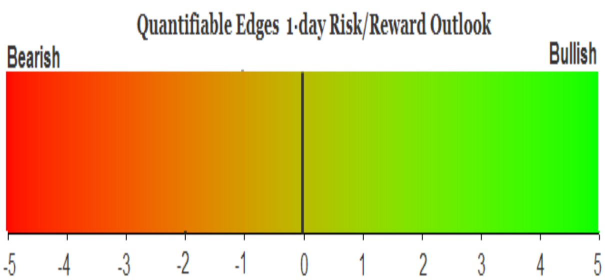
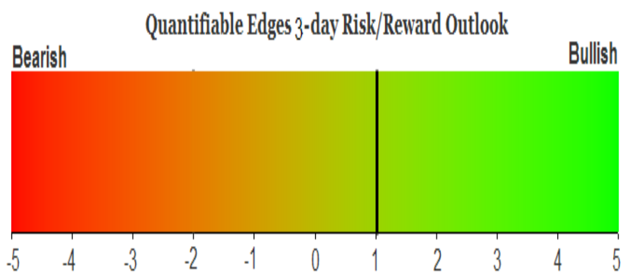
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 20, 2023 Volume 16 Issue 179

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When Fed Days have continued a short-term selloff in recent years, there has often been another 1-2 days of selling, and then a strong rebound.
- An outside day and close near the bottom of the short-term range during a long-term uptrend has consistently been followed by a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. And while evidence is pointing lower, that will likely change on Thursday. So I am on the lookout for a bullish Aggregator on Thursday. This seems especially likely if there is another down day.

Summary of Current 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						
September 21, 2023	Outside day btm 10% 10-day range	1-6 days	Bullish	2.50%	-0.80%	-1.70%
September 21, 2023	Fed Day. SPX down 2+ days.	1-6 days	Bullish	1.80%	-2.65%	-4.95%
September 18, 2023	Weak 1/2 Sep & weakest week	1-6 days	Bearish	-4.00%	1.20%	2.80%
September 14, 2023	SPX up and > 200ma. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.25%	-2.50%
Active - Long Term						
September 14, 2023	SPX up and > 200ma. Up Vol % < 40%	1-10 days	Bullish	2.10%	-1.50%	-3.30%
September 11, 2023	NASDAQ lagging	int term	Neutral			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

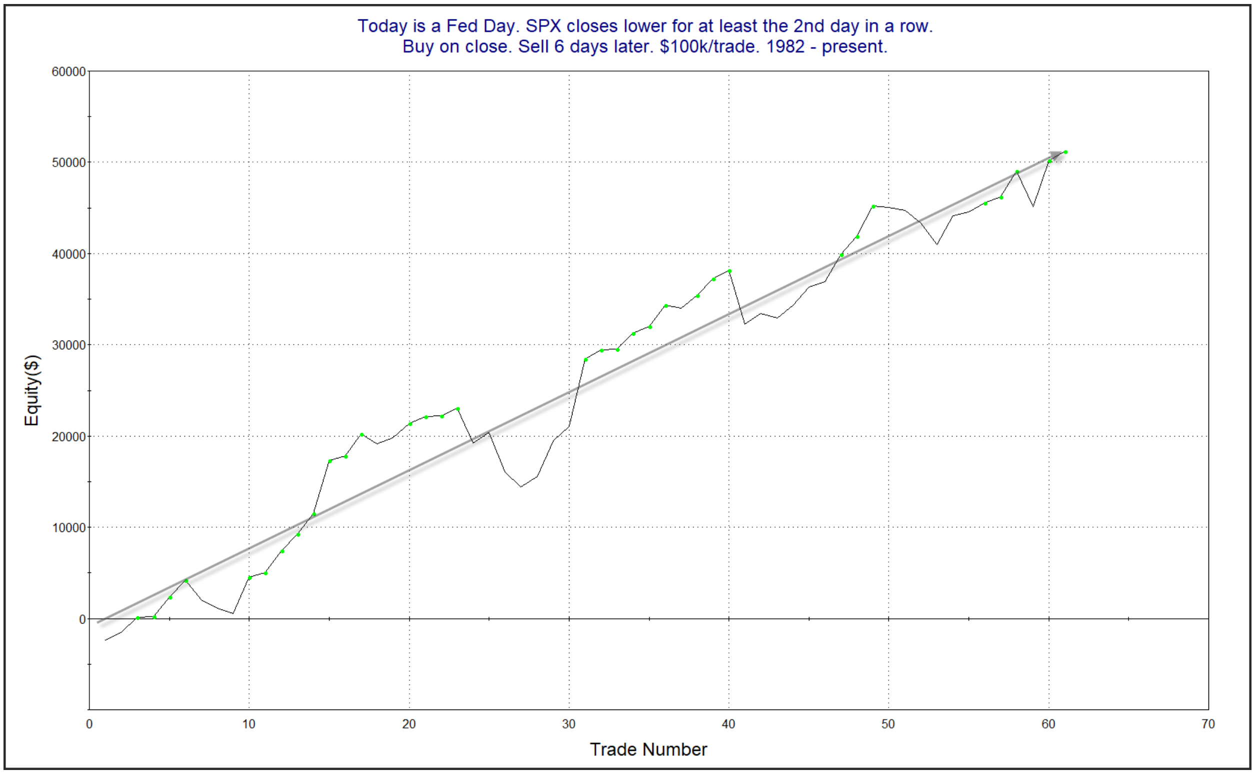
The Fed reaction was negative. The SPX closed down 0.9%, the NASDAQ lost 1.5%, and the Russell 2000 dropped 0.9%. Breadth was weak with the NYSE Up Issues % coming in at 40% and the Up Volume % at 34%. NYSE total volume declined some from Tuesday's level.

