

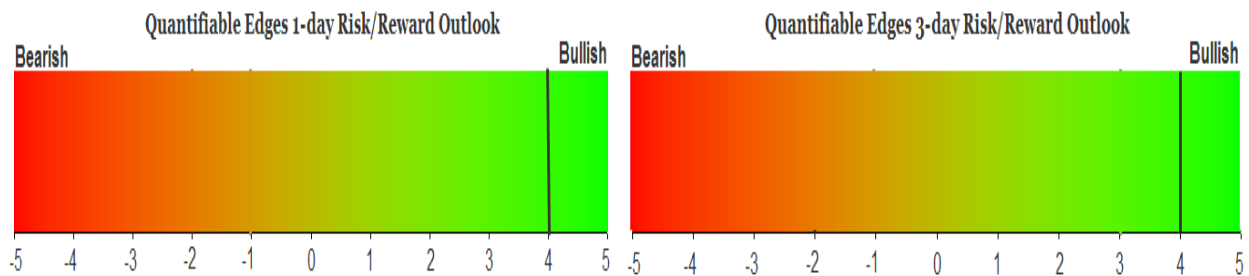
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2022

Volume 15 Issue 113

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	6

## Tonight's Research Points

- Multiple studies are pointing to an oversold bounce.
- The Fed Day is providing a bullish edge, but only up until the 2pm announcement. After that, anything could happen.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I'm still looking for a bounce but am not inclined to keep my full position through the 2pm Fed announcement.

**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
<b>Active - Short Term</b>						
June 15, 2022	Fed Day Bullish	1 day	Bullish			
June 15, 2022	5 lower highs & closes < 200ma	1-2 days	Bullish			
June 15, 2022	SPX RSI2 < 2 & 50-day low	1-3 days	Bullish			
June 14, 2022	SPX down 1.5% 3 days in a row	1-2 days	Bullish			
June 14, 2022	SPY dn 3% and within 1% of intraday low	1-5 days	Bullish	5.00%	-3.80%	-7.90%
June 13, 2022	SPX dn 2.5% on a Friday	1-6 days	Bullish	4.10%	-2.65%	-5.60%
<b>Active - Long Term</b>						
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	Bearish			
May 31, 2022	70% Up Issue % 3 days in a row	1-85 days	Bullish	11.10%	-4.50%	-10.90%
May 16, 2022	Up from 50-low on a Friday	1-25 days	Bullish	5.80%	-3.80%	-8.10%
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**

Despite a good amount of evidence suggesting a bounce was likely, the market could not muster one on Tuesday. The SPX closed down 0.5%, the NASDAQ rose 0.2%, and the Russell 2000 declined 0.4%. Breadth was negative with the NYSE Up Issues % coming in at 35% and the Up Volume % at 39%. NYSE total volume declined some from Monday's level.

We have now seen 2 days in a row with SPX closing at a 50-day low while the 2-day RSI finished under 2. This triggered the study below, which was last seen in the 2/27/20 subscriber letter. Results are updated.

SPX 2-day RSI < 2 and SPX closes at a 50-day low. This happens for the 2nd day in a row. Buy on close. Sell X days later. \$100k/trade. 1985 - 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	37,236.94	17	13	4	76.47	13,135.00	-5,696.34	3,594.06	-2,371.47	1.52	4.93	2,190.41
4	25,145.85	17	11	6	64.71	12,657.50	-4,574.36	3,335.67	-1,924.42	1.73	3.18	1,479.17
3	35,456.63	17	14	3	82.35	9,601.81	-3,090.08	2,888.57	-1,661.14	1.74	8.11	2,085.68
2	18,464.25	17	11	6	64.71	10,183.87	-5,189.44	3,053.95	-2,521.54	1.21	2.22	1,086.13
1	7,311.76	17	8	9	47.06	5,716.25	-4,404.16	2,542.71	-1,447.77	1.76	1.56	430.10

Instances are a little lower than I typically like, but the numbers are incredibly bullish and seem worthy of consideration. Below I have listed all 17 instances assuming a 3-day holding period.

