

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2022

Volume 15 Issue 230

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- In recent years, 1% plus moves through the 200ma have often seen selling the next day.
- Moves from a 5-day low to a 50-day high in 1 day are often followed by a dip in the next few days.
- Strong up days with big volume often see follow through.
- When the last day of the month marks the highest close of the month, then the momentum often carries through into the 1st week of the new month.
- SPX closing above its 50-day Bollinger Band suggests momentum in strong enough that further intermediate-term gains appear likely.

Short-term Outlook

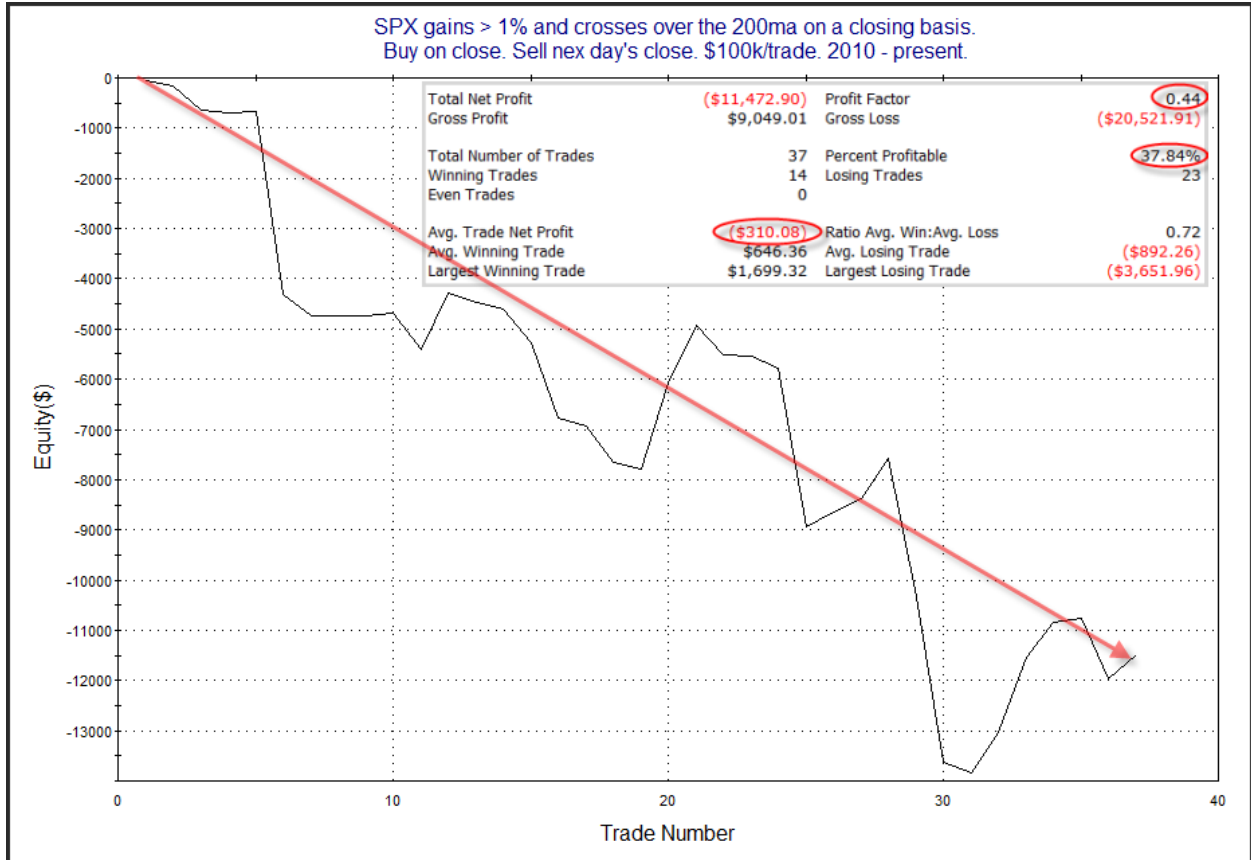
The Bottom Line

The Aggregator is neutral. Evidence is mixed but tilting higher. SPX is overbought. I don't see a sizable short-term edge.

