

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 5, 2022

Volume 15 Issue 232

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Very mild 2-day declines from 50-day highs have typically been followed by mild rises over the next couple of days.
- There has been a big breadth turnaround over the last 6 weeks, and that appears to be a positive sign for the intermediate-term.
- Price momentum, as measured by Bollinger %b reached a point where we often see further gains.
- The SOMA declined strongly once again as QT continues.
- December is a strong seasonal month, especially from the 19<sup>th</sup> on.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Evidence is mixed but tilting higher. SPX is overbought. I don't see a sizable short-term edge. Same as last night.

**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>						
December 5, 2022	1-Day up 1.5% then sideways 2 days	1-5 days	Bearish			
December 5, 2022	Small 2-day pullback from 50-day high	1-2 days	Bullish			
December 1, 2022	5 low to 50 high in 1 day	1-4 days	Bearish			
December 1, 2022	Up 3% on highest volume in 20 days	1-5 days	Bullish			
December 1, 2022	End month at high of month	1-5 days	Bullish			
<b>Active - Long Term</b>						
December 2, 2022	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
December 1, 2022	SPX goes from < 15% above 50 to > 90%	1-6 months	Bullish			
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**

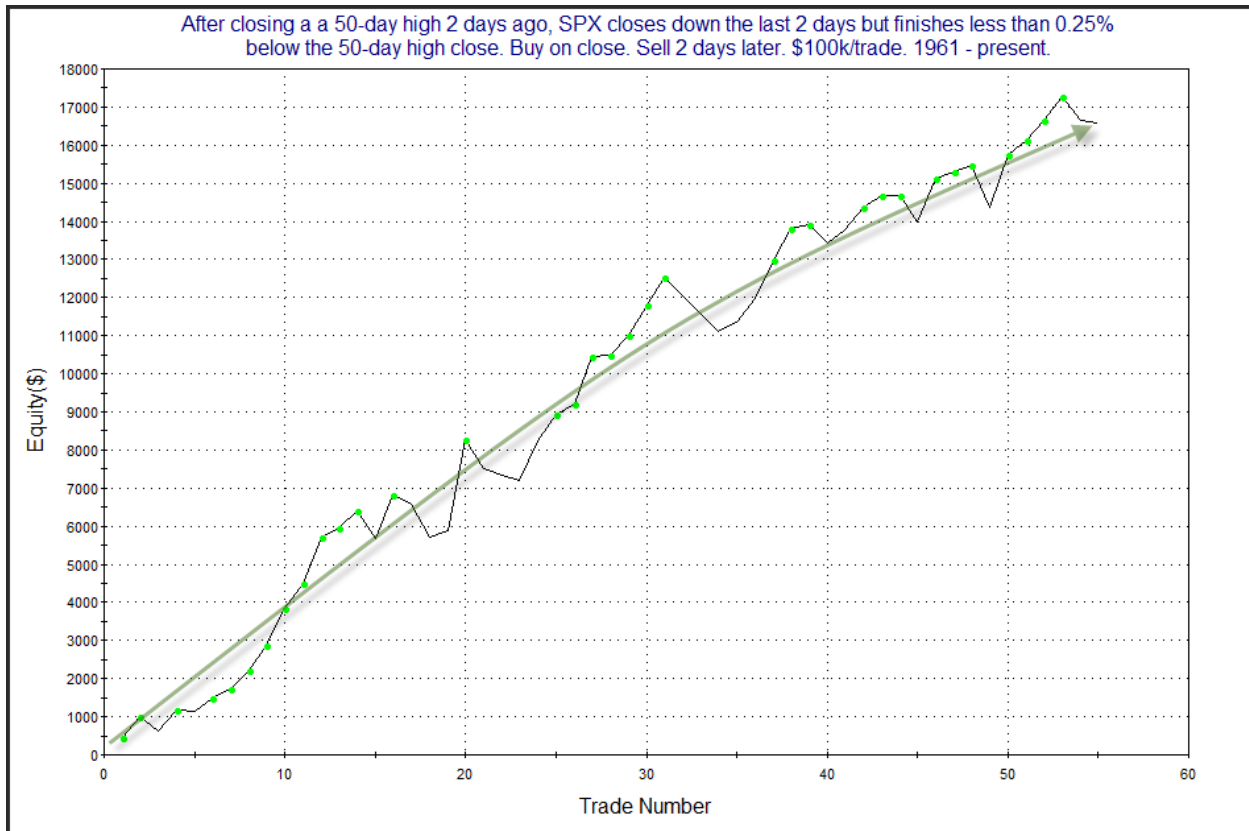
Friday started with a big gap down following the jobs report, but the market rose throughout the day and the indices finished mixed. The SPX dipped 0.1%, the NASDAQ lost 0.2%, and the Russell 2000 gained 0.6%. Breadth was positive with the NYSE Up Issues % coming in at 54% and the Up Volume % at 60%. NYSE total volume declined for the 2<sup>nd</sup> day in a row.

