

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 26, 2018

Volume 11 Issue 228

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	7

## Tonight's Research Points

- Monday is a seasonally weak day.
- The gap down under a 50-day closing low and partial reversal up for SPY suggests a bullish edge over the next 2 days.
- SOMA flows were strongly negative this past week, and are likely to be so again both this week and next.
- A potential S&P 500 Death Cross could occur in the next 5-10 days. If the NASDAQ continues to lag, this will turn all the Market Timing Course combo signals from “long” to “flat”.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to lean bullish and the market is still oversold. Reward/risk appears to favor the bulls – though Monday there is some negative seasonality.

*Summary of Recent 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>						
November 26, 2018	Gap < 50-day low with partial reversal	1-2 days	Bullish			
November 23, 2018	Low volume Thanksgiving Wednesday	1-2 days	Bearish			
November 23, 2018	2x 1.5% down. Up close < open.	1-2 days	Bullish			
November 23, 2018	Close bottom 10% range on up day	1-3 days	Bullish			
November 21, 2018	Unfilled gap down 2x < 200ma	1-5 days	Bullish			
November 21, 2018	1% Unfilled Gap Dn from 10-day Low	1-5 days	Bullish			
<b>Active - Long Term</b>						
November 8, 2018	FTD with strong breadth & 20-day high	int term	Bullish			
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

***The Evidence***

Friday gapped down quite a bit, tried to bounce, and then sold off a bit heading into the early close. The SPX finished down 0.7%, the NASDAQ lost 0.5%, and the Russell 2000 finished up 0.03%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 31%. NYSE volume came in very light as it typically does on a shortened trading day.

I've noted a few times recently that the Monday after Thanksgiving has historically shown substantial seasonal weakness. I've also noted that the Wednesday and Friday surrounding Thanksgiving had exhibited seasonal strength. (That obviously failed to play out on Friday.) So one question I examined back in the 11/28/11 letter is whether the Monday weakness is primarily due to mean reversion following the Thanksgiving Week strength, or whether Monday would still look bearish after a down week. The study below provides the answer.

SPX Performance on Monday after Thanksgiving when Thanksgiving week has closed down. \$100k/trade. 1960 - present.

Statistics	
	<b>All trades</b>
Initial capital	100000.00
Ending capital	94304.65
Net Profit	-5695.35
Net Profit %	-5.70%
Exposure %	0.00%
Net Risk Adjusted Return %	-239067.52%
Annual Return %	-0.10%
Risk Adjusted Return %	-4175.50%
Transaction costs	0.00
<b>All trades</b>	18
Avg. Profit/Loss	-316.41
Avg. Profit/Loss %	-0.32%
Avg. Bars Held	2.00
<b>Winners</b>	7 (38.89 %)
Total Profit	8221.04
Avg. Profit	1174.43
Avg. Profit %	1.17%
Max. Consecutive	5
Largest win	2924.04
<b>Losers</b>	11 (61.11 %)
Total Loss	-13916.39
Avg. Loss	-1265.13
Avg. Loss %	-1.27%
Max. Consecutive	7
Largest loss	-4177.42
Max. trade drawdown	-4177.42
Profit Factor	0.59

Instances are a little bit low, but the results here are similar to the unfiltered Monday after Thanksgiving. And these results don't even include the huge 9% drop that occurred on this Monday in 2008. So it appears based on this that the Monday weakness is due to more than just a simple mean reversion after a strong Thanksgiving week.

The good news for bulls is that the weakness rarely followed through beyond Monday. In fact, since 1980 there have been 13 instances of a down Thanksgiving week. Waiting until Monday's close and then buying the SPX would have typically led to decent gains over the next 1-3 weeks. The stats below look at a 12-day holding period.

