

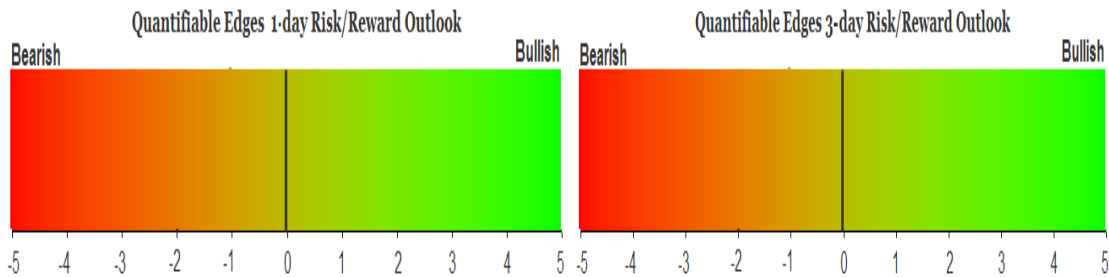
QUANTIFIABLE EDGES WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 24, 2019

Issue 522

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- The Russell has consistently outperformed the SPX in late June since the turn of the century.
- The weeks after opex in March, June, and September have been the worst of the year.
- SOMA flows are negative and a big treasury expiration is due at the end of the month.

Short-term Outlook

The Bottom Line

Evidence is mixed, the Aggregator formation is neutral, and I do not see a strong, compelling direction 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 | | | | | | |
| June 24, 2019 | Week after Quad opex | 1-5 days | Bearish | -2.00% | 1.30% | 2.90% |
| June 21, 2019 | SPY breakaway gap | 1-5 days | Bullish | | | |
| Active - Long Term | | | | | | |
| June 21, 2019 | SPX RSI2 crosses over 99. | 1-15 days | Bullish | | | |
| 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% |
| 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 down day. The SPX fell 0.1%, the NASDAQ lost 0.2%, and the Russell 2000 declined 0.9%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 40%. NYSE volume rose came in high as it often does on options expiration Friday.

There were a few studies tonight that looked at SPY as having an unfilled gap down, or an inside day. I have eliminated them from consideration because both the gap down and the inside day occurred due to going ex-dividend. SPX made a higher high before closing down.

Interesting about late June is that we have Russell rebalancing at the end of the month. In the past this period has also seen the Russell 2000 outperform the S&P 500 by a sizable margin. This is something I looked at last year in the 6/18/18 letter. The table below shows how the Russell 2000 has done versus the SPX from the close the Tuesday after June Opex until the close on the last trading day of June.

| % Change from close on Tuesday after June | | | |
|---|------------|------------|-------------------|
| Opex through last day of June. 2001 - 2017 | | | |
| Year | RUT | SPX | Difference |
| 2001 | 4.89% | 0.97% | 3.92% |
| 2002 | 2.25% | 1.40% | 0.85% |
| 2003 | 1.70% | -0.91% | 2.61% |
| 2004 | 3.43% | 0.56% | 2.87% |
| 2005 | -0.22% | -1.84% | 1.62% |
| 2006 | 6.75% | 2.45% | 4.30% |
| 2007 | -1.76% | -1.98% | 0.22% |
| 2008 | -2.56% | -2.61% | 0.05% |
| 2009 | 3.76% | 2.71% | 1.06% |
| 2010 | -5.64% | -5.90% | 0.26% |
| 2011 | 2.62% | 1.94% | 0.68% |
| 2012 | 1.53% | 0.31% | 1.23% |
| 2013 | 1.69% | 1.15% | 0.54% |
| 2014 | 1.68% | 0.53% | 1.16% |
| 2015 | -3.23% | -2.88% | -0.35% |
| 2016 | -0.17% | 0.48% | -0.65% |
| 2017 | 0.88% | -0.56% | 1.44% |
| 2018 | -2.97% | -1.59% | -1.38% |

