

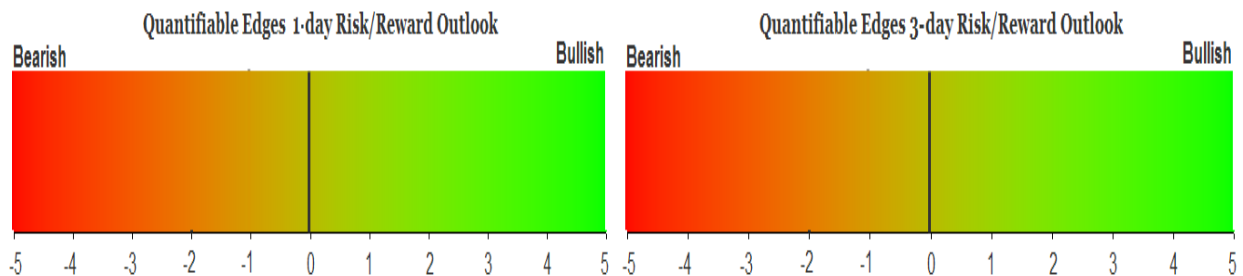
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 12, 2023

Volume 16 Issue 237

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- 3 days up to a 200-day high on a Monday is often followed by more buying.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- CPI comes out Tuesday with the potential to generate a big move.
- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is suggesting a rise over the next few days, but SPX is already overbought. With CPI and the Fed on deck, reward/sik does not appear strongly favorable.

**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
<b>Active - Short Term</b>						
December 12, 2023	VIX up SPX 50-high Monday.	1-2 days	Bearish			
December 12, 2023	3 up to 200 high on Monday	1-2 days	Bullish			
December 7, 2023	20 low close. 3 closes in intraday range	1-7 days	Bullish	2.20%	-1.40%	-3.30%
<b>Active - Long Term</b>						
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			

