

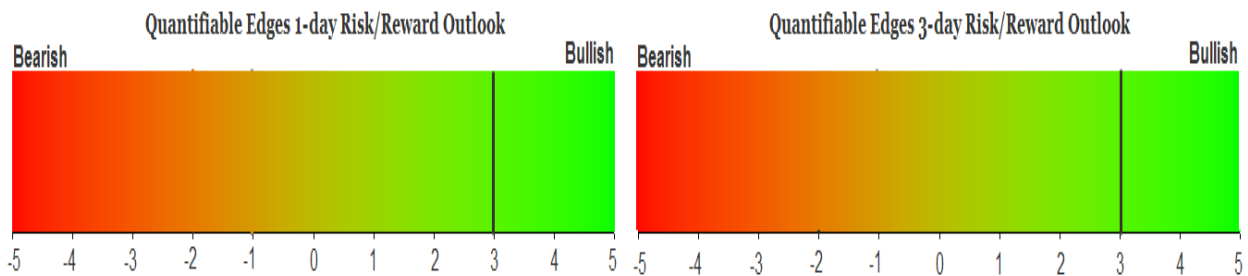
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 3, 2020

Volume 13 Issue 22

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	9

## Tonight's Research Points

- Fridays tend to have more severe overreactions and more reliable bounces than other days, though the bounce has not necessarily been immediate in recent years.
- Another strong drop and close at a 10-day low above the 200ma is suggesting a bullish edge.
- The poor close on the last day of the month during a long-term uptrend has generally led to a bullish start to the next month.
- A split market condition is emerging that could signal intermediate-term trouble.
- The January Barometer suggests a down January makes the rest of the year more challenging.
- “not QE” appears to be continuing for the foreseeable future, which is supportive of the bullish case.

## *Short-term Outlook*

### *The Bottom Line*

Bullish evidence is building, and the market is oversold. There appears to be an upside edge.

*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>						
February 3, 2020	Poor close 10-low > 200 end of mnth	1 day	Bullish			
February 3, 2020	SPX down 1.5% twice in a week. 10-low	1-7 days	Bullish			
February 3, 2020	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish			
January 31, 2020	Higher high dn close, lower low up close	1-5 days	Bullish			
January 29, 2020	10-low. Unfilled gap up and close < 10	1-5 days	Bullish			
January 28, 2020	1st 10-low in 30 days	1-8 days	Bullish			
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%
<b>Active - Long Term</b>						
January 27, 2020	1st close < 10ma in over 25 days	1-19 days	Bullish	3.90%	-1.60%	-4.20%
January 17, 2020	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 11, 2019	"not QE"	int term	Bullish			
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 some strong selling with corona-virus fears hitting the market ahead of the weekend. The SPX lost 1.8%, the NASDAQ fell 1.6% and the Russell 2000 lost 2.1%. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 11%. NYSE volume rose some from Thursday's level.

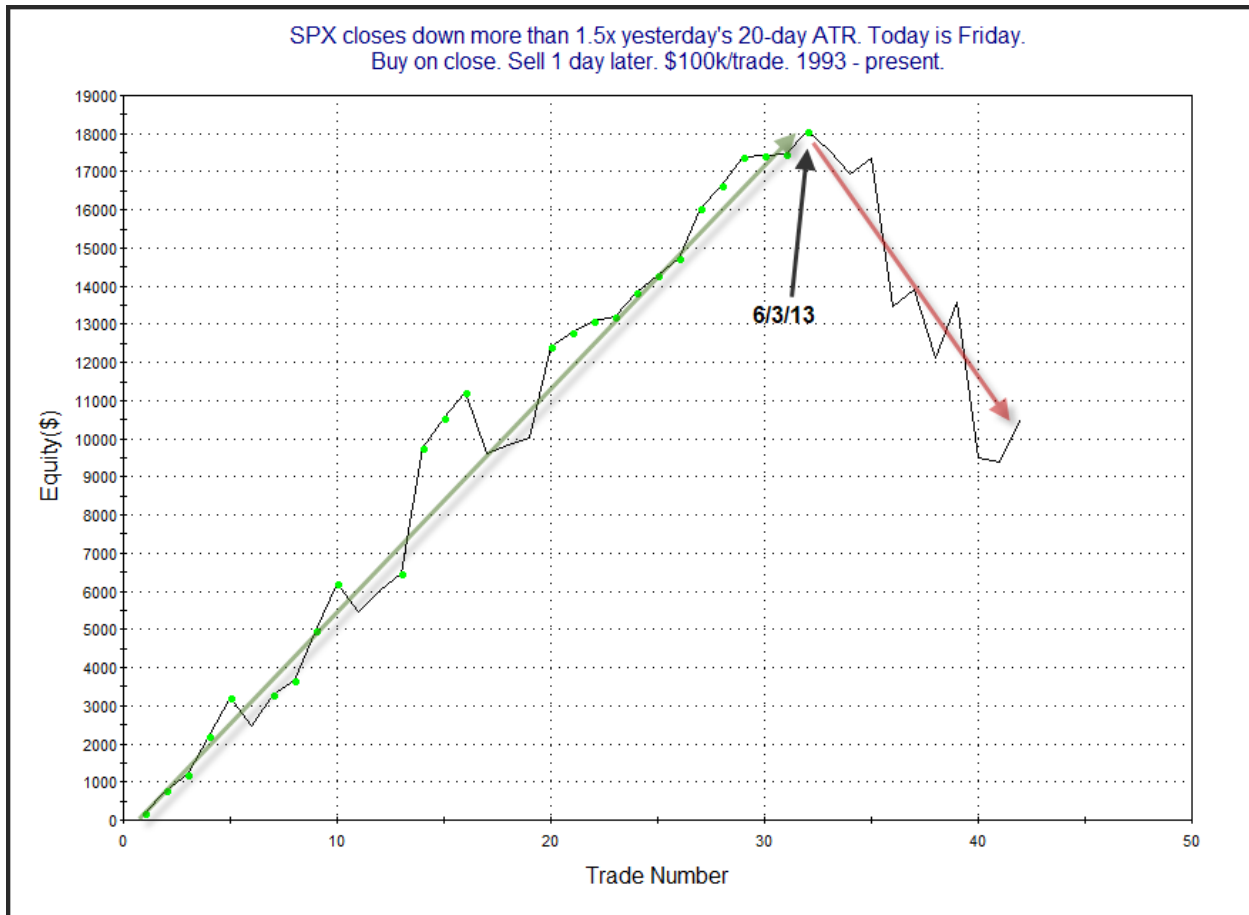
We saw a number of studies in the Quantifinder that examined large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by some traders that are active today (though it is getting less and less each year). In 1987, there was a strong selloff on Friday and then all hell broke loose on Monday. But since then strong Friday selloffs have commonly been followed by bounces in the following days. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been strong. But recently I have not seen Monday provide the immediate reversal it previously had. I have more often seen further selling on Monday, and then the strong bounce ensued. Below is an example of one of these studies, so you can see what I am talking about.

This one was last discussed in the 8/26/19 subscriber letter. It defines a strong selloff as more than 1.5x the recent (20-day) average true range. Results are updated.

