

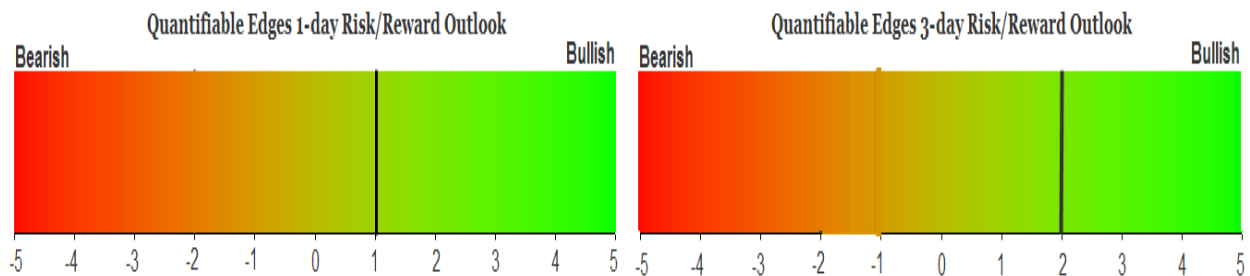
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 21, 2019

Volume 12 Issue 203

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- The week after opex in October has often been volatile, but unreliable from a directional standpoint.
- Intermediate-term evidence remains solidly bullish.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish but with evidence light and the market not very oversold, the setup is not very compelling. I'm on the lookout for a long opportunity in the coming days if we get a further pullback and more bullish evidence.

*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>						
October 14, 2019	Up 2% in 3 days. 3/10 Ofst HV < 0.25	1-6 days	Bullish			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
October 14, 2019	October Opex Week	1-4 days	Bullish			

