

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2022

Volume 15 Issue 138

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Overbought in a downtrend does not appear to be as reliable of a short setup as it once did.
- 3 strong up days like we have seen in the NASDAQ have often seen NASDAQ follow through over the next week – but not SPX follow through.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is still leaning bullish. SPX is again overbought. This does not appear to be a great reward/risk scenario.

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 20, 2022	Up Issues % > 80% 2/3 days < 200	1-3 days	Bullish			
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			

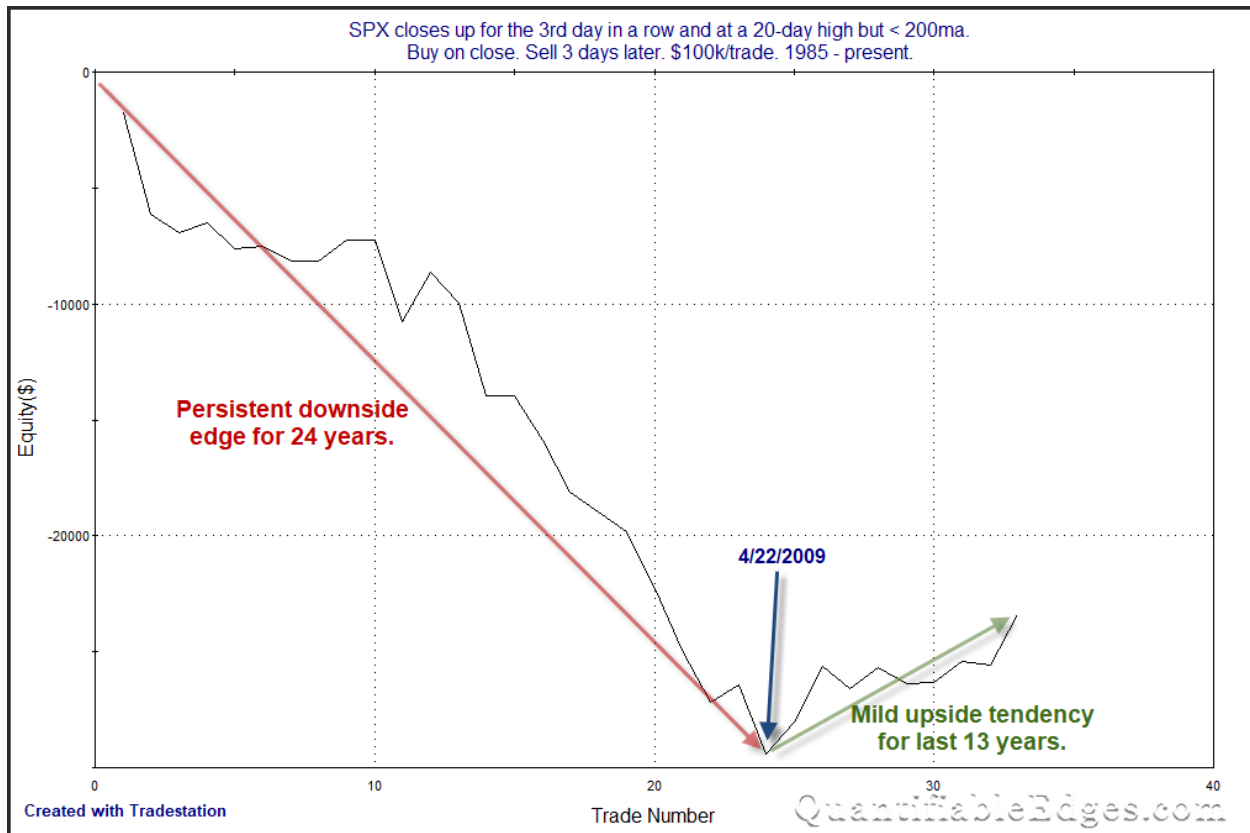
The Evidence

Thursday was another strong day for the market. SPX rose 1.0%, the NASDAQ jumped 1.4%, and the Russell 2000 climbed 0.5%. Breadth was positive with the NYSE Up Issues % coming in at 61% and the Up Volume % at 60%. NYSE total volume came in at the lowest level in a little over a week.

