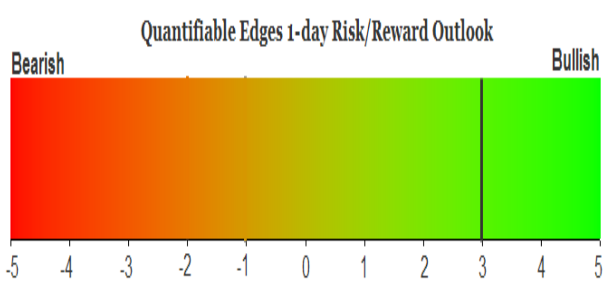
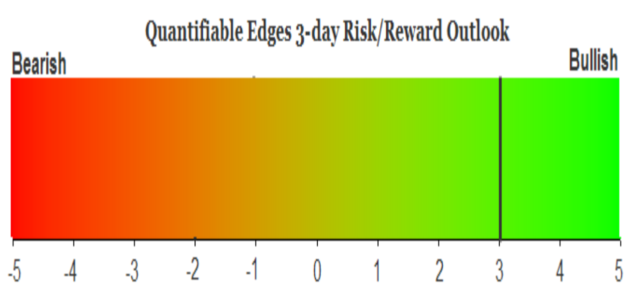
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2022 Volume 15 Issue 183

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	7

Tonight's Research Points

- Selling on and after a Fed meeting does not tend to last much longer than we have seen.
- A 4-day drop that see acceleration during a long-term downtrend is often followed by a bounce.
- The CBI reached 7, which has been a bullish reading when combined with a 50-day low in SPX like we see now.
- The SOMA saw a decline this past week, but the drop is still not of huge magnitude.

Short-term Outlook
The Bottom Line
The Aggregator is bullish. I like the long side for the short-term.

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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 26, 2022	Fed 2 days ago. SPX down 3+ days	1-2 days	Bullish			
September 26, 2022	SPX dn 4 days. Today bigges drop < 200	1-2 days	Bullish			
September 26, 2022	CBI reaches 7+. SPX 50-low < 200	1-5 days	Bullish	3.90%	-3.00%	-6.60%
September 22, 2022	Dn 1% to a 50-day low, 5-day low volm	1-3 days	Bullish			
September 22, 2022	SPY closes 2% below high on Fed Day	1-4 days	Bullish	3.10%	-2.10%	-4.10%
Active - Long Term						
September 26, 2022	CBI reaches 7+. SPX 50-low < 200	1-18 days	Bullish	6.70%	-3.90%	-8.00%
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)						
August 23, 2022	*10ema breadth collapse*	*1 month*	*Bearish*			

