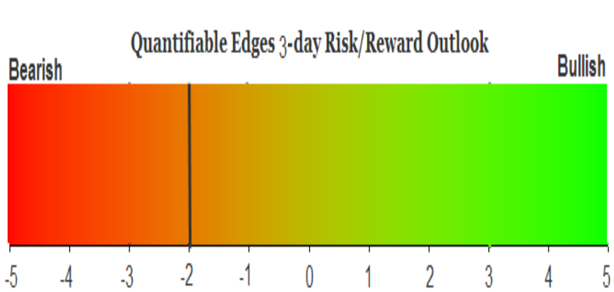
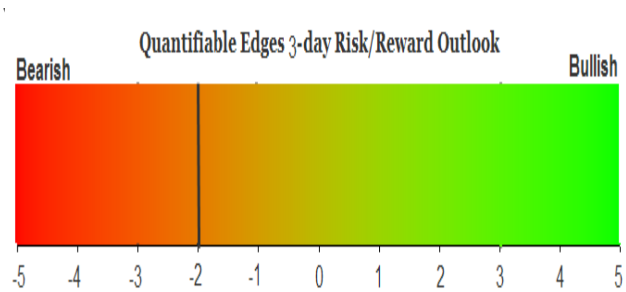
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2022 Volume 15 Issue 173

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	2

Tonight's Research Points

- The narrow-range day after pushing higher the last several is suggesting a dip.
- Opex week in September has generally done well when September has started off positively.
- The gap and go action on Friday suggests a pullback for Monday.
- The SOMA declined a moderate amount this past week. We will see numbers ramp up a bit in the coming weeks.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But taking a short entry here seems a bit more aggressive than I am comfortable with right now.

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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						
September 12, 2022	Sep opex week when Sep up so far	1-3 days	Bullish	1.30%	-0.60%	-1.20%
September 12, 2022	Up 3 days, NR7 < 200ma	1-3 days	Bearish	-2.30%	1.10%	2.15%
September 12, 2022	Gap up 0.5%-1%. Close > open < 200ma	1 day	Bearish			
Active - Long Term						
August 23, 2022	10ema breadth collapse	1 month	Bearish			
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 1, 2022	NYSE Up Issues % > 70% 3 straight days	1-80 days	Bullish	9.85%	-4.72%	-11.90%
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

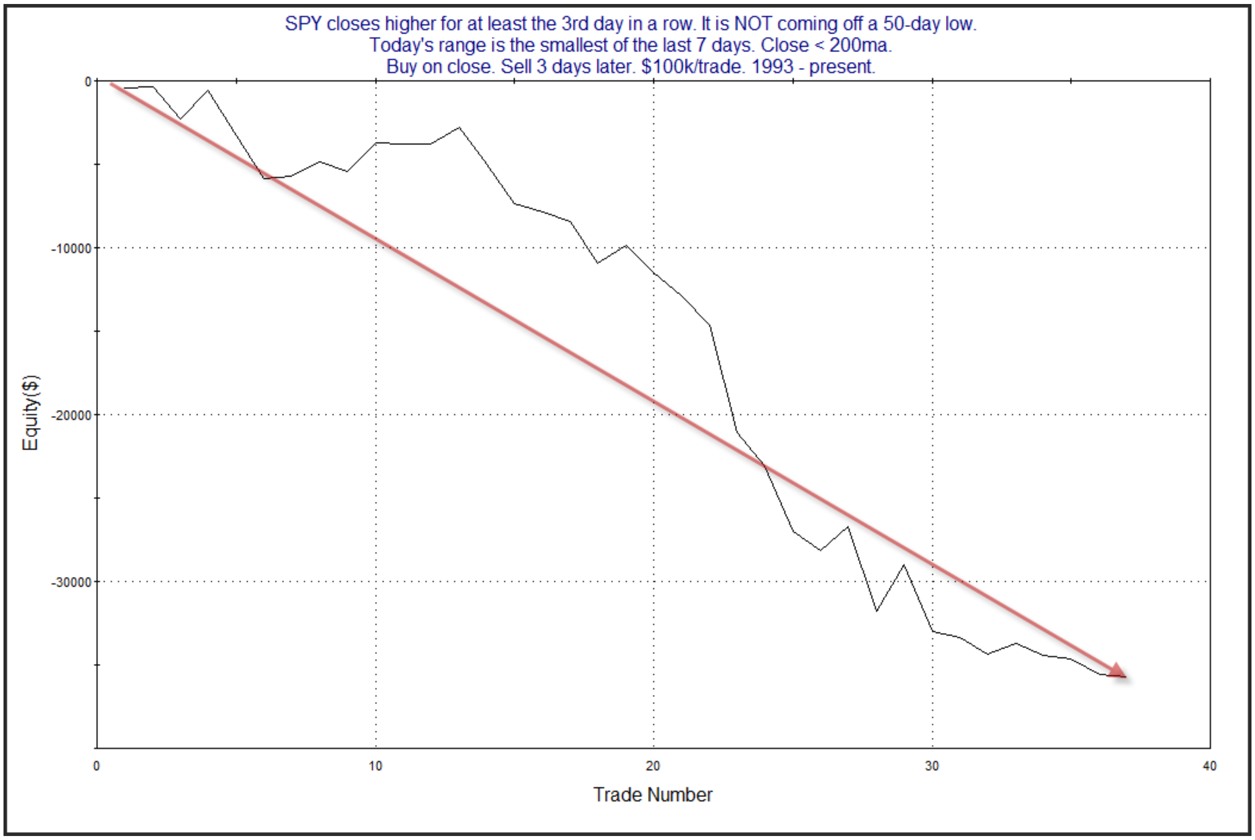
The strong bounce continued on Friday to finish out a solid week of gains. The SPX rose 1.5%, the NASDAQ climbed 2.1%, and the Russell 2000 gained 1.95%. Breadth was positive with the NYSE Up Issues % coming in at 82% and the Up Volume % at 89.7%. NYSE total volume rose some from Thursday's level.

