

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 6, 2022

Volume 15 Issue 126

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	1

## Tonight's Research Points

- The gap down and reversal pattern for SPY under similar circumstances is one that has often seen a move lower in the next 1-2 days.
- SPY's mild up close near the top of its range suggests a bearish 1-day edge.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator bearish. Evidence is pointing lower and the market is short-term overbought. I like the short side.

**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>						
July 6, 2022	SPX up < 0.25%. Top 10% of range.	1 day	Bearish			
July 6, 2022	Gap dn, drop lower, reverse up	1-2 days	Bearish			
<b>Active - Long Term</b>						
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	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			

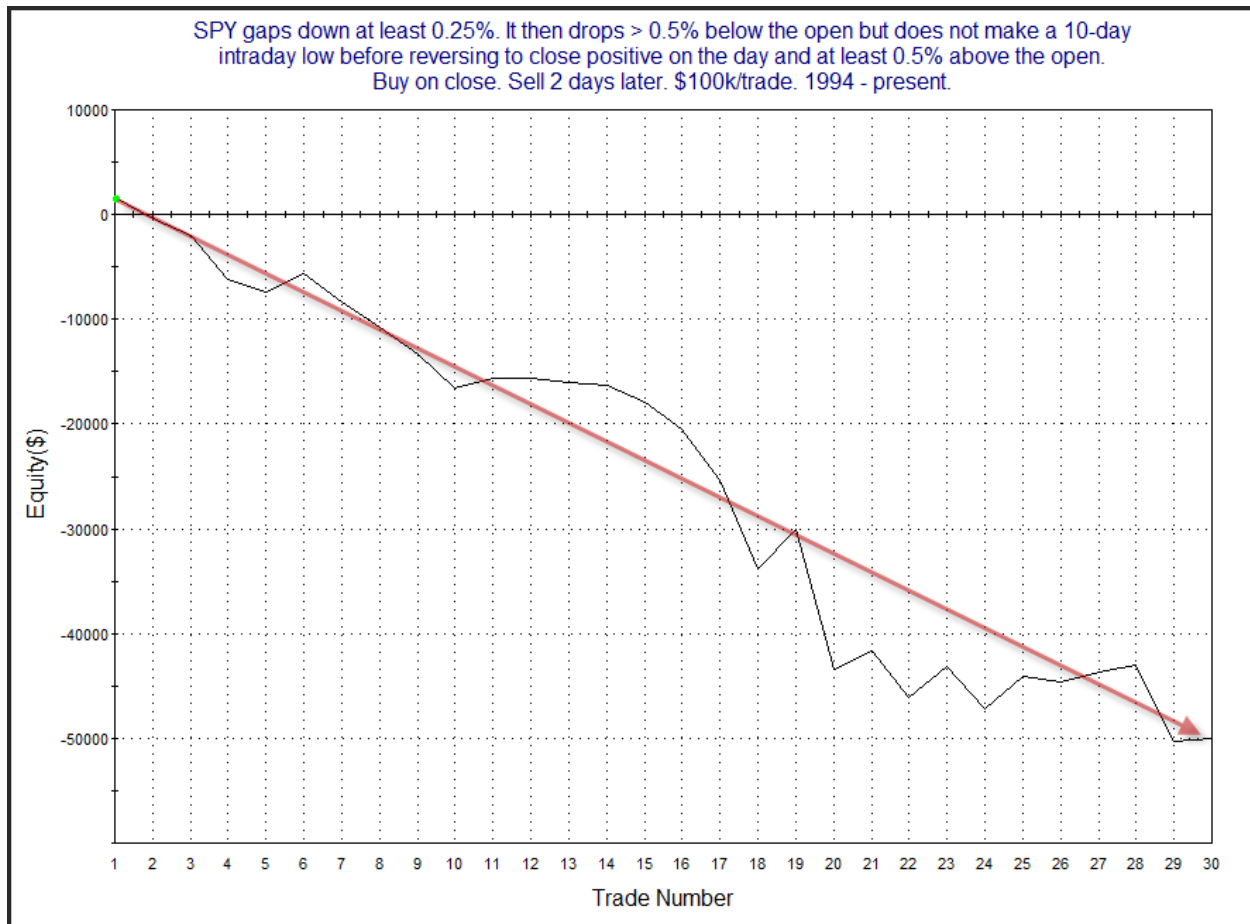
**The Evidence**

Tuesday started off with some strong selling, but that reversed and the major indices finished positive. SPX closed up 0.2%, the NASDAQ gained 1.75%, and the Russell 2000 rallied 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 45% and the Up Volume % at 36%. NYSE total volume rose some from Friday's light level.

There were a few interesting studies that appeared in the Quantifinder. The one below looked at the gap down, move lower, and then a reversal. It was last seen in the 5/5/20 letter. I have updated the results.

