

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 22, 2022

Volume 15 Issue 35

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	10

Tonight's Research Points

- The CBI reached 10, which suggests a good chance of a short and intermediate-term bounce.
- The NASDAQ entered a Death Cross formation on Friday, but that has not been a reliable indication of anything.
- The Fed, inflation worries, and geopolitical tensions continue to generate volatility.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. There is some evidence of a bounce, and the market is clearly short-term oversold. So I expect to see some upside in the next few days, and I may start positioning to take advantage of it.

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 14, 2022	Up Issue % < 30% 2 days. Close > 20-low	1 day	Bullish			
February 14, 2022	1st 5-low in 10 days. Close < 200ma	1-3 days	Bullish	2.50%	-1.20%	-2.80%
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 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

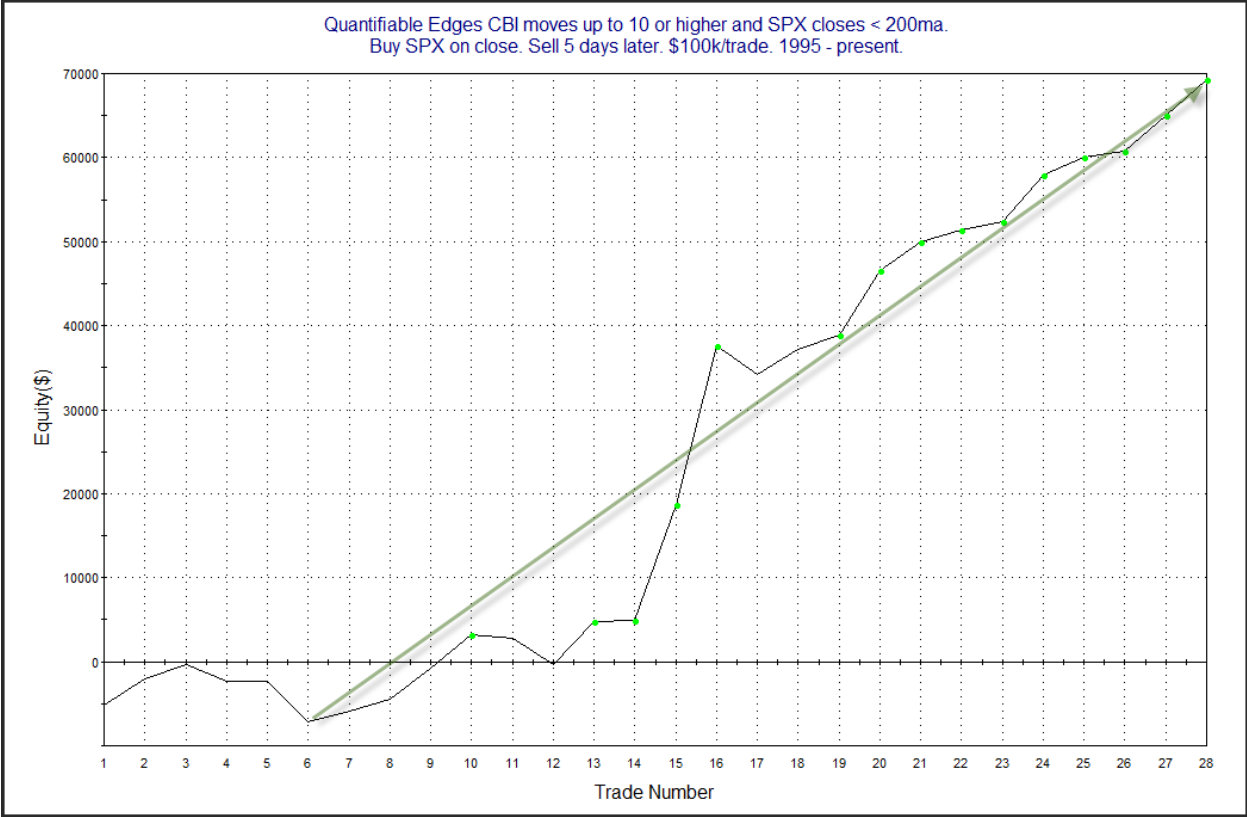
Friday saw choppy action and another down close. The SPX lost 0.7%, the NASDAQ declined 1.2%, and the Russell 2000 dropped 0.9%. Breadth was negative with the NYSE Up Issues % coming in at 38% and the Up Volume % at 31%. NYSE total volume spiked higher as it typically does on opex Friday.

The action did not trigger a lot of new studies, but it did cause the Quantifiable Edges Capitulative Breadth Index (CBI) to reach 10. For the last 15 years or so I have considered 10 to be a kind of trigger level that suggests there is enough oversold capitulation that a rebound is highly likely in the coming days (and often weeks). I've broken it down a number of ways over the years. Of course 10 is not magic. It does not always mean a large immediate rally. But aside from the COVID Crash in 2020, it really has been a very strong indicator. The study below looks at other times the CBI reached 10 with the SPX already below its 200ma. In other words, a downtrend is established, and we are seeing signs that the move lower is overdone in a number of stocks.