There were several studies that noted the 3-day rally occurring below the 200ma. The study below is from the 2/6/19 letter. It was the most compelling of the bunch. It considers that the recent rally has not originated from an intermediate-term low, a long-term downtrend is in place, and that Friday was an NR7 day. An NR7 day is a day that shows the narrowest range of the last 7 days. I have updated all results.

SPY closes higher for at least the 3rd day in a row. It is NOT coming off a 50-day low.
Today's range is the smallest of the last 7 days. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

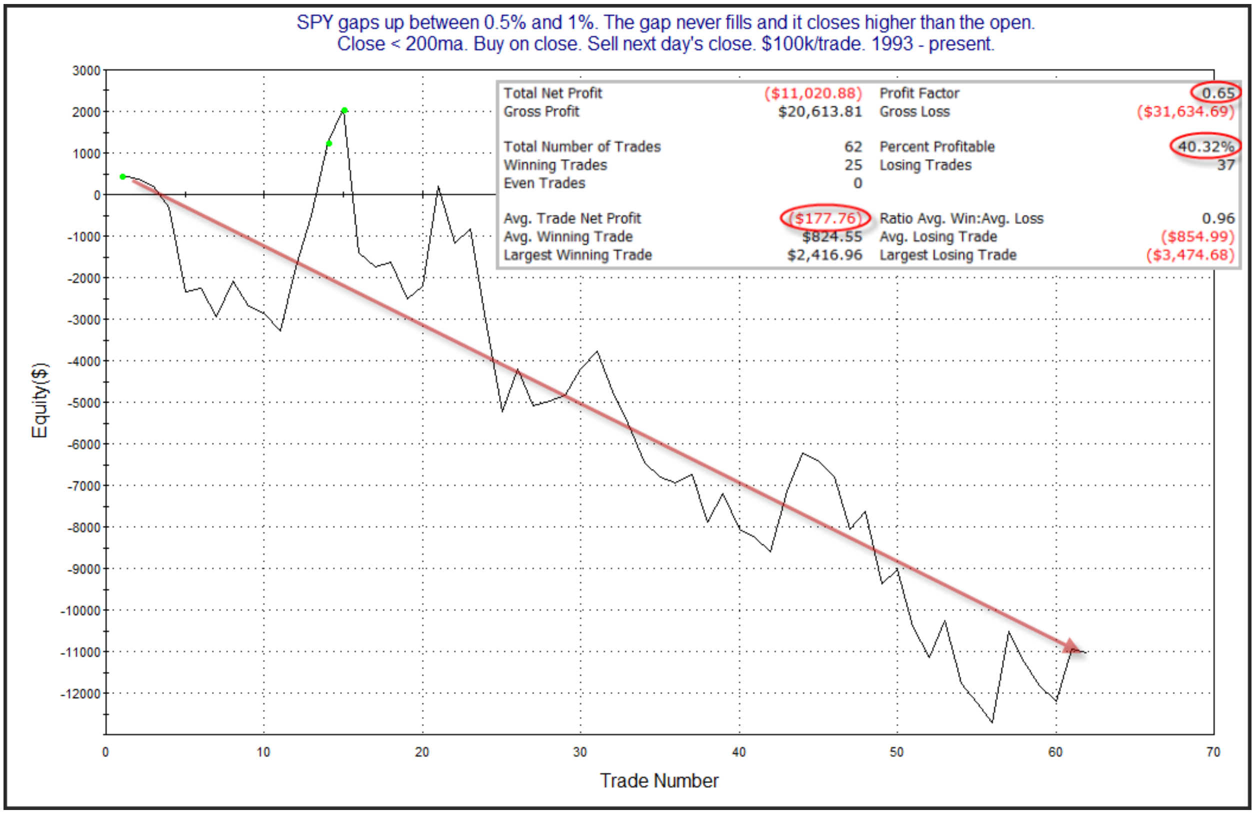
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-30,516.30	37	19	17	51.35	3,702.72	-9,046.24	1,362.81	-3,318.22	0.41	0.46	-824.76
4	-37,556.41	37	14	23	37.84	3,045.60	-7,118.52	1,228.58	-2,380.72	0.52	0.31	-1,015.04
3	-35,749.60	37	10	27	27.03	2,774.88	-6,431.25	1,150.41	-1,750.14	0.66	0.24	-966.21
2	-24,304.47	38	11	27	28.95	2,006.81	-4,018.00	802.14	-1,226.96	0.65	0.27	-639.59
1	-3,533.09	39	14	25	35.90	3,395.70	-4,580.52	1,109.29	-762.53	1.45	0.81	-90.59

