

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 3, 2023

Volume 16 Issue 63

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Early April has shown bullish seasonality since the mid-90s.
- When the last day of the month marks the highest close of the month, then the momentum often carries through into the 1st week of the new month.
- The QE Seasonality Calendar for SPX is showing strong numbers in April.
- The SOMA declined a moderate amount last week. QT remains in effect and further rates hikes appear 50/50. The Fed is no friend to the market.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Seasonality and momentum are suggesting some follow-through buying the next few days, but the market is already quite overbought. So an entry here seems aggressive.

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						
April 3, 2023	Early April bullish	1-4 days	Bullish	1.80%	-1.30%	-3.00%
April 3, 2023	End of month at high of month	1-5 days	Bullish	2.00%	-1.10%	-2.30%
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			

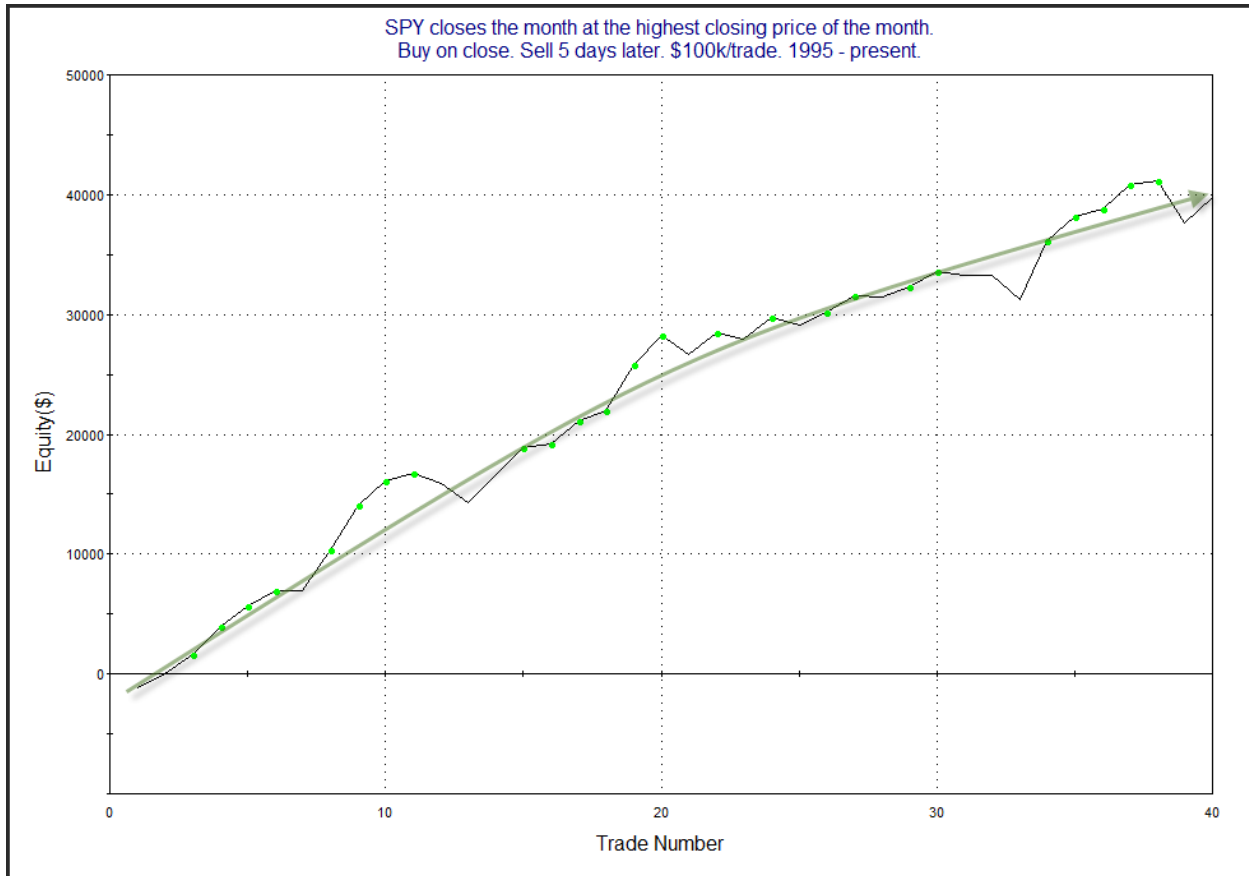
The Evidence

Friday was another day of gains. The SPX closed up 1.4%, the NASDAQ gained 1.7%, and the Russell 2000 rallied 1.9%. Breadth was positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 82%. NYSE total volume rose some from Thursday's level.

