

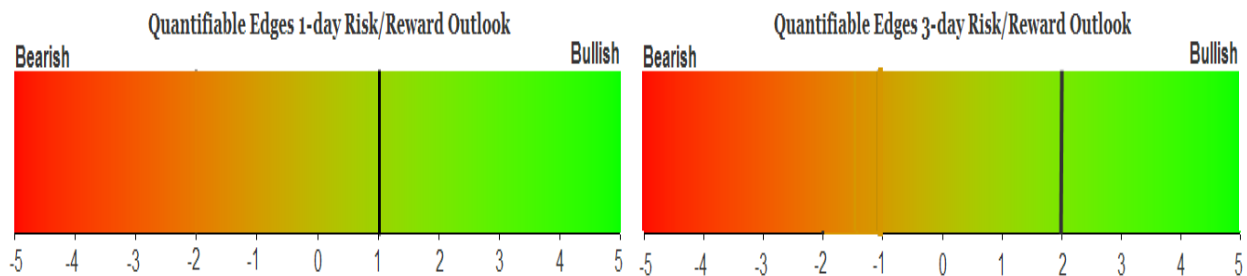
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 2, 2019

Volume 12 Issue 232

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- Coming from an intermediate-term high, an unfilled gap down after an unfilled gap up appears to be somewhat bearish.
- The 1st trading day of the month has typically seen gains when the last day of the previous month finished poorly.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but I am not enthralled with the 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
Active - Short Term						
December 2, 2019	Unfilled gap up to 20-high, then unfl dn	1-4 days	Bearish			
December 2, 2019	SPY weak close on last day of month	1 day	Bullish			
November 29, 2019	Thanksgiving Wed. low vol high close	1-2 days	Bearish			
November 22, 2019	SPX < 10ma after 25+ days above	1-9 days	Bullish			
Active - Long Term						
November 22, 2019	1st 5 low in 10 days. Close > 10ma	1-10 days	Bullish			
November 20, 2019	SPX up 5 50-high, then down 1	1-10 days	Bullish			
November 19, 2019	Hindenburg Omen cluster	1-35 days	Bearish	-5.85%	2.70%	4.40%
November 11, 2019	"not QE"	int term	Bullish			
November 5, 2019	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 4, 2019	Presidential cycle + Best 6 mos bullish	6 months	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

The Evidence

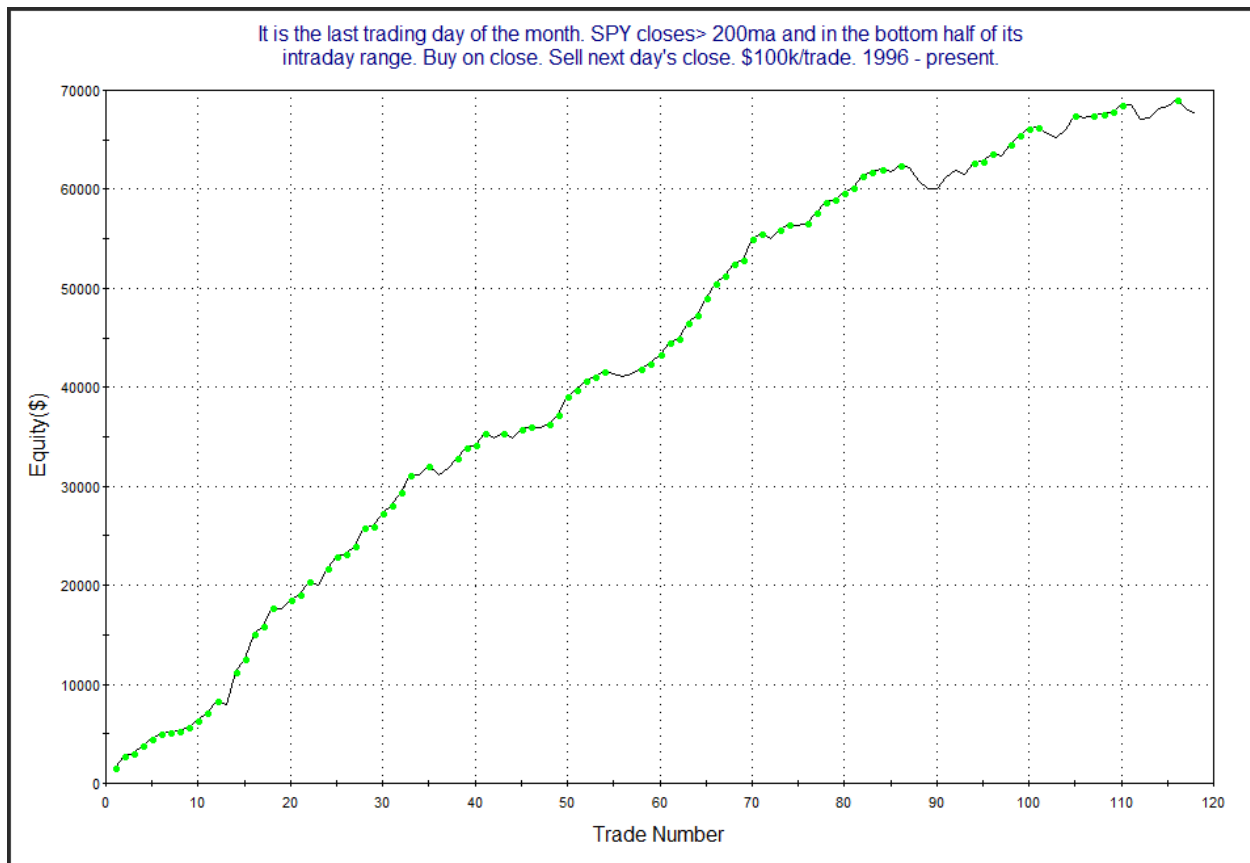
Friday saw the market sell off a bit. The SPX finished the day down 0.4%, the NASDAQ lost 0.5%, and Russell 2000 fell 0.6%. Breadth was also negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 24%. NYSE volume came in light with the early closing.

