

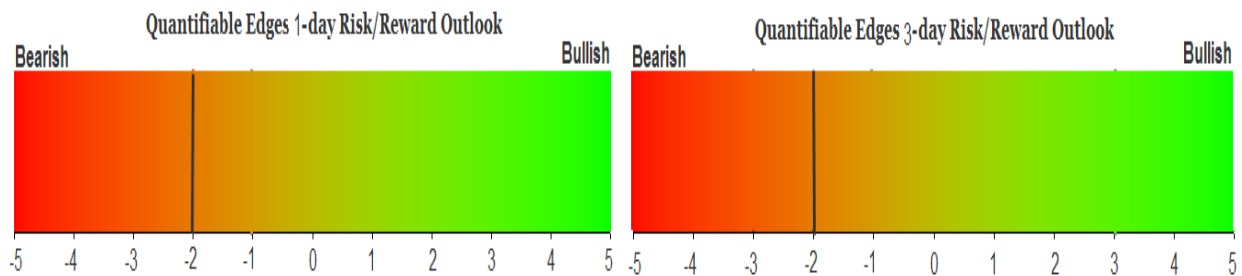
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2022

Volume 15 Issue 156

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- 3 up days with similar circumstances during a long-term downtrend have typically led to a pullback over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. Bearish evidence continues to build. The market continues to push higher and become more overbought. Down appears more likely, but it is not without risk to fight this uptrend.

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						
August 17, 2022	SPX up 3 < 200ma. Today small up.	1-2 days	Bearish			
August 16, 2022	VIX up. SPX 50-high. Monday	1-2 days	Bearish			
August 12, 2022	10-high up 1% intraday, down close	1-4 days	Bullish	2.20%	-1.70%	-3.30%
Active - Long Term						
August 16, 2022	SPX goes from < 15% above 50 to < 90%	1-6 months	Bullish			
August 15, 2022	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
August 11, 2022	50-day high breakout on 90% Up Vol	1-40 days	Bullish	8.00%	-1.80%	-4.40%
August 1, 2022	NYSE Up Issues % > 70% 3 straight days	1-80 days	Bullish	9.85%	-4.72%	-11.90%
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			

