

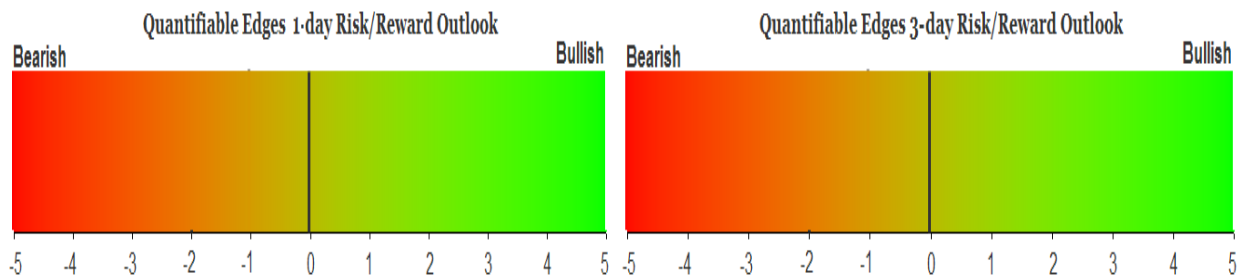
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 11, 2023

Volume 16 Issue 236

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	4

Tonight's Research Points

- Opex week in December (and basically the rest of the month) has historically been bullish.
- The January Effect is about to kick in, where smallcaps tend to outperform largecap stocks.
- CPI reports have led to high volatility this year, and Tuesday's has similar potential.
- Wednesday's Fed Day could also bring volatility.
- The SOMA continues to decline. QT is heavy and will likely continue to be heavy for a while.

Short-term Outlook

The Bottom Line

Evidence is suggesting a rise over the next few days, but SPX is already overbought and there are some potential volatility events just ahead. Reward/risk is not greatly desirable.

Summary of Current 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						
December 7, 2023	20 low close. 3 closes in intraday range	1-7 days	Bullish	2.20%	-1.40%	-3.30%
December 7, 2023	1st day < 10ma after 15+ above it	1-3 days	Bullish	1.05%	-0.80%	-1.70%
Active - Long Term						
December 11, 2023	Dec Opex Week Starts Bullish period	1-15 days	Bullish	3.30%	-1.90%	-4.10%
November 22, 2023	5 up to 50-high then down 1	1-10 days	Bullish	1.80%	-1.10%	-2.30%
November 21, 2023	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
November 7, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish	25.20%	-8.10%	
November 6, 2023	Zweig Thrust	1-12 months	Bullish	29.00%	-3.20%	-7.00%
November 6, 2023	Best 6 Months	6 months	Bullish			
November 6, 2023	NASDAQ Leading	int term	Bullish			
October 2, 2023	SPX down 4 weeks but above 40-week ma	1-10 weeks	Bullish			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
February 2, 2023	SPX Golden Cross	int term	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
December 8, 2023	Strong close before Employment Day	1 day	Bullish			

The Evidence

Friday saw solid gains across the board for the major stock indices. The SPX finished up 0.41%, the NASDAQ rallied 0.45%, and the Russell 2000 climbed 0.67%. Breadth was positive with the NYSE Up Issues % coming in at 56% and the Up Volume % at 68%. NYSE total volume declined some from Thursday's level.

