

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 21, 2022

Volume 15 Issue 223

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Thanksgiving week tends to be favorable for the bulls.
- This past week the SOMA had its biggest decline since 2008.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is a mild upside edge, but upside potential is somewhat limited with the Differential Pivot now inverted.

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						
November 18, 2022	Unfill gap > 1%. Cls 0.5% > Opn.> 10ma	1-6 days	Bullish	3.60%	-1.90%	-4.20%
Active - Long Term						
October 31, 2022	Best 6 Months 3rd Yr. Pres Cycle	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
November 18, 2022	NASDAQ down. SOX up 1%.	1 day	Bullish			

The Evidence

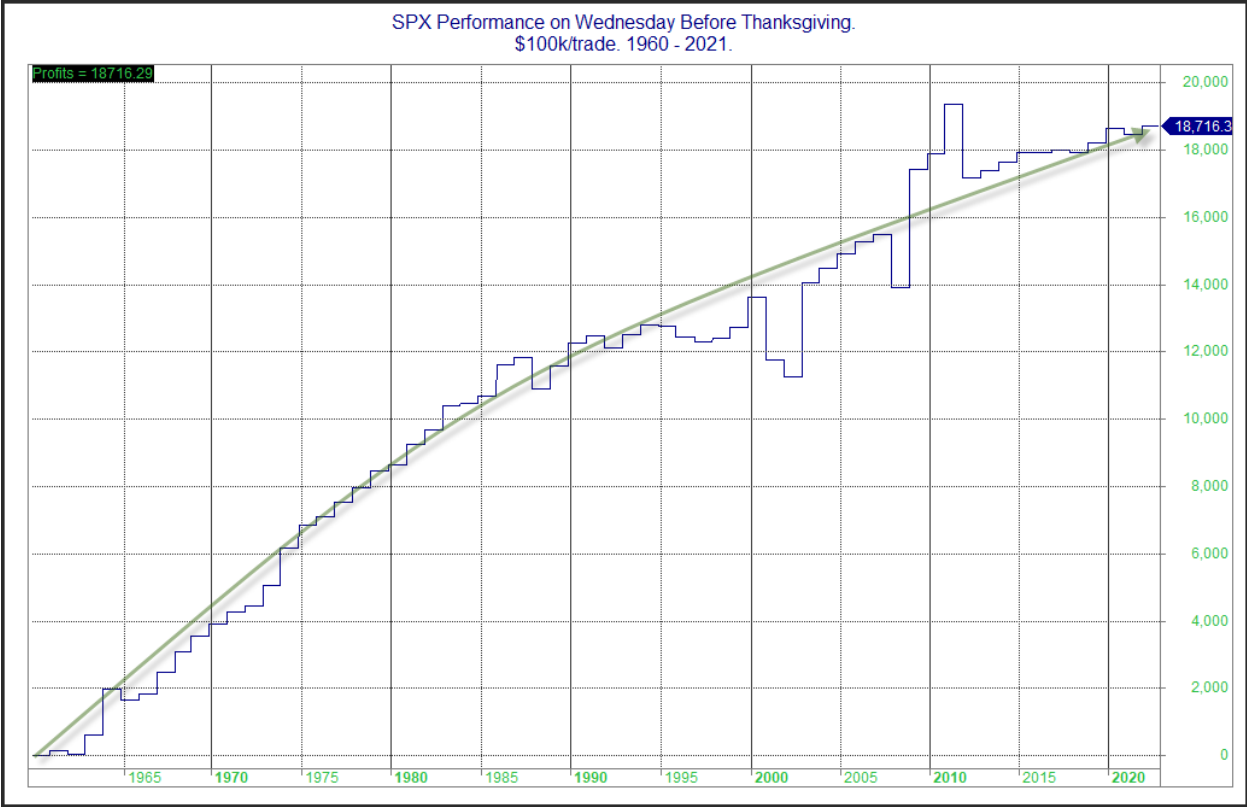
Friday saw the market post mostly mild gains. SPX rose 0.5%, the NASDAQ inched up 0.01%, and the Russell 2000 climbed 0.6%. Breadth was positive with the NYSE Up Issues % coming in at 60% and the Up Volume % at 61%. NYSE total volume rose some from Thursday's level.

Thanksgiving week has shown some strong seasonal tendencies over the years. This is something I last showed in the 11/22/21 subscriber letter. I have re-run those studies and updated them below.

