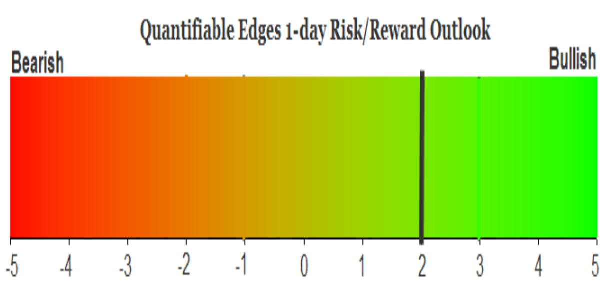
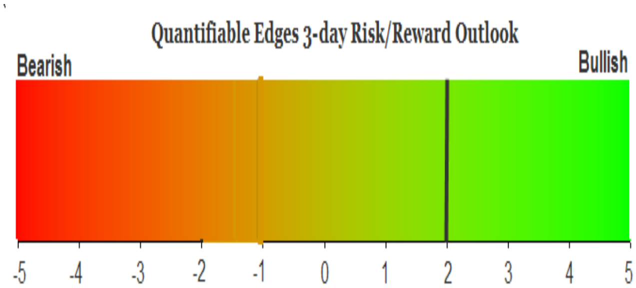
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2022 | Volume 15 Issue 241

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Strong down days more reliably bounce when they originate from a short-term low.
- We are entering a bullish seasonal period for RUT.
- Opex Fridays often see morning selling.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is an upside edge, but I will only look to take advantage if there is further selling on Friday.

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						
December 8, 2022	5 lower closes < 200ma	1-8 days	Bullish	4.30%	-2.00%	-4.85%
Active - Long Term						
December 2, 2022	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
December 1, 2022	SPX goes from < 15% above 50 to > 90%	1-6 months	Bullish			
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

The market got hammered on Thursday. The SPX finished down 2.5%, the NASDAQ lost 3.2%, and the Russell 2000 declined 2.5%. Breadth was negative with the NYSE Up Issues % coming in at 19% and the Up Volume % at 14%. NYSE total volume declined some from Wednesday's level.

The selling on Thursday was strong. Selloffs of this magnitude are often overreactions that are followed by a bounce in the following days. Especially when they make new lows. But I have also found that the position of the market prior to the big down day can be important. The studies below differentiate between 2% selloffs to new lows that also posted lows the day before, vs those that did NOT post lows the day before.

After closing at a 5-day low yesterday, SPX closes down > 2% today.
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	105,244.66	76	48	28	63.16	18,981.60	-12,975.48	3,922.82	-2,966.09	1.32	2.27	1,384.80
4	61,459.60	80	50	30	62.50	17,851.68	-14,820.98	3,230.78	-3,335.98	0.97	1.61	768.25
3	74,991.10	84	49	35	58.33	17,277.48	-13,815.18	3,327.22	-2,515.50	1.32	1.85	892.75
2	90,581.55	88	61	27	69.32	13,116.84	-7,559.56	2,571.24	-2,454.23	1.05	2.37	1,029.34
1	77,118.26	97	63	34	64.95	10,716.03	-5,702.04	2,064.29	-1,556.82	1.33	2.46	795.03

SPX closes down > 2% today and at a 5-day low. It did NOT close at a 5-day low yesterday.
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	57,524.25	145	80	65	55.17	11,405.78	-12,358.08	2,941.68	-2,735.54	1.08	1.32	396.72
4	70,495.36	152	88	64	57.89	13,981.45	-7,638.84	2,617.10	-2,497.02	1.05	1.44	463.79
3	25,717.45	158	91	67	57.59	8,279.04	-12,789.00	2,145.59	-2,530.32	0.85	1.15	162.77
2	20,276.11	166	81	85	48.80	8,484.76	-8,077.85	1,997.59	-1,665.04	1.20	1.14	122.15
1	3,353.29	166	97	69	58.43	5,865.46	-9,386.64	1,180.43	-1,610.84	0.73	1.03	20.20

The 1st setup where the market was already oversold prior to the big down day shows a much stronger edge over the next few days. The 2nd setup is underwhelming. The current setup is the 2nd one…underwhelming.

