

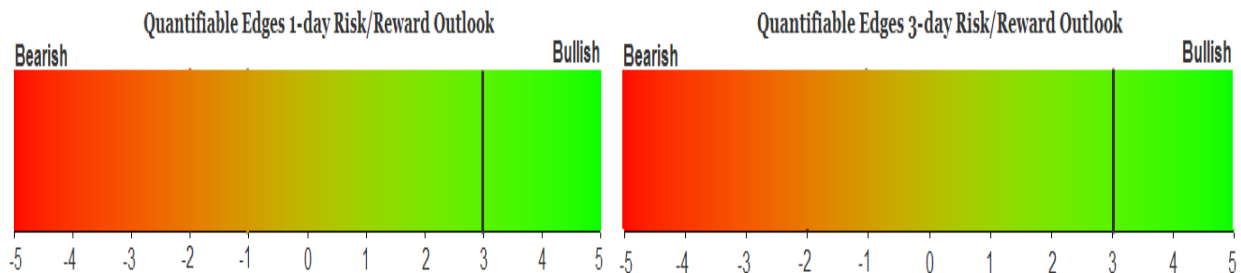
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2019

Volume 12 Issue 149

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- The pullback in conjunction with the recent Fed Day also suggests an upside edge.
- The unfilled gap down from a 20-day low, and the lower close suggests that a bounce is coming.
- Multiple Hindenburg Omen signals are a warning sign of a potential selloff in the coming weeks.
- QQQ down 5 days in a row with the latest being the largest has typically led to intermediate-term upside.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish. I believe there is a solid upside edge.

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						
August 5, 2019	SPX dn 3. Fed Day 2 days ago	1-3 days	Bullish	2.00%	-0.80%	-1.70%
August 5, 2019	Gp down frm 20-low. Close < open	1-5 days	Bullish	2.70%	-1.00%	-2.10%
August 5, 2019	SPY unfill dn. 10-low. 3rd dn close.	1-2 days	Bullish	1.60%	-0.60%	-1.40%
August 2, 2019	1st 10-low close in 30+ days	1-6 days	Bullish			
August 1, 2019	Dn 3 days from 50-day high. C > 10-low	1-4 days	Bullish			
August 1, 2019	Fed Day SPX down 2+	1-6 days	Bullish			
July 29, 2019	NDX up 1%. SOX down.	1-6 days	Bearish	-3.10%	1.80%	3.90%
Active - Long Term						
August 5, 2019	4+ Hindenburg Omen Signals	1-35 days	Bearish			
August 5, 2019	QQQ down 5. Today biggest drop.	1-20 days	Bullish	10.60%	-4.40%	-7.70%
August 2, 2019	1st 10-low close in 30+ days	1-6 days	Bullish			
August 1, 2019	QT over.	int term	Neutral			
July 8, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

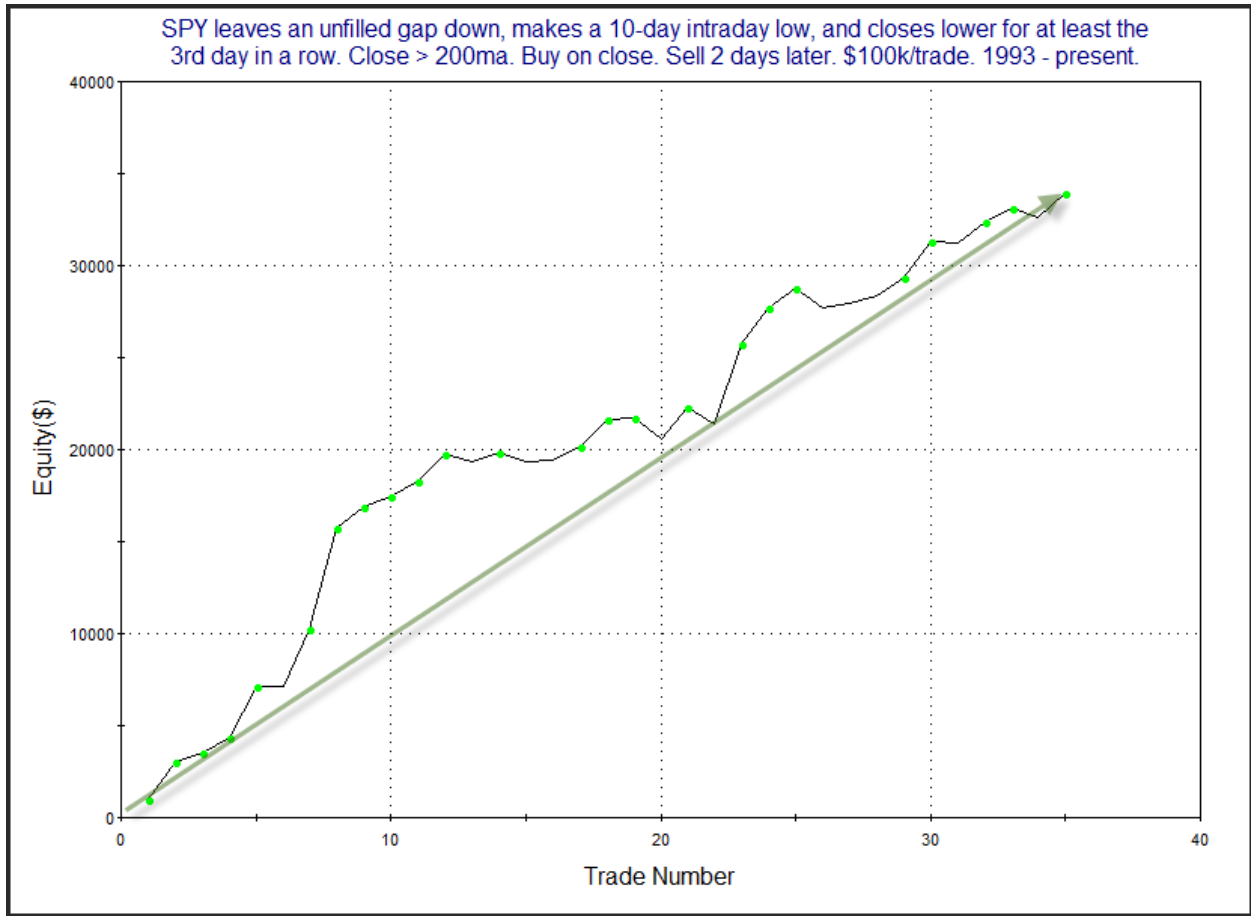
The Evidence

The market could not manage to bounce on Friday and the selloff continued going into the weekend. The SPX lost 0.7%, the NASDAQ fell 1.3%, and the Russell 2000 declined 1.1%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 34%. NYSE volume declined some from Thursday's level.

