

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 25, 2022

Volume 15 Issue 204

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Multiple strong up days to a 10-day high under the 200ma are often followed by a pullback.
- A strong SPX on a Monday where the VIX also rises has been rare, but has always seen more selling over the next couple of weeks.

Short-term Outlook

The Bottom Line

The Aggregator flipped to short. Evidence is somewhat compelling and the market is clearly overbought. I believe there is a moderate short-term downside edge.

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						
October 25, 2022	SPY up 1% 2x. 10-day high & < 200ma	1-4 days	Bearish	-3.25%	1.20%	2.15%
October 24, 2022	2 outside days and a 10-day high	1-3 days	Bullish	1.70%	-0.40%	-0.70%
Active - Long Term						
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

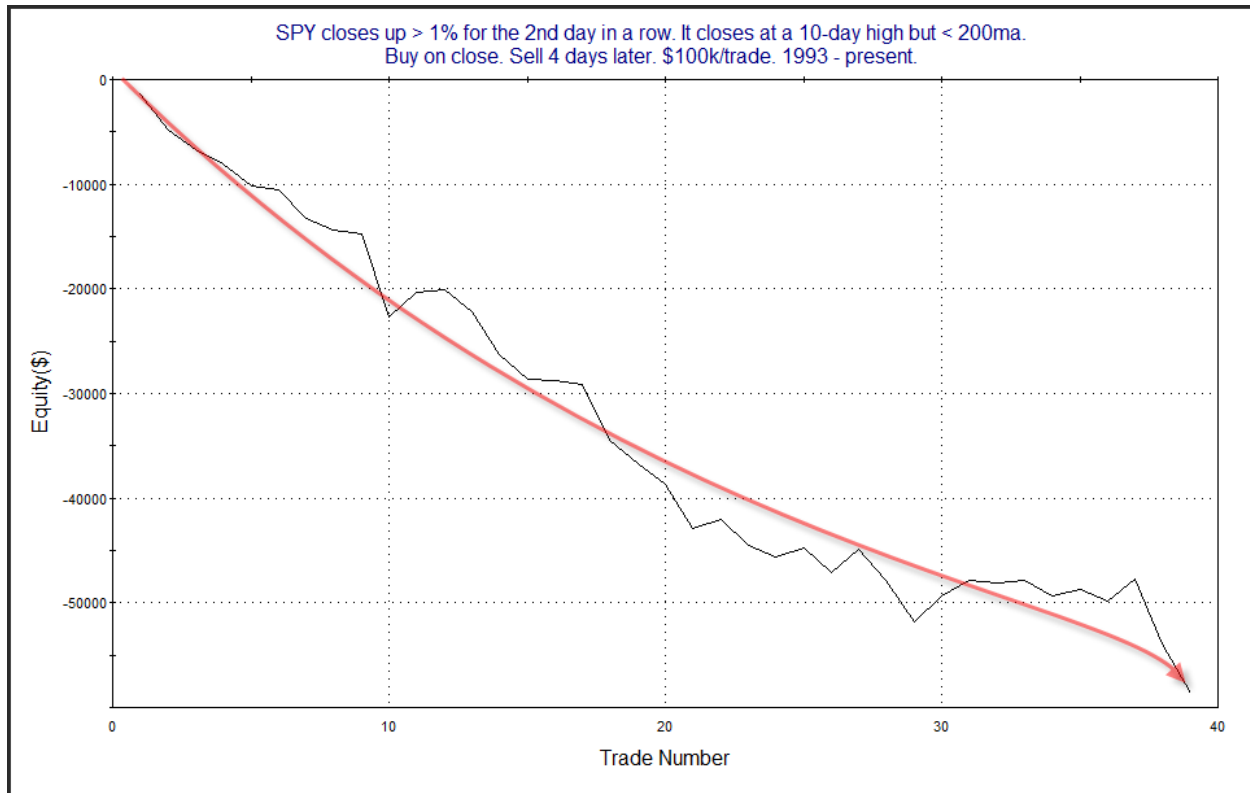
The Evidence

Monday saw solid gains for the stock market. SPX rallied 1.2%, the NASDAQ gained 0.9%, and the Russell 2000 climbed 0.35%. Breadth was positive with the NYSE Up Issues % coming in at 57% and the Up Volume % at 54%. NYSE total volume declined from Friday's elevated opex level.

