

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 10, 2018

Volume 11 Issue 174

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The low 3/10 Offset HV suggests a sharp move could occur in the next few days.
- Multiple Hindenburg Omen signals are a warning sign of a potential selloff in the coming weeks.
- The NASDAQ has fallen back into a lagging position, which is a bad sign from an intermediate-term standpoint.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I am partially long and looking for a bounce.

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						
September 7, 2018	System 11111	1-3 days	Bullish			
Active - Long Term						
September 10, 2018	4+ Hindenburg Omen signals	1-35 days	Bearish	-6.50%	2.50%	4.50%
September 5, 2018	1st low in 2 weeks. C > 10ma.	1-10 days	Bullish			
August 30, 2018	SPX crosses over 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
July 1, 2018	SOMA reduction intensifies to \$40billion	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

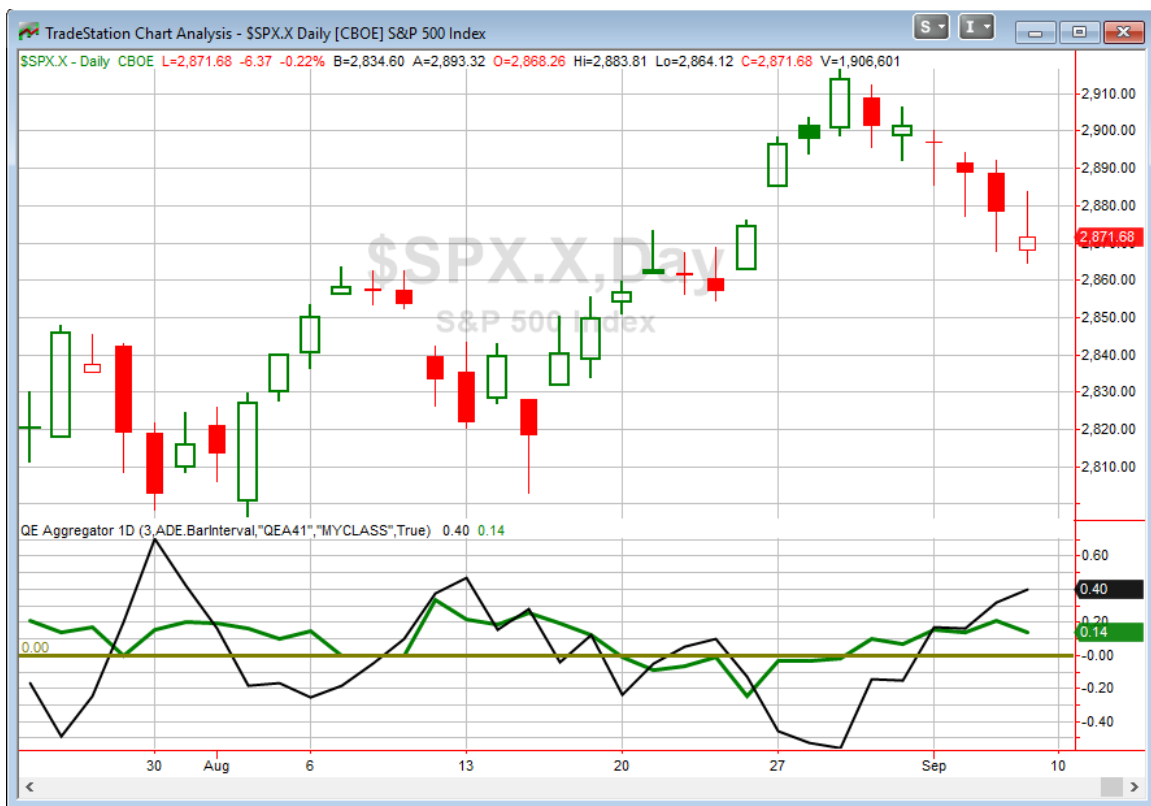
Friday was a back and forth day, and the bears won out in the end. The SPX finished down 0.2%, the NASDAQ fell 0.25%, and the Russell 2000 lost 0.1%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 41%. NYSE volume declined some from Thursday's level.

From a short-term standpoint, the mild moves on moderate volume did not trigger anything compelling. One notable that I see among our short-term indicators is that the SPX 3/10 Offset HV is very low right now. As I have discussed in the past, that suggests we could see a sharp move occur in the next few days. I have copied the chart from the website below.



I have also made a few notes on the chart. The indicator does not predict direction. For that I look to our other studies and the Aggregator. It simply suggests that recent moves have become small enough that a volatility expansion is likely due. The instances in August both led to sharp moves – one up and one down. The July instance appears to have been a false warning signal. The signals don't always play out, but they do often enough that they are worth considering. And right now the indicator is saying a sharp move could occur in the coming days. So let's look at the Aggregator to see which in direction that sharp move is most likely to occur.

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



With the current 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 also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current Active List, expectations are slated to remain bullish on Monday. But the list is very short, so this could change fairly easily if new bearish evidence emerges. The Differential Pivot will be 2899.02 on Monday. That is 1.0% above Friday's close. Therefore, SPX would need to close up at least 1.0% on Monday in order to flip from oversold to overbought versus expectations.

The Aggregator is again suggesting a bullish edge. I believe reward/risk favors the bulls. Though evidence is light, there is ample room to the upside before SPX would flip to overbought. I currently have a small index position and am looking for a bounce. With the mild evidence I am not inclined to bet bigger just yet. But another move lower on Monday would make this a fairly substantial decline heading into a potential Turnaround Tuesday. And I am sure that would trigger some more bullish evidence. So I will be looking to add to my position on Monday only if SPX closes down a fair amount.

