

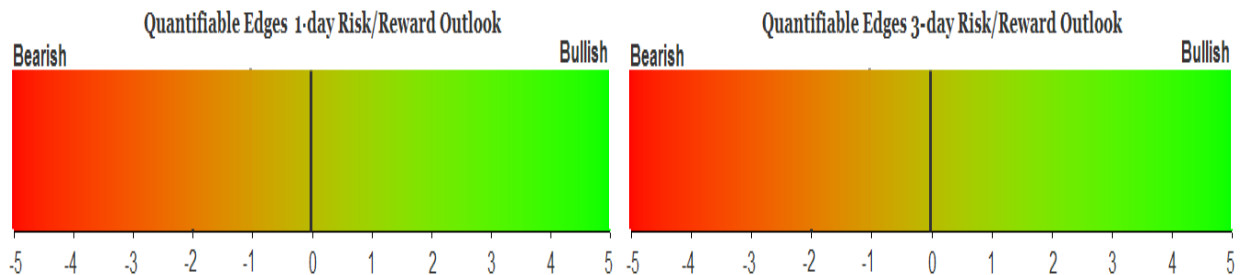
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 1, 2019

Volume 12 Issue 125

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 1 |

Tonight's Research Points

- Turn of month looks a bit sketchy even though July has been the best month of the year.
- This week is a big QT week, but we should see a reprieve after Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

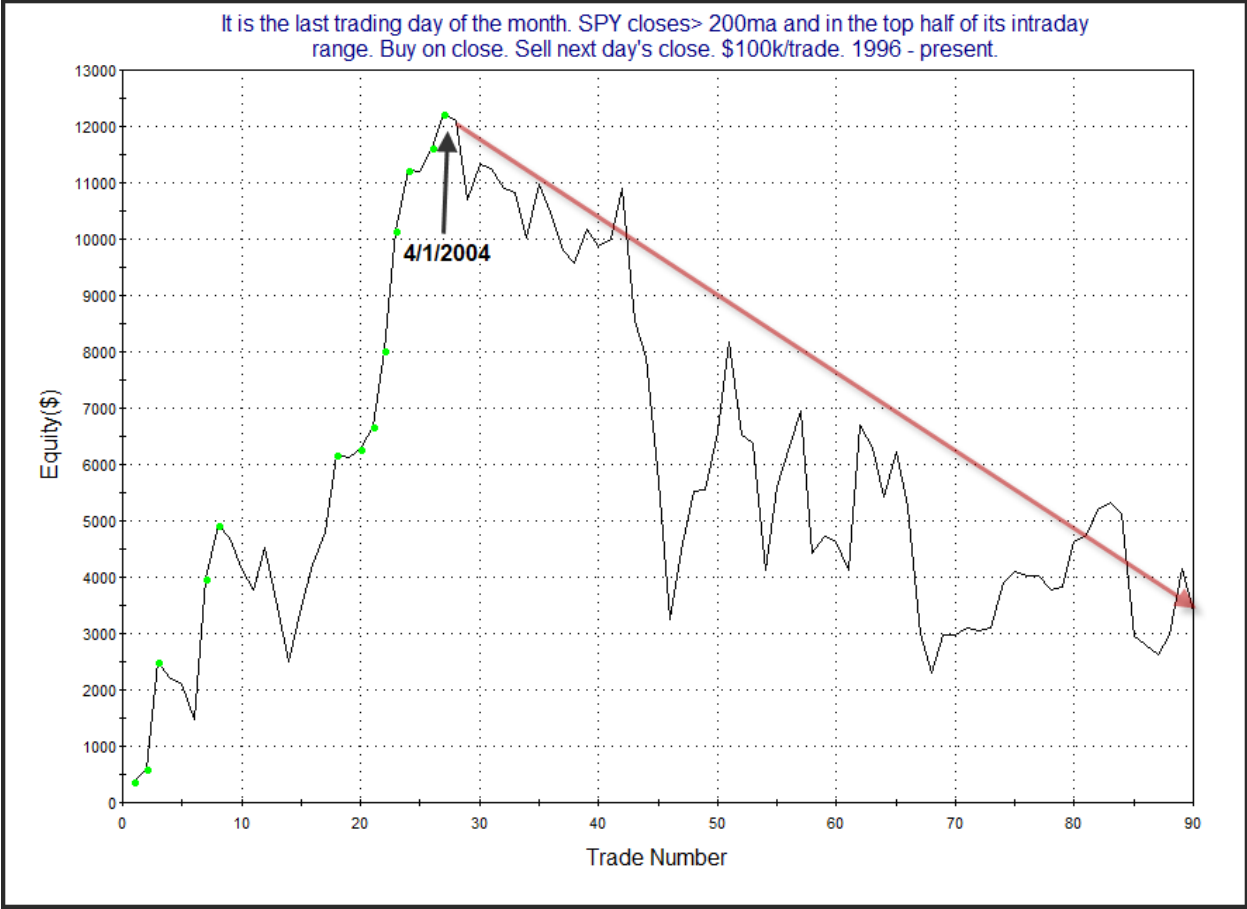
Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|---------------------------------------|-----------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| June 27, 2019 | 1st close < 10ma in 15+ days | 1-5 days | Bullish | | | |
| June 26, 2019 | 3-day pullback from 50-high | 1-4 days | Bullish | 1.50% | -0.90% | -1.90% |
| 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% |
| 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 | | | |
| Dropped Tonight | | | | | | |
| June 3, 2019 | CBI >= 10 and SPX 50-day low | 1-18 days | Bullish | 7.10% | -4.30% | -8.20% |
| June 24, 2019 | Week after Quad opex | 1-5 days | Bearish | -2.00% | 1.30% | 2.90% |
| June 28, 2019 | Unfilled gap up inside day >200 | 1 day | Bearish | | | |

