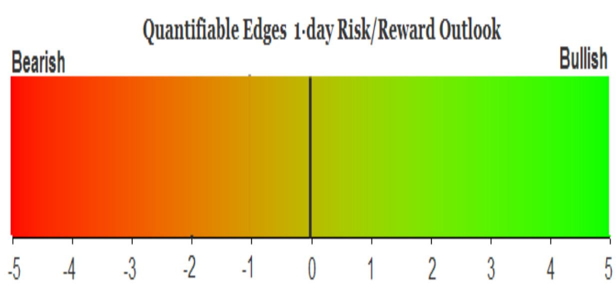
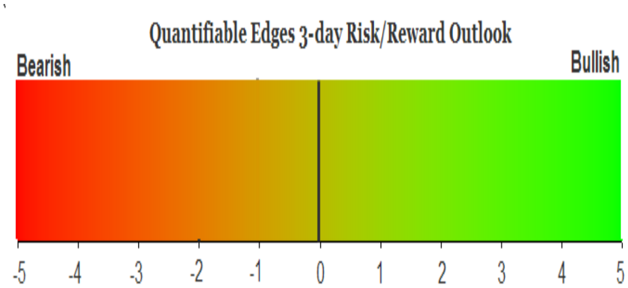
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 28, 2020 Volume 13 Issue 251

## Market Overview




## Signals Overview

| Aggregator | CBI Reading |
|---|---|
| Flat | 1 |

***Tonight's Research Points***

- Seasonality appears mostly bullish this upcoming week.
- The Fed continues to pump liquidity and support the market.

***Short-term Outlook***

***The Bottom Line***

The Aggregator is neutral. While it appears more likely there will be further upside in the next few days, reward/risk is not great.

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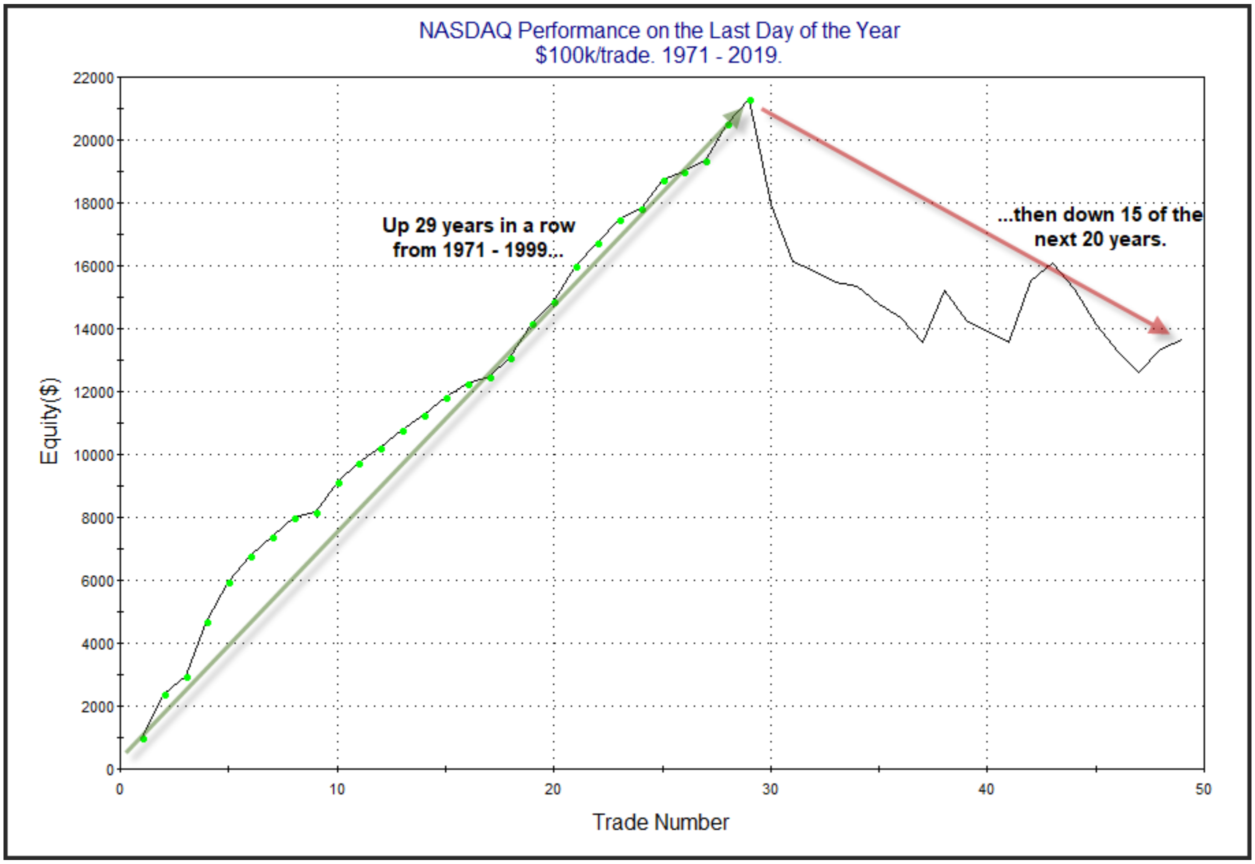
***Summary of Recent Active Studies (see Letters from listed dates for details)***

