

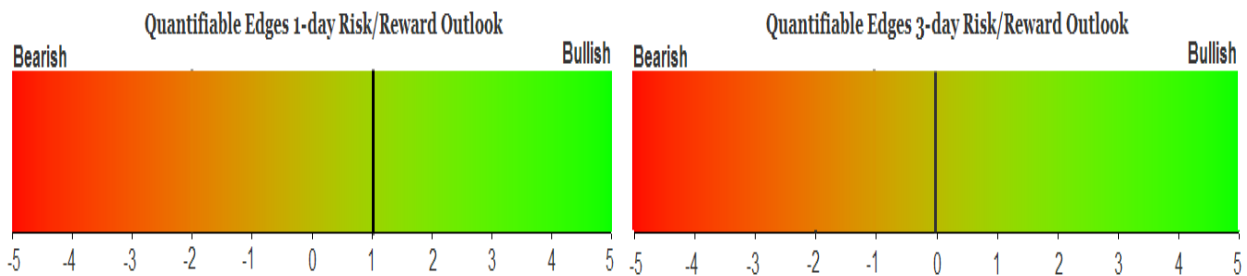
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 14, 2022

Volume 15 Issue 175

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 3%+ drops from short-term highs that don't make short-term lows are often followed by additional selling in the coming days.
- Similar market setups with less than 5% Up Volume have often seen a 1-day bounce.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That is where I am at as well.

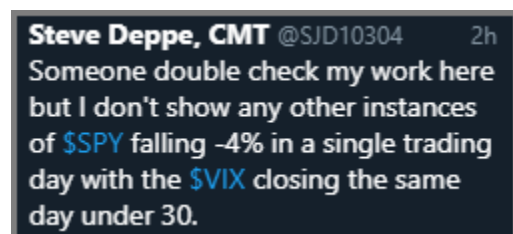
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 14, 2022	3% drop from 5-hi. No 10-lo < 200ma	1-5 days	Bearish	-5.20%	2.30%	5.50%
September 14, 2022	5% Up Volume. No 10-low. < 200	1 day	Bullish			
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
September 13, 2022	NASDAQ up 4 < 200ma	1-2 days	Bullish			
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%

The Evidence

The CPI report came out on Tuesday, and the market did not like it. The SPX crumbled 4.3%, the NASDAQ dove 5.2%, and the Russell 2000 dropped 3.9%. Breadth was extremely weak with the NYSE Up Issues % coming in at 11% and the Up Volume % at 4.6%. NYSE total volume rose from Monday’s level.

The selling on Tuesday was extreme. It was the biggest drop for the SPX since 6/11/2020, and the biggest drop for the NDX since 3/16/2020. So bulls got beat up pretty badly. I looked at quite a few studies this evening based on large moves down like we saw on Tuesday. Many of those studies showed dates during the 2001, 2008, and 2020 bear markets or other highly volatile market regimes. I will share some of them below. Interestingly, the VIX closed at just 27 on Tuesday. Steve Deppe on Twitter noted the following.



I checked. He is right. Prior to today, the lowest VIX close for any day that SPX closed down over 4% was 3/12/2001 (30.32). The next lowest was 5/18/22 (30.96). Both are well above Tuesday’s 27.27.

