

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 11, 2019

Volume 12 Issue 218

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- The rally remains extended with SPY completely above the 10ma for 21 straight days.
- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.
- "not QE" has seen the SOMA expand and the market rally substantially in the last few weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am as well, but am looking forward to a pullback to take on some long exposure.

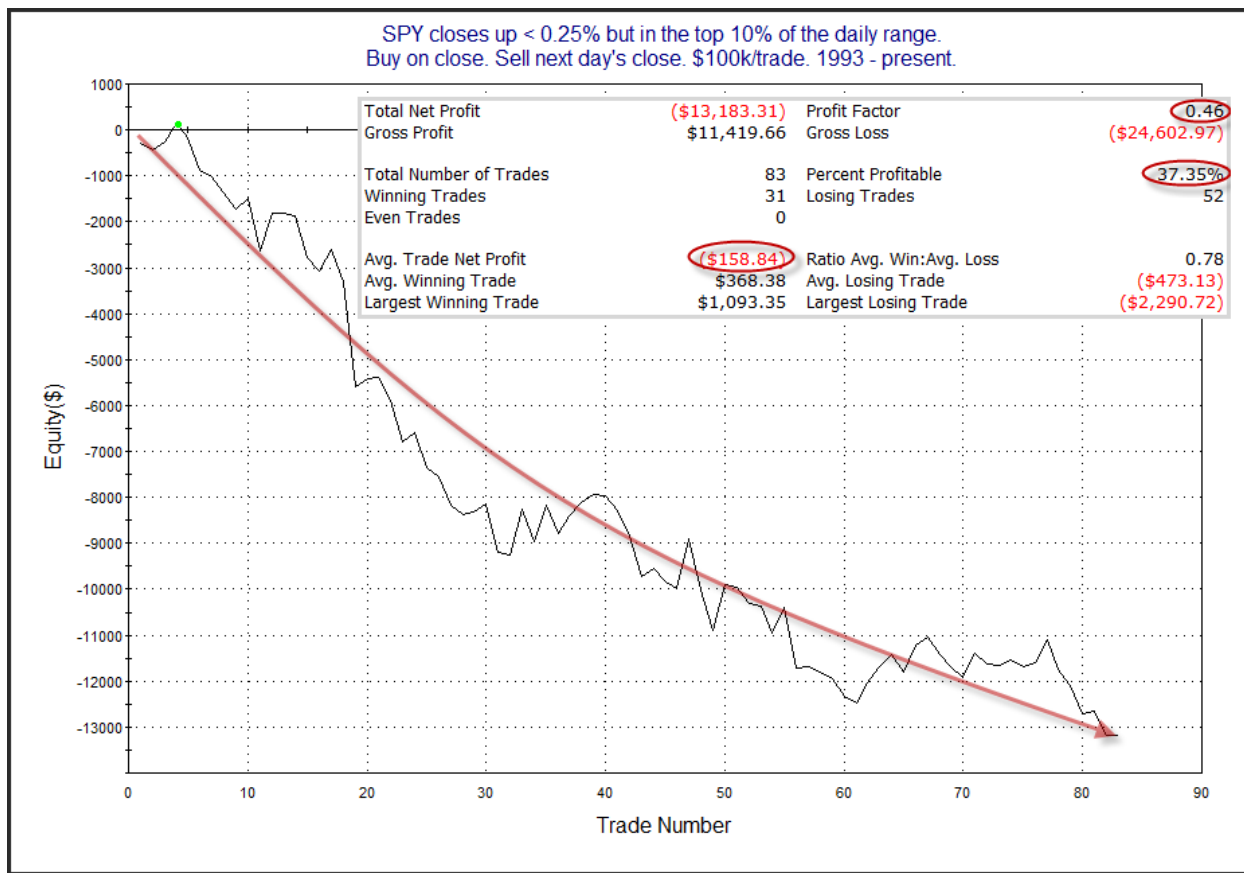
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
November 11, 2019	SPY up < 0.25%, but top 10% daily rng	1 day	Bearish			
November 8, 2019	20-high. Unfilled up gap. Close < open	1-2 days	Bullish			
October 31, 2019	SPX 100-day high on Fed Day	1-8 days	Bullish	1.70%	-0.95%	-1.60%
<b>Active - Long Term</b>						
November 11, 2019	"not QE"	int term	Bullish			
November 5, 2019	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 4, 2019	Presidential cycle + Best 6 mos bullish	6 months	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			
<b>Dropped Tonight</b>						
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%
October 9, 2019	3rd 1% Drop in 10 days > 200ma	1-20 days	Bullish	3.85%	-3.00%	-5.70%

