

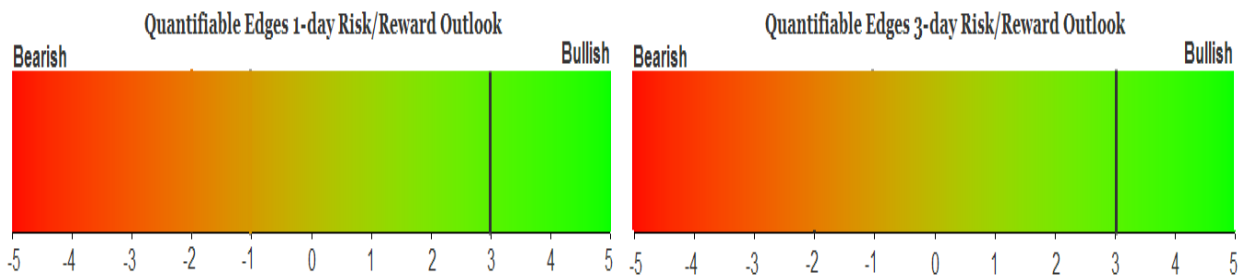
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 12, 2022

Volume 15 Issue 90

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- Oversold NASDAQ breadth and a long-term low close appear to suggest a short-term and intermediate-term upside edge.
- The big drop in SPX that was accompanied by a decline in the VIX is rare, and hints at an upside edge.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is now bullish. I like the long side.

