

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2023

Volume 16 Issue 104

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	10

## Tonight's Research Points

- Unfilled gaps down from 50-day highs have historically struggled the following day, but that has not been the case as much in recent years.
- Memorial Thursday has historically been bullish.

## *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 10.

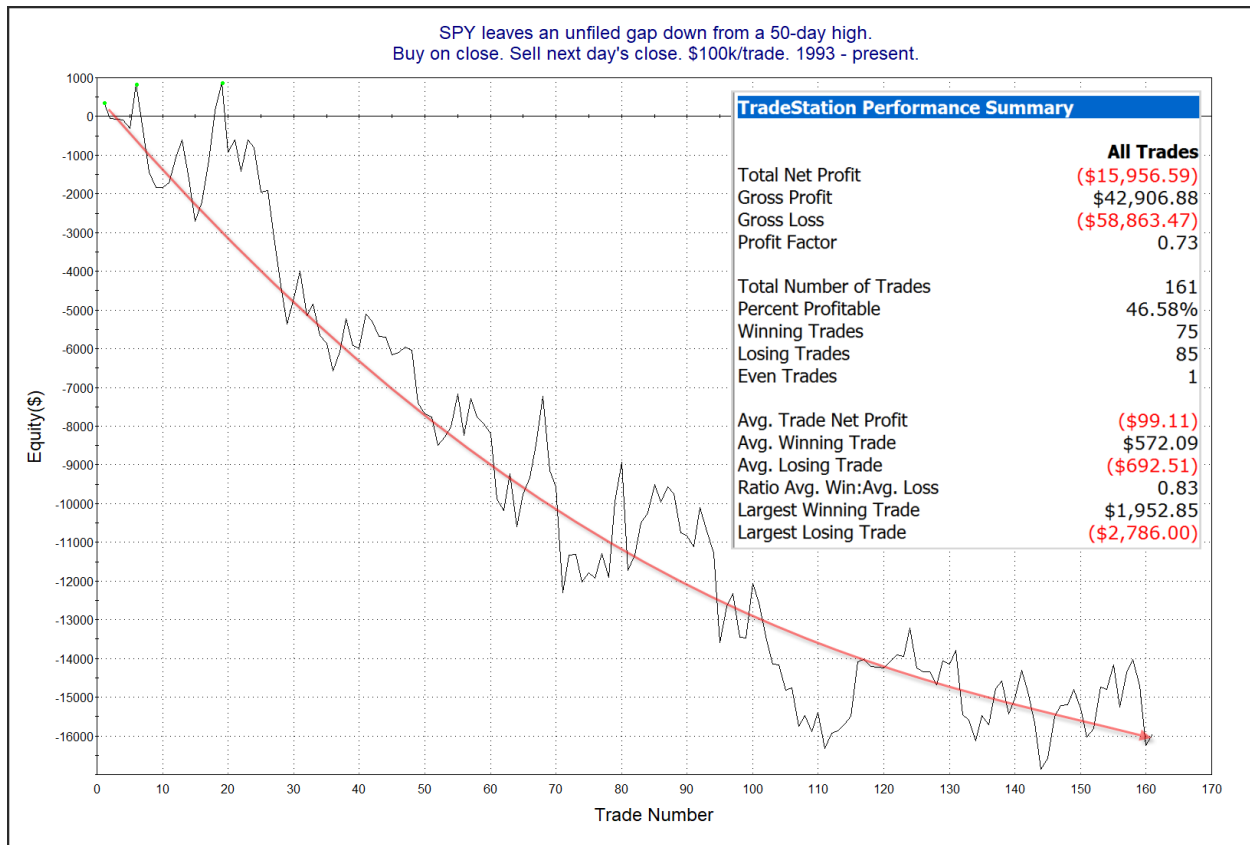
## The Evidence

Wednesday was a down day. The SPX lost 0.61%, the NASDAQ fell 0.63%, and the Russell 2000 dropped 1.0%. Breadth was negative with the NYSE Up Issues % coming in at 43% and the Up Volume % at 38%. NYSE total volume spiked way up.

The 1<sup>st</sup> day down from a high does not often suggest a strong edge. But when the 1<sup>st</sup> day down is accompanied by an unfilled gap, then that has increased the odds of additional selling. The unfilled gap will sometimes leave buyers from the day before with losing positions where they had no opportunity to exit. And they may not be let off the hook too quickly. The studies below demonstrate this. They are updated from the 8/5/21 letter. The 1<sup>st</sup> one shows performance following down closes from a 50-day high that do not include an unfilled gap lower.