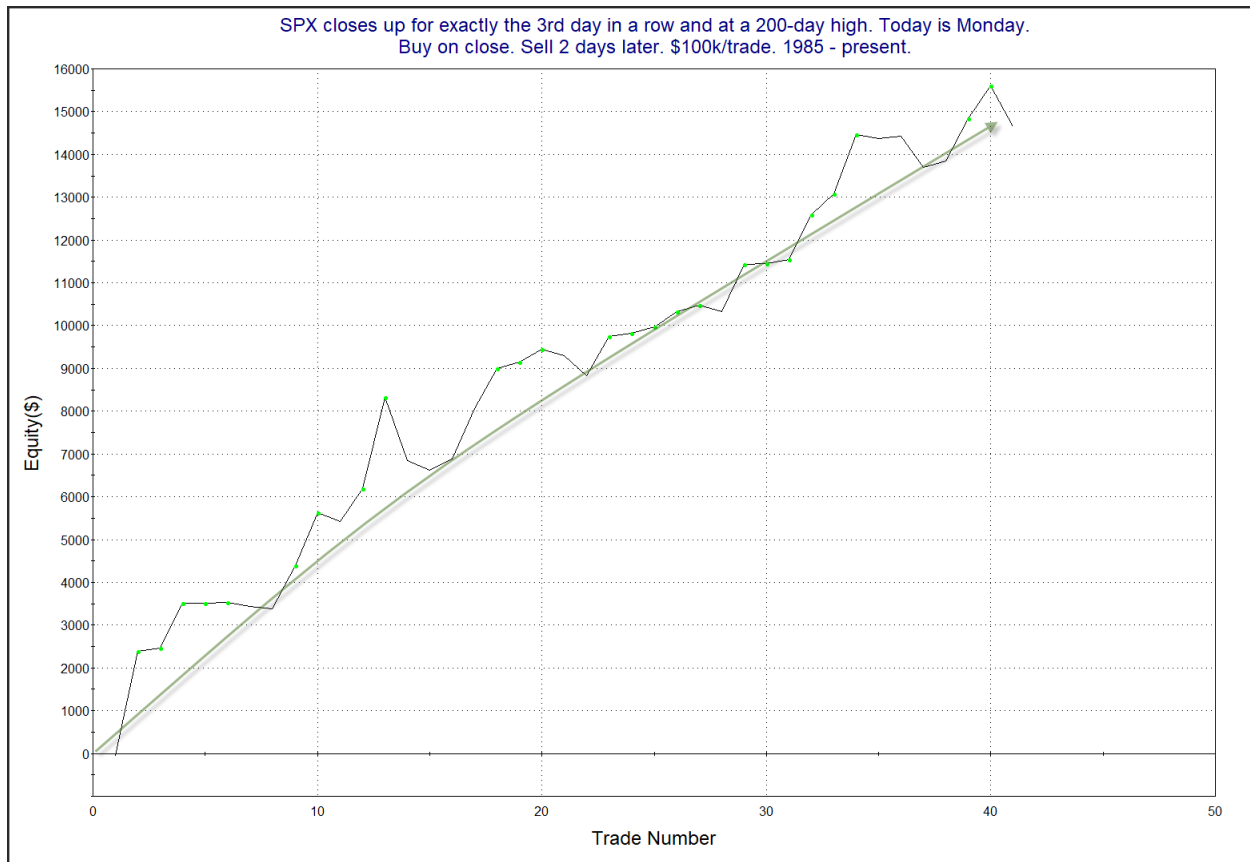
**The Evidence**

Monday was a solid up day. The SPX rose 0.4%, the NASDAQ gained 0.2%, and the Russell 2000 climbed 0.15%. Breadth was positive with the NYSE Up Issues % coming in at 51% and the Up Volume % at 57%. NYSE total volume rose some from Friday's level.

One interesting study that triggered looked at similar moves higher to 200-day highs. It examined times SPX closed up 3 days in a row and made a new high on a Monday. Results below are updated from the 7/5/23 letter.

SPX closes up for exactly the 3rd day in a row and at a 200-day high. Today is Monday. Buy 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	23,013.72	41	28	13	68.29	3,565.00	-1,497.69	1,153.87	-714.97	1.61	3.48	561.31
4	17,778.01	41	25	16	60.98	3,489.10	-2,042.82	1,175.56	-725.69	1.62	2.53	433.61
3	18,032.11	41	28	13	68.29	2,359.80	-1,300.86	870.65	-488.16	1.78	3.84	439.81
2	14,646.01	41	29	12	70.73	2,426.12	-1,482.30	664.83	-386.16	1.72	4.16	357.22
1	5,429.64	41	22	19	53.66	1,687.28	-539.07	434.22	-217.01	2.00	2.32	132.43

Results here appear quite bullish. Below is a look at the 2-day profit curve.