The Fed Day flopped. It is unusual that a Fed Day would continue a string of down days. I looked at this in the study below, which was last seen in the 5/4/23 letter. Results have been updated.

Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - 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
10	55,368.49	61	40	21	65.57	9,012.33	-5,334.70	2,635.99	-2,384.33	1.11	2.11	907.68
9	54,732.68	61	43	18	70.49	8,967.96	-5,671.36	2,304.66	-2,464.87	0.94	2.23	897.26
8	40,766.93	61	44	17	72.13	8,456.40	-6,514.96	2,062.28	-2,939.62	0.70	1.82	668.31
7	46,787.59	61	46	15	75.41	8,869.37	-6,757.80	1,903.27	-2,717.52	0.70	2.15	767.01
6	51,186.80	61	45	16	73.77	7,361.95	-5,884.97	1,843.45	-1,985.52	0.93	2.61	839.13
5	37,635.84	61	42	19	68.85	6,013.86	-5,581.03	1,636.88	-1,637.53	1.00	2.21	616.98
4	25,424.30	61	38	23	62.30	7,513.37	-4,622.80	1,554.06	-1,462.18	1.06	1.76	416.79
3	10,289.74	61	37	24	60.66	5,035.28	-4,476.12	1,127.93	-1,310.15	0.86	1.33	168.68
2	7,340.86	61	34	27	55.74	5,202.52	-4,613.73	1,095.47	-1,107.59	0.99	1.25	120.34
1	3,665.93	61	36	25	59.02	4,001.33	-5,829.24	865.47	-1,099.64	0.79	1.13	60.10

When Fed Days fail to produce a bounce, you normally see a rally shortly after. Below is a profit curve assuming a 6-day exit strategy.

