

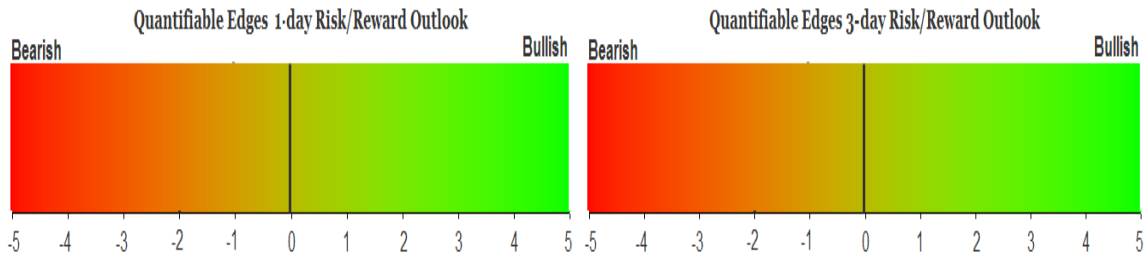
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2018

Volume 11 Issue 106

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- SPY's unfilled up-gap and new 50-day high suggest a bullish edge.
- Friday's lower volume in conjunction with the 50-day high close is also encouraging.
- SOMA declined and is likely to continue to act as a headwind, though there may be a bit of a reprieve the week of 6/7 – 6/13.

Short-term Outlook

The Bottom Line

Evidence suggests we could see a further rally over the next several days, but with the market a bit extended, reward/risk is not great. A pullback early in the week could provide a buying opportunity.

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 | | | | | | |
| June 4, 2018 | SPX 50-day breakout with lower volume | 1-5 days | Bullish | | | |
| June 4, 2018 | SPY 50-day breakout w/ unfilled gap | 1-5 days | Bullish | | | |
| June 1, 2018 | Weak close < 10ma > 200 up mnth. EOM | 1-2 days | Bullish | | | |
| May 29, 2018 | 1st close < 10ma in 15+ days | 1-5 days | Bullish | 1.40% | -1.00% | -2.40% |
| Active - Long Term | | | | | | |
| May 7, 2018 | NASDAQ leading | int term | Bullish | | | |
| April 2, 2018 | SOMA reduction intensifies to \$30billion | int term | Bearish | | | |
| February 15, 2018 | FTD with moderate breadth & volume | int term | Bearish | | | |
| January 8, 2018 | 1st 4 days of year close higher | 1-250 days | Bullish | 15.90% | -5.70% | -11.10% |
| April 26, 2016 | Golden Cross | int term | Bullish | | | |
| July 22, 2013 | New High Divergence (Study of Tops) | int term | Bearish | | | |

The Evidence

Friday was a rally day for the market. The SPX gained 1.1%, the NASDAQ rose 1.5% and the Russell 2000 climbed 0.9%. Breadth was weak as the NYSE Up Issues % was 65% and the Up Volume % came in at 71%. NYSE volume came in well shy of Thursday’s level.

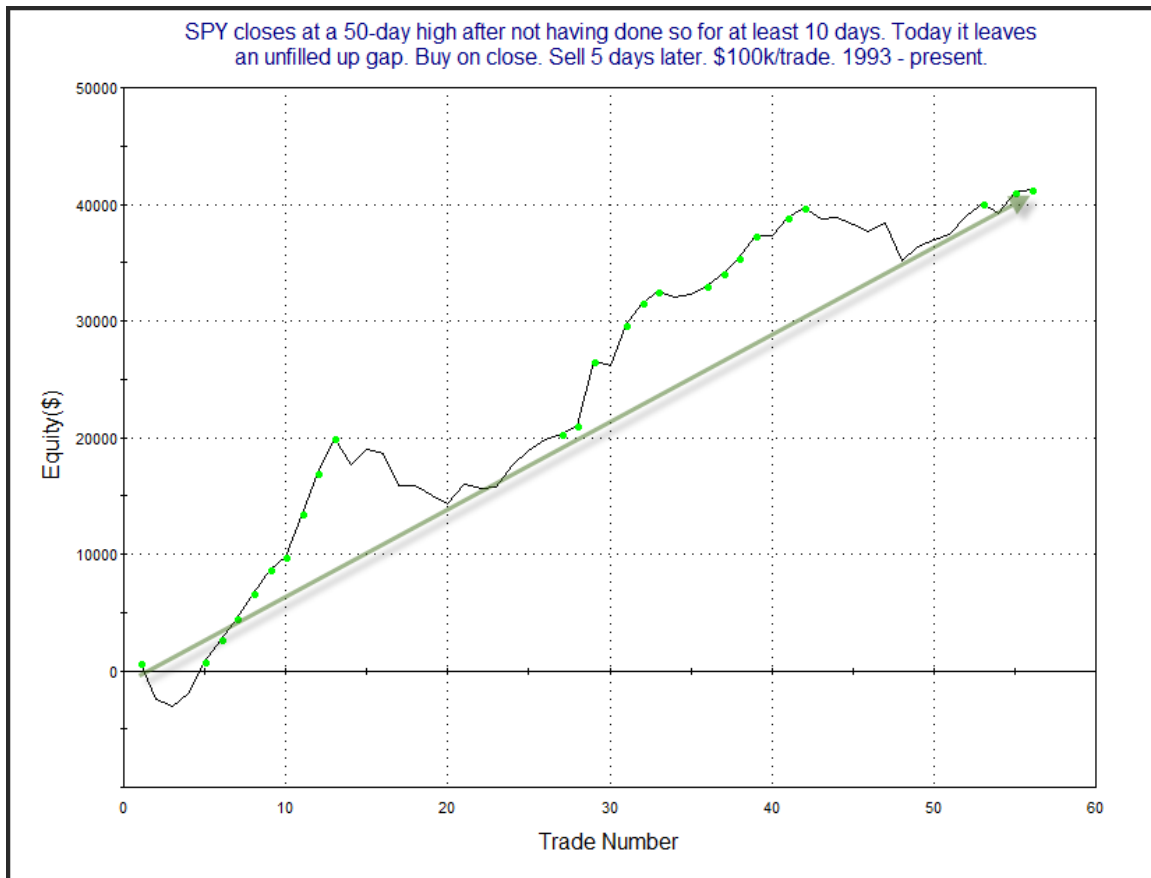
SPX closed at a 50-day high for the 1st time since January 26th. I’ll note that it did not make a 50-day intraday high. But many studies simply view a fresh 50-day closing high after an extended period without one as a “breakout day”. This was the case on Friday.