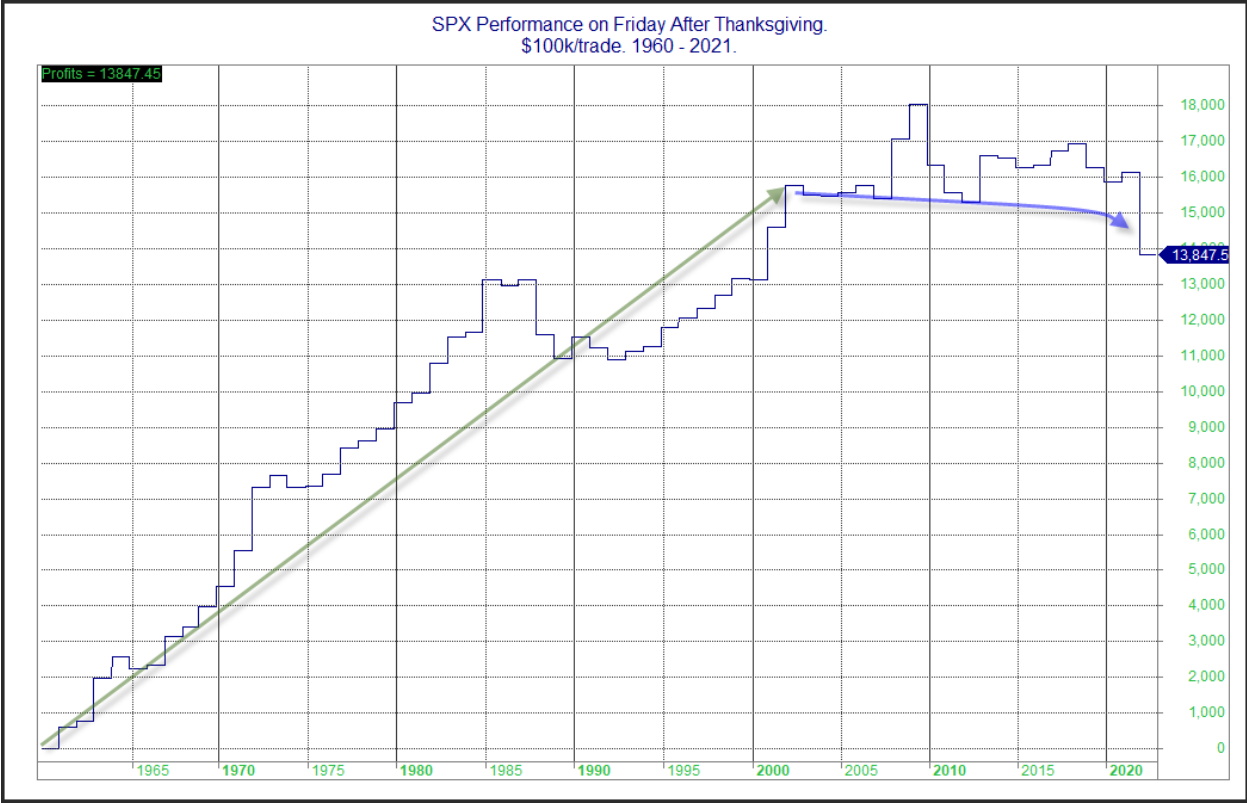
This first one breaks down performance during Thanksgiving week by day.

Thanksgiving Week Performance Broken Down by Day of Week. \$100k/trade in SPX. 1960 - 2021.										
Day	Net Profit	# Trades	# of winners	# of losers	Win %	W. Avg. Profit	L. Avg. Loss	Avg Profit/Loss	Profit Factor	
Monday After	-\$18,579.34	62	22	40	35.48	\$851.82	-\$932.99	-\$299.67	0.5	
Friday	\$13,847.46	62	43	19	69.35	\$572.54	-\$566.95	\$223.35	2.29	
Wednesday	\$18,716.29	62	48	14	77.42	\$569.45	-\$615.53	\$301.88	3.17	
Tuesday	\$3,338.49	63	38	25	60.32	\$568.09	-\$729.96	\$52.99	1.18	
Monday	\$2,428.42	63	29	34	46.03	\$972.23	-\$757.83	\$38.55	1.09	

