

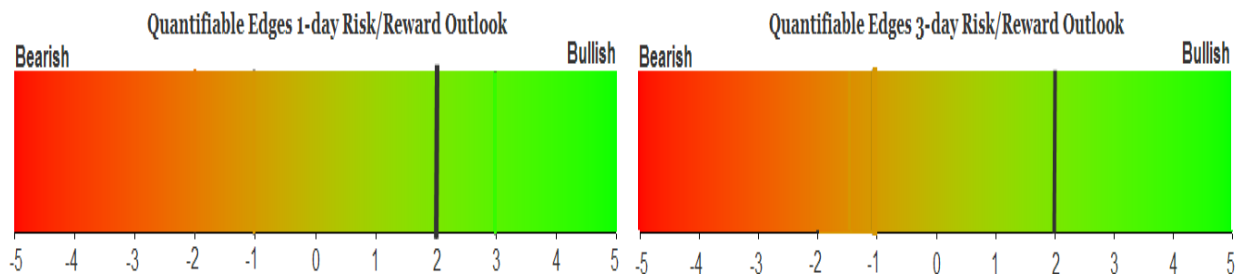
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 20, 2021

Volume 14 Issue 243

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.
- Another bullish seasonal study is set to kick in at the close on Tuesday.
- The SOMA is still increasing, but tightening is likely on the way.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. Evidence is a little weak, but the market is substantially oversold. I like 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
<b>Active - Short Term</b>						
December 20, 2021	Gap dn to 5 low. Close < open > 200ma	1-2 days	Bullish			
<b>Active - Long Term</b>						
December 13, 2021	Dec opex wk + 2 more weeks bullish	1-15 days	Bullish	3.30%	-1.80%	-4.00%
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			

