

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 31, 2019

Volume 12 Issue 252

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The last day of the year used to be bullish, but the edge changed at the turn of the century.
- The last 15 minutes of the year normally sees a pullback – especially with smallcaps.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. I like the odds of a bounce to start the year if the market struggles on Tuesday.

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 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			
Active - Long Term						
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			

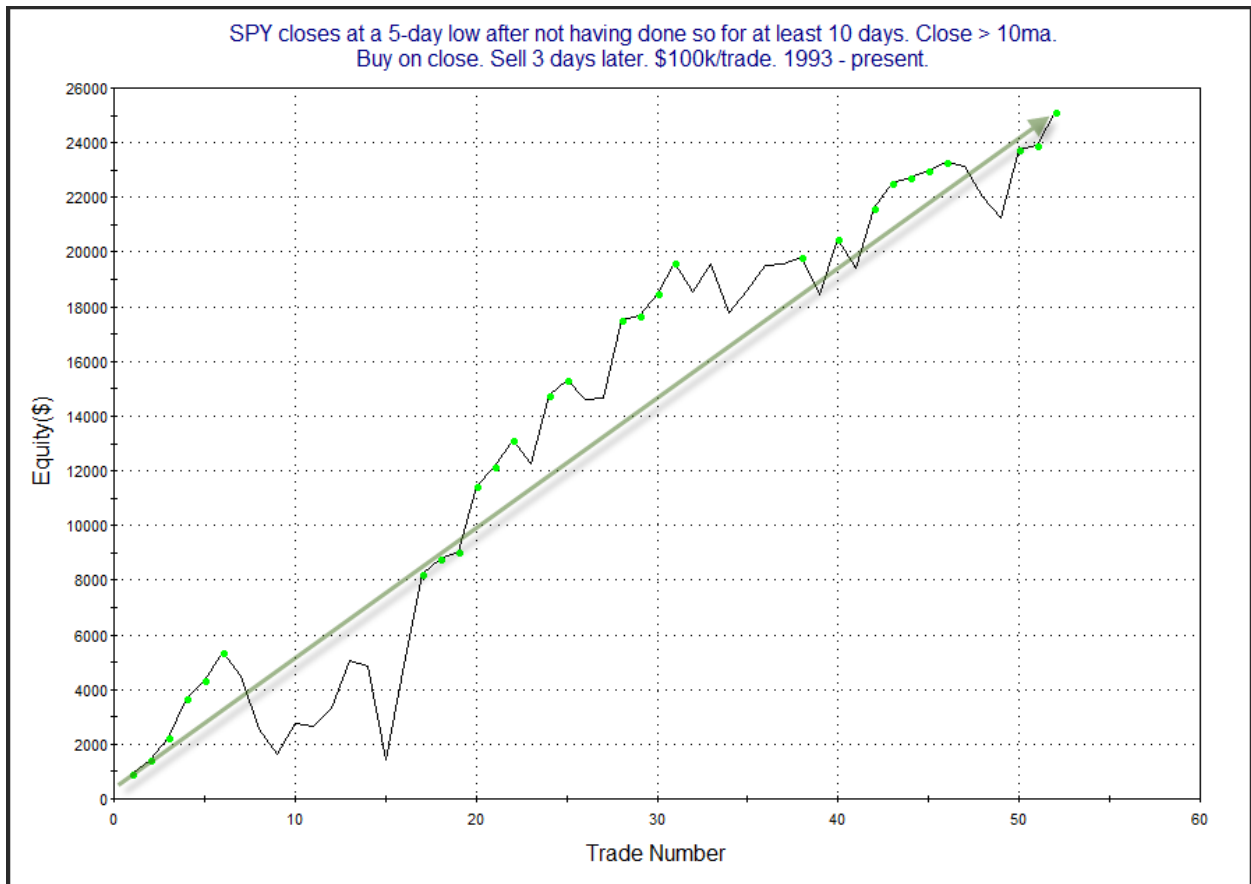
The Evidence

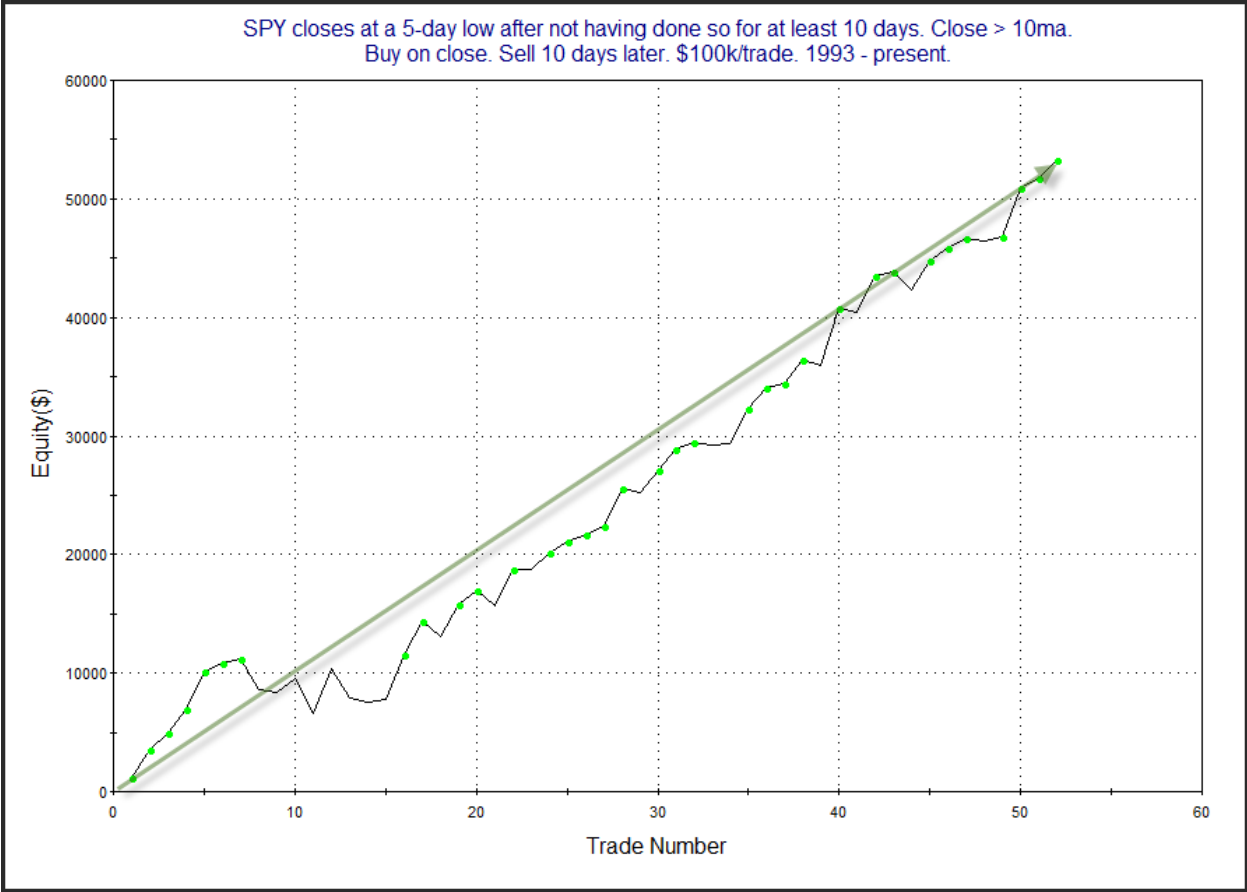
Monday saw a bit of a pullback. The SPX declined 0.6, the NASDAQ lost 0.7%, and Russell 2000 fell 0.3%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 38%. NYSE volume rose some from Monday's level, but should remain holiday-light until the New Year.

