

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 27, 2018

Volume 11 Issue 144

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- When SOX has rallied despite the NDX falling a fair amount it has typically led to an NDX bounce the next day.
- SOMA flows were negative this past week, and I expect the current week to see the largest tightening since QT began last October. This should provide a headwind for the bulls to deal with.
- The NASDAQ is in danger of falling into a lagging position come Friday. That would be viewed as an intermediate-term negative.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and there is very little visibility beyond Friday. I see no compelling reason to believe there is a strong directional edge right now.

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						
July 27, 2018	NDX down 0.75% and SOX up 0.75%	1 day	Bullish			
July 25, 2018	Unfilled up. 20-high. Close < open	1-3 days	Bullish	1.00%	-0.45%	-0.85%
July 23, 2018	Down on big volume. Then NR7	1-5 days	Bullish	2.00%	-1.50%	-3.40%
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			

The Evidence

A big gap down hurt the NDX, but the other indices did not see the same selling. The SPX closed down a fairly mild 0.3%, the NASDAQ lost 1.0%, and the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 55%. NYSE volume declined a little from Wednesday's level.

The market actually did very little between the open and the close on Thursday. Most of the movement came in the overnight, and it was mostly thanks to Facebook (FB). In last night's letter I showed that other one-time NASDAQ leaders that suffered big gaps down from relatively high levels had shown a tendency to bounce after the open. FB followed suit today, but the bounce was pretty weak, managing a net gain of less than 1% from the open to the close. So what are the chances FB continues to bounce over the next several days and weeks? I re-looked at the study from last night, and examined how the other 9 stocks performed looking out over the next month.

NDX component closes within 5% of its 252-day high and above its 250-day moving average.
It opens >= 15% below yesterday's close. Buy on open. Sell on close X days later. \$100k/trade. 1993 - present.

DaysIn	# Trades	# of winners	# of losers	% of Winners	Net Profit	Avg Profit/...	Max. Trade D...	Payoff Ratio	Profit Factor	Max. Sys % Drawd
0	9	6	3	66.67	39,753.89	4,417.10	-2,294.35	3.69	7.38	-2.10
1	9	6	3	66.67	37,630.82	4,181.20	-7,180.15	2.51	5.01	-6.61
2	9	4	5	44.44	13,572.78	1,508.09	-15,218.20	2.11	1.69	-17.88
3	9	4	5	44.44	13,981.30	1,553.48	-15,218.20	2.19	1.75	-16.78
4	9	3	6	33.33	-6,273.84	-697.09	-24,114.13	1.60	0.80	-29.90
5	9	3	6	33.33	-12,510.67	-1,390.07	-30,734.80	1.46	0.73	-38.55
6	9	3	6	33.33	-7,775.52	-863.95	-30,734.80	1.60	0.80	-33.98
7	9	3	6	33.33	5,282.13	586.90	-30,734.80	2.35	1.17	-29.25
8	9	5	4	55.56	20,908.55	2,323.17	-30,734.80	1.70	2.12	-30.07
9	9	6	3	66.67	17,088.64	1,898.74	-30,734.80	1.01	2.02	-28.72
10	9	6	3	66.67	30,122.79	3,346.98	-30,734.80	1.30	2.59	-28.67
11	9	5	4	55.56	25,983.96	2,887.11	-30,734.80	1.56	1.95	-28.74
12	9	5	4	55.56	22,561.02	2,506.78	-30,734.80	1.51	1.89	-27.99
13	9	5	4	55.56	12,710.39	1,412.27	-30,734.80	1.09	1.36	-39.10
14	9	6	3	66.67	28,741.56	3,193.51	-30,734.80	1.00	1.99	-33.01
15	9	5	4	55.56	17,797.80	1,977.53	-30,734.80	1.20	1.50	-39.04
16	9	6	3	66.67	25,213.72	2,801.52	-30,734.80	0.82	1.65	-36.00
17	9	5	4	55.56	22,330.37	2,481.15	-30,734.80	1.23	1.54	-33.18
18	9	5	4	55.56	16,301.85	1,811.32	-30,734.80	1.06	1.33	-43.91
19	9	5	4	55.56	11,894.76	1,321.64	-30,734.80	0.97	1.22	-45.43
20	9	5	4	55.56	22,842.89	2,538.10	-30,734.80	1.22	1.52	-34.69
21	9	5	4	55.56	16,009.23	1,778.80	-30,734.80	1.09	1.36	-45.55