The selling triggered some more compelling bullish evidence. The study below was seen most recently in the 5/10/19 letter. It looked for multiple down days, short-term lows, and an unfilled gap down. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
5	31,803.67	35	25	10	71.43	1,811.31	8,239.74	-1,347.92	-4,770.78	1.34	3.36	908.68
4	26,162.09	35	24	11	68.57	1,799.92	5,581.02	-1,548.73	-4,430.01	1.16	2.54	747.49
3	35,995.77	35	27	8	77.14	1,575.32	4,249.44	-817.24	-1,847.47	1.93	6.51	1,028.45
2	33,908.40	35	27	7	77.14	1,421.69	5,477.88	-639.61	-1,118.36	2.22	8.57	968.81
1	18,493.54	36	27	9	75.00	888.65	5,764.38	-611.10	-1,677.36	1.45	4.36	513.71
34 of 36 instances (94%) closed above the entry price at some point in the next 3 days.												

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

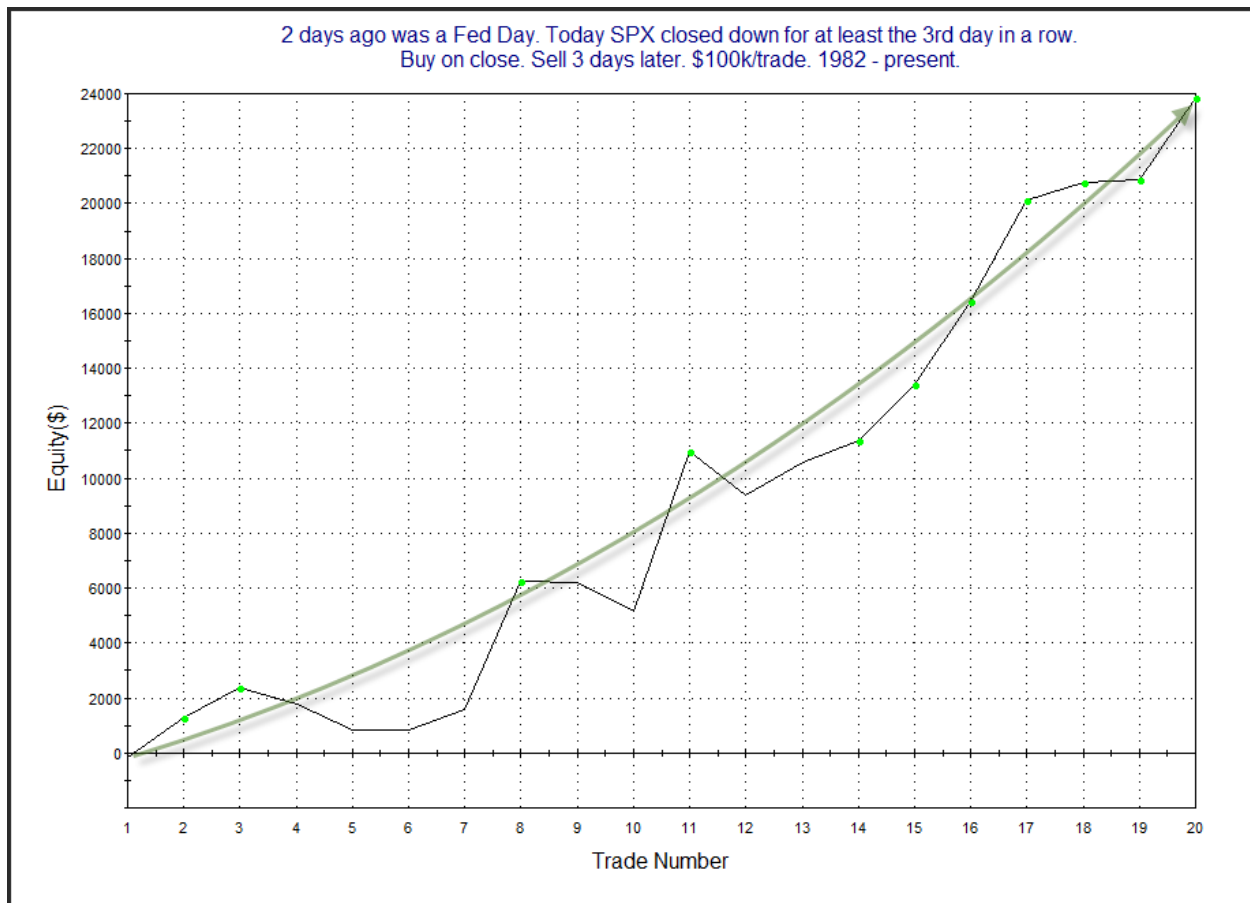
Another study that looked at the streak of down days also considered the recent Fed Day. It was last shown in the 11/7/16 letter. I have updated the results below.

2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	14,338.77	20	11	9	55.00	5,555.16	-3,477.69	2,642.49	-1,636.51	1.61	1.97	716.94
4	22,329.91	20	13	7	65.00	5,564.00	-2,266.11	2,309.03	-1,098.21	2.10	3.90	1,116.50
3	23,854.38	20	14	6	70.00	5,801.02	-1,610.84	2,017.28	-731.25	2.76	6.44	1,192.72
2	18,578.51	20	15	5	75.00	4,670.25	-971.48	1,434.62	-588.17	2.44	7.32	928.93
1	12,100.19	20	14	6	70.00	2,671.02	-2,684.68	1,110.15	-573.65	1.94	4.52	605.01

19 of 20 instances (95%) closed above the entry price at some point in the next 3 days. The lone loser triggered on 11/9/84 and continued to sell off for several weeks.

