

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 24, 2018

Volume 11 Issue 247

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	20

Tonight's Research Points

- A down Fed Day and the next 2 days also down have led to a bounce nearly every other time since 1982.
- A CBI of 20+ has been followed by a bounce on a consistent basis – though there has often been some further downside before the bounce.
- SPX down 1.5% 3 days in a row has been a rare and powerful setup. But when it has failed, it has really failed.
- QT should be substantial this week and next.

Short-term Outlook

The Bottom Line

There appears to be a very strong probability of a bounce in the next few days. But the market is ugly right now, and if the bounce does not arrive soon there could be some more hard and fast selling to occur. I am currently playing the probabilities and betting on the bounce.

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 24, 2018	SPX down 1.5% for 3 days	1-8 days	Bullish			
December 24, 2018	Fed 2 ago. SPX down 3 days.	1-3 days	Bullish			
December 21, 2018	CBI 10+. SPX 50-day low.	1-5 days	Bullish			
December 21, 2018	Twas 3 Night Before Christmas	1-5 days	Bullish			
December 21, 2018	RSI < 2. SPX 50-day low. 2x	1-2 days	Bullish			
December 20, 2018	2% drop from high on Fed Day	1-4 days	Bullish			
Active - Long Term						
December 21, 2018	CBI 10+. SPX 50-day low.	1-18 days	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			

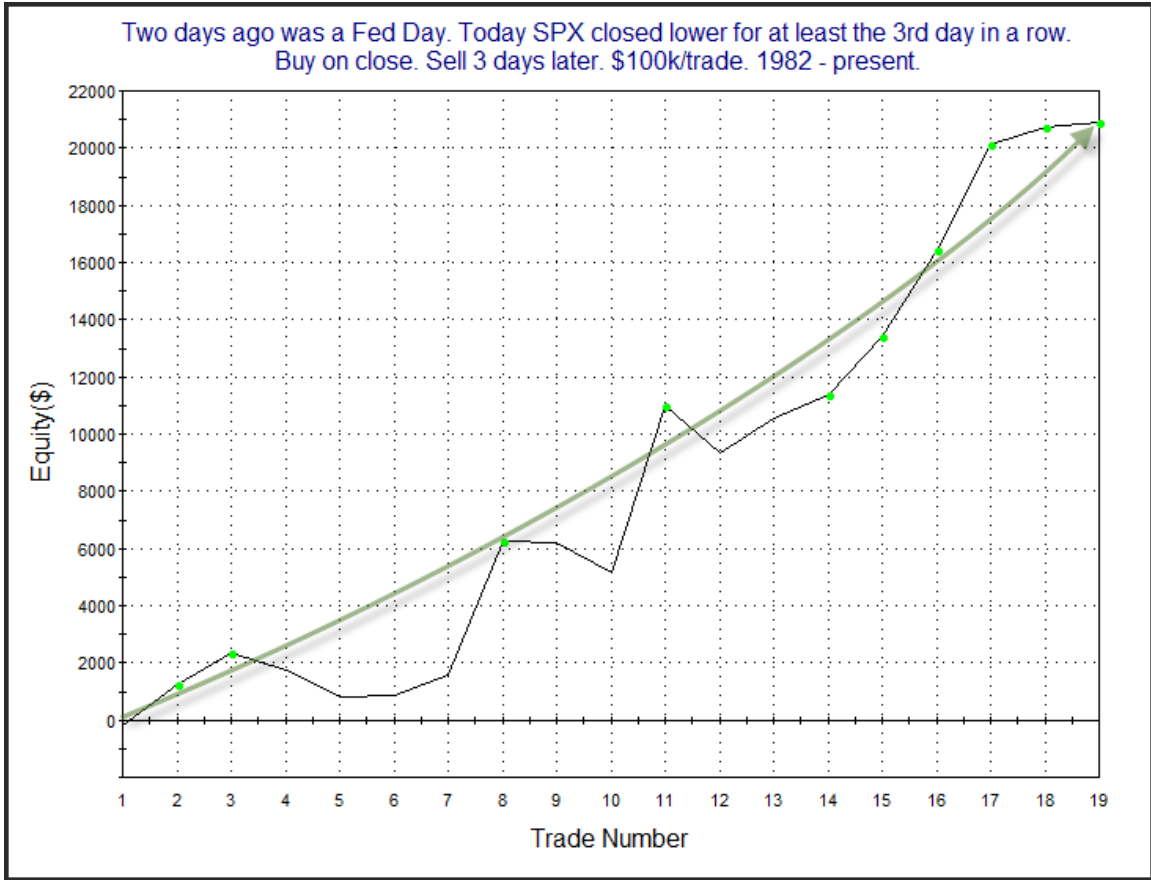
The Evidence

The carnage continued on Friday. The SPX finished down 2.1%, the NASDAQ lost 3.0%, and the Russell 2000 fell 2.6%. All 3 indices also finished at long-term lows. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 16%. NYSE volume was huge, though it was helped by options expiration and Russell rebalancing. Still, according to my Tradestation data, the only higher day ever was 10/10/2008. Norgate shows many higher volume days in 2008 – 2011 period, and 1 day in 2016. No matter who you believe, volume on Friday was huge.

