

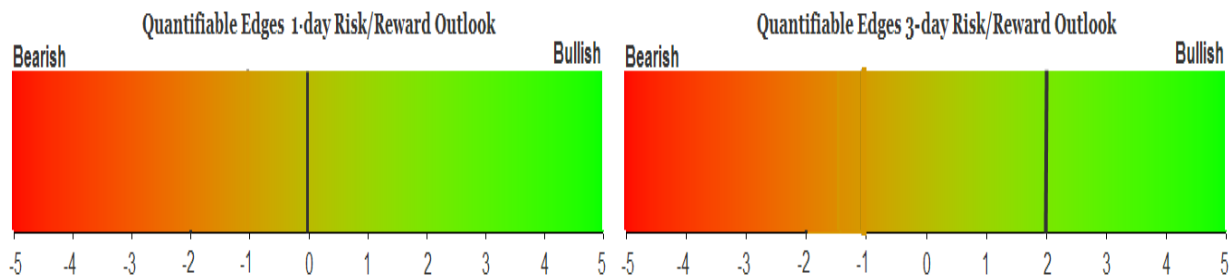
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 3, 2022

Volume 15 Issue 83

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	5

Tonight's Research Points

- A few studies suggest the reversal and bounce on Monday is likely to not see more buying on Tuesday.
- May 1st rallies have commonly been followed by dips.
- If Tuesday closes poorly, Wednesday's Fed Day could see a nice rally.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is mixed, especially for Tuesday. The market is strongly oversold. I believe we will see more upside in the next few days, but Tuesday is certainly questionable.

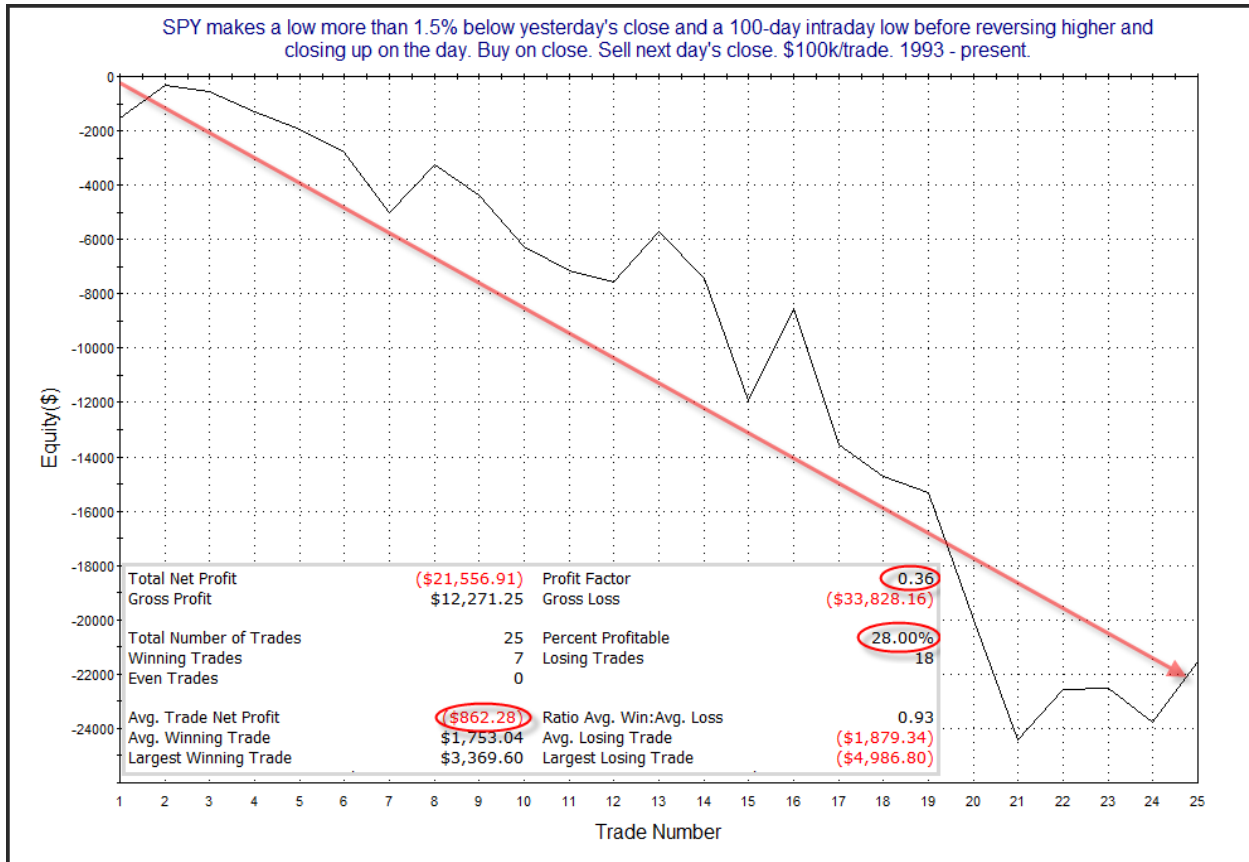
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
May 3, 2022	1.5% dn yesterday. Up on weak breadth	1 day	Bearish			
May 3, 2022	Low dn 1.5% & 100-low. Close up.	1 day	Bearish			
May 3, 2022	SPX up 1st day of May	1-4 days	Bearish			
May 2, 2022	Unfilled up then unfilled down < 200	1-2 days	Bearish			
May 2, 2022	SPX down 1.5x 20-day ATR on Fri < 200	1-4 days	Bullish			
May 2, 2022	SPX drops 2.5% on Friday	1-5 days	Bullish			
April 28, 2022	50-low yesterday. 5th lower low & up	1-4 days	Bullish	3.90%	-2.30%	-5.50%
Active - Long Term						
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
May 2, 2022	SPY dn 3% and near intraday low	1 day	Bullish			

