

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2022

Volume 15 Issue 210

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- The poor close leading into a Fed Day has been a plus for Fed Days of yore.
- NDX down 0.75% with SOX up 0.75% has often been followed by a bounce.
- SPY's gap up and reverse lower pattern suggests an upside edge.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. The Fed is a wildcard. Risk/reward does not appear great.

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 2, 2022 | Gap up 0.5%. Close down < 200. | 1-2 days | Bullish | | | |
| November 2, 2022 | NDX down 0.75%. SOX up 0.75%. | 1 day | Bullish | | | |
| November 2, 2022 | Close low in range. Fed tmrw. < 200 | 1 day | Bullish | | | |
| November 1, 2022 | SPX inside day. Top 20% 10-day < 200 | 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 | SPX 10-high < 200. Volume 5-low | 1-2 days | Bearish | | | |

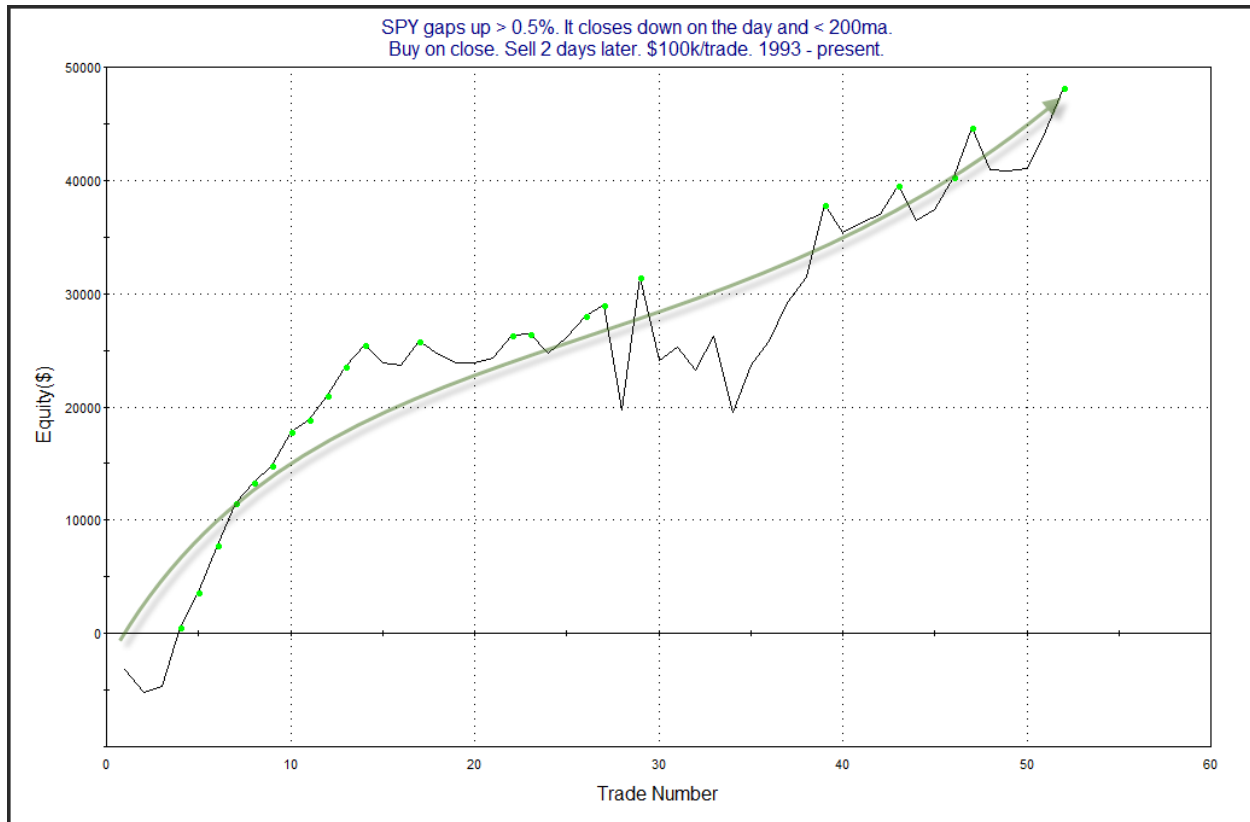
The Evidence

Tuesday started strong, but quickly lost its gains and the indices finished mixed. SPX closed down 0.4%, the NASDAQ declined 0.9%, and the Russell 2000 rose 0.25%. Breadth was positive with the NYSE Up Issues % coming in at 59% and the Up Volume % at 65%. NYSE total volume declined some from Monday's level.

