

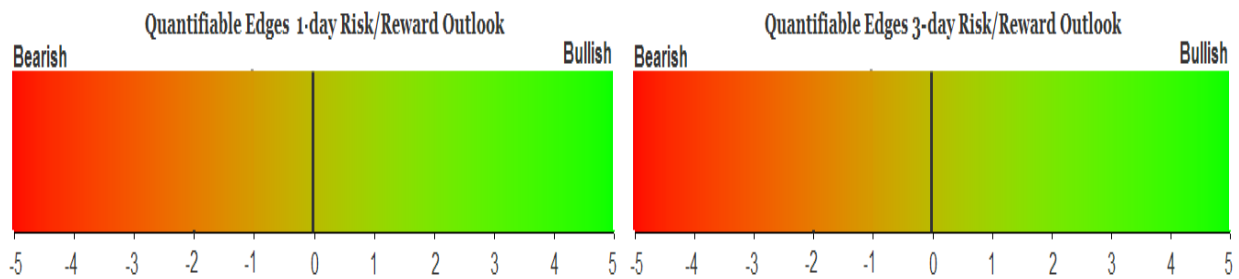
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 22, 2022

Volume 15 Issue 76

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce, but not when the drop does not even manage to post a 4-day low.
- SPY's gap up and reversal to a big drop suggest we could see additional selling on Friday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is mixed and I am not enthused about taking on new index exposure.

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						
April 22, 2022	SPY gaps up 0.75% and closes dn 1%	1 day	Bearish			
April 21, 2022	5-high then down close. Breadth strong	1-3 days	Bullish	1.60%	-0.80%	-1.80%
Active - Long Term						
April 12, 2022	QQQ 5 lower lows, today the largest dn	1-20 days	Bullish	10.05%	-4.40%	-7.60%
April 6, 2022	3 1% down days in 10 days > 200	1-20 days	Bullish	4.20%	-3.50%	-8.50%
April 4, 2022	QQQ 1st 5 low in 10 days < 200ma	1-10 days	Bullish	3.40%	-1.70%	-3.50%
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			

The Evidence

The market got smashed on Thursday. The SPX closed down 1.5%, the NASDAQ tumbled 2.1%, and the Russell 2000 dropped 2.3%. Breadth was negative with the NYSE Up Issues % coming in at 20% and the Up Volume % at 16%. NYSE total volume rose a little from Wednesday's level.

Despite the strong selling, there was not much that triggered in the Quantifinder. Some interesting studies I have not featured in a while were last seen in the 10/19/18 letter. Often big down days on strongly negative breadth like Thursday will be followed by a bounce over the next several days. The edge is greatly reduced when the decline directly follows intermediate-term highs. This 1st study takes these things into consideration. Stats are updated.

