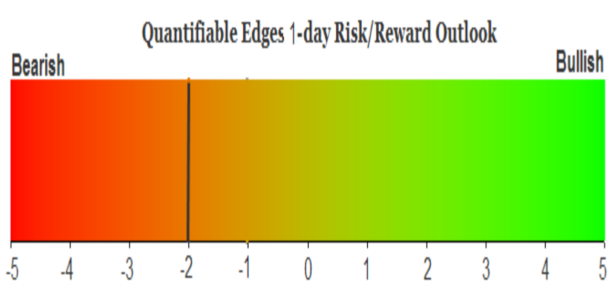
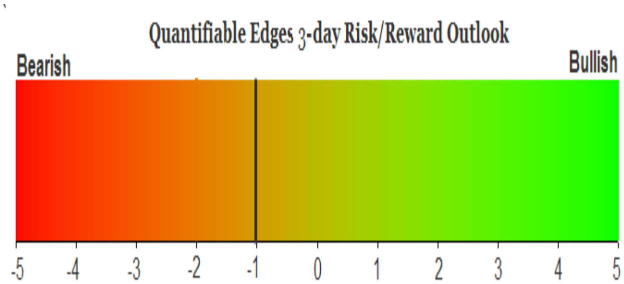
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 28, 2019 Volume 12 Issue 208

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- The move to new highs on Friday is showing some indications of likely short-term follow through, but those indications are a little mixed.
- The NASDAQ/SPX Lead/Lag indicator flipped at the close on Friday and the NASDAQ is now leading.
- The "Best 6 Months" is coming near the end of the week.

Short-term Outlook

The Bottom Line

The Aggregator bearish, but the edge appears marginal and likely short-lived. With the bullish intermediate-term backdrop, this does not appear to be a favorable shorting opportunity.

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 28, 2019	Mon after 4th Fri in October	1 day	Bearish			
October 28, 2019	SPX breakout above intraday high	1-3 days	Bullish			
Active - Long Term						
October 28, 2019	NASDAQ Leading	int term	Bullish			
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

Friday was a solid up day for the market. The SPX rose 0.4%, the NASDAQ gained 0.7%, and the Russell 2000 climbed 0.55%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 66%. NYSE volume declined some from Thursday's level.

We are entering an interesting period from a seasonal standpoint. Coming this week there is a Fed meeting, a new month, and we are entering the "Best 6 Months" period. On top of all that, the week after the 4th Friday in October has been an interesting one historically. I last discussed this in the 10/29/18 letter. Monday has seen difficulties, but the rest of the week has typically been among the best weeks of the year, and it has even carried through to the next Monday. Let's break it down. First, the Monday after the 4th Friday:

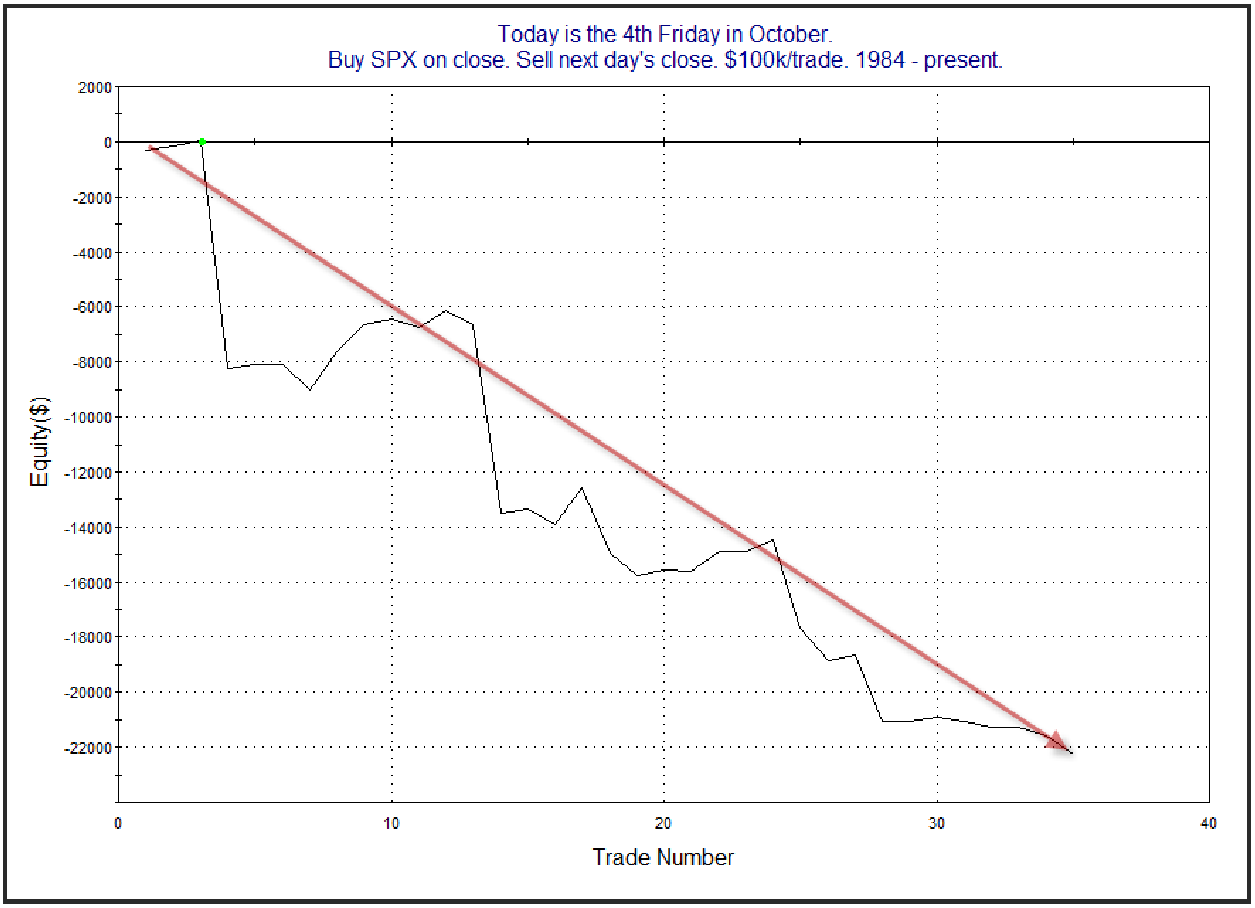
Today is the 4th Friday in October.
Buy SPX on close. Sell next day's close. $100k/trade. 1984 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($22,231.66)	Profit Factor	0.24
Gross Profit	$6,899.34	Gross Loss	($29,131.00)
Total Number of Trades	35	Percent Profitable	48.57%
Winning Trades	17	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	($635.19)	Ratio Avg. Win:Avg. Loss	0.25
Avg. Winning Trade	$405.84	Avg. Losing Trade	($1,618.39)
Largest Winning Trade	$1,385.80	Largest Losing Trade	($8,265.12)

There have almost been the same number of Mondays here that have closed higher, but the losers have been about 4x the size of the winners on average. Here is a look at the profit curve.



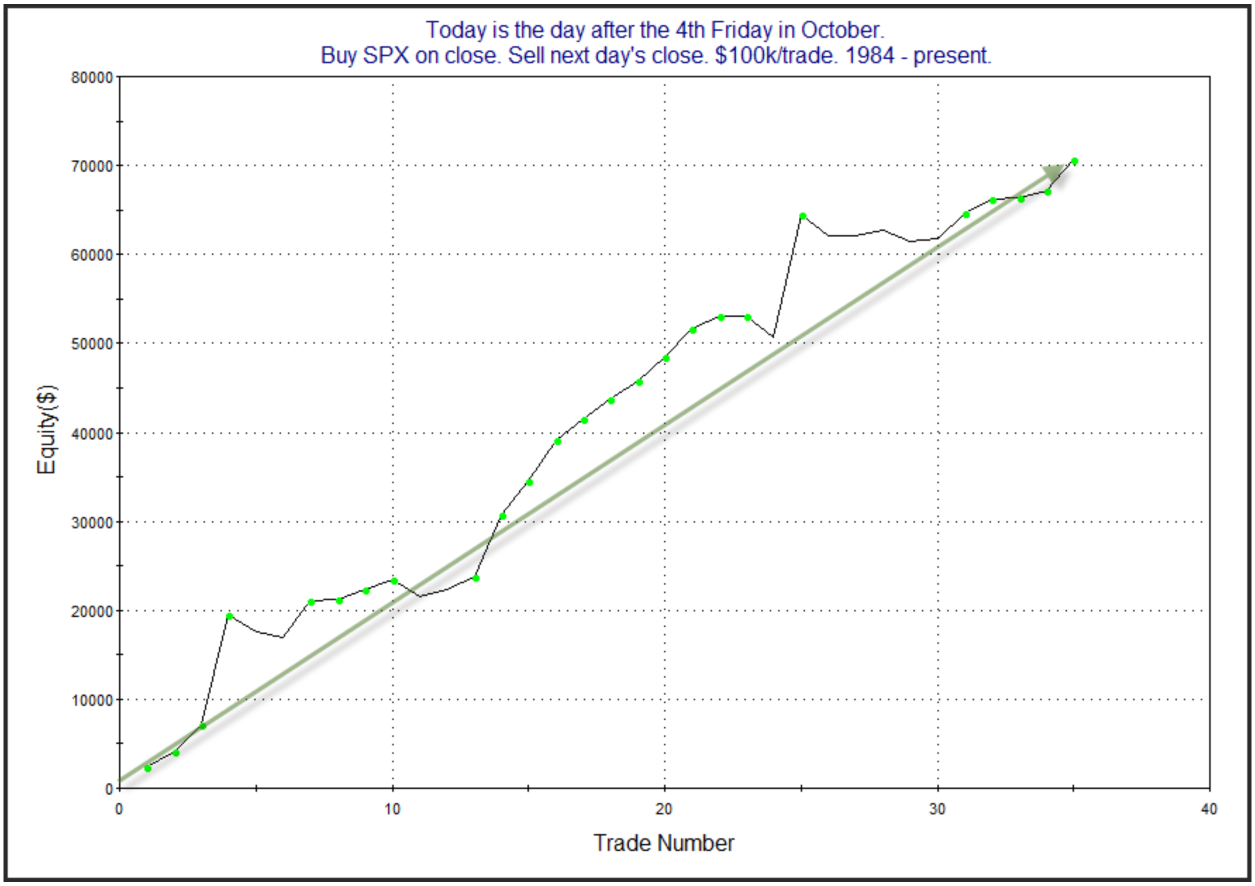
Choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through the following Monday have much more positive seasonality. This can be seen below.