There were a couple of studies worth some discussion tonight. This first study looks at strong multi-day moves below the 200ma. It requires 2 days of 1% gains and a 10-day high. It was last seen earlier this month in the 10/5/22 letter. All stats are updated.

SPY closes up > 1% for the 2nd day in a row. It closes at a 10-day high but < 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	-44,506.88	38	15	23	39.47	3,399.42	-7,053.11	1,612.22	-2,986.53	0.54	0.35	-1,171.23
4	-58,661.80	39	10	29	25.64	2,475.56	-7,879.83	1,332.47	-2,482.29	0.54	0.19	-1,504.15
3	-44,092.68	39	12	27	30.77	2,864.79	-5,502.64	1,235.77	-2,182.29	0.57	0.25	-1,130.58
2	-37,104.69	39	14	25	35.90	2,505.60	-5,350.20	1,052.93	-2,073.83	0.51	0.28	-951.40
1	-26,943.06	41	14	27	34.15	2,052.00	-8,857.80	666.52	-1,343.50	0.50	0.26	-657.15

The numbers here all suggest a downside edge. The equity curve is below.



The strong, fairly steady downslope serves as some confirmation of the bearish edge. I have added this study to the active list.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will typically move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-week. The Quantifinder identified a study that look at VIX up & SPX up on Mondays. It was somewhat bearish, but not as much recently. Most of the instances took place above the 200ma. I looked at instances that took place in downtrends tonight.

SPX closes up > 1% and VIX closes up. SPX < 200ma.
Buy SPX 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
10	-28,743.03	5	0	5	0.00	0.00	-10,928.88	0.00	-5,748.61	0.00	0.00	-5,748.61
9	-22,133.16	5	1	4	20.00	81.65	-10,012.32	81.65	-5,553.70	0.01	0.00	-4,426.63
8	-19,156.84	5	1	4	20.00	658.95	-8,458.08	658.95	-4,953.95	0.13	0.03	-3,831.37
7	-15,283.19	5	1	4	20.00	823.40	-7,691.52	823.40	-4,026.65	0.20	0.05	-3,056.64
6	-10,164.77	5	2	3	40.00	1,374.25	-6,107.52	828.90	-3,940.86	0.21	0.14	-2,032.95
5	-8,113.92	5	1	4	20.00	165.60	-5,052.48	165.60	-2,069.88	0.08	0.02	-1,622.78
4	-3,632.16	5	1	4	20.00	3,807.65	-5,689.92	3,807.65	-1,859.95	2.05	0.51	-726.43
3	-7,231.94	5	1	4	20.00	1,500.75	-5,017.44	1,500.75	-2,183.17	0.69	0.17	-1,446.39
2	-3,671.34	5	3	2	60.00	1,291.45	-3,945.60	771.94	-2,993.58	0.26	0.39	-734.27
1	-3,656.93	5	3	2	60.00	728.20	-4,265.28	419.64	-2,457.92	0.17	0.26	-731.39

