

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2023

Volume 16 Issue 6

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPY's gap up and reverse lower pattern suggests an upside edge.
- The dip occurring with strong breadth appears to be a positive.
- The "1st 5 Days" of January are a well-known predictor that I examine a little closer.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. The edge appears mild, and risk appears elevated.

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 10, 2023	5-high. Down close. Up Issue > 60%.	1-3 days	Bullish			
January 10, 2023	Gap up > 0.5%. Close down < 200	1-2 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			

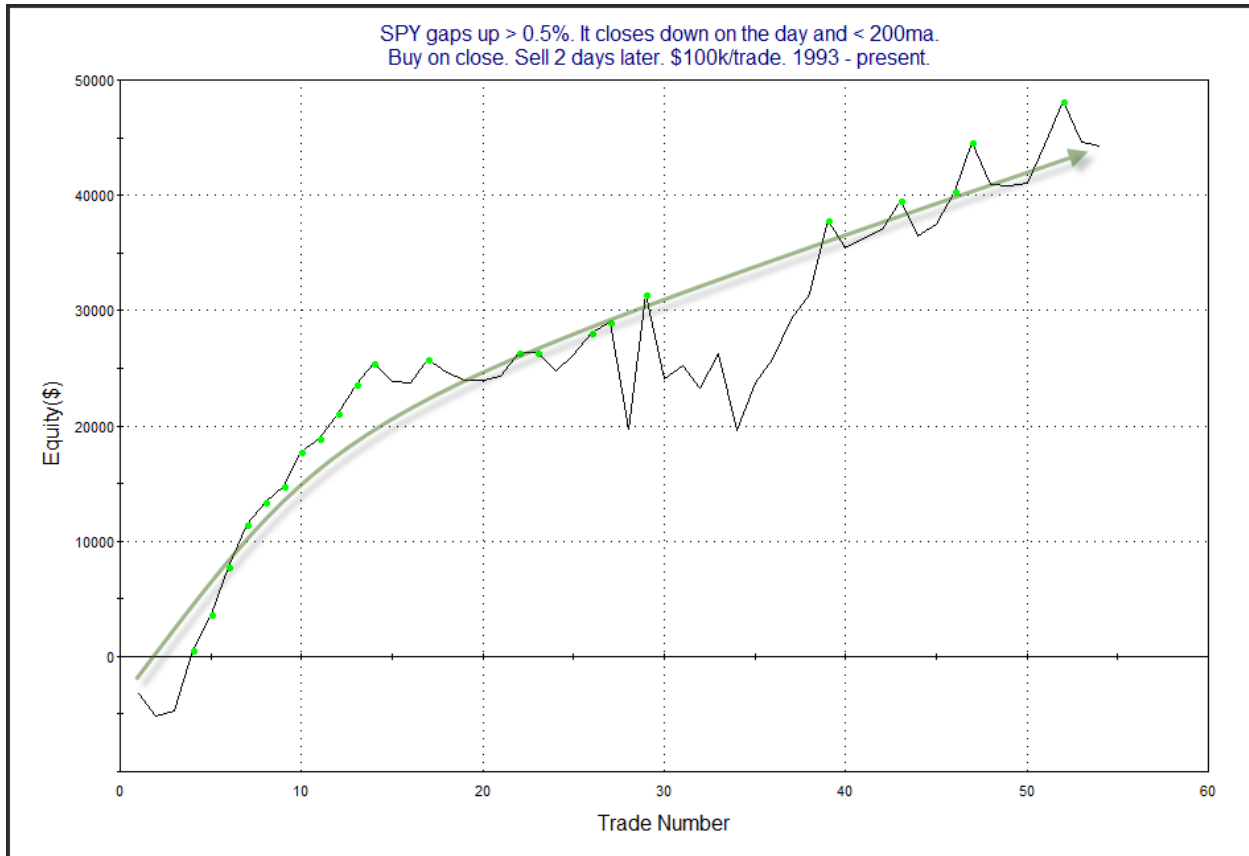
The Evidence

Monday started strong but finished mixed and near the lows of the day. The SPX lost 0.1%, the NASDAQ climbed 0.6%, and the Russell 2000 rose 0.2%. Breadth was positive with the NYSE Up Issues % coming in at 61% and the Up Volume % at 60%. NYSE total volume rose some from Friday's level.