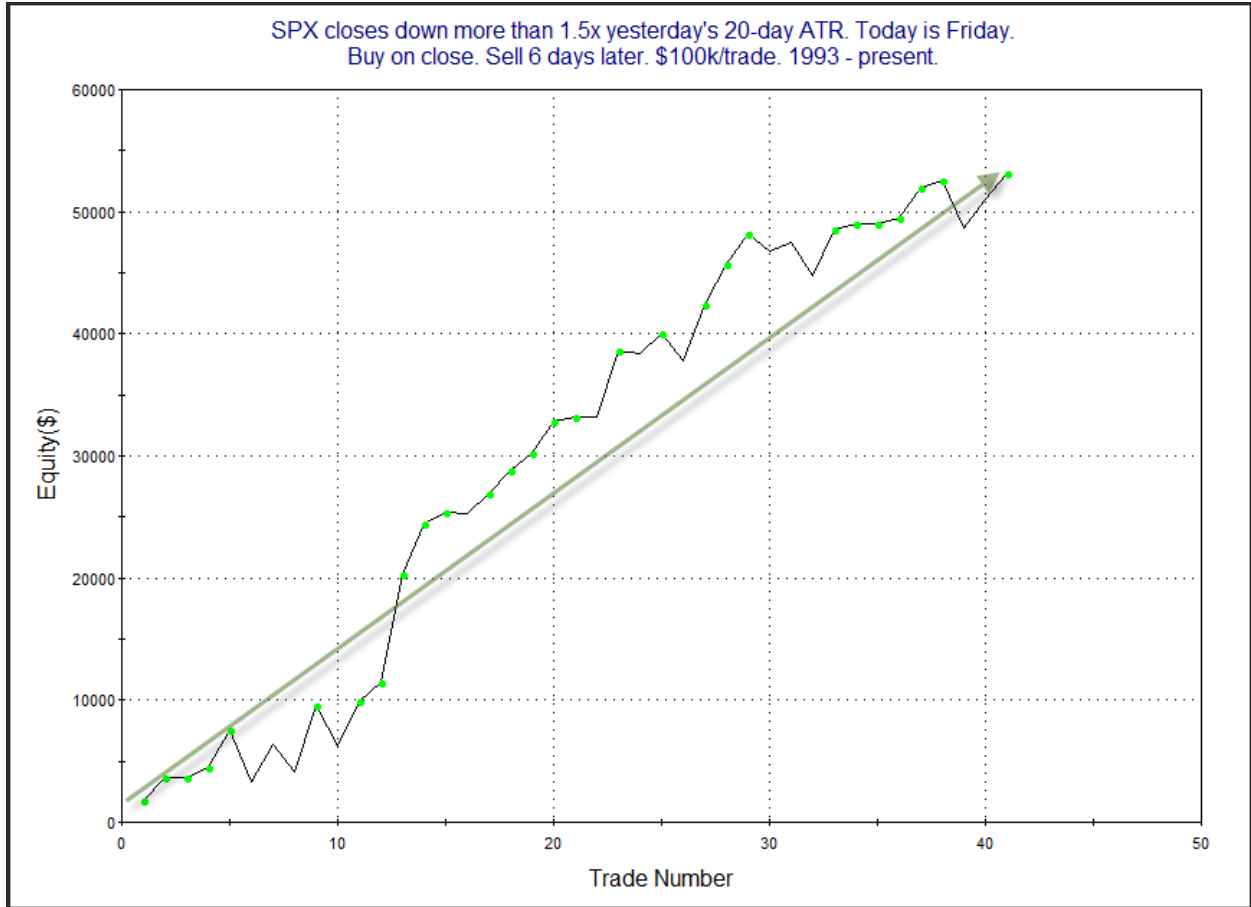
SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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	49,110.92	41	27	14	65.85	9,241.60	-6,049.40	3,061.71	-2,396.80	1.28	2.46	1,197.83
9	51,701.89	41	27	14	65.85	7,602.40	-5,483.80	2,924.92	-1,947.92	1.50	2.90	1,261.02
8	54,387.23	41	28	13	68.29	7,949.70	-3,550.72	2,809.54	-1,867.68	1.50	3.24	1,326.52
7	46,383.42	41	27	14	65.85	7,662.81	-4,599.52	2,716.43	-1,925.72	1.41	2.72	1,131.30
6	53,106.38	41	31	10	75.61	8,870.96	-4,202.80	2,370.33	-2,037.39	1.16	3.61	1,295.28
5	38,019.31	42	29	13	69.05	5,393.97	-6,368.04	2,194.99	-1,971.96	1.11	2.48	905.22
4	28,808.59	42	29	13	69.05	5,731.96	-6,520.68	1,831.77	-1,870.22	0.98	2.18	685.92
3	25,097.60	42	26	16	61.90	5,215.85	-3,492.36	1,737.34	-1,254.57	1.38	2.25	597.56
2	13,822.82	42	26	16	61.90	6,245.15	-5,163.50	1,345.84	-1,323.06	1.02	1.65	329.11
1	10,496.93	42	33	9	78.57	3,322.23	-4,074.84	743.51	-1,559.88	0.48	1.75	249.93

The numbers here are all very impressive and suggest a strong bullish bias. I decided to look at the 1-day and 6-day returns in a little more detail. First, below is the profit curve for a 1-day holding period.



Here we see a struggle in recent years for the Monday returns. But now the 6-day curve.



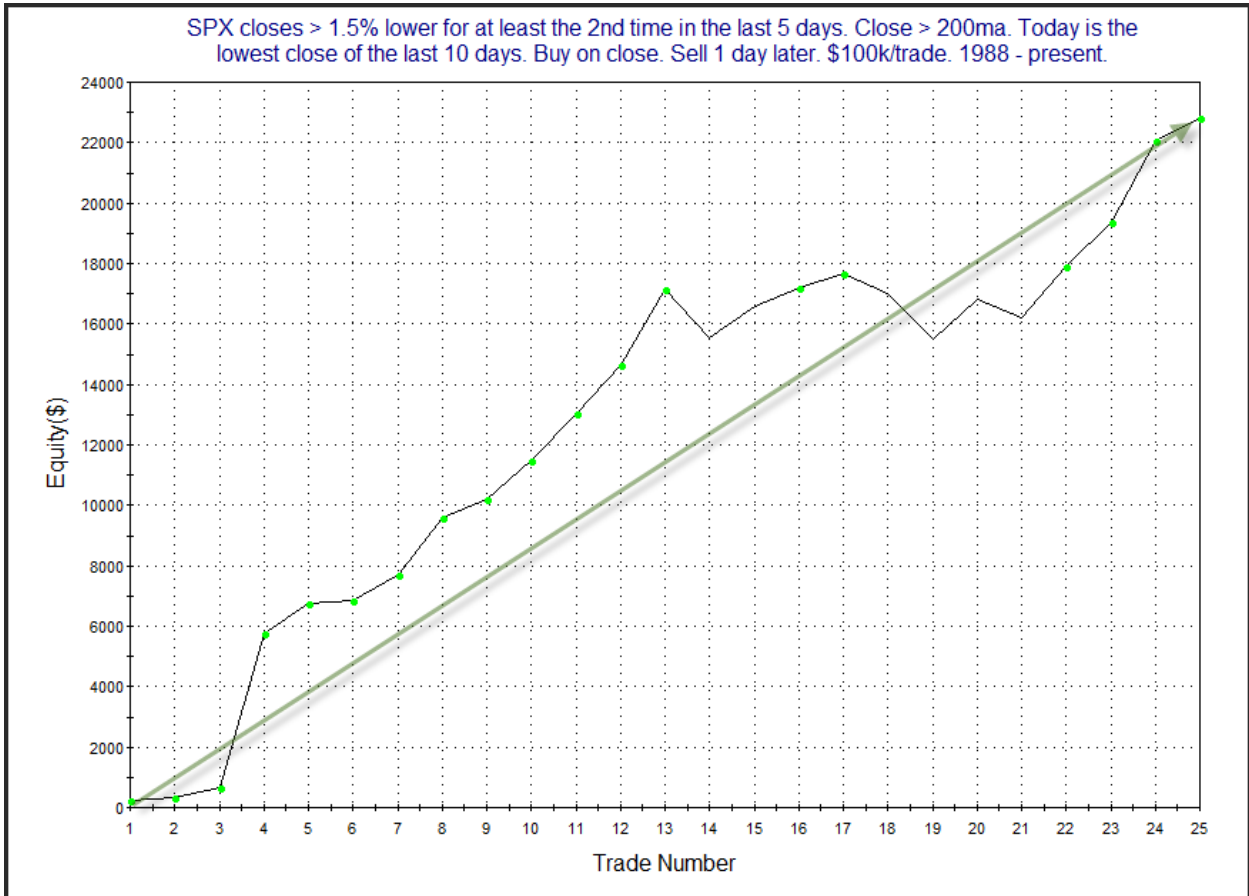
No struggle apparent here. So while the edge may not be immediate, it has still asserted itself at some point in the next few days.

Also supporting the idea of a bounce is the study below, which last appeared in the 5/14/19 subscriber letter. Rather than requiring 1 strong selling day, it requires at least 2 in the last week.

