

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 26, 2023

Volume 16 Issue 246

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The bounce appears that it has further to go, based on action over the last 3 days.
- Wed-Fri this week look strong seasonally.
- Lots of intermediate-term evidence from the last few weeks is pointing higher.
- The SOMA declined again this past week, but the tone of the Fed is more dovish than much of the last few years.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. But the Differential Pivot is inverted. In other words, upside potential is fairly limited. So the bullish edge is quite mild.

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 26, 2023	SPX up 2 days < 3 ago	1-2 days	Bullish			
December 21, 2023	SPX up yest. Outside day dn 1% > 200	1-4 days	Bullish			
December 21, 2023	Twas 3 night before Christmas	1-8 days	Bullish			
December 18, 2023	SPX > Bolling Band 4 days in a row	1-7 days	Bullish	1.55%	-0.90%	-1.75%
Active - Long Term						
December 21, 2023	SPX 20-day intra high. NDX worst dn in 20	1-50 days	Bullish			
December 21, 2023	SPX 20-day intra high. Close btm 10% rng	1-10 days	Bullish			
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			

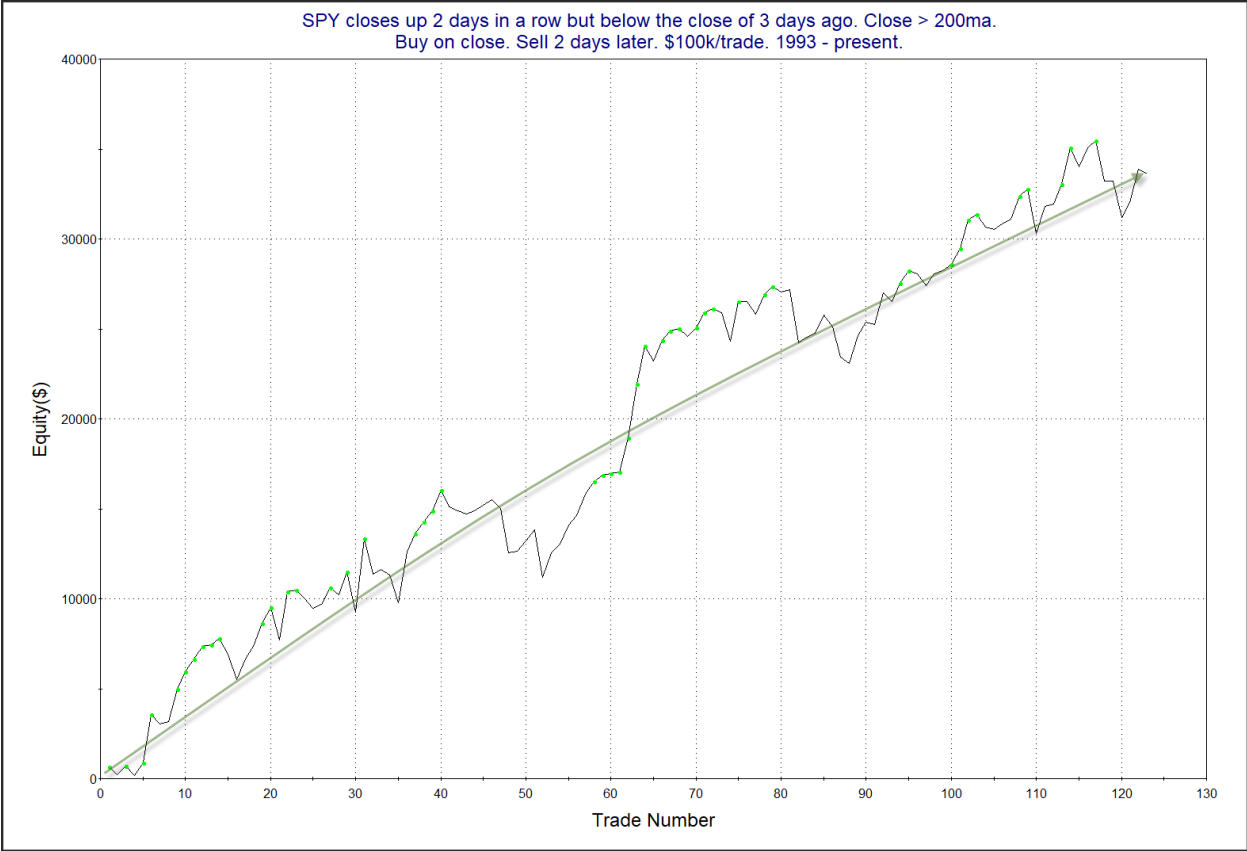
The Evidence

Friday saw moderate gains. The SPX rose 0.2%, the NASDAQ gained 0.2%, and the Russell 2000 climbed 0.8%. Breadth was strong with the NYSE Up Issues % coming in at 67% and the Up Volume % at 67%. NYSE total volume came in light ahead of the long holiday weekend.