Monday is the 1st trading day of December. The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They were last seen in the 9/30/19 letter, and have been updated. First let's look at times like the present when the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$67,577.32	Profit Factor		6.90
Gross Profit	\$79,036.73	Gross Loss		(\$11,459.41)
Total Number of Trades	118	Percent Profitable		77.97%
Winning Trades	92	Losing Trades		26
Even Trades	0			
Avg. Trade Net Profit	\$572.69	Ratio Avg. Win:Avg. Loss		1.95
Avg. Winning Trade	\$859.09	Avg. Losing Trade		(\$440.75)
Largest Winning Trade	\$3,295.88	Largest Losing Trade		(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 118 instances. Below is a profit curve.

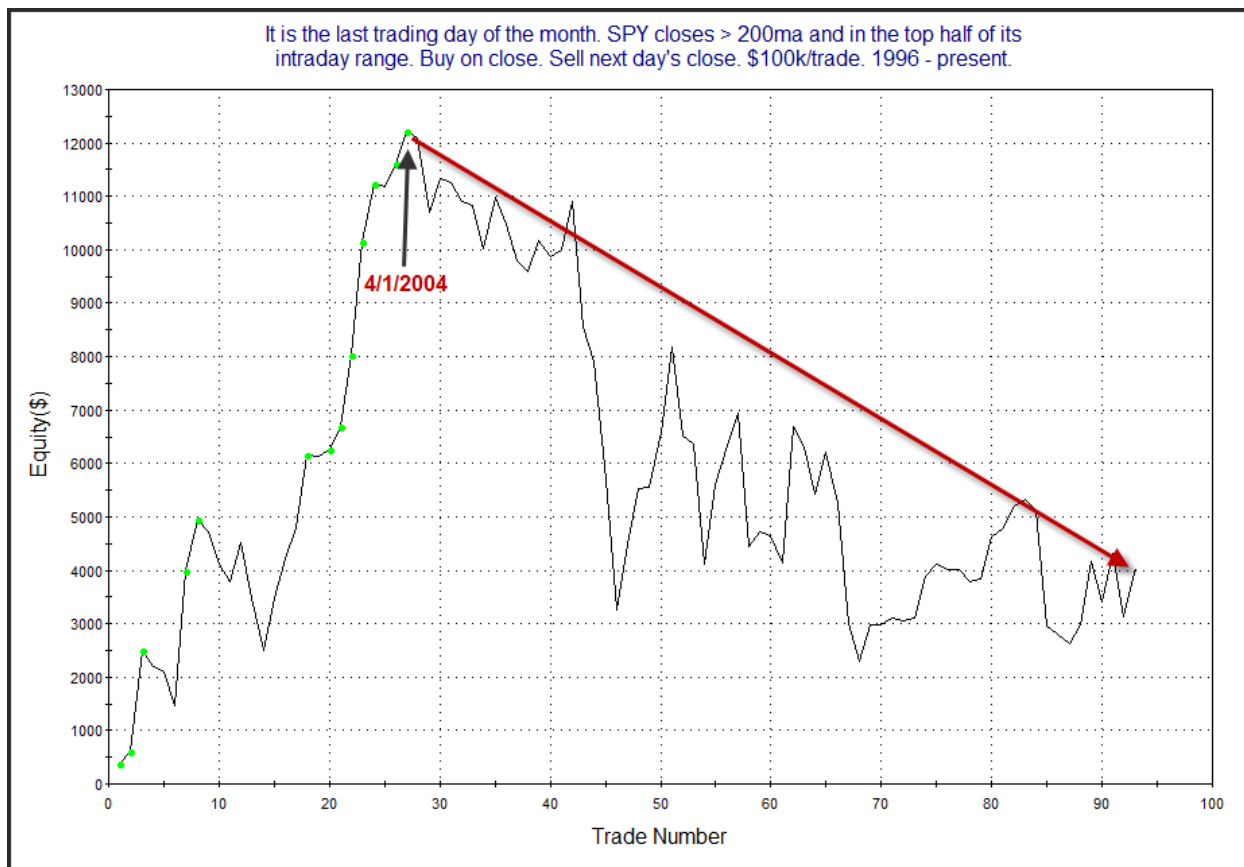