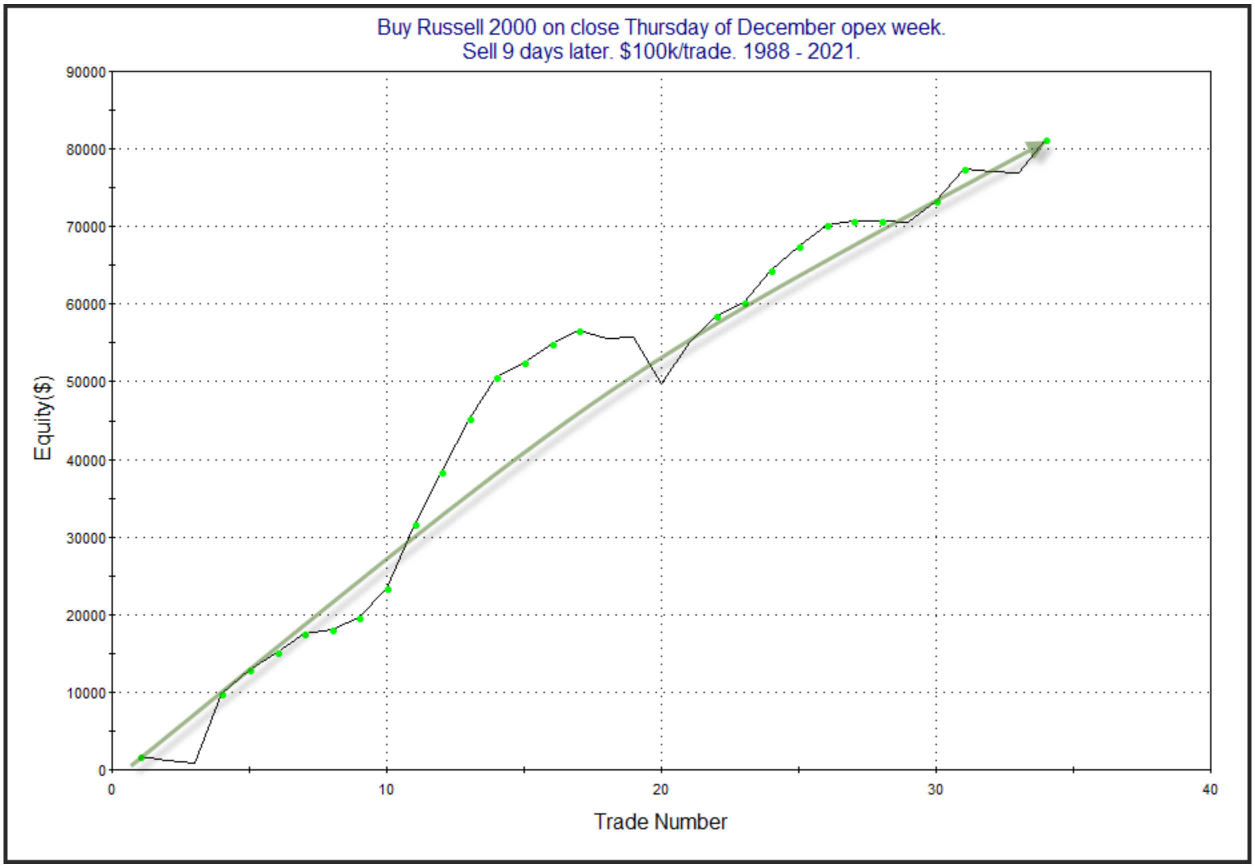
We are now entering a strong seasonal period for Russell 2000. I discussed this on Sunday and have copied the research below.

Next is a study I have shown for several years that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on close Thursday of December opex week.
Sell X days later. $100k/trade. 1988 - 2021.

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	80,889.04	34	25	9	73.53	10,279.71	-5,643.30	3,869.45	-1,760.81	2.20	6.10	2,379.09
9	81,280.93	34	27	7	79.41	9,009.63	-5,973.50	3,332.75	-1,243.34	2.68	10.34	2,390.62
8	68,585.95	34	28	6	82.35	7,115.85	-2,948.40	2,630.75	-845.84	3.11	14.51	2,017.23
7	63,692.41	34	28	6	82.35	7,790.58	-1,809.60	2,484.39	-978.40	2.54	11.85	1,873.31
6	51,612.09	34	26	8	76.47	6,599.88	-2,720.64	2,244.56	-843.29	2.66	8.65	1,518.00
5	39,559.72	34	25	9	73.53	4,892.25	-3,194.64	2,008.02	-1,182.30	1.70	4.72	1,163.52
4	31,976.43	34	25	9	73.53	4,413.75	-3,892.32	1,804.97	-1,460.86	1.24	3.43	940.48
3	25,943.72	34	24	10	70.59	3,814.20	-2,650.68	1,614.87	-1,281.31	1.26	3.02	763.05
2	7,141.16	34	19	15	55.88	3,495.70	-4,431.00	1,341.83	-1,223.57	1.10	1.39	210.03
1	9,938.84	34	19	15	55.88	2,299.70	-2,543.25	921.61	-504.78	1.83	2.31	292.32

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



That is a strong looking curve. I'll re-post this study again Thursday night when it actually triggers.

Another study that seems worth discussion is one that looks 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.

