

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 21, 2023

Volume 16 Issue 244

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- “Twas 3 Nights Before Christmas” bullish seasonality triggered at the close on Wednesday.
- Several studies see the reversal Wednesday as a positive for both the short and intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I like the long side.

## The Evidence

Wednesday was the worst day for the market in quite a while. The SPX closed down 1.47%, the NASDAQ lost 1.50%, and the Russell 2000 dropped 1.89%. Breadth was weak with the NYSE Up Issues % coming in at 23% and the Up Volume % at 8%. NYSE total volume declined some from Tuesday's level.

The study below is the "Twas 3 Nights Before Christmas" study. I have shown it each year in the letter. It triggered at the close on Wednesday. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX on close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	41,174.80	36	28	8	77.78	7,830.30	-4,698.12	2,238.95	-2,689.46	0.83	2.91	1,143.74
9	46,237.62	36	26	10	72.22	7,974.78	-3,644.64	2,549.86	-2,005.88	1.27	3.31	1,284.38
8	50,182.50	36	26	10	72.22	8,333.40	-2,782.08	2,343.95	-1,076.02	2.18	5.66	1,393.96
7	40,572.92	36	25	11	69.44	7,796.76	-1,580.04	2,022.00	-907.01	2.23	5.07	1,127.03
6	29,324.02	36	23	13	63.89	7,752.90	-1,768.23	1,769.64	-875.20	2.02	3.58	814.56
5	35,069.08	36	28	8	77.78	7,247.22	-2,846.94	1,550.70	-1,043.81	1.49	5.20	974.14
4	25,325.81	36	25	11	69.44	5,070.22	-2,380.50	1,455.53	-1,005.68	1.45	3.29	703.49
3	23,221.22	36	26	10	72.22	4,592.40	-1,794.00	1,222.14	-855.45	1.43	3.71	645.03
2	14,302.43	36	26	10	72.22	3,257.17	-4,652.80	963.99	-1,076.13	0.90	2.33	397.29
1	8,968.15	36	26	10	72.22	2,523.24	-2,033.60	657.78	-813.41	0.81	2.10	249.12
<b>33 of 36 instances (92%) closed above the entry price at some point in the next week.</b>												

The stats all appear quite strong. But as I discussed a few times recently, smallcaps rule this time of year. So let's examine some other indices. First let's look at the Russell 2000.

Buy RUT on close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	67,069.49	36	27	9	75.00	11,169.90	-6,361.44	3,349.68	-2,596.87	1.29	3.87	1,863.04
9	71,016.38	36	26	10	72.22	10,353.42	-5,973.50	3,504.13	-2,009.09	1.74	4.53	1,972.68
8	74,731.54	36	28	8	77.78	9,130.50	-2,948.40	3,012.80	-1,203.36	2.50	8.76	2,075.88
7	62,227.19	36	28	8	77.78	7,189.56	-2,529.09	2,582.50	-1,260.35	2.05	7.17	1,728.53
6	59,452.47	36	25	11	69.44	8,941.50	-1,300.32	2,624.21	-559.35	4.69	10.66	1,651.46
5	52,126.83	36	27	9	75.00	11,299.50	-2,385.63	2,170.33	-719.12	3.02	9.05	1,447.97
4	32,799.30	36	25	11	69.44	7,987.50	-3,075.52	1,785.21	-1,075.55	1.66	3.77	911.09
3	33,785.64	36	30	6	83.33	5,136.75	-1,591.20	1,275.09	-744.49	1.71	8.56	938.49
2	22,976.42	36	26	10	72.22	4,317.75	-4,431.00	1,232.10	-905.81	1.36	3.54	638.23
1	12,126.86	36	27	9	75.00	2,299.70	-2,543.25	729.21	-840.19	0.87	2.60	336.86
<b>35 of 36 instances (97%) closed above the entry price at some point in the next week.</b>												

Results are substantially stronger here. And last year was the 1<sup>st</sup> year the Russell went without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

