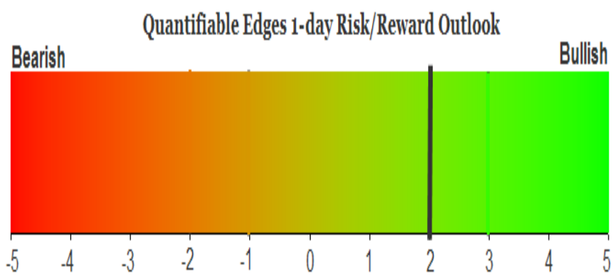
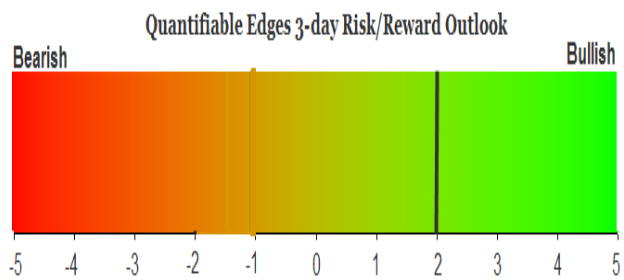
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 3, 2022 Volume 15 Issue 211

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- 2% drops that make the 1st 5-day low in a while in a long-term downtrend have historically seen a bounce in the coming days.

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 3, 2022	1st 5 low in 5 days. 2% drop < 200ma	1-4 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)						
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 bu***	***1-5 days***	***Bullish***			

The Evidence

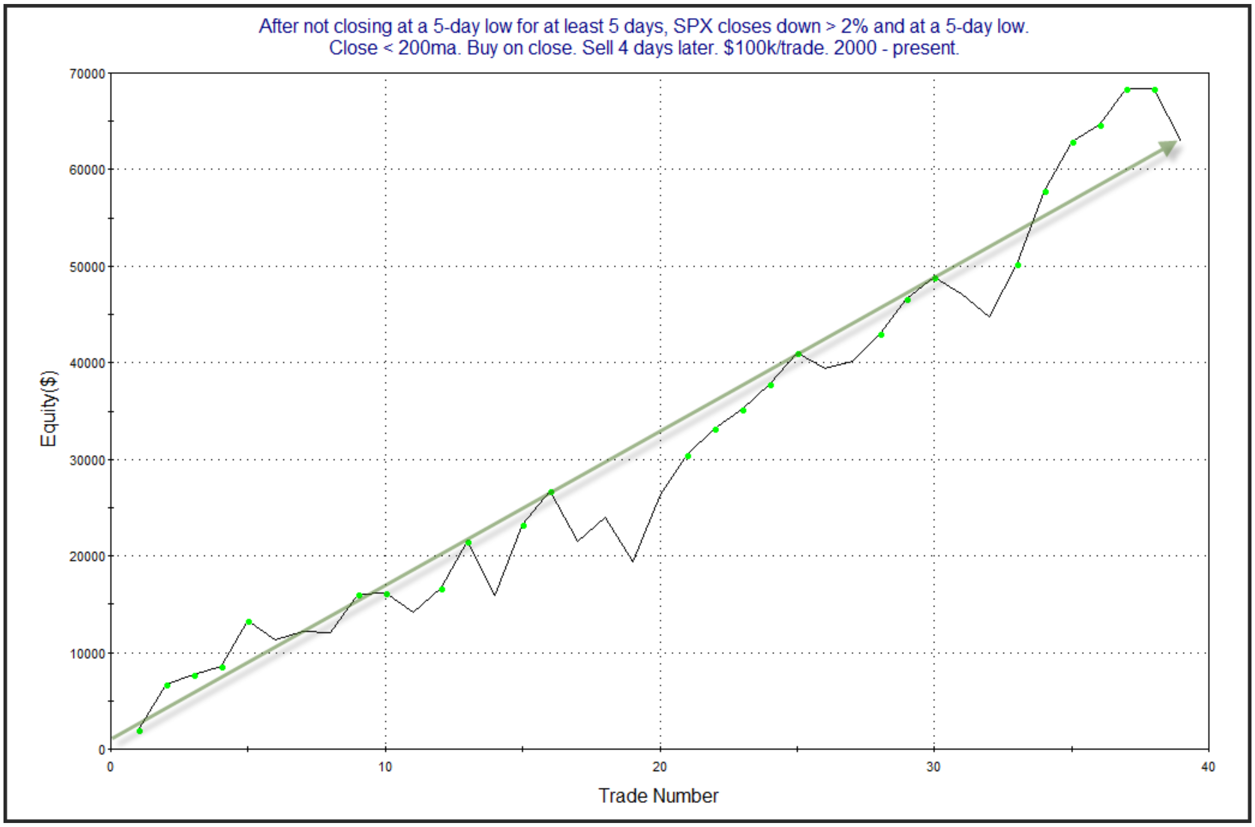
Wednesday started weak, rallied on the Fed announcement, and then tanked when Jerome Powell spoke. SPX closed down 2.5%, the NASDAQ tumbled 3.4%, and the Russell 2000 also fell 3.4%. Breadth was negative with the NYSE Up Issues % coming in at 23% and the Up Volume % at 11%. NYSE total volume rose some from Tuesday's level.

