

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2022

Volume 15 Issue 25

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The weak bounce was not terribly encouraging, but it does not appear to be the bearish omen that it did in years past.
- The Feb Seasonality Calendar is moderately positive this upcoming week, with more substantial strength appearing the following week.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and I am too.

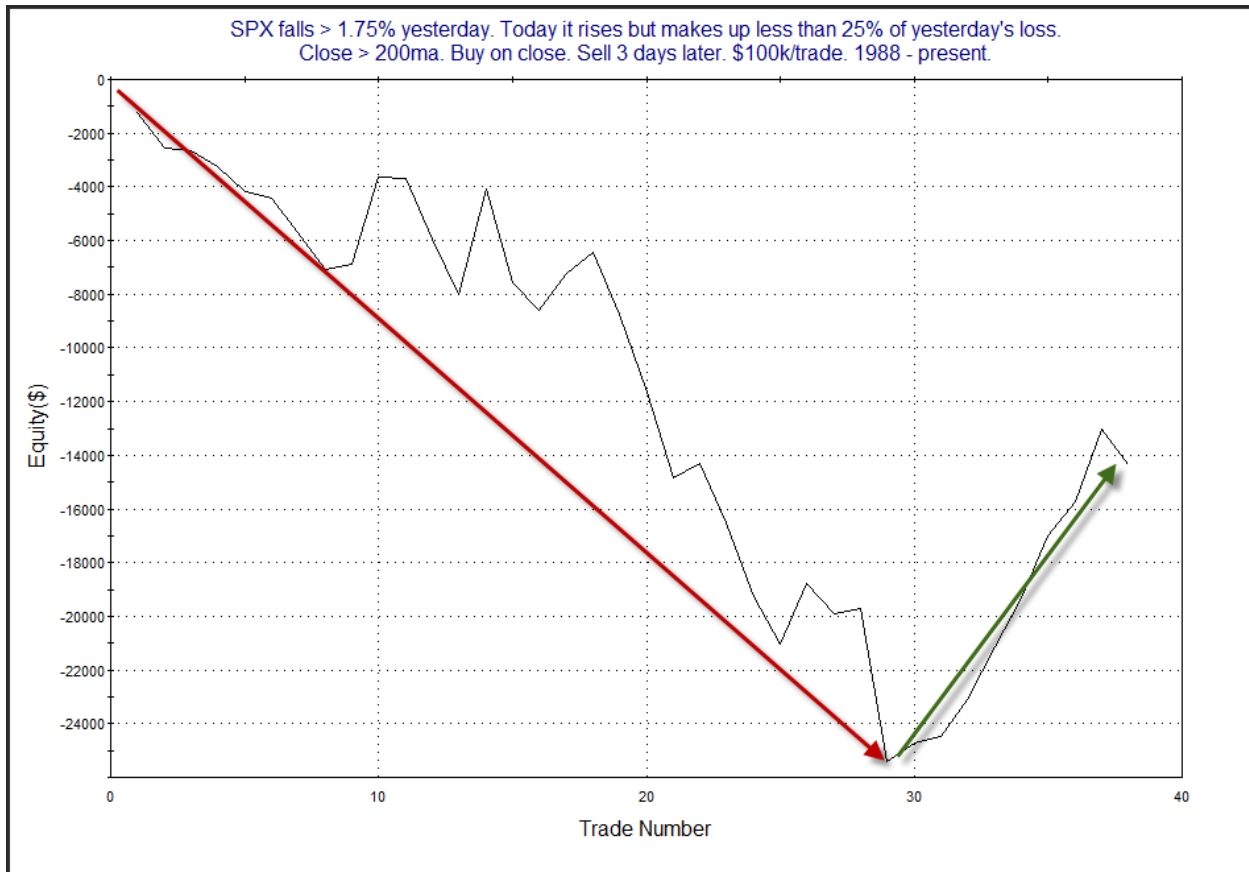
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 4, 2022	2% drop from 5-high. Close > 5-low.	1-4 days	Bearish	-3.30%	2.30%	3.90%
February 1, 2022	VIX 10% above 10mat 10% below 4 dys	1-8 days	Bullish	2.00%	-1.20%	-2.60%
Active - Long Term						
January 31, 2022	Up close from 21-day low on a Friday	1-20 days	Bullish			
January 27, 2022	CBI >= 10. SPX 50-day low.	1-18 days	Bullish			
January 27, 2022	20-day low. Up close, then inside day dn	1-10 days	Bullish			
January 19, 2022	SPX dn > 1% 3x in 10 days > 200ma	1-20 days	Bullish	4.30%	-3.40%	-8.40%
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 saw the market rise a bit. The SPX gained 0.5%, the NASDAQ rallied 1.6%, and the Russell 2000 climbed 0.6%. Despite the gains, breadth was mixed with the NYSE Up Issues % coming in at 45% and the Up Volume % at 60%. NYSE total volume rose some from Thursday's level.

