

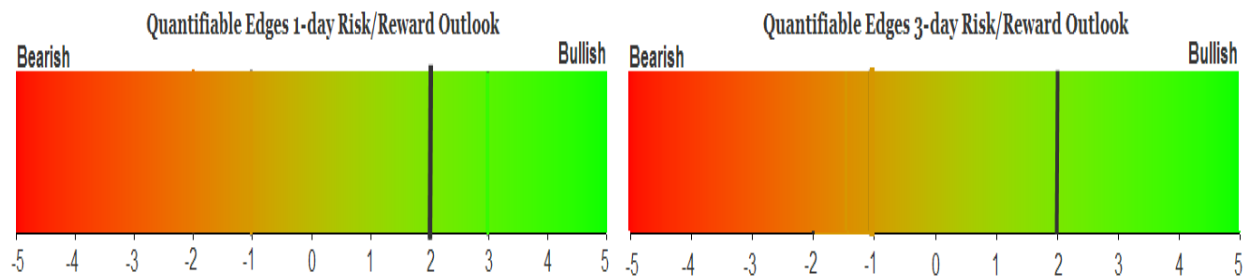
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2019

Volume 12 Issue 188

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	2

## Tonight's Research Points

- Monday's action will play a strong part in determining the possible "turn of month" and "turnaround" edges on Tuesday.
- The last hour of the quarter has often been bearish – especially for smallcaps.
- October has been a volatile month, with both very weak and very strong weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I like the chances of a bounce here. I will like them better if we get some selling on Monday.

**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>						
September 26, 2019	HigherThnDn. Lower then Up. < 10ma	1-5 days	Bullish			
September 25, 2019	Down3. Big today. 10-low not frm 20-hi	1-5 days	Bullish			
<b>Active - Long Term</b>						
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 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

***The Evidence***

Friday started off ok, but some sharp selling hit the market just after 11:30am as news came out that the US was considering prohibiting Chinese stocks from listing on US exchanges. A last-hour bounce made the numbers a little better, but the indices were still down across the board. The SPX lost 0.5%, the NASDAQ declined 1.1%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 42%. NYSE volume rose a little from Thursday's low level.

The 1<sup>st</sup> trading day of the 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 were last seen in the 6/28/19 letter, and have been updated. 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.

