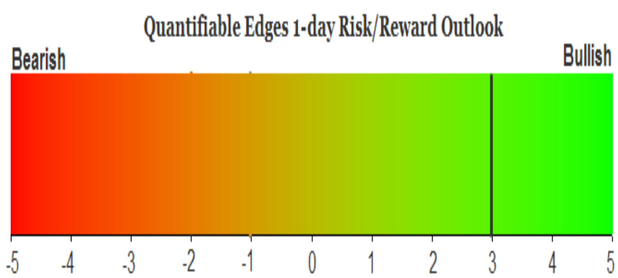
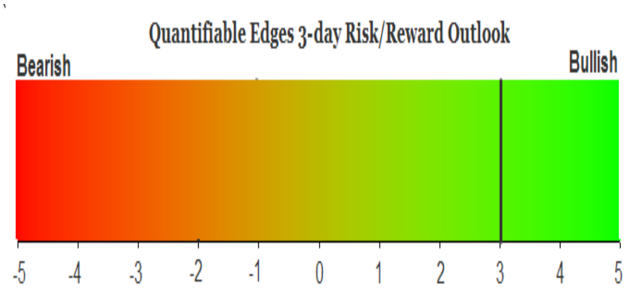
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 13, 2019 Volume 12 Issue 91

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	10

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.
- The SOMA came in flat this past week, but should see a sizable decline this reporting week.

Short-term Outlook

The Bottom Line

Friday's reversal appears to be the beginning of a bounce.

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 13, 2019	20-low reversal day	1-4 days	Bullish	1.70%	-1.40%	-2.50%
May 10, 2019	Gap dn. 3+ dn days. 10-low.	1-2 days	Bullish			
May 10, 2019	CBI Spikes to 10. SPX > 200ma	1-2 days	Bullish			
May 8, 2019	1st 10-day low close in 30+ days	1-6 days	Bullish			
Active - Long Term						
May 13, 2019	20-low reversal day	1-10 days	Bullish	2.80%	-1.80%	-3.40%
May 8, 2019	1st 10-day low close in 30+ days	1-10 days	Bullish			
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 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

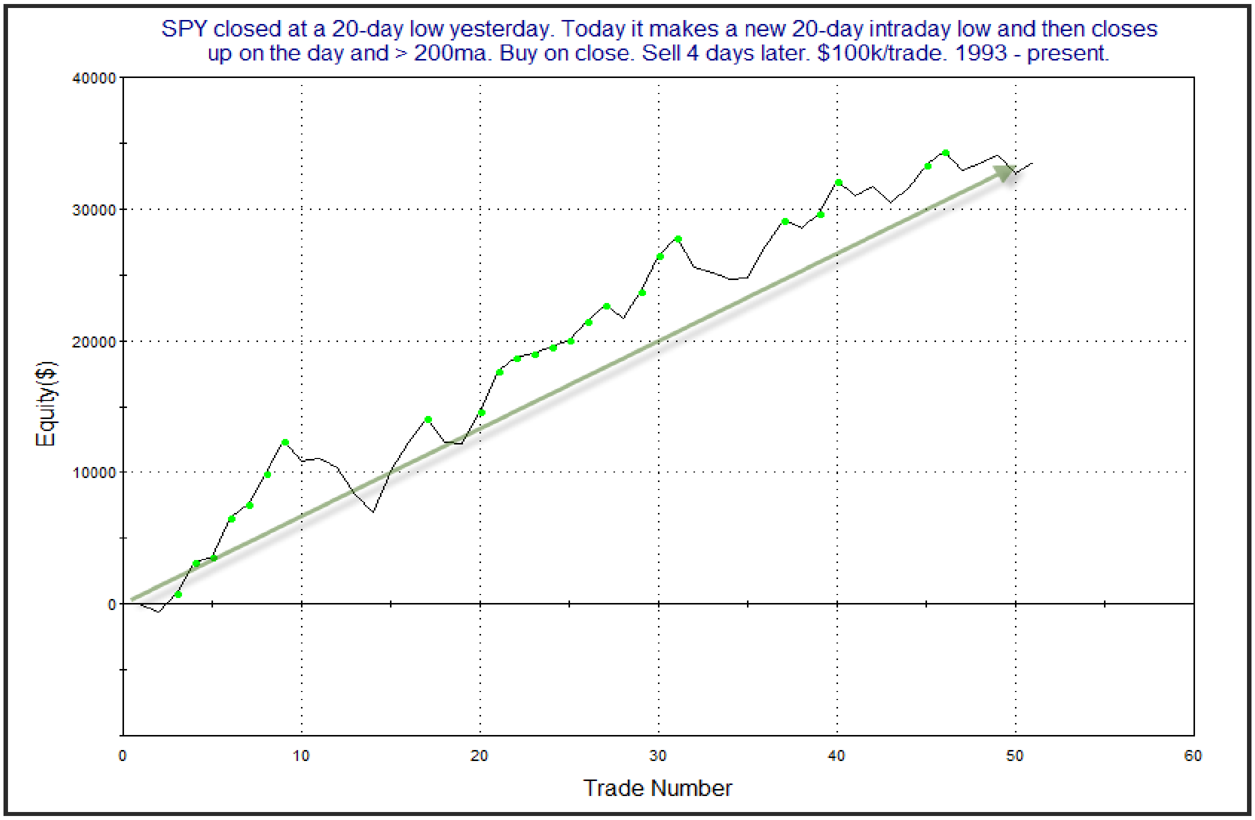
Friday got off to a rough start, but a big reversal led to a positive close. The SPX gained 0.4%, the NASDAQ rose 0.1%, and the Russell 2000 climbed 0.2%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 59%. NYSE volume rose some from Thursday's level.

