

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 12, 2019

Volume 12 Issue 154

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	2

## Tonight's Research Points

- Opex week in August has not been bullish like many others.
- The Fed's schedule of operations is set to come out on Tuesday.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral, and I am looking to get flat.

*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
<b>Active - Short Term</b>						
August 8, 2019	Up 2 from 20-low. Close < 3 ago > 200	1-4 days	Bullish	1.90%	-1.00%	-1.85%
August 6, 2019	Down 3% after 5-low yesterday	1-5 days	Bullish	5.30%	-3.40%	-7.00%
<b>Active - Long Term</b>						
August 7, 2019	SPX < lower Bollinger Band 4 days	1-2 days	Bullish	6.30%	-3.80%	-7.75%
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			

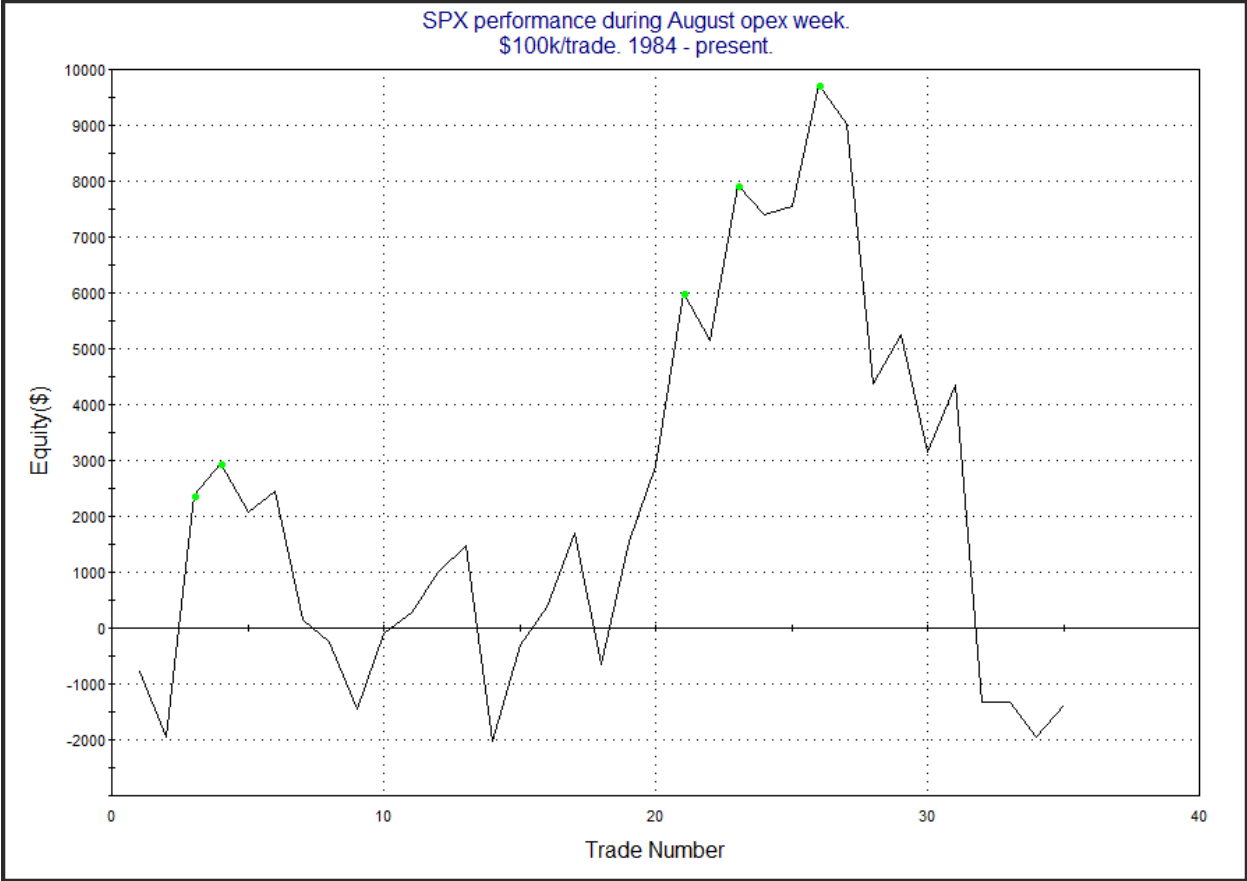
**The Evidence**

Friday saw the market gap down at the open and never recover. The SPX closed won 0.7%, the NASDAQ lost 1.0%, and the Russell 2000 dropped 1.25%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 23%. NYSE volume declined some from Thursday's level.