The moderate results did not trigger much in the Quantifinder. There was a time when a mild bounce following a strong selloff like Thursday's seemed to suggest a downside edge. But over the last several years, that has not played out as it did previously. This can be seen in the chart below, which is from a study I've shown for years, but last discussed in the 9/30/21 letter.



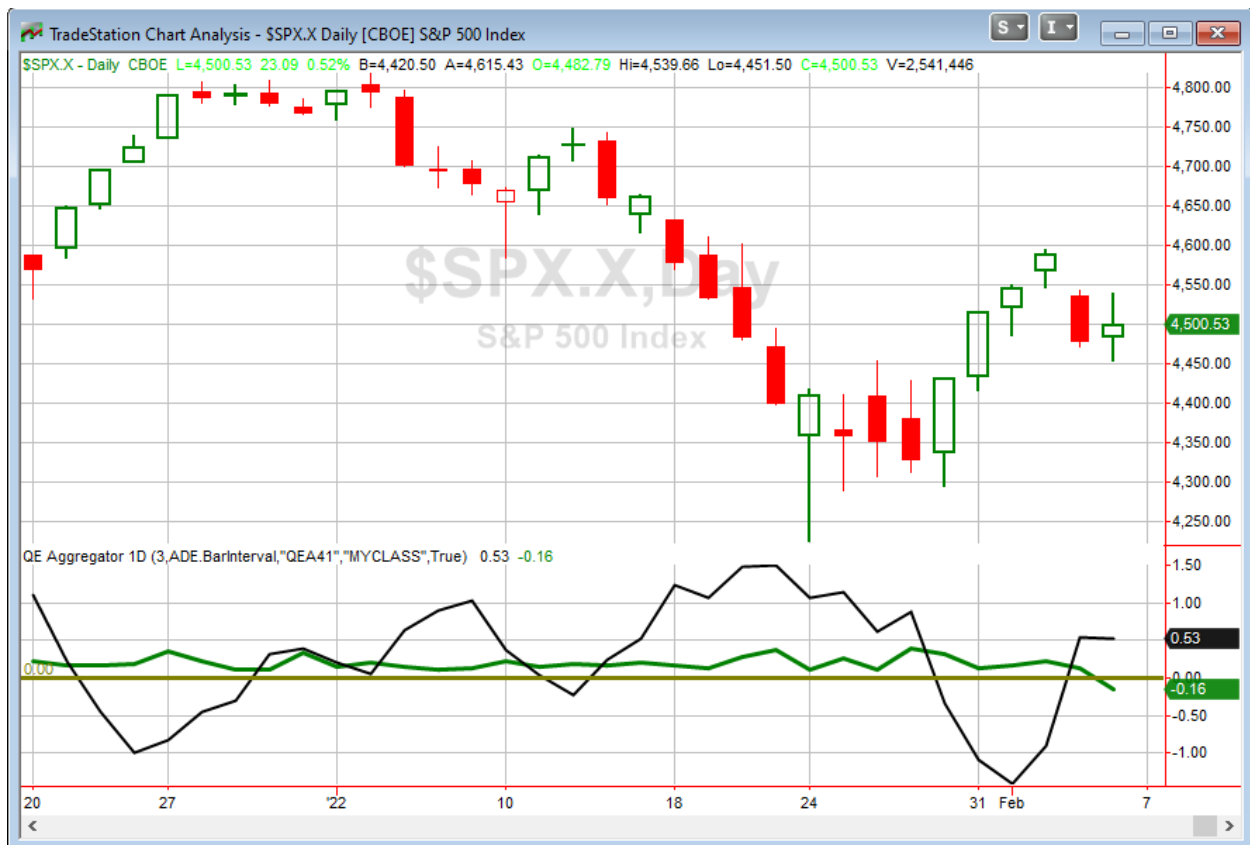
After fairly consistent losses, 7 of the last 8 instances have been followed by gains over the next 3 days. This no longer appears to be a dependable downside edge. So I have not included it on the active list today.

