

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2018

Volume 11 Issue 139

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Opex Friday mornings during uptrends have historically struggled.
- SOMA expanded for the week ending Wednesday. Some large declines are on tap in the next few weeks.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and I am too.

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						
None						
Active - Long Term						
July 10, 2018	SPX up 2% in 3 days. HV Off < 0.25	1-19 days	Bullish	4.20%	-2.20%	-4.80%
June 7, 2018	SPX > 50-day Bollinger Band	1-50 days	Bullish	5.00%	-4.10%	-7.80%
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			
Dropped Tonight						
July 18, 2018	Gap up close dn. Gap dn close 10-high	1-2 days	Bearish			

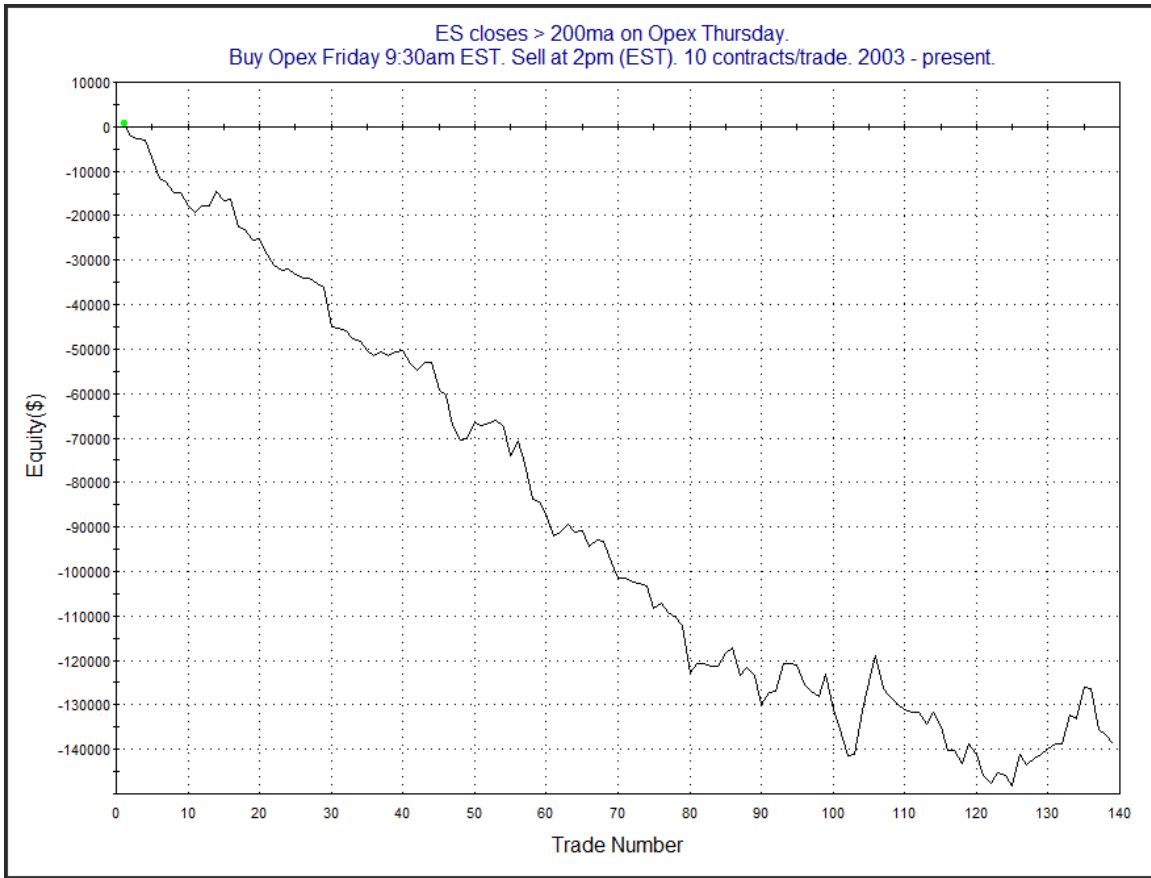
The Evidence

Thursday saw mixed action for the market. The SPX and NASDAQ each fell 0.4%, and the Russell 2000 rallied 0.6%. Breadth was also mixed as the NYSE Up Issues % was 60% and the Up Volume % came in at 46%. NYSE volume increased for the 4th day in a row.