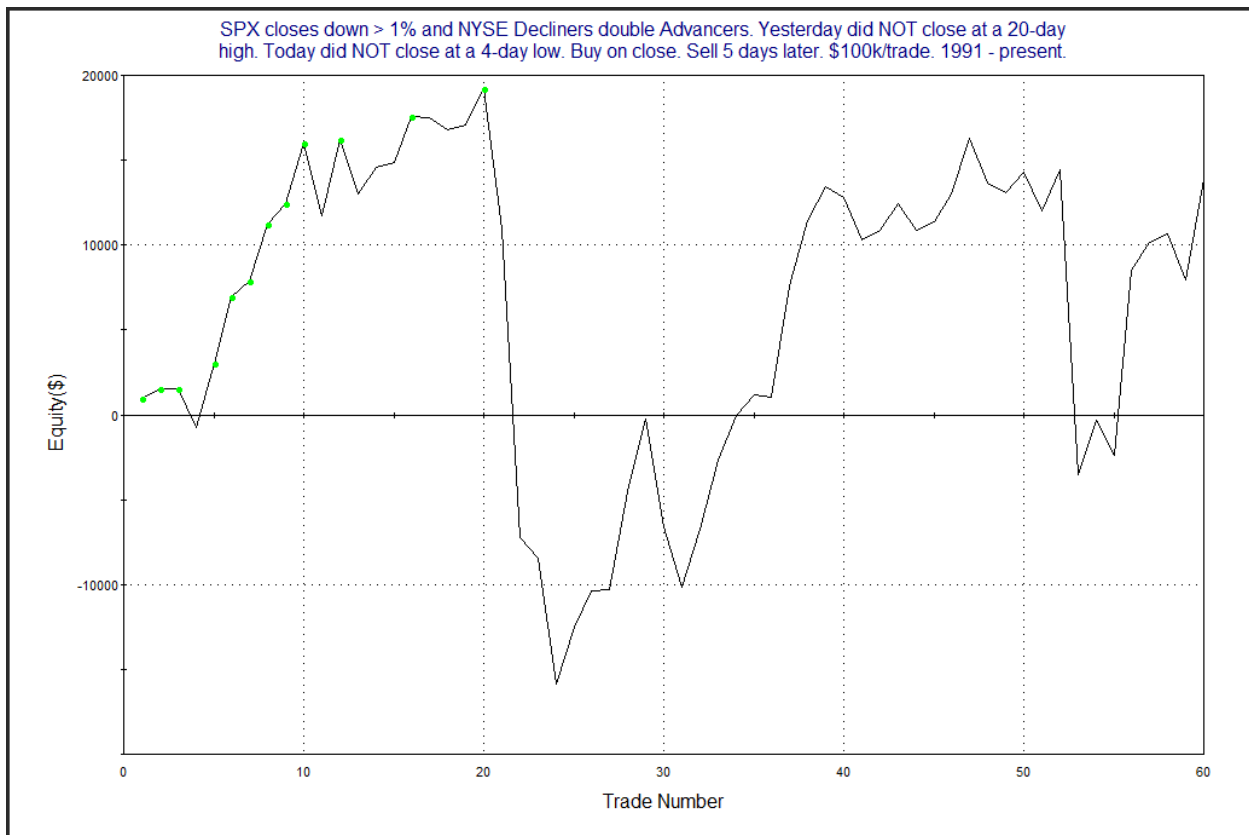
SPX closes down > 1% and NYSE Decliners double Advancers. Yesterday did NOT close at a 20-day high. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	298,142.47	309	203	106	65.70	18,756.32	-22,025.85	3,029.51	-2,989.14	1.01	1.94	964.86
9	324,375.66	319	219	100	68.65	12,514.40	-20,652.72	2,829.72	-2,953.34	0.96	2.10	1,016.85
8	281,132.88	334	216	117	64.67	15,738.88	-17,685.00	2,825.25	-2,813.00	1.00	1.85	841.72
7	240,696.00	359	222	137	61.84	10,415.64	-21,047.73	2,577.23	-2,419.34	1.07	1.73	670.46
6	247,448.25	381	238	143	62.47	14,933.73	-19,140.34	2,445.56	-2,339.83	1.05	1.74	649.47
5	247,925.06	411	249	162	60.58	17,127.00	-17,928.90	2,360.08	-2,097.13	1.13	1.73	603.22
4	183,613.13	442	258	184	58.37	14,020.11	-14,820.98	2,149.89	-2,016.62	1.07	1.49	415.41
3	188,119.97	494	296	198	59.92	17,277.48	-12,789.00	1,881.89	-1,863.23	1.01	1.51	380.81
2	177,288.41	570	319	251	55.96	10,479.04	-9,153.54	1,678.86	-1,427.36	1.18	1.49	311.03
1	161,787.44	645	380	265	58.91	10,716.03	-9,386.64	1,212.15	-1,127.66	1.07	1.54	250.83

The stats table suggests a decent upside edge over the next 1-2 weeks. But I also found that the edge was greatly reduced when the big drop did not even generate a 4-day closing low. This can be seen in the 2nd study.

