

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 16, 2024

Volume 17 Issue 10

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	4

## Tonight's Research Points

- The market could be facing a seasonal headwind this upcoming week.
- The Russell has lagged over the last month, but that does not appear to be a problem for SPX going forward.
- The NASDAQ re-took the lead after only one week lagging. This is a bullish development.
- The SOMA shrank a small amount this past week. The current week should see a much more substantial decline.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is short, but evidence is light and the market can easily flip from overbought to oversold on Tuesday. An attempt at shorting here seems risky and potential reward seems small.

**Summary of Current Active Studies (see Letters from listed dates for details)**

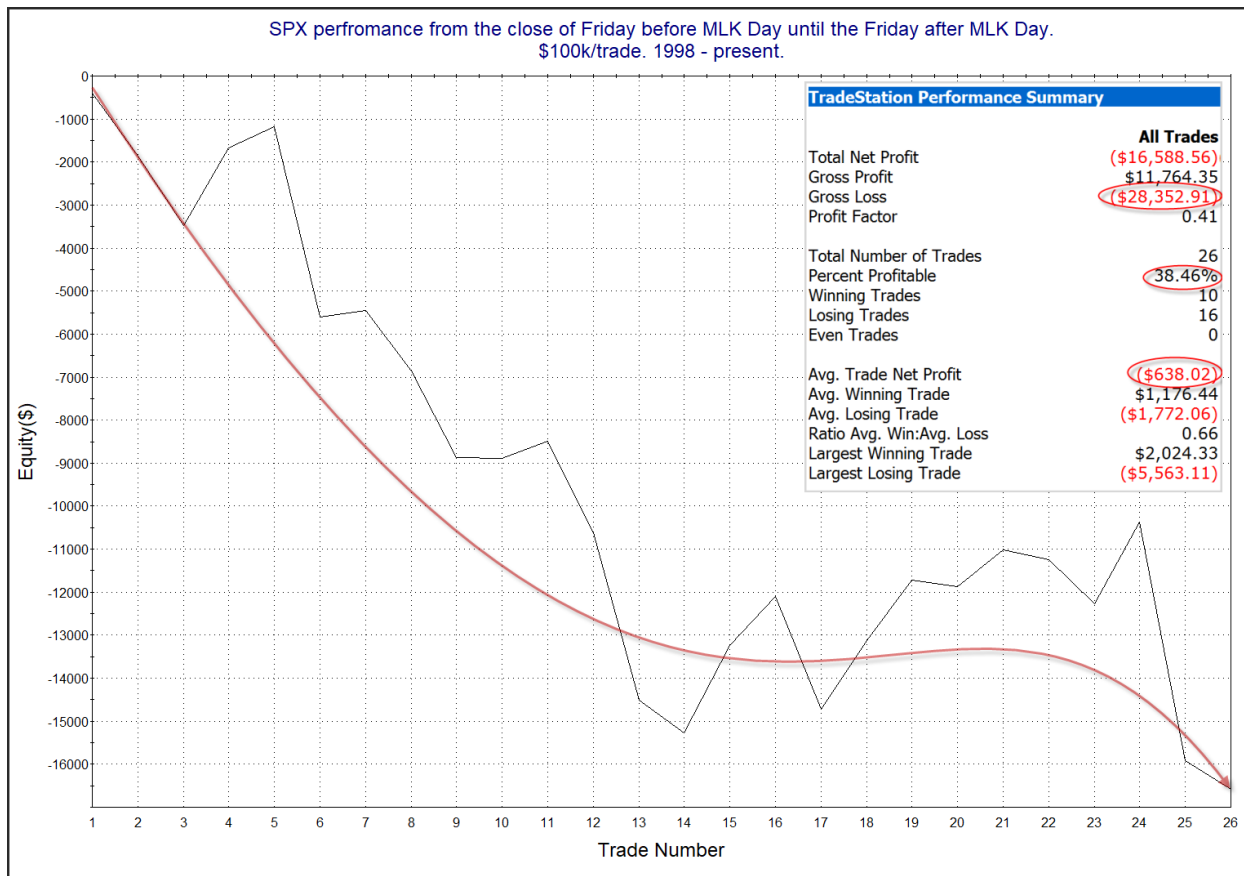
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 16, 2024	MLK/Jan Opex bearish tendency	1-4 days	Bearish	-2.20%	0.80%	1.70%
<b>Active - Long Term</b>						
January 16, 2024	NASDAQ Leading	int term	Bullish			
January 16, 2024	RUT btm 25% 20-day rng. SPX top 25%	1-40 days	Bullish	5.20%	-3.40%	-6.70%
January 8, 2024	CBI 11+	1-20 days	Bullish	5.90%	-4.30%	-9.65%
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 18, 2023	Dow up 7 days in a row	1-19 days	Bullish	3.30%	-1.50%	-2.70%
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			
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 another mixed day with mild changes. The SPX closed up 0.1%, the NASDAQ rose 0.02%, and the Russell 2000 dropped 0.2%. Breadth was also mixed with the NYSE Up Issues % coming in at 55% and the Up Volume % at 47%. NYSE total volume declined some from Thursday's level.

