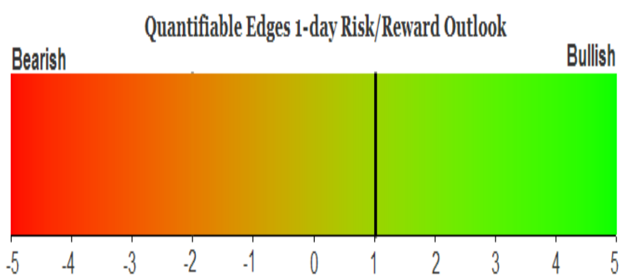
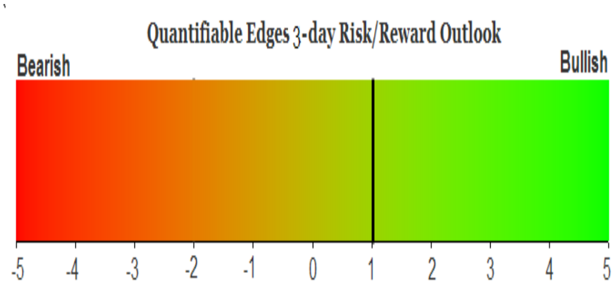
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 1, 2019 Volume 12 Issue 62

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Friday's strong close sours the potential turn-of-month bullishness for Monday.
- April has started strong most of the time since the mid-90s.
- The SOMA should decline this reporting week, ending Wednesday, and then we should see a 1-week QT reprieve.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. But the oversold condition will only last 1 day unless there is a substantial selloff on Monday. Reward/risk does not appear strong enough to get me enthused about new swing positions.

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						
April 1, 2019	Early April Bullish	1-4 days	Bullish			
March 27, 2019	Unfilled gap up after 10-low yest <10ma	1-5 days	Bullish			
March 25, 2019	Fri dn 1.5x 20-day ATR	1-6 days	Bullish			
March 25, 2019	1% decline 4th Fri of month	1-6 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 the market gap up and then finish strong. The SPX gained 0.7%, the NASDAQ rose 0.8%, and the Russell 2000 climbed 0.3%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 67%. NYSE volume rose some from Thursday's level.

The SPX has been locked in a bit of a trading range lately, and Friday's rally did not change that. Rangebound markets will often see a dearth of compelling price-based studies. And that has been the case the last few days. The studies that did trigger in the Quantifinder were mostly all related to end-of-month or early April seasonality. Unfortunately for the bullish case, the market closed strongly and near the top of its intraday range on Friday. Last night I showed some studies that examined turn-of-month performance based on where the last day of the month finished. I have copied that commentary below.

Of course if late selling does occur, that could set up the market for a nice bounce on Monday. The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They are from the 12/1/17 letter. First let's look at times the market closed in the bottom half of its range on the last day of the month.

