

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 4, 2019

Volume 12 Issue 213

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The employment-sparked NASDAQ rally to a new high on Friday, appears to be a bullish indication for the next several days.
- SPX hitting new highs on an employment day is not as encouraging.
- The Best 6 Months during the 4th years of the presidential cycle has often shown positive returns over the years.

Short-term Outlook

The Bottom Line

Expectations are again positive but the market is short-term overbought. This is leaving the Aggregator neutral and me waiting for a pullback.

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						
October 31, 2019	SPX 100-day high on Fed Day	1-8 days	Bullish	1.70%	-0.95%	-1.60%
October 31, 2019	2 outside days & close at 10-day high	1-3 days	Bullish			
October 29, 2019	Monday after 4th Friday in October	1-5 days	Bullish			
Active - Long Term						
October 28, 2019	NASDAQ Leading	int term	Bullish			
October 9, 2019	3rd 1% Drop in 10 days > 200ma	1-20 days	Bullish	3.85%	-3.00%	-5.70%
September 9, 2019	NYSE Advance/Decline Line breakout	1-40 days	Bullish			
August 26, 2019	SPX down 4 weeks but > 40-week ma	1-10 weeks	Bullish	8.65%	-3.30%	-7.70%
August 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

Friday started with a sizable gap up after the employment report, and the market continued higher and finished strong, with SPX and NASDAQ making new highs. The SPX finished up 1.0%, the NASDAQ rose 1.1% and the Russell 2000 rallied 1.7%. Breadth was strongly positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 79%. NYSE volume came in a bit lower than Thursday's level.

As I mentioned above, the employment report was the catalyst for the big rally Friday, and the NASDAQ hit new all-time highs. As I did in the 5/6/19 letter, I looked back at other instances where the NASDAQ spiked higher and closed at a new high on the day of an employment report.

Today is an Employment Day. NASDAQ closes up a least 1% and closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	23,054.89	20	17	3	85.00	3,803.52	-2,964.72	1,594.40	-1,349.97	1.18	6.69	1,152.74
4	15,747.85	20	14	6	70.00	3,040.00	-3,040.92	1,589.41	-1,083.97	1.47	3.42	787.39
3	8,850.10	20	13	7	65.00	1,943.61	-2,648.16	1,213.73	-989.78	1.23	2.28	442.51
2	1,393.53	20	13	7	65.00	1,856.12	-3,675.86	778.64	-1,246.97	0.62	1.16	69.68
1	3,029.22	20	13	7	65.00	1,333.76	-1,485.83	513.61	-521.09	0.99	1.83	151.46

The results above appear quite compelling. I also checked to see how SPX performed after the NASDAQ action. Results here were interesting.

Today is an Employment Day. NASDAQ closes up a least 1% and closes at a 50-day high.
Buy **SPX** on close. Sell X days later. \$100k/trade. 1995 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	6,187.51	20	14	6	70.00	1,915.14	-2,119.92	853.12	-959.37	0.89	2.07	309.38
4	1,646.35	20	12	8	60.00	1,659.08	-2,472.36	853.09	-1,073.84	0.79	1.19	82.32
3	-4,268.45	20	11	9	55.00	1,358.28	-2,971.50	671.35	-1,294.81	0.52	0.63	-213.42
2	-7,684.24	20	10	10	50.00	848.70	-3,748.50	461.83	-1,230.25	0.38	0.38	-384.21
1	-3,199.59	20	7	13	35.00	621.56	-1,252.30	359.18	-439.53	0.82	0.44	-159.98

What is immediately evident is that none of the numbers are nearly as strong. While the indices often move together, the NASDAQ momentum did not seem to carry over very well for the SPX. Below I have listed all the instances assuming a 5-day holding period for both the NASDAQ and the SPX.