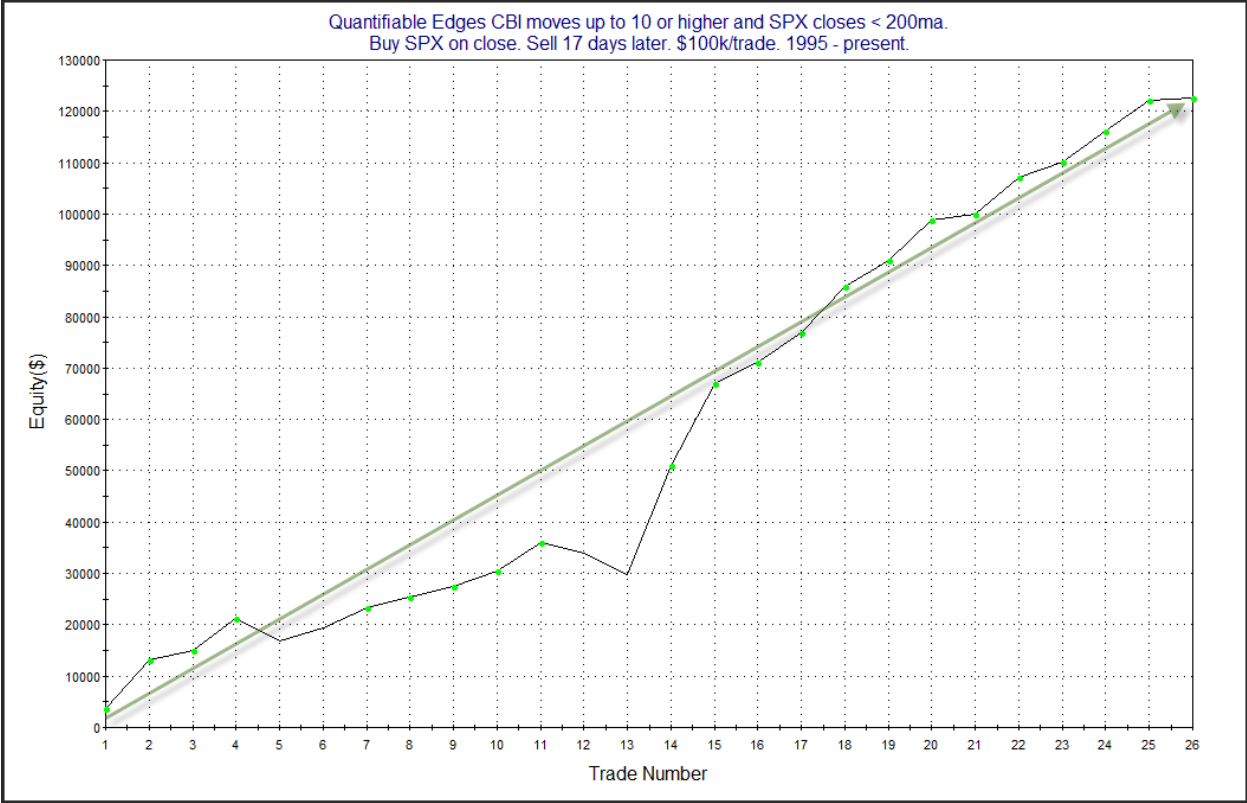
Quantifiable Edges CBI moves up to 10 or higher and SPX closes < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - present.

