

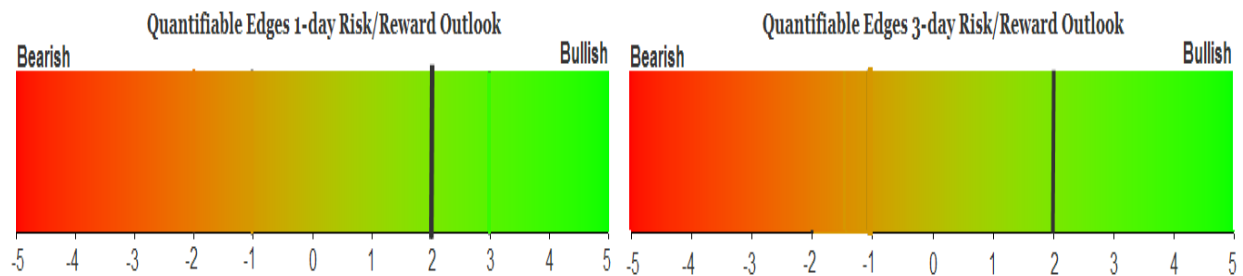
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2022

Volume 15 Issue 6

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- New compelling evidence is lacking.
- The “1st 5 Days” of January are a well-known predictor that I examine a little closer.
- The SOMA continues to expand, but QE is in the wind-down process.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I think there is a moderate upside edge, but evidence is still not great.

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 7, 2022	SPX down 3 from 50-high to 10-low	1-8 days	Bullish	2.50%	-1.40%	-3.40%
January 6, 2022	1% down. Decliners 2x Advancers. 4Low	1-5 days	Bullish	2.30%	-2.00%	-4.50%
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

Friday was another day of selling. The SPX lost 0.4%, the NASDAQ fell 1.0%, and the Russell 2000 declined 1.2%. Breadth was positive with the NYSE Up Issues % coming in at 51% and the Up Volume % at 62%. NYSE total volume rose some from Thursday's level.

The last few days have seen some strong selling, especially in the NASDAQ. But I am a bit surprised that it has not generated more compelling evidence. There are a couple of existing studies on the active list from the past few days suggesting a bounce, but nothing new emerged today to confirm the potential upside edge.

The NDX has been hit especially hard this week. It fell 4.5% on the week and Friday was the lowest close since October. Many times we will see multi-day pullbacks and/or intermediate-term lows during a long-term uptrend suggest the market is primed for a bounce. But in running some studies on NDX, I found results like the one below.

NDX closes down for at least the 3rd day in a row. It closes at a 2-month (42-day) low but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1986 - 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	-1,891.07	47	24	23	51.06	6,743.10	-10,017.16	2,635.74	-2,832.56	0.93	0.97	-40.24
4	-2,148.00	47	23	24	48.94	6,759.48	-5,324.16	2,649.68	-2,628.78	1.01	0.97	-45.70
3	7,090.91	48	23	25	47.92	5,955.04	-5,054.27	2,342.62	-1,871.57	1.25	1.15	147.73
2	543.57	53	28	25	52.83	15,743.35	-11,493.09	1,849.86	-2,050.10	0.90	1.01	10.26
1	3,938.19	73	39	34	53.42	9,966.19	-9,851.30	1,716.77	-1,853.40	0.93	1.06	53.95

Such setups have been a tossup over the following days. A big reason for this is that the SPX has more mean reversion tendencies than the NDX. NDX tends to trend better. You can see this by looking at the same study using SPX.

SPX closes down for at least the 3rd day in a row. It closes at a 2-month (42-day) low but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1986 - 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	22,258.55	34	26	8	76.47	7,070.28	-27,309.65	2,229.55	-4,463.73	0.50	1.62	654.66
4	41,973.37	35	27	8	77.14	4,983.36	-8,620.87	2,088.70	-1,802.70	1.16	3.91	1,199.24
3	28,783.46	38	25	13	65.79	3,916.69	-5,393.69	1,935.24	-1,507.51	1.28	2.47	757.46
2	28,245.32	39	30	9	76.92	4,809.66	-4,632.95	1,322.35	-1,269.45	1.04	3.47	724.24
1	27,616.03	52	33	19	63.46	5,117.46	-4,404.16	1,313.79	-828.37	1.59	2.75	531.08

These numbers are quite compelling. Of course, SPX is nowhere near its 2-month low. So this is not setting up.

