

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2022

Volume 15 Issue 86

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Coming from a short-term high, the sizable drop on Thursday could be a prelude to more short-term selling.
- The 1st down day after a strong move off a bottom is often short-term buyable.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the setup is not enticing. Evidence is mixed and expectations are set to turn negative on Friday unless more bullish evidence emerges.

The Evidence

Oof. Thursday's numbers were among the worst we have seen in years. The SPX closed down 3.6%, the NASDAQ tumbled 5.0%, and the Russell 2000 fell 4.0%. Breadth was extremely negative with the NYSE Up Issues % coming in at 12% and the Up Volume % at 7%. NYSE total volume rose some from Wednesday's level.

One mistake that many swing traders make when looking at selloffs like Thursday is that they believe just because the selling was strong, that it is likely to be exhaustive and lead to a quick reversal. Strong selloffs can often be exhaustive. But a big factor that is often overlooked is the position of the market when the selloff occurs. In the 2/4/22 subscriber letter I compared 2% drops that leave the market at a 5-day low versus 2% drops that don't. I found a big difference in the results, and have updated them below.

SPX closes down > 2% and at a 5-day low. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	129,923.50	188	111	77	59.04	17,127.00	-12,975.48	3,055.84	-2,717.86	1.12	1.62	691.08
4	94,181.83	198	117	81	59.09	13,981.45	-14,820.98	2,638.77	-2,648.81	1.00	1.44	475.67
3	86,847.84	210	124	86	59.05	13,853.40	-13,815.18	2,451.85	-2,525.36	0.97	1.40	413.56
2	80,482.77	227	127	100	55.95	10,183.87	-8,077.85	2,023.78	-1,765.37	1.15	1.46	354.55
1	91,326.84	251	157	94	62.55	10,716.03	-9,386.64	1,552.58	-1,621.58	0.96	1.60	363.85

The strong selloff and new low suggest a bullish edge. But when SPX is NOT closing at a low level...

SPX closes down > 2% but closes > 5-day low. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	-24,416.76	36	19	17	52.78	6,507.68	-18,188.04	2,755.34	-4,515.78	0.61	0.68	-678.24
4	-17,017.77	39	17	22	43.59	7,513.37	-13,776.90	3,864.27	-3,759.56	1.03	0.79	-436.35
3	-3,467.67	43	22	21	51.16	8,531.60	-10,506.45	3,032.99	-3,342.54	0.91	0.95	-80.64
2	10,541.44	44	23	21	52.27	7,608.64	-9,153.54	2,947.84	-2,726.61	1.08	1.18	239.58
1	8,224.41	44	26	18	59.09	4,617.32	-6,060.08	1,629.33	-1,896.57	0.86	1.24	186.92

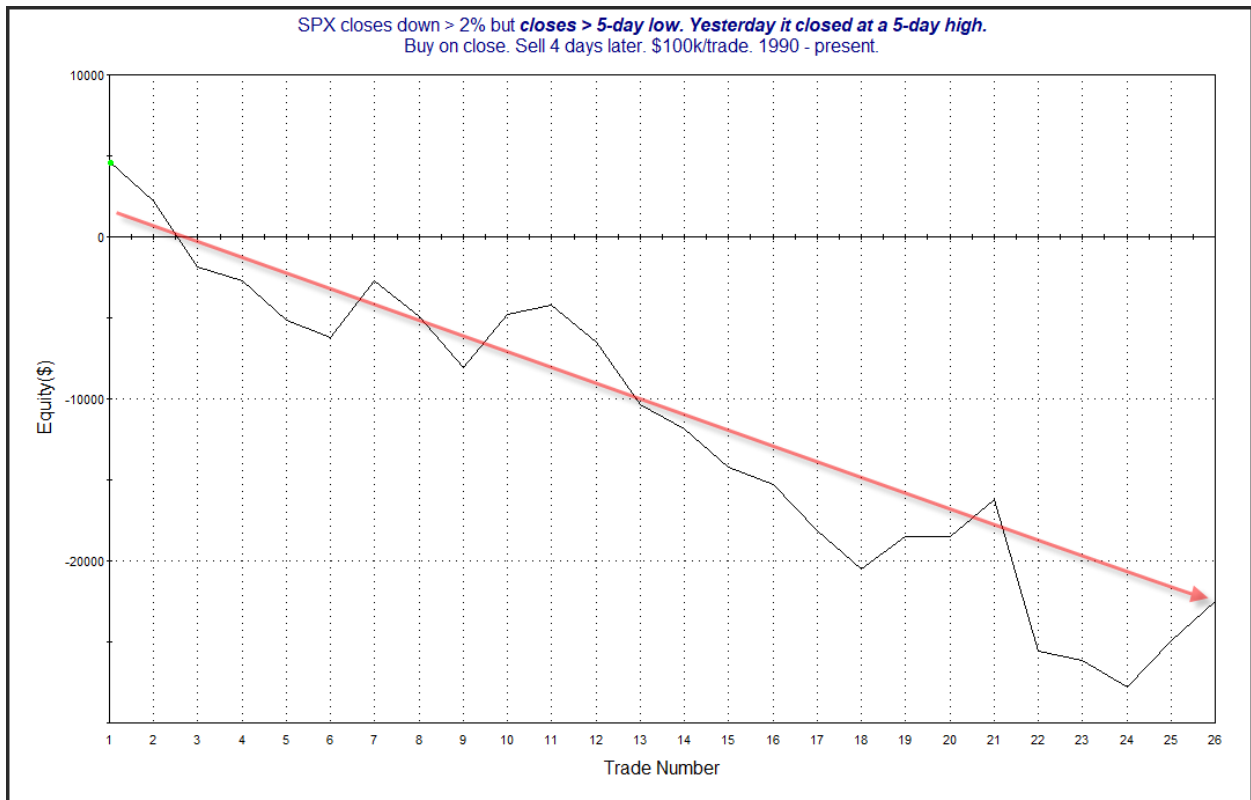
...there no longer appears to be an edge.

