

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 28, 2022

Volume 15 Issue 227

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- A down close with a 2-day RSI still above 85 during a long-term downtrend has always been followed by more selling in SPY.
- The dip occurring with strong breadth appears to be a positive.
- The SOMA only declined a moderate amount this past week, but more sizable QT is expected for the current week.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. Evidence is mixed but pointing lower. But while the market is slightly overbought right now, that won't be the case Monday unless there is further rallying. So potential is limited and the edge appears very mild.

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 28, 2022	SPX down but RSI ₂ > 85	1-2 days	Bearish			
November 28, 2022	Recent intraday high. Dn on strong brdt	1-3 days	Bullish			
November 25, 2022	Wed before Thanksgiving low volume	1-2 days	Bearish			
November 23, 2022	Breakaway Gap to 50-high	1-5 days	Bullish	1.40%	-1.00%	-1.90%
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			

The Evidence

Friday was a short and quiet day and the indices finished mixed. The SPX declined 0.03%, the NASDAQ lost 0.5%, and the Russell 2000 rose 0.3%. Breadth was positive with the NYSE Up Issues % coming in at 64% and the Up Volume % at 60%. NYSE total volume was extremely light as it typically is on the Friday after Thanksgiving.

Often, when SPY has become substantially overbought short-term and then pulled back extremely gently on day 1, that tends to be just the beginning of the pullback. The study below uses the 2-day RSI to measure how overbought the SPY is short-term. It requires a strongly overbought condition be in place at the close of a down day. For this to be achieved the SPY must be extremely overbought to begin with, and then only pull back a little. The study was last seen in the 7/11/22 letter. I have updated all the results.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-26,437.30	13	3	10	23.08	2,592.00	-6,354.30	1,779.07	-3,177.45	0.56	0.17	-2,033.64
4	-20,997.55	13	4	9	30.77	2,047.00	-5,692.05	1,601.67	-3,044.91	0.53	0.23	-1,615.20
3	-20,790.61	13	2	11	15.38	1,372.50	-4,948.40	1,202.25	-2,108.65	0.57	0.10	-1,599.28
2	-19,651.30	13	2	11	15.38	1,000.00	-4,065.25	709.15	-1,915.42	0.37	0.07	-1,511.64
1	-7,043.13	14	5	9	35.71	1,170.00	-2,217.05	652.91	-1,145.30	0.57	0.32	-503.08
All 13 instances closed below the entry price at some point in the next 3 days.												

The number of instances is lower than I typically like to see, but all of them closed lower within 3 days. And the size and consistency of the moves was also impressive. Below I have listed all 13 instances and their trade stats assuming a 2-day holding period.

SPY closes down on the day but the 2-day RSI > 85. Close < 200ma.
Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/6/1994	Buy	\$46.22	-0.93%	\$129.78
6/8/1994	Sell	\$45.79		(\$951.72)
11/7/2000	Buy	\$143.75	-2.59%	\$152.90
11/9/2000	Sell	\$140.03		(\$4,517.50)
5/22/2001	Buy	\$131.48	-1.41%	\$0.00
5/24/2001	Sell	\$129.63		(\$2,226.80)
7/3/2001	Buy	\$124.10	-4.07%	\$0.00
7/6/2001	Sell	\$119.05		(\$4,065.25)
11/7/2001	Buy	\$112.25	0.42%	\$1,628.70
11/9/2001	Sell	\$112.72		(\$1,602.00)
12/6/2001	Buy	\$117.34	-2.52%	\$0.00
12/10/2001	Sell	\$114.38		(\$2,547.48)
1/5/2009	Buy	\$92.85	-2.35%	\$1,723.20
1/7/2009	Sell	\$90.67		(\$2,854.05)
7/14/2010	Buy	\$109.65	-2.73%	\$373.51
7/16/2010	Sell	\$106.66		(\$2,915.20)
7/27/2010	Buy	\$111.55	-1.13%	\$241.92
7/29/2010	Sell	\$110.29		(\$1,917.44)
12/1/2011	Buy	\$124.97	1.00%	\$1,768.00
12/5/2011	Sell	\$126.22		(\$152.00)
2/1/2016	Buy	\$193.65	-1.21%	\$0.00
2/3/2016	Sell	\$191.30		(\$3,379.80)
3/21/2022	Buy	\$444.39	-0.13%	\$1,392.75
3/23/2022	Sell	\$443.80		(\$153.00)
7/8/2022	Buy	\$388.67	-2.02%	\$0.00
7/12/2022	Sell	\$380.83		(\$2,487.76)
Avg Runup: 0.6%		Avg Drawdown: -2.3%		