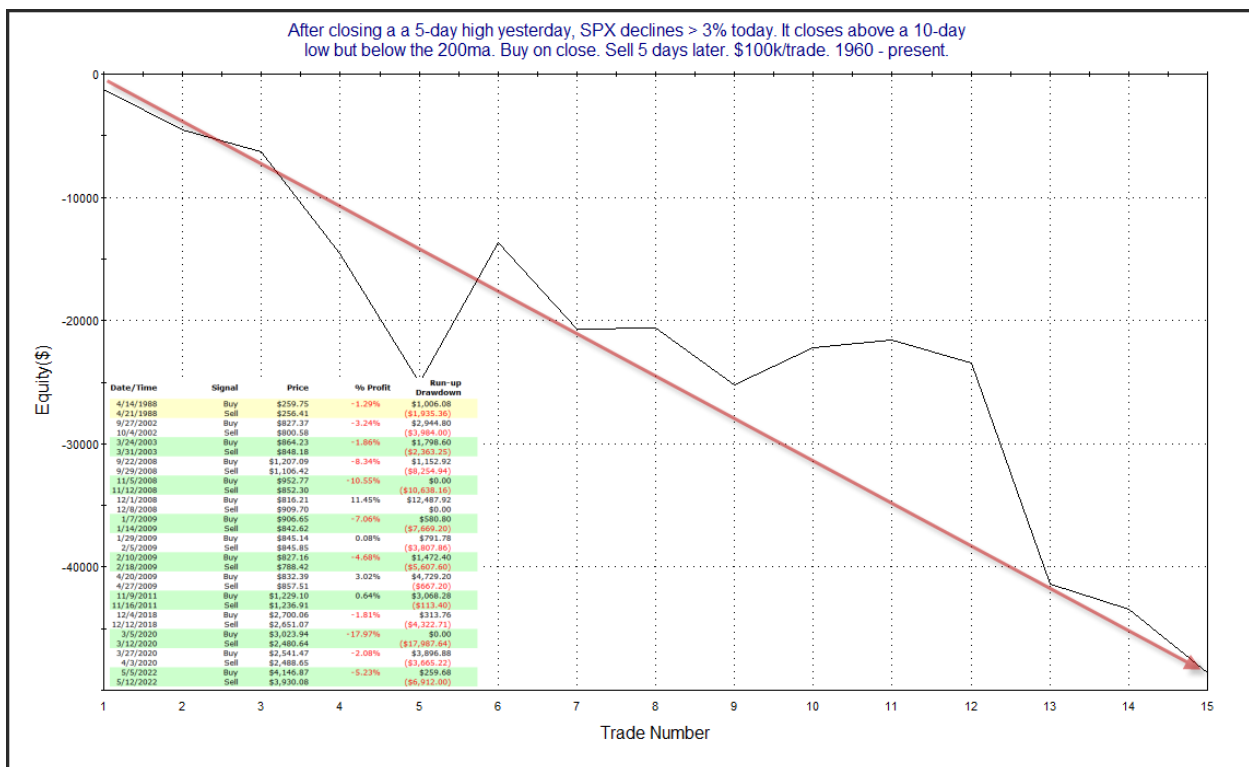
When looking at the likely aftermath of large 1-day drops like we saw on Tuesday, there is one factor that I believe is more important than any other. That is the position of the market. Did the

drop come in and uptrend or a downtrend? Was it at a short-term high or short-term low area before the drop? This is something I rarely see discussed elsewhere, but my research has shown it makes a huge difference with regards to whether the selling is exhaustive or whether it is the start of a further decline. And coming from a short-term high is generally not a good thing. Not making a short-term low is also a potential problem. It is when strong selloffs occur after the market is already oversold that the likelihood of a bounce increases greatly. The study below is a combination of a few studies that appeared in the Quantifinder on Tuesday. It describes the current setup.

After closing a a 5-day high yesterday, SPX declines > 3% today. It closes above a 10-day low but below the 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	-48,606.93	15	4	11	26.67	11,405.78	-17,928.90	3,784.14	-5,794.86	0.65	0.24	-3,240.46
4	-21,099.65	15	4	11	26.67	7,302.92	-9,324.48	3,554.33	-3,210.63	1.11	0.40	-1,406.64
3	-13,814.15	15	6	9	40.00	3,539.22	-4,676.43	1,409.47	-2,474.55	0.57	0.38	-920.94
2	-7,115.27	15	7	8	46.67	6,652.66	-9,153.54	2,367.78	-2,961.22	0.80	0.70	-474.35
1	-46.27	15	8	7	53.33	3,977.20	-4,980.56	1,578.17	-1,810.23	0.87	1.00	-3.08

Based on the stats table, it appears similar selloffs have often been followed by more selling. Below is the 5-day curve along with the list of instances.