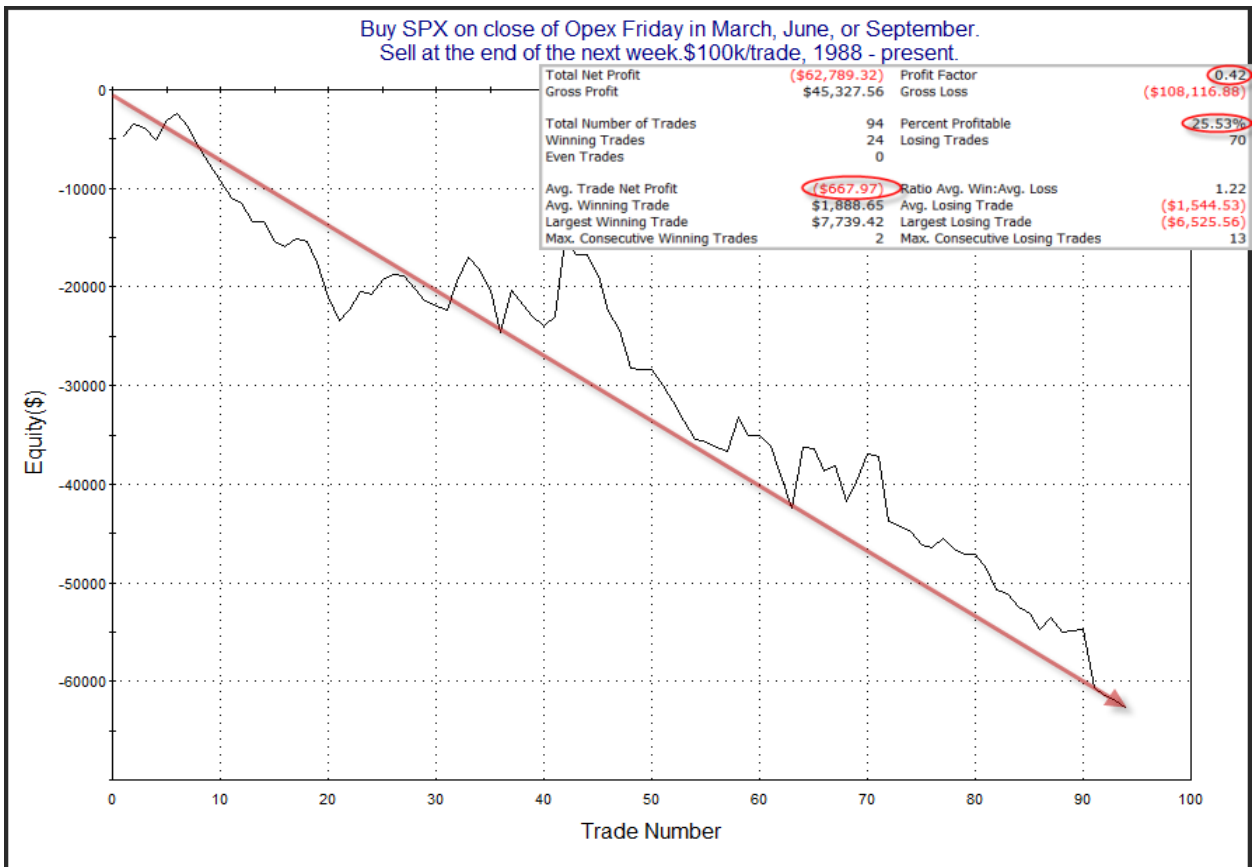
For much of the last 19 years the Russell 2000 has outperformed the SPX during this late June period. Though the last few years have not played out as usual. The average outperformance over the 19 year period has been 1.13%. This would seem worth keeping in mind as we close out June. A spread trade is one way to play it. I don't generally suggest spread trades here in the letter. But I might consider taking a long in the RUT rather than the SPX if we have a pullback in the next few days that generates bullish evidence.

Also worth noting from a seasonal standpoint is that the week after Opex is sometimes bearish. This has often been the case following Quad-witching, which is March, June, September, and December. Of course the 2nd half of December has shown bullish seasonality historically (ignore 2018), but those other 3 have NOT been good weeks for the market. In fact, back in September I discussed the "Weakest Week", which is the week after September opex. In March I showed a table with the best and worst weeks of the year since 1988. Below is that table (not updated), showing just the bottom 8 weeks. (Note I did not include weeks after the 5th Friday of the month, since instances for those were greatly reduced.)

**SPX Performance for the Week Following the Month and Friday Listed.
\$100k/trade. 1988 - present. (Bottom 8 results shown. 5th Fridays not included in results.)**

