

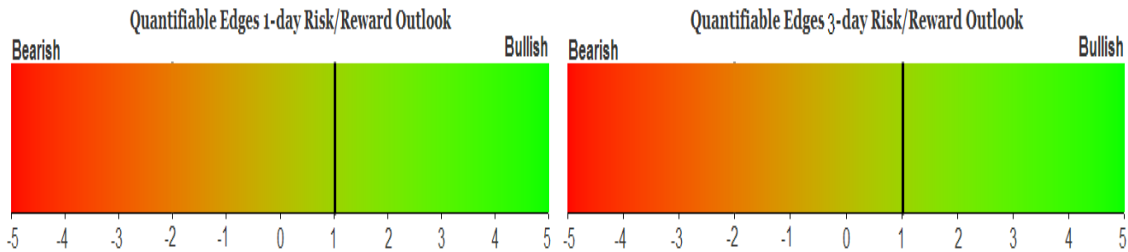
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2018

Volume 12 Issue 28

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- The SOMA may rise a little this reporting week, ending on the 13th. But the 15th will see a massive treasury expiration.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the signal appears weak.

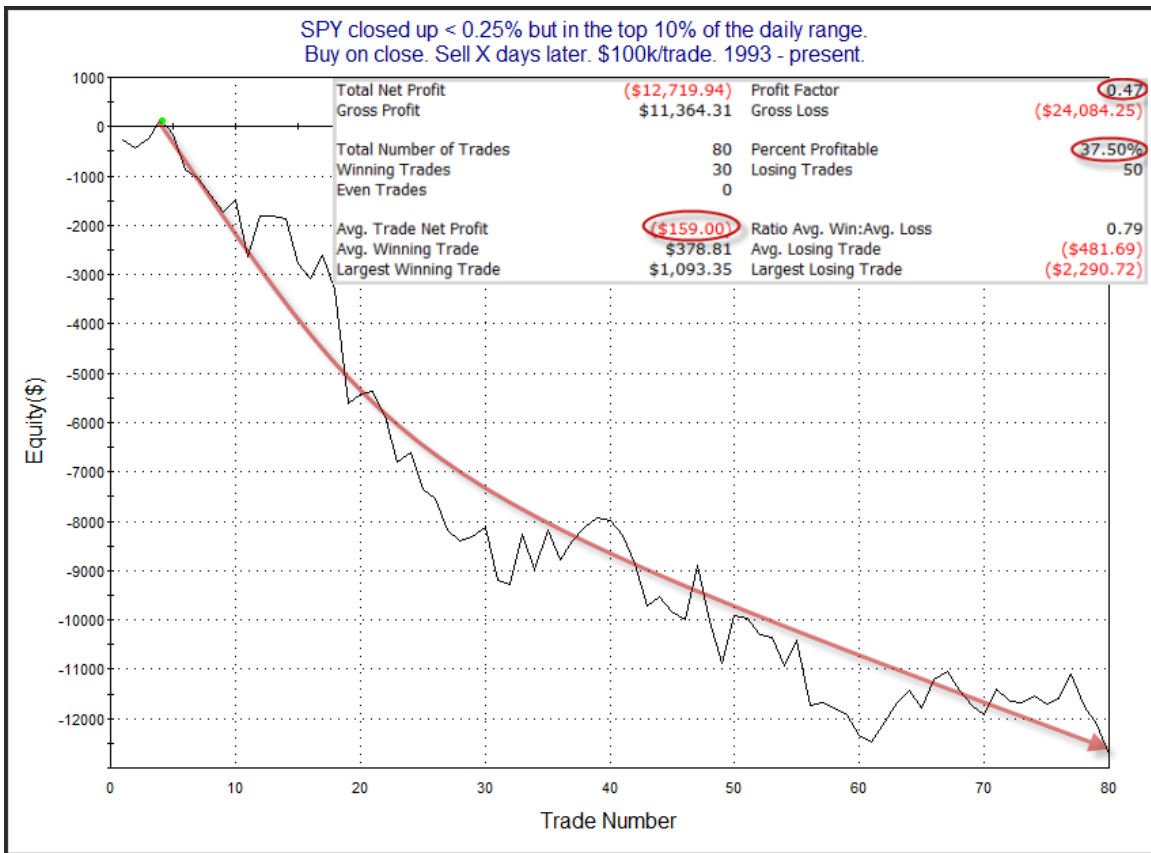
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 11, 2019	SPY up < 0.25%. Top 10% intraday rng	1 day	Bearish			
February 7, 2019	Low Range Low Volm Inside SPY < 200	1-8 days	Bullish	3.40%	-2.55%	-5.90%
Active - Long Term						
January 9, 2019	Up Issues > 70% for 3 days	1-85 days	Bullish			
January 2, 2019	NASDAQ leading	int term	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