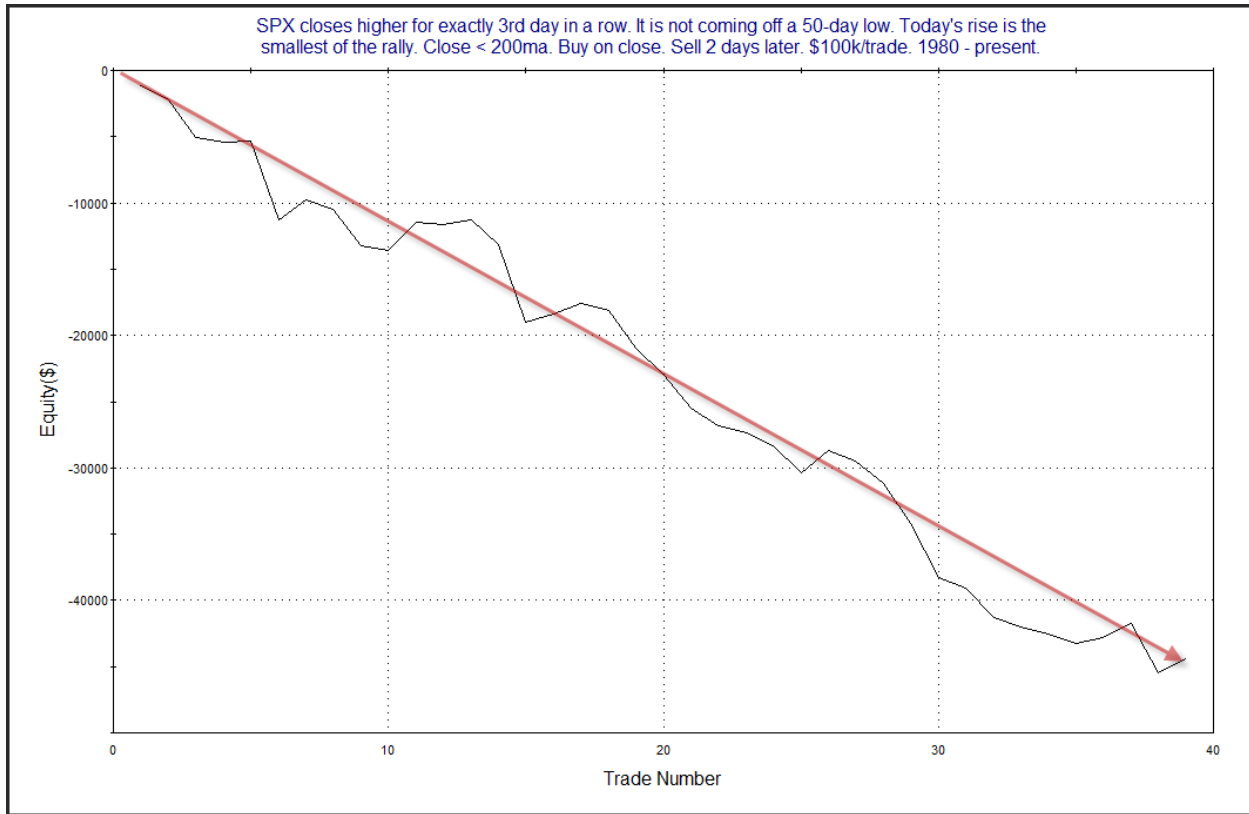
The Evidence

Tuesday saw mixed results for the indices. The SPX gained 0.2%, the NASDAQ declined 0.2%, and the Russell 2000 dipped 0.04%. Breadth was positive with the NYSE Up Issues % coming in at 53% and the Up Volume % at 63%. NYSE total volume rose some from Monday’s level.

There were a good number of formerly “bearish” studies that appeared in the Quantifinder. But many of them have not persisted in a very bearish manner over the last several years. The ones that did look compelling looked at 3-day rallies during long-term downtrends (under the 200ma) that did not originate from a “bottom”. The one below was last seen in the 5/12/20 letter. I have updated the results.

SPX closes higher for exactly 3rd day in a row. It is not coming off a 50-day low. Today's rise is the smallest of the rally. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	-47,816.67	38	16	22	42.11	2,934.54	-9,202.08	1,241.21	-3,076.19	0.40	0.29	-1,258.33
4	-50,665.00	39	13	26	33.33	2,766.03	-7,499.80	1,251.32	-2,574.31	0.49	0.24	-1,299.10
3	-49,475.29	39	13	26	33.33	2,685.76	-7,527.12	1,170.19	-2,487.99	0.47	0.24	-1,268.60
2	-44,370.55	39	10	29	25.64	2,060.80	-5,979.14	971.60	-1,865.05	0.52	0.18	-1,137.71
1	-13,998.94	39	19	20	48.72	2,170.08	-4,871.22	763.39	-1,425.16	0.54	0.51	-358.95

The results suggest a downside edge. Often this will be the case when “overbought during a downtrend”. The recent 50-day low filter is used because a strong move off a bottom will often continue further than at other times, since it will be fueled by both bottom-pickers and shorts that are covering. Below is a look at the 2-day profit curve.



