

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 17, 2018

Volume 11 Issue 179

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- 5 higher closes in an uptrend that is not making new 50-day highs has historically suggested a strong market that is likely to continue higher over the next few weeks.
- Opex week in September has generally done well when September has started off positively.
- The Fed's Quantitative Tightening (QT) should remain light through Wednesday. The it will pick up for the next couple of weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I.

*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
<b>Active - Short Term</b>						
September 17, 2018	Sep opex week if Sep positive	1-2 Days	Bullish			
September 17, 2018	5 Up closes. Close < 50 high but > 200m	1-7 days	Bullish	1.85%	-1.20%	-2.30%
<b>Active - Long Term</b>						
September 17, 2018	5 Up closes. Close < 50 high but > 200m	1-15 days	Bullish	3.10%	-1.75%	-3.30%
September 14, 2018	8 days of split New Highs and Lows	1-25 days	Bearish			
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			

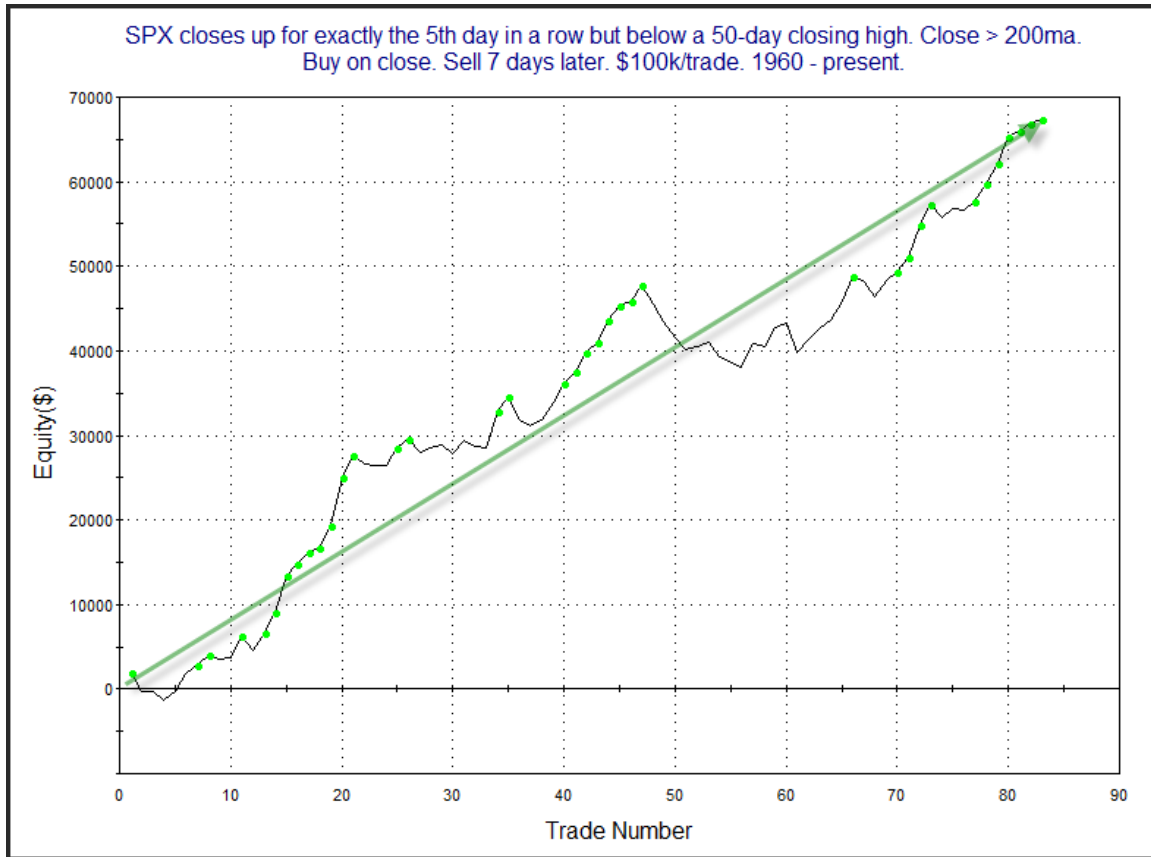
**The Evidence**

Friday posted mixed and mild results for the indices. The SPX closed up 0.03%, the NASDAQ declined 0.05%, and the Russell 2000 rose 0.43%. Breadth was also mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 47%. NYSE volume dipped some from Thursday’s high level.