Some studies in the Quantifinder looked at things like 1) SPX making its 1st 5-day low in a while, 2) its large drop. In the 6/10/22 letter I combined these concepts and looked at the scenario below. Stats are updated.

After not closing at a 5-day low for at least 5 days, SPX closes down > 2% and at a 5-day low. Close < 200ma. Buy on close. Sell X days later. $100k/trade. 2000 - 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	51,390.96	39	27	12	69.23	11,405.78	-10,448.88	3,527.31	-3,653.87	0.97	2.17	1,317.72
4	62,948.30	39	29	10	74.36	7,556.40	-5,597.28	3,229.31	-3,070.16	1.05	3.05	1,614.06
3	39,730.09	39	28	11	71.79	7,727.20	-6,776.16	2,384.79	-2,458.56	0.97	2.47	1,018.72
2	24,571.80	39	24	15	61.54	6,652.66	-6,436.56	2,070.06	-1,673.98	1.24	1.98	630.05
1	11,818.41	39	24	15	61.54	4,948.02	-4,980.56	1,592.86	-1,760.68	0.90	1.45	303.04

Despite being at a low level in a long-term downtrend, the odds appear to favor a rally in the coming days. Below is a look at the profit curve assuming a 4-day holding period.



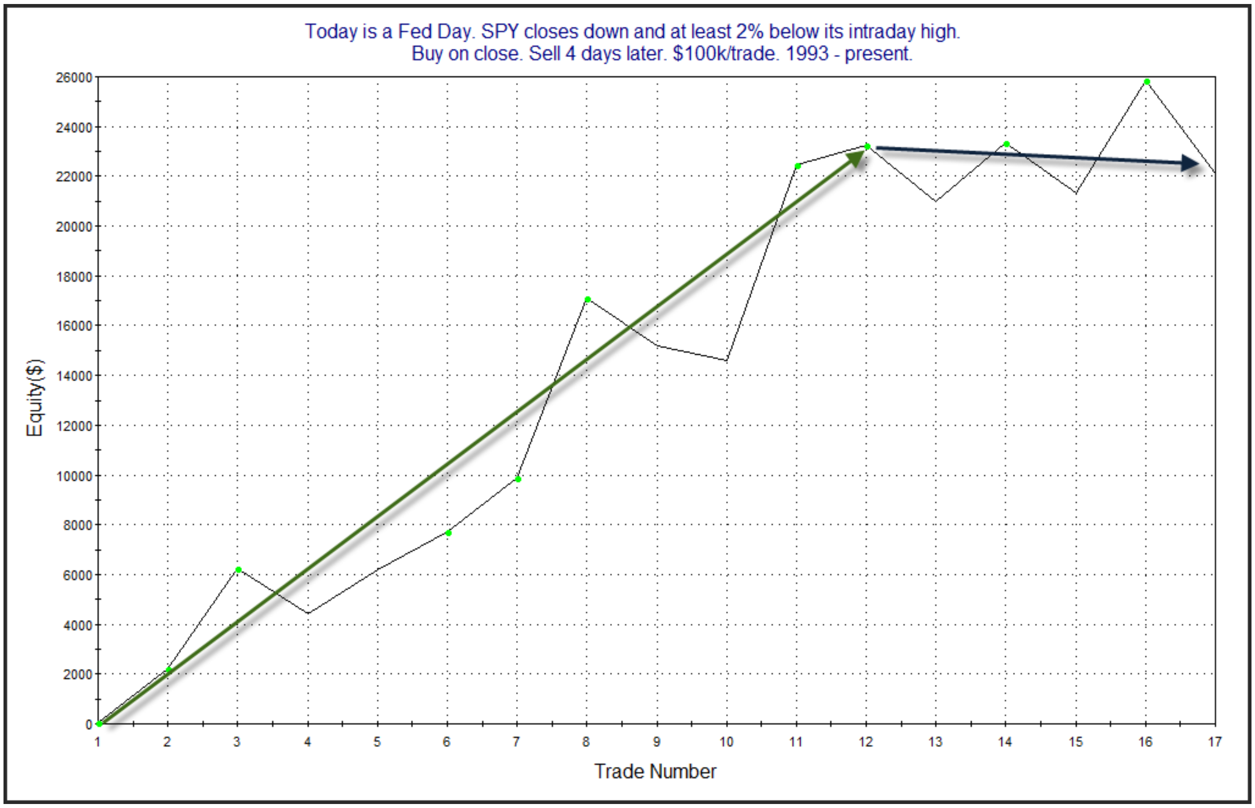
The last instance did not work out, but overall that is a strong and steady upslope. This serves as some confirmation of the upside edge suggested by the stats table. I have added this study to the active list tonight.

There was also a Fed-based study that noted the large intraday reversal downward. It was last seen in the 9/22/22 letter. I have updated it below.

Today is a Fed Day. SPY closes down and at least 2% below its intraday high.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