The Evidence

The market loved Jay Powell on Wednesday, and it showed its love with a massive rally. The SPX jumped 3.1%, the NASDAQ rose 4.4%, and the Russell 2000 climbed 2.7%. Breadth was strongly positive with the NYSE Up Issues % coming in at 85% and the Up Volume % at 88.5%. NYSE total volume spiked to the highest level in a long while.

The strong move up through the 200ma for SPX was noticed by basically everyone. It also triggered the study below, from the 6/30/20 letter.



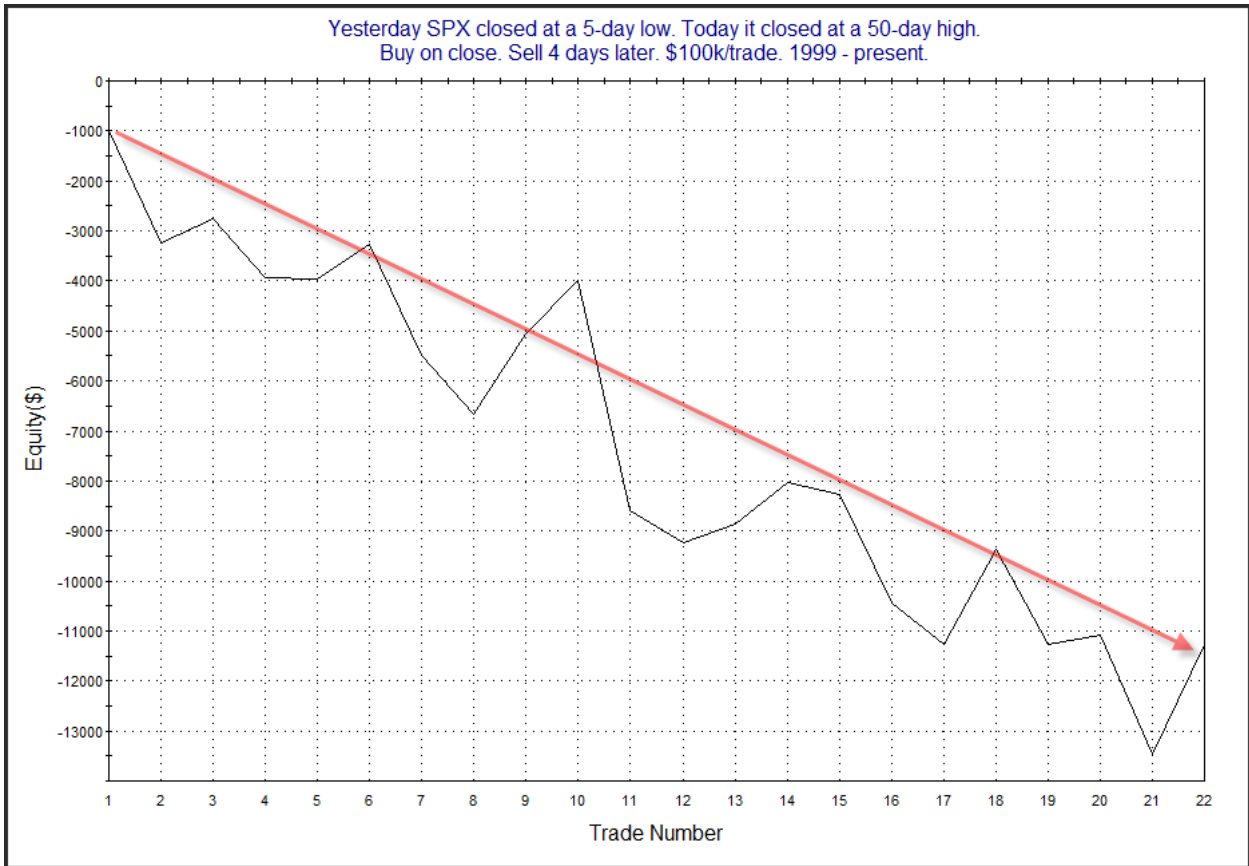
The move down is impressive and so are the stats. This would suggest a bearish tendency for the day after such a strong move through the 200ma. I have added this study to the active list for tonight.

The strong move up caused SPX to move from a 5-day low close to a 50-day high close. That is fairly unusual. In the 3/4/19 Letter I looked at moves from 5-day lows to 50-day highs. Tonight I have updated those results below.

