

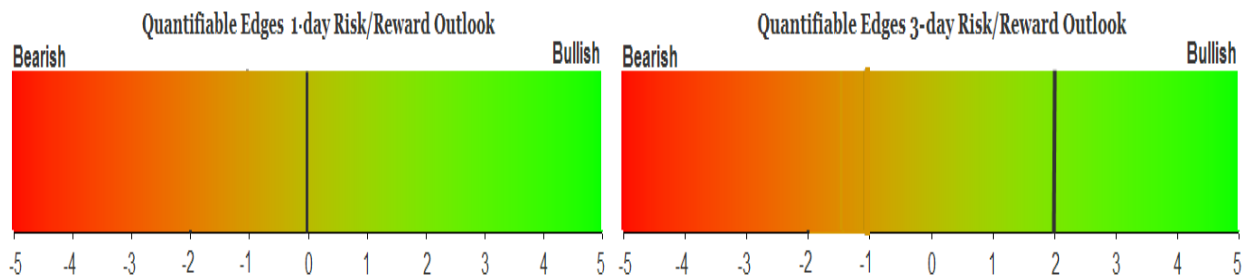
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 25, 2022

Volume 15 Issue 16

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	9

Tonight's Research Points

- Evidence tonight is mostly bearish, with only bullish study suggesting the market remains oversold.

Short-term Outlook

The Bottom Line

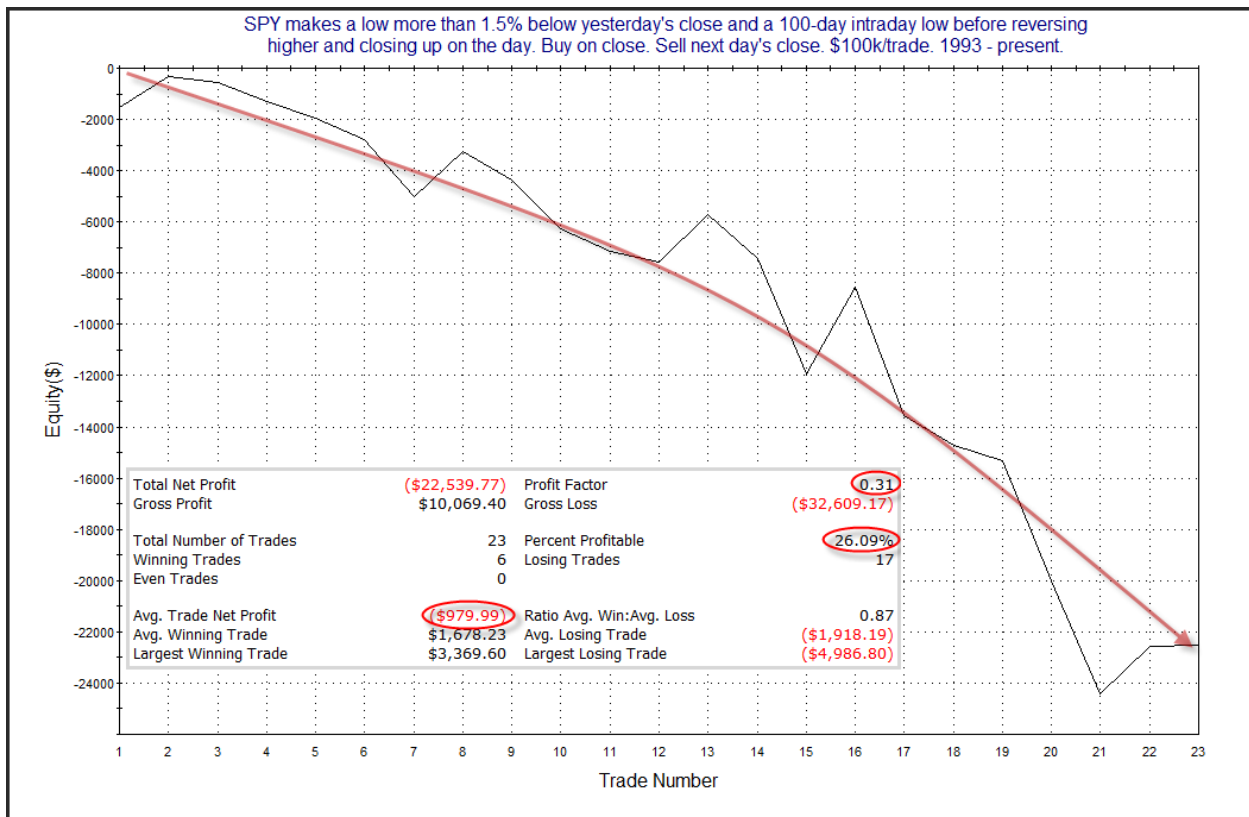
The Aggregator is bullish. Tuesday looks questionable at best. If we do see a big drop on Tuesday, that could set us up nicely for a Fed bounce, since the market is still quite oversold and overdue for a strong rebound.

