

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 28, 2018

Volume 11 Issue 188

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Wednesday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Thursday.
- A potential turn-of-the-month edge shows a weak close on Friday would be highly preferable.
- Quantitative Tightening (QT) was fairly high this past week, and the current week should be even higher.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. There still appears to be a bit of an upside edge, though not as strong as it appeared last night.

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 28, 2018	Unfilled gap up inside day	1 day	Bearish			
September 27, 2018	Fed today. Dn 2+	1-6 days	Bullish	2.00%	-1.45%	-3.10%
September 26, 2018	Down 3 days before Fed Day	1-4 days	Bullish			
Active - Long Term						
September 20, 2018	RUT btm 25% 20-day rng SPX top 25%	1-40 days	Bullish	5.60%	-2.70%	-5.30%
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%
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			

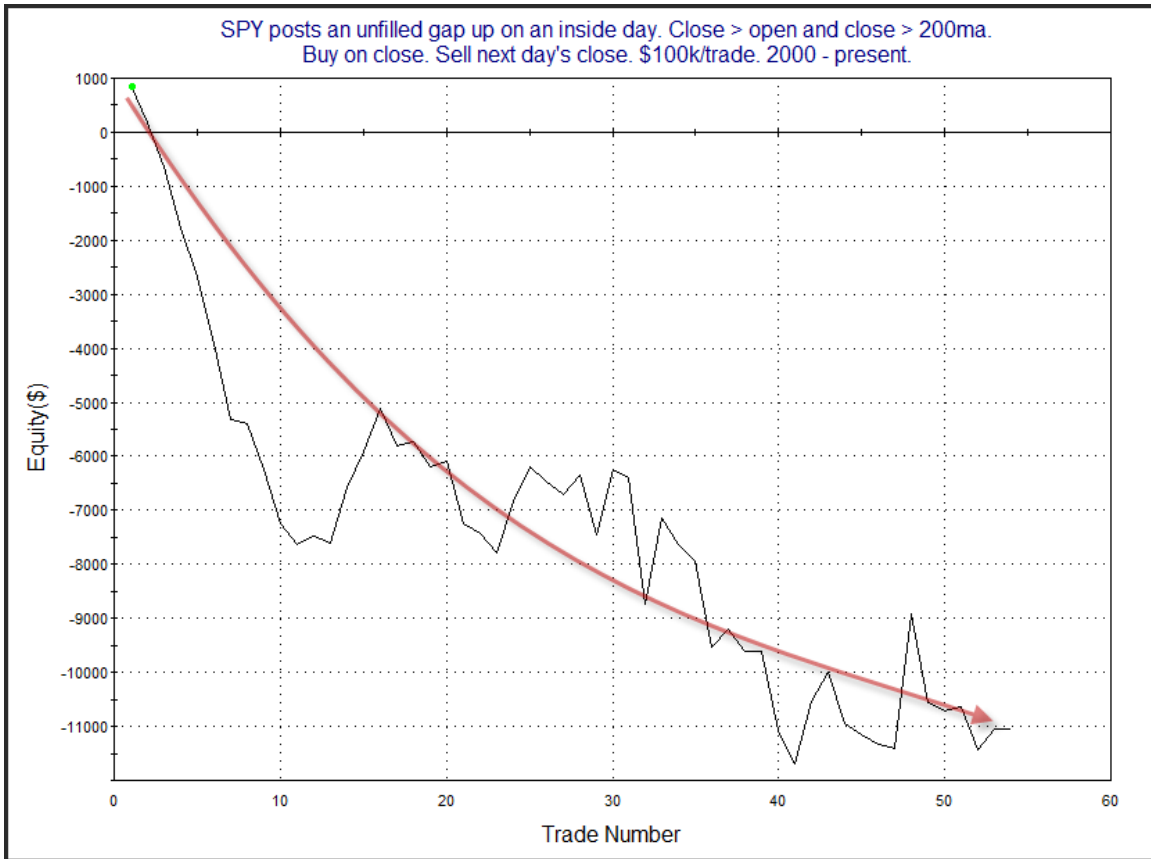
The Evidence

Thursday was mixed but mostly positive. The SPX rose 0.3%, the NASDAQ gained 0.7%, and the Russell 2000 dropped 0.1%. Breadth was also mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 49%. NYSE volume declined for the 4th day in a row.