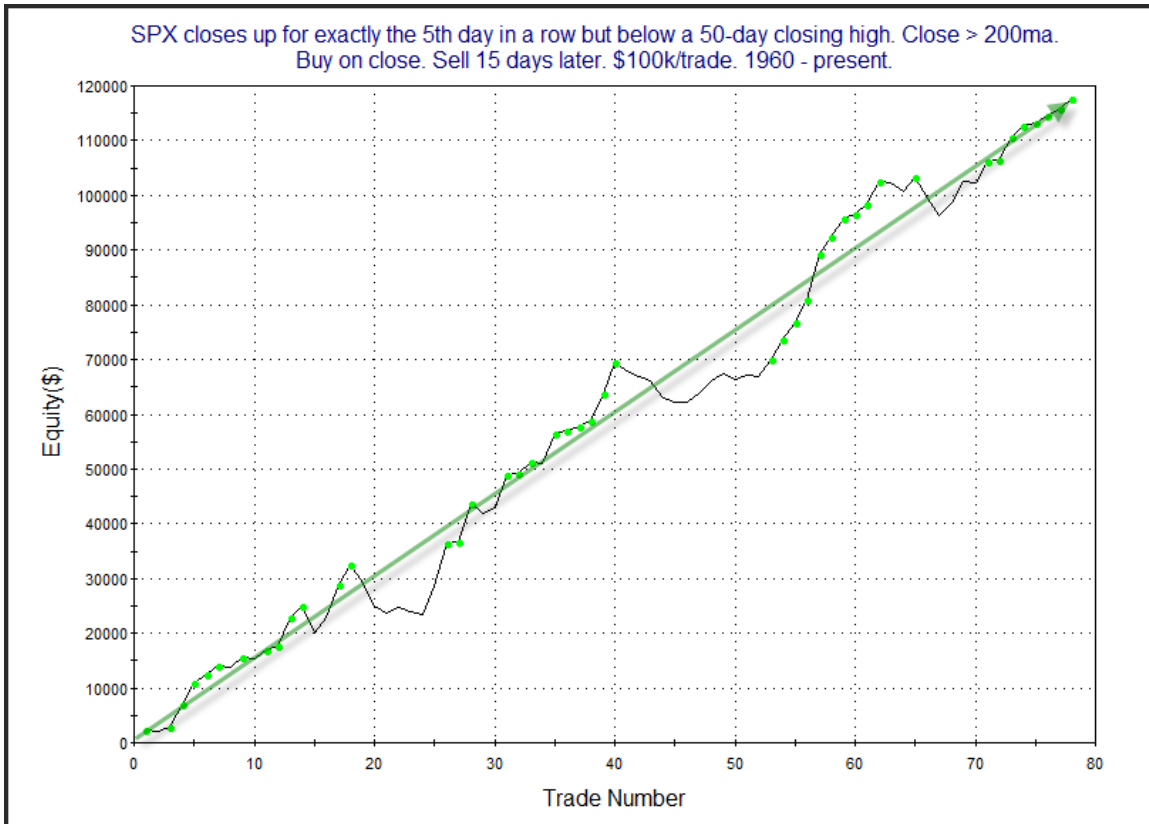
While action was mild, there were a few studies that emerged that are worth some consideration. The study below utilizes a phenomenon that I have spoken of a number of times in the past. That is when the market begins to get overbought it will often suggest a pullback is likely, but when overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. This study looks at 5 higher closes as “strongly overbought” and demonstrates the continuation concept. It was last seen in the 9/1/17 subscriber letter.

SPX closes up for exactly the 5th day in a row but below a 50-day closing high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
15	117,726.70	78	54	24	69.23	2,838.36	8,288.00	-1,481.02	-4,879.10	1.92	4.31	1,509.32
14	104,864.55	78	55	23	70.51	2,597.64	8,272.60	-1,652.42	-4,738.50	1.57	3.76	1,344.42
13	103,877.49	79	55	24	69.62	2,589.78	6,401.50	-1,606.69	-3,773.44	1.61	3.69	1,314.90
12	96,323.49	80	56	24	70.00	2,375.98	5,925.50	-1,530.47	-3,661.77	1.55	3.62	1,204.04
11	82,005.98	82	53	29	64.63	2,293.38	6,074.75	-1,363.56	-4,894.24	1.68	3.07	1,000.07
10	82,433.76	82	58	24	70.73	1,981.53	5,675.25	-1,353.96	-4,684.28	1.46	3.54	1,005.29
9	77,848.91	82	55	27	67.07	2,027.98	5,228.75	-1,247.78	-4,910.55	1.63	3.31	949.38
8	70,108.46	82	58	24	70.73	1,733.32	5,146.50	-1,267.66	-3,774.54	1.37	3.30	854.98
7	67,408.64	83	57	26	68.67	1,750.91	5,698.75	-1,245.89	-3,500.70	1.41	3.08	812.15
6	57,641.52	84	60	24	71.43	1,532.38	5,134.75	-1,429.21	-3,366.60	1.07	2.68	686.21
5	44,583.74	84	56	27	66.67	1,381.23	4,476.75	-1,213.53	-3,716.53	1.14	2.36	530.76
4	32,481.70	84	54	29	64.29	1,157.42	3,983.25	-1,035.14	-3,494.78	1.12	2.08	386.69
3	28,036.70	84	57	27	67.86	1,012.50	2,796.50	-1,099.11	-3,359.36	0.92	1.94	333.77
2	9,165.97	84	49	35	58.33	798.82	2,479.25	-856.46	-3,748.50	0.93	1.31	109.12
1	6,951.70	84	47	36	55.95	579.61	2,211.54	-563.60	-2,200.96	1.03	1.34	82.76

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 7-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.



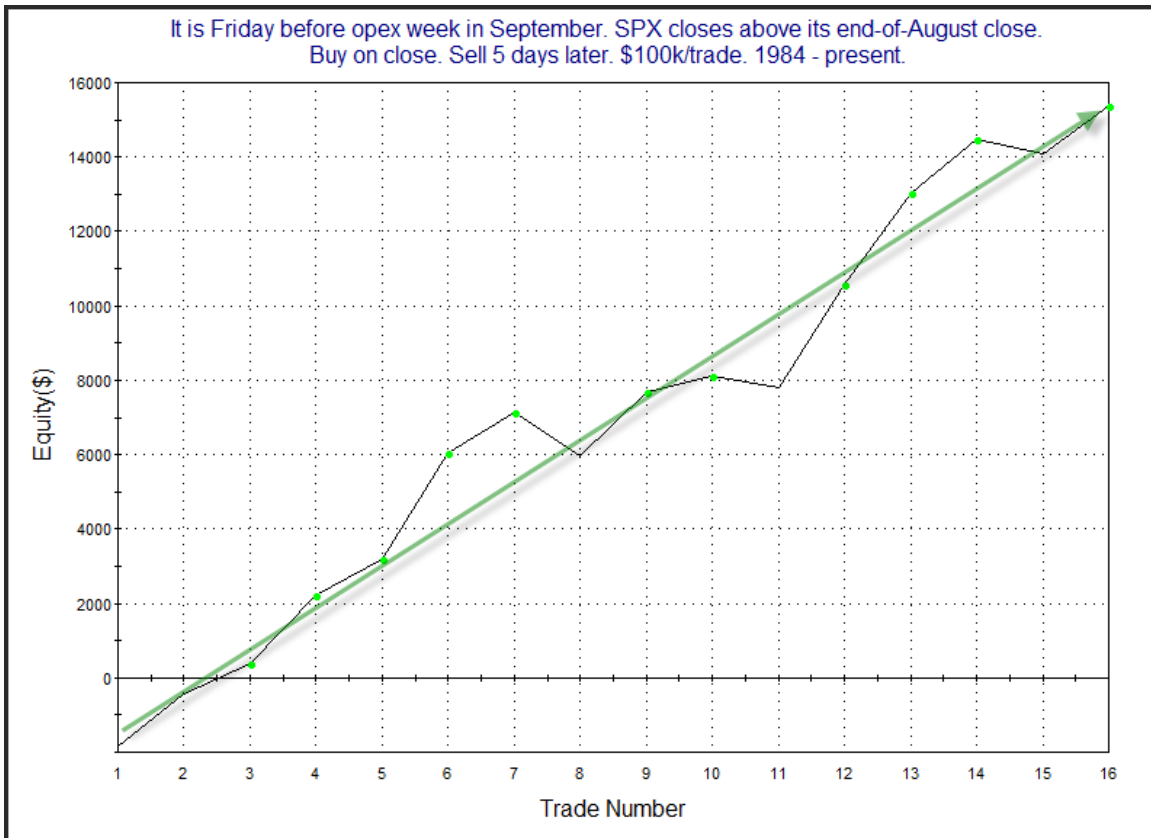
The 15-day curve appears even more consistent. In addition to the short-term Active List, I have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

