

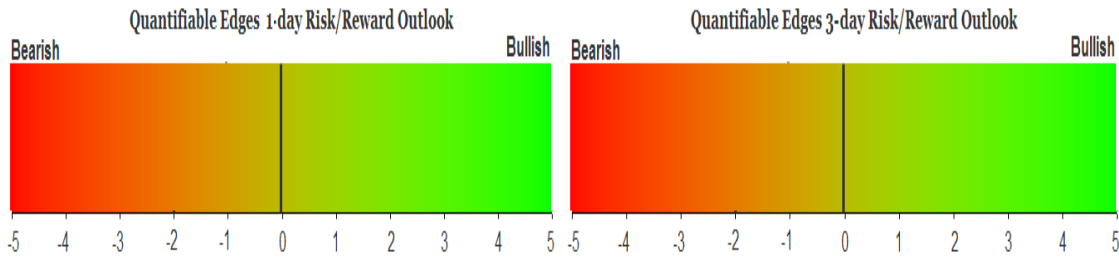
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2018

Volume 11 Issue 203

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce, but not when the drop does not even manage to post a 4-day low.
- There was a small amount of QT for the week ending Wednesday. I expect this upcoming week to also show a small change – most likely a decline for the SOMA.

Short-term Outlook

The Bottom Line

The market is oversold with plenty of room to bounce. But I am not seeing the kind of compelling evidence that would lead me to take a strong position in this choppy, volatile environment.

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						
October 15, 2018	Inside day low range 3 < 200	1-6 days	Bearish			
Active - Long Term						
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			
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			
Dropped Tonight						
October 16, 2018	Bounce from 20-low then dn inside day	1-3 days	Bullish	2.65%	-1.50%	-3.50%
October 15, 2018	October Opex	1-4 days	Bullish			

The Evidence

Thursday was a tough day for the market. The SPX lost 1.4%, the NASDAQ fell 2.1%, and the Russell declined 1.8%. Breadth was negative as the NYSE Up Issues % was 23% and the Up Volume % came in at 19%. NYSE volume declined some from Wednesday's level.

Despite the strong selling, there was not much that triggered in the Quantifinder. One interesting study I have not featured in a while was last seen in the 5/6/15 letter. Often big down days on strongly negative breadth like Thursday will be followed by a bounce over the next several days. The edge is greatly reduced when the decline directly follows intermediate-term highs. This study takes both of those things into consideration. Stats are updated.

SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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	247,611.97	248	163	85	65.73	2,957.80	16,319.16	-2,758.93	-16,768.40	1.07	2.06	998.44
9	292,055.83	257	180	77	70.04	2,812.10	10,875.66	-2,780.82	-18,373.16	1.01	2.36	1,136.40
8	247,210.22	270	176	93	65.19	2,832.11	15,738.88	-2,701.52	-17,685.00	1.05	1.98	915.59
7	230,986.69	290	182	108	62.76	2,586.74	10,415.64	-2,220.37	-12,654.00	1.17	1.96	796.51
6	199,383.03	303	190	113	62.71	2,399.77	14,933.73	-2,270.56	-19,140.34	1.06	1.78	658.03
5	199,194.72	327	196	131	59.94	2,298.45	11,405.78	-1,918.33	-8,351.64	1.20	1.79	609.16
4	152,296.72	351	202	149	57.55	2,156.54	14,020.11	-1,901.51	-14,820.98	1.13	1.54	433.89
3	153,330.97	393	238	155	60.56	1,812.89	8,531.60	-1,794.44	-10,506.45	1.01	1.55	390.16
2	150,464.75	451	251	200	55.65	1,705.72	8,484.76	-1,388.35	-8,657.72	1.23	1.54	333.62
1	126,963.81	504	295	209	58.53	1,161.39	10,716.03	-1,031.80	-7,577.02	1.13	1.59	251.91