Price action has not been inspiring compelling studies the last few days. It is notable that we are heading into a potential weak seasonal period this upcoming week. I discussed this in Thursday night's letter. I have copied that commentary below.

*For the 1<sup>st</sup> 14 years of MLK week (MLK was first observed as a market holiday in 1998) the SPX seemed to struggle consistently. More recently, there has been a lot of chop. This can be seen in the study below, which is updated from the 1/17/23 letter.*

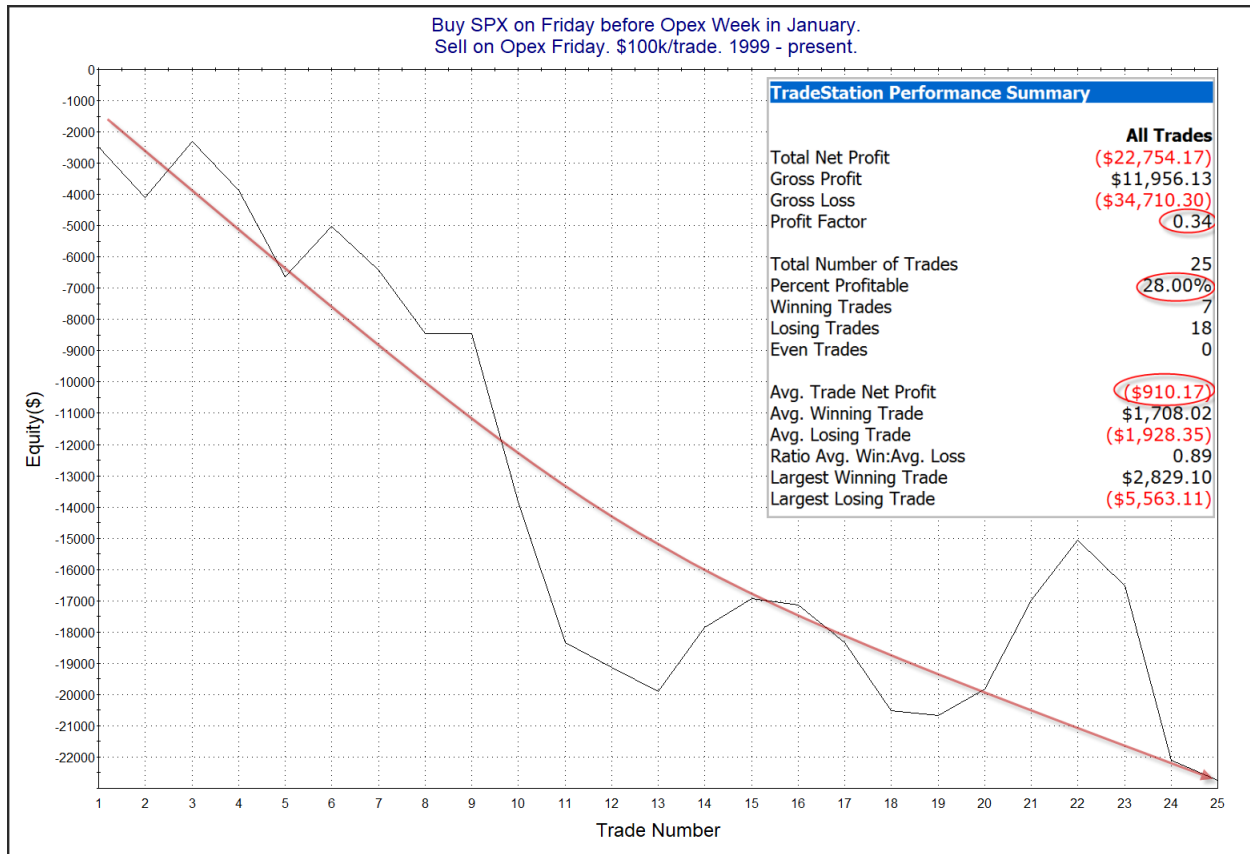


The move lower seemed to abruptly end after the first 14 years, but the last 2 years suggest perhaps the downward bias may be reasserting itself. I've shown similar studies that look at January options expiration (opex) week. The reason they are similar is that January opex week and MLK week often overlap. This is the case next week. So let's look at January opex week performance since 1999.

Buy SPX on Friday before Opex Week in January.  