Yesterday SPX closed at a 5-day low. Today it closed at a 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-12,497.34	22	11	11	50.00	2,053.50	-4,993.16	948.18	-2,084.30	0.45	0.45	-568.06
4	-11,278.76	22	9	13	40.91	2,184.08	-4,596.70	1,045.27	-1,591.24	0.66	0.45	-512.67
3	-7,005.26	22	11	11	50.00	1,998.70	-5,028.42	926.69	-1,563.53	0.59	0.59	-318.42
2	-4,751.80	22	7	15	31.82	1,607.93	-2,902.50	893.34	-733.68	1.22	0.57	-215.99
1	-2,613.47	22	9	13	40.91	747.75	-1,214.72	363.63	-452.78	0.80	0.56	-118.79

The numbers are not overwhelming but they do suggest a possible downside edge. Below is a look at the 4-day profit curve.



The curve is certainly choppy, but it has managed to head from upper left to lower right and recently made a new low. This study appears to be worth some consideration.

But not everything that triggered was bearish. Wednesday's rally was sizable and volume was the highest in a long time. In the 6/27/22 letter I looked at big rallies that occurred on very high volume

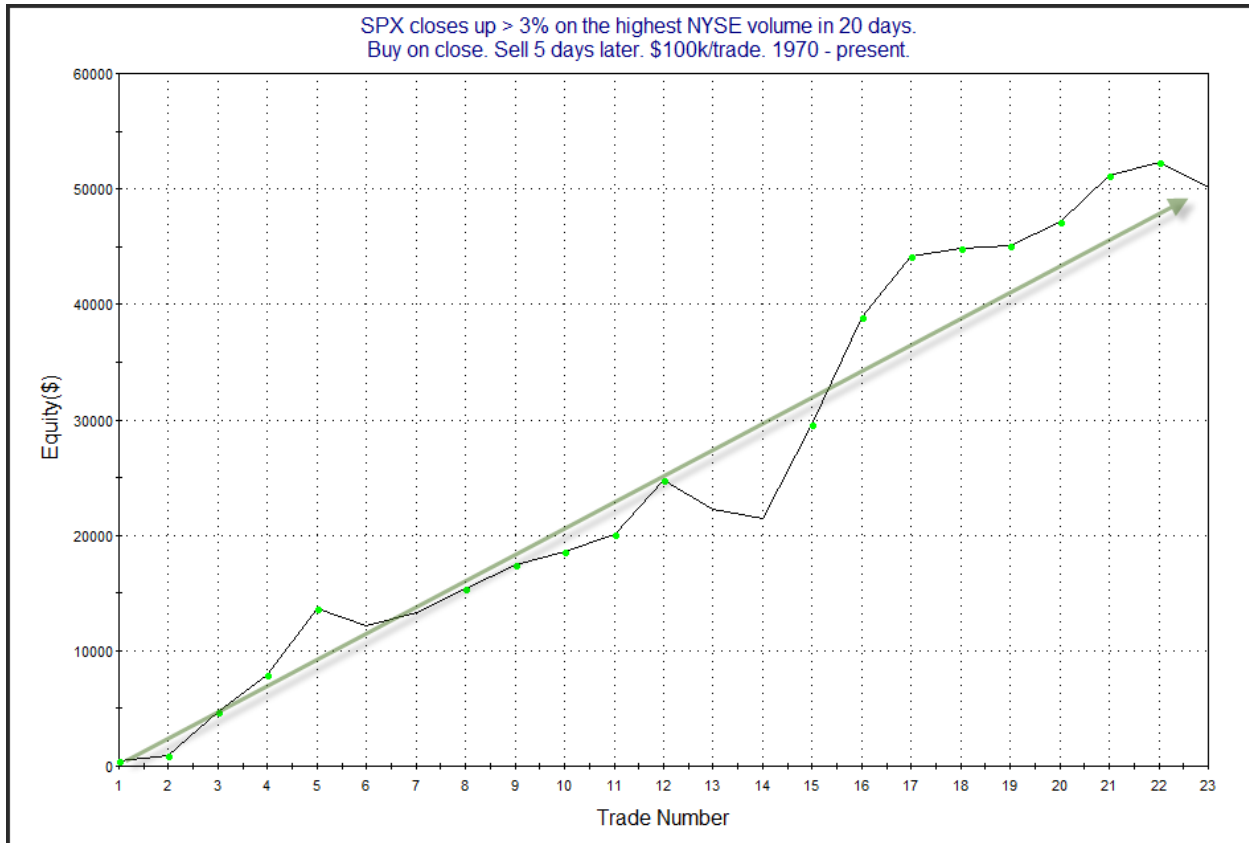
vs those that did not. The study below shows times where SPX closed up > 3%, but the rally was *not* accompanied by a 20-day high in NYSE volume.