The Evidence

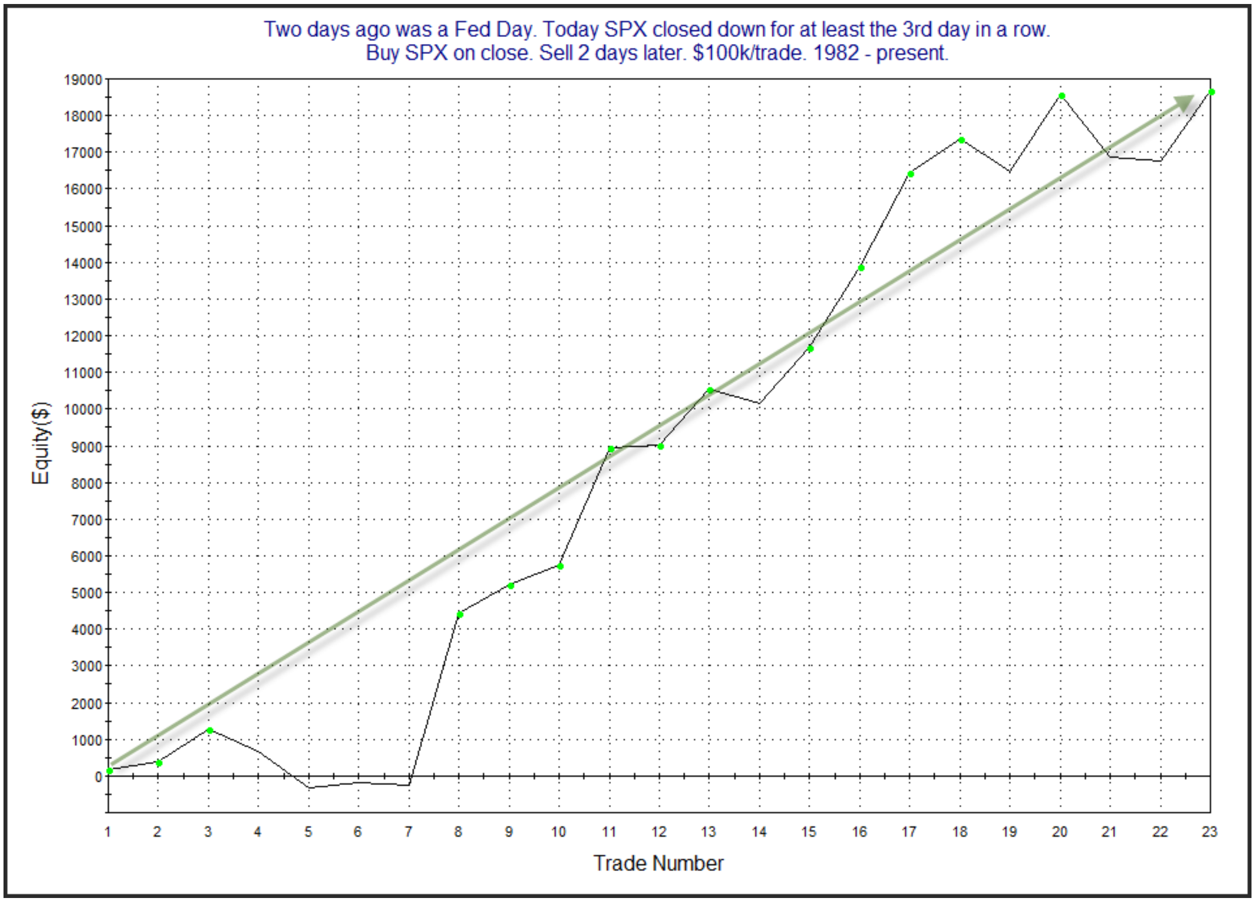
Friday saw more strong selling. At one point in the day SPX even dipped below the June 16th closing low of 3666.77. But both the closing low and the intraday lows in June held in place by the end of the day. Not so for the Dow, which made new lows. The SPX finished down 1.7%, the NASDAQ lost 1.8%, and the Russell 2000 dropped 2.5%. Breadth was negative with the NYSE Up Issues % coming in at 13% and the Up Volume % at 9%. NYSE total volume rose some from Thursday's level.

It's interesting that the selling has continued right through and after a Fed Day. In the 6/21/21 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

Two days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1982 - 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	15,994.87	23	12	11	52.17	5,555.16	-3,477.69	2,650.78	-1,437.68	1.84	2.01	695.43
4	22,749.83	23	15	8	65.22	5,564.00	-2,266.11	2,174.91	-1,234.23	1.76	3.30	989.12
3	21,552.86	23	15	8	65.22	5,801.02	-2,476.50	2,003.42	-1,062.30	1.89	3.54	937.08
2	18,671.75	23	16	7	69.57	4,670.25	-1,709.52	1,464.94	-681.05	2.15	4.92	811.82
1	9,379.51	23	15	8	65.22	2,671.02	-2,968.54	1,129.49	-945.35	1.19	2.24	407.80

The edge looks quite strong over the next few days. Below is a look at a 2-day profit curve.

