

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 27, 2023

Volume 16 Issue 184

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	8

Tonight's Research Points

- The “failed” bounce off Friday’s 20-day low appears to be another opportunity for bulls to take long exposure.
- 20-day lows along with a somewhat elevated CBI has typically been followed by a sizable bounce in the next few days.
- Gaps below intermediate-term lows that see further selling will often be followed by a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side.

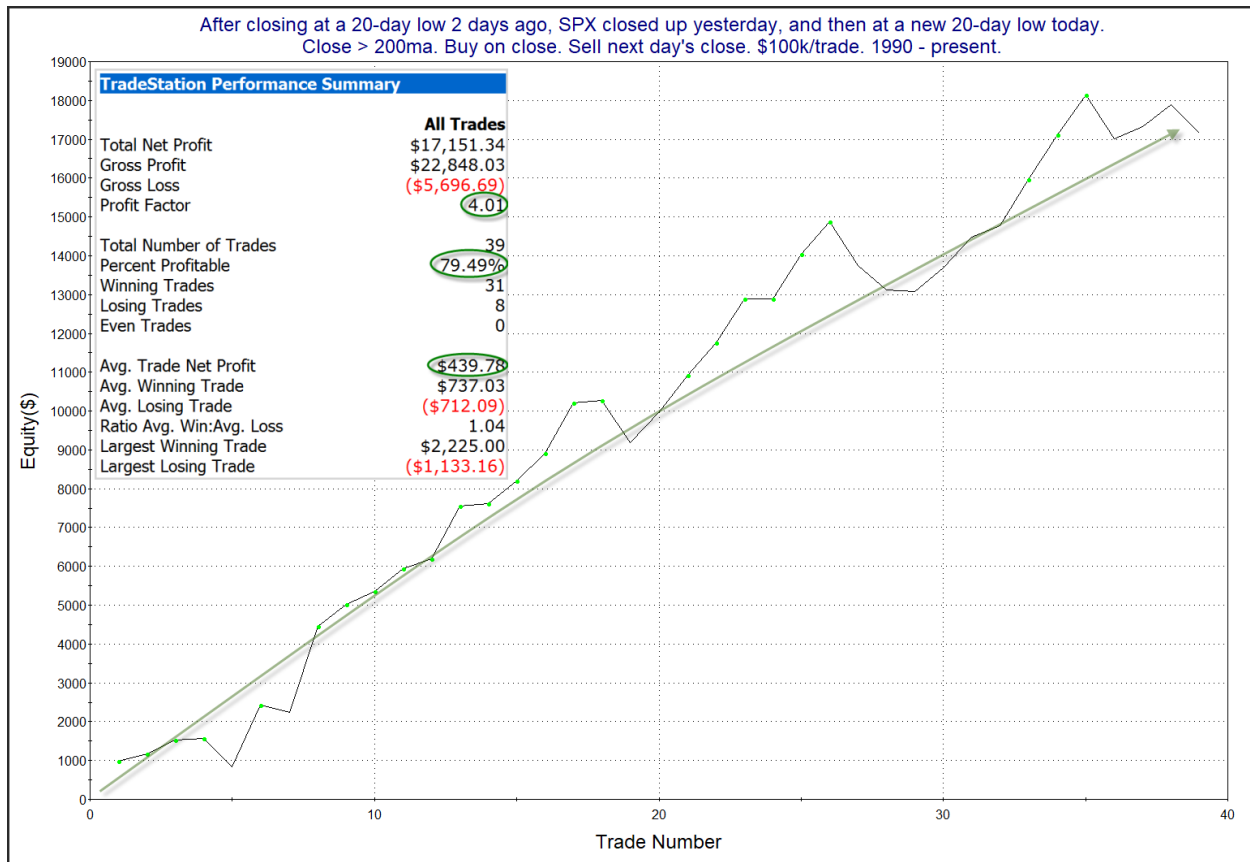
Summary of Current Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 27, 2023	20-low. Up day. Another 20-low.	1 day	Bullish			
September 27, 2023	Gap < 20-low close. Close < open > 200ma	1-5 days	Bullish			
September 27, 2023	CBI 8 or 9 SPX 20-low	1-4 days	Bullish			
September 26, 2023	50 Low close. 5th lower low and up close	1-4 days	Bullish	3.80%	-2.30%	-5.45%
September 25, 2023	RSI2 < 2 and 50-low close 2 days in a row	1-5 days	Bullish			
September 25, 2023	Fed 2 ago. Down 3+ days today.	1-3 days	Bullish	1.80%	-1.05%	-2.10%
September 22, 2023	Bottom 10% intraday range & 40-low close	1-6 days	Bullish	2.35%	-1.90%	-3.95%
September 21, 2023	Fed Day. SPX down 2+ days.	1-6 days	Bullish	1.80%	-2.65%	-4.95%
Active - Long Term						
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
September 26, 2023	Gap down and close up from a 10-day low	1 day	Bullish			
September 22, 2023	5 Lower lows. Biggest drop of bunch	1-3 days	Bullish			
September 21, 2023	Outside day btm 10% 10-day range	1-6 days	Bullish	2.50%	-0.80%	-1.70%

