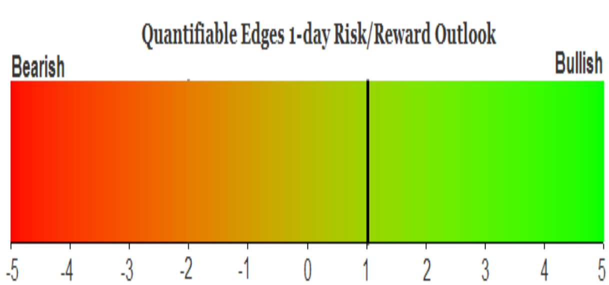
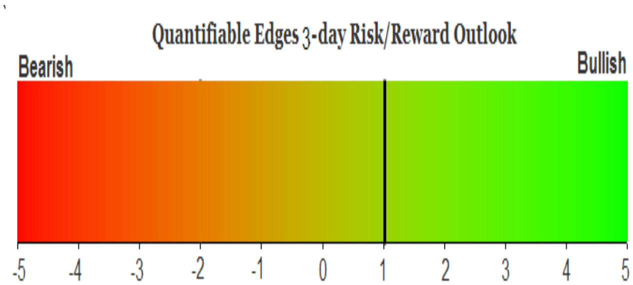
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 23, 2023 Volume 16 Issue 14

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- In recent years, 1% plus moves through the 200ma have often seen selling the next day.
- Strong moves from open to close on opex Friday have been rare, but have always been followed by more buying in the coming days.
- The NASDAQ has taken the lead over the SPX, which is a bullish intermediate-term indication.
- The SOMA saw a sizable decrease and the Fed remains hawkish.

Short-term Outlook
The Bottom Line

The Aggregator is bullish, but upside appears somewhat limited, so I don't love reward/risk for new positions.

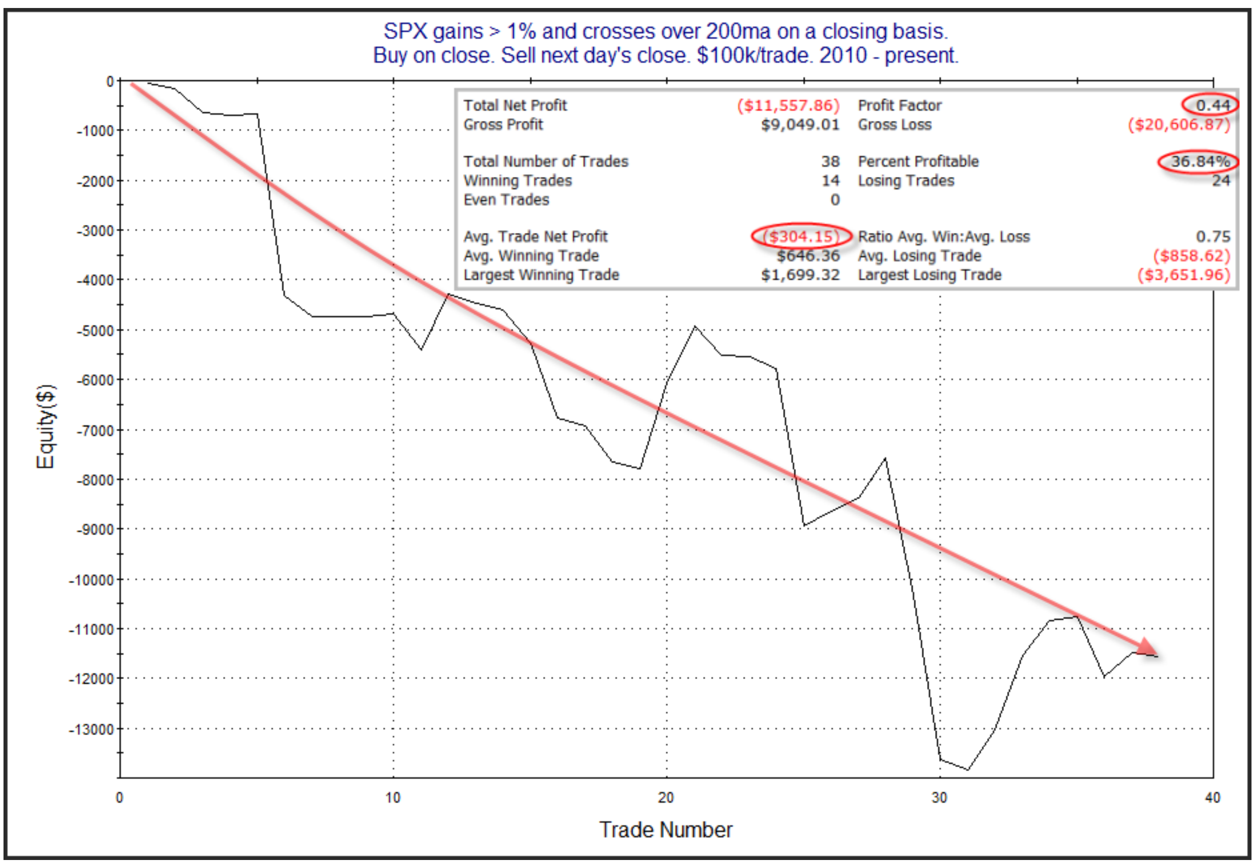
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 23, 2023	SPX up 1% from open to close opex Fri	1 day	Bullish			
January 23, 2023	SPX up 1% & crosses 200ma	1 day	Bearish			
Active - Long Term						
January 23, 2023	NASDAQ Leading	int term	Bullish			
January 13, 2023	QE Triple 70 Thrust	1-80 days	Bullish			
January 13, 2023	Deemer Breakaway Momentum	1-6 months	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
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 a big rally day for stocks. The SPX gained 1.9%, the NASDAQ jumped 2.7%, and the Russell 2000 climbed 1.7%. Breadth was strongly positive with the NYSE Up Issues % coming in at 79% and the Up Volume % at 85%. NYSE total volume rose as it almost always does on opex Friday.

