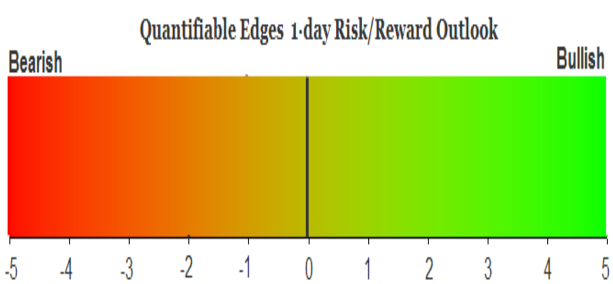
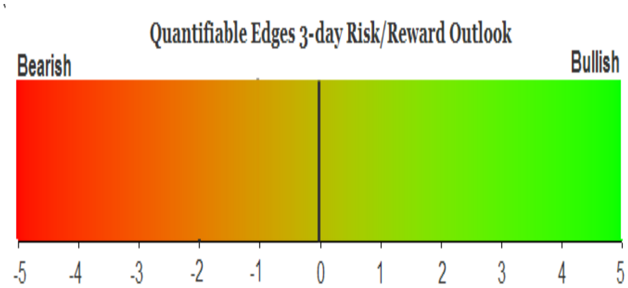
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2022 Volume 15 Issue 178

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The "weakest week" edge may be mostly played out with SPX closing at a low on Friday.
- The large unfilled gap down would suggest an upside edge during an uptrend. Not so much during a downtrend.
- Some more selling over the next couple of days could set up for a bullish Fed Day.
- The SOMA rose this pas week. We should see a significant drop over the next few weeks.

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 19, 2022	5-day low heading into Weakest Week	1 day	Bearish			
September 14, 2022	3% drop from 5-hi. No 10-lo < 200ma	1-5 days	Bearish	-5.20%	2.30%	5.50%
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			