As you can see the results table suggests a substantial downside edge over the next 1-3 days. Below is an equity curve using a 3-day exit strategy that shows how the edge has played out over time.



The strong, steady downslope supports the idea of a bearish inclination. I will also note that 7 of the last 8 instances, dating back to 2011, closed lower 3 days later. So the edge has not weakened at all recently like some other "overbought in a downtrend" studies have.

This next study simply considered the price action on Friday, including the unfilled up-gap and the long-term downtrend. It was last seen in the 3/31/20 letter, and is updated below.



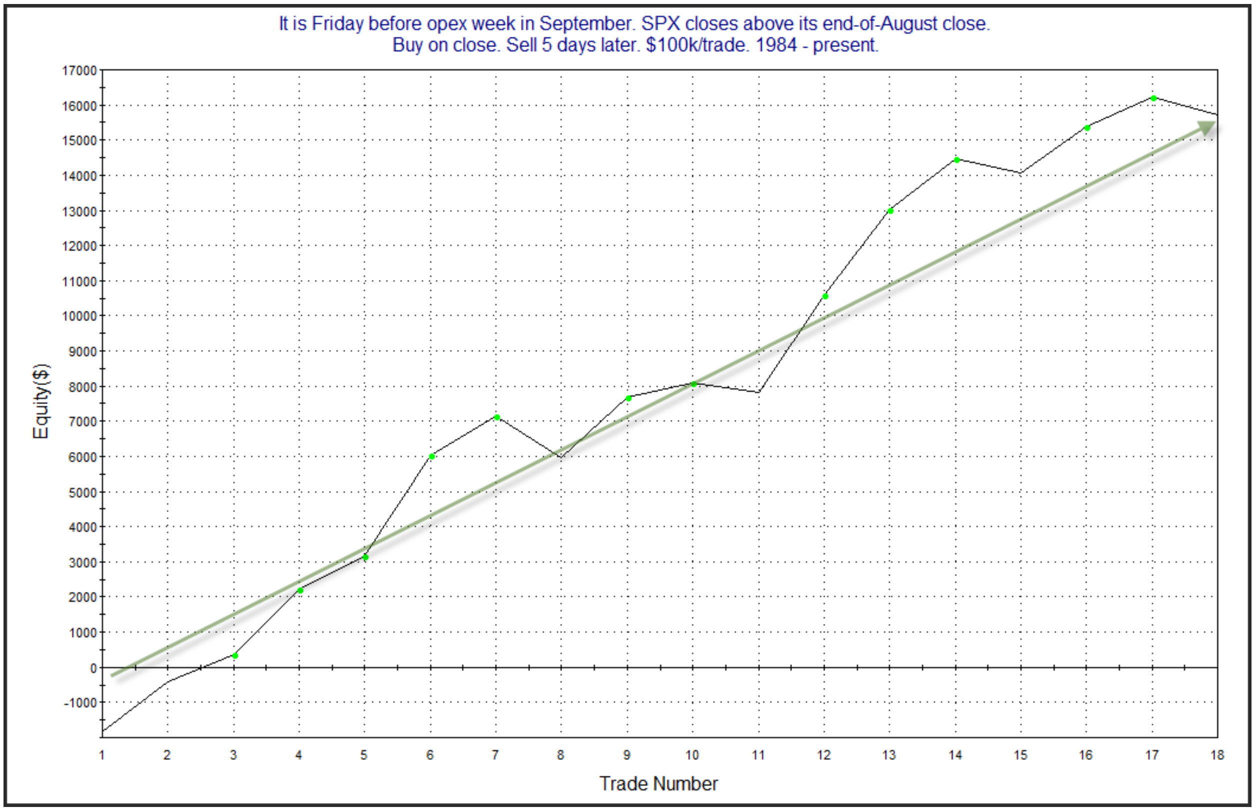
Consistency is not great, but the curve actually looks fairly compelling. I decided this study was again worth consideration.

