

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 14, 2018

Volume 12 Issue 9

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	0

## Tonight's Research Points

- Low 3/10 Offset HV and a strongly overbought RSI(2) during a long-term downtrend has almost always seen the market lower 2 days later.
- Opex week in January has been weak over the last 20 years.
- I expect QT to be light over the next couple of weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is again bearish. A pullback appears likely in the coming few days.

*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
<b>Active - Short Term</b>						
January 14, 2019	Jan Opex Week Weak	1-5 days	Bearish			
January 14, 2019	3/10 Offset HV low. RSI2>90. < 200	1-2 days	Bearish			
January 9, 2019	SPY up 3. Low rng 5. < 200ma	1-5 days	Bearish			
January 8, 2019	Zweig Thrust	1-6 days	Bullish	3.70%	-1.45%	-2.50%
January 8, 2019	SPX up VIX up. Monday. SPX < 200ma	1-5 days	Bearish			
January 8, 2019	Up Iss > 70% 2 days. 10-high < 200	1-5 days	Bearish			
<b>Active - Long Term</b>						
January 9, 2019	Up Iss > 70% 3 days.	1-85 days	Bullish			
January 9, 2019	SPY up 3. SPY volume dn 3. < 200	1-20 days	Bearish			
January 8, 2019	Zweig Thrust	1-20 days	Bullish	7.50%	-1.45%	-2.50%
January 2, 2019	NASDAQ Leading	int term	Bullish			
December 21, 2018	CBI 10+. SPX 50-day low.	1-18 days	Bullish			
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			

***The Evidence***

Friday started off with a sizable gap down. But by the end of the day the indices finished mixed. The SPX gained 0.01% (but SPY finished up 0.04%), the NASDAQ lost 0.2%, and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 59%. NYSE volume declined for the 3<sup>rd</sup> day in a row.

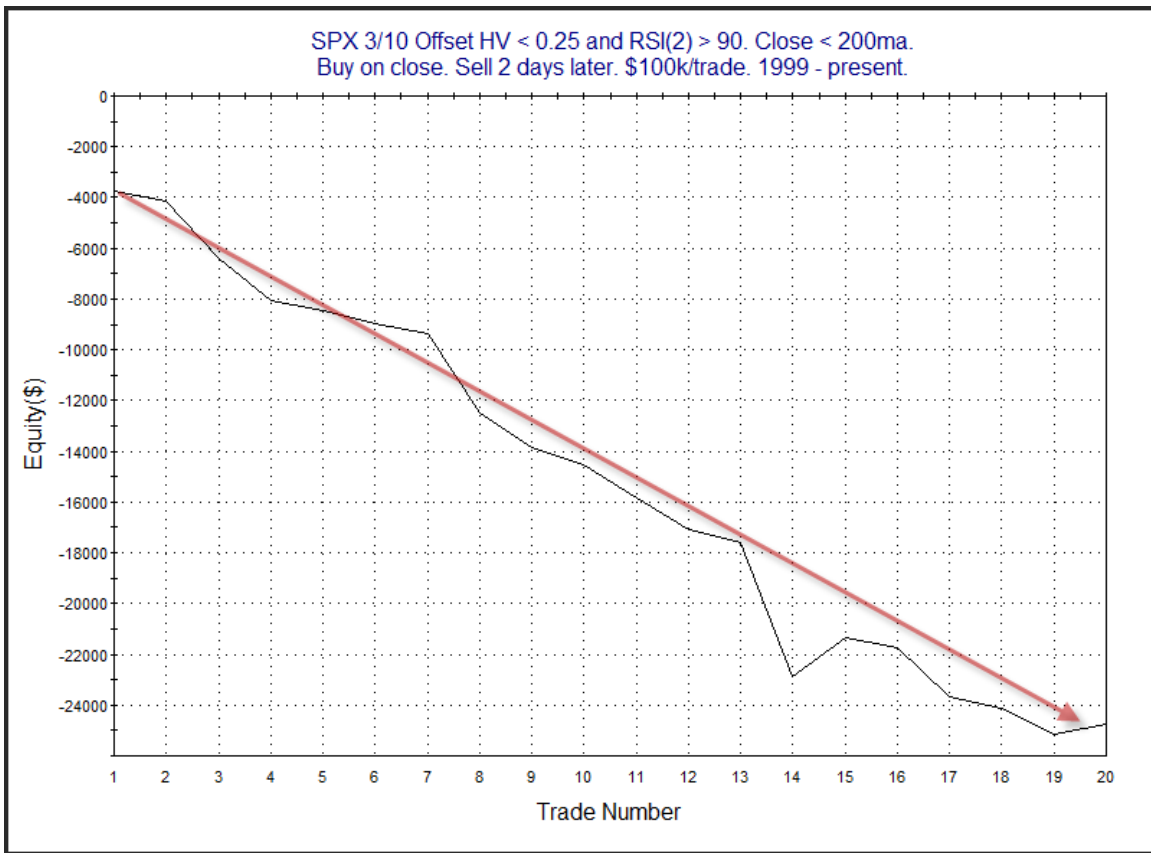
A lot of the themes we have seen over the last several days continued to show up. Low range, low volume, and short-term extended market conditions in a long-term downtrend tend to suggest a short-term bearish edge. But studies that looked at closing direction on Friday differed some depending on whether they were looking at SPY (up) or SPX (down). It did not matter much, because the most compelling study did not look at direction, just the overbought RSI(2) and the 3/10 Offset HV.

I first introduced the 3/10 Offset HV indicator in the 7/13/2009 blog. It looks for periods where short-term historical volatility is contracting sharply. When that happens, it is often soon followed by a volatility expansion. This volatility expansion can occur in either direction. The indicator does not predict direction. But when combined with other indicators it can provide some powerful signals. The study below looks at the combination of low a 3/10 Offset HV, a short-term overbought market, and a long-term downtrend. It was last seen just a couple of days ago in the 1/10/18 subscriber letter. I have updated all results.

