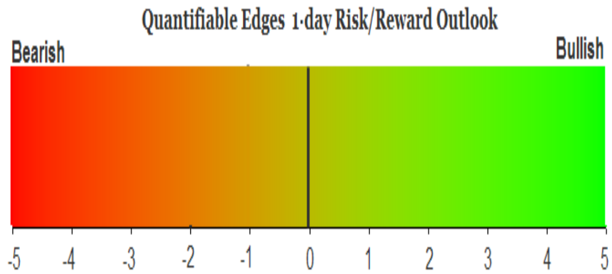
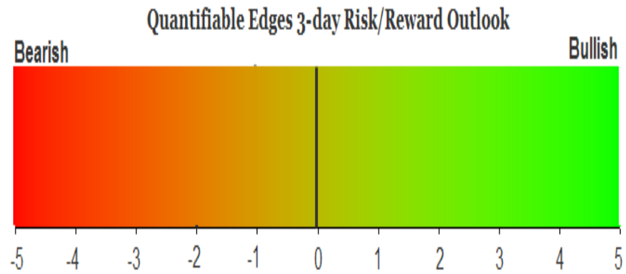
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 26, 2022 Volume 15 Issue 140

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When both the VIX and SPX close higher on a Monday that often suggests a bearish edge.
- SPX inside day in the upper end of its range has short-term bearish implications.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is pointing lower, but the market is already oversold. Reward/risk does not appear great, especially with so much market moving news on tap (Fed, earnings, GDP, etc).

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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 26, 2022	SPX up.VIX up. Monday. Close < 200ma	1-5 days	Bearish			
