

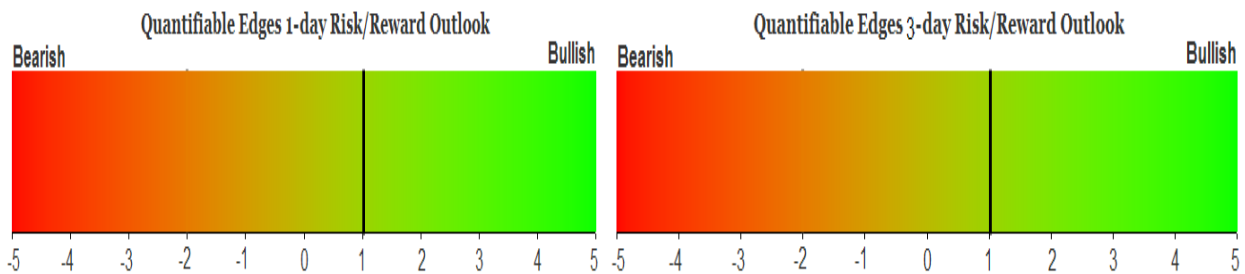
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 3, 2023

Volume 16 Issue 1

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- The 1st day of the month is bullish in uptrends, but neutral in downtrends.
- January does not appear to have a very strong seasonal edge, though mid-month shows some of the strongest numbers on the Seasonality Calendars.
- The SOMA again declined and the Fed remains a bearish influence on the market.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is light and the market is primed to flip to overbought. I believe the edge is small.

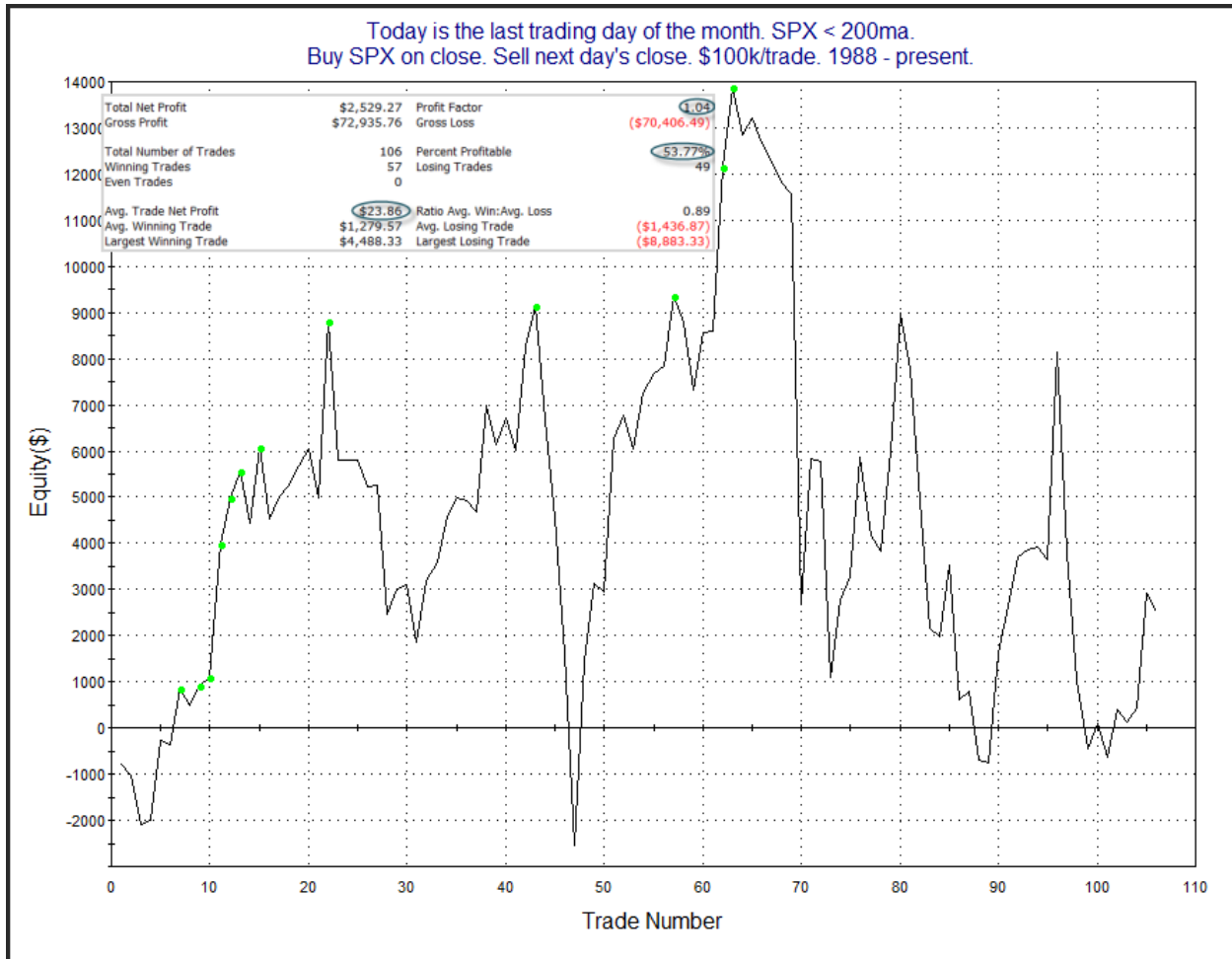
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
December 29, 2022	1% drop between Christmas & New Years	1-5 days	Bullish	3.20%	-1.40%	-2.95%
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