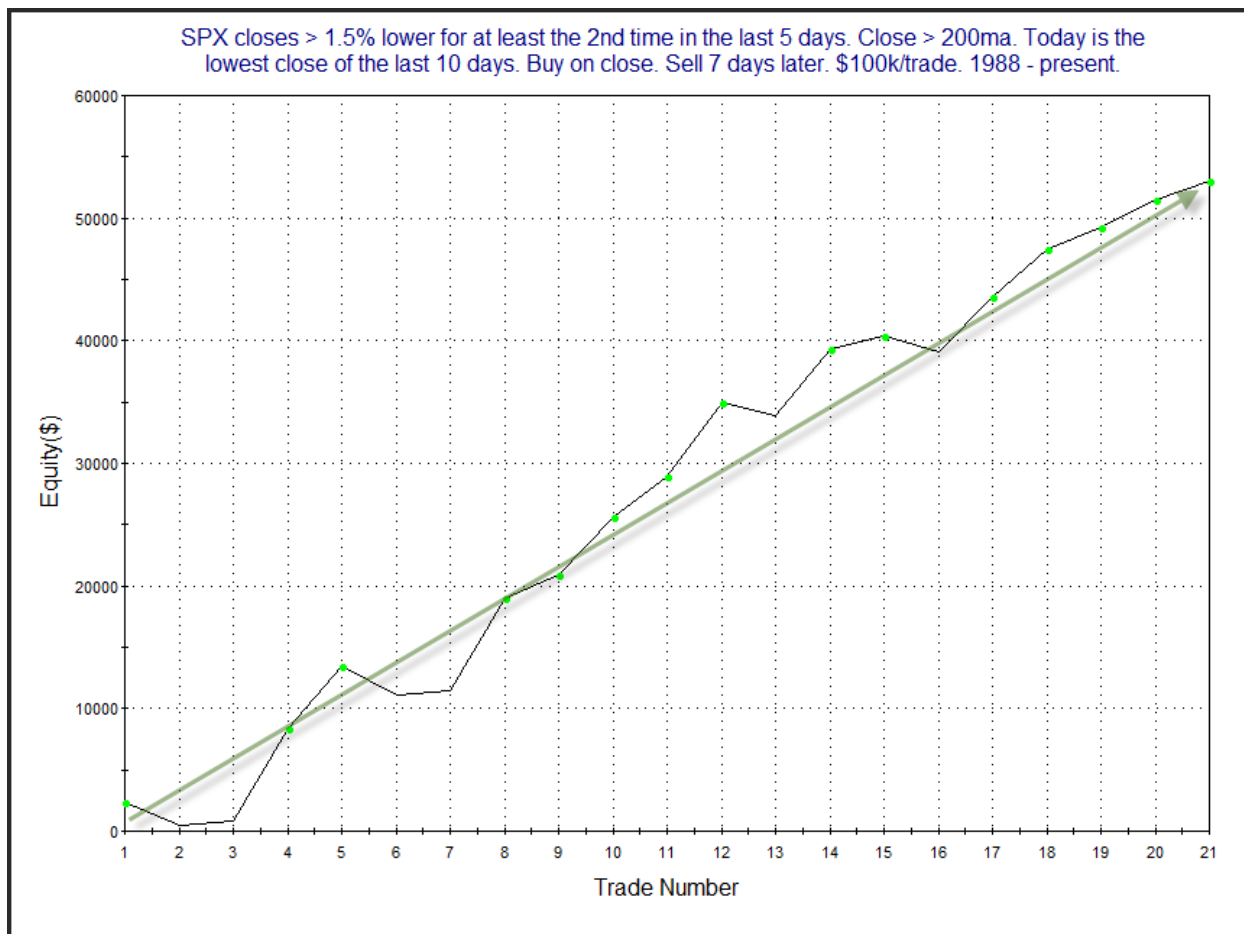
SPX closes > 1.5% lower for at least the 2nd time in the last 5 days. Close > 200ma. Today is the lowest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

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	35,535.58	20	13	7	65.00	8,752.20	-4,488.00	4,078.68	-2,498.18	1.63	3.03	1,776.78
9	38,302.64	20	15	5	75.00	7,332.36	-5,073.84	3,640.03	-3,259.55	1.12	3.35	1,915.13
8	45,638.33	21	16	5	76.19	7,400.22	-5,882.94	3,681.92	-2,654.47	1.39	4.44	2,173.25
7	52,992.01	21	17	4	80.95	7,598.58	-2,375.10	3,510.27	-1,670.66	2.10	8.93	2,523.43
6	44,997.58	21	16	5	76.19	7,272.06	-3,322.53	3,215.52	-1,290.14	2.49	7.98	2,142.74
5	35,071.38	21	15	6	71.43	7,070.28	-1,627.99	2,651.46	-783.42	3.38	8.46	1,670.07
4	31,249.45	21	15	6	71.43	5,187.49	-1,784.86	2,556.84	-1,183.85	2.16	5.40	1,488.07
3	19,378.42	22	15	7	68.18	5,339.18	-5,331.20	2,229.92	-2,010.05	1.11	2.38	880.84
2	25,882.39	24	18	6	75.00	4,809.66	-3,863.25	1,965.63	-1,583.16	1.24	3.72	1,078.43
1	22,835.41	25	21	4	84.00	5,117.46	-1,588.57	1,296.34	-1,096.92	1.18	6.20	913.42

The numbers look bullish. Below is a look at the profit curves. First, the 1-day.



The 1-day results have remained firm for this particular study. Now let's look at the 7-day results.



The steady move from lower left to upper right is impressive and serves as some confirmation of the bullish edge suggested by the numbers. I will also note that 7 of these setups occurred on a Friday, thus matching up with the previous study. Of those instances, 6 closed higher on day 1, and all 7 on day 7.

I noted on Thursday night that the 1<sup>st</sup> trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. The study below is copied from Thursday night's letter. It triggered because of the weak close on Friday.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next days close. \$100k/trade. 1996 - present.