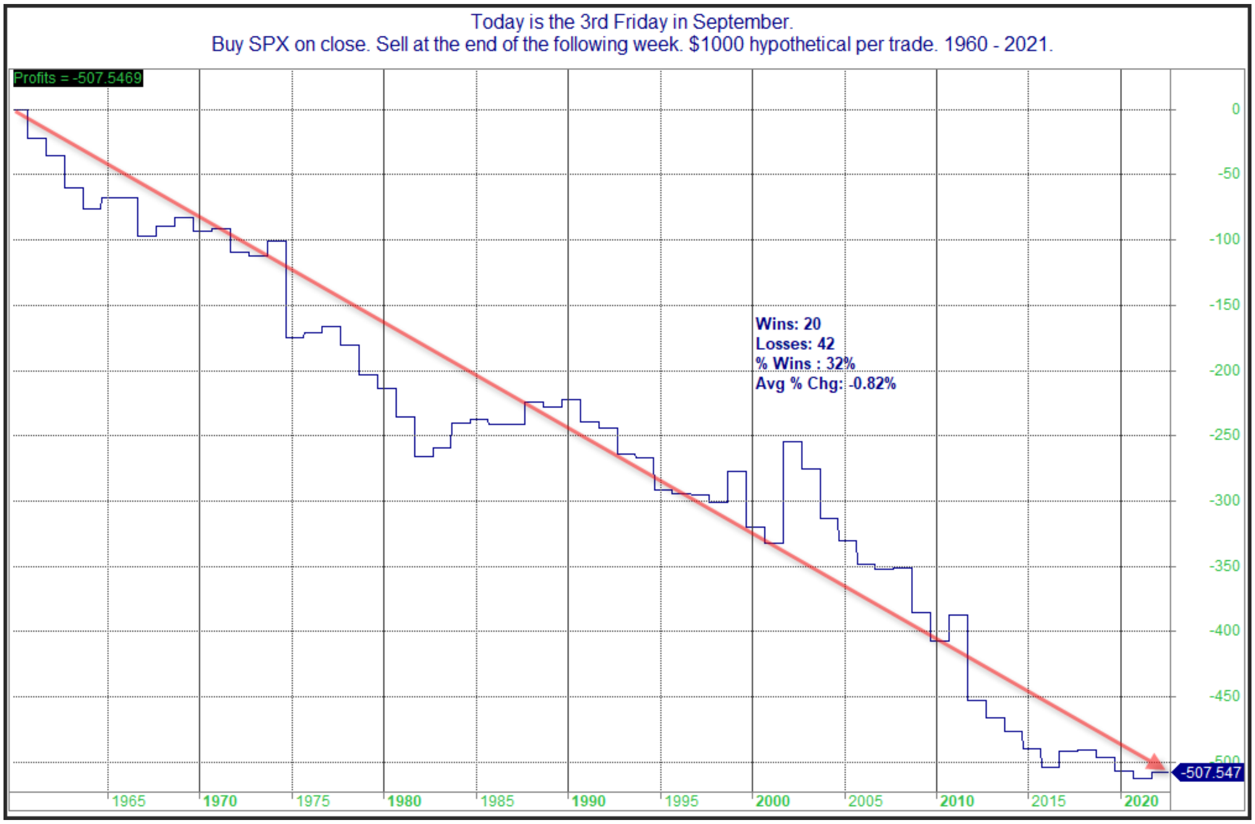
The Evidence

Friday saw a big gap down and poor closing numbers despite some rallying in the afternoon. The SPX finished down 0.7%, the NASDAQ lost 0.9%, and the Russell 2000 fell 1.5%. Breadth was negative with the NYSE Up Issues % coming in at 27% and the Up Volume % at 19%. NYSE total volume spiked higher as it often does on opex Friday.

Well, there has been a lot of selling the last few days and we are headed into the “Weakest Week”. As a reminder, below is an excerpt from a couple of weekends ago about the week after the 3rd Friday in September…

September has a reputation for the being the worst month of the year for the stock market. And that is deserved. Since 1960, the average September return is -0.67%. The only other month with a negative average return is June, which was a more moderate average return of -0.13%. The best month over this timeframe has been November, which averaged a gain of 1.56%. What most people don’t realize about September is that the struggles can all be attributed to just 1 week. Years ago I dubbed it the “Weakest Week”, and the weakness has continued to persist. The week I am referring to is the week following the 3rd Friday in September.

Many people will note that the 3rd Friday of the month is when monthly options expire. And there are seasonal tendencies that occur around this. The week of options expiration is often bullish for the market and the week following often sees some of those gains given back. But what is interesting about the week after the 3rd Friday in September is that the bearish bias has been in place since well before options expiration was even an event. (S&P Index options began trading in 1984.) The bearish tendency can be seen in the chart below, which looks back to 1960. (Data from Norgate Data. Chart produced in Amibroker.)



You'll note the average return this particular week has been -0.82% since 1960. I already mentioned the average September return over the same period was -0.67%. So all the net losses and more are attributable to this one particular week. The downward persistency of the curve shows that the bearish tendency has been quite consistent over the last 62 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying at the close of the 3rd Friday in September and then selling X days later from 1990 – 2020. (Date source: Tradestation)

Today is the 3rd Friday in September. Buy SPX on close. Sell X days later. $100k/trade. 1990 - 2021.												
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	-28,348.88	32	7	25	21.88	7,739.42	-6,525.56	1,999.70	-1,693.87	1.18	0.33	-885.90
4	-30,127.06	32	7	25	21.88	5,439.43	-7,088.90	1,609.06	-1,655.62	0.97	0.27	-941.47
3	-23,658.84	32	7	25	21.88	4,508.00	-5,455.74	1,702.58	-1,423.08	1.20	0.33	-739.34
2	-19,571.51	32	9	23	28.13	4,786.41	-5,283.52	880.33	-1,195.41	0.74	0.29	-611.61
1	-12,456.73	32	8	24	25.00	3,877.95	-3,791.21	872.04	-809.71	1.08	0.36	-389.27

2001 & 2017 were the only years that SPX failed to close below its entry price at some point in the next week.

The bearish tendency appears quite strong. Three, four, and five days later the SPX has been lower over 78% of the time. I note beneath the table that the only instances ***not*** *to post a lower close at some point during the following week were in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but it only rose 2 points, so it was not much of a victory for the bulls.*

So we are headed into seasonal weakness. But I have discussed many times over the years that seasonality is typically greatly enhanced by price action, and often is less impactful when price action is not supportive. For short-term studies like this you generally do not want to see weakness ahead of the seasonal weakness (or strength ahead of seasonal strength). That could be a sign of traders know the seasonal edge and therefore front-running it. This in itself could simply mean selling came early and the potential downside is already realized. Typically, overbought heading into seasonal weakness or oversold heading into seasonal strength is a better setup. Friday saw SPX close at a new low heading into the Weakest Week. So I ran a test to look at other instances where SPX closed at a 5-day low on the Friday before the Weakest Week. See below.

