

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2018

Volume 12 Issue 42

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Moves from a 5-day low to a 50-day high in 1 day are often followed by a dip in the next few days.
- The NASDAQ's 10-week win streak suggests price momentum that has historically persisted for about another quarter.
- This week we should see a drop in the SOMA, but the reporting week that starts on Thursday could actually see a small gain, offering a very slight tailwind for bulls.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. This does not appear to be a great entry point. I am waiting for a more favorable reward/risk setup before taking on new short-term index exposure.

*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>						
March 4, 2019	SPY 3 days up 20-high < 200ma	1-2 days	Bearish			
March 1, 2019	Dn 3 from 20-high. 3/10 HV is low.	1-2 days	Bullish			
<b>Active - Long Term</b>						
March 4, 2019	NASDAQ up 10 weeks in a row	13 weeks	Bullish	11.70%	-2.10%	-4.40%
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			

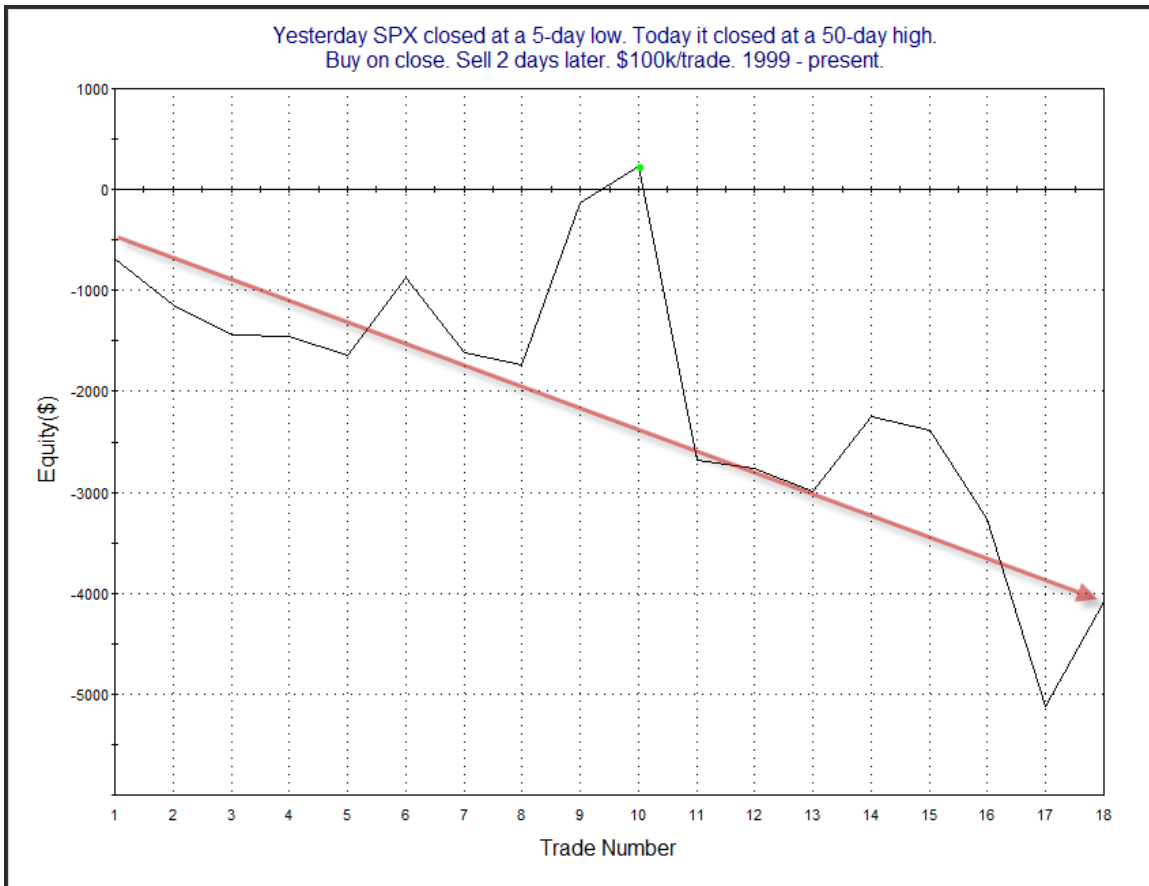
**The Evidence**

The market popped up Friday and made new intermediate-term highs. The SPX rose 0.7%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % was 62.3% and the Up Volume % came in at 61.6%. NYSE volume declined some from Thursday's level.

The strong move up caused SPX to move from a 5-day low close to a 50-day high close. That is fairly unusual. In the 1/3/18 Letter I looked at moves from 5-day lows to 50-day highs. Tonight I have updated those results below.

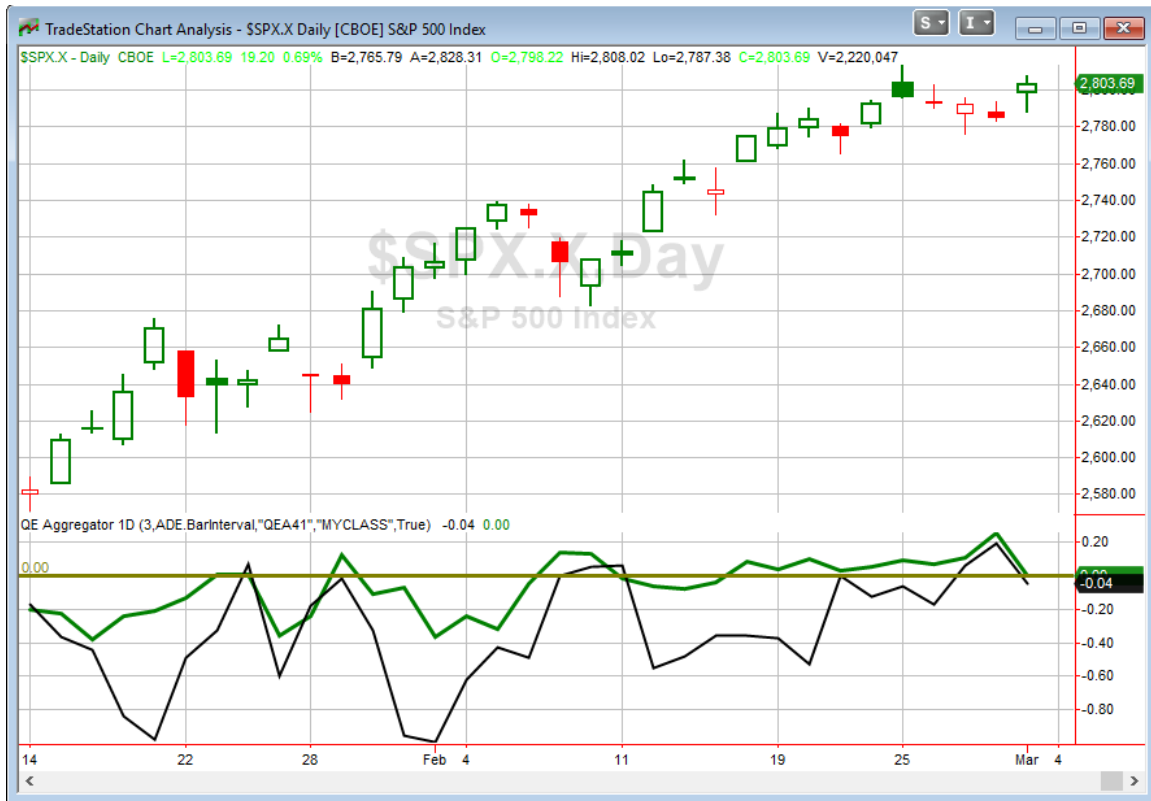
Yesterday SPX closed at a 5-day low. Today it closed at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,616.84	18	9	9	50.00	962.60	2,053.50	-2,031.14	-4,993.16	0.47	0.47	-534.27
4	-9,358.04	18	7	11	38.89	1,002.99	1,921.04	-1,489.00	-4,596.70	0.67	0.43	-519.89
3	-6,159.50	18	9	9	50.00	877.86	1,908.90	-1,562.25	-5,028.42	0.56	0.56	-342.19
2	-4,079.63	18	5	13	27.78	902.91	1,603.88	-661.09	-2,902.50	1.37	0.53	-226.65
1	-1,653.18	18	9	9	50.00	363.63	747.75	-547.32	-1,214.72	0.66	0.66	-91.84

