

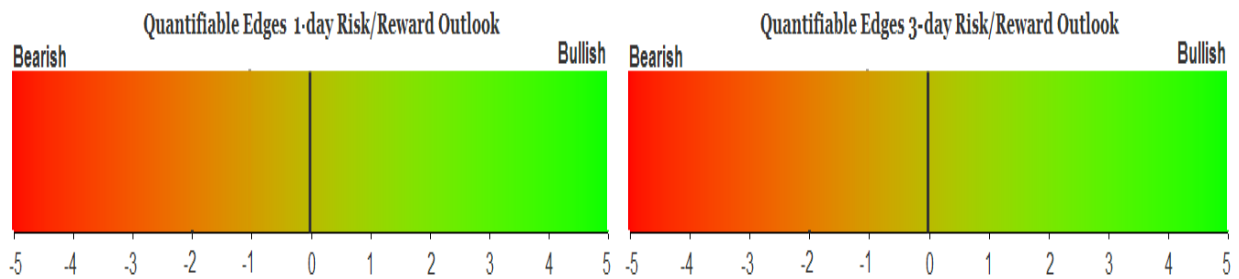
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 14, 2022

Volume 15 Issue 218

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Overbought in a downtrend does not provide a downside edge the way it once did.
- The SOMA rose very slightly this past week. I expect the current week to show a large decline.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am as well.

**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>						
None						
<b>Active - Long Term</b>						
October 31, 2022	Best 6 Months 3rd Yr. Pres Cycle	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