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY had closed in the upper half of its range on Friday?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$4,048.71	Profit Factor	1.12	
Gross Profit	\$37,917.13	Gross Loss	(\$33,868.42)	
Total Number of Trades	93	Percent Profitable	52.69%	
Winning Trades	49	Losing Trades	44	
Even Trades	0			
Avg. Trade Net Profit	\$43.53	Ratio Avg. Win:Avg. Loss	1.01	
Avg. Winning Trade	\$773.82	Avg. Losing Trade	(\$769.74)	
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)	

We see here the upside edge nearly completely wiped away. Here is the profit curve.



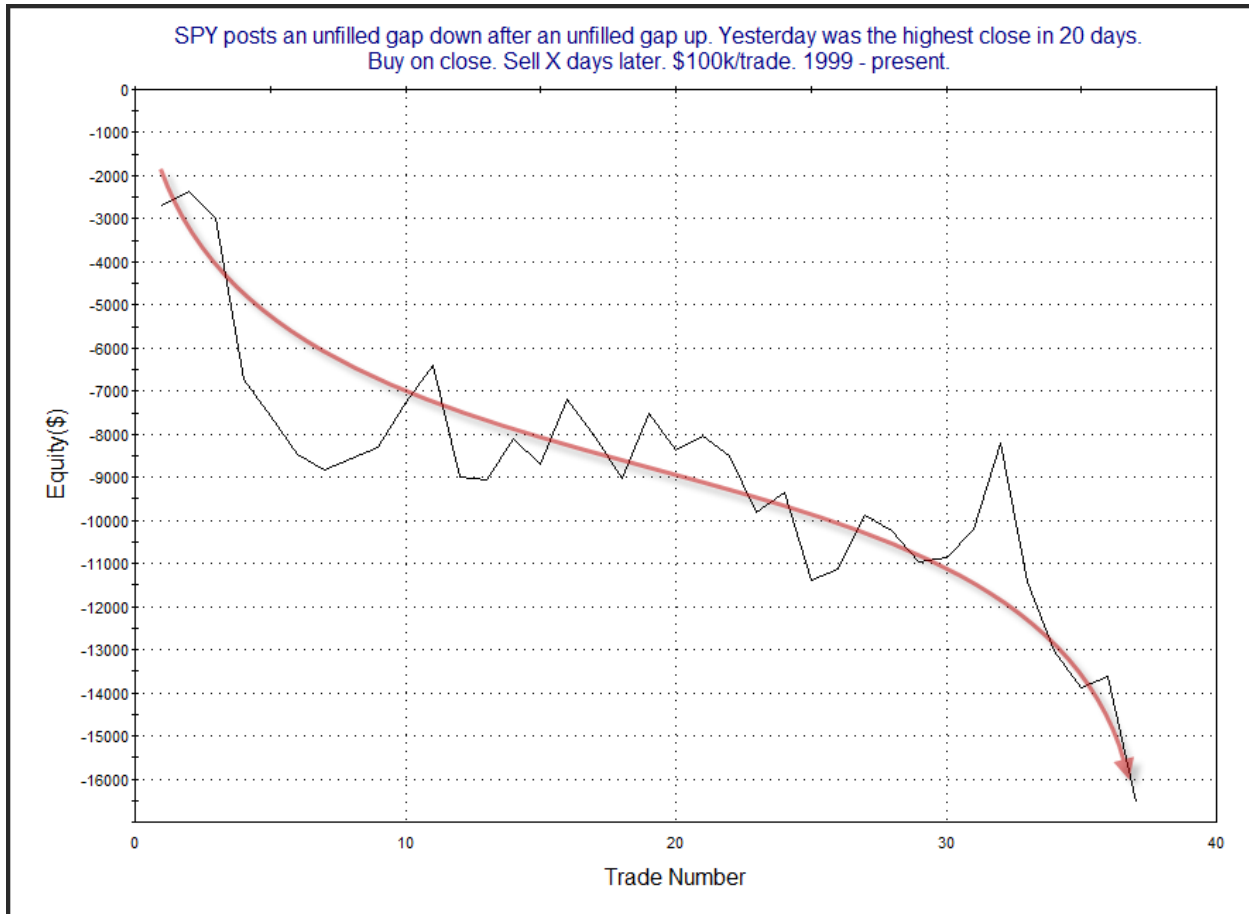
This paints an even bleaker picture. So it appears Friday's weak close was a positive when considering the odds of a rally on Monday. The 1st day of the month has performed much better with some late selling leading up to the day.

