72	-4,183.68	0.85	2.21	1,410.22
16	55,443.49	38	29	9	76.32	9,325.20	-22,633.41	3,521.12	-5,185.44	0.68	2.19	1,459.04
15	57,439.25	38	28	10	73.68	8,902.80	-18,569.62	3,588.80	-4,304.71	0.83	2.33	1,511.56
14	42,686.59	38	27	11	71.05	10,155.00	-23,004.48	3,524.90	-4,771.43	0.74	1.81	1,123.33
13	45,039.44	38	23	15	60.53	10,676.40	-12,932.89	3,653.02	-2,598.67	1.41	2.16	1,185.25
12	41,643.45	39	28	11	71.79	9,423.60	-20,074.67	3,012.16	-3,881.54	0.78	1.98	1,067.78
11	50,893.45	39	27	12	69.23	7,979.40	-11,991.73	3,119.59	-2,777.95	1.12	2.53	1,304.96
10	49,566.90	39	27	12	69.23	9,048.90	-7,625.38	2,960.88	-2,531.41	1.17	2.63	1,270.95
9	50,949.38	41	28	13	68.29	8,235.00	-11,831.15	2,952.13	-2,439.25	1.21	2.61	1,242.67
8	54,762.54	41	28	13	68.29	8,384.10	-4,831.04	2,790.14	-1,797.03	1.55	3.34	1,335.67
7	47,714.93	42	29	13	69.05	7,152.30	-4,591.08	2,621.77	-2,178.18	1.20	2.69	1,136.07
6	41,583.25	42	30	12	71.43	7,182.60	-3,963.24	2,197.44	-2,028.32	1.08	2.71	990.08
5	30,486.79	43	26	17	60.47	5,172.30	-3,870.04	2,279.62	-1,693.13	1.35	2.06	709.00
4	22,581.98	44	27	17	61.36	3,838.00	-4,056.48	1,809.30	-1,545.24	1.17	1.86	513.23
3	10,120.49	44	29	15	65.91	3,388.00	-5,393.69	1,285.31	-1,810.22	0.71	1.37	230.01
2	6,727.41	45	26	19	57.78	2,752.00	-4,632.95	1,152.12	-1,222.50	0.94	1.29	149.50
1	24,090.07	45	31	14	68.89	2,671.02	-2,200.08	1,080.34	-671.46	1.61	3.56	535.33

Often the next day has seen a bounce. Then chop for the next 3 days or so. And then the market has often risen for the next few weeks...



... I have added this study to both the short and intermediate-term active lists.

Another study appeared in the 1/21 letter. I have copied it below.

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.

In the 1/20/22 letter I discussed the Russell 2000 “Death Cross”, which happened on the 19th.

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.

