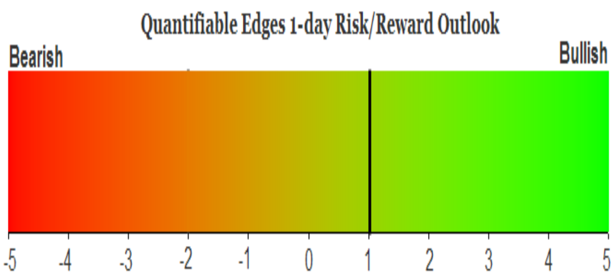
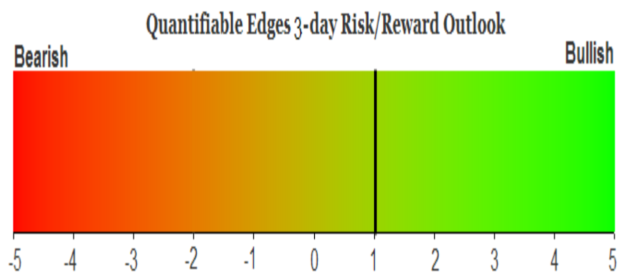
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2019 Volume 12 Issue 115

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Tuesday's action could should help determine Wednesday's Fed Day odds.
- We will be moving into a period of larger QT flows starting Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is bullish for the 3rd day in a row, but I am still not very enthused about the current setup.

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 12, 2019	Up 5 > 200 < 50-high then dn 1	1-4 days	Bullish	1.40%	-1.00%	-2.00%
June 10, 2019	3 up > 2%. HV 3/10 offset < 0.25	1-6 days	Bullish	1.85%	-1.10%	-2.10%
Active - Long Term						
June 11, 2019	Up 5 > 200 < 50-high	1-15 days	Bullish	3.00%	-1.70%	-3.20%
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

Friday was a mild pullback day for the market. The SPX fell 0.2%, the NASDAQ lost 0.5%, and the Russell 2000 dropped 0.9%. Breadth was positive as the NYSE Up Issues % was 40% and the Up Volume % came in at 37%. NYSE volume rose some from Thursday's level.

The mild back and forth action over the last few days has failed to generate the kind of action that typically reveals strong edges. Of course the upcoming Fed meeting may be helping to quiet the market as traders avoid taking big bets in the days leading up to it. With Wednesday being a Fed Day, and little else to discuss from a short-term perspective, I thought I would review one of my favorite studies from the Quantifiable Edges Guide to Fed Days. It broke down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 4/30/19 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of intraday range.
Buy on close. Sell Fed day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$6,728.13	Profit Factor	1.27
Gross Profit	$31,707.93	Gross Loss	($24,979.80)
Total Number of Trades	82	Percent Profitable	47.56%
Winning Trades	39	Losing Trades	41
Even Trades	2		
Avg. Trade Net Profit	$82.05	Ratio Avg. Win:Avg. Loss	1.33
Avg. Winning Trade	$813.02	Avg. Losing Trade	($609.26)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$15,344.96	Profit Factor	2.04
Gross Profit	$30,036.07	Gross Loss	($14,691.11)
Total Number of Trades	49	Percent Profitable	53.06%
Winning Trades	26	Losing Trades	22
Even Trades	1		
Avg. Trade Net Profit	$313.16	Ratio Avg. Win:Avg. Loss	1.73
Avg. Winning Trade	$1,155.23	Avg. Losing Trade	($667.78)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$11,652.40	Profit Factor	2.11
Gross Profit	$22,196.43	Gross Loss	($10,544.03)
Total Number of Trades	39	Percent Profitable	66.67%
Winning Trades	26	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	$298.78	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	$853.71	Avg. Losing Trade	($811.08)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

Tomorrow is a Fed Day. SPY closes in bottom 25% of intraday range.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$23,346.14	Profit Factor	4.34
Gross Profit	$30,327.24	Gross Loss	($6,981.10)
Total Number of Trades	39	Percent Profitable	74.36%
Winning Trades	29	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$598.62	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	$1,045.77	Avg. Losing Trade	($698.11)
Largest Winning Trade	$4,645.80	Largest Losing Trade	($2,945.28)

