

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 3, 2019

Volume 12 Issue 85

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- A 50-day high to an 8-day low in 2 days has often been followed by a bounce the next day.
- The gap down and continued selling on Wednesday could be setting the market up for a bounce.
- The SOMA decline this past week was the largest 1-week decline since 2008.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. The short-term evidence is all pointing upwards, and reward/risk appears to favor the bulls.

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						
May 3, 2019	Gap down & close < open after 5-low	1-2 days	Bullish			
May 3, 2019	50-high to 8-low in 2 days	1-5 days	Bullish			
May 2, 2019	Up Yest. 3 hi, 3 low, 3 low close today	1-5 days	Bullish	1.70%	-1.20%	-2.40%
May 2, 2019	15+ days > 10ma then close below	1-5 days	Bullish	1.40%	-1.00%	-2.40%
May 1, 2019	Fed Day & Turn of Month	1-3 days	Bullish			
May 1, 2019	SPY finish month at high of month	1-5 days	Bullish			
Active - Long Term						
May 2, 2019	1st 5-low in 10 days. 20-high yesterday	1-11 days	Bullish	2.00%	-1.70%	-3.40%
April 24, 2019	SPX closes above 50-day Bollinger Bnd	1-50 days	Bullish	5.00%	-4.30%	-8.10%
April 23, 2019	RUT down 3 days. SPX 3-day high	1-10 days	Bullish	3.80%	-0.90%	-2.00%
April 23, 2019	50-day high, then 5 closes inside rng	1-10 days	Bullish	2.20%	-1.10%	-2.40%
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			
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			

