

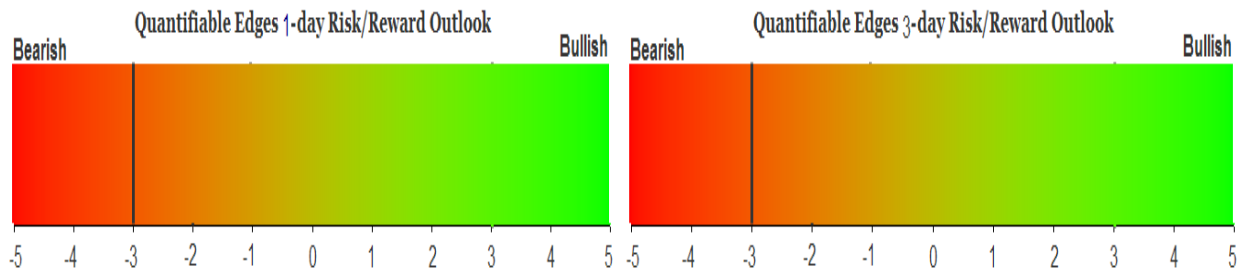
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2022

Volume 15 Issue 54

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- A down close with a 2-day RSI still above 85 during a long-term downtrend has always been followed by more selling in SPY.
- The rally saw higher highs, lows, and closes. The pullback on Thursday only saw a lower close. This has been a short-term bullish sign historically.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. I like the short side. Again.

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 22, 2022	3 Higher Hi, Low, Close. Dn close	1-2 days	Bullish			
March 22, 2022	SPY down. RSI > 85. Close < 200ma	1-3 days	Bearish	-2.70%	0.55%	1.30%
March 21, 2022	Quad opex Friday. 5-high close.	1-4 days	Bearish			
March 18, 2022	Up>1% 2 days. 10-high < 200ma	1-4 days	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%
November 1, 2021	Best 6 Months	1-6 months	Bullish			

The Evidence

Monday was back and forth with most indices finishing modestly lower. The SPX closed down 0.04%, the NASDAQ fell 0.4%, and the Russell 2000 lost 1.0%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 44%. NYSE total volume declined substantially from opex Friday's high level.

Often, when SPY has become very overbought short-term and then pulled back extremely gently on day 1, that tends to be just the beginning of the pullback. The study below uses the 2-day RSI to measure how overbought the SPY is short-term. It requires a strongly overbought condition be in place at the close of a down day. For this to be achieved the SPY must be very strongly overbought to begin with, and then only pull back a little. The study is from the 2/2/16 letter. I have updated all the results.

SPY closes down on the day but the 2-day RSI > 85. Close < 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	-28,119.52	11	2	9	18.18	2,144.90	-6,354.30	1,372.61	-3,429.42	0.40	0.09	-2,556.32
4	-20,099.73	11	3	8	27.27	2,047.00	-5,692.05	1,513.05	-3,079.86	0.49	0.18	-1,827.25
3	-19,634.23	11	1	10	9.09	1,032.00	-4,948.40	1,032.00	-2,066.62	0.50	0.05	-1,784.93
2	-17,503.67	11	2	9	18.18	1,000.00	-4,065.25	709.15	-2,102.44	0.34	0.07	-1,591.24
1	-7,072.05	12	4	8	33.33	1,088.00	-2,217.05	523.64	-1,145.83	0.46	0.23	-589.34
All 11 instances closed below the entry price at some point in the next 3 days.												