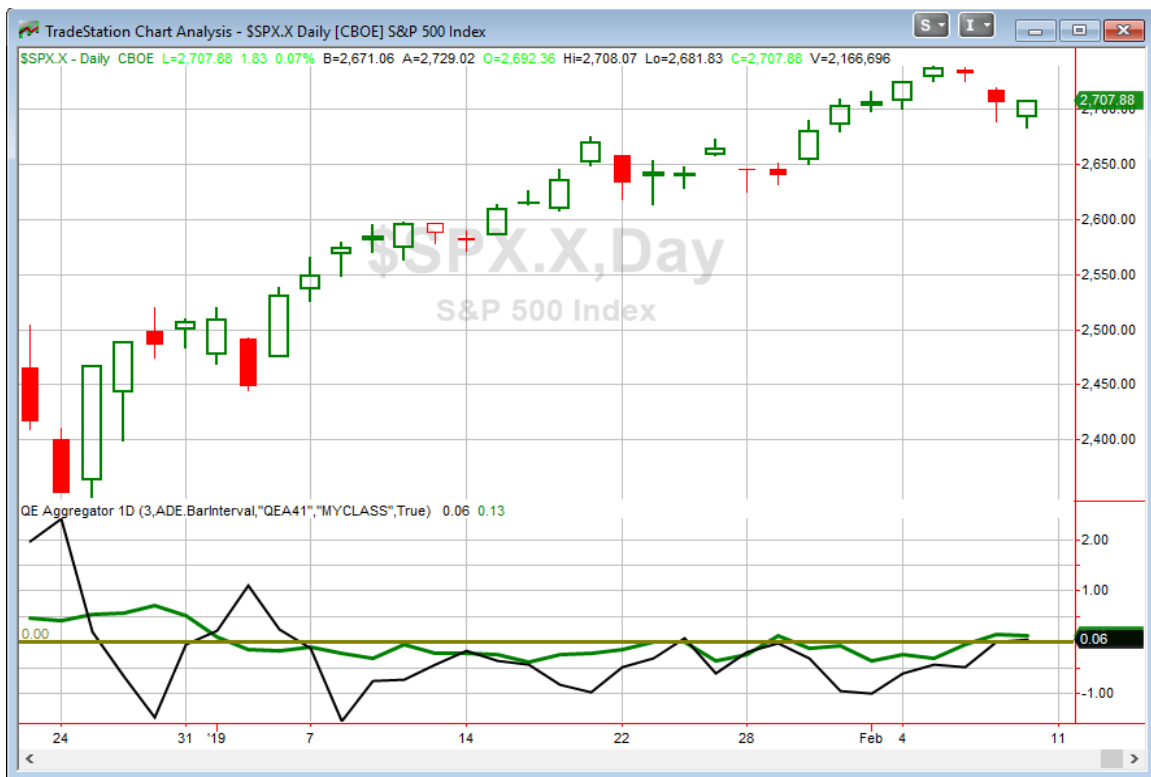
After trading lower almost all day, a late rally pushed the market to a positive close. The SPX, NASDAQ, and the Russell 2000 all finished up about 0.1%. Breadth was a little negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 46%. NYSE volume declined some from Thursday’s level.

The mild up close may have seemed like a win for the bulls, but the study below suggests that when SPY closes strong (in the top 10% of its intraday range) but still only manages a small gain on the day, the next day has shown a downside tendency. It last appeared in the 10/20/17 letter. I have updated the stats and the profit curve.



This bearish edge has persisted since the inception of SPY in 1993, and the curve is once again at new lows. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have added this study to the Active List tonight.

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



Even with tonight's bearish study emerging, the green Aggregator Line remained a little above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line is again just barely above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is slightly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

With the lone short-term bearish study only having a 1-day influence, expectations are set to remain bullish as of Monday's close. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2715.12 on Monday. That is just 0.3% above Friday's close. Therefore, SPX will only need to close up about 0.3% in order to flip from oversold to overbought vs recent expectations.