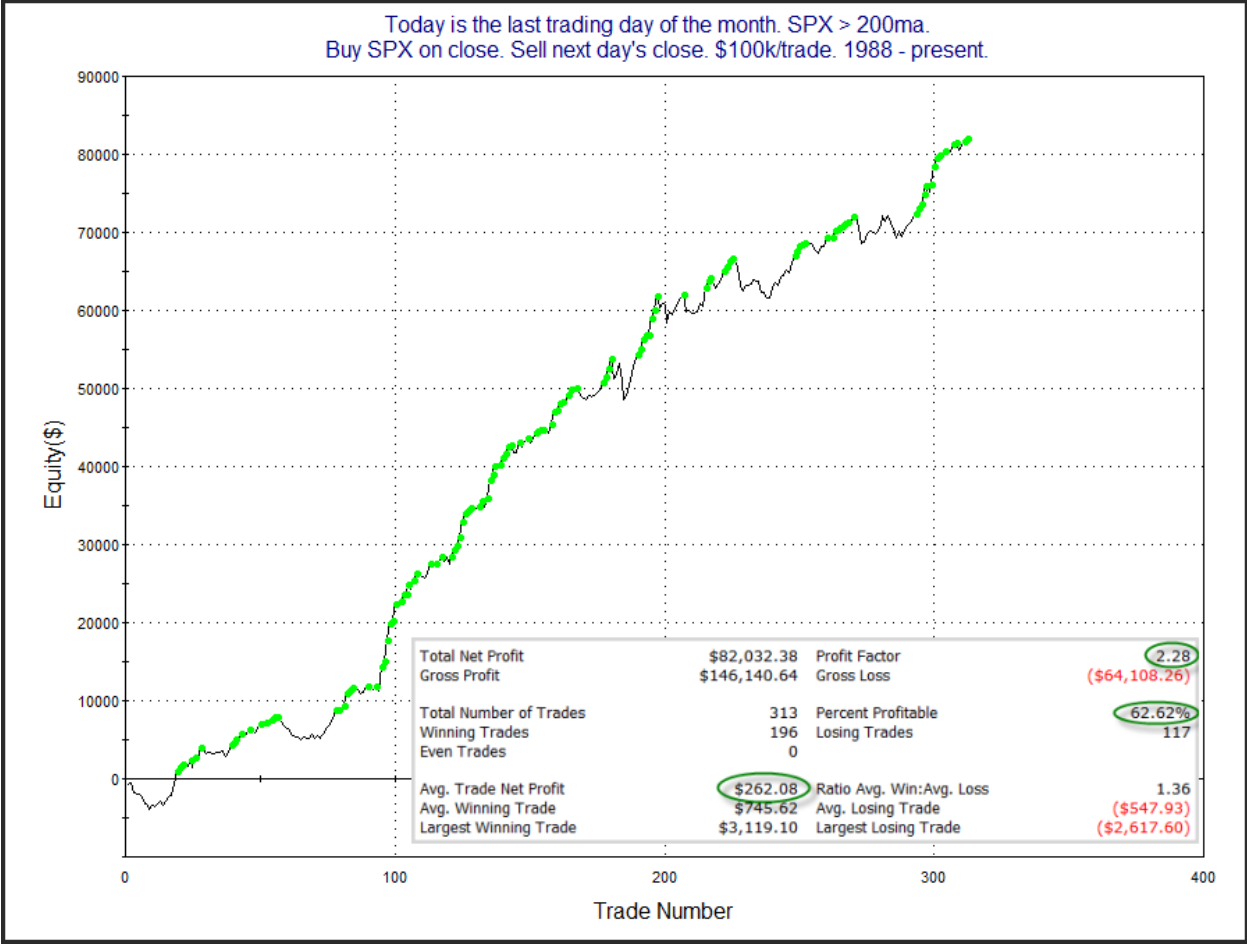
2022 finished with a down day, which seems appropriate. The SPX lost 0.25%, the NASDAQ declined 0.1%, and the Russell 2000 fell 0.3%. Breadth was positive with the NYSE Up Issues % coming in at 80% and the Up Volume % at 90%. NYSE total volume rose for the 3rd day in a row. The last 9 trading days have seen a lot of chop as SPX has traded in a loose, sideways range. Action on Friday was a continuation of that range-bound chop, and it failed to generate any price-action based studies suggesting a substantial edge.