Breakout days often give clues as to whether we are likely to see additional follow through. Breadth, volume, and whether the market is posting an unfilled gap are three indications we often examine. The unfilled gap up provided a substantial hint on Friday. In the 9/12/17 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

| SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 5 | 41,238.94 | 56 | 39 | 17 | 69.64 | 1,520.27 | 5,434.00 | -1,061.86 | -3,218.88 | 1.43 | 3.28 | 736.41 |
| 4 | 27,300.78 | 56 | 38 | 18 | 67.86 | 1,195.66 | 3,637.92 | -1,007.47 | -3,267.84 | 1.19 | 2.51 | 487.51 |
| 3 | 21,601.37 | 56 | 38 | 18 | 67.86 | 1,027.54 | 3,992.56 | -969.17 | -2,538.18 | 1.06 | 2.24 | 385.74 |
| 2 | 17,944.63 | 56 | 38 | 18 | 67.86 | 761.43 | 2,545.92 | -610.55 | -2,293.20 | 1.25 | 2.63 | 320.44 |
| 1 | 7,189.62 | 56 | 39 | 17 | 69.64 | 466.06 | 1,816.10 | -646.28 | -2,591.68 | 0.72 | 1.65 | 128.39 |

50 of 56 instances (89%) closed above the entry price at some point in the next week.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 9/12/17 letter and has been updated.

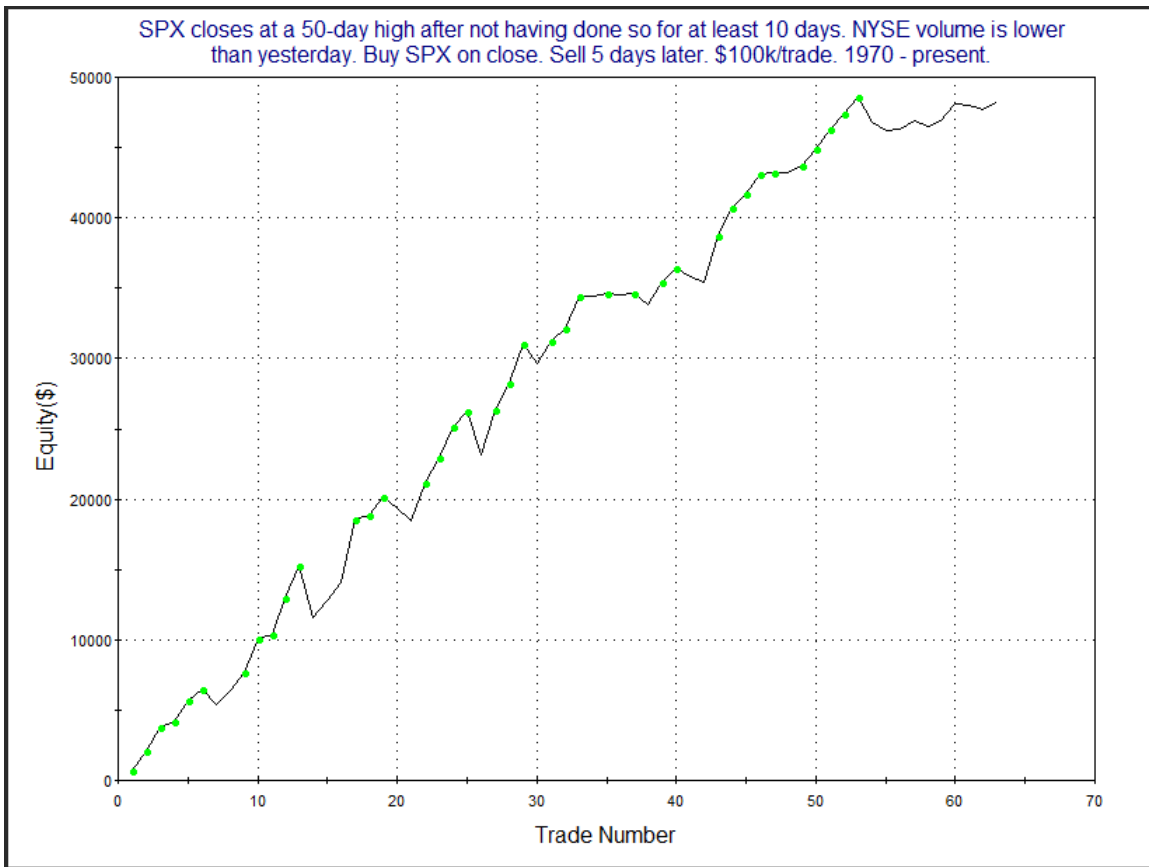
| SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1993 - present. | | | | | | | | | | | | |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 5 | 3,422.69 | 45 | 27 | 18 | 60.00 | 1,018.49 | 2,671.20 | -1,337.58 | -4,285.26 | 0.76 | 1.14 | 76.06 |
| 4 | 604.96 | 45 | 26 | 19 | 57.78 | 979.18 | 2,072.07 | -1,308.09 | -4,518.34 | 0.75 | 1.02 | 13.44 |
| 3 | 4,607.09 | 45 | 27 | 18 | 60.00 | 994.33 | 2,927.90 | -1,235.54 | -5,133.72 | 0.80 | 1.21 | 102.38 |
| 2 | -2,131.58 | 45 | 23 | 22 | 51.11 | 641.90 | 2,324.90 | -767.97 | -3,640.86 | 0.84 | 0.87 | -47.37 |
| 1 | 2,202.16 | 45 | 24 | 21 | 53.33 | 477.52 | 1,586.97 | -440.88 | -2,448.72 | 1.08 | 1.24 | 48.94 |

