

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 18, 2018

Volume 12 Issue 52

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	3

Tonight's Research Points

- The weeks after opex in March, June, and September have been the worst of the year, and the downside edge has been even more prominent when the market has closed at a short-term high on opex Friday.
- There was no QT this past week, but the next few weeks should see a decline in the SOMA.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but overall evidence is not terribly strong and reward/risk does not appear very favorable. I am not too excited about the short side here.

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						
March 18, 2019	SPX 5-high on Quad Witch	1-4 days	Bullish			
March 14, 2019	2 gaps up and 50-day high	1-3 days	Bullish			
Active - Long Term						
March 6, 2019	1st close under 10ma in > 25 days	1-19 days	Bullish	4.40%	-0.80%	-2.00%
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

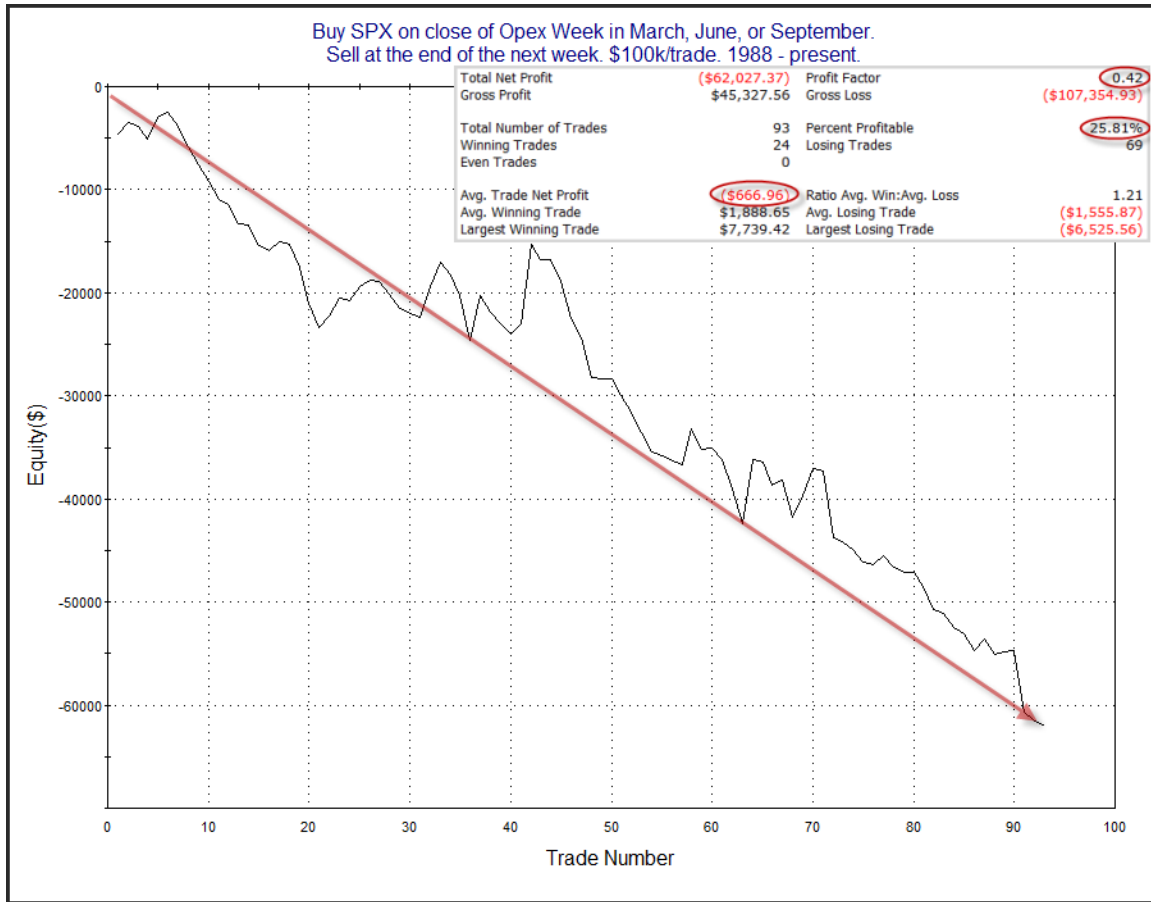
Friday saw solid gains and new intermediate-term highs. SPX rose 0.5%, the NASDAQ rallied 0.8%, and the Russell 2000 climbed 0.25%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 61%. NYSE volume came in high as it often does on opex Friday.

