

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 23, 2022

Volume 15 Issue 160

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	1

## Tonight's Research Points

- Turnaround Tuesday odds look favorable.
- Multiple days of strongly negative breadth have the market primed for a quick reversal.
- Over the last 4 days breadth has deteriorated so much that it could very well lead to additional selling in the coming weeks.

## *Short-term Outlook*

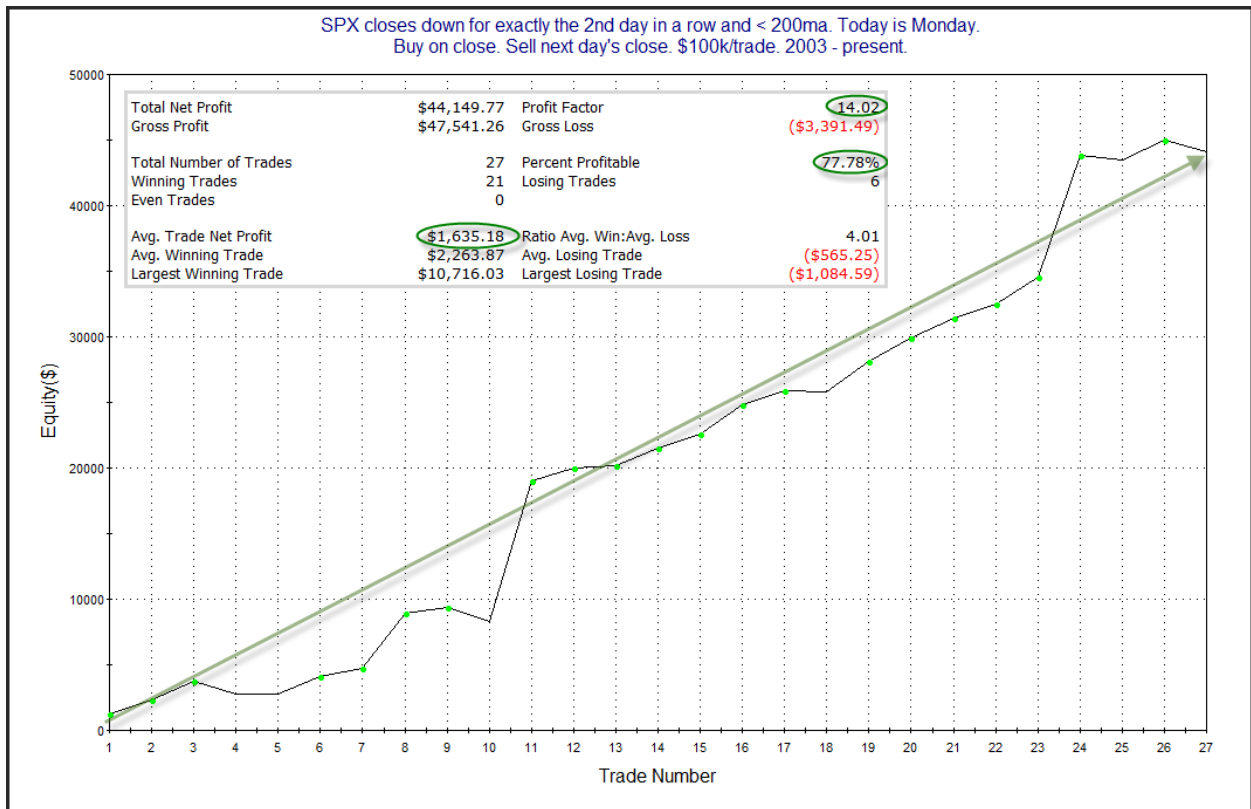
### *The Bottom Line*

The Aggregator is bullish. I like the odds for Tuesday and perhaps Wednesday. Not much visibility beyond that.

**The Evidence**

Monday saw some substantial selling. The SPX declined 2.14%, the NASDAQ dropped 2.55%, and the Russell 2000 tumbled 2.13%. Breadth was weak with the NYSE Up Issues % coming in at 17% and the Up Volume % at 24%. NYSE total volume declined some as it typically does following an options expiration Friday.

An edge that has played out for a long time and continues to, is the fact that “Turnaround Tuesday” tends to be the favorite day of the week for a pullback to bounce. Even simple 2-day pullbacks heading into Tuesdays have shown a strong tendency to bounce since 2003. This can be seen in the study below, updated from the 7/12/22 letter.



