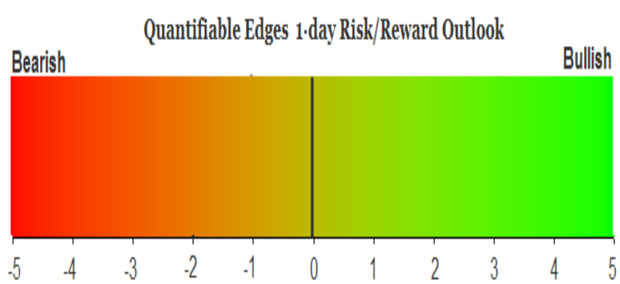
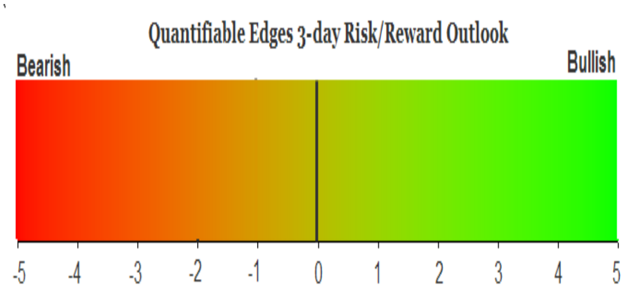
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2023 Volume 16 Issue 19

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Short-term edges are lacking.
- SPX will likely make a Golden Cross on Wed or Thurs. We explore implications of this.
- The Fed remains hawkish and the most significant bearish influence on the market.

Short-term Outlook
The Bottom Line
The Aggregator is neutral. That is where I am as well.

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

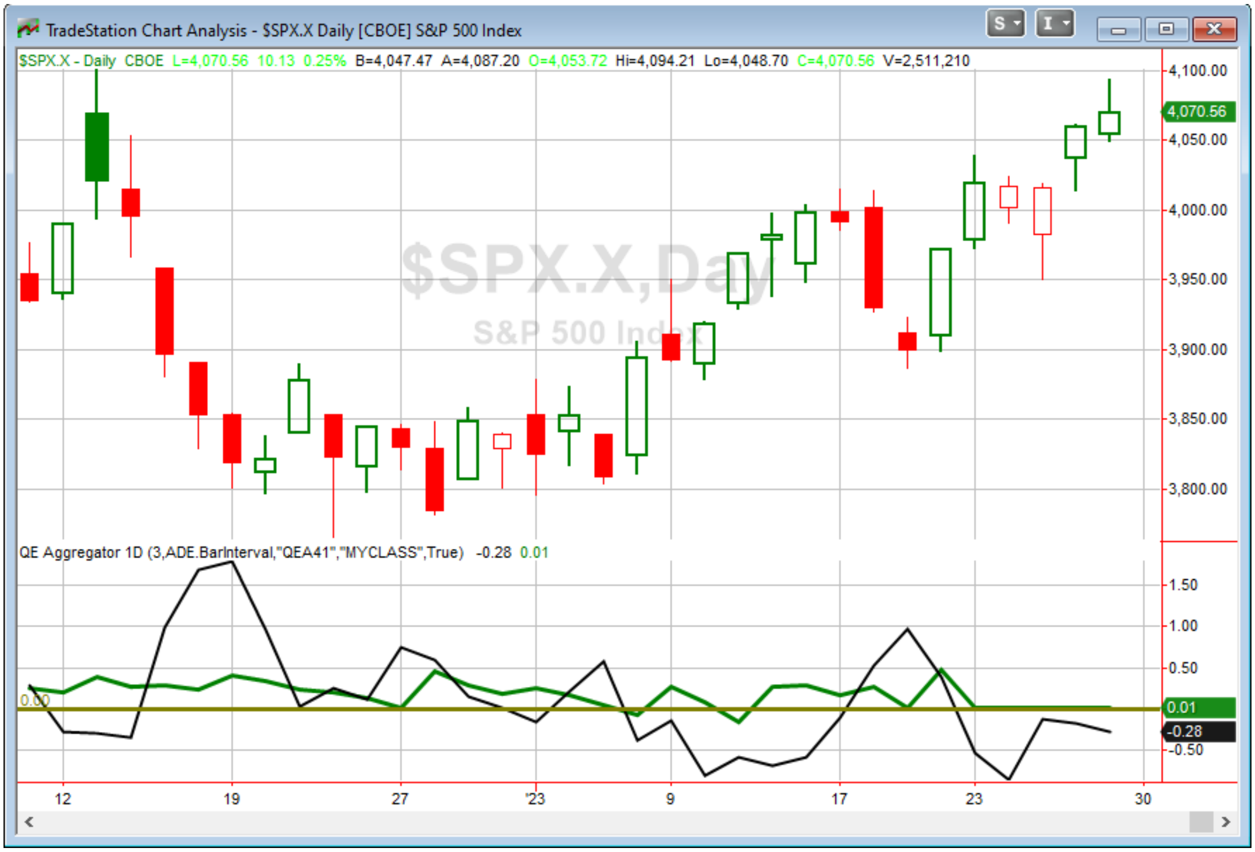
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
None						
Active - Long Term						
January 24, 2023	SOX rises 5% on day and closes > 200ma	1-10 days	Bearish			
January 23, 2023	NASDAQ Leading	int term	Bullish			
January 13, 2023	QE Triple 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

