

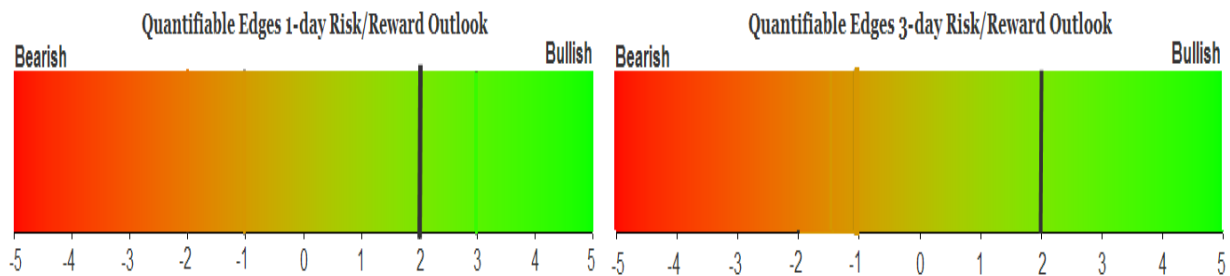
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2023

Volume 16 Issue 29

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- Opex week in Feb has had a bullish tendency, and this is also confirmed by the QE Seasonality Calendar.
- CPI will be a wildcard on Tuesday.
- The SOMA was flat this past week. I expect to see a sizable decline this upcoming week.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. There appears to be a mild upside edge.

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						
February 13, 2023	Opex week in Feb seasonally bullish	1-3 days	Bullish	1.30%	-0.70%	-1.80%
Active - Long Term						
February 2, 2023	SPX Golden Cross	int term	Bullish			
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			

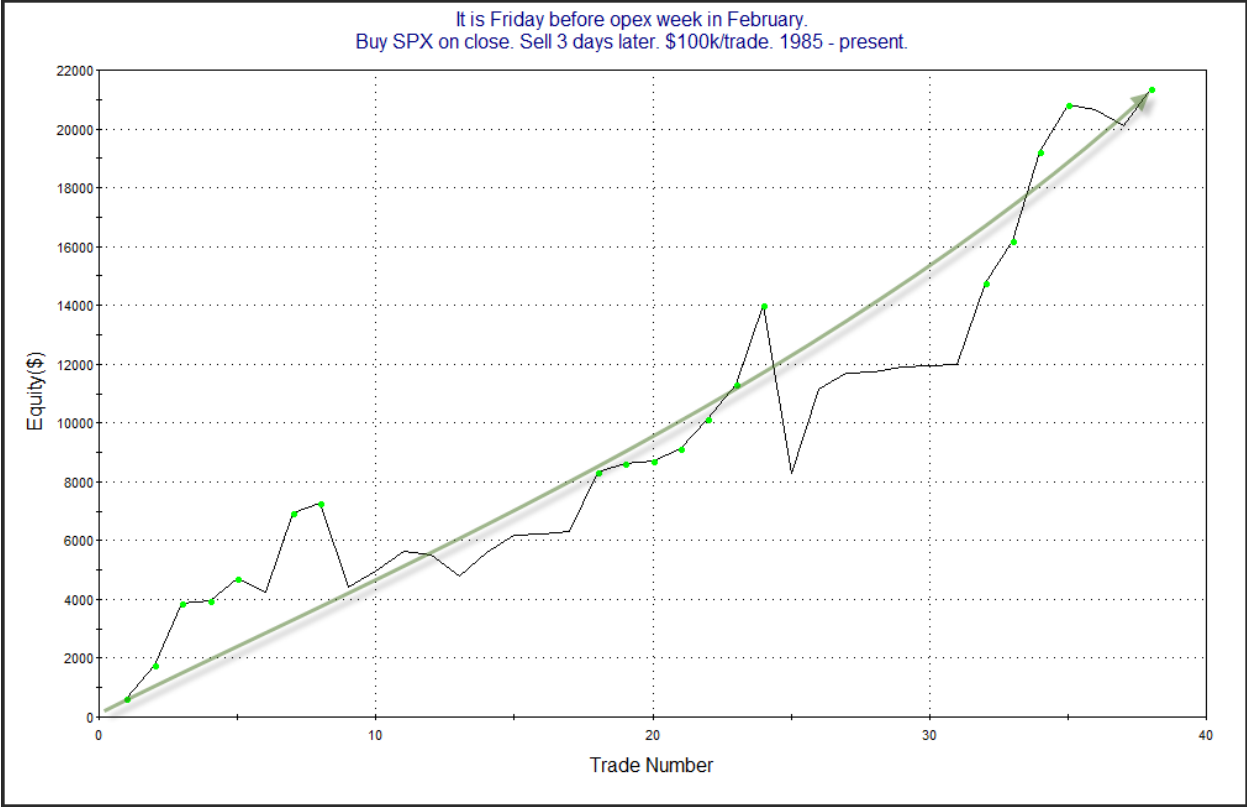
The Evidence

Friday saw mixed results for the major indices. The SPX rose 0.2%, the NASDAQ fell 0.6%, and the Russell 2000 gained 0.2%. Breadth was slightly positive with the NYSE Up Issues % coming in at 52% and the Up Volume % at 50.5%. NYSE total volume declined some from Thursday's level.

