

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 16, 2022

Volume 15 Issue 50

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|--------------|-------------|
| Short | 4 |

Tonight's Research Points

- The market did not appear worried about the Fed going into Wednesday's announcement, and that has not been a good thing in the past.
- Similar unfilled gaps up and moves higher for SPY have often been followed by a down close the next day.

Short-term Outlook

The Bottom Line

The Aggregator flipped bearish. I'm not inclined to short in front of a Fed announcement. I'll wait and see how Wednesday plays out before considering my next move.

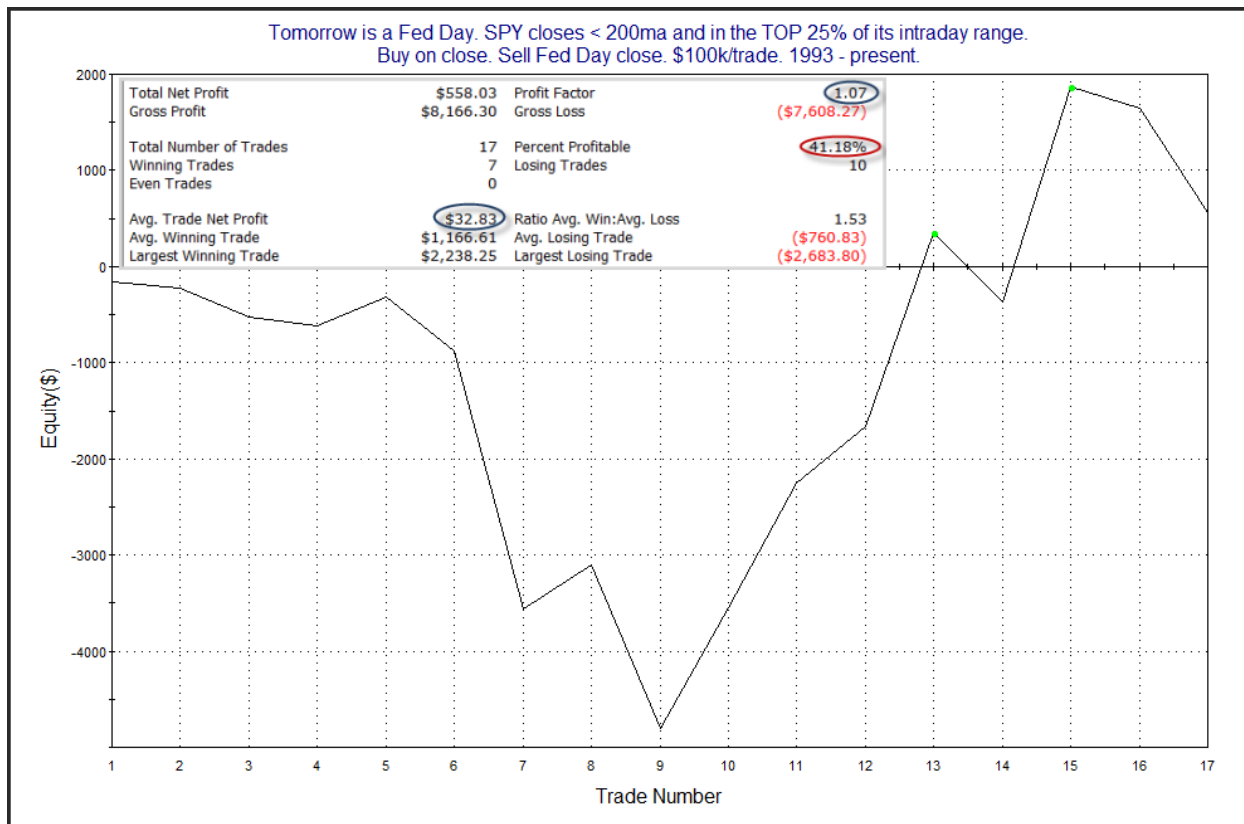
Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|--|---|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| March 14, 2022 | Unfilled gap up. Close > open and < 200 | 1 day | Bearish | | | |
| Active - Long Term | | | | | | |
| March 14, 2022 | Pres Cycle neg, NAS lagging, SP Death X | int term | Bearish | | | |
| March 14, 2022 | Fed Hawkish / QE done | int term | Bearish | | | |
| March 10, 2022 | Yest 50-low high vol. Today up lo vol. | 1-9 days | Bearish | -5.00% | 2.30% | 3.80% |
| February 22, 2022 | CBI hits 10. SPX < 200ma. | 1-17 days | Bullish | 6.70% | -3.80% | -7.80% |
| November 1, 2021 | Best 6 Months | 1-6 months | Bullish | | | |
| Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded) | | | | | | |
| March 15, 2022 | Up Iss < 33% 2nd day < 200. Monday | 1 day | Bullish | | | |
| March 15, 2022 | 2 Days Bad Breadth < 200 > 20-low | 1 day | Bullish | | | |