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
20	121,674.04	25	21	4	84.00	17,878.08	-9,103.22	6,250.11	-2,394.58	2.61	13.70	4,866.96
19	113,387.30	25	20	5	80.00	17,534.88	-9,779.42	6,449.96	-3,122.38	2.07	8.26	4,535.49
18	116,354.71	26	22	4	84.62	20,061.36	-6,608.14	5,898.60	-3,353.62	1.76	9.67	4,475.18
17	122,629.54	26	23	3	88.46	21,217.68	-4,241.44	5,790.24	-3,515.33	1.65	12.63	4,716.52
16	111,891.72	26	23	3	88.46	15,329.16	-6,614.00	5,393.79	-4,055.16	1.33	10.20	4,303.53
15	105,047.06	26	21	5	80.77	17,338.20	-6,494.46	5,645.17	-2,700.31	2.09	8.78	4,040.27
14	84,204.76	27	21	6	77.78	15,991.80	-14,731.00	5,159.25	-4,023.26	1.28	4.49	3,118.69
13	86,835.79	27	20	7	74.07	19,377.60	-11,946.00	5,573.34	-3,518.71	1.58	4.53	3,216.14
12	90,040.63	27	21	6	77.78	17,982.36	-8,812.00	5,302.13	-3,550.67	1.49	5.23	3,334.84
11	98,344.67	27	21	6	77.78	20,758.32	-9,945.00	5,575.59	-3,123.78	1.78	6.25	3,642.40
10	88,872.23	27	22	5	81.48	16,319.16	-4,579.54	4,714.77	-2,970.55	1.59	6.98	3,291.56
9	92,219.78	28	23	5	82.14	12,246.96	-5,391.54	4,598.76	-2,710.34	1.70	7.81	3,293.56
8	74,180.79	28	21	7	75.00	15,615.60	-5,568.00	4,452.14	-2,759.16	1.61	4.84	2,649.31
7	71,016.13	28	21	7	75.00	12,720.84	-4,980.00	4,232.09	-2,551.10	1.66	4.98	2,536.29
6	66,042.02	28	21	7	75.00	18,349.11	-8,839.00	4,097.60	-2,858.22	1.43	4.30	2,358.64
5	69,268.43	28	21	7	75.00	18,981.60	-5,174.95	4,201.43	-2,708.80	1.55	4.65	2,473.87
4	61,225.71	28	20	8	71.43	17,851.68	-4,365.00	3,884.76	-2,058.70	1.89	4.72	2,186.63
3	19,083.34	29	18	11	62.07	13,853.40	-9,701.00	3,224.34	-3,541.35	0.91	1.49	658.05
2	8,695.89	29	16	13	55.17	13,116.84	-8,631.00	3,059.97	-3,097.21	0.99	1.22	299.86
1	13,972.97	29	16	13	55.17	10,716.03	-6,760.90	2,478.27	-1,975.34	1.25	1.54	481.83

The stats here suggest a strong propensity to bounce over both the short and intermediate-term. Let's take a look at the 5-day and 17-day curves. First, the 5-day:

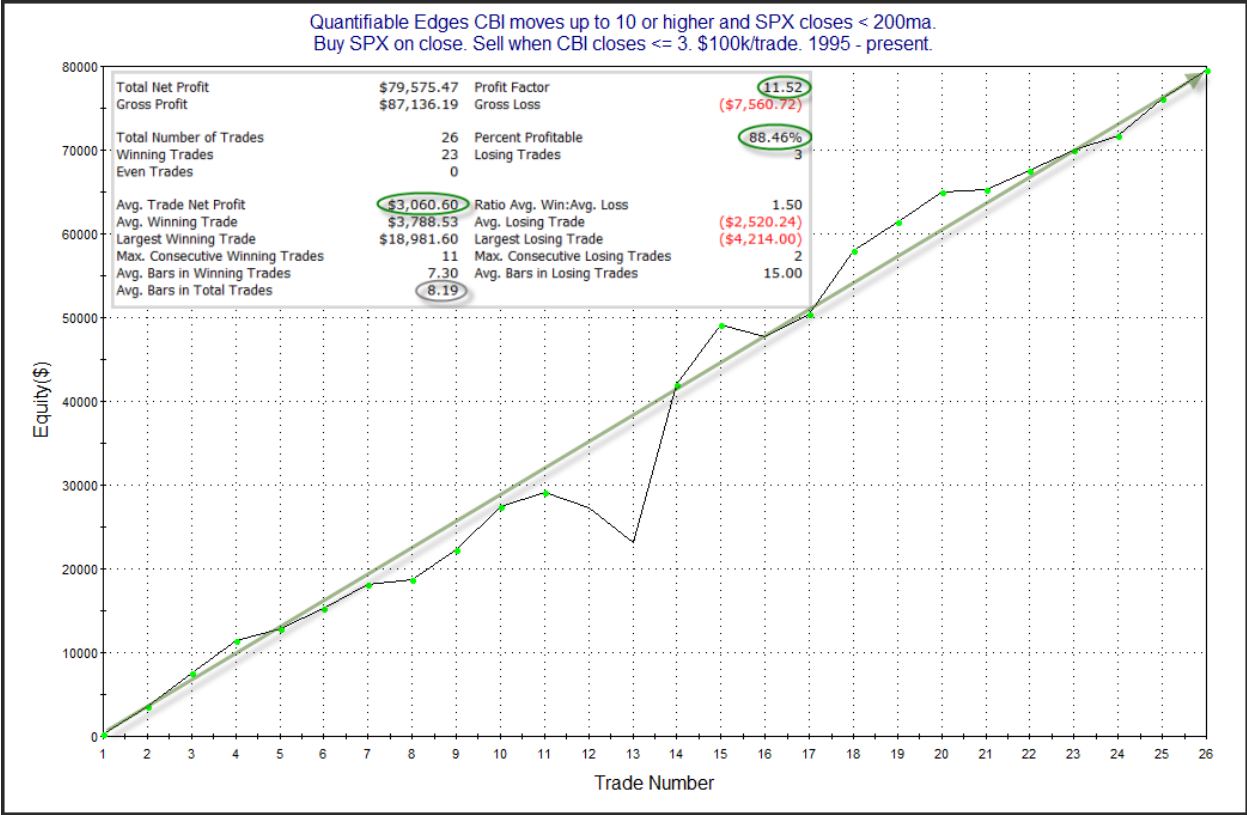


In the 2001-2002 bear market there were some short-term failures. But over the last 20 years, it has been almost all winners over the 5-day period. Next is the 17-day curve.