July 26, 2022	SPX top of 10-day range. Inside day<20	1-3 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

Monday saw mixed results. SPX rose 0.1%, the NASDAQ lost 0.4%, and the Russell 2000 gained 0.6%. Breadth was positive with the NYSE Up Issues % coming in at 60% and the Up Volume % at 64%. NYSE total volume came in very light.

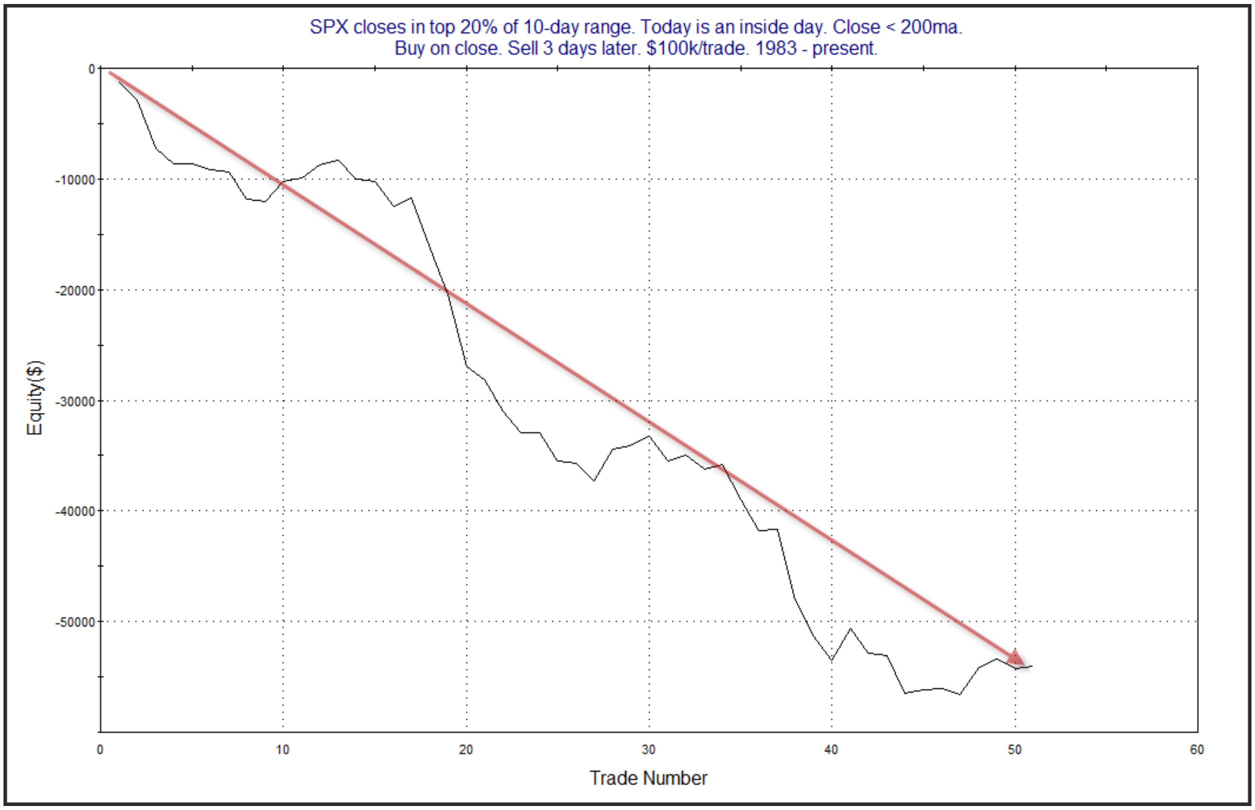
There were a number of studies that emerged on Monday. Several were related to inside days, tight ranges, and/or overbought conditions. The study below incorporated all 3 and showed some compelling odds. It was last seen in the 6/6/22 Subscriber Letter and I have updated the results.

