

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 10, 2023

Volume 16 Issue 47

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- The very low closing TICK reading suggests the afternoon selling could be an overreaction, and a bounce is likely on Friday.
- The fact that the CBI is still at zero while SPX is making new intermediate-term lows hints that there could be more downside to come.
- The employment report due out Friday before the open is a wildcard.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Risks appear elevated for both bulls and bears. No thanks.

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

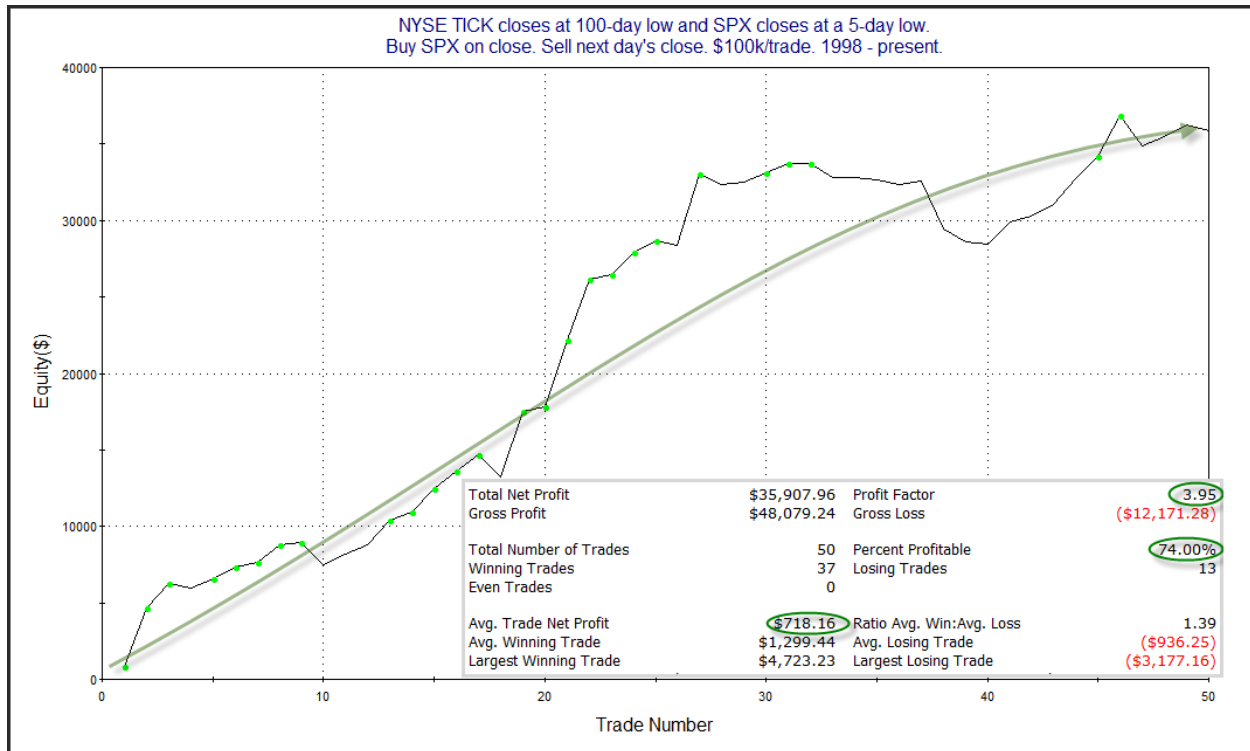
| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------------------------------------------------------|-------------------------------------------|-------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| March 10, 2023 | SPX 5-low. TICK 100-low | 1 day | Bullish | | | |
| March 10, 2023 | SPX 20-low < 200. CBI = 0. | 1-5 days | Bearish | -3.10% | 1.40% | 2.75% |
| Active - Long Term | | | | | | |
| March 3, 2023 | 20-low cls yest. 20-intra low then up cls | 1-10 days | Bullish | 3.00% | -1.80% | -3.30% |
| 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 | | | |
| Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded) | | | | | | |
| March 7, 2023 | NYSE Up Vol < 40%. SPX up > 200 | 1-8 days | Bullish | 1.80% | -1.20% | -2.60% |

The Evidence

The market got slammed on Thursday. It was the 2nd worst day so far in 2023 for the SPX. The SPX fell 1.85%, the NASDAQ dropped 2.05%, and the Russell 2000 tumbled 2.8%. Breadth was strongly negative with the NYSE Up Issues % coming in at 14% and the Up Volume % at 7%. NYSE total volume spiked higher from Wednesday's low level.