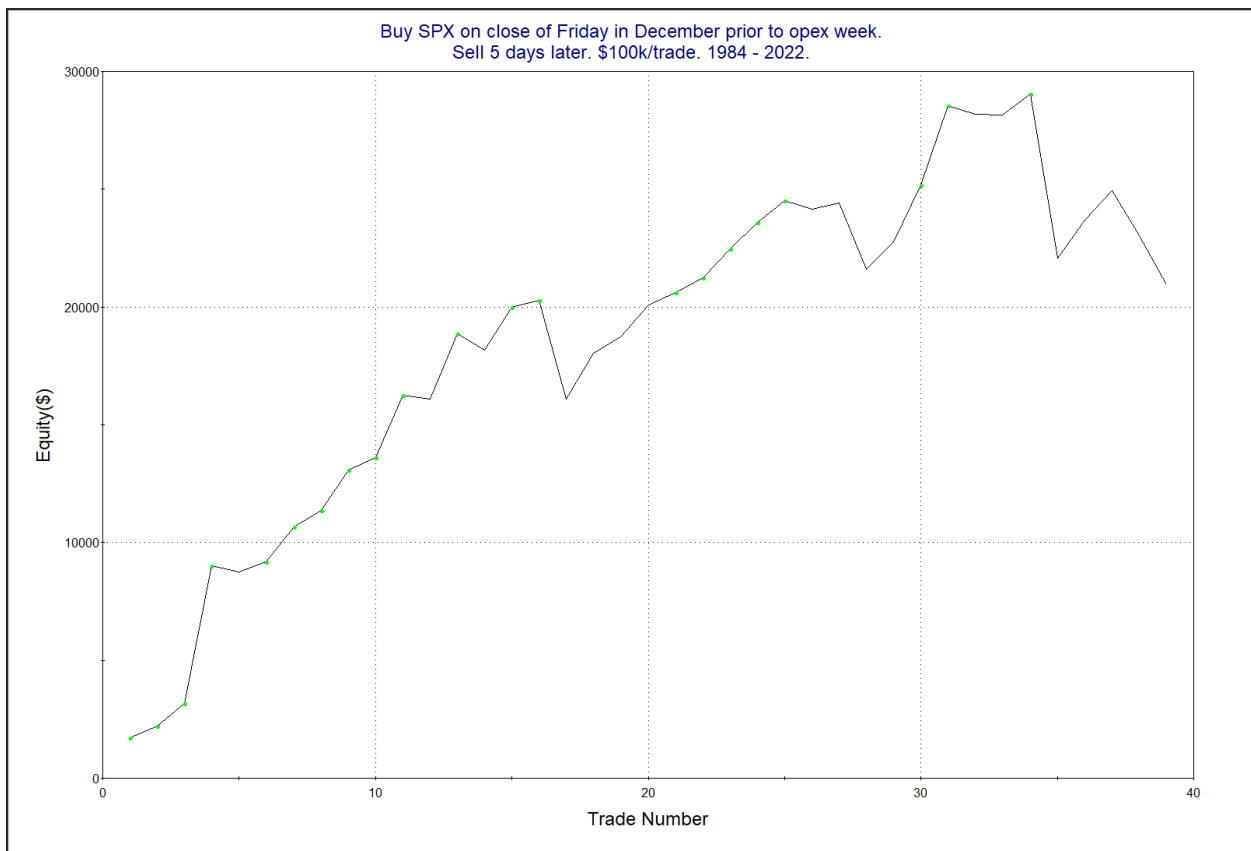
As we look out over the next few weeks, some interesting seasonality will be in play. The study below looks at opex week in December back to 1984, which was the first year that SPX options traded. It also extends out to 15 days. It was last seen in the 12/12/22 letter and has been updated.

Buy SPX on close of Friday in December prior to opex week.
Sell X days later. \$100k/trade. 1984 - 2022.