The numbers are not overwhelming but they do suggest a possible downside edge. Below is a look at the 2-day profit curve.



The curve is certainly choppy, but it has managed to head from upper left to lower right and recently made a new low. This study appears to be worth some consideration.

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



Even with tonight's evidence to consider the green Aggregator Line remained just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line dipped 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. (And when they are both so close to zero as they are now, it really suggests there is a lack of a compelling edge.) Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to flip to bearish on Monday. This could change if new bullish evidence emerges. The Differential Pivot will be 2800.18 on Monday. That is just 0.1% below Friday's close. Therefore, the SPX will only need to close down about 0.1% in order to flip from overbought to oversold versus recent expectations. So the outlook for the next few days really is up in the air.

Persistent moves like the current one can be very challenging for swing trading. If you are trading a breakout or momentum style, then they are ideal. You simply need to trail a stop and keep in the market as long as the move lasts. And when pullbacks are extremely shallow and short, like they have been over the last couple of months, then it becomes easy to remain in the trade. But if you are depending on pullbacks to offer short-term

entries, then a runaway market can be frustrating. Of course runaway markets don't last forever, and more normal oscillations will return. So from a short-term perspective, I will remain patient with my swing trading and continue to wait for a deeper pullback before getting long, or for overwhelming evidence to emerge in order to attempt a counter-trend short trade.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/4 – bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

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 was mostly higher this past week. The SPX rose 0.4% and the NASDAQ gained 0.9%, but the Russell 2000 declined a very small 0.03%. Both the SPX and NASDAQ are above their 200ma and both closed at 50-day highs on Friday. This all points to an uptrend.

For the NASDAQ it was the 10<sup>th</sup> week in a row of gains. In early January we saw breadth thrusts lead to some strong upside momentum. That momentum has persisted in almost unprecedented manner. The SPX closing above its 10ma now for 39 days in a row is one example I have been monitoring. The 10-week winning streak of the NASDAQ is also notable. Going back to the inception of the NASDAQ in 1971, I examined all other times we saw a 10-week winning streak, and how it performed in the weeks and months that followed. Results can be seen in the table below.