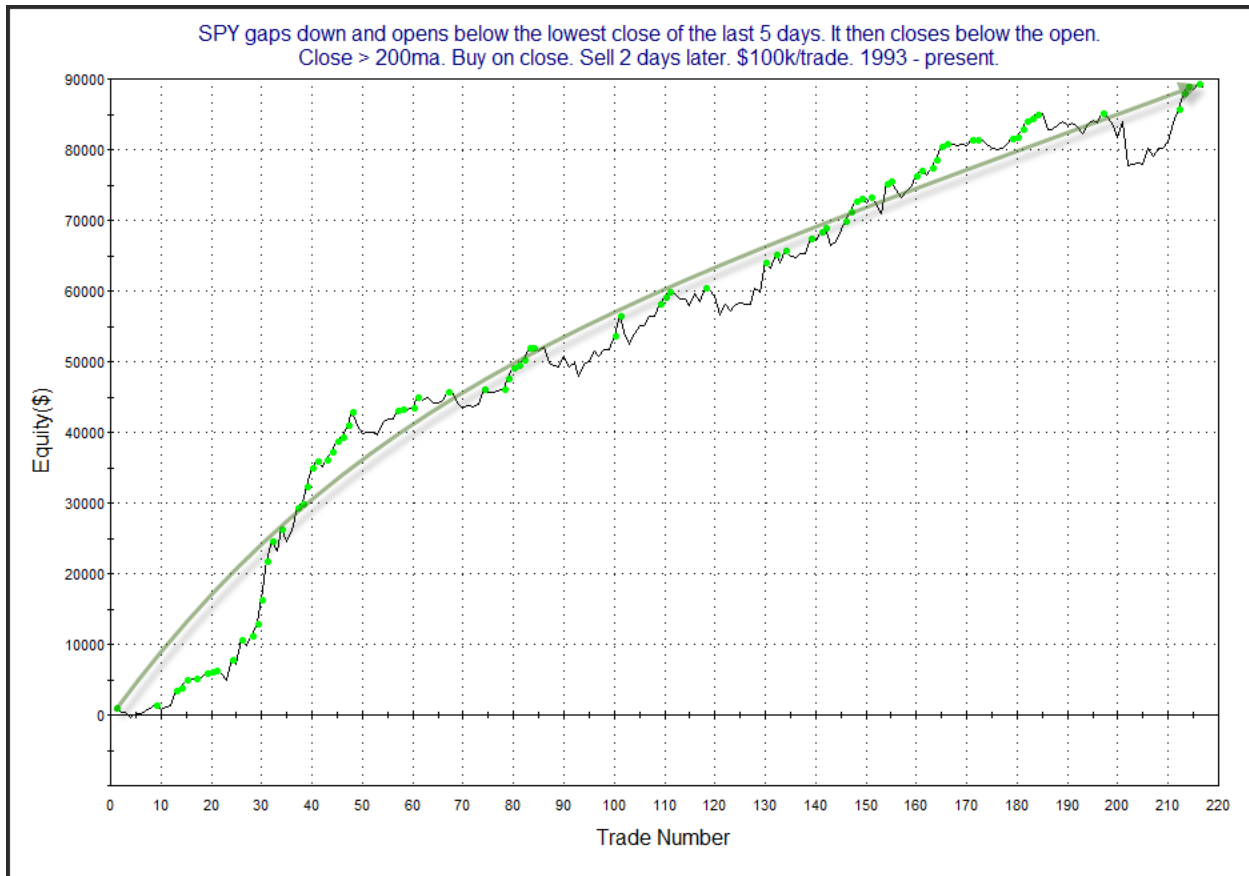
**The Evidence**

Friday was mixed but mostly lower. The SPX declined 1.0%, the NASDAQ closed down 0.1%, and the Russell 2000 rebounded from a morning selloff to finish up 1.0%. Breadth was negative with the NYSE Up Issues % coming in at 42% and the Up Volume % at 39%. NYSE total volume spiked higher as it often does on opex Friday.

The action did not trigger much. The study below is worth noting, though. It was last seen in the 8/19/21 letter. Stats and curves are updated.

SPY gaps down and opens below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. 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	152,871.68	162	104	58	64.20	9,282.24	-14,007.15	2,692.74	-2,192.64	1.23	2.20	943.65
9	154,515.55	170	109	61	64.12	8,378.28	-10,036.80	2,582.13	-2,080.93	1.24	2.22	908.91
8	148,221.23	172	117	54	68.02	8,537.40	-14,030.10	2,302.89	-2,244.76	1.03	2.22	861.75
7	124,650.68	181	117	64	64.64	8,324.13	-9,938.76	2,094.94	-1,882.14	1.11	2.03	688.68
6	136,702.74	185	124	61	67.03	7,873.02	-7,910.10	1,931.66	-1,685.63	1.15	2.33	738.93
5	125,227.98	186	125	60	67.20	8,239.74	-11,128.78	1,743.05	-1,544.22	1.13	2.35	673.27
4	111,848.33	195	131	64	67.18	5,581.02	-10,755.03	1,624.03	-1,576.55	1.03	2.11	573.58
3	96,037.57	204	125	78	61.27	5,117.85	-6,572.02	1,514.62	-1,196.03	1.27	2.03	470.77
2	88,605.69	217	137	77	63.13	5,477.88	-6,228.17	1,165.88	-923.63	1.26	2.25	408.32
1	59,111.69	236	154	82	65.25	5,764.38	-4,181.76	817.58	-814.58	1.00	1.88	250.47

You can see here a moderate upside edge suggested. Win/loss ratio, profit factor, and avg trade all look bullish. Below is the profit curve for the 2-day holding period.



I have decided to include this study on the Active List.

Seasonality this upcoming week 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 on 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	39,680.45	34	26	8	76.47	7,830.30	-4,698.12	2,353.70	-2,689.46	0.88	2.84	1,167.07
9	44,965.60	34	25	9	73.53	7,974.78	-3,644.64	2,530.64	-2,033.37	1.24	3.46	1,322.52
8	47,725.32	34	25	9	73.53	8,333.40	-2,782.08	2,313.95	-1,124.83	2.06	5.71	1,403.69
7	39,474.47	34	24	10	70.59	7,796.76	-1,580.04	2,003.92	-861.97	2.32	5.58	1,161.01
6	27,578.02	34	22	12	64.71	7,752.90	-1,768.23	1,726.46	-867.01	1.99	3.65	811.12
5	32,777.65	34	27	7	79.41	7,247.22	-2,846.94	1,496.26	-1,088.78	1.37	5.30	964.05
4	24,826.79	34	24	10	70.59	5,070.22	-2,258.85	1,396.20	-868.20	1.61	3.86	730.20
3	21,469.81	34	25	9	73.53	4,592.40	-1,794.00	1,151.78	-813.86	1.42	3.93	631.47
2	13,535.17	34	25	9	73.53	3,257.17	-4,652.80	938.24	-1,102.31	0.85	2.36	398.09
1	9,375.47	34	25	9	73.53	2,523.24	-2,033.60	644.33	-748.09	0.86	2.39	275.75

