

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2022

Volume 15 Issue 60

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPY's breakout on a gap higher could be a short-term positive.
- Low 3/10 Offset HV numbers along with the rally suggest an upside edge in the coming days.
- The S&P 500 McClellan Oscillator is high enough that a pullback has typically occurred over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am as well.

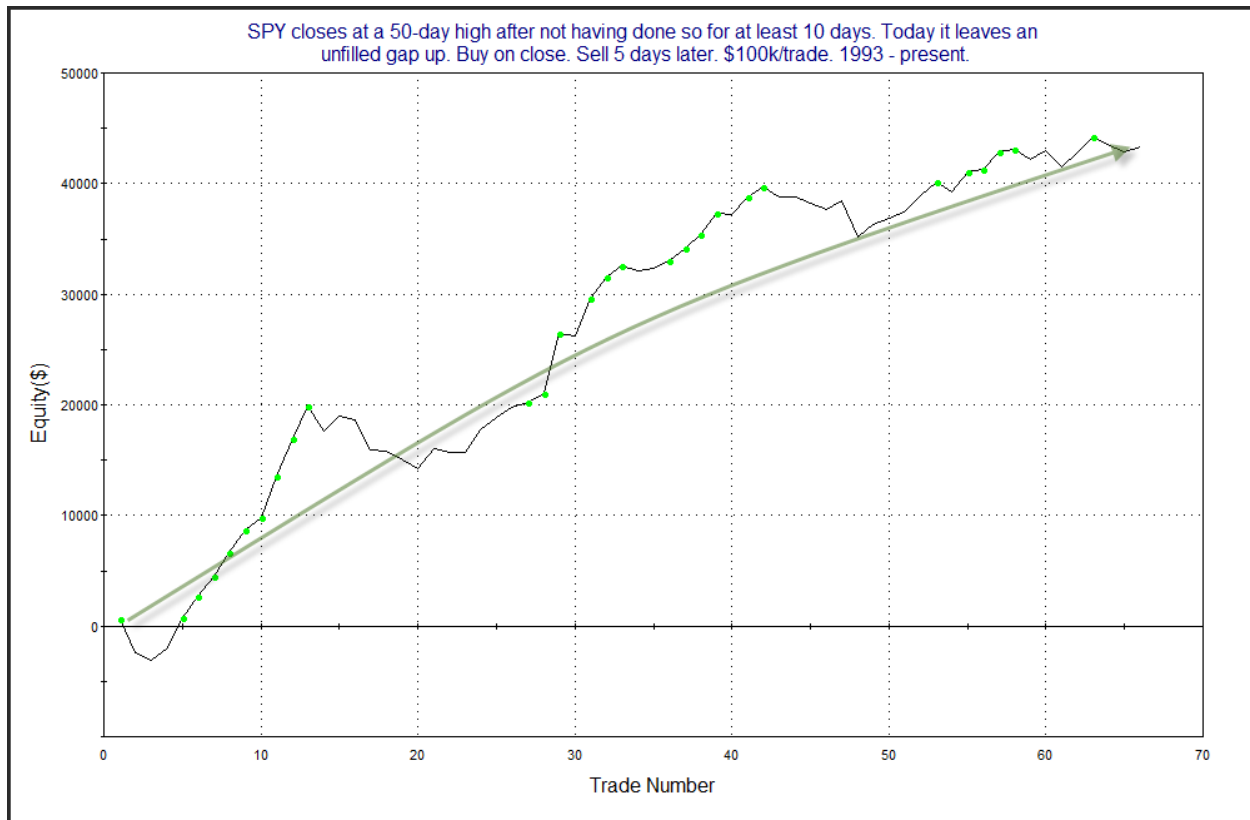
The Evidence

The rally continued on Tuesday. The SPX rose 1.2%, the NASDAQ gained 1.8%, and the Russell 2000 closed up 2.65%. Breadth was positive with the NYSE Up Issues % coming in at 81% and the Up Volume % at 81%. NYSE total volume rose some from Monday's level.