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|---|---|---|---|---|---|---|
| Active - Short Term | | | | | | |
| December 23, 2020 | Dn 3 frm 50-high < 10ma > 10-low | 1-4 days | Bullish | 1.60% | -0.90% | -2.00% |
| December 23, 2020 | Twas 3 nights before Christmas | 1-8 days | Bullish | 2.40% | -1.20% | -2.40% |
| 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 | | | |

### *The Evidence*

Thursday was quiet as you would expect on a short trading day before a long holiday weekend. The SPX closed up 0.4%, the NASDAQ rose 0.3%, and the Russell 2000 lost 0.2%. Breadth was mixed with the NYSE Up Issues % coming in at 61% and the Up Volume % at 43%. NYSE total volume was very light as expected.

The mixed and moderate action failed to generate compelling new studies. But with this upcoming week the last of the year, I thought I would highlight the study below, which looks at the last trading day of the year. 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 showed last year in the 12/31/19 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 20 years. I have no good explanation for why such a formerly consistent edge changed, but it did.

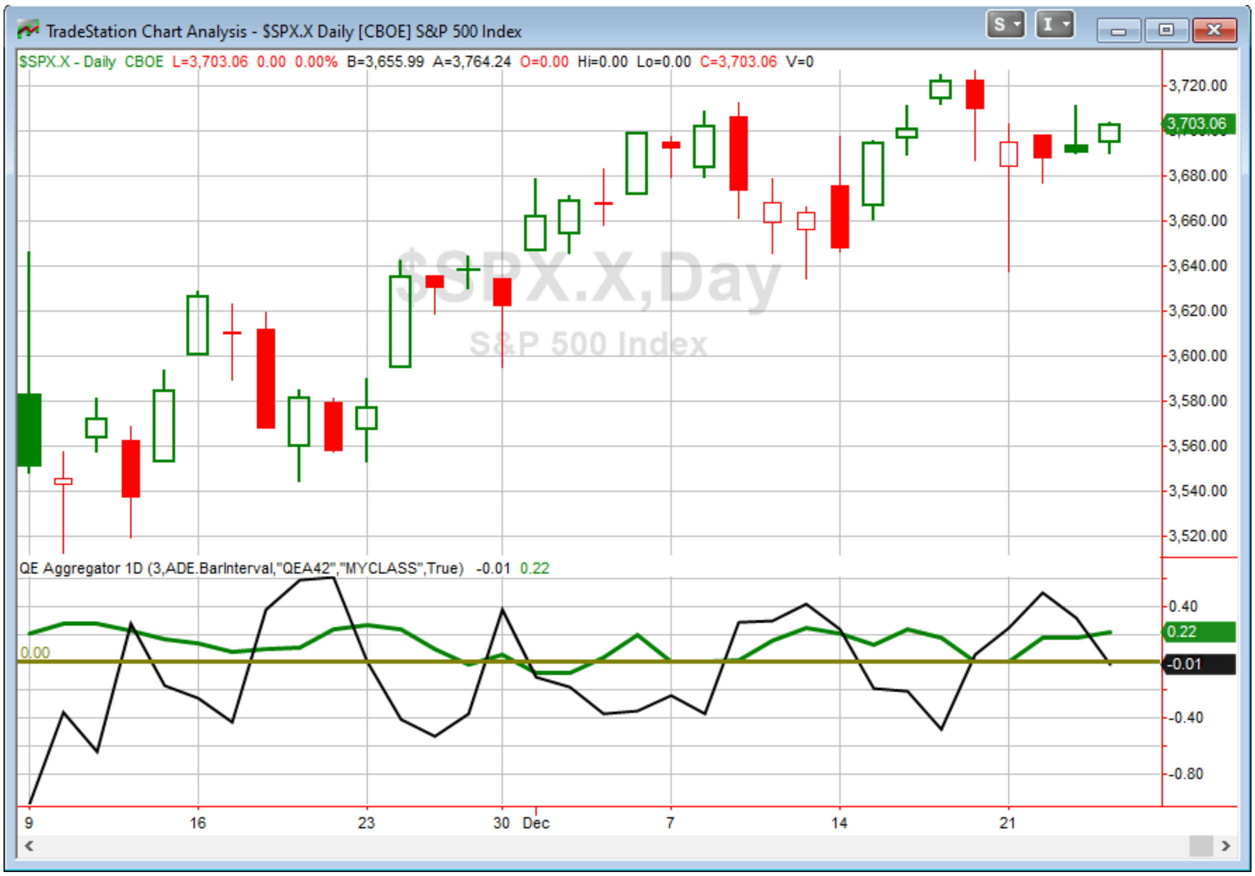
The Nasdaq study is a great reminder though. The market is constantly changing and evolving. 2021 is just a few days away. I'm not sure what it has in store for us, but I know it will play out in its own unique pattern. We will see clues along the way, and many of the truisms we've identified through studies over the last 13 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.