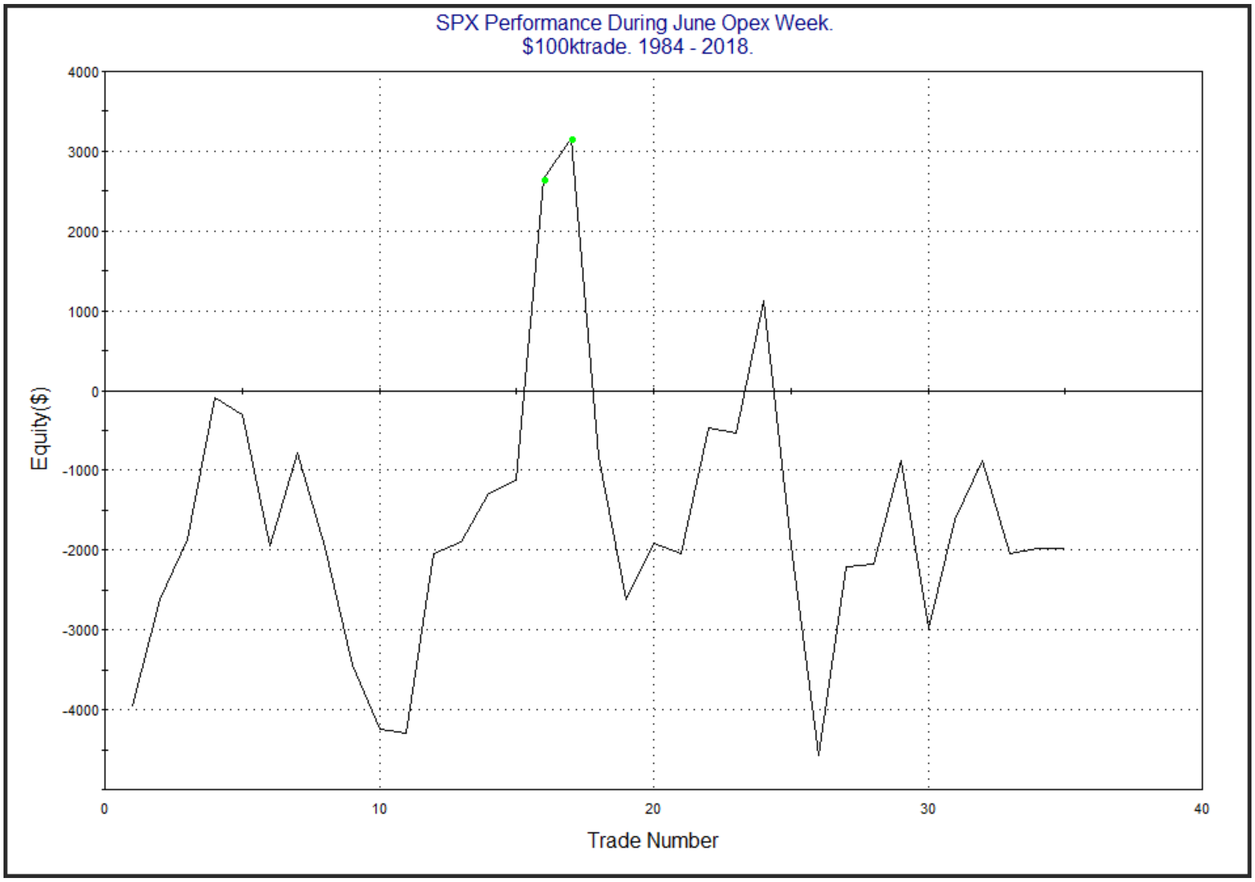
So what we see here, is that in general, the lower SPY has closed in its range the day before, the stronger the Fed day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced.

It is also notable that next week is an option expiration week. Option expiration weeks often have a bullish tendency. But June opex has not seen that same bullish tendency. Below is a table that I have copied from March 9th. It broke opex weeks down by month, dating back to 1984, when SPX options began trading.