My friend and colleague, Tom McClellan (<http://www.mcoscillator.com/>), taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge. Sentiment today showed fear. Many traders sold down the market, presumably to avoid potential consequences of a strongly adverse reaction to the employment report Friday morning.

On Thursday the NYSE closing TICK was -438. This represents the lowest closing reading since September. The study below was last seen in the 4/11/14 Subscriber Letter. It looks at short-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.



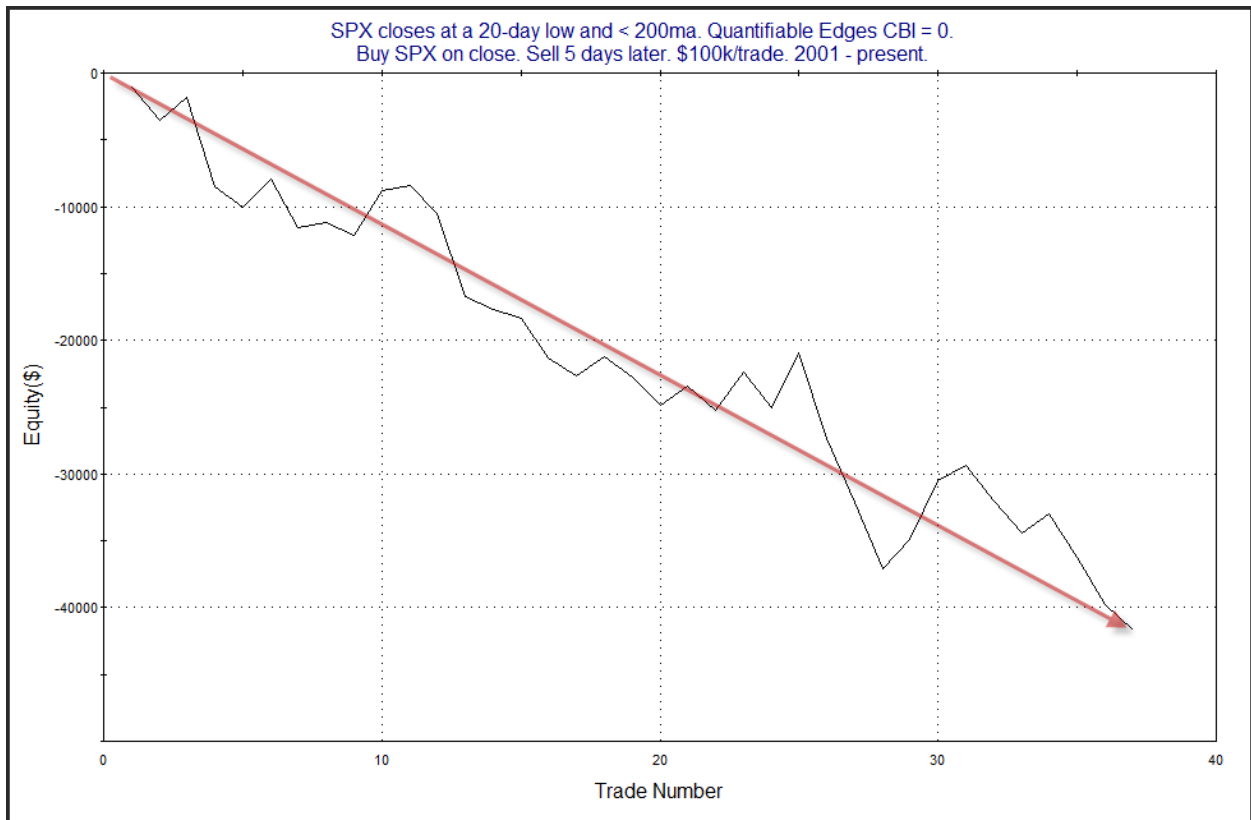
The profit curve and numbers are impressive. I also ran this study with a few different filters tonight. I checked instances that SPX closed above vs below the 200ma. There was not much difference in the results. I also noted that SPX closed at a 20-day low on Thursday, not just a 5-day low. So I tightened the filter to a 20-day low to see what impact that had on the results. Again, they were not much different. The original study above gave more instances and still appeared to be a good representation of the setup and the odds. So I am adding it to the active list tonight.