Of course Monday's seasonality is not clear-cut. While the 1st of the month may offer a bullish indication, the Monday after Thanksgiving has historically been weak. And in the Thursday letter I showed 2 studies suggesting weakness on Monday. One looked at the low volume on the day before Thanksgiving, and the other looked at the new high on the day before Thanksgiving. Both suggested a bearish tendency through Monday.

There was also some bearish evidence that emerged Friday based on price action. This next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 5/7/19 Subscriber Letter. Below are updated results.

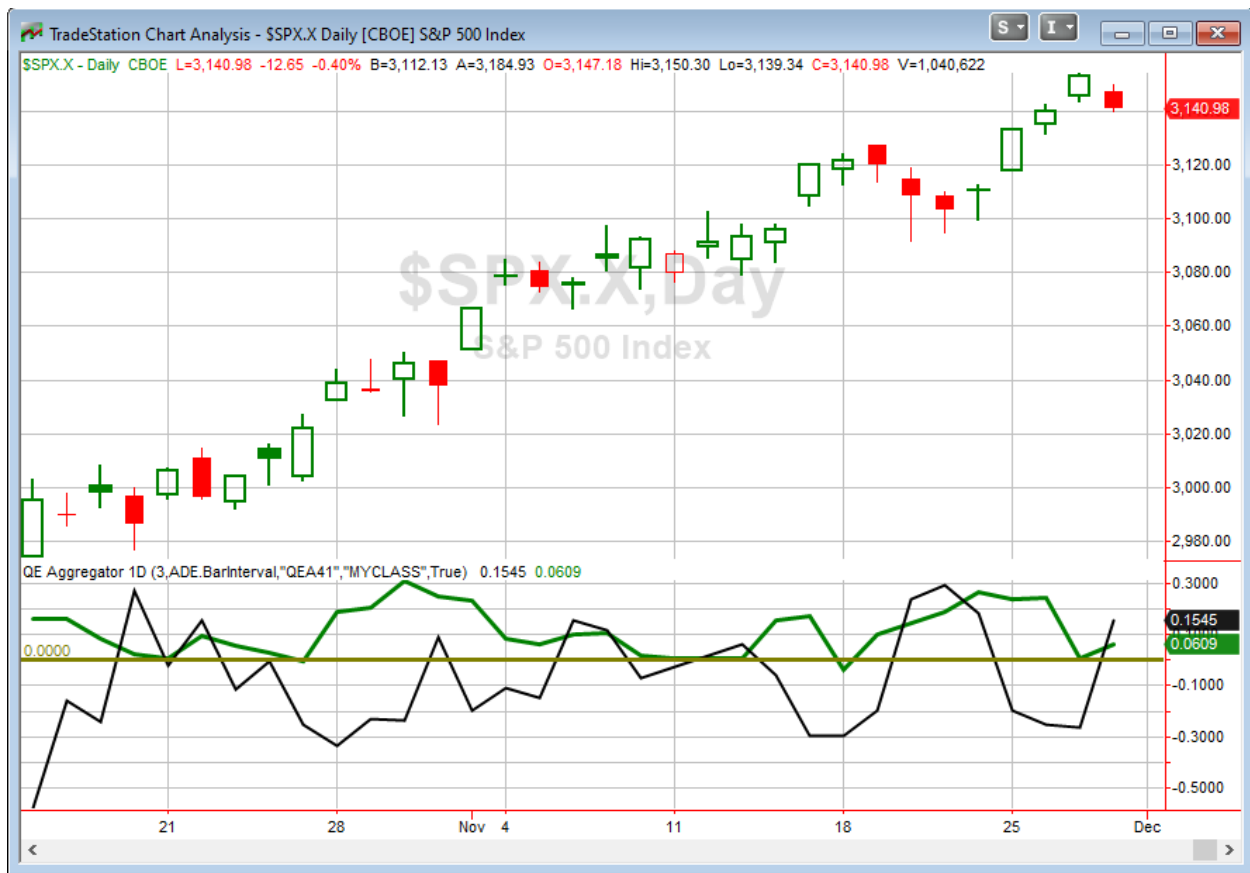
SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,197.66	37	17	20	45.95	1,827.28	-7,283.25	816.78	-1,854.14	0.44	0.37	-626.96
4	-16,534.42	37	16	21	43.24	1,998.36	-3,746.95	754.02	-1,361.84	0.55	0.42	-446.88
3	-13,577.44	37	16	21	43.24	1,044.24	-2,191.22	586.95	-1,093.75	0.54	0.41	-366.96
2	-9,705.15	38	14	24	36.84	1,383.20	-2,232.00	562.66	-732.60	0.77	0.45	-255.40
1	-6,934.21	38	15	23	39.47	1,008.68	-1,807.92	438.20	-587.27	0.75	0.49	-182.48