The Evidence

Monday saw more selling until a last-hour rally turned things positive. In the end, the SPX closed up 0.6%, the NASDAQ gained 1.6%, and the Russell 2000 rose 1.0%. Breadth was mixed with the NYSE Up Issues % coming in at 42.5% and the Up Volume % at 57%. NYSE total volume declined some from Friday's level.

One notable about Monday's action was that SPY made a long-term intraday low before reversing and finishing slightly higher. And it took a large rally just to get back to breakeven on the day. I decided to look at other times that SPY came back from a long-term low and a large intraday dip to finish the day positively. I found that it often struggled to carry that afternoon momentum into the following day. This can be seen in the study below, which was last seen in the 12/11/18 letter.



The numbers clearly suggest a downside edge, and the profit curve appears quite bearish as well.

Another study that appeared in the Quantifinder tonight was from way back in the 5/18/10 Letter. It looked at bounces with weak breadth following a sizable drop. I've updated the results below.

Yesterday SPX drops > 1.5%. Today SPX closes higher but NYSE Up Issues % < 45%. SPX closes at least 1.5% above its lows. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	-13,616.35	16	5	11	31.25	10,682.82	-11,533.34	4,864.67	-3,449.06	1.41	0.64	-851.02
4	-13,259.36	16	5	11	31.25	9,834.56	-9,828.00	3,177.44	-2,649.69	1.20	0.55	-828.71
3	-19,574.63	16	6	10	37.50	5,545.08	-6,956.04	2,585.23	-3,508.60	0.74	0.44	-1,223.41
2	-25,294.61	16	5	11	31.25	5,288.12	-12,374.88	2,083.49	-3,246.55	0.64	0.29	-1,580.91
1	-22,466.41	16	2	14	12.50	3,644.16	-6,094.64	3,243.50	-2,068.10	1.57	0.22	-1,404.15

15 of 16 instances closed below the entry price at some point in the next 3 days.

These results are suggestive of a downside edge. Most of the downside came on Day 1. Below is the full list of instances with their 1-day returns.