The back and forth chop we have seen did not trigger anything compelling from a price action standpoint. But the upcoming week is an interesting one from a seasonality perspective. Opex has often been a good week for stocks. Below is a look at how SPX has done in February for the 5 days following the Friday before opex week.

It is Friday before opex week in February. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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	13,001.54	38	23	15	60.53	4,281.46	-10,021.20	1,738.96	-1,799.64	0.97	1.48	342.15
4	21,604.96	38	27	11	71.05	4,242.70	-6,814.80	1,333.48	-1,309.00	1.02	2.50	568.55
3	21,356.30	38	31	7	81.58	3,005.04	-5,748.00	1,031.25	-1,516.07	0.68	3.01	562.01
2	14,763.50	38	27	10	71.05	3,288.12	-4,610.40	958.07	-1,110.45	0.86	2.33	388.51
1	11,815.71	38	27	11	71.05	2,565.94	-4,520.40	865.52	-1,050.31	0.82	2.02	310.94

While full-week numbers are decent, it is the Mon-Wed stats that really stand out and suggest an edge. Below is a look at a profit curve with a 3-day holding period.



There is definitely a good bit of volatility in the curve, but it has made its way from lower left to upper right, and offers some confirmation of the edge suggested by the numbers.

Also offering some confirmation of a bullish seasonal edge is the Quantifiable Edges Seasonality Calendar. Below is the February Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
2/1/2023	55.05	1.273	0.080
2/2/2023	55.31	1.034	0.014
2/3/2023	56.54	1.195	0.065
2/6/2023	56.19	1.206	0.070
2/7/2023	53.63	1.093	0.028
2/8/2023	55.19	1.002	0.000
2/9/2023	56.90	1.004	0.000
2/10/2023	57.75	1.256	0.072
2/13/2023	53.09	1.264	0.023
2/14/2023	53.38	1.453	0.088
2/15/2023	57.25	1.606	0.114
2/16/2023	55.02	1.496	0.074
2/17/2023	54.96	1.522	0.085
2/21/2023	51.57	1.308	0.027
2/22/2023	49.21	1.025	-0.025
2/23/2023	50.67	1.075	-0.012
2/24/2023	51.82	0.821	-0.089
2/27/2023	49.29	0.996	0.001
2/28/2023	51.41	1.113	0.038
Baseline	54.01	1.136	0.046

This upcoming week is the strongest of the month, and Wednesday is the strongest day of the month – for all 3 stats shown. So the market should have a seasonal wind at its back much of this week.

