

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2019

Volume 12 Issue 251

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- VIX action on Friday is warning of a possible short-term pullback.
- NASDAQ momentum has been strong, and that suggests some follow through in the coming days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and once again, 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
<b>Active - Short Term</b>						
December 30, 2019	NASDAQ up 10+ then dn 1	1-4 days	Bullish			
December 30, 2019	VIX up SPX 50-day high on a Friday	1-4 days	Bearish			
December 23, 2019	NDX up 8 days and 50-day high	1-5 days	Bullish			
December 23, 2019	Twas 3 Nights Before Christmas	1-5 days	Bullish			
<b>Active - Long Term</b>						
December 20, 2019	Russell 2000 bullish seasonality	1-9 days	Bullish			
December 19, 2019	5 up to 50-high, then down 1	1-10 days	Bullish	1.90%	-1.00%	-2.10%
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			

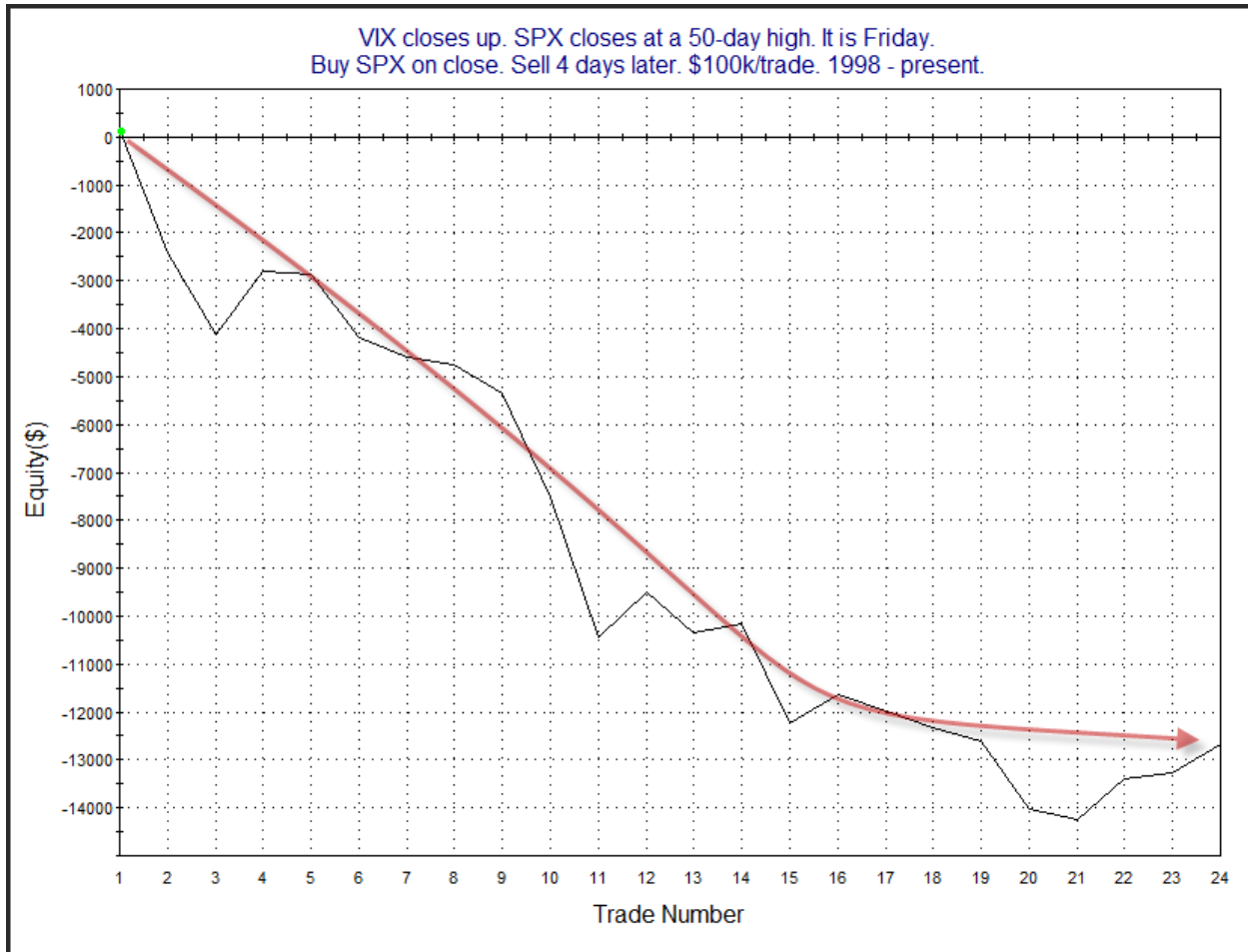
**The Evidence**

Friday was mixed and mostly mild. The SPX was basically breakeven with a 0.11 point rise, the NASDAQ lost 0.2%, and Russell 2000 fell 0.5%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 36%. NYSE volume rose some from Thursday's level, but should remain holiday-light until the New Year.