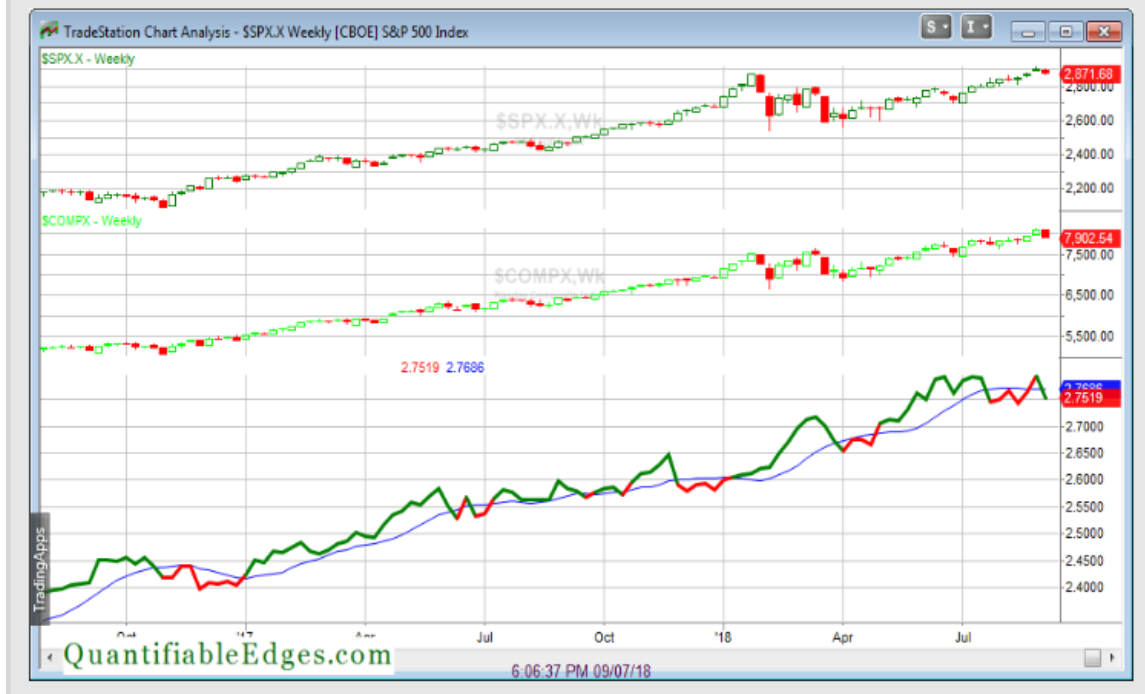
Intermediate-term Outlook (2 weeks – 2 months) – updated 9/10– neutral

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.) *Combo Systems #2 and #3 changed from “long” to “flat” as of Friday’s close.*

This past week saw the market sell off some. The SPX dropped 1.0%, the NASDAQ declined 2.6%, and the Russell 2000 fell 1.6%. The underperformance of the NASDAQ vs the S&P 500 caused the NASDAQ to fall into a lagging position via our NASDAQ/SPX Relative Strength indicator. It was only leading for 1 week. The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom. The green line (which is about to turn red) moving down below the blue line is the signal that the NASDAQ is now lagging.

NASDAQ/S&P 500 Relative Strength Weekly



Since 4/9/71, which is the earliest data point after the inception of the NASDAQ in which the calculations could be run, until now, the SPX has gained 1982.62 points when the NASDAQ was in leading position. When the SPX has been leading during that time it has gained only 786.96 points. The NASDAQ differential has been even more exaggerated. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on [the Nasdaq Weekly Strength Model page](#).

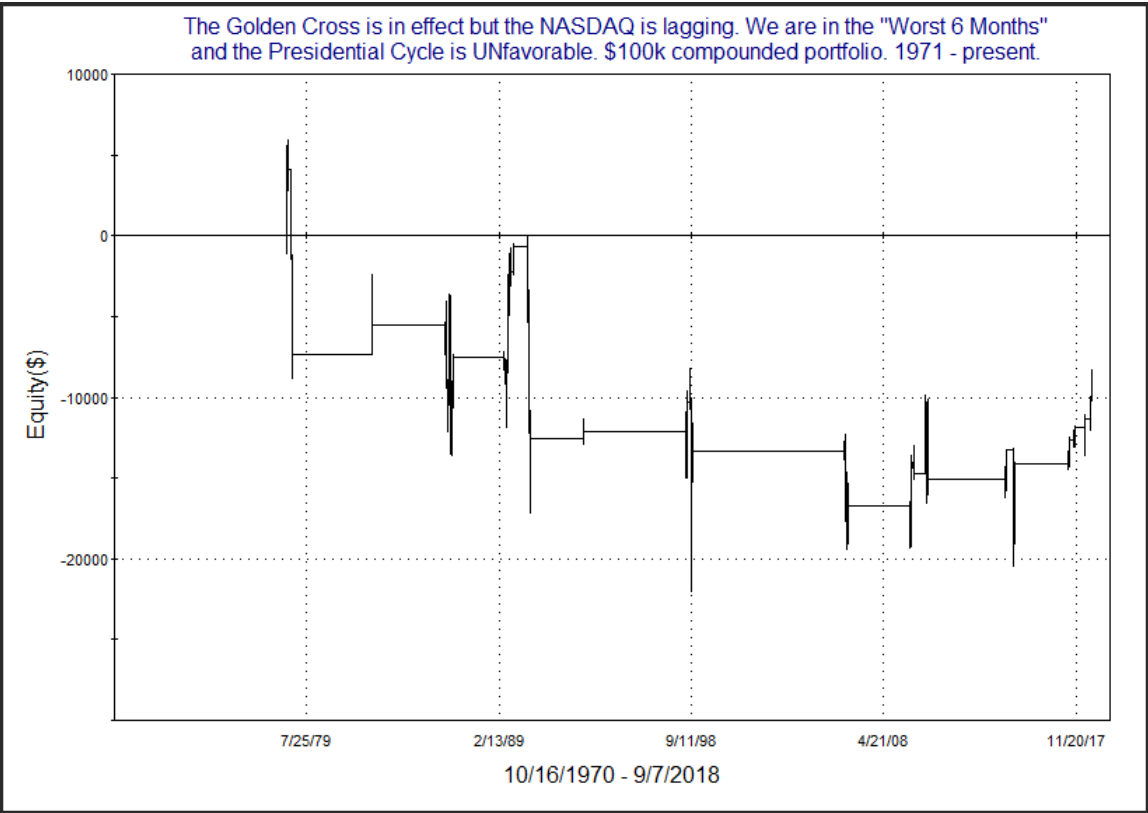
For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

So let's now look and see how the SPX has performed when the Market Timing Course indicators have been in their current state.