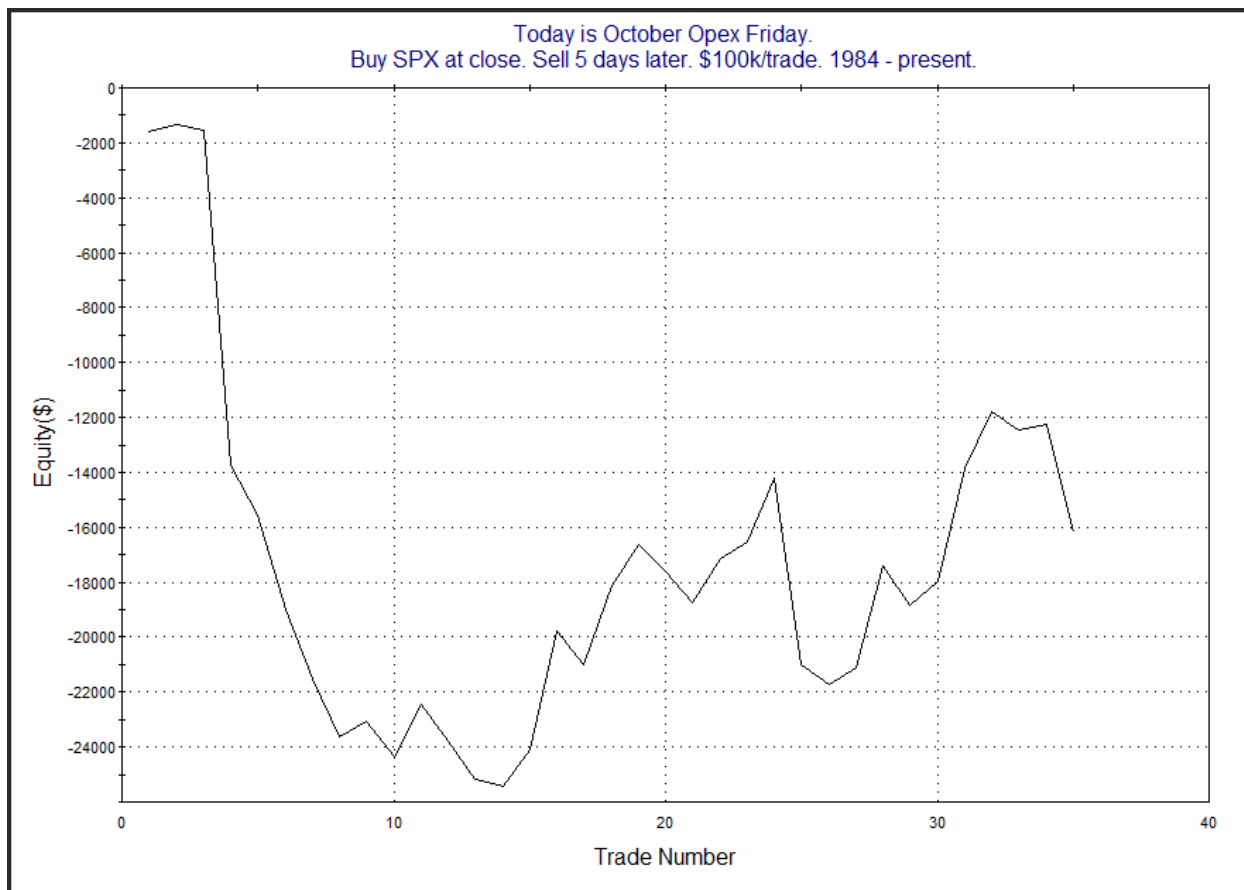
**The Evidence**

Friday was a down day for the market. The SPX lost 0.4%, the NASDAQ dropped 0.8%, and the Russell 2000 fell 0.4%. Breadth was also negative as the NYSE Up Issues % was 49.1% and the Up Volume % came in at 49.3%. NYSE volume spiked higher as it typically does on opex Friday.

It was quite a choppy week for the market, with every day the SPX closing in the opposite direction of the previous day. Chop like this often fails to generate substantial directional evidence, and that again appears to be the case for Friday's trading. I have discussed October's strong volatility the last few weeks. Notably, the week after the 2<sup>nd</sup> and 4<sup>th</sup> Friday is typically quite strong. But the week following opex (the 3<sup>rd</sup> Friday) is where we are headed, so lets look briefly at that.

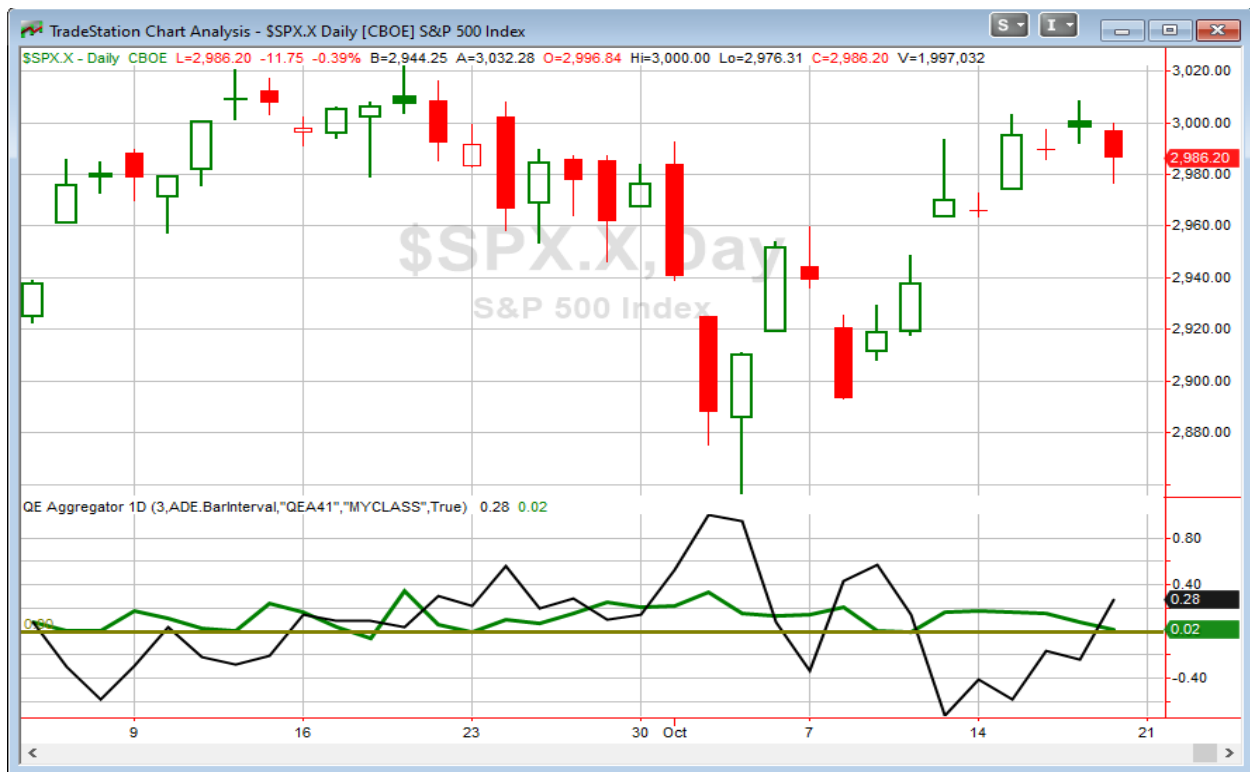
Today is October Opex Friday. Buy SPX at close. Sell X days later. \$100k/trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,181.27	35	16	19	45.71	4,339.20	-12,167.91	1,808.48	-2,374.57	0.76	0.64	-462.32
4	-14,051.38	35	16	19	45.71	3,707.20	-12,157.32	1,361.43	-1,886.01	0.72	0.61	-401.47
3	-14,496.20	35	15	20	42.86	3,361.60	-8,584.96	1,159.95	-1,594.77	0.73	0.55	-414.18
2	-10,167.20	35	17	18	48.57	2,950.50	-16,188.58	1,022.06	-1,530.12	0.67	0.63	-290.49
1	-6,410.09	35	21	14	60.00	4,754.10	-20,424.58	948.55	-1,880.68	0.50	0.76	-183.15

