

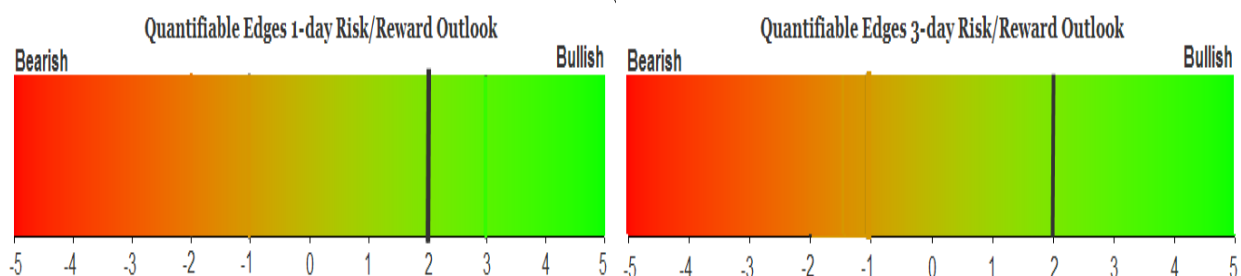
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 2, 2024

Volume 17 Issue 1

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- Turn of month bullish is more likely when SPY closes poorly on the last day of the month.
- January seasonality numbers look solid.
- The SOMA continues to shrink rapidly, acting as a potential headwind for the market.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing to a bounce, and the market quickly turned oversold. There appears to be a moderate upside edge over the next few days.

*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>						
January 2, 2024	5 up to 50-high then down.	1-10 days	Bullish	1.10%	-0.80%	-1.60%
December 21, 2023	Twas 3 night before Christmas	1-8 days	Bullish			
<b>Active - Long Term</b>						
January 2, 2024	5 up to 50-high then down.	1-10 days	Bullish	1.80%	-1.10%	-2.30%
December 27, 2023	%SPX > 50 moves frm 15% > 90% in 50 dys	1-6 months	Bullish			
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 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			