We see here a strong tendency to bounce, and substantial potential upside. Below is a look at the 3-day profit curve.



The upslope is strong and accelerating. I have included this study on the Active List tonight.

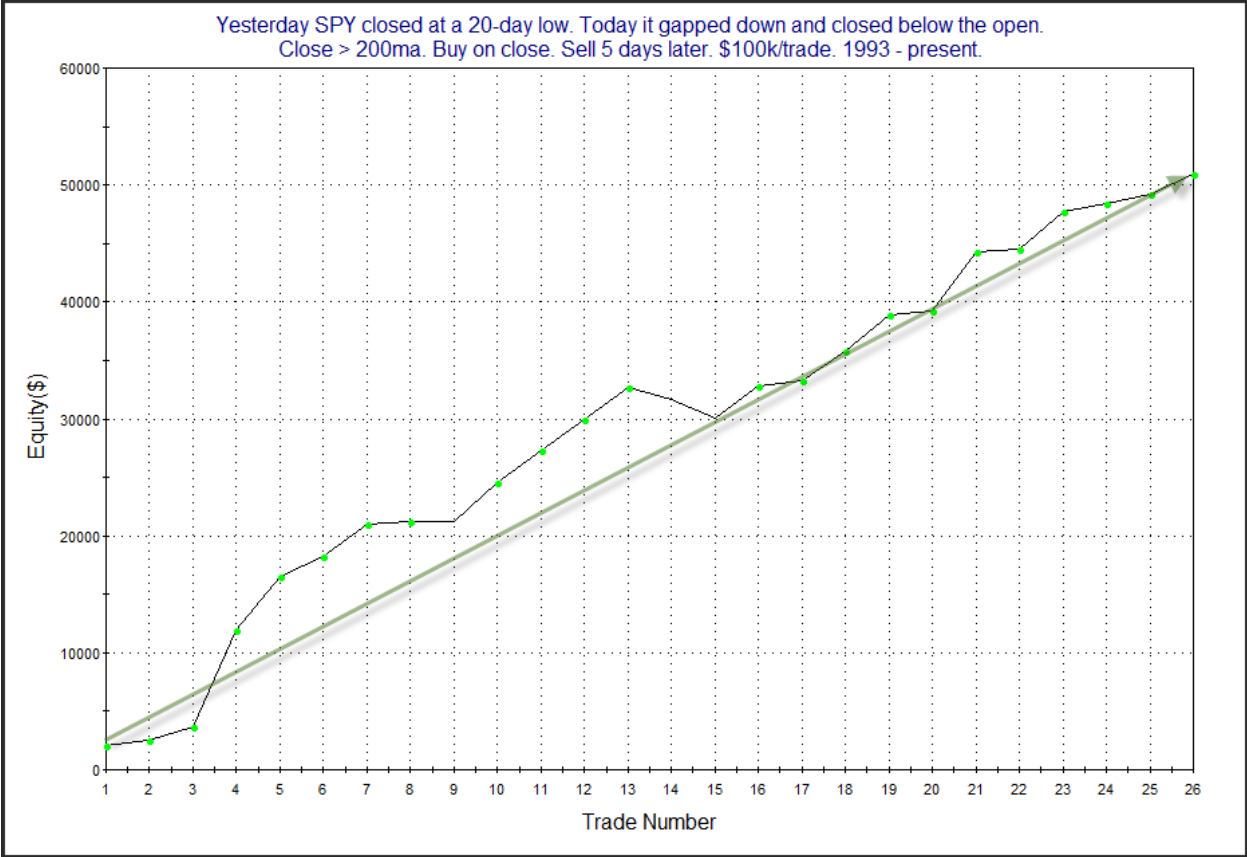
Another compelling study looked at unfilled gaps down following times when SPY was already at an intermediate-term low. It was last seen in the 8/21/17 letter. I have updated the results below.

Yesterday SPY closed at a 20-day low. Today it gapped down and closed below the open.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	50,908.89	26	23	3	88.46	8,239.74	-1,594.30	2,329.34	-888.66	2.62	20.10	1,958.03
4	40,167.81	26	21	5	80.77	5,581.02	-3,255.65	2,164.05	-1,055.44	2.05	8.61	1,544.92
3	30,258.48	26	18	8	69.23	4,348.05	-2,421.25	2,063.58	-860.75	2.40	5.39	1,163.79
2	22,523.51	27	15	12	55.56	5,477.88	-1,077.00	1,962.21	-575.80	3.41	4.26	834.20
1	19,756.64	31	21	10	67.74	5,764.38	-2,200.67	1,250.51	-650.40	1.92	4.04	637.31

