

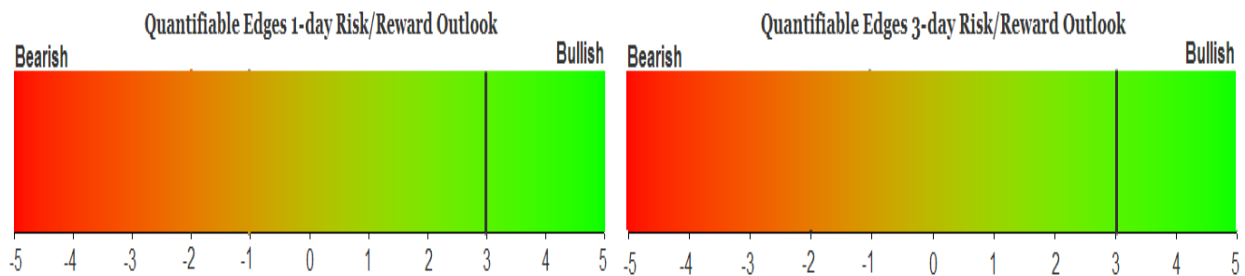
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2022

Volume 15 Issue 181

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- Low volume on the new low Wednesday suggests a possible reversal.
- The gap up, rally, and then reverse down to a new low suggest a short-term bullish edge.
- The strong Fed Day intraday reversal suggests a bounce in the coming days.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. SPX is only mildly oversold, but evidence is compelling and suggesting a bounce. I like the long side.

The Evidence

Wednesday started strong, and then after the Fed releases we saw substantial back and forth activity. The day ended with strong selling that I was glad to have sidestepped. The SPX finished down 1.7%, the NASDAQ lost 1.8%, and the Russell 2000 dropped 1.4%. Breadth was negative with the NYSE Up Issues % coming in at 28% and the Up Volume % at 14%. NYSE total volume was light as I will discuss below.

It was actually the lightest NYSE volume in 8 days. A common misconception is that the market won't bottom on low volume. I have found that to be false with regards to both short-term and long-term bottoms. The study below was one I showed in the 3/24/20 letter. It looked at substantial drops to 50-day closing lows on light volume. Results are updated.

SPX closes down > 1% and at a 50-day low. NYSE Volume is the lightest in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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
10	68,908.23	14	12	2	85.71	21,519.33	-6,974.13	6,373.64	-3,787.75	1.68	10.10	4,922.02
9	51,581.52	14	11	3	78.57	13,525.47	-5,224.16	5,355.28	-2,442.18	2.19	8.04	3,684.39
8	56,284.88	14	11	3	78.57	15,803.97	-4,867.78	5,732.42	-2,257.25	2.54	9.31	4,020.35
7	55,543.43	14	11	3	78.57	17,319.54	-4,251.84	5,616.60	-2,079.72	2.70	9.90	3,967.39
6	50,617.74	14	10	4	71.43	15,276.36	-4,962.54	5,991.31	-2,323.84	2.58	6.45	3,615.55
5	53,354.18	16	11	5	68.75	17,127.00	-1,629.46	5,409.16	-1,229.32	4.40	9.68	3,334.64
4	47,873.51	16	13	3	81.25	13,379.08	-1,380.14	3,897.47	-931.19	4.19	18.14	2,992.09
3	52,264.28	16	15	1	93.75	17,277.48	-1,295.58	3,570.66	-1,295.58	2.76	41.34	3,266.52
2	32,975.16	16	12	4	75.00	10,479.04	-1,509.98	3,009.11	-783.55	3.84	11.52	2,060.95
1	24,512.17	16	12	4	75.00	9,236.92	-2,117.68	2,269.40	-680.16	3.34	10.01	1,532.01

There are not a ton of instances, but the numbers are extremely favorable. Below is the full list along with their 3-day results.