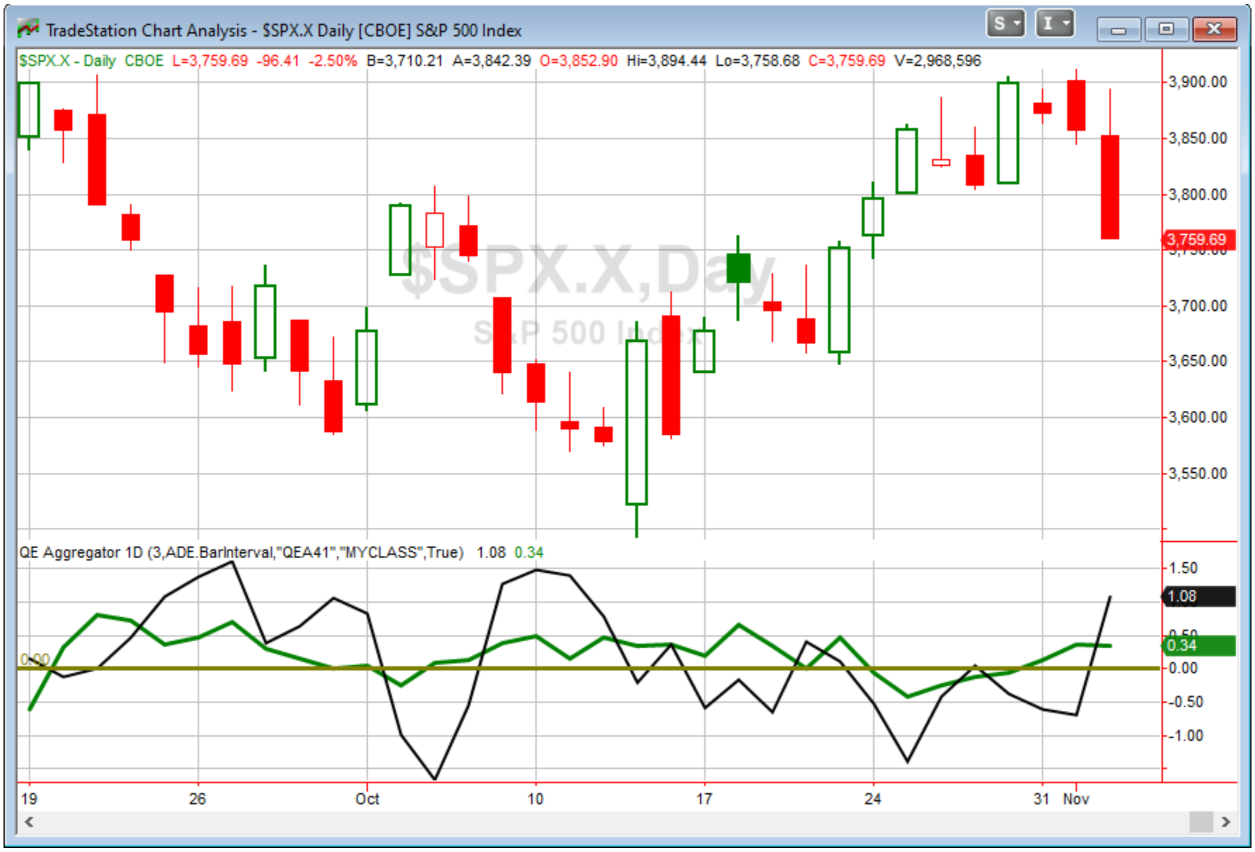
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	23,517.83	17	11	6	64.71	6,086.66	-2,628.75	3,022.09	-1,620.85	1.86	3.42	1,383.40
4	22,134.98	17	11	6	64.71	7,872.42	-3,698.64	3,130.27	-2,049.66	1.53	2.80	1,302.06
3	13,097.24	17	11	6	64.71	4,772.75	-6,717.24	2,401.47	-2,219.83	1.08	1.98	770.43
2	7,115.98	17	10	7	58.82	5,087.19	-4,192.32	2,241.63	-2,185.76	1.03	1.47	418.59
1	3,443.21	17	10	7	58.82	3,649.75	-3,230.89	1,529.50	-1,693.11	0.90	1.29	202.54

Instances here are lower than I would prefer, but the overall numbers appear strongly positive. I figured it was at least worth looking at the equity curve.



I don’t love the curve. I would be a bit more forgiving if there were more instances, but I decided to leave this one off the active list tonight. There were also a few other studies I examined that I felt were not worthy due to recent struggles like this one.

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 shot 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 turned long at the close.

Based on the current list of active studies, expectations are primed to remained positive Thursday. Of course this can change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3867.24 on Thursday. That is a sizable 2.9% above Wednesday's close. Most likely, it will take a multi-day rally or consolidation to work off the oversold condition.

So the Aggregator is bullish. Evidence is a bit light, but there is plenty of room to the upside before SPX would turn overbought. This increases potential reward. While this selling could quickly turn into something worse, being down 3 days and seeing a potential overreaction like this on a Fed Day has me interested in taking on some long exposure. I will look to start scaling into a SPY position on Thursday if I can get a favorable fill either near the open or the close of trading. If SPY gaps up, then I won't buy into an intraday selloff. I'll wait until the close instead.

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*.

SPY – Buy ¼ index position @ $374.86 LIMIT ON OPEN. If not filled on open, cancel order, and then look to enter @ $374.86 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to start scaling into an index position if I can get a favorable fill.

Current Open Trade Ideas

None.

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