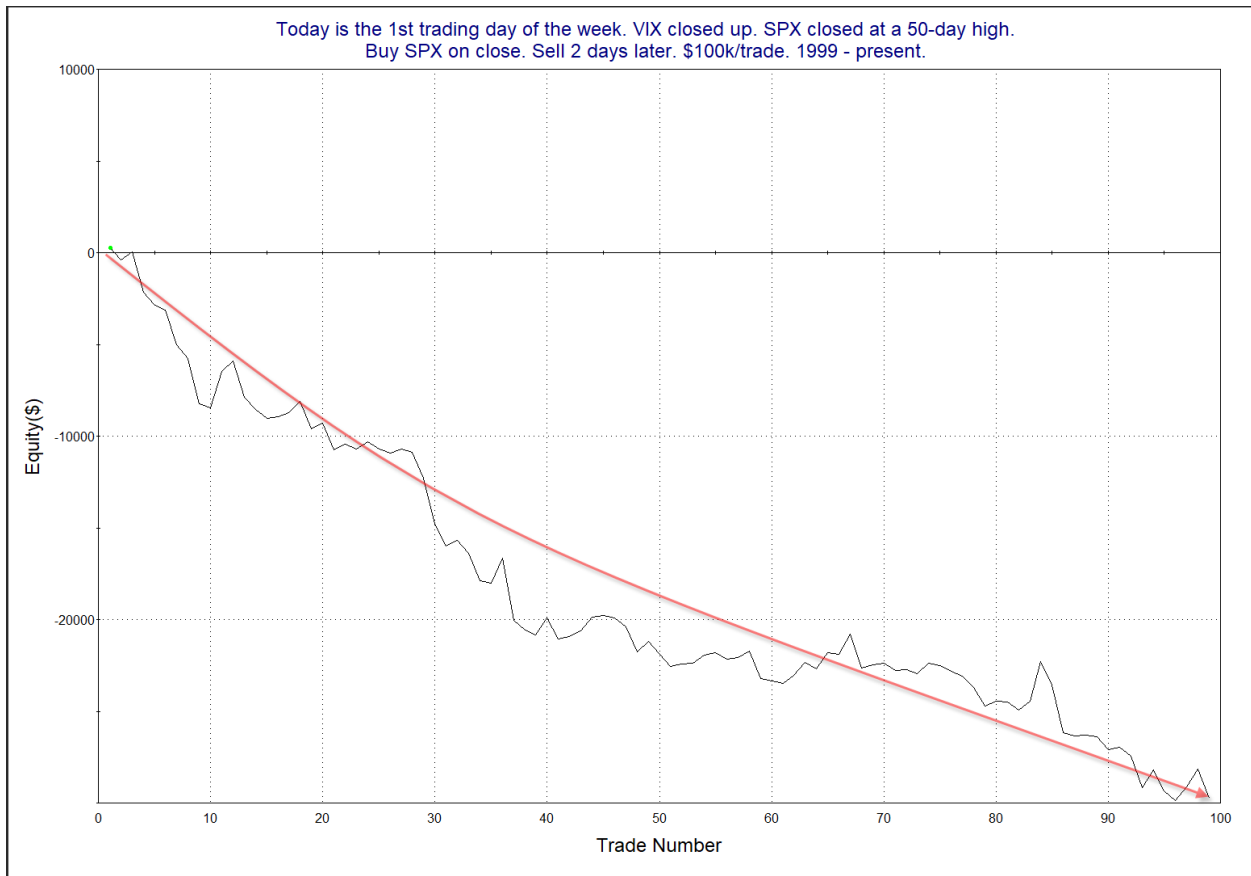
That is a very consistent move from lower left to upper right. I find the study appealing enough that I have included it on the active list as a 2-day edge.

Another study from the Quantifinder looked at the rise in the VIX that accompanied the SPX new high. The VIX has a natural tendency to rise on Mondays. So although VIX most often moves lower when SPX rises, Monday is the most likely day of the week to see the two of them rise together. Still, times SPX closed at a 50-day high while VIX rose on a Monday have previously suggested a downside edge. Last seen recently in the 8/1/23 letter, results of this study are updated.

Today is the 1st trading day of the week. VIX closed up. SPX closed at a 50-day high.  
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-19,322.66	93	43	50	46.24	5,653.12	-5,048.68	1,087.09	-1,321.35	0.82	0.71	-207.77
4	-17,245.21	99	47	52	47.47	4,422.40	-5,732.40	956.20	-1,195.89	0.80	0.72	-174.19
3	-20,419.98	99	46	53	46.46	2,641.80	-6,908.70	700.51	-993.27	0.71	0.61	-206.26
2	-29,742.61	99	41	58	41.41	2,148.48	-3,372.16	509.20	-872.76	0.58	0.41	-300.43
1	-10,493.66	99	35	64	35.35	802.88	-1,580.04	324.67	-341.52	0.95	0.52	-106.00

The numbers here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long, persistent decline. It is near new lows and the study seems worthy of consideration. So I have added it to the active list.

Tomorrow the CPI report will be released about an hour before the NYSE open. The table below shows SPX performance on all CPI release dates since Spring of 2022.