The Evidence

Tuesday was a big rally day. The SPX gained 2.1%, the NASDAQ jumped 2.9%, and the Russell 2000 rose 1.4%. Breadth was positive with the NYSE Up Issues % coming in at 68% and the Up Volume % at 75%. Those are solid breadth numbers, but not the kind you'd expect with a true breadth thrust. NYSE total volume rose for the 3rd day in a row.

Last night I showed that weak closes heading into a Fed Day tend to be good news for the Fed Day, but strong closes don't carry the same upside edge. I broke it down by whether SPY closed in the top or bottom half of its intraday range. A few studies triggered that looked at closes in the top quartile. So tonight I used that as a filter along with the close below the 200ma.



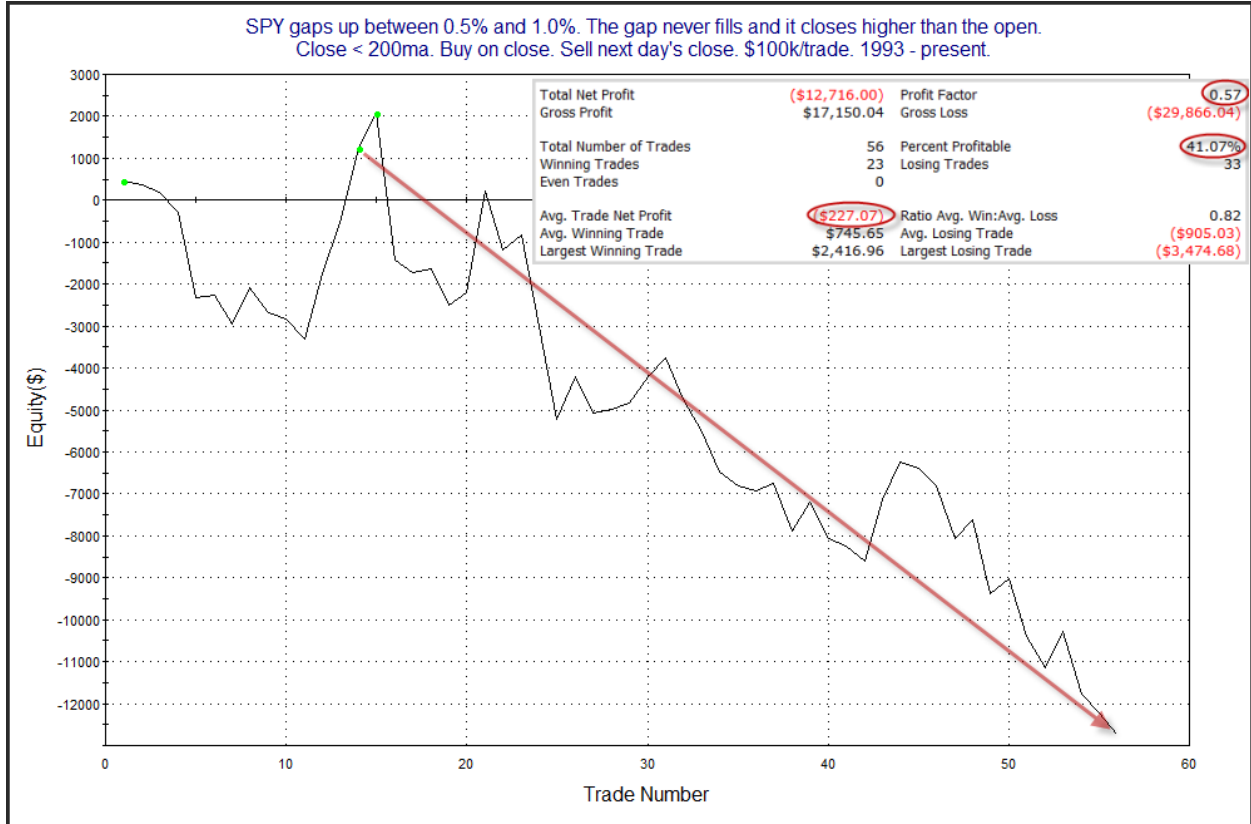
This does not look any better than it did last night. Fear ahead of a Fed Day normally makes for a good Fed Day. That fear can be seen in an afternoon selloff. It might also be seen in a spiking VIX. But a strong close suggests the market is comfortable that the Fed is not about to rock the boat. And on Tuesday the VIX closed at its lowest level in 12 trading days. That suggests a real lack of worry. Often the VIX will rise into a Fed Day. I looked at other times VIX closed at a 10-day low on the day before a Fed Day.