SPX closes up > 3%. NYSE volume is NOT the highest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	-38,022.47	61	32	29	52.46	13,158.45	-22,531.20	3,785.90	-5,488.67	0.69	0.76	-623.32
9	-50,719.08	64	32	32	50.00	14,258.16	-12,531.42	3,403.83	-4,988.80	0.68	0.68	-792.49
8	-69,750.52	64	31	33	48.44	9,572.58	-19,506.88	2,912.47	-4,849.61	0.60	0.56	-1,089.85
7	-71,260.52	66	27	39	40.91	8,892.72	-21,797.40	3,660.35	-4,361.28	0.84	0.58	-1,079.70
6	-58,622.45	68	36	32	52.94	10,315.50	-16,460.42	3,070.82	-5,286.62	0.58	0.65	-862.09
5	-56,639.12	73	39	34	53.42	11,988.81	-17,314.65	3,213.93	-5,352.42	0.60	0.69	-775.88
4	-62,908.86	78	43	35	55.13	9,526.41	-16,867.40	2,596.38	-4,987.24	0.52	0.64	-806.52
3	-39,695.11	79	41	38	51.90	7,448.76	-11,884.77	2,228.55	-3,449.10	0.65	0.70	-502.47
2	-65,837.16	88	44	44	50.00	7,309.60	-13,654.06	1,857.49	-3,353.79	0.55	0.55	-748.15
1	-54,635.39	89	41	48	46.07	3,833.82	-11,696.04	1,079.87	-2,060.62	0.52	0.45	-613.88

As you can see, big up days don't often see great follow through. But when the volume *is* strong, like Wednesday, then it is a much different story. The study below is also from the 6/27/22 letter and has been updated.

SPX closes up > 3% on the highest NYSE volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	66,592.62	23	18	5	78.26	13,599.08	-7,562.86	4,458.56	-2,732.30	1.63	5.87	2,895.33
9	72,951.95	23	17	6	73.91	11,435.28	-3,726.90	4,723.96	-1,225.91	3.85	10.92	3,171.82
8	60,910.28	23	17	6	73.91	10,693.76	-3,292.30	4,095.25	-1,451.49	2.82	7.99	2,648.27
7	58,377.92	23	19	4	82.61	11,879.20	-8,207.38	3,795.01	-3,431.81	1.11	5.25	2,538.17
6	53,558.82	23	16	7	69.57	9,978.28	-2,008.75	3,935.69	-1,344.61	2.93	6.69	2,328.64
5	50,136.70	23	19	4	82.61	9,334.72	-2,534.50	3,006.71	-1,747.71	1.72	8.17	2,179.86
4	40,129.68	23	16	7	69.57	11,930.04	-3,869.74	3,645.96	-2,600.82	1.40	3.20	1,744.77
3	38,938.75	23	14	9	60.87	10,868.60	-3,820.62	3,856.31	-1,672.17	2.31	3.59	1,692.99
2	21,028.61	23	13	10	56.52	7,112.64	-3,630.44	2,488.96	-1,132.79	2.20	2.86	914.29
1	29,889.96	23	14	9	60.87	9,089.88	-1,516.06	2,536.97	-625.29	4.06	6.31	1,299.56

Numbers are impressive, and the curves were also. Below is a look at the 5-day profit curve.