***The Evidence***

Friday had a weak start to the day but the losses were recovered and it finished near its highs. The SPX closed up 0.25%, the NASDAQ rose 0.5%, and the Russell 2000 gained 0.3%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 56%. NYSE volume declined some from Thursday's level.

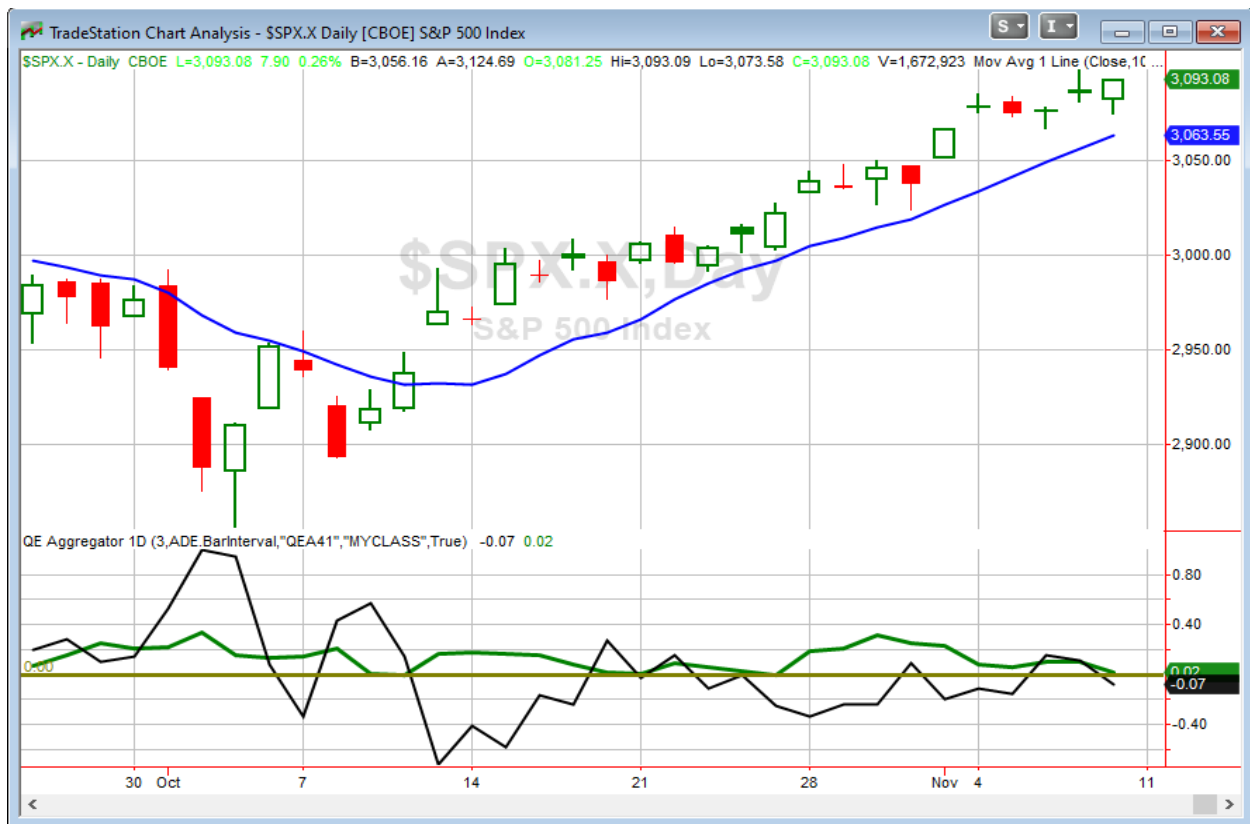
The mild up close may have seemed like a win for the bulls, but the study below suggests that when SPY closes strong (in the top 10% of its intraday range) but still only manages a small gain on the day, the next day has shown a downside tendency. It last appeared in the 9/19/19 letter. I have updated the stats and the profit curve.



