

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 13, 2022

Volume 15 Issue 238

## Market Overview



## Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat       | 3           |

## Tonight's Research Points

- Bullish Fed Day tendencies have been more pronounced when the market closes poorly on the day before the Fed Day.
- Volatility could be very high both Tuesday and Wednesday.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. That is where I am as well.

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

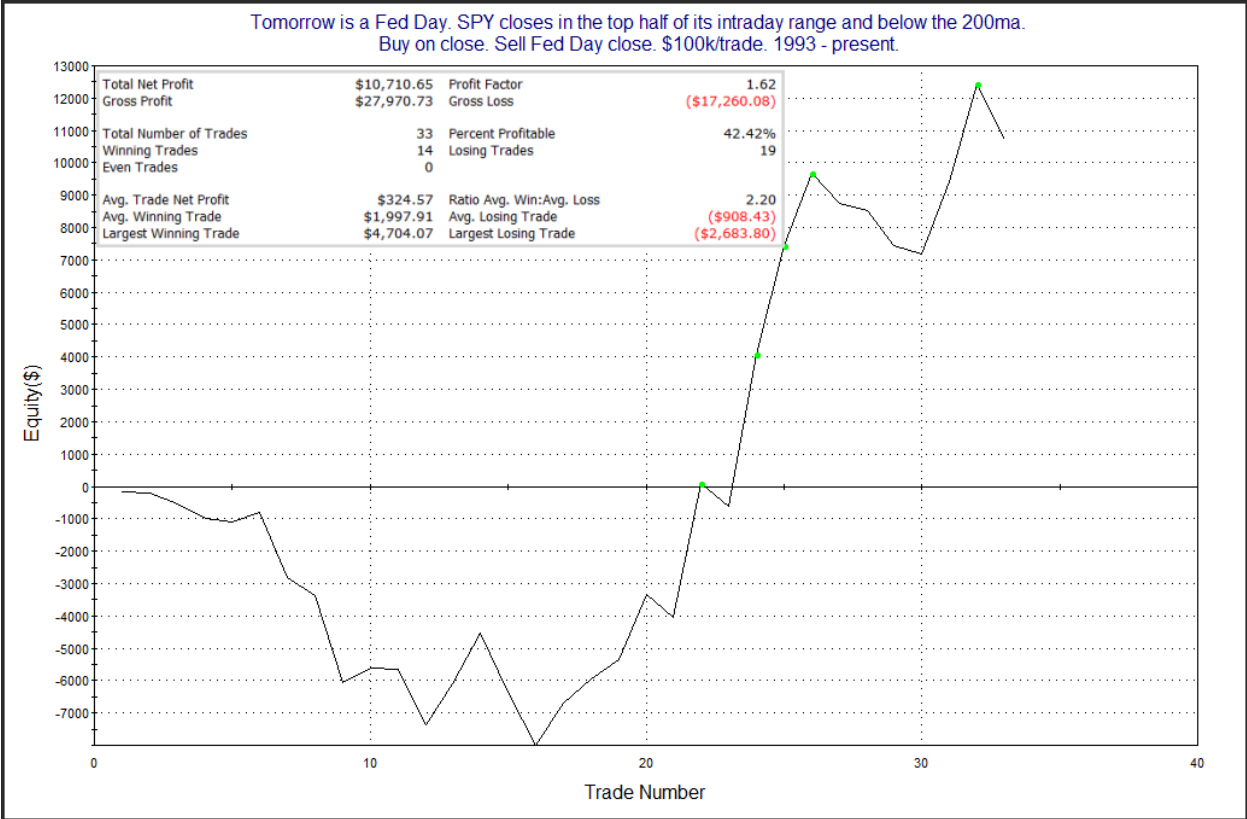
| Study Date                 | Description                           | Time span  | Bias    | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|---------------------------------------|------------|---------|------------|------------|------------------------|
| <b>Active - Short Term</b> |                                       |            |         |            |            |                        |
| December 12, 2022          | Dec Opex bullish                      | 1-5 days   | Bullish | 1.80%      | -1.20%     | -2.70%                 |
| December 8, 2022           | 5 lower closes < 200ma                | 1-8 days   | Bullish | 4.30%      | -2.00%     | -4.85%                 |
| <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***

