

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2022

Volume 15 Issue 209

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX inside day in the upper end of its range has short-term bearish implications.
- Bullish Fed Day tendencies have been more pronounced when the market closes poorly on the day before the Fed Day.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Indications are mixed and the environment is volatile. I don't love the reward/risk I am seeing.

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						
November 1, 2022	SPX inside day. Top 20% 10-day < 200	1-2 days	Bearish			
October 31, 2022	SPX 10-high < 200. Volume 5-low	1-2 days	Bearish			
October 31, 2022	Week after day after 4th Fri Oct bullish	1-5 days	Bullish			
Active - Long Term						
October 31, 2022	Best 6 Months 3rd Yr. Pres Cycle	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
October 31, 2022	Day After 4th Fri Oct bearish	1 day	Bearish			

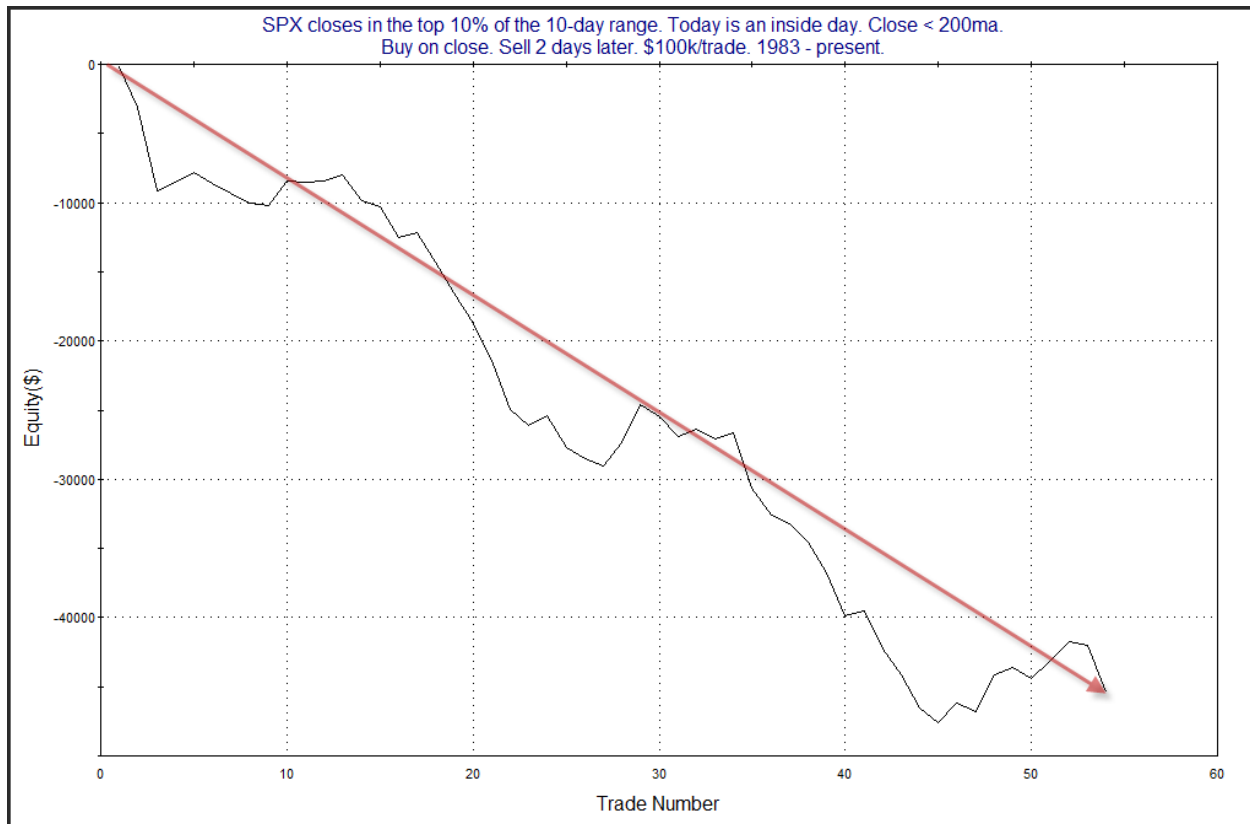
The Evidence

Monday saw some selling. SPX lost 0.75%, the NASDAQ declined 1.0%, and the Russell 2000 was basically even with a loss of just 0.06 points. Breadth was negative with the NYSE Up Issues % coming in at 47% and the Up Volume % at 44%. NYSE total volume rose above the level of the last few days.