While action was mild, it did trigger an interesting study from the 9/7/17 letter. The study looks at days like Thursday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. Results below are updated.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$11,049.42)	Profit Factor	0.55
Gross Profit	\$13,412.16	Gross Loss	(\$24,461.58)
Total Number of Trades	54	Percent Profitable	33.33%
Winning Trades	18	Losing Trades	35
Even Trades	1		
Avg. Trade Net Profit	(\$204.62)	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	\$745.12	Avg. Losing Trade	(\$698.90)
Largest Winning Trade	\$2,470.05	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. I'd also note that 48 of 54 instances (89%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve, but it still appears to suggest a downside edge.

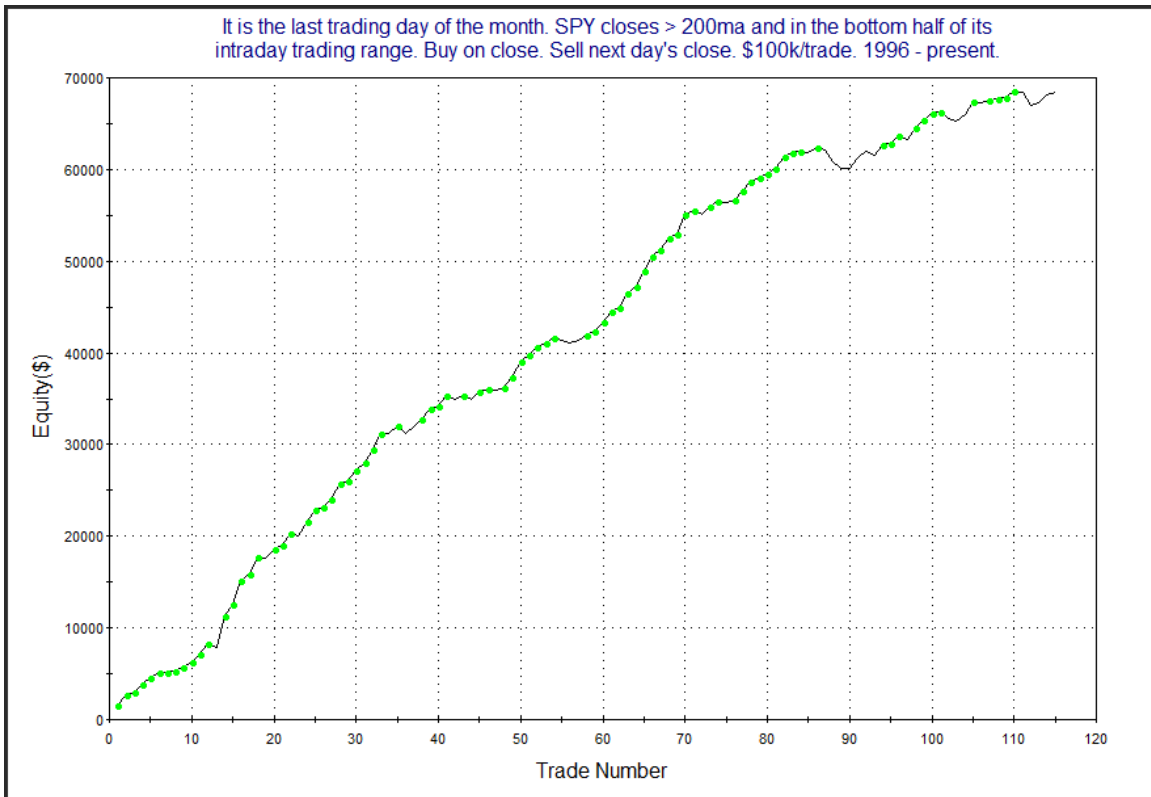
It is also worth noting that Friday is the last trading day of the month. In the 8/31/18 letter I showed some studies about the 1st trading day of the month based on how the last trading day of the previous month performed. I have updated those studies below.

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$68,407.75	Profit Factor	7.84
Gross Profit	\$78,413.81	Gross Loss	(\$10,006.06)
Total Number of Trades	115	Percent Profitable	79.13%
Winning Trades	91	Losing Trades	24
Even Trades	0		
Avg. Trade Net Profit	\$594.85	Ratio Avg. Win:Avg. Loss	2.07
Avg. Winning Trade	\$861.69	Avg. Losing Trade	(\$416.92)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 7.8x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 115 instances. Below is a profit curve.