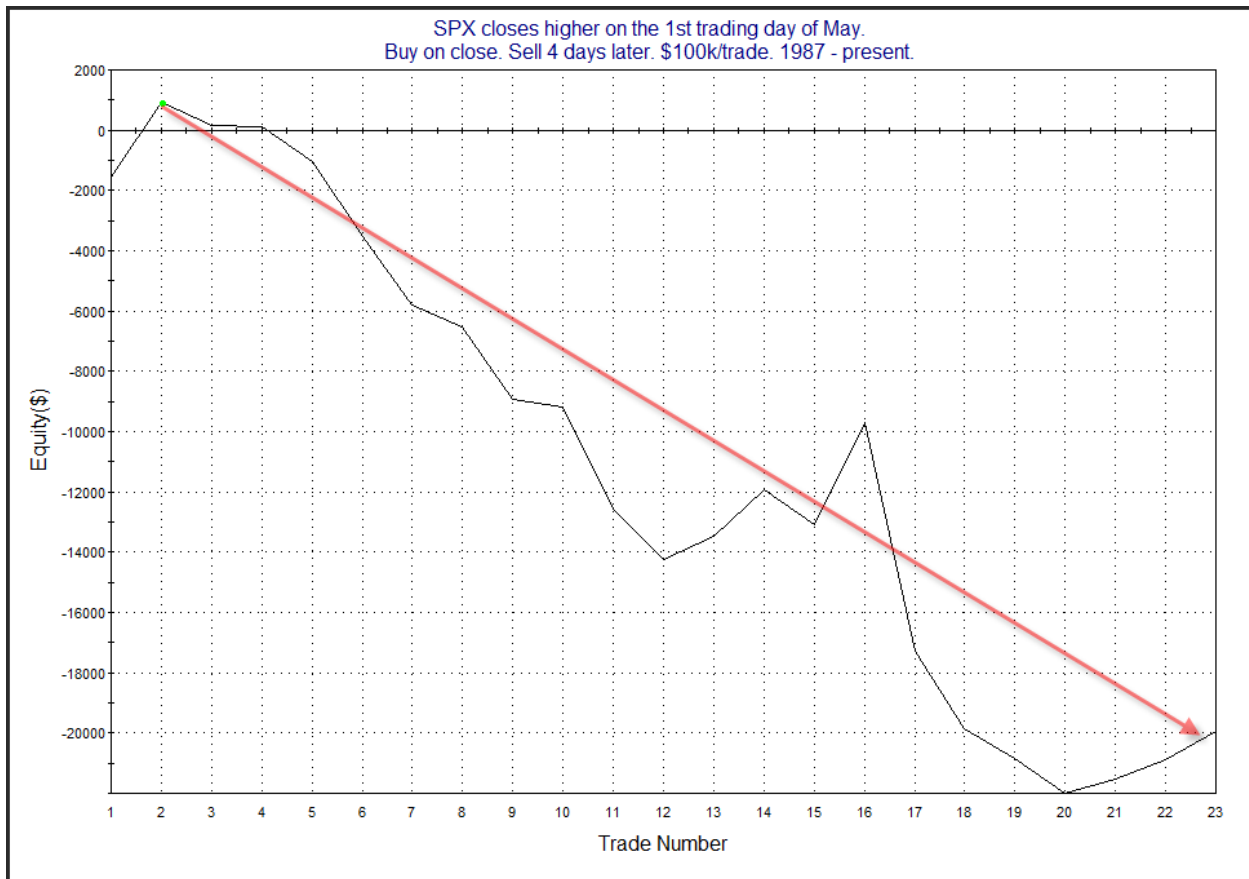
Yesterday SPX drops > 1.5%. Today SPX closes higher but NYSE Up Issues % < 45%. SPX closes at least 1.5% above its lows. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/25/2000	Buy	\$1,410.03	-0.42%	\$189.00
1/26/2000	Sell	\$1,404.09		(\$690.90)
4/17/2000	Buy	\$1,401.53	2.86%	\$2,842.84
4/18/2000	Sell	\$1,441.57		(\$264.12)
3/13/2001	Buy	\$1,197.68	-2.59%	\$0.00
3/14/2001	Sell	\$1,166.71		(\$3,513.39)
9/10/2001	Buy	\$1,092.54	-4.92%	\$0.00
9/17/2001	Sell	\$1,038.77		(\$5,012.28)
6/24/2002	Buy	\$992.72	-1.67%	\$1,316.00
6/25/2002	Sell	\$976.14		(\$1,851.00)
7/3/2002	Buy	\$953.99	3.67%	\$3,648.32
7/5/2002	Sell	\$989.03		\$0.00
7/11/2002	Buy	\$927.37	-0.64%	\$742.58
7/12/2002	Sell	\$921.39		(\$1,461.62)
8/10/2007	Buy	\$1,453.64	-0.05%	\$860.20
8/13/2007	Sell	\$1,452.92		(\$142.80)
9/16/2008	Buy	\$1,213.57	-4.71%	\$0.00
9/17/2008	Sell	\$1,156.42		(\$4,730.58)
10/23/2008	Buy	\$908.11	-3.45%	\$0.00
10/24/2008	Sell	\$876.77		(\$6,078.60)
11/18/2008	Buy	\$859.12	-6.12%	\$632.20
11/19/2008	Sell	\$806.58		(\$6,141.04)
3/6/2009	Buy	\$683.38	-1.00%	\$1,735.94
3/9/2009	Sell	\$676.53		(\$1,533.00)
2/5/2010	Buy	\$1,066.19	-0.89%	\$465.93
2/8/2010	Sell	\$1,056.74		(\$900.24)
5/17/2010	Buy	\$1,136.94	-1.42%	\$1,019.64
5/18/2010	Sell	\$1,120.80		(\$1,717.38)
12/10/2018	Buy	\$2,637.72	-0.04%	\$1,355.31
12/11/2018	Sell	\$2,636.78		(\$607.54)
1/24/2022	Buy	\$4,410.13	-1.22%	\$19.36
1/25/2022	Sell	\$4,356.45		(\$2,706.44)