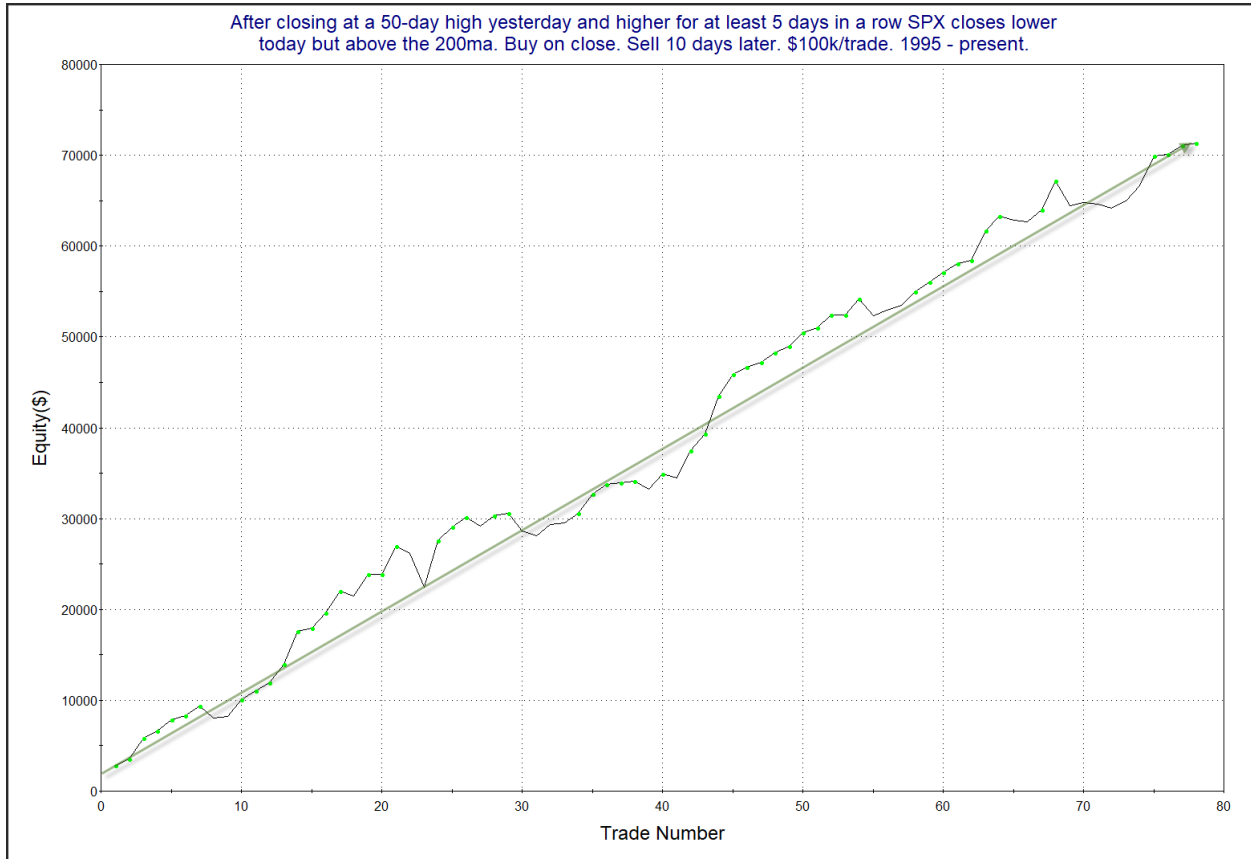
**The Evidence**

The market sold ff a little on the last day of the year. The SPX closed down 0.3%, the NASDAQ declined 0.6%, and the Russell 2000 lost 1.5%. Breadth was weak with the NYSE Up Issues % coming in at 28% and the Up Volume % at 22%. NYSE total volume rose some from Thursday’s level.