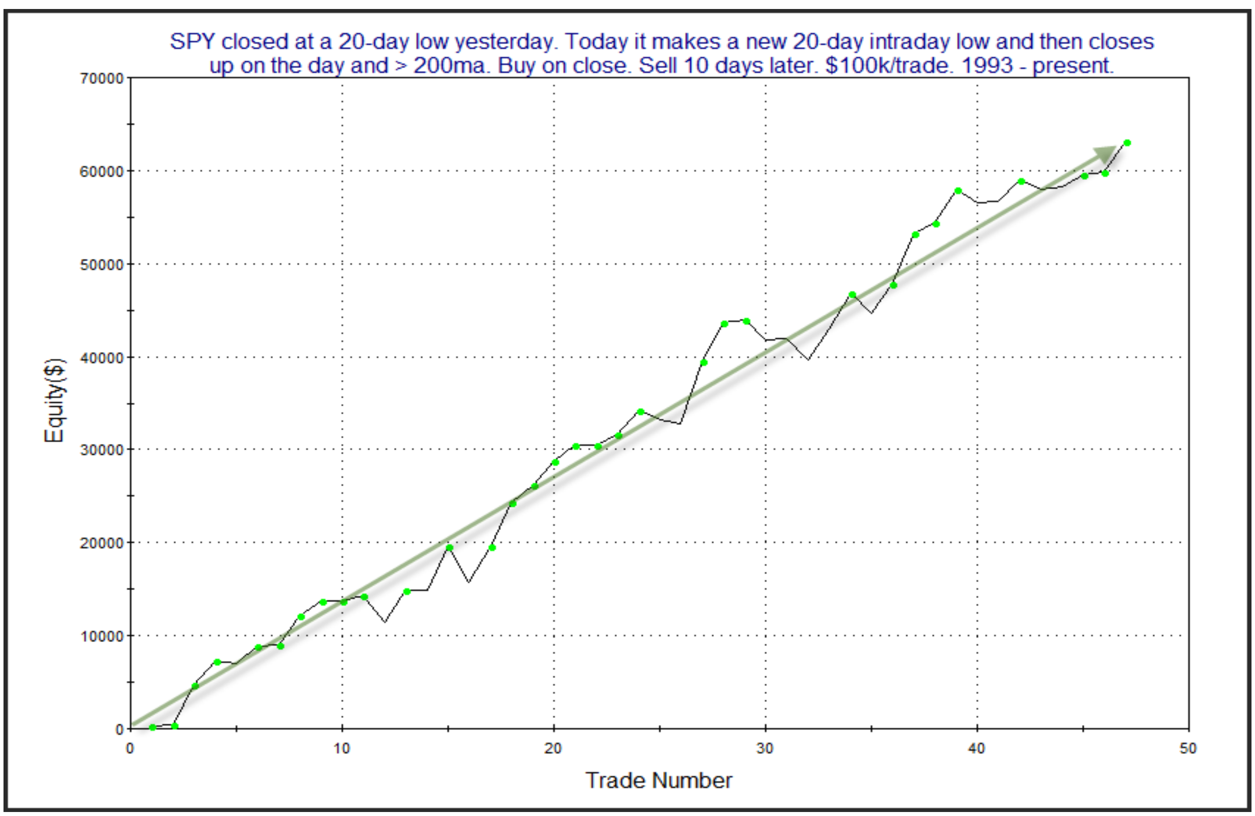
There was not a lot of terribly compelling evidence that emerged since the final changes were not very large. But there was one Quantifinder study that stood out. While SPY posted a higher close, it first made a new intermediate-term intraday low. The study below was last seen in the 2/2/18 letter. It looks at similar reversals from intermediate-term lows. All stats are updated.