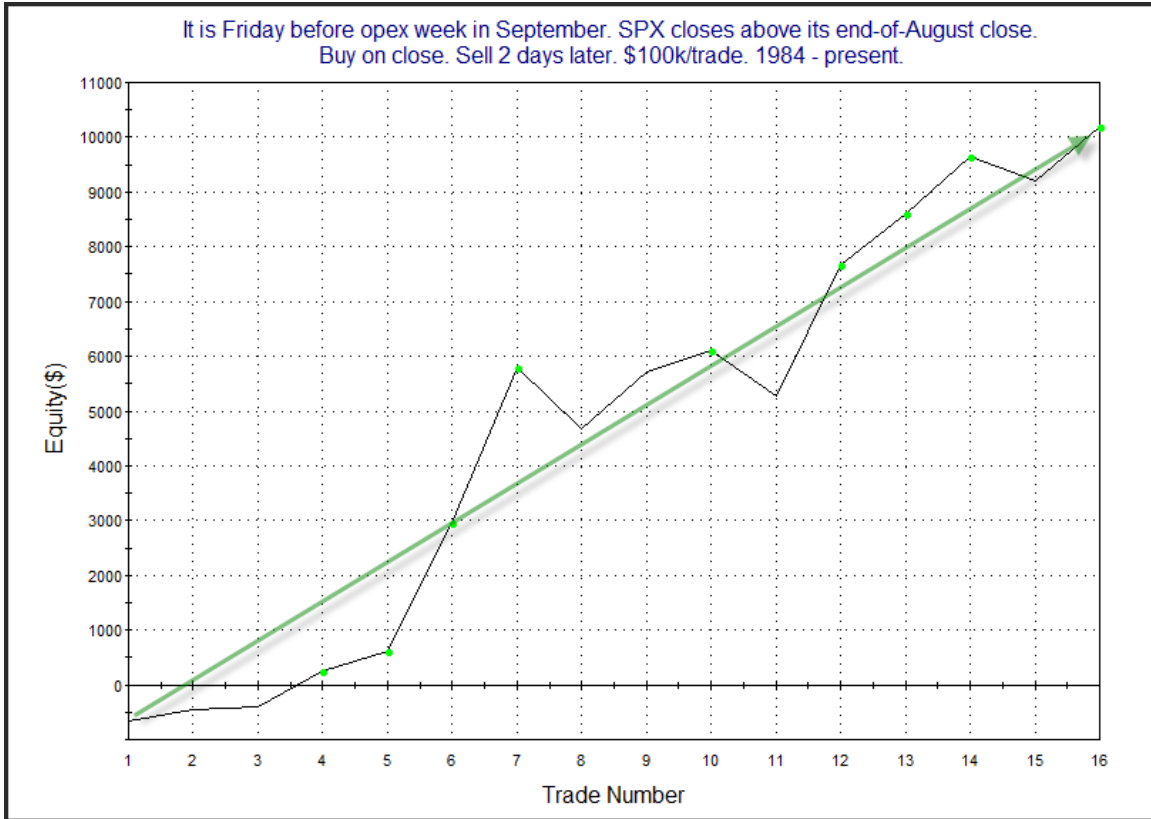
This upcoming week is options expiration. Options expiration weeks are typically pretty good week for the market. In the 9/16/13 Letter I found that September opex has often been quite good when there has been some momentum heading into it. (Like the 1<sup>st</sup> study, we again see the momentum theme coming through here.) In that study I examined how September opex has done when it has posted gains over the first couple of weeks, like it has this year. It is updated below.

It is Friday before opex week in September. SPX closes above its end-of-August close.  
Buy on close. Sell X days later. \$100k/trade. 1984 - 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
5	15,371.82	16	12	4	75.00	1,589.05	2,871.72	-924.20	-1,841.12	1.72	5.16	960.74
4	11,523.95	16	11	5	68.75	1,475.68	2,528.28	-941.70	-2,422.14	1.57	3.45	720.25
3	12,346.18	16	11	5	68.75	1,606.64	3,608.55	-1,065.36	-2,459.37	1.51	3.32	771.64
2	10,196.32	16	12	4	75.00	1,103.96	2,836.35	-762.79	-1,122.01	1.45	4.34	637.27
1	4,234.14	16	9	7	56.25	737.87	2,044.35	-343.82	-549.69	2.15	2.76	264.63

