

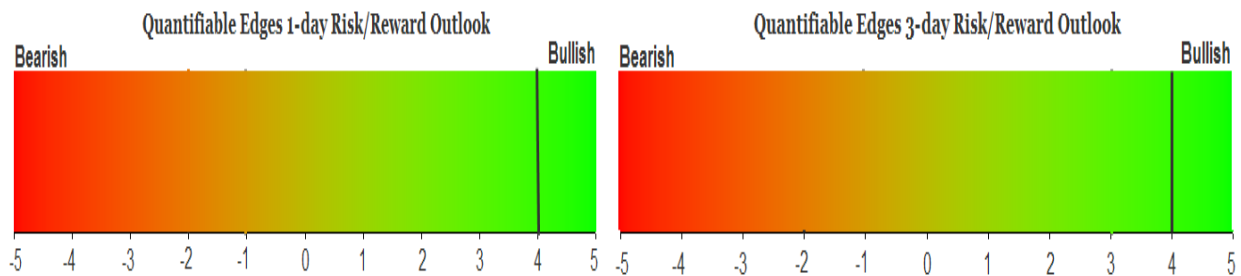
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2022

Volume 15 Issue 18

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	9

Tonight's Research Points

- 7 days up for VIX has been rare but bullish.
- Strong downward reversals on Fed Day have typically been followed by a rebound in the next few days.
- Using SPY and taking into account the strong gap up and the finish well off the lows the implications appear bearish.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. A strong bounce still appears highly probable in the short-term, but market action is abnormal, and that is worth keeping in mind.

The Evidence

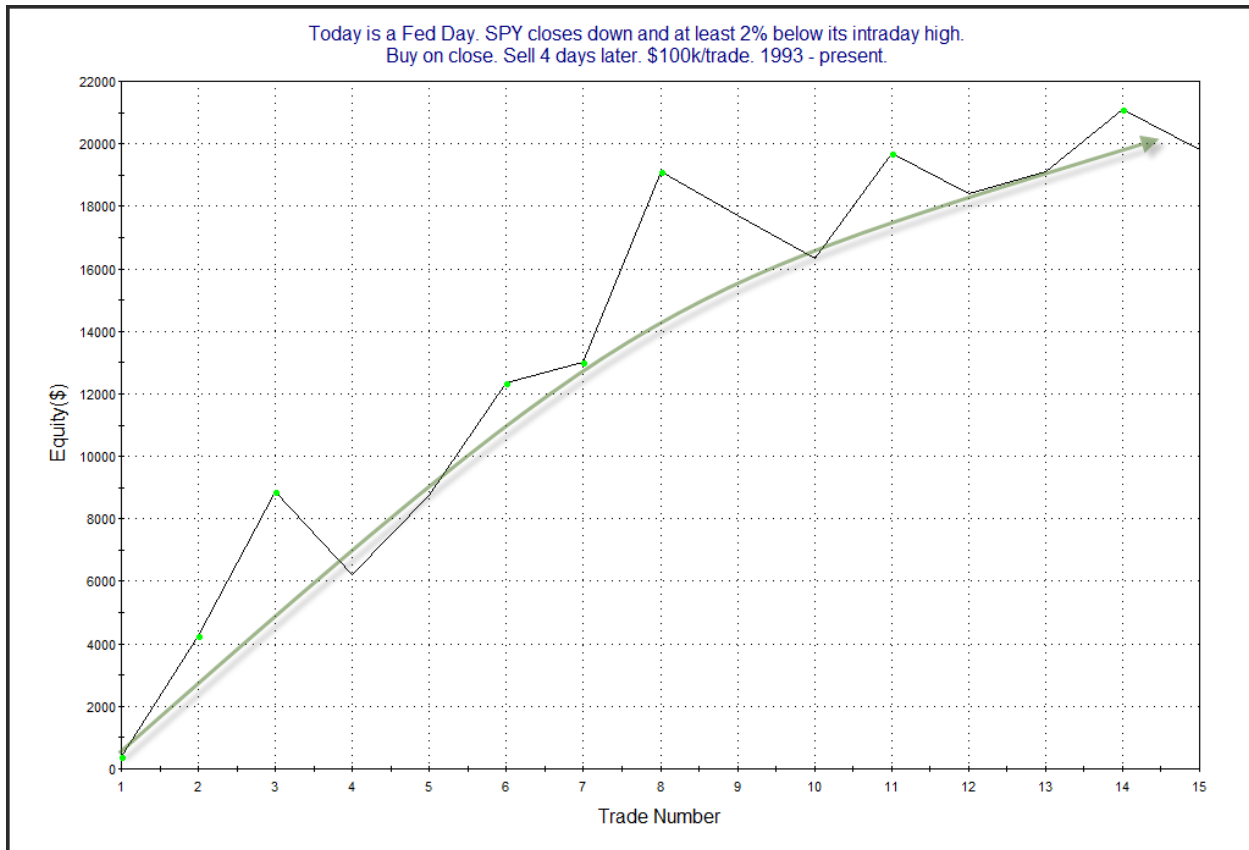
The market started off strong, but Jay Powell kept talking about inflation, and nobody wanted to hear it. So strong mid-day gains turned in mixed results. The SPX closed down 0.15%, the NASDAQ rose 0.02%, and the Russell 2000 dropped 1.38%. Breadth was negative with the NYSE Up Issues % coming in at 30% and the Up Volume % at 32%. NYSE total volume declined some from Tuesday's level.

