

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2018

Volume 11 Issue 218

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Down Fed Days are often followed by a bounce, but the edge goes away when coming off a 10-day high.
- SOMA was basically flat this past week (up 3 cents), and I expect to see a small rise this upcoming week.

Short-term Outlook

The Bottom Line

Evidence is now leaning bullish but the market is overbought. This is leaving the Aggregator neutral, and me sidelined.

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						
November 8, 2018	FTD with 20-day high	1-6 days	Bullish			
November 8, 2018	FTD with strong breadth	1-4 days	Bullish			
November 7, 2018	5-Low NYSE vol. SPX 10-hi < 200	1-5 days	Bearish			
November 6, 2018	VIX upSPX up. Monday. < 200ma	1-5 days	Bearish			
Active - Long Term						
November 8, 2018	FTD with strong breadth & 20-day high	int term	Bullish			
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
October 25, 2018	CBI 10+. SPX 50-day low	1-20 days	Bullish	7.40%	-4.30%	-8.40%
October 1, 2018	Quantitative Tightening \$50billion/mo	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’s Fed Day was a failure for the bulls. The SPX fell 0.25%, the NASDAQ lost 0.5%, and the Russell 2000 dropped 0.25%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 33%. NYSE volume declined from Wednesday’s level.

There were a couple of studies from the 6/21/12 letter that looked at down closes on Fed Days. Often these down closes turn out to be a headfake as the market rebounds over the next few days. Below is an updated table from the 6/21/12 Letter.

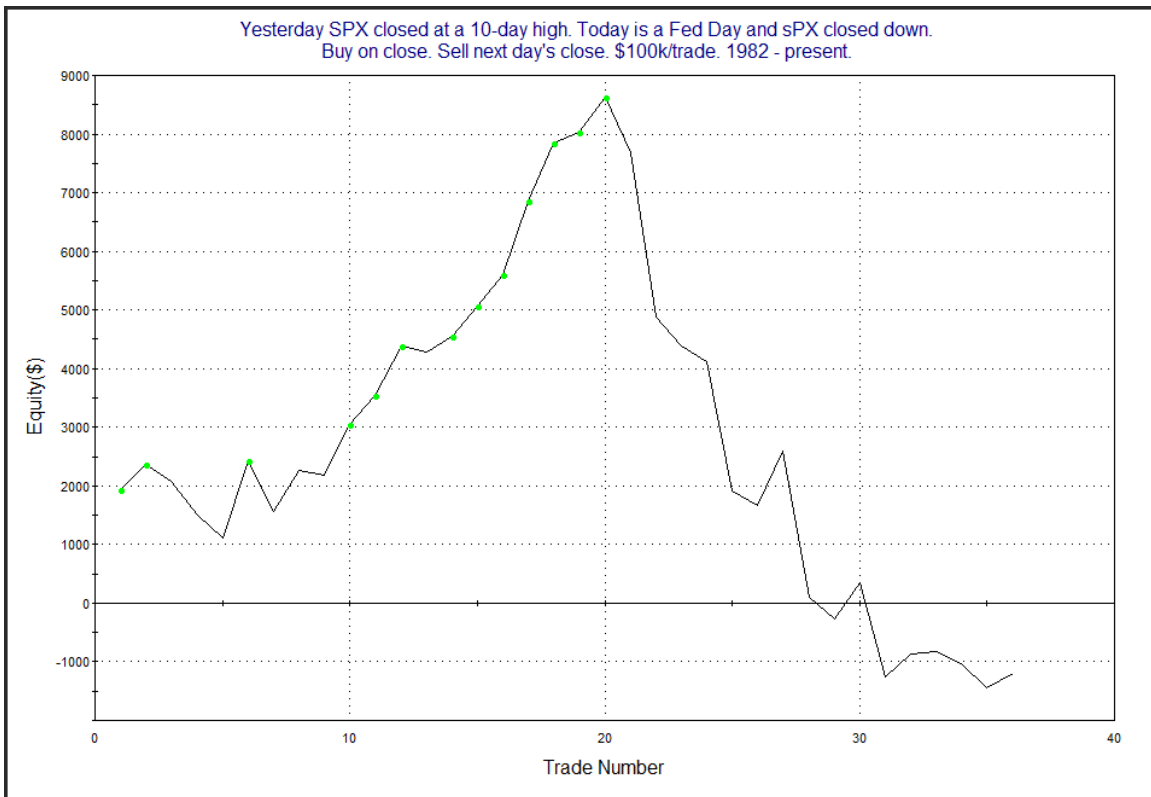
Today is a Fed Day and SPX closed down. Buy on close. Sell X days later. \$100k/trade. 1982 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	70,526.99	125	77	48	61.60	2,295.79	9,012.33	-2,213.51	-8,323.53	1.04	1.66	564.22
9	76,162.33	125	82	43	65.60	2,079.17	8,967.96	-2,193.70	-5,671.36	0.95	1.81	609.30
8	46,922.52	125	79	46	63.20	1,891.93	8,456.40	-2,229.13	-6,514.96	0.85	1.46	375.38
7	52,992.27	125	82	43	65.60	1,733.98	8,869.37	-2,074.28	-6,757.80	0.84	1.59	423.94
6	59,414.37	125	79	46	63.20	1,744.74	7,361.95	-1,704.79	-5,884.97	1.02	1.76	475.31
5	51,777.74	125	81	44	64.80	1,568.67	6,013.86	-1,711.00	-5,581.03	0.92	1.69	414.22
4	43,077.76	125	77	48	61.60	1,441.24	8,095.62	-1,414.54	-4,622.80	1.02	1.63	344.62
3	38,574.84	125	77	48	61.60	1,215.38	5,035.28	-1,146.04	-4,025.70	1.06	1.70	308.60
2	28,664.37	125	79	46	63.20	1,102.09	5,202.52	-1,269.58	-4,588.00	0.87	1.49	229.31
1	11,456.45	125	73	52	58.40	831.76	4,001.33	-947.35	-3,162.00	0.88	1.23	91.65

