

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2019

Volume 12 Issue 223

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX making intermediate-term highs while VIX making intermediate-term lows means the market may be overbought and traders overly complacent. In past markets this has led to pullbacks in the following days, though not as much recently.
- “Not QE” continues to push the SOMA balance higher, and the market has been rising along with it.
- Momentum, advance/decline, and seasonality are all continuing to point higher for the intermediate-term.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. I am too. A pullback is overdue and would be welcomed to find a better potential reward/risk entry to the long side.

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						
November 15, 2019	50-high then 5-day consolidation	1-3 days	Bullish	1.10%	-0.70%	-1.35%
Active - Long Term						
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			

The Evidence

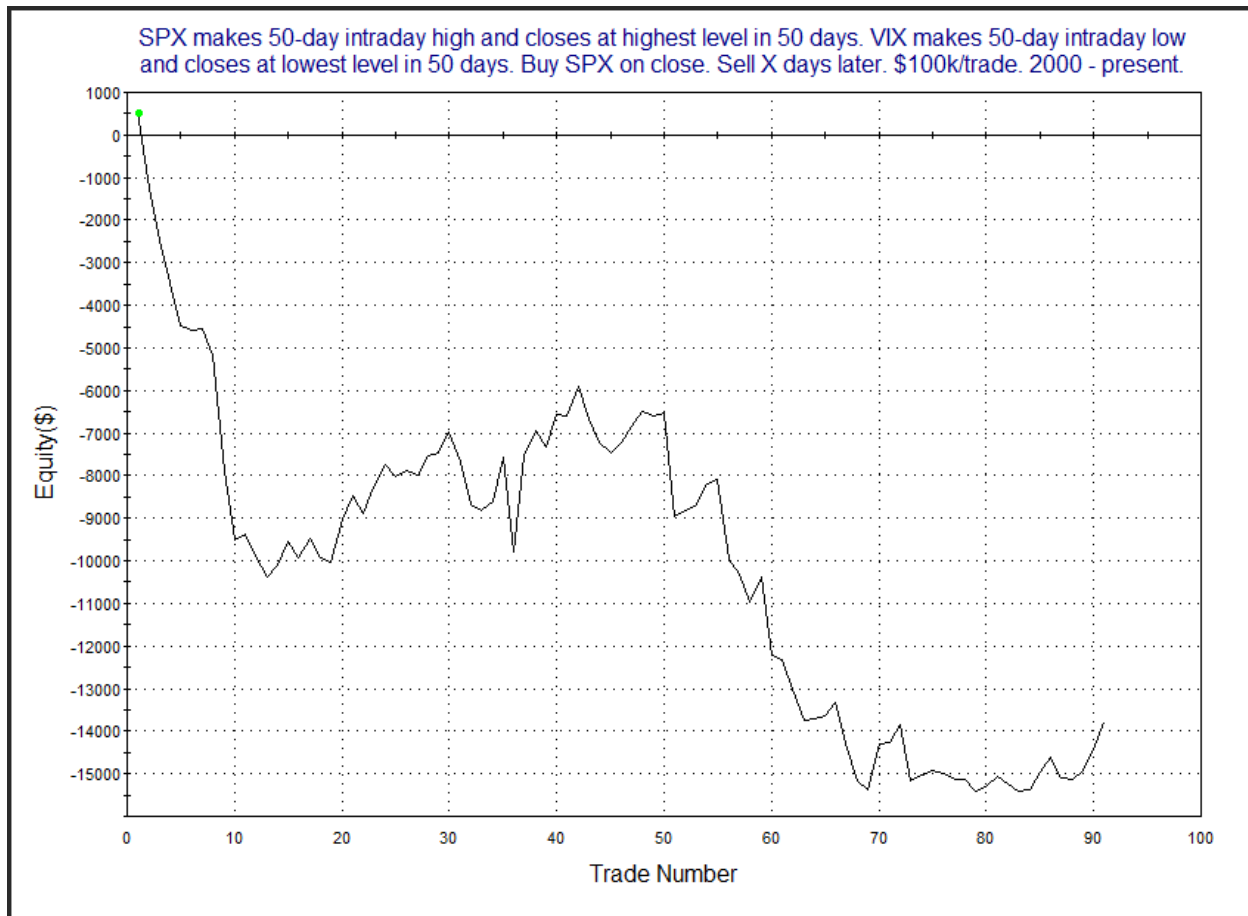
Friday was a strong day for the market. The SPX closed up 0.8%, the NASDAQ rose 0.7%, and Russell 2000 gained 0.5%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 78%. NYSE volume rose as it often does on opex Friday.