SPX closes at a 5-day low on opex Friday in September. 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	5,428.05	9	4	5	44.44	7,739.42	-1,691.67	2,542.60	-948.47	2.68	2.14	603.12
4	743.55	9	4	5	44.44	5,439.43	-3,325.56	2,026.63	-1,472.60	1.38	1.10	82.62
3	-478.90	9	3	6	33.33	4,247.72	-2,476.50	2,206.33	-1,182.98	1.87	0.93	-53.21
2	875.80	9	2	7	22.22	4,786.41	-1,733.60	3,128.65	-768.78	4.07	1.16	97.31
1	-4,971.20	9	1	8	11.11	3,877.95	-2,160.33	3,877.95	-1,106.14	3.51	0.44	-552.36

Other than the 1-day results, there no longer appears to be a bearish edge. Below is the list of instances along with their 4-day returns.

SPX closes at a 5-day low on opex Friday in September.
Buy on close. Sell 4 days later. $100k/trade. 1984 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/21/1984	Buy	$165.67	0.78%	$922.59
9/27/1984	Sell	$166.96		($735.66)
9/18/1987	Buy	$314.86	1.54%	$2,266.55
9/24/1987	Sell	$319.71		($1,959.06)
9/21/1990	Buy	$311.32	-3.33%	$0.00
9/27/1990	Sell	$300.96		($3,922.62)
9/17/1993	Buy	$458.83	-0.24%	$232.19
9/23/1993	Sell	$457.74		($1,996.40)
9/15/2000	Buy	$1,465.78	-1.14%	$135.32
9/21/2000	Sell	$1,449.05		($2,368.44)
9/21/2001	Buy	$965.80	5.47%	$5,612.47
9/27/2001	Sell	$1,018.61		$0.00
9/20/2019	Buy	$2,992.07	-0.48%	$525.03
9/26/2019	Sell	$2,977.62		($1,293.93)
9/18/2020	Buy	$3,319.47	-2.20%	$116.40
9/24/2020	Sell	$3,246.59		($3,300.60)
9/17/2021	Buy	$4,432.99	0.36%	$713.02
9/23/2021	Sell	$4,448.98		($2,795.76)

One thing to note above is that while the total instances are quite low, 2022 is now the 4th year in a row that this study triggered. I believe I first published info on the Weakest Week back in 2011. At that time, I had not seen anyone else write about it. The last few years, I have seen many, many people talk about it. I'm not saying people copied me, but I am saying that there seem to be very many people aware of it in recent years. So perhaps it should not be a surprise that we have seen selling in advance of it as traders try and sell ahead of the seasonal weakness. Anyway, while I like being able to utilize Weakest Week studies, I am not inclined to include it this year, except as a 1-day edge.

It is also notable that SPY had a large gap down on Friday, and it came after SPY was already at a short-term low. This triggered the study below, from the 11/21/18 subscriber letter. All stats are updated.

After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap.
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	62,328.75	33	24	9	72.73	9,708.30	-6,128.64	3,433.97	-2,231.83	1.54	4.10	1,888.75
4	31,830.65	33	23	10	69.70	6,132.78	-15,473.88	2,706.65	-3,042.22	0.89	2.05	964.57
3	22,924.75	34	22	12	64.71	5,630.94	-13,375.08	2,449.87	-2,581.04	0.95	1.74	674.26
2	6,766.44	34	18	16	52.94	6,435.36	-6,878.34	2,221.89	-2,076.72	1.07	1.20	199.01
1	11,477.02	36	20	16	55.56	5,764.38	-4,474.26	1,706.93	-1,416.35	1.21	1.51	318.81

First, I will note that SPY went ex-div on Friday, so the gap down looked larger than it was. But even if you dividend-adjust SPY pricing, the gap lower still would have exceeded 1% and the gap still never would have filled. So Friday qualifies no matter how you look at it. The results above seem to suggest a decent upside edge over the next week. But what the study does not include is a long-term filter. So I broke it down by above/below the 200ma today to see how that impacted the results. Those results can be seen in the two tables below.