There were a few studies from the Quantifinder tonight that I thought were worth consideration. This 1st one looked at the gap up and reversal in SPY. Last seen in the 5/7/20 letter, I have updated the results below.

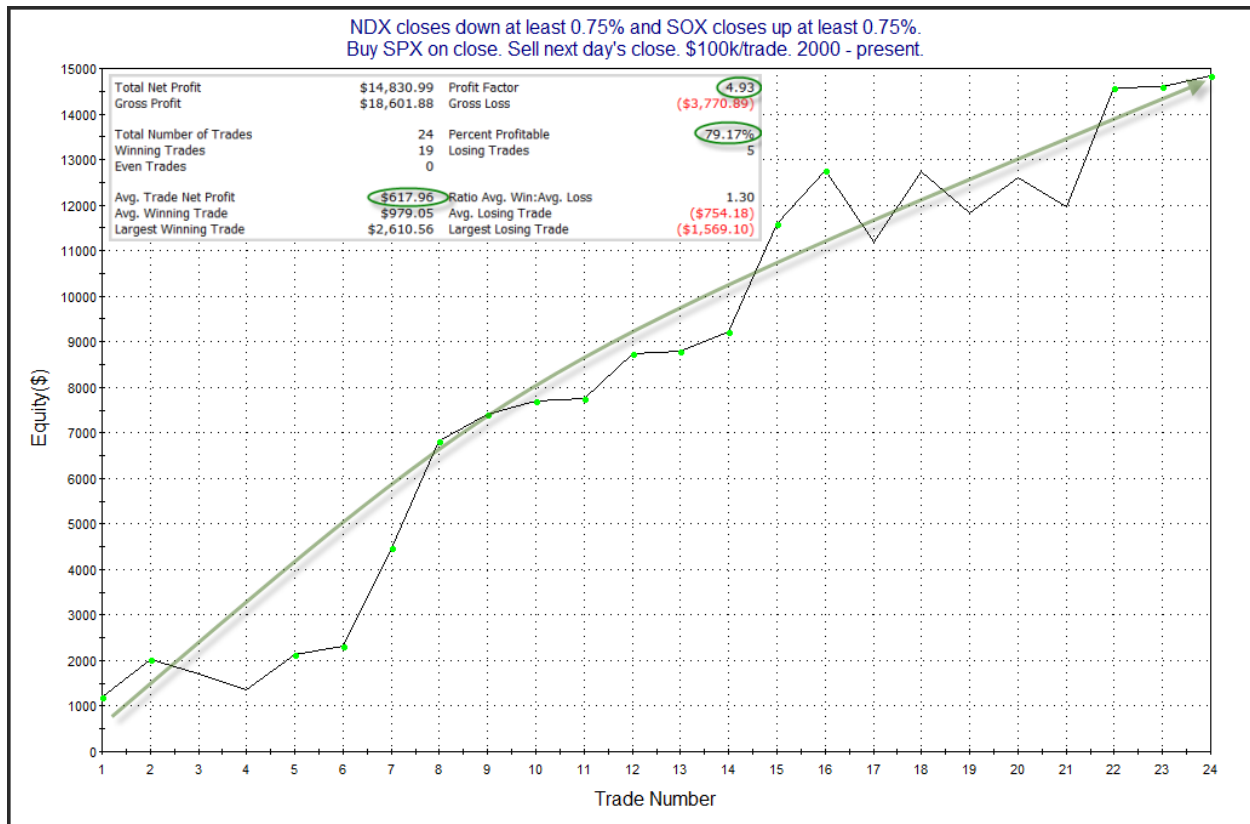
| SPY gaps up > 0.5%. It closes down on the day and < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | 37,592.80 | 49 | 32 | 17 | 65.31 | 5,876.56 | -9,016.04 | 2,890.17 | -3,228.98 | 0.90 | 1.68 | 767.20 |
| 4 | 39,415.07 | 49 | 34 | 15 | 69.39 | 6,060.50 | -8,130.08 | 2,483.30 | -3,001.15 | 0.83 | 1.88 | 804.39 |
| 3 | 25,677.05 | 51 | 33 | 18 | 64.71 | 7,186.58 | -11,518.47 | 2,362.88 | -2,905.44 | 0.81 | 1.49 | 503.47 |
| 2 | 48,144.25 | 52 | 37 | 15 | 71.15 | 11,736.30 | -9,320.67 | 2,523.90 | -3,016.00 | 0.84 | 2.06 | 925.85 |
| 1 | 16,519.77 | 53 | 33 | 20 | 62.26 | 4,803.44 | -7,436.23 | 1,609.53 | -1,829.74 | 0.88 | 1.45 | 311.69 |

Numbers here look strong over the first 1-2 days. Below is a look at the 2-day profit curve.



