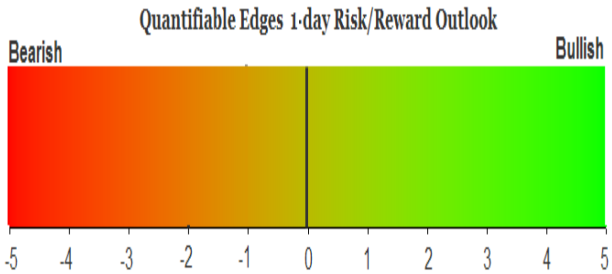
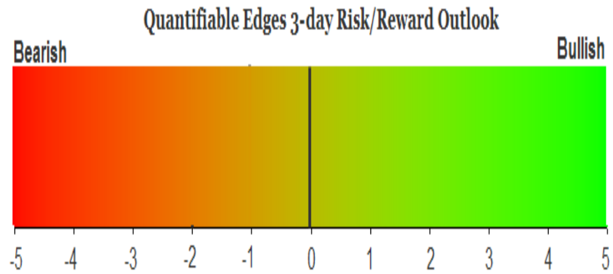
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 15, 2022 Volume 15 Issue 240

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The reaction to the Fed was "meh" and the Quantifinder came up blank.

Short-term Outlook

The Bottom Line

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

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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						
December 8, 2022	5 lower closes < 200ma	1-8 days	Bullish	4.30%	-2.00%	-4.85%
Active - Long Term						
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

The Fed hiked 0.5% and remained hawkish on Wednesday And the market did not like it. But the selloff was not terribly strong. The SPX finished down 0.6%, the NASDAQ lost 0.8%, and the Russell 2000 declined 0.65%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 35%. NYSE total volume declined some from Tuesday's level.

The 0.6% decline was the smallest absolute % change for the $SPX of any rate hike this year. Prior to that, every hike saw the market close up or down by at least 1.46%. CPI Tuesday and the Fed on Wednesday were billed as huge market movers. The net change over the 2-day period was a 5 point (0.1% rise) in the SPX. So it is not a big surprise that no compelling new studies triggered tonight, since the market has been all bark and no bite the past couple of days.

Our "January Effect" study that I shared in Sunday's letter will kick in at the close on Thursday. I have re-posted that research from Sunday below.

In past years I discussed the January Effect, which is a tendency that I believe was first published in the Stock Traders Almanac. It suggests that from mid-December into early January smallcap stocks tend to outperform largecaps. My past research has looked back to 1988 and used the Russell 2000 versus the SPX. I found that the bulk of this tendency was realized in the end of December and the 1st day of January. I measured from the 15th of December (or the 1st trading day afterwards if the 15th was a weekend) through the 1st trading day in January. Since 1988 we have now seen the Russell outperform 25 of 34 years, or 73.5% of the time. And years of outperformance have greatly outsized years when the Russell underperformed. Gains in the years of outperformance have totaled 42.80%, while the 9 years of underperformance have only totaled 7.81% in losses. That's 5.5 to 1. And the only losing years to post a loss of greater than 1% were 1991 when the SPX outperformed the Russell by 2.82%, and 2019, when SPX outperformed by 1.06%. Below is a table that breaks it all down by year.

	Dec 15 - 1st Trading Day of Jan		
	SPX	*Rut*	*RUT - SPX*
Year	*% Return*	*% Return*	*% Difference*
1988	0.38%	2.53%	**2.15%**
1989	2.73%	2.08%	**-0.65%**
1990	0.13%	1.96%	**1.83%**
1991	8.53%	5.71%	**-2.82%**
1992	0.65%	2.83%	**2.18%**
1993	0.78%	2.68%	**1.90%**
1994	0.83%	2.50%	**1.67%**
1995	0.71%	2.06%	**1.35%**
1996	2.22%	2.42%	**0.20%**
1997	1.21%	3.75%	**2.54%**
1998	5.61%	8.60%	**2.99%**
1999	2.96%	7.61%	**4.65%**
2000	-2.21%	0.97%	**3.18%**
2001	1.79%	1.51%	**-0.28%**
2002	-0.15%	-0.59%	**-0.44%**
2003	3.79%	4.78%	**0.99%**
2004	-0.30%	-1.26%	**-0.96%**
2005	-0.17%	-0.10%	**0.07%**
2006	-0.74%	-0.68%	**0.06%**
2007	0.09%	1.94%	**1.85%**
2008	7.28%	11.65%	**4.37%**
2009	2.26%	5.53%	**3.27%**
2010	2.97%	3.89%	**0.92%**
2011	5.04%	5.08%	**0.04%**
2012	2.24%	4.60%	**2.36%**
2013	2.54%	2.76%	**0.22%**
2014	3.45%	5.13%	**1.68%**
2015	-1.50%	-2.03%	**-0.53%**
2016	-0.19%	-0.07%	**0.12%**
2017	0.75%	1.28%	**0.53%**
2018	-1.41%	-1.61%	**-0.20%**
2019	2.08%	1.02%	**-1.06%**
2020	0.16%	-0.71%	**-0.87%**
2021	1.84%	3.52%	**1.68%**
Total	***56.35%***	***91.34%***	***34.99%***

The last few years have not been as consistent as previous times. So perhaps the outperformance is not as reliable as it once appeared. Still, I think it is worth some consideration. Going forward I may consider using IWM (the Russell 2000 ETF) instead of SPY for some long index trades to take advantage of the probable Russell outperformance.

There was another study in Sunday's letter that looked specifically at action in the Russell 2000 after opex Thursday in December. I will re-post that tomorrow.

I have updated the Aggregator chart below.

Without any new studies making the list 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 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 Thursday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 4014.65 on Thursday. That is 0.5% *above* Wednesday'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 up at least 0.5% in order to remain overbought. Anything less than that and it will be considered "oversold" vs expectations as of Thursday's close.

So the Aggregator is neutral. Evidence is light, but is pointing higher. The market is overbought, but will turn oversold if it does not rally on Thursday. This is still not setup suggesting a strong edge. I will continue to exercise patience until the next favorable opportunity arises.

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

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
GS(1/3)	*12/7/2022*	*$362.49*	*$367.01*	*1.25%*	*sold on open*
GS(1/3)	*12/8/2022*	*$359.92*	*$367.01*	*1.97%*	*sold on open*
GS(1/3)	*12/9/2022*	*$356.71*	*$367.01*	*2.89%*	*sold on open*