SPX 2-day RSI < 2 and SPX closes at a 50-day low. This happens for the 2nd day in a row. Buy on close. Sell 3 days later. \$100k/trade. 1985 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/16/1985	Buy	\$182.88	0.27%	\$278.46
9/19/1985	Sell	\$183.38		(\$1,152.06)
3/28/1994	Buy	\$460.00	-3.10%	\$69.44
3/31/1994	Sell	\$445.76		(\$5,173.28)
11/23/1994	Buy	\$449.19	1.33%	\$1,327.56
11/29/1994	Sell	\$455.17		\$0.00
10/12/2000	Buy	\$1,329.64	1.53%	\$3,851.25
10/17/2000	Sell	\$1,349.97		(\$212.25)
9/21/2001	Buy	\$965.80	4.27%	\$5,612.47
9/26/2001	Sell	\$1,007.04		\$0.00
4/29/2002	Buy	\$1,065.45	1.79%	\$2,415.21
5/2/2002	Sell	\$1,084.56		(\$185.07)
7/23/2002	Buy	\$797.70	6.91%	\$7,016.25
7/26/2002	Sell	\$852.84		(\$2,752.50)
10/9/2008	Buy	\$909.92	9.68%	\$14,648.51
10/14/2008	Sell	\$998.01		(\$7,643.08)
2/23/2009	Buy	\$743.33	1.28%	\$4,929.86
2/26/2009	Sell	\$752.83		\$0.00
7/1/2010	Buy	\$1,027.37	3.20%	\$3,251.44
7/7/2010	Sell	\$1,060.27		(\$1,109.68)
5/17/2012	Buy	\$1,304.86	0.90%	\$1,795.88
5/22/2012	Sell	\$1,316.63		(\$978.88)
8/24/2015	Buy	\$1,893.21	4.99%	\$5,012.28
8/27/2015	Sell	\$1,987.66		(\$1,358.76)
11/2/2016	Buy	\$2,097.94	1.60%	\$1,600.82
11/7/2016	Sell	\$2,131.52		(\$665.05)
10/11/2018	Buy	\$2,728.37	2.99%	\$3,063.24
10/16/2018	Sell	\$2,809.92		\$0.00
12/20/2018	Buy	\$2,467.42	0.01%	\$1,479.60
12/26/2018	Sell	\$2,467.70		(\$4,833.60)
2/26/2020	Buy	\$3,116.39	-0.84%	\$0.00
3/2/2020	Sell	\$3,090.23		(\$8,337.60)
1/21/2022	Buy	\$4,397.94	-1.09%	\$1,216.38
1/26/2022	Sell	\$4,349.93		(\$3,857.04)