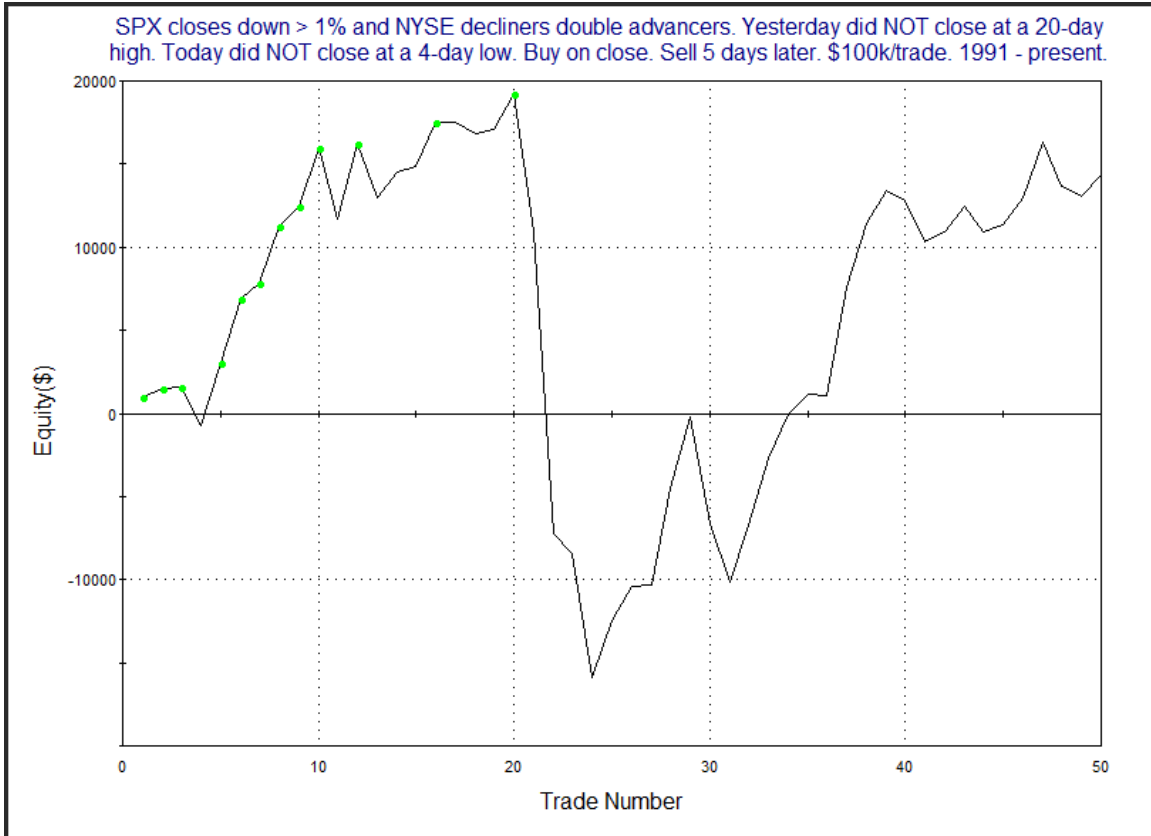
The stats table suggests a decent upside edge over the next 1-2 weeks. But the action in the market today made me think of some other research I've done in the past that found

similar studies lost much of their edge when the big drop did not even generate a 4-day closing low. So I added that filter to the above test.

