

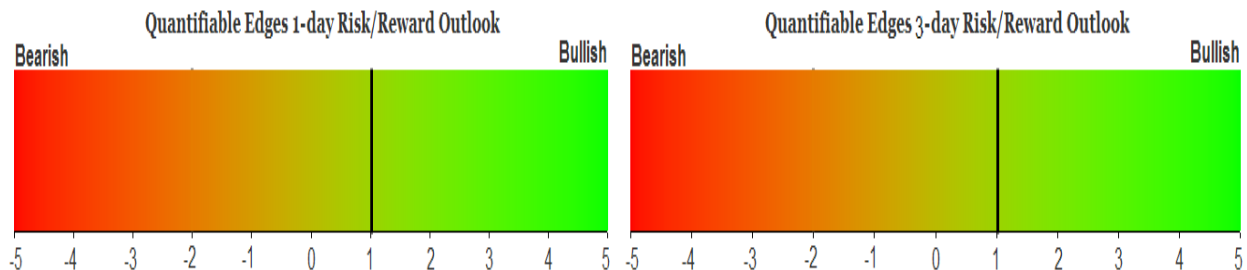
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 19, 2019

Volume 12 Issue 159

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	6

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.
- With QT over, we actually saw a mild rise in the SOMA this past week.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish, but the market is set to turn from short-term oversold to overbought unless there is a sizable drop on Monday. This appears to be a good time to lighten up or take profits.

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 19, 2019	Up 2 from 20-low. Close < 3 ago > 200	1-4 days	Bullish	1.90%	-1.00%	-1.85%
August 16, 2019	CBOE Equity Put/Call > 0.9. SPX>200	1-4 days	Bullish			
August 16, 2019	SPX dn 1.75% yest. Bounce < 1/4 loss	1-3 days	Bearish			
Active - Long Term						
August 13, 2019	3rd 1% dn day in last 10. Close > 200ma	1-20 days	Bullish			
August 7, 2019	SPX < lower Bollinger Band 4 days	1-18 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			