SPY closed at a 20-day low yesterday. Today it makes a new 20-day intraday low and then closes up on the day and > 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
10	63,105.52	47	36	11	76.60	2,234.91	6,600.62	-1,577.40	-3,844.83	1.42	4.64	1,342.67
9	59,519.23	48	34	14	70.83	2,476.55	5,915.43	-1,763.10	-4,258.20	1.40	3.41	1,239.98
8	52,983.82	49	36	13	73.47	2,253.43	5,306.40	-2,164.58	-4,268.86	1.04	2.88	1,081.30
7	56,077.04	50	35	15	70.00	2,252.39	5,585.14	-1,517.10	-3,531.11	1.48	3.46	1,121.54
6	47,628.88	51	37	14	72.55	1,969.30	5,411.67	-1,802.52	-3,952.19	1.09	2.89	933.90
5	41,772.68	51	35	15	68.63	1,777.98	5,029.50	-1,363.78	-3,450.35	1.30	3.04	819.07
4	33,528.51	51	34	17	66.67	1,522.02	3,213.00	-1,071.78	-2,284.36	1.42	2.84	657.42
3	21,095.21	55	33	22	60.00	1,344.83	4,462.50	-1,058.38	-3,560.24	1.27	1.91	383.55
2	19,744.97	57	36	21	63.16	1,263.76	4,105.50	-1,226.21	-4,266.50	1.03	1.77	346.40
1	15,854.21	57	35	22	61.40	935.05	2,562.30	-766.94	-1,792.48	1.22	1.94	278.14

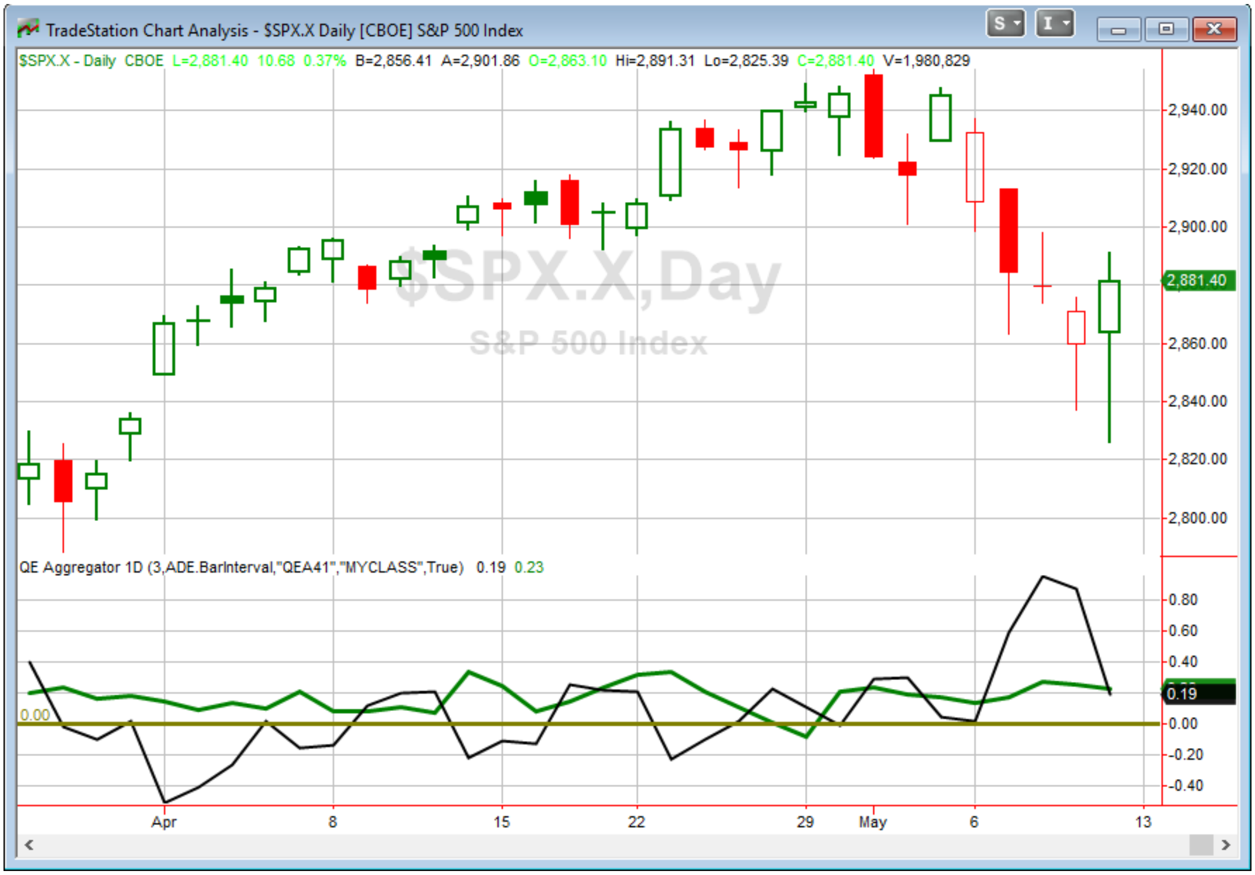
Results here seem to suggest a solid upside edge. Below are the profit curves for the 4-day and 10-day exit strategies.


