

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 22, 2019

Volume 12 Issue 76

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The market has shown rare upside persistence to this point in the year.
- The SOMA likely will not see much change this reporting week, but there will be a big drop in the SOMA for the reporting week starting on Thursday and ending May 1st.

Short-term Outlook

The Bottom Line

Expectations remain positive and the Differential reading is oversold versus recent expectations. This is leaving the Aggregator bullish. I believe there is a moderate short-term 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
Active - Short Term						
April 18, 2019	3-high, 3-low, 3-low close > 200ma	1-5 days	Bullish			
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

Thursday was a day of mixed and mild results. The SPX rose 0.2%, the NASDAQ climbed 2 points (less than 0.1%), and the Russell 2000 lost 0.1%. Breadth was slightly negative as the NYSE Up Issues % was 48.5% and the Up Volume % came in at 48.1%. With options expiring, NYSE volume rose strongly from Wednesday's level despite heading into a long weekend.

Thursday marked the 4th day in a row that SPX 1) changed closing direction from the day before, and 2) saw a net % change of less than 0.25%. In other words, this week was a lot of sideways chop. So it is not surprising that I am seeing a real lack of compelling Quantifinder studies emerging. Quiet chop often fails to generate substantial short-term edges, and that appears to be happening now.

One thing that struck me today is that while the SPX has been chopping lately, it has remained above its 10-day moving average. And the uptrend so far this year has been so persistent that it has very rarely ever closed below that moving average. Between January and March we saw a streak of 40 closes above the 10ma, and right now SPX has gone 15 days without closing below it. In total, there have only been 10 days so far this year (out of 75) that SPX has closed below its 10ma. Looking back to 1928, that is the 4th fewest to start a year. The table below shows all the instances where there have been 15 or few days of the 1st 75 to start a year that closed below the 10ma. It also shows the return for the rest of the year.

All instances where SPX has closed below its 10-day moving average on 15 or fewer days through the 1st 75 trading days of the year. 1928 - 2019.

Date/Time	Index Price	TradeDayOfYr	DaysUnder10ma	% Change Rest of Yr
4/17/1930	25.75	75	9	-40.50%
4/20/1954	27.75	75	15	29.59%
4/19/1961	65.81	75	9	8.69%
4/18/1963	68.89	75	15	8.87%
4/17/1964	80.55	75	9	5.19%
4/20/1971	103.61	75	14	-1.49%
4/19/1995	504.92	75	11	21.98%
4/21/1998	1126.34	75	12	9.13%
4/19/2013	1555.25	75	15	18.85%
4/18/2019	2905.03	75	10	??%

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Interestingly, the NASDAQ has shown the same persistence, also only closing below the 10ma for 10 days so far this year. Here is the same study run on the NASDAQ since its inception in 1971.