One way to look at the bounce over the last couple of days is noting that the rally failed to close above the close of 3 days ago. In other words, the last 2 days have failed to make up for the losses of the 1-day drop on Thursday. This triggered the below study from the 11/15/21 letter.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	26,229.90	120	71	48	59.17	4,717.70	-6,549.84	1,457.88	-1,609.98	0.91	1.34	218.58
4	36,672.99	122	81	41	66.39	4,698.60	-4,384.89	1,250.90	-1,576.83	0.79	1.57	300.60
3	29,296.26	123	77	46	62.60	3,000.00	-4,092.24	1,127.08	-1,249.76	0.90	1.51	238.18
2	33,606.54	123	81	42	65.85	4,088.25	-2,932.22	910.64	-956.09	0.95	1.84	273.22
1	17,584.38	123	71	50	57.72	3,732.75	-1,777.90	673.99	-605.38	1.11	1.58	142.96

This suggests a 2-day upside edge. Let's check the curve for confirmation.



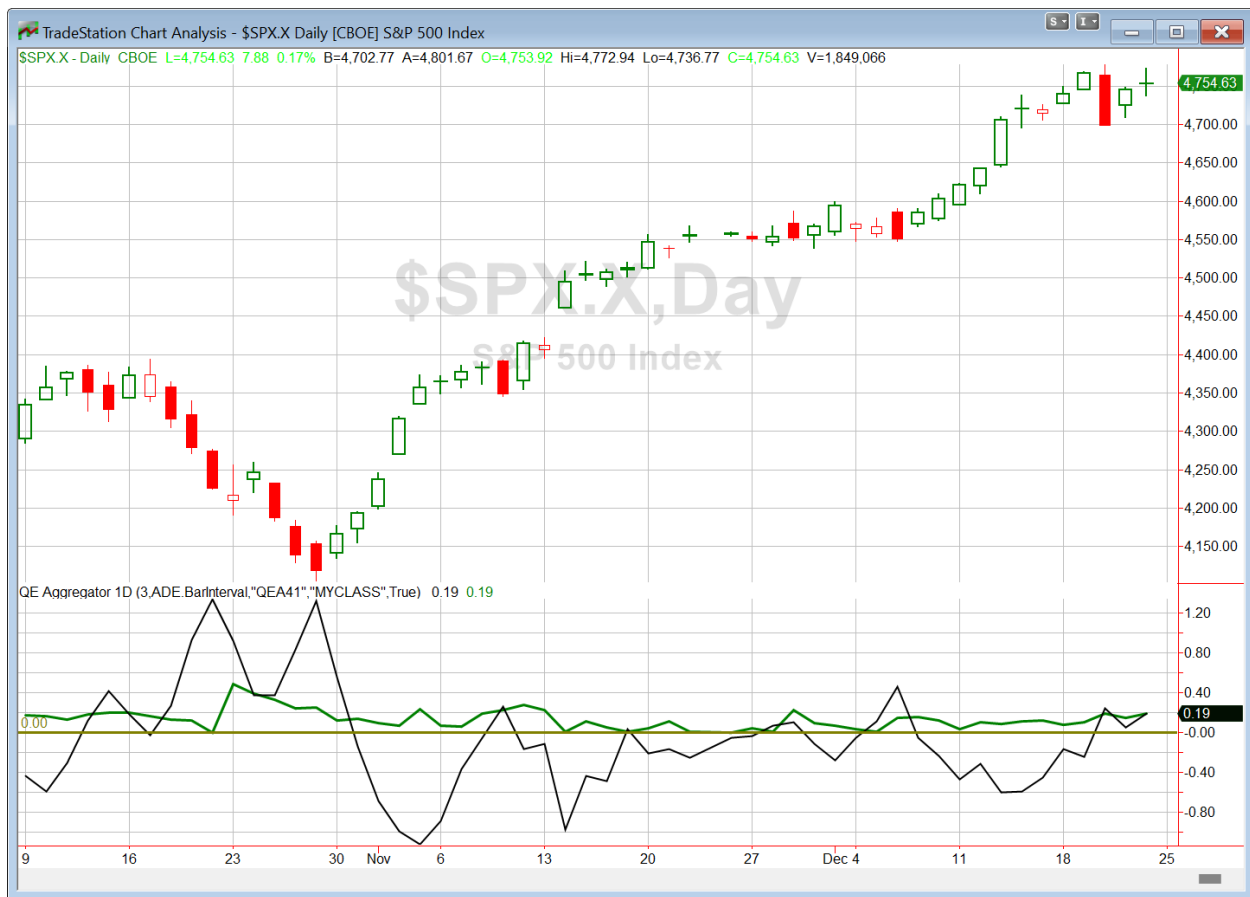
This is an appealing curve. I have added this study to the active list.