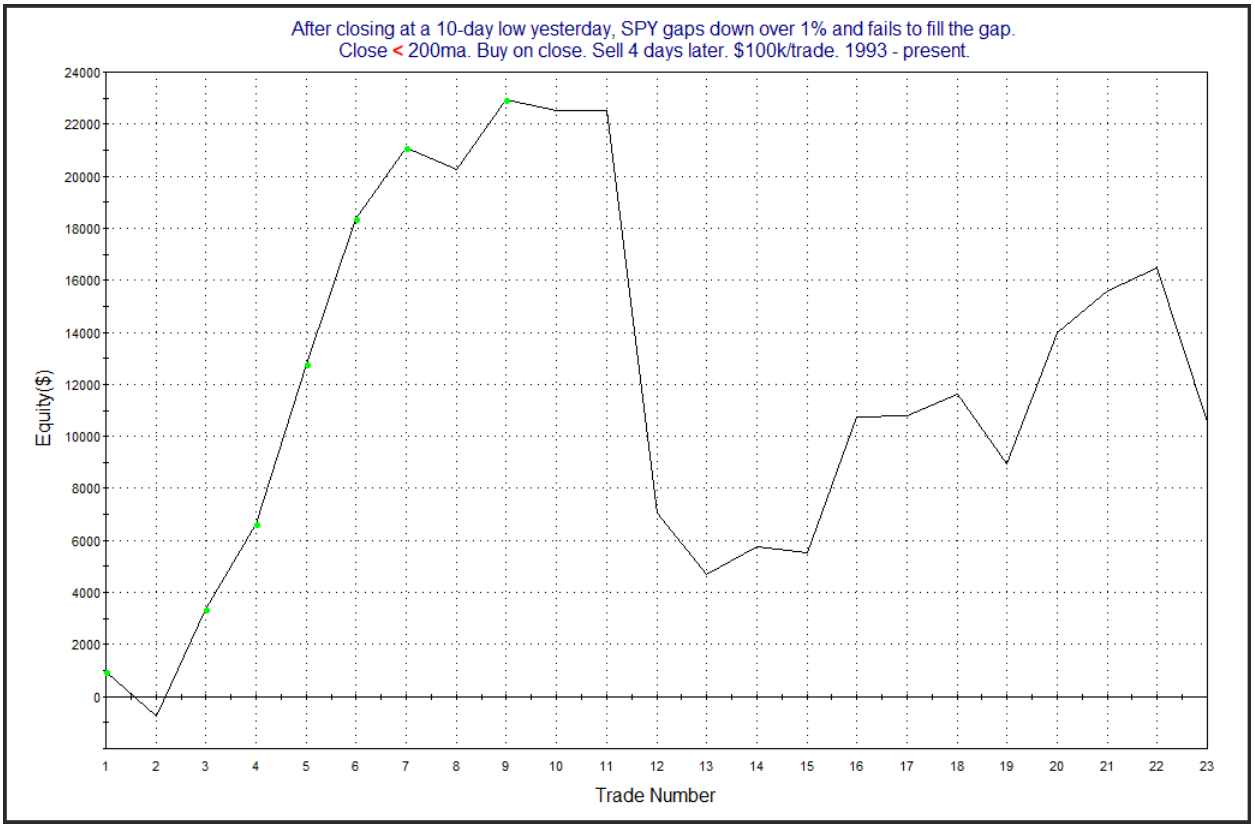
After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap.
Close < 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - present.

