

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 21, 2019

Volume 12 Issue 55

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	2

## Tonight's Research Points

- Down 2+ days on a Fed Day has often been followed by a rally.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator flipped from bearish to bullish. But evidence is somewhat weak and the upside potential appears muted. I am not yet terribly enthused about this bullish edge.

**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 21, 2019	Fed Day lower along with yesterday	1-6 days	Bullish	2.00%	-1.40%	-3.00%
March 20, 2019	SPX down. RSI(2) > 90.	1-2 days	Bullish			
March 18, 2019	SPX 5-high on Quad Witch	1-4 days	Bearish			
<b>Active - Long Term</b>						
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			

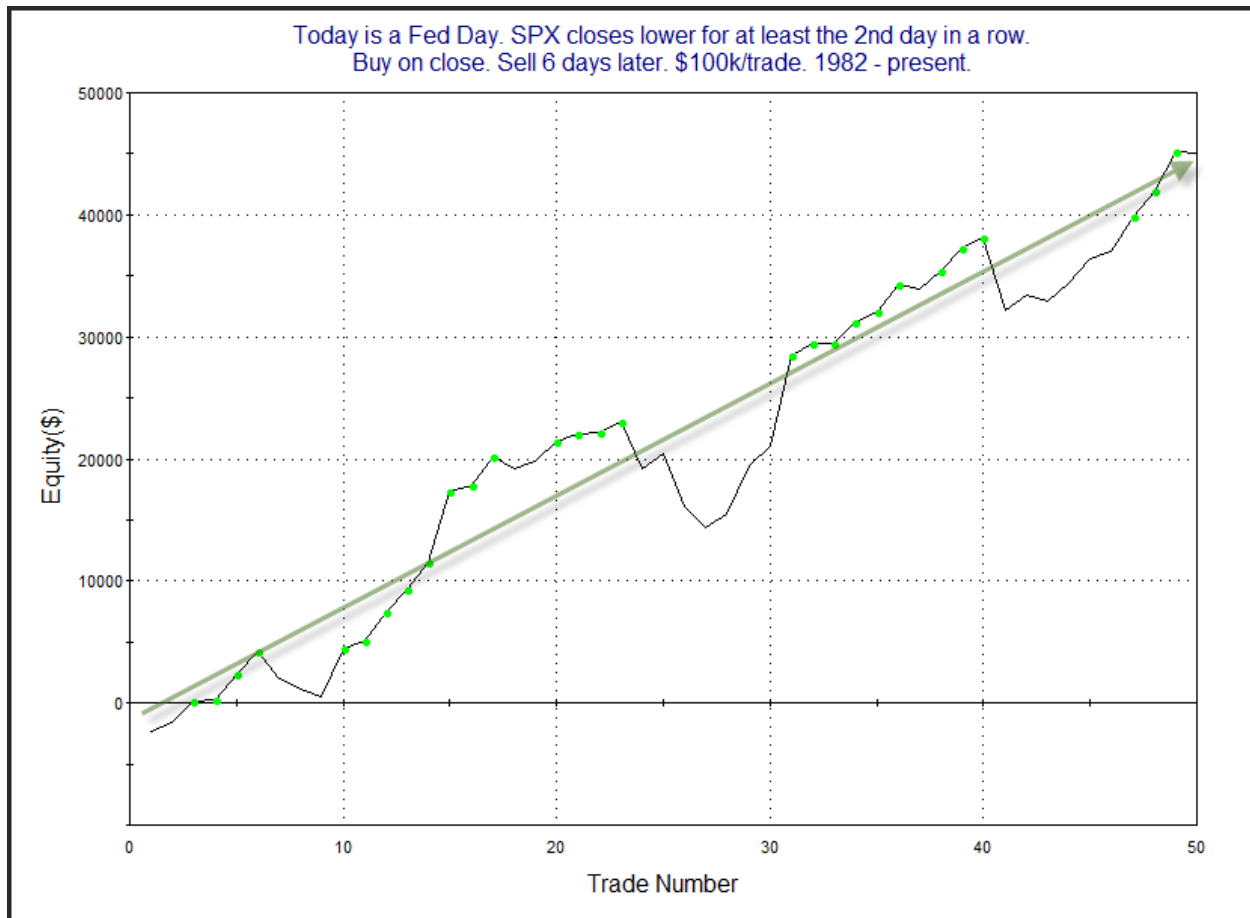
**The Evidence**

Wednesday's reaction to the Fed was bullish...then not. This left the market mixed. SPX finished down 0.3%, the NASDAQ rose 0.1%, and the Russell 2000 declined 0.8%. Breadth was negative as the NYSE Up Issues % was 44% and the Up Volume % came in at 41%. NYSE volume declined some from Tuesday's level.