The selling has continued right through and after a (typically bullish) Fed Day. In the 11/7/16 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

Two days ago was a Fed Day. Today SPX closed lower for at least the 3rd day in a row. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	10,637.70	19	10	9	52.63	2,536.63	5,555.16	-1,636.51	-3,477.69	1.55	1.72	559.88
4	19,494.35	19	12	7	63.16	2,265.15	5,564.00	-1,098.21	-2,266.11	2.06	3.54	1,026.02
3	20,892.13	19	13	6	68.42	1,944.59	5,801.02	-731.25	-1,610.84	2.66	5.76	1,099.59
2	16,482.59	19	14	5	73.68	1,387.39	4,670.25	-588.17	-971.48	2.36	6.60	867.50
1	14,784.87	19	14	5	73.68	1,110.15	2,671.02	-151.45	-401.12	7.33	20.52	778.15
<p>18 of 19 instances closed above the entry price at some point in the next 3 days. The lone failure triggered on 11/9/84 and continued to sell off for several weeks.</p>												

The edge looks quite strong over the next 1-3 days. Below is a look at a 3-day profit curve.



Recent instances have made this one look even better. I have included this study on the active list tonight.

The Quantifiable Edges Capitulative Breadth Indicator hit 20 on Friday. That is just the 12th time since 1995 that the CBI reached that high. A very high CBI reading implies that there is a substantial number of stocks that are undergoing capitulative selling and primed for strong reversals. A high CBI can also act as a signal that the market is about to bounce. The table below is taken from the CBI Research Paper. It examines all 11 previous instances, how long it took before an intraday and a closing bottom was reached, and what level marked the peak CBI for each instance.

Quantifiable Edges CBI Instances of 20+ readings. 1995 - present.													
Date Reached 20+	CBI	SPX Close	>200	Max CBI	Max CBI Date	Intra Bottom Date	Intraday Bottom	% to ID bottom	# Days 20-ID bottom	Close Bottom Date	Close Bottom	% to Close bottom	# Days 20 - close bottom
10/29/2018	21	2641.25		21	10/29/2018	10/30/2018	2635.34	-0.22%	0	10/29/2018	2641.25	0.00%	0
2/5/2018	25	2648.94	*	31	2/9/2018	2/9/2018	2532.69	-4.39%	4	2/8/2018	2,581.00	-2.56%	3
8/24/2015	45	1893.21		73	8/25/2015	8/24/2015	1867.01	-1.38%	0	8/25/2015	1,867.62	-1.33%	1
7/27/2015	20	2067.64	*	20	7/27/2015	8/12/2015	2052.09	-0.75%	12	7/27/2015	2,067.64	0.00%	0
7/2/2010	23	1022.58		24	7/6/2010	7/6/2010	1018.35	-0.41%	1	7/2/2010	1,022.58	0.00%	0
5/21/2010	21	1087.69		23	5/24/2010	5/25/2010	1040.78	-4.31%	2	6/7/2010	1,050.47	-3.42%	10
10/9/2008	31	909.92		48	10/10/2008	10/10/2008	839.8	-7.71%	1	10/27/2008	848.92	-6.70%	12
7/19/2002	26	847.75		52	7/23/2002	7/24/2002	775.68	-8.50%	3	7/23/2002	797.70	-5.90%	2
9/20/2001	26	984.54		38	9/21/2001	9/21/2001	944.75	-4.04%	1	9/21/2001	965.80	-1.90%	1
8/31/1998	31	957.55		34	9/1/1998	9/1/1998	940	-1.83%	1	8/31/1998	957.55	0.00%	0
12/6/1996	24	739.6	*	24	12/6/1996	12/17/1996	716.69	-3.10%	7	12/16/1996	720.99	-2.52%	6

Taken from the Quantifiable Edges CBI Research Paper @ <http://quantifiableedges.com/subscribers/signup/research>

Another way to look at the data is to see what would happen if you bought at the close of the day that the CBI reached 20, and then exited the SPX when the CBI dropped back to 3 or lower. This is something I have shown in the past. Below are the results.

Quantifiable Edges CBI closes >= 20. Buy SPX on close. Sell when CBI closes <= 3. \$100k/trade. 1995 - present.					
Date/Time	Signal	Price	% Profit	Run-up Drawdown	
12/6/1996	Buy	\$739.60	0.83%	\$1,867.05	
12/19/1996	Sell	\$745.77			(\$3,092.85)
8/31/1998	Buy	\$957.55	7.53%	\$8,408.40	
9/14/1998	Sell	\$1,029.70			(\$1,825.20)
9/20/2001	Buy	\$984.54	8.91%	\$9,174.84	
10/3/2001	Sell	\$1,072.28			(\$4,018.79)
7/19/2002	Buy	\$847.75	6.49%	\$7,261.02	
7/30/2002	Sell	\$902.78			(\$8,432.19)
10/9/2008	Buy	\$909.92	4.85%	\$14,648.51	
10/30/2008	Sell	\$954.09			(\$7,643.08)
5/21/2010	Buy	\$1,087.69	-2.94%	\$1,636.18	
6/9/2010	Sell	\$1,055.69			(\$4,268.81)
7/2/2010	Buy	\$1,022.58	4.66%	\$4,720.99	
7/8/2010	Sell	\$1,070.25			(\$410.31)
7/27/2015	Buy	\$2,067.64	0.89%	\$2,236.80	
8/12/2015	Sell	\$2,086.05			(\$746.40)
8/24/2015	Buy	\$1,893.21	4.48%	\$5,214.04	
9/15/2015	Sell	\$1,978.09			(\$1,358.76)
2/5/2018	Buy	\$2,648.94	3.71%	\$3,902.76	
2/23/2018	Sell	\$2,747.30			(\$4,301.25)
10/29/2018	Buy	\$2,641.25	3.10%	\$4,266.10	
11/2/2018	Sell	\$2,723.06			(\$218.67)

Levels as extreme as we are currently observing have typically been followed by a fairly strong bounce. But the bounce has not always come immediately, and there have been some instances where the drawdown was substantial before the bounce arrived. Still, the high CBI is a positive for the bulls.