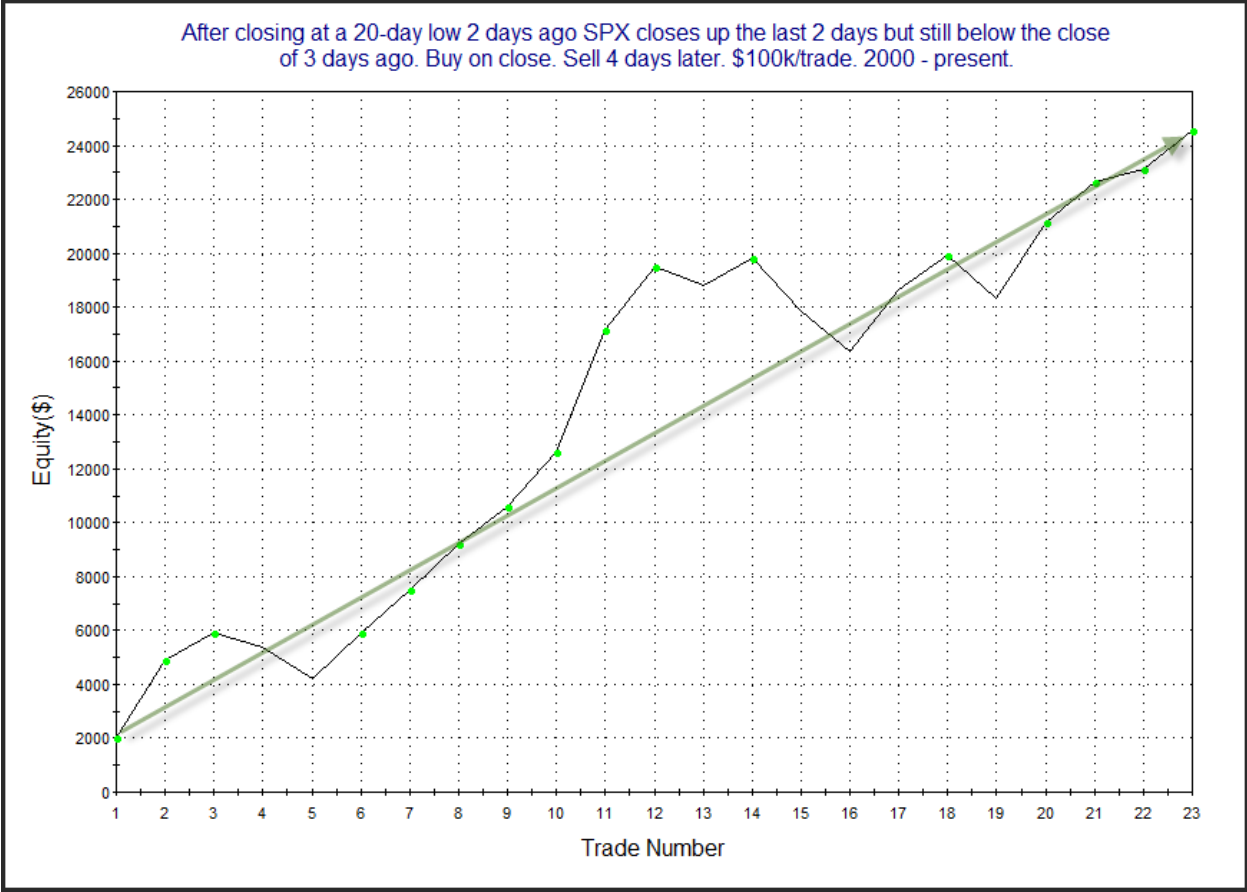
The Evidence

Friday saw some strong gains. The SPX rose 1.4%, the NASDAQ rallied 1.7%, and the Russell 2000 jumped 2.2%. Breadth was positive as the NYSE Up Issues % was 78% and the Up Volume % came in at 89%. NYSE volume declined some for the 2nd day in a row.

There were a few similar Quantifinder studies that noted the 2-day rally that failed to make up for the loss of 3 days ago. I found the one below to be the most relevant and compelling. It was last seen just recently in the 8/8/19 letter. The stats are all updated.

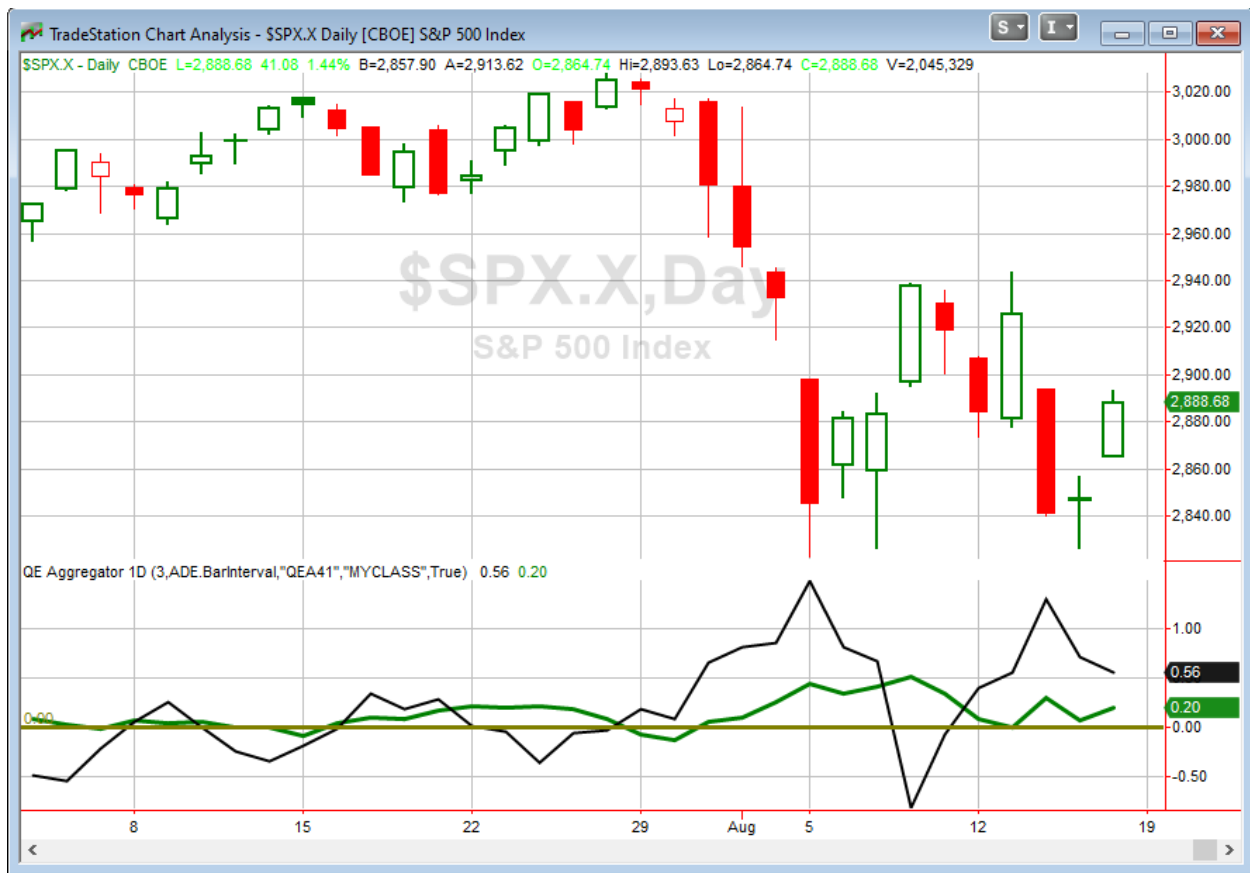
After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	21,156.38	23	16	7	69.57	4,522.00	-3,088.50	1,983.13	-1,510.53	1.31	3.00	919.84
4	24,556.77	23	17	6	73.91	4,528.65	-1,984.50	1,885.04	-1,248.16	1.51	4.28	1,067.69
3	19,453.70	24	18	6	75.00	2,891.90	-1,433.20	1,356.22	-826.36	1.64	4.92	810.57
2	14,965.55	24	16	8	66.67	3,844.65	-1,640.00	1,237.99	-605.28	2.05	4.09	623.56
1	5,165.38	24	13	11	54.17	2,699.42	-2,621.71	908.63	-604.26	1.50	1.78	215.22