In looking ahead to Tuesday, the 1st trading of the month often carries an upside edge. But that has really only been the case when the SPX is above its 200ma. And SPX is well below that line right now. In the 10/3/22 letter I showed Day-1 results when SPX was in a long-term downtrend like now. I have updated that chart below.



After 106 instances there is almost exactly zero progress. We probably can't look to 1st of the month seasonality to help the market on Tuesday.

While not applicable now, below is "1st of the month" performance when SPX has been above the 200ma.



This is a heck of a lot more appealing. Maybe next month...

Below is a look at the QE Seasonality Calendars for SPX and the NASDAQ Composite for January.

Quantifiable Edges Seasonality Calendar \$SPX S&P 500 Index				Quantifiable Edges Seasonality Calendar \$COMP Nasdaq Composite Index			
Date	Win%	Profit Factor	Avg % Chg	Date	Win%	Profit Factor	Avg % Chg
1/3/2023	48.88	1.108	0.035	1/3/2023	51.83	1.398	0.182
1/4/2023	53.33	1.303	0.085	1/4/2023	53.42	1.516	0.219
1/5/2023	50.31	1.066	0.020	1/5/2023	52.97	1.314	0.143
1/6/2023	54.02	1.169	0.054	1/6/2023	50.98	0.957	-0.047
1/9/2023	53.07	0.939	-0.029	1/9/2023	54.52	0.881	-0.096
1/10/2023	53.24	1.120	0.033	1/10/2023	53.72	1.131	0.034
1/11/2023	56.60	1.210	0.040	1/11/2023	55.39	1.088	0.025
1/12/2023	57.99	1.228	0.046	1/12/2023	56.22	1.052	0.009
1/13/2023	59.75	1.510	0.118	1/13/2023	63.07	1.480	0.179
1/17/2023	54.42	1.528	0.122	1/17/2023	57.59	1.938	0.322
1/18/2023	53.31	1.151	0.046	1/18/2023	55.93	1.545	0.232
1/19/2023	51.09	1.036	0.006	1/19/2023	55.09	1.395	0.173
1/20/2023	52.26	1.023	0.005	1/20/2023	49.46	0.944	-0.056
1/23/2023	53.12	1.008	0.001	1/23/2023	53.20	0.967	-0.043
1/24/2023	55.51	1.111	0.034	1/24/2023	53.82	0.996	-0.010
1/25/2023	55.72	1.175	0.053	1/25/2023	57.07	1.343	0.155
1/26/2023	57.27	1.212	0.061	1/26/2023	55.23	1.151	0.039
1/27/2023	55.41	0.979	-0.011	1/27/2023	55.23	0.941	-0.055
1/30/2023	51.58	1.020	0.008	1/30/2023	50.41	0.970	-0.040
1/31/2023	53.97	1.123	0.040	1/31/2023	51.03	0.999	-0.007
Baseline	54.09	1.136	0.046	Baseline	55.67	1.141	0.058

This upcoming week shows mixed and mostly mild numbers. And that seems to be the case for January overall. The standout period appears to be between the 10th and the 18th, where both SPX and NASDAQ are showing bullish numbers. That 6-day stretch bulls should have a seasonal wind at their back. But that is about it. (Though the 25th and 26th also show numbers that are above average.)

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



Without any new studies making the active list, 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 just barely 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 active studies, expectations are set to remain positive on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3805.18 on Tuesday. That is 0.8% *below* Friday'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 down at least 0.8% in order to remain oversold vs recent expectations. Anything other than that and it will be considered "overbought" vs recent expectations as of the close on Tuesday.