It is also notable that the selloff the last 3 days has been very strong and very persistent. Each day the SPX declined at least 1.5%. It is quite unusual to see the SPX decline that much for 3 consecutive days. Below is a look at other times the this has occurred.

SPX closes down > 1.5% for exactly the 3rd day in a row. Buy on close. Sell X days later. \$100k/trade. 10/20/1987 - 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	60,052.78	10	10	0	100.00	6,005.28	13,815.90	0.00	0.00	100.00	100.00	6,005.28
9	55,379.13	10	9	1	90.00	6,166.14	11,206.23	-116.13	-116.13	53.10	477.87	5,537.91
8	59,743.25	10	9	1	90.00	6,760.06	11,382.35	-1,097.31	-1,097.31	6.16	55.45	5,974.33
7	54,014.54	10	9	1	90.00	6,186.65	11,104.17	-1,665.32	-1,665.32	3.71	33.43	5,401.45
6	48,449.53	10	9	1	90.00	5,507.84	10,034.53	-1,121.01	-1,121.01	4.91	44.22	4,844.95
5	39,328.08	10	8	2	80.00	5,498.64	9,572.31	-2,330.52	-3,449.18	2.36	9.44	3,932.81
4	36,604.20	10	9	1	90.00	4,342.30	8,810.76	-2,476.48	-2,476.48	1.75	15.78	3,660.42
3	32,047.29	10	9	1	90.00	3,849.07	8,432.34	-2,594.34	-2,594.34	1.48	13.35	3,204.73
2	33,574.55	10	9	1	90.00	3,816.62	6,245.15	-774.99	-774.99	4.92	44.32	3,357.45
1	9,527.22	10	6	4	60.00	2,395.65	3,877.95	-1,211.68	-2,680.15	1.98	2.97	952.72

The numbers on the table suggest 1) there has been a high probability of a bounce, and 2) the bounces have been very strong when they arrived. Below is a look at the full list of instances with the 2-day results.

SPX closes down > 1.5% for exactly the 3rd day in a row.
Buy on close. Sell 2 days later. \$100k/trade. 10/20/1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/10/1987	Buy	\$239.00	3.98%	\$4,552.02
11/12/1987	Sell	\$248.52		\$0.00
8/23/1990	Buy	\$307.06	4.68%	\$5,216.25
8/27/1990	Sell	\$321.43		(\$289.25)
10/11/1990	Buy	\$295.45	2.63%	\$3,156.92
10/15/1990	Sell	\$303.22		(\$81.12)
4/14/2000	Buy	\$1,356.02	6.31%	\$6,245.15
4/18/2000	Sell	\$1,441.57		(\$694.96)
2/21/2001	Buy	\$1,255.28	-0.78%	\$368.14
2/23/2001	Sell	\$1,245.47		(\$3,147.36)
9/21/2001	Buy	\$965.80	4.81%	\$5,288.02
9/25/2001	Sell	\$1,012.27		\$0.00
7/22/2002	Buy	\$819.85	2.88%	\$2,960.87
7/24/2002	Sell	\$843.43		(\$5,344.57)
8/5/2002	Buy	\$834.60	5.05%	\$5,252.66
8/7/2002	Sell	\$876.77		\$0.00
3/2/2009	Buy	\$700.82	1.72%	\$3,308.60
3/4/2009	Sell	\$712.87		(\$1,209.84)
8/24/2015	Buy	\$1,893.21	2.50%	\$2,851.16
8/26/2015	Sell	\$1,940.51		(\$1,358.76)

One thing to note about the above instances is that they all occurred with the SPX below its 200ma. Uptrends have not seen such volatile moves over 3-day periods. Everything above suggests a strong upside edge. But there is a dirty little secret with the above study. Below is a look at the 10-day results...and a reveal of the dirty little secret.

SPX closes down > 1.5% for exactly the 3rd day in a row.
Buy on close. Sell 10 days later. \$100k/trade. 10/20/1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/10/1987	Buy	\$239.00	3.09%	\$4,552.02
11/24/1987	Sell	\$246.38		(\$1,304.16)
8/23/1990	Buy	\$307.06	5.32%	\$6,100.25
9/7/1990	Sell	\$323.39		(\$289.25)
10/11/1990	Buy	\$295.45	4.98%	\$6,888.44
10/25/1990	Sell	\$310.16		(\$81.12)
4/14/2000	Buy	\$1,356.02	8.28%	\$9,265.16
5/1/2000	Sell	\$1,468.25		(\$694.96)
2/21/2001	Buy	\$1,255.28	0.53%	\$1,380.92
3/7/2001	Sell	\$1,261.89		(\$3,221.62)
9/21/2001	Buy	\$965.80	10.93%	\$12,186.96
10/5/2001	Sell	\$1,071.38		\$0.00
7/22/2002	Buy	\$819.85	1.80%	\$11,106.59
8/5/2002	Sell	\$834.60		(\$5,344.57)
8/5/2002	Buy	\$834.60	13.91%	\$13,871.83
8/19/2002	Sell	\$950.70		\$0.00
3/2/2009	Buy	\$700.82	7.57%	\$10,466.82
3/16/2009	Sell	\$753.89		(\$4,832.26)
8/24/2015	Buy	\$1,893.21	4.02%	\$5,214.04
9/8/2015	Sell	\$1,969.41		(\$1,358.76)

Avg Run-up: 8.1% Avg Drawdn: -1.7% Max Drawdn: -5.3%
but..

