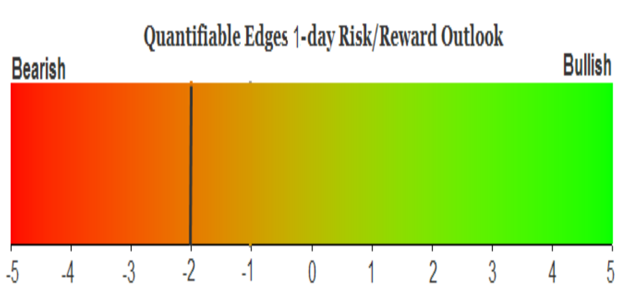
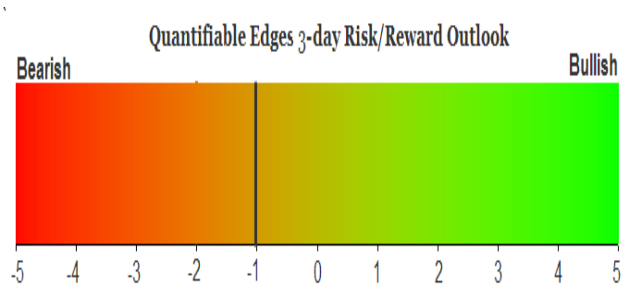
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2019 Volume 12 Issue 56

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	2

Tonight's Research Points

- The BKX going hard against an SPX rally has often led to an SPX reversal the next day.
- SOMA flows came in solidly negative as expected. We expect further negative flows this upcoming week. But on Thursday the news of the coming end of QT seemed more important than the actual recent flows.

Short-term Outlook
The Bottom Line

The market is overbought and expectations are negative. But expectations are likely to turn back positive after Friday. So a possible bearish edge appears to be very short-term here.

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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 22, 2019	SPX up 1%. BKX down 1%.	1 day	Bearish			
March 21, 2019	Fed Day lower along with yesterday	1-6 days	Bullish	2.00%	-1.40%	-3.00%
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

Thursday started with a gap lower, but the market recovered quickly and rallied for most of the day, finishing well. SPX closed up 1.1%, the NASDAQ rose 1.4%, and the Russell 2000 rallied 1.25%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 64%. NYSE volume declined some for the 2nd day.

While much of the market seems excited about the dovish Fed, banks were not. Lower rates and a flattish yield curve were seen as a negative for this group. The BKX Bank Index declined over 1.5% on Thursday. This brought about a very old study from the Quantifinder that looked at SPX gains of 1% while the BKX fell at least 0.5%. I upped the BKX requirement to a 1% drop and ran the numbers. Results can be seen below.

SPX closes up 1% while BKX closes down 1%.
Buy SPX on close. Sell next day's close. $100k/trade. 1994 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($11,876.54)	Profit Factor	0.24
Gross Profit	$3,799.40	Gross Loss	($15,675.94)
Total Number of Trades	10	Percent Profitable	10.00%
Winning Trades	1	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	($1,187.65)	Ratio Avg. Win:Avg. Loss	2.18
Avg. Winning Trade	$3,799.40	Avg. Losing Trade	($1,741.77)
Largest Winning Trade	$3,799.40	Largest Losing Trade	($4,244.80)

It is obviously quite rare to see such a divergence. The instances here are lower than I'd prefer. But the numbers are so overwhelmingly bearish they seem to demand some attention. Below is the list of instances.

SPX closes up 1% while BKX closes down 1%.
Buy SPX on close. Sell next day's close. $100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/19/1994	Buy	$453.86	-0.50%	$66.00
7/20/1994	Sell	$451.60		($697.40)
8/25/1999	Buy	$1,381.79	-1.43%	$0.00
8/26/1999	Sell	$1,362.01		($1,452.24)
1/10/2000	Buy	$1,457.60	-1.31%	$72.08
1/11/2000	Sell	$1,438.56		($1,576.24)
4/7/2000	Buy	$1,516.35	-0.78%	$704.60
4/10/2000	Sell	$1,504.46		($845.00)
1/18/2001	Buy	$1,347.97	-0.40%	$486.92
1/19/2001	Sell	$1,342.56		($831.02)
10/23/2008	Buy	$908.11	-3.45%	$0.00
10/24/2008	Sell	$876.77		($6,078.60)
12/10/2008	Buy	$899.24	-2.85%	$598.29
12/11/2008	Sell	$873.59		($3,386.61)
2/3/2009	Buy	$838.51	-0.75%	$1,587.46
2/4/2009	Sell	$832.23		($1,110.27)
3/4/2009	Buy	$712.87	-4.25%	$0.00
3/5/2009	Sell	$682.55		($4,891.60)
4/8/2009	Buy	$825.16	3.81%	$3,841.75
4/9/2009	Sell	$856.56		$0.00

The only one that saw SPX make gains the next day was the most recent instance. But it has been nearly 10 years since this setup last triggered. We'll see if the banks are "right" about tomorrow. I did decide to add this study to the Short-Term Active List.

In other news, the Fed released the SOMA changes from the past week, as it typically does on Thursday afternoons. The reporting week runs through Wednesday the 20th. The table below is taken from the Fed's website.

