

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 15, 2019

Volume 12 Issue 72

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Some bullish seasonality will be kicking in this week.
- We should see some mild QT this week.
- Intermediate-term evidence is dominated by bullish indicators and studies.

Short-term Outlook

The Bottom Line

Evidence, including seasonality, looks bullish for the next few days. But with the market at new highs and now overbought versus the Differential calculation, the Aggregator is neutral. I am too.

Summary of Recent Active Studies (see Letters from listed dates for details)

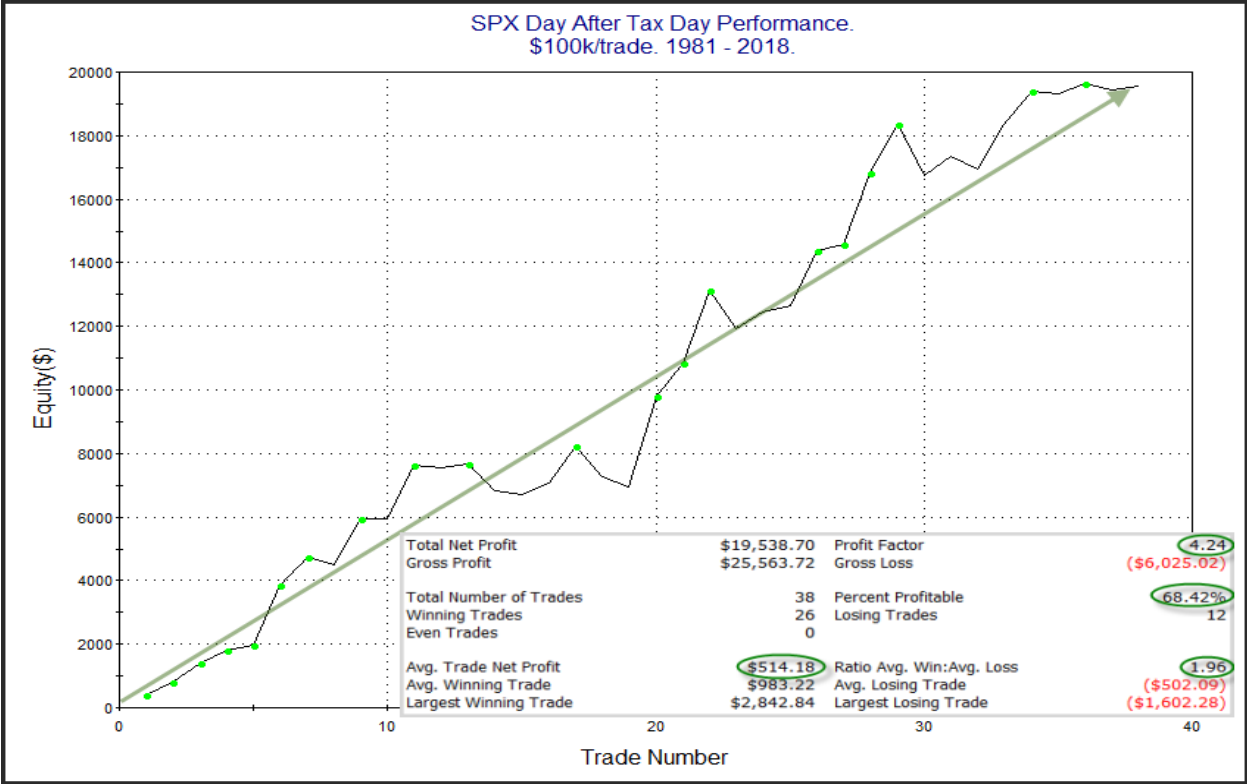
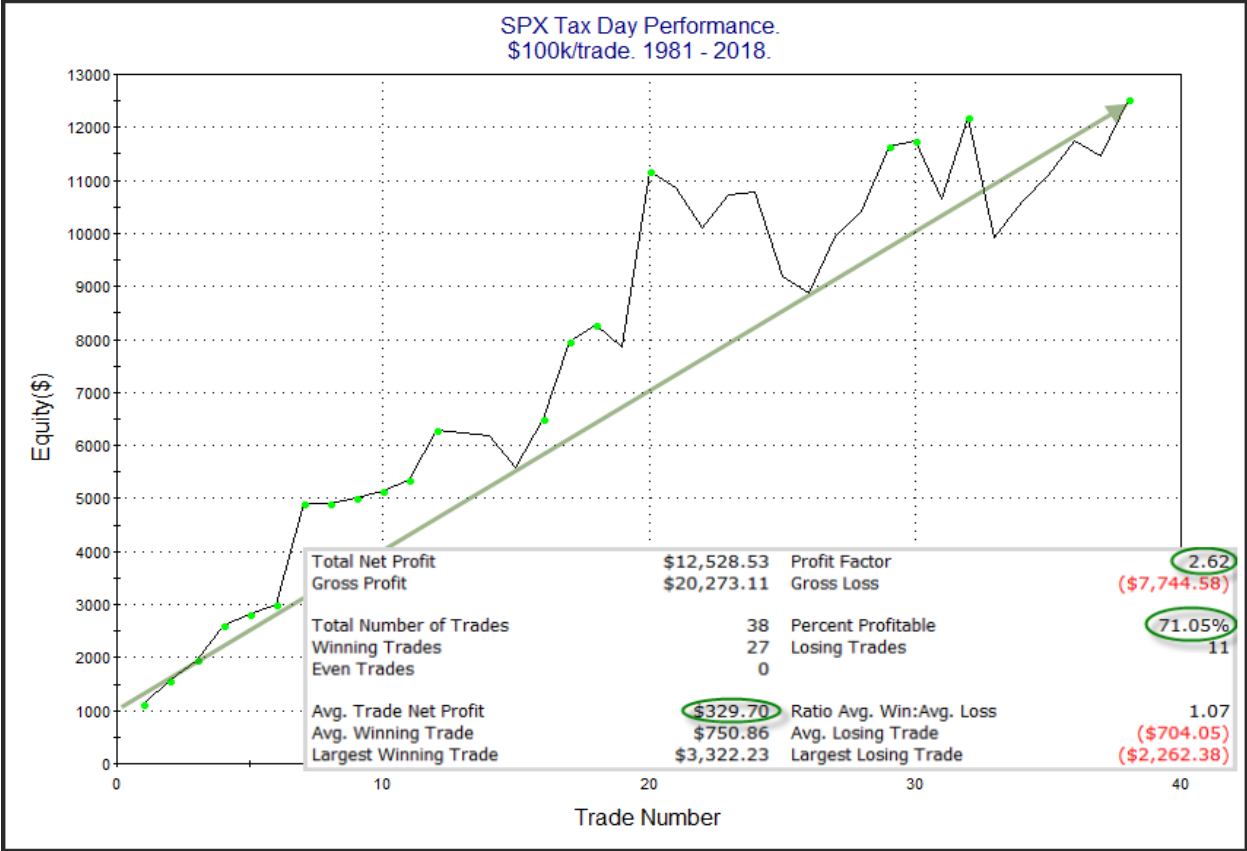
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
April 15, 2019	April Opex week bullish	1-3 days	Bullish			
April 15, 2019	Tax Day & day after bullish	1-2 days	Bullish			
April 10, 2019	5 up to 50-high, then down 1	1-4 days	Bullish	1.10%	0.75%	1.50%
Active - Long Term						
April 10, 2019	5 up to 50-high, then down 1	1-10 days	Bullish	1.90%	-1.00%	-2.10%
April 8, 2019	SPX > 200ma. RSI(2) > 99	1-15 days	Bullish	2.25%	-1.40%	-2.70%
April 2, 2019	Golden Cross	int term	Bullish			
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 higher on Friday and SPX and NASDAQ managed to close at new 50-day highs. The SPX rose 0.7%, the NASDAQ climbed 0.5%, and the Russell 2000 gained 0.4%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 57%. NYSE volume rose some from Thursday's low level.