SPY closed at a 20-day low yesterday. Today it makes a new 20-day intraday low and then closes up on the day and > 200ma. Buy on close. Sell 4 days later. $100k/trade. 1993 - present.
Equity($)
Trade Number
40000
30000
20000
10000
0
0
10
20
30
40
50
60


SPY closed at a 20-day low yesterday. Today it makes a new 20-day intraday low and then closes up on the day and > 200ma. Buy on close. Sell 10 days later. $100k/trade. 1993 - present.
Equity($)
Trade Number
70000
60000
50000
40000
30000
20000
10000
0
0
10
20
30
40
50

The impressive upslopes serve as some confirmation of the upside edge. I have added this study to the short and intermediate-term active lists.

I have updated the Aggregator chart below.



With Friday's 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 current list of active studies, expectations are set to remain bullish on Monday. This is not likely to change. The Differential Pivot will be 2896.19 on Monday. That is 0.5% above Friday's close. Therefore, SPX would need to close up at least 0.5% on Monday to flip from oversold to overbought versus recent expectations.

A bounce has begun, and indications are that it should have further to go. The market was extremely oversold and when the CBI gets as elevated as it did on Thursday and Friday, the bounce is often substantial. Even if we move above the Differential Pivot, I will likely continue to hold onto some of my long SPY position until the CBI normalizes to around 3-5 or lower. Odds favor further rallying over the next few days, and that is what I am looking for.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/13 – 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 was a tough week for the market, with Friday putting in the only positive day. SPX finished the week down 2.2%, the NASDAQ fell 3.0% and the Russell 2000 declined 2.5%. Despite the selling, the long-term trend still appears up. There was one new study that appeared earlier this week with intermediate-term implications. It was from Tuesday night's letter, and I have copied it below.