It is also notable that next week is an options expiration week. Options expiration weeks often have a bullish tendency. But the summer months of June, July, & August have not seen that same bullish tendency. Below is a table that I have copied from March 9<sup>th</sup>. It broke opex weeks down by month, dating back to 1984, when SPX options began trading.

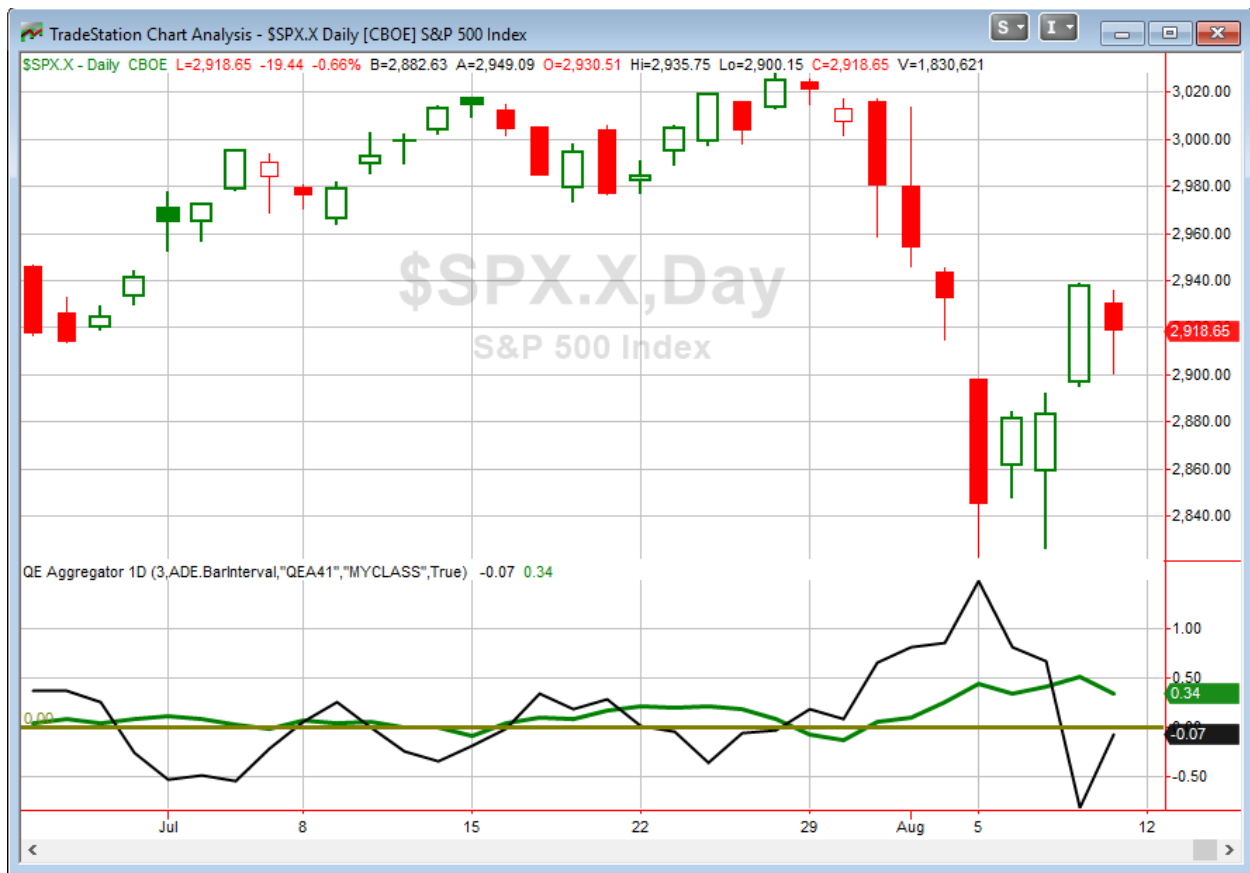
OpEx week SPX performance by month. \$100k/trade. 1984 - present. (Excludes September 2001)												
Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss 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

August's performance has been negative. June is the only other negative month. Below is a look at the profit curve.



Very inconsistent, and worse lately. Bottom line is I am not seeing any new studies suggesting strong directional evidence for Monday.