...the instance prior to those above triggered on 10/16/87
and was followed by the Crash of '87 the next day.

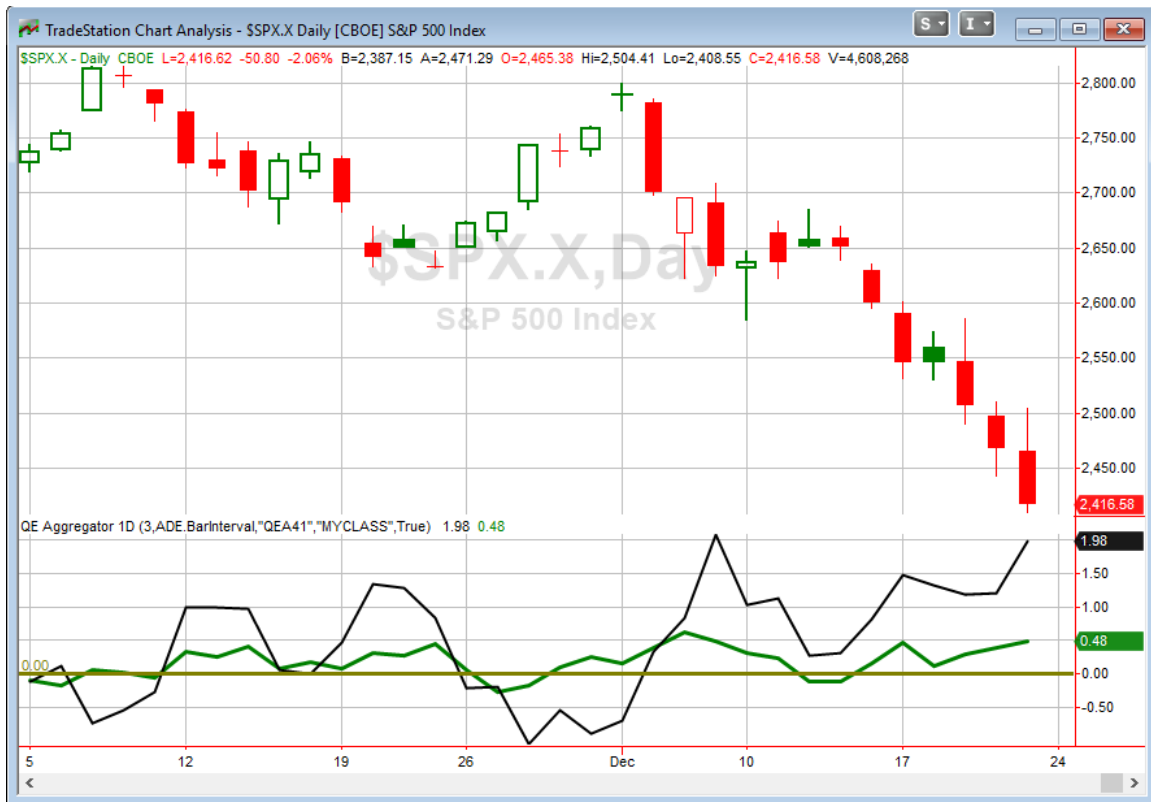
There appears to be a high probability of a strong bounce. But probable does not mean definite. And the last time the bounce failed to come...it was because the market crashed in a historic way. I do not believe that market is going to crash on Monday (or Wednesday). We have an awful lot of evidence pointing higher. Price action, capitulative breadth, Fed Studies, extreme volume, and seasonality are all pointing to a bounce. But if it does not come...it could get very, very bad. It reminds me of Longfellow's "There was a little girl".

There was a little girl

BY HENRY WADSWORTH LONGFELLOW

There was a little girl,
Who had a little curl,
Right in the middle of her forehead.
When she was good,
She was very good indeed,
But when she was bad she was horrid.

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



With tonight's studies 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 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 above zero. Therefore, the Aggregator signal stayed long at the close.

With the current active studies, expectations are slated to remain bullish on Monday. It would take extremely compelling new bearish evidence to change this. The Differential Pivot will be 2525.77 on Monday. That is 4.5% above Friday's close. Therefore, SPX would need to close up about 4.5% on Monday in order to flip from oversold to overbought versus expectations.

As I discussed above, there is an awful lot pointing towards a sharp bounce in the coming days. And the market is oversold to such a large degree that the bounce could go a long way before SPX would come near short-term overbought. Being long appears to be a high-probability play here, and I have a good amount of long exposure at the moment. While I felt I began allocating slowly and conservatively, the strength and persistence of the move lower over the last several days has me underwater more than I expected. But it does not really matter where I got in. What matters is what I believe the market is going to do from here. I often say my job is simple. When there is an edge, I get in. When that edge no longer exists, I get out. So I am in, and it appears to me that the short-term bullish edge does still exist. I considered adding a 4th and final lot to my index positions. Ultimately, I decided with all the new Catapult triggers that I did not need to do that on a shortened trading day with the next day being a holiday. I'll monitor action and see what new studies emerge on Monday before considering my next move for later in the week.

