

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 31, 2023

Volume 16 Issue 103

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	9

Tonight's Research Points

- NDX is getting extremely extended, but that has not been a bad thing historically.
- The CBI is now 9, which is extremely unusual to see when the SPX is at a 50-day high.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Index trades may be questionable, but there are plenty of Catapults to choose from with the CBI now hitting 9.

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						
May 26, 2023	Up Iss & Up Vol < 40%. SPX up.	1-4 days	Bearish	-2.10%	1.00%	1.80%
May 26, 2023	SPX up & > 200. Up Vol < 40%	1-7 days	Bullish	1.70%	-1.20%	-2.50%
Active - Long Term						
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	int term	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			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

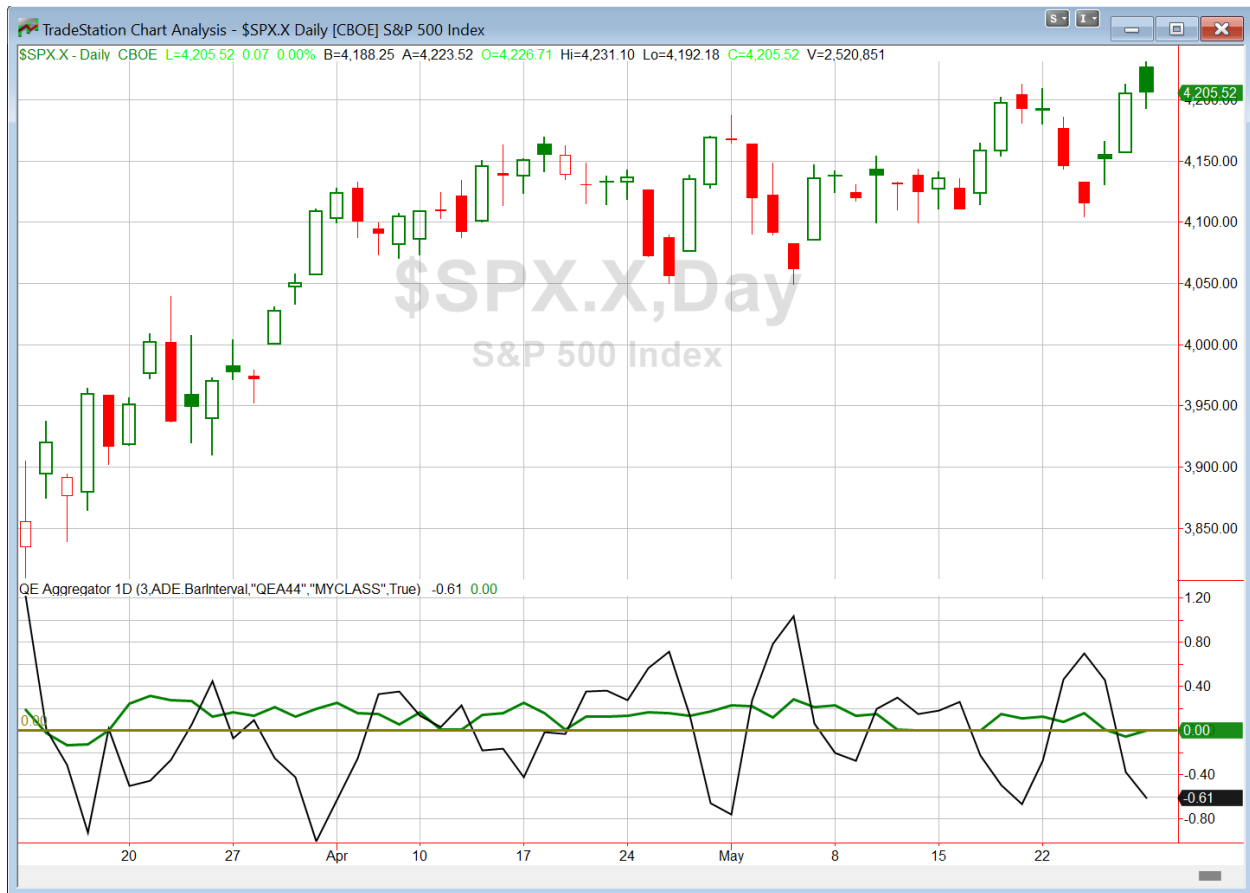
The market did not accomplish much on Tuesday. The SPX was basically flat with a 0.07 *point* gain, the NASDAQ rose 0.32%, and the Russell 2000 offset that by declining 0.32%. Breadth was negative with the NYSE Up Issues % coming in at 46% and the Up Volume % at 45%. NYSE total volume rose some from Friday's level.

