

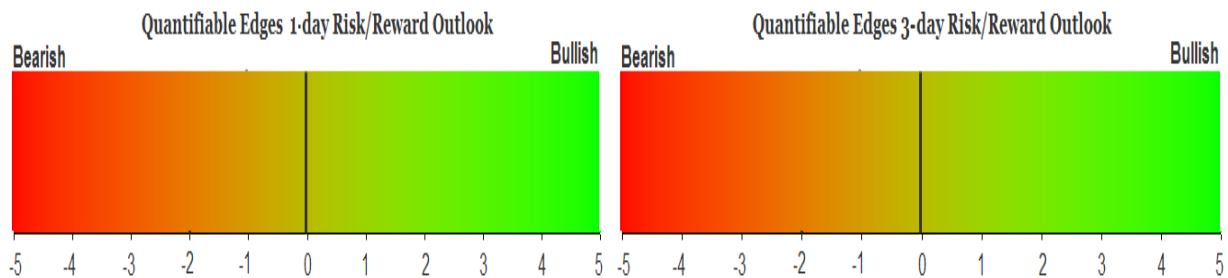
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 9, 2019

Volume 12 Issue 237

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- The recent dip and rebound put the market in a position where strong short-term edges are not evident.
- “Not QE” is continuing to expand the Fed’s balance sheet, and the market has responded with consistent gains since it began.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

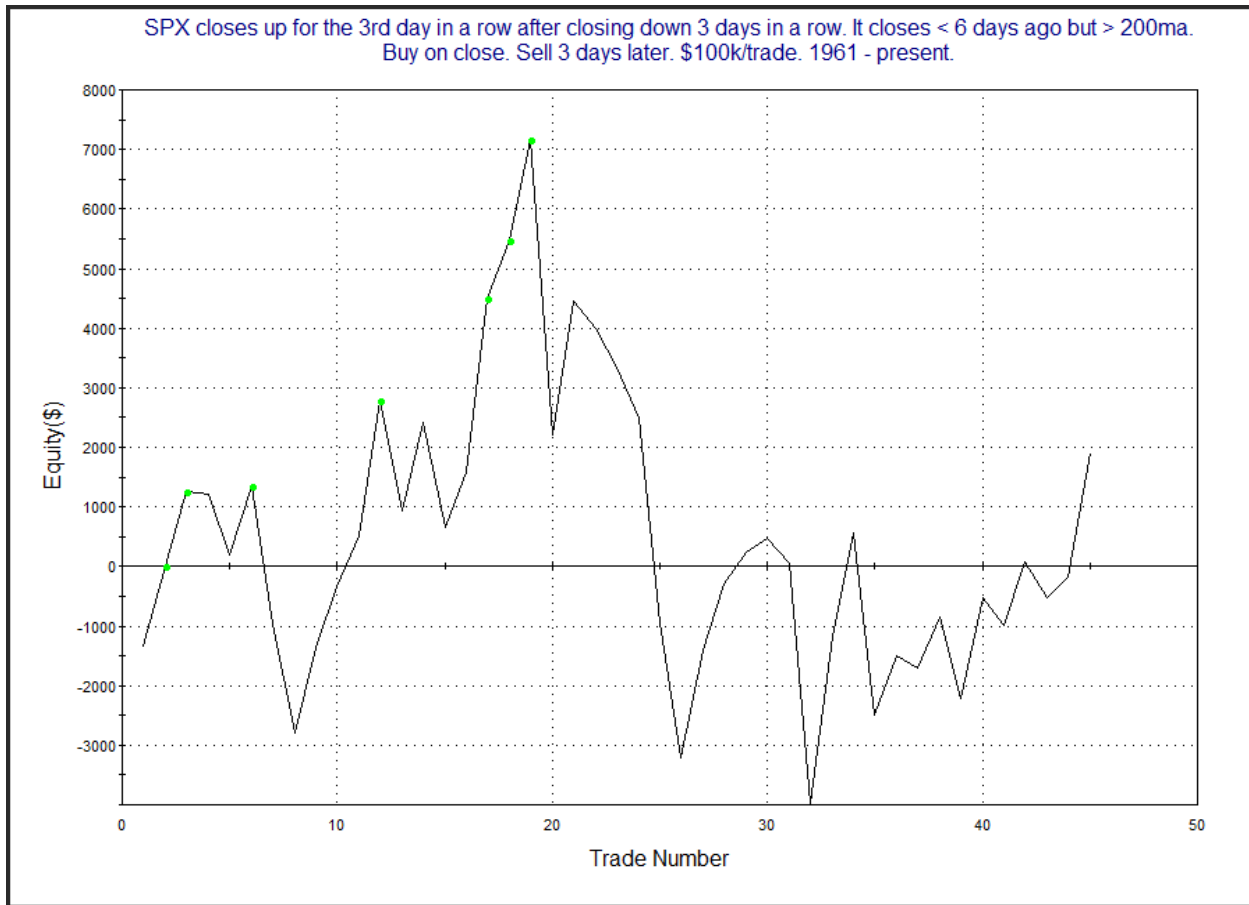
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
December 6, 2019	SPX up 2 from 10-low. Cls < 10ma	1-2 days	Bullish			
December 5, 2019	Unfill up frm 10-day < 10ma > 200ma	1-5 days	Bullish	1.70%	-1.30%	-2.50%
December 4, 2019	3 Dn to 10-low from 50-high	1-8 days	Bullish			
December 4, 2019	SPX close btm 10%, 5-low on Monday	1-6 days	Bullish			
December 3, 2019	SPX close btm 10%, 5-low on Monday	1-5 days	Bullish	2.10%	-1.00%	-2.10%
Active - Long Term						
December 3, 2019	SPY 1st below 10ma in > 25 days	1-19 days	Bullish	4.20%	-0.90%	-2.20%
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

