

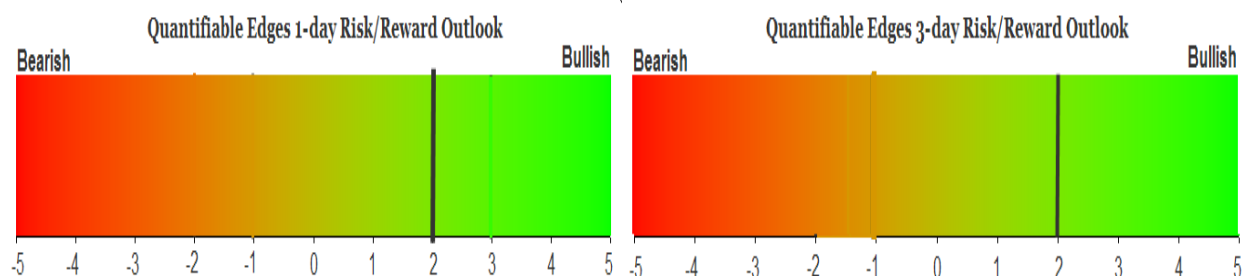
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 18, 2022

Volume 15 Issue 11

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	4

## Tonight's Research Points

- The gap down and reversal in SPY on Friday suggest a decent chance of some follow through on Tuesday.
- This upcoming week used to appear bearish, but that no longer seems to be the case.
- The Fed is still pumping, and that should remain a positive for the next couple of months.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I'm cautiously optimistic.

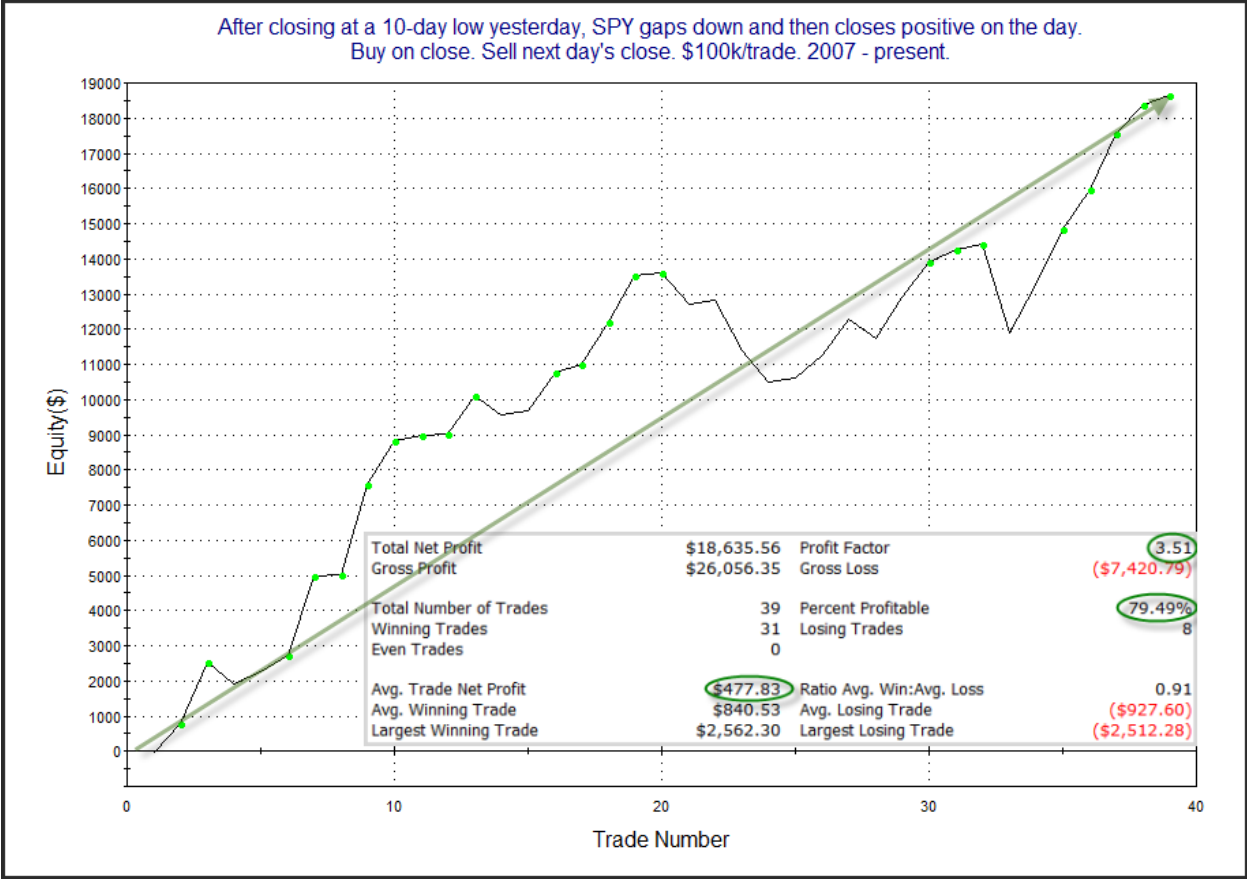
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 18, 2022	SPY gap down from 10-low and finish up	1 day	Bullish			
January 7, 2022	SPX down 3 from 50-high to 10-low	1-8 days	Bullish	2.50%	-1.40%	-3.40%
<b>Active - Long Term</b>						
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***