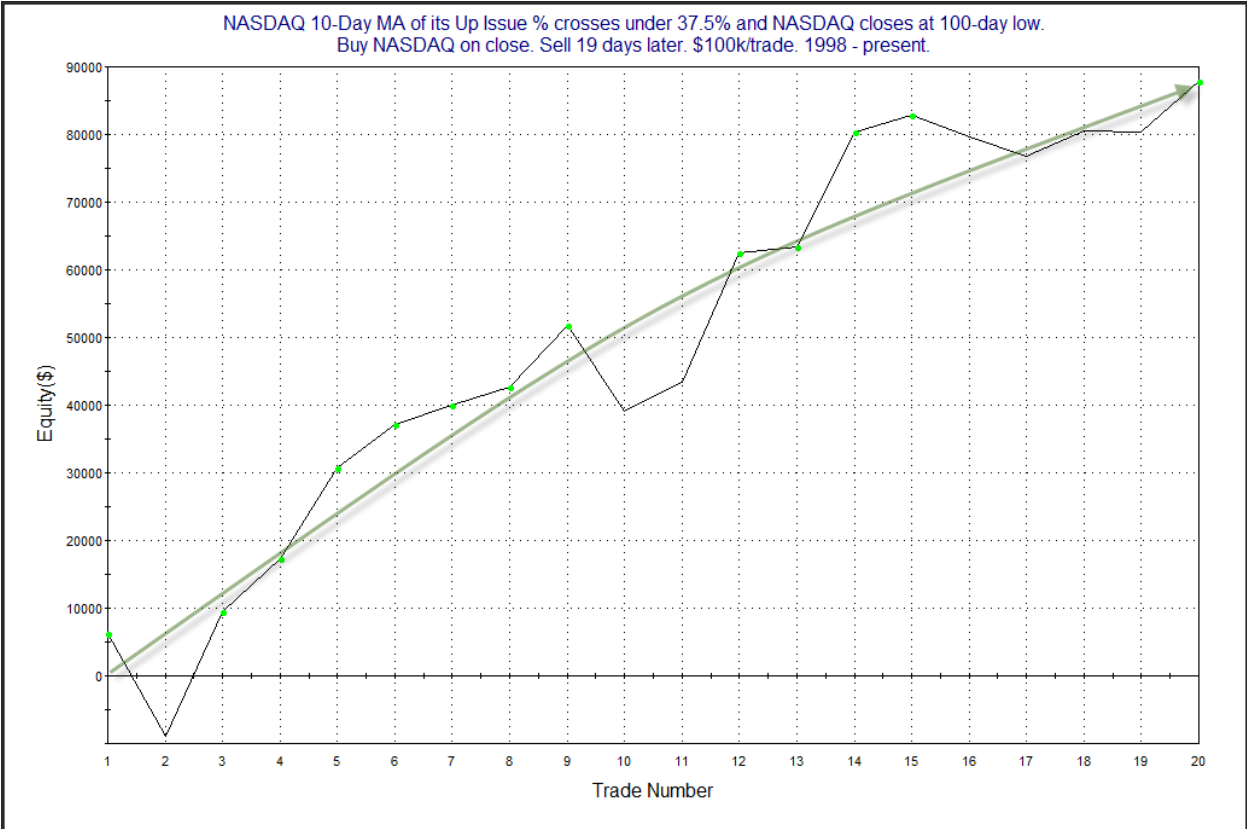
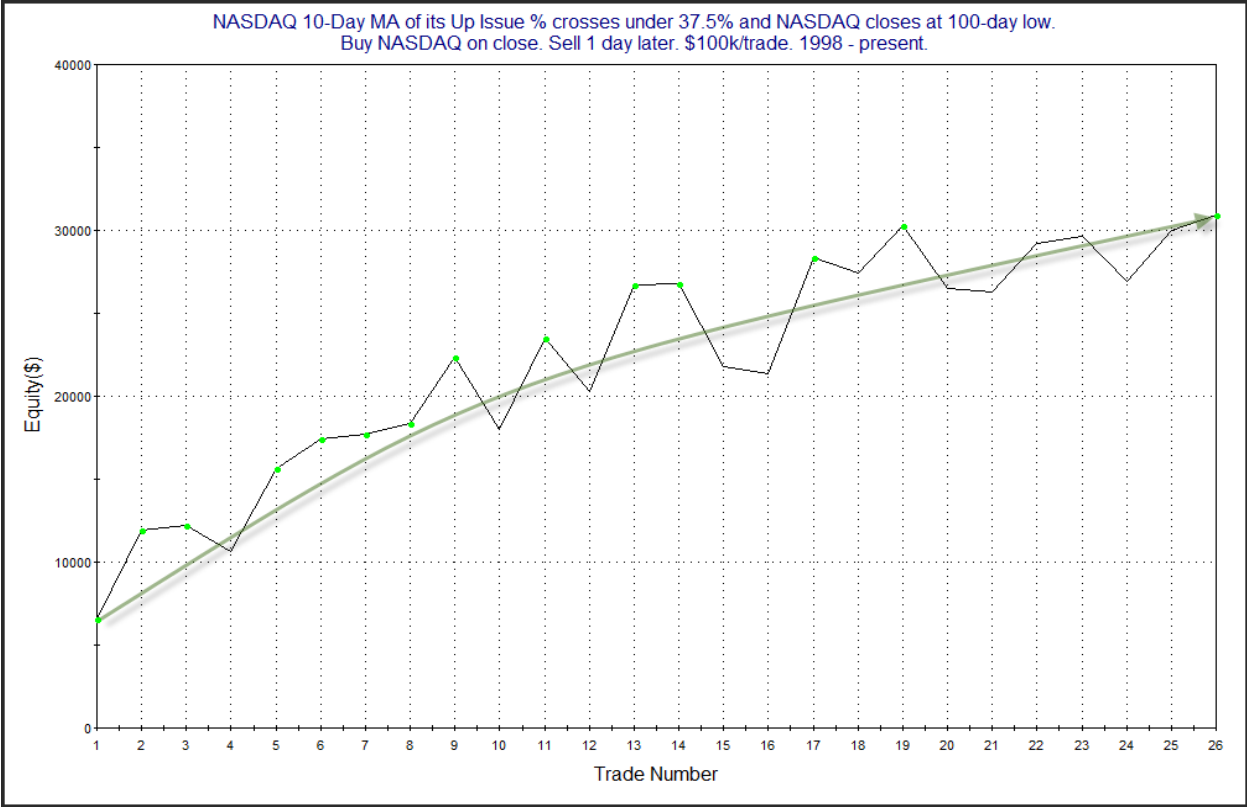
## The Evidence

