

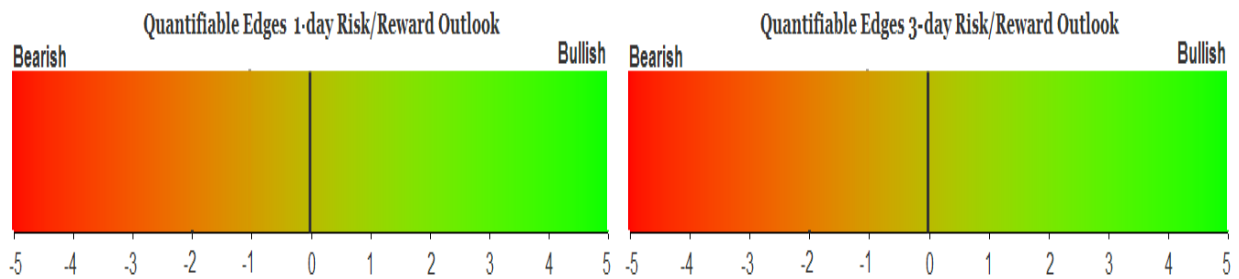
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 10, 2022

Volume 15 Issue 216

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Coming from a short-term high, the sizable drop on Wednesday could be a prelude to more short-term selling.
- CPI reports have led to high volatility this year, and tomorrow's has similar potential.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I am as well.

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 10, 2022	2% drop from 5-high. No 5-low.	1-4 days	Bearish	-3.10%	2.30%	4.00%
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 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%

The Evidence

We likely won't know who holds the senate for about a month. And crypto continues to crash. And the market did not seem to like any of that on Wednesday. SPX lost 2.1%, the NASDAQ dropped 2.5%, and the Russell 2000 tumbled 2.7%. Breadth was extremely negative with the NYSE Up Issues % coming in at 18% and the Up Volume % at 8%. NYSE total volume declined some from Tuesday's level.

One mistake that many swing traders make when looking at selloffs like Wednesday is that they believe just because the selling was strong, that it is likely to be exhaustive and lead to a quick reversal. Strong selloffs can often be exhaustive. But a big factor that is often overlooked is the position of the market when the selloff occurs. In the 2/3/22 subscriber letter I compared 2% drops that leave the market at a 5-day low versus 2% drops that don't. I found a big difference in the results, and have updated them below.

<p align="center">SPX closes down > 2% and at a 5-day low. Buy on close. Sell X days later. \$100k/trade. 1990 - present.</p>												
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	126,487.11	197	115	82	58.38	17,127.00	-12,975.48	3,047.11	-2,730.86	1.12	1.56	642.07
4	95,339.80	209	124	85	59.33	13,981.45	-14,820.98	2,582.98	-2,646.46	0.98	1.42	456.17
3	83,424.23	220	129	91	58.64	13,853.40	-13,815.18	2,438.37	-2,539.84	0.96	1.36	379.20
2	73,284.97	238	132	106	55.46	10,183.87	-8,077.85	1,985.53	-1,781.17	1.11	1.39	307.92
1	80,471.55	263	160	103	60.84	10,716.03	-9,386.64	1,528.45	-1,593.01	0.96	1.49	305.98

The strong selloff and new low suggest a bullish edge. But when SPX is NOT closing at a low level...

SPX closes down > 2% **but above a 5-day low.**
Buy 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
5	-24,426.58	39	21	18	53.85	6,507.68	-18,188.04	2,740.22	-4,553.96	0.60	0.70	-626.32
4	-19,609.32	42	19	23	45.24	7,513.37	-13,776.90	3,588.50	-3,816.99	0.94	0.78	-466.89
3	-3,842.64	46	24	22	52.17	8,531.60	-10,506.45	2,910.43	-3,349.68	0.87	0.95	-83.54
2	9,562.47	47	24	23	51.06	7,608.64	-9,153.54	2,979.03	-2,692.80	1.11	1.15	203.46
1	10,150.73	47	27	20	57.45	4,617.32	-6,060.08	1,663.87	-1,738.69	0.96	1.29	215.97