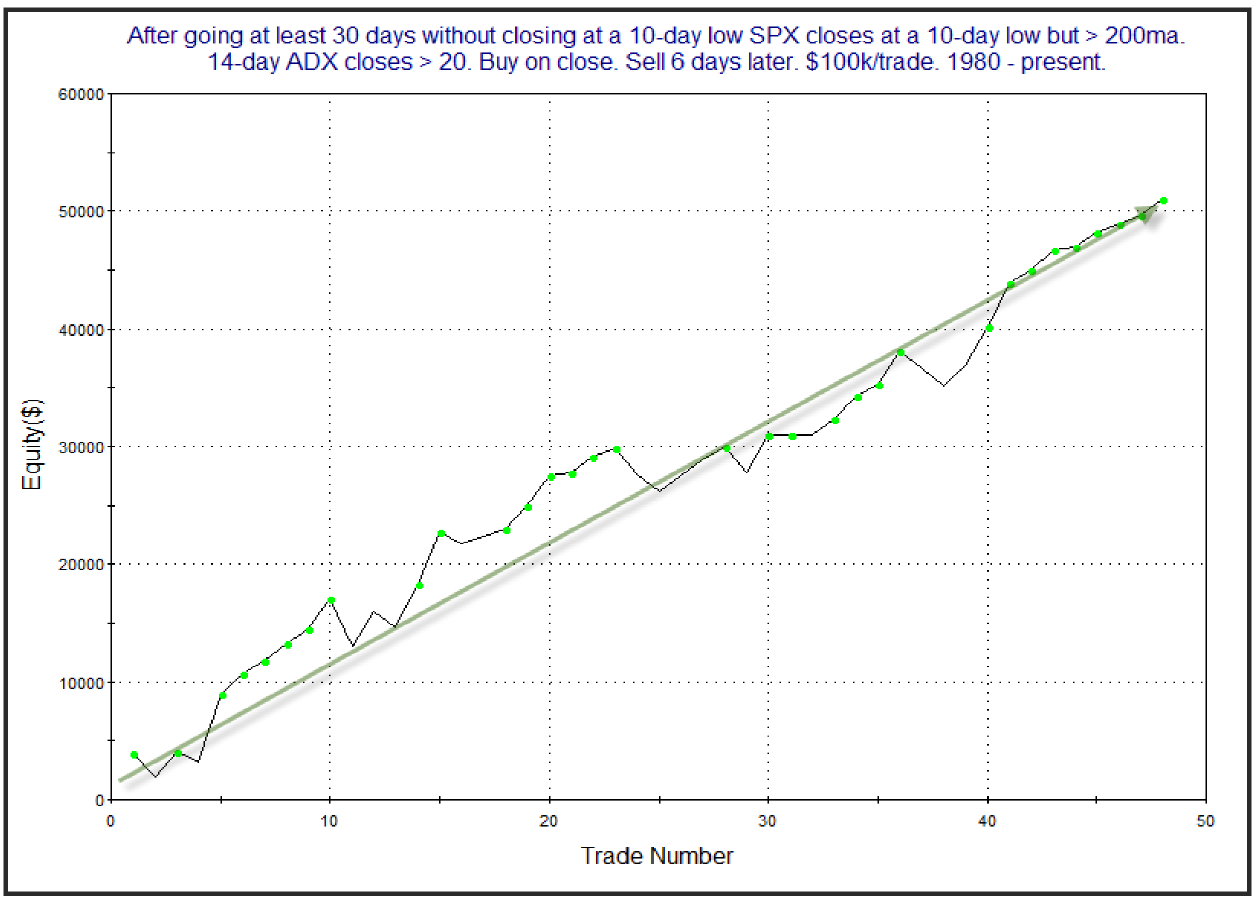
Also notable about the low close on Tuesday is that it was the 1st 10-day low close since March 8th. Before today SPX had gone 40 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after a long time without one has provided a solid upside edge. In the 11/15/17 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

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	75,580.30	48	33	15	68.75	2,838.13	12,395.76	-1,205.20	-5,362.24	2.35	5.18	1,574.59
9	74,005.55	48	36	12	75.00	2,504.43	10,529.82	-1,346.17	-3,753.36	1.86	5.58	1,541.78
8	70,083.54	48	38	10	79.17	2,301.48	10,554.48	-1,737.27	-6,117.72	1.32	5.03	1,460.07
7	50,869.53	48	35	13	72.92	2,240.01	7,743.24	-2,117.75	-8,141.12	1.06	2.85	1,059.78
6	50,984.70	48	37	11	77.08	1,870.15	5,893.74	-1,655.54	-4,111.40	1.13	3.80	1,062.18
5	44,401.38	48	34	14	70.83	1,804.58	4,608.35	-1,211.02	-3,502.11	1.49	3.62	925.03
4	40,961.65	48	38	10	79.17	1,493.41	4,690.50	-1,578.80	-2,616.60	0.95	3.59	853.37
3	19,707.73	48	33	15	68.75	1,163.86	3,940.55	-1,246.65	-4,464.88	0.93	2.05	410.58
2	8,758.49	48	30	18	62.50	983.40	3,744.45	-1,152.41	-7,559.56	0.85	1.42	182.47
1	5,255.07	48	28	20	58.33	679.76	2,287.60	-688.91	-1,922.40	0.99	1.38	109.48