Today is the day after the 4th Friday in October.
Buy SPX on close. Sell next day's close. $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	70,689.28	35	28	7	80.00	13,733.46	-2,483.20	2,901.67	-1,508.22	1.92	7.70	2,019.69
4	57,139.35	35	26	9	74.29	14,020.11	-2,860.68	2,623.63	-1,230.56	2.13	6.16	1,632.55
3	48,945.21	35	27	8	77.14	12,304.89	-2,081.28	2,056.74	-823.34	2.50	8.43	1,398.43
2	27,764.89	35	27	8	77.14	9,496.89	-2,261.76	1,366.32	-1,140.73	1.20	4.04	793.28
1	23,333.91	35	23	12	65.71	10,716.03	-2,766.58	1,462.19	-858.05	1.70	3.27	666.68

33 of 35 instances (94%) closed above the entry price
at some point in the next week.

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



The curve has headed upwards for a long time. As I mentioned earlier, we will have some additional seasonal forces hitting in the next week, but this short-term look at seasonality suggests the market could have some wind at its back after Monday.

The S&P 500 broke out to new 50-day highs on Friday. The breakout was accompanied by some mixed clues about follow-through in the coming days. SPY action was not great. This is because the breakout was not accompanied with an unfilled gap up. I last showed the importance of an unfilled gap in the 6/21/19 subscriber letter. I have updated those studies below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	41,416.69	62	42	20	67.74	5,434.00	-3,218.88	1,475.35	-1,027.41	1.44	3.02	668.01
4	26,454.36	62	41	21	66.13	3,637.92	-3,267.84	1,171.99	-1,028.45	1.14	2.22	426.68
3	19,660.75	62	41	21	66.13	3,992.56	-2,538.18	996.20	-1,008.74	0.99	1.93	317.11
2	16,625.76	62	40	22	64.52	2,545.92	-2,293.20	746.41	-601.39	1.24	2.26	268.16
1	5,735.21	62	42	20	67.74	1,816.10	-2,591.68	450.05	-658.35	0.68	1.44	92.50

Results here are strong across the board.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

But Friday started with a gap down. So let’s look at instances where the 50-day high breakout was ***not*** accompanied by an unfilled gap. Interestingly, the number of instances was a bit lower here. This study also appeared in the 6/21/19 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	3,252.85	45	27	18	60.00	1,018.49	2,671.20	-1,347.02	-4,285.26	0.76	1.13	72.29
4	201.59	45	26	19	57.78	979.18	2,072.07	-1,329.32	-4,518.34	0.74	1.01	4.48
3	4,861.85	45	27	18	60.00	994.33	2,927.90	-1,221.39	-5,133.72	0.81	1.22	108.04
2	-2,131.58	45	23	22	51.11	641.90	2,324.90	-767.97	-3,640.86	0.84	0.87	-47.37
1	2,202.16	45	24	21	53.33	477.52	1,586.97	-440.88	-2,448.72	1.08	1.24	48.94