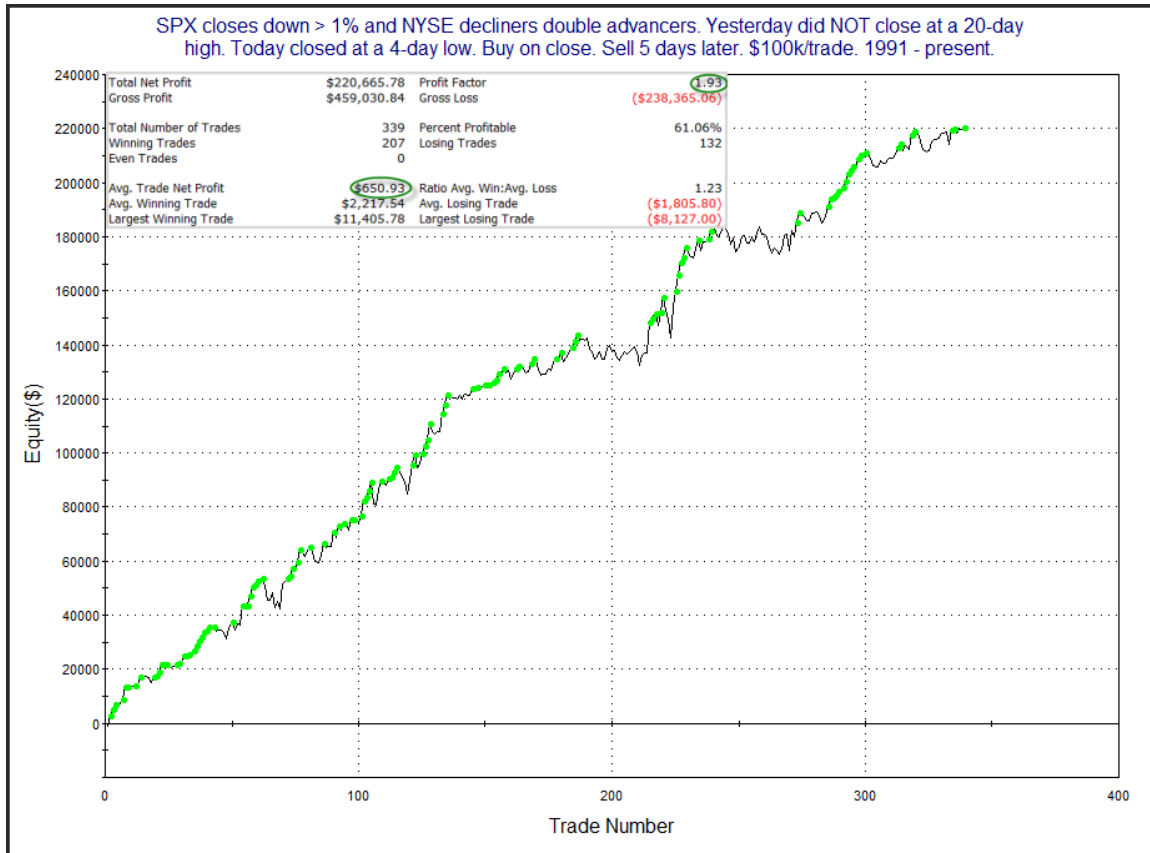
SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Today did NOT close at a 4-day low. Buy on close. Sell X days later. \$100k/trade. 1991 - present.

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	56,074.10	43	30	13	69.77	3,186.99	7,458.85	-3,041.20	-12,316.40	1.05	2.42	1,304.05
9	51,168.44	44	33	11	75.00	2,790.26	8,319.52	-3,719.10	-12,871.44	0.75	2.25	1,162.92
8	23,281.95	45	32	13	71.11	2,556.75	8,019.28	-4,502.62	-18,011.16	0.57	1.40	517.38
7	16,822.13	46	30	16	65.22	2,119.68	9,659.76	-2,923.02	-12,164.04	0.73	1.36	365.70
6	12,560.11	48	33	15	68.75	1,885.53	5,577.44	-3,310.83	-19,140.34	0.57	1.25	261.67
5	14,312.44	50	33	17	66.00	2,359.05	6,507.68	-3,737.42	-18,188.04	0.63	1.23	286.25
4	12,718.87	52	31	21	59.62	2,700.87	6,408.00	-3,381.34	-13,776.90	0.80	1.18	244.59
3	18,589.83	54	31	23	57.41	2,541.42	8,531.60	-2,617.14	-10,506.45	0.97	1.31	344.26
2	20,539.25	55	31	24	56.36	2,140.49	7,608.64	-1,909.00	-7,226.28	1.12	1.45	373.44
1	9,286.76	57	31	26	54.39	1,427.24	4,617.32	-1,344.52	-6,060.08	1.06	1.27	162.93

There were still a decent number of instances. Unfortunately, it appears the 1-week edge is greatly reduced. Below is a look at the 5-day profit curve.



Not an appealing curve. Here is the curve when the original setup *was* accompanied by a 4-day closing low.



This curve is much more appealing. But it is not in play right now.