The Golden Cross is in effect but the NASDAQ is lagging. We are in the "Worst 6 Months" and the Presidential Cycle is UNfavorable. \$100k/trade. 1971 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$6,945.97)	Profit Factor	0.82
Gross Profit	\$32,626.81	Gross Loss	(\$39,572.78)
Total Number of Trades	29	Percent Profitable	65.52%
Winning Trades	19	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	(\$239.52)	Ratio Avg. Win:Avg. Loss	0.43
Avg. Winning Trade	\$1,717.20	Avg. Losing Trade	(\$3,957.28)
Largest Winning Trade	\$6,311.04	Largest Losing Trade	(\$11,946.24)

The stats here are mostly poor, as the market has historically generated a net loss under these conditions. Below I have produced a profit curve utilizing re-investment of capital and compounding.



The setup has not done as poorly in recent times, but it is still not a favorable one for the market.

It is also notable that we have seen multiple Hindenburg Omen signals trigger recently, including 4 in the last 4 days. I last discussed the Hindenburg Omen in detail in the 11/13/17 letter. I have updated it below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Friday marked the 5th recent Hindenburg Omen signal. Note, there have been some discrepancy in the rules over the years. To get larger sample sizes, I have used the less-strict rules in my testing. The rules I use are below.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 9 instances since 1980 where there has been a cluster of 3 or more triggers. This does not give us a sample size that is really workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	44,209.86	30	19	11	63.33	6,122.13	13,171.60	-6,555.51	-19,079.85	0.93	1.61	1,473.66
95	52,444.77	32	21	11	65.63	6,095.07	17,946.48	-6,868.34	-22,416.88	0.89	1.69	1,638.90
90	33,765.45	33	19	14	57.58	6,315.33	15,961.92	-6,158.98	-20,572.65	1.03	1.39	1,023.20
85	41,841.30	34	21	13	61.76	6,350.30	16,670.24	-7,039.61	-21,465.22	0.90	1.46	1,230.63
80	19,979.55	34	20	14	58.82	6,036.91	16,583.84	-7,197.05	-21,552.30	0.84	1.20	587.63
75	12,142.81	34	20	14	58.82	5,568.34	14,501.70	-7,087.43	-22,917.59	0.79	1.12	357.14
70	7,144.03	34	18	16	52.94	6,649.57	17,714.32	-7,034.27	-20,289.64	0.95	1.06	210.12
65	1,780.39	35	19	16	54.29	6,138.35	16,609.84	-7,178.01	-21,508.76	0.86	1.02	50.87
60	-14,783.77	35	18	17	51.43	5,832.65	17,197.44	-7,045.38	-24,323.31	0.83	0.88	-422.39
55	-30,858.45	37	20	17	54.05	5,110.60	14,306.24	-7,827.68	-27,246.71	0.65	0.77	-834.01
50	-15,981.16	37	19	18	51.35	5,155.75	14,509.04	-6,330.03	-29,846.67	0.81	0.86	-431.92
45	-8,703.99	38	22	16	57.89	4,192.58	13,151.98	-6,308.80	-23,971.88	0.66	0.91	-229.05
40	-6,085.13	39	20	19	51.28	4,698.91	12,520.58	-5,266.49	-23,520.93	0.89	0.94	-156.03
35	-3,572.00	41	23	18	56.10	4,064.25	12,021.20	-5,391.65	-24,659.19	0.75	0.96	-87.12
30	-7,726.24	43	24	19	55.81	3,629.18	9,855.58	-4,990.88	-22,460.42	0.73	0.92	-179.68
25	-5,384.02	45	24	21	53.33	3,791.86	9,781.64	-4,589.94	-27,340.01	0.83	0.94	-119.64
20	-7,710.20	48	28	20	58.33	2,877.31	9,257.67	-4,413.75	-19,533.91	0.65	0.91	-160.63
15	6,771.88	53	29	24	54.72	2,356.61	9,103.68	-2,565.41	-8,166.80	0.92	1.11	127.77
10	-9,978.31	61	31	30	50.82	1,899.73	9,012.33	-2,295.66	-7,899.90	0.83	0.86	-163.58
5	-25,504.17	77	34	43	44.16	1,289.71	4,926.56	-1,612.89	-7,160.65	0.80	0.63	-331.22