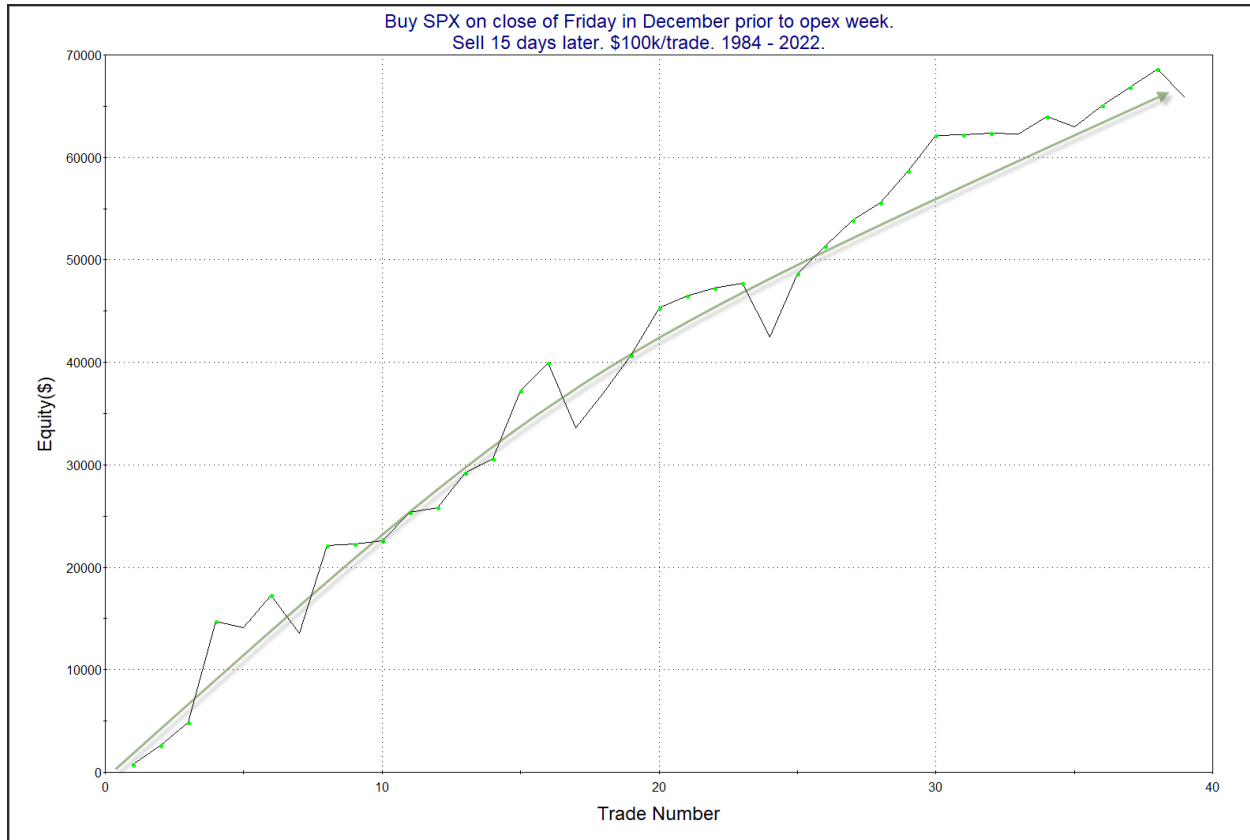
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	65,835.06	39	32	7	82.05	9,879.20	-6,297.71	2,671.26	-2,806.46	0.95	4.35	1,688.08
14	60,129.86	39	31	8	79.49	8,742.88	-3,579.92	2,484.49	-2,111.18	1.18	4.56	1,541.79
13	60,081.38	39	30	9	76.92	9,068.80	-3,830.44	2,491.03	-1,627.72	1.53	5.10	1,540.55
12	51,259.48	39	28	11	71.79	8,528.00	-5,778.28	2,514.13	-1,739.64	1.45	3.68	1,314.35
11	53,043.16	39	28	11	71.79	8,483.80	-3,966.09	2,450.70	-1,416.04	1.73	4.41	1,360.08
10	48,190.92	39	30	9	76.92	7,974.20	-4,640.61	2,108.19	-1,672.77	1.26	4.20	1,235.66
9	38,236.33	39	26	13	66.67	7,080.80	-6,909.45	2,304.39	-1,667.51	1.38	2.76	980.42
8	33,363.59	39	28	11	71.79	7,564.16	-7,650.40	2,012.96	-2,090.84	0.96	2.45	855.48
7	26,829.75	39	28	11	71.79	6,198.88	-5,025.50	1,769.37	-2,064.79	0.86	2.18	687.94
6	17,964.03	39	30	9	76.92	6,025.04	-9,456.30	1,514.25	-3,051.51	0.50	1.65	460.62
5	20,961.90	39	28	11	71.79	5,868.16	-6,968.06	1,456.23	-1,801.15	0.81	2.06	537.48
4	15,387.36	39	26	13	66.67	3,243.60	-5,036.14	1,211.36	-1,239.08	0.98	1.96	394.55
3	21,863.08	39	25	14	64.10	5,410.24	-3,533.62	1,352.41	-853.36	1.58	2.83	560.59
2	19,504.14	39	27	12	69.23	3,779.85	-2,327.34	1,134.80	-927.95	1.22	2.75	500.11
1	4,926.83	39	22	17	56.41	2,912.88	-2,147.10	811.15	-759.91	1.07	1.38	126.33

2018 was the only year that the market never made a higher close during the next 3 weeks.
All other years did so within 10 days.

The stats here are very strong. Below is an equity curve using a 5-day holding period.



The strong upslope was very impressive until the 2018 December drop. The last 5 years looks more choppy. Next let's look at the 15-day curve.



They don't get much better looking than that. Even the 2018 mini-bear is barely noticeable.

Interestingly, this upcoming week does not look good based on the QE Seasonality Calendar, shown below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
12/1/2023	55.65	1.508	0.134
12/4/2023	52.27	1.151	0.039
12/5/2023	47.02	0.892	-0.044
12/6/2023	52.44	1.097	0.014
12/7/2023	49.89	0.877	-0.046
12/8/2023	50.69	1.062	0.006
12/11/2023	52.61	0.942	-0.032
12/12/2023	50.68	1.079	0.018
12/13/2023	49.51	0.941	-0.025
12/14/2023	53.09	0.914	-0.039
12/15/2023	48.68	0.872	-0.049
12/18/2023	61.08	1.569	0.120
12/19/2023	56.89	1.795	0.169
12/20/2023	59.29	1.674	0.134
12/21/2023	57.63	1.596	0.106
12/22/2023	60.16	1.714	0.118
12/26/2023	47.39	0.987	-0.004
12/27/2023	53.18	1.314	0.075
12/28/2023	54.54	1.364	0.089
12/29/2023	54.91	1.251	0.030
Baseline	53.53	1.127	0.043

Part of the weakness we see could be due to the struggles over the last 5 years. In any case, the upcoming week is showing mixed seasonal indications. So I am not inclined to include the December opex week study on the short-term active list today. But I will include it on the intermediate-term list.