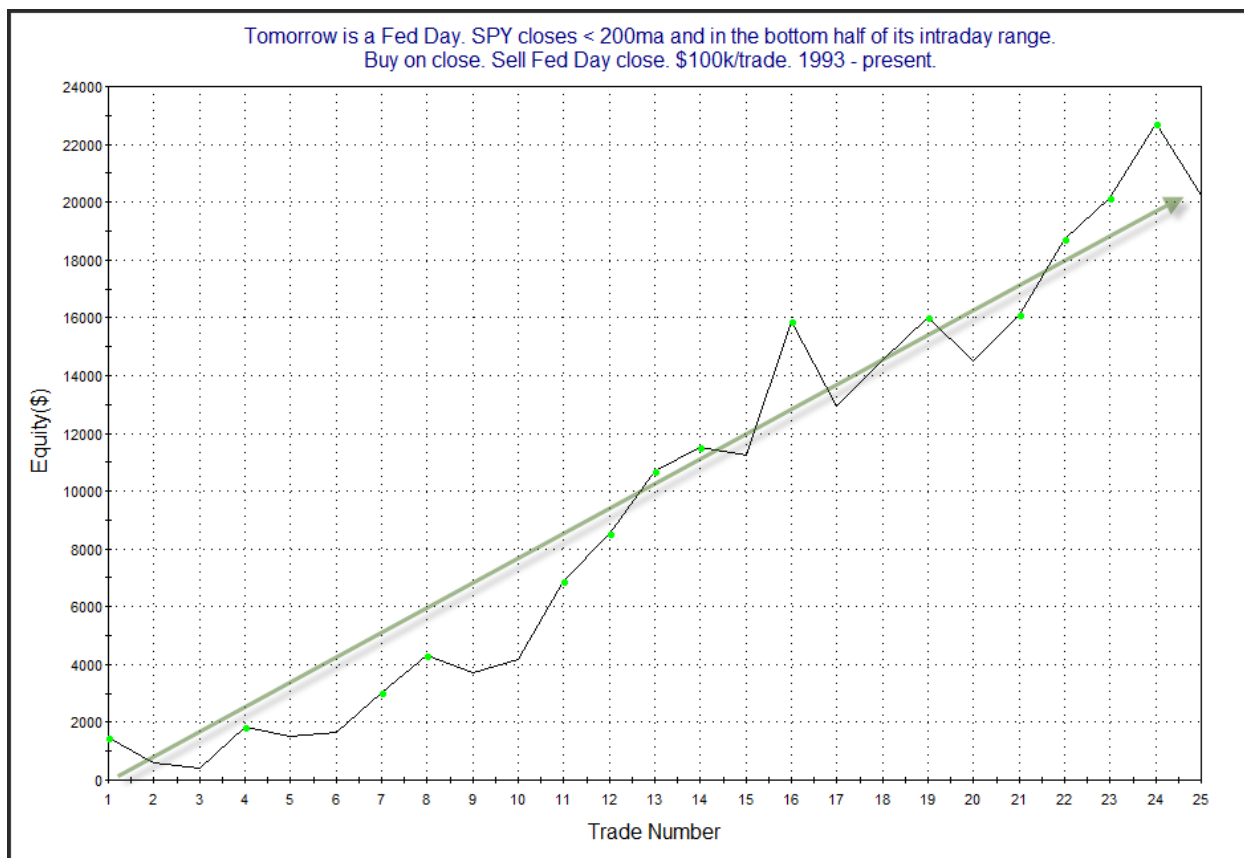
Monday saw the market rally. The SPX rose 1.4%, the NASDAQ gained 1.3%, and the Russell 2000 climbed 1.2%. Breadth was positive with the NYSE Up Issues % coming in at 64% and the Up Volume % at 76.5%. NYSE total volume declined some from Friday's level.

The biggest oddity with regards to market action on Monday was the fact that the VIX spiked higher (9.46%) while the SPX also rose strongly. That is highly unusual. There have only been 3 other times where SPX rose over 1.25% and VIX rose over 9%. They were 12/30/1991, 3/8/1993, and 5/5/1997. Results in the following days were mixed. Of course VIX action today makes some sense. There was a lot of hedging going on ahead of CPI tomorrow and the Fed Day Wednesday. As I will discuss a little further down, these two events have been accompanied by extreme volatility this year.

