

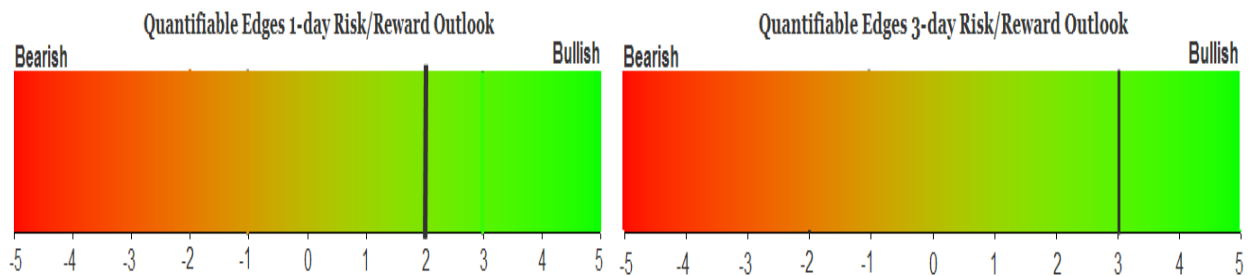
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2022

Volume 15 Issue 242

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Selling on and after a Fed meeting does not tend to last much longer than we have seen.
- The lack of a VIX spike could suggest more short-term selling.
- Late December seasonality has been strong even in years when the market was down strongly year-to-date.
- The SOMA declined again and the Fed remains hawkish.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is an upside edge.

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 19, 2022	SPX < Bollinger Band. VIX not spiking	1 day	Bearish			
December 19, 2022	Fed 2 days ago. Dn 3+	1-3 days	Bullish			
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			