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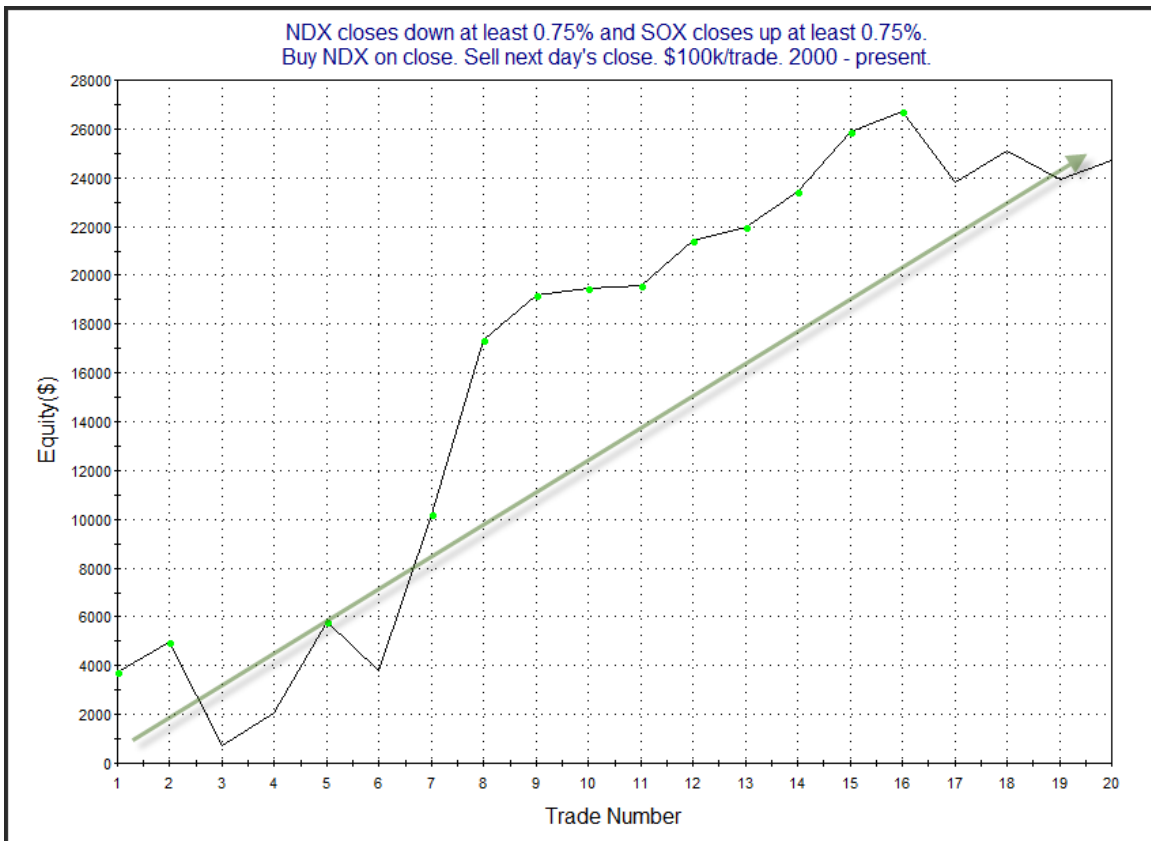
The chances for a continued bounce do not appear very good. Based on the small sample of 9 instances, gains for the next month actually topped out by the end of the entry date. Of course these results should be taken with a grain of salt, since they were generated on a small sample size, in a different market, and in different stocks. But this one admittedly narrow view is not encouraging.

Also interesting about Thursday's action is that the SOX moved up nicely even though the NDX suffered a sizable decline. Since SOX stocks make up a decent portion of the NDX, this is unusual. In fact, Thursday was the 1st time since 2016 that the study below triggered. I last discussed it in the 4/28/16 letter. I have updated the results tonight.

NDX closes down at least 0.75% and SOX closes up at least 0.75%.
 Buy NDX on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$24,700.62	Profit Factor	3.40
Gross Profit	\$35,002.44	Gross Loss	(\$10,301.82)
Total Number of Trades	20	Percent Profitable	80.00%
Winning Trades	16	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,235.03	Ratio Avg. Win:Avg. Loss	0.85
Avg. Winning Trade	\$2,187.65	Avg. Losing Trade	(\$2,575.45)
Largest Winning Trade	\$7,100.80	Largest Losing Trade	(\$4,249.28)

The numbers are quite impressive, with the NDX closing up about 1.2% on average the next day. Below is a look at the profit curve.



Despite a couple of missteps recently, this curve seems to support the idea of an upside edge. The study seems worth some consideration, and I have included it on the Active List tonight.

