

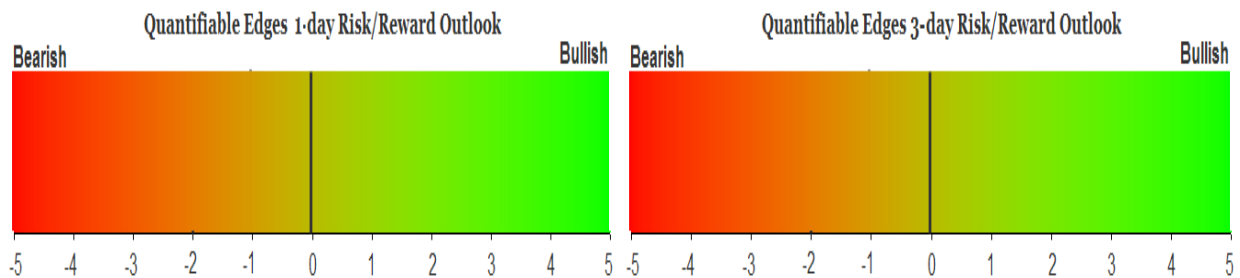
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2019

Volume 12 Issue 242

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Dec opex is a strong seasonal week.
- January Effect will be kicking in soon, where smallcaps are likely to outperform largecaps.
- Russell 2000 strength will really kick in after Thursday.

Short-term Outlook

The Bottom Line

Seasonal evidence is bullish, but the market is at new highs and overbought. This is leaving the Aggregator neutral and me sidelined.

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 16, 2019	December Opex bullish	1-5 days	Bullish	1.90%	-1.20%	-2.70%
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			

