

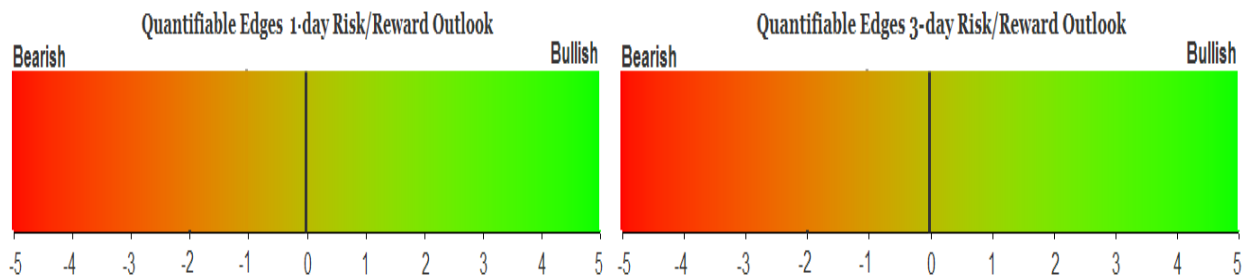
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 5, 2023

Volume 16 Issue 232

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## 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.
- The Russell 2000 rising > 1% while SPX closes lower also suggests a 1-day upside edge.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator formation is neutral. So am I.

**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
<b>Active - Short Term</b>						
December 5, 2023	Unfilled gap down from 50-day high	1 day	Bearish			
December 5, 2023	SPX down. RUT up > 1%	1 day	Bullish			
<b>Active - Long Term</b>						
November 22, 2023	5 up to 50-high then down 1	1-10 days	Bullish	1.80%	-1.10%	-2.30%
November 21, 2023	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
November 7, 2023	Whaley ADT <sub>5</sub> > 73.66	1-12 months	Bullish	25.20%	-8.10%	
November 6, 2023	Zweig Thrust	1-12 months	Bullish	29.00%	-3.20%	-7.00%
November 6, 2023	Best 6 Months	6 months	Bullish			
November 6, 2023	NASDAQ Leading	int term	Bullish			
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			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