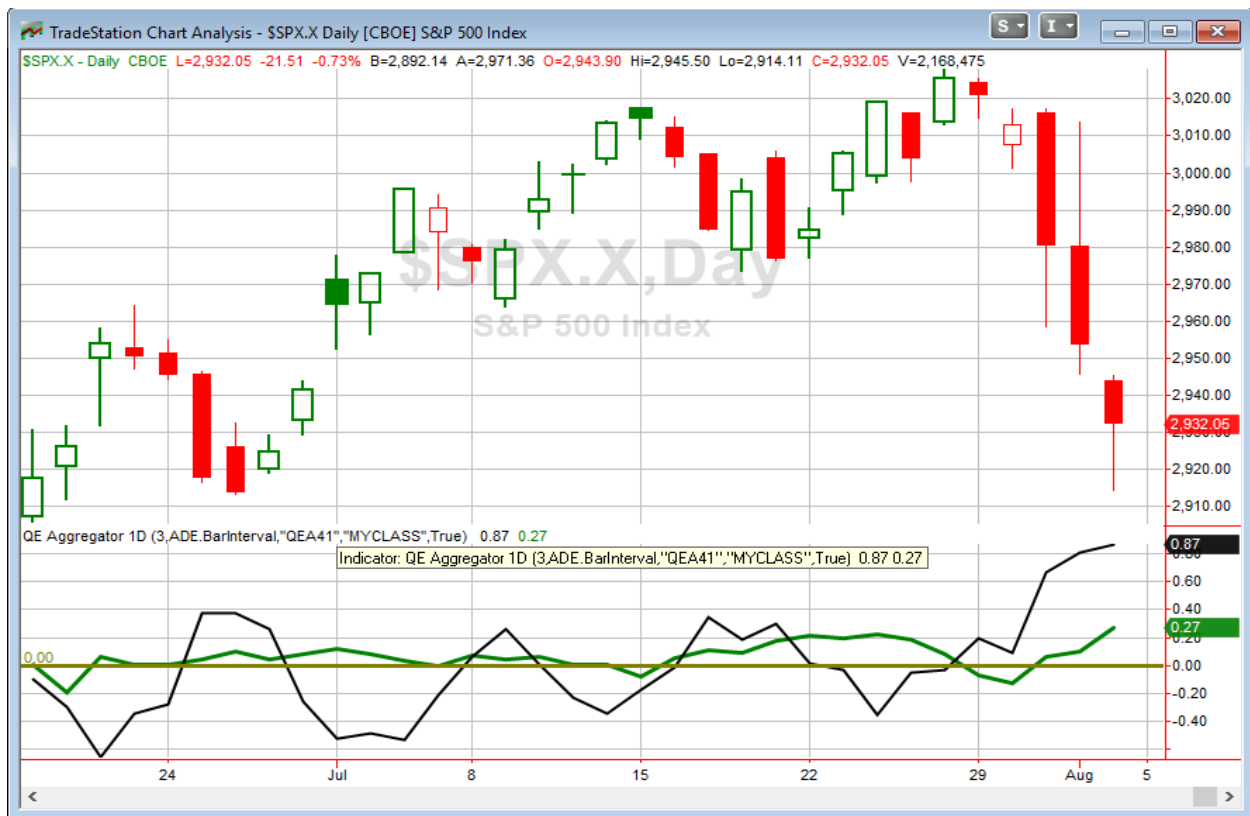
The only instance NOT to close above the entry price at some point in the next week triggered on 5/14/12.

Results here appear both consistent and powerful. Below is a look at the profit curve assuming a 5-day holding period.



This curve is perhaps the most impressive one we've seen today. It serves as some confirmation of the bullish tendency suggested by the stats table. This study is now included on the Active List.

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



With tonight's new 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. And it is now as oversold as we have seen it in a long time. 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 active list of studies, expectations are slated to remain positive on Monday. This is highly unlikely to change. The Differential Pivot will be 2975.87 on Monday. That is 1.5% above Friday's close. So SPX would need to close up at least 1.5% on Monday in order to flip from oversold to overbought versus recent expectations.

Evidence continues to build for the bulls. And there is ample room to the upside to take advantage of the bullish edge. So I like the long side. I have taken on a couple of lots of SPY over the last couple of days – with the 2nd lot being added at the close on Friday. But I am not inclined to add further to my index position on Monday. I am a bit wary of getting to heavily invested with the CBI sitting at just 1. I would prefer to see it reach 5 or higher before taking on additional index exposure. So I will see how things play out early in the week. I may add more to the position on further weakness if the CBI spike and bullish evidence continues to build.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/5– slightly bullish

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

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 all 3 combo systems remained “long”.*

With every day a down day, this past week was a tough one for the market. The SPX declined 3.1%, the NASDAQ fell 3.9%, and the Russell 2000 dropped 2.9%. There were some studies that triggered with intermediate-term consequences.

One intermediate-term notable is that we have seen multiple Hindenburg Omen signals trigger recently, with the most recent one being Friday. I last discussed the Hindenburg Omen in detail in the 5/28/19 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.
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 signal 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
100	82,506.35	35	22	13	62.86	19,927.11	-19,079.85	7,369.72	-6,125.19	1.20	2.04	2,357.32
95	70,848.96	35	21	14	60.00	19,052.91	-22,416.88	7,450.23	-6,114.71	1.22	1.83	2,024.26
90	57,781.15	35	20	15	57.14	17,492.37	-20,572.65	7,590.28	-6,268.30	1.21	1.61	1,650.89
85	64,663.59	36	23	13	63.89	17,010.63	-21,465.22	7,154.46	-7,683.77	0.93	1.65	1,796.21
80	56,266.66	36	22	14	61.11	16,583.84	-21,552.30	6,931.93	-6,873.98	1.01	1.58	1,562.96
75	38,844.96	37	22	15	59.46	14,501.70	-22,917.59	6,312.22	-6,668.26	0.95	1.39	1,049.86
70	20,465.47	38	22	16	57.89	17,714.32	-20,289.64	6,528.31	-7,697.33	0.85	1.17	538.56
65	4,561.83	38	21	17	55.26	16,609.84	-21,508.76	6,736.00	-8,052.60	0.84	1.03	120.05
60	493.76	39	21	18	53.85	17,197.44	-24,323.31	6,232.90	-7,244.29	0.86	1.00	12.66
55	-8,234.73	40	23	17	57.50	14,306.24	-27,246.71	5,378.14	-7,760.70	0.69	0.94	-205.87
50	7,573.72	42	24	18	57.14	14,509.04	-29,846.67	5,388.34	-6,763.69	0.80	1.06	180.33
45	13,734.81	42	25	17	59.52	13,151.98	-23,971.88	4,738.19	-6,160.00	0.77	1.13	327.02
40	7,132.86	43	25	18	58.14	12,520.58	-23,520.93	4,434.42	-5,762.64	0.77	1.07	165.88
35	1,665.77	46	26	20	56.52	12,021.20	-24,659.19	4,009.89	-5,129.58	0.78	1.02	36.21
30	5,392.48	46	27	19	58.70	9,855.58	-22,460.42	3,769.16	-5,072.35	0.74	1.06	117.23
25	5,769.95	48	26	22	54.17	9,781.64	-27,340.01	3,844.01	-4,280.65	0.90	1.06	120.21
20	-3,100.08	51	30	21	58.82	9,257.67	-19,533.91	2,897.95	-4,287.56	0.68	0.97	-60.79
15	10,062.48	55	31	24	56.36	9,103.68	-8,166.80	2,421.66	-2,708.70	0.89	1.15	182.95
10	-10,023.80	65	33	32	50.77	9,012.33	-7,899.90	1,859.65	-2,231.01	0.83	0.86	-154.21
5	-36,021.60	83	35	48	42.17	4,926.56	-7,160.65	1,281.10	-1,684.58	0.76	0.55	-434.00

