

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 15, 2018

Volume 12 Issue 32

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Opex Friday mornings when above the 200ma have historically struggled.
- The SOMA rose slightly last week, but this week will see a very large decline.

Short-term Outlook

The Bottom Line

There appears to be a small bearish edge, but I still do not find the overall setup compelling.

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 14, 2019	NASDAQ up 4 days < 200ma	1-2 days	Bearish			
February 14, 2019	Unfill up, 20-day high, Close < open.	1-2 days	Bullish			
February 12, 2019	VIX up SPX up Monday < 200ma	1-5 days	Bearish	-3.40%	1.90%	3.80%
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			

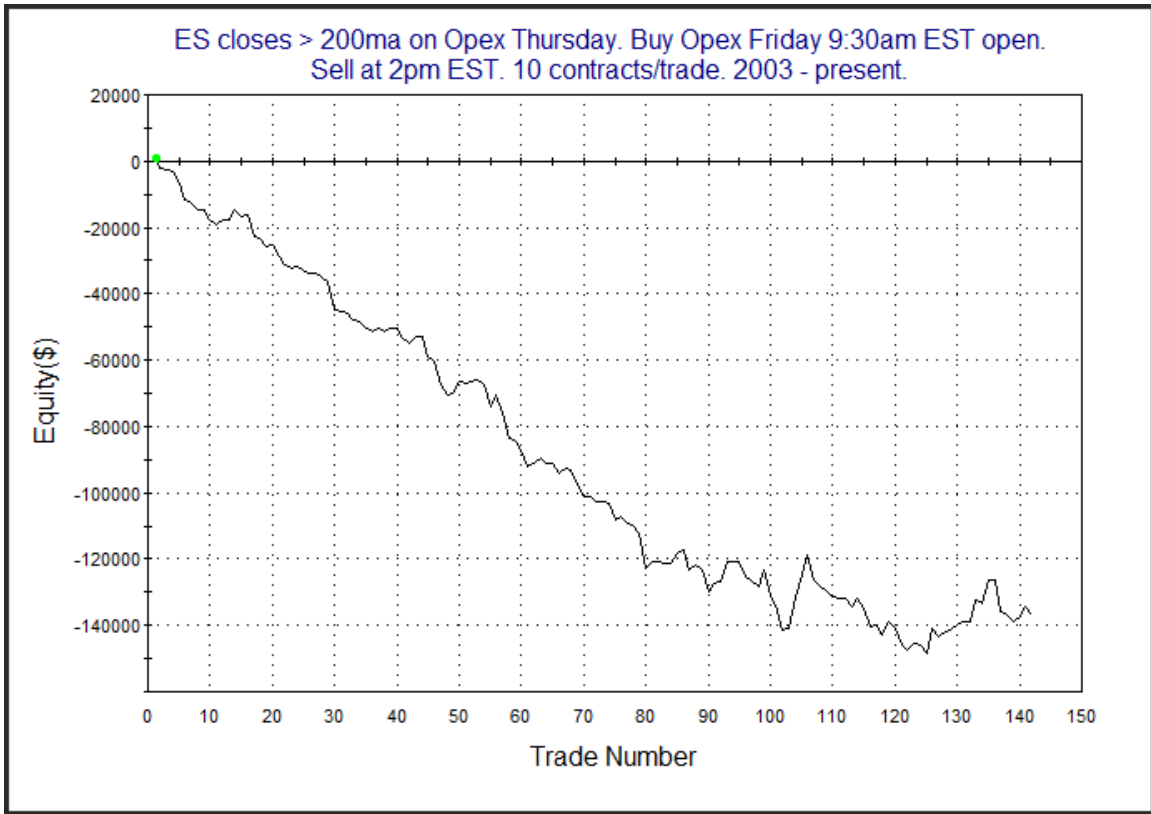
The Evidence

Thursday was mixed. The SPX fell 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 rose 0.1%. Breadth was negative as the NYSE Up Issues % was 49% and the Up Volume % came in at 46%. NYSE volume rose some from Wednesday's level.

