

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2018

Volume 11 Issue 241

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The gap up and close below the open pattern of the last 3 days often leads to a rise the following day.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is looking more bearish, and this has turned the Aggregator neutral. I am looking to get flat and await the next strongly favorable setup.

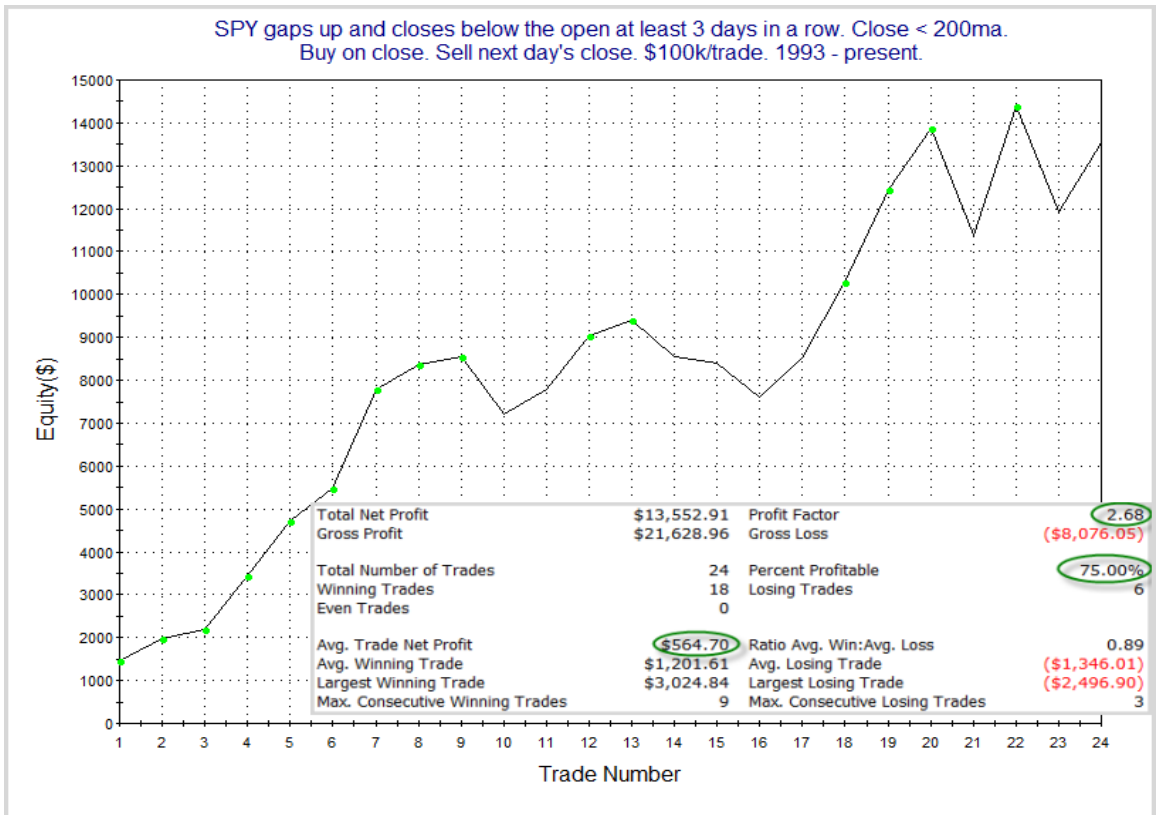
*Summary of Recent Active Studies (see Letters from listed dates for details)*

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
<b>Active - Short Term</b>						
December 13, 2018	SPY up 3 with volume down 3 days	1-3 days	Bearish			
December 13, 2018	Up 3. Small range < 200ma	1-2 days	Bearish			
December 13, 2018	SPY up but 1% below high	1-2 days	Bullish			
December 13, 2018	SPY up but bottom 10% of range	1-3 days	Bullish			
December 10, 2018	SPX dn 3 < 200ma. 1% dn 2day > 20-low	1-4 days	Bullish			
December 7, 2018	Unfilled gap dn 2 days < 200ma	1-5 days	Bullish			
<b>Active - Long Term</b>						
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%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

**The Evidence**

It was another strong start and weak finish on Thursday. The SPX finished down 0.02%, the NASDAQ lost 0.4%, and the Russell 2000 fell 1.55%. Breadth was positive as the NYSE Up Issues % was 34% and the Up Volume % came in at 43%. NYSE volume declined a little from Wednesday's level.