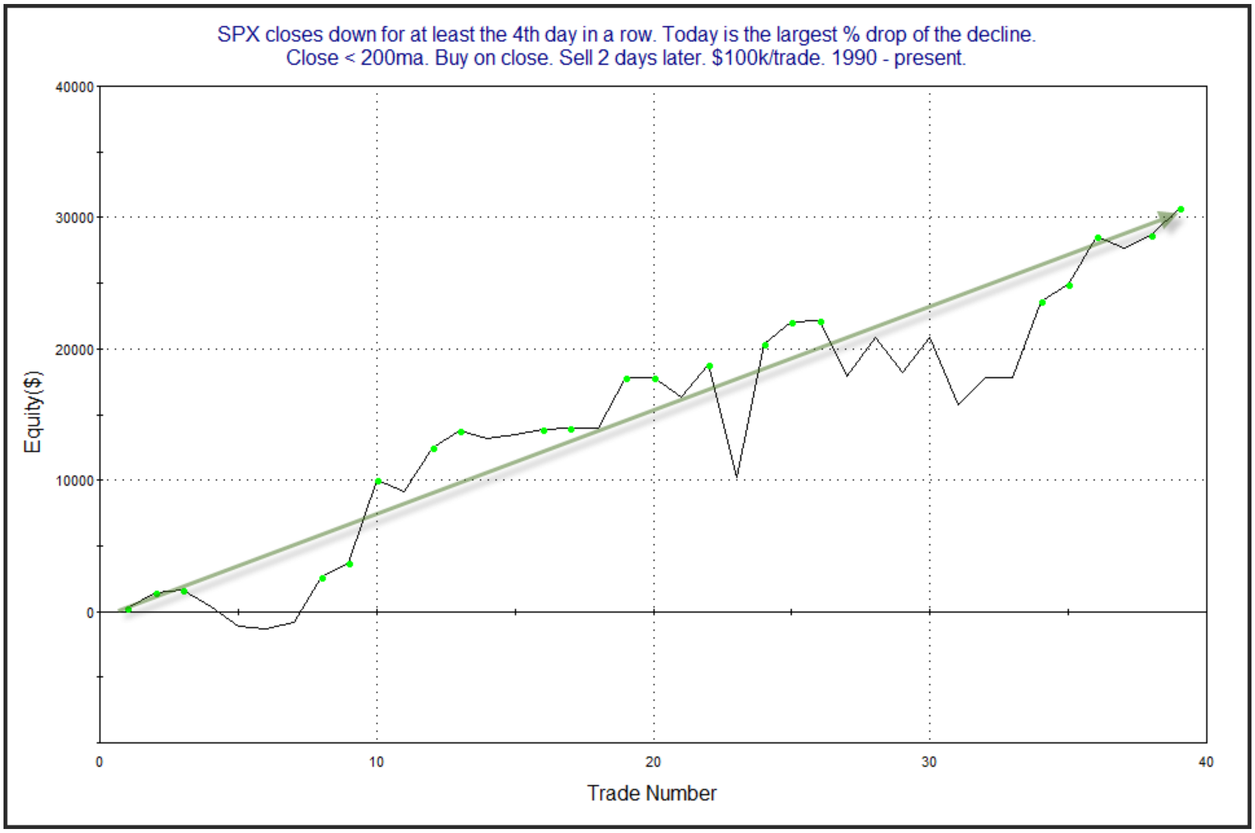


The strong move from lower left to upper right serves as some confirmation of the upside edge. I have included this study on the active list today.

The study below is from the 11/25/11 letter. It looks at what happens when an already extended selloff experiences an intense 1-day drop.

SPX closes down for at least the 4th day in a row. Today is the largest % drop of the decline. Close < 200ma. Buy on close. Sell X days later. $100k/trade. 1990 - 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	44,195.73	37	26	11	70.27	6,853.60	-6,440.08	2,648.61	-2,242.56	1.18	2.79	1,194.48
4	19,993.14	37	23	14	62.16	6,541.50	-10,632.61	2,266.14	-2,294.86	0.99	1.62	540.36
3	5,942.66	37	21	16	56.76	5,654.88	-9,701.00	2,185.08	-2,496.50	0.88	1.15	160.61
2	30,731.94	39	27	12	69.23	10,183.87	-8,631.00	2,152.70	-2,282.58	0.94	2.12	788.00
1	14,099.80	41	23	18	56.10	4,897.20	-3,884.00	1,278.09	-849.79	1.50	1.92	343.90
92% of instances closed above the entry price at some point in the next 5 days.												

The consistency of some bounce occurring is strong and the 1st 2 days look promising. Below is an equity curve.



