

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 5, 2018

Volume 11 Issue 193

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Price action did not create a reliable edge.
- The Employment report is a potential wildcard on Friday.

Short-term Outlook

The Bottom Line

The market is strongly oversold, but expectations are now flat. I am not seeing a strong directional edge. This leaves me short-term neutral.

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						
None						
Active - Long Term						
October 1, 2018	NASDAQ Leading	int term	Bullish			
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
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%
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 the biggest down day for the market in a good long time. The SPX finished down 0.8%, the NASDAQ fell 1.8%, and the Russell 2000 declined 1.5%. Breadth was mixed as the NYSE Up Issues % was 20% and the Up Volume % came in at 37%. NYSE volume declined some from Wednesday’s level.

While action was wilder than we have become accustomed to, it did not do anything to suggest a compelling edge. If the market did *not* bounce in the last 90 minutes that might be different. But I looked at days like Thursday when SPY traded in a big range and finished at a short-term low, but well above its highs for the day. Below is an example of one of the studies I examined.

SPY trades in the widest range of the last 20 days. It closes at a 5-day low but above the bottom 1/3 of its intraday range. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	8,042.59	32	22	10	68.75	1,601.31	4,542.00	-2,718.62	-12,819.52	0.59	1.30	251.33
4	6,528.81	32	20	12	62.50	1,453.54	3,991.35	-1,878.50	-6,751.20	0.77	1.29	204.03
3	-3,986.19	33	16	17	48.48	1,489.07	3,903.34	-1,635.96	-6,611.52	0.91	0.86	-120.79
2	302.10	33	18	15	54.55	1,040.64	3,244.78	-1,228.63	-3,737.28	0.85	1.02	9.15
1	-10,909.30	33	17	16	51.52	592.50	2,359.84	-1,311.37	-3,909.03	0.45	0.48	-330.58

The first few days show no edge whatsoever. And other similar studies I look at showed similar results.

Thursday 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 09/26/2018

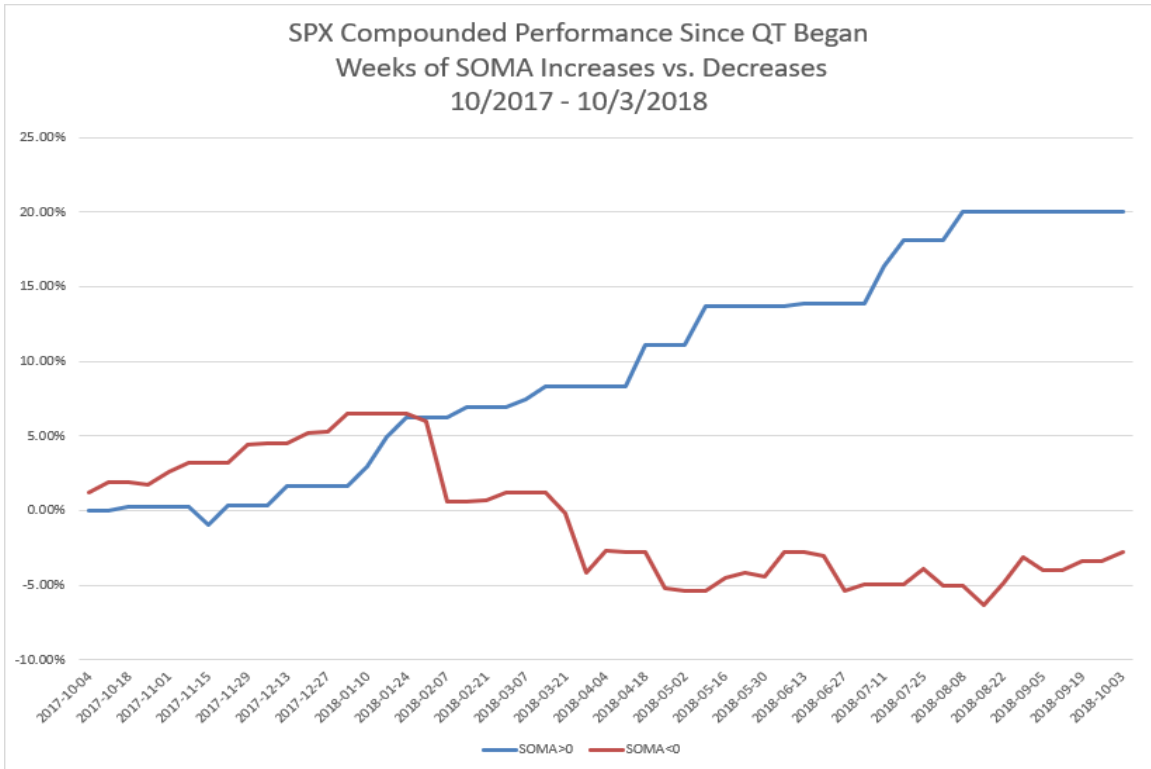
DOMESTIC SECURITIES HOLDINGS AS OF
October 3, 2018

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	100,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,138,443,137.2
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***	1,681,775,242.6
Total SOMA Holdings	3,956,458,101.6
Change From Prior Week	-18,994,781.4

*Does not reflect inflation compensation of 21,936,226.
 **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 10/04/2018 4:30pm.