Based on evidence from the past few days, I still feel as though there are better odds for a bounce than for a continued selloff this upcoming week. But with evidence so moderate, I don't want to bet everything on that.

In the 1/9/20 letter I showed some studies that used the "1st 5 days" predictor. I did not find it to be of real value, so I have not updated that research with 2020 and 2021 data. But below I have pasted what I wrote a couple of years ago, because I still found it interesting.

1st 5 Days Study

Yale and Jeffrey Hirsch have published the Stock Traders Almanac for many years. I am a fan of their work and have benefitted from some of the ideas they have shared. One study they published that gets a lot of press every year at this time is "January's 1st 5 Days: An Early Warning System". The basic idea is that performance on the 1st 5 days in January can be an indication of how the full year will perform. While I am a fan of their work, I have never been a big fan of this study. Not because I didn't believe it, but because I didn't know how to profit from it. It seemed silly to be to establish a bullish bias for the year based on just 5 days. But I examined it a couple of years ago and decided to update those results tonight.

Using the SPX I simply looked back to 1961 to see how the market has performed if the 1st 5 days in January closed higher. I did not include those 5 days in my results, but assumed I bought at the close of day 5 and then sold at the close on December 31st. Those results are below.

Buy SPX if 1st 5 days of Jan show net gain. Sell end of December. \$100k/trade. 1961 - present.

Statistics

All trades	39
Avg. Profit/Loss	10146.39
Avg. Profit/Loss %	10.15%
Avg. Bars Held	247.51
Winners	28 (71.79 %)
Avg. Profit %	17.05%
Avg. Bars Held	247.18
Max. Consecutive	5
Largest win	33656.66
Losers	11 (28.21 %)
Avg. Loss %	-7.43%
Avg. Bars Held	248.36
Max. Consecutive	2
Largest loss	-24199.84
Profit Factor	5.84

These numbers certainly look compelling. 72% of the time the market moved higher over the remainder of the year and winning years were more than twice as large as losers. The average result when the 1st 5 days were higher was a gain of 10.1%. Overall this seems impressive.