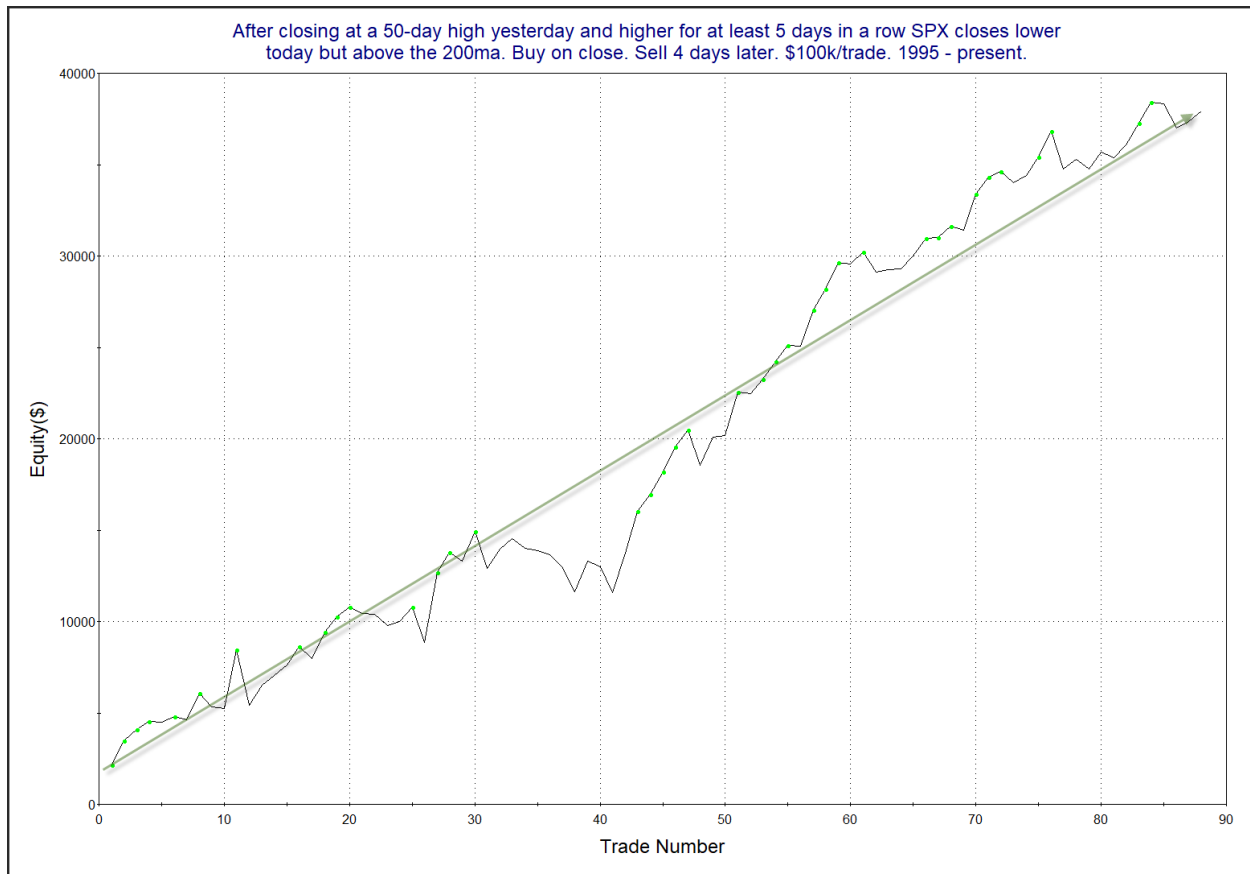
One compelling study that triggered Friday suggested the recent persistent upmove is unlikely to abruptly end. It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It has triggered a few times recently, and was last seen in the 12/18/23 Letter. 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	68,470.78	82	65	17	79.27	5,023.20	-4,151.40	1,397.81	-1,316.87	1.06	4.06	835.01
8	57,719.06	83	58	25	69.88	4,878.08	-4,874.10	1,498.53	-1,167.82	1.28	2.98	695.41
7	46,141.74	86	60	26	69.77	3,874.76	-4,511.36	1,306.83	-1,241.09	1.05	2.43	536.53
6	46,818.82	88	64	24	72.73	4,307.20	-3,637.71	1,180.25	-1,196.55	0.99	2.63	532.03
5	35,334.90	88	60	28	68.18	4,252.50	-4,717.16	1,044.57	-976.41	1.07	2.29	401.53
4	37,940.96	88	57	31	64.77	3,843.00	-3,003.39	1,072.13	-747.43	1.43	2.64	431.15
3	21,553.10	88	54	34	61.36	2,472.85	-1,992.34	832.66	-688.54	1.21	1.92	244.92
2	22,666.41	88	58	30	65.91	2,437.50	-2,614.95	762.46	-718.55	1.06	2.05	257.57
1	13,285.37	88	56	31	63.64	1,751.19	-1,744.10	511.81	-496.00	1.03	1.86	150.97

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.



