

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2019

Volume 12 Issue 110

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- The spike in NYSE new highs following the recent SPX low could be a good sign for the next month.
- The SOMA might actually rise this week (ending Wednesday), but will likely decline some the next week.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral. With the CBI dropping to 3, 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						
June 10, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-6 days	Bullish	1.85%	-1.10%	-2.10%
June 7, 2019	50-low 4 ago. RSI ₂ up 85 points.	1-4 days	Bullish			
June 5, 2019	20-day low to 4-day high	1-8 days	Bullish	2.20%	-1.40%	-3.00%
June 3, 2019	CBI >= 10 and SPX 50-day low	1-5 days	Bullish	4.20%	-3.60%	-7.65%
Active - Long Term						
June 5, 2019	20-day low to 4-day high	1-20 days	Bullish	3.70%	-2.10%	-4.40%
June 3, 2019	CBI >= 10 and SPX 50-day low	1-18 days	Bullish	7.10%	-4.30%	-8.20%
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			
October 1, 2018	Quantitative Tightening	int term	Bearish			

The Evidence

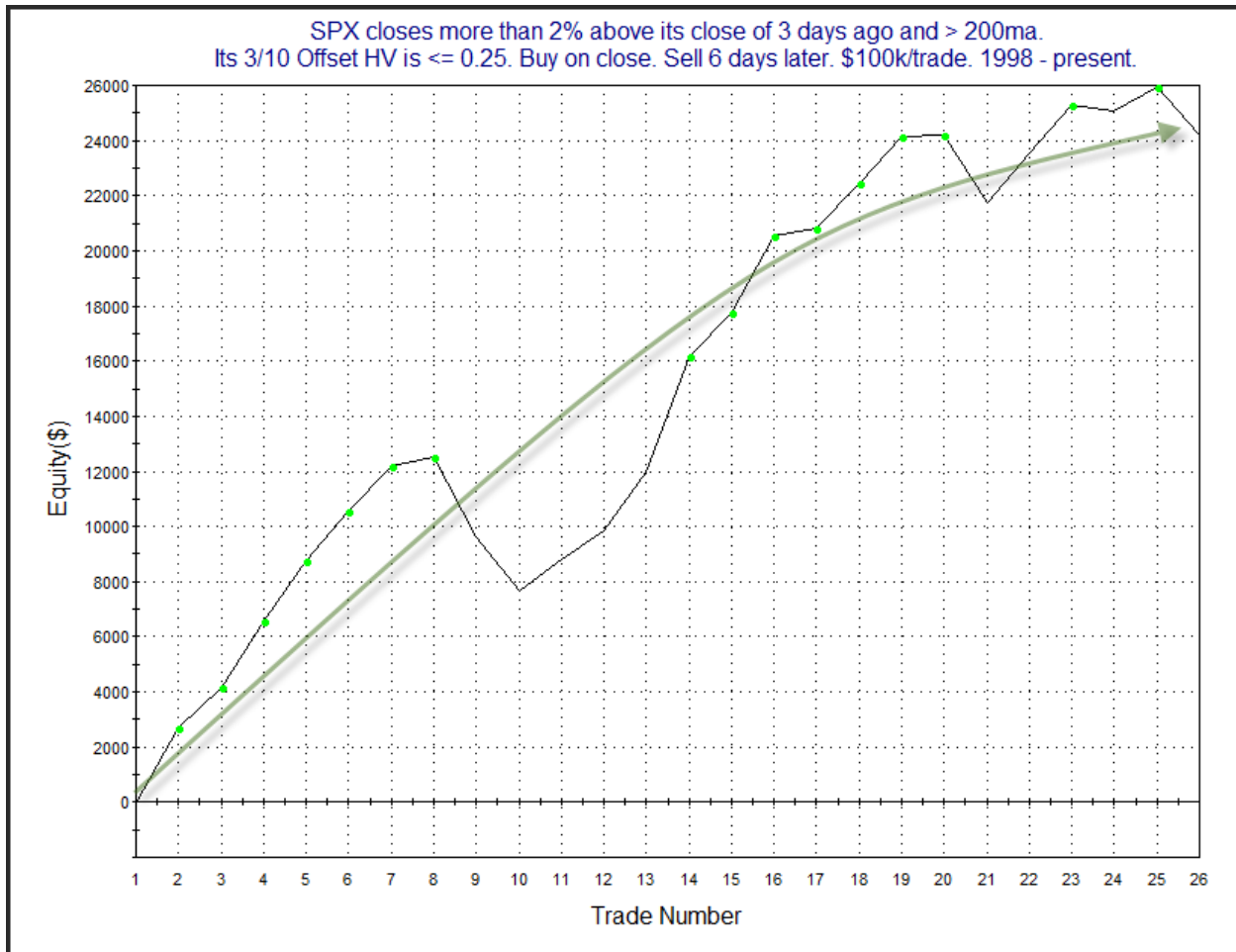
The rally continued on Friday, finishing up a strong week. The SPX gained 1.05% on the day, the NASDAQ rose 1.7%, and the Russell 2000 climbed 0.7%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 68%. NYSE volume declined for the 4th day in a row.

