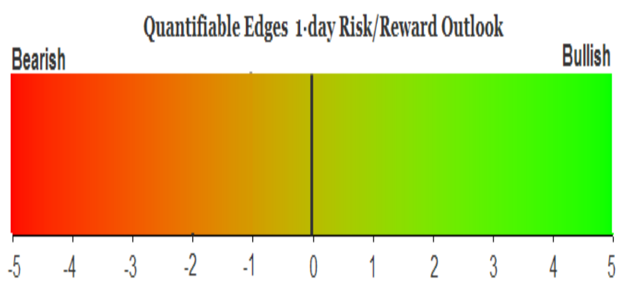
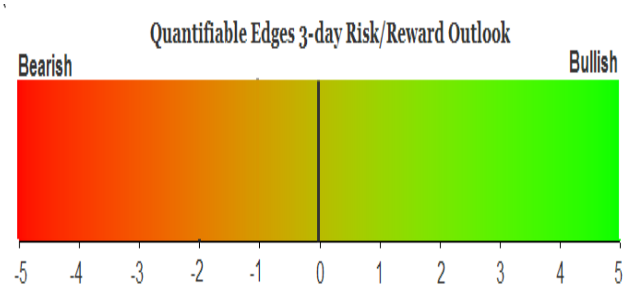
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 3, 2019 Volume 12 Issue 169

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Both turn of the month and Labor Day week studies look seasonally positive.
- The last 5 days have now closed within the previous day's range. After a 1% selloff in an uptrend this type of consolidation has often been followed by a pop.
- The 20-day range was established by the 2-day selloff on 8/2 and 8/5. This also suggests an upward resolution.

Short-term Outlook
The Bottom Line
The Aggregator is neutral and so am I.

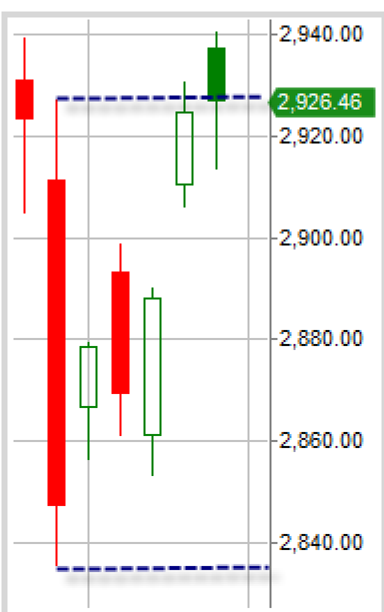
Summary of Recent Active Studies (see Letters from listed dates for details

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
September 3, 2019	1% drop then 5-day consolidation	1-3 days	Bullish	1.25%	-0.80%	-1.70%
September 3, 2019	20-day decline going into Labor Day	1-2 days	Bullish			
September 3, 2019	SPY close low in range last day of month	1 day	Bullish			
August 29, 2019	Reverse dn. Reverse up. Close >200 <10	1-5 days	Bullish	1.80%	-1.10%	-2.30%
August 26, 2019	Big Friday selloff	1-6 days	Bullish			
Active - Long Term						
August 26, 2019	SPX down 4 weeks but > 40-week ma	1-10 weeks	Bullish	8.65%	-3.30%	-7.70%
August 13, 2019	3rd 1% dn day in last 10. Close > 200ma	1-20 days	Bullish			
August 5, 2019	4+ Hindenburg Omen Signals	1-35 days	Bearish			
August 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			
Dropped Tonight						
August 7, 2019	SPX < lower Bollinger Band 4 days	1-18 days	Bullish	6.30%	-3.80%	-7.75%
August 5, 2019	QQQ down 5. Today biggest drop.	1-20 days	Bullish	10.60%	-4.40%	-7.70%

The Evidence

Friday saw the market open up higher, but much of the gains were gone by the end of the day. The SPX closed up 0.1%, while the NASDAQ and the Russell 2000 declined 0.1%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 61%. NYSE volume declined heading into the long weekend.

The market seems to be trying to bust out of its recent trading range. But Friday's attempt was just another failure. On Friday the 23rd the market had a sizable selloff. But since then SPX has closed within the range of that 1 bar every day for the last week. This can be seen in the chart below.