Only 11 instances is lower than I typically like to see, but all of them closed lower within 3 days. And the size and consistency of the moves was also impressive. Below I have listed all 11 instances and their trade stats assuming a 3-day holding period.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma.
Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/6/1994	Buy	\$46.22	-0.39%	\$129.78
6/9/1994	Sell	\$46.04		(\$951.72)
11/7/2000	Buy	\$143.75	-4.95%	\$152.90
11/10/2000	Sell	\$136.63		(\$5,017.90)
5/22/2001	Buy	\$131.48	-2.57%	\$0.00
5/25/2001	Sell	\$128.10		(\$2,720.80)
7/3/2001	Buy	\$124.10	-3.55%	\$0.00
7/9/2001	Sell	\$119.70		(\$4,065.25)
11/7/2001	Buy	\$112.25	-0.20%	\$1,628.70
11/12/2001	Sell	\$112.03		(\$2,002.50)
12/6/2001	Buy	\$117.34	-2.72%	\$0.00
12/11/2001	Sell	\$114.15		(\$2,930.88)
1/5/2009	Buy	\$92.85	-1.95%	\$1,723.20
1/8/2009	Sell	\$91.04		(\$3,424.86)
7/14/2010	Buy	\$109.65	-2.15%	\$373.51
7/19/2010	Sell	\$107.29		(\$3,124.73)
7/27/2010	Buy	\$111.55	-1.15%	\$241.92
7/30/2010	Sell	\$110.27		(\$2,302.72)
12/1/2011	Buy	\$124.97	1.03%	\$1,768.00
12/6/2011	Sell	\$126.26		(\$152.00)
2/1/2016	Buy	\$193.65	-1.06%	\$0.00
2/4/2016	Sell	\$191.60		(\$3,379.80)
Avg Run-up: 0.55%		Avg Drawdown: -2.7%		

Nothing concerning here. It is also notable how much larger the average drawdown has been than the average run-up. I have added this study to the Active List.

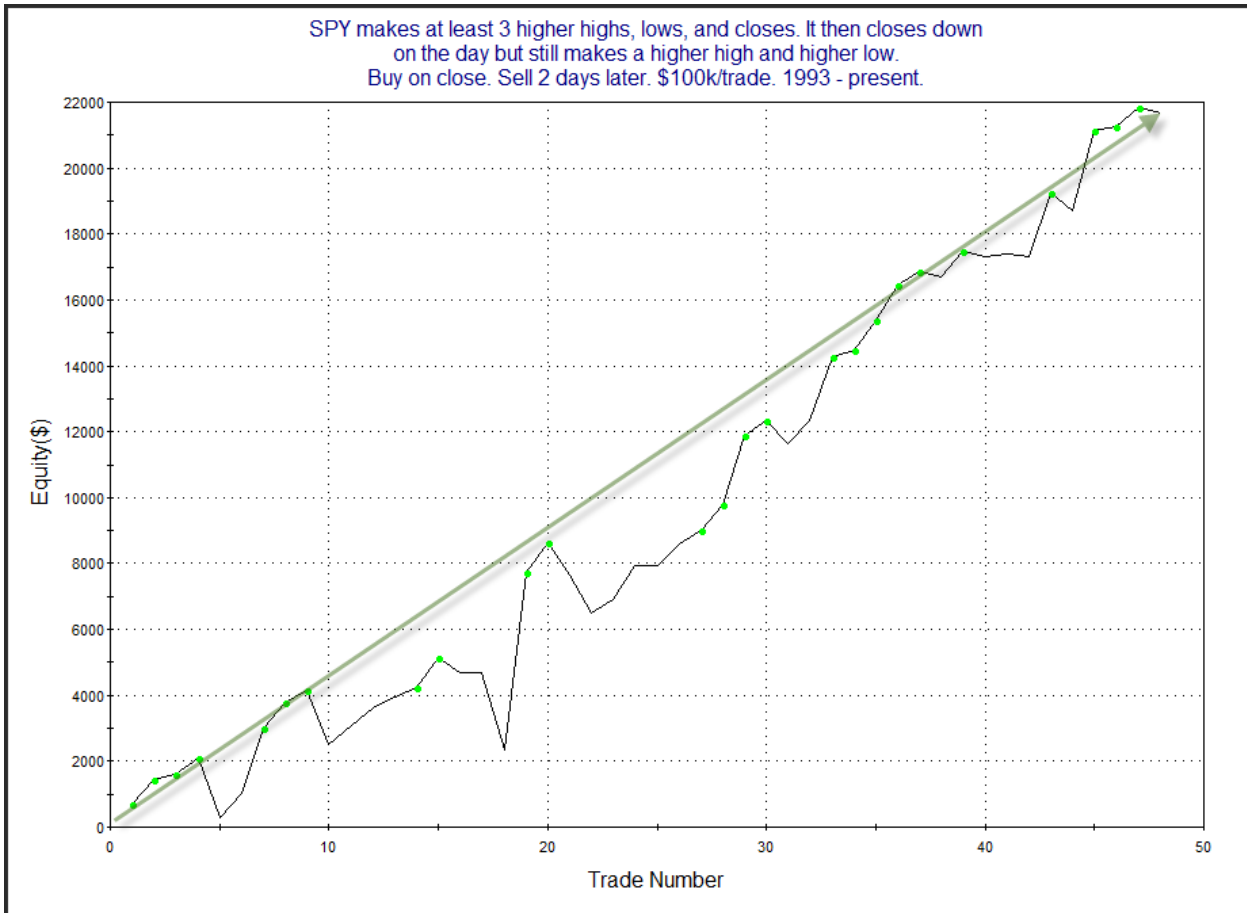
But there was also a price-based study that suggested perhaps an upside edge. The study below looks at the fact that the pullback only occurred on a closing basis and there was still a higher high and a higher low. It was last seen in the 12/2/11 letter. I have updated the results.

SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day but still makes a higher high and higher low.
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	19,525.14	48	30	18	62.50	8,382.48	-6,354.30	1,530.76	-1,466.54	1.04	1.74	406.77
4	25,657.08	48	34	14	70.83	2,962.96	-4,049.52	1,213.71	-1,114.93	1.09	2.64	534.52
3	20,626.10	48	31	17	64.58	4,059.44	-2,640.33	1,097.30	-787.67	1.39	2.54	429.71
2	21,686.72	48	35	12	72.92	5,364.26	-2,347.86	908.39	-842.24	1.08	3.15	451.81
1	12,642.60	48	30	18	62.50	3,057.76	-1,137.92	605.05	-306.05	1.98	3.29	263.39

45 of 48 instances (94%) closed above the entry price at some point in the next 4 days.

There are a decent number of instances in this case. Results here are compelling, but the size of the moves are not as powerful as the previous study. Below I have produced a profit curve assuming a 2-day exit.



That is a fairly steady curve. I will note that there is no long-term trend filter used in this study. If I add the 200ma as a filter, instances are very low. This can be seen below, along with the list of 2-day instances.

SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day but still makes a higher high and higher low. Close < 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/5/2009	Buy	\$92.85	-2.35%	\$1,723.20
1/7/2009	Sell	\$90.67		(\$2,854.05)
3/16/2009	Buy	\$75.86	5.37%	\$6,642.72
3/18/2009	Sell	\$79.93		(\$540.38)
7/27/2010	Buy	\$111.55	-1.13%	\$241.92
7/29/2010	Sell	\$110.29		(\$1,917.44)
12/1/2011	Buy	\$124.97	1.00%	\$1,768.00
12/5/2011	Sell	\$126.22		(\$152.00)
10/20/2015	Buy	\$203.09	1.07%	\$1,190.64
10/22/2015	Sell	\$205.26		(\$708.48)
11/29/2018	Buy	\$273.98	1.94%	\$2,336.88
12/3/2018	Sell	\$279.30		(\$192.92)

No much to go on here. They do fall in line with the broader study. So after some deliberation I decided to add the non-filtered version to the active list tonight.

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



With tonight's evidence considered, the green Aggregator line remained below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also held 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 stayed short at the close.

Based on the current active list, expectations are set to remain negative on Tuesday. It would take compelling new bullish evidence to change this. Meanwhile, the Differential Pivot will be 4407.63 on Tuesday. That is 1.2% below Monday's close. Therefore, SPX will need to close down 1.2% on Tuesday for SPX to flip from overbought to oversold vs recent expectations.

So the Aggregator formation is again solidly bearish. Evidence is now a bit mixed, but still squarely in favor of a move lower. Between price action studies, post-quad opex week seasonality, and SPX being short-term overbought, I believe reward/risk favors the bears. I have some short exposure already. I will not look to add to it on Tuesday, but will maintain my exposure in anticipation of a pullback in the coming days. If SPX does have a sizable down day and closes below the Differential Pivot, then I will look to cover a portion of my position at the close.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 3/21 – slightly bearish*

The intermediate-term outlook was last updated in the 3/21/22 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

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(S)(1/4)	3/18/2022	\$439.71	\$444.39	-1.06%	<i>Cover @ \$439.00 LIMIT ON CLOSE</i>
SPY(S)(1/4)	3/21/2022	\$444.52	\$444.39	0.03%	Aggregator

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