

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 6, 2023

Volume 16 Issue 24

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Strong moves down from a 50-day high do not suggest a reversal in the way that strong moves down do otherwise.
- We look at the January barometer.
- The SOMA saw another large decline as QT continues.

## *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
<b>Active - Short Term</b>						
February 3, 2023	SPX up > 2% in 3 days. HV Off < 0.25	1-4 days	Bullish	1.40%	-0.90%	
<b>Active - Long Term</b>						
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**

A strong employment report on Friday worried traders, because strong data could mean a more hawkish Fed. The SPX closed down 1.0%, the NASDAQ lost 1.6%, and the Russell 2000 dropped 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 27% and the Up Volume % at 26%. NYSE total volume declined some from Thursday's level.

I've shown many times before that sharp drops on strongly negative breadth often suggest a bounce. I've also demonstrated in the past the importance of considering the position of the market when trying to interpret the meaning of such a drop. Substantial drops coming from a high level do not carry the same upside edge as other times. I demonstrated this in some detail with a couple of studies in the 2/5/13 letter. I have updated those studies below.

This first study looks at strong drops that do NOT immediately follow a 50 day high.

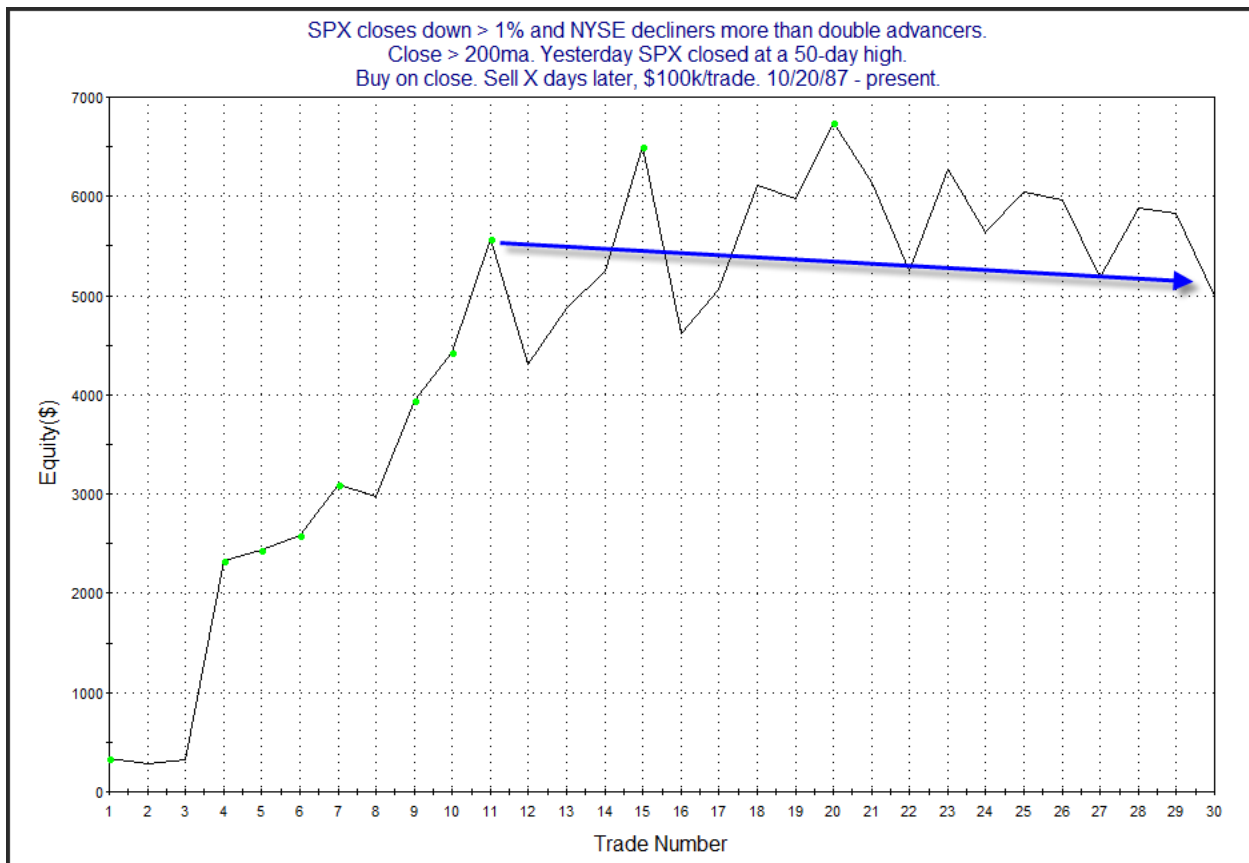
SPX closes down > 1% and NYSE decliners more than double advancers. Close > 200ma. Yesterday SPX closes < a 50-day high. Buy on close. Sell X days later, \$100k/trade. 10/20/87 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	202,919.25	218	145	73	66.51	7,072.00	-13,993.88	2,525.09	-2,235.87	1.13	2.24	930.82
9	223,213.59	223	158	65	70.85	6,030.49	-10,059.36	2,287.37	-2,126.01	1.08	2.62	1,000.96
8	185,836.86	231	154	77	66.67	6,086.08	-14,092.68	2,201.73	-1,989.99	1.11	2.21	804.49
7	176,525.23	246	157	89	63.82	7,152.30	-9,697.02	2,117.54	-1,752.01	1.21	2.13	717.58
6	150,426.41	253	161	92	63.64	7,272.06	-7,966.32	1,939.16	-1,758.46	1.10	1.93	594.57
5	115,820.08	263	155	108	58.94	7,070.28	-11,122.37	1,819.33	-1,538.67	1.18	1.70	440.38
4	79,032.59	277	157	120	56.68	4,732.80	-10,410.71	1,627.45	-1,470.64	1.11	1.45	285.32
3	74,625.05	299	179	120	59.87	4,429.70	-6,419.44	1,337.74	-1,373.58	0.97	1.45	249.58
2	64,229.91	331	185	146	55.89	4,809.66	-7,740.60	1,208.09	-1,090.87	1.11	1.40	194.05
1	58,599.94	354	217	137	61.30	5,117.46	-4,074.84	758.94	-774.38	0.98	1.55	165.54