Buy NASDAQ Composite on close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	76,298.00	36	28	8	77.78	12,374.58	-5,921.92	3,496.08	-2,699.05	1.30	4.53	2,119.39
9	78,696.19	36	28	8	77.78	11,558.04	-5,039.77	3,470.97	-2,311.39	1.50	5.26	2,186.01
8	83,295.41	36	30	6	83.33	11,915.40	-3,773.60	3,169.37	-1,964.29	1.61	8.07	2,313.76
7	51,765.76	36	24	12	66.67	9,428.34	-2,901.42	2,786.91	-1,260.01	2.21	4.42	1,437.94
6	47,379.17	36	27	9	75.00	9,407.88	-2,186.01	2,143.96	-1,167.53	1.84	5.51	1,316.09
5	46,502.74	36	25	11	69.44	9,436.56	-2,882.56	2,240.39	-864.27	2.59	5.89	1,291.74
4	34,580.80	36	25	11	69.44	8,665.86	-4,464.72	1,830.24	-1,015.93	1.80	4.09	960.58
3	33,502.65	36	27	9	75.00	6,748.14	-3,205.26	1,547.47	-919.89	1.68	5.05	930.63
2	23,952.55	36	25	11	69.44	7,726.74	-5,032.35	1,444.79	-1,106.11	1.31	2.97	665.35
1	11,150.60	36	26	10	72.22	2,423.79	-2,931.30	825.07	-1,030.12	0.80	2.08	309.74

Since its inception in 1971, the only years that NASDAQ failed to close above its entry price at some point in the next week were 1986 and 2022.

Results just keep getting better. And only twice since the inception of the Nasdaq did it go without some kind of move up in the following week.

Lastly, let's look at the NDX.

Buy NDX on close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	76,880.78	36	27	9	75.00	14,814.54	-5,954.34	3,781.98	-2,803.64	1.35	4.05	2,135.58
9	83,029.35	36	27	9	75.00	13,885.04	-5,095.68	3,891.00	-2,447.52	1.59	4.77	2,306.37
8	89,987.08	36	28	8	77.78	14,312.70	-3,052.33	3,690.79	-1,669.37	2.21	7.74	2,499.64
7	56,070.82	36	24	12	66.67	12,691.90	-3,669.30	3,034.56	-1,396.55	2.17	4.35	1,557.52
6	43,257.65	36	25	11	69.44	11,843.52	-2,893.94	2,358.44	-1,427.58	1.65	3.75	1,201.60
5	51,956.24	36	25	11	69.44	11,443.50	-3,226.03	2,607.42	-1,202.66	2.17	4.93	1,443.23
4	40,114.41	36	25	11	69.44	11,245.05	-4,452.24	2,160.80	-1,264.15	1.71	3.88	1,114.29
3	36,861.66	36	25	11	69.44	8,742.60	-3,306.88	1,976.90	-1,141.89	1.73	3.93	1,023.93
2	26,330.16	36	24	12	66.67	10,167.30	-5,501.44	1,743.88	-1,293.58	1.35	2.70	731.39
1	13,692.12	36	25	11	69.44	2,863.84	-3,146.24	1,046.36	-1,133.35	0.92	2.10	380.34

33 of 36 instances (92%) closed above the entry price at some point in the next week.

