

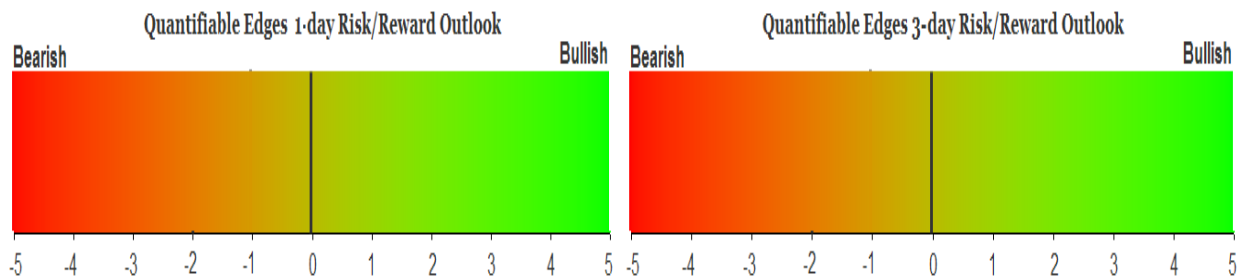
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 14, 2019

Volume 12 Issue 198

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- An up day for SPY that makes a new high but closes near the bottom of the range has typically been followed by a move higher in the next few days.
- October op-ex week has historically shown bullish seasonal tendencies.
- Columbus Day could provide some positive seasonality.

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						
October 14, 2019	Up 2% in 3 days. 3/10 Ofst HV < 0.25	1-6 days	Bullish			
October 14, 2019	5-day high. Btm 10% close. Up day.	1-3 days	Bullish			
October 14, 2019	October Opex Week	1-4 days	Bullish			
October 14, 2019	Columbus Day with Momentum	1 day	Bullish			
October 10, 2019	SPX up > 0.5%. Lowest volume 20 days	1-3 days	Bearish	-1.40%	0.80%	1.60%
October 4, 2019	SPY 20-low yest. 20 intra today thn up	1-7 days	Bullish			
Active - Long Term						
October 9, 2019	3rd 1% Drop in 10 days > 200ma	1-20 days	Bullish	3.85%	-3.00%	-5.70%
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 1, 2019	QT over.	int term	Neutral			
April 2, 2019	Golden Cross	int term	Bullish			

