

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 23, 2019

Volume 12 Issue 183

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- The week after September opex has historically been the worst of the year.
- Intermediate-term evidence continues to lean bullish.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is mixed and reward/risk appears suboptimal.

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 23, 2019	Weakest week seasonality	1-4 days	Bearish			
September 23, 2019	SPX < 10ma after 15 days above	1-5 days	Bullish			
September 20, 2019	RUT down 3. SPX 3-day high.	1-4 days	Bullish	2.20%	-0.60%	-1.30%
Active - Long Term						
September 20, 2019	RUT down 3. SPX 3-day high.	1-10 days	Bullish	3.60%	-0.90%	-1.95%
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			

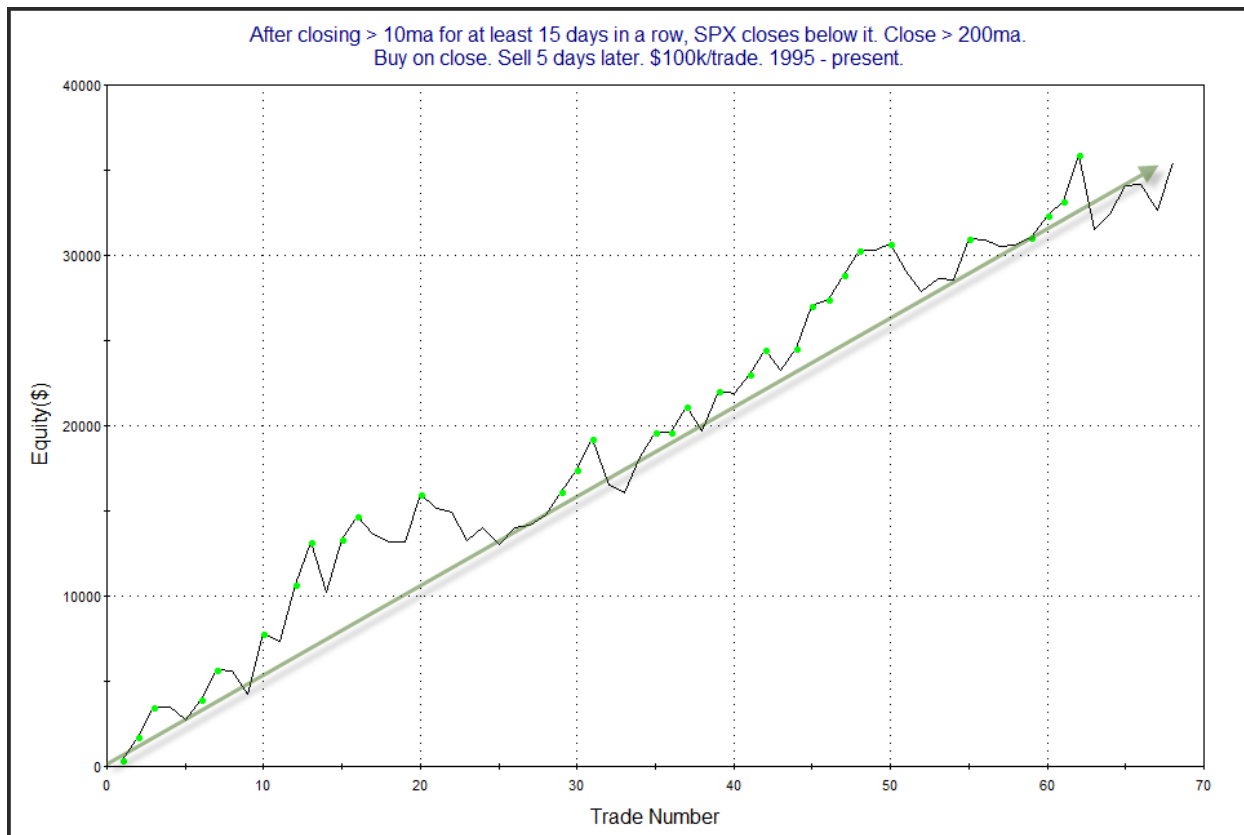
The Evidence

A good start to the day did not last, and the major indices all finished lower. The SPX fell 0.5%, the NASDAQ tumbled 0.8%, and the Russell 2000 declined 0.1%. Breadth was mixed as the NYSE Up Issues % was 50.2% and the Up Volume % came in at 41.6%. NYSE volume spiked as it typically does on options expiration Friday.