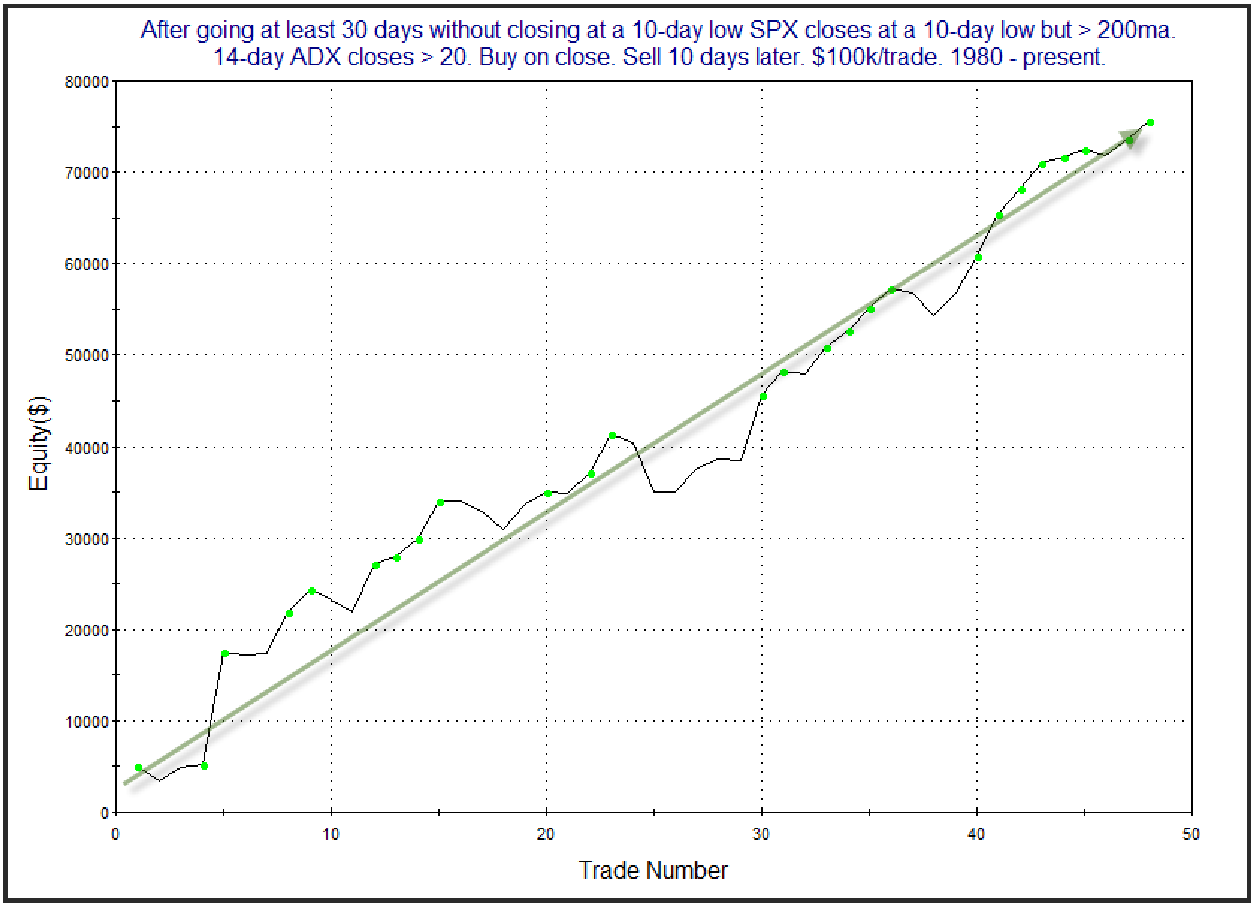
After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low but > 200ma. 14-day ADX closes > 20. Buy on close. Sell X days later. $100k/trade. 1980 - present.

46 of 48 instances (96%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a 6-day profit curve.



This profit curve also shows a strong steady upslope. And here is the 10-day.