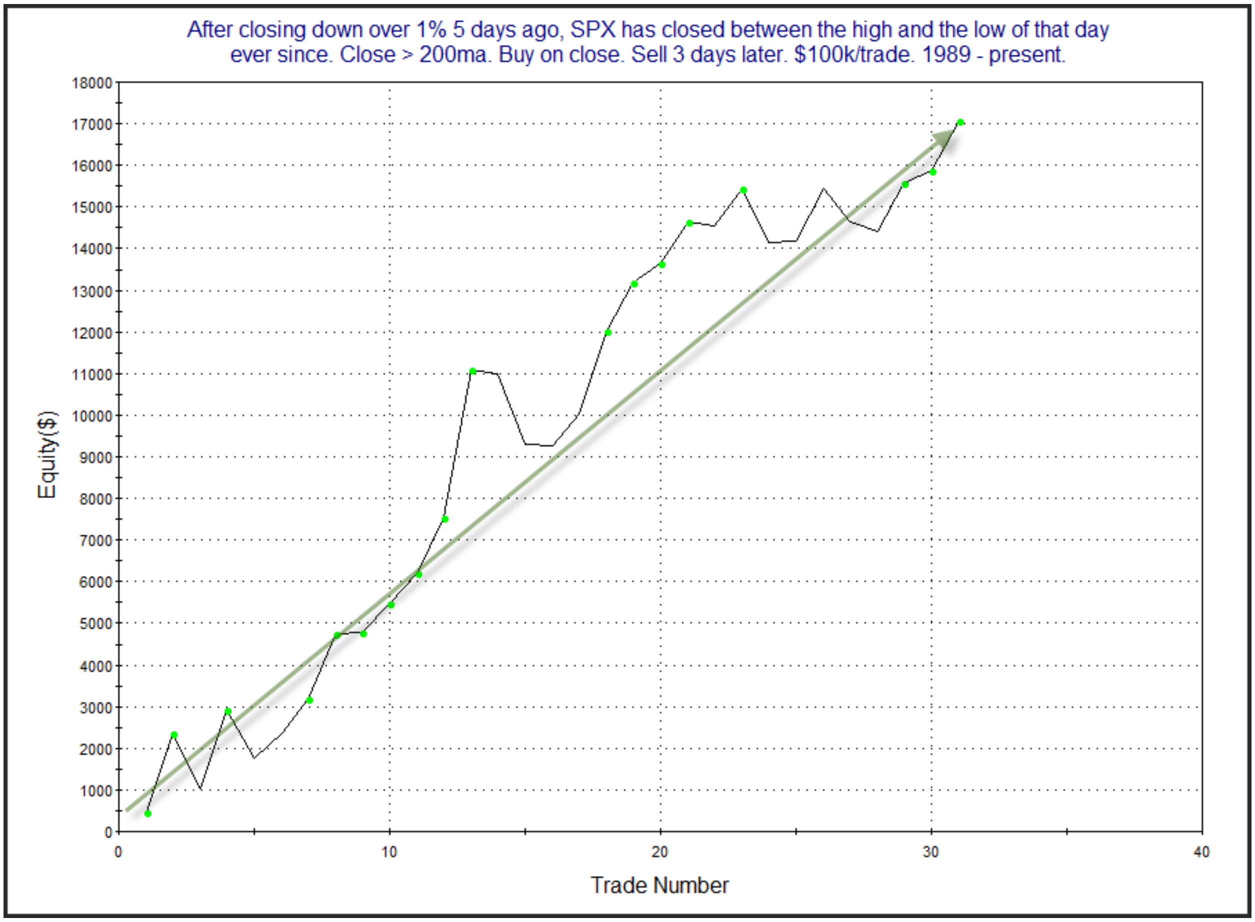


The bears failed to follow through on the 8/23 selloff, but the bulls have not managed to move the SPX back out of the range either. This triggered the study below, which I last discussed in the 5/2/18 Letter.

After closing down over 1% 5 days ago, SPX has closed between the high and the low of that day ever since. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1989 - present.

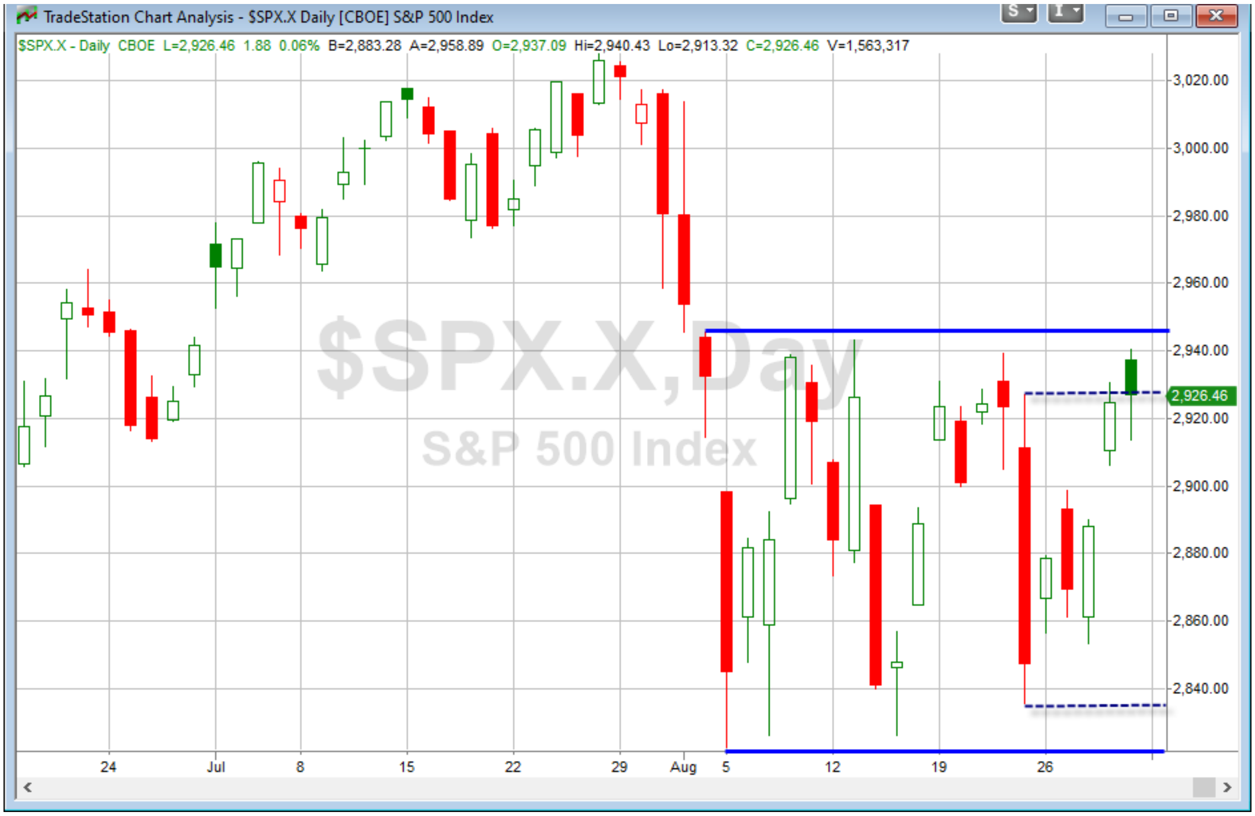
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	304.38	31	17	14	54.84	3,757.60	-5,937.53	1,808.49	-2,174.28	0.83	1.01	9.82
4	3,973.26	31	20	11	64.52	3,706.56	-3,003.89	1,249.04	-1,909.78	0.65	1.19	128.17
3	17,076.26	31	22	9	70.97	3,552.64	-1,683.76	1,082.86	-749.63	1.44	3.53	550.85
2	11,378.43	31	19	12	61.29	2,111.20	-2,003.25	1,054.43	-721.31	1.46	2.31	367.05
1	8,789.28	31	22	9	70.97	1,760.80	-1,663.20	699.92	-734.32	0.95	2.33	283.53