There were many studies that triggered in the Quantifinder that noted the market is now overbought in a long-term downtrend. They looked at things like the 3-day rally and the 20-day high to indicate overbought. The one below looked at both of these criteria. It was last featured in the 1/18/19 letter. Stats are updated.

SPX closes up for the 3rd day in a row and at a 20-day high but < 200ma. Buy on close. Sell 3 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	-16,242.90	31	15	16	48.39	2,639.42	-5,048.88	1,108.51	-2,054.41	0.54	0.51	-523.96
4	-18,035.37	33	15	18	45.45	2,440.31	-5,199.42	1,027.34	-1,858.08	0.55	0.46	-546.53
3	-23,374.88	33	12	21	36.36	2,401.60	-4,396.54	1,028.25	-1,700.66	0.60	0.35	-708.33
2	-18,104.36	33	12	21	36.36	1,122.12	-5,979.14	662.41	-1,240.63	0.53	0.31	-548.62
1	-7,540.43	33	14	19	42.42	1,288.00	-4,241.94	726.00	-931.81	0.78	0.57	-228.50

The stats look quite bearish. But the profit curves told a different story. Below is the 3-day profit curve.

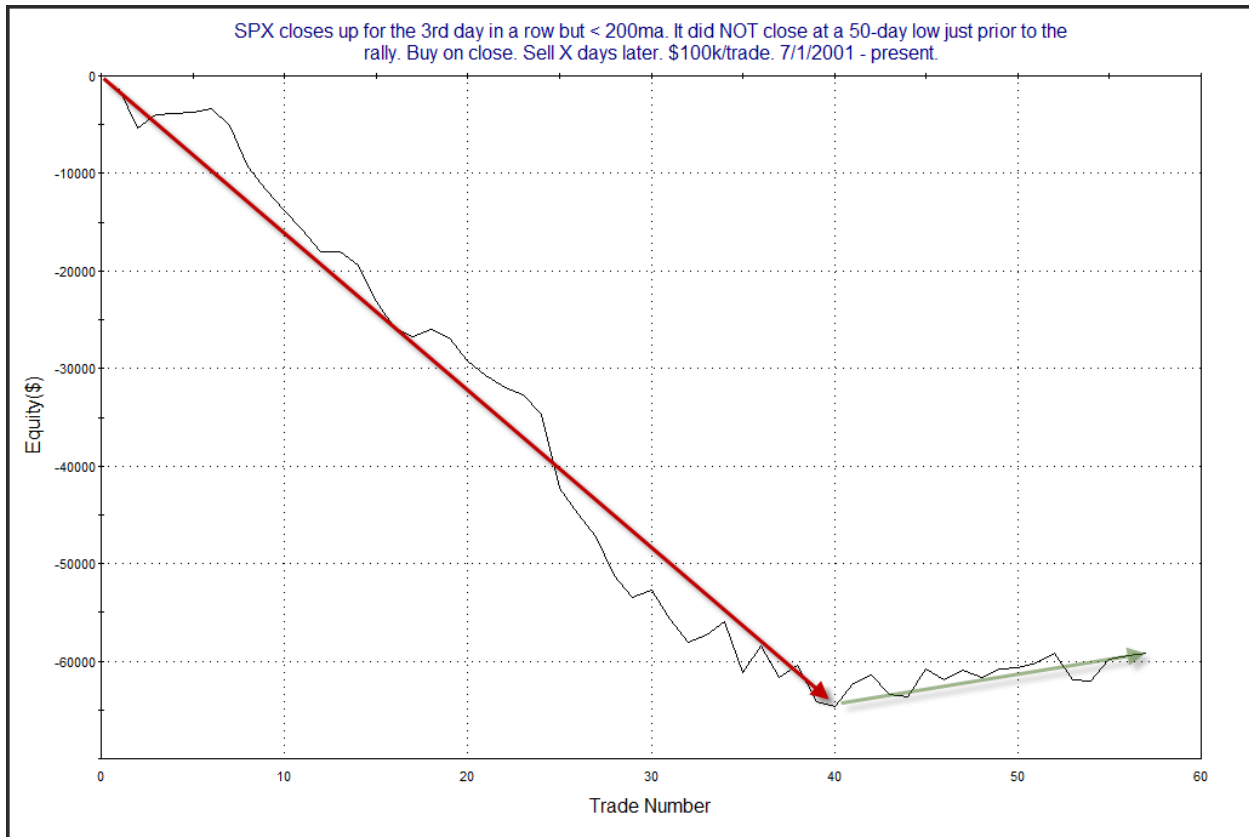


This just has not played out for the last 13 years. I have seen a lot of bearish studies like this in the last few months that have faltered and no longer appear to suggest a bearish edge. Another example of this is a Quantifinder study last featured in the 3/27/20 letter.