One market notable is that the NDX is reaching a point where it is getting stretched to an extreme level. Tuesday it closed over 18.2% above its 200ma. Many people might believe this means it is likely to revert back down. The study below looks at similar stretches. It is updated from the 2/12/20 subscriber letter.

NDX crosses more than 18% above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1986 - 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
100	219,372.42	24	17	7	70.83	74,857.66	-24,143.30	15,568.95	-6,471.39	2.41	5.84	9,140.52
90	234,911.33	25	20	5	80.00	58,767.00	-26,660.45	14,126.63	-9,524.27	1.48	5.93	9,396.45
80	191,973.91	26	19	7	73.08	46,441.20	-33,013.95	13,634.66	-9,583.51	1.42	3.86	7,383.61
70	115,142.52	28	17	11	60.71	33,320.04	-30,288.25	12,209.91	-8,402.36	1.45	2.25	4,112.23
60	113,617.95	28	17	11	60.71	24,847.68	-28,561.65	10,572.36	-6,010.20	1.76	2.72	4,057.78
50	110,526.45	29	23	6	79.31	37,210.80	-30,103.95	7,921.95	-11,946.39	0.66	2.54	3,811.26
40	142,530.98	32	21	11	65.63	34,242.12	-14,675.30	9,375.04	-4,940.43	1.90	3.62	4,454.09
30	103,384.80	40	27	13	67.50	22,407.00	-19,630.20	6,343.88	-5,223.07	1.21	2.52	2,584.62
20	63,152.64	46	27	19	58.70	15,754.23	-11,445.70	5,301.01	-4,209.19	1.26	1.79	1,372.88
10	6,686.89	61	33	28	54.10	9,304.39	-13,218.78	3,162.04	-3,487.87	0.91	1.07	109.62

The overextended conditions have certainly not been a negative in the past. In fact, the numbers seem to solidly favor the bulls. There were some terrible plunges, such as the Crash of '87. But there were also massive runups under these conditions. The market is extended. And that is a condition that will be worked off at some point. But it is not reliable sell signal. There were no new compelling short-term studies that emerged on Tuesday.

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



Without anything new on the Active List tonight, the green Aggregator Line inched just slightly back above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 Wednesday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4160.92 on Wednesday. That is 1.1% below Tuesday's close. Therefore, SPX would need to close down over 1.8% on Wednesday in order to change from overbought to oversold versus recent expectations.

So the Aggregator is neutral. Short-term evidence is mixed and fairly weak. While NDX is stretched, that has not been a bad thing in the past. I don't see a strong short-term edge worth playing here for an index trade. Incredibly, two more Catapults triggered on Tuesday. That brings the CBI to 9. There has only been one other instance where SPX closed at a 50-day high and the CBI reached 9 or higher. That was on 12/22/14. Not that one instance means anything, but in case you are curious, the market spent the next several weeks whipping back and forth. Anyway, the spiking CBI speaks to the split market environment. The index is at a new intermediate-term high, but many constituents are undergoing strong selloffs. Not an ideal situation, but perhaps there is some opportunity in those Catapult triggers

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/30 – slightly bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

MDLZ – 1/3 @ \$75.87 (bought @ limit)

MDLZ – 1/3 @ \$75.65 (bought @ limit)

MDLZ – 1/3 @ \$75.47 (bought @ limit)

PEP – 1/3 @ \$184.89 (bought @ limit)

T – 1/3 @ \$15.15 (buy @ limit) – not filled – cancel for now

PEP – 1/3 @ \$183.80 (bought @ limit)

PEP – 1/3 @ \$183.58 (bought @ limit)

New

ABBV – 1/3 @ \$136.44 (buy @ limit)

PG – 1/3 @ \$143.18 (buy @ limit)

Broad Market Large Cap CBI – 9(MDLZ-3, PEP-3, T, ABBV, PG)

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.

PG – Buy 1/3 Catapult position @ \$143.18 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of PG.

ABBV – Buy 1/3 Catapult position @ \$136.44 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of ABBV.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDLZ(1/3)	5/23/2023	\$75.87	\$72.37	-4.61%	Catapult
MDLZ(1/3)	5/24/2023	\$75.63	\$72.37	-4.31%	Catapult
MDLZ(1/3)	5/25/2023	\$74.95	\$72.37	-3.44%	Catapult
PEP(1/3)	5/25/2023	\$182.70	\$181.61	-0.60%	Catapult
PEP(1/3)	5/26/2023	\$183.71	\$181.61	-1.14%	Catapult
PEP(1/3)	5/30/2023	\$182.06	\$181.61	-0.24%	Catapult

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