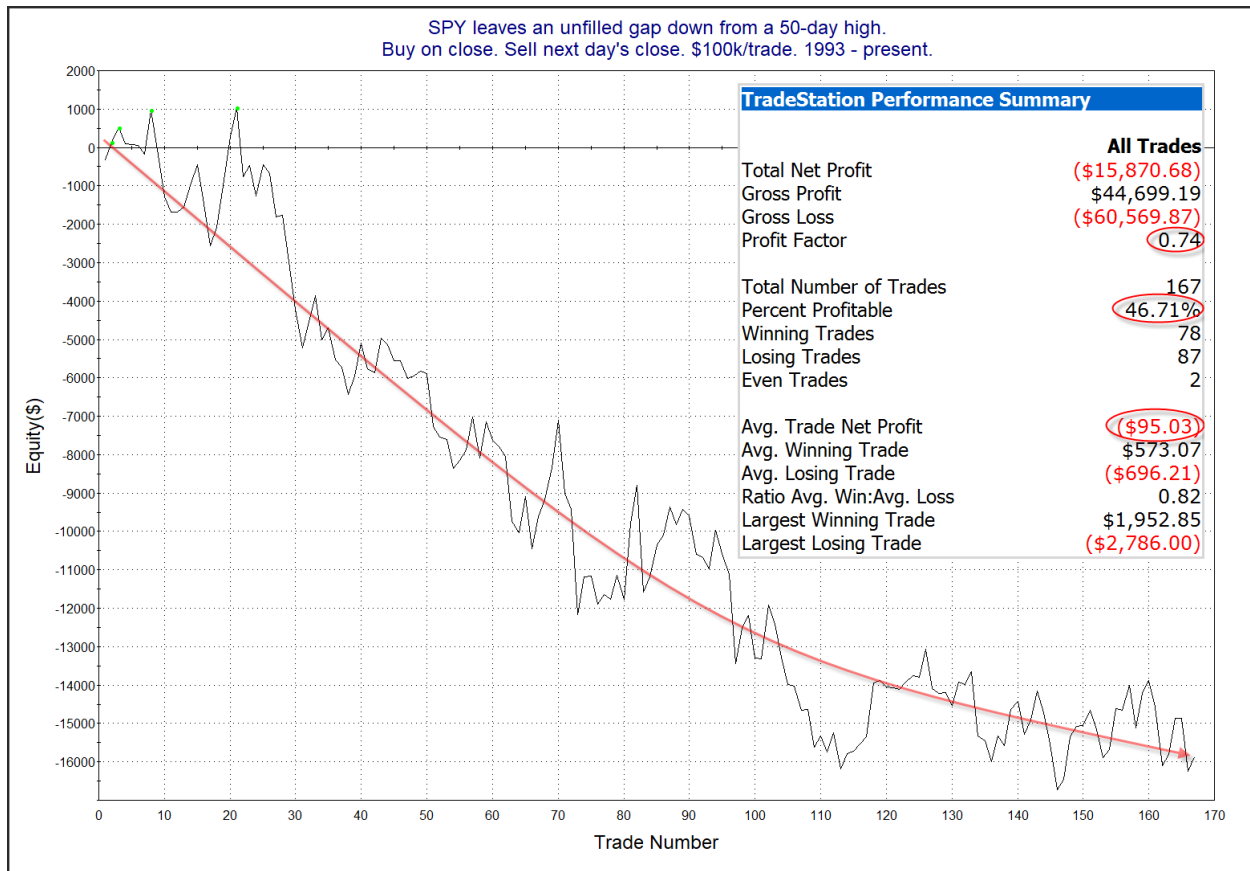
**The Evidence**

Monday was mixed. The SPX closed down 0.5%, the NASDAQ lost 0.8%, and the Russell 2000 rallied 1.0%. Breadth was about even with the NYSE Up Issues % coming in at 49.7% and the Up Volume % at 51.1%. NYSE total volume rose some from Friday's level.

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 were last seen in the 11/22/23 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.

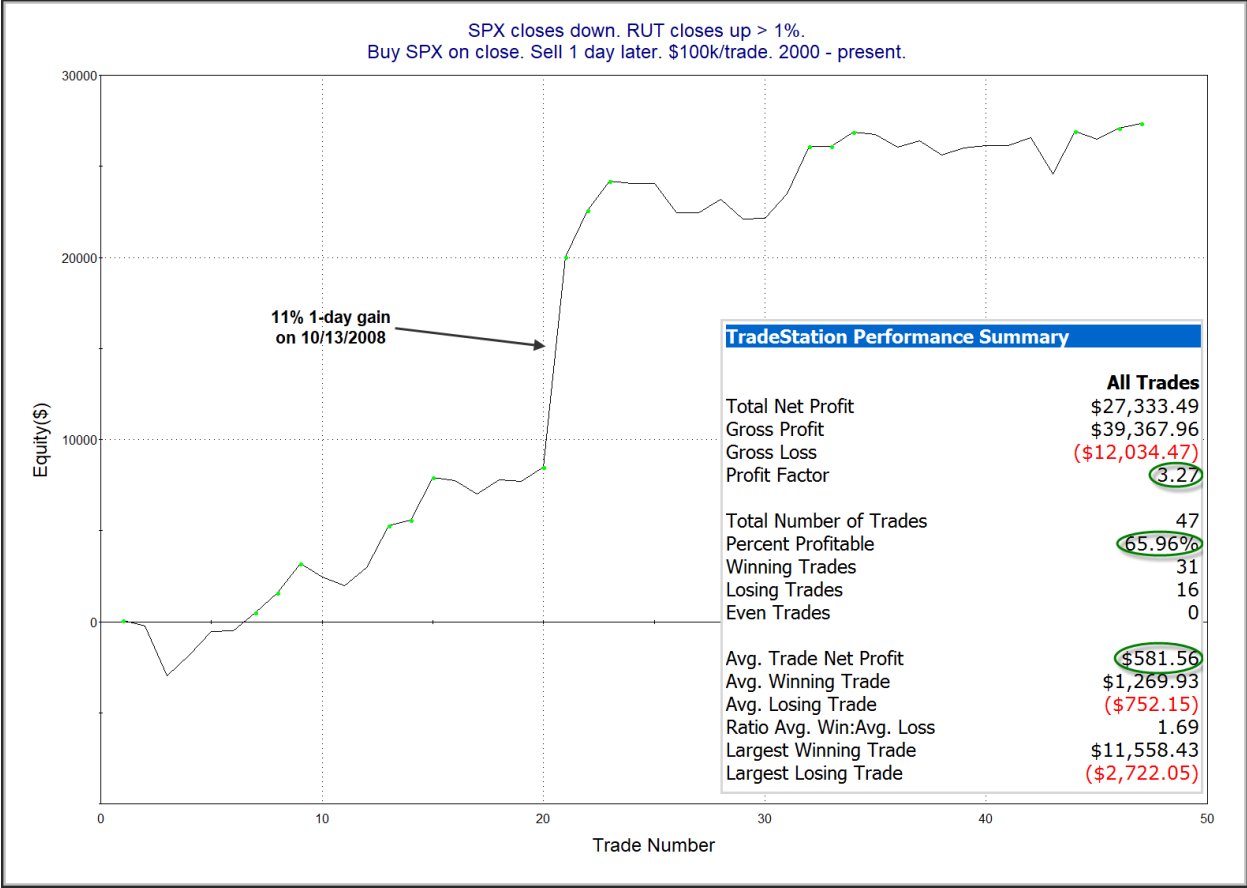


There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high. (Updated)

