

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 17, 2018

Volume 11 Issue 242

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- Opex week in December has historically been the most bullish week of the year.
- When the market has pulled back heading into Dec opex week, the results have been even more bullish.
- The January Effect is about to kick in, where smallcaps tend to outperform largecap stocks.
- The CBI is only 1, which is not a reliable reading when looking for an oversold market bounce.
- SPY's unfilled gap down and 50-day low close suggest a bounce in the next few days.
- QT was tame last week. It should kick in a little stronger after Wednesday. But December will not see QT as strong as most months.

Short-term Outlook

The Bottom Line

The Aggregator is bullish and there is ample room to the upside. I believe there is a good chance of a bounce in the upcoming days.

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
Active - Short Term						
December 17, 2018	SPY gap dn bottom range 50-low close	1-3 days	Bullish	2.50%	-2.50%	-5.30%
December 17, 2018	SPX < 10ma heading into Dec Opex	1-6 days	Bullish	2.50%	-1.10%	-2.00%
December 13, 2018	SPY up 3 with volume down 3 days	1-3 days	Bearish			
December 13, 2018	SPY up but bottom 10% of range	1-3 days	Bullish			
Active - Long Term						
December 13, 2018	SPY up 3 with volume down 3 days	1-20 days	Bearish	-7.30%	2.40%	3.70%
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

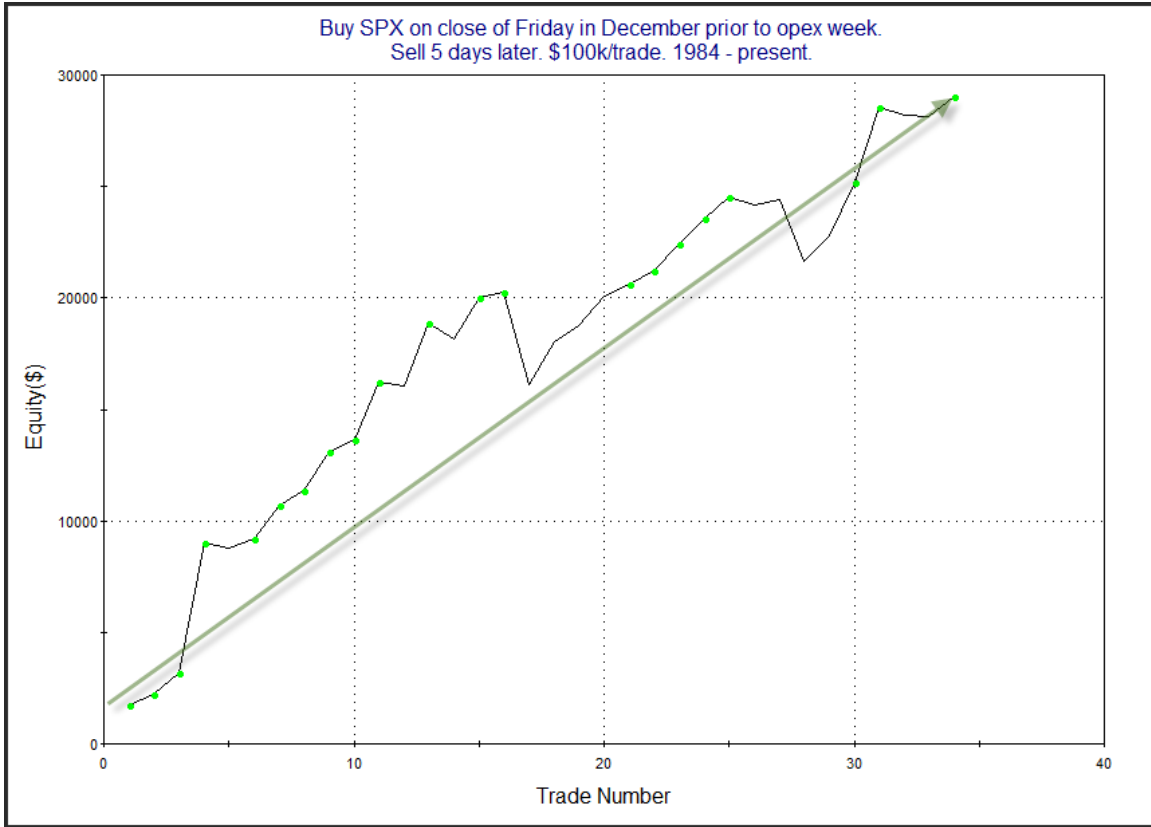
More selling Friday led to more new lows for the indices. The SPX finished down 1.9%, the NASDAQ lost 2.3%, and the Russell 2000 fell 1.5%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 19%. NYSE volume declined a little from Thursday's level.

There were a few seasonal studies that triggered that are worth discussion. Over several time horizons op-ex week in December has been the most bullish week of the year for the SPX. The positive seasonality actually has persisted for up to 3 weeks. I demonstrated this most recently in the 12/11/17 letter. There I looked back to 1984, which was the first year that SPX options traded. I've updated that study below to include last year's stats.