This is very strong and steady, as serves as some confirmation of the numbers on the stats table.

In the past I have also shown this kind of setup with a CBI-level exit. So I again ran those numbers. Below you can see purchasing SPX when the CBI reaches 10 and SPX is < 200ma, and then selling when the CBI returns to 3 or lower.



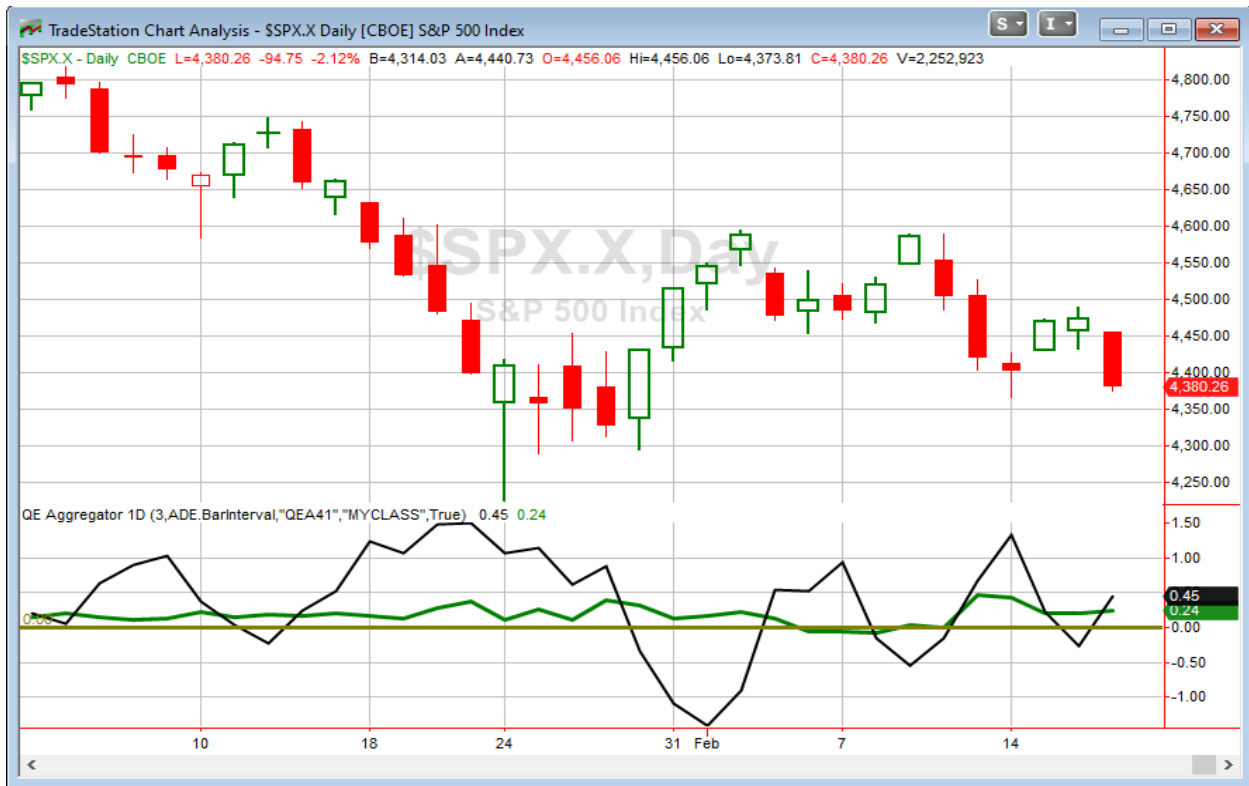
Results here are again impressive. Below is a list of all the instances.