VIX closes at a 10-day low the day before a Fed Day.
Buy on close. Sell X days later. \$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 | -215.72 | 28 | 14 | 14 | 50.00 | 3,612.16 | -4,553.25 | 1,719.84 | -1,735.25 | 0.99 | 0.99 | -7.70 |
| 4 | 2,078.31 | 28 | 15 | 12 | 53.57 | 5,734.40 | -3,484.06 | 1,585.83 | -1,809.09 | 0.88 | 1.10 | 74.23 |
| 3 | -5,576.94 | 28 | 13 | 15 | 46.43 | 2,268.72 | -3,068.45 | 1,210.06 | -1,420.52 | 0.85 | 0.74 | -199.18 |
| 2 | -1,227.10 | 28 | 15 | 13 | 53.57 | 2,133.10 | -1,972.00 | 875.37 | -1,104.43 | 0.79 | 0.91 | -43.82 |
| 1 | 5,973.51 | 28 | 14 | 14 | 50.00 | 3,348.84 | -2,492.10 | 945.77 | -519.09 | 1.82 | 1.82 | 213.34 |

No edge suggested by any of these numbers. So I don't believe we can count on the Fed Day on Wednesday to provide a bullish boost.

There was one study that appeared in the Quantifinder with a bearish tilt. It was last seen recently in the 3/3/22 letter. It examines the unfilled gap up to start the day and the continued rise. I have updated the stats and the chart.



The numbers and the curve suggest a 1-day downside edge. I have included this study on the active list tonight.

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



With tonight's evidence considered, the green Aggregator line dropped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also dropped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current active list, expectations are set to remain negative on Wednesday. Of course this could easily change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4192.93 on Wednesday. That is 1.6% below Tuesday's close. Therefore, SPX will need to close down at least 1.6% on Wednesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator has quickly reversed back to bearish. But the setup is again tenuous, with the lone remaining short-term study set to expire on Wednesday. The reaction to the Fed could be volatile – in either direction. I don't believe we are at a point where this is a high-probability setup just yet. I intend to sit out the Fed Day, evaluate the action, and see whether it generates any new and compelling evidence before I look to take on any new index trades.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 3/14 – slightly bearish*

The intermediate-term outlook was last updated in the 3/14/22 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

NFLX – 1/3 @ \$350.26 (bought @ limit)

NFLX – 1/3 @ \$350.26 (bought @ limit)

CMCSA – 1/3 @ \$45.02 (bought @ limit)

CMCSA – 1/3 @ \$44.97 (buy @ limit) – *not filled – cancel for now*

Broad Market Large Cap CBI – 4(NFLX-2, CMCSA-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.

None.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Notes |
|------------|------------|-------------|---------------|-------------|---------------------|
| PM(1/3) | 3/1/2022 | \$101.07 | \$92.66 | -8.32% | <i>sell on open</i> |
| PYPL(1/3) | 3/8/2022 | \$93.04 | \$100.46 | 7.98% | <i>sell on open</i> |
| NFLX(1/3) | 3/8/2022 | \$349.80 | \$343.75 | -1.73% | Catapult |
| NFLX(1/3) | 3/14/2022 | \$338.72 | \$343.75 | 1.49% | Catapult |
| CMCSA(1/3) | 3/14/2022 | \$45.02 | \$45.54 | 1.16% | Catapult |
| | | | | | |

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