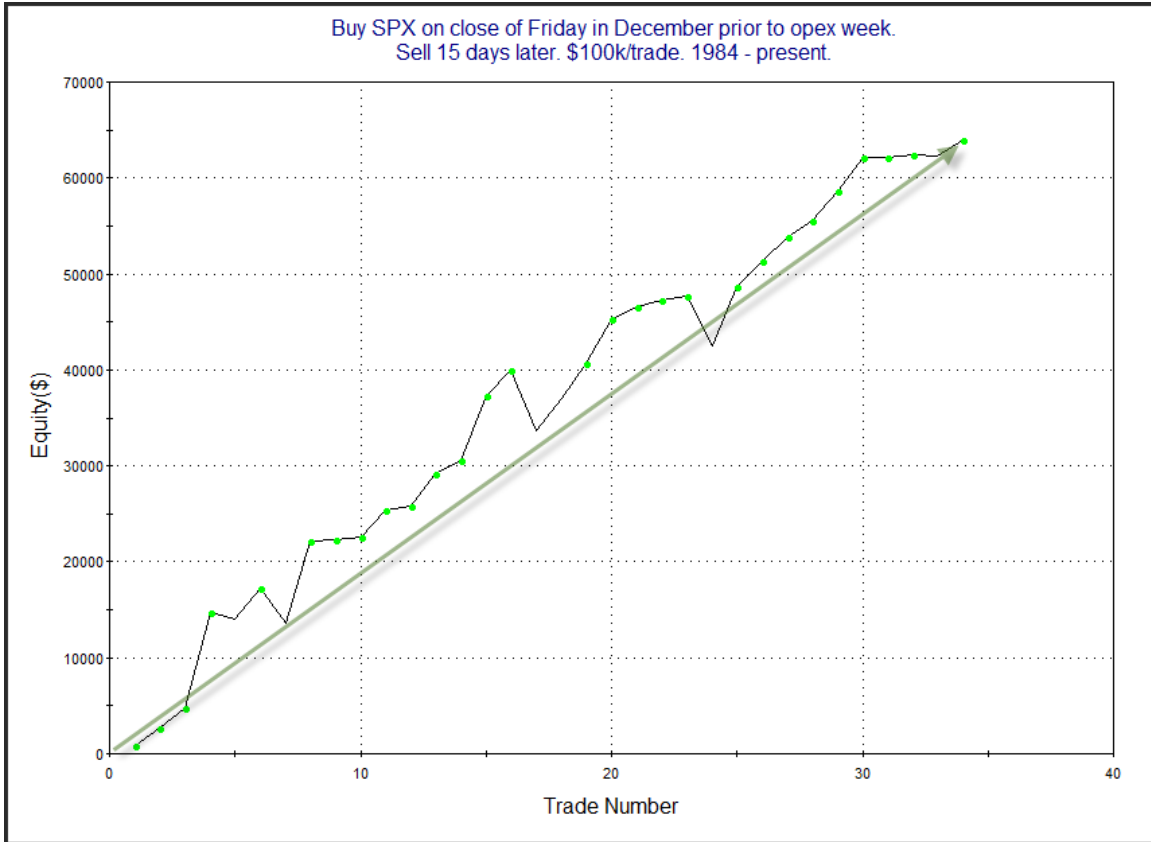
Buy SPX on close of Friday in December prior to opex week. Sell X days later. \$100k/trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	63,954.65	34	29	5	85.29	2,754.25	9,879.20	-3,183.74	-6,297.71	0.87	5.02	1,881.02
14	59,868.36	34	28	6	82.35	2,588.42	8,742.88	-2,101.26	-3,579.92	1.23	5.75	1,760.83
13	58,844.33	34	27	7	79.41	2,547.48	9,068.80	-1,419.66	-3,830.44	1.79	6.92	1,730.72
12	54,502.71	34	25	9	73.53	2,563.26	8,528.00	-1,064.30	-2,965.26	2.41	6.69	1,603.02
11	53,889.40	34	25	9	73.53	2,536.83	8,483.80	-1,059.03	-3,966.09	2.40	6.65	1,584.98
10	48,736.66	34	27	7	79.41	2,148.70	7,974.20	-1,325.44	-4,640.61	1.62	6.25	1,433.43
9	41,809.87	34	23	11	67.65	2,449.91	7,080.80	-1,321.63	-6,909.45	1.85	3.88	1,229.70
8	36,388.05	34	26	8	76.47	2,055.44	7,564.16	-2,131.69	-7,650.40	0.96	3.13	1,070.24
7	33,658.26	34	26	8	76.47	1,815.69	6,198.88	-1,693.70	-4,669.81	1.07	3.48	989.95
6	30,801.40	34	28	6	82.35	1,530.95	6,025.04	-2,010.88	-3,937.36	0.76	3.55	905.92
5	29,033.77	34	26	8	76.47	1,458.03	5,868.16	-1,109.38	-4,176.33	1.31	4.27	853.93
4	19,572.39	34	24	10	70.59	1,198.67	3,243.60	-919.58	-3,115.76	1.30	3.13	575.66
3	22,208.06	34	22	12	64.71	1,389.82	5,410.24	-697.33	-3,426.23	1.99	3.65	653.18
2	19,476.30	34	24	10	70.59	1,122.13	3,779.85	-745.48	-2,327.34	1.51	3.61	572.83
1	6,207.80	34	20	14	58.82	786.93	2,912.88	-680.77	-2,147.10	1.16	1.65	182.58

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.

The stats here are extremely strong. Below is an equity curve using a 5-day holding period.



The strong upslope is impressive. Next is a look at the 15-day curve.

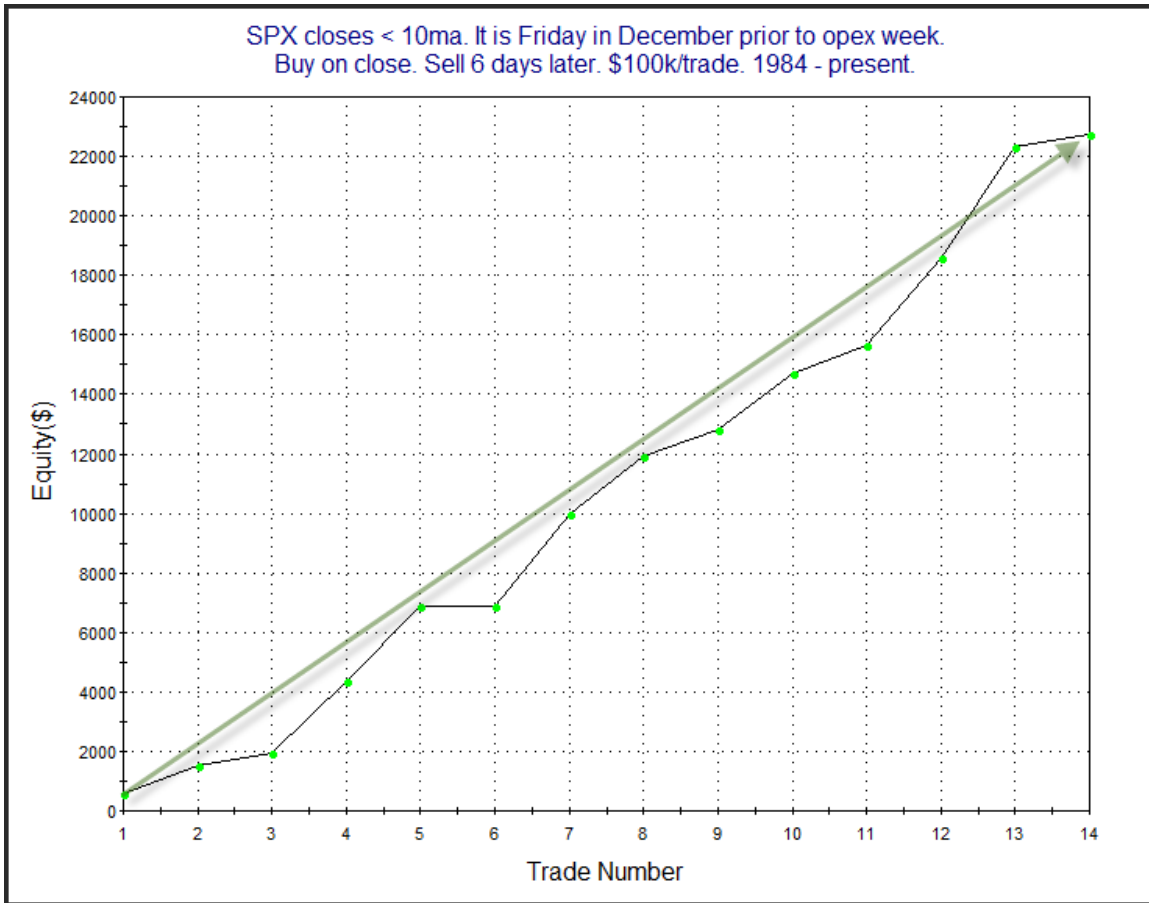


They don't get much better looking than that...unless perhaps you add a pullback filter. In the 12/14/15 letter I showed how December opex week has done when the SPX closed below its 10-day moving average on the Friday before opex week. Those results are updated below.