SPX closed at a 50-day high 2 days ago, and while it has closed lower the last 2 days, the combined 2-day selloff has it only 0.21% below Wednesday's close. Often if an uptrending market tries to pull back, and it just cannot, then the next move will often be higher. Tonight I looked at other instances of SPX closing down 2 days in a row from a 50-day high, but still closing less than 0.25% below that closing high. This study was last seen in the 2/18/21 letter. Updated results can be seen below.

After closing a 50-day high 2 days ago, SPX closes down the last 2 days but finishes less than 0.25% below the 50-day high close. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	12,230.36	53	32	21	60.38	4,579.74	-3,618.28	911.77	-806.96	1.13	1.72	230.76
4	12,016.58	55	33	22	60.00	3,712.50	-3,370.08	911.11	-820.45	1.11	1.67	218.48
3	12,058.29	55	39	16	70.91	2,141.37	-3,892.32	674.92	-891.48	0.76	1.85	219.24
2	16,597.73	55	39	16	70.91	2,399.76	-1,107.75	622.18	-479.20	1.30	3.16	301.78
1	7,991.28	55	33	22	60.00	1,502.82	-960.05	452.96	-316.19	1.43	2.15	145.30

The stats suggest a propensity for a rise over the next 2 days. Below is a look at the 2-day profit curve.



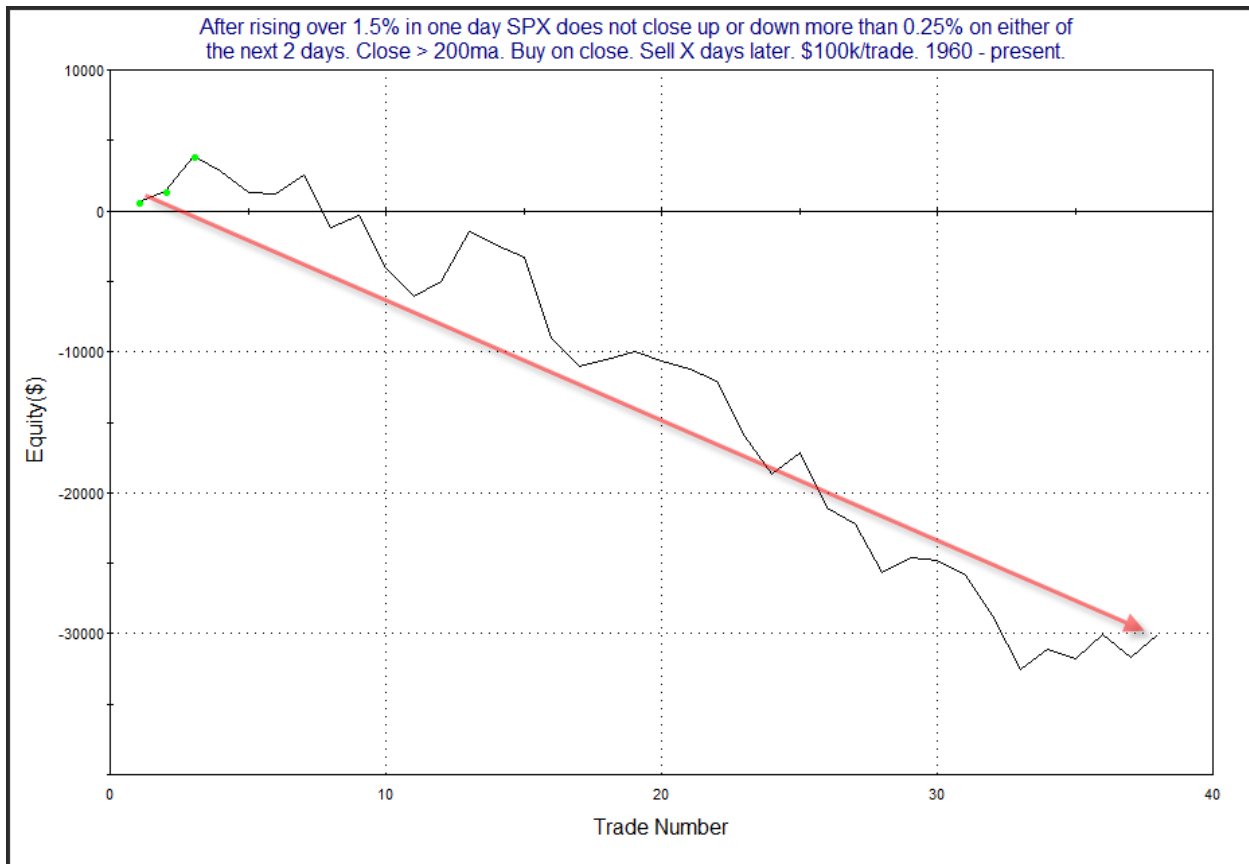
The strong, steady upslope serves as some confirmation of the upside edge. So while a deeper pullback could happen, this study indicates that is not likely.