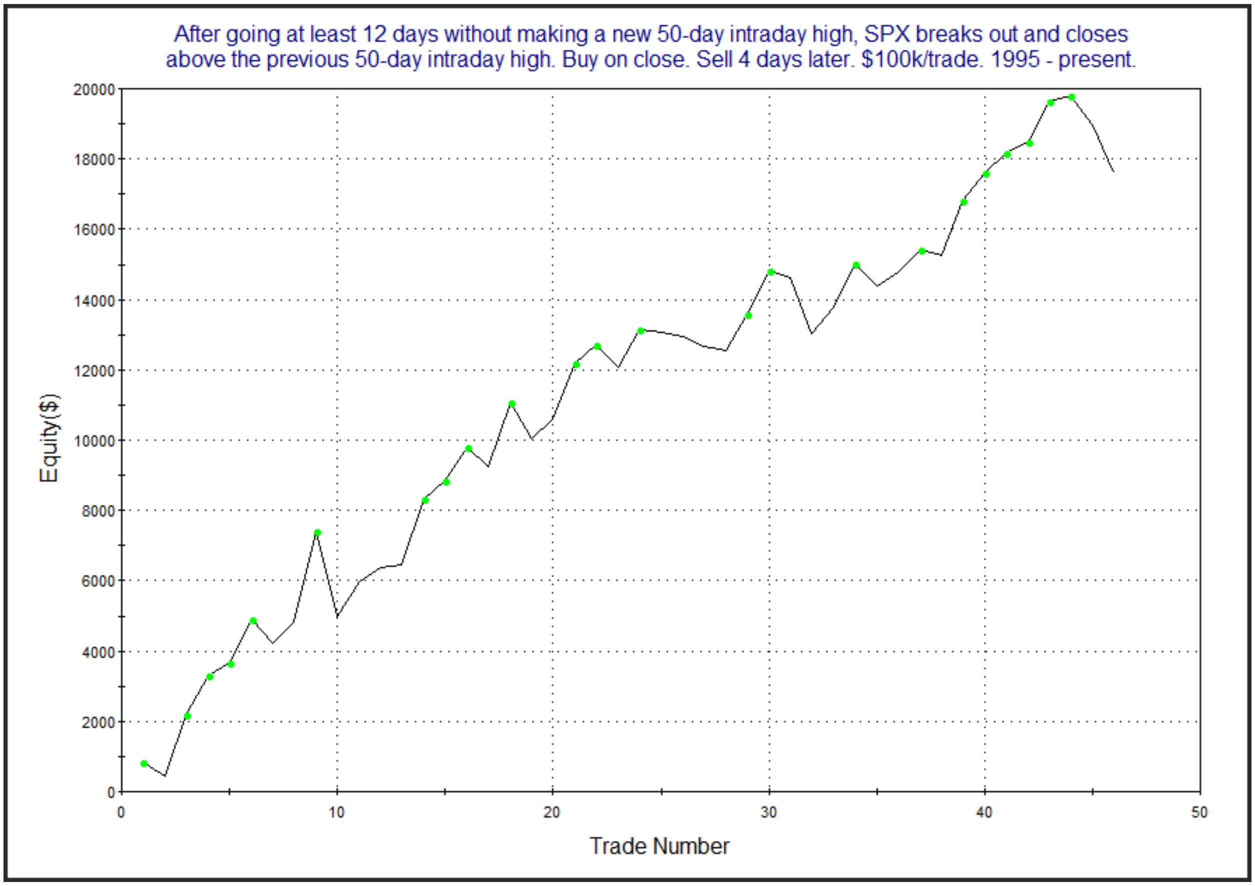
Moves to new highs that don’t start with an unfilled gap have been much less reliable.

And while I showed some studies Thursday night related to SPX breaking out to a new closing high, it wasn’t until Friday that a new intraday high was reached. The study below looks at times a new intraday high has been exceeded after a basing period, and the SPX manages to close above the old intraday high. I also last showed this in the 6/5/18 Letter. I have updated it below.

After going at least 12 days without making a new 50-day intraday high, SPX breaks out and closes above the previous 50-day intraday high. Buy on close. Sell X days later. $100k/trade. 1995 - present.