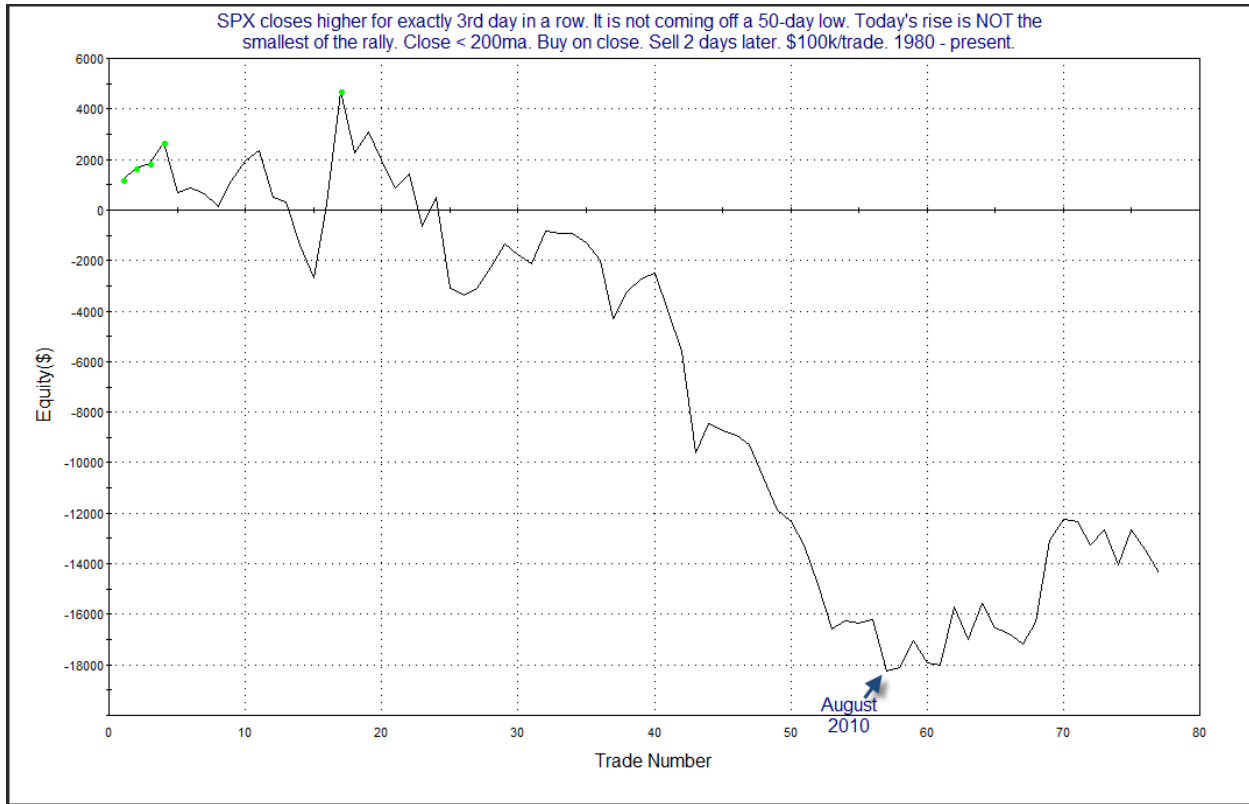
That is a very impressive curve, and it remains near another new low. This seems worth consideration on the active list.

The requirement looking at today's rise being the smallest of the 3 up days is also worth some discussion. That suggests upside momentum may be slowing, allowing for the market to swing back the other way. Here is a look at the same setup, but with that filter flipped, so that today is NOT the smallest gain of the last 3.

SPX closes higher for exactly 3rd day in a row. It is not coming off a 50-day low. Today's rise is NOT the smallest of the rally. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.

