

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 16, 2022

Volume 15 Issue 32

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through, but perhaps not on day 1.

Short-term Outlook

The Bottom Line

Evidence favors more upside, but we could quickly turn short-term overbought after the strong rally on Tuesday.

The Evidence

Tuesday saw the market bounce in “Turnaround Tuesday” fashion. The SPX closed up 1.6%, the NASDAQ rallied 2.5%, and the Russell 2000 jumped 2.8%. Breadth was positive with the NYSE Up Issues % coming in at 76% and the Up Volume % at 80%. NYSE total volume declined some from Monday’s level.

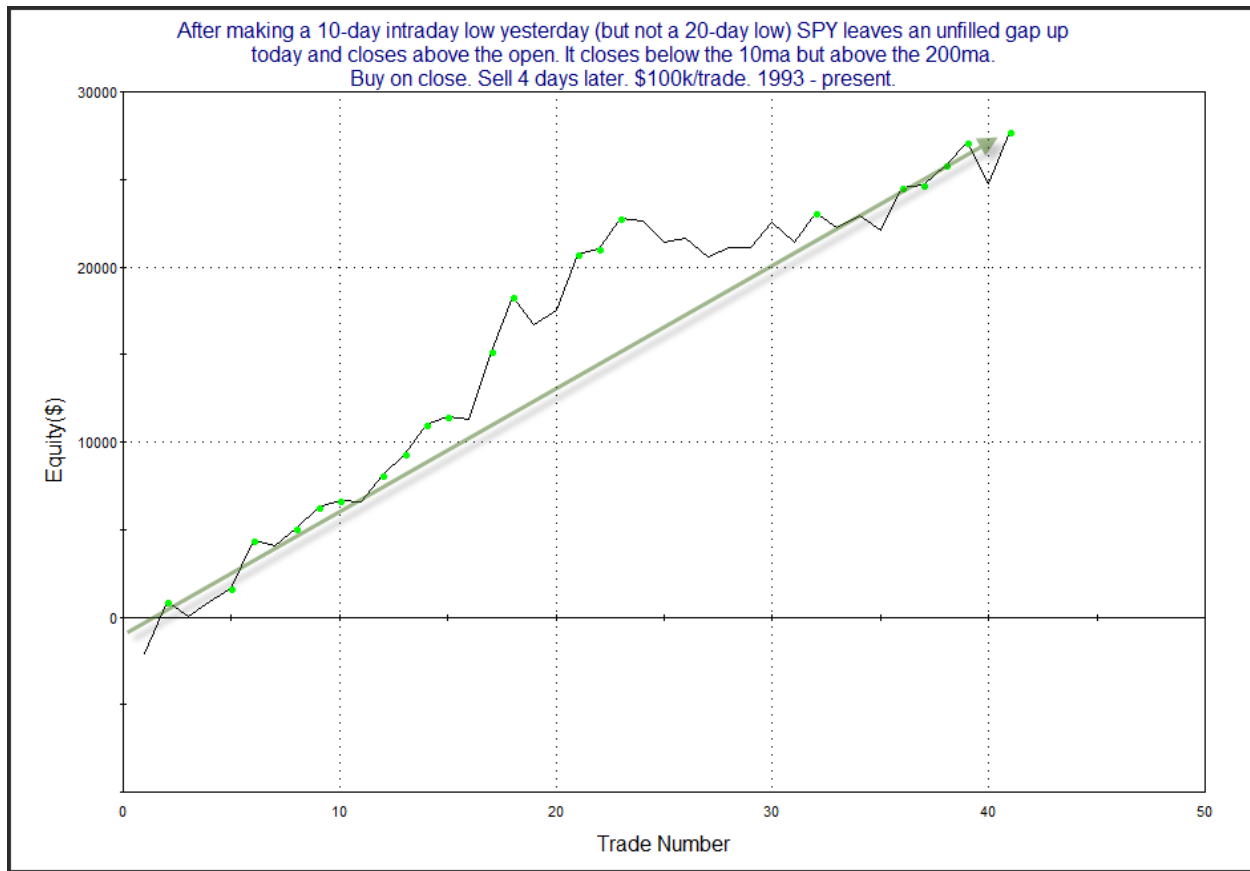
Tuesday’s rally was marked by the fact that it featured an unfilled gap up and a further rise after the open. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 6/22/21 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
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	29,647.70	40	29	11	72.50	4,106.63	-1,949.70	1,377.43	-936.15	1.47	3.88	741.19
4	27,711.36	41	28	13	68.29	3,904.83	-2,403.70	1,443.99	-978.50	1.48	3.18	675.89
3	18,983.56	42	26	16	61.90	3,914.92	-2,133.60	1,304.41	-933.20	1.40	2.27	451.99
2	8,647.48	43	25	18	58.14	2,828.00	-3,031.50	1,171.58	-1,146.78	1.02	1.42	201.10
1	-797.93	43	22	20	51.16	1,773.46	-2,895.33	816.80	-938.38	0.87	0.96	-18.56

40 of 43 instances (93%) closed above the entry price at some point in the next week.

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



That is a nice move from lower left to upper right over a long period of time.