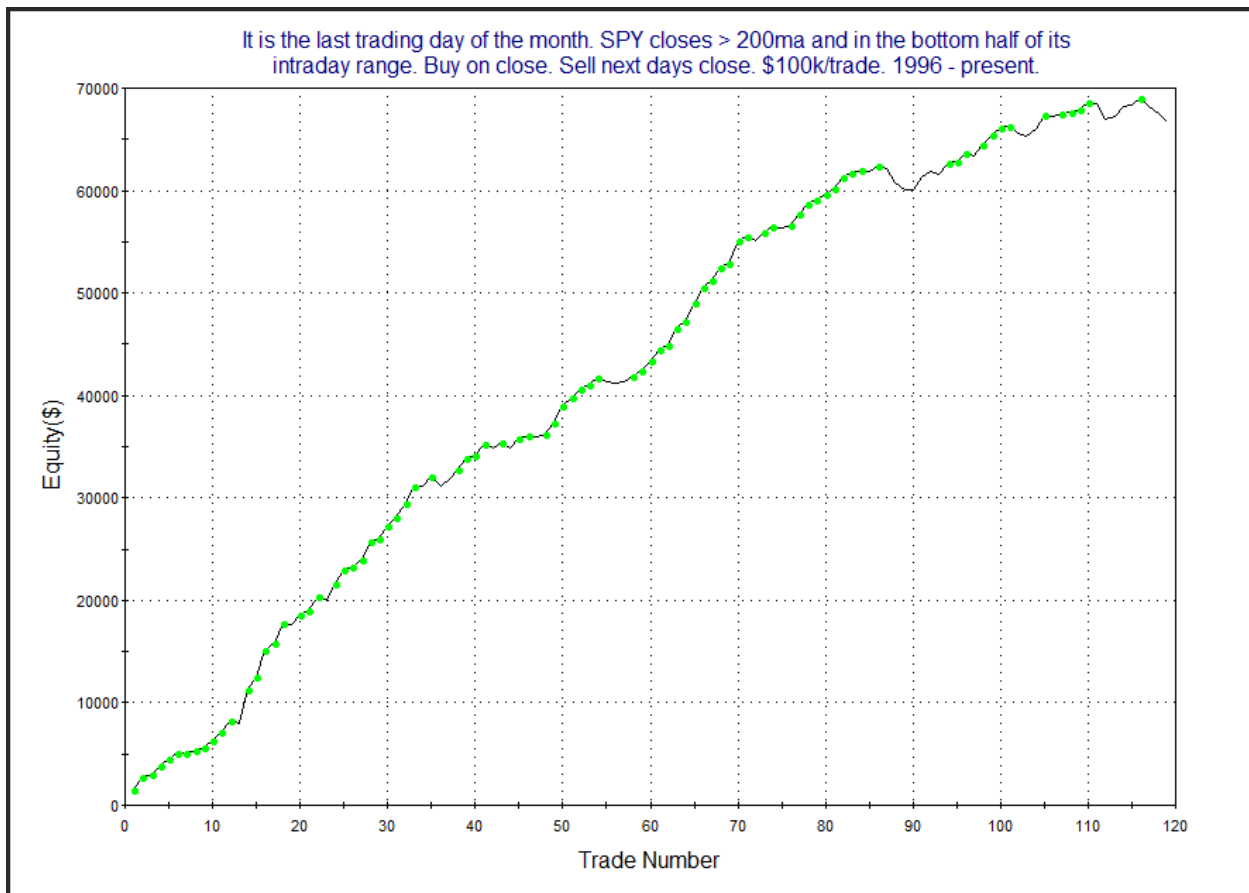
**TradeStation Performance Summary**

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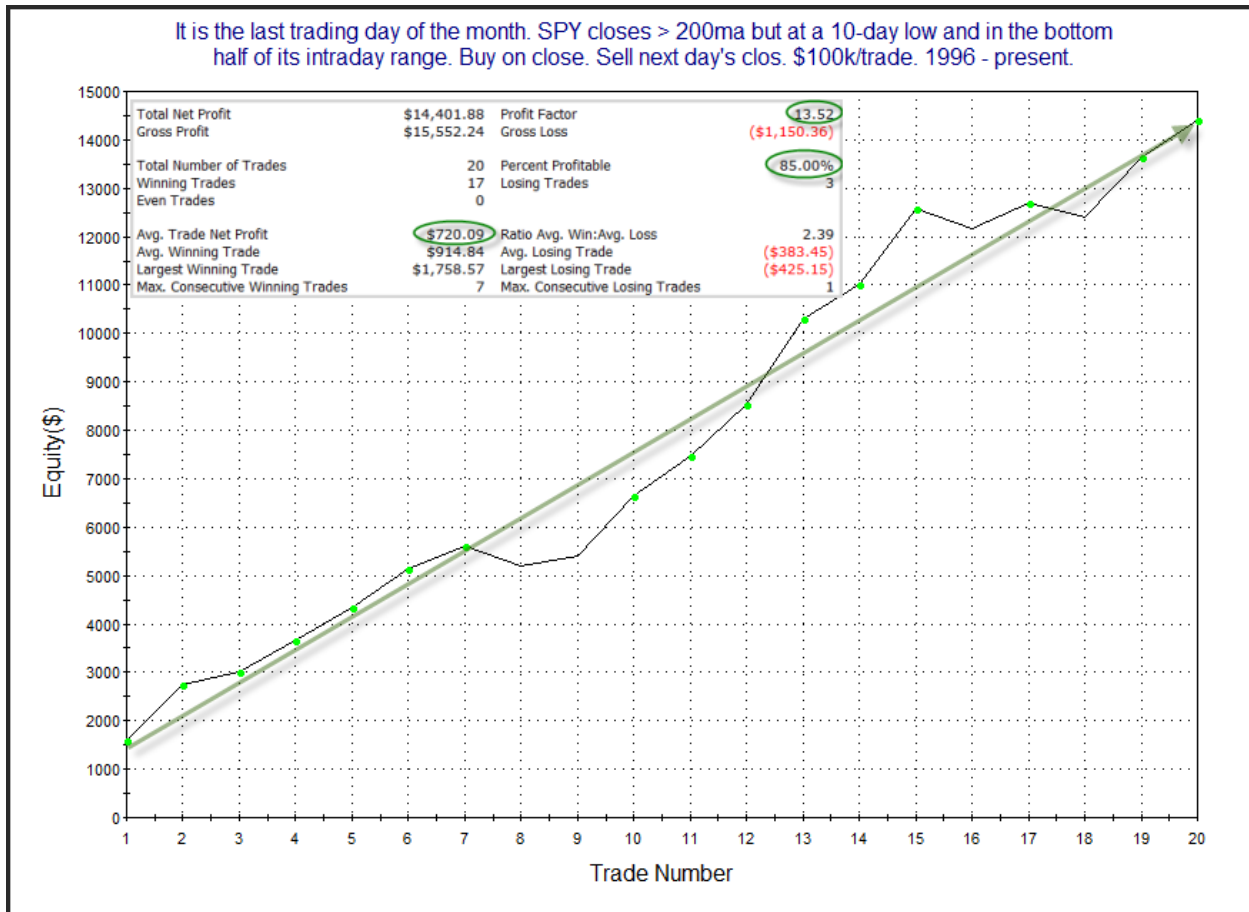
**All Trades**

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 absolutely 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.



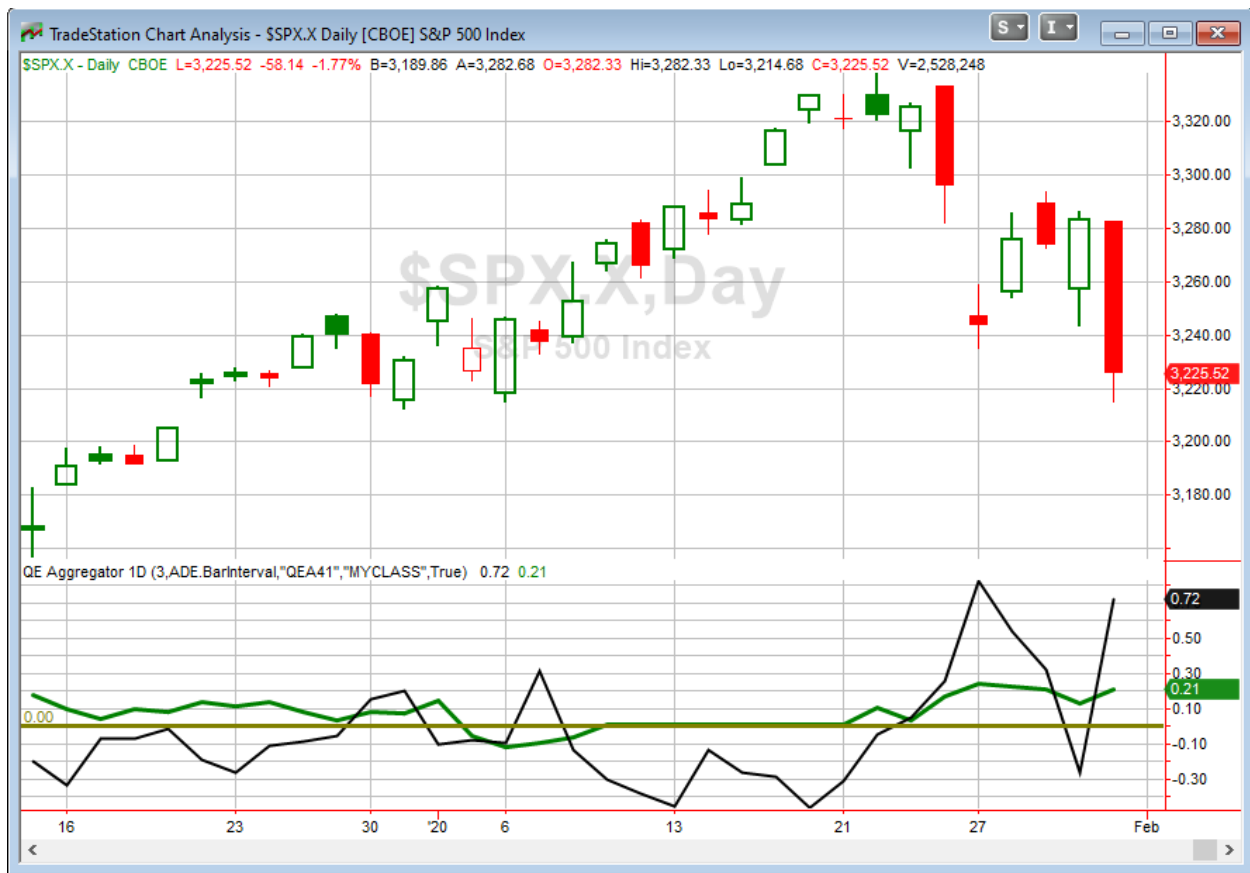
Despite a few losers recently, this curve still looks impressive. But SPY did not just close low in its intraday range. As previous studies noted, it also closed at a 10-day low. I added that as a filter to see the impact on results.



Stats here are even more impressive, and the curve is nearly a straight shot higher. The turn of the month may help give the bulls an extra edge on Monday.

I will also note that the CBI rose back to 9 on Friday. It is very close to the 10+ level that I consider to be bullish. Unless there is a good bounce on Monday, there is a good chance that it could reach 10+ at Monday's close. So I will be sure to take a look at some CBI studies in the next few days if it does rise further.

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 shot back above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is still 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 set to remain bullish on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3294.23 on Monday. That is a whopping 2.1% above Friday's close. So SPX would need to close up over 2.1% on Monday in order to flip from oversold to overbought vs recent expectations. We are unlikely to see a 1-day bounce of that magnitude. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

So the Aggregator is bullish, there is a good amount of evidence suggesting a bounce, and there is ample room to the upside before SPX would turn overbought. With all this in mind, I like the bullish case for the short-term. Reward/risk is favorable. But volatility is elevated, so I am not inclined to start with a large position. If I can get a favorable fill on Monday, I will look to start scaling in to a long index position.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 2/3 – 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.*

This past week was a tough one for the indices, with a good chunk of the damage occurring on Friday. The SPX fell 2.1% on the week, the NASDAQ lost 1.8%, and the Russell 2000 dropped 2.9%. SPX and NASDAQ have pulled back some over the last week and a half. Both remain well above long-term moving average. So at this point, the trend still appears up. But that is in some doubt.