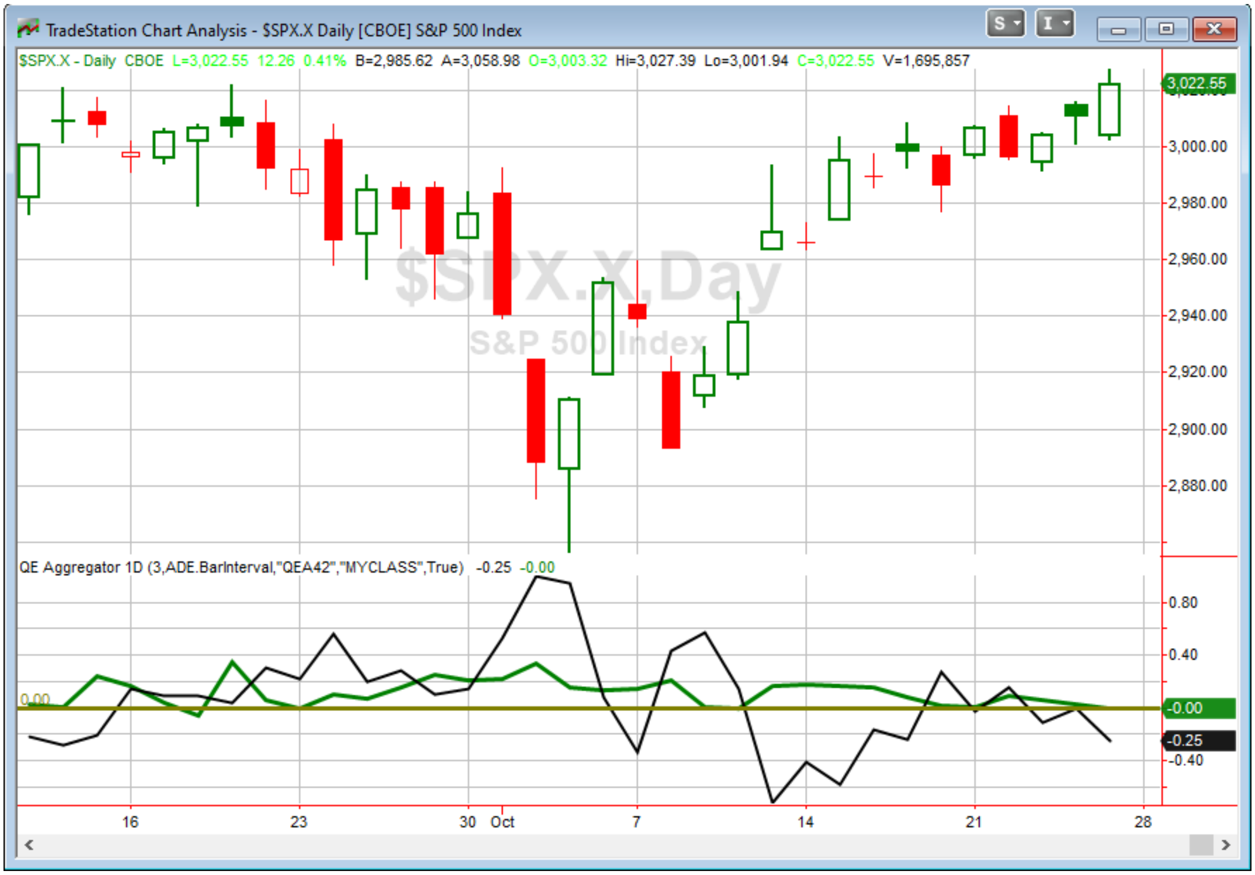
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,269.12	46	33	13	71.74	2,553.28	-3,138.72	867.57	-1,104.68	0.79	1.99	310.20
4	17,614.28	46	30	16	65.22	2,616.60	-2,429.70	955.48	-690.63	1.38	2.59	382.92
3	15,240.81	46	33	13	71.74	2,142.91	-2,188.15	774.49	-793.63	0.98	2.48	331.32
2	7,494.87	46	29	17	63.04	1,998.39	-1,749.60	630.32	-634.37	0.99	1.69	162.93
1	7,440.94	46	28	18	60.87	1,606.89	-921.94	444.63	-278.26	1.60	2.49	161.76

Stats are not overwhelming, but they appear solid and worth closer examination. So below is the profit curve for a 4-day holding strategy.



The last 2 instances have stumbled, but the upslope has persisted for a long time. I have included this study on the Active List as well.

I have updated the Aggregator chart below.