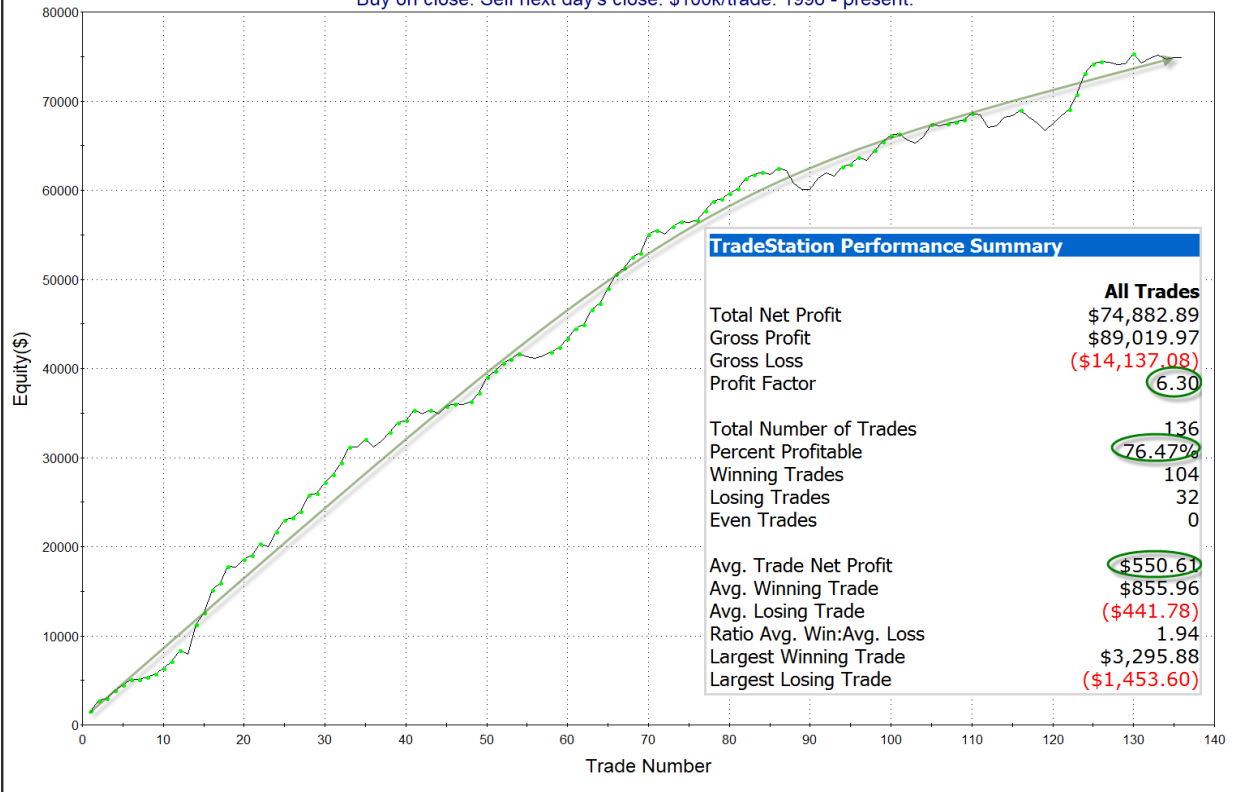
The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



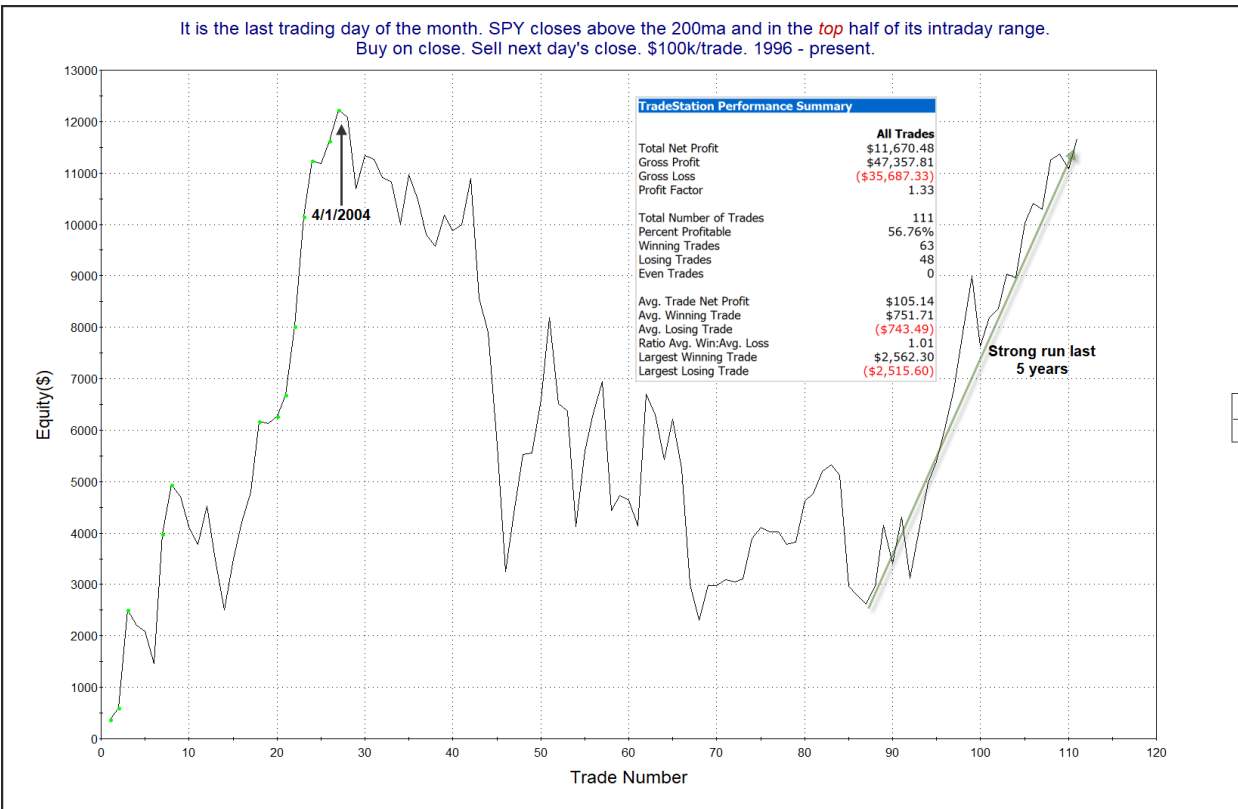
Results are a little choppier. But even with more whipsaws this curve has worked its way from lower left to upper right and is back near new highs. The study appears worthy of consideration. I have again included it on both the short-term and intermediate-term active lists.