This bearish edge has persisted since the inception of SPY in 1993. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. Of note, this one just barely qualified for “small gain” as SPY almost exceeded the 0.25% threshold. Still, I have added this study to the Active List tonight.

In Friday’s letter I noted that SPY had gone 20 days above the 10ma without even touching it intraday. This had only happened 5 other times. Only 2 on those times did it go 21 days like it has now. This is not a short signal. It simply speaks to how rare it is to see such a persistent move upwards and how overdue the SPX is for some kind of a dip.

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



Despite the bearish study above, 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 dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive and 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 turned flat at the close.

All 3 of the active short-term studies are set to expire on Monday. So any new evidence that emerges will have a strong impact on expectations over the next few days. And if nothing new emerges, then expectation will remain slightly positive based on the bullish intermediate-term evidence. Meanwhile, the Differential Pivot will be 3084.44 on Monday. That is 0.3% below Friday's close. Therefore, SPX will need to close down 0.3% or more on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is back to neutral. I am too. Steady, persistent moves in one direction often make it difficult to find high probability swing-trade entries. And that has been the case recently. But I will continue to exercise patience until the next favorable entry opportunity arises. With the intermediate-term outlook bullish and me favoring the long side, that will likely mean a pullback that is accompanied by additional bullish evidence. And I may want to see a move below the 10ma before getting very excited about a long index trade.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 11/11 – bullish**

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

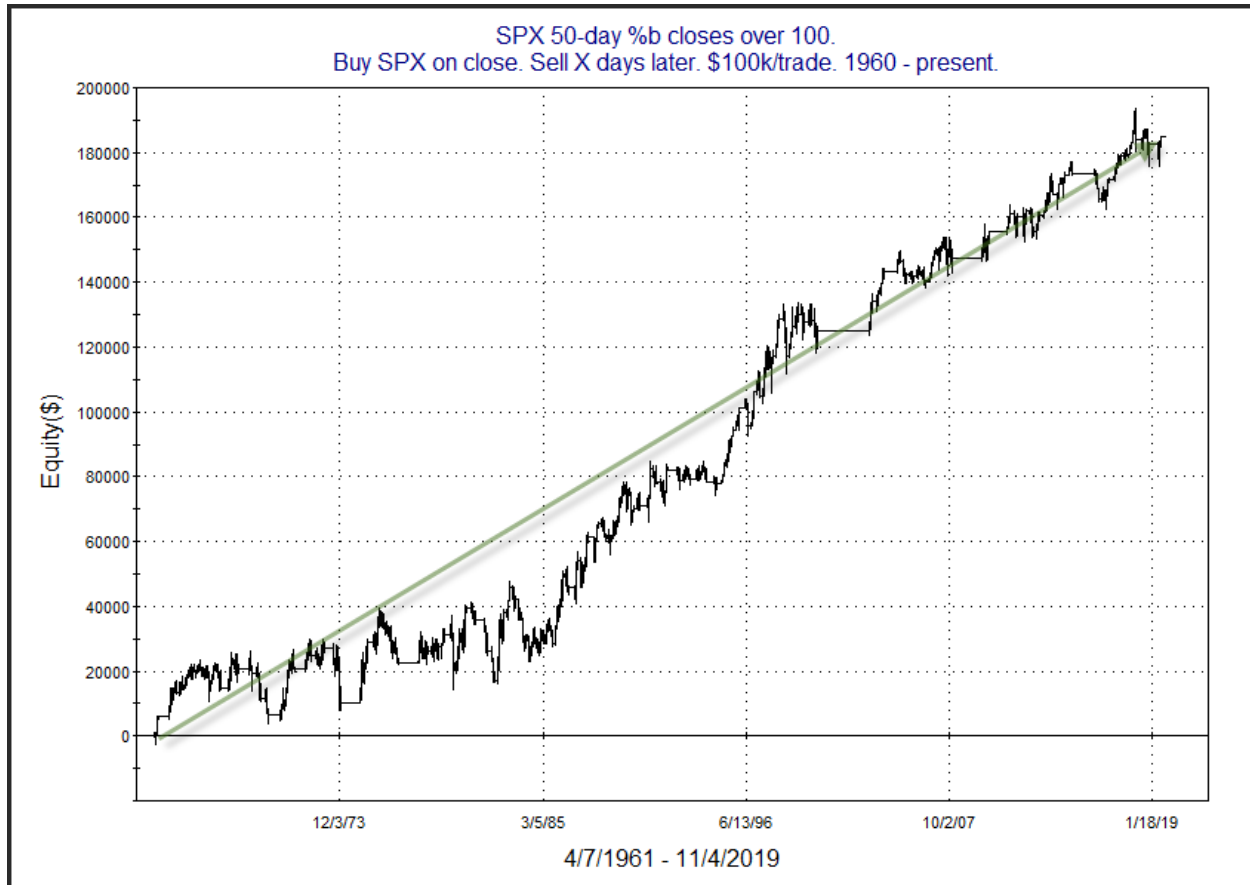
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The major indices all rose this past week. The SPX closed up 0.9%, the NASDAQ gained 1.1%, and the Russell 2000 climbed 0.6%. The SPX and NASDAQ also closed at new all-time highs on Friday. So the long-term trend certainly remains up. There was one new study with intermediate-term implications that emerged this past week. I featured I in Monday night’s letter and have copied it below.