I also noted in that letter that when the drop follows a 10-day high the upside edge is substantially reduced. This is shown in the study below (updated).

Yesterday SPX closed at a 10-day high. Today is a Fed Day and sPX closed down.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	15,976.01	36	22	14	61.11	1,915.78	5,932.10	-1,869.36	-6,157.91	1.02	1.61	443.78
9	13,298.90	36	22	14	61.11	1,732.24	5,213.32	-1,772.17	-4,779.30	0.98	1.54	369.41
8	11,635.45	36	22	14	61.11	1,739.69	6,347.78	-1,902.70	-5,305.50	0.91	1.44	323.21
7	5,294.19	36	20	16	55.56	1,666.21	4,278.04	-1,751.88	-5,421.50	0.95	1.19	147.06
6	3,208.18	36	18	18	50.00	1,555.53	4,307.20	-1,377.30	-2,943.00	1.13	1.13	89.12
5	5,070.10	36	20	16	55.56	1,369.49	3,602.56	-1,394.99	-2,898.00	0.98	1.23	140.84
4	282.77	36	19	17	52.78	1,164.93	2,725.38	-1,285.34	-3,709.52	0.91	1.01	7.85
3	-506.84	36	21	15	58.33	951.44	2,276.88	-1,365.81	-3,721.09	0.70	0.98	-14.08
2	-101.07	36	20	16	55.56	966.98	2,771.20	-1,215.04	-3,333.05	0.80	0.99	-2.81
1	-1,194.20	36	19	17	52.78	693.11	1,931.18	-844.90	-2,811.51	0.82	0.92	-33.17

You see here that the upside edge is completely wiped away for the 1st few days. Perhaps the 10-day high prior to the Fed Day suggests that the market got its hopes up a bit too much. When the market is less hopeful prior to a Fed meeting then there may be more room for a positive reaction to occur. Whatever the reason, today's Fed Day pullback doesn't appear to provide much of an edge. And to dampen the bullishness further, here is the profit curve.



Much longer like this, and we might be considering the setup to be outright bearish.

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 10/31/2018

DOMESTIC SECURITIES HOLDINGS AS OF
November 7, 2018

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	53,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,115,516,723.2
US Treasury Floating Rate Notes (FRN)	17,245,206.4
US Treasury Inflation-Protected Securities (TIPS)*	115,578,709.4
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,668,988,694.1
Total SOMA Holdings	3,919,791,333.1
Change From Prior Week	