In past years I discussed the January Effect, which is a tendency that I believe was first published in the Stock Traders Almanac. It suggests that from mid-December into early January smallcap stocks tend to outperform largecaps. My past research has looked back to 1988 and used the Russell 2000 versus the SPX. I found that the bulk of this tendency was realized in the end of December and the 1st day of January. I measured from the 15th of December (or the 1st trading day afterwards if the 15th was a weekend) through the 1st trading day in January. Since 1988 we have now seen the Russell outperform 26 of 35 years, or 74% of the time. And years of outperformance have greatly outsized years when the Russell underperformed. Gains in the years

of outperformance have totaled 43.29%, while the 9 years of underperformance have only totaled 7.81% in losses. That's 5.5 to 1. And the only losing years to post a loss of greater than 1% were 1991 when the SPX outperformed the Russell by 2.82%, and 2019, when SPX outperformed by 1.06%. Below is a table that breaks it all down by year.

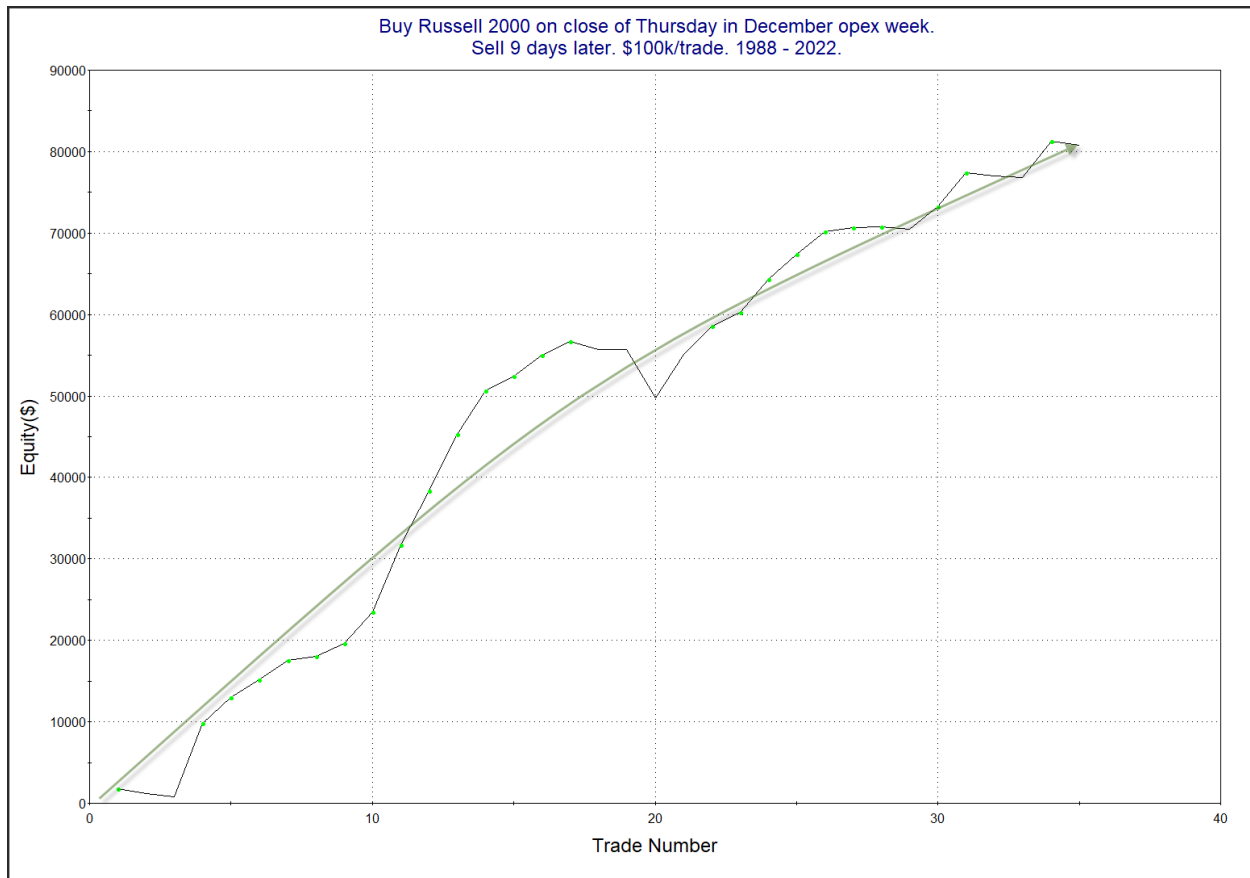
	<i>SPX</i>	<i>Rut</i>	<i>RUT - SPX</i>
<i>Year</i>	<i>% Return</i>	<i>% Return</i>	<i>% Difference</i>
1988	0.38%	2.53%	2.15%
1989	2.73%	2.08%	-0.65%
1990	0.13%	1.96%	1.83%
1991	8.53%	5.71%	-2.82%
1992	0.65%	2.83%	2.18%
1993	0.78%	2.68%	1.90%
1994	0.83%	2.50%	1.67%
1995	0.71%	2.06%	1.35%
1996	2.22%	2.42%	0.20%
1997	1.21%	3.75%	2.54%
1998	5.61%	8.60%	2.99%
1999	2.96%	7.61%	4.65%
2000	-2.21%	0.97%	3.18%
2001	1.79%	1.51%	-0.28%
2002	-0.15%	-0.59%	-0.44%
2003	3.79%	4.78%	0.99%
2004	-0.30%	-1.26%	-0.96%
2005	-0.17%	-0.10%	0.07%
2006	-0.74%	-0.68%	0.06%
2007	0.09%	1.94%	1.85%
2008	7.28%	11.65%	4.37%
2009	2.26%	5.53%	3.27%
2010	2.97%	3.89%	0.92%
2011	5.04%	5.08%	0.04%
2012	2.24%	4.60%	2.36%
2013	2.54%	2.76%	0.22%
2014	3.45%	5.13%	1.68%
2015	-1.50%	-2.03%	-0.53%
2016	-0.19%	-0.07%	0.12%
2017	0.75%	1.28%	0.53%
2018	-1.41%	-1.61%	-0.20%
2019	2.08%	1.02%	-1.06%
2020	0.16%	-0.71%	-0.87%
2021	1.84%	3.52%	1.68%
2022	-1.84%	-1.35%	0.49%
Total	54.51%	89.99%	35.48%