SPX 3/10 Offset HV < 0.25 and RSI(2) > 90. Close < 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-36,186.91	19	6	13	31.58	681.52	1,138.84	-3,098.16	-7,519.22	0.22	0.10	-1,904.57
4	-30,640.28	19	3	16	15.79	1,004.61	1,209.90	-2,103.38	-5,663.22	0.48	0.09	-1,612.65
3	-20,123.95	19	5	14	26.32	971.26	1,631.16	-1,784.30	-6,445.61	0.54	0.19	-1,059.16
2	-24,741.35	20	2	18	10.00	970.02	1,510.64	-1,482.30	-5,264.73	0.65	0.07	-1,237.07
1	-17,010.99	23	7	16	30.43	762.66	2,286.84	-1,396.85	-8,883.33	0.55	0.24	-739.61

As you can see, the results are overwhelmingly bearish over the next couple of days. Below is a profit curve.



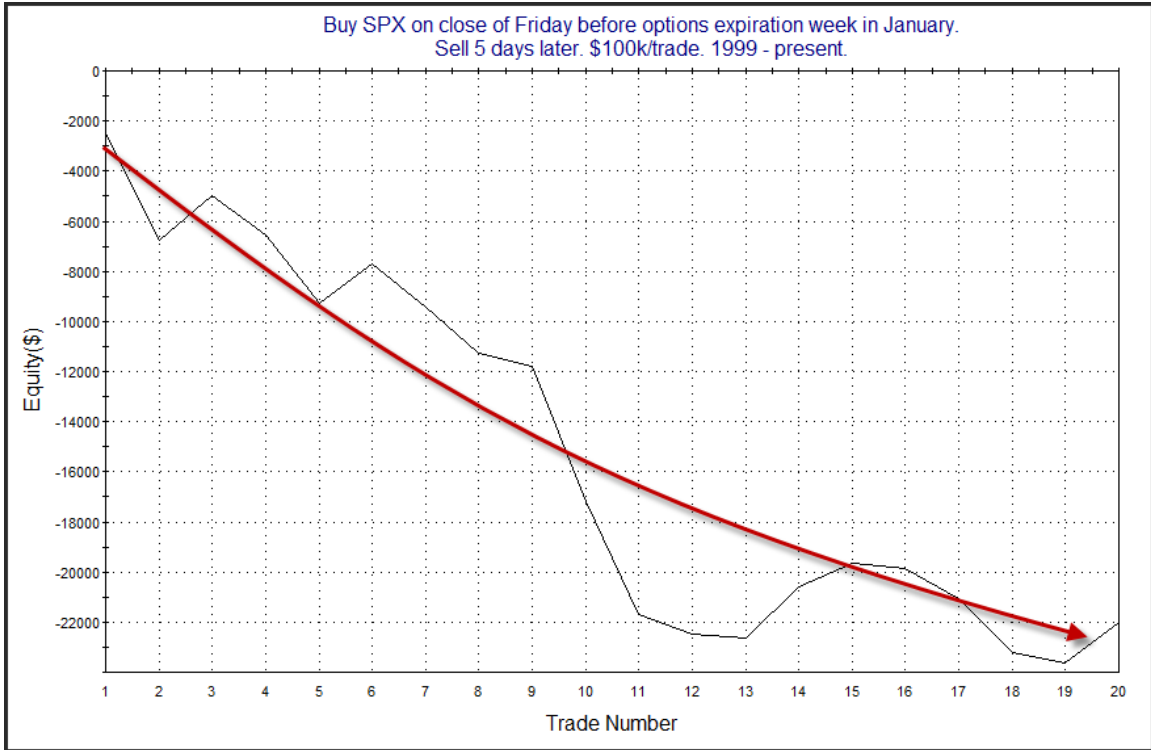
Results are strongly negative and consistent. The curve is nearly as straight as an arrow, even with the slight uptick due to the last instance.

Seasonality may come into play this week. Opex week overall has typically been a bullish part of the month for the market. But over the last 20 years, January has been a

major exception to this rule. The table below shows results of buying the Friday before options expiration week in January and then selling at the close of option expiration Friday, which is the 3<sup>rd</sup> Friday of the month.

Buy SPX on close of Friday before options expiration week in January. Sell X days later. \$100k/trade. 1999 - 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	-22,002.87	20	5	15	25.00	1,613.12	2,072.07	-2,004.57	-5,383.93	0.80	0.27	-1,100.14
4	-18,701.89	20	7	13	35.00	951.79	2,024.33	-1,951.11	-5,220.32	0.49	0.26	-935.09
3	-14,620.32	20	7	13	35.00	824.39	2,206.50	-1,568.54	-5,345.76	0.53	0.28	-731.02
2	-6,470.84	20	8	12	40.00	529.20	1,459.15	-892.04	-2,775.24	0.59	0.40	-323.54
1	-3,743.26	20	9	11	45.00	439.92	1,080.62	-700.23	-2,250.08	0.63	0.51	-187.16

Numbers here suggest a solid downside inclination. Below is a look at the 5-day profit curve.



