

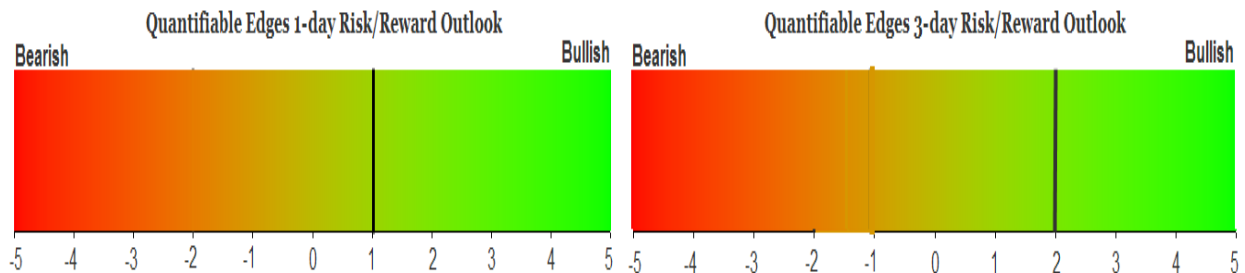
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 28, 2019

Volume 12 Issue 101

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	4

Tonight's Research Points

- Memorial day week has often been strong, but not as much in recent years. Thursday appears to have the most bullish tendency.
- Multiple Hindenburg Omen signals are a warning sign of a potential selloff in the coming weeks.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but short-term evidence is quite light. I believe there is a moderate bullish edge at the moment.

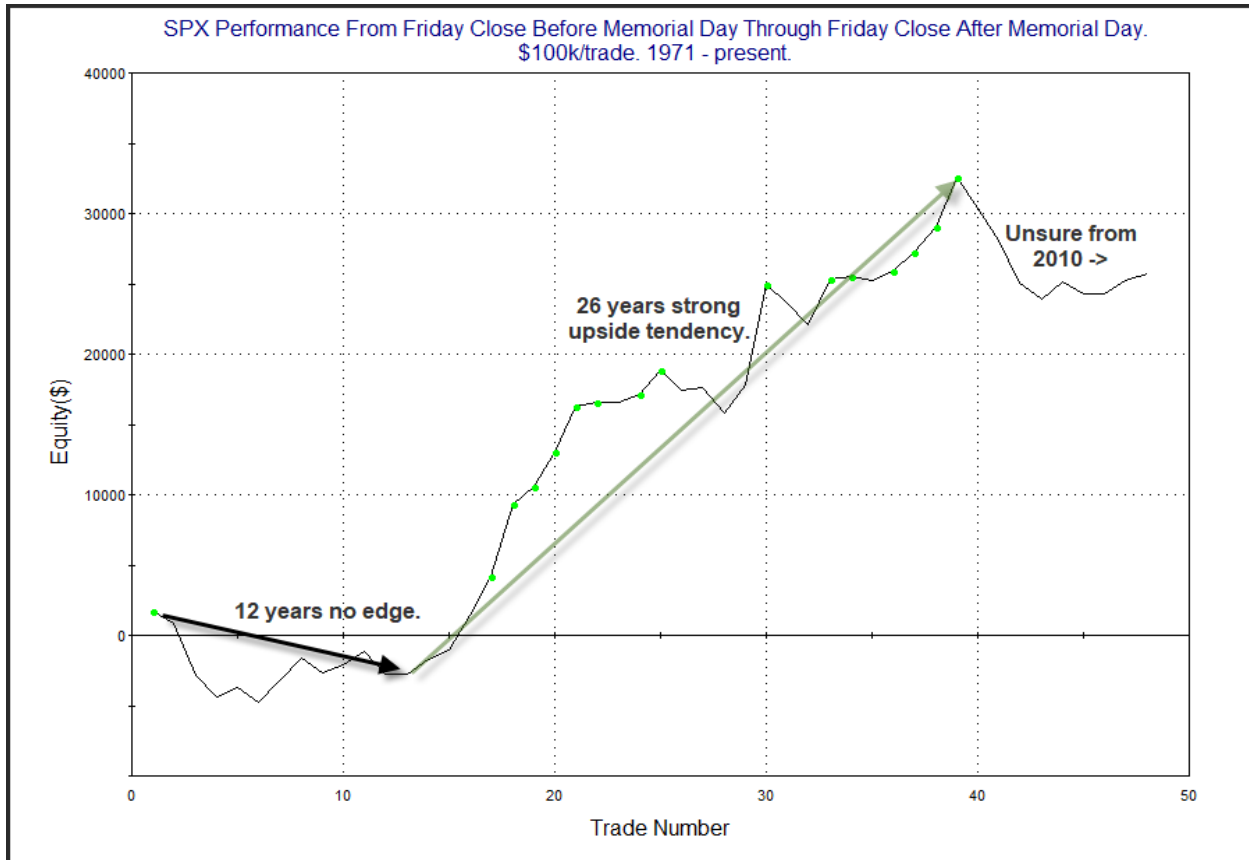
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
March 24, 2019	Gap to 5 low. Close < open. > 200	1-2 days	Bullish			
May 17, 2019	NDX up 1%. SOX down	1-6 days	Bearish			
May 17, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-6 days	Bullish			
Active - Long Term						
May 17, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-19 days	Bullish			
May 14, 2019	CBI 11+	1-17 days	Bullish			
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%
October 1, 2018	Quantitative Tightening \$50billion/mo	int term	Bearish			

The Evidence

Friday saw mild gains for the market. The SPX and NASDAQ each rose 0.1%, and the Russell 2000 rallied 0.85%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 61%. NYSE volume came in light ahead of the long weekend.

The chop over the last few days did not do anything to trigger compelling new price-based studies on Friday. Seasonality is worth noting though. The week of Memorial Day has shown some interesting tendencies over the years. But it has been less consistent recently. The chart below is from the 5/29/18 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.

