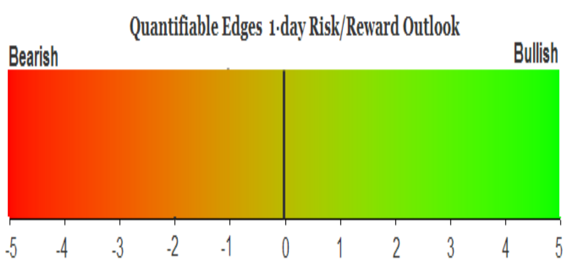
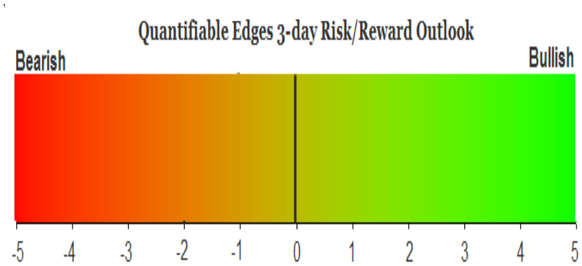
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2018 Volume 11 Issue 159

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- Opex Friday mornings during uptrends have historically struggled.
- SOMA saw a sizable drop over the past week ending Wednesday. No surprise, and the fact that the market struggled during this is not surprising either. The current week should see a fairly flat SOMA.

Short-term Outlook
The Bottom Line

There may be some bounce left to go, but the SPX has quickly moved to short-term overbought. This leaves the Aggregator neutral, and me looking to take profits on my small index position.

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						
August 14, 2018	SPX bottom 10% rng. 5-low. Monday.	1-5 days	Bullish	2.10%	-1.00%	-2.20%
Active - Long Term						
July 1, 2018	SOMA reduction intensifies to $40billior	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						
August 13, 2018	Dn 3 from 50-hi. Cls < 10ma & > 10-low	1-4 days	Bullish	1.60%	-0.90%	-1.80%

The Evidence

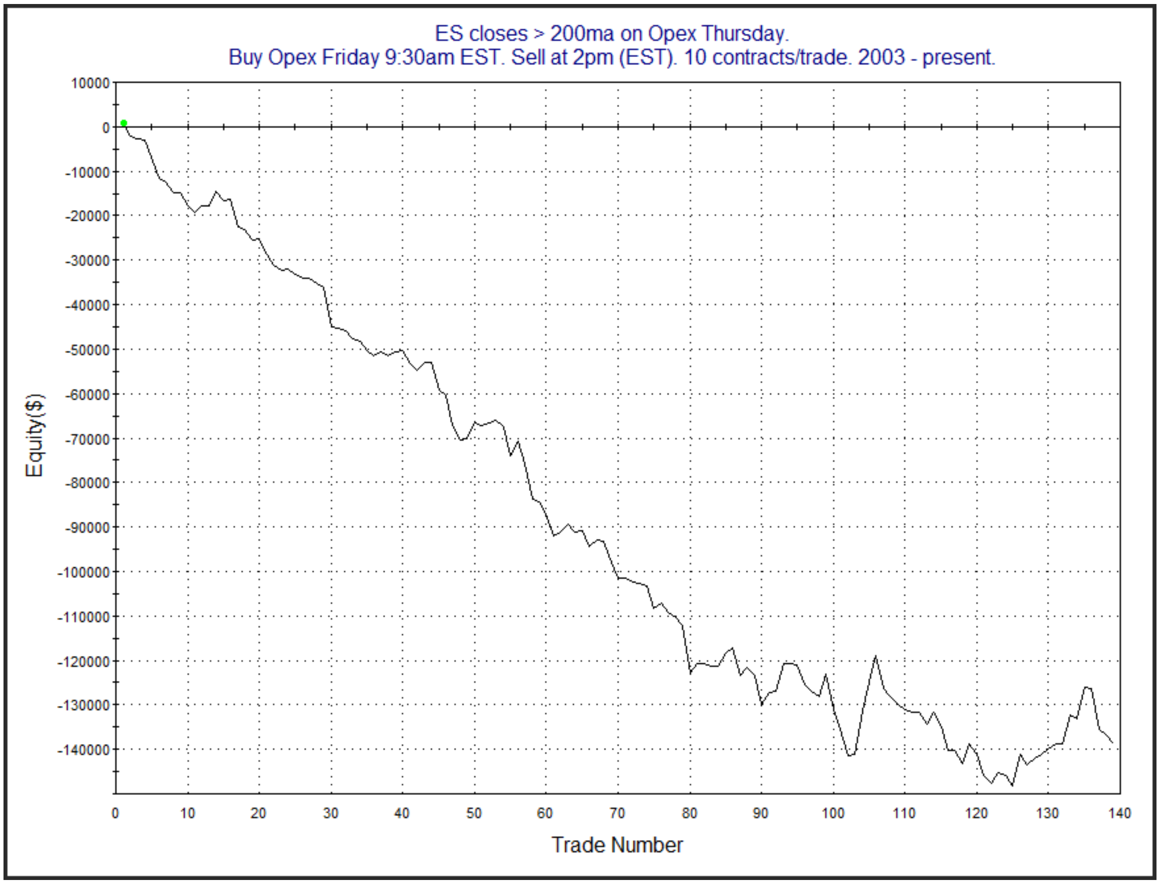
The market opened Thursday with a sizable gap up and most indices, other than the NASDAQ, added to those gains during the day. The SPX finished the day up 0.8%, the NASDAQ gained 0.4%, and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 72%. NYSE volume dipped some from Wednesday's level.