The Evidence

More wild action on Monday as the indices were all down massively in the morning before an afternoon rebound. The SPX was down about 4% intraday and the NASDAQ near 5%. In the end the SPX rallied back for a small 0.3% gain, the NASDAQ rose 0.6%, and the Russell 2000 rallied 2.3%. Breadth was negative with the NYSE Up Issues % coming in at 43% and the Up Volume % at 47%. NYSE total volume rose was extremely high.

The big reversal felt good at the end of the day. It certainly felt better at the end of the day than at noon when SPX was trading at its lowest intraday level since June. But the action triggered a lot more bearish evidence than bullish. The hour is late, so I am going to keep the comments to a minimum.

This 1st study looked at other big reversals from long-term lows. It was last seen in the 12/11/18 letter and has been updated.



Both the numbers and curve suggest a downside edge.

The reversal was larger than we see here. I looked at even greater reversals to see what has followed them. Below is all instances that saw SPY trade down over 3% intraday and finish up on the day.

SPY trades down more than 3% intraday before closing positive on the day.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/16/1996	Buy	\$62.81	1.24%	\$1,894.48
7/17/1996	Sell	\$63.59		\$0.00
10/28/1997	Buy	\$92.22	-0.27%	\$1,658.52
10/29/1997	Sell	\$91.97		(\$1,018.96)
5/12/1999	Buy	\$136.75	0.43%	\$913.75
5/13/1999	Sell	\$137.34		\$0.00
7/15/2002	Buy	\$92.34	-1.93%	\$43.28
7/16/2002	Sell	\$90.56		(\$2,672.54)
10/16/2008	Buy	\$93.77	-0.60%	\$5,138.12
10/17/2008	Sell	\$93.21		(\$2,259.92)
10/23/2008	Buy	\$91.69	-5.07%	\$0.00
10/24/2008	Sell	\$87.04		(\$8,382.10)
11/13/2008	Buy	\$91.17	-4.99%	\$975.44
11/14/2008	Sell	\$86.62		(\$5,096.40)
12/5/2008	Buy	\$87.93	3.49%	\$5,059.65
12/8/2008	Sell	\$91.00		\$0.00
12/12/2008	Buy	\$88.99	-1.39%	\$179.68
12/15/2008	Sell	\$87.75		(\$3,032.10)
1/15/2009	Buy	\$84.40	0.78%	\$1,882.56
1/16/2009	Sell	\$85.06		(\$1,598.40)
2/12/2009	Buy	\$83.66	-1.08%	\$693.10
2/13/2009	Sell	\$82.76		(\$1,099.40)
5/25/2010	Buy	\$107.82	-0.60%	\$1,529.55
5/26/2010	Sell	\$107.17		(\$899.19)
3/19/2020	Buy	\$240.51	-4.87%	\$1,643.40
3/20/2020	Sell	\$228.80		(\$4,984.15)
Total Net Profit		(\$14,834.36)	Profit Factor	0.29
Gross Profit		\$5,945.08	Gross Loss	(\$20,779.44)
Total Number of Trades		13	Percent Profitable	30.77%
Winning Trades		4	Losing Trades	9
Even Trades		0		
Avg. Trade Net Profit		(\$1,141.10)	Ratio Avg. Win:Avg. Loss	0.64
Avg. Winning Trade		\$1,486.27	Avg. Losing Trade	(\$2,308.83)
Largest Winning Trade		\$3,490.59	Largest Losing Trade	(\$5,068.50)

This is more evidence that the odds seem to favor a move lower on Tuesday.

While SPY closed up, the pattern of lower highs and lower lows persisted. The study below was from the 11/16/18 letter and has been updated.

