

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2020

Volume 13 Issue 17

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	4

## Tonight's Research Points

- The 1<sup>st</sup> dip below the 10ma in over 25 days is typically not the end of the uptrend, and has been buyable for both the short and intermediate-term.
- SPY triggered numbered system 11111 on Friday, which has historically been a good short-term signal for a bounce.
- The Fed will be meeting this week, and I will closely be watching out for news regarding the current “not QE” liquidity program.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, and the setup is starting to look compelling. I am getting interested in 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
<b>Active - Short Term</b>						
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%
January 27, 2020	SPY system 11111	1-3 days	Bullish			
January 24, 2020	Up 2 < 3 ago	1-2 days	Bullish			
January 23, 2020	20-high close in bottom 10% intraday	1-6 days	Bullish	1.50%	-1.00%	-2.00%
<b>Active - Long Term</b>						
January 27, 2020	1st close < 10ma in over 25 days	1-19 days	Bullish	3.90%	-1.60%	-4.20%
January 17, 2020	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 11, 2019	"not QE"	int term	Bullish			
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>						
January 24, 2020	SPY up < 0.25% top 10% daily range	1 day	Bearish			

***The Evidence***

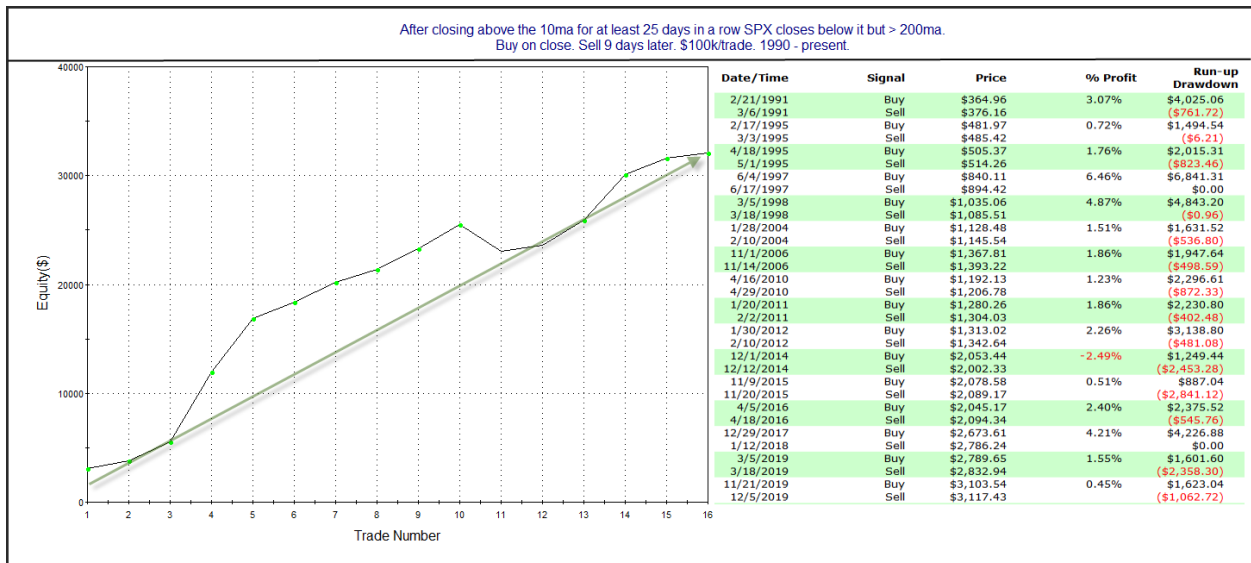
Friday saw a decent amount of selling. The SPX closed down 0.9%, the NASDAQ declined 0.9% and the Russell 2000 lost 1.35%. Breadth was negative as the NYSE Up Issues % was 29% and the Up Volume % came in at 14%. NYSE volume declined some from Thursday's level.

