

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 1, 2022

Volume 15 Issue 21

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The strong move over the last few days from a 50-day low suggests more upside.
- After going an extended period of time without closing above the 10ma, SPX managed to do so today. When in a long-term uptrend, that has often led to further gains.
- Strong moves up through the 200ma have often been punished the next day in recent years.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. It seems like a good time to flatten out exposure and wait for the next favorable opportunity to avail itself.

The Evidence

Monday was a 2nd day of strong buying. The SPX gained 1.9%, the NASDAQ rallied 3.4%, and the Russell 2000 rose 3.05%. Breadth was positive with the NYSE Up Issues % coming in at 81% and the Up Volume % at 80%. NYSE total volume rose some from Friday’s level.

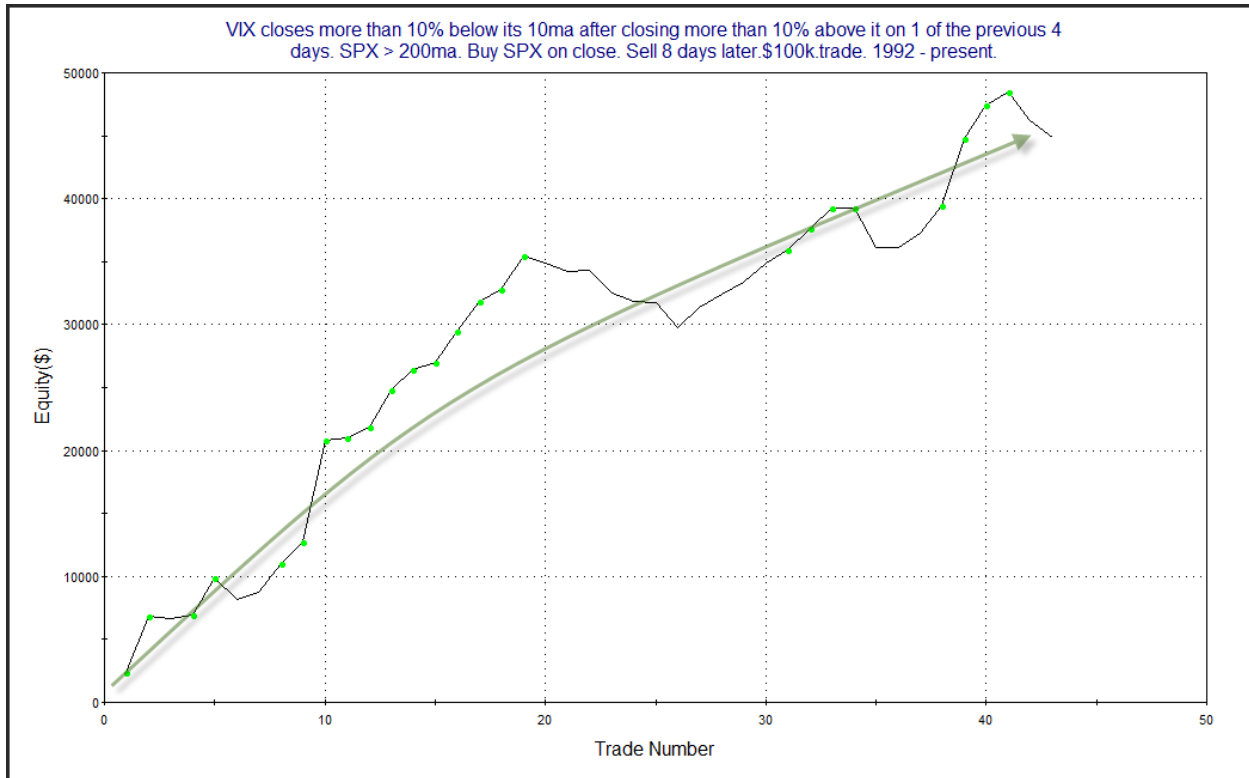
There were a few studies that emerged that seemed worth discussion. This first one considers the sharp drop in the VIX over the last couple of days after a sharp rise just prior to that. It was last seen in the 12/8/21 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. SPX > 200ma. Buy SPX on close. Sell X days later.\$100k.trade. 1992 - 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	34,994.44	43	27	16	62.79	8,115.80	-4,224.84	2,156.05	-1,451.18	1.49	2.51	813.82
9	37,468.17	43	29	14	67.44	8,397.40	-2,973.64	1,928.53	-1,318.51	1.46	3.03	871.35
8	44,828.13	43	32	11	74.42	8,076.20	-3,172.20	1,855.87	-1,323.62	1.40	4.08	1,042.51
7	40,142.72	43	31	12	72.09	7,749.50	-3,267.44	1,795.76	-1,293.82	1.39	3.59	933.55
6	37,178.50	43	30	13	69.77	5,305.30	-3,271.68	1,701.83	-1,067.42	1.59	3.68	864.62
5	31,225.87	43	28	15	65.12	5,361.40	-3,111.68	1,659.96	-1,016.87	1.63	3.05	726.18
4	19,551.86	44	30	14	68.18	4,981.90	-2,927.52	1,242.99	-1,266.98	0.98	2.10	444.36
3	13,694.04	45	28	17	62.22	3,799.40	-3,629.81	1,019.49	-873.63	1.17	1.92	304.31
2	8,917.19	45	28	17	62.22	3,839.00	-5,300.66	863.26	-897.29	0.96	1.58	198.16
1	8,605.03	45	27	18	60.00	2,952.40	-3,572.94	739.98	-631.92	1.17	1.76	191.22

