

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2022

Volume 15 Issue 215

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- 3 up days with similar circumstances during a long-term downtrend have typically led to a pullback over the next few days.
- The day after mid-term elections has historically seen fairly consistent gains.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. I am cautious and feeling more neutral than bearish.

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 9, 2022	Day after mid-term elections bullish	1 day	Bullish			
November 9, 2022	SPX up 3 < 200. No 50-low. Small gain	1-2 days	Bearish			
November 7, 2022	1% gain on jobs day under 200ma	1-3 days	Bearish	-3.00%	1.50%	2.90%
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 3, 2022	1st 5 low in 5 days. 2% drop < 200ma	1-4 days	Bullish			

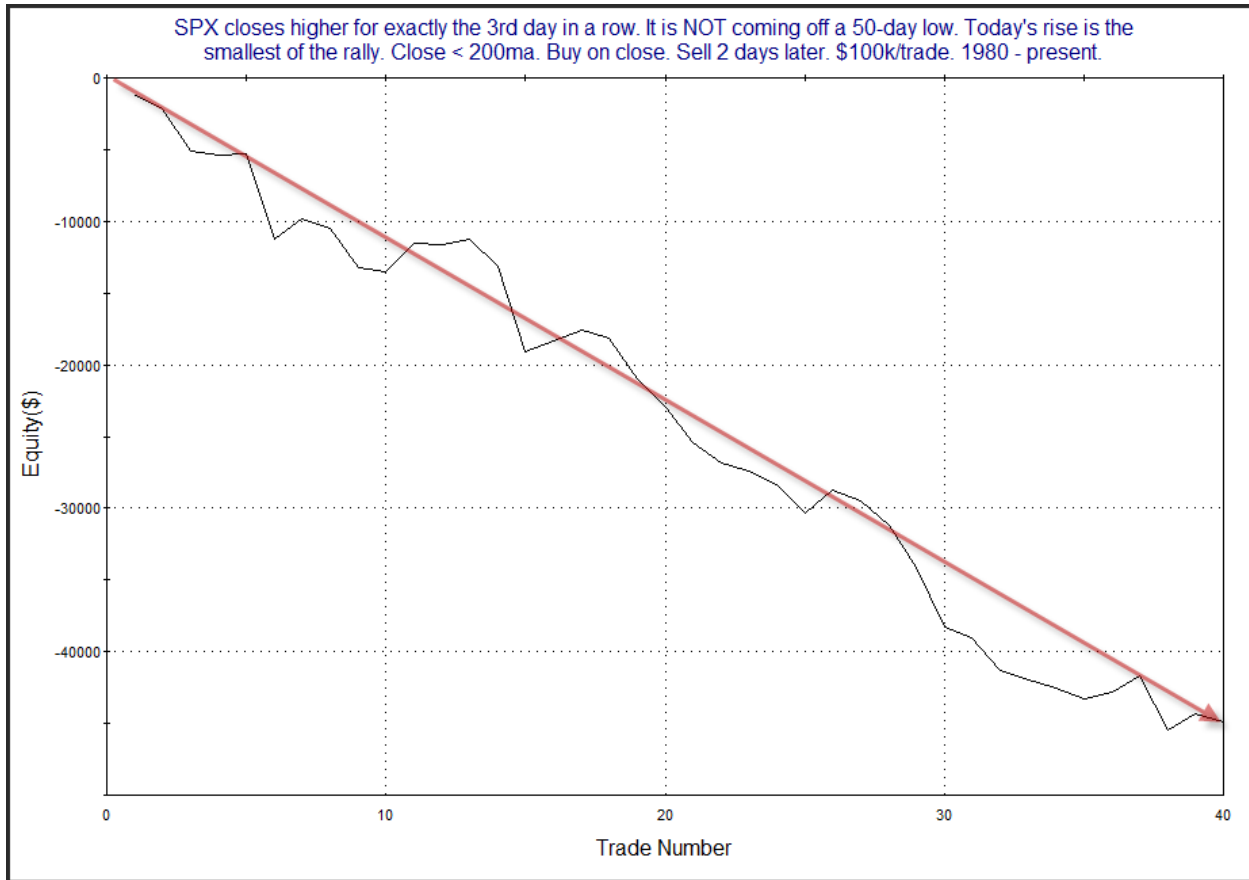
The Evidence

Tuesday saw some sizable swings that finished with the market mostly higher. SPX closed up 0.6%, the NASDAQ rose 0.5%, and the Russell 2000 declined 0.05%. Breadth was positive with the NYSE Up Issues % coming in at 61% and the Up Volume % at 63%. NYSE total volume rose some from Monday's level.