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. We have tracked this study for a while, and the edge has seen an acceleration to the downside in recent instances. This all suggests we could see further selling over the next few days. I added this to the Active List tonight.

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



With today's evidence considered, the green Aggregator Line remained just a little above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved back 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 3164.29 on Monday. That is 0.7% above Friday's close. So SPX will need to close up a fairly sizable 0.7% on Monday in order to flip to overbought versus expectations.

We are in a bit of a weird spot here. The Aggregator is bullish based on mixed expectations and a relative oversold reading. But neither the expectations nor the oversold status are obvious. Expectations are mixed. Even Monday's seasonal outlook is debatable. Is it bearish being the Monday after Thanksgiving, or is it bullish being the 1st trade day of the month? Another of the current bullish studies looks at performance following the 1st dip for SPX below the 10ma in a long time. But SPY never confirmed that dip. It has now closed above the 10ma for 36 days in a row, which is an extremely long time. To understand how extreme, SPY has only closed above its

10ma for 36 or more days in a row 1 other time since its inception in 1993. That was earlier this year during the January/February rally. In other words, we certainly seem overdue for a deeper pullback. And I'll be more comfortable taking long positions once we get a deeper pullback. Tough to really feel "oversold" when the market is only 1 day removed from an all-time high and has failed to pull back in nearly two months. So yea, there is a potential long setup here. But I'll wait for a more blatant one, offering more favorable reward/risk, before taking on new index positions.