Those are very strong numbers and an impressive profit curve. I have added this study to the active list tonight.

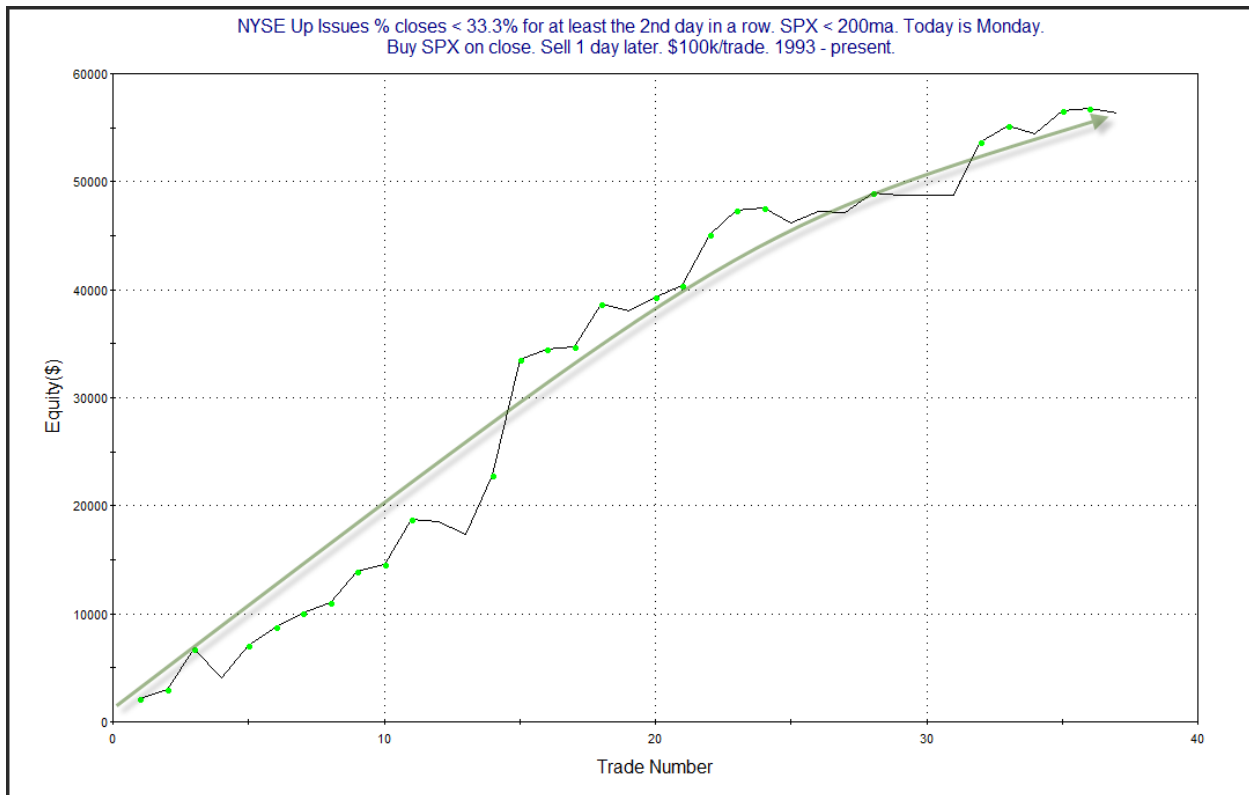
There were also several interesting studies shown in the Quantifinder that were based on the extremely weak breadth we have seen lately. Let’s take a look at a few of them. The 1<sup>st</sup> one was las seen in the 11/13/18 letter. It also incorporated the “Turnaround Tuesday” tendency. Results are updated.

NYSE Up Issues % closes < 33.3% for at least the 2nd day in a row. SPX < 200ma. Today is Monday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1993 - 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
6	72,910.76	34	26	8	76.47	18,349.11	-9,917.10	4,352.13	-5,030.57	0.87	2.81	2,144.43
5	57,459.45	37	24	13	64.86	13,733.46	-12,975.48	4,574.94	-4,026.08	1.14	2.10	1,552.96
4	65,355.90	37	25	12	67.57	14,020.11	-5,934.24	3,696.45	-2,254.61	1.64	3.42	1,766.38
3	42,379.63	37	25	12	67.57	12,304.89	-11,502.27	3,246.44	-3,231.79	1.00	2.09	1,145.40
2	52,248.58	37	27	10	72.97	9,496.89	-5,167.89	2,465.38	-1,431.67	1.72	4.65	1,412.12
1	56,400.88	37	27	10	72.97	10,716.03	-2,680.15	2,360.22	-732.50	3.22	8.70	1,524.35

All 37 instances closed above the entry price at some point in the next 4 days.

