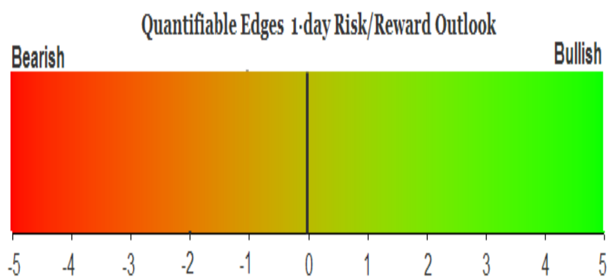
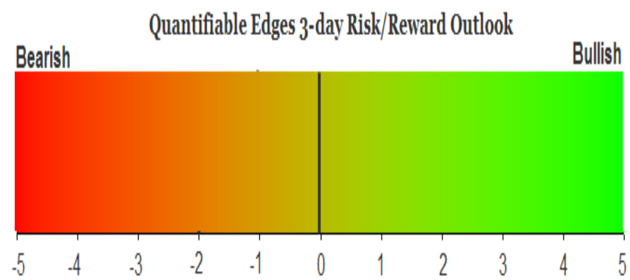
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2023 Volume 16 Issue 241

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When an overbought SPX has pulled back as little as it did Monday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- The January Effect is kicking in, but smallcap performance seems to have already started a few days ago.
- 7 days up for the Dow has typically been followed by more gains in the coming weeks.
- QT continues to drain the SOMA, but Fed rhetoric is turning more dovish.

Short-term Outlook
The Bottom Line

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

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 18, 2023	SPX > Bolling Band 4 days in a row	1-7 days	Bullish	1.55%	-0.90%	-1.75%
December 18, 2023	SPX down. RSI2 > 90	1-2 days	Bullish			
December 18, 2023	5 up to 50-high then down.	1-4 days	Bullish	1.10%	-0.80%	-1.60%
December 14, 2023	100-day high on a Fed Day	1-8 days	Bullish	1.70%	-1.00%	-1.70%
Active - Long Term						
December 18, 2023	Dow up 7 days in a row	1-19 days	Bullish	3.30%	-1.50%	-2.70%
December 18, 2023	5 up to 50-high then down.	1-10 days	Bullish	1.80%	-1.10%	-2.30%
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 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			
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

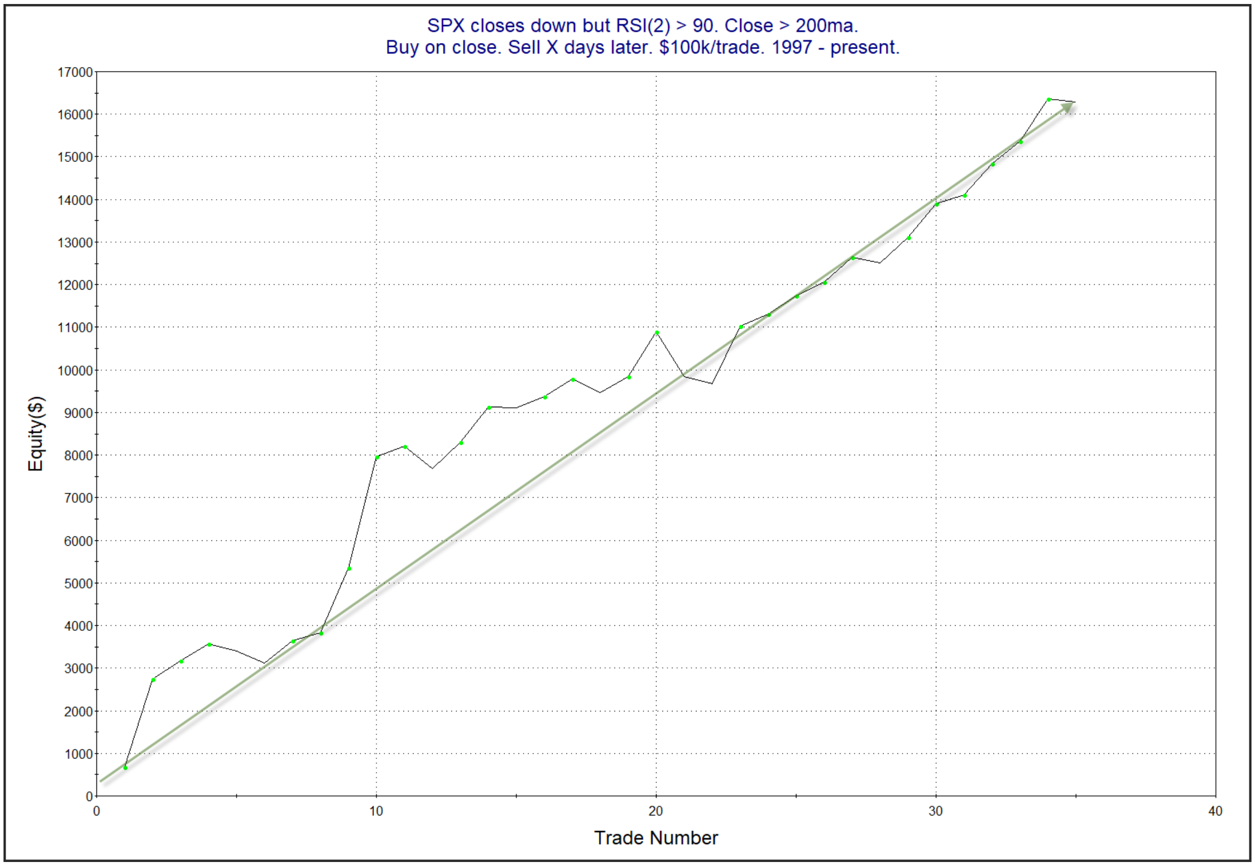
Friday was mostly mixed and moderate to end the week. The SPX closed down 0.01%, the NASDAQ climbed 0.35%, and the Russell 2000 lost 0.77%. Breadth was weak with the NYSE Up Issues % coming in at 31% and the Up Volume % at 21%. NYSE total volume spiked higher with quarterly options expiration.