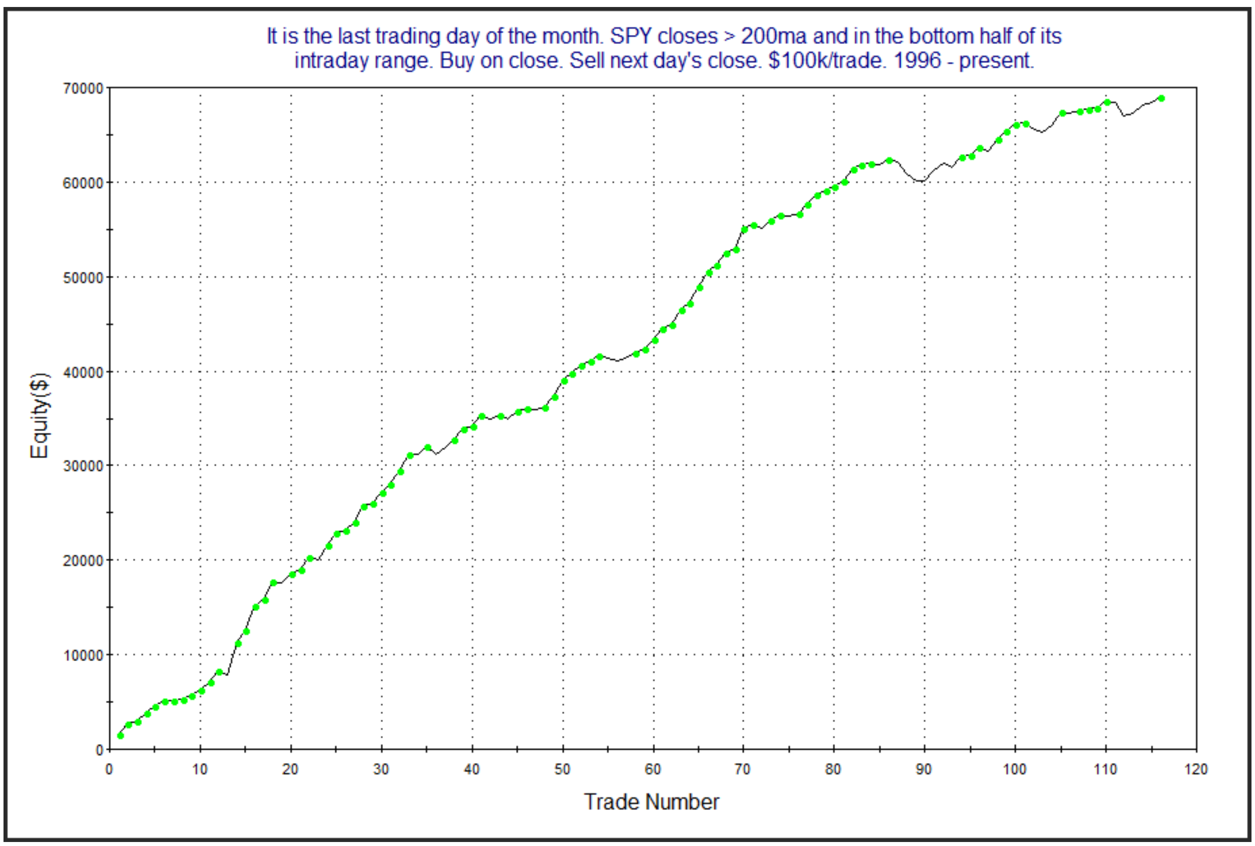
It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$69,030.67	Profit Factor	7.90
Gross Profit	$79,036.73	Gross Loss	($10,006.06)
Total Number of Trades	116	Percent Profitable	79.31%
Winning Trades	92	Losing Trades	24
Even Trades	0		
Avg. Trade Net Profit	$595.09	Ratio Avg. Win:Avg. Loss	2.06
Avg. Winning Trade	$859.09	Avg. Losing Trade	($416.92)
Largest Winning Trade	$3,295.88	Largest Losing Trade	($1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 8x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 116 instances. Below is a profit curve.



The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Friday?

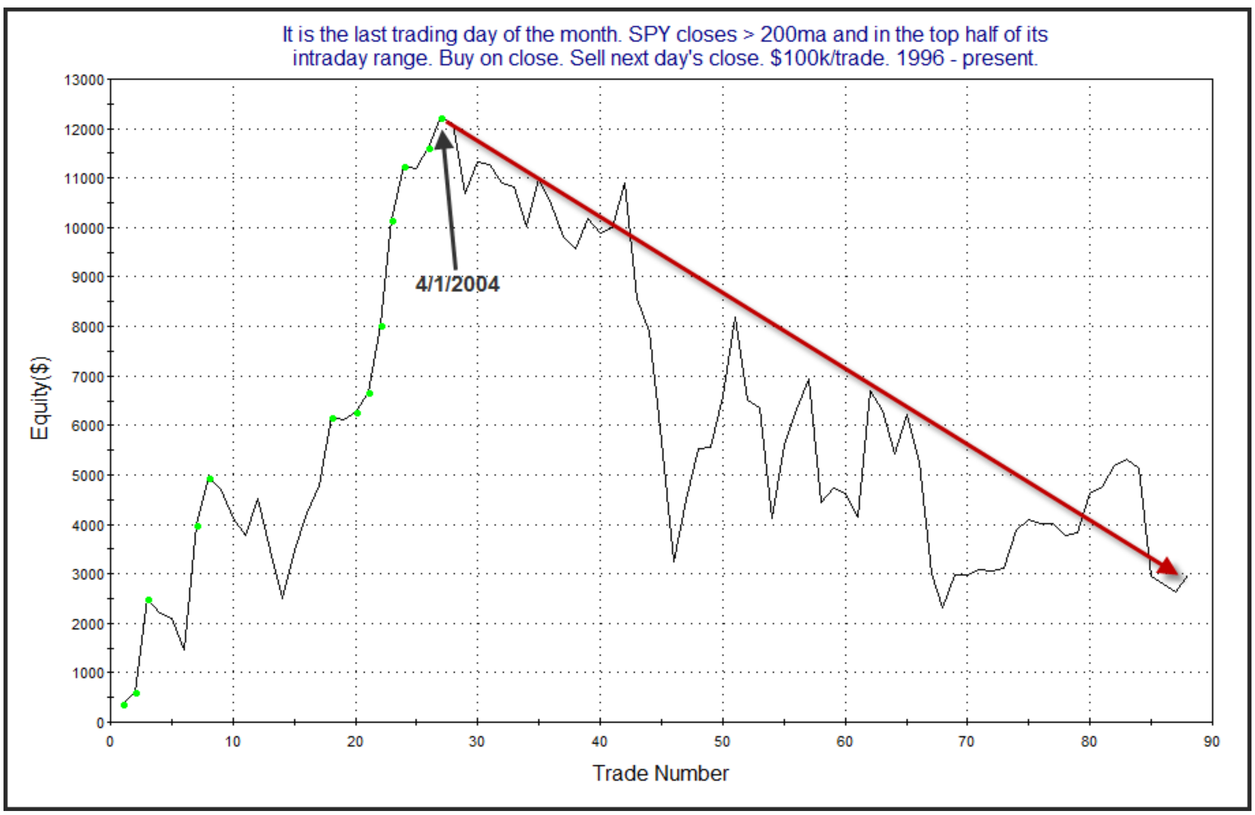
It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades

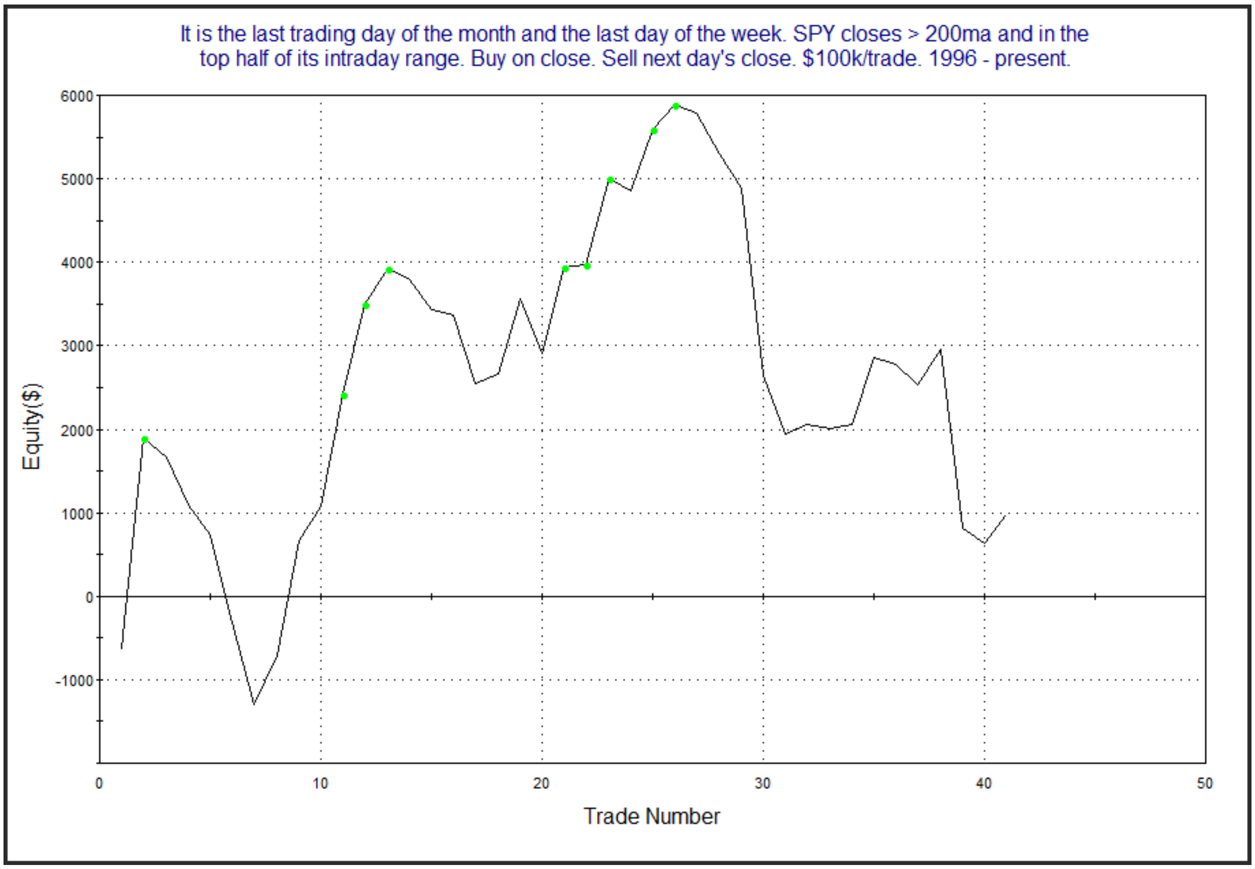
Total Net Profit	$2,968.74	Profit Factor	1.09
Gross Profit	$34,899.68	Gross Loss	($31,930.94)
Total Number of Trades	88	Percent Profitable	52.27%
Winning Trades	46	Losing Trades	42
Even Trades	0		
Avg. Trade Net Profit	$33.74	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	$758.69	Avg. Losing Trade	($760.26)
Largest Winning Trade	$2,562.30	Largest Losing Trade	($2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture. So it appears Friday's action may be important when considering the odds of a rally on Monday.