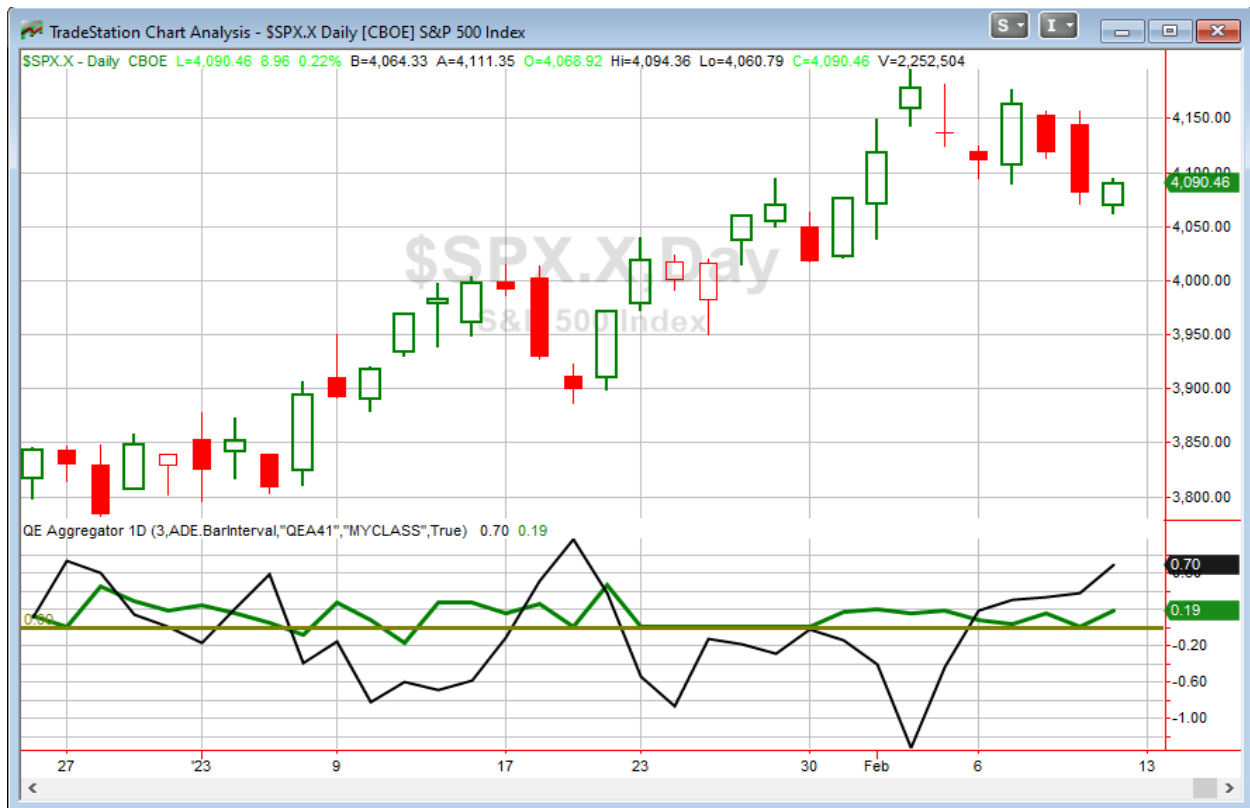
But Tuesday could be a real wild card day, because it features the release of the Consumer Price Index (CPI) for January. For most of my time trading, the CPI release was a non-event. That is because inflation was not really an issue since the early 80s. But since inflation returned in 2022, the CPI data has sparked some very large moves. Below is an update to a table I showed the last few months that examines SPX performance on all CPI release days since May 2022.

SPX Action on Recent CPI Release Dates

Reference Month	Release Date	SPX True Range	SPX % Change
Apr-22	May 11, 2022	120.27	-1.65%
May-22	June 10, 2022	117.66	-2.91%
Jun-22	July 13, 2022	70.37	-0.45%
Jul-22	August 10, 2022	88.56	2.13%
Aug-22	September 13, 2022	189.13	-4.32%
Sep-22	October 13, 2022	193.83	2.60%
Oct-22	November 10, 2022	209.76	5.54%
Nov-22	December 13, 2022	110.4	0.73%
Dec-22	January 12, 2023	60.2	0.34%
	Average	128.91	0.22%
	All other days ATR since 5/11	72.28	

The average true range on CPI days has been 78% larger than the average true range on all other days since 5/11/2022. January saw the most mild numbers of the bunch. I suspect that is an anomaly. With the Fed talking about policy being “data dependent”, data releases like CPI have the ability to generate sizable (over)reactions. So we very well could see a sharp market move on Tuesday. And that adds a bit extra risk to the equation.

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



With this weekend's evidence 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 is well 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.

Based on the current active studies, expectations are set to remain positive on Monday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4129.03 on Monday. That is 0.9% above Friday's close. Therefore, SPX will need to close up at least 0.9% on Monday in order to change from oversold to overbought vs recent expectations.

So the Aggregator is still bullish. Oversold heading into a strong seasonal period (and during an uptrend) often tends to be a strong setup. If it were not for the CPI wildcard on Tuesday, I would be fairly eager to take on some long index exposure. I do believe there is an upside edge, but I would prefer to dampen my risk. So I may look to take on some long exposure on Monday, but only if SPY closes lower and in the bottom portion of its daily range. Often fear heading into an announcement is a good thing, and helps to skew risk/reward favorably. So if we get afternoon selling on Monday, I'll be more inclined to take on a new position. I find that greatly preferable to having many market participants trying to scramble into the market ahead of the report.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/13 – bullish

