

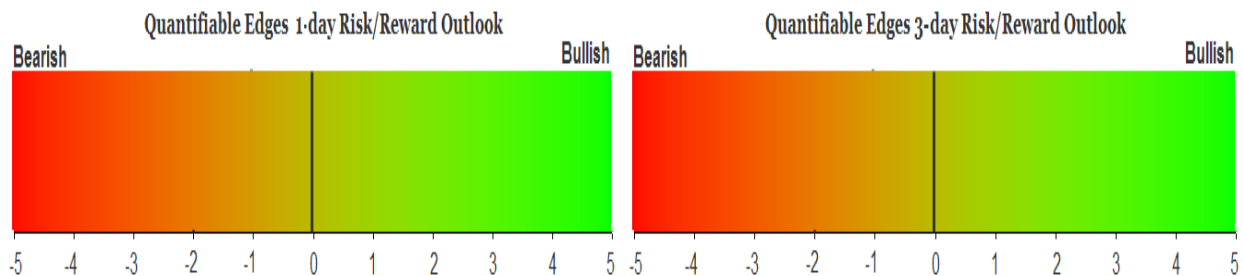
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2023

Volume 16 Issue 48

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- March opex week was strongly bullish for a long time, but not as much in recent years.
- Breadth the last few days has been especially weak.
- Big drops on an employment day have led to additional losses historically.
- The Silicon Valley Bank collapse and the upcoming CPI report could be large volatility drivers this week.
- The SOMA decreased mildly this past week.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral. Risks appear elevated for both bulls and bears. Still no thanks.

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						
March 13, 2023	1% drop on employment report day	1 day	Bearish			
March 10, 2023	SPX 20-low < 200. CBI = 0.	1-5 days	Bearish	-3.10%	1.40%	2.75%
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 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			