*One study from the 8/30/18 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.*

SPX 50-day %b closes over 100. Buy SPX on close. Sell X days later. \$100k/trade. 1960 - 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
50	184,710.73	137	83	54	60.58	18,408.18	-15,795.00	4,828.15	-4,000.48	1.21	1.86	1,348.25
45	151,126.13	143	81	62	56.64	15,816.57	-25,812.76	5,015.64	-4,115.17	1.22	1.59	1,056.83
40	160,912.28	148	88	60	59.46	17,624.67	-15,540.70	4,491.18	-3,905.19	1.15	1.69	1,087.25
35	139,417.47	156	93	63	59.62	15,782.13	-13,617.00	4,025.49	-3,729.42	1.08	1.59	893.70
30	90,697.09	163	96	67	58.90	11,920.74	-10,485.00	3,318.53	-3,401.23	0.98	1.40	556.42
25	62,407.30	171	97	74	56.73	10,859.94	-8,732.16	3,010.91	-3,103.40	0.97	1.27	364.95
20	57,429.34	182	103	79	56.59	9,501.30	-10,205.38	2,629.46	-2,701.33	0.97	1.27	315.55
15	56,297.14	200	116	84	58.00	7,843.46	-9,763.44	2,303.98	-2,511.49	0.92	1.27	281.49
10	46,491.67	223	137	86	61.43	8,239.16	-9,133.53	1,683.79	-2,141.71	0.79	1.25	208.48
5	24,840.22	271	155	116	57.20	5,030.81	-5,817.77	1,118.01	-1,279.75	0.87	1.17	91.66

*Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.*



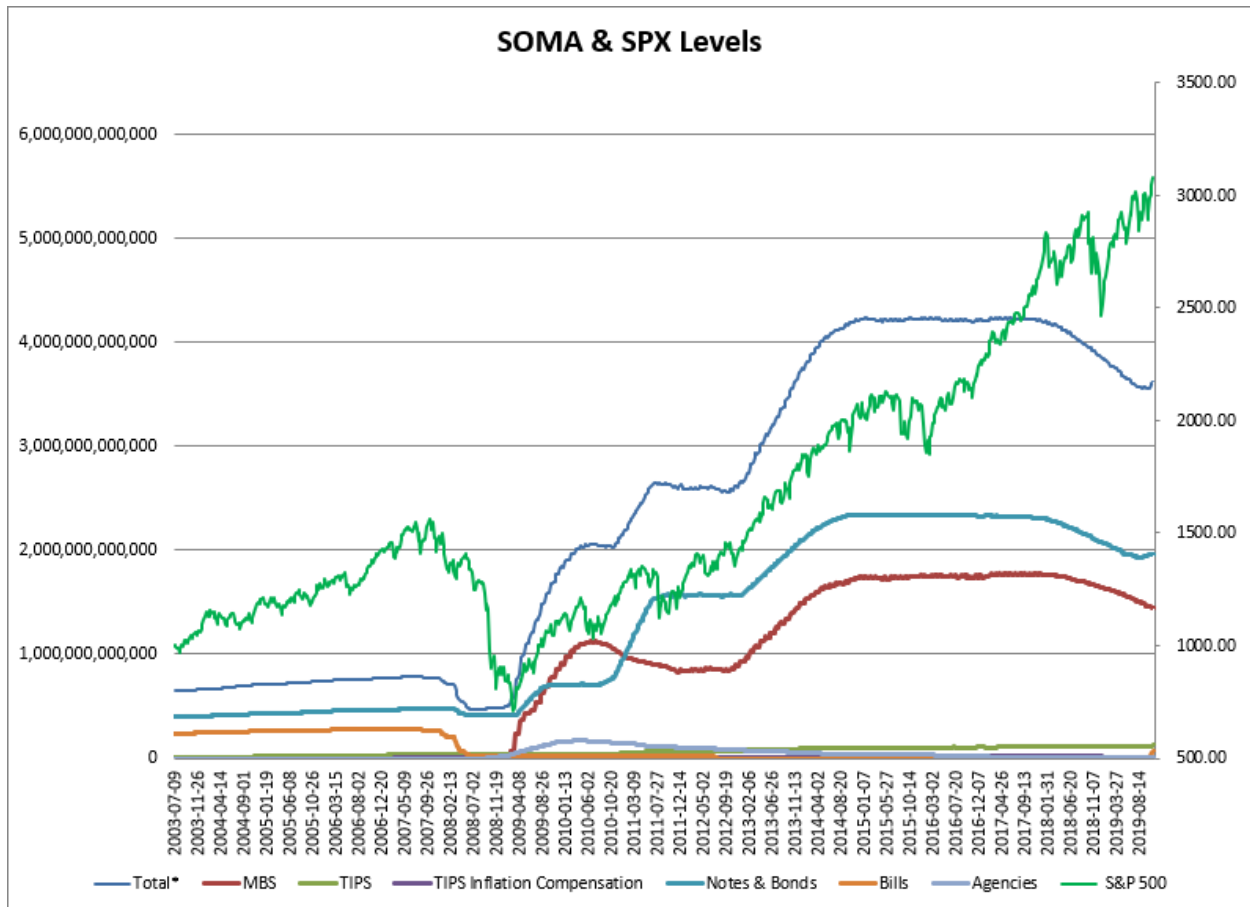
*That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.*

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 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 10/30/2019

DOMESTIC SECURITIES HOLDINGS AS OF  
**November 6, 2019**

Summary		T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)					
US Treasury Bills (T-Bills)	66,010,000.0					
US Treasury Notes and Bonds (Notes/Bonds)	1,964,338,655.7					
US Treasury Floating Rate Notes (FRN)	16,656,716.4					
US Treasury Inflation-Protected Securities (TIPS)*	122,770,604.1					
Federal Agency Securities**	2,347,000.0					
Agency Mortgage-Backed Securities***	1,445,775,926.9					
Total SOMA Holdings	3,617,898,903.1					
Change From Prior Week	18,818,000.0					

\*Does not reflect inflation compensation of 24,542,350.1

\*\*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 11/07/2019 4:30pm.*

The SOMA rose a very strong \$18 billion this past week. This marks the 3<sup>rd</sup> week in a row where the SOMA has risen at least \$14 billion. With the new “not QE” Fed policy in effect we again see that the change in holdings was thanks to a large increase in short-term T-Bills. I will note that after the QT program ended in the beginning of August, the correlation between SOMA activity and market changes was not strong for a while. But a few weeks into “not QE” and the market is running higher along with the SOMA balance. It will still take some time to see the real impact of the new policy. At this point it certainly seems favorable for the market, like “actual” QE policies did in the past. I am noting “not QE” as a potential positive on the intermediate-term active list for the time being.

The intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ are hitting all-time highs and momentum and breadth are strong. The NYSE Advance/Decline Line has remained firm. And we are also now in a bullish seasonal period as measured by both the Best 6 Months and the Presidential Cycle. This means all 4 Market Timing Course indicators are now bullish. Overall, the bullish case seems substantially stronger. I will therefore take a more aggressive approach with long trades and a very conservative approach 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 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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