OpEx week SPX performance by month. $100k/trade. 1984 - present.
(Excludes September 2001)

Month	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
12	29,033.77	34	26	8	76.47	1,458.03	5,868.16	-1,109.38	-4,176.33	1.31	4.27	853.93
11	5,787.67	34	21	13	61.76	1,418.95	3,718.25	-1,846.95	-8,351.64	0.77	1.24	170.23
10	26,245.77	34	25	9	73.53	2,142.44	7,282.10	-3,035.03	-9,109.98	0.71	1.96	771.93
9	15,176.65	33	21	12	63.64	1,523.50	5,313.08	-1,401.40	-4,975.04	1.09	1.90	459.90
8	-1,954.26	34	18	16	52.94	1,432.07	4,329.72	-1,733.21	-5,670.55	0.83	0.93	-57.48
7	1,522.27	34	18	15	52.94	1,418.70	6,921.25	-1,600.96	-7,953.12	0.89	1.06	44.77
6	-1,985.79	34	19	15	55.88	1,172.43	3,786.09	-1,617.47	-3,998.19	0.72	0.92	-58.41
5	2,345.79	34	17	17	50.00	1,821.90	4,850.40	-1,683.91	-4,959.45	1.08	1.08	68.99
4	30,132.39	34	22	12	64.71	2,194.65	5,731.96	-1,512.48	-3,580.15	1.45	2.66	886.25
3	30,457.88	34	24	10	70.59	1,933.52	7,515.60	-1,594.66	-6,711.66	1.21	2.91	895.82
2	16,205.42	35	21	14	60.00	1,605.48	4,281.46	-1,250.70	-6,814.80	1.28	1.93	463.01
1	5,478.21	35	16	19	45.71	2,094.03	5,389.00	-1,475.07	-5,383.93	1.42	1.20	156.52

June's total performance is the worst of any month (barely). Below is a look at the profit curve.



So this is not going to get me excited about anything. I am not seeing any new studies suggesting strong directional evidence for Monday. But Tuesday's action could be telling when looking at Wednesday's Fed Day odds.

I have updated the Aggregator chart below.

Without any new evidence emerging 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 is also 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 could easily change if new bearish evidence emerges. The Differential Pivot will be 2896.99 on Monday. That is 0.35% above Friday's close. Therefore, SPX will need to close up at least 0.35% on Monday to flip from oversold to overbought vs recent expectations.

The Aggregator is again bullish, but I am still not very enthused. We have entered a sideways consolidation that could easily remain sideways for another couple of days as we await the next Fed announcement. Evidence, while bullish, is underwhelming, and there is not a lot of room to the upside before SPX would turn overbought. So I'll continue to exercise patience and wait for a more compelling opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/17– 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.*