I have been talking about the persistency of the rally lately. I had been tracking how both the SPX and the NASDAQ Composite had closed above their 10ma for 32 days in a row as of Thursday afternoon. On Friday the streak came to an end for both of them. (But not for the NDX.) The move in SPX below the 10ma triggered the study below, from the 11/22/19 letter. It looked at times SPX closed above the 10ma for at least 25 days, and then closed below it. The results below look back to 1990, and are all updated.

After closing above the 10ma for at least 25 days in a row SPX closes below it but > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

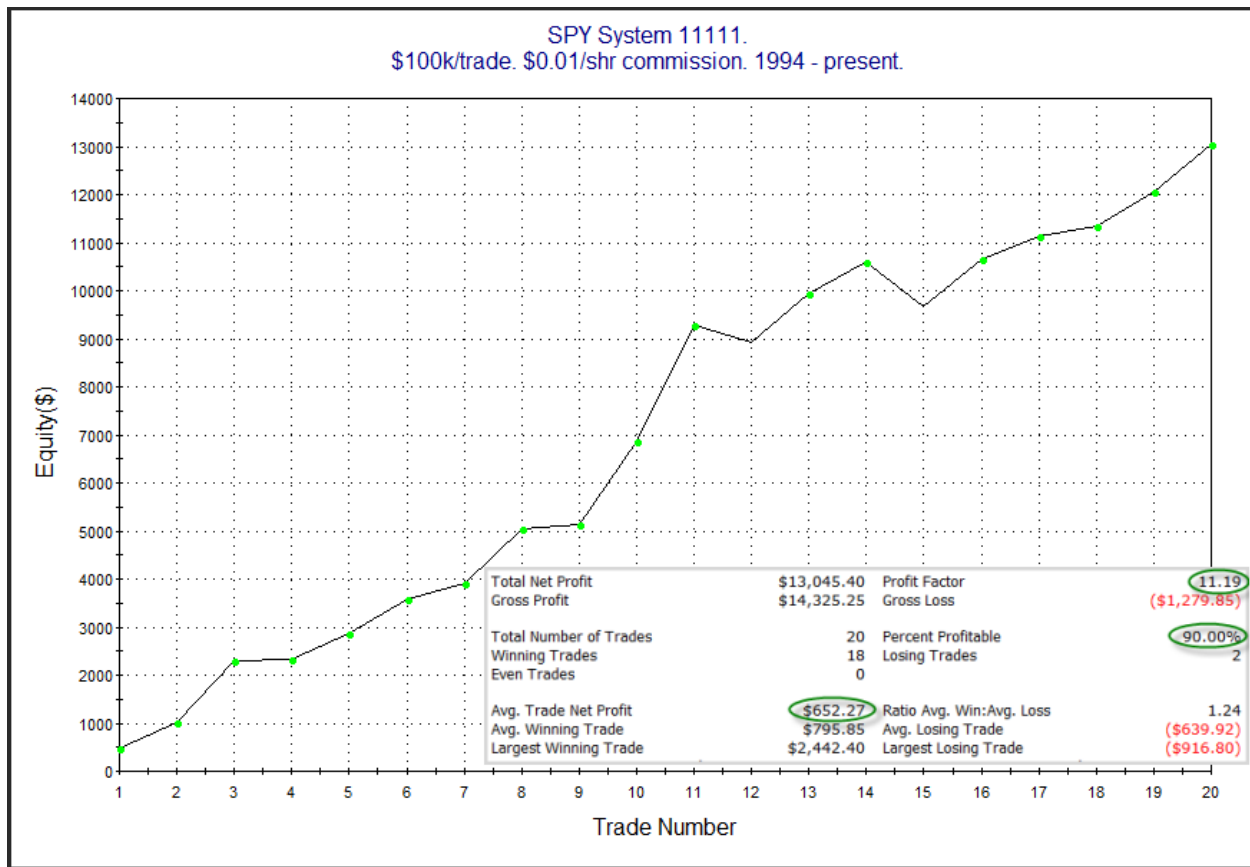
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	45,417.41	16	14	2	87.50	8,155.20	-4,685.35	3,630.16	-2,702.44	1.34	9.40	2,838.59
19	46,457.43	16	14	2	87.50	7,014.72	-2,879.27	3,529.23	-1,475.88	2.39	16.74	2,903.59
18	42,354.53	16	15	1	93.75	7,372.62	-1,698.18	2,936.85	-1,698.18	1.73	25.94	2,647.16
17	37,323.91	16	14	2	87.50	6,128.68	-3,016.22	2,980.73	-2,203.15	1.35	9.47	2,332.74
16	40,910.37	16	15	1	93.75	6,065.41	-2,689.20	2,906.64	-2,689.20	1.08	16.21	2,556.90