Today is an Employment Day. NASDAQ closes up a least 1% and closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1995 - present.					SPX Returns	
Date/Time	Signal	Price	% Profit	Run-up Drawdown	% Profit	Run-up Drawdown
7/7/1995	Buy	\$969.76	3.05%	\$3,086.91	0.63%	\$1,007.77
7/14/1995	Sell	\$999.33		\$0.00		(\$460.03)
10/4/1996	Buy	\$1,247.56	0.06%	\$732.80	-0.15%	\$610.60
10/11/1996	Sell	\$1,248.27		(\$1,193.60)		(\$1,153.04)
2/6/1998	Buy	\$1,694.32	0.95%	\$1,226.61	0.75%	\$1,357.30
2/13/1998	Sell	\$1,710.42		(\$478.49)		(\$604.66)
7/2/1999	Buy	\$2,741.02	1.81%	\$2,567.88	0.57%	\$1,123.22
7/12/1999	Sell	\$2,790.61		(\$562.32)		(\$442.33)
11/5/1999	Buy	\$3,102.29	3.83%	\$3,862.40	1.89%	\$1,860.48
11/12/1999	Sell	\$3,221.15		(\$1,069.76)		(\$722.88)
12/3/1999	Buy	\$3,520.63	2.83%	\$3,553.76	-1.13%	\$58.65
12/10/1999	Sell	\$3,620.23		(\$361.48)		(\$2,884.20)
3/3/2000	Buy	\$4,903.99	2.95%	\$4,570.60	-1.00%	\$300.30
3/10/2000	Sell	\$5,048.62		(\$3,637.00)		(\$4,378.50)
5/2/2003	Buy	\$1,502.88	1.15%	\$1,910.04	0.36%	\$1,019.71
5/9/2003	Sell	\$1,520.15		(\$1,054.02)		(\$1,108.53)
7/8/2005	Buy	\$2,112.88	2.08%	\$2,411.10	1.33%	\$1,746.60
7/15/2005	Sell	\$2,156.78		\$0.00		\$0.00
1/6/2006	Buy	\$2,305.62	0.50%	\$1,173.90	0.17%	\$727.65
1/13/2006	Sell	\$2,317.04		(\$107.07)		(\$205.59)
10/5/2007	Buy	\$2,780.32	0.91%	\$1,878.80	0.27%	\$1,184.00
10/12/2007	Sell	\$2,805.68		(\$789.60)		(\$695.68)
4/3/2009	Buy	\$1,621.87	1.94%	\$2,376.56	1.93%	\$2,573.58
4/13/2009	Sell	\$1,653.31		(\$3,807.01)		(\$3,300.46)
3/5/2010	Buy	\$2,326.35	1.78%	\$2,097.06	0.99%	\$1,279.77
3/12/2010	Sell	\$2,367.66		(\$25.62)		(\$330.60)
2/3/2012	Buy	\$2,905.66	-0.06%	\$850.68	-0.17%	\$697.08
2/10/2012	Sell	\$2,903.88		(\$696.66)		(\$664.52)
2/1/2013	Buy	\$3,179.10	0.46%	\$551.49	0.31%	\$339.24
2/8/2013	Sell	\$3,193.87		(\$1,504.43)		(\$1,197.90)
5/3/2013	Buy	\$3,378.63	1.72%	\$1,681.13	1.19%	\$1,255.99
5/10/2013	Sell	\$3,436.58		\$0.00		(\$12.81)
8/5/2016	Buy	\$5,221.12	0.23%	\$330.98	0.05%	\$251.10
8/12/2016	Sell	\$5,232.90		(\$519.08)		(\$489.15)
3/9/2018	Buy	\$7,560.81	-1.04%	\$993.98	-1.24%	\$536.55
3/16/2018	Sell	\$7,481.99		(\$1,269.06)		(\$1,578.50)
6/1/2018	Buy	\$7,554.33	1.21%	\$1,860.04	1.62%	\$1,630.08
6/8/2018	Sell	\$7,645.51		\$0.00		\$0.00
5/3/2019	Buy	\$8,164.00	-3.03%	\$0.00	-2.18%	\$0.00
5/10/2019	Sell	\$7,916.94		(\$4,855.92)		(\$3,968.25)