The Evidence

Tuesday was another tough day that saw new intermediate-term lows. The SPX closed down 1.5%, the NASDAQ dropped 1.6%, and the Russell 2000 fell 1.3%. Breadth was extremely weak with the NYSE Up Issues % coming in at 16% and the Up Volume % at 10%. NYSE total volume rose some from Monday's level.

Monday's rally attempt did not last long. Tuesday's decline put the market at a new low, and also likely frustrated many bulls. The study below looks at similar quick failures. It suggests that bulls should not be too frustrated and a bounce on Wednesday is likely. Stats are updated from the 8/16/23 letter.



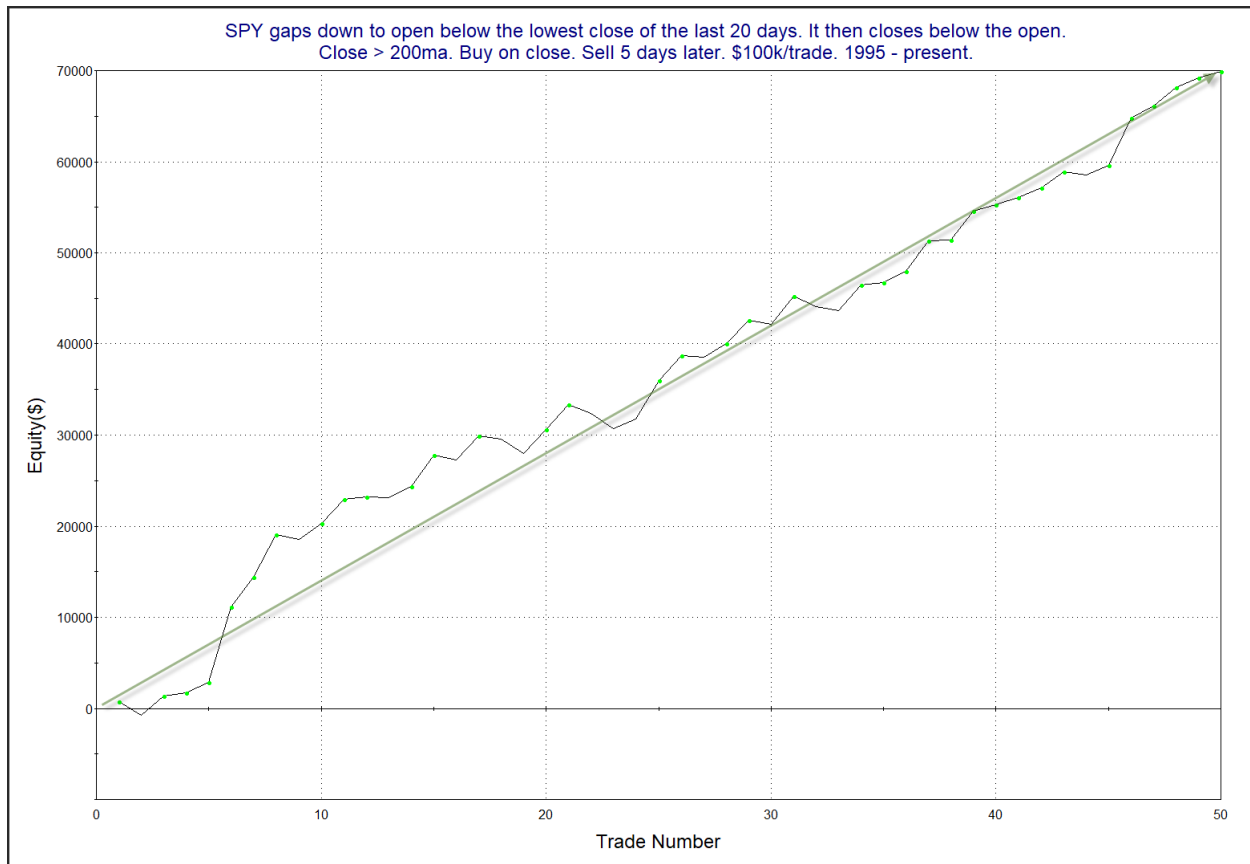
Results here remain compelling. I have again added this study to the Active List.