The SPX moved back up above its 200ma, as it continues to try and demonstrate to the world that it is in a long-term uptrend. This action triggered the study below, from the 12/1/22 letter.



The persistent move from upper left to lower right is impressive and so are the stats. This would suggest a bearish tendency for the day after such a strong move through the 200ma. I have added this study to the active list for tonight.

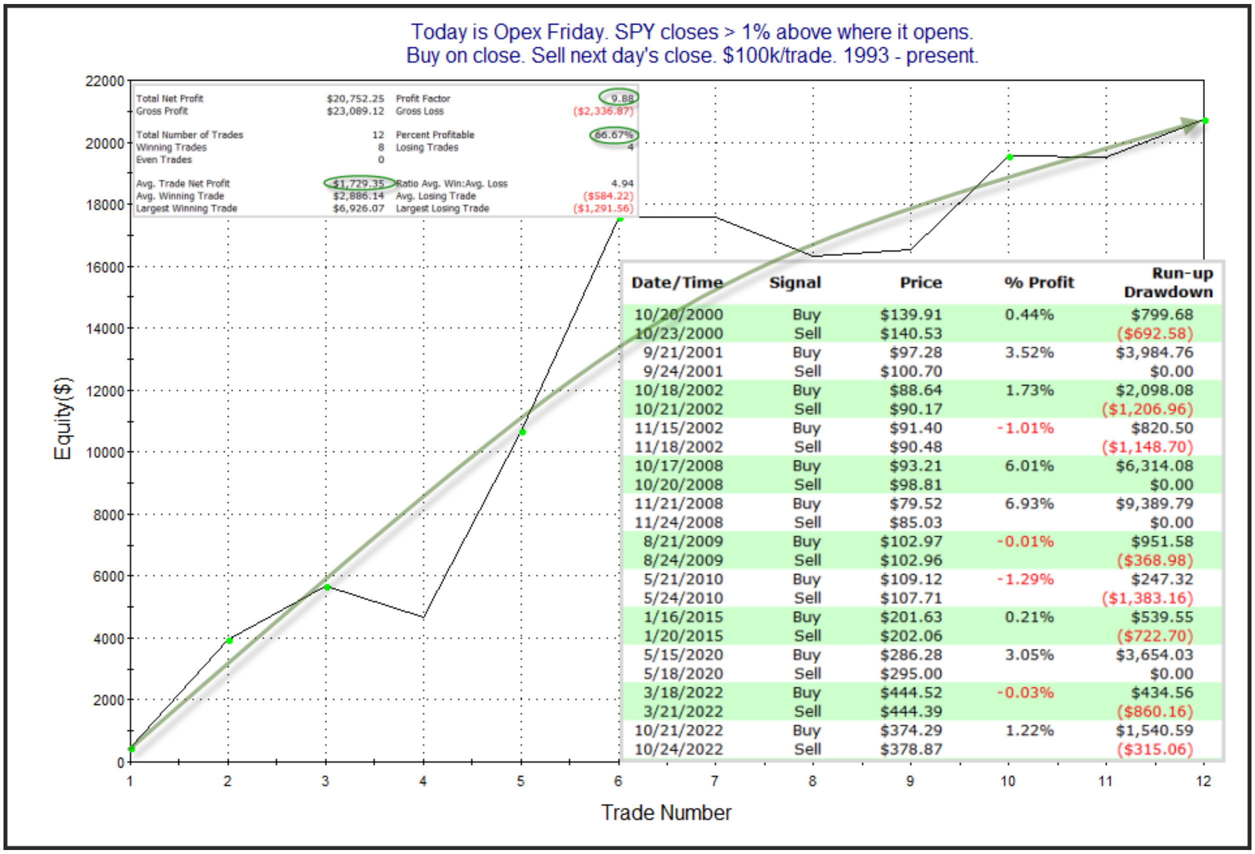
Another oddity about Friday's action is that SPY rallied hard from the open to the close, and it was opex Friday. I've discussed opex Friday tendencies many times in the past. Typically, you will see a gap up followed by some weakness. From the open to the close there is often a selloff – and rarely do you see an open to close rally as strong as we just saw. The study below looks at other times SPY rose > 1% from the open to the close on Opex Friday.