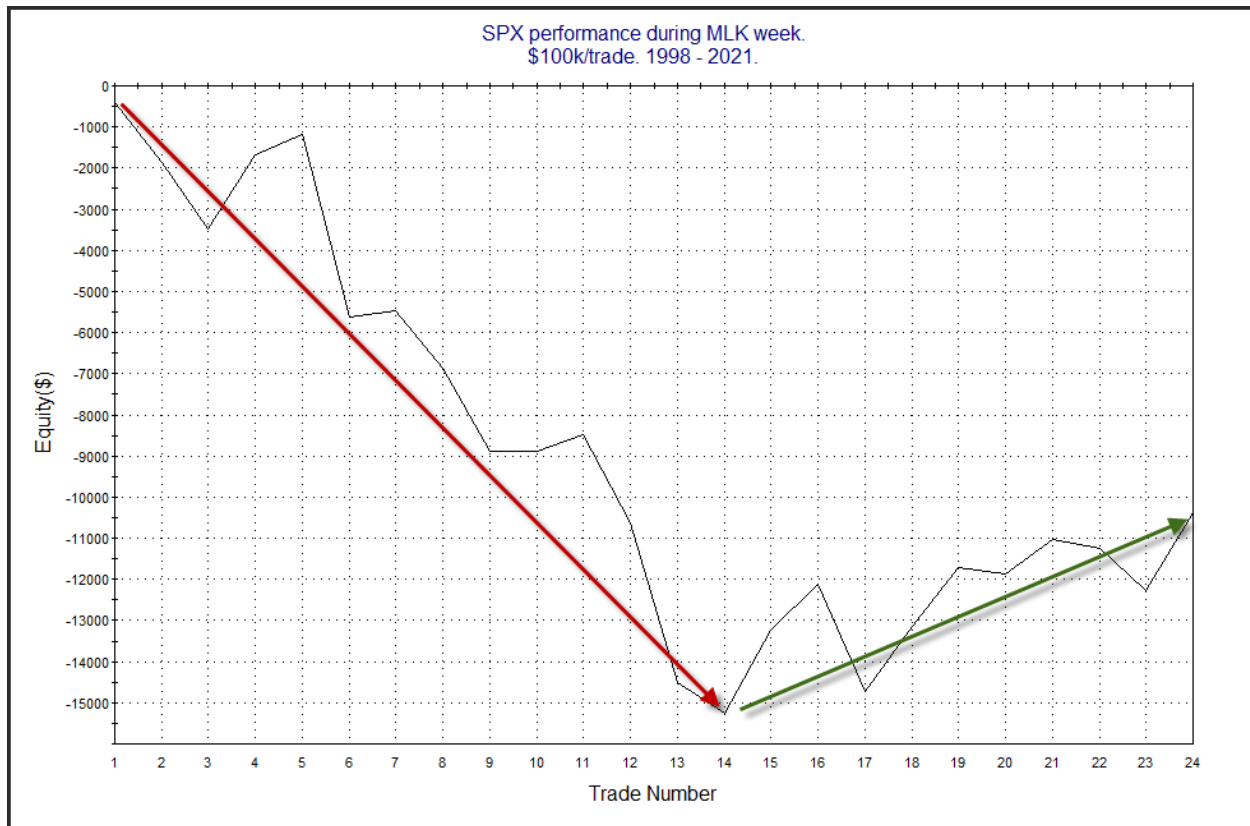
Friday started off with a sizable gap down, but an afternoon rally left the indices with mild gains. The SPX finished up 0.1%, the NASDAQ rallied 0.6%, and the Russell 2000 rose 0.1%. Breadth was mixed with the NYSE Up Issues % coming in at 40% and the Up Volume % at 51%. NYSE total volume rose some from Thursday's level.