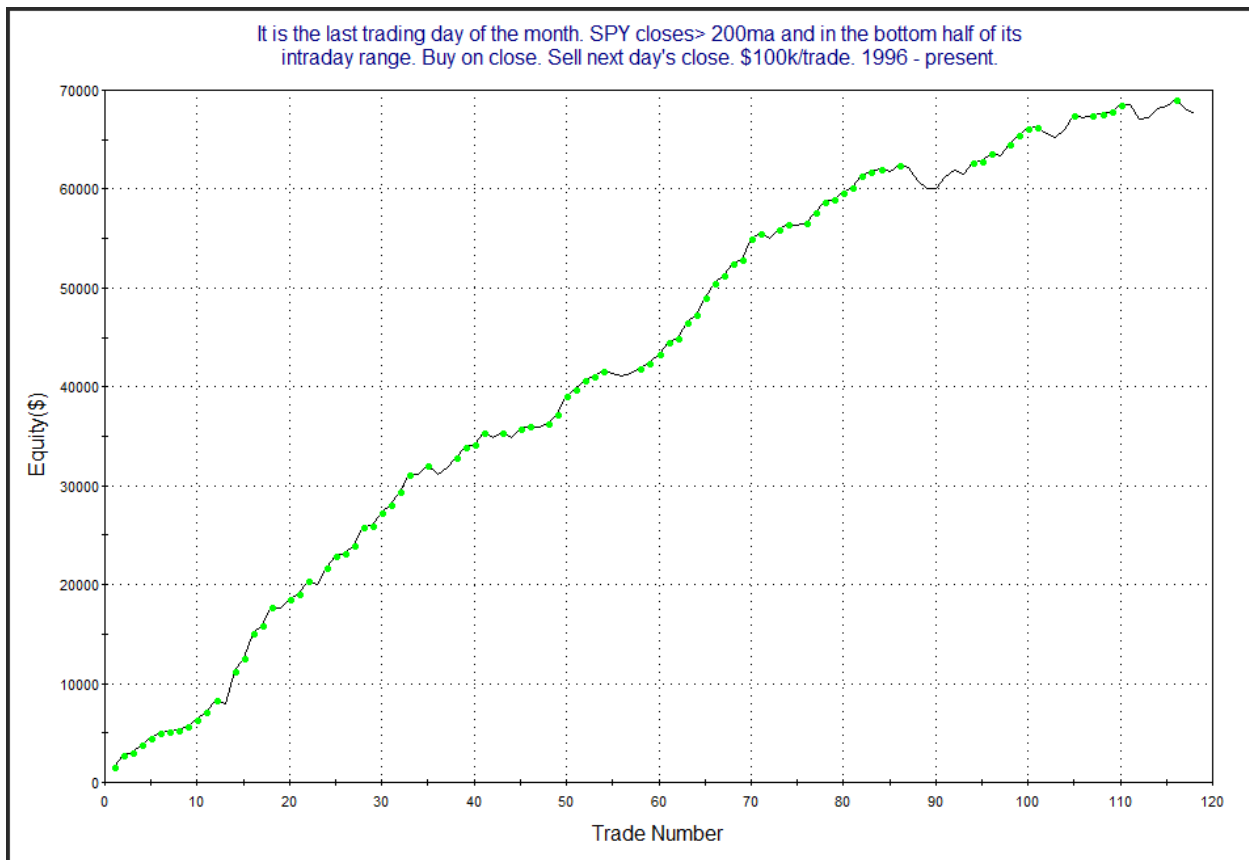
**TradeStation Performance Summary**

Expand ▾

All Trades

Total Net Profit	\$67,577.32	Profit Factor	6.90
Gross Profit	\$79,036.73	Gross Loss	(\$11,459.41)
Total Number of Trades	118	Percent Profitable	77.97%
Winning Trades	92	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$572.69	Ratio Avg. Win:Avg. Loss	1.95
Avg. Winning Trade	\$859.09	Avg. Losing Trade	(\$440.75)
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 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 118 instances. Below is a profit curve.