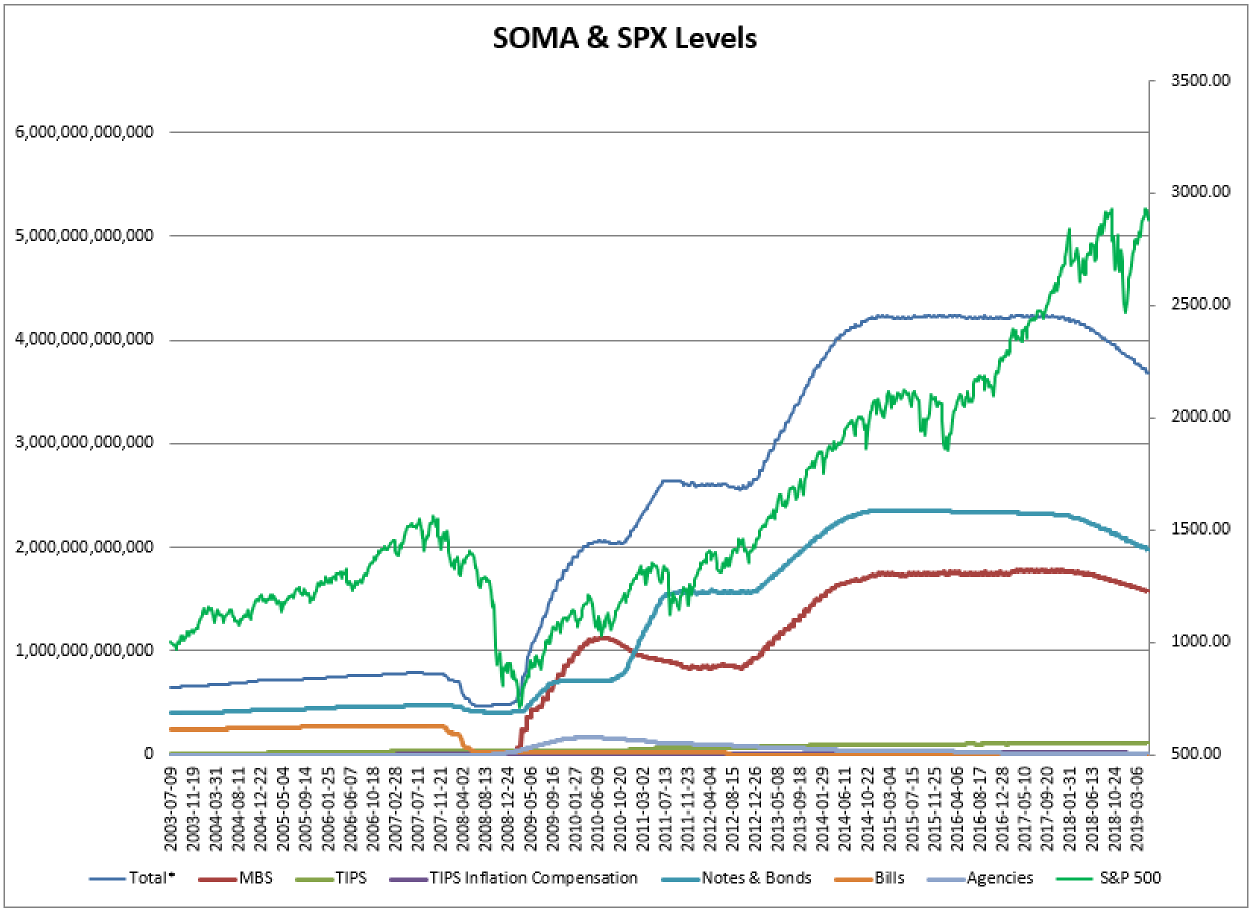


This curve is just as impressive. I have added this study to both the short and intermediate-term active lists.

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 05/01/2019

DOMESTIC SECURITIES HOLDINGS AS OF

May 8, 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	None!

*Does not reflect inflation compensation of 22,242,374.3

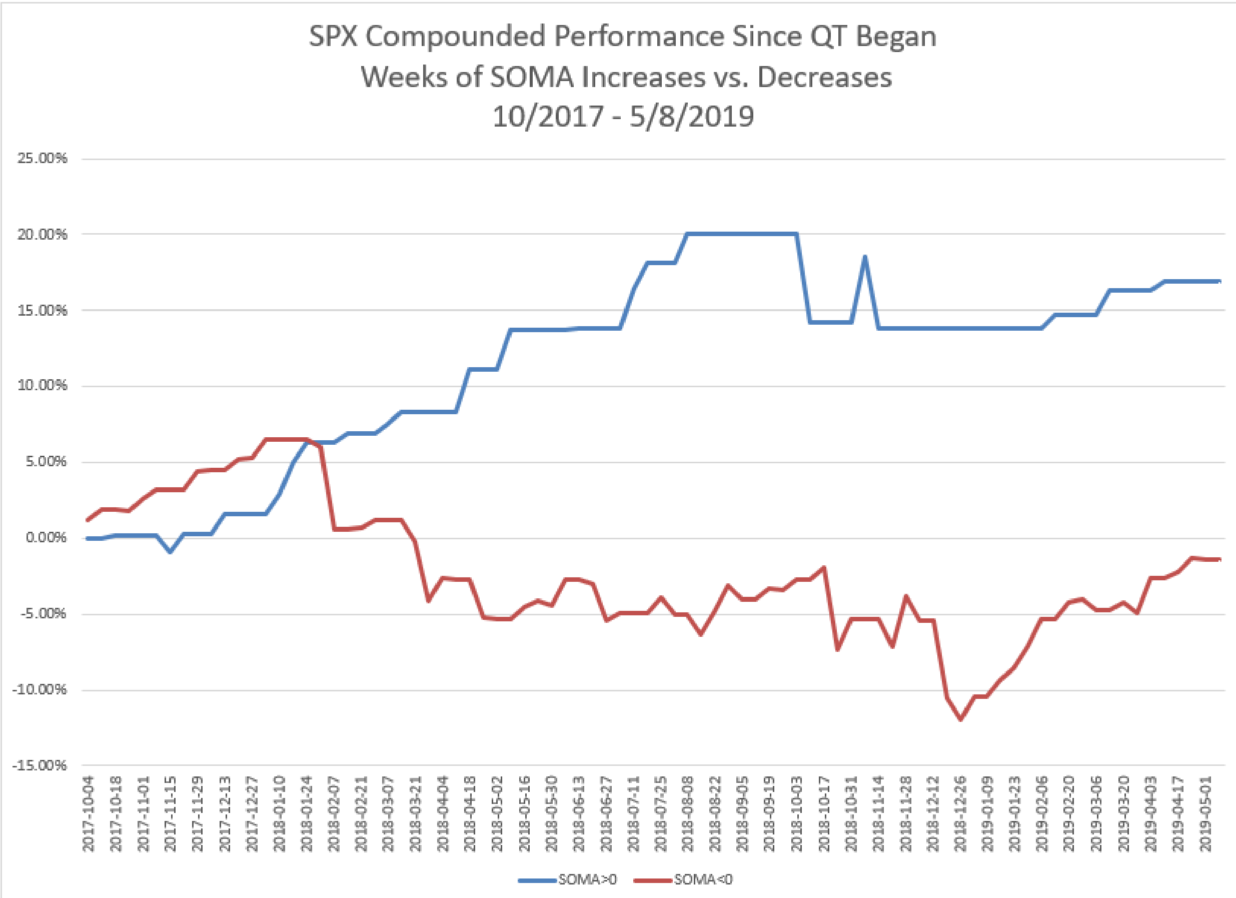
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 05/09/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) came in right where it was the week before. While typically very rare, this is the 3rd time this has happened since December.