Moves to new highs that don't start with an unfilled gap are much less reliable.

I mentioned volume can sometimes give clues on breakouts. Friday's volume is encouraging. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before (like Friday), or 2) extremely high. Moderate but increasing volume is the worst scenario. To see why I say this, take a look at the 3 studies below, which were seen in the 6/3/16 letter. The first one examines new breakouts that occur on declining volume.

| SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 20 | 34,691.91 | 59 | 34 | 25 | 57.63 | 2,550.51 | 11,185.16 | -2,081.01 | -8,157.10 | 1.23 | 1.67 | 588.00 |
| 19 | 34,447.18 | 60 | 35 | 25 | 58.33 | 2,446.28 | 11,088.84 | -2,046.90 | -9,056.82 | 1.20 | 1.67 | 574.12 |
| 18 | 34,093.68 | 60 | 38 | 22 | 63.33 | 2,266.19 | 9,628.99 | -2,364.61 | -9,094.80 | 0.96 | 1.66 | 568.23 |
| 17 | 35,117.41 | 60 | 38 | 22 | 63.33 | 2,365.01 | 11,076.80 | -2,488.78 | -8,682.96 | 0.95 | 1.64 | 585.29 |
| 16 | 36,640.86 | 60 | 39 | 21 | 65.00 | 2,276.64 | 10,017.28 | -2,483.24 | -9,243.81 | 0.92 | 1.70 | 610.68 |
| 15 | 34,131.48 | 60 | 40 | 20 | 66.67 | 2,156.58 | 10,944.36 | -2,606.59 | -9,354.92 | 0.83 | 1.65 | 568.86 |
| 14 | 36,965.86 | 62 | 43 | 19 | 69.35 | 1,913.12 | 8,166.13 | -2,384.13 | -6,525.68 | 0.80 | 1.82 | 596.22 |
| 13 | 36,294.29 | 63 | 41 | 22 | 65.08 | 1,891.55 | 7,314.30 | -1,875.42 | -5,160.09 | 1.01 | 1.88 | 576.10 |
| 12 | 23,887.48 | 63 | 35 | 28 | 55.56 | 1,965.38 | 7,780.85 | -1,603.60 | -4,539.14 | 1.23 | 1.53 | 379.17 |
| 11 | 16,716.39 | 63 | 33 | 30 | 52.38 | 1,873.89 | 5,809.60 | -1,504.06 | -6,029.07 | 1.25 | 1.37 | 265.34 |
| 10 | 17,727.00 | 63 | 32 | 31 | 50.79 | 1,898.91 | 5,960.00 | -1,388.33 | -4,324.52 | 1.37 | 1.41 | 281.38 |
| 9 | 23,496.40 | 63 | 40 | 23 | 63.49 | 1,527.03 | 5,147.20 | -1,634.13 | -5,812.26 | 0.93 | 1.63 | 372.96 |
| 8 | 30,034.72 | 63 | 43 | 20 | 68.25 | 1,408.48 | 5,096.00 | -1,526.51 | -4,186.55 | 0.92 | 1.98 | 476.74 |
| 7 | 33,070.99 | 63 | 41 | 22 | 65.08 | 1,357.26 | 4,655.00 | -1,026.21 | -3,211.35 | 1.32 | 2.46 | 524.94 |
| 6 | 46,147.25 | 63 | 44 | 19 | 69.84 | 1,372.73 | 5,002.50 | -750.14 | -3,563.65 | 1.83 | 4.24 | 732.50 |
| 5 | 48,214.44 | 63 | 46 | 17 | 73.02 | 1,398.66 | 4,482.50 | -948.47 | -3,693.73 | 1.47 | 3.99 | 765.31 |
| 4 | 32,365.96 | 63 | 44 | 19 | 69.84 | 1,165.00 | 4,440.00 | -994.43 | -2,913.85 | 1.17 | 2.71 | 513.75 |
| 3 | 32,227.36 | 63 | 43 | 20 | 68.25 | 1,087.35 | 3,950.00 | -726.44 | -1,802.37 | 1.50 | 3.22 | 511.55 |
| 2 | 19,058.49 | 63 | 41 | 22 | 65.08 | 786.13 | 2,212.98 | -598.76 | -1,912.60 | 1.31 | 2.45 | 302.52 |
| 1 | 7,186.12 | 63 | 40 | 23 | 63.49 | 441.15 | 1,384.02 | -454.78 | -1,921.32 | 0.97 | 1.69 | 114.07 |

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Below is a look at a profit curve.