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 signal 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
100	58,551.04	24	18	6	75.00	17,883.98	-18,879.12	5,976.54	-8,171.12	0.73	2.19	2,439.63
95	46,081.07	24	16	8	66.67	17,605.78	-21,212.88	6,313.16	-6,866.18	0.92	1.84	1,920.04
90	43,642.14	24	17	7	70.83	20,476.59	-20,011.68	5,769.78	-7,777.74	0.74	1.80	1,818.42
85	28,656.82	25	15	10	60.00	20,455.19	-21,883.68	6,615.46	-7,057.50	0.94	1.41	1,146.27
80	28,679.47	25	17	8	68.00	18,961.47	-21,961.68	5,274.89	-7,624.20	0.69	1.47	1,147.18
75	26,429.09	26	16	10	61.54	17,861.51	-23,181.60	6,319.79	-7,468.75	0.85	1.35	1,016.50
70	4,094.83	28	18	10	64.29	21,700.67	-19,060.08	5,214.63	-8,976.85	0.58	1.05	146.24
65	-18,941.73	28	17	11	60.71	20,504.41	-23,131.68	4,978.41	-9,415.89	0.53	0.82	-676.49
60	-3,402.19	29	17	12	58.62	19,457.95	-22,011.60	5,135.88	-7,559.34	0.68	0.96	-117.32
55	-21,855.78	30	17	13	56.67	18,625.49	-26,329.68	4,690.33	-7,814.72	0.60	0.78	-728.53
50	-4,445.43	32	18	14	56.25	17,961.02	-29,889.60	5,047.03	-6,806.57	0.74	0.95	-138.92
45	-1,937.45	33	17	16	51.52	16,345.32	-24,766.56	4,771.48	-5,190.79	0.92	0.98	-58.71
40	-24,212.99	33	16	17	48.48	14,615.13	-24,853.92	4,181.82	-5,360.12	0.78	0.73	-733.73
35	-19,676.83	33	17	16	51.52	13,303.31	-22,211.28	3,718.39	-5,180.59	0.72	0.76	-596.27
30	-13,180.84	33	20	13	60.61	11,007.09	-20,354.88	2,974.54	-5,590.13	0.53	0.82	-399.42
25	-12,445.88	34	19	15	55.88	10,173.56	-23,381.28	3,093.78	-4,748.52	0.65	0.83	-366.06
20	-30,069.95	38	19	19	50.00	8,886.35	-22,295.52	2,722.46	-4,305.09	0.63	0.63	-791.31
15	-5,163.23	40	22	18	55.00	8,305.02	-6,748.56	1,967.01	-2,690.96	0.73	0.89	-129.08
10	-19,083.26	46	17	29	36.96	9,247.23	-6,913.55	1,929.25	-1,788.98	1.08	0.63	-414.85
5	-15,295.66	61	28	33	45.90	6,245.73	-7,160.65	1,388.52	-1,641.65	0.85	0.72	-250.75

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 signal 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
100	36,025.35	17	12	5	70.59	18,512.90	-16,085.07	5,620.85	-6,284.97	0.89	2.15	2,119.14
95	21,485.64	17	11	6	64.71	16,070.66	-16,770.54	5,067.23	-5,708.99	0.89	1.63	1,263.86
90	12,210.27	17	10	7	58.82	18,595.58	-19,277.67	5,702.07	-6,401.49	0.89	1.27	718.25
85	29,614.02	17	12	5	70.59	18,884.96	-21,362.25	5,585.39	-7,482.12	0.75	1.79	1,742.00
80	3,415.98	18	10	8	55.56	16,528.58	-19,449.82	5,310.08	-6,210.60	0.86	1.07	189.78
75	17,084.38	18	10	8	55.56	18,289.24	-22,758.23	7,313.74	-7,006.63	1.04	1.30	949.13
70	-6,095.45	20	12	8	60.00	19,119.22	-21,021.08	5,404.19	-8,868.22	0.61	0.91	-304.77
65	-35,516.55	20	9	11	45.00	17,909.76	-23,731.66	4,962.28	-7,288.83	0.68	0.56	-1,775.83
60	-24,991.56	20	10	9	50.00	17,209.10	-22,576.69	4,756.60	-8,061.95	0.59	0.66	-1,249.58
55	-28,529.53	20	9	11	45.00	17,905.52	-20,673.65	5,602.18	-7,177.19	0.78	0.64	-1,426.48
50	-13,672.37	22	11	11	50.00	17,255.74	-22,263.69	4,976.60	-6,219.54	0.80	0.80	-621.47
45	-22,632.21	22	10	12	45.45	15,507.80	-25,143.29	4,754.97	-5,848.49	0.81	0.68	-1,028.74
40	-31,024.38	23	11	12	47.83	13,700.50	-26,846.01	4,064.26	-6,310.93	0.64	0.59	-1,348.89
35	-32,462.55	23	9	14	39.13	11,461.78	-22,795.79	4,309.28	-5,089.00	0.85	0.54	-1,411.42
30	-16,906.91	23	14	9	60.87	10,991.14	-23,844.34	3,194.49	-6,847.76	0.47	0.73	-735.08
25	-25,045.86	23	13	10	56.52	9,841.04	-25,105.73	2,736.86	-6,062.50	0.45	0.59	-1,088.95
20	-35,288.07	24	13	11	54.17	8,458.80	-21,406.07	2,462.12	-6,117.79	0.40	0.48	-1,470.34
15	-37,159.09	28	14	14	50.00	7,078.68	-26,924.26	2,094.77	-4,748.99	0.44	0.44	-1,327.11
10	-53,466.31	32	11	21	34.38	3,400.10	-25,784.94	1,451.38	-3,306.26	0.44	0.23	-1,670.82
5	-25,471.25	39	13	26	33.33	4,174.28	-4,975.25	1,136.89	-1,548.11	0.73	0.37	-653.11

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.