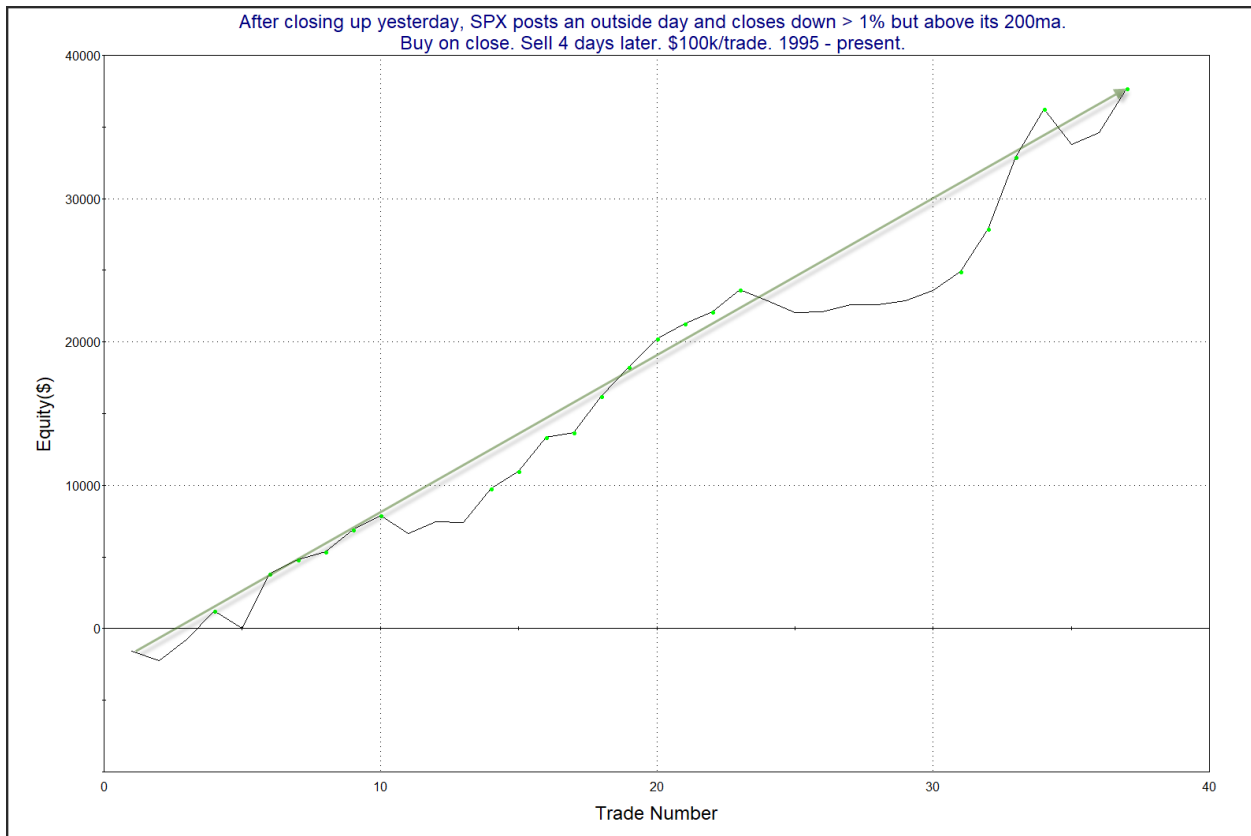
Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

There were also some interesting results when looking at the outside reversal day on Wednesday. Below is one way I looked at it – updated from the 10/7/20 subscriber letter.

After closing up yesterday, SPX posts an outside day and closes down > 1% but above its 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
5	42,166.46	37	27	10	72.97	4,377.84	-2,808.74	2,034.07	-1,275.33	1.59	4.31	1,139.63
4	37,666.46	37	28	9	75.68	5,024.25	-2,476.98	1,663.98	-991.66	1.68	5.22	1,018.01
3	31,075.82	37	27	10	72.97	3,896.91	-1,909.08	1,565.09	-1,118.16	1.40	3.78	839.89
2	22,146.89	37	26	11	70.27	2,489.94	-2,397.96	1,230.04	-894.02	1.38	3.25	598.56
1	2,835.71	37	22	15	59.46	1,695.63	-1,799.08	693.52	-828.12	0.84	1.23	76.64

The numbers point to a possible upside edge. Below is a profit curve using a 4-day holding strategy.