The move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Friday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Friday. It triggered the study below which was last seen in the 4/13/21 letter. Results are updated.

SPX closes down but RSI(2) > 90. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1997 - 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	10,486.39	32	17	15	53.13	4,121.28	-2,008.73	1,246.21	-713.28	1.75	1.98	327.70
4	9,096.97	33	20	13	60.61	3,806.46	-1,717.70	941.60	-748.85	1.26	1.93	275.67
3	16,097.79	35	22	13	62.86	2,923.44	-1,123.50	975.86	-413.17	2.36	4.00	459.94
2	16,287.11	35	26	9	74.29	2,619.76	-1,054.68	731.01	-302.13	2.42	6.99	465.35
1	8,119.56	35	24	11	68.57	2,310.88	-704.76	479.96	-309.04	1.55	3.39	231.99

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong upslope. I have added this study to the Active List.

The strong move up over the last few days has also left SPX stretched above its Bollinger Band. It's somewhat unusual to see the market close this far above its mean for 4 days in a row. Such shows of strength have often begat more short-term strength. This can be seen in the study below, which last appeared in the 1/10/18 subscriber letter.

SPX closes above upper Bollinger Band (2,20) for exactly 4th day in a row.
Buy on close. Sell X days later. $100k/trade. 1990 - 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	15,001.84	15	12	3	80.00	3,105.00	-1,886.32	1,616.19	-1,464.13	1.10	4.42	1,000.12
9	18,153.89	15	12	3	80.00	3,162.24	-2,271.50	1,798.39	-1,142.26	1.57	6.30	1,210.26
8	14,033.40	15	12	3	80.00	3,275.22	-2,103.64	1,496.93	-1,309.91	1.14	4.57	935.56
7	14,592.59	15	13	2	86.67	3,320.82	-2,336.95	1,338.49	-1,403.90	0.95	6.20	972.84
6	12,107.08	15	11	4	73.33	3,239.88	-2,517.90	1,547.35	-1,228.43	1.26	3.46	807.14
5	10,800.13	15	10	5	66.67	3,581.50	-1,708.93	1,492.29	-824.55	1.81	3.62	720.01
4	5,472.93	15	9	6	60.00	3,067.74	-2,081.23	1,196.18	-882.11	1.36	2.03	364.86
3	5,249.87	15	8	7	53.33	3,025.75	-1,189.17	1,259.53	-689.48	1.83	2.09	349.99
2	3,623.77	15	8	7	53.33	2,701.80	-1,045.16	865.59	-471.56	1.84	2.10	241.58
1	1,007.43	15	6	9	40.00	1,582.32	-625.24	555.19	-258.19	2.15	1.43	67.16

The stats seem to support the bull case. I find the results especially impressive considering the moves are measured from a point where the market is already substantially overbought. Below are all the instances and their 7-day returns.

SPX closes above upper Bollinger Band (2,20) for exactly 4th day in a row. Buy on close. Sell 7 days later. $100k/trade. 1990 - present.