Thursday night I discussed that tax day in the US (and the day after) have typically been bullish for the market. I have copied that discussion below.

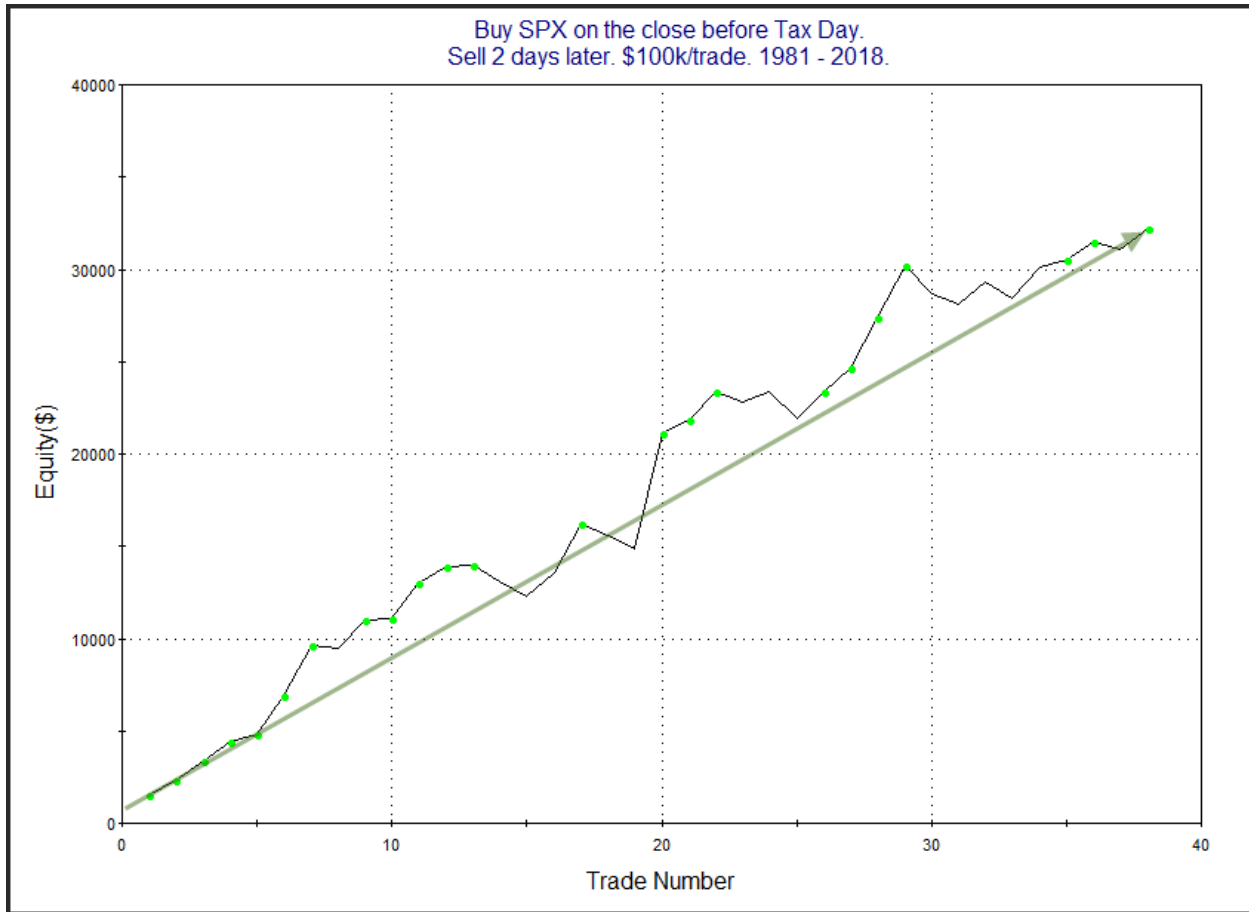
In the 4/16/18 letter I showed that there has been a strong historical tendency on tax day (normally April 15th, but Tuesday the 17th last year) and the day immediately after. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market. Below are some updated studies that demonstrate this.



As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

Buy SPX on the close before Tax Day. Sell 2 days later. \$100k/trade. 1981 - 2018.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$32,189.94	Profit Factor	4.75
Gross Profit	\$40,781.12	Gross Loss	(\$8,591.18)
Total Number of Trades	38	Percent Profitable	71.05%
Winning Trades	27	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$847.10	Ratio Avg. Win:Avg. Loss	1.93
Avg. Winning Trade	\$1,510.41	Avg. Losing Trade	(\$781.02)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.