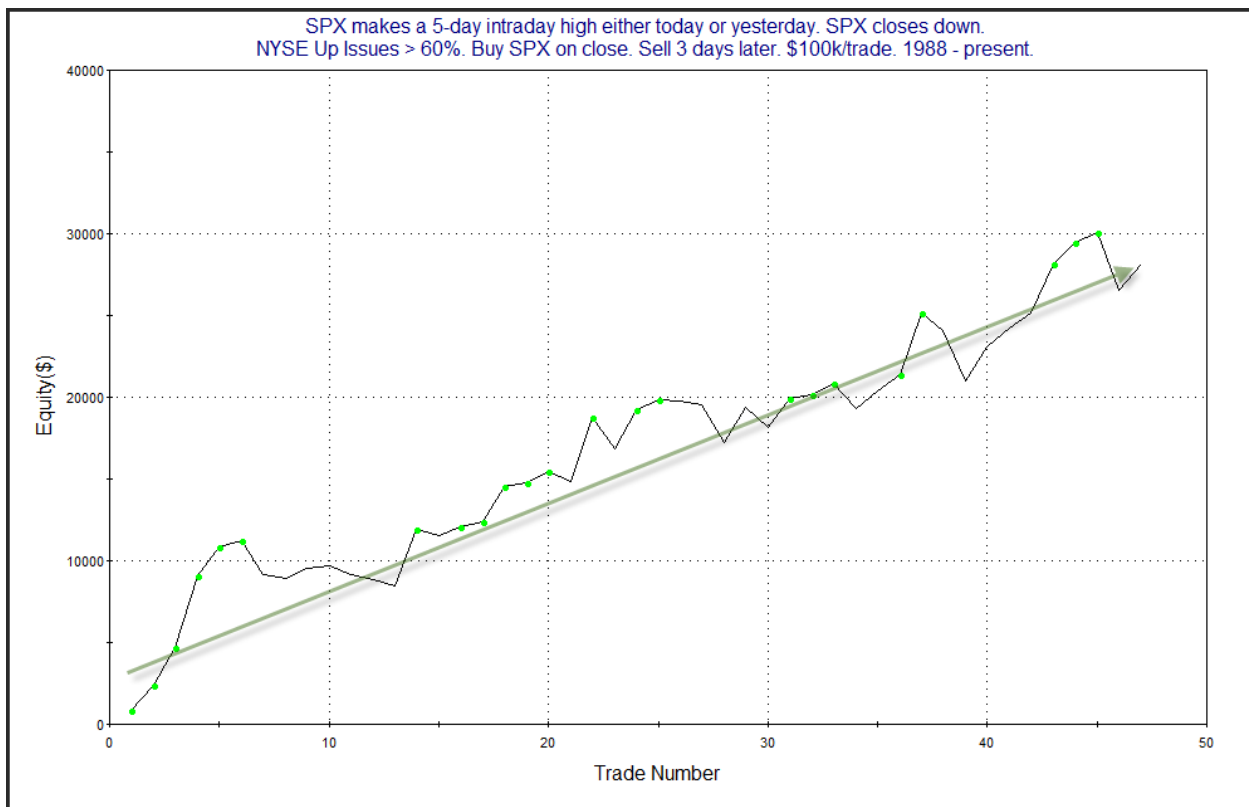
Nothing concerning here. It is also notable how much larger the average drawdown has been than the average run-up. I have added this study to the Active List.

Not everything was bearish, though. There was another study I found interesting from the 4/29/20 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

SPX makes a 5-day intraday high either today or yesterday. SPX closes down.
NYSE Up Issues > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	14,583.29	45	29	16	64.44	4,586.15	-6,119.33	1,686.54	-2,145.40	0.79	1.42	324.07
4	33,338.04	47	29	18	61.70	8,095.62	-6,253.50	2,092.40	-1,518.97	1.38	2.22	709.32
3	28,115.86	47	31	16	65.96	4,370.82	-3,593.26	1,537.52	-1,221.70	1.26	2.44	598.21
2	23,371.12	47	32	15	68.09	4,825.17	-4,128.74	1,271.18	-1,153.78	1.10	2.35	497.26
1	20,454.31	47	28	19	59.57	3,351.09	-1,606.00	1,027.09	-437.06	2.35	3.46	435.20

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



The curve has slope upwards for a long time. This seems to offer some confirmation of the upside edge suggested by the stats table. I have included this study on the Active List tonight.

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



With this weekend's evidence considered, the green Aggregator Line dipped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Monday. Of course this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 4047.55* on Monday. That is 0.5% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up over 0.5% to remain "overbought" vs recent expectations. Anything less than that and it will be considered "oversold" as of Monday's close.

