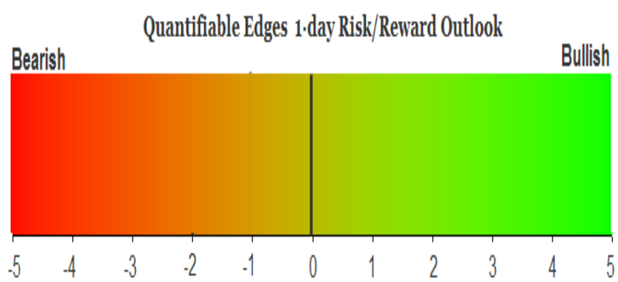
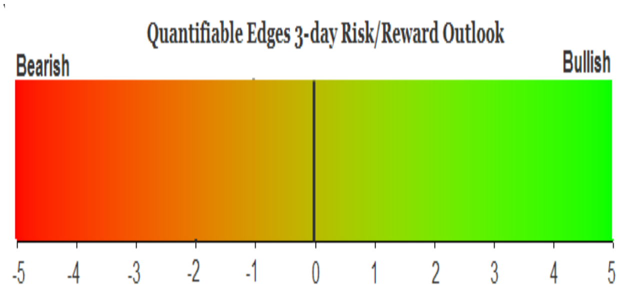
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 13, 2019 Volume 12 Issue 177

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.
- DJI up 7 days in a row provides a similar message.

Short-term Outlook

The Bottom Line

The Aggregator formation is still neutral. Me too.

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						
None						
Active - Long Term						
September 13, 2019	DJI up 7 days in a row	1-19 days	Bullish			
September 13, 2019	SPX RSI(2) > 99	1-15 days	Bullish			
September 9, 2019	NYSE Advance/Decline Line breakout	1-40 days	Bullish			
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			

The Evidence

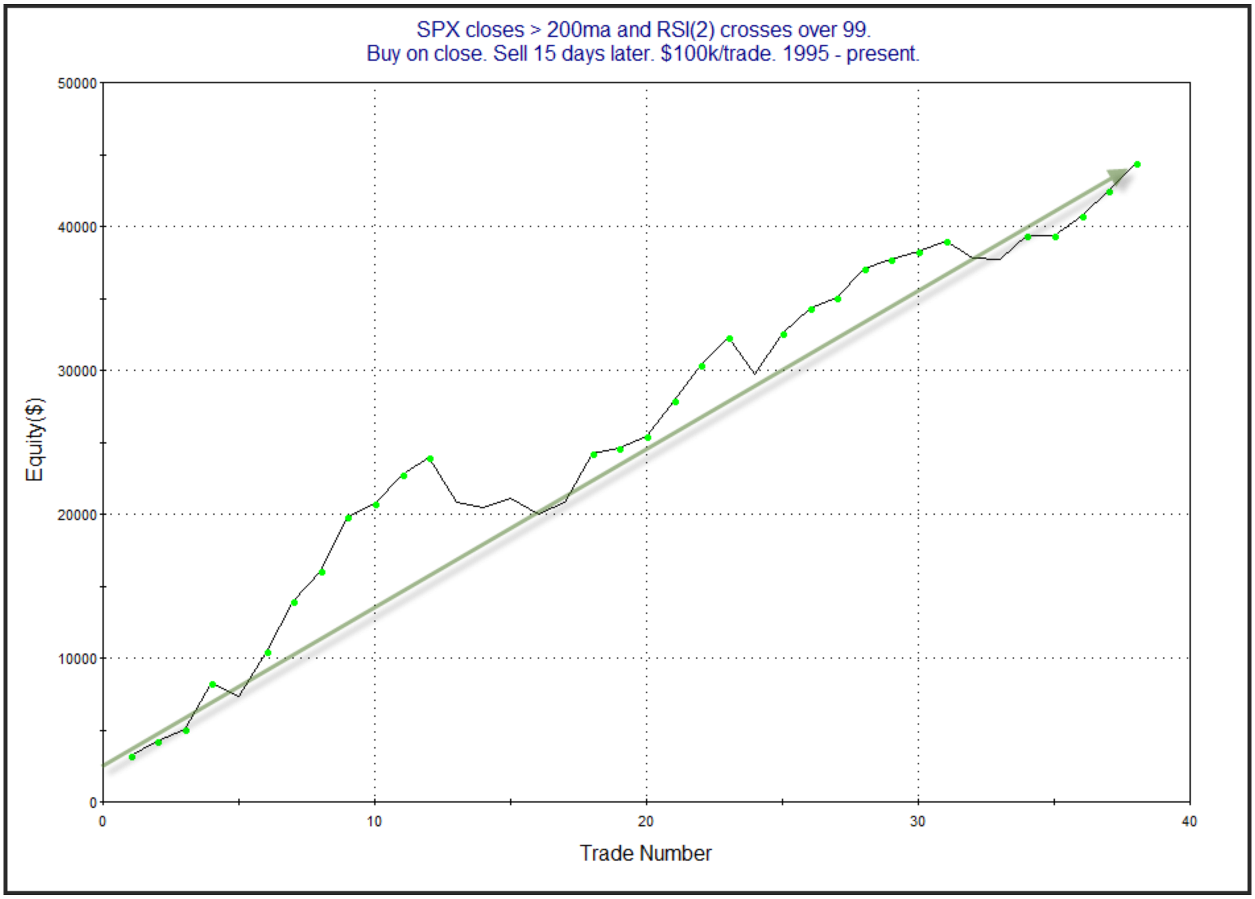
Thursday was a mixed day. The SPX rose 0.3%, the NASDAQ gained 0.3% and the Russell 2000 declined 0.04%. Breadth was negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 45%. NYSE volume declined some from Wednesday's level.