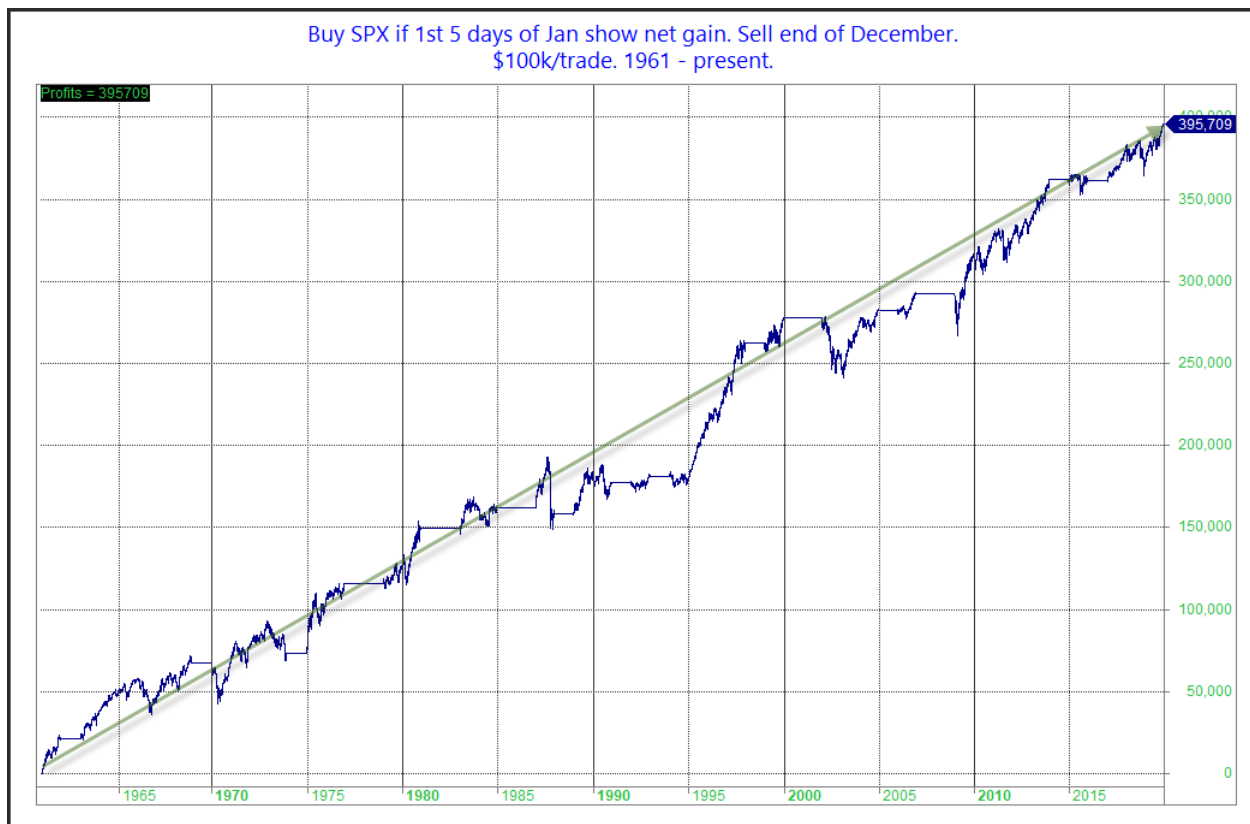
Now let's look at times the "1st 5 Days" showed a loss.

Buy SPX if 1st 5 days of Jan show net loss. Sell end of December.
\$100k/trade. 1961 - present.

Statistics	
All trades	20
Avg. Profit/Loss	2928.95
Avg. Profit/Loss %	3.62%
Avg. Bars Held	248.05
<hr/>	
Winners	12 (60.00 %)
Avg. Profit %	15.88%
Avg. Bars Held	248.33
Max. Consecutive	7
Largest win	32451.57
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Losers	8 (40.00 %)
Avg. Loss %	-14.78%
Avg. Bars Held	247.63
Max. Consecutive	4
Largest loss	-35026.87
Profit Factor	1.56

The Hirsch's noted that these instances aren't bearish, but that they pale in comparison to the returns if the "1st 5 Days" are positive. As you can see, this is the case.

So far, a strong "1st 5 days" seems to be a positive sign. I produced a profit curve below to see how this edge has played out over time.



That is a pretty straight and steady looking curve. Based on these results it appears the “1st 5 days” of January may be predictive. While the market has had an upward bias over the years, we all know the curve has looked a lot choppier than this.

But is January more predictive than other months?

What about the “1st 5 days” of February? March? December?

If we are to consider January to be predictive then perhaps we should also compare it to other months. In the results table below I did this. I took each month’s “1st 5 days” and if the number was positive I then bought and held for the next year (minus 5 days). So if the 1st 5 days in February were positive I bought the close of the 5th trading day and then sold the last trading day the following January. A positive start to March would mean I bought the 5th day there and held to the end of February, and so on. In this way each month’s start had a chance to serve as a predictor for the next 12 months (minus 5 days).