The numbers here are quite negative. I also decided to look at an equity curve. This can be seen below.



We see here a few things: 1) The downside was realized in the early years. Since the 90s the week after October opex has actually posted gains. 2) Sizable moves have occurred in both directions. While the study does not show a strong directional edge, it does suggest the moves at this time of year are somewhat exaggerated. While this is not reliable bearish evidence, it does suggest risks may be elevated, because moves in either direction could be outsized. There are no new studies being added to the Active List tonight.

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



Without any new evidence being added tonight, the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Monday. The last of the short-term studies is set to expire, though, so the bullish expectations would be thanks to the intermediate-term evidence. Of course new evidence that emerges on Monday could easily change expectations. Meanwhile, the Differential Pivot will be 3004.77 on Monday. That is 0.6% above Friday's close. So SPX would need to close up at least 0.6% on Monday to flip from oversold to overbought vs recent expectations.

The Aggregator is now bullish. But evidence is weak, and while the Differential reading is showing SPX as oversold, it is still above its 10ma, and conditions have been very choppy. So the setup is not terribly compelling. If we can get another down day on Monday, along with some new bullish evidence, then I'd likely get interested in taking on some long index exposure for Tuesday. But with potential volatility high as discussed above, and the setup sub-par, I am not inclined to jump into anything right now.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/21 – bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Flat</b>