The persistent uptrend of late had kept SPX above its short-term moving averages for an extended period. Friday, after 15 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 5/2/19 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing > 10ma for at least 15 days in a row, SPX closes below it. Close > 200ma. 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
5	35,419.40	68	42	26	61.76	3,505.74	-4,455.15	1,466.98	-1,007.45	1.46	2.35	520.87
4	29,023.02	68	44	24	64.71	3,206.40	-6,072.15	1,331.09	-1,231.04	1.08	1.98	426.81
3	23,770.17	68	46	22	67.65	2,805.12	-2,110.50	1,008.29	-1,027.78	0.98	2.05	349.56
2	20,186.21	68	44	24	64.71	2,682.72	-2,185.60	927.47	-859.27	1.08	1.98	296.86
1	15,844.89	68	44	24	64.71	2,097.92	-1,542.24	619.88	-476.23	1.30	2.39	233.01
62 of 68 instances (91%) closed above the entry price at some point in the next week.												

The numbers here all look solidly bullish over the next week. Below is the 5-day profit curve.



The strong upslope serves as some confirmation of the bullish edge.

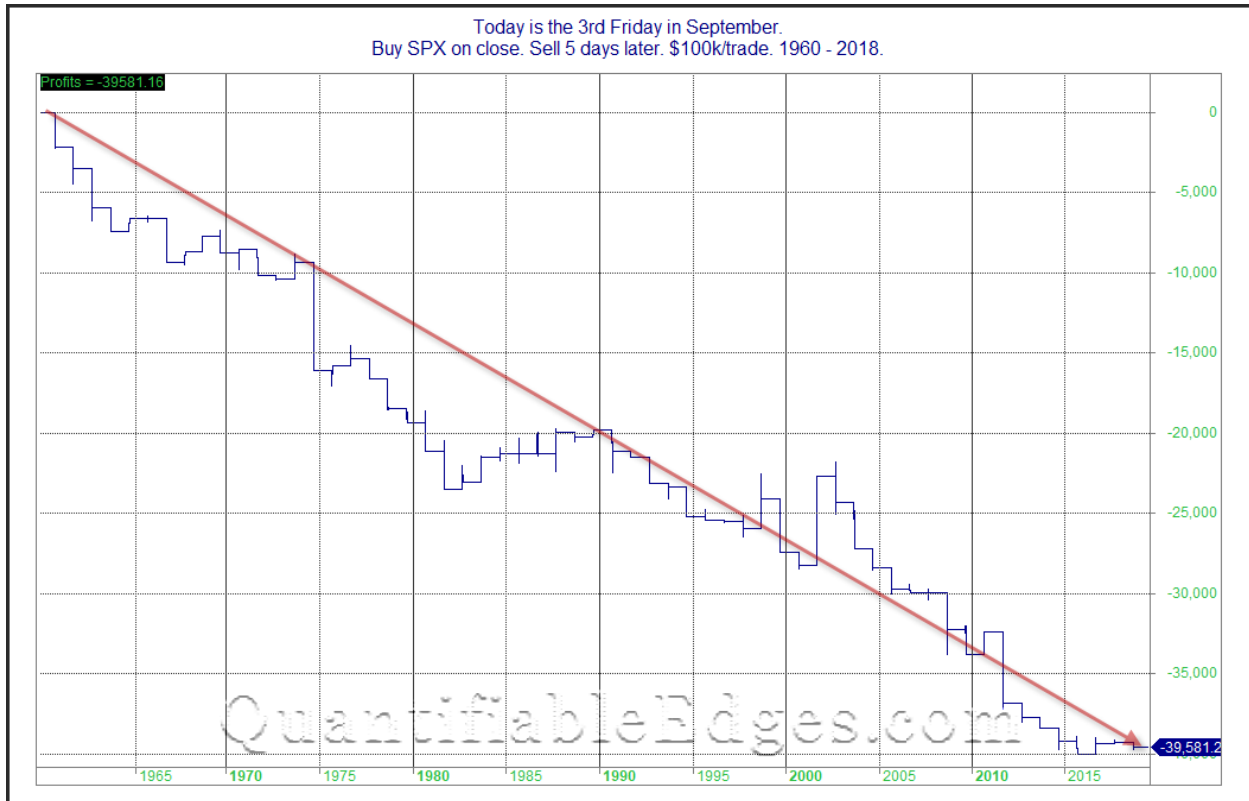
But the evidence is not all bullish tonight. From a seasonality standpoint, there isn't a more reliable time of the year to have a selloff than this upcoming week. Since 1960 the week following the 3rd Friday in September has produced the most bearish results of any week. And the same goes for more recent looks. In the 9/24/18 subscriber letter I showed a table with the best and worst weeks of the year since 1988. I have updated that table below.