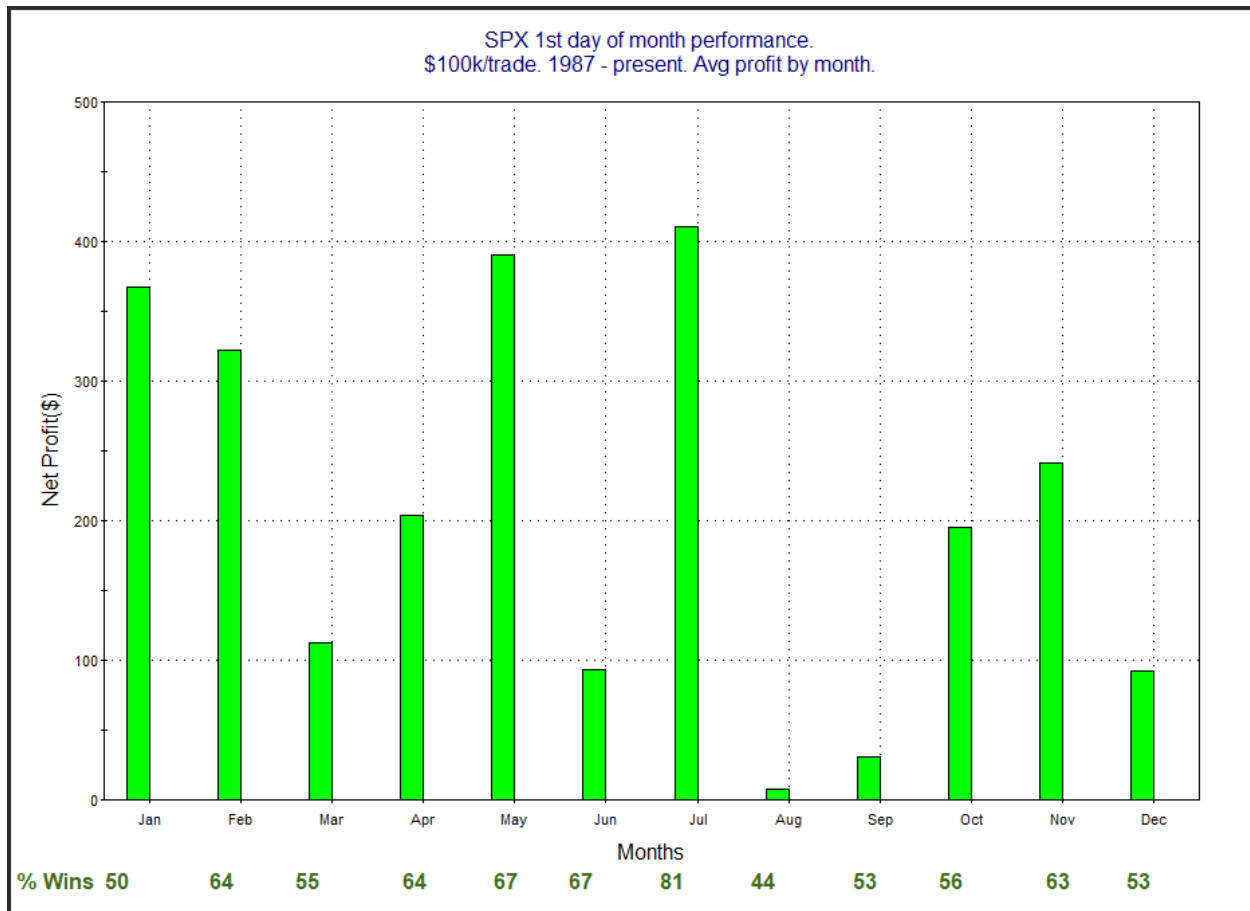
The Evidence

Friday was an up day. The SPX rose 0.6%, the NASDAQ gained 0.5%, and the Russell 2000 rallied 1.3%. Breadth was positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 79%. NYSE volume spiked higher, partially thanks to Russell rebalancing.

Last night I showed a couple of turn of the month studies. They indicated that a poor close on Friday could set up a bullish Monday, but a strong close on Friday would eliminate the bullish edge, or perhaps even turn it bearish. So Friday's strong close is not good news for Monday's odds. Below is a copy of the profit curve I showed in Thursday night's letter.