There were some other studies in the Quantifinder that noted the fact that the last trading day of the month happened on the last day of the week. In some cases, the weekend has made the edge appear even bigger when looking at the 1st day of the month performance. Tonight I looked at it within the context of the 2nd study above. Unfortunately, the weekend did not seem to help at all. This can be seen below.



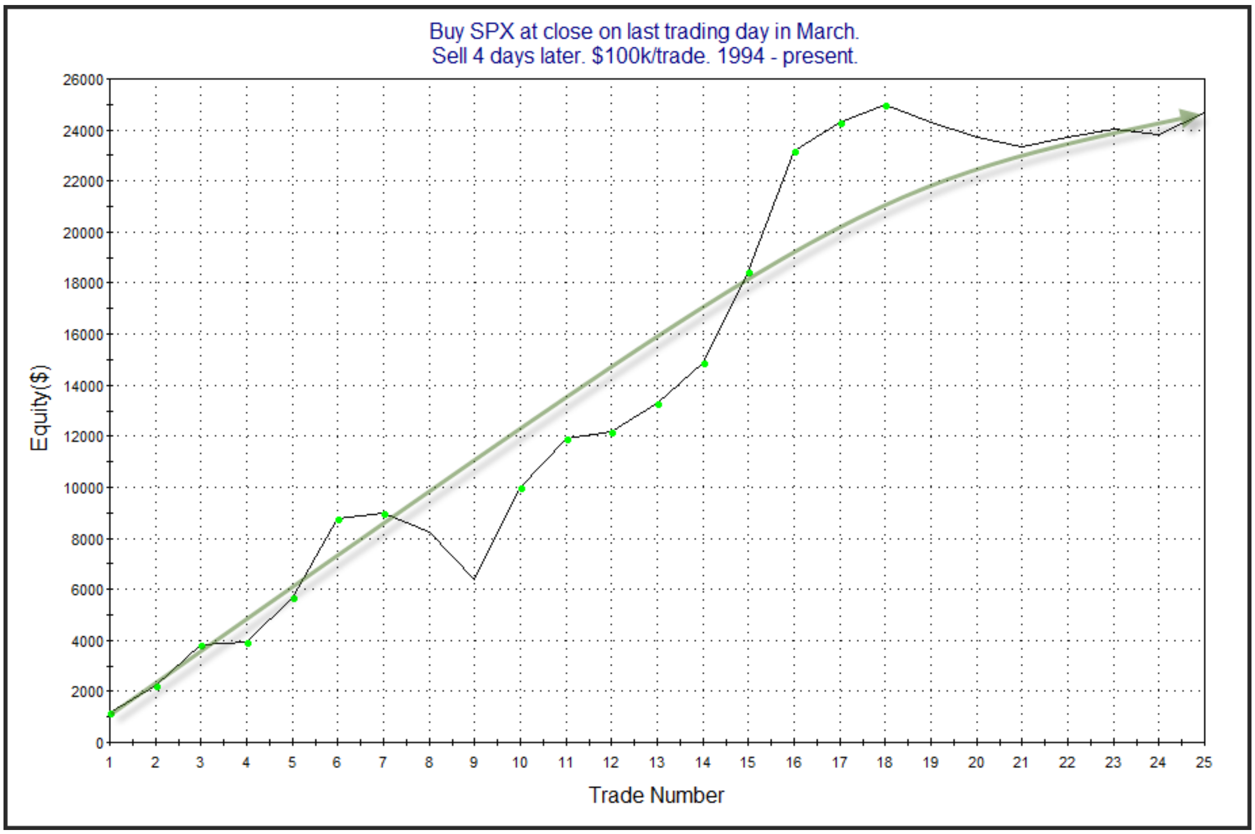
That is an ugly curve. So I am not enthused about Monday have a strong turn of month edge.

But we are turning to April. And since the mid-90s the beginning of April has generally provided strong results. The study below was found in the 4/3/17 letter. Stats are updated.

