

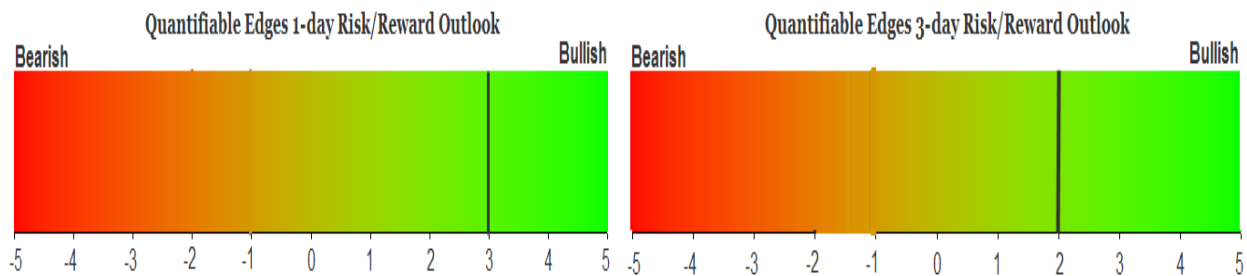
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 22, 2023

Volume 16 Issue 35

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- The gap down and continued selling on Wednesday could be setting the market up for a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is a solid 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						
February 22, 2023	Unfl gap dn, 10-intra low. Dn 3 in row	1-2 days	Bullish			
February 22, 2023	Gap dn frm 5-low. C<O but > 200	1-2 days	Bullish			
February 21, 2023	1st 10-low close in 30+ days. >200	1-8 days	Bullish	2.50%	-1.90%	-4.15%
Active - Long Term						
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 23, 2023	NASDAQ Leading	int term	Bullish			
January 13, 2023	QE Triple 70 Thrust	1-80 days	Bullish			
January 13, 2023	Deemer Breakaway Momentum	1-6 months	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
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			