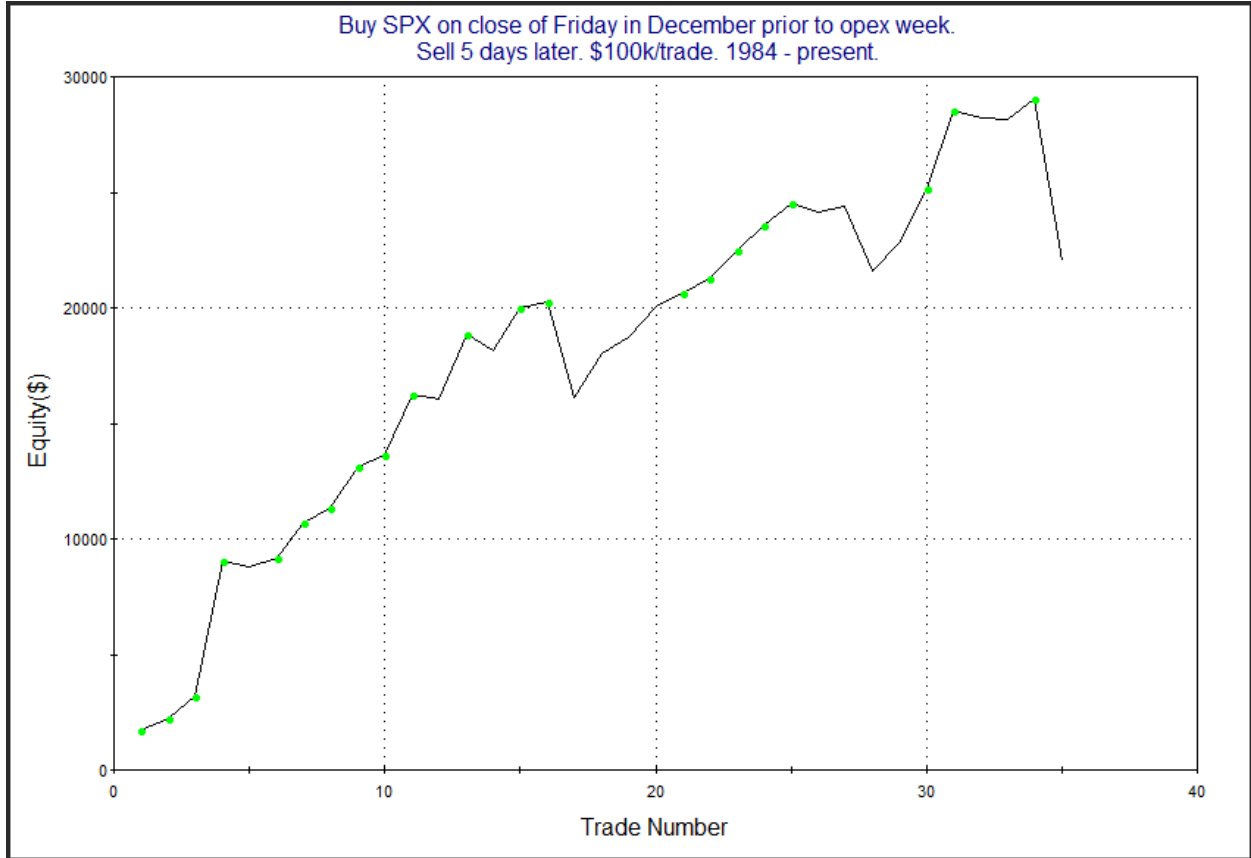
The Evidence

Back and forth trading on Friday left the market mixed. The SPX rose a fraction of a point, the NASDAQ gained 0.2%, and Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % was 49.8% and the Up Volume % came in at 43.1%. NYSE volume declined from Thursday's level.

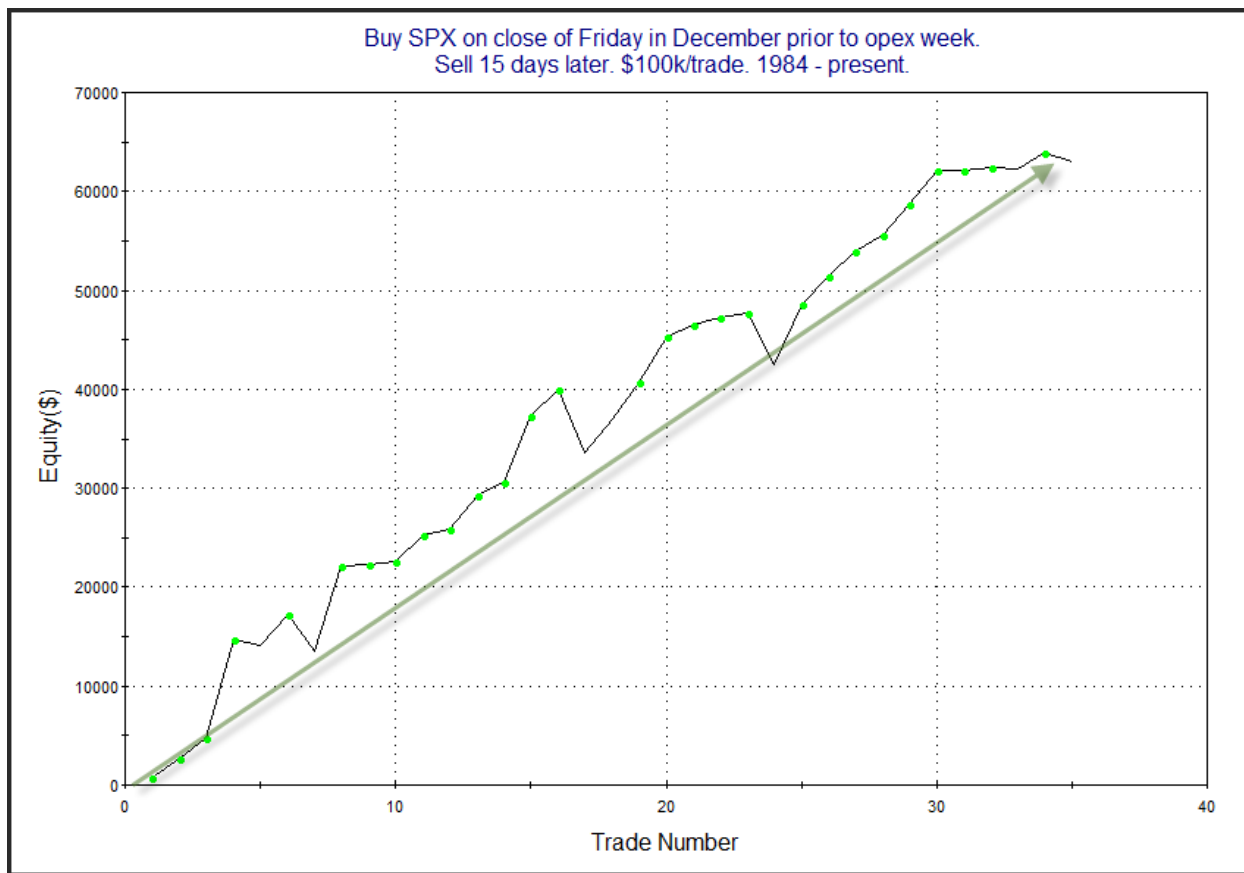
There were a few seasonal studies that triggered that are worth discussion. Over several time horizons op-ex week in December has been the most bullish week of the year for the SPX. The positive seasonality actually has persisted for up to 3 weeks. I demonstrated this most recently in the 12/11/17 letter. 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	62,984.13	35	29	6	82.86	9,879.20	-6,297.71	2,754.25	-2,814.87	0.98	4.73	1,799.55
14	57,958.48	35	28	7	80.00	8,742.88	-3,579.92	2,588.42	-2,073.92	1.25	4.99	1,655.96
13	56,259.95	35	27	8	77.14	9,068.80	-3,830.44	2,547.48	-1,565.25	1.63	5.49	1,607.43
12	48,724.43	35	25	10	71.43	8,528.00	-5,778.28	2,563.26	-1,535.70	1.67	4.17	1,392.13
