

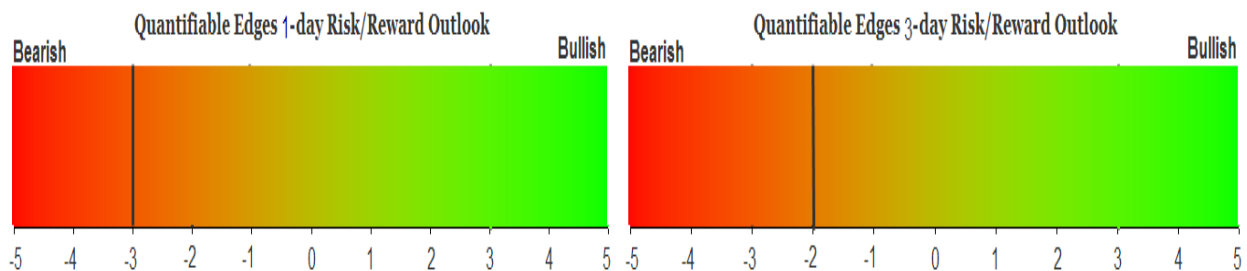
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2022

Volume 15 Issue 142

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The 10-day high, but not a 100-day high, on a Fed Day suggest a short-term downside edge.
- The SPY pattern and unfilled gap higher suggest a downside edge for Thursday.
- The 2-day pattern of unfilled gaps for SPY along with the high close is a pattern that has often been followed by selling the next day.

Short-term Outlook

The Bottom Line

The Aggregator is leaning short. Evidence is bearish and the market is short-term overbought. A quick reversion lower appears likely.

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 28, 2022	Unfill dn yest. Unfill up today > high[2]	1 day	Bearish			
July 28, 2022	Unfill up 0.5% - 1%. Close > open < 200	1 day	Bearish			
July 28, 2022	SPX 10-high < 100-high on Fed Day	1-2 days	Bearish			
July 26, 2022	SPX up.VIX up. Monday. Close < 200ma	1-5 days	Bearish	-3.40%	1.95%	3.80%
July 26, 2022	SPX top of 10-day range. Inside day < 200	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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
July 27, 2022	Fed Day bullish	1 day	Bullish			