Below is a look at the QE Seasonality Calendar for this upcoming week.

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

Tuesday looks fairly weak but Wed-Fri are strong.

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



With this weekend'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 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. This is unlikely to change. Meanwhile, the Differential Pivot will be *inverted* at 4715.48 on Tuesday. That is 0.8% *below* Friday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down at least 0.8% in order to remain oversold vs recent expectations. Anything other than that, and it will flip to overbought vs recent expectations as of Tuesday's close.

So the Aggregator is still long. But I generally view inverted pivots as times to take profits, rather than enter new positions. This is because upside potential is limited and reward/risk is not terribly favorable. Unfortunately, I did not get a fill on the index trade ideas from the last couple of letters. Since there are no profits to take right now, I will just be sitting tight on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/26– *bullish*

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

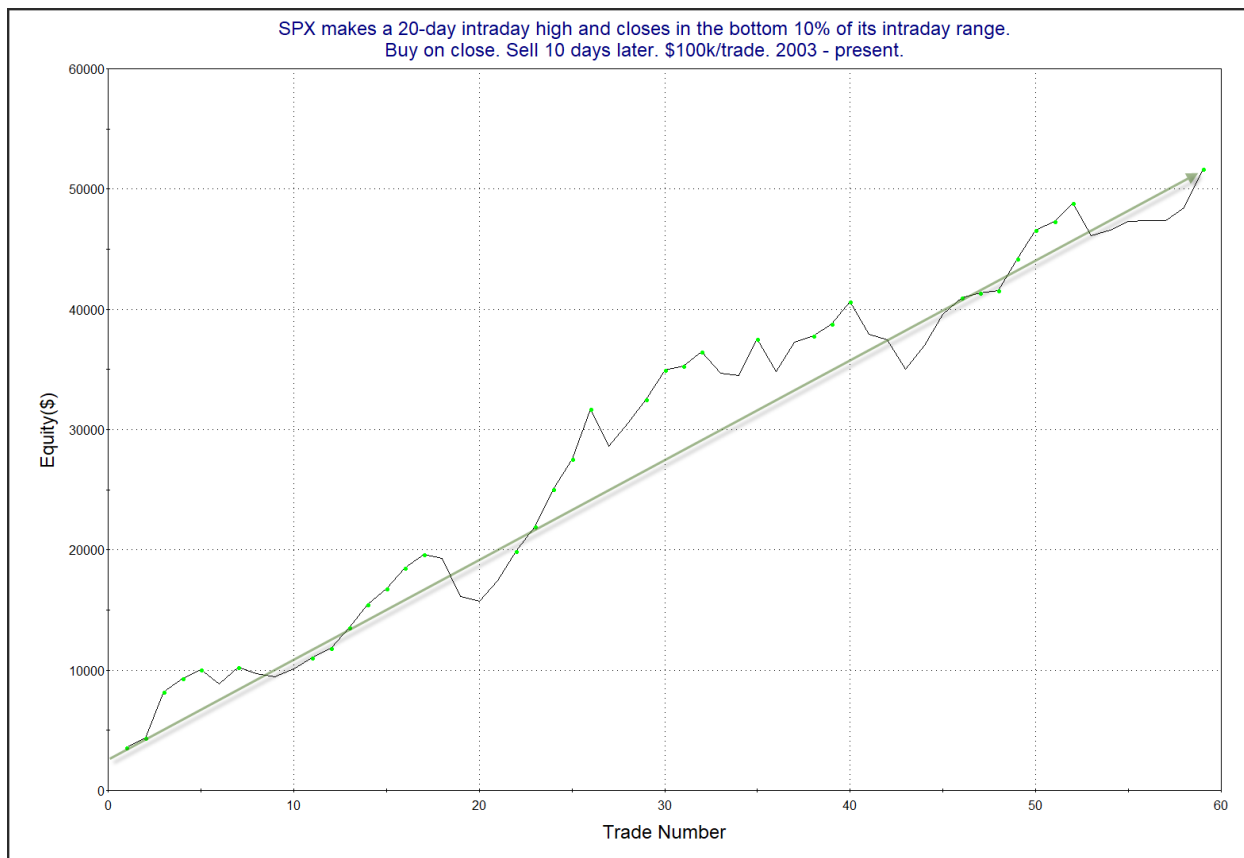
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable 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 8th week in a row and the other indices all posted gains as well. The SPX rallied 0.75%, the NASDAQ rose 1.2%, and the Russell 2000 jumped 2.5%. Bonds were mixed. The US Aggregate Bond ETF (AGG) posted a gain of 0.1%. TLT, the 20-year Treasury Bond ETF, fell 0.7%. SPX and NASDAQ are at new highs for 2023 and approaching all-time highs. The Russell also made new 2023 highs this past week. There were a couple of studies that triggered on Wednesday with intermediate-term implications that I have copied below.