On Friday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. The 3/10 Offset HV compares the 3-day historical volatility to the 10-day historical volatility number of 3 days ago. A low reading suggests there has been a contraction in volatility. This triggered the study below, which I last featured in the 5/17/19 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma. Its 3/10 Offset HV is <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	21,069.26	25	18	7	72.00	2,305.94	5,768.50	-2,919.67	-6,828.48	0.79	2.03	842.77
9	17,763.33	25	17	8	68.00	2,086.61	3,809.19	-2,213.63	-5,817.60	0.94	2.00	710.53
8	13,552.29	25	18	7	72.00	1,521.18	4,162.27	-1,975.56	-3,819.90	0.77	1.98	542.09
7	20,040.91	26	21	5	80.77	1,383.11	3,889.70	-1,800.86	-2,513.62	0.77	3.23	770.80
6	24,225.73	26	20	6	76.92	1,675.70	4,206.89	-1,548.05	-2,898.50	1.08	3.61	931.76
5	22,413.73	26	21	5	80.77	1,439.68	3,481.56	-1,563.92	-2,287.35	0.92	3.87	862.07
4	17,107.44	26	16	10	61.54	1,482.02	2,616.60	-660.49	-1,697.04	2.24	3.59	657.98
3	16,662.38	26	19	7	73.08	1,167.81	2,315.72	-789.44	-1,476.45	1.48	4.02	640.86
2	12,251.59	27	17	10	62.96	1,144.12	2,451.76	-719.84	-1,838.16	1.59	2.70	453.76
1	1,877.39	29	16	13	55.17	521.51	1,857.24	-497.44	-2,159.69	1.05	1.29	64.74

The numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the

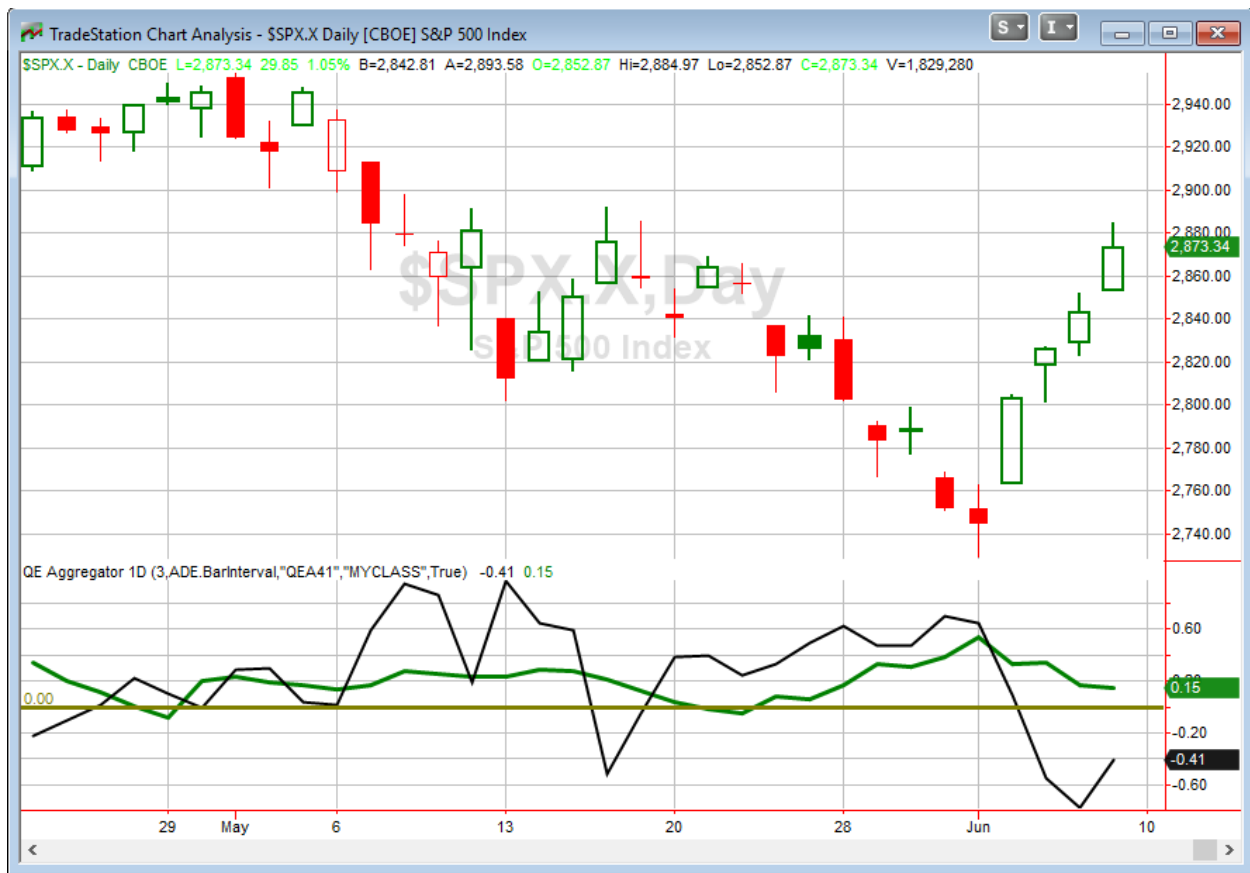
bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below is the profit curve for the 6-day period.