Last night I discussed a seasonally-bearish setup that is triggering based on Quad Witching just having occurred. I have copied that commentary below.

Also worth noting from a seasonal standpoint is that the week after Opex is sometimes bearish. A Twitter follower asked me about weeks following Quad-witching, which is March, June, September, and December. Of course the 2nd half of December has shown bullish seasonality historically (ignore 2018), but those other 3 have NOT been good weeks for the market. In fact, back in September I discussed the “Weakest Week”, which is the week after September opex. At that time, I showed a table with the best and worst weeks of the year since 1988. Below is an updated version of that table, showing just the bottom 8 weeks. (Note I did not include weeks after the 5th Friday of the month, since instances for those were greatly reduced.)

SPX Performance for the Week Following the Month and Friday Listed. \$100k/trade. 1988 - present. (Bottom 8 results shown. 5th Fridays not included in results.)													
Month of Year	Friday of Month	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
8	1	-6,102.14	31	15	16	48.39	1,095.38	5,106.00	-1,408.30	-3,772.71	0.78	0.73	-196.84
2	3	-9,827.50	32	16	16	50.00	841.94	2,106.80	-1,456.15	-4,509.84	0.58	0.58	-307.11
12	1	-10,365.36	31	13	18	41.94	1,358.92	4,131.36	-1,557.30	-3,728.04	0.87	0.63	-334.37
1	3	-10,992.58	32	17	15	53.13	1,103.51	2,505.60	-1,983.49	-5,602.80	0.56	0.63	-343.52
10	1	-15,554.77	31	16	15	51.61	2,026.24	5,944.32	-3,198.31	-18,000.90	0.63	0.68	-501.77
3	3	-17,175.41	31	7	24	22.58	2,826.00	6,162.00	-1,539.89	-5,895.00	1.84	0.54	-554.05
6	3	-17,888.23	31	10	21	32.26	1,146.73	2,928.60	-1,397.88	-3,626.75	0.82	0.39	-577.04
9	3	-26,963.73	31	7	24	22.58	2,011.18	7,739.42	-1,710.08	-6,525.56	1.18	0.34	-869.80

We see here that the week after opex for September, June, and March have in fact been the worst 3 weeks of the year over the last 31 years. You'll also note that the whole group shown follow either the 1st or 3rd Friday of the month. And if I were to show the best weeks of the year, you'd notice that they all follow the 2nd and 4th Fridays of the month. Below is a look at results if someone were to have bought opex Friday's close in March, June, and September since 1988.