SPX closes < 10ma. It is Friday in December prior to opex week.
Buy on close. 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
6	22,759.51	14	14	0	100.00	1,625.68	3,734.29	0.00	0.00	100.00	100.00	1,625.68
5	19,893.78	14	12	2	85.71	1,743.07	3,347.68	-511.55	-687.44	3.41	20.44	1,420.98
4	14,953.17	14	10	4	71.43	1,643.04	2,886.10	-369.30	-585.76	4.45	11.12	1,068.08
3	12,274.18	14	11	3	78.57	1,283.74	2,974.30	-615.66	-1,017.28	2.09	7.65	876.73
2	8,561.07	14	9	5	64.29	1,304.90	2,324.70	-636.61	-1,449.91	2.05	3.69	611.51
1	2,385.02	14	9	5	64.29	882.80	2,343.04	-1,112.03	-2,147.10	0.79	1.43	170.36

These stats look even better. Below is a profit curve that assumes a 6-day exit.



Oversold going into a strong seasonal period is often a good setup. December opex week appears to be a great example of this.

In past years I discussed the January Effect, which is a tendency that I believe was first published in the Stock Traders Almanac. It suggests that from mid-December into early January smallcap stocks tend to outperform largecaps. My past research has looked back to 1988 and used the Russell 2000 versus the SPX. I found that the bulk of this tendency was realized in the end of December and the 1st day of January. I measured from the 15th of December (or the 1st trading day afterwards if the 15th was a weekend) through the 1st trading day in January. This tendency has remained strong. Since 1988 we have now seen the Russell outperform 24 of 30 years, or 80% of the time. And years of outperformance have greatly outsized years when the Russell underperformed. Gains in the years of outperformance have totaled 41.12%, while the 6 years of underperformance have only totaled 5.68% in losses. That's over 7 to 1. And the only losing year to post a loss of greater than 1% was 1991 when the SPX outperformed the Russell by 2.82%. Below is a table that breaks it all down by year.

Dec 15 - 1st Trading Day of Jan			
	<i>SPX</i>	<i>Rut</i>	<i>RUT - SPX</i>
<i>Year</i>	<i>% Return</i>	<i>% Return</i>	<i>% Difference</i>
1988	0.38%	2.53%	2.15%
1989	2.73%	2.08%	-0.65%
1990	0.13%	1.96%	1.83%
1991	8.53%	5.71%	-2.82%
1992	0.65%	2.83%	2.18%
1993	0.78%	2.68%	1.90%
1994	0.83%	2.50%	1.67%
1995	0.71%	2.06%	1.35%
1996	2.22%	2.42%	0.20%
1997	1.21%	3.75%	2.54%
1998	5.61%	8.60%	2.99%
1999	2.96%	7.61%	4.65%
2000	-2.21%	0.97%	3.18%
2001	1.79%	1.51%	-0.28%
2002	-0.15%	-0.59%	-0.44%
2003	3.79%	4.78%	0.99%
2004	-0.30%	-1.26%	-0.96%
2005	-0.17%	-0.10%	0.07%
2006	-0.74%	-0.68%	0.06%
2007	0.09%	1.94%	1.85%
2008	7.28%	11.65%	4.37%
2009	2.26%	5.53%	3.27%
2010	2.97%	3.89%	0.92%
2011	5.04%	5.08%	0.04%
2012	2.24%	4.60%	2.36%
2013	2.54%	2.76%	0.22%
2014	3.45%	5.13%	1.68%
2015	-1.50%	-2.03%	-0.53%
2016	-0.19%	-0.07%	0.12%
2017	0.75%	1.28%	0.53%
Total	53.68%	89.12%	35.44%

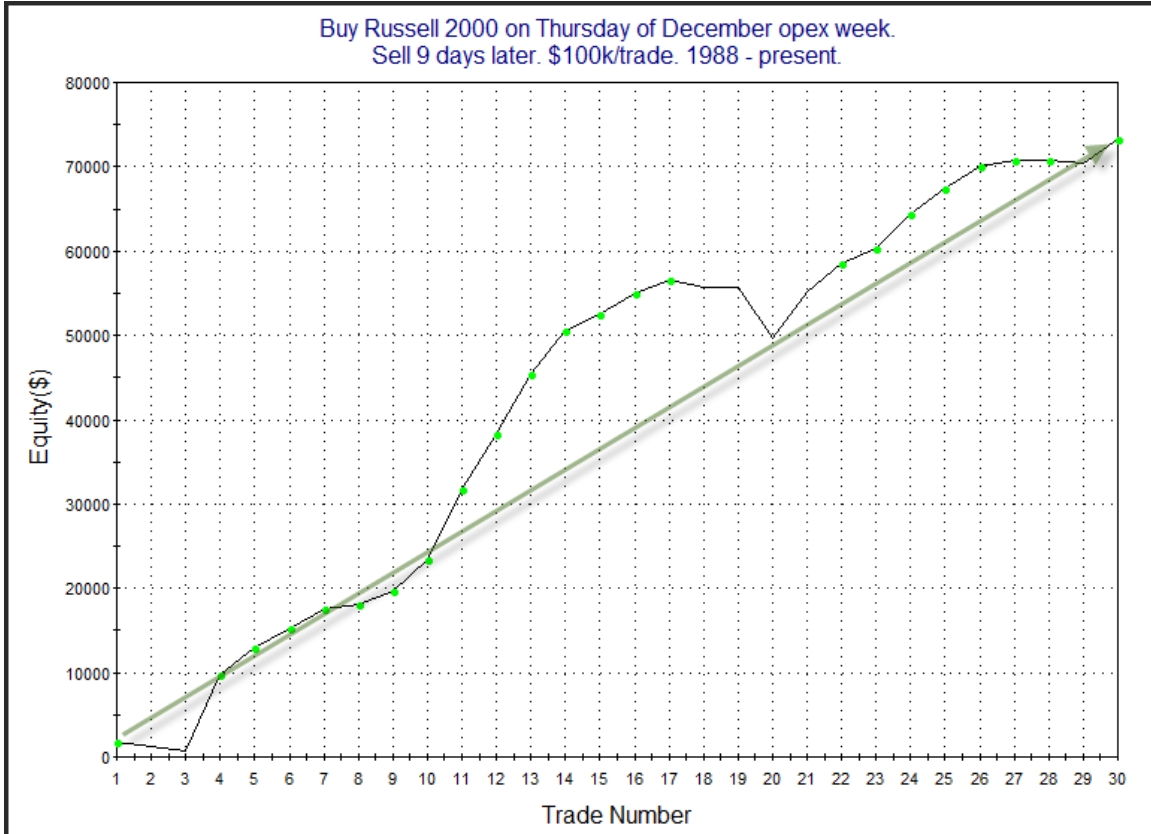
Bottom line from a seasonality standpoint is that there should be some strong winds at the markets' back through the end of the year. Traders could look to take advantage of this a number of ways. Going forward I may consider using IWM (the Russell 2000 etf) instead of SPY for some long index trades to take advantage of the probable Russell outperformance.