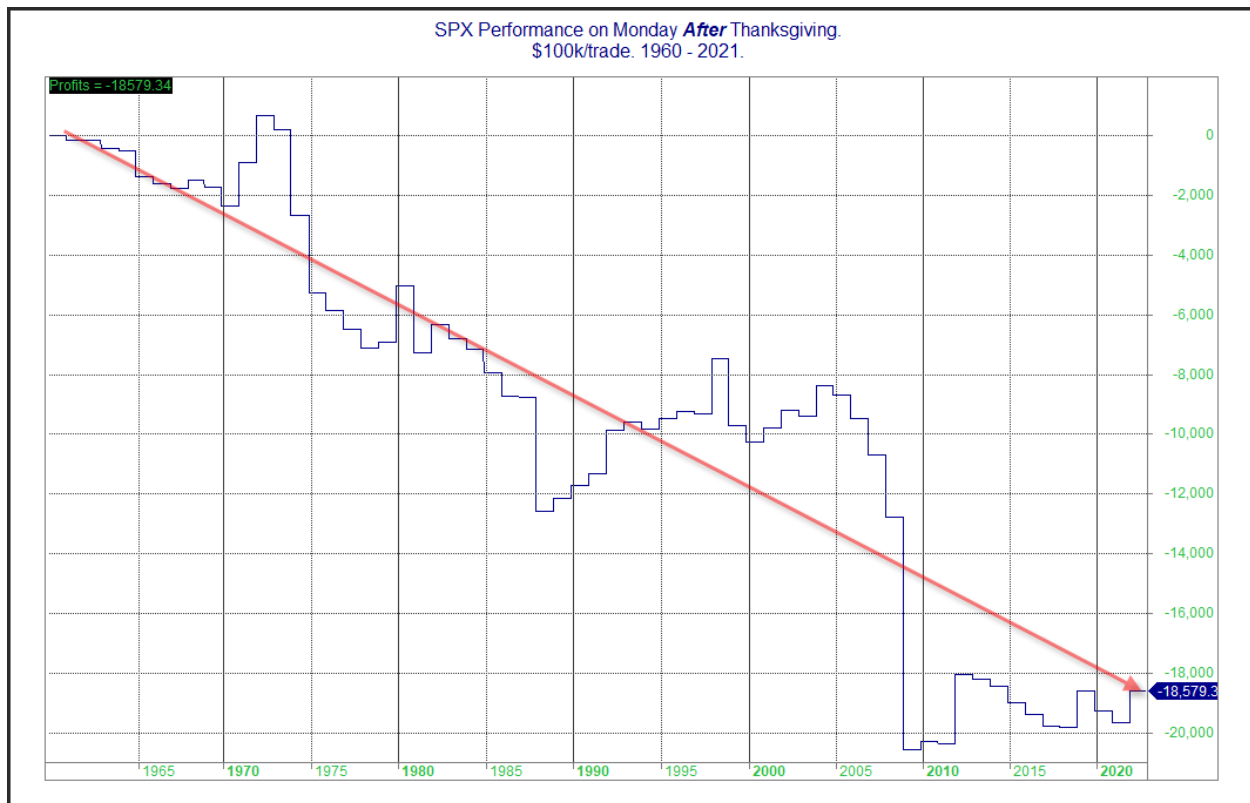
Monday and Tuesday don't show anything suggesting an edge. Wednesday and Friday, on the other hand, appear to be strongly bullish. And the Monday after Thanksgiving appears to exhibit a possible bearish edge. But before we jump to conclusions, let's examine the profit curves for Wednesday, Friday, and the following Monday. First below is Wednesday.



This curve looks to be strong. While there were a few bad Wednesdays, they were overwhelmed by the good ones. The next chart looks at Fridays after Thanksgiving.

