

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 27, 2022

Volume 15 Issue 141

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Fed Days are often bullish, and Tuesday's selling created a high probability bullish setup for Wednesday – at least until 2pm.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I'm inclined to see how Wednesday's Fed Day plays out and what new evidence emerges based on that action before getting excited about a short-term direction.

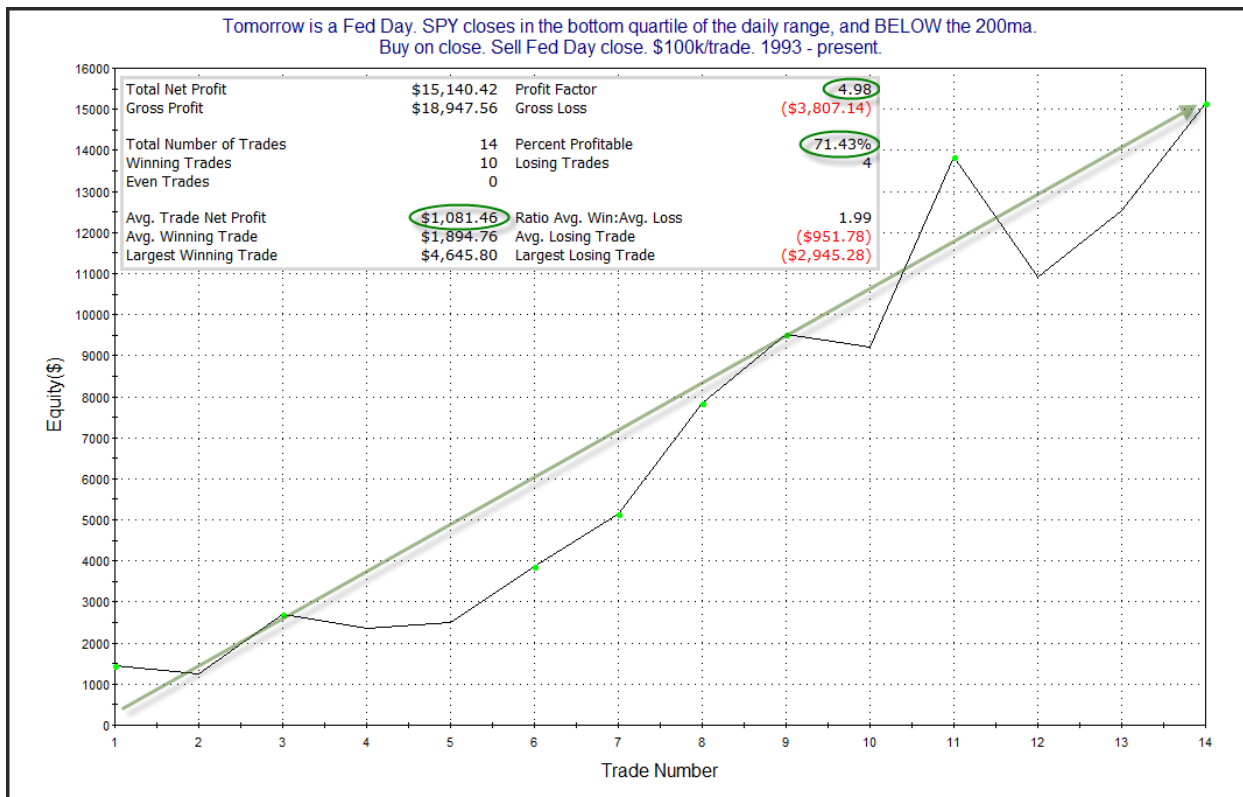
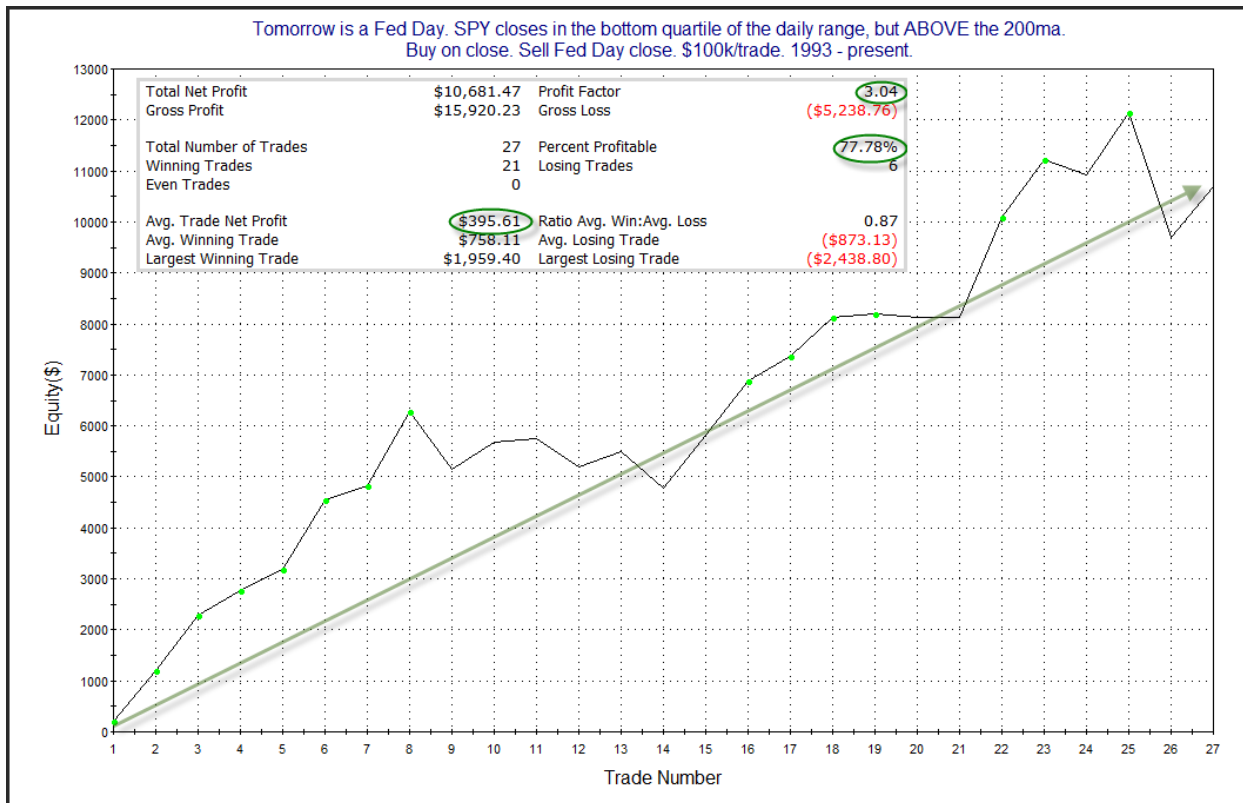
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
July 27, 2022	Fed Day bullish	1 day	Bullish			
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 < 200ma	1-3 days	Bearish			
<b>Active - Long Term</b>						
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***