The fact that SPY closed at an intermediate-term high on the last day of the month suggests that we could see further rallying in the next few days. Results below are updated from the 2/1/23 letter.

SPY closes the month at the highest closing price of the month. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	39,747.48	40	29	10	72.50	4,926.56	-3,557.40	1,800.87	-1,247.76	1.44	4.19	993.69
4	32,745.62	40	28	12	70.00	5,394.96	-4,338.40	1,698.94	-1,235.40	1.38	3.21	818.64
3	22,290.90	40	27	13	67.50	4,105.92	-4,678.40	1,382.82	-1,157.33	1.19	2.48	557.27
2	14,434.22	40	22	18	55.00	3,954.78	-4,848.40	1,303.40	-791.14	1.65	2.01	360.86
1	4,507.76	40	21	19	52.50	1,850.94	-1,359.03	708.84	-546.20	1.30	1.43	112.69

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



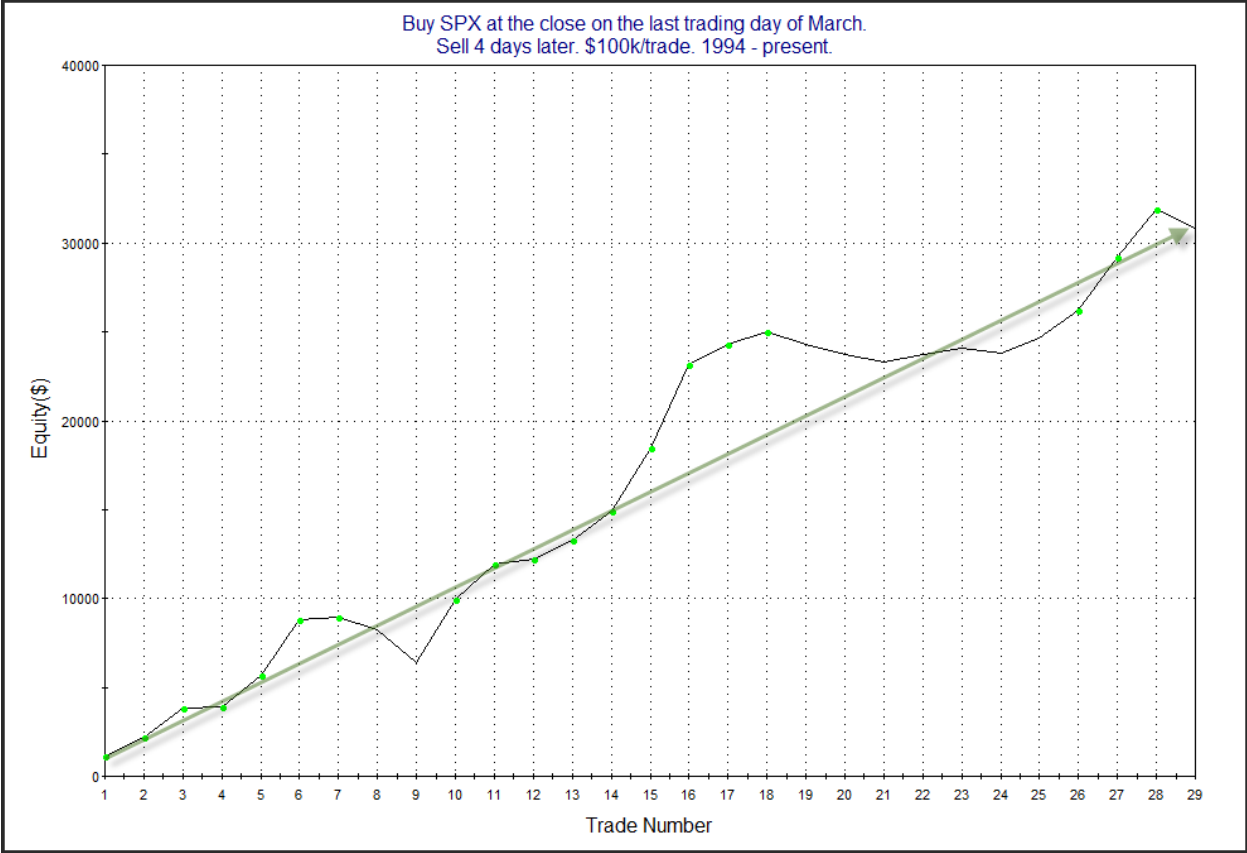
The steady upslope is comforting. I have added this study to the active list tonight.