The stats suggest a short-term bullish edge. Below is a look at the 4-day profit curve.



That is an impressive curve that is again hitting new highs. This supports the bullish case. I have added this study to the Active List tonight.

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



With tonight's 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 also held 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.

With the current evidence on the active list, expectations are slated to remain positive on Monday. Of course that could change if compelling new bearish evidence emerges. The Differential Pivot will be *highly inverted* at 2851.64 on Monday. That is 1.3% *below* Friday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 1.3% in order to remain oversold vs expectations. Anything other than that and it will be considered overbought as of Monday's close.

So the Aggregator is bullish, and expectations remain positive, but the SPX is set to turn short-term overbought on Monday. That would turn the Aggregator signal to flat. I often view inverted pivots as opportune times to take profits, because while there is still an edge in my direction, my profit potential is only 1 day. But my risk is not capped. So I will look to exit my SPY position on Monday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/19– slightly bullish

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

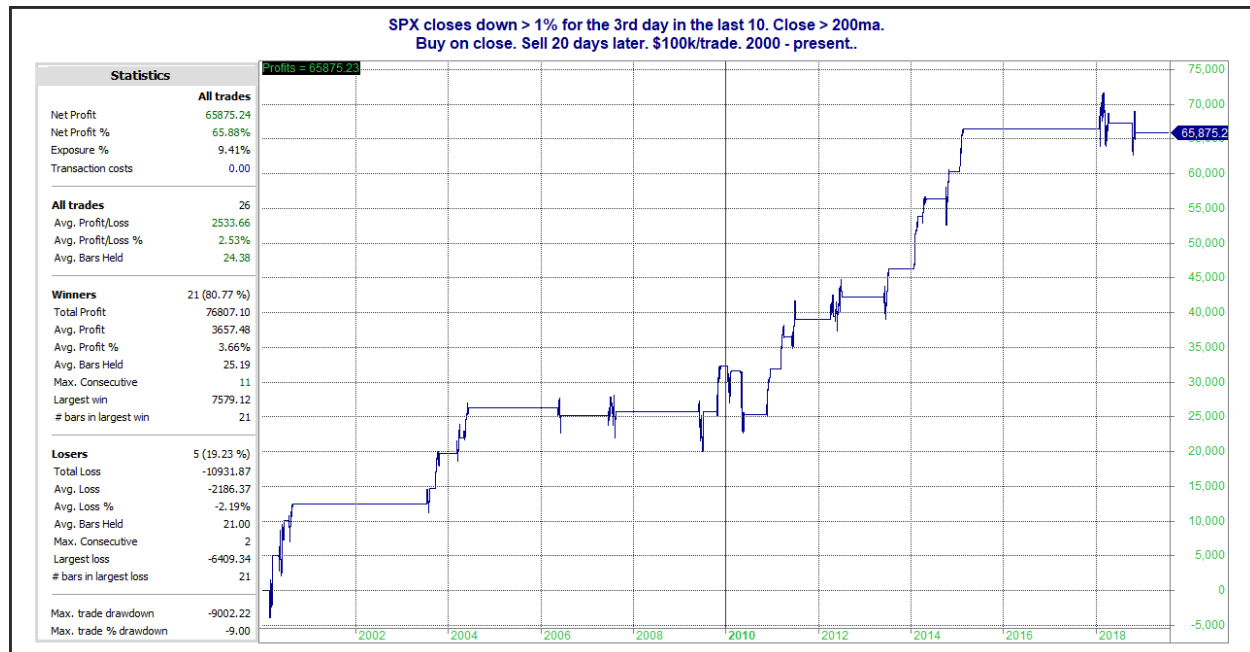
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Despite the jump over the last 2 days, the market still failed to close the week positive. The SPX declined 1.0%, the NASDAQ fell 0.8%, and the Russell 2000 dropped 1.3%. There was one compelling new study with intermediate-term implications that appeared in Monday night’s letter. I have copied it below.