But there was also some bearish evidence. The study below was from way back in the 11/23/12 letter. It looked at times that a big 1-day gain was followed by two days of sideways movement. Stats are updated.

After rising over 1.5% in one day SPX does not close up or down more than 0.25% on either of the next 2 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - present.

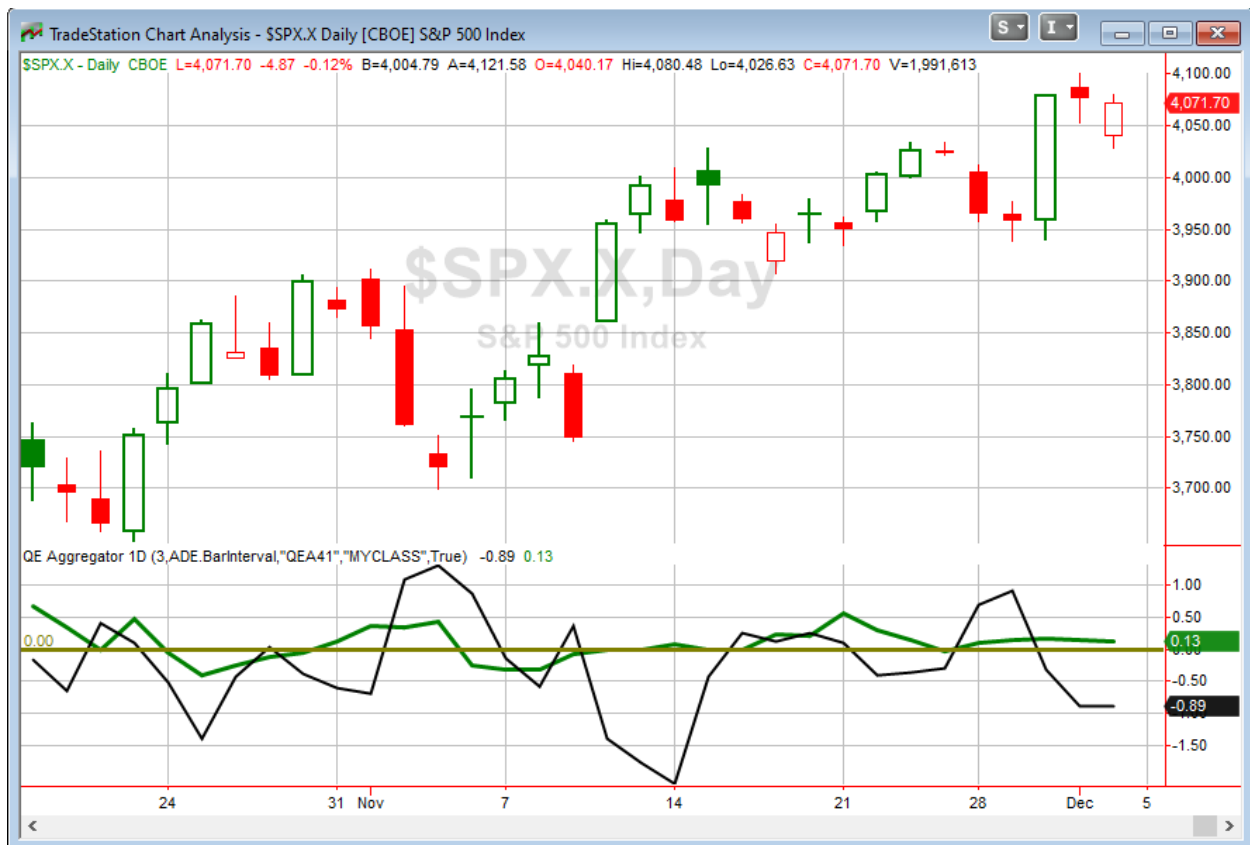
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-30,010.49	38	14	24	36.84	3,568.24	-5,684.80	1,364.62	-2,046.47	0.67	0.39	-789.75
4	-16,890.96	39	15	23	38.46	2,499.52	-5,171.04	1,129.19	-1,470.82	0.77	0.50	-433.10
3	-13,338.91	39	18	21	46.15	2,808.00	-4,234.72	958.05	-1,456.37	0.66	0.56	-342.02
2	-5,210.29	39	20	19	51.28	2,124.00	-3,132.00	810.65	-1,127.54	0.72	0.76	-133.60
1	-4,993.09	39	22	17	56.41	1,321.92	-3,967.20	486.06	-922.73	0.53	0.68	-128.03