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. Of course, this past week both lines are flat, since the SOMA balance neither rose nor declined. 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 1.4%. 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 04/24/2019

DOMESTIC SECURITIES HOLDINGS AS OF

May 1, 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]
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%		
6/30/19	912828TC4	1.000	18,152,081.7	61.96%		
6/30/19	912828XV7	1.250	3,160,424.3	10.84%		
6/30/19	912828WS5	1.625	150,000.0	0.43%		

This week there will be a very large treasury expiration of over $38 billion. After that, no more treasuries are due to expire until the 31st when we will see a $20 billion expiration. The Fed is only going to abstain from rolling over $15 billion of treasuries this month. So I expect to see $7.5 - $10 billion come off the books on the 15th, and the rest on the 31st.

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.

Of course with the big expiration on the 15th, we will see a contraction in the SOMA this week. The next week, ending on the 22nd is not completely clear. In November of 2017 there was a slight rise in the SOMA for the week ending on the 22nd. But since then every time a reporting week ended on the 21st, 22nd, or 23rd the SOMA has declined. That appears to be the most probable scenario, and that is what I would expect for the week ending on the 22nd.

This week did not do much to alter the intermediate-term outlook. Indications continue to point mostly 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, the recent consolidation near new highs, SPX persistency, and NASDAQ leadership. 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. Like the last few weeks, I will 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.

<u>Catapult and Capitulative Breadth Statistics</u>

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)
MMM – 1/3 @ $184.75 (bought @ limit)
CSCO – 1/3 @ $54.59 (bought @ limit)
CSCO – 1/3 @ $53.45 (bought @ limit)
ACN – 1/3 @ $173.94 (bought @ limit)
MMM – 1/3 @ $178.59 (bought @ limit)
ACN – 1/3 @ $173.88 (bought @ limit)
MMM – 1/3 @ $178.59 (bought @ limit)

Broad Market Large Cap CBI – 10(INTC-3, MMM-3, CSCO-2, ACN-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
INTC(1/3)	4/30/2019	$51.00	$46.20	-9.41%		Catapult
INTC(1/3)	5/1/2019	$51.04	$46.20	-9.48%		Catapult
INTC(1/3)	5/2/2019	$50.76	$46.20	-8.98%		Catapult
SPY(1/4)	5/2/2019	$291.68	$288.10	-1.23%		Aggregator
MMM(1/3)	5/3/2019	$184.75	$175.86	-4.81%		Catapult
CSCO(1/3)	5/7/2019	$53.86	$53.36	-0.93%		Catapult
CSCO(1/3)	5/8/2019	$53.17	$53.36	0.36%		Catapult
ACN(1/3)	5/8/2019	$173.94	$174.30	0.21%		Catapult
SPY(1/4)	5/8/2019	$287.53	$288.10	0.20%		Aggregator
ACN(1/3)	5/9/2019	$172.10	$174.30	1.28%		Catapult
MMM(1/3)	5/9/2019	$177.30	$175.86	-0.81%		Catapult
MMM(1/3)	5/10/2019	$175.02	$175.86	0.48%		Catapult

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