

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2023

Volume 16 Issue 87

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Friday's bounce was strong enough that much of the upside edge has been realized and the potential for further gains is reduced.
- The SOMA declined strongly again this past week. But while QT will remain a headwind, rate policy might not. The end of hikes appears likely to have arrived. Overall, this makes for a "less" hawkish Fed.
- The QE Seasonality Calendar is showing mostly breakeven odds over the next couple of weeks. Seasonality will not be helpful until near the end of May.

Short-term Outlook

The Bottom Line

The Aggregator signal is long, but SPX is set to flip from oversold to overbought unless there is a selloff on Monday. This leaves me more neutral than bullish.

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						
May 4, 2023	3 dn from 50-high. < 10ma > 10-low	1-4 days	Bullish	1.60%	-0.95%	-2.00%
May 4, 2023	Down 2+ days. Today Fed Day.	1-6 days	Bullish	1.80%	-2.70%	-5.10%
Active - Long Term						
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
May 5, 2023	Dn 3, 10-low, unfilled gap dn.	1-2 days	Bullish			
May 5, 2023	5-low yest. Gap dn and close < open.	1-2 days	Bullish			

The Evidence

The jobs report and Apple’s earnings were the headlines and the market seemed to love them. The SPX rallied 1.85%, the NASDAQ jumped 2.25%, and the Russell 2000 gained 2.4%. Breadth was positive with the NYSE Up Issues % coming in at 85% and the Up Volume % at 89%. NYSE total volume declined some from Thursday’s level.

After four days of selling, the market bounced back quite nicely on Friday. The effect has basically been to mostly work off the oversold condition and leave several indices back above their 10-day moving averages. Had the bounce not been so strong then the current upside potential would be a little better. But since the move was so good (and that has helped our SPY position nicely), it took out much of the upside edge. I recently demonstrated this in the 4/28/23 subscriber letter.

There I looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma). I broke it down by instances that closed above the 10ma versus instances that closed below it. I have updated those tables below.

After making a 10-day intraday low yesterday, SPY leaves an unfilled gap up today and closes above the open. It closes **below** the 10ma and above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	58,325.74	72	47	25	65.28	5,766.24	-5,042.10	2,167.24	-1,741.38	1.24	2.34	810.08
9	64,145.20	73	43	30	58.90	6,522.72	-3,610.88	2,474.66	-1,408.84	1.76	2.52	878.70
8	58,998.67	73	48	25	65.75	5,468.09	-5,654.80	2,009.82	-1,498.91	1.34	2.57	808.20
7	56,377.17	74	47	26	63.51	5,136.00	-9,172.30	2,032.14	-1,505.12	1.35	2.44	761.85
6	38,611.31	76	45	31	59.21	5,589.68	-3,987.20	1,772.83	-1,327.94	1.34	1.94	508.04
5	30,279.87	78	49	29	62.82	4,106.63	-5,409.60	1,525.67	-1,533.72	0.99	1.68	388.20
4	28,997.28	82	52	30	63.41	3,904.83	-3,702.72	1,377.16	-1,420.50	0.97	1.68	353.63
3	18,882.89	87	50	37	57.47	3,914.92	-3,070.92	1,215.79	-1,132.61	1.07	1.45	217.04
2	8,946.43	90	51	39	56.67	3,089.76	-3,031.50	1,132.74	-1,251.88	0.90	1.18	99.40
1	1,550.71	90	44	45	48.89	2,470.05	-2,895.33	853.36	-799.94	1.07	1.04	17.23

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes > 10ma and > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-6,390.57	42	22	20	52.38	5,367.32	-9,339.60	2,210.25	-2,750.81	0.80	0.88	-152.16
9	-667.57	42	23	19	54.76	3,908.52	-13,294.45	1,900.23	-2,335.41	0.81	0.98	-15.89
8	3,681.32	42	25	17	59.52	3,687.84	-6,335.00	1,732.72	-2,331.57	0.74	1.09	87.65
7	6,539.95	43	25	17	58.14	3,805.88	-6,000.15	1,680.72	-2,086.94	0.81	1.18	152.09
6	7,177.68	44	26	18	59.09	3,682.02	-4,651.01	1,429.91	-1,666.66	0.86	1.24	163.13
5	2,152.88	44	22	22	50.00	3,113.39	-4,515.16	1,368.70	-1,270.85	1.08	1.08	48.93
4	2,849.17	44	23	21	52.27	3,004.64	-3,119.61	999.52	-959.04	1.04	1.14	64.75
3	-4,328.67	44	21	23	47.73	2,534.72	-3,297.28	966.83	-1,070.96	0.90	0.82	-98.38
2	-3,874.83	44	22	22	50.00	1,520.12	-2,293.20	756.65	-932.78	0.81	0.81	-88.06
1	-4,451.99	44	20	23	45.45	1,238.60	-2,591.68	521.13	-646.72	0.81	0.70	-101.18