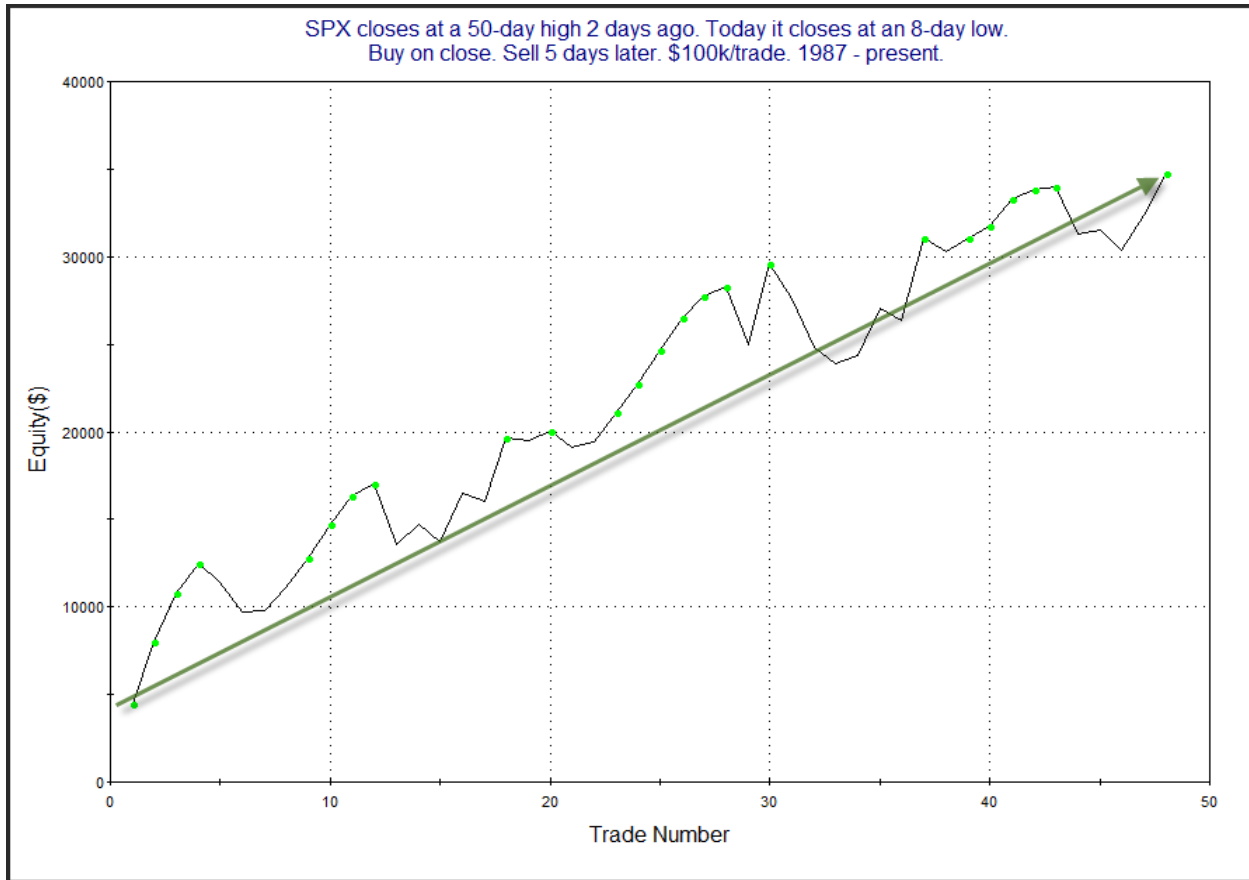
The Evidence

Thursday was a mixed day for the market. The SPX finished down 0.2%, the NASDAQ lost 0.2%, and the Russell 2000 rose 0.4%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 39%. NYSE volume declined some from Wednesday's level.

The theme tonight is looking at instances where SPX has pulled back to short-term lows. There was one study that looked at quick 2-day moves from a 50-day high to an 8-day low. I last showed it in the 3/26/19 letter. I have updated the stats table below.

SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low. Buy on close. Sell X days later. \$100k/trade. 1987 - 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
5	34,752.51	48	33	15	68.75	1,760.67	4,726.48	-1,556.63	-3,502.11	1.13	2.49	724.01
4	32,360.32	48	33	15	68.75	1,448.65	4,732.80	-1,029.67	-2,555.39	1.41	3.10	674.17
3	11,848.96	48	29	19	60.42	1,086.84	2,985.55	-1,035.23	-2,866.27	1.05	1.60	246.85
2	6,219.74	48	27	21	56.25	954.35	3,515.34	-930.84	-2,051.10	1.03	1.32	129.58
1	9,931.50	50	30	20	60.00	713.15	2,002.36	-573.16	-2,200.08	1.24	1.87	198.63

The odds look somewhat bullish here. Below is a look at a 5-day profit curve.



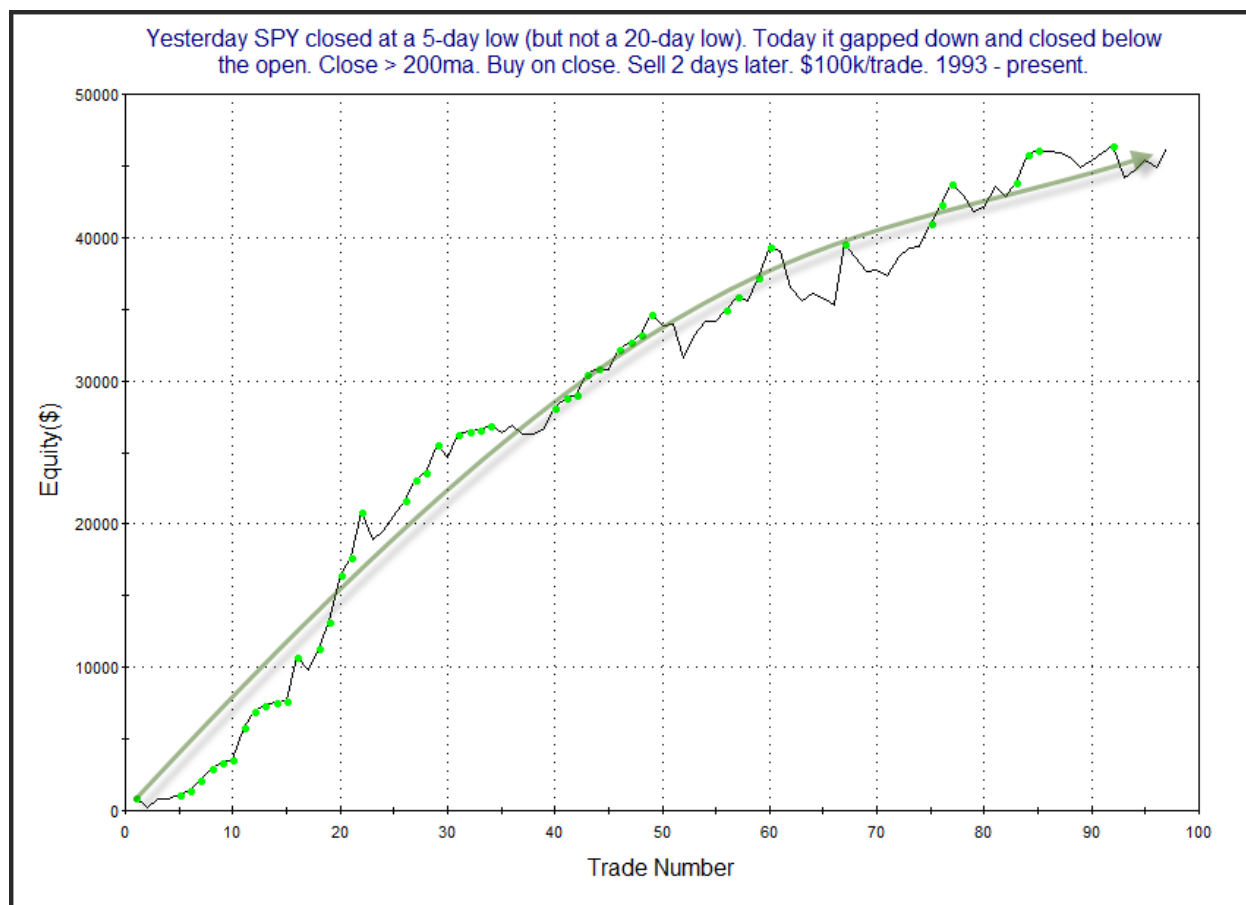
A little choppy, but it has made its way from lower left to upper right and is again at new highs.