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	12,739.49	25	16	9	64.00	1,538.53	4,435.97	-1,319.66	-2,745.12	1.17	2.07	509.58
4	24,646.01	25	19	6	76.00	1,534.34	4,701.25	-751.08	-1,831.35	2.04	6.47	985.84
3	18,251.75	25	18	7	72.00	1,595.78	5,578.75	-1,496.05	-4,909.74	1.07	2.74	730.07
2	17,966.35	25	17	8	68.00	1,541.98	4,563.75	-1,030.90	-4,638.84	1.50	3.18	718.65
1	7,487.63	25	17	8	68.00	833.17	3,559.50	-834.54	-2,182.63	1.00	2.12	299.51

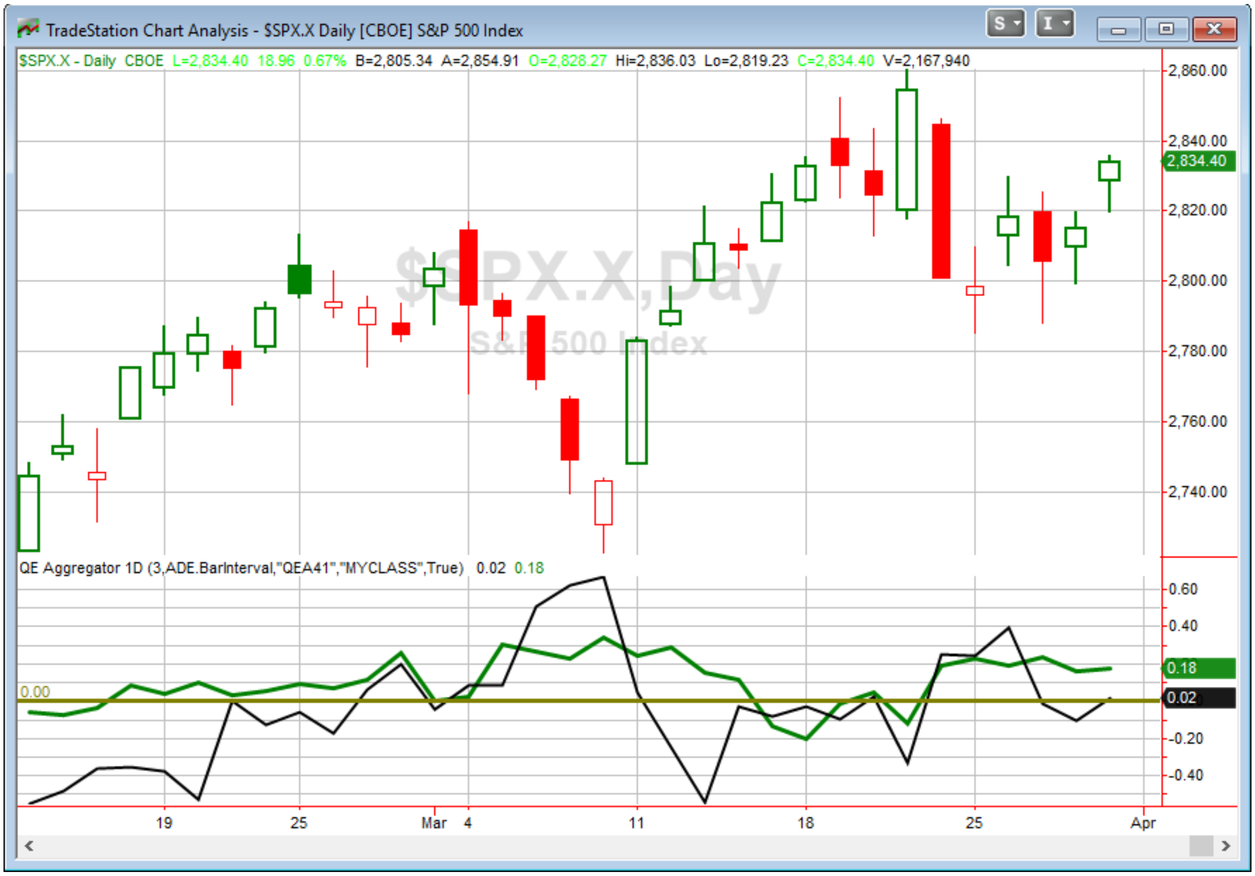
Buy SPX at close on last trading day in March.
Sell X days later. $100k/trade. 1994 - present.

The numbers look compelling. Let's look at the 4-day profit curve to see how the edge has played out over time.



The curve is not as impressive, as we have seen the slope weaken in recent years. I have decided it is still worth some consideration and have added it to the Active List tonight. But another bad April or two and I may have to put this study on hold.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line inched just barely 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Of course this could change if some compelling new bearish evidence emerges. The Differential Pivot will be *inverted at* 2823.89 on Monday. That is 0.4% *below* 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 down at least 0.4% on Monday in order to remain oversold vs expectations. Otherwise, it will flip to being overbought.