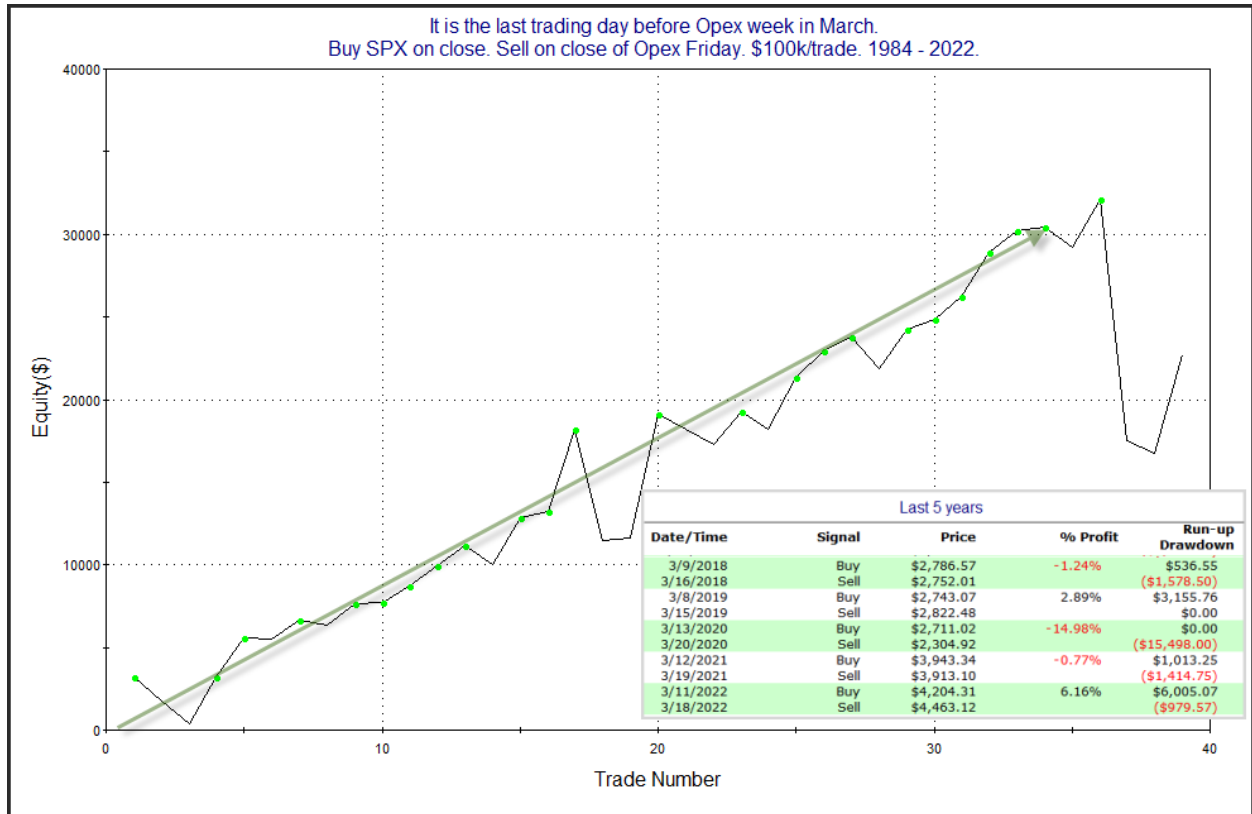
The Evidence

Friday saw more selling with strong employment numbers and a major bank failure. The SPX fell 1.45%, the NASDAQ dropped 1.8%, and the Russell 2000 tumbled 2.95%. Breadth was strongly negative with the NYSE Up Issues % coming in at 14% and the Up Volume % at 11%. NYSE total volume rose for the 2nd day in a row.

Op-ex week has been a fairly bullish week historically. But the edge has seemed to fade a bit over the last several years. April, October, and December have shown strong numbers – and March up until 2020. S&P 500 options began trading in mid-1983. The table below is one I have shown and updated basically every year since 2008. It goes back to 1984 and shows op-ex week performance broken down by month.

Opex Week SPX Performance by Month 1984 - present (Excludes September 2001)												
Month	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
12	20,961.90	39	28	11	71.79	5,868.16	-8,968.06	1,456.23	-1,801.15	0.81	2.06	537.48
11	3,980.02	39	23	16	58.97	3,718.25	-8,351.64	1,347.45	-1,688.21	0.80	1.15	102.05
10	33,323.64	39	30	9	76.92	7,282.10	-9,109.98	2,021.30	-3,035.03	0.67	2.22	854.45
9	9,667.35	38	22	16	57.89	5,313.08	-4,975.04	1,492.41	-1,447.85	1.03	1.42	254.40
8	-3,446.17	39	20	19	51.28	4,329.72	-5,670.55	1,353.60	-1,606.21	0.84	0.89	-88.36
7	-293.50	39	20	18	51.28	6,921.25	-7,953.12	1,339.26	-1,504.37	0.89	0.99	-7.53
6	-5,521.33	39	22	17	56.41	3,786.09	-5,650.50	1,193.36	-1,869.13	0.64	0.83	-141.57
5	-4,530.68	39	17	22	43.59	4,850.40	-4,959.45	1,821.90	-1,613.77	1.13	0.87	-116.17
4	33,969.25	39	26	13	66.67	5,731.96	-3,580.15	2,085.55	-1,558.08	1.34	2.68	871.01
3	22,684.07	39	26	13	66.67	7,515.60	-14,619.60	2,123.69	-2,502.45	0.85	1.70	581.64
2	14,902.63	40	22	18	55.00	4,281.46	-6,814.80	1,643.32	-1,180.58	1.39	1.70	372.57
1	2,543.13	40	18	22	45.00	5,389.00	-5,563.11	2,125.65	-1,623.57	1.31	1.07	63.58

March has a solid win rate and decent total numbers, but it looked a heck of a lot better before the last 5 years (with 2020 being the biggest fail). Below is a look at a profit curve.



The last 5 years have been a wild ride. March opex may still offer a potentially bullish seasonal opportunity. But the historical stats sure weakened a substantial amount.