We see here that the last 10 instances have all seen a decline the next day.

May got off to a positive start. But that has typically been followed by a dip in the next few days. This can be seen in the study below, which is updated from the 5/4/21 letter.

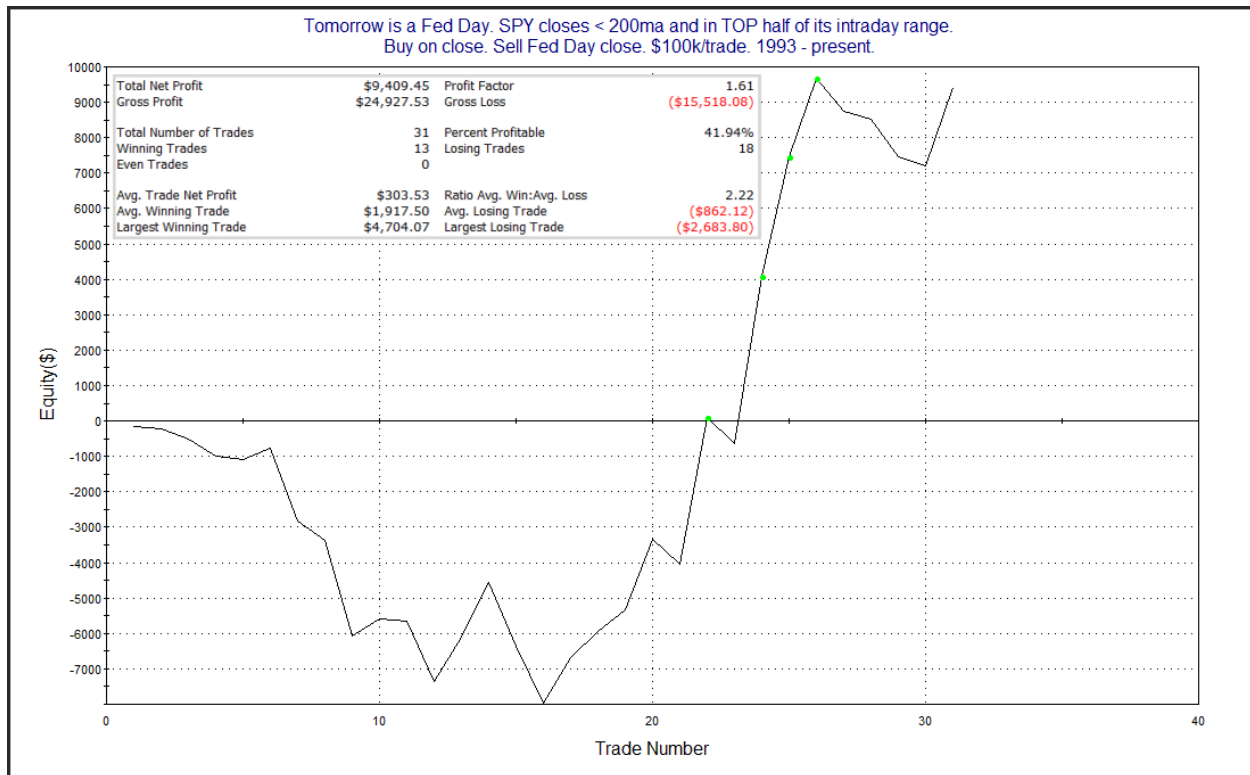
SPX closes higher on the 1st trading day of May. Buy on close. Sell X days later. \$100k/trade. 1987 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,676.10	23	9	14	39.13	5,843.23	-3,529.99	1,487.90	-1,647.66	0.90	0.58	-420.70
4	-19,963.65	23	7	16	30.43	3,375.31	-7,584.54	1,461.36	-1,887.07	0.77	0.34	-867.98
3	-15,465.34	23	10	13	43.48	4,747.13	-6,151.13	1,017.09	-1,972.02	0.52	0.40	-672.41
2	-12,902.96	23	7	16	30.43	2,969.64	-3,614.20	1,022.97	-1,253.98	0.82	0.36	-561.00
1	-3,246.86	23	13	10	56.52	3,358.36	-2,378.78	516.01	-995.50	0.52	0.67	-141.17