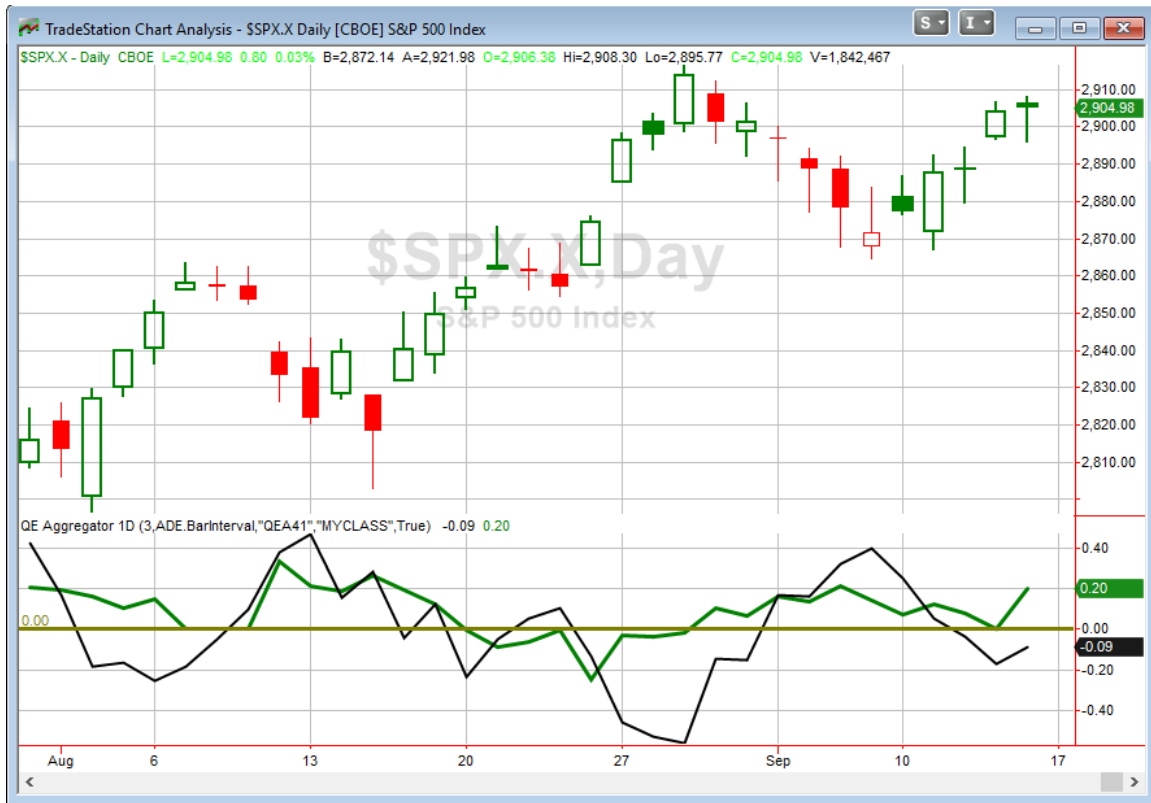
It is a few less instances than I would prefer, but the overall numbers are very strong. Below is a look at the equity curves assuming a 5-day and a 2-day holding period.





Both of these curves move nicely from lower left to upper right and provide some confidence to the bullish numbers shown in the table. I have added it to the Active List for Monday and Tuesday.

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



With tonight's new studies under consideration, the green Aggregator Line closed above zero. Positive readings mean net expectations from the Active List for upside over the next few days. Meanwhile the black Differential Line remained 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 list of active studies, expectations are slated to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2896.68 on Monday. That is about 0.3% below Friday's close. So SPX would only need to close down about 0.3% in order to turn from overbought to oversold versus recent expectations on Monday.

Momentum is strong, and evidence suggests we could see further upside in the next few days. But the overbought condition does have a negative impact on reward/risk. The Aggregator is therefore neutral, and I basically am as well. I am not inclined to get involved with new index positions until a more favorable reward/risk scenario emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/17– 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.) *There were no changes to the combo systems this week, as all three remain “flat”.*

This past week saw the market post gains. The SPX rose 1.2%, the NASDAQ gained 1.4%, and the Russell 2000 climbed 0.5%. From an intermediate-term standpoint, there were a few new studies that emerged. Of course, there was the one I already showed in the short-term section above that looked at 5-day win streaks in uptrends that fail to result in a new 50-day high. There was also a bearish study from the Thursday night letter that looked at split market conditions.

Last weekend I discussed in detail the Hindenburg Omen signal. A core premise behind the Hindenburg Omen is that there are a large number of stocks hitting both new highs and new lows. This indicates a split market. When this has happened for multiple days within a short time period, it has often led to market declines. Friday marked the 9<sup>th</sup> day in a row that NYSE new highs and new lows exceeded 2.4% of total issues. The study below is from Thursday night, and it looked at streaks of 8 days or more.

*... But tonight I simply wanted to look at streaks of these type of split market conditions on their own. With data going back to 1970, I looked for other instances of 8 consecutive days with both new highs and new lows exceeding 2.4% of total issues. Results are below.*