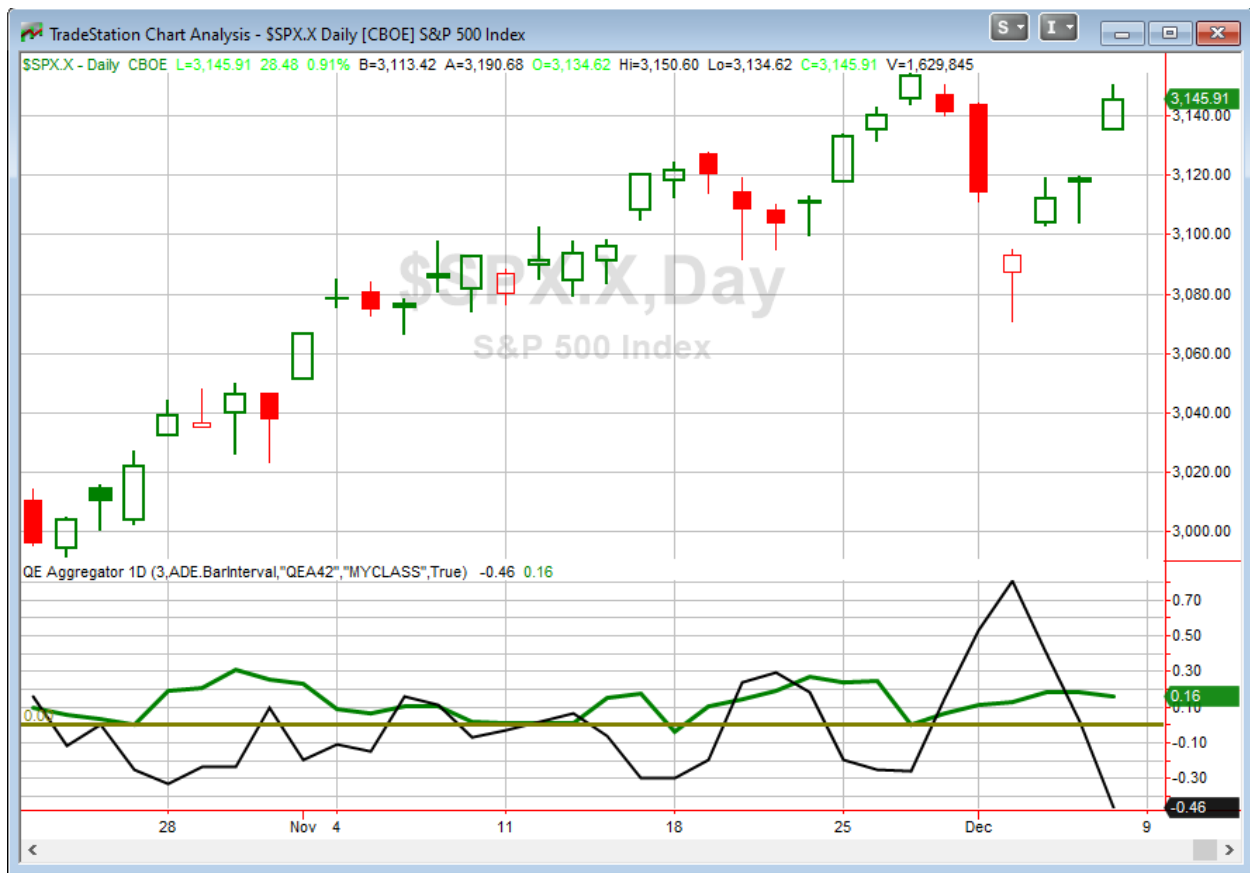
Friday saw the market gap higher on positive employment data, and then never look back. The SPX finished the day up 0.9%, the NASDAQ rose 1.0%, and Russell 2000 gained 1.2%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 79%. NYSE volume rose some from Thursday's level.