I also checked the Quantifiable Edges Seasonality Calendar for SPX to see what that looked like for this upcoming week.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
3/1/2023	58.19	1.583	0.152
3/2/2023	53.36	1.059	0.026
3/3/2023	53.75	1.170	0.062
3/6/2023	53.74	1.157	0.027
3/7/2023	50.76	1.020	-0.020
3/8/2023	52.11	0.917	-0.054
3/9/2023	54.06	0.930	-0.050
3/10/2023	54.93	1.171	0.020
3/13/2023	53.06	0.908	-0.042
3/14/2023	52.38	1.069	0.013
3/15/2023	54.83	1.029	0.004
3/16/2023	52.90	0.904	-0.041
3/17/2023	51.60	0.937	-0.026
3/20/2023	50.63	1.037	0.015
3/21/2023	49.80	1.427	0.108
3/22/2023	45.91	1.204	0.065
3/23/2023	50.47	1.226	0.069
3/24/2023	48.09	0.958	-0.014
3/27/2023	52.92	1.086	0.028
3/28/2023	54.18	1.168	0.054
3/29/2023	54.50	1.228	0.071
3/30/2023	56.74	1.288	0.086
3/31/2023	54.35	1.020	0.004
Baseline	53.93	1.134	0.045

Here we see the 13th – 17th have some pretty mild numbers. The Seasonality Calendars use multiple algorithms to generate the odds. It is not as simple as just looking at “week of month” like our opex study above. You can [check out this video](#) for more details on how the Seasonality Calendars are created. Considering everything together, I decided not to include March opex as a study on the Short-Term Active List. More optimistic traders may still consider this week seasonally positive.

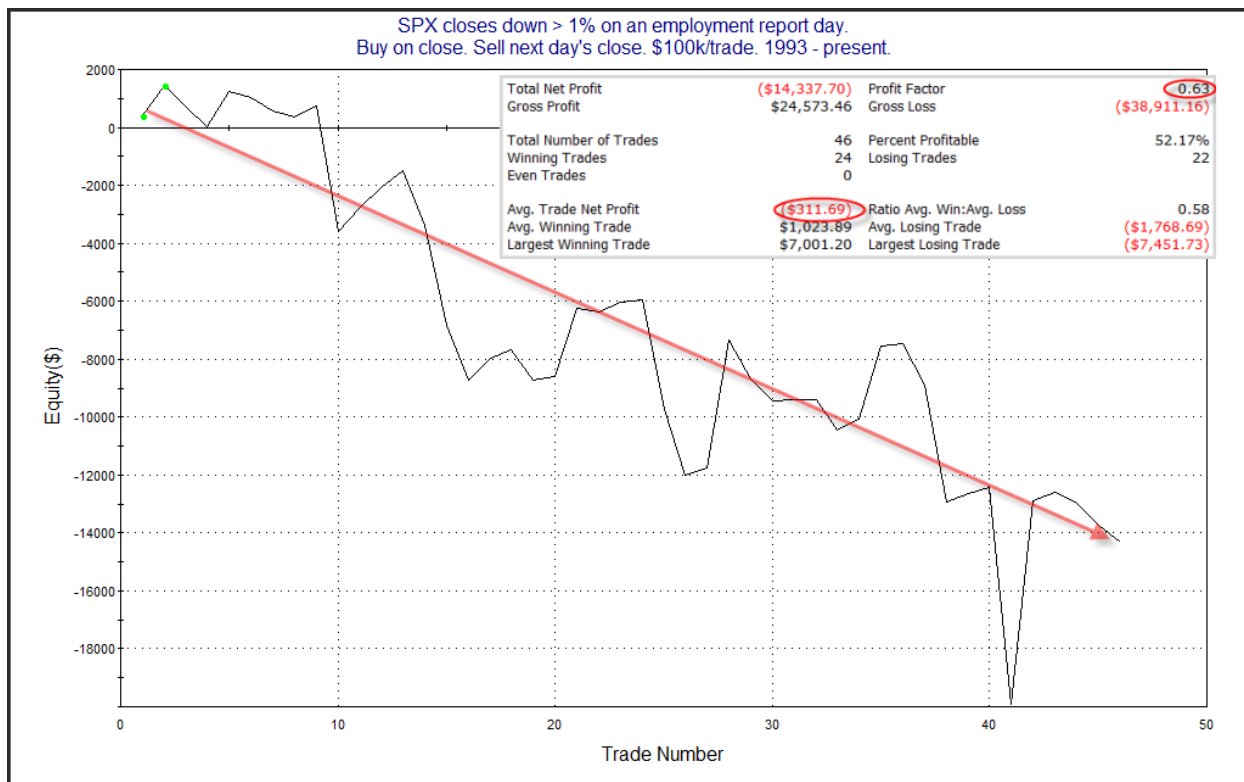
There were a few oversold breadth studies that triggered in the Quantifinder. Upon examination, they simply have not shown strong upside over the last several years. The example below was last featured in the 8/24/15 letter and has been updated.