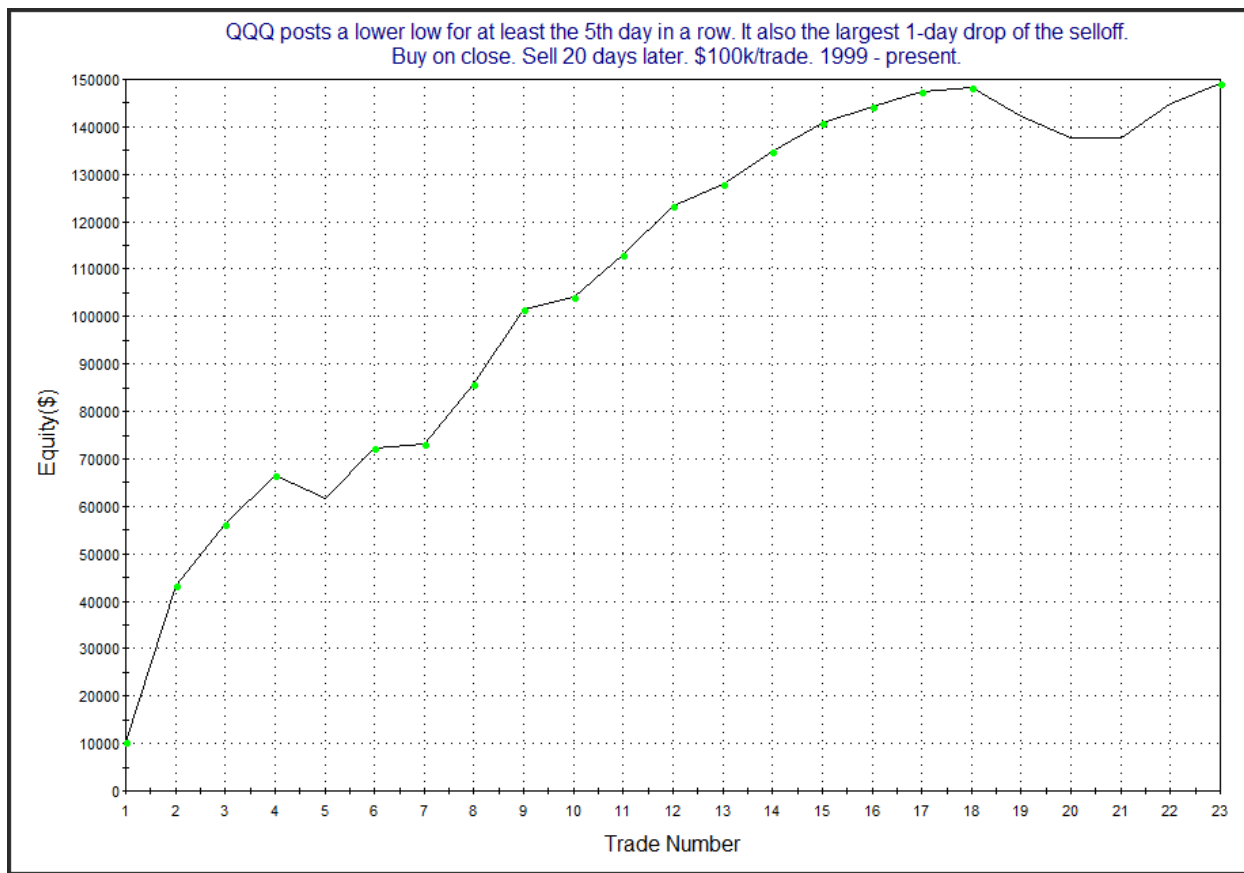
Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/14/1980	Buy	\$116.72	-14.16%	\$1,010.08
4/7/1980	Sell	\$100.19		→ (\$19,251.44)
7/24/1986	Buy	\$237.94	-3.06%	\$6,846.00
9/12/1986	Sell	\$230.66		→ (\$3,864.00)
12/8/1999	Buy	\$1,403.88	-3.11%	\$5,262.52
1/28/2000	Sell	\$1,360.16		→ (\$3,385.28)
4/24/2006	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 15 instances is about 2.3x the size of the average run-up. I also pointed arrows at the 9 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.

But there was some bullish evidence that emerged as well. The strong and accelerating pullback over the last week in QQQ is suggestive of a market that is primed to bounce over the intermediate-term. This can be seen in the study below, from the 5/7/12 letter.

QQQ posts a lower low for at least the 5th day in a row. It also the largest 1-day drop of the selloff. Buy on close. Sell X days later. \$100k/trade. 1999 - 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
20	149,056.47	23	20	3	86.96	32,745.57	-5,951.82	8,231.78	-5,193.04	1.59	10.57	6,480.72
19	145,322.50	23	19	4	82.61	31,061.82	-6,666.66	8,409.97	-3,616.72	2.33	11.05	6,318.37
18	139,382.39	23	19	4	82.61	31,573.68	-6,377.35	8,107.64	-3,665.68	2.21	10.51	6,060.10
17	111,372.97	23	18	5	78.26	26,522.43	-5,596.45	7,142.82	-3,439.57	2.08	7.48	4,842.30
16	104,399.63	23	17	6	73.91	25,848.93	-6,793.83	7,320.59	-3,341.74	2.19	6.21	4,539.11
15	84,194.95	23	17	6	73.91	22,818.18	-9,344.77	6,593.98	-4,650.46	1.42	4.02	3,660.65
14	105,216.89	23	18	5	78.26	26,522.43	-7,080.16	7,048.74	-4,332.07	1.63	5.86	4,574.65
13	91,102.52	23	17	6	73.91	21,807.93	-6,429.41	6,525.70	-3,305.72	1.97	5.59	3,960.98
12	80,341.98	23	16	7	69.57	25,848.93	-7,357.68	6,752.71	-3,957.34	1.71	3.90	3,493.13
11	65,070.46	23	14	9	60.87	25,175.43	-7,718.34	6,951.77	-3,583.82	1.94	3.02	2,829.15
10	64,932.56	23	15	8	65.22	25,754.64	-8,010.21	6,550.04	-4,164.75	1.57	2.95	2,823.15
9	72,519.47	24	16	8	66.67	22,481.43	-7,199.46	6,061.17	-3,057.41	1.98	3.96	3,021.64
8	71,259.90	24	15	9	62.50	25,997.10	-8,820.96	6,009.31	-2,097.76	2.86	4.77	2,969.16
7	60,971.11	24	17	7	70.83	25,673.82	-8,204.79	4,831.69	-3,023.94	1.60	3.88	2,540.46
6	65,110.09	24	17	7	70.83	17,255.07	-6,748.20	4,805.34	-2,368.67	2.03	4.93	2,712.92
5	40,513.64	24	15	9	62.50	11,530.32	-5,156.37	3,728.26	-1,712.25	2.18	3.63	1,688.07
4	33,171.03	24	13	11	54.17	14,897.82	-9,761.43	4,373.08	-2,152.64	2.03	2.40	1,382.13
3	25,746.13	24	15	9	62.50	11,520.90	-7,231.89	3,044.20	-2,212.98	1.38	2.29	1,072.76
2	32,653.21	26	18	8	69.23	15,687.50	-6,651.64	2,756.63	-2,120.76	1.30	2.92	1,255.89
1	34,967.64	26	18	8	69.23	12,236.25	-2,270.10	2,388.90	-1,004.07	2.38	5.35	1,344.91