Over the last 30+ years the SPX has burst higher out of this "failed selloff" and consolidation on a consistent basis. But the implications are only bullish for a few short days. After that there does not appear to be a decided edge for either the bulls or the bears. Below I have produced an equity curve using a 3-day exit strategy.



Not perfect, but the move from lower left to upper right appears to serve as some confirmation of the edge.

Of course if we zoom the chart out beyond 6 days we can see that SPX is really contained within a (slightly larger) trading range over the last 20 days.



The solid blue lines are placed at the high and low of the August 2nd and 5th bars. Using logic similar to the 1st study above I also decided to look at times a 2-day range like that was held for 20 days like we are seeing now.

After closing down 19 and 20 days ago, SPX has closed between the high and the low of that 2-day decline ever since. Close > 200ma. Buy on close. 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
10	9,874.18	6	6	0	100.00	4,038.82	0.00	1,645.70	0.00	100.00	100.00	1,645.70
9	8,144.75	6	5	1	83.33	3,950.80	-273.05	1,683.56	-273.05	6.17	30.83	1,357.46
8	5,987.41	6	4	2	66.67	3,606.35	-1,407.60	1,851.44	-709.17	2.61	5.22	997.90
7	4,126.03	6	4	2	66.67	3,776.50	-2,500.20	1,673.55	-1,284.07	1.30	2.61	687.67
6	4,045.62	6	4	2	66.67	2,419.45	-1,569.60	1,486.85	-950.90	1.56	3.13	674.27
5	4,352.52	6	4	2	66.67	2,784.65	-1,754.10	1,558.74	-941.22	1.66	3.31	725.42
4	4,351.15	6	4	2	66.67	2,685.05	-1,768.50	1,565.78	-955.97	1.64	3.28	725.19
3	1,625.33	6	3	3	50.00	2,315.70	-1,641.60	1,522.98	-981.21	1.55	1.55	270.89
2	404.69	6	4	2	66.67	2,070.85	-1,641.60	832.45	-1,462.55	0.57	1.14	67.45
1	-1,335.21	6	3	3	50.00	1,103.90	-1,480.50	552.49	-997.56	0.55	0.55	-222.53

Instances are quite low here, but initial results suggest a possible bullish tendency. Let's take a look at the 10-day results.

After closing down 19 and 20 days ago, SPX has closed between the high and the low of that 2-day decline ever since. Close > 200ma. Buy on close. Sell 10 days later. $100k/trade. 1980 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
6/1/1981	Buy	$132.41	0.91%	$2,461.30
6/15/1981	Sell	$133.61		($2,748.20)
8/11/1986	Buy	$240.67	2.96%	$4,125.10
8/25/1986	Sell	$247.80		($132.80)
10/9/1986	Buy	$235.85	1.45%	$1,827.36
10/23/1986	Sell	$239.27		($630.27)
12/2/1993	Buy	$463.11	0.05%	$812.70
12/16/1993	Sell	$463.34		($273.05)
8/30/1995	Buy	$560.92	4.05%	$4,106.46
9/14/1995	Sell	$583.61		($76.54)
5/22/1998	Buy	$1,110.47	0.47%	$830.70
6/8/1998	Sell	$1,115.74		($3,247.20)
8/30/2019	Buy	$2,926.46	n/a	$0.00
Open	n/a	$2,926.46		$0.00

So they are all winners here. But if you were born on the day that this study last triggered, you'd be of drinking-age right now. I am not going to include these results in the Active List. (I will include the results of the 1st study.) But the takeaway I see here is that consolidations after large drops that occur in long-term uptrends have typically been resolved with gains in the following days and weeks. This theme is seen in both studies, and the 2nd study seems to provide some confirmation of the concept put forth by the 1st study.

