

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2022

Volume 15 Issue 180

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The selling before the Fed Day suggests an upside edge for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. While there may be an upside Fed Day edge for Wednesday, I don't find the setup compelling enough to bet big into a potentially volatile situation.

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

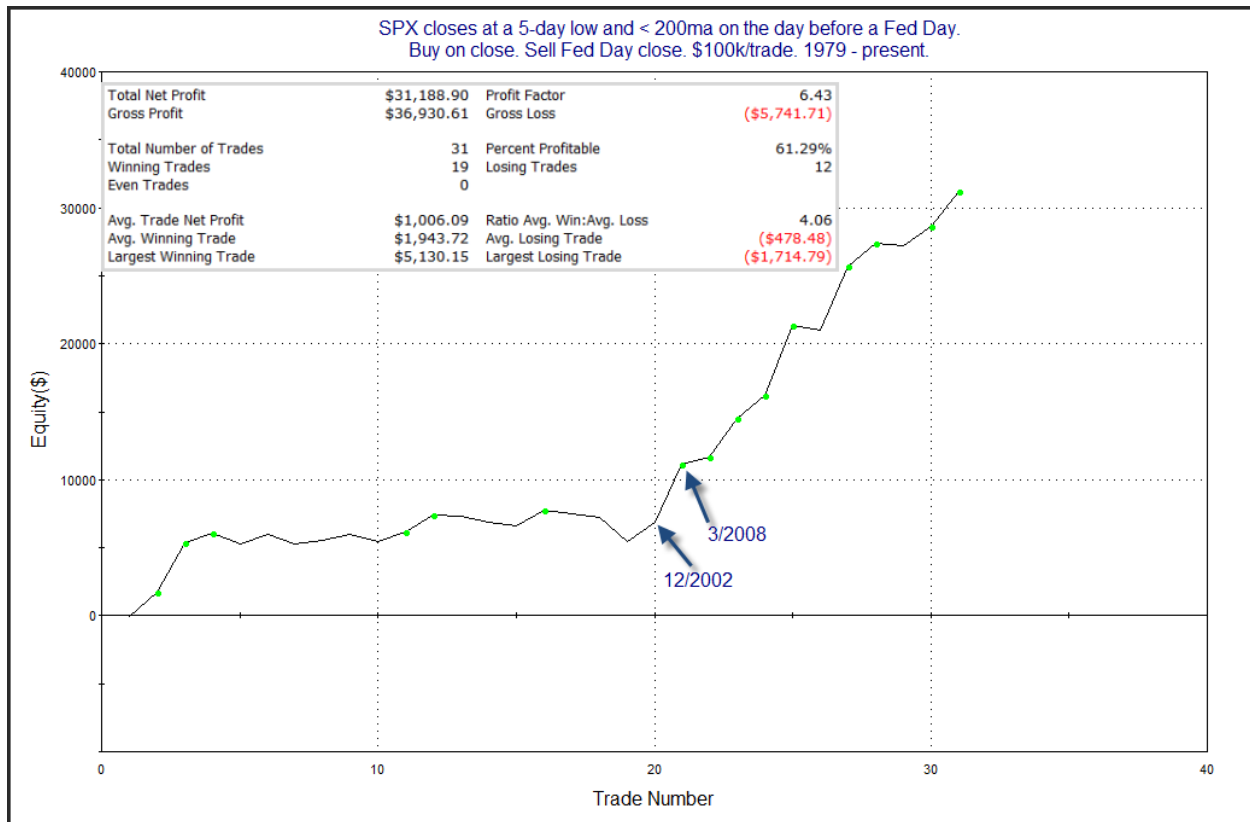
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 21, 2022	SPY drops > 1%. Fed Day tomorrow.	1 day	Bullish			
September 21, 2022	SPX closes at 5-low < 200ma. Fed tmrw	1 day	Bullish			
Active - Long Term						
August 23, 2022	10ema breadth 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			

The Evidence

Tuesday saw selling for most of the day before a late afternoon bounce left the final numbers more mild. The SPX still finished down 1.1%, the NASDAQ lost 0.95%, and the Russell 2000 dropped 1.4%. Breadth was negative with the NYSE Up Issues % coming in at 18% and the Up Volume % at 10%. NYSE total volume rose a little from Monday's level.

Last night I discussed that Fed Days tend to show a more consistent upside tendency when SPY closes in the bottom half of its range on the day before the Fed Day. The late bounce ruined that, but we do still have some other Fed Day studies suggesting an upside edge. The one below is copied from the Sunday letter.

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.