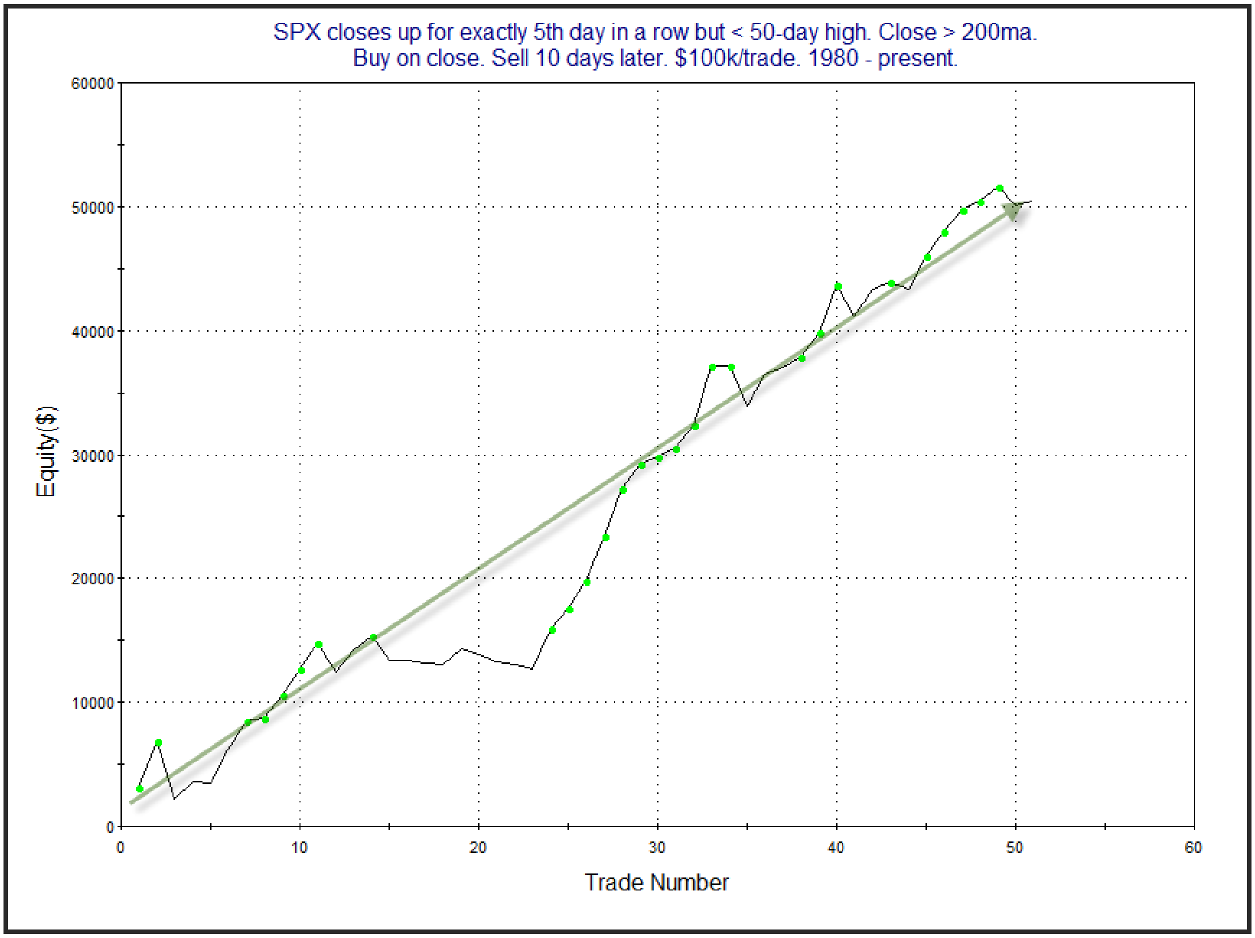
This past week saw moderate gains on tight trading. The SPX rose 0.5%, the NASDAQ gained 0.7%, and the Russell 2000 climbed 0.5%. There was one new study with intermediate-term implications that emerged and was featured in Monday night's letter. I have copied it below.

The study below recognized the move higher over the last few days and suggested the momentum is likely to continue. It was from the 2/16/18 letter, and it looked at 5 up days that closed above the 200ma, but failed to close at a 50-day high. I have updated the results below.