The big selloff triggered several studies in the Quantifinder. Below are some of the most compelling ones.

Downward intraday reversals of the magnitude we saw on Wednesday are rare on Fed Days. The study below is from the 12/20/18 letter. It looks at other such reversals.

Today is a Fed Day. SPY closes down and at least 2% below its intraday high. 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	19,815.77	15	10	5	66.67	6,086.66	-2,628.75	2,772.99	-1,582.82	1.75	3.50	1,321.05
4	21,332.52	15	10	5	66.67	7,872.42	-2,241.12	2,993.19	-1,719.87	1.74	3.48	1,422.17
3	12,748.46	15	10	5	66.67	4,772.75	-6,717.24	2,261.43	-1,973.17	1.15	2.29	849.90
2	7,637.04	15	9	6	60.00	5,087.19	-4,192.32	2,271.69	-2,134.70	1.06	1.60	509.14
1	4,772.29	15	10	5	66.67	3,649.75	-3,230.89	1,529.50	-2,104.53	0.73	1.45	318.15

Instances are a little low, but the numbers are solidly bullish. Below is a look at the 4-day profit curve.



While a bit choppy, this curve does head from lower left to upper right. This study appears worth some consideration.

Another notable bit of action is that Wednesday marked the 7th day in a row that the VIX has risen. That is a very unusual streak. In the 12/5/13 letter I looked back at all other times the VIX had risen for 7 days in a row while SPY was above its 200ma. Below are updated results of SPY over the following days.

VIX closes up for the 7th day in a row.
Buy SPY 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	16,276.67	11	8	3	72.73	4,455.11	-1,501.56	2,398.21	-969.68	2.47	6.60	1,479.70
4	15,461.21	11	8	3	72.73	4,855.07	-1,161.09	2,180.15	-660.00	3.30	8.81	1,405.56
3	18,356.97	11	11	0	100.00	4,577.32	0.00	1,668.82	0.00	100.00	100.00	1,668.82
2	10,703.67	11	7	3	63.64	4,932.84	-882.06	1,797.66	-626.65	2.87	6.69	973.06
1	3,024.00	11	6	5	54.55	2,355.32	-1,677.36	1,049.05	-654.06	1.60	1.92	274.91

Instances are low, but so far the returns are overwhelmingly bullish. Below is the list of instances assuming a 3-day holding period.

