

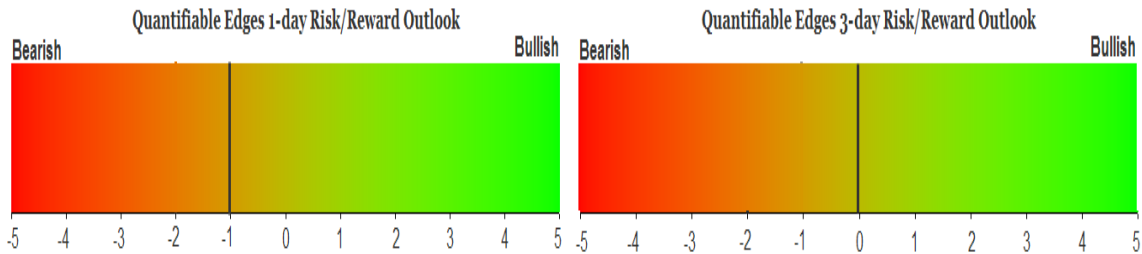
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 12, 2018

Volume 11 Issue 219

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	1

Tonight's Research Points

- Opex is often a bullish week, but it has not shown a substantial edge in November.
- SOMA is expected to see an expansion this week (ending Wednesday) before QT kicks in again starting Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a very short-term bearish edge, but that edge could easily flip to bullish on Monday. Reward/risk appears unfavorable to me, and I am largely 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						
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

Friday saw losses across the board, but those losses were reduced by quite a bit in the late afternoon. The SPX finished down 0.9%, the NASDAQ lost 1.65%, and the Russell 2000 dropped 1.8%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 29%. NYSE volume rose some from Thursday's level.

After what seemed to be a very busy week with many studies emerging, Friday was quiet, with really nothing compelling appearing in the Quantifinder. It did note that this is opex week coming up. Opex week s typically bullish, but in looking back at history, November is not one of the months where it has done particularly well. (December is, and we'll be sure to look at that next month.) Of course while this upcoming week may not have a strong seasonal edge, the week after this will. Thanksgiving has provided some of the most reliable seasonal edges over the years. I'll be digging into that in great detail in next weekend's letter. But for today, there are no new short-term studies to be added to the Active List.

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



Without any new evidence emerging tonight, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

With the current active studies, expectations are slated to flip to bullish on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2808.07 on Monday. That is 1.0% *above* Friday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. In this case, SPX is going to need to close up about 1% on Monday in order remain "overbought" versus expectations. Anything less than that and it will flip to "oversold" as of Monday's close.

We are faced with a rather unusual Aggregator setup today. The current formation suggests a mild downside edge. But that is primed to turn to a bullish edge on Monday if SPX closes flat (or up slightly) and no new evidence emerges. I generally do not favor taking on new index exposure when there is an inverted pivot, because that basically limits potential reward to just 1 day's action. But I am especially wary with the

expectations also ready to flip. So I don't view reward/risk as particularly favorable right now. I will wait for a more compelling setup to emerge before looking to take on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/12– slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

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.) *This week the Combo Systems all remained “Long”.*

This past week saw the bounce continue. The SPX rose 2.1%, the NASDAQ gained 0.7% and the Russell 2000 lagged with a 0.1% gain. Wednesday saw the most notable action from an intermediate-term standpoint, as we saw strong gains and an IBD Follow Through Day (FTD) emerge. That FTD also had some positive characteristics, which I discussed in the Wednesday night letter. I have copied those studies below, and bolded my comments that related to the intermediate-term.