Recent years have not been as consistent as previous times. So perhaps the outperformance is not as reliable as it once appeared. Still, I think it is worth some consideration. Starting at the end of next week I may consider using IWM (the Russell 2000 ETF) instead of SPY for some long index trades to take advantage of the probable Russell outperformance.

Next is a study I have shown for several years that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on close of Thursday in December opex week. Sell X days later. \$100k/trade. 1988 - 2022.												
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	80,140.88	35	25	10	71.43	10,279.71	-5,643.30	3,869.45	-1,659.55	2.33	5.83	2,289.74
9	80,812.77	35	27	8	77.14	9,009.63	-5,973.50	3,332.75	-1,146.45	2.91	9.81	2,308.94
8	65,640.91	35	28	7	80.00	7,115.85	-2,948.40	2,630.75	-1,145.72	2.30	9.18	1,875.45
7	62,287.37	35	28	7	80.00	7,790.58	-1,809.60	2,484.39	-1,039.35	2.39	9.56	1,779.64
6	50,846.01	35	26	9	74.29	6,599.88	-2,720.64	2,244.56	-834.71	2.69	7.77	1,452.74
5	38,410.60	35	25	10	71.43	4,892.25	-3,194.64	2,008.02	-1,178.98	1.70	4.26	1,097.45
4	32,106.91	35	26	9	74.29	4,413.75	-3,892.32	1,740.56	-1,460.86	1.19	3.44	917.34
3	24,454.68	35	24	11	68.57	3,814.20	-2,650.68	1,614.87	-1,300.19	1.24	2.71	698.71
2	5,123.48	35	19	16	54.29	3,495.70	-4,431.00	1,341.83	-1,273.20	1.05	1.25	146.39
1	9,312.20	35	19	16	54.29	2,299.70	-2,543.25	921.61	-512.39	1.80	2.14	266.06