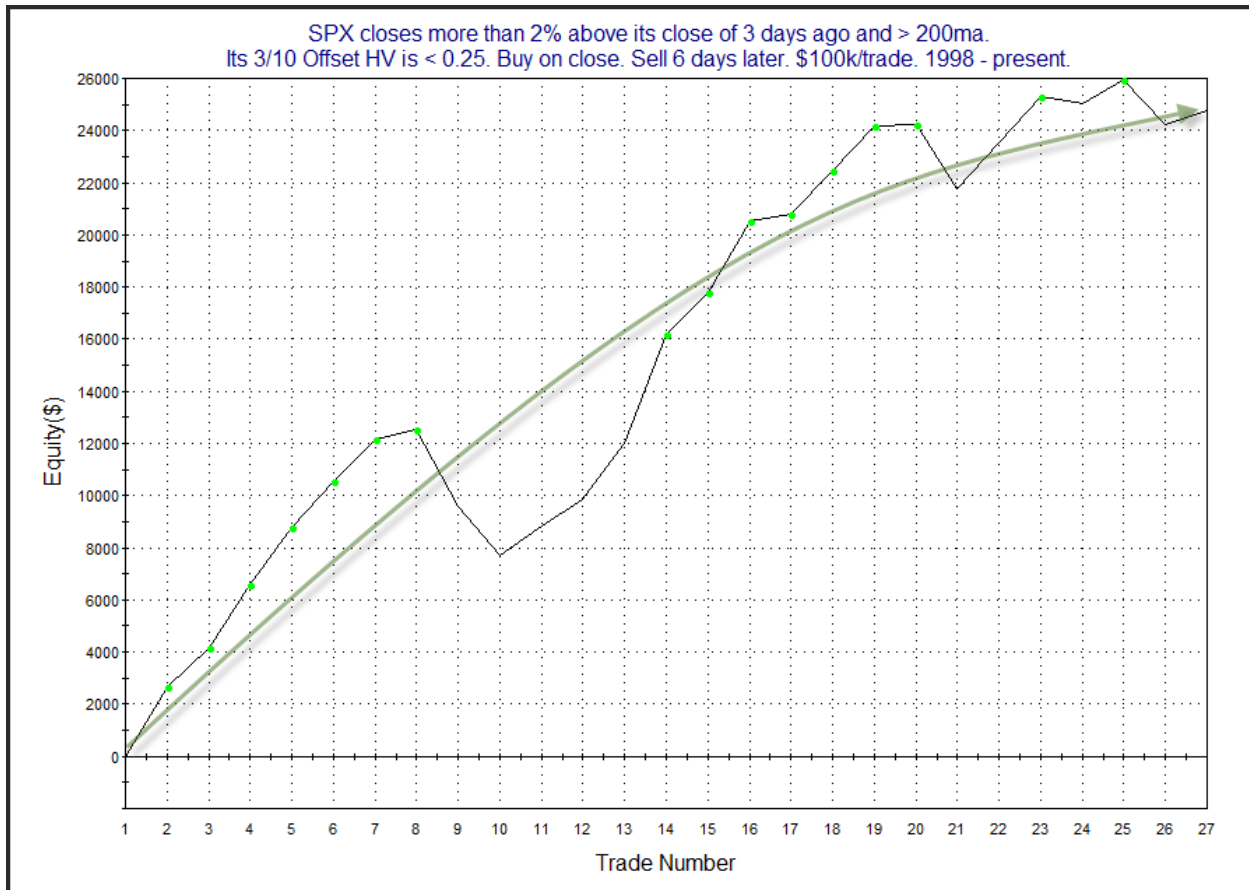
The Evidence

Lots of optimism about trade deals and Fed action pushed the market higher on Friday, though it was greatly tempered in the last 20 minutes when trade deal details came out and they weren't as final as hoped for. The SPX still finished up 1.1%, the NASDAQ rallied 1.3%, and the Russell 2000 gained 1.8%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 84%. NYSE volume rose from Thursday's very light level.

On Friday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. The 3/10 Offset HV compares the 3-day historical volatility to the 10-day historical volatility number of 3 days ago. A low reading suggests there has been a contraction in volatility. This triggered the study below, which I last featured in the 6/10/19 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma. Its 3/10 Offset HV is < 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	23,691.34	26	19	7	73.08	5,768.50	-6,828.48	2,322.58	-2,919.67	0.80	2.16	911.21
9	20,511.89	26	18	8	69.23	3,809.19	-5,817.60	2,123.38	-2,213.63	0.96	2.16	788.92
8	15,358.37	26	19	7	73.08	4,162.27	-3,819.90	1,536.17	-1,975.56	0.78	2.11	590.71
7	21,550.85	27	22	5	81.48	3,889.70	-2,513.62	1,388.87	-1,800.86	0.77	3.39	798.18
6	24,780.95	27	21	6	77.78	4,206.89	-2,898.50	1,622.34	-1,548.05	1.05	3.67	917.81
5	22,877.49	27	22	5	81.48	3,481.56	-2,287.35	1,395.32	-1,563.92	0.89	3.93	847.31
4	17,729.64	27	17	10	62.96	2,616.60	-1,697.04	1,431.44	-660.49	2.17	3.68	656.65
3	16,883.38	27	20	7	74.07	2,315.72	-1,476.45	1,120.47	-789.44	1.42	4.06	625.31
2	12,672.51	28	18	10	64.29	2,451.76	-1,838.16	1,103.94	-719.84	1.53	2.76	452.59
1	2,332.65	30	17	13	56.67	1,857.24	-2,159.69	517.61	-497.44	1.04	1.36	77.76

The numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below is the profit curve for the 6-day period.