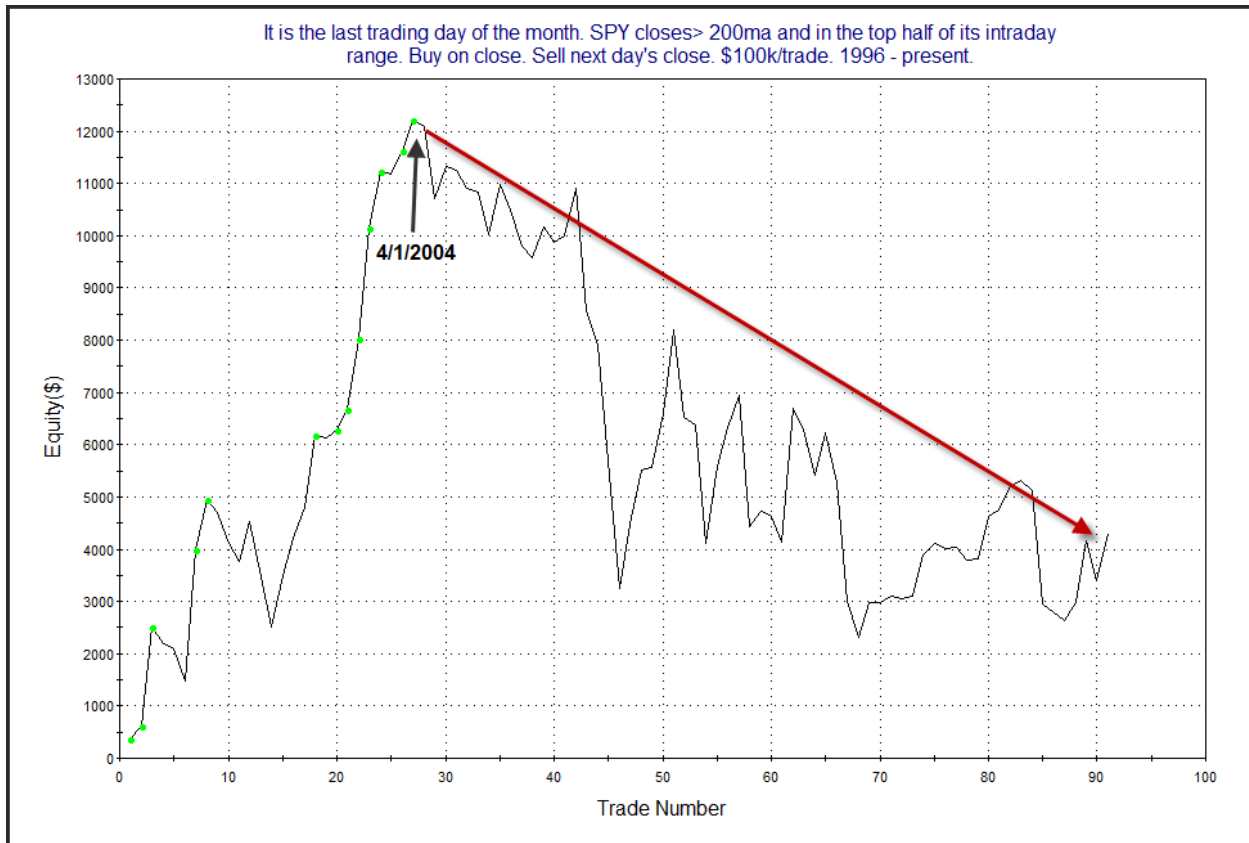


The long and persistent upslope is impressive, and serves to confirm the numbers. But what if SPY closes in the upper half of its range on Monday?

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.

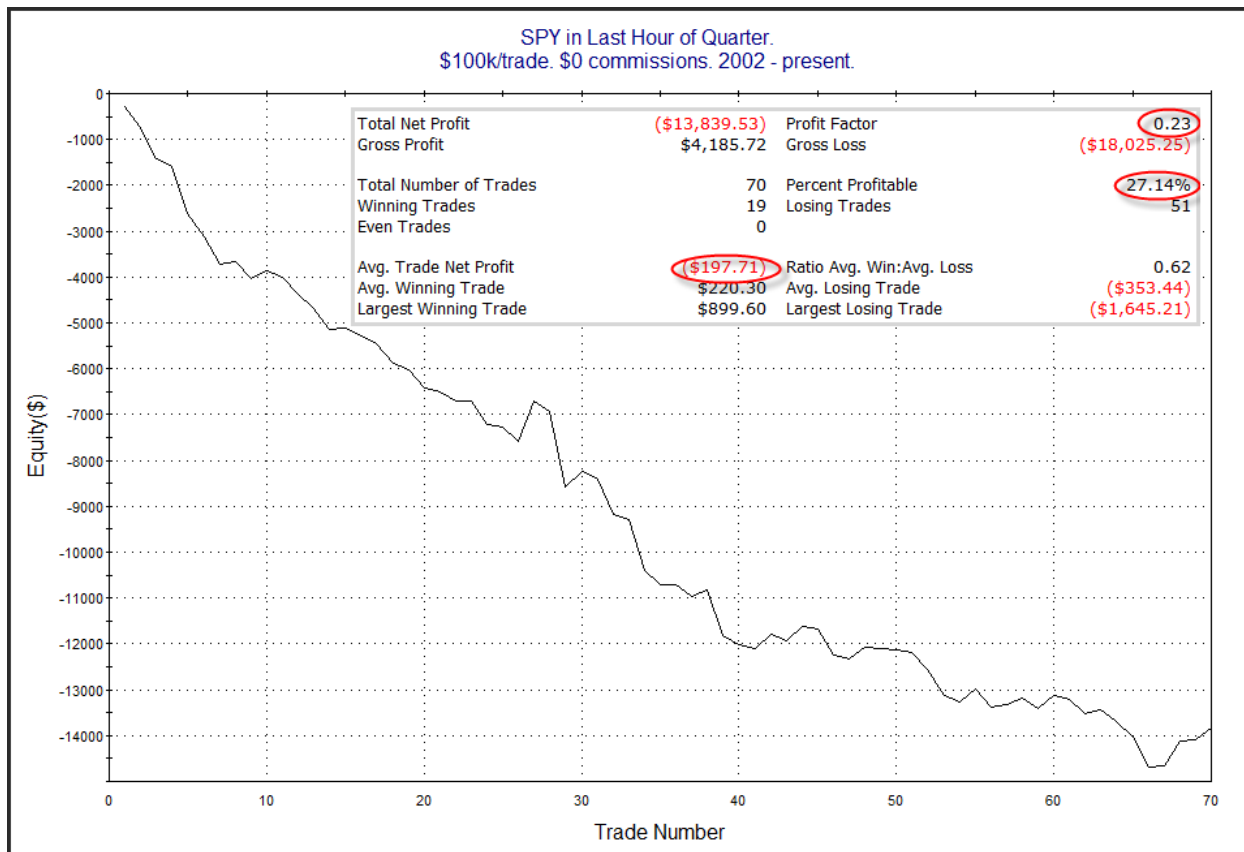
TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$4,310.30	Profit Factor	1.13
Gross Profit	\$36,992.64	Gross Loss	(\$32,682.34)
Total Number of Trades	91	Percent Profitable	52.75%
Winning Trades	48	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	\$47.37	Ratio Avg. Win:Avg. 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.