After making a lower high, lower low, and lower close for at least 3 days in a row, SPY closes up today but still makes a lower high and lower low. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

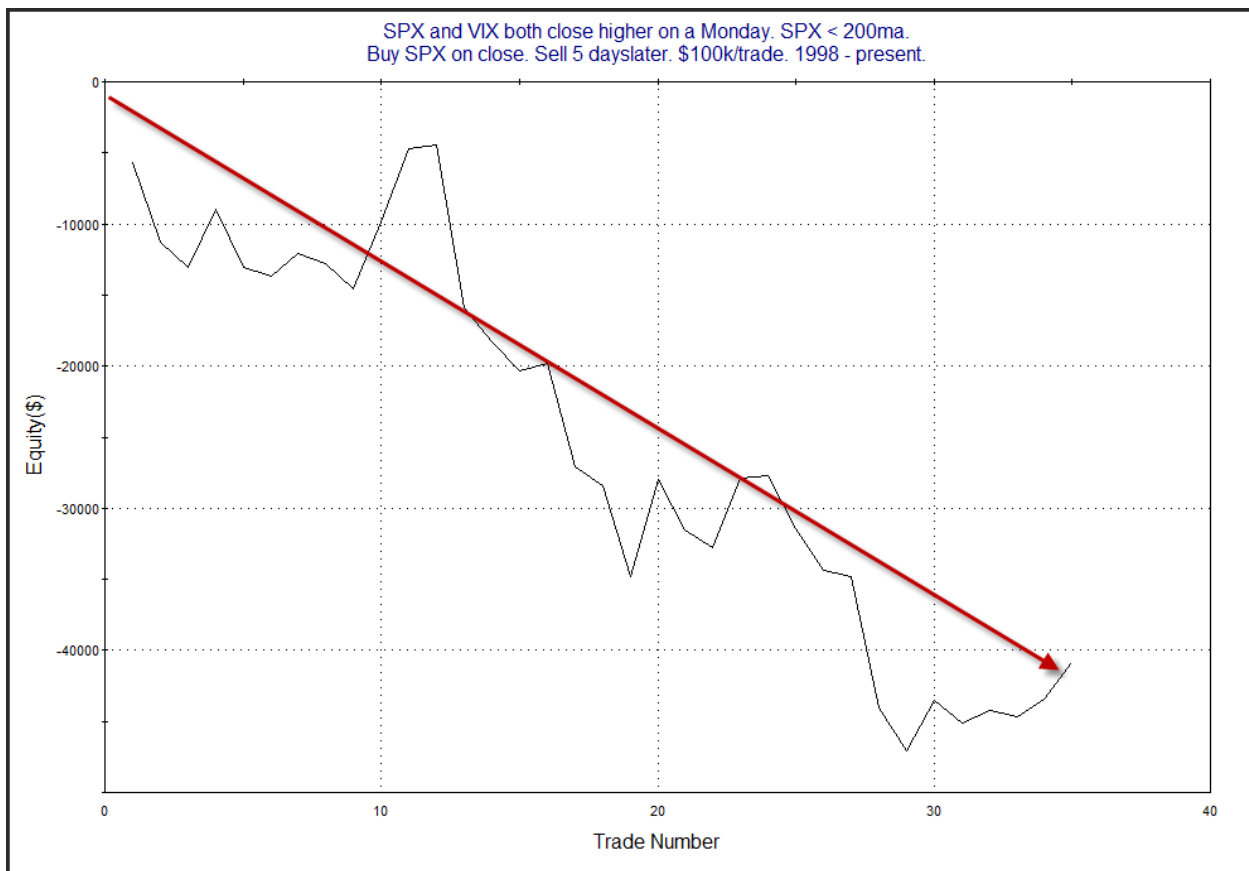
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/23/1994	Buy	\$45.25	0.49%	\$640.61
11/25/1994	Sell	\$45.47		\$0.00
9/1/1998	Buy	\$100.06	-0.72%	\$1,688.31
9/2/1998	Sell	\$99.34		(\$1,278.72)
10/2/1998	Buy	\$100.72	-2.02%	\$0.00
10/5/1998	Sell	\$98.69		(\$4,344.96)
10/18/1999	Buy	\$125.78	0.72%	\$1,963.65
10/19/1999	Sell	\$126.69		\$0.00
11/21/2000	Buy	\$135.38	-2.40%	\$0.00
11/22/2000	Sell	\$132.13		(\$2,494.44)
2/22/2001	Buy	\$125.81	-0.68%	\$0.00
2/23/2001	Sell	\$124.96		(\$3,183.94)
12/12/2001	Buy	\$114.28	-1.94%	\$0.00
12/13/2001	Sell	\$112.06		(\$1,960.00)
6/24/2002	Buy	\$99.80	-2.24%	\$1,092.18
6/25/2002	Sell	\$97.56		(\$2,264.52)
12/6/2002	Buy	\$92.03	-2.75%	\$0.00
12/9/2002	Sell	\$89.50		(\$2,769.30)
6/25/2010	Buy	\$107.87	-0.32%	\$417.15
6/28/2010	Sell	\$107.53		(\$676.71)
8/9/2011	Buy	\$117.48	-4.42%	\$0.00
8/10/2011	Sell	\$112.29		(\$4,706.03)
1/11/2016	Buy	\$192.11	0.81%	\$1,268.80
1/12/2016	Sell	\$193.66		(\$504.40)
11/15/2018	Buy	\$273.02	0.26%	\$633.18
11/16/2018	Sell	\$273.73		(\$662.46)
Total Net Profit		(\$15,197.58)	Profit Factor	0.13
Gross Profit		\$2,275.29	Gross Loss	(\$17,472.87)
Total Number of Trades		13	Percent Profitable	30.77%
Winning Trades		4	Losing Trades	9
Even Trades		0		
Avg. Trade Net Profit		(\$1,169.04)	Ratio Avg. Win:Avg. Loss	0.29
Avg. Winning Trade		\$568.82	Avg. Losing Trade	(\$1,941.43)
Largest Winning Trade		\$806.00	Largest Losing Trade	(\$4,416.69)