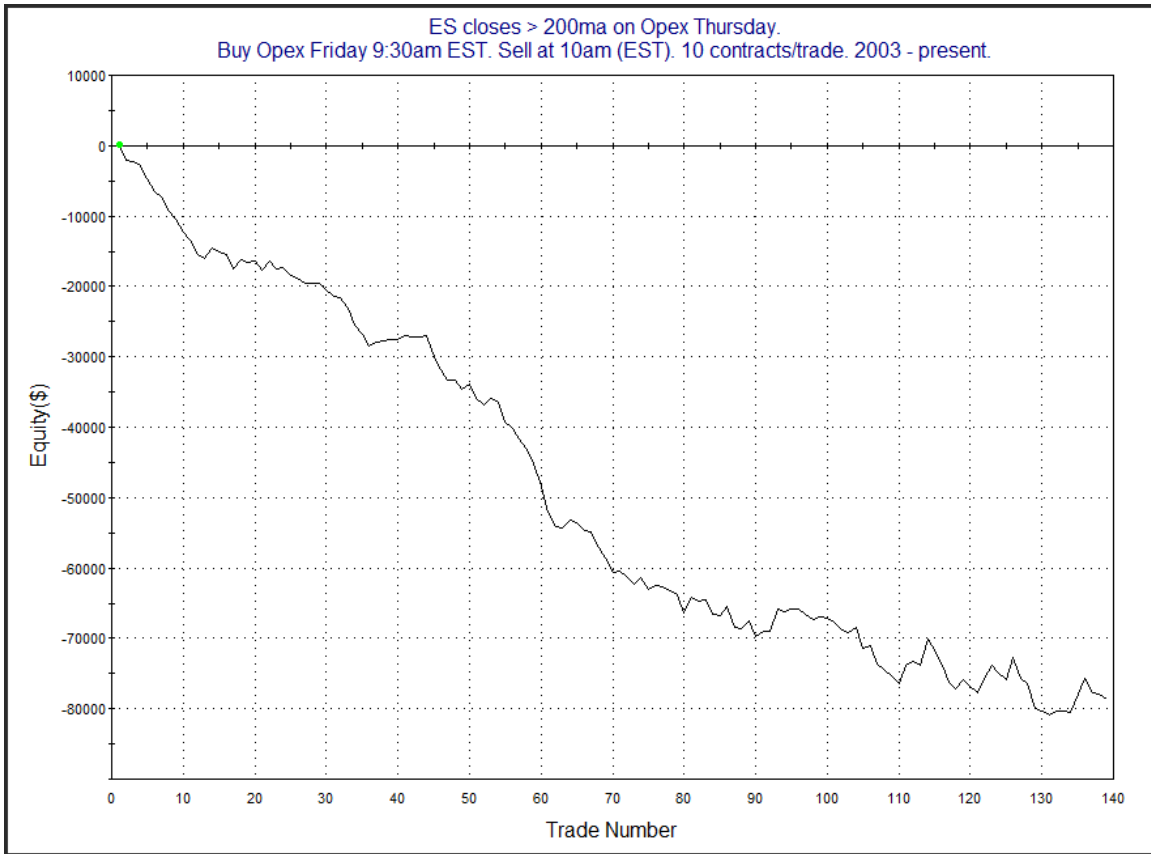
One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. This table is updated from the 6/15/18 letter.

ES closes > 200ma on Opex Thursday. Buy Opex Friday 9:30am EST. Sell at time shown on left (EST). 10 contracts/trade. 2003 - present.												
OE Op-Ex Fri Intra Short2: timeofday	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
1,600	-113,625.00	139	60	76	43.17	2,575.00	13,875.00	-3,527.96	-16,125.00	0.73	0.58	-817.45
1,500	-115,125.00	139	51	83	36.69	2,688.73	9,875.00	-3,039.16	-11,625.00	0.88	0.54	-828.24
1,400	-138,875.00	139	43	89	30.94	2,433.14	9,875.00	-2,735.96	-10,750.00	0.89	0.43	-999.10
1,300	-123,375.00	139	46	92	33.09	2,440.22	11,375.00	-2,561.14	-12,375.00	0.95	0.48	-887.59
1,200	-121,625.00	139	47	92	33.81	2,156.91	11,625.00	-2,423.91	-9,750.00	0.89	0.45	-875.00
1,100	-96,250.00	139	51	86	36.69	1,688.73	7,250.00	-2,120.64	-7,625.00	0.80	0.47	-692.45
1,000	-78,750.00	139	39	97	28.06	1,086.54	3,625.00	-1,248.71	-3,625.00	0.87	0.35	-566.55

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) The largest downside totals would have been achieved by exiting at 2pm. But as you can see below, over the last year or so, the downside tendency has not persisted.