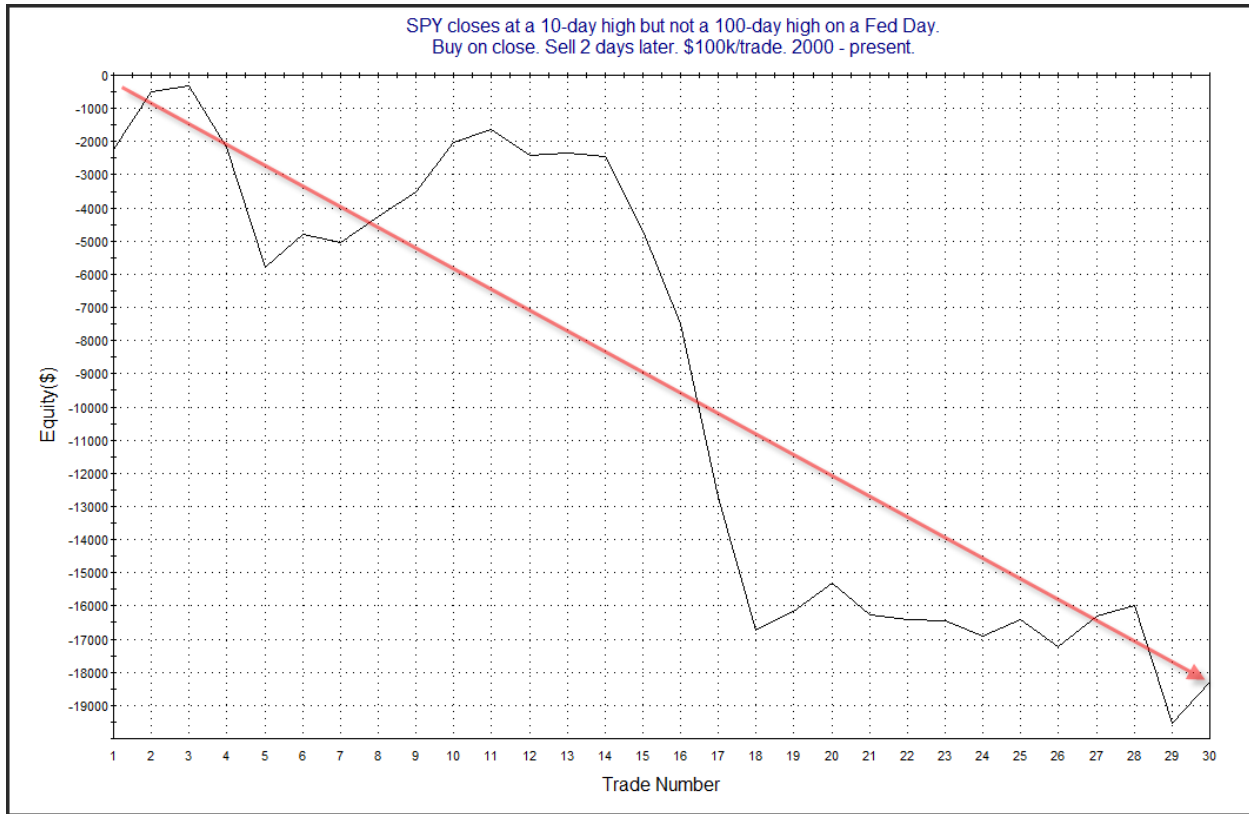
The Evidence

Wednesday was a big rally day. SPX rose 2.6%, the NASDAQ gained 4.1%, and the Russell 2000 jumped 2.4%. Breadth was positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 86%. NYSE total volume came in higher than the last few days.

It was a Fed Day celebration on Wall St! Historically, rallies on Fed Days that lead to new short-term highs, but not long-term highs, have been susceptible to pullbacks in the following days. This can be seen in the updated study below, from the 4/30/20 letter.

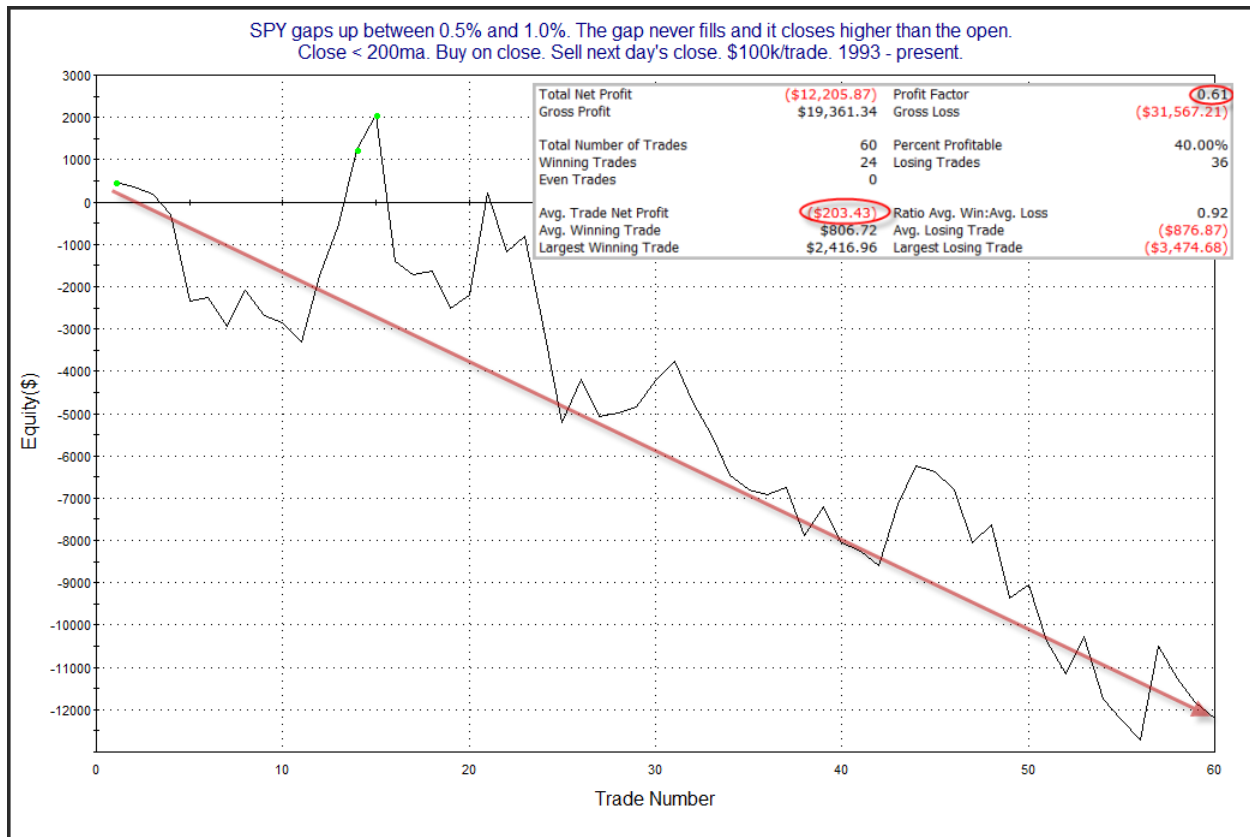
SPY closes at a 10-day high but not a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-20,394.95	30	15	15	50.00	5,434.00	-6,223.36	1,226.35	-2,586.01	0.47	0.47	-679.83
4	-13,619.43	30	15	15	50.00	3,637.92	-5,244.16	1,226.89	-2,134.85	0.57	0.57	-453.98
3	-9,523.68	30	17	13	56.67	3,992.56	-5,502.64	1,112.74	-2,187.71	0.51	0.67	-317.46
2	-18,294.06	30	14	16	46.67	1,761.42	-5,216.64	774.84	-1,821.37	0.43	0.37	-609.80
1	-8,882.66	30	11	19	36.67	1,676.19	-3,248.96	732.26	-891.45	0.82	0.48	-296.09