11	50,472.44	35	25	10	71.43	8,483.80	-3,966.09	2,536.83	-1,294.82	1.96	4.90	1,442.07
10	45,198.86	35	27	8	77.14	7,974.20	-4,640.61	2,148.70	-1,601.99	1.34	4.53	1,291.40
9	37,469.89	35	23	12	65.71	7,080.80	-6,909.45	2,449.91	-1,573.16	1.56	2.98	1,070.57
8	32,165.49	35	26	9	74.29	7,564.16	-7,650.40	2,055.44	-2,364.01	0.87	2.51	919.01
7	28,632.76	35	26	9	74.29	6,198.88	-5,025.50	1,815.69	-2,063.90	0.88	2.54	818.08
6	21,345.10	35	28	7	80.00	6,025.04	-9,456.30	1,530.95	-3,074.51	0.50	1.99	609.86
5	22,065.71	35	26	9	74.29	5,868.16	-6,968.06	1,458.03	-1,760.35	0.83	2.39	630.45
4	14,536.25	35	24	11	68.57	3,243.60	-5,036.14	1,198.67	-1,293.81	0.93	2.02	415.32
3	18,674.44	35	22	13	62.86	5,410.24	-3,533.62	1,389.82	-915.50	1.52	2.57	533.56
2	17,432.28	35	24	11	68.57	3,779.85	-2,327.34	1,122.13	-863.53	1.30	2.84	498.07
1	4,155.42	35	20	15	57.14	2,912.88	-2,147.10	786.93	-772.21	1.02	1.36	118.73
2018 was the only year where the market tumbled and never made a higher close in the next 3 weeks. All other years did it within 10 days.												

