

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2022

Volume 15 Issue 29

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- Strong selloffs like Thursday often suggest a reversion edge, but not when they fail to generate a short-term low.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and I am not seeing a powerful short-term directional edge.

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						
None						
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
February 1, 2022	VIX 10% above 10ma t 10% below 4 dys	1-8 days	Bullish	2.00%	-1.20%	-2.60%

The Evidence

Thursday saw some wild back and forth, but the numbers were decidedly negative at the end of the day. The SPX finished down 1.8%, the NASDAQ lost 2.1%, and the Russell 2000 dropped 1.55%. Breadth was negative with the NYSE Up Issues % coming in at 25% and the Up Volume % at 27%. NYSE total volume rose for the 3rd day in a row.

SPY gapped down over 1.25% to open the day. It then filled the gap before reversing course and closing below the open. There has only been one other time this has happened while SPY still managed to close above the 200ma. That was the [October 27, 1997 “Asian Contagion” mini-crash](#). Thursday was much different than the nearly 7% loss for the SPX on that day. But this does speak to just how unusual the action was.

The morning selloff was sparked by a big CPI number, with the headline inflation up 7%. It's the biggest increase since 1982. And the Fed is still pumping QE. So after the market recovered during the day, Fed member Bullard had some hawkish comments, which was soon followed by the reversal back down for the market. (Whether that was the CAUSE of the selloff, or whether it was because of the James Harden / Ben Simmons trade between the Nets and 76ers is up for debate.) By late afternoon Twitter was abuzz with rumors of emergency Fed rate hikes, or an immediate end to QE. Personally, I don't believe a surprise rate hike is likely. According to @SentimenTrader, the only surprise rate hike since 1997 occurred in Feb of 2000. Could they end QE quickly? Perhaps. But it is tough to make a bet on a “surprise” move with a sample size of 1 or 0.

The big move lower did not trigger much in the way of new evidence – and nothing compelling. Big drops often do generate edges, but the fact that the big drop did not even put the market at a short-term low greatly reduces any edge. This is something I have seen many ways over the years.

Below are two studies. They both look at 1% drops on poor breadth. The 1st one shows results when there is also a short-term low. The 2nd on is like Thursday, where a short-term low was not achieved. It was last seen in the 10/19/18 letter.

SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Today closed at a 4-day low. \$100k/trade. 1991 - present.

