

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2023

Volume 16 Issue 239

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Closing at a new long-term high on a Fed Day has often been a plus for the next 1-2 weeks.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook

The Bottom Line

Too strong to short. Too overbought to buy. Neutral.

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 14, 2023	100-day high on a Fed Day	1-8 days	Bullish			
December 7, 2023	20 low close. 3 closes in intraday range	1-7 days	Bullish	2.20%	-1.40%	-3.30%
Active - Long Term						
December 14, 2023	RSI(2) crosses over 99	1-15 days	Bullish			
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

The Fed inspired a large and broad rally on Wednesday. The SPX gained 1.37%, the NASDAQ climbed 1.38%, and the Russell 2000 jumped 3.52%. Breadth was extremely strong with the NYSE Up Issues % coming in at 89% and the Up Volume % at 91%. NYSE total volume rose some from Tuesday's level.

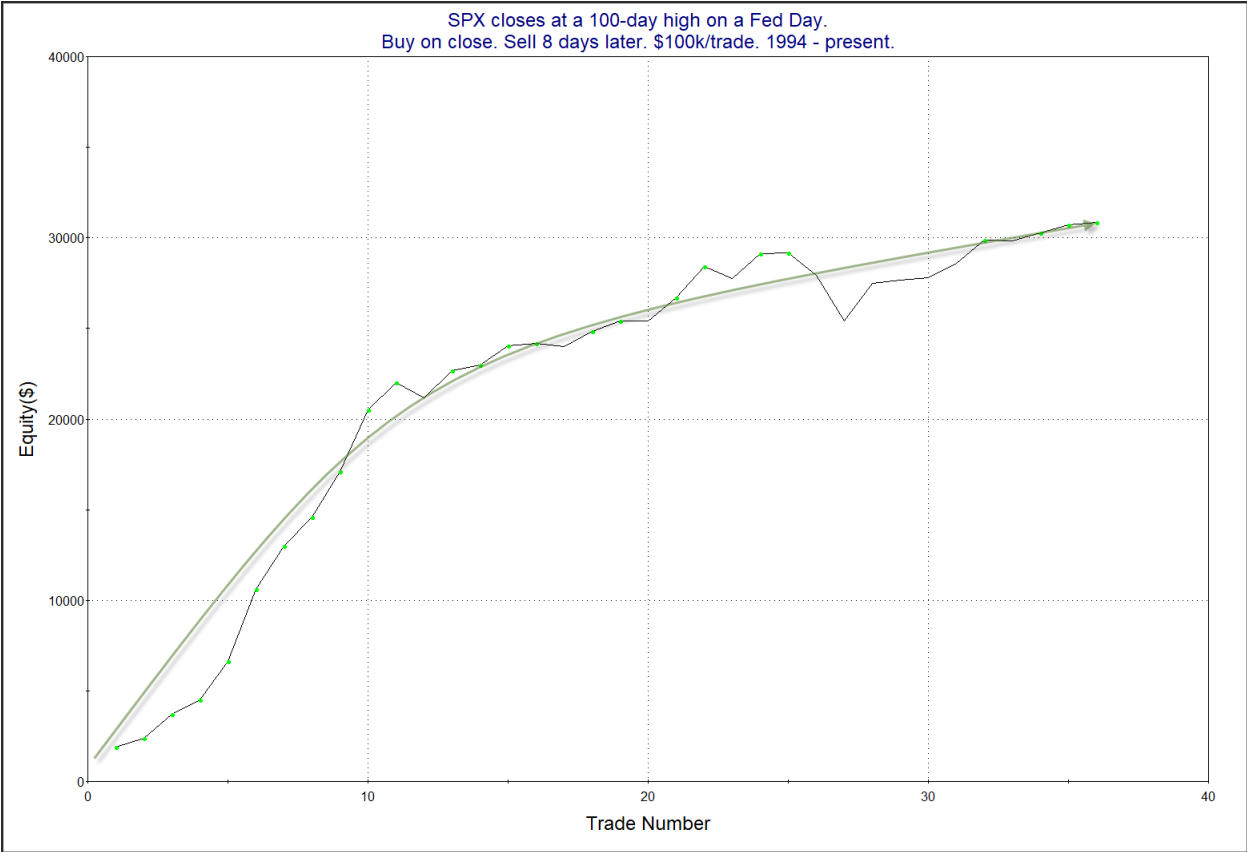
The Fed kept rates the same. So there was no immediate change in policy. But projections for 2024 suggested 4 rate cuts could be in the cards. In his press conference, Jay Powell indicated that the rate hike cycle has likely peaked. The next move, whenever it comes, will likely be lower for rates. Additionally, with regards to inflation, he said that “nobody is declaring victory yet”, when sounded a lot like declaring victory. I mean, why even say that if you aren't bragging about the fact that they think they are about to beat inflation. So overall, the Fed outlook is decidedly more dovish than it has been in the last year and a half. And the market celebrated.