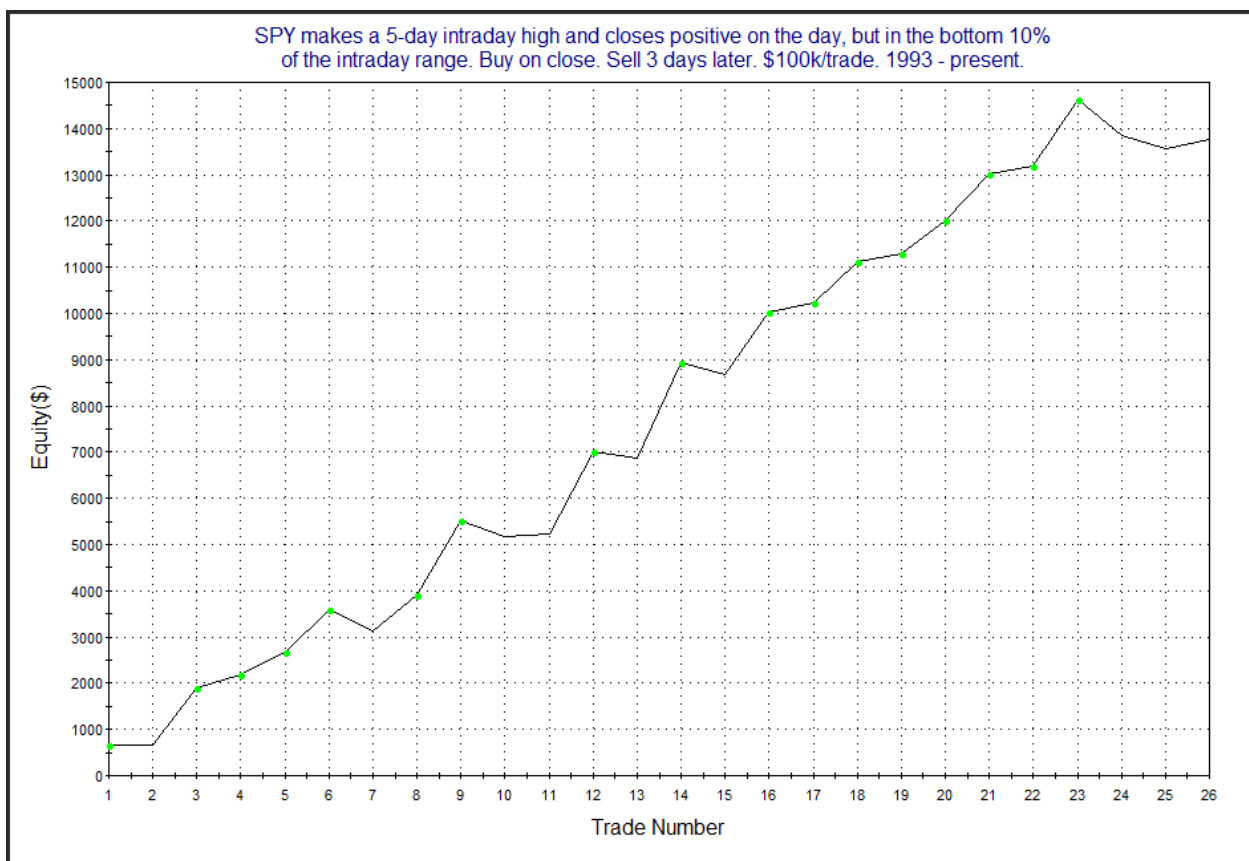


Despite the mild fade, this curve looks solid. I have added this study to the Active List tonight.

Another interesting study looked at the weak finish but still positive returns on Friday. This study is updated from the 2/26/19 letter.

SPY makes a 5-day intraday high and closes positive on the day, but in the bottom 10% of the intraday range. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	4,515.79	25	15	10	60.00	1,833.40	-3,968.25	1,132.92	-1,247.80	0.91	1.36	180.63
4	7,998.78	26	19	7	73.08	1,906.08	-3,623.88	846.96	-1,156.22	0.73	1.99	307.65
3	13,765.79	26	19	6	73.08	2,056.39	-766.08	843.71	-377.44	2.24	7.08	529.45
2	9,449.69	26	16	10	61.54	3,028.76	-579.12	771.24	-289.02	2.67	4.27	363.45
1	5,113.71	26	16	10	61.54	3,476.36	-903.90	494.81	-280.33	1.77	2.82	196.68

Those are some impressive stats over the 1st few days. Below is a look at the 3-day profit curve.



Despite a couple of moderate failures recently, this curve still looks very impressive. This study also appears to be worth some consideration.

In Thursday night's letter, I shared some Columbus Day studies. I have copied them below:

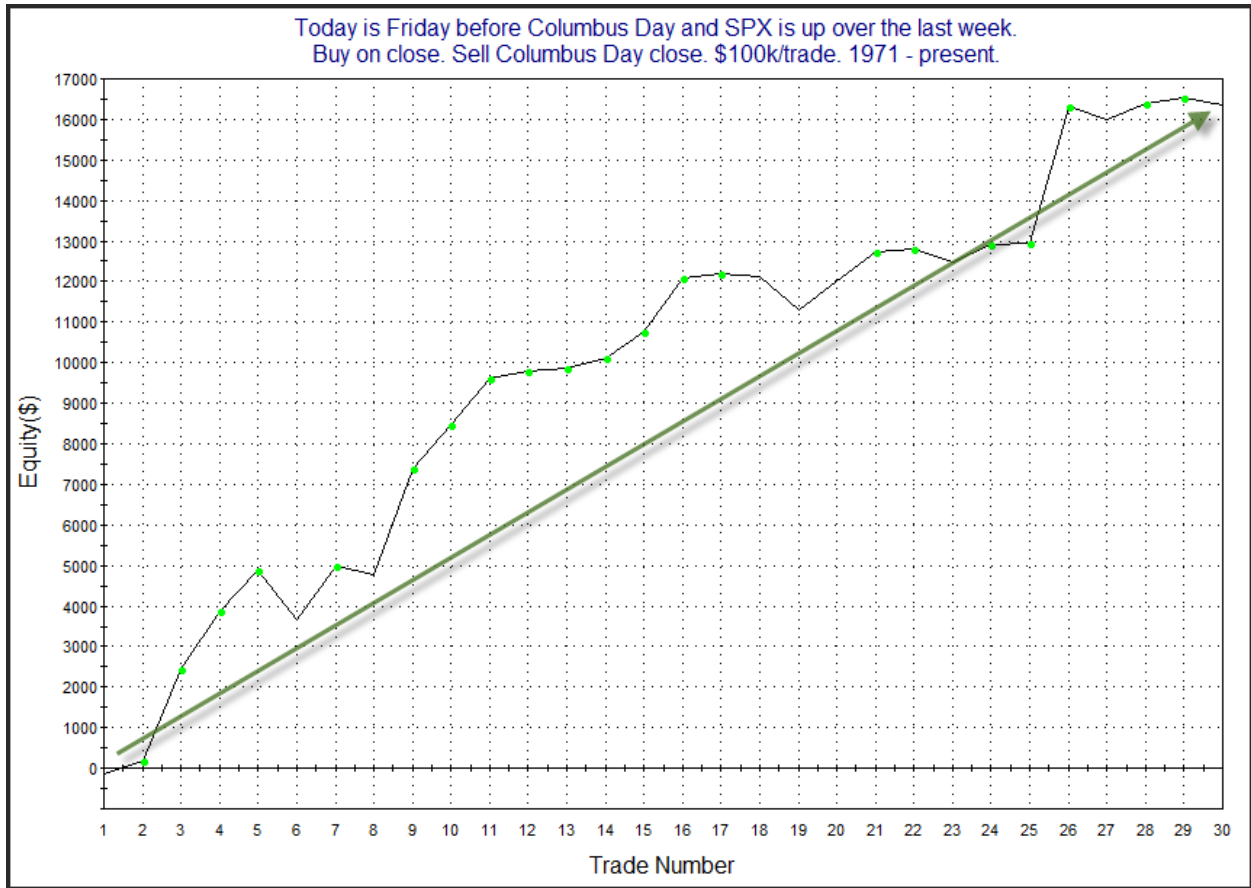
While the stock market is open on Monday, banks, schools, government offices, and the bond market are closed. In past years with the bond market closed, the stock market has done quite well