One last thought for traders is that if you are concerned about a major crash occurring in the upcoming days, then options offer the only real protection. Stops will not help if the futures tank during an overnight session. Of course with implied volatility so high right now, options are quite expensive. So traders will want to take that into account when they consider possible options strategies.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/24– 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”.*

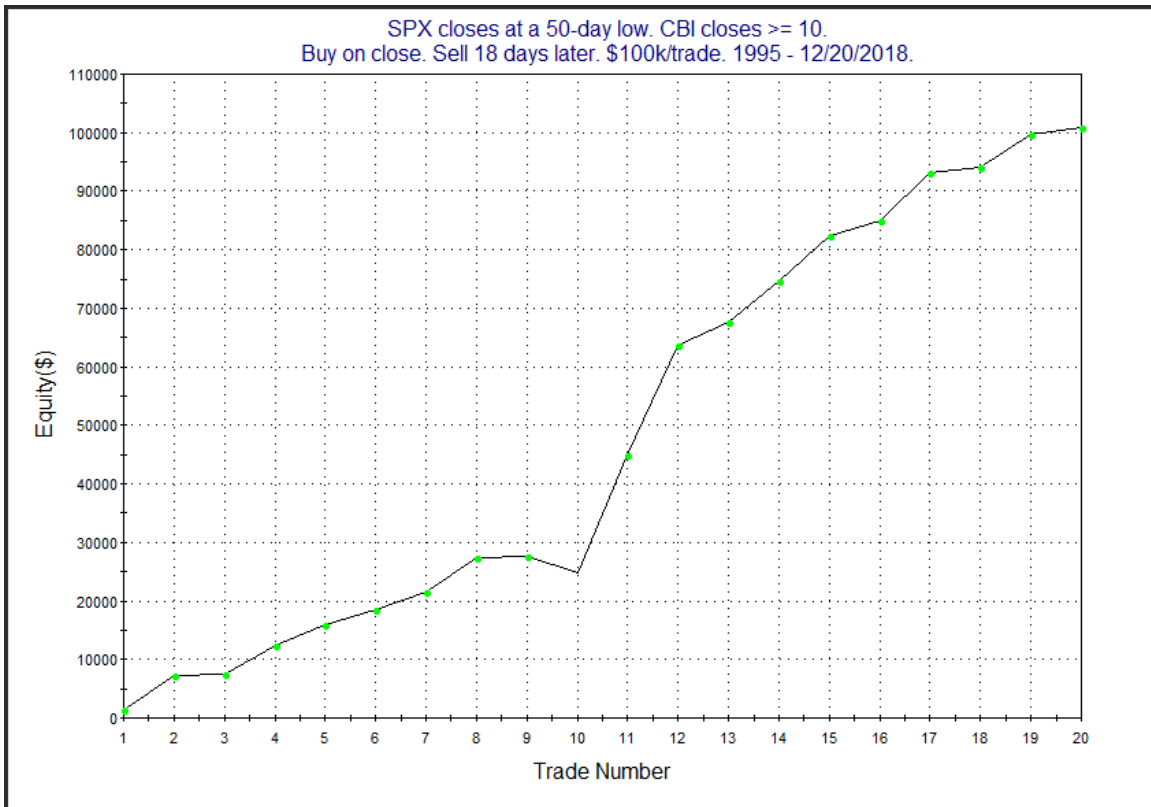
It was a truly horrible week for the market. The SPX lost 7.1%, the NASDAQ declined 8.4%, and the Russell 2000 also dropped 8.4%. Action was so awful that it caused the CBI to spike, and led to the following study, which has both short and intermediate-term implications. The study is copied below from the Thursday night gold subscriber letter.

As we approached the close, our new CBI website widget noted on that the Quantifiable Edges Capitulative Breadth Index (CBI) was starting to spike. At the end of the day, the CBI finished at 13, which reaches the 10+ level I have long considered bullish. The combination of a 10+ CBI and a 50-day closing low is something I have shown in the past to be bullish for both the short and intermediate-term. The study below is updated from the CBI Research Paper, which I recommend checking out if you have not read it before, or reviewing some of the tables and charts to get a deeper understanding of market action both during and after such broad, strong, selloffs as we are currently seeing.

SPX closes at a 50-day low. CBI closes ≥ 10 .
Buy on close. Sell X days later. \$100k/trade. 1995 - 12/20/2018.