91% of instances closed above the entry price at some point in the next week.

The market condition that would typically accompany such VIX movement is one where you see SPX post a strong rebound from a sharp decline during a long-term uptrend. That is a pretty good description of the current setup. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8-day holding period.



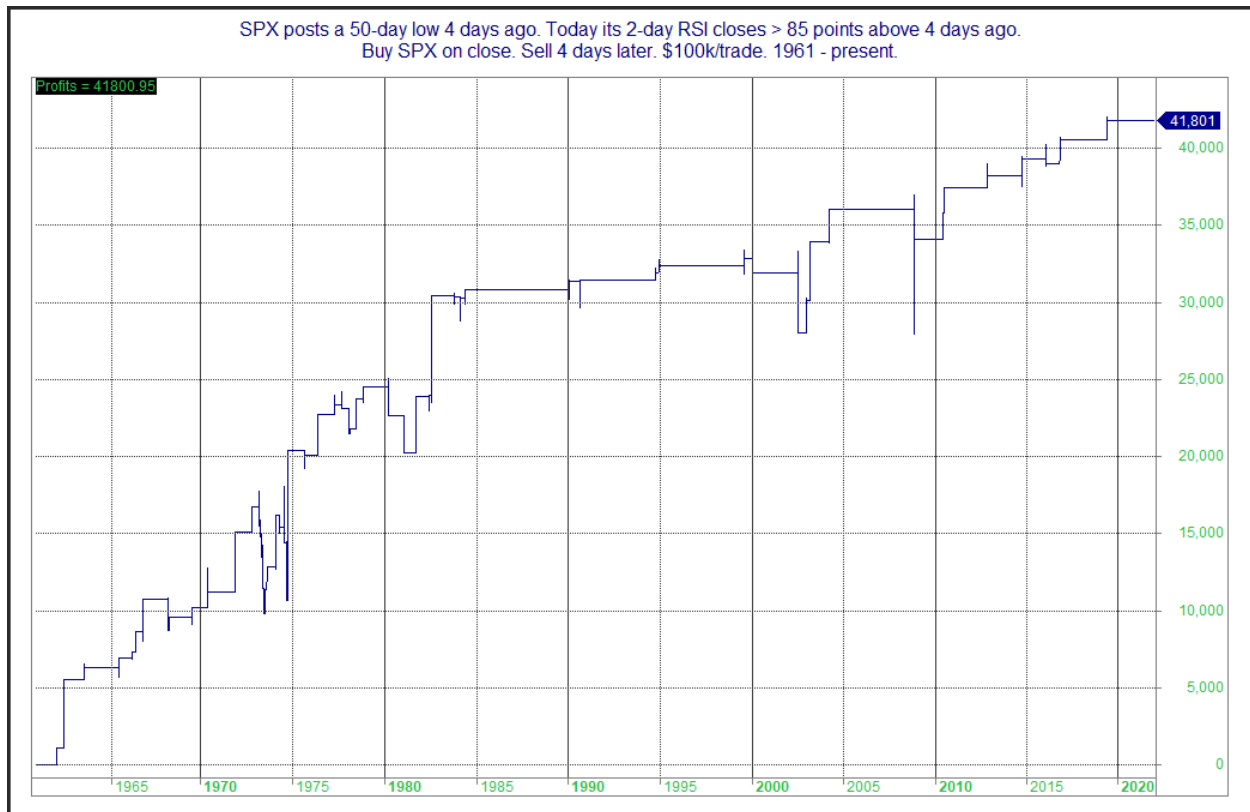
This curve struggled for some time in the middle of the chart, but it recovered nicely and has persisted higher. I have included this study on the Active List tonight. I will also note that the strong bounce the last couple of days has caused a few of the studies from previous nights to reach their typical upside, so they have been removed a little early.