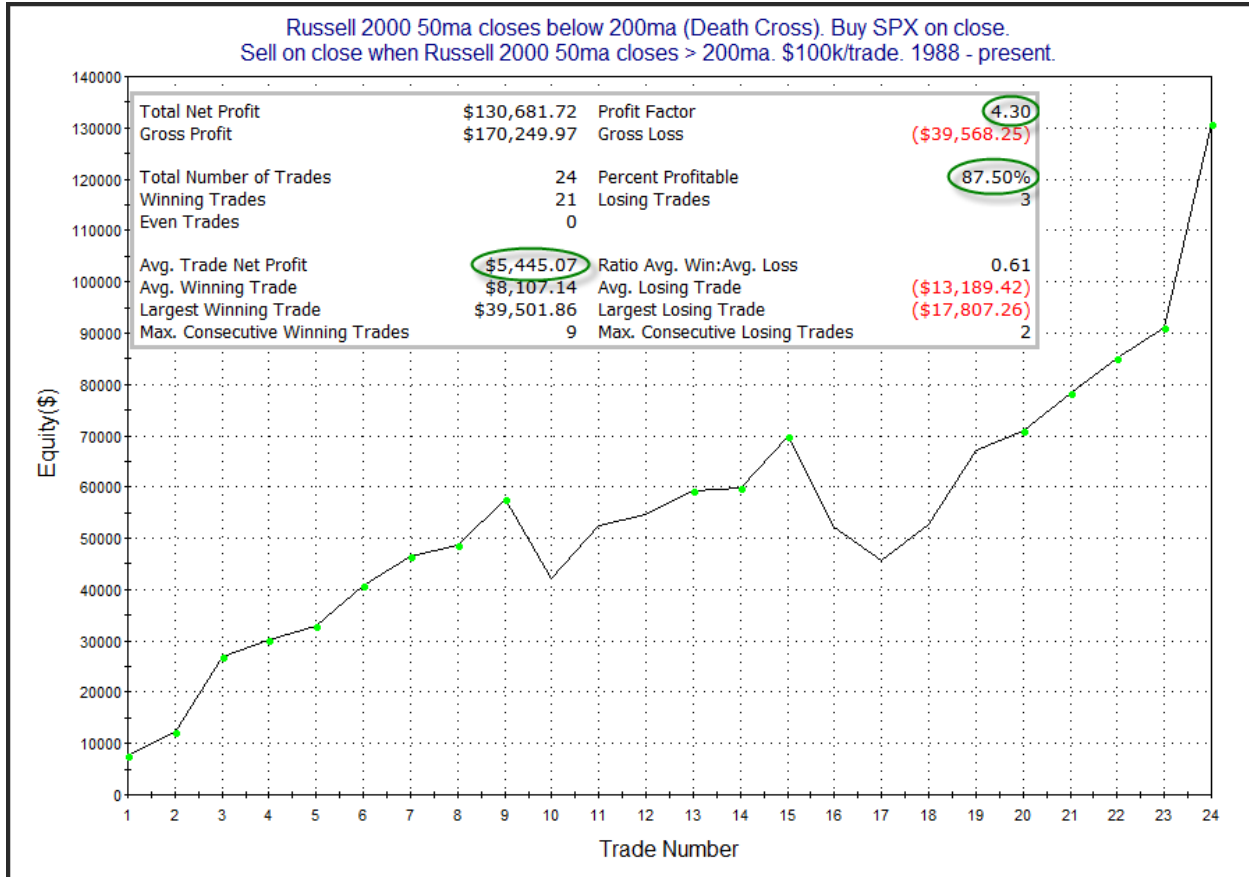
Both of my data sources show Russell data back to late 1987. And since I need 200 days to calculate a 200-day moving average, the earliest the study could look back to was 1988.

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”.)