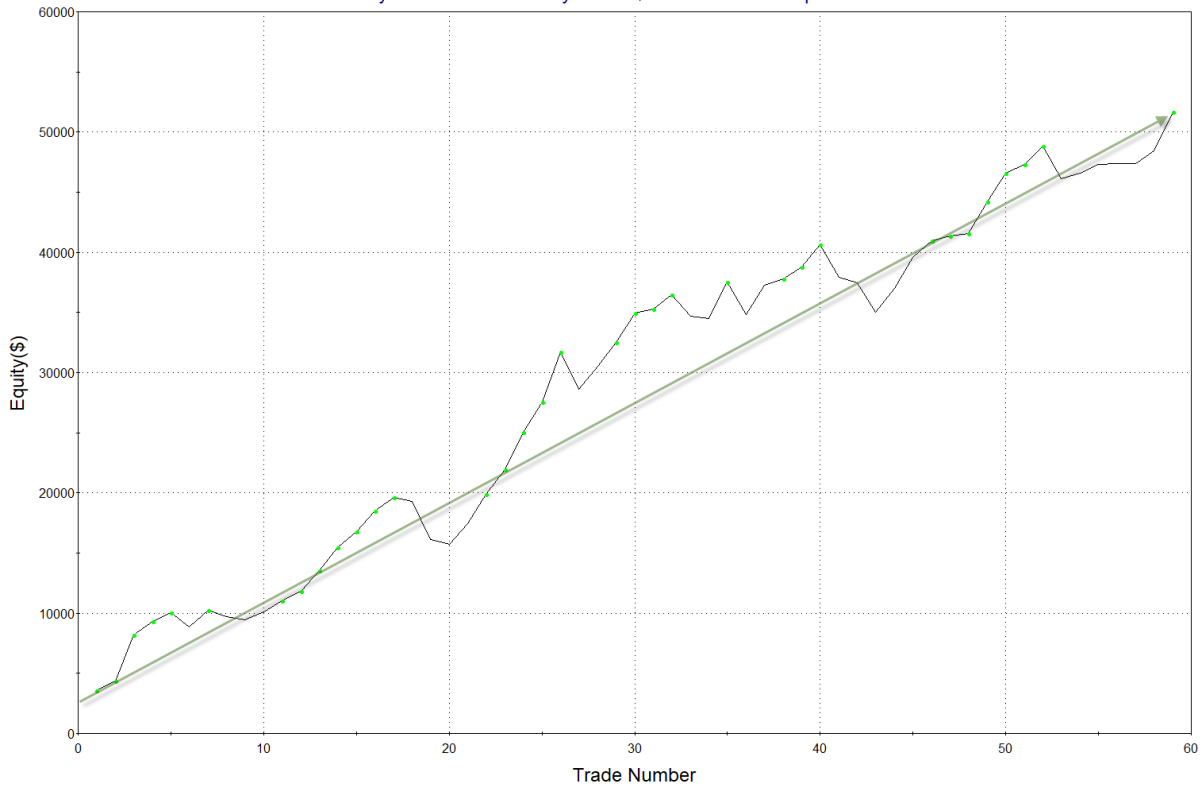
The move from lower left to upper right is impressive. I have added this study to the active list tonight.

Early in the day the SPX managed to make a new intraday high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 6/20/23 subscriber letter. Results are all updated.