Results appear to be squarely negative. Below is an equity curve using a 5-day exit strategy.



The long, persistent move lower is impressive. This study seems to be worth some consideration. I have also added this one to the active list tonight.

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



With this weekend's evidence considered, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside 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 positive but SPX is overbought. 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4096.78 on Monday. That is 0.6% *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 0.6% on Monday in order to remain overbought vs recent expectations. Anything other than that and it will be considered "oversold" as of Monday's close.

So the Aggregator is neutral. There are several opposing studies and the Differential Pivot is inverted. The means lots of conflict and no clear edge with favorable reward/risk. I am flat on my index positions and will look to remain that way for now.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/5 – slightly bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Flat</b>	<b>Flat</b>	<b>Flat</b>

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”.*

This past week saw gains for the major indices. The SPX rallied 1.1%, the NASDAQ climbed 2.1%, and the Russell 2000 rose 1.3%. Bonds managed gains for the 4<sup>th</sup> week in a row. The US Aggregate Bond ETF (AGG) climbed 1.5%, and TLT, the 20-year Treasury Bond ETF jumped 4.3%. The S&P 500 moved up through its 200-day moving average on Wednesday. The NASDAQ and Russell are getting close. There were a few studies this week that emerged with intermediate-term implications.

The one below was from Thursday night’s letter:

*I will also note that the strong breadth we have seen of late has caused the percent of S&P 500 stocks trading above their 50ma to spike above 90%. This actually occurred on Wednesday. The % of SPX stocks above the 50ma was under 15% as recently at October 14<sup>th</sup>. Below is a study from mid-August that looks at similar breadth turnarounds.*

The % of SPX constituents moves from <= 15% to >= 90% within 50 days.  
Forward SPX returns shown. 1957 - present. (21 days = approx 1 month).