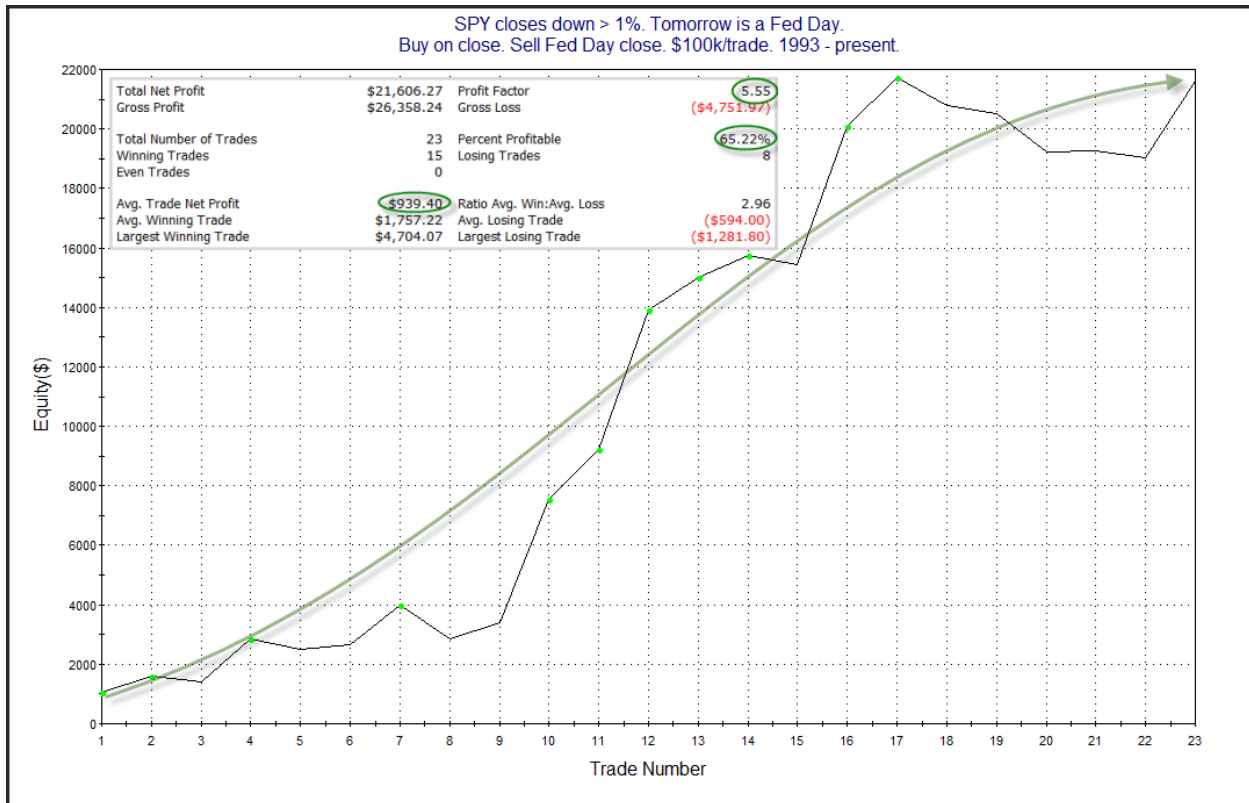
The numbers are strongly positive, and as you can see, the setup really picked up steam starting in 2008. Below are the stats and list of instances from 2008 onward.