So the Aggregator is now bullish, and expectations are higher. But the inverted pivot means the bullish signal will only last one day if the market moves in the bullish direction on Monday – and it could even come off with a small move lower. I am not a big fan of jumping into swing trades when there is an inverted pivot. I'd prefer to see how Monday plays out before looking to take on any new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/1 – bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

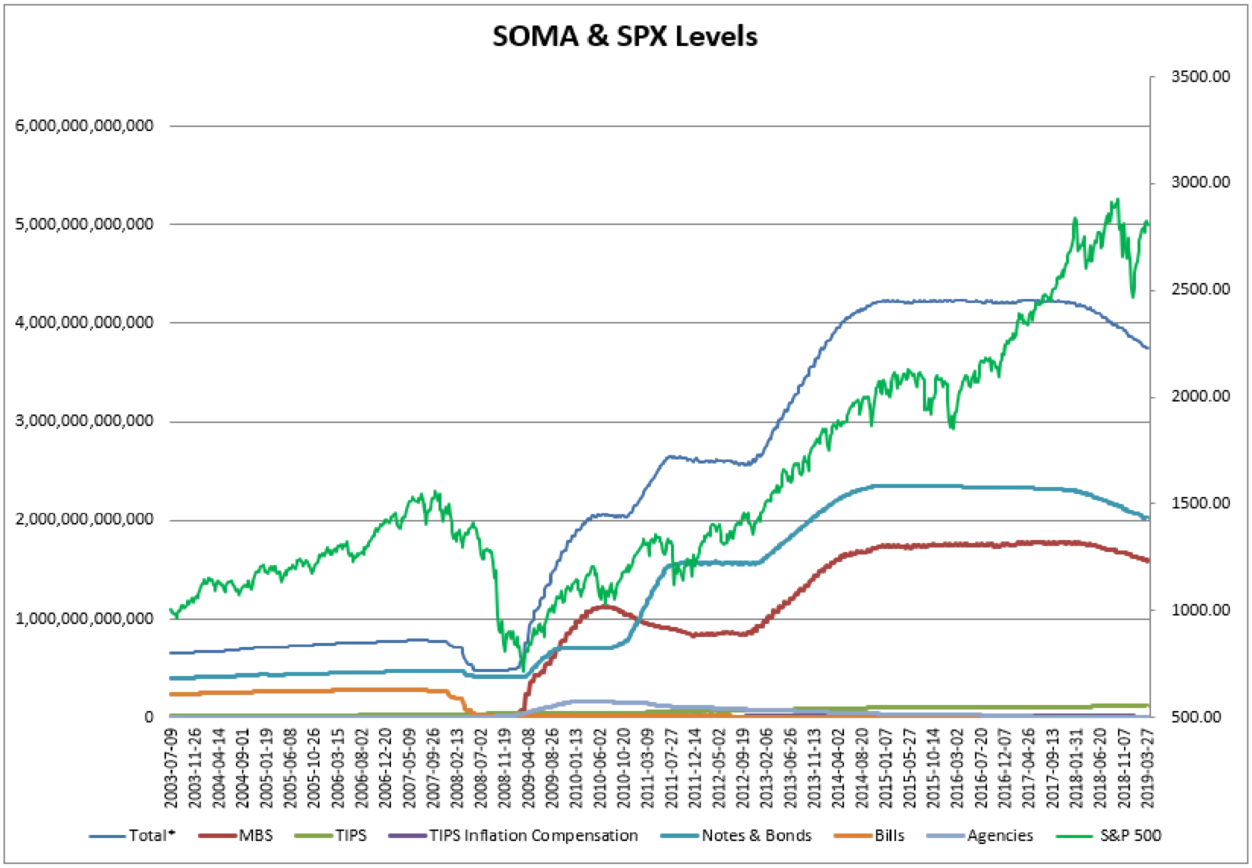
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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 saw the market put in some gains. The SPX closed the week up 1.2%, the NASDAQ rose 1.1%, and the Russell 2000 rallied 2.2%. Both the SPX and NASDAQ remain above their 200-day moving averages. The intermediate-term trend still appears to be up. There were no new studies that emerged this week 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. 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 03/20/2019

DOMESTIC SECURITIES HOLDINGS AS OF

March 27, 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**	2,347,000.0
Agency Mortgage-Backed Securities***	1,592,722,598.3
Total SOMA Holdings	3,749,234,437.2
Change From Prior Week	-6,810,904.7