In “The Quantifiable Edges Guide to Fed Days” I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 6/15/23 Subscriber Letter.

SPX closes at a 100-day high on a Fed Day.
Buy on close. 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
10	29,851.11	36	26	10	72.22	5,492.11	-2,161.08	1,564.73	-1,083.18	1.44	3.76	829.20
9	29,928.44	36	27	9	75.00	5,708.74	-2,346.69	1,560.33	-1,355.59	1.15	3.45	831.35
8	30,847.82	36	29	7	80.56	3,995.65	-2,506.29	1,255.59	-794.91	1.58	6.54	856.88
7	22,644.27	36	26	10	72.22	3,198.09	-1,924.89	1,143.99	-709.93	1.61	4.19	629.01
6	20,117.46	36	26	10	72.22	3,147.85	-1,615.00	1,076.29	-786.60	1.37	3.56	558.82
5	17,597.21	36	25	11	69.44	2,353.88	-2,124.50	997.95	-668.32	1.49	3.39	488.81
4	15,764.07	36	23	13	63.89	3,173.92	-1,601.70	1,074.16	-687.82	1.56	2.76	437.89
3	9,085.65	36	21	15	58.33	2,227.50	-1,349.76	842.87	-574.30	1.47	2.05	252.38
2	10,513.23	36	23	13	63.89	2,314.87	-1,562.33	815.79	-634.61	1.29	2.27	292.03
1	6,608.64	36	21	15	58.33	2,073.34	-1,466.50	639.42	-454.61	1.41	1.97	183.57

This suggests further upside is likely over the next 1-2 weeks. Below is the profit curve assuming an 8-day holding strategy.