Sell X days later. \$100k/trade. 1999 - 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	-23,501.97	25	8	17	32.00	2,829.10	-5,383.93	1,667.60	-2,167.22	0.77	0.36	-940.08
4	-22,632.24	25	9	16	36.00	2,024.33	-5,563.11	1,079.44	-2,021.70	0.53	0.30	-905.29
3	-19,822.56	25	9	16	36.00	2,206.50	-5,345.76	804.76	-1,691.59	0.48	0.27	-792.90
2	-10,501.70	25	10	15	40.00	1,459.15	-2,775.24	530.11	-1,053.52	0.50	0.34	-420.07
1	-6,233.92	25	10	15	40.00	1,080.62	-2,250.08	464.27	-725.11	0.64	0.43	-249.36

Numbers in the stats table appear somewhat bearish. Note that most years the week is 4 days long, while some years the week is 5 days long. Below is a look at opex week performance for holding the full week, regardless of whether it was 4 or 5 days.



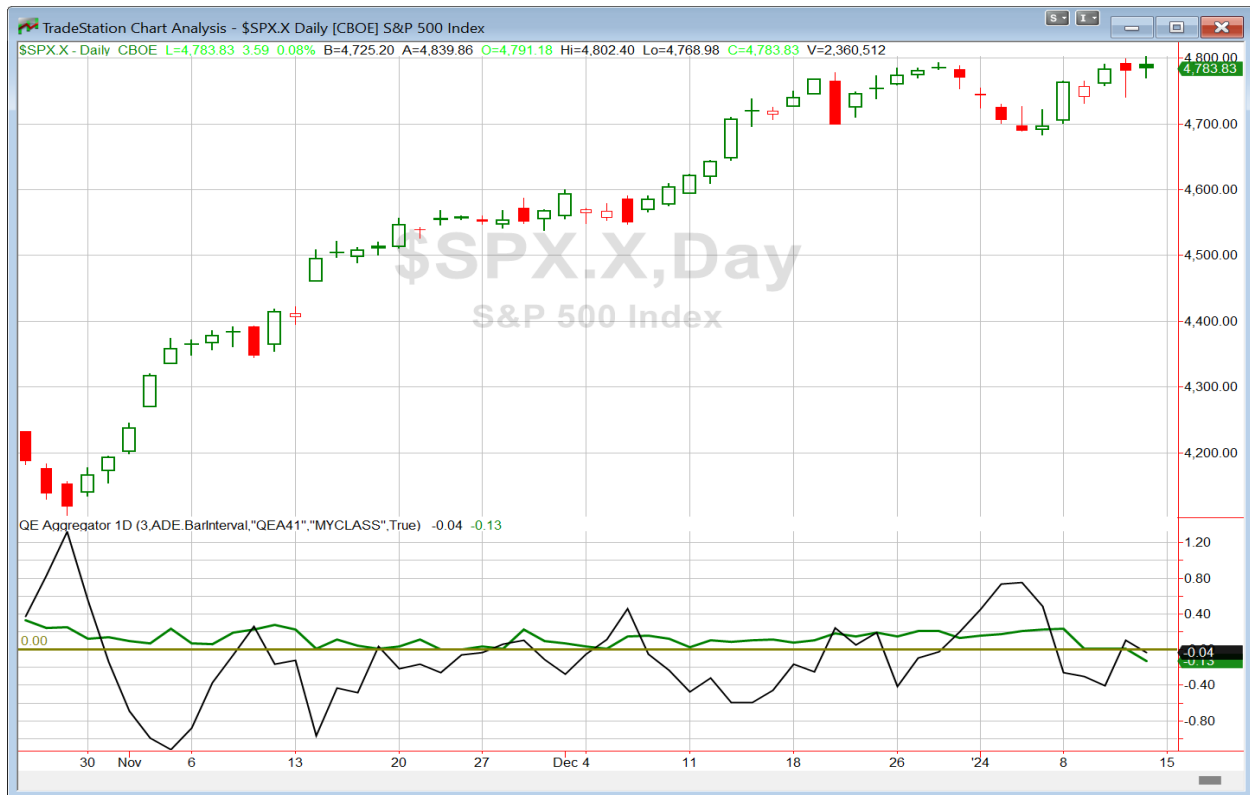
*This curve looks a good bit like the Martin Luther King Jr week curve – though I'd say it leans a bit more bearish. So traders may want to keep this in mind as we head into MLK/Opex next week. I will probably incorporate it into the Aggregator over the weekend, but to a somewhat lesser degree than I might if recent instances had been more consistent.*