In Thursday night's Letter I covered some research that indicated Friday's action could have a substantial impact on the odds for next week. One study was related to Labor Day and the other looked at new months. The Labor Day one is copied below.

Over the last few years, and most recently in the 9/4/18 letter, I showed that Labor Day week performance has been somewhat dependent on whether the market has rallied over the 20 trading days leading up to it. Below is a look at post-Labor Day performance when the previous 20 days have seen gains versus losses.

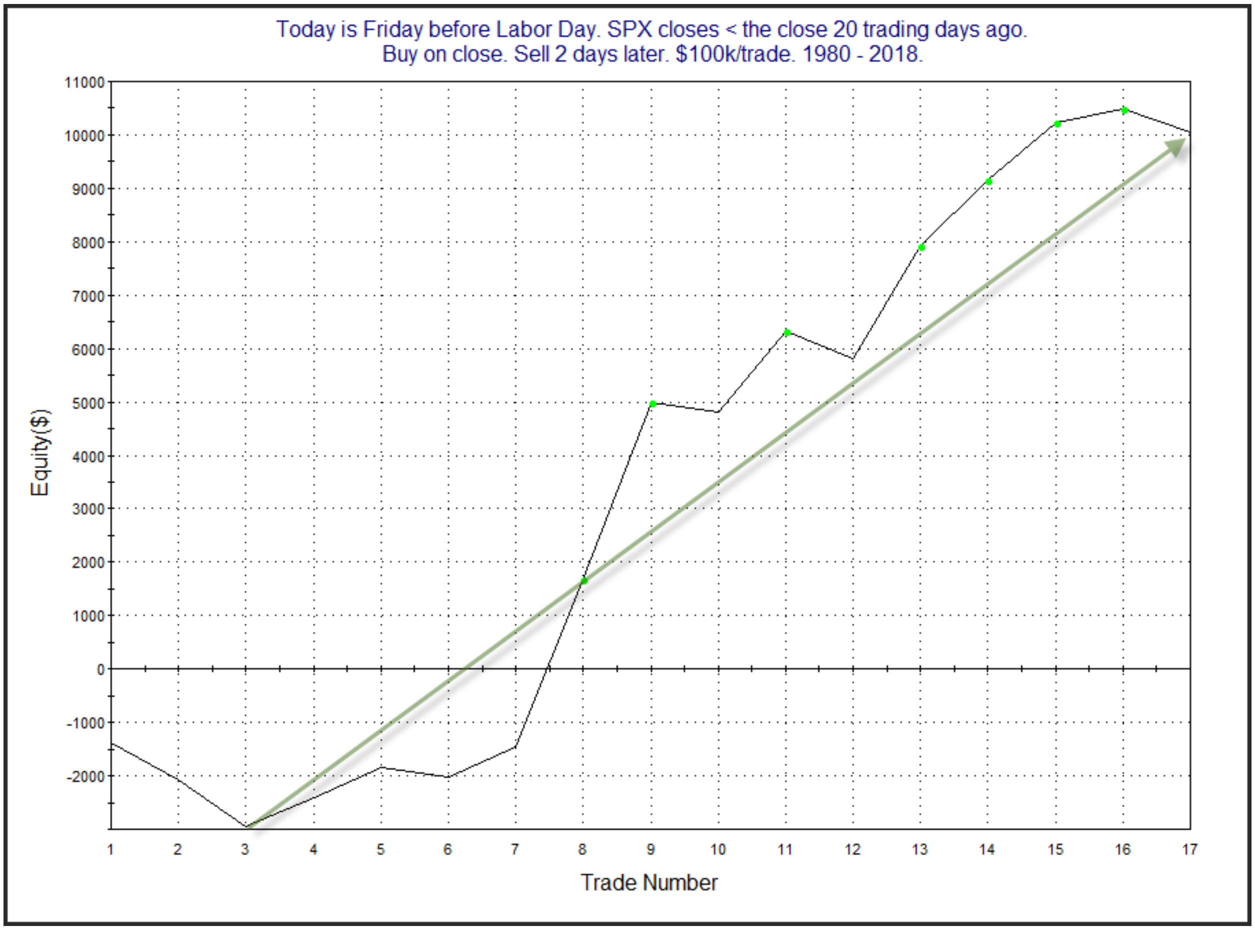
Today is Friday before Labor Day. SPX closes < the close 20 trading days ago. Buy on close. Sell X days later. $100k/trade. 1980 - 2018.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	18,079.72	17	12	5	70.59	5,691.60	-3,611.52	2,010.07	-1,208.22	1.66	3.99	1,063.51
4	8,886.80	17	12	5	70.59	3,585.30	-4,206.40	1,494.19	-1,808.69	0.83	1.98	522.75
3	6,053.88	17	11	6	64.71	3,485.40	-2,391.84	972.03	-773.08	1.26	2.31	356.11
2	10,057.93	17	10	7	58.82	3,294.60	-1,389.44	1,427.82	-602.89	2.37	3.38	591.64
1	7,227.97	17	9	8	52.94	5,054.10	-1,738.88	1,517.16	-803.31	1.89	2.12	425.17

Late summer weakness has often been followed by post Labor Day strength. And here is how it looks when the SPX had shown a net increase over the 20-day lead-up.