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 from the 7/20/18 letter and has NOT been updated. (Sorry about that – travel sacrifice.)

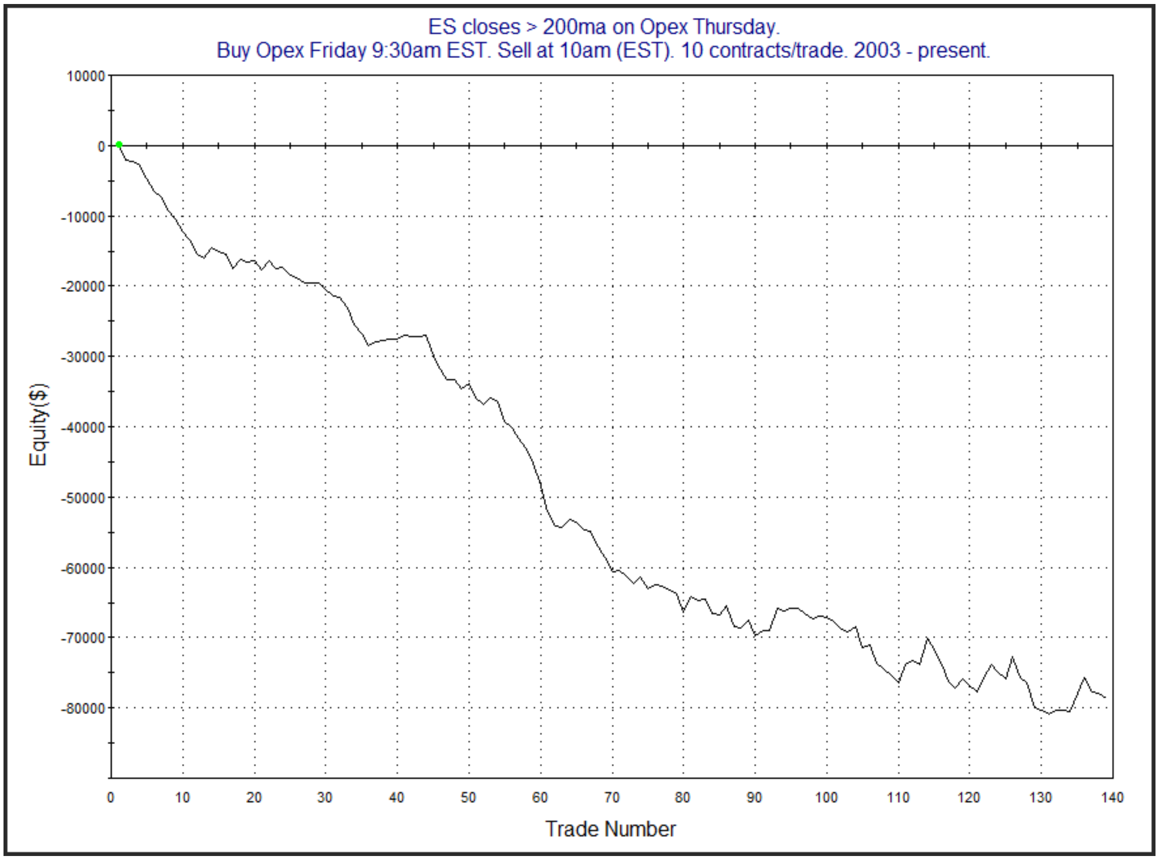
ES closes > 200ma on Opex Thursday.
Buy Opex Friday 9:30am EST. Sell at time shown on left (EST). 10 contracts/trade. 2003 - present.