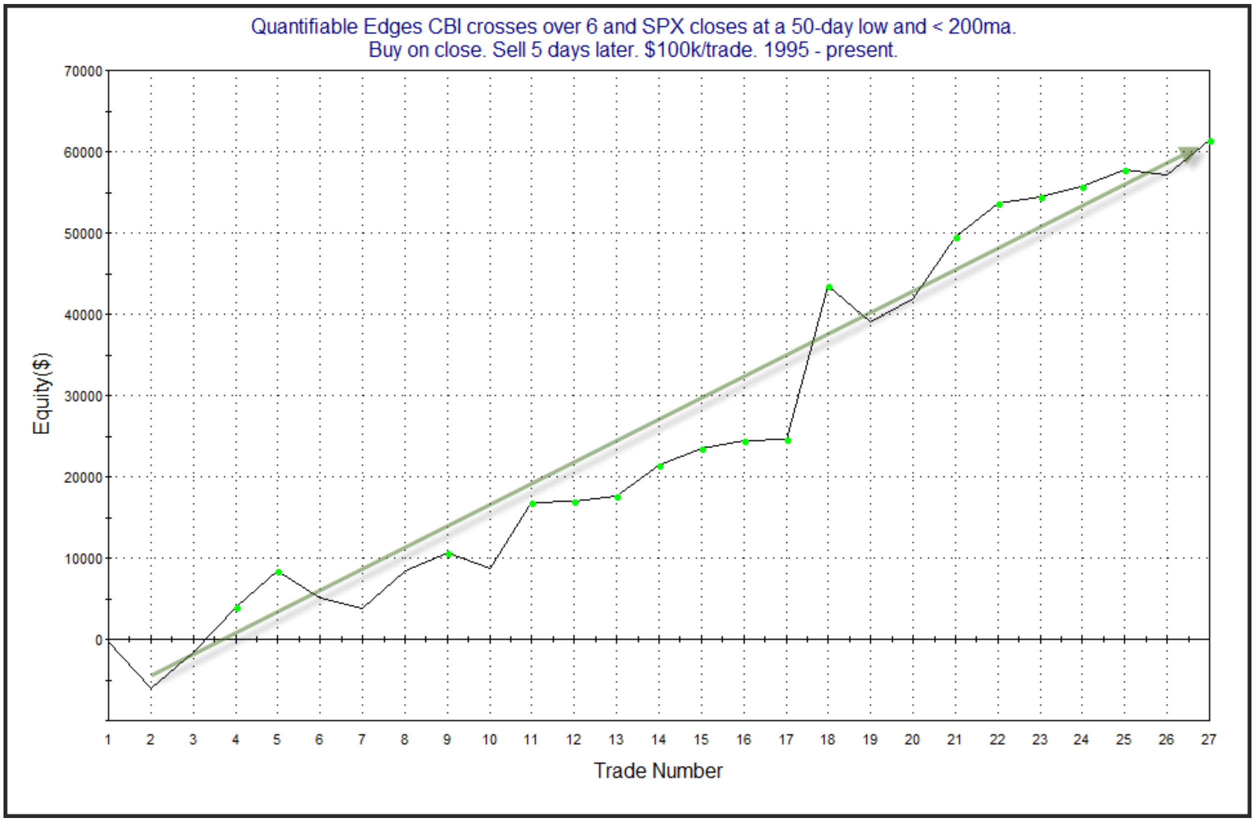
While it is not the smoothest looking equity curve it starts at the lower left and ends at the upper right and generally works its way higher. So there seems to be some potential.