SPX closes up for the 3rd day in a row but < 200ma. It did NOT close at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - 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	-36,763.27	54	28	26	51.85	4,570.11	-9,202.08	1,370.99	-2,890.43	0.47	0.51	-680.80
4	-55,447.30	57	25	32	43.86	3,672.51	-7,499.80	1,183.96	-2,657.70	0.45	0.35	-972.76
3	-59,147.35	57	21	36	36.84	2,861.10	-7,527.12	1,049.79	-2,255.36	0.47	0.27	-1,037.67
2	-34,709.59	57	17	40	29.82	3,224.73	-4,121.10	1,090.50	-1,331.20	0.82	0.35	-608.94
1	-20,681.55	57	24	33	42.11	3,348.84	-4,871.22	967.35	-1,330.24	0.73	0.53	-362.83

Stats here are even more bearish. This study is interesting because if the setup WAS coming off a 50-day low it would suggest a bullish edge. But again, the bearish inclination is not apparent when we look at the profit curves. Here is the 3-day.



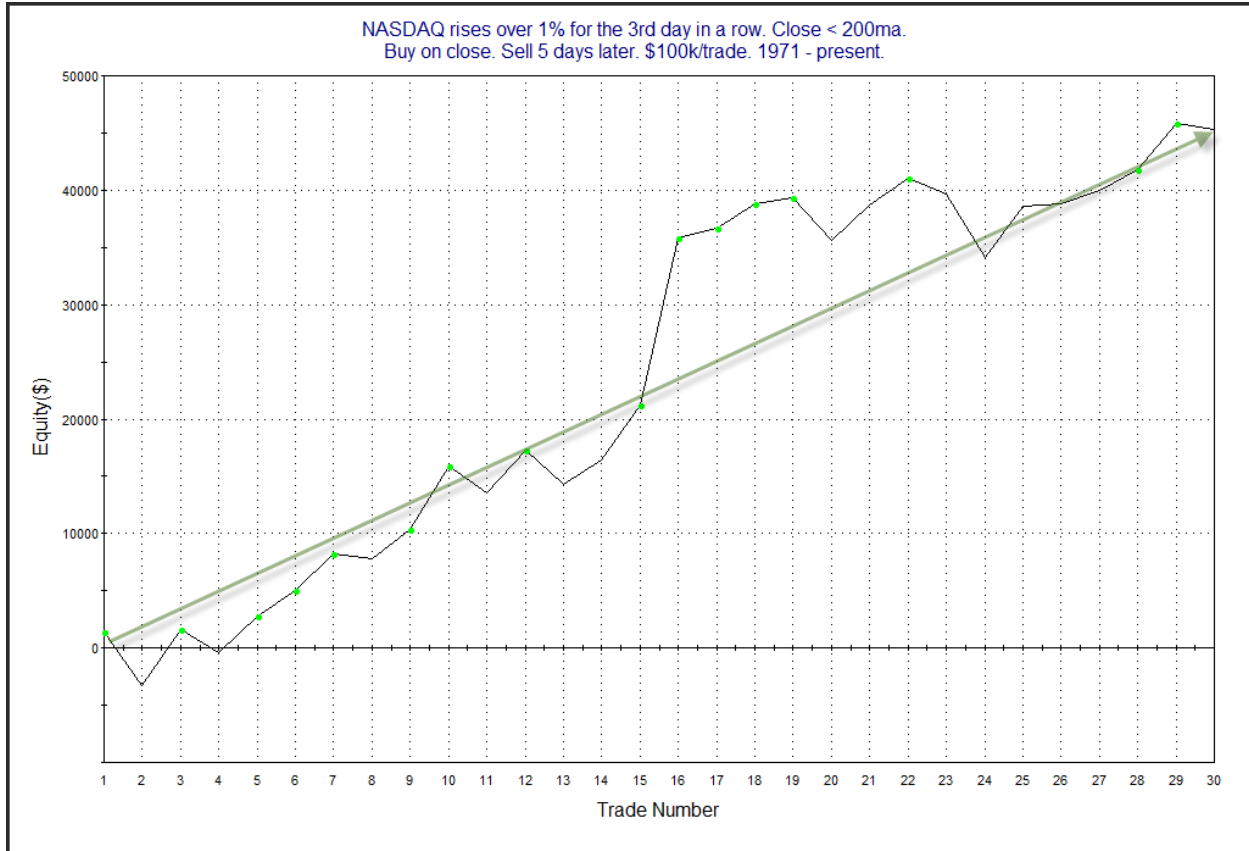
Very similar to the last one. So I am not inclined to utilize any of the “overbought in a downtrend” studies that appeared on Thursday. I’ll note that while I have seen the market evolve like this and so many bearish studies have gone by the wayside over the last several years, I’ve thought that perhaps part of the reason was all the Fed QE that we have seen since 2008. There is no QE right now. In fact, the Fed is embarking on QT. So if QE is a contributor to the disappearing bearish edges, the edges may start to reappear. But I am not relying on that.