But the change in character is not as evident when looking at the early morning and closing out at 10am. This can be seen below.



Despite the recent upturn, it still appears to me that caution seems warranted on the long side, especially during the early morning on Friday.

I will discuss the SOMA action and my upcoming outlook for it in detail in the weekend letter, but I thought I would report last week's numbers and update our expansion/contraction chart tonight.

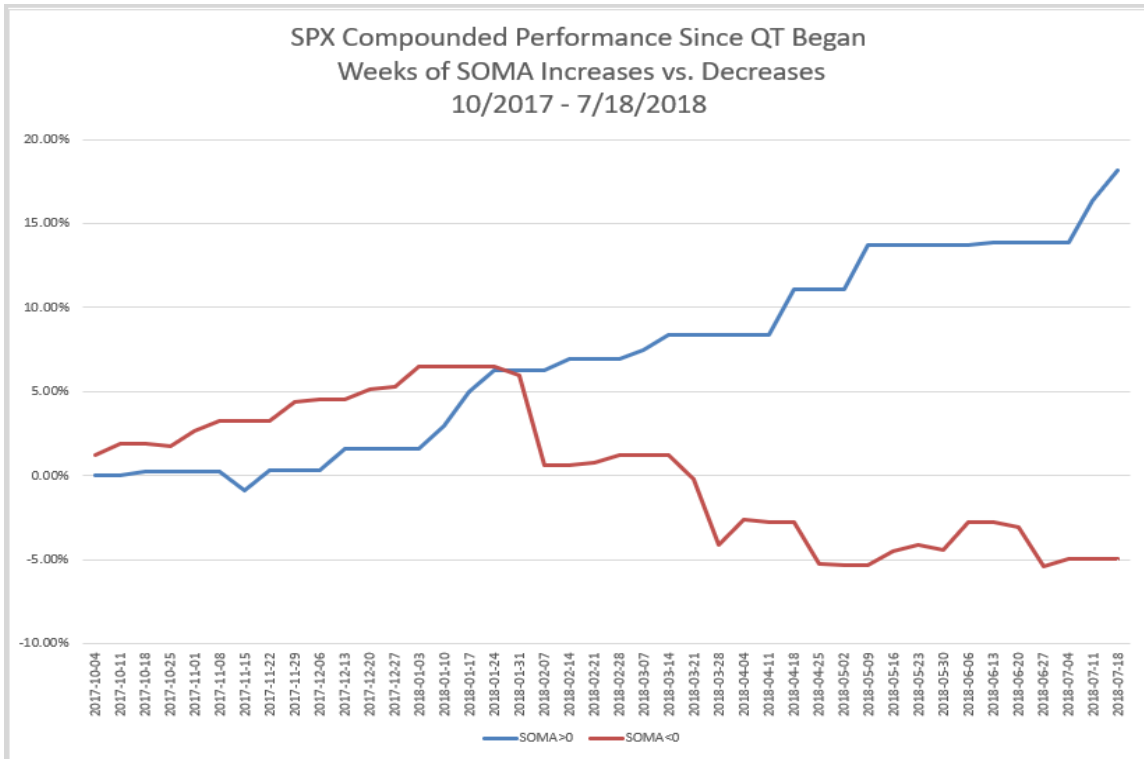
SECURITIES HOLDINGS AS OF
July 18, 2018

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)	2,206,612,595.2					
US Treasury Floating Rate Notes (FRN)	17,816,385.9					
US Treasury Inflation-Protected Securities (TIPS)*	113,886,063.8					
Federal Agency Securities**	2,409,000.0					
Agency Mortgage-Backed Securities***	1,722,291,124.0					
Total SOMA Holdings	4,063,015,168.9					
Change From Prior Week	310,127.0					

*Does not reflect inflation compensation of 21,451,039.9
 **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.