Despite the mild fade, this curve looks solid. I have added this study to the Active List tonight.

In other news, the Quantifiable Edges CBI finally fell to a neutral 3 reading. I have been waiting for it to return to 3 to take off my last lot of index exposure.

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



With tonight's new evidence under consideration, 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 is 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain bullish on Monday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2860.44 on Monday. That is 0.45% below Friday's close. Therefore, SPX would need to close down 0.45% on Monday in order to flip from overbought to oversold versus recent expectations.

So expectations remain positive and the SPX remains overbought, leaving the Aggregator neutral. As I have mentioned, when coming off an intermediate-term low that has a CBI spike associated with it, the market can bounce further than it often otherwise would. So I prefer to hold on to parts of my position under these circumstances to try and capture more upside. That has worked out this time. But with the CBI now back to neutral, it's time for me to step aside and wait for the next favorable reward/risk opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/10– somewhat bullish

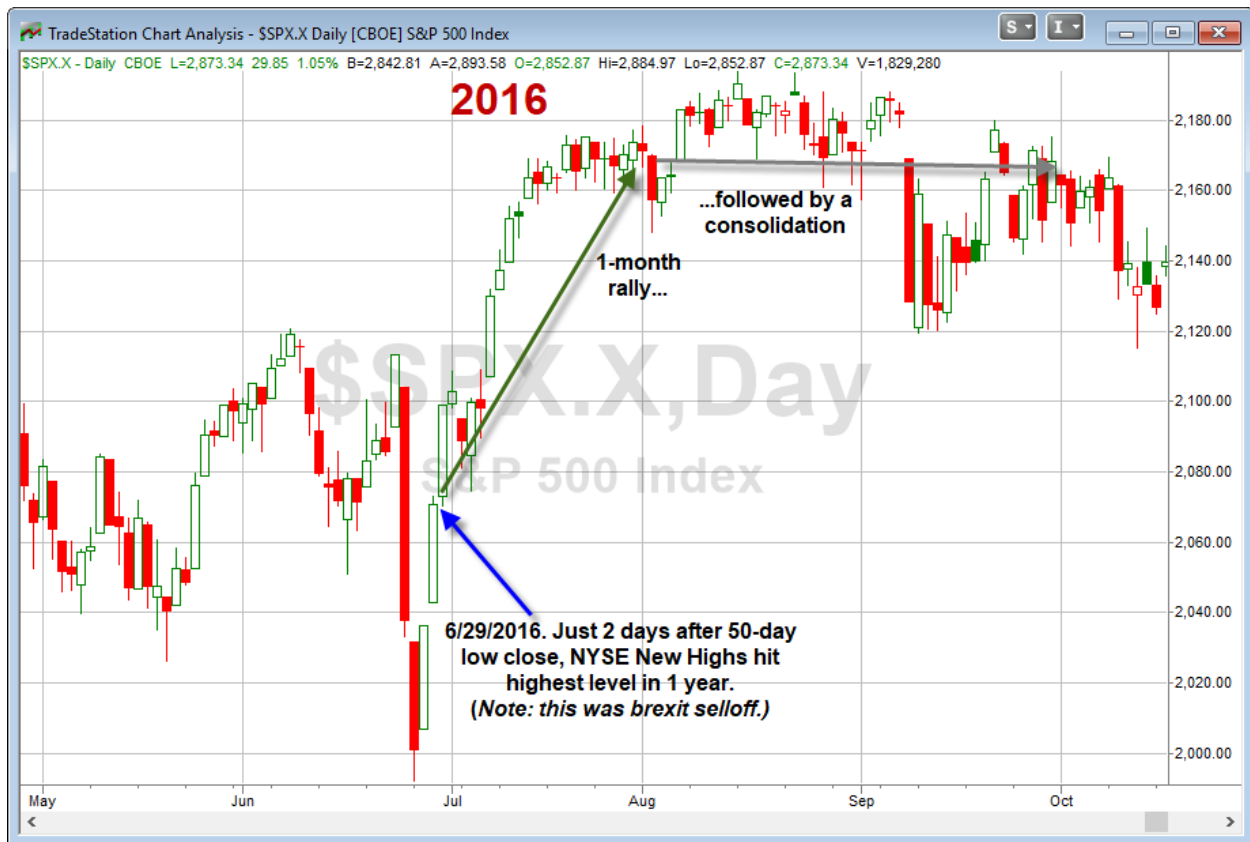
Combo #1	Combo #2	Combo #3
Long	Long	Flat