Another Quantifinder study looked at gaps below 5-day low closes that sold off further during the day. I decided to tighten the filtering a bit more, and looked at gaps below 20-day lows instead. As you will see below, results were compelling.

SPY gaps down to open below the lowest close of the last 20 days. It then closes below the open.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	69,945.98	50	37	13	74.00	8,239.74	-1,665.30	2,154.21	-750.74	2.87	8.17	1,398.92
4	54,166.99	50	35	15	70.00	5,581.02	-3,255.65	1,932.71	-898.52	2.15	5.02	1,083.34
3	40,752.92	52	32	20	61.54	4,069.80	-2,421.25	1,768.79	-792.43	2.23	3.57	783.71
2	34,663.35	56	35	20	62.50	5,477.88	-1,643.62	1,364.50	-654.70	2.08	3.65	618.99
1	21,089.68	62	37	25	59.68	5,764.38	-3,000.80	1,068.45	-737.71	1.45	2.14	340.16

Stats are suggestive of an upside edge. Below is a look at a profit curve for the 5-day holding period.



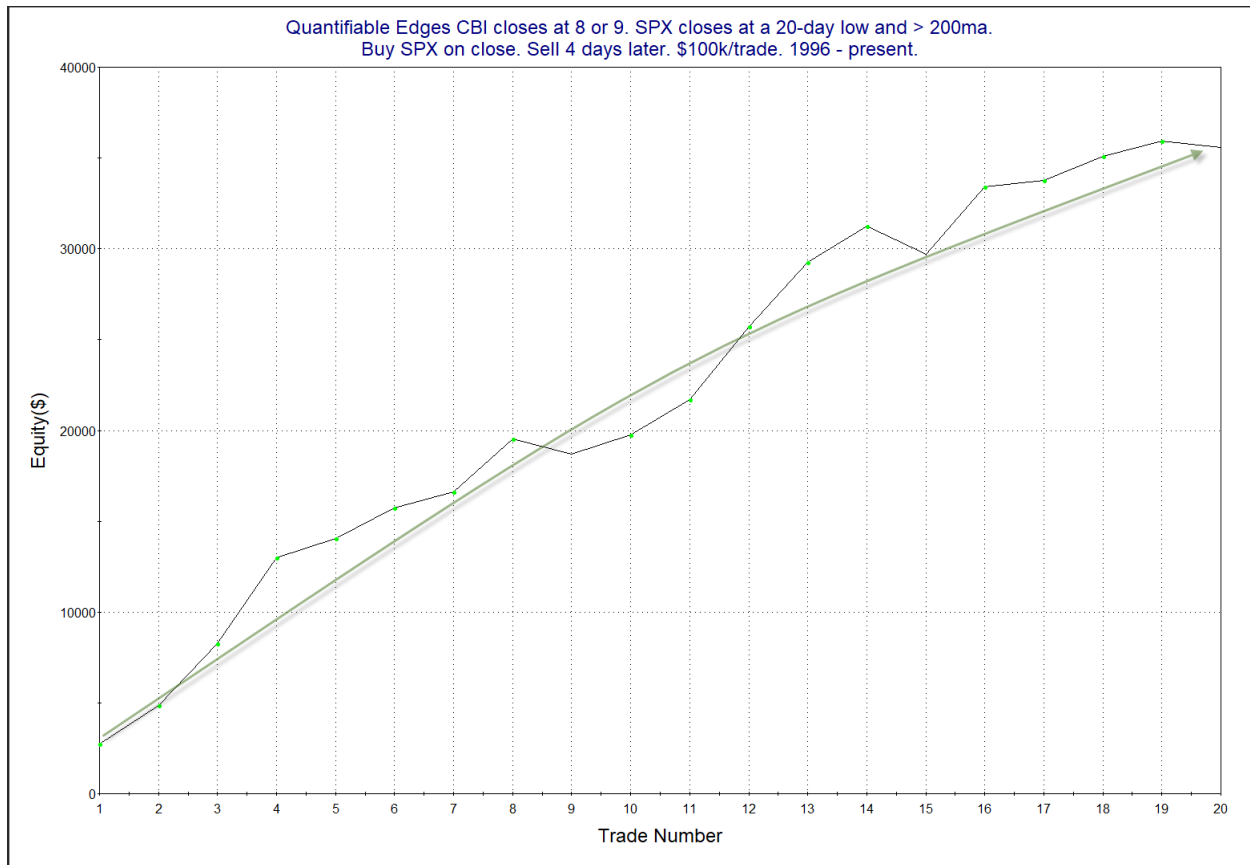
The move from lower left to upper right is incredibly strong and steady. This serves as confirmation of the bullish tendency suggested by the stats table.