NASDAQ closes up for exactly 10th week in a row.  
Buy on close. Sell X weeks 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	67,629.94	7	6	1	85.71	13,106.53	23,845.50	-11,009.25	-11,009.25	1.19	7.14	9,661.42
19	73,170.81	7	6	1	85.71	12,831.05	23,501.60	-3,815.50	-3,815.50	3.36	20.18	10,452.97
18	74,364.00	7	6	1	85.71	12,847.25	21,877.60	-2,719.50	-2,719.50	4.72	28.34	10,623.43
17	71,128.74	8	6	2	75.00	13,445.46	21,344.00	-4,772.00	-8,139.00	2.82	8.45	8,891.09
16	56,497.60	8	6	2	75.00	12,343.57	19,186.40	-8,781.89	-16,203.75	1.41	4.22	7,062.20
15	80,480.02	8	7	1	87.50	11,644.87	17,640.00	-1,034.08	-1,034.08	11.26	78.83	10,060.00
14	78,548.40	8	8	0	100.00	9,818.55	17,388.00	0.00	0.00	100.00	100.00	9,818.55
13	81,059.21	8	8	0	100.00	10,132.40	24,839.75	0.00	0.00	100.00	100.00	10,132.40
12	75,017.98	8	8	0	100.00	9,377.25	20,717.25	0.00	0.00	100.00	100.00	9,377.25
11	72,838.39	8	8	0	100.00	9,104.80	26,979.50	0.00	0.00	100.00	100.00	9,104.80
10	62,854.25	8	8	0	100.00	7,856.78	23,363.75	0.00	0.00	100.00	100.00	7,856.78
9	44,598.80	8	8	0	100.00	5,574.85	15,526.50	0.00	0.00	100.00	100.00	5,574.85
8	29,179.50	8	6	2	75.00	4,909.84	11,057.50	-139.78	-200.88	35.13	105.38	3,647.44
7	29,182.11	8	6	2	75.00	5,173.90	10,727.25	-930.65	-1,353.00	5.56	16.68	3,647.76
6	28,696.16	8	6	2	75.00	5,054.34	10,147.68	-814.95	-1,033.20	6.20	18.61	3,587.02
5	14,702.04	8	5	3	62.50	3,783.50	6,194.40	-1,405.15	-2,059.25	2.69	4.49	1,837.76
4	23,252.37	8	6	2	75.00	4,574.18	6,649.00	-2,096.35	-3,602.30	2.18	6.55	2,906.55
3	14,974.34	8	6	2	75.00	2,875.99	8,036.48	-1,140.80	-1,574.40	2.52	7.56	1,871.79
2	8,174.82	8	6	2	75.00	1,886.29	5,447.36	-1,571.45	-2,170.50	1.20	3.60	1,021.85
1	8,540.22	8	6	2	75.00	1,793.08	2,496.75	-1,109.12	-1,234.24	1.62	4.85	1,067.53

The next month or so we see fairly mild gains. Looking out over the course of the next quarter (13 weeks) we do see some strong results. It appears there has often been a small pause or slow-down before the next leg up. Instances are low, but every instance has seen the market higher between 9 and 14 weeks later. Below is the full list of instances along with their 13-week returns.

NASDAQ closes up for exactly 10th week in a row.  
Buy on close. Sell 13 weeks later. \$100k/trade. 1971 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/4/1972	Buy	\$121.24	6.76%	\$10,596.64
5/5/1972	Sell	\$129.43		(\$82.40)
2/13/1976	Buy	\$88.96	0.92%	\$3,518.12
5/14/1976	Sell	\$89.78		(\$404.64)
5/12/1978	Buy	\$119.40	10.55%	\$10,546.20
8/11/1978	Sell	\$132.00		(\$485.46)
10/22/1982	Buy	\$215.29	13.32%	\$14,778.40
1/21/1983	Sell	\$243.97		(\$2,491.68)
12/6/1985	Buy	\$316.60	14.40%	\$14,458.50
3/7/1986	Sell	\$362.20		(\$63.00)
2/3/1989	Buy	\$406.40	5.98%	\$6,371.40
5/5/1989	Sell	\$430.70		(\$2,115.60)
6/2/1989	Buy	\$451.60	4.36%	\$4,397.90
9/1/1989	Sell	\$471.30		(\$4,397.90)
12/24/1999	Buy	\$3,969.44	25.03%	\$29,077.00
3/24/2000	Sell	\$4,963.03		(\$6,458.75)
3/1/2019	Buy	\$7,595.35	n/a	\$0.00
Open	n/a	\$7,595.35		\$0.00

Highlighted instances originated  
from a 10-week low close.

No red flags here. I did find it interesting that, like the current instance, 5 of the previous 8 instances saw the rally originate from a 10-week low. For those that are more visually inclined, below are the charts of all 8 previous instances. You can see the pause/continuation theme as you look at them. Please note that these are *weekly* charts.