Buy SPX if 1st 5 days of X Month shows a net gain. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.										
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss	
2	37	28	9	75.68	\$351,929.61	14.89	-6.94	6.63	\$9,511.61	
3	33	26	7	78.79	\$200,831.85	11.67	-14.65	2.96	\$6,085.81	
4	33	26	7	78.79	\$278,762.80	14.2	-12.91	4.09	\$8,447.36	
5	36	24	12	66.67	\$226,507.83	15.05	-10.77	2.77	\$6,291.88	
6	35	26	9	74.29	\$295,032.77	14.06	-7.83	5.18	\$8,429.51	
7	37	30	7	81.08	\$322,450.51	13.21	-10.02	5.59	\$8,714.88	
8	29	20	9	68.97	\$149,891.33	13.04	-11.94	2.4	\$5,168.67	
9	29	24	5	82.76	\$297,146.90	13.53	-5.51	11.79	\$10,246.44	
10	37	26	11	70.27	\$237,584.03	15.75	-14.96	2.44	\$6,421.19	
11	41	34	7	82.93	\$325,833.93	12.66	-14.15	4.29	\$7,947.17	

These results surprised me when I first ran them. If you look at the “% of Winners” column you will see that 7 of the remaining 11 months were more reliable predictors than January. January did not even make the top half! One thing that January does have going for it is that the “Avg Trade” was slightly better than all other months, except for September.

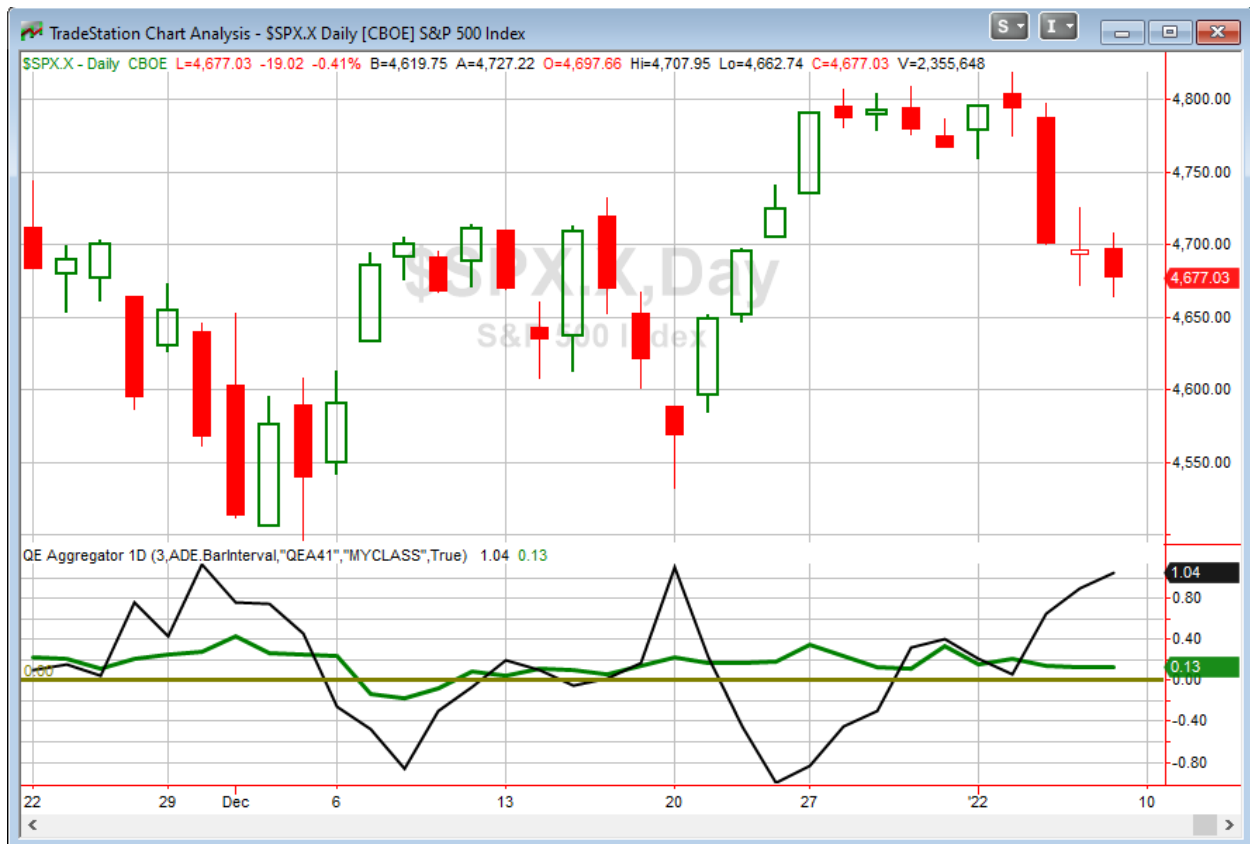
But I also looked at results for all the other months if the “1st 5 days” was down.

