

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 12, 2023

Volume 16 Issue 195

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- CPI will be released Thursday morning an hour before the open. In 2022 that led to some outsized moves. In 2023 so far, not so much.
- The 3/10 HV indicator suggests a big move could be on the horizon.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is light, SPX is overbought, and risk is elevated. I'm not interested.

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						
October 10, 2023	SPX 50-low 4 ago. RSI2 up 85 since.	1-4 days	Bullish			
Active - Long Term						
October 9, 2023	NASDAQ Leading	int term	Bullish			
October 6, 2023	20-low. Up day. Then inside down.	1-10 days	Bullish	4.60%	-2.50%	-6.10%
October 2, 2023	SPX down 4 weeks but above 40-week ma	1-10 weeks	Bullish			
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

Wednesday saw mixed results. The SPX climbed 0.4%, the NASDAQ gained 0.7%, and the Russell 2000 declined 0.15%. Breadth was positive with the NYSE Up Issues % coming in at 61% and the Up Volume % at 58%. NYSE total volume declined some from Tuesday's level.

Lots of talk about CPI. The table below is one I showed several times last year, and then again last month. It shows action on CPI release dates over the last 17 months.

Recent CPI Release Date Stats			
Reference Month	Release Date	SPX True Range	SPX % Change
Apr-22	May 11, 2022	120.27	-1.65%
May-22	June 10, 2022	117.66	-2.91%
Jun-22	July 13, 2022	70.37	-0.45%
Jul-22	August 10, 2022	88.56	2.13%
Aug-22	September 13, 2022	189.13	-4.32%
Sep-22	October 13, 2022	193.83	2.60%
Oct-22	November 10, 2022	209.76	5.54%
Nov-22	December 13, 2022	110.4	0.73%
Dec-22	January 12, 2023	60.2	0.34%
Jan-23	February 14, 2023	64.76	-0.03%
Feb-23	March 14, 2023	81.87	1.65%
Mar-23	April 12, 2023	47.43	-0.41%
Apr-23	May 10, 2023	55.36	0.45%
May-23	June 13, 2023	36.44	0.11%
Jun-23	July 12, 2023	49.08	0.70%
Jul-23	August 10, 2023	69.45	0.03%
Aug-23	September 13, 2023	25.87	0.12%
	Average	99.67	0.30%
	May - Dec 2022 Release Date Avg	137.50	0.21%
	Jan - Aug 2023 Release Date Avg	54.50	0.33%

The CPI report made for some very volatile days last year. But this year...meh. The average range in May – Dec 2022 (137.50 SPX points) was 2.5x what we have seen so far this year (54.50 SPX points). I don't know what the reading will be tomorrow. But unless the number is a big surprise there may not be the kind of strong reaction that people became accustomed to last year. I also noted the following on Twitter today:



That is interesting, but as I said, it is a streak. It is not a persistent edge that has played out over many years.

Of course a surprise with the CPI number certainly could cause a very strong market reaction. And the 3/10 Offset HV indicator is suggesting we are due for one. It closed at just 0.10 on Wednesday. This suggests a volatility expansion is likely to occur in the next few days.

I [first introduced the 3/10 Offset HV in July of 2009](#). It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after very low numbers like this we see a volatility expansion take place.