VIX action was unusual for the 2<sup>nd</sup> Friday in a row. The VIX rose while SPX closed at a new high. Most of the time the VIX will move opposite the SPX. Fridays there is a natural tendency for the VIX to dip in the afternoon. So even though it has now happened two Friday's in a row, Friday is the least common day of the week to see SPX and VIX both rise. (Monday there is a natural inclination for the VIX to rise, so Mondays are about 3x as likely to see this happen as Fridays.) Friday also shows the most bearish results going forward for a rising VIX and an SPX new high. The study below was seen just last weekend in the 12/23/19 letter. It addresses the SPX/VIX action we saw on Friday. Stats are all updated.

<p>VIX closes up. SPX closes at a 50-day high. It is Friday. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.</p>												
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	-16,143.02	23	7	16	30.43	2,339.37	-3,458.70	1,078.60	-1,480.83	0.73	0.32	-701.87
4	-12,687.85	24	8	16	33.33	1,324.62	-2,923.20	599.15	-1,092.56	0.55	0.27	-528.66
3	-10,076.42	24	7	17	29.17	1,976.04	-3,727.50	739.04	-897.04	0.82	0.34	-419.85
2	-9,287.83	24	8	16	33.33	1,835.17	-3,595.20	680.27	-920.62	0.74	0.37	-386.99
1	-2,343.59	24	10	14	41.67	1,530.15	-2,361.45	352.13	-418.92	0.84	0.60	-97.65

The numbers here suggest a downside edge. Below is a look at the 4-day profit curve, which includes last week's instance.



A little bump-up the last few instances. This will need to start heading downward again soon or I will suspend the study. But for the time being I have included it on the short-term active list.

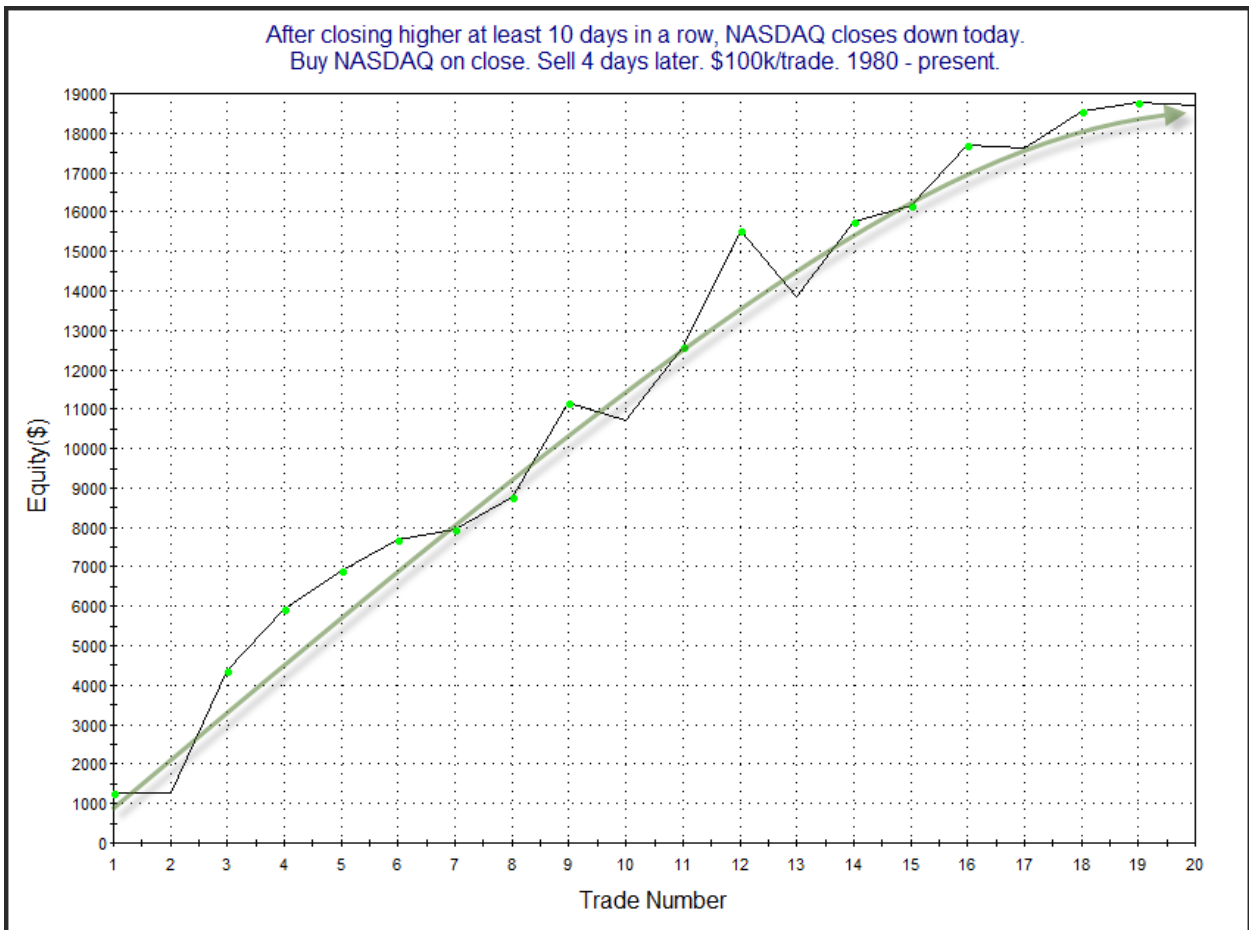
So VIX action continues to warn. And while it did not really matter this past week, perhaps it will this upcoming week. Meanwhile, the bullish seasonality we often see this time of year has played out quite strongly. Friday the NASDAQ posted its first down day since 12/10. That was a string of 11 up days before Friday. Momentum in the NASDAQ is often a good thing. We see this with the NASDAQ/SPX Relative Strength indicator we follow for the intermediate-term. And we also see it in the study below, which I am showing here in the letter for the 1<sup>st</sup> time.