on Columbus Day. Of course the most famous Columbus Day rally was in 2008 when the market gained over 11% after having crashed the week before. In the 10/8/18 subscriber letter I showed that positive momentum leading up to Columbus Day has generally led to a positive Columbus Day. But there has not been a strong edge when the market stumbled heading into Columbus Day. Columbus Day has been celebrated on the 2nd Monday of October since 1971. Below is an updated breakdown of the study. First, times where there was momentum heading into it.

Today is Friday before Columbus Day and SPX is up over the last week.
Buy on close. Sell Columbus Day close. \$100k/trade. 1971 - present.

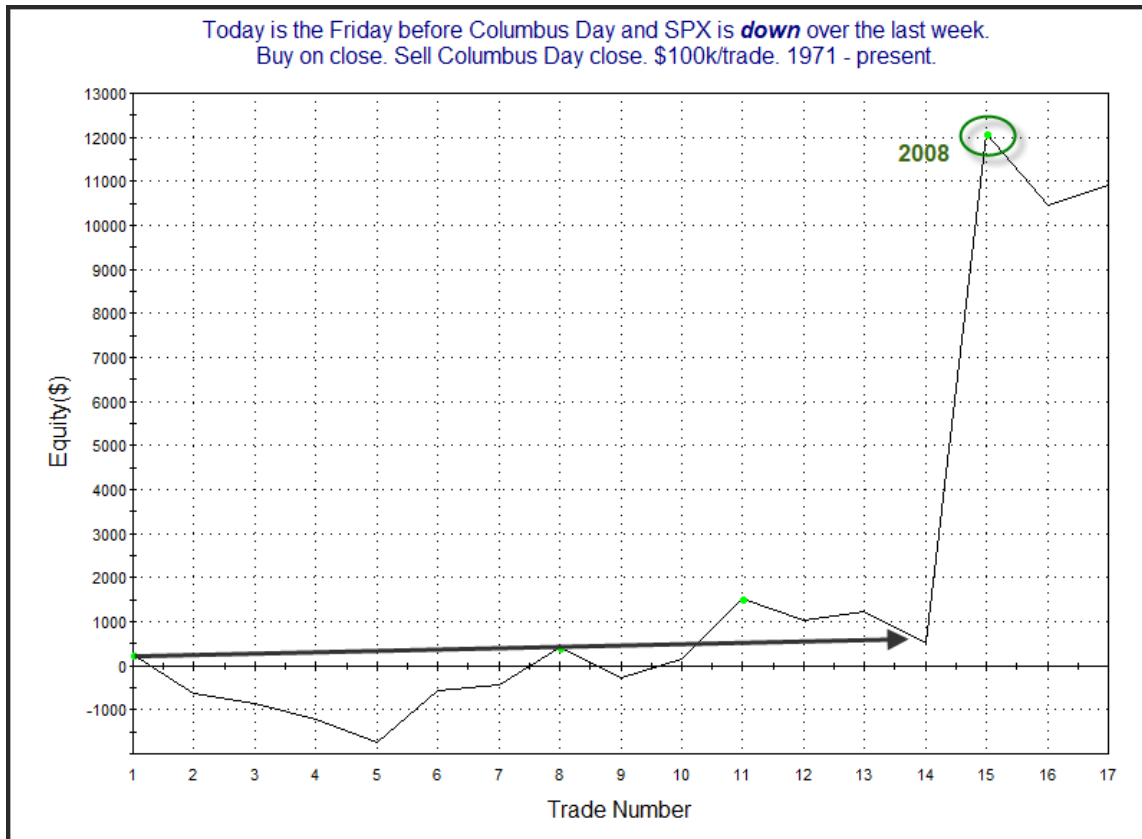
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$16,338.93	Profit Factor	5.90
Gross Profit	\$19,670.37	Gross Loss	(\$3,331.44)
Total Number of Trades	30	Percent Profitable	73.33%
Winning Trades	22	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$544.63	Ratio Avg. Win:Avg. Loss	2.15
Avg. Winning Trade	\$894.11	Avg. Losing Trade	(\$416.43)
Largest Winning Trade	\$3,390.98	Largest Losing Trade	(\$1,248.22)

I've circled some of the more impressive stats here. With 73% of trades profitable and winners over twice the size of losers risk/reward has been very favorable. Below is a look at the profit curve.



The slope is clearly up. It certainly appears Columbus Day with upside momentum appears to provide a solid seasonal edge.

What about times without positive momentum? Below is an equity curve showing results of that setup.