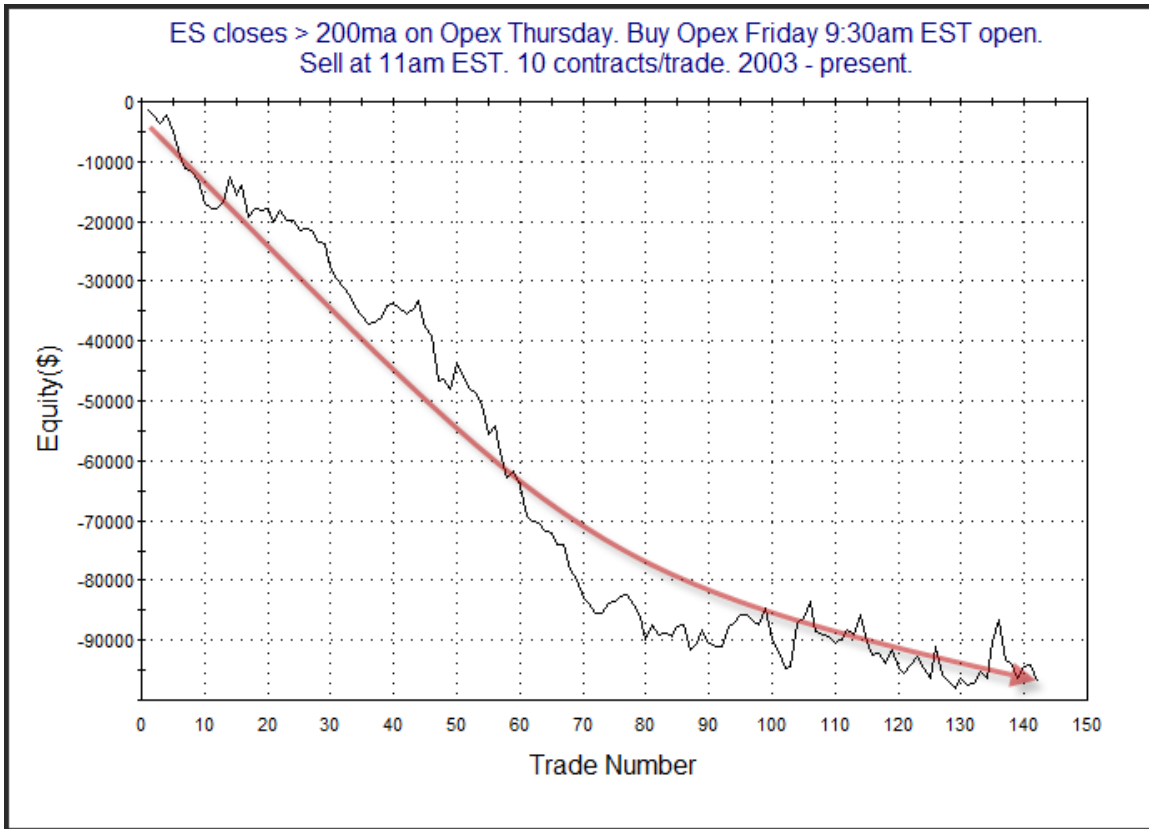
The mixed action did not help to deliver compelling Quantifinder studies. But one seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. This table is updated from the 6/15/18 letter.

ES closes > 200ma on Opex Thursday. Buy Opex Friday 9:30am EST open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - present.												
OE Op-Ex Fri Intra Short: timeofday	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
1,600	-113,000.00	142	61	78	42.96	2,631.15	13,875.00	-3,506.41	-16,125.00	0.75	0.59	-795.77
1,500	-110,625.00	142	53	84	37.32	2,754.72	9,875.00	-3,055.06	-11,625.00	0.90	0.57	-779.05
1,400	-136,625.00	142	45	90	31.69	2,430.56	9,875.00	-2,733.33	-10,750.00	0.89	0.44	-962.15
1,300	-122,375.00	142	48	93	33.80	2,406.25	11,375.00	-2,557.80	-12,375.00	0.94	0.49	-861.80
1,200	-116,500.00	142	49	93	34.51	2,193.88	11,625.00	-2,408.60	-9,750.00	0.91	0.48	-820.42
1,100	-96,875.00	142	53	87	37.32	1,662.74	7,250.00	-2,126.44	-7,625.00	0.78	0.48	-682.22
1,000	-77,875.00	142	41	98	28.87	1,079.27	3,625.00	-1,246.17	-3,625.00	0.87	0.36	-548.42

As you can see, the bearish implications primarily play themselves out by early afternoon. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) The largest downside totals would have been achieved by exiting at 2pm. But as you can see below, over the last year or so, the downside tendency has not persisted.



But the change in character is not as evident when looking at the early morning and closing out at 11am. This can be seen below.



It still appears to me that caution seems warranted on the long side, especially during the early morning on Friday.

On Thursday the Fed released its SOMA changes through Wednesday. I have copied it below.