Thanksgiving Week closes down. Buy SPX Monday's close after Thanksgiving. Sell 12 days later. \$100k/trade. 1980 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$30,643.14	Profit Factor	33.55
Gross Profit	\$31,584.60	Gross Loss	(\$941.46)
Total Number of Trades	13	Percent Profitable	92.31%
Winning Trades	12	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$2,357.16	Ratio Avg. Win:Avg. Loss	2.80
Avg. Winning Trade	\$2,632.05	Avg. Losing Trade	(\$941.46)
Largest Winning Trade	\$7,716.52	Largest Losing Trade	(\$941.46)

Not in the above stats is that the average run-up over the 12 days was 4.2%, and the only instance not to run up at least 1% was in 1994 when it ran up 0.65%. Below is a list of all individual instances.

Thanksgiving Week closes down. Buy SPX Monday's close after Thanksgiving.  
Sell 12 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/29/1982	Buy	\$134.20	0.77%	\$7,062.60
12/15/1982	Sell	\$135.24		(\$7.45)
11/30/1987	Buy	\$230.30	7.72%	\$7,729.54
12/16/1987	Sell	\$248.08		(\$3,932.04)
11/26/1990	Buy	\$316.51	4.32%	\$5,499.90
12/12/1990	Sell	\$330.18		(\$466.20)
12/2/1991	Buy	\$381.39	0.55%	\$1,165.90
12/18/1991	Sell	\$383.47		(\$1,731.82)
11/28/1994	Buy	\$454.16	0.18%	\$653.40
12/14/1994	Sell	\$454.97		(\$2,481.60)
11/27/1995	Buy	\$601.31	3.39%	\$3,437.86
12/13/1995	Sell	\$621.69		(\$380.14)
12/1/1997	Buy	\$974.77	-0.95%	\$1,170.96
12/17/1997	Sell	\$965.54		(\$2,832.54)
11/29/1999	Buy	\$1,407.83	0.39%	\$2,810.89
12/15/1999	Sell	\$1,413.33		(\$1,482.48)
11/27/2000	Buy	\$1,348.97	0.82%	\$2,965.92
12/13/2000	Sell	\$1,359.99		(\$4,001.18)
11/27/2006	Buy	\$1,381.96	2.26%	\$2,614.32
12/13/2006	Sell	\$1,413.22		(\$297.36)
11/26/2007	Buy	\$1,407.20	5.64%	\$8,262.27
12/12/2007	Sell	\$1,486.60		\$0.00
11/29/2010	Buy	\$1,187.76	4.00%	\$4,953.48
12/15/2010	Sell	\$1,235.23		(\$1,144.08)
11/28/2011	Buy	\$1,192.55	1.62%	\$6,184.33
12/14/2011	Sell	\$1,211.82		(\$62.25)