The Aggregator is suggesting an upside edge. But tonight’s study makes Monday look dicey. Additionally, the short-term bullish evidence is quite limited. And the upside opportunity appears small with the Differential Pivot so close by. One possible help to the bulls over the next few days is that we are in a week where the SOMA is expected to remain flat or even rise slightly. I am currently flat. And while I believe there is a small edge to the bulls, I don’t think reward/risk is favorable enough to warrant a new index position right here. I’ll continue to remain alert and look for more favorable opportunities in the coming days.

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

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

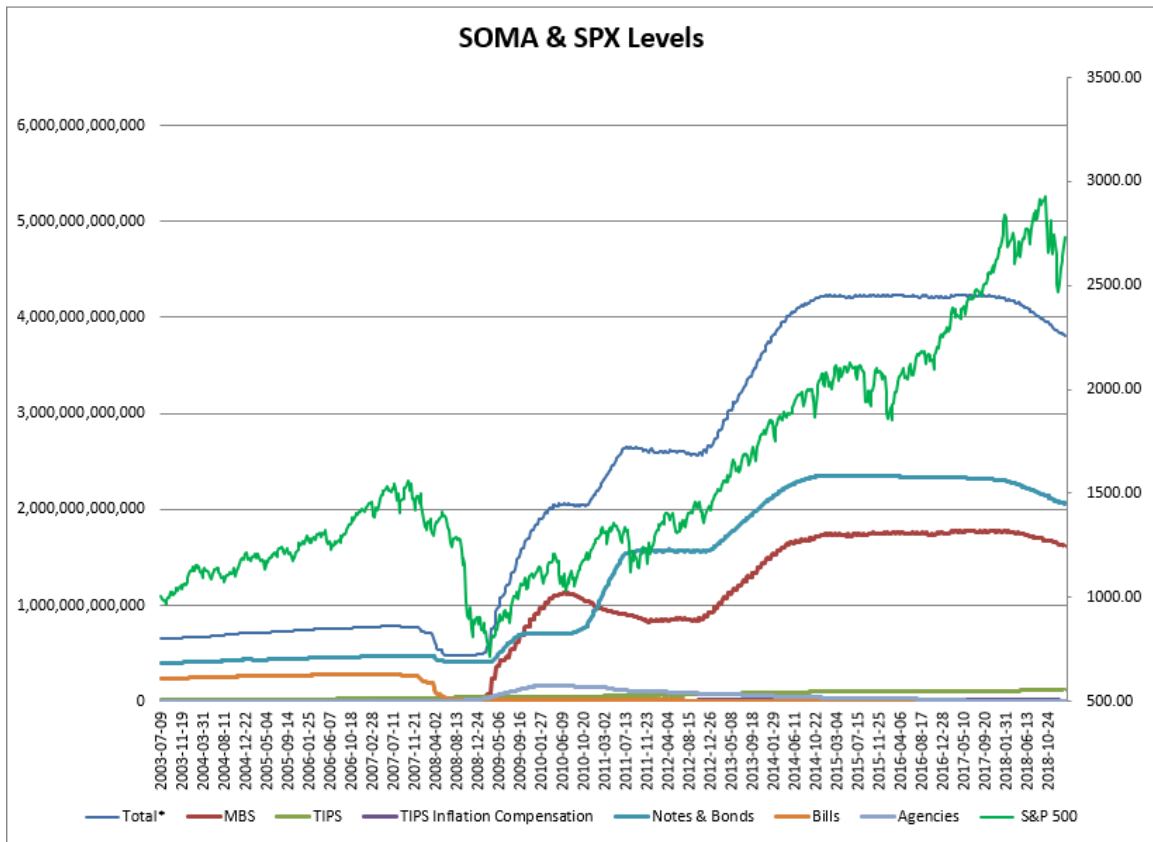
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 all remained “Long”.*

The market changed very little this past week. The SPX rose just over 1 point, the NASDAQ gained 0.5%, and the Russell 2000 moved up 0.3%. Both the SPX and NASDAQ are nearing their 200-day moving averages. The Russell still has a ways to go to get there. Meanwhile, the Dow Jones remained above it from last week. There were not any new studies that emerged this week with long-term implications.