| Month of Year | Friday of 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 |
|---------------|-----------------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 8 | 1 | -6,102.14 | 31 | 15 | 16 | 48.39 | 1,095.38 | 5,106.00 | -1,408.30 | -3,772.71 | 0.78 | 0.73 | -196.84 |
| 2 | 3 | -9,827.50 | 32 | 16 | 16 | 50.00 | 841.94 | 2,106.80 | -1,456.15 | -4,509.84 | 0.58 | 0.58 | -307.11 |
| 12 | 1 | -10,365.36 | 31 | 13 | 18 | 41.94 | 1,358.92 | 4,131.36 | -1,557.30 | -3,728.04 | 0.87 | 0.63 | -334.37 |
| 1 | 3 | -10,992.58 | 32 | 17 | 15 | 53.13 | 1,103.51 | 2,505.60 | -1,983.49 | -5,602.80 | 0.56 | 0.63 | -343.52 |
| 10 | 1 | -15,554.77 | 31 | 16 | 15 | 51.61 | 2,026.24 | 5,944.32 | -3,198.31 | -18,000.90 | 0.63 | 0.68 | -501.77 |
| 3 | 3 | -17,175.41 | 31 | 7 | 24 | 22.58 | 2,826.00 | 6,162.00 | -1,539.89 | -5,895.00 | 1.84 | 0.54 | -554.05 |
| 6 | 3 | -17,888.23 | 31 | 10 | 21 | 32.26 | 1,146.73 | 2,928.60 | -1,397.88 | -3,626.75 | 0.82 | 0.39 | -577.04 |
| 9 | 3 | -26,963.73 | 31 | 7 | 24 | 22.58 | 2,011.18 | 7,739.42 | -1,710.08 | -6,525.56 | 1.18 | 0.34 | -869.80 |

We see here that the week after opex for September, June, and March have in fact been the worst 3 weeks of the year over the last 31 years. You'll also note that the whole group shown follow either the 1st or 3rd Friday of the month. And if I were to show the best weeks of the year, you'd notice that they all follow the 2nd and 4th Fridays of the month. Below is a look at results if someone were to have bought opex Friday's close in March, June, and September since 1988. These *are* updated.