So the current situation falls into the 2nd category. Most of the stats are basically breakeven. Had we not bounced so much, we would have a much better chance of seeing more follow-through over the next couple of weeks. As is, the study does not appear to be suggesting a substantial edge.

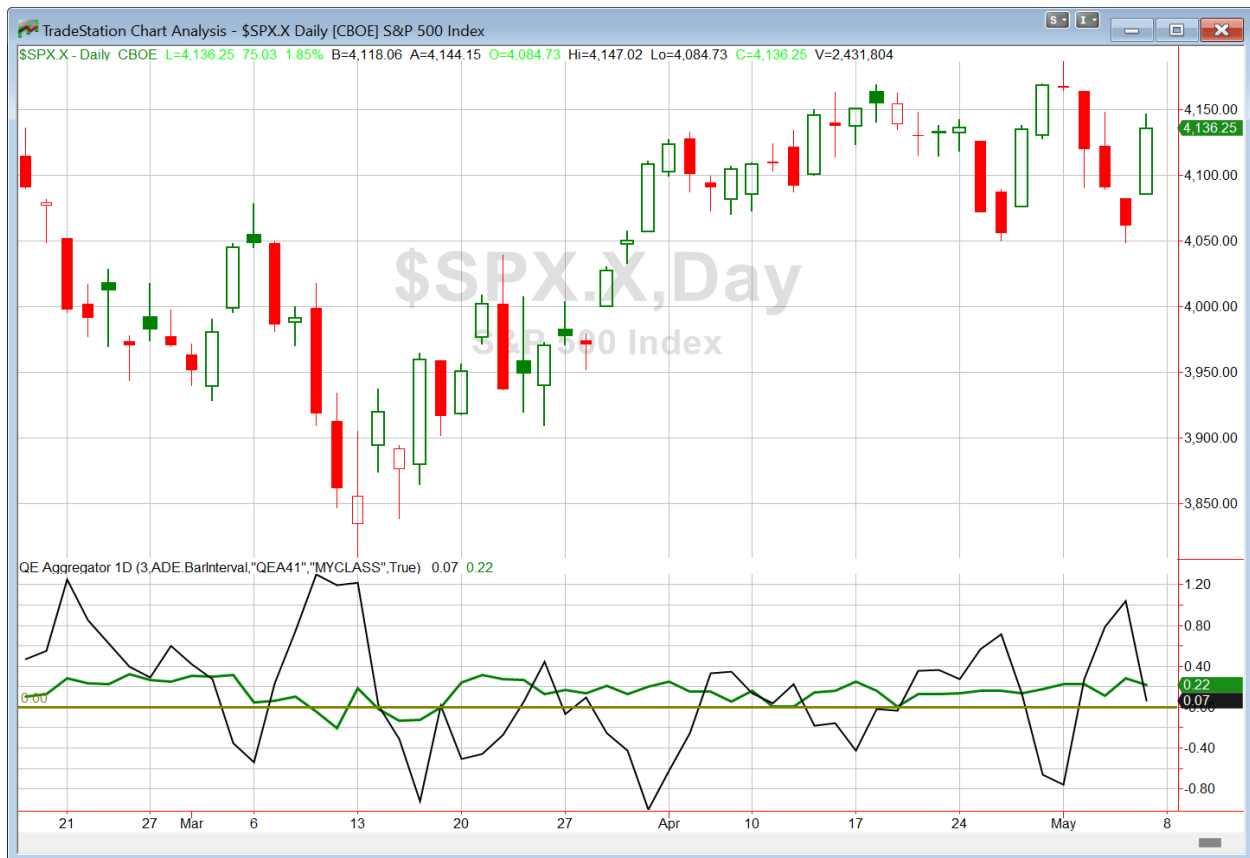
Another thing the strong bounce on Friday did is that it caused the bullish studies from Thursday night to quickly reach their targets and be removed from the studies list.