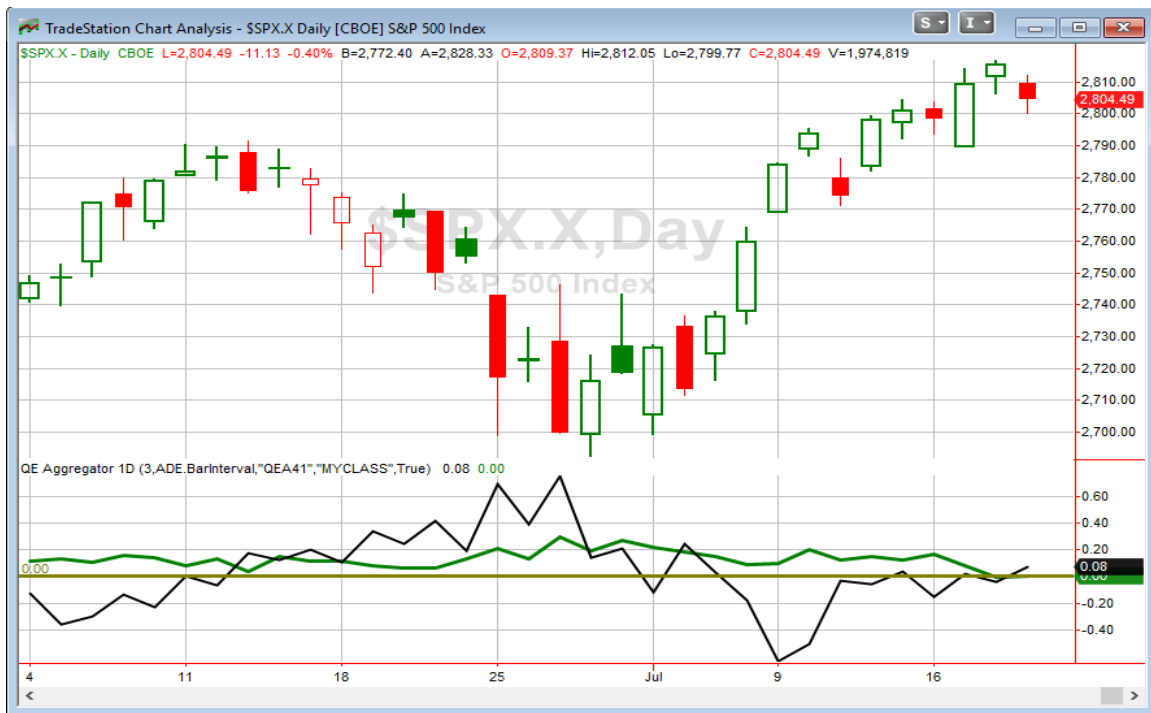
Data posted on 07/19/2018 4:30pm.

As I have been saying was likely, the SOMA did see an expansion this past week. It was fairly mild, but it was enough to allow the bulls to keep their expansion week hot streak intact.



The gap continues to widen here. As I will discuss in more detail over the weekend, I expect to see the blue line flatten for the next few weeks as we should see some sizable Quantitative Tightening (QT) numbers. The red line has struggled over time, and bulls will have to deal with a stronger headwind than they have faced up until this point over the next few weeks. It is possible that bullish momentum can overcome tight liquidity. But that seems like a very risky bet in my view.

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



With the last short-term studies expiring tonight the green Aggregator Line closed right at zero. (Though I could have shown it a little negative based on the expected SOMA flows and poor Opex-morning seasonality.) Flat readings mean net expectations from the Active List are neutral over the next few days. Meanwhile the black Differential Line moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of 0. Therefore, the Aggregator signal turned flat at the close.

With the Short-Term Active List barren, expectations are slated to remain flat on Friday. This could easily change if new evidence emerges. The Differential Pivot will be 2820.06

on Friday. That is 0.6% above Thursday's close. So SPX will need to close up at least 0.6% on Friday in order to flip from oversold to overbought versus expectations.

I am again not seeing a very compelling setup right here. The pullback has the market short-term oversold, but the neutral to bearish expectations are not encouraging. I am sidelined and intend to remain that way until a more substantial edge emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/16– neutral

The intermediate-term outlook was last updated in the 7/16 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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

None.

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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