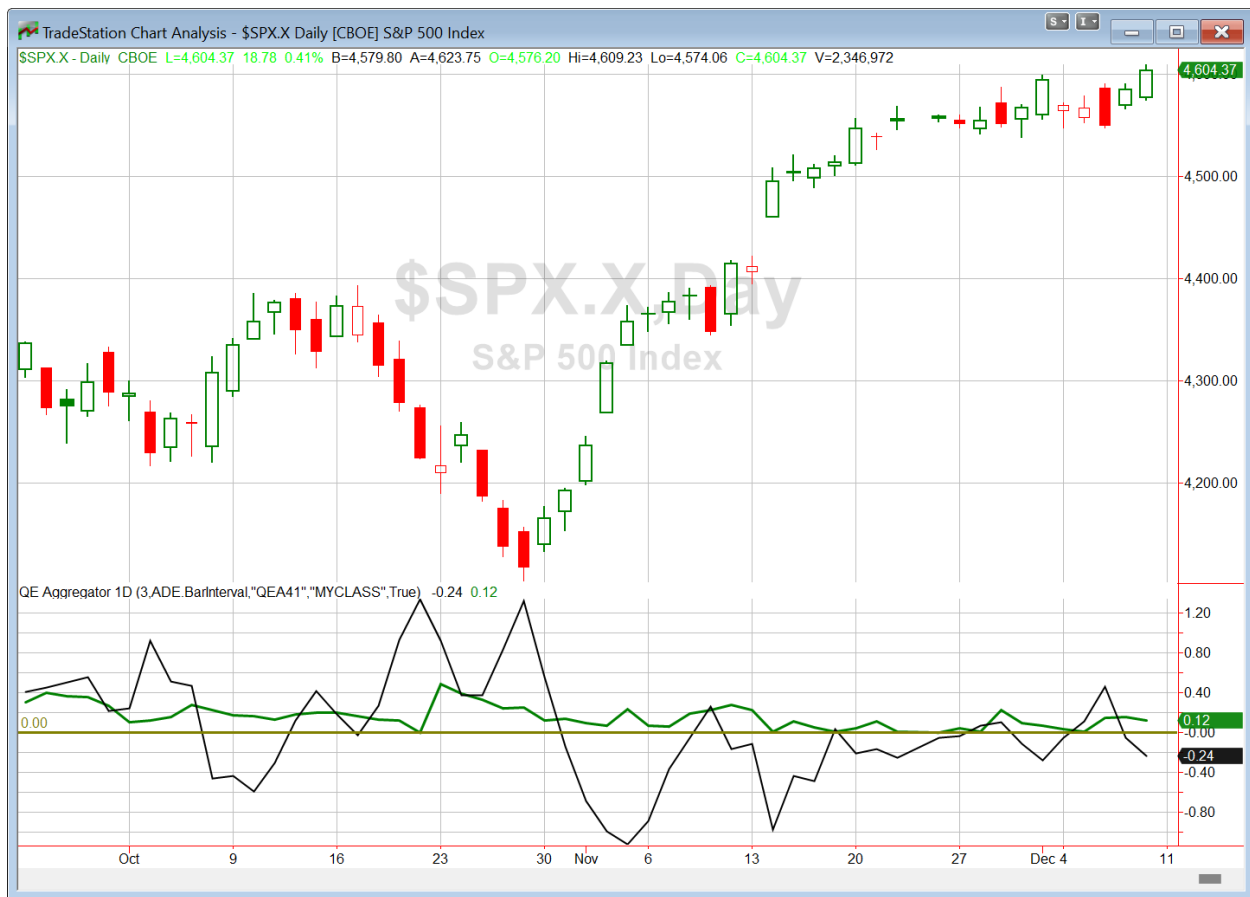
Results here are very strong. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



That is a strong looking curve. I'll re-post this study again Thursday night when it actually triggers.

It is also worth keeping in mind that we have some potential volatility events arriving this upcoming week. Tuesday will see the CPI release, and Wednesday is a Fed Day. So any active studies have a decent chance of being exceptionally right or exceptionally wrong if there is a volatility explosion.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net 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 active studies, expectations are set to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4557.51 on Monday. That is 1.0% below Friday's close. Therefore, SPX will need to close down at least 1.0% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is pointing higher, but the market is solidly overbought and we have some potential volatility events coming up in the next few days. This does not appear to be a high reward/risk setup. I will not be looking to take on any new index exposure on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/11– *bullish*

Combo #1	Combo #2	Combo #3	Combo #4
Long QQQ	Long QQQ	Long QQQ	Long QQQ

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 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. *The Combo Systems all remained long QQQ this week.*

The market pushed forward again this week. The SPX gained 0.2%, the NASDAQ rose 0.7%, and the Russell 2000 climbed 1.0%. Bonds continued their rally. The US Aggregate Bond ETF (AGG) posted a gain of 0.1%. TLT, the 20-year Treasury Bond ETF, jumped 1.7%. SPX and NASDAQ are at new highs for 2023 (still below their 2022 highs). And while it had a strong week this past week, the Russell 2000 is clearly lagging and still has a long way to go before reaching its July highs. I will note that the 6-week winning streak for the SPX is the longest we have seen since 2019. In looking at intermediate-term performance following other 6-week win streaks, I did not notice a strong historical tendency. Other than the December Opex study from the short-term section, there were not any new studies that triggered during the week with intermediate-term implications.