That is a strong move from upper left to lower right. This supports the idea of a bearish edge.

There was another study that utilized the extremely low breadth reading in looking at whether SPX was likely to bounce. It is updated from the 9/2/15 letter.

NYSE Up Vol % < 5%. SPX closes > 10-day low but < 200ma. Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$18,915.76	Profit Factor	4.51
Gross Profit	\$24,309.25	Gross Loss	(\$5,393.49)
Total Number of Trades	16	Percent Profitable	81.25%
Winning Trades	13	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,182.23	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$1,869.94	Avg. Losing Trade	(\$1,797.83)
Largest Winning Trade	\$4,244.90	Largest Losing Trade	(\$3,162.00)

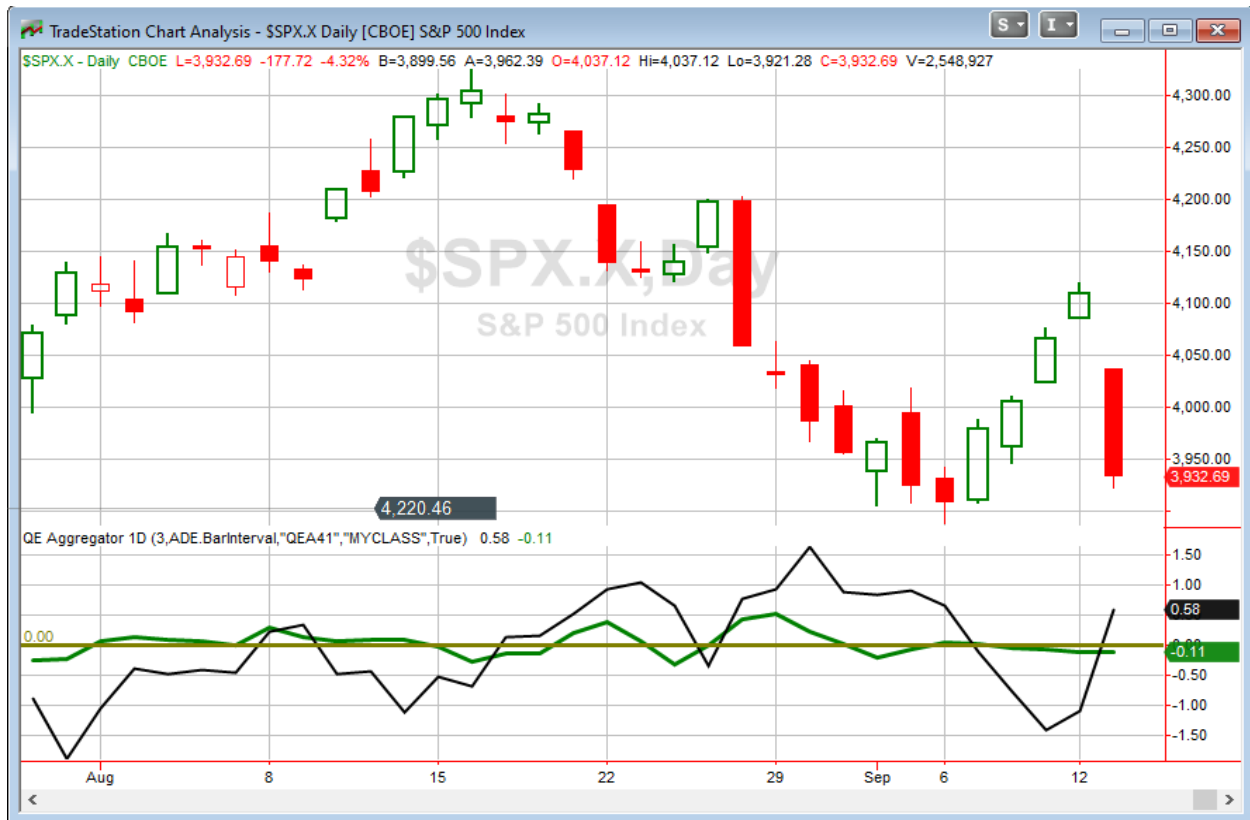
The numbers here suggest a strong tendency for the market to rebound some the next day. Below is the full list of instances.