Today is Opex Friday. SPY closes > 1% above where it opens.
Buy on close. Sell X days close. $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	18,992.29	12	10	2	83.33	7,353.32	-6,614.24	2,605.64	-3,532.03	0.74	3.69	1,582.69
4	26,540.70	12	9	3	75.00	13,286.49	-2,299.08	3,420.56	-1,414.79	2.42	7.25	2,211.73
3	19,835.17	12	8	4	66.67	11,878.65	-2,755.04	3,388.51	-1,818.23	1.86	3.73	1,652.93
2	20,414.19	12	9	3	75.00	7,717.98	-1,190.80	2,556.01	-863.29	2.96	8.88	1,701.18
1	20,752.25	12	8	4	66.67	6,926.07	-1,291.56	2,886.14	-584.22	4.94	9.88	1,729.35

All 12 instances closed above the entry price
at some point in the next 4 days.

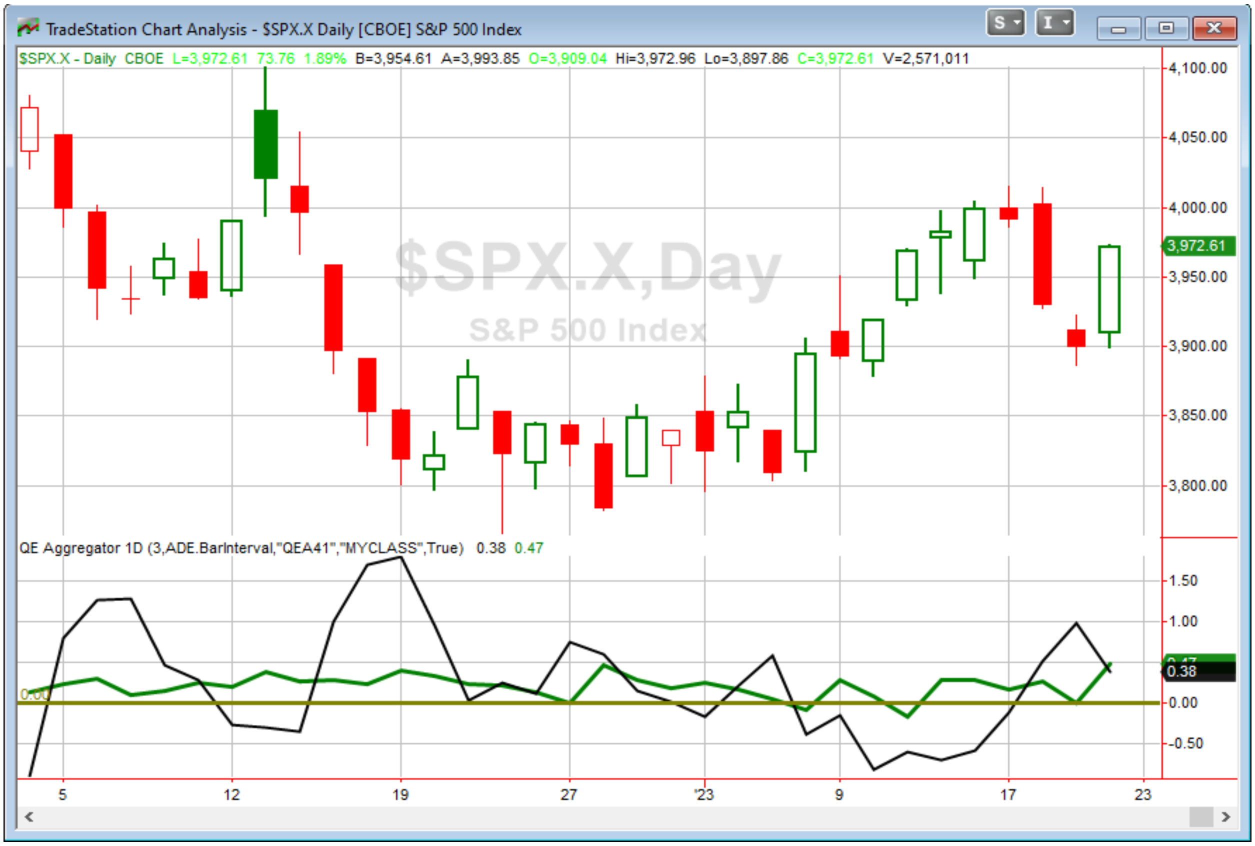
This kind of opex Friday intraday rally has always been followed by more strength. And most of the gains have occurred right on Monday. Below is a detailed look at the 1-day performance.



Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/20/2000	Buy	$139.91	0.44%	$799.68
10/23/2000	Sell	$140.53		($692.58)
9/21/2001	Buy	$97.28	3.52%	$3,984.76
9/24/2001	Sell	$100.70		$0.00
10/18/2002	Buy	$88.64	1.73%	$2,098.08
10/21/2002	Sell	$90.17		($1,206.96)
11/15/2002	Buy	$91.40	-1.01%	$820.50
11/18/2002	Sell	$90.48		($1,148.70)
10/17/2008	Buy	$93.21	6.01%	$6,314.08
10/20/2008	Sell	$98.81		$0.00
11/21/2008	Buy	$79.52	6.93%	$9,389.79
11/24/2008	Sell	$85.03		$0.00
8/21/2009	Buy	$102.97	-0.01%	$951.58
8/24/2009	Sell	$102.96		($368.98)
5/21/2010	Buy	$109.12	-1.29%	$247.32
5/24/2010	Sell	$107.71		($1,383.16)
1/16/2015	Buy	$201.63	0.21%	$539.55
1/20/2015	Sell	$202.06		($722.70)
5/15/2020	Buy	$286.28	3.05%	$3,654.03
5/18/2020	Sell	$295.00		$0.00
3/18/2022	Buy	$444.52	-0.03%	$434.56
3/21/2022	Sell	$444.39		($860.16)
10/21/2022	Buy	$374.29	1.22%	$1,540.59
10/24/2022	Sell	$378.87		($315.06)

The numbers and the curve are both appealing. Two of the four losers were miniscule, and the profit factor near 10 is very large. The instances are a little low, but the results are so strong that I am inclined to give some consideration to this study, and I have added it to the active list.

I have updated the Aggregator chart below.



With this weekend's studies 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.

With both active studies set to expire on Monday, expectations are primed to remain positive based on the intermediate-term outlook. Of course expectations will be greatly influenced by any new evidence that emerges. Meanwhile, the Differential Pivot will be *inverted at* 3956.16 on Monday. That is 0.4% *below* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close down over 0.4% on Monday in order to remain oversold vs recent expectations. Anything shy of that and it will flip to "overbought" status as of Monday's close.

So the Aggregator is again long. But the Differential Pivot is inverted and all the active short-term studies are about to expire. Generally I look at inverted pivots as an opportune time to take profits, rather than enter new trades. This is because profit potential is limited to just 1 day, skewing risk/reward to less favorable. I do have a small amount of long index exposure right now, and I will look to exit on Monday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/17 – bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

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 flipped from "flat" to "long".*

Despite Friday's rally, this past week saw mixed results for the market. The SPX closed down 0.7%, the NASDAQ rose 0.55%, and the Russell 2000 lost 1.0%. Bonds were also mixed. The US Aggregate Bond ETF (AGG) rose 0.2%, and TLT, the 20-year Treasury Bond ETF fell 0.5%. The SPX closed Friday above its 200ma. Also notable is that the 50ma is getting very close to crossing above the 200ma, which could soon lead to a Golden Cross formation.