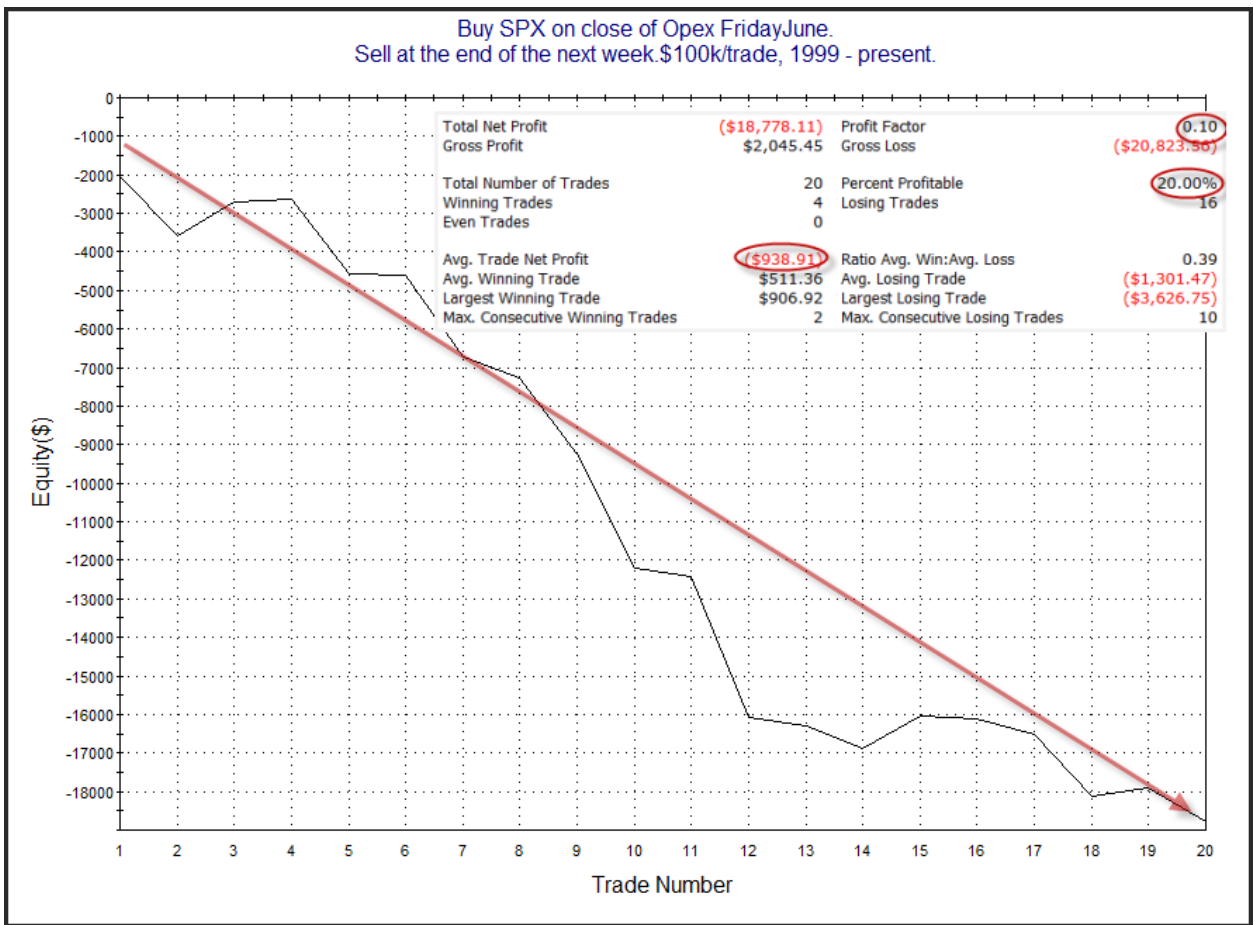


The stats are poor as we knew they would be. The strong, steady downslope is also supportive of the idea of a seasonally bearish edge. Below is a breakdown of buying at the closing and holding for the next X days.

| Buy SPX on close of Opex Friday in March, June, or September. Sell X days later.\$100k/trade, 1988 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Max Losing Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 5 | -64,078.74 | 94 | 24 | 70 | 25.53 | 7,739.42 | -6,525.56 | 1,888.65 | -1,562.95 | 1.21 | 0.41 | -681.69 |
| 4 | -45,831.09 | 94 | 30 | 64 | 31.91 | 8,361.60 | -7,088.90 | 1,565.81 | -1,450.08 | 1.08 | 0.51 | -487.56 |
| 3 | -31,496.31 | 94 | 33 | 61 | 35.11 | 5,894.20 | -5,455.74 | 1,261.78 | -1,198.93 | 1.05 | 0.57 | -335.07 |
| 2 | -26,463.63 | 94 | 35 | 59 | 37.23 | 4,914.00 | -5,283.52 | 958.33 | -1,017.04 | 0.94 | 0.56 | -281.53 |
| 1 | -13,079.58 | 94 | 36 | 58 | 38.30 | 7,069.40 | -3,791.21 | 894.67 | -780.82 | 1.15 | 0.71 | -139.14 |

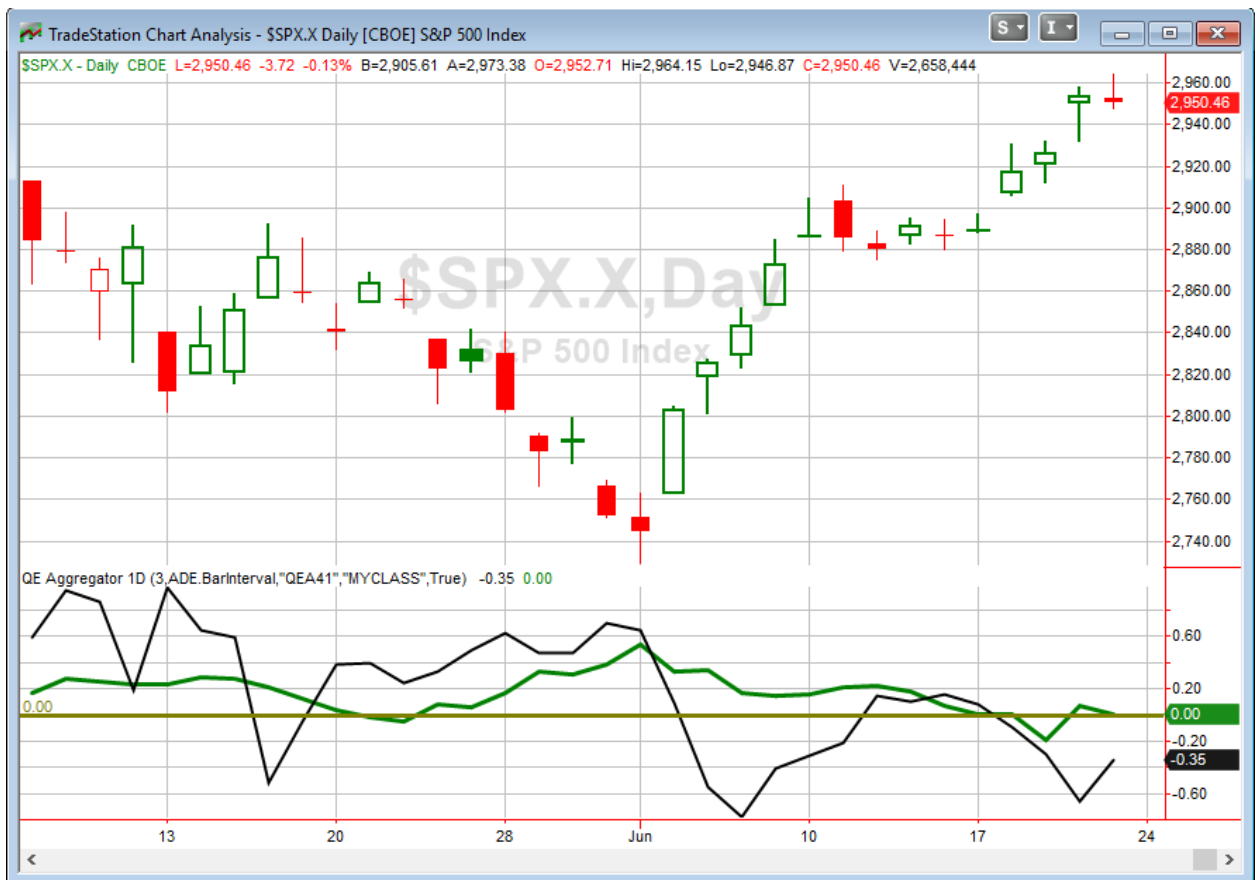
I have included this study on the Active List.