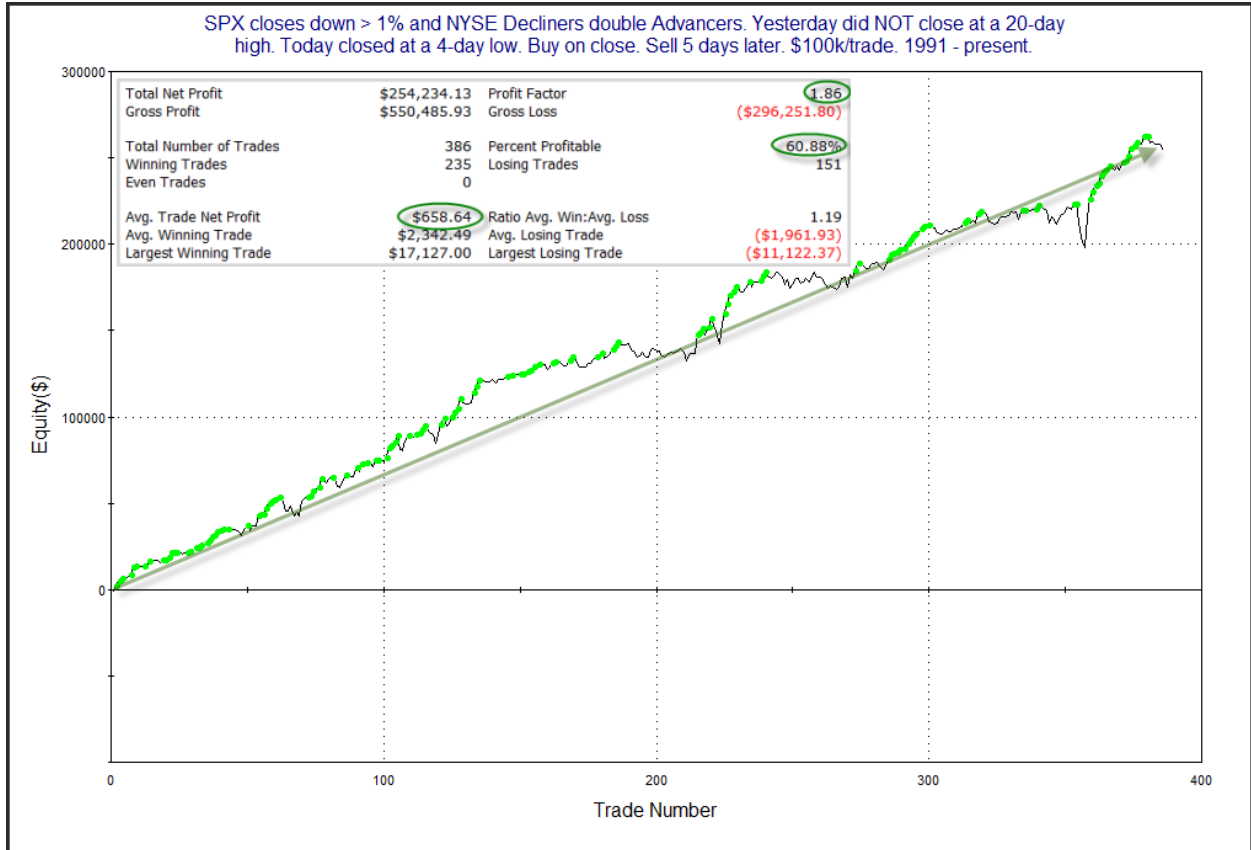
SPX closes down > 1% and NYSE Decliners double Advancers. Yesterday did NOT close at a 20-day high. Today did NOT close at a 4-day low. Buy on close. Sell X days later. \$100k/trade. 1991 - present.

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
10	49,307.21	50	33	17	66.00	8,586.24	-20,280.15	3,498.74	-3,891.25	0.90	1.75	986.14
9	54,407.24	52	37	15	71.15	15,436.40	-20,652.72	3,398.04	-4,754.69	0.71	1.76	1,046.29
8	27,102.72	53	36	17	67.92	12,436.00	-18,011.16	3,107.74	-4,986.82	0.62	1.32	511.37
7	4,835.98	54	34	20	62.96	9,659.76	-21,047.73	2,450.41	-3,923.90	0.62	1.06	89.56
6	19,933.37	57	38	19	66.67	9,510.77	-19,140.34	2,312.42	-3,575.72	0.65	1.29	349.71
5	13,888.34	60	39	21	65.00	10,919.20	-18,188.04	2,625.97	-4,215.45	0.62	1.16	231.47
4	21,636.41	62	37	25	59.68	12,046.80	-13,776.90	2,898.19	-3,423.87	0.85	1.25	348.97
3	21,796.72	64	36	28	56.25	10,453.20	-10,506.45	2,715.60	-2,713.03	1.00	1.29	340.57
2	17,077.78	65	37	28	56.92	7,608.64	-9,153.54	2,123.92	-2,196.69	0.97	1.28	262.74
1	15,907.34	67	36	31	53.73	7,001.20	-6,060.08	1,551.26	-1,288.32	1.20	1.40	237.42

There were still a decent number of instances. But it appears the 1-week edge is basically eliminated. Below is a look at the 5-day profit curve.