An interesting study shown in the Quantifinder was from the 6/7/19 subscriber letter. It looked at other times that the market made a 50-day low, and then 4 days later its 2-day RSI was over 85 points higher. I have updated the results from that study below.

SPX posts a 50-day low 4 days ago. Today its 2-day RSI closes > 85 points above 4 days ago. Buy SPX on close. Sell X days later. \$100k/trade. 1961 - present.

X Days	Net Profit	# Trades	# of winners	# of losers	% of Winners	W. Avg. Profit	L. Avg. Loss	Profit Factor	Avg Profit/Loss
5	\$23,313.38	56	32	24	57.14	\$ 1,987.95	\$(1,679.21)	1.58	\$ 416.31
4	\$41,800.96	56	35	21	62.5	\$ 1,909.42	\$(1,191.85)	2.67	\$ 746.45
3	\$32,240.14	56	38	18	67.86	\$ 1,353.48	\$(1,066.23)	2.68	\$ 575.72
2	\$19,340.95	56	37	19	66.07	\$ 1,082.27	\$(1,089.64)	1.93	\$ 345.37
1	\$11,654.10	56	33	23	58.93	\$ 703.89	\$(503.23)	2.01	\$ 208.11

Numbers here appear bullish. Below is an equity curve using a 4-day holding period.



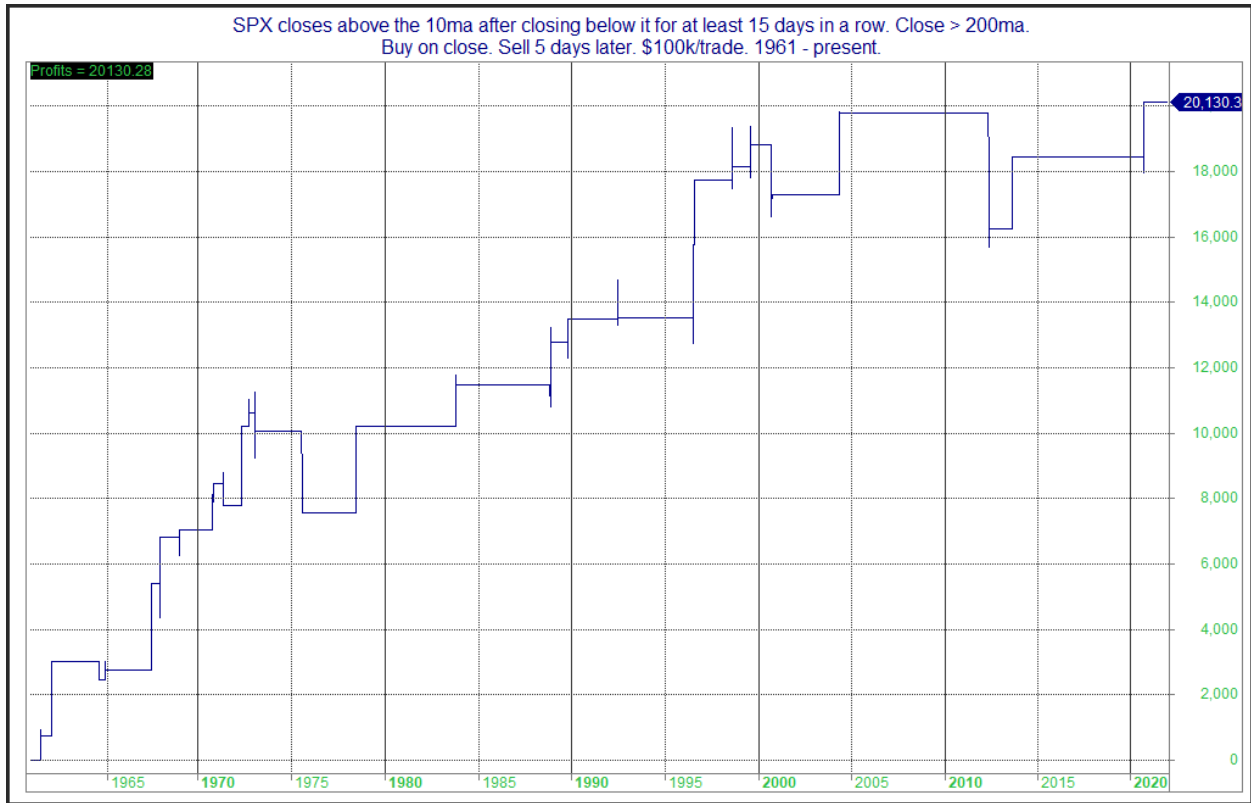
The strong steady upslope serves as confirmation of the bullish tendency. When strong bounces occur from oversold intermediate-term lows it can often create a short-term overbought condition that becomes even more overbought in the following days. Evidence continues to point higher.