Looking at June on a standalone basis you can see it has more than held up its end of the bargain.



The downslope and the numbers are both impressively bearish.

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



With tonight's research included, the green Aggregator Line remained above zero, though just slightly. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line held 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 Active Studies list, expectations are set to remain positive on Monday. This could easily change if new bearish evidence emerges. The Differential Pivot will be 2920.83 on Monday. That is 1.0% below Friday's close. Therefore, SPX will need to close down at least 1.0% on Monday to flip from overbought to oversold vs recent expectations.

Evidence from the last couple of days is largely offsetting. The breakout looks fairly promising for continued upside, but it has a strong seasonal headwind to deal with. The Aggregator is neutral and that is where I am at as well. I'll continue to exercise patience until the next compelling opportunity arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/24– 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.*

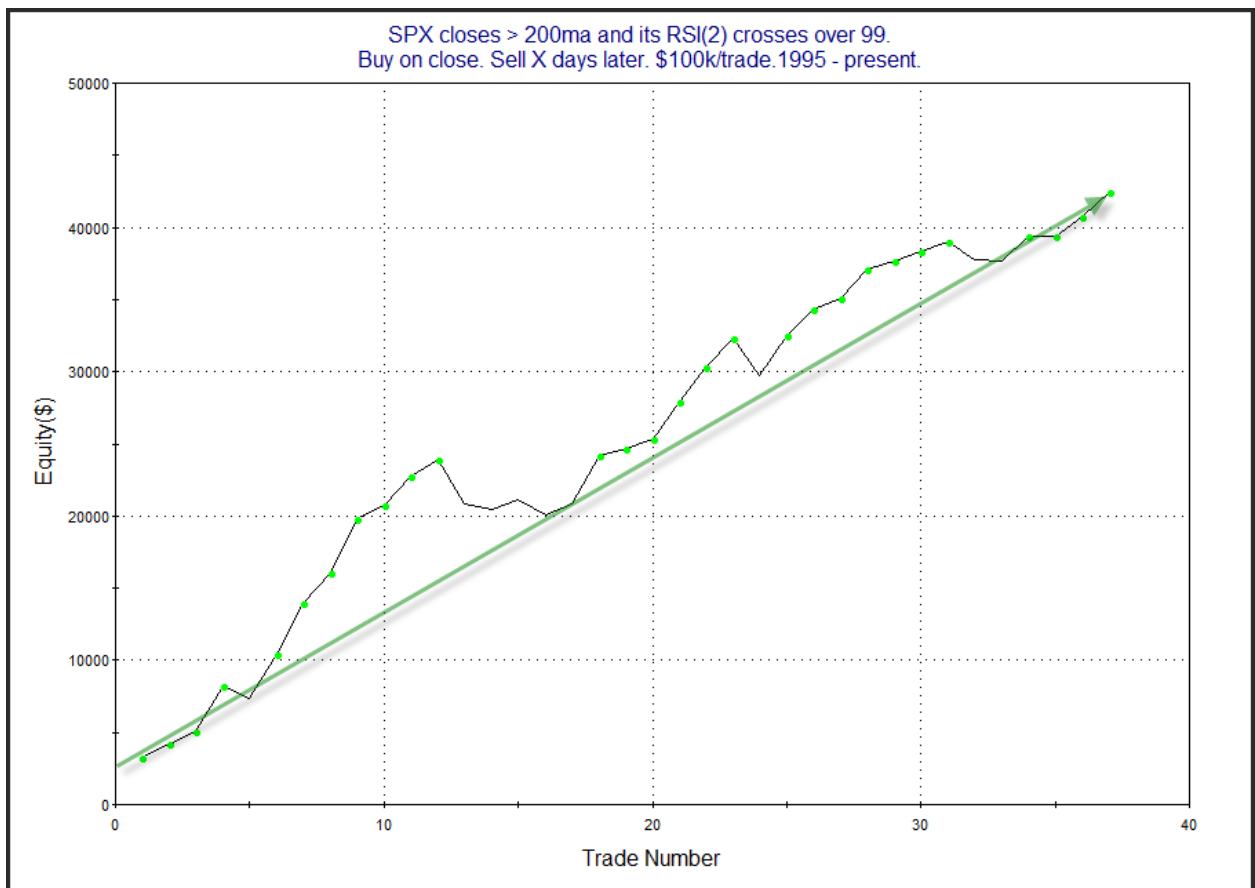
This past week saw strong gains for the indices. The SPX rose 2.2% and made new all-time highs. The NASDAQ gained 3.0%, and the Russell 2000 climbed 1.8%. There was one new study with intermediate-term implications that emerged and was featured in Thursday night's letter. I have copied it below.