It is also notable that the Quantifiable Edges Capitulative Breadth Indicator (CBI) again moved higher. I have historically viewed readings of 10+ as bullish. But even getting near that will often generate an upside edge. The study below looks at other times SPX closed at a 20-day low & above the 200ma, and the CBI read 8 or 9.

Quantifiable Edges CBI closes at 8 or 9. SPX closes at a 20-day low and > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	31,752.06	20	16	4	80.00	4,687.33	-2,217.68	2,308.73	-1,296.90	1.78	7.12	1,587.60
4	35,581.41	20	17	3	85.00	4,731.13	-1,530.34	2,254.65	-915.89	2.46	13.95	1,779.07
3	26,180.18	21	16	5	76.19	3,580.00	-2,296.70	1,972.96	-1,077.45	1.83	5.86	1,246.68
2	20,826.70	22	16	6	72.73	3,585.76	-1,733.60	1,597.56	-789.05	2.02	5.40	946.67
1	12,793.49	26	16	10	61.54	2,671.02	-1,655.72	1,168.13	-589.66	1.98	3.17	492.06

The stats appear solidly bullish. Below is a look at a profit curve that assumes a 4-day holding period.



That is a fairly straight shot from lower left to upper right. Falling a little short of a CBI reading of 10+ still seems to have led to very positive performance under similar circumstances. This study appears worth some consideration, and I have included it on the Active List tonight.

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



With tonight's evidence considered, the green Aggregator Line is now far above zero. Positive readings mean net expectations are for upside 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 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 stayed long at the close.

Based on the current list of active studies, expectations are slated to remain positive on Wednesday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4339.39 on Wednesday. That is 1.5% above Tuesday's close. Therefore, Tuesday will need to close up a sizable 1.5% or more in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is bullish. Tuesday was disappointing (and the gap down did not allow my partial SPY exit to trigger). But there still seems to be compelling evidence suggesting a bounce is likely to arrive soon. I have a fair amount of long exposure already. But I will look to add another lot if SPY closes down again on Wednesday. This will be my 3rd lot. I will likely only add a 4th if the CBI reaches 10+.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/25 – neutral

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BA – 1/3 @ \$199.95 (bought at limit)

CSCO – 1/3 @ \$53.34 (bought at limit)

RTX – 1/3 @ \$72.64 (bought at limit)

BA – 1/3 @ \$197.71 (bought at limit)

UPS – 1/3 @ \$153.78 (bought at limit)

RTX – 1/3 @ \$71.58 (bought at limit)

NKE – 1/3 @ \$90.60 (bought at limit)

New

NKE – 1/3 @ \$90.17 (buy at limit)

Broad Market Large Cap CBI – 8(BA-2, CSCO, RTX-2, UPS, NKE-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.

SPY – Buy ¼ Index position @ \$425.87 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add a 3rd lot of SPY if it closes lower on Wednesday.

NKE – Buy 1/3 Catapult position @ \$90.17 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of NKE.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	9/21/2023	\$431.39	\$425.88	-1.28%	Aggregator
BA(1/3)	9/22/2023	\$199.95	\$195.64	-2.16%	Catapult
CSCO(1/3)	9/22/2023	\$53.34	\$52.71	-1.18%	Catapult
RTX(1/3)	9/22/2023	\$72.61	\$72.26	-0.48%	Catapult
SPY(1/4)	9/25/2023	\$429.17	\$425.88	-0.77%	Aggregator
BA(1/3)	9/25/2023	\$196.84	\$195.64	-0.61%	Catapult
UPS(1/3)	9/25/2023	\$152.93	\$151.90	-0.67%	Catapult
RTX(1/3)	9/25/2023	\$71.30	\$72.26	1.35%	Catapult
NKE(1/3)	9/26/2023	\$90.00	\$90.17	0.19%	Catapult

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