32 of 34 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 (and we sure saw that on Friday). So let's examine some other indices. First let's look at the Russell 2000.

Buy Russell 2000 on 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	66,584.09	34	26	8	76.47	11,169.90	-6,361.44	3,444.35	-2,871.14	1.20	3.90	1,958.36
9	69,379.98	34	25	9	73.53	10,353.42	-5,973.50	3,525.64	-2,084.54	1.69	4.70	2,040.59
8	71,845.49	34	27	7	79.41	9,130.50	-2,948.40	3,008.37	-1,340.07	2.24	8.66	2,113.10
7	61,788.75	34	27	7	79.41	7,189.56	-2,529.09	2,607.55	-1,230.72	2.12	8.17	1,817.32
6	58,268.31	34	24	10	70.59	8,941.50	-1,300.32	2,647.61	-527.43	5.02	12.05	1,713.77
5	50,642.42	34	26	8	76.47	11,299.50	-2,385.63	2,173.69	-734.18	2.96	9.62	1,489.48
4	33,914.62	34	24	10	70.59	7,987.50	-1,845.90	1,777.92	-875.55	2.03	4.87	997.49
3	32,688.21	34	29	5	85.29	5,136.75	-1,591.20	1,228.26	-586.29	2.09	12.15	961.42
2	22,134.63	34	25	9	73.53	4,317.75	-4,431.00	1,211.85	-906.84	1.34	3.71	651.02
1	12,553.71	34	26	8	76.47	2,299.70	-2,543.25	724.45	-785.26	0.92	3.00	369.23

All 34 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 on 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	79,004.18	34	28	6	82.35	12,374.58	-5,921.92	3,496.08	-3,147.70	1.11	5.18	2,323.65
9	80,643.58	34	27	7	79.41	11,558.04	-5,039.77	3,536.94	-2,121.99	1.67	6.43	2,371.87
8	82,600.64	34	29	5	85.29	11,915.40	-3,773.60	3,176.93	-1,906.05	1.67	9.67	2,429.43
7	52,843.90	34	23	11	67.65	9,428.34	-2,577.00	2,828.81	-1,110.79	2.55	5.32	1,554.23
6	47,162.36	34	26	8	76.47	9,407.88	-2,010.42	2,134.00	-1,040.22	2.05	6.67	1,387.13
5	46,033.48	34	24	10	70.59	9,436.56	-2,882.56	2,227.46	-742.55	3.00	7.20	1,353.93
4	36,401.74	34	24	10	70.59	8,665.86	-2,063.36	1,796.35	-671.06	2.68	6.42	1,070.64
3	33,526.89	34	26	8	76.47	6,748.14	-1,927.36	1,484.64	-634.21	2.34	7.61	986.08
2	23,982.46	34	24	10	70.59	7,726.74	-5,032.35	1,426.92	-1,026.36	1.39	3.34	705.37
1	12,165.05	34	25	9	73.53	2,423.79	-2,931.30	814.68	-911.33	0.89	2.48	357.80

**Since its inception in 1971, 1986 was the only year the NASDAQ failed to close above its entry price at some point in the next week.**

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.