### CPI Release Dates Since Fed Rate Increases Began

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%
Feb-23	March 14, 2023	81.87	1.65%
Mar-23	April 12, 2023	47.43	-0.41%
Apr-23	May 10, 2023	55.36	0.45%
May-23	June 13, 2023	36.44	0.11%
Jun-23	July 12, 2023	49.08	0.70%
Jul-23	August 10, 2023	69.45	0.03%
Aug-23	September 13, 2023	25.87	0.12%
Sep-23	October 12, 2023	60.42	-0.62%
Oct-23	November 14, 2023	97.12	1.91%
	<b>Average</b>	<b>99.67</b>	<b>0.30%</b>
	<b>May - Dec 2022 Release Date Avg</b>	<b>137.50</b>	<b>0.21%</b>
	<b>Jan - Aug 2023 Release Date Avg</b>	<b>58.91</b>	<b>0.39%</b>

The yellow highlighted areas show the ranges that SPX traded in on CPI days during 2022 vs 2023. When the Fed was aggressively raising rates in 2022, reactions to CPI were especially large. This year they have seen ranges of less than half of what was seen in 2022. Meanwhile, the average performance (0.39%) has been nearly double 2022 (0.21%). Tuesday could still see a big move – especially if the report is far from expectations. I don't see a substantial edge in looking to play Tuesday's action. But it could clue us in well for Wednesday...

Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are updated stats for the 4 quartiles from highest to lowest in the daily range.

Tomorrow is a Fed Day.  
 SPY closes in the top 25% of its intraday range.  
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

### TradeStation Performance Summary

	<b>All Trades</b>
Total Net Profit	\$8,522.29
Gross Profit	\$36,992.45
Gross Loss	(\$28,470.16)
Profit Factor	1.30
Total Number of Trades	94
Percent Profitable	48.94%
Winning Trades	46
Losing Trades	46
Even Trades	2
Avg. Trade Net Profit	\$90.66
Avg. Winning Trade	\$804.18
Avg. Losing Trade	(\$618.92)
Ratio Avg. Win:Avg. Loss	1.30
Largest Winning Trade	\$2,238.25
Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day.  
 SPY closes > 50% and <= 75% of its intraday range.  
 Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

### TradeStation Performance Summary

	<b>All Trades</b>
Total Net Profit	\$17,071.49
Gross Profit	\$34,876.26
Gross Loss	(\$17,804.77)
Profit Factor	1.96
Total Number of Trades	57
Percent Profitable	52.63%
Winning Trades	30
Losing Trades	26
Even Trades	1
Avg. Trade Net Profit	\$299.50
Avg. Winning Trade	\$1,162.54
Avg. Losing Trade	(\$684.80)
Ratio Avg. Win:Avg. Loss	1.70
Largest Winning Trade	\$4,704.07
Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day.  
SPY closes > 25% and <= 50% of its intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

### TradeStation Performance Summary

	All Trades
Total Net Profit	\$13,122.59
Gross Profit	\$26,498.43
Gross Loss	(\$13,375.84)
Profit Factor	1.98
Total Number of Trades	49
Percent Profitable	63.27%
Winning Trades	31
Losing Trades	18
Even Trades	0
Avg. Trade Net Profit	\$267.81
Avg. Winning Trade	\$854.79
Avg. Losing Trade	(\$743.10)
Ratio Avg. Win:Avg. Loss	1.15
Largest Winning Trade	\$2,943.00
Largest Losing Trade	(\$2,066.62)