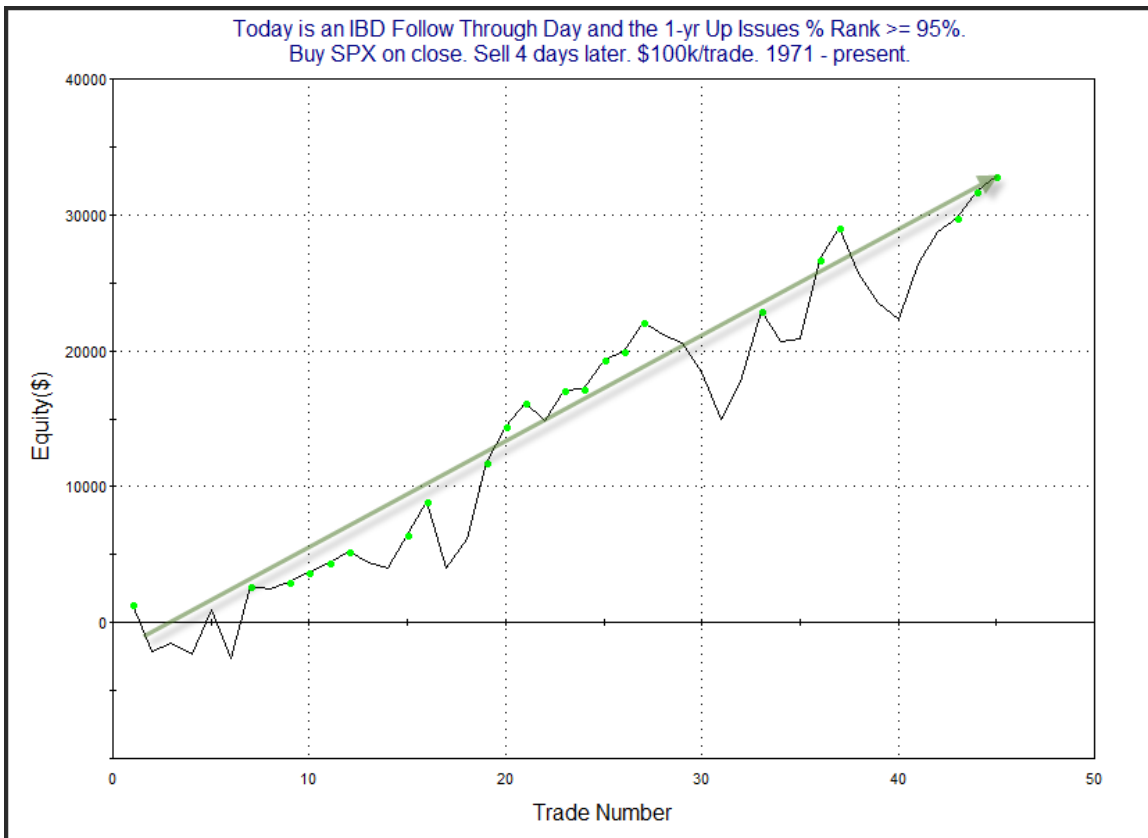
One potential positive with today's FTD is that it was accompanied by very strong breadth. The study below is from the 2/15/18 letter. It noted that when very strong breadth accompanied a FTD it increased the chances of success – both short and intermediate-term.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank >= 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	31,654.63	45	26	19	57.78	2,963.75	10,921.96	-2,389.63	-11,137.06	1.24	1.70	703.44
9	31,252.26	45	27	18	60.00	2,805.66	10,571.08	-2,472.25	-9,568.46	1.13	1.70	694.49
8	25,135.29	45	24	21	53.33	3,140.12	8,372.32	-2,391.79	-9,554.20	1.31	1.50	558.56
7	29,749.92	45	26	19	57.78	2,906.18	9,599.94	-2,411.09	-9,340.30	1.21	1.65	661.11
6	23,706.58	45	29	16	64.44	2,261.47	7,437.54	-2,617.25	-7,343.90	0.86	1.57	526.81
5	23,814.43	45	28	17	62.22	2,141.91	4,977.83	-2,127.00	-5,410.30	1.01	1.66	529.21
4	32,847.52	45	29	16	64.44	2,220.39	5,800.13	-1,971.49	-4,832.59	1.13	2.04	729.94
3	31,662.45	45	30	15	66.67	2,034.46	7,252.08	-1,958.09	-4,359.81	1.04	2.08	703.61
2	23,582.97	45	28	17	62.22	1,666.71	5,367.23	-1,357.94	-4,195.25	1.23	2.02	524.07
1	17,022.12	45	26	19	57.78	1,105.37	3,911.26	-616.71	-1,673.25	1.79	2.45	378.27

39 of 45 instances (87%) closed above the entry price at some point in the next week.