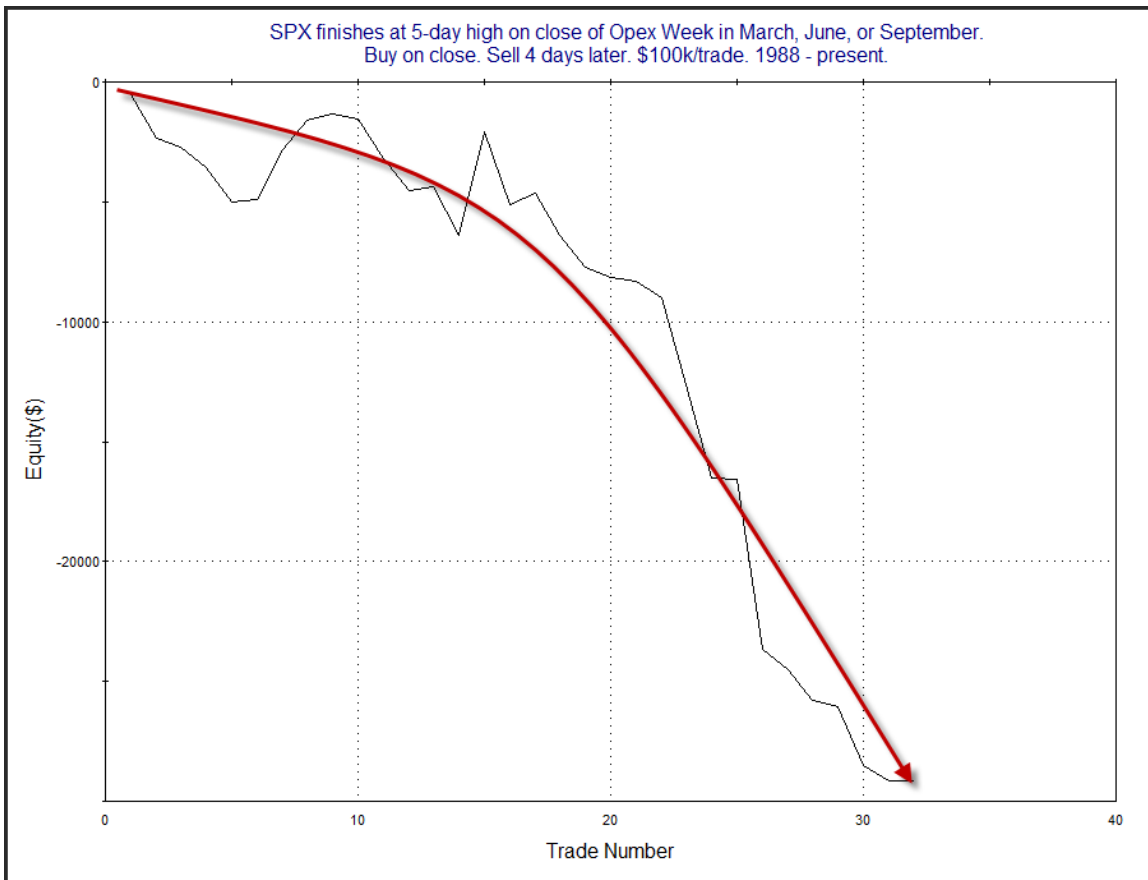
The stats are poor as we knew they would be. The strong, steady downslope is also supportive of the idea of a seasonally bearish edge. I'll show this again over the weekend, and will take it into some consideration next week.

Of course seasonal edges will often work better when price action also lines up with them. With SPX closing at a new high, I decided I would also use a short-term high as a filter and see how that looked. Results are below.

SPX finishes at 5-day high on close of Opex Week in March, June, or September.
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-26,790.56	32	7	25	21.88	1,615.90	4,290.80	-1,524.07	-6,525.56	1.06	0.30	-837.20
4	-29,132.66	32	8	24	25.00	1,069.73	4,275.84	-1,570.44	-7,088.90	0.68	0.23	-910.40
3	-18,229.59	32	10	22	31.25	804.74	2,458.20	-1,194.41	-5,455.74	0.67	0.31	-569.67
2	-8,554.77	32	12	20	37.50	648.25	1,995.80	-816.69	-5,283.52	0.79	0.48	-267.34
1	-8,409.89	32	13	19	40.63	537.85	1,739.10	-810.63	-3,791.21	0.66	0.45	-262.81