I will note that the SPX Seasonality Calendar from the website is also supporting the idea that this upcoming week could be seasonally bearish. This can be seen below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
1/2/2024	52.62	1.286	0.057
1/3/2024	51.76	1.205	0.056
1/4/2024	49.15	0.998	0.000
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
1/18/2024	48.48	0.966	-0.012
1/19/2024	48.39	0.916	-0.030
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>

Seasonality indicators all seem to be pointing lower over the next few days, and other short-term evidence is lacking right now.

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



With this weekend's evidence considered, the green Aggregator Line remained dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also fell below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are slated to remain negative on Tuesday. Of course this could change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 4795.24* on Friday. That is 0.2% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up over 0.2% in order to remain overbought vs recent expectations. Anything other than that and SPX will flip to oversold as of Tuesday's close.

So the Aggregator is now bearish. But the inverted pivot greatly limits the downside potential of a trade. This is because and move lower would end up with SPX oversold and the signal ending after just one day. Additionally, the intermediate-term outlook is bullish. So attempting a short trade here would be countertrend. A countertrend trade with limited evidence and low reward potential is not a compelling setup. I will wait for a more compelling reward/risk opportunity to emerge before taking on a new index position.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 1/16 – **bullish***

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

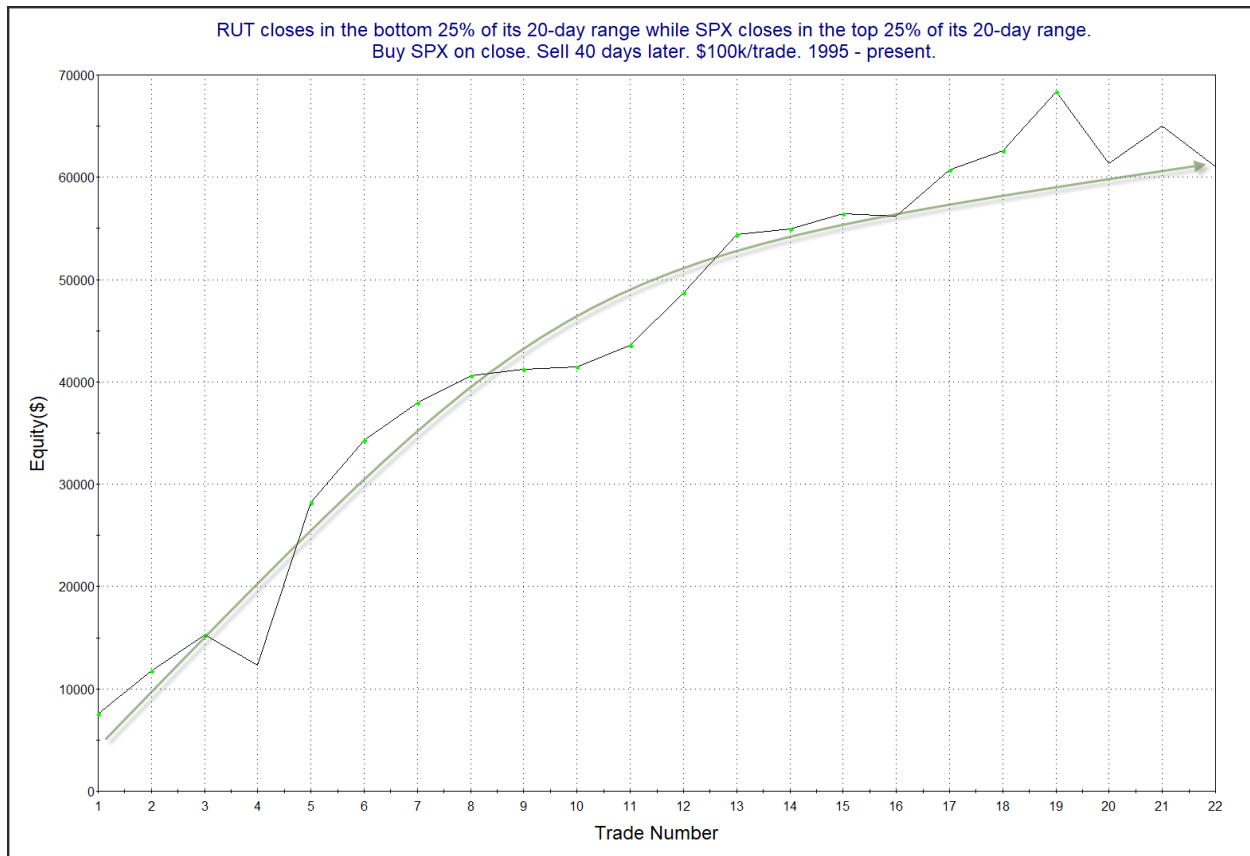