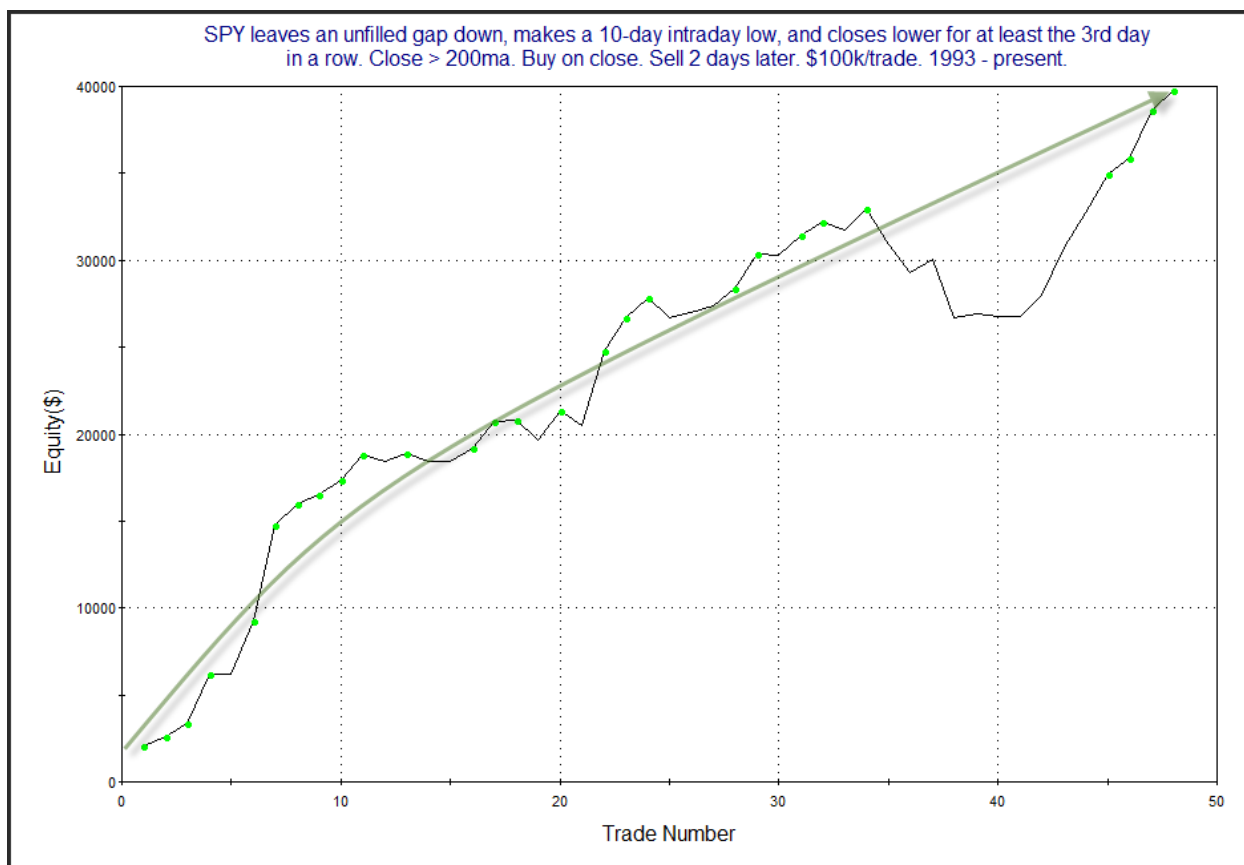
The Evidence

Tuesday started bad and finished worse. The SPX ended down 2.0%, the NASDAQ lost 2.5%, and the Russell 2000 tumbled 3.0%. Breadth was negative with the NYSE Up Issues % coming in at 12.5% and the Up Volume % at 14%. NYSE total volume rose for the 3rd day in a row.

Some observations that suggest a possible upside edge are 1) SPY has now closed lower 3 days in a row during a long-term uptrend, and 2) SPY left an unfilled gap down and made a short-term low. These things triggered a few studies in the Quantifinder tonight. The study below combined them and served as a good description of the current market setup. It looked for multiple down days, short-term lows, and an unfilled gap down. It was last seen in the 5/30/18 letter. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 200ma. 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
5	48,428.94	48	34	14	70.83	8,239.74	-4,770.78	2,026.22	-1,461.62	1.39	3.37	1,008.94
4	33,747.25	48	32	16	66.67	5,581.02	-8,109.60	1,984.34	-1,859.48	1.07	2.13	703.07
3	36,095.74	48	34	14	70.83	4,249.44	-7,722.10	1,674.04	-1,487.25	1.13	2.73	751.99
2	39,801.96	48	35	12	72.92	5,477.88	-3,385.20	1,470.54	-972.24	1.51	4.41	829.21
1	24,098.81	51	38	13	74.51	5,764.38	-3,028.70	969.31	-979.62	0.99	2.89	472.53
92% of instances closed above the entry price at some point in the next week.												