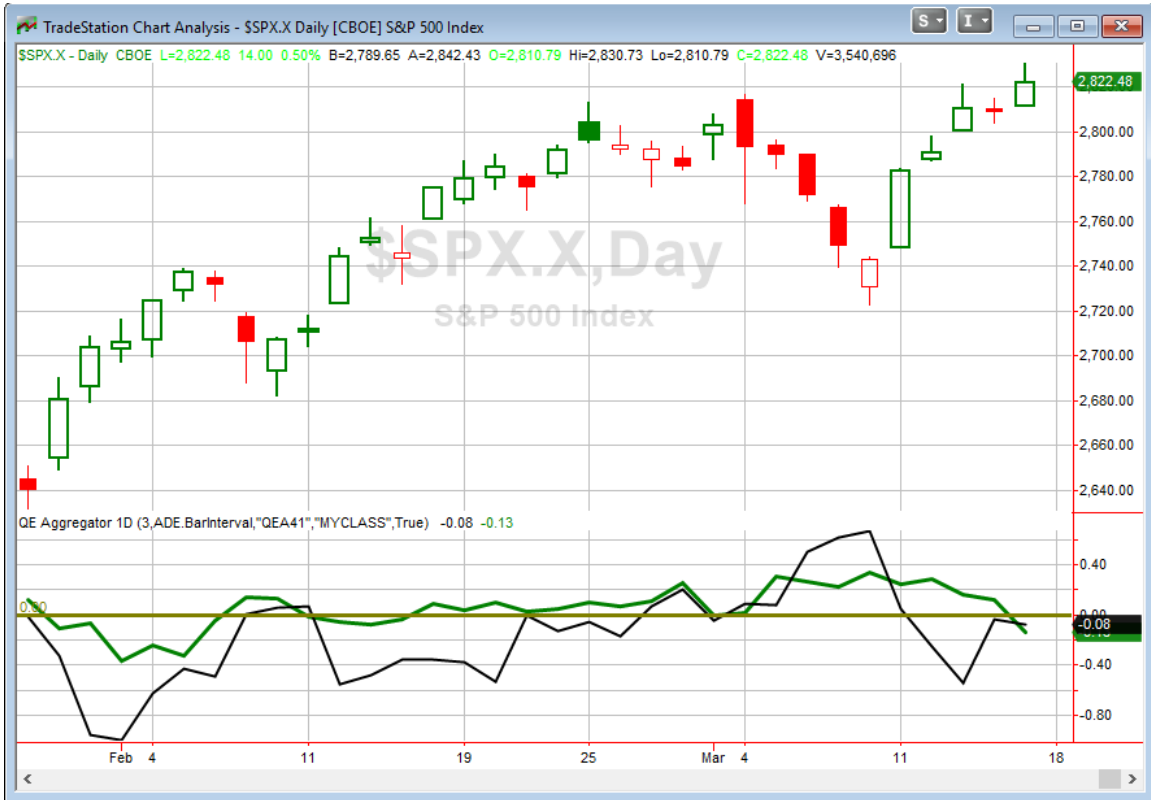
These results are even more bearish. Below is a profit curve that assumes a 4-day holding period.



That is a strong downslope, and serves as further confirmation of the bearish tendency. Opex week was bullish as it often has been in March. Now let's see if the week after is bearish as it has often been.

There were a few other studies that triggered in the Quantifinder that looked at things like rebounds from gaps down and outside days. But SPY only gapped down because it went ex-div. Not because the market opened lower. It actually opened higher. So I disqualified those studies for tonight.

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



With tonight's new evidence considered, the green Aggregator Line dropped 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.

Based on the current active studies, expectations are set to remain bearish on Monday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be *inverted* at 2830.30 on Monday. That is 0.3% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX

closes flat. In this case, SPX is going to need to close up 0.3% in order to remain overbought versus recent expectations. Anything short of that and it will be considered oversold as of Monday's close.

So the Aggregator is now suggesting a bearish edge. But the inverted pivot puts a bit of a cap on potential reward. Any move lower on Monday would be the end of the Aggregator signal. So there is really only 1 day of potential gains. And while evidence is leaning bearish, it is really just thanks to one short-term study. In other words, we are looking at a pretty weak setup. And when considering counter-trend trades, like a short here would be, the setup and reward/risk need to be *especially* favorable. So I do not view this as a compelling entry. I will not be looking to take on any index exposure on Monday. I will continue to wait for a more favorable reward/risk setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/18 – 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".*