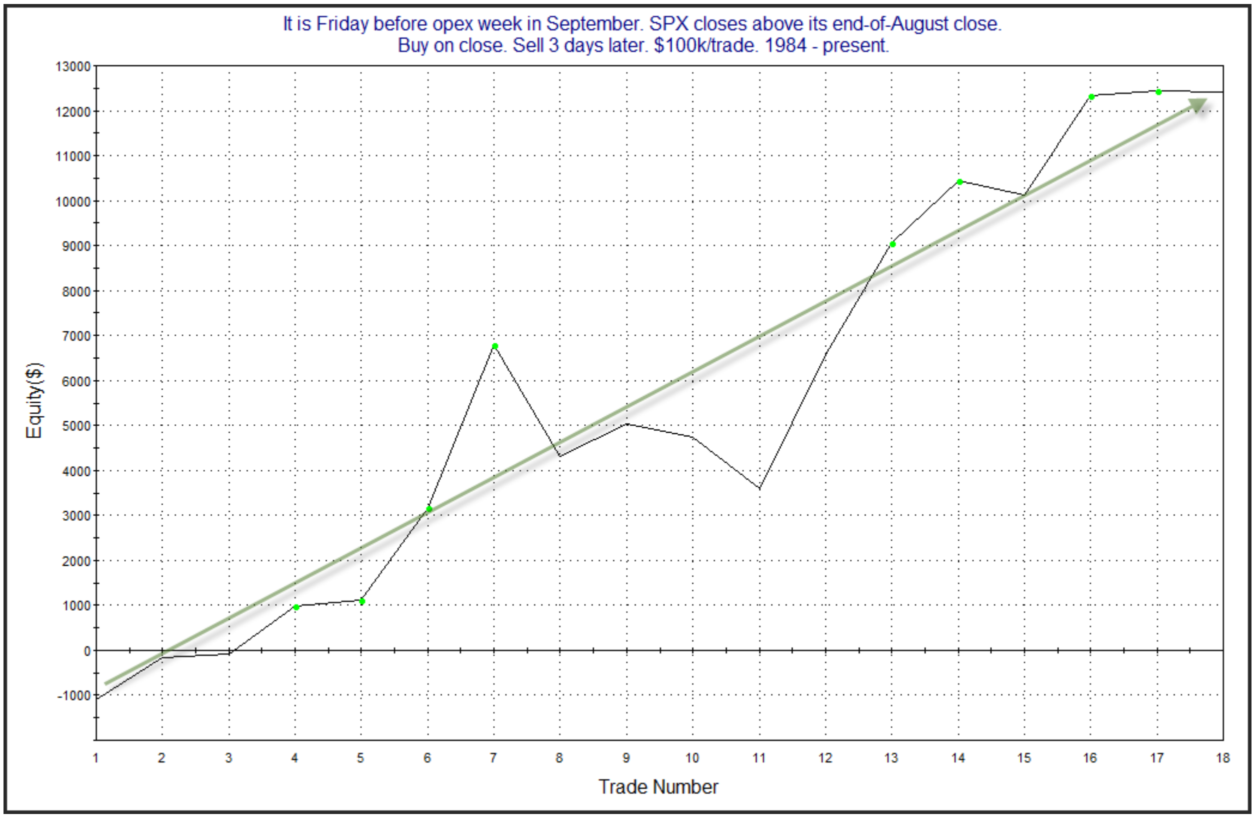
This upcoming week is options expiration. Options expiration weeks are typically pretty good week for the market. In the 9/16/19 Letter I showed that September opex has often been quite good when there has been some momentum heading into it. In that study I examined how September opex has done when it has posted gains over the first couple of weeks, like it has this year. It is updated below.