On Wednesday the market started strong, but then it collapsed. Just like my Celtics tonight. The SPX closed down 1.65%, the NASDAQ tumbled 3.2%, and the Russell 2000 dropped 2.5%. Meanwhile, the Celtics blew a 14-point 4<sup>th</sup> quarter lead to lose by 3 to the Bucks. Breadth was negative with the NYSE Up Issues % coming in at 30.25% and the Up Volume % at 30.29%. NYSE total volume declined some for the 2<sup>nd</sup> day in a row.

Breadth has deteriorated so much recently that it is now suggesting a bounce is likely. Wednesday's strong selloff saw an old study trigger that examined the recent strongly negative NASDAQ breadth. It uses a 10-period exponential moving average of the NASDAQ Up Issues %. It found that when this number gets oversold at the same time the NASDAQ is hitting long-term lows, that has typically been followed by a move up. Last seen in the 1/19/16 letter I have updated the research below.

NASDAQ 10-Day MA of its Up Issue % crosses under 37.5% and NASDAQ closes at 100-day low. Buy NASDAQ 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
20	65,137.48	19	13	6	68.42	23,031.04	-14,944.68	7,550.43	-5,503.02	1.37	2.97	3,428.29
19	87,838.45	20	15	5	75.00	19,152.76	-15,201.72	8,137.08	-6,843.53	1.19	3.57	4,391.92
18	81,313.65	20	15	5	75.00	18,307.38	-14,799.18	7,398.37	-5,932.38	1.25	3.74	4,065.68
17	68,319.20	20	16	4	80.00	15,367.96	-15,193.92	5,954.12	-6,736.68	0.88	3.54	3,415.96
16	57,320.00	20	14	6	70.00	18,666.36	-22,515.99	6,747.48	-6,190.78	1.09	2.54	2,866.00
15	59,422.13	20	15	5	75.00	21,843.16	-20,163.36	6,261.74	-6,900.80	0.91	2.72	2,971.11
14	63,226.74	21	15	6	71.43	17,431.36	-17,517.48	6,301.60	-5,216.20	1.21	3.02	3,010.80
13	53,474.44	21	16	5	76.19	16,486.68	-16,913.64	5,160.78	-5,819.62	0.89	2.84	2,546.40
12	54,998.53	21	15	6	71.43	19,469.68	-12,786.21	5,681.45	-5,037.20	1.13	2.82	2,618.98
11	52,834.91	21	16	5	76.19	13,924.80	-9,045.36	5,012.37	-5,472.59	0.92	2.93	2,515.95
10	46,296.27	21	14	7	66.67	19,103.70	-12,041.10	5,368.29	-4,122.83	1.30	2.60	2,204.58
9	54,521.07	21	13	8	61.90	16,181.10	-11,713.68	6,213.36	-3,281.58	1.89	3.08	2,596.24
8	31,029.20	21	14	7	66.67	13,582.50	-16,272.06	4,967.12	-5,501.50	0.90	1.81	1,477.58
7	4,674.47	21	11	10	52.38	11,293.80	-8,587.38	4,003.60	-3,936.52	1.02	1.12	222.59
6	39,686.80	22	14	8	63.64	11,708.40	-12,022.56	5,334.95	-4,375.32	1.22	2.13	1,803.95
5	22,163.69	23	14	9	60.87	10,488.96	-15,461.16	5,250.11	-5,704.20	0.92	1.43	963.64
4	22,227.04	23	16	7	69.57	9,677.70	-15,415.77	4,207.88	-6,442.73	0.65	1.49	966.39
3	16,023.23	23	12	11	52.17	11,553.60	-11,055.00	4,836.11	-3,819.10	1.27	1.38	696.66
2	15,587.20	26	14	12	53.85	14,168.40	-9,818.01	4,422.13	-3,860.22	1.15	1.34	599.51
1	30,901.27	26	17	9	65.38	6,991.92	-4,994.64	3,120.89	-2,461.54	1.27	2.39	1,188.51

Nineteen days later we see 15 of 20 instances higher, and the average of those 15 winners saw the market up 8.1%. The 5 instances that did not close higher were down 6.8% on average. Here are looks at the 1-day and 19-day profit curves.