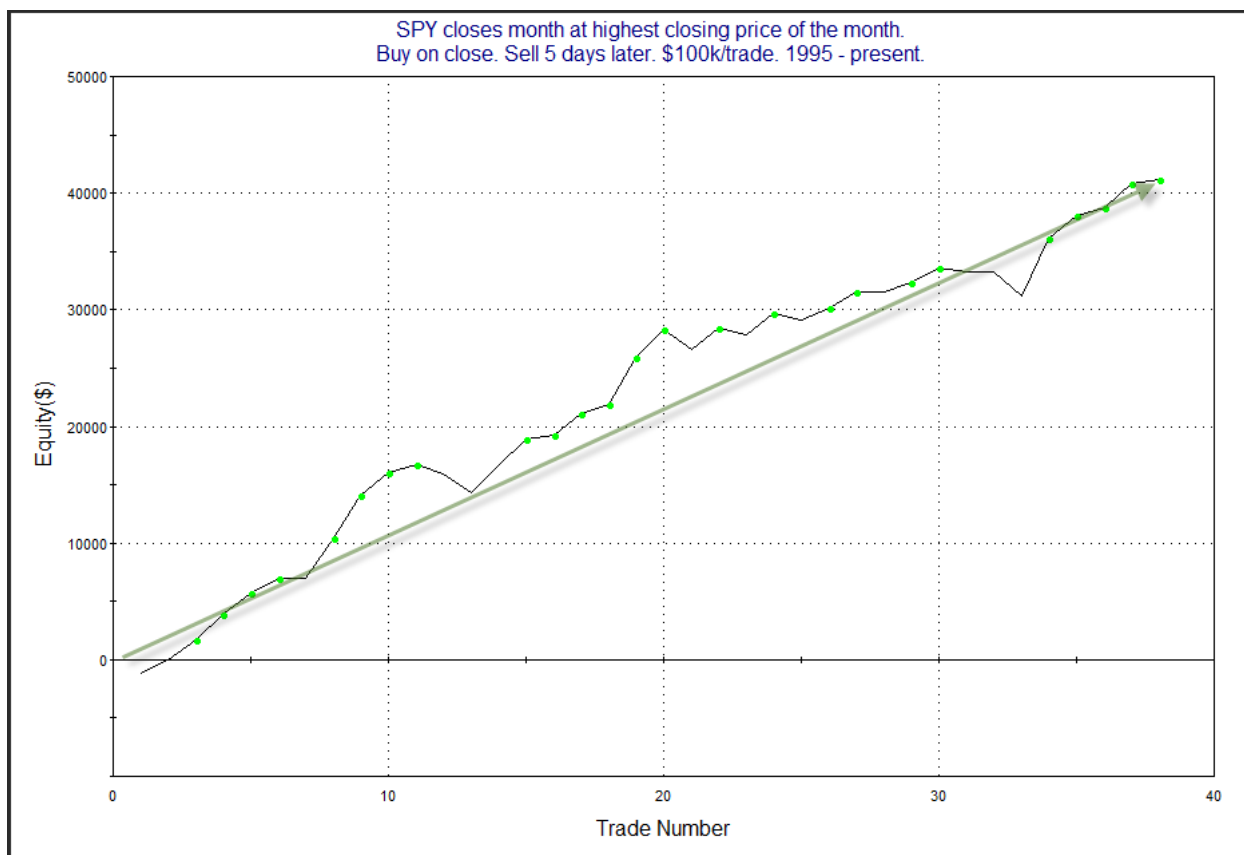
That is a strong steady move from lower left to upper right. Prior to the June instance, this study had not triggered since 2011. I'll also note that when I discussed it in the June letter I was a little wary of the setup because the huge volume in June occurred on the day of the Russell rebalance. Wednesday's volume was not artificial, so perhaps the setup will work better this time than it did in June.

I'll also note there is a compelling new-month study suggesting that we could see further rallying in the next few days. Results are updated from the 8/1/22 letter. They suggest strong end of month momentum has typically carried through into the following month. This can be seen below.

SPY closes month at highest closing price of the month.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	41,162.22	38	28	9	73.68	4,926.56	-2,070.60	1,788.66	-991.14	1.80	5.61	1,083.22
4	35,314.76	38	27	11	71.05	5,394.96	-4,338.40	1,731.35	-1,039.23	1.67	4.09	929.34
3	22,828.93	38	26	12	68.42	4,105.92	-4,678.40	1,380.47	-1,088.61	1.27	2.75	600.76
2	12,089.07	38	21	17	55.26	3,954.78	-4,848.40	1,244.81	-826.59	1.51	1.86	318.13
1	3,518.54	38	20	18	52.63	1,850.94	-1,359.03	691.15	-572.47	1.21	1.34	92.59

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.