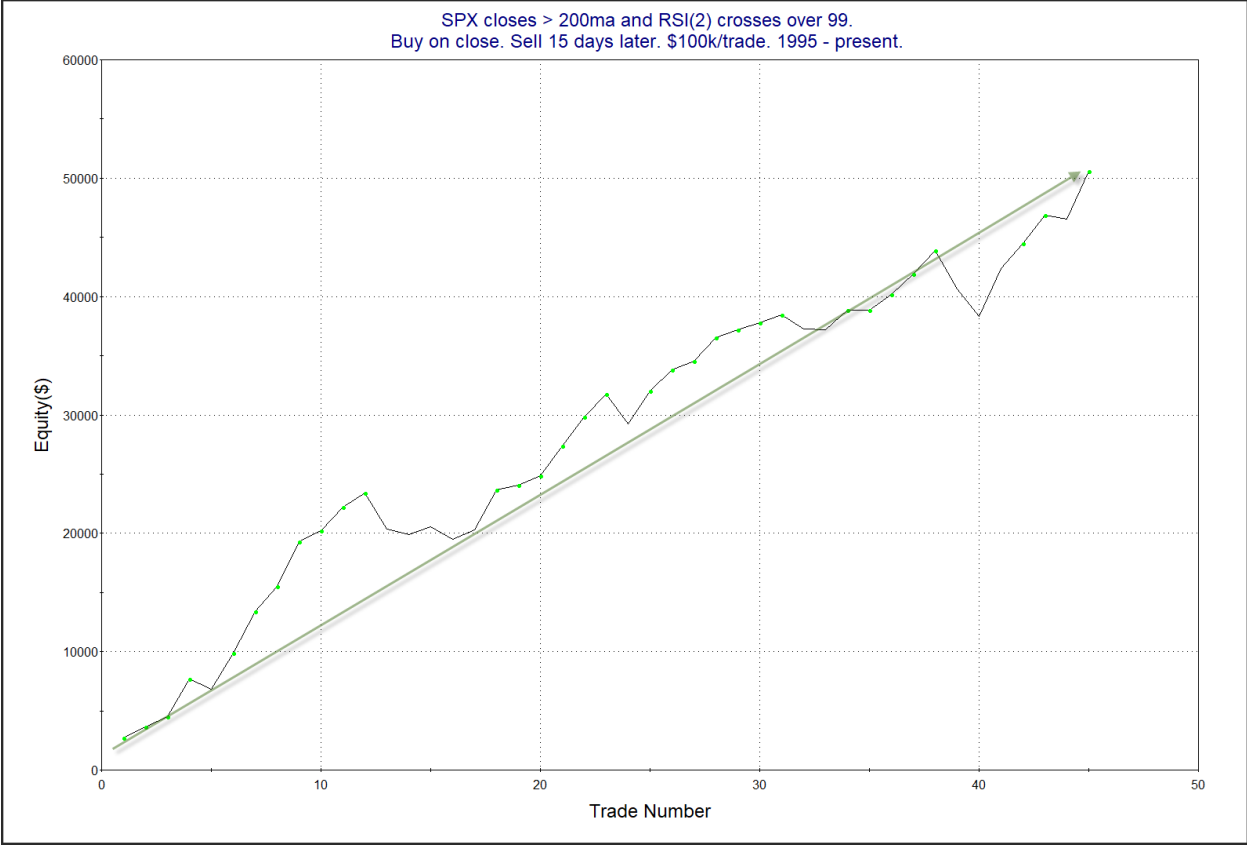


There were a couple of sizable losers in 2012-2013, but since then it has rebounded nicely to get the profit curve headed higher again. I believe this study is worth some consideration.

Of course the recent rally has left the market short-term overbought by most measures. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we have seen this scenario unfold. It is exemplified in the study below from the 11/9/23 Letter, which uses RSI(2).