One intermediate-term notable is that we have seen multiple Hindenburg Omen signals trigger in the last week. Monday Thursday, and Friday all saw Hindenburg Omen signals. I last discussed the Hindenburg Omen in detail in the 11/19/19 letter. I have updated the notes and research below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Friday marked the 5th recent Hindenburg Omen signal. Note, there have been some discrepancy in the rules over the years. To get larger sample sizes, I have used the less-strict rules in my testing. The rules I use are below.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have been substantially less signals, making it difficult to utilize the stats. This is why I have stuck to the 2.2% to this point. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen signal triggers. 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
100	84,541.93	36	23	13	63.89	19,927.11	-19,079.85	7,137.80	-6,125.19	1.17	2.06	2,348.39
95	71,803.68	36	22	14	61.11	19,052.91	-22,416.88	7,154.98	-6,114.71	1.17	1.84	1,994.55
90	62,042.71	36	21	15	58.33	17,492.37	-20,572.65	7,431.77	-6,268.30	1.19	1.66	1,723.41
85	69,668.38	37	24	13	64.86	17,010.63	-21,465.22	7,064.89	-7,683.77	0.92	1.70	1,882.93
80	61,074.25	37	23	14	62.16	16,583.84	-21,552.30	6,839.57	-6,873.98	0.99	1.63	1,650.66
75	41,505.46	38	23	15	60.53	14,501.70	-22,917.59	6,153.45	-6,668.26	0.92	1.41	1,092.25
70	20,792.89	39	23	16	58.97	17,714.32	-20,289.64	6,258.70	-7,697.33	0.81	1.17	533.15
65	5,955.14	39	22	17	56.41	16,609.84	-21,508.76	6,493.15	-8,052.60	0.81	1.04	152.70
60	7,880.26	41	23	18	56.10	17,197.44	-24,323.31	6,012.06	-7,244.29	0.83	1.06	192.20
55	-3,305.07	42	25	17	59.52	14,306.24	-27,246.71	5,145.07	-7,760.70	0.66	0.97	-78.69
50	12,982.43	44	26	18	59.09	14,509.04	-29,846.67	5,181.88	-6,763.69	0.77	1.11	295.06
45	21,292.63	44	26	18	59.09	13,151.98	-23,971.88	4,848.60	-5,820.61	0.83	1.20	483.92
40	13,090.42	45	27	18	60.00	12,520.58	-23,520.93	4,326.59	-5,762.64	0.75	1.13	290.90
35	5,700.88	48	27	21	56.25	12,021.20	-24,659.19	4,030.87	-4,911.08	0.82	1.06	118.77
30	7,803.23	48	28	20	58.33	9,855.58	-22,460.42	3,803.77	-4,935.11	0.77	1.08	162.57
25	6,566.27	50	27	23	54.00	9,781.64	-27,340.01	3,819.33	-4,198.07	0.91	1.07	131.33
20	-6,374.63	53	31	22	58.49	9,257.67	-19,533.91	2,855.87	-4,313.93	0.66	0.93	-120.28
15	9,115.80	58	33	25	56.90	9,103.68	-8,166.80	2,303.22	-2,675.62	0.86	1.14	157.17
10	-11,962.72	67	34	33	50.75	9,012.33	-7,899.90	1,850.77	-2,269.37	0.82	0.84	-178.55
5	-35,993.33	87	37	50	42.53	4,926.56	-7,160.65	1,253.95	-1,647.79	0.76	0.56	-413.72

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen signal triggers.  
 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
100	61,977.54	25	19	6	76.00	17,883.98	-18,879.12	5,842.33	-8,171.12	0.71	2.26	2,479.10
95	48,545.07	25	17	8	68.00	17,605.78	-21,212.88	6,086.74	-6,866.18	0.89	1.88	1,941.80
90	48,450.79	25	18	7	72.00	20,476.59	-20,011.68	5,716.39	-7,777.74	0.73	1.89	1,938.03
85	34,486.42	26	16	10	61.54	20,455.19	-21,883.68	6,566.34	-7,057.50	0.93	1.49	1,326.40
80	34,606.37	26	18	8	69.23	18,961.47	-21,961.68	5,311.11	-7,624.20	0.70	1.57	1,331.01
75	31,181.04	27	17	10	62.96	17,861.51	-23,181.60	6,227.56	-7,468.75	0.83	1.42	1,154.85
70	5,764.68	29	19	10	65.52	21,700.67	-19,060.08	5,028.06	-8,976.85	0.56	1.06	198.78
65	-15,994.73	29	18	11	62.07	20,504.41	-23,131.68	4,865.56	-9,415.89	0.52	0.85	-551.54
60	-3,389.23	30	18	12	60.00	19,457.95	-22,011.60	4,851.27	-7,559.34	0.64	0.96	-112.97
55	-16,029.99	32	19	13	59.38	18,625.49	-26,329.68	4,503.23	-7,814.72	0.58	0.84	-500.94
50	1,936.40	34	20	14	58.82	17,961.02	-29,889.60	4,861.42	-6,806.57	0.71	1.02	56.95
45	5,267.40	35	18	17	51.43	16,345.32	-24,766.56	4,909.51	-4,888.46	1.00	1.06	150.50
40	-17,320.00	35	18	17	51.43	14,615.13	-24,853.92	4,100.12	-5,360.12	0.76	0.81	-494.86
35	-14,991.27	35	18	17	51.43	13,303.31	-22,211.28	3,782.46	-4,886.79	0.77	0.82	-428.32
30	-11,108.56	35	21	14	60.00	11,007.09	-20,354.88	3,055.35	-5,376.49	0.57	0.85	-317.39
25	-12,402.78	36	20	16	55.56	10,173.56	-23,381.28	3,117.22	-4,671.70	0.67	0.83	-344.52
20	-29,710.53	40	20	20	50.00	8,886.35	-22,295.52	2,705.59	-4,191.11	0.65	0.65	-742.76
15	-6,991.31	43	24	19	55.81	8,305.02	-6,748.56	1,866.18	-2,725.24	0.68	0.86	-162.59
10	-21,168.79	49	19	30	38.78	9,247.23	-6,913.55	1,860.07	-1,883.67	0.99	0.63	-432.02
5	-14,918.27	65	30	35	46.15	6,245.73	-7,160.65	1,359.52	-1,591.54	0.85	0.73	-229.51

Some of these numbers look a little worse, but they aren't exactly outright bearish. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen signal triggers.  
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
100	39,871.15	18	13	5	72.22	18,512.90	-16,085.07	5,484.31	-6,284.97	0.87	2.27	2,215.06
95	24,373.84	18	12	6	66.67	16,070.66	-16,770.54	4,885.65	-5,708.99	0.86	1.71	1,354.10
90	16,426.72	18	11	7	61.11	18,595.58	-19,277.67	5,567.02	-6,401.49	0.87	1.37	912.60
85	34,356.87	18	13	5	72.22	18,884.96	-21,362.25	5,520.58	-7,482.12	0.74	1.92	1,908.72
80	8,375.13	19	11	8	57.89	16,528.58	-19,449.82	5,278.17	-6,210.60	0.85	1.17	440.80
75	21,359.98	19	11	8	57.89	18,289.24	-22,758.23	7,037.54	-7,006.63	1.00	1.38	1,124.21
70	-3,638.80	21	13	8	61.90	19,119.22	-21,021.08	5,177.46	-8,868.22	0.58	0.95	-173.28
65	-35,837.16	21	9	12	42.86	17,909.76	-23,731.66	4,962.28	-6,708.14	0.74	0.55	-1,706.53
60	-23,857.21	21	11	9	52.38	17,209.10	-22,576.69	4,427.31	-8,061.95	0.55	0.67	-1,136.06
55	-22,240.05	22	11	11	50.00	17,905.52	-20,673.65	5,155.37	-7,177.19	0.72	0.72	-1,010.91
50	-6,856.33	24	13	11	54.17	17,255.74	-22,263.69	4,735.28	-6,219.54	0.76	0.90	-285.68
45	-15,479.52	24	11	13	45.83	15,507.80	-25,143.29	4,977.59	-5,402.54	0.92	0.78	-644.98
40	-24,784.14	25	13	12	52.00	13,700.50	-26,846.01	3,919.00	-6,310.93	0.62	0.67	-991.37
35	-26,694.12	25	11	14	44.00	11,461.78	-22,795.79	4,050.18	-5,089.00	0.80	0.63	-1,067.76
30	-11,141.40	25	16	9	64.00	10,991.14	-23,844.34	3,155.52	-6,847.76	0.46	0.82	-445.66
25	-20,229.03	25	15	10	60.00	9,841.04	-25,105.73	2,693.07	-6,062.50	0.44	0.67	-809.16
20	-33,934.97	26	14	12	53.85	8,458.80	-21,406.07	2,451.22	-5,687.67	0.43	0.50	-1,305.19
15	-36,592.26	30	15	15	50.00	7,078.68	-26,924.26	2,060.25	-4,499.73	0.46	0.46	-1,219.74
10	-55,543.79	34	12	22	35.29	3,400.10	-25,784.94	1,448.70	-3,314.92	0.44	0.24	-1,633.64
5	-26,779.62	42	14	28	33.33	4,174.28	-4,975.25	1,071.48	-1,492.15	0.72	0.36	-637.61

Between 10 and 40 days out there appears to be somewhat weak returns.