Thursday night we saw evidence that the market was wound tight and that a pop could be expected in the next few days. The likely direction of that pop pointed higher. (Though with the way the market was setting up, reward/risk potential did not seem great.) Friday's action provided that pop.

On Friday we also saw the SPX make both a 50-day intraday and closing high while the VIX index made both a 50-day intraday and closing low. This opens up the possibility that the market is overbought while option traders are overconfident. The study below was last seen in the 2/20/19 letter. It looked at other times where this setup has occurred since 2000. Stats are all updated.

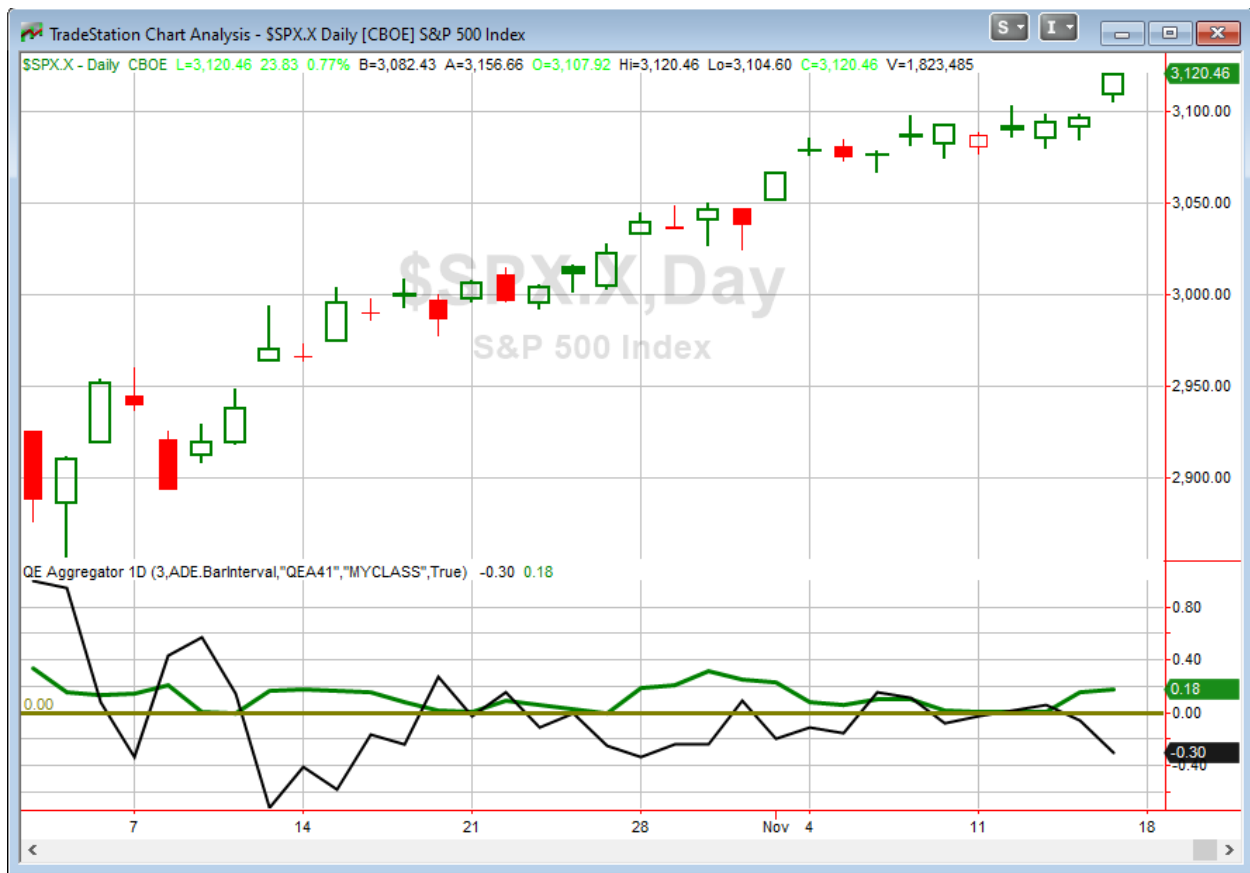
SPX makes 50-day intraday high and closes at highest level in 50 days. VIX makes 50-day intraday low and closes at lowest level in 50 days. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % 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
5	-24,424.73	70	34	36	48.57	2,604.16	-3,845.88	502.95	-1,153.47	0.44	0.41	-348.92
4	-14,229.97	73	35	38	47.95	2,870.40	-3,595.13	628.99	-953.80	0.66	0.61	-194.93
3	-11,795.20	81	41	40	50.62	2,566.72	-5,105.87	601.46	-911.37	0.66	0.68	-145.62
2	-13,795.02	91	46	45	50.55	2,257.84	-2,719.50	402.07	-717.56	0.56	0.57	-151.59
1	-5,788.42	105	50	55	47.62	833.85	-2,138.93	286.03	-365.27	0.78	0.71	-55.13