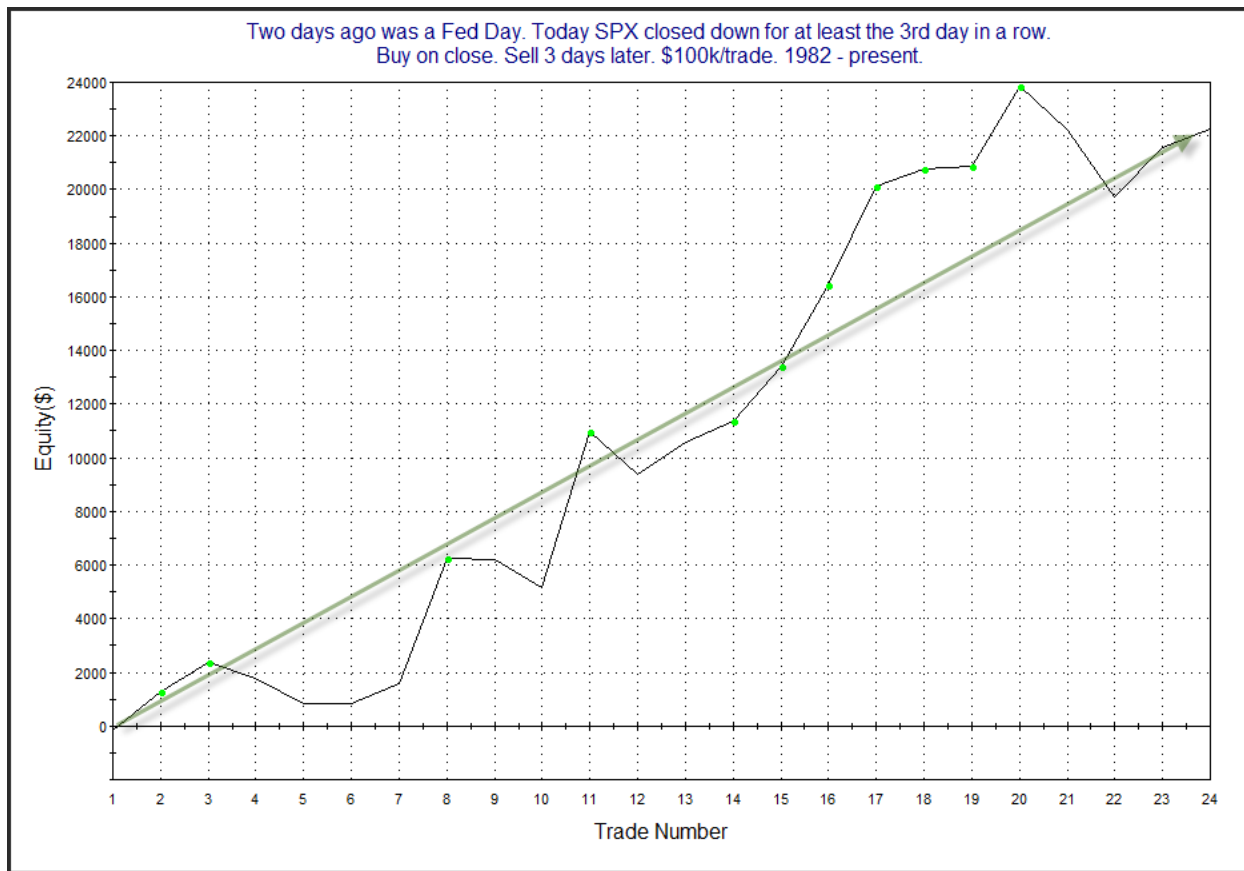
The Evidence

Friday was another day of selling. The SPX finished down 1.1%, the NASDAQ lost 1.0%, and the Russell 2000 declined 0.6%. Breadth was negative with the NYSE Up Issues % coming in at 30% and the Up Volume % at 21%. NYSE total volume spiked as it typically does on options expiration Friday.

It's interesting that the selling has continued right through and after a Fed Day. In the 9/26/22 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

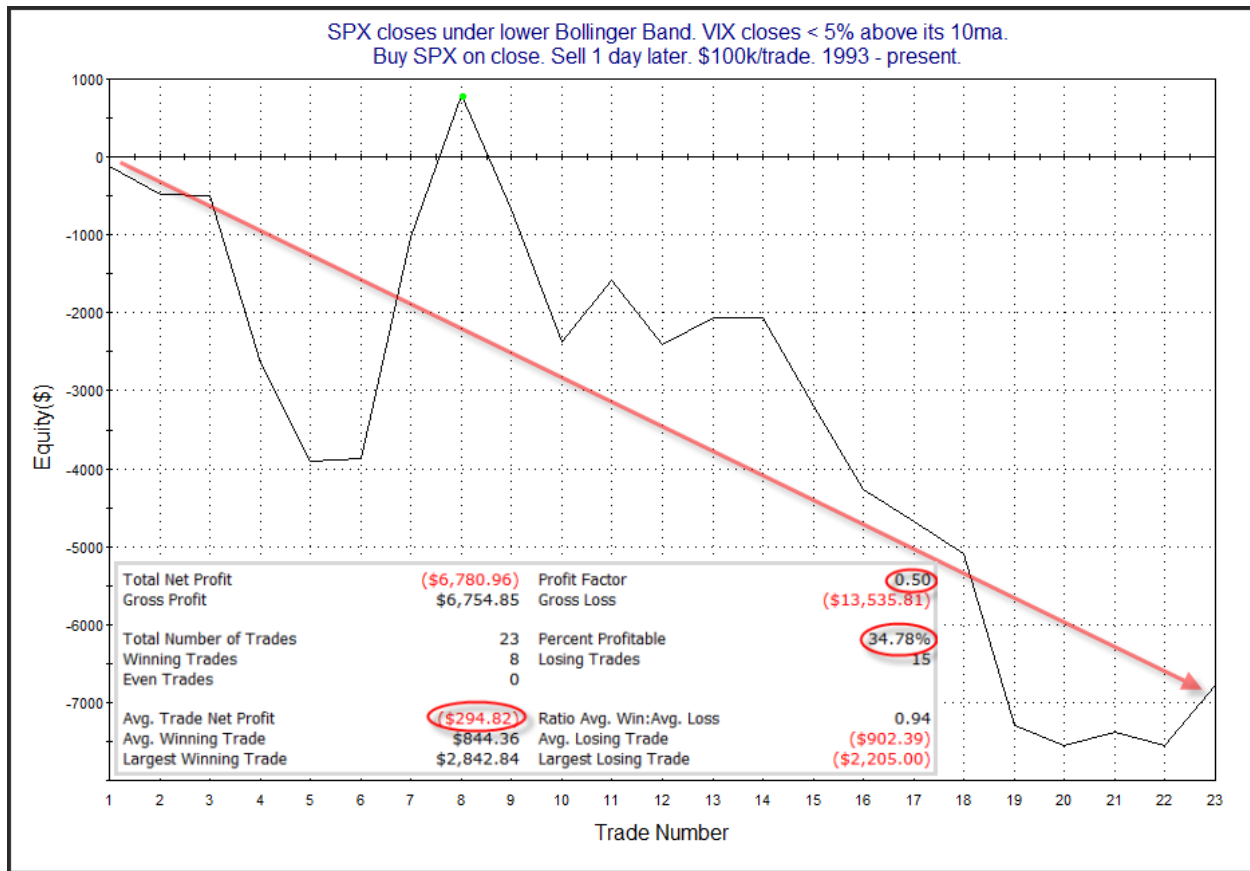
Two days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row. Buy on close. Sell X days later. \$100k/trade. 1982 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	13,089.40	24	12	12	50.00	5,555.16	-3,477.69	2,650.78	-1,560.00	1.70	1.70	545.39
4	21,325.31	24	15	9	62.50	5,564.00	-2,266.11	2,174.91	-1,255.37	1.73	2.89	888.55
3	22,249.73	24	16	8	66.67	5,801.02	-2,476.50	1,921.76	-1,062.30	1.81	3.62	927.07
2	17,431.37	24	16	8	66.67	4,670.25	-1,709.52	1,464.94	-750.97	1.95	3.90	726.31
1	8,348.38	24	15	9	62.50	2,671.02	-2,968.54	1,129.49	-954.88	1.18	1.97	347.85