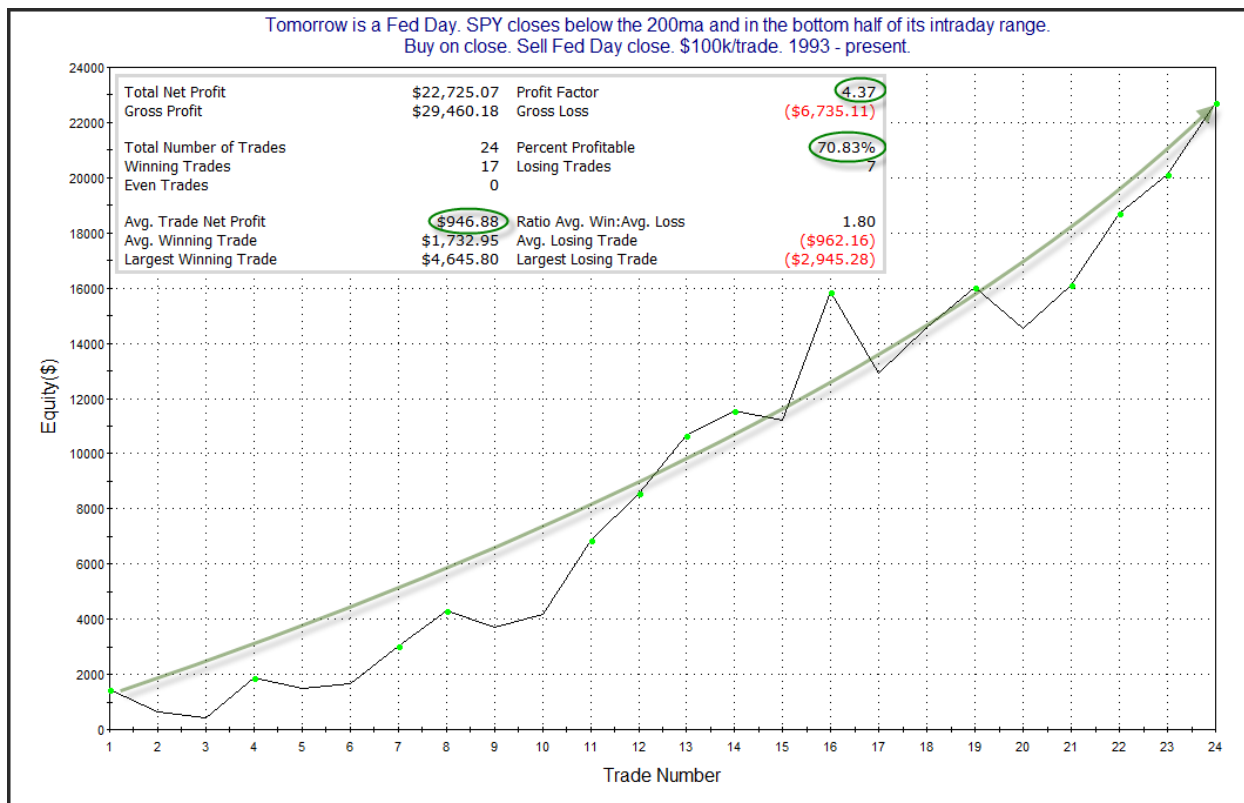
There is some real chop in this curve, but the dips have recovered fairly quickly, and it is back at a new high. I have included this on the Active List tonight.

Interesting about Tuesday's action is that the SOX moved up nicely even though the NDX suffered a sizable decline. Since SOX stocks make up a decent portion of the NDX, this is unusual. It has often been followed by a bounce back the next day in NDX. It also has been followed by bounce-back days in SPX. In fact, while SPX has not seen as large of bounces as NDX, they have been more consistent. I last featured the below study in the 6/5/20 letter. I have updated the results for SPX tonight.



The stats and the curve all suggest an upside edge. I have also added this study to the Active List tonight.