The 1<sup>st</sup> trading day of the month tends to be a bullish day for the market. But like some other seasonal tendencies, it tends to do better when there is some weakness in the afternoon of the day before. This can be seen in the studies below. They compare the 1<sup>st</sup> day of the month performance (with SPY in an uptrend) when SPY has closed in the top or bottom half of its intraday range the day before. On Friday, SPY managed to close in the top half of its intraday range, but just barely (54<sup>th</sup> percentile).

It is the last trading day of the month. SPY closes above the 200ma and in the *bottom* half of its intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.



It is the last trading day of the month. SPY closes above the 200ma and in the *top* half of its intraday range.  
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.



The current setup is the bottom chart, which is not nearly as appealing. There has been a nice run over the last 5 years, so perhaps Tuesday will have a bit of a seasonal wind behind it, but I don't find the chart and numbers compelling enough to warrant inclusion on the active list.

Speaking of seasonal tendencies, I produced and posted the QE Seasonality Calendars for January this weekend. Below is the SPX calendar.

<b>Quantifiable Edges Seasonality Calendar</b>				
<b>\$SPX S&amp;P 500 Index</b>				
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>	
1/2/2024	52.62	1.286	0.057	
1/3/2024	51.76	1.205	0.056	
<b>1/4/2024</b>	<b>49.15</b>	<b>0.998</b>	<b>0.000</b>	
1/5/2024	52.46	1.110	0.036	
1/8/2024	55.88	1.063	0.005	
1/9/2024	54.45	1.215	0.060	
1/10/2024	57.68	1.257	0.058	
1/11/2024	58.51	1.222	0.041	
1/12/2024	60.89	1.569	0.126	
1/16/2024	50.71	1.342	0.084	
1/17/2024	49.60	1.010	0.004	
<b>1/18/2024</b>	<b>48.48</b>	<b>0.966</b>	<b>-0.012</b>	
<b>1/19/2024</b>	<b>48.39</b>	<b>0.916</b>	<b>-0.030</b>	
1/22/2024	54.17	1.114	0.035	
1/23/2024	53.12	1.101	0.032	
1/24/2024	54.14	1.179	0.056	
1/25/2024	56.13	1.233	0.071	
1/26/2024	53.90	1.004	0.000	
1/29/2024	54.30	1.108	0.037	
1/30/2024	53.25	1.095	0.034	
1/31/2024	51.78	1.172	0.057	
<b>Baseline</b>	<b>53.73</b>	<b>1.130</b>	<b>0.044</b>	

In general, the numbers look fairly strong. This upcoming Thursday looks negative and then the week of MLK Day there is also some poor seasonality. Other than that, we see a good amount of green.