After closing higher at least 10 days in a row, NASDAQ closes down today.  
Buy NASDAQ on close. Sell X days later. \$100k/trade. 1980 - 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	16,601.16	20	14	5	70.00	3,590.00	-2,787.55	1,522.18	-941.86	1.62	4.53	830.06
4	18,705.71	20	15	5	75.00	3,123.30	-1,690.26	1,400.26	-459.64	3.05	9.14	935.29
3	13,861.79	20	16	4	80.00	2,449.44	-1,841.95	1,052.96	-746.39	1.41	5.64	693.09
2	9,441.10	20	16	4	80.00	2,083.90	-2,055.06	830.27	-960.82	0.86	3.46	472.05
1	4,429.23	20	14	6	70.00	990.00	-1,314.18	517.64	-469.62	1.10	2.57	221.46

18 of 20 instances (90%) closed above the entry price at some point in the next week.

That 1<sup>st</sup> down day has rarely been the end of the up move. Results over the following week are impressive. Below is a look at the profit curve, assuming a 4-day hold.



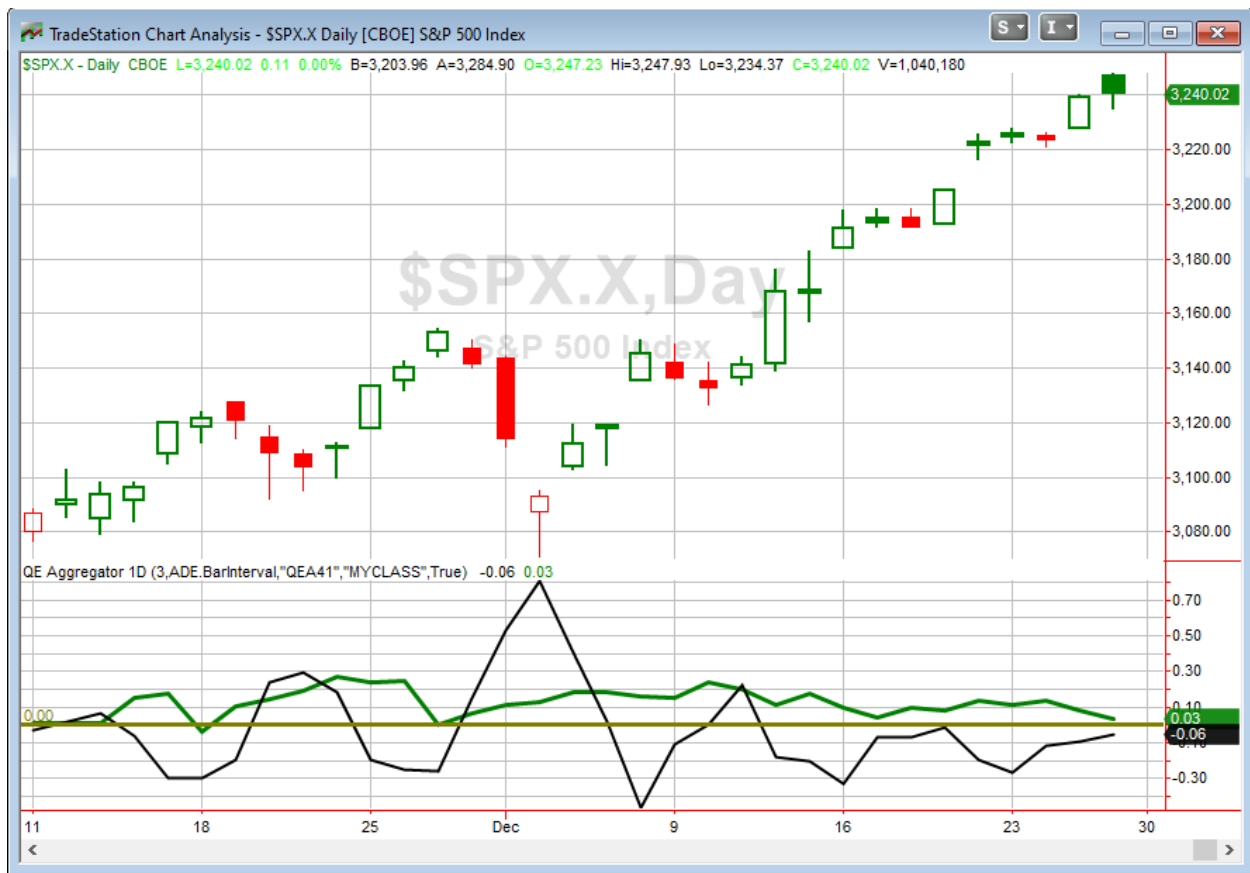
That is a strong move higher, and serves as some confirmation of the upside edge. Of course past studies have shown that strong upward momentum in the NASDAQ has also been bullish for the SPX. So I ran results for SPX following the NASDAQ pattern as well.

After closing higher at least 10 days in a row, NASDAQ closes down today. Buy SPX on close. Sell X days later. \$100k/trade. 1980 - 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	13,818.50	20	15	5	75.00	3,612.42	-2,188.55	1,304.38	-1,149.44	1.13	3.40	690.92
4	19,491.44	20	16	4	80.00	3,500.00	-1,046.36	1,318.18	-399.88	3.30	13.19	974.57