Quantifiable Edges CBI moves up to 10 or higher and SPX closes < 200ma.
Buy SPX on close. Sell when CBI closes <= 3. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/28/1998	Buy	\$1,027.25	0.24%	\$1,081.55
9/14/1998	Sell	\$1,029.70		(\$8,463.25)
10/18/1999	Buy	\$1,254.13	3.40%	\$4,326.04
10/27/1999	Sell	\$1,296.71		\$0.00
10/18/2000	Buy	\$1,342.11	4.00%	\$4,910.64
10/23/2000	Sell	\$1,395.78		\$0.00
9/18/2001	Buy	\$1,032.74	3.83%	\$4,093.44
10/3/2001	Sell	\$1,072.28		(\$8,447.04)
6/12/2002	Buy	\$1,020.26	1.56%	\$1,559.18
6/17/2002	Sell	\$1,036.17		(\$3,785.74)
7/18/2002	Buy	\$881.56	2.41%	\$3,192.25
7/30/2002	Sell	\$902.78		(\$11,964.44)
8/9/2004	Buy	\$1,065.22	2.81%	\$2,785.35
8/18/2004	Sell	\$1,095.17		(\$418.50)
4/18/2005	Buy	\$1,145.98	0.53%	\$1,215.39
4/22/2005	Sell	\$1,152.11		(\$855.21)
11/21/2007	Buy	\$1,416.76	3.69%	\$3,840.20
11/28/2007	Sell	\$1,469.01		(\$746.20)
1/22/2008	Buy	\$1,310.51	5.18%	\$5,726.60
1/31/2008	Sell	\$1,378.37		(\$3,074.96)
3/7/2008	Buy	\$1,293.37	1.71%	\$3,071.53
3/13/2008	Sell	\$1,315.48		(\$1,594.67)
7/1/2008	Buy	\$1,284.92	-1.89%	\$558.25
7/18/2008	Sell	\$1,260.66		(\$6,504.96)
10/7/2008	Buy	\$996.23	-4.23%	\$4,808.00
10/30/2008	Sell	\$954.09		(\$15,643.00)
11/20/2008	Buy	\$752.44	19.11%	\$18,982.92
11/28/2008	Sell	\$896.24		(\$1,453.32)
3/2/2009	Buy	\$700.82	7.12%	\$7,357.02
3/12/2009	Sell	\$750.74		(\$4,832.26)
5/20/2010	Buy	\$1,071.59	-1.48%	\$3,169.44
6/9/2010	Sell	\$1,055.69		(\$2,865.33)
6/29/2010	Buy	\$1,041.24	2.79%	\$2,880.96
7/8/2010	Sell	\$1,070.25		(\$2,911.68)
8/8/2011	Buy	\$1,119.46	7.60%	\$7,567.67
8/15/2011	Sell	\$1,204.49		(\$1,594.88)
11/16/2012	Buy	\$1,359.88	3.41%	\$3,597.44
11/26/2012	Sell	\$1,406.29		\$0.00
10/13/2014	Buy	\$1,874.74	3.55%	\$3,588.63
10/21/2014	Sell	\$1,941.28		(\$2,866.24)
8/21/2015	Buy	\$1,970.89	0.37%	\$1,129.50
9/15/2015	Sell	\$1,978.09		(\$5,194.00)
9/28/2015	Buy	\$1,881.77	2.23%	\$2,408.32
10/1/2015	Sell	\$1,923.82		(\$522.58)
10/24/2018	Buy	\$2,656.10	2.52%	\$3,716.65
11/2/2018	Sell	\$2,723.06		(\$1,944.72)
12/20/2018	Buy	\$2,467.42	1.73%	\$2,114.00
1/2/2019	Sell	\$2,510.03		(\$4,833.60)
5/31/2019	Buy	\$2,752.06	4.41%	\$4,784.76
6/7/2019	Sell	\$2,873.34		(\$837.00)
1/25/2022	Buy	\$4,356.45	3.65%	\$3,529.68
1/31/2022	Sell	\$4,515.55		(\$1,407.78)

Every trade since June 2010 has been a winner. But even over that time span, there were some sizable intra-trade drawdowns. When looking out over the whole sample, the average trade drawdown was 3.5%. Of course that is juiced by a few very large ones, like 2008 and 2002. But it remains notable. Overall, I would say that the CBI is suggesting a high probability of a bounce in the coming days and weeks. But the pain may not be done. We could easily see further selling before the real bounce begins.

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



With this weekend'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 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 Tuesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4509.17 on Tuesday. That is a massive 3.7% above Friday's close. So SPX will need to close up at least 3.7% on Tuesday to turn overbought. Not likely. This will probably take a few days to work off the oversold condition.

The Aggregator is bullish. Evidence is building that indicates a bounce is likely, but it also suggests there could be further downside before that bounce arrives. There is plenty of room to the upside before SPX would turn overbought. So reward potential is there. This seems like a good time to think about scaling into an index position. And I intend to start with a small position on Tuesday if I can get a good fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/22 – neutral

Combo #1	Combo #2	Combo #3
Long	Long	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week there were no changes to the Combo Systems.*