Next is a study I last showed in the 12/11/17 subscriber letter that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

**Buy Russell 2000 on Thursday of December opex week.
Sell X days later. \$100k/trade. 1988 - 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
10	69,791.26	29	22	7	75.86	3,809.35	10,279.71	-2,002.05	-5,643.30	1.90	5.98	2,406.60
9	70,499.30	29	24	5	82.76	3,278.18	9,009.63	-1,635.38	-5,973.50	2.00	9.62	2,431.01
8	61,252.35	29	24	5	82.76	2,762.85	7,115.85	-1,011.23	-2,948.40	2.73	13.11	2,112.15
7	55,515.46	29	24	5	82.76	2,518.81	7,790.58	-987.18	-1,809.60	2.55	12.25	1,914.33
6	41,794.87	29	22	7	75.86	2,198.53	6,599.88	-938.98	-2,720.64	2.34	7.36	1,441.20
5	30,506.19	29	20	9	68.97	2,057.34	4,892.25	-1,182.30	-3,194.64	1.74	3.87	1,051.94
4	24,082.39	29	20	9	68.97	1,861.51	4,413.75	-1,460.86	-3,892.32	1.27	2.83	830.43
3	20,132.85	29	19	10	65.52	1,734.00	3,814.20	-1,281.31	-2,650.68	1.35	2.57	694.24
2	9,351.33	29	17	12	58.62	1,312.28	3,495.70	-1,079.79	-2,810.39	1.22	1.72	322.46
1	10,064.66	29	16	13	55.17	918.13	2,299.70	-355.80	-1,261.92	2.58	3.18	347.06

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



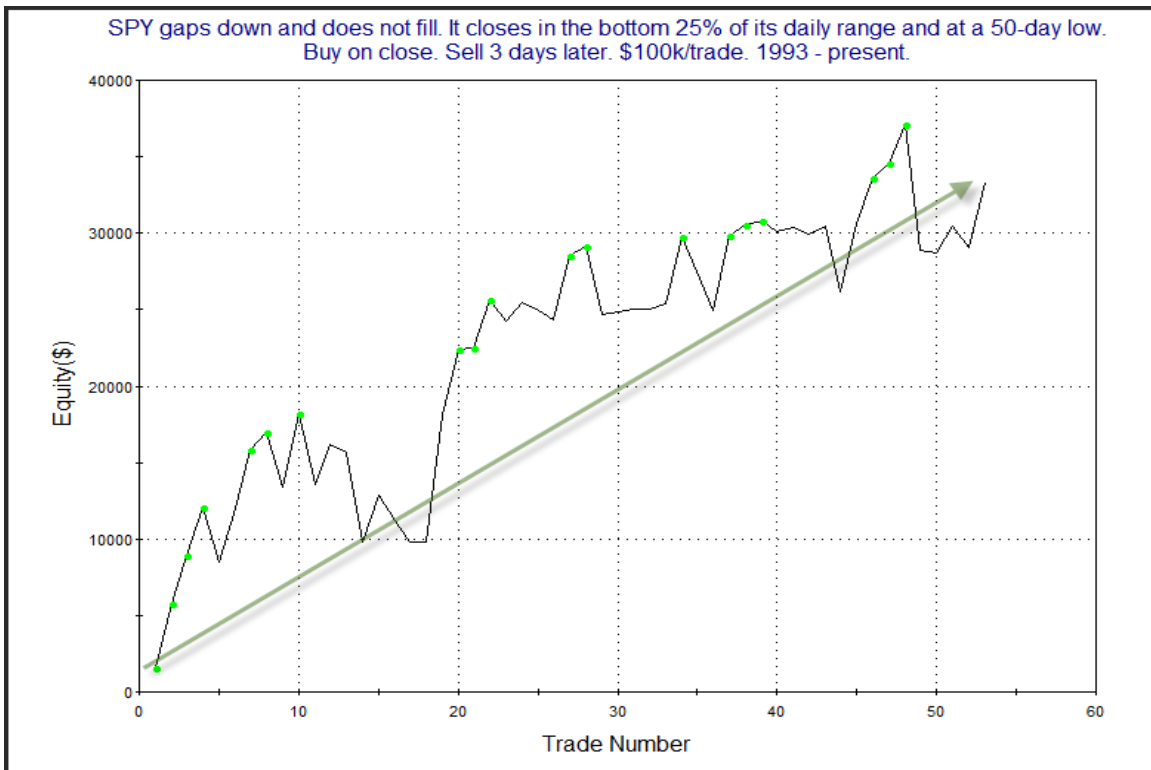
That is a strong looking curve, and last year the Russell again made a new high. I'll repost this study again Thursday night when it actually triggers.

From a price action standpoint, there was a study that examined SPY's unfilled gap down and its weak close at a 50-day low. It was from the 7/9/15 letter. I have updated it below.

**SPY gaps down and does not fill. It closes in the bottom 25% of its daily range and at a 50-day low.
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	53,139.22	48	31	17	64.58	3,366.41	10,816.00	-3,012.92	-7,955.64	1.12	2.04	1,107.07
4	25,456.17	50	28	22	56.00	3,155.06	13,568.00	-2,858.43	-10,531.08	1.10	1.40	509.12
3	33,345.62	53	33	20	62.26	2,475.10	8,358.40	-2,416.63	-8,183.00	1.02	1.69	629.16
2	9,780.82	55	29	26	52.73	2,217.86	7,756.80	-2,097.58	-7,761.78	1.06	1.18	177.83
1	6,709.86	57	31	26	54.39	1,487.20	5,764.38	-1,515.13	-7,417.30	0.98	1.17	117.72

The numbers hint at a short-term bullish edge. Below is a look at a profit curve for a 3-day exit strategy.



The curve is choppy but it continues to head from lower left to upper right. I'm including it on the Active List, but it is a close call, and if it flounders much from here, I will have to put this study on probation.

It is also notable that we finally saw a Catapult trade trigger on Friday afternoon. Any CBI reading is better than 0 when looking for a bounce. Of course a 10+ would be even better. Below is an excerpt from the [Quantifiable Edges CBI Research Paper](#) that discusses this.

..Let's consider some studies that examine how the market has performed after hitting new lows, and break down those returns by CBI readings. The first one looks at performance following 50-day low closes when the CBI is 0.

SPX closes at 50-day low. CBI closes at 0. Buy on close. Sell X days later. \$100k/trade. 1995 - 3/6/2018.												
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
20	-1,530.60	17	10	7	58.82	3,330.46	9,253.36	-4,976.46	-8,467.20	0.67	0.96	-90.04
19	3,182.40	18	11	7	61.11	3,579.06	8,112.56	-5,169.60	-10,277.60	0.69	1.09	176.80
18	-6,361.71	18	10	8	55.56	3,798.22	8,035.28	-5,542.99	-9,871.20	0.69	0.86	-353.43
17	-8,078.94	18	10	8	55.56	3,254.68	7,502.60	-5,078.21	-9,362.94	0.64	0.80	-448.83
16	-6,242.14	18	8	10	44.44	4,329.74	8,222.04	-4,088.01	-11,305.65	1.06	0.85	-346.79
15	-10,778.71	18	9	9	50.00	3,632.99	7,142.88	-4,830.63	-12,312.24	0.75	0.75	-598.82
14	-18,387.14	18	10	8	55.56	3,324.31	7,388.52	-6,453.78	-11,857.23	0.52	0.64	-1,021.51
13	-11,748.03	19	10	9	52.63	3,287.93	6,388.48	-4,958.60	-12,624.57	0.66	0.74	-618.32
12	-11,540.18	19	9	10	47.37	3,713.26	6,582.60	-4,495.95	-15,900.12	0.83	0.74	-607.38
11	-3,525.09	19	11	8	57.89	2,821.44	5,627.16	-4,320.11	-14,269.74	0.65	0.90	-185.53
10	-9,389.35	19	10	9	52.63	2,620.13	5,656.16	-3,954.52	-11,524.02	0.66	0.74	-494.18
9	-2,098.44	19	11	8	57.89	3,168.78	5,415.45	-4,619.38	-10,076.34	0.69	0.94	-110.44
8	-3,639.66	20	11	9	55.00	2,896.42	6,540.41	-3,944.47	-9,551.73	0.73	0.90	-181.98
7	-4,898.04	22	12	10	54.55	2,283.10	5,140.96	-3,229.53	-7,354.80	0.71	0.85	-222.64
6	-5,997.99	22	11	11	50.00	2,492.61	4,405.04	-3,037.88	-10,529.91	0.82	0.82	-272.64
5	-6,508.56	24	11	13	45.83	2,452.12	5,486.55	-2,575.53	-6,711.66	0.95	0.81	-271.19
4	-1,667.03	24	13	11	54.17	2,069.10	5,070.22	-2,596.85	-10,632.61	0.80	0.94	-69.46
3	7,593.45	27	16	11	59.26	1,774.50	4,682.36	-1,890.77	-5,403.51	0.94	1.37	281.24
2	4,898.61	31	15	16	48.39	1,716.39	3,615.24	-1,302.95	-4,264.42	1.32	1.23	158.02
1	4,922.01	38	23	15	60.53	1,001.80	2,348.64	-1,207.96	-4,302.72	0.83	1.27	129.53