3	9,704.48	20	13	7	65.00	2,514.40	-1,992.34	1,156.20	-760.88	1.52	2.82	485.22
2	9,809.05	20	13	7	65.00	3,376.80	-1,992.34	1,115.25	-669.89	1.66	3.09	490.45
1	5,647.92	20	9	11	45.00	2,045.97	-1,744.10	1,153.55	-430.37	2.68	2.19	282.40
<b>19 of 20 instances (95%) closed above the entry price at some point in the next week.</b>												

The numbers here are very close to the NASDAQ results. It appears both indices have seen the momentum continue when the NASDAQ has been as persistent as we've seen lately. I have also included this study on the Active List.

Of course the move up without a pullback could be getting overdone soon. So it will be worth keeping an eye out for evidence of a pullback in the coming weeks.

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



With this weekend's mix of 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 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 3235.80 on Monday. That is 0.1% below Friday's close. Therefore, SPX will only need to close down about 0.1% on Monday in order to flip from overbought to oversold versus recent expectations.

So short-term momentum is encouraging, but VIX action is providing a bit of a warning. The Aggregator is about as neutral as can be with both lines very close to zero. Reward/risk just does not appear to be substantial at the moment. So I will wait until a more favorable opportunity arises before taking on any new index trades.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 12/30 – bullish**