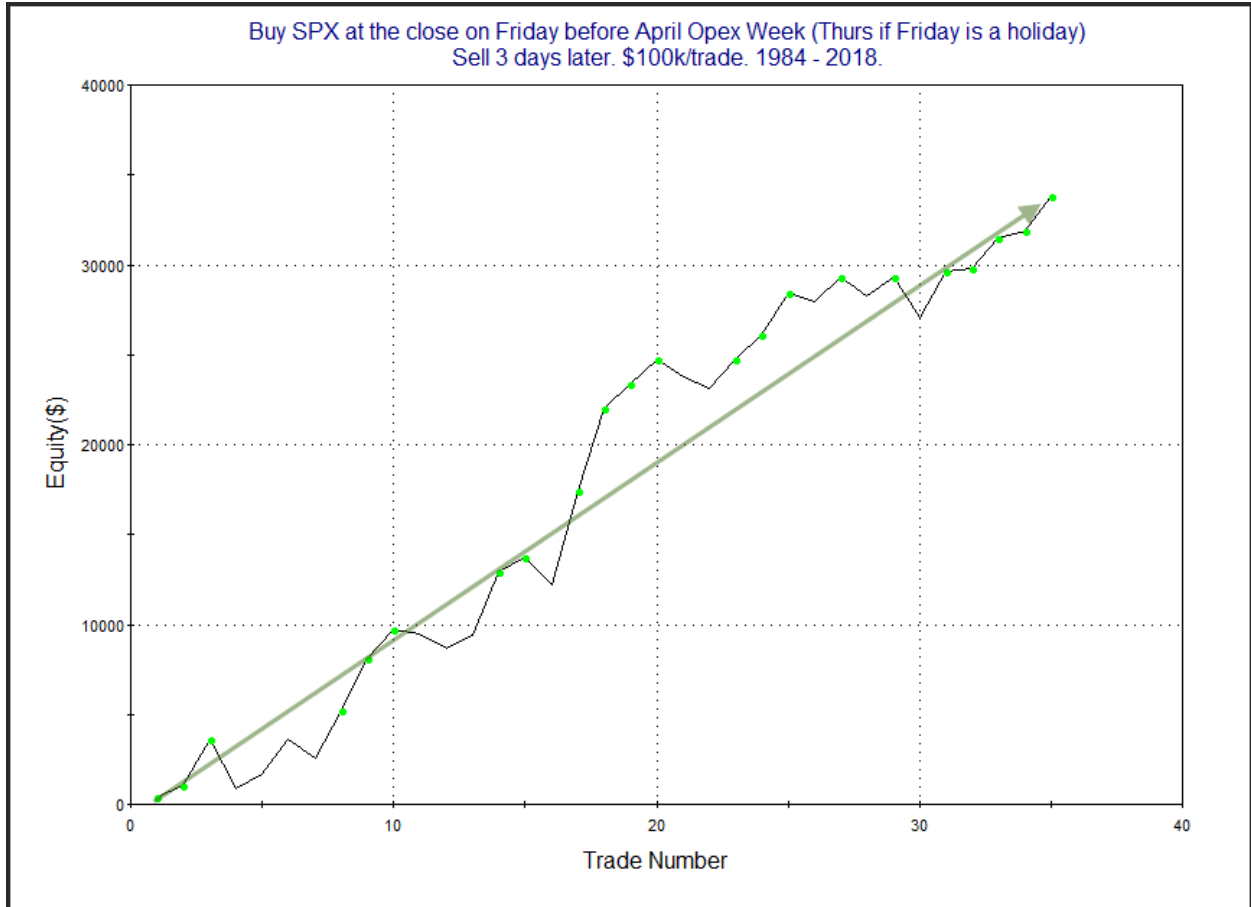
A good looking curve that has moved from lower left to upper right. This study will be under consideration on Monday and Tuesday.

Also notable from a seasonality standpoint is that April expirations week is next week, and it has historically been very bullish. The study below, from the 4/16/18 letter shows this. Results are updated.

Buy SPX at the close on Friday before April Opex Week (Thurs if Friday is a holiday)
Sell X days later. \$100k/trade. 1984 - 2018.