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *The Combo Systems all changed from long SPY to long QQQ this week.*

This week was mostly higher for the indices. The SPX gained 1.8%, the NASDAQ rallied 3.1%, and the Russell 2000 was about breakeven with a 0.01% loss. Bonds rose. The US Aggregate Bond ETF (AGG) posted a gain of 0.9%. TLT, the 20-year Treasury Bond ETF, climbed 0.2%. There were a few developments that suggest bullish inclinations for the intermediate-term.

While SPX closed at a new rally high (but still slightly below its 1/3/2002 all-time closing high), RUT closed down near the bottom of its 20-day range. This triggered the study below, which looked at times SPX closed high in its 20-day range while RUT closed low in its range. It is updated from the 12/13/21 letter.

RUT closes in the bottom 25% of its 20-day range while SPX closes in the top 25% of its 20-day range. Buy SPX 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
50	49,023.74	20	13	7	65.00	17,360.82	-10,216.92	5,621.67	-3,436.84	1.64	3.04	2,451.19
45	52,399.79	21	15	6	71.43	15,231.03	-8,772.68	5,178.15	-4,212.09	1.23	3.07	2,495.23
40	61,012.74	22	18	4	81.82	15,916.02	-7,016.58	4,177.57	-3,545.87	1.18	5.30	2,773.31
35	53,208.63	22	16	6	72.73	15,668.34	-3,769.92	4,223.05	-2,393.36	1.76	4.71	2,418.57
30	46,847.49	22	18	4	81.82	11,907.99	-7,466.97	3,427.66	-3,712.59	0.92	4.15	2,129.43
25	34,500.98	23	16	7	69.57	9,355.08	-8,562.90	3,156.91	-2,287.08	1.38	3.16	1,500.04
20	30,824.81	23	16	7	69.57	9,900.75	-6,058.36	3,001.65	-2,457.36	1.22	2.79	1,340.21
15	32,236.47	23	18	5	78.26	7,779.99	-5,109.23	2,606.37	-2,935.65	0.89	3.20	1,401.59
10	21,533.86	28	20	8	71.43	8,346.30	-6,893.04	2,002.54	-2,314.63	0.87	2.16	769.07
5	10,587.49	30	12	18	40.00	7,383.96	-2,806.44	2,321.90	-959.74	2.42	1.61	352.92

It appears the lagging RUT in similar circumstances has not been a drag going forward, and that SPX has continued to flourish. Below is a look at a profit curve with a 40-day holding period.