Interesting about Thursday's drop is that it also came immediately after a short-term high. So just the day before, traders were optimistic. This too can be important. Wednesday afternoon's buyers are stuck underwater. Here is the study with that added as a filter.

SPX closes down > 2% but *closes > 5-day low*. Yesterday it closed at a 5-day high.
Buy on close. Sell X days later. \$100k/trade. 1990 - 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	-36,191.81	25	13	12	52.00	4,189.92	-17,928.90	1,535.17	-4,679.08	0.33	0.36	-1,447.67
4	-22,511.73	26	8	18	30.77	4,630.50	-9,324.48	2,678.21	-2,440.97	1.10	0.49	-865.84
3	-5,981.61	27	13	14	48.15	4,605.20	-4,676.43	1,858.55	-2,153.06	0.86	0.80	-221.54
2	-5,853.53	27	13	14	48.15	4,498.74	-9,153.54	2,194.14	-2,455.52	0.89	0.83	-216.80
1	-2,640.51	27	16	11	59.26	3,322.02	-3,466.02	1,000.05	-1,694.67	0.59	0.86	-97.80

This looks somewhat bearish. Below is a 4-day curve.



The strong, steady decline serves as some confirmation of the downside edge.

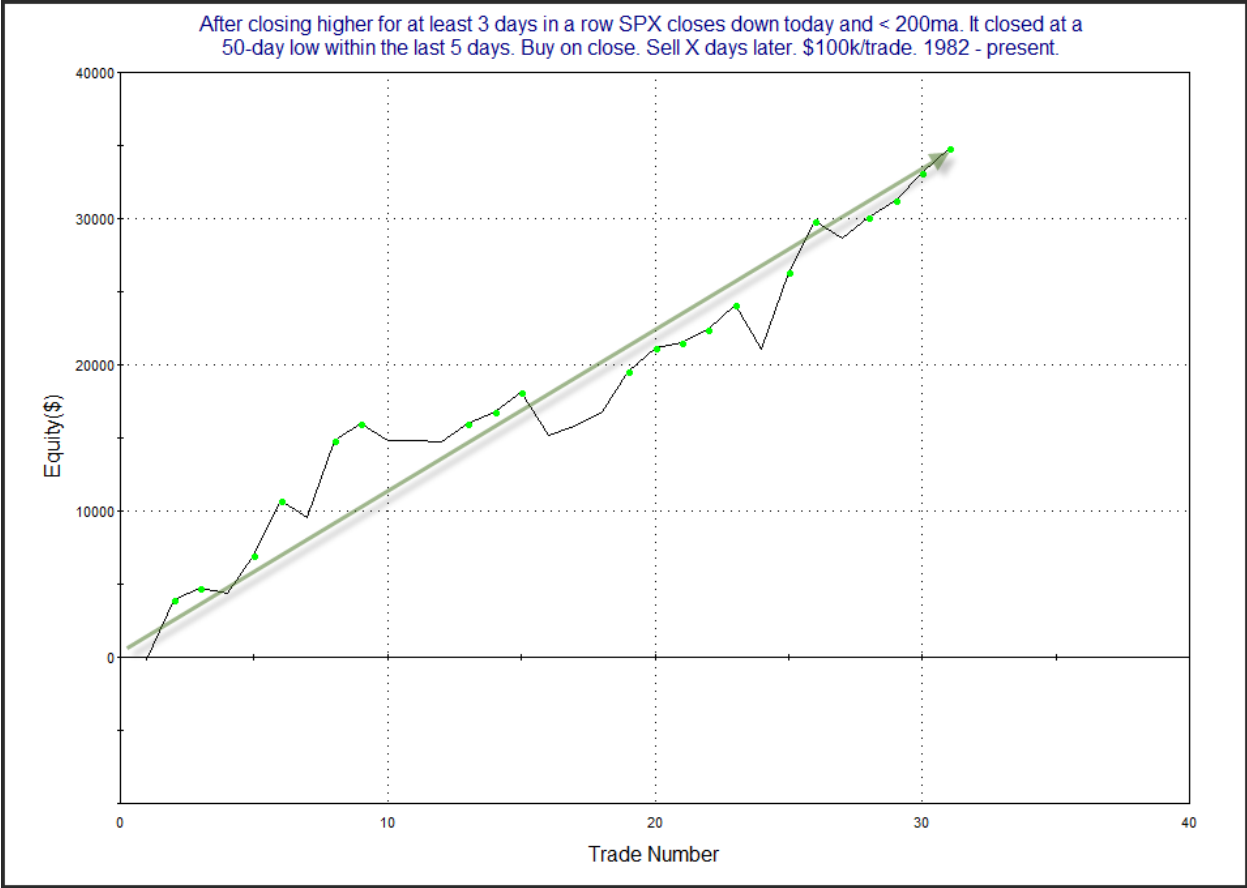
But another compelling study looked at things quite differently. After 3 strong days higher from a 50-day low, Thursday was the 1st day to take a break from the buying. In the 3/30/20 letter I looked back at other instances of 3+ day thrusts following 50-day lows and what happened after they experienced their 1st down day. Updated stats are below.

After closing higher for at least 3 days in a row SPX closes down today and < 200ma. It closed at a 50-day low within the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	33,335.50	30	16	14	53.33	9,111.96	-6,711.66	3,904.93	-2,081.67	1.88	2.14	1,111.18
4	29,324.95	31	17	14	54.84	8,086.40	-4,848.66	3,255.02	-1,857.88	1.75	2.13	945.97
3	32,608.83	31	19	12	61.29	6,971.97	-5,403.51	2,651.41	-1,480.66	1.79	2.84	1,051.90
2	34,843.62	31	23	8	74.19	5,340.72	-3,098.39	1,951.63	-1,255.48	1.55	4.47	1,123.99
1	16,981.07	31	20	11	64.52	3,443.56	-4,302.72	1,525.62	-1,230.12	1.24	2.25	547.78

