

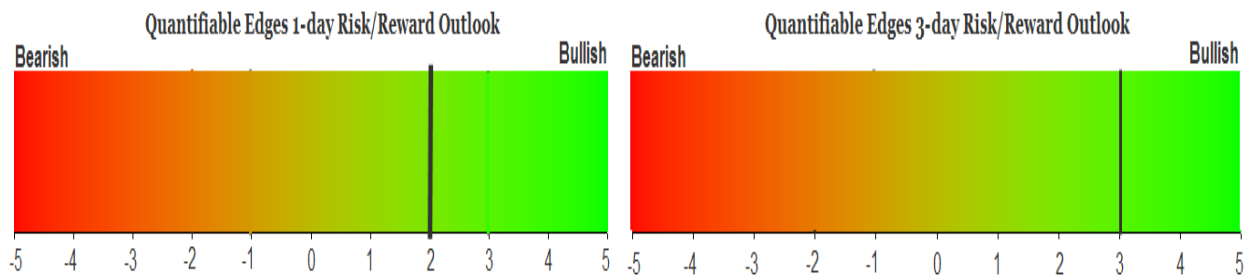
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 28, 2022

Volume 15 Issue 185

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	13

Tonight's Research Points

- A mix of bullish and bearish short-term studies triggered.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side for the short-term.

The Evidence

The market was mixed on Tuesday. The SPX finished down 0.2% and at a new bear-market low, the NASDAQ rose 0.25%, and the Russell 2000 gained 0.4%. Breadth was near breakeven with the NYSE Up Issues % coming in at 48% and the Up Volume % at 50%. NYSE total volume declined some from Monday's level.

Two other important notables with the action were 1) the fact that the market gapped up large to start the day, and 2) that while it went from strongly positive to solidly negative the market did close well off its lows. In the past I've shown how bounces late in the day will often reduce an upside edge. In the case below, which is a study I last shared in the 10/30/18 letter, we see that the late day bounce has often been followed by a sizable pullback the next day.

SPY gaps up > 1% but then closes down on the day but above the bottom 15% of the intraday range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

Total Net Profit	(\$29,848.19)	Profit Factor	0.13
Gross Profit	\$4,355.81	Gross Loss	(\$34,204.00)
Total Number of Trades	12	Percent Profitable	25.00%
Winning Trades	3	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	(\$2,487.35)	Ratio Avg. Win:Avg. Loss	0.38
Avg. Winning Trade	\$1,451.94	Avg. Losing Trade	(\$3,800.44)
Largest Winning Trade	\$2,368.82	Largest Losing Trade	(\$9,839.83)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/13/1997	Buy	\$92.28	0.51%	\$1,115.49
8/14/1997	Sell	\$92.75		(\$606.48)
8/28/1998	Buy	\$103.38	-7.44%	\$628.55
8/31/1998	Sell	\$95.69		(\$8,103.46)
10/6/1998	Buy	\$98.59	-1.48%	\$1,460.16
10/7/1998	Sell	\$97.13		(\$2,879.76)
10/28/2002	Buy	\$89.61	-1.16%	\$0.00
10/29/2002	Sell	\$88.57		(\$2,910.15)
10/14/2008	Buy	\$99.85	-9.84%	\$0.00
10/15/2008	Sell	\$90.02		(\$10,150.14)
11/10/2008	Buy	\$92.63	-3.09%	\$0.00
11/11/2008	Sell	\$89.77		(\$4,294.42)
3/3/2009	Buy	\$70.07	2.37%	\$3,995.60
3/4/2009	Sell	\$71.73		\$0.00
6/21/2010	Buy	\$111.41	-1.65%	\$439.53
6/22/2010	Sell	\$109.57		(\$1,794.00)
8/1/2011	Buy	\$128.78	-2.55%	\$0.00
8/2/2011	Sell	\$125.49		(\$2,553.04)
8/5/2011	Buy	\$120.08	-6.51%	\$0.00
8/8/2011	Sell	\$112.26		(\$6,705.92)
10/29/2018	Buy	\$263.86	1.48%	\$1,610.28
10/30/2018	Sell	\$267.77		(\$279.72)
1/26/2022	Buy	\$433.38	-0.49%	\$1,888.30
1/27/2022	Sell	\$431.24		(\$903.90)

Instances are low but the stats are strongly negative. In looking at the 9 losing trades, all of them saw an intraday decline of at least 0.9%. This study appears to be worth some consideration. But most of the evidence tonight was actually bullish.