The last 3 days have nearly gotten the market back to new highs after the selloff early in the week. But the action on Friday failed to generate even a single study in the Aggregator. That's fairly unusual, but it happens on occasion. Most often it happens during chop or in a range-bound market. I guess 3 days down followed by 3 days up qualifies. And as I show below, if you look at similar pattern results, they certainly do not suggest a consistent edge.



So there is nothing new to add to the active list tonight.

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



Without any new studies being added, 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 took a dive down 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.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 3125.81 on Monday. That is 0.6% below Friday's close. So SPX will need to close down over 0.6% on Monday in order to change from overbought to oversold versus recent expectations.

So the Aggregator is neutral, and Friday's action is not suggesting a strong edge. I exited my SPY position on Friday and am content to remain flat until the next favorable opportunity arises.

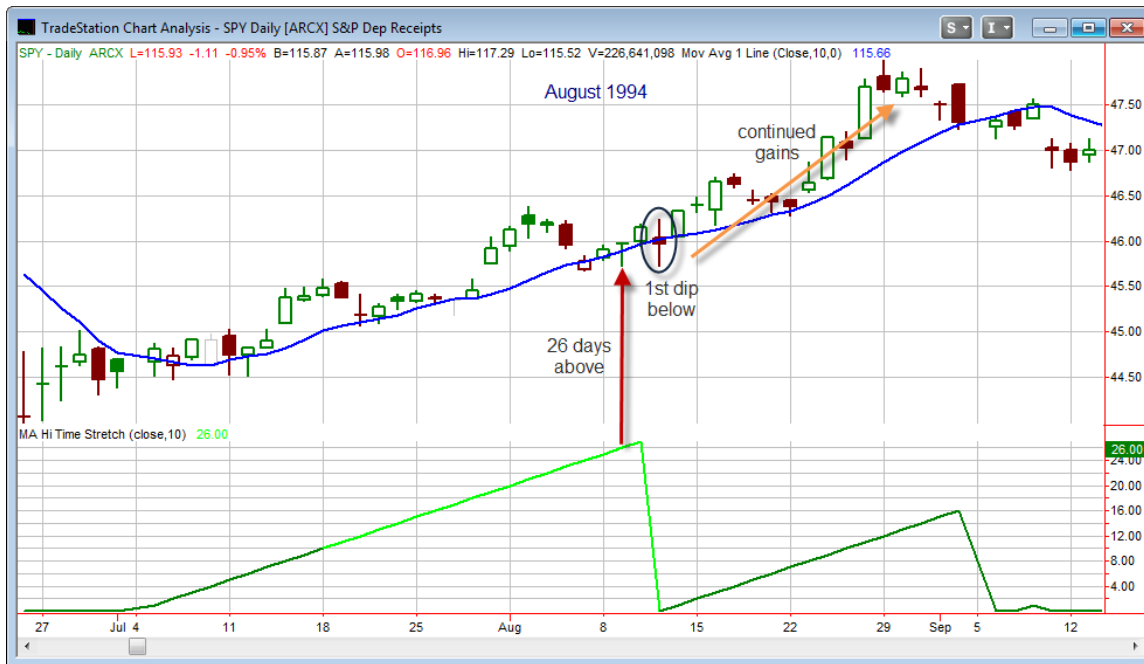
Intermediate-term Outlook (2 weeks – 2 months) – updated 12/9 – bullish