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.

Also notable Thursday was that the Fed released the SOMA flows for the week ending Wednesday. Below is the table that was published to the Fed's site.

« As of 08/08/2018

SECURITIES HOLDINGS AS OF
August 15, 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)	2,171,052,008.6
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***	1,708,187,464.9
Total SOMA Holdings	4,013,194,297.0
Change From Prior Week	-13,940,365.6

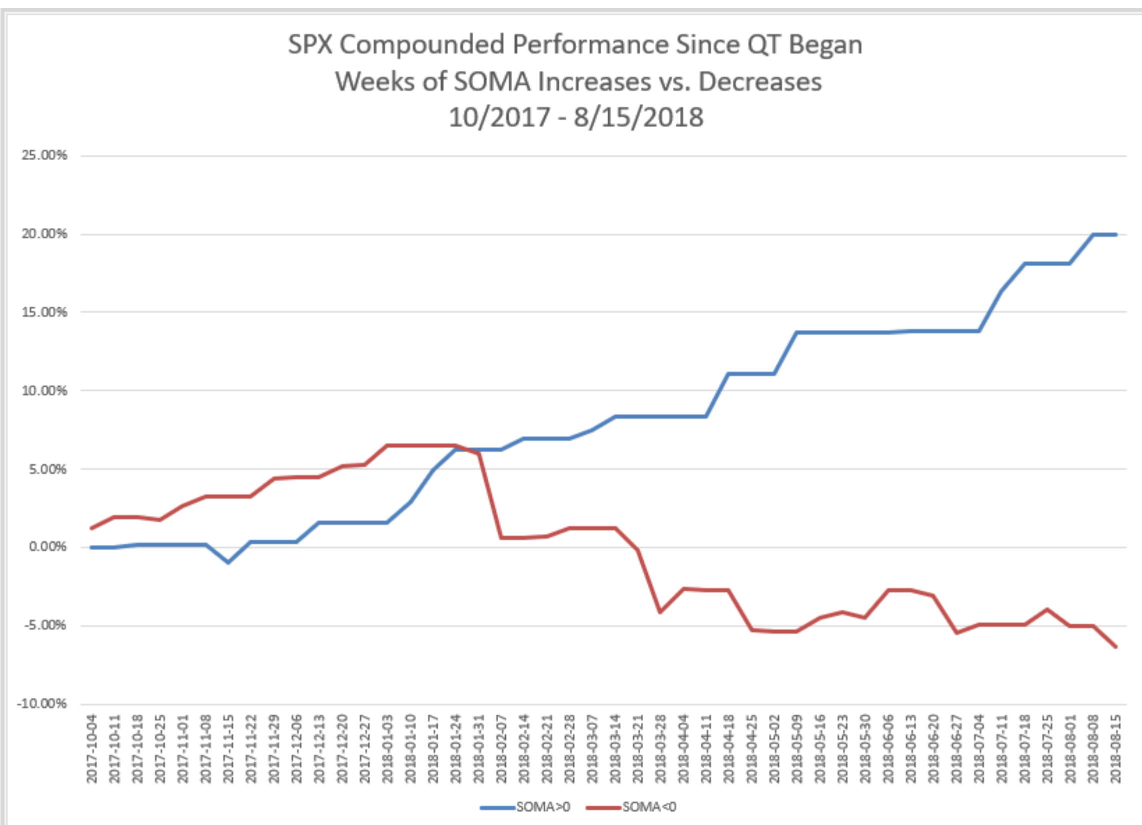
*Does not reflect inflation compensation of 21,793,227.8