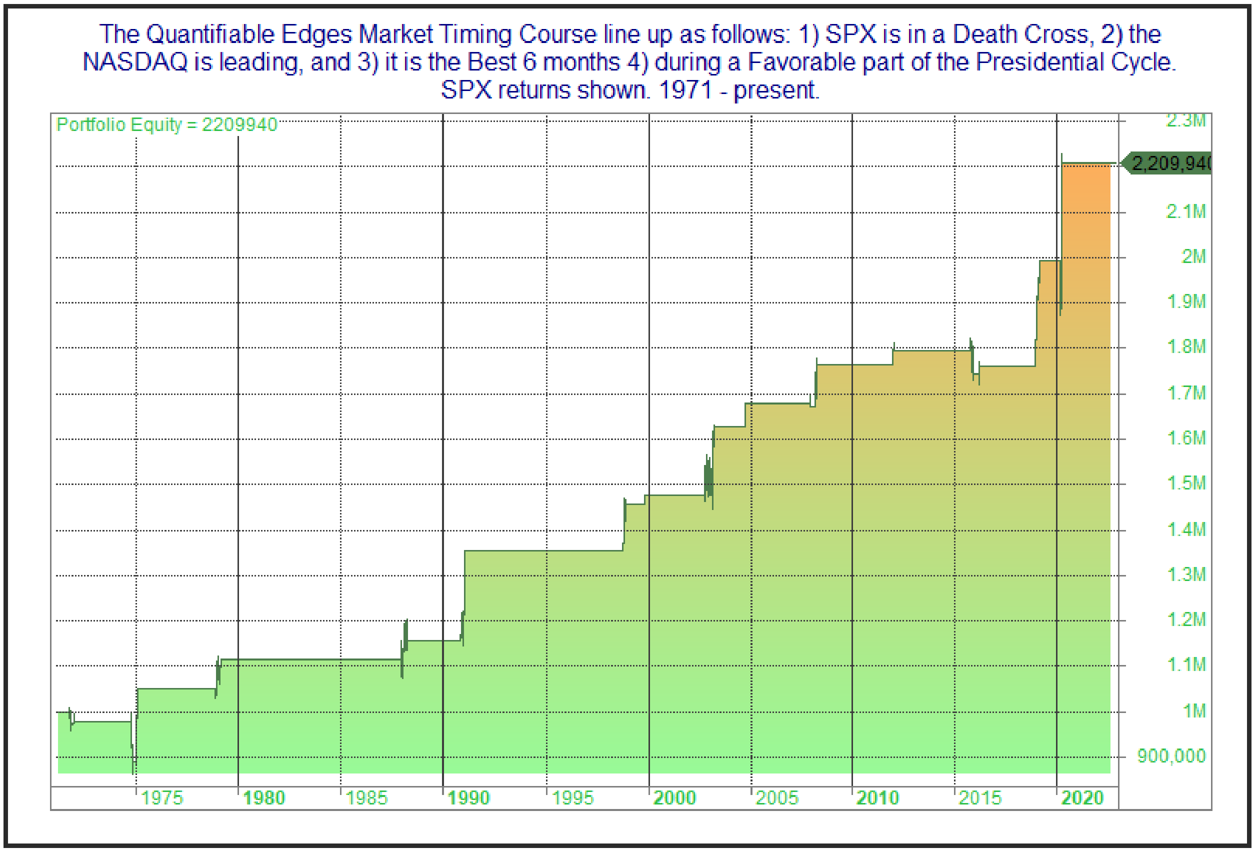
In last week's letter I mentioned that the NASDAQ/SPX Relative Strength Indicator looked like it was ready to flip to the NASDAQ taking the lead. And this week that is what happened. Below is a chart of the indicator from the website.

