

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 26, 2022

Volume 15 Issue 78

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- The gap and reverse pattern for SPY is suggesting a short-term downside edge.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is mixed and the setup is not as strong as yesterday.

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 26, 2022	Gap Dn 10-low, reversal up < 200	1-3 days	Bearish			
April 25, 2022	SPX down 1.5x 20-day ATR on Fri < 200	1-6 days	Bullish	3.10%	-1.40%	-2.70%
April 25, 2022	SPX drops 2.5% on Friday	1-6 days	Bullish	4.20%	-2.60%	-5.60%
April 25, 2022	VIX up 20% on last day of week	1-8 days	Bullish	2.65%	-1.65%	-3.60%
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%
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			

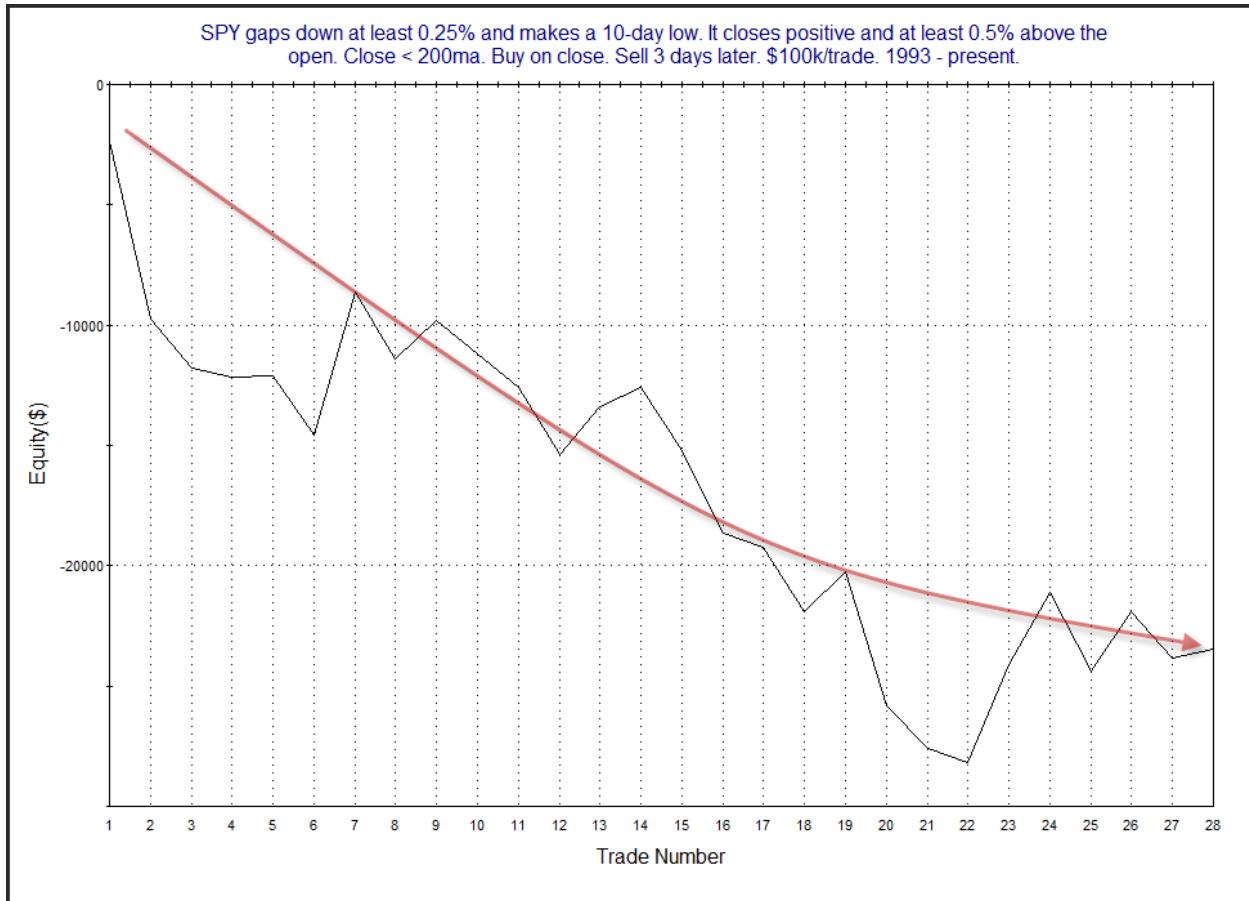
The Evidence

Monday saw a big morning drop get reversed in the afternoon and the major indices all close higher. The SPX gained 0.6%, the NASDAQ rallied 1.3%, and the Russell 2000 rose 0.7%. Breadth was slightly negative with the NYSE Up Issues % coming in at 48.9% and the Up Volume % at 48.8%. NYSE total volume rose for the 4th day in a row.

After such strong selling the last few days, the bounce Monday doesn't look like much on a chart. And by just about any measure you want to use, the market would still be considered short-term oversold. I did not identify any evidence that I found strongly compelling. But there was one study from the Quantifinder that was worth some consideration. It looked at the gap down, selloff, and upward reversal pattern in SPY. Last seen in the 5/15/20 letter, I have updated the stats below.