SPX Performance Following the Month and Friday Specified
\$100k/trade. \$0 commissions. 1988 - present. Top 10 and Bottom 10 Results Shown.

Month of Year	Fri of Month	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	2	30,156.58	31	23	8	74.19	7,282.10	-6,557.14	2,102.69	-2,275.66	0.92	2.66	972.79
10	5	11,672.23	12	9	3	75.00	3,853.85	-3,889.28	1,953.63	-1,970.15	0.99	2.97	972.69
4	2	30,168.20	32	21	11	65.63	5,731.96	-3,580.15	2,210.25	-1,477.00	1.50	2.86	942.76
11	4	28,468.45	31	23	8	74.19	7,362.46	-2,238.87	1,593.73	-1,023.41	1.56	4.48	918.34
3	2	28,873.96	32	23	9	71.88	7,515.60	-6,711.66	1,879.64	-1,595.30	1.18	3.01	902.31
1	4	28,205.23	32	20	12	62.50	4,860.00	-3,765.16	2,269.60	-1,432.22	1.58	2.64	881.41
10	4	25,057.61	31	22	9	70.97	10,485.72	-3,993.72	1,984.98	-2,067.99	0.96	2.35	808.31
3	4	21,343.46	32	22	10	68.75	4,194.44	-3,215.94	1,501.08	-1,168.02	1.29	2.83	666.98
9	2	19,859.74	30	21	9	70.00	5,313.08	-4,975.04	1,531.51	-1,366.90	1.12	2.61	661.99
12	5	10,411.28	17	11	6	64.71	3,714.66	-2,109.86	1,684.09	-1,352.28	1.25	2.28	612.43
2	3	-9,827.50	32	16	16	50.00	2,106.80	-4,509.84	841.94	-1,456.15	0.58	0.58	-307.11
12	1	-10,365.36	31	13	18	41.94	4,131.36	-3,728.04	1,358.92	-1,557.30	0.87	0.63	-334.37
1	3	-10,992.58	32	17	15	53.13	2,505.60	-5,602.80	1,103.51	-1,983.49	0.56	0.63	-343.52
11	5	-3,363.96	9	5	4	55.56	1,717.40	-4,574.88	1,220.49	-2,366.60	0.52	0.64	-373.77
10	1	-15,554.77	31	16	15	51.61	5,944.32	-18,000.90	2,026.24	-3,198.31	0.63	0.68	-501.77
3	3	-17,937.36	32	7	25	21.88	6,162.00	-5,895.00	2,826.00	-1,508.78	1.87	0.52	-560.54
6	3	-18,175.33	32	10	22	31.25	2,928.60	-3,626.75	1,146.73	-1,347.39	0.85	0.39	-567.98
9	3	-26,963.73	31	7	24	22.58	7,739.42	-6,525.56	2,011.18	-1,710.08	1.18	0.34	-869.80
4	5	-8,939.78	9	3	6	33.33	1,247.86	-6,368.04	818.59	-1,899.26	0.43	0.22	-993.31
7	5	-14,714.56	13	4	9	30.77	2,323.00	-7,153.30	1,168.92	-2,154.47	0.54	0.24	-1,131.89

In past years I have sometimes excluded the weeks following the 5th Friday of the month, because 5th Fridays don't always happen and it made the results look a little neater. This year I decided to include the 5th Friday. I will note that I DID exclude the 5th Friday in February. There has only been one of these since 1988. That was 2008, and it lost 2.8% the following week. Of course, February is not the immediate concern. September is. Near the bottom of the table you will see that the worst (non-5th week) results occur following the 3rd Friday of the 9th month. Another potential bearish week that is coming up is the week after the 1st Friday in October. And interestingly, the weeks after the 2nd and 4th (and 5th) Fridays in October are listed among the most bullish 10. Further, I'd note that most of the weakest weeks occur after the 1st and 3rd Fridays, with those following quad-witching opex in March, June, and September being the worst. Meanwhile, most of the strongest weeks occur after the 2nd and 4th Fridays of a month.

