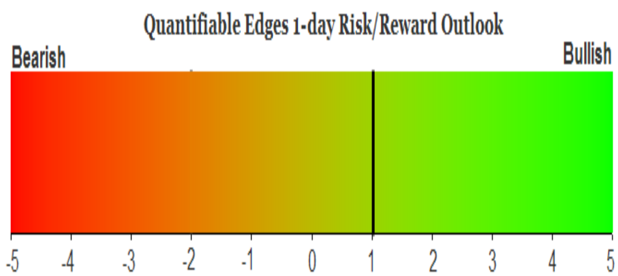
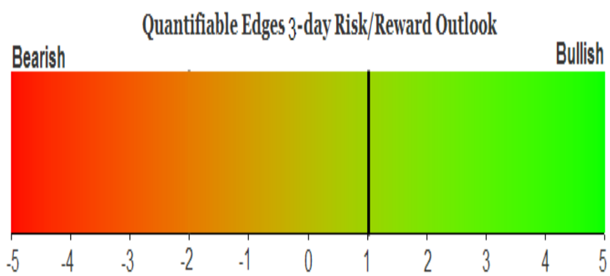
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2022 Volume 15 Issue 24

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Coming from a short-term high, the sizable drop on Thursday could be a prelude to more short-term selling.
- Friday's Employment Report could provide a boost to the market.

Short-term Outlook
The Bottom Line
The Aggregator is bullish, but that is only likely to last 1 day. I am more neutral.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 4, 2022	2% drop from 5-high. Close > 5-low.	1-4 days	Bearish	-3.30%	2.30%	3.90%
February 4, 2022	Jobs Day bullish	1 day	Bullish			
February 2, 2022	50-low, then up 3 and NR7 day	1-3 days	Bullish			
February 1, 2022	50-low then 2RSI up 85 points in	1-4 days	Bullish	2.10%	-1.30%	-2.75%
February 1, 2022	VIX 10% above 10ma t 10% below 4 dys	1-8 days	Bullish	2.00%	-1.20%	-2.60%
Active - Long Term						
January 31, 2022	Up close from 21-day low on a Friday	1-20 days	Bullish			
January 27, 2022	CBI >= 10. SPX 50-day low.	1-18 days	Bullish			
January 27, 2022	20-day low. Up close, then inside day dn	1-10 days	Bullish			
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 saw some big selling. The SPX lost 2.4%, the NASDAQ tumbled 3.7%, and the Russell 2000 declined 1.9%. Breadth was negative with the NYSE Up Issues % coming in at 19% and the Up Volume % at 17%. NYSE total volume declined some from Wednesday's level.

One mistake that many swing traders make when looking at selloffs like Thursday is that they believe just because the selling was strong, that it is likely to be exhaustive and lead to a quick reversal. Strong selloffs can often be exhaustive. But a big factor that is often overlooked is the position of the market when the selloff occurs. In the 4/16/20 subscriber letter I compared 2% drops that leave the market at a 5-day low versus 2% drops that don't. I found a big difference in the results, and have updated them below.

SPX closes down > 2% ***and at a 5-day low.***
Buy on close. Sell X days later. $100k/trade. 1990 - 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	133,687.00	185	110	75	59.46	17,127.00	-12,975.48	3,082.75	-2,738.87	1.13	1.65	722.63
4	95,760.52	195	115	80	58.97	13,981.45	-14,820.98	2,680.87	-2,656.75	1.01	1.45	491.08
3	86,890.80	206	122	84	59.22	13,853.40	-13,815.18	2,447.93	-2,520.91	0.97	1.41	421.80
2	78,970.83	222	124	98	55.86	10,183.87	-8,077.85	2,029.24	-1,761.78	1.15	1.46	355.72
1	91,392.30	246	154	92	62.60	10,716.03	-9,386.64	1,574.23	-1,641.73	0.96	1.61	371.51

The strong selloff and new low suggest a bullish edge. But when SPX is NOT closing at a low level…