One notable study in the Quantifinder looked at 3-day rallies during long-term downtrends (under the 200ma) that did not originate from a "bottom". It was last seen in the 5/12/20 letter. I have updated the results.

SPX closes higher for exactly the 3rd day in a row. It is NOT coming off a 50-day low. Today's rise is the smallest of the rally. Close < 200ma. Buy 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
5	-51,875.49	39	16	23	41.03	2,934.54	-9,202.08	1,241.21	-3,118.91	0.40	0.28	-1,330.14
4	-54,510.83	40	13	27	32.50	2,766.03	-7,499.80	1,251.32	-2,621.41	0.48	0.23	-1,362.77
3	-51,239.85	40	13	27	32.50	2,685.76	-7,527.12	1,170.19	-2,461.20	0.48	0.23	-1,281.00
2	-44,864.13	40	10	30	25.00	2,060.80	-5,979.14	971.60	-1,819.34	0.53	0.18	-1,121.60
1	-14,715.62	40	19	21	47.50	2,170.08	-4,871.22	763.39	-1,391.43	0.55	0.50	-367.89

The stats table suggests a downside edge. Often this will be the case when "overbought during a downtrend". The "recent 50-day low" filter is used because a strong move off a bottom will often continue further than at other times, since it will be fueled by both bottom-pickers and shorts that are covering. Below is a look at the 2-day profit curve.



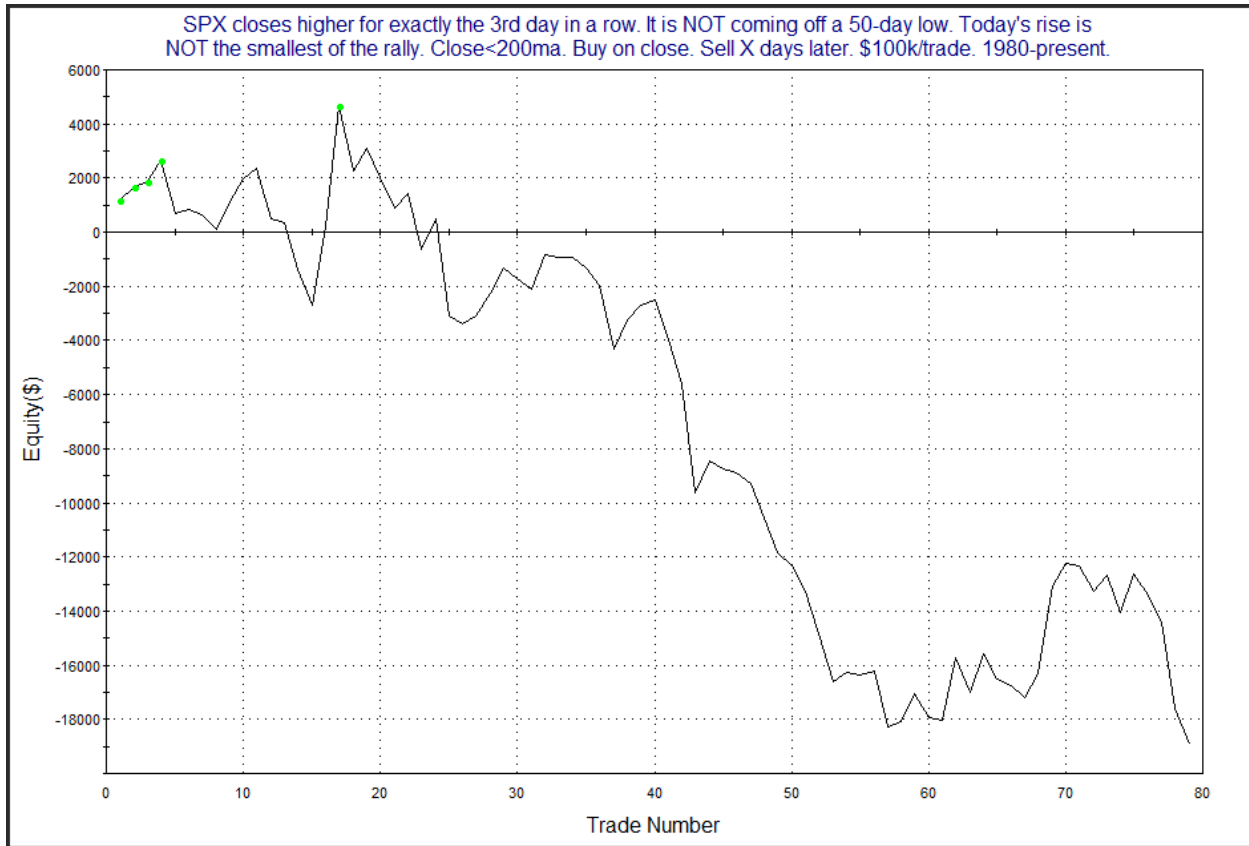
That is a pretty impressive curve, and it remains near another new low. This seems worth consideration on the active list.

