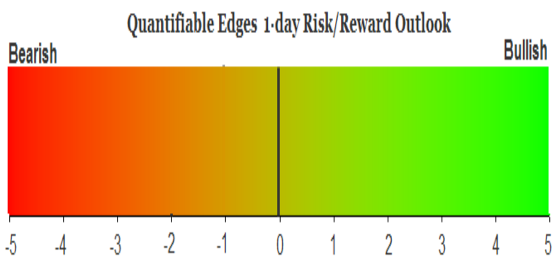
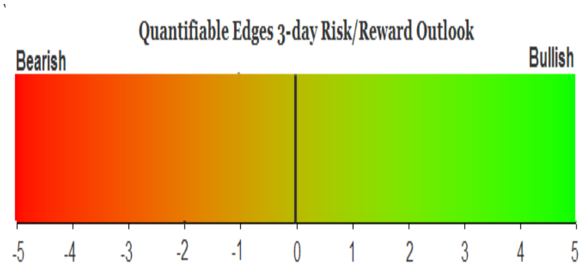
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 6, 2018 Volume 11 Issue 150

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- No new short-term studies emerged on Friday.
- After a big QT last week, SOMA flows are expected to be flat-ish, and maybe up-ish this week, before turning negative again the week of the 9^{th}-15^{th}.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and I am too.

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Summary of Recent Active Studies (see Letters from listed dates for details)

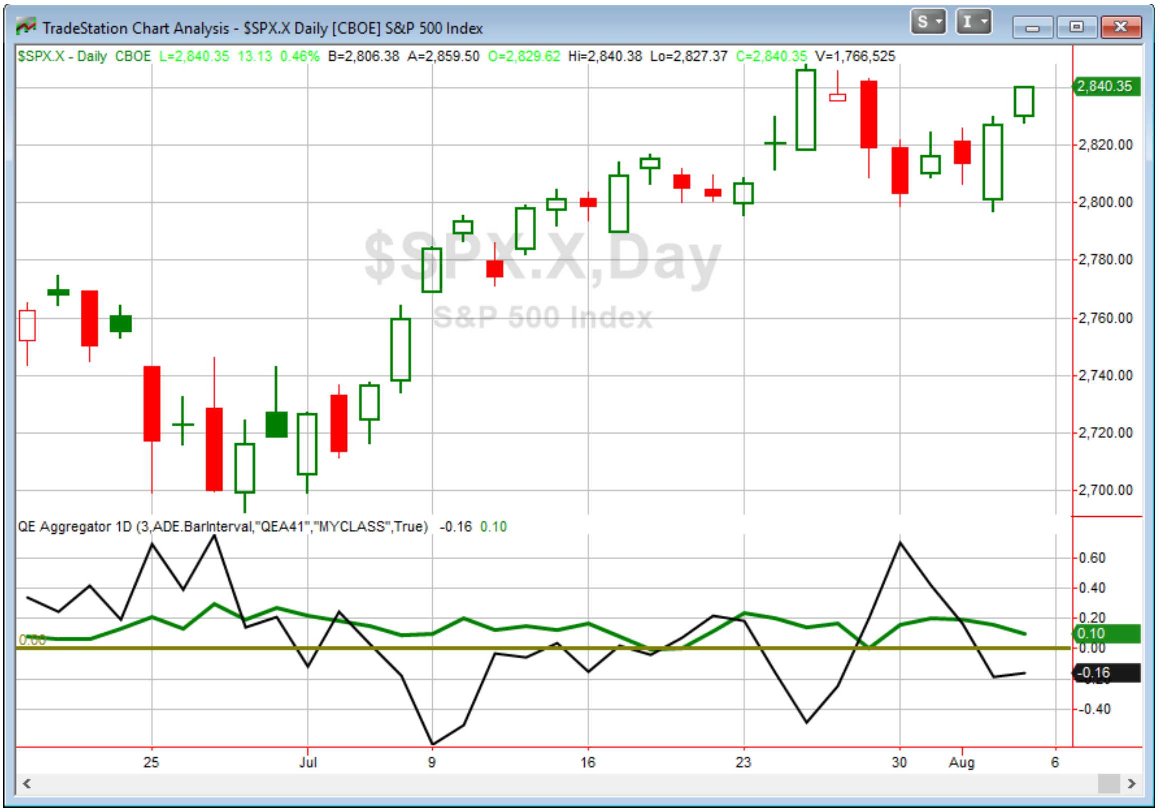
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 31, 2018	SPX down 3 days. Today is Monday	1-8 days	Bullish	2.10%	-1.30%	-2.50%
Active - Long Term						
July 1, 2018	SOMA reduction intensifies to $40billion	int term	Bearish			
June 7, 2018	SPX > 50-day Bollinger Band	1-50 days	Bullish	5.00%	-4.10%	-7.80%
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 10, 2018	SPX up 2% in 3 days. HV Off < 0.25	1-19 days	Bullish	4.20%	-2.20%	-4.80%
August 1, 2018	Fed & EOM	1-3 days	Bullish	1.20%	-0.60%	-1.10%
July 31, 2018	SPY dn 3 days fm 50-hi. <10ma >10 low	1-4 days	Bullish	1.60%	-0.90%	-1.80%