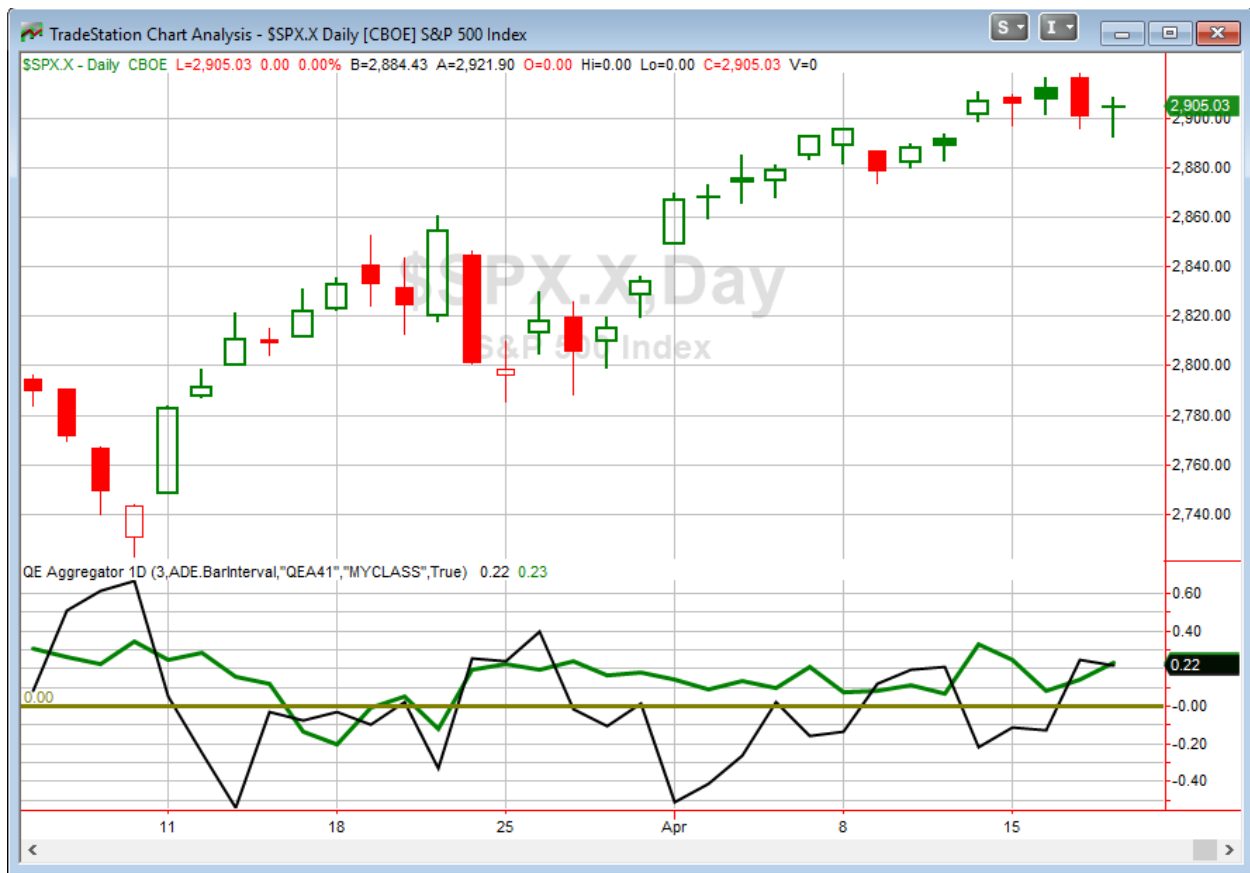
All instances where NASDAQ has closed below its 10-day moving average on 15 or fewer days through the 1st 75 trading days of the year. 1971 - 2019.

Date/Time	Close	TradeDayOfYr	DaysUnder10ma	% Change Rest of Yr
4/18/1972	134.1	75	10	-0.29%
4/18/1975	78.08	75	10	-0.61%
4/19/1983	281.86	75	14	-1.16%
4/18/1986	390.1	75	11	-10.59%
4/20/1987	417.7	75	15	-20.88%
4/21/1998	1903.87	75	15	15.17%
4/19/2012	3007.56	75	13	0.40%
4/18/2019	7998.06	75	10	??%

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The only year in which both appeared on the list was 1998. I looked at forward results over several time periods, and did not find a consistent and compelling edge. Still, this speaks to just how persistent the move up has been so far this year. It also speaks to the difficulty that pullback strategies have had, since there have been hardly any pullbacks in which to enter.

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



Without any new studies being added tonight 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 held 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 stayed long 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 2926.31 on Monday. That is 0.7% above Thursday's close. Therefore, SPX would need to close up at least 0.7% on Monday in order to flip from oversold to overbought versus recent expectations.

The Aggregator is again bullish. But short-term evidence is very light and we did not see any additional bullish evidence emerge on Thursday. And while the Differential reading is oversold, SPX is not exactly at a low point for buying. Still, the strength of the market has been incredible, so hoping for an "ideal" buying opportunity could mean missing out. As long as the Aggregator is bullish, I will likely be looking to scale in if we get a bit of a pullback in the next few days. And additional bullish evidence emerging would convince me to get more aggressive with potential entries.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/22 – bullish