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...



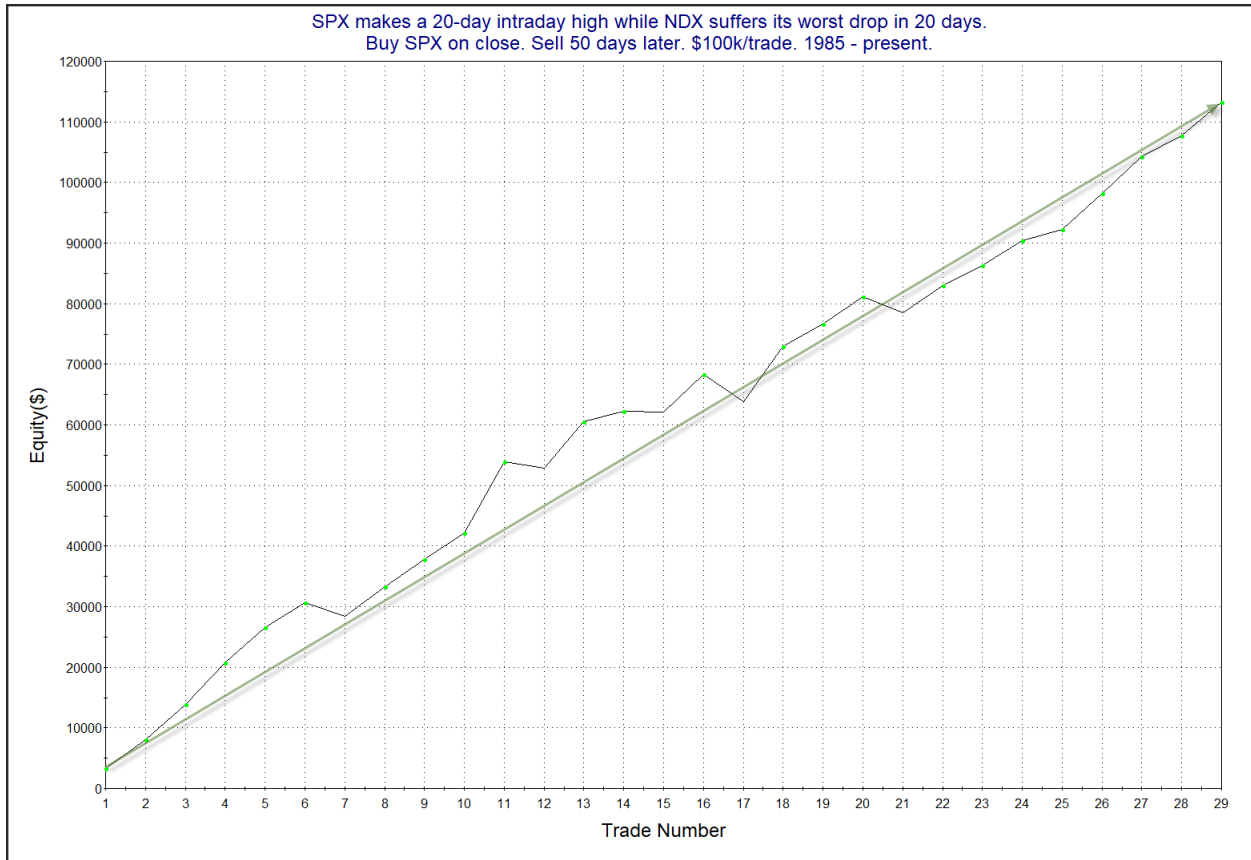
The persistent upslopes appear to confirm the upside edge suggested by the statistics. I have included this study on the short and intermediate-term active lists.