The Evidence

Friday was a mixed day for the market. The SPX closed up 0.5%, the NASDAQ rose 0.1%, and the Russell 2000 lost 0.5%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 65%. NYSE volume came in at the lightest level in nearly 2 weeks.

The SPX and NASDAQ are nearing the areas of their recent highs from near the end of July. The Russell is well within its recent trading range. Action on Friday did not inspire any of the 1200+ Quantifinder studies to trigger. That is somewhat unusual, but it may become more common as we get into August when action is sometimes lacking. So there are no new studies to add to the Short-Term Active List tonight.

I have updated the Aggregator chart below.



Without any new studies triggering tonight, 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.

Based on the current active studies, expectations are set to remain positive on Monday. Of course, this could change if strong new bearish evidence emerges. The Differential Pivot will be 2828.90 on Monday. That is 0.4% below Friday's close. So SPX will need to close down at least 0.4% on Monday in order to turn from overbought to oversold versus recent expectations.

So the Aggregator is neutral, and I am too. Evidence is pointing higher, but it is not the strongest compilation of studies we have seen. And the overbought nature of the market negatively impacts reward/risk. I will remain patient and look for the next favorable reward/risk opportunity before putting substantial capital to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/6– neutral, but approaching mildly bearish

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

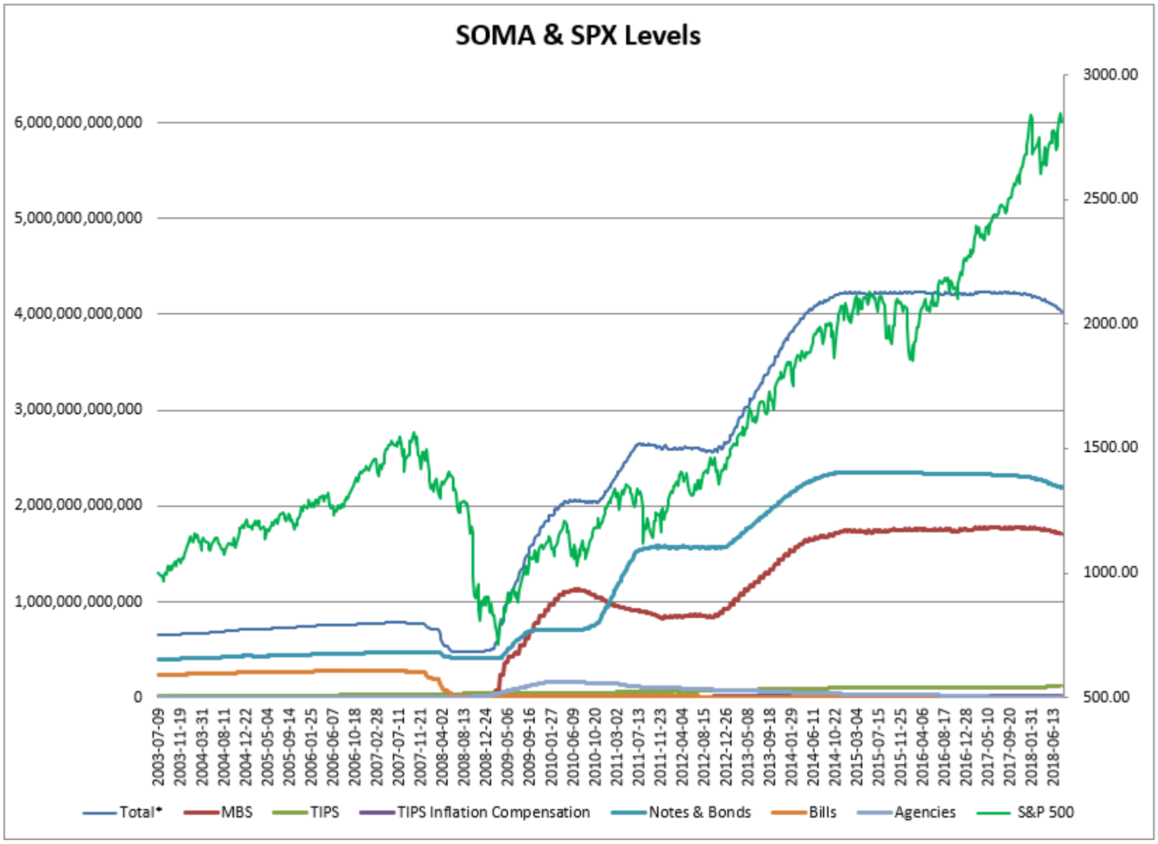
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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.) *There were no changes to the combo systems this week, as all three remain "Flat".*