« As of 03/13/2019

DOMESTIC SECURITIES HOLDINGS AS OF

March 20, 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***	1,599,471,503.0
Total SOMA Holdings	3,756,045,341.9
Change From Prior Week	-8,295,121.0

*Does not reflect inflation compensation of 21,372,649.2

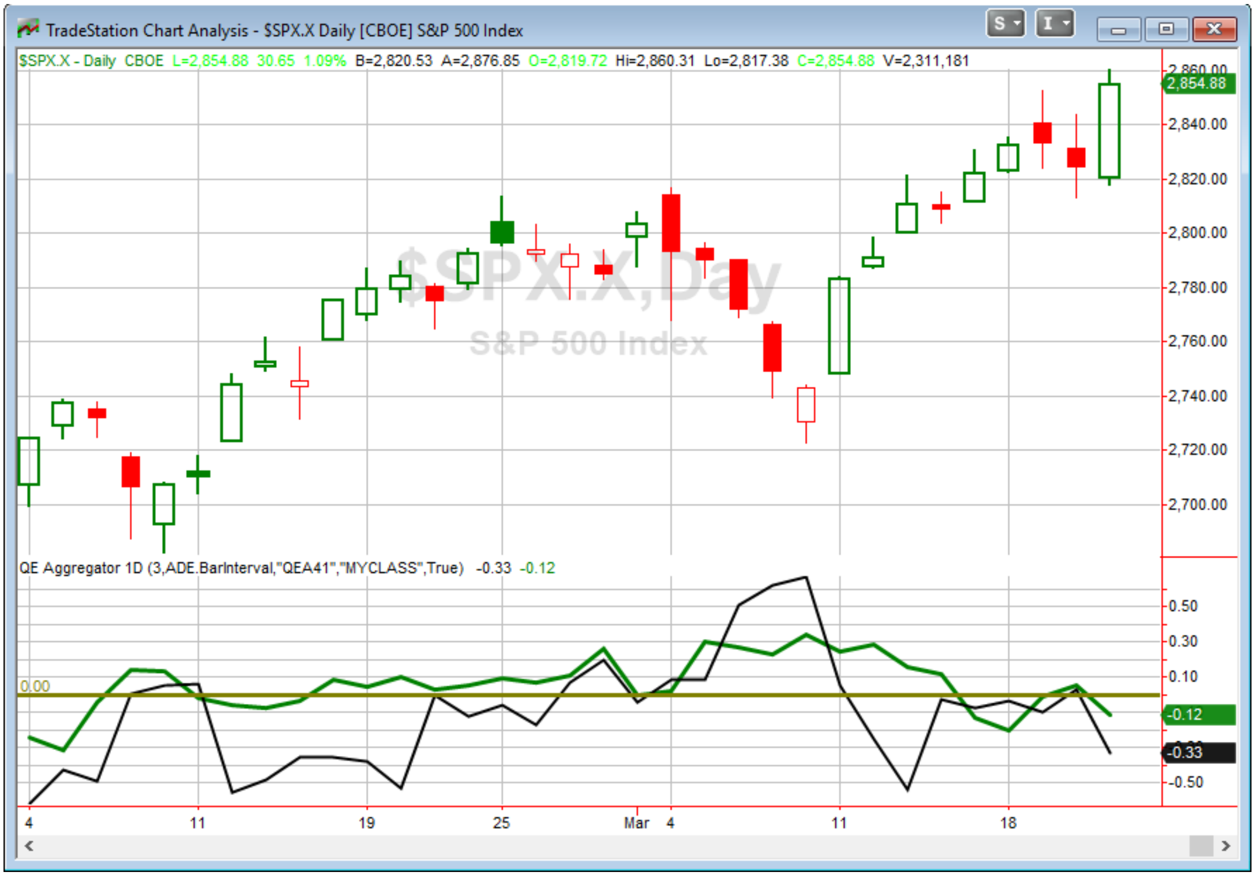
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 03/21/2019 4:30pm.

The $8.3 billion decline is in line with what I was expecting. The market did perform well in the face of it last week, rising 0.5% from Wednesday to Wednesday. I expect to see more QT occur this week. Thursday the market seemed more focused on the dovish Fed and the coming end of QT than the actual recent flows.

I have updated the Aggregator chart below.



With tonight's new evidence considered, the green Aggregator Line dropped back below zero. Positive readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also fell 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 flipped to short at the close.

Based on the current active studies, expectations are set to flip back to bullish on Friday. This could certainly change if more bearish evidence emerges. The Differential Pivot will be 2822.33 on Friday. That is a sizable 1.1% below Thursday's close. Therefore, SPX would need to close down about 1.1% on Friday in order to move from overbought to oversold versus expectations.

The Aggregator quickly turned back from bullish to bearish. But the bearish signal is extremely tenuous, since expectations are set up to turn negative on Friday afternoon. A counter-trend trade with expectations set to flip is not something I am normally inclined to take on. And tonight is no exception. I'll wait and see how Friday plays out, and what new evidence becomes available to consider over the weekend.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BA(1/3)	3/12/2019	$384.70	$372.70	-3.12%		Catapult
BA(1/3)	3/13/2019	$375.41	$372.70	-0.72%		Catapult

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