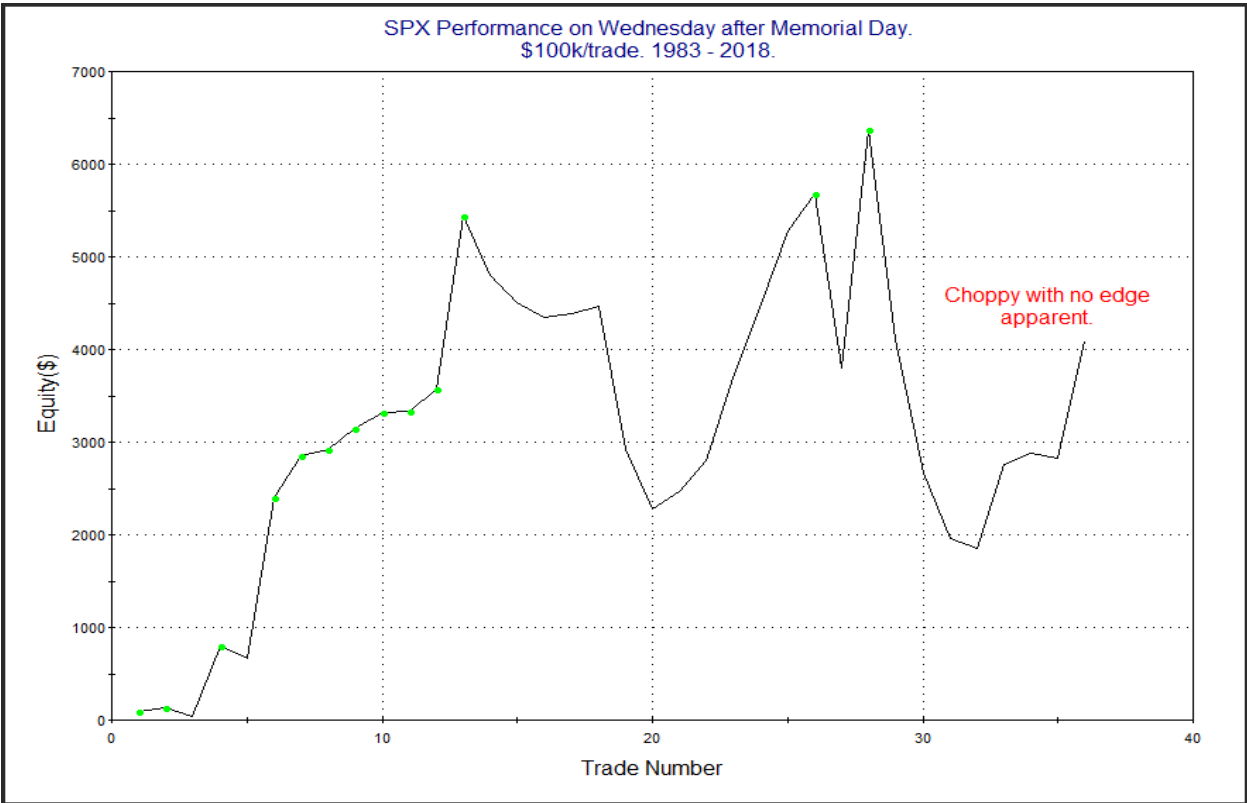
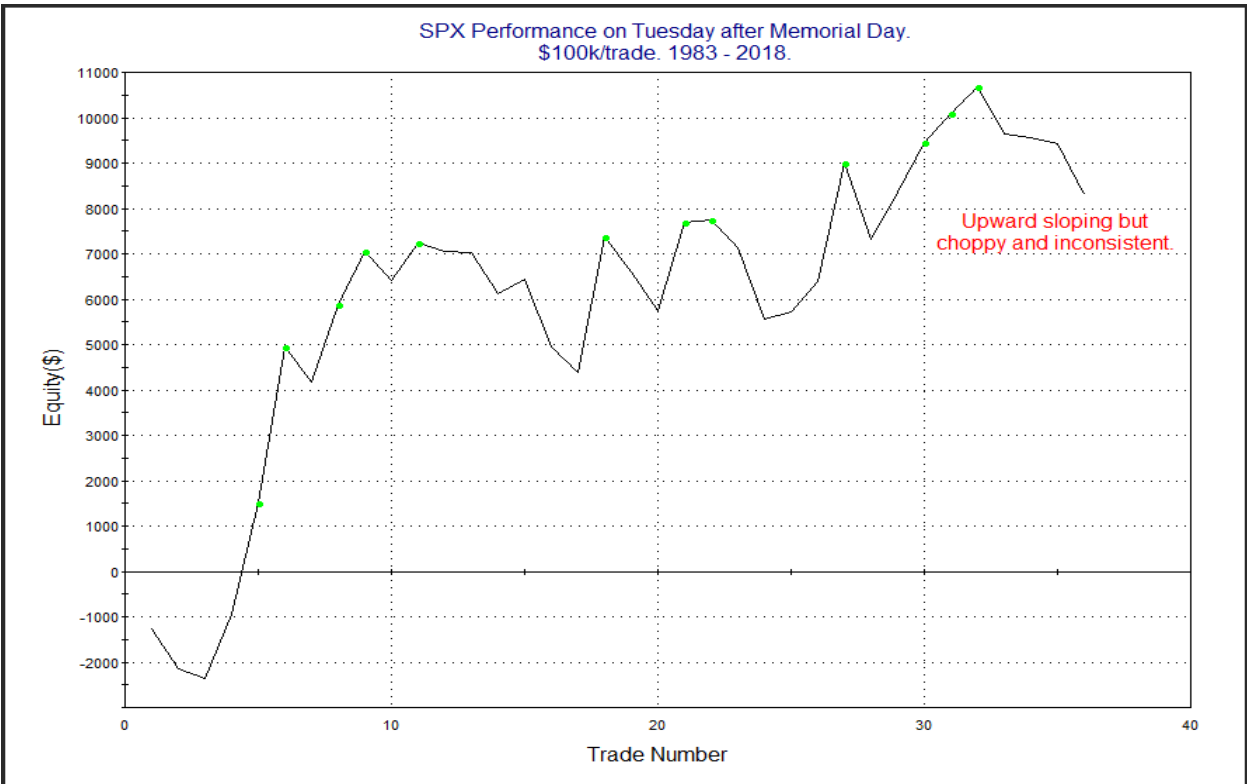