Tuesday was a down day. SPX declined 1.15%, the NASDAQ lost 1.9%, and the Russell 2000 dropped 0.7%. 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.

Wednesday is a Fed Day. Fed Day's have historically had a bullish tilt. The has especially been so when the market has done poorly the day before. I've broken down performance several times over the years, based on the % quartile that SPY closed in the day before the Fed Day. I found that closes in the bottom quartile have been the most bullish. But I have also found that the Fed Day setup in general has been more reliable when the market is in a long-term uptrend. So in the 4/29/20 letter I decided to focus on bottom-quartile finishes and break it down based on whether SPY is above or below the 200-day moving average. You can see updated results in the 2 tests below.



Results look fairly similar except the magnitude of the moves has been more sizable below the 200ma. The poor close does seem to suggest an upside edge, regardless of the long-term trend.

One sector that has been especially reactive on and around Fed Days is the Banking sector (BKX). The BKX lost about 2.2% on Tuesday, which triggered the study below. It looks at days BKX closed down > 2% on the day before a Fed Day. It was last seen in the 6/10/20 letter.

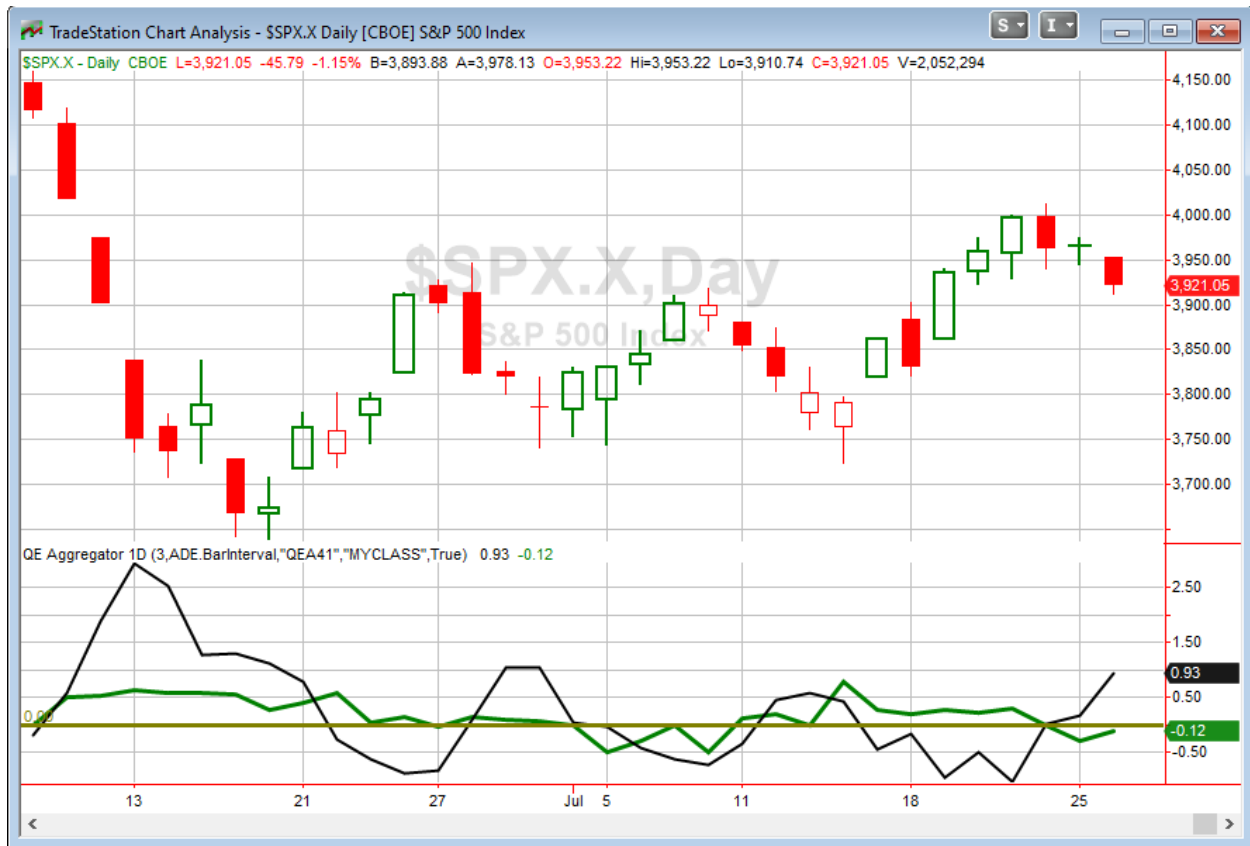
BKX closes down > 2% on the day before a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/20/2000	Buy	\$74.13	4.38%	\$4,381.00
3/21/2000	Sell	\$77.38		(\$337.00)
1/29/2002	Buy	\$82.36	1.48%	\$1,784.58
1/30/2002	Sell	\$83.58		(\$2,185.20)
5/6/2002	Buy	\$86.36	-0.01%	\$1,585.09
5/7/2002	Sell	\$86.35		(\$11.57)
12/9/2002	Buy	\$75.15	1.96%	\$1,968.40
12/10/2002	Sell	\$76.62		\$0.00
9/15/2008	Buy	\$65.03	7.27%	\$7,562.04
9/16/2008	Sell	\$69.76		(\$2,705.12)
12/15/2008	Buy	\$41.43	10.38%	\$10,568.94
12/16/2008	Sell	\$45.73		\$0.00
4/28/2009	Buy	\$31.90	5.02%	\$5,766.56
4/29/2009	Sell	\$33.50		\$0.00
8/11/2009	Buy	\$43.55	1.86%	\$2,456.72
8/12/2009	Sell	\$44.36		(\$459.20)
12/15/2009	Buy	\$42.53	-0.42%	\$1,081.46
12/16/2009	Sell	\$42.35		(\$846.36)
1/26/2010	Buy	\$45.38	2.91%	\$3,370.59
1/27/2010	Sell	\$46.70		(\$44.06)
4/27/2010	Buy	\$54.42	1.36%	\$2,626.91
4/28/2010	Sell	\$55.16		\$0.00
8/8/2011	Buy	\$36.99	7.00%	\$7,027.80
8/9/2011	Sell	\$39.58		(\$1,135.26)