15	38,211.05	16	15	1	93.75	6,311.04	-6,743.75	2,996.99	-6,743.75	0.44	6.67	2,388.19
14	38,358.89	16	15	1	93.75	6,691.37	-5,310.34	2,911.28	-5,310.34	0.55	8.22	2,397.43
13	34,351.07	16	15	1	93.75	5,807.04	-2,179.58	2,435.38	-2,179.58	1.12	16.76	2,146.94
12	34,529.64	16	14	2	87.50	6,972.21	-1,946.40	2,715.29	-1,742.19	1.56	10.91	2,158.10
11	35,673.33	16	15	1	93.75	6,887.72	-3,873.60	2,636.46	-3,873.60	0.68	10.21	2,229.58
10	32,612.31	16	14	2	87.50	5,825.05	-3,062.88	2,580.48	-1,757.20	1.47	10.28	2,038.27
9	32,059.85	16	15	1	93.75	6,462.89	-2,453.28	2,300.88	-2,453.28	0.94	14.07	2,003.74
8	29,597.22	16	14	2	87.50	6,404.58	-869.28	2,180.74	-466.60	4.67	32.72	1,849.83
7	22,742.66	16	13	3	81.25	6,326.04	-1,310.40	1,929.45	-780.05	2.47	10.72	1,421.42
6	21,847.23	16	14	2	87.50	5,157.46	-1,350.72	1,678.84	-828.24	2.03	14.19	1,365.45
5	20,198.26	16	14	2	87.50	3,505.74	-1,218.72	1,542.04	-695.16	2.22	15.53	1,262.39
4	18,764.73	16	13	3	81.25	3,206.40	-2,665.92	1,677.35	-1,013.60	1.65	7.17	1,172.80
3	11,844.30	16	13	3	81.25	2,805.12	-1,630.30	1,202.23	-1,261.56	0.95	4.13	740.27
2	9,603.54	16	11	5	68.75	2,130.10	-1,425.20	1,057.19	-405.10	2.61	5.74	600.22
1	5,933.69	16	12	4	75.00	1,975.68	-637.00	561.73	-201.77	2.78	8.35	370.86