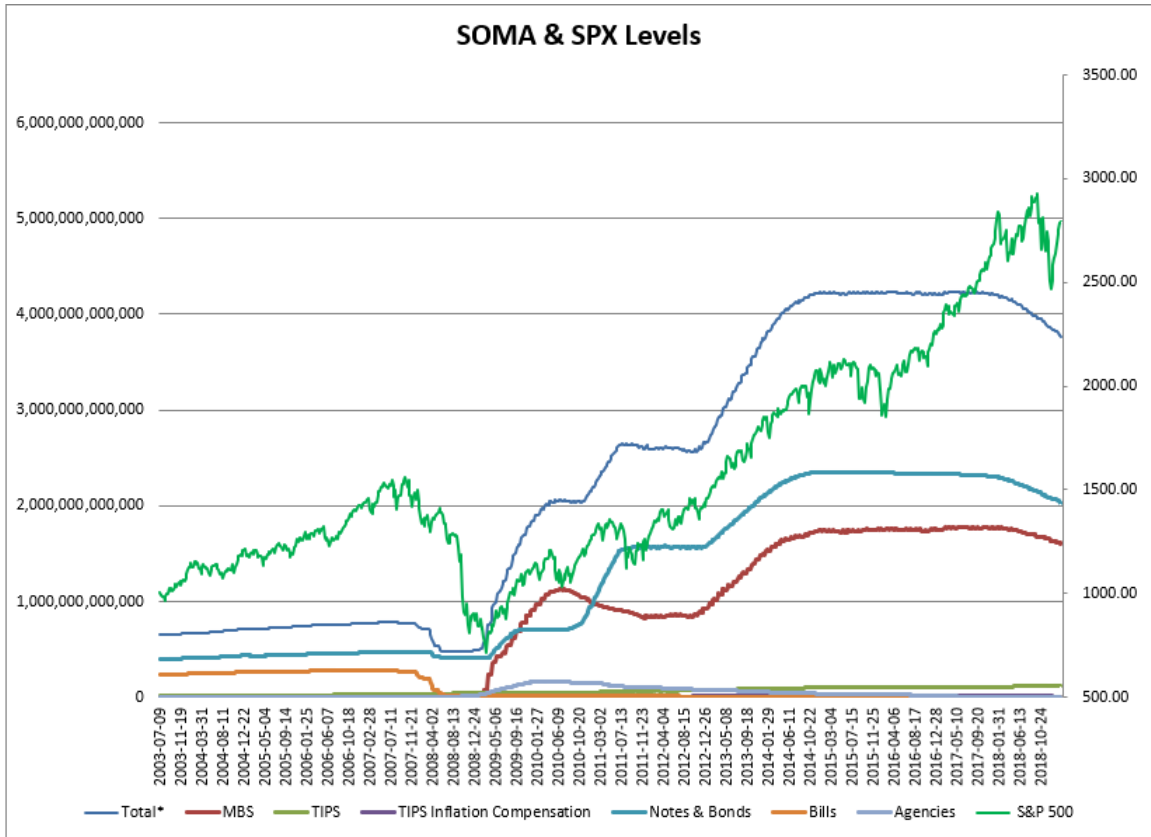


I have added this study to the intermediate-term Active List.