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.



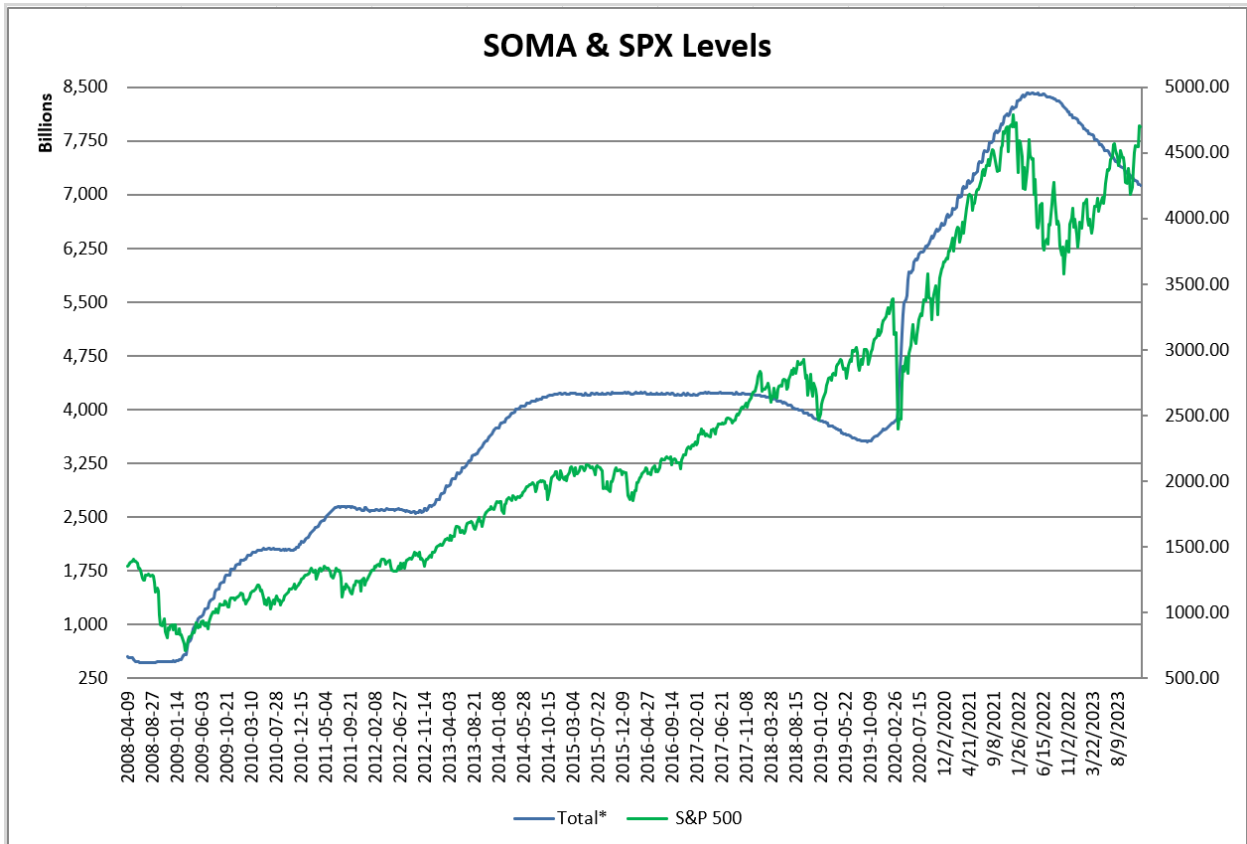
The curve does not disappoint, since it is a straight shot from lower left to upper right. I have added this study to the intermediate-term active list.