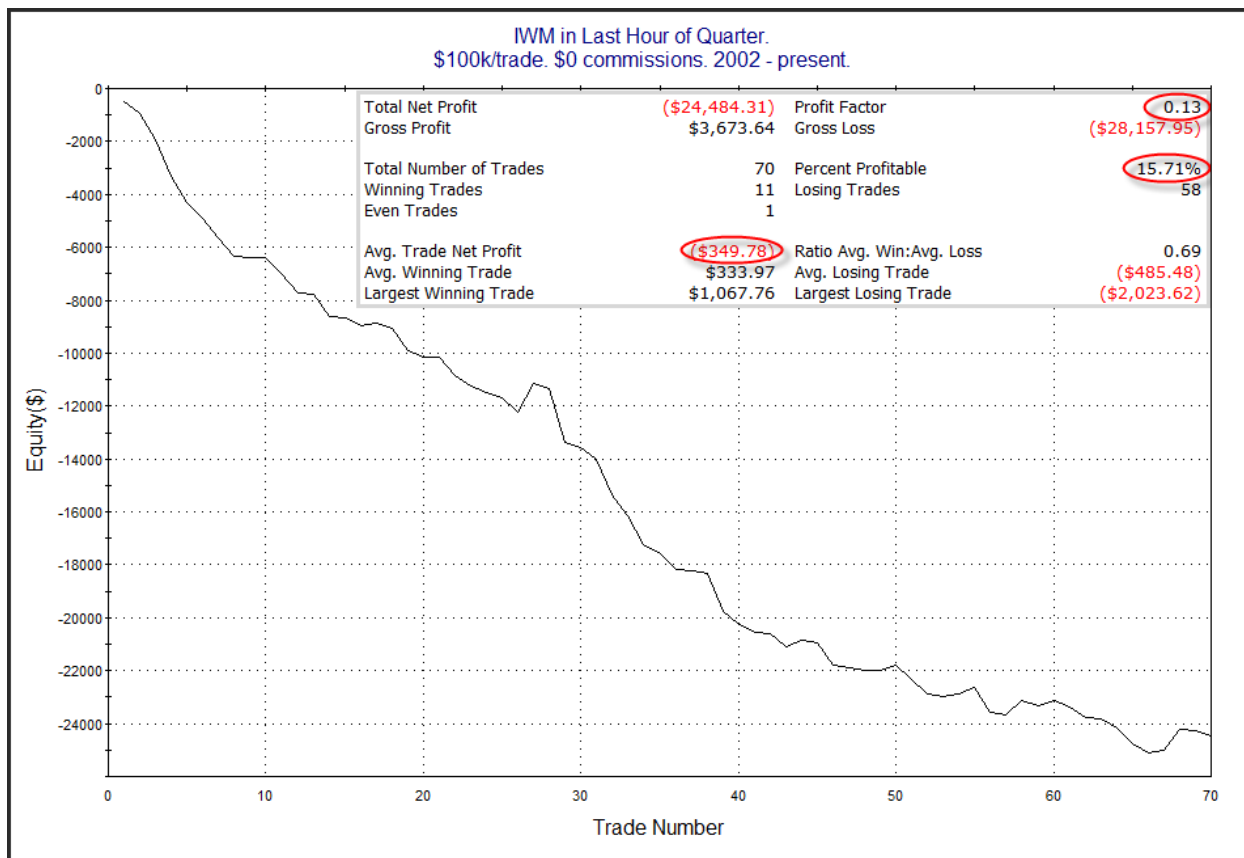
This paints an even bleaker picture. So it appears Monday's action may be important when considering the odds of a rally on Tuesday. The 1<sup>st</sup> day of the month has performed much better with some afternoon selling leading up to the day.