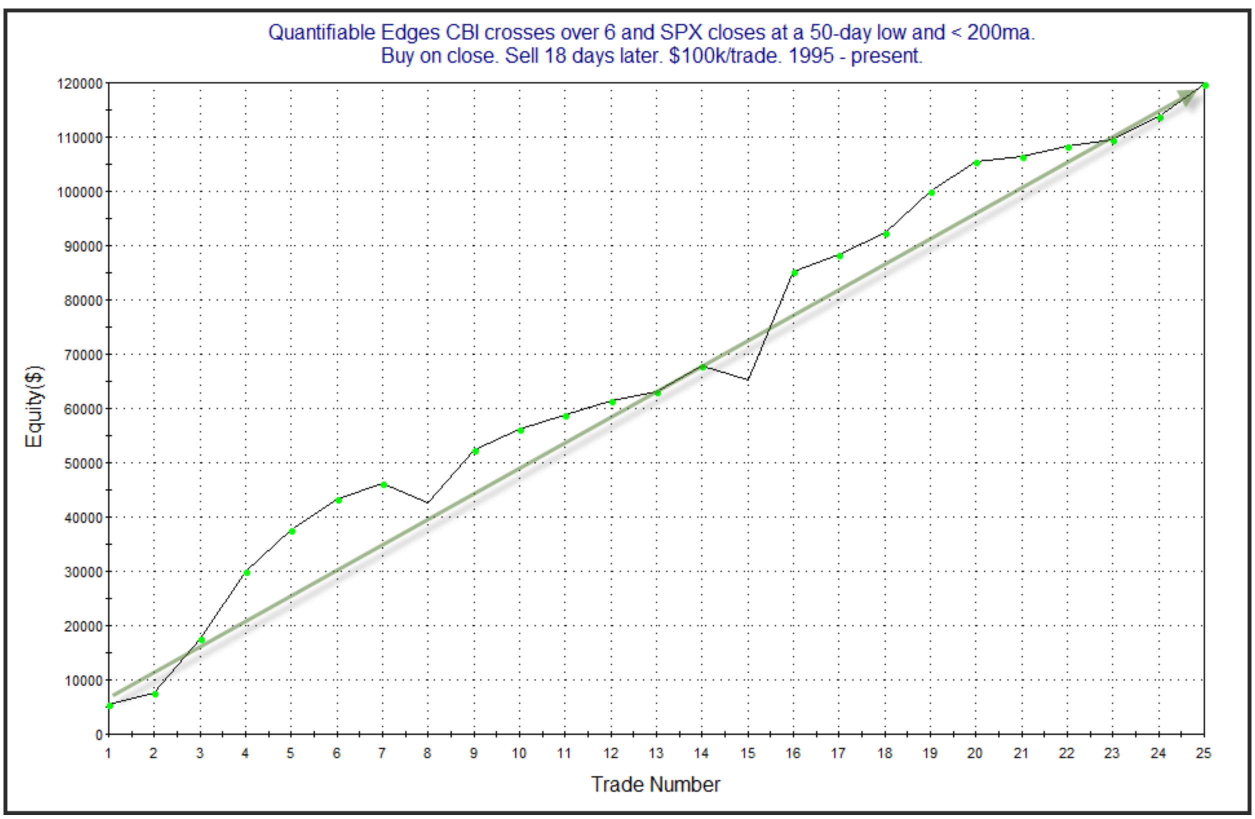
I'll also mention that the Quantifiable Edges Capitualtive Breath Index (CBI) closed at 7 on Friday. Seven has been a somewhat bullish reading over the years. Readings of 10+ have been even more reliable. We are not to 10 yet, but could certainly get there on Monday with some more selling. Still, below is a little study that examines reaching 7+ on a day that SPX closes at a 50-day low and < 200ma.

Quantifiable Edges CBI crosses over 6 and SPX closes at a 50-day low and < 200ma.
Buy on close. Sell X days later. $100k/trade. 1995 - 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
20	105,706.46	25	21	4	84.00	17,878.08	-9,126.74	5,497.73	-2,436.46	2.26	11.85	4,228.26
19	107,256.98	25	21	4	84.00	17,534.88	-5,955.46	5,589.13	-2,528.68	2.21	11.60	4,290.28
18	119,700.83	25	23	2	92.00	20,061.36	-3,588.76	5,479.90	-3,168.38	1.73	19.89	4,788.03
17	112,923.02	25	22	3	88.00	21,217.68	-4,214.00	5,489.69	-2,616.74	2.10	15.38	4,516.92
16	83,753.37	25	20	5	80.00	15,329.16	-6,614.00	5,083.58	-3,583.65	1.42	5.67	3,350.13
15	84,210.24	25	19	6	76.00	16,802.28	-6,419.98	5,335.17	-2,859.67	1.87	5.91	3,368.41
14	71,994.17	25	19	6	76.00	15,991.80	-14,731.00	5,091.84	-4,125.13	1.23	3.91	2,879.77
13	70,119.79	25	19	6	76.00	19,377.60	-11,946.00	4,915.69	-3,879.72	1.27	4.01	2,804.79
12	68,854.96	25	19	6	76.00	17,982.36	-8,812.00	4,695.95	-3,394.68	1.38	4.38	2,754.20
11	54,969.84	26	19	7	73.08	20,758.32	-12,064.08	4,709.78	-4,930.85	0.96	2.59	2,114.22
10	50,119.11	26	18	8	69.23	16,319.16	-11,180.43	4,450.61	-3,748.98	1.19	2.67	1,927.66
9	36,991.08	26	16	10	61.54	12,246.96	-11,287.50	4,217.04	-3,048.16	1.38	2.21	1,422.73
8	50,673.18	26	19	7	73.08	15,615.60	-7,376.22	3,927.31	-3,420.81	1.15	3.12	1,948.97
7	39,352.39	26	17	9	65.38	12,720.84	-9,509.88	3,792.31	-2,790.76	1.36	2.57	1,513.55
6	38,252.03	27	19	8	70.37	9,087.96	-8,930.67	3,626.84	-3,832.25	0.95	2.25	1,416.74
5	61,459.57	27	20	7	74.07	18,981.60	-5,731.35	3,961.01	-2,537.24	1.56	4.46	2,276.28
4	42,387.88	27	20	7	74.07	17,851.68	-7,005.12	3,054.77	-2,672.49	1.14	3.27	1,569.92
3	16,413.33	27	17	10	62.96	13,853.40	-9,701.00	2,726.89	-2,994.38	0.91	1.55	607.90
2	12,024.51	27	19	8	70.37	13,116.84	-8,631.00	2,264.00	-3,873.95	0.58	1.39	445.35
1	16,588.51	27	18	9	66.67	6,281.88	-3,884.00	1,713.10	-1,583.04	1.08	2.16	614.39