In the 11/2/22 letter I showed that when SPY has been below its 200ma, that closing low in its range the day before a Fed Day appeared advantageous. This is similar to tendencies above the 200ma, which I have shown many times in the past. First let's look at instances where SPY closed strongly the day before a Fed Day.



Results here appear quite inconsistent, though it has been strong lately. Next let's view times SPY posted a weak close the day before a Fed Day.



Despite the November stumble, weak closes appear quite promising. A weak close on Tuesday would suggest bullish odds for Wednesday. This would seem worth keeping in mind on Tuesday afternoon. The weak close could make for a nice setup as it would suggest traders are fearful, and that whatever the Fed does and says is not as bad as their fears. Still, there is no assurance that the reaction will be higher. What the Fed says will be a big wildcard on Wednesday. Every rate hike this year has seen a strong reaction. This can be seen in the table below.

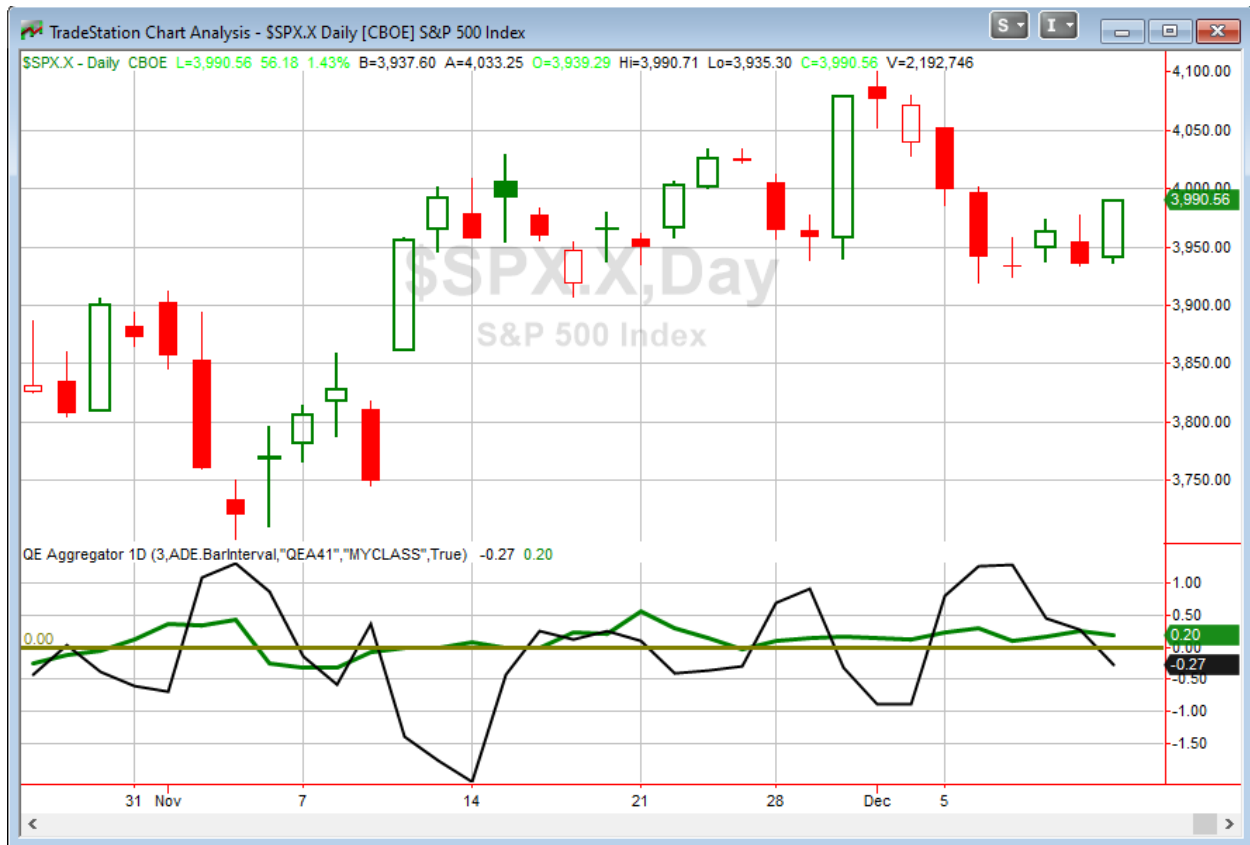
| SPX Action on 2022 Fed Announcement Days with Rate Hikes |                                      |                |               |
|--|--------------------------------------|----------------|---------------|
| Fed Announcement Date                                    | Rate Change                          | SPX True Range | SPX % Change  |
| March 16, 2022   | +25 Basis Points                     | 106.91         | 2.24%         |
| May 4, 2022  | +50 Basis Points                     | 158.75         | 2.99%         |
| June 15, 2022  | +75 Basis Points                     | 115.26         | 1.46%         |
| July 27, 2022  | +75 Basis Points                     | 118.51         | 2.62%         |
| September 21, 2022                                       | +75 Basis Points                     | 117.58         | -1.71%        |
| November 2, 2022   | +75 Basis Points                     | 135.76         | -2.50%        |
|  | <b>Average</b>                       | <b>125.46</b>  | <b>0.85%</b>  |
|  | <b>All other days avg since 3/16</b> | <b>77.75</b>   | <b>-0.06%</b> |