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	102,082.03	20	18	2	90.00	5,694.80	17,878.08	-212.15	-228.29	26.84	241.59	5,104.10
19	96,891.93	20	17	3	85.00	5,944.19	17,534.88	-1,386.42	-2,993.00	4.29	24.30	4,844.60
18	100,973.82	20	19	1	95.00	5,459.04	20,061.36	-2,748.00	-2,748.00	1.99	37.74	5,048.69
17	100,616.70	20	18	2	90.00	5,943.09	21,217.68	-3,179.43	-4,214.00	1.87	16.82	5,030.83
16	86,749.83	20	18	2	90.00	5,203.38	15,329.16	-3,455.52	-6,614.00	1.51	13.55	4,337.49
15	78,736.78	20	16	4	80.00	5,389.66	17,338.20	-1,874.45	-5,572.00	2.88	11.50	3,936.84
14	60,333.00	21	17	4	80.95	4,517.11	15,991.80	-4,114.46	-14,731.00	1.10	4.67	2,873.00
13	64,253.12	21	16	5	76.19	5,119.22	19,377.60	-3,530.87	-11,946.00	1.45	4.64	3,059.67
12	66,290.70	21	16	5	76.19	5,179.03	17,982.36	-3,314.74	-8,812.00	1.56	5.00	3,156.70
11	74,523.19	21	15	6	71.43	5,952.05	20,758.32	-2,459.58	-9,945.00	2.42	6.05	3,548.72
10	66,767.56	21	16	5	76.19	4,712.89	16,319.16	-1,727.75	-4,118.00	2.73	8.73	3,179.41
9	66,599.70	21	16	5	76.19	4,564.87	12,246.96	-1,287.65	-1,765.40	3.55	11.34	3,171.41
8	56,299.24	22	18	4	81.82	3,956.46	15,615.60	-3,729.28	-5,568.00	1.06	4.77	2,559.06
7	56,757.17	22	16	6	72.73	4,418.46	12,720.84	-2,323.02	-4,980.00	1.90	5.07	2,579.87
6	54,804.17	22	16	6	72.73	4,547.15	18,349.11	-2,991.71	-8,839.00	1.52	4.05	2,491.10
5	58,398.27	22	16	6	72.73	4,679.82	18,981.60	-2,746.48	-5,174.95	1.70	4.54	2,654.47
4	50,109.42	23	16	7	69.57	4,187.90	17,851.68	-2,413.85	-4,365.00	1.73	3.97	2,178.67
3	37,814.54	29	20	9	68.97	3,703.59	13,853.40	-4,028.58	-9,701.00	0.92	2.04	1,303.95
2	34,819.45	32	21	11	65.63	3,251.21	13,116.84	-3,041.45	-8,631.00	1.07	2.04	1,088.11
1	36,231.13	44	27	17	61.36	2,903.80	11,558.43	-2,480.67	-7,577.02	1.17	1.86	823.43

Setups like we are currently seeing have often seen a sharp short-term bounce, and almost always seen a move higher over the intermediate-term. Below is a look at the profit curve assuming a 18-day holding period.

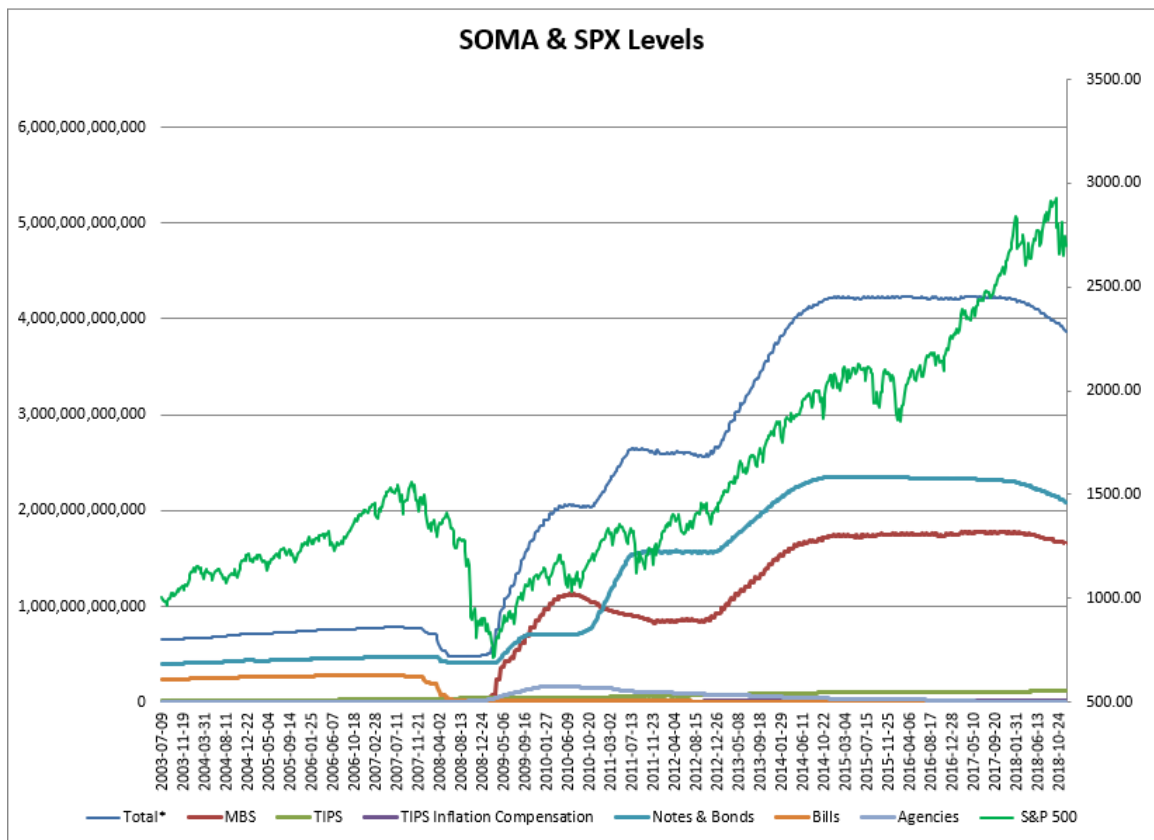


The strong, steady move higher is impressive and serves as some confirmation of the upside edge. I have added this study to both the short-term and intermediate-term active lists.