The rally persisted on Friday. The SPX closed up 0.25%, the NASDAQ gained 0.95%, and the Russell 2000 rose 0.4%. Breadth was positive with the NYSE Up Issues % coming in at 69% and the Up Volume % at 66%. NYSE total volume rose some from Wednesday's level.

All week we saw the market gently chop its way higher, and all week it did so without triggering hardly anything in the way of compelling studies. That is unusual, and for someone that writes about interesting (to me) edges, it can be frustrating. When action is not providing hints, it leaves me with little to talk about. But the lack of new evidence can also be helpful. With short-term edges, much of the time they appear as mean reverting. So oversold will often trigger some studies suggesting a bounce, and overbought will often trigger studies suggesting a dip in the following days. We have been overbought for the last few days, but are still not seeing any compelling studies that would suggest a pullback is likely. And that is what kept me from trying to buck the trend the last few days, and what will keep me from shorting it still. All this to say that the Quantifinder came up blank and no short-term evidence is intriguing me. No new studies will be added to the active list tonight.

I have updated the Aggregator chart below.



Without any new studies triggering on Friday, the green Aggregator Line remained slightly 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 stayed flat at the close.

With the short-term active list still bare, expectations are primed to remain slightly positive Monday 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 4016.32 on Monday. That is 1.3% below Friday's close. Therefore, SPX will need to close down at least 1.3% on Monday in order to flip from overbought to oversold versus recent expectations.

I'm starting to feel like a broken record. The Aggregator is again neutral. The market remains overbought, but we are not seeing any evidence that overbought will quickly revert. A short-term edge is still lacking. So I will continue to wait until a more favorable reward/risk opportunity arises. We don't often go too long without some hints from the market. No sense putting new capital at risk without a good reason.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/30 – 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 remained "long".*

This past week was a strong one for the major indices. The SPX closed up 2.5%, the NASDAQ rose 4.3%, and the Russell 2000 gained 2.4%. Bonds were mixed. The US Aggregate Bond ETF (AGG) was basically breakeven with a loss of 0.01%, and TLT, the 20-year Treasury Bond ETF rose 0.5%. The SPX is very close to making new multi-month highs. Also notable is that the SPX appears as though it will likely make a Golden Cross formation this upcoming week. I discussed the possible implications of a Golden Cross in Wednesday night's letter, and have copied that below.