There were a couple of studies from the Quantifinder tonight that I thought were worth consideration. This 1st one looked at the gap up and reversal in SPY. Last seen in the 1/4/23 letter, I have updated the results below.

SPY gaps up > 0.5%. It closes down on the day and < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	36,937.61	50	32	18	64.00	5,876.56	-9,016.04	2,890.17	-3,085.99	0.94	1.66	738.75
4	40,071.35	51	35	16	68.63	6,060.50	-8,130.08	2,465.05	-2,887.84	0.85	1.87	785.71
3	25,454.96	53	34	19	64.15	7,186.58	-11,518.47	2,349.32	-2,864.32	0.82	1.47	480.28
2	44,254.37	54	37	17	68.52	11,736.30	-9,320.67	2,523.90	-2,889.99	0.87	1.90	819.53
1	14,781.05	55	34	21	61.82	4,803.44	-7,436.23	1,584.85	-1,862.09	0.85	1.38	268.75

Numbers here look strong over the first 1-2 days. Below is a look at the 2-day profit curve.



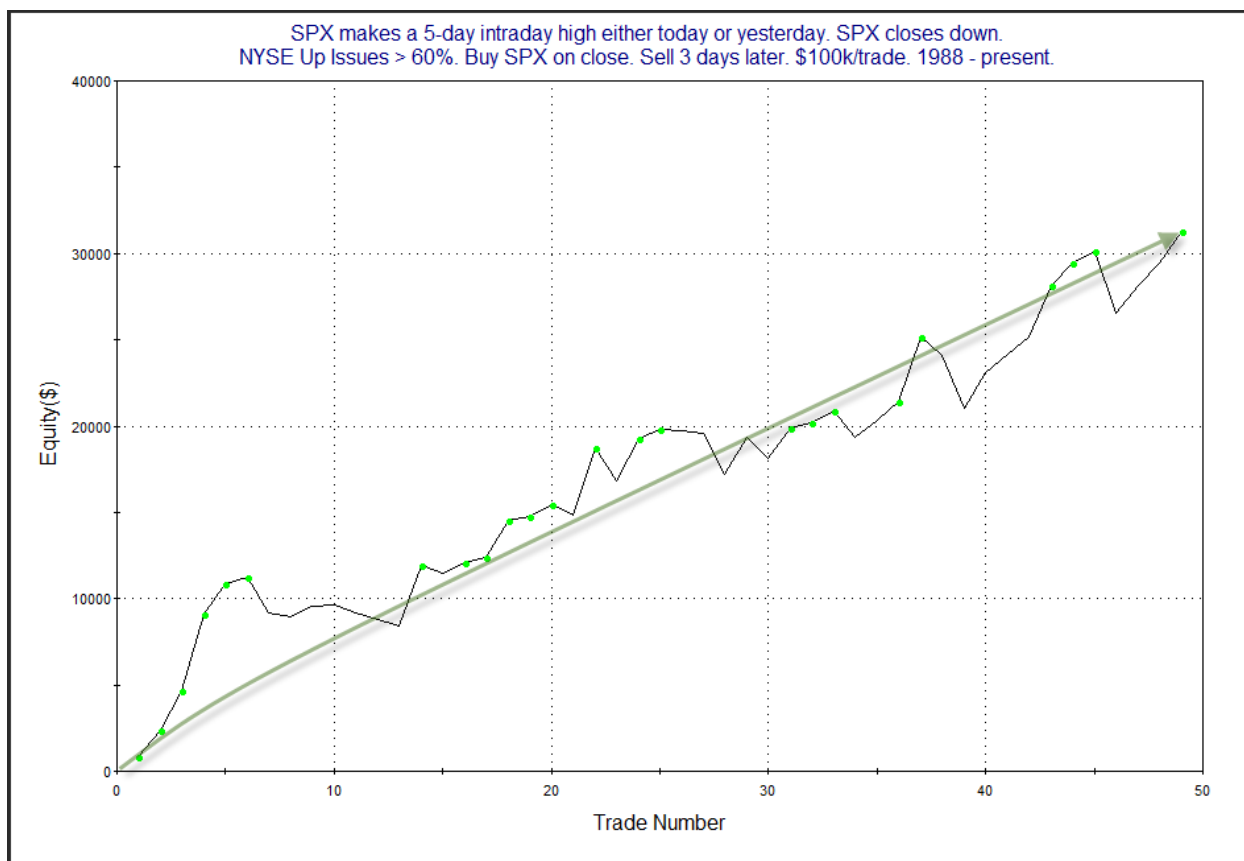
There is some real chop in this curve, but the dips have recovered fairly quickly, and it is again near a new high. I have included this on the Active List tonight.