Date	Trade	Price	% Profit	Run-Up/DDN
12/26/1991	Buy	$404.84	3.10%	$3,692.65
1/7/1992	Sell	$417.39		($61.75)
11/30/1992	Buy	$431.35	0.99%	$1,300.53
12/9/1992	Sell	$435.64		($632.94)
8/19/1993	Buy	$456.42	1.20%	$1,412.55
8/30/1993	Sell	$461.90		($466.47)
1/18/1995	Buy	$469.71	0.14%	$349.80
1/27/1995	Sell	$470.39		($1,816.84)
9/7/1995	Buy	$570.29	2.19%	$2,586.50
9/18/1995	Sell	$582.77		($178.50)
11/8/1996	Buy	$730.82	1.55%	$1,544.96
11/19/1996	Sell	$742.16		($379.44)
6/11/1997	Buy	$869.57	3.35%	$3,670.80
6/20/1997	Sell	$898.70		($63.84)
3/6/2002	Buy	$1,162.77	0.29%	$882.36
3/15/2002	Sell	$1,166.16		($1,038.88)
6/4/2003	Buy	$986.24	0.24%	$2,166.45
6/13/2003	Sell	$988.61		($1,378.65)
1/11/2006	Buy	$1,294.18	-2.35%	$0.00
1/23/2006	Sell	$1,263.83		($2,561.02)
4/29/2011	Buy	$1,363.61	-0.47%	$508.81
5/10/2011	Sell	$1,357.16		($2,514.12)
3/16/2012	Buy	$1,404.17	0.59%	$1,063.58
3/27/2012	Sell	$1,412.52		($1,228.30)
2/15/2017	Buy	$2,349.25	0.87%	$936.18
2/27/2017	Sell	$2,369.73		($435.96)
12/1/2017	Buy	$2,642.22	0.83%	$1,017.50
12/12/2017	Sell	$2,664.11		($646.39)
1/9/2018	Buy	$2,751.29	2.14%	$2,125.44
1/19/2018	Sell	$2,810.30		($548.28)

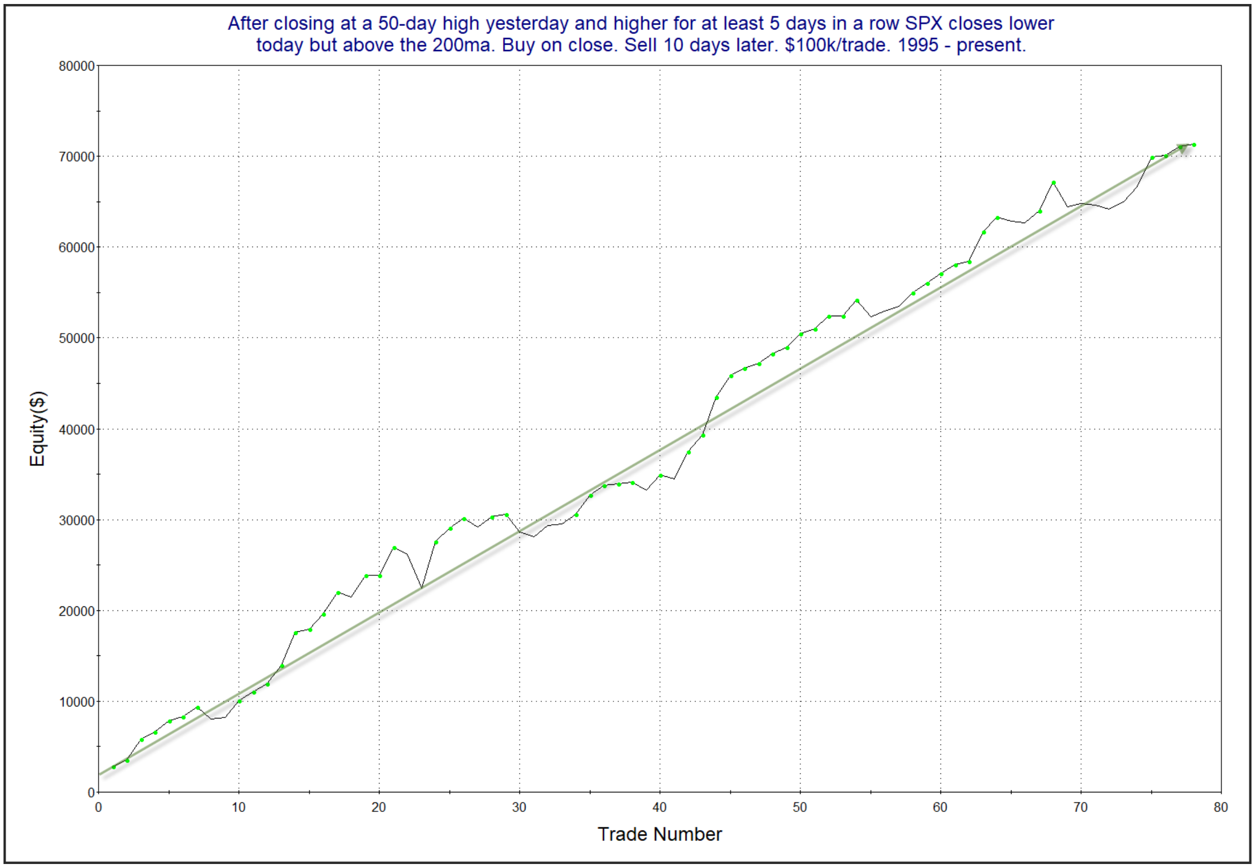
I don’t see anything alarming here. I have included this study on the Active List as well.

There was yet another compelling study that triggered Friday that suggested the recent persistent upmove is unlikely to abruptly end. (Notice a theme?) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen recently in the 11/22/23 Letter. I have updated the stats in the table below.