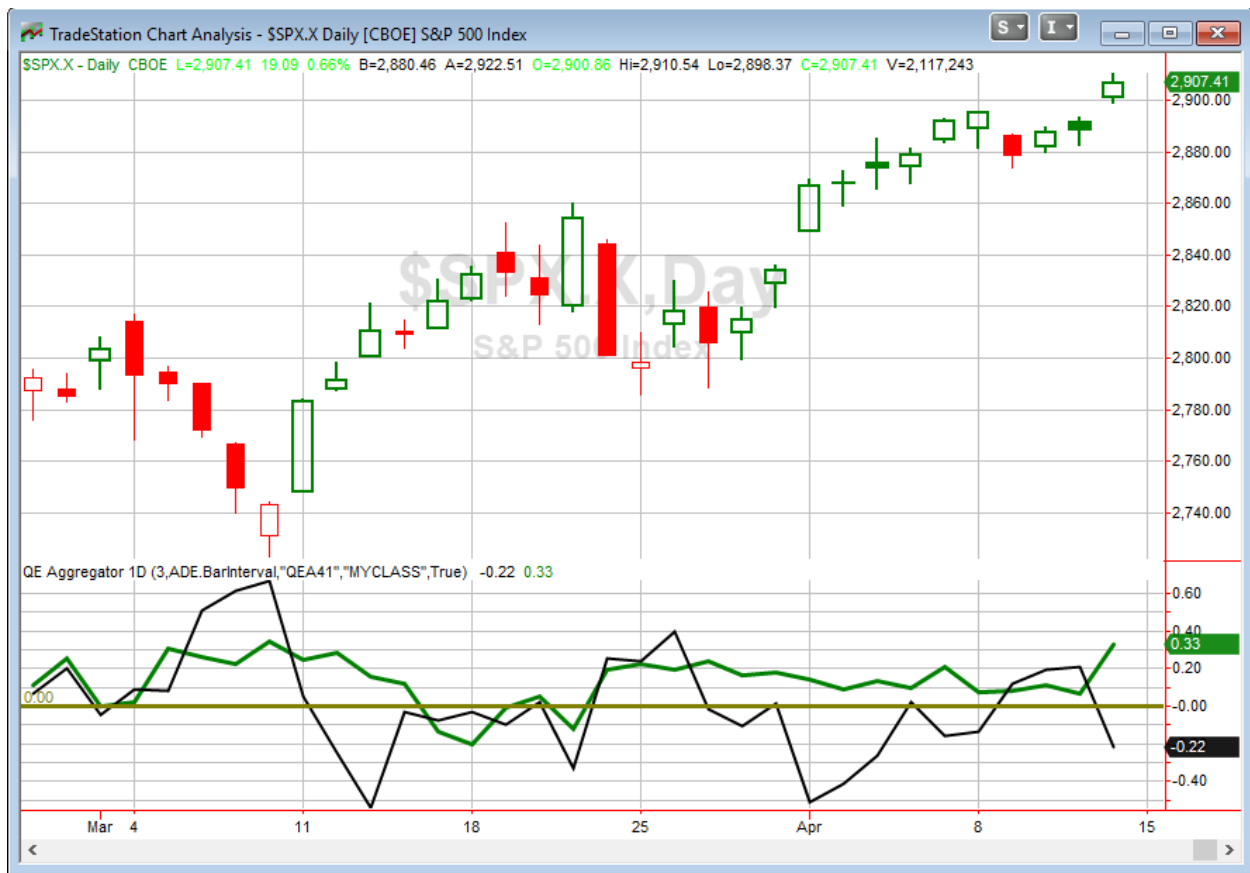
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	28,004.92	35	22	13	62.86	2,125.22	5,393.97	-1,442.30	-3,580.15	1.47	2.49	800.14
4	30,299.71	35	24	11	68.57	1,963.22	5,895.12	-1,528.87	-3,587.57	1.28	2.80	865.71
3	33,819.82	35	25	10	71.43	1,822.02	5,215.85	-1,173.07	-2,745.05	1.55	3.88	966.28
2	24,985.63	35	28	7	80.00	1,254.33	6,245.15	-1,447.96	-4,545.53	0.87	3.47	713.88
1	8,803.40	35	23	12	65.71	733.19	3,322.23	-671.67	-2,339.26	1.09	2.09	251.53

The consistency has been very impressive. It suggests an upside edge the first few days of the week. Below is a profit curve that assumes a 3-day holding period.



The strong, steady upslope is encouraging, and serves as some confirmation of the upside edge.

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



With such bullish seasonality in the next few days, the green Aggregator Line moved further above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line dove down 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. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2896.00 on Monday. That is 0.4% below Friday's close. So SPX will need to close down at least 0.4% on Monday in order to flip from overbought to oversold versus recent expectations.

The Aggregator is now neutral and I am as well. It appears I was a bit too conservative with the bullish Aggregator setup the last couple of days, since I did not take advantage of the long signal personally. But now with the SPX overbought even as measured by the Differential Line, this does not appear to be an ideal time to take on new longs. If the seasonal tendencies play out over the next few days then we may see some short evidence emerge that could trigger a short Aggregator setup. Otherwise, if the market pulls back despite the seasonal strength, then we could

see some long evidence emerge which would lead to a new long setup. Either way, we are never too long from a new potential opportunity. But right now does not appear ideal to me. I'll remain sidelined and patient.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/15 – 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”.*