SPY broke out to close at a new 50-day high for the first time this year. Its breakout action provided some bullish evidence. This is because the breakout came with an unfilled gap up. I last showed the importance of an unfilled gap in the 12/13/21 subscriber letter. I have updated that research below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	41,013.91	67	45	22	67.16	5,434.00	-3,218.88	1,447.01	-1,095.52	1.32	2.70	612.15
4	27,898.67	67	45	22	67.16	3,637.92	-3,267.84	1,113.47	-1,009.44	1.10	2.26	416.40
3	21,066.47	67	43	24	64.18	3,992.56	-2,538.18	976.62	-872.01	1.12	2.01	314.42
2	17,486.14	67	43	24	64.18	2,545.92	-2,293.20	742.87	-602.38	1.23	2.21	260.99
1	6,460.85	67	45	22	67.16	1,816.10	-2,591.68	458.22	-643.60	0.71	1.46	96.43

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was a bit lower here. This study also appeared in the 12/13/21 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	5,457.39	48	29	19	60.42	2,671.20	-4,285.26	1,035.95	-1,293.95	0.80	1.22	113.70
4	-208.30	48	28	20	58.33	2,072.07	-4,518.34	932.44	-1,315.83	0.71	0.99	-4.34
3	5,805.11	48	29	19	60.42	2,927.90	-5,133.72	972.72	-1,179.15	0.82	1.26	120.94
2	-385.15	48	26	22	54.17	2,324.90	-3,640.86	635.01	-767.97	0.83	0.98	-8.02
1	2,873.98	48	26	22	54.17	1,586.97	-2,448.72	470.61	-425.54	1.11	1.31	59.87

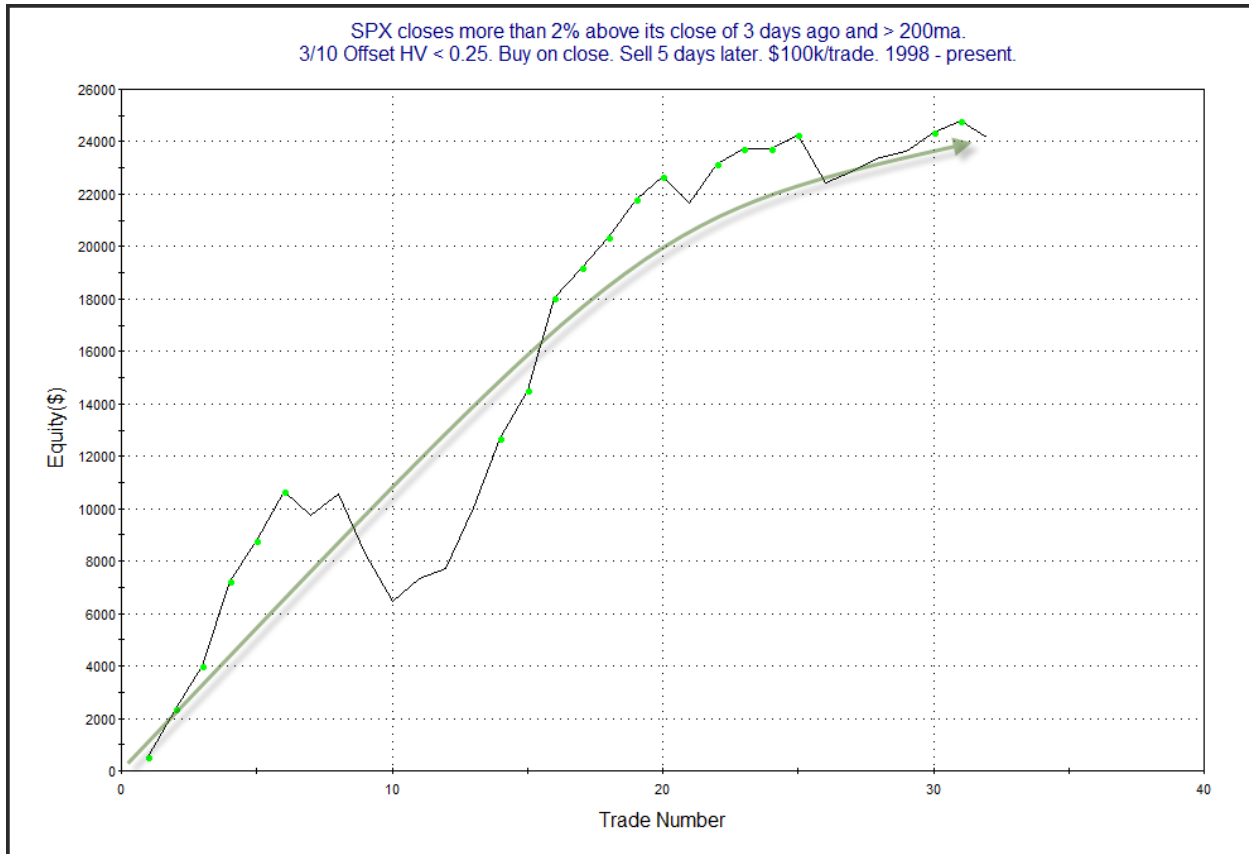
Moves to new highs that don't start with an unfilled gap are much less reliable. I have been showing this study for 14 years or so, and I still find it amazing how more breakouts occur with an unfilled gap up than without one.