Numbers here are compelling. (Though they are even better if I use a reading of 10 instead of 7 for the CBI to reach.) Below are the profit curves for the 5 and 18-day holding periods.


Quantifiable Edges CBI crosses over 6 and SPX closes at a 50-day low and < 200ma.
Buy on close. Sell 5 days later. $100k/trade. 1995 - present.
Equity($)
Trade Number


Quantifiable Edges CBI crosses over 6 and SPX closes at a 50-day low and < 200ma.
Buy on close. Sell 18 days later. $100k/trade. 1995 - present.
Equity($)
Trade Number

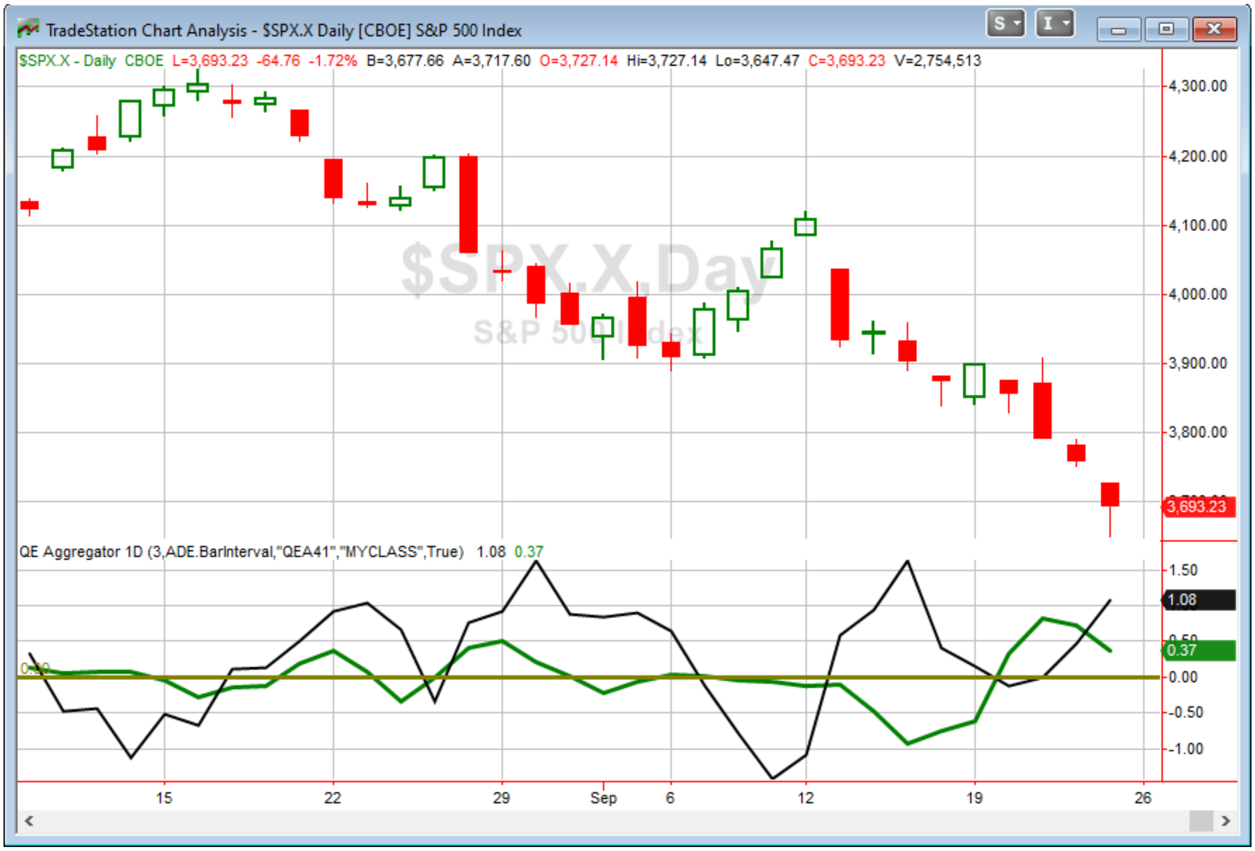
Those are both about as good-looking as you get. I have added this study to the short and intermediate-term active lists tonight. I will replace it with a 10+ study if the CBI gets that far in the next few days.

