

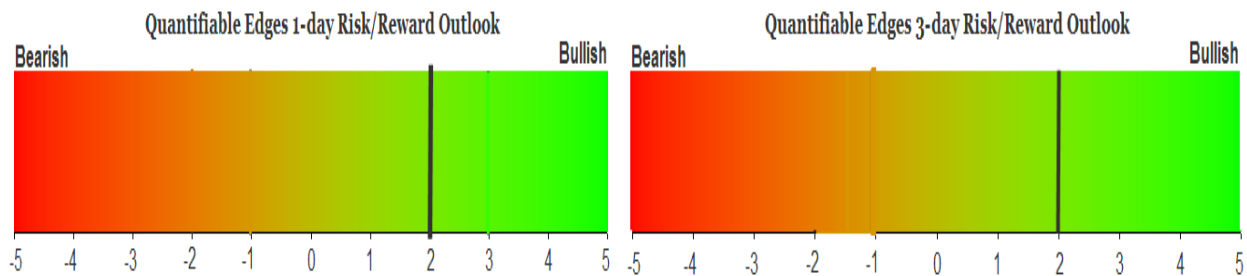
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2022

Volume 15 Issue 96

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- The SOMA closed up only slightly this past week, and remains down over the last 5 weeks. The market is struggling without the support of the Fed.
- Friday is the least likely day to see a rebound begin, but the most likely day for it to succeed if it does occur.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. But evidence is mixed and underwhelming. I'm feeling cautious for the short-term.

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 16, 2022	Big 1-day rally on 5-day low volume	1-5 days	Bearish	-5.50%	1.95%	3.50%
May 12, 2022	SPX dn > 1.5%. VIX down.	1-9 days	Bullish	6.60%	-3.40%	-7.40%
Active - Long Term						
May 16, 2022	Up from 50-low on a Friday	1-25 days	Bullish	5.80%	-3.80%	-8.10%
May 12, 2022	NASDAQ breadth oversold at 100 Low	1-19 days	Bullish			
May 9, 2022	5 weeks lower and < 40-week avg	1-8 weeks	Bearish			
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

The market struggled again on Thursday, which was not a big surprise based on some of last night's evidence. The SPX declined 0.6%, the NASDAQ lost 0.3%, and the Russell 2000 inched up 0.08%. Breadth was mildly positive with the NYSE Up Issues % coming in at 51% and the Up Volume % at 55%. NYSE total volume declined some from Wednesday's low level.

Thursday the Fed released the SOMA changes for the latest Wed-Wed reporting period. The result was a mild rise of about \$18 billion. I say mild because the net over the last 5 weeks is still -\$5 billion. Changes in both SPX and SOMA can be found in the table below.

SPX & SOMA changes over the last 5 weeks.		
Date	\$SPX close	SOMA change from previous week
4/13/2022	4446.59	
4/20/2022	4459.45	(\$7,891,616,385.30)
4/27/2022	4183.96	(\$15,675,082,238.20)
5/4/2022	4300.17	\$8,030,508.40
5/11/2022	3935.18	\$999,798.70
5/18/2022	3923.68	\$18,801,541,914.00
Net Chg	(\$522.91)	(\$4,756,126,402.40)

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We have not yet seen what active removal of liquidity will look like this year, but if it is anything like what has occurred in anticipation of it, and in simply stopping liquidity infusions, it won't be a fun ride for the bulls.

Next up for the market is the Friday challenge. Prior to last week's big 2.4% Fri the 13th rally, SPX had closed down 5 weeks in a row on the last day of the week. Last weekend I included several studies that discussed short-term and intermediate-term implications of bounces from lows that were initiated on Fridays. Two big takeaways were 1) Friday is the least likely day for a new rally

to begin (likely because traders can be disinclined to step in front of a selloff right before a weekend where news can come out while the market is closed). 2) When bounces do happen on Fridays, they are more likely to follow through than any other day of the week. We also know that big washout selling days on Fridays are commonly followed by reversals early the next week. [Here is a link to last weekend's letter](#) in case you want to review the Friday bounce studies.

I did not identify any studies I found worth adding to the active list tonight. I have updated [the Aggregator chart](#) below.



Tonight the green Aggregator remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line also 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 stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Friday. This could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be

4082.23 on Friday. That is 4.65% above Thursday's close. Therefore, SPX will need to close up at least 4.65% on Friday in order to flip from oversold to overbought vs recent expectations. More likely it will take at least a few days to work off this oversold condition.

So the Aggregator is bullish. The market is clearly oversold in the short-term. But evidence is mixed and I did not spot anything confirming the bullish case tonight. So with the bearish and volatile intermediate-term environment, I'll continue to play it conservatively. I won't be looking to take on a new index position ahead of the weekend unless we get some strong selling on Friday, suggesting an overreaction heading into the weekend. Aside from that, I will stand aside at least until Monday in terms of new index positions. There was one Catapult that triggered that readers will find below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/16 – somewhat bearish

The intermediate-term outlook was last updated in the 5/16/22 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

New

COST – 1/3 @ \$422.93 (buy @ Limit)

Broad Market Large Cap CBI – 1(COST)

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.

COST – Buy 1/3 Catapult position @ \$422.93 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of COST.

SPY – Buy ¼ index position @ \$381.50 LIMIT ON CLOSE. I'll look to get long at the close if there is a big down day on Friday.

Current Open Trade Ideas

None

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