NYSE Up Issues % < 20% for exactly the 2nd day in a row. SPX < 200ma.
Buy on close. Sell 5 days later. \$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/23/2002	Buy	\$797.70	13.17%	\$14,013.75
7/30/2002	Sell	\$902.78		(\$2,752.50)
8/15/2007	Buy	\$1,406.70	4.08%	\$4,129.36
8/22/2007	Sell	\$1,464.07		(\$2,563.10)
3/17/2008	Buy	\$1,276.60	5.98%	\$6,480.24
3/25/2008	Sell	\$1,352.98		\$0.00
10/7/2008	Buy	\$996.23	0.18%	\$4,808.00
10/14/2008	Sell	\$998.01		(\$15,643.00)
11/6/2008	Buy	\$904.88	0.71%	\$5,177.70
11/13/2008	Sell	\$911.29		(\$9,480.90)
11/20/2008	Buy	\$752.44	19.11%	\$18,982.92
11/28/2008	Sell	\$896.24		(\$1,453.32)
9/22/2011	Buy	\$1,129.56	2.73%	\$5,834.40
9/29/2011	Sell	\$1,160.40		(\$721.60)
10/3/2011	Buy	\$1,099.23	8.70%	\$8,611.20
10/10/2011	Sell	\$1,194.89		(\$2,201.40)
11/1/2011	Buy	\$1,218.28	4.73%	\$4,860.14
11/8/2011	Sell	\$1,275.92		\$0.00
8/21/2015	Buy	\$1,970.89	0.91%	\$1,129.50
8/28/2015	Sell	\$1,988.87		(\$5,194.00)
6/27/2016	Buy	\$2,000.54	4.40%	\$5,300.33
7/5/2016	Sell	\$2,088.55		\$0.00
3/6/2020	Buy	\$2,972.37	-8.79%	\$0.00
3/13/2020	Sell	\$2,711.02		(\$16,285.83)
6/10/2022	Buy	\$3,900.86	-5.79%	\$0.00
6/17/2022	Sell	\$3,674.84		(\$6,599.75)
8/22/2022	Buy	\$4,137.99	-2.59%	\$1,561.20
8/29/2022	Sell	\$4,030.61		(\$2,893.68)
9/23/2022	Buy	\$3,693.23	-2.91%	\$1,174.77
9/30/2022	Sell	\$3,585.62		(\$2,945.70)

There were 11 winners in a row through 2016. But since then there have been 4 instances, and they all posted sizable losses. With the low number of total instances, this recent streak is enough for me to ignore the study for now.

The selling Friday cannot all be attributed to SVB. The strong employment report also could have played a part. This triggered the study below, which was last seen in the 4/6/20 letter and looks at performance following other sizable selloffs on employment days.



The downside persistency seems strong enough that I decided to include this study on the active list. This the only study I will be adding to the list. And typically, this is where I would stop the “evidence” part of the letter. But there is building angst on Wall St. right now, and I thought I would address a couple of hot topics that could cause prices to move sharply in the coming days.