SPX closes down > 1% and at a 50-day low. NYSE Volume is the lightest in 5 days.
Buy SPX on close. Sell 3 days later. \$100k/trade. 1985 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/25/1985	Buy	\$180.66	2.44%	\$2,444.26
10/1/1985	Sell	\$185.07		(\$674.66)
8/15/1988	Buy	\$258.68	0.91%	\$1,574.88
8/18/1988	Sell	\$261.03		(\$455.48)
8/22/1988	Buy	\$256.97	0.86%	\$1,614.35
8/25/1988	Sell	\$259.17		(\$171.16)
1/22/1990	Buy	\$330.37	-1.30%	\$721.78
1/25/1990	Sell	\$326.08		(\$1,875.42)
11/22/1991	Buy	\$376.13	0.11%	\$572.40
11/27/1991	Sell	\$376.55		(\$1,195.15)
10/9/1992	Buy	\$402.65	1.67%	\$2,199.76
10/14/1992	Sell	\$409.37		\$0.00
9/29/1999	Buy	\$1,268.37	2.86%	\$2,825.94
10/4/1999	Sell	\$1,304.60		(\$195.78)
4/29/2002	Buy	\$1,065.45	1.79%	\$2,415.21
5/2/2002	Sell	\$1,084.56		(\$185.07)
5/6/2002	Buy	\$1,052.67	1.93%	\$3,407.50
5/9/2002	Sell	\$1,073.01		(\$348.74)
7/1/2002	Buy	\$968.65	2.10%	\$2,103.26
7/5/2002	Sell	\$989.03		(\$3,479.34)
10/7/2002	Buy	\$785.28	2.37%	\$2,985.77
10/10/2002	Sell	\$803.92		(\$2,109.47)
3/9/2009	Buy	\$676.53	10.97%	\$11,186.70
3/12/2009	Sell	\$750.74		\$0.00
6/6/2011	Buy	\$1,286.17	0.22%	\$773.85
6/9/2011	Sell	\$1,289.00		(\$673.75)
7/8/2015	Buy	\$2,046.69	2.59%	\$2,591.04
7/13/2015	Sell	\$2,099.60		\$0.00
12/24/2018	Buy	\$2,351.10	5.73%	\$7,105.14
12/28/2018	Sell	\$2,485.74		(\$189.84)
3/23/2020	Buy	\$2,237.40	17.55%	\$17,582.84
3/26/2020	Sell	\$2,630.07		\$0.00

Not only are these 3-day results impressive, but you'll also note some substantial long-term bottoms on this list, including the 2020 bottom, the 2018 bottom, the 2009 bottom and the 10/7/2002 instance which came two days before the ultimate bottom there. I am not calling Wednesday a bottom, but the dates on this list are quite interesting.

To demonstrate the importance of the low volume, I thought I would also show results with moderate volume and with high volume.

SPX closes down > 1% and at a 50-day low. NYSE Volume is neither the highest nor the lowest in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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
10	73,014.38	74	48	26	64.86	15,280.64	-14,281.20	3,529.95	-3,708.58	0.95	1.76	986.68
9	78,062.57	74	46	28	62.16	14,515.20	-13,752.00	3,723.04	-3,328.47	1.12	1.84	1,054.90
8	44,026.89	77	50	26	64.94	15,738.88	-18,143.28	3,062.66	-4,196.38	0.73	1.40	571.78
7	37,182.37	79	46	33	58.23	13,776.64	-15,712.56	3,013.61	-3,074.05	0.98	1.37	470.66
6	54,026.78	79	46	33	58.23	13,112.32	-11,951.64	3,061.25	-2,630.03	1.16	1.62	683.88
5	16,718.51	86	50	36	58.14	13,135.00	-18,000.90	2,843.67	-3,485.13	0.82	1.13	194.40
4	9,235.34	92	56	36	60.87	13,377.28	-17,037.90	2,185.76	-3,143.53	0.70	1.08	100.38
3	47,265.16	101	63	38	62.38	12,304.89	-12,789.00	2,415.29	-2,760.47	0.87	1.45	467.97
2	22,991.37	113	57	56	50.44	10,183.87	-9,270.00	2,146.80	-1,774.57	1.21	1.23	203.46
1	3,222.16	125	66	59	52.80	10,716.03	-9,386.64	1,469.97	-1,589.76	0.92	1.03	25.78