I mentioned above that advance/decline numbers were near breakeven. This allowed the McClellan Oscillator to rise despite SPX suffering another down day. In the 11/28/11 letter I looked at other times when strong selloffs continued to close lower while the McClellan Oscillator ticked upwards. I also included a long-term trend filter. Updated results are below.

Yesterday NYSE Ratio Adjusted McClellan Oscillator closed < 35. Today it closed higher but SPX closes down for at least the 5th day in a row.SPX < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1980 - 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	28,852.97	13	9	4	69.23	12,159.72	-2,898.00	4,087.53	-1,983.70	2.06	4.64	2,219.46
9	39,689.97	13	11	2	84.62	12,898.44	-1,771.70	3,821.20	-1,171.61	3.26	17.94	3,053.07
8	34,305.15	13	10	3	76.92	9,894.96	-2,027.11	3,788.76	-1,194.15	3.17	10.58	2,638.86
7	38,785.26	13	12	1	92.31	8,582.80	-2,580.77	3,447.17	-2,580.77	1.34	16.03	2,983.48
6	40,842.98	13	12	1	92.31	9,565.98	-2,009.25	3,571.02	-2,009.25	1.78	21.33	3,141.77
5	30,210.64	13	9	4	69.23	7,362.46	-1,695.20	3,735.41	-852.01	4.38	9.86	2,323.90
4	27,988.56	13	11	2	84.62	7,388.26	-1,825.60	2,855.69	-1,712.04	1.67	9.17	2,152.97
3	26,331.62	13	10	3	76.92	7,592.94	-1,864.72	2,859.17	-753.36	3.80	12.65	2,025.51
2	34,876.23	14	12	2	85.71	10,965.69	-997.56	3,023.50	-702.90	4.30	25.81	2,491.16
1	23,928.50	16	9	7	56.25	11,558.43	-1,251.84	2,922.26	-338.84	8.62	11.09	1,495.53

The stats here all seem to suggest a short-term upside edge. Below I have listed all 14 instances that triggered using a two day holding period.

Yesterday NYSE Ratio Adjusted McClellan Oscillator closed < 35. Today it closed higher but SPX closes down for at least the 5th day in a row. SPX < 200ma.
Buy SPX on close. Sell 2 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/26/1980	Buy	\$98.68	2.03%	\$2,785.75
3/28/1980	Sell	\$100.68		(\$4,507.85)
5/28/1982	Buy	\$111.88	0.14%	\$276.83
6/2/1982	Sell	\$112.04		(\$294.69)
6/21/1982	Buy	\$107.20	2.74%	\$2,740.08
6/23/1982	Sell	\$110.14		(\$27.96)
8/10/1982	Buy	\$102.84	-0.41%	\$369.36
8/12/1982	Sell	\$102.42		(\$437.40)
8/12/1982	Buy	\$102.42	1.63%	\$3,025.60
8/16/1982	Sell	\$104.09		(\$19.52)
2/22/1984	Buy	\$154.31	2.07%	\$2,073.60
2/24/1984	Sell	\$157.51		(\$1,412.64)
5/23/1984	Buy	\$153.15	-1.00%	\$0.00
5/25/1984	Sell	\$151.62		(\$1,532.20)
4/24/1990	Buy	\$330.36	0.77%	\$1,026.80
4/26/1990	Sell	\$332.91		\$0.00
11/23/1994	Buy	\$449.19	1.11%	\$1,110.00
11/28/1994	Sell	\$454.16		\$0.00
9/26/2000	Buy	\$1,427.34	2.17%	\$2,404.50
9/28/2000	Sell	\$1,458.25		(\$553.00)
1/22/2008	Buy	\$1,310.51	3.18%	\$3,392.64
1/24/2008	Sell	\$1,352.14		(\$3,074.96)
10/10/2008	Buy	\$899.22	10.99%	\$16,104.99
10/14/2008	Sell	\$998.01		\$0.00
11/25/2011	Buy	\$1,158.67	3.15%	\$3,870.00
11/29/2011	Sell	\$1,195.19		\$0.00
8/25/2015	Buy	\$1,867.62	6.43%	\$6,464.94
8/27/2015	Sell	\$1,987.66		\$0.00