The edge here is apparent from day one and suggests upside over the next couple of weeks. But now let's look at times like now when the strong selloff DOES immediately follow a 50-day high.

SPX closes down > 1% and NYSE decliners more than double advancers.  
 Close > 200ma. Yesterday SPX closed at a 50-day high.  
 Buy on close. Sell X days later, \$100k/trade. 10/20/87 - present.

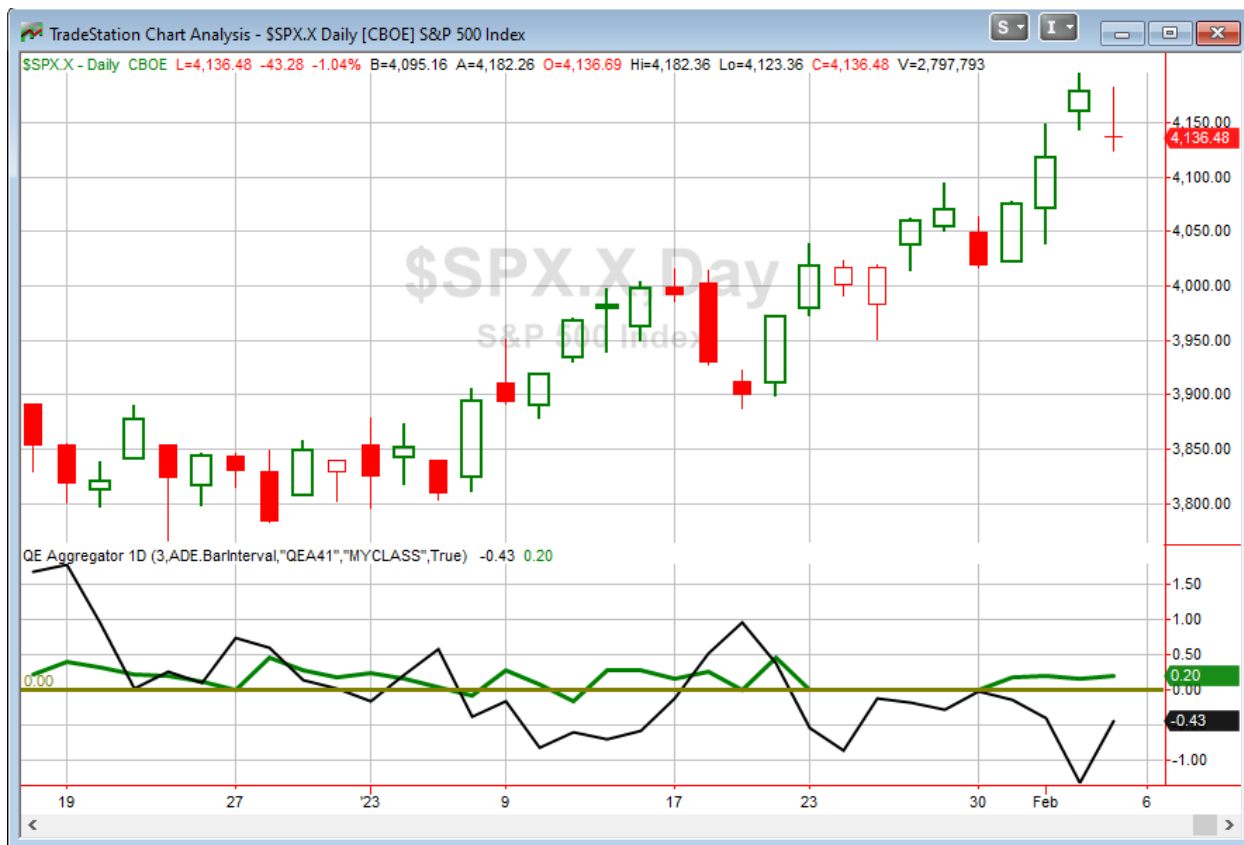
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	11,272.17	27	18	9	66.67	4,534.69	-6,566.95	1,896.23	-2,540.00	0.75	1.49	417.49
9	8,171.09	27	18	9	66.67	3,794.54	-5,470.08	1,715.42	-2,522.94	0.68	1.36	302.63
8	7,117.85	28	17	11	60.71	4,327.90	-4,532.00	1,478.03	-1,637.14	0.90	1.40	254.21
7	10,591.69	29	18	11	62.07	3,761.94	-5,123.95	1,714.66	-1,842.92	0.93	1.52	365.23
6	11,475.61	29	19	10	65.52	3,331.38	-3,912.35	1,594.67	-1,882.32	0.85	1.61	395.71
5	7,031.21	29	18	11	62.07	2,693.34	-4,884.75	1,450.31	-1,734.04	0.84	1.37	242.46
4	8,383.91	29	18	11	62.07	3,348.81	-3,895.76	1,312.69	-1,385.86	0.95	1.55	289.10
3	6,071.85	29	19	10	65.52	2,784.78	-1,808.21	990.98	-1,275.68	0.78	1.48	209.37
2	-618.40	30	18	12	60.00	2,437.50	-4,026.36	905.70	-1,410.08	0.64	0.96	-20.61
1	4,992.58	30	18	12	60.00	2,002.36	-1,875.72	684.64	-610.91	1.12	1.68	166.42

The chance of a bounce the next day appears decent, but there is hardly any follow through. So this does not appear very compelling. And here is a look at the 1-day profit curve.



The 1<sup>st</sup> 11 instances might have had someone excited about the possibilities, but since then it has been complete sideways chop. This is not appealing, and I won't be adding it to the active list tonight.

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



Without any new short-term studies being added, 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 below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is still 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.

Based on the current active list, expectations are primed to remain positive Monday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4134.30 on Monday. That is less than 0.1% below Friday's close. So SPX will only need to close down a

couple of points on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is once again neutral. Evidence is still pointing higher, but we have only seen one down day, and it was not enough to work off the short-term overbought condition. That could easily happen on Monday, but I would like to see what evidence emerges based on Monday's action before committing to a possible long trade. Short-term evidence at this point is quite muted. Therefore, I will give it at least one more day before looking for a new entry. But further selling along with some confirming bullish studies early in the week would likely get me interested in taking on long exposure.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/6 – bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

