

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2022

Volume 15 Issue 222

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- The SOX strength on a day NASDAQ declined suggests a bounce on Friday.
- When SPY posts a large gap down and then partially fills the gap on a positive open-close rally but still finishes down on the day, then that has often led to a bounce higher over the next few days.
- Opex Friday tends to sell off some during the morning after the open.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is a mild upside edge.

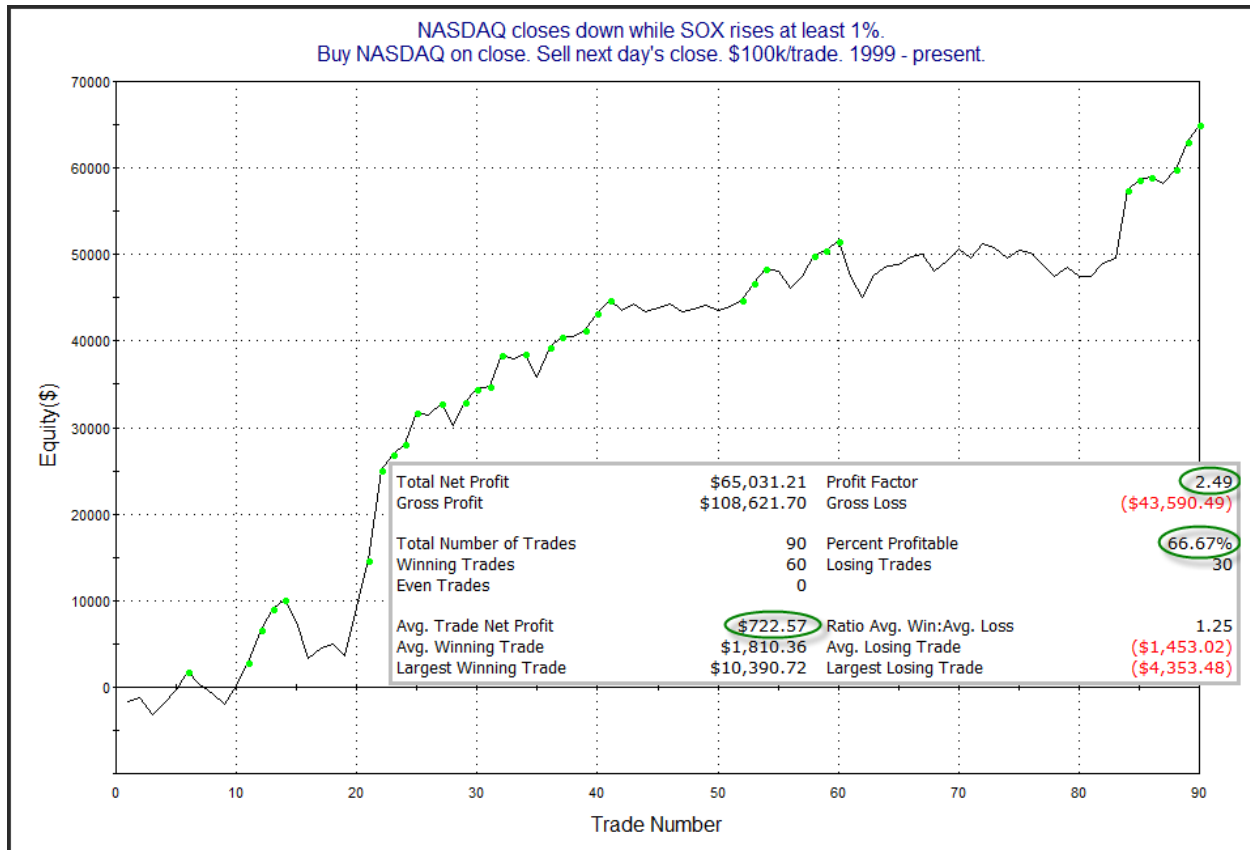
Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|--|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| November 18, 2022 | Unfill gap > 1%. Cls 0.5% > Opn.> 10ma | 1-6 days | Bullish | 3.60% | -1.90% | -4.20% |
| November 18, 2022 | NASDAQ down. SOX up 1%. | 1 day | 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 | | | |