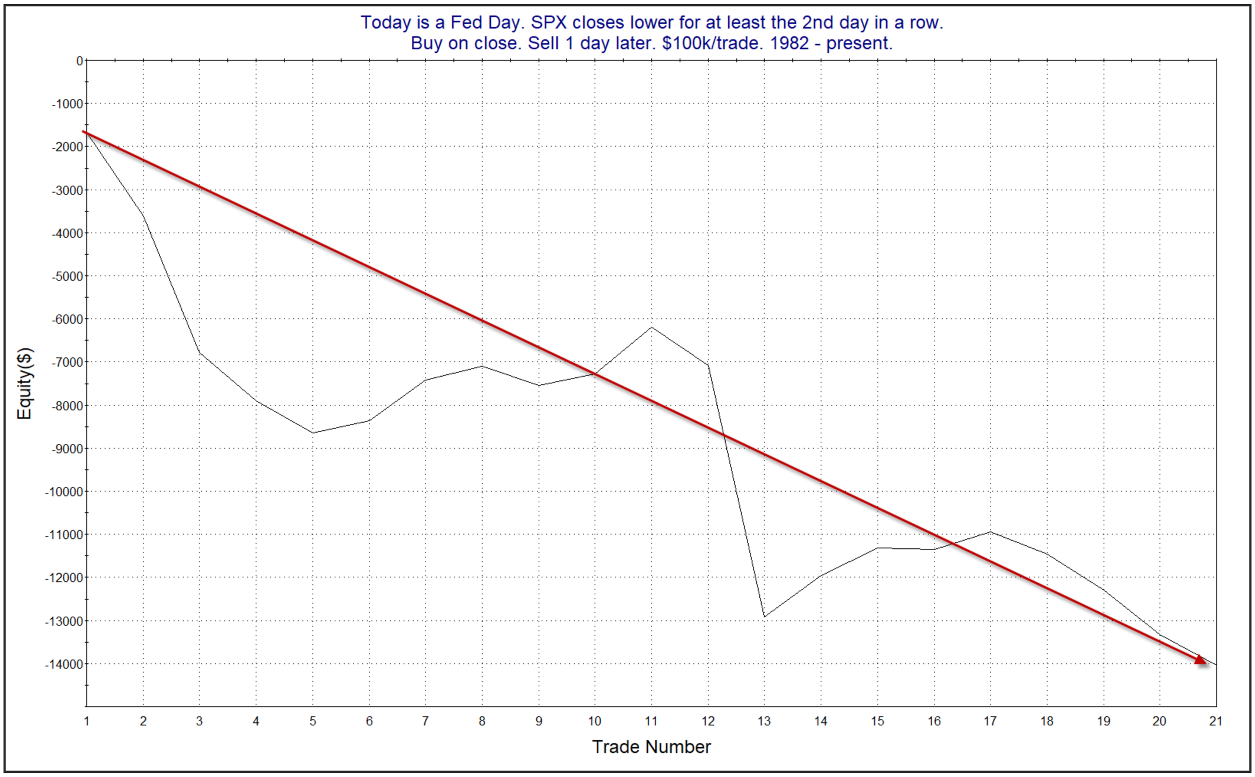


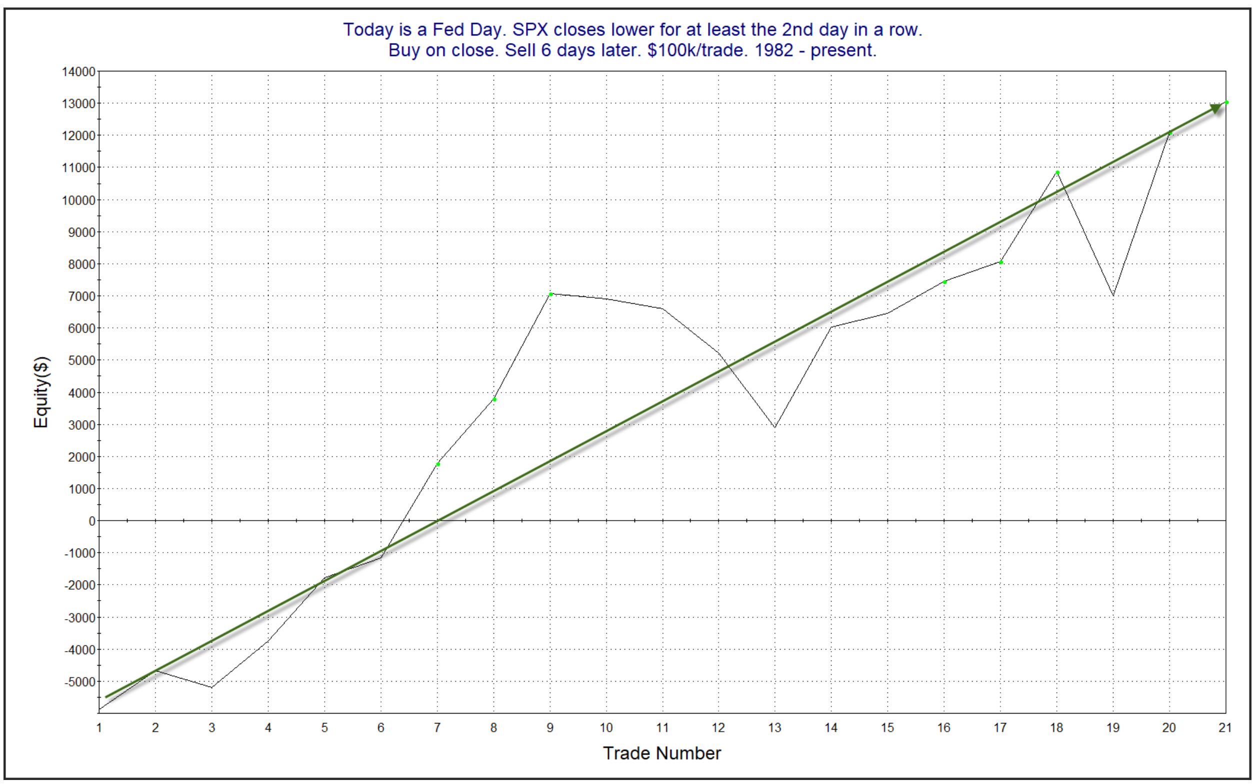
That is an impressive looking curve. And this would seem worthy of inclusion on the active list. But one thing I noted was that while the 6-day curve has remained strong, the 1-day and 2-day curves have done quite poorly over the last 13 years or so. Below is a look at the results table, but only looking at instances since 2010.

Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - 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
10	12,681.57	21	12	9	57.14	5,219.50	-4,612.74	2,885.54	-2,438.33	1.18	1.58	603.88
9	17,335.90	21	13	8	61.90	6,033.04	-3,638.85	2,534.38	-1,951.37	1.30	2.11	825.52
8	5,367.30	21	13	8	61.90	5,136.56	-5,822.18	2,337.83	-3,128.07	0.75	1.21	255.59
7	9,204.43	21	14	7	66.67	6,064.24	-6,320.86	2,219.85	-3,124.79	0.71	1.42	438.31
6	13,060.71	21	14	7	66.67	5,113.68	-5,884.97	1,967.32	-2,068.83	0.95	1.90	621.94
5	4,135.33	21	13	8	61.90	5,267.90	-5,581.03	1,519.93	-1,952.98	0.78	1.26	196.92
4	4,819.68	21	14	7	66.67	4,325.42	-4,622.80	1,479.38	-2,270.24	0.65	1.30	229.51
3	-3,487.89	21	12	9	57.14	3,643.64	-4,476.12	1,011.68	-1,736.45	0.58	0.78	-166.09
2	-13,553.76	21	6	15	28.57	1,802.24	-4,613.73	800.08	-1,223.62	0.65	0.26	-645.42
1	-14,034.95	21	8	13	38.10	1,072.75	-5,829.24	612.23	-1,456.37	0.42	0.26	-668.33

The 21 instances we see here do perform well over the 6-day period. But the 1-2 day numbers look really poor. Here are the 1-day and 6-day profit curves.


Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell 1 day later. $100k/trade. 1982 - present.
Equity($)
0
-1000
-2000
-3000
-4000
-5000
-6000
-7000
-8000
-9000
-10000
-11000
-12000
-13000
-14000
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21
Trade Number


Today is a Fed Day. SPX closes lower for at least the 2nd day in a row.
Buy on close. Sell 6 days later. $100k/trade. 1982 - present.
Equity($)
14000
13000
12000
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
-1000
-2000
-3000
-4000
-5000
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21
Trade Number