I also reproduced a graphic to show how this upcoming week has played out over time. For the chart, I went all the way back to 1960.



As you can see the bearish tendency has been pretty consistent over the last 59 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2018.

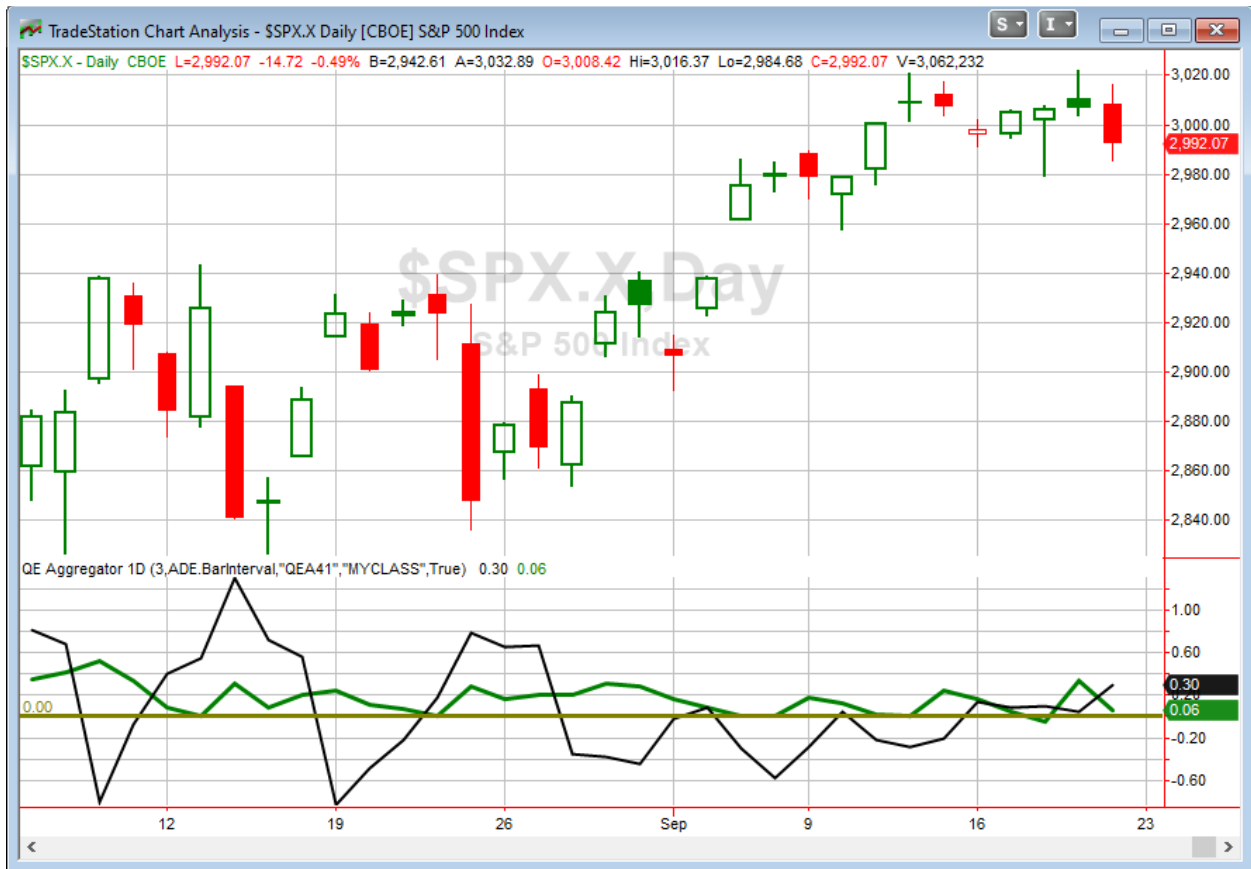
Today is opex Friday in September.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - present.

