

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 3, 2023

Volume 16 Issue 84

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Tuesday's weakness appears to be a positive for Wednesday.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is long. There appears to be a bullish edge, though the Fed announcement is a wildcard.

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

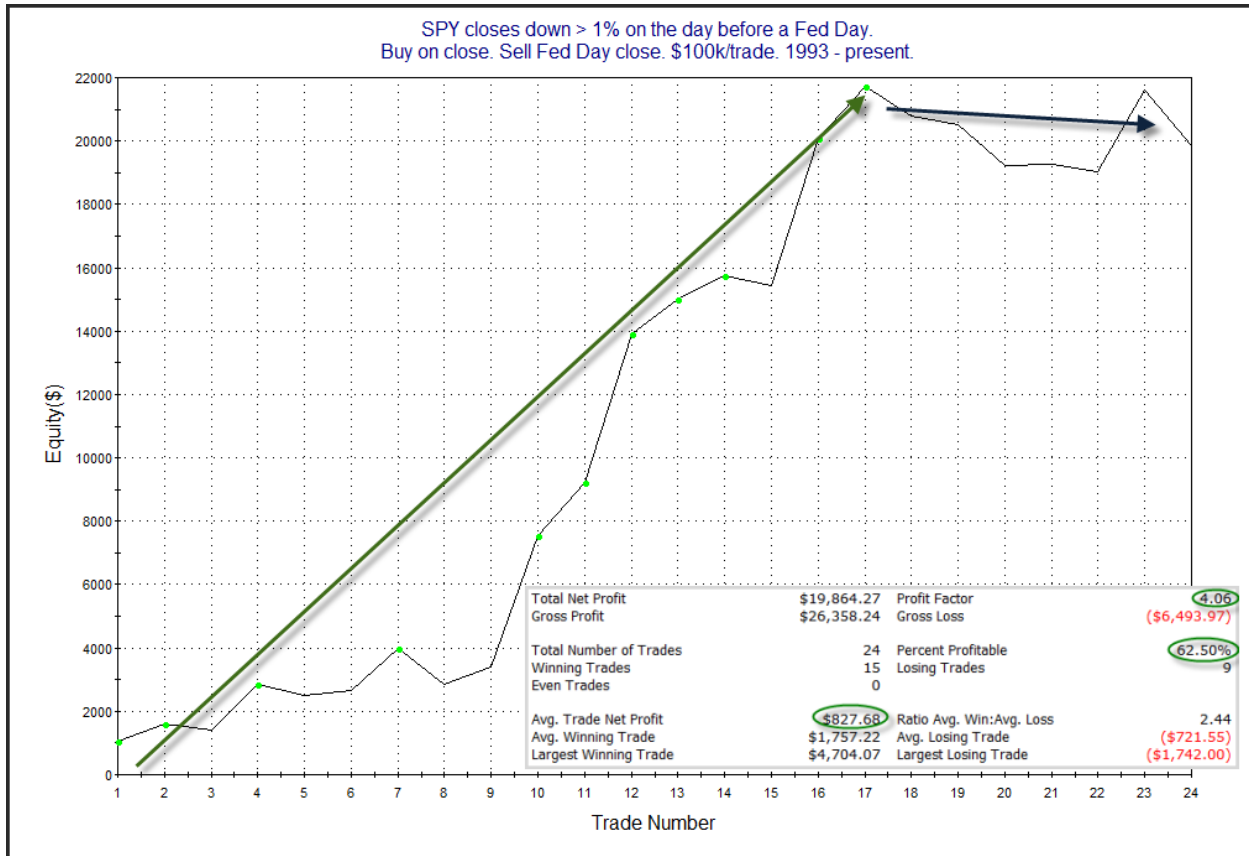
| Study Date                 | Description                           | Time span   | Bias    | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|---------------------------------------|-------------|---------|------------|------------|------------------------|
| <b>Active - Short Term</b> |                                       |             |         |            |            |                        |
| May 3, 2023                | Fed Day bullish                       | 1 day       | Bullish |            |            |                        |
| May 1, 2023                | End of month at high of month         | 1-5 days    | Bullish | 1.90%      | -1.10%     | -2.30%                 |
| <b>Active - Long Term</b>  |                                       |             |         |            |            |                        |
| May 1, 2023                | NASDAQ Leading                        | int term    | Bullish |            |            |                        |
| February 2, 2023           | SPX Golden Cross                      | 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***

Traders were in a selling mood ahead of Wednesday's Fed announcement. The SPX lost 1.2%, the NASDAQ fell 1.1%, and the Russell 2000 tumbled 2.1%. Breadth was negative with the NYSE Up Issues % coming in at 20% and the Up Volume % at 16%. NYSE total volume rose some from Monday's level.

The selling on Tuesday morning was remarkably persistent. I noted that SPY did not have a single green 5-min bar for the 1<sup>st</sup> 2 hours of the trading day. That is 24 down (one sideways) bars in a row. Out of curiosity, I looked back to see other times where SPY started the day without a single 5-min up bar until after 11:30am EST. With data going back to 1998, it had never happened before. So not predictive...but interesting.