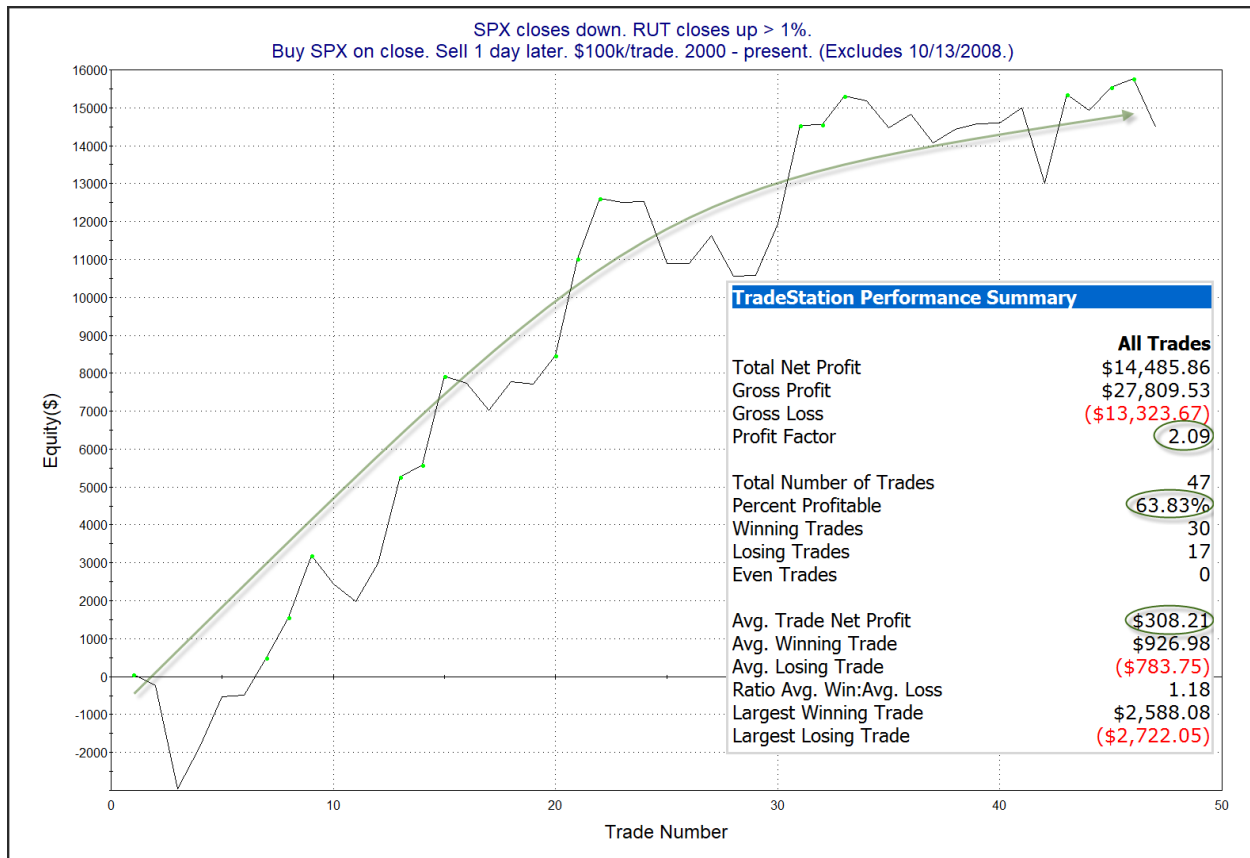


While the curve has flattened some in recent years, it is back near new lows. The move lower has persisted for a long time. This is impressive considering the market must be in an uptrend since it was at a 50-day high the day before. Overall, this study seems to suggest a mild downside edge, and at the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

Also notable is that while SPX sank, the Russell put it a solid up day. The split market triggered an interesting study from the 10/18/23 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