It is Friday before opex week in September. SPX closes above its end-of-August close.
Buy on close. Sell X days later. $100k/trade. 1984 - 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	15,705.72	18	13	5	72.22	2,871.72	-1,841.12	1,531.39	-840.47	1.82	4.74	872.54
4	12,380.33	18	12	6	66.67	2,528.28	-2,422.14	1,425.72	-788.05	1.81	3.62	687.80
3	12,425.38	18	12	6	66.67	3,608.55	-2,459.37	1,481.16	-891.43	1.66	3.32	690.30
2	10,117.77	18	12	6	66.67	2,836.35	-1,122.01	1,103.96	-521.62	2.12	4.23	562.10
1	3,372.83	18	9	9	50.00	2,044.35	-550.12	737.87	-363.12	2.03	2.03	187.38

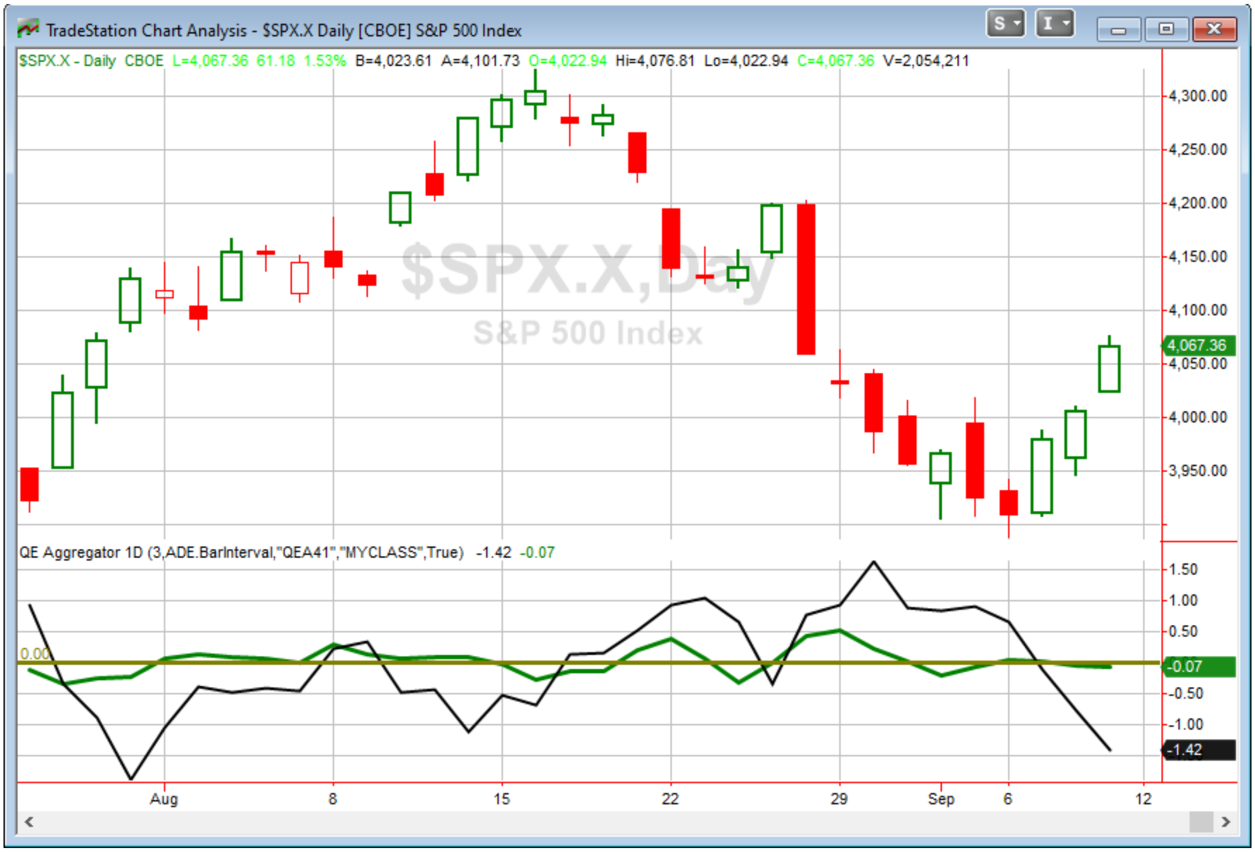
It is a few less instances than I would prefer, but the overall numbers are very strong. Below is a look at the equity curves assuming a 5-day and a 3-day holding period.