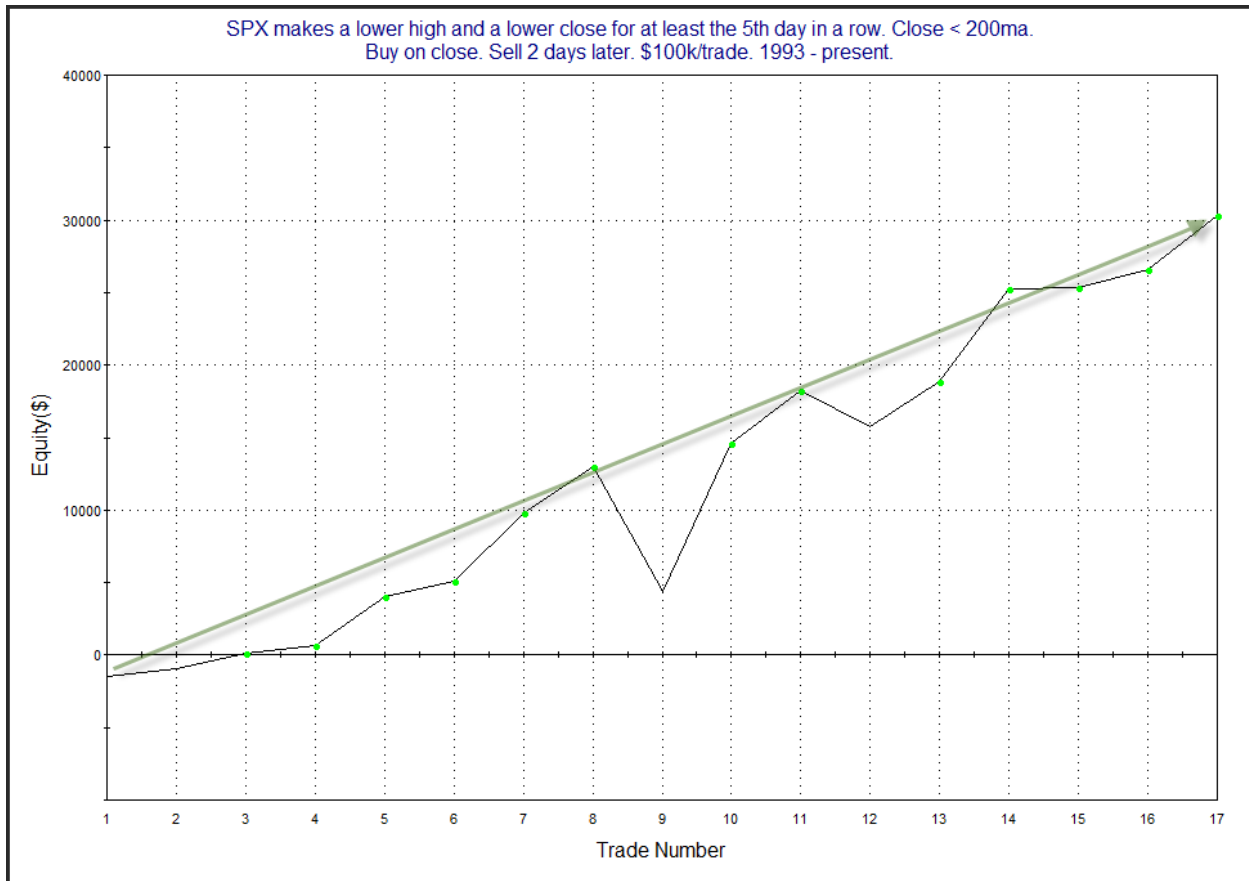
This has shown a strong edge over time. Of course the last two instances have not played out. But most instances the market has seen some nice bounces over the 3-day period and beyond.

The move down over the last 5 days has been quite persistent. That is unusual during downtrends, especially during a volatile period. More often when fear grips the market you will see choppy action whipping the market back and forth. You won't as often see 5 days of movement heading in the same direction. Tuesday marked the 5th day in a row with a lower close, the 6th day in a

row with a lower high, and the 4th day in a row with a lower low for SPX. The study below was last seen in the 11/15/18 letter and have been updated.