The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of $100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 1/20/23.			
	Compound Annual Growth Rate	Max Drawdown	End Value of $100,000
S&P 500 Index	7.43%	-56.78%	$3,791,282.30
SPX when NASDAQ lags	-0.10%	-67.21%	$94,806.28
SPX when NASDAQ leads	7.54%	-33.92%	$4,104,456.19
NASDAQ Composite	9.38%	-77.93%	$9,762,030.94
NASDAQ when lagging	-1.66%	-85.53%	$42,566.25
NASDAQ when leading	11.22%	-40.62%	$22,933,733.21
NASDAQ when leading (with interest when in cash)*	13.75%	-37.64%	$72,064,837.63
*interest on cash calculated at historical 30-day Fed Funds rate			

More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

I decided also to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX "Death Cross" in effect, 3) favorable Presidential Cycle, and 4) "Best" 6 months in effect. Below is a chart showing SPX performance during this alignment.



We see here persistent gains with very little drawdown. Below is a table with all the individual instances.

The Quantifiable Edges Market Timing Course line up as follows: 1) SPX is in a Death Cross, 2) the NASDAQ is leading, and 3) it is the Best 6 months 4) during a Favorable part of the Presidential Cycle. SPX returns shown. 1971 - present.								
Symbol	**Trade**	**Date**	**Price**	**Ex. date**	**Ex. Price**	**% chg**	**Drawdown**	**Run-Up**
$SPX	Long	10/29/1971	94.23	11/26/1971	91.94	-2.43%	-5.19%	1.96%
$SPX	Long	12/31/1971	102.09	1/26/1972	102.5	0.40%	-1.20%	2.85%
$SPX	Long	10/31/1974	73.9	12/13/1974	67.07	-9.24%	-13.22%	4.75%
$SPX	Long	1/17/1975	70.96	3/6/1975	83.69	17.94%	-1.63%	20.39%
$SPX	Long	12/15/1978	95.33	12/22/1978	96.31	1.03%	-2.82%	1.03%
$SPX	Long	12/29/1978	96.11	3/21/1979	101.25	5.35%	-0.93%	6.74%
$SPX	Long	12/24/1987	252.02	4/29/1988	261.33	3.69%	-4.70%	8.18%
$SPX	Long	11/23/1990	315.1	2/15/1991	369.06	17.12%	-1.82%	17.59%
$SPX	Long	10/30/1998	1098.67	12/8/1998	1181.38	7.53%	-1.16%	8.58%
$SPX	Long	11/4/1999	1362.64	11/11/1999	1381.46	1.38%	-0.57%	1.82%
$SPX	Long	10/31/2002	885.76	12/20/2002	895.76	1.13%	-1.55%	7.74%
$SPX	Long	12/27/2002	875.4	1/3/2003	908.59	3.79%	-0.68%	3.84%
$SPX	Long	1/10/2003	927.57	1/17/2003	901.78	-2.78%	-2.78%	0.81%
$SPX	Long	1/24/2003	861.4	1/31/2003	855.7	-0.66%	-2.05%	3.01%
$SPX	Long	2/7/2003	829.69	4/4/2003	878.85	5.93%	-4.92%	7.98%
$SPX	Long	4/17/2003	893.58	4/30/2003	916.92	2.61%	-1.61%	3.43%
$SPX	Long	10/29/2004	1130.2	11/5/2004	1166.17	3.18%	-0.49%	3.18%
$SPX	Long	12/21/2007	1484.46	12/28/2007	1478.49	-0.40%	-1.43%	0.97%
$SPX	Long	3/28/2008	1315.22	4/30/2008	1385.59	5.35%	-0.18%	6.67%
$SPX	Long	1/13/2012	1289.09	1/31/2012	1312.41	1.81%	-0.89%	3.44%
$SPX	Long	10/30/2015	2079.36	12/21/2015	2021.15	-2.80%	-4.14%	1.79%
$SPX	Long	4/1/2016	2072.78	4/22/2016	2091.58	0.91%	-1.88%	1.85%
$SPX	Long	1/4/2019	2531.94	4/1/2019	2867.19	13.24%	-2.28%	13.24%
$SPX	Long	3/30/2020	2626.65	4/30/2020	2912.43	10.88%	-6.82%	12.50%
					Average	**3.54%**	**-2.71%**	**6.01%**
					Median	**2.21%**	**-1.73%**	**3.64%**
					Win %	**75%**		

I will note that I do not expect this formation to last very long. If successful, we should see a Golden Cross trigger fairly soon. If unsuccessful, we could see the NASDAQ/SPX indicator flip back. But overall, the NASDAQ taking the lead appears to be another positive for the bulls.