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



Without any new short-term evidence emerging, 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 just 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 list, expectations are slated to remain positive on Monday. This could easily change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted at 2918.76* on Monday. That is *0.11 SPX points above* Friday's close. An inverted pivot means that the Differential Line would cross through zero if SPX closes flat. In this case SPX will finish overbought on almost any close higher, and it will finish oversold vs expectations on any close lower on Monday.

So we are in a choppy, volatile, news-sensitive environment right now and the market is at a point where new short-term evidence is lacking and overbought/oversold is tenuous. None of this sounds terribly appealing from a short-term trading perspective. I do still have a small long position on, but I will look to exit that on Monday (using a bracket exit strategy). I will not be looking to take on any more exposure until a more substantial reward/risk opportunity emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 8/12– slightly bullish**

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

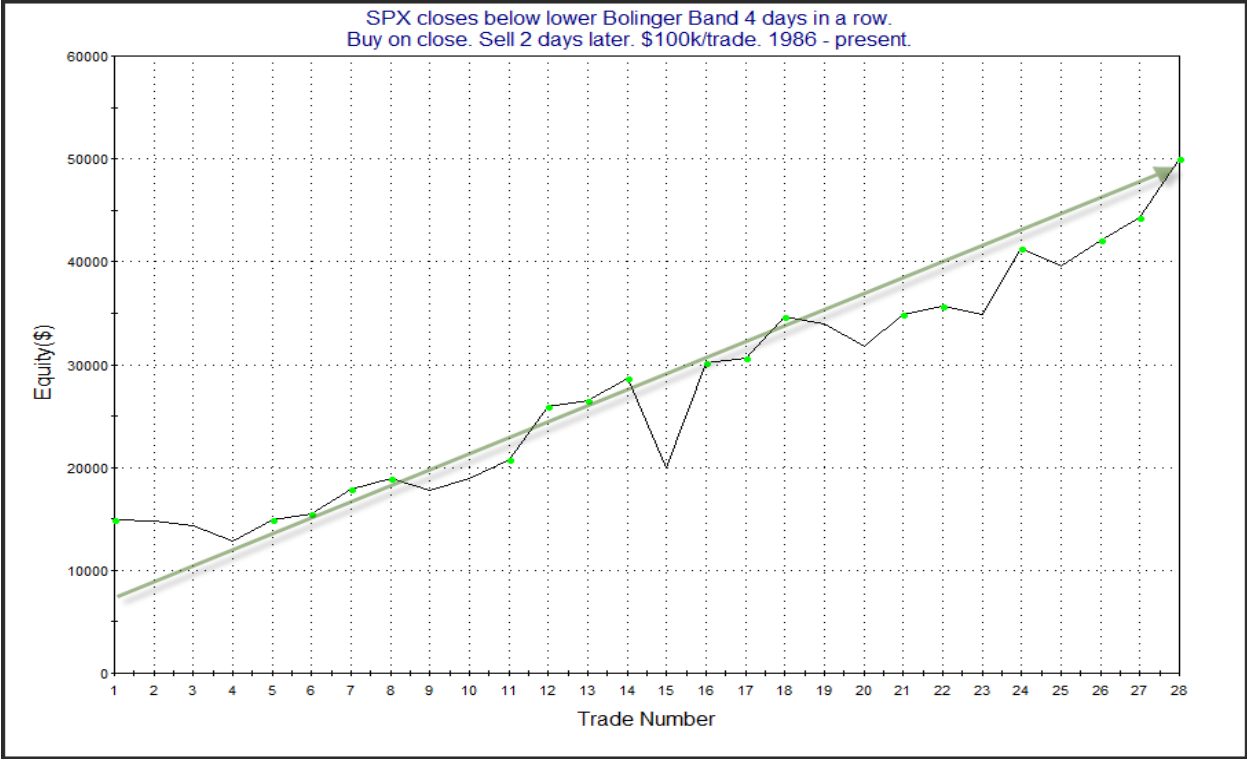
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