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



The strong upslope was very impressive until the 2018 December drop.



They don't get much better looking than that. Even the 2018 mini-crash is barely noticeable.

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 31 years, or 77% 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 5.88% in losses. That's 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.

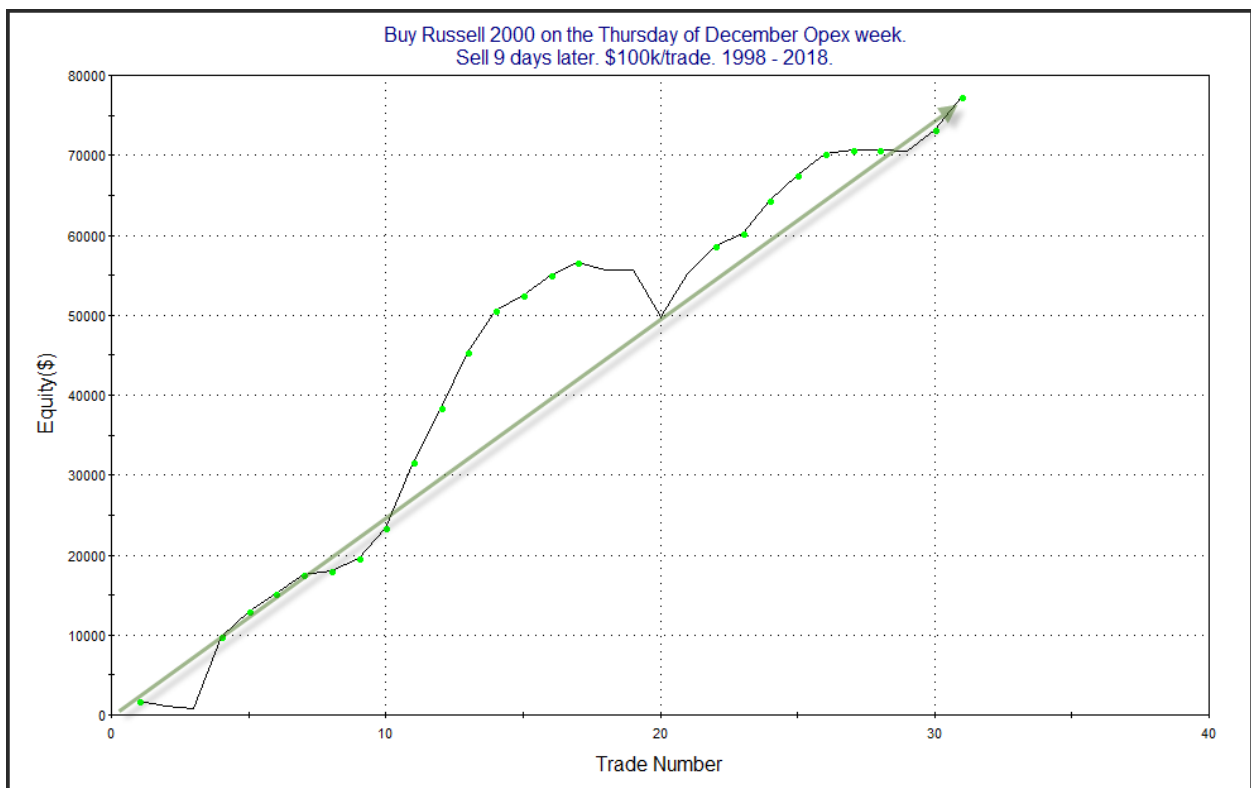
	Dec 15 - 1st Trading Day of Jan		
	<i>SPX</i>	<i>Rut</i>	<i>RUT - SPX</i>
<i>Year</i>	<i>% Return</i>	<i>% Return</i>	<i>% Difference</i>
1988	0.38%	2.53%	2.15%
1989	2.73%	2.08%	-0.65%
1990	0.13%	1.96%	1.83%
1991	8.53%	5.71%	-2.82%
1992	0.65%	2.83%	2.18%
1993	0.78%	2.68%	1.90%
1994	0.83%	2.50%	1.67%
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%
2018	-1.41%	-1.61%	-0.20%
Total	52.27%	87.51%	35.24%

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.

