

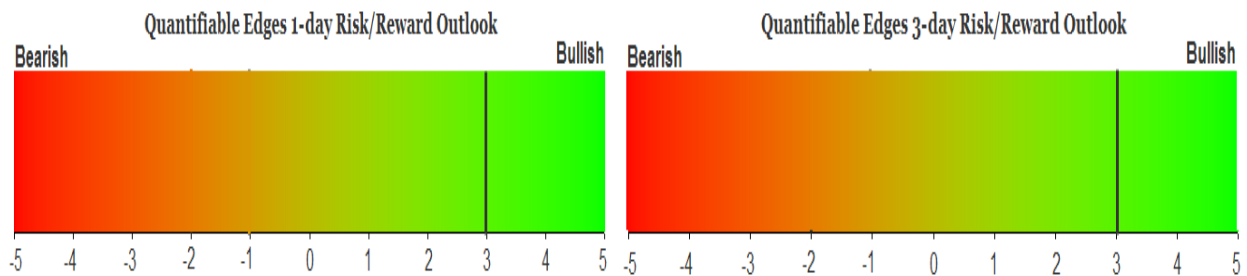
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 6, 2021

Volume 14 Issue 233

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	7

Tonight's Research Points

- 4 lower lows and a 20-day lows has often been followed by a bounce.
- Seasonality is not great the next couple of weeks. It gets strong after Dec 17th opex.
- The NASDAQ has struggled recently and fallen into a lagging position vs the SPX.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I like the long side. But volatility is high, so I am keeping some powder dry.

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 6, 2021	4 lower lows & 20-day low > 200ma	1-7 days	Bullish	2.10%	-1.50%	-3.00%
December 3, 2021	Higher Hi down. Lower low up. < 10ma	1-5 days	Bullish	1.90%	-1.20%	-2.40%
December 2, 2021	SPY gaps up reverses dn to 10-low	1-5 days	Bullish			
December 1, 2021	1.5% drop 2 days in 5 above 200ma	1-5 days	Bullish	3.70%	-1.90%	-4.40%
November 29, 2021	System 1100524	1-7 days	Bullish	2.40%	-1.60%	-3.40%
November 29, 2021	1% drop 4th Fri of month	1-6 days	Bullish	2.65%	-1.20%	-2.40%
November 29, 2021	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish	2.50%	-1.75%	-3.90%
November 29, 2021	1st 10-low in 30+ days	1-8 days	Bullish	3.00%	-2.10%	-4.40%
November 23, 2021	Gap higher and reverse > 10low > 200	1-6 days	Bullish	2.60%	-1.30%	-2.30%
Active - Long Term						
November 22, 2021	Hindenburg Omen Cluster	1-35 days	Bearish	-6.90%	3.20%	5.80%
November 8, 2021	QE4 tapering	int term	Bullish but Weakening			
November 4, 2021	SPX 50-day %b > 100	1-50 days	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
July 9, 2020	Golden Cross	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
December 3, 2021	Employment Days Bullish	1 day	Bullish			
December 2, 2021	Outside day and btm 10% of 10-day rng	1-2 days	Bullish			
November 1, 2021	NASDAQ Leading	int term	Bullish			

The Evidence

Friday started strong but saw some fearful selling ahead of the weekend. The SPX closed down 0.8%, the NASDAQ tumbled 1.9%, and the Russell 2000 fell 2.1%. Breadth was negative with the NYSE Up Issues % coming in at 27% and the Up Volume % at 24%. NYSE total volume declined for the 3rd day in a row.