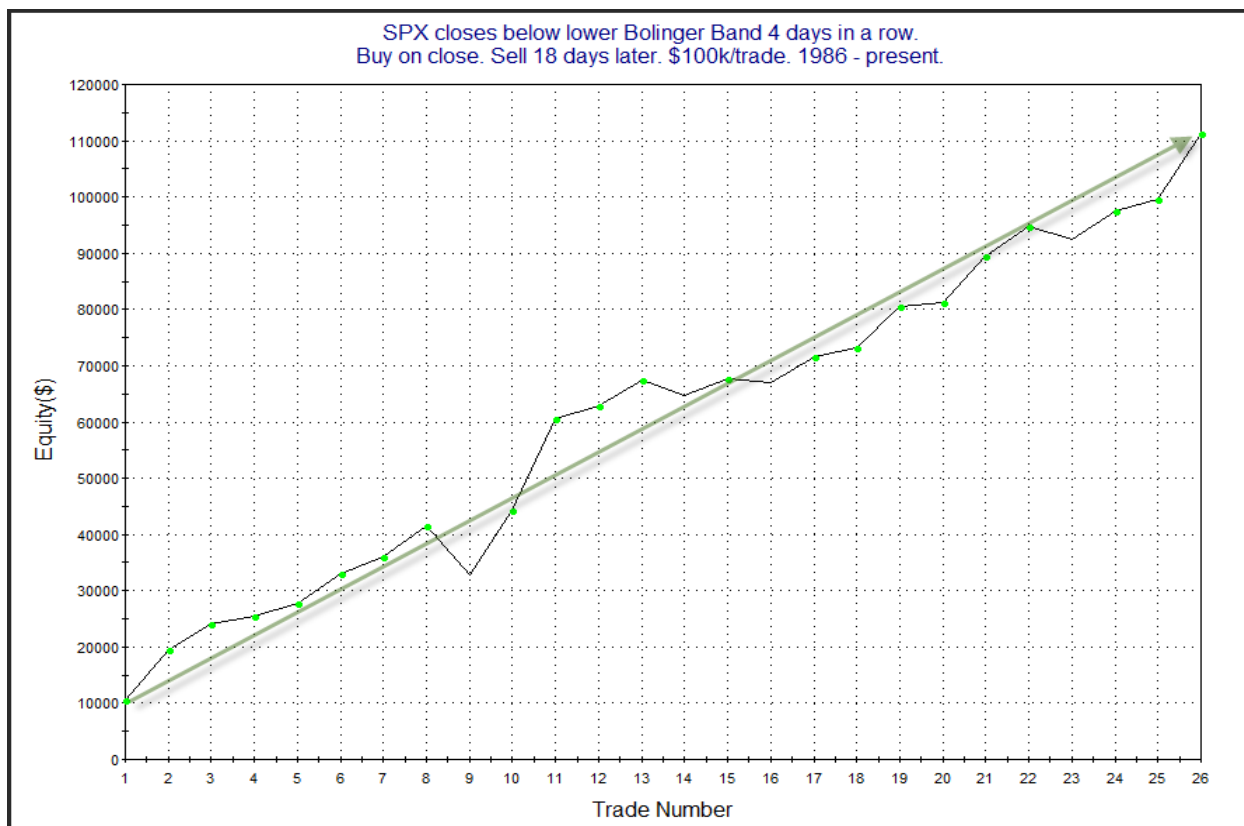
With all the damage that was done on Monday, and the pullback on Friday, the strong middle of the week still could not overcome the selling. The SPX declined 0.5%, the NASDAQ fell 0.6%, and the Russell 2000 dropped 1.3%. There was one compelling new study with intermediate-term implications that appeared in Tuesday night’s letter. I have copied it below.

*Despite the bounce, the SPX remains oversold by most measures. One of these is the standard 2,20 Bollinger Bands. SPX closed a little under the lower band for the 4<sup>th</sup> day in a row. In the 1/12/16 letter I showed that this condition typically preceded a move higher. I have updated that study below.*