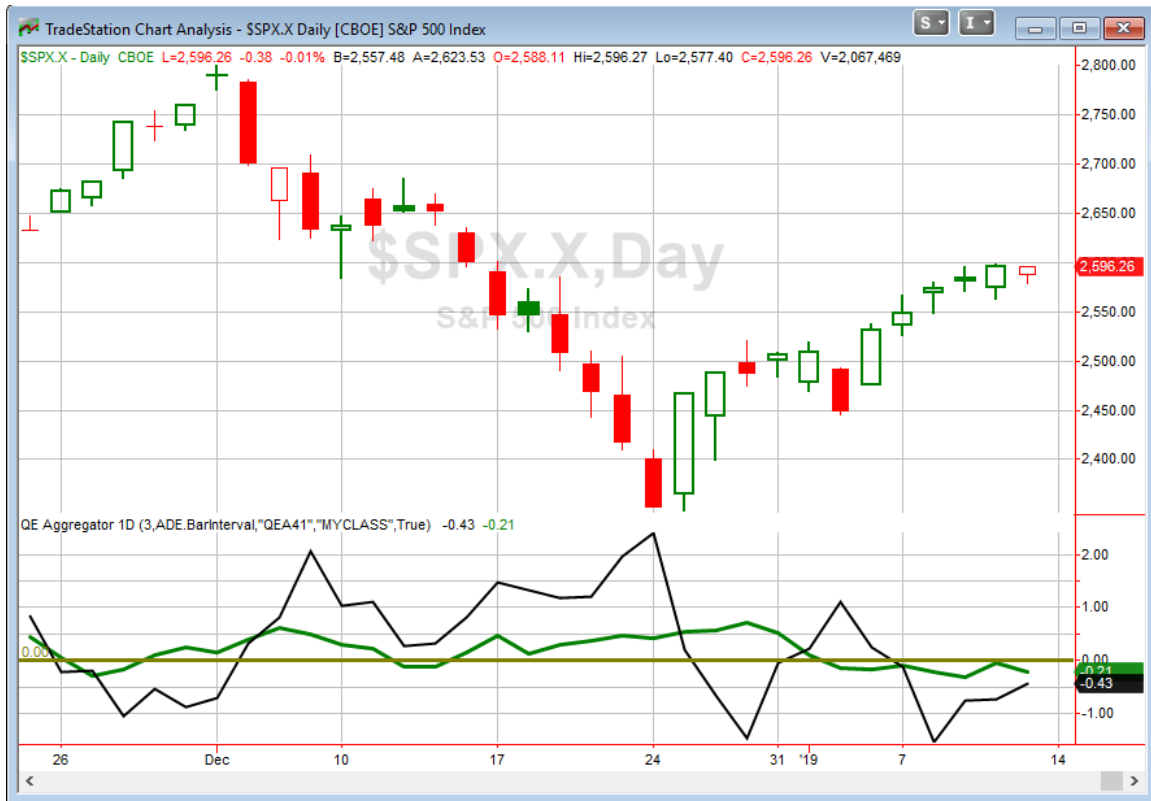
The move from upper left to lower right is supportive of the idea of a bearish edge. I will note that these numbers are slightly different from simply looking at holding opex week in January. That is because January opex is sometimes a 4-day week. This occurs when

MLK Day falls during opex week. But that is not this year. Below are stats when looking at the opex week performance regardless of whether it was a 4 or 5-day week.

Buy SPX on close of Friday before options expiration week in January. Sell options expiration Friday. \$100k/trade. 1999 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$19,819.08)	Profit Factor	0.27
Gross Profit	\$7,198.93	Gross Loss	(\$27,018.01)
Total Number of Trades	20	Percent Profitable	25.00%
Winning Trades	5	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$990.95)	Ratio Avg. Win:Avg. Loss	0.80
Avg. Winning Trade	\$1,439.79	Avg. Losing Trade	(\$1,801.20)
Largest Winning Trade	\$2,024.33	Largest Losing Trade	(\$5,383.93)

15 of the last 20 January opex weeks have closed down. And the average January opex week lost about 1%. The max run-up during the week was about 0.8%, while the average drawdown during the same period was about 3x that, at 2.2%. And the stats are all this poor despite last year posting the 2<sup>nd</sup> strongest up move on a January opex week over the 20-year sample. January opex is not only poor when comparing against other opex weeks, it is extremely poor overall. Looking at all week/month combinations back to 1999, the only week that has shown greater losses is the week after opex week in September. In other words, January opex week has been the 2<sup>nd</sup> worst week of the year over the last 20 years.

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



With tonight's evidence considered the green Aggregator Line held below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also 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 stayed short at the close.

With the current active studies expectations are slated to remain bearish on Monday. This could change if very strong bullish evidence emerges. The Differential Pivot will be 2569.29 on Monday. That is 1.0% below Friday's close. So SPX would need to close down at least 1.0% on Monday in order to change from overbought to oversold versus expectations.

The outlook remains quite similar to last couple of nights. The Aggregator is again bearish. Short-term evidence continues to build for the bears. Studies related to multiple up days, short-term overbought measures, breadth, volume, volatility and more are all pointing towards a likely dip in the coming days. And now bearish seasonality is being added to the mix. I have some short exposure and am looking to take advantage of the anticipated selling. I have been considering upping my short exposure. I typically really like setups with so much uncorrelated evidence pointing in the same direction. But as

you will see below, I am changing my intermediate-term outlook from neutral to somewhat bullish. That means I'll be more conservative with short trades, and more aggressive with long trades. So I have decided to keep the short SPY allocation fairly light here. I may up it a little further in the next day or two, but it is highly unlikely I'll be looking to get full long this index trade.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/14– somewhat 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 are all “Long”. I’ll also note that the NASDAQ/SPX relative strength indicator actually turned bullish last Friday. Unfortunately, I missed this as my script kicked an error that I did not notice. Going forward, I have decided to reprogram the script this week to greatly reduce the chance of this ever happening again.*

Despite facing a fair amount of bearish evidence during the week, this past week showed strong gains for the market. The SPX rose 2.5%, the NASDAQ closed up 3.5%, and the Russell 2000 rallied 4.8%. There were also a few studies that triggered with intermediate-term implications. The 1<sup>st</sup> one below is copied from the 1/8/19 letter.

*The strong breadth we have seen recently has caused the 10-day exponential moving average of the Up Issues % to rise up to 62%. A move through 61.5% after being below 40% within the last 2 weeks is considered a Zweig Breadth Thrust trigger. This is a signal created by Martin Zweig. Over the long haul it has been a rare but powerful signal. Below is a stats table summarizing the signals. The table is updated from the 10/9/15 letter.*