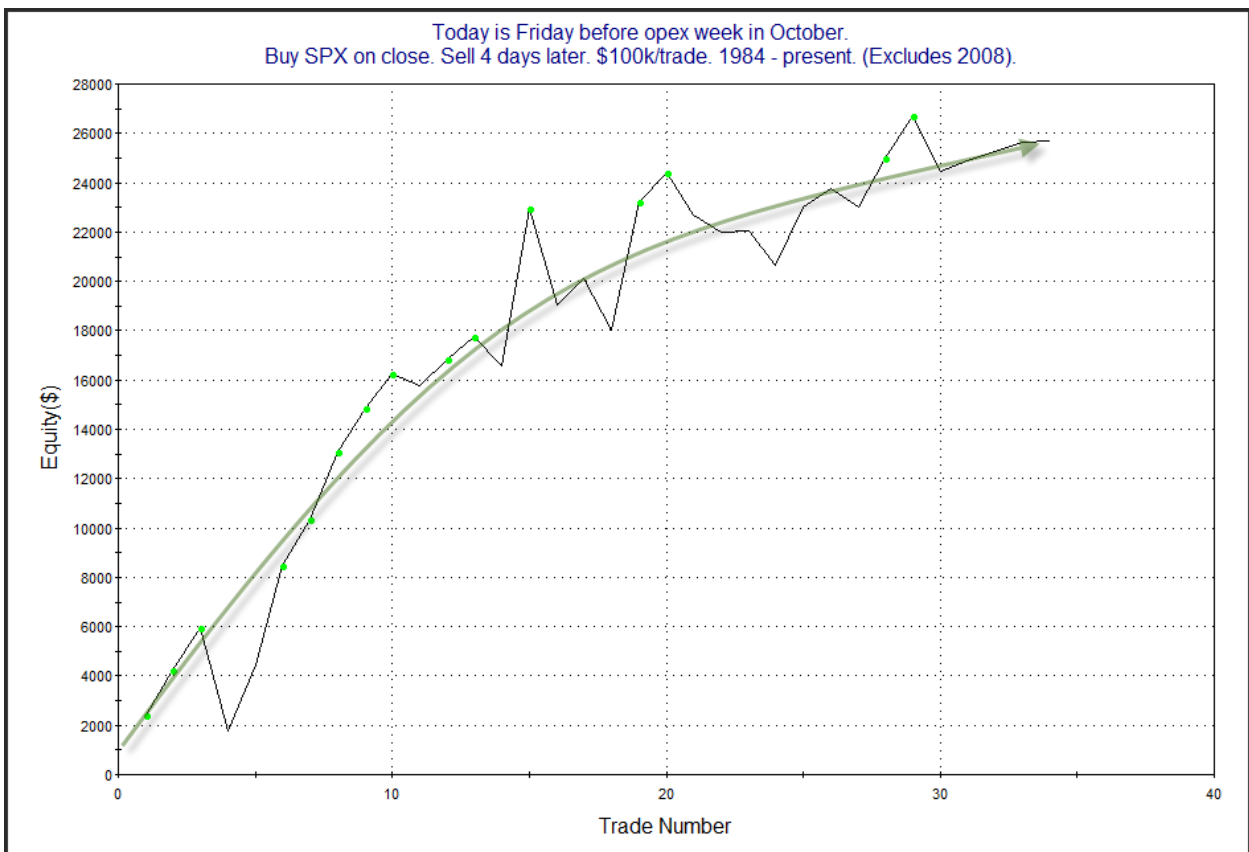
As I mentioned above, 2008 was a huge outlier. Take away that one year and Columbus Day showed a mild negative return when the prior week was down. Overall, it does not appear to be a dependable edge.

Friday's rally made this past week a positive one for the SPX, so the 1st study above with bullish tendencies is in play. I also noted Thursday night that opex week in October has been strong historically. Option expiration week is often a pretty good week for the market. And October is one of those months where it has been especially good over the years. I last showed the table below in the 10/15/18 Subscriber Letter. It examines performance during October op-ex week.

Today is Friday before opex week in October.
Buy SPX on close. Sell X days later. \$100k/trade. 1984 - present. (Excludes 2008).