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”.*

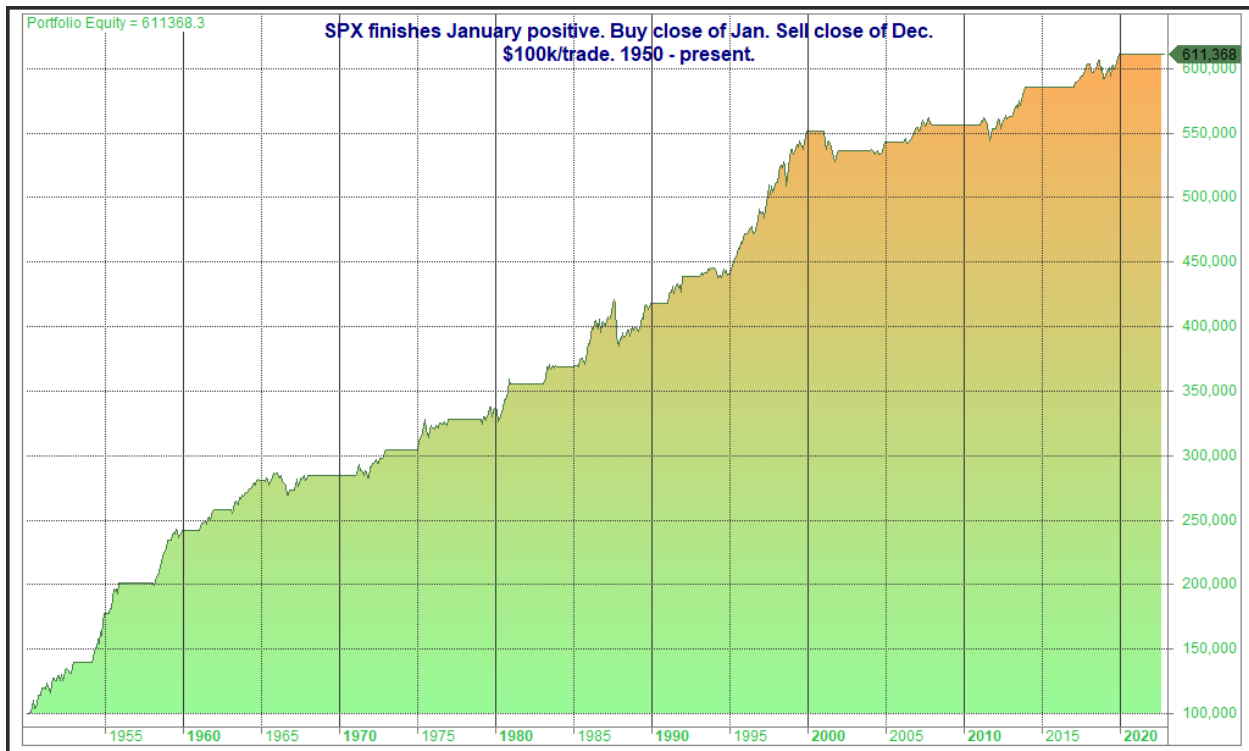
This past week was a strong one for the major indices. The SPX closed up 1.6%, the NASDAQ rose 3.3%, and the Russell 2000 rallied 3.9%. Bonds were mixed. The US Aggregate Bond ETF (AGG) was basically breakeven with a loss of 0.02%, and TLT, the 20-year Treasury Bond ETF rose 0.25%. The SPX triggered the long-discussed Golden Cross on Thursday, and it also closed at a 50-day high for the 1<sup>st</sup> time in a long time. So the long-term trend has now shifted, and we are looking at an uptrend at this point.

The January Barometer is a fairly famous study from the Stock Traders Almanac. It says that “as goes January, so goes the year”. In other words, a positive January will typically lead to a positive year, while a negative January can be a warning. So, as I did in the 2/4/19 letter, let's look at how the SPX has done for the remaining 11 months of the year when January has closed higher. Stats are updated back to 1950.

SPX finishes January positive.  
Buy close of Jan. Sell close of Dec.  
\$100k/trade. 1950 - present.

<b>All trades</b>	43
Avg. Profit/Loss	11892.29
Avg. Profit/Loss %	11.89%
<b>Winners</b>	37 (86.05 %)
Avg. Profit %	15.37%
Max. Consecutive	11
<b>Losers</b>	6 (13.95 %)
Avg. Loss %	-9.57%
Max. Consecutive	1
<b>Profit Factor</b>	9.91

The numbers show that in years that January has done well, the rest of the year has typically fared well also. Below is a profit curve.



That is a fairly steady upslope. So perhaps January momentum will follow through some for 2023. I will note that the January Barometer would have failed miserably during the 1930s, as there were several years that started well, but saw huge declines over the next 11 months. This study is one I have always found interesting, but not terribly compelling. I will not be adding it to the Active List, but I thought readers might want to be aware of it.