Also in the 11/30/21 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below. *(Not updated.)*

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

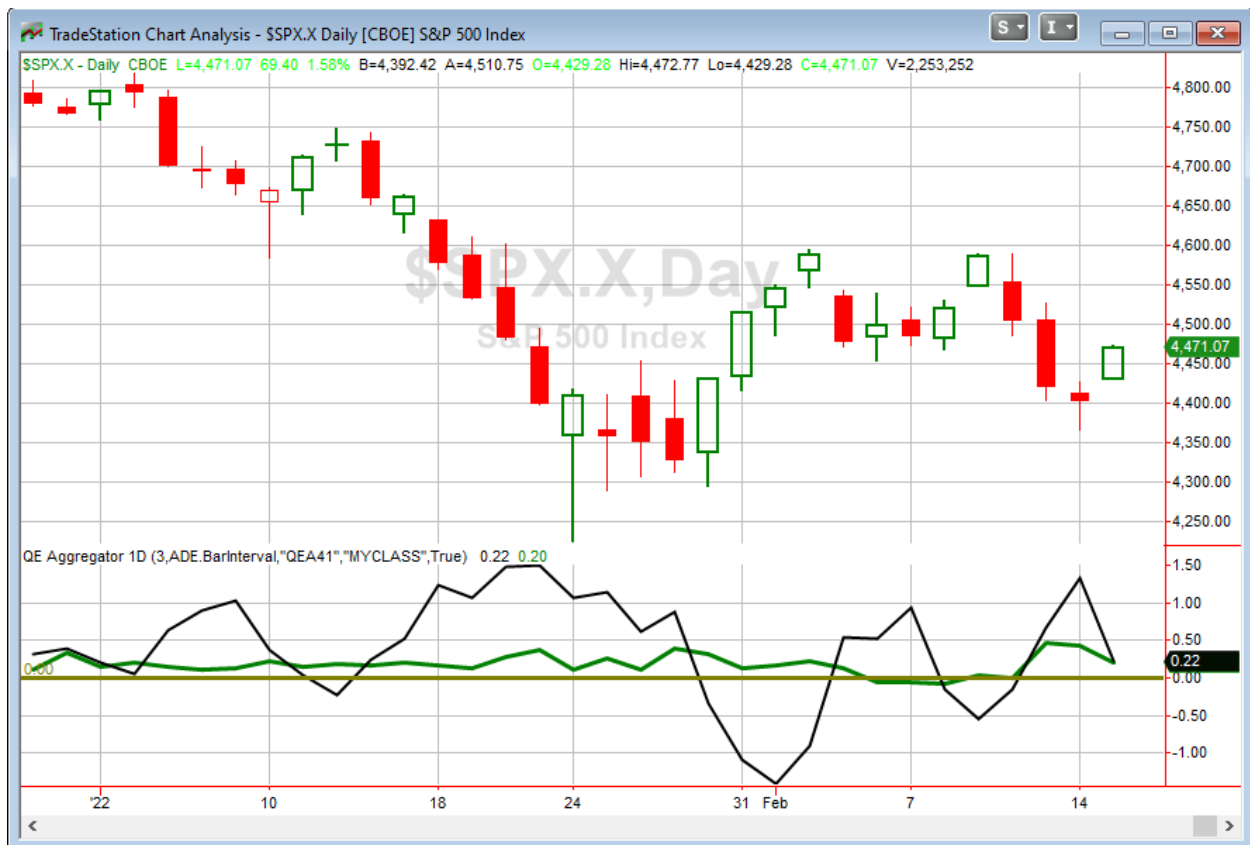
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	2,775.03	39	21	18	53.85	3,178.32	-3,739.32	1,663.58	-1,786.68	0.93	1.09	71.15
4	1,711.05	41	24	17	58.54	2,950.20	-2,880.28	1,258.62	-1,676.22	0.75	1.06	41.73
3	917.69	43	23	20	53.49	3,306.24	-3,070.92	1,097.14	-1,215.83	0.90	1.04	21.34
2	-4.49	45	25	20	55.56	3,089.76	-2,818.42	1,046.08	-1,307.82	0.80	1.00	-0.10
1	177.32	45	20	25	44.44	2,470.05	-1,777.90	870.35	-689.19	1.26	1.01	3.94

In the 11/30/21 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below. *(Not updated.)*

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes above the 10ma and above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
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5	-3,295.91	23	12	11	52.17	2,615.76	-3,691.98	1,015.35	-1,407.28	0.72	0.79	-143.30
4	-1,679.69	23	12	11	52.17	1,903.47	-1,788.75	692.39	-908.03	0.76	0.83	-73.03
3	-7,494.10	23	11	12	47.83	1,393.05	-3,297.28	592.20	-1,167.36	0.51	0.47	-325.83
2	-5,034.08	23	10	13	43.48	1,325.28	-2,293.20	604.06	-851.90	0.71	0.55	-218.87
1	-6,606.25	23	8	15	34.78	949.00	-2,591.68	465.78	-688.83	0.68	0.36	-287.23

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

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



With Tuesday's evidence considered, the green Aggregator line closed above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also remained 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 stayed long at the close.

Based on the current active list, expectations are set to remain positive on Wednesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4440.55 on Wednesday. That is 0.7% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down at least 0.7% in order to remain oversold vs recent expectations. Anything other than that and it will flip to "overbought" as of Wednesday's close.

So the Aggregator is still bullish. I often view inverted pivot setups as good opportunities to take profits. This is because upside is limited, since the Aggregator would no longer remain bullish unless there is a substantial selloff. There still appears to be a good chance of a continued rally, so I will only be selling into strength on Wednesday. Otherwise I will hold until at least Thursday's open.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 2/14 – neutral*

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
GILD(1/3)	2/8/2022	\$63.76	\$61.33	-3.81%	Catapult
GILD(1/3)	2/9/2022	\$63.70	\$61.33	-3.72%	Catapult
GILD(1/3)	2/10/2022	\$63.00	\$61.33	-2.65%	Catapult
SPY(1/4)	2/14/2022	\$439.92	\$446.10	1.40%	<i>see note below</i>

I will look to sell my SPY at a limit of \$448.50. If not filled during the day, I will instead look to sell at \$446.10 LIMIT ON CLOSE.

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