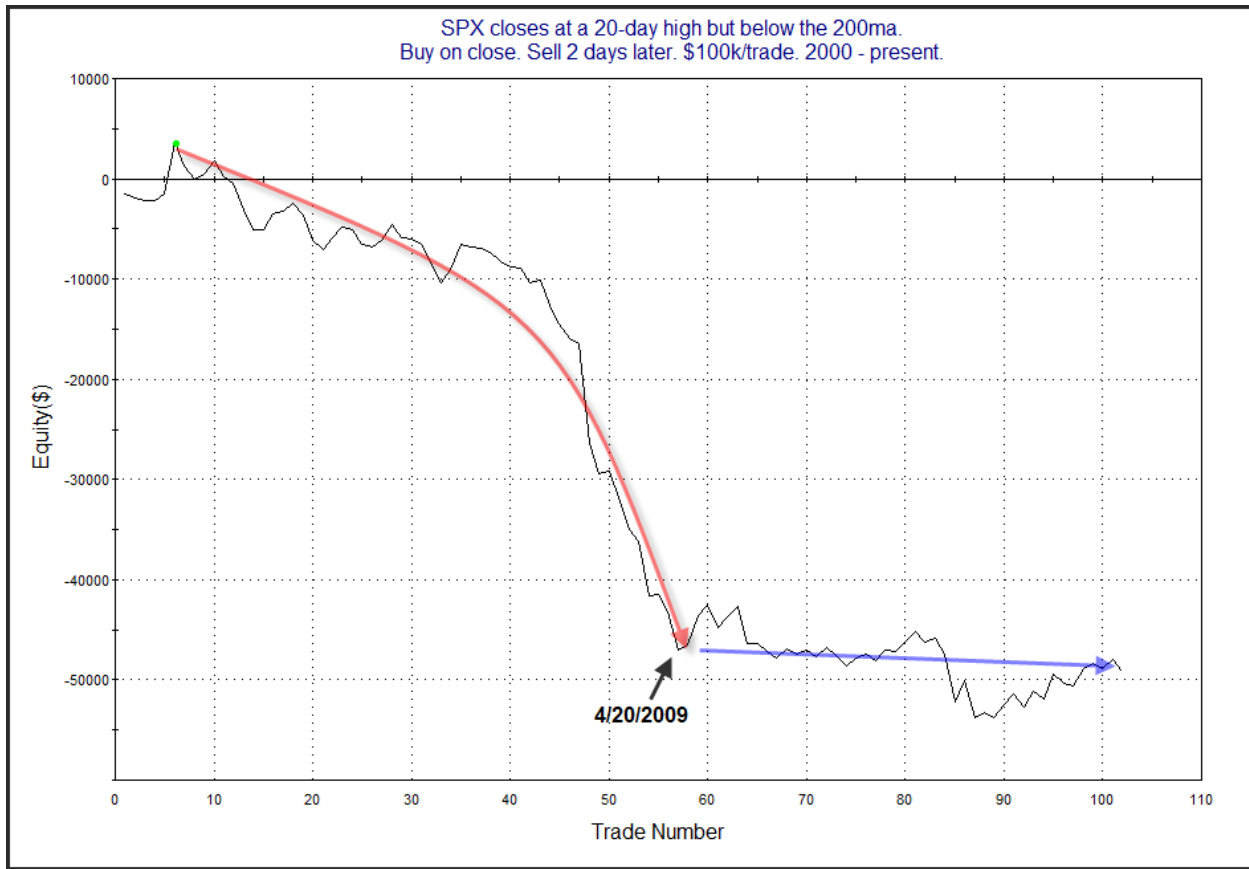
**The Evidence**

The good time CPI rally continued on Friday. SPX gained 0.9%, the NASDAQ jumped 1.9%, and the Russell 2000 rallied 0.8%. Breadth was strongly positive with the NYSE Up Issues % coming in at 65% and the Up Volume % at 76%. NYSE total volume declined some from Thursday's level. This was not a surprise, since volume is often lighter on days the bond market is closed.

The last 2 days have left the market extremely overbought on a short-term basis. It is also hitting new short-term highs. There was a time (2000 – 2010) where short-term highs in a long-term downtrend provided a very strong bearish edge. But that has not been the case since then. Shorting overbought has been a hard game to play over the last 12 years, even when the market has been in a long-term downtrend. Let's look at a couple of studies to demonstrate this. The 1<sup>st</sup> one looks at SPX performance following 20-day highs while below the 200ma.

SPX closes at a 20-day high but below the 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-10,581.68	64	35	29	54.69	5,231.46	-10,573.20	1,684.63	-2,398.06	0.70	0.85	-165.34
4	-25,786.40	75	37	38	49.33	5,895.12	-8,567.46	1,505.69	-2,144.66	0.70	0.68	-343.82
3	-25,178.98	88	43	45	48.86	4,593.12	-7,401.24	1,383.03	-1,881.09	0.74	0.70	-286.12
2	-49,108.39	102	40	62	39.22	5,136.87	-9,986.13	1,126.21	-1,518.66	0.74	0.48	-481.45
1	-35,003.85	141	61	80	43.26	3,850.37	-5,245.02	804.09	-1,050.67	0.77	0.58	-248.25

Over the entire period you can see that the stats are solidly negative. The 1<sup>st</sup> two days show the strongest downside tendency. So let's look at a 2-day profit curve.