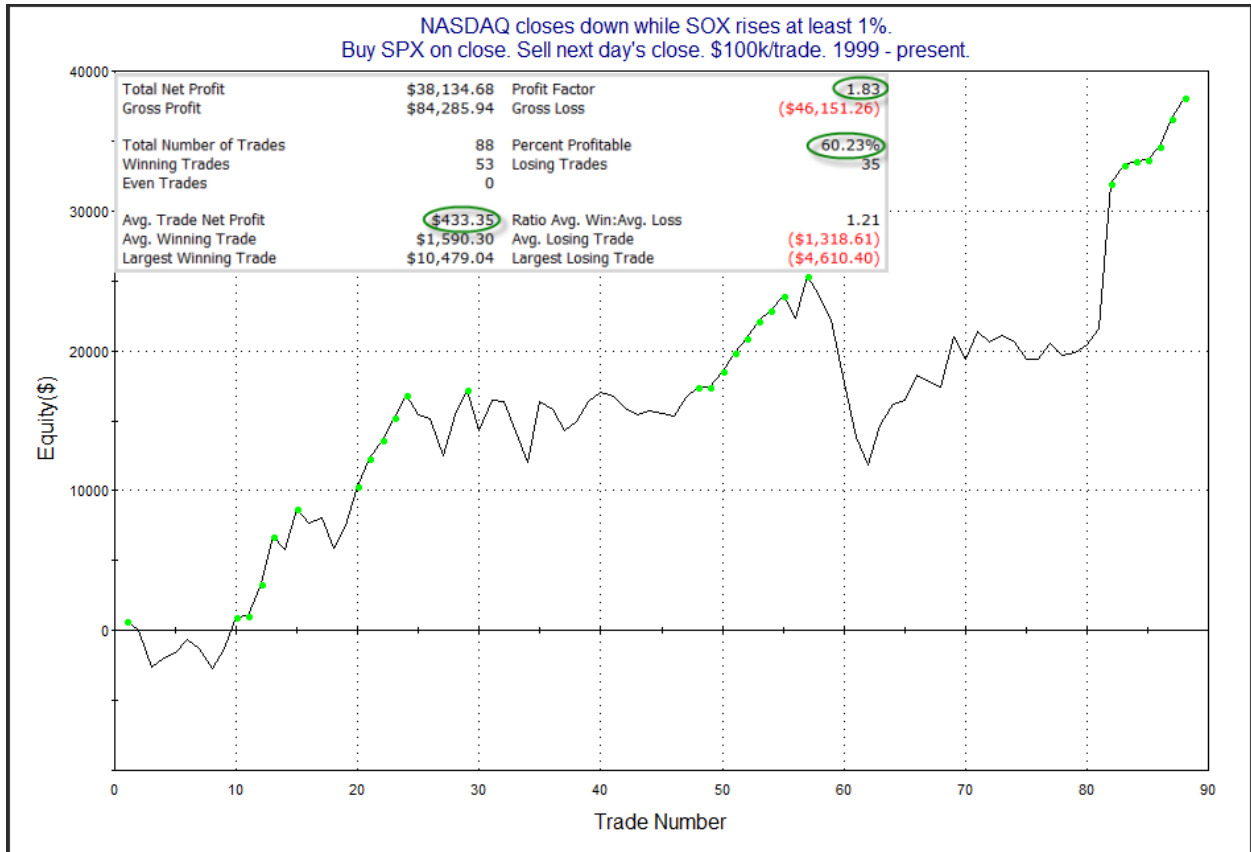
The Evidence

After a tough morning, the market bounced back some in the afternoon on Friday, but still finished lower. SPX lost 0.3%, the NASDAQ dropped 0.35%, and the Russell 2000 declined 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 35% and the Up Volume % at 39%. NYSE total volume declined for the 2nd day in a row.