Concerning about the current selloff is the fact that the Quantifiable Edges Capitulative Breadth Indicator (CBI) remains at zero. Most subscribers understand that spikes in the CBI can often be a strong indication that a bounce is near. But a low CBI can also be a useful indication. The study below looks at other times SPX closed at a 20-day low and below the 200ma and the CBI posted a zero reading.

SPX closes at a 20-day low and < 200ma. Quantifiable Edges CBI = 0.
Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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 | -41,642.29 | 37 | 13 | 24 | 35.14 | 4,312.49 | -6,711.66 | 2,068.04 | -2,855.29 | 0.72 | 0.39 | -1,125.47 |
| 4 | -28,277.84 | 39 | 16 | 23 | 41.03 | 7,324.62 | -10,632.61 | 1,958.71 | -2,592.05 | 0.76 | 0.53 | -725.07 |
| 3 | -27,258.80 | 46 | 18 | 28 | 39.13 | 6,051.15 | -5,403.51 | 1,741.97 | -2,093.37 | 0.83 | 0.53 | -592.58 |
| 2 | -18,797.29 | 54 | 21 | 33 | 38.89 | 3,441.27 | -4,264.42 | 1,491.47 | -1,518.73 | 0.98 | 0.62 | -348.10 |
| 1 | -15,004.99 | 73 | 31 | 42 | 42.47 | 2,476.96 | -4,302.72 | 868.83 | -998.54 | 0.87 | 0.64 | -205.55 |

The lack of capitulative selling seems to suggest there could be more selling to come before a bounce occurs. Below is a look at a profit curve assuming a 5-day holding period.



That is a strong & steady decline. To see how this contrasts with times the CBI closed above zero, I ran a couple of other tests. This next one requires readings of between 1-7.

| SPX closes at a 20-day low and < 200ma. Quantifiable Edges CBI > 0 and <= 7. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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 | 61,947.41 | 84 | 47 | 37 | 55.95 | 9,975.30 | -8,127.00 | 2,938.25 | -2,058.12 | 1.43 | 1.81 | 737.47 |
| 4 | 11,300.39 | 91 | 56 | 35 | 61.54 | 7,388.26 | -17,037.90 | 2,208.41 | -3,210.58 | 0.69 | 1.10 | 124.18 |
| 3 | 49,731.66 | 103 | 62 | 41 | 60.19 | 8,279.04 | -10,286.10 | 2,264.32 | -2,211.12 | 1.02 | 1.55 | 482.83 |
| 2 | 34,196.98 | 116 | 62 | 54 | 53.45 | 8,484.76 | -9,270.00 | 1,969.71 | -1,628.24 | 1.21 | 1.39 | 294.80 |
| 1 | 25,875.63 | 157 | 93 | 64 | 59.24 | 5,394.60 | -6,659.22 | 1,168.78 | -1,294.07 | 0.90 | 1.31 | 164.81 |