Today is Friday before Labor Day. SPX closes > the close 20 trading days ago. Buy on close. Sell X days later. $100k/trade. 1980 - 2018.												
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	-5,782.55	22	8	14	36.36	3,228.12	-2,048.15	1,404.70	-1,215.73	1.16	0.66	-262.84
4	-6,156.95	22	9	13	40.91	2,580.34	-3,113.11	1,345.71	-1,405.25	0.96	0.66	-279.86
3	-3,590.70	22	10	12	45.45	2,718.52	-4,024.28	1,335.54	-1,412.17	0.95	0.79	-163.21
2	-4,523.71	22	6	15	27.27	3,055.58	-2,471.03	1,612.58	-946.61	1.70	0.68	-205.62
1	-3,770.39	22	9	13	40.91	1,751.34	-4,147.45	904.57	-916.27	0.99	0.68	-171.38

Just the opposite here. The market appears to lean bearish during Labor Day week under such circumstances.

With SPX closing below its August 2nd close, the 1st setup qualifies. Below is a profit curve showing a 2-day holding period.



Not the smoothest curve, but not bad after a rough start. I have included this study on the Active List tonight. I also copied the turn of the month study below.

Of course Friday is also the end of the trading month. The 1st trading day of a new month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. They are from the 6/28/19 letter. First let's look at times the market closed in the bottom half of its range on the last day of the month.

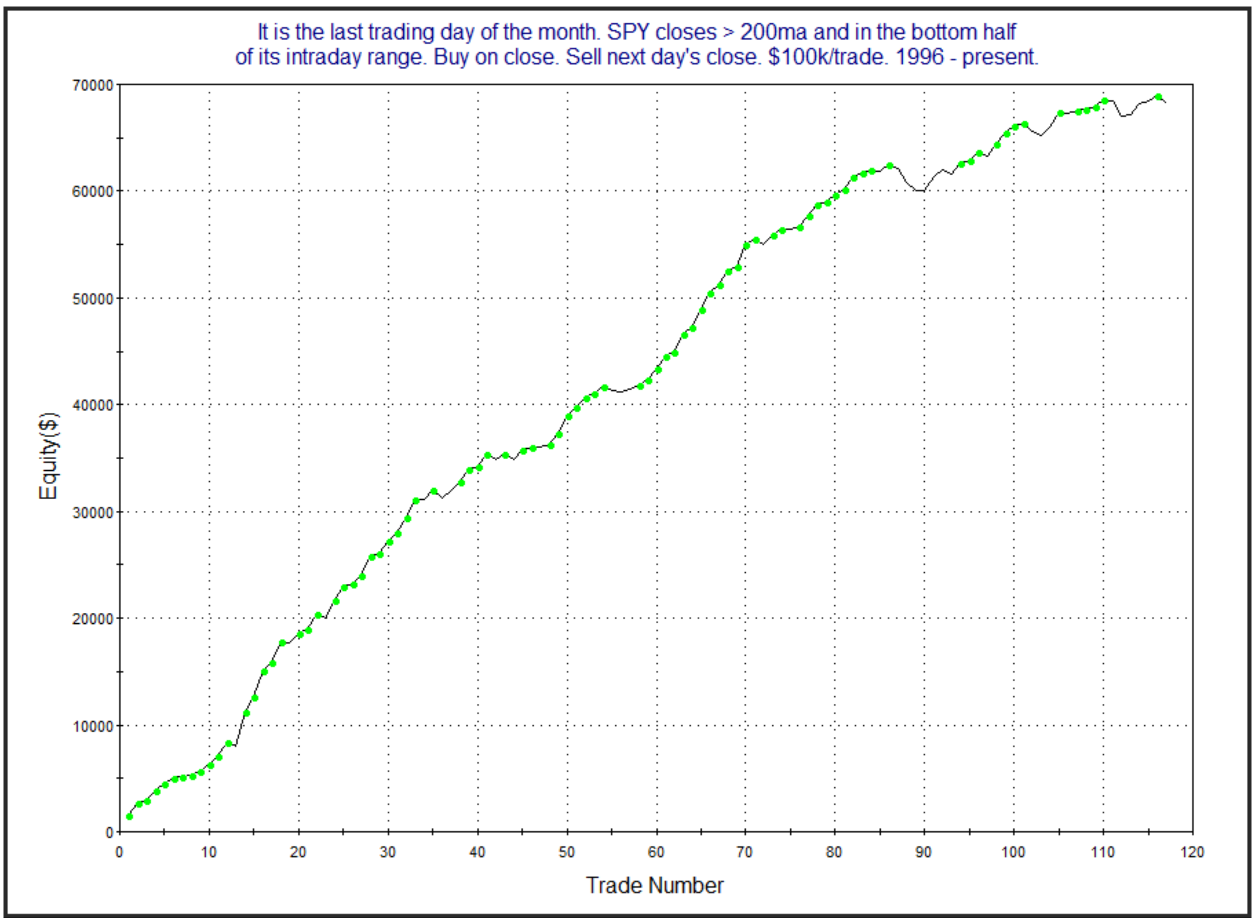
It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$68,160.43	Profit Factor	7.27
Gross Profit	$79,036.73	Gross Loss	($10,876.30)
Total Number of Trades	117	Percent Profitable	78.63%
Winning Trades	92	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	$582.57	Ratio Avg. Win:Avg. Loss	1.97
Avg. Winning Trade	$859.09	Avg. Losing Trade	($435.05)
Largest Winning Trade	$3,295.88	Largest Losing Trade	($1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 117 instances. Below is a profit curve.