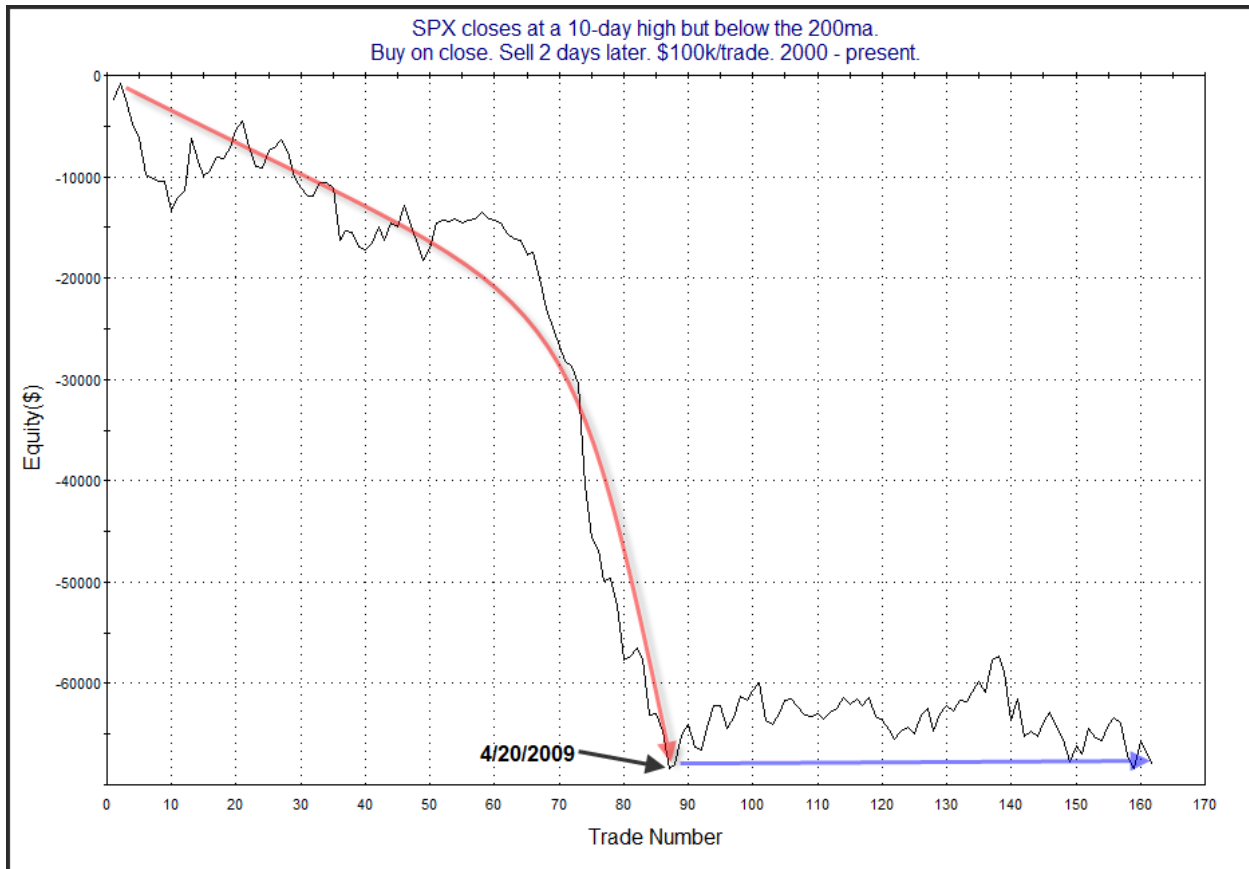
What once appeared to be a sizable and reliable downside edge in the 1<sup>st</sup> half of the chart, has instead been a bunch of chop in the 2<sup>nd</sup> half.

The 20-day high is not special in this regard. The next study is similar, but it looks for an easier to attain 10-day high.

SPX closes at a 10-day high but below the 200ma.  
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-58,574.27	102	47	55	46.08	6,748.06	-10,573.20	1,945.25	-2,727.29	0.71	0.61	-574.26
4	-73,025.65	118	52	66	44.07	5,800.13	-8,567.46	1,595.69	-2,363.66	0.68	0.53	-618.86
3	-56,673.43	134	59	75	44.03	4,667.18	-8,395.18	1,441.02	-1,889.25	0.76	0.60	-422.94
2	-68,014.58	162	70	92	43.21	5,136.87	-9,986.13	1,137.91	-1,605.09	0.71	0.54	-419.84
1	-58,207.77	226	99	127	43.81	3,850.37	-8,883.33	839.79	-1,112.97	0.75	0.59	-257.56

Again, strongly negative stats. Here I also decided to share the 2-day curve for comparison.



Very similar picture.

So is the market overbought? Absolutely. Does that make for an easy short opportunity? Nope.