The requirement looking at today's rise being the smallest of the 3 up days is also worth some discussion. That suggests upside momentum may be slowing, allowing for the market to swing back the other way. Here is a look at the same setup, but with that filter flipped, so that today is NOT the smallest gain of the last 3.

SPX closes higher for exactly the 3rd day in a row. It is NOT coming off a 50-day low. Today's rise is NOT the smallest of the rally. Close<200ma. Buy 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
5	-20,672.30	75	40	35	53.33	4,771.60	-6,911.94	1,426.54	-2,220.97	0.64	0.73	-275.63
4	-35,229.70	79	43	36	54.43	3,672.51	-6,719.68	1,162.14	-2,366.71	0.49	0.59	-445.95
3	-39,728.72	79	37	42	46.84	2,989.36	-6,512.40	1,088.35	-1,904.71	0.57	0.50	-502.90
2	-18,903.36	79	32	47	40.51	4,479.84	-4,033.80	1,051.10	-1,117.84	0.94	0.64	-239.28
1	-5,367.25	79	31	48	39.24	3,535.65	-2,367.90	1,161.50	-861.95	1.35	0.87	-67.94

There still appears to be a downside edge. It just is not as substantial. Here is the 2-day curve for this setup.



This curve is not nearly as appealing as the first one. Of course, this is not the current setup. The current setup is the more bearish version.

In the 11/5/19 letter I examined performance following past mid-term elections. Beyond day 1, I did not find much that suggested a strong edge. Below is an updated look at results since 1970 following mid-term elections.

Today is mid-term election day.
Buy SPX on close. Sell next day's close. \$100k/trade. 1970 - 2018.