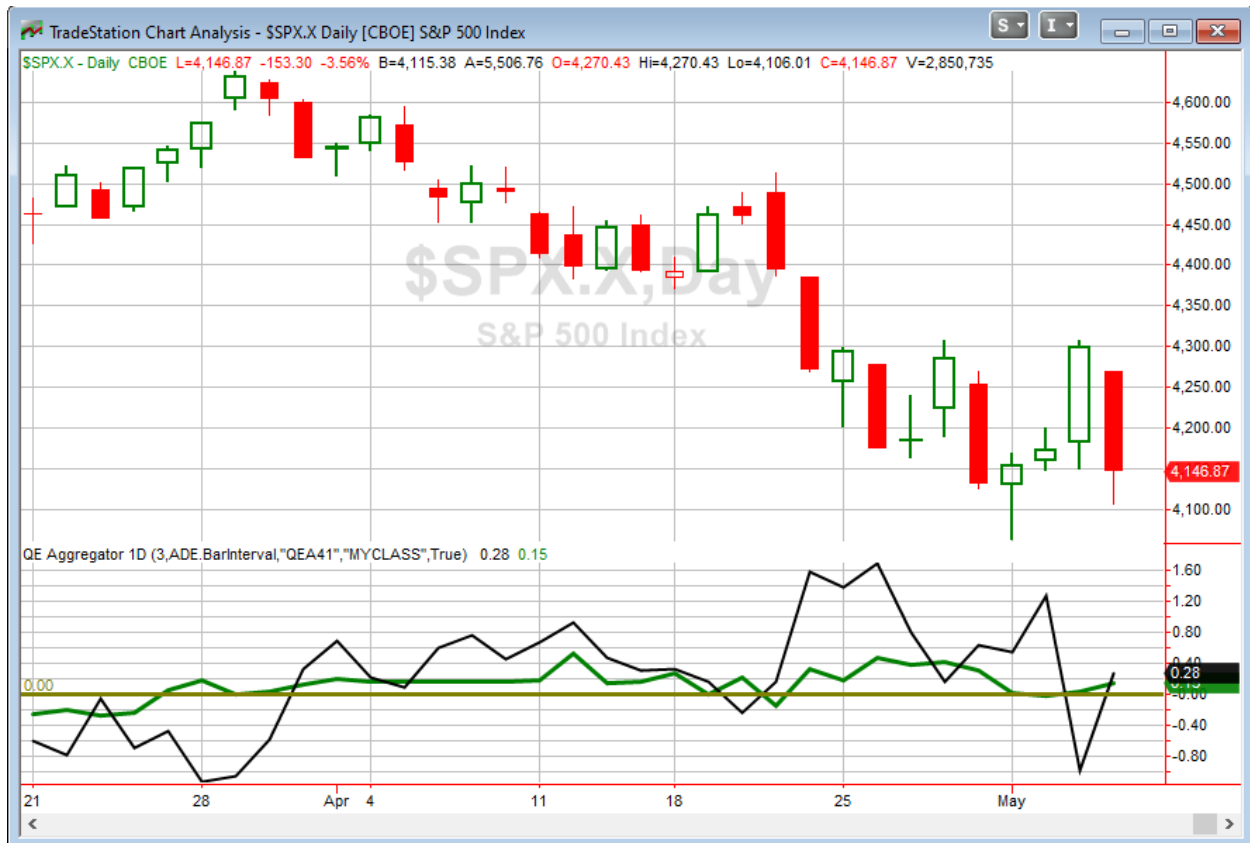
7 instances failed to close above the entry price on either Day 1 or Day 2. None of those 7 managed to do so until at least Day 7.

As we can see, most of the time that 1st down day acted only as a quick pause. It did not ignite more immediate selling. Combine that with the fact that the moves up outsized the moves down and there appears to be a clear upside edge over the 1st few days. Most of the edge is realized within 2 days. Also interesting is the failures. When there was not a bounce in the next day or two, then there hasn't been one for over a week. So that may be something to keep in mind over the next couple of days if we fail to see a quick bounce. To get a better feel for how the 2-day edge has played out I have produced a profit curve below.



The strong, steady upslope serves as confirmation of the upside edge.

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



With tonight's evidence considered, the green Aggregator held above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line shot back 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 turned long at the close.

Based on the current list of active studies, expectations are set to turn negative on Friday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4184.31 on Friday. That is 0.9% above Thursday's close. Therefore, SPX will need to close up at least 0.9% on Friday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But evidence is mixed, and currently set to flip to negative on Friday. Volatility is very high, which means risk is high. And oh yeah, the CBI is now zero, so that is not helping support a short-term bullish outlook. The intermediate-term outlook is bearish, so I am not inclined to take borderline long setups. Additionally, the last few Fridays have seen strong selling, with people hesitant to take exposure into the weekend. We could see that again tomorrow. If we do, that might help generate some more compelling bullish evidence for a bounce next week. But I'll wait and see. I'd rather miss a bounce than be too early to enter in this environment.

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

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>NFLX(1/3)</i>	<i>4/28/2022</i>	<i>\$188.54</i>	<i>\$200.45</i>	<i>6.32%</i>	<i>sold on open</i>
CHTR(1/3)	4/29/2022	\$449.89	\$456.20	1.40%	<i>sell on open</i>
CHTR(1/3)	5/2/2022	\$428.49	\$456.20	6.47%	<i>sell on open</i>
AMGN(1/3)	5/2/2022	\$233.19	\$234.35	0.50%	<i>sell on open</i>
AMGN(1/3)	5/3/2022	\$230.92	\$234.35	1.49%	<i>sell on open</i>

All the remaining Catapults reached their exit targets and will be sold at the open on Friday.

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2022 Quantifiable Edges, LLC.