SVB. I’m going to keep this short, because if you are truly interested there are plenty of articles out there that can get into much more detail. Silicon Valley Bank Corp was the 18th largest bank in the US. It collapsed on Friday. A primary reason was that the rise in interest rates over the last year greatly reduced the value of the bonds in their portfolio. And they did a bad job of managing the risk of rising rates. Customers (most of which were start-up companies) suspected that SVB was undercapitalized, and there was a huge bank run, which caused SVB to actually become undercapitalized because they had to sell long-term investments that were greatly underwater in order to try and cover withdrawals. Did not work. There will be fallout. Right now there is a lot of discussion about what that fallout will be, who will get bailed out, and what the Fed might do in response. A few bullet points in a rapidly changing story:

- The biggest customers of the bank were startup firms, many backed by VCs. With assets currently frozen, many of these firms may have trouble doing things like making payroll.
- [This will cause quite a bit of turmoil among startups](#) and there will be reverberations elsewhere.

- One example of a reverberation already felt is that [the “stablecoin” cryptocurrency USDC has broken the dollar level.](#)
- The crypto aspect may create other problems, as noted in Bob Brinker’s tweet below:



- Will other banks have similar issues? Have the others been as bad as SVB at managing their portfolios? Does this increase the odds of more bank runs? There is already great incentive (higher rates, no failure risk) to take money out of savings accounts and park it in treasury bills, so will tales of woe cause more people to do that? What will be the impact on the banking industry?
- The FDIC already kicked off an auction for SVB on Saturday night, with final bids supposedly due on Sunday afternoon.
- The Fed announced on Friday an emergency meeting on Monday to discuss discount window rates for banks. [Federal Reserve Board - March 13, 2023 -- Closed Board Meeting](#)

More thoughts on the Fed...

- The Fed has been raising rates to cool the economy so as to get inflation considerably lower.
- The fear with this approach is that it will cause things to “break” and it could cause a painful recession.
- After a year of rising rates, SVB now appears to be the 1st thing to break.
- But jobs data is strong and inflation remains elevated, so there appears that there is more work to do to get inflation under control.

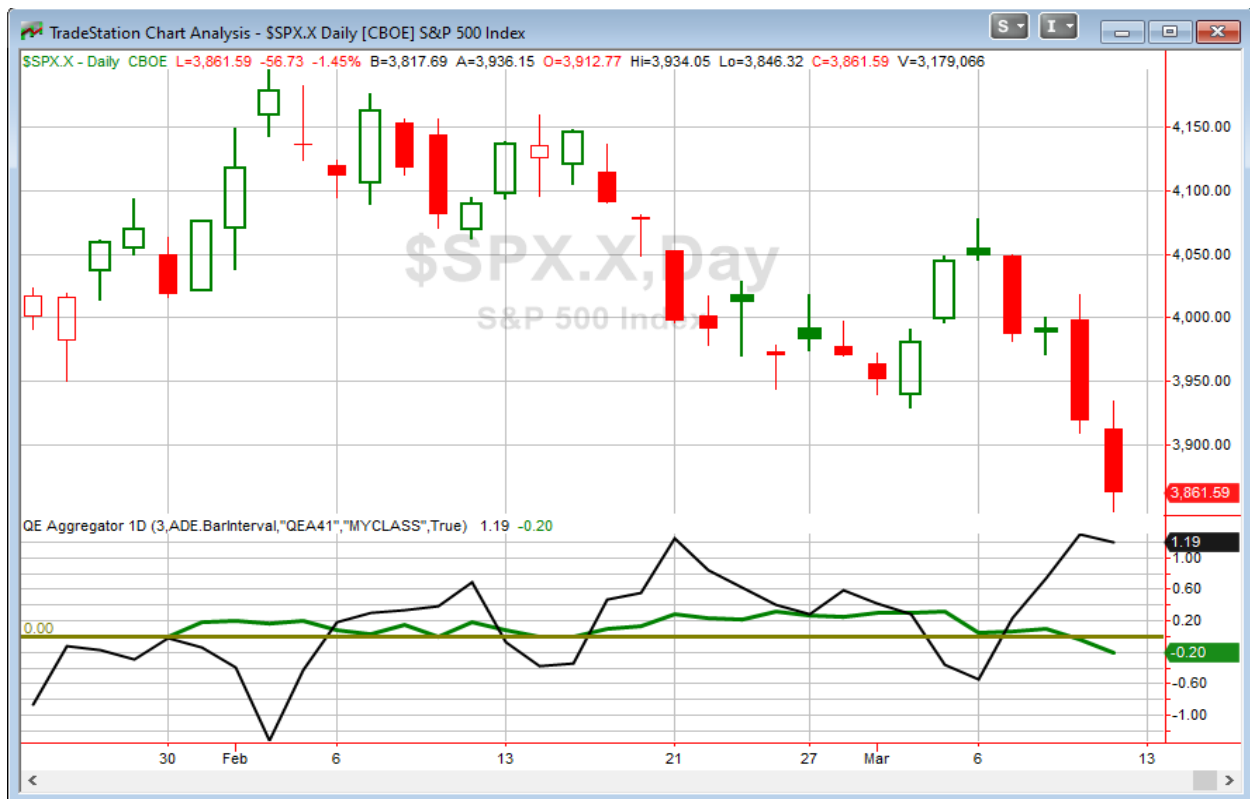
- It is a tough thing to cool the economy and get inflation under control without breaking things. Up until now, nothing was breaking, so they could just keep raising rates. They may soon determine a more cautious approach is warranted.