There were a few bearish studies that emerged on Monday. They were related to inside days, tight ranges, and/or overbought conditions. The study below incorporated all 3 factors and showed some compelling odds. It was last seen in the 11/6/18 Subscriber Letter and I have updated the results.

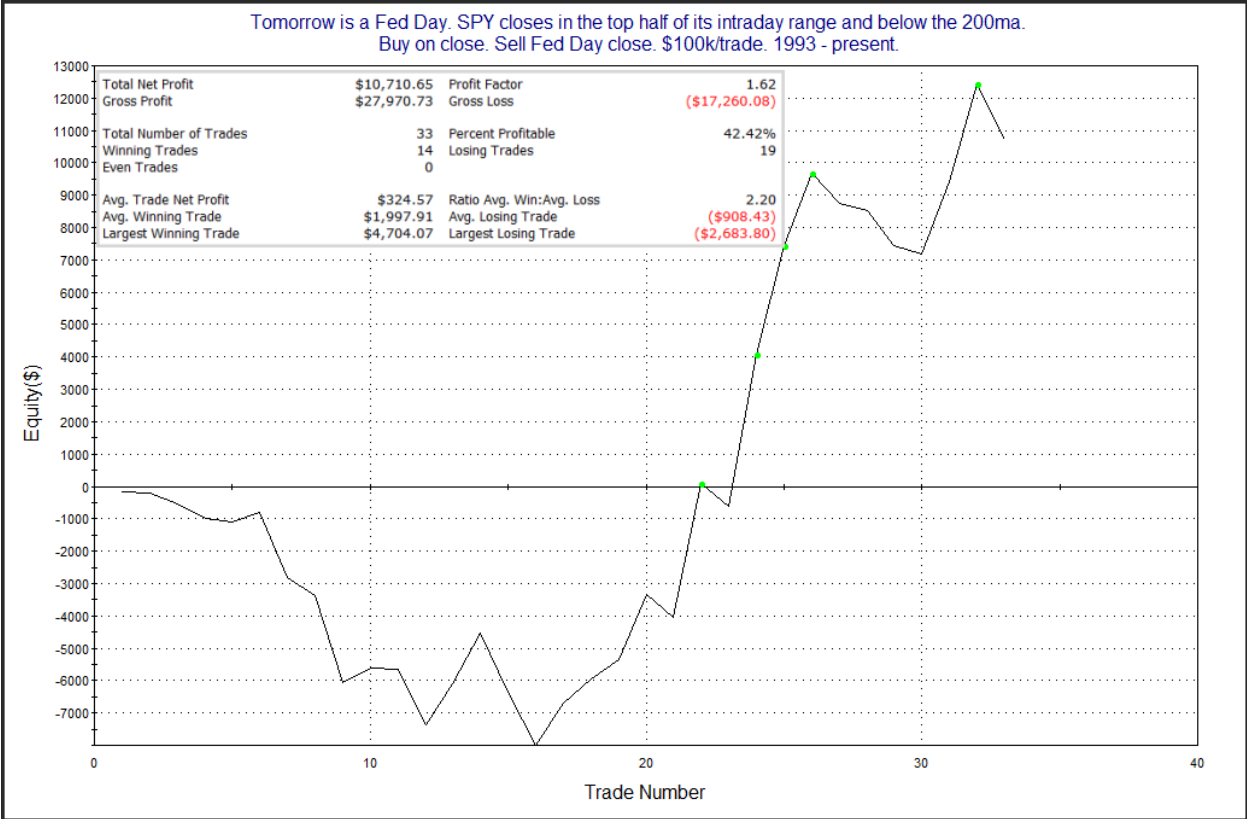
SPX closes in the top 10% of the 10-day range. Today is an inside day. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,494.80	52	26	26	50.00	5,159.00	-7,519.22	1,524.08	-2,389.27	0.64	0.64	-432.59
4	-35,543.54	53	27	26	50.94	4,086.25	-5,562.78	1,177.60	-2,589.95	0.45	0.47	-670.63
3	-55,657.39	54	19	35	35.19	2,909.50	-6,445.61	995.83	-2,130.81	0.47	0.25	-1,030.69
2	-45,383.78	54	17	37	31.48	2,720.88	-5,979.14	1,044.80	-1,706.63	0.61	0.28	-840.44
1	-11,971.64	54	25	29	46.30	4,063.35	-3,178.80	764.90	-1,072.22	0.71	0.61	-221.70
94% of instances closed below the entry price at some point in the next week.												