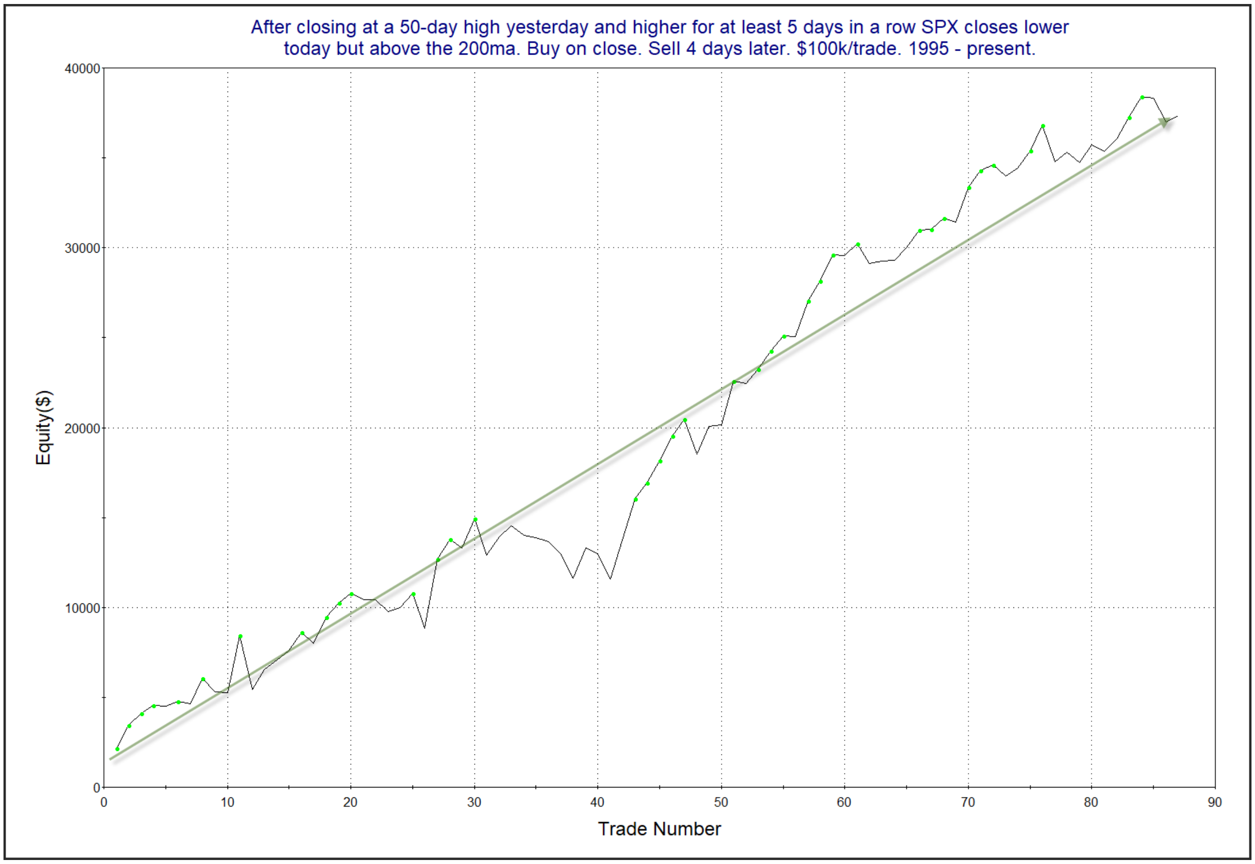
After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes lower today but above the 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - present.

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
10	71,338.37	78	63	15	80.77	5,131.35	-3,672.90	1,401.70	-1,131.26	1.24	5.20	914.59
9	67,407.34	81	64	17	79.01	5,023.20	-4,151.40	1,403.03	-1,316.87	1.07	4.01	832.19
8	56,371.70	82	57	25	69.51	4,878.08	-4,874.10	1,501.18	-1,167.82	1.29	2.93	687.46
7	44,831.55	85	59	26	69.41	3,874.76	-4,511.36	1,306.78	-1,241.09	1.05	2.39	527.43
6	45,652.06	87	63	24	72.41	4,307.20	-3,637.71	1,180.46	-1,196.55	0.99	2.59	524.74
5	34,590.67	87	59	28	67.82	4,252.50	-4,717.16	1,049.66	-976.41	1.08	2.27	397.59
4	37,362.19	87	56	31	64.37	3,843.00	-3,003.39	1,080.94	-747.43	1.45	2.61	429.45
3	21,990.74	87	54	33	62.07	2,472.85	-1,992.34	832.66	-696.14	1.20	1.96	252.77
2	21,633.63	87	57	30	65.52	2,437.50	-2,614.95	757.72	-718.55	1.05	2.00	248.66
1	12,836.60	87	55	31	63.22	1,751.19	-1,744.10	512.96	-496.00	1.03	1.83	147.55

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let’s take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



Results are a little choppier. But even with more whipsaws this curve has worked its way from lower left to upper right and is back near new highs. The study appears worthy of consideration. I have included it on both the short-term and intermediate-term active lists.