Friday's action caused SPY to close in an interesting position. Traders could look at the chart and say it is "short-term oversold" due to the fact that it closed at a 5-day low. They might also say it is "short-term overbought" since it closed above its 10-day moving average. I have found that edges often arise when something is short-term overdone in one timeframe, but overdone in another direction in another timeframe. The study below looks at the current discrepancy. It was last seen in the 11/22/19 letter and has been updated.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma. 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
10	53,244.78	52	38	14	73.08	4,839.66	-2,972.16	1,782.73	-1,035.64	1.72	4.67	1,023.94
9	46,739.63	52	39	13	75.00	5,293.08	-3,319.71	1,618.02	-1,258.71	1.29	3.86	898.84
8	42,571.51	52	39	13	75.00	4,734.72	-2,602.71	1,489.34	-1,193.29	1.25	3.74	818.68
7	37,856.60	52	37	15	71.15	4,118.22	-3,472.29	1,551.42	-1,316.38	1.18	2.91	724.17
6	33,504.44	52	34	18	65.38	4,307.28	-2,992.38	1,472.72	-920.44	1.60	3.02	644.32
5	32,256.05	52	34	18	65.38	4,496.34	-3,570.00	1,423.96	-897.69	1.59	3.00	620.31
4	28,259.04	52	34	18	65.38	3,240.45	-2,475.20	1,293.71	-873.72	1.48	2.80	543.44
3	25,109.01	52	37	15	71.15	3,452.40	-3,393.78	1,120.15	-1,089.11	1.03	2.54	482.87
2	14,971.34	52	33	19	63.46	3,809.72	-3,737.28	973.94	-903.62	1.08	1.87	287.91
1	7,025.17	52	29	23	55.77	2,225.48	-3,909.03	735.01	-621.31	1.18	1.49	135.10
47 of 52 instances (90%) closed above the entry price at some point in the next week.												

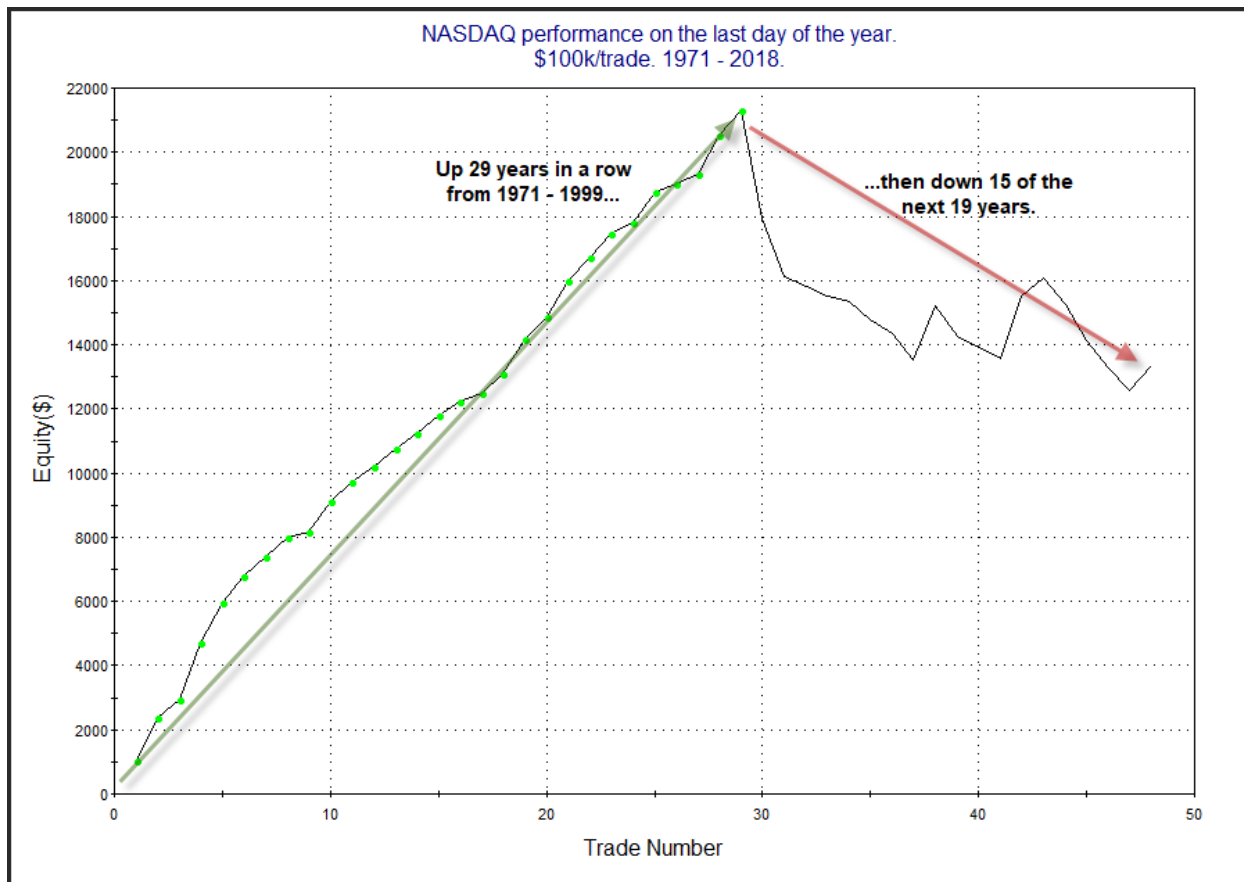
Results here suggest a solid edge over the next 1-10 days. And nearly half of the gains have been realized in just the 1st 3 days. Below are profit curves for both the 3 and 10-day timeframes.