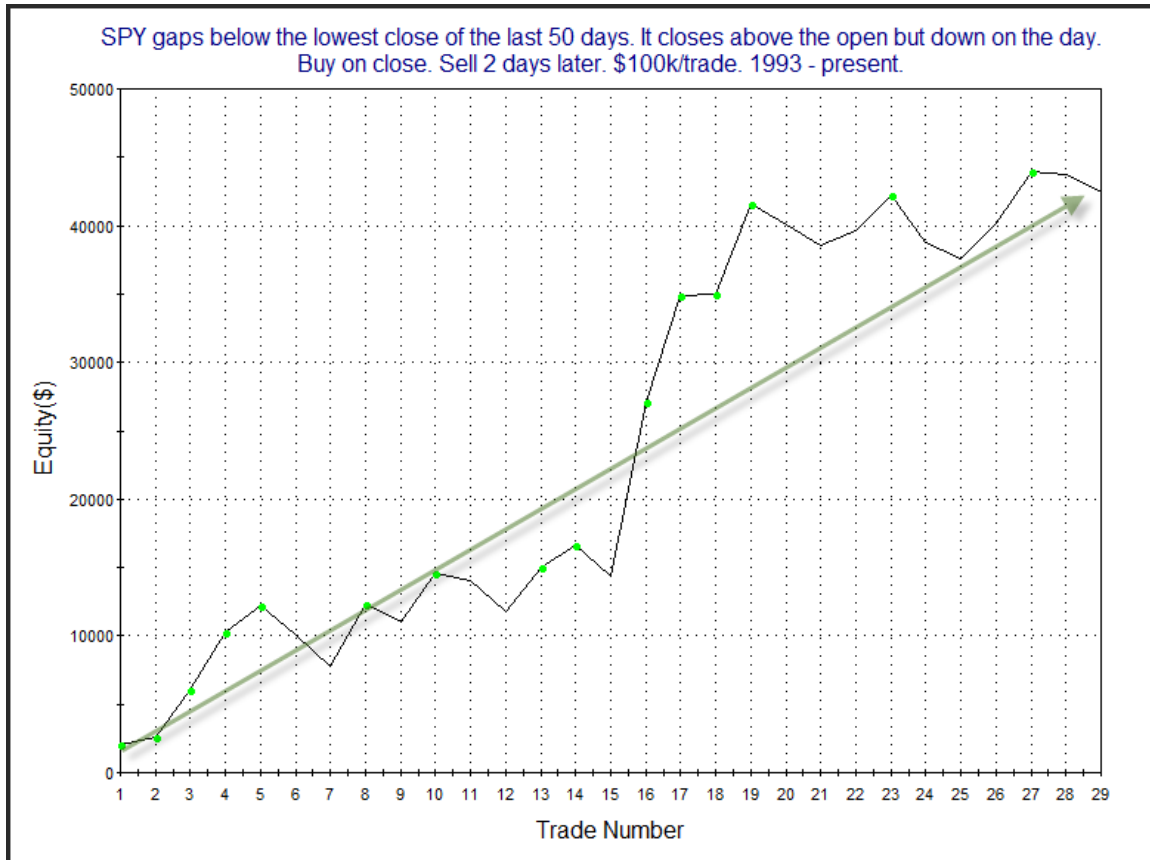
No red flags here.

The movement in SPY on Friday was interesting. After opening below the previous 50-day low closing price, it struggled to bounce much. This triggered the study below from the 1/7/16 letter. Stats are updated.

SPY gaps below the lowest close of the last 50 days. It closes above the open but down on the day.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

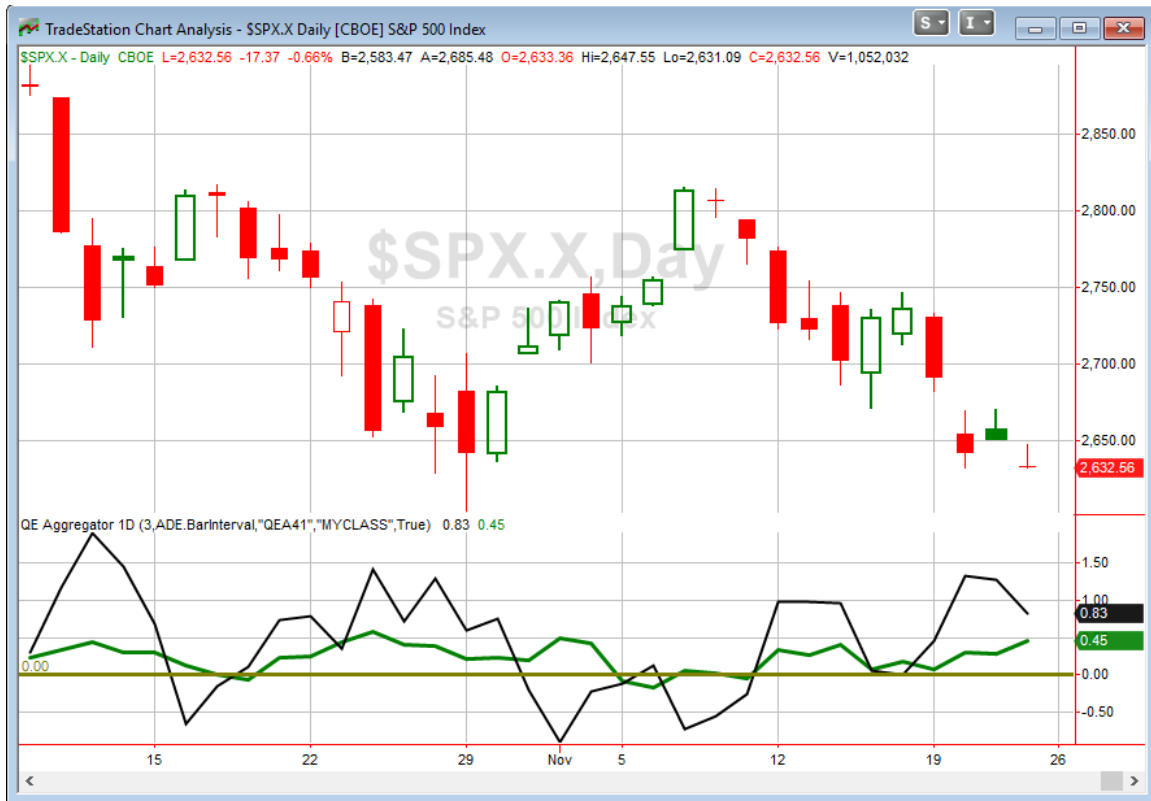
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	40,212.91	27	16	11	59.26	4,298.52	11,377.00	-2,596.68	-5,014.98	1.66	2.41	1,489.37
4	46,899.95	28	17	11	60.71	4,308.35	11,714.64	-2,394.72	-6,725.16	1.80	2.78	1,675.00
3	33,595.60	28	15	13	53.57	3,708.59	10,848.52	-1,694.86	-5,355.22	2.19	2.52	1,199.84
2	42,399.20	29	17	12	58.62	3,678.05	12,814.15	-1,677.30	-3,463.80	2.19	3.11	1,462.04
1	28,310.22	30	19	11	63.33	2,552.98	14,507.65	-1,836.04	-3,576.07	1.39	2.40	943.67