This appears to have been a powerful combination. The note at the bottom is especially interesting, with every instance seeing a bounce within 4 trading days. Most of the edge seemed to play out on day 1. The curve below assumes a 1-day holding period (Turnaround Tuesday.)

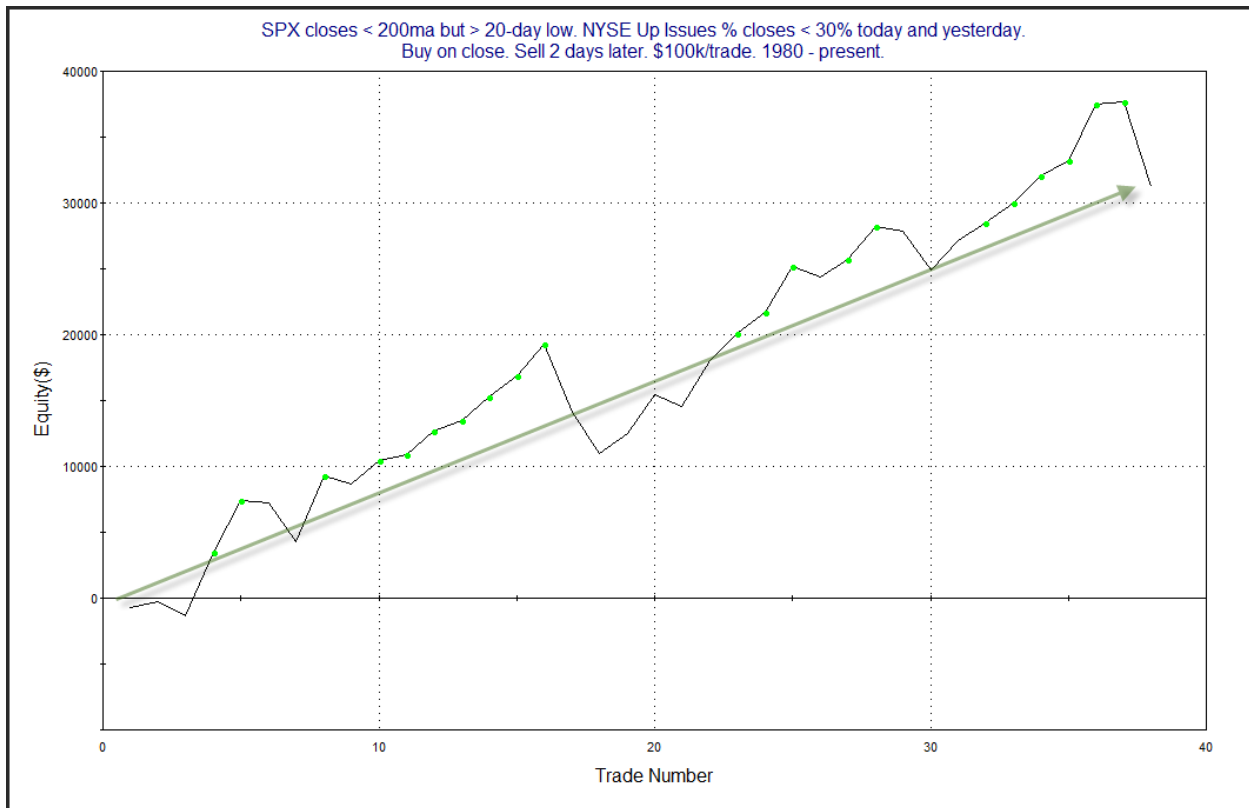


Here again we see a strong, consistent upslope that confirms the bullish tendency.

Even without the Turnaround Tuesday edge, the breadth was strong enough to trigger additional bullish evidence. The study below looks at 2-day breadth collapses that are not accompanied by a 20-day closing low. It is updated from the 4/7/22 letter.