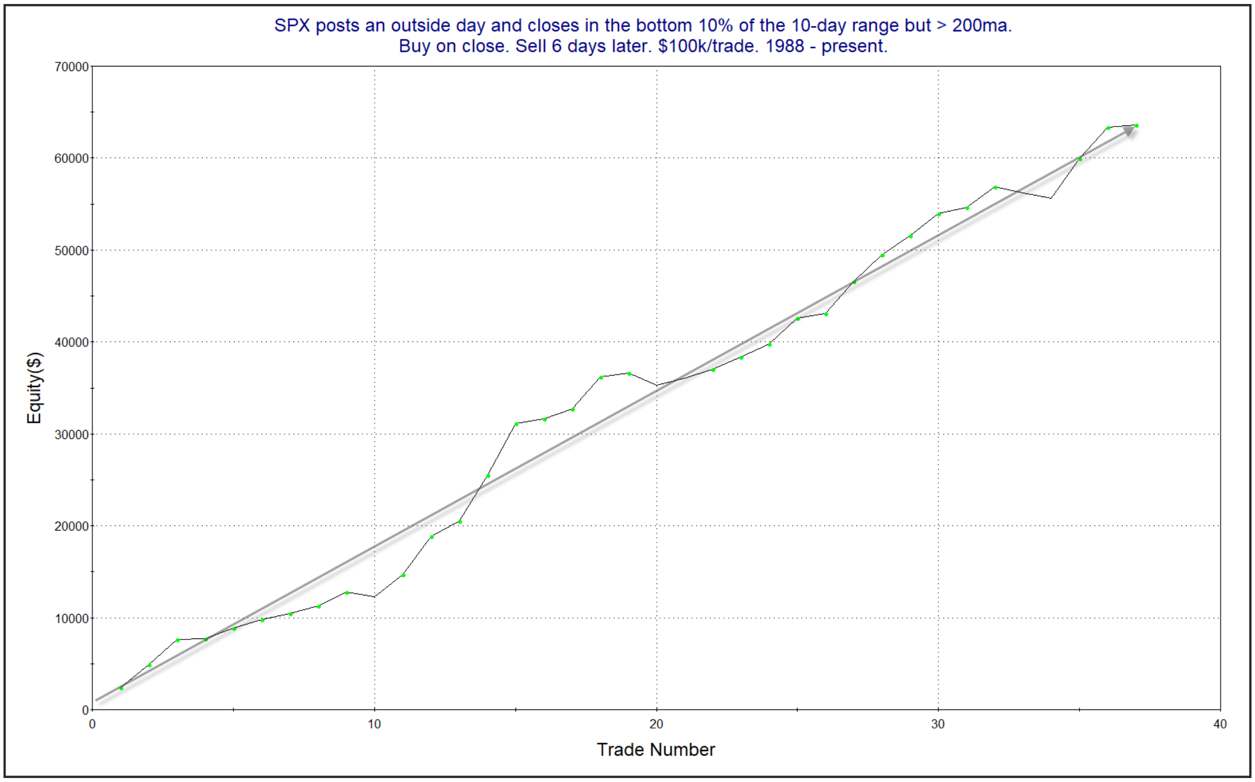
Striking difference. It appears there may be a decent chance of additional selling before the rebound arrives. I have added this study to the active list using the 2010 – present numbers for estimations.

Also notable is the big outside day that SPX put. (An outside day is a day where the market makes a higher high and a lower low than the day before.) The study below was last seen in the 8/7/23 letter. It examines the implications of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of the 10-day range but > 200ma.
Buy on close. Sell X days later. $100k/trade. 1988 - present.