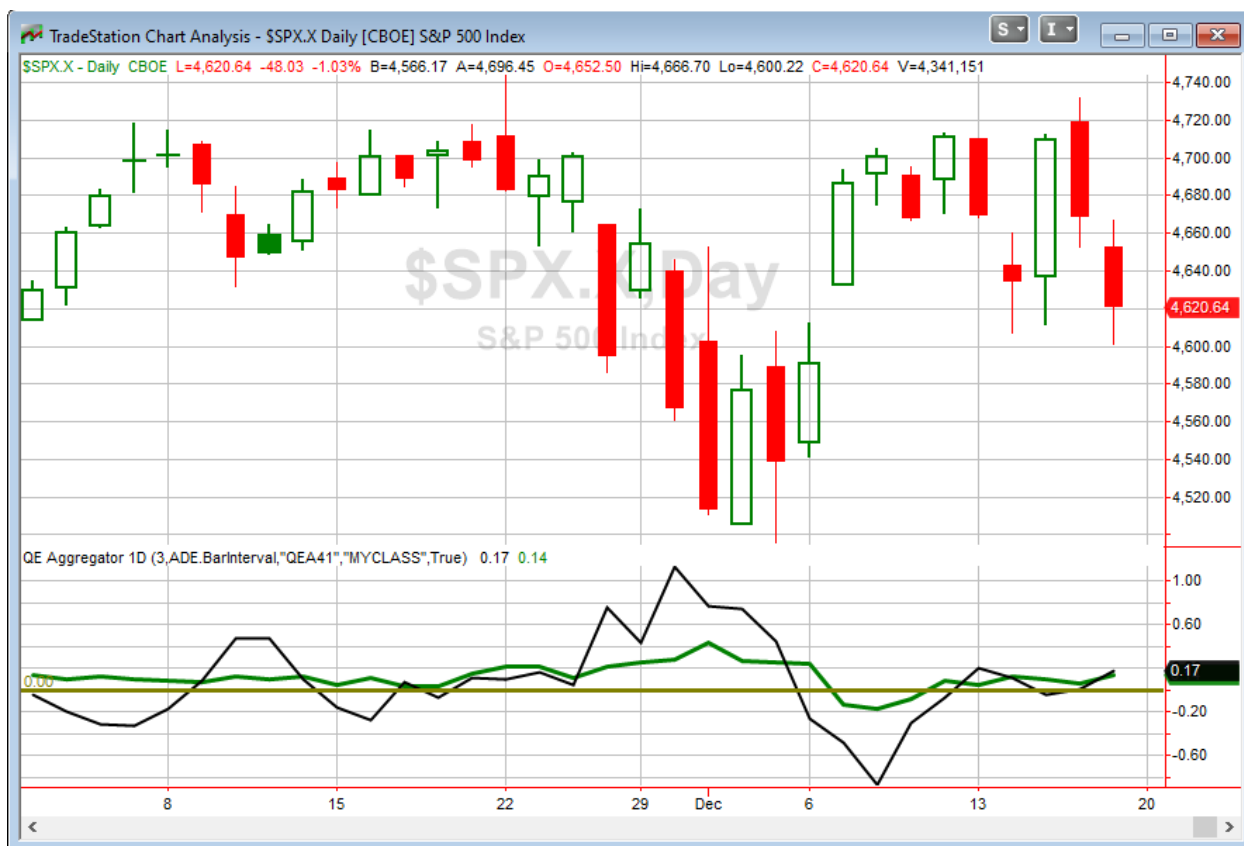
Lastly, let's look at the NDX.

Buy NDX on 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	79,732.02	34	27	7	79.41	14,814.54	-5,954.34	3,781.98	-3,197.36	1.18	4.56	2,345.06
9	85,225.93	34	26	8	76.47	13,885.04	-5,095.68	3,972.94	-2,258.80	1.76	5.72	2,506.64
8	89,462.78	34	27	7	79.41	14,312.70	-3,052.33	3,712.93	-1,540.90	2.41	9.29	2,631.26
7	57,053.94	34	23	11	67.65	12,691.90	-3,669.30	3,079.42	-1,252.07	2.46	5.14	1,678.06
6	42,969.69	34	24	10	70.59	11,843.52	-2,893.94	2,346.00	-1,333.44	1.76	4.22	1,263.81
5	51,206.50	34	24	10	70.59	11,443.50	-3,226.03	2,589.88	-1,095.07	2.37	5.68	1,506.07
4	41,552.37	34	24	10	70.59	11,245.05	-2,242.57	2,125.24	-945.35	2.25	5.40	1,222.13
3	36,681.22	34	24	10	70.59	8,742.60	-2,203.20	1,913.97	-925.40	2.07	4.96	1,078.86
2	26,402.02	34	23	11	67.65	10,167.30	-5,501.44	1,735.72	-1,229.04	1.41	2.95	776.53
1	14,766.88	34	24	10	70.59	2,863.84	-3,146.24	1,041.49	-1,022.90	1.02	2.44	434.32