I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen signal triggers.  
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
100	41,098.64	13	11	2	84.62	9,905.22	-5,914.30	4,607.65	-4,792.75	0.96	5.29	3,161.43
95	28,820.83	13	9	4	69.23	8,855.98	-8,014.48	4,897.06	-3,813.18	1.28	2.89	2,216.99
90	18,137.53	13	8	5	61.54	6,815.98	-8,906.30	4,467.15	-3,519.93	1.27	2.03	1,395.19
85	23,881.72	13	9	4	69.23	7,141.18	-9,965.06	4,682.28	-4,564.69	1.03	2.31	1,837.06
80	17,251.63	13	9	4	69.23	7,248.39	-12,512.68	4,295.68	-5,352.38	0.80	1.81	1,327.05
75	3,998.00	14	9	5	64.29	8,515.03	-17,916.30	4,616.00	-7,509.20	0.61	1.11	285.57
70	9,077.68	15	11	4	73.33	6,006.50	-11,291.74	3,317.49	-6,853.68	0.48	1.33	605.18
65	-12,977.62	15	8	7	53.33	4,971.48	-10,467.60	2,500.14	-4,711.25	0.53	0.61	-865.17
60	-8,999.56	15	10	5	66.67	4,358.48	-11,602.80	2,139.75	-6,079.42	0.35	0.70	-599.97
55	-14,024.86	15	8	7	53.33	8,665.90	-8,851.04	3,256.64	-5,725.43	0.57	0.65	-934.99
50	-4,947.39	17	10	7	58.82	9,300.50	-9,484.48	3,151.44	-5,208.83	0.61	0.86	-291.02
45	-10,913.82	17	8	9	47.06	6,917.52	-14,483.52	3,304.00	-4,149.54	0.80	0.71	-641.99
40	-12,132.46	17	9	8	52.94	6,232.96	-11,881.28	3,001.89	-4,893.68	0.61	0.69	-713.67
35	-34,366.22	17	7	10	41.18	4,885.44	-14,149.68	2,469.12	-5,165.01	0.48	0.33	-2,021.54
30	-4,177.92	17	11	6	64.71	5,262.60	-13,730.24	2,148.20	-4,634.69	0.46	0.85	-245.76
25	-10,409.68	17	9	8	52.94	6,253.80	-12,334.96	2,244.81	-3,826.63	0.59	0.66	-612.33
20	-20,343.70	17	6	11	35.29	4,796.40	-9,664.24	2,361.89	-3,137.73	0.75	0.41	-1,196.69
15	-22,169.76	19	8	11	42.11	4,301.89	-8,405.92	1,996.55	-3,467.47	0.58	0.42	-1,166.83
10	-18,486.14	25	10	15	40.00	2,854.88	-6,566.95	1,338.88	-2,125.00	0.63	0.42	-739.45
5	-24,682.34	30	11	19	36.67	2,929.92	-8,434.30	1,110.48	-1,941.98	0.57	0.33	-822.74

There are only 17 instances when looking out 35 days, but with 10 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg Omen signal triggers.  
Sell 35 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/14/1980	Buy	\$116.72	-14.16%	\$1,010.08
4/7/1980	Sell	\$100.19	→	(\$19,251.44)
7/24/1986	Buy	\$237.94	-3.06%	\$6,846.00
9/12/1986	Sell	\$230.66	→	(\$3,864.00)
12/8/1999	Buy	\$1,403.88	-3.11%	\$5,262.52
1/28/2000	Sell	\$1,360.16		(\$3,385.28)
9/28/2005	Buy	\$1,216.90	1.18%	\$1,725.28
11/16/2005	Sell	\$1,231.21	→	(\$3,993.40)
4/24/2006	Buy	\$1,308.11	-6.45%	\$1,412.84
6/13/2006	Sell	\$1,223.69	→	(\$6,504.84)
7/20/2007	Buy	\$1,534.10	-5.37%	\$853.45
9/10/2007	Sell	\$1,451.70	→	(\$10,627.50)
10/25/2007	Buy	\$1,514.39	-3.07%	\$2,532.42
12/14/2007	Sell	\$1,467.95	→	(\$7,147.14)
6/4/2013	Buy	\$1,631.38	3.34%	\$4,111.40
7/24/2013	Sell	\$1,685.94	→	(\$4,334.05)
8/9/2013	Buy	\$1,691.42	-0.58%	\$2,267.96
9/30/2013	Sell	\$1,681.55	→	(\$3,773.05)
12/17/2013	Buy	\$1,781.00	0.90%	\$3,911.04
2/7/2014	Sell	\$1,797.02		(\$2,412.48)
12/8/2014	Buy	\$2,060.31	-1.90%	\$1,595.52
1/29/2015	Sell	\$2,021.25	→	(\$4,212.00)
6/16/2017	Buy	\$2,433.15	1.96%	\$2,086.49
8/7/2017	Sell	\$2,480.91		(\$1,125.45)
11/8/2017	Buy	\$2,594.38	3.05%	\$3,822.42
12/29/2017	Sell	\$2,673.61		(\$1,403.34)
2/1/2018	Buy	\$2,821.98	-8.28%	\$0.00
3/23/2018	Sell	\$2,588.26	→	(\$10,125.15)
9/6/2018	Buy	\$2,878.05	-5.99%	\$2,137.24
10/25/2018	Sell	\$2,705.57	→	(\$7,689.44)
8/2/2019	Buy	\$2,932.05	2.04%	\$3,057.96
9/23/2019	Sell	\$2,991.78	→	(\$3,737.62)
11/18/2019	Buy	\$3,122.03	4.89%	\$4,913.60
1/9/2020	Sell	\$3,274.70		(\$1,654.40)

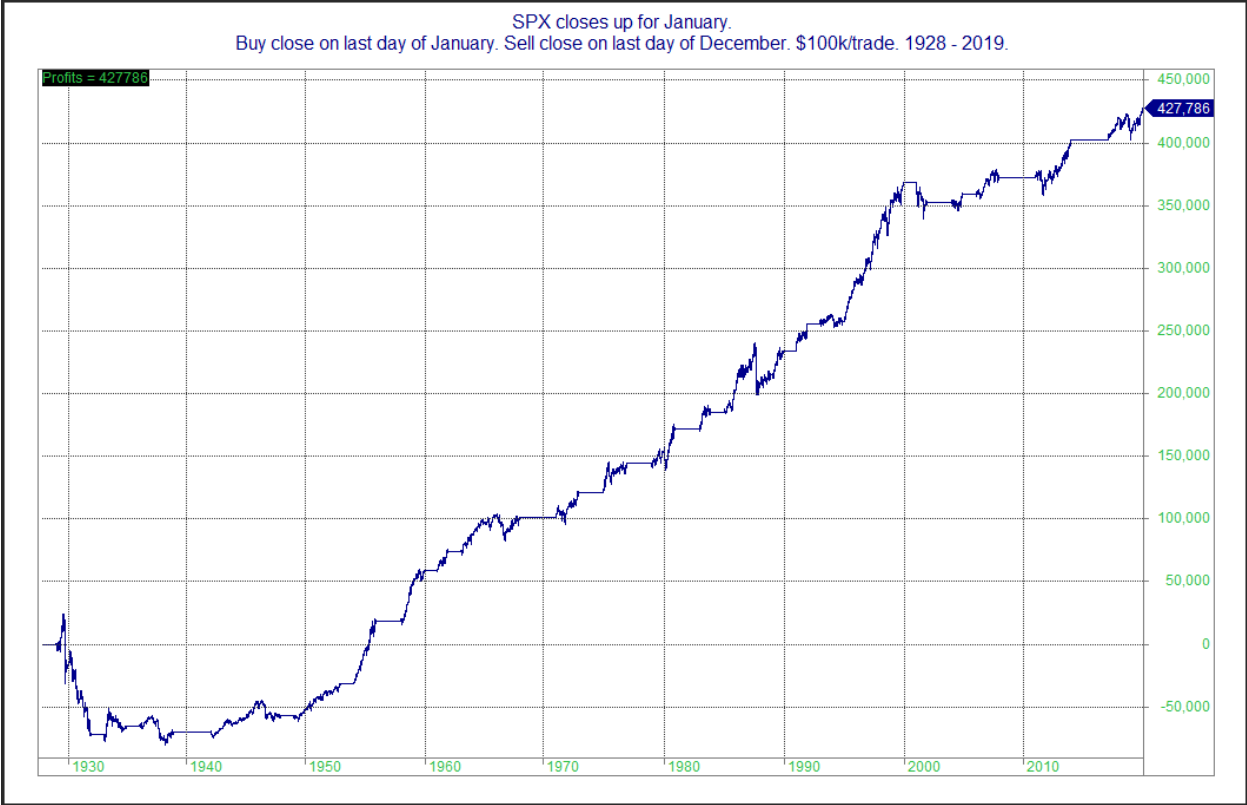
The last instance occurred in November. The average drawdown for the 16 instances is about 2x the size of the average run-up. I also pointed arrows at the 12 instances that saw at least a 3.5% drawdown from the entry point over the next 35 days. Lastly, I ran the same test using the 2.8% NH/NL requirement, rather than 2.2%. Instances are limited there, but you can see the 35 days results below.