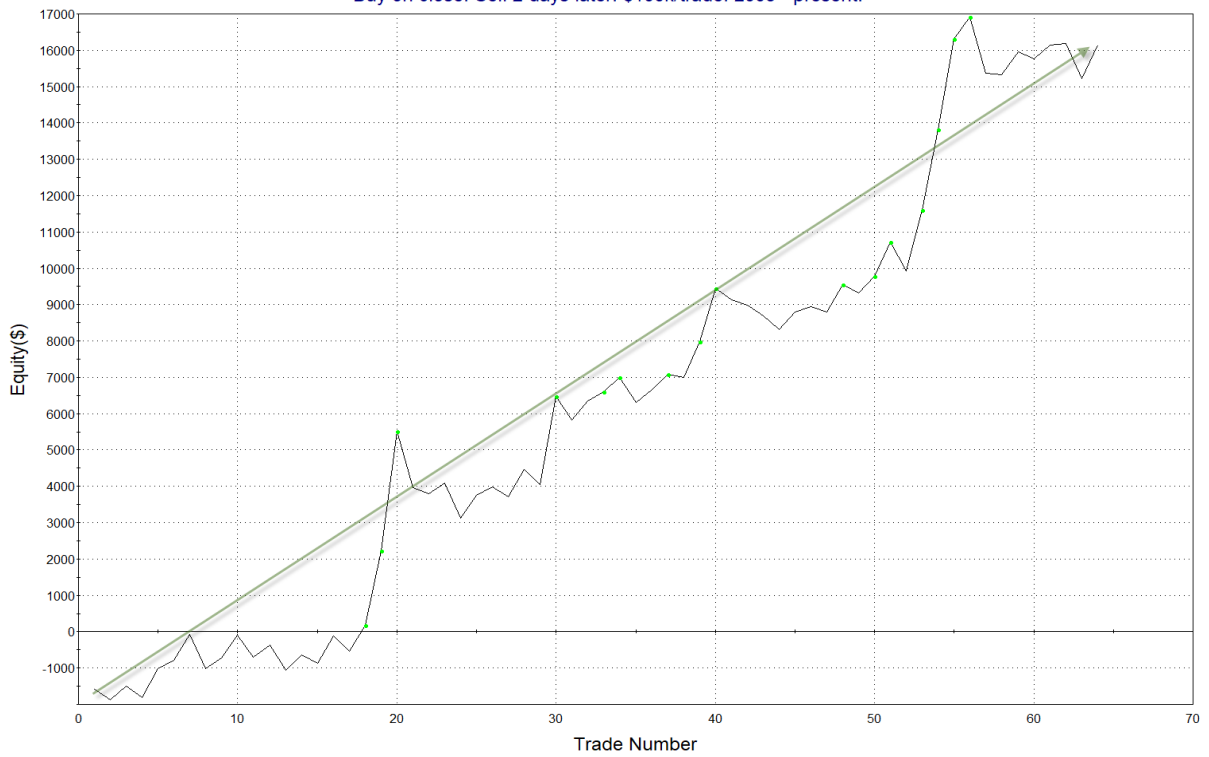
SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range. Buy on close. Sell X days later. \$100k/trade. 2003 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	51,707.00	59	45	14	76.27	4,119.18	-3,210.80	1,638.15	-1,572.11	1.04	3.35	876.39
9	48,434.07	59	44	15	74.58	3,613.36	-3,775.10	1,610.23	-1,494.40	1.08	3.16	820.92
8	45,515.10	60	45	15	75.00	4,483.84	-3,803.24	1,595.03	-1,750.76	0.91	2.73	758.58
7	36,287.24	61	44	17	72.13	3,761.94	-4,159.32	1,458.86	-1,641.33	0.89	2.30	594.87
6	33,759.64	62	44	18	70.97	3,703.30	-3,567.90	1,303.88	-1,311.72	0.99	2.43	544.51
5	19,808.85	62	39	23	62.90	4,377.84	-3,566.84	1,082.23	-973.83	1.11	1.88	319.50
4	13,832.71	64	40	24	62.50	5,024.25	-2,435.84	984.31	-1,064.16	0.92	1.54	216.14
3	11,728.33	64	38	26	59.38	3,368.93	-3,384.50	882.46	-838.66	1.05	1.54	183.26
2	16,146.85	64	37	27	57.81	3,288.48	-1,575.22	839.90	-552.95	1.52	2.08	252.29
1	11,579.11	65	43	22	66.15	2,588.08	-2,471.25	553.36	-555.25	1.00	1.95	178.14

Results here seem to suggest an upside edge. Below are looks at both the 10-day and 2-day curves.

SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range.  
Buy on close. Sell 10 days later. \$100k/trade. 2003 - present.



SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range.  
Buy on close. Sell 2 days later. \$100k/trade. 2003 - present.