Both of these curves move nicely from lower left to upper right and provide some confidence to the bullish numbers shown in the table. I have added it to the Active List tonight as a 3-day edge.

I have updated the Aggregator chart below.



With this weekend's new 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 also 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 list of active studies, expectations are slated to remain negative on Monday. Of course this could easily change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3978.01. That is a sizable 2.2% below Friday's close. Therefore, SPX will need to close down at least 2.2% on Monday to flip from overbought to oversold vs recent expectations. More likely, it will take a multi-day pullback or consolidation to work off the overbought condition.

So the Aggregator is bearish. Evidence is not overwhelming, but it is hinting at a downside edge. And the market is clearly overbought on a short-term basis. So reward/risk appears to favor the bears. Aggressive and nimble traders could certainly look to play for a move lower. I am a little wary with evidence mixed, volatility high, and the intermediate-term outlook neutral. Also making me a bit more cautious is the CPI release due out on Tuesday before the market open. The last 4 CPI release dates have seen SPX's true range average 99.22 points. That is a large number. For comparison, all other days since the 5/11/22 CPI release have seen an average true range of 76.86 points. CPI used to be a non-event. But it is now a well-watched number and volatility as measured by true range, is 29% higher on these days over the last several months. With this in mind, I am not inclined to step in front of that Tuesday morning release with a marginal short setup on Monday. More aggressive traders certainly could. Just keep in mind that the CPI release on Tuesday is at 8:30am EST – an hour before the NYSE open.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/12 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in Lesson 8. Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in Lesson 11, Course Downloads. (You must go through the course first in order to access the Downloads.) *This week all 3 combo systems remained "flat".*

The stock indices all had a bounce-back week after 3 down weeks. The SPX rose 3.65%, the NASDAQ gained 4.1%, and the Russell 2000 climbed 4.0% on the week. But bonds again struggled. The US Aggregate Bond ETF (AGG) lost 0.6%, while TLT, the 20-year Treasury Bond ETF dropped 1.7%. No new studies emerged in the last few days with intermediate-term implications.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of