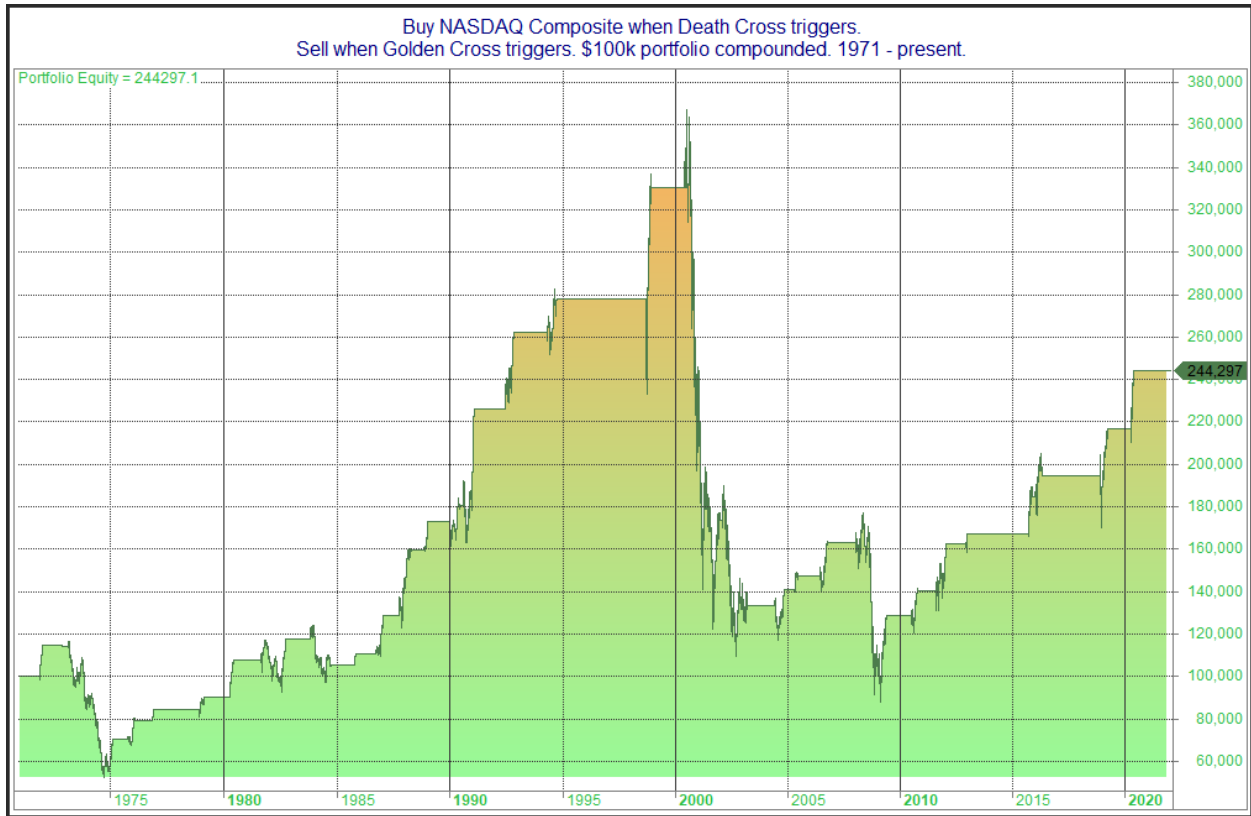
This past week was a down one for the indices. The SPX lost 1.6% on the week, the NASDAQ dropped 1.8%, and the Russell 2000 lost 1.0%. Most long-term trend indicators are pointing sideways or down, though the Golden Cross formation is still in effect for the SPX. But that changed this week for the NASDAQ, as the “Death Cross” triggered on Friday.

A “death cross” is when the 50ma crosses below the 200ma. It is a confirmation of a downtrend. But it really does not mean that the downtrend is likely to last for a long time. Of course major bear markets all have a death cross at some point, so some people view it as a potential indicator to use if you are looking to sidestep a major bear market. Below is a list of all NASDAQ Composite death crosses since the NASDAQ's inception in 1971, along with the max drawdown, runup and total return while the death cross was in effect.

Buy NASDAQ Composite when Death Cross triggers.
Sell when Golden Cross triggers. 1971 - present.