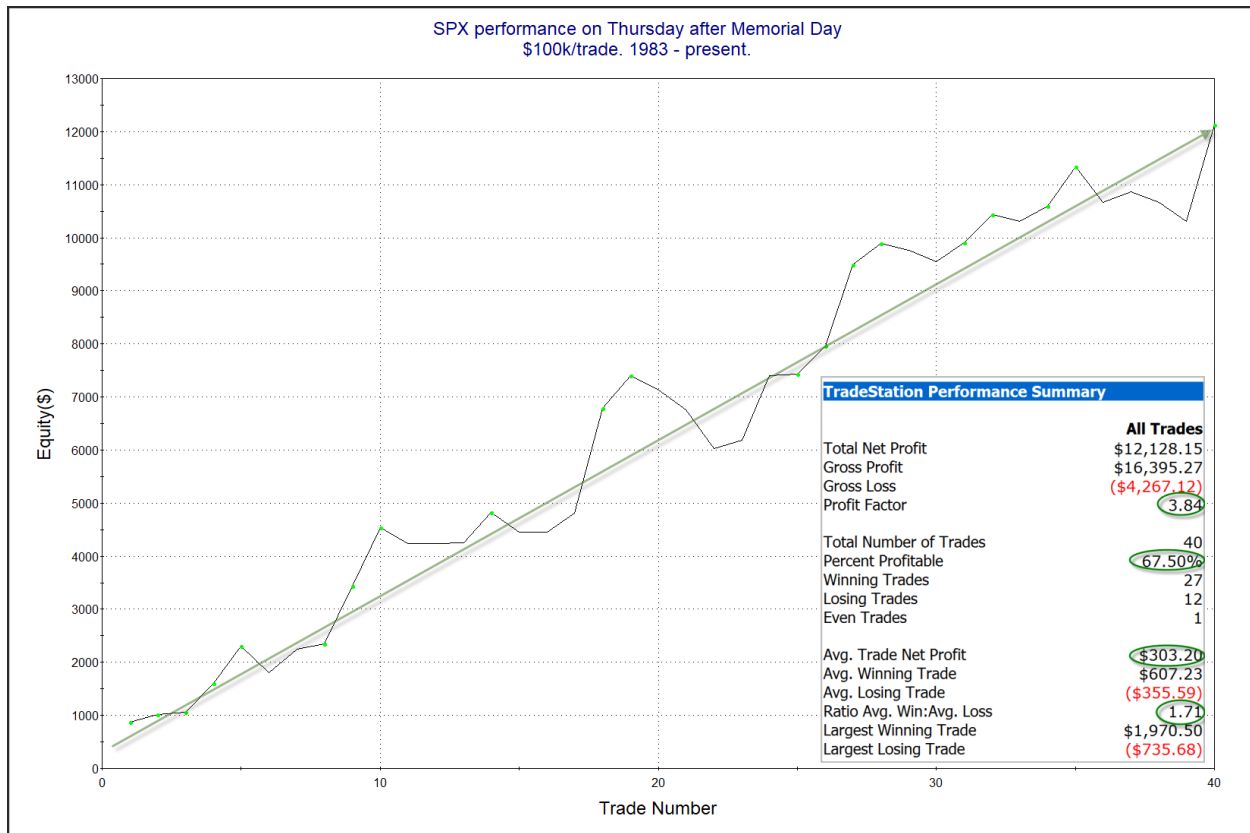


There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



While the curve has flattened some in recent years, it is back near new lows. The move lower has persisted for a long time. This is impressive considering the market must be in an uptrend since it was at a 50-day high the day before. Overall, this study seems to suggest a mild downside edge, and at the very least, bulls would have preferred that Wednesday did *not* include an unfilled gap lower.

In the weekend letter I noted that the Thursday after Memorial Day has traditionally been bullish. Below is a copy of that study.



This could provide a bit of a bullish seasonal wind on Thursday.