It is also worth noting that this week the QE Seasonality Calendars were posted for February. They can be found on the Seasonality main page. Below is the SPX Calendar.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
2/1/2022	56.26	1.433	0.115
2/2/2022	57.24	1.259	0.077
2/3/2022	55.36	1.164	0.053
2/4/2022	56.66	1.269	0.087
2/7/2022	56.90	1.275	0.081
2/8/2022	54.29	1.187	0.052
2/9/2022	55.69	0.985	-0.007
2/10/2022	58.66	1.058	0.016
2/11/2022	59.14	1.432	0.103
2/14/2022	54.16	1.673	0.062
2/15/2022	55.77	2.081	0.159
2/16/2022	58.45	2.054	0.148
2/17/2022	56.78	1.979	0.126
2/18/2022	56.86	2.036	0.111
2/22/2022	50.97	0.929	-0.049
2/23/2022	50.23	0.986	-0.035
2/24/2022	51.26	1.037	-0.025
2/25/2022	53.75	0.878	-0.064
2/28/2022	49.84	1.023	0.012
Baseline	54.76	1.179	0.054

We see here there are mostly strong numbers up until Presidents Day. After that, the end of February appears neutral/weak. This upcoming week is all green except for Wednesday. The strongest numbers appear from Friday the 11th through Friday the 18th.

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



Without any new studies triggering on Friday, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside 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 negative but SPX is oversold. 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 turned flat at the close.

Based on the current studies on the active list, expectations are scheduled to stay negative on Monday. It would take some new bullish evidence to change this. Meanwhile, the Differential Pivot will be 4610.88 on Monday. That is 2.5% above Friday's close. Therefore, SPX will need to close up a massive 2.5% on Monday to flip from oversold to overbought vs recent expectations.

So the Aggregator is neutral. Evidence is mixed and weak, and the market has been volatile. Not exactly the kind of combination that gives me great confidence in taking on a new index trade. I'll continue to wait for evidence and overbought/oversold indications to line up better before looking to jump back in with a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/7 – 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.*