Ticker	Date	% Chg	Close	5-Day % Chg	10-Day %Chg	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg
\$\$PX	11/23/1962	1.2	61.54	1.17	2.47	1.77	6.84	6.37	13.78	13.11
\$\$PX	9/4/1970	0.9	82.83	-0.92	-1.11	4.85	1.88	8	19.98	21.56
\$\$PX	12/29/1971	0.26	102.21	0.83	1.35	1.26	3.89	4.85	5.05	14.4
\$\$PX	1/27/1975	3.27	75.37	3.25	3.97	6.63	11.25	14.41	17.67	32.25
\$\$PX	5/23/1980	1.48	110.62	0.13	2.79	4.09	10.1	13.92	25.75	20.02
\$\$PX	8/26/1982	0.82	118.55	1.47	2.04	4.28	13.44	12.93	26.19	36.02
\$\$PX	11/22/1985	0.05	201.52	-0.53	1.35	2.79	2.44	11.05	21.45	22
\$\$PX	1/7/1988	0.84	261.07	-5.82	-6.87	-3.87	3.2	1.95	4.1	7.25
\$\$PX	1/18/1989	1.05	286.53	0.91	3.69	2.89	1.18	7.2	17.17	17.75
\$\$PX	6/9/1997	0.57	862.91	3.59	1.82	5.17	10.23	7.91	14.01	29.61
\$\$PX	11/5/1998	1.34	1133.68	-1.37	1.67	4.77	12	9.71	18.23	20.87
\$\$PX	5/5/2003	-0.38	926.55	2	-0.62	6.44	6.38	6.07	13.4	20.83
\$\$PX	4/17/2009	0.5	869.6	-0.39	0.91	4.61	4.73	8.14	26.1	37.71
\$\$PX	10/24/2011	1.29	1254.19	-0.07	0.55	-5.27	-0.02	5.73	10.88	12.67
\$\$PX	3/16/2016	0.56	2027.22	0.47	1.6	2.64	1.95	2.18	4.86	17.47
\$\$PX	2/15/2019	1.09	2775.6	0.74	0.62	2.05	4.5	3.02	4.07	21.43
\$\$PX	5/26/2020	1.23	2991.77	2.98	7.2	1.96	7.48	14.69	18.91	39.99
\$\$PX	8/12/2022	1.73	4280.15	-1.21	-5.2	-8.12	-16.43	-7.56	n/a	n/a
			<b>Average</b>	<b>0.40</b>	<b>1.01</b>	<b>2.16</b>	<b>4.72</b>	<b>7.25</b>	<b>15.39</b>	<b>22.64</b>
			<b>Median</b>	<b>0.61</b>	<b>1.48</b>	<b>2.84</b>	<b>4.62</b>	<b>7.56</b>	<b>17.17</b>	<b>20.87</b>
			<b>Win %</b>	<b>61%</b>	<b>78%</b>	<b>83%</b>	<b>89%</b>	<b>94%</b>	<b>100%</b>	<b>100%</b>

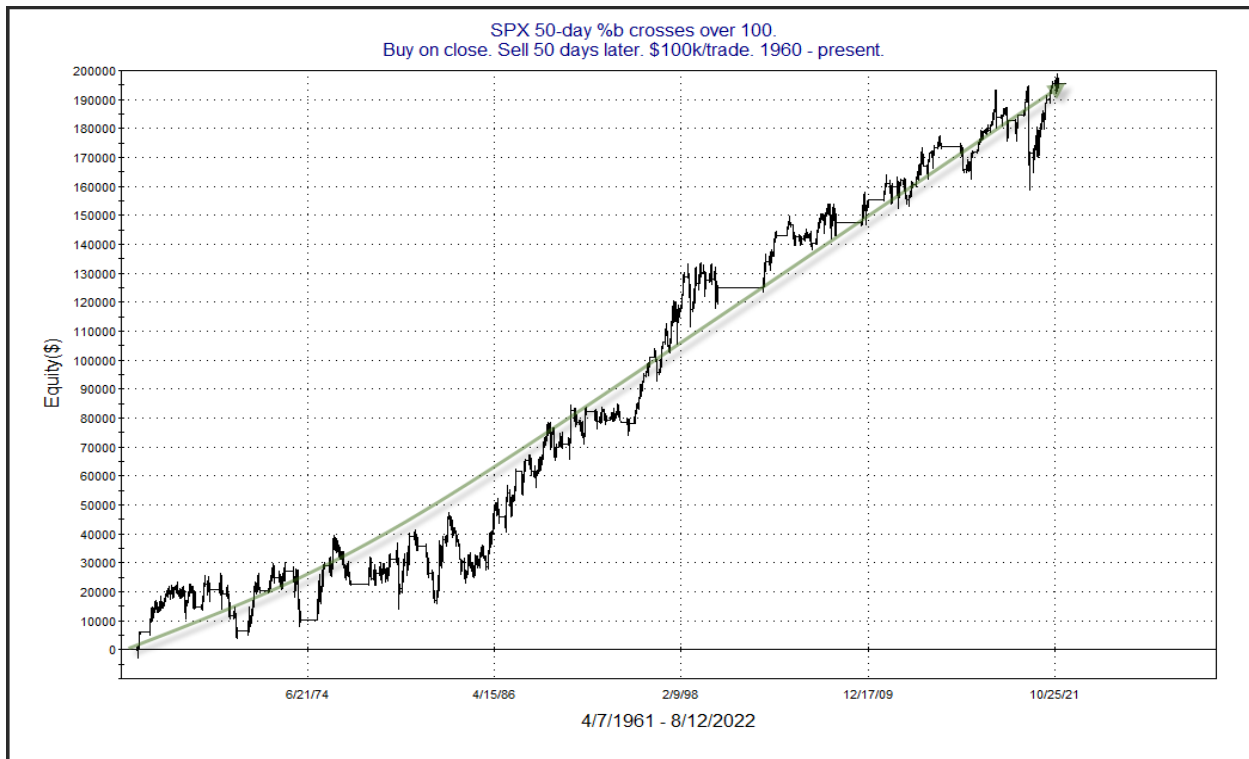
*This last instance has been by far the worst of the bunch. Perhaps it is getting itself back on track with the recent rally. A 2<sup>nd</sup> such breadth turnaround has not happened before in such a short amount of time. Overall, this seems to be strong evidence for the intermediate-term. I have added the study to the intermediate-term active list.*