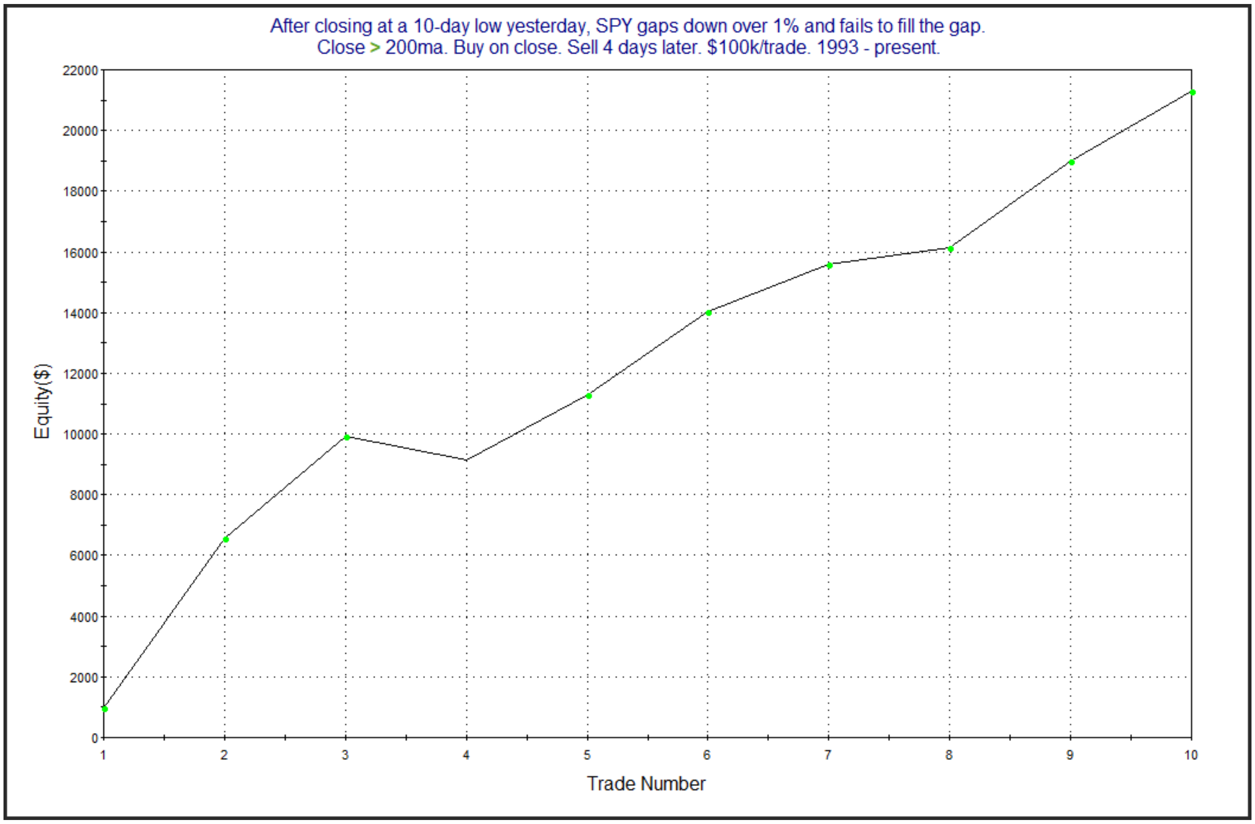
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	35,773.73	23	15	8	65.22	9,708.30	-6,128.64	3,580.01	-2,240.79	1.60	3.00	1,555.38
4	10,551.35	23	14	9	60.87	6,132.78	-15,473.88	2,870.88	-3,293.43	0.87	1.36	458.75
3	9,232.19	24	14	10	58.33	5,630.94	-13,375.08	2,686.74	-2,838.21	0.95	1.33	384.67
2	-2,246.21	24	11	13	45.83	6,435.36	-6,878.34	2,591.42	-2,365.53	1.10	0.93	-93.59
1	350.19	26	13	13	50.00	4,645.80	-4,474.26	1,664.48	-1,637.55	1.02	1.02	13.47

After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap.
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	26,555.02	10	9	1	90.00	8,239.74	-2,160.12	3,190.57	-2,160.12	1.48	13.29	2,655.50
4	21,279.31	10	9	1	90.00	5,581.02	-781.32	2,451.18	-781.32	3.14	28.24	2,127.93
3	13,692.56	10	8	2	80.00	3,449.60	-1,532.00	2,035.36	-1,295.18	1.57	6.29	1,369.26
2	9,012.65	10	7	3	70.00	5,477.88	-1,320.65	1,641.20	-825.24	1.99	4.64	901.26
1	11,126.83	10	7	3	70.00	5,764.38	-1,049.42	1,785.76	-457.82	3.90	9.10	1,112.68