The numbers suggest a bullish edge that appears to largely play out over the next 2 days. Below is a profit curve.



This study appears compelling. I have added it to the 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 is still well above 0. The positive Differential Line reading means SPX is strongly 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 signal stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Monday. This could change if very strong bearish evidence emerges. The Differential Pivot will be 2656.67 on Monday. That is 0.9% above Friday's close. So SPX would need to close up at least 0.9% on Monday in order to flip from oversold to overbought versus recent expectations.

The Aggregator is still suggesting an upside edge. Overall, evidence appears to be pointing that way and reward/risk favors the bulls. Of course Monday the market will be contending with some negative seasonality. I am partially long already and generally content to remain that way for the time being. I'll give it another day before looking to possibly adjust my index position up or down.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 11/26– neutral**

Combo #1	Combo #2	Combo #3
Long	Long	Long

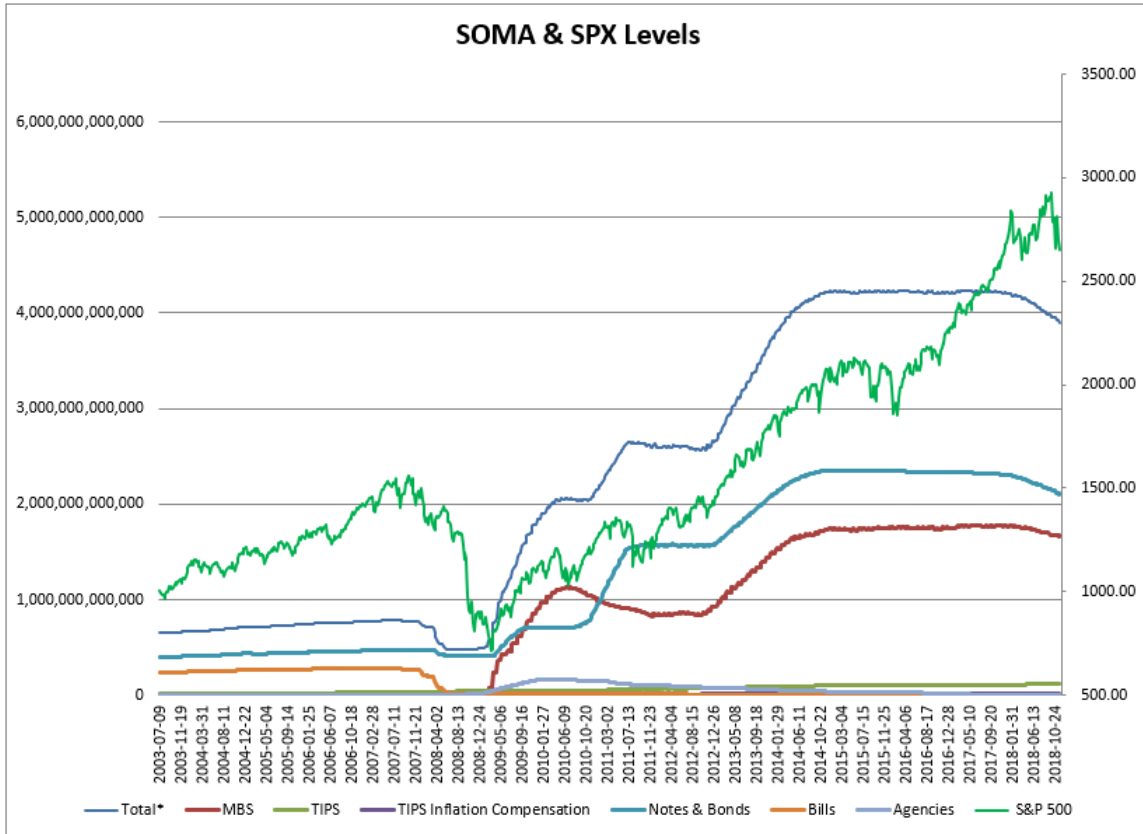
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week the Combo Systems all remained “Long”.*

It was a tough Thanksgiving week for the market. The SPX lost 3.2%, the NASDAQ declined 3.8% and the Russell 2000 had a 2.6% drop. Aside from the post-Thanksgiving study I showed above, there were no new studies that emerged this past week with intermediate-term significance.

As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don’t fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.*

*In October 2017 the Fed began reducing the size of the SOMA by not reinvesting some maturities in MBS and treasuries. That program is expected to continue for the next few years. Below is a long-term view of SOMA and SPX (back to 2003).*



The table below is from the Fed’s website and shows the changes this past week.