The SPX has made some substantial moves over the last couple of weeks as volatility has spiked. It is unusual to see such high volatility when the SPX is trading above its 200ma. Monday marked the 3rd day in the last 9 in which SPX closed down over 1%. I decided to look back at other times where SPX closed down more than 1% for the 3rd time in the last 10 days, but above its 200ma. Below are the results of my study.

SPX closes down > 1% for the 3rd day in the last 10. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	Net Profit	# Trades	# of winners	# of losers	% of Winners	Avg. Profit	Avg. Loss	Win/Loss Ratio	Profit Factor	Avg Profit/Loss		
20	\$65,875.24	26	21	5	80.77	\$3,657.48	(\$2,186.37)	1.67	7.03	2533.66		
19	\$48,905.66	26	20	6	76.92	\$3,408.89	(\$3,212.02)	1.06	3.54	1880.99		
18	\$49,836.49	26	19	7	73.08	\$3,770.11	(\$3,113.66)	1.21	3.29	1916.79		
17	\$48,561.62	26	19	7	73.08	\$3,635.60	(\$2,930.69)	1.24	3.37	1867.75		
16	\$52,545.81	27	22	5	81.48	\$3,380.92	(\$4,366.88)	0.77	3.41	1946.14		
15	\$56,881.92	29	23	6	79.31	\$3,540.53	(\$4,091.71)	0.87	3.32	1961.45		
14	\$50,581.95	29	22	7	75.86	\$3,488.50	(\$3,737.87)	0.93	2.93	1744.21		
13	\$42,148.96	29	20	9	68.97	\$3,248.59	(\$2,535.88)	1.28	2.85	1453.41		
12	\$34,035.78	29	21	8	72.41	\$2,764.51	(\$3,002.37)	0.92	2.42	1173.65		
11	\$39,480.49	30	20	10	66.67	\$2,897.96	(\$1,847.88)	1.57	3.14	1316.02		
10	\$38,798.74	30	22	8	73.33	\$2,558.75	(\$2,186.72)	1.17	3.22	1293.29		
9	\$44,318.35	30	20	10	66.67	\$2,745.04	(\$1,058.24)	2.59	5.19	1477.28		
8	\$37,379.47	31	21	10	67.74	\$2,502.81	(\$1,517.96)	1.65	3.46	1205.79		
7	\$30,585.34	31	22	9	70.97	\$2,282.58	(\$2,181.27)	1.05	2.56	986.62		
6	\$18,738.52	32	21	11	65.63	\$2,032.77	(\$2,177.23)	0.93	1.78	585.58		
5	\$8,108.56	32	17	15	53.13	\$1,897.99	(\$1,610.48)	1.18	1.34	253.39		
4	\$5,872.34	33	18	15	54.55	\$1,664.01	(\$1,605.33)	1.04	1.24	177.95		
3	\$3,365.82	34	21	13	61.76	\$1,114.31	(\$1,541.14)	0.72	1.17	98.99		
2	\$7,112.70	34	20	14	58.82	\$1,198.39	(\$1,203.93)	1.00	1.42	209.2		
1	\$14,691.89	35	22	13	62.86	\$1,081.52	(\$700.13)	1.54	2.61	419.77		

Often the next day has seen a bounce. Then chop for the next 4 days or so. And then the market has often risen for the next few weeks...