The edge looks quite strong over the next few days. Below is a look at a 3-day profit curve.



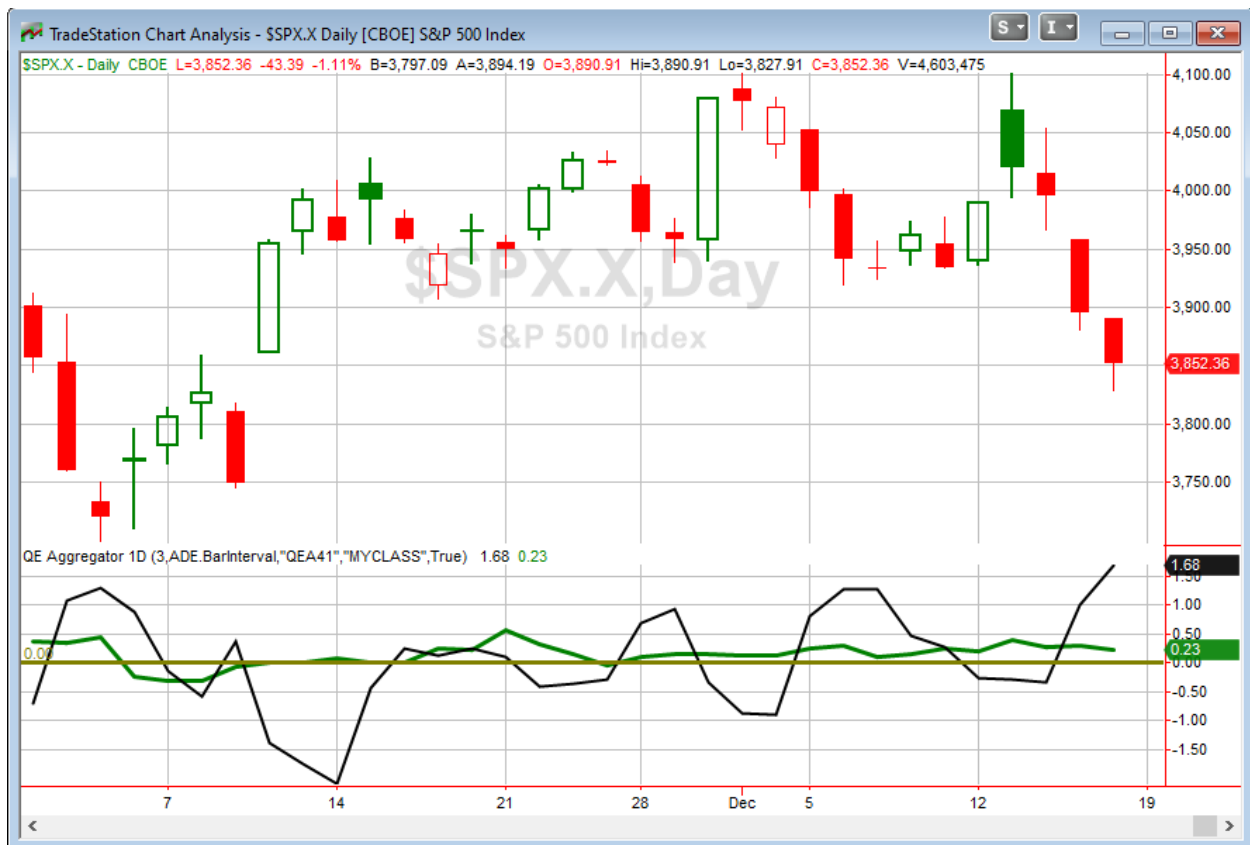
There was a stumble a few instances ago, but the strong move from lower left towards upper right still serves as some confirmation of the upside edge. I have included this study on the active list.