Other than perhaps a very quick bounce this has not been a favorable setup for the bulls. From 1-4 weeks out the results have nearly all been net negative.

Now let's look at instances where the 50-day closing low was accompanied by a CBI of between 1-5.

SPX closes at 50-day low. CBI closes between 1 & 5. Buy on close. Sell X days later. \$100k/trade. 1995 - 3/6/2018.												
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
20	62,203.48	45	29	16	64.44	4,684.42	13,866.30	-4,602.80	-15,803.20	1.02	1.84	1,382.30
19	46,455.14	45	30	15	66.67	4,364.31	16,726.50	-5,631.61	-24,445.99	0.77	1.55	1,032.34
18	50,909.89	46	32	14	69.57	3,980.94	16,682.40	-5,462.86	-23,557.89	0.73	1.67	1,106.74
17	41,836.05	46	33	13	71.74	3,389.66	12,849.30	-5,386.37	-17,331.23	0.63	1.60	909.48
16	23,310.90	46	29	17	63.04	3,494.23	11,683.80	-4,589.51	-16,394.16	0.76	1.30	506.76
15	34,640.63	46	28	18	60.87	3,822.82	13,946.40	-4,022.13	-11,359.38	0.95	1.48	753.06
14	2,777.85	49	27	22	55.10	3,778.70	12,511.80	-4,511.23	-17,200.80	0.84	1.03	56.69
13	3,741.66	52	27	25	51.92	4,152.09	11,849.44	-4,334.60	-18,220.50	0.96	1.03	71.96
12	18,034.32	52	29	23	55.77	3,716.29	12,287.70	-3,901.65	-13,434.12	0.95	1.20	346.81
11	35,157.28	52	29	23	55.77	3,781.18	13,256.10	-3,239.00	-10,244.70	1.17	1.47	676.10
10	13,178.47	52	25	27	48.08	3,958.87	11,861.10	-3,177.53	-11,697.84	1.25	1.15	253.43
9	13,680.88	53	29	24	54.72	3,700.15	11,281.50	-3,900.98	-18,648.00	0.95	1.15	258.13
8	13,515.46	56	33	23	58.93	3,014.17	9,398.70	-3,737.06	-17,685.00	0.81	1.16	241.35
7	41,472.03	57	34	23	59.65	3,196.76	10,005.56	-2,922.51	-12,654.00	1.09	1.62	727.58
6	27,616.74	60	33	27	55.00	2,793.27	8,667.90	-2,391.15	-10,967.40	1.17	1.43	460.28
5	50,780.55	64	35	29	54.69	2,865.22	8,609.40	-1,706.97	-8,127.00	1.68	2.03	793.45
4	-21,969.19	68	39	29	57.35	1,938.09	5,090.39	-3,363.95	-17,037.90	0.58	0.77	-323.08
3	11,853.42	74	42	32	56.76	1,962.87	5,916.60	-2,205.85	-10,286.10	0.89	1.17	160.18
2	5,287.45	85	43	42	50.59	1,817.81	8,484.76	-1,735.20	-9,270.00	1.05	1.07	62.21
1	3,316.40	108	53	55	49.07	1,143.95	5,394.60	-1,042.05	-6,633.36	1.10	1.06	30.71

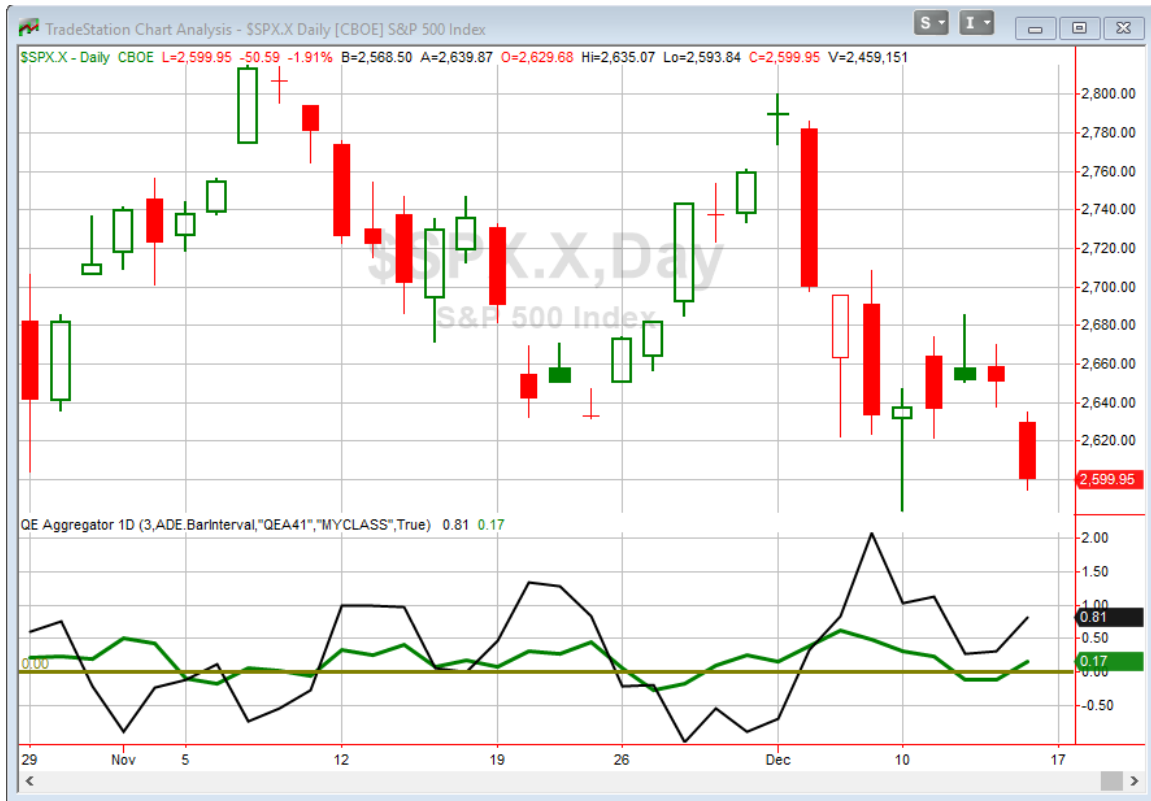
Still nothing I would want to place a strong wager on, but the results table has turned from mostly red to mostly green. So some improvement is certainly seen even with a mild CBI reading above 0... Lastly, let's look at high CBI readings of 10 or above.