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 moved 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 Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4807.82 on Tuesday. That is 0.8% above Friday's close. Therefore, SPX will need to close up at least 0.8% on Tuesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is now bullish. We have a little bit of short-term evidence suggesting an upside edge over the next few days. And there is some room to the upside before SPX would turn overbought. So the bulls seem to have a decent chance over the next few days. It really is not much of a pullback at this point. So I am not overly excited about buying into the market right here. But I will look to take on a small starter position if SPX closes down again on Tuesday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 1/2/2024 – *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. 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 9<sup>th</sup> week in a row, with the other indices mixed. The SPX rose 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 lost 0.3%. Bonds rose. The US Aggregate Bond ETF (AGG) posted a gain of 0.4%. TLT, the 20-year Treasury Bond ETF, also rose 0.4%. SPX and NASDAQ again made new highs for 2023 and are approaching all-time highs. In addition to the study shown in the short-term section above, there was a breadth thrust study that I discussed in Tuesday night's letter. I have copied it below.

*I will note that the strong breadth we have seen of late caused the percent of S&P 500 stocks trading above their 50ma to spike above 90% recently. This actually occurred last Tuesday (but I did not notice it). The % of SPX stocks above the 50ma was under 15% as recently as October 30<sup>th</sup>. Below is an updated study from last December that looks at similar breadth turnarounds.*