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

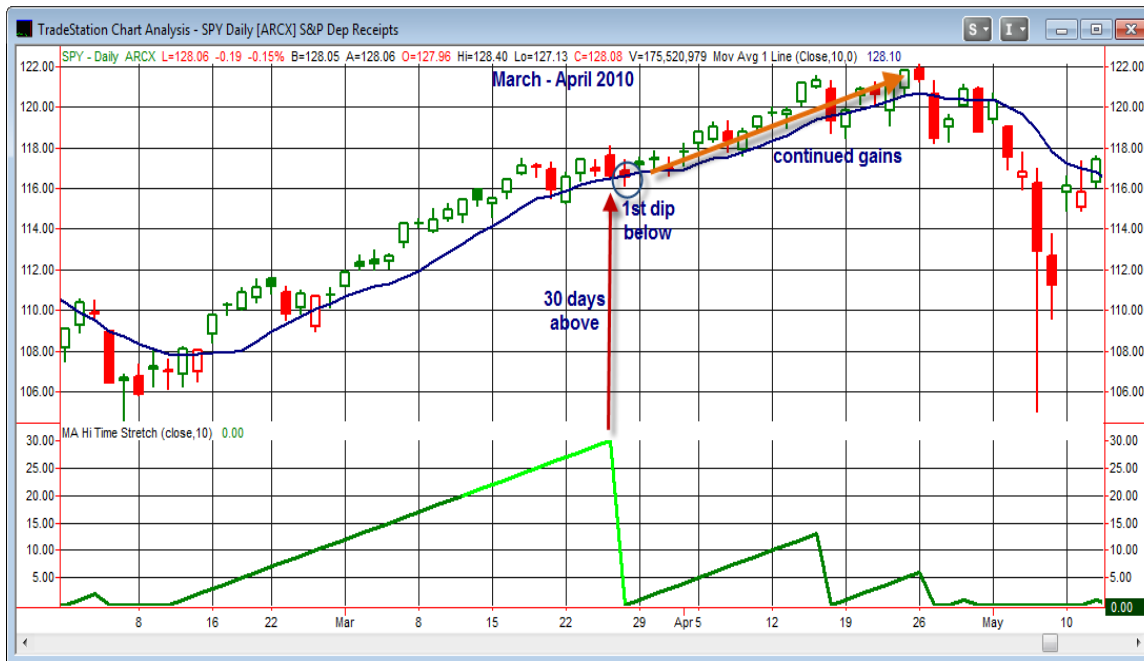
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