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	-27,214.12	29	6	23	20.69	7,739.42	-6,525.56	2,250.53	-1,770.32	1.27	0.33	-938.42
4	-27,815.59	29	6	23	20.69	5,439.43	-7,088.90	1,818.60	-1,683.79	1.08	0.28	-959.16
3	-20,123.04	29	7	22	24.14	4,508.00	-5,455.74	1,702.58	-1,456.41	1.17	0.37	-693.90
2	-16,880.40	29	9	20	31.03	4,786.41	-5,283.52	880.33	-1,240.17	0.71	0.32	-582.08
1	-9,639.14	29	8	21	27.59	3,877.95	-3,791.21	872.04	-791.21	1.10	0.42	-332.38

2001 & 2017 were the only years that SPX failed to close below its entry price at some point in the next week.

The consistency and net results appear quite strong. I note the only instances that didn't post a lower close at some point during the following week was in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but it only rose 2 points, so it was not much of a victory for the bulls. 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 is just a little 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. 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 list of active studies, expectations are set to flip to slightly bearish on Monday. But this could easily change based on any new evidence that emerges on Monday. So expectations are fickle at the moment and we are not seeing an overwhelming amount of evidence on either side. Meanwhile, the Differential Pivot will be 3011.55 on Monday. That is 0.65% above Friday's close. Therefore, SPX would need to close up at least 0.65% on Monday in order to flip from oversold to overbought vs expectations.