For the 3<sup>rd</sup> day in a row, SPY gapped up and then closed below its opening price. The study below looks at other instances of this happening when SPY has been below its 200ma.



The numbers are strong and the curve is impressive as well. I am only showing 1-day results here because the edge did not persist beyond that. Below is the full list of instances.

SPY gaps up and closes below the open at least 3 days in a row. Close < 200ma. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/16/1994	Buy	\$44.54	1.46%	\$1,459.25
5/17/1994	Sell	\$45.19		(\$89.80)
12/30/1994	Buy	\$45.56	0.50%	\$614.32
1/3/1995	Sell	\$45.79		\$0.00
7/15/1996	Buy	\$62.66	0.24%	\$1,339.80
7/16/1996	Sell	\$62.81		(\$3,636.60)
7/16/1996	Buy	\$62.81	1.24%	\$1,894.48
7/17/1996	Sell	\$63.59		\$0.00
9/27/2000	Buy	\$143.16	1.29%	\$2,212.66
9/28/2000	Sell	\$145.00		(\$188.46)
10/3/2000	Buy	\$142.63	0.74%	\$1,135.62
10/4/2000	Sell	\$143.69		(\$616.88)
2/28/2002	Buy	\$111.15	2.33%	\$2,427.30
3/1/2002	Sell	\$113.74		\$0.00
3/25/2002	Buy	\$113.61	0.58%	\$1,240.80
3/26/2002	Sell	\$114.27		(\$123.20)
4/7/2003	Buy	\$88.05	0.16%	\$681.00
4/8/2003	Sell	\$88.19		(\$385.90)
4/8/2003	Buy	\$88.19	-1.32%	\$1,031.03
4/9/2003	Sell	\$87.03		(\$1,608.86)
4/9/2003	Buy	\$87.03	0.55%	\$689.40
4/10/2003	Sell	\$87.51		(\$563.01)
7/19/2004	Buy	\$110.24	1.27%	\$1,505.62
7/20/2004	Sell	\$111.64		\$0.00
10/6/2005	Buy	\$119.20	0.34%	\$712.30
10/7/2005	Sell	\$119.61		(\$58.66)
10/7/2005	Buy	\$119.61	-0.84%	\$83.60
10/10/2005	Sell	\$118.60		(\$1,095.16)
10/10/2005	Buy	\$118.60	-0.14%	\$665.97
10/11/2005	Sell	\$118.43		(\$236.04)
10/11/2005	Buy	\$118.43	-0.79%	\$590.80
10/12/2005	Sell	\$117.50		(\$860.88)
12/20/2007	Buy	\$146.80	0.91%	\$1,103.22
12/21/2007	Sell	\$148.13		\$0.00
7/7/2008	Buy	\$125.02	1.78%	\$1,893.63
7/8/2008	Sell	\$127.24		(\$655.18)
7/28/2008	Buy	\$123.64	2.14%	\$2,213.92
7/29/2008	Sell	\$126.28		\$0.00
9/10/2008	Buy	\$123.72	1.45%	\$1,632.16
9/11/2008	Sell	\$125.51		(\$1,712.96)
9/29/2011	Buy	\$116.05	-2.50%	\$0.00
9/30/2011	Sell	\$113.15		(\$2,565.78)
12/19/2011	Buy	\$120.29	3.03%	\$3,199.35
12/20/2011	Sell	\$123.93		\$0.00
1/12/2016	Buy	\$193.66	-2.49%	\$619.20
1/13/2016	Sell	\$188.83		(\$2,724.48)
1/13/2016	Buy	\$188.83	1.64%	\$2,343.47
1/14/2016	Sell	\$191.93		(\$618.93)

This study appears to be worth some consideration for Friday.