It is unusual that a Fed Day would continue a string of down days. I looked at this in the study below. It was last seen in the 6/16/16 letter and results have been updated.

Today is a Fed Day. SPX closes lower for at least the 2nd day in a row. Buy on close. Sell X days later. \$100k/trade. 1982 - 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
10	46,632.35	50	33	17	66.00	2,570.32	9,012.33	-2,246.36	-5,334.70	1.14	2.22	932.65
9	40,723.76	50	35	15	70.00	2,307.67	8,967.96	-2,669.63	-5,671.36	0.86	2.02	814.48
8	31,773.21	50	36	14	72.00	2,039.40	8,456.40	-2,974.65	-6,514.96	0.69	1.76	635.46
7	39,693.23	50	38	12	76.00	1,848.49	8,869.37	-2,545.77	-6,757.80	0.73	2.30	793.86
6	45,039.38	50	38	12	76.00	1,813.15	7,361.95	-1,988.37	-5,884.97	0.91	2.89	900.79
5	37,424.79	50	37	13	74.00	1,617.02	6,013.86	-1,723.45	-5,581.03	0.94	2.67	748.50
4	25,273.68	50	32	18	64.00	1,540.18	7,513.37	-1,334.00	-4,622.80	1.15	2.05	505.47
3	16,456.23	50	31	19	62.00	1,125.31	5,035.28	-969.91	-2,737.00	1.16	1.89	329.12
2	16,141.40	50	31	19	62.00	1,099.01	5,202.52	-943.57	-2,942.24	1.16	1.90	322.83
1	10,429.25	50	32	18	64.00	877.32	4,001.33	-980.28	-3,162.00	0.89	1.59	208.59

When Fed Days fail to produce a bounce, you normally see a rally shortly after. And below is a profit curve assuming a 6-day exit strategy.



The strong upslope appears to confirm the bullish edge.

The Fed's statement was regarded as dovish by the market. Interest rates did not change, and they do not anticipate changing them anytime in 2019. More interesting from a policy and trading standpoint, are the upcoming changes to the Quantitative Tightening (QT) program. The Fed decided it would begin tapering the amount of QT starting in May, and then stop it at the end of September. I have pasted the new schedule below, taken from the Fed's website.

MONTHLY CAPS ON SOMA SECURITIES REDUCTIONS		
	TREASURY SECURITIES	AGENCY SECURITIES*
Oct 2018 – Apr 2019	\$30 billion	\$20 billion
May 2019 – Sep 2019	\$15 billion	\$20 billion
From Oct 2019	\$0 billion	\$20 billion**

\*Applies to combined principal payments of agency debt and agency MBS.  
\*\*The first \$20 billion of any agency principal payments received will be reinvested in Treasury securities. Any additional agency principal payments above \$20 billion will be reinvested in agency MBS.