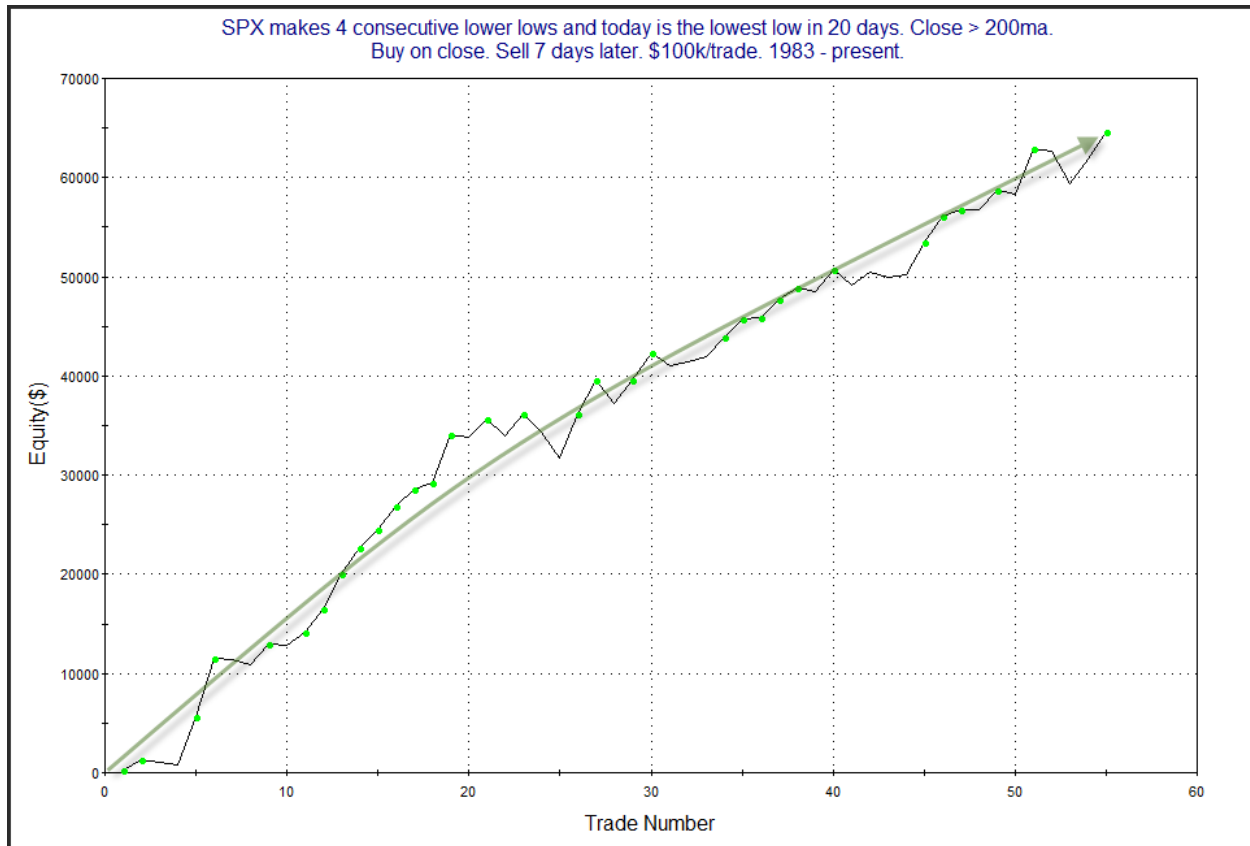
There was not a lot of compelling new evidence that emerged on Friday. But the study below was interesting. It examines times when SPX posted four consecutive lower lows and a 20-day low as it did on Monday. Last seen in the 6/30/15 letter, I have updated the stats table below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1983 - present.