I will also note that the NASDAQ rise the last 3 days has been especially strong. In fact, all 3 days saw the NASDAQ rise at least 1%. So I concocted the study below to look at other times the NASDAQ had three 1% up days while below its 200ma.

NASDAQ rises over 1% for the 3rd day in a row. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1971 - 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	45,290.48	30	21	9	70.00	14,540.76	-5,538.39	3,283.61	-2,629.47	1.25	2.91	1,509.68
4	29,786.41	30	20	10	66.67	9,205.56	-8,229.00	2,479.45	-1,980.25	1.25	2.50	992.88
3	13,186.01	30	19	11	63.33	4,013.10	-5,125.77	1,882.49	-2,052.85	0.92	1.58	439.53
2	14,589.23	30	16	13	53.33	4,396.60	-2,918.37	1,827.61	-1,127.12	1.62	2.00	486.31
1	11,523.78	30	15	14	50.00	3,623.26	-2,310.40	1,692.56	-990.33	1.71	1.83	384.13

Stats here are quite bullish. It seems that the momentum is strong enough in most cases that you'll continue to see follow through over the next week. Below is a look at the 5-day profit curve.



That is a good looking rise.

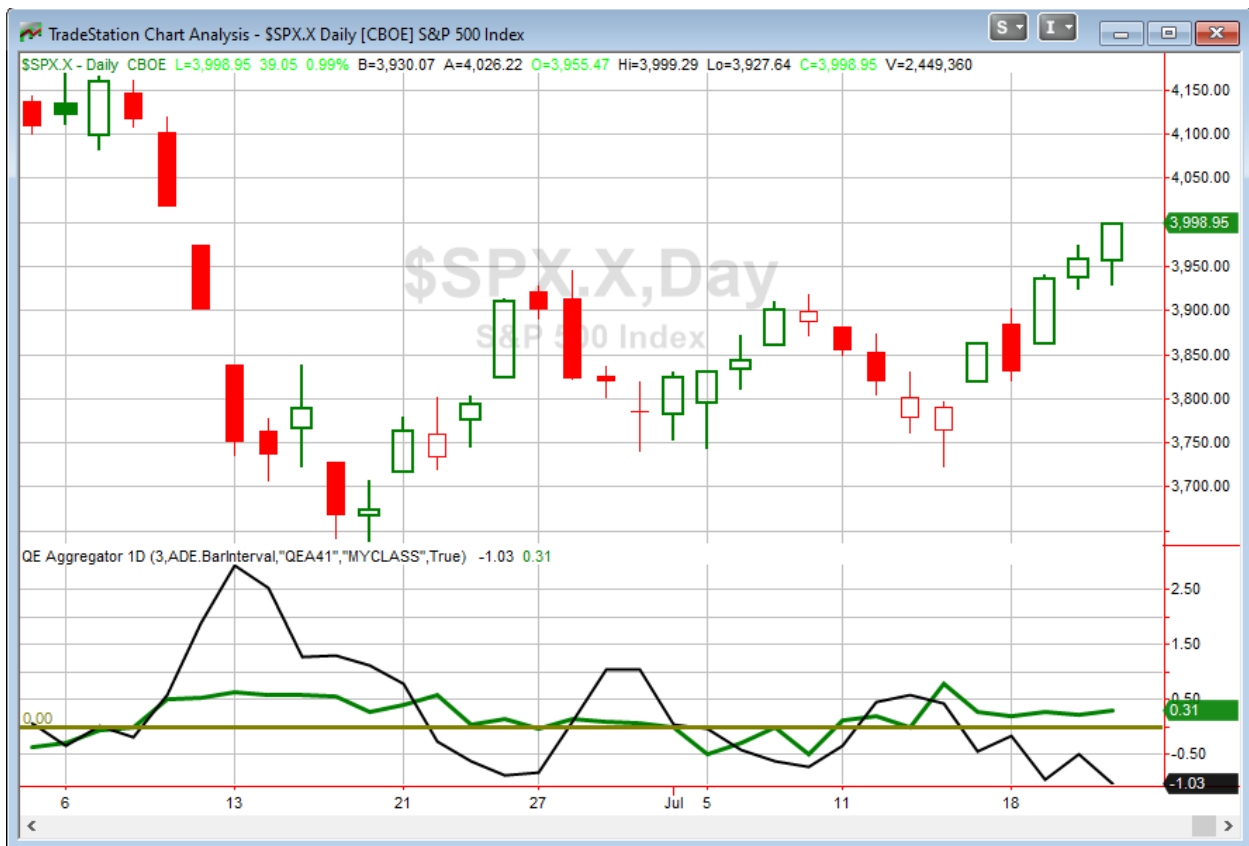
Often when we see NASDAQ studies like this the directional edge works for the SPX as well. So I looked at how SPX has performed when this NASDAQ setup triggered in the past.

NASDAQ rises over 1% for the 3rd day in a row. Close < 200ma.
Buy **SPX** on close. Sell X days later. \$100k/trade. 1971 - 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	9,685.11	30	19	11	63.33	7,414.55	-5,304.00	2,261.59	-3,025.92	0.75	1.29	322.84
4	2,554.99	30	16	14	53.33	6,097.05	-6,472.75	1,938.47	-2,032.90	0.95	1.09	85.17
3	-7,617.36	30	16	14	53.33	2,598.45	-5,681.40	1,297.70	-2,027.18	0.64	0.73	-253.91
2	1,432.21	30	14	16	46.67	4,224.40	-4,467.60	1,377.09	-1,115.44	1.23	1.08	47.74
1	900.93	30	14	16	46.67	3,535.65	-2,067.20	1,197.18	-991.23	1.21	1.06	30.03

Interestingly, the upside momentum did not help carry the SPX higher. It seems to just apply to the NASDAQ. So traders may look to the NASDAQ for some additional strength in the coming days. But I did not include this study for Aggregator purposes since the Aggregator measures SPX expectations and there is no edge apparent for SPX. Overall, potentially bullish and bearish studies tonight all failed to deliver compelling evidence. I am not comfortable relying on any of them to suggest a short-term directional edge. Therefore, nothing is being added to the Active Studies List.

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



Without any new studies making the cut, the green Aggregator line remained above zero. Positive readings mean expectations are for upside 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 positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

With the last of the short-term active studies set to expire on Friday afternoon, expectations will be largely dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be

3965.33 on Friday. That is 0.8% below Thursday's close. Therefore, SPX will need to close down at least 0.8% on Friday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is still neutral. Evidence is still leaning upwards, and the market is still short-term overbought. This combination does not make for a strong reward/risk opportunity. I'll continue to wait until a more compelling setup emerges before attempting a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/18– neutral

The intermediate-term outlook was last updated in the 7/18/22 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

None

Broad Market Large Cap CBI – 0

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.

None tonight.

Current Open Trade Ideas

None

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