Symbol	Entry Date	Exit Date	Entry Price	Exit Price	Max Drawdown	Max Runup	% Profit
\$COMP	11/22/1971	1/14/1972	101.79	116.74	-1.45%	14.84%	14.69%
\$COMP	11/14/1972	11/21/1972	132.9	132.19	-0.59%	0.00%	-0.53%
\$COMP	2/27/1973	3/5/1975	119.8	73.9	-54.20%	2.07%	-38.31%
\$COMP	10/13/1975	2/6/1976	77.7	87.25	-4.09%	13.84%	12.29%
\$COMP	11/17/1976	12/15/1976	89.01	94.92	0.00%	6.64%	6.64%
\$COMP	12/11/1978	3/14/1979	119.15	127.59	-4.05%	7.17%	7.08%
\$COMP	4/21/1980	6/25/1980	133.08	158.74	0.00%	19.28%	19.28%
\$COMP	9/9/1981	10/12/1982	184.77	202.16	-13.87%	9.74%	9.41%
\$COMP	11/10/1983	10/11/1984	273.08	244.73	-17.50%	6.05%	-10.38%
\$COMP	11/4/1985	11/21/1985	294.23	309.27	-0.07%	5.11%	5.11%
\$COMP	10/1/1986	2/11/1987	352.34	408.25	-1.52%	15.87%	15.87%
\$COMP	10/29/1987	5/4/1988	307.05	381.62	-4.95%	25.15%	24.29%
\$COMP	12/2/1988	2/2/1989	373.91	405.16	-0.39%	8.36%	8.36%
\$COMP	1/19/1990	6/28/1990	440.88	460.38	-7.01%	6.47%	4.42%
\$COMP	8/23/1990	2/27/1991	360.22	450.82	-10.35%	26.16%	25.15%
\$COMP	6/26/1992	11/11/1992	547.84	634.92	-0.34%	15.90%	15.90%
\$COMP	5/9/1994	10/12/1994	722.96	767.0001	-4.43%	7.83%	6.09%
\$COMP	9/30/1998	12/15/1998	1693.84	2012.6	-19.88%	21.68%	18.82%
\$COMP	6/15/2000	1/11/2002	3845.74	2022.46	-63.93%	11.53%	-47.41%
\$COMP	2/26/2002	4/9/2003	1766.86	1356.74	-37.26%	10.15%	-23.21%
\$COMP	6/22/2004	11/18/2004	1994.15	2104.28	-12.20%	5.92%	5.52%
\$COMP	5/9/2005	7/7/2005	1979.67	2075.66	-1.81%	6.41%	4.85%
\$COMP	6/26/2006	10/23/2006	2133.67	2355.56	-5.67%	10.99%	10.40%
\$COMP	1/17/2008	6/5/2009	2346.9	1849.42	-46.08%	8.72%	-21.20%
\$COMP	7/14/2010	10/21/2010	2249.84	2459.67	-6.69%	10.27%	9.33%
\$COMP	8/12/2011	2/3/2012	2507.98	2905.66	-8.34%	15.86%	15.86%
\$COMP	12/19/2012	1/11/2013	3044.36	3125.63	-3.07%	2.74%	2.67%
\$COMP	9/28/2015	12/9/2015	4543.97	5022.87	-1.25%	13.93%	10.54%
\$COMP	1/20/2016	5/19/2016	4471.69	4712.53	-5.86%	11.13%	5.39%
\$COMP	11/27/2018	4/3/2019	7082.7	7895.55	-12.60%	11.48%	11.48%
\$COMP	4/16/2020	6/2/2020	8532.36	9608.38	-3.71%	12.61%	12.61%
						Average	4.28%
						% Profitable	81%

We see here that 81% of instances actually saw the market rise from the time the Death Cross triggered until it expired, with an average gain of 4.3%. So perhaps not a great exit signal. Of course there were a few massive losers. And they were big enough that you generally would not want to view this as a buy signal either. Examples include 1973-1975, 2000-2003, and the 2008-2009 bear markets. Below is a look at a profit curve if you “bought” the Death Cross and the sold when it closed out.



Here you can see visually that despite there being a lot of winners, the losers were so big, that they did massive damage.

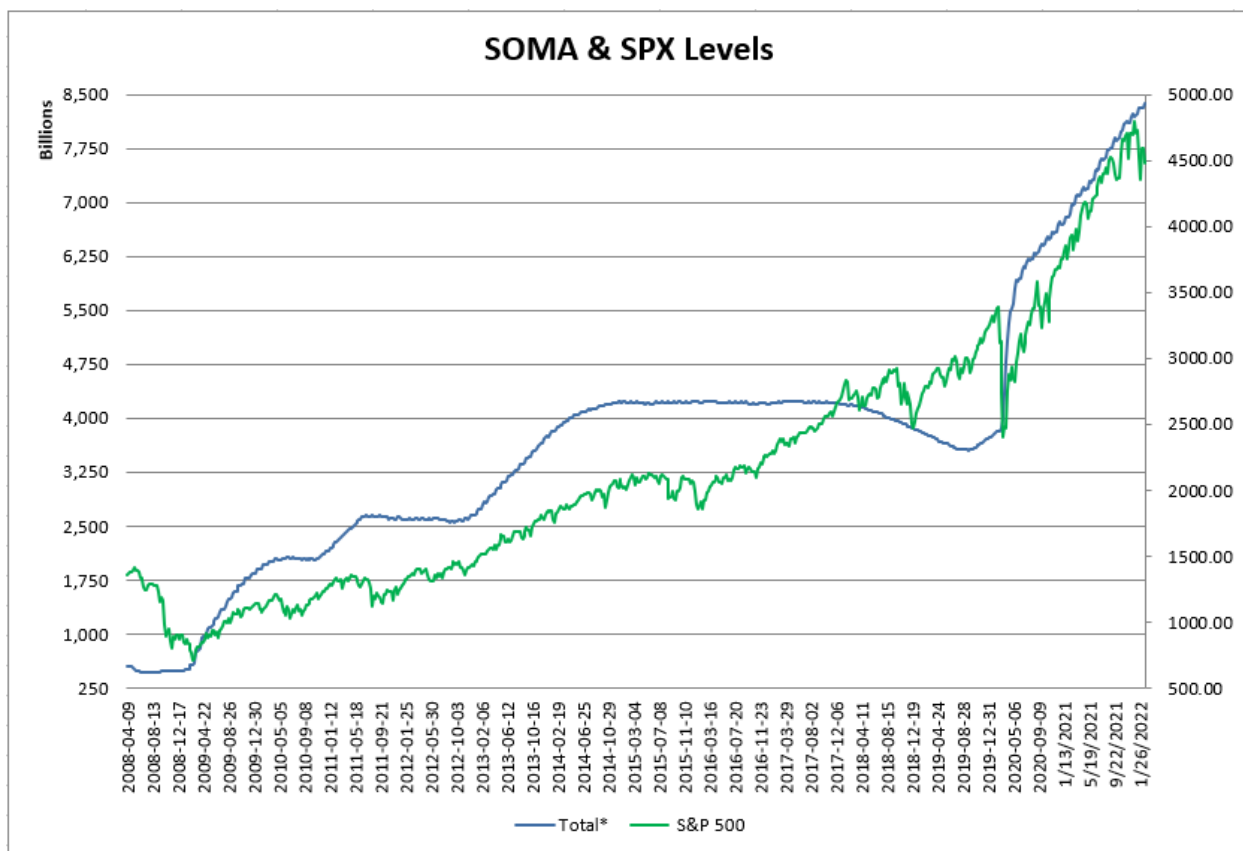
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
 ◀ Previous **February 16, 2022** 📅
 Posted February 17, 2022 at 4:30 PM