The numbers here suggest a solid downside edge over the next few days. Below is a profit curve for a 2-day holding period.

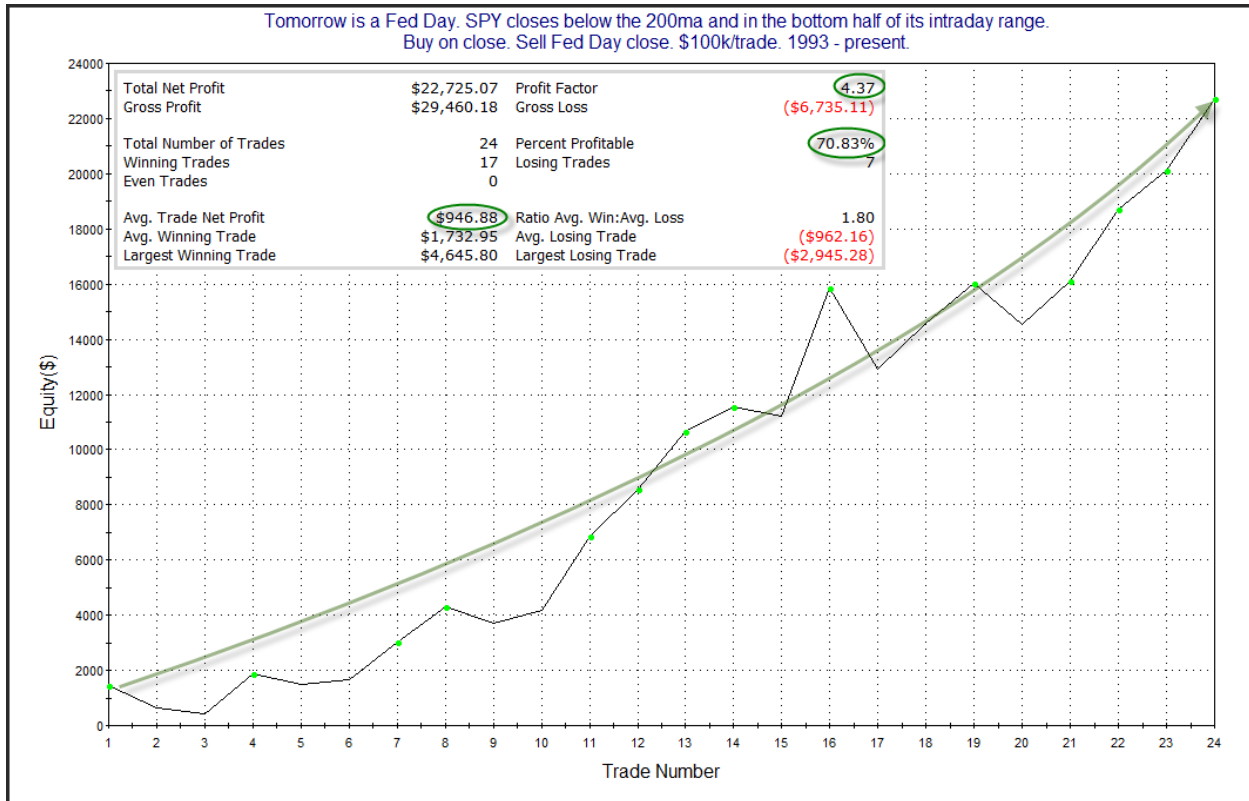


The strong, steady downslope supports the idea of a bearish edge.

As I am sure all readers are aware, Wednesday is a Fed Day. In the 9/20/22 letter I showed that when SPY has been below its 200ma, that closing low in its range the day before a Fed Day appeared advantageous. This is similar to tendencies above the 200ma, which I have shown many times in the past. First let's look at instances where SPY closed strongly the day before a Fed Day.