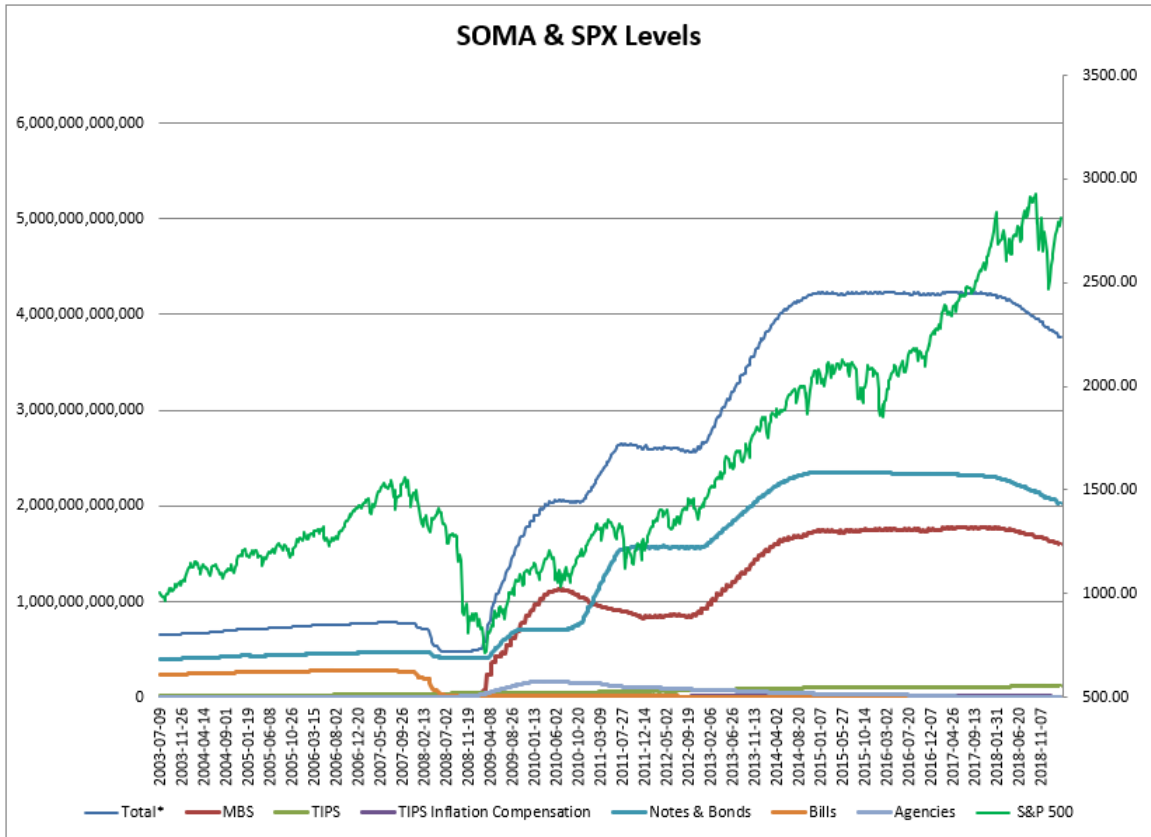
This past week was a good one for the market. The SPX finished the week up 2.9%, the NASDAQ gained 3.8%, and the Russell 2000 climbed 2.1%. Both the SPX and NASDAQ closed the week at new intermediate-term highs. No new studies emerged with intermediate-term implications.

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.

DOMESTIC SECURITIES HOLDINGS AS OF
March 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)	2,022,710,118.2
US Treasury Floating Rate Notes (FRN)	16,300,804.9
US Treasury Inflation-Protected Securities (TIPS)*	115,153,915.8
Federal Agency Securities**	2,409,000.0
Agency Mortgage-Backed Securities***	1,607,766,624.0
Total SOMA Holdings	3,764,340,462.9
Change From Prior Week	157,995.7