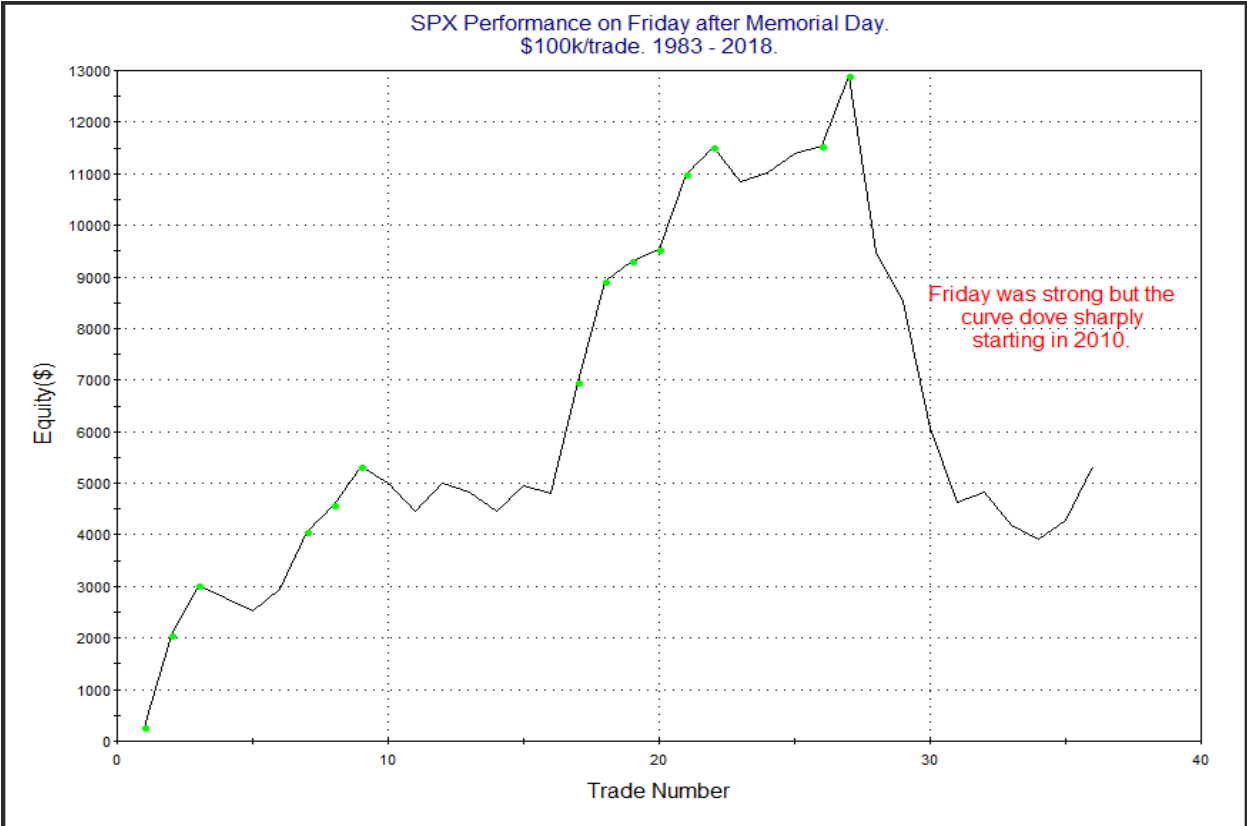
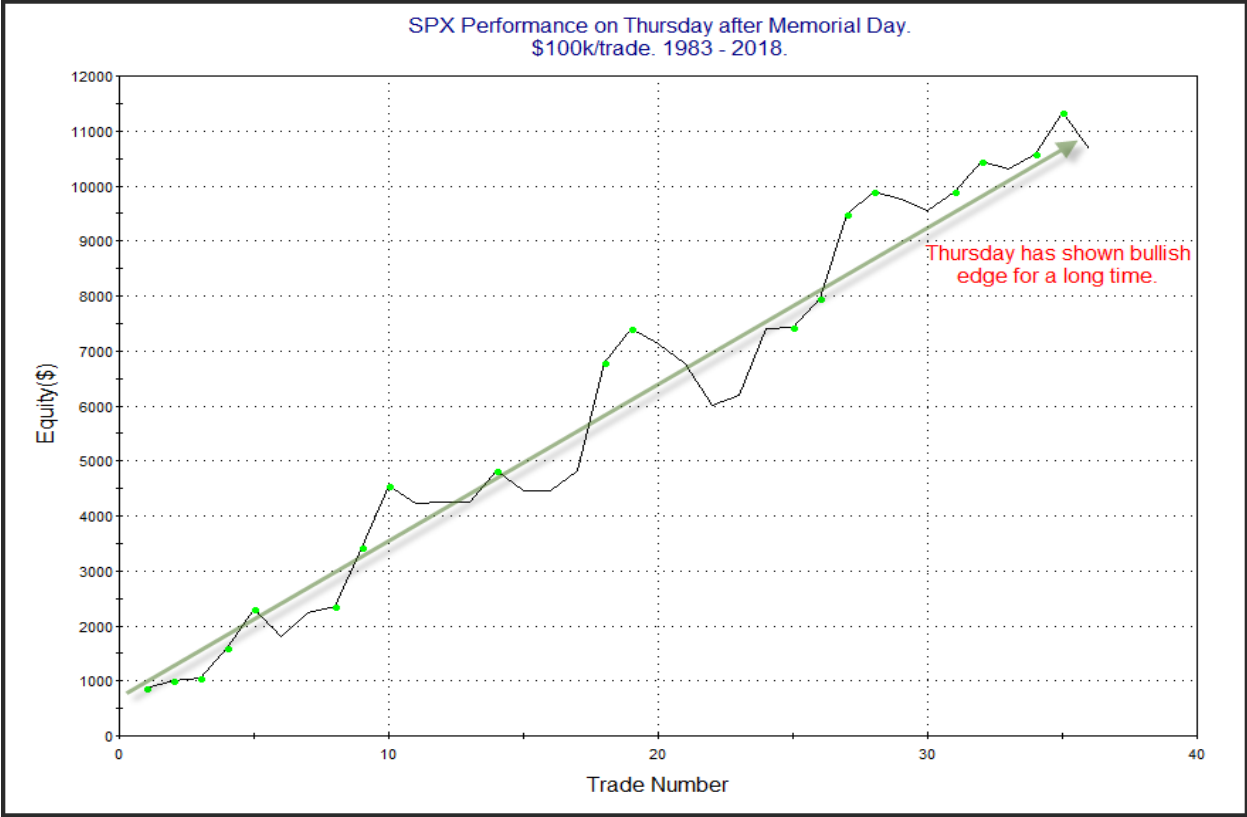
There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 9 years this week has mostly struggled. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Returns are broken down by the day of the week.