The move from lower left to upper right is encouraging, and suggests Friday's breakout is likely to see additional follow through this upcoming week. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 20 | 18,538.22 | 40 | 22 | 18 | 55.00 | 3,632.58 | 8,953.20 | -3,409.92 | -8,308.32 | 1.07 | 1.30 | 463.46 |
| 19 | 13,685.17 | 40 | 23 | 17 | 57.50 | 3,409.41 | 8,942.40 | -3,807.72 | -7,980.00 | 0.90 | 1.21 | 342.13 |
| 18 | 24,595.39 | 40 | 23 | 17 | 57.50 | 3,674.90 | 9,613.50 | -3,525.13 | -7,323.36 | 1.04 | 1.41 | 614.88 |
| 17 | 20,613.97 | 40 | 24 | 16 | 60.00 | 3,274.62 | 9,069.84 | -3,623.55 | -8,144.90 | 0.90 | 1.36 | 515.35 |
| 16 | 25,570.48 | 40 | 23 | 17 | 57.50 | 3,530.65 | 8,048.82 | -3,272.62 | -8,109.35 | 1.08 | 1.46 | 639.26 |
| 15 | 20,775.66 | 40 | 23 | 17 | 57.50 | 3,424.99 | 7,668.00 | -3,411.72 | -8,358.20 | 1.00 | 1.36 | 519.39 |
| 14 | 21,212.29 | 40 | 23 | 17 | 57.50 | 3,302.74 | 8,128.38 | -3,220.63 | -8,338.45 | 1.03 | 1.39 | 530.31 |
| 13 | 25,626.24 | 40 | 24 | 16 | 60.00 | 3,054.35 | 7,478.64 | -2,979.88 | -8,251.55 | 1.02 | 1.54 | 640.66 |
| 12 | 21,979.40 | 40 | 23 | 17 | 57.50 | 2,796.65 | 7,352.31 | -2,490.79 | -8,757.15 | 1.12 | 1.52 | 549.49 |
| 11 | 28,371.52 | 40 | 26 | 14 | 65.00 | 2,514.89 | 6,782.40 | -2,643.98 | -6,975.70 | 0.95 | 1.77 | 709.29 |
| 10 | 31,145.17 | 40 | 24 | 16 | 60.00 | 2,487.82 | 6,199.20 | -1,785.15 | -3,730.08 | 1.39 | 2.09 | 778.63 |
| 9 | 27,897.57 | 40 | 24 | 15 | 60.00 | 2,272.85 | 6,418.16 | -1,776.73 | -3,113.22 | 1.28 | 2.05 | 697.44 |
| 8 | 29,663.58 | 40 | 24 | 16 | 60.00 | 2,245.80 | 6,220.34 | -1,514.73 | -2,943.34 | 1.48 | 2.22 | 741.59 |
| 7 | 30,443.70 | 40 | 25 | 15 | 62.50 | 2,017.12 | 5,264.21 | -1,332.29 | -2,946.00 | 1.51 | 2.52 | 761.09 |
| 6 | 33,597.45 | 40 | 28 | 12 | 70.00 | 1,753.17 | 4,695.76 | -1,290.94 | -3,093.30 | 1.36 | 3.17 | 839.94 |
| 5 | 29,863.77 | 40 | 26 | 14 | 65.00 | 1,655.48 | 4,771.60 | -941.33 | -2,562.72 | 1.76 | 3.27 | 746.59 |
| 4 | 21,201.24 | 40 | 26 | 14 | 65.00 | 1,266.35 | 3,165.12 | -837.42 | -1,948.21 | 1.51 | 2.81 | 530.03 |
| 3 | 17,575.07 | 40 | 26 | 14 | 65.00 | 1,086.30 | 2,989.36 | -762.04 | -2,188.15 | 1.43 | 2.65 | 439.38 |
| 2 | 27,508.43 | 40 | 27 | 12 | 67.50 | 1,181.81 | 3,813.53 | -366.70 | -1,259.60 | 3.22 | 7.25 | 687.71 |
| 1 | 15,102.12 | 40 | 29 | 11 | 72.50 | 648.11 | 2,755.52 | -335.73 | -1,292.50 | 1.93 | 5.09 | 377.55 |