**Zweig Breadth Thrusts for SPX.**  
Buy SPX on close. Sell 20 days later. \$100k/trade. 1970 - 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	48,594.64	8	8	0	100.00	6,074.33	8,868.75	0.00	0.00	100.00	100.00	6,074.33
19	45,296.60	8	8	0	100.00	5,662.08	8,424.52	0.00	0.00	100.00	100.00	5,662.08
18	46,912.53	8	8	0	100.00	5,864.07	9,503.00	0.00	0.00	100.00	100.00	5,864.07
17	44,416.39	8	8	0	100.00	5,552.05	9,962.68	0.00	0.00	100.00	100.00	5,552.05
16	41,476.94	8	8	0	100.00	5,184.62	8,910.72	0.00	0.00	100.00	100.00	5,184.62
15	33,488.42	8	8	0	100.00	4,186.05	8,150.48	0.00	0.00	100.00	100.00	4,186.05
14	28,717.56	8	8	0	100.00	3,589.70	7,027.80	0.00	0.00	100.00	100.00	3,589.70
13	30,054.97	8	8	0	100.00	3,756.87	7,911.80	0.00	0.00	100.00	100.00	3,756.87
12	26,684.27	8	7	1	87.50	3,814.06	8,115.12	-14.14	-14.14	269.74	1,888.15	3,335.53
11	23,958.23	8	8	0	100.00	2,994.78	7,381.40	0.00	0.00	100.00	100.00	2,994.78
10	18,888.70	8	8	0	100.00	2,361.09	8,539.44	0.00	0.00	100.00	100.00	2,361.09
9	15,127.09	8	8	0	100.00	1,890.89	6,426.68	0.00	0.00	100.00	100.00	1,890.89
8	14,298.70	8	7	1	87.50	2,164.46	4,782.88	-852.50	-852.50	2.54	17.77	1,787.34
7	19,577.48	8	8	0	100.00	2,447.18	5,737.16	0.00	0.00	100.00	100.00	2,447.18
6	19,543.18	8	8	0	100.00	2,442.90	4,813.75	0.00	0.00	100.00	100.00	2,442.90
5	14,637.98	8	8	0	100.00	1,829.75	3,615.56	0.00	0.00	100.00	100.00	1,829.75
4	9,161.02	8	6	2	75.00	1,700.72	4,888.52	-521.66	-940.31	3.26	9.78	1,145.13
3	8,134.41	8	4	4	50.00	2,518.06	4,031.04	-484.46	-947.38	5.20	5.20	1,016.80
2	4,305.22	8	6	2	75.00	1,287.86	4,224.40	-1,710.97	-3,226.25	0.75	2.26	538.15
1	3,552.96	8	6	2	75.00	901.37	2,731.56	-927.63	-1,288.75	0.97	2.92	444.12

Over both the short and intermediate-term there have been strong gains...I have also listed all of the signals since 1970 below, along with their 4 week results.

**Zweig Breadth Thrusts for SPX.**  
Buy SPX on close. Sell 20 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/3/1971	Buy	\$97.06	4.75%	\$5,963.70
1/3/1972	Sell	\$101.67		(\$1,709.80)
10/10/1974	Buy	\$69.79	7.77%	\$10,911.84
11/7/1974	Sell	\$75.21		(\$1,417.68)
1/3/1975	Buy	\$70.71	8.87%	\$11,283.72
1/31/1975	Sell	\$76.98		(\$2,361.38)
8/20/1982	Buy	\$113.02	8.40%	\$10,484.24
9/20/1982	Sell	\$122.51		(\$327.08)
8/3/1984	Buy	\$162.35	2.67%	\$3,966.75
8/31/1984	Sell	\$166.68		(\$947.10)
3/18/2009	Buy	\$794.35	8.93%	\$9,500.00
4/16/2009	Sell	\$865.30		(\$3,518.75)
10/18/2013	Buy	\$1,744.50	3.08%	\$3,062.04
11/15/2013	Sell	\$1,798.18		(\$228.00)
10/8/2015	Buy	\$2,013.43	4.30%	\$5,049.45
11/5/2015	Sell	\$2,099.93		(\$1,112.30)

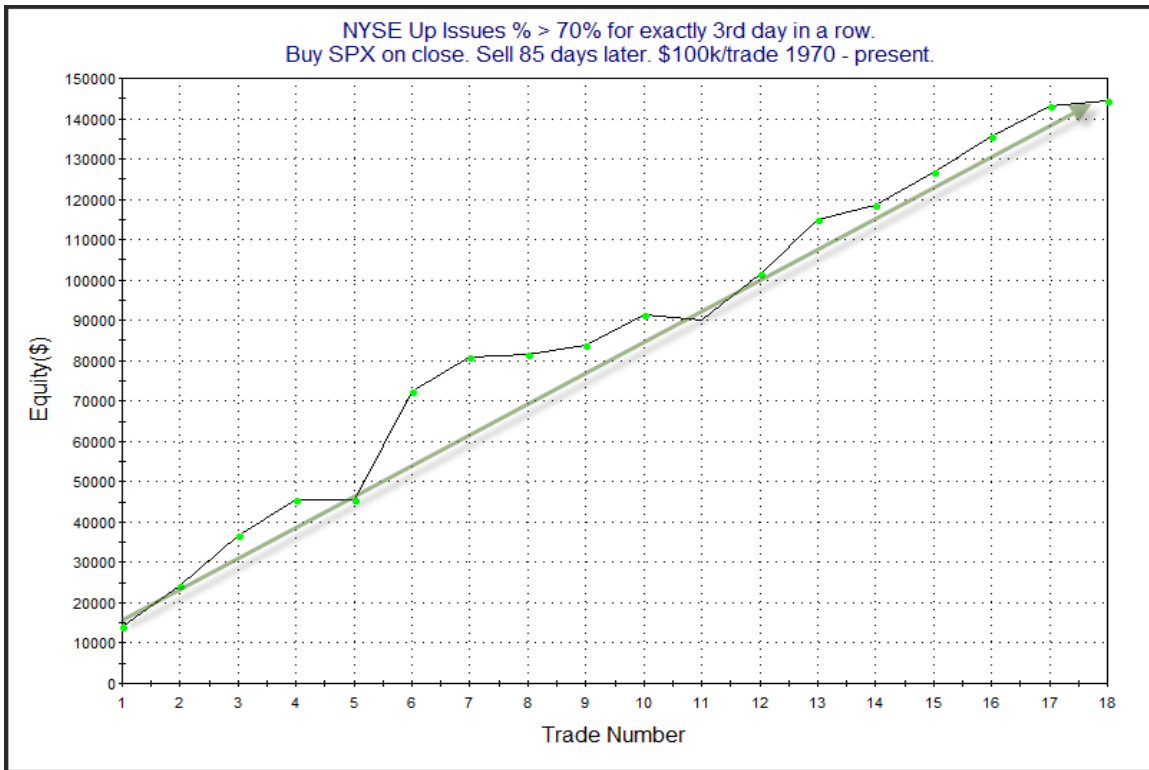
All 8 instances saw a runup of at least 3% over the next 4 weeks, and only once did the market pull back as much as even 2.5%.