SPX performance on X day of Memorial Week.
\$100k/trade. 1983 - 2018

Day of Week	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
Fri	5,333.16	36	22	14	61.11	783.02	2,140.16	-849.52	-3,415.50	0.92	1.45	148.14
Thurs	10,665.60	36	25	10	69.44	575.07	1,970.50	-371.11	-735.68	1.55	3.87	296.27
Wed	4,091.48	36	23	13	63.89	610.94	2,573.31	-766.16	-2,268.10	0.80	1.41	113.65
Tues	8,300.14	36	17	19	47.22	1,361.16	3,443.56	-781.03	-1,701.70	1.74	1.56	230.56

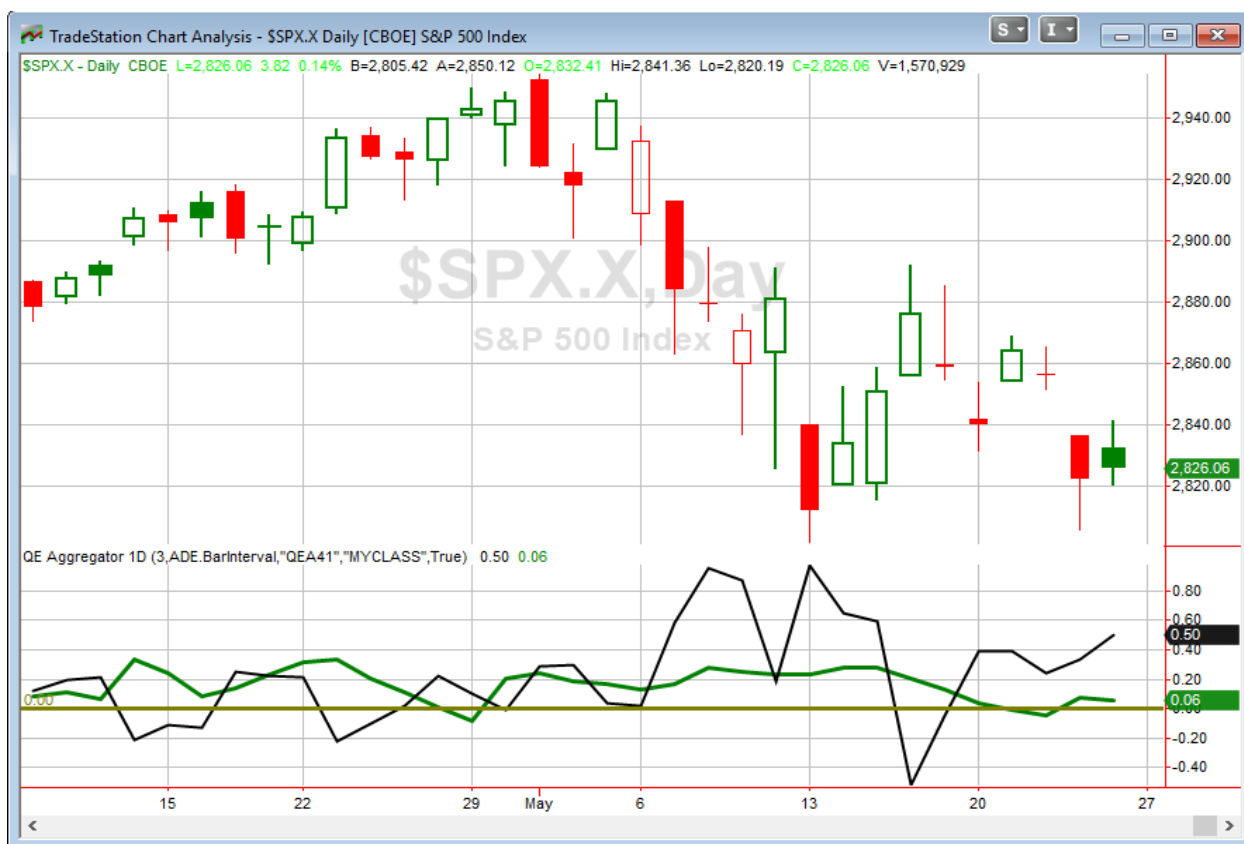
The results table suggests Thursday is the most consistently bullish day. Wednesday has the weakest net numbers. Here are the curves for each day:





The charts seem to confirm what the results table was suggesting. Thursday appears to be the only day that I'm inclined to credit a consistent seasonal edge to at this point.

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 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 Tuesday. But with all 3 short-term studies set to expire, any new evidence that emerges could sway the outlook. The Differential Pivot will be 2855.45 on Tuesday. That is 1.0% above Friday's close. Therefore, SPX would need to close up 1.0% on Tuesday in order to flip from oversold to overbought versus expectations.

So the Aggregator remains bullish from Friday. I have a small long position that I was looking to increase on Friday if I could have received a favorable fill. But the fill did not occur. At this point I am not inclined to up my small position any further. There appears to be a bullish edge, but not a big one. The Quantifiable Edges CBI finally dipped into somewhat neutral territory, dropping from 7 to 4 on Friday. If a rally does occur on Tuesday, then I may look to exit my current long SPY position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/28– somewhat bullish

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

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 saw no changes to the Combo System statuses.*

This was the 3rd down week in a row for most of the major indices. SPX finished the down 1.2%, the NASDAQ fell 2.3% and the Russell 2000 declined 1.4%. Most of our long-term trend indicators are still pointing up.

One intermediate-term notable is that we have seen multiple Hindenburg Omen signals trigger recently, with the most recent one being Wednesday. I last discussed the Hindenburg Omen in detail in the 9/10/18 letter. I have updated it below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Friday marked the 5th recent Hindenburg Omen signal. Note, there have been some discrepancy in the rules over the years. To get larger sample sizes, I have used the less-strict rules in my testing. The rules I use are below.