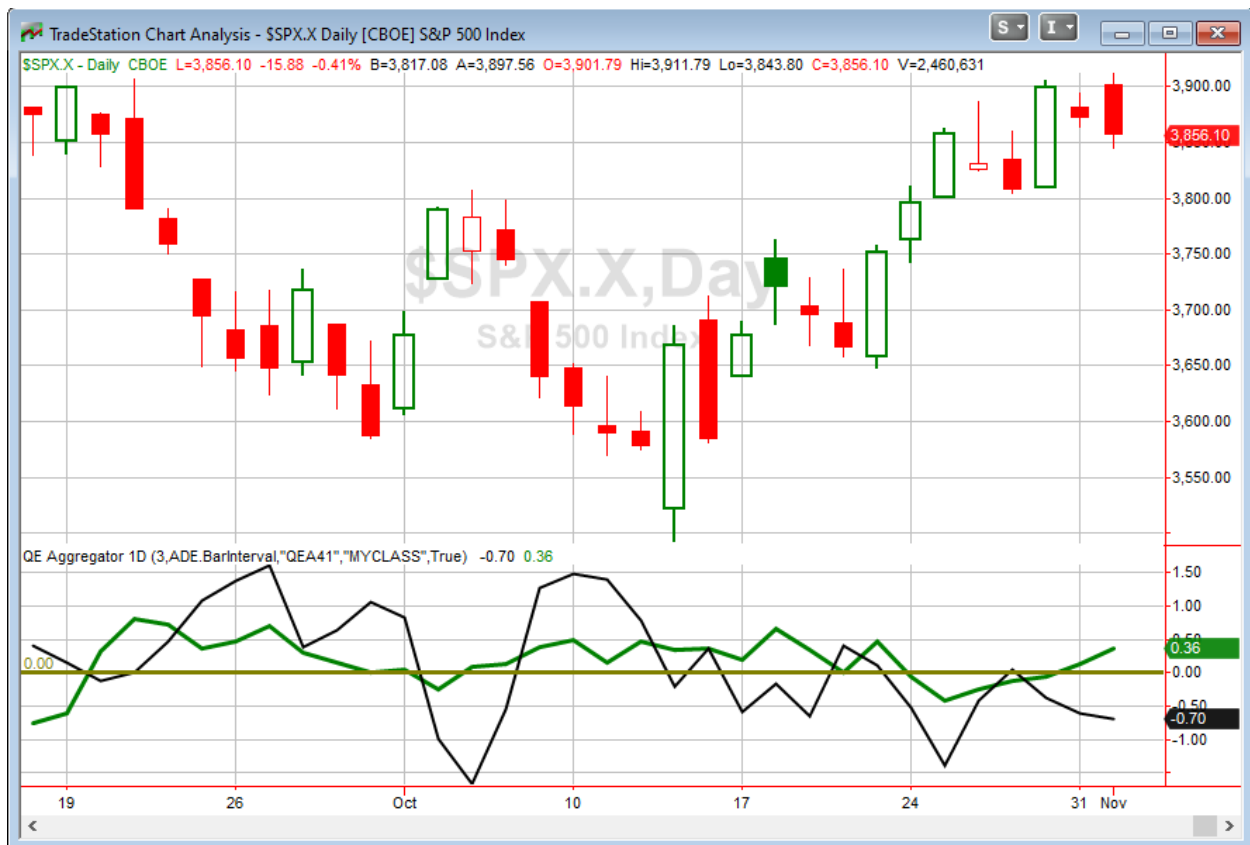
Last night I discussed that the Fed Day edge has been stronger and more consistent when SPY has closed poorly on the day before the Fed Day. With the close in the bottom half of the day's range today, the study below from last night is the one that triggered.



Tuesday' action seem to set the stage for a move up on Wednesday.

Of course none of these studies know what the Fed is going to say or do tomorrow. But I still believe they are worth considering and monitoring going forward.

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 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 stayed flat at the close.

Based on the current list of active studies, expectations are primed to remain positive Wednesday. Of course this can change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3884.49 on Wednesday. That is 0.7% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.7% in order to remain overbought vs recent expectations. Anything shy of that and it will be considered "oversold" as of Wednesday's close.

So the Aggregator is neutral. Evidence is mostly bullish, but the Fed will be a big wildcard on Wednesday. Every rate hike this year has seen a strong reaction. This can be seen in the table below.

| \$SPX Performance on 2022 Fed Announcement Dates With Rate Hikes | | |
|---|--------------------|--------------------------------|
| Fed Announcement Date | Rate Change | \$SPX 1-Day Performance |
| March 16, 2022 | +25 basis points | 2.24% |
| May 4, 2022 | +50 basis points | 2.99% |
| June 15, 2022 | +75 basis points | 1.46% |
| July 27, 2022 | +75 basis points | 2.26% |
| September 21, 2022 | +75 basis points | -1.71% |

With a neutral Aggregator and volatility expected to be high, I am not inclined to track any new trade ideas tonight. I'll wait and see how Wednesday plays out. A sizable (over)reaction on Wednesday could set up a for a trade Thursday or Friday.

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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