

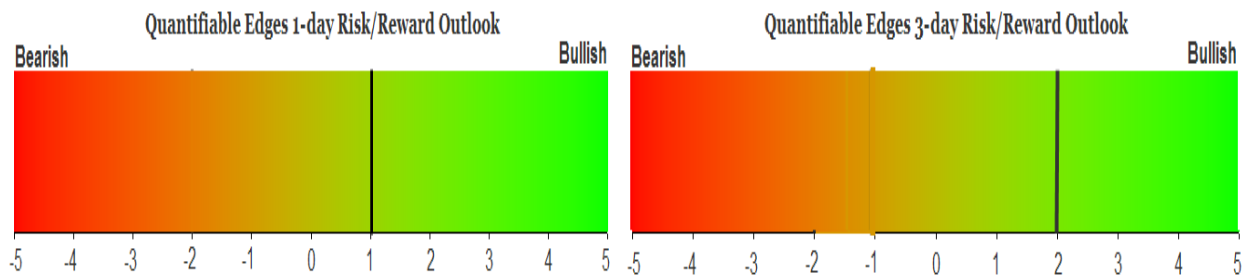
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 2, 2019

Volume 13 Issue 1

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The strong close to finish the month hurt the odds of an up day to start the new month.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but I'd like to see a bit more of a pullback before getting excited about a short-term trade to the long side.

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 31, 2020	1st 5-day low > 10ma	1-3 days	Bullish			
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			
Active - Long Term						
December 31, 2020	1st 5-day low > 10ma	1-10 days	Bullish	2.10%	-1.35%	-2.60%
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%
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

The year finished with some moderate gains. The SPX, NASDAQ and Russell 2000 all closed up 0.3%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 77%. NYSE volume rose some from Monday's level.

I always find end-of-year window dressing to be interesting. In the last letter I pointed out that the last 15 minutes of the year has often seen some selling – especially for IWM and smallcap stocks. And if you played an IWM short in the last 15 minutes you made out all right, with IWM dropping a quick 0.3%. But SPY continued higher over the last 15, completing a strong last hour that saw it move from slightly negative to a 0.4% gain on the day.

A few studies triggered noting the new month. My favorite of these studies looks at last day of month action to help determine the edge. While the 1st trading day of the month often plays out for the bulls, 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 12/2/19 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 > 20ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

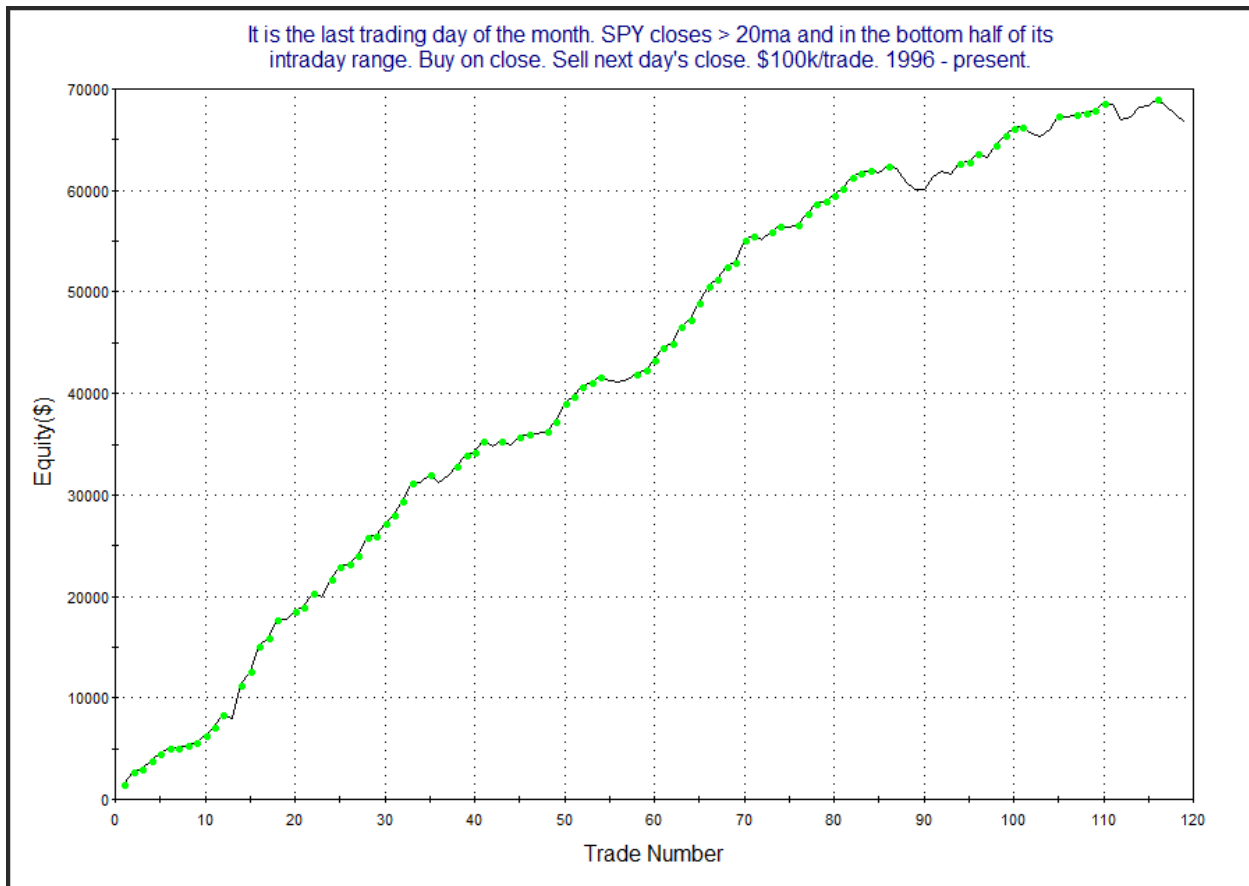
TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$66,728.26	Profit Factor	6.42
Gross Profit	\$79,036.73	Gross Loss	(\$12,308.47)
Total Number of Trades	119	Percent Profitable	77.31%
Winning Trades	92	Losing Trades	27
Even Trades	0		
Avg. Trade Net Profit	\$560.74	Ratio Avg. Win:Avg. Loss	1.88
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$455.87)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,453.60)