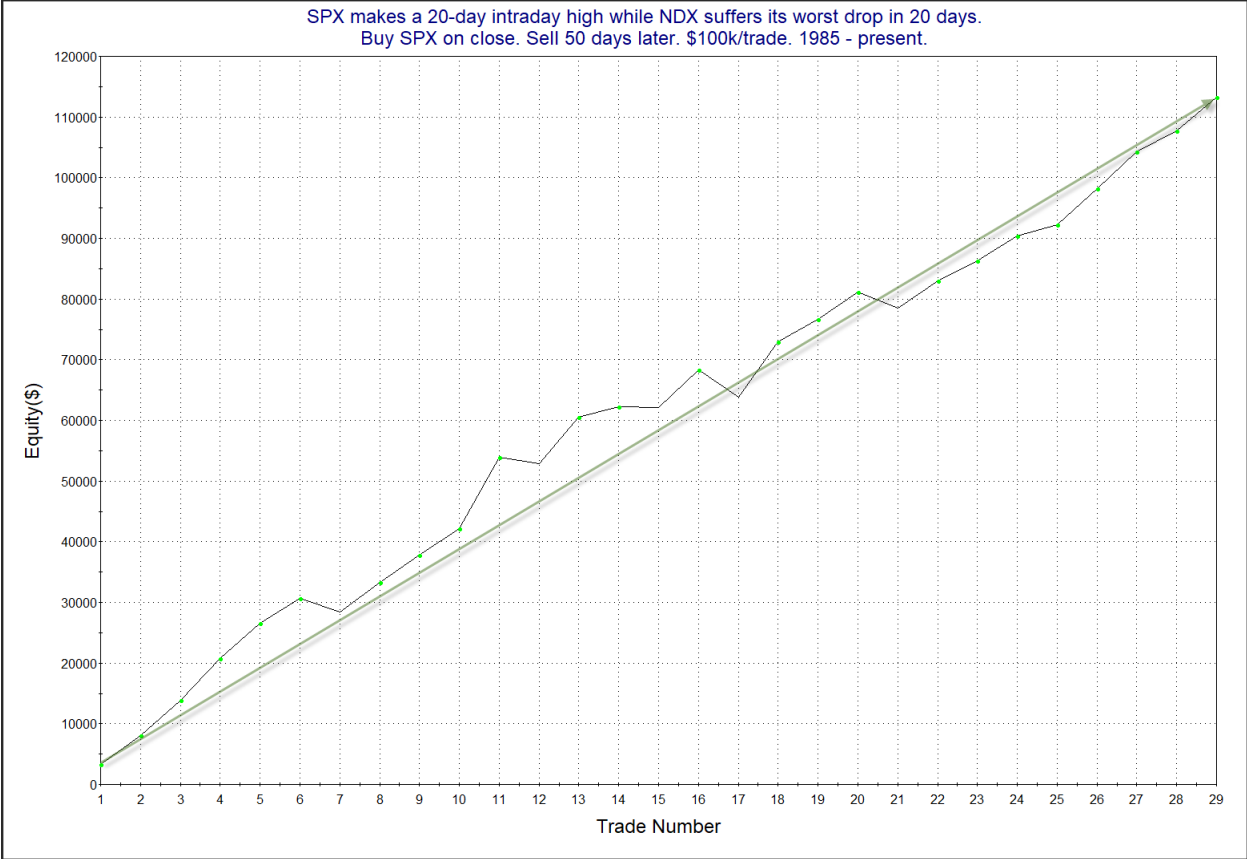


The persistent upslopes appear to confirm the upside edge suggested by the statistics. I have included this study on the short and intermediate-term active lists.

There was also another study that suggested a possible intermediate-term impact. It noted that SPX made a 20-day intraday high on a day where NDX had its worst decline in the last 20 days. I looked at this setup in the 7/24/20 letter, and have updated the results below.