The market has been quite choppy lately. Neither the bears nor the bulls have managed a sustained run since early November, and SPX now is at the same level it was at back then. Friday was a day that the bears had a chance to exert themselves. But they failed. After closing at a 10-day low on Thursday, SPY gapped down quite a bit at the open on Friday. But they could not manage to sell the market down any further, and around 1:30pm Eastern the rally started that left SPY positive on the day. I look at other similar failures of the bears to take control over the years. Over the last 15 years I have found that such reversals often earn themselves another day of rallying. This can be seen in the study below.



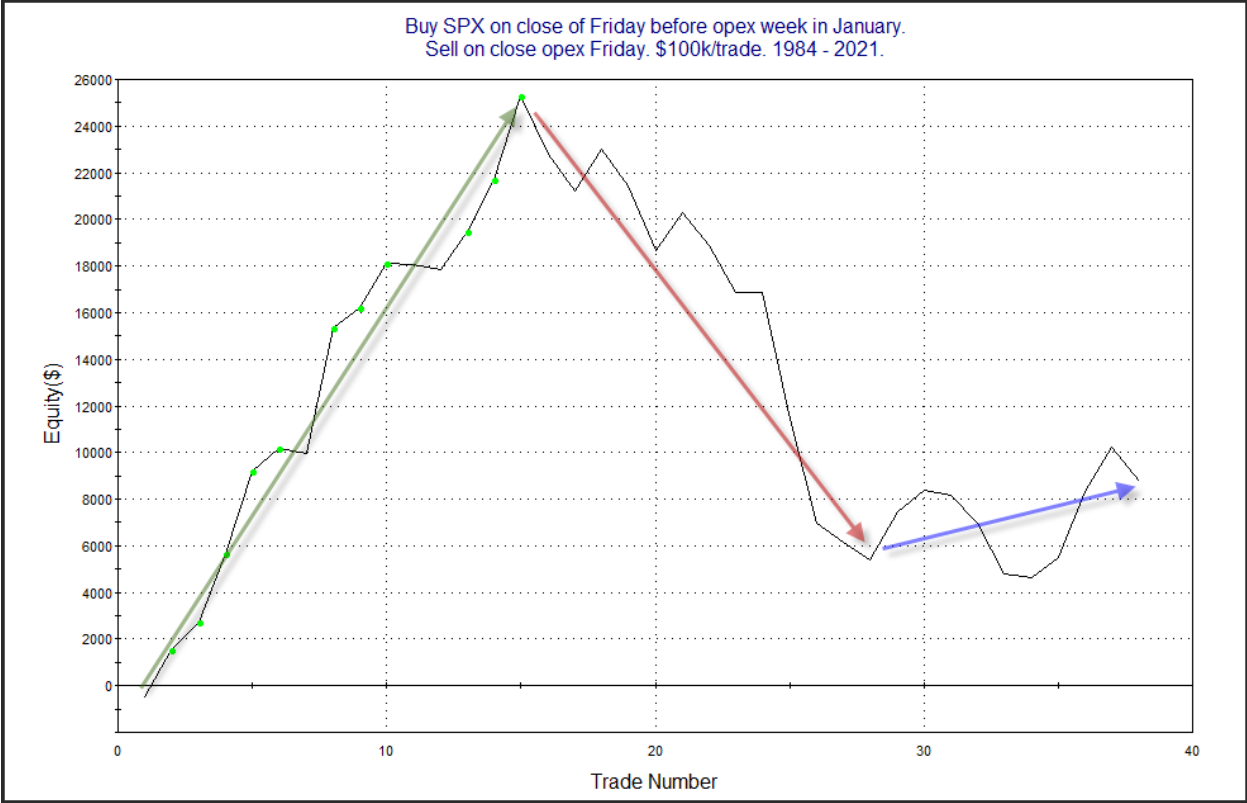
Strong stats and a decent-looking profit curve that has made its way from lower left to upper right suggest that this study might be worth some consideration. I have added it to the active list tonight.