VIX closes up for the 7th day in a row. Buy SPY on close. Sell X days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/4/1994	Buy	\$43.91	2.55%	\$2,777.94
4/7/1994	Sell	\$45.03		\$0.00
8/9/1994	Buy	\$45.97	0.78%	\$804.75
8/12/1994	Sell	\$46.33		(\$522.00)
2/6/1996	Buy	\$64.77	1.65%	\$2,484.23
2/9/1996	Sell	\$65.84		(\$108.01)
3/19/1997	Buy	\$78.78	0.95%	\$1,015.20
3/24/1997	Sell	\$79.53		(\$1,142.10)
10/30/1997	Buy	\$89.94	4.58%	\$4,999.50
11/4/1997	Sell	\$94.06		\$0.00
3/30/1998	Buy	\$109.56	2.25%	\$2,453.28
4/2/1998	Sell	\$112.03		(\$136.80)
8/5/2003	Buy	\$96.42	1.93%	\$2,208.81
8/8/2003	Sell	\$98.28		\$0.00
4/9/2012	Buy	\$138.22	0.41%	\$491.64
4/12/2012	Sell	\$138.79		(\$1,778.58)
12/4/2013	Buy	\$179.73	0.93%	\$1,078.64
12/9/2013	Sell	\$181.40		(\$533.76)
11/2/2016	Buy	\$209.74	1.63%	\$1,642.20
11/7/2016	Sell	\$213.15		(\$647.36)
10/20/2020	Buy	\$343.38	0.70%	\$759.51
10/23/2020	Sell	\$345.78		(\$794.43)
Avg Trade: 1.7% Avg RunUp: 1.9% Avg Drawdown: -0.5%				

Very little drawdown compared to both the run-up and the average trade. This appears to be worth some consideration. I also looked to see how the VIX did over this 3-day time period.

VIX closes up for the 7th day in a row.
Buy VIX on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/3/1994	Buy	\$12.57	-10.34%	\$2,386.50
1/6/1994	Sell	\$11.27		(\$17,739.65)
4/4/1994	Buy	\$23.87	-28.86%	\$0.00
4/7/1994	Sell	\$16.98		(\$29,616.23)
8/9/1994	Buy	\$12.54	-11.56%	\$2,790.90
8/12/1994	Sell	\$11.09		(\$12,040.74)
2/6/1996	Buy	\$14.59	0.27%	\$5,551.74
2/9/1996	Sell	\$14.63		(\$7,950.64)
3/19/1997	Buy	\$21.74	-7.73%	\$781.83
3/24/1997	Sell	\$20.06		(\$19,775.70)
10/30/1997	Buy	\$38.20	-15.60%	\$0.00
11/4/1997	Sell	\$32.24		(\$18,240.49)
3/30/1998	Buy	\$24.66	-10.87%	\$1,257.05
4/2/1998	Sell	\$21.98		(\$11,556.75)
8/5/2003	Buy	\$22.68	-13.62%	\$5,334.89
8/8/2003	Sell	\$19.59		(\$14,108.80)
4/9/2012	Buy	\$18.81	-8.56%	\$11,961.00
4/12/2012	Sell	\$17.20		(\$8,558.76)
12/4/2013	Buy	\$14.70	-8.23%	\$4,625.36
12/9/2013	Sell	\$13.49		(\$8,230.42)
11/2/2016	Buy	\$19.32	-3.16%	\$19,095.75
11/7/2016	Sell	\$18.71		(\$4,812.75)
10/20/2020	Buy	\$29.35	-6.13%	\$4,088.40
10/23/2020	Sell	\$27.55		(\$7,120.63)

Except for the 1996 instance, there was a decline every time, and most of them were sizable.

But not everything tonight looked positive. Two other important notables with the action were 1) the fact that the market gapped up large to start the day, and 2) that while it went from strongly positive to solidly negative the market did close well off its lows. In the past I've shown how bounces in the last few minutes of the day will often reduce an upside edge. In this case we see that the late day bounce has almost always been followed by a pullback in the next couple of days.

SPY gaps up > 1% then closes down on the day but above the bottom 15% of the intraday range.
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	-21,981.81	10	5	5	50.00	3,602.34	-12,819.52	2,296.38	-6,692.74	0.34	0.34	-2,198.18
4	-21,421.23	11	4	7	36.36	3,035.34	-6,751.20	1,444.26	-3,885.47	0.37	0.21	-1,947.38
3	-28,773.98	11	1	10	9.09	3,647.70	-6,646.64	3,647.70	-3,242.17	1.13	0.11	-2,615.82
2	-27,107.92	11	1	10	9.09	2,559.06	-7,347.99	2,559.06	-2,966.70	0.86	0.09	-2,464.36
1	-29,355.99	11	3	8	27.27	2,368.82	-9,839.83	1,451.94	-4,213.97	0.34	0.13	-2,668.73