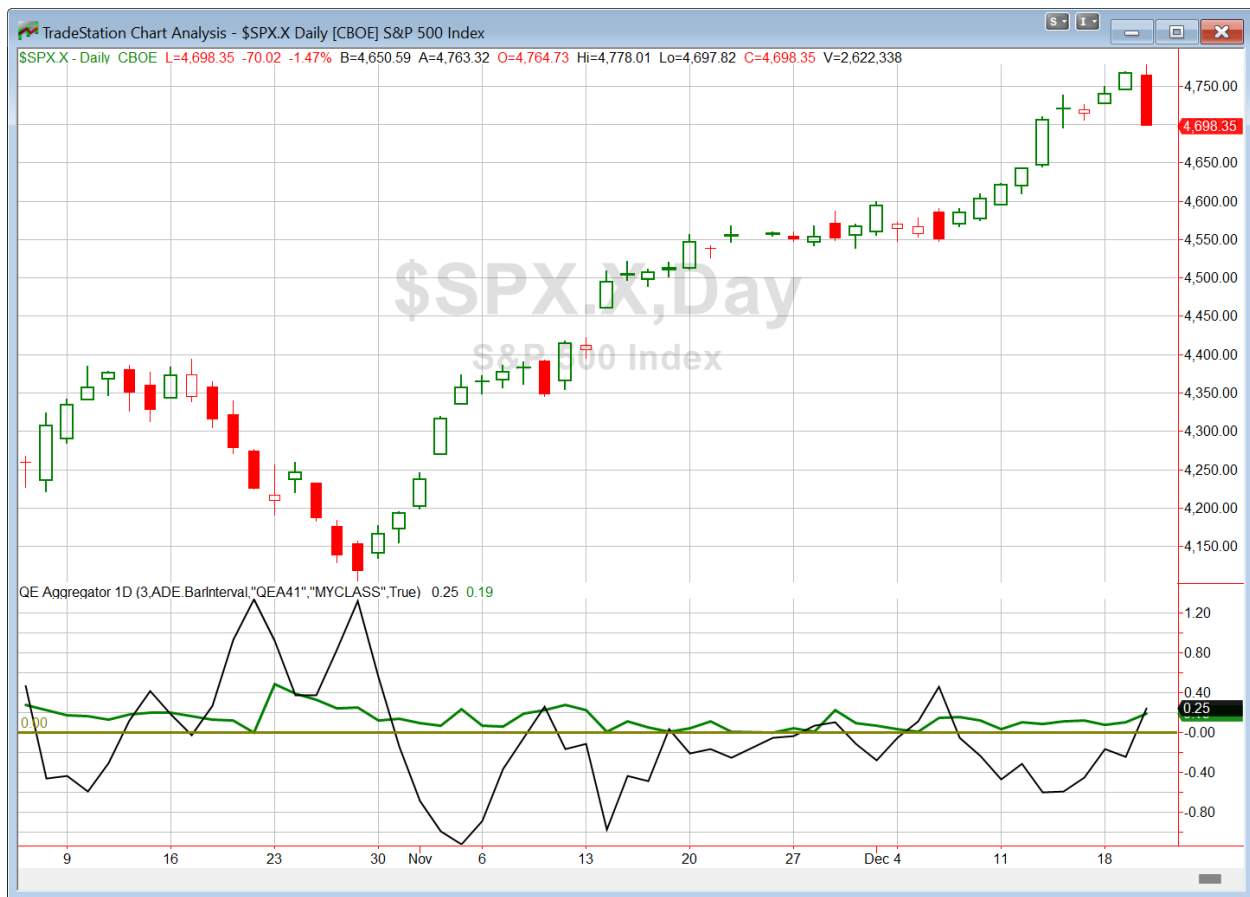
SPX makes a 20-day intraday high while NDX suffers its worst drop in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	113,288.96	29	24	5	82.76	11,736.48	-4,474.24	5,168.91	-2,152.97	2.40	11.52	3,906.52
45	89,931.79	29	23	6	79.31	10,640.84	-5,533.44	4,657.38	-2,864.66	1.63	6.23	3,101.10
40	74,231.01	30	23	7	76.67	9,682.40	-9,804.11	4,235.22	-3,311.29	1.28	4.20	2,474.37
35	61,430.24	31	22	9	70.97	8,919.96	-5,508.07	3,990.43	-2,928.81	1.36	3.33	1,981.62
30	60,421.09	31	23	8	74.19	9,146.60	-9,849.67	4,119.01	-4,289.51	0.96	2.76	1,949.07
25	56,453.51	33	24	9	72.73	7,466.70	-9,670.78	3,689.92	-3,567.17	1.03	2.76	1,710.71
20	46,363.99	33	24	9	72.73	7,296.33	-5,098.24	2,883.69	-2,538.29	1.14	3.03	1,404.97
15	42,430.94	33	25	8	75.76	7,393.84	-3,229.81	2,238.70	-1,692.07	1.32	4.13	1,285.79
10	28,738.93	34	24	10	70.59	4,119.18	-2,561.28	1,555.21	-858.62	1.81	4.35	845.26
5	13,750.05	35	21	14	60.00	4,189.92	-2,618.20	1,189.19	-801.64	1.48	2.23	392.86

The numbers here look impressive over the intermediate-term. Below is a look at the 50-day profit curve.



The curve does not disappoint, since it is a straight shot from lower left to upper right. I have added this study to the intermediate-term active 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 rose 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 turned long at the close.

Based on the current active studies, expectations are set to remain positive on Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4754.10 on Thursday. That is 1.2% above Wednesday's close. Therefore, SPX will need to close up at least 1.2% on Thursday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is now long. Wednesday's reversal does not appear to be a negative based on the evidence we are seeing tonight. And we are entering a very strong seasonal period for the market. With plenty of room before SPX would flip to overbought, I like reward/risk right here. I don't often like buying into a pullback so quickly. But the setup seems solid enough that I will start to scale in with a small index position if I can get a decent fill on Thursday.

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

**SPY – Buy ¼ index position @ \$468.25 LIMIT.** Based on the short-term outlook above, I will look to start scaling into a position on Thursday if I can get filled anywhere below Wednesday's close.

## **Current Open Trade Ideas**

**None**

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