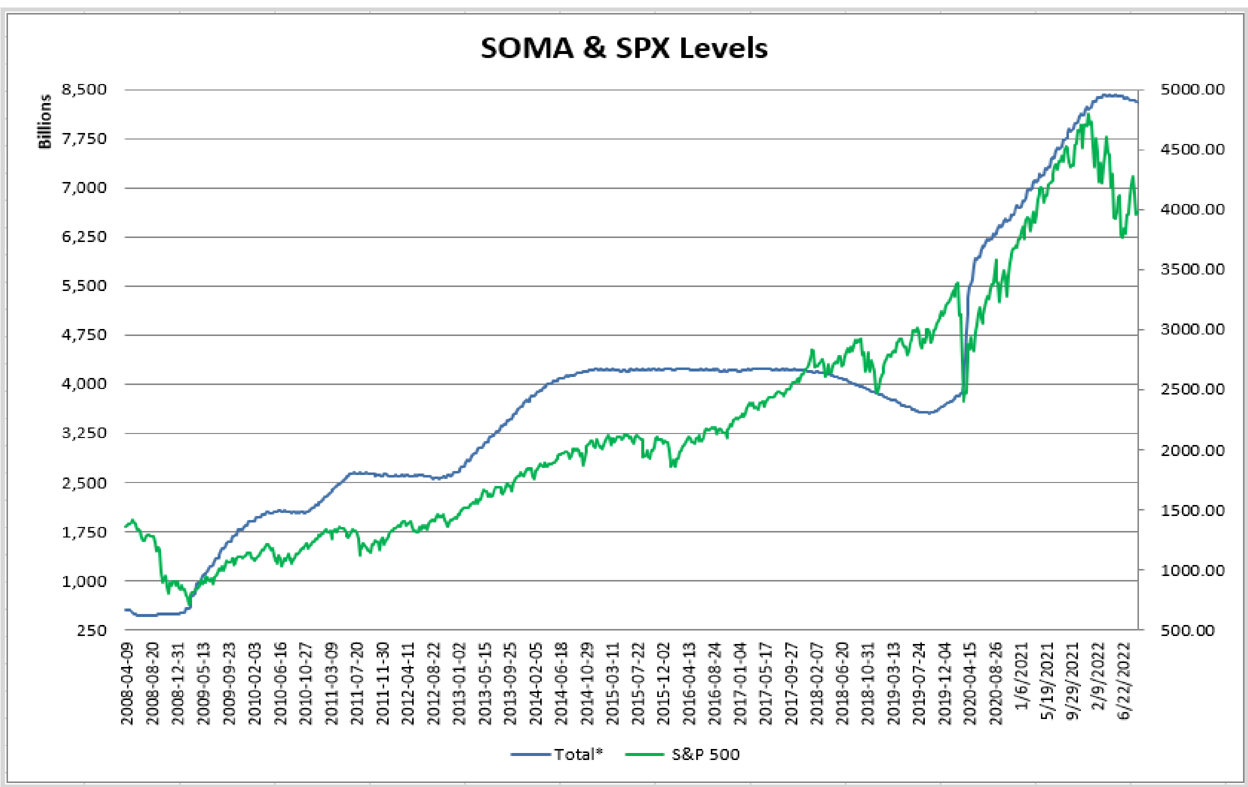
Previous September 7, 2022

Posted September 8, 2022 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	321,820,405.1
US Treasury Notes and Bonds (Notes/Bonds)	4,863,149,800.9
US Treasury Floating Rate Notes (FRNs)	29,924,645.1
US Treasury Inflation-Protected Securities (TIPS)*	375,760,681.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,700,612,596.2
Agency Commercial Mortgage-Backed Securities***	8,678,673.4
Total SOMA Holdings	8,302,293,802.3
Change From Prior Week	-4,220,595.1

This week the SOMA declined by a mild $4.2 billion. Below is an updated SOMA/SPX chart looking back to 2008.



The largest expansion in the history of the SOMA is over. The blue line is now clearly heading lower. We will continue to see that happen over the next several weeks and months. The pace of the decline is expected to increase now that it is September. To this point, QT has been very mild. Overall, the Fed is no friend to the market, and they won't be for as long as they are fighting inflation and the economy appears stable. More rates hikes and more QT are on the way. Based on the CME Fedwatch tool, the market is pricing in a 91% chance of a 75-point rate increase at the Fed meeting on the 21st.

This week's action did not really change anything from an intermediate-term perspective. Evidence remains split between bullish and bearish. The bulls still have several breadth-thrust studies from early August on the intermediate-term active list. Such strong breadth has historically suggested strong liquidity and more gains to come. But there is also a "breadth collapse" study that triggered during the mid-August swoon. Bears can also point to Fed policy, poor seasonality, and a lagging NASDAQ to build their case. I am going to maintain my neutral stance. I really have no desire to get aggressive in either direction with the crosswinds and the volatility the market is experiencing. I'll remain fairly cautious when considering both long and short positions.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

T – 1/3 @ $17.19 (bought @ limit)

T – 1/3 @ $16.79 (bought @ limit)

Broad Market Large Cap CBI – 2(T-2)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
T(1/3)	9/6/2022	$17.19	$17.03	-0.93%	Catapult
VZ(1/3)	9/6/2022	$41.30	$42.24	2.28%	*sell on open*
T(1/3)	9/7/2022	$16.76	$17.03	1.61%	Catapult
VZ(1/3)	9/7/2022	$41.10	$42.24	2.77%	*sell on open*
VZ(1/3)	9/8/2022	$41.00	$42.24	3.02%	*sell on open*