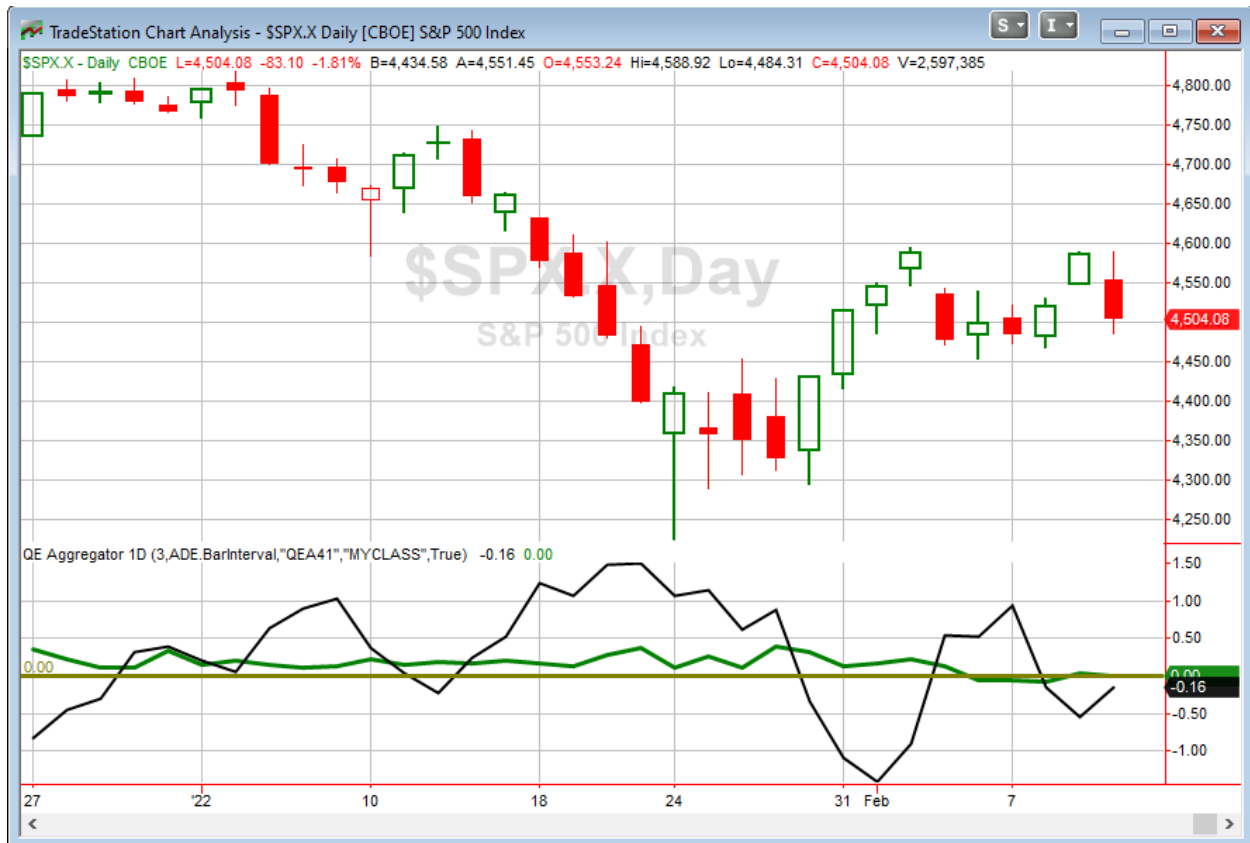
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	259,186.81	382	234	148	61.26	17,127.00	-11,122.37	2,352.36	-1,968.00	1.20	1.89	678.50
4	189,761.56	409	244	165	59.66	13,379.08	-16,227.09	2,164.83	-2,051.25	1.06	1.56	463.96
3	182,574.13	447	270	177	60.40	17,277.48	-13,815.18	1,925.05	-1,905.02	1.01	1.54	408.44
2	152,162.28	507	283	224	55.82	10,479.04	-8,657.72	1,619.33	-1,366.56	1.18	1.50	300.12
1	149,311.41	571	343	228	60.07	10,716.03	-9,386.64	1,175.85	-1,114.06	1.06	1.59	261.49

SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Today closed **above a 4-day low. \$100k/trade. 1991 - 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	10,659.74	58	38	20	65.52	10,919.20	-18,188.04	2,538.43	-4,290.02	0.59	1.12	183.79
4	17,506.67	60	36	24	60.00	12,046.80	-13,776.90	2,846.22	-3,539.88	0.80	1.21	291.78
3	18,991.29	62	35	27	56.45	10,453.20	-10,506.45	2,692.28	-2,786.61	0.97	1.25	306.31
2	17,993.58	63	36	27	57.14	7,608.64	-9,153.54	2,145.78	-2,194.61	0.98	1.30	285.61
1	18,504.62	65	36	29	55.38	7,001.20	-6,060.08	1,551.26	-1,287.61	1.20	1.50	284.69

The charts for the 2nd study are also a bunch of chop. So I won't be adding any new studies to the active list tonight.

I have updated [the Aggregator chart](#) below.



Without any new studies triggering on Thursday, the green Aggregator Line closed right at zero. Flat readings mean net expectations are dead even 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 flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

With the short-term active list bare, and the intermediate-term outlook neutral, that means expectations over the next few days will be greatly dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be *slightly inverted* at 4511.49 on Friday. That is 0.2% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.2% on Friday in order to remain overbought. Anything shy of that and it will be considered "oversold" vs expectations at Friday's close.

So the Aggregator is neutral. Evidence is still lacking. My outlook is much that same as last night. I don't see a strong short-term directional edge. So I'll continue to keep my powder dry and remain alert to any new clues the market may provide.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/7 – neutral

The intermediate-term outlook was last updated in the 2/7/22 Letter. It can be found in the [most recent weekly letter](#) on the website.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

GILD – 1/3 @ \$63.76 (bought @ limit)

GILD – 1/3 @ \$63.70 (bought @ limit)

GILD – 1/3 @ \$63.38 (buy @ limit)

Broad Market Large Cap CBI – 3(GILD-3)

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
GILD(1/3)	2/8/2022	\$63.76	\$61.79	-3.09%	Catapult
GILD(1/3)	2/9/2022	\$63.70	\$61.79	-3.00%	Catapult
GILD(1/3)	2/10/2022	\$63.00	\$61.79	-1.92%	Catapult

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