The recent rally has left the market short-term overbought by most measures. And short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 6/21/19 Letter, which uses RSI(2).

SPX closes > 200ma and RSI(2) crosses over 99.
Buy on close. Sell X days later. $100k/trade. 1995 - 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
15	44,416.07	38	31	7	81.58	3,782.11	-3,063.60	1,732.56	-1,327.63	1.31	5.78	1,168.84
14	38,154.74	38	30	8	78.95	4,461.36	-2,699.52	1,648.64	-1,413.04	1.17	4.38	1,004.07
13	38,760.64	40	33	7	82.50	3,989.82	-3,320.01	1,515.32	-1,606.42	0.94	4.45	969.02
12	36,020.65	40	32	8	80.00	4,058.61	-3,175.53	1,436.19	-1,242.16	1.16	4.62	900.52
11	38,686.38	40	32	8	80.00	4,106.40	-2,523.21	1,528.00	-1,276.22	1.20	4.79	967.16
10	31,157.53	41	32	9	78.05	3,770.55	-2,793.28	1,358.36	-1,367.79	0.99	3.53	759.94
9	27,292.61	41	31	10	75.61	3,453.27	-3,440.07	1,266.45	-1,196.74	1.06	3.28	665.67
8	27,025.06	41	29	12	70.73	3,547.80	-3,460.32	1,301.02	-892.03	1.46	3.52	659.15
7	19,949.79	42	28	14	66.67	3,564.39	-4,153.62	1,149.09	-873.19	1.32	2.63	474.99
6	10,614.61	42	26	16	61.90	2,634.36	-5,296.92	1,039.17	-1,025.23	1.01	1.65	252.73
5	6,752.67	42	28	14	66.67	1,782.39	-3,596.40	811.99	-1,141.64	0.71	1.42	160.78
4	3,715.35	42	27	15	64.29	2,442.90	-3,039.18	794.86	-1,183.06	0.67	1.21	88.46
3	-2,227.26	43	24	19	55.81	1,982.20	-2,880.45	694.71	-994.75	0.70	0.88	-51.80
2	899.55	43	24	19	55.81	1,998.39	-2,348.76	632.24	-751.28	0.84	1.06	20.92
1	1,388.90	43	22	21	51.16	2,096.10	-3,515.37	514.54	-472.91	1.09	1.14	32.30