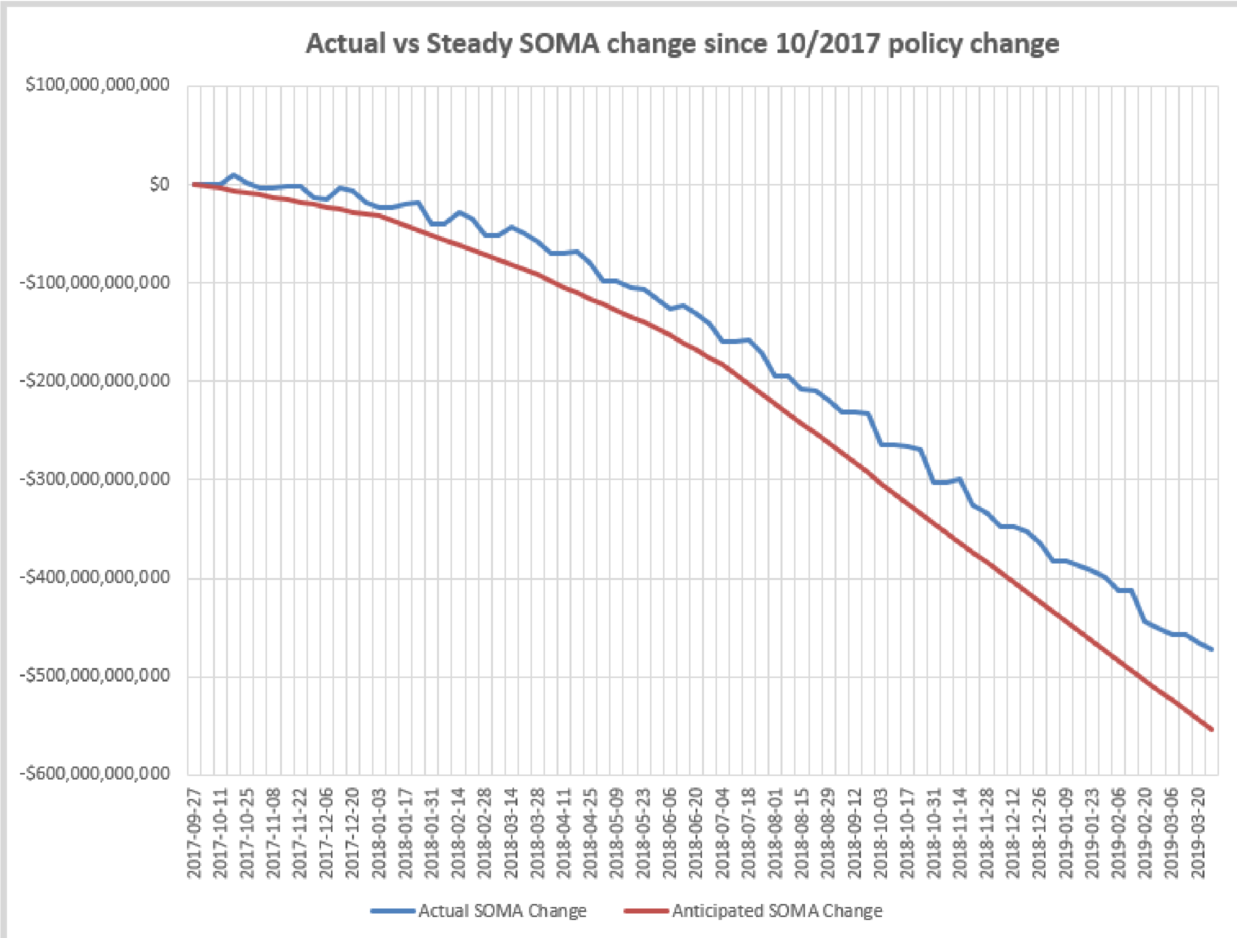
*Does not reflect inflation compensation of 21,431,381.