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



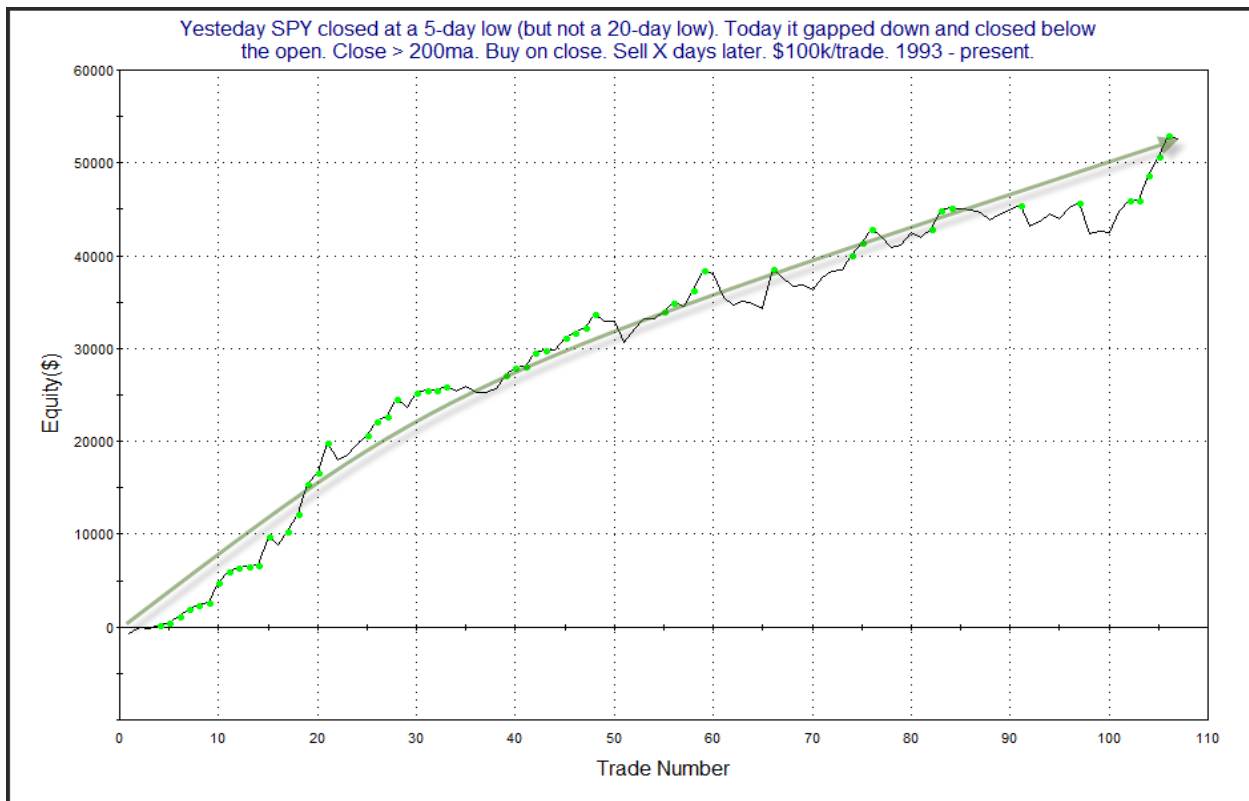
The curve is a little choppy, but it has made its way from lower left to upper right. And the last 7 instances have all turned out winners. The study certainly seems strong enough to include on the Active List tonight.

In the 5/3/19 letter I showed a study that examined gaps down and poor closes following a 5-day low. The setup appeared bullish. But I also noted that it was even more bullish if the gap down followed a 20-day low. So 20-day low instances were excluded to prevent the data from looking overly bullish. Updated stats are below.

Yesterday SPY closed at a 5-day low (but not a 20-day low). Today it gapped down and closed below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