On Wednesday night we saw this study suggest and intermediate-term edge:

*One interesting study that triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 8/15/22 letter. Due to the late hour, I did not update this study tonight.*

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
50	195,572.69	145	90	55	62.07	18,408.18	-20,704.80	4,803.37	-4,304.19	1.12	1.83	1,348.78
45	152,833.59	151	88	63	58.28	15,816.57	-32,382.30	5,004.05	-4,563.86	1.10	1.53	1,012.14
40	160,958.19	157	96	61	61.15	17,624.67	-27,920.40	4,408.23	-4,298.88	1.03	1.61	1,025.21
35	155,532.75	166	101	65	60.84	15,782.13	-13,617.00	3,953.70	-3,750.63	1.05	1.64	936.94
30	101,481.34	173	104	69	60.12	11,920.74	-10,485.00	3,238.86	-3,411.01	0.95	1.43	586.60
25	68,394.34	181	104	77	57.46	10,859.94	-8,732.16	2,929.82	-3,068.92	0.95	1.29	377.87
20	60,141.55	194	111	83	57.22	9,501.30	-10,205.38	2,611.13	-2,767.40	0.94	1.26	310.01
15	52,525.94	214	124	90	57.94	7,843.46	-9,763.44	2,310.74	-2,600.06	0.89	1.22	245.45
10	41,974.53	238	145	93	60.92	8,239.16	-9,133.53	1,674.06	-2,158.76	0.78	1.21	176.36
5	13,270.70	291	162	129	55.67	5,030.81	-6,524.55	1,133.19	-1,320.21	0.86	1.08	45.60

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That's a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

I also thought it would be a good idea to check out the QE December Seasonality Calendar for SPX.

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>\$SPX S&amp;P 500 Index</b>			
<u>Date</u>	<u>Win%</u>	<u>Profit Factor</u>	<u>Avg % Chg</u>
12/1/2022	56.39	1.420	0.100
12/2/2022	55.49	1.234	0.073
12/5/2022	52.00	1.140	0.046
12/6/2022	49.77	1.028	0.007
12/7/2022	55.15	1.172	0.043
12/8/2022	52.71	0.919	-0.028
12/9/2022	53.65	1.176	0.046
12/12/2022	51.90	0.926	-0.031
12/13/2022	51.91	1.116	0.035
12/14/2022	51.01	1.028	0.009
12/15/2022	52.77	0.987	-0.004
12/16/2022	51.27	0.987	-0.003
12/19/2022	56.87	1.421	0.079
12/20/2022	56.68	1.895	0.182
12/21/2022	57.73	1.629	0.120
12/22/2022	57.94	1.782	0.160
12/23/2022	57.40	1.569	0.090
12/27/2022	50.56	1.112	0.035
12/28/2022	54.40	1.387	0.093
12/29/2022	55.56	1.420	0.100
12/30/2022	55.02	1.207	0.030
<b>Baseline</b>	<b>54.29</b>	<b>1.147</b>	<b>0.049</b>