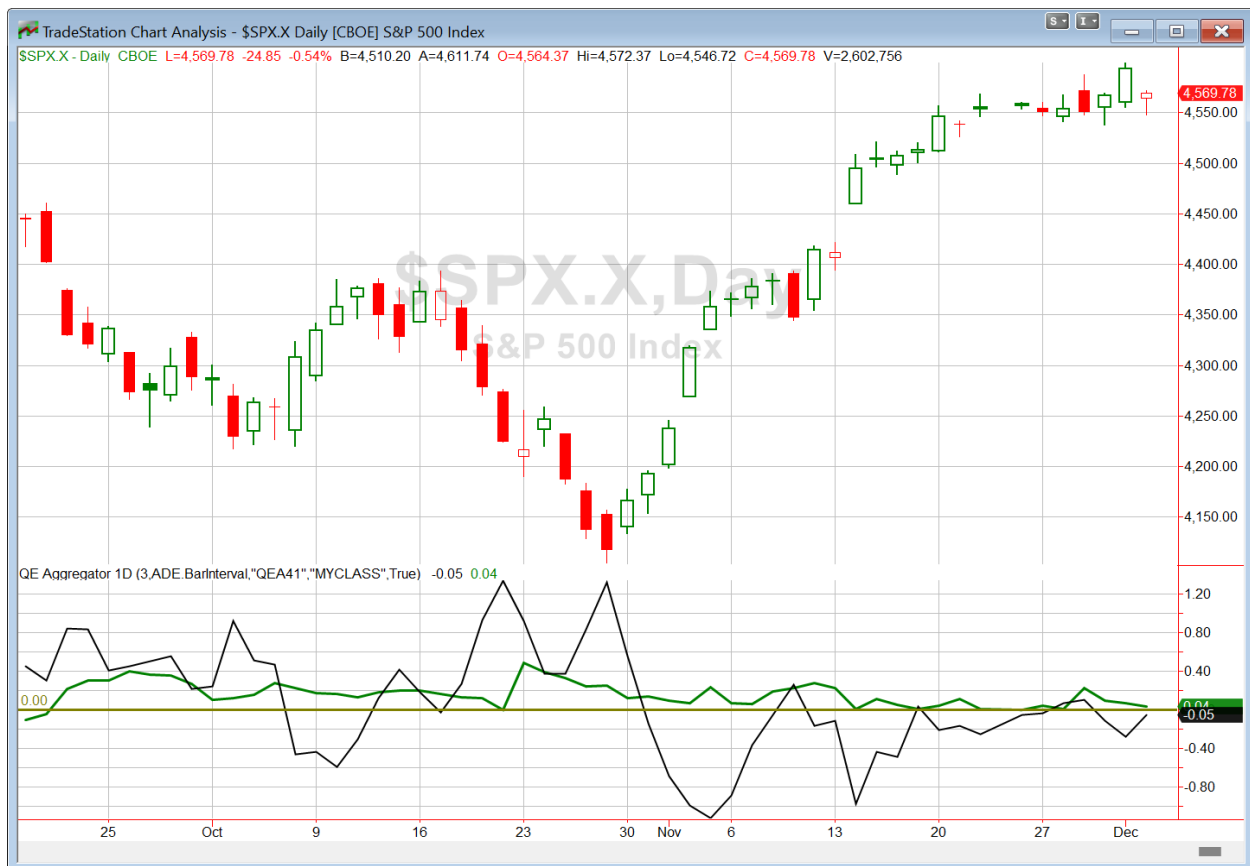


Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.



This still seems worth paying some attention to. Impressive that 1) gains are over 2x losses, 2) 64% of instances rose the next day, and 3) the average instance has posted a 1-day gain of 0.31%. While the last instance made the curve look flatter, I have included this study on the Active List.

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



With tonight's evidence considered, the green Aggregator Line held 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 active studies, expectations are set to remain positive on Tuesday. But with the last of the short-term studies expiring, any new evidence will have a substantial influence on expectations over the next few days. Meanwhile, the Differential Pivot will be *inverted* at 4582.32 on Tuesday. That is 0.3% *above* Monday'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 at least 0.3% on Tuesday in order to remain overbought. Anything less than that and it will flip to oversold versus recent expectations as of Tuesday's close.

So the Aggregator is still neutral. Evidence is mixed and mild. And the market is overbought approaching oversold. So there does not appear to be a clear and compelling edge to base a new index trade on. I will continue to wait for a more favorable reward/risk setup before taking on new index exposure. Traders looking for a trade idea could check out the Catapult that triggered tonight.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 12/4– **bullish***

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### *Open Catapult Triggers*

**New**

NFLX – 1/3 @ \$453.90 (buy @ limit)

### *Broad Market Large Cap CBI – 1(NFLX)*

## **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.*

**NFLX – Buy 1/3 Catapult position @ \$453.90 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of NFLX.

## **Current Open Trade Ideas**

**None**

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