This afternoon the Fed released the SOMA flows for the week ending Wednesday. As we suspected, AMBS saw some serious outflows - \$12.8 billion.

« As of 07/18/2018

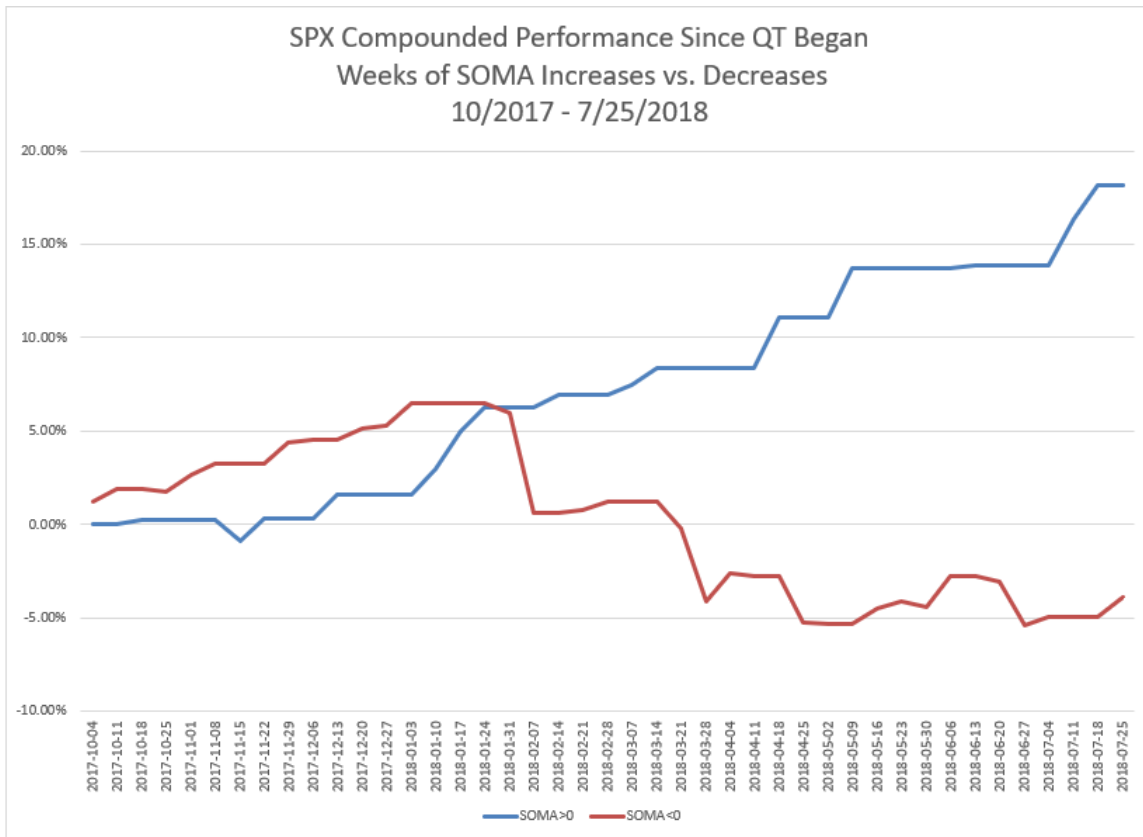
SECURITIES HOLDINGS AS OF
July 25, 2018 📅

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***	1,709,528,022.2					
Total SOMA Holdings	4,050,252,067.1					
Change From Prior Week	-12,763,101.8					

*Does not reflect inflation compensation of 21,577,750.1
 **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.

QuantifiableEdges.com Data posted on 07/26/2018 4:30pm.