52-week new highs and new lows both exceed 2.4% of total NYSE issues for 8 days in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
25	-25,908.20	6	0	6	0.00	0.00	0.00	-4,318.03	-12,334.96	0.00	0.00	-4,318.03
24	-25,117.96	6	0	6	0.00	0.00	0.00	-4,186.33	-11,641.60	0.00	0.00	-4,186.33
23	-22,818.54	6	0	6	0.00	0.00	0.00	-3,803.09	-10,622.96	0.00	0.00	-3,803.09
22	-24,295.77	6	0	6	0.00	0.00	0.00	-4,049.30	-10,802.72	0.00	0.00	-4,049.30
21	-24,392.86	6	0	6	0.00	0.00	0.00	-4,065.48	-12,377.76	0.00	0.00	-4,065.48
20	-19,461.56	6	1	5	16.67	111.36	111.36	-3,914.58	-9,664.24	0.03	0.01	-3,243.59
19	-20,523.64	6	0	6	0.00	0.00	0.00	-3,420.61	-9,501.60	0.00	0.00	-3,420.61
18	-18,315.36	6	0	6	0.00	0.00	0.00	-3,052.56	-8,431.60	0.00	0.00	-3,052.56
17	-15,713.52	6	1	5	16.67	294.52	294.52	-3,201.61	-7,652.64	0.09	0.02	-2,618.92
16	-18,360.06	6	0	6	0.00	0.00	0.00	-3,060.01	-8,739.76	0.00	0.00	-3,060.01
15	-14,021.32	6	0	6	0.00	0.00	0.00	-2,336.89	-8,405.92	0.00	0.00	-2,336.89
14	-11,466.46	6	1	5	16.67	985.44	985.44	-2,490.38	-6,907.92	0.40	0.08	-1,911.08
13	-10,614.32	6	1	5	16.67	1,476.00	1,476.00	-2,418.06	-4,785.04	0.61	0.12	-1,769.05
12	-10,725.22	6	1	5	16.67	1,389.60	1,389.60	-2,422.96	-3,372.64	0.57	0.11	-1,787.54
11	-11,300.18	6	1	5	16.67	1,058.88	1,058.88	-2,471.81	-3,612.32	0.43	0.09	-1,883.36
10	-11,181.38	6	1	5	16.67	1,072.80	1,072.80	-2,450.84	-5,080.84	0.44	0.09	-1,863.56
9	-12,443.51	6	1	5	16.67	898.56	898.56	-2,668.41	-5,831.94	0.34	0.07	-2,073.92
8	-10,311.18	7	2	5	28.57	398.33	519.84	-2,221.57	-3,715.04	0.18	0.07	-1,473.03
7	-7,093.04	7	3	4	42.86	205.09	410.78	-1,927.08	-2,475.20	0.11	0.08	-1,013.29
6	-10,478.02	7	0	7	0.00	0.00	0.00	-1,496.86	-2,901.84	0.00	0.00	-1,496.86
5	-7,207.05	7	1	6	14.29	200.64	200.64	-1,234.61	-4,179.84	0.16	0.03	-1,029.58
4	-6,920.72	8	2	6	25.00	740.52	1,216.56	-1,400.29	-3,369.12	0.53	0.18	-865.09
3	-2,239.43	9	3	6	33.33	863.86	2,044.62	-805.17	-2,759.52	1.07	0.54	-248.83
2	-3,786.23	12	5	7	41.67	678.80	2,714.32	-1,025.74	-2,239.30	0.66	0.47	-315.52
1	-2,677.51	19	8	11	42.11	516.16	1,923.26	-618.80	-1,617.00	0.83	0.61	-140.92

There have not been many instances, but the returns after the ones so far have been quite bearish. Below is a list of all the instances assuming a 25-day holding period.

52-week new highs and new lows both exceed 2.4% of total NYSE issues for 8 days in a row. Buy SPX on close. Sell 25 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/7/1972	Buy	\$109.62	-2.96%	\$1,358.88
5/12/1972	Sell	\$106.38		(\$5,280.48)
5/24/1972	Buy	\$110.31	-3.16%	\$1,060.02
6/29/1972	Sell	\$106.82		(\$3,959.22)
8/11/1972	Buy	\$111.95	-2.98%	\$1,339.50
9/18/1972	Sell	\$108.61		(\$3,697.02)
2/14/1980	Buy	\$116.72	-12.35%	\$1,010.08
3/21/1980	Sell	\$102.31		(\$13,336.48)
12/7/2000	Buy	\$1,343.55	-1.26%	\$3,367.00
1/16/2001	Sell	\$1,326.65		(\$6,621.52)
12/9/2014	Buy	\$2,059.82	-3.26%	\$1,619.04
1/15/2015	Sell	\$1,992.67		(\$4,188.48)

Three of the six instances occurred in 1972. So with just 3 instances since 1972, I am not using this study to generate short-term expectations. But I thought results were intriguing enough to merit a mention. I also reduced the % requirement to see if that would provide some additional instances. Below are the 25 day-results for a 2.2% minimum.

52-week new highs and new lows both exceed 2.2% of total NYSE issues for 8 days in a row. Buy SPX on close. Sell 25 days later. \$100k/trade. 1970 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/3/1972	Buy	\$107.48	-1.25%	\$3,375.90
5/8/1972	Sell	\$106.14		(\$2,176.20)
5/24/1972	Buy	\$110.31	-3.16%	\$1,060.02
6/29/1972	Sell	\$106.82		(\$3,959.22)
8/11/1972	Buy	\$111.95	-2.98%	\$1,339.50
9/18/1972	Sell	\$108.61		(\$3,697.02)
3/23/1977	Buy	\$100.20	-2.00%	\$1,866.26
4/28/1977	Sell	\$98.20		(\$3,662.66)
2/14/1980	Buy	\$116.72	-12.35%	\$1,010.08
3/21/1980	Sell	\$102.31		(\$13,336.48)
1/3/2000	Buy	\$1,455.22	-0.93%	\$1,209.04
2/8/2000	Sell	\$1,441.75		(\$7,151.56)
12/6/2000	Buy	\$1,351.54	-2.44%	\$2,738.23
1/12/2001	Sell	\$1,318.55		(\$7,115.31)
5/3/2006	Buy	\$1,307.85	-3.82%	\$1,432.60
6/8/2006	Sell	\$1,257.93		(\$5,522.92)
12/9/2014	Buy	\$2,059.82	-3.26%	\$1,619.04
1/15/2015	Sell	\$1,992.67		(\$4,188.48)

This does not look any better. How about a 2.0% requirement?

52-week new highs and new lows both exceed 2.0% of total NYSE issues for 8 days in a row. Buy SPX on close. Sell 25 days later. \$100k/trade. 1970 - present.