1. The daily number of [NYSE](#) new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of [NYSE](#) issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been

10 instances since 1980 where there has been a cluster of 3 or more triggers. This does not give us a sample size that is really workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)

2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows. *Note that if the SPX was used instead of the NYSE index, then we would have a cluster of 5 signals now instead of just 3. But the NYSE index is below where it was 50 days ago, and has been for the last couple of days.*
3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	82,506.35	35	22	13	62.86	7,369.72	19,927.11	-6,125.19	-19,079.85	1.20	2.04	2,357.32
95	70,848.96	35	21	14	60.00	7,450.23	19,052.91	-6,114.71	-22,416.88	1.22	1.83	2,024.26
90	57,781.15	35	20	15	57.14	7,590.28	17,492.37	-6,268.30	-20,572.65	1.21	1.61	1,650.89
85	64,663.59	36	23	13	63.89	7,154.46	17,010.63	-7,683.77	-21,465.22	0.93	1.65	1,796.21
80	56,266.66	36	22	14	61.11	6,931.93	16,583.84	-6,873.98	-21,552.30	1.01	1.58	1,562.96
75	38,844.96	37	22	15	59.46	6,312.22	14,501.70	-6,668.26	-22,917.59	0.95	1.39	1,049.86
70	20,465.47	38	22	16	57.89	6,528.31	17,714.32	-7,697.33	-20,289.64	0.85	1.17	538.56
65	4,561.83	38	21	17	55.26	6,736.00	16,609.84	-8,052.60	-21,508.76	0.84	1.03	120.05
60	493.76	39	21	18	53.85	6,232.90	17,197.44	-7,244.29	-24,323.31	0.86	1.00	12.66
55	-8,234.73	40	23	17	57.50	5,378.14	14,306.24	-7,760.70	-27,246.71	0.69	0.94	-205.87
50	2,349.62	41	23	18	56.10	5,395.48	14,509.04	-6,763.69	-29,846.67	0.80	1.02	57.31
45	8,772.85	41	24	17	58.54	4,728.87	13,151.98	-6,160.00	-23,971.88	0.77	1.08	213.97
40	2,219.52	42	24	18	57.14	4,414.46	12,520.58	-5,762.64	-23,520.93	0.77	1.02	52.85
35	-2,417.63	45	25	20	55.56	4,006.95	12,021.20	-5,129.58	-24,659.19	0.78	0.98	-53.73
30	1,829.28	45	26	19	57.78	3,777.08	9,855.58	-5,072.35	-22,460.42	0.74	1.02	40.65
25	2,852.07	47	25	22	53.19	3,881.06	9,781.64	-4,280.65	-27,340.01	0.91	1.03	60.68
20	-4,124.84	50	29	21	58.00	2,962.55	9,257.67	-4,287.56	-19,533.91	0.69	0.95	-82.50
15	9,137.68	54	30	24	55.56	2,471.55	9,103.68	-2,708.70	-8,166.80	0.91	1.14	169.22
10	-4,739.93	63	33	30	52.38	1,859.65	9,012.33	-2,203.62	-7,899.90	0.84	0.93	-75.24
5	-36,304.08	82	34	48	41.46	1,310.47	4,926.56	-1,684.58	-7,160.65	0.78	0.55	-442.73

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	58,551.04	24	18	6	75.00	5,976.54	17,883.98	-8,171.12	-18,879.12	0.73	2.19	2,439.63
95	46,081.07	24	16	8	66.67	6,313.16	17,605.78	-6,866.18	-21,212.88	0.92	1.84	1,920.04
90	43,642.14	24	17	7	70.83	5,769.78	20,476.59	-7,777.74	-20,011.68	0.74	1.80	1,818.42
85	28,656.82	25	15	10	60.00	6,615.46	20,455.19	-7,057.50	-21,883.68	0.94	1.41	1,146.27
80	28,679.47	25	17	8	68.00	5,274.89	18,961.47	-7,624.20	-21,961.68	0.69	1.47	1,147.18
75	26,429.09	26	16	10	61.54	6,319.79	17,861.51	-7,468.75	-23,181.60	0.85	1.35	1,016.50
70	4,094.83	28	18	10	64.29	5,214.63	21,700.67	-8,976.85	-19,060.08	0.58	1.05	146.24
65	-18,941.73	28	17	11	60.71	4,978.41	20,504.41	-9,415.89	-23,131.68	0.53	0.82	-676.49
60	-3,402.19	29	17	12	58.62	5,135.88	19,457.95	-7,559.34	-22,011.60	0.68	0.96	-117.32
55	-21,855.78	30	17	13	56.67	4,690.33	18,625.49	-7,814.72	-26,329.68	0.60	0.78	-728.53
50	-9,350.68	31	17	14	54.84	5,055.37	17,961.02	-6,806.57	-29,889.60	0.74	0.90	-301.63
45	-8,214.00	32	16	16	50.00	4,677.41	16,345.32	-5,190.79	-24,766.56	0.90	0.90	-256.69
40	-29,259.64	32	15	17	46.88	4,124.17	14,615.13	-5,360.12	-24,853.92	0.77	0.68	-914.36
35	-25,026.23	32	16	16	50.00	3,616.45	13,303.31	-5,180.59	-22,211.28	0.70	0.70	-782.07
30	-17,828.14	32	19	13	59.38	2,886.50	11,007.09	-5,590.13	-20,354.88	0.52	0.75	-557.13
25	-15,146.13	33	18	15	54.55	3,115.65	10,173.56	-4,748.52	-23,381.28	0.66	0.79	-458.97
20	-32,783.15	37	18	19	48.65	2,722.98	8,886.35	-4,305.09	-22,295.52	0.63	0.60	-886.03
15	-6,755.38	39	21	18	53.85	1,984.86	8,305.02	-2,690.96	-6,748.56	0.74	0.86	-173.21
10	-17,789.66	45	17	28	37.78	1,929.25	9,247.23	-1,806.67	-6,913.55	1.07	0.65	-395.33
5	-15,157.28	59	27	32	45.76	1,396.02	6,245.73	-1,651.56	-7,160.65	0.85	0.71	-256.90