But what are the chances we see some selling on Monday afternoon? Well, the last day of the quarter has actually shown a strong downside edge over the years during the last hour of trading. This can be seen in the study below.



The last few instances have bucked the trend, but this certainly seems to suggest a decent chance of some selling going into Monday's close.

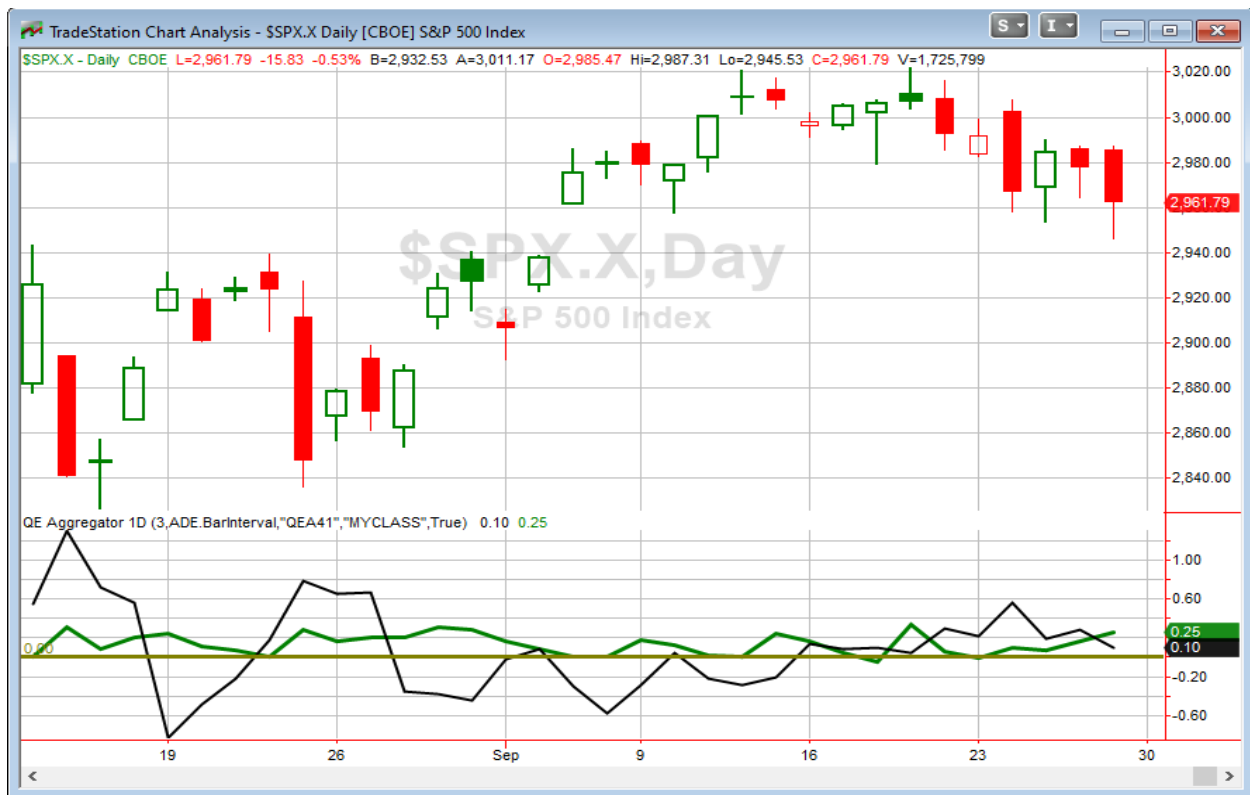
It is also notable that smallcaps have done even worse than largecaps at the end of quarters. Here is the same study using IWM.



Agile traders could consider looking to take advantage of this edge with some last-hour adjustments. I will also note for those that are curious that the September numbers were in line with the larger sample. End of September since 2002 has gone 3-14 in the last hour.