**32 of 34 instances (94%) closed above the entry price at some point in the next week.**





With tonight's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line also held 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 (and upcoming) studies on the active list, expectations are scheduled to remain positive on Monday. This could change if compelling new bearish evidence were to emerge. Meanwhile, the Differential Pivot will be 4720.94 on Monday. That is 2.2% above Friday's close. Therefore, Monday would have to be a huge rally day in order for SPX to flip from oversold to overbought versus recent expectations. More likely, it will take a multi-day bounce or consolidation to work off the oversold condition.

So the Aggregator is bullish. But there is not yet a lot of evidence pointing to a bounce. The market remains volatile and subject to wild swings based on news. Seasonality is strong and getting stronger in a few days. There is plenty of room to the upside before the market would flip to overbought. I am interested in taking on a small amount of long exposure here, but only if I can

get a favorable fill on Monday. NDX is more deeply oversold, and looks like it could benefit more from the upcoming seasonal strength. So I will look to scale into an index position on Monday using QQQ if there is a decent sized gap down at the open, or a weak close. (I won't be an intraday buyer on a gap up and retracement.) If I don't get filled, I will examine evidence again Monday night, and perhaps look to get long on Tuesday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/20 – somewhat bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Flat</b>

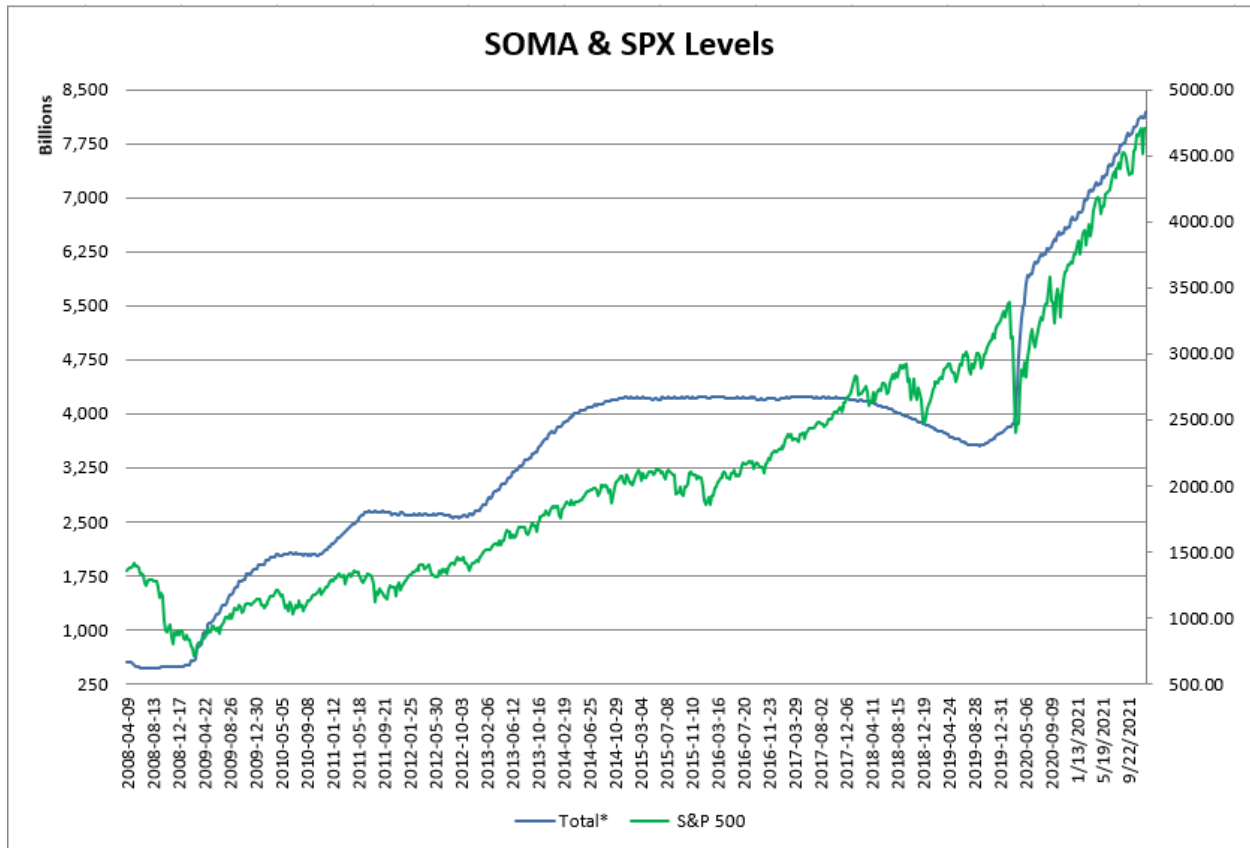
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo Systems.*