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	47,491.19	19	14	5	73.68	6,063.13	17,883.98	-7,478.53	-18,879.12	0.81	2.27	2,499.54
95	44,364.34	20	15	5	75.00	5,847.75	17,605.78	-8,670.38	-21,212.88	0.67	2.02	2,218.22
90	45,646.91	20	16	4	80.00	5,332.10	20,476.59	-9,916.68	-20,011.68	0.54	2.15	2,282.35
85	25,563.01	22	13	9	59.09	6,498.14	20,455.19	-6,545.87	-21,883.68	0.99	1.43	1,161.95
80	17,675.48	22	14	8	63.64	5,345.96	18,961.47	-7,145.99	-21,961.68	0.75	1.31	803.43
75	20,875.41	22	14	8	63.64	6,028.63	17,861.51	-7,940.67	-23,181.60	0.76	1.33	948.88
70	12,514.73	23	16	7	69.57	4,974.50	21,700.67	-9,582.46	-19,060.08	0.52	1.19	544.12
65	-11,134.63	23	14	9	60.87	4,902.24	20,504.41	-8,862.89	-23,131.68	0.55	0.86	-484.11
60	-7,753.59	23	13	10	56.52	5,142.79	19,457.95	-7,460.99	-22,011.60	0.69	0.90	-337.11
55	-16,628.80	25	15	10	60.00	4,465.69	18,625.49	-8,361.42	-26,329.68	0.53	0.80	-665.15
50	-9,258.02	27	16	11	59.26	4,717.72	17,961.02	-7,703.78	-29,889.60	0.61	0.89	-342.89
45	-7,210.03	28	15	13	53.57	4,452.22	16,345.32	-5,691.80	-24,766.56	0.78	0.90	-257.50
40	-16,699.01	28	14	14	50.00	4,300.04	14,615.13	-5,492.82	-24,853.92	0.78	0.78	-596.39
35	-11,607.83	28	15	13	53.57	3,795.97	13,303.31	-5,272.88	-22,211.28	0.72	0.83	-414.57
30	-17,753.75	28	16	12	57.14	3,160.48	11,007.09	-5,693.45	-20,354.88	0.56	0.74	-634.06
25	-25,738.89	32	18	14	56.25	2,991.08	10,173.56	-5,684.16	-23,381.28	0.53	0.68	-804.34
20	-30,535.35	33	16	17	48.48	2,494.04	8,886.35	-4,143.53	-22,295.52	0.60	0.57	-925.31
15	-7,985.99	35	18	17	51.43	1,859.60	8,305.02	-2,438.75	-6,748.56	0.76	0.81	-228.17
10	-22,535.43	42	14	28	33.33	2,129.19	9,247.23	-1,869.43	-6,913.55	1.14	0.57	-536.56
5	-14,255.77	55	22	33	40.00	1,577.61	6,245.73	-1,483.73	-7,160.65	1.06	0.71	-259.20

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	36,977.43	15	10	5	66.67	5,795.62	18,512.90	-4,195.76	-16,085.07	1.38	2.76	2,465.16
95	27,055.66	15	10	5	66.67	5,187.60	16,070.66	-4,964.07	-16,770.54	1.05	2.09	1,803.71
90	16,843.63	15	9	6	60.00	5,974.40	18,595.58	-6,154.33	-19,277.67	0.97	1.46	1,122.91
85	24,046.65	15	10	5	66.67	6,037.68	18,884.96	-7,266.03	-21,362.25	0.83	1.66	1,603.11
80	-1,532.85	16	8	8	50.00	6,005.71	16,528.58	-6,197.32	-19,449.82	0.97	0.97	-95.80
75	6,982.65	16	8	8	50.00	7,657.33	18,289.24	-6,784.49	-22,758.23	1.13	1.13	436.42
70	-3,824.44	17	10	7	58.82	5,360.49	19,119.22	-8,204.19	-21,021.08	0.65	0.93	-224.97
65	-25,915.49	17	7	10	41.18	4,801.19	17,909.76	-5,952.38	-23,731.66	0.81	0.56	-1,524.44
60	-21,782.74	17	8	8	47.06	4,754.68	17,209.10	-7,477.53	-22,576.69	0.64	0.64	-1,281.34
55	-22,592.61	17	7	10	41.18	5,700.06	17,905.52	-6,249.30	-20,673.65	0.91	0.64	-1,328.98
50	-11,172.09	19	8	11	42.11	6,063.56	17,255.74	-5,425.51	-22,263.69	1.12	0.81	-588.00
45	-21,410.32	20	10	10	50.00	4,280.82	15,507.80	-6,421.86	-25,143.29	0.67	0.67	-1,070.52
40	-30,216.77	20	9	11	45.00	4,221.73	13,700.50	-6,201.12	-26,846.01	0.68	0.56	-1,510.84
35	-27,595.44	20	7	13	35.00	4,584.37	11,461.78	-4,591.23	-22,795.79	1.00	0.54	-1,379.77
30	-23,502.33	21	12	9	57.14	3,317.93	10,991.14	-7,035.28	-23,844.34	0.47	0.63	-1,119.16
25	-33,676.81	23	12	11	52.17	2,936.33	9,841.04	-6,264.80	-25,105.73	0.47	0.51	-1,464.21
20	-37,847.54	24	11	13	45.83	2,687.51	8,458.80	-5,185.39	-21,406.07	0.52	0.44	-1,576.98
15	-34,083.00	26	13	13	50.00	2,145.15	7,078.68	-4,766.92	-26,924.26	0.45	0.45	-1,310.88
10	-46,011.53	30	11	19	36.67	1,482.63	3,400.10	-3,280.02	-25,784.94	0.45	0.26	-1,533.72
5	-17,853.78	38	14	24	36.84	1,140.70	4,174.28	-1,409.32	-4,975.25	0.81	0.47	-469.84

Between 10 and 40 days out there appears to be somewhat weak returns.