Buy SPX when 4th Hindenburg Omen signal triggers (2.8% rather than 2.2%).  
Sell 35 days later. \$100k/trade. 1980 - present.

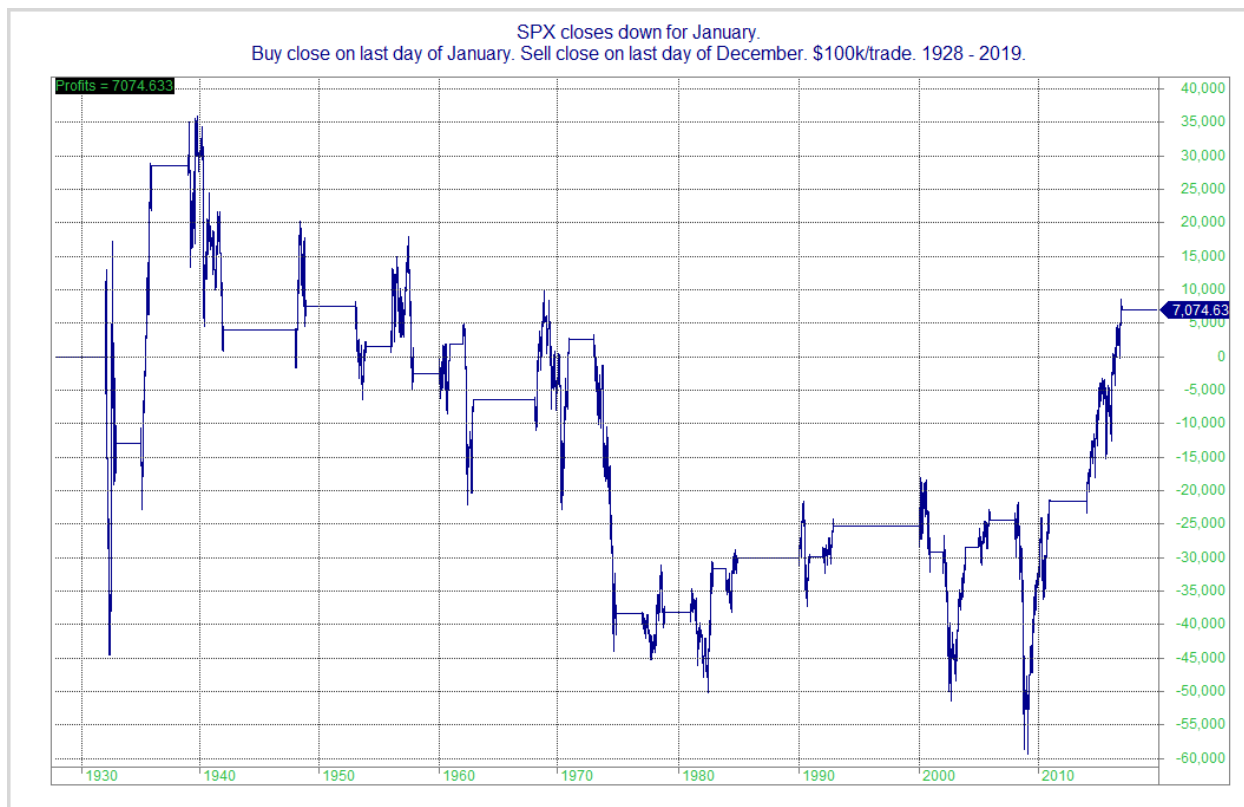
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/26/2006	Buy	\$1,305.41	-3.77%	\$1,618.04
6/15/2006	Sell	\$1,256.16		(\$6,545.12)
11/6/2007	Buy	\$1,520.27	-2.89%	\$214.50
12/27/2007	Sell	\$1,476.27		(\$7,421.05)
8/13/2013	Buy	\$1,694.16	-0.02%	\$2,106.30
10/2/2013	Sell	\$1,693.87		(\$3,934.71)
12/8/2014	Buy	\$2,060.31	-1.90%	\$1,595.52
1/29/2015	Sell	\$2,021.25		(\$4,212.00)
11/14/2017	Buy	\$2,578.87	6.37%	\$6,254.04
1/5/2018	Sell	\$2,743.15		(\$813.96)
2/1/2018	Buy	\$2,821.98	-8.28%	\$0.00
3/23/2018	Sell	\$2,588.26		(\$10,125.15)
9/10/2018	Buy	\$2,877.13	-8.20%	\$2,168.52
10/29/2018	Sell	\$2,641.25		(\$9,302.06)
8/7/2019	Buy	\$2,883.98	3.25%	\$4,692.34
9/26/2019	Sell	\$2,977.62		(\$1,987.98)

With 6 of the 8 closing down, and also having substantial dips over the 35 days, the inclination here also appears to point lower. Overall, the Hindenburg study results seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage, and enough sizable drops following these signals, that it is probably worth remaining cognizant of it.

The January Barometer is a fairly famous study from the Stock Traders Almanac. It says that “as goes January, so goes the year”. In other words, a positive January will typically lead to a positive year, while a negative January can be a warning. I looked at this in the 2/6/17 letter. So let’s compare the remaining 11 months of the year following an up January vs a down January. First, an up January (UNLIKE 2020).



That's a pretty impressive curve since the 1940s. How about performance following down January years?