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

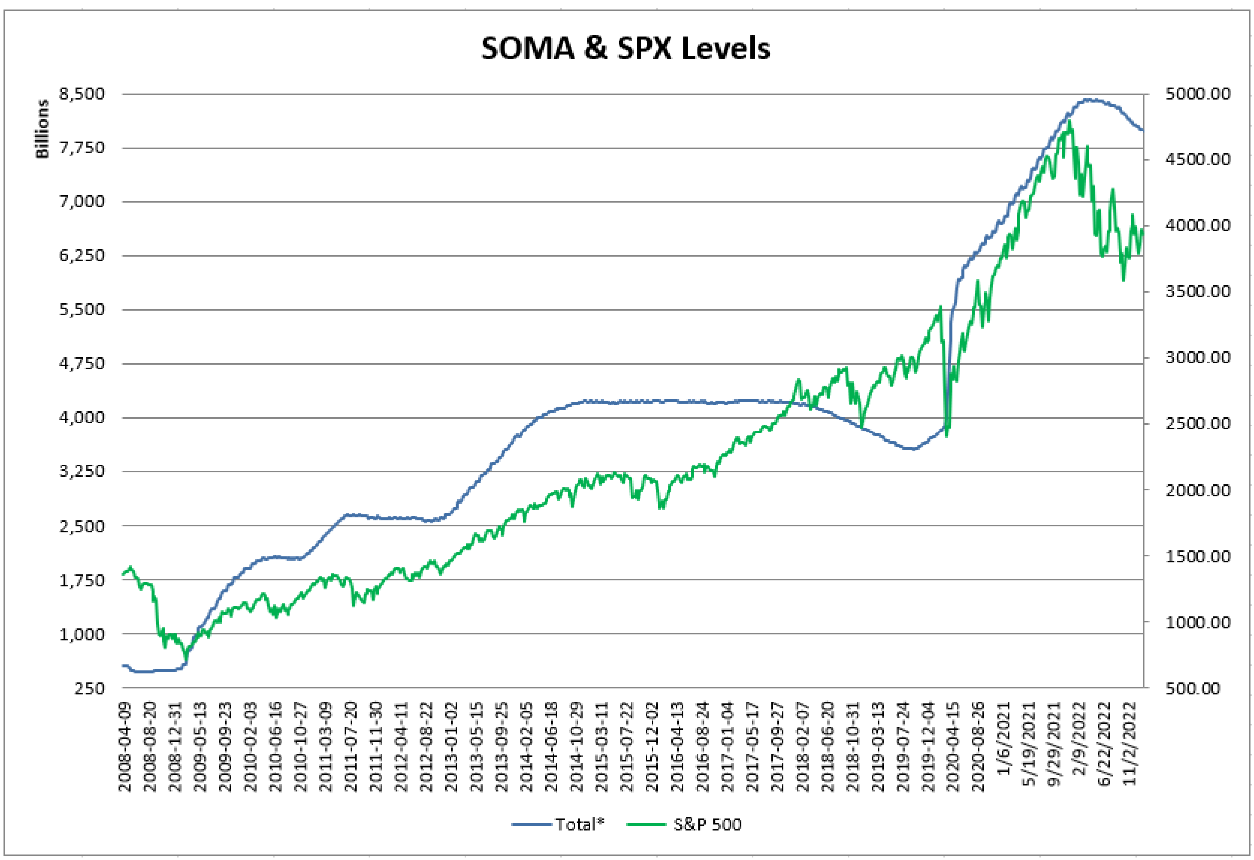
Previous **January 18, 2023**

Posted January 19, 2023 at 4:30 PM

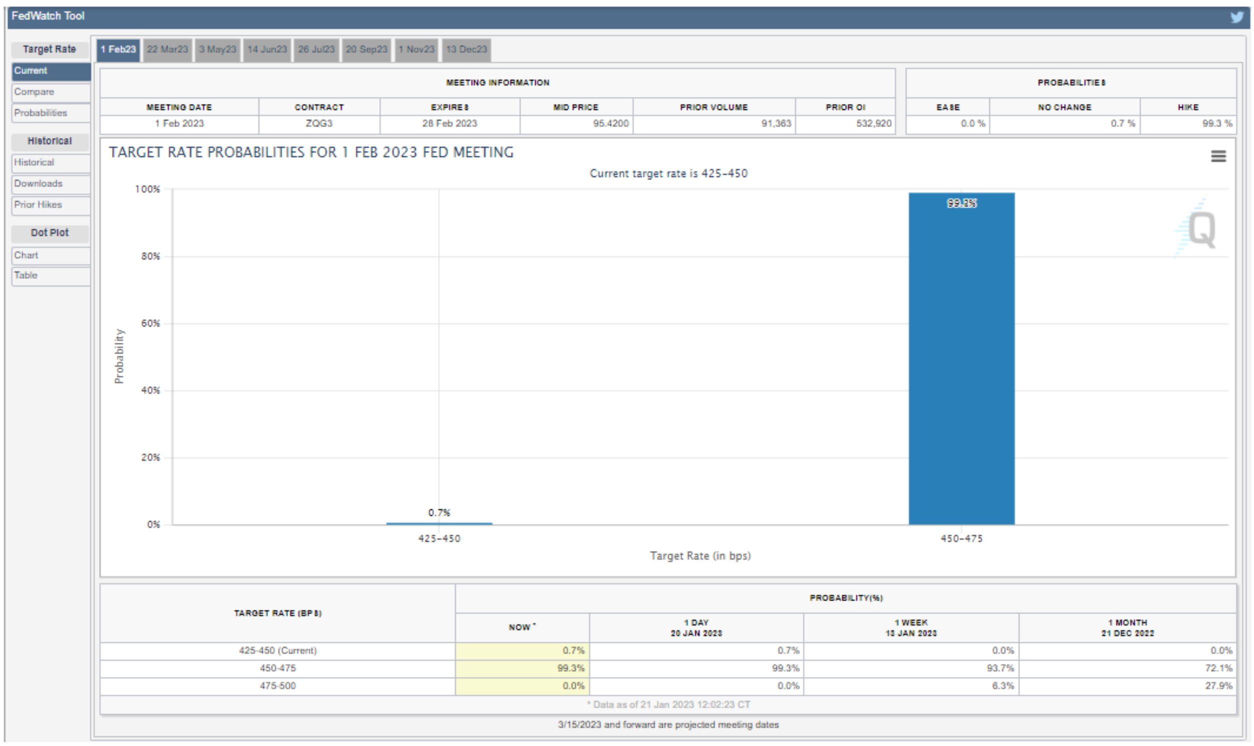
SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	287,230,768.2
US Treasury Notes and Bonds (Notes/Bonds)	4,645,440,325.6
US Treasury Floating Rate Notes (FRNs)	27,166,210.0
US Treasury Inflation-Protected Securities (TIPS)*	374,979,407.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,631,455,078.0
Agency Commercial Mortgage-Backed Securities***	8,485,351.1
Total SOMA Holdings	7,977,104,140.3
Change From Prior Week	-20,348,163.4

This week the SOMA declined by over $20 billion. That is a substantial decline, which we expected. This upcoming week should be a bit lighter before we see another big week the week after. 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 99.3% chance of a ¼ point hike on Feb 1st, and a 0.7% chance of no hike. Last week showed a 94% chance of a ¼ point and a 6% chance of a ½ point hike.



The pace is expected to slow, but the Fed is still keen on battling inflation, and is using both QT and rising rates to do it. So the Fed remains a market negative. A big one.

Bullish evidence has grown substantially in the last few weeks. NASDAQ leadership is now a positive. There are several breadth thrust signals active, as well as a bullish price momentum study. Even the long-term trend indicators are near a tipping point. The big negative right now is the Fed. They remain hawkish in the battle vs inflation. Quantitative Tightening and rising interest rates have a negative impact on liquidity. If they push too hard, the economy could drop into a recession. If they don't push hard enough, inflation could continue to be a problem. In any case, the Fed is a large negative for the stock market right now. But momentum, breadth, and leadership are all pointing higher. If the negative influence of the Fed/inflation/economy is to assert itself, that will show up in the breadth/momentum/leadership indicators starting to fail/turn. Until that begins to happen, I will side with the bulls. This means I will trade longs more aggressively and shorts more conservatively.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

KHC @ $39.66 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 1(KHC)

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)	1/19/2023	$388.64	$395.88	1.86%	sell @ $396.00 LIMIT
KHC(1/3)	1/19/2023	$39.66	$39.88	0.55%	Catapult