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



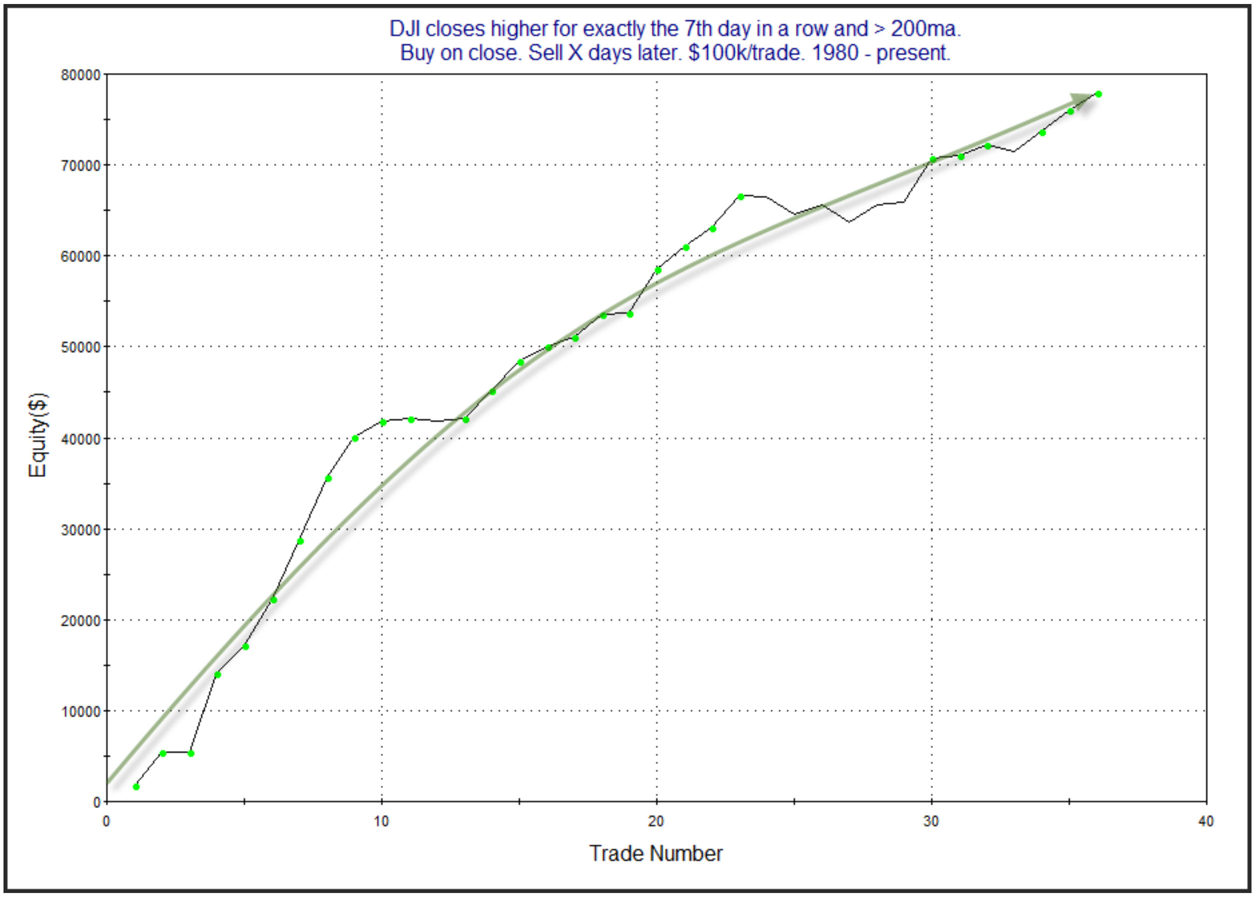
The upside edge has been apparent for a while and still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

A subscriber sent me a note this evening noting the 7-day win streak of the DJI. So I decided I would also test past instances of that. As it turned out, this was another good example of extreme strength begetting more strength. Below is a look at performance after other 7-day win streaks since 1980.