Another bullish breadth study appeared in the 1/9/19 letter.

Like last night, I did see some breadth indications suggesting a bullish edge. The study below was last seen in the 7/1/16 letter. Stats are updated.

NYSE Up Issues % > 70% for exactly 3rd day in a row. Buy SPX on close. Sell X days later. \$100k/trade 1970 - 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
100	135,725.05	17	14	3	82.35	10,578.50	35,219.04	-4,124.64	-9,681.98	2.56	11.97	7,983.83
95	125,938.76	17	15	2	88.24	9,102.66	27,445.80	-5,300.59	-7,569.87	1.72	12.88	7,408.16
90	142,032.33	18	16	2	88.89	9,259.59	30,973.23	-3,060.54	-5,123.16	3.03	24.20	7,890.68
85	144,315.72	18	17	1	94.44	8,566.39	26,662.95	-1,312.89	-1,312.89	6.52	110.92	8,017.54
80	132,110.91	18	17	1	94.44	8,137.30	28,578.63	-6,223.12	-6,223.12	1.31	22.23	7,339.50
75	124,832.25	19	18	1	94.74	7,459.72	27,768.15	-9,442.75	-9,442.75	0.79	14.22	6,570.12
70	101,346.86	19	17	2	89.47	6,613.71	24,259.14	-5,543.08	-8,532.18	1.19	10.14	5,334.05
65	97,722.17	19	16	3	84.21	6,948.72	27,445.80	-4,485.79	-12,438.75	1.55	8.26	5,143.27
60	103,899.84	20	17	3	85.00	7,194.93	30,586.41	-6,137.98	-14,330.51	1.17	6.64	5,194.99
55	106,228.37	21	17	4	80.95	7,433.06	30,678.51	-5,033.43	-13,424.22	1.48	6.28	5,058.49
50	103,872.07	21	16	5	76.19	8,274.19	23,071.05	-5,702.98	-16,443.76	1.45	4.64	4,946.29
45	99,426.51	21	18	3	85.71	7,157.92	28,108.92	-9,805.37	-22,705.40	0.73	4.38	4,734.60
40	81,970.32	21	18	3	85.71	6,445.99	23,973.63	-11,352.52	-25,195.29	0.57	3.41	3,903.35
35	77,794.46	22	18	4	81.82	5,651.61	18,659.46	-5,983.64	-16,976.62	0.94	4.25	3,536.11
30	80,476.13	22	17	5	77.27	6,031.55	15,257.06	-4,412.04	-15,261.41	1.37	4.65	3,658.01
25	78,399.13	22	18	4	81.82	5,162.96	14,063.67	-3,633.55	-6,624.37	1.42	6.39	3,563.60
20	71,982.46	22	18	4	81.82	4,898.44	14,026.83	-4,047.37	-11,381.59	1.21	5.45	3,271.93
15	56,387.47	22	19	3	86.36	3,698.32	12,369.03	-4,626.90	-10,189.61	0.80	5.06	2,563.07
10	36,341.21	23	18	5	78.26	3,140.43	8,942.91	-4,037.30	-8,739.76	0.78	2.80	1,580.05
5	24,596.19	23	17	6	73.91	2,327.98	8,325.84	-2,496.59	-6,523.10	0.93	2.64	1,069.40
4	18,387.98	23	14	9	60.87	1,979.43	6,272.01	-1,036.01	-3,472.70	1.91	2.97	799.48
3	15,348.84	23	14	9	60.87	1,879.90	6,971.97	-1,218.86	-2,691.05	1.54	2.40	667.34
2	18,315.80	23	18	5	78.26	1,140.45	4,126.08	-442.45	-790.32	2.58	9.28	796.34
1	11,059.86	23	16	7	69.57	827.01	2,609.46	-310.33	-465.45	2.66	6.09	480.86

There are a lot of green numbers and the edge generally appears to be to the upside. Here are the 85-day results...



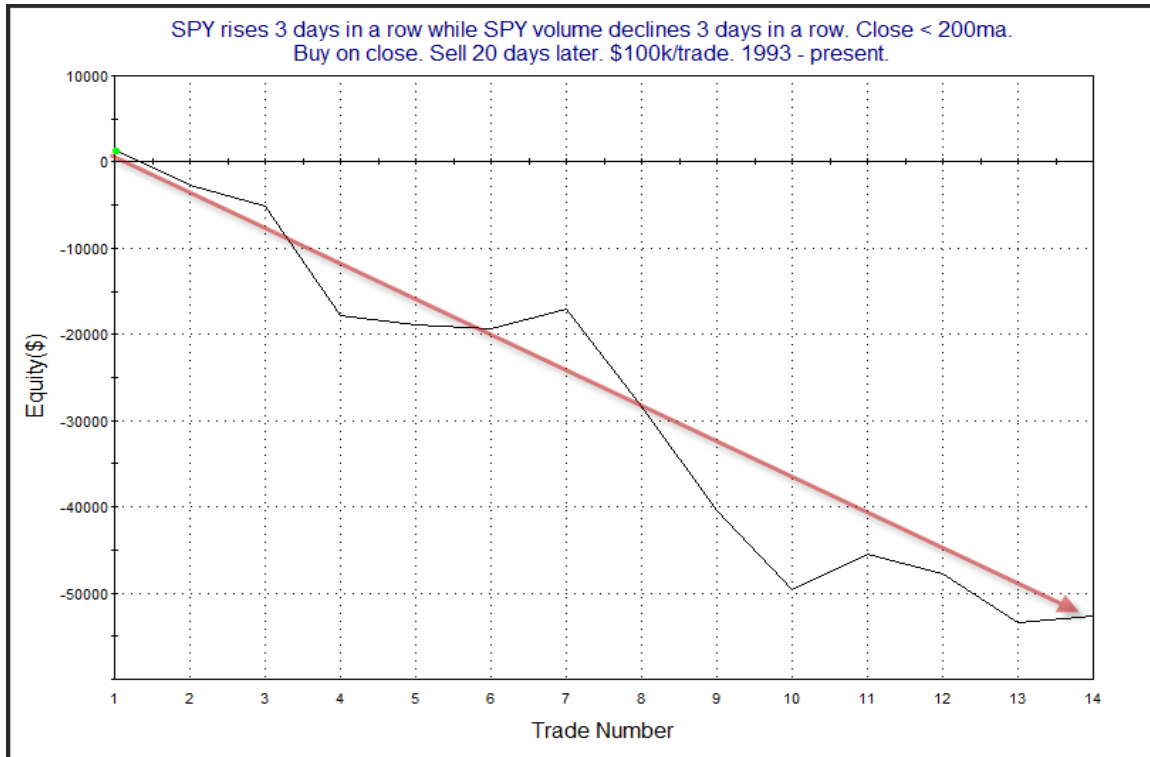
*You don't get curves that look much better than that.*