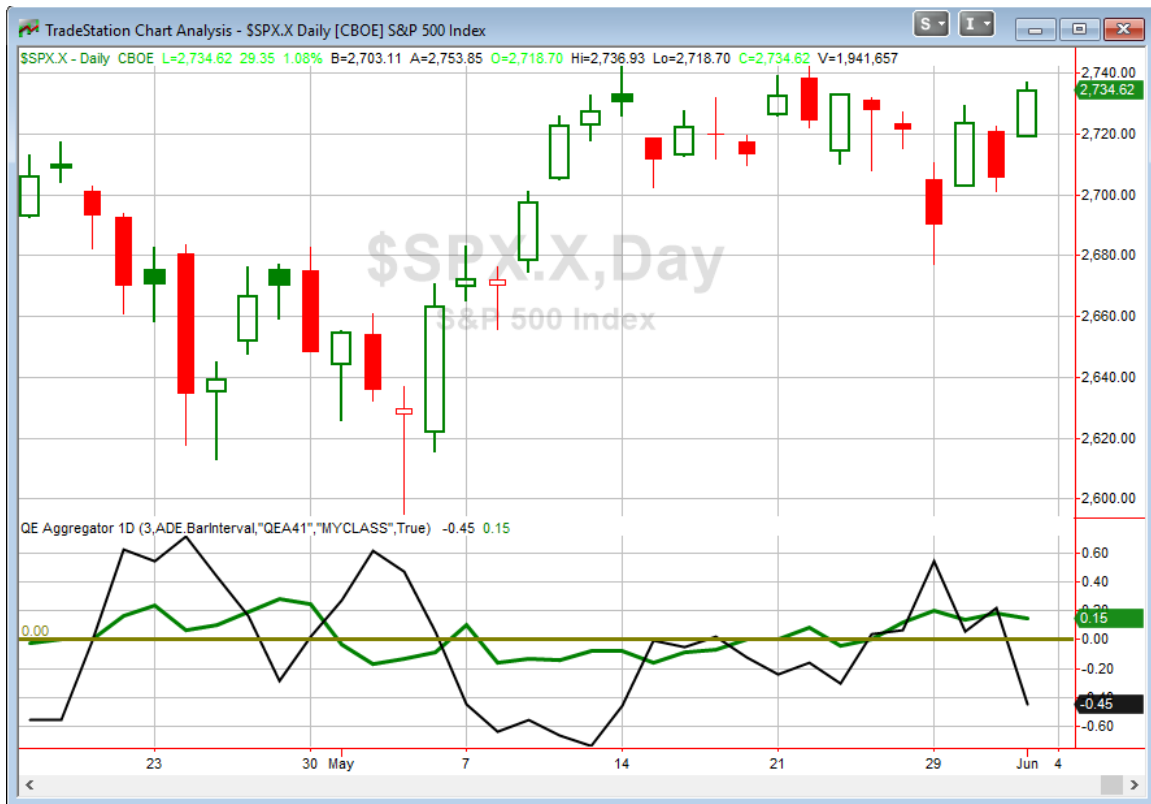
Numbers here are quite similar, with the first week getting solid follow-through buying once again. Lastly, let's look at rising but moderate volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday, but < a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 20 | 6,514.84 | 99 | 48 | 51 | 48.48 | 3,372.26 | 13,401.70 | -3,046.15 | -11,541.15 | 1.11 | 1.04 | 65.81 |
| 19 | 14,832.88 | 99 | 50 | 49 | 50.51 | 3,200.83 | 9,501.30 | -2,963.44 | -11,854.89 | 1.08 | 1.10 | 149.83 |
| 18 | 21,545.30 | 100 | 55 | 45 | 55.00 | 2,884.33 | 9,503.00 | -3,046.50 | -10,293.66 | 0.95 | 1.16 | 215.45 |
| 17 | 13,258.00 | 100 | 54 | 46 | 54.00 | 2,821.60 | 9,962.68 | -3,024.10 | -9,419.67 | 0.93 | 1.10 | 132.58 |
| 16 | 6,643.72 | 102 | 55 | 47 | 53.92 | 2,638.33 | 8,910.72 | -2,946.05 | -9,482.88 | 0.90 | 1.05 | 65.13 |
| 15 | 14,416.42 | 102 | 54 | 48 | 52.94 | 2,583.00 | 8,150.48 | -2,605.53 | -9,608.60 | 0.99 | 1.12 | 141.34 |
| 14 | 1,379.08 | 102 | 57 | 45 | 55.88 | 2,329.02 | 7,843.46 | -2,919.44 | -10,120.46 | 0.80 | 1.01 | 13.52 |
| 13 | 2,579.88 | 102 | 54 | 48 | 52.94 | 2,347.43 | 7,911.80 | -2,587.11 | -9,725.34 | 0.91 | 1.02 | 25.29 |
| 12 | -4,849.60 | 103 | 56 | 47 | 54.37 | 2,168.23 | 10,197.98 | -2,686.61 | -9,869.02 | 0.81 | 0.96 | -47.08 |
| 11 | -5,629.86 | 103 | 53 | 50 | 51.46 | 2,250.82 | 10,380.37 | -2,498.47 | -9,482.88 | 0.90 | 0.95 | -54.66 |
| 10 | -4,184.23 | 103 | 51 | 52 | 49.51 | 2,223.38 | 10,515.18 | -2,261.09 | -8,683.66 | 0.98 | 0.96 | -40.62 |
| 9 | -4,695.51 | 103 | 49 | 54 | 47.57 | 2,092.96 | 8,413.73 | -1,986.12 | -6,878.68 | 1.05 | 0.96 | -45.59 |
| 8 | -7,288.49 | 103 | 55 | 48 | 53.40 | 1,683.01 | 8,532.68 | -2,080.30 | -7,076.24 | 0.81 | 0.93 | -70.76 |
| 7 | 10,113.13 | 103 | 54 | 49 | 52.43 | 1,731.80 | 6,337.26 | -1,702.12 | -7,255.84 | 1.02 | 1.12 | 98.19 |
| 6 | 8,595.94 | 103 | 57 | 46 | 55.34 | 1,490.97 | 6,819.80 | -1,660.64 | -7,103.18 | 0.90 | 1.11 | 83.46 |
| 5 | 3,278.10 | 103 | 50 | 53 | 48.54 | 1,525.59 | 8,516.82 | -1,377.38 | -6,088.44 | 1.11 | 1.04 | 31.83 |
| 4 | -2,617.45 | 103 | 56 | 47 | 54.37 | 1,227.15 | 6,716.71 | -1,517.83 | -5,585.56 | 0.81 | 0.96 | -25.41 |
| 3 | 9,328.96 | 103 | 60 | 43 | 58.25 | 1,111.64 | 6,740.50 | -1,334.17 | -5,361.06 | 0.83 | 1.16 | 90.57 |
| 2 | 2,913.35 | 103 | 61 | 42 | 59.22 | 765.52 | 4,028.44 | -1,042.47 | -4,276.16 | 0.73 | 1.07 | 28.28 |
| 1 | 9,177.57 | 103 | 58 | 45 | 56.31 | 518.50 | 2,731.56 | -464.34 | -2,722.61 | 1.12 | 1.44 | 89.10 |