I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	26,774.42	11	9	2	81.82	3,732.63	7,362.09	-3,409.63	-3,671.20	1.09	4.93	2,434.04
95	19,527.68	11	7	4	63.64	4,290.95	6,207.97	-2,627.24	-4,635.15	1.63	2.86	1,775.24
90	13,908.41	11	6	5	54.55	4,004.63	5,450.48	-2,023.87	-6,882.20	1.98	2.37	1,264.40
85	21,209.44	11	7	4	63.64	4,453.97	7,141.18	-2,492.08	-6,553.95	1.79	3.13	1,928.13
80	15,143.08	11	6	5	54.55	4,420.25	7,248.39	-2,275.68	-6,169.80	1.94	2.33	1,376.64
75	8,094.01	12	6	6	50.00	4,906.77	8,515.03	-3,557.76	-9,034.35	1.38	1.38	674.50
70	6,133.97	13	9	4	69.23	2,623.71	5,115.04	-4,369.85	-9,322.50	0.60	1.35	471.84
65	-17,273.18	13	6	7	46.15	2,061.26	4,280.64	-4,234.39	-10,467.60	0.49	0.42	-1,328.71
60	-18,323.83	13	8	5	61.54	1,742.32	4,358.48	-6,452.49	-11,602.80	0.27	0.43	-1,409.53
55	-18,075.49	13	6	7	46.15	3,242.45	8,665.90	-5,361.45	-8,851.04	0.60	0.52	-1,390.42
50	-18,307.11	14	7	7	50.00	3,212.75	9,300.50	-5,828.05	-9,484.48	0.55	0.55	-1,307.65
45	-28,437.68	14	4	10	28.57	3,845.87	6,917.52	-4,382.12	-14,483.52	0.88	0.35	-2,031.26
40	-27,729.67	14	5	9	35.71	2,837.44	5,826.54	-4,657.43	-11,881.28	0.61	0.34	-1,980.69
35	-46,696.76	14	4	10	28.57	2,263.80	3,328.16	-5,575.20	-14,149.68	0.41	0.16	-3,335.48
30	-22,406.16	15	7	8	46.67	2,385.90	5,262.60	-4,888.43	-13,730.24	0.49	0.43	-1,493.74
25	-20,685.42	16	8	8	50.00	2,395.74	6,253.80	-4,981.42	-12,334.96	0.48	0.48	-1,292.84
20	-25,598.79	16	5	11	31.25	2,610.87	4,796.40	-3,513.92	-9,664.24	0.74	0.34	-1,599.92
15	-14,244.17	17	7	10	41.18	2,300.83	4,301.89	-3,035.00	-8,405.92	0.76	0.53	-837.89
10	-14,618.86	22	9	13	40.91	1,357.71	2,854.88	-2,064.48	-6,566.95	0.66	0.46	-664.49
5	-24,023.97	25	8	17	32.00	1,240.55	2,929.92	-1,996.96	-8,434.30	0.62	0.29	-960.96

There are only 14 instances when looking out 35 days, but with 10 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg Omen triggers.
 Sell 35 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/14/1980	Buy	\$116.72	-14.16%	\$1,010.08
4/7/1980	Sell	\$100.19		(\$19,251.44)
7/24/1986	Buy	\$237.94	-3.06%	\$6,846.00
9/12/1986	Sell	\$230.66		(\$3,864.00)
12/8/1999	Buy	\$1,403.88	-3.11%	\$5,262.52
1/28/2000	Sell	\$1,360.16		(\$3,385.28)
4/24/2006	Buy	\$1,308.11	-6.45%	\$1,412.84
6/13/2006	Sell	\$1,223.69		(\$6,504.84)
7/20/2007	Buy	\$1,534.10	-5.37%	\$853.45
9/10/2007	Sell	\$1,451.70		(\$10,627.50)
10/25/2007	Buy	\$1,514.39	-3.07%	\$2,532.42
12/14/2007	Sell	\$1,467.95		(\$7,147.14)
6/4/2013	Buy	\$1,631.38	3.34%	\$4,111.40
7/24/2013	Sell	\$1,685.94		(\$4,334.05)
8/9/2013	Buy	\$1,691.42	-0.58%	\$2,267.96
9/30/2013	Sell	\$1,681.55		(\$3,773.05)
12/17/2013	Buy	\$1,781.00	0.90%	\$3,911.04
2/7/2014	Sell	\$1,797.02		(\$2,412.48)
12/5/2014	Buy	\$2,075.37	-3.53%	\$872.64
1/28/2015	Sell	\$2,002.16		(\$4,934.88)
7/21/2015	Buy	\$2,119.21	-8.36%	\$0.00
9/9/2015	Sell	\$1,942.04		(\$11,853.40)
6/15/2017	Buy	\$2,432.46	1.82%	\$2,114.78
8/4/2017	Sell	\$2,476.83		(\$1,097.16)
11/8/2017	Buy	\$2,594.38	3.05%	\$3,822.42
12/29/2017	Sell	\$2,673.61		(\$1,403.34)
2/1/2018	Buy	\$2,821.98	-8.28%	\$0.00
3/23/2018	Sell	\$2,588.26		(\$10,125.15)

The last instance was the one that preceded the big February drop. The average drawdown for the 12 instances is about 2.6x the size of the average run-up. I also circled the 8 instances that saw at least a 4% drawdown from the entry point over the next 35 days. And if I reduced the drawdown requirement to 3%, then 11 of the 14 instances would have qualified. So the numbers seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage, and enough sizable drops following these signals, that it is probably worth remaining cognizant of it. I have therefore listed it on the Intermediate-term Active List.

Not all intermediate-term indications this week were bearish, though. Below is a study that appeared in the Tuesday night letter.