My primary concern when looking at these results is that many of them occurred in the early 80s. There have only been two instances in the last 10 years, and 4 in the last 20 years. Still, all 4 of those instances resulted in strong bounces and the results overall appear to suggest an upside edge. Therefore I have decided to include this study on the short-term active list.

I also noted this evening that the market is substantially oversold on both a short-term and long-term basis. The study below looks at other times (like now) where SPX has closed at a 50-day low and had an extremely weak RSI(2) reading for 3 days in a row.

SPX closes at a 50-day low and with an RSI2 < 2 for the 3rd day in a row.
Buy 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
5	22,832.78	9	8	1	88.89	5,448.49	-979.03	2,976.48	-979.03	3.04	24.32	2,536.98
4	30,143.89	9	8	1	88.89	5,541.68	-925.99	3,883.74	-925.99	4.19	33.55	3,349.32
3	17,376.04	9	8	1	88.89	6,426.25	-2,996.76	2,546.60	-2,996.76	0.85	6.80	1,930.67
2	30,049.06	9	8	1	88.89	10,965.69	-1,485.12	3,941.77	-1,485.12	2.65	21.23	3,338.78
1	12,555.71	9	5	4	55.56	11,558.43	-2,684.68	3,549.06	-1,297.40	2.74	3.42	1,395.08

As you can see, it is quite rare for oversold conditions (both short and long-term) to persist day after day after day like we have now. While rare, the limited number of results have shown a strong propensity to rally over the next few days. Instances along with their 2-day results can be found below.

SPX closes at a 50-day low and with an RSI2 < 2 for the 3rd day in a row.
Buy on close. Sell 2 days later. \$100k/trade. 1985 - present.

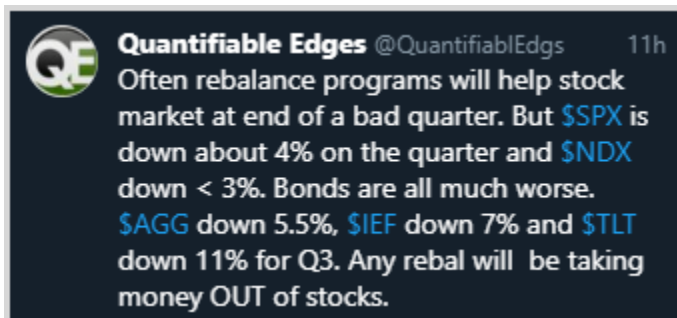
Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/17/1985	Buy	\$181.36	1.11%	\$1,118.53
9/19/1985	Sell	\$183.38		(\$308.56)
3/29/1994	Buy	\$452.48	-1.49%	\$2.21
3/31/1994	Sell	\$445.76		(\$3,606.72)
10/10/2008	Buy	\$899.22	10.99%	\$16,104.99
10/14/2008	Sell	\$998.01		\$0.00
7/2/2010	Buy	\$1,022.58	3.69%	\$3,716.07
7/7/2010	Sell	\$1,060.27		(\$410.31)
5/18/2012	Buy	\$1,295.22	1.65%	\$2,561.79
5/22/2012	Sell	\$1,316.63		\$0.00
8/25/2015	Buy	\$1,867.62	6.43%	\$6,464.94
8/27/2015	Sell	\$1,987.66		\$0.00
11/3/2016	Buy	\$2,088.66	2.05%	\$2,036.98
11/7/2016	Sell	\$2,131.52		(\$228.89)
12/21/2018	Buy	\$2,416.58	2.12%	\$2,098.38
12/26/2018	Sell	\$2,467.70		(\$2,870.00)
2/27/2020	Buy	\$2,978.76	3.74%	\$3,702.60
3/2/2020	Sell	\$3,090.23		(\$4,056.36)