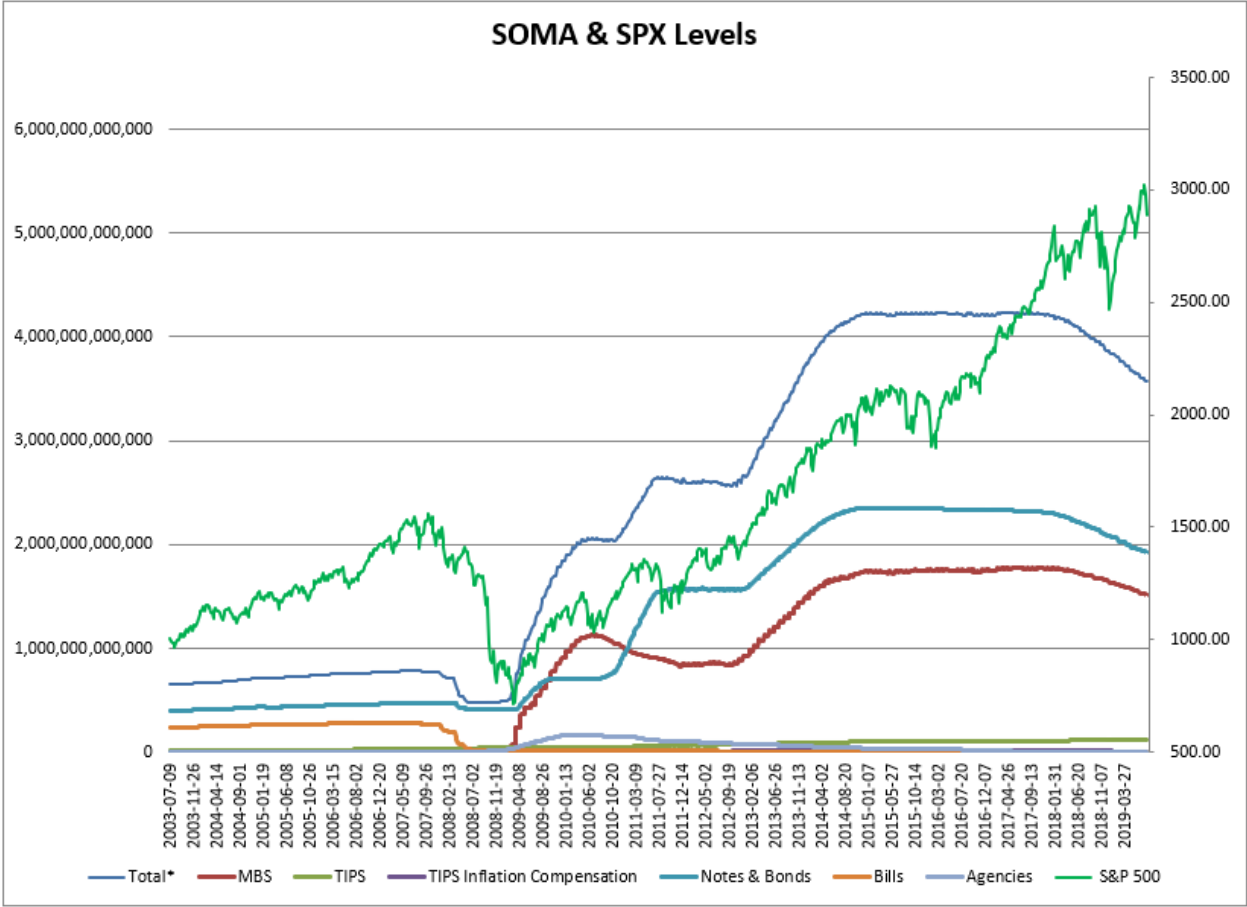


The curves move from lower left to upper right, and support the idea of an upside edge. I have included this study...

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.