With this weekend's evidence to consider, the green Aggregator Line dipped very slightly below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

With the current list of studies and the bullish seasonality studies primed to emerge, expectations are slated to flip from negative to positive as of Monday's close. Compelling new bearish evidence would need to emerge in order to change this. Meanwhile, the Differential Pivot will be 3009.25 on Monday. That is 0.4% below Friday's close. So SPX will need to close down at least 0.4% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is now bearish. But that is not likely to continue on Monday as expectations are set to turn positive. And with a bullish intermediate-term outlook, there is no way I'd look to try and take advantage of such a marginal short signal. So I am sidelined. But if we do get a pullback early in the week, then I could easily see a long-side opportunity emerging towards the middle or end of the week.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/28 – bullish

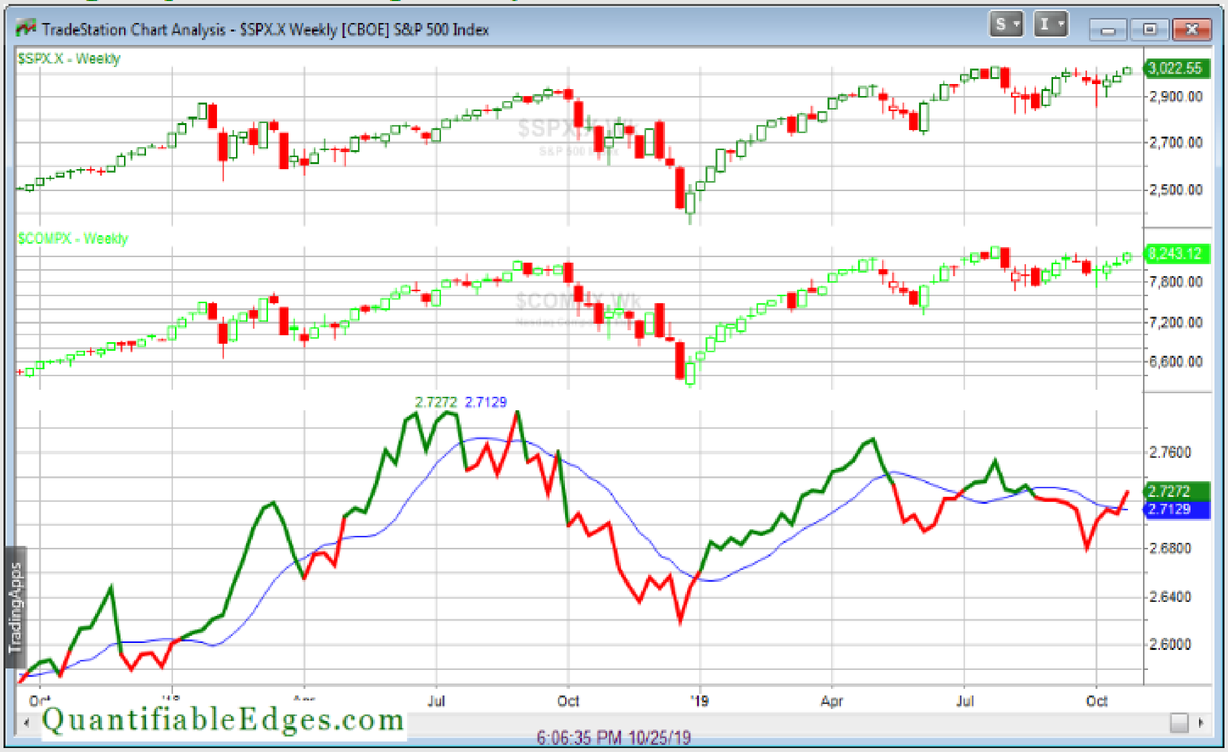
Combo #1	Combo #2	Combo #3
Long	Long	Long

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 Combo System #3 flipped from flat to long. Now all 3 Combo Systems are on long signals.*

The major indices all rose this past week. The SPX closed up 1.2%, the NASDAQ gained 1.9%, and the Russell 2000 climbed 1.5%. The SPX is very close to a new all-time high. And while the NASDAQ Composite still has a little way to go to make a new all-time high, the NASDAQ 100 made one on Friday. So the long-term trend is up. There are some new studies to consider with intermediate-term implications. These include the NASDAQ taking over leadership from the SPX, as well as upcoming seasonality.