We are looking at a bullish setup, but not really a terribly compelling one in my view. If a rally does materialize on Monday, then the Aggregator could easily flip from bullish to bearish. Evidence is mixed. A persistent uptrend does not often end abruptly, but there is not a more likely time of year to see a pullback occur. And the decline on Friday was just Day 1 if a pullback is starting. So I am going to give it a least another day here. I would like more clarity and a more substantial reward/risk setup before taking on new index exposure. I may miss out on a Monday rally, but I'm ok with that.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/23– moderately bullish

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

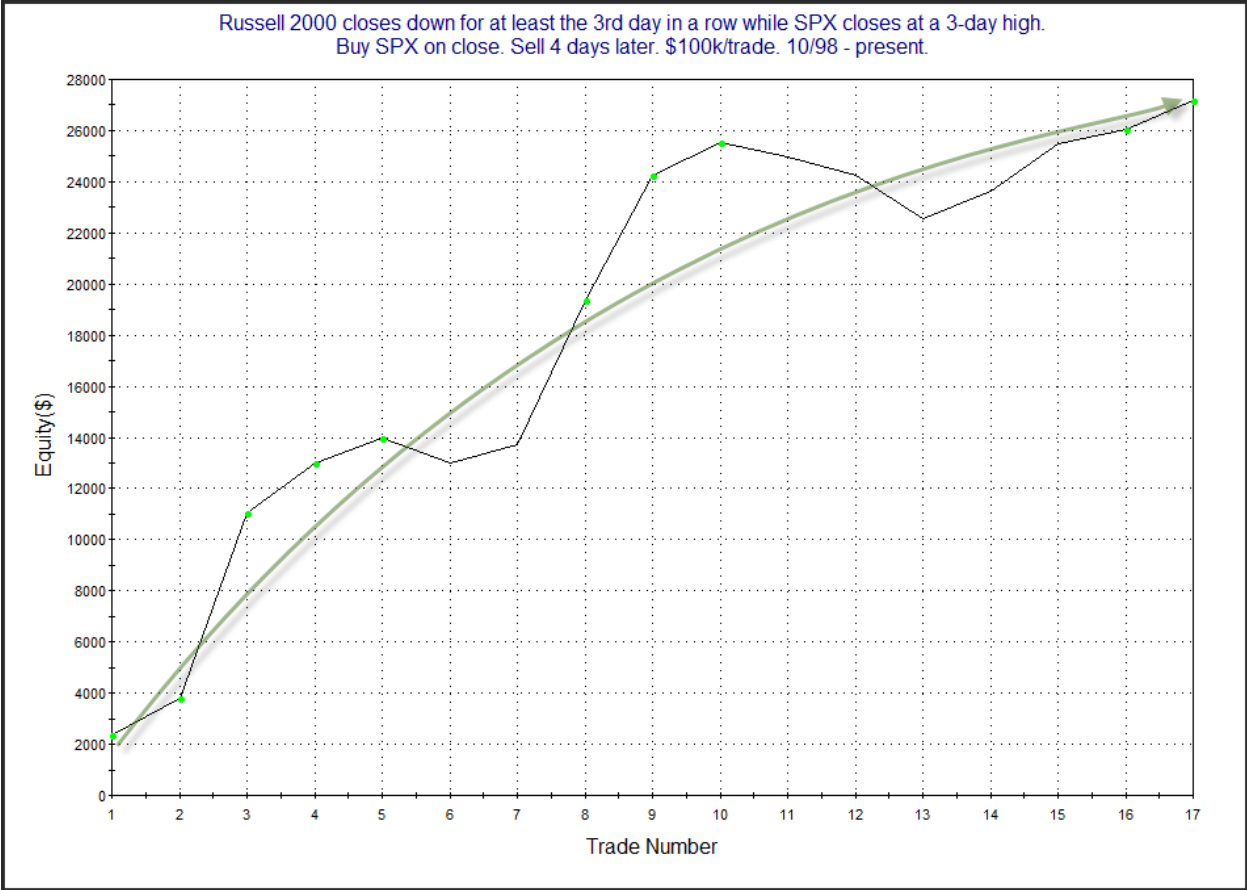
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week saw the market pull back a little bit. The SPX lost 0.5%, the NASDAQ declined 0.7%, and the Russell 2000 dropped 1.2%. The long-term trend still appears up with the SPX quite close to new all-time highs. There was a study from Thursday night's letter that looked at the short-term divergence between SPX and RUT. It suggested a possible intermediate-term upside edge. I have copied it below.