DJI closes higher for exactly the 7th day in a row and > 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
20	71,604.66	35	27	8	77.14	8,198.68	-3,332.50	2,974.12	-1,087.09	2.74	9.23	2,045.85
19	77,965.98	36	31	5	86.11	8,695.05	-1,875.05	2,669.44	-957.35	2.79	17.29	2,165.72
18	77,477.38	36	29	7	80.56	9,411.43	-3,131.59	2,943.02	-1,124.30	2.62	10.84	2,152.15
17	69,338.61	36	27	9	75.00	8,908.69	-3,757.81	2,955.29	-1,161.58	2.54	7.63	1,926.07
16	68,603.76	36	29	6	80.56	7,792.47	-2,497.15	2,632.45	-1,289.53	2.04	9.87	1,905.66
15	64,160.56	36	27	9	75.00	8,330.00	-2,692.40	2,716.30	-1,019.94	2.66	7.99	1,782.24
14	56,247.32	36	28	8	77.78	7,282.38	-2,710.70	2,367.21	-1,254.33	1.89	6.61	1,562.43
13	48,449.11	37	25	12	67.57	7,378.91	-3,665.00	2,476.02	-1,120.95	2.21	4.60	1,309.44
12	42,963.86	37	24	13	64.86	7,544.53	-3,171.51	2,475.93	-1,266.04	1.96	3.61	1,161.19
11	37,672.10	37	23	14	62.16	6,910.47	-2,343.12	2,361.68	-1,189.03	1.99	3.26	1,018.16
10	38,653.05	37	25	12	67.57	4,795.14	-2,876.67	2,082.53	-1,117.51	1.86	3.88	1,044.68
9	41,701.91	38	28	10	73.68	4,512.90	-3,132.90	1,844.48	-994.34	1.85	5.19	1,097.42
8	40,006.33	38	26	12	68.42	6,676.25	-2,237.31	1,841.26	-655.53	2.81	6.09	1,052.80
7	34,042.42	38	28	10	73.68	4,147.36	-2,345.95	1,524.51	-864.38	1.76	4.94	895.85
6	19,672.16	38	26	12	68.42	4,657.45	-3,410.35	1,306.25	-1,190.87	1.10	2.38	517.69
5	16,938.68	38	24	14	63.16	4,560.92	-2,927.07	1,294.68	-1,009.55	1.28	2.20	445.75
4	12,656.15	38	23	15	60.53	3,293.29	-2,425.90	1,159.58	-934.28	1.24	1.90	333.06
3	8,807.99	38	19	19	50.00	3,004.19	-1,664.47	1,087.36	-623.78	1.74	1.74	231.79
2	4,203.54	38	19	19	50.00	2,153.92	-847.62	601.92	-380.68	1.58	1.58	110.62
1	1,518.74	38	19	19	50.00	1,996.48	-1,220.94	405.72	-325.78	1.25	1.25	39.97

Similar to the RSI strategy, there is not much of an edge over the 1st few days. But once you get out a little further, the stats appear strongly bullish. Below is a look at the profit curve assuming a 19-day holding period.



The strong move from lower left to upper right appears to offer some confirmation of the bullish tendency. I have also added this study to the intermediate-term active list.

Also notable from Thursday is that the Fed released the latest SOMA balances through Wednesday's close. Below is a screenshot from their website.

« As of 09/04/2019

DOMESTIC SECURITIES HOLDINGS AS OF

September 11, 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)	1,941,263,397.6
US Treasury Floating Rate Notes (FRN)	14,539,913.6
US Treasury Inflation-Protected Securities (TIPS)*	118,145,665.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,489,605,276.6
Total SOMA Holdings	3,568,902,252.8
Change From Prior Week	5,602,000.1

*Does not reflect inflation compensation of 24,218,626.