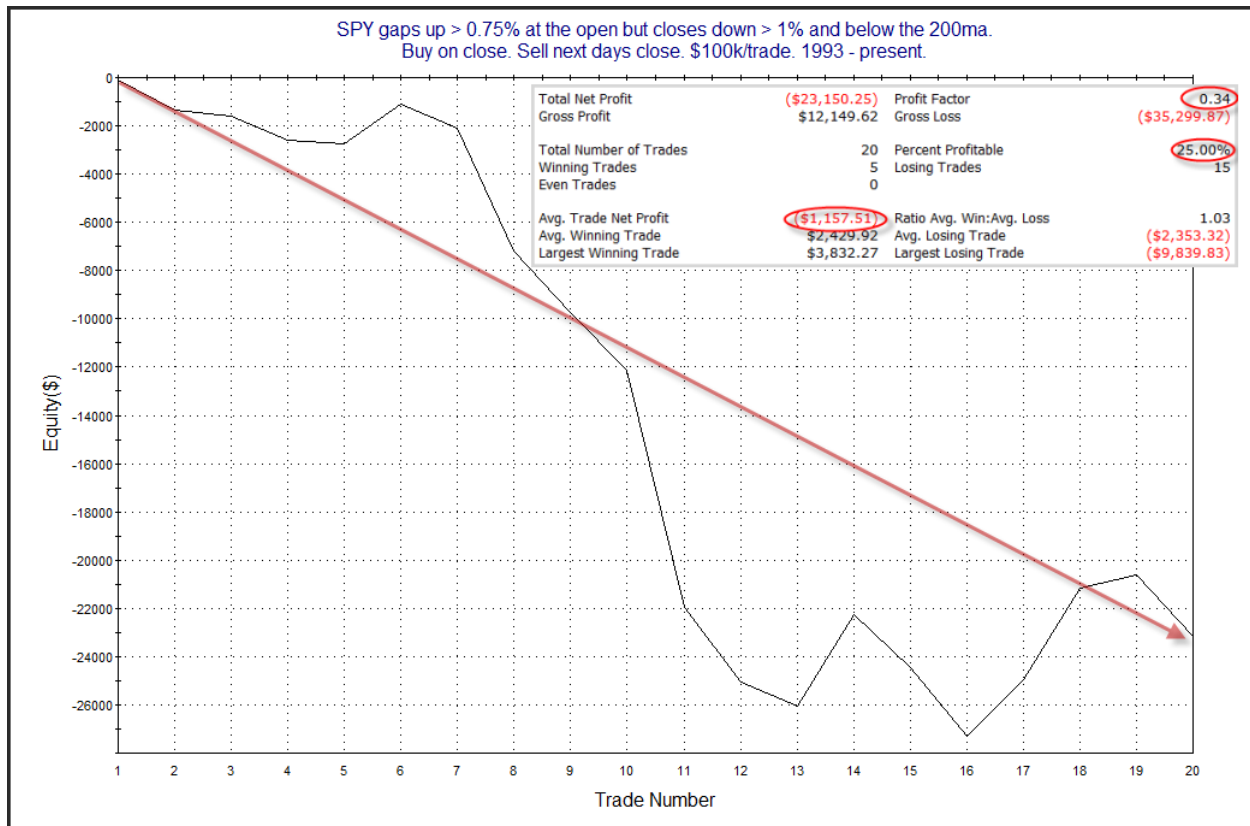


Not an appealing curve. Here is the curve when the original setup *was* accompanied by a 4-day closing low.