There have been a couple of recent stumbles, but overall this appears to be a favorable looking curve. I also checked to see how the Russell 2000 did going forward.

RUT closes in the bottom 25% of its 20-day range while SPX closes in the top 25% of its 20-day range.  
Buy RUT 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
50	9,693.10	20	12	8	60.00	18,203.13	-13,291.46	5,850.86	-7,564.66	0.77	1.16	484.65
45	18,065.93	21	13	8	61.90	17,231.94	-16,401.84	5,303.94	-6,360.66	0.83	1.36	860.28
40	38,966.62	22	14	8	63.64	16,988.40	-11,624.36	5,313.26	-4,427.38	1.20	2.10	1,771.21
35	30,286.32	22	14	8	63.64	16,765.65	-10,617.88	4,843.27	-4,689.93	1.03	1.81	1,376.65
30	27,789.95	22	13	9	59.09	15,209.37	-11,108.16	5,303.38	-4,572.67	1.16	1.68	1,263.18
25	14,257.12	23	13	10	56.52	14,012.46	-13,585.34	4,258.42	-4,110.24	1.04	1.35	619.87
20	8,706.12	23	14	9	60.87	12,067.11	-16,370.90	3,884.09	-5,074.57	0.77	1.19	378.53
15	19,353.32	23	14	9	60.87	11,066.88	-8,143.20	4,010.43	-4,088.07	0.98	1.53	841.45
10	405.83	28	13	15	46.43	8,215.02	-10,958.54	3,479.05	-2,988.12	1.16	1.01	14.49
5	-313.16	30	14	16	46.67	7,817.04	-4,524.56	2,287.04	-2,020.73	1.13	0.99	-10.44

Results still lean bullish over the intermediate-term, but not to the degree that we see with the SPX. This suggests the leading SPX has a good chance to rally, and over the intermediate-term, continue to outperform the RUT.

Last week we saw the NASDAQ/SPX Leadership indicator flip from a leading NASDAQ to a leading SPX. This week it quickly flipped back. This can be seen in the chart below.



The movement of the red line (which is about to turn green) above the blue dotted line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below, which is copied from last week’s letter (and not updated).

**Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 1/5/2024.**


	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.63%	-56.78%	\$4,601,077.60
SPX when NASDAQ lags	-0.07%	-67.21%	\$96,475.75
SPX when NASDAQ leads	7.71%	-33.92%	\$4,769,154.16
NASDAQ Composite	9.76%	-77.93%	\$12,727,015.08
NASDAQ when lagging	-1.53%	-85.53%	\$44,916.36
NASDAQ when leading	11.46%	-40.62%	\$28,334,923.36
NASDAQ when leading (with interest when in cash)*	13.96%	-37.64%	\$89,918,126.94