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	36,025.35	17	12	5	70.59	5,620.85	18,512.90	-6,284.97	-16,085.07	0.89	2.15	2,119.14
95	21,485.64	17	11	6	64.71	5,067.23	16,070.66	-5,708.99	-16,770.54	0.89	1.63	1,263.86
90	12,210.27	17	10	7	58.82	5,702.07	18,595.58	-6,401.49	-19,277.67	0.89	1.27	718.25
85	29,614.02	17	12	5	70.59	5,585.39	18,884.96	-7,482.12	-21,362.25	0.75	1.79	1,742.00
80	3,415.98	18	10	8	55.56	5,310.08	16,528.58	-6,210.60	-19,449.82	0.86	1.07	189.78
75	17,084.38	18	10	8	55.56	7,313.74	18,289.24	-7,006.63	-22,758.23	1.04	1.30	949.13
70	-6,095.45	20	12	8	60.00	5,404.19	19,119.22	-8,868.22	-21,021.08	0.61	0.91	-304.77
65	-35,516.55	20	9	11	45.00	4,962.28	17,909.76	-7,288.83	-23,731.66	0.68	0.56	-1,775.83
60	-24,991.56	20	10	9	50.00	4,756.60	17,209.10	-8,061.95	-22,576.69	0.59	0.66	-1,249.58
55	-28,529.53	20	9	11	45.00	5,602.18	17,905.52	-7,177.19	-20,673.65	0.78	0.64	-1,426.48
50	-16,324.67	21	10	11	47.62	5,209.03	17,255.74	-6,219.54	-22,263.69	0.84	0.76	-777.37
45	-28,567.86	21	9	12	42.86	4,623.78	15,507.80	-5,848.49	-25,143.29	0.79	0.59	-1,360.37
40	-35,236.27	22	10	12	45.45	4,049.49	13,700.50	-6,310.93	-26,846.01	0.64	0.53	-1,601.65
35	-37,975.05	22	8	14	36.36	4,158.88	11,461.78	-5,089.00	-22,795.79	0.82	0.47	-1,726.14
30	-21,601.81	22	13	9	59.09	3,079.08	10,991.14	-6,847.76	-23,844.34	0.45	0.65	-981.90
25	-27,448.61	22	12	10	54.55	2,764.70	9,841.04	-6,062.50	-25,105.73	0.46	0.55	-1,247.66
20	-38,714.92	23	12	11	52.17	2,381.73	8,458.80	-6,117.79	-21,406.07	0.39	0.42	-1,683.26
15	-38,397.04	27	13	14	48.15	2,160.68	7,078.68	-4,748.99	-26,924.26	0.45	0.42	-1,422.11
10	-53,019.01	31	11	20	35.48	1,451.38	3,400.10	-3,449.21	-25,784.94	0.42	0.23	-1,710.29
5	-23,111.90	38	13	25	34.21	1,136.89	4,174.28	-1,515.66	-4,975.25	0.75	0.39	-608.21

Between 10 and 40 days out there appears to be somewhat weak returns.

I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	31,193.42	12	10	2	83.33	4,077.89	7,362.09	-4,792.75	-5,914.30	0.85	4.25	2,599.45
95	19,964.85	12	8	4	66.67	4,402.19	6,207.97	-3,813.18	-8,014.48	1.15	2.31	1,663.74
90	11,321.55	12	7	5	58.33	4,131.60	5,575.18	-3,519.93	-8,906.30	1.17	1.64	943.46
85	18,402.62	12	8	4	66.67	4,582.67	7,141.18	-4,564.69	-9,965.06	1.00	2.01	1,533.55
80	10,397.57	12	8	4	66.67	3,975.89	7,248.39	-5,352.38	-12,512.68	0.74	1.49	866.46
75	-2,461.32	13	8	5	61.54	4,385.59	8,515.03	-7,509.20	-17,916.30	0.58	0.93	-189.33
70	3,809.04	14	10	4	71.43	3,122.38	6,006.50	-6,853.68	-11,291.74	0.46	1.14	272.07
65	-17,949.10	14	7	7	50.00	2,147.10	4,280.64	-4,711.25	-10,467.60	0.46	0.46	-1,282.08
60	-12,650.14	14	9	5	64.29	1,971.88	4,358.48	-6,079.42	-11,602.80	0.32	0.58	-903.58
55	-16,563.64	14	7	7	50.00	3,359.19	8,665.90	-5,725.43	-8,851.04	0.59	0.59	-1,183.12
50	-9,418.47	15	8	7	53.33	3,380.41	9,300.50	-5,208.83	-9,484.48	0.65	0.74	-627.90
45	-16,693.06	15	6	9	40.00	3,442.13	6,917.52	-4,149.54	-14,483.52	0.83	0.55	-1,112.87
40	-19,884.88	15	7	8	46.67	2,752.08	5,826.54	-4,893.68	-11,881.28	0.56	0.49	-1,325.66
35	-41,282.49	15	5	10	33.33	2,073.52	3,328.16	-5,165.01	-14,149.68	0.40	0.20	-2,752.17
30	-10,765.10	15	9	6	60.00	1,893.67	5,262.60	-4,634.69	-13,730.24	0.41	0.61	-717.67
25	-15,229.80	15	7	8	46.67	2,197.60	6,253.80	-3,826.63	-12,334.96	0.57	0.50	-1,015.32
20	-22,409.32	15	5	10	33.33	2,383.13	4,796.40	-3,432.50	-9,664.24	0.69	0.35	-1,493.95
15	-19,617.48	17	7	10	41.18	2,233.82	4,301.89	-3,525.42	-8,405.92	0.63	0.44	-1,153.97
10	-16,089.00	23	10	13	43.48	1,338.88	2,854.88	-2,267.53	-6,566.95	0.59	0.45	-699.52
5	-23,579.28	27	10	17	37.04	1,184.37	2,929.92	-2,083.71	-8,434.30	0.57	0.33	-873.31

There are only 15 instances when looking out 35 days, but with 10 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg Omen triggers.
Sell 35 days later. \$100k/trade. 1980 - present.