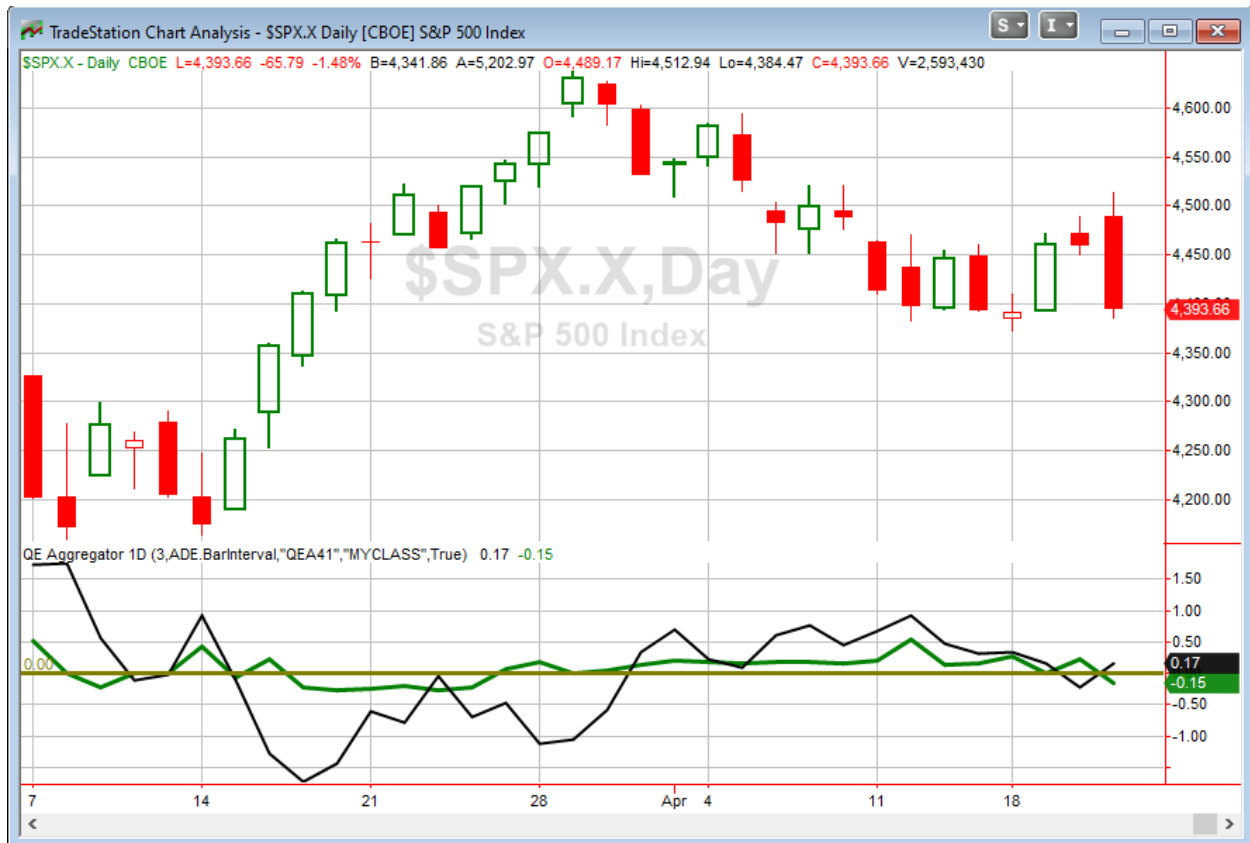
This curve is much more appealing. But it is not in play right now. So the big drop does not seem to be offering an upside edge at this point.

This next study actually suggests we could see additional selling. It looks at other times SPY posted a large gap up and reversal and closed below the 200ma, like we saw on Thursday.



That stats suggest a downside edge. The curve is a little choppy lately. I sliced and diced this one a few different ways (yesterday closed above the 10ma, today did NOT close at a 5-day low, etc). No matter how I sliced it, results remained fairly consistent. So I elected to include this 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 rose above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current list of active studies, expectations are set to flip back to positive on Friday. Of course this could easily change if compelling new bearish evidence emerges on Friday. Meanwhile, the Differential Pivot will be 4480.30 on Friday. That is 2.0% above Thursday's close. Therefore, SPX would need to close up at least 2.0% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again neutral. SPX is clearly oversold, but evidence is mixed and leaning bearish – at least for 1 day. If we get another down day on Friday, then perhaps we will see more convincing evidence that a bounce is likely. At this point, I don't see a compelling reason to take on a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/18 – neutral

The intermediate-term outlook was last updated in the 4/18/22 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

LLY – 1/3 @ \$289.61 (buy @ limit)

New

LLY – 1/3 @ \$289.61 (buy @ limit)

Broad Market Large Cap CBI – 2(LLY-2)

Note: I neglected to list LLY last night, so I am listing it twice tonight.

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.

LLY – Buy 2/3 Catapult position @ \$289.61 LIMIT. From the Catapult section above, this would be the 1st and 2nd lot of up to 3 lots of LLY.

Current Open Trade Ideas

None

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