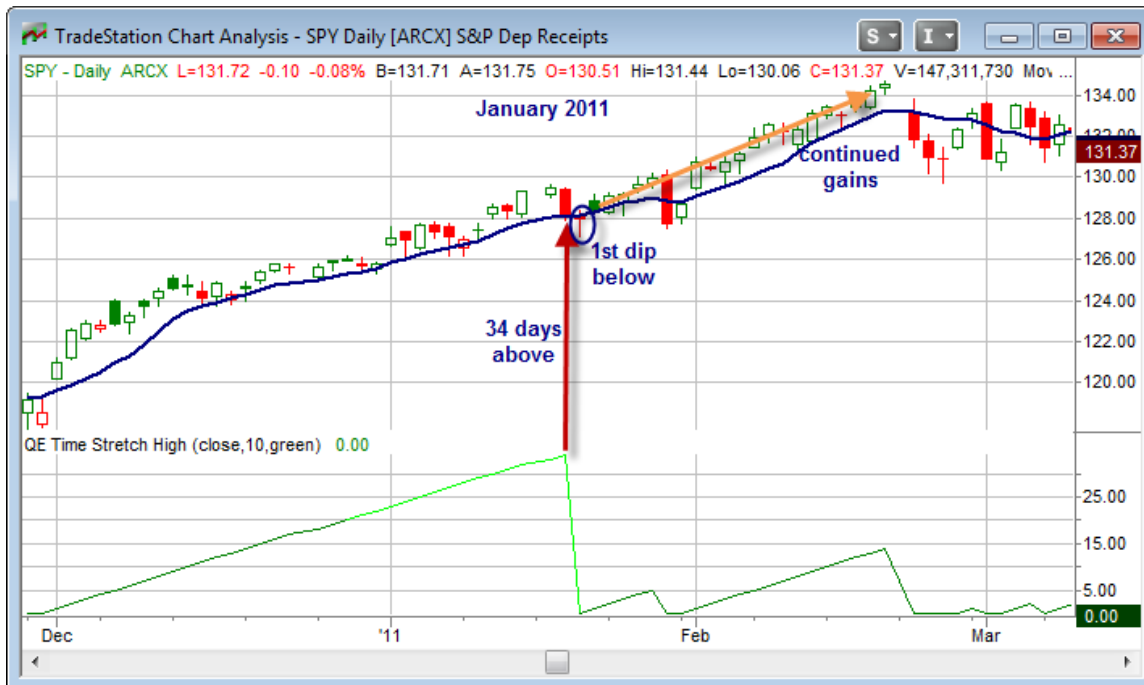
Results this past week were mild and mixed. The SPX rose 0.2%, the NASDAQ lost 0.1%, and the Russell 2000 rallied 0.6%. SPX and NASDAQ are back near new highs, so the trend still appears up. The Monday night letter this past week showed an interesting study suggesting an upside edge. I have copied it below.

I mentioned over the weekend that SPY had gone 36 days without ever closing below its 10ma. This was the 2nd longest streak since the inception of SPY, with the longest streak of 40 days occurring in Jan/Feb of this year. My note was the perfect hex, as SPY closed down below the 10ma on Monday. In the 3/6/19 Subscriber Letter I looked at all the instances where SPY had traded above its 10ma for at least 25 days then closed below it. Since its inception in 1993 there have been only 13 other instances where SPY had a run of 25 days or more. I showed the charts of every instance and noted how the market reacted after it finally did close beneath its 10ma. Below I have republished those charts and added another one to show the most recent instance. The indicator in the bottom pane of each chart shows the number of days the SPY has closed above its 10ma.



