

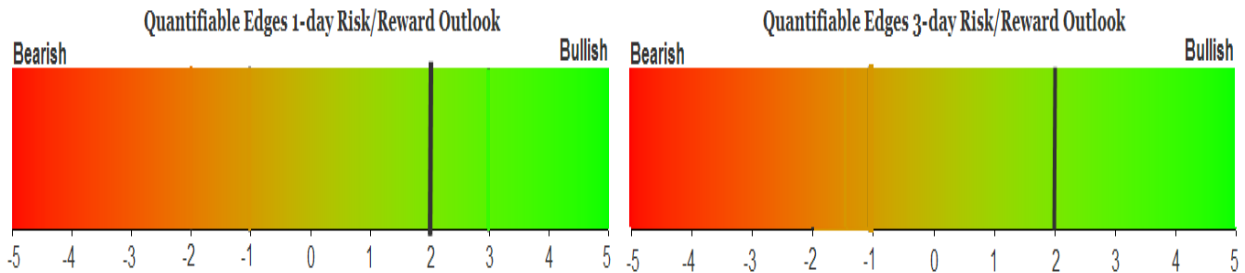
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 21, 2020

Volume 13 Issue 247

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- Seasonality is set to be especially strong this upcoming week.
- The new QE Seasonality Calendars are being released!
- SOMA flows were huge this past week as the Fed continues to support the market.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Evidence is a little weak, but is leaning bullish. SPX is slightly overbought. I like the long side, but would like it better with a bit more of a pullback early in the week.

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
Active - Short Term						
None						
Active - Long Term						
December 14, 2020	December opex week and more bullish	1-15 days	Bullish			
December 10, 2020	SPX 20 intra-high. NDX biggest dn 20	1-50 days	Bullish	6.20%	-2.80%	-5.40%
November 23, 2020	NASDAQ Leading	int term	Bullish			
November 16, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
November 2, 2020	Best 6 Months	1-6 months	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
December 15, 2020	Close 5-low bottom 10% days rng. 1-5 days		Bullish			
December 14, 2020	December opex week bullish	1-5 days	Bullish			

The Evidence

Though a late rally saw the market close well of its lows, it still finished down on the day. The SPX lost 0.35%, the NASDAQ declined 0.1%, and the Russell 2000 dropped 0.4%. Breadth was negative with the NYSE Up Issues % coming in at 42% and the Up Volume % at 32%. NYSE total volume spiked higher. That is often happens on options expiration day. Friday also saw massive additional volume due to TSLA entering the S&P 500, and the rebalancing that caused.

The Quantifinder was very quiet, with price action failing to generate any new studies suggesting a strong downside edge. But seasonality remains strong and worth some discussion. The study below is the “Twas 3 Nights Before Christmas” study. I have shown it each year in the letter. It will trigger on Tuesday’s close. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	36,534.14	33	25	8	75.76	7,830.30	-4,698.12	2,321.99	-2,689.46	0.86	2.70	1,107.10
9	43,321.84	33	24	9	72.73	7,974.78	-3,644.64	2,567.59	-2,033.37	1.26	3.37	1,312.78
8	46,656.12	33	24	9	72.73	8,333.40	-2,782.08	2,365.82	-1,124.83	2.10	5.61	1,413.82
7	39,112.94	33	23	10	69.70	7,796.76	-1,580.04	2,075.33	-861.97	2.41	5.54	1,185.24
6	25,720.15	33	21	12	63.64	7,752.90	-1,768.23	1,720.20	-867.01	1.98	3.47	779.40
5	31,568.59	33	26	7	78.79	7,247.22	-2,846.94	1,507.31	-1,088.78	1.38	5.14	956.62
4	23,752.73	33	23	10	69.70	5,070.22	-2,258.85	1,410.21	-868.20	1.62	3.74	719.78
3	20,171.11	33	24	9	72.73	4,592.40	-1,794.00	1,145.66	-813.86	1.41	3.75	611.25
2	13,108.57	33	24	9	72.73	3,257.17	-4,652.80	959.56	-1,102.31	0.87	2.32	397.23
1	9,301.22	33	24	9	72.73	2,523.24	-2,033.60	668.09	-748.09	0.89	2.38	281.86

31 of 33 instances (94%) closed above the entry price at some point in the next week.