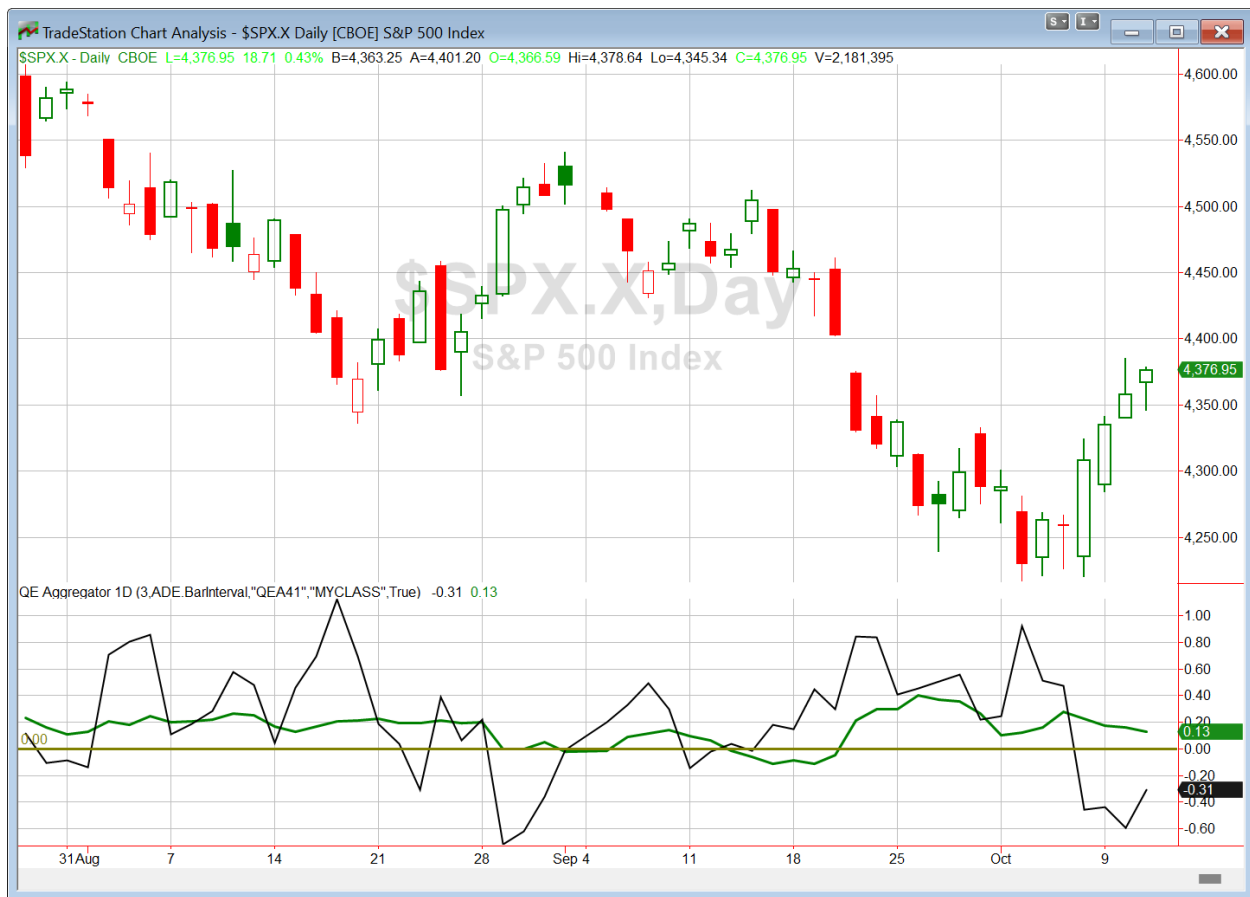
In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. While lower, the point remained the same – relatively big moves often emerged after tight consolidations.

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. Of course tonight the Aggregator is neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

CPI has seen quiet reactions to this point in 2023, but an unexpected number could trigger a strong reaction, and that reaction could become more exaggerated thanks to the very low 3/20 Offset HV.

There were no directional studies that made the cut tonight, so I won't be adding anything new to the active list.

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



Without any new evidence making the cut tonight, the green Aggregator Line is again above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained 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 slated to remain positive on Thursday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4365.08 on Thursday. That is 0.3% below Wednesday's close. Therefore, SPX will need to close down at least 0.3% on Thursday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator formation is neutral. Evidence is still pointing slightly higher. But SPX is overbought, and with CPI on deck and the 3/10 Offset HV so low for SPX, risk is elevated. I will continue to sit and wait for the next favorable opportunity to emerge before getting involved again.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/9– bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BMY – 1/3 @ \$56.42 (bought @ limit)

Broad Market Large Cap CBI – 1(BMY)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MMM(1/3)	10/5/2023	\$88.00	\$90.80	3.18%	<i>sold on open</i>
MMM(1/3)	10/6/2023	\$87.40	\$90.80	3.89%	<i>sold on open</i>
BMY(1/3)	10/6/2023	\$56.25	\$56.65	0.71%	Catapult

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