This does not appear to suggest any edge over the next 1-4 weeks. Of course the good news for bulls is that Friday's SPX move to a new closing high came on both 1) an unfilled gap up, and 2) declining volume. Both of which appear to be good signs.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove down below 0. The negative Differential Line reading means 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 0. Therefore, the Aggregator signal turned flat at the close.

With the current studies on the Active List, expectations are slated to remain bullish on Monday. It would take some extremely bearish new evidence in order to change this. The Differential Pivot will be *mildly inverted* at 2736.56 on Monday. That is about 0.1% above Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up about 0.1% in order to

remain overbought. Anything other than that and it will flip to “oversold” vs expectations on Monday.

So there certainly seem to be some positives associated with the SPX 50-day high close breakout. And it appears if the market can pause or pull back for a day or so that reward/risk may be improved. I am not of the opinion that the edge is strong enough to jump in here. Of course, I will also be closely monitoring any new evidence that emerges over the next few days. I do think a pullback early this week could serve as a buying opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/4– neutral

| Combo #1 | Combo #2 | Combo #3 |
|----------|----------|----------|
| Flat | Long | Long |

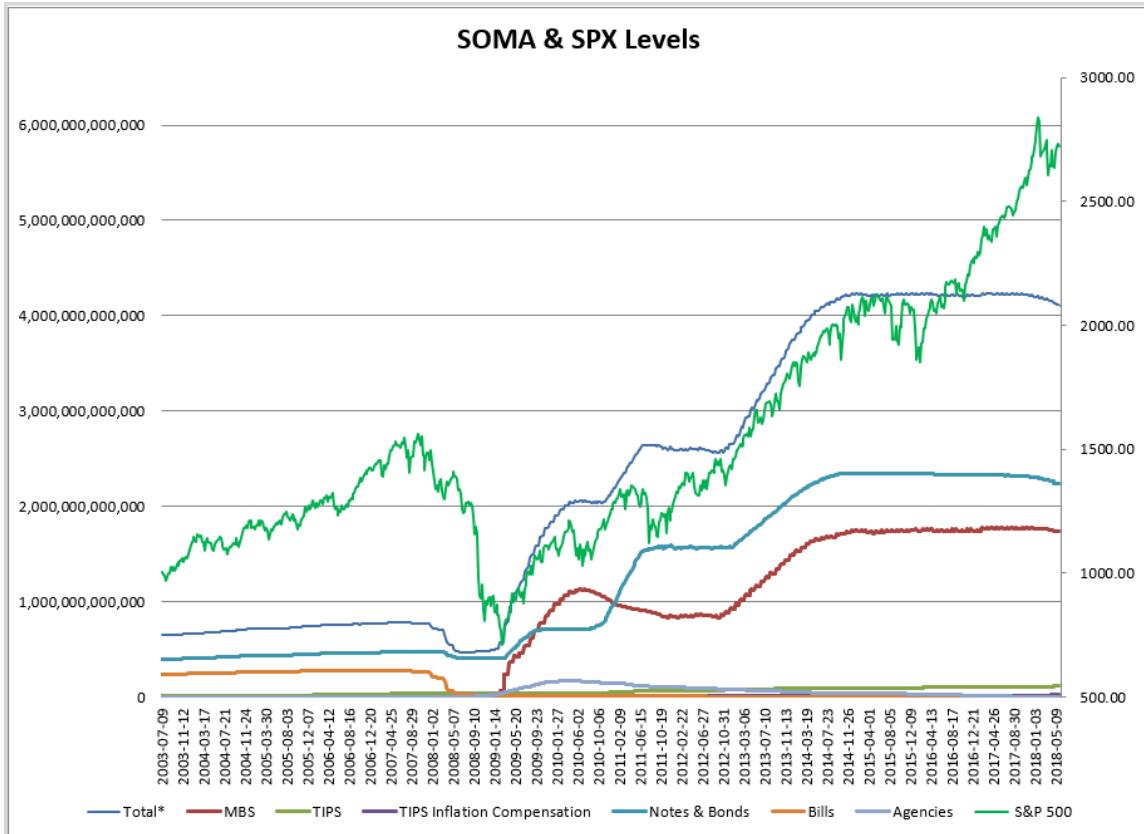
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo Systems. *There were no changes to the Combo Systems this week as #1 remained “flat” and #2 and #3 remained “long”.*

The market put in some gains this past week. The SPX rose 0.5% while the NASDAQ gained 1.6%. It is also notable that the Russell 2000 made new all-time highs on Wednesday. From an intermediate-term standpoint, there were no new compelling studies to emerge.

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.

