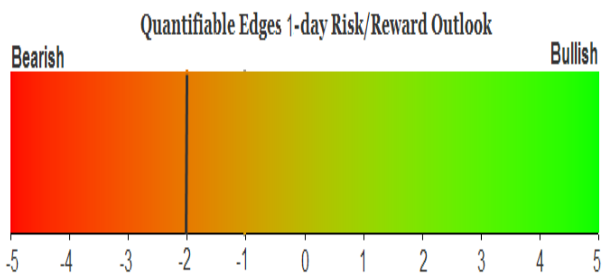
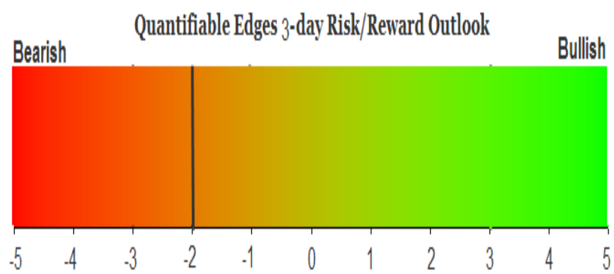
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2022 Volume 15 Issue 129

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	1

Tonight's Research Points

- A down close with a 2-day RSI still above 85 during a long-term downtrend has always been followed by more selling in SPY.
- The NASDAQ re-took the lead vs the SPX, which is a favorable indication for the intermediate-term.

Short-term Outlook

The Bottom Line

The Aggregator is now bearish. Evidence is not overwhelming, but it is pointing lower, and the market remains strongly overbought short-term. Reward/risk seems to favor 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
Active - Short Term						
July 11, 2022	SPY down. RSI(2) > 85.	1-2 days	Bearish			
Active - Long Term						
July 11, 2022	NASDAQ Leading	int term	Bullish			
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

Friday's results were mixed and mild. SPX closed down 0.08%, the NASDAQ gained 0.12%, and the Russell 2000 declined 0.01%. Breadth was negative with the NYSE Up Issues % coming in at 46% and the Up Volume % at 39%. NYSE total volume came in very light.

Often, when SPY has become substantially overbought short-term and then pulled back extremely gently on day 1, that tends to be just the beginning of the pullback. The study below uses the 2-day RSI to measure how overbought the SPY is short-term. It requires a strongly overbought condition be in place at the close of a down day. For this to be achieved the SPY must be extremely overbought to begin with, and then only pull back a little. The study was las seen in the 3/22/22 letter. I have updated all the results.

SPY closes down on the day but the 2-day RSI > 85. 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	-25,527.52	12	3	9	25.00	2,592.00	-6,354.30	1,779.07	-3,429.42	0.52	0.17	-2,127.29
4	-18,232.23	12	4	8	33.33	2,047.00	-5,692.05	1,601.67	-3,079.86	0.52	0.26	-1,519.35
3	-18,261.73	12	2	10	16.67	1,372.50	-4,948.40	1,202.25	-2,066.62	0.58	0.12	-1,521.81
2	-17,636.42	12	2	10	16.67	1,000.00	-4,065.25	709.15	-1,905.47	0.37	0.07	-1,469.70
1	-5,902.05	13	5	8	38.46	1,170.00	-2,217.05	652.91	-1,145.83	0.57	0.36	-454.00