It is notable that the NASDAQ took back leadership from the SPX based on our NASDAQ/SPX Relative Strength indicator. This can be seen in the chart below, copied from the website:

Nasdaq/S&P 500 Relative Strength Weekly



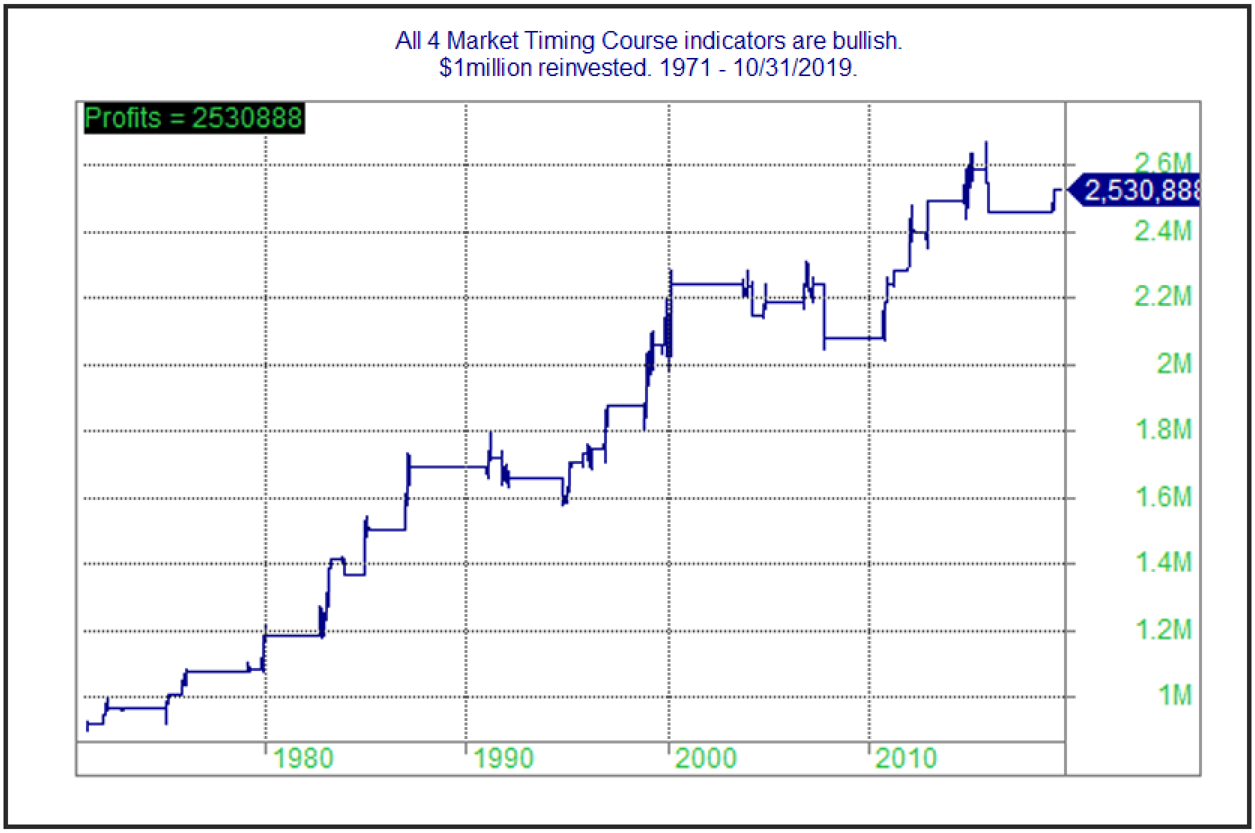
The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2138.5 points when the NASDAQ has been leading versus 781.95 points when the NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 6695.07 vs. just 1439.67. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

Thursday will be the last trading day of October (and Halloween!). That means the market will be entering its “Best 6 Months” period in just a few days. With the Presidential Cycle positive, the Golden Cross in effect, and the NASDAQ now leading, all 4 Market Timing Course indicators will be bullish. So I ran a study to see how SPX has performed when that has been the case.

All 4 Market Timing Course indicators are bullish. $100k/trade. 1971 - 10/31/2019.

Statistics	All trades
All trades	58
Avg. Profit/Loss %	1.74%
Avg. Bars Held	25.57
Winners	41 (70.69 %)
Avg. Profit %	3.34%
Avg. Bars Held	30.66
Max. Consecutive	8
# bars in largest win	74
Losers	17 (29.31 %)
Total Loss	-35947.73
Avg. Bars Held	13.29
Max. Consecutive	3
# bars in largest loss	17
Profit Factor	3.81

The trade stats have been quite strong. I also produced a profit curve utilizing reinvestment of capital.