But the 1/9/19 letter also showed a study with bearish intermediate-term potential.

SPY rises 3 days in a row while SPY volume declines 3 days in a row. 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
20	-52,682.08	14	4	10	28.57	2,166.56	4,102.18	-6,134.83	-12,586.76	0.35	0.14	-3,763.01
19	-47,115.78	14	5	9	35.71	1,842.16	4,528.14	-6,258.51	-15,435.00	0.29	0.16	-3,365.41
18	-44,817.27	15	6	9	40.00	1,546.31	4,639.26	-6,010.57	-11,688.04	0.26	0.17	-2,987.82
17	-42,592.10	16	4	12	25.00	1,691.46	3,944.76	-4,113.16	-8,411.13	0.41	0.14	-2,662.01
16	-36,598.75	16	4	12	25.00	2,837.21	4,444.80	-3,995.63	-11,782.05	0.71	0.24	-2,287.42
15	-43,113.22	16	4	12	25.00	2,592.29	6,220.11	-4,456.86	-12,430.32	0.58	0.19	-2,694.58
14	-49,514.61	16	4	12	25.00	2,745.78	7,258.74	-5,041.48	-18,100.11	0.54	0.18	-3,094.66
13	-43,777.37	16	6	10	37.50	1,253.09	2,657.62	-5,129.59	-22,288.14	0.24	0.15	-2,736.09
12	-28,342.50	16	8	8	50.00	1,442.10	3,886.11	-4,984.91	-16,062.69	0.29	0.29	-1,771.41
11	-19,290.81	16	8	8	50.00	1,694.85	3,333.60	-4,106.20	-10,320.87	0.41	0.41	-1,205.68
10	-21,488.93	16	7	9	43.75	2,098.85	5,193.15	-4,020.10	-11,977.56	0.52	0.41	-1,343.06
9	-22,851.28	16	7	9	43.75	2,044.09	4,481.28	-4,128.88	-10,794.21	0.50	0.39	-1,428.20
8	-27,670.25	16	5	11	31.25	2,685.60	6,231.78	-3,736.20	-11,701.12	0.72	0.33	-1,729.39
7	-27,223.60	16	7	9	43.75	1,169.49	2,649.09	-3,934.44	-11,617.41	0.30	0.23	-1,701.48
6	-24,472.93	16	5	11	31.25	1,401.73	1,720.62	-2,861.96	-7,552.86	0.49	0.22	-1,529.56
5	-24,899.22	16	5	10	31.25	1,294.86	2,551.35	-3,137.35	-6,540.81	0.41	0.21	-1,556.20
4	-26,375.98	16	3	13	18.75	1,663.01	2,737.50	-2,412.69	-6,615.42	0.69	0.16	-1,648.50
3	-29,586.19	16	4	12	25.00	831.23	1,564.94	-2,742.59	-6,431.25	0.30	0.10	-1,849.14
2	-12,821.10	17	5	12	29.41	1,581.66	5,169.81	-1,727.45	-5,350.20	0.92	0.38	-754.18
1	1,492.50	19	9	10	47.37	1,758.58	3,862.77	-1,433.47	-8,857.80	1.23	1.10	78.55

Again we see what appears to be a strong downside inclination. Let's also look at the 20-day curve.