Of course there are many ways to look at seasonality. The new QE Seasonality Calendar section of the site is nearly complete. Below is a peek at this upcoming week's seasonal numbers.

| Quantifiable Edges Seasonality Calendar | | | |
|---|---|---|---|
| $SPX S&P 500 Index | | | |
| Date | Win% | Profit Factor | Avg % Chg |
| 12/28/2020 | 47.58 | 1.036 | 0.007 |
| 12/29/2020 | 57.14 | 1.512 | 0.109 |
| 12/30/2020 | 55.56 | 1.499 | 0.108 |
| 12/31/2020 | 55.77 | 1.531 | 0.105 |
| *Baseline* | *55.00* | *1.155* | *0.050* |

Monday is neutral, but Tuesday through Thursday all show positive and above-normal returns. The "Twas 3 Nights Before Christmas" study I shared last week is still active on the short-term list, and so is the "3 days down from a 50-day high" study.

I have updated the Aggregator chart below.



Once again tonight, 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 dropped slightly below 0. The negative Differential Line reading means that 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3694.22 on Monday. That is 0.2% below Thursday's close. Therefore, SPX will need to close down at least 0.2% on Monday to flip from overbought to oversold vs expectations.

So the Aggregator is now neutral. Evidence suggests we will likely see more upside this week, but the rise the last 2 days turned SPX "overbought" vs expectations. This reduces reward/risk. I thought about simply scaling out of a portion of my current long position on Monday and seeing if I could get some more run out of the other portion. But I decided I would simply exit the whole position if I can get a decent fill on Monday. I won't sell into a big gap down. I will exercise a little bit of patience, but I'll hope to be flat before the end of the day.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/28 – 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 mixed and mild results for the market. The SPX declined 0.2%, while the NASDAQ rose 0.4% and the Russell 2000 gained 1.7%. 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.