The stats all appear quite strong. But as I discussed a few times recently, smallcaps rule this time of year. So let's examine some other indices. First let's look at the Russell 2000.

Buy Russell 2000 at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	61,233.59	33	25	8	75.76	11,169.90	-6,361.44	3,368.11	-2,871.14	1.17	3.67	1,855.56
9	65,977.98	33	24	9	72.73	10,353.42	-5,973.50	3,530.79	-2,084.54	1.69	4.52	1,999.33
8	72,383.99	33	27	6	81.82	9,130.50	-2,948.40	3,008.37	-1,473.66	2.04	9.19	2,193.45
7	63,987.25	33	27	6	81.82	7,189.56	-2,529.09	2,607.55	-1,069.42	2.44	10.97	1,939.01
6	59,019.31	33	24	9	72.73	8,941.50	-1,300.32	2,647.61	-502.58	5.27	14.05	1,788.46
5	51,136.92	33	26	7	78.79	11,299.50	-2,385.63	2,173.69	-768.42	2.83	10.51	1,549.60
4	35,440.62	33	24	9	72.73	7,987.50	-1,845.90	1,777.92	-803.28	2.21	5.90	1,073.96
3	32,369.71	33	28	5	84.85	5,136.75	-1,591.20	1,260.76	-586.29	2.15	12.04	980.90
2	21,431.13	33	24	9	72.73	4,317.75	-4,431.00	1,233.03	-906.84	1.36	3.63	649.43
1	11,692.71	33	25	8	75.76	2,299.70	-2,543.25	718.99	-785.26	0.92	2.86	354.32

All 33 instances closed above the entry price at some point in the next week.

Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

Buy NASDAQ Composite at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	77,187.26	33	27	6	81.82	12,374.58	-5,921.92	3,558.28	-3,147.70	1.13	5.09	2,339.01
9	81,113.49	33	27	6	81.82	11,558.04	-5,039.77	3,536.94	-2,397.34	1.48	6.64	2,457.98
8	82,523.36	33	28	5	84.85	11,915.40	-3,773.60	3,287.63	-1,906.05	1.72	9.66	2,500.71
7	53,610.19	33	23	10	69.70	9,428.34	-2,577.00	2,828.81	-1,145.24	2.47	5.68	1,624.55
6	46,599.84	33	25	8	75.76	9,407.88	-2,010.42	2,196.86	-1,040.22	2.11	6.60	1,412.12
5	45,598.92	33	23	10	69.70	9,436.56	-2,882.56	2,305.41	-742.55	3.10	7.14	1,381.79
4	36,105.64	33	23	10	69.70	8,665.86	-2,063.36	1,861.57	-671.06	2.77	6.38	1,094.11
3	32,886.39	33	25	8	75.76	6,748.14	-1,927.36	1,518.40	-634.21	2.39	7.48	996.56
2	24,004.79	33	24	9	72.73	7,726.74	-5,032.35	1,426.92	-1,137.92	1.25	3.34	727.42
1	12,422.72	33	25	8	75.76	2,423.79	-2,931.30	814.68	-993.03	0.82	2.56	376.45

1986 was the only time the NASDAQ failed to close above its entry price at some point in the next 5 days since its inception in 1971.

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week.

Lastly, let's look at the NDX.