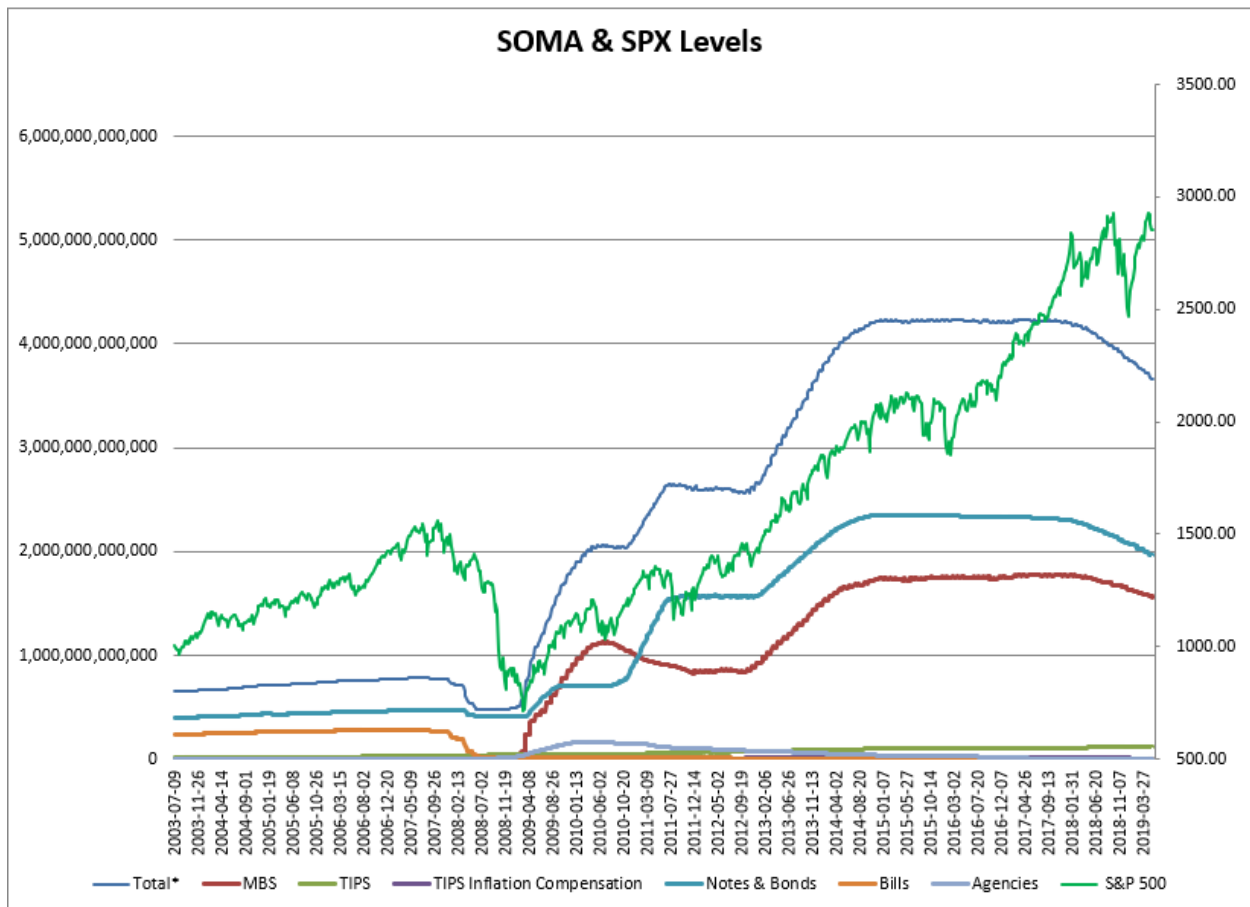
Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/14/1980	Buy	\$116.72	-14.16%	\$1,010.08
4/7/1980	Sell	\$100.19		→ (\$19,251.44)
7/24/1986	Buy	\$237.94	-3.06%	\$6,846.00
9/12/1986	Sell	\$230.66		→ (\$3,864.00)
12/8/1999	Buy	\$1,403.88	-3.11%	\$5,262.52
1/28/2000	Sell	\$1,360.16		→ (\$3,385.28)
4/24/2006	Buy	\$1,308.11	-6.45%	\$1,412.84
6/13/2006	Sell	\$1,223.69		→ (\$6,504.84)
7/20/2007	Buy	\$1,534.10	-5.37%	\$853.45
9/10/2007	Sell	\$1,451.70		→ (\$10,627.50)
10/25/2007	Buy	\$1,514.39	-3.07%	\$2,532.42
12/14/2007	Sell	\$1,467.95		→ (\$7,147.14)
6/4/2013	Buy	\$1,631.38	3.34%	\$4,111.40
7/24/2013	Sell	\$1,685.94		→ (\$4,334.05)
8/9/2013	Buy	\$1,691.42	-0.58%	\$2,267.96
9/30/2013	Sell	\$1,681.55		→ (\$3,773.05)
12/17/2013	Buy	\$1,781.00	0.90%	\$3,911.04
2/7/2014	Sell	\$1,797.02		→ (\$2,412.48)
12/5/2014	Buy	\$2,075.37	-3.53%	\$872.64
1/28/2015	Sell	\$2,002.16		→ (\$4,934.88)
7/21/2015	Buy	\$2,119.21	-8.36%	\$0.00
9/9/2015	Sell	\$1,942.04		→ (\$11,853.40)
6/15/2017	Buy	\$2,432.46	1.82%	\$2,114.78
8/4/2017	Sell	\$2,476.83		→ (\$1,097.16)
11/8/2017	Buy	\$2,594.38	3.05%	\$3,822.42
12/29/2017	Sell	\$2,673.61		→ (\$1,403.34)
2/1/2018	Buy	\$2,821.98	-8.28%	\$0.00
3/23/2018	Sell	\$2,588.26		→ (\$10,125.15)
9/6/2018	Buy	\$2,878.05	-5.99%	\$2,137.24
10/25/2018	Sell	\$2,705.57		→ (\$7,689.44)

The last instance was the one that preceded the September 2018 top. The average drawdown for the 12 instances is about 2.3x the size of the average run-up. I also pointed arrows at the 8 instances that saw at least a 4% drawdown from the entry point over the next 35 days. And if I reduced the drawdown requirement to 3%, then 12 of the 15 instances would have qualified. So the numbers seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage, and enough sizable drops following these signals, that it is probably worth remaining cognizant of it. If we get another Hindenburg Omen signal soon, then I will add this study to the intermediate-term active list.