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 past week saw a very large reversal for the market. The SPX rose 4.4%, the NASDAQ gained 3.9%, and the Russell 2000 rallied 3.3%. The SPX and NASDAQ also rallied back through their 200-day moving averages. The move in the SPX actually erased the previous 3 weeks of losses.

One notable from Friday was that the number of NYSE new highs expanded to the largest number in over a year. That's quite remarkable considering the SPX closed at a 50-day low just 4 days ago. In looking at my new high data going back to 1970, I looked for other times where the NYSE new highs count reached the largest level in over a year within 1 week of a 50-day SPX low. I only found 3 other instances. All 3 saw further rallying over the next month, but returns after 1 month were very different. Charts of each instance can be found below.





So the previous 3 times we saw such an extreme there were solid gains posted over the next month, but no consistency after that. Of course three instances is too few to put any faith in. So I have not included this study on the Active List tonight, but I thought it was interesting and notable.

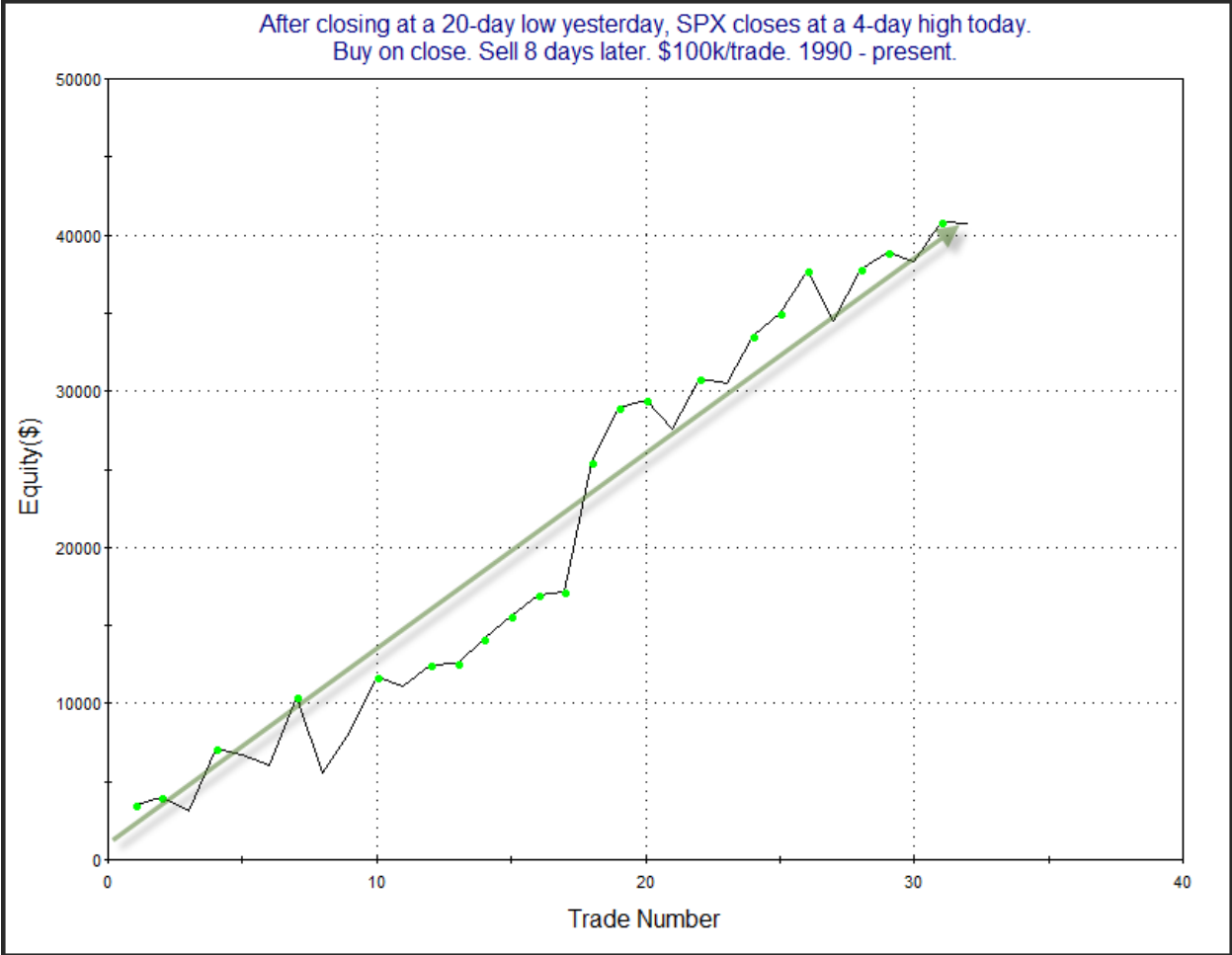
One study that did get added to the Active List this week was from the 6/5 letter. I have copied it below.