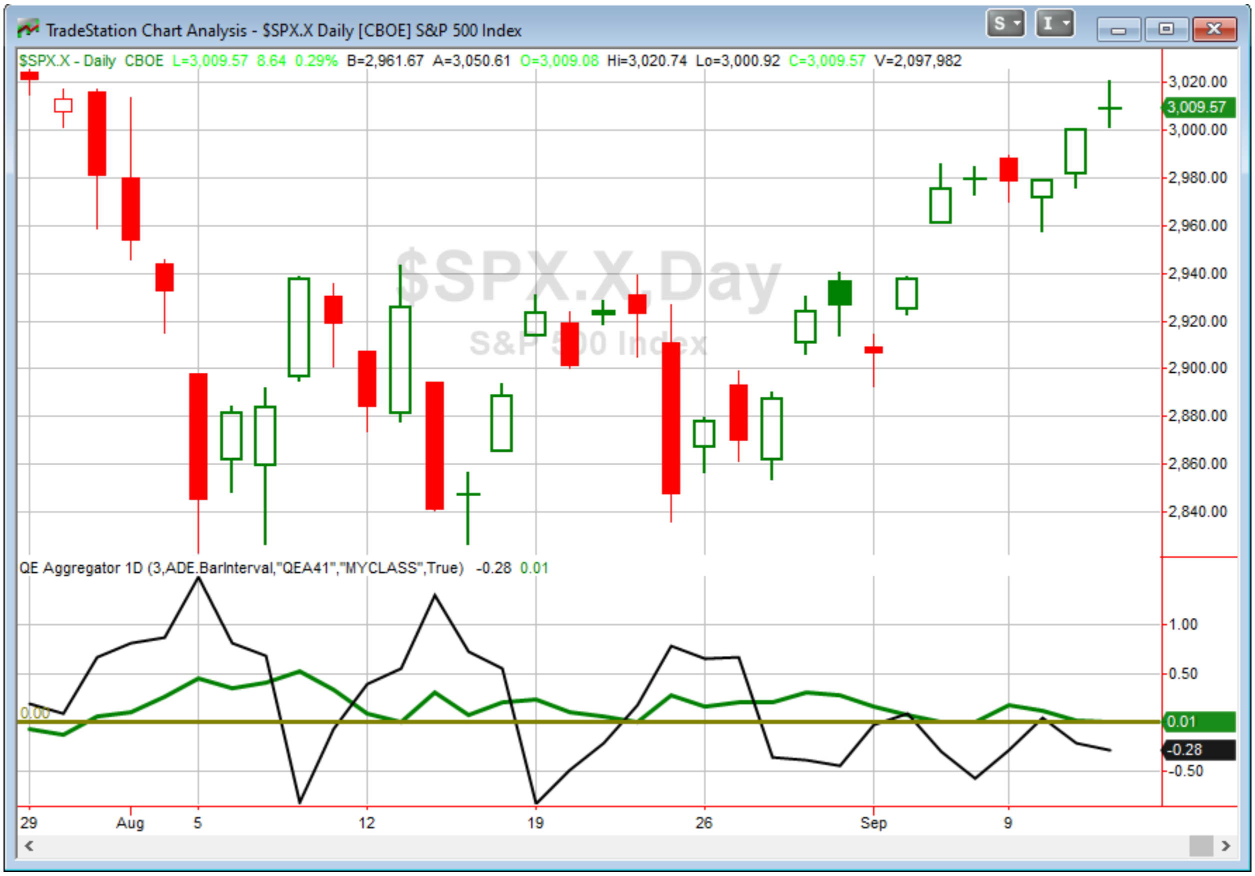
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***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 09/12/2019 4:30pm.

The SOMA increased for the 2nd week in a row. That has not happened since last November. And the size of the increase was quite large. In fact, it was the biggest increase since the week of 3/14/18. With QT now ended and no QE policy in place, it is likely that most weeks will see substantially less movement than this past one.

I have updated the Aggregator chart below.



Tonight the green Aggregator Line remained just barely above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile, the black Differential Line stayed 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.

With the short-term active studies all expiring, expectations over the next few days will be heavily influenced by any new evidence that emerges. If nothing does emerge, expectations will remain slightly positive thanks to the intermediate-term evidence. Meanwhile, the Differential Pivot will be 2988.41 on Friday. That is 0.7% below Thursday's close. Therefore, SPX would need to close down at least 0.7% on Friday to flip from overbought to oversold vs expectations.

The overall setup is not much different than last night. The Aggregator is neutral, short-term evidence is very light, and the SPX is mildly overbought. Nothing for me to do yet. I will continue to wait for a more compelling market setup before looking to take on new positions.

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

The intermediate-term outlook was last updated in the 9/9/19 Letter. It can be found in the most recent weekly letter on the website.

http://quantifiableedges.com/current-weekly-letter/

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.