Of the 23 instances that rose on the first day in May since 1987, 16 of them closed lower 4 days later. Below is an equity curve that shows how it has played out over time.

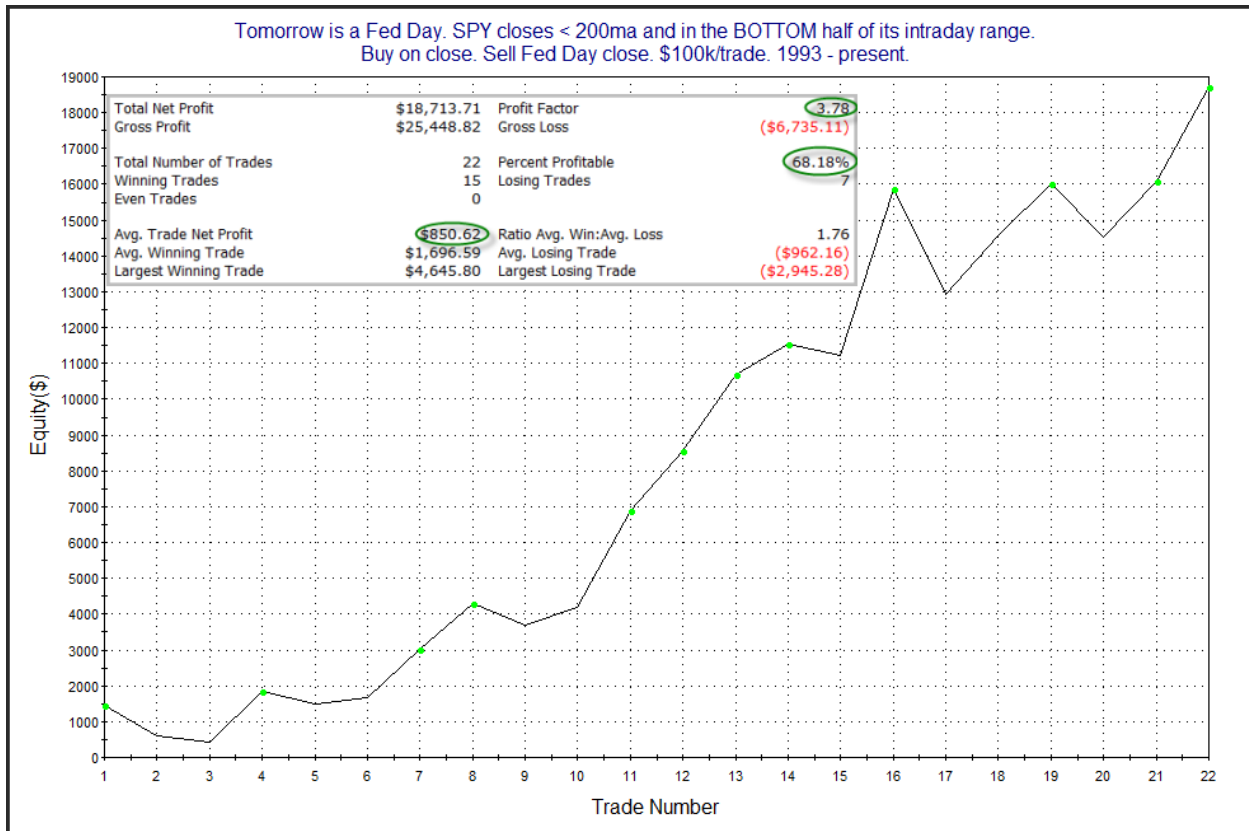


I'll note the big drop in instance 17 was the 2010 Flash Crash. Even without that instance there appears to be a solid downside inclination.

As I am sure all readers are aware, Wednesday this week is a Fed Day. In the 3/15/22 letter I showed that when SPY has been below its 200ma, that closing low in its range the day before a Fed Day appeared advantageous. This is similar to tendencies above the 200ma, which I have shown many times in the past. First let's look at instances where SPY closed strongly the day before a Fed Day.