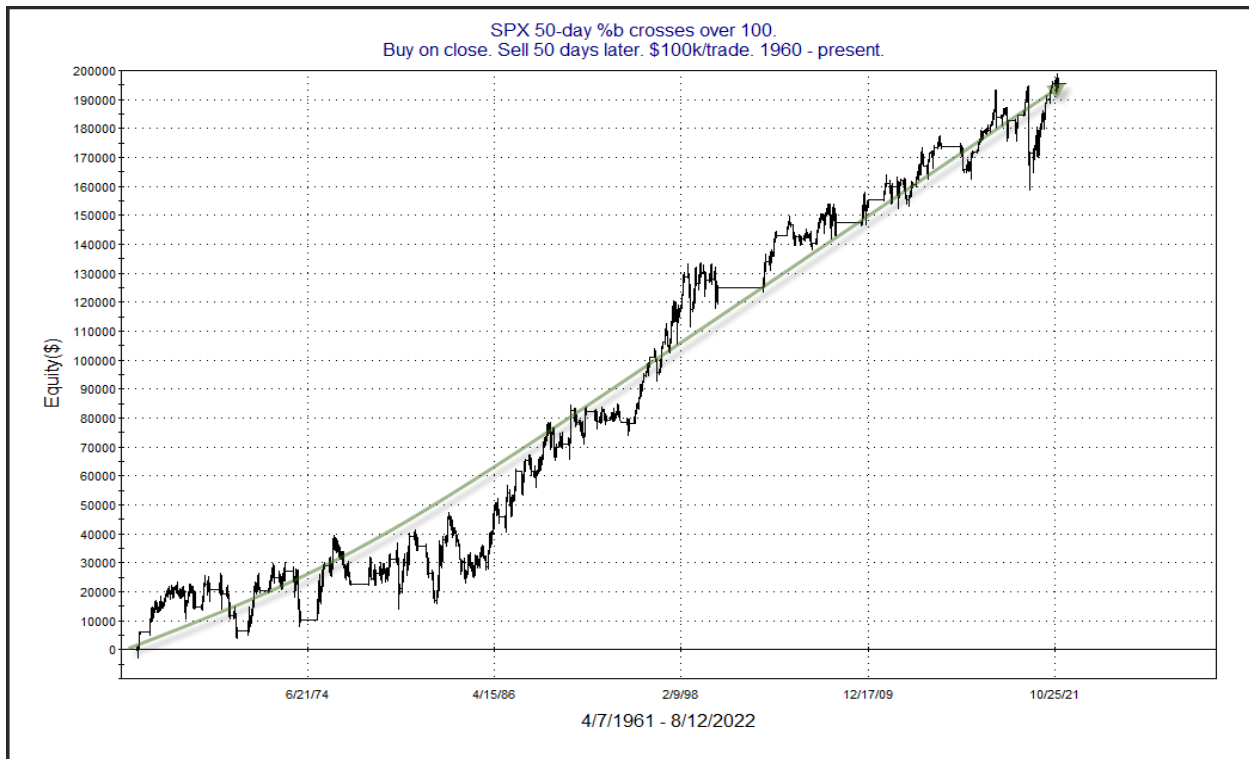


The steady upslope is comforting. I have added this study to the active list tonight.

One interesting study that triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 8/15/22 letter. Due to the late hour, I did not update this study tonight.