A Golden Cross occurs when the 50ma crosses over the 200ma. Having the 50ma above the 200ma is commonly considered a bullish market condition – and generally it is. I covered Golden Crosses in detail in the Quantifiable Edges Market Timing Course (Lesson 2). In the 7/9/2020 letter I looked at SPX Golden Crosses dating all the way back to 12/31/1928. With nothing compelling from a short-term perspective to discuss tonight, I decided to update the Golden Cross study. The table below shows performance of holding SPX only when a Golden Cross is active, and then sitting in cash (earning the short-term Fed Funds rate) when there is not an active Golden Cross.

SPX Golden Cross Trade Performance.
12/31/1928 - 1/24/2023.

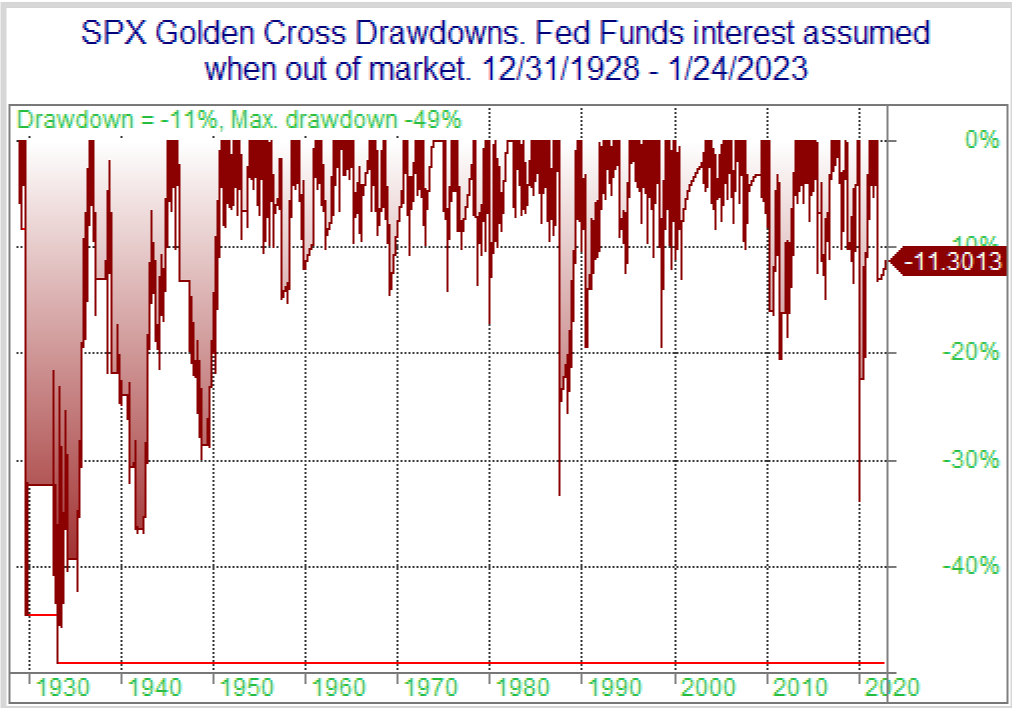
Statistics		
	All trades	**Buy&Hold ($SPX)**
Initial capital	100000.00	100000.00
Ending capital	72571119.51	16496672.30
Net Profit %	72471.12%	16396.67%
Annual Return %	7.25%	5.57%
All trades	49	1
Avg. Profit/Loss %	14.56%	16396.67%
Avg. Bars Held	323.88	23632.00
Winners	32 (65.31 %)	1 (100.00 %)
Total Profit	74739897.38	16396672.31
Avg. Profit %	26.44%	16396.67%
Avg. Bars Held	437.28	23632.00
Losers	17 (34.69 %)	0 (0.00 %)
Total Loss	-8253183.78	0.00
Avg. Loss %	-7.80%	-nan(ind)%
Avg. Bars Held	110.41	-nan(ind)
Max. system % drawdown	-49.09%	-86.19%

Below is the full list of all SPX Golden Crosses since 12/31/1928.