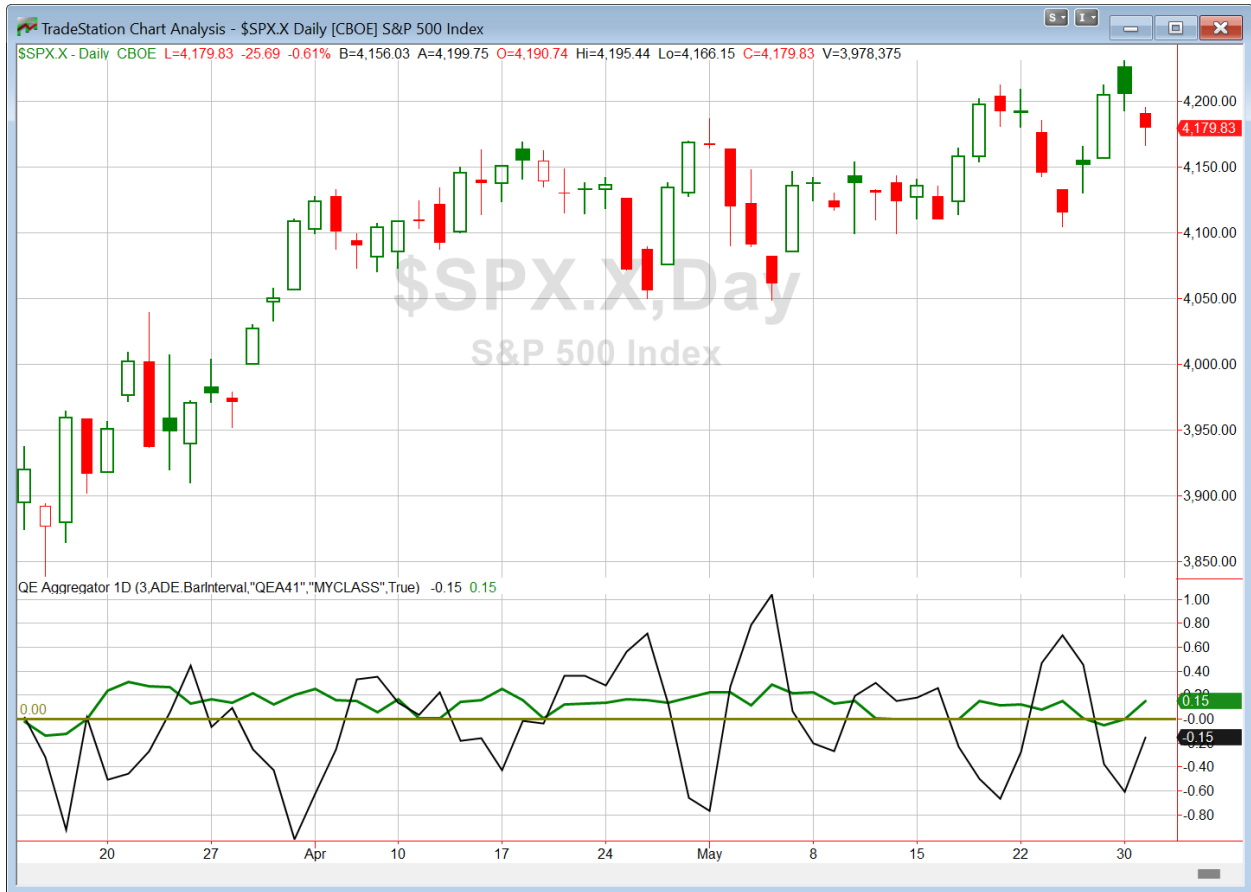
Of course Thursday is also the 1<sup>st</sup> of the month. Turn of the month has long exhibited an upside edge when the day before has closed low in its intraday range. Unfortunately, SPY closed in the top half of its range on Wednesday, leaving odds looking more random. So I will not be considering “1<sup>st</sup> of the month” studies for Thursday.

It is also notable that the Quantifiable Edges Capitulative Breadth Index (CBI) reached 10 on Wednesday. It is extremely unusual for the CBI to reach such a high level while SPX is short-term overbought. In fact, there have only been two other times where the CBI moved up to 10+ while SPX closed above its 10ma.

Ignoring the 10ma and looking at other CBI spikes to 10+ while above the 200ma showed great results up until the COVID Crash. But the massive selloff in March 2020 basically ruined what appeared to be a solid and steady looking edge.

So I am not sure what to make of this CBI spike with the market uptrending and near recent and intermediate-term highs. It does serve to demonstrate how disconnected index values seem to be from broad constituent action. Perhaps rather than looking to play an index trade in such instances, it would be better to simply look to the Catapult triggers themselves.

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 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Thursday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will

be *inverted* at 4209.97 on Thursday. That is 0.7% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up over 0.7% in order to remain "overbought" vs recent expectations. Anything less than that and it will be considered "oversold" as of Thursday's close.

So the Aggregator is neutral. We could easily see it turn to bullish on Thursday, especially if we see more selling. But Friday is the employment report, which could be a wildcard. So I am not inclined to look for an index trade just yet. I am more comfortable with individual stock trades in this market. The Catapults are one way to look to get into some of the most oversold stocks.

***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)

ABBV – 1/3 @ \$136.44 (buy @ limit)

PG – 1/3 @ \$143.18 (buy @ limit)

***New***

PG – 1/3 @ \$143.18 (buy @ limit)

***Broad Market Large Cap CBI – 10(MDLZ-3, PEP-3, T, ABBV, PG-2)***

## 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 2<sup>nd</sup> of up to 3 possible lots of PG.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDLZ(1/3)	5/23/2023	\$75.87	\$73.41	-3.24%	Catapult
MDLZ(1/3)	5/24/2023	\$75.63	\$73.41	-2.94%	Catapult
MDLZ(1/3)	5/25/2023	\$74.95	\$73.41	-2.05%	Catapult
PEP(1/3)	5/25/2023	\$182.70	\$181.09	-0.88%	Catapult
PEP(1/3)	5/26/2023	\$183.71	\$181.09	-1.43%	Catapult
PEP(1/3)	5/30/2023	\$182.06	\$181.09	-0.53%	Catapult
ABBV(1/3)	5/31/2023	\$136.44	\$137.96	1.11%	Catapult
PG(1/3)	5/31/2023	\$143.16	\$142.50	-0.46%	Catapult

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