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 10/10/2018

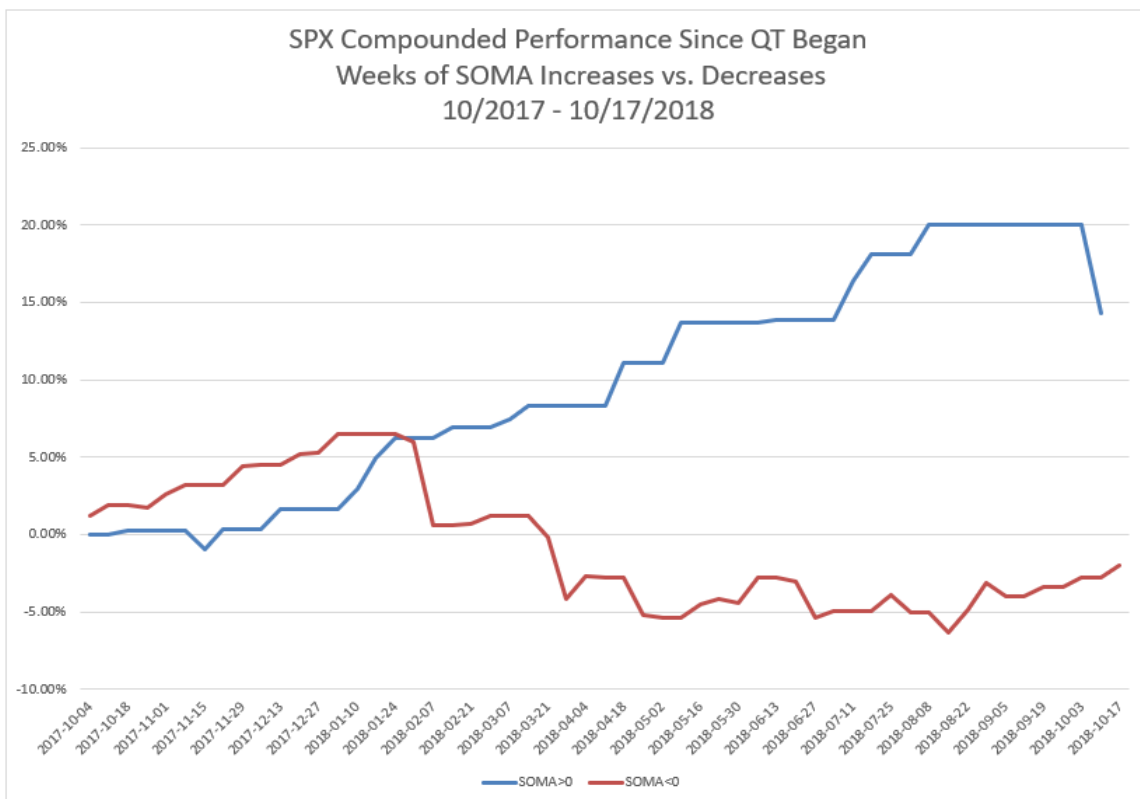
DOMESTIC SECURITIES HOLDINGS AS OF
October 17, 2018

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***	1,680,109,056.1
Total SOMA Holdings	3,954,791,915.1
Change From Prior Week	-1,669,186.5

*Does not reflect inflation compensation of 21,970,673.2
 **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.