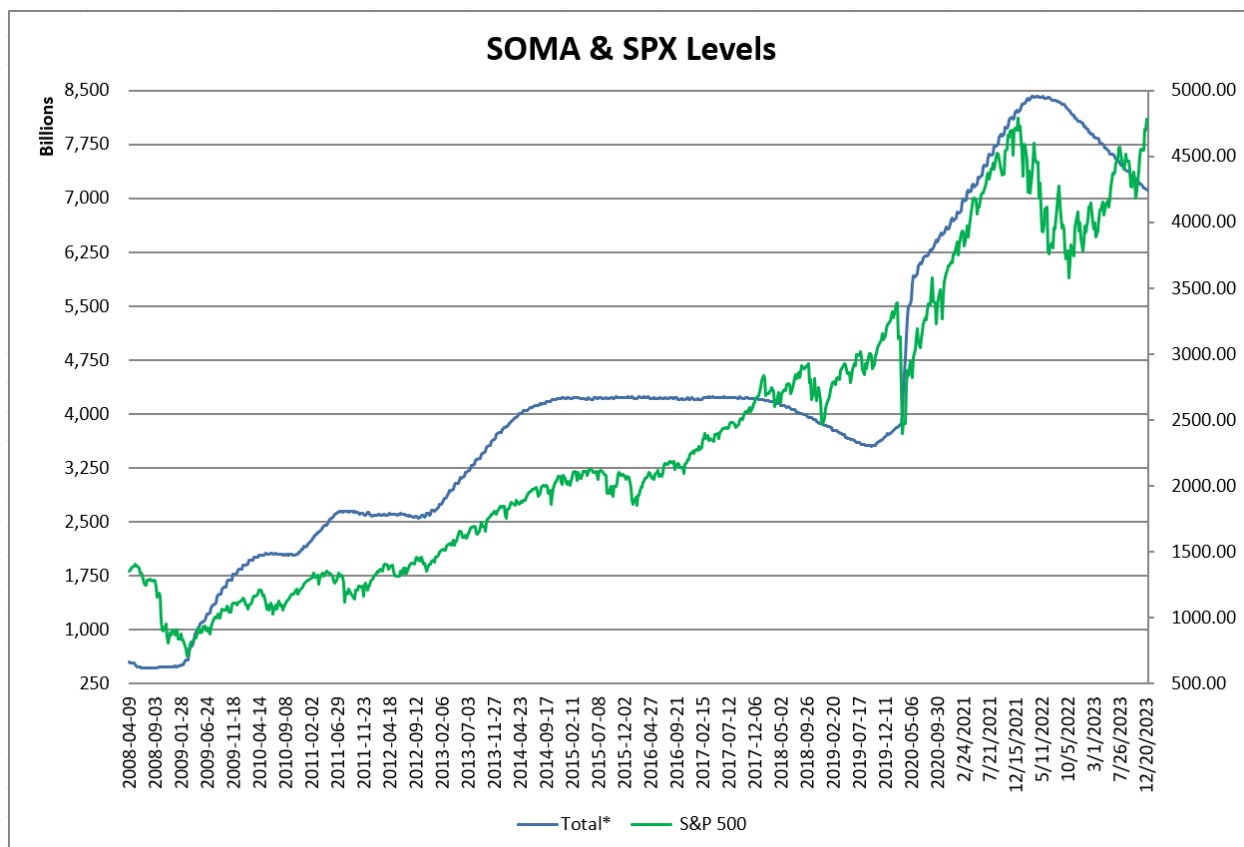
The % of SPX constituents above their 50ma moves from <= 15% to >= 90% within 50 trading days. SPX forward returns shown. 1957 - present. (21 days = approx. 1 month.)									
Ticker	Date/Time	SPX Close	5-Day %Chg	10-Day %Chg	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg
\$\$SPX	11/23/1962	61.54	1.17	2.47	1.77	6.84	6.37	13.78	13.11
\$\$SPX	9/4/1970	82.83	-0.92	-1.11	4.85	1.88	8	19.98	21.56
\$\$SPX	12/29/1971	102.21	0.83	1.35	1.26	3.89	4.85	5.05	14.4
\$\$SPX	1/27/1975	75.37	3.25	3.97	6.63	11.25	14.41	17.67	32.25
\$\$SPX	5/23/1980	110.62	0.13	2.79	4.09	10.1	13.92	25.75	20.02
\$\$SPX	8/26/1982	118.55	1.47	2.04	4.28	13.44	12.93	26.19	36.02
\$\$SPX	11/22/1985	201.52	-0.53	1.35	2.79	2.44	11.05	21.45	22
\$\$SPX	1/7/1988	261.07	-5.82	-6.87	-3.87	3.2	1.95	4.1	7.25
\$\$SPX	1/18/1989	286.53	0.91	3.69	2.89	1.18	7.2	17.17	17.75
\$\$SPX	6/9/1997	862.91	3.59	1.82	5.17	10.23	7.91	14.01	29.61
\$\$SPX	11/5/1998	1133.68	-1.37	1.67	4.77	12	9.71	18.23	20.87
\$\$SPX	5/5/2003	926.55	2	-0.62	6.44	6.38	6.07	13.4	20.83
\$\$SPX	4/17/2009	869.6	-0.39	0.91	4.61	4.73	8.14	26.1	37.71
\$\$SPX	10/24/2011	1254.19	-0.07	0.55	-5.27	-0.02	5.73	10.88	12.67
\$\$SPX	3/16/2016	2027.22	0.47	1.6	2.64	1.95	2.18	4.86	17.47
\$\$SPX	2/15/2019	2775.6	0.74	0.62	2.05	4.5	3.02	4.07	21.43
\$\$SPX	5/26/2020	2991.77	2.98	7.2	1.96	7.48	14.69	18.91	39.99
\$\$SPX	8/12/2022	4280.15	-1.21	-5.2	-8.12	-16.43	-7.56	-3.34	3.68
\$\$SPX	11/30/2022	4080.11	-3.58	-2.08	-5.9	0.96	-0.84	4.96	12.61
\$\$SPX	12/19/2023	4768.37							
		Average	0.19	0.85	1.74	4.53	6.83	13.85	21.12
		Median	0.47	1.35	2.79	4.50	7.20	14.01	20.83
Data from Norgate Data		% Wins	58%	74%	79%	89%	89%	95%	100%

*Past instances of such a broad thrusts have generally shown strong follow through. This appears to show compelling evidence for the intermediate-term bullish case. 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	
<a href="#">◀ Previous</a>	<b>December 27, 2023</b> 
<small>Posted December 28, 2023 at 4:30 PM</small>	
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span style="background-color: #333; color: white; padding: 2px 5px; font-weight: bold;">SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	222,354,473.1
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***	2,423,545,109.0
Agency Commercial Mortgage-Backed Securities***	8,227,833.4
Total SOMA Holdings	7,110,733,520.3
Change From Prior Week	-13,459,764.3