This past week saw the market post gains as the SPX rose 0.8%, the NASDAQ climbed 1.0%, and the Russell 2000 closed up 0.6%. No significant highs or lows were made, and no studies emerged with intermediate-term implications.

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.

« As of 07/25/2018

SECURITIES HOLDINGS AS OF

August 1, 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)	2,183,634,816.9
US Treasury Floating Rate Notes (FRN)	16,953,842.3
US Treasury Inflation-Protected Securities (TIPS)*	114,591,981.2
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,709,544,022.4
Total SOMA Holdings	4,027,133,662.8
Change From Prior Week	-23,118,404.3

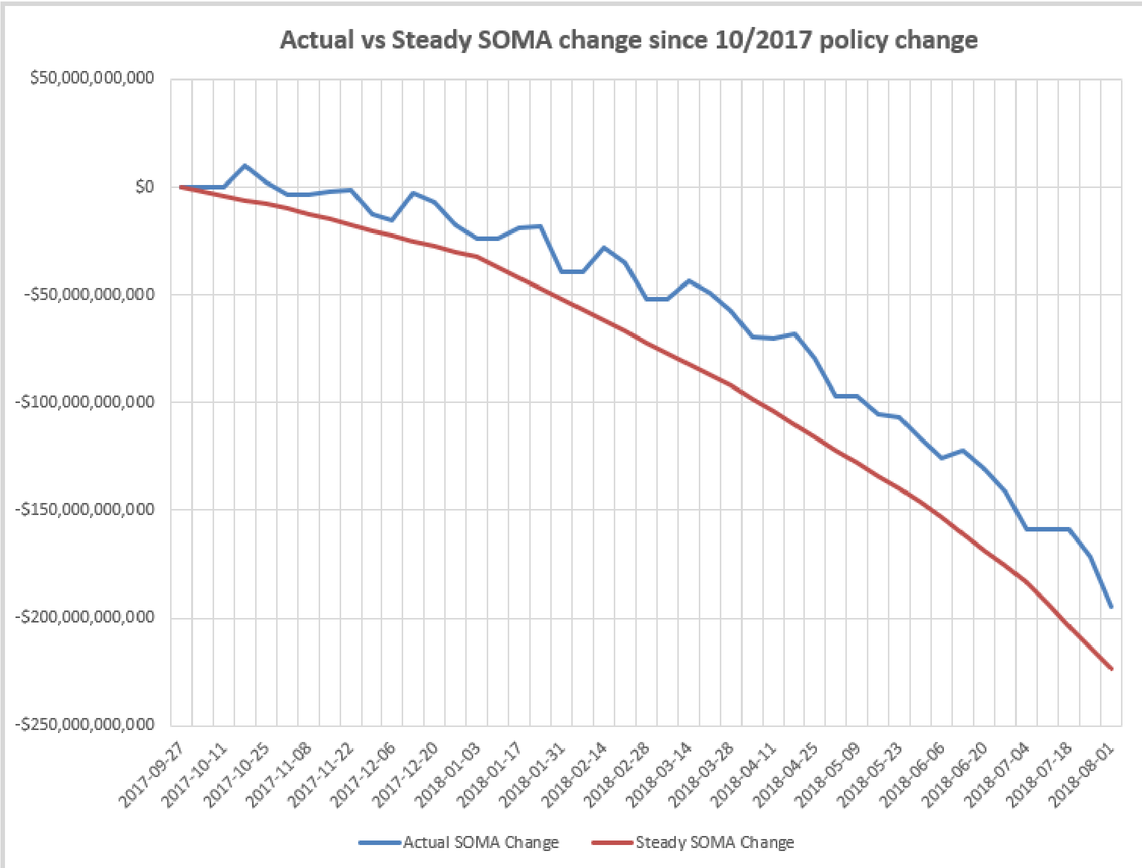
*Does not reflect inflation compensation of 21,695,069.2