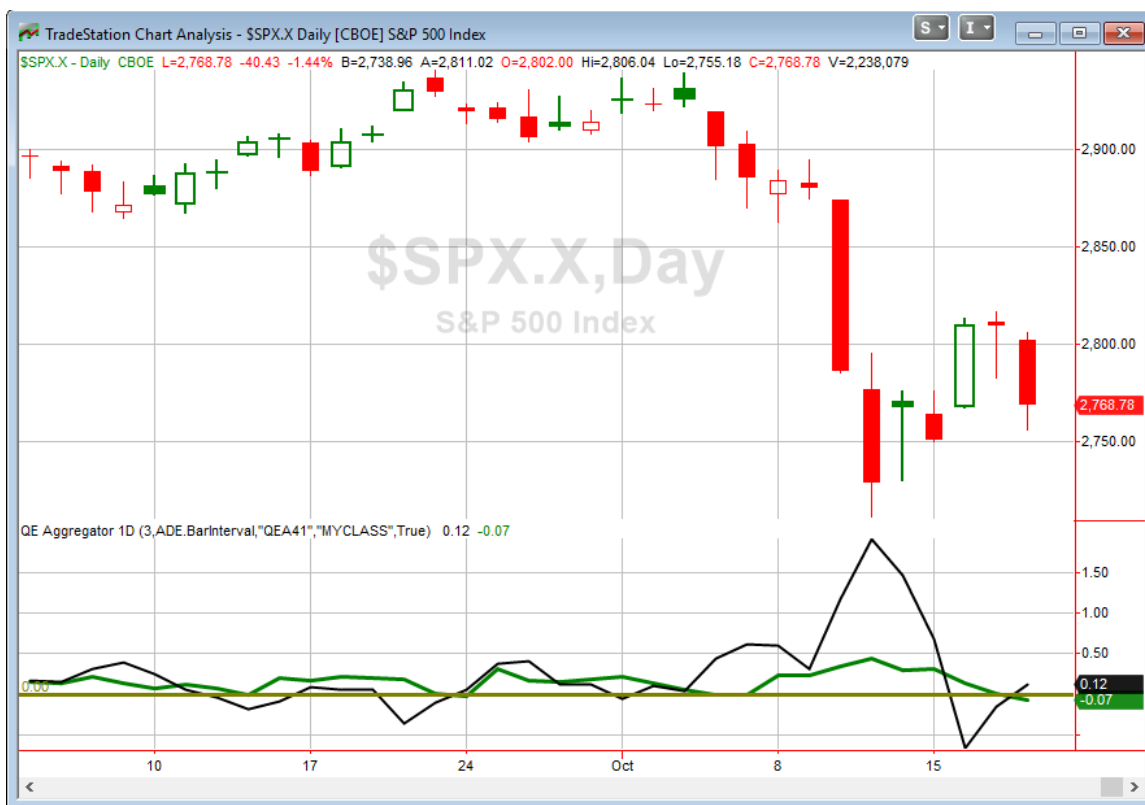
Data posted on 10/18/2018 4:30pm.

There was a decline of about \$1.7 billion, which is a small amount compared to the \$50 billion / month pace that the Fed has established. I've been indicating that the change would likely be small, but I felt there was a better chance of a small rise than the small decline we see here. 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 0.8%. 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 performed substantially better, despite the big drop the last week. This upcoming week is likely to again see mild changes. I believe the chance of a small decline is a bit better than the chance of a rise. I’ll discuss SOMA changes and QT in more detail in this weekend’s letter.

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



Without any new studies making the cut, the green Aggregator Line dipped slightly below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line is now slightly above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. And this appears “especially neutral” with both lines again so close to zero. Therefore, the Aggregator signal stayed flat at the close.

With the current active studies, expectations are slated to remain somewhat bearish on Friday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2829.70 on Friday. That is 2.2% above Thursday's close. Therefore, SPX would need to close up 2.2% on Friday to flip from oversold to overbought versus recent expectations. That is a big number and unlikely to happen in 1 day. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

There is plenty of room for the market to bounce, but there is a lack of compelling evidence suggesting that it will. This is leaving the Aggregator neutral, and it's leaving me without a desire to jump back into an index position just yet. Perhaps Friday's action will offer some clarity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/15– neutral

The intermediate-term outlook was last updated in the 10/15/18 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

LOW @ \$110.78 (bought @ limit)

LOW @ \$109.74 (bought @ limit)

LOW @ \$106.29 (bought @ limit)

Broad Market Large Cap CBI – 3(LOW-3)

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
LOW(1/3)	10/5/2018	\$110.64	\$99.71	-9.88%		Catapult
LOW(1/3)	10/8/2018	\$109.52	\$99.71	-8.96%		Catapult
DHR(1/3)	10/9/2018	\$105.61	\$101.24	-4.14%		<i>sell on open</i>
LOW(1/3)	10/11/2018	\$106.29	\$99.71	-6.19%		Catapult
SPY(1/4)	10/11/2018	\$277.08	\$280.00	1.05%		<i>sold @ limit</i>

DHR reached its exit trigger before reversing hard. 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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