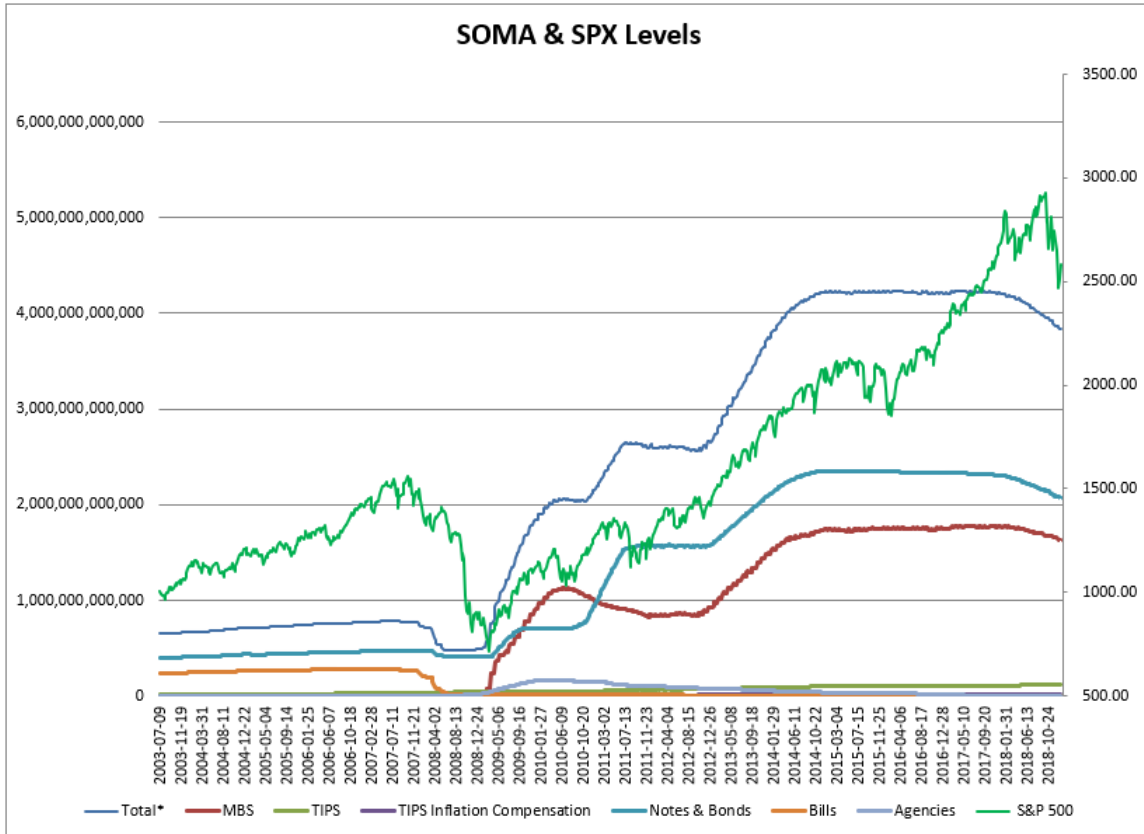


While instances are a little light, initial indications suggest a downside edge for both the short and intermediate-term.

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.

DOMESTIC SECURITIES HOLDINGS AS OF  
**January 2, 2019**

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

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,064,760,611.5
US Treasury Floating Rate Notes (FRN)	18,825,874.1
US Treasury Inflation-Protected Securities (TIPS)*	116,544,672.9
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,637,123,400.3
Total SOMA Holdings	3,839,663,558.8
Change From Prior Week	-18,209,480.4

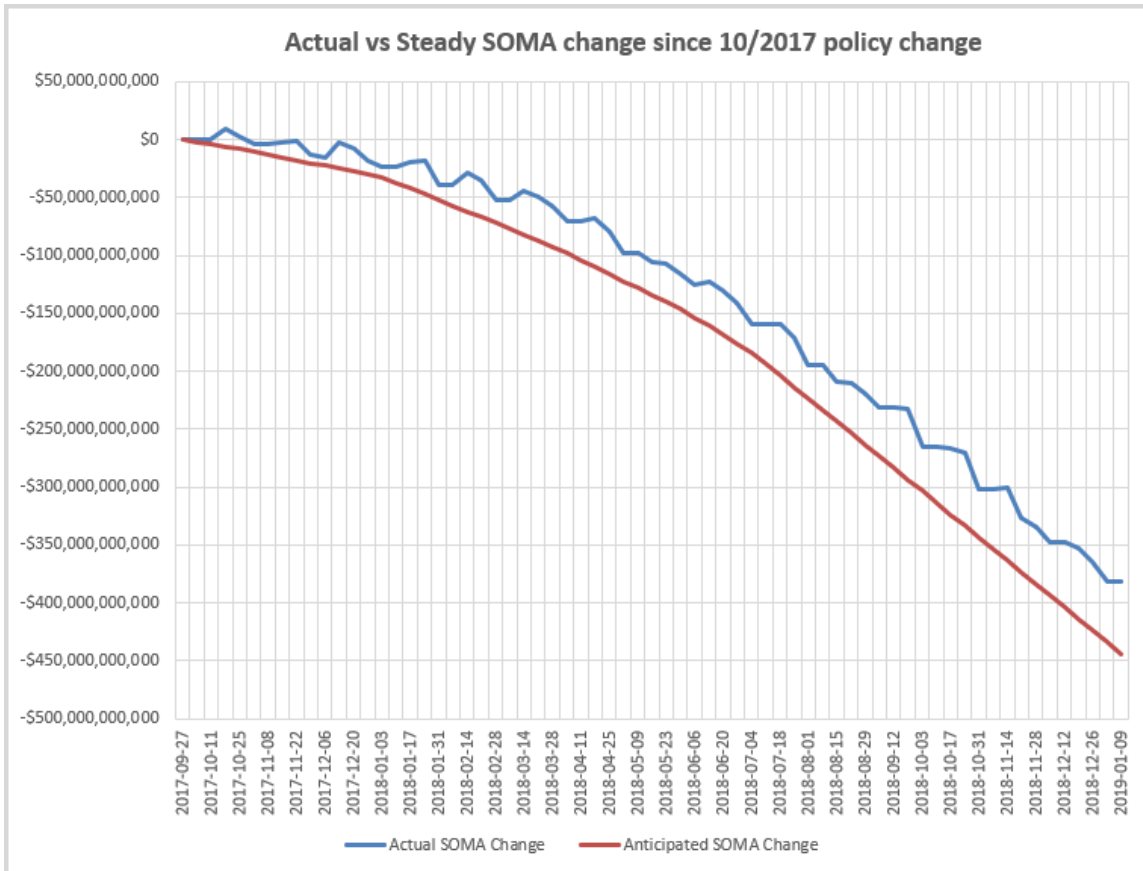
\*Does not reflect inflation compensation of 22,385,560.8

\*\*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.

