

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 9, 2023

Volume 16 Issue 5

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	2

Tonight's Research Points

- The gap and go action on Thursday suggests a possible pullback Friday.
- The most bullish part of January starts on Tuesday
- The SOMA declined by the 2nd largest amount ever last week.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but I am not terribly enthused about the current setup.

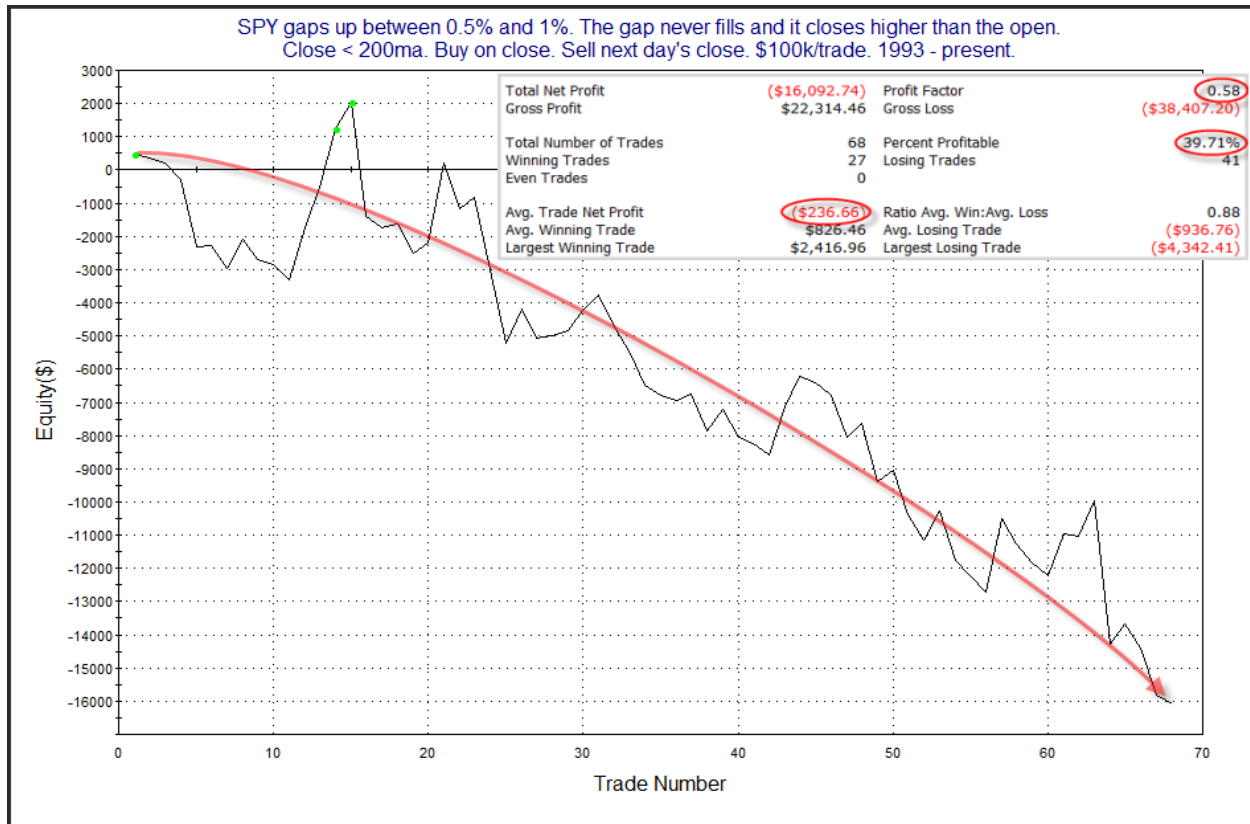
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 9, 2023	Gap up. Close > open. Close < 200ma	1 day	Bearish			
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
January 3, 2023	5-high, down close, Up Issue > 60%	1-3 days	Bullish	1.60%	-0.90%	-2.15%

The Evidence

The market put in a rally on Friday following a favorable employment report. The SPX gained 2.3%, the NASDAQ jumped 2.6%, and the Russell 2000 rose 2.3%. Breadth was negative with the NYSE Up Issues % coming in at 858% and the Up Volume % at 86.1%. NYSE total volume declined some from Thursday’s level.

SPX popped up just above its recent range, but not a whole lot triggered suggesting a strong edge. There is a study from the 12/30/22 letter that I found compelling. We have actually seen it several times lately. It considers the price action on Friday, including the unfilled up-gap and the fact that SPY is still below its 200ma. I have updated below.



Stats are moderately negative, but the curve makes the study more compelling. I have included this study on the active list.