Also on Thursday the Fed released their SOMA update for the week ending Wednesday. I have copied it below.

« As of 12/05/2018

DOMESTIC SECURITIES HOLDINGS AS OF  
**December 12, 2018**

<a href="#">Summary</a> <a href="#">T-Bills</a> <a href="#">T-Notes and T-Bonds</a> <a href="#">FRN</a> <a href="#">TIPS</a> <a href="#">Agencies</a>	
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,082,970,091.9
US Treasury Floating Rate Notes (FRN)	18,825,874.1
US Treasury Inflation-Protected Securities (TIPS)*	116,544,672.9
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,653,469,689.4
<b>Total SOMA Holdings</b>	<b>3,874,219,328.3</b>
Change From Prior Week	

\*Does not reflect inflation compensation of 22,265,570.3

\*\*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 12/13/2018 4:30pm.

You can see that there was no change for the week. I even used their weekly detail numbers to see values to the penny, and there was \$0.00 change from 12/5. This is the 1<sup>st</sup> time since 10/22/2008 that there was zero change to the SOMA from one week to the next.

Next week is December Opex, which has been the most bullish week of the year by some metrics. The table below is from the 12/11/17 letter. I will be updating it over the weekend, but figured I would provide a little preview tonight.

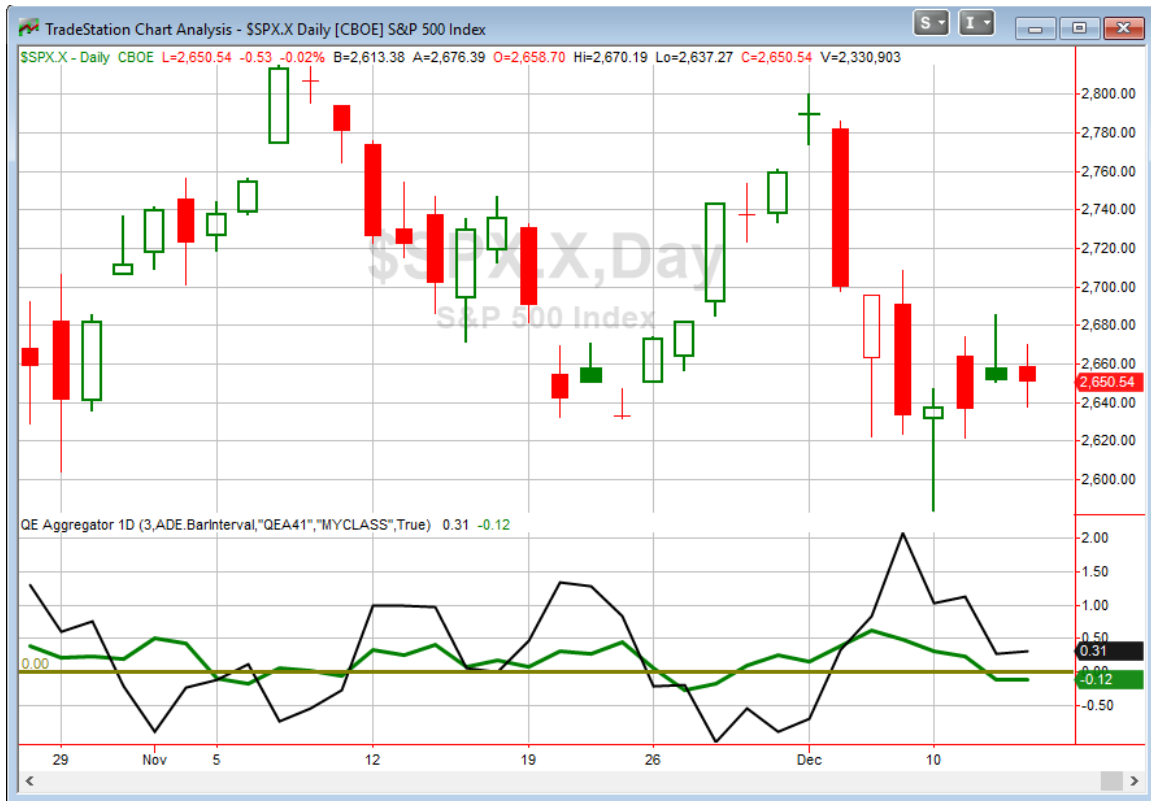
Buy SPX on close of Friday in December prior to opex week.  
Sell X days later. \$100k/trade. 1984 - present.

