Short XLI/SPY Ratio

Clustered Signal: Second Bearish Outside Reversal

Key Metrics Panel	
Current Ratio Level:	0.240014 (Triggered July 14)
Day-10 Kelly Criterion:	0.59
Weighted Hit Rate:	80%
Blended Expectancy:	≈ +0.75% per unit

Executive Recommendation: Option 3 Tranche Execution
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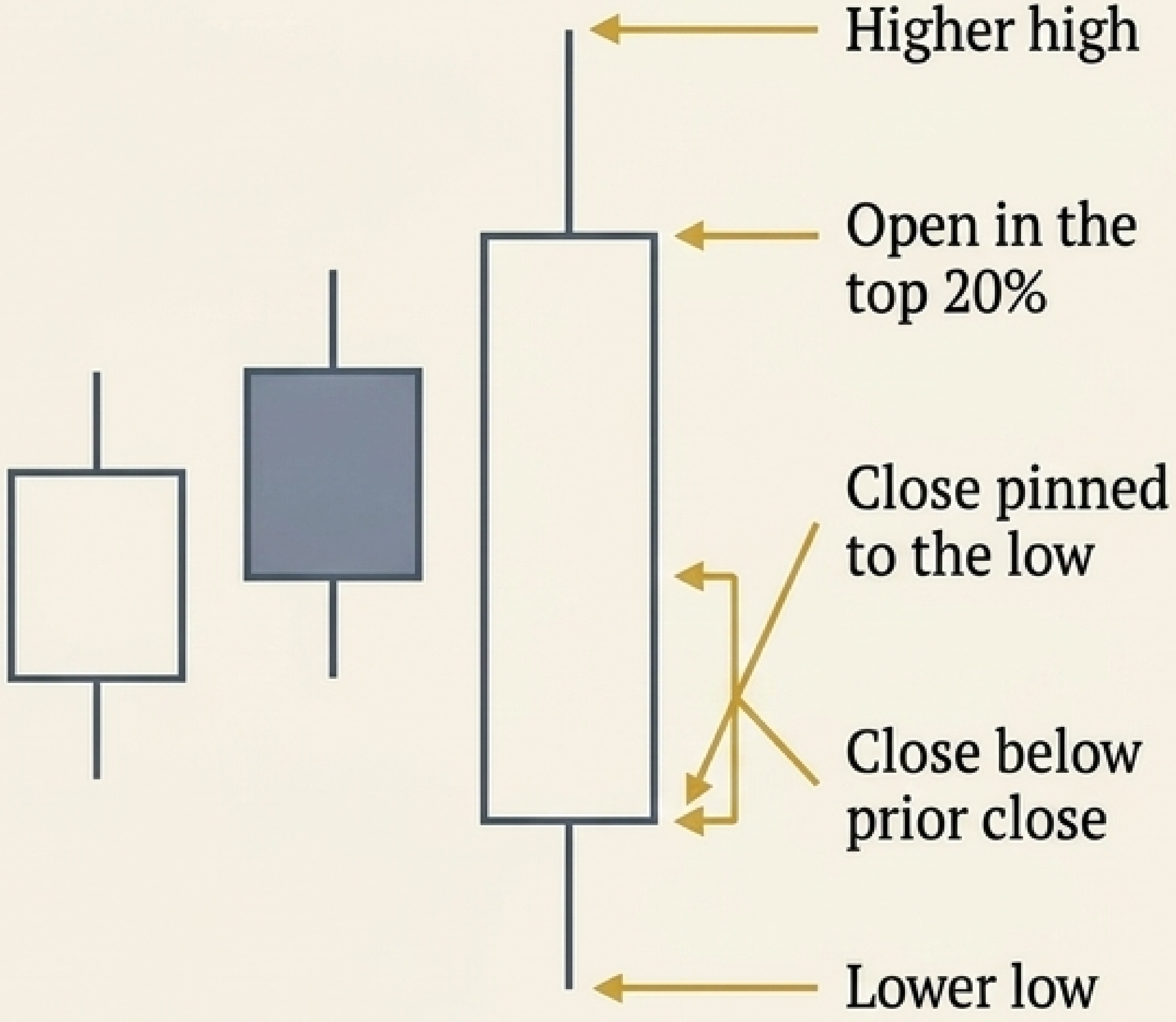
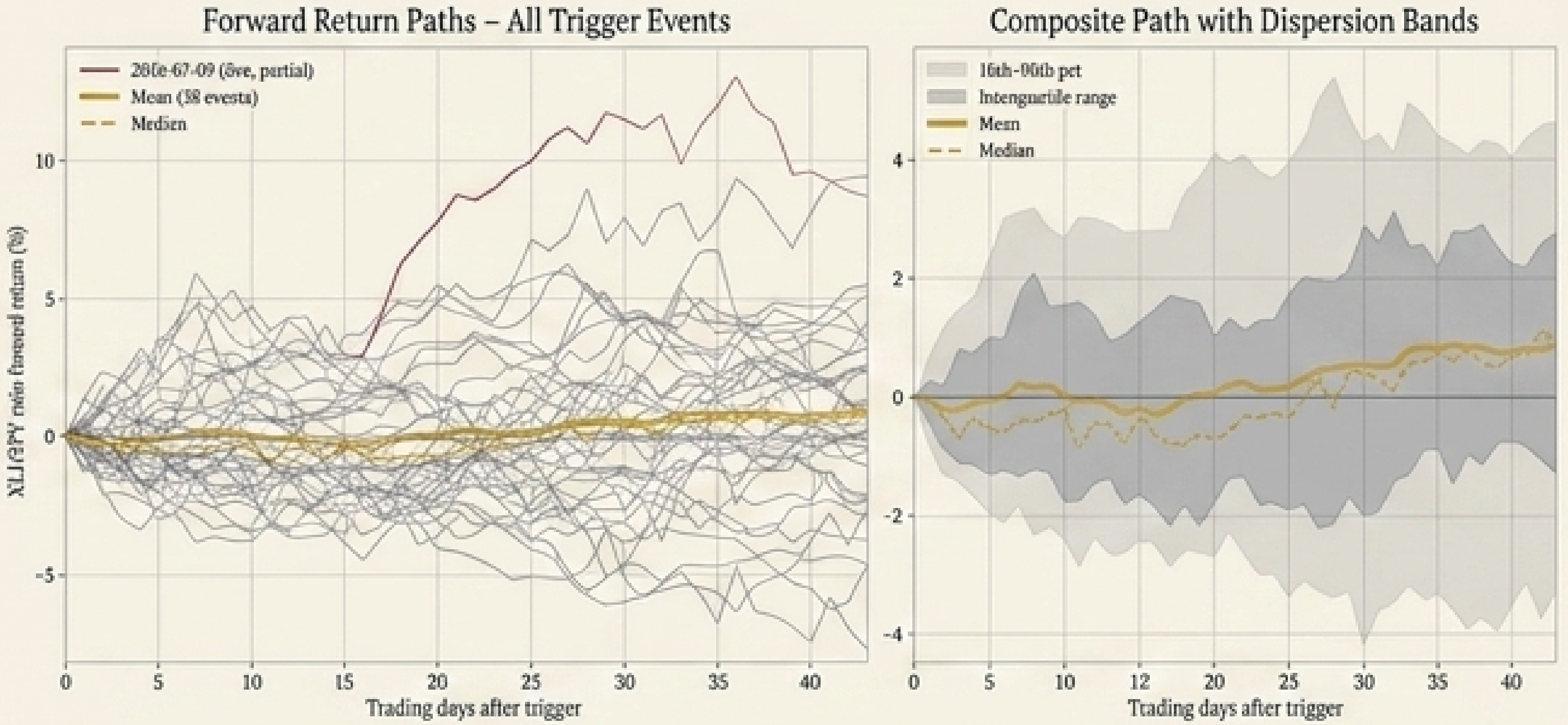
(0.5x current / 0.5x on 65-day break).