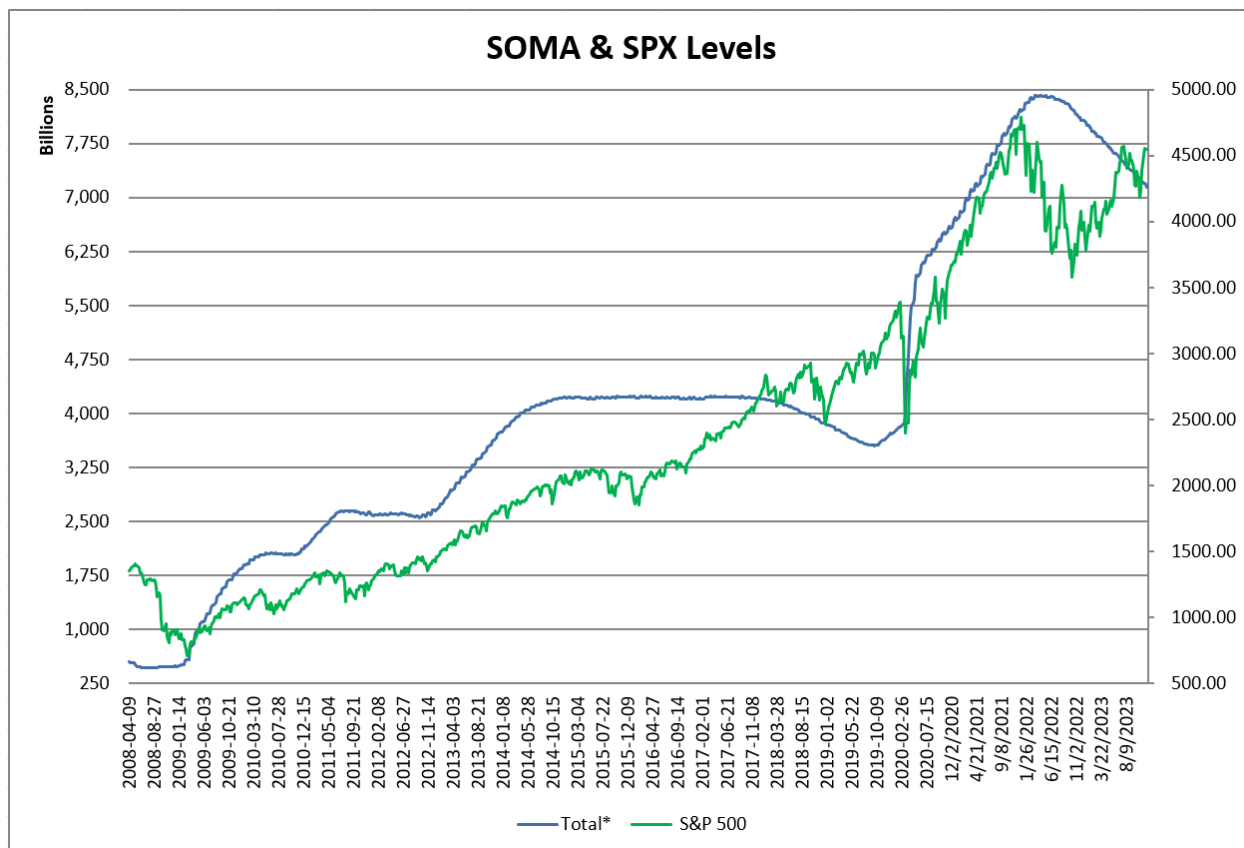
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Export Current Release to: [Excel](#) | [Print](#)

Domestic Security Holdings as of
[◀ Previous](#) **December 6, 2023**
Posted December 7, 2023 at 4:30 P.M.