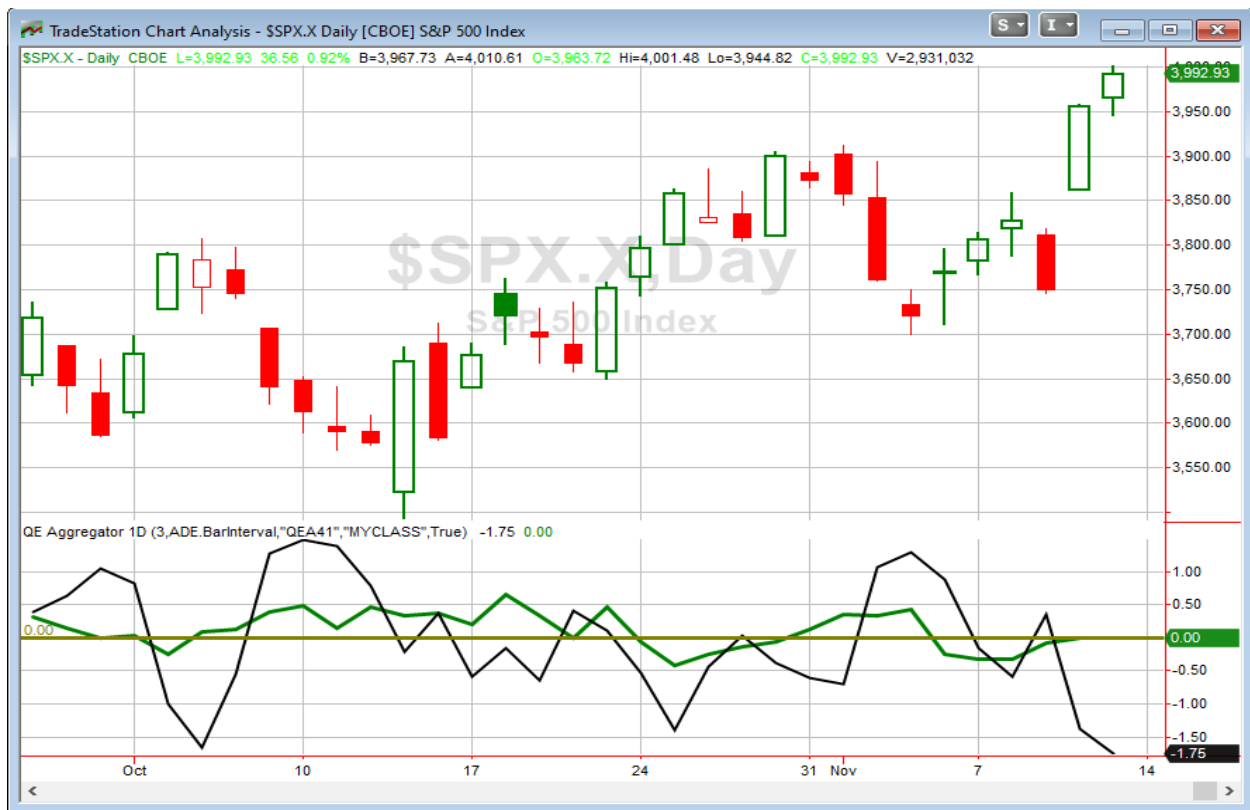
Let's take a quick look at the SPX Quantifiable Edges Seasonality Calendar.

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>\$SPX S&amp;P 500 Index</b>			
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>
11/1/2022	52.71	1.246	0.043
11/2/2022	62.70	2.700	0.430
11/3/2022	54.12	1.205	0.034
11/4/2022	56.09	1.421	0.137
11/7/2022	55.71	1.130	-0.042
11/8/2022	51.20	1.273	0.121
11/9/2022	53.72	1.098	0.036
11/10/2022	55.57	0.981	-0.030
11/11/2022	58.02	1.397	0.134
11/14/2022	51.89	0.886	-0.141
11/15/2022	52.54	1.730	0.210
11/16/2022	52.55	1.209	0.060
11/17/2022	51.91	1.051	-0.014
11/18/2022	51.63	1.174	0.060
11/21/2022	55.66	1.185	0.060
11/22/2022	52.73	1.183	0.059
11/23/2022	59.36	1.561	0.194
11/25/2022	59.10	1.269	0.086
11/28/2022	53.90	1.255	0.093
11/29/2022	55.95	1.303	0.110
11/30/2022	50.15	1.213	0.073
<b>Baseline</b>	<b>54.37</b>	<b>1.140</b>	<b>0.046</b>