The Signal Abstraction



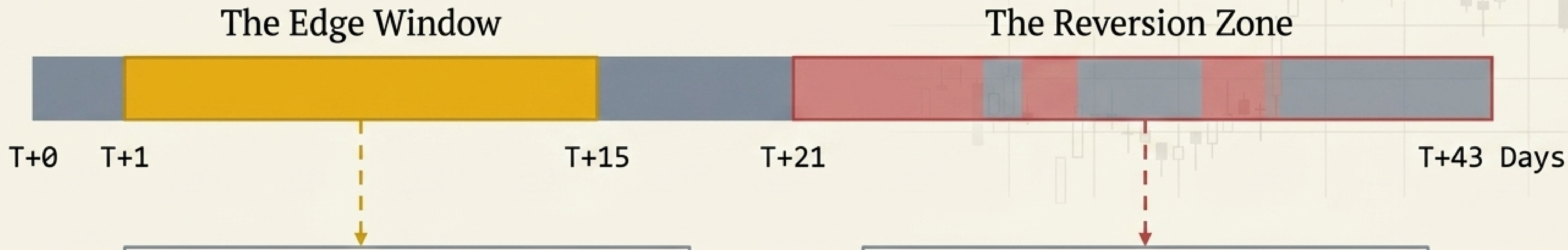
Context: Triggers on July 9 & July 14. Trend already deteriorating across 15-day and 65-day windows before capitulation.

The Macro Rarity



- Since May 2020, the single-bar pattern has fired 39 times (capitulation shape, soggy medians to day 21, recovery by day 43).
- **The pivot:** The clustered condition (second trigger within 10 sessions) has occurred only 5 times. A completely different statistical animal.

The Edge: Isolating the 15-Day Window

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Clustered Day-10 Kelly: 0.59
Weighted Hit Rate: 80%
Payoff Ratio: 0.95
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Divergence is stark. Unconditioned, the horizon Kelly is -0.06. The entire statistical edge lives exclusively in the cluster condition and the first 15 sessions.

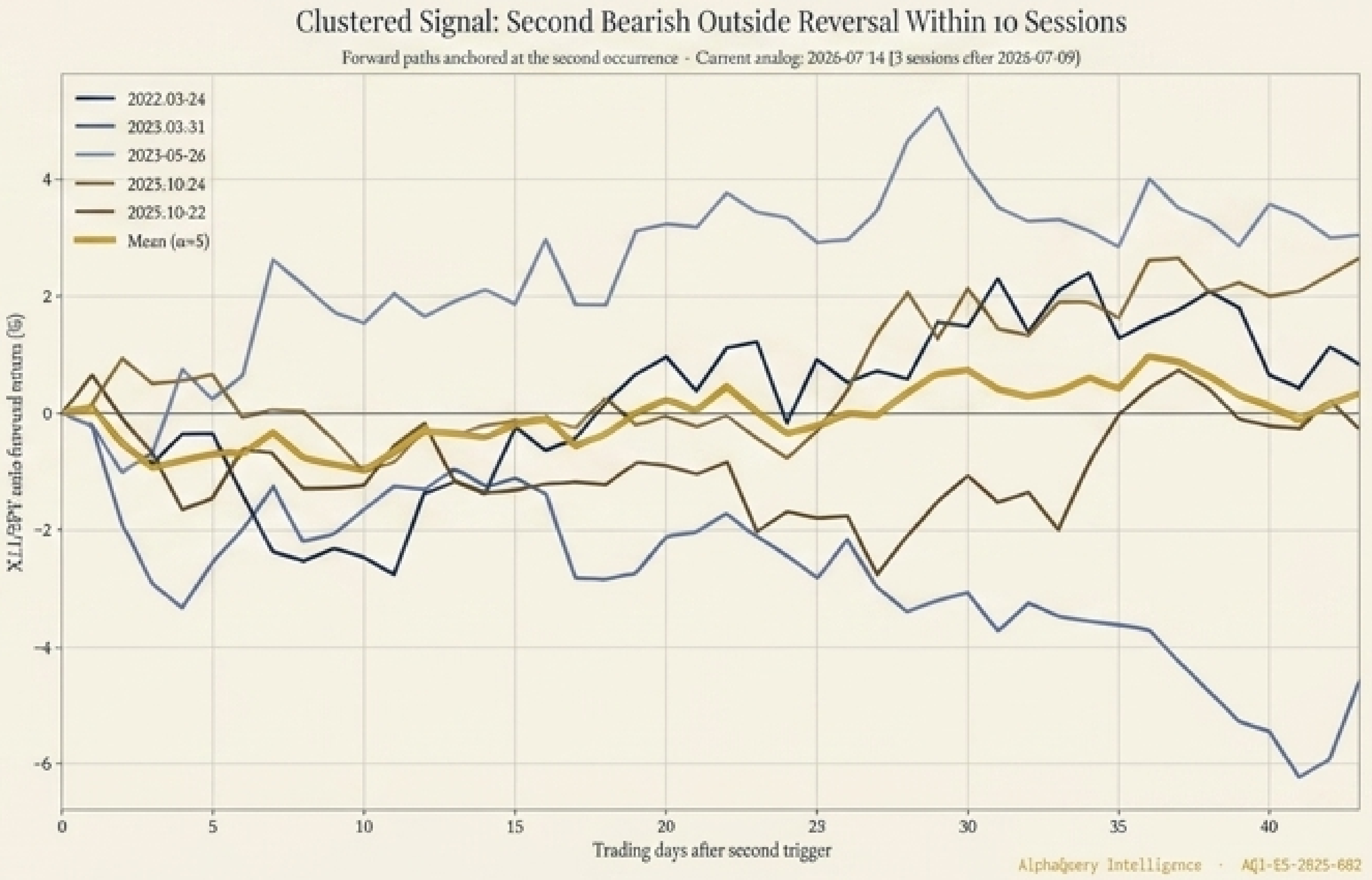
Past day 21, the weighted composite turns against you. Holding the short becomes a structural disadvantage.