In Thursday night's letter I noted that MLK week used to appear bearish, but it has not played out in recent years. Below is the chart I showed demonstrating this.



MLK Day only began being observed as an NYSE Holiday in 1998, so that is why we only have 24 years of history to work with. Over the 1<sup>st</sup> 14, it looked pretty bearish. But the last 10 years have not been bearish at all.

I'll also note that opex week in January looked bearish from 1999 – 2011. But it did not before that, and has not since. This can be seen below.



The downward progress simply has not persisted over the last 10 years. I'll also note the QE Seasonality Calendar for SPX for this upcoming week.





With this weekend'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 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 Tuesday. This could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4751.98 on Tuesday. That is 1.9% above Friday's close. Therefore, SPX will need to close up a very strong 1.9% on Tuesday to flip from oversold to overbought vs recent expectations.

So the Aggregator is long. Evidence is still light, but the market is strongly oversold. I don't love the setup yet. I would prefer more bullish evidence, and I am just not seeing it. But with the market this oversold, I'm willing to take on a small index position if I can get a favorable fill on Tuesday.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/18 – 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.*

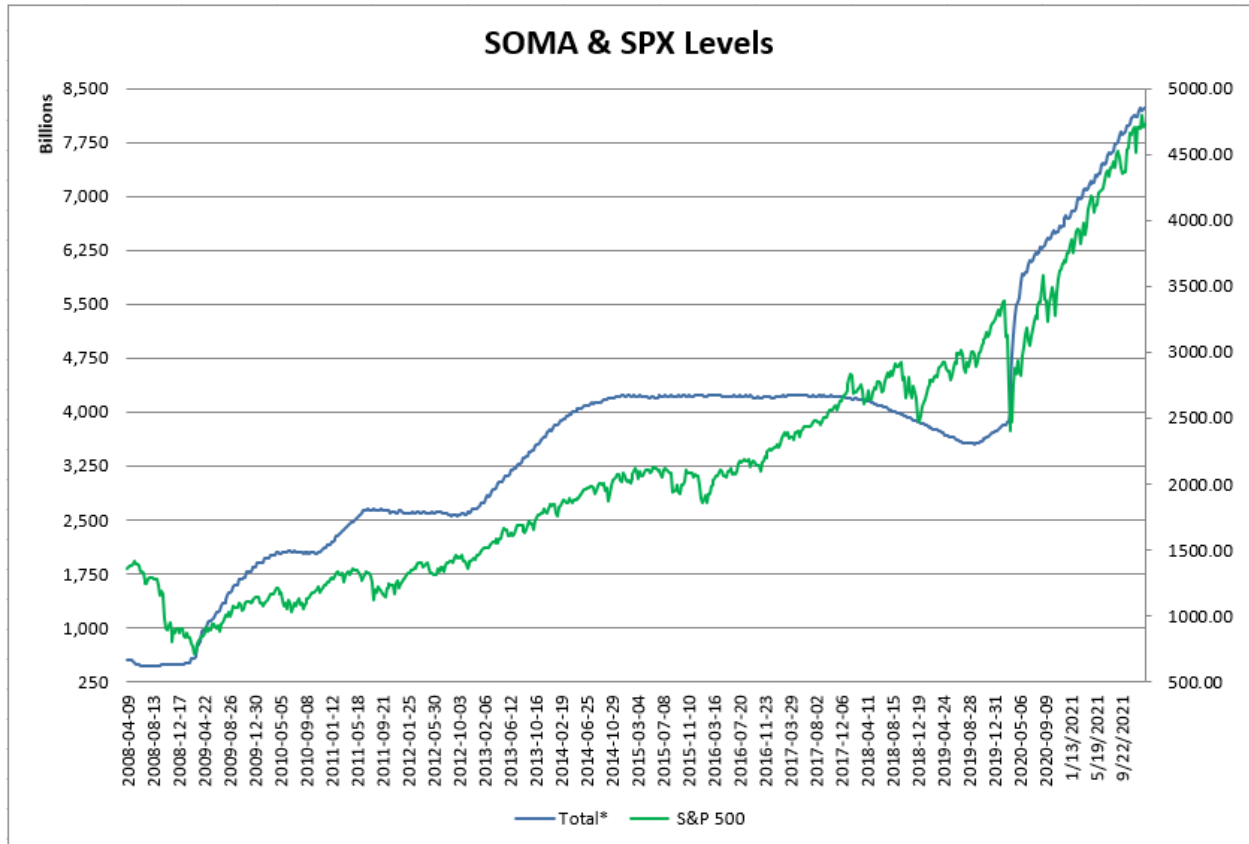
This past week saw the indices all close lower for at least the 2<sup>nd</sup> week in a row. The SPX lost 0.3%, the NASDAQ also declined 0.3%, and the Russell 2000 dropped 0.8%. The SPX remains the strongest of the bunch. It is still near the middle of its 2-3 month range, while the other indices are near the bottom of theirs. So 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 <b>January 12, 2022</b> 📅	
Posted January 13, 2022 at 4:30 PM	