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

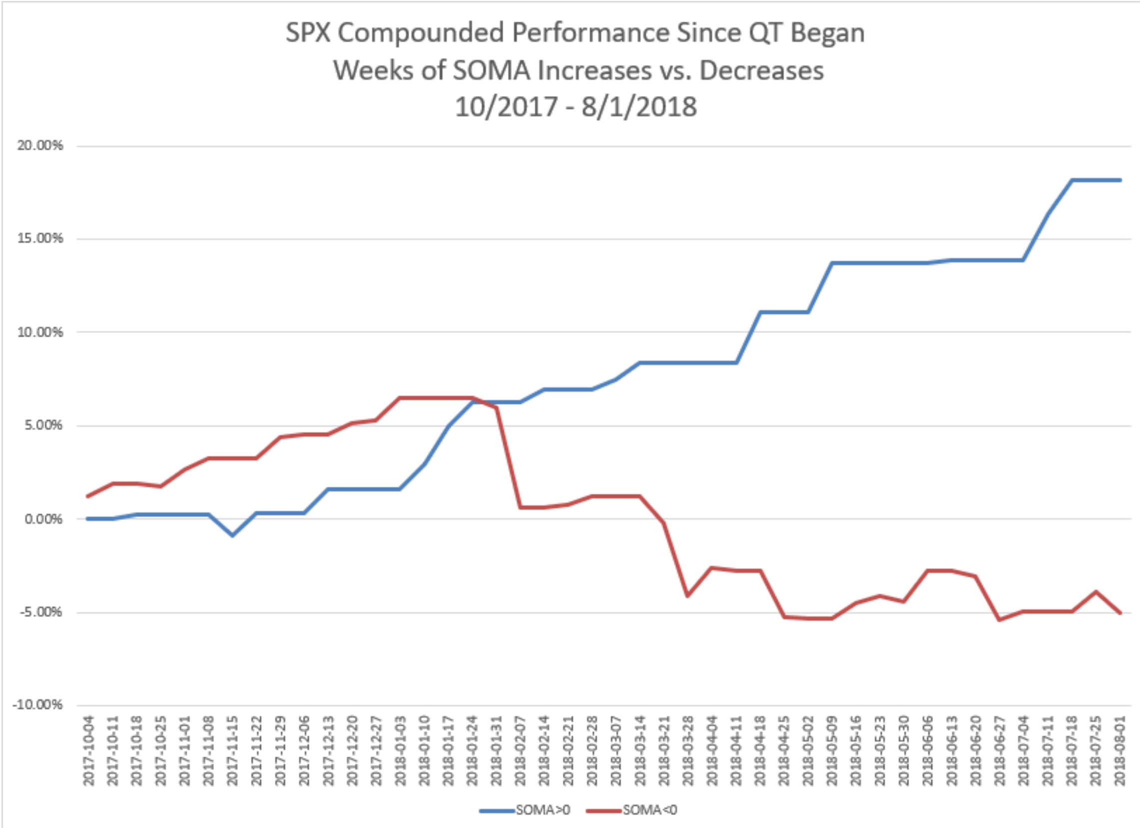
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 08/02/2018 4:30pm.