There was another study I found interesting from the same 1/4/23 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

SPX makes a 5-day intraday high either today or yesterday. SPX closes down.
NYSE Up Issues > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	15,677.21	46	30	16	65.22	4,586.15	-6,119.33	1,666.79	-2,145.40	0.78	1.46	340.81
4	36,315.54	49	31	18	63.27	8,095.62	-6,253.50	2,053.45	-1,518.97	1.35	2.33	741.13
3	31,256.06	49	33	16	67.35	4,370.82	-3,593.26	1,539.49	-1,221.70	1.26	2.60	637.88
2	21,310.32	49	32	17	65.31	4,825.17	-4,128.74	1,271.18	-1,139.26	1.12	2.10	434.90
1	19,711.57	49	29	20	59.18	3,351.09	-1,606.00	1,017.52	-489.82	2.08	3.01	402.28

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



The curve has slope upwards for a long time and is back at new highs. This seems to offer some confirmation of the upside edge suggested by the stats table. I have included this study on the Active List tonight.

In the 1/9/20 letter I showed some studies that used the “1st 5 days” predictor. I did not find it to be of real value, so I have not updated that research with the last few years. But below I have pasted what I wrote a couple of years ago, because I still found it interesting.

[1st 5 Days Study](#)

Yale and Jeffrey Hirsch have published the Stock Traders Almanac for many years. I am a fan of their work and have benefitted from some of the ideas they have shared. One study they published that gets a lot of press every year at this time is “January’s 1st 5 Days: An Early Warning System”. The basic idea is that performance on the 1st 5 days in January can be an indication of how the full year will perform. While I am a fan of their work, I have never been a big fan of this study.

Not because I didn't believe it, but because I didn't know how to profit from it. It seemed silly to be to establish a bullish bias for the year based on just 5 days. But I examined it a couple of years ago and decided to update those results tonight.

Using the SPX I simply looked back to 1961 to see how the market has performed if the 1st 5 days in January closed higher. I did not include those 5 days in my results, but assumed I bought at the close of day 5 and then sold at the close on December 31st. Those results are below.

Buy SPX if 1st 5 days of Jan show net gain. Sell end of December. \$100k/trade. 1961 - present.	
Statistics	
All trades	39
Avg. Profit/Loss	10146.39
Avg. Profit/Loss %	10.15%
Avg. Bars Held	247.51
Winners	28 (71.79 %)
Avg. Profit %	17.05%
Avg. Bars Held	247.18
Max. Consecutive	5
Largest win	33656.66
Losers	11 (28.21 %)
Avg. Loss %	-7.43%
Avg. Bars Held	248.36
Max. Consecutive	2
Largest loss	-24199.84
Profit Factor	5.84

These numbers certainly look compelling. 72% of the time the market moved higher over the remainder of the year and winning years were more than twice as large as losers. The average result when the 1st 5 days were higher was a gain of 10.1%. Overall this seems impressive.