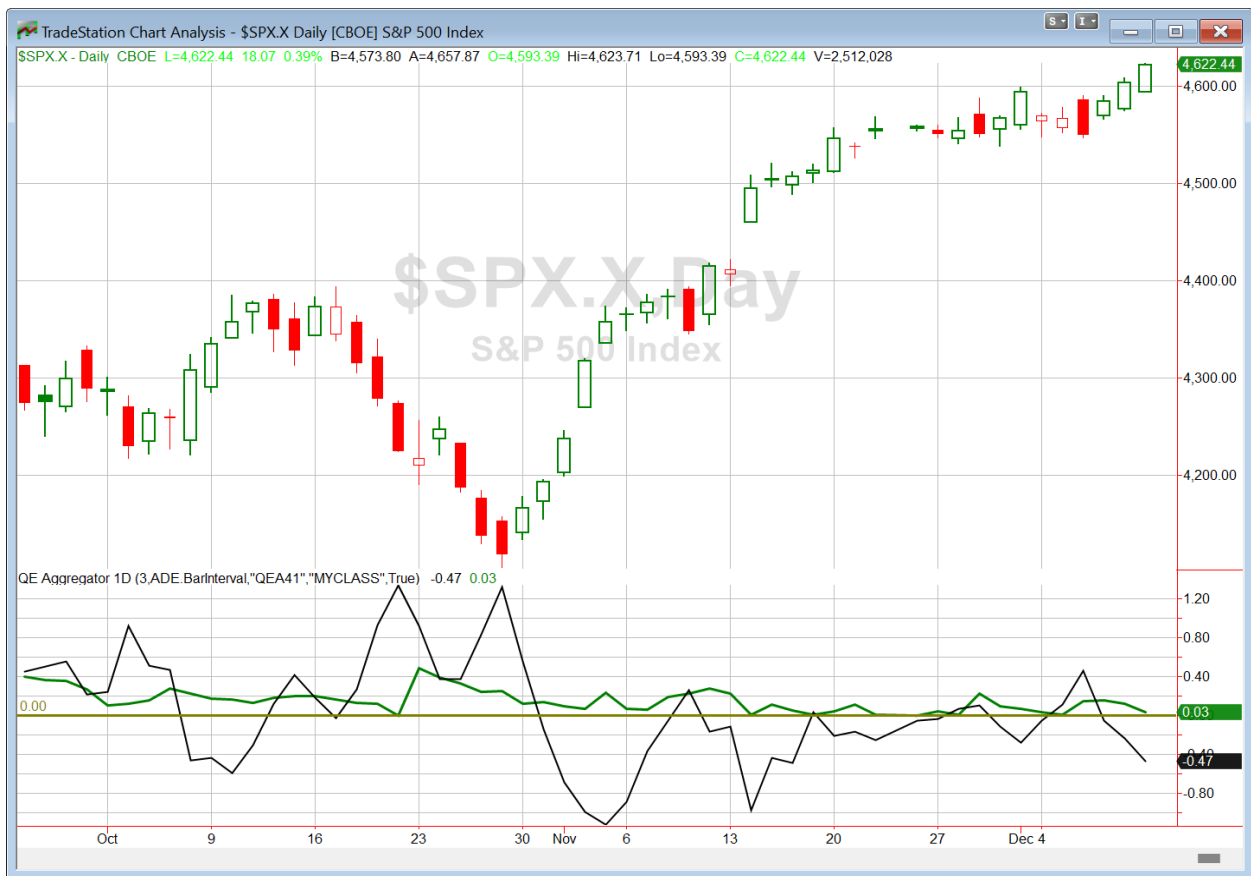
Tomorrow is a Fed Day.  
SPY closes in the BOTTOM 25% of its intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

### TradeStation Performance Summary

	All Trades
Total Net Profit	\$25,798.46
Gross Profit	\$37,727.36
Gross Loss	(\$11,928.90)
Profit Factor	3.16
Total Number of Trades	45
Percent Profitable	73.33%
Winning Trades	33
Losing Trades	12
Even Trades	0
Avg. Trade Net Profit	\$573.30
Avg. Winning Trade	\$1,143.25
Avg. Losing Trade	(\$994.07)
Ratio Avg. Win:Avg. Loss	1.15
Largest Winning Trade	\$4,645.80
Largest Losing Trade	(\$2,945.28)

So what we see here is that the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

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



With tonight's mix of evidence considered, the green Aggregator Line remained slightly 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 Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4599.67 on Tuesday. That is 0.5% below Monday's close. Therefore, SPX will need to close down at least 0.5% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is mostly pointing higher, but the market is solidly overbought. If I was feeling more aggressive, then I might consider taking on some index exposure near the close if SPX has a bad day on Tuesday. But with the market so overbought, and currently at long-term highs, I won't jump in ahead of the Fed. More aggressive traders could consider a purchase on a weak close with a plan to exit on Wednesday ahead of the announcement. I'll remain patient and continue to await a more favorable reward/risk opportunity before heading back into my next swing position.

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

### **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
NFLX(1/3)	12/5/2023	\$450.70	\$459.89	2.04%	<i>sell on open</i>
CHTR(1/3)	12/7/2023	\$361.78	\$374.63	3.55%	<i>sell on open</i>
LIN(1/3)	12/8/2023	\$398.00	\$408.24	2.57%	<i>sell on open</i>

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