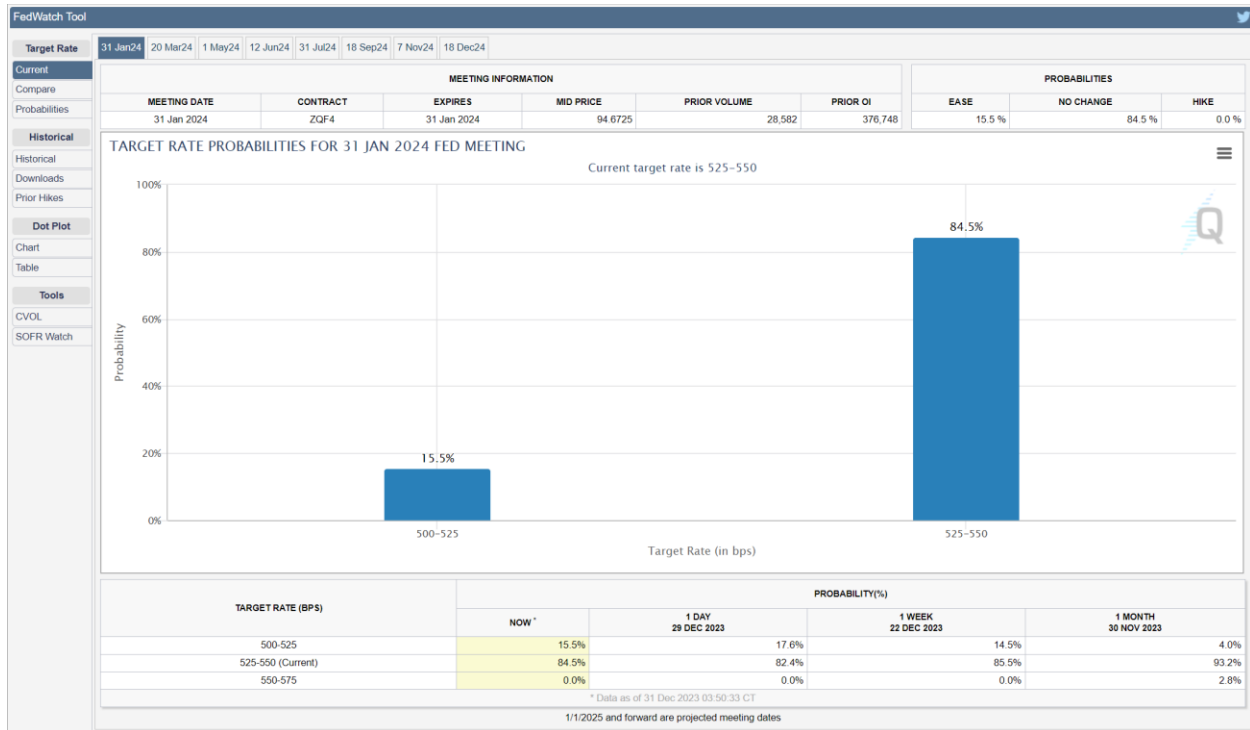
The SOMA declined about \$13.5 billion this past week. This upcoming week we should see an even larger decline. Below is an updated SOMA/SPX chart looking back to 2008.



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. Despite the strong rally over the last couple of months, 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 has taken a more dovish tone recently. 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 84.5% chance that the Fed holds rates steady in January and a 15.5% chance that there is a CUT. That is very close to the readings we saw last week as well. 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. I am not seeing anything suggesting a highly probable intermediate-term selloff. 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 I am again 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.*

**SPY – Buy ¼ index position @ \$475.30 LIMIT ON CLOSE.** Based on the short-term outlook above, I will start scaling into a small long position on Tuesday if we see SPY close lower.

## **Current Open Trade Ideas**

None

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