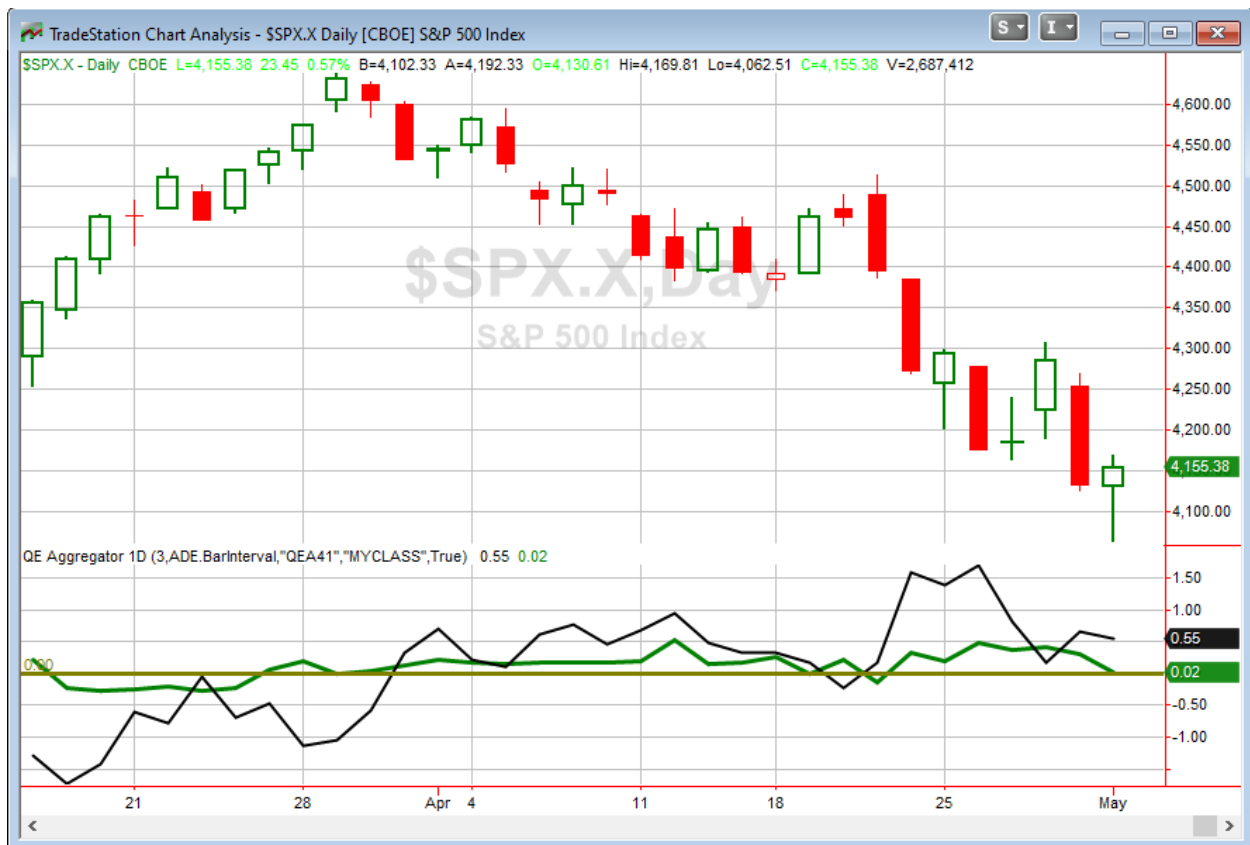


Results here appear quite inconsistent. Next let's view times SPY posted a weak close the day before a Fed Day.



Weak closes appear promising. A weak close on Tuesday would suggest bullish odds for Wednesday. This would seem worth keeping in mind on Tuesday afternoon.

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



Even with tonight's evidence considered, the green Aggregator remained a little above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line is still above zero. The positive Differential Line reading means that SPX is 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 compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4335.98 on Tuesday. That is 4.3% above Monday's close. Therefore, SPX will need to close up a massive 4.3% on Tuesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But while 3-day expectations remain slightly bullish, 1-day expectations are actually negative. This is thanks to all the bearish evidence we saw tonight. Of course with the Differential Pivot so far away, there is almost zero chance that SPX flips to overbought on Tuesday. With all the 1-day bearish evidence, and my intermediate-term outlook also bearish, I may look to exit part of my position if the market gaps up tomorrow and then re-enter if we close poorly. With the outlook still short-term bullish overall, I will hold onto part of my position for at least another day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/2 – somewhat bearish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