In October 2017 the Fed began reducing the size of the SOMA by not reinvesting some maturities in MBS and treasuries. That program is expected to continue for the next few years. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



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

SECURITIES HOLDINGS AS OF
May 30, 2018

Summary T-Bills T-Notes and T-Bonds FRN TIPS Agencies

| Security Type | Total (in Thousands) |
|--|----------------------|
| US Treasury Bills (T-Bills) | |
| US Treasury Notes and Bonds (Notes/Bonds) | 2,235,625,555.9 |
| US Treasury Floating Rate Notes (FRN) | 17,816,385.9 |
| US Treasury Inflation-Protected Securities (TIPS)* | 112,949,233.8 |
| Federal Agency Securities** | 4,391,000.0 |
| Agency Mortgage-Backed Securities*** | 1,734,587,849.0 |
| Total SOMA Holdings | 4,105,370,024.6 |
| Change From Prior Week | -9,591,606.8 |

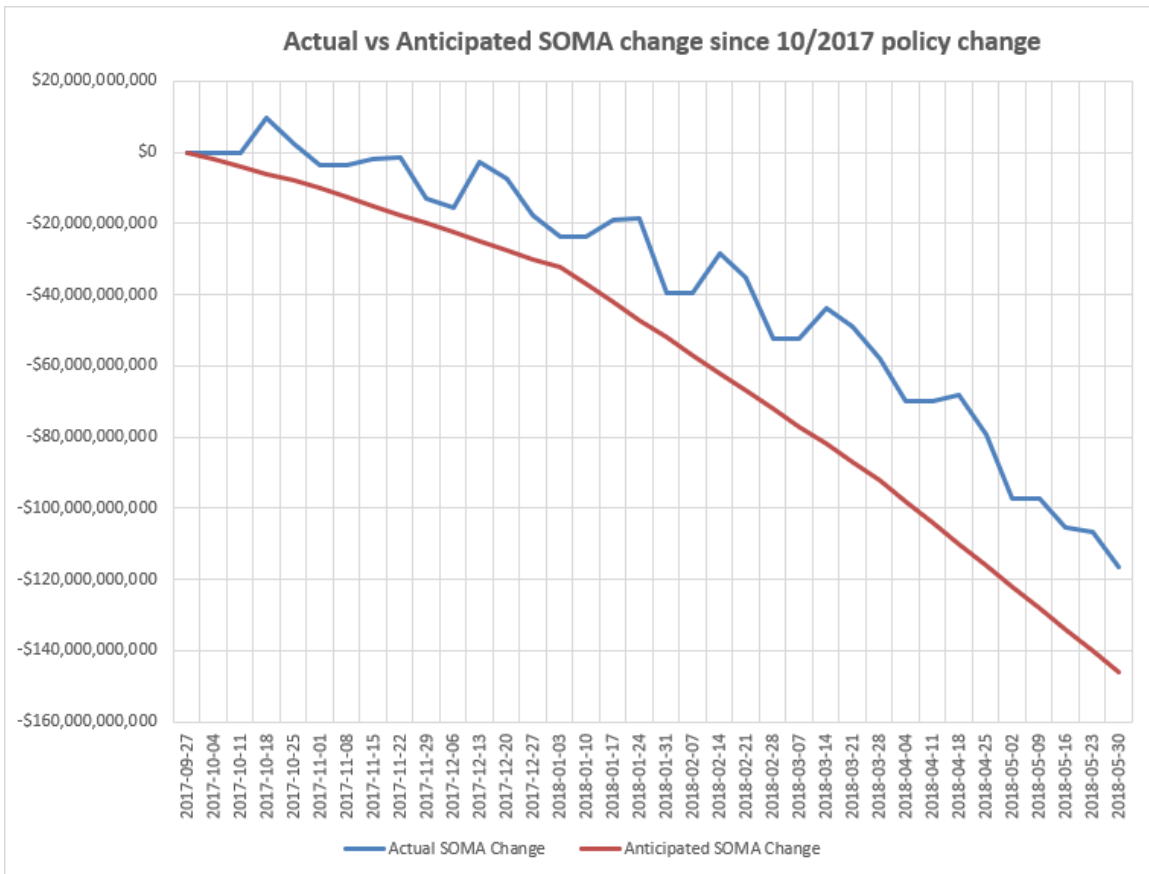
Entire reduction was from here. →

*Does not reflect inflation compensation of 20,711,440.1

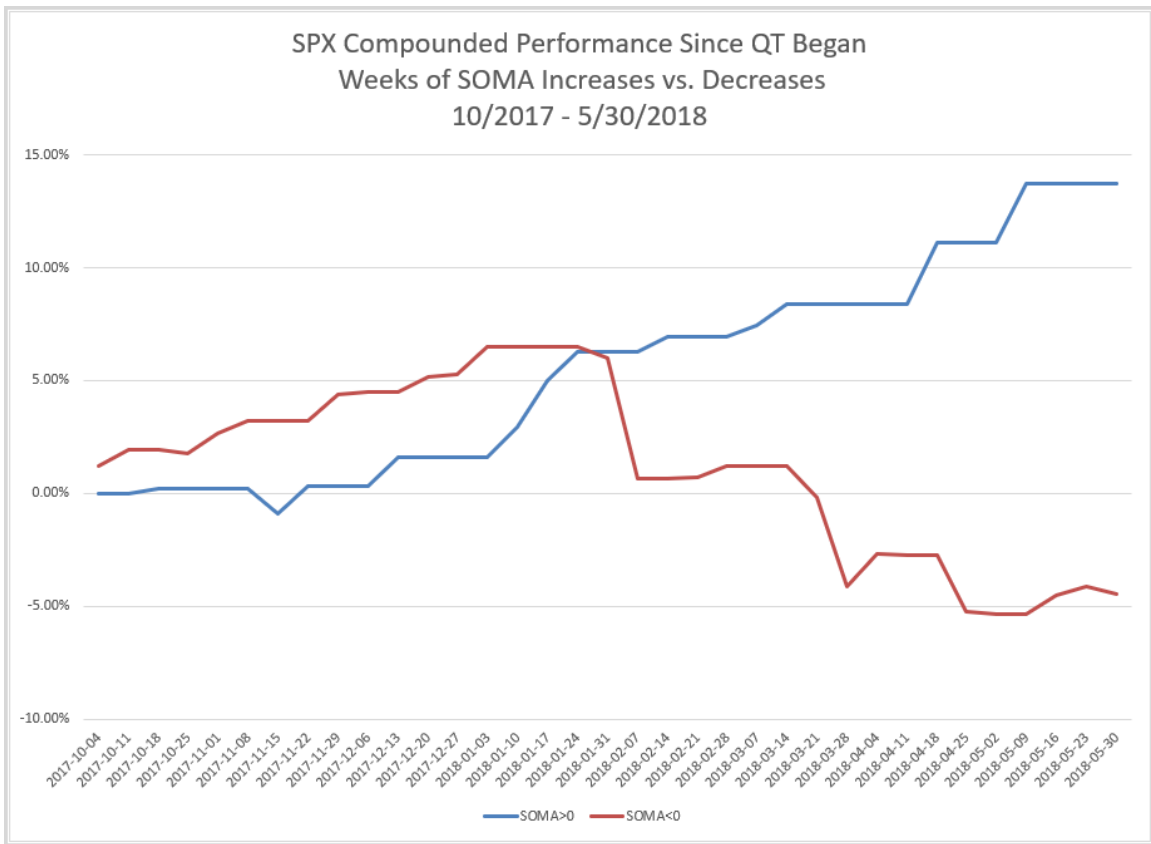
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

And now a zoomed-in view since October comparing expected reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline of \$9.6 billion, all of which occurred in the Agency Mortgage Backed Securities. This is a bit larger than I anticipated, but the AMBS timing is harder to project due to its lag in coming off the books. The "Actual vs Anticipated" chart simply shows that this is a somewhat steep overall decline when the monthly reduction is about \$30 billion/month. Over this same period the SPX put in a modest loss of 0.34%. An SPX decline during a week with sizable SOMA shrinkage should be no surprise to anyone that has read either the Fed-Based Quantifiable Edges for Stock Market Trading Research Paper, or this subscriber letter for any period of time. This next chart shows compounded results since Quantitative Tightening (QT) began in October 2017 of being long SPX during SOMA expansion weeks vs SOMA contraction weeks. It is updated from last week.



Expansion weeks have been positive on a fairly consistent basis, while reduction weeks have been choppy and net losers. So what is ahead for this upcoming week, ending 6/6? It appears to me that a large SOMA reduction is likely. This is because there were \$28.5 billion worth of treasuries that expired on 5/31, and the Fed appears as though it will not renew \$9 - \$10 billion of them. This can be seen in the table below.

| « As of 05/16/2018 | | SECURITIES HOLDINGS AS OF | | | | |