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,923,673,451.7
US Treasury Floating Rate Notes (FRNs)	29,152,660.9
US Treasury Inflation-Protected Securities (TIPS)*	385,089,412.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,695,536,723.8
Agency Commercial Mortgage-Backed Securities***	9,076,679.6
Total SOMA Holdings	8,370,919,928.3
Change From Prior Week	50,164,840.4

This past week saw the SOMA rise by \$50 billion. That is a large amount that we are unlikely to see duplicated anytime soon. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is now in its last month of the largest expansion in history. The Fed has been working to stimulate the economy for a long time now, and that has greatly benefitted the stock market. But the massive liquidity infusions are almost done. The Fed is likely to not only halt QE, but also increase overnight rates at its March meeting. The Fed is going from a wind at the back of the market to a wind in its face. That is creating challenges. I expect both Fed policy and inflation concerns to continue to be sources of volatility throughout 2022.

There is not a lot of strong evidence for the bulls to point to. The CBI study seems to be a positive for the next 3 ½ weeks, but that is about it from a strong bullish standpoint. While we are in the “Best 6 Months”, the end of Feb is not great on the Seasonality Calendars, and March is weaker than many months. Trend indications are mostly sideways/down. The Fed is becoming more hawkish, and that will continue to be a challenge for the market for the next several months. And the Russia/Ukraine situation continues to be of great concern for an already fragile market. All that said, we have not seen much suggesting a high chance of continued selling yet either. I will keep my bias “neutral” for the time being, and remain open to trades in either direction. I’ll also remain alert to new intermediate-term bullish or bearish evidence that emerges.

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 (bought @ limit)
TMO – 1/3 @ \$556.67 (bought @ limit)
TMO – 1/3 @ \$550.35 (bought @ limit)
TMO – 1/3 @ \$540.54 (bought @ limit)
AMT – 1/3 @ \$228.67 (bought @ limit)
MMM – 1/3 @ \$148.64 (bought @ limit)

New

AMT – 1/3 @ \$228.44 (buy @ limit)
MMM – 1/3 @ \$147.62 (buy @ limit)

Broad Market Large Cap CBI – 10(GILD-3, TMO-3, AMT-2, MMM-2)

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.

AMT – Buy 1/3 Catapult position @ \$228.44 LIMIT. From the Catapult section above, this is the 2nd of up to 3 lots of AMT.

MMM – Buy 1/3 Catapult position @ \$147.62 LIMIT. From the Catapult section above, this is the 2nd of up to 3 lots of MMM.

SPY – Buy ¼ index position @ \$432.00 LIMIT. Based on the short-term outlook above, I'll be a buyer if SPY drops a bit further at any point on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
GILD(1/3)	2/8/2022	\$63.76	\$61.05	-4.25%	Catapult
GILD(1/3)	2/9/2022	\$63.70	\$61.05	-4.16%	Catapult
GILD(1/3)	2/10/2022	\$63.00	\$61.05	-3.10%	Catapult
TMO(1/3)	2/17/2022	\$550.80	\$537.14	-2.48%	Catapult
TMO(1/3)	2/17/2022	\$550.35	\$537.14	-2.40%	Catapult
TMO(1/3)	2/18/2022	\$540.54	\$537.14	-0.63%	Catapult
AMT(1/3)	2/18/2022	\$228.67	\$228.44	-0.10%	Catapult
MMM(1/3)	2/18/2022	\$148.20	\$147.62	-0.39%	Catapult

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