Below is a look at the September seasonality calendar as we enter the final week.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
9/1/2022	52.75	0.958	-0.070
9/2/2022	62.86	1.741	0.241
9/6/2022	56.70	1.213	0.084
9/7/2022	61.15	1.403	0.132
9/8/2022	58.22	1.109	0.041
9/9/2022	57.25	1.391	0.136
9/12/2022	49.96	0.811	-0.185
9/13/2022	48.21	1.381	0.148
9/14/2022	51.11	1.110	0.036
9/15/2022	52.29	1.058	0.008
9/16/2022	50.73	1.160	0.068
9/19/2022	49.89	0.726	-0.198
9/20/2022	47.94	1.560	0.164
9/21/2022	57.50	3.878	0.371
9/22/2022	51.27	1.119	0.019
9/23/2022	49.67	0.979	0.015
9/26/2022	51.35	0.829	-0.163
9/27/2022	51.62	1.229	0.111
9/28/2022	53.30	1.159	0.058
9/29/2022	57.38	1.245	0.062
9/30/2022	55.78	1.105	0.058
Baseline	***54.44***	***1.145***	***0.047***

As you can see, the final week is providing mostly moderate numbers that are around the baseline stats. So seasonality may not be a strong influence this week. But October is coming soon. And October has been known for wild swings, with some of the best and worst weeks of the year. I'll delve into that in more detail next weekend.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator line remained above zero. Positive readings mean expectations are for upside over the next over the next few days. Meanwhile the black Differential Line also held 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 stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if extremely compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3807.49. That is a whopping 3.1% above Friday's close. I don't see that all getting done on Monday. It will almost certainly take a multi-day rally or consolidation to work off the oversold condition.

So the Aggregator is bullish. Evidence is pointing higher and the SPX is certainly oversold. I like the long side. I have started to scale into a long position over the last couple of days. Friday's entry was at the close. The CBI is at 7. It looks like it could reach 10 or higher on Monday if there is additional selling. So I will look to increase my position on Monday, but only if SPX again closes strongly lower.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/26 – 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…again. The SPX declined 4.65%, the NASDAQ tumbled 5.1%, and the Russell 2000 dropped 6.6% on the week. Bonds also struggled. The US Aggregate Bond ETF (AGG) lost 1.65%, while TLT, the 20-year Treasury Bond ETF dropped 1.3%. Both bond measures also made new lows for the year. Other than the CBI study discussed above, 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