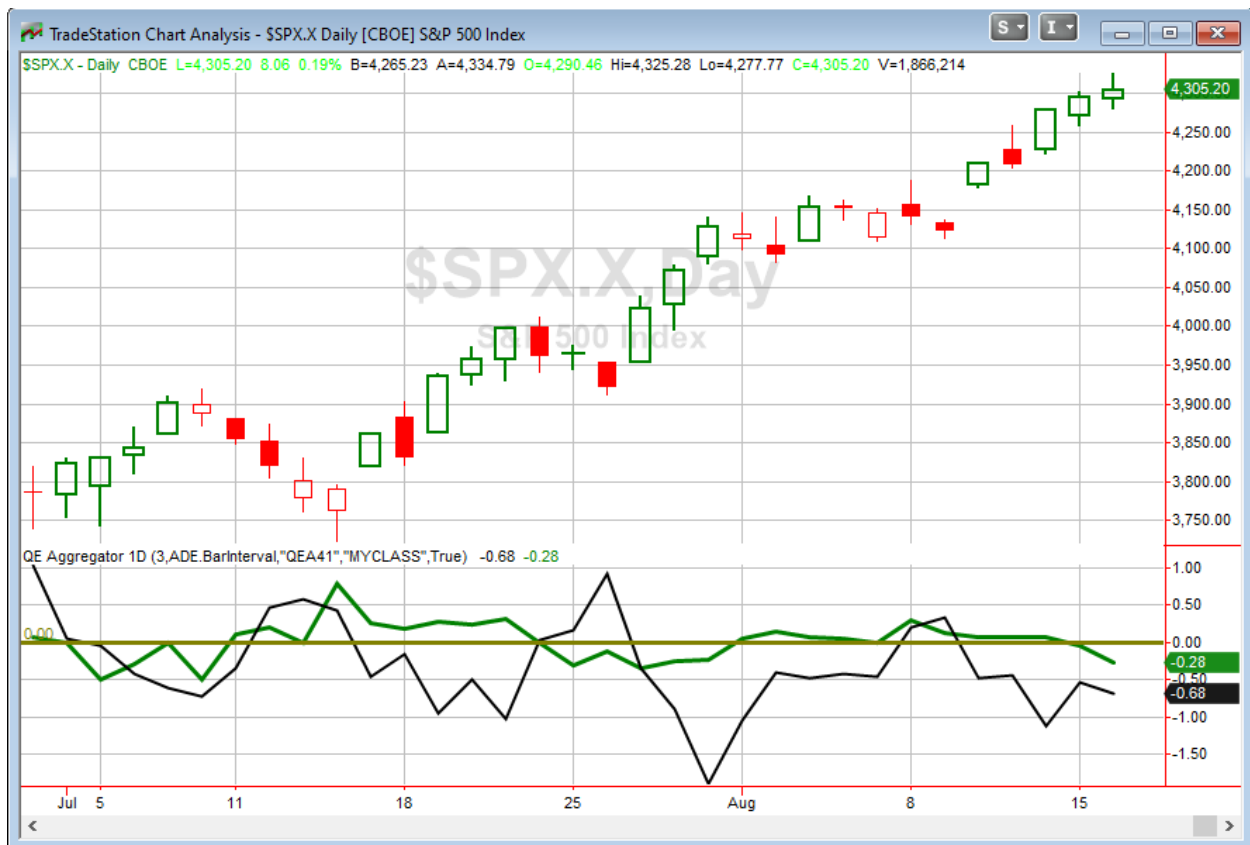
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-15,940.33	73	40	33	54.79	4,771.60	-6,911.94	1,426.54	-2,212.18	0.64	0.78	-218.36
4	-31,567.21	77	42	35	54.55	3,672.51	-6,719.68	1,182.15	-2,320.50	0.51	0.61	-409.96
3	-37,865.07	77	36	41	46.75	2,989.36	-6,512.40	1,089.45	-1,880.13	0.58	0.51	-491.75
2	-14,376.03	77	32	45	41.56	4,479.84	-4,033.80	1,051.10	-1,066.92	0.99	0.70	-186.70
1	-5,687.70	77	30	47	38.96	3,535.65	-2,367.90	1,165.78	-865.13	1.35	0.86	-73.87

There still appears to be a downside edge. It just is not as substantial. Here is the 2-day curve for this setup.



While the numbers are bearish, the downward progress died out about 12 years ago. So this does not look appealing. Of course, this is not the current setup. The current setup is the more bearish version that I looked at originally.

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



With today's evidence considered, the green Aggregator line remained below zero. Negative readings mean expectations are for downside over the next 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 stayed short at the close.

Based on the current active list, expectations are slated to remain negative on Wednesday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4289.65. That is 0.4% below Tuesday's close. Therefore, SPX will need to close down at least 0.4% on Wednesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bearish. Bearish evidence has been building some lately, but the market to this point has not cared. It does appear that we may have a window here where we could see a pullback. I am not overly excited about betting against this uptrend, but I may take a small amount of short index exposure on Wednesday if I can get a favorable entry at either the open or the close. (I'm not inclined to buy into an intraday rally as strong as the market has been.)

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/15 – slightly bullish

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 – Sell Short ¼ index position @ \$431.00 LIMIT ON OPEN. If not filled on open, cancel order, and then look to enter short @ \$430.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take a small amount of short index exposure if I can get a favorable entry at the open or the close on Wednesday.

Current Open Trade Ideas

None

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