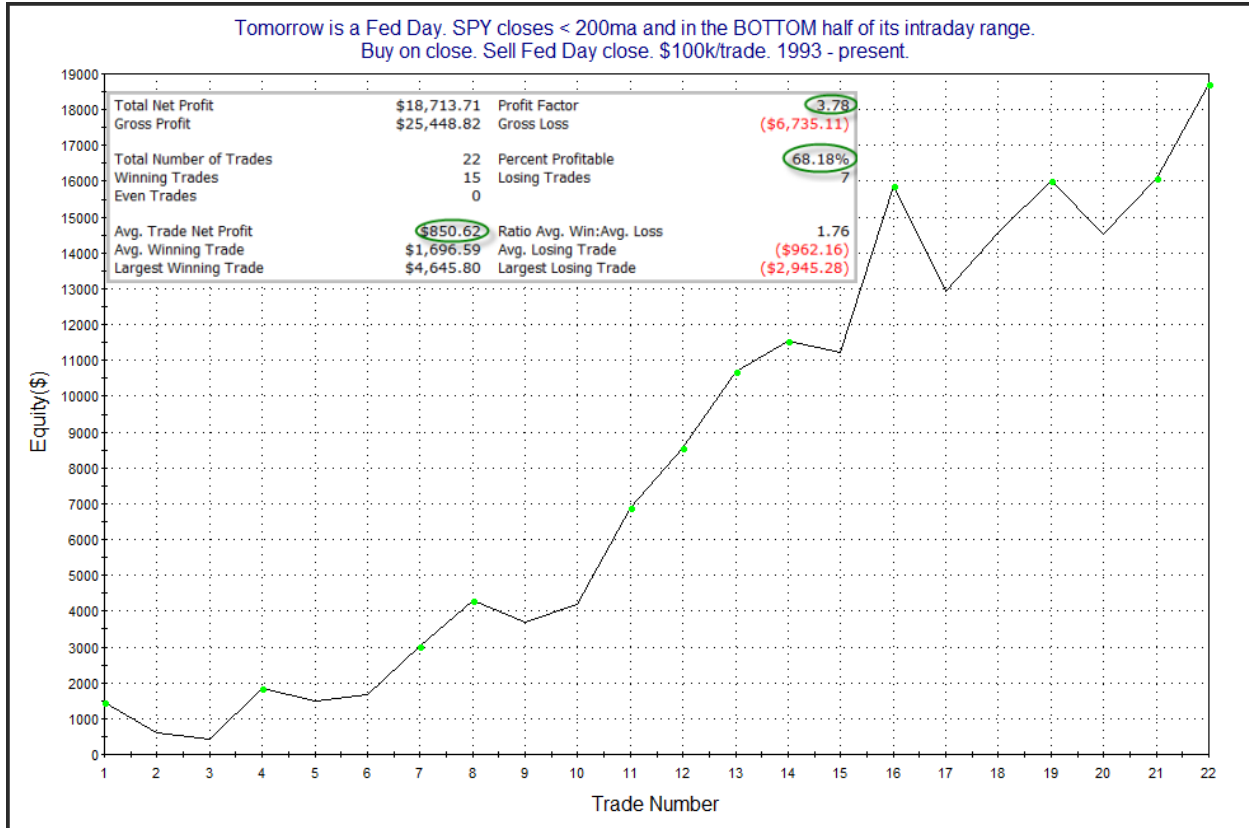
SPX makes a lower high and a lower close for at least the 5th day in a row. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	32,689.84	15	11	4	73.33	7,739.42	-1,911.05	3,321.95	-962.90	3.45	9.49	2,179.32
4	29,230.90	15	12	3	80.00	5,541.68	-2,208.53	2,726.32	-1,161.64	2.35	9.39	1,948.73
3	9,150.22	16	11	5	68.75	6,426.25	-9,701.00	2,112.84	-2,818.21	0.75	1.65	571.89
2	30,310.74	17	14	3	82.35	10,183.87	-8,631.00	3,063.85	-4,194.40	0.73	3.41	1,782.98
1	25,474.43	22	15	7	68.18	11,558.43	-7,577.02	2,677.43	-2,098.14	1.28	2.73	1,157.93

Instances are somewhat low. Of course this is not a surprise, since as I just discussed, it is unusual to see steady and persistent selling like this during a downtrend, rather than violent chop. The stats are impressive. Below I show the 2-day profit curve.



The 2-day curve is impressive and appears to support the bullish inclination suggested by the stats table. I have included this study on the active list tonight.

In last night's letter I showed a study suggesting a close in the lower half of the day's range on Tuesday could set SPY up for a Fed Day bounce. I have copied that study below.