SPX closes in top 20% of 10-day range. Today is an inside day. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1983 - 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	-25,671.21	49	24	25	48.98	5,159.00	-7,519.22	1,437.65	-2,406.99	0.60	0.57	-523.90
4	-37,740.68	50	25	25	50.00	2,746.70	-5,562.78	1,052.39	-2,562.02	0.41	0.41	-754.81
3	-54,024.63	51	18	33	35.29	2,909.50	-6,445.61	904.50	-2,130.48	0.42	0.23	-1,059.31
2	-43,165.65	51	16	35	31.37	2,720.88	-5,979.14	1,021.40	-1,700.23	0.60	0.27	-846.39
1	-9,393.91	51	25	26	49.02	4,063.35	-3,178.80	764.90	-1,096.79	0.70	0.67	-184.19

94% of instances closed below the entry price
at some point in the next week.

The numbers here suggest a solid downside edge over the next few days. Below is a profit curve for a 3-day holding period.



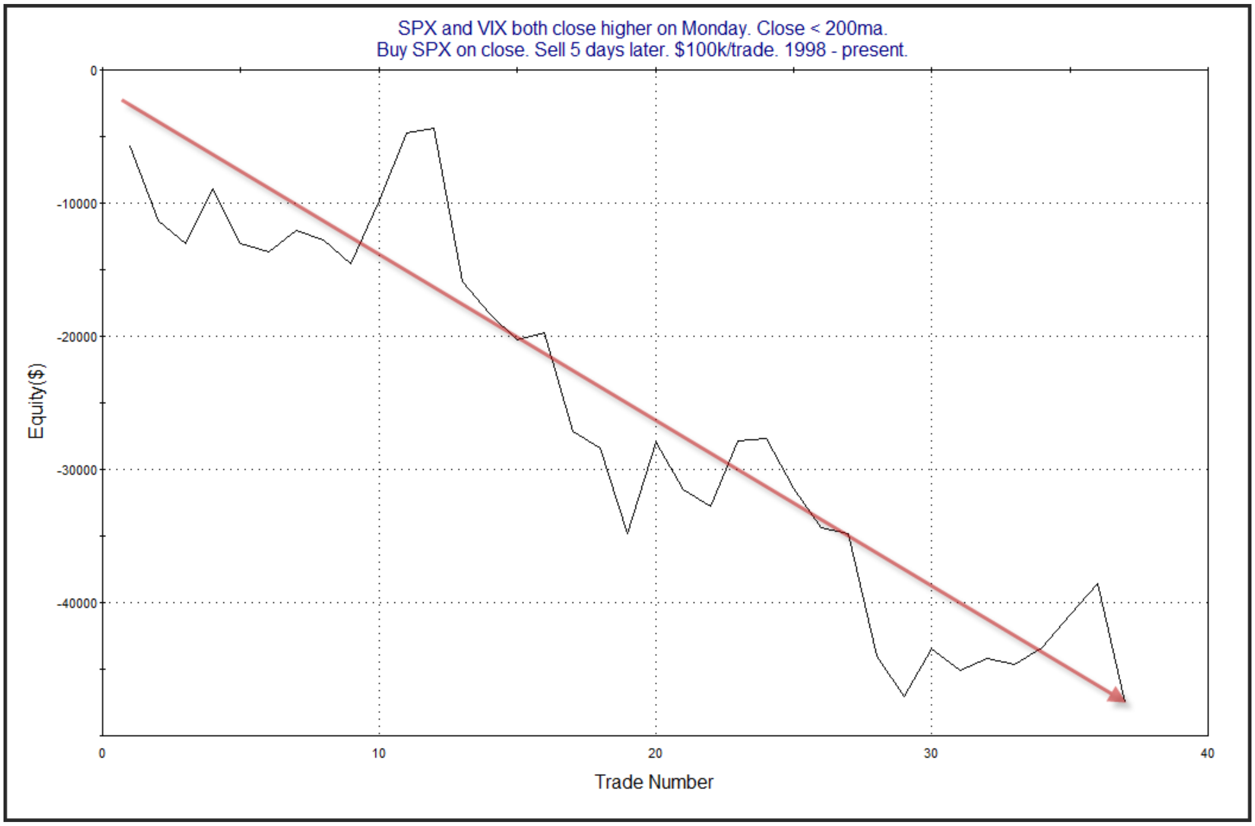
The strong, steady downslope supports the idea of a bearish edge.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will typically move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-week. Anyway, the action on Monday triggered the following study from the 11/6/18 subscriber letter. I have updated the results.

SPX and VIX both close higher on Monday. Close > 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 1998 - 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	-47,477.62	37	14	23	37.84	6,877.04	-11,533.34	2,780.51	-3,756.73	0.74	0.45	-1,283.18
4	-27,442.11	38	16	22	42.11	5,607.06	-9,828.00	2,529.91	-3,087.30	0.82	0.60	-722.16
3	-27,622.32	38	15	23	39.47	4,455.68	-6,956.04	2,072.85	-2,552.83	0.81	0.53	-726.90
2	-13,975.27	38	17	21	44.74	3,349.32	-5,441.80	1,628.45	-1,983.76	0.82	0.66	-367.77
1	-7,897.71	38	19	19	50.00	4,699.94	-4,893.07	1,112.67	-1,528.34	0.73	0.73	-207.83