Total Net Profit	(\$43,644.19)	Profit Factor	0.01
Gross Profit	\$399.00	Gross Loss	(\$44,043.19)
Total Number of Trades	13	Percent Profitable	7.69%
Winning Trades	1	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$3,357.25)	Ratio Avg. Win:Avg. Loss	0.11
Avg. Winning Trade	\$399.00	Avg. Losing Trade	(\$3,670.27)
Largest Winning Trade	\$399.00	Largest Losing Trade	(\$12,930.08)

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/10/1971	Buy	\$100.64	-1.52%	\$1,062.51
7/16/1971	Sell	\$99.11		(\$3,693.96)
4/3/1972	Buy	\$107.48	-1.25%	\$3,375.90
5/8/1972	Sell	\$106.14		(\$2,176.20)
5/24/1972	Buy	\$110.31	-3.16%	\$1,060.02
6/29/1972	Sell	\$106.82		(\$3,959.22)
8/10/1972	Buy	\$111.05	-2.02%	\$2,160.00
9/15/1972	Sell	\$108.81		(\$2,916.00)
3/23/1977	Buy	\$100.20	-2.00%	\$1,866.26
4/28/1977	Sell	\$98.20		(\$3,662.66)
2/13/1980	Buy	\$118.44	-12.93%	\$725.84
3/20/1980	Sell	\$103.12		(\$14,601.20)
7/16/1998	Buy	\$1,183.99	-7.80%	\$553.56
8/20/1998	Sell	\$1,091.60		(\$10,919.16)
12/30/1999	Buy	\$1,464.47	-2.74%	\$920.04
2/4/2000	Sell	\$1,424.37		(\$7,780.56)
10/3/2000	Buy	\$1,426.18	0.40%	\$1,259.30
11/7/2000	Sell	\$1,431.88		(\$8,427.30)
12/6/2000	Buy	\$1,351.54	-2.44%	\$2,738.23
1/12/2001	Sell	\$1,318.55		(\$7,115.31)
4/26/2006	Buy	\$1,305.41	-1.51%	\$1,618.04
6/1/2006	Sell	\$1,285.71		(\$4,565.32)
7/20/2007	Buy	\$1,534.10	-3.57%	\$853.45
8/24/2007	Sell	\$1,479.37		(\$10,627.50)
12/9/2014	Buy	\$2,059.82	-3.26%	\$1,619.04
1/15/2015	Sell	\$1,992.67		(\$4,188.48)

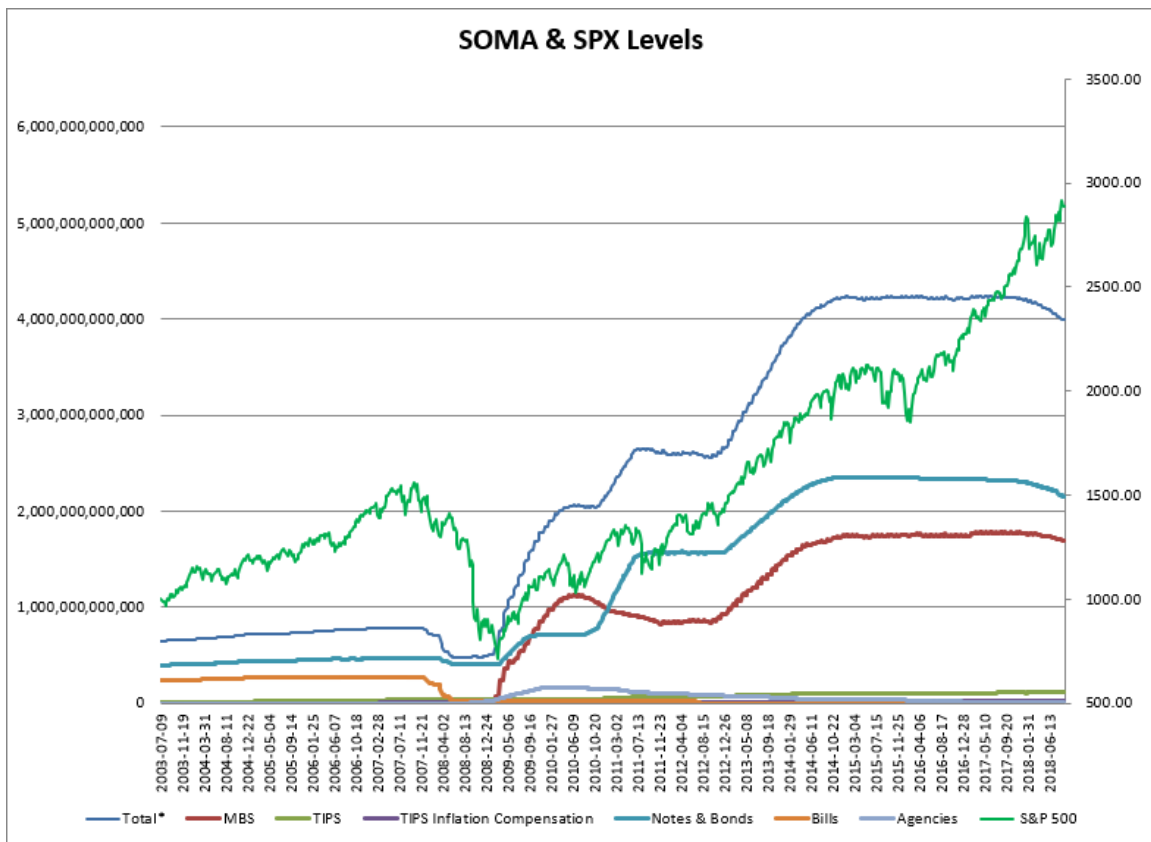
*Even the lone winner here had an 8.4% decline before turning slightly positive. Bottom line appears to be that have such a split market as we are currently seeing is quite rare. And historically it has not been a good thing for the market.*

I'll note I also took a quick look this weekend at streaks of 9 days, rather than 8. It barely changed anything.

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.