\*interest on cash calculated at historical 30-day Fed Funds rate

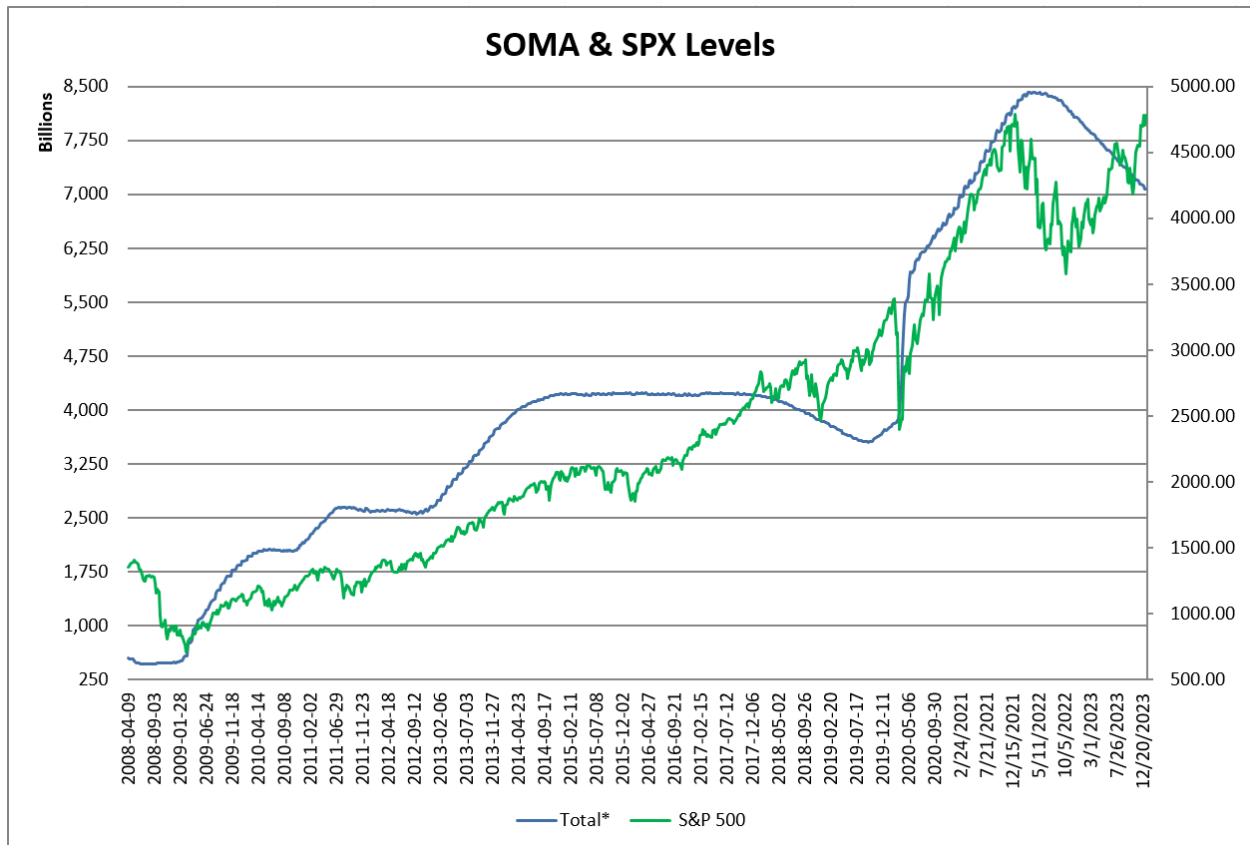
More on this indicator can be found in the Market Timing Course. (Free for all annual subscribers.)

This means all four of the original Market Timing Course indicators are now bullish. Only the Fed Liquidity Indicator from the 2023 version of the Market Timing Course is not bullish. That is a strongly favorable situation, as evidenced by all 4 combo models now long QQQ.

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>January 10, 2024</b> 
<i>Posted January 11, 2024 at 4:30 PM</i>	
<b>SUMMARY</b>	T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	215,191,628.0
US Treasury Notes and Bonds (Notes/Bonds)	4,045,484,306.8
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***	2,423,545,109.1
Agency Commercial Mortgage-Backed Securities***	8,227,833.4
Total SOMA Holdings	7,072,037,212.3
Change From Prior Week	-1,596,807.7

The SOMA declined a moderate \$1.6 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.