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
20	15,237.42	13	10	3	76.92	5,852.80	-10,248.70	3,071.40	-5,158.86	0.60	1.98	1,172.11
19	11,344.47	13	9	4	69.23	5,798.70	-10,568.14	3,074.54	-4,081.60	0.75	1.69	872.65
18	8,324.48	13	9	4	69.23	4,749.30	-9,317.00	2,572.45	-3,706.89	0.69	1.56	640.34
17	11,004.32	13	9	4	69.23	7,328.70	-6,841.34	2,525.79	-2,931.96	0.86	1.94	846.49
16	4,851.91	13	9	4	69.23	6,840.90	-6,881.27	2,063.70	-3,430.34	0.60	1.35	373.22
15	-1,332.17	13	6	7	46.15	6,491.70	-7,506.84	2,311.38	-2,171.49	1.06	0.91	-102.47
14	683.52	13	9	4	69.23	6,961.50	-8,358.68	1,811.02	-3,903.92	0.46	1.04	52.58
13	-1,540.58	13	6	7	46.15	4,742.10	-8,265.51	2,211.39	-2,115.56	1.05	0.90	-118.51
12	-6,630.51	13	8	5	61.54	3,757.50	-9,223.83	1,639.03	-3,948.54	0.42	0.66	-510.04
11	-13,494.65	13	6	7	46.15	3,026.70	-9,596.51	1,660.35	-3,350.97	0.50	0.42	-1,038.05
10	-17,772.31	13	5	8	38.46	2,562.30	-9,197.21	1,672.33	-3,266.74	0.51	0.32	-1,367.10
9	-6,761.29	13	6	7	46.15	2,470.40	-7,773.04	1,543.76	-2,289.12	0.67	0.58	-520.10
8	191.42	13	7	6	53.85	1,760.00	-4,259.20	1,190.96	-1,357.56	0.88	1.02	14.72
7	2,878.98	13	6	7	46.15	3,097.02	-2,728.55	1,615.49	-973.42	1.66	1.42	221.46
6	2,796.89	13	8	5	61.54	2,806.40	-3,581.74	1,485.13	-1,816.83	0.82	1.31	215.15
5	4,069.07	13	8	5	61.54	4,020.31	-3,535.96	1,537.83	-1,646.71	0.93	1.49	313.01
4	4,811.80	13	9	4	69.23	2,512.00	-4,272.80	1,214.23	-1,529.06	0.79	1.79	370.14
3	8,800.72	13	7	5	53.85	3,395.09	-2,250.85	1,762.02	-706.69	2.49	3.49	676.98
2	7,481.11	13	7	6	53.85	3,169.72	-1,388.66	1,576.04	-591.87	2.66	3.11	575.47
1	7,438.74	13	10	3	76.92	3,911.26	-1,795.20	976.23	-774.53	1.26	4.20	572.21

The numbers suggest perhaps a mild inclination for the market to “celebrate” the results on Wednesday. After that there does not appear to be a strong tendency in either direction. Below are the 1-day instances listed out for those that are interested.