Declines over 1% just before a Fed Day don't happen that often (about 10% of Fed Days). In the 1/31/18 letter I looked at other times this has happened. I updated that study tonight.



As you can see, the numbers are bullish, but the curve has not made any progress over recent instances. This leaves the upside edge somewhat in doubt. But last night I showed that closes in the bottom part of the range have generally been a positive heading into a Fed Day. Below I have copied the results from the quartile that SPY landed in on Tuesday.

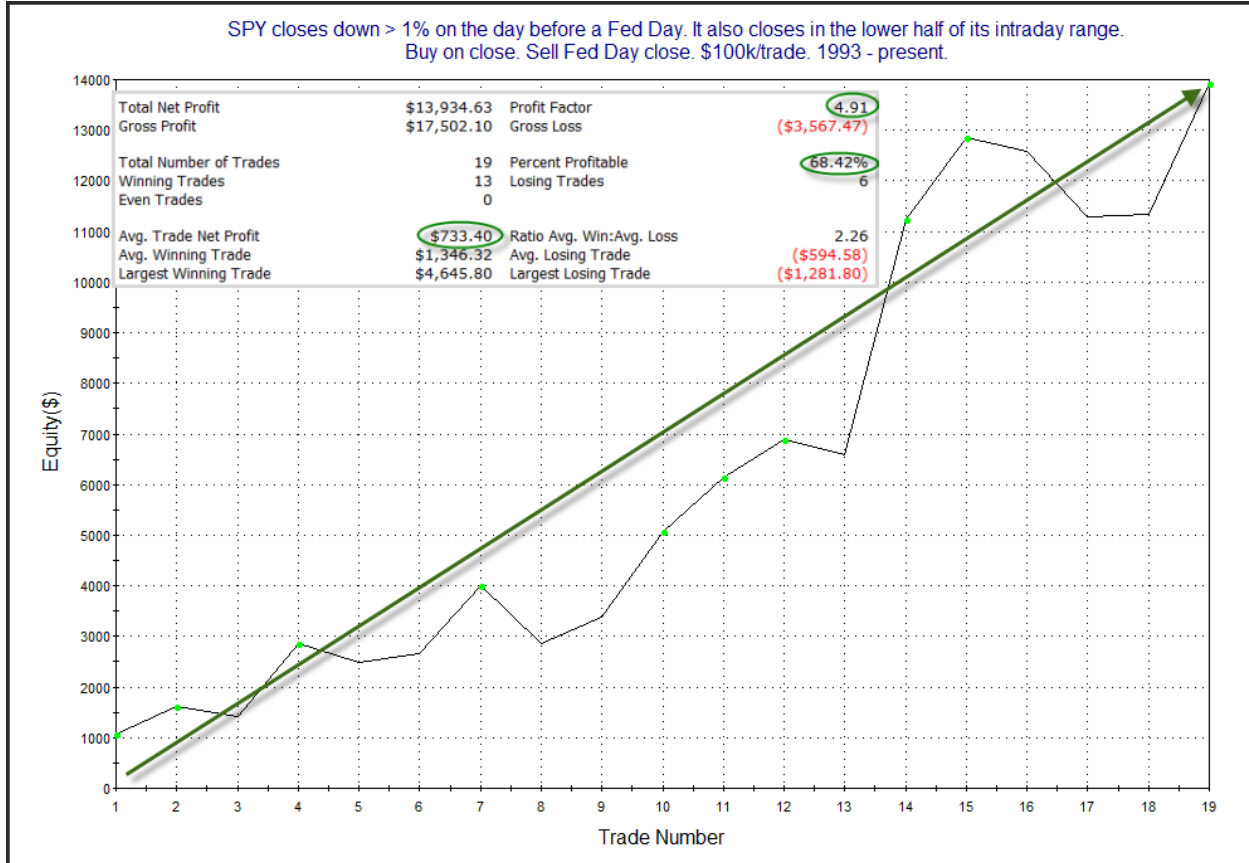
Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of its intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