Results appear mildly bearish. Below is a look at a 2-day profit curve.



That is not a very confidence-inspiring curve, especially with it having gone flat and then curved up in recent instances. Curves for the other time frames were similarly concerning. So I decided not to include this study on the active list tonight. But I am leaving it in the Quantifinder to review in the future. This is not the only VIX-related short-biased study that has struggled recently. I have seen a good number of them showing similar tendencies. Perhaps VIX-based trading has changed how VIX readings influence market behavior in recent years. Or perhaps it is just that the bull market over the last decade has powered through most short signals. Whatever the reason, I will continue to update the research so as not to include stale edges in my analysis. I will also note that whether I include this study on the Active List today or not makes very little difference with regards to current expectations. This study is not strong enough to swing them from positive to negative even if I were to include it.

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



With Friday's action taken under consideration, 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 held 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3094.39 on Monday. That is 0.8% below Friday's close. Therefore, SPX will need to close down at least 0.8% in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is again neutral. I am too. The setup seems to be one where the market is too strong to short and too overbought to buy. So the waiting game remains from an index trading standpoint and for most of my strategies. I will remain patient and alert, ready to pounce on the next favorable reward/risk opportunity that arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/18 – bullish

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

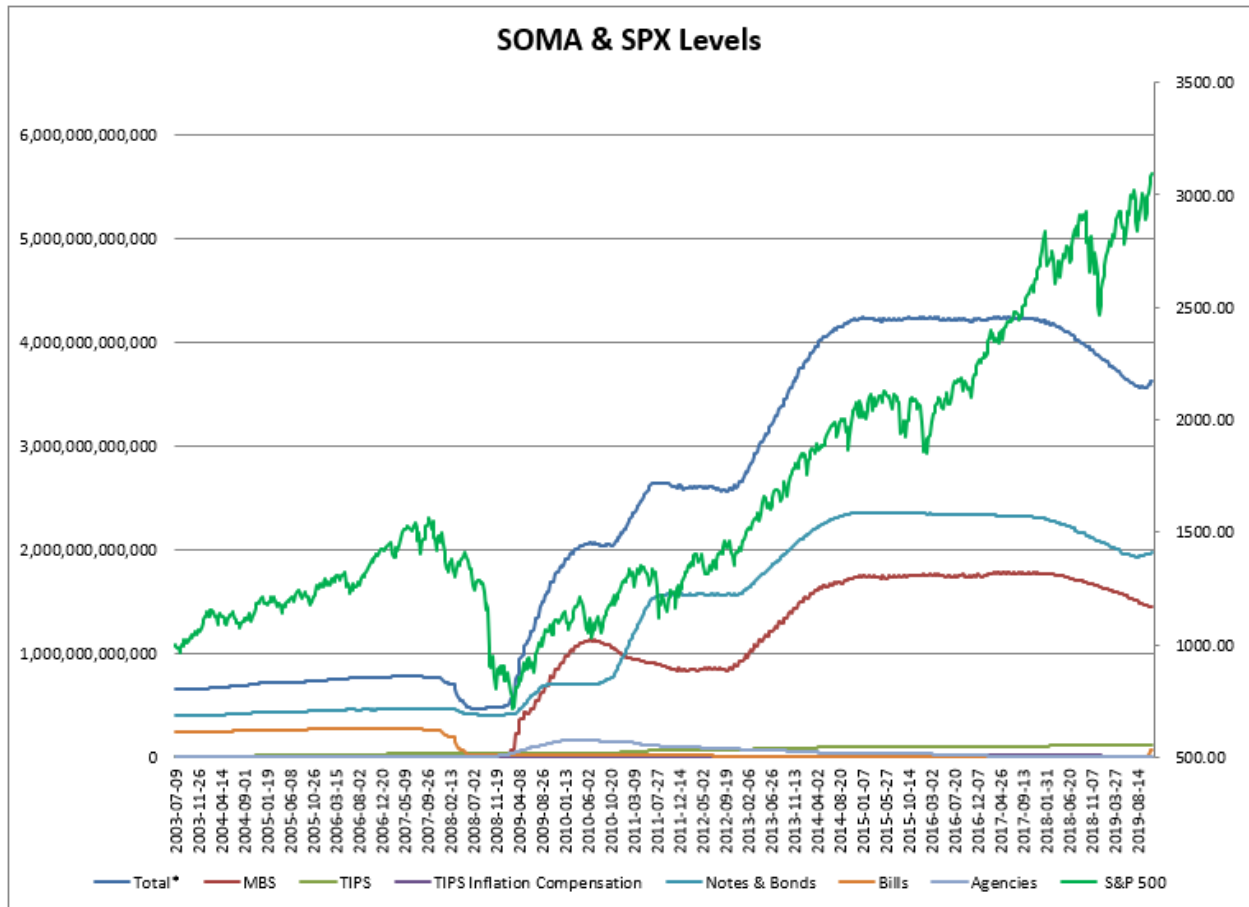