In the 9/6/18 letter I showed a study that examined gaps down and poor closes following a 5-day low. The setup appeared bullish. But I also noted that it was even more bullish if the gap down followed a 20-day low. So 20-day low instances were excluded to prevent the data from looking overly bullish. Updated stats are below.

Yesterday SPY closed at a 5-day low (but not a 20-day low). Today it gapped down and closed below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
5	68,160.66	94	65	28	69.15	1,546.87	4,542.00	-1,156.64	-5,063.85	1.34	3.10	725.11
4	44,769.43	94	64	30	68.09	1,392.96	4,647.50	-1,479.34	-6,468.66	0.94	2.01	476.27
3	51,101.74	96	62	33	64.58	1,418.47	4,290.00	-1,116.46	-3,620.70	1.27	2.39	532.31
2	46,170.56	97	69	28	71.13	1,001.56	4,305.42	-819.17	-2,561.20	1.22	3.01	475.99
1	24,059.13	101	69	32	68.32	741.38	2,143.68	-846.76	-4,181.76	0.88	1.89	238.21

Odds here appear bullish, especially over the 1st 2 days. Below is a profit curve assuming a 2-day exit strategy.



The persistent upslope serves as confirmation of the bullish potential. I have included this study on the Active List tonight.

QT numbers for last week came out on Thursday after the close. I have pasted them below from the Fed's website.

« As of 04/24/2019

DOMESTIC SECURITIES HOLDINGS AS OF
May 1, 2019

Summary

T-Bills

T-Notes and T-Bonds

FRN

TIPS

Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	100,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,973,496,824.7
US Treasury Floating Rate Notes (FRN)	12,928,660.3
US Treasury Inflation-Protected Securities (TIPS)*	115,360,957.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,575,433,493.7
Total SOMA Holdings	3,679,666,936.1
Change From Prior Week	-37,691,009.5

*Does not reflect inflation compensation of 22,067,439.