For the 19-day timeframe, we see here some massive rallies and some epic fails. Volatility is high and we could see a strong move occur in either direction. The more likely direction is up, but we could see continued ugliness if it goes the other way.

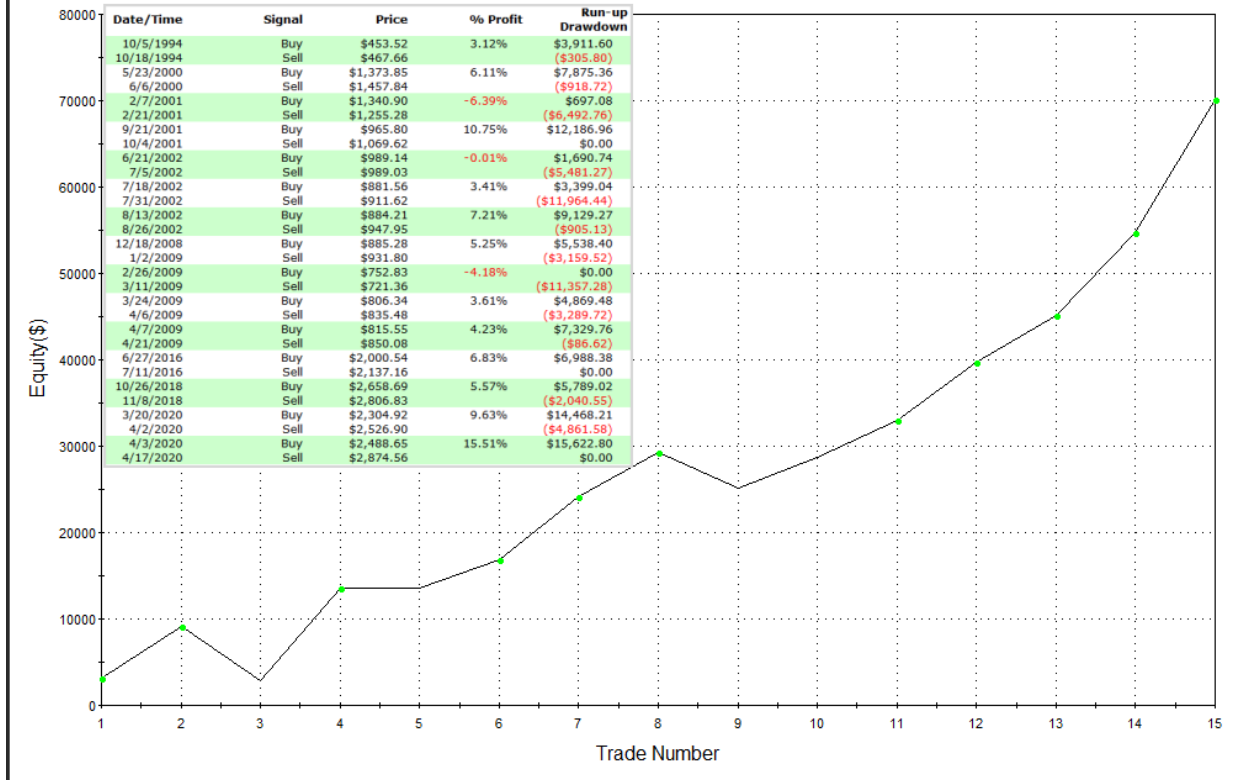
Another notable about Wednesday's action was that despite the SPX declining 1.65%, the VIX also declined. Most of the time they will trade opposite each other, since moves lower will often generate more anxiety, causing option premiums to rise, and SPX moves higher will often alleviate concern and allow option prices to fall. But it is not just direction, but the size of a move, that influences VIX movement. Wednesday's move lower of 1.65% is sizable by many measures. But it is really just about average for what we have seen recently. In fact, the average absolute % change in SPX over the last 20 days has been 1.6%. So Wednesday's drop is right in line with the recent average. If we were in a less volatile environment, then VIX certainly would have moved higher. But a move lower of 1.65% was not really out of line with recent activity, and so it did not generate more concern among options traders. I will also note that a VIX of 32 means that expectations are for about a 2% move each day. So again, the 1.65% drop was not shocking in this environment.