Buy NDX at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	78,177.95	33	26	7	78.79	14,814.54	-5,954.34	3,867.67	-3,197.36	1.21	4.49	2,369.03
9	85,885.40	33	26	7	78.79	13,885.04	-5,095.68	3,972.94	-2,487.28	1.60	5.93	2,602.59
8	88,869.04	33	26	7	78.79	14,312.70	-3,052.33	3,832.90	-1,540.90	2.49	9.24	2,693.00
7	57,214.17	33	23	10	69.70	12,691.90	-3,669.30	3,079.42	-1,361.25	2.26	5.20	1,733.76
6	41,774.65	33	23	10	69.70	11,843.52	-2,893.94	2,396.05	-1,333.44	1.80	4.13	1,265.90
5	50,311.90	33	23	10	69.70	11,443.50	-3,226.03	2,663.59	-1,095.07	2.43	5.59	1,524.60
4	40,670.86	33	23	10	69.70	11,245.05	-2,242.57	2,179.32	-945.35	2.31	5.30	1,232.45
3	35,832.12	33	23	10	69.70	8,742.60	-2,203.20	1,960.26	-925.40	2.12	4.87	1,085.82
2	26,447.87	33	23	10	69.70	10,167.30	-5,501.44	1,735.72	-1,347.36	1.29	2.96	801.45
1	15,217.82	33	24	9	72.73	2,863.84	-3,146.24	1,041.49	-1,086.45	0.96	2.56	461.15

31 of 33 instances (94%) closed above the entry price at some point in the next week.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

So seasonality appears strong based on this study. But I also thought this would be a great time to introduce a big upgrade here at Quantifiable Edges...the seasonality calendars. I'll be rolling functionality out for the calendars over the next few weeks, but below is a preview showing the SPX December calendar.

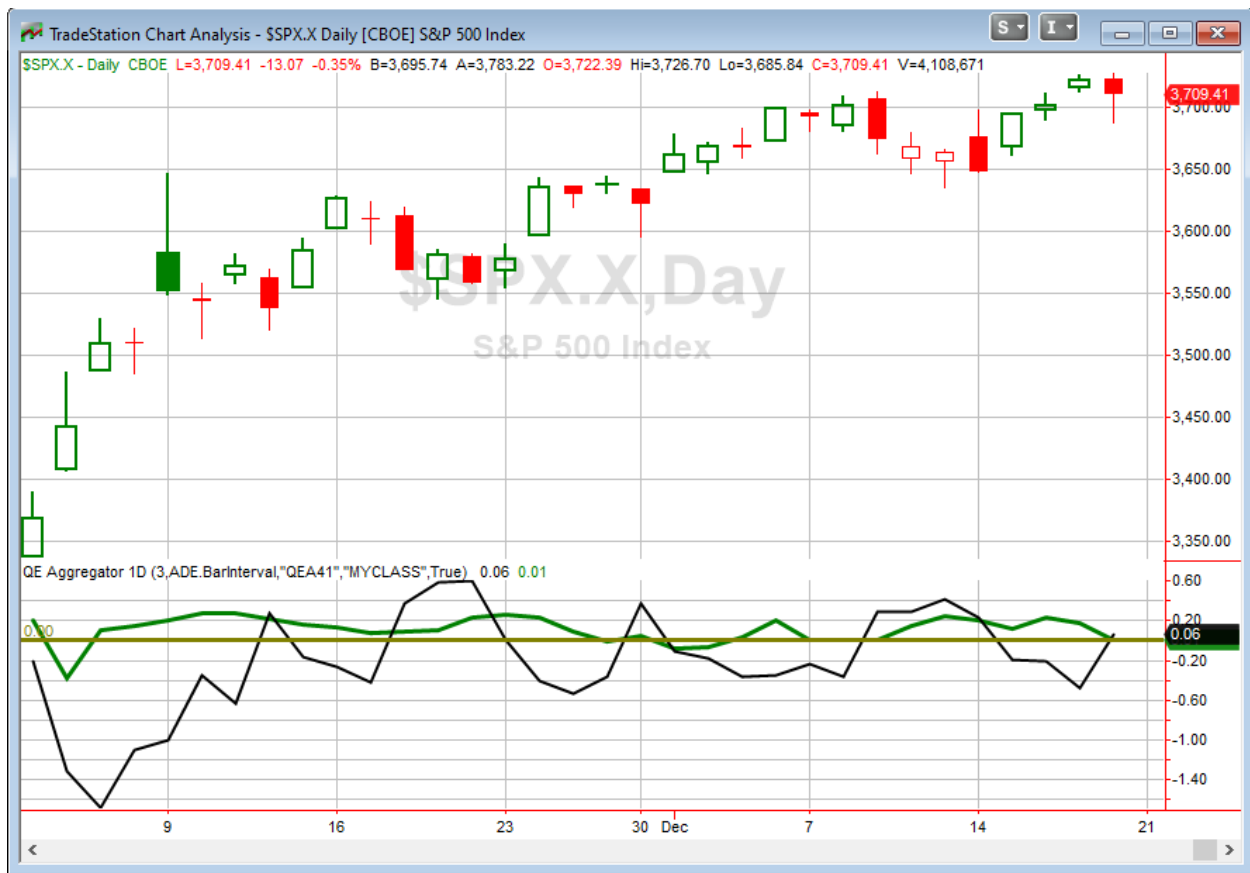
The Quantifiable Edges Seasonality Calendar shows the average historical odds of multiple seasonality models for each day. The models look at things like time of week/month/year in different ways. The calendar is a construct of those models. *It is NOT the odds of just a particular calendar day of the year (like December 1st).*