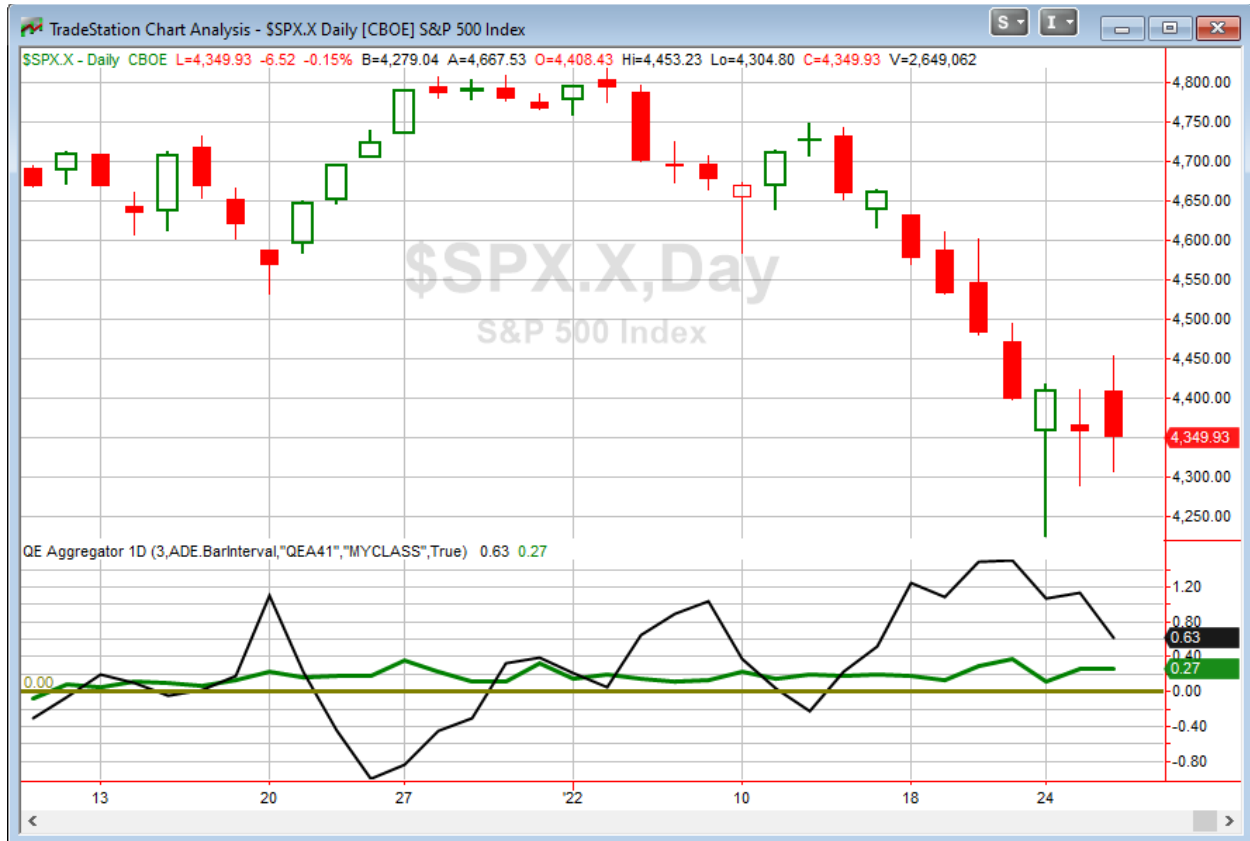
Instances are low but when stats are this overwhelming I generally pay attention. Below I have listed all the instances along with a 2-day exit strategy.