Of course the recent rally and breakout has left the market short-term overbought by most measures. And short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 4/8/19 Letter, which uses RSI(2).

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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 | 42,449.60 | 37 | 30 | 7 | 81.08 | 1,724.77 | 3,782.11 | -1,327.63 | -3,063.60 | 1.30 | 5.57 | 1,147.29 |
| 14 | 36,645.65 | 37 | 29 | 8 | 78.38 | 1,653.45 | 4,461.36 | -1,413.04 | -2,699.52 | 1.17 | 4.24 | 990.42 |
| 13 | 37,477.27 | 39 | 32 | 7 | 82.05 | 1,522.57 | 3,989.82 | -1,606.42 | -3,320.01 | 0.95 | 4.33 | 960.96 |
| 12 | 35,180.79 | 39 | 31 | 8 | 79.49 | 1,455.42 | 4,058.61 | -1,242.16 | -3,175.53 | 1.17 | 4.54 | 902.07 |
| 11 | 37,967.97 | 39 | 31 | 8 | 79.49 | 1,554.12 | 4,106.40 | -1,276.22 | -2,523.21 | 1.22 | 4.72 | 973.54 |
| 10 | 29,961.94 | 40 | 31 | 9 | 77.50 | 1,363.61 | 3,770.55 | -1,367.79 | -2,793.28 | 1.00 | 3.43 | 749.05 |
| 9 | 25,918.49 | 40 | 30 | 10 | 75.00 | 1,262.86 | 3,453.27 | -1,196.74 | -3,440.07 | 1.06 | 3.17 | 647.96 |
| 8 | 26,403.67 | 40 | 28 | 12 | 70.00 | 1,325.29 | 3,547.80 | -892.03 | -3,460.32 | 1.49 | 3.47 | 660.09 |
| 7 | 19,614.84 | 41 | 27 | 14 | 65.85 | 1,179.24 | 3,564.39 | -873.19 | -4,153.62 | 1.35 | 2.60 | 478.41 |
| 6 | 11,024.47 | 41 | 26 | 15 | 63.41 | 1,039.17 | 2,634.36 | -1,066.26 | -5,296.92 | 0.97 | 1.69 | 268.89 |
| 5 | 7,718.25 | 41 | 28 | 13 | 68.29 | 811.99 | 1,782.39 | -1,155.19 | -3,596.40 | 0.70 | 1.51 | 188.25 |
| 4 | 5,048.55 | 41 | 27 | 14 | 65.85 | 794.86 | 2,442.90 | -1,172.34 | -3,039.18 | 0.68 | 1.31 | 123.14 |
| 3 | -1,012.86 | 42 | 24 | 18 | 57.14 | 694.71 | 1,982.20 | -982.54 | -2,880.45 | 0.71 | 0.94 | -24.12 |
| 2 | 1,190.94 | 42 | 24 | 18 | 57.14 | 632.24 | 1,998.39 | -776.83 | -2,348.76 | 0.81 | 1.09 | 28.36 |
| 1 | 1,511.66 | 42 | 22 | 20 | 52.38 | 514.54 | 2,096.10 | -490.41 | -3,515.37 | 1.05 | 1.15 | 35.99 |

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.

