

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 3, 2022

Volume 15 Issue 1

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The weak close to the month is setting up Monday for a rebound.
- January Seasonality looks generally positive for the market. It looks especially positive for GLD.
- The Fed will be buying at a lower rate in January. Fed support is starting to wane.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side for a quick move up.

Summary of Recent 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						
January 3, 2022	Dn 2 days. Poor close. Up month. EOM.	1 day	Bullish			
December 31, 2021	3 hi, 3-low, 3-low close > 200ma	1-5 days	Bullish	1.70%	-1.20%	-2.40%
Active - Long Term						
November 22, 2021	Hindenburg Omen Cluster	1-35 days	Bearish	-6.90%	3.20%	5.80%
November 8, 2021	QE4 tapering	int term	Bullish but Weakening			
November 4, 2021	SPX 50-day %b > 100	1-50 days	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			

The Evidence

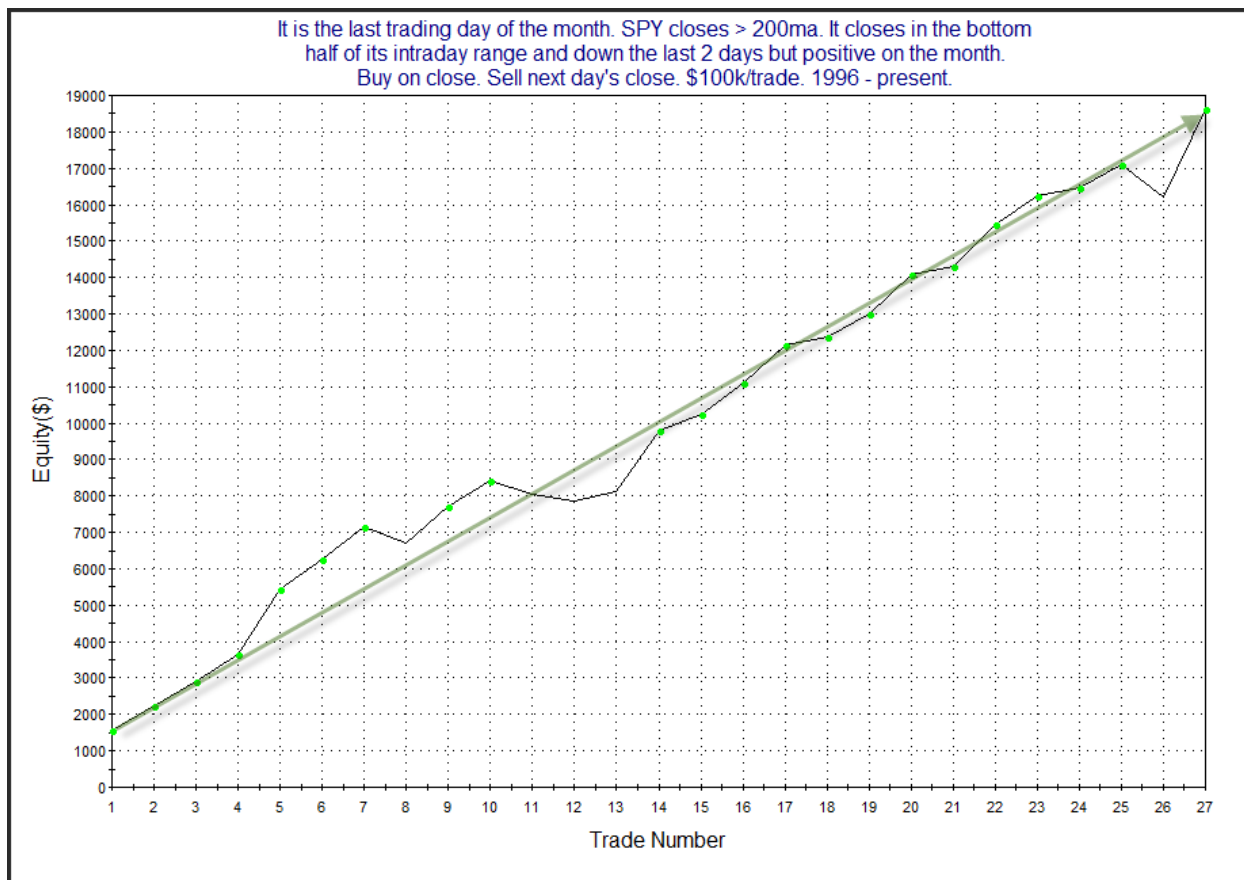
A good year finished with some late selling on Friday and the major indices all finished down on the day. The SPX dropped 0.3%, the NASDAQ fell 0.6%, and the Russell 2000 lost 0.15%. Breadth was mixed with the NYSE Up Issues % coming in at 60% and the Up Volume % at 48%. NYSE total volume rose a little from Thursday's level.