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 05/15/2019

DOMESTIC SECURITIES HOLDINGS AS OF

May 22, 2019 📅

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

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	50,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,963,636,766.7
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***	1,564,427,779.6
Total SOMA Holdings	3,658,751,164.0
Change From Prior Week	-5,206,334.7

*Does not reflect inflation compensation of 22,592,403.9

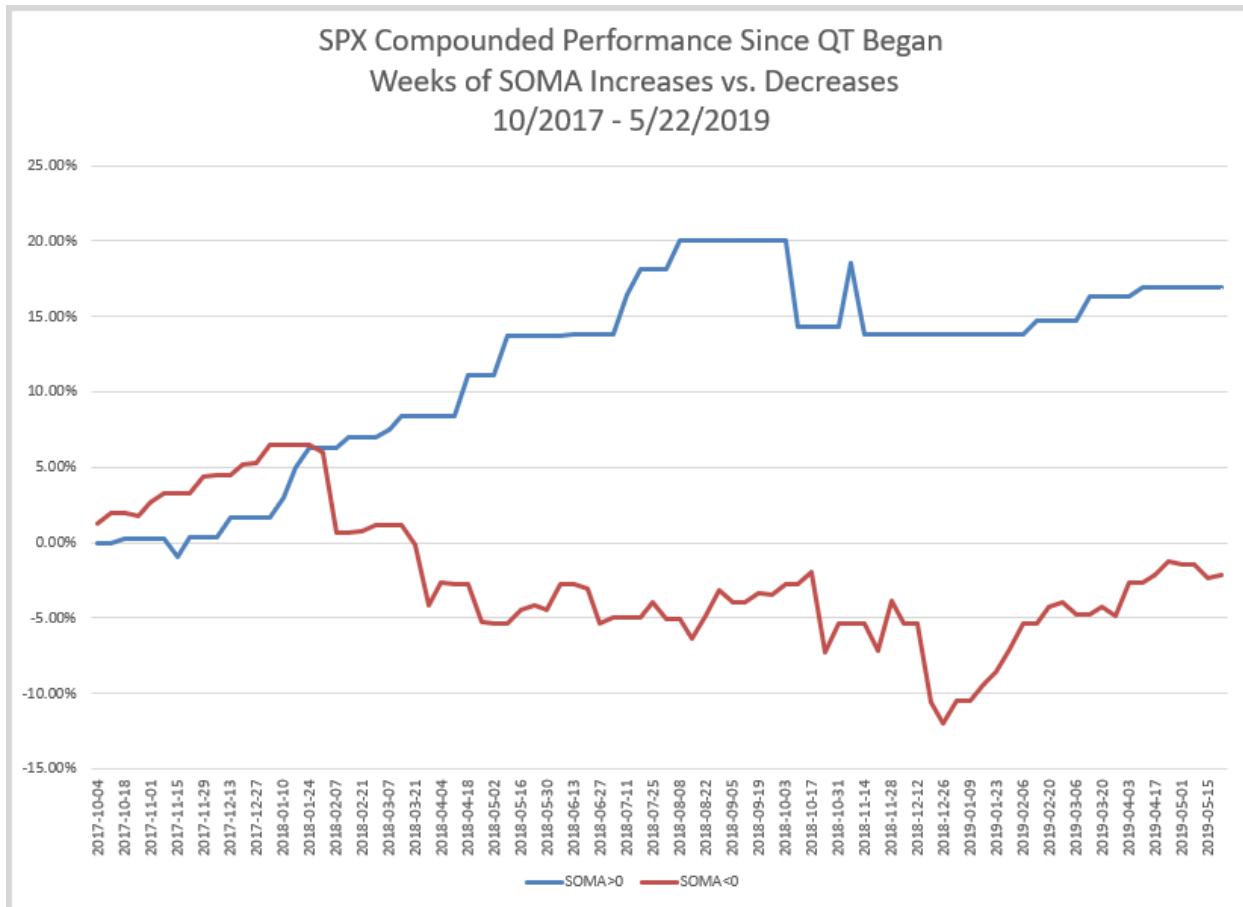
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 05/23/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline of \$5.2 billion. This in-line with expectations. Meanwhile the SPX rose 0.2% over this same time period. That is not a bad week for one that saw a drop in the SOMA.

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 Quantitative Tightening (QT) play out? Let’s first look at the T-Note and T-Bond Maturity Table below, from the Fed’s website.

« As of 05/08/2019

DOMESTIC SECURITIES HOLDINGS AS OF
May 15, 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
5/31/19	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%		

We see here the next bunch of treasuries are due to expire on 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. About \$9.9 billion come off the books on the 15th. This leaves about \$5.1 billion that will roll off at the end of the month.

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 mentioned last week, weeks ending around the 29th have consistently seen SOMA declines. So we should see a SOMA contraction this week. And with the large treasury expiration, we should also see a contraction next week.

There are still some intermediate-term studies active with bullish implications, though they have been getting fewer. The long-term trend appears up for now. But there are some potential concerns for the bulls. The Hindenburg Omen signals discussed above are one warning sign that we'll need to continue to monitor. The lagging NASDAQ which I discussed last week is another possible negative. And of course the current QT policy remains a concern, though it is only going to last a few months longer. I still think the bulls have the upper hand, but not by much. I will remain "somewhat bullish". In general, this means I will be a bit more aggressive with long than short opportunities for the time being

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

MMM – 1/3 @ \$184.75 (bought @ limit)

MMM – 1/3 @ \$178.59 (bought @ limit)

MMM – 1/3 @ \$178.59 (bought @ limit)

BLK – 1/3 @ \$442.78 (buy @ limit) – *not filled – cancel for now*

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

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	\$44.57	-12.61%		<i>sell on open</i>
INTC(1/3)	5/1/2019	\$51.04	\$44.57	-12.68%		<i>sell on open</i>
INTC(1/3)	5/2/2019	\$50.76	\$44.57	-12.19%		<i>sell on open</i>
MMM(1/3)	5/3/2019	\$184.75	\$166.09	-10.10%		Catapult
SPY(1/4)	5/8/2019	\$287.53	\$282.78	-1.65%		<i>sell if SPX closes > 2855.44</i>
MMM(1/3)	5/9/2019	\$177.30	\$166.09	-6.32%		Catapult
MMM(1/3)	5/10/2019	\$175.02	\$166.09	-5.10%		Catapult

INTC reached its intraday target on Friday, and will be closed out at the open on Tuesday.

SPY will be sold if SPX closes above the Differential Pivot on Tuesday.

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

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2019 Quantifiable Edges, LLC.