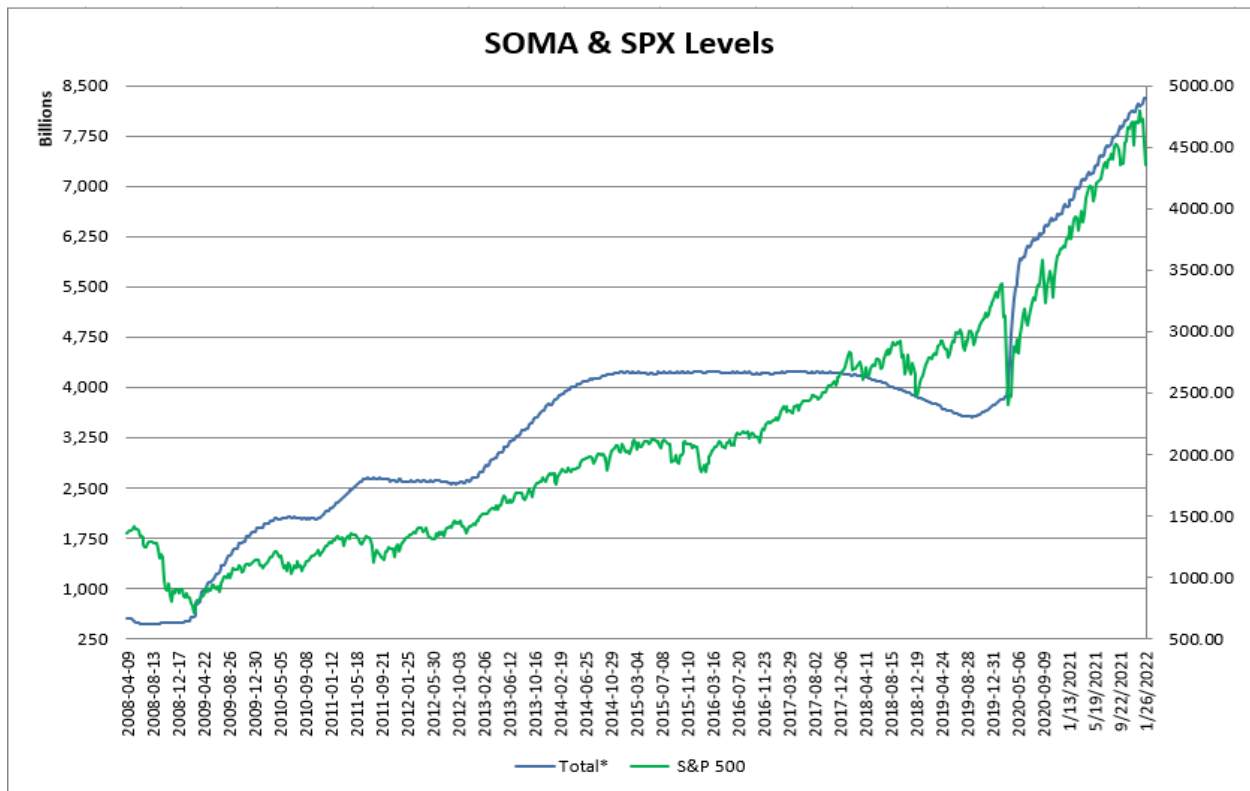
This past week posted solid gains for the indices. The SPX rose 1.55% on the week, the NASDAQ rallied 2.4%, and the Russell 2000 climbed 1.7%. It was basically an oversold bounce from the late January lows, and now we will see whether that was a bottom where the market can continue to rally from, or whether another leg down will emerge. Last week we saw a few studies suggesting a good chance at a 2-4 week rally. This week, I did not see any new and compelling intermediate-term evidence emerge. So that time frame is now more like 1-3 weeks.

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 **February 2, 2022**
Posted February 3, 2022 at 4:30 PM

SECURITY TYPE		TOTAL (\$Thousands)
US Treasury Bills (T-Bills)		326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)		4,913,869,451.7
US Treasury Floating Rate Notes (FRNs)		29,152,660.9
US Treasury Inflation-Protected Securities (TIPS)*		385,089,412.3
Federal Agency Securities**		2,347,000.0
Agency Mortgage-Backed Securities***		2,651,746,915.4
Agency Commercial Mortgage-Backed Securities***		9,097,648.3
Total SOMA Holdings		8,317,347,088.6
Change From Prior Week		11,425,502.6

This past week saw the SOMA rise by \$11.4 billion, an amount that would be expected. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is now in its last month of the largest expansion in history. The Fed has been working to stimulate the economy for a long time now, and that has greatly benefitted the stock market. But the massive liquidity infusions are almost done. The Fed is likely to not only halt QE, but also increase overnight rates at its March meeting. In anticipation of that, many rates have already started to rise. The Fed is going from a wind at the back of the market to a wind in its face. That is going to create challenges.

Overall, the SPX saw a fast correction during January. This past 6 days saw a strong bounce from those oversold levels. That bounce was overdue, and finally arrived. But what happens from here is the big question. We had several studies show that the selloff was strong enough and broad enough that a multi-week low should be in place. But all of those studies will be expiring during the 2nd half of February. So between now and then it will be important to remain alert to any new clues that will suggest either another leg down, or a chance to get back to new highs. Seasonality is generally favorable, but will also weaken in the 2nd half of the month. Trend indications are mixed. The Fed is becoming more hawkish, and that will continue to be a challenge for the market for the next several months. Its also perhaps my largest concern. 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

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.

None tonight.

Current Open Trade Ideas

None

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