Odds here appear solidly bullish and the move from lower left to upper right supports the bullish case as well. Tonight I also added a filter to see if closing at a 10-day low had a substantial impact on results.

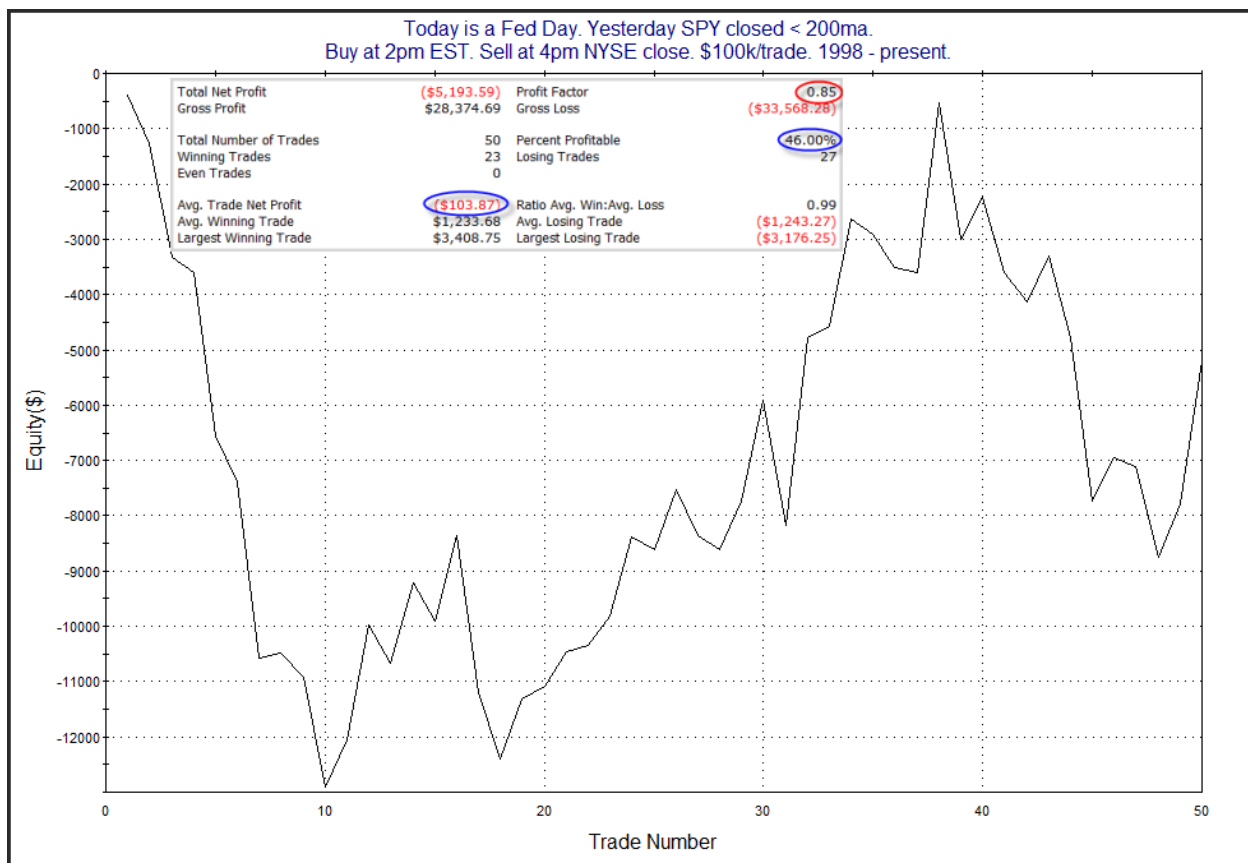


The filter did not change the average results greatly. It improved them slightly. It was not a surprise to me that there was no negative impact when adding a 10-day low close as a filter.