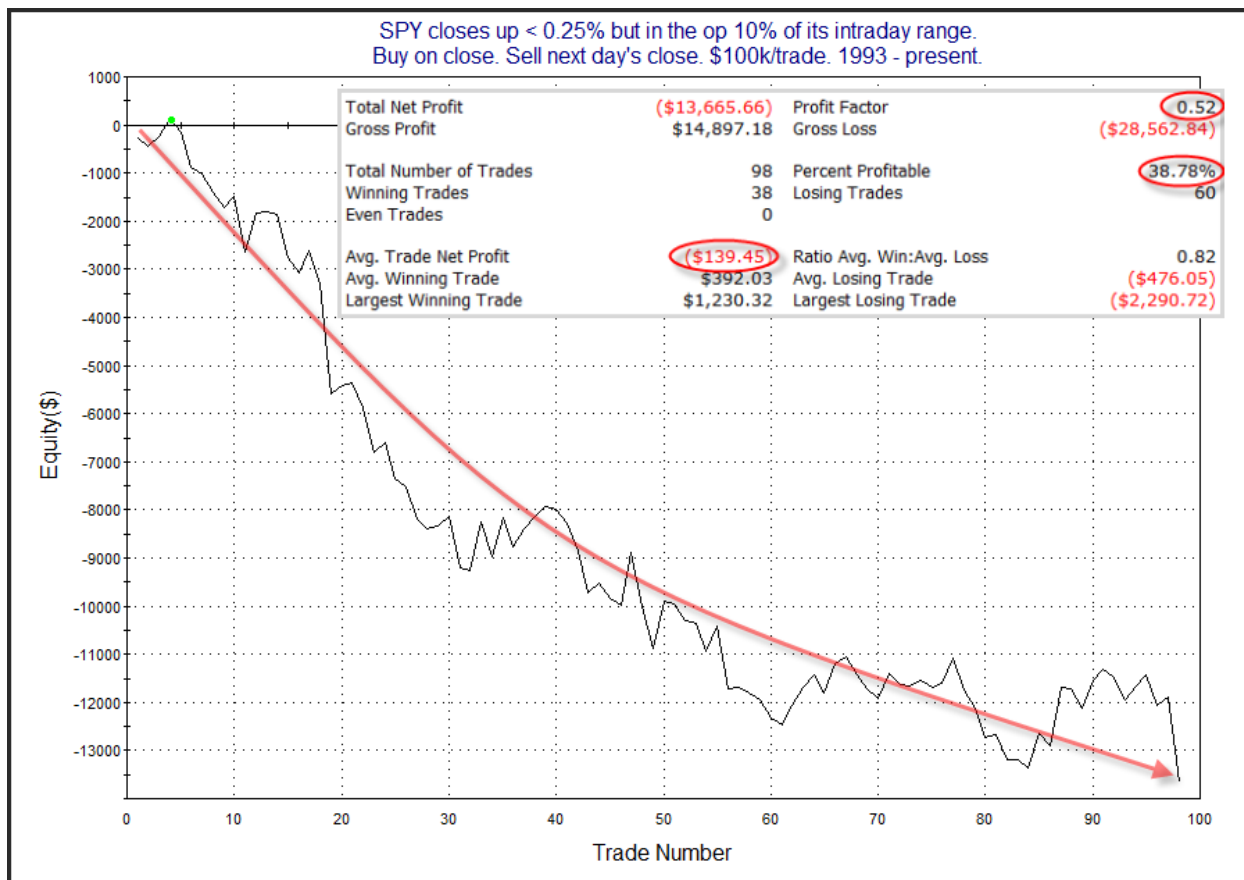
SPY gaps down at least 0.25%. It then drops > 0.5% below the open but does not make a 10-day intraday low before reversing to close positive on the day and at least 0.5% above the open. Buy on close. Sell X days later. \$100k/trade. 1994 - present.												
X Days	All: Net Profit	All: Total Trades	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	-17,851.17	27	13	14	48.15	8,586.35	-15,971.55	2,416.31	-3,518.80	0.69	0.64	-661.15
4	-45,590.33	28	11	17	39.29	3,122.24	-13,801.83	1,739.64	-3,807.44	0.46	0.30	-1,628.23
3	-32,867.50	29	14	15	48.28	3,599.75	-9,763.74	1,534.34	-3,623.22	0.42	0.40	-1,133.36
2	-49,989.10	30	10	19	33.33	3,694.56	-13,351.24	1,795.34	-3,575.92	0.50	0.26	-1,666.30
1	-18,147.00	32	15	17	46.88	3,490.59	-6,405.84	1,359.99	-2,267.46	0.60	0.53	-567.09

The stats appear to suggest a downside edge, especially over the 1st 2 days. Below I have produced a profit curve to show how the edge has played out over time.