SPX closes at 50-day low. CBI closes >= 10.
Buy on close. Sell X days later. \$100k/trade. 1995 - 3/6/2018.

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
20	102,310.32	19	18	1	94.74	5,694.80	17,878.08	-196.00	-196.00	29.06	522.99	5,384.75
19	97,417.70	19	17	2	89.47	5,944.19	17,534.88	-1,816.75	-2,993.00	3.27	27.81	5,127.25
18	99,692.51	19	18	1	94.74	5,691.14	20,061.36	-2,748.00	-2,748.00	2.07	37.28	5,246.97
17	97,650.41	19	17	2	89.47	6,118.19	21,217.68	-3,179.43	-4,214.00	1.92	16.36	5,139.50
16	84,008.13	19	17	2	89.47	5,348.19	15,329.16	-3,455.52	-6,614.00	1.55	13.16	4,421.48
15	77,054.02	19	15	4	78.95	5,636.79	17,338.20	-1,874.45	-5,572.00	3.01	11.28	4,055.47
14	57,888.04	20	16	4	80.00	4,646.62	15,991.80	-4,114.46	-14,731.00	1.13	4.52	2,894.40
13	61,658.69	20	15	5	75.00	5,287.54	19,377.60	-3,530.87	-11,946.00	1.50	4.49	3,082.93
12	61,669.02	20	15	5	75.00	5,216.18	17,982.36	-3,314.74	-8,812.00	1.57	4.72	3,083.45
11	68,946.18	20	14	6	70.00	5,978.83	20,758.32	-2,459.58	-9,945.00	2.43	5.67	3,447.31
10	60,929.33	20	15	5	75.00	4,637.87	16,319.16	-1,727.75	-4,118.00	2.68	8.05	3,046.47
9	62,923.75	20	15	5	75.00	4,624.13	12,246.96	-1,287.65	-1,765.40	3.59	10.77	3,146.19
8	53,257.47	21	17	4	80.95	4,010.27	15,615.60	-3,729.28	-5,568.00	1.08	4.57	2,536.07
7	54,279.65	21	15	6	71.43	4,547.85	12,720.84	-2,323.02	-4,980.00	1.96	4.89	2,584.75
6	51,686.17	21	15	6	71.43	4,642.43	18,349.11	-2,991.71	-8,839.00	1.55	3.88	2,461.25
5	56,339.59	21	15	6	71.43	4,854.57	18,981.60	-2,746.48	-5,174.95	1.77	4.42	2,682.84
4	49,127.81	22	15	7	68.18	4,401.65	17,851.68	-2,413.85	-4,365.00	1.82	3.91	2,233.08
3	34,696.55	27	19	8	70.37	3,705.49	13,853.40	-4,463.48	-9,701.00	0.83	1.97	1,285.06
2	32,115.48	30	19	11	63.33	3,451.13	13,116.84	-3,041.45	-8,631.00	1.13	1.96	1,070.52
1	32,869.67	42	25	17	59.52	3,001.65	11,558.43	-2,480.67	-7,577.02	1.21	1.78	782.61

These are by far the most appealing results, from Day 1 right through day 20. And 20 days out there was just one loser and it only lost 0.2%. Meanwhile, the average gain of the other 18 instances was a sizable 5.7%.

I have updated the Aggregator chart below.



With this weekend's studies considered, the green Aggregator Line moved back above zero. Positive readings mean net expectations are for upside 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 positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned long at the close.

With the current active studies, expectations are slated to remain bullish on Monday. It would take some very compelling new bearish evidence to change this. The Differential Pivot will be 2661.47 on Monday. That is 2.4% above Friday's close. So Monday would need to close at least 2.4% higher for SPX to flip from oversold to overbought versus recent expectations.

Oversold into a strong seasonal period is typically one of my favorite setups. And the evidence seems to be supporting the bullish case. The Aggregator is bullish, and there is plenty of room to the upside before SPX would flip to overbought. But we are certainly in a volatile and potentially dangerous market environment. Further selling is certainly possible, especially with the CBI sitting at just 1. Still, this seems like a good spot to take a shot with a small long position. And that is what I intend to do if I can get a decent fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/17– neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

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 “flat”.*

It was another tough week for the market, with several indices closing the week at intermediate or long-term lows. The SPX lost 1.3%, the NASDAQ declined 0.8%, and the Russell 2000 dropped 2.6%. There was one study in the Wednesday night letter that showed some bearish potential for the intermediate-term. I have copied it below.

Several studies appeared in the Quantifinder related to SPY volume. The one below I found to be especially appealing, and worth showing again because it seems to suggest not just a short-term edge, but perhaps an intermediate-term one as well. It is updated from the 8/16/11 letter.