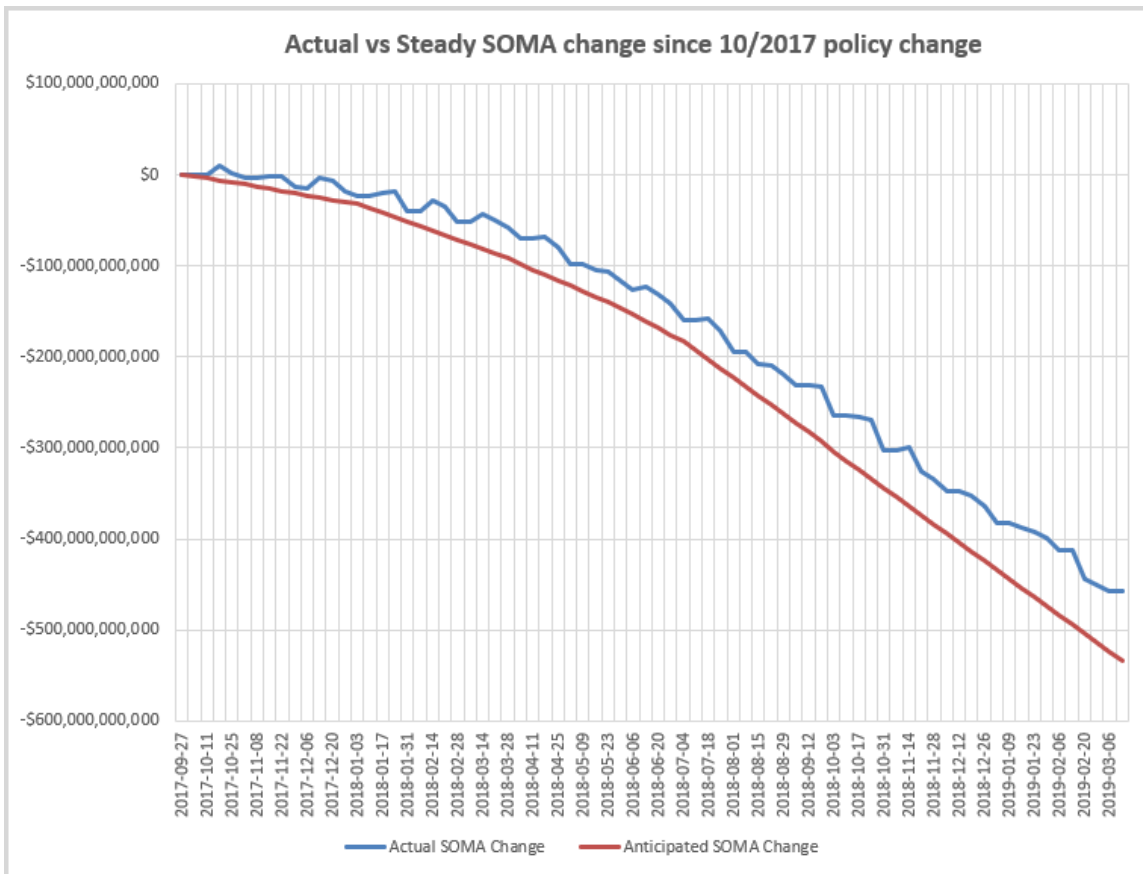
*Does not reflect inflation compensation of 21,314,119.1