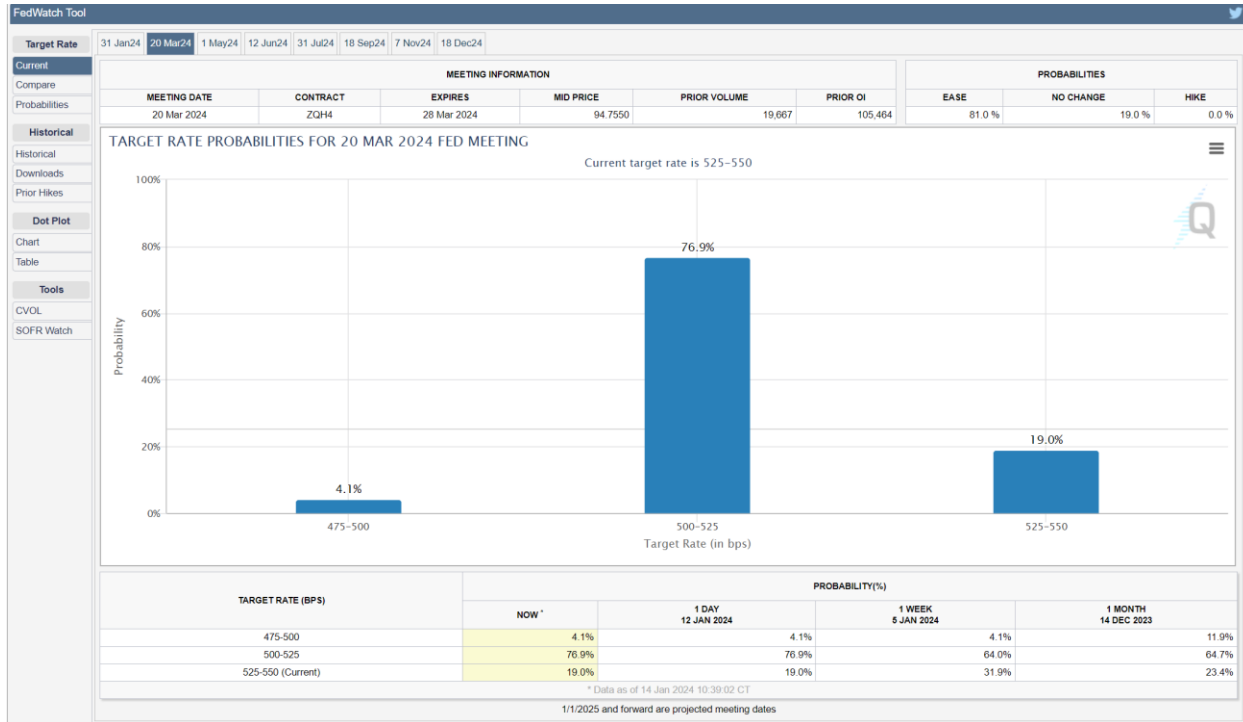


The Fed is in the midst of what is now the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has still given no indication yet that it is planning to dial back Quantitative Tightening (QT) anytime soon. Despite the strong rally over the last couple of months, 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 headwind to deal with for the time being.

With regards to rates, odds are now showing a 95% chance that the Fed holds rates steady in January and a 5% chance that there is a cut. There seems to be a strong consensus that the upcoming meeting will see rates remain as they are. The more interesting odds appear when looking at the

March Fed meeting. So those are the ones I decided to post below, courtesy of the CME Fedwatch Tool:



Here we see an 81% chance that rates will be lower in March. Of course these odds will change as new economic data is released. And as you can see in the bottom row, the odds changed quite a bit this past week. Only 1 week ago, it was showing a 66% of rates being cut by either 0.25% or 0.50%. Changes for the odds above could cause market swings over the next several weeks.

I've had a bullish bias for a while now. The studies we are seeing this week support that outlook. The lagging Russell does not appear to be a problem, and the leading NASDAQ is a positive development. Last week's CBI spike successfully led to a short-term bounce, and it can also help to support the intermediate-term case. The trend is clearly higher and we are in a favorable seasonal period (except for the week immediately in front of us). The one substantial detractor is the Fed, though the Fed is beginning to back off some hawkish policy. Things can change quickly. But I am again keeping my intermediate-term bias "bullish" for the time being. 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***

BA @ \$243.91 (buy @ limit) – *not filled – cancel for now*

UNP @ \$239.91 (bought @ limit)

*New*

CVS @ \$76.56 (buy @ limit)

WFC @ \$47.40 (buy @ limit)

***Broad Market Large Cap CBI – 2(BA, UNP, CVS, WFC)***

### **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.*

**CVS – Buy 1/3 Catapult position @ \$76.56 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of CVS.

**WFC – Buy 1/3 Catapult position @ \$47.40 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of WFC.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
UNP(1/3)	1/8/2024	\$239.17	\$237.71	-0.61%	Catapult

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