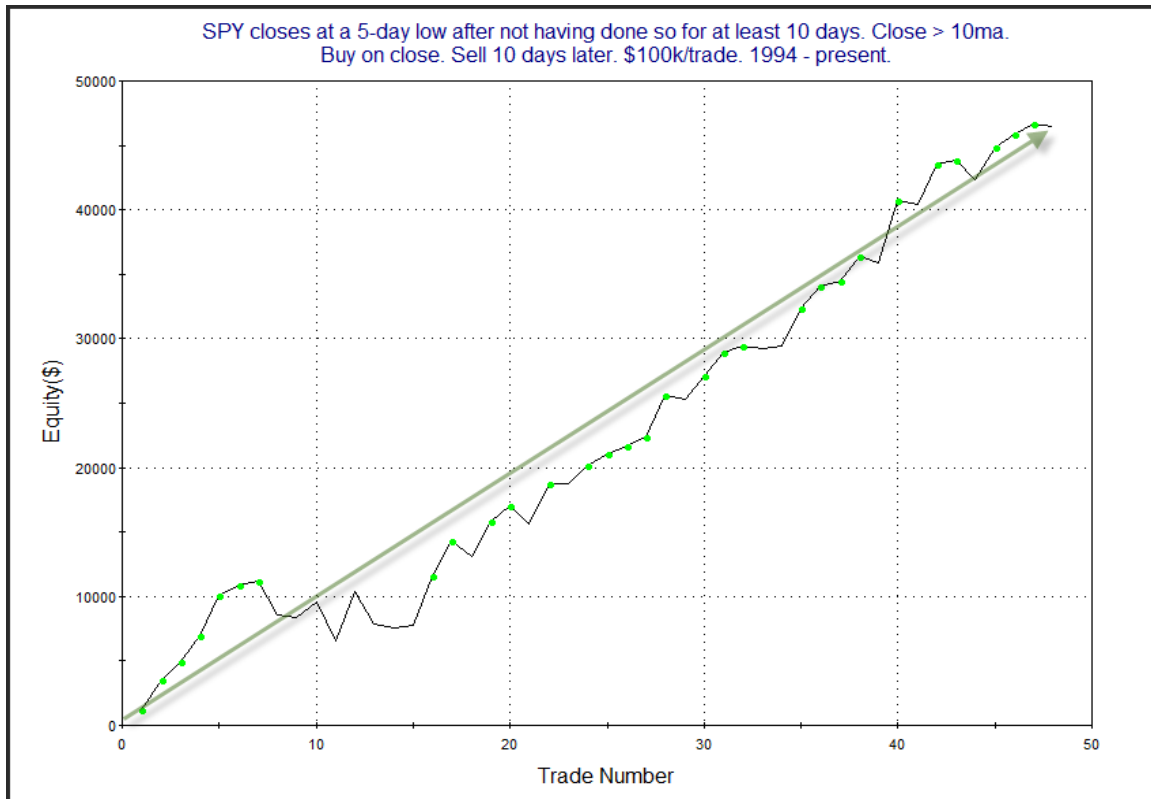
Tuesday was the 1st 5-day closing low for SPY since 8/15. Prior to Tuesday, it had gone 12 trading days without finishing at a 5-day closing low. But despite closing at a short-term low, SPY did still close above its 10ma. This triggered a study from the 4/25/16 letter that I have updated below.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma.
Buy on close. Sell X days later. \$100k/trade. 1994 - 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
10	46,444.72	48	34	14	70.83	1,792.46	4,839.66	-1,035.64	-2,972.16	1.73	4.20	967.60
9	42,653.41	48	36	12	75.00	1,634.85	5,293.08	-1,350.09	-3,319.71	1.21	3.63	888.61
8	38,853.46	48	35	13	72.92	1,553.32	4,734.72	-1,193.29	-2,602.71	1.30	3.50	809.45
7	35,071.79	48	35	13	72.92	1,557.14	4,118.22	-1,494.46	-3,472.29	1.04	2.81	730.66
6	31,276.04	48	32	16	66.67	1,440.48	4,307.28	-926.20	-2,992.38	1.56	3.11	651.58
5	28,858.72	48	32	16	66.67	1,357.54	4,496.34	-911.40	-3,570.00	1.49	2.98	601.22
4	24,414.22	48	32	16	66.67	1,220.88	3,149.62	-915.86	-2,475.20	1.33	2.67	508.63
3	22,002.57	48	34	14	70.83	1,105.20	3,452.40	-1,112.45	-3,393.78	0.99	2.41	458.39
2	11,813.55	48	30	18	62.50	947.10	3,809.72	-922.20	-3,737.28	1.03	1.71	246.12
1	4,868.74	48	26	22	54.17	726.53	2,225.48	-637.32	-3,909.03	1.14	1.35	101.43

44 of 48 instances (92%) closed above the entry price at some point in the next 5 days.

Results here suggest a solid edge over the next 1-10 days...

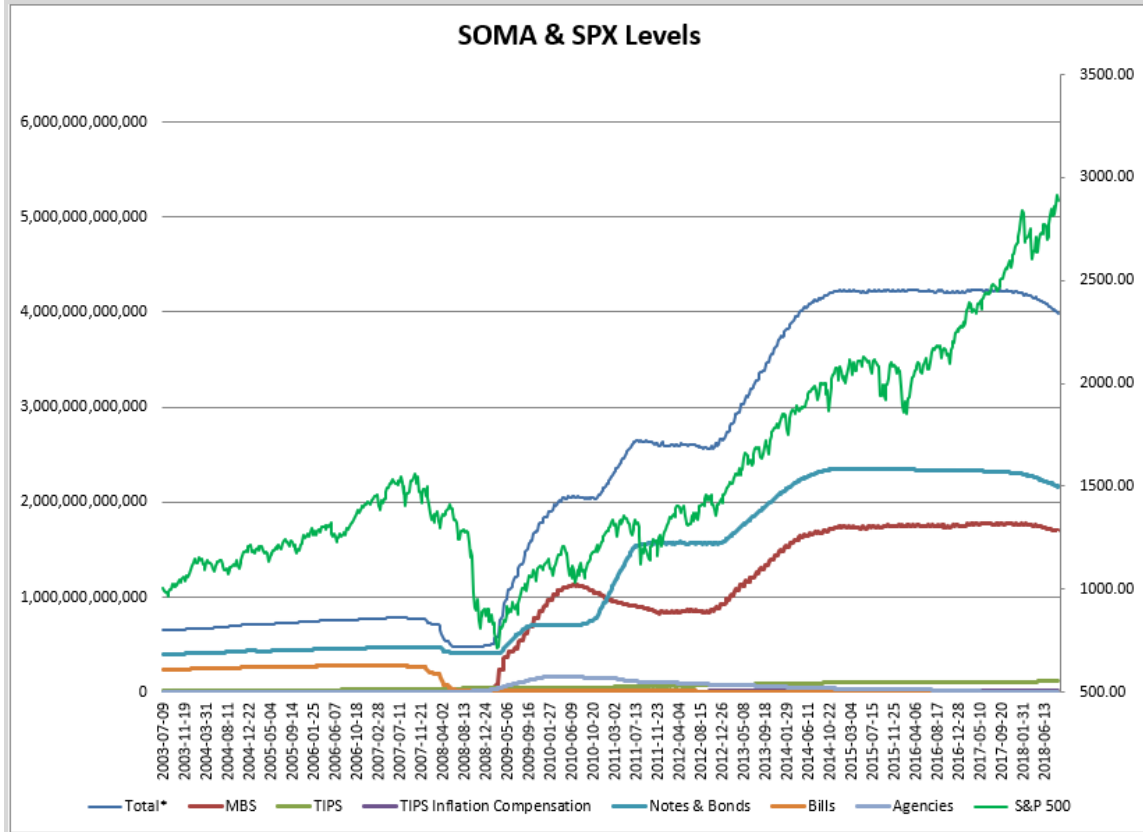


This curve is also impressive and helps to confirm the upside edge.