It was a down week for the market. The SPX fell 1.9%, the NASDAQ tumbled 2.95%, and the Russell 2000 lost 1.7%. The SPX and NASDAQ still appear to be holding onto their uptrends. The Russell's trend is precarious. It came very close to breaking down to the lowest closing level since January on Friday, before staging a decent rebound. If it breaks below recent lows, that would put it in a downtrending position.

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	<b>December 15, 2021</b> 📅 <i>Posted December 16, 2021 at 4:30 P.M</i>
<a href="#">SUMMARY</a>   <a href="#">T-BILLS</a>   <a href="#">T-NOTES AND T-BONDS</a>   <a href="#">FRNS</a>   <a href="#">TIPS</a>   <a href="#">AGENCY DEBTS</a>   <a href="#">MBS</a>   <a href="#">CMBS</a>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,836,985,594.8
US Treasury Floating Rate Notes (FRNs)	24,321,178.7
US Treasury Inflation-Protected Securities (TIPS)*	380,799,830.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,618,842,675.6
Agency Commercial Mortgage-Backed Securities***	9,287,350.5
Total SOMA Holdings	8,198,627,630.3
Change From Prior Week	90,488,566.8

This past week saw the SOMA rise by a very large \$90.5 billion. That is typical for what we would expect at this time of the month with the current QE schedule. It is also likely the biggest number we will see for a very long time. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, but the expansion is now slowing, and the Fed announced on Wednesday that the pace of tapering is going to accelerate starting in January. QE4 will likely be over in March. Additionally, we are looking at a strong likelihood of 3-4 interest rate increases in 2022 to combat inflationary pressures. The Fed has been working to stimulate the economy for a long time now, and that has greatly benefitted the stock market. That is still the case. But they are now planning to reverse that in the coming months and try and slow the economy to dampen inflation. Without the support of the Fed, the market will be faced with challenges in 2022. This could certainly lead to more volatility and perhaps some more substantial market declines than we have seen in the last year and a half.

We still have more intermediate-term evidence pointing upwards for the time being. Seasonality is a positive. The SPX remains in an uptrend, and the study from last weekend remains in force as well. We still also are in the “Best 6 months”. The bears do have hope, though. The NASDAQ is still lagging. Tapering has begun, and the pace is now increasing. The Hindenburg Omen cluster that triggered a few weeks ago saw some additional signal days this past week. And volatility has certainly increased, which increases risk. So while I am still leaning slightly bullish, that may only be until the end of the year.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult 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.*

**QQQ – Buy ¼ index position @ \$384.00 LIMIT ON OPEN. If not filled on open, cancel order and look to fill at \$384.90 LIMIT ON CLOSE.** Based on the short-term section above, I will look to start scaling into a QQQ index position if I can get a favorable fill on Monday.

## **Current Open Trade Ideas**

**None**

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