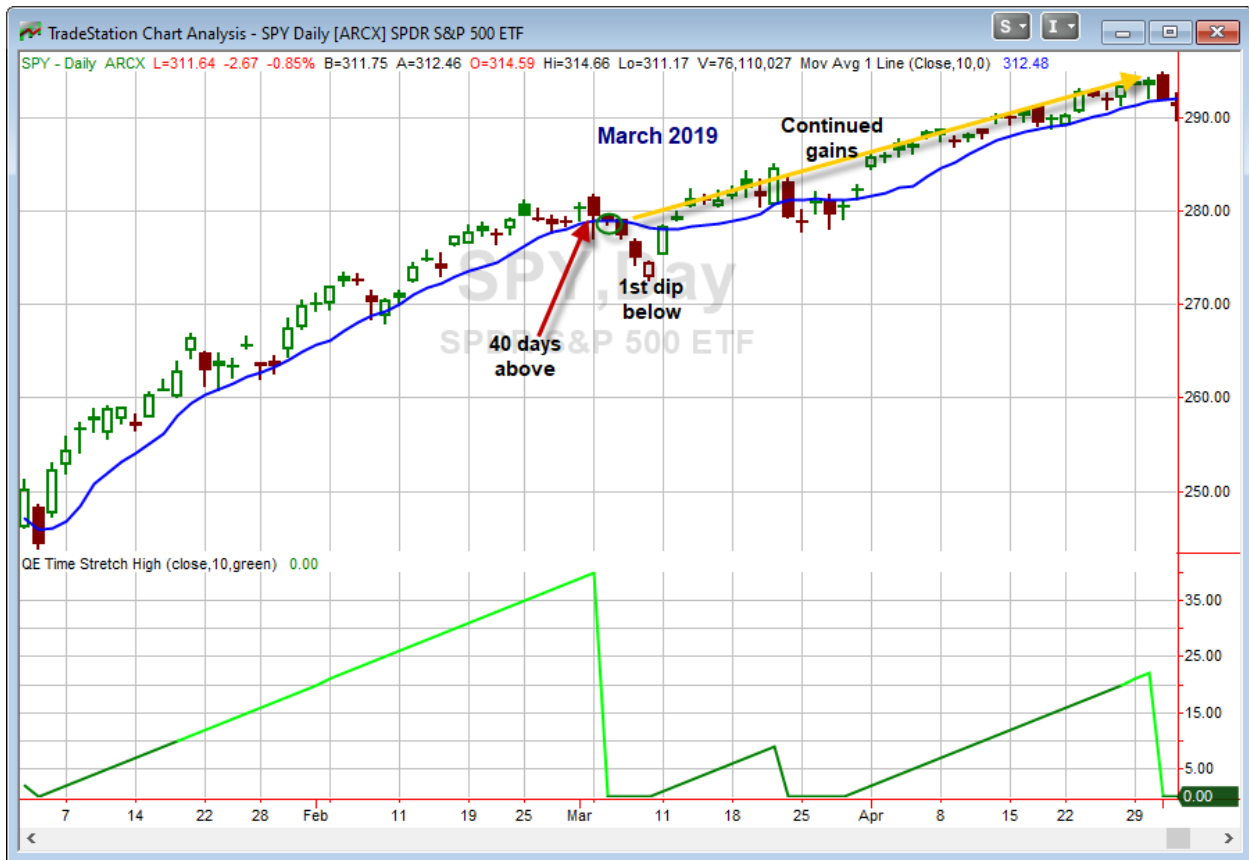












*Most of these charts look quite positive. Except for the November 2015 instance, the first trip below the 10ma was a short one, and the uptrend managed to reassert itself. Of course, if you've been reading *Quantifiable Edges* for any period of time, you're probably used to looking at numbers. So below you will find the stats table.*

After closing above the 10ma for at least 25 days in a row, SPY closes below it today.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