The stats here are outstanding. Gains blow away losses in every category. Gross gains are 6.4x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 119 instances. Below is a profit curve.

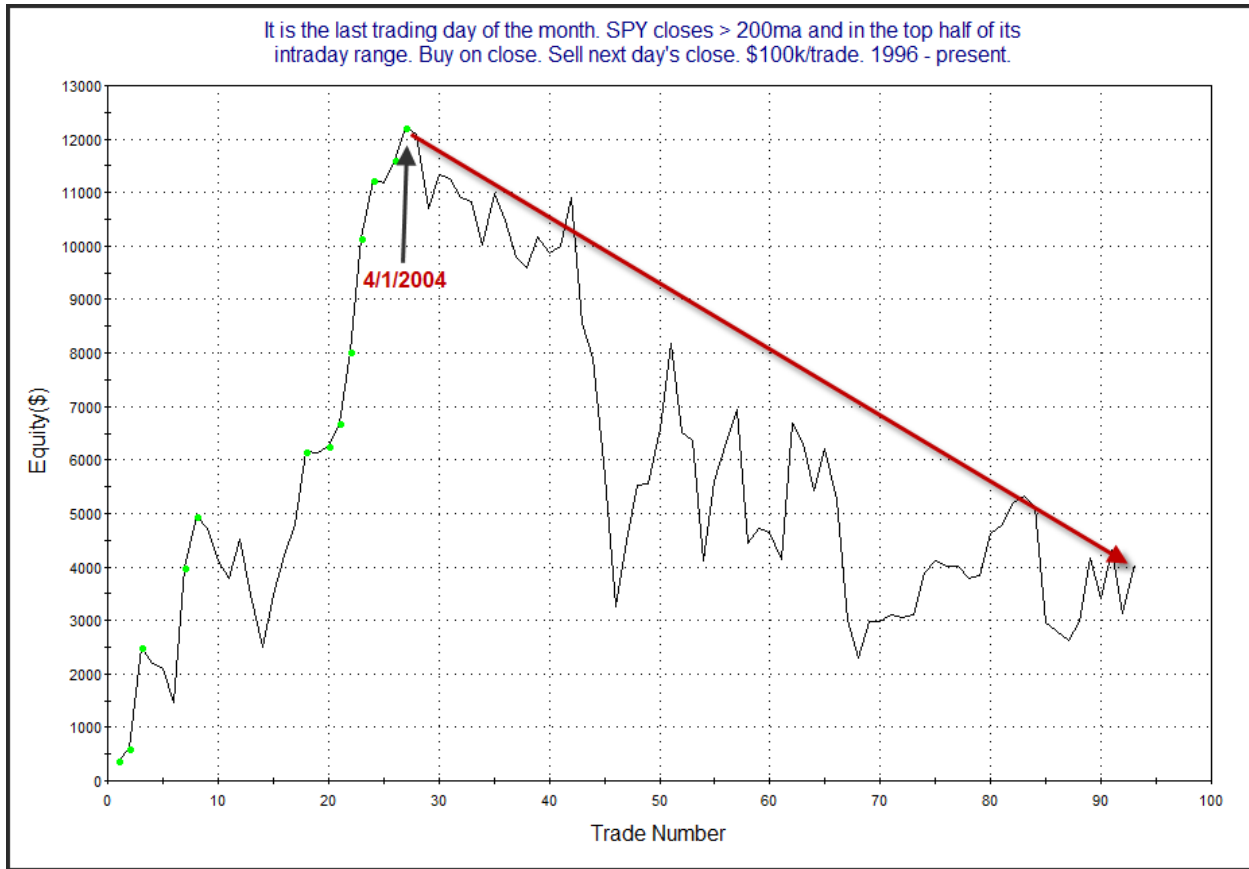


Despite the last 3 instances closing down, the long and persistent upslope is impressive and serves to confirm the numbers. But what about times like now where SPY has closed in the upper half of its range on the last day?