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

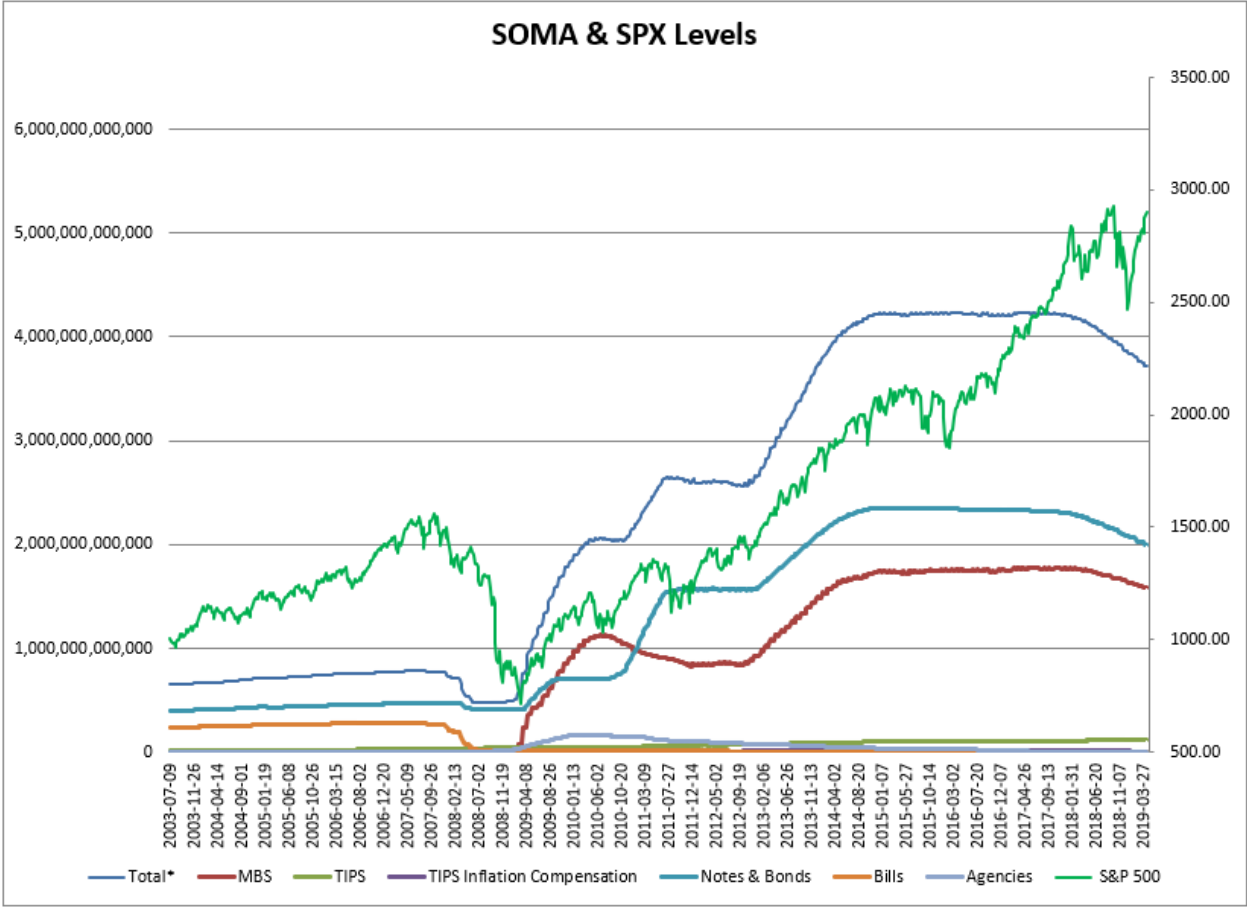
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 choppy and mixed for the market. The SPX closed the week down 0.1%, the NASDAQ rose 0.2%, and the Russell 2000 lost 1.2%. Both the SPX and NASDAQ remain above their 200-day moving averages and not far from 50-day highs. The choppy action did nothing to inspire new studies with compelling 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 04/10/2019

DOMESTIC SECURITIES HOLDINGS AS OF

April 17, 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)	2,000,172,900.9
US Treasury Floating Rate Notes (FRN)	16,300,804.9
US Treasury Inflation-Protected Securities (TIPS)*	115,143,915.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,587,937,901.0
Total SOMA Holdings	3,721,902,522.6
Change From Prior Week	-5,141,749.7