So the Aggregator is bearish. But the inverted pivot creates a setup that I do not love for purposes of new entries. This is because potential reward is limited to just one day. So reward/risk is skewed poorly. I will often use inverted pivot setups to take profits if I have them. But with no position right now, I'll just remain sidelined until a more compelling setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/28 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

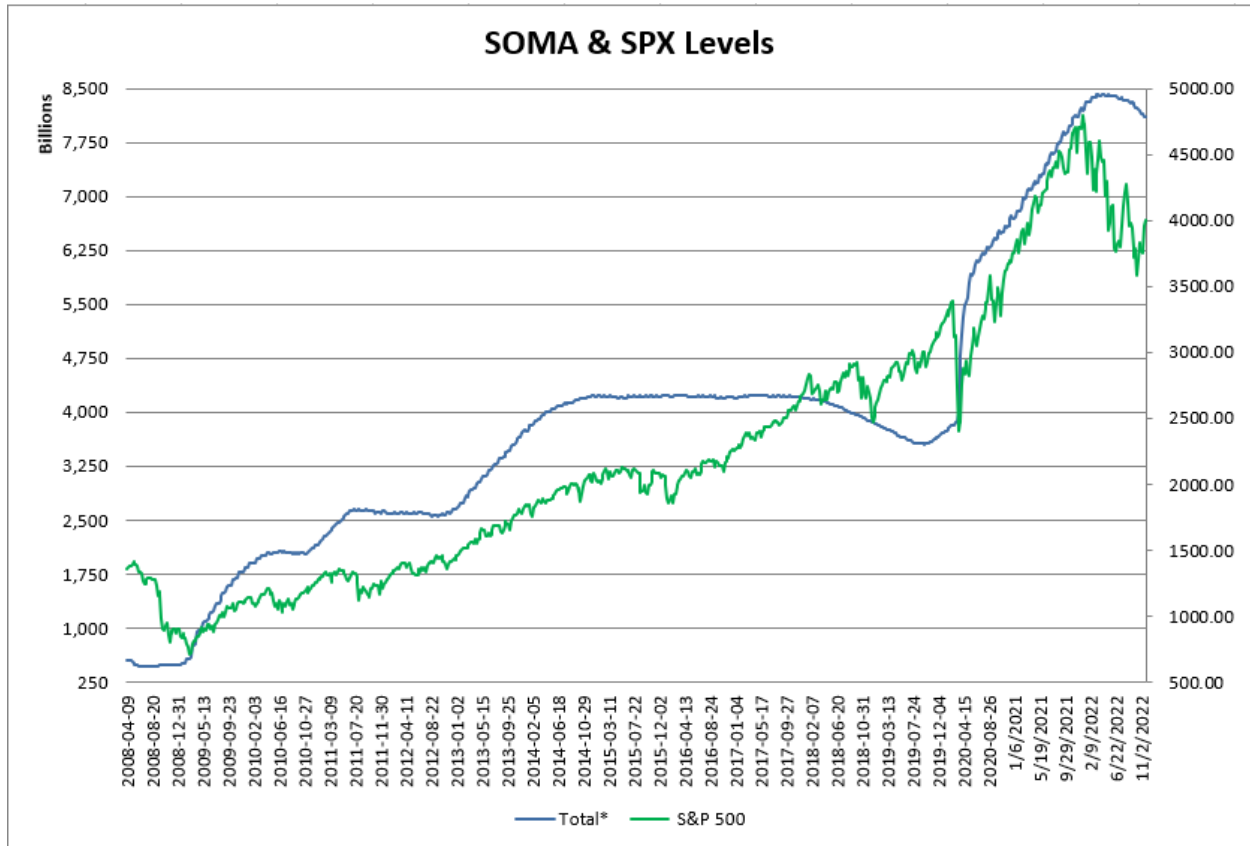
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

As they often do Thanksgiving week, the major indices posted gains this past week. The SPX rallied 1.5%, the NASDAQ climbed 0.7%, and the Russell 2000 rose 1.05%. Bonds managed gains for the 2nd week in a row. The US Aggregate Bond ETF (AGG) climbed 1.1%, and TLT, the 20-year Treasury Bond ETF jumped 3.3%. 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 23, 2022 📅
Posted November 25, 2022 at 4:30 P.M.	
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
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***	2,663,539,969.5
Agency Commercial Mortgage-Backed Securities***	8,542,778.7
Total SOMA Holdings	8,109,038,477.7
Change From Prior Week	-4,798,159.2

This week the SOMA declined by \$4 billion. That is a moderate amount. I expect this week to be much larger with plenty of bonds set to roll on the 30th. 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 quiet 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 and approaching their 200-day moving averages. And I am still not seeing many 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 continues to shrink, 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
<i>TSLA(1/3)</i>	<i>11/22/2022</i>	<i>\$167.87</i>	<i>\$185.06</i>	<i>10.24%</i>	<i>sold on open</i>

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