The fact that we are heading into April may also help the bull case. Since the mid-90s the beginning of April has generally provided market gains. The study below was last seen in the 4/1/20 letter. Stats are updated.

Buy SPX at the close on the last trading day of March.
Sell X days later. \$100k/trade. 1994 - 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	20,067.15	29	19	10	65.52	4,435.97	-2,745.12	1,716.23	-1,254.13	1.37	2.60	691.97
4	30,818.86	29	22	7	75.86	4,701.25	-1,831.35	1,654.96	-798.60	2.07	6.51	1,062.72
3	18,380.90	29	20	9	68.97	5,578.75	-4,909.74	1,630.77	-1,581.61	1.03	2.29	633.82
2	20,698.09	29	20	9	68.97	4,563.75	-4,638.84	1,556.88	-1,159.94	1.34	2.98	713.73
1	5,814.26	29	20	9	68.97	3,559.50	-4,335.42	841.30	-1,223.52	0.69	1.53	200.49

The numbers look compelling. Let's look at the 4-day profit curve to see how the edge has played out over time.



This curve is also impressive, and I have added this study to the active list tonight.

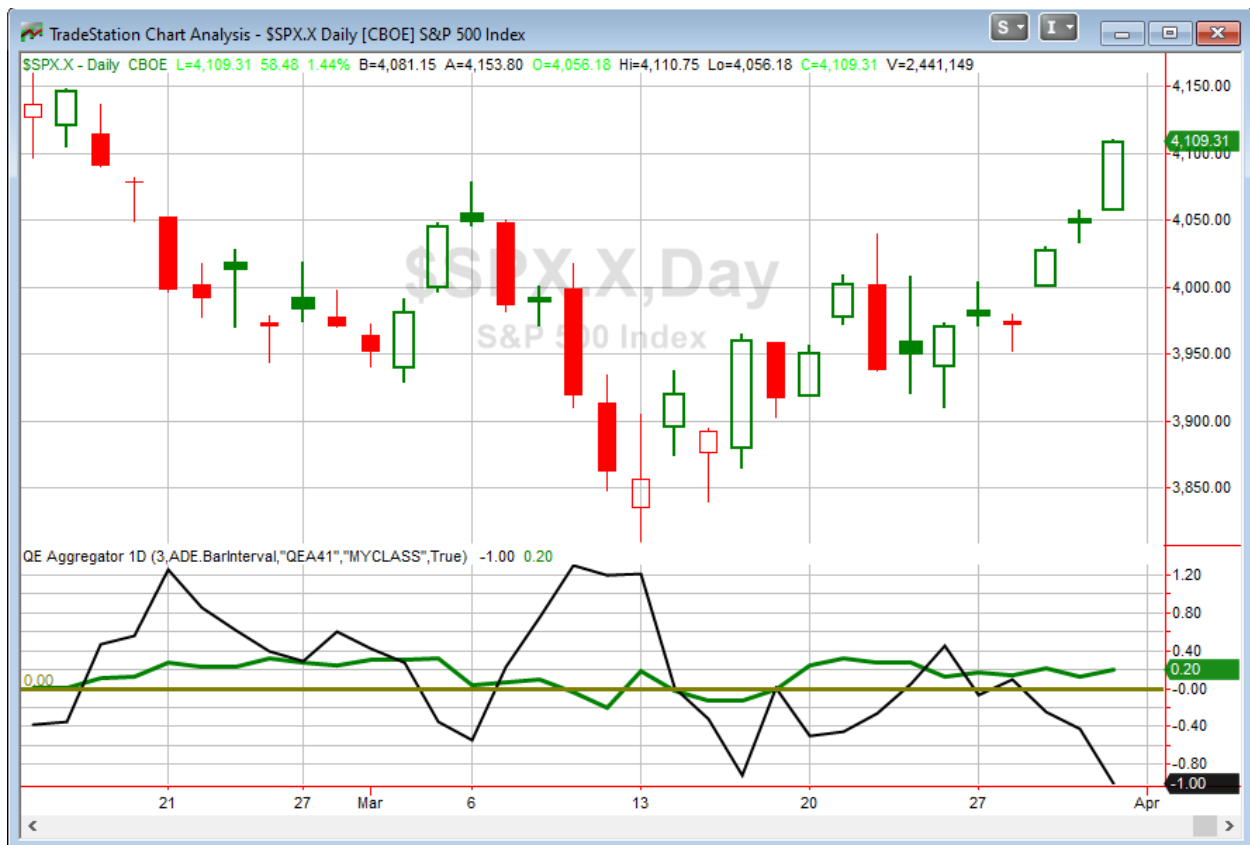
Also confirming the current bullish seasonal tendency is the QE Seasonality Calendar for April. The SPX version can be seen below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
4/3/2023	59.67	1.608	0.172
4/4/2023	56.22	1.327	0.087
4/5/2023	60.81	1.527	0.141
4/6/2023	58.49	1.308	0.077
4/10/2023	52.92	1.310	0.069
4/11/2023	52.92	1.469	0.126
4/12/2023	53.19	1.380	0.096
4/13/2023	57.41	1.371	0.091
4/14/2023	58.11	1.593	0.160
4/17/2023	55.88	1.131	0.042
4/18/2023	57.53	1.655	0.153
4/19/2023	56.41	1.314	0.078
4/20/2023	53.06	1.053	0.015
4/21/2023	51.32	1.055	0.018
4/24/2023	54.06	1.062	0.016
4/25/2023	54.69	1.127	0.037
4/26/2023	55.16	1.179	0.054
4/27/2023	57.92	1.267	0.076
4/28/2023	55.26	0.996	-0.007
Baseline	53.89	1.131	0.044