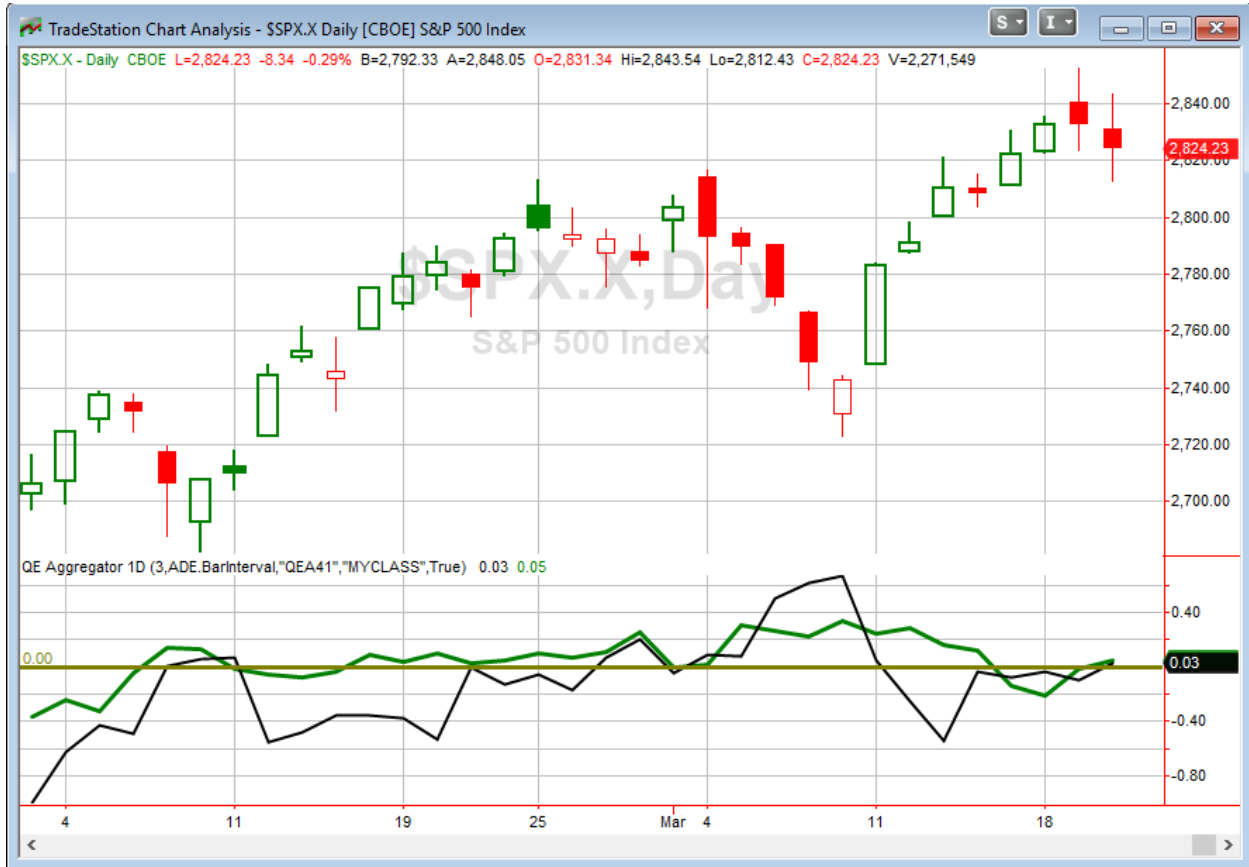
You'll note that the \$20 billion / month Agency Reductions starting in October are really just a rollover into treasuries. It is not anticipated to reduce the SOMA. More clarification on the Fed's intention after September can be found in the statement below. (This was also taken from the Fed's website.)

- The average level of reserves after the FOMC has concluded the reduction of its aggregate securities holdings at the end of September will likely still be somewhat above the level of reserves necessary to efficiently and effectively implement monetary policy.
  - In that case, the Committee currently anticipates that it will likely hold the size of the SOMA portfolio roughly constant for a time. During such a period, persistent gradual increases in currency and other non-reserve liabilities would be accompanied by corresponding gradual declines in reserve balances to a level consistent with efficient and effective implementation of monetary policy.
- When the Committee judges that reserve balances have declined to this level, the SOMA portfolio will hold no more securities than necessary for efficient and effective policy implementation. Once that point is reached, the Committee will begin increasing its securities holdings to keep pace with trend growth of the Federal Reserve's non-reserve liabilities and maintain an appropriate level of reserves in the system.

It will be interesting to see if the market continues to be reactive to SOMA changes leading up to October, and more so how small changes starting in October might influence the market. Even if we get into a period of a stable to slightly rising SOMA, it will be important to monitor the relationship of the SOMA to the market. And as we have found over the last 10 years here, and 15+ of SOMA data, SOMA changes *have* mattered. So even if the SOMA flatlines for a period

and seems to have little or no impact on market movement, careful monitoring of future policy changes will be very important.

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



With tonight's new evidence considered, the green Aggregator Line crept above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line also moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal flipped to long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. This could change if new bearish evidence emerges. The Differential Pivot will be 2826.70 on Thursday. That is 0.1% above Wednesday's close. Therefore, SPX would only need to close up about 0.1% on Thursday in order to move from oversold to overbought versus expectations.

The Aggregator is now suggesting a bullish edge. But it sure isn't much of one. Expectations are barely positive and the market is only marginally oversold. Just about any close higher on Thursday would turn SPX overbought and mean the end of the long signal. Potential reward here seems quite muted. So I am not enthused about looking to take on new exposure just yet. I'll wait for perhaps a deeper pullback or further bullish evidence to emerge before getting excited about the long side.

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

The intermediate-term outlook was last updated in the 3/18/19 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***

BA – 1/3 @ \$400.01 (bought @ limit)

BA – 1/3 @ \$375.41 (bought @ limit)

***Broad Market Large Cap CBI – (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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
<i>RTN(1/3)</i>	<i>3/8/2019</i>	<i>\$178.85</i>	<i>\$179.53</i>	<i>0.38%</i>		<i>sold on open</i>
BA(1/3)	3/12/2019	\$384.70	\$376.16	-2.22%		Catapult
BA(1/3)	3/13/2019	\$375.41	\$376.16	0.20%		Catapult
<i>SPY(1/4)(s)</i>	<i>3/19/2019</i>	<i>\$283.51</i>	<i>\$282.16</i>	<i>0.48%</i>		<i>covered on open</i>

*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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