Results here still appear strong. Below is a 4-day profit curve.



The persistent upslope is impressive, and serves as some confirmation of the upside edge.

If Wednesday's breadth would have fallen short of the 95th percentile, the results would look like those below (not updated since the last instance).

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank < 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	3,621.01	46	24	22	52.17	3,317.87	8,942.91	-3,454.90	-24,546.70	0.96	1.05	78.72
9	-3,523.98	46	22	24	47.83	3,431.25	10,103.37	-3,292.14	-18,395.06	1.04	0.96	-76.61
8	9,109.88	46	25	21	54.35	2,994.79	9,347.15	-3,131.42	-17,469.28	0.96	1.14	198.04
7	8,811.97	46	27	19	58.70	2,674.37	9,614.11	-3,336.63	-12,495.16	0.80	1.14	191.56
6	24,083.79	46	30	16	65.22	2,686.33	9,598.49	-3,531.64	-9,023.28	0.76	1.43	523.56
5	12,608.25	46	28	18	60.87	2,505.03	8,325.84	-3,196.25	-7,789.18	0.78	1.22	274.09
4	2,429.34	46	23	23	50.00	2,461.52	7,217.86	-2,355.89	-7,745.95	1.04	1.04	52.81
3	-4,338.91	46	21	25	45.65	2,110.17	6,971.97	-1,946.10	-5,299.32	1.08	0.91	-94.32
2	-5,057.54	46	20	26	43.48	1,851.45	5,134.01	-1,618.71	-8,433.70	1.14	0.88	-109.95
1	1,261.51	46	19	27	41.30	1,091.35	4,708.01	-721.26	-2,475.86	1.51	1.06	27.42

As you can see, there is no discernible short-term edge here. From an intermediate-term perspective, I would also note that breadth seemed to play a part there as well. When the Up Issues % Rank was > 95% then 24 of 45 instances (53.3%) managed to post successful rallies. When breadth was not as strong on a FTD, then only 20 of 46 instances (43.5%) went on to successful rallies.

Unusual about this FTD is that it occurred in conjunction with SPX making a new 20-day high. This triggered the study below, from the 10/19/11 letter.

Today is an IBD Follow Through Day. SPX closes at a 20-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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
20	40,662.71	13	11	2	84.62	4,245.22	8,443.49	-3,017.38	-4,916.46	1.41	7.74	3,127.90
19	40,325.79	13	10	3	76.92	4,488.38	8,644.68	-1,519.33	-2,535.28	2.95	9.85	3,101.98
18	41,079.32	13	10	2	76.92	4,565.01	8,021.64	-2,285.38	-2,534.61	2.00	9.99	3,159.95
17	39,352.69	13	11	2	84.62	3,859.61	8,716.07	-1,551.48	-1,983.40	2.49	13.68	3,027.13
16	37,150.76	13	11	2	84.62	3,459.19	8,462.96	-450.18	-464.20	7.68	42.26	2,857.75
15	39,110.58	13	11	2	84.62	3,612.52	8,424.02	-313.55	-584.91	11.52	63.37	3,008.51
14	41,256.76	13	11	2	84.62	3,900.68	8,923.75	-825.38	-1,629.66	4.73	25.99	3,173.60
13	34,881.01	13	11	2	84.62	3,332.48	7,484.65	-888.15	-1,660.80	3.75	20.64	2,683.15
12	26,703.29	13	8	5	61.54	3,891.54	6,528.94	-885.80	-2,117.52	4.39	7.03	2,054.10
11	22,764.44	13	9	4	69.23	3,161.58	6,288.81	-1,422.44	-2,947.92	2.22	5.00	1,751.11
10	14,367.87	13	7	6	53.85	3,054.79	5,659.28	-1,169.28	-2,571.84	2.61	3.05	1,105.22
9	19,090.82	13	8	5	61.54	3,097.46	6,710.66	-1,137.77	-3,011.76	2.72	4.36	1,468.52
8	21,509.43	13	8	5	61.54	3,432.01	7,366.15	-1,189.33	-2,687.04	2.89	4.62	1,654.57
7	24,565.41	13	10	3	76.92	2,663.86	7,359.66	-691.07	-1,142.35	3.85	12.85	1,889.65
6	20,559.59	13	12	1	92.31	1,807.26	7,437.54	-1,127.52	-1,127.52	1.60	19.23	1,581.51
5	15,265.56	13	12	1	92.31	1,299.79	4,977.83	-331.92	-331.92	3.92	46.99	1,174.27
4	16,474.44	13	11	2	84.62	1,592.88	5,607.36	-523.64	-552.82	3.04	16.73	1,267.26
3	15,738.59	13	10	3	76.92	1,759.38	5,529.48	-618.41	-998.20	2.85	9.48	1,210.66
2	11,306.07	13	8	5	61.54	1,721.07	5,367.23	-492.50	-809.19	3.49	5.59	869.70
1	6,015.13	13	8	5	61.54	1,013.02	2,537.59	-417.80	-1,255.50	2.42	3.88	462.70