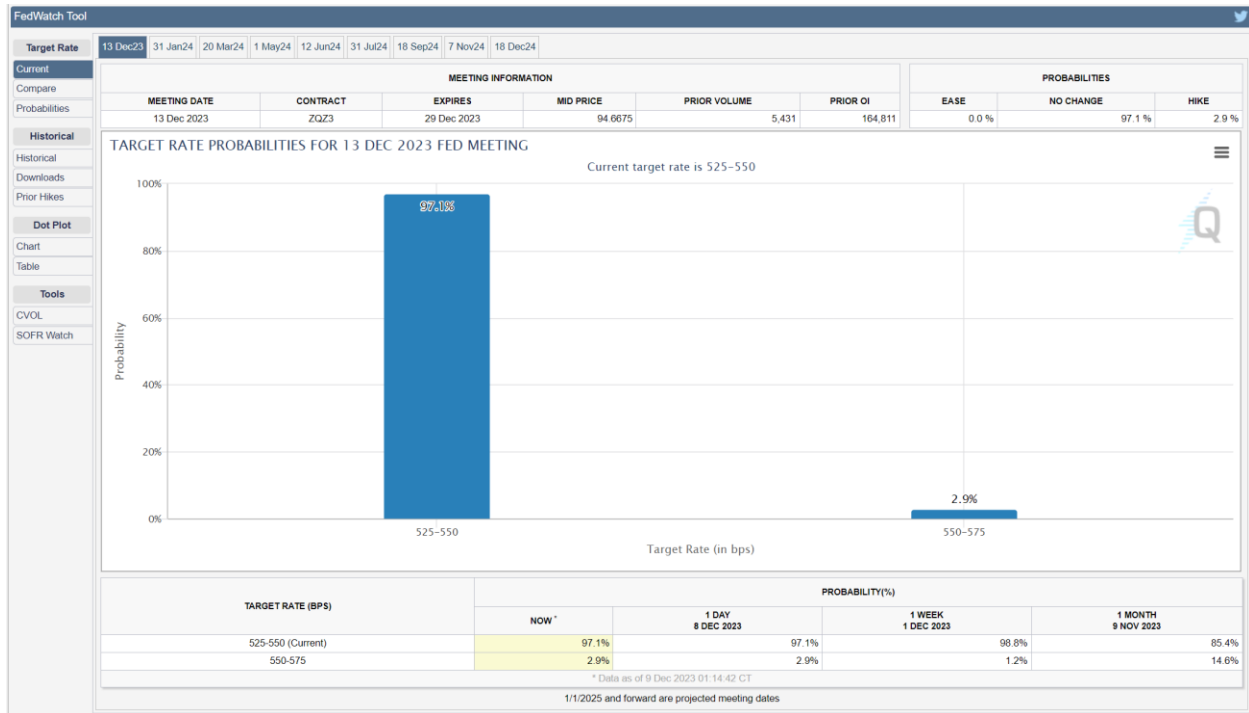
SUMMARY		T-BILLS	T-NOTES AND T-BONDS	FRNS	TIPS	AGENCY DEBTS	MBS	CMBS
SECURITY TYPE	TOTAL (\$Thousands)							
US Treasury Bills (T-Bills)	230,407,907.2							
US Treasury Notes and Bonds (Notes/Bonds)	4,091,112,990.2							
US Treasury Floating Rate Notes (FRNs)	11,663,111.3							
US Treasury Inflation-Protected Securities (TIPS)*	365,578,223.7							
Federal Agency Securities**	2,347,000.0							
Agency Mortgage-Backed Securities***	2,438,765,477.6							
Agency Commercial Mortgage-Backed Securities***	8,269,455.9							
Total SOMA Holdings	7,148,144,165.9							
Change From Prior Week	-30,360,067.9							

As expected, the SOMA declined a very large \$30 billion this past week. This upcoming week we should see a substantially smaller decline. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is in the midst of what is now 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 Quantitative Tightening (QT) anytime soon. SPX is little changed since QT began in early 2022. Looking back to 2003, the market has posted net mild losses during times that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing. The shrinking SOMA remains a headwind for the market.

With regards to rates, odds are now showing a 97% chance that the Fed holds rates steady in December. That is down slightly from the 99% chance we were looking at last week. Odds can be seen in the screenshot below of the CME Fedwatch Tool:



I will note that the January odds also show a very high probability that the Fed does not change rates (93%). Odds could fluctuate as new data comes out. But the likelihood of a rate move for either of the next two meeting appears extremely low. I'll continue to monitor Fed action going forward. For now, policy is hawkish and is exerting a bearish influence on the market.

I've had a bullish bias for a while now, and the upside momentum has persisted. While some intermediate-term studies have begun to expire, there are still several breadth and price thrust studies suggesting more upside. The trend is pointing higher and we are in a favorable seasonal period by several measures. The NASDAQ continues to lead SPX, which is also bullish. All 4 of the original Market Timing Course indicators are again bullish. The most substantial detractor is the Fed. Things can change quickly. But for now I am keeping my intermediate-term bias "bullish". I will be more aggressive with long entries, and will be especially conservative when considering short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

NFLX – 1/3 @ \$453.90 (bought @ limit)

NFLX – 1/3 @ \$446.73 (buy @ limit) – not filled, cancel for now

CHTR – 1/3 @ \$361.98 (bought @ limit)

LIN – 1/3 @ \$398.65 (bought @ limit)

Broad Market Large Cap CBI – 4(NFLX-2, CHTR, LIN)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
NFLX(1/3)	12/5/2023	\$450.70	\$453.76	0.68%	Catapult
CHTR(1/3)	12/7/2023	\$361.78	\$367.55	1.59%	Catapult
LIN(1/3)	12/8/2023	\$398.00	\$401.27	0.82%	Catapult

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