11/1/2011	Buy	\$38.13	3.28%	\$4,116.54
11/2/2011	Sell	\$39.38		(\$183.54)
12/12/2011	Buy	\$38.17	-1.55%	\$1,309.50
12/13/2011	Sell	\$37.58		(\$2,723.76)
6/14/2016	Buy	\$65.90	0.20%	\$1,881.08
6/15/2016	Sell	\$66.03		\$0.00
6/9/2020	Buy	\$87.66	-6.02%	\$0.00
6/10/2020	Sell	\$82.38		(\$6,064.80)
9/15/2020	Buy	\$76.10	1.75%	\$3,258.72
9/16/2020	Sell	\$77.43		(\$381.06)
11/4/2020	Buy	\$77.00	4.12%	\$4,854.52
11/5/2020	Sell	\$80.17		\$0.00
Total Net Profit		\$44,943.19	Profit Factor	6.62
Gross Profit		\$52,942.35	Gross Loss	(\$7,999.16)
Total Number of Trades		18	Percent Profitable	77.78%
Winning Trades		14	Losing Trades	4
Even Trades		0		
Avg. Trade Net Profit		\$2,496.84	Ratio Avg. Win:Avg. Loss	1.89
Avg. Winning Trade		\$3,781.60	Avg. Losing Trade	(\$1,999.79)
Largest Winning Trade		\$10,375.90	Largest Losing Trade	(\$6,019.20)

Numbers here are exceptionally strong, with the average Fed Day under these circumstances seeing a 2.5% gain in BKX.

Of course as I mentioned on Sunday, it is worth keeping in mind that Fed Day edges have primarily played out prior to the actual Fed announcement. The market could see a strong reaction to the announcement in either direction on Wednesday afternoon. Below is a link to the study I referenced on Sunday when talking about this.

<https://quantifiableedges.com/fed-days-pre-vs-post-announcement-action-during-downtrends/>

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



Even with tonight's evidence considered, the green Aggregator line remained 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 Wednesday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3982.76 on Wednesday. That is 1.6% above Tuesday's close. Therefore, SPX will need to close up at least 1.6% on Wednesday to flip from oversold to overbought vs recent expectations.

So the Aggregator is still neutral. There seems to be a good chance to bounce on Wednesday – at least up until 2pm. After that, the current active studies are suggesting downside. But the reaction really could go either way. Tough to guess. I'm not inclined to get involved in a new index position on Wednesday. Better to react if the initial Fed reaction appears to be an overreaction. I will re-evaluate Wednesday night

*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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