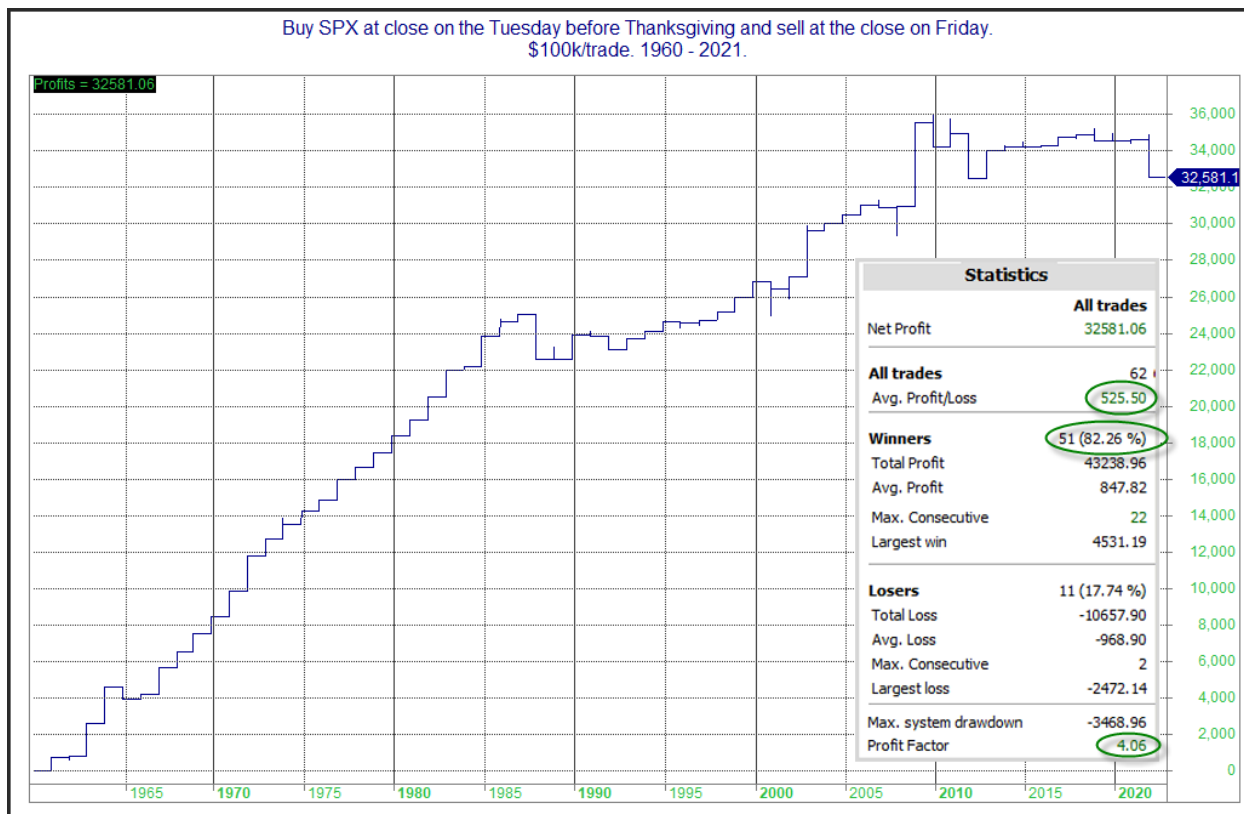


This curve doesn't appear as strong as the Wednesday curve. It has flattened out in recent years, and last year kinda sucked. There still may be a bit of a seasonal upside edge, but it does not appear obvious as it once did. Now let's look at what has happened on the Monday after Thanksgiving.



The numbers from the results table were extremely negative, but as you can see the downside edge has not been steady at all. While the trend has been down pretty much the entire time, a large portion of the downside move is thanks to a 9% drop in 2008. And it has been a lot of sideways chop since then. So perhaps a seasonal downside edge does exist, but it is likely not as strong as the raw numbers would suggest.