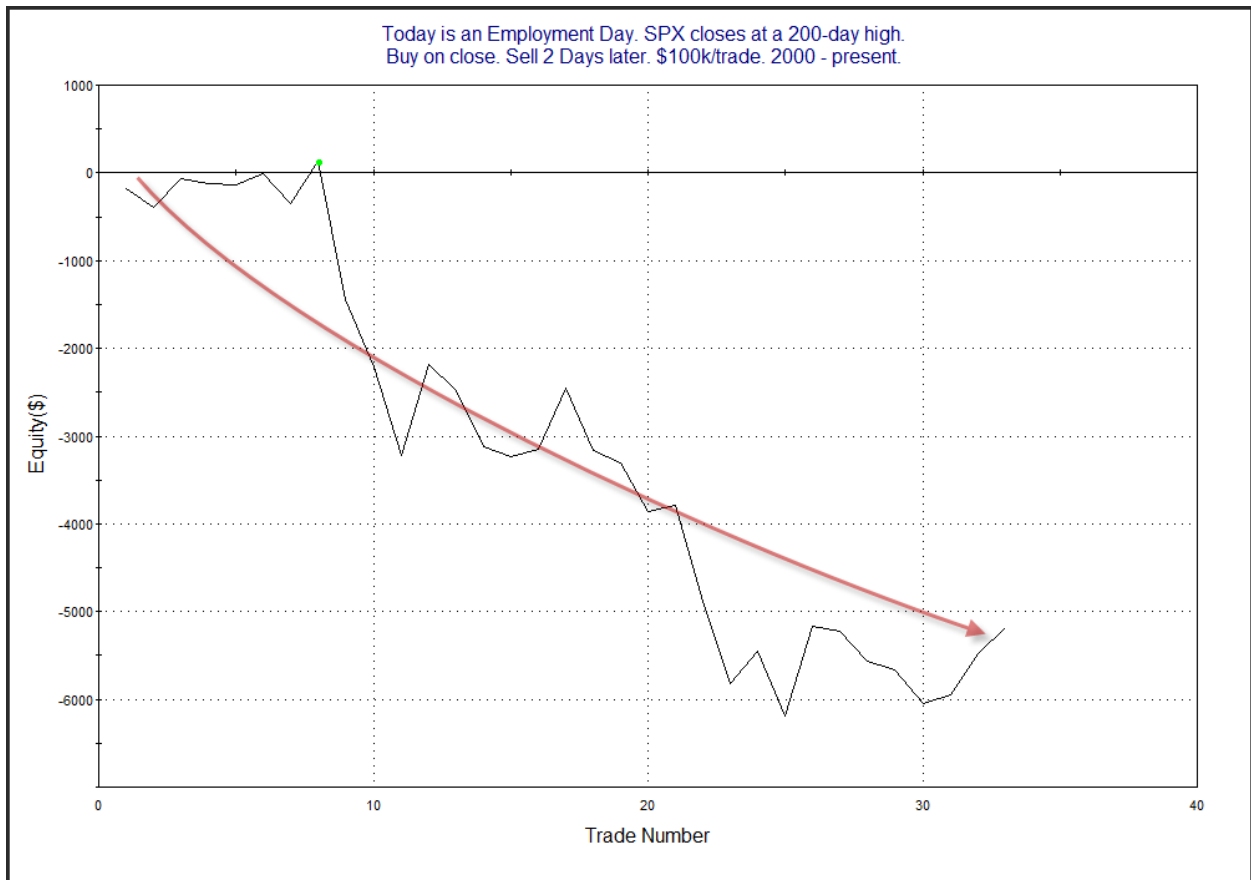
The NASDAQ results are very impressive, though the last instance was the worst one. But even more interesting to me is the comparison of the NASDAQ to the SPX results. In **18 of 20 instances the NASDAQ outperformed the SPX over the next 5 days**. The only exceptions were the 2 most recent instances. That suggests to me that traders may be better off looking for opportunities to get long the NASDAQ as opposed to the SPX in the coming days. (Or spread traders could look to take advantage of this with a long NASDAQ / short SPX type trade.) Bottom line with this study is that it appears to suggest an upside edge, and that edge has been substantially stronger with NASDAQ than SPX.