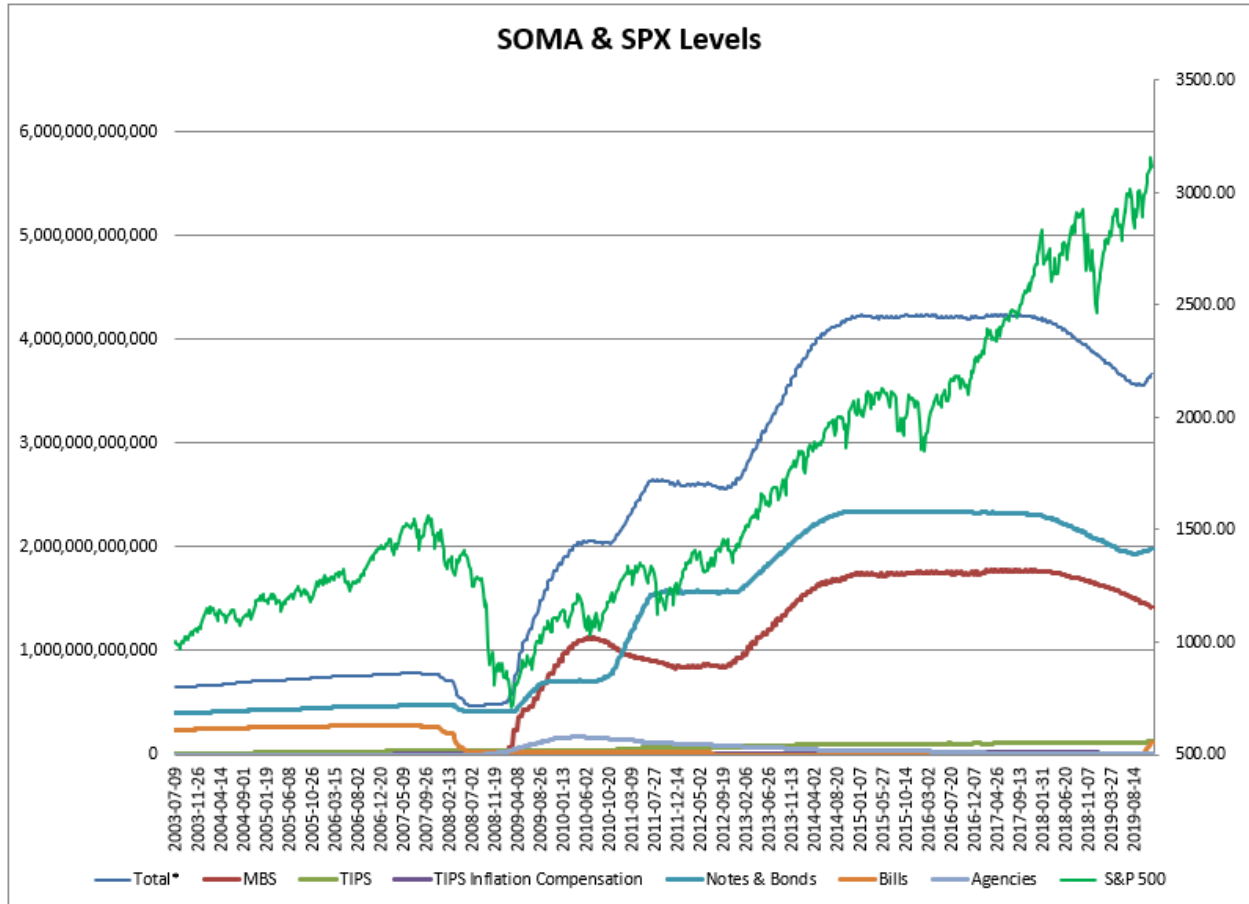
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	43,901.27	13	12	1	92.31	7,915.86	-542.40	3,703.64	-542.40	6.83	81.94	3,377.02
19	45,790.66	13	13	0	100.00	6,866.19	0.00	3,522.36	0.00	100.00	100.00	3,522.36
18	41,385.32	13	13	0	100.00	7,375.28	0.00	3,183.49	0.00	100.00	100.00	3,183.49
17	36,136.33	13	12	1	92.31	6,148.56	-1,185.60	3,110.16	-1,185.60	2.62	31.48	2,779.72
16	38,025.37	13	13	0	100.00	6,103.68	0.00	2,925.03	0.00	100.00	100.00	2,925.03
15	38,976.77	13	13	0	100.00	6,144.82	0.00	2,998.21	0.00	100.00	100.00	2,998.21
14	36,924.70	13	13	0	100.00	6,115.05	0.00	2,840.36	0.00	100.00	100.00	2,840.36
13	38,521.82	13	13	0	100.00	6,500.25	0.00	2,963.22	0.00	100.00	100.00	2,963.22
12	32,765.37	13	12	1	92.31	5,604.66	-1,929.42	2,891.23	-1,929.42	1.50	17.98	2,520.41
11	27,932.38	13	12	1	92.31	5,845.41	-3,815.10	2,645.62	-3,815.10	0.69	8.32	2,148.64
10	25,133.94	13	12	1	92.31	5,325.39	-3,037.50	2,347.62	-3,037.50	0.77	9.27	1,933.38
9	23,040.41	13	12	1	92.31	4,882.41	-2,366.82	2,117.27	-2,366.82	0.89	10.73	1,772.34
8	22,558.88	13	12	1	92.31	4,574.25	-763.02	1,943.49	-763.02	2.55	30.57	1,735.30
7	16,890.50	13	12	1	92.31	4,304.61	-1,263.60	1,512.84	-1,263.60	1.20	14.37	1,299.27
6	15,260.80	13	10	3	76.92	3,158.64	-1,252.80	1,696.20	-567.06	2.99	9.97	1,173.91
5	16,602.95	13	11	2	84.62	3,466.80	-1,180.80	1,658.40	-819.72	2.02	11.13	1,277.15
4	14,464.16	13	11	2	84.62	3,158.64	-2,659.20	1,575.55	-1,433.42	1.10	6.05	1,112.63
3	9,342.42	13	11	2	84.62	2,744.55	-1,632.48	1,139.10	-1,593.84	0.71	3.93	718.65
2	6,620.26	13	10	3	76.92	1,656.36	-1,435.58	845.26	-610.79	1.38	4.61	509.25
1	4,564.49	13	9	4	69.23	1,974.15	-605.02	596.08	-200.05	2.98	6.70	351.11