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

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	224,094,682.1
US Treasury Notes and Bonds (Notes/Bonds)	4,077,017,769.8
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***	2,435,227,097.0
Agency Commercial Mortgage-Backed Securities***	8,265,400.7
Total SOMA Holdings	7,124,193,284.6
Change From Prior Week	-20,772,345.8

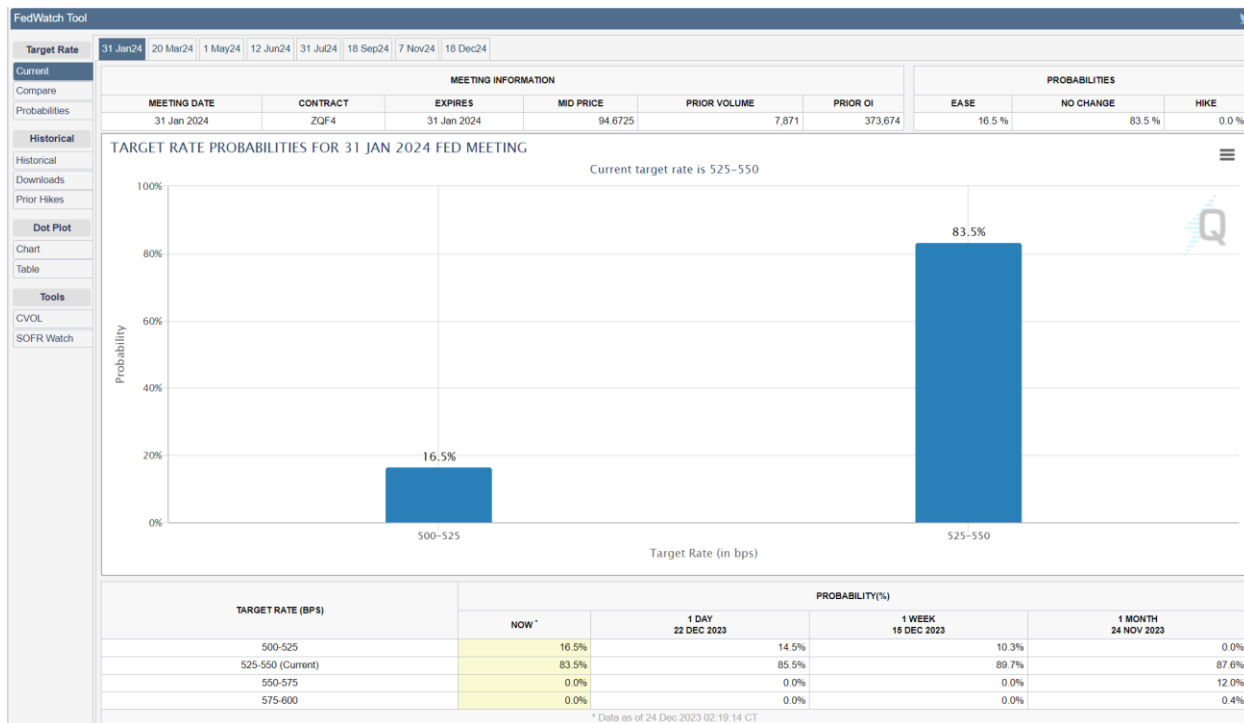
As expected, the SOMA declined a very large \$21 billion this past week. This upcoming week we should see a substantially smaller decline. Below is an updated SOMA/SPX chart looking back to 2008.



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 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 took a more dovish tone at its December meeting. Indications are that the rate hike cycle has likely peaked. The next move, whenever it comes, will likely be lower. The Fed and the market are suggesting the worst of the inflation issue is behind us. So overall, the Fed outlook is more dovish than it has been in the last year and a half. But there will still be a QT wind to deal with for the time being.

With regards to rates, odds are now showing an 83.5% chance that the Fed holds rates steady in January and a 16.5% 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 turning 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

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Capital Advisors 360. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter from QE at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2023 Quantifiable Edges, LLC.