NYSE Up Vol % < 5%. SPX closes > 10-day low but < 200ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/28/2007	Buy	\$1,432.36	2.19%	\$2,166.60
8/29/2007	Sell	\$1,463.76		\$0.00
10/15/2008	Buy	\$907.84	4.25%	\$4,385.70
10/16/2008	Sell	\$946.43		(\$4,621.10)
11/6/2008	Buy	\$904.88	2.89%	\$2,923.80
11/7/2008	Sell	\$930.99		\$0.00
12/1/2008	Buy	\$816.21	3.99%	\$4,188.26
12/2/2008	Sell	\$848.81		\$0.00
2/10/2009	Buy	\$827.16	0.80%	\$1,327.20
2/11/2009	Sell	\$833.74		(\$583.20)
3/30/2009	Buy	\$787.53	1.31%	\$2,891.70
3/31/2009	Sell	\$797.87		\$0.00
4/20/2009	Buy	\$832.39	2.13%	\$2,124.00
4/21/2009	Sell	\$850.08		(\$667.20)
7/16/2010	Buy	\$1,064.88	0.60%	\$913.26
7/19/2010	Sell	\$1,071.25		(\$350.61)
8/18/2011	Buy	\$1,140.65	-1.50%	\$1,208.43
8/19/2011	Sell	\$1,123.53		(\$1,618.20)
9/2/2011	Buy	\$1,173.97	-0.74%	\$0.00
9/6/2011	Sell	\$1,165.24		(\$2,876.40)
9/21/2011	Buy	\$1,166.76	-3.19%	\$0.00
9/22/2011	Sell	\$1,129.56		(\$4,465.90)
9/28/2011	Buy	\$1,151.06	0.81%	\$2,133.66
9/29/2011	Sell	\$1,160.40		(\$957.18)
11/9/2011	Buy	\$1,229.10	0.86%	\$1,386.72
11/10/2011	Sell	\$1,239.70		(\$113.40)
12/8/2011	Buy	\$1,234.35	1.69%	\$1,935.90
12/9/2011	Sell	\$1,255.19		\$0.00
12/28/2011	Buy	\$1,249.64	1.07%	\$1,112.00
12/29/2011	Sell	\$1,263.02		\$0.00
9/1/2015	Buy	\$1,913.85	1.83%	\$1,823.12
9/2/2015	Sell	\$1,948.86		\$0.00

It has been 7 years since the last instance. Aside from those 3 instances in August and September of 2011, the tendency to bounce the next day has been strong and steady. I have included this study on the active list tonight.

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 over the next few days. Meanwhile the black Differential Line shot 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 turned flat at the close.

Based on the current list of active studies, expectations are slated to remain negative on Wednesday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4057.02. That is a sizable 3.2% above Tuesday's close. Therefore, SPX will need to close up at least 3.2% on Wednesday to flip from oversold to overbought vs recent expectations. More likely, it will take a multi-day rally or consolidation to work off the oversold condition.

So the Aggregator is neutral. The market has quickly become oversold. But the move from overbought to oversold happened in just one day. So are we looking at just a quick scare? Or is there more downside coming in the days and weeks ahead? The answer is not entirely clear. What is clear is that the environment is somewhat dangerous. Therefore, I'll want to have a strongly favorable reward/risk setup before putting new capital at risk. I don't see that here and now. So I will wait until I do.

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

The intermediate-term outlook was last updated in the 9/12/22 Letter. It can be found in the [most recent weekly letter](#) on the website.

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.

No fill on last night's trade idea due to the large gap down. No new trade ideas for tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
T(1/3)	9/6/2022	\$17.19	\$17.18	-0.06%	<i>sold on open</i>
T(1/3)	9/7/2022	\$16.76	\$17.18	2.51%	<i>sold on open</i>

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