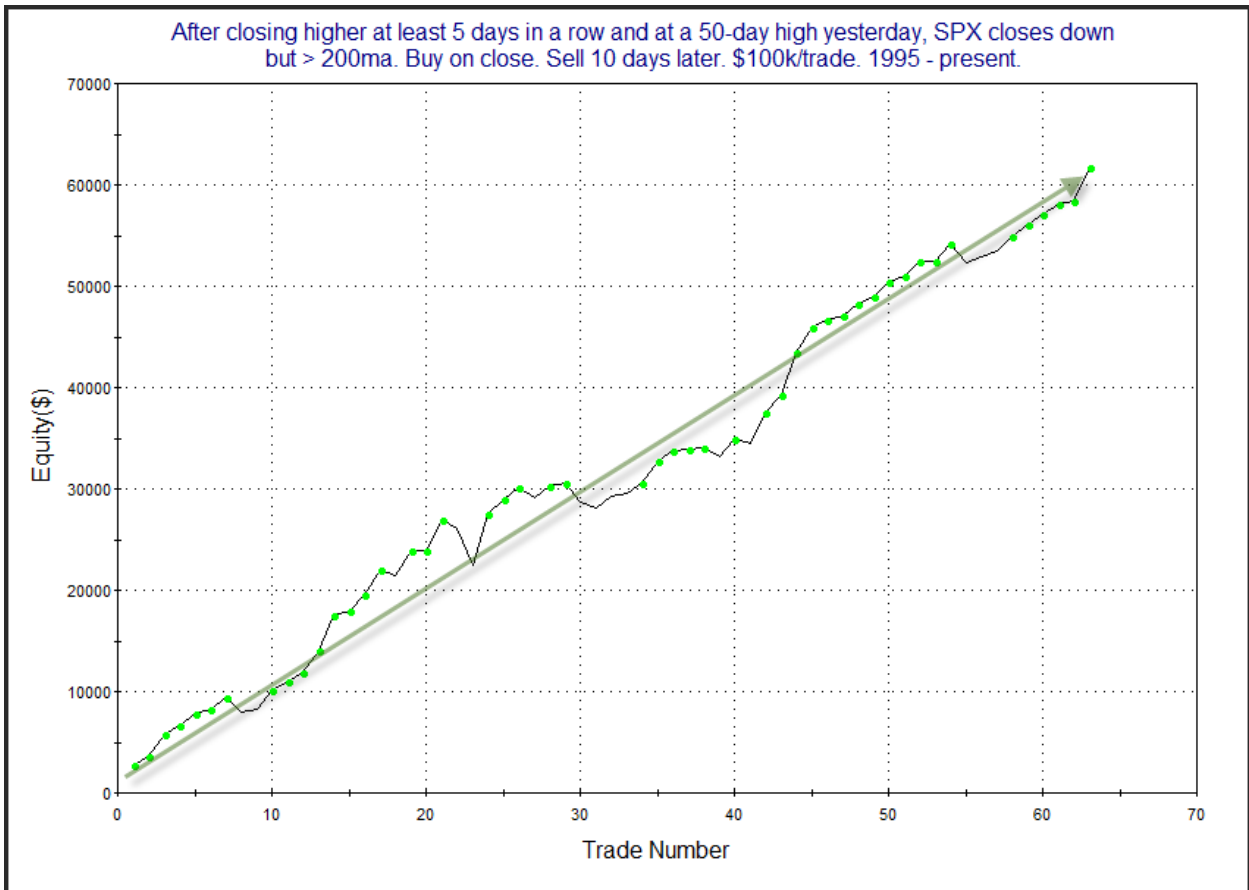
This past week saw more gains for the market. The SPX closed the week up 0.5%, the NASDAQ rose 0.6%, and the Russell 2000 eeked out a 0.1% gain. Both the SPX and NASDAQ remain above their 200-day moving averages and again closed Friday at 50-day highs. The intermediate-term trend still appears to be up. There was one study that was featured in the 4/10 nightly letter that had bullish intermediate-term implications. I have copied that commentary below.

One compelling study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 2/17/17 Letter. I have updated the stats in the table below.

After closing higher at least 5 days in a row and at a 50-day high yesterday, SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	61,668.46	63	53	10	84.13	1,407.44	5,131.35	-1,292.59	-3,672.90	1.09	5.77	978.86
9	60,178.50	66	54	12	81.82	1,401.50	5,023.20	-1,291.89	-4,151.40	1.08	4.88	911.80
8	52,763.37	67	48	19	71.64	1,574.24	4,878.08	-1,200.01	-4,874.10	1.31	3.31	787.51
7	40,949.37	68	47	21	69.12	1,415.56	3,874.76	-1,218.18	-3,912.48	1.16	2.60	602.20
6	39,642.29	70	49	21	70.00	1,285.64	4,307.20	-1,112.10	-3,637.71	1.16	2.70	566.32
5	30,986.77	70	45	25	64.29	1,122.83	4,252.50	-781.62	-2,466.75	1.44	2.59	442.67
4	33,373.02	70	45	25	64.29	1,146.57	3,843.00	-728.90	-3,003.39	1.57	2.83	476.76
3	20,655.71	70	45	25	64.29	865.83	2,472.85	-732.26	-1,992.34	1.18	2.13	295.08
2	19,553.85	70	48	22	68.57	741.08	2,437.50	-728.10	-2,614.95	1.02	2.22	279.34
1	11,469.28	70	46	23	65.71	499.42	1,751.19	-500.18	-1,744.10	1.00	2.00	163.85

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats...