The numbers here all point to a downside edge, primarily over the 1st 2 days. Below is a profit curve showing how the edge has played out over time.



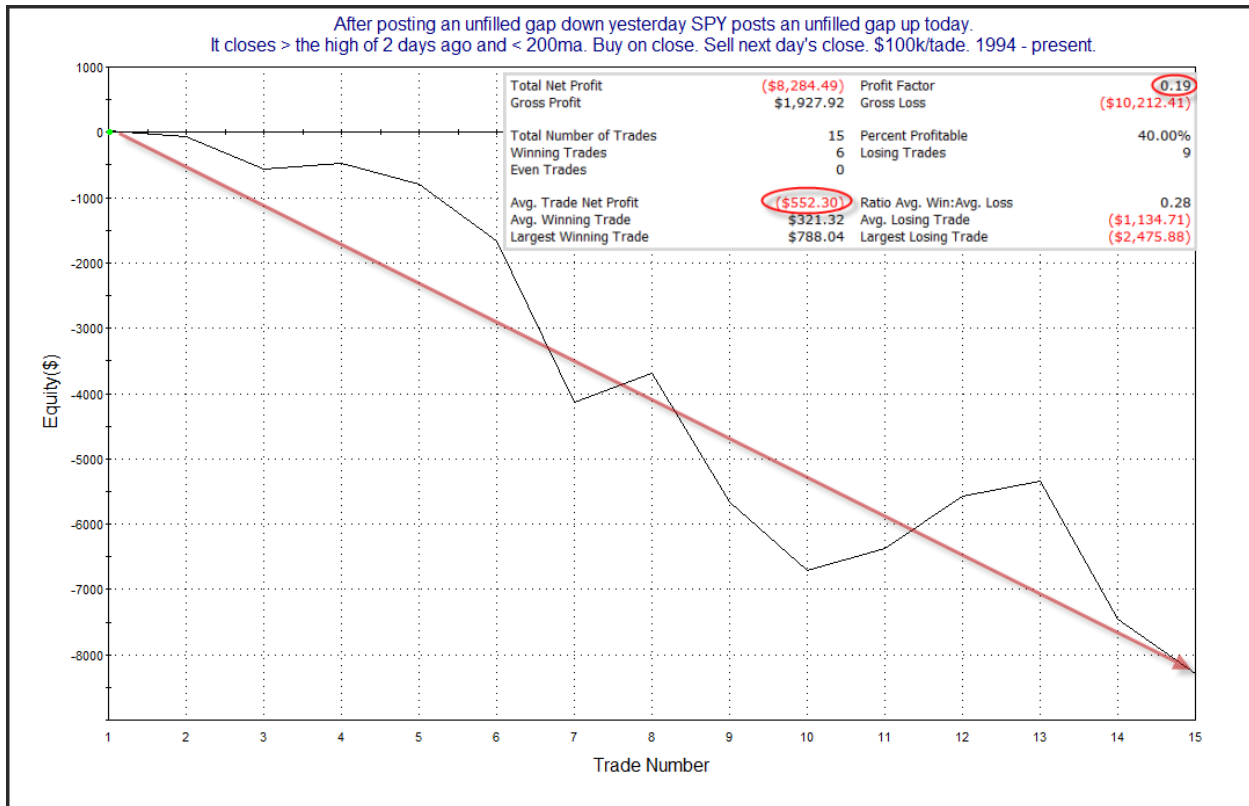
Not the smoothest curve, but it still appears to suggest a bearish edge. I found this study compelling enough to include on the Active List.

This next study simply considered the price action on Wednesday, including the unfilled up-gap and the long-term downtrend. It was last seen in the 6/27/22 letter, and is updated below.