The Fed will have to pay attention to news related to the SVB collapse and where else it might be causing stresses. News should continue to come out quickly. Tuesday the CPI data will be released. That is an important inflation number. To see how important, check out the table below, which shows how much volatility the release has created over the last 10 months.

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%
Jan-23	February 14, 2023	64.76	-0.03%
	Average	122.49	0.20%
	All other days ATR since 5/11	70.84	

Bottom line as a trader is that there are some substantial risks right now. The market has sold off fairly strongly over the last few days due to worries about the Fed, inflation, and now the SVB collapse. I don't know if this all will lead to a huge selloff. I know we have not had a huge selloff yet. (Just a broad one) Though it might feel like the selling has been substantial, the SPX is only down 7.6% from its Feb closing high, and 3.3% over the last 2 days. That's notable, but it is certainly no crash. I am not seeing anything in the way of compelling studies saying the market is highly likely to bounce right now. Risks seem elevated. I do expect we will see a sizable bounce at some point soon. But I'm not going to get involved unless more compelling evidence emerges.

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



With this weekend's evidence considered, the green Aggregator Line stayed below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line held above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 studies, expectations are set to remain negative on Monday. This could easily change if new bullish evidence emerges. And this market seems to be capable of generating strong moves that could trigger studies suggesting edges in either direction. Meanwhile, the Differential Pivot will be 3996.88 on Monday. That is a massive 3.5% above Friday's close. Therefore, SPX will need to rally at least 3.5% on Monday in order to flip from oversold to overbought vs recent expectations. A more likely scenario for working off the oversold condition is a multi-day rally or consolidation.

So the Aggregator is neutral. Risks are high and I see no compelling reason to get involved at this point. That could change quickly. Overall, I am more interested in generating gains over long periods of time than I am in trying to capture every bounce. The market may rally strongly on Monday and/or Tuesday. That will be fine. It may collapse. That will also not be a big issue. I will be ready to act when the odds are better. Not yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/13 – slightly bullish