« As of 11/14/2018

DOMESTIC SECURITIES HOLDINGS AS OF  
**November 22, 2018**

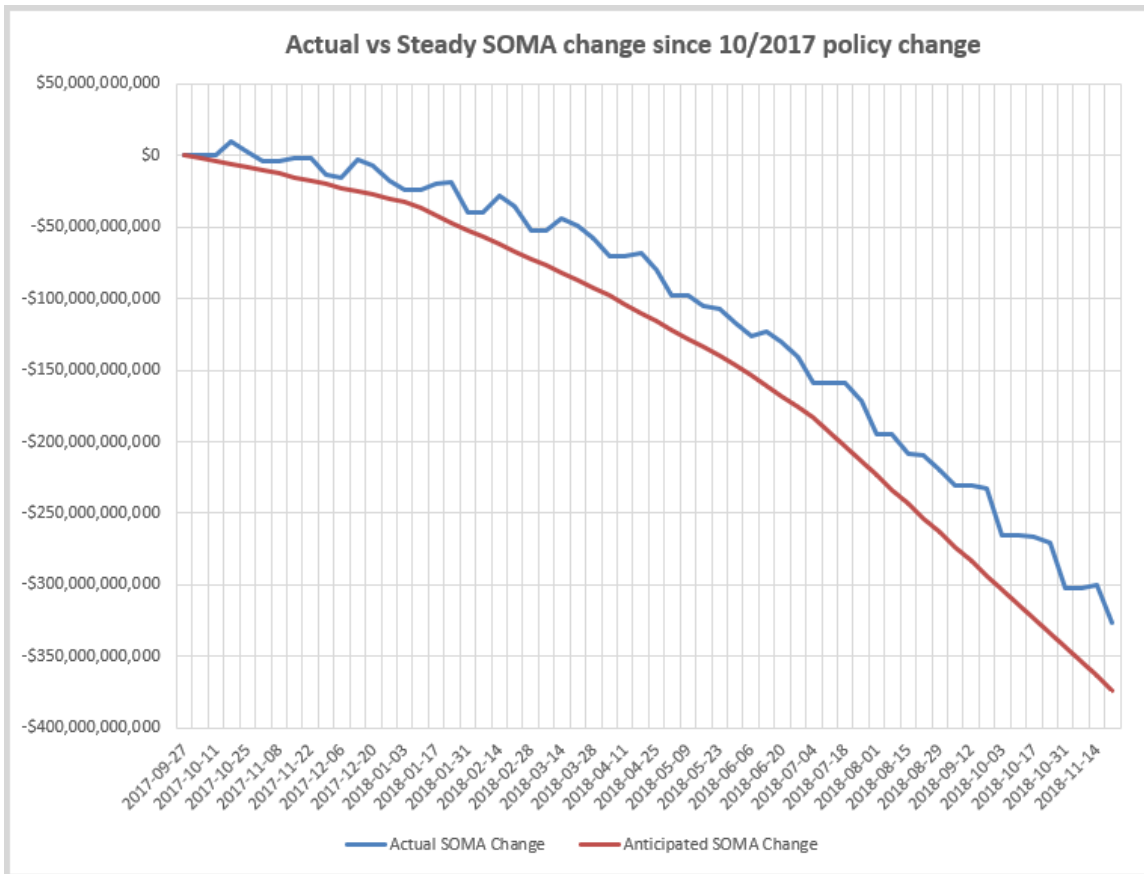
Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,098,138,838.5
US Treasury Floating Rate Notes (FRN)	17,245,206.4
US Treasury Inflation-Protected Securities (TIPS)*	115,578,709.4
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,661,829,808.5
<b>Total SOMA Holdings</b>	<b>3,895,201,562.8</b>
<b>Change From Prior Week</b>	<b>-26,372,744.9</b>

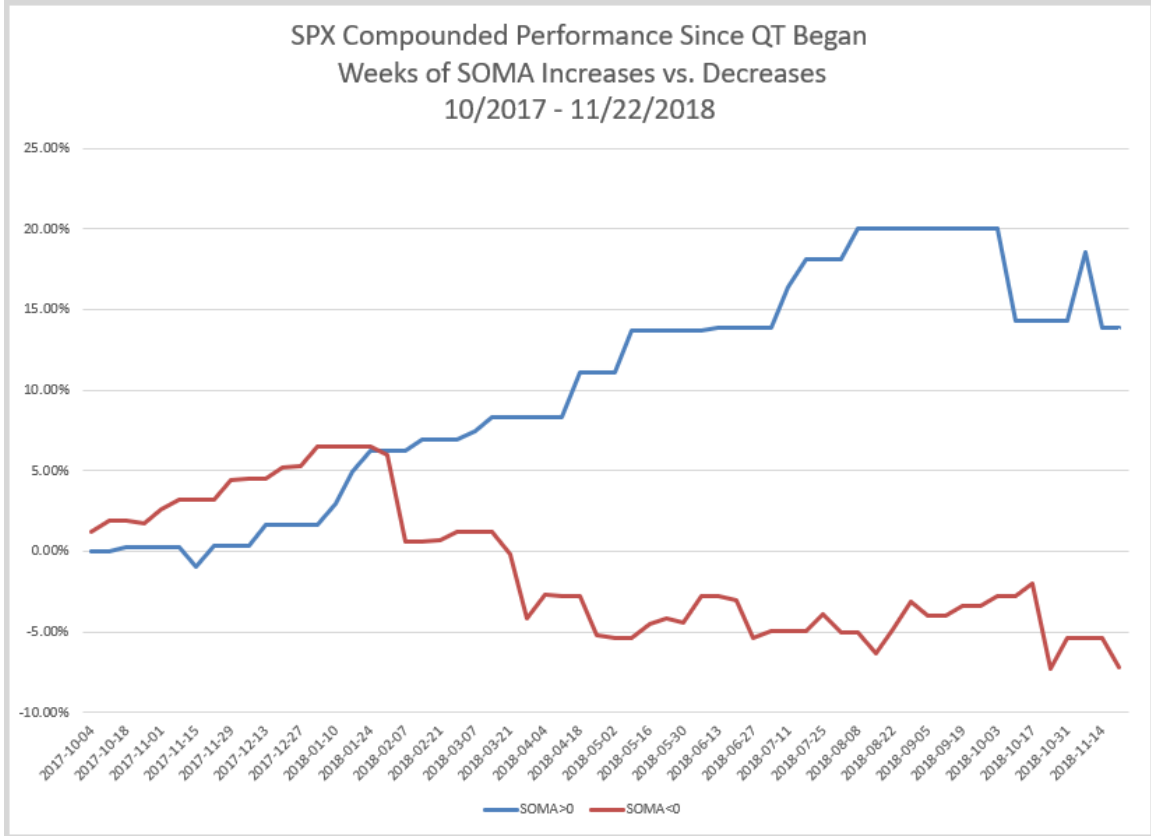
\*Does not reflect inflation compensation of 22,122,497.7  
 \*\*Fannie Mae, Freddie Mac and Federal Home Loan Bank  
 \*\*\*Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 11/23/2018 4:30pm.