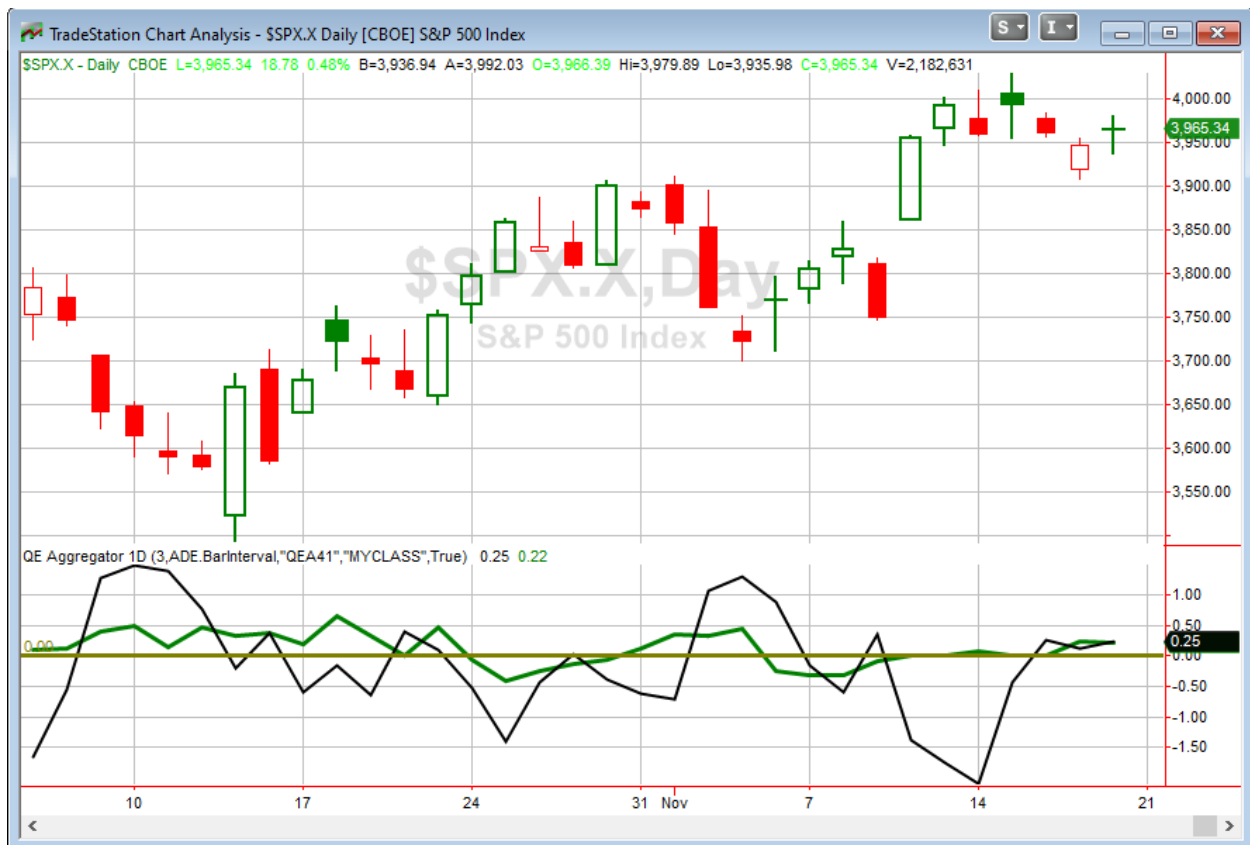
With Wednesday and Friday both showing seasonal strength an obvious play would be to buy on Tuesday's close, and then sell at Friday's close. This strategy was first suggested by Yale Hirsch many years ago. I looked at it the last few years and have updated the results again below.



From 1960 through 1986 this trade would've worked fantastically. There was only one year during this period when it would have failed to make money. From 1987 to the present it has continued to do ok, but not nearly to the same degree as it had before. There have in fact been 10 losing years over this time period. Still, the curve looks generally positive and traders could consider a trade along these lines if other indicators also seem to be lining up. Based on how things have played out in recent years, I would be inclined to take profits at the close on Wednesday if the trade was good after Day 1, rather than trying to hold all the way through Friday.

I will also note that there has been a vast difference in performance during recent times depending on how the market moved leading up to Wednesday. To examine this, I used SPY instead of SPX, because SPY has better intraday data. Since 1993, I found that years in which SPY closed in the bottom half of its intraday range on Thanksgiving Tuesday posted a 10-2 record with an average gain of 0.7% from Tuesday's close to Friday's close. When SPY closed in the top half of its range on Tuesday the performance over Wednesday to Friday was 11-6 with an average result of just a 0.02% gain. So Tuesday's action appears worth watching as we approach this potentially seasonally bullish period.

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



With tonight's evidence considered, the green Aggregator held above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line also 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 list of active studies, expectations are set to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *slightly inverted* at 3962.22 on Monday. That is 0.1% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down about 0.1% in order to remain oversold. Anything other than that and it will be considered "overbought" versus recent expectations as of Monday's close.

So the Aggregator is bullish. But evidence is light and the inverted pivot limits potential reward. I generally view inverted pivots as opportune times to take profits if I have them available. That seems appropriate right now. If I can get filled at a level at or above Friday's close, then I will look to flatten out my SPY position on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 11/21 – 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”.*