Domestic Security Holdings as of

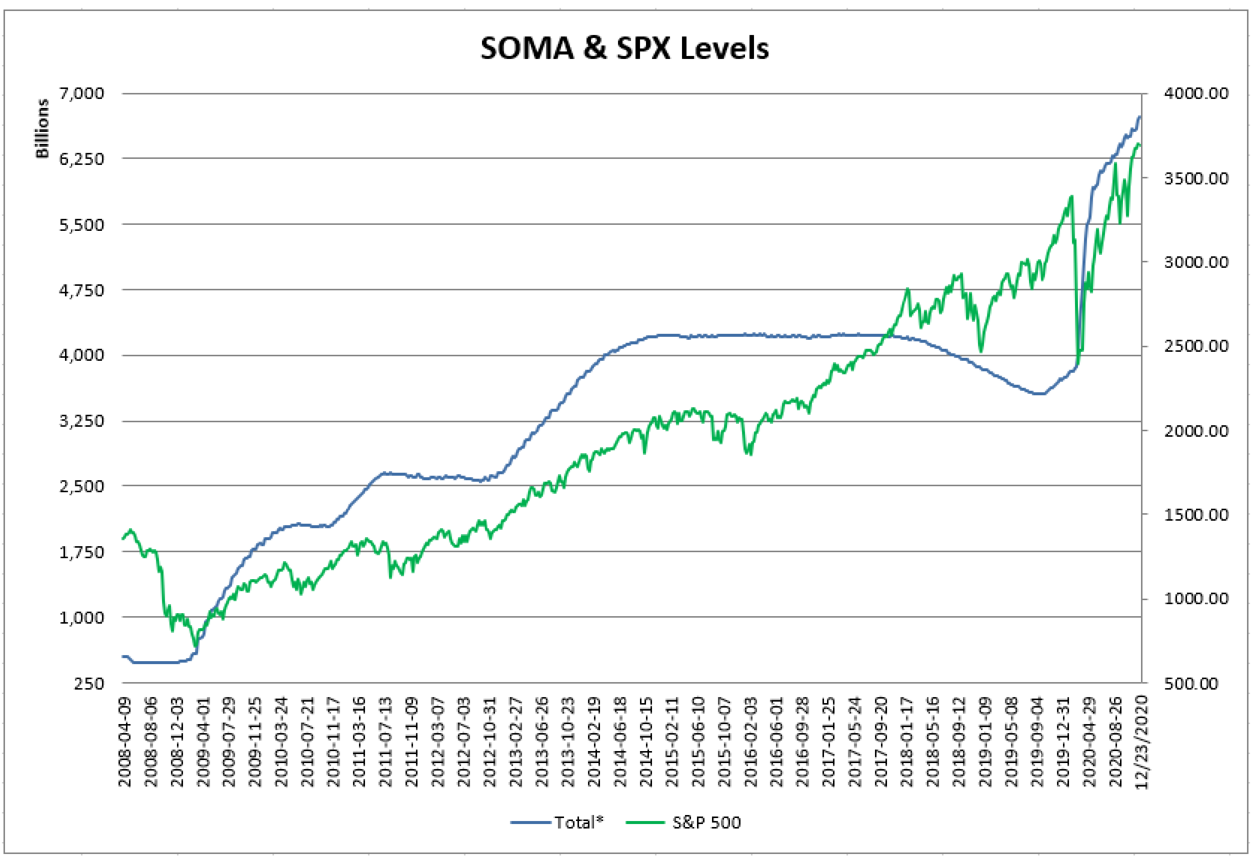
Previous **December 23, 2020**

*Posted December 24, 2020 at 4:30 PM*

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) | 3,983,923,181.0 |
| US Treasury Floating Rate Notes (FRNs) | 17,269,242.7 |
| US Treasury Inflation-Protected Securities (TIPS)* | 312,024,439.6 |
| Federal Agency Securities** | 2,347,000.0 |
| Agency Mortgage-Backed Securities*** | 2,076,731,772.4 |
| Agency Commercial Mortgage-Backed Securities*** | 9,842,363.1 |
| Total SOMA Holdings | 6,728,181,998.8 |
| Change From Prior Week | 27,349,248.6 |

This past week saw the SOMA rise by a sizable $28 billion. That is a fairly typical rise 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 the SOMA has continued to expand at a dramatic rate overall. 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 similar to last week. Breadth is favorable, momentum is solid, the NASDAQ is leading, seasonality should be strong for a little while longer, 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.*

**None tonight**.

## Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---|---|---|---|---|---|---|
| PFE(1/3) | 12/18/2020 | $37.84 | $37.27 | -1.51% | | Catapult |
| SPY(1/4) | 12/21/2020 | $367.86 | $369.00 | 0.31% | | sell @ $368.50 LIMIT |
| SPY(1/4) | 12/22/2020 | $367.24 | $369.00 | 0.48% | | sell @ $369.00 LIMIT |