*Does not reflect inflation compensation of 22,042,499.8

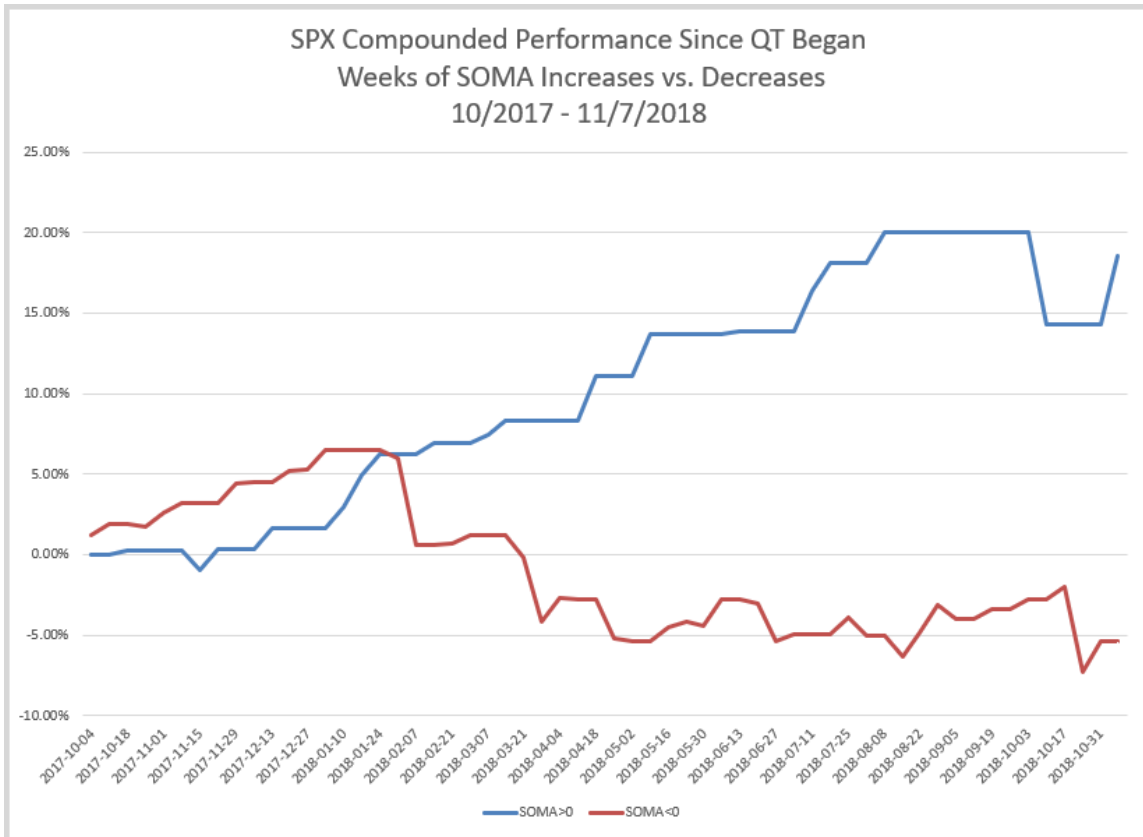
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

1st week there has been no change to SOMA since 10/22/2008.

Data posted on 11/09/2018 4:30pm.

I wrote that there was no change to the SOMA over the last week. And that was almost true. But after downloading the full data from the Fed's site, I found that there was a \$0.03 gain this past week. Yes, a 3 cent rise in a \$4 trillion account. 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 decline than the small rise we got. Below is an updated look at performance of SPX during weeks of SOMA increases (even \$0.03 ones) vs decreases since QT began last October.



The lack of Quantitative Tightening (QT) this past week meant movement in the blue “expansion week” profit curve. And as has typically been the case with expansion weeks, the market put in some gains. While expansion weeks have put in some strong gains over the last 13 months, weeks with QT have been net losers. This upcoming week is likely to again see mild changes, and I think there is a good chance we will see another rise in the SOMA. I’ll discuss SOMA changes and QT in more detail in this weekend’s letter.

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



With tonight's evidence considered, the green Aggregator Line held just above zero. Positive readings mean net expectations are 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 zero. Therefore, the Aggregator signal stayed flat at the close.

With the current active studies, expectations are slated to flip to bearish on Friday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2759.12 on Friday. That is 1.7% below Thursday's close. So SPX would need to close down a sizable 1.7% on Friday to flip from overbought to oversold.

The Aggregator remains neutral, and there is a lack of compelling new evidence to emerge tonight. The studies remain mixed and the market is just not set up in a way that reward/risk seems terribly favorable. So I will remain sidelined for the time being and patiently await a more favorable setup before putting new capital to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/5– slightly bullish (changed from neutral)

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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