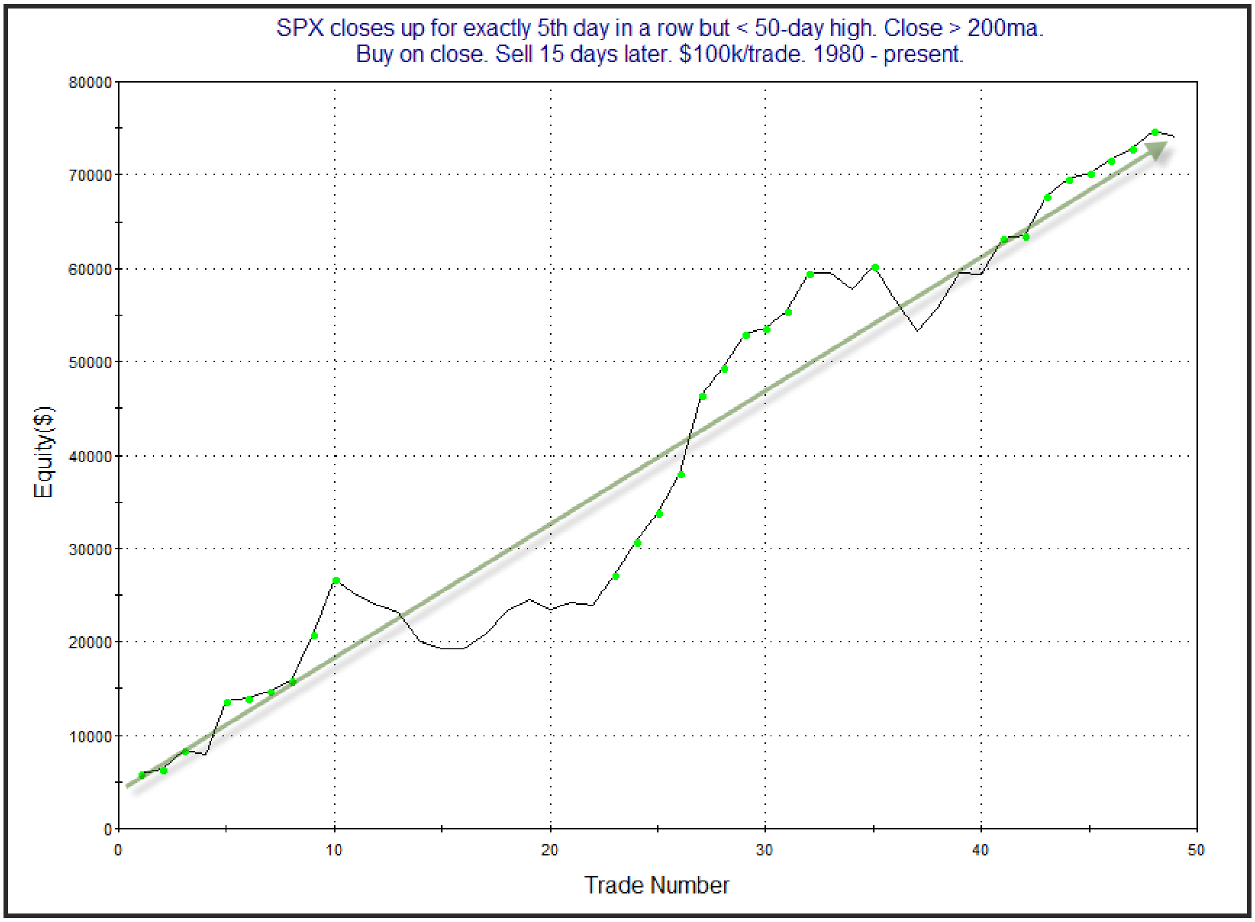
SPX closes up for exactly 5th day in a row but < 50-day high. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1980 - present.

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
15	74,116.61	49	34	15	69.39	2,740.40	8,288.00	-1,270.46	-3,766.10	2.16	4.89	1,512.58
14	66,332.43	49	34	15	69.39	2,535.38	8,272.60	-1,324.70	-4,738.50	1.91	4.34	1,353.72
13	69,315.00	49	36	13	73.47	2,499.49	6,401.50	-1,589.75	-3,773.44	1.57	4.35	1,414.59
12	62,301.16	50	36	14	72.00	2,262.92	5,925.50	-1,368.86	-2,944.80	1.65	4.25	1,246.02
11	47,433.40	51	33	18	64.71	2,112.69	3,952.96	-1,238.08	-4,894.24	1.71	3.13	930.07
10	50,433.66	51	37	14	72.55	1,871.45	4,691.28	-1,343.57	-4,684.28	1.39	3.68	988.90
9	45,372.64	51	35	16	68.63	1,940.31	4,722.08	-1,408.65	-4,910.55	1.38	3.01	889.66
8	42,189.61	51	37	14	72.55	1,661.84	3,781.36	-1,378.45	-3,376.64	1.21	3.19	827.25
7	39,305.79	51	36	15	70.59	1,698.00	4,385.01	-1,454.80	-3,500.70	1.17	2.80	770.70
6	30,576.80	51	37	14	72.55	1,445.41	3,770.55	-1,635.96	-3,366.60	0.88	2.34	599.55
5	21,703.60	51	33	18	64.71	1,347.67	3,044.37	-1,264.98	-3,496.92	1.07	1.95	425.56
4	12,613.89	51	29	22	56.86	1,213.95	3,138.08	-1,026.85	-3,330.40	1.18	1.56	247.33
3	10,916.88	51	31	20	60.78	1,021.19	2,742.08	-1,037.00	-3,359.36	0.98	1.53	214.06
2	3,789.00	51	27	24	52.94	857.28	2,205.03	-806.56	-3,748.50	1.06	1.20	74.29
1	3,971.59	51	30	21	58.82	618.28	2,211.54	-694.14	-2,200.96	0.89	1.27	77.87

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.