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 08/29/2018

SECURITIES HOLDINGS AS OF
September 5, 2018

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

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	100,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,157,449,918.5
US Treasury Floating Rate Notes (FRN)	18,152,012.4
US Treasury Inflation-Protected Securities (TIPS)*	115,578,709.4
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,697,006,288.2
Total SOMA Holdings	3,990,695,928.5
Change From Prior Week	-11,417,191.8

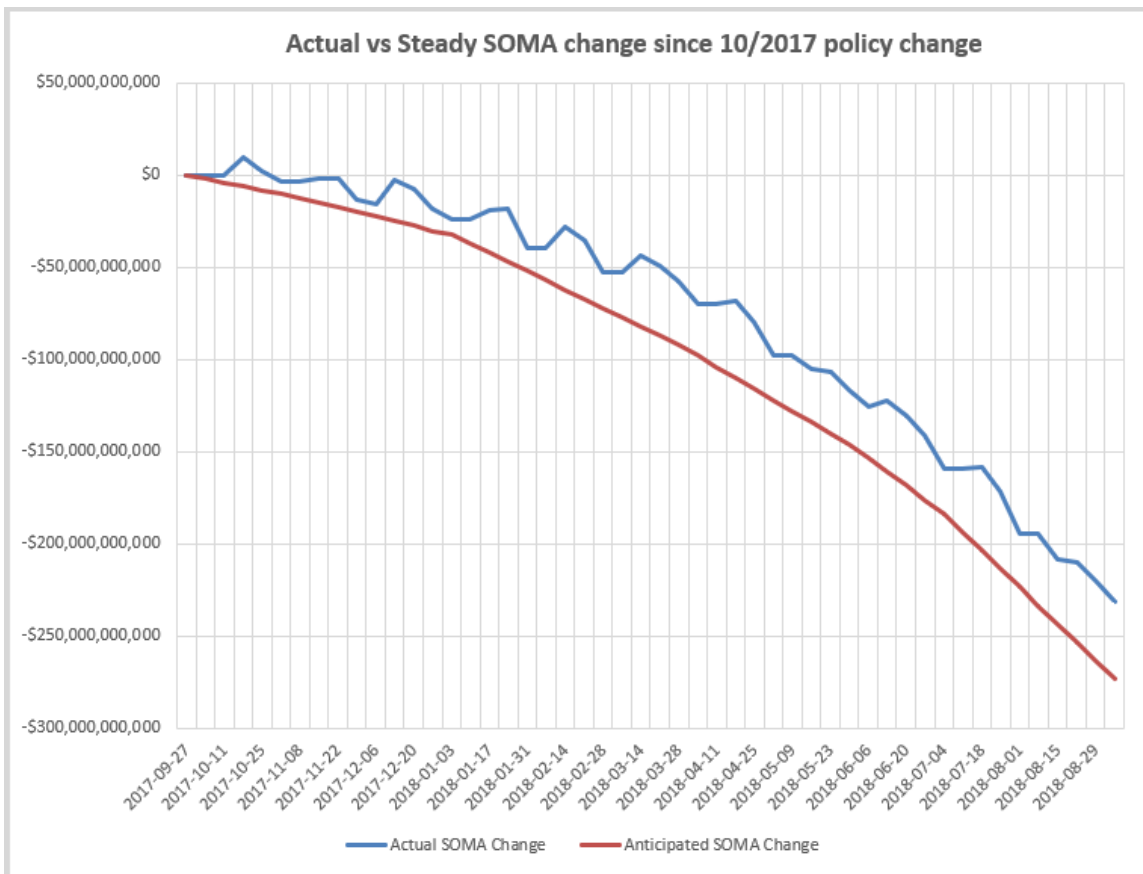
*Does not reflect inflation compensation of 21,921,033.9
 **Fannie Mae, Freddie Mac and Federal Home Loan Bank
 ***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

1st time SOMA value < \$4 trillion since April of 2014.