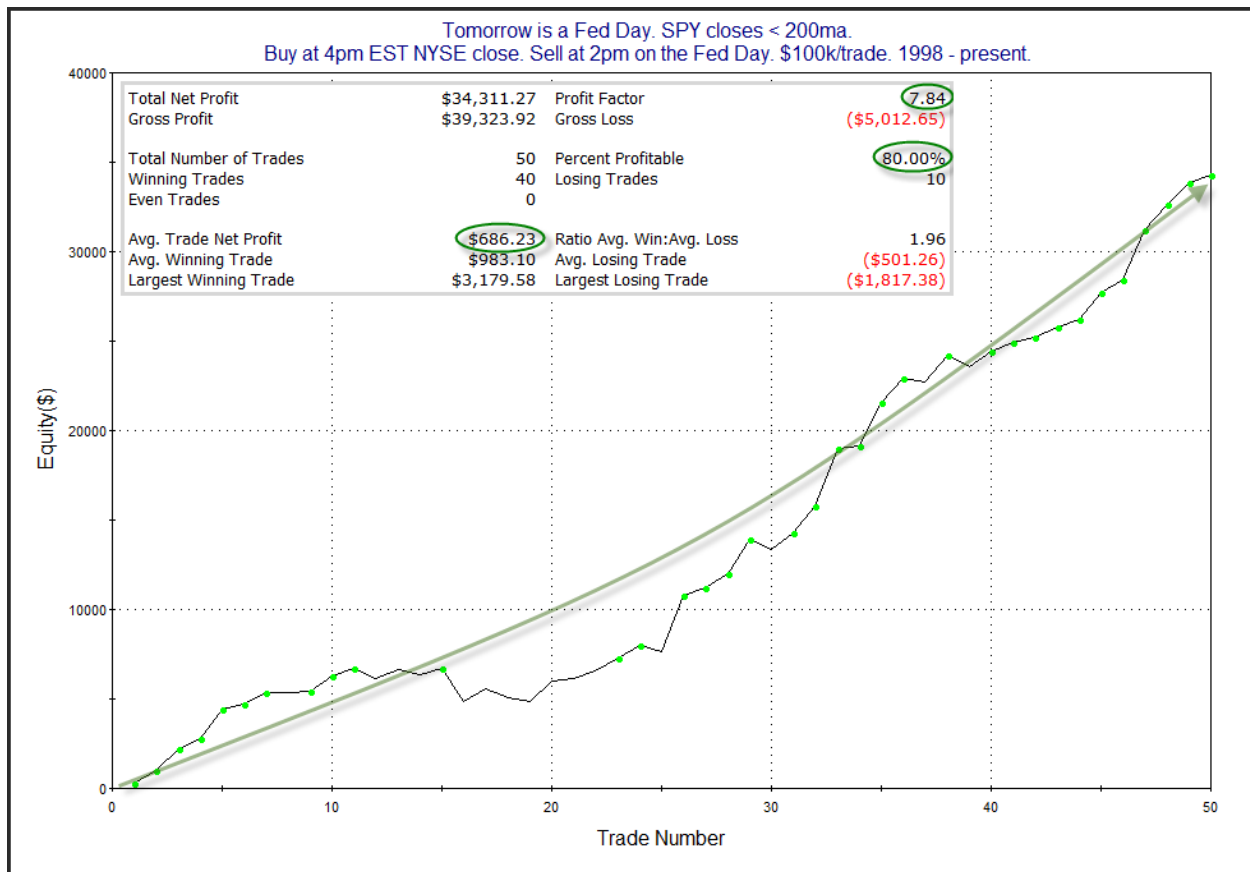
In the Trade Ideas section last night, I looked to take an additional lot of SPY near the close on Tuesday. This was partly based on the assumed Fed Day edge if SPY closed in the bottom half of its range. I also indicated I may look for a quick exit for that lot. Frequently with a Fed Day setup I will look to exit the position before the actual Fed Announcement. This is because I have found that the Fed Day edge has basically played out before the announcement even takes place. Returns after the announcement have been somewhat random. I showed this in a blog post a few years back. Here is a link to that post:

[Why Waiting Until The Announcement Is A Tough Way To Trade The Fed | Quantifiable Edges](#)

Tonight I decided to take a similar look, but only look at instances during long-term downtrends. Below is a look at how the SPY has performed from 2pm to 4pm on Fed Day's where SPY closed below the 200ma the day before.