Monday was the 1st day that SPX closed above its 10ma since January 4th. So prior to today that was a run of 17 days in a row below the 10ma. In the 9/5/13 letter I looked back at all other times during uptrends that SPX moved above its 10ma after closing below it for at least 3 weeks. Below are updated results.

SPX closes above the 10ma after closing below it for at least 15 days in a row. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1961 - present.

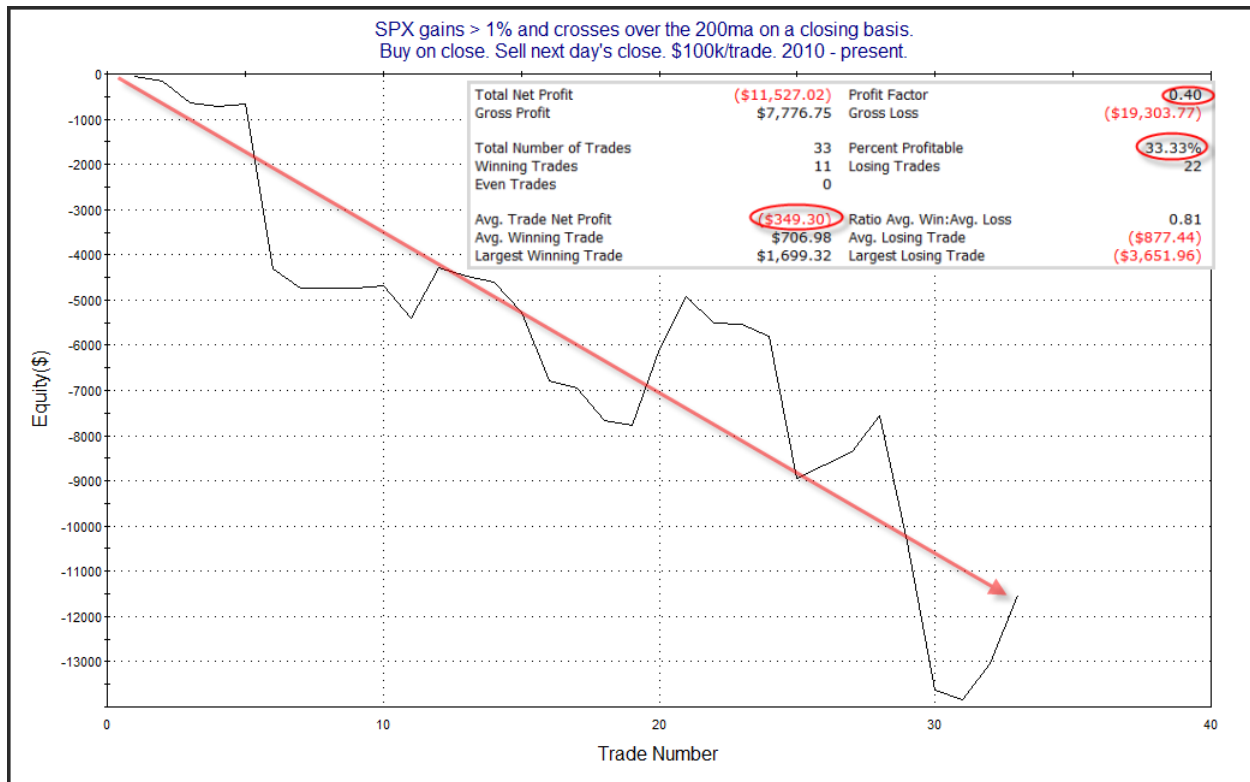
X Days	Net Profit	# Trades	# of winners	# of losers	% of Winners	W. Avg. Profit	L. Avg. Loss	Profit Factor	Avg Profit/Loss
5	\$ 20,130.28	27	20	7	74.07	\$ 1,472.96	\$ (1,332.71)	3.16	\$ 745.57
4	\$ 12,254.89	27	15	12	55.56	\$ 1,438.32	\$ (776.66)	2.31	\$ 453.88
3	\$ 7,732.92	27	20	7	74.07	\$ 840.69	\$ (1,297.26)	1.85	\$ 286.40
2	\$ 7,615.64	27	17	10	62.96	\$ 891.69	\$ (754.31)	2.01	\$ 282.06
1	\$ 1,358.93	27	16	11	59.26	\$ 525.78	\$ (641.23)	1.19	\$ 50.33