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
15	62,627.68	33	28	5	84.85	2,805.23	9,879.20	-3,183.74	-6,297.71	0.88	4.93	1,897.81
14	58,833.14	33	27	6	81.82	2,645.95	8,742.88	-2,101.26	-3,579.92	1.26	5.67	1,782.82
13	57,510.86	33	26	7	78.79	2,594.17	9,068.80	-1,419.66	-3,830.44	1.83	6.79	1,742.75
12	53,351.27	33	24	9	72.73	2,622.08	8,528.00	-1,064.30	-2,965.26	2.46	6.57	1,616.71
11	52,816.40	33	24	9	72.73	2,597.82	8,483.80	-1,059.03	-3,966.09	2.45	6.54	1,600.50
10	47,558.58	33	26	7	78.79	2,186.03	7,974.20	-1,325.44	-4,640.61	1.65	6.13	1,441.17
9	40,586.28	33	22	11	66.67	2,505.65	7,080.80	-1,321.63	-6,909.45	1.90	3.79	1,229.89
8	35,361.30	33	25	8	75.76	2,096.59	7,564.16	-2,131.69	-7,650.40	0.98	3.07	1,071.55
7	32,549.37	33	25	8	75.76	1,843.96	6,198.88	-1,693.70	-4,669.81	1.09	3.40	986.34
6	29,370.98	33	27	6	81.82	1,534.68	6,025.04	-2,010.88	-3,937.36	0.76	3.43	890.03
5	28,134.30	33	25	8	75.76	1,480.37	5,868.16	-1,109.38	-4,176.33	1.33	4.17	852.55
4	19,553.52	33	23	10	69.70	1,249.97	3,243.60	-919.58	-3,115.76	1.36	3.13	592.53
3	21,788.11	33	21	12	63.64	1,436.00	5,410.24	-697.33	-3,426.23	2.06	3.60	660.25
2	19,009.73	33	23	10	69.70	1,150.63	3,779.85	-745.48	-2,327.34	1.54	3.55	576.05
1	5,893.67	33	19	14	57.58	811.82	2,912.88	-680.77	-2,147.10	1.19	1.62	178.60

**The only 2 instances that failed to close above the entry price at some point during opex week occurred in 1988 and 2011. Both did so within 10 days.**

Bottom line is that we will have more positive short-term seasonality kicking in next week. I'll cover this in more detail over the weekend.

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



With tonight's study considered, the green Aggregator Line held below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line is still above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

With the current active studies, expectations are slated to remain bearish on Friday. This could change if compelling new bullish evidence emerges, and likely will since we are going to see some bullish seasonal studies emerge. The Differential Pivot will be 2664.22 on Friday. That is 0.5% above Thursday's close. So it would take a close higher of at least 0.5% for SPX to flip from oversold to overbought versus recent expectations on Friday.

If the market remains oversold I think there is a good chance that we'll see a bullish Aggregator emerge over the weekend. But right now the edge is not strong and the Aggregator is neutral. I am not inclined to jump the gun in such a volatile and choppy environment. I'm flat for now and waiting for the next strongly favorable reward/risk setup to emerge before taking on any new index exposure.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 12/10– neutral***

The intermediate-term outlook was last updated in the 12/10/18 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

***OpenCatapult 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 tonight.*

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>12/7/2018</i>	<i>\$269.45</i>	<i>\$266.50</i>	<i>-1.09%</i>		<i>sold on open</i>

*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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