Strong and persistent upside movement like we have seen lately hasn't normally just ended and lead to an immediate correction. The 1st dip has most often been just that – a dip. New highs were typically made in short order. Of course the November 2015 instance was a big failure, and there is always a chance we could see that happen again. But the failure there was almost immediate. It did make some brief forays above the entry area, but it never moved to a new high, and the steep drop beyond the initial 10ma cross seemed to provide us a decent clue. Overall I think this study is worth consideration. Of course SPX dipped below its 10ma 6 days ago, and we saw a similar study then, which is already active. So I have listed this on the intermediate-term active list, but I'd feel a little better about the timing if the SPX and SPY had confirmed each other on the same day.

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 11/28/2019

DOMESTIC SECURITIES HOLDINGS AS OF
December 4, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	114,017,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,979,346,655.7
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***	1,423,724,827.1
Total SOMA Holdings	3,660,864,803.3
Change From Prior Week	11,304,000.1

*Does not reflect inflation compensation of 25,059,980.7
**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 12/05/2019 4:30pm.

The SOMA rose \$11.3 billion this past week. It has risen at least \$5 billion every week since “not QE” began 7 weeks ago. And since “not QE” has been in effect, this is the 1st week in which SPX did not rise. Even with the dip this week, like past QE policies, “not QE” certainly seems to be favorable for the market.

The intermediate-term active list is again 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

GE – 1/3 @ \$10.99

GE – 1/3 @ \$10.90

GE – 1/3 @ \$10.79 (not filled – cancel for now)

Broad Market Large Cap CBI – 3(GE-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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QCOM(2/3)	11/26/2019	\$84.89	\$83.82	-1.26%		sell on open
QCOM(1/3)	11/27/2019	\$84.63	\$83.82	-0.96%		sell on open
<i>SPY(1/4)</i>	<i>12/3/2019</i>	<i>\$308.65</i>	<i>\$314.12</i>	<i>1.77%</i>		<i>sold on open</i>
GE(1/3)	12/4/2019	\$10.99	\$11.10	1.00%		Catapult
GE(1/3)	12/5/2019	\$10.89	\$11.10	1.93%		Catapult

Note: QCOM has gone ex-div during the holding period. The exit price shown Monday night will be equal to Monday's open plus the dividend payable of \$0.62.

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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