Last weekend I discussed the January Effect. Since it just triggered Friday at the close, I figured I would repost the study.

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

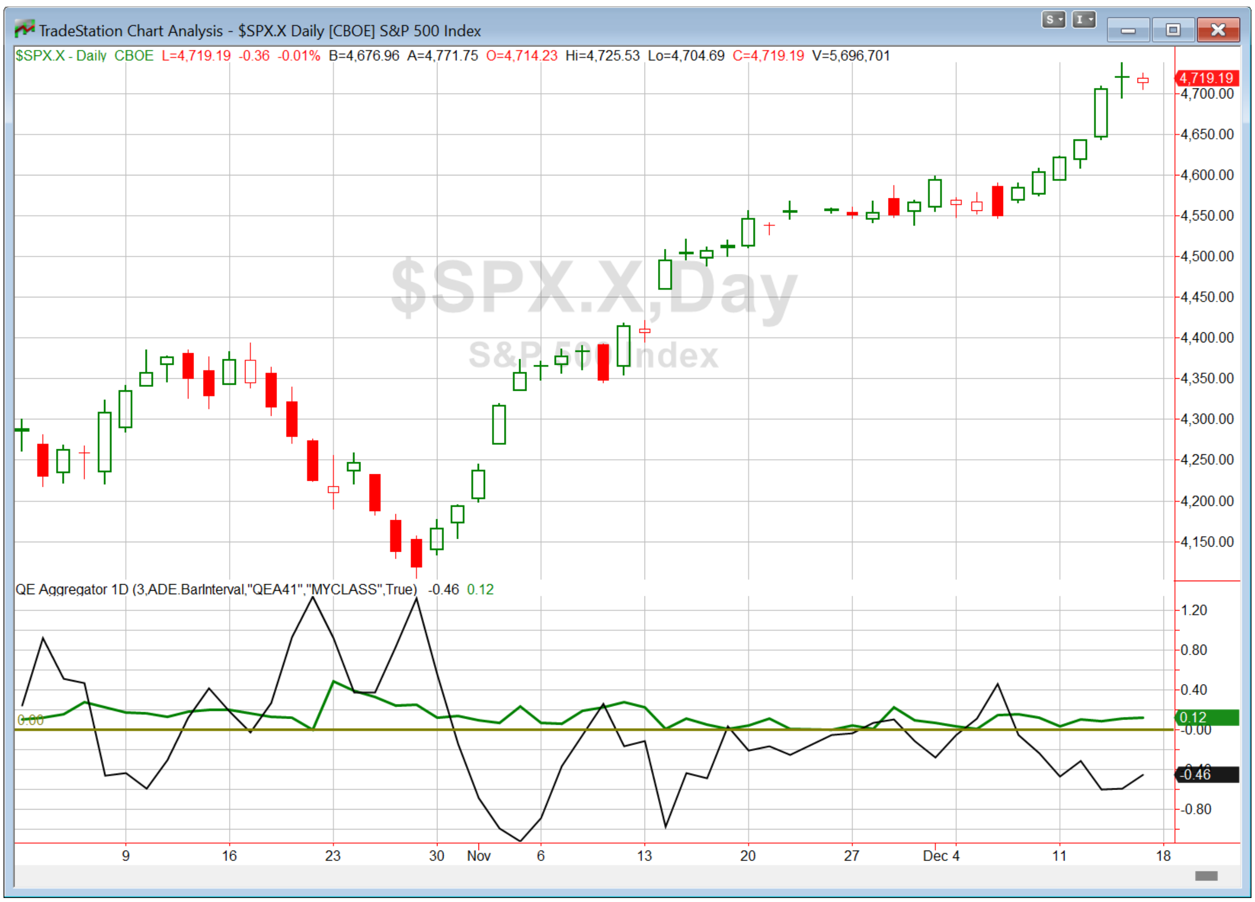
7.81% in losses. That's 5.5 to 1. And the only losing years to post a loss of greater than 1% were 1991 when the SPX outperformed the Russell by 2.82%, and 2019, when SPX outperformed by 1.06%. Below is a table that breaks it all down by year.

	SPX	*Rut*	*RUT - SPX*
Year	*% Return*	*% Return*	*% Difference*
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.

I will note that over the last 3 days, the Russell 2000 has outperformed the SPX by 3.89%. So the Russell outperformance may have come a bit early, and there is a chance it has already played itself out.

I have updated the Aggregator chart below.