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

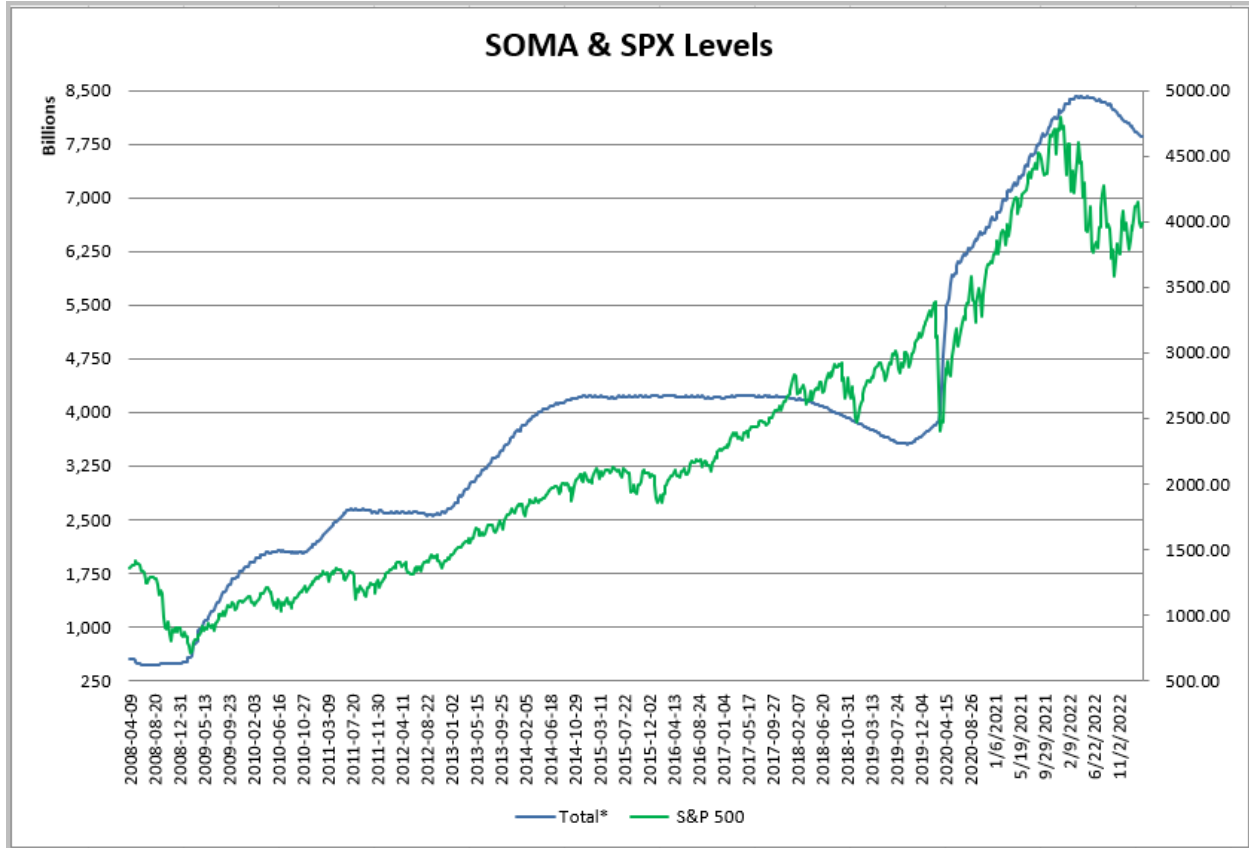
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 saw some of the biggest losses since September. The SPX declined 4.6%, the NASDAQ fell 4.7%, and the Russell 2000 tumbled 8.1%. Bonds benefitted as a flight to safety took place. The US Aggregate Bond ETF (AGG) posted a gain of 1.0%. TLT, the 20-year Treasury Bond ETF, rallied 3.6%. The major stock indices all dropped below their 200-day moving averages, leaving long-term trend indications mixed. There were no studies that emerged in the last few days with intermediate-term implications.