*Does not reflect inflation compensation of 21,791,504.6

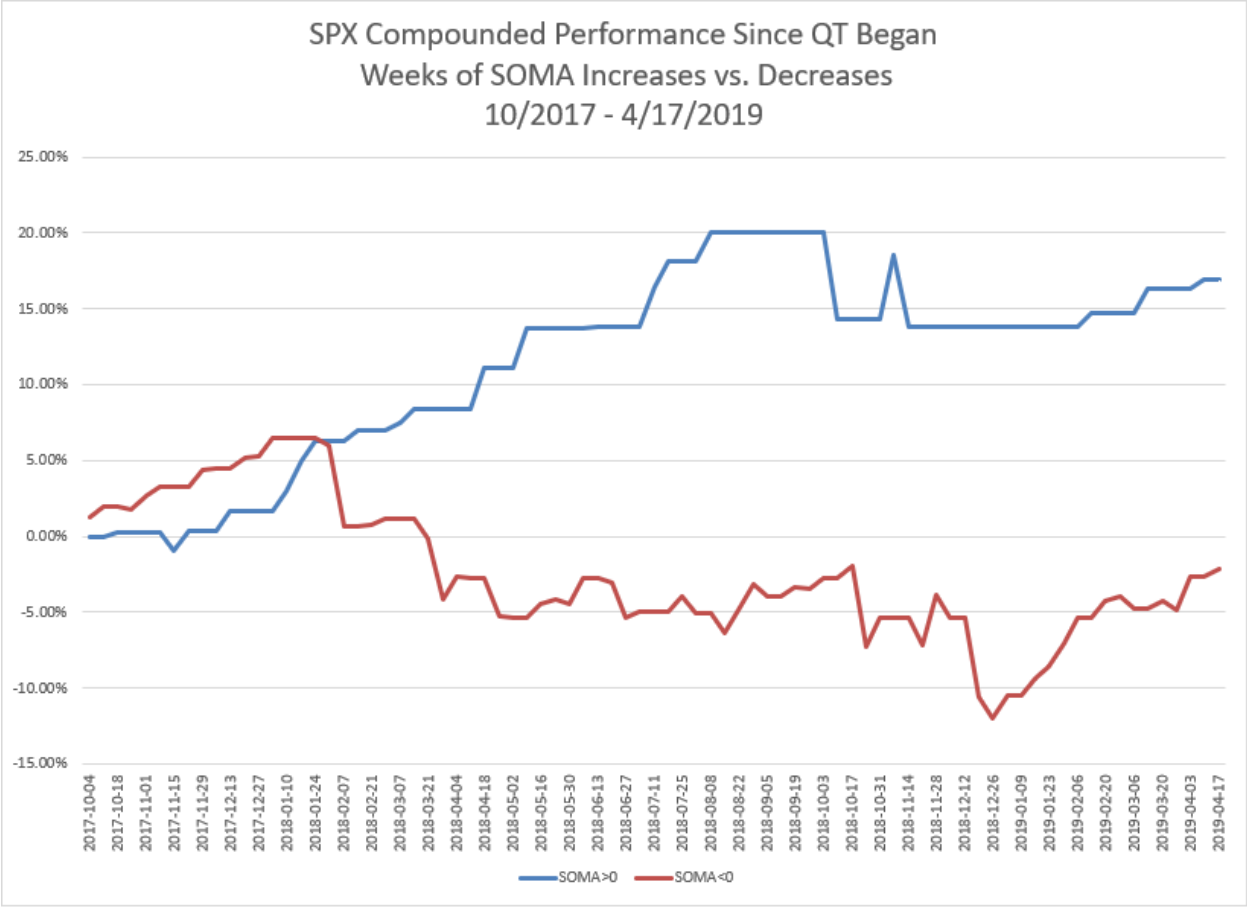
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 04/18/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline of about \$5.1 billion. When the policy calls for a reduction of up to \$50 billion/month, that is a fairly moderate number. The decline in the SOMA was consistent with the expectations that I laid out here the last couple of weeks. Meanwhile, the SPX rose 0.4% for the reporting week ending 4/10. That is a good 1-week gain for a week in which the SOMA has 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 17.0% gain while the red “contraction week” strategy would have lost 2.2%. 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 04/10/2019

DOMESTIC SECURITIES HOLDINGS AS OF
April 17, 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
4/30/19	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 large expiration 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, we typically have seen low QT amounts on weeks ending on or around the 24th. QT is not assured though. January of 2018 had a reporting week end on the 24th, and it actually saw a mild SOMA increase. So there is a small chance the SOMA could come in flat or even rise slightly rather than decline some. The next reporting week, ending on May 1st, should see the largest QT for the foreseeable future, thanks to the large treasury expiration.

This week really did nothing to change the intermediate-term outlook. 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.

SPY – buy ¼ index position @ \$288.50 LIMIT ON CLOSE. Based on the short-term outlook above. This would place SPY well below its 10ma and near the low end of its recent range. Pullback have been so brief that I would prefer to start scaling in near the close rather than confirming that expectations still hold and looking to buy the next day.

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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