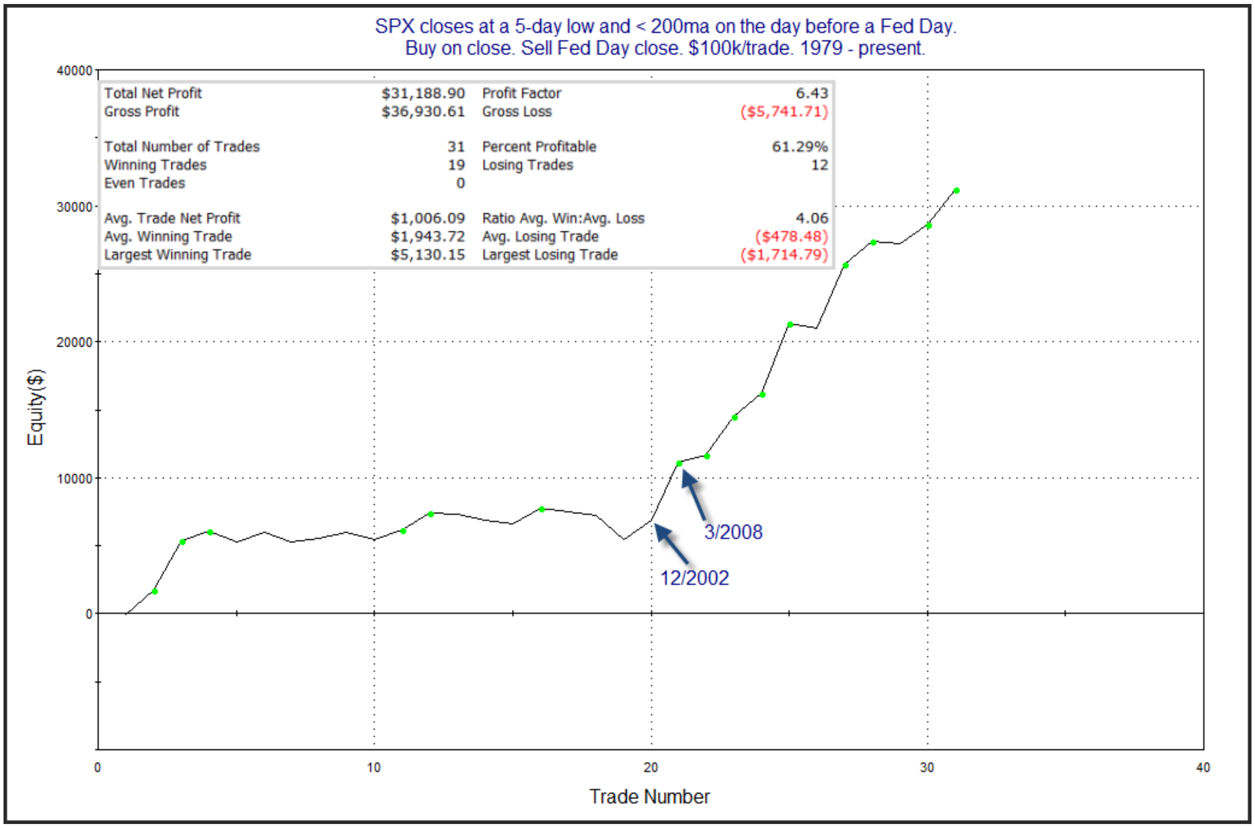
Most instances occurred below the 200ma like the current one. But most of the gains were above the 200ma, and the stats are substantially better above the 200ma. The profit curves were also drastically different. Below are the 4-day curves to demonstrate.





The curve below the 200ma really is not appealing at all. Above the 200ma looks fantastic, despite the low number of instances. So the long-term trend appears to be a meaningful delineation for this study. I am not including this on the active list tonight, and will be sure to utilize the delineation when I look at this setup in the future.

Of course Wednesday is a Fed Day. And a decent amount of the recent selling may be attributable to anxiety over the Fed announcement. I discussed above that you don't really want weakness heading into a weak seasonal period if you are looking to benefit from the seasonality. But weakness heading into a strong seasonal period (like a Fed Day) can be a nice bullish setup. The study below looks at other times SPX closed at a 5-day low and below the 200ma on the day before a Fed Day.



The numbers are strongly positive, and as you can see, the setup really picked up steam starting in 2008. Below are the stats and list of instances from 2008 onward.

SPX closes at a 5-day low and < 200ma on the day before a Fed Day.
Buy on close. Sell Fed Day close. $100k/trade. 2008 - present.