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The major indices mostly rose this past week. The SPX closed up 0.9% and the NASDAQ gained 0.8%, but the Russell 2000 lost a small 0.1%. The SPX and NASDAQ also closed at new all-time highs on Friday. So the long-term trend certainly remains up. There were no new studies with intermediate-term implications that emerged over 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 11/06/2019

DOMESTIC SECURITIES HOLDINGS AS OF
November 13, 2019

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	69,011,000.0
US Treasury Notes and Bonds (Notes/Bonds)	1,966,539,655.7
US Treasury Floating Rate Notes (FRN)	16,656,716.4
US Treasury Inflation-Protected Securities (TIPS)*	124,371,604.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,450,088,869.7
Total SOMA Holdings	3,629,014,845.9
Change From Prior Week	11,115,942.8

*Does not reflect inflation compensation of 24,949,569.5
**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 11/14/2019 4:30pm.

The SOMA rose a sizable \$11 billion this past week. This marks the 4th week in a row where the SOMA has risen at least that much. With the new “not QE” Fed policy in effect we again see that the 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 “not QE” has been in effect for 4 weeks now and every one of those weeks has seen the SPX rise 0.5% or more. At this point it certainly seems favorable for the market, like “actual” QE policies did in the past. “Not QE” is listed as a potential positive on the intermediate-term active list.

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 that made a new high on Friday as well. Both the Best 6 Months and the Presidential Cycle are bullish. This means all 4 Market Timing Course indicators remain bullish. Overall, the bullish case seems substantially stronger. I will therefore keep 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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