SPY gaps up > 1% then closes down on the day but above the bottom 15% of the intraday range. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/13/1997	Buy	\$92.28	-2.84%	\$1,115.49
8/15/1997	Sell	\$89.66		(\$2,869.95)
8/28/1998	Buy	\$103.38	-3.21%	\$628.55
9/1/1998	Sell	\$100.06		(\$9,428.25)
10/6/1998	Buy	\$98.59	-2.03%	\$1,460.16
10/8/1998	Sell	\$96.59		(\$6,459.18)
10/28/2002	Buy	\$89.61	-0.20%	\$390.25
10/30/2002	Sell	\$89.43		(\$2,910.15)
10/14/2008	Buy	\$99.85	-6.09%	\$0.00
10/16/2008	Sell	\$93.77		(\$13,323.31)
11/10/2008	Buy	\$92.63	-7.35%	\$0.00
11/12/2008	Sell	\$85.82		(\$8,103.29)
3/3/2009	Buy	\$70.07	-1.81%	\$3,995.60
3/5/2009	Sell	\$68.80		(\$2,711.30)
6/21/2010	Buy	\$111.41	-1.96%	\$439.53
6/23/2010	Sell	\$109.23		(\$2,628.21)
8/1/2011	Buy	\$128.78	-2.03%	\$0.00
8/3/2011	Sell	\$126.17		(\$4,074.00)
8/5/2011	Buy	\$120.08	-2.17%	\$0.00
8/9/2011	Sell	\$117.48		(\$8,161.92)
10/29/2018	Buy	\$263.86	2.57%	\$3,541.86
10/31/2018	Sell	\$270.63		(\$279.72)

Not only were 10 of 11 instances losers, but all those losers saw an intraday low at least 2.7% below the entry price at some point in the next 2 days. This would suggest there is potential for additional selling in the next day or two.

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. It would take some extremely compelling new bearish evidence to change this. Meanwhile, the Differential Pivot will be 4443.11 on Thursday. That is 2.1% above Wednesday's close. Therefore, SPX will need to close up over 2.1% on Thursday to flip from oversold to overbought vs recent expectations.

So the Aggregator is still long. And evidence is strongly bullish. But let's face it, the market should have bounced by now according to basically any historical standards. We are experiencing

abnormal market conditions. We see this is some of the studies I have shared, but even just looking at how extreme the pullback has been it can easily be seen. Since the NASDAQ began in 1971, the only other January to see the market pull back this much was 2008, when it dropped nearly 17% before rebounding to close January down 9.9%. Wednesday the NASDAQ was down 13.4% for the month. I have a fair amount of long exposure, and I still believe the odds strongly favor a short-term bounce. But I will surely be reducing my positions when that bounce finally arrives. I am not inclined to load up on any more index exposure right now.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

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

F – 1/3 @ \$20.65 (bought @ limit)

NFLX – 1/3 @ \$387.15 (bought @ limit)

F – 1/3 @ \$20.39 (bought @ limit)

F – 1/3 @ \$19.98 (bought @ limit)

New

AMGN – 1/3 @ \$222.54 (buy @ limit)

TMO – 1/3 @ \$562.90 (buy @ limit)

KO – 1/3 @ \$59.60 (buy @ limit)

Broad Market Large Cap CBI – 9(, NFLX-3, F-3, AMGN, TMO, KO)

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.

AMGN – Buy 1/3 Catapult position @ \$222.54 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of AMGN.

TMO – Buy 1/3 Catapult position @ \$562.90 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of TMO.

KO – Buy 1/3 Catapult position @ \$59.60 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of KO.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
AVGO(1/3)	1/14/2022	\$595.78	\$557.12	-6.49%	<i>Sell on open</i>
NFLX(1/3)	1/14/2022	\$517.60	\$359.70	-30.51%	Catapult
AVGO(1/3)	1/18/2022	\$588.32	\$557.12	-5.30%	<i>Sell on open</i>
SPY(1/4)	1/18/2022	\$459.74	\$433.38	-5.73%	Aggregator
SPY(1/4)	1/19/2022	\$451.75	\$433.38	-4.07%	Aggregator
AVGO(1/3)	1/19/2022	\$577.79	\$557.12	-3.58%	<i>Sell on open</i>
NFLX(1/3)	1/24/2022	\$383.91	\$359.70	-6.31%	Catapult
F(1/3)	1/24/2022	\$19.93	\$19.91	-0.10%	Catapult
NFLX(1/3)	1/25/2022	\$379.14	\$359.70	-5.13%	Catapult
F(1/3)	1/25/2022	\$20.00	\$19.91	-0.45%	Catapult
BRK.B(1/3)	1/25/2022	\$301.87	\$309.26	2.45%	<i>Sell on open</i>
F(1/3)	1/26/2022	\$19.98	\$19.91	-0.35%	Catapult
SPY(1/4)	1/26/2022	\$433.38	\$433.38	0.00%	Aggregator

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.