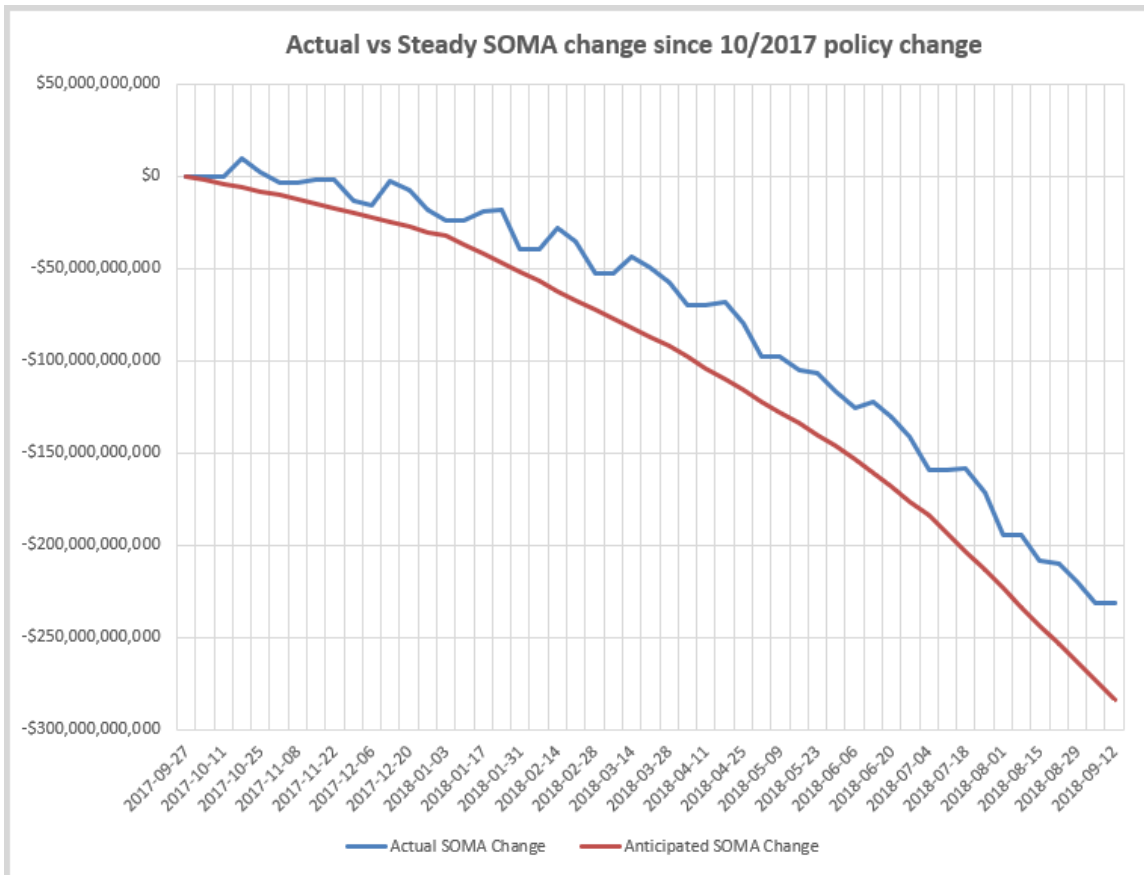
DOMESTIC SECURITIES HOLDINGS AS OF  
**September 12, 2018**

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***	1,697,016,288.3
<b>Total SOMA Holdings</b>	<b>3,990,705,928.6</b>
Change From Prior Week	10,000.1

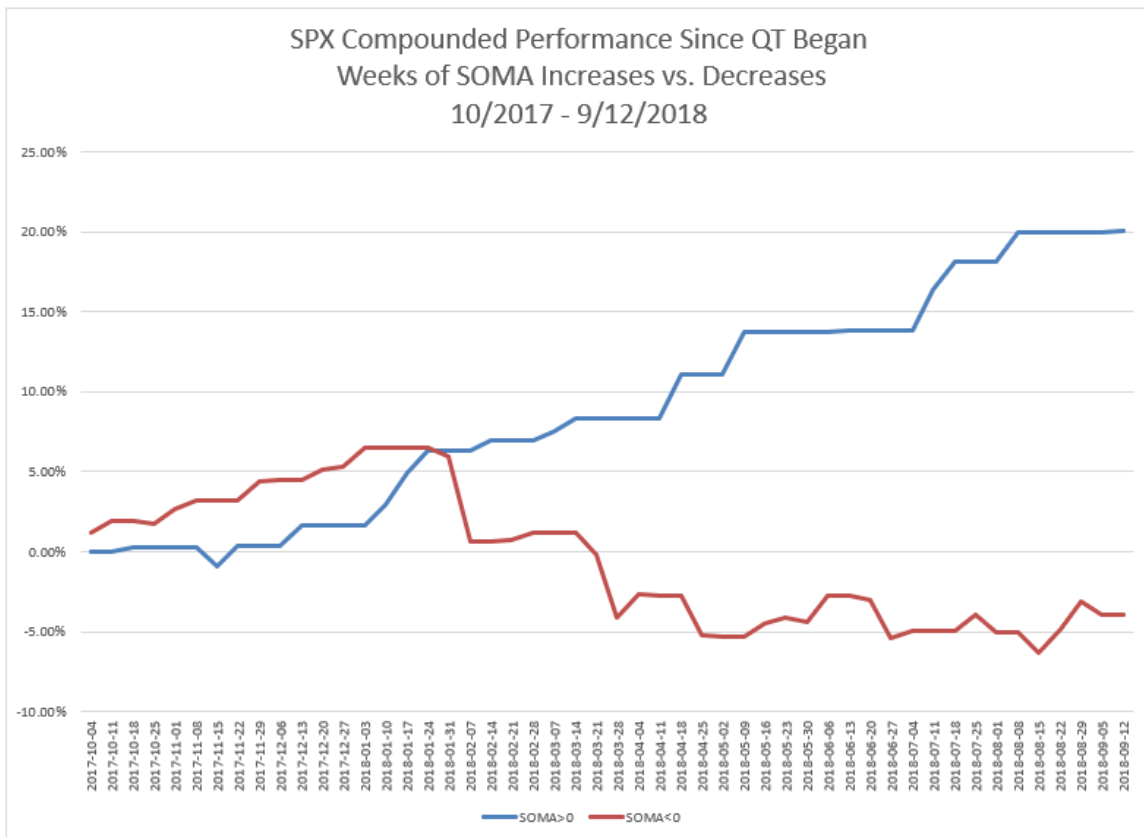
\*Does not reflect inflation compensation of 21,923,167.6  
 \*\*Fannie Mae, Freddie Mac and Federal Home Loan Bank  
 \*\*\*Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 09/13/2018 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 very small increase of \$10 million. That is in line with expectations that I laid out here the last couple of weeks, where I called for a very slight increase. Meanwhile, the SPX gained less than 1 point during this week ending Wednesday 9/12. So bulls won out, but not by much. The "Actual vs Steady" chart shows that the slight rise in the SOMA balance this past week was far off 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 rise in the SOMA was extremely small, and so was the rise in the market. But the fact that they both rose kept alive the winning streak of the blue-line "expansion week" strategy, which is now at 15 winning weeks in a row. 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 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**