In the 12/21/15 subscriber letter I looked at other the times where SPX was stretched to the downside, but the VIX was not particularly stretched to the upside. VIX commonly trades inverse to the SPX, so when there is a big decline in the market that is often accompanied by a spike in the VIX. And that is not the case with the current setup. The chart below shows updated results from that old study.



It seems that often the lack of a fear spike was perhaps overconfidence and the market continued to head lower. I don't love this study for the current situation. The reason I don't love it is that the VIX was unusually high heading into the SPX decline. It was high because there was the market-moving events of CPI on Tuesday and the Fed announcement on Wednesday. Options were priced highly because there were sizable "unknowns" heading into those announcements. Once the CPI and the Fed policy became "known", options players could more easily price future volatility, and they did not need to overprice it based on the "unknowns". So the VIX not spiking was natural. I considered therefore leaving this off the active list, but rather than make excuses for a study, I just allowed it. It did not barely impact the aggregator anyway.

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 also held 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. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4024.55 on Monday. That is 4.5% above Friday's close. So SPX will need to close up 4.5% on Monday to flip from oversold to overbought vs recent expectations. I don't envision that happening.

So the Aggregator is bullish. Evidence is a bit light still, but the market is strongly oversold. So a bounce could be sizable. I would expect to see Turnaround Tuesday studies trigger if there is additional selling on Monday. And we will soon see more seasonally bullish studies like our "[3 Night Before Christmas](#)" study trigger in the next few days. So I have some long and may increase that on Monday if there is additional selling.

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

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”.*

After Tuesday’s large gap up, the market just crumbled for the rest of the week. The SPX dropped 2.1%, the NASDAQ lost 2.7%, and the Russell 2000 fell 1.85%. Bonds saw some gains. The US Aggregate Bond ETF (AGG) rose 0.8%, and TLT, the 20-year Treasury Bond ETF climbed 1.0%.

I’ve heard people saying recently that the typical 2nd half of December bullish tendency is unlikely to unfold this year. The theories suggest that the market is often up on the year. And people and institutions flush with profits tend to push it higher as the New Year approaches. There is also lots of buying chasing strong market returns heading into year end. But when it is a down year like now, players have losses, and less liquidity, and there is also tax-loss selling. All this creates selling pressure, so the bullish end-of-year turns bearish. I tested it. I looked at all other years since SPX inception in 1957 that SPX was down at least 12% (it is currently down 19%) on December 16th. If December 16th fell on a weekend, then it looked at the next trading day. The test bought on the 16th (or just after) and sold on the close of the 1st day of the New Year. Results below.