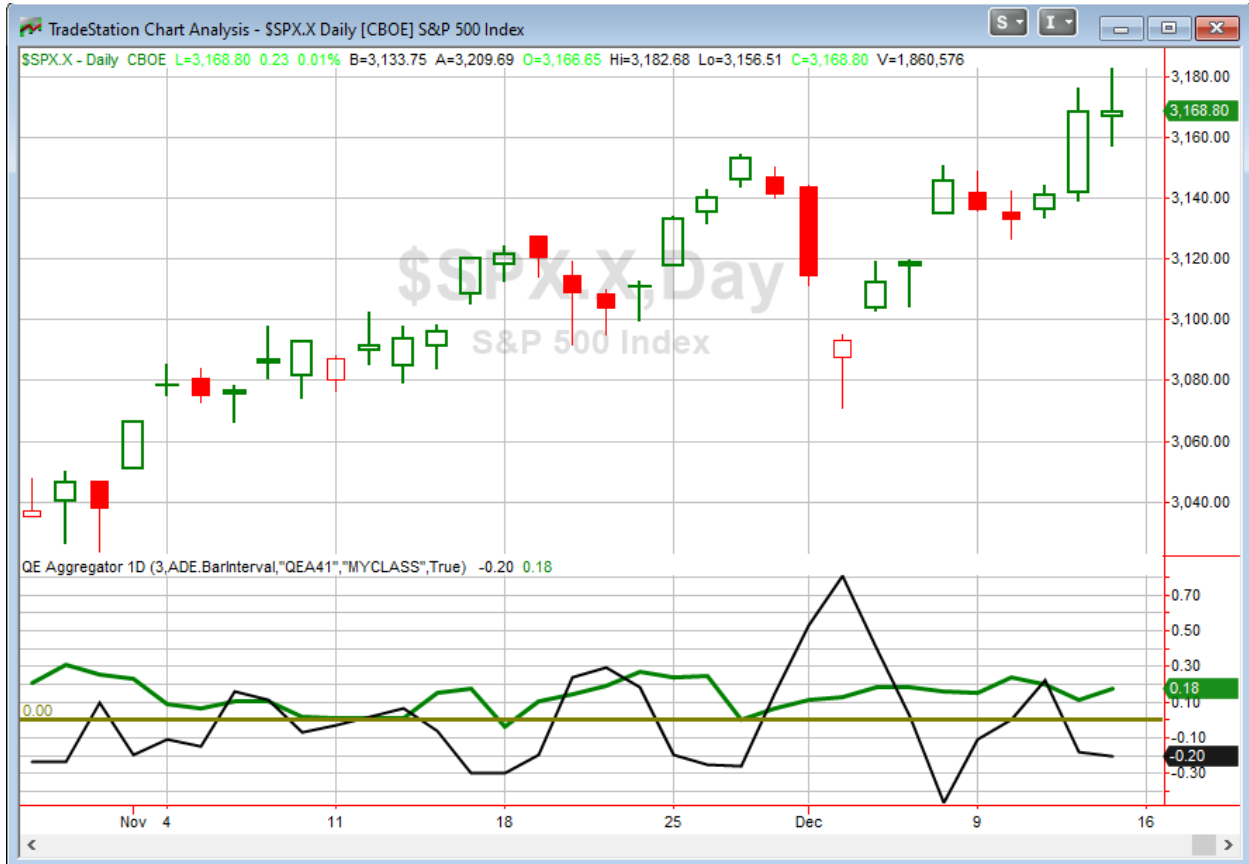
Buy Russell 2000 on the Thursday of December Opex week. Sell X days later. \$100k/trade. 1998 - 2018.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	78,450.91	31	24	7	77.42	10,279.71	-5,643.30	3,852.72	-2,002.05	1.92	6.60	2,530.67
9	77,376.23	31	26	5	83.87	9,009.63	-5,973.50	3,290.51	-1,635.38	2.01	10.46	2,496.01
8	64,055.95	31	26	5	83.87	7,115.85	-2,948.40	2,658.16	-1,011.23	2.63	13.67	2,066.32
7	60,219.19	31	26	5	83.87	7,790.58	-1,809.60	2,505.97	-987.18	2.54	13.20	1,942.55
6	45,861.55	31	24	7	77.42	6,599.88	-2,720.64	2,184.77	-938.98	2.33	7.98	1,479.40
5	34,050.74	31	22	9	70.97	4,892.25	-3,194.64	2,031.43	-1,182.30	1.72	4.20	1,098.41
4	26,705.47	31	22	9	70.97	4,413.75	-3,892.32	1,811.51	-1,460.86	1.24	3.03	861.47
3	22,385.40	31	21	10	67.74	3,814.20	-2,650.68	1,676.12	-1,281.31	1.31	2.75	722.11
2	7,690.35	31	18	13	58.06	3,495.70	-4,431.00	1,393.27	-1,337.57	1.04	1.44	248.08
1	9,070.43	31	17	14	54.84	2,299.70	-2,543.25	955.24	-512.05	1.87	2.27	292.59

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 re-post this study again Thursday night when it actually triggers.

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



With the new 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 held 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3159.81 on Monday. That is 0.3% below Friday's close. Therefore, SPX will need to

close down 0.3% or more on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is back to neutral. Positive seasonality is kicking in. But buying with the market already at new highs can be risky when short-term trading. So I will hope for a pullback in the coming days. And I will also be keeping an eye on the RUT and NDX for opportunities, since they tend to outperform SPX in late December.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/16 – bullish