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 01/30/2019

DOMESTIC SECURITIES HOLDINGS AS OF
February 6, 2019

Summary	T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
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Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,053,095,124.3
US Treasury Floating Rate Notes (FRN)	16,300,804.9
US Treasury Inflation-Protected Securities (TIPS)*	114,768,909.8
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,621,808,659.7
Total SOMA Holdings	3,808,382,498.7
Change From Prior Week	-14,190,556.4

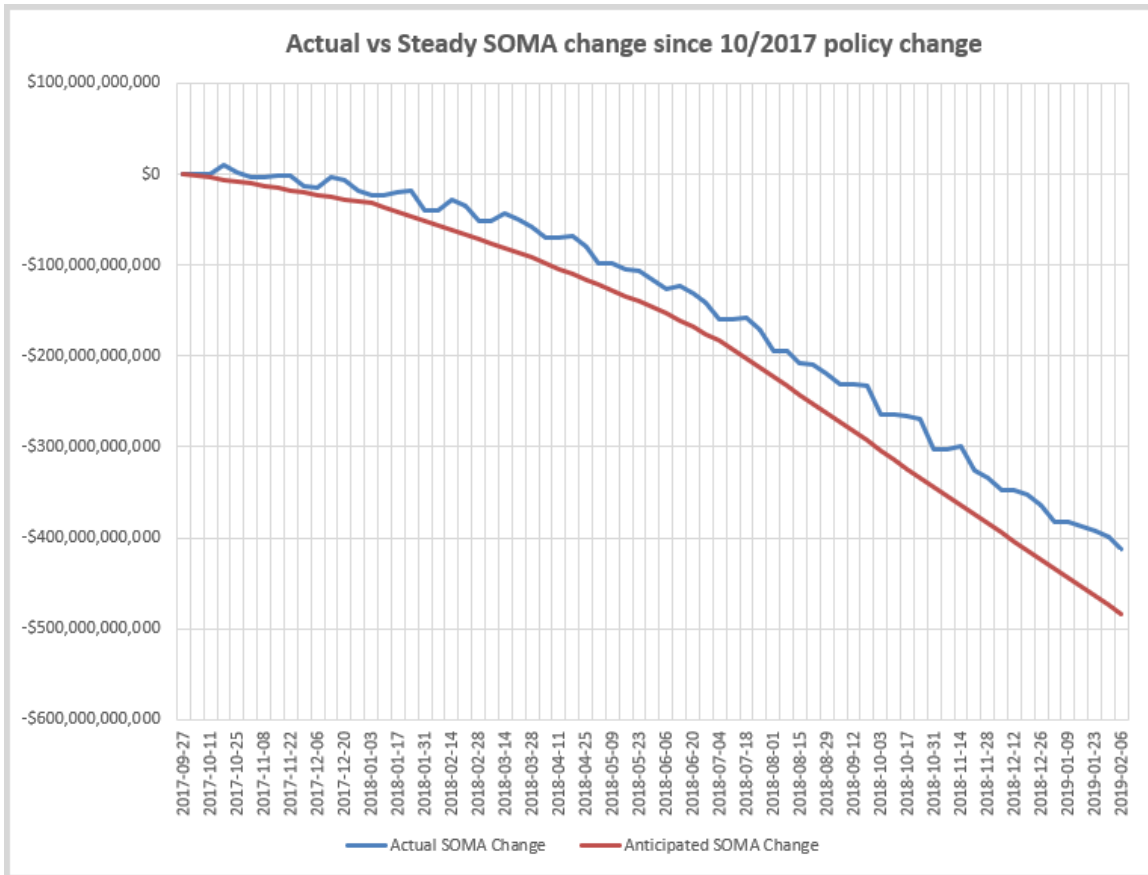
*Does not reflect inflation compensation of 21,547,967.7