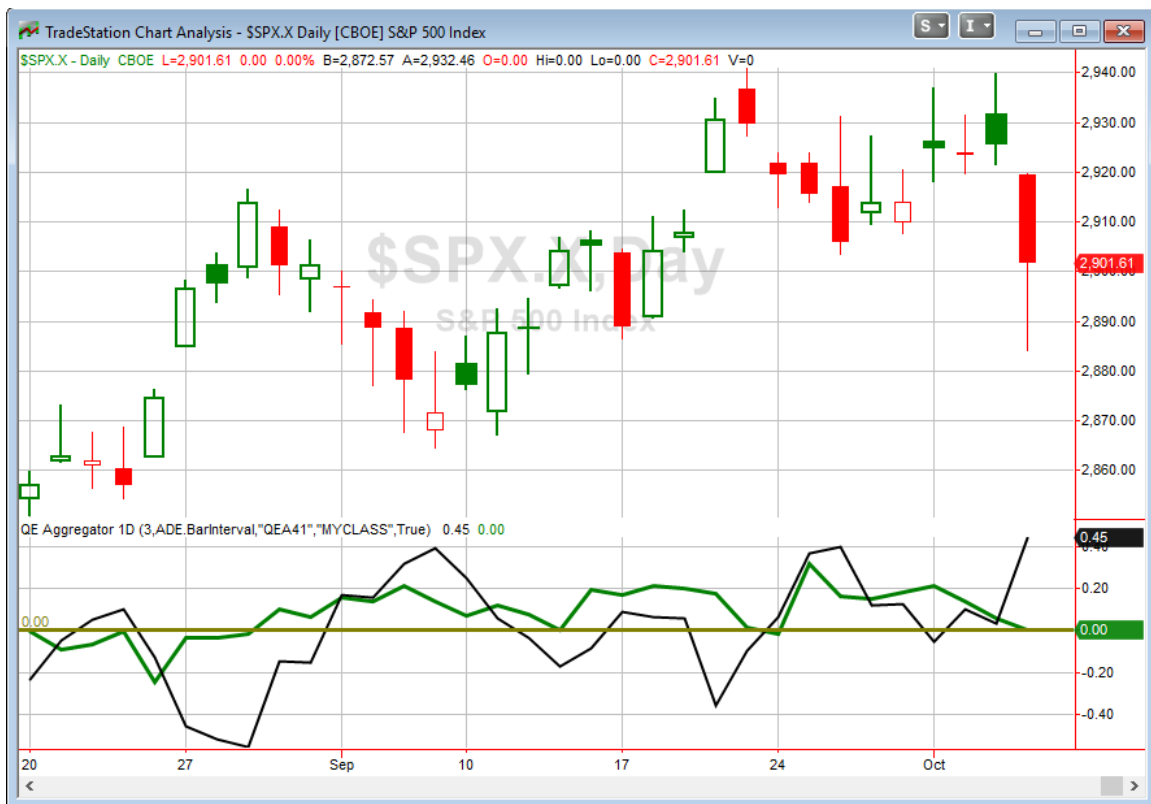
As I have been saying was likely, the SOMA suffered a fairly sizable drop this past week. Below is an updated look at performance of SPX during weeks of SOMA increases vs decreases since QT began last October.



The red “contraction week” strategy profit line this past week saw a moderate increase, as the SPX gained about 0.7%. That is quite strong for a contraction week during the Fed’s Quantitative Tightening (QT) program. Meanwhile, the blue “expansion week” strategy profit line has exhibited consistent gains during expansion weeks. This upcoming week should see very mild changes to the SOMA, and could even be one of those where we see a slight increase. So the bulls do not have the liquidity wind in their face this week.

I will also note that Friday is an Employment Day. Employment days have done well in recent times, but they tend to be very streaky. They add uncertainty and volatility to the equation. So despite there being a number of things to think about, there are no new compelling studies being added to the Active List tonight.

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



Without any new evidence tonight, the green Aggregator Line finished right at zero. Zero readings mean net expectations are flat over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX

is oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator signal turned flat at the close.

With the short-term study list barren, expectations are set to finish flat again on Friday. Of course any new evidence that emerges could change this. The Differential Pivot will be 2938.91 on Friday. That is 1.3% above Thursday's close. Therefore, SPX would need to close up at least 1.3% on Friday to flip from oversold to overbought versus recent expectations. That is unlikely to happen in one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the big move lower failed to generate positive evidence, and the Aggregator is neutral. Additionally, the employment report serves as a wildcard, and the market could also be reactive to Kavanaugh news on Friday. Without a strong edge, I see no reason to get involved in new index positions here. I'll watch action closely, keep my powder dry, and evaluate the situation again over the weekend.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/1– neutral

The intermediate-term outlook was last updated in the 10/1/18 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

New

LOW @ \$110.78 (buy @ limit)

Broad Market Large Cap CBI – 1(LOW)

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.

LOW – Buy 1/3 Catapult position @ \$110.78 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for LOW.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
WFC(1/3)	10/2/2018	\$52.24	\$53.51	2.43%		<i>sell on open</i>

WFC reached its exit trigger on Thursday. It will be sold at the open on Friday.

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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