<a href="#">SUMMARY</a> <a href="#">T-BILLS</a> <a href="#">T-NOTES AND T-BONDS</a> <a href="#">FRNS</a> <a href="#">TIPS</a> <a href="#">AGENCY DEBITS</a> <a href="#">MBS</a> <a href="#">CMBS</a>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,869,224,338.0
US Treasury Floating Rate Notes (FRNs)	27,581,816.9
US Treasury Inflation-Protected Securities (TIPS)*	387,911,449.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,606,329,437.4
Agency Commercial Mortgage-Backed Securities***	9,237,435.9
Total SOMA Holdings	8,228,675,477.5
Change From Prior Week	22,914,001.1

This past week saw the SOMA rise by \$23 billion. That is typical of what you would expect. We will likely have another strong week this upcoming week, before fading at the end of the month,

and then seeing a further reduction in Fed purchases in February. Below is an updated SOMA/SPX chart from 2008 – present.



Same as last week... *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 again 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***

AVGO – 1/3 @ \$597.19 (bought @ limit)

NFLX – 1/3 @ \$519.20 (bought @ limit)

CL – 1/3 @ \$82.54 (bought @ limit)

*New*

AVGO – 1/3 @ \$596.37 (buy @ limit)

***Broad Market Large Cap CBI – 4(AVGO, NFLX, CL)***

### **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.*

**AVGO – Buy 1/3 Catapult positions @ \$596.37 LIMIT.** From the Catapult and CBI section above, this is the 2<sup>nd</sup> of up to 3 potential lots of AVGO.

**SPY – Buy ¼ index position @ \$464.50 LIMIT.** From the short-term section above, I will look to take a small index position if I can get a favorable fill a bit below Friday’s close.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>UNH(1/3)</i>	<i>1/7/2022</i>	<i>\$467.69</i>	<i>\$468.31</i>	<i>0.13%</i>	<i>sold on open</i>
AVGO(1/3)	1/14/2022	\$595.78	\$596.37	0.10%	Catapult
NFLX(1/3)	1/14/2022	\$517.60	\$525.69	1.56%	Catapult
CL(1/3)	1/14/2022	\$82.61	\$83.45	1.02%	Catapult

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