Buy SPX if 1st 5 days of X Month show a net loss. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.										
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss	
2	22	15	7	68.18	\$108,276.79	15.21	-17.13	1.9	\$4,921.67	
3	26	19	7	73.08	\$265,465.24	18.48	-12.13	4.13	\$10,210.20	
4	26	18	8	69.23	\$171,910.68	15.27	-11.5	2.92	\$6,611.95	
5	23	20	3	86.96	\$223,892.44	13.04	-12.33	7.05	\$9,734.45	
6	24	15	9	62.5	\$144,364.97	16.44	-11.14	2.44	\$6,015.21	
7	22	12	10	54.55	\$98,367.95	19.73	-11.83	1.89	\$4,471.27	
8	30	25	5	83.33	\$322,612.61	16.27	-16.82	4.84	\$10,753.75	
9	30	19	11	63.33	\$148,974.77	16.53	-14.35	1.94	\$4,965.83	
10	22	16	6	72.73	\$214,316.39	17.07	-9.81	4.64	\$9,741.65	
11	18	13	5	72.22	\$90,487.11	14.55	-18.81	1.97	\$5,027.06	

January’s edge is also put to question here. We see here that a weak start has actually beaten January’s “Avg Trade” in 2 of the instances. And it appears the most reliable and powerful “1st 5” scenario appears here...a bad start to August.

Overall, the “1st 5 Days” seems to be an interesting phenomenon, but its predictability is questionable and making it actionable is beyond me. This shouldn’t be construed as a knock on the Hirsch’s or their work. I’m quite sure they don’t take long-term positions based on 5 days in January, either. But I found it an interesting exercise and thought I would share the results.

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



Without any new compelling evidence emerging, 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 is quite far above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4723.89 on Friday. That is 1.0% above Friday's close. So SPX would need to close up over 1.0% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is still bullish. We are certainly strongly oversold. But there are not a lot of indications suggesting a bounce is a high probability. I have a small amount of long index exposure, and for now I am happy to leave it at that. While the NDX study above was not very encouraging, if I were to look to take on exposure here, I may look there, since it is so oversold vs the SPX. (I do have positions in tech right now based on some automated systems I trade.) Further selling on Monday would likely trigger some “Turnaround Tuesday” studies at the very least. So aggressive traders could look to buy further weakness on Monday if they are more confident in a bounce than I am. I’ll wait until I actually see more bullish evidence emerge before upping my current long index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/10 – neutral

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.*

Well...the 1st week of 2022 was a rough one for the market. The SPX lost 1.9%, the NASDAQ declined 4.5%, and the Russell 2000 dropped 2.9%. The SPX remains the strongest of the bunch. It posted a new all-time closing high on Monday and an intraday high on Tuesday before pulling back the last few days. The long-term trend still appears up for the SPX. The others the trend is less certain.