Tuesday was a strong enough move that we saw SPX go from closing at a 50-day low on Monday to closing at a 6-day high on Tuesday. In the 11/8/16 letter I looked at other times in which the market put in a strong thrust off at least a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

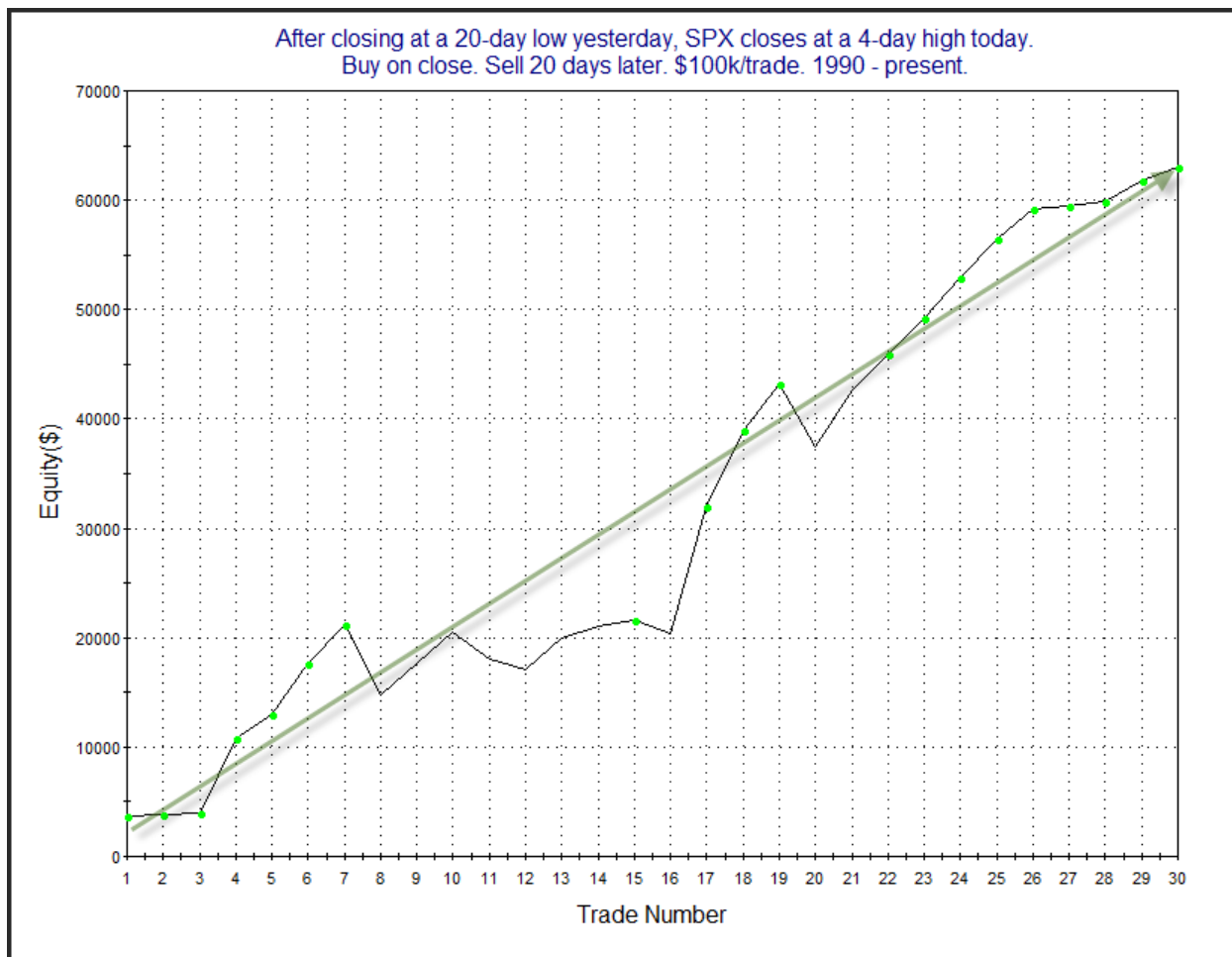
After closing at a 20-day low yesterday, SPX closes at a 4-day high today.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	62,997.74	30	25	5	83.33	3,194.48	11,665.50	-3,372.85	-6,379.08	0.95	4.74	2,099.92
19	61,349.14	30	23	7	76.67	3,443.83	12,037.30	-2,551.29	-6,347.80	1.35	4.44	2,044.97
18	55,714.98	31	25	6	80.65	2,817.80	10,563.30	-2,455.00	-4,148.97	1.15	4.78	1,797.26
17	54,893.83	31	24	7	77.42	2,963.51	11,183.70	-2,318.62	-4,247.96	1.28	4.38	1,770.77
16	52,601.58	31	23	8	74.19	2,922.12	11,506.00	-1,825.89	-4,320.78	1.60	4.60	1,696.83
15	48,352.81	31	21	10	67.74	3,027.88	11,173.80	-1,523.27	-4,723.96	1.99	4.17	1,559.77
14	49,812.15	32	24	8	75.00	2,805.13	9,507.30	-2,188.88	-7,897.52	1.28	3.84	1,556.63
13	41,018.34	32	23	9	71.88	2,597.37	9,427.00	-2,080.12	-7,363.04	1.25	3.19	1,281.82