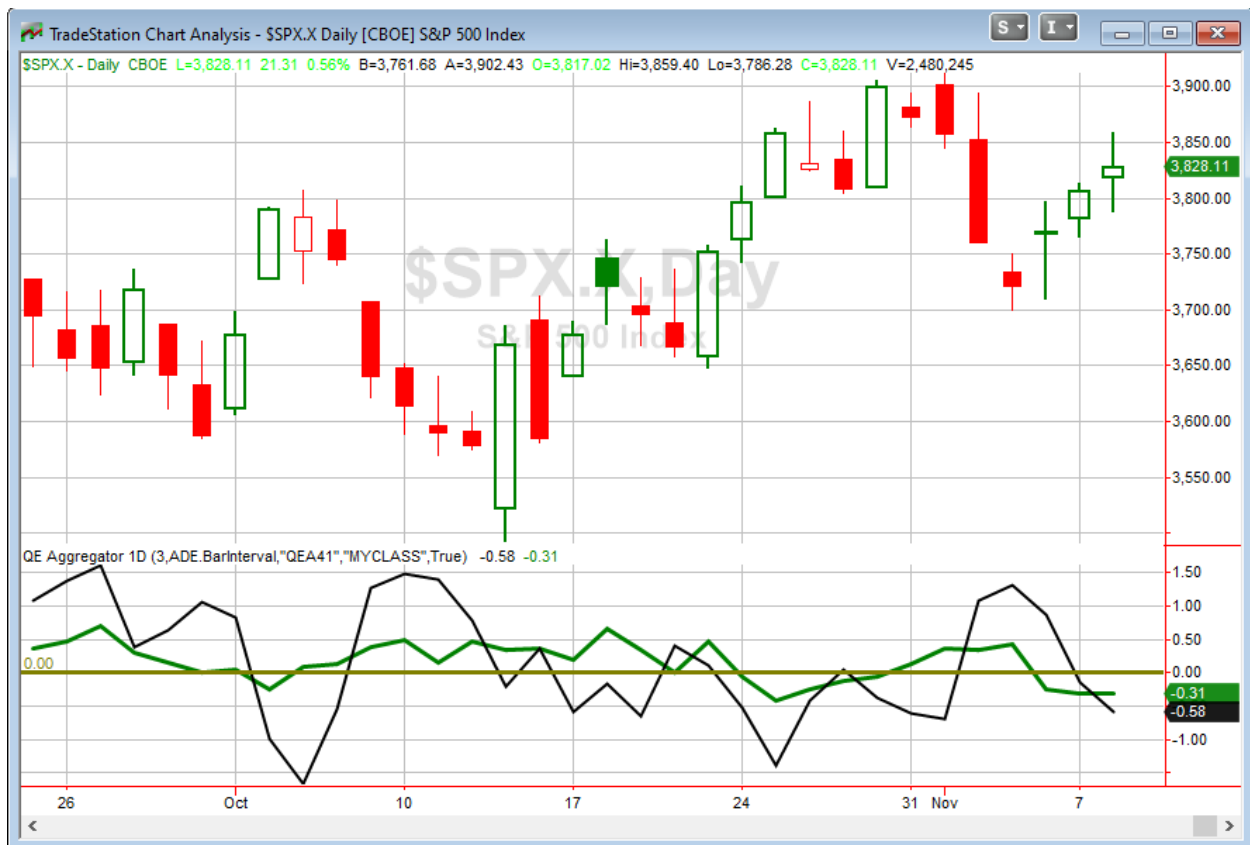
Today is mid-term election day.
Buy SPX on close. Sell next day's close. \$100k/trade. 1970 - 2018.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/3/1970	Buy	\$84.22	0.20%	\$1,234.48
11/4/1970	Sell	\$84.39		(\$474.80)
11/5/1974	Buy	\$75.11	-0.48%	\$3,061.30
11/6/1974	Sell	\$74.75		(\$1,171.28)
11/7/1978	Buy	\$93.85	0.64%	\$947.85
11/8/1978	Sell	\$94.45		(\$1,022.40)
11/2/1982	Buy	\$137.49	3.91%	\$3,918.53
11/3/1982	Sell	\$142.87		\$0.00
11/4/1986	Buy	\$246.19	0.16%	\$349.16
11/5/1986	Sell	\$246.58		(\$397.88)
11/6/1990	Buy	\$311.62	-1.80%	\$0.00
11/7/1990	Sell	\$306.01		(\$1,865.60)
11/8/1994	Buy	\$465.65	-0.05%	\$920.20
11/9/1994	Sell	\$465.42		(\$468.66)
11/3/1998	Buy	\$1,110.85	0.70%	\$1,471.50
11/4/1998	Sell	\$1,118.65		(\$22.50)
11/5/2002	Buy	\$915.39	0.91%	\$1,120.52
11/6/2002	Sell	\$923.76		(\$1,079.10)
11/7/2006	Buy	\$1,382.84	0.21%	\$415.44
11/8/2006	Sell	\$1,385.72		(\$471.60)
11/2/2010	Buy	\$1,193.57	0.37%	\$392.59
11/3/2010	Sell	\$1,197.96		(\$830.83)
11/4/2014	Buy	\$2,012.10	0.57%	\$571.83
11/5/2014	Sell	\$2,023.57		\$0.00
11/6/2018	Buy	\$2,755.45	2.12%	\$2,149.20
11/7/2018	Sell	\$2,813.89		\$0.00

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I have added this to the active list as a 1-day edge.

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



With tonight's evidence considered, the green Aggregator line remained below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also held 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 stayed short at the close.

Based on the current list of active studies, expectations are primed to remain negative on Wednesday. Of course this can change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3790.24 on Wednesday. That is 1.0% below Tuesday's close. Therefore, SPX will need to close down at least 1.0% on Wednesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is bearish. But evidence remains mixed and I still do not love the setup. Volatility is high and there are too many headlines in the next couple of days to have great confidence in studies that net out to a mild bearish edge. Between the election, the CPI on Thursday, and the crypto crisis that roiled markets a bit on Tuesday there seems to be a lot out there that is hard to quantify. So I will give it another day or so before considering new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/7 – neutral

The intermediate-term outlook was last updated in the 11/7/22 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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