SPX Golden Cross Returns
12/31/1928 - 1/24/2023

Symbol	Trade	Date	Price	Ex. date	Ex. Price	% chg	Max Drawdown	Max Run-Up
$SPX	Long	12/31/1928	24.35	11/22/1929	21.53	-11.58%	-27.47%	30.84%
$SPX	Long	9/19/1932	7.34	3/27/1933	6.090001	-17.03%	-24.66%	16.08%
$SPX	Long	5/18/1933	8.89	5/31/1934	9.61	8.10%	-3.15%	37.23%
$SPX	Long	5/23/1935	10.07	5/21/1937	16.27	61.57%	-4.87%	85.40%
$SPX	Long	7/27/1938	12.25	3/31/1939	10.98	-10.37%	-10.37%	12.57%
$SPX	Long	9/18/1939	12.47	3/20/1940	12.14	-2.65%	-3.77%	5.93%
$SPX	Long	12/13/1940	10.69	2/21/1941	9.76	-8.70%	-10.85%	1.59%
$SPX	Long	8/18/1941	10.13	11/18/1941	9.26	-8.59%	-9.08%	3.36%
$SPX	Long	8/14/1942	8.58	12/1/1943	11.13	29.72%	-0.47%	47.32%
$SPX	Long	3/13/1944	12.24	8/28/1946	16.73	36.68%	-4.66%	57.27%
$SPX	Long	7/25/1947	16.08	1/22/1948	14.42	-10.32%	-10.32%	0.00%
$SPX	Long	5/14/1948	16.39	12/1/1948	15.01	-8.42%	-10.01%	4.09%
$SPX	Long	8/31/1949	15.22	5/11/1953	24.91	63.67%	-0.20%	75.16%
$SPX	Long	12/21/1953	24.95	10/26/1956	46.27	85.45%	-1.60%	98.96%
$SPX	Long	6/3/1957	47.37	9/26/1957	42.57	-10.13%	-10.13%	3.72%
$SPX	Long	5/8/1958	43.99	10/30/1959	57.52	30.76%	-1.98%	38.01%
$SPX	Long	12/30/1959	59.77	2/15/1960	55.17	-7.70%	-7.70%	1.04%
$SPX	Long	1/4/1961	58.36	5/7/1962	66.02	13.13%	0.00%	24.47%
$SPX	Long	1/3/1963	63.72	7/22/1965	83.85	31.59%	-1.65%	42.31%
$SPX	Long	9/17/1965	90.05	4/28/1966	91.13	1.20%	-3.73%	5.19%
$SPX	Long	2/3/1967	87.36	2/27/1968	90.53	3.63%	-2.00%	12.53%
$SPX	Long	5/17/1968	96.9	3/13/1969	98.39	1.54%	-1.15%	12.87%
$SPX	Long	5/27/1969	103.57	6/23/1969	96.23	-7.09%	-7.09%	1.07%
$SPX	Long	10/22/1970	83.38	9/24/1971	98.15	17.71%	-1.38%	26.65%
$SPX	Long	1/26/1972	102.5	4/18/1973	111.54	8.82%	-0.67%	18.77%
$SPX	Long	3/6/1975	83.69	12/1/1976	102.49	22.46%	-4.82%	29.91%
$SPX	Long	1/4/1977	105.7	3/3/1977	100.88	-4.56%	-6.51%	1.52%
$SPX	Long	5/22/1978	99.09	12/13/1978	96.06	-3.06%	-7.51%	9.04%
$SPX	Long	3/21/1979	101.25	4/22/1980	103.43	2.15%	-6.93%	18.74%
$SPX	Long	6/17/1980	116.03	7/2/1981	128.64	10.87%	-2.51%	22.35%
$SPX	Long	9/28/1982	123.24	2/3/1984	160.91	30.57%	-2.52%	40.09%
$SPX	Long	9/12/1984	164.68	11/18/1986	236.78	43.78%	-2.83%	54.38%
$SPX	Long	11/25/1986	248.17	11/5/1987	254.48	2.54%	-12.78%	36.15%
$SPX	Long	6/28/1988	272.31	2/26/1990	328.67	20.70%	-5.79%	32.42%
$SPX	Long	5/25/1990	354.58	9/7/1990	323.4	-8.79%	-13.65%	4.29%
$SPX	Long	2/15/1991	369.06	4/19/1994	442.54	19.91%	-1.86%	30.83%
$SPX	Long	9/15/1994	474.81	9/29/1998	1049.02	120.93%	-6.72%	150.75%
$SPX	Long	12/8/1998	1181.38	11/4/1999	1362.64	15.34%	-3.77%	20.21%
$SPX	Long	11/11/1999	1381.46	10/30/2000	1398.66	1.25%	-5.48%	12.41%
$SPX	Long	5/14/2003	939.28	8/18/2004	1095.17	16.60%	-2.90%	23.84%
$SPX	Long	11/5/2004	1166.17	7/19/2006	1259.81	8.03%	-2.57%	13.77%
$SPX	Long	9/12/2006	1313.11	12/21/2007	1484.46	13.05%	-1.03%	20.03%
$SPX	Long	6/23/2009	895.1	7/2/2010	1022.58	14.24%	-2.88%	36.28%
$SPX	Long	10/22/2010	1183.08	8/12/2011	1178.81	-0.36%	-6.89%	15.85%
$SPX	Long	1/31/2012	1312.41	8/28/2015	1988.87	51.54%	-3.48%	62.66%
$SPX	Long	12/21/2015	2021.15	1/11/2016	1923.67	-4.82%	-5.08%	2.99%
$SPX	Long	4/25/2016	2087.79	12/7/2018	2633.08	26.12%	-4.60%	40.86%
$SPX	Long	4/1/2019	2867.19	3/30/2020	2626.65	-8.39%	-23.55%	18.36%
$SPX	Long	7/9/2020	3152.05	3/14/2022	4173.11	32.39%	-1.15%	52.87%