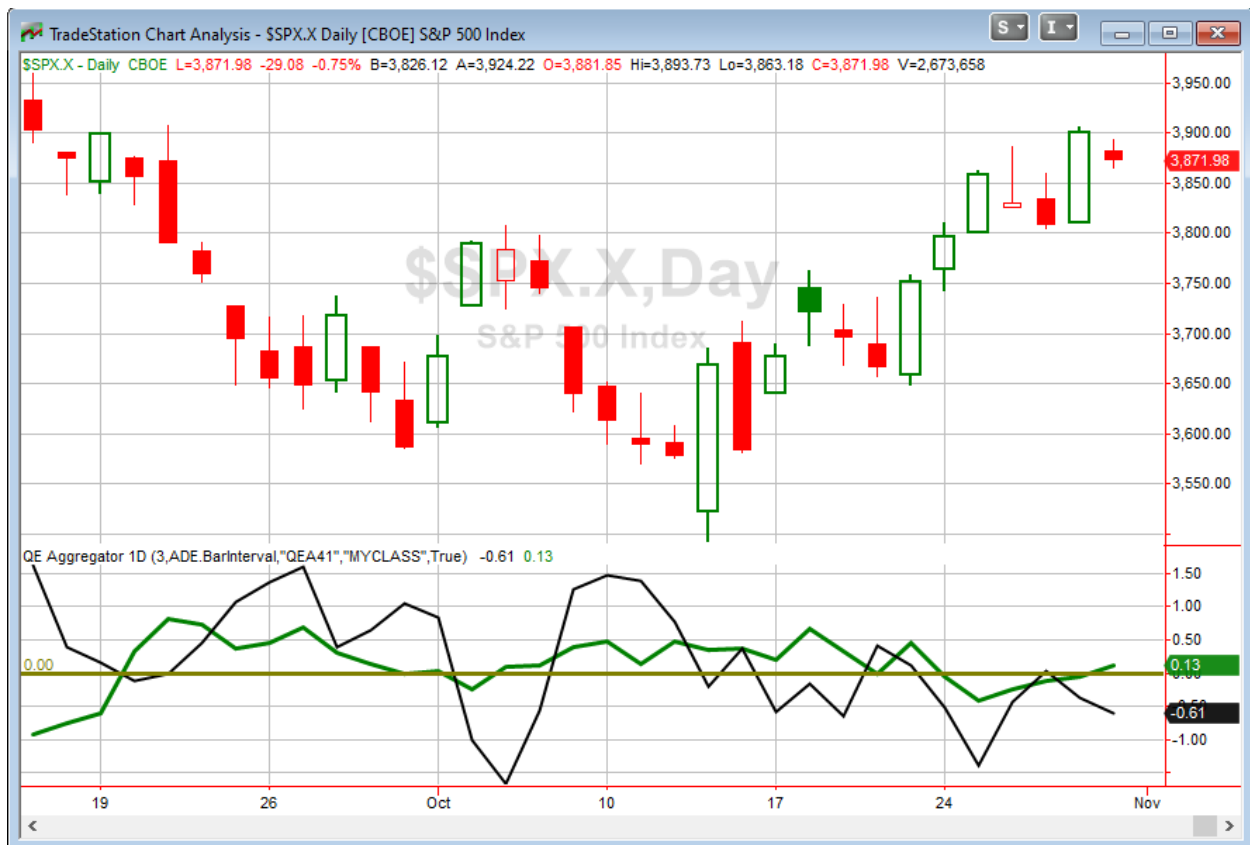


Results here appear quite inconsistent, though it has been strong lately. Next let's view times SPY posted a weak close the day before a Fed Day.



Weak closes appear quite promising. A weak close on Tuesday would suggest bullish odds for Wednesday. This would seem worth keeping in mind on Tuesday afternoon.

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



Despite tonight's bearish study, the green Aggregator line moved slightly above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 turned flat at the close.

Based on the current list of active studies, expectations are primed to remained positive Tuesday. Of course this can change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 3775.32 on Tuesday. That is 2.5% below Monday's close. Therefore, SPX would need to close down at least 2.5% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is back to neutral. Evidence is mixed, and with the Fed announcement on Wednesday the potential for high volatility in the next few days is substantial. If we had more bullish evidence, or a market that was not so overbought, then I might look for a Fed Day trade, where I would enter if there was afternoon weakness on Tuesday and look to exit ahead of the announcement on Wednesday. But there are too many crosswinds here to get me excited about new trades in either direction. So I will sit and wait.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/31 – neutral

The intermediate-term outlook was last updated in the 10/31/22 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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