12	39,041.04	32	21	11	65.63	2,700.31	8,151.00	-1,605.95	-5,686.84	1.68	3.21	1,220.03
11	45,979.60	32	24	8	75.00	2,488.68	8,642.70	-1,718.58	-5,722.20	1.45	4.34	1,436.86
10	42,816.10	32	23	9	71.88	2,571.26	8,924.30	-1,813.66	-8,745.48	1.42	3.62	1,338.00
9	42,110.16	32	22	10	68.75	2,452.15	8,603.10	-1,183.72	-6,371.60	2.07	4.56	1,315.94
8	40,756.74	32	22	10	68.75	2,467.30	8,276.40	-1,352.40	-4,917.08	1.82	4.01	1,273.65
7	29,917.62	32	21	11	65.63	2,253.98	5,832.20	-1,583.27	-4,106.50	1.42	2.72	934.93
6	25,213.22	32	19	13	59.38	2,199.40	5,888.30	-1,275.04	-5,306.50	1.72	2.52	787.91
5	20,388.94	32	20	12	62.50	1,807.86	5,508.80	-1,314.02	-5,320.00	1.38	2.29	637.15
4	21,812.69	33	23	10	69.70	1,620.83	4,326.30	-1,546.65	-4,559.50	1.05	2.41	660.99
3	17,743.99	33	23	10	69.70	1,446.52	4,365.90	-1,552.60	-4,707.50	0.93	2.14	537.70
2	14,833.41	34	25	9	73.53	1,088.77	3,479.30	-1,376.19	-3,138.00	0.79	2.20	436.28
1	1,055.99	34	17	17	50.00	705.05	2,536.10	-642.93	-2,034.00	1.10	1.10	31.06

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a decent chance that Tuesday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.