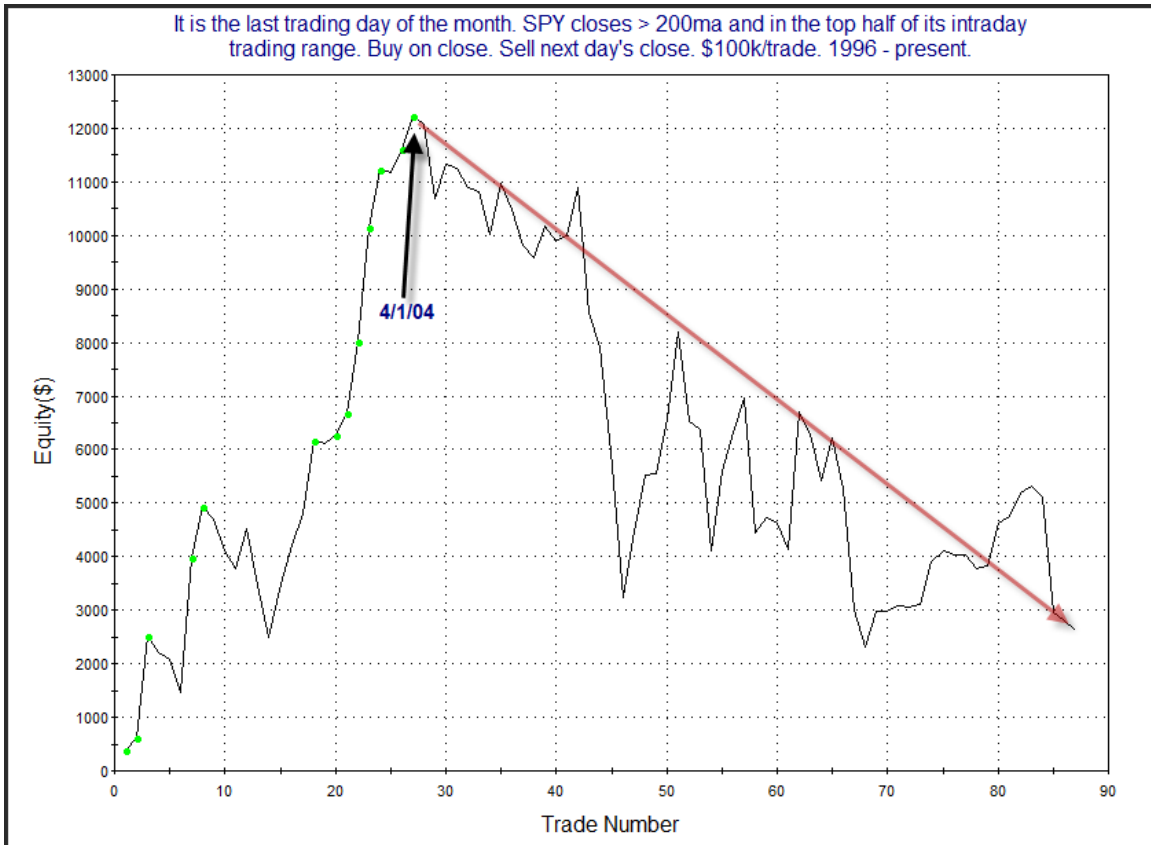
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results have looked like when SPY closed in the top half of its intraday range. (Also from the 8/31/18 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$2,622.31	Profit Factor	1.08
Gross Profit	\$34,553.25	Gross Loss	(\$31,930.94)
Total Number of Trades	87	Percent Profitable	51.72%
Winning Trades	45	Losing Trades	42
Even Trades	0		
Avg. Trade Net Profit	\$30.14	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$767.85	Avg. Losing Trade	(\$760.26)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture. So to set up an upside edge for Monday, traders would prefer a weak close on Friday.