« As of 02/06/2019

DOMESTIC SECURITIES HOLDINGS AS OF
February 13, 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)	2,053,095,124.3
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***	1,621,955,651.9
Total SOMA Holdings	3,808,529,490.9
Change From Prior Week	146,992.2

*Does not reflect inflation compensation of 21,439,074.5

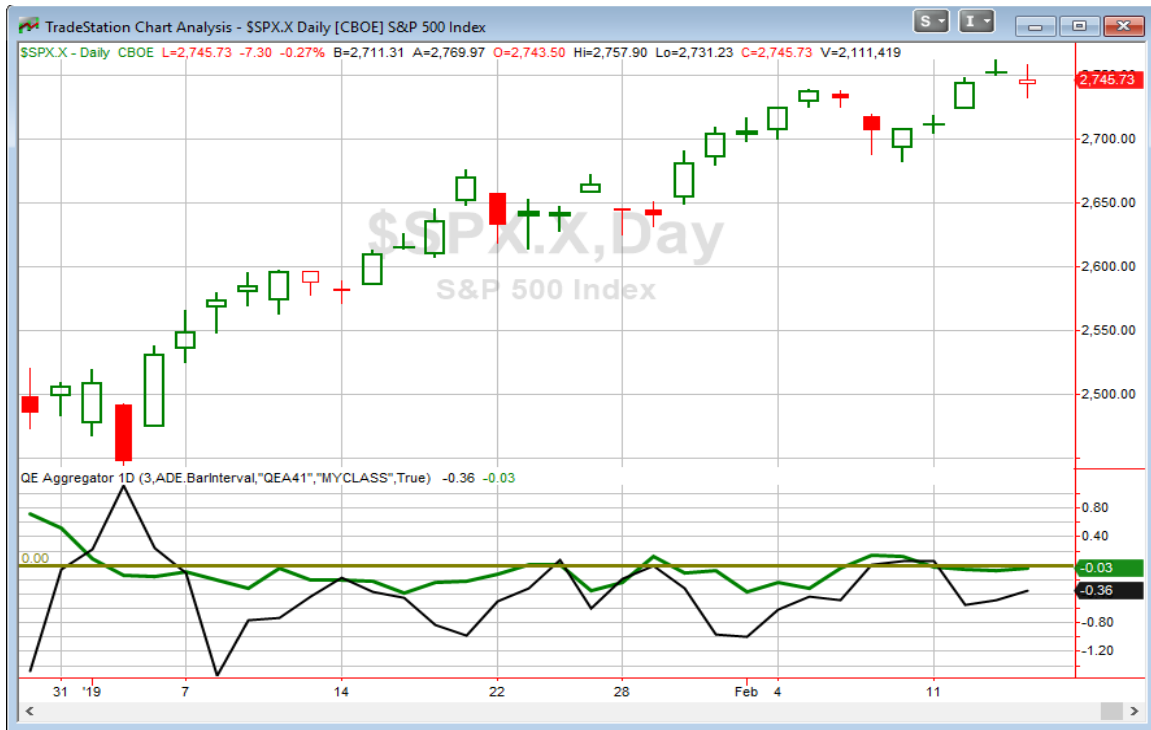
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 02/14/2019 4:30pm.

As anticipated over the last few weeks, this past week saw the SOMA rise a small amount. With the slight liquidity wind at its back, the market had not trouble tacking on gains. But current reporting week, which goes through Wednesday 2/20, will see some very sizable Quantitative Tightening (QT), which could serve as a headwind for bulls. I will cover this in more detail in the letter this weekend. No new studies are being added to the Active List tonight.

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



Without any new studies being added, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also held 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.

Based on the current active studies, expectations are set to remain slightly bearish on Friday. This could easily change if new bullish evidence emerges. The Differential Pivot will be *slightly inverted* at 2746.23 on Friday. That is just ½ point above Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, any flat or down close will mean an oversold reading on Friday, and almost any up close would mean an overbought reading.

My bias is basically the same as last night. After closing above the 10ma for the 29th day in a row, the market is ripe for a further dip. Additionally, we are now in a large QT week, which could finally help the bears put together some kind of substantial pullback. So I considered new short exposure. But the mixed evidence, intermediate-term bullish outlook, and U.S.-only long weekend have me feeling conservative. I am not inclined to try another counter-trend trade just yet. I'll see what new evidence emerges on Friday before looking to take on new positions.

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

The intermediate-term outlook was last updated in the 2/4 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

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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