Since the 1961 trigger, there have only been a few moderate failures, and the Golden Cross has generally served as a fairly good timing device to sidestep large portions of bear markets. Prior to 1961 it was not nearly as effective. This can be seen in the drawdown chart below.



While drawdowns have been mostly fairly moderate since the mid-50s, prior to that there were some very large drawdowns to endure. The 2020 drawdown was the biggest since. Overall, and despite some fairly sizable drawdowns early on, the Golden Cross would have beaten "Buy and Hold" handily. It is a bullish long-term trend indication. But it is not a bulletproof long signal.

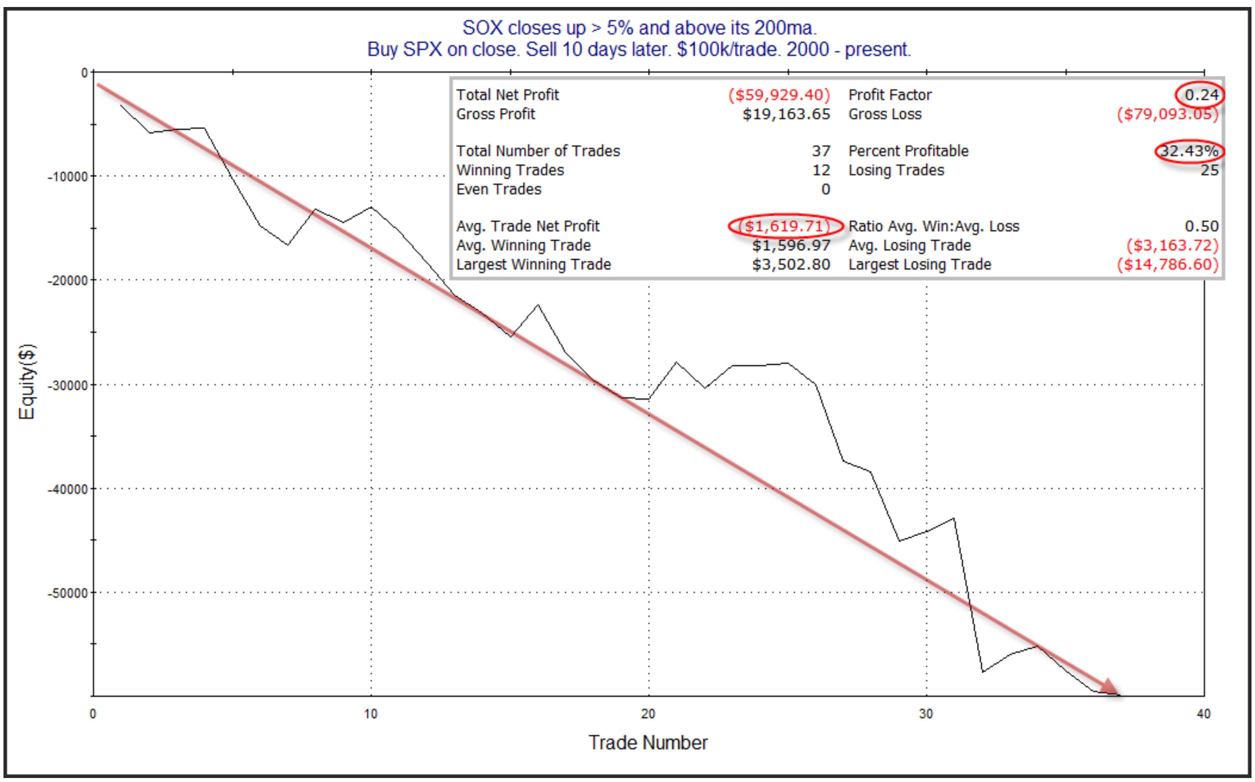
There was one study this past week that suggested a possible intermediate-term dip. It was seen in Monday night's letter and I have copied it below.