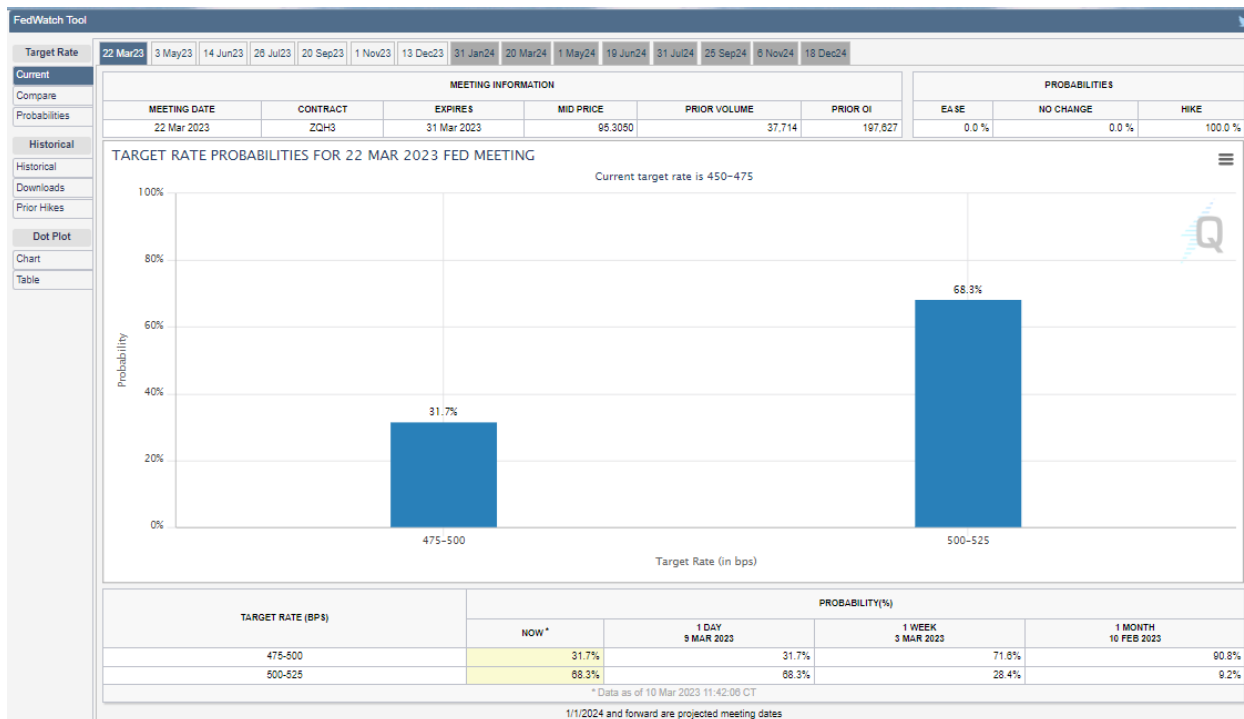
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of	
Previous	March 8, 2023 <small>Posted March 9, 2023 at 4:30 PM</small>
SUMMARY	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	283,959,900.8
US Treasury Notes and Bonds (Notes/Bonds)	4,550,313,109.6
US Treasury Floating Rate Notes (FRNs)	23,428,784.2
US Treasury Inflation-Protected Securities (TIPS)*	377,024,244.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,601,598,207.1
Agency Commercial Mortgage-Backed Securities***	8,441,837.5
Total SOMA Holdings	7,847,113,083.7
Change From Prior Week	-1,061,035.2

This week the SOMA declined a little over \$1 billion. That is quite mild for the current QT cycle. I expect this upcoming week to be substantially 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. A few weeks ago the market was hopeful that 1 or 2 more quarter-point hikes would be all for the Fed. But expectations have increased for larger/longer hikes. Odds now favor 3 more hikes and a rate around 5.50% - 5.75% in June/July. Below is a look at odds for the upcoming March meeting.



Even with the SVB turmoil, odds still point to a 50-basis point increase at the upcoming March meeting. When the Fed claims they are “data dependent”, any change in the data is capable of creating a big swing in prices and sentiment. SVB news and CPI are two potential market movers this upcoming week. Overall, Fed policy continues to be a large bearish factor.

The intermediate-term is not looking quite as good as it did last week. The study I featured last weekend saw a drawdown large enough to deem it a failed signal, so I have removed it from the active list. Additionally, the long-term trend is in doubt as the major indices all pierced their 200-day moving averages. The Golden Cross is still in effect, so some longer-term indicators are pointing higher, but overall, trend is questionable. Current NASDAQ leadership remains a positive. And seasonal cycles remain positive for the next couple of months. There are several breadth thrust signals active from January that are not looking as impressive. They remain on the active list, but I may deem them as “failures” if we go much lower. The big negative remains the Fed. But as I discussed above, this week we could see a lot change. So I am dialing back the bias from “bullish” to “slightly bullish”. I will remain open-minded and alert to potentially rapidly changing evidence. I’m a little more eager about long entries than short ones, but I’ll not be too aggressive in either direction.

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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