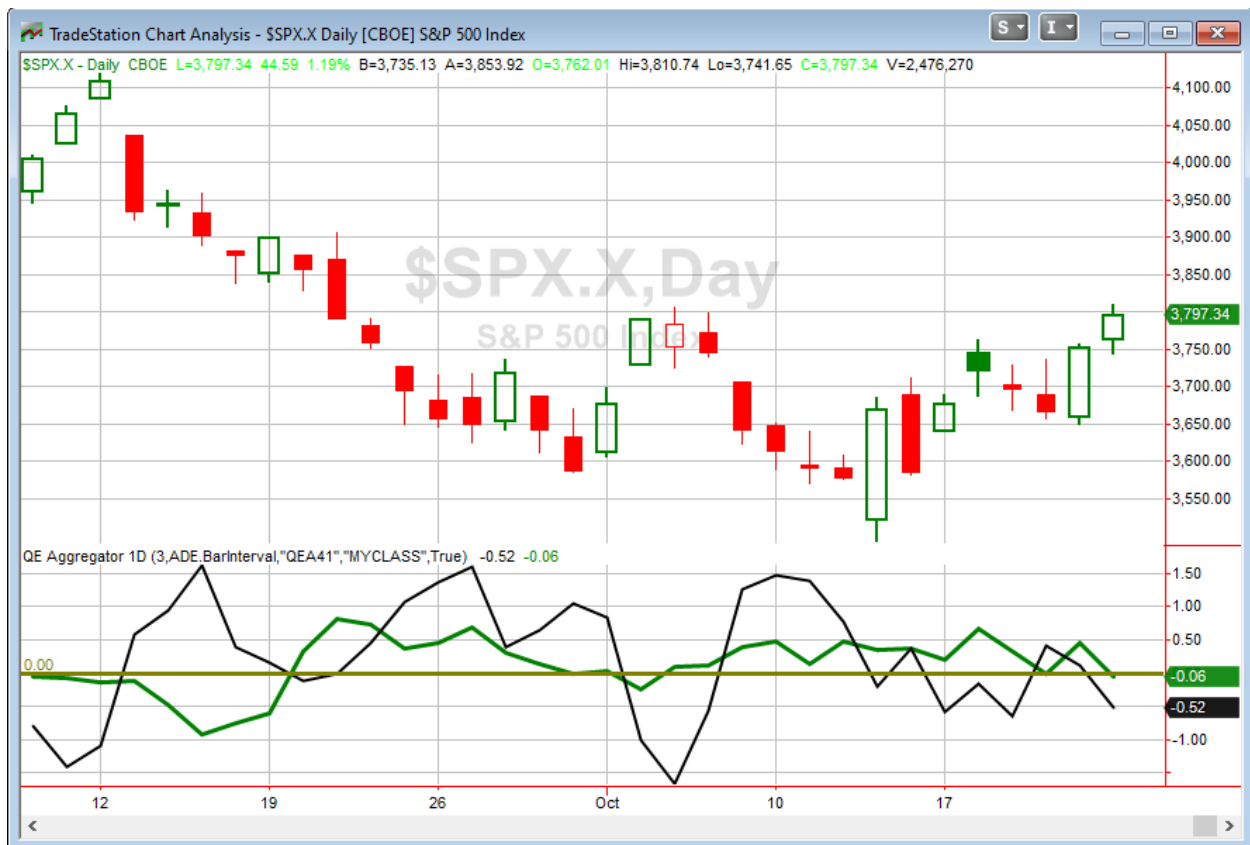
Only 5 instances. Initial data looks like a downside tendency over the next couple of weeks, but there really is not enough evidence to give much confidence. I won't be adding this study to the active list tonight. But I did find it interesting enough to share. Below is a look at all instances and their 10-day results for those that want a closer look.

SPX closes up > 1% and VIX closes up. SPX < 200ma.
Buy SPX on close. Sell 10 days later. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/9/2002	Buy	\$902.96	-9.27%	\$2,312.20
9/24/2002	Sell	\$819.29		(\$9,384.10)
1/6/2003	Buy	\$929.01	-5.45%	\$646.28
1/22/2003	Sell	\$878.36		(\$5,496.59)
3/17/2003	Buy	\$862.79	-0.50%	\$3,807.65
4/1/2003	Sell	\$858.48		(\$2,197.65)
12/5/2011	Buy	\$1,257.08	-1.26%	\$788.42
12/20/2011	Sell	\$1,241.30		(\$4,322.09)
9/12/2022	Buy	\$4,110.41	-11.27%	\$0.00
9/27/2022	Sell	\$3,647.29		(\$11,690.88)

We see some sizable declines here. And every instance saw a drawdown of at least 2.2%. So while I am not including this study on the active list tonight, I will continue to track it moving forward.

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



With tonight's evidence considered, the green Aggregator line dropped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also fell below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation flipped short at the close.

Based on current evidence, expectations are set to remain negative on Monday. Of course this could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3700.12 on Tuesday. That is a sizable 2.6% below Monday's close. Therefore, SPX would need to close down at least 2.6% on Tuesday in order to flip from overbought to oversold vs recent expectations. Most likely, it will take a multi-day decline or consolidation to work off the overbought condition.

So the Aggregator is now short. Evidence is mixed, but there is certainly ample downside potential. I am a hesitant to get aggressive. Volatility is high, and rallies coming from long-term lows can be vicious for short sellers. Still, reward/risk does appear to favor the bears. I will look to take a partial short position. I will not likely build this position up very large regardless of what happens over the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/24 – neutral

The intermediate-term outlook was last updated in the 10/24/22 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.

SPY – short ¼ index position @ \$378.87 LIMIT. Based on the short-term outlook above, I will look to take on a small amount of short exposure if I can get filled at Monday's closing price or better.

Current Open Trade Ideas

None

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