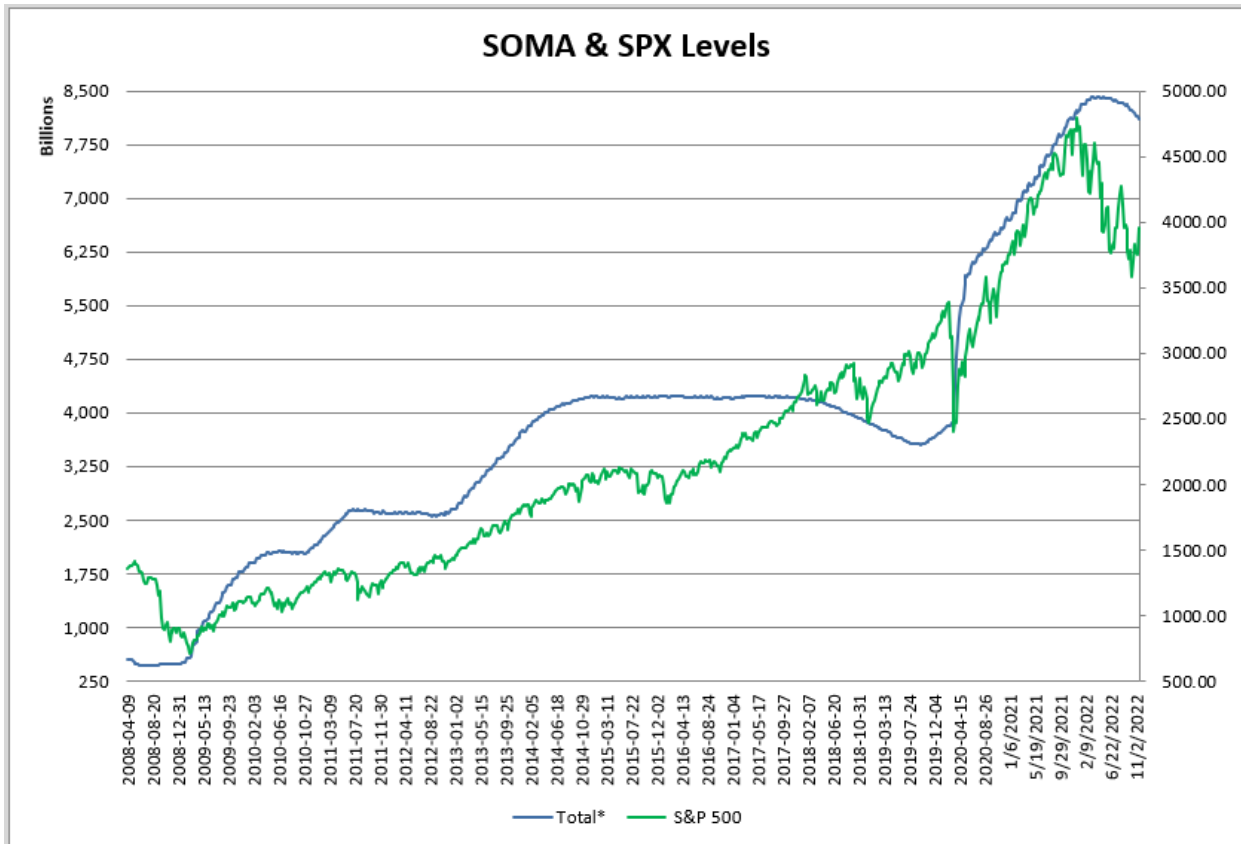
Choppy action left the major indices lower this past week. The SPX declined 0.7%, the NASDAQ fell 1.6%, and the Russell 2000 lost 1.75%. Bonds managed gains for the 2nd week in a row. The US Aggregate Bond ETF (AGG) climbed 0.5%, and TLT, the 20-year Treasury Bond ETF jumped 1.8%. Everything remains 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	November 16, 2022 📅
Posted November 17, 2022 at 4:30 PM	
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	296,059,385.2
US Treasury Notes and Bonds (Notes/Bonds)	4,735,597,452.7
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***	2,668,338,128.7
Agency Commercial Mortgage-Backed Securities***	8,542,778.7
Total SOMA Holdings	8,113,836,636.9
Change From Prior Week	-42,063,693.4

This week the SOMA declined by \$42 billion. I mentioned last week that I thought the QT number this week would come in huge, and it sure did. For some context, there have only been 2 other weeks with larger QT...ever. They were 3/19/2008 and 3/26/2008. That was right before the global

financial crisis unfolded, so not good timing. How strong do you think the global economy is these days? 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 is very high 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.

This week's choppy action did not do anything to change my overall intermediate-term outlook. Seasonality remains positive. Price action is improving with markets well off their lows, but they still remain below many long-term moving averages. And I am still not seeing compelling studies confirming a new uptrend. None of my favorite breadth thrust indicators have triggered, 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. Volatility has quieted some, but market moves remain strong enough that big swings in either direction are easily possible. 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	11/18/2022	\$394.24	\$396.03	0.45%	sell @ \$396.03 limit

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