SPX closes down > 1% and at a 50-day low. NYSE Volume is the highest in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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
10	16,067.02	72	40	32	55.56	16,319.16	-23,527.65	3,781.54	-4,224.84	0.90	1.12	223.15
9	3,933.52	75	47	28	62.67	12,246.96	-23,553.81	3,508.45	-5,748.69	0.61	1.02	52.45
8	8,702.02	76	44	32	57.89	15,615.60	-25,362.12	3,571.49	-4,638.86	0.77	1.06	114.50
7	28,379.78	78	45	33	57.69	12,720.84	-18,639.00	3,530.70	-3,954.59	0.89	1.22	363.84
6	9,327.85	79	45	34	56.96	13,834.39	-18,629.19	2,891.00	-3,551.97	0.81	1.08	118.07
5	-2,084.10	82	40	42	48.78	18,981.60	-15,319.95	2,964.06	-2,872.54	1.03	0.98	-25.42
4	-6,668.31	87	47	40	54.02	17,851.68	-22,363.53	2,661.79	-3,294.31	0.81	0.95	-76.65
3	-11,340.22	92	50	42	54.35	13,853.40	-26,287.53	2,307.32	-3,016.82	0.76	0.91	-123.26
2	-11,987.04	103	53	50	51.46	13,116.84	-16,188.58	2,253.30	-2,628.24	0.86	0.91	-116.38
1	590.30	113	64	49	56.64	11,558.43	-20,424.58	1,644.64	-2,136.05	0.77	1.01	5.22

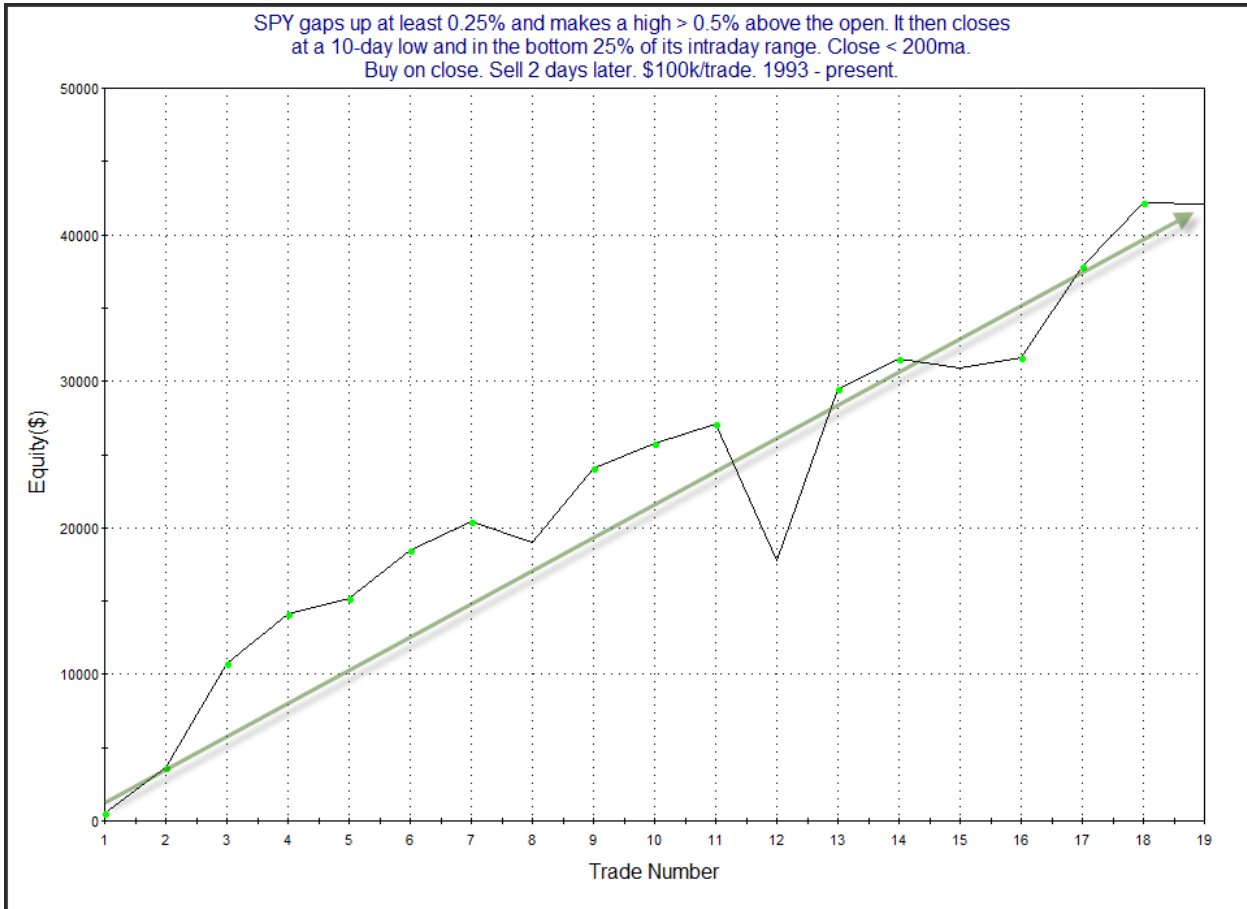
Neither of these suggest a strong edge, and the “high” volume has shown more downside than upside in the following days. Low volume selloffs to new lows can be a sign that sellers are losing enthusiasm. Wednesday’s light volume could be a good sign, and I have added the light-volume study to the Active List.