With this weekend's bullish 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 Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4717.33 on Monday. That is only 2 points below Friday's close. Therefore, SPX will just need to close down about 2 points on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is again neutral. The market is still "too strong to short and too overbought to go long". So same as the last few last nights. I will remain patient as I closely watch for the next favorable reward/risk opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/18– 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.*

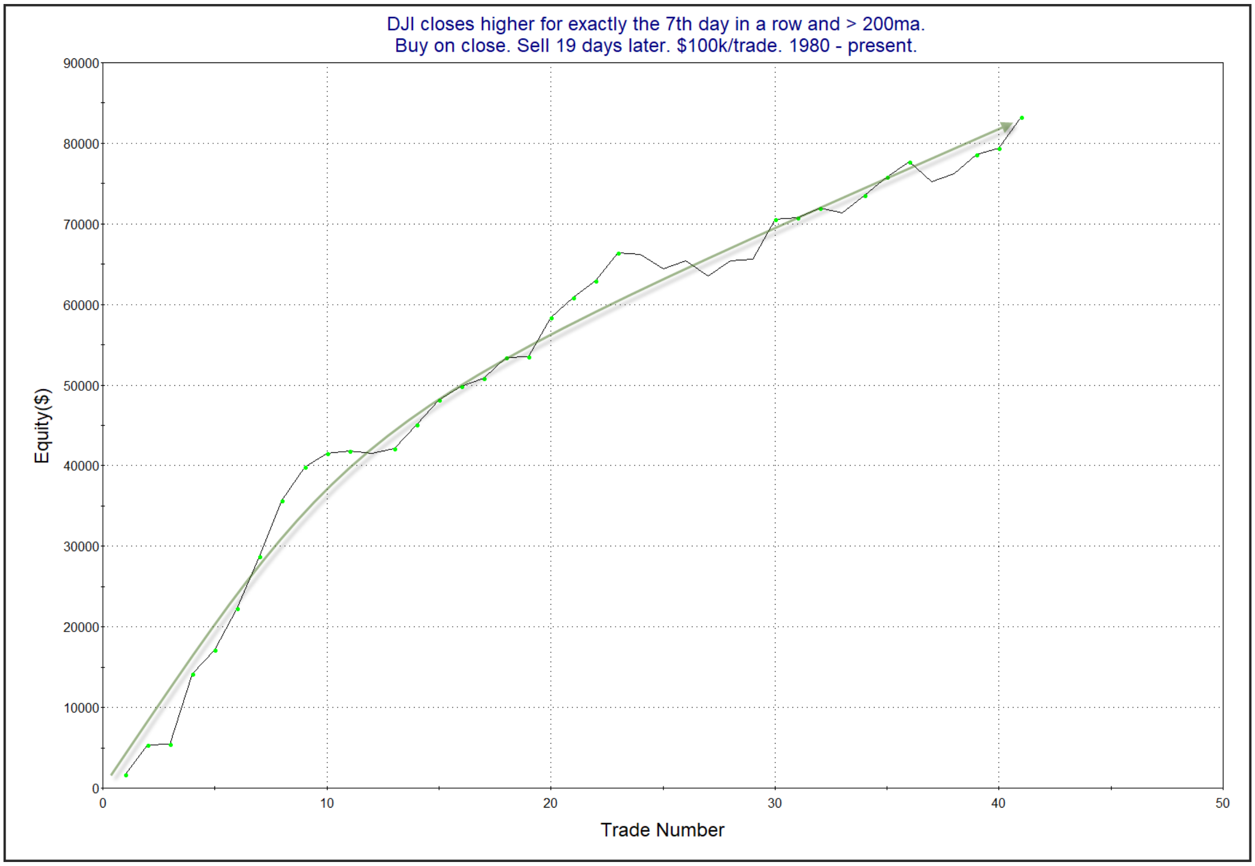
The SPX closed up for the 7th week in a row and the other indices all posted gains as well. The SPX rallied 2.5%, the NASDAQ rose 2.85%, and the Russell 2000 jumped 5.55%. Bonds also continued their rally. The US Aggregate Bond ETF (AGG) posted a gain of 2.15%. TLT, the 20-year Treasury Bond ETF, jumped 5.2%. SPX and NASDAQ are at new highs for 2023 (still below their 2022 highs). The Russell also made new 2023 highs this past week.

There was study from the 7/19/23 letter that was notable for the intermediate-term. It looked at performance after 7-day win streaks in the Dow Industrials since 1980. I've updated the stats table below.