**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.

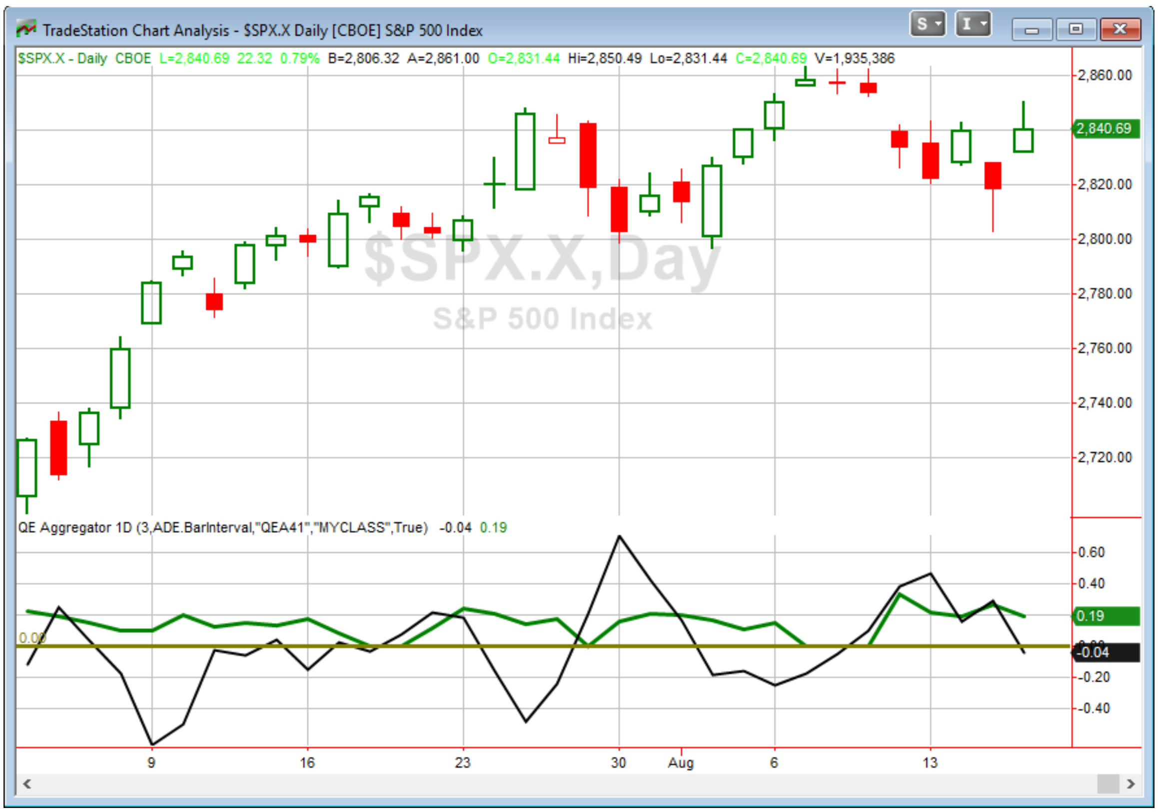
Data posted on 08/16/2018 4:30pm.

As I have been saying was likely, the SOMA suffered a sizable contraction this past week. This was mostly due to $12.6 billion in treasuries that matured and were not renewed. Below is an updated look at performance of SPX during weeks of SOMA increases vs decreases since QT began last October.



The gap continues to widen here. The big decline in the SOMA was accompanied by a big drop in the SPX of 1.4%. This is not a surprise. The market has continually struggled during QT periods. Since last October the blue "expansion week" strategy would have posted a 20% gain while the red "contraction week" strategy would now have lost 6.3%. And this past week put the red line at another new low. For the current week, which will end on Wednesday, August 22nd, I anticipate a fairly flat week, with a mild decline more likely than an increase in the SOMA . I will discuss this in more detail over the weekend, and update some of our other SOMA-related charts.

I have updated the Aggregator chart below.



Without any new studies to consider 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 fell 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.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

Based on the current active studies, expectations are set to remain positive on Friday. Of course, this could easily change if new bearish evidence emerges. The Differential Pivot will be *inverted at* 2860.73 on Friday. That is 0.7% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.7% if it is going to be considered "overbought" versus expectations as of Friday's close. Anything less than that and it will flip to "oversold".

So the Aggregator has now turned neutral. And while it could easily turn bullish again on Friday afternoon, this seems like a good time to take profits – especially with the knowledge that the market has often struggled after the open on Opex Friday. So I intend to exit my SPY position Friday morning.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/13– neutral, but approaching mildly bearish

The intermediate-term outlook was last updated in the 8/13 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 @ $9.46 (bought @ limit)
NFLX – 1/3 @ $326.40 (bought @ limit)
New
NFLX – 1/3 @ $322.44 (buy @ limit)

Broad Market Large Cap CBI – 3(F, NFLX-2)

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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.

NFLX – buy 1/3 Catapult position @ $322.44 LIMIT. From the Catapult section above, this will be the 2nd of up to 3 possible lots for NFLX.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/13/2018	$282.10	$284.06	0.69%		***sell on open***
F(1/3)	8/14/2018	$9.46	$9.52	0.63%		Catapult
NFLX(1/3)	8/16/2018	$326.40	$322.44	-1.21%		Catapult

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