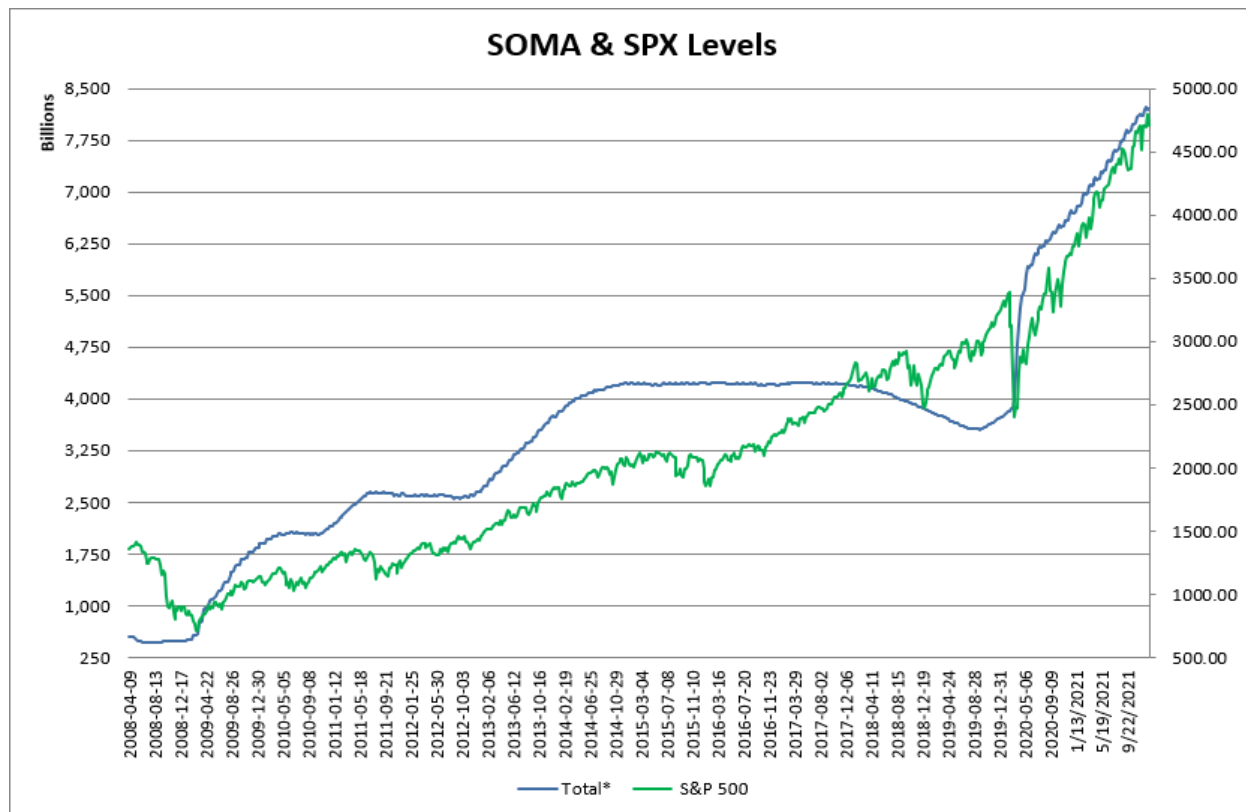
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
 ◀ Previous **January 5, 2022** 📅
 Posted January 6, 2022 at 4:30 P.M

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,847,218,338.0
US Treasury Floating Rate Notes (FRNs)	27,581,816.9
US Treasury Inflation-Protected Securities (TIPS)*	387,010,449.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,606,322,436.3
Agency Commercial Mortgage-Backed Securities***	9,237,435.9
Total SOMA Holdings	8,205,761,476.4
Change From Prior Week	7,869,616.4

This past week saw the SOMA rise by \$8 billion. That is a lot of money to you and me, but hardly anything compared to the size of the SOMA. We will see higher readings than this in the next few weeks, but the steepness of the SOMA will continue to flatten. 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.

Action this past week did nothing to greatly change my intermediate-term outlook. The January Seasonality Calendar looks strong and we are still in the larger “Best 6 Months” period. So seasonality should remain somewhat positive. The SPX remains in an uptrend, but the NASDAQ is lagging, and the Russell is also not confirming. Quantitative easing is slowing, which could also hurt the bulls. But 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 keep my bias “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

UNH – 1/3 @ \$469.65 (bought @ limit)

New

ADBE – 1/3 @ \$510.70 (buy @ limit)

Broad Market Large Cap CBI – 1(UNH, ADBE)

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.

ADBE – Buy 1/3 Catapult position @ \$510.70 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of ADBE.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	1/6/2022	\$467.94	\$466.09	-0.40%	Aggregator
UNH(1/3)	1/7/2022	\$467.69	\$458.60	-1.94%	Catapult

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