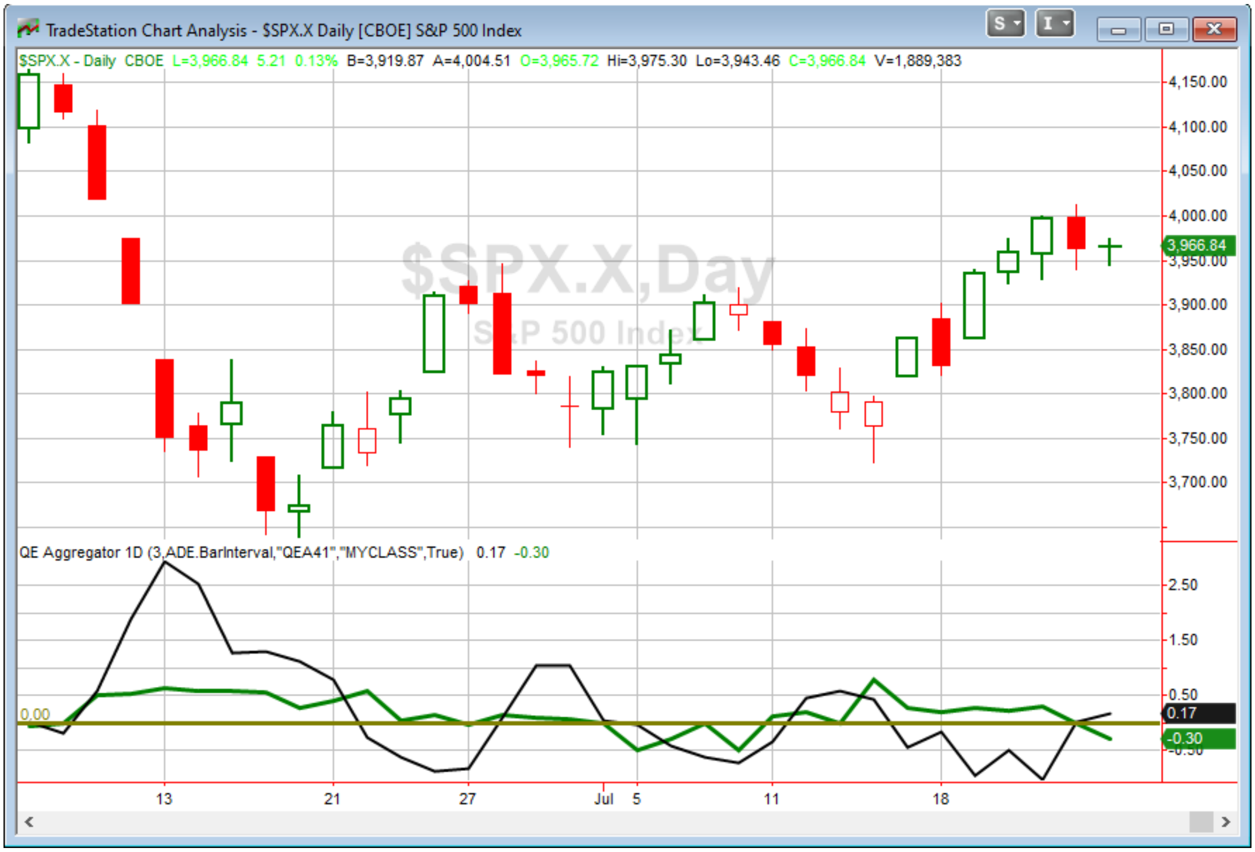
The numbers here all appear to suggest a substantial bearish tendency. Below is a profit curve that assumes a 5-day holding period.



The curve supports the idea of a bearish inclination.

Between the VIX action and the SPX putting in a narrow range day near the top of its recent range, we are seeing some compelling evidence suggesting a downside edge. Of course as I discussed over the weekend, we are also heading into a Fed Day on Wednesday. A poor close on Tuesday could suggest a good chance of a Wednesday bounce.

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 closed above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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.

Based on the current active list, expectations are set to remain negative on Tuesday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4031.52 on Monday. That is 1.6% above Monday's close. Therefore, SPX will need to close up at least 1.6% on Tuesday to flip from oversold to overbought vs recent expectations.

So the Aggregator is still neutral. We are seeing some evidence tonight that a pullback could be in the works over the next few days. Of course Wednesday's Fed meeting is a big wildcard. If the bearish evidence did not trigger, then I would likely be looking to play for a bullish Fed Day trade on Tuesday weakness. But I am not inclined to fight the current evidence in hopes of a quick overnight gain prior to the Wednesday announcement. Between the Fed, the GDP report on Thursday, and several big tech earnings due over the next few days, we could see some volatile action. I'll be ready to pounce if it generates favorable reward/risk opportunities.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/25 – neutral

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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