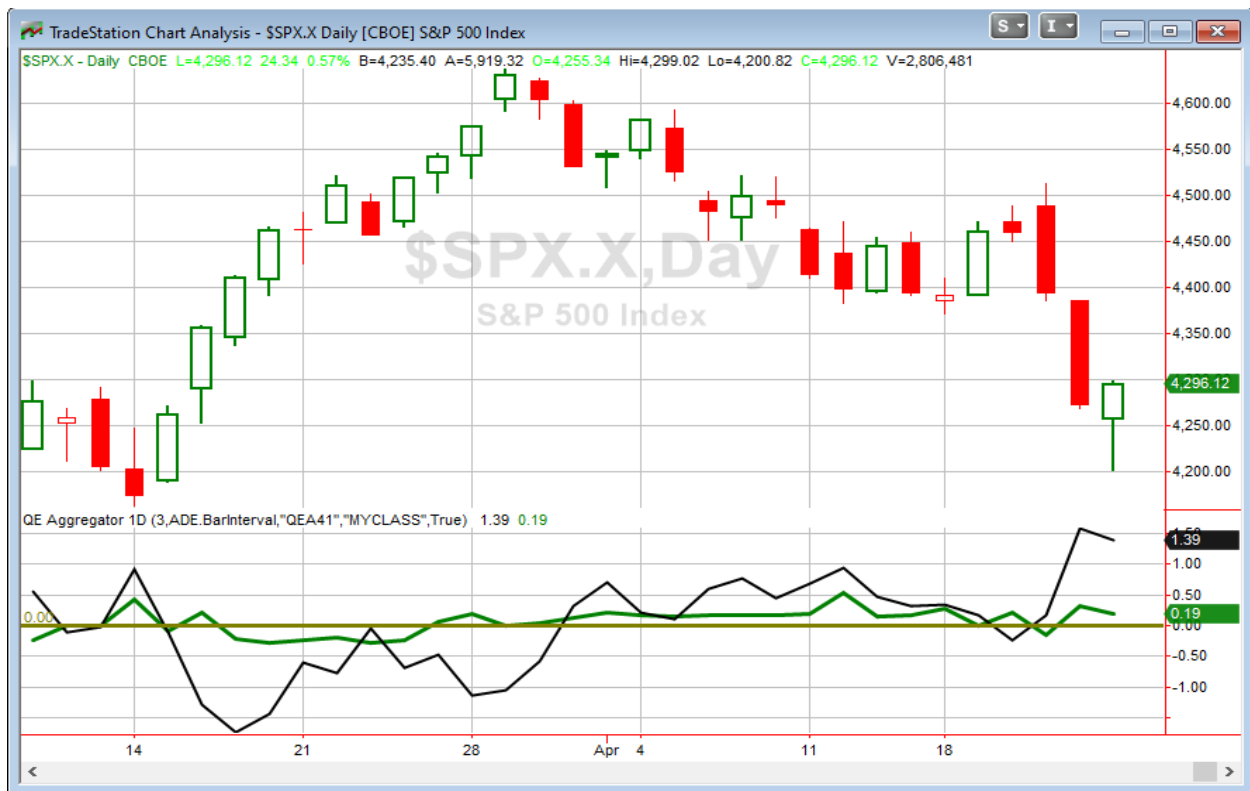
SPY gaps down at least 0.25% and makes a 10-day low. It closes positive and at least 0.5% above the open. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,173.01	27	13	14	48.15	7,599.20	-11,595.16	2,873.30	-3,680.43	0.78	0.72	-524.93
4	-11,435.75	27	12	15	44.44	7,339.60	-10,296.72	2,853.93	-3,045.53	0.94	0.75	-423.55
3	-23,470.13	28	10	18	35.71	5,959.00	-7,354.80	2,201.24	-2,526.81	0.87	0.48	-838.22
2	-13,899.70	30	12	18	40.00	3,693.50	-5,448.00	2,073.84	-2,154.77	0.96	0.64	-463.32
1	-12,325.49	30	12	18	40.00	3,978.60	-5,221.00	1,488.24	-1,676.91	0.89	0.59	-410.85

Implications here appear bearish. This kind of reversal off a short-term low during a long-term downtrend has often been followed by more selling in the next few days. Below is an equity curve using a 3-day exit strategy.



There has been a bump up and some chop recently. So this is not a clear-cut case of a bearish edge. But for the time being, the move lower along with the stats are enough for me to give this study some consideration. So I have added it to the active list tonight.

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



Even with tonight's evidence considered, the green Aggregator remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line is still far above zero. The positive Differential Line reading means that SPX is strongly 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 list of active studies, expectations are set to remain positive on Tuesday. This could change if very compelling bearish evidence emerges on Tuesday. Meanwhile, the Differential Pivot will be 4394.01 on Tuesday. That is a sizable 2.3% above Monday's close. Therefore, SPX would need to close up over 2.3% on Tuesday in order to flip from oversold to overbought vs recent expectations. A more likely scenario is that it will still take a few days to work off this oversold condition.

So the Aggregator is bullish. Yesterday the short-term active list was all bullish studies. With tonight's study we are now faced with mixed evidence. Of course it is still leaning higher, and the market still has a way to go to work off the oversold condition. I have some long exposure from Monday. I will look to hold onto that through Tuesday. Normally, I would definitely hold Tuesday night as well. But if we get another strong up day on Tuesday, rather than push my luck ahead of multiple large earnings reports, including MSFT and GOOGL, I may take profits at the close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/25 – neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

LLY – 1/3 @ \$289.61 (bought @ limit)

LLY – 1/3 @ \$289.61 (bought @ limit)

LLY – 1/3 @ \$278.73 (bought @ limit)

Broad Market Large Cap CBI – 3(LLY-3)

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
LLY(2/3)	4/22/2022	\$289.30	\$285.20	-1.42%	Catapult
LLY(1/3)	4/25/2022	\$278.73	\$285.20	2.32%	Catapult
SPY(1/4)	4/25/2022	\$423.67	\$428.51	1.14%	sell @ \$432.00 LIMIT ON CLOSE

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