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 02/20/2019

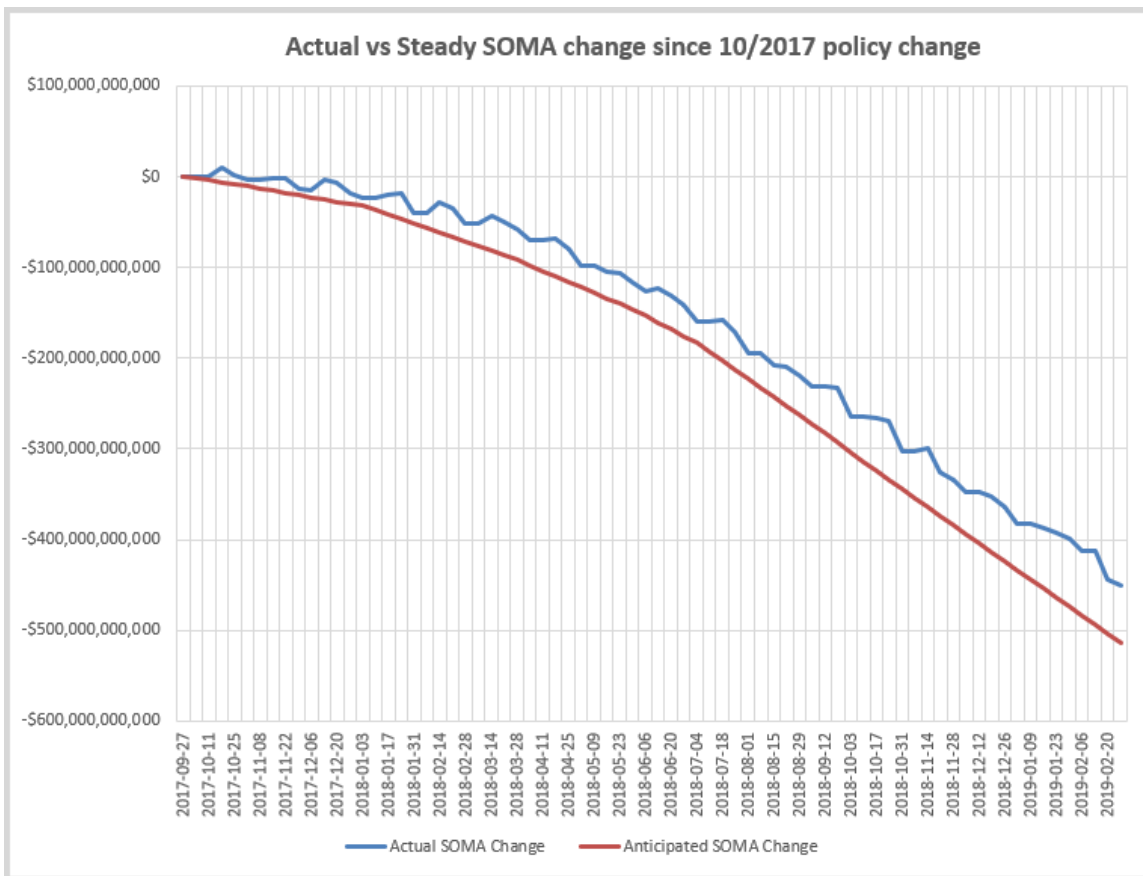
DOMESTIC SECURITIES HOLDINGS AS OF  
**February 27, 2019**

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	
US Treasury Notes and Bonds (Notes/Bonds)	2,029,800,740.8
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***	1,607,608,628.3
<b>Total SOMA Holdings</b>	<b>3,770,888,083.8</b>
<b>Change From Prior Week</b>	<b>-6,541,189.4</b>

\*Does not reflect inflation compensation of 21,221,340.5  
 \*\*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.