|--------------------|-----------|---------------------------|--------------------------|-------------------------------------|--|--|
| | | May 23, 2018 | | | | |
| Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies | |
| Maturity Date | CUSIP | Coupon (%) | Par Value (in Thousands) | % of Total Outstanding ¹ | Change in Par from Prior Week ² | Change in Par from Prior Year ² |
| 5/31/18 | 912828R51 | 0.875 | 6,630,728.3 | 20.32% | | |
| 5/31/18 | 912828VE7 | 1.000 | 1,409,000.0 | 4.03% | | |
| 5/31/18 | 912828QQ6 | 2.375 | 20,438,892.0 | 65.01% | | |
| 6/30/18 | 912828R93 | 0.625 | 3,792,895.4 | 12.73% | | |
| 6/30/18 | 912828VK3 | 1.375 | 10,861,000.0 | 31.03% | | |
| 6/30/18 | 912828QT0 | 2.375 | 15,799,639.4 | 52.78% | | |

The good news for the bulls is that after Wednesday, there may be a bit of a reprieve. The 6/7-6/13 week could potentially even see a rise in the SOMA balances, like it did during similar times of the month in December, February, and March. Despite the possible 1-week reprieve, the current Fed policy overall should continue to act as a headwind for the bulls and leave the market more prone to liquidity events and sharp selloffs.

Very little has changed in my intermediate-term view. The recent NASDAQ outperformance along with Golden Cross formation has led to solid gains in the past. So those are some things the bulls can point to. But Quantitative Tightening is a substantial bearish force, and long-term seasonal cycles like the “Best 6 Months” and the Presidential Cycle are currently unfavorable. I am keeping my outlook neutral. That means I am willing to take short-term trades in either direction, though I will be a bit more conservative with entries for both longs and shorts. Should the NASDAQ begin to lag again, or other short-term bearish evidence emerge, then I could easily turn outright bearish. The market so far in 2018 has been fairly volatile, and I expect the summer will bring more scares at some point.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

OpenCatapult 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.

None tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|--------|------------|-------------|---------------|-------------|------|-------------------------|
| EWZ | 5/30/2018 | \$35.33 | \$35.81 | 1.36% | | Sell on close > \$37.14 |
| | | | | | | |
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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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