Turn of the month will often trigger some bullish studies. Most especially when the market is above its long-term moving average and closes poorly on the last day of the month. In the 3/1/19 letter I shared a study that showed 2+ down days into the end of a month when the month closed overall positive, was often followed by a rebound. Below are updated results to that study.

It is the last trading day of the month. SPY closes > 200ma. It closes in the bottom half of its intraday range and down the last 2 days but positive on the month.
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$18,626.81	Profit Factor	10.84
Gross Profit	\$20,518.94	Gross Loss	(\$1,892.13)
Total Number of Trades	27	Percent Profitable	85.19%
Winning Trades	23	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$689.88	Ratio Avg. Win:Avg. Loss	1.89
Avg. Winning Trade	\$892.13	Avg. Losing Trade	(\$473.03)
Largest Winning Trade	\$2,415.64	Largest Losing Trade	(\$870.24)
Max. Consecutive Winning Trades	13	Max. Consecutive Losing Trades	2

The numbers here are extremely encouraging for the bullish case. Below is a look at the profit curve.



The curve is nearly as straight as the arrow. This study seems worth taking into consideration.

There were several other turn of month studies that triggered in the Quantifinder as well, but this was the most compelling. Nothing else triggered that I loved. I will note that a down close on Monday would mean a 3-day pullback. And heading into a potential “Turnaround Tuesday” I am sure that combination would generate more bullish evidence

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



With tonight's evidence considered, the green Aggregator Line moved further 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 studies on the active list, expectations are scheduled to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4826.70 on Monday. That is 1.3% above Friday's close. So SPX will need to close up at least 1.3% on Monday to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. Evidence is strong for Monday, and if Monday does not play out, I expect to see more bullish evidence emerge as we head into Turnaround Tuesday. There is also ample room to the upside before SPX would flip to "overbought" versus recent expectations. All that is encouraging, and I believe there is a decent long-side edge. I took some long exposure near the close on Friday. I will look to add to that at the close on Monday if SPX finishes down again.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/3 – somewhat bullish*

Combo #1	Combo #2	Combo #3
Long	Long	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week there were no changes to the Combo Systems.*