Below is a look at the QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
5/1/2023	58.89	1.501	0.130
5/2/2023	51.84	1.031	0.008
5/3/2023	54.54	1.220	0.058
5/4/2023	55.59	1.016	0.005
5/5/2023	56.13	1.130	0.041
5/8/2023	52.89	0.936	-0.028
5/9/2023	52.22	1.104	0.031
5/10/2023	52.89	0.972	-0.011
5/11/2023	55.23	1.006	-0.001
5/12/2023	56.07	1.217	0.063
5/15/2023	55.82	0.974	-0.015
5/16/2023	54.33	1.318	0.062
5/17/2023	53.62	0.972	-0.015
5/18/2023	52.61	0.882	-0.047
5/19/2023	51.02	0.871	-0.049
5/22/2023	54.06	1.564	0.091
5/23/2023	54.33	1.605	0.105
5/24/2023	56.83	1.854	0.165
5/25/2023	58.94	1.946	0.187
5/26/2023	58.21	1.755	0.111
5/30/2023	51.07	1.251	0.065
5/31/2023	51.17	1.363	0.099
Baseline	53.81	1.132	0.045

This upcoming week shows mostly mild odds. Friday is the only day with strong numbers across the board. Seasonality will not really turn favorable for another couple of weeks.

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



With the changes in the Active List today, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line also held 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 list, expectations are set to remain positive on Monday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 4113.34 on Monday. That is 0.6% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 0.6% in order to remain oversold vs recent expectations. Anything other than that, and it will be considered overbought as of Monday's close.

So the Aggregator is bullish. But with the Differential Pivot inverted it won't stay that way unless there is a substantial selloff on Monday. I typically view inverted pivots as opportune times to look to take profits if they are available. I do have some long SPY exposure at the moment, and I will look to unload it on Monday. I will NOT look to sell into a gap-down open though. There still appears to be a bit of an upside edge, and I will demand a favorable exit price if I am going to sell.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/8 – slightly bullish