Looking out a few weeks the tendency has been strong for a move higher. Below is a profit curve that assumes a 20-day holding period.

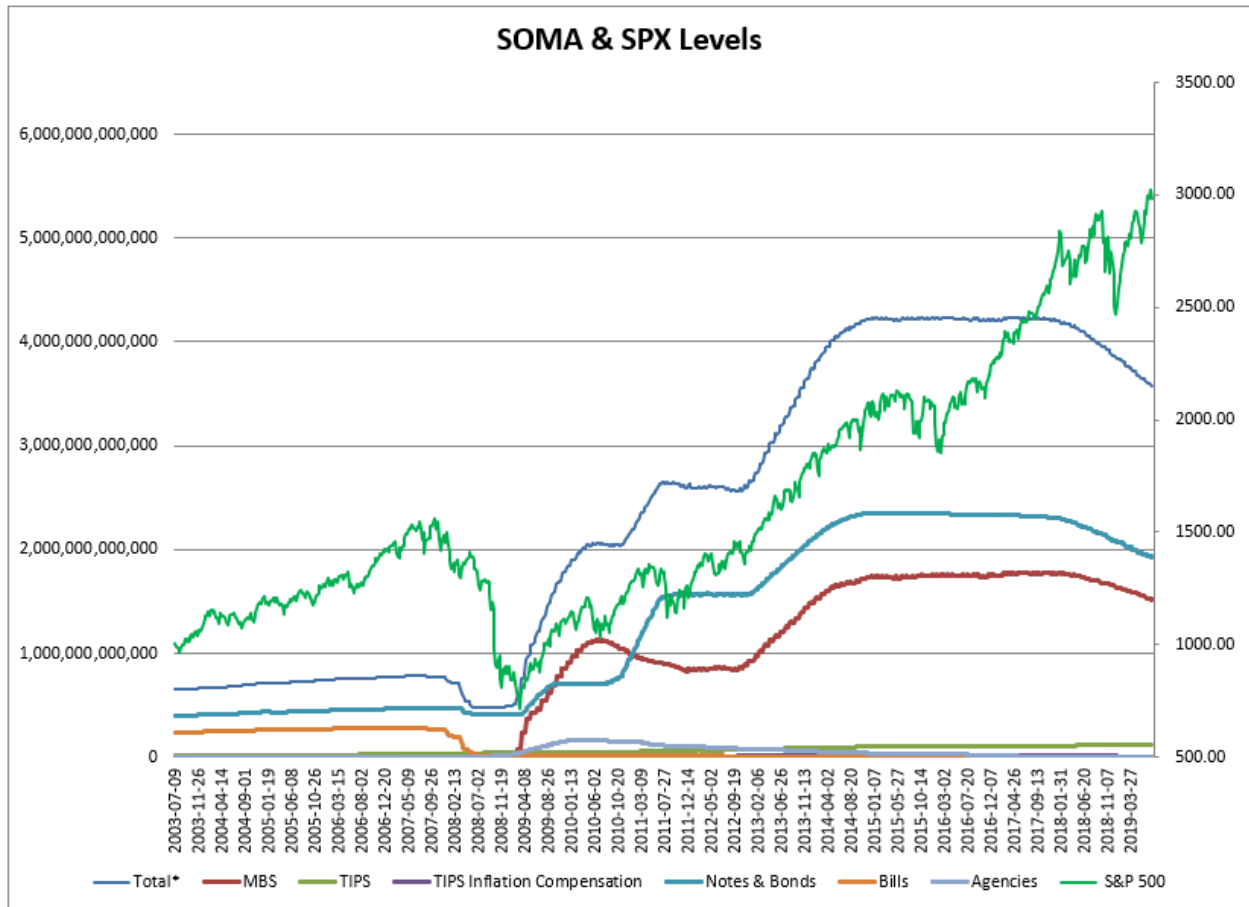


There were some small hiccups lately, but the last instance seems to get the curve back on track. I have added this study to the intermediate-term active list.