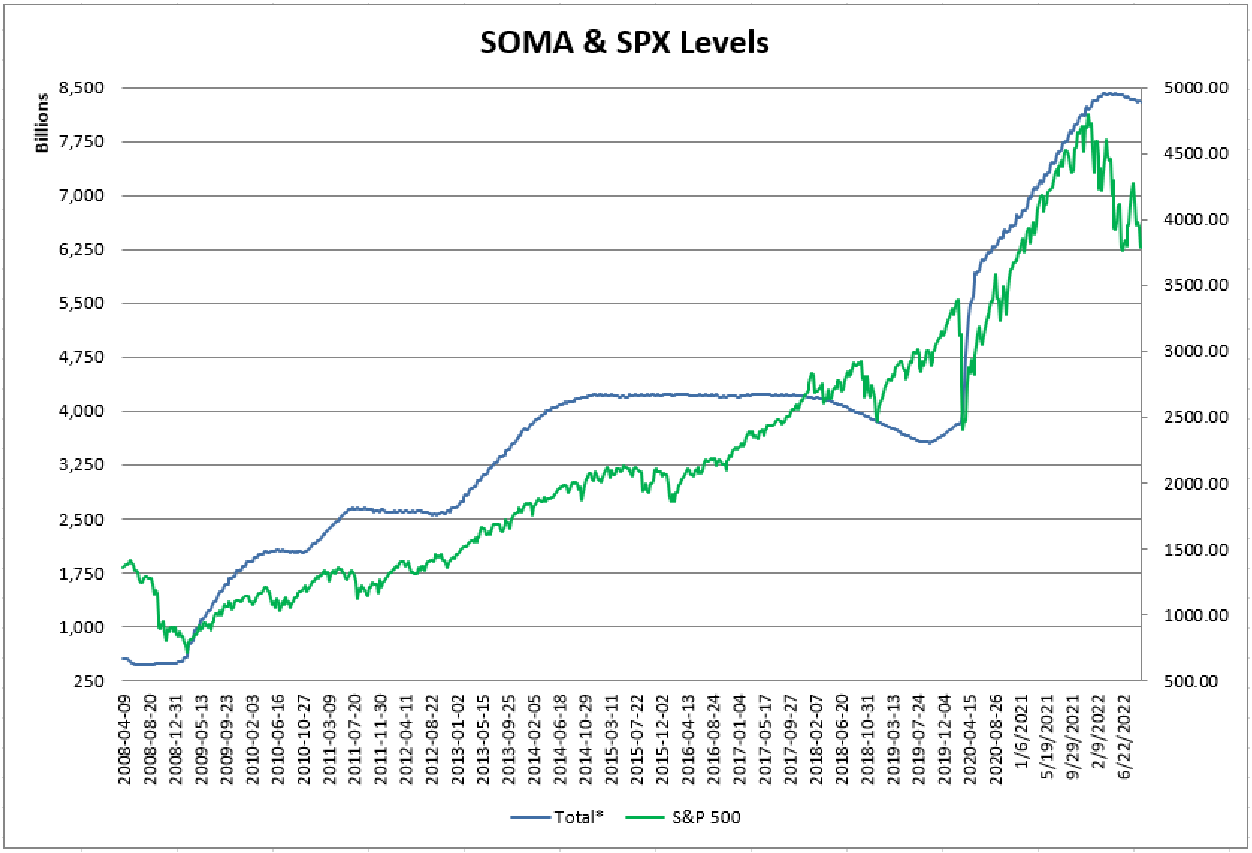
◂ Previous September 21, 2022

Posted September 22, 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)	314,791,855.0
US Treasury Notes and Bonds (Notes/Bonds)	4,853,363,800.9
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***	2,706,225,455.5
Agency Commercial Mortgage-Backed Securities***	8,661,193.1
Total SOMA Holdings	8,291,074,631.2
Change From Prior Week	-16,738,370.4

This week the SOMA declined by $16.7 billion. September has seen an increase in the QT cap, but so far no real increase in the actual amount of QT. November appears to be the first month where that $95 billion 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 73% chance of a 75-point rate increase and a 27% chance of a 50-point increase at the November 2nd Fed meeting.

Bulls appear to be running out of hope. Breadth and momentum studies from several weeks ago have been failing. But the CBI says we could be entering a point where breadth is so oversold, that a multi-week bounce is likely. Bears can still point to Fed policy, overall 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

CHTR – 1/3 @ $353.03 (bought @ limit)
CHTR – 1/3 @ $333.96 (bought @ limit)
MMM – 1/3 @ $114.14 (bought @ limit)
T – 1/3 @ $16.24 (bought @ limit)
New
CHTR – 1/3 @ $321.66 (buy @ limit)
MMM – 1/3 @ $112.99 (buy @ limit)
T – 1/3 @ $16.01 (buy @ limit)

Broad Market Large Cap CBI – 7(CHTR-3, MMM-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*.

CHTR – Buy 1/3 Catapult position @ $321.66 LIMIT. From the Catapult section above, this is the 3rd and final lot of CHTR.

MMM – Buy 1/3 Catapult position @ $112.99 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of MMM.

T – Buy 1/3 Catapult position @ $16.01 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of T.

SPY – Buy ¼ index position @ $364.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add to my current long position if SPY sells down substantially again on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	9/22/2022	$376.58	$374.22	-0.63%	Aggregator
CHTR(1/3)	9/22/2022	$352.03	$321.66	-8.63%	Catapult
SPY(1/4)	9/23/2022	$367.95	$367.95	0.00%	Aggregator
CHTR(1/3)	9/23/2022	$330.98	$321.66	-2.82%	Catapult
MMM(1/3)	9/23/2022	$113.73	$112.99	-0.65%	Catapult
T(1/3)	9/23/2022	$16.10	$16.01	-0.56%	Catapult