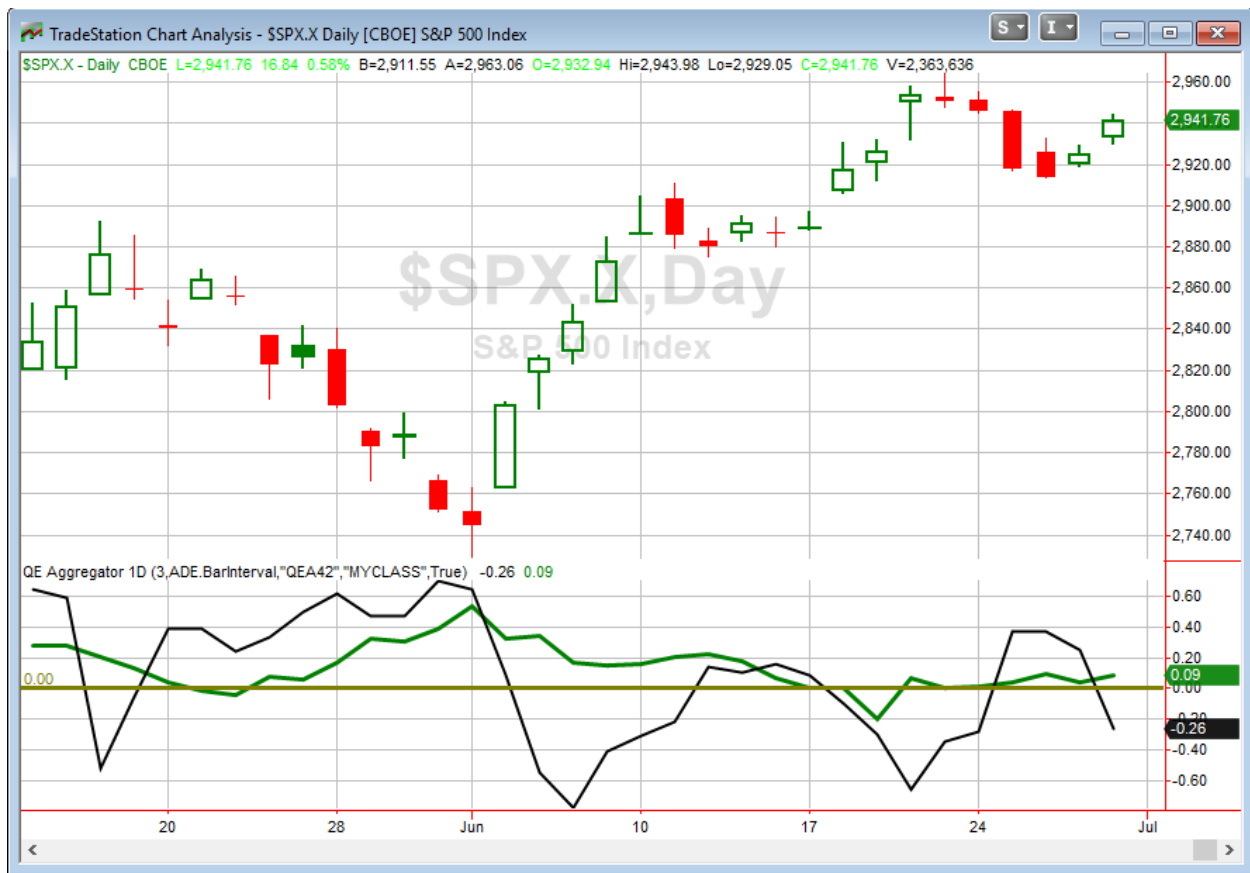


This paints a bleak picture. One turn of month study the bulls could turn to is the one below, that shows July as being the best month of the year for 1st-day bullishness.



We see here that July has started with an up day 81% of the time and posted an avg gain of about 0.4%. Still, I am not inclined to put much faith in a turn of month study this month with the strong close SPY put forward on Friday.

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



Without any new studies being added 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 dropped 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 turned flat at the close.

Based on the current Active Studies list, expectations are set remain positive on Monday. This could change if compelling new bearish evidence emerges. The Differential Pivot will 2918.08 on Monday. That is 0.8% below Friday's close. Therefore SPX would need to close down at least 0.8% on Friday in order to flip from overbought to oversold versus expectations.

So the Aggregator is neutral. And that is where I am as well. While evidence is pointing up, reward/risk does not seem great. I'll wait for either the market to pull back or for compelling bearish evidence to emerge before looking to take on a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/1– somewhat bullish

| Combo #1 | Combo #2 | Combo #3 |
|-----------------|-----------------|-----------------|
| Long | Long | Flat |