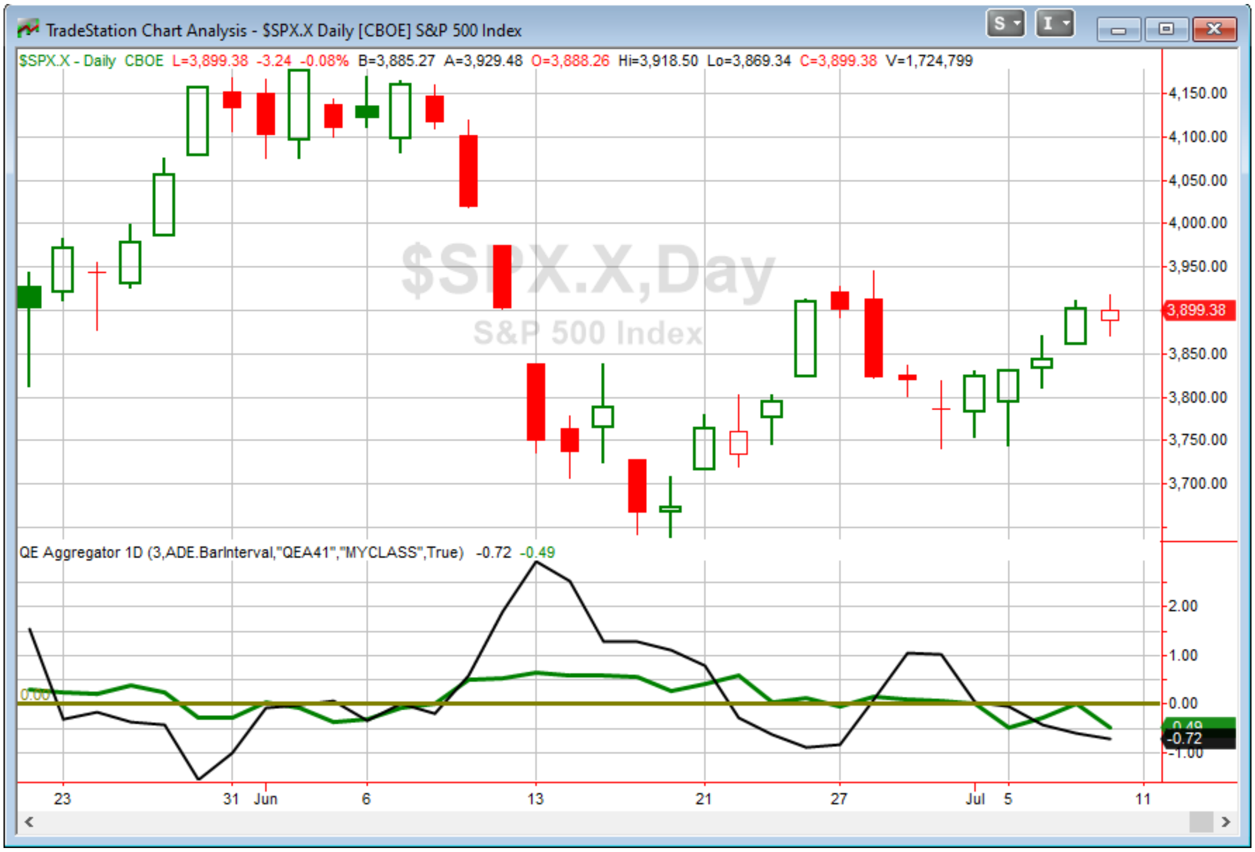
All 12 instances closed below the entry price
at some point in the next 3 days.

Only 12 instances is lower than I typically like to see, but all of them closed lower within 3 days. And the size and consistency of the moves was also impressive. Below I have listed all 12 instances and their trade stats assuming a 2-day holding period.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
6/6/1994	Buy	$46.22	-0.93%	$129.78
6/8/1994	Sell	$45.79		($951.72)
11/7/2000	Buy	$143.75	-2.59%	$152.90
11/9/2000	Sell	$140.03		($4,517.50)
5/22/2001	Buy	$131.48	-1.41%	$0.00
5/24/2001	Sell	$129.63		($2,226.80)
7/3/2001	Buy	$124.10	-4.07%	$0.00
7/6/2001	Sell	$119.05		($4,065.25)
11/7/2001	Buy	$112.25	0.42%	$1,628.70
11/9/2001	Sell	$112.72		($1,602.00)
12/6/2001	Buy	$117.34	-2.52%	$0.00
12/10/2001	Sell	$114.38		($2,547.48)
1/5/2009	Buy	$92.85	-2.35%	$1,723.20
1/7/2009	Sell	$90.67		($2,854.05)
7/14/2010	Buy	$109.65	-2.73%	$373.51
7/16/2010	Sell	$106.66		($2,915.20)
7/27/2010	Buy	$111.55	-1.13%	$241.92
7/29/2010	Sell	$110.29		($1,917.44)
12/1/2011	Buy	$124.97	1.00%	$1,768.00
12/5/2011	Sell	$126.22		($152.00)
2/1/2016	Buy	$193.65	-1.21%	$0.00
2/3/2016	Sell	$191.30		($3,379.80)
3/21/2022	Buy	$444.39	-0.13%	$1,392.75
3/23/2022	Sell	$443.80		($153.00)
Avg Runup: 0.6%			**Avg Drawdown: -2.3%**	

Nothing concerning here. It is also notable how much larger the average drawdown has been than the average run-up. I have added this study to the Active List. Nothing else I examined today seemed compelling enough to make the cut, so this is the lone entrant to the short-term list this weekend.

I have updated [the Aggregator chart] below.



With today's evidence considered, the green Aggregator line closed below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative 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 Monday. Of course this could easily change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3814.34. That is 2.2% below Friday's close. Therefore, SPX will need to close down 2.2% on Monday to flip from overbought to oversold vs recent expectations. That is a sizable amount, and it speaks to just how overbought the market still is.