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***	1,514,173,777.5
Total SOMA Holdings	3,573,461,753.7
Change From Prior Week	2,396,855.9

*Does not reflect inflation compensation of 23,769,098.7
 **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 08/15/2019 4:30pm

The Fed's SOMA this past week (Wednesday to Wednesday) actually rose about \$2.4 billion. The small bump did not seem to help the bulls as the SPX declined 1.5% over the same period. The market has typically encountered difficulty during SOMA contractions, and flourished when the SOMA has seen expansions. So the 1.5% decline is a bit unusual.

We have now entered a more neutral state with regards to the SOMA. Week to week changes in the value will likely be muted. On Tuesday the Fed announced its schedule of operations for the next month. I have copied it below.

MONTHLY DETAILS		CURRENT SCHEDULE				
OPERATION DATE	OPERATION TIME (EST)	SETTLEMENT DATE	OPERATION TYPE	SECURITY TYPE AND MATURITY	MATURITY RANGE	MAXIMUM PURCHASE SIZE
8/14/2019	10:15 - 11:00 a.m.	8/15/2019	Outright Purchase	Treasury Bills 0 to 1	8/15/2019 - 8/14/2020	\$3.025 billion
8/15/2019	10:15 - 11:00 a.m.	8/16/2019	Outright Purchase	Treasury Coupons 0 to 0.75	8/16/2019 - 5/15/2020	\$1.625 billion
8/19/2019	10:15 - 11:00 a.m.	8/20/2019	Outright Purchase	Treasury Coupons 0.75 to 1.5	5/20/2020 - 2/19/2021	\$1.825 billion
8/20/2019	10:15 - 11:00 a.m.	8/21/2019	Outright Purchase	Treasury Coupons 1.5 to 2.25	2/21/2021 - 11/20/2021	\$1.825 billion
8/22/2019	10:15 - 11:00 a.m.	8/23/2019	Outright Purchase	Treasury Coupons 2.25 to 3	11/23/2021 - 8/22/2022	\$1.625 billion
8/26/2019	10:15 - 11:00 a.m.	8/27/2019	Outright Purchase	Treasury Coupons 3 to 4.5	8/27/2022 - 2/26/2024	\$2.225 billion
8/27/2019	10:15 - 11:00 a.m.	8/28/2019	Outright Purchase	Treasury Coupons 4.5 to 7	2/28/2024 - 8/27/2026	\$2.425 billion
9/4/2019	10:15 - 11:00 a.m.	9/5/2019	Outright Purchase	Treasury Coupons 7 to 20	9/5/2026 - 9/4/2039	\$1.425 billion
9/5/2019	10:15 - 11:00 a.m.	9/6/2019	Outright Purchase	Treasury Coupons 20 to 30	9/6/2039 - 9/5/2049	\$2.225 billion
9/9/2019	10:15 - 11:00 a.m.	9/10/2019	Outright Purchase	TIPS 0 to 7.5	9/10/2019 - 3/9/2027	\$1.625 billion
9/10/2019	10:15 - 11:00 a.m.	9/11/2019	Outright Purchase	Treasury FRNs 0 to 2	9/11/2019 - 9/10/2021	\$0.425 billion

It will be interesting to see if SPX performance shows correlation to this schedule in some way. 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 study from a few nights ago that examined groups of 1% down days for SPX looks encouraging. And the other studies on the intermediate-term list also favor the bulls. The long-term trend is up, and the NASDAQ is leading as well. One potentially bearish indication is the recent string of Hindenburg Omen signals. 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 (bought 1/3 @ limit)
KHC @ \$25.96 (bought 1/3 @ limit)
PFE @ \$34.24 (bought 1/3 @ limit)
KHC @ \$25.52 (bought 1/3 @ limit)
KHC @ \$25.06 (buy 1/3 @ limit) – *Not filled. Cancel for now.*

Broad Market Large Cap CBI – 6(PFE-3, KHC-3)

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
PFE(1/3)	8/7/2019	\$36.65	\$34.65	-5.46%	Catapult
PFE(1/3)	8/8/2019	\$35.40	\$34.65	-2.12%	Catapult
KHC(1/3)	8/14/2019	\$25.85	\$25.41	-1.70%	Catapult
PFE(1/3)	8/15/2019	\$34.24	\$34.65	1.20%	Catapult
KHC(1/3)	8/15/2019	\$25.50	\$25.41	-0.35%	Catapult
SPY(1/4)	8/15/2019	\$283.90	\$288.85	1.74%	sell @ \$288.75 limit

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

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