The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Friday?

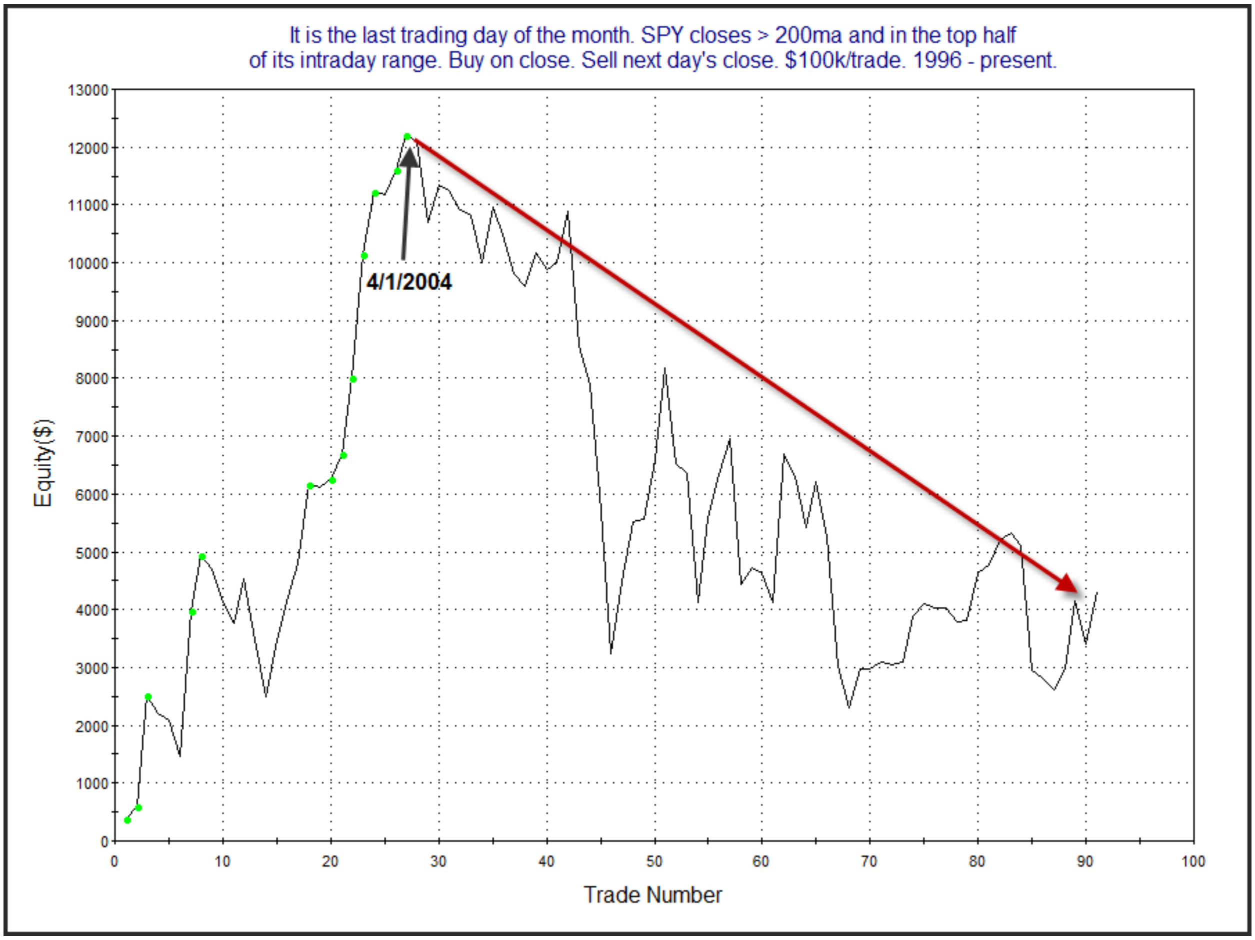
It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$4,310.30	Profit Factor	1.13
Gross Profit	$36,992.64	Gross Loss	($32,682.34)
Total Number of Trades	91	Percent Profitable	52.75%
Winning Trades	48	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	$47.37	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	$770.68	Avg. Losing Trade	($760.05)
Largest Winning Trade	$2,562.30	Largest Losing Trade	($2,515.60)