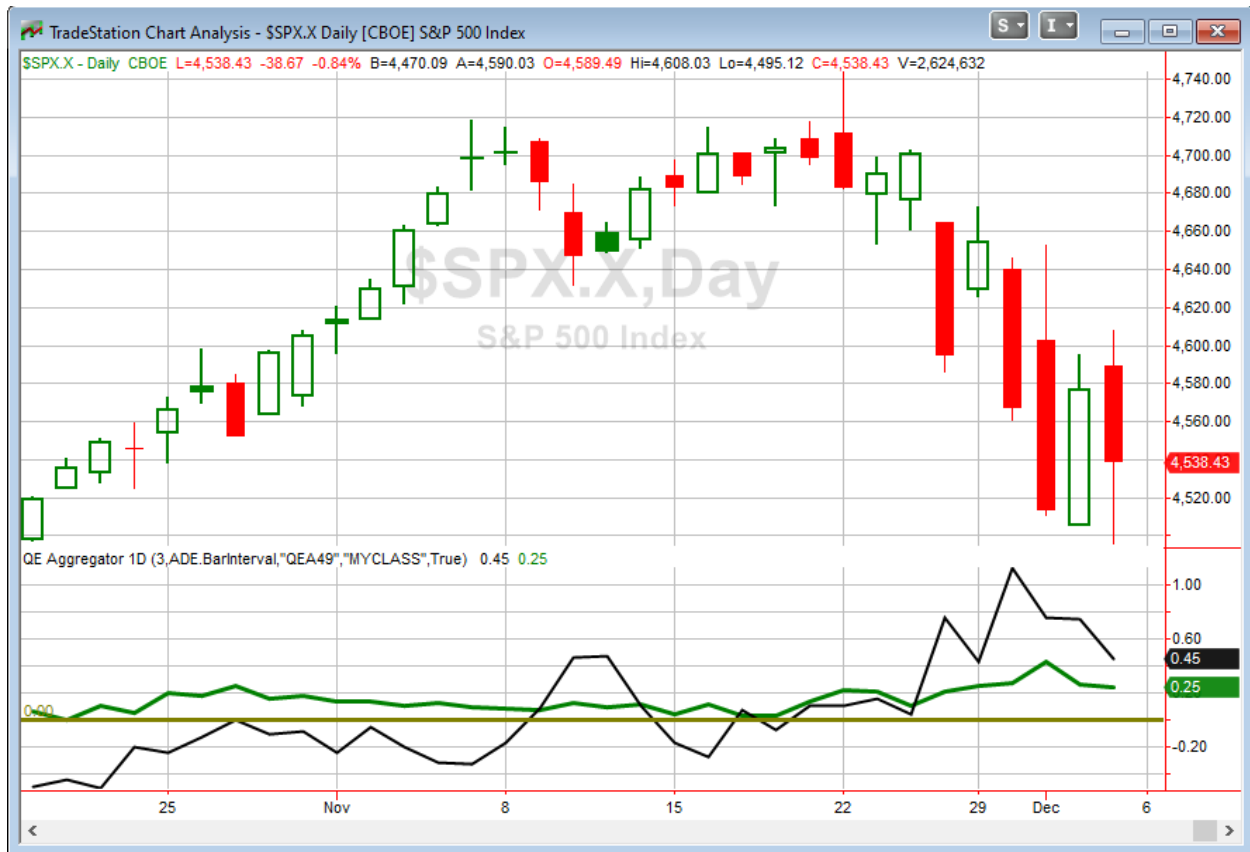
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	57,129.43	55	36	19	65.45	5,268.12	-7,625.38	2,492.42	-1,715.67	1.45	2.75	1,038.72
9	54,367.84	55	40	15	72.73	6,263.40	-11,831.15	2,281.21	-2,458.71	0.93	2.47	988.51
8	64,484.57	55	42	13	76.36	6,529.38	-4,831.04	2,195.98	-2,134.35	1.03	3.32	1,172.45
7	64,609.53	55	37	18	67.27	5,954.52	-3,232.37	2,220.31	-974.56	2.28	4.68	1,174.72
6	54,652.79	56	42	14	75.00	5,148.00	-3,084.00	1,669.46	-1,104.61	1.51	4.53	975.94
5	38,047.27	56	35	21	62.50	3,725.69	-3,870.04	1,742.00	-1,091.55	1.60	2.66	679.42
4	34,356.93	56	35	21	62.50	3,868.10	-1,828.50	1,569.66	-980.06	1.60	2.67	613.52
3	14,836.48	56	31	25	55.36	3,939.79	-5,393.69	1,407.61	-1,151.98	1.22	1.52	264.94
2	12,749.89	56	31	25	55.36	2,794.56	-4,632.95	1,177.57	-950.19	1.24	1.54	227.68
1	8,401.96	56	36	20	64.29	2,536.10	-2,968.54	786.60	-995.78	0.79	1.42	150.04

51 of 56 instances (91%) closed above the entry price at some point in the next week.

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming a 7-day exit strategy.



The strong, steady rise helps to confirm the upside edge suggested by the stats table.