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

DOMESTIC SECURITIES HOLDINGS AS OF
September 26, 2018

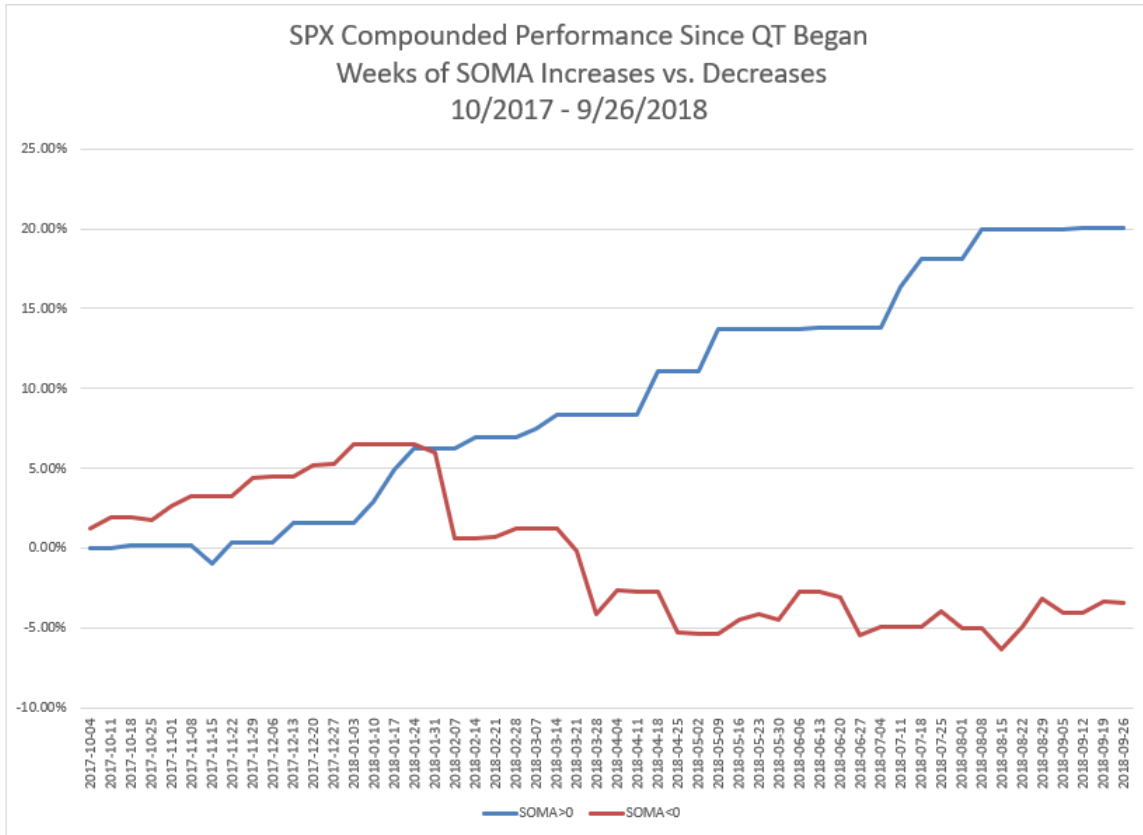
Summary		T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)					
US Treasury Bills (T-Bills)	100,000.0					
US Treasury Notes and Bonds (Notes/Bonds)	2,157,449,918.5					
US Treasury Floating Rate Notes (FRN)	18,152,012.4					
US Treasury Inflation-Protected Securities (TIPS)*	115,578,709.4					
Federal Agency Securities**	2,409,000.0					
Agency Mortgage-Backed Securities***	1,681,763,242.7					
Total SOMA Holdings	3,975,452,883.0					
Change From Prior Week	-13,460,166.3					

Reduction entirely from AMBS this past week.

*Does not reflect inflation compensation of 21,927,536.8
 **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.