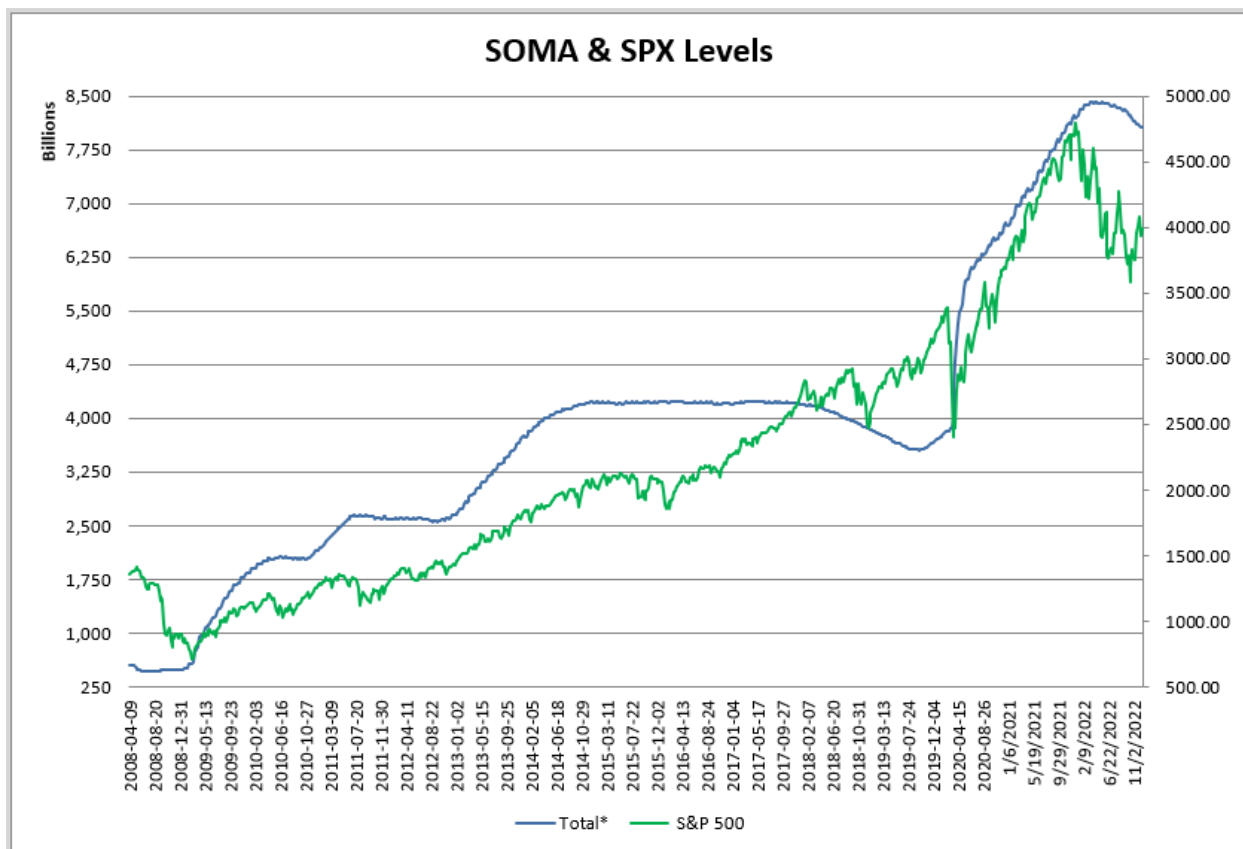
Today is Dec 16th (or the 1st trading day after if Dec 16th is a weekend). SPX is down over 12% year-to-date. Buy SPX on close. Sell close 1st day of next year. 1957 - present.									
Symbol	Trade	Date	Price	Exit date	Exit Price	% chg	Drawdn	RunUp	
\$SPX	Long	12/16/1957	40.12	1/2/1958	40.33	0.52%	-1.84%	0.52%	
\$SPX	Long	12/17/1962	62.37	1/2/1963	62.69	0.51%	-1.04%	1.70%	
\$SPX	Long	12/16/1969	89.72	1/2/1970	93	3.66%	-1.23%	3.66%	
\$SPX	Long	12/17/1973	92.75	1/2/1974	97.68	5.32%	-1.15%	6.48%	
\$SPX	Long	12/16/1974	66.46	1/2/1975	70.23	5.67%	-1.69%	5.67%	
\$SPX	Long	12/16/1977	93.4	1/3/1978	93.82	0.45%	-1.76%	2.43%	
\$SPX	Long	12/17/2001	1134.36	1/2/2002	1154.67	1.79%	-1.06%	2.67%	
\$SPX	Long	12/16/2002	910.4	1/2/2003	909.03	-0.15%	-4.50%	0.09%	
\$SPX	Long	12/16/2008	913.18	1/2/2009	931.8	2.04%	-6.14%	2.04%	
						Average	2.20%	-2.27%	2.81%

The theory sounded nice. I see no evidence that it is true. Eight of nine instances saw SPX move higher, and the lone loser only lost 0.15%. I see no reason to throw out seasonality studies this year just because the market is lower.

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	December 14, 2022 📅 <i>Posted December 15, 2022 at 4:30 P.M</i>
SUMMARY	T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	292,953,530.7
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***	2,650,114,172.5
Agency Commercial Mortgage-Backed Securities***	8,519,300.2
Total SOMA Holdings	8,072,903,744.9
Change From Prior Week	-1,302,414.1

This week the SOMA declined by about \$1.3 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. Additionally, the Fed increased rates this past week and is expected to increase them further in the coming months. Overall, the Fed is no friend to the market, and they won't be for as long as they remain hawkish.

The selling this past week did not seem great, but it really did not change much. Seasonality should remain favorable through the 1st trading day in January (even though the market is down substantially this year). Momentum and breadth studies from a couple of weeks ago are bullish. 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. I am leaning slightly bullish for now with breadth, momentum, and seasonality all favorable. If we do not see improved price action and more bullish studies soon, I may move back to neutral once we get through the bullish seasonal period. 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.

SPY – buy ¼ index position @ \$380.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will add a bit to my short position if Monday is another tough day.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	12/16/2022	\$383.27	\$383.27	0.00%	bought on close

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