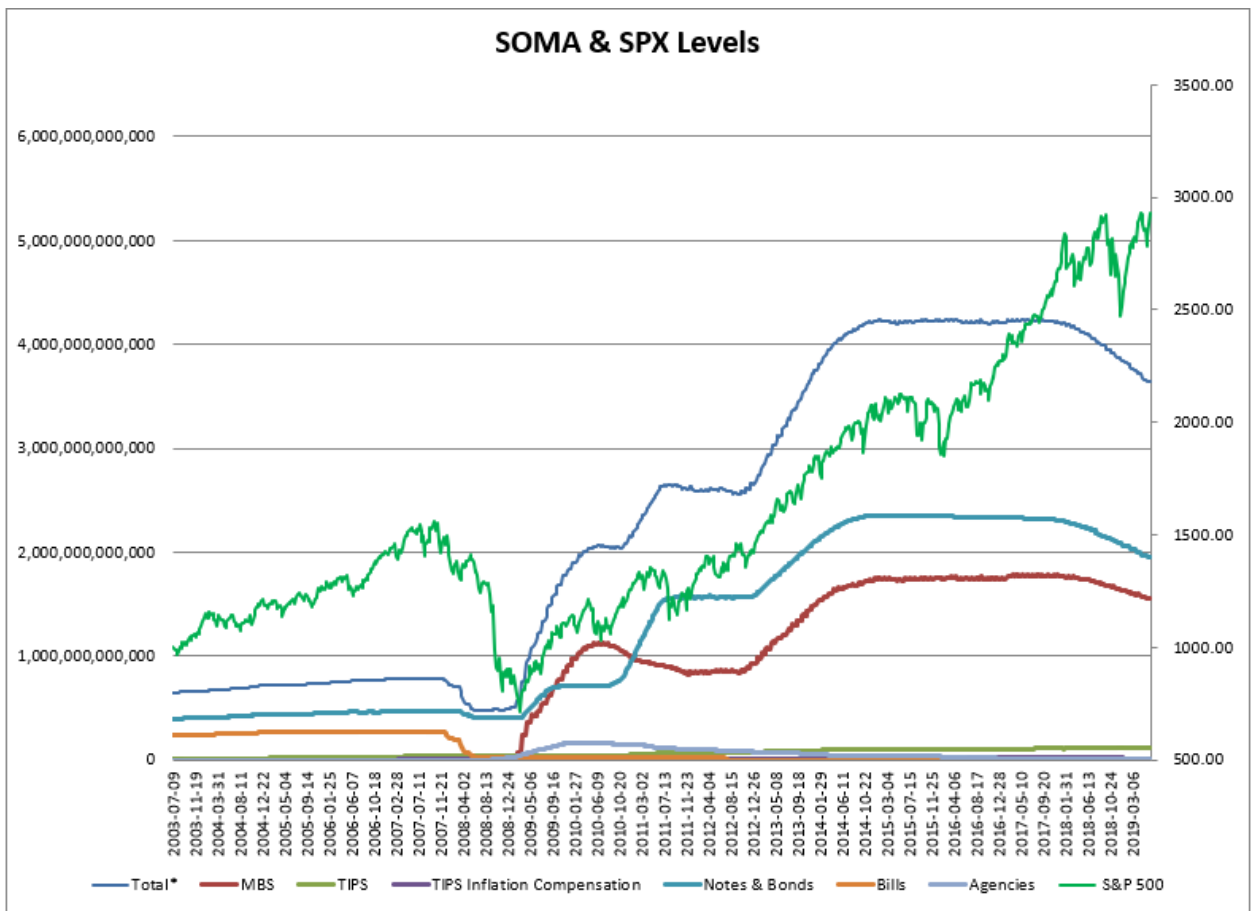


The upside edge has been apparent for a while and still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