But another employment day study I looked at suggested SPX might even carry a downside edge based on its closing at a 200-day high. This can be seen in the results table below.

Today is an Employment Day. SPX closes at a 200-day high.
Buy on close. Sell X Days later. \$100k/trade. 2000 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-7,543.29	33	16	17	48.48	1,921.65	-3,505.92	818.38	-1,213.96	0.67	0.63	-228.58
4	-6,715.62	33	15	18	45.45	1,557.10	-2,965.30	587.93	-863.03	0.68	0.57	-203.50
3	-4,433.56	33	15	18	45.45	1,114.47	-2,363.04	413.58	-590.96	0.70	0.58	-134.35
2	-5,186.81	33	12	21	36.36	1,041.20	-1,580.74	426.28	-490.58	0.87	0.50	-157.18
1	-2,140.56	33	15	18	45.45	621.68	-1,152.36	247.38	-325.07	0.76	0.63	-64.87

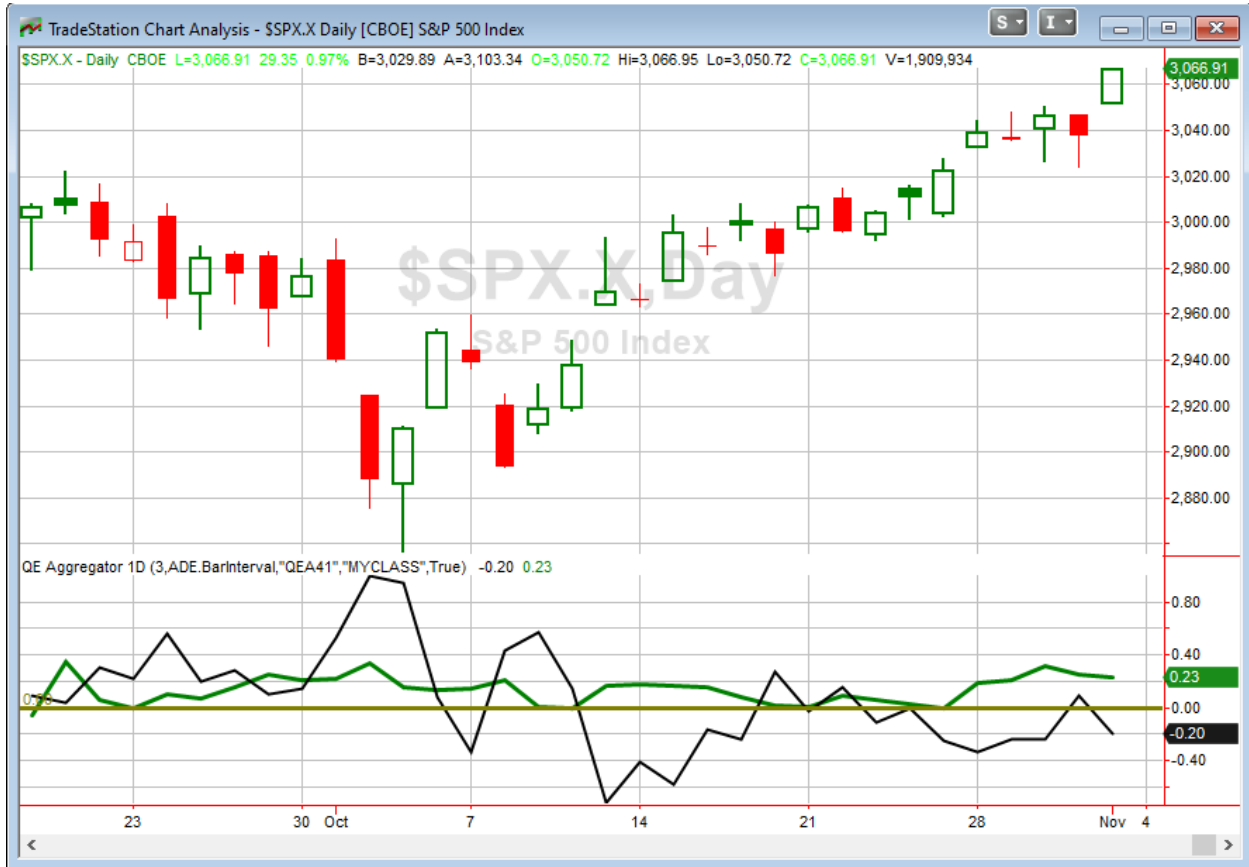
Numbers here suggest a mild downside edge over the first few days. Below is a look at a 2-day profit curve.