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 also held above zero. 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 formation stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This will almost certainly not change. Meanwhile, the Differential Pivot will be 4556.03 on Monday. That is 0.4% above Friday's close. So SPX will need to close up at least 0.4% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. We have a lot of studies suggesting an upside edge. But we have also seen a number of bullish studies get run over in the last week or so. Market action has not adhered well to historical norms, and the market is in an emotional and volatile state right now. I have long exposure, and believe there is a short-term upside edge. But I still want to keep some powder dry. And if SPX does manage to bounce on Monday and close above the Differential Pivot, then I will be lightening up on my exposure a little further at that time. In this market, I am open to increasing or decreasing my exposure every day depending on market action and new evidence.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/6 – neutral

Combo #1	Combo #2	Combo #3
Long	Long	Flat

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 the Combo System #3 changed from “Long” to “Flat”.*

A 2nd tough week. The SPX lost 1.2%, the NASDAQ dropped 2.6%, and the Russell 2000 tumbled 3.9%. The SPX and NASDAQ still appear to be in uptrends, but the Russell fell over 12% in the last 18 trading days and is in danger of breaking down all the way below its March low if the selling continues.

The struggling NASDAQ did cause our NASDAQ/SPX lead/lag indicator to flip, so that SPX is now the leader. Historically, nearly all of the gains the market has achieved since 1971 have come when the NASDAQ was leading. When SPX has been in a leading position, the market has struggled to make much headway. I decided to examine performance when the Quantifiable Edges Market Timing Course indicators are in their current formation. Those results can be found below.

SPX Performance when 1) SPX Golden Cross is in effect, 2) the NASDAQ is lagging, 3) the Presidential Cycle is UNfavorable, and 4) we are in the BEST 6 months.
 \$100k portfolio compounded. 1971 - present. Chart shows profit curve.



From 1971 – 2005, SPX struggled to make much headway with the current mix of indicators. But since 2005 or so, the setup has seen strong performance by SPX. So while a leading NASDAQ is preferable, the SPX being in the lead right now is not a big red flag.

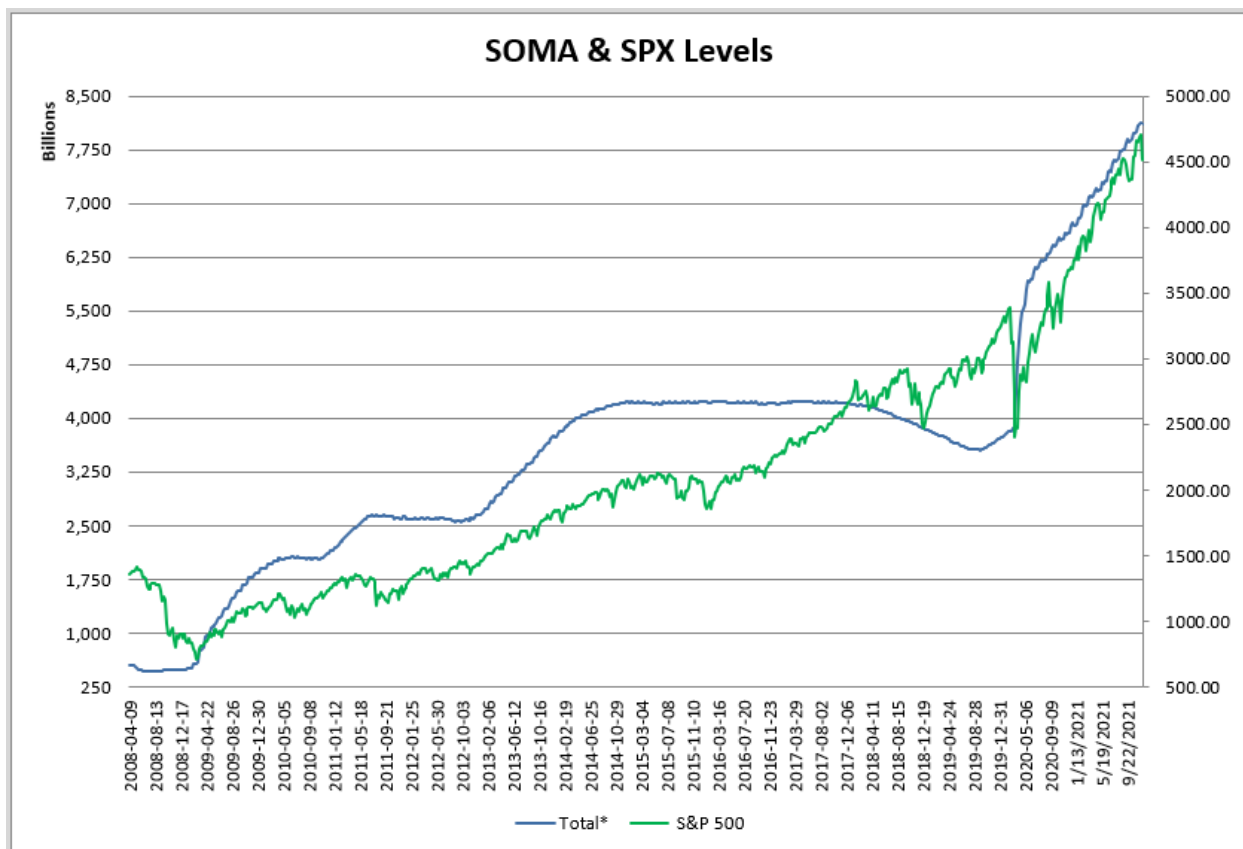
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
[◀ Previous](#) **December 1, 2021** 
Posted December 2, 2021 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)	4,795,482,594.8
US Treasury Floating Rate Notes (FRNs)	24,321,178.7
US Treasury Inflation-Protected Securities (TIPS)*	377,997,830.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,561,596,953.6
Agency Commercial Mortgage-Backed Securities***	9,287,350.5
Total SOMA Holdings	8,097,076,908.3
Change From Prior Week	-26,064,572.8