The strong, steady upslopes are impressive and serve as some confirmation of the bullish edge. I have added this study to both the short-term and intermediate-term active lists.

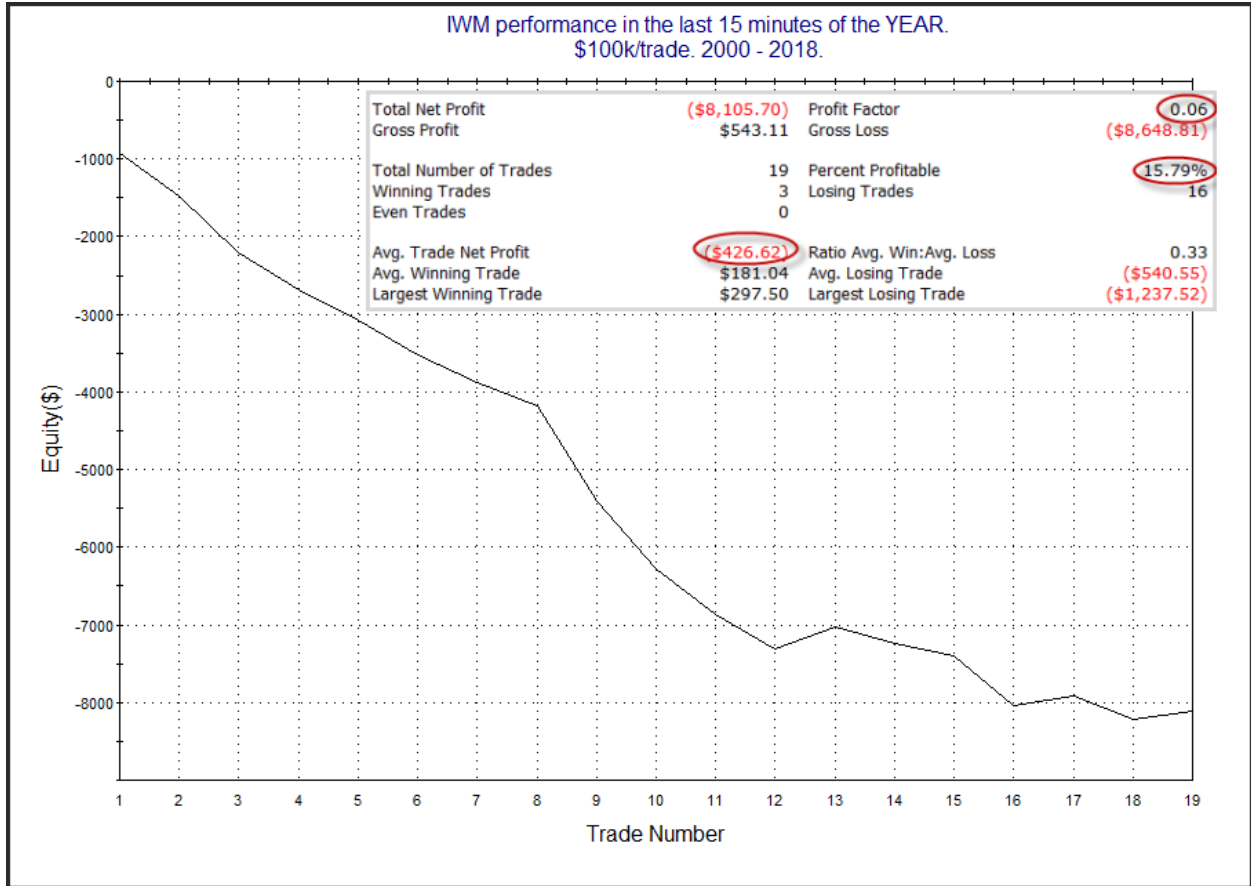
While the last day of the year used to be a bullish day for the market, that seems to have changed since the turn of the century. This is true across a number of indices. The most dramatic example is the NASDAQ, which I highlighted last year in the 12/31/18 letter. I have updated the chart below.



Closing up 29 years in a row is fairly astounding. Just as astounding is the abrupt reversal and move lower for 15 of the next 19 years. I have no good explanation for why such a formerly consistent edge changed, but it did.