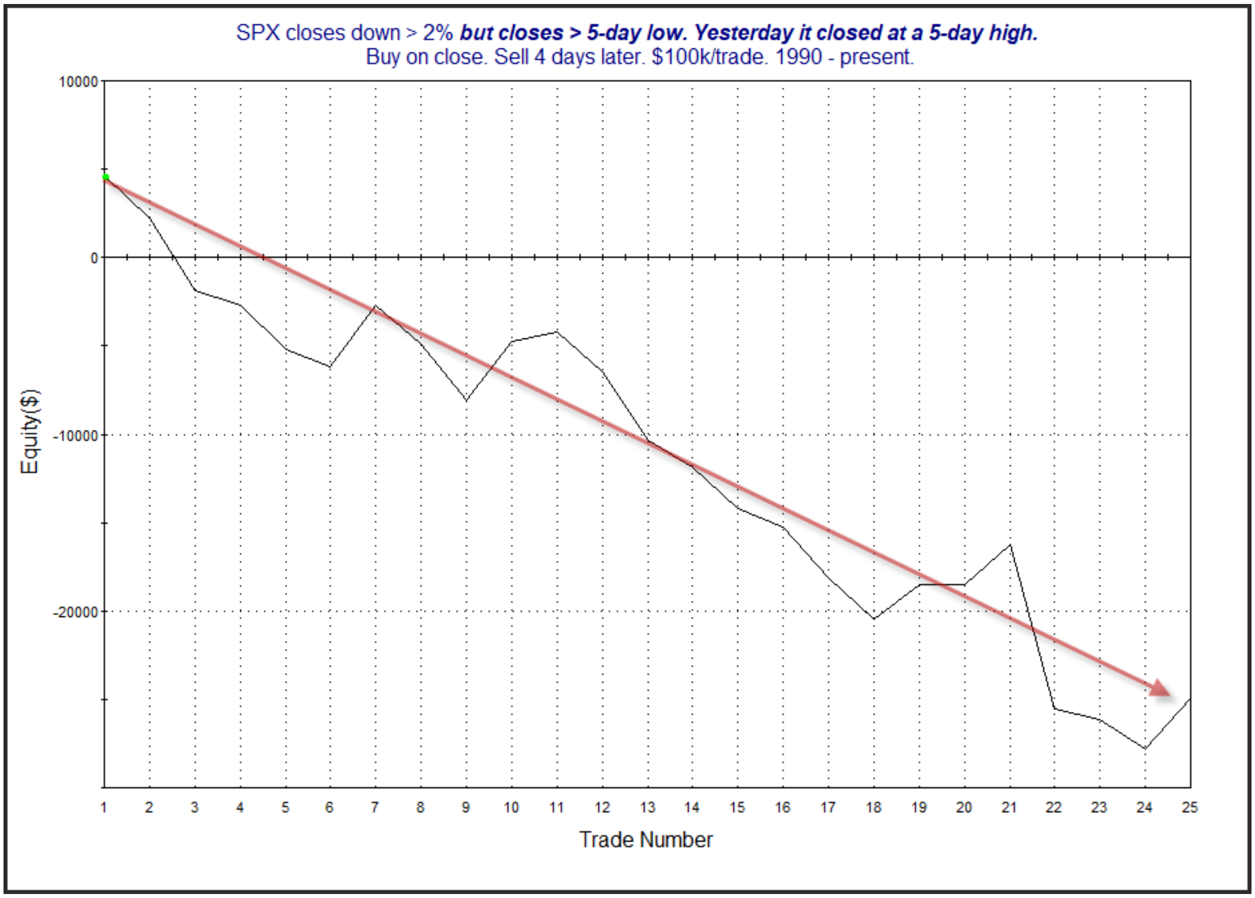
SPX closes down > 2% ***but closes > 5-day low.*** Buy on close. Sell X days later. $100k/trade. 1990 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-25,002.84	35	18	17	51.43	6,507.68	-18,188.04	2,875.86	-4,515.78	0.64	0.67	-714.37
4	-19,432.05	38	16	22	42.11	7,513.37	-13,776.90	3,954.89	-3,759.56	1.05	0.77	-511.37
3	-4,437.88	42	21	21	50.00	8,531.60	-10,506.45	3,131.21	-3,342.54	0.94	0.94	-105.66
2	10,399.98	43	22	21	51.16	7,608.64	-9,153.54	3,075.40	-2,726.61	1.13	1.18	241.86
1	7,716.43	43	25	18	58.14	4,617.32	-6,060.08	1,674.19	-1,896.57	0.88	1.23	179.45

…there no longer appears to be an edge.

Interesting about Thursday's drop is that it also came immediately after a short-term high. So just the day before, traders were optimistic. This too can be important. Wednesday afternoon's buyers are stuck underwater. Here is the study with that added as a filter.