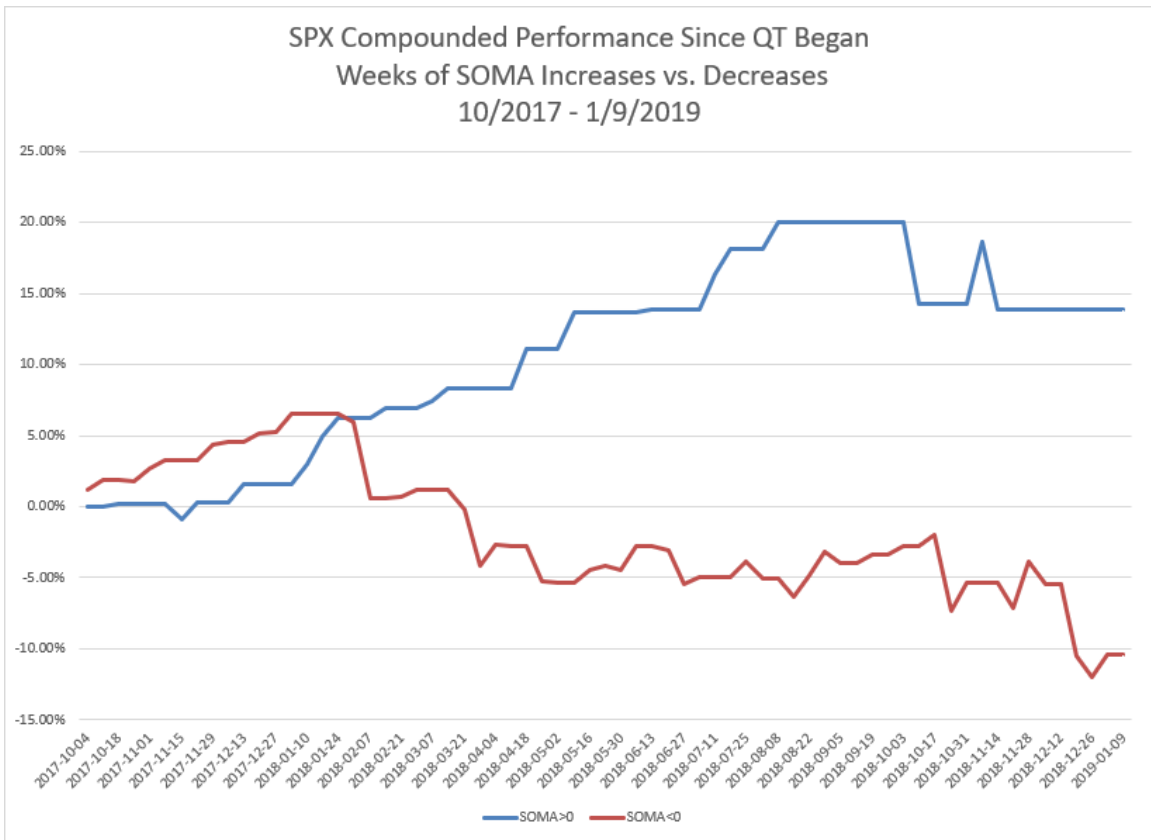
Data posted on 01/03/2019 4:30pm.

And now a zoomed-in view since October comparing steady reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) saw \$0.00 change. After not having any weeks with \$0.00 change since 10/2008, this is the 2<sup>nd</sup> such instance in the last 5 weeks. Both of these breakeven weeks occurred during weeks that I identified as potential slight up weeks. So perhaps in this strong Quantitative Tightening (QT) environment, "flat" is the new "up". Meanwhile, the SPX gained 3.0% for the week ending 1/9. That is a sizable gain for any week. The "Actual vs Steady" chart shows that the \$0.00 change falls well shy of a typical week 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.



You can see here the sharp contrast in expansion weeks versus contraction weeks over the last 15 months. Despite some recent struggles, expansion weeks (blue line) have seen strong gains. Meanwhile, weeks with QT (red line) have been net losers. Of course this week neither line moved as it was not an expansion nor contraction week. In the two weeks where there was no SOMA change, SPX lost 1.8% the 1<sup>st</sup> week and gained 3.0%

the 2<sup>nd</sup>. Since October 2017 the blue “expansion week” strategy would have posted a 13.9% gain while the red “contraction week” strategy would have lost 10.4%. That is a substantial difference in performance. 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 12/26/2018

DOMESTIC SECURITIES HOLDINGS AS OF  
**January 2, 2019** 📅

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

Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding <sup>1</sup>	Change in Par from Prior Week <sup>2</sup>	Change in Par from Prior Year <sup>2</sup>
1/31/19	912828V56	1.125	1,648,772.7	5.96%		
1/31/19	912828SD3	1.250	5,843,714.5	19.78%		
1/31/19	912828B33	1.500	4,173,000.0	11.92%		
2/15/19	912810EC8	8.875	7,497,000.0	57.27%		
2/15/19	912828P53	0.750	1,884,490.1	7.28%		
2/15/19	912828KD1	2.750	34,141,943.8	58.19%		
2/28/19	912828W30	1.125	3,605,863.3	12.18%		
2/28/19	912828SH4	1.375	6,315,645.0	21.48%		
2/28/19	912828C24	1.500	2,607,325.5	7.43%		

Notable here is that the next set of expirations is not until 1/31/19. So any QT between now and then will be due to AMBS securities coming 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/ambs-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.

May was the only other month that saw a week end on the 16<sup>th</sup>, and it saw mild QT. The weeks ending 10/17/18 and 8/15/18 both saw mild QT, while 1/17/18 and 11/15/17 both saw very mild increases in the SOMA. I would expect the week ending 1/16/19 to show very mild QT.

Looking out to the next week, SOMA change is again not completely obvious. May ended on the 23<sup>rd</sup>, and that saw a mild decline in the SOMA. Same with 10/24/18 and

8/22/18. But 1/24/18 and 11/22/17 saw small increases. I think there is a good chance that the SOMA declines on the week ending 1/23, but I expect it to be very mild. It is the 2 weeks following that in which we should see some sizable QT.

Intermediate-term indications remain mixed, but evidence is beginning to mount for the bulls. The NASDAQ is now leading, which had all 3 Market Timing Course combo systems set “long”. And the strong breadth we have seen off the bottom is very impressive. The two studies shown above, the Zweig Breadth Thrust and the three 70% Up Issue days, both suggest strong implications for the intermediate-term. I have seen a few other studies over the last few days that are very similar to those two. The bottom line is that rallies that begin with such strong and broad moves generally have some staying power. QT remains the primary concern for the intermediate-term. The SPY volume study also suggests some possible difficulty over the next few weeks. And there is certainly some strong potential for a short-term pullback. But overall the intermediate-term outlook seems to be improving. I am now leaning bullish rather than neutral. This means that I will be more conservative with short trades than with long trades.

### **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(s)(1/4)	1/9/2019	\$257.56	\$258.98	-0.55%		Aggregator

*I will cover my SPY short position on the close if SPX closes <= 2569.29.*

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