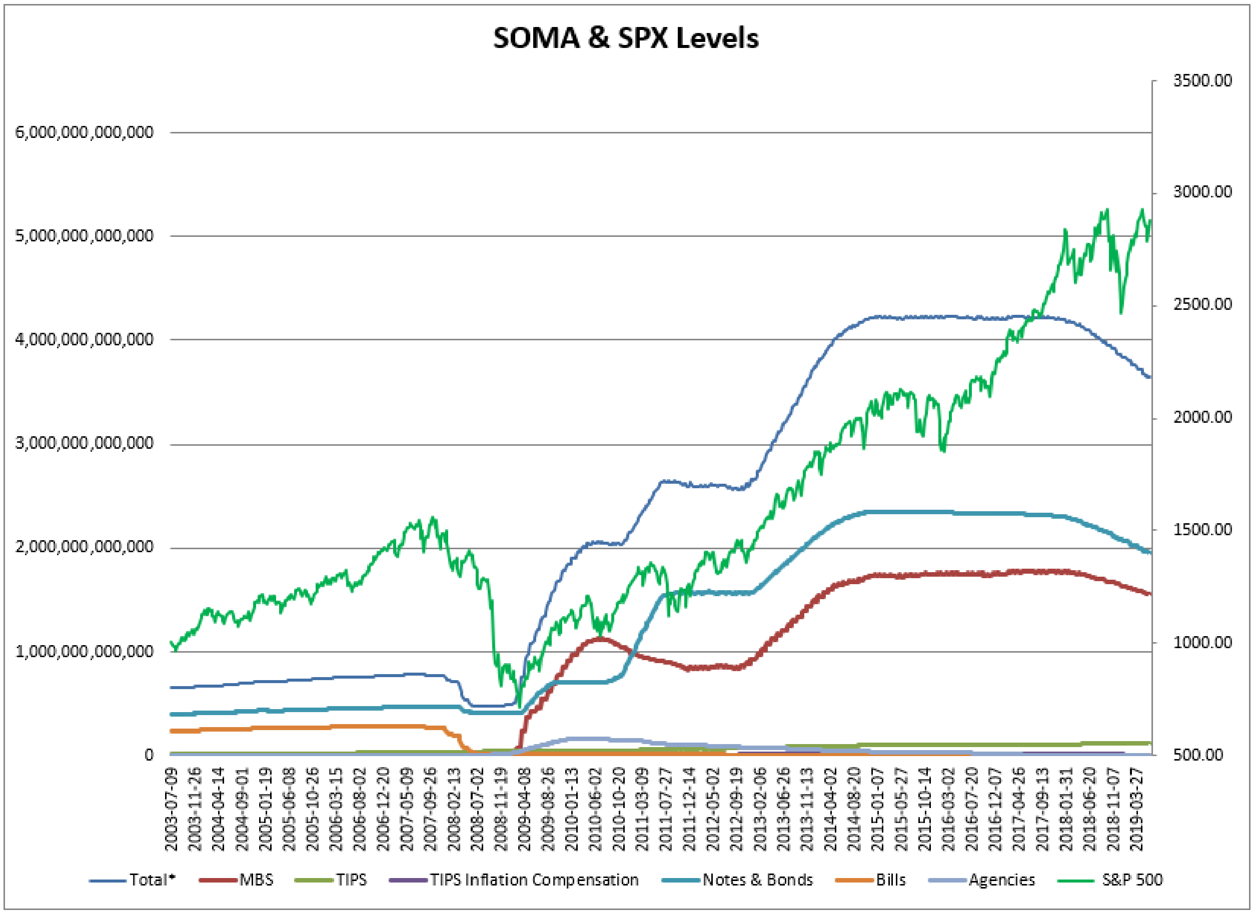


Much like the 10-day curve, the 15-day shows an impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