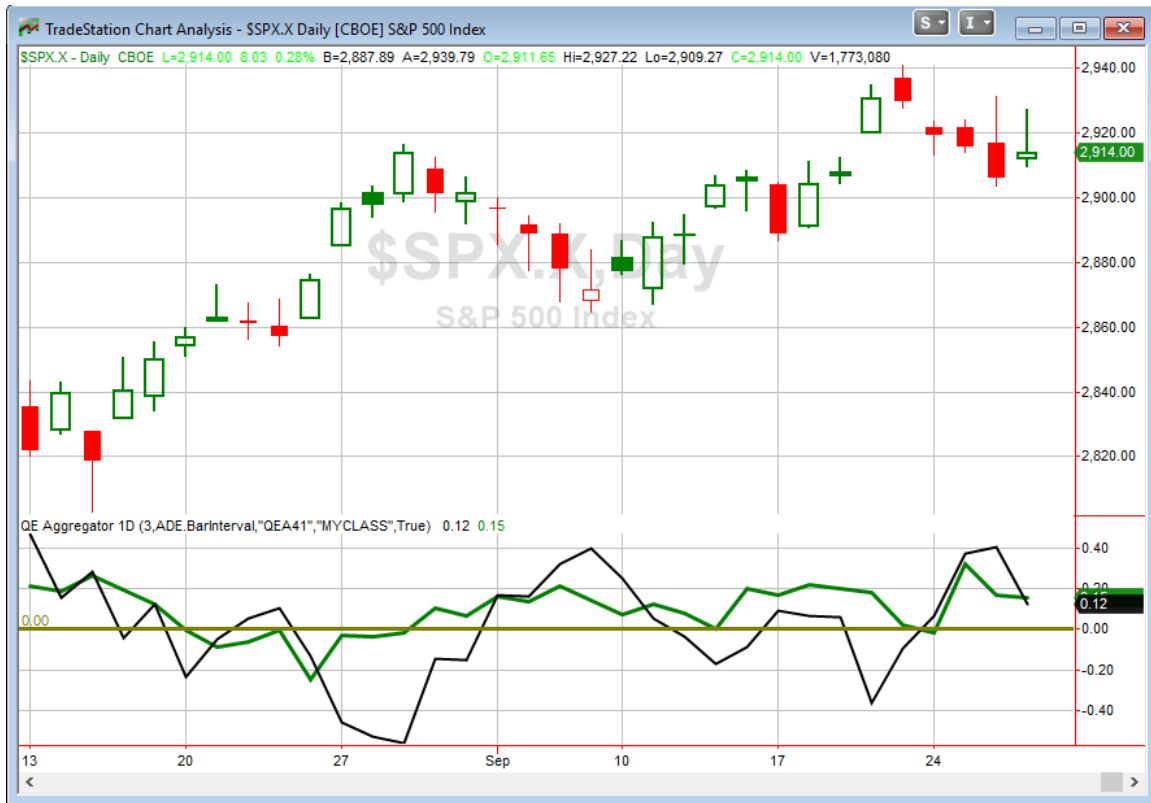
Data posted on 09/27/2018 4:30pm.

As I have been saying was likely, the SOMA suffered a fairly sizable drop this past week. This was entirely due to the reduction in AMBS. Below is an updated look at performance of SPX during weeks of SOMA increases vs decreases since QT began last October.



The slight drop in the red “contraction week” strategy profit line this past week is typical of how contraction weeks have performed during the Fed’s Quantitative Tightening (QT) program. Meanwhile, the blue “expansion week” strategy profit line has exhibited entirely different behavior, with consistent gains occurring during expansion weeks. This upcoming week should see even stronger QT with about \$19 billion in treasuries coming off the books. So the bulls will continue to battle the negative Fed liquidity. I’ll discuss this all in greater detail in this weekend’s intermediate-term overview section.

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



Even with tonight's bearish study, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for downside 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 list of active studies, expectations are slated to remain positive on Friday. It would take some compelling new bearish evidence to change this. The Differential Pivot will be 2924.91 on Friday. That is 0.4% above Thursday's close. So SPX will need to close up 0.4% on Friday in order to flip to "overbought" in relation to recent expectations.

Based on the SPY pattern study, Friday is a bit iffy. But if the SPX does struggle, there appears to be a good chance of a bounce on Monday, according to our turn-of-month study. Of course that edge disappears if Friday closes well. So with all that in mind, I do not intend to up my long exposure at this point. And I will look to take profits if Friday performs well.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/24– neutral

The intermediate-term outlook was last updated in the 9/24/18 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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/26/2018	\$289.88	\$290.69	0.28%		Aggregator

I will look to exit my SPY position on Friday afternoon if either 1) SPY closes in the top half of its intraday range, or 2) SPX closes >= 2924.91 (the Differential Pivot).

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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