This upcoming week is mostly very mild bullish numbers. The following week (Thanksgiving) is when we see some more substantial readings. Thanksgiving week has some specific seasonal tendencies as well. I will be covering them in next weekend's letter.

No new studies are being added to the active list tonight.

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



Without anything making the active list tonight, the green Aggregator line remained right at zero. Zero readings mean expectations are flat over the next few days. Meanwhile the black Differential Line is far below zero. The negative Differential Line reading means that SPX is strongly overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

With the short-term active list now bare, expectations will be largely dependent on any new evidence that emerges over the next few days. Meanwhile, the Differential Pivot will be 3706.62 on Monday. That is 7.2% below Friday's close. Therefore, SPX will need to close down at least 7.2% on Monday in order to flip from overbought to oversold vs recent expectations. I really don't see that happening. It will take a multi-day rally or consolidation to work off the overbought condition.

So the Aggregator is neutral. The market is wild and overbought. The rally of the last two days is forceful enough that it has rarely been seen outside of bear markets. Sometimes it has been a thrust that has left the bear market bottom behind, and sometimes it has just been a pop in another failed rally. Either way, I am not seeing strong evidence suggesting there is a high-probability short-term setup here. I am neutral.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 11/14 – neutral***

Combo #1	Combo #2	Combo #3
Flat	Flat	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 all 3 combo systems remained “flat”.*

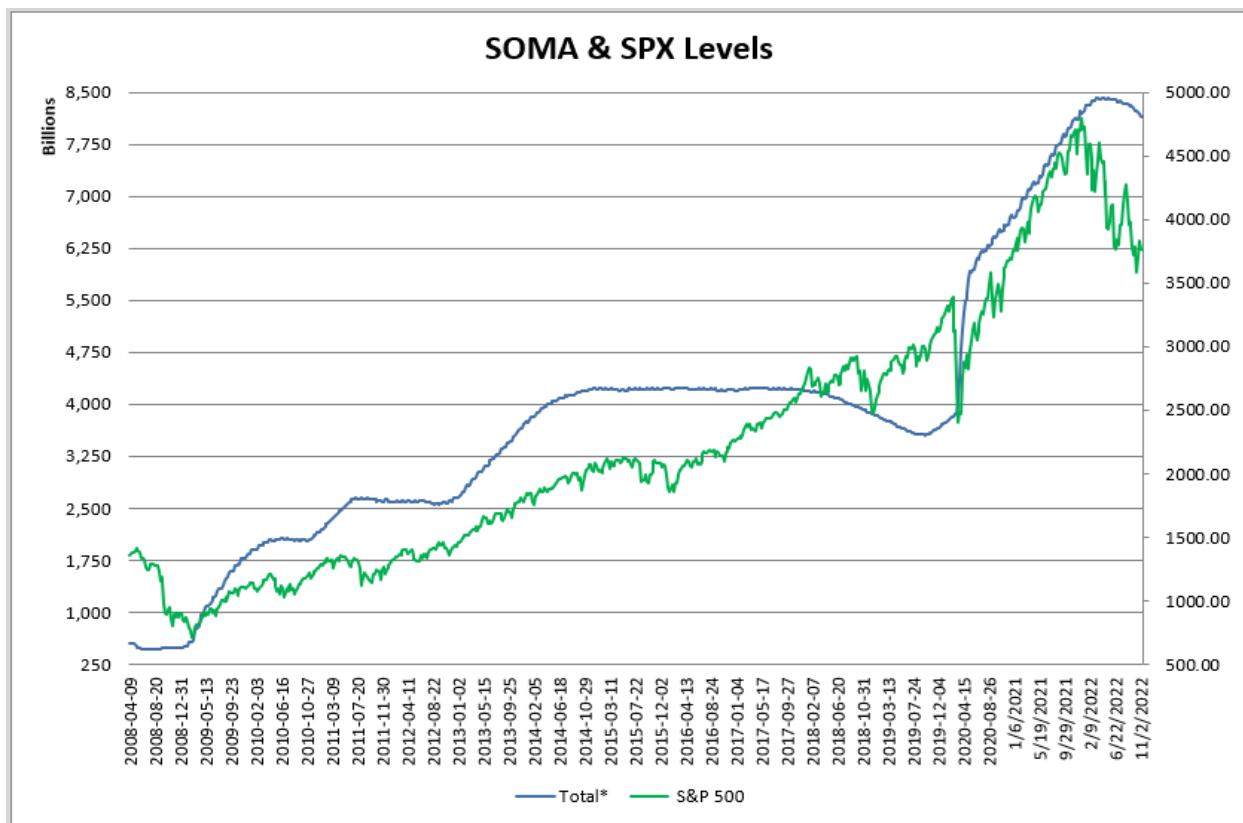
The rally on Thursday and Friday meant big positive numbers for the week. The SPX rallied 5.9%, the NASDAQ exploded up 8.1%, and the Russell 2000 gained 4.6%. Bonds also saw a big upside reversal. The US Aggregate Bond ETF (AGG) climbed 2.3%, and TLT, the 20-year Treasury Bond ETF jumped 3.9%. Despite the rallies, everything remains below long-term moving averages. No new studies emerged over the last few days with intermediate-term implications.