The last day of April is the only day that fails to show positive numbers across the board. Additionally, numbers throughout the month appear quite strong. Not only are most days positive, but they also consistently exceed the baseline. So for the next few weeks, the market should have a nice seasonal wind at its back.

The strong breadth we have seen recently is also notable. It did not trigger any of the breadth-thrust type signals I track, but it came pretty close. The 10-day ema of the NYSE Up Issues % rose to 64.29% on Friday. If it had crossed above 61.5% one day earlier it would have triggered a Zweig Breadth Thrust. Friday was in fact the 3rd day in a row of strong breadth. Three days in a row > 70% triggers a Quantifiable Edges Triple 70 thrust. But Thursday came in at 69.4%, so this signal barely missed as well. Deemer BAM and Whaley Thrust signals still could happen if we see more broad advances in the next few days. So while we have not seen any of my favorite breadth thrust signals trigger, breadth has been quite strong over the last several days. And that is generally a positive.

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



With tonight'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 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.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4047.63. That is 1.5% below Friday's close. Therefore, SPX will need to close down at least 1.5% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is again neutral. The market has some nice momentum and strong seasonality going for it right now. But being so overbought on a short-term basis, this is not exactly an ideal entry point for a short-term trade. I will continue to wait for a more favorable setup before putting on my next index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/3 – slightly bullish