Below is the QE Seasonality Calendars that I showed last weekend.

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

I show these again this weekend as a reminder that starting Tuesday we will be heading into what appears to be the strongest 6-day seasonal period of January.

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



With this weekend's evidence considered, the green Aggregator Line dipped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also fell below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation flipped to short at the close.

With the last of the short-term studies set to expire, and the intermediate-term outlook neutral, expectations are set to turn flat on Monday. Of course any new evidence that emerges would have a strong influence on expectations. Meanwhile, the Differential Pivot will be 3874.90 on Monday. That is 0.5% below Friday's close. Therefore, SPX will need to close down at least 0.5% on Monday to flip from overbought to oversold vs recent expectations.

So the Aggregator is suddenly bearish. But the edge is very short-term (basically 1 day). After Monday, the current mix of studies will leave us back at neutral. I am not inclined to jump in and try and capture such an underwhelming edge. There are also some wildcards this week to be aware of. Fed Chairman Powell is set to speak on Tuesday, and on Thursday we have the CPI report. CPI has generated some massively volatile days over the last year. If I identify a strong risk/reward opportunity in the next few days, I will look to take advantage of it. But I don't see a strong setup yet.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/9 – 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”.*

Friday’s action caused the indices to all post positive weekly numbers. The SPX closed up 1.45%, the NASDAQ gained 1.0%, and the Russell 2000 1.8%. Bonds were even stronger. The US Aggregate Bond ETF (AGG) rose 2.2%, and TLT, the 20-year Treasury Bond ETF rallied 5.6%. 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.

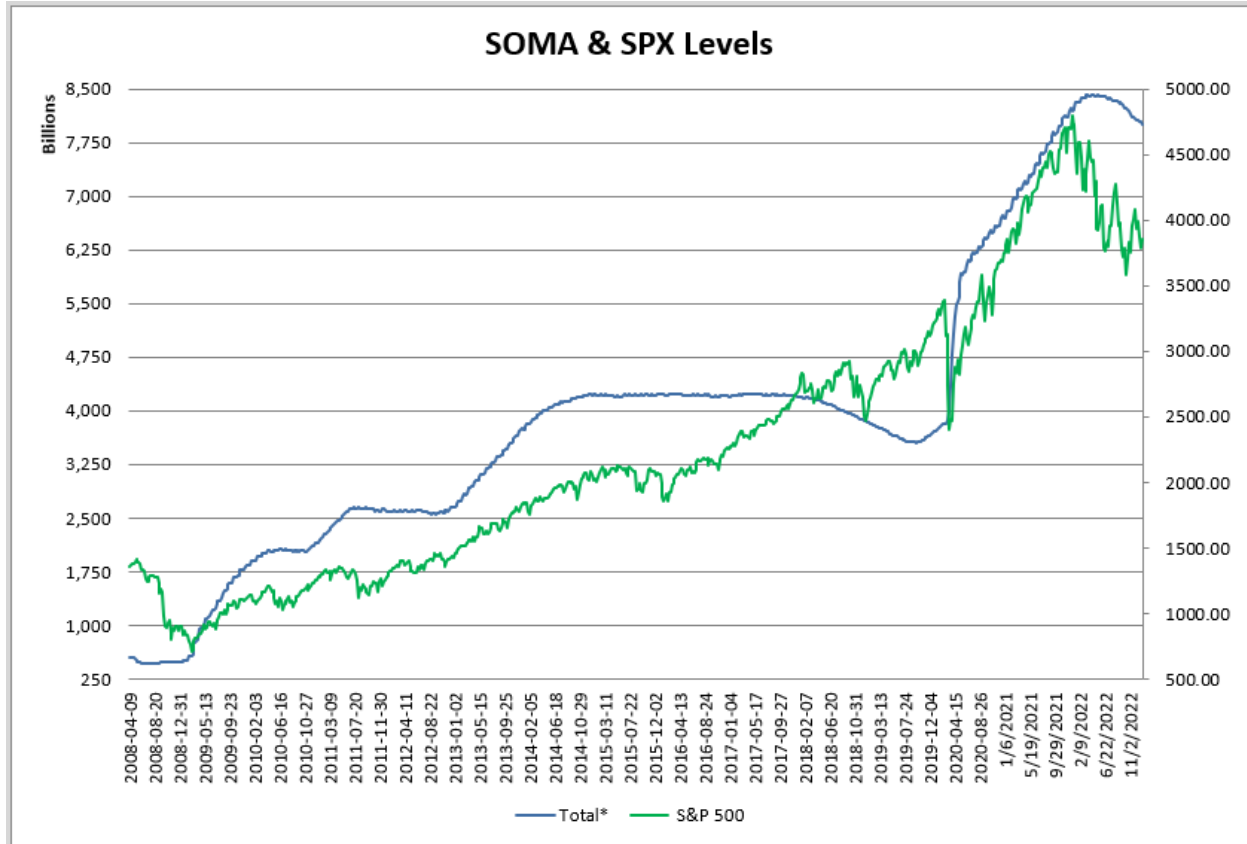
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Domestic Security Holdings as of