SPX closes below lower Bolinger Band 4 days in a row. Buy on close. Sell X days later. \$100k/trade. 1986 - 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	97,926.01	26	20	6	76.92	17,466.25	-10,725.83	6,046.08	-3,832.59	1.58	5.26	3,766.38
19	106,194.70	26	22	4	84.62	19,125.00	-10,324.51	5,783.36	-5,259.81	1.10	6.05	4,084.41
18	111,304.51	26	22	4	84.62	16,383.75	-8,701.85	5,713.86	-3,600.13	1.59	8.73	4,280.94
17	108,264.72	26	22	4	84.62	16,568.75	-8,471.68	5,477.03	-3,057.47	1.79	9.85	4,164.03
16	86,625.62	26	21	5	80.77	15,240.00	-8,074.59	5,122.97	-4,191.33	1.22	5.13	3,331.75
15	85,156.08	26	19	7	73.08	11,401.89	-6,257.59	5,475.55	-2,697.06	2.03	5.51	3,275.23
14	72,059.43	26	19	7	73.08	13,262.50	-14,731.00	5,363.98	-4,265.16	1.26	3.41	2,771.52
13	66,067.96	26	19	7	73.08	13,867.50	-11,946.00	5,019.36	-4,185.70	1.20	3.25	2,541.08
12	53,453.23	26	16	10	61.54	13,470.00	-8,812.00	5,429.38	-3,341.69	1.62	2.60	2,055.89
11	39,595.71	26	17	9	65.38	11,539.56	-12,064.08	4,673.56	-4,428.31	1.06	1.99	1,522.91
10	46,709.71	26	16	10	61.54	13,728.48	-11,180.43	4,947.40	-3,244.86	1.52	2.44	1,796.53
9	41,860.19	26	18	8	69.23	11,965.80	-11,287.50	4,007.00	-3,783.22	1.06	2.38	1,610.01
8	49,194.55	26	17	8	65.38	8,853.36	-7,376.22	3,962.07	-2,270.07	1.75	3.71	1,892.10
7	34,718.37	26	16	10	61.54	10,870.00	-9,509.88	3,834.43	-2,663.26	1.44	2.30	1,335.32
6	30,127.51	26	18	8	69.23	14,240.00	-8,930.67	3,090.03	-3,186.63	0.97	2.18	1,158.75
5	40,454.16	26	18	8	69.23	13,135.00	-4,509.84	2,881.95	-1,427.61	2.02	4.54	1,555.93
4	59,423.16	26	21	5	80.77	12,657.50	-2,221.38	3,231.14	-1,686.14	1.92	8.05	2,285.51
3	39,704.97	27	21	6	77.78	10,398.48	-9,701.00	2,825.10	-3,270.35	0.86	3.02	1,470.55
2	50,020.90	28	19	9	67.86	14,891.76	-8,631.00	3,538.89	-1,913.10	1.85	3.91	1,786.46
1	51,284.13	40	27	13	67.50	11,558.43	-7,577.02	2,932.32	-2,145.27	1.37	2.84	1,282.10

The numbers are impressive. They suggest a quick move up as well as some intermediate-term follow through. Below are the 2-day and 18-day profit curves.