December shows a lot of green. That is not a huge surprise, since it is often a strong seasonal month. Most notable is that this upcoming Tuesday, Wednesday, and Thursday are listed as the 3 strongest days of the month by all metrics. In fact, they are stronger than any day we will see in January as well. So it is not just the “3 Nights Before Christmas” study that is suggesting strong seasonality this upcoming week.

I’ll be releasing a lot more information and research on the calendars in the next few days. Initially, there will likely be 9 indices featured covering different kinds of instruments (stocks, bonds, commodities). New calendars for these indices will be produced each month. I will also be providing research showing hypothetical results of using the calendar stats. Lastly, and perhaps most important, is that you’ll be able to download long-term historical calendar readings for traders that want to do their own research.

I intend to offer seasonality calendar functionality as a separate subscription, but *I will also be including it at no additional charge for gold and silver subscribers*. So hopefully you will find it a big upgrade for 2021! [Click here for a sneak peek at the Seasonality Calendar page](#), which I will be updating and changing throughout the next few days as I add it to the site.

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



With tonight's evidence considered, the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line inched above 0. The positive Differential Line reading means that 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.

The short-term active list is now barren, with last week's studies all expiring or reaching their objective. We will see strong seasonality kick in this week. The intermediate-term outlook continues to lean bullish, so that is also helping expectations. New evidence that emerges in the next few days could swing expectations in either direction. Meanwhile, the Differential Pivot will be 3722.28 on Monday. That is 0.35% above Friday's close. Therefore, SPX will need to close up at least 0.35% on Monday to flip from oversold to overbought vs expectations.

So the Aggregator is bullish, but it is not the most convincing signal. Expectations are mild and the SPX is only mildly oversold. But with the upcoming bullish seasonality, I'll be looking to get long if we see weakness early in the week.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 12/21 – slightly 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 “Long”.*

This past week saw solid gains for the market. The SPX rose 1.25%, while the NASDAQ and the Russell 2000 each rallied 3.05%. The longer-term trends all still appear to be up. There were no new studies with intermediate-term implications that emerged in the last few days.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