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 06/12/2019

DOMESTIC SECURITIES HOLDINGS AS OF

June 19, 2019 📅

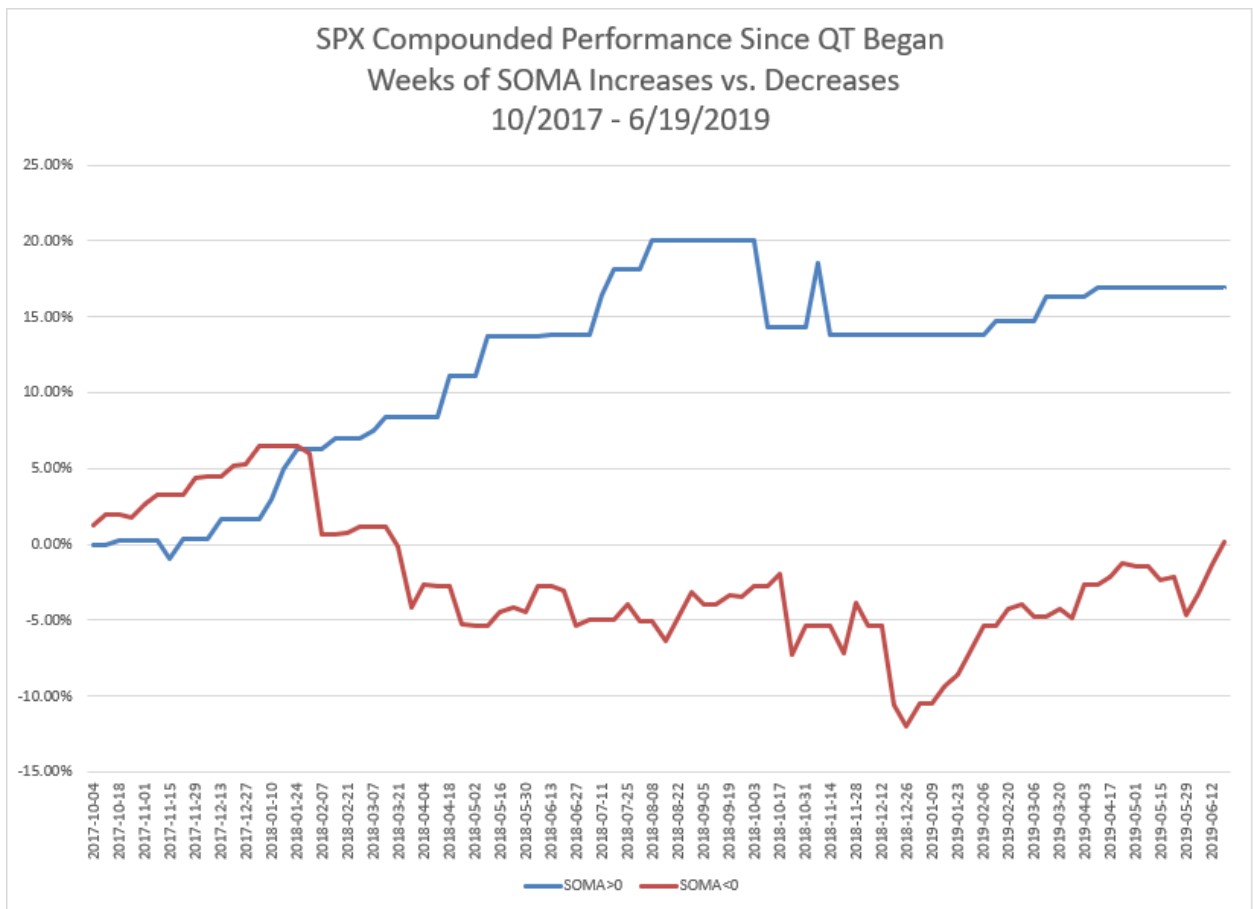
| Security Type | Total (in Thousands) |
|--|----------------------|
| US Treasury Bills (T-Bills) | 5,000.0 |
| US Treasury Notes and Bonds (Notes/Bonds) | 1,955,450,432.5 |
| US Treasury Floating Rate Notes (FRN) | 14,819,524.4 |
| US Treasury Inflation-Protected Securities (TIPS)* | 116,516,485.4 |
| Federal Agency Securities** | 2,347,000.0 |
| Agency Mortgage-Backed Securities*** | 1,548,795,928.5 |
| Total SOMA Holdings | 3,637,934,370.8 |
| Change From Prior Week | -6,654,342.0 |

*Does not reflect inflation compensation of 23,292,553.9
**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 06/20/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) fell \$6.7 billion. That is a fairly sizable dip, and a bit larger than the decline I was expecting. Meanwhile the SPX managed to carve out a 1.6% rally. That is a strong rise for any week, and especially a week with 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 struggled, 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 gained just 0.2%. 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, weeks ending on or near the 26th have consistently seen declines in the SOMA, so the current reporting week should see some decent-sized QT. And then next week with the big treasury expiration will definitely see a large drop in the SOMA.

Bullish studies and evidence still seem to be outweighing bearish for the intermediate-term. This includes studies based on very high RSI(2) readings, CBI spikes and strong upward momentum coming off a low. But concerns remain. 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. And the Fed's more dovish tone in 2019 certainly seems to have aided the market. 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.

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