This past week saw the SOMA drop by \$26 billion. That is a big decline, but not unusual for what we would expect at this time of the month. We should see SOMA increases over the next few weeks. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, but the pace of the expansion is now slowing. It is not yet visible on the chart, but the blue line is going to start to flatten. There is also some talk now that the pace of tapering may be accelerated. This is something we will find out in at the conclusion of the December meeting. QE has provided incredible support, and the market has flourished. As QE goes away, it will likely become more and more difficult for the gains to continue. A lack of liquidity could also mean increased volatility. We might be seeing that already.

This week I am changing my intermediate-term bias to neutral. Several of the bullish intermediate-term studies have expired in the last couple of weeks. We still are in the “Best 6 months”, but seasonality over the next couple of weeks is questionable. The NASDAQ is now lagging. Tapering has begun, and the pace could be increased at the next Fed meeting. The Hindenburg Omen cluster that triggered a couple of weeks ago seemed to have great timing (which is a little unusual - it’s not often that great of a bearish timing indicator). And volatility has certainly increased, which increases risk. So it seems prudent to trade with an open mind, rather than a bullish bias. Therefore, that is my intention. I won’t trade aggressively on either side of the market, but will be open to trades in both directions.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

DIS – 1/3 @ \$144.90 (bought @ limit)

SPG – 1/3 @ \$152.84 (bought @ limit)

DIS – 1/3 @ \$142.15 (not filled – cancel for now)

SPG – 1/3 @ \$147.72 (not filled – cancel for now)

PYPL – 1/3 @ \$179.32 (not filled – cancel for now)

T – 1/3 @ \$22.23 (not filled – cancel for now)

New

BIIB – 1/3 @ \$223.92 (buy @ limit)

Broad Market Large Cap CBI – 7(DIS-2, SPG-2, PYPL, T, BIIB)

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.

BIIB – Buy 1/3 Catapult position @ \$223.92 LIMIT. From the Catapult section above, this is the 1st of up to 3 lots of BIIB.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/23/2021	\$467.22	\$453.42	-2.95%		sell on SPX close > 4556.03
SPY(1/4)	11/30/2021	\$455.56	\$453.42	-0.47%		see note below
DIS(1/3)	12/1/2021	\$144.90	\$146.22	0.91%		Catapult
SPG(1/3)	12/1/2021	\$152.84	\$149.19	-2.39%		Catapult

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