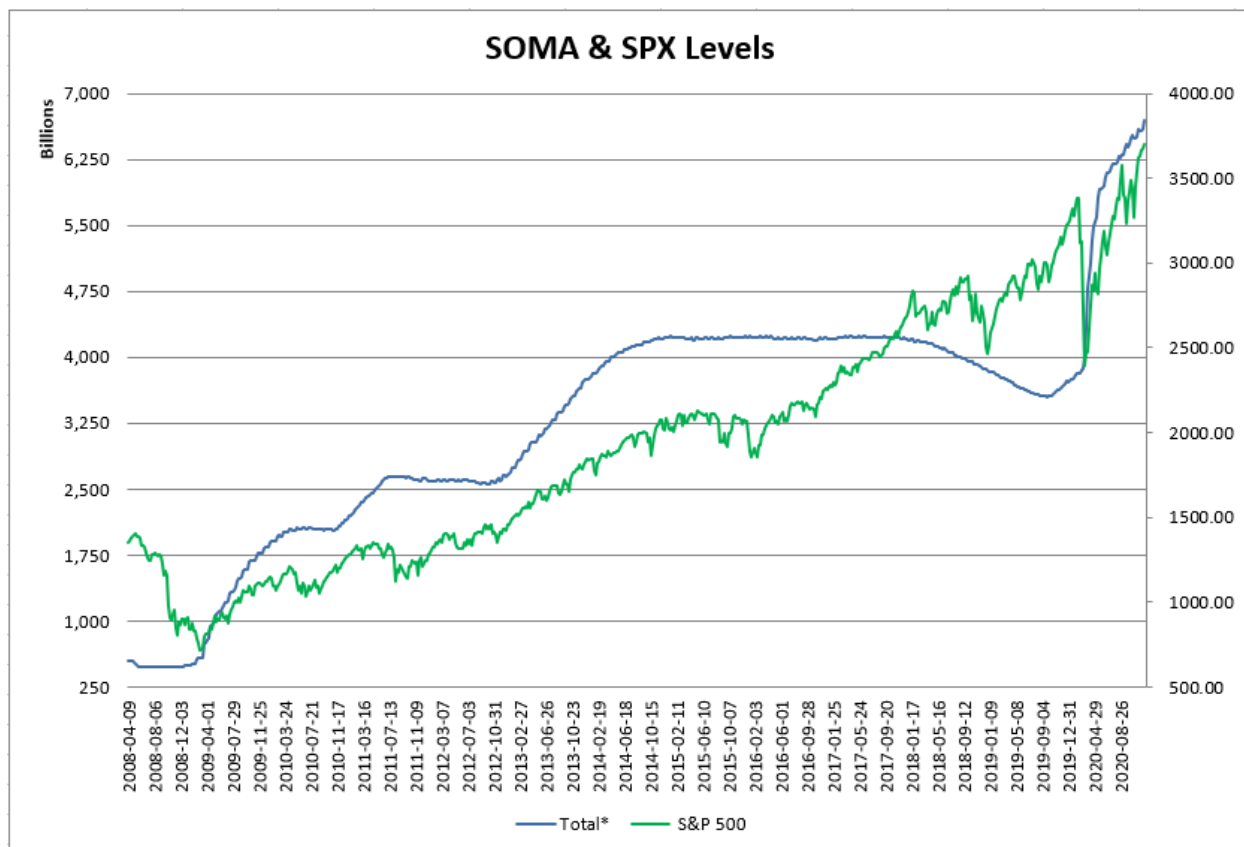
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Domestic Security Holdings as of
◀ Previous **December 16, 2020** 📅
Posted December 17, 2020 at 4:30 P.M.

SUMMARY
T-BILLS
T-NOTES AND T-BONDS
FRNS
TIPS
AGENCY DEBTS
MBS
CMBS

Security Type	Total (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,967,653,181.0
US Treasury Floating Rate Notes (FRNs)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	308,426,439.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,069,326,412.7
Agency Commercial Mortgage-Backed Securities***	9,766,474.2
Total SOMA Holdings	6,700,832,750.2
Change From Prior Week	107,706,959.9

This past week saw the SOMA rise by a massive \$108 billion. That is the largest 1-week gain since May. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, and the expansion is expected to continue for the foreseeable future. We have seen some wiggles in the SOMA in the last couple of months, as not every week has seen strong buying. But this past week sure showed us that there is no slowdown in the Fed pumping. That is normal calendar-induced wiggling, similar to what we saw with earlier QE expansions. To this point, the Fed has indicated they will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

My intermediate-term outlook remains very similar to last week. Breadth is favorable, momentum is solid, the NASDAQ is leading, seasonality should be strong through the end of the year, and I am not seeing any major red flags from a technical perspective. The Fed's continued pumping is also a large plus for the bulls. Overall, I remain somewhat bullish, and do not see a reason to change. That basically means I will be a bit more cautious when considering short positions than with long positions.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

PFE – 1/3 @ \$37.84 (bought at limit)

Broad Market Large Cap CBI – 1(PFE)

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 @ \$369.17 LIMIT ON CLOSE. Based on the short-term outlook above, if SPY finishes down on Monday, I will be looking to get in at the close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
PFE(1/3)	12/18/2020	\$37.84	\$37.68	-0.42%		Catapult

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