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

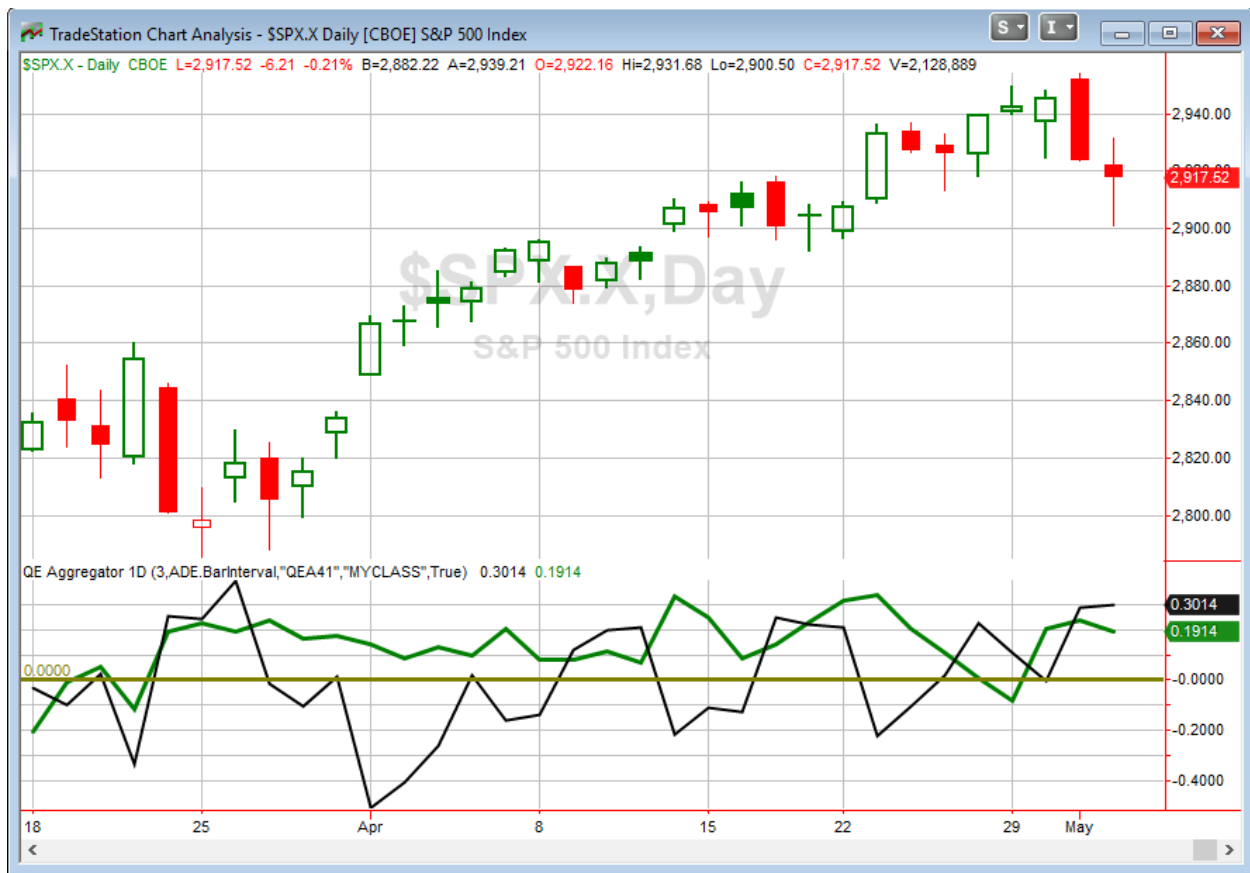
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 05/02/2019 4:30pm.

The \$37 billion reduction in the SOMA is the largest 1-week reduction since March of 2008. It took a full 1% off the SOMA balance. So it is impressive that SPX only declined about 0.1% over that period. But perhaps we still felt it some on Thursday. This will be the largest decline for a very long time, since QT is now being reduced from \$50 billion/month to \$35 billion a month. As I mentioned in this past weekend's letter, this current week we could see a slight increase in the SOMA. Of course I'll discuss this more in the weekend letter as I usually do.

Also notable for Friday is that the employment report will be released at 8:30am EST. This could cause volatility before the open and spark either a rally or further selling if the reaction is strong.

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



With tonight's new evidence to consider 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 also 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 sizable list of current active studies, expectations will almost certainly remain bullish on Friday. The Differential Pivot will be 2949.40 on Friday. That is 1.1% above Thursday's close. So SPX will need to close up 1.1% on Friday to change from oversold to overbought versus recent expectations.

The Aggregator is again bullish. I think there is a good chance of a bounce in the next few days and reward/risk appears favorable for the bulls. I took some long index exposure at the open on Thursday, and SPY is not far from where I purchased it. Friday's employment report could make for a volatile morning. With the potential volatility in mind, I am not inclined to increase my position size until near the close on Friday, and then only if SPX has a down day and I am getting a bargain price.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/29 – bullish

The intermediate-term outlook was last updated in the 4/29/19 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

INTC – 1/3 @ \$51.11 (bought @ limit)

INTC – 1/3 @ \$51.04 (bought @ limit)

INTC – 1/3 @ \$50.76 (bought @ limit)

New

MMM – 1/3 @ \$184.75 (buy @ limit)

Broad Market Large Cap CBI – 4(INTC-3, MMM)

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.

MMM – buy 1/3 Catapult position @ \$184.75 LIMIT. From the Catapult section above, this would be the 1st of up to 3 possible lots of MMM.

SPY – buy ¼ index position @ \$290.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add some more SPY exposure at the close if the market sells of a decent amount on Friday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
INTC(1/3)	4/30/2019	\$51.00	\$50.55	-0.88%		Catapult
INTC(1/3)	5/1/2019	\$51.04	\$50.55	-0.96%		Catapult
INTC(1/3)	5/2/2019	\$50.76	\$50.55	-0.41%		Catapult
SPY(1/4)	5/2/2019	\$291.68	\$291.18	-0.17%		Aggregator

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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