I did find it interesting how strong the move up in the SOX index was, as it slightly exceeded 5% on the day. I decided to look back at other times the SOX rallied 5% or more in one day and closed above the 200ma. I was most interested in how the broader SPX did following such moves in the SOX. Results can be found below.

SOX closes up > 5% and above its 200ma.
Buy SPX on close. Sell X days later. $100k/trade. 2000 - 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
10	-59,929.39	37	12	25	32.43	3,502.80	-14,786.60	1,596.97	-3,163.72	0.50	0.24	-1,619.71
9	-58,568.31	37	14	23	37.84	5,134.01	-21,924.22	1,600.08	-3,520.41	0.45	0.28	-1,582.93
8	-49,665.92	38	17	21	44.74	4,174.09	-19,628.54	1,498.90	-3,578.44	0.42	0.34	-1,307.00
7	-45,600.54	39	14	25	35.90	4,869.18	-16,076.56	1,966.86	-2,925.47	0.67	0.38	-1,169.24
6	-33,255.76	40	16	24	40.00	5,552.91	-16,460.42	2,062.44	-2,760.62	0.75	0.50	-831.39
5	-18,513.95	40	18	22	45.00	5,396.71	-12,003.36	1,799.92	-2,314.20	0.78	0.64	-462.85
4	-9,422.45	42	19	23	45.24	3,807.65	-16,867.40	1,755.84	-1,860.15	0.94	0.78	-224.34
3	5,222.96	44	22	22	50.00	4,134.33	-5,821.14	1,578.26	-1,340.85	1.18	1.18	118.70
2	-9,478.99	47	24	23	51.06	3,163.05	-13,654.06	1,090.48	-1,550.03	0.70	0.73	-201.68
1	-4,217.82	49	23	26	46.94	2,842.84	-4,788.90	738.00	-815.07	0.91	0.80	-86.08

Over the first 4-5 days results were inconsistent. But looking out 2 weeks the numbers looked a bit bearish. So I took a closer look at the 2-week results.



That is a compelling looking curve to go along with the strongly bearish numbers. I am not overly excited by this one, since performance over the 1st week was inconsistent. I did not add it to the short-term list. I did add it to the intermediate-term list, but more as a "something to watch" rather than a "something to be concerned about".