Despite the decline in the NASDAQ, the SOX rose strongly, closing up 1.05%. When the SOX does well on a day the NASDAQ declines, that has often been followed by a rise in the NASDAQ the next day. This can be seen in the study below, which was last featured in the 4/19/22 letter.



Not exactly a steady rise, but the move and numbers are impressive nonetheless. I also looked at SPX performance on these days.



Here too we see appealing numbers. I have included this study on the active list tonight.

This next study was last seen in the 8/8/22 letter.

SPY gaps down > 1%. It never fill and closes > 0.5% above the open.
Close > 10ma. 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 20,647.47 | 9 | 8 | 1 | 88.89 | 5,117.92 | -8,625.78 | 3,659.16 | -8,625.78 | 0.42 | 3.39 | 2,294.16 |
| 9 | 22,660.20 | 9 | 8 | 1 | 88.89 | 5,499.74 | -5,949.96 | 3,576.27 | -5,949.96 | 0.60 | 4.81 | 2,517.80 |
| 8 | 26,748.01 | 10 | 9 | 1 | 90.00 | 6,684.18 | -3,540.06 | 3,365.34 | -3,540.06 | 0.95 | 8.56 | 2,674.80 |
| 7 | 22,286.83 | 10 | 8 | 2 | 80.00 | 5,658.39 | -4,287.96 | 3,461.47 | -2,702.48 | 1.28 | 5.12 | 2,228.68 |
| 6 | 24,720.12 | 10 | 8 | 2 | 80.00 | 5,558.41 | -2,301.87 | 3,390.31 | -1,201.20 | 2.82 | 11.29 | 2,472.01 |
| 5 | 18,992.76 | 10 | 8 | 2 | 80.00 | 5,272.34 | -3,382.17 | 2,929.51 | -2,221.66 | 1.32 | 5.27 | 1,899.28 |
| 4 | 9,113.77 | 10 | 8 | 2 | 80.00 | 2,972.06 | -5,625.87 | 1,976.83 | -3,350.44 | 0.59 | 2.36 | 911.38 |
| 3 | 6,352.76 | 10 | 8 | 2 | 80.00 | 3,176.64 | -6,190.95 | 1,895.84 | -4,406.98 | 0.43 | 1.72 | 635.28 |
| 2 | 1,876.92 | 10 | 5 | 5 | 50.00 | 2,345.96 | -3,058.08 | 1,518.37 | -1,142.98 | 1.33 | 1.33 | 187.69 |
| 1 | 2,598.51 | 10 | 5 | 5 | 50.00 | 2,247.84 | -1,819.95 | 1,282.64 | -762.94 | 1.68 | 1.68 | 259.85 |

Big gaps down that down do not fill, but close well above the open and above the 10ma have been rare. But they have often led to gains in the coming days. Below are all the instances with an 8-day holding period.

SPY gaps down > 1%. It never fill and closes > 0.5% above the open.
Close > 10ma. Buy on close. Sell 8 days later. \$100k/trade. 1993 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|------------|--------|----------|----------|-----------------|
| 11/7/1997 | Buy | \$92.94 | 1.85% | \$2,547.75 |
| 11/19/1997 | Sell | \$94.66 | | (\$3,063.75) |
| 11/12/2001 | Buy | \$112.03 | 3.26% | \$3,407.44 |
| 11/23/2001 | Sell | \$115.68 | | \$0.00 |
| 8/12/2002 | Buy | \$90.62 | 6.69% | \$7,202.59 |
| 8/22/2002 | Sell | \$96.68 | | (\$2,867.80) |
| 10/22/2002 | Buy | \$89.52 | 0.84% | \$1,977.09 |
| 11/1/2002 | Sell | \$90.27 | | (\$2,814.84) |
| 2/12/2010 | Buy | \$108.04 | 2.43% | \$3,274.50 |
| 2/25/2010 | Sell | \$110.67 | | \$0.00 |
| 2/25/2010 | Buy | \$110.67 | 3.42% | \$3,900.96 |
| 3/9/2010 | Sell | \$114.46 | | (\$505.68) |
| 6/23/2011 | Buy | \$128.30 | 4.42% | \$4,549.36 |
| 7/6/2011 | Sell | \$133.97 | | (\$1,308.72) |
| 9/19/2011 | Buy | \$120.31 | -3.54% | \$1,396.08 |
| 9/29/2011 | Sell | \$116.05 | | (\$7,487.31) |
| 10/2/2020 | Buy | \$333.84 | 4.22% | \$6,033.82 |
| 10/14/2020 | Sell | \$347.93 | | \$0.00 |
| 8/5/2022 | Buy | \$413.47 | 3.19% | \$4,400.66 |
| 8/17/2022 | Sell | \$426.65 | | (\$783.25) |