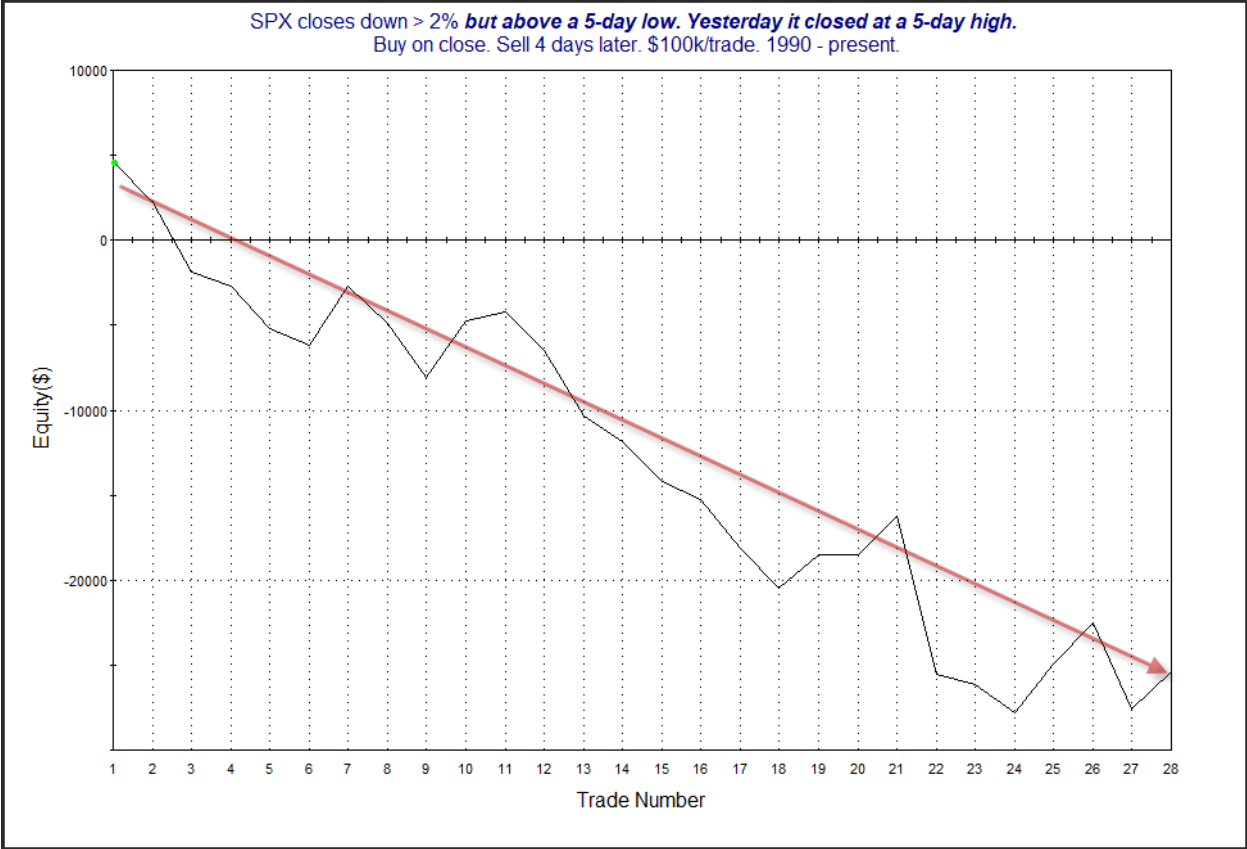
...there no longer appears to be an edge.

Interesting about Wednesday's drop is that it also came immediately after a short-term high. So just the day before, traders were optimistic. This too can be important. Tuesday afternoon's buyers are stuck underwater. Here is the study with that added as a filter.

SPX closes down > 2% **but above a 5-day low. Yesterday it closed at a 5-day high.**
Buy 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
5	-36,813.41	27	14	13	51.85	4,581.36	-17,928.90	1,752.75	-4,719.38	0.37	0.40	-1,363.46
4	-25,359.12	28	9	19	32.14	4,630.50	-9,324.48	2,628.76	-2,579.89	1.02	0.48	-905.68
3	-6,454.86	29	14	15	48.28	4,605.20	-4,676.43	1,941.97	-2,242.83	0.87	0.81	-222.58
2	-5,892.08	29	14	15	48.28	4,498.74	-9,153.54	2,301.46	-2,540.83	0.91	0.85	-203.18
1	-643.47	29	17	12	58.62	3,322.02	-3,466.02	1,091.92	-1,600.50	0.68	0.97	-22.19

This looks somewhat bearish. Below is a 4-day curve.



The strong, steady decline serves as some confirmation of the downside edge.