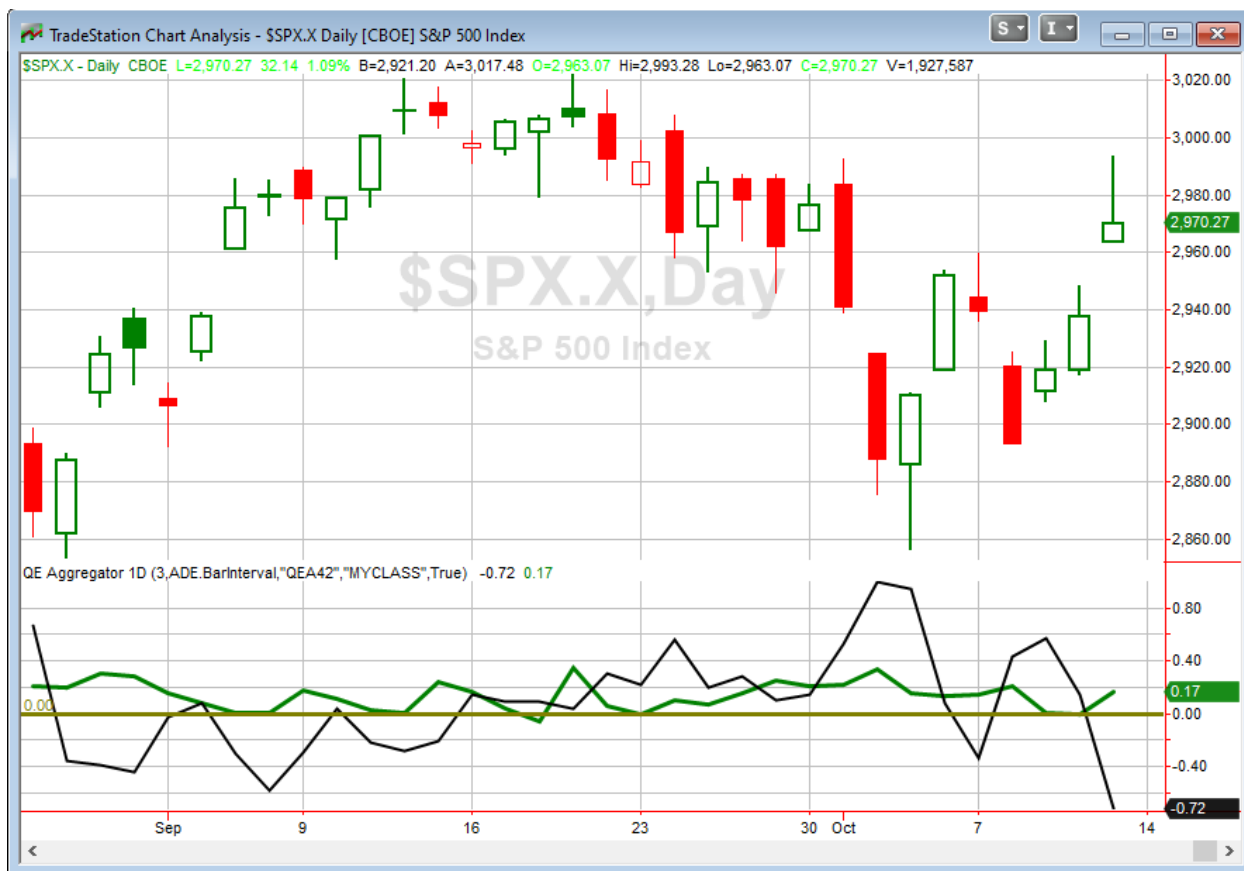
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	21,681.54	34	25	9	73.53	7,282.10	-9,109.98	1,959.87	-3,035.03	0.65	1.79	637.69
4	25,690.65	34	24	10	70.59	6,383.20	-4,169.79	1,847.51	-1,864.95	0.99	2.38	755.61
3	11,610.27	34	22	12	64.71	2,976.32	-3,734.78	1,271.38	-1,363.35	0.93	1.71	341.48
2	15,321.22	34	22	12	64.71	5,468.05	-1,737.36	1,097.60	-735.51	1.49	2.74	450.62
1	8,712.78	34	24	10	70.59	2,753.79	-1,921.32	630.52	-641.98	0.98	2.36	256.26

I decided to exclude 2008 because action that week was such an incredible outlier that it greatly skewed all the stats. (The week started with an 11.5% gain on Monday of 2008.) Results 1-4 days out look pretty solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



This appears strong enough to include on the Short-Term Active List. So I have.

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



With all the new bullish evidence we are seeing, the green Aggregator Line moved squarely above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dropped sharply 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 set to remain bullish on Monday. This is unlikely to change without some very compelling new bearish evidence emerging. Meanwhile, the Differential Pivot will be 2929.55 on Monday. That is a 1.4% below Friday's close. Therefore, SPX would need to close down a sizable 1.4% or more on Monday to flip from overbought to oversold versus recent expectations.

So the market is strongly overbought on a short-term basis. Often, overbought will suggest a downside edge. But not always. And all the studies we are seeing right now suggest we are in one of those markets where overbought is likely to become more overbought. The problem with trying to go long a setup like this is that overbought does negatively impact reward/risk. Also seeming to increase the risk side of that ratio is the fact that we are trading in a volatile and very news-reactive environment. For short-term trades, I typically like to have it line up a bit better before I take on new positions. Overbought means the Aggregator formation is neutral, and that is where my head is as well.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/14 – 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.*