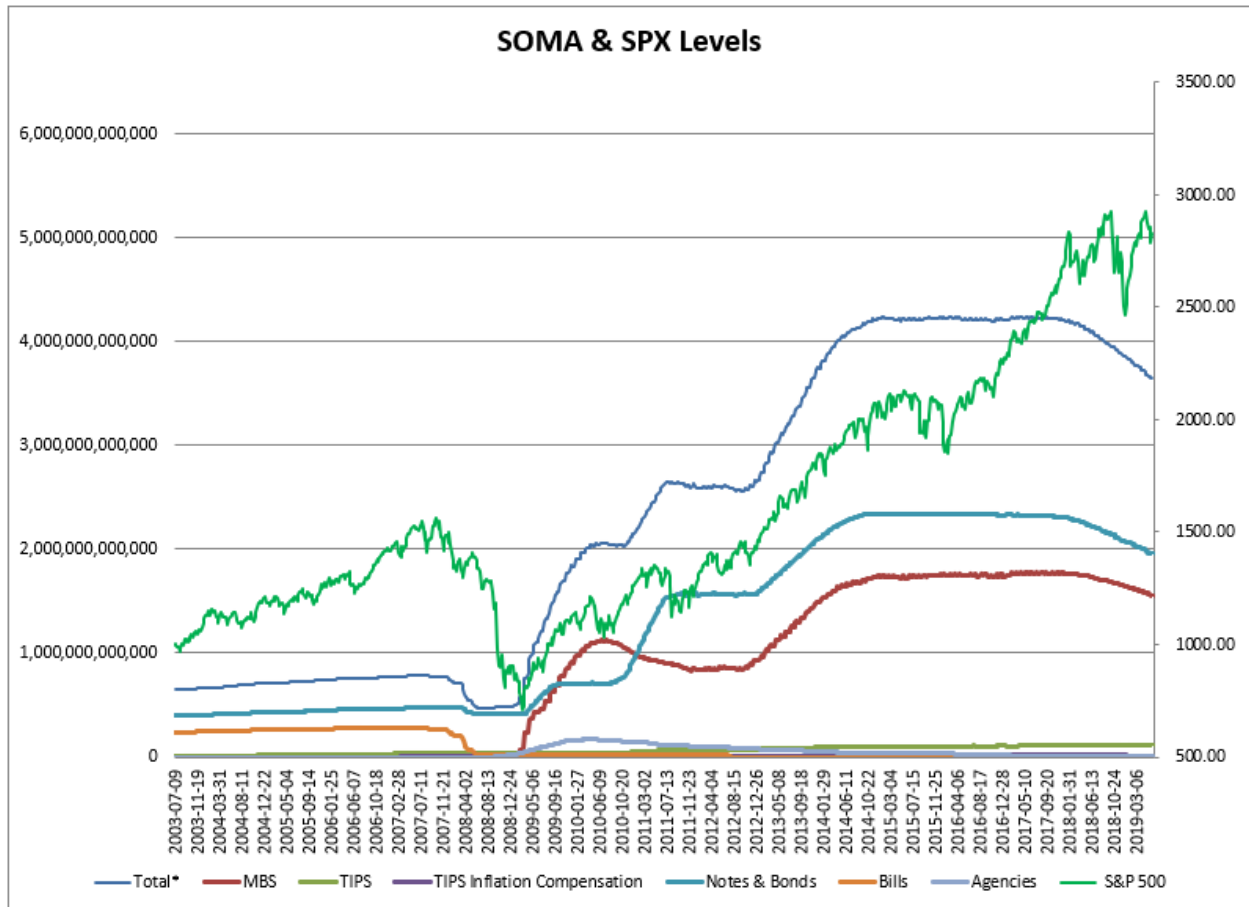


This one is a little choppier, but it sure has been strong lately, with 13 of the last 14 instances all closing higher.

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 05/29/2019

DOMESTIC SECURITIES HOLDINGS AS OF

June 5, 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)	1,955,450,432.5
US Treasury Floating Rate Notes (FRN)	14,819,524.4
US Treasury Inflation-Protected Securities (TIPS)*	116,516,485.4
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,555,405,270.6
Total SOMA Holdings	3,644,588,712.9
Change From Prior Week	-5,139,942.1