On Tuesday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last several days. The 3/10 Offset HV compares the 3-day historical volatility to the 10-day historical volatility number of 3 days ago. A low reading suggests there has been a contraction in volatility. This all triggered the study below, which I last featured in the 10/14/19 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma.
3/10 Offset HV < 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	24,184.46	32	26	6	81.25	3,481.56	-2,287.35	1,253.89	-1,402.77	0.89	3.87	755.76
4	21,515.30	32	21	11	65.63	2,616.60	-1,697.04	1,349.54	-620.46	2.18	4.15	672.35
3	18,246.48	32	24	8	75.00	2,315.72	-1,476.45	1,026.52	-798.76	1.29	3.86	570.20
2	14,928.89	33	21	12	63.64	2,451.76	-1,838.16	1,074.80	-636.83	1.69	2.95	452.39
1	1,799.41	35	18	17	51.43	1,857.24	-2,159.69	494.41	-417.64	1.18	1.25	51.41

The numbers here all seem to suggest an upside edge. Of course, I also wanted to take a look at the profit curves. Below is the profit curve for the 6-day period.



Despite the mild fade, this curve is back looks solid. I have added this study to the Active List tonight.

But I also saw some evidence suggesting the run-up is so overdone, we are likely to see a short-term pullback. Rennie Yang on Twitter noted the high S&P 500 McClellan Oscillator reading. This is different than the NYSE McClellan Oscillator in that it only looks at S&P 500 stocks. It poked above 54 on Tuesday. My S&P Advance/Decline data only goes back to 2008, so I ran the study below as far back as I could.

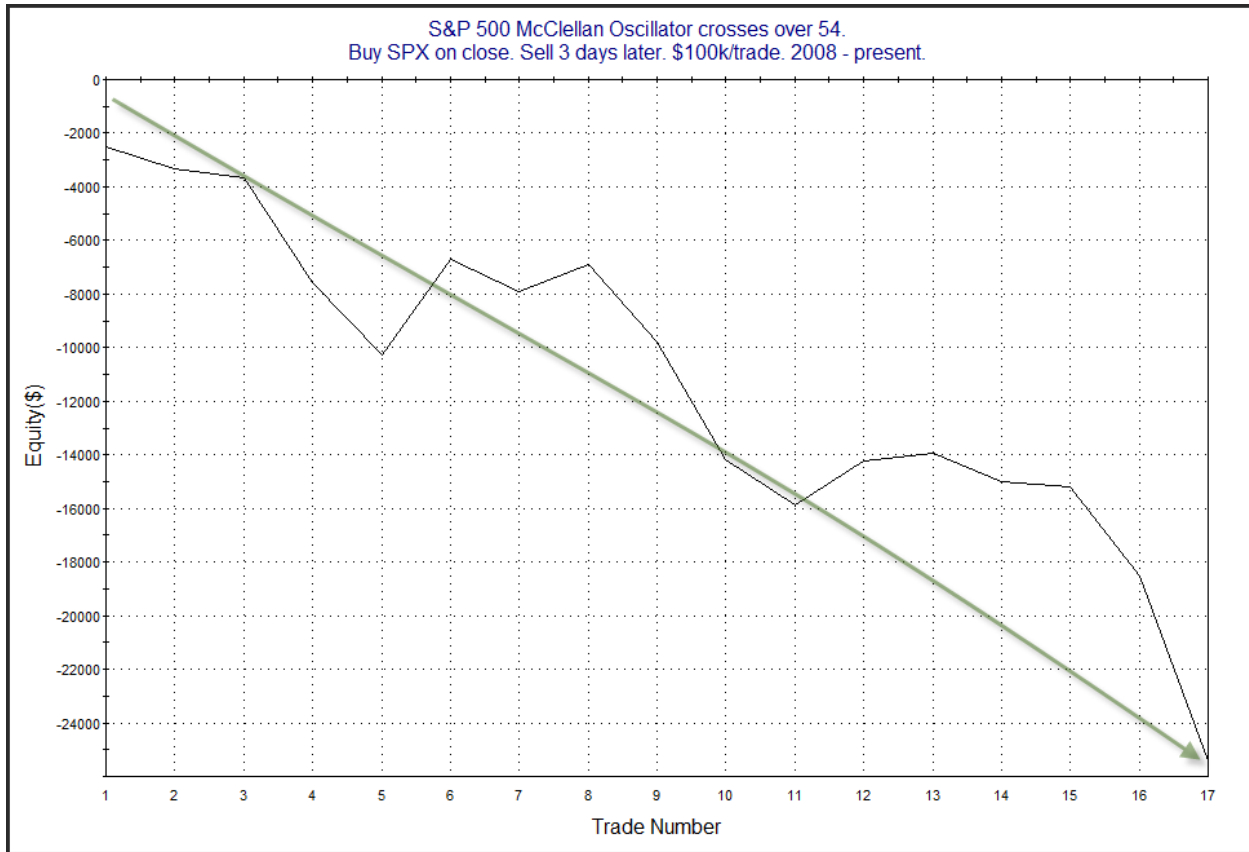
S&P 500 McClellan Oscillator crosses over 54.
Buy SPX on close. Sell X days later. \$100k/trade. 2008 - present.