The curve here is quite choppy, and it has not persisted lower as of late. So I am not sure there is a downside edge worth considering. But it does call into question the bullish tendency suggested by the previous study. I'm basically viewing these as cancelling each other out. I will keep in mind

the next few days that the NASDAQ may be a better play if there appears to be a favorable long opportunity that emerges.

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



With today'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 dropped back below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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 turned flat at the close.

With the current list of studies, expectations are slated to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *slightly inverted at 3068.21* on Monday. That is less than 0.1% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this

case, SPX is going to need to close up about 1 ½ points in order to remain overbought. If it fails to do that, it will then be considered “oversold” vs expectations as of Monday’s close.

So the market is overbought and the Aggregator is back to neutral. Both short-term and intermediate-term evidence is pointing higher, but the overbought nature of the market reduces potential reward and increases risk. Persistent moves in one direction that don’t offer brief pullbacks for favorable entry opportunities can be frustrating to try and swing trade. But letting that frustration turn into reckless trading is typically a bad idea. Patience is key, and I will wait for my next favorable reward/risk opportunity before looking to take on new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/4 – bullish

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 all 3 Combo Systems remained on long signals.*

The major indices all rose this past week. The SPX closed up 1.5%, the NASDAQ gained 1.7%, and the Russell 2000 climbed 2.0%. The SPX and NASDAQ also closed at new all-time highs on Friday. So the long-term trend certainly remains up.

With the calendar moving from October to November, it has now entered its “Best 6 Months”. The “Best 6 Months” tendency was first published by Yale Hirsch, founder of the Stock Trader’s Almanac, in 1986. The concept behind the “Best 6 Months” is simple. Hirsch’s research suggests that over the last several decades the market has made a massive portion of its gains between November and April. And during the remaining 6 months, it has generally struggled to make headway. I also note that since publishing the tendency many years ago, the edge has persisted, with the “Best 6 Months” continuing to outperform the “Worst 6 Months”.

Additionally, the market just shifted into the 4th year of the Presidential cycle. At Quantifiable Edges I measure the Presidential Cycle years from November – October rather than January – December. That allows the cycle years to better match up with the elections, which take place in early November. And while the elections are always during the 1st week of November, I always

start the cycle year on November 1st. This makes for easy evaluation when combining it with the “Best 6 Months” cycles. In general, the 4th year of the Presidential Cycle has been a strong one.

When the Best 6 Months and the 4th Year of the Presidential Cycle have been active at the same time, the results since 1947 have been very good. This can be seen in the stats table below.

SPX Performance in the Best 6 Months of the 4th Presidential Cycle Year. 1947 - 2018.	
	All trades
Net Profit	87516.10
Exposure %	8.96%
<hr/>	
All trades	18
Avg. Profit/Loss	4862.01
Avg. Profit/Loss %	4.86%
Avg. Bars Held	125.11
<hr/>	
Winners	14 (77.78 %)
Total Profit	106379.97
Avg. Profit	7598.57
Avg. Profit %	7.60%
Avg. Bars Held	125.07
Max. Consecutive	5
Largest win	14265.47
# bars in largest win	125
<hr/>	
Losers	4 (22.22 %)
Total Loss	-18863.87
Avg. Loss	-4715.97
Avg. Loss %	-4.72%
Avg. Bars Held	125.25
Max. Consecutive	1
Largest loss	-10571.33
# bars in largest loss	125
<hr/>	
Max. trade % drawdown	-17.81
Profit Factor	5.64

This next table shows all the individual instances. (MAE = Max Adverse Excursion, or worst drawdown during the period.)