So we see here another bit of evidence suggesting a downside edge on Tuesday.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will typically move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-

week. Anyway, the action on Monday triggered the following study from the 11/6/18 subscriber letter. I have updated the results.

SPX and VIX both close higher on a Monday. SPX < 200ma. Buy SPX on close. Sell X dayslater. \$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
5	-40,873.66	35	13	22	37.14	6,877.04	-11,533.34	2,815.99	-3,521.89	0.80	0.47	-1,167.82
4	-22,626.26	36	15	21	41.67	5,607.06	-9,828.00	2,666.71	-2,982.23	0.89	0.64	-628.51
3	-23,296.04	36	15	21	41.67	4,455.68	-6,956.04	2,072.85	-2,589.95	0.80	0.57	-647.11
2	-12,515.03	36	17	19	47.22	3,349.32	-5,441.80	1,628.45	-2,115.72	0.77	0.69	-347.64
1	-7,658.75	36	18	18	50.00	4,699.94	-4,893.07	1,122.16	-1,547.64	0.73	0.73	-212.74



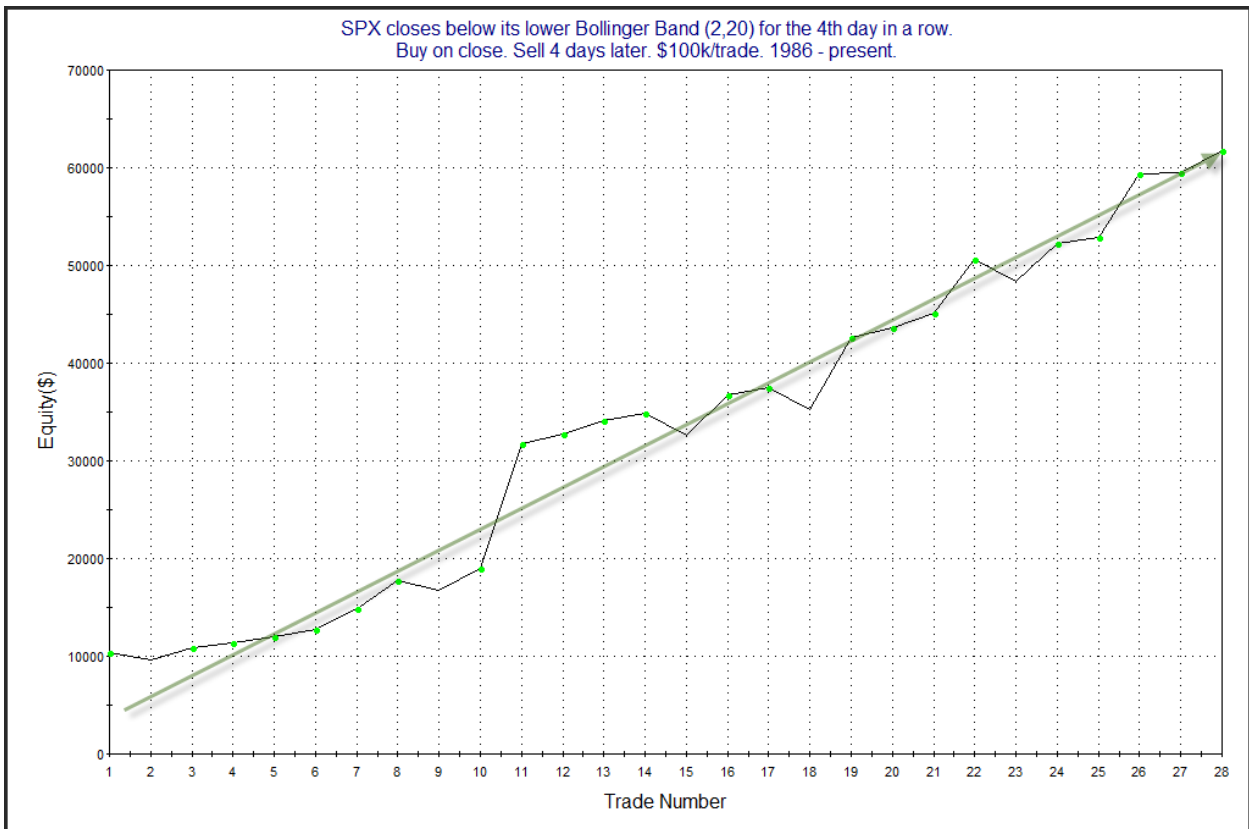
The numbers and the curve point to a downside edge.