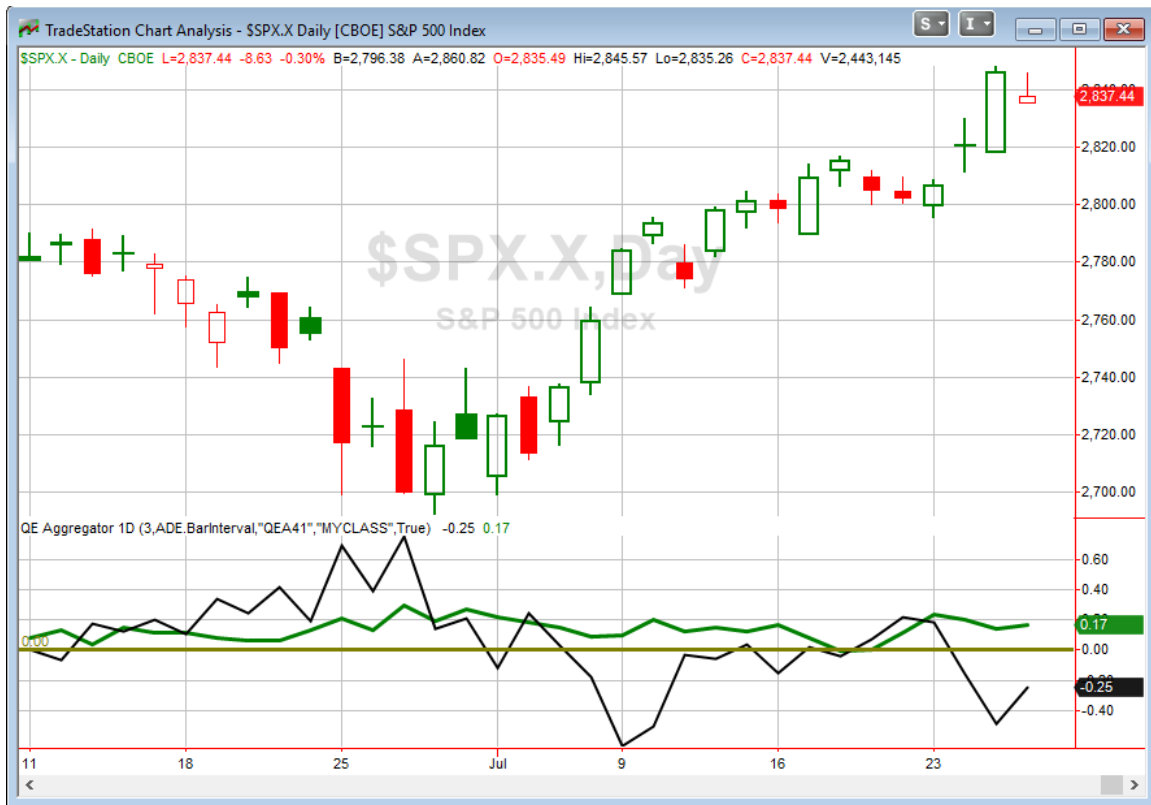
Of course it was a pretty good week for the market even with these outflows. The SPX gained about 1% through from last Wednesday's close to this Wednesday's close. So the bulls were able to continue the momentum despite the negative liquidity wind in their face. Below is an updated version of the SOMA increase vs decrease weeks since QT began.



The move higher for the negative SOMA flow weeks is still not making it look much better. The current week is going to see a huge number of treasuries mature, and I expect it to be the largest QT week since QT began last October. I'll discuss this more in this weekend's letter, but thought it was worth updating and touching on tonight.

Another intermediate-term indicator I may be discussing this weekend is the [NASDAQ/SPX Relative Strength chart](#). The NASDAQ has been leading for a good while now. But that could very well change tomorrow. In fact, if SPX and NASDAQ both closed flat tomorrow, SPX would take the leading position. This is undesirable, since the market has performed much better over time when the NASDAQ has been leading. It would also have the effect of turning all 3 of the Market Timing Course system to "flat". (Two of the 3 are currently "long", and there is no "short" trigger – just "long" and "flat".) So traders may want to keep an eye on NASDAQ vs SPX performance on Friday. NASDAQ is going to need to outperform to have a chance of keeping leadership.

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



With tonight's new study 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 held 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 stayed flat at the close.

All 3 current short-term active studies are slated to expire on Friday. So expectations are set to finish flat as of Friday's close. Of course, this could easily change if new evidence emerges. The Differential Pivot will be 2835.99 on Friday. That is less than 0.1% below Thursday's close So SPX would only need to close down 0.1% on Friday in order to flip from overbought to oversold versus expectations.

The Aggregator is neutral. Expectations could easily finish either bullish or bearish on Friday. And SPX could easily finish either overbought or oversold on Friday. Oh, and the intermediate-term outlook remains neutral. So I really don't see a good directional bet here. I will not be entering any new index positions until I see a setup with solidly favorable reward/risk.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/23– neutral

The intermediate-term outlook was last updated in the 7/23 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

F – 1/3 @ \$10.56 (bought @ limit)

F – 1/3 @ \$10.47 (buy @ limit) – not filled – now look to enter lower

Broad Market Large Cap CBI – 2(F-2)

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.

F – buy 1/3 Catapult position @ \$9.90 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of F. The initial entry was missed. Thursday saw a large gap down and move lower. With it now at a “bargain” price, I will look to enter the 2nd lot that I initially missed out on.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F(1/3)	7/23/2018	\$10.56	\$9.90	-6.25%		Catapult

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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