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	-21,055.03	14	4	10	28.57	2,965.90	-4,974.00	1,931.32	-2,878.03	0.67	0.27	-1,503.93
4	-16,513.36	14	5	9	35.71	1,638.00	-5,732.40	887.02	-2,327.61	0.38	0.21	-1,179.53
3	-25,414.43	17	4	13	23.53	3,571.25	-6,908.70	1,623.61	-2,454.53	0.66	0.20	-1,494.97
2	-19,739.67	18	5	13	27.78	1,968.40	-3,699.20	739.23	-1,802.75	0.41	0.16	-1,096.65
1	-13,643.19	18	1	17	5.56	1,482.00	-2,292.27	1,482.00	-889.72	1.67	0.10	-757.95

Those are some very negative numbers. Let's look closer at the 1-day and 3-day holding periods. First, below are all the instances and their 1-day returns.

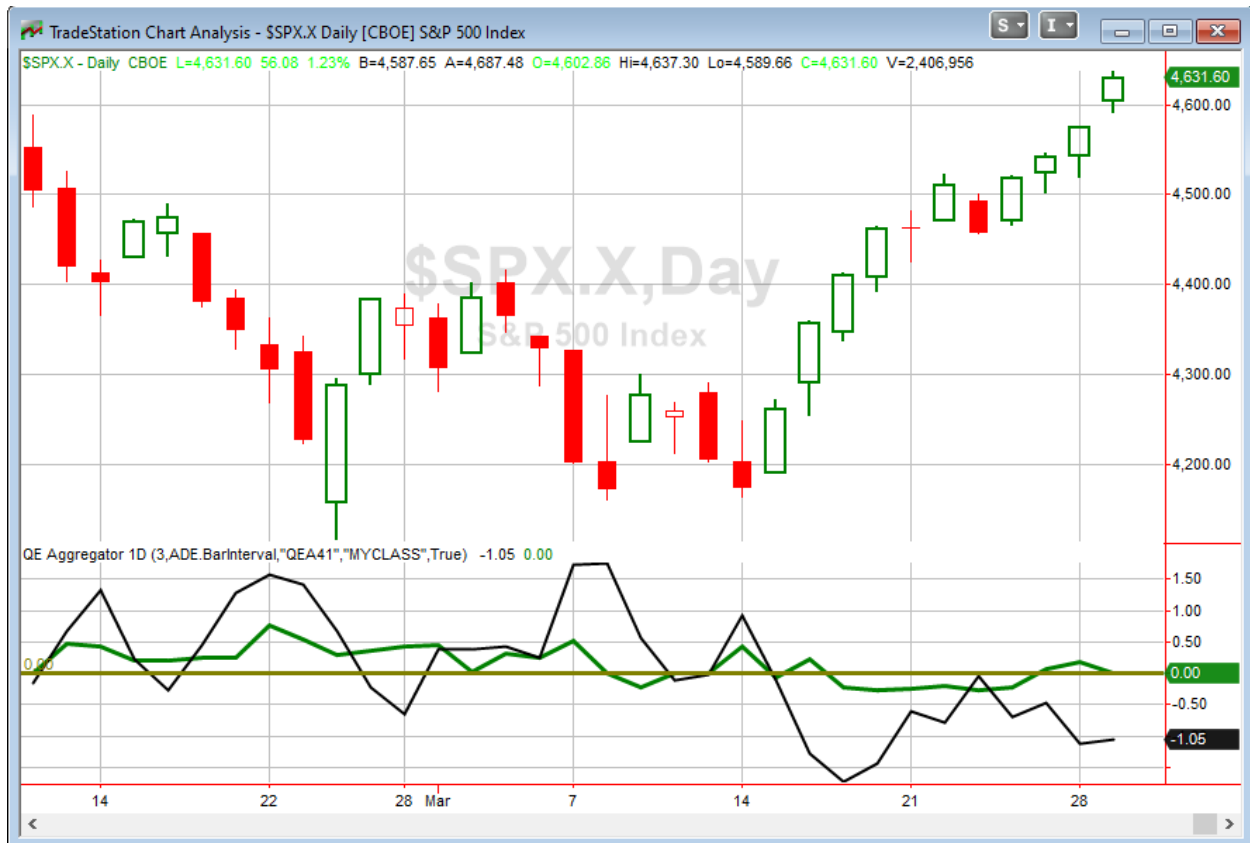
S&P 500 McClellan Oscillator crosses over 54. Buy SPX on close. Sell 1 day later. \$100k/trade. 2008 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/1/2008	Buy	\$1,284.92	-1.82%	\$558.25
7/2/2008	Sell	\$1,261.53		(\$1,802.57)
7/3/2008	Buy	\$1,262.90	-0.84%	\$872.95
7/7/2008	Sell	\$1,252.29		(\$1,755.38)
8/22/2008	Buy	\$1,292.18	-1.96%	\$0.00
8/25/2008	Sell	\$1,266.86		(\$2,102.87)
8/27/2008	Buy	\$1,281.65	1.48%	\$1,482.00
8/28/2008	Sell	\$1,300.65		\$0.00
12/8/2008	Buy	\$909.70	-2.31%	\$715.04
12/9/2008	Sell	\$888.67		(\$2,650.88)
1/2/2009	Buy	\$931.80	-0.47%	\$516.81
1/5/2009	Sell	\$927.45		(\$1,312.89)
3/18/2009	Buy	\$794.35	-1.30%	\$1,111.25
3/19/2009	Sell	\$784.04		(\$1,566.25)
7/26/2010	Buy	\$1,115.01	-0.10%	\$528.66
7/27/2010	Sell	\$1,113.84		(\$465.47)
7/1/2011	Buy	\$1,339.67	-0.13%	\$90.28
7/5/2011	Sell	\$1,337.88		(\$397.38)
7/7/2011	Buy	\$1,353.22	-0.70%	\$0.00
7/8/2011	Sell	\$1,343.80		(\$1,424.23)
8/31/2011	Buy	\$1,218.89	-1.19%	\$852.80
9/1/2011	Sell	\$1,204.42		(\$1,233.28)
6/19/2012	Buy	\$1,357.98	-0.17%	\$262.07
6/20/2012	Sell	\$1,355.69		(\$841.69)