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

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

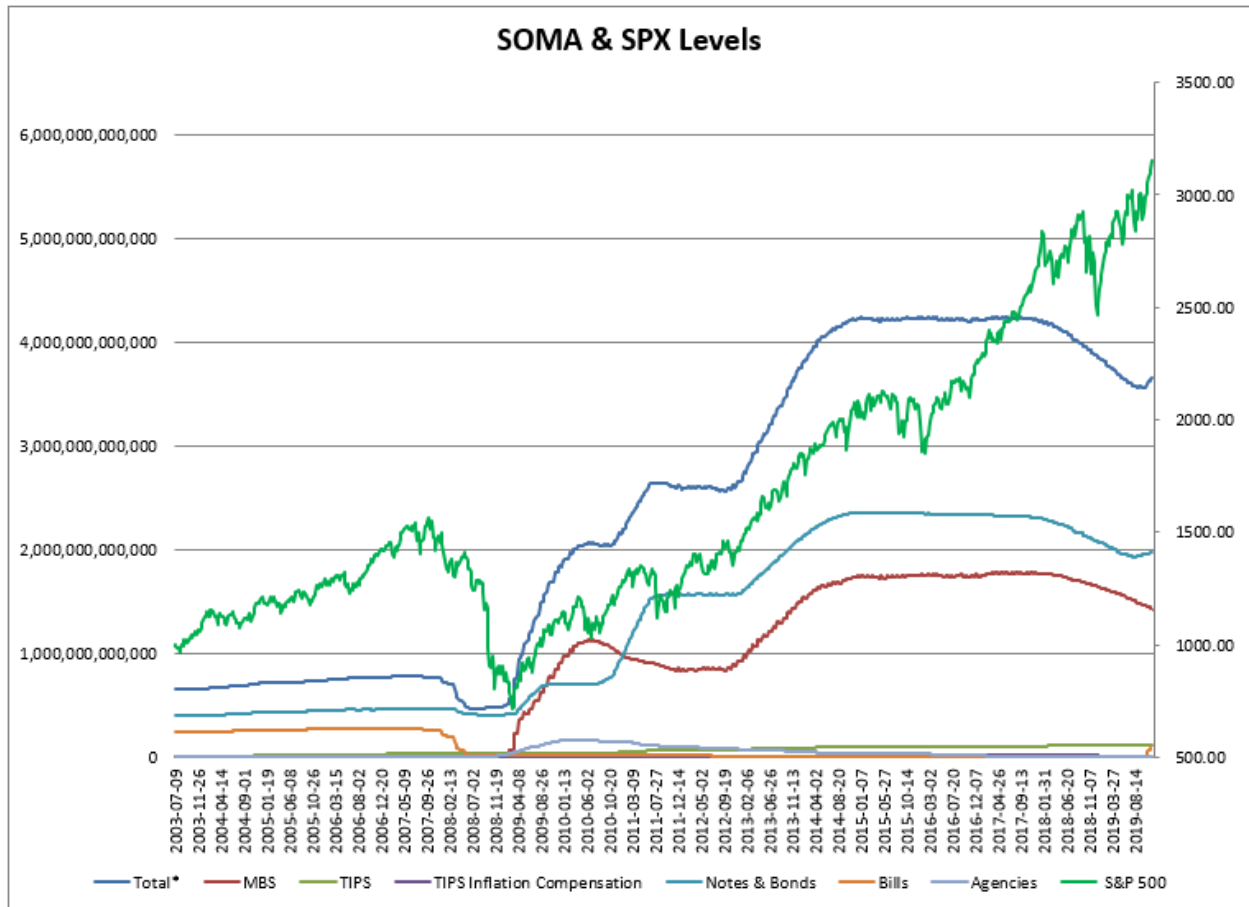
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.*

Despite Friday's selling, the major indices all posted nice gains this past week. The SPX rose 1.0%, the NASDAQ climbed 1.7%, and the Russell 2000 rallied 2.2%. SPX and NASDAQ are just 1 day removed from all-time highs, so the long-term trend certainly appears to be up. There were no new studies that emerged this past week with intermediate-term implications.

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 11/20/2019

DOMESTIC SECURITIES HOLDINGS AS OF
November 28, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	106,516,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,975,544,655.7
US Treasury Floating Rate Notes (FRN)	17,057,716.4
US Treasury Inflation-Protected Securities (TIPS)*	124,371,604.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,423,723,827.0
Total SOMA Holdings	3,649,560,803.2
Change From Prior Week	14,633,282.6

*Does not reflect inflation compensation of 25,008,150.5
**Fannie Mae, Freddie Mac and Federal Home Loan Bank
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 11/29/2019 4:30pm.

The SOMA rose a sizable \$14.6 billion this past week. It has risen at least \$5 billion every week since “not QE” began 6 weeks ago. And since “not QE” has been in effect over the last 6 weeks, the market has risen every single one of them. SPX has moved up a total of 5.5% over the 6-week period. Like past QE policies, “not QE” certainly seems to be favorable for the market.

The intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ are still near all-time highs. The recent upward persistence also appears to be a positive. Both the Best 6 Months and the Presidential Cycle are bullish. This means all 4 Market Timing Course indicators remain bullish. Overall, the bullish case seems substantially stronger. The bears can point to the split market conditions that the recent cluster of Hindenburg Omen signals hinted at. While that is worth considering, there still seems to be much more pointing to further upside. I remain bullish on the intermediate-term. I will therefore keep a generally 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

QCOM – 1/3 @ \$85.11

QCOM – 1/3 @ \$84.89

QCOM – 1/3 @ \$84.63

Broad Market Large Cap CBI – 3(QCOM-3)

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
QCOM(2/3)	11/26/2019	\$84.89	\$83.55	-1.58%		Catapult
QCOM(1/3)	11/27/2019	\$84.63	\$83.55	-1.28%		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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