**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.

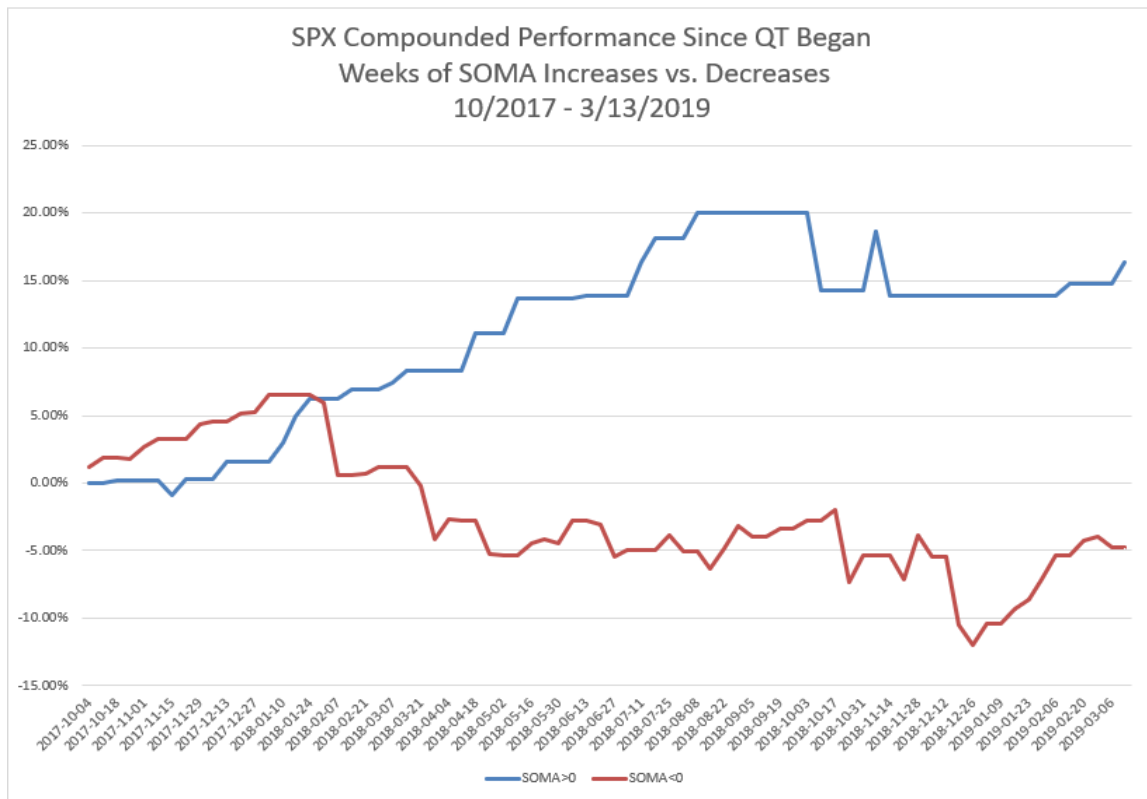
Data posted on 03/14/2019 4:30pm.

And now a view since October 2017 comparing steady reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) saw a very mild increase of \$158 million. The "Actual vs Steady" chart shows that the SOMA rise was against the grain with the QT rate being \$50 billion / month. The small rise in the SOMA was in-line with what we were expecting this past week. Meanwhile, the SPX rose 1.4% for the reporting week ending 3/13. It is not a surprise that the market posted gains during a week when the SOMA rose.

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 16.4% gain while the red "contraction week" strategy would have lost 4.7%. 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 02/27/2019

DOMESTIC SECURITIES HOLDINGS AS OF
March 6, 2019

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
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%		
4/15/19	912828Q52	0.875	168,895.3	0.70%		
4/30/19	912828ST8	1.250	23,451,764.9	39.53%		
4/30/19	912828D23	1.625	4,667,000.0	13.33%		

As far as treasuries are concerned, 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.

As I noted last week, the current week, ending on Wednesday the 20th, I anticipate seeing a fair amount of AMBS roll off the books. The same holds true for the week ending on the 27th, since most weeks ending on or near the 27th since QT began have seen negative AMBS readings.

Intermediate-term indications are continuing to mostly point higher. All 3 Market Timing Course signals are long. And the strong breadth thrust off the bottom in early January generated terrific upside momentum. The 3x 70% Up Issues study remains intact and suggests the rally has staying power. The NASDAQ price momentum study from a few weeks ago suggests that we should see further gains, and so does last week's study that looked at 1st pullback below the 10ma for SPX after an extended time above it. The overall trend looks good with SPX and NASDAQ both back at 50-day highs. QT remains the primary concern for the intermediate-term, but it has not slowed down the market so far in 2019. The Fed's more dovish rhetoric has likely helped offset the QT flows as well. I am again 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

RTN – 1/3 @ \$180.22 (bought @ limit)

BA – 1/3 @ \$400.01 (bought @ limit)

BA – 1/3 @ \$375.41 (bought @ limit)

Broad Market Large Cap CBI – 3(RTN, BA-2)

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
RTN(1/3)	3/8/2019	\$178.85	\$177.95	-0.50%		Catapult
BA(1/3)	3/12/2019	\$384.70	\$378.99	-1.48%		Catapult
BA(1/3)	3/13/2019	\$375.41	\$378.99	0.95%		Catapult

A complete list of [Quantifiable Edges](#) trade idea results since the inception of the letter in 2008 can be found [here](#).

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.