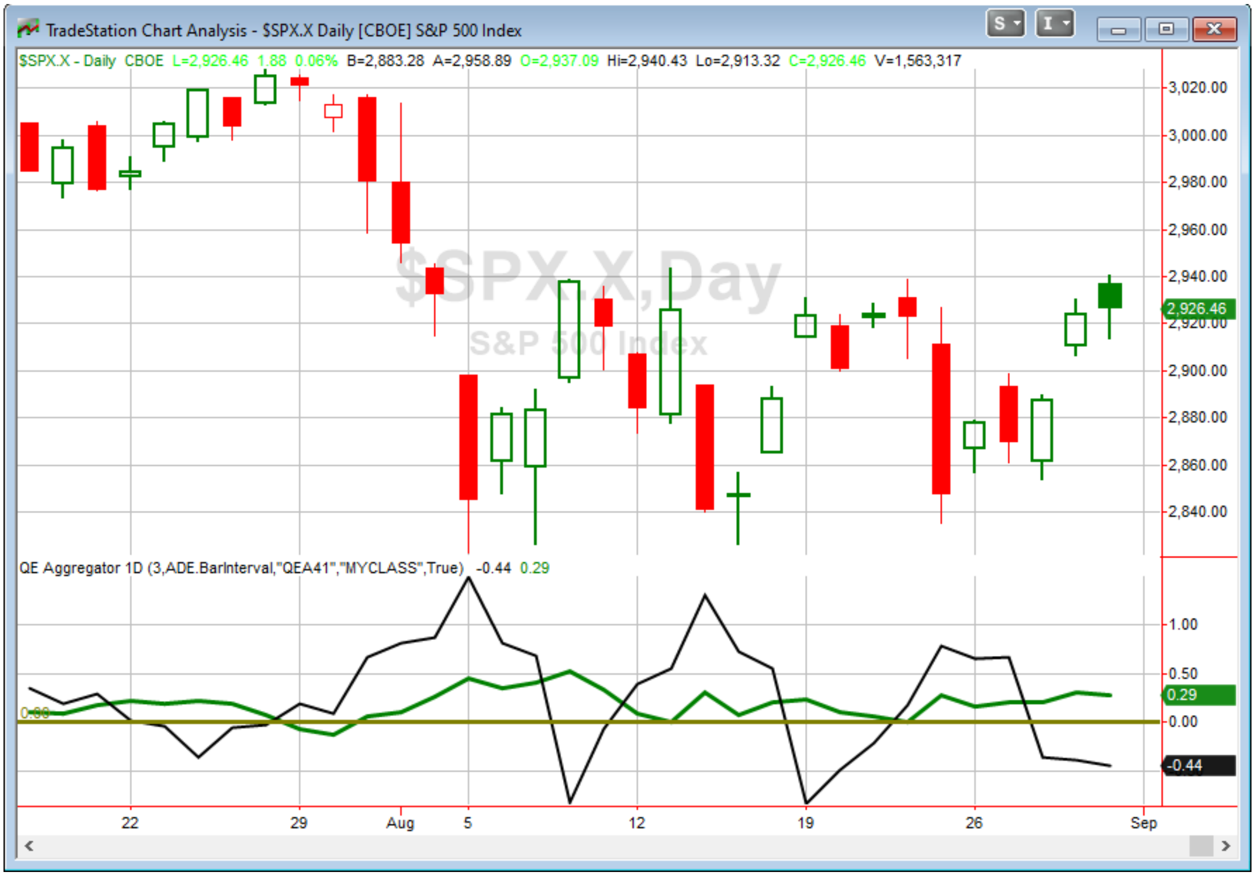
We see here the upside edge nearly completely wiped away. Here is the profit curve.



This paints an even bleaker picture. So it appears Friday's action may be important when considering the odds of a rally on Tuesday. The 1st day of the month has performed much better with some afternoon selling the day before.

SPY finished Friday in the 37th percentile of its intraday range – well into the bottom half. This triggered the 1st setup, which is a good indication for Tuesday.

I have updated the Aggregator chart below.



With today's new evidence to consider, 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 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 list of active studies, expectations are slated to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2904.45 on Tuesday. That is 0.75% below Friday's close. Therefore, SPX would need to close at least 0.75% lower on Tuesday in order to change from overbought to oversold vs expectations.