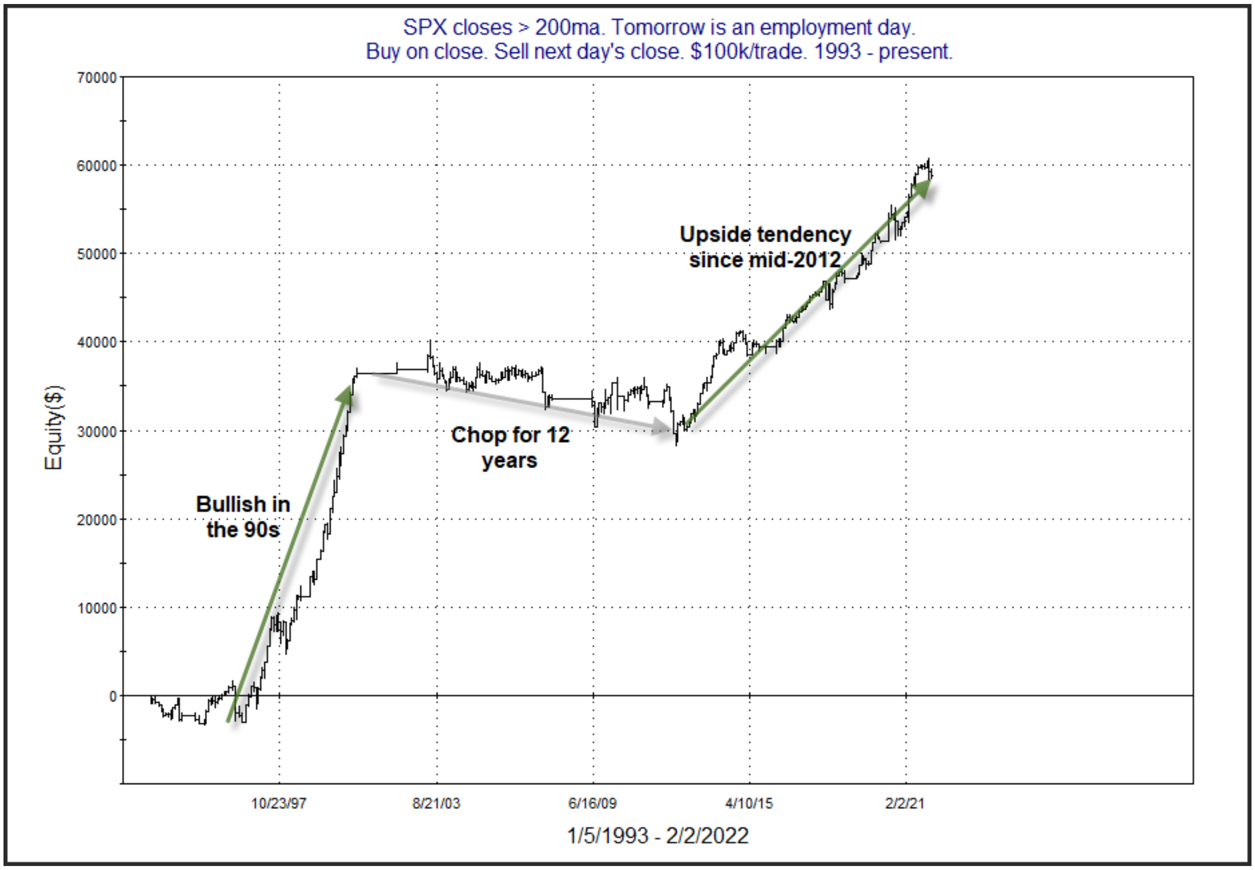
SPX closes down > 2% ***but closes > 5-day low. Yesterday it closed at a 5-day high.*** Buy on close. Sell X days later. $100k/trade. 1990 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-36,777.89	24	12	12	50.00	4,189.92	-17,928.90	1,614.26	-4,679.08	0.34	0.34	-1,532.41
4	-24,926.01	25	7	18	28.00	4,630.50	-9,324.48	2,715.92	-2,440.97	1.11	0.43	-997.04
3	-6,951.81	26	12	14	46.15	4,605.20	-4,676.43	1,932.58	-2,153.06	0.90	0.77	-267.38
2	-5,994.99	26	12	14	46.15	4,498.74	-9,153.54	2,365.20	-2,455.52	0.96	0.83	-230.58
1	-3,148.49	26	15	11	57.69	3,322.02	-3,466.02	1,032.86	-1,694.67	0.61	0.83	-121.10

This looks somewhat bearish. Below is a 4-day curve.