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

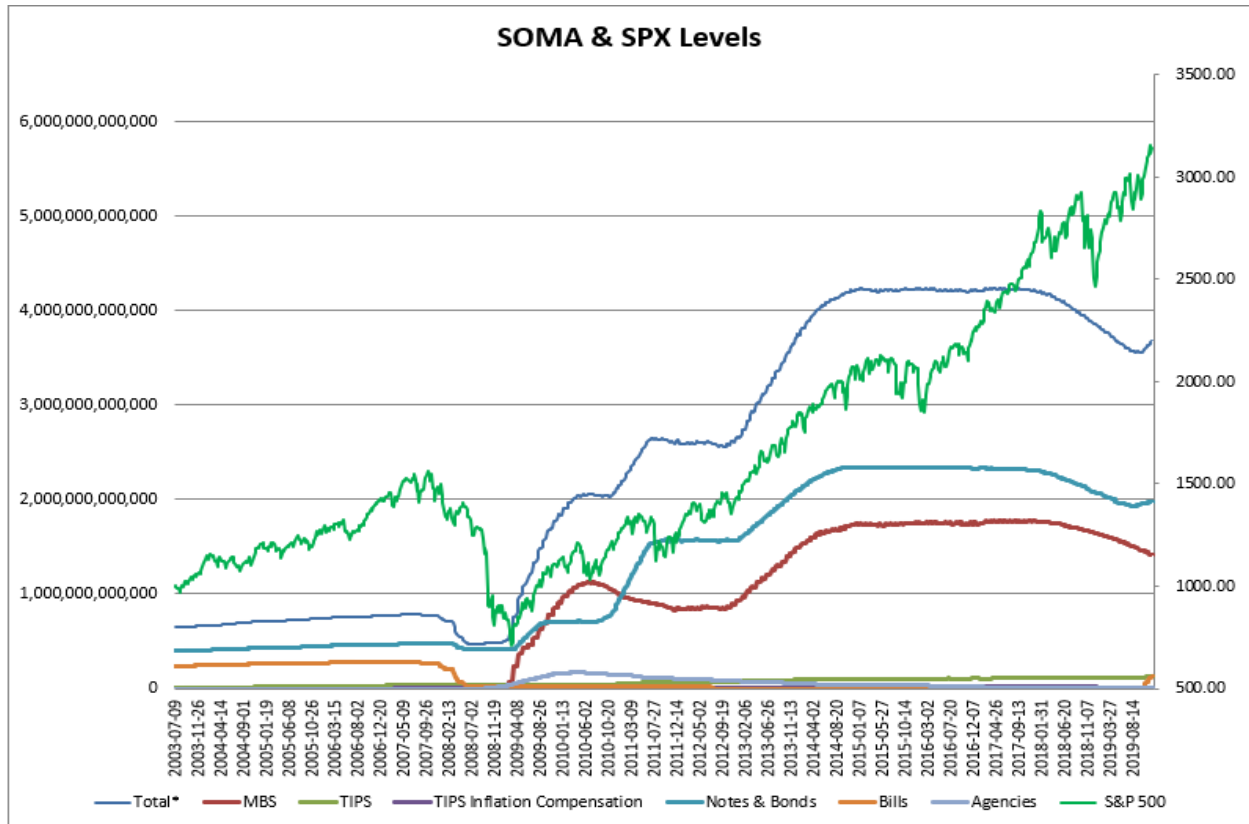
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 market put in gains across the board this week. The SPX rose 0.7%, the NASDAQ rallied 0.9%, and the Russell 2000 climbed 0.3%. SPX and NASDAQ are back at new highs, so the trend remains up. Aside from the seasonal studies discussed above, there were no new studies with intermediate-term implications that emerged this past week.

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 12/04/2019

DOMESTIC SECURITIES HOLDINGS AS OF December 11, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	132,020,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,981,547,655.7
US Treasury Floating Rate Notes (FRN)	17,408,716.4
US Treasury Inflation-Protected Securities (TIPS)*	125,972,604.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,423,724,827.1
Total SOMA Holdings	3,683,020,803.3
Change From Prior Week	22,156,000.0

*Does not reflect inflation compensation of 25,247,131.2
 **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 12/12/2019 4:30pm.

The SOMA rose \$22 billion this past week. It has risen at least \$5 billion every week since “not QE” began 8 weeks ago. And since “not QE” has been in effect, SPX has closed higher 7 of those 8 weeks. Like past QE policies, “not QE” certainly seems to be favorable for the market. It is also worth noting that when the Fed met this past week, they confirmed the policy and SOMA increases would remain in effect at least through January.

The intermediate-term active list is again dominated by bullish studies. The SPX & NASDAQ are at 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. And as I discussed in the short-term section, we are now entering a strong seasonal period that will take us into early January. 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. But there is 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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>GE(1/3)</i>	<i>12/4/2019</i>	<i>\$10.99</i>	<i>\$11.50</i>	<i>4.64%</i>		<i>sold on open</i>
<i>GE(1/3)</i>	<i>12/5/2019</i>	<i>\$10.89</i>	<i>\$11.50</i>	<i>5.60%</i>		<i>sold on open</i>

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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