But not all of the evidence that emerged was bearish. This next study noted that while SPX bounced back to positive, it is still strongly oversold in looking at its Bollinger Bands. Last seen in the 3/2/20 letter, the results are updated.

SPX closes below its lower Bollinger Band (2,20) for the 4th day in a row.
Buy on close. Sell X days later. \$100k/trade. 1986 - present.

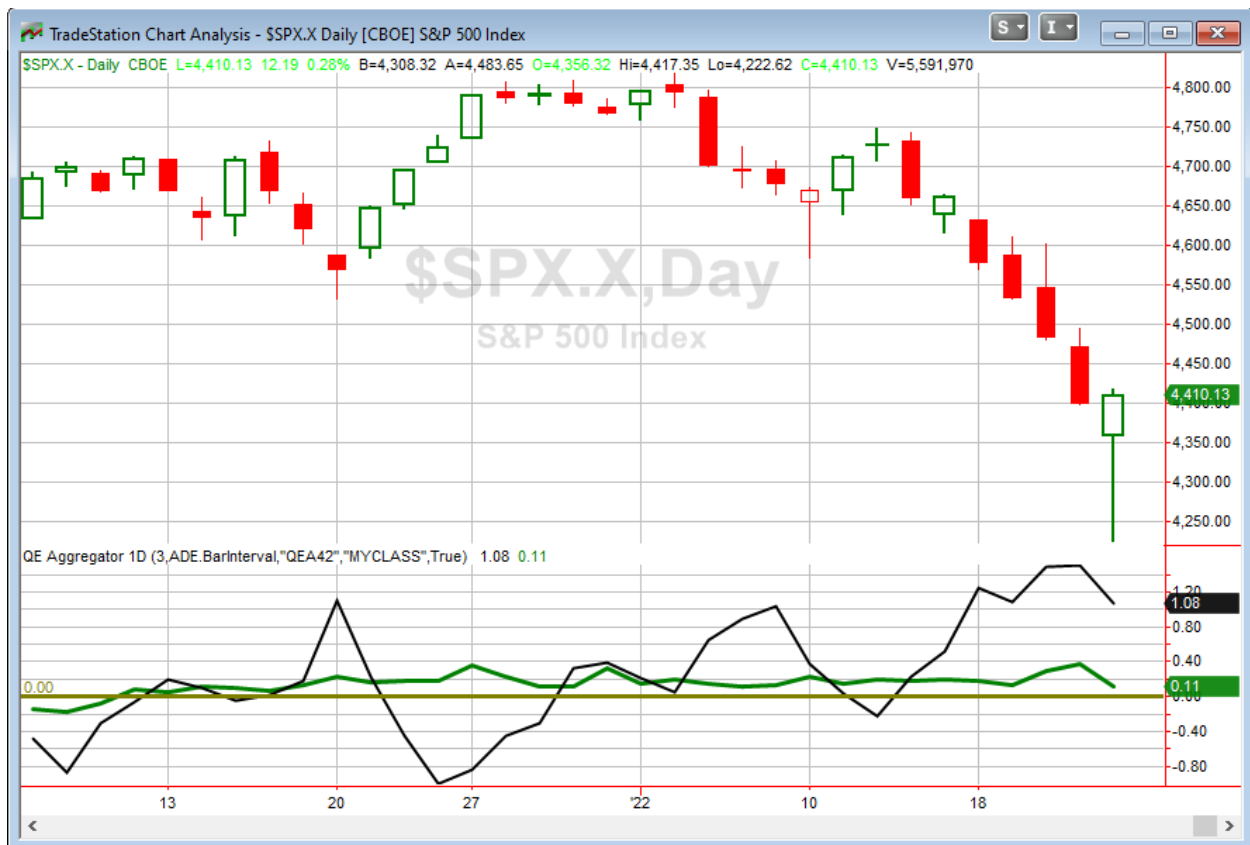
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	42,567.81	28	20	8	71.43	13,135.00	-4,509.84	2,699.44	-1,427.61	1.89	4.73	1,520.28
4	61,791.23	28	23	5	82.14	12,657.50	-2,221.38	3,053.13	-1,686.14	1.81	8.33	2,206.83
3	45,806.77	28	22	6	78.57	10,398.48	-9,701.00	2,974.04	-3,270.35	0.91	3.33	1,635.96
2	41,301.36	28	19	9	67.86	14,891.76	-8,631.00	3,079.96	-1,913.10	1.61	3.40	1,475.05
1	24,855.33	28	18	10	64.29	5,716.25	-6,633.36	2,359.35	-1,761.30	1.34	2.41	887.69