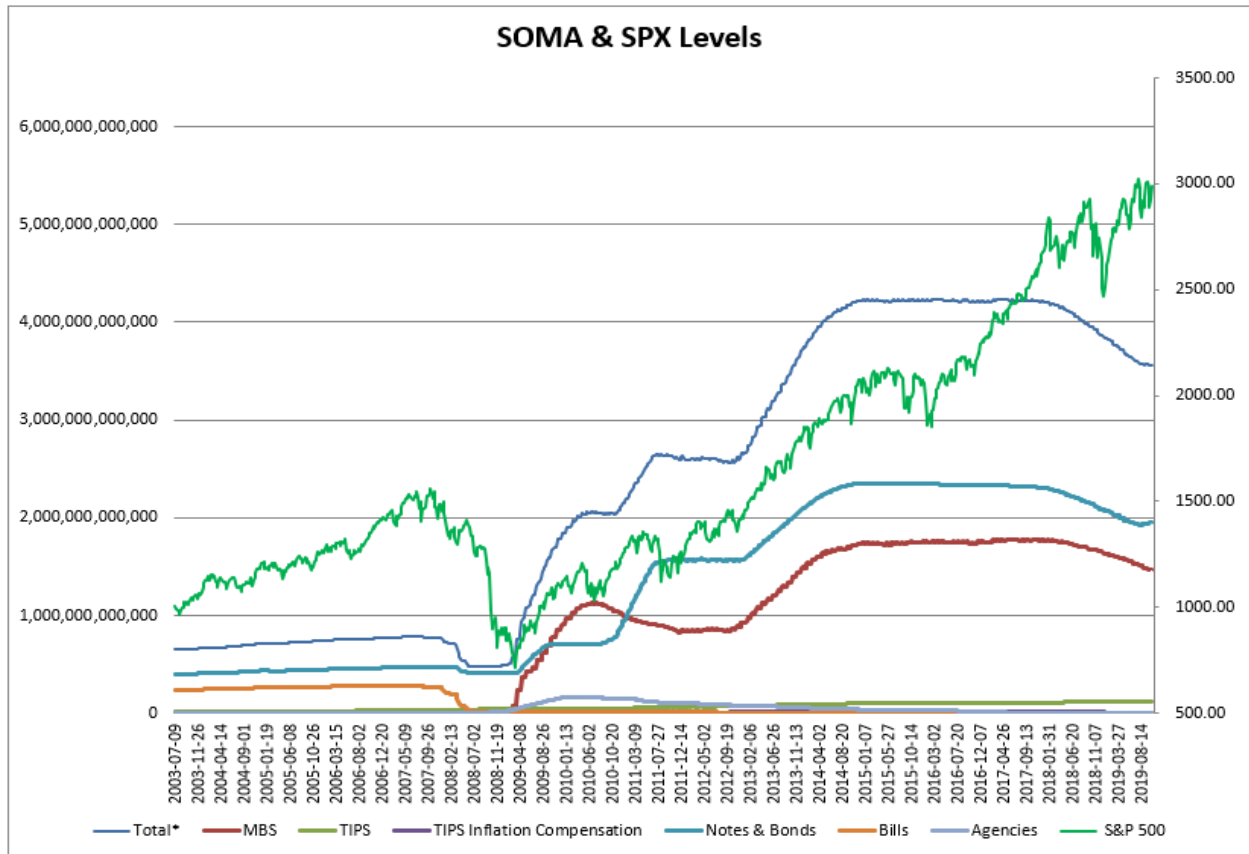
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Despite Friday's selling the major indices all finished the week squarely positive. The SPX rose 0.5%, the NASDAQ gained 0.4%, and the Russell 2000 climbed 1.6%. The long-term trend still appears up for the SPX and NASDAQ. The Russell's trend is less obvious, though it did move back above its 200ma this past week. Another positive is that the NYSE Advance/Decline line made new highs again this week. It first made new highs in early September, and is again doing so ahead of potential new highs in the S&P. As I demonstrated in the 9/9/19 study, that is a bullish indication. There were no new studies with intermediate-term implications that emerged the last few days.

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 10/09/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**October 16, 2019**

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	6,002,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,956,625,815.4
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***	1,463,137,480.5
<b>Total SOMA Holdings</b>	<b>3,564,046,456.7</b>
<b>Change From Prior Week</b>	<b>-2,534,719.6</b>

\*Does not reflect inflation compensation of 24,522,605.2  
 \*\*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 10/17/2019 4:30pm.

The SOMA declined a little over \$2.5 billion this past week, following last week's rise of \$4 billion. But the new "Not QE" Treasury Bill purchase operation began on the 15<sup>th</sup>. So it will be interesting to see whether that has a substantial impact on market movement in the coming months. Details of the operation can be found on the Fed's website using the link below:

[https://www.newyorkfed.org/markets/opolicy/operating\\_policy\\_191011](https://www.newyorkfed.org/markets/opolicy/operating_policy_191011)

I will note that since the QT program ended in the beginning of August, the correlation between SOMA activity and market changes has seemed to break down. So we will monitor whether the new policy appears to have a short-term market impact. But between the treasury bill purchases, and the continued rate-cutting, it does appear the Fed is in an overall 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. Last week's volatility study also suggests a rise is likely over the next month. The NYSE Advance/Decline Line has remained firm, and hit another new high on Thursday. And we will also be moving into the "Best 6 Months" portion of the year in another week and a half – but more about that next weekend. Bears can point to the lagging NASDAQ. A leading NASDAQ has often been a much better situation for a rally. But that indicator nearly flipped this past week and any NASDAQ outperformance this upcoming week could see the NASDAQ take the lead. So it is very conceivable that within the next week and a half we could see all 4 Market Timing Course indicators in bullish formations. 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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