Choppy and inconsistent with net results slightly negative. Not an appealing curve for bears or bulls. But now let's look at performance from the close the day before the Fed Day until 2pm of the Fed Day during downtrends. (Announcements are typically at 2pm EST.)



Numbers here are very strong and the curve is incredibly consistent. I'll also note that the last 11 instances, dating back to November 2011, all saw a gain.

This all reinforces my view that it is generally better to exit Fed Day trades prior to the announcement. I may miss out on a big rally with that portion of my current position. But the reaction could be volatile, and I don't see a point in taking a big risk when the post-announcement reaction is so unreliable.

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



With tonight's evidence considered, the green Aggregator line closed well above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line is extremely high above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 active list, expectations are set to remain positive on Wednesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3933.62. That is a massive 5.3% above Tuesday's close. Therefore, SPX will need to close up 5.3% on Wednesday in order to flip from oversold to overbought vs recent expectations. I don't see that happening. More likely, it will take a multi-day rally or consolidation work off the oversold condition.

So the Aggregator is bullish. We did not get the bounce on Tuesday, but evidence continues to build and it sure looks like we should get one Wednesday or soon after. Of course the wild card Wednesday is the Fed. They could raise rates by 50 or 75 basis points. And forward guidance and rhetoric will also play a part in the market's reaction. I won't pretend to know what they will announce, or what the immediate market reaction will be. The strong selling over the last few days

seems to suggest much of the immediate downside may already be realized. Whatever the market has been afraid the Fed will say, even if they say it at this point, we could see a bounce. Above all, the market hates uncertainty. The uncertainty about Fed policy will be removed on Wednesday, and that simple fact could lead to a rally. Still, I am not inclined to take a very large position into the announcement. So I will look to exit 1 or 2 lots of the 3 I am holding prior to 2pm. Details in the trade ideas section down below. Good luck and Happy Fed Day!

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/13 – neutral***

The intermediate-term outlook was last updated in the 6/13/22 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***

TGT – 1/3 @ \$144.81 (bought @ limit)

BRK.B – 1/3 @ \$281.56 (bought @ limit)

***New***

TGT – 1/3 @ \$142.70 (buy @ limit)

BRK.B – 1/3 @ \$277.64 (buy @ limit)

MDT – 1/3 @ \$88.48 (buy @ limit)

PG – 1/3 @ \$133.84 (buy @ limit)

***Broad Market Large Cap CBI – 6 (TGT-2, BRK.B-2, MDT, PG)***

**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.*

**TGT – Buy 1/3 Catapult position @ \$142.70 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots of TGT.

**BRK.B – Buy 1/3 Catapult position @ \$277.64 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots of BRK.B.

**MDT – Buy 1/3 Catapult position @ \$88.48 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of MDT.

**PG – Buy 1/3 Catapult position @ \$133.84 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of PG.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
SPY(1/4)	6/10/2022	\$389.80	\$373.87	-4.09%	Aggregator
SPY(1/4)	6/13/2022	\$375.00	\$373.87	-0.30%	<i>sell @ \$376.00 Limit</i>
SPY(1/4)	6/14/2022	\$373.87	\$373.87	0.00%	<i>sell at 2pm (just before Fed)</i>
TGT(1/3)	6/14/2022	\$144.81	\$142.70	-1.46%	bought on close
BRK.B(1/3)	6/14/2022	\$281.56	\$277.64	-1.39%	bought on close

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