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



The Fed's SOMA this past week (Wednesday to Wednesday) saw a record drop of over $23 billion. That is a huge amount, and was in-line with what we were anticipating for this past week. The "Actual vs Steady" chart shows that this past week was a substantially sharper drop than "normal" when you are looking at a $40 billion/month reduction rate. Meanwhile the SPX declined 1.15% during the week ending Wednesday. So the market struggled with the strongly negative liquidity. As we have been discussing here for a long time, the market has typically encountered difficulty during SOMA contractions, and flourished when the SOMA has seen expansions. I discuss this in detail in the Fed-Based Quantifiable Edges for Stock Market Trading Research Paper. This next chart shows compounded results since QT began 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 very consistent basis. The last time the SOMA expanded and the blue line did not hit a new high was in November of 2017. Reduction weeks have been choppy and net losers. The move down this past week put the red line back near new lows. So what can we expect coming up? Let's first look at the T-Note and T-Bond Maturity Table below, from the Fed's website.

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]
8/15/18	912828K82	1.000	482,460.4	1.97%		
8/15/18	912828JH4	4.000	22,586,630.9	61.37%		
8/31/18	9128282C3	0.750	1,778,095.1	6.40%		
8/31/18	912828RE2	1.500	19,153,976.1	29.52%		
9/30/18	912828T42	0.750	1,584,917.7	5.75%		
9/30/18	912828RH5	1.375	17,421,863.6	26.84%		
10/31/18	912828T83	0.750	1,571,797.0	5.70%		

The next big treasury expirations occur on 8/15. So there are none this current week. This means that any reductions in the SOMA this week will be seen in the AMBS section of the portfolio. AMBS flows are a little more difficult to anticipate, because 1) amounts may vary depending on loan pre-payments, and 2) there is a lag of 1-3 months to settle. For those interested in details, AMBS policies and procedures are described in more detail at the Fed's website: https://www.newyorkfed.org/markets/ambs-treasury-faq. I have found that examining past months will often provide clues as to the flows we can anticipate during similar periods of the current month. Looking at recent past weeks that ended on the 7th, 8th, or 9th of the month, we see the following changes: 11/8/17 -up slightly, 2/7 – up slightly, 3/7 – down slightly, and 5/9 – up slightly. By "slightly", I mean a change of less than 0.01% the size of the SOMA. So the week ending this upcoming Wednesday we are likely to see a fairly flat SOMA, and could very well even see a slight increase. The next week will have the sizable treasury expiration that I noted above. So the bulls opportunity to rally without having to overcome negative SOMA flows will not last long. Of course the biggest part of the QT that week will not occur until the day of the 15th. So they may be able to avoid the headwind a few more days.

My overall outlook is little changed this week. The long-term trend is with the bulls and there remains 1 active study suggesting the momentum has been strong enough that we are still likely to see higher prices. So the bulls still have some evidence supporting their case. But the last bullish momentum study will be expiring in two weeks at the latest. So between now and then I will need to see some additional bullish evidence to even remain "neutral". For the bears, Quantitative Tightening remains a substantial force. Additionally, long-term seasonal cycles like the "Best 6 Months" and the Presidential Cycle are currently unfavorable. The market timing course combo systems are all now "flat", which has generally been a situation where the market has struggled to rise. So I am technically "neutral", but am feeling quite cautious about the long side right now. Tight liquidity makes it more difficult for the market to absorb bad news. Overall, the shrinking SOMA leaves the market more prone to liquidity events, and the negative seasonality also leaves the door open for the bears. I rarely turn outright bearish when the market is near new highs, but I may within the next couple of weeks. At this point I remain wary of betting too aggressively in either direction.

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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 – cancel for now

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F(1/3)	7/23/2018	$10.56	$10.04	-4.92%		Catapult

Just about any close higher would see F reach its exit trigger. If this happens the "standard" exit will be at Tuesday's open. That is the exit I will be looking to take. Traders could consider exiting F on a higher close tomorrow if they feel that is a better alternative.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.