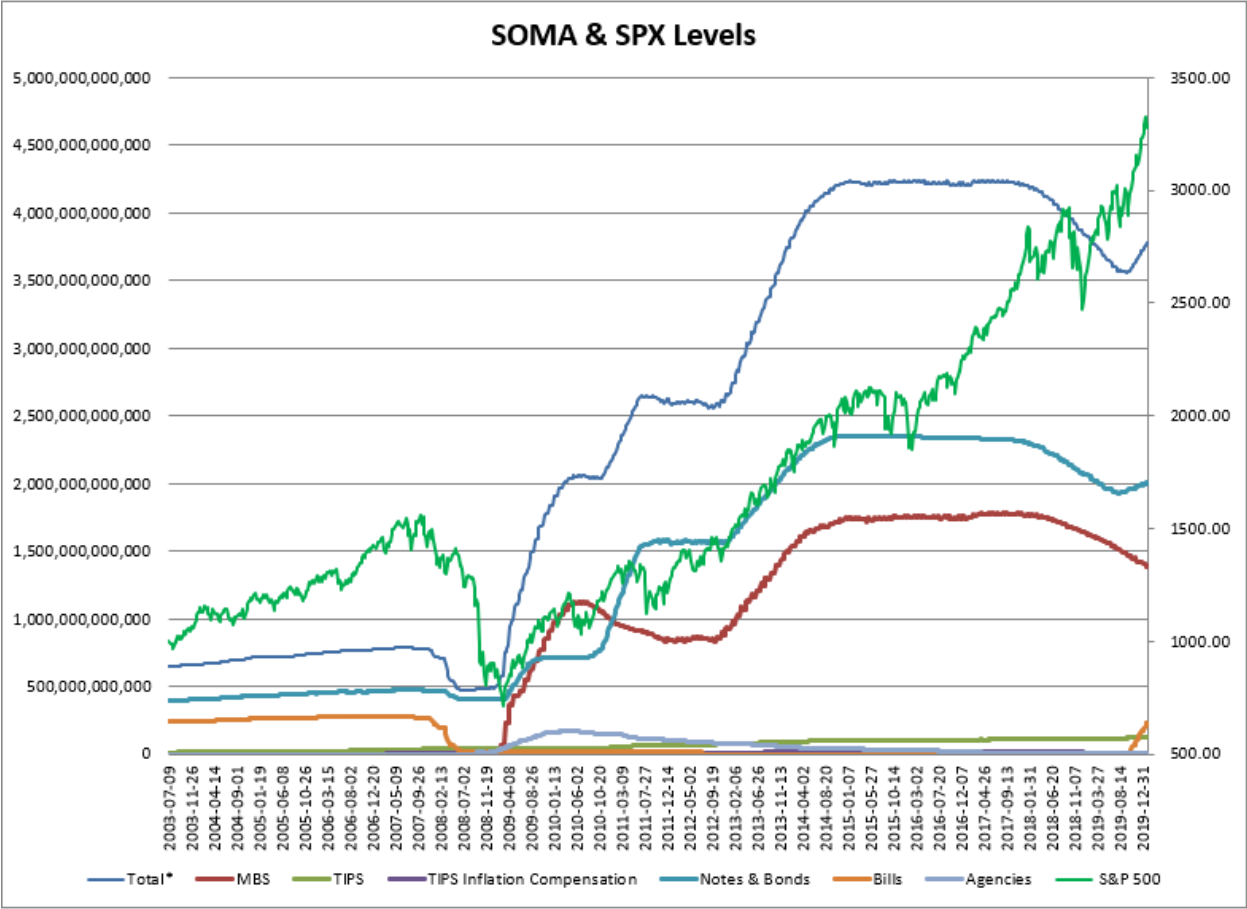


This appears quite inconsistent. Neither the bulls nor the bears have been able to exert a strong and lasting edge with this setup. So the January Barometer may not be telling us much this year.

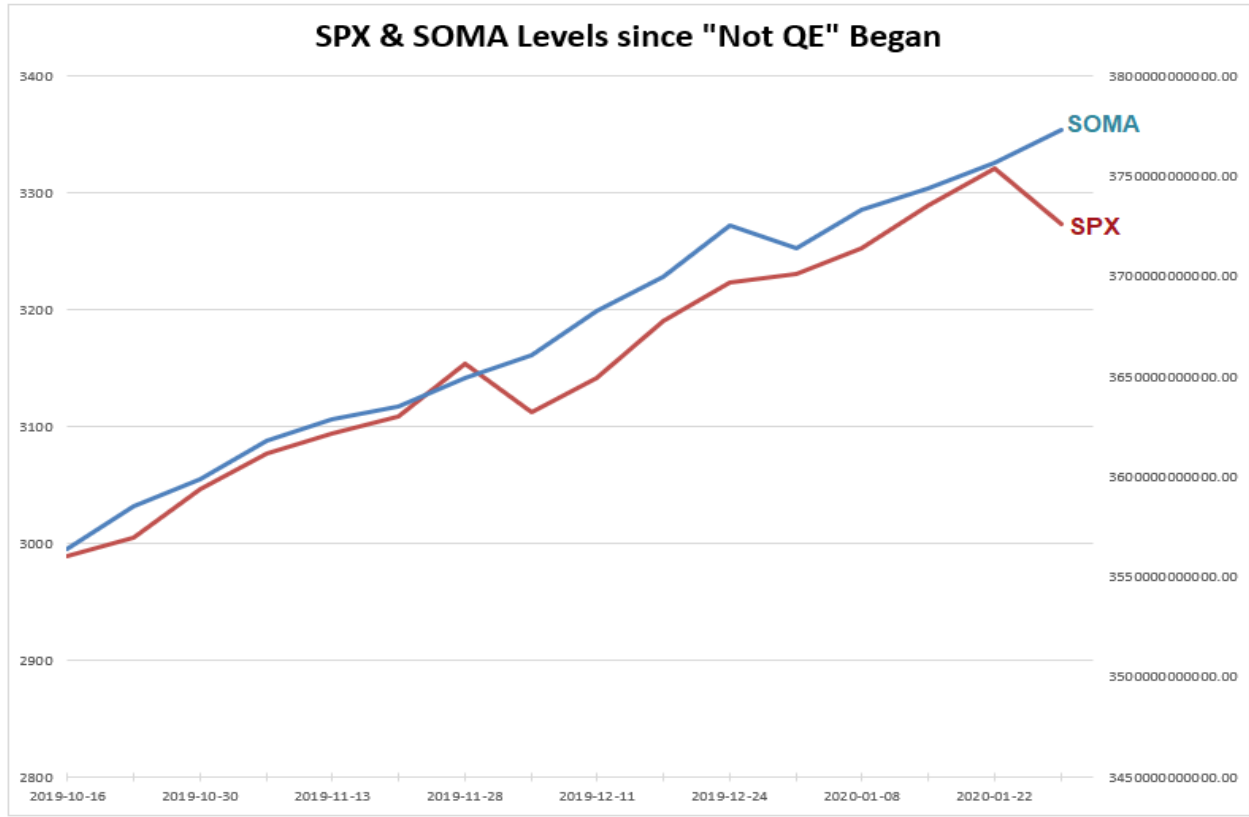
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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.*



And here is a zoomed in version since “not QE” began in October.



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

« As of 01/22/2020

#### DOMESTIC SECURITIES HOLDINGS AS OF January 29, 2020

Security Type		Total (in Thousands)
US Treasury Bills (T-Bills)		232,534,000.0
US Treasury Notes and Bonds (Notes/Bonds)		2,005,310,783.6
US Treasury Floating Rate Notes (FRN)		17,809,716.4
US Treasury Inflation-Protected Securities (TIPS)*		128,005,432.7
Federal Agency Securities**		2,347,000.0
Agency Mortgage-Backed Securities***		1,387,288,002.3
<b>Total SOMA Holdings</b>		<b>3,773,294,935.0</b>
<b>Change From Prior Week</b>		<b>16,751,736.8</b>

\*Does not reflect inflation compensation of 25,448,006.6  
 \*\*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 01/30/2020 4:30pm.

The SOMA rose over \$16.75 billion this past week. That is a substantial amount, and above average since “not QE” began 14 weeks ago. And since “not QE” has been in effect, SPX has closed higher 12 of those 14 weeks and gained 9.5% 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. And the Fed seems to be intent on letting “not QE” run for a bit longer.

At this point, the intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ still appear to be in long-term uptrends and some studies in past weeks have suggested the momentum is likely to continue. Both the Best 6 Months and the Presidential Cycle are bullish. This leaves all 4 Market Timing Course indicators again bullish. And the recent SOMA expansion seems to be having the same type of positive market impact that past SOMA expansions did. The Hindenburg Omen signals are providing a bit of a warning that a split market could be emerging that is susceptible to a deeper pullback. That will be a more powerful bearish edge if we see a 4<sup>th</sup> signal trigger in the near future. Overall, the bullish case still 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***

OXY – 1/3 @ \$43.29 (bought at limit)

OXY – 1/3 @ \$42.52 (bought at limit)

OXY – 1/3 @ \$42.22 (bought at limit)

AGN – 1/3 @ \$188.19 (buy at limit) – not filled – see trade ideas section below

C – 1/3 @ \$76.71 (buy at limit) – not filled – see trade ideas section below

NKE – 1/3 @ \$100.24 (bought at limit)

*New*

BKNG – 1/3 @ \$1830.55 (buy at limit)

DD – 1/3 @ \$51.18 (buy at limit)

NKE – 1/3 @ \$96.30 (buy at limit)

***Broad Market Large Cap CBI – 9(OXY-3, AGN, C, NKE-2, BKNG, DD)***

### **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.*

**AGN – Buy 1/3 Catapult position @ \$186.64 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of AGN.

**C – Buy 1/3 Catapult position @ \$74.41 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of C.

**BKNG – Buy 1/3 Catapult position @ \$1,830.55 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of BKNG.

**DD – Buy 1/3 Catapult position @ \$51.18 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of DD.

**NKE – Buy 1/3 Catapult position @ \$96.30 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots of NKE.

**SPY – Buy ¼ Index position @ \$321.73 LIMIT.** Based on the short-term outlook above, I will be looking to start scaling into an index position on Monday.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
OXY(1/3)	1/23/2020	\$42.62	\$39.72	-6.80%		Catapult
OXY(1/3)	1/24/2020	\$42.47	\$39.72	-6.48%		Catapult
OXY(1/3)	1/27/2020	\$41.02	\$39.72	-3.17%		Catapult
NKE(1/3)	1/28/2020	\$100.24	\$96.30	-3.93%		Catapult

*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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