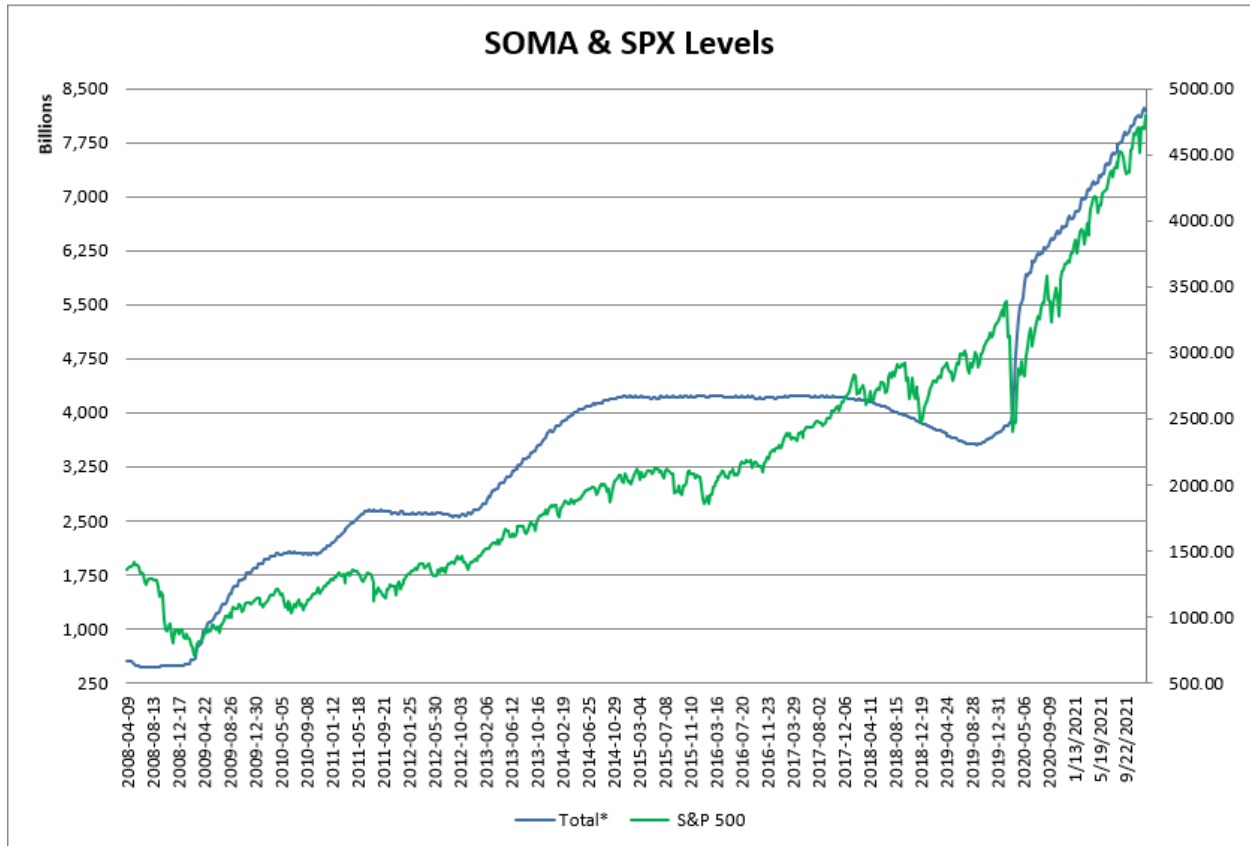
It was a mixed week for the market. The SPX rose 0.85%, the NASDAQ declined 0.05%, and the Russell 2000 climbed 0.2%. The SPX posted a new closing high on Wednesday and an intraday high on Thursday, so its uptrend appears to be in place. The NASDAQ has been consolidating for about two months, and the Russell 2000 is in the range it has been in for most of the last 11 months.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of	
Previous	December 29, 2021
<small>Posted December 30, 2021 at 4:30 P.M.</small>	
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,846,487,594.8
US Treasury Floating Rate Notes (FRNs)	24,321,178.7
US Treasury Inflation-Protected Securities (TIPS)*	383,199,830.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,606,254,819.9
Agency Commercial Mortgage-Backed Securities***	9,237,435.9
Total SOMA Holdings	8,197,891,860.0
Change From Prior Week	-32,568,163.2

This past week saw the SOMA decline by \$33 billion. That basically gives back the increase from the previous week. The last week of the month has seen the SOMA decline all throughout QE4,

so this is no surprise. We will see the steepness of the SOMA curve flatten more in January. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, but the expansion is now slowing, and the pace of tapering is going to accelerate a bit more each month. QE4 will likely be over in March. Additionally, we are looking at a strong likelihood of 3-4 interest rate increases in 2022 to combat inflationary pressures. The Fed has been working to stimulate the economy for a long time now, and that has greatly benefitted the stock market. That is still the case. But they are now planning to reverse that in the coming months and try and slow the economy to dampen inflation. The market will be faced with challenges in 2022, including high valuations, inflation, and potential impacts of different COVID strains, and it may have to deal with these and other challenges without the aid of the Fed. This could certainly lead to more volatility and perhaps some more substantial market declines than we have seen in the last year and a half.