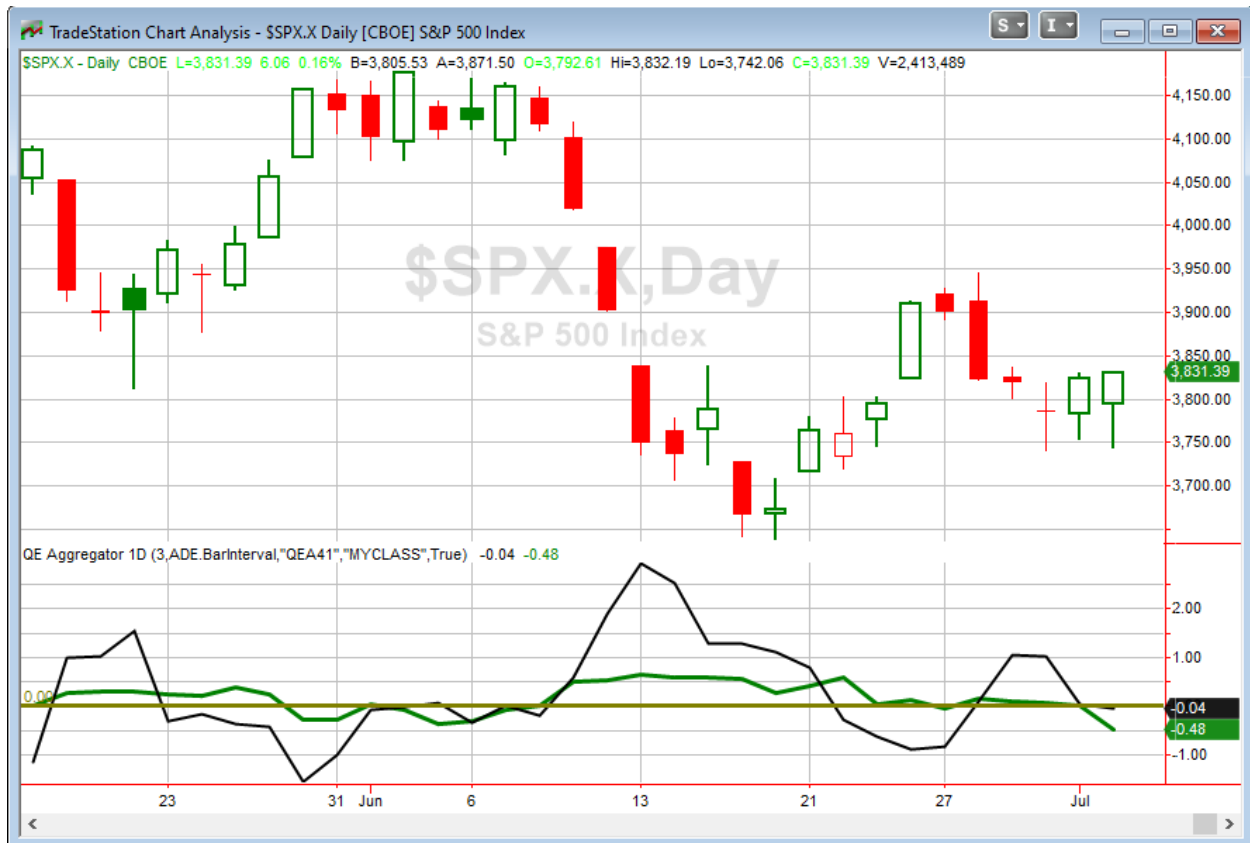
That is a fairly steady move from upper left to middle right. Overall, this seems to support the idea of a 1-2 day bearish edge.

The next study suggests that when SPY closes strong (in the top 10% of its intraday range) but still only manages a small gain on the day, the next day has shown a downside tendency. It appeared in the 12/6/19 letter. I have updated the stats and the profit curve.



This bearish edge has generally persisted since the inception of SPY in 1993. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have added both studies to the Active List tonight.

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



With tonight's evidence considered, the green Aggregator line fell below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also dropped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Wednesday. Of course this could change if bullish new evidence emerges. Meanwhile, the Differential Pivot will be 3798.06. That is 0.9% below Tuesday's close. Therefore, SPX will need to close down 0.9% on Wednesday to flip from overbought to oversold vs recent expectations.

So the Aggregator is bearish. Evidence is pointing lower, and the market is mildly overbought. There appears to be a bit of a downside edge. I am not inclined to trade with aggressive sizing, but I would look to take a small index position short if I can get a favorable fill either at the open or the close of trading. (If the market gaps lower or opens near flat, I am not interested in selling into a rally intraday.)

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/5– neutral**

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

MO – 1/3 @ \$45.31 (bought @ limit)

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

## **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 -Sell Short ¼ index position @ \$383.00 LIMIT ON OPEN. If not filled on open, cancel order and look to sell @ \$382.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to take on a small amount of short index exposure if I can get filled near the open or the close of trading on Wednesday.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MO(1/3)	6/21/2022	\$45.31	\$41.72	-7.92%	Catapult
SPY(1/4)	6/29/2022	\$380.34	\$375.88	-1.17%	<i>sold on open</i>

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