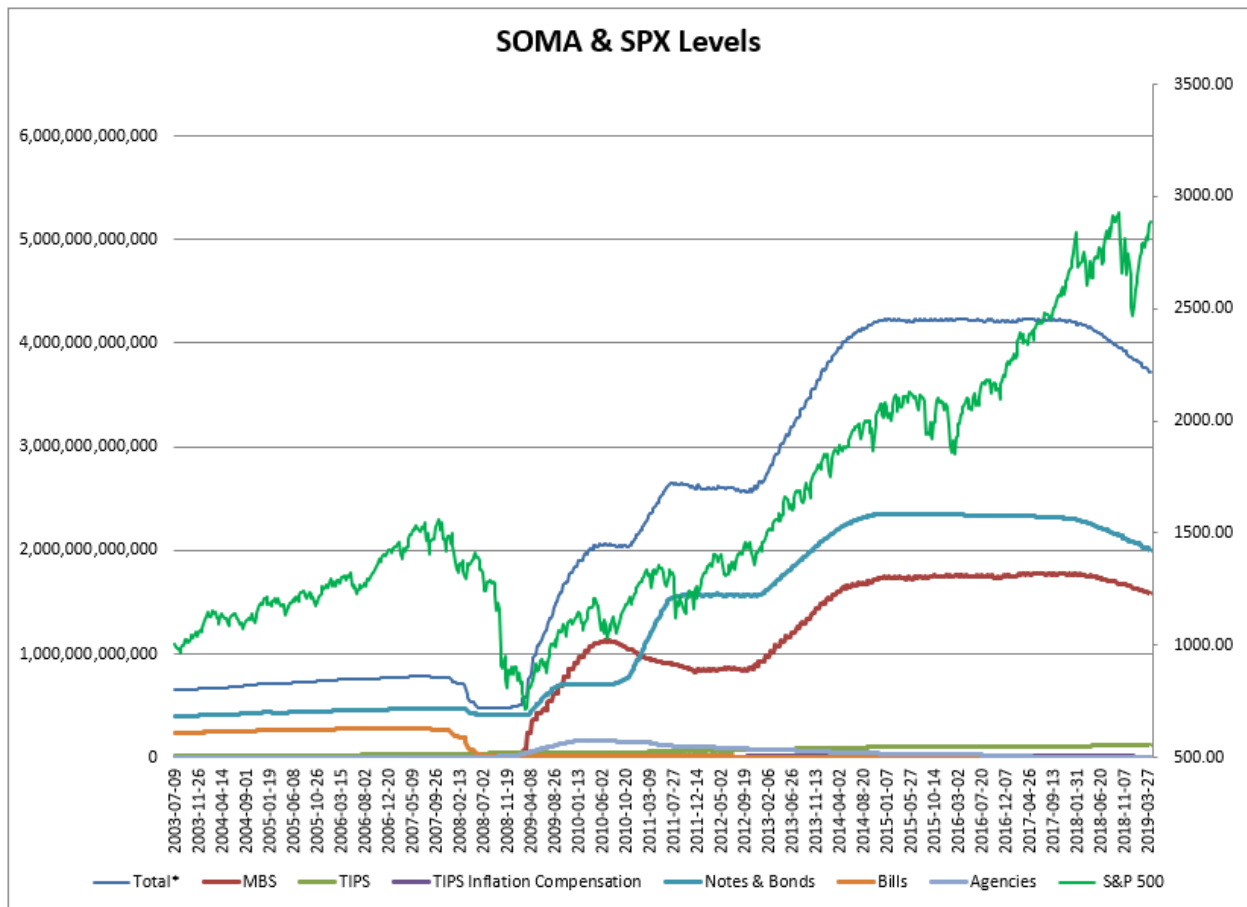


The strong upslope appears to confirm the bullish edge... I have included this study on both the short-term and intermediate-term active lists.

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 04/03/2019

DOMESTIC SECURITIES HOLDINGS AS OF
April 10, 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)	2,000,330,958.4					
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***	1,592,911,593.3					
Total SOMA Holdings	3,727,044,272.4					
Change From Prior Week	188,994.9					