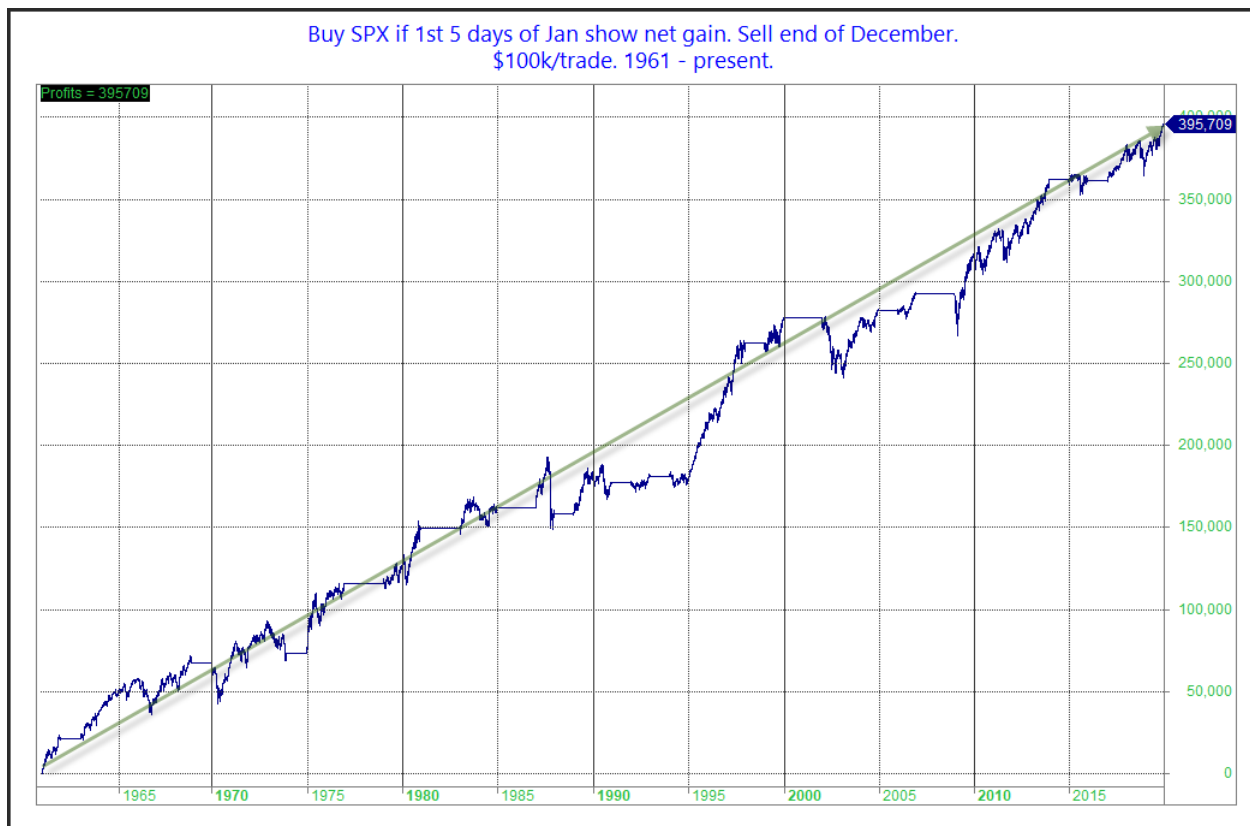
Now let's look at times the "1st 5 Days" showed a loss.

Buy SPX if 1st 5 days of Jan show net loss. Sell end of December. \$100k/trade. 1961 - present.

Statistics	
All trades	20
Avg. Profit/Loss	2928.95
Avg. Profit/Loss %	3.62%
Avg. Bars Held	248.05
<hr/>	
Winners	12 (60.00 %)
Avg. Profit %	15.88%
Avg. Bars Held	248.33
Max. Consecutive	7
Largest win	32451.57
<hr/>	
Losers	8 (40.00 %)
Avg. Loss %	-14.78%
Avg. Bars Held	247.63
Max. Consecutive	4
Largest loss	-35026.87
Profit Factor	1.56

The Hirsch's noted that these instances aren't bearish, but that they pale in comparison to the returns if the "1st 5 Days" are positive. As you can see, this is the case.

So far, a strong "1st 5 days" seems to be a positive sign. I produced a profit curve below to see how this edge has played out over time.



That is a pretty straight and steady looking curve. Based on these results it appears the “1st 5 days” of January may be predictive. While the market has had an upward bias over the years, we all know the curve has looked a lot choppier than this.

But is January more predictive than other months?

What about the “1st 5 days” of February? March? December?