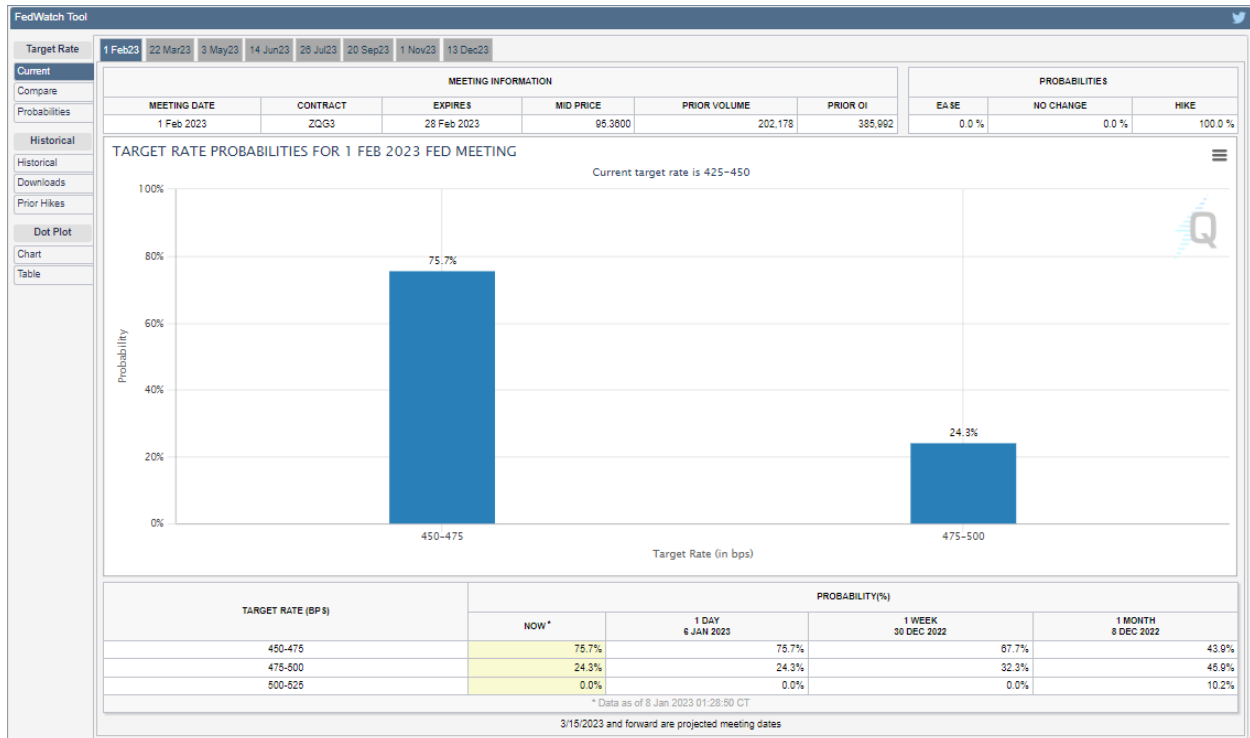
◀ Previous **January 4, 2023** 📅
Posted January 5, 2023 at 4:30 P.M

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	289,338,373.3
US Treasury Notes and Bonds (Notes/Bonds)	4,660,997,185.8
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	7,998,667,021.5
Change From Prior Week	-43,208,232.1

This week the SOMA declined by about \$43.2 billion. The only decline larger than that in history was the week of 3/26/2008 when the SOMA was reduced by \$48 billion. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what will likely be 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. Below is a look at the CME Fedwatch tool, which shows the market is currently estimating a 76% chance of a ¼ point hike on Feb 1st, and a 24% chance of a ½ point hike.



Friday gave some hope to the bulls, as SPX closed at the highest level in a couple of weeks. But nothing substantial triggered as far as intermediate-term evidence. Momentum and breadth studies from a few weeks ago still point higher, but that is still about it. 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. Without new intermediate-term bullish indications emerging, I am keeping my bias 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
TSLA(1/3)	12/27/2022	\$117.50	\$113.06	-3.78%	Catapult
TSLA(1/3)	12/28/2022	\$109.10	\$113.06	3.63%	Catapult

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