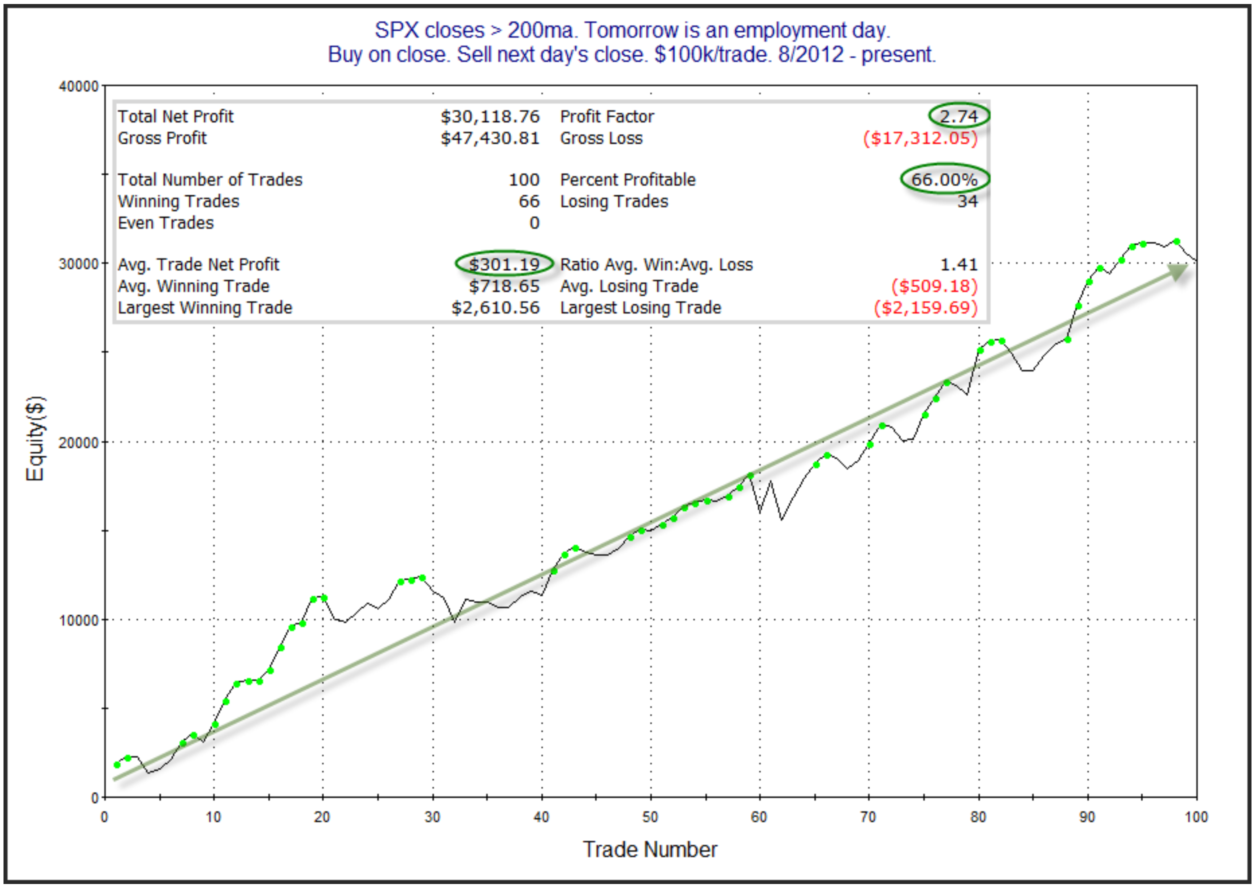


The strong, steady decline serves as some confirmation of the downside edge.

After the bell of Thursday Amazon came out with earnings and prices rallied sharply, with the NDX and SPX also rallying to earn back a chunk of Thursday's losses. But we will see even more news happen before the opening bell on Friday. That is because Friday is an employment day (a day in which the BLS releases their monthly employment report). Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPX performance on Employment Days. I last posted this chart in the 12/3/21 subscriber letter. For this equity curve, which is updated, I filtered to only include days where SPX was > its 200ma. Each trade was a fictional $100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. Here is a zoomed in look at performance since mid-2012 when the recent bullish tendency began.



Based on what we know of history, I would not expect this edge to last forever. But it may be worth factoring in for as long as the current behavior seems to persist. The broader study is also a nice reminder that market dynamics change over time. But in recent times, Employment Days have seen good results. So I'll view Employment Days as bullish until the curve turns.

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 rose above zero. The positive Differential Line reading means that SPX is 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 turned long at the close.

Based on the current studies on the active list, expectations are scheduled to flip to negative on Friday. It would take some new bullish evidence to change this. Meanwhile, the Differential Pivot will be 4572.01 on Friday. That is 2.1% above Thursday's close. Therefore, SPX will need to close up over 2.1% on Friday to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But I am not terribly excited. Evidence tonight is mixed, with the bearish study set to turn expectations negative as early as Friday. With the market this volatile and evidence mixed, I am content to wait for a more favorable opportunity to arise. I'll remain sidelined, and take a fresh look over the weekend.

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

None