Possible upside edge here, but I don't completely love it. Instances are very few. And there have not been many in the last few years. Still, the numbers are all very impressive. Most gains were

large, and even the lone loser saw a run-up of 1.4%. So I decided to add it to the Active List tonight, but I put it down as a 1-6 day edge, since most of the gains were realized by day 6.

Another study that seems worth discussion is one that looked at Opex Friday price action. Opex Fridays have a tendency to open strong and then fade. The study below looks at buying the open on Opex Friday during downtrends and then selling at different times of the day.

| SPY closes < 200ma. It is opex Thursday. Buy Opex Fri at 9:30am EST open. Sell at time shown. \$100k/trade. 1998 - 10/2022. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| Time | 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 |
| 1,600 | -7,828.79 | 88 | 41 | 47 | 46.59 | 3,825.10 | -5,638.68 | 868.72 | -924.39 | 0.94 | 0.82 | -88.96 |
| 1,500 | -14,928.33 | 88 | 37 | 51 | 42.05 | 4,553.70 | -4,243.50 | 776.30 | -855.91 | 0.91 | 0.66 | -169.64 |
| 1,400 | -12,404.58 | 88 | 34 | 54 | 38.64 | 5,951.58 | -3,310.69 | 882.70 | -785.49 | 1.12 | 0.71 | -140.96 |
| 1,300 | -14,301.60 | 88 | 35 | 53 | 39.77 | 4,913.76 | -2,631.68 | 755.65 | -768.86 | 0.98 | 0.65 | -162.52 |
| 1,200 | -15,845.40 | 88 | 33 | 55 | 37.50 | 2,917.06 | -2,295.06 | 673.51 | -692.20 | 0.97 | 0.58 | -180.06 |
| 1,100 | -6,018.37 | 88 | 38 | 50 | 43.18 | 2,944.02 | -3,033.70 | 606.86 | -581.58 | 1.04 | 0.79 | -68.39 |
| 1,000 | -5,539.71 | 88 | 38 | 49 | 43.18 | 2,298.03 | -1,815.51 | 409.09 | -430.31 | 0.95 | 0.74 | -62.95 |

While all the numbers are negative, the bearish tendency appears to generally play out by noon. Below is a profit curve showing the 9:30am EST to noon EST performance.



Despite the bump up in October, that is a strong, steady decline. Some morning selling would be typical. Traders may want to take this under some consideration in the morning. Since the impact only appears to last a few hours, this is not a study for inclusion on the Active List.

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



With tonight's evidence considered, the green Aggregator closed above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line remained 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 set to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3994.80 on Friday. That is 1.2% above Thursday's close. Therefore, SPX will need to close up at least 1.2% on Friday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is now bullish. Evidence is not great, but it is decent. And next week we will see some very bullish seasonal days. (More about that in this weekend's letter.) So there appears to be a good chance that the market bounces. And with the Differential Pivot some distance off, there is also ample potential reward in a long trade. I like the idea of starting to scale into a long trade here. Of course opex Friday morning often sees selling. So I will look to set my trade up to execute at least an hour after the NYSE open.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/14 – neutral

The intermediate-term outlook was last updated in the 11/14/22 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 at 10:30am EST or later. Limit price is the lower of \$394.24 or the open price at 9:30am EST. Based on the short-term section above, I will give it some time and then look to buy if SPY sees selling on Friday.

Current Open Trade Ideas

None

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