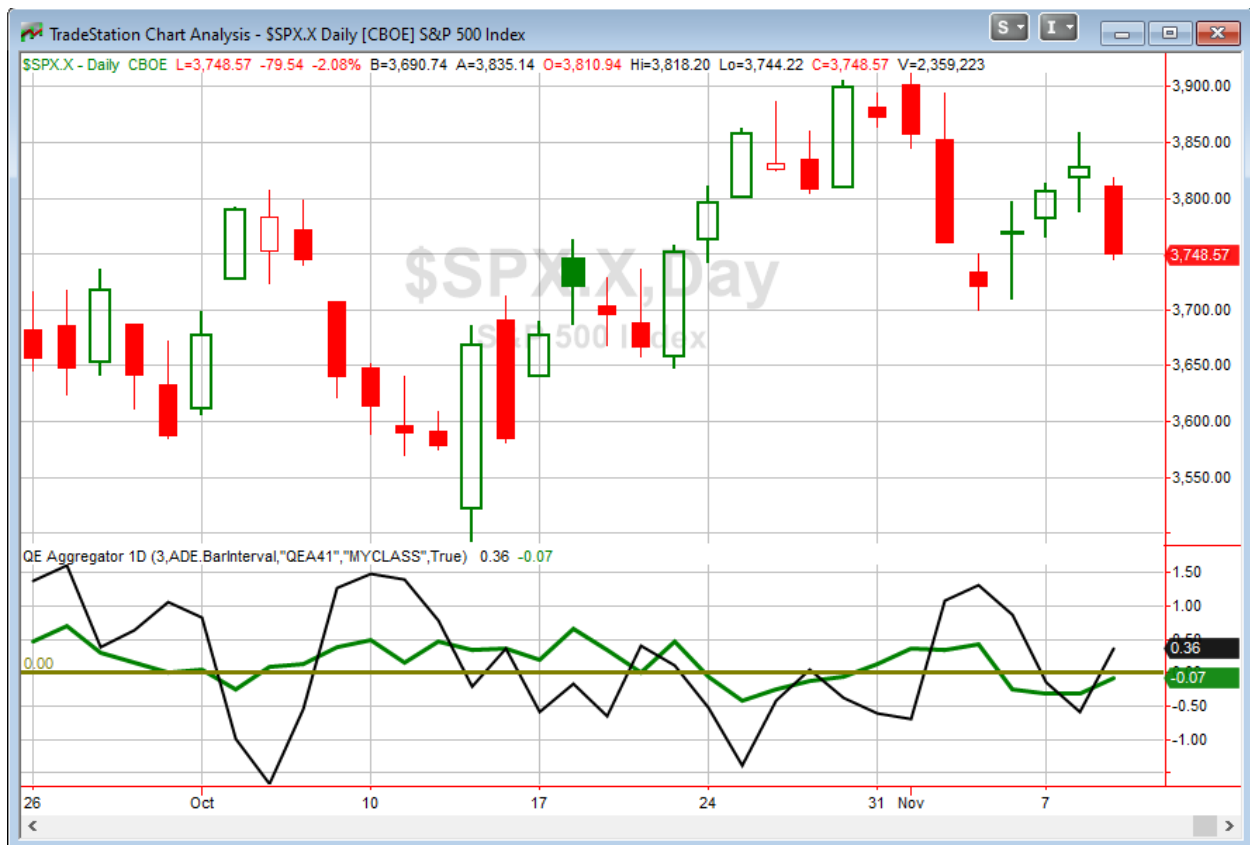
Of course none of the above may matter as much on Thursday as the CPI report, which is due to be released an hour before the NYSE open. For 30+ years of low inflation, the CPI report did not generally cause any excitement. That has changed in 2022. The table below shows action on the last 6 CPI release dates.

SPX Action on Recent CPI Release Dates			
Reference Month	Release Date	SPX True Range	SPX % Change
Apr-22	May 11, 2022	120.27	-1.65%
May-22	June 10, 2022	117.66	-2.91%
Jun-22	July 13, 2022	70.37	-0.45%
Jul-22	August 10, 2022	88.56	2.13%
Aug-22	September 13, 2022	189.13	-4.32%
Sep-22	October 13, 2022	193.83	2.60%
	Average	129.97	-0.77%
	All other days ATR since 5/11	77.97	

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The average true range on CPI days has been 67% larger than the average true range on all other days since 5/11/2022. July was the only one with fairly docile numbers. So we very well could see a sharp market move on Thursday.

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 moved above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 remain negative on Thursday. Of course this can change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3800.87 on Thursday. That is 1.4% above Wednesday's close. Therefore, SPX will need to close up at least 1.4% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is neutral. We have some evidence pointing lower, but the big selloff on Wednesday already pushed the market to an oversold level. As tonight's studies showed, we could certainly have a bit further to fall in the next few days before a bounce ensues. Of course CPI Thursday morning could spark a big move in either direction. I won't look to step in at this point. Let's see if there is a compelling edge after Thursday.

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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