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 12/12/2018

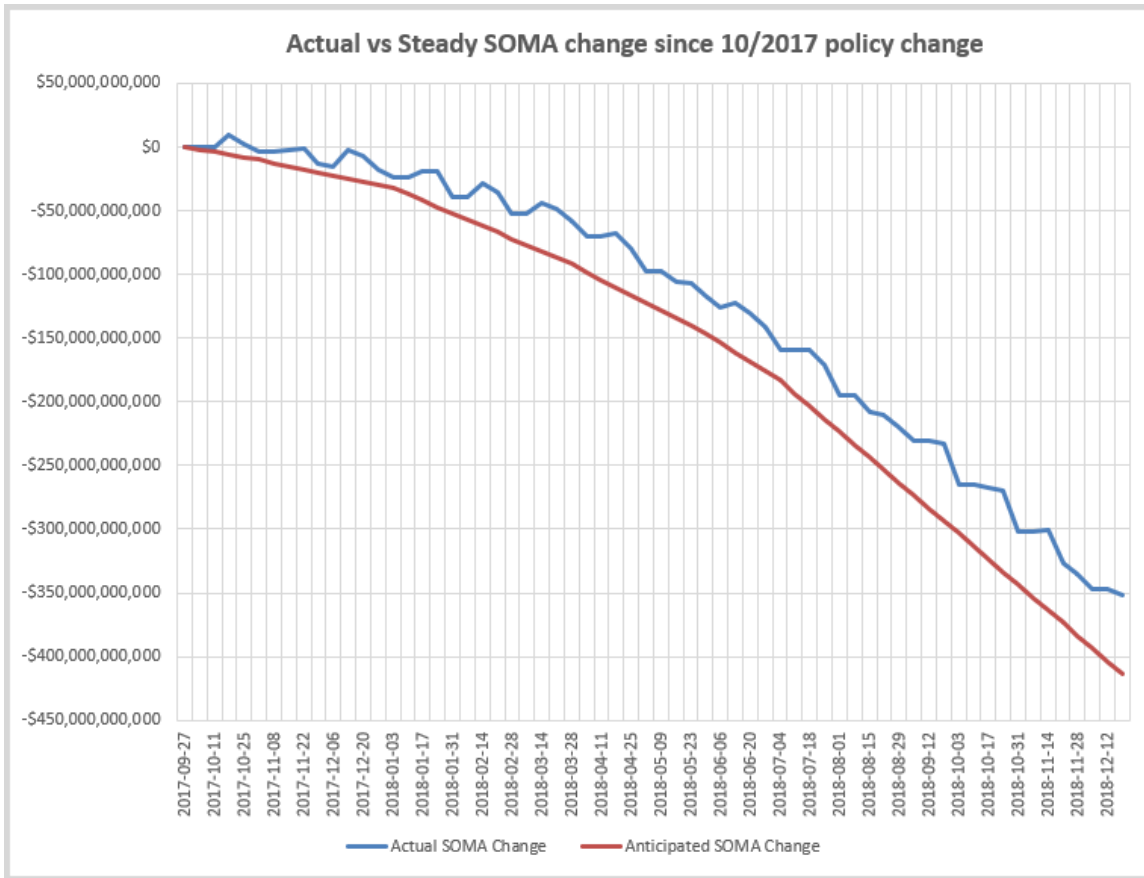
DOMESTIC SECURITIES HOLDINGS AS OF
December 19, 2018

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)	2,082,970,091.9					
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***	1,648,686,718.0					
Total SOMA Holdings	3,869,436,356.9					
Change From Prior Week	-4,782,971.4					

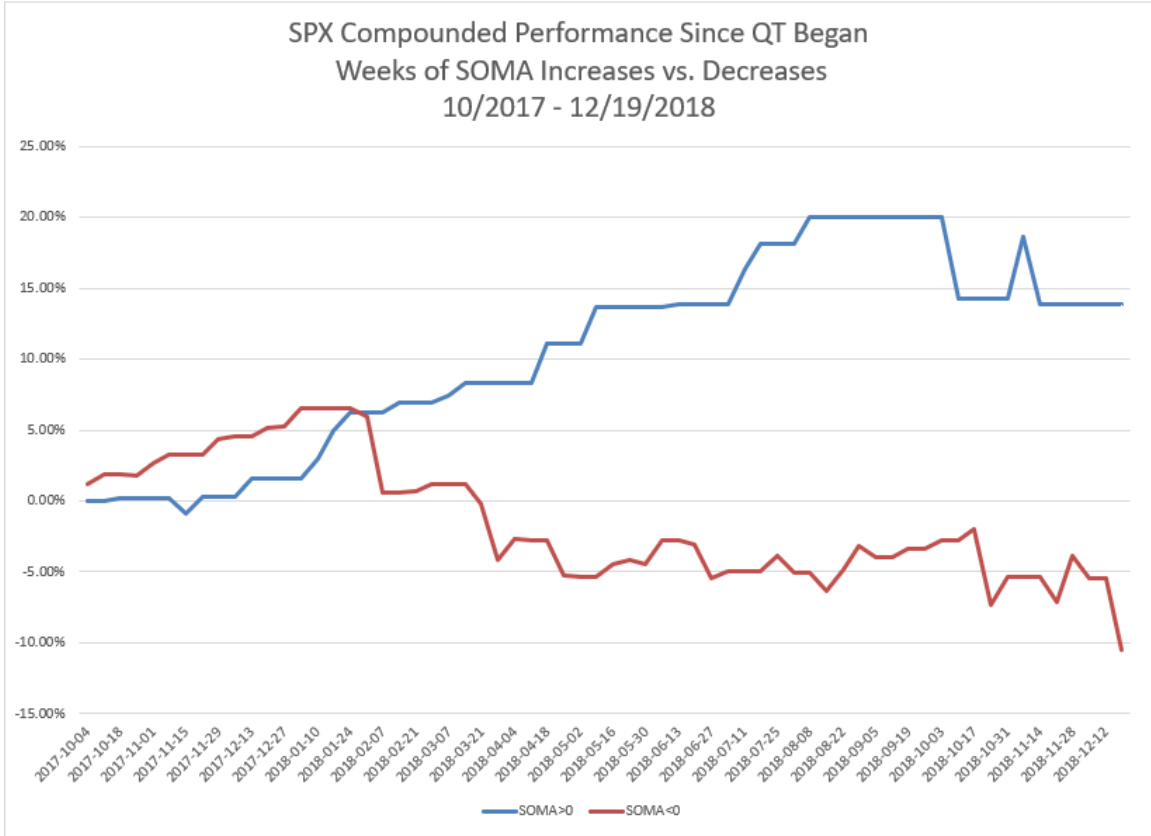
*Does not reflect inflation compensation of 22,320,696.
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 12/20/2018 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) saw a decline of about \$4.8 billion. That was even a little stronger than what I expected heading into the week. Meanwhile, the SPX lost 5.4% for the week ending 12/19. That is a very big drop for any week. The "Actual vs Steady" chart shows that the \$4.8 billion can be considered fairly moderate 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 15 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 10.5%. That is a substantial difference in performance. 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.