As you can see, Fed Days have been over 60% more volatile than non-Fed Days since hikes began. Still, they have not been as volatile as CPI days, and that comes on Tuesday. Below I have copied the table I shared in last night's letter, which shows action on the last 7 CPI release dates.

| <b>SPX Action in Recent CPI Release Dates</b> |                                      |                       |                     |
|---|--------------------------------------|-----------------------|---------------------|
| <b>Reference Month</b>                        | <b>Release Date</b>                  | <b>SPX True Range</b> | <b>SPX % Change</b> |
| Apr-22  | May 11, 2022                         | 120.27                | -1.65%              |
| May-22  | June 10, 2022                        | 117.66                | -2.91%              |
| Jun-22  | July 13, 2022                        | 70.37                 | -0.45%              |
| Jul-22  | August 10, 2022                      | 88.56                 | 2.13%               |
| Aug-22  | September 13, 2022                   | 189.13                | -4.32%              |
| Sep-22  | October 13, 2022                     | 193.83                | 2.60%               |
| Oct-22  | November 10, 2022                    | 209.76                | 5.54%               |
|   | <b>Average</b>                       | <b>141.37</b>         | <b>0.13%</b>        |
|   | <b>All other days ATR since 5/11</b> | <b>74.70</b>          |                     |

The average true range on CPI days has been 89% larger than the average true range on all other days since 5/11/2022. July was the only one with fairly docile numbers. So we very well could see a sharp market move on Tuesday and again on Wednesday.

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



Without any directional studies being added tonight, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line dropped 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3985.12 on Tuesday. That is 0.1% below Monday's close. Therefore, SPX will only need to close down a little over 0.1% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is now neutral. Evidence suggests more upside, but SPX is already overbought and volatility could be extremely high over the next day or two. I am now out of my index trade. I will wait until the dust settles and the next favorable reward/risk setup emerges before putting the money back to work.

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

The intermediate-term outlook was last updated in the 12/12/22 Letter. It can be found in the [most recent weekly letter](#) on the website.

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

***Open Catapult Triggers***

GS – 1/3 @\$362.91 (bought @ limit)

GS – 1/3 @\$359.92 (bought @ limit)

GS – 1/3 @\$358.08 (buy @ limit)

***Broad Market Large Cap CBI – 3(GS-3)***

**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**

|                 |                  |                 |                 |               |                             |
|-----------------|------------------|-----------------|-----------------|---------------|-----------------------------|
| <b>SPY(1/4)</b> | <b>12/6/2022</b> | <b>\$399.42</b> | <b>\$398.95</b> | <b>-0.12%</b> | <b><i>sold on close</i></b> |
| <b>SPY(1/4)</b> | <b>12/7/2022</b> | <b>\$392.00</b> | <b>\$395.64</b> | <b>0.93%</b>  | <b><i>sold at limit</i></b> |
| GS(1/3)         | 12/7/2022        | \$362.49        | \$363.18        | 0.19%         | Catapult                    |
| GS(1/3)         | 12/8/2022        | \$359.92        | \$363.18        | 0.91%         | Catapult                    |
| GS(1/3)         | 12/9/2022        | \$356.71        | \$363.18        | 1.81%         | Catapult                    |

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