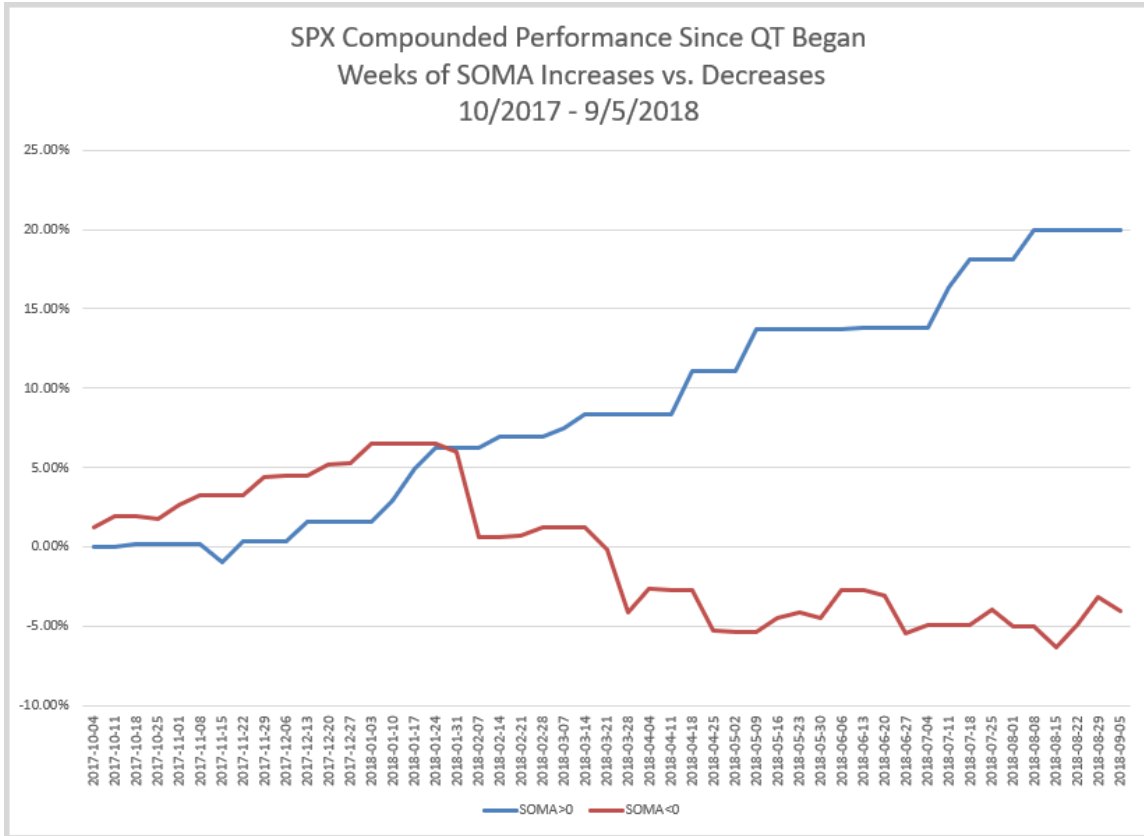
Reduction due to treasuries maturing on 8/31/18.

Data posted on 09/06/2018 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 an average sized contraction of about \$11.4 billion. That is in line with expectations that I laid out here the last couple of weeks. Meanwhile, the SPX lost 0.9% during this week ending Wednesday 9/5. That is not unusual for a week in which there was good-sized QT. The “Actual vs Steady” chart shows that the drop in the SOMA balance this past week was about the size of a “typical” week with the current QT rate being \$40 billion / month. 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.



The last time the SOMA expanded and the blue line did *not* hit a new high was in November of 2017. Since last October the blue “expansion week” strategy would have posted a 20% gain while the red “contraction week” strategy would now have lost 4.0%. So how might the next few weeks of QT play out? Let’s first look at the T-Note and T-Bond Maturity Table below, from the Fed’s website.

« As of 08/29/2018

DOMESTIC SECURITIES HOLDINGS AS OF
September 5, 2018

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
9/30/18	912828T42	0.750	1,584,917.7	5.75%		
9/30/18	912828RH5	1.375	17,421,863.6	20.84%		
10/31/18	912828T83	0.750	1,571,797.0	5.70%		
10/31/18	912828WD8	1.250	3,542,000.0	10.12%		
10/31/18	912828RP7	1.750	17,812,617.0	59.17%		

\$19 billion total for Sep

\$23 billion total for Oct

From now until the end of September any new QT resulting in a SOMA reduction will be thanks to AMBS securities rolling off the books. Compared to treasuries, AMBS flows are a little more difficult to anticipate. This is 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 back to the beginning of QT last October, this is the 1st month where Wednesdays will fall on the 12th. Weeks that finished on the 11th were July (up slightly), April (down slightly), and October 2017 (down slightly). Weeks ending on the 13th included June and last December and both saw sizable increases in the SOMA. Therefore, I anticipate the SOMA will be fairly flat, with a slightly better chance of a rise than a decline for the week of 9/6 – 9/12. Looking out to the next week, when Wednesday has fallen on the 18th we have seen the following SOMA changes: July (up) April (up), and October (up). And weeks ending on the 20th (June and December) saw SOMA declines. So we could see another fairly flat week. It is difficult to tell with the 12th and 19th falling between previous periods that we can measure. I do not believe we will see two weeks in a row of a rising SOMA. But I do think there is a good chance one of the next 2 weeks will rise. If it is not this week, then it will likely be next. In either case, I do not foresee great QT pressure for the next couple of weeks.

One other notable about the September treasury expiration is that there are only about \$19 billion total in treasuries that are set to mature. The current QT rate of \$40 billion / month includes \$24 billion in treasuries. This means there will be a shortfall of about \$5 billion in September. The Fed could make up for this elsewhere, or it could simply lessen the total QT for September by \$5 billion. And October is also likely to see a shortfall, with just \$23 billion set to mature, while policy would roll off as much as \$30 billion in treasuries that month. So unless the Fed adjusts in some other way, September and October may not see QT as strong as we saw in August.

Intermediate-term evidence remains mixed. The bulls have the momentum study from the other day and the SPX Bollinger Band momentum study from last week pointing higher. For the bears, the SOMA remains the largest concern, despite the mild reprieve we may see over the next week and a half. The lagging NASDAQ is also a bearish indication, as well as the recent Hindenburg Omen signals. Lastly, seasonality remains a

potential bearish force. September has historically been the worst month for the stock market, and the week after opex in September has historically been the worst week. Bears still have a chance to do some damage before both of our long-term seasonality indicators turn bullish in November. If it were not for the new SPX momentum study shown above, I would likely be changing the intermediate-term outlook to slightly bearish. For now I will remain neutral. This means I am not inclined to play either side too aggressively, but am willing to take both long and short trades if favorable reward/risk setups emerge.

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.

SPY – Buy ¼ index position @ \$287.40 LIMIT ON CLOSE. Based on the short-term section above, I will look to add to my long index position if SPX finishes down about \$0.20 on Monday. *(This would probably be about 2871.50 for ES traders.)*

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/6/2018	\$289.07	\$287.60	-0.51%		Aggregator

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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