Not overwhelming, but the numbers here look pretty solid for the bulls. Below is the 5-day profit curve.



This also looks pretty good. The one thing I don't really love about this study is that it looks back over such a long period of time to get just 27 instances. Still, I think it is worth some consideration and have added it to the Active List.

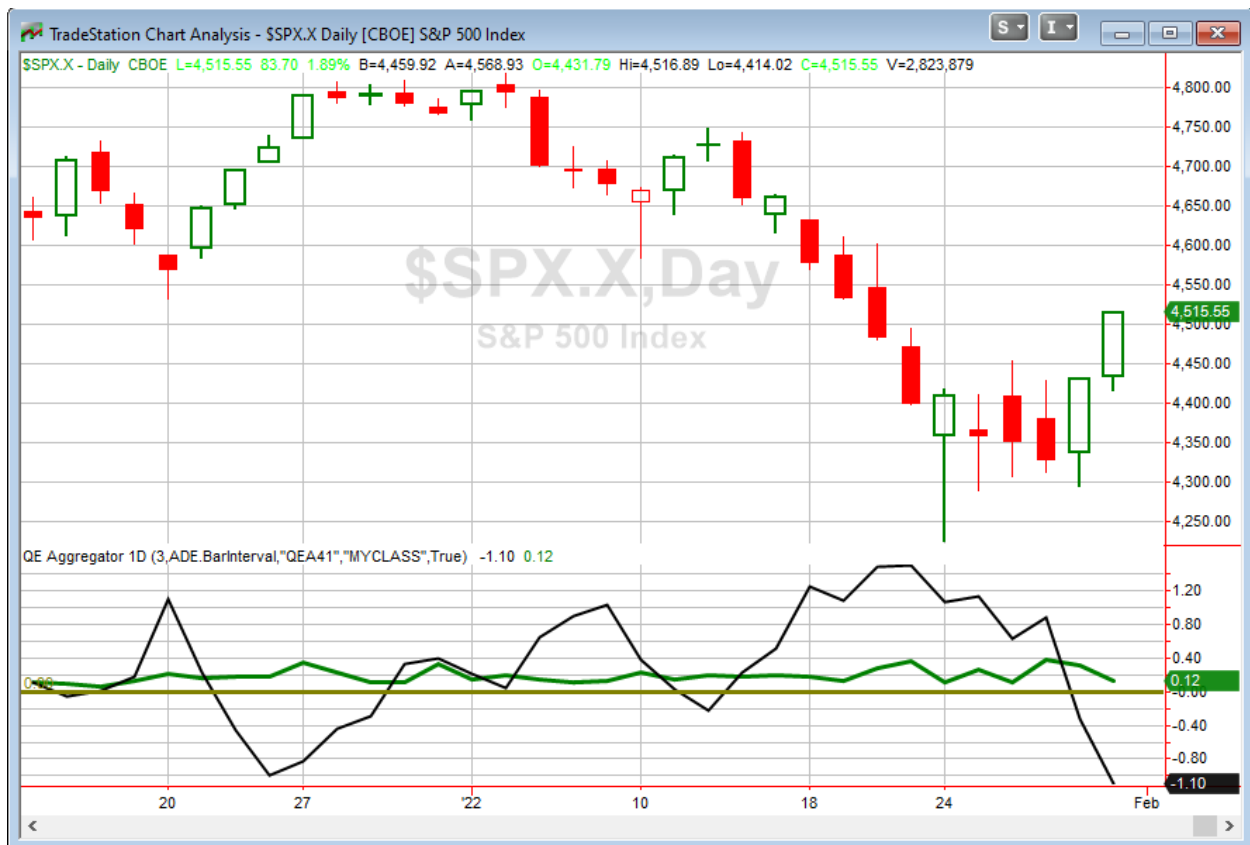
There was one Quantifinder study that leaned bearish. It was last seen in the 6/30/20 letter. It looked at strong moves up through the well-watched 200ma. I have updated it below.