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

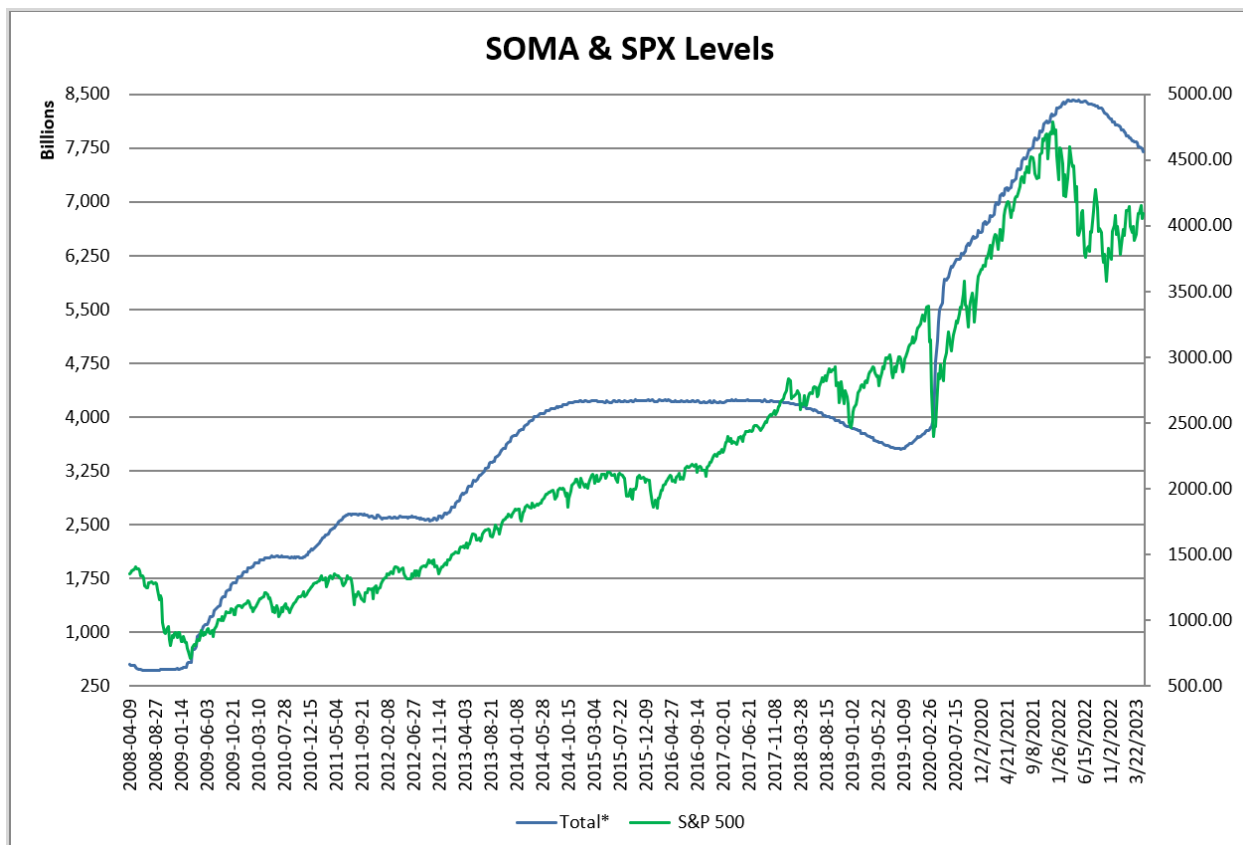
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 indices posted mixed and mild returns again this past week. The SPX declined 0.8%, the NASDAQ gained 0.1%, and the Russell 2000 lost 0.5%. Bonds struggled. The US Aggregate Bond ETF (AGG) posted a loss of 0.1%. TLT, the 20-year Treasury Bond ETF, closed the week down 1.2%. Uptrends for the SPX and NASDAQ remain in place. There were no new studies the last few days that suggested 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	May 3, 2023 📅 Posted May 4, 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)	280,966,361.0
US Treasury Notes and Bonds (Notes/Bonds)	4,451,443,124.1
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	365,411,327.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,567,371,272.4
Agency Commercial Mortgage-Backed Securities***	8,408,888.4
Total SOMA Holdings	7,696,374,727.5
Change From Prior Week	-43,538,279.9

Last week the SOMA saw a drop of over \$45.5 billion. That is a large number, even for the current QT cycle. 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.

But there has been a change in rate policy. While they again raised rates 0.25% on Wednesday, they changed the language in their policy statement from “The Committee anticipates that some additional policy firming may be appropriate...” to “In determining the extent to which additional policy firming may be appropriate...”. In other words, they might be done raising rates. The market will now be trying to anticipate when they will start to cut rates. QT will still be a headwind for liquidity and markets, but the fact that the Fed is no longer anticipating further rates hikes makes the Fed a bit less hawkish.

I did not notice any major shifts in price, breadth, volume, or sentiment indicators this past week that would strongly change the intermediate-term outlook. The overall long-term trend signals remain mostly positive. Golden crosses are in effect for the NASDAQ and SPX, both are firmly above their 200ma, and the NASDAQ Composite even closed at a new 100-day high on Friday. The NASDAQ also continues to lead the SPX, with our NASDAQ/SPX lead/lag indicator, and

that has historically been bullish. There are also several breadth thrust studies still active from January (with some just-misses in March) suggesting more upside. Still, plenty of issues remain. Smallcaps are still struggling. The Fed remains a headwind (though perhaps not as much of one as the last year+). We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. Additionally, a recession could be coming, the debt-ceiling conflict will likely become an issue soon, and despite Powell saying the banking system is strong, banks keep blowing up. Also, valuations remain high vs historical norms. Lots of negatives to worry about. But none of it has mattered much recently. SPX is close to eclipsing its Feb highs, and the NASDAQ 100 on Friday posted its highest close since August. At some point I expect these potentially bearish issues will matter. But until price action weakens, I will give the bulls the benefit of the doubt.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	5/3/2023	\$408.02	\$412.63	1.13%	<i>sell @ \$412.64 limit</i>

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