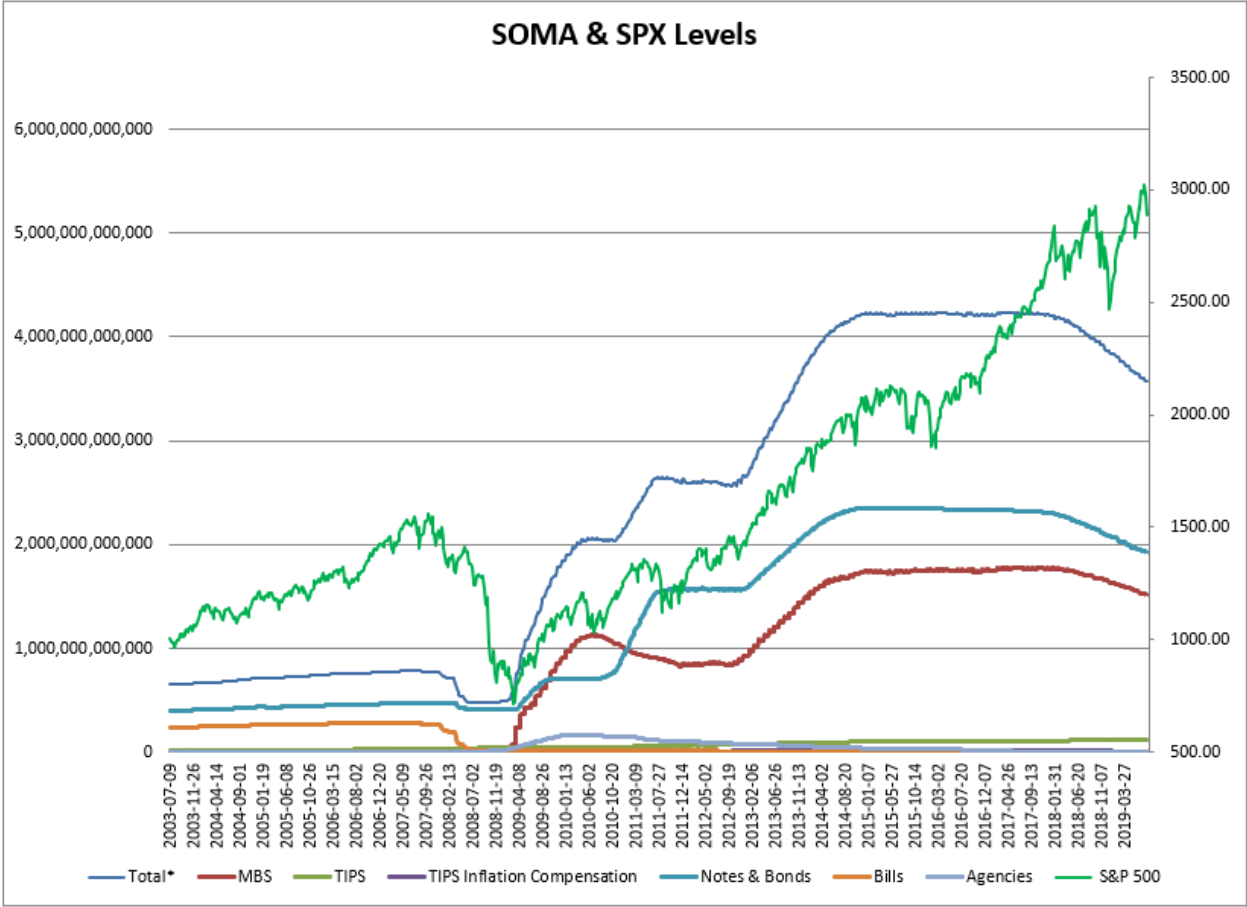


*Both curves show a steady tendency to rally and serve as some confirmation of the numbers. I have included this study on the short and intermediate-term active lists.*

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.*

*The Quantitative Tightening program that began in October 2017 is winding up, and SOMA policy is entering a more neutral phase where there is not going to be large changes to the account size likely.*



The table below is from the Fed’s website and shows the changes this past week.

« As of 07/31/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**August 7, 2019**

Summary	T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)				
US Treasury Bills (T-Bills)					
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***	1,511,776,921.6				
Total SOMA Holdings	3,571,064,897.8				
Change From Prior Week	-333.3				

\*Does not reflect inflation compensation of 23,762,909.7

\*\*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 08/08/2019 4:30pm.

The Fed's SOMA this past week (Wednesday to Wednesday) declined a very small \$333,300. That may be a lot of money for individuals, but compared to the Fed's \$3.6 trillion account, it is basically nothing. Meanwhile the SPX suffered a 3.2% decline over the same period. The market has typically encountered difficulty during SOMA contractions, and flourished when the SOMA has seen expansions. Still, the 3.2% decline is oversized.

We have now entered a more neutral state with regards to the SOMA. Week to week changes in the value will likely be muted. The big news this upcoming week is that the Fed will be posting its schedule of operations on Tuesday. 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 remains mixed. The Fed appears to be moving towards a policy that could aid the market. The QQQ study from last weekend suggested a good chance of a multi-week rally, and the SPX Bollinger Band study highlighted above also favors a multi-week up move. The long-term trend is up, and the NASDAQ is leading as well. I discussed the Hindenburg Omen signal last weekend. This is a bearish indication that identifies split market conditions when both new highs and new lows are elevated. There was a cluster of 4 going into last weekend. That is large enough that it is often followed by selling in the following weeks. With 3 more Hindenburg Omen signals this past week (Tuesday, Wednesday, and Friday) that cluster is now up to 7. The split market condition persists. Still, 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***

PFE @ \$36.95 (bought 1/3 @ limit)

PFE @ \$36.58 (buy 1/3 @ limit) – *Not filled. Cancel for now*

#### ***Broad Market Large Cap CBI – 2(PFE-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	Notes
SPY(1/4)	8/2/2019	\$292.62	\$291.62	-0.34%	<i>see below</i>
ABBV(1/3)	8/7/2019	\$64.38	\$65.58	1.86%	<i>sell on open</i>
PFE(1/3)	8/7/2019	\$36.65	\$36.35	-0.82%	Catapult
ABBV(1/3)	8/7/2019	\$64.46	\$65.58	1.74%	<i>sell on open</i>

*SPY use a bracket exit with a target @ \$292.85 and a stop @ \$289.95. On the chance that SPY opens below \$289.95, rather than sell into the gap down, I will wait 15 minutes and then place a stop \$0.10 below the low of the 1<sup>st</sup> 15 minutes..* With expectations still positive, I am inclined to give SPY a chance to get back around the \$293.00 level it was near with 15 minutes left to go in trading on Friday. I will place a stop down near Friday's low. If that level gets broken then we could see a deeper pullback. I do not want to hold on and be subject to a sharp selloff with a neutral outlook in an uncertain environment.

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