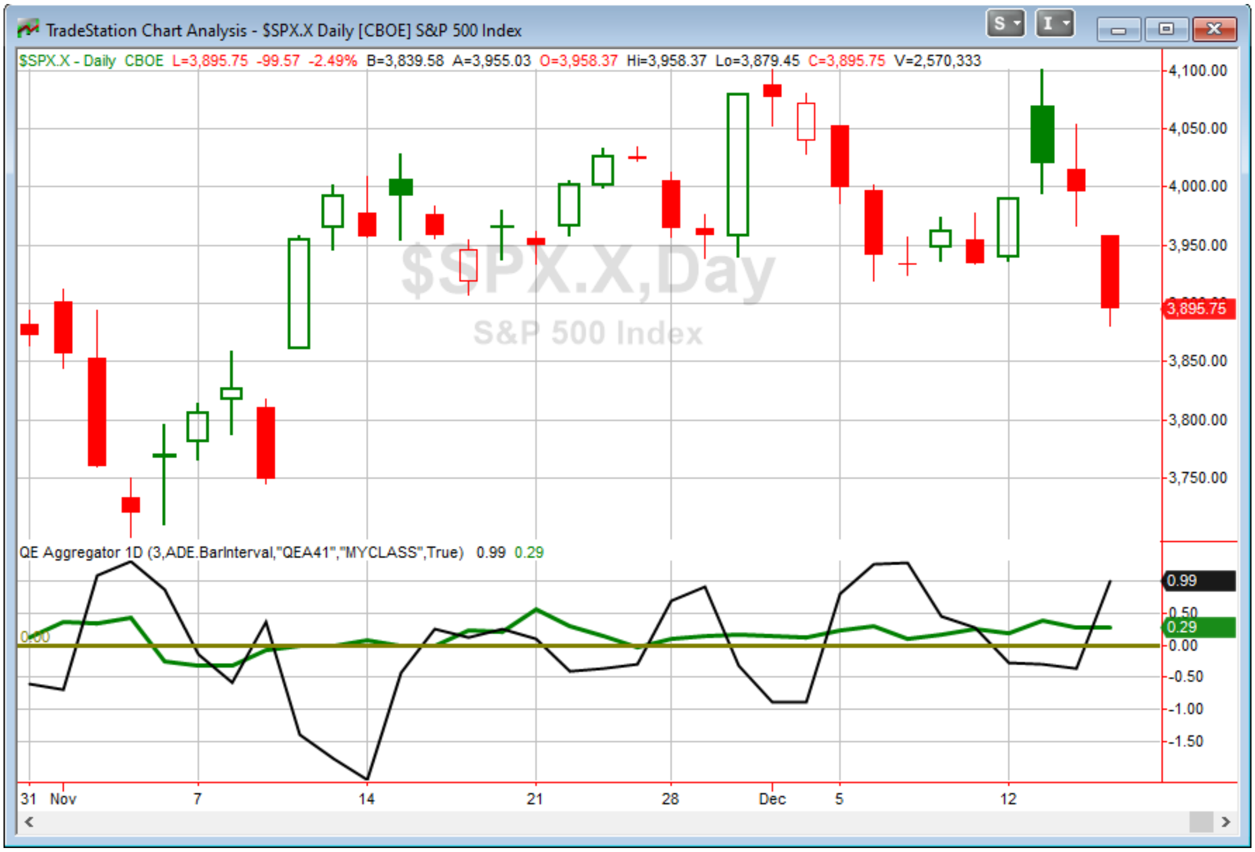
SPY closes < 200ma. It is Opex Thursday.
Buy opex Fri at 9:30am EST. Sell at time shown. $100k/trade. 1998 - 11/2022.

OE Op-Ex Fri Intra Short2: timeofday	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	-8,246.23	89	41	48	46.07	3,825.10	-5,638.68	868.72	-913.83	0.95	0.81	-92.65
1,500	-15,699.98	89	37	52	41.57	4,553.70	-4,243.50	776.30	-854.29	0.91	0.65	-176.40
1,400	-13,376.10	89	34	55	38.20	5,951.58	-3,310.69	882.70	-788.87	1.12	0.69	-150.29
1,300	-15,285.77	89	35	54	39.33	4,913.76	-2,631.68	755.65	-772.84	0.98	0.63	-171.75
1,200	-16,508.26	89	33	56	37.08	2,917.06	-2,295.06	673.51	-691.68	0.97	0.57	-185.49
1,100	-6,815.32	89	38	51	42.70	2,944.02	-3,033.70	606.86	-585.80	1.04	0.77	-76.58
1,000	-6,030.53	89	38	50	42.70	2,298.03	-1,815.51	409.09	-431.52	0.95	0.72	-67.76

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.

That is a strong, steady decline. Some morning selling on Friday would be typical. Traders may want to take this under some consideration. 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 Line remained above zero. Positive readings mean expectations are for upside 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 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. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4049.19 on Friday. That is 3.9% above Thursday’s close. So SPX will need to close up 3.9% on Friday to flip from oversold to overbought vs recent expectations. I don’t envision that happening.

So the Aggregator is bullish. Evidence is still light, and Opex Fridays often see selling during the day. I am not inclined to rush right in with a long position. But if the market sells off strongly again on Friday, I may look to take on some long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/12 – slightly bullish
The intermediate-term outlook was last updated in the 12/12/22 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 @ $384.22 LIMIT ON CLOSE. Based on the short-term outlook above, I will take on a small amount of index exposure if Friday is another tough day for the market.

Current Open Trade Ideas
None