SPX closes < 200ma but > 20-day low. NYSE Up Issues % closes < 30% today and yesterday. 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	39,016.16	36	25	11	69.44	8,234.80	-8,624.55	3,009.88	-3,293.71	0.91	2.08	1,083.78
4	17,814.15	37	22	15	59.46	8,810.76	-16,227.09	3,252.52	-3,582.76	0.91	1.33	481.46
3	32,323.79	38	25	13	65.79	8,432.34	-11,502.27	2,774.00	-2,848.17	0.97	1.87	850.63
2	31,220.66	38	26	12	68.42	5,018.23	-6,436.56	2,176.65	-2,114.35	1.03	2.23	821.60
1	32,750.30	42	29	13	69.05	9,089.88	-7,451.73	1,800.54	-1,497.33	1.20	2.68	779.77

Again, the bulk of the edge plays out almost immediately. Below is a look at the 2-day profit curve.



The last instance was a doozy, but the upward trajectory still appears to be in place. I also added this study to the short-term active list tonight.

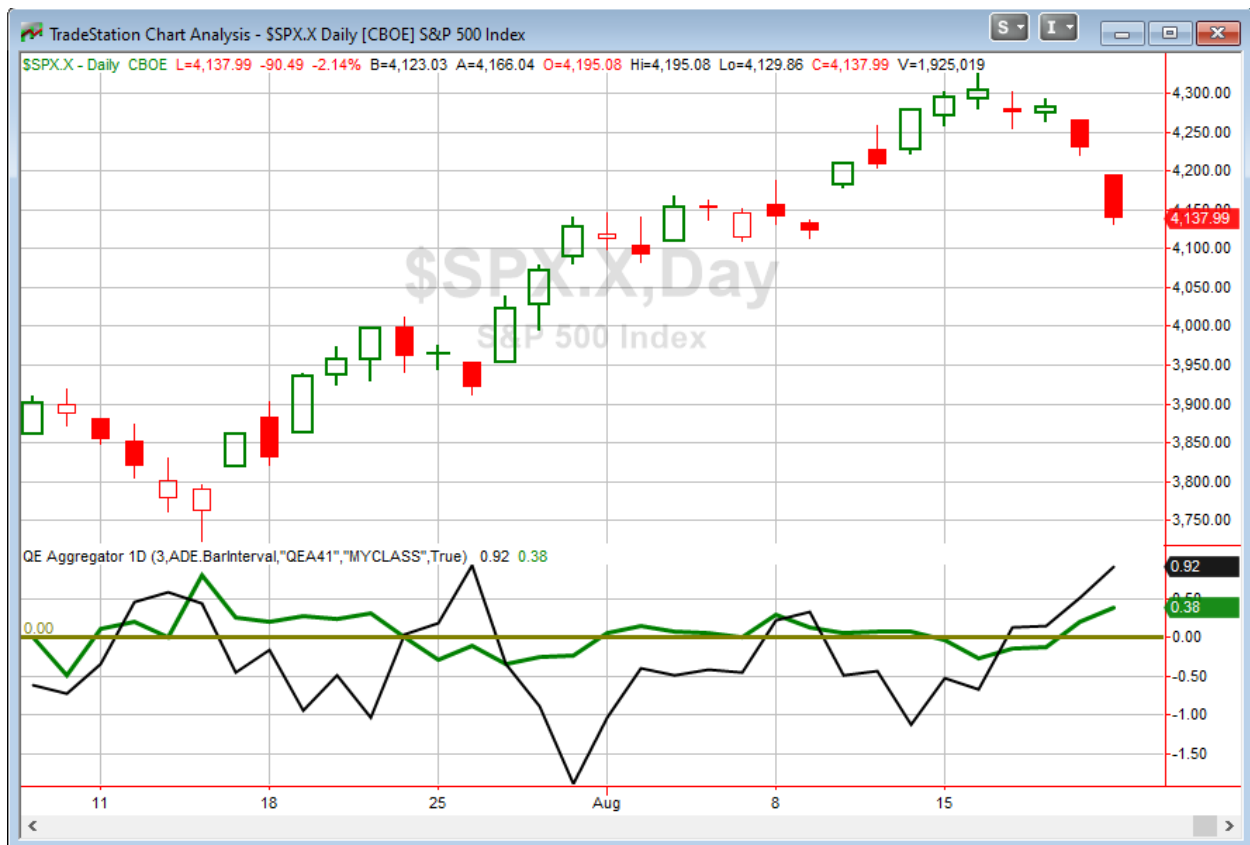
With 3 of the last 4 days showing extremely weak breadth, the 10ema of the Up Issue % has taken a dive. In the 6/15/20 letter I looked at other times this measure dropped at least 21.5% from a high

over 61.5% within 10 days. I found intermediate-term implications to be potentially concerning. Below are updated results.