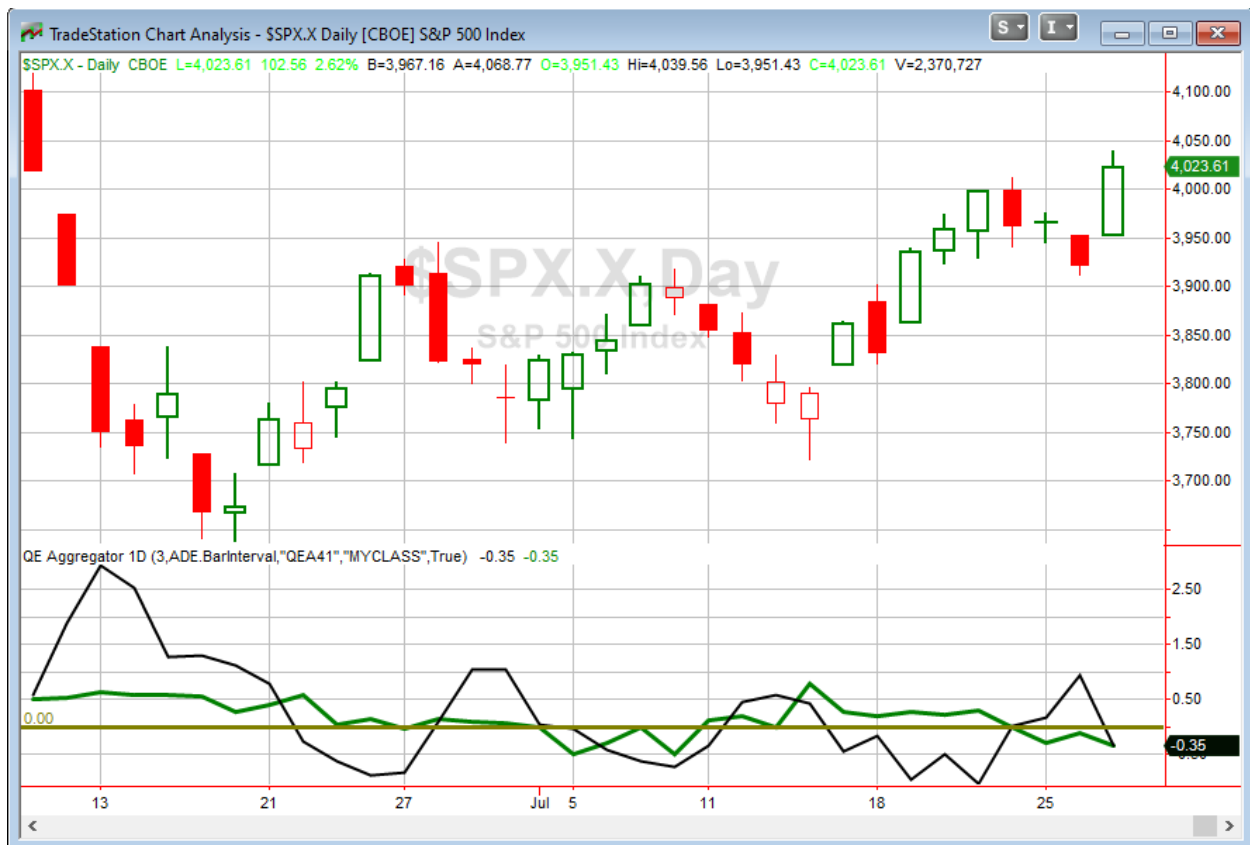
Stats are moderately negative, but the curve makes the study more compelling. I have also included this study on the active list tonight.

One way to look at the pattern of the last two days is by focusing on the 2 unfilled gaps, the first of which was down and the second of which was up. The study below from the 11/27/18 letter does this, and also requires a close above the high of two days ago, suggesting the reversal has been strong.



Instances are a bit low, but risk/reward appears to strongly favor the downside. I have also included this study on tonight's active list.

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



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 dropped 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 active list, expectations are set to remain negative on Thursday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3965.44 on Thursday. That is 1.4% below Wednesday's close. Therefore, SPX will need to close down at least 1.4% on Thursday to flip from overbought to oversold vs recent expectations.

So the Aggregator is now bearish. We are seeing some evidence suggesting Wednesday was an overshoot and a short-term reversion is likely. There is also a good amount of room to the downside before SPX would be considered oversold. This increases potential reward. I like the short side for a dip here. With the intermediate-term outlook neutral and the market having trended higher over the last 6 weeks, I am not inclined to get aggressive. But I will look to take on a small amount of short exposure if I can get a favorable entry at either the open or the close on Thursday.

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.

SPY – SHORT ¼ index position @ \$402.25 LIMIT ON OPEN. If not filled at the open, cancel and look to buy @ \$401.25 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take a small index position if SPY gaps up a good amount or closes a bit higher on Thursday.

Current Open Trade Ideas

None

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