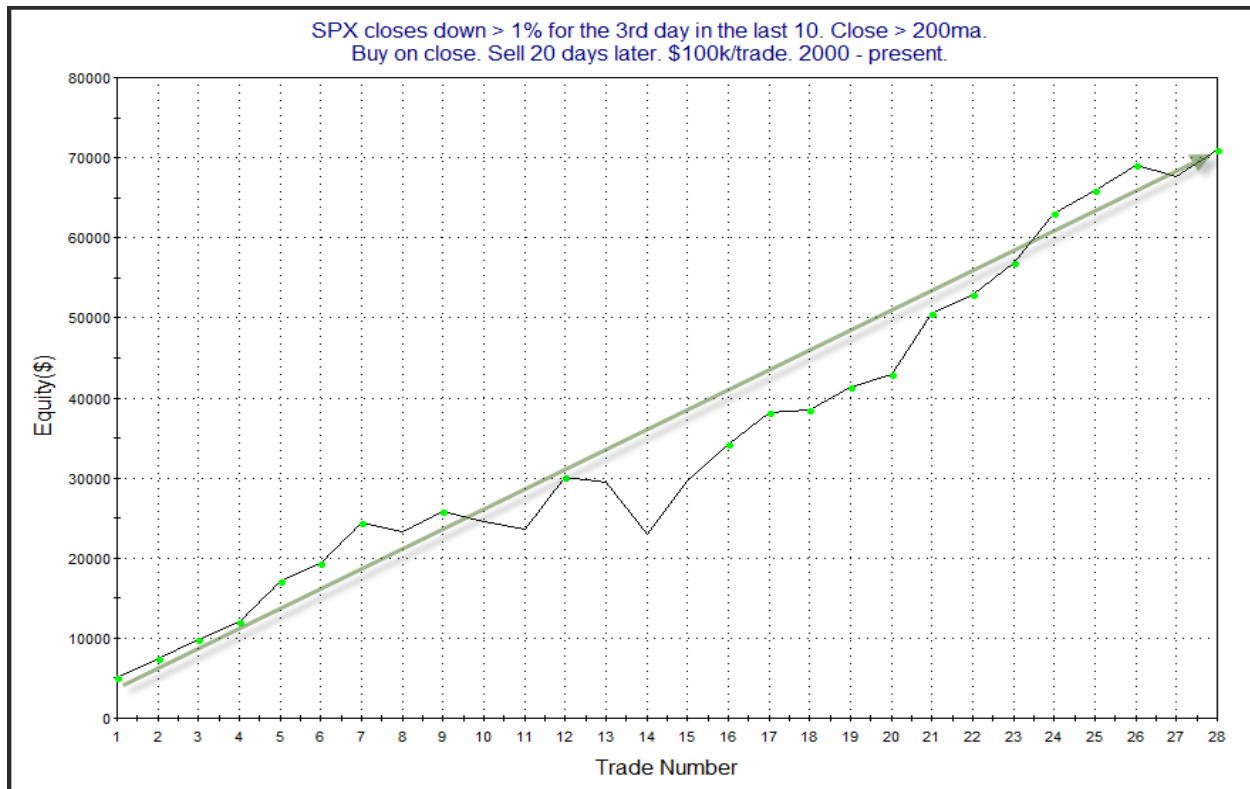
Friday’s rally left the major indices all with gains this past week. The SPX rose 0.6%, the NASDAQ rallied 0.9%, and the Russell 2000 climbed 0.7%. The long-term trend still appears up for the SPX and NASDAQ. The Russell’s trend is less obvious. There was one new study with intermediate-term implications that I showed in the 10/9 letter. I have copied it below.

The SPX has made some substantial moves over the last couple of weeks as volatility has been high. It is unusual to see such high volatility when the SPX is trading above its 200ma. Tuesday marked the 3rd day in the last 6 in which SPX closed down over 1%. In the 8/13/19 letter 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 updated results of that 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	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	70,939.36	28	22	6	78.57	7,525.14	-8,393.70	3,760.44	-1,965.06	1.91	7.02	2,533.55
19	52,274.66	28	22	6	78.57	6,205.08	-8,745.65	3,182.91	-2,958.21	1.08	3.95	1,866.95
18	46,782.96	28	21	7	75.00	6,700.92	-7,156.15	3,127.75	-2,699.98	1.16	3.48	1,670.82
17	37,059.37	28	19	9	67.86	6,406.80	-5,995.90	2,979.62	-2,172.60	1.37	2.90	1,323.55
16	44,253.56	30	22	8	73.33	6,053.77	-8,980.25	3,104.05	-3,004.45	1.03	2.84	1,475.12
15	45,466.19	30	21	9	70.00	6,381.15	-8,463.45	3,330.65	-2,719.72	1.22	2.86	1,515.54
14	35,559.99	30	20	10	66.67	6,430.55	-8,495.75	3,252.06	-2,948.12	1.10	2.21	1,185.33
13	31,040.61	30	17	13	56.67	6,333.65	-7,302.35	3,351.76	-1,995.33	1.68	2.20	1,034.69
12	34,190.79	31	21	10	67.74	5,966.87	-8,670.85	2,705.38	-2,262.23	1.20	2.51	1,102.93
11	37,293.27	31	21	10	67.74	5,447.05	-4,976.75	2,735.99	-2,016.25	1.36	2.85	1,203.01
10	32,699.65	31	21	10	67.74	5,639.02	-4,749.93	2,512.66	-2,006.61	1.25	2.63	1,054.83
9	41,040.82	33	22	11	66.67	5,514.18	-3,235.44	2,634.28	-1,537.57	1.71	3.43	1,243.66
8	36,793.75	33	22	11	66.67	5,012.58	-3,223.20	2,483.60	-1,622.31	1.53	3.06	1,114.96
7	28,913.02	34	23	11	67.65	4,496.68	-4,591.08	2,274.40	-2,127.11	1.07	2.24	850.38
6	19,238.42	34	23	11	67.65	4,438.02	-3,963.24	1,869.84	-2,160.73	0.87	1.81	565.84
5	12,857.05	35	19	16	54.29	4,328.00	-2,927.40	1,987.91	-1,557.07	1.28	1.52	367.34
4	8,182.12	36	20	16	55.56	3,838.00	-4,056.48	1,663.69	-1,568.23	1.06	1.33	227.28
3	3,293.91	36	22	14	61.11	3,388.00	-5,331.20	1,138.80	-1,554.26	0.73	1.15	91.50
2	6,594.68	37	21	16	56.76	2,752.00	-3,863.25	1,190.21	-1,149.98	1.03	1.36	178.23
1	17,115.65	37	24	13	64.86	2,671.02	-2,200.08	1,089.57	-694.92	1.57	2.89	462.59

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 1 and 20-day numbers appear quite bullish. I also produced the profit curves...