DJI closes higher for exactly the 7th day in a row and > 200ma.
Buy on close. Sell X days later. $100k/trade. 1980 - 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
20	74,836.17	40	29	11	72.50	8,198.68	-3,332.50	2,981.83	-1,057.89	2.82	7.43	1,870.90
19	83,298.98	41	35	6	85.37	8,695.05	-2,509.32	2,588.43	-1,216.01	2.13	12.42	2,031.68
18	81,813.07	41	33	8	80.49	9,411.43	-3,131.59	2,810.25	-1,365.66	2.06	8.49	1,995.44
17	79,521.27	41	31	10	75.61	8,908.69	-3,757.81	2,970.60	-1,256.75	2.36	7.33	1,939.54
16	73,665.31	41	33	7	80.49	7,792.47	-2,497.15	2,522.08	-1,366.20	1.85	8.70	1,796.71
15	68,611.34	41	31	10	75.61	8,330.00	-2,944.23	2,604.36	-1,212.37	2.15	6.66	1,673.45
14	62,515.54	41	32	9	78.05	7,282.38	-3,311.49	2,370.68	-1,482.90	1.60	5.68	1,524.77
13	51,374.81	42	29	13	69.05	7,378.91	-3,665.00	2,298.43	-1,175.36	1.96	4.36	1,223.21
12	45,843.33	42	27	15	64.29	7,544.53	-3,171.51	2,343.50	-1,162.08	2.02	3.63	1,091.51
11	41,513.03	42	28	14	66.67	6,910.47	-2,343.12	2,109.65	-1,254.09	1.68	3.36	988.41
10	44,066.63	42	29	13	69.05	4,795.14	-2,876.67	2,012.10	-1,098.78	1.83	4.09	1,049.21
9	44,720.84	43	32	11	74.42	4,512.90	-3,132.90	1,728.11	-961.69	1.80	5.23	1,040.02
8	40,938.57	43	28	15	65.12	6,676.25	-2,237.31	1,824.50	-676.50	2.70	5.03	952.06
7	34,600.71	43	30	13	69.77	4,147.36	-2,345.95	1,527.93	-864.39	1.77	4.08	804.67
6	20,112.58	43	28	15	65.12	4,657.45	-3,410.35	1,313.44	-1,110.91	1.18	2.21	467.73
5	18,491.81	43	27	16	62.79	4,560.92	-2,927.07	1,242.79	-941.46	1.32	2.23	430.04
4	13,281.47	43	26	17	60.47	3,293.29	-2,425.90	1,091.47	-888.04	1.23	1.88	308.87
3	9,447.92	43	22	21	51.16	3,004.19	-1,664.47	990.37	-587.63	1.69	1.77	219.72
2	4,653.76	43	22	21	51.16	2,153.92	-847.62	578.41	-384.34	1.50	1.58	108.23
1	1,071.73	43	21	22	48.84	1,996.48	-1,220.94	382.78	-316.67	1.21	1.15	24.92

There is not much of an edge over the 1st few days. But once you get out a little further, the stats appear solidly bullish. Below is a look at the profit curve assuming a 19-day holding period.



The strong move from lower left to upper right appears to offer some confirmation of the bullish tendency. I have added this study to the intermediate-term active list.