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

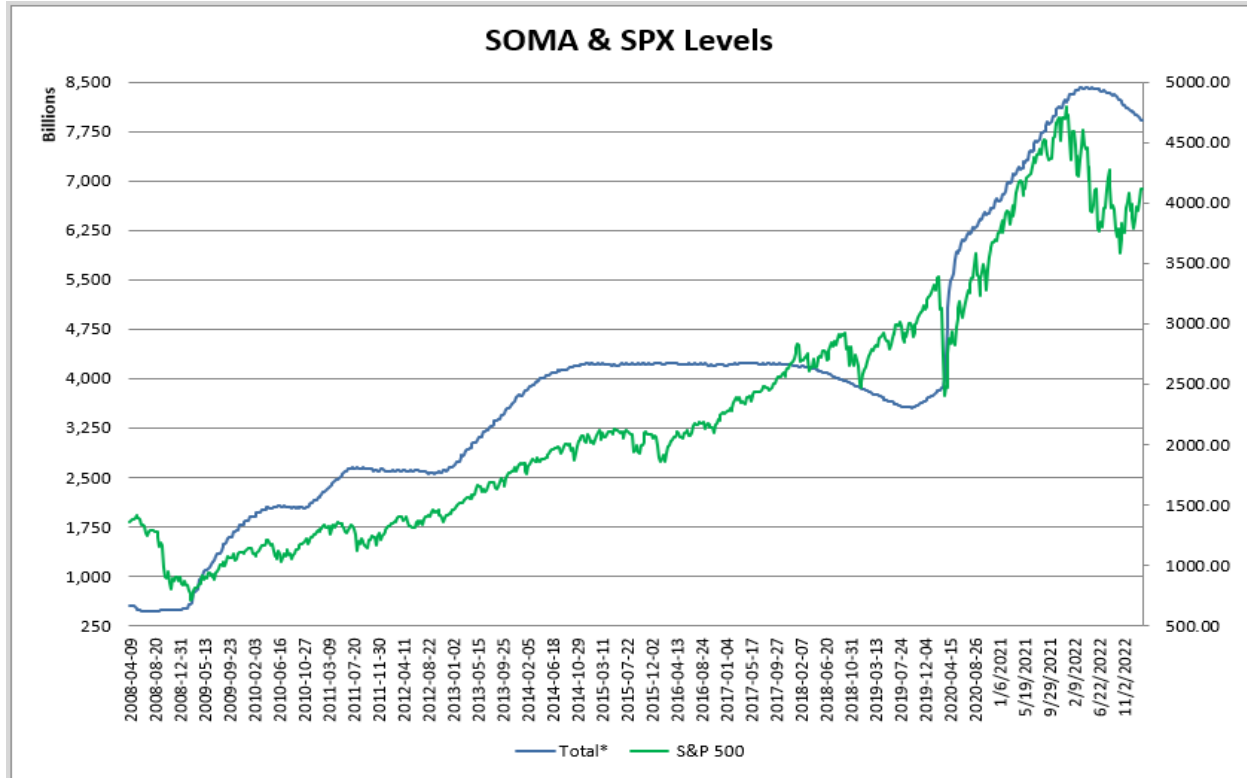
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 down week for the major indices. The SPX declined 1.1%, the NASDAQ fell 2.4%, and the Russell 2000 dropped 3.4%. Bonds also suffered. The US Aggregate Bond ETF (AGG) posted a loss of 1.4%, and TLT, the 20-year Treasury Bond ETF tumbled 3.4%. The stock indices all still remain above their 200-day moving averages, suggesting the uptrend is still in place. There were no new studies with intermediate-term implications that 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.

Domestic Security Holdings as of	
◀ Previous	February 8, 2023 📅
	<i>Posted February 9, 2023 at 4:30 P.M</i>
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
Total SOMA Holdings	7,922,819,291.7

This week the SOMA stayed *exactly the same*. Nothing matured and nothing was bought. Easy week for traders and back-office accountants at the Fed. This upcoming week I expect to see quite a bit roll off the books. 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 the hawkish rhetoric has been dialed back and upcoming moves are considered “data dependent”, current rate policy and QT remain a headwind. Fed policy continues to be a large bearish factor.

This past week saw the market pull back a bit, but that did not do anything to change the bullish intermediate-term outlook. Uptrends remain intact. Current NASDAQ leadership is a positive. There are several breadth thrust signals active as well as a momentum study. So we continue to see bullish evidence in the form of 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

NKE – 1/3 @ \$122.18 (bought @ limit)

Broad Market Large Cap CBI – 1(NKE)

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.

SPY – Buy ¼ index position @ \$407.00 LIMIT ON CLOSE if SPY also closes in the bottom 3rd of its intraday range. Based on the short-term outlook above, I will look to take on a small amount of index exposure near the close on Monday if we get some selling heading into Tuesday's CPI release.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
NKE(1/3)	1/10/2023	\$121.51	\$122.23	0.59%	bought on open

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