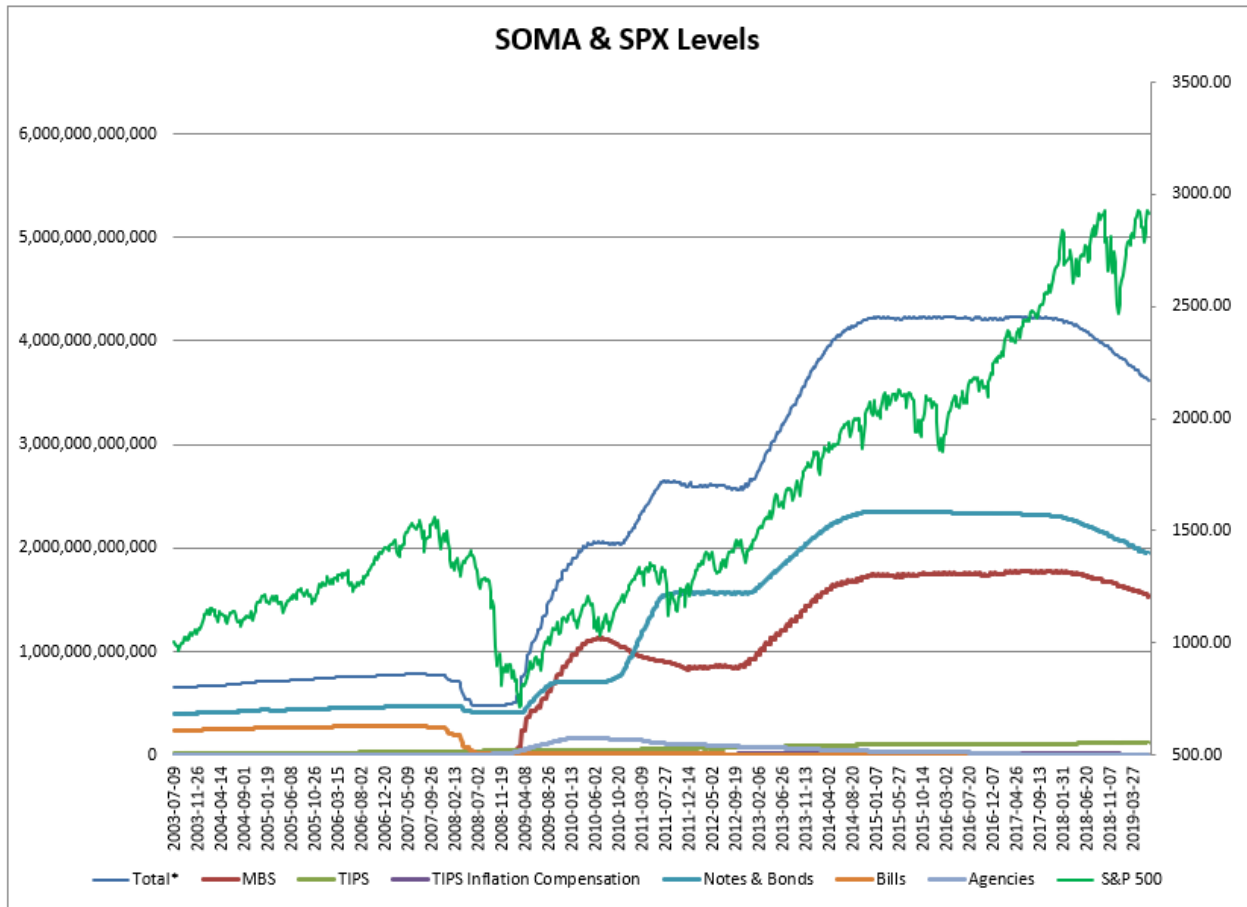
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 was a mixed one for the indices. The SPX and NASDAQ each lost 0.3%, while the Russell 2000 rose 1.1%. There were no new studies with intermediate-term implications that emerged.