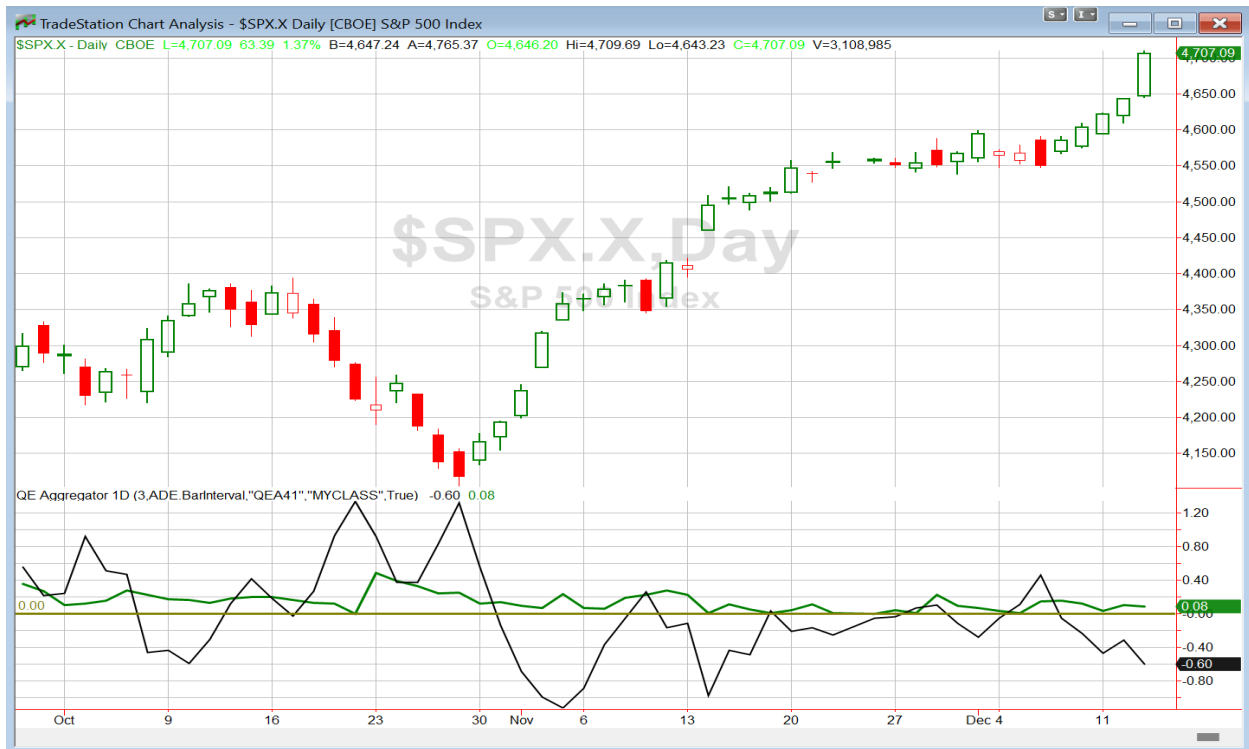
SPX closes > 200ma and RSI(2) crosses over 99. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	50,607.88	45	35	10	77.78	4,070.44	-3,265.02	1,881.33	-1,523.85	1.23	4.32	1,124.62
14	44,896.88	45	35	10	77.78	4,461.36	-4,024.68	1,737.64	-1,592.06	1.09	3.82	997.71
13	47,405.01	47	37	10	78.72	3,989.82	-3,320.01	1,659.77	-1,400.63	1.19	4.38	1,008.62
12	42,672.70	48	37	11	77.08	4,058.61	-3,175.53	1,544.94	-1,317.29	1.17	3.94	889.01
11	41,680.52	49	37	12	75.51	4,106.40	-3,857.28	1,594.02	-1,441.51	1.11	3.41	850.62
10	36,132.56	50	38	12	76.00	3,824.48	-3,907.12	1,413.27	-1,464.31	0.97	3.06	722.65
9	30,878.05	50	37	13	74.00	3,453.27	-3,440.07	1,257.86	-1,204.84	1.04	2.97	617.56
8	27,159.38	51	35	16	68.63	3,621.20	-4,112.92	1,322.09	-1,194.62	1.11	2.42	532.54
7	20,367.71	52	33	19	63.46	3,564.39	-4,153.62	1,160.78	-944.12	1.23	2.14	391.69
6	9,915.54	52	32	20	61.54	2,760.12	-5,296.92	1,048.97	-1,182.58	0.89	1.42	190.68
5	14,004.08	52	35	17	67.31	2,859.08	-3,596.40	932.95	-1,097.01	0.85	1.75	269.31
4	10,235.19	52	35	17	67.31	2,697.92	-3,039.18	842.50	-1,132.48	0.74	1.53	196.83
3	3,934.93	53	32	21	60.38	3,504.64	-2,880.45	758.94	-969.10	0.78	1.19	74.24
2	5,539.62	53	32	21	60.38	2,273.92	-2,348.76	656.68	-736.87	0.89	1.36	104.52
1	304.38	53	26	27	49.06	2,096.10	-3,515.37	490.41	-460.97	1.06	1.02	5.74

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while, and it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

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 strongly 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 Thursday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4635.68 on Thursday. That is 1.5% below Wednesday's close. Therefore, SPX will need to close down at least 1.5% on Thursday in order to flip from overbought to oversold vs recent expectations. It has been a long while since SPX had even a 1% down day. So it appears a more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So the Aggregator is again neutral. The market is too strong to short and too overbought to go long. So I will continue to exercise patience. That can be a difficult thing when it feels like the market is running away from you. But swing traders need to understand they will almost always underperform the market when it is in a runaway up move. Other times swing strategies have a good chance to outperform. So for now I will sit tight and wait for this runaway move to subside (or evidence to turn strongly bearish) before looking to take on new exposure.

*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

None

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