*Does not reflect inflation compensation of 21,657,656.7

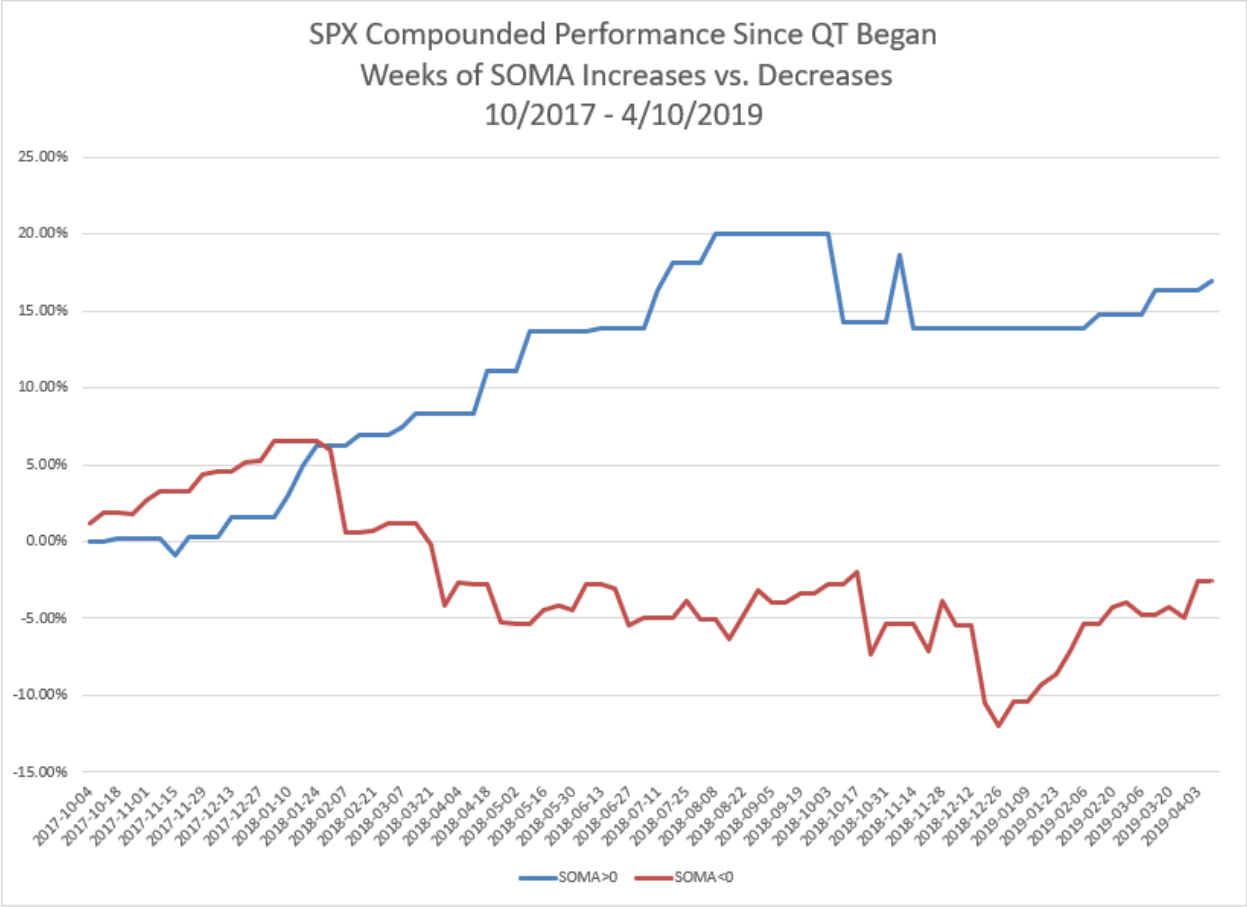
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 04/11/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) saw a mild rise of about \$188 million. When the policy calls for a reduction of up to \$50 billion/month, any positive week is far above average. The rise in the SOMA was in-line with what we were expecting, though, as I laid out here the last couple of weeks. Meanwhile, the SPX rose 0.5% for the reporting week ending 4/10. That is a pretty decent 1-week gain.

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 17.0% gain while the red “contraction week” strategy would have lost 2.6%. 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 03/27/2019

DOMESTIC SECURITIES HOLDINGS AS OF
April 3, 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
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, we will 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.

As I noted last weekend, the current reporting week, which is set to end on the 17th, should see some QT, if due to nothing else that just the treasury roll. The next week, which ends on the 24th, I expect to see a mild amount of QT. We typically have seen low QT amounts on weeks ending on or around the 24th. It is not assured though. January of 2018 had a reporting week end on the 24th, and it actually saw a mild SOMA increase like the one we saw this past week. So there is a small chance that could happen again.

Intermediate-term indications are continuing to mostly point higher. All 3 Market Timing Course signals are long. And there is a sizable list of studies on the intermediate-term active list which are bullish. They look at things like price momentum, breadth, and NASDAQ leadership. The overall trend looks good with SPX and NASDAQ both above the 200ma and Golden Crosses in effect. 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 seems to be helping the market. I remain with a bullish outlook until more evidence starts to point south. This simply means I intend to 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](#).

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