**TradeStation Performance Summary** Expand ▾

All Trades

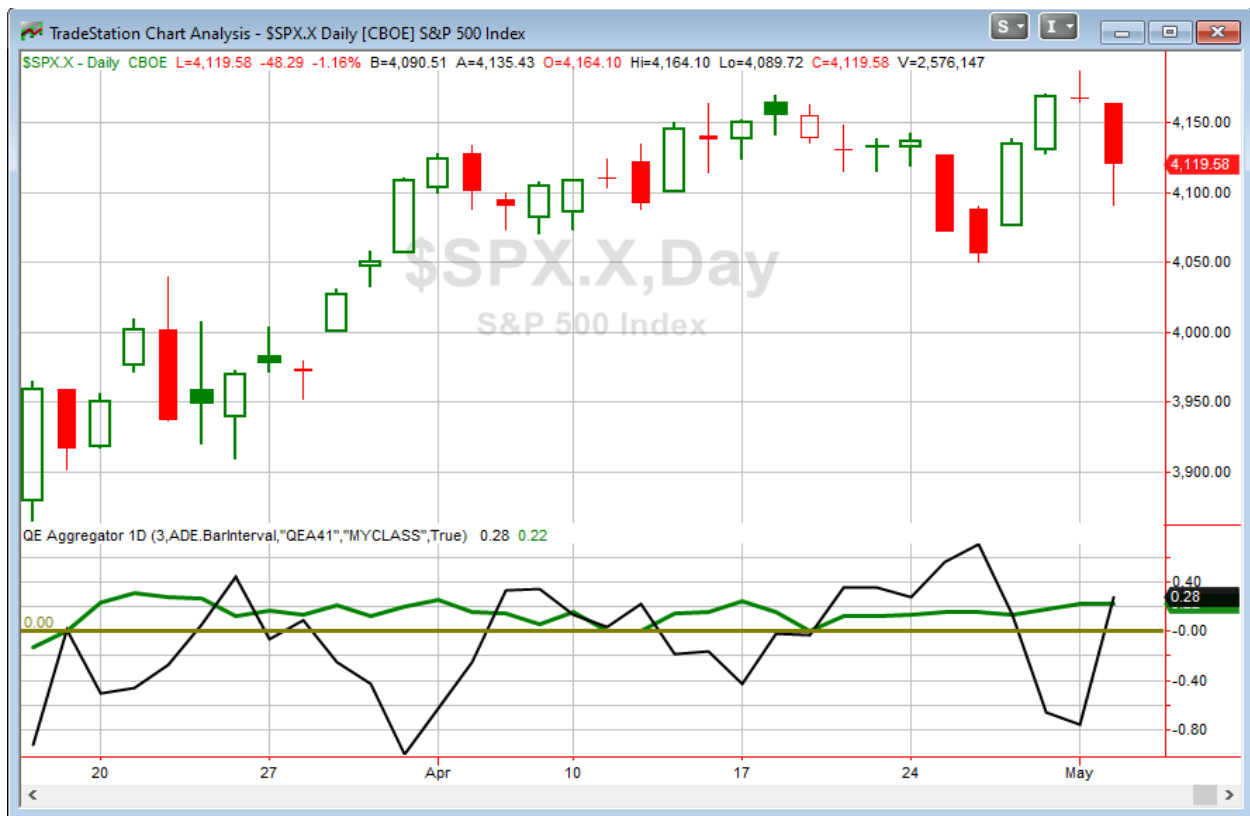
|                        |             |                          |               |
|------------------------|-------------|--------------------------|---------------|
| Total Net Profit       | \$13,807.85 | Profit Factor            | 2.09          |
| Gross Profit           | \$26,498.43 | Gross Loss               | (\$12,690.58) |
| Total Number of Trades | 48          | Percent Profitable       | 64.58%        |
| Winning Trades         | 31          | Losing Trades            | 17            |
| Even Trades            | 0           |                          |               |
| Avg. Trade Net Profit  | \$287.66    | Ratio Avg. Win:Avg. Loss | 1.15          |
| Avg. Winning Trade     | \$854.79    | Avg. Losing Trade        | (\$746.50)    |
| Largest Winning Trade  | \$2,943.00  | Largest Losing Trade     | (\$2,066.62)  |

These numbers are impressive, though the average trade is not as strong as we saw in the 1<sup>st</sup> study. I decided to combine the studies to filter out any 1% down days that actually finished in the top half of their range. Below are those results.



These look good, and there has not been any fade in recent instances. I am inclined to look at the Fed Day tomorrow as having a bullish edge. I'm not sure it is this strong. So I decided to use the numbers in the quartile study for estimates in the Aggregator.

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 active list, expectations are set to remain positive on Wednesday. This could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4188.39 on Wednesday. That is 1.7% above Tuesday's close. Therefore, SPX would need to close up at least 1.7% to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Evidence is pointing higher and the selling leading up to the Fed Day appears to increase the Fed Day odds. Still, I probably should have anticipated the setup and looked to buy at the close on Tuesday. Fed Day upside is often realized prior to the announcement. The announcement is a wildcard. A 0.25% hike appears highly likely. But what the Fed says about policy moving forward is very much in doubt. Whether Powell remains hawkish in his rhetoric could have a strong impact on last-hour movement. We do have a long setup here. But I'll look to wait until the close to possibly enter. A poor reaction to the Fed that would generate a 3<sup>rd</sup> day lower would likely be an overreaction. So I will look to take on some long exposure if that happens.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 5/1 – slightly bullish*

## **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 @ \$410.00 LIMIT ON CLOSE.** Based on the short-term outlook above. I like the long side, and will look to take on a small amount of long exposure if SPY sells off much in reaction to the Fed.

## **Current Open Trade Ideas**

**None**

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