Not much to dislike about this list. I have also added this study to the active list tonight.

A few other notes before I get to the Aggregator chart.

The CBI closed at 14 on Tuesday. This is a heavy-duty spike. Of course they can and do get much higher on occasion.

On Twitter today I noted the following:



I'm not sure rebalancing will be a headwind, since many rebalances may already have run. But the fact it is not a tailwind in the current case makes the bullish case a little less convincing than it might otherwise be.

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 Wednesday. This could change if extremely compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3762.42. That is a whopping 3.2% above Tuesday's close. I don't see that all getting done on Wednesday. It will almost certainly take a multi-day rally or consolidation to work off the oversold condition.

Tuesday did not change much. Most evidence is still pointing higher. I still believe risk/reward favors the bulls. I intend to maintain my current index position to try and take advantage of a bounce in the coming days. This market is not without risk and there could be further to fall. To this point oversold price and breadth readings have not mattered. But at some point they will. I believe that point is near.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/26 – neutral

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)

CHTR – 1/3 @ \$321.66 (buy @ limit)

MMM – 1/3 @ \$112.99 (buy @ limit)

T – 1/3 @ \$16.01 (buy @ limit)

MMM – 1/3 @ \$113.00 (buy @ limit)

T – 1/3 @ \$15.67 (buy @ limit)

INTC – 1/3 @ \$26.97 (buy @ limit)

ADBE – 1/3 @ \$276.96 (buy @ limit)

New

INTC – 1/3 @ \$26.89 (buy @ limit)

CMCSA – 1/3 @ \$30.26 (buy @ limit)

Broad Market Large Cap CBI – 13(CHTR-3, MMM-3, T-3, INTC-2, ADBE, CMCSA)

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.

INTC – Buy 1/3 Catapult position @ \$26.89 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of INTC.

CMCSA – Buy 1/3 Catapult position @ \$30.26 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of CMCSA.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	9/22/2022	\$376.58	\$363.38	-3.51%	Aggregator
CHTR(1/3)	9/22/2022	\$352.03	\$306.89	-12.82%	Catapult
SPY(1/4)	9/23/2022	\$367.95	\$363.38	-1.24%	Aggregator
CHTR(1/3)	9/23/2022	\$330.98	\$306.89	-7.28%	Catapult
MMM(1/3)	9/23/2022	\$113.73	\$112.41	-1.16%	Catapult
T(1/3)	9/23/2022	\$16.10	\$15.73	-2.30%	Catapult
SPY(1/4)	9/26/2022	\$364.31	\$363.38	-0.26%	Aggregator
CHTR(1/3)	9/26/2022	\$321.44	\$306.89	-4.53%	Catapult
MMM(1/3)	9/26/2022	\$112.76	\$112.41	-0.31%	Catapult
T(1/3)	9/26/2022	\$15.91	\$15.73	-1.13%	Catapult
MMM(1/3)	9/27/2022	\$113.00	\$112.41	-0.52%	Catapult
T(1/3)	9/27/2022	\$15.67	\$15.73	0.38%	Catapult
INTC(1/3)	9/27/2022	\$26.97	\$26.89	-0.30%	Catapult
ADBE(1/3)	9/27/2022	\$276.96	\$277.57	0.22%	Catapult

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