And now a zoomed-in view since October comparing steady reductions to actual.



The Fed’s SOMA this past week (Wednesday to Wednesday) posted a huge decline of over \$26 billion. The large decline was expected as I have discussed the last couple of weeks. Meanwhile, the SPX fell 1.9% during this week ending Wednesday 11/21. The “Actual vs Steady” chart shows that the decline in the SOMA this past week was steep, even with the Quantitative Tightening (QT) rate being \$50 billion / month. The market has typically encountered difficulty during SOMA contractions, and flourished when the SOMA has seen expansions. I discuss this in detail in the Fed-Based Quantifiable Edges for Stock Market Trading Research Paper. This next chart shows compounded results since QT began of being long SPX during SOMA expansion weeks vs SOMA contraction weeks. It is updated from last week.



You can see here the sharp contrast in expansion weeks versus contraction weeks over the last 13 ½ months. Despite some recent struggles, expansion weeks (blue line) have seen strong gains. Meanwhile, weeks with QT (red line) have been net losers. Since October 2017 the blue “expansion week” strategy would have posted a 13.9% gain while the red “contraction week” strategy would have lost 7.2%. This past week’s decline put the red line strategy near new lows. So how might the next few weeks of QT play out? Let’s first look at the T-Note and T-Bond Maturity Table below, from the Fed’s website.

« As of 11/14/2018

DOMESTIC SECURITIES HOLDINGS AS OF  
**November 22, 2018**

Summary   T-Bills   T-Notes and T-Bonds   FRN   TIPS   Agencies						
Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding <sup>1</sup>	Change in Par from Prior Week <sup>2</sup>	Change in Par from Prior Year <sup>2</sup>
11/30/18	912828U40	1.000	2,767,228.7	9.62%		
11/30/18	912828A34	1.250	5,652,000.0	16.15%		
11/30/18	912828RT9	1.375	16,496,968.3	54.42%		
12/31/18	912828U99	1.250	3,457,357.0	11.74%		
12/31/18	912828RY8	1.375	12,695,123.4	42.41%		
12/31/18	912828A75	1.500	2,057,000.0	5.88%		

The next treasury expirations will happen this upcoming Friday. But any QT for the week ending on the 28<sup>th</sup> will be due to AMBS securities rolling off the books. Compared to treasuries, AMBS flows are a little more difficult to anticipate. This is because 1) amounts may vary depending on loan pre-payments, and 2) there is a lag of 1-3 months to settle. For those interested in details, AMBS policies and procedures are described in more detail at the Fed's website: <https://www.newyorkfed.org/markets/ambs-treasury-faq>. I have found that examining past months will often provide clues as to the flows we can anticipate during similar periods of the current month. Based on past months, weeks ending on or around the 28<sup>th</sup> have generally seen a fairly strong amount of QT. I would expect no different this month.