So the action on Friday did not generate very compelling evidence for Monday, aside from the last hour. But Monday will be interesting to watch as we look towards turn of the month on Tuesday.

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



Without any new studies being added tonight, 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.

Based on the current list of active studies, expectations are set to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 2989.61 on Monday. That is 0.9% above Friday's close. So SPX will need to close up over 0.9% on Monday in order to flip from oversold to overbought versus recent expectations.

Friday we were facing an inverted Differential Pivot. That meant that the SPX had to close down a fair amount to again finish oversold. Of course it did sell off, and so that allowed the Aggregator formation to remain bullish. Without any new studies emerging, it is studies from the past few nights that are generating the bullish expectations. Traders could certainly look to jump in here. I will instead look for a little bigger edge. If Monday struggles, we will certainly see the 1<sup>st</sup> of month study from above kick in. It would also mark the 3<sup>rd</sup> down day in a row. And that should generate some bullish evidence heading into a potential "Turnaround Tuesday". I'll be a buyer near the close in that situation.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/30 – 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 lived up to its poor reputation and finished lower. The SPX lost 1.0%, the NASDAQ declined 2.2%, and the Russell 2000 dropped 2.5%. The long-term trend still appears up for the SPX and NASDAQ. Both are above long-term moving averages and only a few percentage points from new all-time highs. The Russell 2000 has not made a new long-term high in over a year, and closed Friday almost exactly on its 200ma. So the trend there is not as clear.

October is an interesting month from a seasonality standpoint. For one, it has a well-earned reputation for volatility. And if we look at the Best/Worst Weeks table that I shared last weekend you'll see that 3 of the top 10 best weeks of the year occur in October, and 1 of the worst 10.

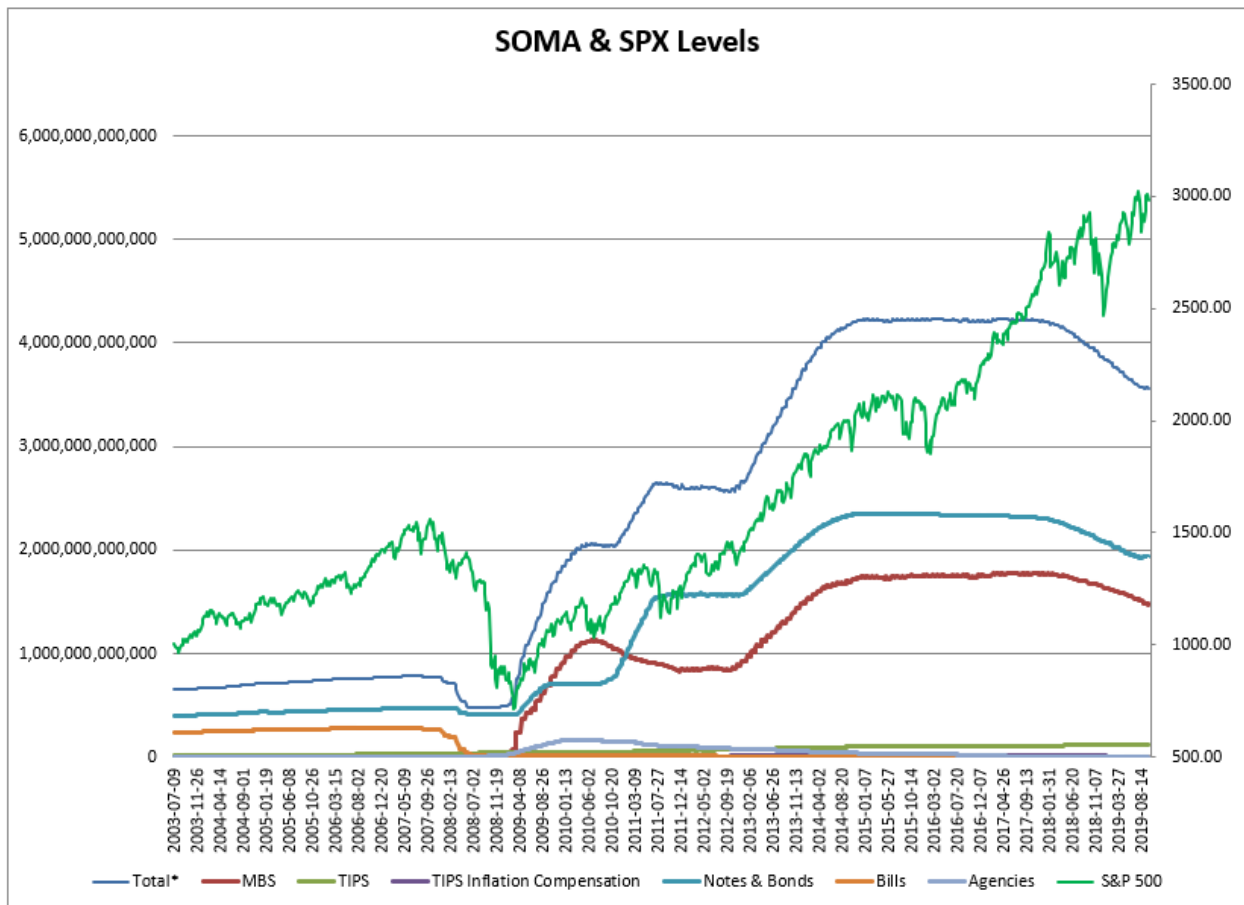
SPX Performance Following the Month and Friday Specified. \$100k/trade. \$0 commissions. 1988 - present. Top 10 and Bottom 10 Results Shown.													
Month of Year	Fri of Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max 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