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 06/19/2019

DOMESTIC SECURITIES HOLDINGS AS OF
June 26, 2019

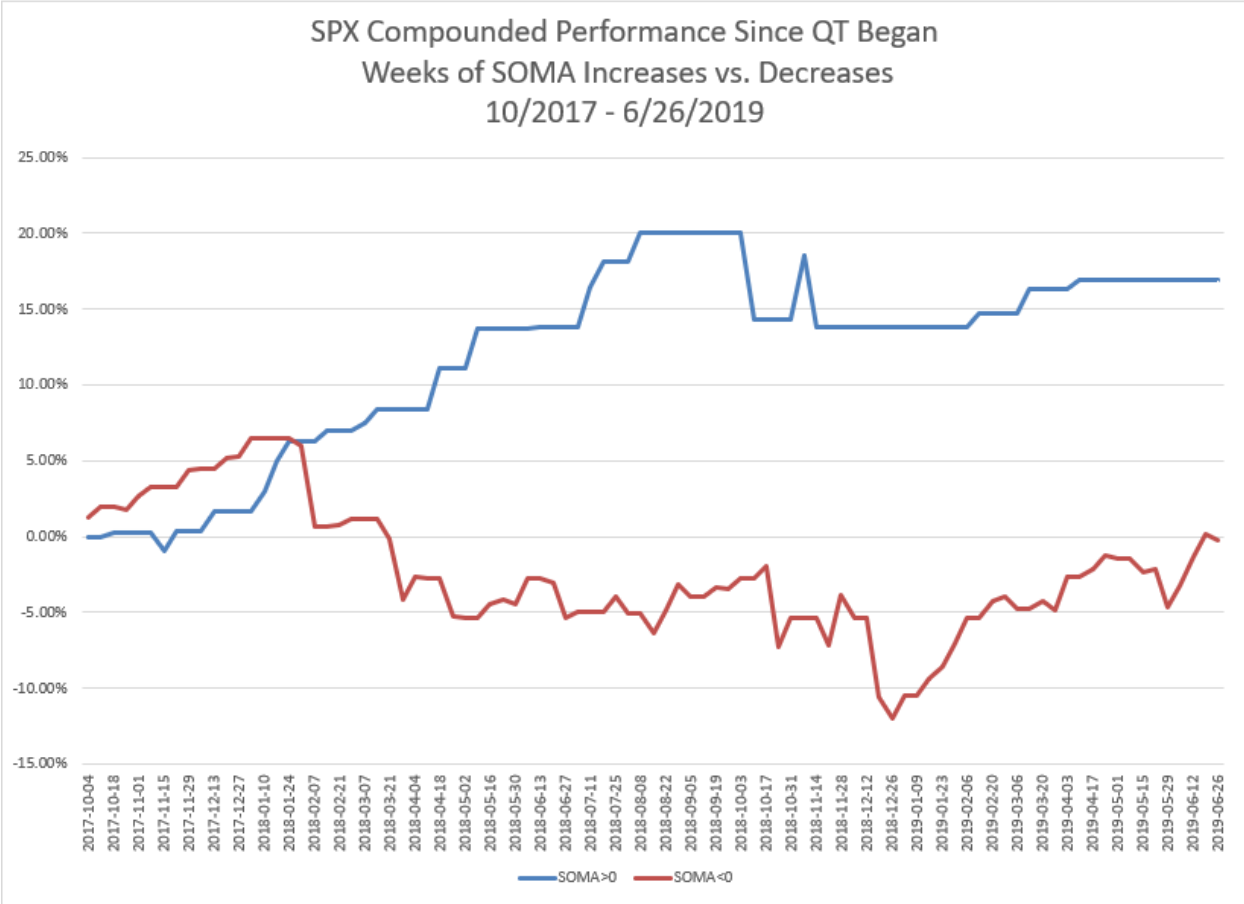
| Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies |
|--|----------------------|---------------------|-----|------|----------|
| Security Type | Total (in Thousands) | | | | |
| US Treasury Bills (T-Bills) | 5,000.0 | | | | |
| US Treasury Notes and Bonds (Notes/Bonds) | 1,955,450,432.5 | | | | |
| 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*** | 1,532,726,162.0 | | | | |
| Total SOMA Holdings | 3,621,864,604.3 | | | | |
| Change From Prior Week | -16,069,766.5 | | | | |

*Does not reflect inflation compensation of 23,464,592.6
 **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 06/27/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) fell \$16.1 billion. That is a large contraction. Meanwhile the SPX declined 0.4% over the same period. A decline during a SOMA contraction week is not a big surprise.

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 lost 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 there are \$21 billion worth of treasuries set to expire. The Fed is only going to abstain from rolling over \$15 billion of treasuries this month. The remaining \$6 billion should roll.

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.

This current week with the big treasury expiration will definitely see a large drop in the SOMA. But the week starting Thursday and ending on 7/10 is unlikely to see any QT. In fact, there appears to be a good chance that there will be a small rise, which could serve as a breeze at the bulls backs starting Friday.

Intermediate-term evidence still seems to have a bullish lean. Some momentum studies are still active for a few more days. But issues 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.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

SPG @ \$159.25 (bought @ limit)

Broad Market Large Cap CBI – 1(SPG)

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 |
|----------|------------|-------------|---------------|-------------|---------------------|
| SPY(1/4) | 6/26/2019 | \$290.47 | \$292.60 | 0.73% | <i>sold on open</i> |
| SPG(1/3) | 6/27/2019 | \$159.27 | \$159.75 | 0.30% | Catapult |
| | | | | | |

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