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

Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding <sup>1</sup>	Change in Par from Prior Week <sup>2</sup>	Change in Par from Prior Year <sup>2</sup>
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**

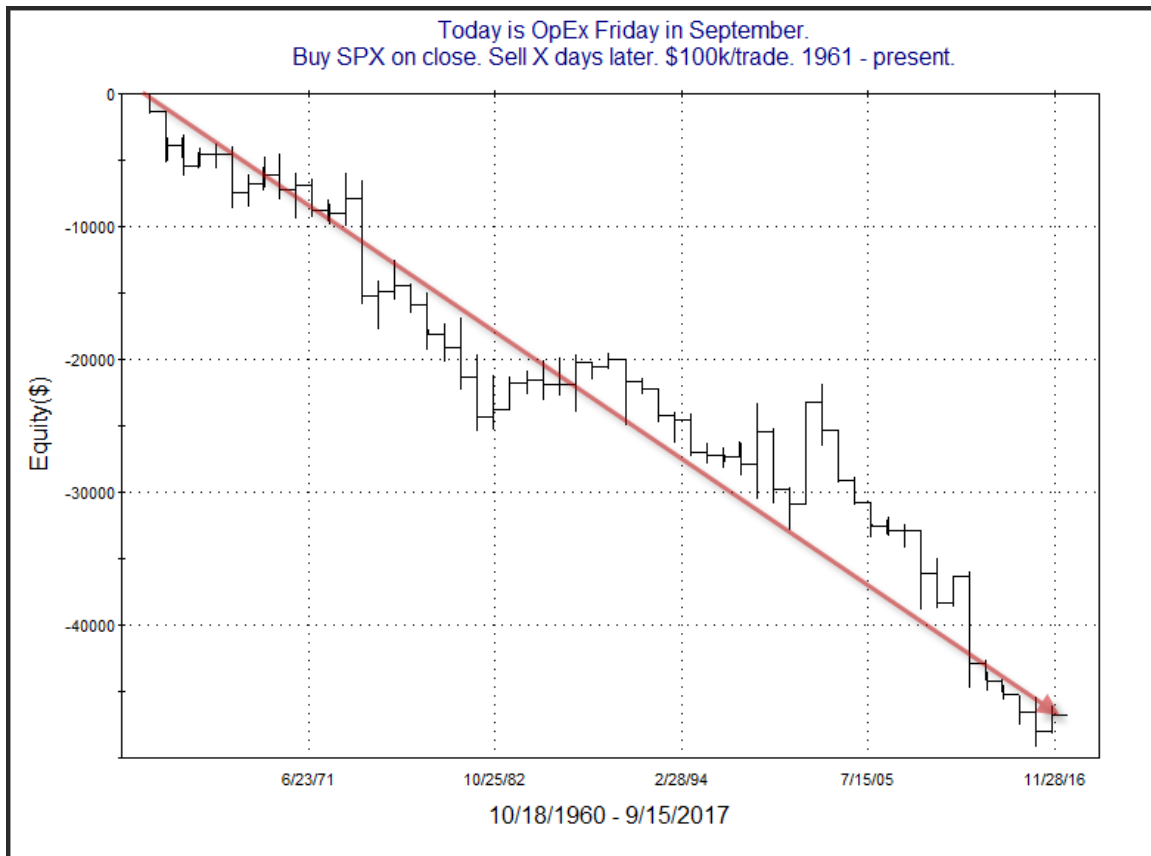
From now until the September 30<sup>th</sup>, any new QT resulting in a SOMA reduction will be thanks to AMBS securities rolling off the books. Compared to treasuries, AMBS flows are a little more difficult to anticipate. This is because 1) amounts may vary depending on loan pre-payments, and 2) there 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 1<sup>st</sup> month where Wednesdays will fall on the 19<sup>th</sup>. Weeks that finished on the 18<sup>th</sup> in July, April, and October all closed up. And weeks ending on the 20<sup>th</sup> (June and December) saw SOMA declines. I anticipate the SOMA will be fairly flat, with a slightly better chance of a decline than a rise for the week of 9/13 – 9/19. With this past week closing higher, I find it unlikely that we will see 2 weeks in a row of actual SOMA gains. Looking out to the next week, which actually starts on Thursday, I expect to see some sizable QT. And the following week, which contains the Sep 30<sup>th</sup> treasury expiration, should see a sizable drop in the SOMA as well. So after Wednesday, the QT reprieve we have been seeing will end, and bulls will be facing a sizable liquidity headwind for the next 2 weeks.

As I mentioned last week, there are only about \$19 billion total in treasuries that are set to mature in September. 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. 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. Looking forward, November has a massive amount of treasuries maturing, so it should easily reach the \$30 billion QT mark for treasuries. But both December and January will fall well short of the \$30 billion threshold. December has just \$18.2 billion set to mature and January only \$11.7 billion.

Interestingly, the big QT coming up the next couple of weeks will also correspond with the “Weakest Week”. Historically, the week after opex in September has been the worst week of the year for the SPX. The chart below is taken from the 9/18/17 letter. It shows performance following the 3<sup>rd</sup> Friday of September dating back to 1961.



I'll be updating this chart and the full study next weekend, but thought it was worth a quick look ahead of time.

Intermediate-term evidence remains mixed. It continues to be a battle of upside momentum (bullish) versus QT, poor seasonality, a lagging NASDAQ, and split market conditions (all bearish). While that is a lot for the bulls to withstand, it is tough to turn outright bearish until some actual price indications confirm. 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.*

**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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