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/ambts-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.

Weeks ending around the 26th have consistently shown a solid amount of AMBS coming off the books. I expect this week to be similar, with a good-sized decline in the SOMA. Of course the following week will include the Dec 31 treasury expirations. So we will certainly see some sizable QT that week. But as I have noted here in recent weeks, the total treasuries maturing this month is quite light. So the total QT amount will fall short of the \$50 billion target. Perhaps that will prove beneficial to the bulls.

We still see some mix of evidence for the intermediate-term. Positive seasonality is one 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. Additionally, the large CBI spike we saw this past week has generated a study suggesting an upside edge over the next few weeks. On the bearish side, we now have multiple trend indicators pointing downward. And the Fed and QT remain a large concern. But QT is going to be reduced this month and next. Overall, evidence is still not overwhelming 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.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

EMR – 1/3 @ \$58.72 (bought @ limit)
EMR – 1/3 @ \$58.49 (bought @ limit)
SLB – 1/3 @ \$37.84 (bought @ limit)
FOXA – 1/3 @ \$48.78 (bought @ limit)
EMR – 1/3 @ \$57.68 (bought @ limit)
SLB – 1/3 @ \$37.79 (bought @ limit)
AGN – 1/3 @ \$136.56 (bought @ limit)
SLB – 1/3 @ \$36.20 (bought @ limit)
C – 1/3 @ \$52.27 (bought @ limit)
FOXA – 1/3 @ \$48.00 (bought @ limit)
KHC – 1/3 @ \$44.85 (bought @ limit)
RTN – 1/3 @ \$157.95 (bought @ limit)
AGN – 1/3 @ \$135.63 (bought @ limit)

New

C – 1/3 @ \$50.24 (buy @ limit)
FOXA – 1/3 @ \$46.90 (buy @ limit)
KHC – 1/3 @ \$44.05 (buy @ limit)
RTN – 1/3 @ \$151.52 (buy @ limit)
AGN – 1/3 @ \$131.46 (buy @ limit)
HAL – 1/3 @ \$25.85 (buy @ limit)
OXY – 1/3 @ \$59.98 (buy @ limit)

Broad Market Large Cap CBI – 20(EMR-3, SLB-3, FOXA-3, AGN-3, C-2, KHC-2, RTN-2, HAL, OXY)

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.

Below are all the new Catapults triggers from the Catapult & CBI section that I will be looking to enter on Monday:

C – 1/3 @ \$50.24 (buy @ limit)

FOXA – 1/3 @ \$46.90 (buy @ limit)

KHC – 1/3 @ \$44.05 (buy @ limit)

RTN – 1/3 @ \$151.52 (buy @ limit)

AGN – 1/3 @ \$131.46 (buy @ limit)

HAL – 1/3 @ \$25.85 (buy @ limit)

OXY – 1/3 @ \$59.98 (buy @ limit)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/17/2018	\$259.40	\$240.70	-7.21%		Aggregator
EMR(1/3)	12/18/2018	\$58.72	\$56.87	-3.15%		Catapult
IWM(1/4)	12/18/2018	\$136.85	\$128.37	-6.20%		Aggregator
EMR(1/3)	12/19/2018	\$58.49	\$56.87	-2.77%		Catapult
FOXA(1/3)	12/19/2018	\$48.78	\$46.90	-3.85%		Catapult
SLB(1/3)	12/19/2018	\$37.84	\$35.70	-5.66%		Catapult
SLB(1/3)	12/20/2018	\$37.34	\$35.70	-4.39%		Catapult
EMR(1/3)	12/20/2018	\$57.22	\$56.87	-0.61%		Catapult
AGN(1/3)	12/20/2018	\$135.00	\$131.46	-2.62%		Catapult
IWM(1/4)	12/21/2018	\$131.79	\$128.37	-2.60%		Aggregator
SLB(1/3)	12/21/2018	\$35.47	\$35.70	0.65%		Catapult
AGN(1/3)	12/21/2018	\$135.20	\$131.46	-2.77%		Catapult
C(1/3)	12/21/2018	\$51.90	\$50.24	-3.20%		Catapult
FOXA(1/3)	12/21/2018	\$48.00	\$46.90	-2.29%		Catapult
KHC(1/3_	12/21/2018	\$44.85	\$44.05	-1.78%		Catapult
RTN(1/3)	12/21/2018	\$151.01	\$151.52	0.34%		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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