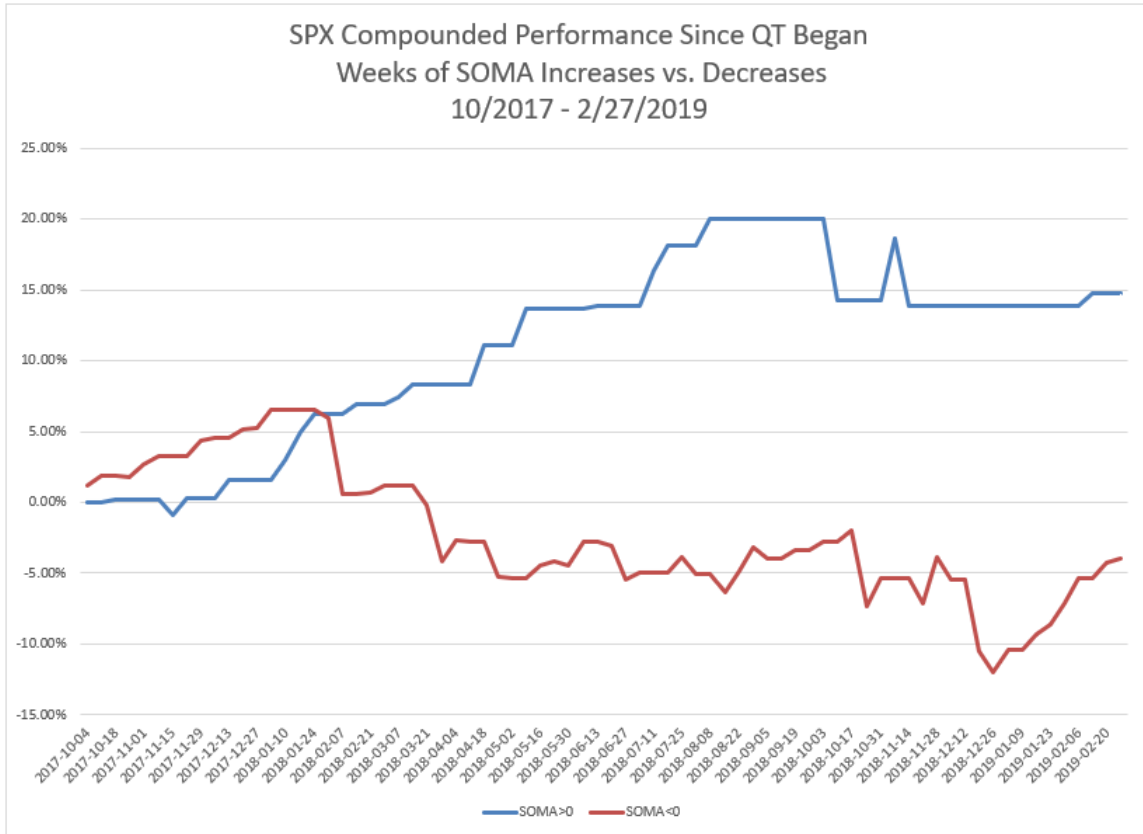
Data posted on 02/28/2019 4:30pm.

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



The Fed’s SOMA this past week (Wednesday to Wednesday) saw a medium-sized decline of about \$6.5 billion. The drop in the SOMA was in-line with what we were expecting this past week. Meanwhile, the SPX managed to gain 0.3% for the reporting week ending 2/27. The markets strong price momentum has overcome any negative liquidity winds over the period since Christmas. The “Actual vs Steady” chart shows that the SOMA decline was about normal 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 17 months. Despite some brief struggles in September and October, 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 14.7% gain while the red “contraction week” strategy would have lost 4.0%. 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 02/20/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**February 27, 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>
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%		

We just saw a group of treasuries expire on Thursday the 28<sup>th</sup>. There will not be any further expirations until the end of March. 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.

Of course this current reporting week, which ends on the 6<sup>th</sup>, will see some good sized QT, due to the treasury expiration. But the following week is unlikely to see much QT. In fact, based on past months, including February, I would say there is a good chance the SOMA will actually rise a small amount on the week of the 13<sup>th</sup>.

Intermediate-term indications are continuing to lean bullish. All 3 Market Timing Course signals are long. And the strong breadth thrust off the bottom generated terrific upside momentum. The 3x 70% Up Issues study remains intact and suggests the rally has staying power. And the NASDAQ price momentum suggests that we could see another quarter of gains. With the 200ma surpassed and the market at 50-day highs, the trend is also turning up. QT remains the primary concern for the intermediate-term, but it has not slowed down the market so far in 2019. I am viewing the market with a bullish bias, which means I will be more conservative with short trades, and more aggressive 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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