One thing to keep in mind is that this year there is no 5<sup>th</sup> Friday in October. We only have four. But we will still have some gyrating seasonality in the next several weeks to look out for.

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 09/18/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**September 25, 2019**

Summary	T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)				
US Treasury Bills (T-Bills)	6,002,000.0				
US Treasury Notes and Bonds (Notes/Bonds)	1,944,665,397.6				
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***	1,467,257,199.9				
Total SOMA Holdings	3,552,957,176.1				
Change From Prior Week	-15,375,598.5				

\*Does not reflect inflation compensation of 24,329,526.1  
 \*\*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 09/26/2019 4:30pm.*

The \$15 billion decline is quite large, especially considering the QT program finished at the end of July. In fact, the last week that saw a decline that large was the one that ended on June 26<sup>th</sup>. The decline this past week also leaves the SOMA down about \$10 billion for September. So I would not be surprised if we got a little rise in the next few weeks to balance it off some. Without an established QT or QE program right now, it is more difficult anticipating flows and using them to help time market action.

I mentioned last week that the Fed has indicated they are continuing to look at the data to determine their next move. And that means the market will be looking at important data closely as well. One of the more significant data points is the monthly employment report. That is scheduled to be released this upcoming Friday, October 3<sup>rd</sup>. It often generates a strong reaction. I expect the report this Friday could spark a sharp move, and that is worth keeping in mind as we near the end of the week.

Most of the studies on the intermediate-term list continue to favor the bulls, including the RUT/SPX divergence study from last week. The SPX & NASDAQ long-term trends have been up and momentum and breadth have provided bullish indications in the past few weeks. The Advance/Decline Line has remained firm, and is not far at all from a new high. Bears can still point to the lagging NASDAQ. A leading NASDAQ has often been a much better situation for a rally. Overall, the bullish case seems substantially stronger. With the “weakest week” now behind us, I have changed from moderately to outright bullish. I will therefore be a bit more aggressive with long trades and very conservative when considering short trades.

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***OpenCatapult Triggers***

UNH @ \$215.48 (bought 1/3 @ limit)

*New*

UNH @ \$215.26 (buy 1/3 @ limit)

***Broad Market Large Cap CBI – 2(UNH-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.*

**UNH – Buy 1/3 Catapult position @ \$215.26 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots of UNH.

**SPY – Buy ½ index position (2 lots) @ \$295.39 LIMIT ON CLOSE IF SPY CLOSSES IN THE BOTTOM HALF OF ITS INTRADAY RANGE.** From The short-term section above, I will be looking to take advantage of the bullish Aggregator and oversold condition heading into a new month and a “Turnaround Tuesday” situation.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Notes</b>
<i>SPY(1/4)</i>	<i>9/25/2019</i>	<i>\$295.87</i>	<i>\$297.83</i>	<i>0.66%</i>	<i>sold on open</i>
UNH(1/3)	9/27/2019	\$215.48	\$215.26	-0.10%	Catapult

*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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