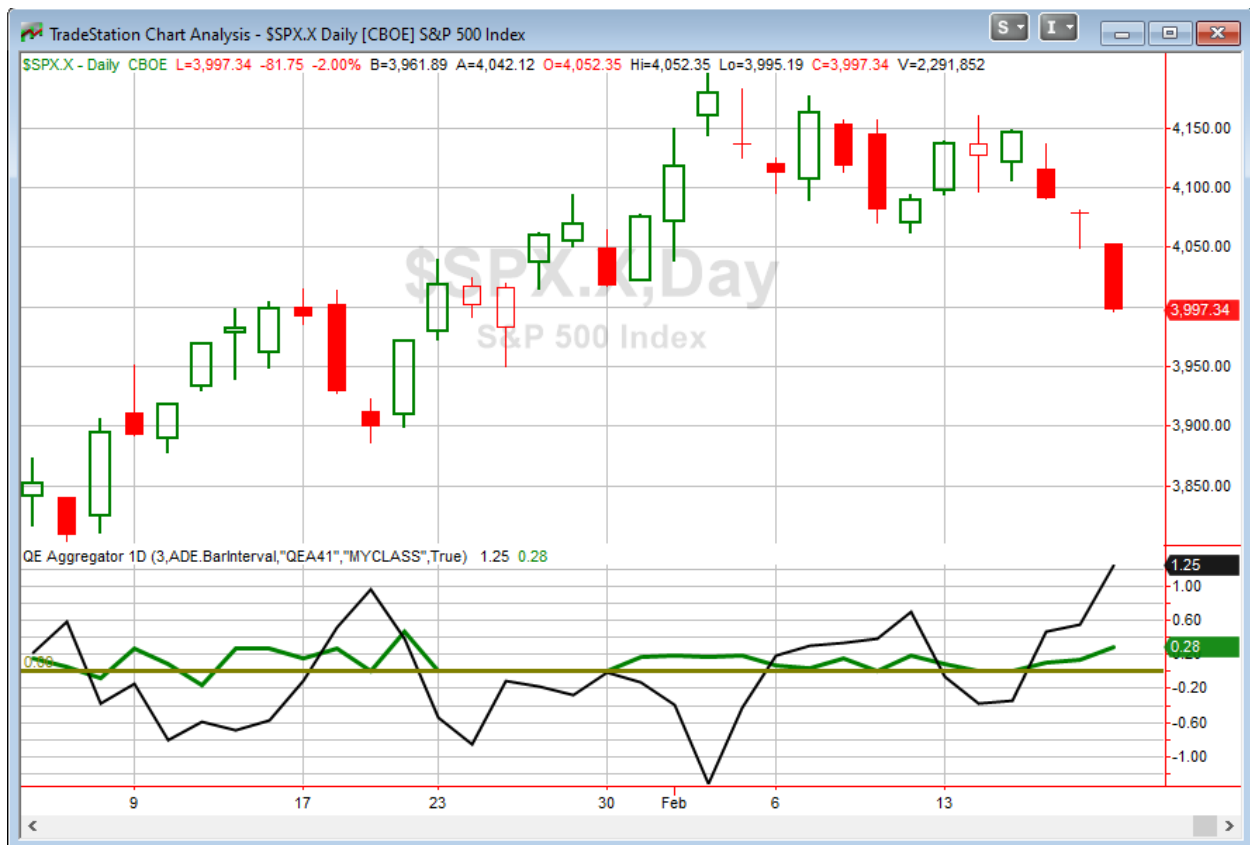
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	81,241.05	104	72	31	69.23	5,165.28	-5,063.85	1,662.66	-1,240.98	1.34	3.11	781.16
4	46,820.80	104	70	34	67.31	4,647.50	-8,109.60	1,464.68	-1,638.44	0.89	1.84	450.20
3	48,896.56	106	67	38	63.21	4,290.00	-7,722.10	1,453.12	-1,275.32	1.14	2.01	461.29
2	52,406.16	107	76	31	71.03	4,305.42	-3,385.20	1,043.39	-867.47	1.20	2.95	489.78
1	29,431.85	111	77	34	69.37	2,143.68	-4,181.76	783.67	-909.14	0.86	1.95	265.15

Odds here appear bullish, especially over the 1st 2 days. Below is a profit curve assuming a 2-day exit strategy.



The persistent upslope serves as confirmation of the bullish potential. I have included this study on the Active List tonight.

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 held 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will 4093.18 on Wednesday. That is 2.4% above Monday's close. Therefore, SPX will need to close up a sizable 2.4% on Wednesday if it is to flip from oversold to overbought vs recent expectations. More likely it will take a multi-day rally or consolidation in order to turn overbought.

So the Aggregator is bullish. Upside evidence is building, and the market is substantially oversold. I believe there is a solid upside edge. I took some long exposure on Tuesday. I may look to add to that if I see further weakness on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/21 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

New

AXP – 1/3 @ \$173.48 (buy @ limit)

Broad Market Large Cap CBI – 1(AXP)

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 @ \$398.00 LIMIT. From the trade ideas section above, I will look to add some long exposure on Wednesday if we see some more selling at some point during the day.

AXP – Buy 1/3 Catapult position @ \$173.48. From the Catapult section above, this is the 1st of up to 3 possible lots of AXP.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/21/2023	\$403.06	\$399.09	-0.98%		Aggregator

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