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

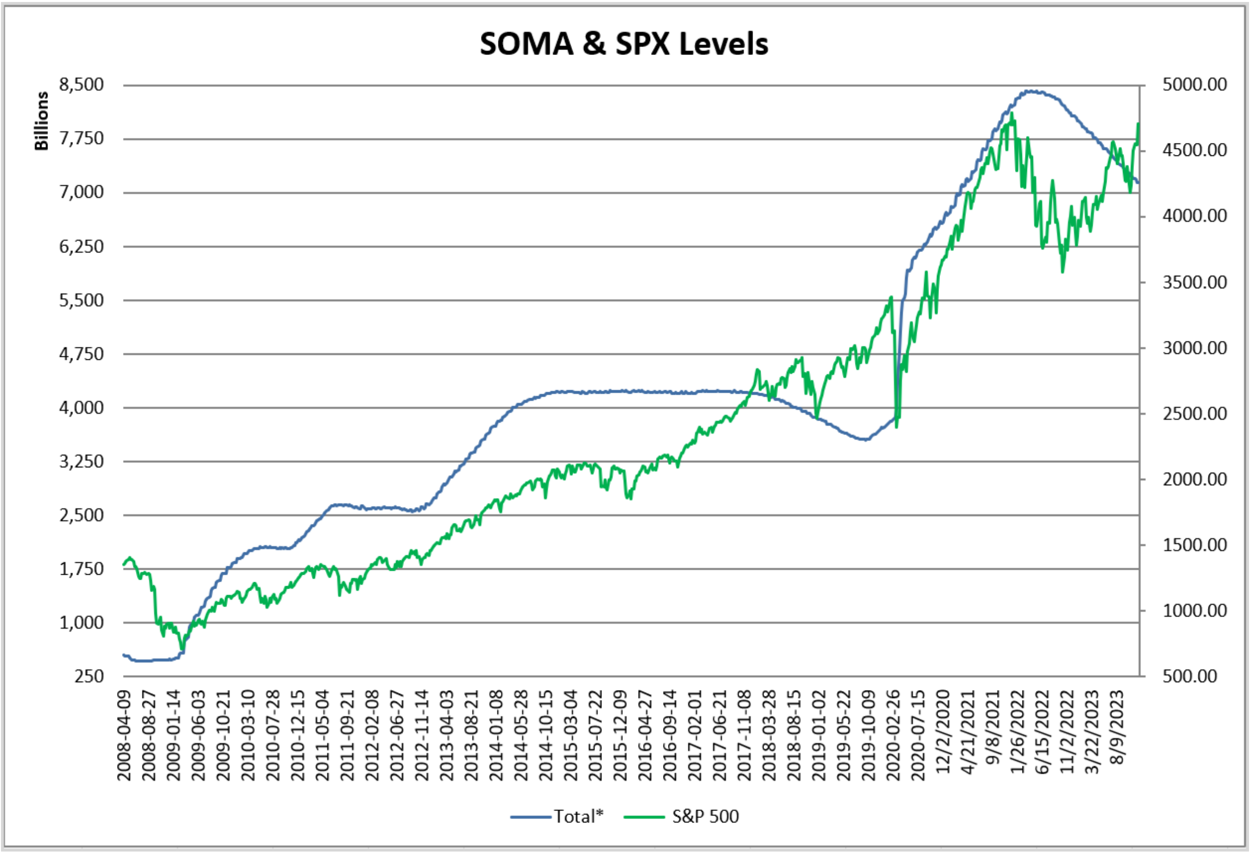
Previous **December 13, 2023**

Posted December 14, 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)	227,363,278.5
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***	2,438,631,570.8
Agency Commercial Mortgage-Backed Securities***	8,269,455.9
Total SOMA Holdings	7,144,965,630.4
Change From Prior Week	-3,178,535.6

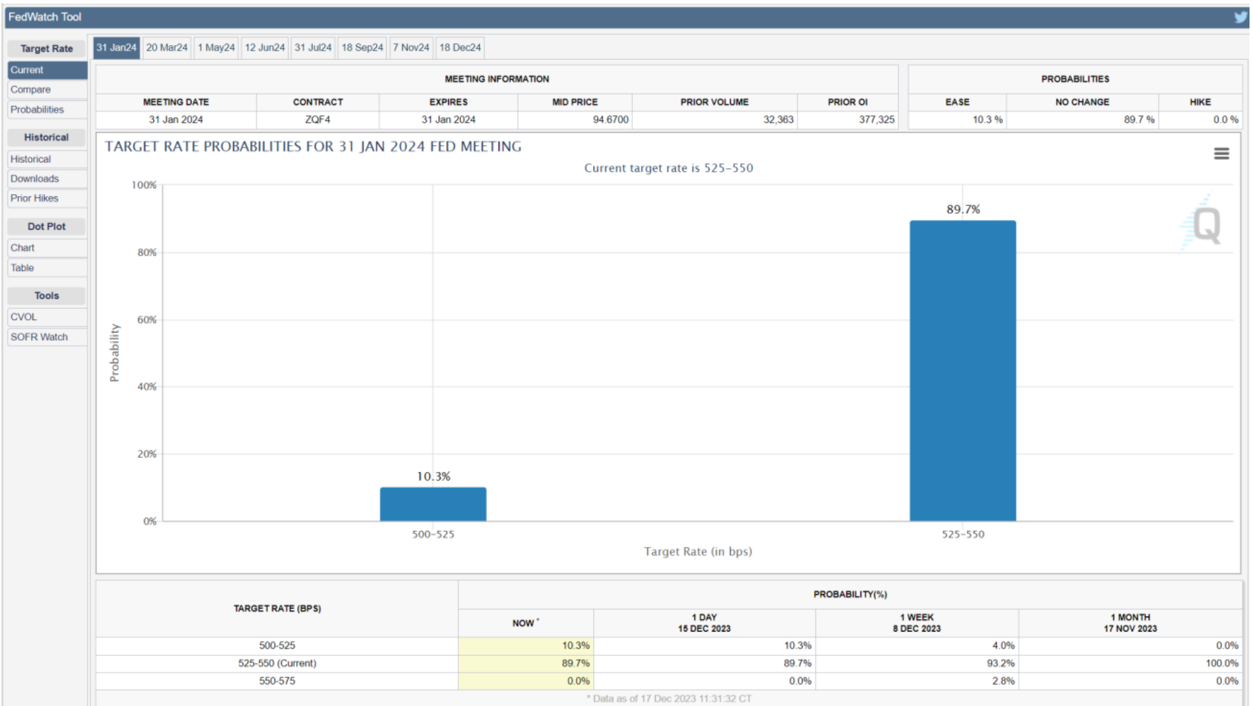
As expected, the SOMA declined a fairly mild $3 billion this past week. This upcoming week we should see a substantially larger decline. Below is an updated SOMA/SPX chart looking back to 2008.



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 yet that it is planning to dial back Quantitative Tightening (QT) anytime soon. SPX is only up moderately 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.

But the Fed seemed to take a more dovish approach with the statement and Powell’s testimony on Wednesday. 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”, which sounded a lot like declaring victory. So overall, the Fed outlook is decidedly more dovish than it has been in the last year and a half. And the market celebrated. But there will still be a QT wind to deal with for the time being.

With regards to rates, odds are now showing a 90% chance that the Fed holds rates steady in January and a 10% chance that there is a CUT. Odds can be seen in the screenshot below of the CME Fedwatch Tool:



Of course these odds could change greatly as new economic information is published. I'll continue to monitor Fed action going forward. For now, policy is moderately hawkish and is still creating a small headwind for the market.

I've had a bullish bias for a while now, and the upside momentum has persisted. This week provided even more evidence that the momentum is likely to continue rather than reverse. The trend is clearly 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, and even the Fed is starting to turn away from hawkish policy. 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

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