**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.

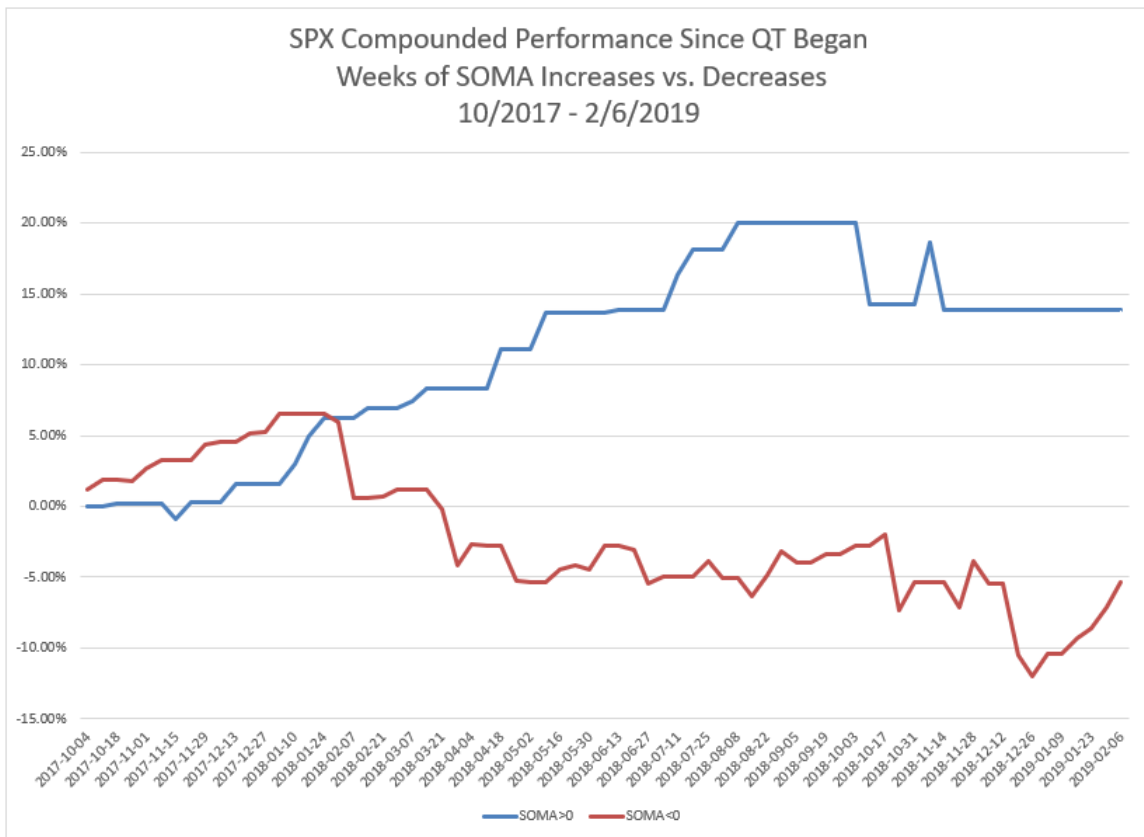
Data posted on 02/07/2019 4:30pm.

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



The Fed's SOMA this past week (Wednesday to Wednesday) declined about \$14 billion. This is in-line with the Quantitative Tightening (QT) we were expecting this past week. Meanwhile, the SPX gained 1.9% for the week ending 2/6. That is a good-sized gain for any week, especially one where there was QT. The "Actual vs Steady" chart shows that the \$14 billion decline is above average for a 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 16 months. Despite some recent struggles, expansion weeks (blue line) have seen strong gains. Meanwhile, weeks with QT (red line) have been net losers, though the chart has recovered quite a bit since Christmas. Since October 2017 the blue "expansion week" strategy would have posted a 13.9% gain while the red "contraction week" strategy would have lost 5.4%. 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 01/30/2019

DOMESTIC SECURITIES HOLDINGS AS OF
February 6, 2019

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
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%		
3/31/19	912828W97	1.250	3,147,708.1	10.80%		
3/31/19	912828SN1	1.500	18,223,451.7	61.38%		
3/31/19	912828C65	1.625	1,008,000.0	2.88%		

There is a fairly busy treasury expiration schedule right now, with treasury expirations on the 15th and 28th this month. Weeks where there are no treasuries expiring, any QT 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.

The current reporting week, ending on the 13th, I expect the SOMA to break even or rise slightly. The week of December 12th saw a breakeven SOMA. Every other week ending on the 12th-14th dating back to October 2017 has see a slight rise. So we do not have a short-term QT headwind at the moment. Of course with the massive expiration of over \$43 billion in treasuries on the 15th, the week ending the 20th will see some very sizable QT.

Intermediate-term indications are continuing to lean bullish. All 3 Market Timing Course signals are long. And the strong breadth thrust off the bottom has generated terrific upside momentum. The 3x 70% Up Issues study remains intact and suggests the rally has staying power. QT remains the primary concern for the intermediate-term, and the brief reprieve from it will end after Wednesday. I am again somewhat bullish, which means 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

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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