TradeStation Performance Summary Expand

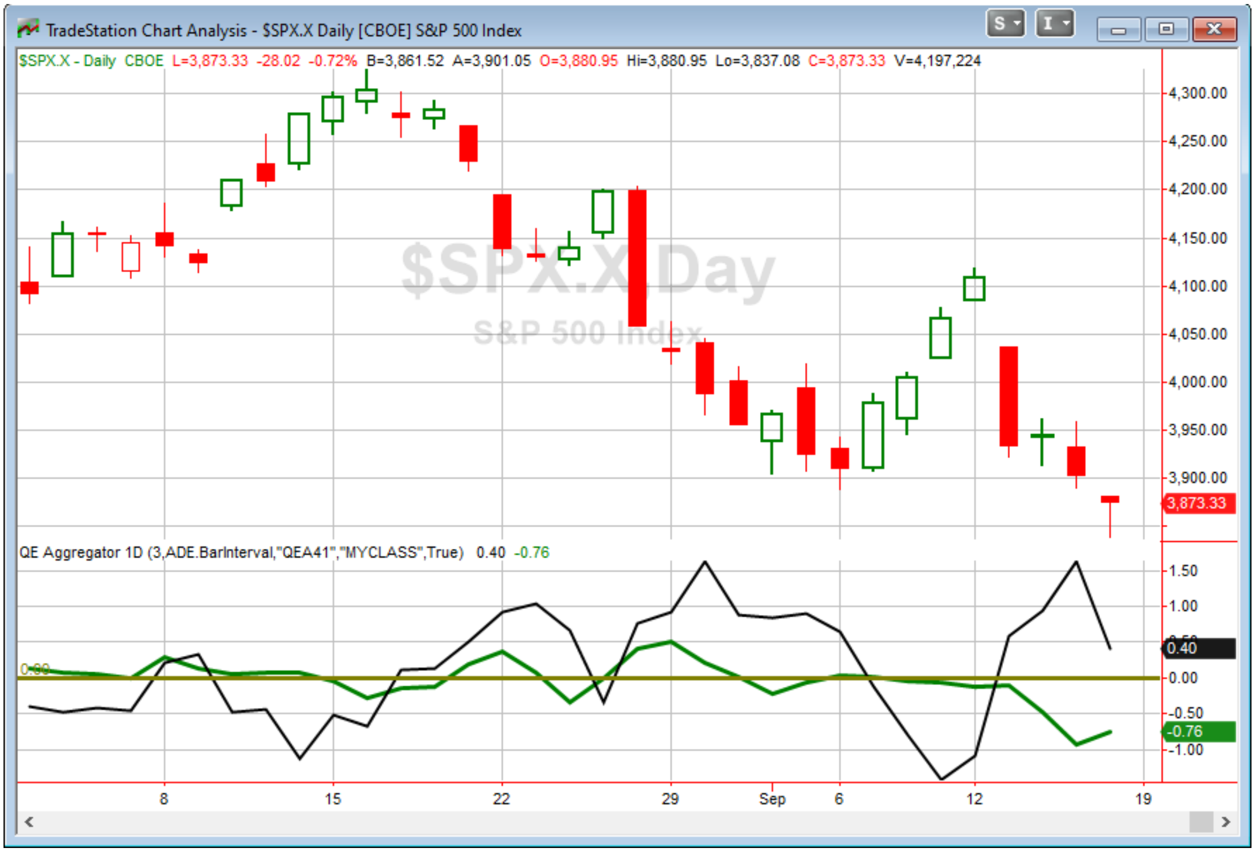
All Trades

Total Net Profit	$24,313.39	Profit Factor	56.13
Gross Profit	$24,754.40	Gross Loss	($441.01)
Total Number of Trades	11	Percent Profitable	81.82%
Winning Trades	9	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	$2,210.31	Ratio Avg. Win:Avg. Loss	12.47
Avg. Winning Trade	$2,750.49	Avg. Losing Trade	($220.50)
Largest Winning Trade	$5,130.15	Largest Losing Trade	($297.57)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/17/2008	Buy	$1,276.60	4.24%	$4,220.58
3/18/2008	Sell	$1,330.71		$0.00
6/24/2008	Buy	$1,314.29	0.58%	$1,621.84
6/25/2008	Sell	$1,321.97		$0.00
8/4/2008	Buy	$1,249.02	2.86%	$2,861.60
8/5/2008	Sell	$1,284.79		$0.00
9/15/2008	Buy	$1,193.75	1.66%	$1,686.56
9/16/2008	Sell	$1,213.57		($2,031.01)
12/15/2008	Buy	$868.57	5.14%	$5,300.35
12/16/2008	Sell	$913.18		$0.00
6/22/2010	Buy	$1,095.31	-0.30%	$394.03
6/23/2010	Sell	$1,092.04		($910.00)
8/8/2011	Buy	$1,119.46	4.74%	$4,754.38
8/9/2011	Sell	$1,172.53		($1,594.88)
11/1/2011	Buy	$1,218.28	1.61%	$1,984.40
11/2/2011	Sell	$1,237.90		$0.00
1/25/2022	Buy	$4,356.45	-0.15%	$2,129.16
1/26/2022	Sell	$4,349.93		($1,136.30)
6/14/2022	Buy	$3,735.48	1.46%	$2,654.08
6/15/2022	Sell	$3,789.99		($342.68)
7/26/2022	Buy	$3,921.05	2.62%	$2,962.75
7/27/2022	Sell	$4,023.61		$0.00

This obviously is not setting up yet, but further selling over he next couple of days could trigger a nice bullish setup for Wednesday.

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



With this weekend'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 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain negative on Monday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3917.72. That is a 1.1% above Friday's close. Therefore, SPX will need to close up at least 1.1% on Monday to flip from oversold to overbought vs recent expectations.