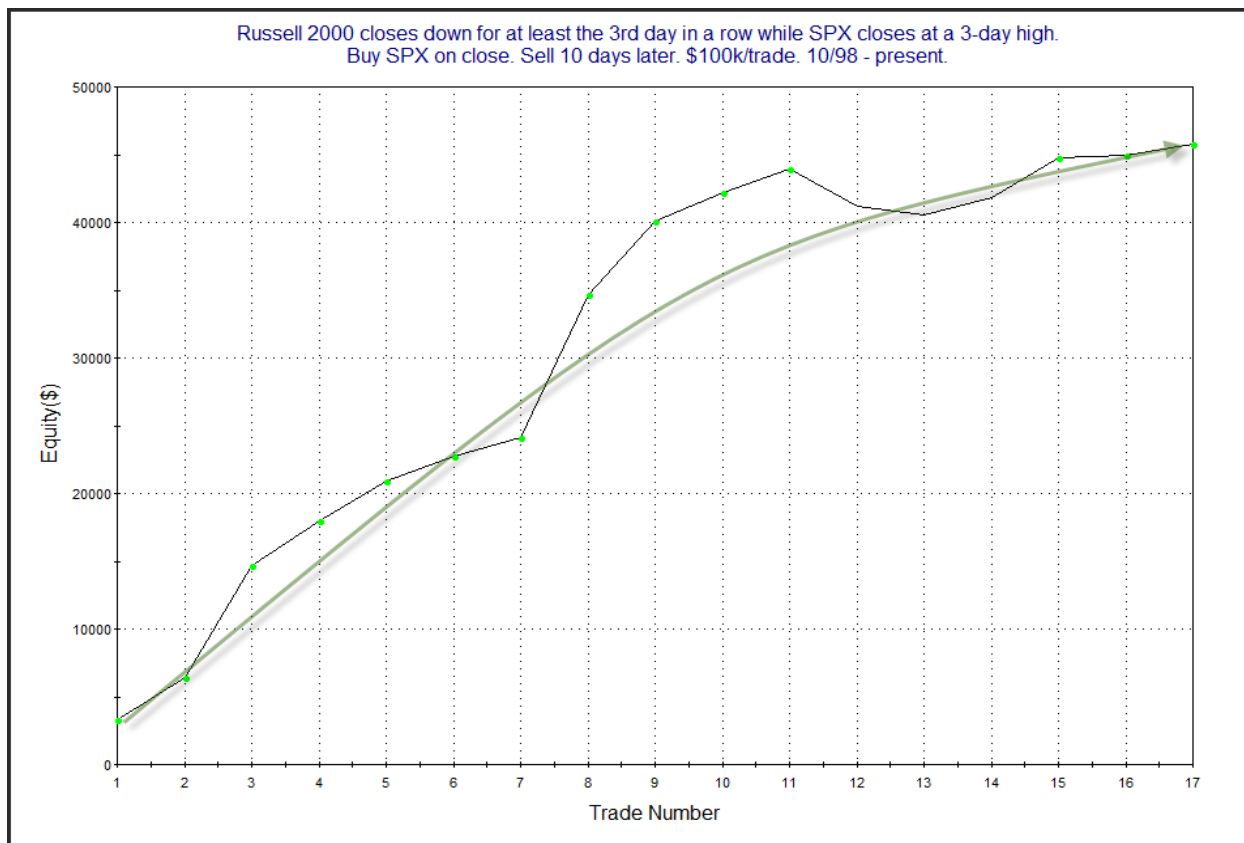
Another aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 10/17/17 Subscriber Letter. Stats are updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/98 - 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	45,824.70	17	15	2	88.24	10,577.93	-2,723.00	3,277.64	-1,669.96	1.96	14.72	2,695.57
9	38,915.55	17	13	4	76.47	8,209.02	-2,674.70	3,237.85	-794.13	4.08	13.25	2,289.15
8	35,352.52	17	13	4	76.47	9,347.15	-1,463.00	2,923.71	-663.94	4.40	14.31	2,079.56
7	36,097.28	17	12	5	70.59	9,614.11	-2,783.20	3,351.66	-824.52	4.06	9.76	2,123.37
6	32,505.73	17	13	4	76.47	9,598.49	-3,491.60	2,990.23	-1,591.81	1.88	6.11	1,912.10
5	26,987.71	17	13	4	76.47	7,700.66	-2,075.04	2,569.05	-1,602.48	1.60	5.21	1,587.51
4	27,154.87	17	13	4	76.47	7,217.86	-1,680.10	2,393.83	-991.23	2.42	7.85	1,597.35
3	21,361.51	17	13	4	76.47	4,839.33	-887.22	1,816.89	-564.51	3.22	10.46	1,256.56
2	19,314.44	17	13	4	76.47	5,134.01	-551.73	1,576.66	-295.52	5.34	17.34	1,136.14
1	13,134.35	18	13	5	72.22	4,708.01	-764.46	1,153.10	-371.19	3.11	8.08	729.69