*Does not reflect inflation compensation of 22,948,179.8

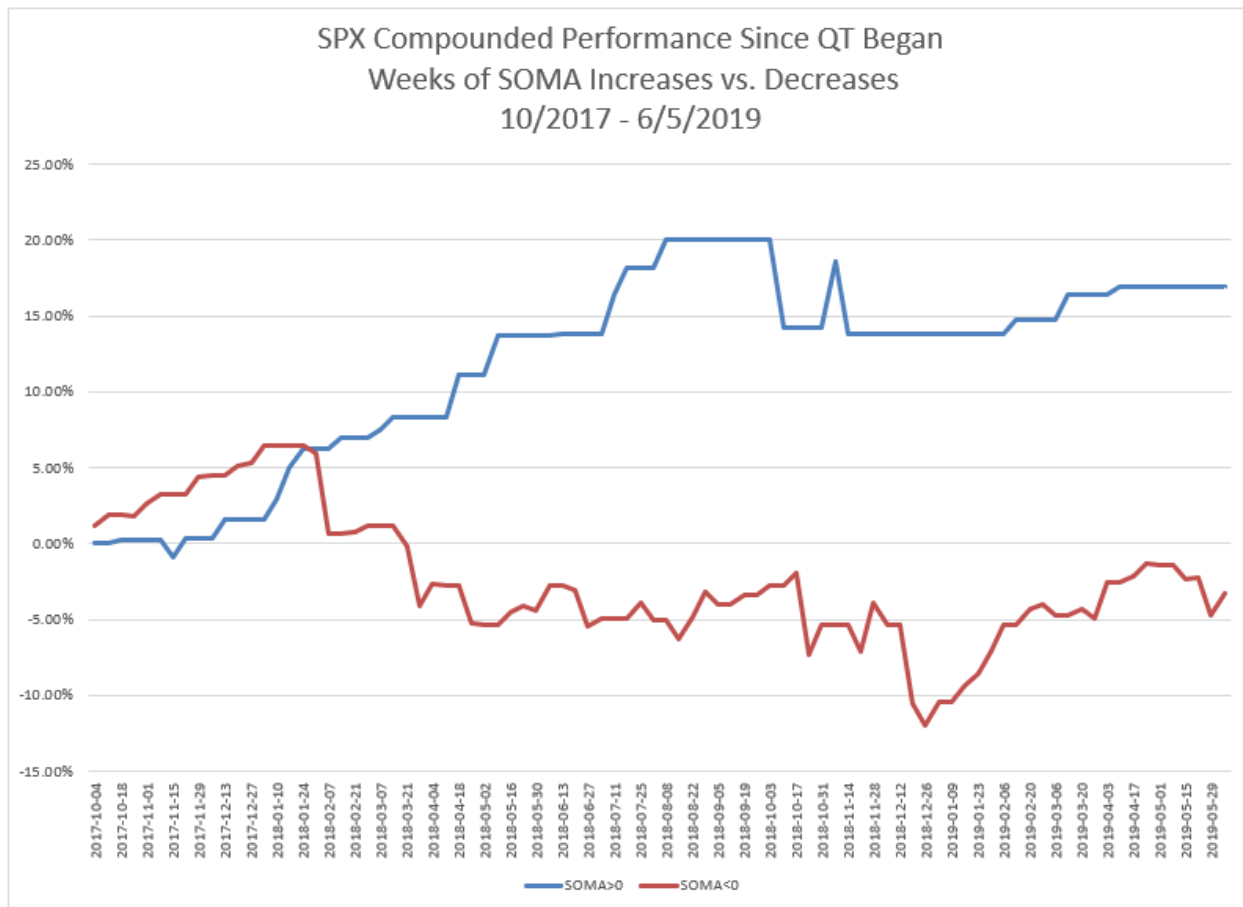
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 06/06/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline of \$5.1 billion. This in-line with expectations. Meanwhile the SPX rose 1.55% over this same time period. That is a strong rise for a week in which there was a large SOMA contraction.

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 3.2%. 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 05/29/2019

DOMESTIC SECURITIES HOLDINGS AS OF
June 5, 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
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%		
7/15/19	912828S43	0.750	1,563,173.6	6.11%		
7/31/19	912828TH3	0.875	14,516,000.0	50.06%		
7/31/19	912828K5	1.375	2,643,540.3	9.23%		
7/31/19	912828WW6	1.625	623,370.1	1.78%		

We see here the next bunch of treasuries are not due to expire until June 30th, when we will see a \$21 billion expiration. The Fed is only going to abstain from rolling over \$15 billion of treasuries this month, and it appears it will all happen 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 noted last week, since the beginning of 2018, weeks ending on or near the 12th have almost always either shown a rise in the SOMA, or come in breakeven. So there appears there is a good chance of a QT reprieve this current week, which ends on Wednesday the 12th. Since October 2017 there have been several reporting weeks that ended on the 18th with small rises in the SOMA. But all weeks ending on the 19th or 20th have seen SOMA declines. So there appears to be a small chance of a rise in the SOMA for the week ending the 19th, but odds greatly favor some QT that week.

Bullish studies and evidence still seem to be outweighing bearish for the intermediate-term. This includes studies based on CBI spikes and strong upward momentum coming off a low. But concerns remain. The Hindenburg Omen signals discussed a couple of weeks ago are a warning sign that we'll need to continue to monitor. The NASDAQ continues to lag. 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. I will remain "somewhat bullish". In general, this means I will be a bit more aggressive with long than short opportunities.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

HAL – 1/3 @ \$21.29 (bought @ limit)

OXY – 1/3 @ \$49.77 (bought @ limit)

OXY – 1/3 @ \$49.32 (bought @ limit)

Broad Market Large Cap CBI – 3(HAL, OXY-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
HAL(1/3)	6/3/2019	\$21.29	\$21.63	1.60%		Catapult
OXY(1/3)	6/3/2019	\$49.77	\$47.84	-3.88%		Catapult
SPY(1/4)	6/3/2019	\$274.57	\$287.65	4.76%		<i>sell on open</i>
OXY(1/3)	6/4/2019	\$49.32	\$47.84	-3.00%		Catapult

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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