So the Aggregator is neutral. Evidence is saying that consolidations like we are in right now are normally followed by a move higher. And we are in strong seasonal period over the next few days for that move to occur. So "up" seems to be the likely direction. But I generally do not favor buying into conditions that are already extended to the upside. I would rather enter on a pullback, which typically offers more favorable reward/risk. Therefore, I won't be looking to buy this potential upside breakout. But breakout traders, or those that are more aggressive than me or that are trading in a different time frame, could look to take advantage of the bullish evidence we are seeing.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/3– slightly bullish

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

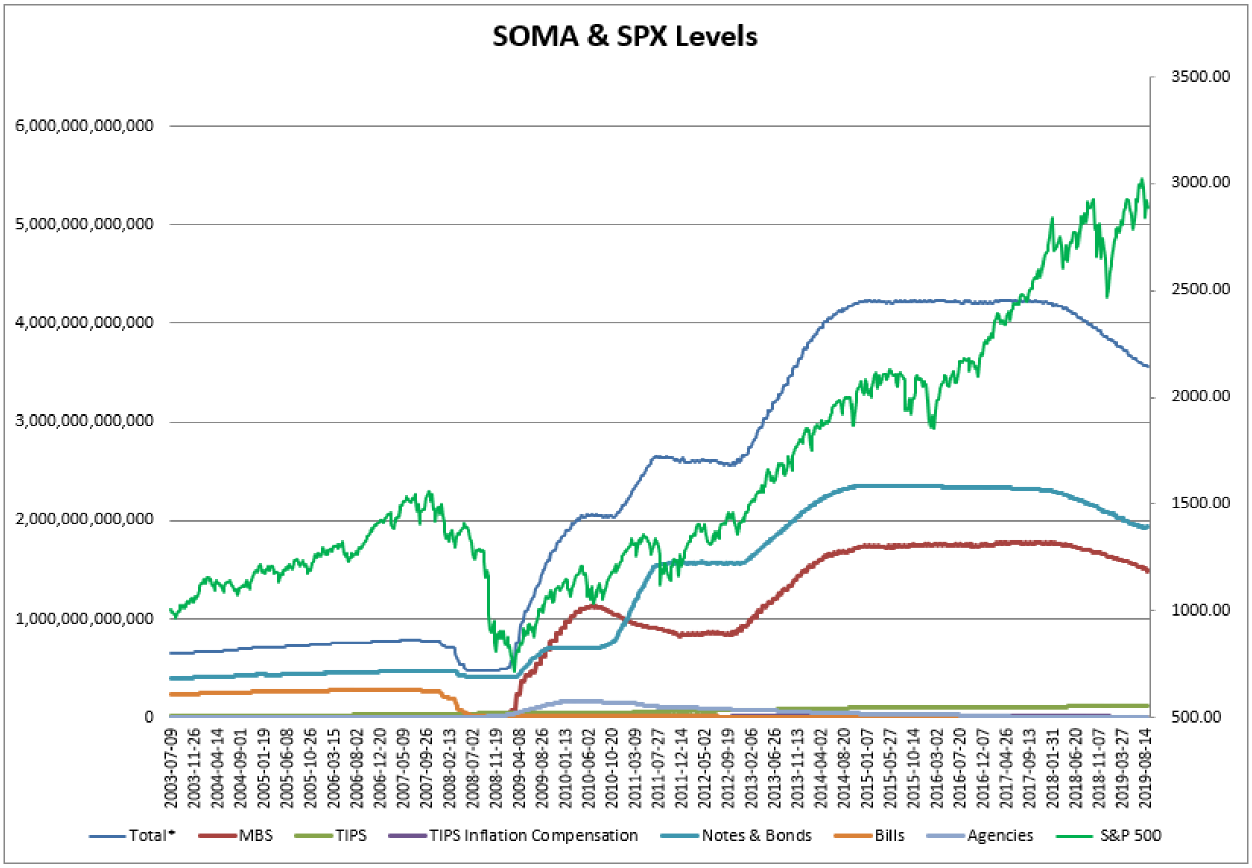
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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 there were no changes to the Combo Systems statuses.*

After 4 weeks lower, the market finished this past one with a gain. The SPX rose 2.8%, the NASDAQ climbed 2.7%, and the Russell 2000 finished up 2.4%. Most long-term trend indicators remain up. Despite the rally, I did not see any new intermediate-term studies emerge.

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 08/21/2019

DOMESTIC SECURITIES HOLDINGS AS OF

August 28, 2019

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	3,001,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,937,663,397.6
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***	1,489,605,199.6
Total SOMA Holdings	3,563,300,175.8
Change From Prior Week	-4,861,379.8

*Does not reflect inflation compensation of 23,781,749.3

**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 08/29/2019 4:30pm.

Despite the end of the QT program, the SOMA still saw a drop of $4.9 billion last week. There are going to be oscillations. For the 2nd week in a row, this is likely a fairly large one. You'll note I highlighted the T-Notes/Bonds in green, since they rose on the week, while the (red) AMBS declined. That is what we will continue to see under the current program, as AMBS rolloffs are replaced (or partially replaced) with treasury instruments. We have now entered a more neutral overall state with regards to the SOMA. Week to week changes in the value will likely be muted. I will continue to closely watch SOMA activity and market movement to see if it is providing any clues.

Evidence remains mixed, and largely unchanged from last week. The Fed's policy is somewhat dovish (though not enough according to Trump). Most of the recent studies on the intermediate-term list favor the bulls. The trend remains up according to most long-term trend indicators (Golden Cross, 200ma, etc.). But the NASDAQ is still lagging, and that is not an encouraging sign. Another potentially bearish indication is the recent string of Hindenburg Omen signals. Overall, intermediate-term evidence still seems to be leaning bullish, but not it is not much of a lean. So I am open to trades in either direction, but I'll continue to be a little more cautious with shorts than longs for the time being.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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

None.

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