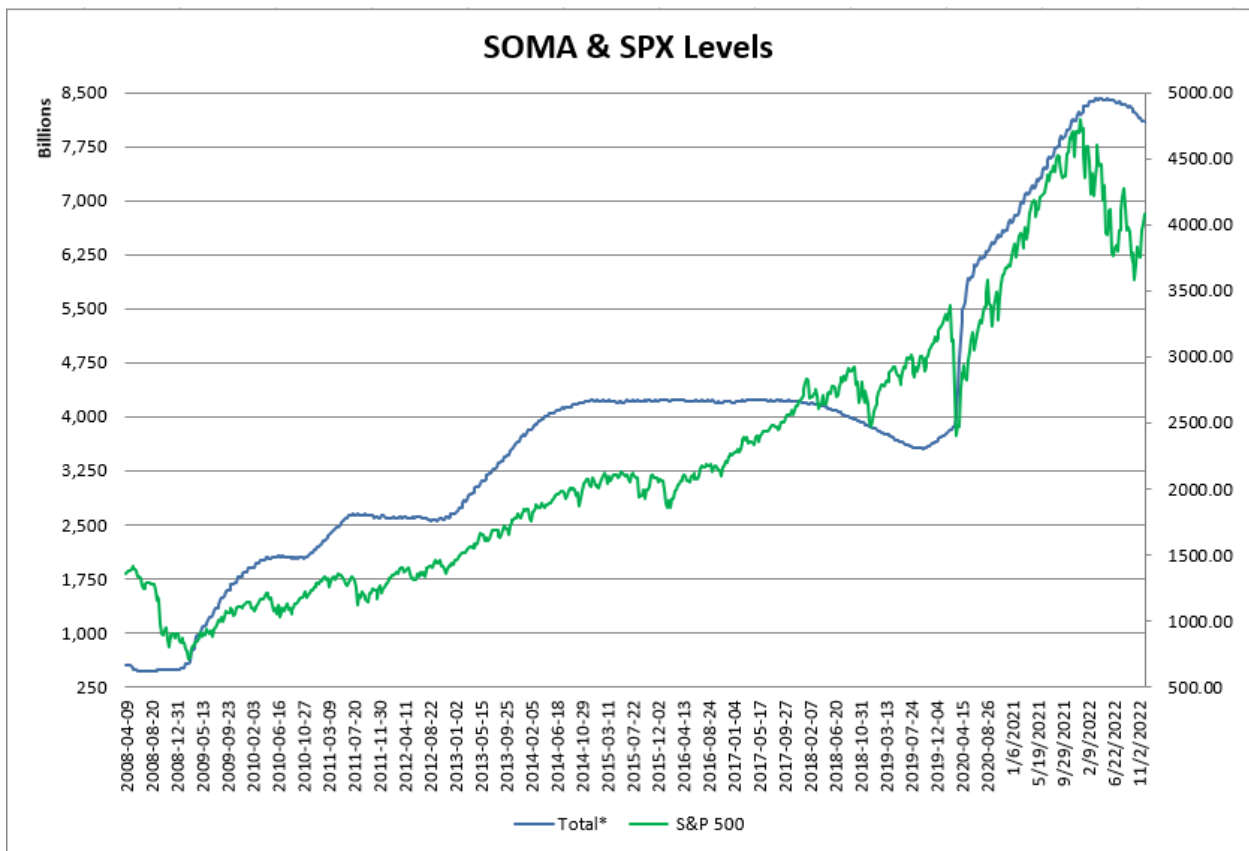
December is typically viewed as a strong month for the market. You'll hear a lot of talk about the "Santa Claus" rally. In the next few weeks I will cover in detail the late December tendencies. Just looking at the Seasonality Calendar, you can see that the numbers starting on the 19<sup>th</sup> are quite strong through the end of the year. These next couple of weeks are pretty mixed though.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

**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)	4,714,387,124.1
US Treasury Floating Rate Notes (FRNs)	27,166,210.0
US Treasury Inflation-Protected Securities (TIPS)*	377,416,407.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,650,236,675.0
Agency Commercial Mortgage-Backed Securities***	8,519,300.2
Total SOMA Holdings	8,076,132,101.9
Change From Prior Week	-32,906,375.8

This week the SOMA declined by a very large \$32 billion. 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 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.

So we had a few things occur this past week that would seem to favor the bullish case. The Bollinger %b study suggests positive momentum that could carry the rally further. The breadth turnaround study looks to be substantially bullish. And the fact that SPX is finally back above its 200ma shows that price action has improved. Seasonality also remains positive. Concerns remain, though. The NASDAQ has yet to retake leadership from the SPX, and that has often been problematic. Additionally, and most concerning in my view, is the Fed. Both the QT program and rising interest rates are putting stress on the market and the economy. So I will lean slightly bullish for now with breadth, momentum, and seasonality all favorable. I could easily jump back to neutral or even bearish if we see price action faltering. The slightly bullish bias means I will be a bit more selective with short trades than with long ones.

### **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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