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 07/24/2019

DOMESTIC SECURITIES HOLDINGS AS OF

July 31, 2019

Summary

T-Bills

T-Notes and T-Bonds

FRN

TIPS

Agencies

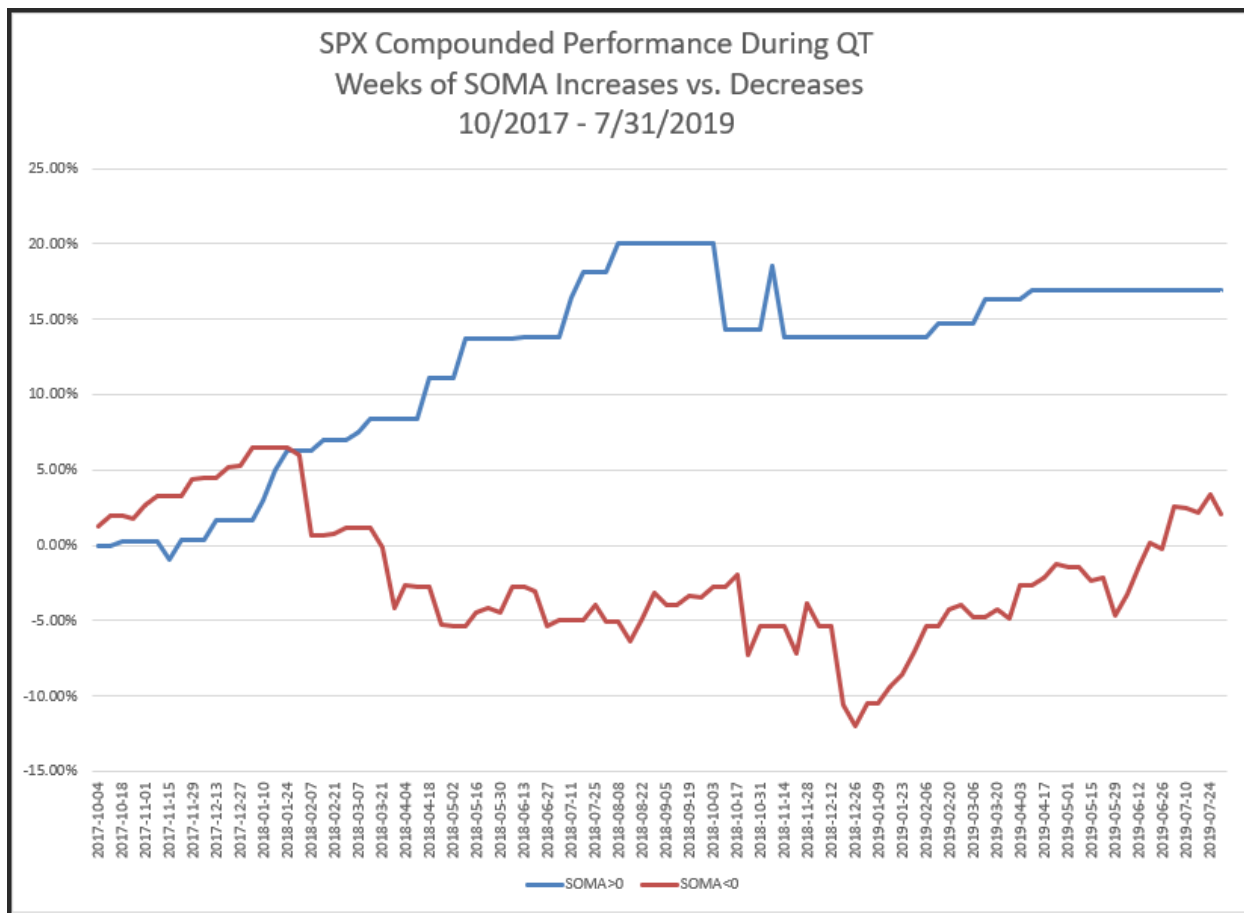
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	2,333.3
US Treasury Notes and Bonds (Notes/Bonds)	1,926,257,397.6
US Treasury Floating Rate Notes (FRN)	14,138,913.6
US Treasury Inflation-Protected Securities (TIPS)*	116,544,665.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,511,774,921.7
Total SOMA Holdings	3,571,065,231.2
Change From Prior Week	-23,185,308.4

*Does not reflect inflation compensation of 23,756,539.1

**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.

The Fed's SOMA this past week (Wednesday to Wednesday) declined a very sizable \$23 billion. This is in line with what we expected heading into the week. Meanwhile the SPX suffered a 1.3% decline over the same period. That is not unusual. 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.



This is basically the last QT performance chart you'll see for a while, since the Fed ended the QT program effective August 1st. You can see here the sharp contrast in expansion weeks versus contraction weeks during the QT program. 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 2.05%, despite a much larger number of instances. That is a substantial difference in performance. But the big news with regards to the Fed was not the amount of QT through July 31st.

In their statement on Wednesday the Fed announced 1) that they were cutting rates by 0.25%, which everyone expected, and 2) that they were ending the QT program, which was not expected. The note below is from the Fed announcement.

The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Also interesting is the fact that they will be rolling MBS principal payments into treasury debt. And they will be doing this according to a published schedule. This can be seen below.

The Desk will announce the planned monthly amount of secondary market Treasury reinvestment purchases up to the \$20 billion maximum on or around the ninth business day of each month. At that time, the Desk will also release a tentative schedule of purchase operations that will be conducted over the one-month period until the next announcement. The Desk plans to release the first schedule of Treasury purchase operations on August 13, 2019.

It is too early to determine whether we will be able to exploit this schedule in a way that was possible with Operation Twist several years ago. Back then we found that strings of POMO (Permanent Open Market Operations) buying days led to upside momentum, and bunches of days that did not show POMO buying often served as a headwind. This can be seen in the presentation slides from the old [QE Buying Power Index page](#), which was last updated when Operation Twist ended in late 2014. There is a chance that the schedule of treasury operations that we will start seeing monthly will serve as a liquidity flow blueprint, similar to the QE Buying Power Index that I created and we followed during Operation Twist. We will need a little time to monitor the new Fed action and determine whether it is likely impacting short-term market movement. In the meantime, I will continue to closely watch SOMA activity and market movement to see if it is providing any clues.

Evidence is now mixed. The Fed appears to be moving towards a policy that could aid the market. QQQ action is suggesting a good chance of a multi-week rally. The long-term trend is up, and the NASDAQ is leading as well. But the Hindenburg Omen signals are suggesting a split market condition that could lead to trouble in the next several weeks. Overall, intermediate-term evidence seems to be leaning bullish. This means while I am open to trades in either direction, I'll be more aggressive with longs than shorts.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult Triggers

New

COST @ \$272.50 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 1(COST)

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.

COST – Buy 1/3 Catapult position @ \$272.50 LIMIT. From the Catapult section above. This is the 1st of up to 3 possible lots of COST.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/1/2019	\$297.00	\$292.62	-1.47%		Aggregator
SPY(1/4)	8/2/2019	\$292.62	\$292.62	0.00%		bought on close

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