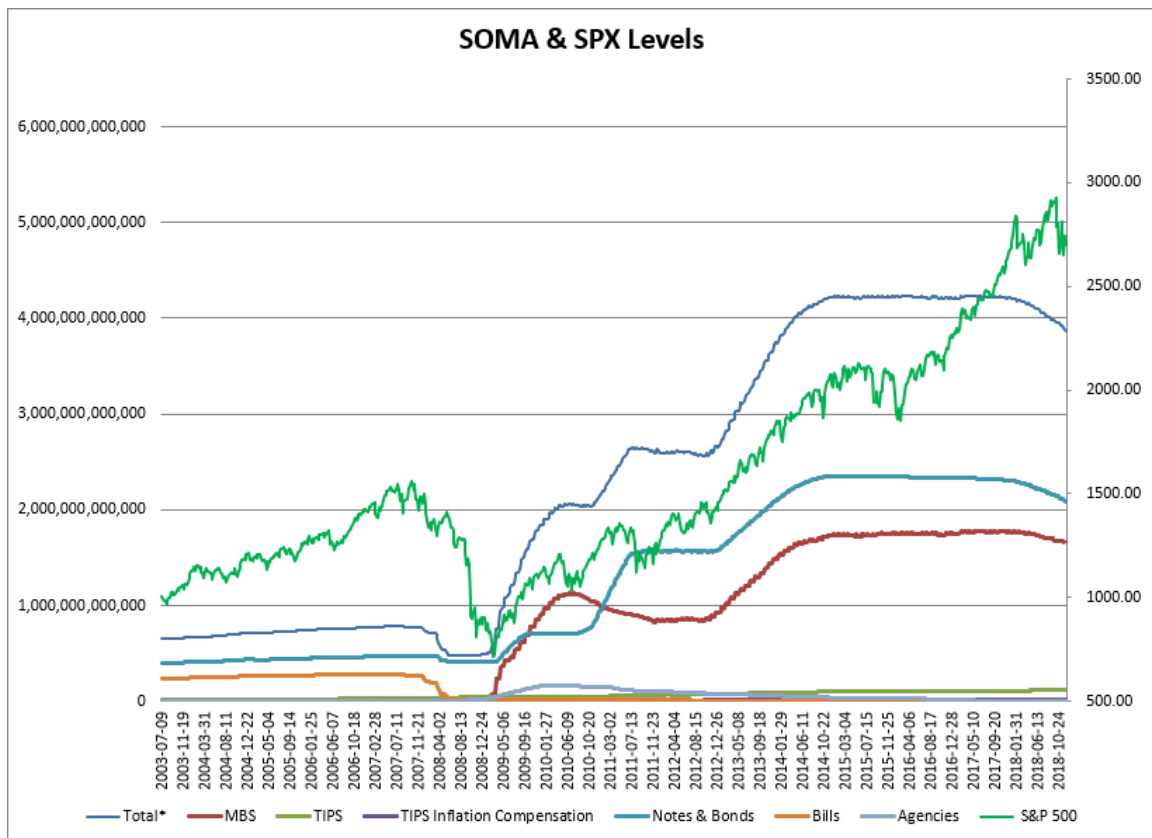
SPY rises 3 days in a row while SPY volume declines 3 days in a row. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	-52,682.08	14	4	10	28.57	2,166.56	4,102.18	-6,134.83	-12,586.76	0.35	0.14	-3,763.01
19	-47,115.78	14	5	9	35.71	1,842.16	4,528.14	-6,258.51	-15,435.00	0.29	0.16	-3,365.41
18	-44,817.27	15	6	9	40.00	1,546.31	4,639.26	-6,010.57	-11,688.04	0.26	0.17	-2,987.82
17	-39,324.66	15	4	11	26.67	1,691.46	3,944.76	-4,190.05	-8,411.13	0.40	0.15	-2,621.64
16	-32,432.67	15	4	11	26.67	2,837.21	4,444.80	-3,980.14	-11,782.05	0.71	0.26	-2,162.18
15	-38,198.90	15	4	11	26.67	2,592.29	6,220.11	-4,415.28	-12,430.32	0.59	0.21	-2,546.59
14	-41,524.61	15	4	11	26.67	2,745.78	7,258.74	-4,773.43	-18,100.11	0.58	0.21	-2,768.31
13	-38,032.09	15	6	9	40.00	1,253.09	2,657.62	-5,061.18	-22,288.14	0.25	0.17	-2,535.47
12	-22,499.46	15	8	7	53.33	1,442.10	3,886.11	-4,862.32	-16,062.69	0.30	0.34	-1,499.96
11	-12,631.85	15	8	7	53.33	1,694.85	3,333.60	-3,741.52	-10,320.87	0.45	0.52	-842.12
10	-14,950.29	15	7	8	46.67	2,098.85	5,193.15	-3,705.28	-11,977.56	0.57	0.50	-996.69
9	-15,602.00	15	7	8	46.67	2,044.09	4,481.28	-3,738.82	-10,794.21	0.55	0.48	-1,040.13
8	-15,969.13	15	5	10	33.33	2,685.60	6,231.78	-2,939.71	-6,112.26	0.91	0.46	-1,064.61
7	-17,913.84	15	7	8	46.67	1,169.49	2,649.09	-3,262.53	-11,617.41	0.36	0.31	-1,194.26
6	-17,595.89	15	5	10	33.33	1,401.73	1,720.62	-2,460.45	-7,552.86	0.57	0.28	-1,173.06
5	-19,560.02	15	5	9	33.33	1,294.86	2,551.35	-2,892.70	-6,540.81	0.45	0.25	-1,304.00
4	-22,473.10	15	3	12	20.00	1,663.01	2,737.50	-2,288.51	-6,615.42	0.73	0.18	-1,498.21
3	-25,788.59	15	4	11	26.67	831.23	1,564.94	-2,646.68	-6,431.25	0.31	0.11	-1,719.24
2	-10,944.86	16	5	11	31.25	1,581.66	5,169.81	-1,713.92	-5,350.20	0.92	0.42	-684.05
1	1,526.34	18	9	9	50.00	1,758.58	3,862.77	-1,588.99	-8,857.80	1.11	1.11	84.80

Here we see what appears to be a strong downside inclination.

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 12/05/2018

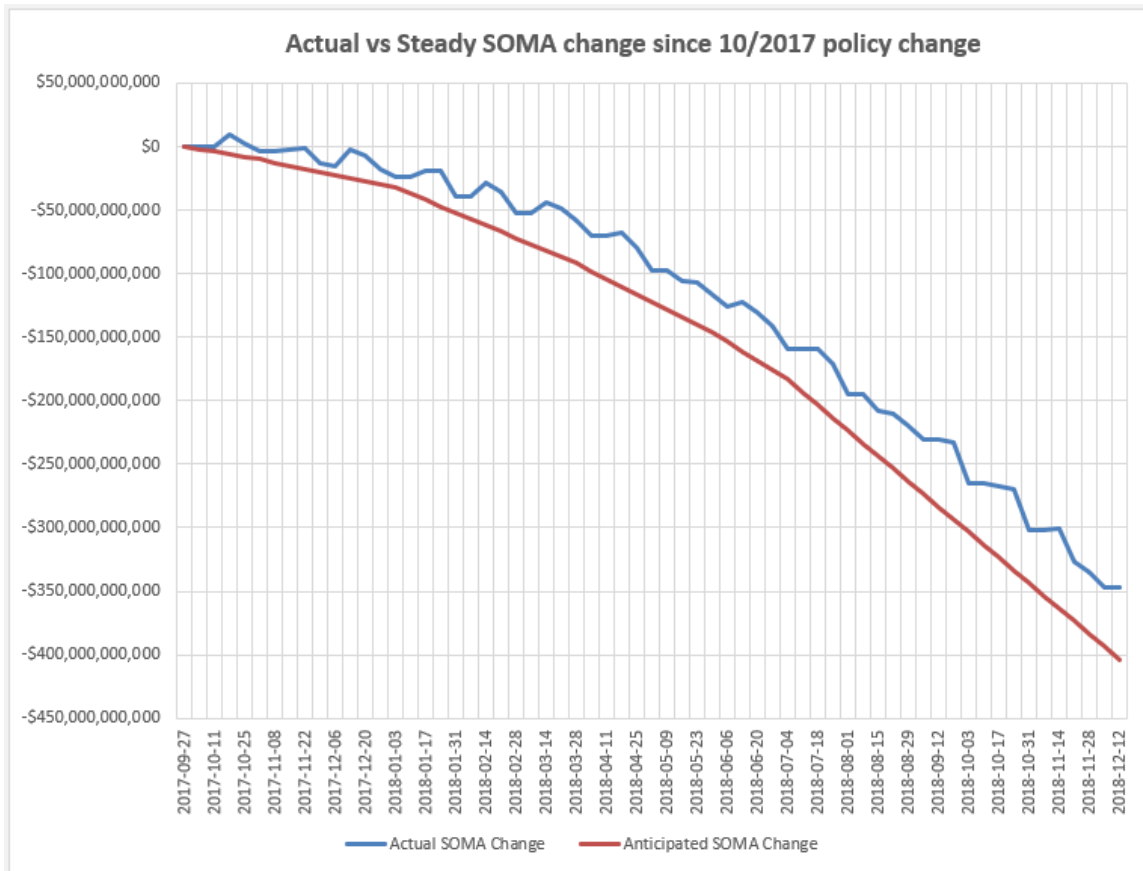
DOMESTIC SECURITIES HOLDINGS AS OF
December 12, 2018