As you likely understand by now, times where the SPX declines as much as Wednesday and the VIX also declines are rare. And it only happens during times when SPX trading is already volatile and the VIX is already elevated. The study below looks at forward results of all times SPX declined at least 1.5% and VIX also declined.

SPX closes down > 1.5% and VIX also closes down. Buy SPX on close. Sell 9 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	62,142.34	15	12	3	80.00	13,380.40	-6,521.62	5,847.33	-2,675.22	2.19	8.74	4,142.82
9	70,143.27	15	12	3	80.00	15,436.40	-6,335.88	6,720.36	-3,500.34	1.92	7.68	4,676.22
8	57,473.59	15	12	3	80.00	12,436.00	-4,583.56	5,832.80	-4,173.36	1.40	5.59	3,831.57
7	52,229.50	15	12	3	80.00	12,025.81	-10,071.60	5,780.41	-5,711.82	1.01	4.05	3,481.97
6	40,657.69	15	10	5	66.67	13,834.39	-9,167.40	5,797.37	-3,463.21	1.67	3.35	2,710.51
5	25,564.07	15	10	5	66.67	10,171.65	-9,276.96	4,398.38	-3,683.94	1.19	2.39	1,704.27
4	30,745.25	16	10	6	62.50	13,981.45	-5,274.72	4,729.00	-2,757.47	1.71	2.86	1,921.58
3	19,725.44	17	11	6	64.71	10,453.20	-9,476.18	4,103.91	-4,236.27	0.97	1.78	1,160.32
2	18,066.30	18	11	7	61.11	6,830.40	-6,973.23	3,570.00	-3,029.09	1.18	1.85	1,003.68
1	15,793.56	19	11	8	57.89	9,236.92	-4,335.42	2,880.00	-1,985.80	1.45	1.99	831.24

Results here show that there has often been a move higher over the next couple of weeks when such a large SPX selloff failed to move the VIX higher. Below is a look at the 9-day profit curve and list of instances.

SPX closes down > 1.5% and VIX also closes down.  
Buy SPX on close. Sell 9 days later. \$100k/trade. 1991 - present.



You'll note when looking at the list that the other instances did in fact occur in volatile environments. The strong results here act as some confirmation of the upside edge suggested by the results table.

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



With tonight's evidence considered, the green Aggregator rose back above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 remain positive on Thursday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4033.66 on Thursday. That is 2.5% above Wednesday's close. Therefore, it will take a close higher of at least 2.5% on Thursday to flip SPX from oversold to overbought vs recent expectations.

So the Aggregator is back to bullish. Evidence remains mixed, but leaning bullish. And the market is substantially oversold. I like reward/risk potential here. I will look to take on some long index exposure if I can get a favorable fill on Thursday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/9 – somewhat bearish**

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### **Open Catapult Triggers**

**None**

AMZN – 1/3 position @ \$2107.44 (buy @ limit)

### **Broad Market Large Cap CBI – 1(AMZN)**

## **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.

**SPY – Buy ¼ index position @ \$392.75 LIMIT.** Based on the short-term outlook above, I will look to start scaling into a new long index position if I can get a favorable fill on Thursday.

**AMZN – Buy 1/3 Catapult position @ \$2107.44 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of AMZN.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	5/9/2022	\$398.17	\$399.09	0.23%	<i>sold @ \$399.09 LIMIT</i>

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