The move from upper left to lower right is impressive and so are the stats. This would suggest a bearish tendency for the day after such a strong move through the 200ma.

It is also notable that the CBI dropped from 10 yesterday all the way to zero today. Generally a CBI spike to 10+ like we had a few days ago means there is a broad washout occurring and strong odds of a bounce over the next 2-4 weeks. It also suggests a short-term edge until the condition resolves. The condition resolved Monday, taking away the short-term edge. Based on the intermediate-term analysis, another leg down right away appears unlikely. Of course it could happen after a little bouncing around for the next week or so.

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 remained below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current studies on the active list, expectations are scheduled to remain positive on Tuesday. It would take compelling new bearish evidence to change this. Meanwhile, the Differential Pivot will be 4355.19 on Tuesday. That is 3.6% below Monday's close. Therefore, SPX will need to close down a massive 3.6% on Monday to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is still pointing higher, but the bounce has been extremely strong the last 2 days, leaving SPX now substantially overbought. This seems like a good place to exit my remaining long exposure. Even the Catapults have all hit their exit triggers. I'll be glad to be flat, and I'll wait for the next favorable setup to emerge. And that could be on the the long or the short side.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/31 – neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

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
NFLX(1/3)	1/14/2022	\$517.60	\$427.14	-17.48%	<i>Sell on open</i>
<i>SPY(1/4)</i>	<i>1/18/2022</i>	<i>\$459.74</i>	<i>\$441.24</i>	<i>-4.02%</i>	<i>sold on open</i>
<i>SPY(1/4)</i>	<i>1/19/2022</i>	<i>\$451.75</i>	<i>\$441.24</i>	<i>-2.33%</i>	<i>sold on open</i>
NFLX(1/3)	1/24/2022	\$383.91	\$427.14	11.26%	<i>Sell on open</i>
F(1/3)	1/24/2022	\$19.93	\$20.30	1.86%	<i>Sell on open</i>
NFLX(1/3)	1/25/2022	\$379.14	\$427.14	12.66%	<i>Sell on open</i>
F(1/3)	1/25/2022	\$20.00	\$20.30	1.50%	<i>Sell on open</i>
F(1/3)	1/26/2022	\$19.98	\$20.30	1.60%	<i>Sell on open</i>
SPY(1/4)	1/26/2022	\$433.38	\$449.91	3.81%	<i>Sell on open</i>
<i>AMGN(1/3)</i>	<i>1/27/2022</i>	<i>\$222.40</i>	<i>\$226.98</i>	<i>2.06%</i>	<i>sold on open</i>
TMO(1/3)	1/27/2022	\$562.90	\$581.30	3.27%	<i>Sell on open</i>
TMO(1/3)	1/28/2022	\$553.74	\$581.30	4.98%	<i>Sell on open</i>
NEE(1/3)	1/28/2022	\$72.32	\$78.12	8.02%	<i>Sell on open</i>

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