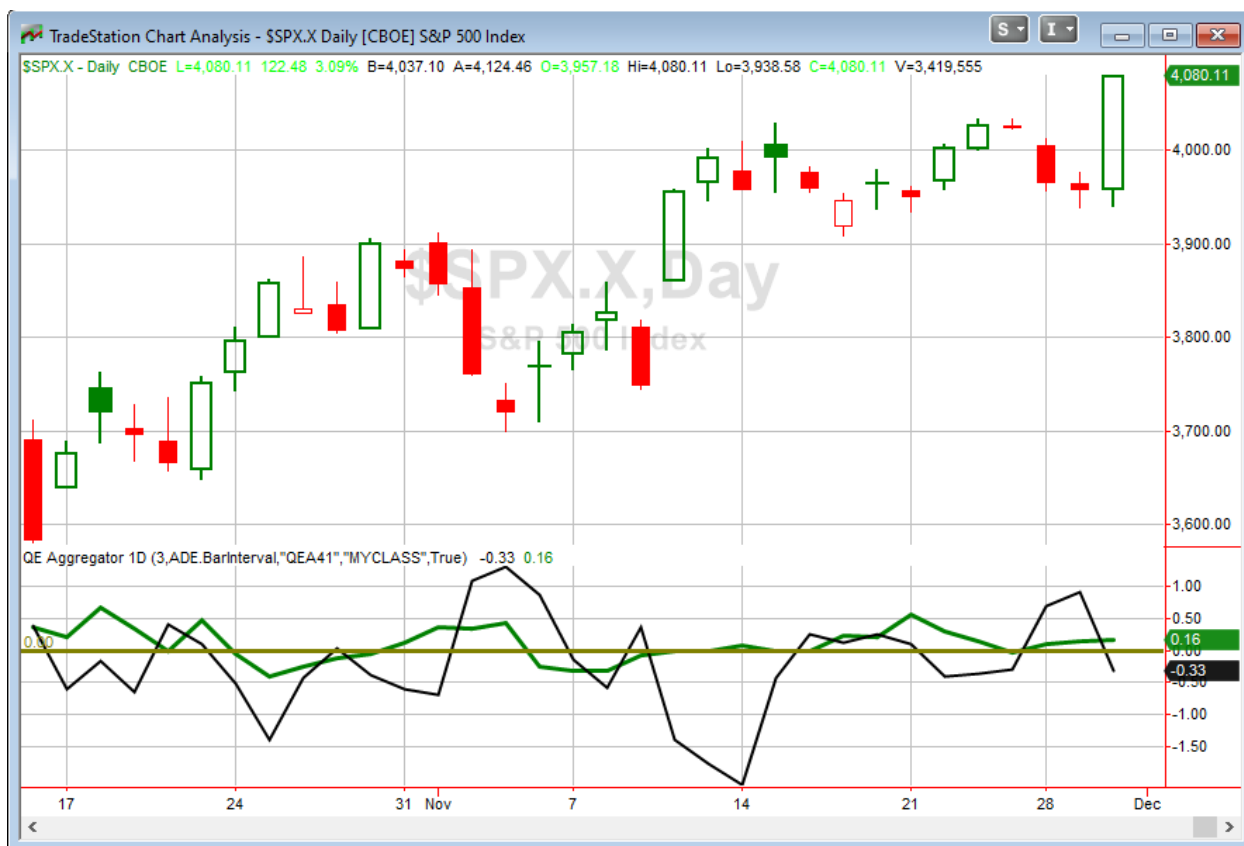
SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1960 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	195,572.69	145	90	55	62.07	18,408.18	-20,704.80	4,803.37	-4,304.19	1.12	1.83	1,348.78
45	152,833.59	151	88	63	58.28	15,816.57	-32,382.30	5,004.05	-4,563.86	1.10	1.53	1,012.14
40	160,958.19	157	96	61	61.15	17,624.67	-27,920.40	4,408.23	-4,298.88	1.03	1.61	1,025.21
35	155,532.75	166	101	65	60.84	15,782.13	-13,617.00	3,953.70	-3,750.63	1.05	1.64	936.94
30	101,481.34	173	104	69	60.12	11,920.74	-10,485.00	3,238.86	-3,411.01	0.95	1.43	586.60
25	68,394.34	181	104	77	57.46	10,859.94	-8,732.16	2,929.82	-3,068.92	0.95	1.29	377.87
20	60,141.55	194	111	83	57.22	9,501.30	-10,205.38	2,611.13	-2,767.40	0.94	1.26	310.01
15	52,525.94	214	124	90	57.94	7,843.46	-9,763.44	2,310.74	-2,600.06	0.89	1.22	245.45
10	41,974.53	238	145	93	60.92	8,239.16	-9,133.53	1,674.06	-2,158.76	0.78	1.21	176.36
5	13,270.70	291	162	129	55.67	5,030.81	-6,524.55	1,133.19	-1,320.21	0.86	1.08	45.60

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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 also dipped 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Thursday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3968.62 on Thursday. That is a sizable 2.7% below Wednesday's close. Therefore, it would take a decline of at least 2.7% on Thursday for SPX to flip from overbought to oversold versus recent expectations.

So the Aggregator is neutral. The bounce I was expecting came very quickly and the market has suddenly flipped from oversold to overbought. While evidence suggests we could see further upside in the coming days, evidence is mixed. This seems like a good place to take a profit and await the next favorable entry opportunity. That is my intention.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 11/28 – neutral*

The intermediate-term outlook was last updated in the 11/28/22 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	11/30/2022	\$395.23	\$407.68	3.15%	<i>sell on open</i>

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