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>November 9, 2022</b> 📅 <small>Posted November 10, 2022 at 4:30 P.M.</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	296,059,385.2
US Treasury Notes and Bonds (Notes/Bonds)	4,776,017,850.0
US Treasury Floating Rate Notes (FRNs)	27,166,210.0
US Treasury Inflation-Protected Securities (TIPS)*	375,785,681.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,669,970,331.5
Agency Commercial Mortgage-Backed Securities***	8,553,872.0
Total SOMA Holdings	8,155,900,330.3
Change From Prior Week	26,000.0

This week the SOMA rose by \$26 million. Basically a flat week. The big weeks tend to happen around the 15<sup>th</sup> and 30<sup>th</sup> each month when many bonds mature. I anticipate this upcoming week will be one of the largest we have seen in a while, since there are some large holdings on the Fed’s

books that are set to mature. November appears likely to be the first month where the Fed's \$95 billion cap could be approached. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what could end up as the largest ever reduction in the size of the SOMA. The pace of the decline has recently accelerated and is expected to remain high for a while. Overall, the Fed is no friend to the market, and they won't be for as long as they remain hawkish.

Nothing really changed from an intermediate-term standpoint over the last few days. In fact, my summary will sound very similar to last week. Seasonality remains positive, but that is about the extent of the good news, aside from strong price action over the last 2 days. I am still not seeing compelling studies confirming a new uptrend. None of my favorite breadth thrust indicators have triggered, the major indices remain below their long-term moving averages, and the NASDAQ continues to lag. Price, breadth, and/or leadership need more confirming signs to get me excited about the bullish case. Of course bears can also still point to an unfriendly Fed. Realized volatility remains high. While the VIX (implied volatility) closed Friday at the lowest level since late August, the 21-day (1-month) historical volatility for SPX closed the last 2 days at the highest levels since June. So this is still not a quiet market, and big bets in either direction can be punished.

I will maintain my neutral bias once again. This means I'll remain fairly cautious when considering both long and short positions.

## **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**

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither

Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2022 Quantifiable Edges, LLC.