NFLX – 1/3 @ \$188.54 (bought @ limit)

CHTR – 1/3 @ \$461.49 (bought @ limit)

CHTR – 1/3 @ \$428.49 (buy @ limit)

AMGN – 1/3 @ \$233.19 (buy @ limit)

New

AMGN – 1/3 @ \$230.92 (buy @ limit)

Broad Market Large Cap CBI – 4 (NFLX, CHTR-2, AMGN)

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.

AMGN – Buy 1/3 Catapult position @ \$230.92 LIMIT. From the Catapult section above this would be the 2nd of up to 3 lots for AMGN.

SPY – Buy 1/4 index position @ \$412.00 LIMIT ON CLOSE IF SPY GAPS UP TO START THE DAY AND I EXIT ONE LOT IN THE MORNING. Based on the short-term section above, I will look to re-enter a lot of SPY if my exit target is hit at the open on Tuesday. If not, I will not be adding a 3rd lot.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	4/25/2022	\$423.67	\$414.48	-2.17%	<i>sell @ \$415.00 LIMIT ON OPEN</i>
SPY(1/4)	4/27/2022	\$416.10	\$414.48	-0.39%	Aggregator
NFLX(1/3)	4/28/2022	\$188.54	\$199.46	5.79%	Catapult
CHTR(1/3)	4/29/2022	\$449.89	\$432.54	-3.86%	Catapult
CHTR(1/3)	5/2/2022	\$428.49	\$432.54	0.95%	Catapult
AMGN(1/3)	5/2/2022	\$233.19	\$230.92	-0.97%	Catapult

Note: If my exit target is not hit with a gap up open, then I will just hold onto my current SPY position.

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