Another study that triggered tonight was from back in the 3/23/20 letter. It considered SPY’s gap up and intraday action, which saw it run higher before reversing and closing at a new low. Stats are updated.

SPY gaps up at least 0.25% and makes a high > 0.5% above the open. It then closes at a 10-day low and in the bottom 25% of its intraday range. 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	35,294.14	18	13	5	72.22	13,737.50	-19,787.04	5,281.93	-6,674.18	0.79	2.06	1,960.79
4	37,628.01	19	12	7	63.16	14,158.80	-17,793.84	5,503.44	-4,059.04	1.36	2.32	1,980.42
3	42,058.25	19	14	5	73.68	10,083.30	-11,623.98	4,091.21	-3,043.75	1.34	3.76	2,213.59
2	42,069.36	19	15	4	78.95	11,736.30	-9,340.86	3,575.07	-2,889.18	1.24	4.64	2,214.18
1	8,970.80	19	12	7	63.16	5,962.50	-5,091.72	1,876.83	-1,935.88	0.97	1.66	472.15

Stats here appear to strongly favor the bulls over the next 1-2 days. Here is a profit curve that assumes a 2-day holding period.

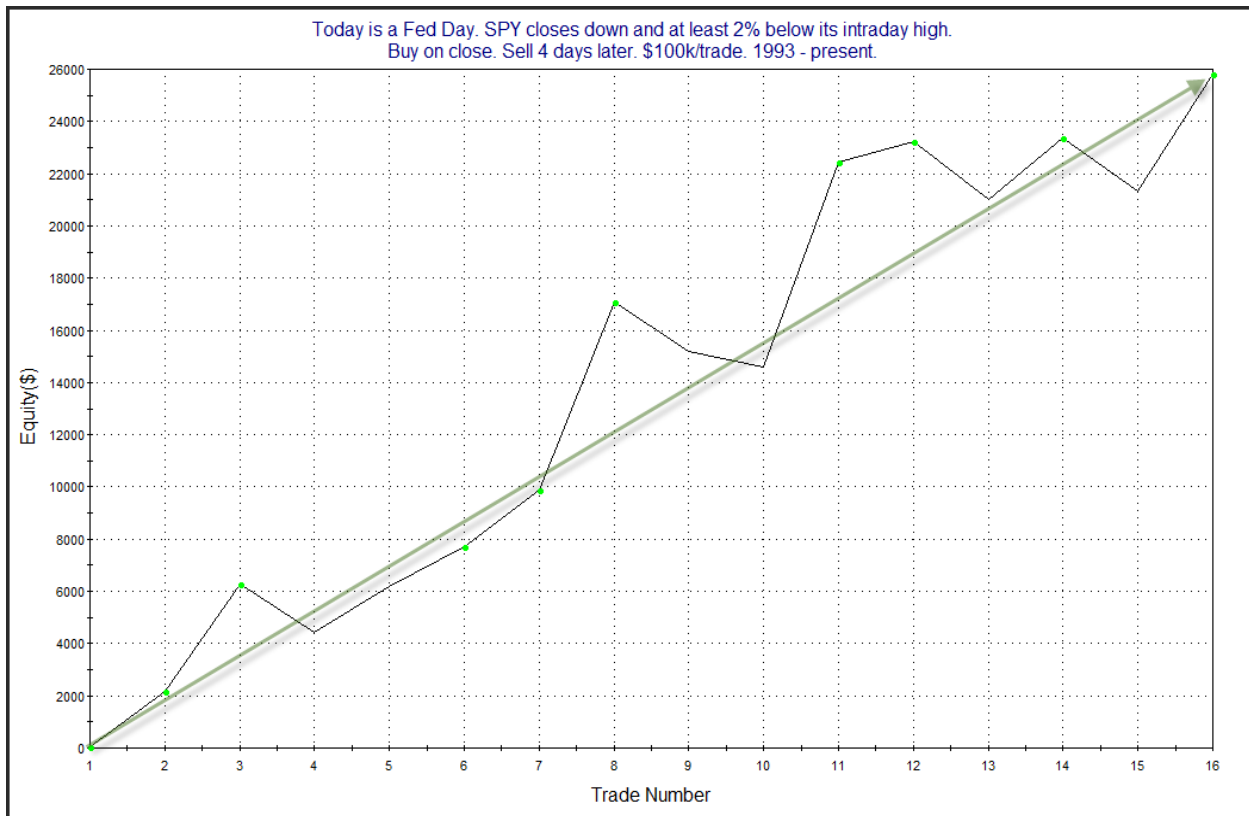


There are some sizable moves on this chart, but the overall upslope seems to offer some confirmation of the upside edge suggested by the stats table. I have also included this study on the Active List.

There was also a Fed-based study that noted the large intraday reversal downward. It was from the 12/20/18 letter. I have updated it below.