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

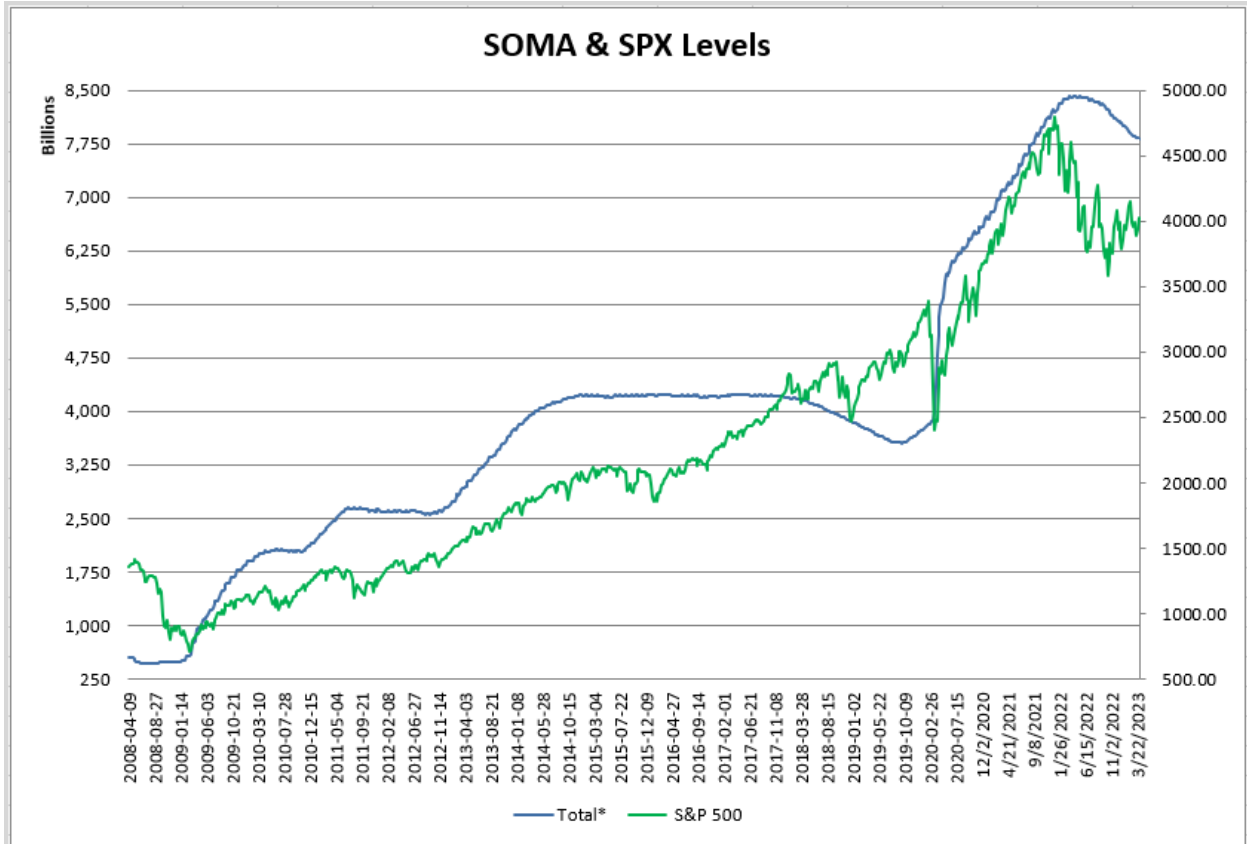
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

The major averages put in strong gains this past week. The SPX rose 3.5%, the NASDAQ rallied 3.4%, and the Russell 2000 jumped 3.9%. Bonds pulled back some. The US Aggregate Bond ETF (AGG) posted a loss of 0.5%. TLT, the 20-year Treasury Bond ETF, closed the week down 0.45%. Most long-term trend indicators are classifying this as an uptrend for stocks, but other than the NASDAQ, the market has been mostly range-bound over the last few months. There were no studies that emerged in the last few days with intermediate-term implications.