Conclusion: Temporal decay mandates a hard reassessment at Session 15 and a mandatory flat position by Session 21 (on Tranche 1).

Regime Nuance: Evaluating the Analogs

March 31, 2023 (Regime Break) `-4.56% at T+43`	Never mean-reverted. Driven by SVB aftermath and capital stampeding from industrials to mega-cap tech.
October 22, 2025 (The Heavy Drag) `Heaviest Recency Weight (7x)`	Chopped lower and finished flat. Dragged the weighted day-43 cluster mean down to +0.26% (versus +0.84% unweighted).
Oct 24, 2023 & May 26, 2023	Standard behavior. Recovered and mean-reverted.

Core Insight: The recent market is less forgiving of this pattern than the 2023 vintage. The recency weighting makes the disagreement between near-term and terminal signals quantitative, not just aesthetic.



NotebookLM

Strategic Architecture: Why We Tranche

Option One: Full Unit Now	Option Two: Wait for 65-Day Break	Option Three: Tranche Execution (AQI Recommendation)
Action Short full unit now, ride to time stop.	Action Enter only on 65-day break.	Action **Half unit against outside-bar high now; half on daily close through 65-day.**
Trade-Offs Captures the day-10 trough in full, but wears the whipsaw with zero regime confirmation.	Trade-Offs Cleaner signal, but the weighted trough is only -0.86% and confirmation eats 0.28% of it. Forfeits a third of the move for comfort.	Trade-Offs Filters the recoveries from the collapses. Quarter-Kelly sizing based on blended conviction.

The divergence between the cluster Kelly (0.59) and the full-sample Kelly (≈0) is not a rounding argument to resolve — it is the exact sizing instruction itself.

Execution Blueprint: Mechanics & Triggers

Entry Triggers

- Tranche 1: 0.5x unit Short XLI / Long SPY (Dollar-neutral) at market, or into bounce toward 21-EMA (0.2406).
- Tranche 2 (Add): 0.5x unit on daily close below 65-MA (0.23935). Regime confirmation achieved; time stop comes off. Book at 1.0x max.

Invalidation (Stop Loss)

Daily close > July 14 outside-bar high (+0.94%). Structurally and statistically negates the reversal.

Profit Targets

T1: -1.2% (weighted cluster median trough zone ~day 10). Take half, trail the rest.
T2: -2.0% to -2.5% (Live only if Tranche 2 triggers).

Time Stop Protocol

Hard reassessment Session 15. Mandatory flat by Session 21 on Tranche 1 (unless 65-day break confirms).

Risking 0.94% against 1.2% at an 80% weighted hit rate. XLI beta to SPY is ~1.05 (adjustment is inside the noise for a 2-3 week hold).