I updated the [Seasonality Calendars](#) over the weekend. Below is a look at the Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
<u>Date</u>	<u>Win%</u>	<u>Profit Factor</u>	<u>Avg % Chg</u>
1/3/2022	57.91	1.588	0.158
1/4/2022	51.25	1.209	0.064
1/5/2022	55.03	1.364	0.099
1/6/2022	55.26	1.175	0.053
1/7/2022	56.21	1.276	0.085
1/10/2022	54.47	1.003	-0.004
1/11/2022	53.62	1.207	0.055
1/12/2022	57.46	1.287	0.046
1/13/2022	60.24	1.349	0.067
1/14/2022	61.62	1.781	0.149
1/18/2022	56.84	1.859	0.164
1/19/2022	56.57	1.598	0.118
1/20/2022	54.90	1.515	0.096
1/21/2022	55.88	1.419	0.067
1/24/2022	52.35	0.968	-0.012
1/25/2022	55.65	1.131	0.037
1/26/2022	53.58	1.224	0.063
1/27/2022	57.20	1.208	0.054
1/28/2022	56.56	1.028	0.008
1/31/2022	50.29	1.006	0.002
Baseline	55.04	1.194	0.058

The numbers here are impressive, with the first 3 weeks all looking solidly positive.

Even more impressive are the numbers that are showing up for gold. Here is the GLD Calendar:

Quantifiable Edges Seasonality Calendar			
GLD SPDR Gold Shares ETF			
Date	Win%	Profit Factor	Avg % Chg
1/3/2022	58.86	1.753	0.199
1/4/2022	57.21	1.395	0.116
1/5/2022	56.35	1.336	0.097
1/6/2022	55.94	1.325	0.098
1/7/2022	56.92	1.270	0.083
1/10/2022	51.36	1.069	0.002
1/11/2022	55.39	1.128	0.023
1/12/2022	54.35	1.323	0.066
1/13/2022	52.41	1.142	0.029
1/14/2022	55.57	1.435	0.086
1/18/2022	54.42	1.542	0.101
1/19/2022	55.25	1.557	0.106
1/20/2022	53.03	1.610	0.126
1/21/2022	53.06	1.425	0.069
1/24/2022	53.65	1.320	0.072
1/25/2022	52.84	1.149	0.013
1/26/2022	56.37	1.388	0.087
1/27/2022	53.60	1.258	0.053
1/28/2022	56.60	1.530	0.123
1/31/2022	52.91	1.036	0.011
Baseline	51.55	1.025	0.008

You'll note the baseline numbers are not nearly as high for gold as they are for SPX. This is because GLD has not had nearly the run over the last 10 years. So its average days have not been as strong. This makes the January readings even more impressive.

After Monday we will basically be through the strong seasonal period for SPX and RUT I have spoken about for the last few weeks. The January Seasonality Calendar looks strong and we are still in the larger "Best 6 Months" period. So seasonality should remain somewhat positive – just perhaps not to the degree we've seen the last few weeks. The SPX remains in an uptrend, but the NASDAQ is lagging, and the Russell is also not confirming. Tapering will be ramping up, which could also hurt the bulls. The SPX had some very large gains in 2021, and people might be looking to take profits now that the gains would be taxable for 2022 and not 2021. So other than the SPX trend and some seasonal strength, I am not seeing much in the way of confirmation for the bull case. I will move my bias back to "neutral" for the time being, and remain open to trades in either direction. I'll also remain alert to new intermediate-term bullish or bearish evidence that emerges.

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 @ \$474.95 LIMIT ON CLOSE. Based on the short-term outlook above, I'll add another lot of SPY if it closes down again on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	12/31/2021	\$474.96	\$474.96	0.00%	Aggregator

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