So the Aggregator is now bearish. Evidence is not overwhelming, but we have also had numerous studies in the last several days that just missed qualify as bearish. And I have not seen any short-term bullish evidence emerge in the last few days. The market is clearly overbought. This combination has me believing there is a short-term downside edge. I covered my small short SPY position at the open on Friday. I will look to take that small short position back on Monday if I can get a favorable fill.

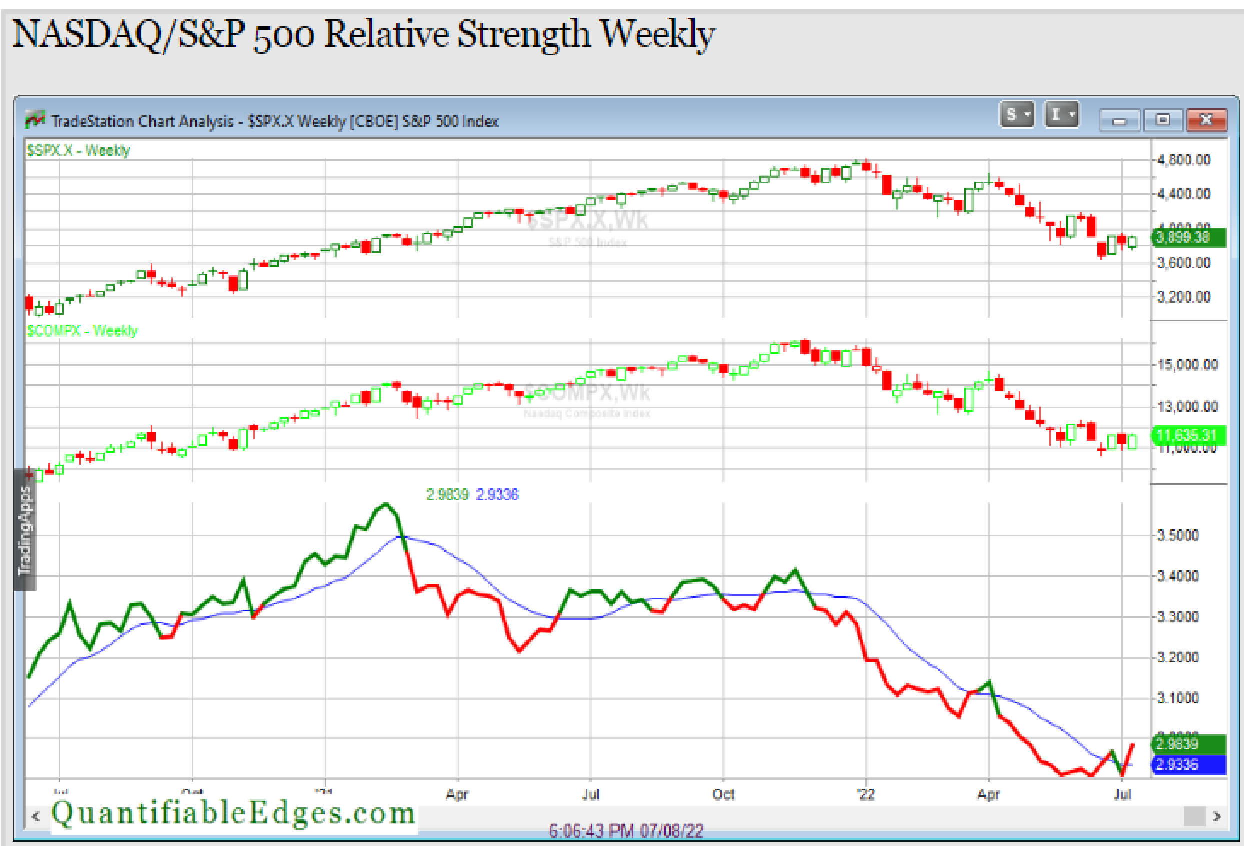
Intermediate-term Outlook (2 weeks – 2 months) – updated 7/11– neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in Lesson 8. Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in Lesson 11, Course Downloads. (You must go through the course first in order to access the Downloads.) *This week all 3 combo systems remained "flat".*

