QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 27, 2022 Volume 15 Issue 247

Market Overview

Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- There is about 1 more week of strong seasonality left.
- The SOMA declined substantially this past week. The Fed remains hawkish, and a foe to the market.

Short-term Outlook

The Bottom Line

The Aggregator is bullish but the market has been abnormally weak for late December. I like the long side, but believe risk is elevated and positions should be small.

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 20, 2022	SPX down 4 days. It is after 12/15	1-5 days	Bullish			
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 market saw a bit of a bounce on Friday. SPX finished up 0.6%, the NASDAQ rose 0.2%, and the Russell 2000 gained 0.4%. Breadth was positive with the NYSE Up Issues % coming in at 67% and the Up Volume % at 71%. NYSE total volume was light as you would expect ahead of the Christmas weekend.

The only studies to appear in the Quantifinder looked at the low volume and tight range. Both of these are expected when the market is heading into a long weekend and traders are taking extra time off. So I did not consider those studies to truly be relevant. Nothing else triggered nor inspired me. We did update the preliminary Seasonality Calendar for January over the weekend. (This upcoming week being the last week in December has bullish seasonality, but I have discussed that a good amount the last couple of weeks, so I figured taking a look at January might be more interesting.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
1/3/2023	49.37	1.112	0.036
1/4/2023	53.82	1.308	0.087
1/5/2023	50.80	1.070	0.022
1/6/2023	54.56	1.175	0.056
1/9/2023	53.07	0.939	-0.029
1/10/2023	53.24	1.120	0.033
1/11/2023	56.38	1.194	0.036
1/12/2023	57.77	1.212	0.042
1/13/2023	59.62	1.499	0.116
1/17/2023	54.42	1.527	0.122
1/18/2023	53.31	1.151	0.046
1/19/2023	51.09	1.035	0.006
1/20/2023	52.17	1.018	0.003
1/23/2023	53.02	1.006	0.001
1/24/2023	55.62	1.113	0.034
1/25/2023	55.72	1.183	0.054
1/26/2023	57.05	1.197	0.057
1/27/2023	55.56	0.981	-0.010
1/30/2023	51.48	1.018	0.007
1/31/2023	54.08	1.125	0.041
Baseline	***54.05***	***1.134***	***0.045***

Seasonality for January looks moderately favorable, with the period from the 11th – 18th appearing the strongest.

I have updated the Aggregator chart below.

Without any new studies being added, 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.

The last of the active short-term studies is set to expire on Tuesday. With the intermediate-term outlook still slightly bullish, expectations will remain slightly positive unless bearish new evidence emerges. Meanwhile, the Differential Pivot will be 3914.99. That is 1.8% above Friday's close. Therefore, SPX will need to close up at least 1.8% on Tuesday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is bullish. But evidence is light and we have seen more downside volatility than is typical during the 2nd half of December. I think the bulls have a moderate edge right now. I have a small long position. I will stand pat with that for the time being.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/27 – 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".*

This past week was a tough one for the market. The SPX declined 0.2%, the NASDAQ lost 1.9%, and the Russell 2000 fell 0.1%. Bonds also struggled. The US Aggregate Bond ETF (AGG) dropped 1.4%, and TLT, the 20-year Treasury Bond ETF tumbled 4.6%. The long-term trend has not yet clearly shifted higher. No new studies with intermediate-term implications triggered in the last few days.

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

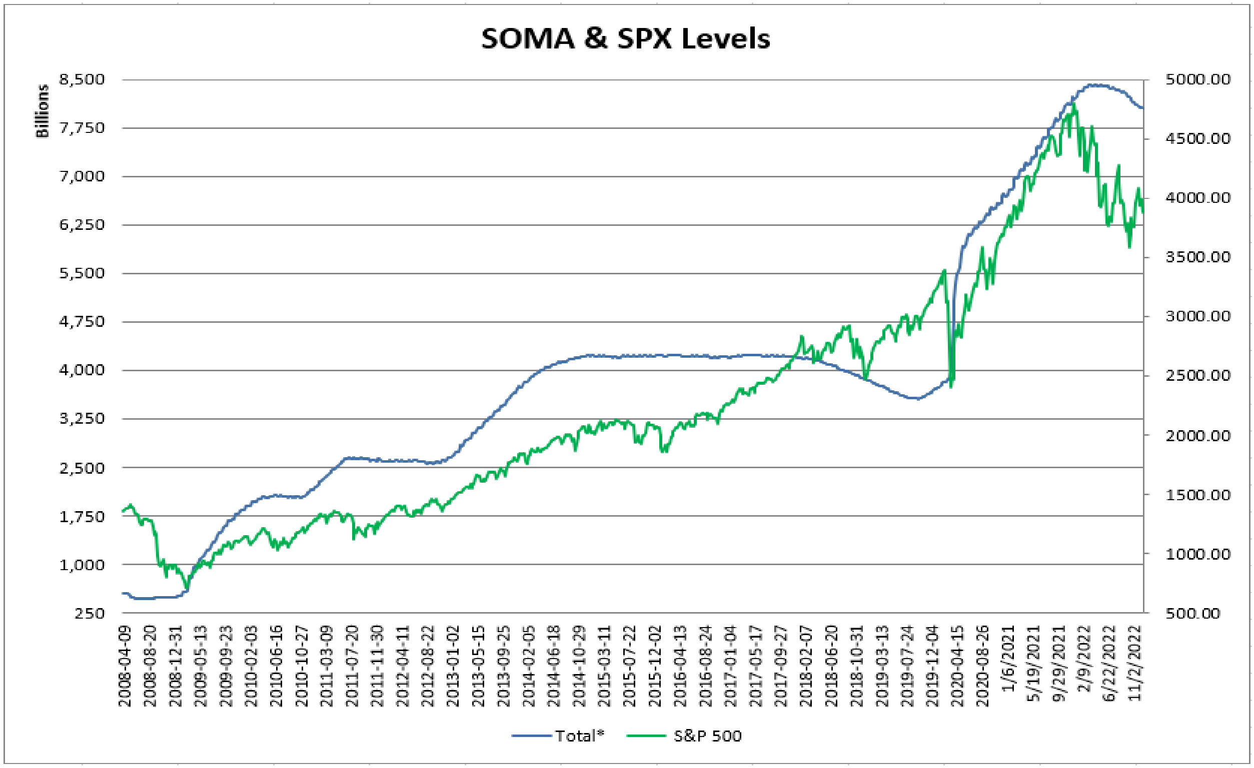
Previous December 21, 2022

Posted December 22, 2022 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	291,826,524.6
US Treasury Notes and Bonds (Notes/Bonds)	4,702,352,124.1
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***	2,644,715,997.1
Agency Commercial Mortgage-Backed Securities***	8,506,405.4
Total SOMA Holdings	8,054,330,668.5
Change From Prior Week	-18,573,076.4

This week the SOMA declined by about $18.6 billion. That is a sizable decline. I expect this week to show a smaller decline before we another big one next week with many bonds rolling off the books at the end of the year. 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.

We have about 1 more week of strong seasonality left. December has disappointed so far this year, so the last week here seems a bit of a tossup. Momentum and breadth studies from a few 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 this week, I will likely move back to neutral next weekend. The slightly bullish bias simply 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

New

TSLA – 1/3 @ $123.15 (buy @ LIMIT)

Broad Market Large Cap CBI – 1(TSLA)

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.*

TSLA – Buy 1/3 Catapult position @$123.15 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of TSLA.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	12/20/2022	$379.23	$382.91	0.97%	Aggregator