The 10-day Exponential Moving Average (EMA) of the NYSE Up Issues % closes at least 21.5% below the 10-day high of the EMA. The 10-day high of the EMA was at least 61.5%. Forward SPX returns shown. 1930 - present.							
Ticker	Date/Time	Close	5-Day %Chg	10-Day %Chg	21-Day %Chg	63-Day %Chg	126-Day %Chg
\$SPX	11/16/1931	10.43	-7	-10.07	-23.97	-18.7	-47.75
\$SPX	9/12/1932	8.15	-9.94	-1.35	-15.58	-14.23	-25.28
\$SPX	6/15/1933	9.74	4.93	10.27	23.31	14.27	3.39
\$SPX	4/30/1934	10.46	-6.21	-9.66	-6.41	-17.11	-16.25
\$SPX	8/31/1934	9.15	-4.92	-7.65	-3.17	4.48	-6.67
\$SPX	1/18/1938	11.55	-2.86	-5.71	-5.89	-12.47	9.7
\$SPX	3/17/1939	12.21	-1.15	-10.07	-12.69	-7.62	7.04
\$SPX	1/12/1940	12.13	0.16	0.16	1.65	1.57	-17.72
\$SPX	9/12/1940	10.3	2.82	4.56	2.72	3.79	-2.62
\$SPX	1/21/1941	10.37	0.58	-3.86	-6.27	-10.13	0.77
\$SPX	4/9/1943	11.14	1.71	3.05	7.09	12.12	5.21
\$SPX	7/27/1943	11.92	-1.68	-1.76	-1.76	0	-1.34
\$SPX	3/29/1944	11.95	0.25	0	-0.67	8.37	6.53
\$SPX	7/18/1944	12.98	-1.39	-1.54	-0.62	0.15	4.55
\$SPX	3/9/1945	13.82	1.95	-0.58	0.29	8.03	14.91
\$SPX	10/24/1974	70.22	5.24	7.11	-1.88	3.93	23.36
\$SPX	1/14/2009	842.62	-1.79	0.3	-1.87	2.69	11.64
\$SPX	7/18/2011	1305.44	2.45	-1.42	-8.63	-6.19	-0.9
\$SPX	6/11/2020	3002.1	3.77	2.72	5.1	11.23	22.34
\$SPX	6/10/2022	3900.86	-5.79	-0.02	-2.54	6.08	6.08
		<b>Avg</b>	<b>-0.94</b>	<b>-1.28</b>	<b>-2.59</b>	<b>-0.49</b>	<b>-0.15</b>
		<b>% Wins</b>	<b>50%</b>	<b>35%</b>	<b>30%</b>	<b>60%</b>	<b>60%</b>

A few things to note in these results. First, the next 2-4 weeks have generally struggled. Second, only 5 of the 20 instances have occurred after 1945. Overall, the awful breadth we have seen the last 4 days appears to be a bit of warning. I don't find it to be an overwhelming short signal, nor do I think it completely invalidates the recent breadth thrust signals we saw. But even just rarity of such a strong flip is alarming. Like we saw with some of the short-term studies, recent action is remarkable. That can increase risk.

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



With tonight's evidence considered, the green Aggregator remained above zero. Positive readings mean expectations are for upside over the next over the next few days. Meanwhile the black Differential Line held above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation stayed long at the close.

Based on current evidence, expectations are set to remain positive on Tuesday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4257.13. That is a very sizable 2.9% above Monday's close. It seems it will likely take a multi-day rally of consolidation to work off the current oversold condition.

So the Aggregator is bullish. Breadth is oversold and Turnaround Tuesday studies look promising. But there is not any bullish short-term evidence looking out more than 2 days. And tonight's intermediate-term study suggests there could be more selling even if there is a bounce in the next couple of days. I took some long exposure near the close on Monday. I won't look to add to that just yet. I'll instead wait to see how Tuesday unfolds and what new evidence emerges before adjusting my position.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 8/22 – slightly bullish*

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

*New*

MMM – 1/3 @ \$141.59 (buy @ limit)

### ***Broad Market Large Cap CBI – 1(MMM)***

## **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.*

**MMM – Buy 1/3 Catapult position @ \$141.59 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of MMM.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	8/22/2022	\$413.35	\$413.35	0.00%	bought @ close

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