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a little bit low, but the stats at this point are very impressive. Below is a profit curve using a 4-day exit.



This looks pretty solid. I also produced a profit curve for a 10-day holding period.

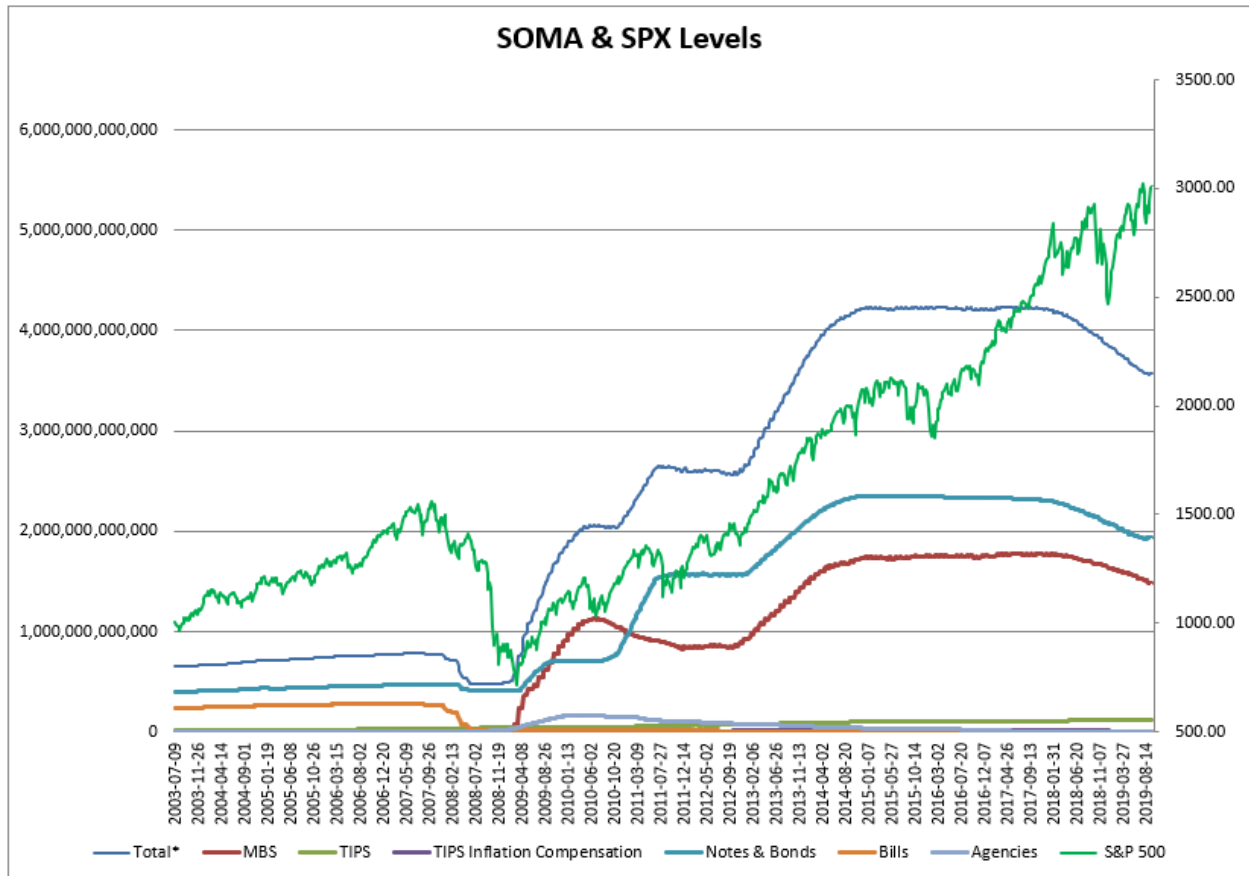


The move up has been impressive. I have included this study on both the short-term and the intermediate-term active list.

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.

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 09/11/2019

DOMESTIC SECURITIES HOLDINGS AS OF September 18, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	6,002,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,942,864,397.6
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***	1,484,433,798.4
Total SOMA Holdings	3,568,332,774.6
Change From Prior Week	-569,478.1

*Does not reflect inflation compensation of 24,273,907.5
 **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 09/19/2019 4:30pm.

After 2 up weeks, the SOMA decreased a mild \$569 million this past one. We continue to see a more neutral overall state with regards to the SOMA. Week to week changes in the value are mostly muted.

Of course the big news this past week with regard to the Fed was the meeting that concluded on Wednesday. As a brief summary:

- They cut rates by 0.25%. This was expected.
- Whether another cut is coming soon is unclear. I believe this will make the market extra sensitive to data like CPI readings and employment reports in the coming 6 weeks.

Also notable were the following:

- The overnight repo market needed a few liquidity injections this past week. Most of what I have read and seen leads me to believe this is not a large systemic problem.
- The Fed may look to grow the SOMA “organically” in the coming months. This may or may not mean QE4. Most likely it does not appear as though a large POMO operation like the previous QEs is on tap.

I will continue to closely watch SOMA activity and market movement to see if it is providing any clues.

Most of the studies on the intermediate-term list continue to favor the bulls, including the RUT/SPX divergence study from this week. The trend is up and momentum and breadth have provided bullish indications in the past few weeks. Bears can still point to the lagging NASDAQ and the string of Hindenburg signals from a few weeks back. Overall, the bullish case seems to be stronger and improving. If it weren't for the “weakest week” right now, I would likely be moving the intermediate-term outlook to all-out bullish. I'll wait until we get past this late September period though. For now I remain open to trades in either direction, but I'll continue to be more cautious with shorts while taking a more aggressive approach with potential long positions.

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.](#)

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