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.

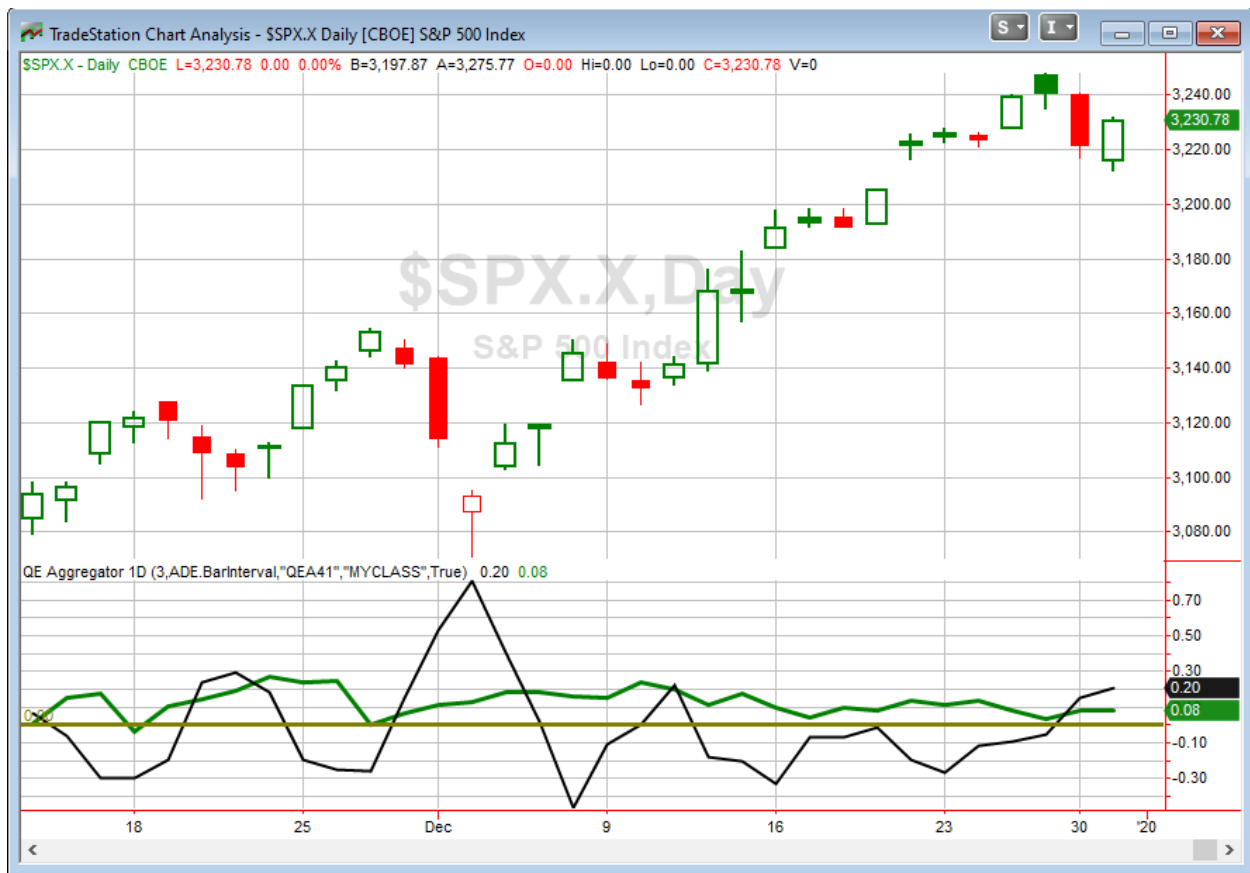
TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$4,048.71	Profit Factor	1.12
Gross Profit	\$37,917.13	Gross Loss	(\$33,868.42)
Total Number of Trades	93	Percent Profitable	52.69%
Winning Trades	49	Losing Trades	44
Even Trades	0		
Avg. Trade Net Profit	\$43.53	Ratio Avg. Win:Avg. 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 Tuesday's strong close was a negative when considering the odds of a rally on Thursday. The 1st day of the month has performed much better with some late selling leading up to the day.

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 held 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 stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Thursday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3247.89 on Thursday. That is 0.5% above Tuesday's close. Therefore, SPX will need to close up at least 0.5% on Thursday in order to flip from oversold to overbought versus recent expectations.

The Aggregator is suggesting a bit of an upside edge. The decision I am faced with is whether reward/risk is strong enough to justify taking on a new index position. I was looking to get in at the close on Tuesday if the market finished lower, but the last hour foiled my plan. Overall short-term evidence is mixed and mild. And SPX has barely pulled back since the beginning of December. So I'll take a conservative approach to begin the new decade, and wait to see if we get a little more of a pullback here in the next day or so before considering a new long position.

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

The intermediate-term outlook was last updated in the 12/30/19 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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.](#)

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