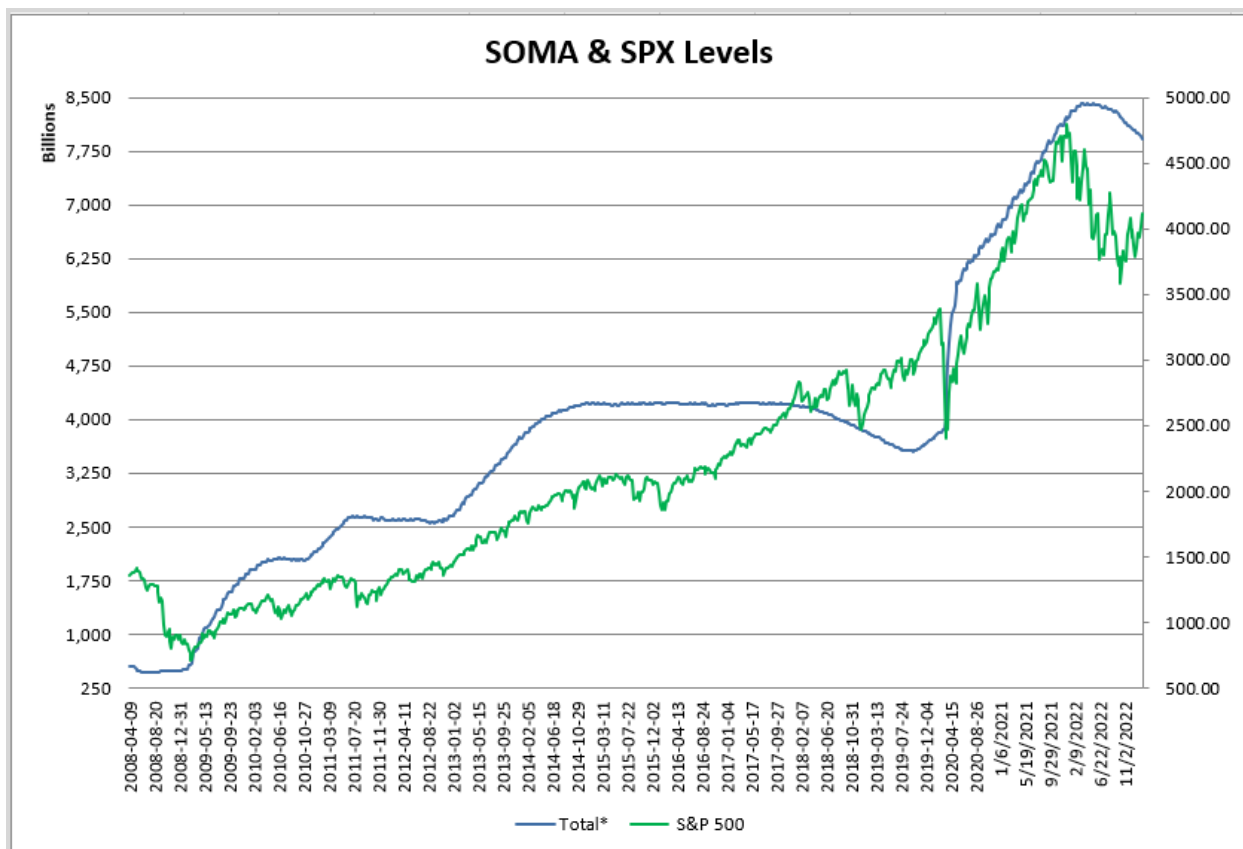
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of  
 ◀ Previous **February 1, 2023** 📅  
 Posted February 2, 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)	285,020,936.0
US Treasury Notes and Bonds (Notes/Bonds)	4,612,307,946.8
US Treasury Floating Rate Notes (FRNs)	23,428,784.2
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
<b>Total SOMA Holdings</b>	<b>7,922,819,291.7</b>
Change From Prior Week	<b>-38,048,445.7</b>

This week the SOMA declined by over \$38 billion. That is a substantial decline, which we expected. This upcoming week should not be nearly as large. 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. It appears likely that we could see at least one more quarter point hike before the Fed pauses. While they seemed to dial back the hawkish rhetoric some on Wednesday, and indicated the path forward will be “data dependent”, current rate policy and QT are hawkish. Fed policy remains a large bearish factor.

Overall, bullish evidence seems to be dominating. The SPX Golden Cross occurred on Thursday, confirming other uptrend signals. Current NASDAQ leadership is a positive. There are several breadth thrust signals active, and a Triple 70 Breadth Thrust occurred again this past week. Momentum has also been strong, and a repeat of the “SPX 50-day %b crosses 100” also triggered this week. So we continue to get bullish confirmation from trend, leadership, breadth, and momentum. The big negative remains the Fed. If the negative influence of the Fed (or higher inflation or a failing 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***

**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**

**None.**

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