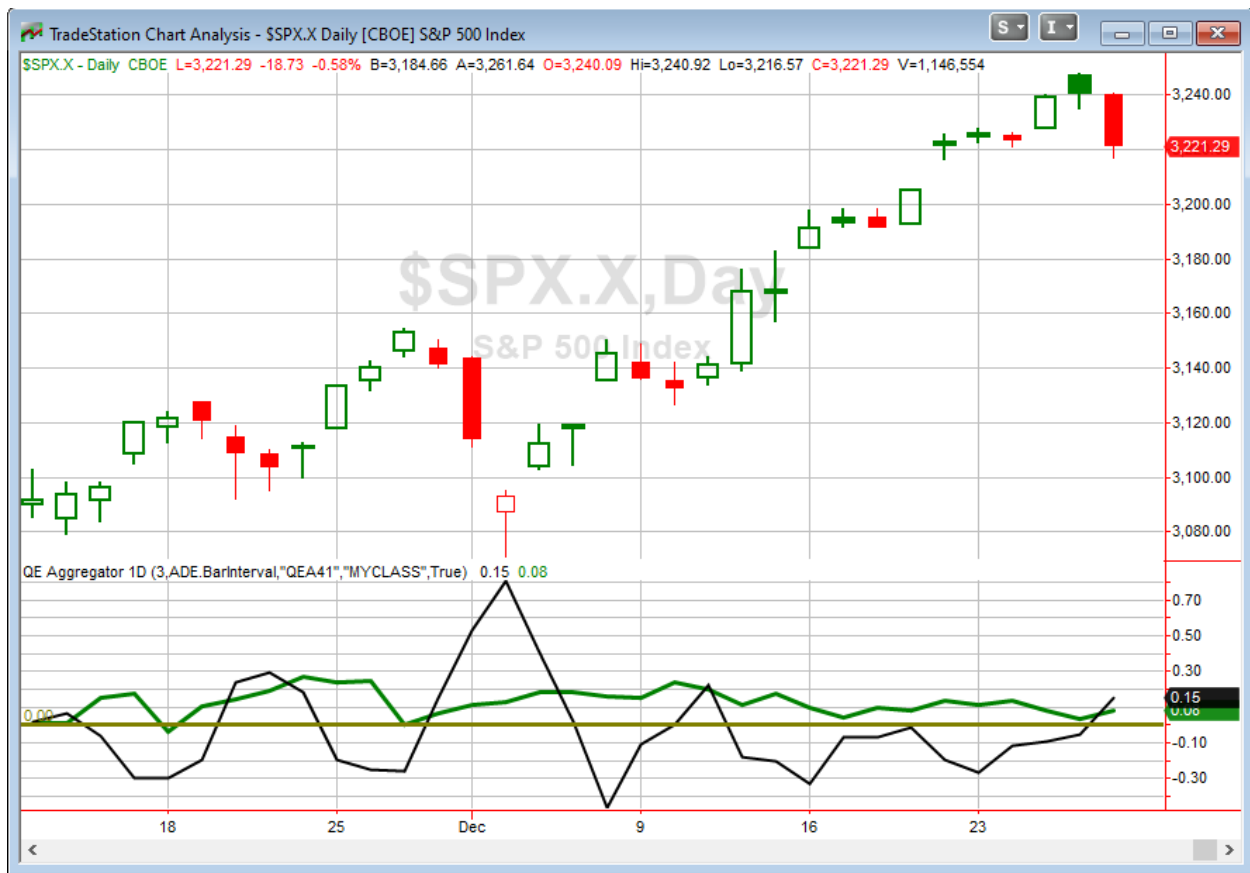
The Nasdaq study is a great reminder though. The market is constantly changing and evolving. 2020 is just a few trading hours away. I'm not sure what it has in store for us, but I know it will play out in its own unique pattern. We will see clues along the way, and many of the truisms we've identified through studies over the last 12 years at Quantifiable Edges will continue to work. But some may flounder. And when something stops working, like the "last day of year bullishness" above, then I will do my best to recognize it early. Examining edges is more than just running numbers. The profit curves are so vital. Over the last several years I have seen this point driven home time and again through my research. This is why I so often take the time to show the profits curves in the subscriber letter.

In another study I last showed in the 12/31/18 letter I found the returns in the last 15 minutes of the year to be especially interesting. The market has shown a solid tendency to sell off heading into the last 15 minutes of the year. This has been especially true of smallcaps. Below are updated results for IWM looking back to 2000.



I suspect there are a lot of portfolio adjustments that are made by institutions as we approach the close on the last day of the year, and this may be the reason that the indices, especially smallcaps, have seen a decline. Whether it is an up or down year does not seem to have an impact on the results. Looking at years like 2000, 2001, and 2008, they were all down in the last 15 minutes. Just a little quirk you may want to keep in mind as we approach the close on Tuesday.

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



With tonight'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 moved 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 slated to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3250.42 on Tuesday. That is 0.9% above Monday's close. Therefore, SPX will need to close up at least 0.9% on Tuesday in order to flip from oversold to overbought versus recent expectations.

With just 1 down day the Aggregator has turned quickly bullish. I like the long side evidence, but I often like to see a pullback of more than 1 day. We did see some studies tonight showing possible short-term weakness on the last day of the year. So I won't rush to buy early on Tuesday. Instead, I will look to take on a small index position if SPY closes a small amount lower on Tuesday.

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

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.

SPY – Buy ¼ index position @ \$321.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on some long exposure if the market struggles on Tuesday, as it often does on the last day of the year.

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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