Numbers here are very bullish. Here is the 4-day profit curve.



That is about as strong and steady as it gets.

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 Tuesday. This could change with some more bearish evidence emerging. Meanwhile, the Differential Pivot will be 4507.47 on Tuesday. That is 2.2% above Monday's close. Therefore, SPX will need to close up 2.2% on Tuesday to flip from oversold to overbought vs recent expectations.

So the Aggregator is still long. But Tuesday is definitely questionable. And with the Fed Day on Wednesday, there may not be much enthusiasm for additional buying Tuesday. I did not discuss it above, but I have shown many times in the past that Fed Days tend to have a bullish tendency. Fear prior to a Fed Day will often lead to a sizable rebound on the Fed Day. So I will look to add to my index position on Tuesday, but only if SPY falls a fair amount and closes in the lower half of the day's range.

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

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)

NFLX – 1/3 @ \$397.50 (bought @ limit)

F – 1/3 @ \$20.65 (bought @ limit)

New

NFLX – 1/3 @ \$387.15 (buy @ limit)

F – 1/3 @ \$20.39 (buy @ limit)

BRK.B – 1/3 @ \$303.73 (buy @ limit)

Broad Market Large Cap CBI – 9(AVGO-3, NFLX-3, F-2, BRK.B)

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 @ \$387.15 LIMIT. From the Catapult section above, this is the 3rd and final possible lot of NFLX.

F – Buy 1/3 Catapult position @ \$20.39 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of F.

BRK.B – Buy 1/3 Catapult position @ \$303.73 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of BRK.B.

SPY – Buy ¼ Index position @ \$435.00 LIMIT ON CLOSE IF IT ALSO CLOSES IN THE BOTTOM HALF OF THE DAY’S RANGE. Based on the short-term outlook above, I’ll buy more on Tuesday if we get another down day with a poor close heading into the Fed announcement.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
AVGO(1/3)	1/14/2022	\$595.78	\$541.58	-9.10%	Catapult
NFLX(1/3)	1/14/2022	\$517.60	\$387.15	-25.20%	Catapult
AVGO(1/3)	1/18/2022	\$588.32	\$541.58	-7.94%	Catapult
SPY(1/4)	1/18/2022	\$459.74	\$439.84	-4.33%	Aggregator
SPY(1/4)	1/19/2022	\$451.75	\$439.84	-2.64%	Aggregator
AVGO(1/3)	1/19/2022	\$577.79	\$541.58	-6.27%	Catapult
NFLX(1/3)	1/24/2022	\$383.91	\$387.15	0.84%	Catapult
F(1/3)	1/24/2022	\$19.93	\$20.39	2.31%	Catapult

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