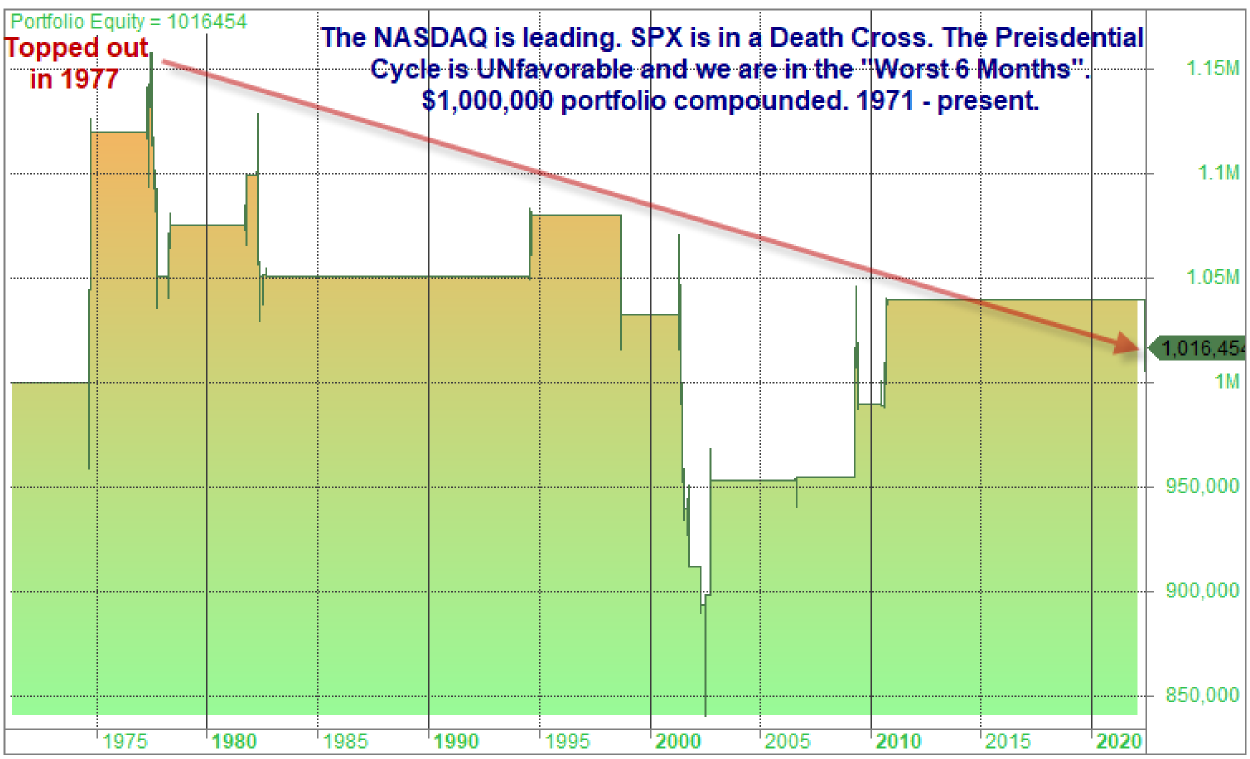
This past week saw the market rise. The SPX gained 1.9%, the NASDAQ rallied 4.6%, and the Russell 2000 climbed 2.4% on the week. Bonds struggled. The US Aggregate Bond ETF (AGG) lost 1.1%, while TLT, the 20-year Treasury Bond ETF dropped 2.9%. Both stocks and bonds still appear to be in long-term downtrends.

The relative outperformance of the NASDAQ vs SPX this week helped it to retake a leading position based on our NASDAQ/SPX Relative Strength Indicator. It has flipped back and forth over the last 3 weeks. Below is a chart of the indicator from the website.



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2997.15 points when the NASDAQ has been leading versus 886.54 points when the NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 11,227.74 vs. just 779. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

I decided tonight to take another look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX "Death Cross" in effect, 3) unfavorable Presidential Cycle, and 4) "Worst" 6 months in effect. Below is a chart showing SPX performance during this alignment.



We see here that this formation has been rare, and it has not done well over the last 40+ years. Still, the NASDAQ taking leadership is a potential positive. But we are not going to see any of the other Market Timing Course indicators flip for a while.

The Fed’s website has been down all day, so I was unable to pull down the SOMA data. I will update the SOMA charts and info again next weekend.

With the NASDAQ re-taking leadership, the bull case seemed to strengthen a bit. But bulls still don’t seem to have much of a case. Breadth has not strengthened in a meaningful way that would signal the market is flush with liquidity. And the seeming lack of liquidity is not a surprise since the Fed has embarked on QT (as well as raising interest rates.) The long-term trend is still down, and long-term seasonality is unfavorable. I like the bear case slightly better, but I will maintain a neutral trading bias for the time being. I am willing to take trades in either direction, but I will not be aggressive on either the long or short side.

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 – Short (1/4) index position @ $390.00 LIMIT ON OPEN. If no filled on open, cancel order and look to enter @ $389.00 LIMIT ON CLOSE. Based on the short-term section above, I will look to take on a small short position if I can get a favorable fill at either the open or the close on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MO(1/3)	6/21/2022	$45.31	$41.52	-8.36%	Catapult
SPY(1/4)(s)	*7/6/2022*	*$383.25*	*$387.27*	*-1.05%*	*covered on open*