So the Aggregator is again neutral. That is basically where I am too. High volatility and sketchy evidence is not a confidence-building combination. We are going to get a bounce here at some point, but I am not yet seeing anything to convince me that the time is now to buy. Perhaps further selling on Monday/Tuesday will get me there. For now, I will remain patient and sidelined.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/19 – 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 bad week, and gave up the gains from the week before. The SPX declined 4.8%, the NASDAQ tumbled 5.5%, and the Russell 2000 dropped 4.5% on the week. Bonds again struggled. The US Aggregate Bond ETF (AGG) lost 0.95%, while TLT, the 20-year Treasury Bond ETF dropped 1.1%. It also made new lows for the year. 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

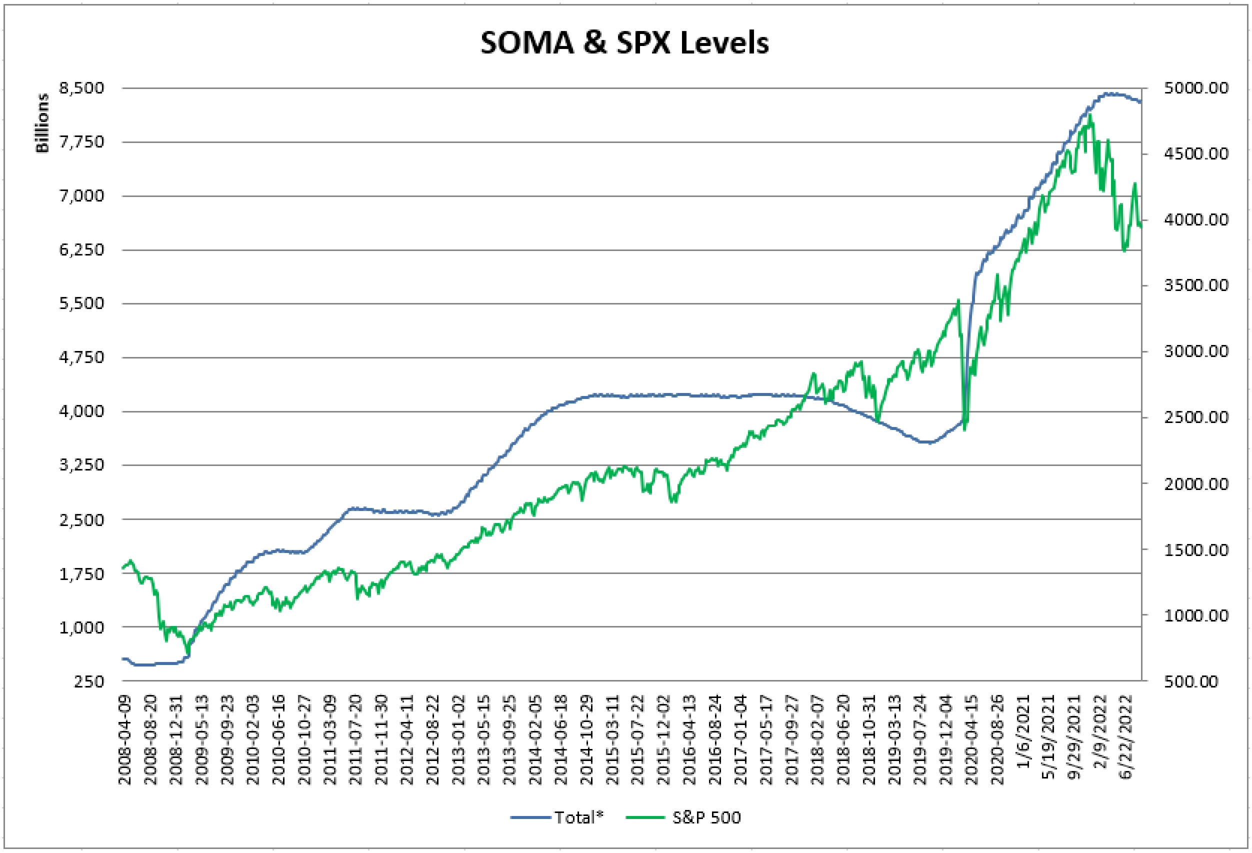
Previous September 14, 2022

Posted September 15, 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)	318,105,035.8
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***	2,709,847,164.8
Agency Commercial Mortgage-Backed Securities***	8,678,673.4
Total SOMA Holdings	8,307,813,001.6
Change From Prior Week	5,519,199.3

This week the SOMA rose by $5.5 billion. September is supposed to see an increase in the QT cap, but the first 14 days actually saw the SOMA rise. This will change in the 2nd half of the month with sizable roll-offs happening on the 15th and the 30th. But it won't get anywhere near the $95 billion cap. In fact, November appears to be the first month where that cap could be approached at all. 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 from here forward. 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 80% chance of a 75-point rate increase and a 20% chance of a 100-point 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 some 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. That breadth collapse study is set to expire in the next few days. 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

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.*

None tonight.

Current Open Trade Ideas

None.