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

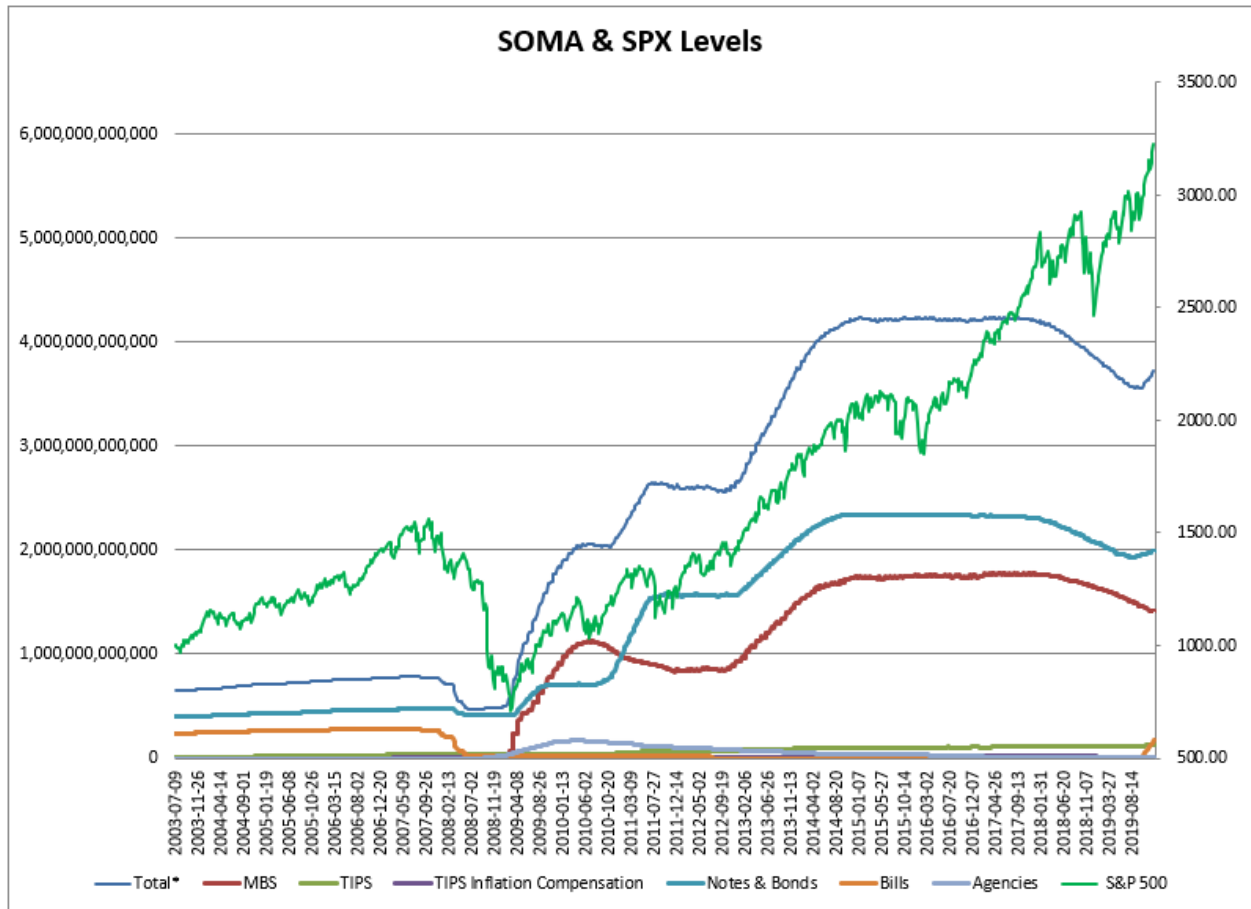
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 were mostly higher this past week. The SPX rose 0.6%, and the NASDAQ rallied 0.9%, but the Russell 2000 declined 0.2%. SPX and NASDAQ again made new highs, so the trend remains up. There were no new studies with intermediate-term implications that emerged the last few days.

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. In October 2019 a new Fed policy, nicknamed “not QE” was put in place and it has generated further SOMA expansion.*



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

« As of 12/18/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**December 24, 2019**

Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	169,525,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,990,552,655.7
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***	1,419,980,165.3
Total SOMA Holdings	3,725,786,141.5
Change From Prior Week	25,650,438.7

\*Does not reflect inflation compensation of 25,403,256.4

\*\*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 12/26/2019 4:30pm.

The SOMA rose \$25 billion this past week. It has risen at least \$5 billion every week since “not QE” began 10 weeks ago. And since “not QE” has been in effect, SPX has closed higher 9 of those 10 weeks and gained over 7.8% in total. Like past QE policies, “not QE” certainly seems to be favorable for the market. Betting against the market when there is a substantial SOMA expansion underway has never been a good idea.

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. We are in a strong seasonal period for just a few days longer. And the recent SOMA expansion seems to be having the same type of positive market impact that past SOMA expansions also did. Overall, the bullish case seems substantially stronger. 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**

*None*

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here.](#)*

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.