10/28/2014	Buy	\$1,985.05	-0.14%	\$317.50
10/29/2014	Sell	\$1,982.30		(\$800.50)
10/31/2014	Buy	\$2,018.05	-0.01%	\$314.09
11/3/2014	Sell	\$2,017.81		(\$214.13)
1/18/2019	Buy	\$2,670.71	-1.42%	\$0.00
1/22/2019	Sell	\$2,632.90		(\$1,977.28)
4/9/2020	Buy	\$2,789.82	-1.01%	\$0.00
4/13/2020	Sell	\$2,761.63		(\$2,402.75)
4/29/2020	Buy	\$2,939.51	-0.92%	\$0.00
4/30/2020	Sell	\$2,912.43		(\$1,599.36)
6/8/2020	Buy	\$3,232.39	-0.78%	\$0.00
6/9/2020	Sell	\$3,207.18		(\$1,178.40)

The consistency is very impressive. Next is a look at the 3-day profit curve.



That is a strong move from upper left to lower right. I have also included this study on the active list tonight.

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



With tonight's mix of studies included, the green Aggregator line remained slightly above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current active list, expectations are set to remain positive on Wednesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4521.69 on Wednesday. That is 2.4% below Tuesday's close. Therefore, SPX will need to close down at least 2.4% on Wednesday for SPX to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. I don't see a big edge. I do think we are largely overdue at least some reversion lower. I have some short exposure still, which I am wishing I just bailed on as soon as the Aggregator went neutral. I'd still like to see a down day before exiting. If that down day comes on Wednesday, I'll be out.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/28 – neutral

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)	3/21/2022	\$444.52	\$461.55	-3.83%	cover on close < \$461.55

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