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

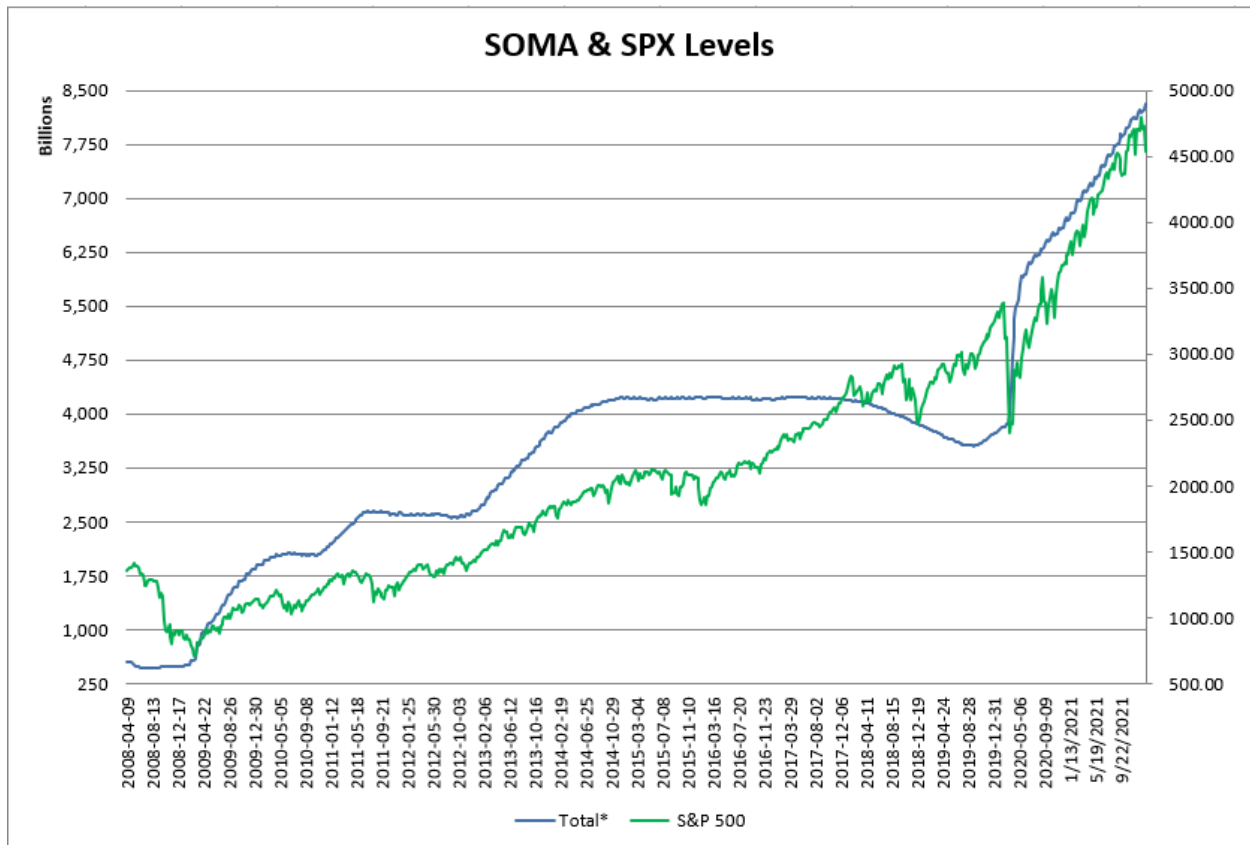
Domestic Security Holdings as of

◀ Previous **January 19, 2022** 📅
Posted January 20, 2022 at 4:30 PM

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,887,628,699.0
US Treasury Floating Rate Notes (FRNs)	27,581,816.9
US Treasury Inflation-Protected Securities (TIPS)*	379,498,009.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,677,063,905.9
Agency Commercial Mortgage-Backed Securities***	9,198,442.1
Total SOMA Holdings	8,309,361,873.0
Change From Prior Week	80,686,395.4

This past week saw the SOMA rise by \$81 billion. That is likely the largest week we are going to see for a very long time. At the Fed meeting announcement on Wednesday it is expected they will reduce the purchases in February to \$30 billion total, and then be at \$0 in March. March could also be the 1st rate hike. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is now nearing the end of the largest expansion in history. And that may be confirmed by the Fed on Wednesday. Additionally, we are looking at a strong likelihood of 3-4 interest rate increases in 2022 to combat inflationary pressures. The Fed has been working to stimulate the economy for a long time now, and that has greatly benefitted the stock market. Soon the market will have to rely on things like a strong economy, and increasing corporate profits to help the stock market rally, because the massive liquidity infusions from the Fed will be a thing of the past. And with this realization over the last few weeks, we have seen a strong negative reaction. There will be good and bad runs for the market in 2022, but we are already seeing that the bad runs are worse than any since the 2020 COVID Crash.

Action this past week again did not greatly change my intermediate-term outlook. Seasonality still appears generally positive, and we had several new studies trigger with bullish intermediate-term implications. But most trend indicators are down. (The Golden Cross is still in effect for the SPX and the NASDAQ.) The Fed taking a more hawkish approach is not an outright negative yet. They are still pumping. But it will be soon. I will keep my bias “neutral” for the time being, and remain open to trades in either direction. I’ll also remain alert to new intermediate-term bullish or bearish evidence that emerges.

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)

New

NFLX – 1/3 @ \$397.50 (buy @ limit)

F – 1/3 @ \$20.65 (buy @ limit)

Broad Market Large Cap CBI – 6(AVGO-3, NFLX-2, F)

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.

NFLX – Buy 1/3 Catapult position @ \$397.50 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of NFLX.

F – Buy 1/3 Catapult position @ \$20.65 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of F.

SPY – Buy ¼ Index position @ \$429.20 LIMIT ON CLOSE. Based on the short-term outlook above, I'll buy more on Monday if we get another big down day (of about 2% or more).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
AVGO(1/3)	1/14/2022	\$595.78	\$533.23	-10.50%	Catapult
NFLX(1/3)	1/14/2022	\$517.60	\$397.50	-23.20%	Catapult
AVGO(1/3)	1/18/2022	\$588.32	\$533.23	-9.36%	Catapult
SPY(1/4)	1/18/2022	\$459.74	\$437.98	-4.73%	Aggregator
SPY(1/4)	1/19/2022	\$451.75	\$437.98	-3.05%	Aggregator
AVGO(1/3)	1/19/2022	\$577.79	\$533.23	-7.71%	Catapult

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