**SPX Performance in the Best 6 Months of the 4th
Presidential Cycle Year. 1947 - 2018.**

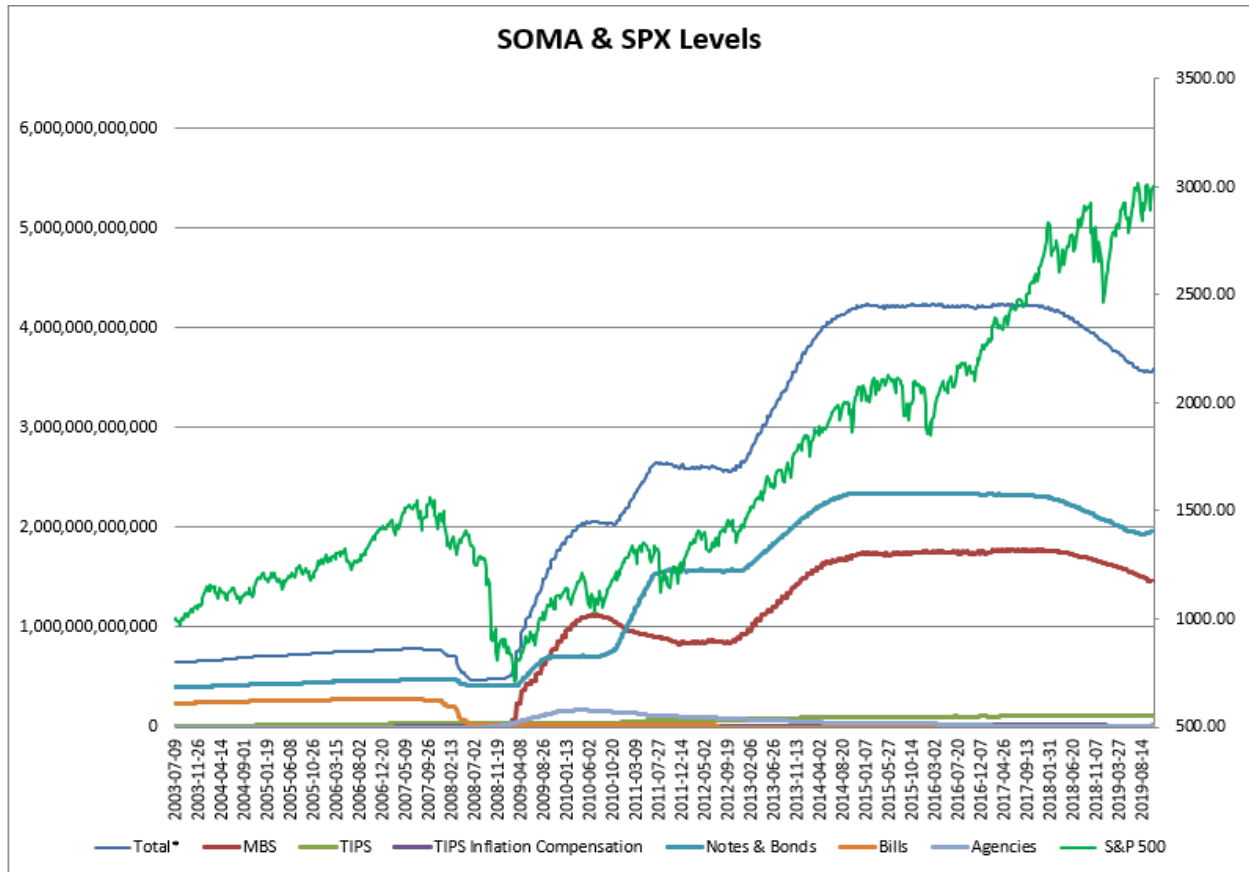
Symbol	Date	Ex. date	Price	Ex. Price	% chg	MAE
SSPX	10/31/1947	4/30/1948	15.43	15.48	0.32%	-10.30%
SSPX	10/31/1951	4/30/1952	22.94	23.32	1.66%	-2.35%
SSPX	10/31/1955	4/30/1956	42.34	48.38	14.27%	-0.14%
SSPX	10/30/1959	4/29/1960	57.52	54.37	-5.48%	-7.04%
SSPX	10/31/1963	4/30/1964	74.01	79.46	7.36%	-6.12%
SSPX	10/31/1967	4/30/1968	93.3	97.46	4.46%	-7.04%
SSPX	10/29/1971	4/28/1972	94.23	107.67	14.26%	-5.19%
SSPX	10/31/1975	4/30/1976	89.04	101.64	14.15%	-3.25%
SSPX	10/31/1979	4/30/1980	101.82	106.29	4.39%	-7.45%
SSPX	10/31/1983	4/30/1984	163.55	160.05	-2.14%	-6.98%
SSPX	10/30/1987	4/29/1988	251.79	261.33	3.79%	-12.13%
SSPX	10/31/1991	4/30/1992	392.46	414.95	5.73%	-5.38%
SSPX	10/31/1995	4/30/1996	581.5	654.17	12.50%	-0.08%
SSPX	10/29/1999	4/28/2000	1,362.93	1,452.43	6.57%	-2.78%
SSPX	10/31/2003	4/30/2004	1,050.71	1,107.3	5.39%	-1.86%
SSPX	10/31/2007	4/30/2008	1,549.38	1,385.59	-10.57%	-18.87%
SSPX	10/31/2011	4/30/2012	1,253.3	1,397.91	11.54%	-7.55%
SSPX	10/30/2015	4/29/2016	2,079.36	2,065.3	-0.68%	-12.95%