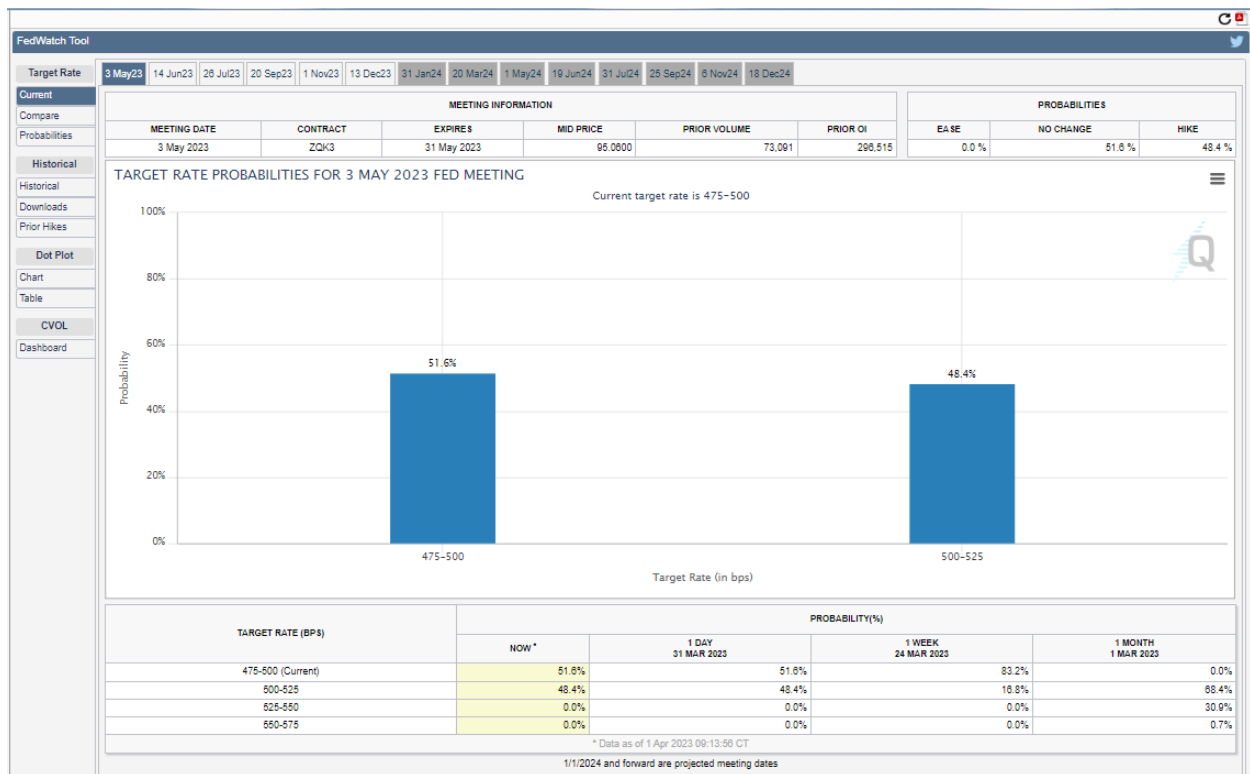
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of	
◀ Previous	March 29, 2023 📅 <small>Posted March 30, 2023 at 4:30 P.M</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	281,840,393.5
US Treasury Notes and Bonds (Notes/Bonds)	4,543,203,571.1
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***	2,586,045,583.4
Agency Commercial Mortgage-Backed Securities***	8,434,456.6
Total SOMA Holdings	7,822,324,033.3
Change From Prior Week	-11,289,219.3

Last week the SOMA declined a little over \$11 billion. That is fairly moderate for the current QT cycle. I expect there to be a substantially larger decline this upcoming week, with many bonds expiring at the end of March. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what could be the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back the Quantitative Tightening anytime soon. Additionally, the Fed has continued to push interest rates higher. There is much debate over whether the rate increases will continue, and then how long it will be before the Fed reverses course and begins cutting rates. Below is a screenshot of the CME Fedwatch Tool showing odds for the May meeting.



Last week there was about an 88% chance of the Fed holding steady and not hiking rates at the May meeting. Now it appears to be about a coin toss.

So the SPX has risen 3 weeks in a row and things appear to be improving vs a few weeks ago. The Golden Cross is still in effect, so some longer-term trend indicators are pointing higher, even though the indices are not all strongly above their 200-day moving averages. Current NASDAQ leadership remains a positive. And seasonal cycles remain positive at least through April. There are several breadth thrust signals active from January, and we could see some re-triggers in the coming days if the current move continues. The big negative remains the Fed. There are also plenty of other risks out there. Obvious ones include the banking sector and geopolitical tensions with Russia/China. The bond market is also seeing wild swings. This could all matter greatly to stocks at some point. But it does not seem to be hurting the large-caps yet. I'll remain slightly bullish. This means I will be more inclined to look for long trades than short ones, although I'm open to either if reward/risk appears favorable.

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.

Current Open Trade Ideas

None

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