Results here are impressive over both the short and intermediate-term. To get a better feel for the short-term returns I have listed the instances below.

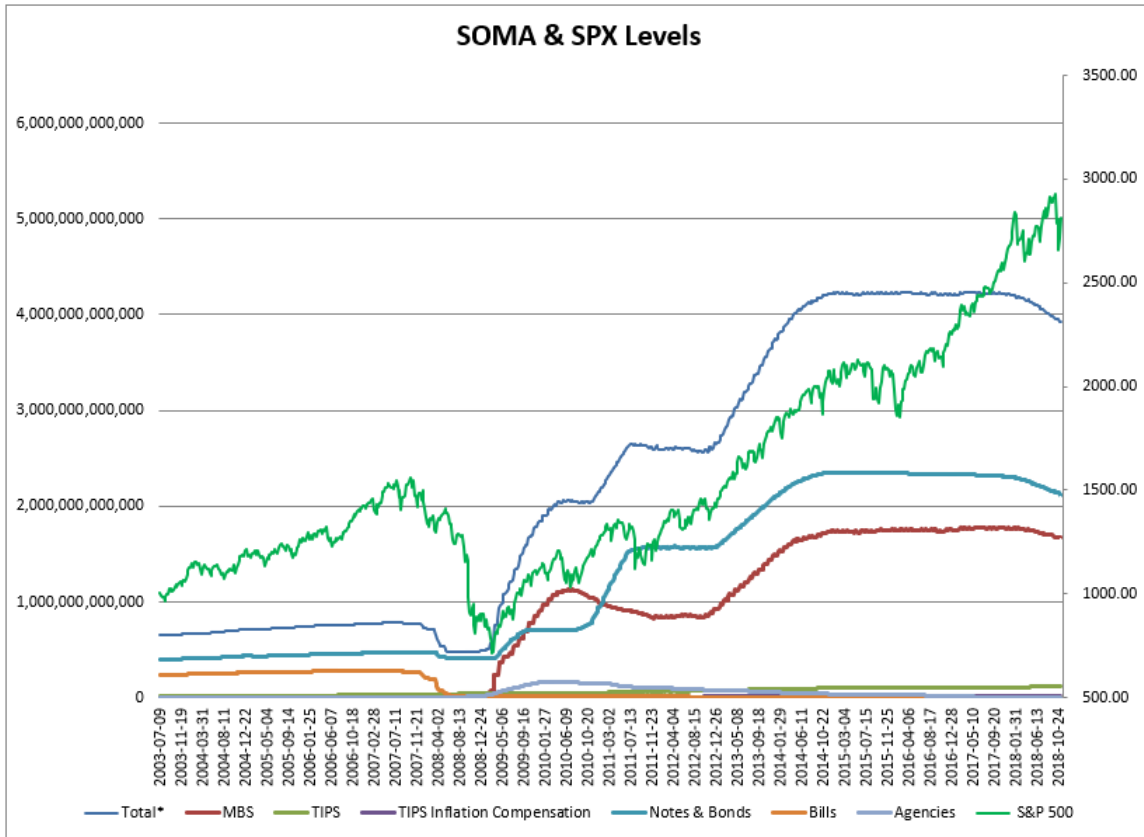
Today is an IBD Follow Through Day. SPX closes at a 20-day high. Buy SPX on close. Sell 6 days later. \$100k/trade. 1971 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/1/1971	Buy	\$95.54	1.49%	\$2,750.98
12/9/1971	Sell	\$96.96		(\$847.26)
11/10/1977	Buy	\$94.71	0.65%	\$1,877.90
11/18/1977	Sell	\$95.33		(\$126.60)
12/1/1978	Buy	\$96.28	0.86%	\$2,387.40
12/11/1978	Sell	\$97.11		(\$944.58)
8/1/1984	Buy	\$154.08	7.44%	\$7,658.20
8/9/1984	Sell	\$165.54		\$0.00
10/16/1985	Buy	\$187.97	0.28%	\$780.57
10/24/1985	Sell	\$188.50		(\$631.89)
8/11/1986	Buy	\$240.67	2.42%	\$2,971.40
8/19/1986	Sell	\$246.50		(\$132.80)
10/8/1986	Buy	\$236.67	1.20%	\$1,477.00
10/16/1986	Sell	\$239.52		(\$974.82)
12/5/2007	Buy	\$1,485.00	0.23%	\$2,584.19
12/13/2007	Sell	\$1,488.42		(\$1,123.59)
4/1/2008	Buy	\$1,370.15	-1.14%	\$1,194.48
4/9/2008	Sell	\$1,354.49		(\$1,452.96)
7/15/2009	Buy	\$932.68	4.68%	\$5,001.18
7/23/2009	Sell	\$976.29		(\$559.61)
10/18/2011	Buy	\$1,225.38	1.36%	\$2,524.77
10/26/2011	Sell	\$1,242.00		(\$2,271.24)
12/11/2012	Buy	\$1,427.84	0.56%	\$1,411.20
12/19/2012	Sell	\$1,435.81		(\$1,117.20)
3/1/2016	Buy	\$1,978.35	0.55%	\$1,539.00
3/9/2016	Sell	\$1,989.26		(\$477.50)
Avg Runup: 2.6% Avg Drawdown: -0.8%				