With the large treasury expiration coming up on the 30<sup>th</sup>, we are likely to see sizable QT for the week ending 12/5 as well.

One other indication worth noting briefly this weekend is the potential upcoming "Death Cross" for the S&P 500. The Death Cross is the term for when the 50-day moving average crosses below the 200-day moving average. We saw a Russell 2000 Death Cross recently. The NASDAQ looks poised to make one in the next few days. And the S&P 500 could make its own Death Cross in the next 1-2 weeks. The name is ominous, but the performance really has not been over the years. In general, the Death Cross has not been a reliable timing device on its own. But it could be used to help traders avoid substantial portions of the worst bear markets. Also notable from our perspective is that an S&P 500 Death Cross combined with a lagging NASDAQ would turn all 3 of the

Market Timing Course combo systems to flat. I'll likely cover the S&P Death Cross in more detail next week if we do in fact get close to it.

Evidence is fairly mixed at the moment. With positive seasonality and the Golden Cross still hanging on, all 3 Market Timing Course combo signals remain long. And the FTD study from a few weeks ago remains active and bullish until we break the 10/29 intraday lows. But QT is a concern and the Death Cross is coming. The 2<sup>nd</sup> half of December is typically strong, and we could see a Santa rally take us into 2019. But right now evidence is not overly compelling for either the bulls or the bears. I am changing to neutral for the time being. This means I will not be very aggressive on either the long or the short side, but am willing to take trades in either direction if short-term reward/risk appears favorable.

### **Catapult and Capitulative Breadth Statistics**

*[Catapult & CBI Presentation Link](#)*

#### ***OpenCatapult Triggers***

GE – 1/3 @ \$7.99 (bought @ limit)  
CELG – 1/3 @ \$69.63 (bought @ limit)  
WMT – 1/3 @ \$97.69 (bought @ limit)  
WMT – 1/3 @ \$96.78 (bought @ limit)  
WMT – 1/3 @ \$94.16 (bought @ limit)  
CELG – 1/3 @ \$66.75 (buy @ limit)  
HD – 1/3 @ \$169.05 (buy @ limit)

***Broad Market Large Cap CBI – 7(GE, CELG-2, WMT-3, HD)***

### **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.*

***HD – Buy 1/3 Catapult position @ \$168.85 LIMIT.*** From the Catapult and CBI section above. I will look to enter HD since it is now being offered at a discount to our original entry trigger. This is the 1<sup>st</sup> of up to 3 possible lots of HD.

***CELG – Buy 1/3 Catapult position @ \$66.65 LIMIT.*** From the Catapult and CBI section above. I will look to enter CELG since it is now being offered at a discount to our original entry trigger. This is the 2<sup>nd</sup> of up to 3 possible lots of CELG.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
GE(1/3)	11/13/2018	\$7.99	\$7.57	-5.26%		Catapult
SPY(1/4)	11/14/2018	\$270.20	\$263.25	-2.57%		Aggregator
CELG(1/3)	11/15/2018	\$69.28	\$66.65	-3.80%		Catapult
WMT(1/3)	11/19/2018	\$97.69	\$95.10	-2.65%		Catapult
WMT(1/3)	11/20/2018	\$94.98	\$95.10	0.13%		Catapult
SPY(1/4)	11/20/2018	\$264.12	\$263.25	-0.33%		Aggregator
WMT(1/3)	11/21/2018	\$94.16	\$95.10	1.00%		Catapult

*A complete list of [Quantifiable Edges](#) trade idea results since the inception of the letter in 2008 can be found [here](#).*

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