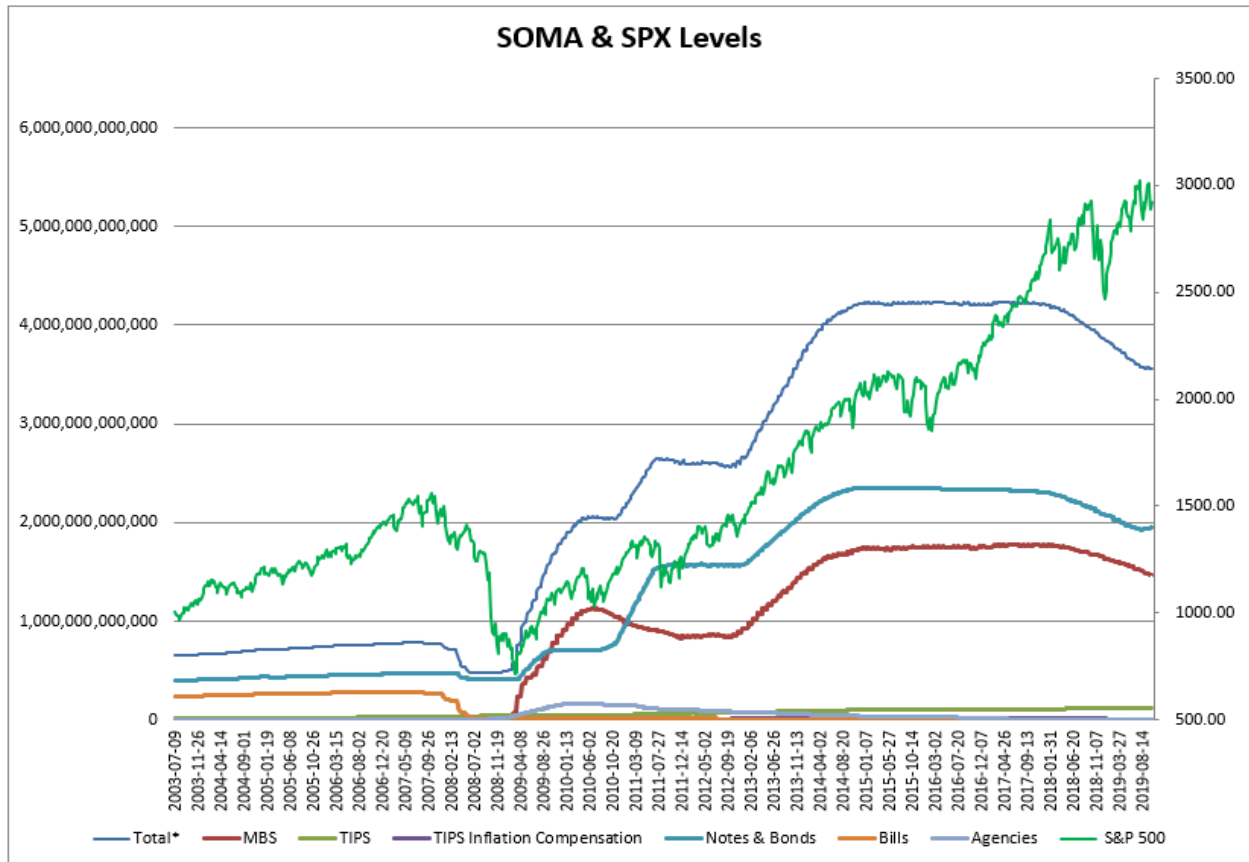


This is a very smooth ride from lower left to upper right, supporting the idea of an upside edge.

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 was ended in August 2019, and SOMA policy is in 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 10/02/2019

DOMESTIC SECURITIES HOLDINGS AS OF October 9, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	6,002,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,955,024,815.4
US Treasury Floating Rate Notes (FRN)	14,940,913.6
US Treasury Inflation-Protected Securities (TIPS)*	120,993,247.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,467,273,200.0
Total SOMA Holdings	3,566,581,176.2
Change From Prior Week	4,216,000.0

*Does not reflect inflation compensation of 24,524,314.7
 **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 10/10/2019 4:30pm.

The SOMA rose a little over \$4 billion this past week, following last week's move of \$9 billion. The big news this week was the Fed announcing on Friday that they are planning to increase Treasury Bill purchases and repo operations for the next several months.

https://www.newyorkfed.org/markets/opolicy/operating_policy_191011

It is important to be aware that this is not a QE operation in the same way that we have seen with QE policies over the last several years. So it may or may not have the same kind of bullish impact on the market. But at the very least, between with upcoming treasury bill purchases, and the continued rate-cutting, it certainly appears the Fed is in a market-friendly mode.

The intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ long-term trends have been up and momentum and breadth have provided bullish indications in the past few weeks. This week's volatility study suggests a rise is likely over the next month. The NYSE Advance/Decline Line has remained firm, and broke out to a new high on Friday. 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. I remain bullish. I will therefore be more aggressive with long trades and very conservative when considering short trades.

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.

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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