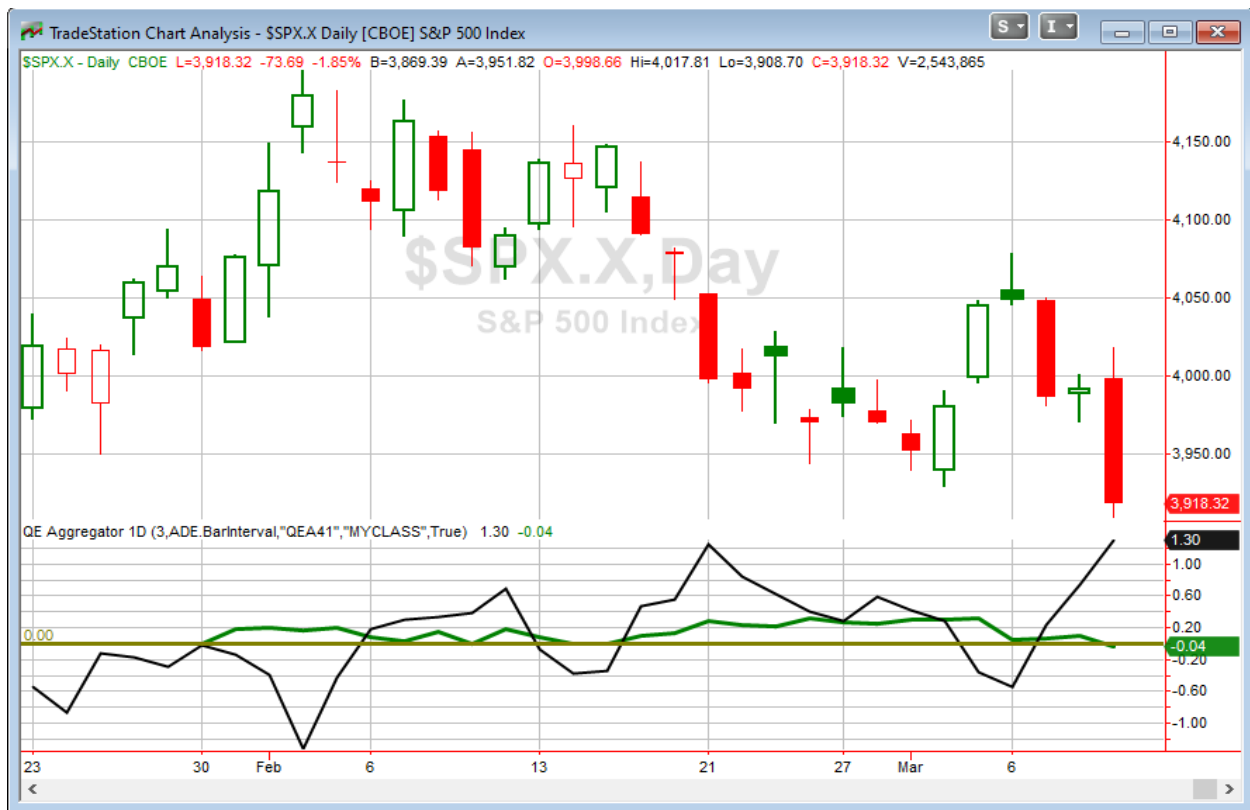
The red has turned to green in the Average Trade results. Instead of a downside edge, it appears there is a moderate upside edge. Of course the largest edges tend to occur when the CBI is giving high readings. The last study below looks at the same setup, but with a CBI over 7.

| SPX closes at a 20-day low and < 200ma. Quantifiable Edges CBI > 7. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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 | 82,256.49 | 37 | 29 | 8 | 78.38 | 18,981.60 | -12,975.48 | 4,192.62 | -4,916.19 | 0.85 | 3.09 | 2,223.15 |
| 4 | 74,701.02 | 40 | 27 | 13 | 67.50 | 17,851.68 | -7,145.44 | 3,961.09 | -2,480.64 | 1.60 | 3.32 | 1,867.53 |
| 3 | 47,313.43 | 45 | 33 | 12 | 73.33 | 13,853.40 | -9,701.00 | 2,800.50 | -3,758.60 | 0.75 | 2.05 | 1,051.41 |
| 2 | 66,148.00 | 56 | 36 | 20 | 64.29 | 13,116.84 | -8,631.00 | 3,272.17 | -2,582.50 | 1.27 | 2.28 | 1,181.21 |
| 1 | 72,830.77 | 77 | 45 | 32 | 58.44 | 11,558.43 | -9,386.64 | 3,127.56 | -2,122.17 | 1.47 | 2.07 | 945.85 |

These results are strongly bullish. But this is not the current situation. The CBI of zero has us facing the first CBI study above, and that suggests more selling in the next week.

Of course the employment report that will come out before the open could trigger a large reaction either way. And we will also be faced with CPI numbers coming Tuesday. In other words, there is strong potential for large swings in either direction. This market has plenty of risk and I do not see a strong indication that a bounce is highly probable at this point.

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



With tonight's mix of studies considered, the green Aggregator Line fell below zero. Negative readings mean expectations are for downside 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 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 tuned flat at the close.

Based on the current active studies, expectations are set to remain negative on Friday. This could change if new bullish evidence emerges. And this market seems to be capable of generating strong moves that could trigger studies suggesting edges in either direction. Meanwhile, the Differential Pivot will be 4001.88 on Friday. That is a sizable 2.1% above Thursday's close. Therefore, SPX will need to rally at least 2.1% on Friday in order to flip from oversold to overbought vs recent expectations. While possible, a more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is neutral. We are strongly oversold, but the low CBI says we could have further to drop. Of course the upcoming economic data could easily cause a sharp (over)reaction in either direction. Risks are high. I have no desire to get involved in a new position right now. Of course, like anything else in this market, that could change quickly. But I plan to see how Friday plays out and then take the weekend to determine my next move.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/6 – bullish

The intermediate-term outlook was last updated in the 3/6/23 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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