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

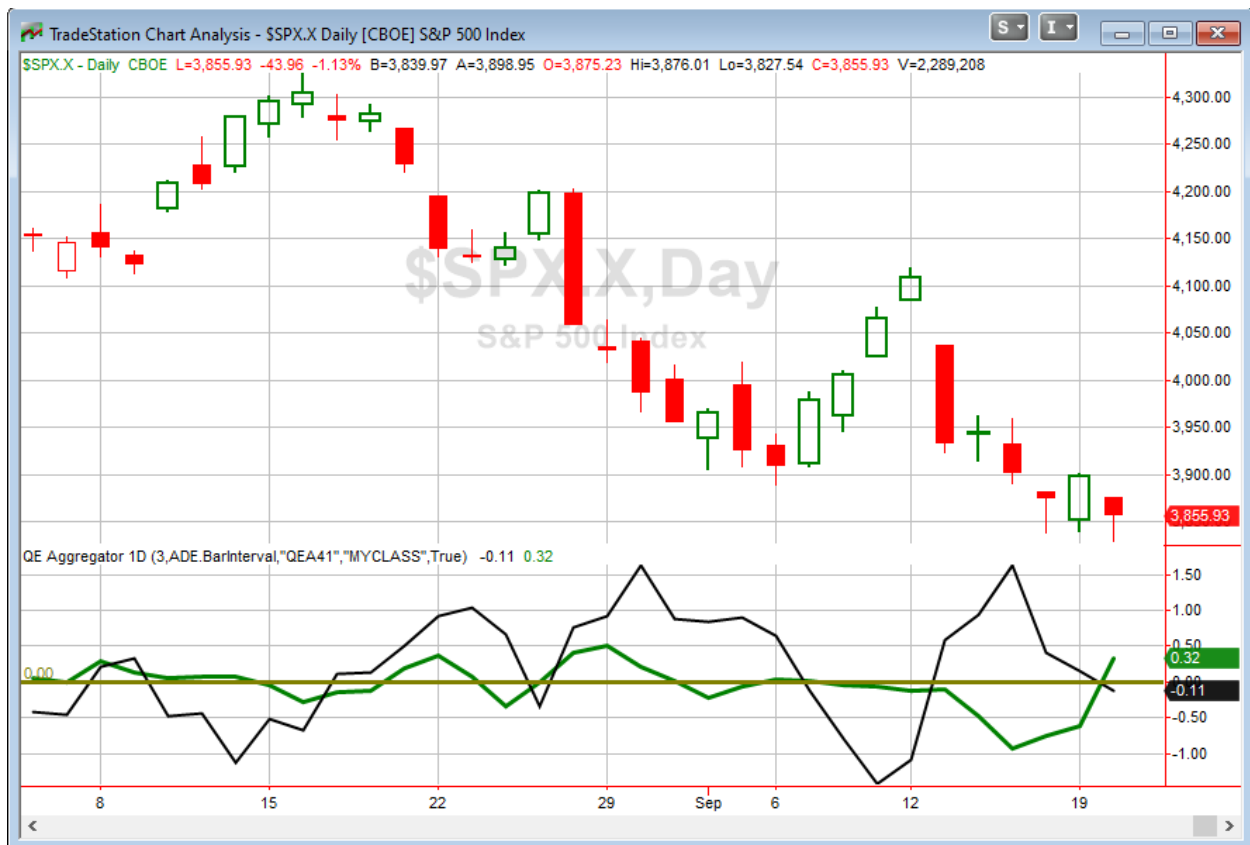
This obviously is not setting up yet, but further selling over the next couple of days could trigger a nice bullish setup for Wednesday.

The strength of the selling on Tuesday might also be a positive when considering Wednesday's Fed edge. The study below is from the 1/31/18 letter. It looks at other times SPY dropped over 1% just before a Fed Day.



The curve here winds around a bit, but the Profit Factor and the Avg Trade are both very impressive. This study also seems worth some consideration.

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



With tonight's evidence considered, the green Aggregator line rose above zero. Positive readings mean expectations are for upside over the next over the next few days. Meanwhile the black Differential Line dropped below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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.

With the last of the short-term studies set to expire on Wednesday, and the intermediate-term outlook neutral, expectations are set to be flat as of Wednesday's close. Of course this could change if compelling new evidence emerges. And with the wild action that is often seen on Fed Days, we could see plenty of new studies emerge. Meanwhile, the Differential Pivot will be 3790.17. That is a 1.7% below Tuesday's close. Therefore, SPX will need to close down at least 1.7% on Wednesday in order to be considered "overbought" vs recent expectations. It seems odd to think of the SPX as "overbought" right now since it is sitting at an intermediate-term low. But the Differential measures vs expectations. And the recent studies were expecting a selloff that was even larger than the one we have seen recently.

So the Aggregator is again neutral. The Fed Day is a wildcard. I shared the table below on Twitter today:

\$SPX Performance on 2022 Fed Announcement Dates With Rate Hikes.		
Fed Announcement Date	Rate Change	\$SPX 1-Day Performance
March 16, 2022	+25 basis points	2.24%
May 4, 2022	+50 basis points	2.99%
June 15, 2022	+75 basis points	1.46%
July 27, 2022	+75 basis points	2.62%

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We see here that the hikes so far have not been met with immediate selling. In fact, there have been strong rallies on all 4 hike days in 2022. Perhaps we are “due” for a down move, or perhaps the Fed Day good times continue to roll. The takeaway for me from the above table is that the reactions have been strong. Facing a neutral Aggregator, and without a strongly compelling reason to get involved in a trade right now, I’m not inclined to do anything. I intend to watch for the Fed Day reaction, examine any new evidence that emerges, and see if there is a high-probability opportunity in either direction to perhaps play on Thursday or Friday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/19 – neutral

The intermediate-term outlook was last updated in the 9/19/22 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.

None tonight.

Current Open Trade Ideas

None.

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