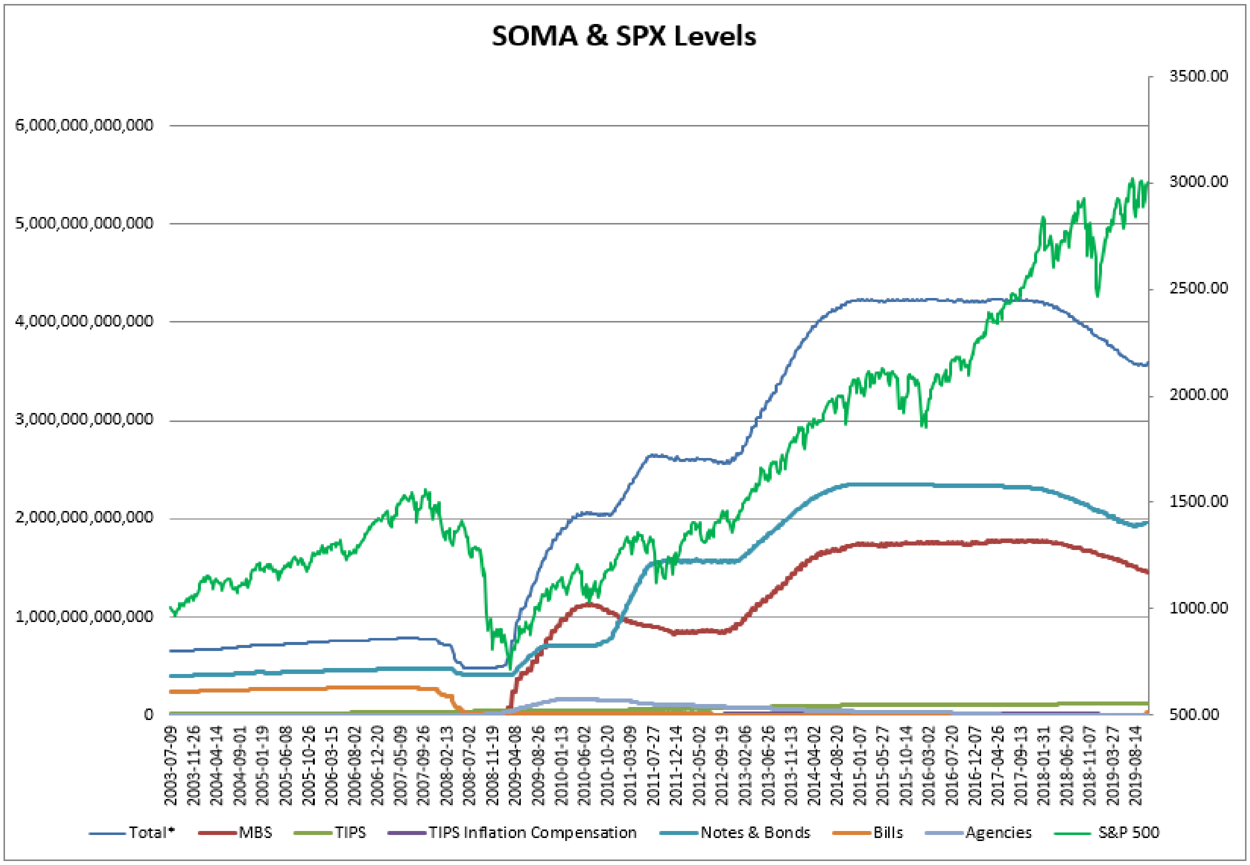


The strong, steady upslope is also encouraging. The edge appears to be strong when all of the Market Timing Course indicators have been bullish in the past.

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 10/16/2019

DOMESTIC SECURITIES HOLDINGS AS OF

October 23, 2019

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	28,505,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,960,227,815.4
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***	1,457,914,258.4
Total SOMA Holdings	3,584,928,234.6
Change From Prior Week	20,881,777.9

*Does not reflect inflation compensation of 24,521,196.7

**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 10/24/2019 4:30pm.

The SOMA rose a very strong $21 billion this past week. With the new “not QE” Fed policy in effect we see that the the change in holdings was thanks to a large increase in short-term T-Bills. I will note that since the QT program ended in the beginning of August, the corelation between SOMA activity and market changes has not bee strong. So it will take some time to see the potential impact of the new poliy. And things could change on Wednesday as well, with the next Fed meeting wrapping up and policy changes possible, including a likely 0.25% rate cut.

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. The NYSE Advance/Decline Line has remained firm, and has been hitting new all-time highs ahead of the SPX. And we will also be moving into the “Best 6 Months” portion of the year after the close on Thursday. With the new NASDAQ leadership, that will mean all 4 Market Timing Course indicators are set to be bullish. Overall, the bullish case seems substantially stronger. 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.]