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
Total SOMA Holdings	3,874,219,328.3
Change From Prior Week	

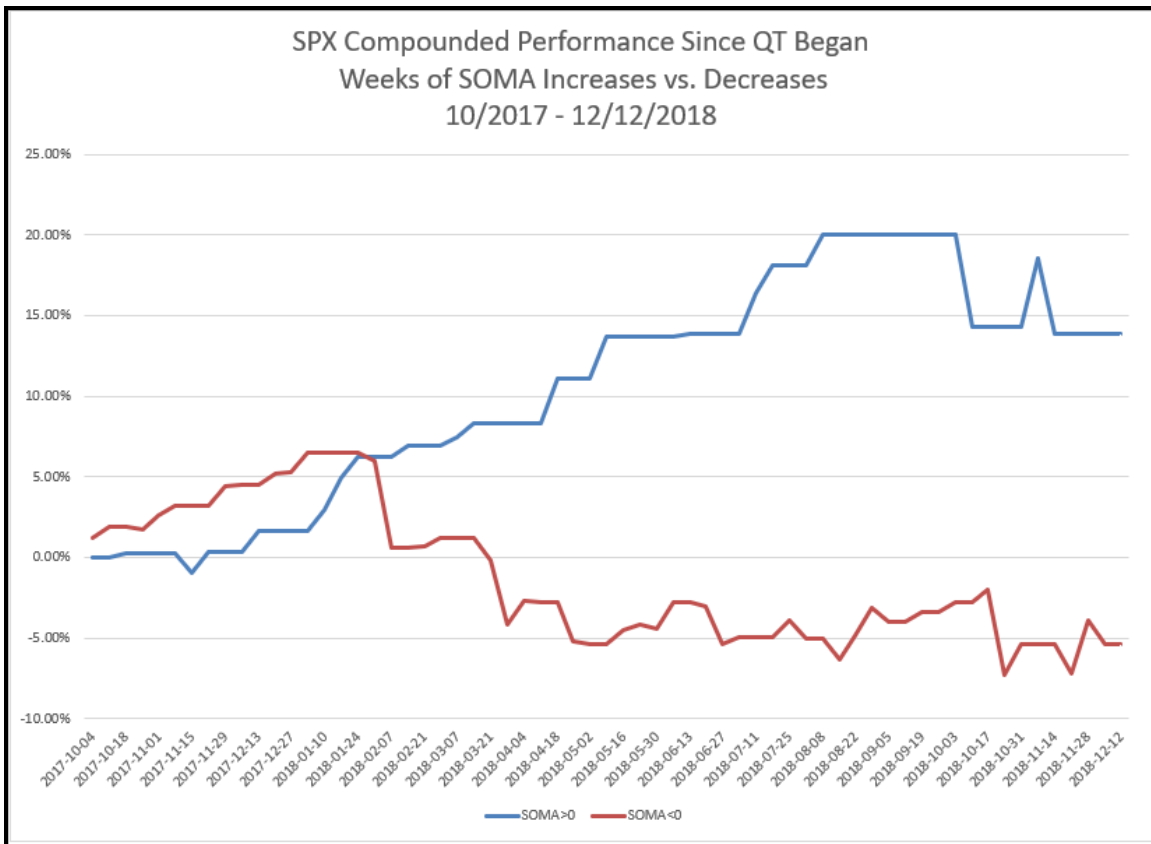
*Does not reflect inflation compensation of 22,265,570.3
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 12/13/2018 4:30pm.

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



The Fed’s SOMA this past week (Wednesday to Wednesday) came in with exactly the same balance as the week before. This was the 1st time since 10/22/2008 that there was zero change to the SOMA from one week to the next. Meanwhile, the SPX lost 1.8% for the week ending 12/12. The “Actual vs Steady” chart shows that non-move in the SOMA this past week was well above the average decline, 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 14 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 5.4%. Of course this week both lines are going sideways since the SOMA neither expanded nor declined. 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 11/28/2018

DOMESTIC SECURITIES HOLDINGS AS OF
December 5, 2018 📅

Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies						
Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding ¹	Change in Par from Prior Week ²	Change in Par from Prior Year ²
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%		
1/31/19	912828V56	1.125	1,648,772.7	5.96%		
1/31/19	912828SD3	1.250	5,843,714.5	19.78%		
1/31/19	912828B33	1.500	4,173,000.0	11.92%		
2/15/19	912810EC8	8.875	7,497,000.0	57.27%		
2/15/19	912828P53	0.750	1,884,490.1	7.28%		
2/15/19	912828KD1	2.750	34,141,943.8	58.19%		
2/28/19	912828W30	1.125	3,605,863.3	12.18%		
2/28/19	912828SH4	1.375	6,315,645.0	21.48%		
2/28/19	912828C24	1.500	2,607,325.5	7.43%		

The first thing to note about the table above is that there will not be any new treasury expirations until 12/31. So any QT between now and then will be due to AMBS securities coming 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.

This week, ending on the 19th, is a little unclear. To this point, there have been 3 weeks ending on the 19th or 20th since QT began, and they all saw SOMA contractions. But the 3 weeks that ended on the 18th actually saw the SOMA expand. I suspect we will see a small decline, but it is not 100%. The following week, ending on the 26th, I expect to see a larger QT amount cause a more substantial SOMA decline.

Another thing to note about the treasury expiration schedule shown above is the small amount of treasuries that are set to mature in December and January. The current Fed policy calls for up to \$50 billion/month in QT. And \$30 billion of that is from treasuries, while the other \$20 billion is AMBS. But there are not \$30 billion worth of treasuries expiring the next couple of months that the Fed could roll off the books. There has been some talk recently of the Fed possibly reducing the QT schedule. February is the next big QT month. So the Fed could easily wait until the January 29th-30th meeting to reduce QT amounts, since they are naturally being reduced anyway during December and January.

We still see some mix of evidence for the intermediate-term. Positive seasonality is the biggest plus for the market right now. Not only are we in the Best 6 months during the 3rd year of a Presidential Cycle, but the 2nd half of December is upon us. So it is a tough time to turn outright bearish. On the bearish side, we now have multiple trend indicators pointing downward. The SPY 3 up-days on declining volume study supports the bears. And QT is a large concern. But QT is going to be reduced this month and next. Overall, evidence is still not overly compelling for either the bulls or the bears. I am keeping my bias neutral. 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. I could easily turn bearish once this strong seasonal period ends if we do not see more bullish evidence emerge in the next few weeks.

Catapult and Capitulative Breadth Statistics

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

OpenCatapult Triggers

New

ALL – 1/3 @ \$79.30 (buy @ limit)

Broad Market Large Cap CBI – 1(ALL)

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.

ALL – buy 1/3 Catapult position @ \$79.30 LIMIT. This is from the Catapult & CBI section above. It is the 1st of up to 3 possible positions for ALL.

SPY – buy ¼ index position @ \$260.70 LIMIT. Based on the short-term outlook above, I'll be looking get long if I can get near Friday's closing price. I've placed the limit a little above the close in case of a gap higher that does not quite fill. If I look to add further to the index position this week, I will likely do so using IWM instead of SPY.

Current Open Trade Ideas

None

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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