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

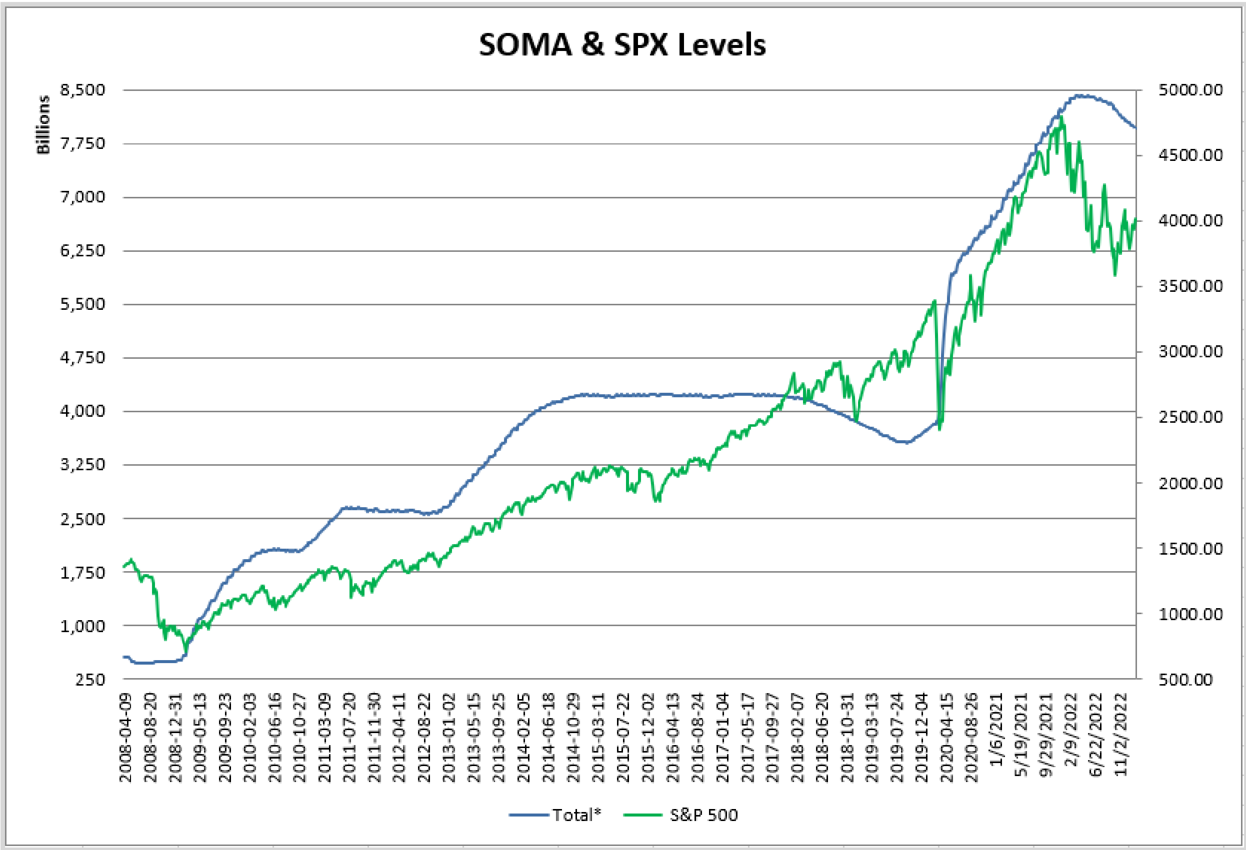
Previous January 25, 2023

Posted January 26, 2023 at 4:30 PM

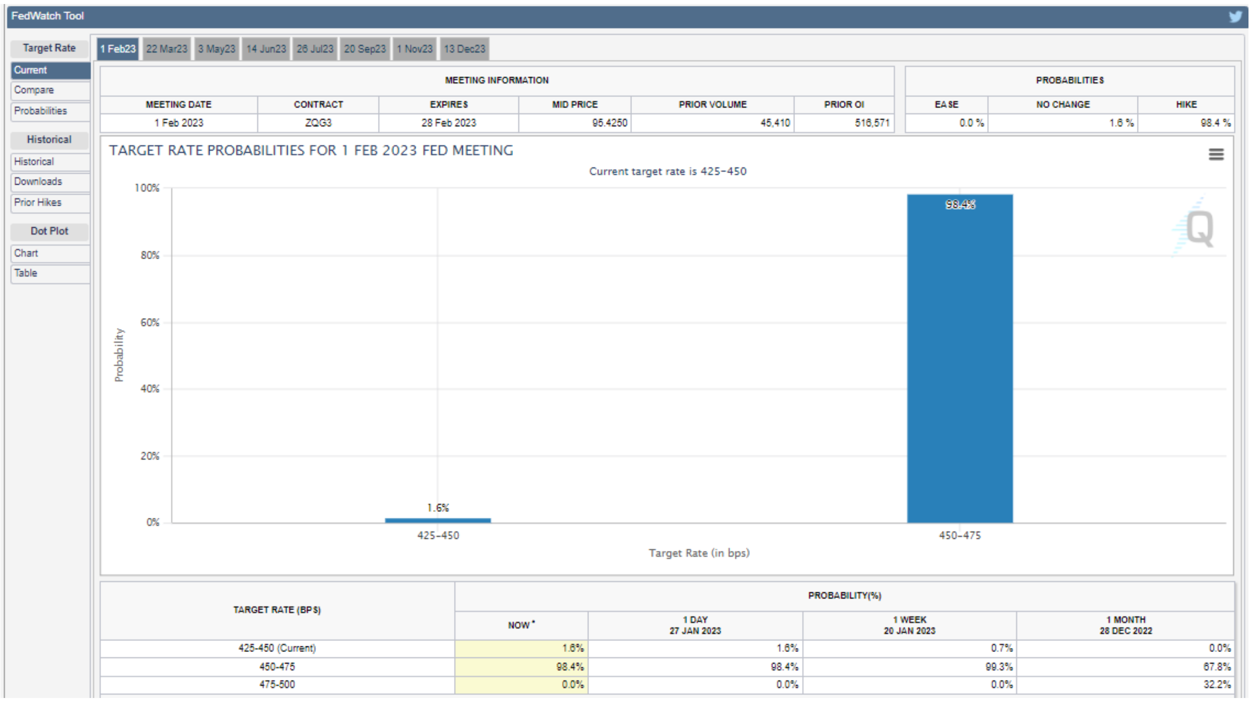
SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	286,199,577.1
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***	2,616,273,473.1
Agency Commercial Mortgage-Backed Securities***	8,461,744.2
Total SOMA Holdings	7,960,867,737.4
Change From Prior Week	-16,236,402.9

This week the SOMA declined by over $16 billion. That is a substantial decline, which we expected. This upcoming week should be even larger. 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, and is expected to increase them further this week, and perhaps at their next meeting as well. 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 98.4% chance of a ¼ point hike on Feb 1st, and a 1.6% chance of no hike. This is very close to what odds were showing last week as well.



The pace of rate increases 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. Wednesday we will get the Fed announcement, and more interesting than the likely 0.25% rate hike will be any change in rhetoric about future rate hikes or QT adjustments. For now, the Fed remains a market negative. A big one.

Bullish evidence seems to be dominating and price action appears positive. We should get further confirmation in the next few days with the SPX Golden Cross. As I discussed last week, current NASDAQ leadership is a positive. There are several breadth thrust signals active, as well as a bullish price momentum study. From the bearish point of view, we did have the quirky “SOX 5% rally day” study I discussed above. But the big negative remains the Fed. They are hawkish in the battle vs inflation. Quantitative Tightening and rising interest rates have a negative impact on liquidity. We will see if there is any change in tone on Wednesday’s Fed Day. Overall, momentum, breadth, leadership, and (soon) the long-term trend readings 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/trend indicators starting to fail/turn. Until that begins to happen, I will continue to 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 (bought 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
KHC(1/3)	1/19/2023	$39.66	$39.69	0.08%	Catapult