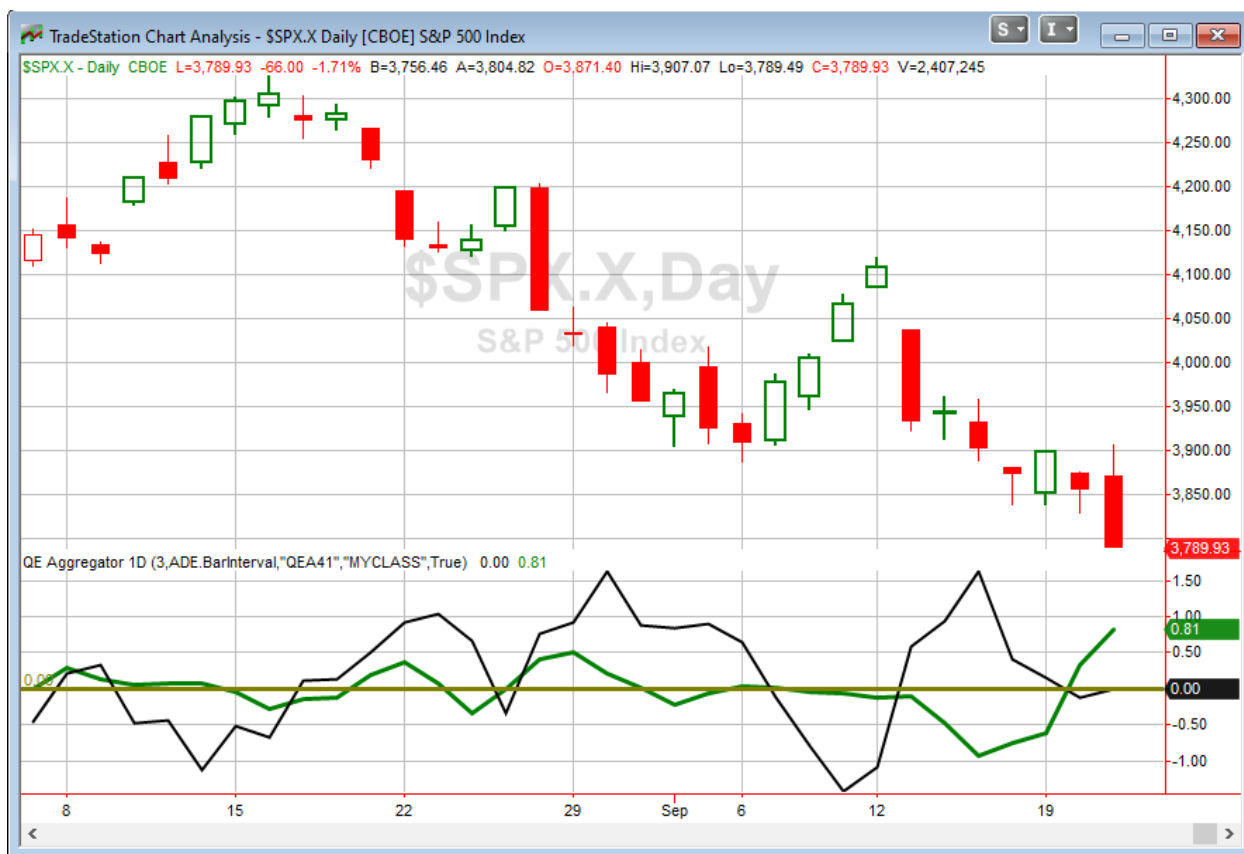
Today is a Fed Day. SPY closes down and at least 2% below its intraday high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	25,328.87	16	11	5	68.75	6,086.66	-2,628.75	3,022.09	-1,582.82	1.91	4.20	1,583.05
4	25,833.62	16	11	5	68.75	7,872.42	-2,241.12	3,130.27	-1,719.87	1.82	4.00	1,614.60
3	16,550.36	16	11	5	68.75	4,772.75	-6,717.24	2,401.47	-1,973.17	1.22	2.68	1,034.40
2	9,608.14	16	10	6	62.50	5,087.19	-4,192.32	2,241.63	-2,134.70	1.05	1.75	600.51
1	4,280.09	16	10	6	62.50	3,649.75	-3,230.89	1,529.50	-1,835.81	0.83	1.39	267.51

Instances here are lower than I would prefer, but the overall numbers appear strongly positive. I figured it was at least worth looking at the equity curve.



While a bit choppy, this curve does head from lower left to upper right. This study combined with the 1st Fed study appears worth some consideration.

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



With tonight's evidence considered, the green Aggregator line rose further above zero. Positive readings mean expectations are for upside over the next over the next few days. Meanwhile the black Differential Line inched just barely 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3810.72. That is 0.55% above Wednesday's close. Therefore, SPX will need to close up at least 0.55% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish for the 1st time in a while. The Differential is only just slightly oversold (and just reached that point in the last minutes of the day). But evidence tonight is compelling, with numerous studies suggesting strong odds of a bounce. So I believe odds are favorable enough that this may be an edge worth consideration for a long position – or at least the beginning of a long position. I will look to start scaling into an index position on Thursday if I can get a favorable fill.

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

New

CHTR – 1/3 @ \$353.03 (buy @ limit)

Broad Market Large Cap CBI – 1(CHTR)

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.

CHTR – Buy 1/3 Catapult position @ \$353.03 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of CHTR.

SPY – Buy ¼ index position @ \$377.25 LIMIT. Based on the short-term outlook above, I will look to start scaling into a SPY position on Thursday if I can get filled just a little bit below Wednesday's close.

Current Open Trade Ideas

None.

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