The run-up to drawdown ratio here is quite impressive. I'll also note that 10 of the 13 instances went on to have "successful" rallies. ("Success" means it either hit a new 200-day high or at least rose 2x as much as it had already risen off the bottom.) The 3 instances whose rallies did not succeed (circled in red) all saw run-ups of at least 2% before they eventually rolled over and made new lows.

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 is a long-term view of SOMA and SPX (back to 2003).



The table below is from the Fed’s website and shows the changes this past week.

« 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	

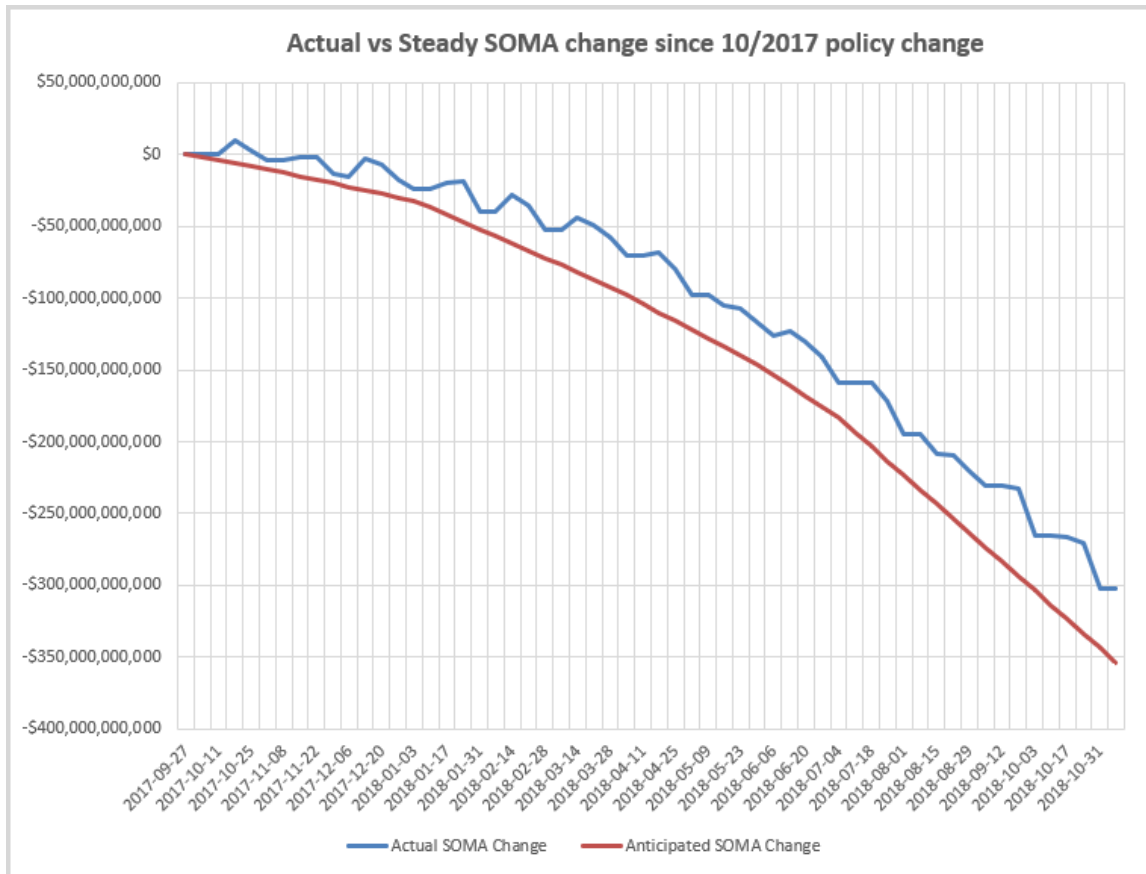
*Does not reflect inflation compensation of 22,042,499.8

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

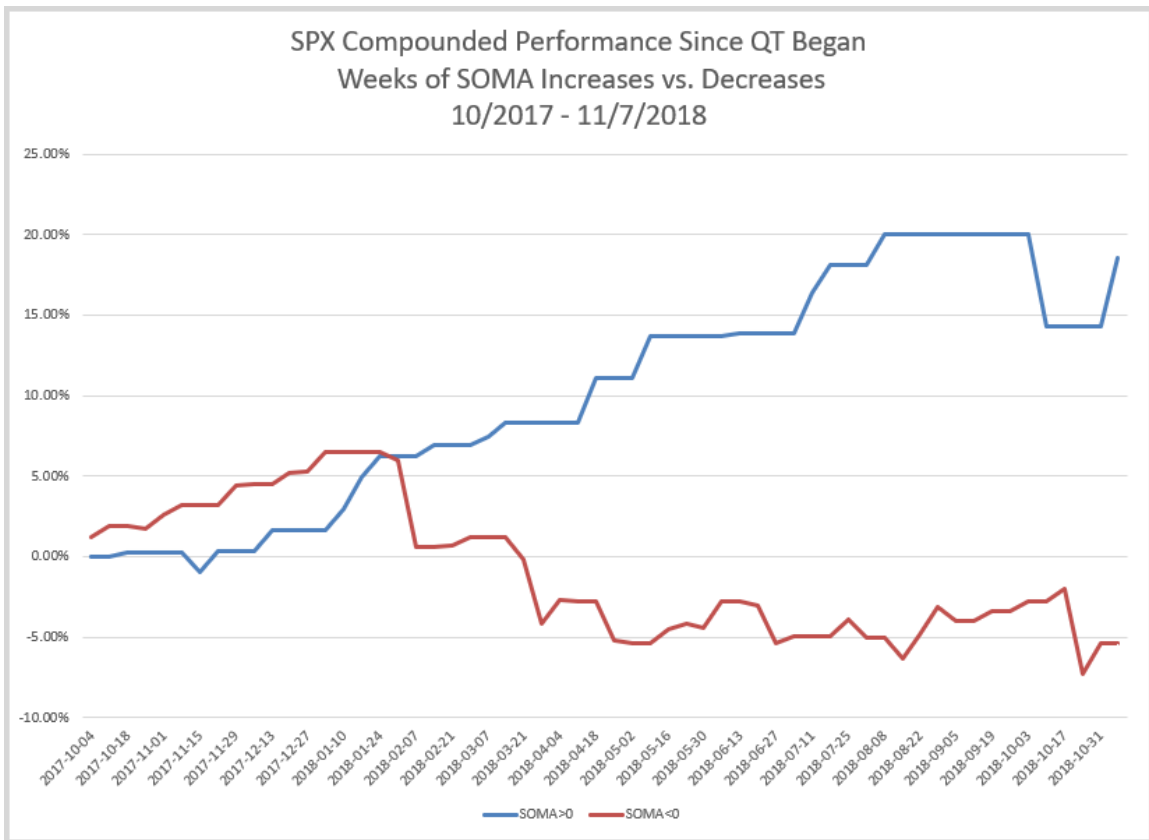
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 11/08/2018 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) rose 3 cents. Yup. The nearly \$4 trillion account rose 3 cents. I anticipated a near breakeven week, with the chance of a move lower a little better than the chance of a move higher. I was wrong in that it moved higher. I could not have been more right about the move being mild. Meanwhile, the SPX took advantage of the lack of Quantitative Tightening (QT) and posted a gain of 3.8% during this week ending Wednesday 11/7. That is a large gain for any week. The "Actual vs Steady" chart shows that the breakeven action this past week was far off the pace with the QT rate being \$50 billion / month. 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 lack of 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 gains. While expansion weeks have seen strong gains over the last 13 months, weeks with QT have been net losers. Since October 2017 the blue "expansion week" strategy would have posted an 18.6% gain while the red "contraction week" strategy would have lost