If we are to consider January to be predictive then perhaps we should also compare it to other months. In the results table below I did this. I took each month’s “1st 5 days” and if the number was positive I then bought and held for the next year (minus 5 days). So if the 1st 5 days in February were positive I bought the close of the 5th trading day and then sold the last trading day the following January. A positive start to March would mean I bought the 5th day there and held to the end of February, and so on. In this way each month’s start had a chance to serve as a predictor for the next 12 months (minus 5 days).

Buy SPX if 1st 5 days of X Month shows a net gain. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.									
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss
2	37	28	9	75.68	\$351,929.61	14.89	-6.94	6.63	\$9,511.61
3	33	26	7	78.79	\$200,831.85	11.67	-14.65	2.96	\$6,085.81
4	33	26	7	78.79	\$278,762.80	14.2	-12.91	4.09	\$8,447.36
5	36	24	12	66.67	\$226,507.83	15.05	-10.77	2.77	\$6,291.88
6	35	26	9	74.29	\$295,032.77	14.06	-7.83	5.18	\$8,429.51
7	37	30	7	81.08	\$322,450.51	13.21	-10.02	5.59	\$8,714.88
8	29	20	9	68.97	\$149,891.33	13.04	-11.94	2.4	\$5,168.67
9	29	24	5	82.76	\$297,146.90	13.53	-5.51	11.79	\$10,246.44
10	37	26	11	70.27	\$237,584.03	15.75	-14.96	2.44	\$6,421.19
11	41	34	7	82.93	\$325,833.93	12.66	-14.15	4.29	\$7,947.17

These results surprised me when I first ran them. If you look at the “% of Winners” column you will see that 7 of the remaining 11 months were more reliable predictors than January. January did not even make the top half! One thing that January does have going for it is that the “Avg Trade” was slightly better than all other months, except for September.

But I also looked at results for all the other months if the “1st 5 days” was down.

Buy SPX if 1st 5 days of X Month show a net loss. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.									
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss
2	22	15	7	68.18	\$108,276.79	15.21	-17.13	1.9	\$4,921.67
3	26	19	7	73.08	\$265,465.24	18.48	-12.13	4.13	\$10,210.20
4	26	18	8	69.23	\$171,910.68	15.27	-11.5	2.92	\$6,611.95
5	23	20	3	86.96	\$223,892.44	13.04	-12.33	7.05	\$9,734.45
6	24	15	9	62.5	\$144,364.97	16.44	-11.14	2.44	\$6,015.21
7	22	12	10	54.55	\$98,367.95	19.73	-11.83	1.89	\$4,471.27
8	30	25	5	83.33	\$322,612.61	16.27	-16.82	4.84	\$10,753.75
9	30	19	11	63.33	\$148,974.77	16.53	-14.35	1.94	\$4,965.83
10	22	16	6	72.73	\$214,316.39	17.07	-9.81	4.64	\$9,741.65
11	18	13	5	72.22	\$90,487.11	14.55	-18.81	1.97	\$5,027.06

January’s edge is also put to question here. We see here that a weak start has actually beaten January’s “Avg Trade” in 2 of the instances. And it appears the most reliable and powerful “1st 5” scenario appears here...a bad start to August.

Overall, the “1st 5 Days” seems to be an interesting phenomenon, but its predictability is questionable and making it actionable is beyond me. This shouldn’t be construed as a knock on the Hirsch’s or their work. I’m quite sure they don’t take long-term positions based on 5 days in January, either. But I found it an interesting exercise and thought I would share the results.

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



With tonight's evidence considered, the green Aggregator Line rose back 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3824.30 on Tuesday. That is 1.7% below Monday's close. Therefore, SPX will need to close down at least 1.7% on Tuesday to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is suggesting the market should continue up over the next few days, but SPX is already quite overbought. That is not a compelling combination when considering new index positions. Add to that the fact that Jerome Powell is speaking on Tuesday, and we could see a sharp move in either direction. So we are faced with elevated risk and an unappealing setup. I'll continue to wait for a more compelling risk/reward opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/9 – neutral

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
TSLA(1/3)	12/27/2022	\$117.50	\$119.77	1.93%	sell on open
TSLA(1/3)	12/28/2022	\$109.10	\$119.77	9.78%	sell on open

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