**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.

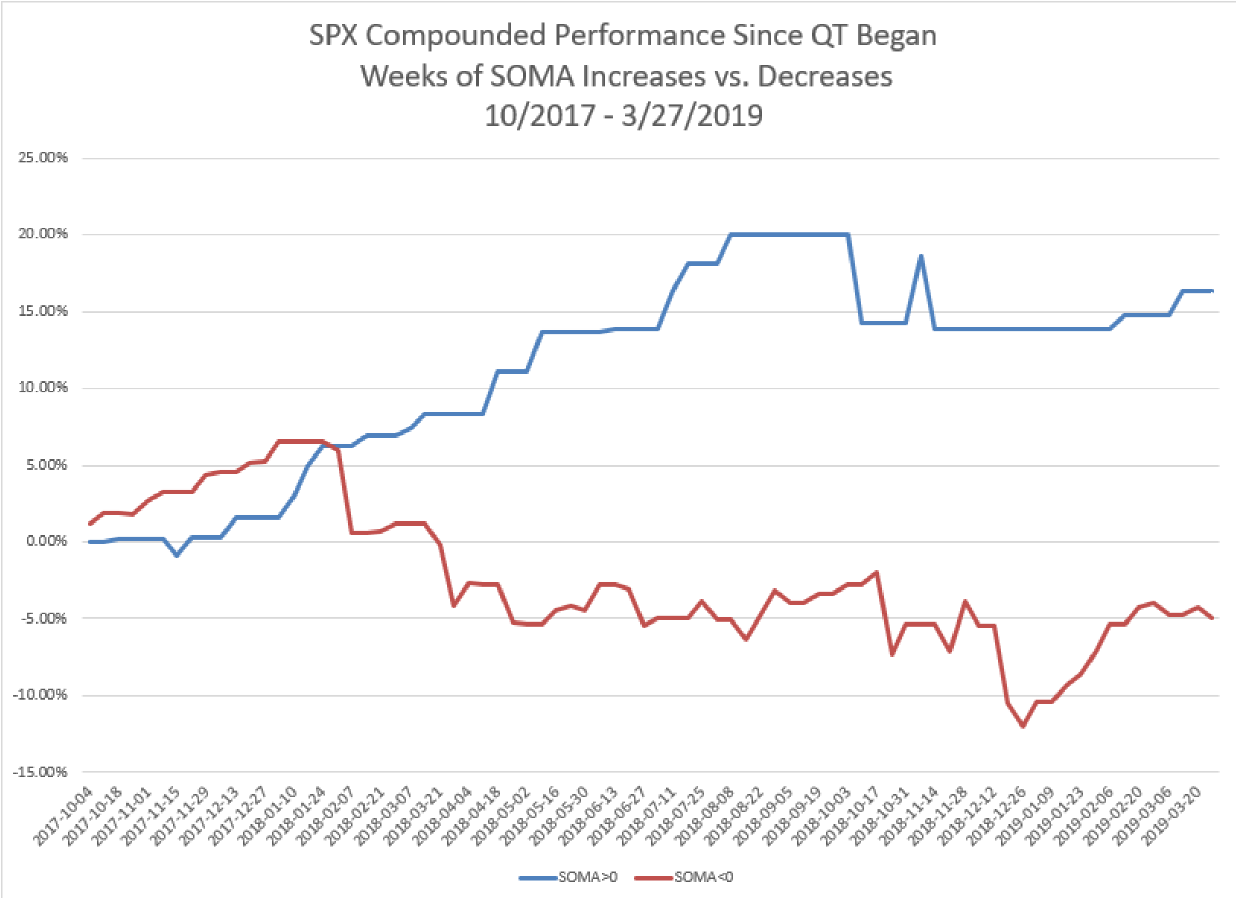
Data posted on 03/28/2019 4:30pm.

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



The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline of about $6.8 billion. The "Actual vs Steady" chart shows that the SOMA decline was about average with the QT rate being $50 billion / month. The decline in the SOMA was in-line with what we were expecting this past week. Meanwhile, the SPX fell 0.7% for the reporting week ending 3/20. A decline of this magnitude is not unusual for a week in which the SOMA declined.

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 year and a half. Despite some brief struggles last 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 4.9%. 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 03/20/2019

DOMESTIC SECURITIES HOLDINGS AS OF
March 27, 2019

Summary | T-Bills | **T-Notes and T-Bonds** | FRN | TIPS | Agencies

Maturity Date	CUSIP	Coupon (%)	Par Value (in Thousands)	% of Total Outstanding [1]
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%
5/15/19	912828R44	0.875	5,427,606.6	18.44%
5/15/19	912828KQ2	3.125	33,047,691.9	51.31%
5/31/19	912828SX9	1.125	16,864,388.8	58.15%
5/31/19	912828XS4	1.250	3,127,905.4	10.74%
5/31/19	912828WL0	1.500	64,464.5	0.18%

As far as treasuries are concerned, there is a fairly sizable expiration occurring now. We will then see a very small expiration on 4/15, and then a very large one of $28 billion at the end of April. And that will be the largest expiration for the foreseeable future, because starting in May the Fed will only roll off a max of $15 billion per month in Treasuries.

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.

So with this week's strong treasury expiration, we should see some especially strong SOMA outflows. But weeks ending on the 10th, and most on the 9th or the 11th, have often seen slight rises. So after this Wednesday we should see a brief QT respite. And if the SOMA does not increase over the course of that week, I certainly would not expect to see it decline very much at all.

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 the recent 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 above the 200ma. QT remains a primary concern for the intermediate-term, but it has not slowed down the market so far in 2019, and we are soon going to see it go away. The Fed has taken a more dovish tone now, which could help the market. But the other side of that is possible fears of a recession looming, and whether the Fed will be able to stave it off. I remain with a bullish outlook until more evidence starts to point south. This simply means I will be more aggressive with longs than I will with short positions.

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.