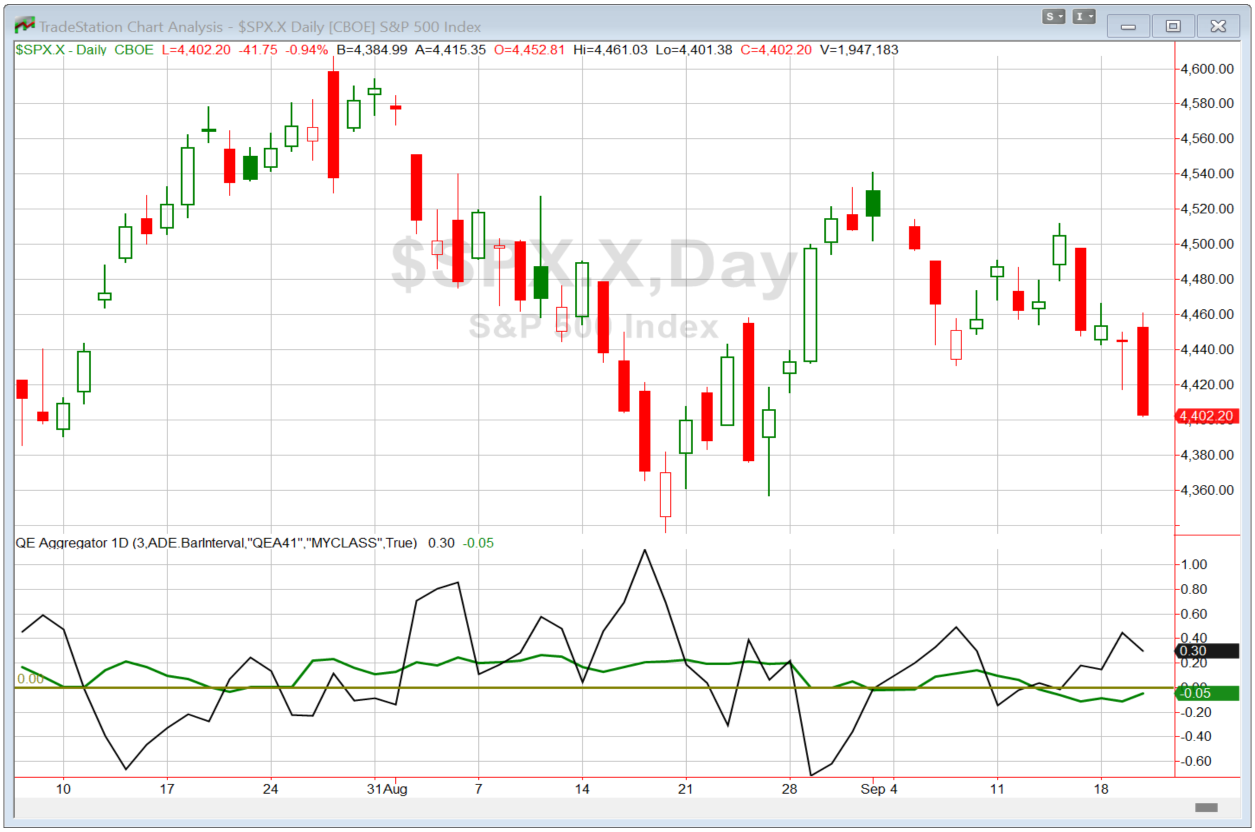
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	59,803.17	35	28	7	80.00	6,549.66	-2,685.40	2,555.36	-1,678.13	1.52	6.09	1,708.66
9	61,181.99	36	29	7	80.56	6,622.56	-3,224.13	2,505.21	-1,638.42	1.53	6.33	1,699.50
8	66,364.52	36	29	7	80.56	5,596.29	-2,364.18	2,577.74	-1,198.57	2.15	8.91	1,843.46
7	60,697.87	37	29	8	78.38	5,846.58	-2,644.46	2,381.41	-1,045.37	2.28	8.26	1,640.48
6	63,573.82	37	33	4	89.19	5,645.64	-1,353.73	2,021.57	-784.50	2.58	21.26	1,718.21
5	60,210.41	37	32	5	86.49	5,460.84	-1,604.46	1,990.19	-695.12	2.86	18.32	1,627.31
4	44,074.68	38	28	10	73.68	5,187.49	-2,964.25	1,861.40	-804.44	2.31	6.48	1,159.86
3	36,938.19	38	26	12	68.42	5,339.18	-1,665.30	1,712.30	-631.79	2.71	5.87	972.06
2	27,264.17	41	29	12	70.73	3,591.28	-1,105.36	1,138.67	-479.78	2.37	5.74	664.98
1	10,411.85	41	32	9	78.05	1,409.32	-1,799.08	586.10	-927.03	0.63	2.25	253.95

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a "> 200ma" filter. And it isn't just the numbers that look good. Here is the profit curve.



The consistency of the upslope is very impressive. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



Even with tonight's bullish evidence considered, the green Aggregator Line remained below zero. Negative readings mean net 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to flip to positive on Thursday. This could change if strongly compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4441.77 on Thursday. That is 0.9% above Wednesday's close. Therefore, SPX will need to close up at least 0.9% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is again neutral. But evidence is set to turn bullish, and the market would need a big move higher to avoid finishing oversold on Thursday. Without a strong rally, there is a good chance the Aggregator will finish with a bullish configuration. I don't anticipate that we will see new bearish evidence emerge on Thursday if SPX endures another day of selling. Therefore, I will take a somewhat aggressive approach, and look to start building a SPY position near the close on Thursday if we see another substantial down day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/18 – neutral

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 @ $436.50 LIMIT ON CLOSE. Based on the short-term outlook above, I will start scaling in with a small position on Thursday if we see another day of substantial selling.

Current Open Trade Ideas

None