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 06/05/2019

DOMESTIC SECURITIES HOLDINGS AS OF

June 12, 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	-0.0

*Does not reflect inflation compensation of 23,120,442.7

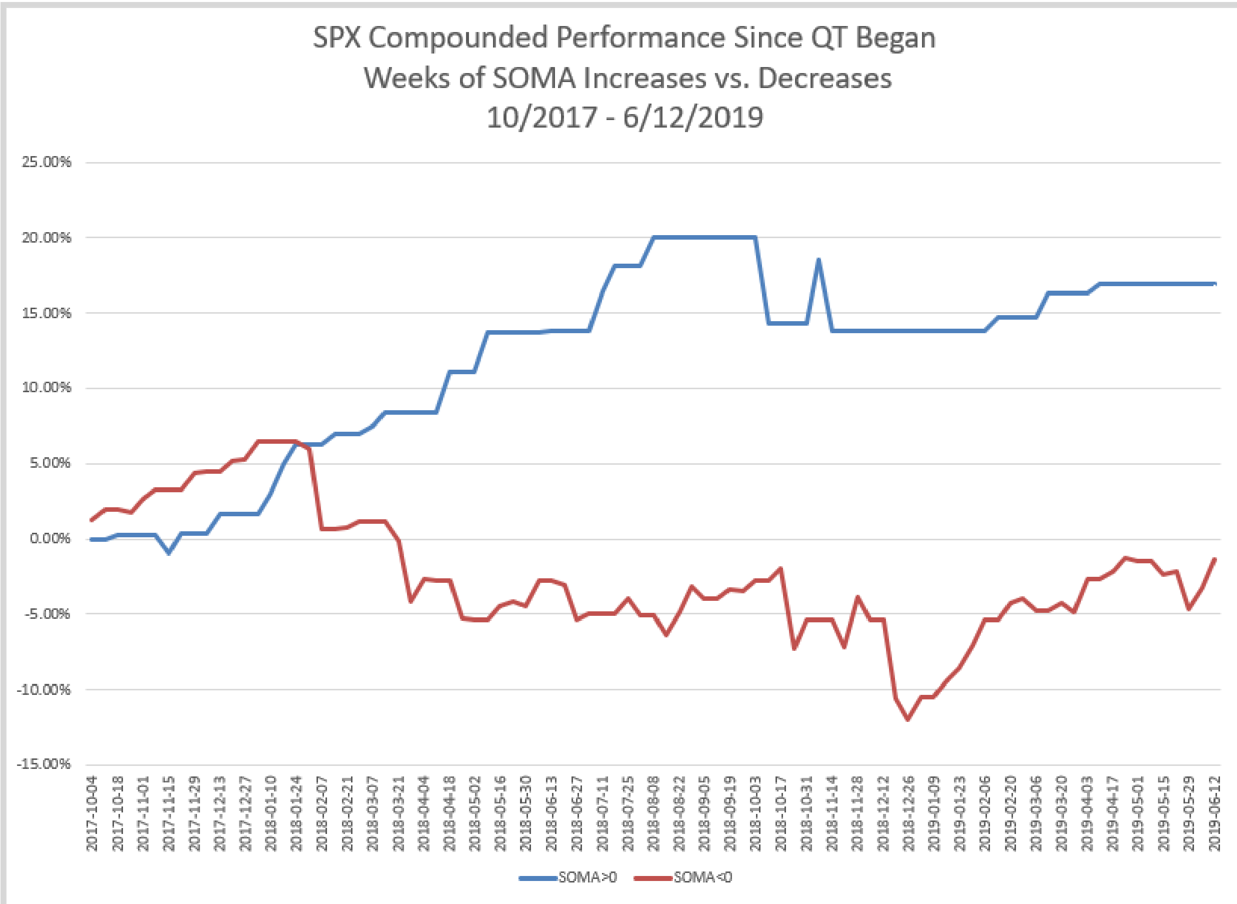
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 06/13/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) came in almost exactly breakeven, with a decline of $2.71. I had been saying that even or slightly up looked like the best odds. This was not up, but a drop of $2.71 in a $3.6 trillion account is about as breakeven as you'll get. Meanwhile the SPX managed to take advantage of the lack of downside SOMA pressure and rally 1.9%. That is a strong rise for any week.

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 1.4%. That is a substantial difference in performance. And the red portfolio line even got the benefit of this past week where a $2.71 drop in the SOMA counted as a contraction week. 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	9128282K5	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 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 this week ending the 19th, but odds greatly favor *some* QT this week. Weeks ending on or near the 26th have consistently seen declines in the SOMA, so the reporting week that starts on Thursday should have a bit larger QT.

My intermediate-term outlook is basically unchanged from last 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 few 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

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.*

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
OXY(1/3)	*6/3/2019*	*$49.77*	*$49.76*	*-0.02%*	*sold on open*
OXY(1/3)	*6/4/2019*	*$49.32*	*$49.76*	*0.89%*	*sold on open*

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