5.35%. 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 10/24/2018

DOMESTIC SECURITIES HOLDINGS AS OF
October 31, 2018

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

Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding ¹	Change in Par from Prior Week ²	Change in Par from Prior Year ²
11/15/18	912810EB0	9.000	3,842,000.0	53.55%		
11/15/18	912828M64	1.250	122,282.3	0.51%		
11/15/18	912828JR2	3.750	30,339,856.6	52.90%		
11/30/18	912828U40	1.000	2,767,228.7	9.62%		
11/30/18	912828A34	1.250	5,652,000.0	16.15%		
11/30/18	912828RT9	1.375	16,496,968.3	54.42%		
12/31/18	912828U99	1.250	3,457,357.0	11.74%		
12/31/18	912828RY8	1.375	12,695,123.4	42.41%		
12/31/18	912828A75	1.500	2,057,000.0	5.88%		

As you can see, the next treasury expirations will occur on 11/15. So a QT speedbump is set to arrive on Thursday (though the impact could be felt before or after that). Any QT this week ending Wednesday will be due 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/amb- 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.

This week, ending on November 14th, I expect to see the SOMA *increase* a small amount. February and March, which both had weeks end on the 14th, saw SOMA increases during those weeks. But with the large treasury expiration on 11/15, the next week should see a substantial QT reading.

Overall, intermediate-term studies are now leaning bullish. The seasonal strength is helping all three Market Timing Course combo systems remain bullish. The high CBI reading study from a couple of weeks ago suggested a strong bounce. And the FTD

study from this past week suggests that bounce is characteristic of one that will more often succeed than fail. But QT is still a concern. And while we are in the midst of a small reprieve from QT, it will be kicking in again over the next few weeks, and will remain a headwind for the foreseeable future. I am keeping my intermediate-term outlook “slightly bullish”. I am a bit more inclined to look for long opportunities than shorts, but am still willing to make short-term trades in either direction.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

New

QCOM – 1/3 @ \$56.72 (buy @ limit)

Broad Market Large Cap CBI – 1(QCOM)

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.

QCOM – buy 1/3 Catapult position @ \$56.72 limit. This is from the Catapult section above. It is the 1st of up to 3 possible lots for QCOM.

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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