So the Aggregator is bullish. But evidence is light and the Differential Pivot is inverted. I often view inverted pivots as opportune times to take profits, since upside is limited. I will do just that tomorrow if SPX rallies some during the day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/3 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

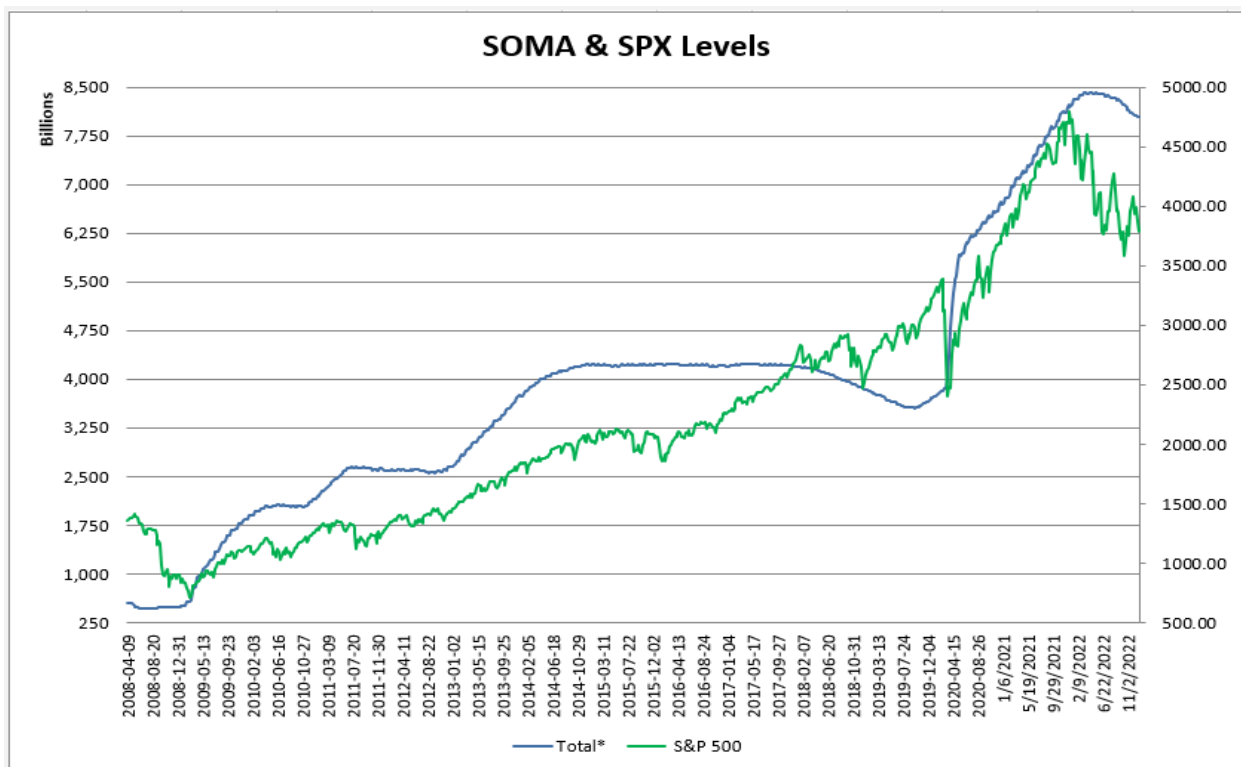
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 mostly lower for the indices. The SPX declined 0.1%, the NASDAQ lost 0.3%, and the Russell 2000 rose 0.02%. Bonds struggled. The US Aggregate Bond ETF (AGG) dropped 1.0%, and TLT, the 20-year Treasury Bond ETF tumbled 2.55%. 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 28, 2022 📅
Posted December 29, 2022 at 4:30 P.M.	
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	291,191,667.1
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***	2,632,908,241.7
Agency Commercial Mortgage-Backed Securities***	8,493,603.3
Total SOMA Holdings	8,041,875,253.6
Change From Prior Week	-12,455,414.9

This week the SOMA declined by about \$12.5 billion. That is a fairly sizable decline. I expect this week to show an even larger decline 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 has been increasing rates 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.

December seasonality disappointed in 2022. This past week was the 4th consecutive weekly down close. That has only ever happened once before in December – way back in 1968. Momentum and breadth studies from a few weeks ago point higher, but they have not worked out so far, and I am not seeing additional bullish evidence emerge. The NASDAQ continues to lag 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. With positive seasonality largely behind us, and no new intermediate-term bullish indications emerging, I am moving my intermediate-term bias back to neutral. This means I will be selective with both long and short trades until a more defined intermediate-term edge emerges.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

TSLA – 1/3 @ \$123.15 (bought @ LIMIT)

TSLA – 1/3 @ \$109.10 (bought @ LIMIT)

Broad Market Large Cap CBI – 2(TSLA-2)

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
SPY(1/4)	12/20/2022	\$379.23	\$382.43	0.84%	sell @ \$382.50 LIMIT
TSLA(1/3)	12/27/2022	\$117.50	\$123.18	4.83%	Catapult
TSLA(1/3)	12/28/2022	\$109.10	\$123.18	12.91%	Catapult

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