Not perfect, but very good. Of course, last weekend I showed how having both seasonal indicators and both price action indicators from the Market Timing Course has performed over the years, and the results have been very positive. That is the current setup.

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.

The Quantitative Tightening program that began in October 2017 was ended in August 2019, and SOMA policy is in a more neutral phase where there is not going to be large changes to the account size likely.



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

« As of 10/23/2019

DOMESTIC SECURITIES HOLDINGS AS OF
October 30, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	51,008,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,964,029,815.4
US Treasury Floating Rate Notes (FRN)	14,940,913.6
US Treasury Inflation-Protected Securities (TIPS)*	120,993,247.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,445,761,926.9
Total SOMA Holdings	3,599,080,903.1
Change From Prior Week	14,152,668.5

*Does not reflect inflation compensation of 24,519,362.4
 **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 10/31/2019 4:30pm.

The SOMA rose a very strong \$14 billion this past week. With the new “not QE” Fed policy in effect we again see that the the change in holdings was thanks to a large increase in short-term T-Bills. I will note that since the QT program ended in the beginning of August, the correlation between SOMA activity and market changes has not been strong. But a few weeks into “not QE” and the market is running higher along with the SOMA balance. It will take some time to see the real impact of the new policy.

In other Fed news this past week, they again cut rates another ¼ point. The language in the Fed statement seemed to indicate that we have reached a point where they would likely pause in the rate cutting for a while, and that further moves would depend on new data that gets released in the coming months. So we can expect the market to remain quite reactive to data, since that will continually shift the market’s perception of the Fed’s most likely next move.

The intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ are hitting all-time highs and momentum and breadth have provided bullish indications in the past few weeks. The NYSE Advance/Decline Line has remained firm. And we are also now in a bullish seasonal period as measured by both the Best 6 Months and the Presidential Cycle. This means all 4 Market Timing Course indicators are now bullish. Overall, the bullish case seems substantially stronger. I will therefore take a more aggressive approach with long trades and a very conservative approach when considering short trades.

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

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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