Instances are a little low, but the numbers are heavily lopsided in favor of the bullish case. The edge seems to persist up to 4 weeks, but 2/3 of the gains were realized in the 1<sup>st</sup> nine trading days. Below is a look at the individual instances and profit curve assuming a 9-day holding period.



The curve and the trade list are as impressive as the stats. I have added this study to the Active List tonight.

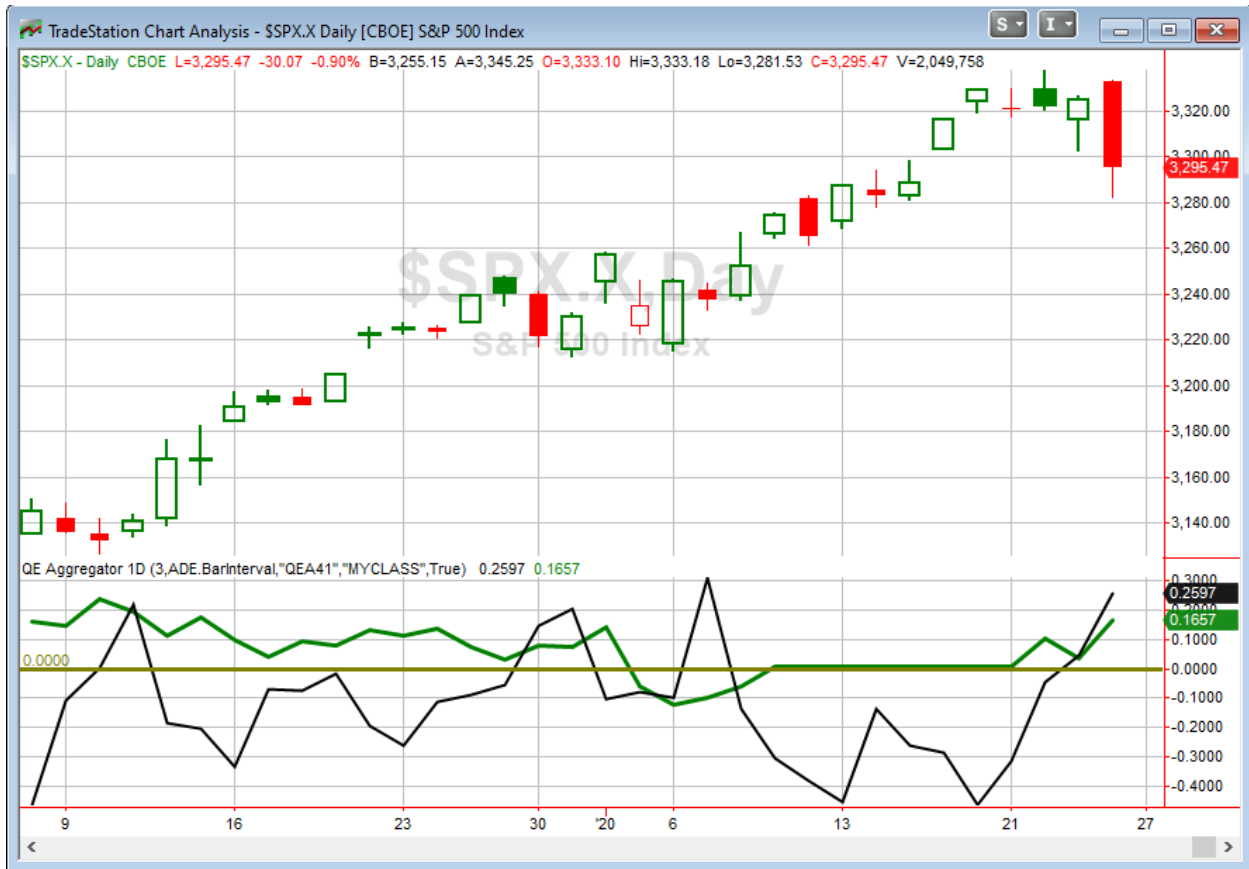
I'll also note that SPY is now set up to trigger QE numbered system 11111 on Monday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 11/22/19 Letter as well. Below are the updated stats.



Here as well, there have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. And the profit curve is impressive as well. Also notable (but not shown) is that the average trade only lasted 3.20 days. The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to the system 11111 page below:

<http://quantifiableedges.com/system-11111/>

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



With tonight's evidence considered, 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 also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is still oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain bullish on Monday. Of course this might change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3325.34 on Monday. That is 0.9% above Friday's close. Therefore, SPX would need to close up over 0.9% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is suggesting an upside edge. And we have some new evidence today that is also appealing. Tops don't often take a ^ formation, the way bottoms will with a V. Instead they will more often chop around before the big selling begins. The studies tonight suggest we will see a decent bounce, and likely another high before the "end" arrives for this rally. In looking at the Differential Pivot, we have ample room to the upside before the market would flip from oversold back to overbought. So potential reward is pretty good. But while we are a couple days from the highest closing value for the SPX, Friday was really the 1<sup>st</sup> big down day. Coronavirus news (and impeachment news) could help to trigger further selling in the short-term. I generally find multi-day pullback more appealing to enter. So I like the long side, but I intend to be a bit conservative with my entry here. I will look to start scaling into a long position on Monday, but only if I can get a nicely favorable entry.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/27 – bullish***

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

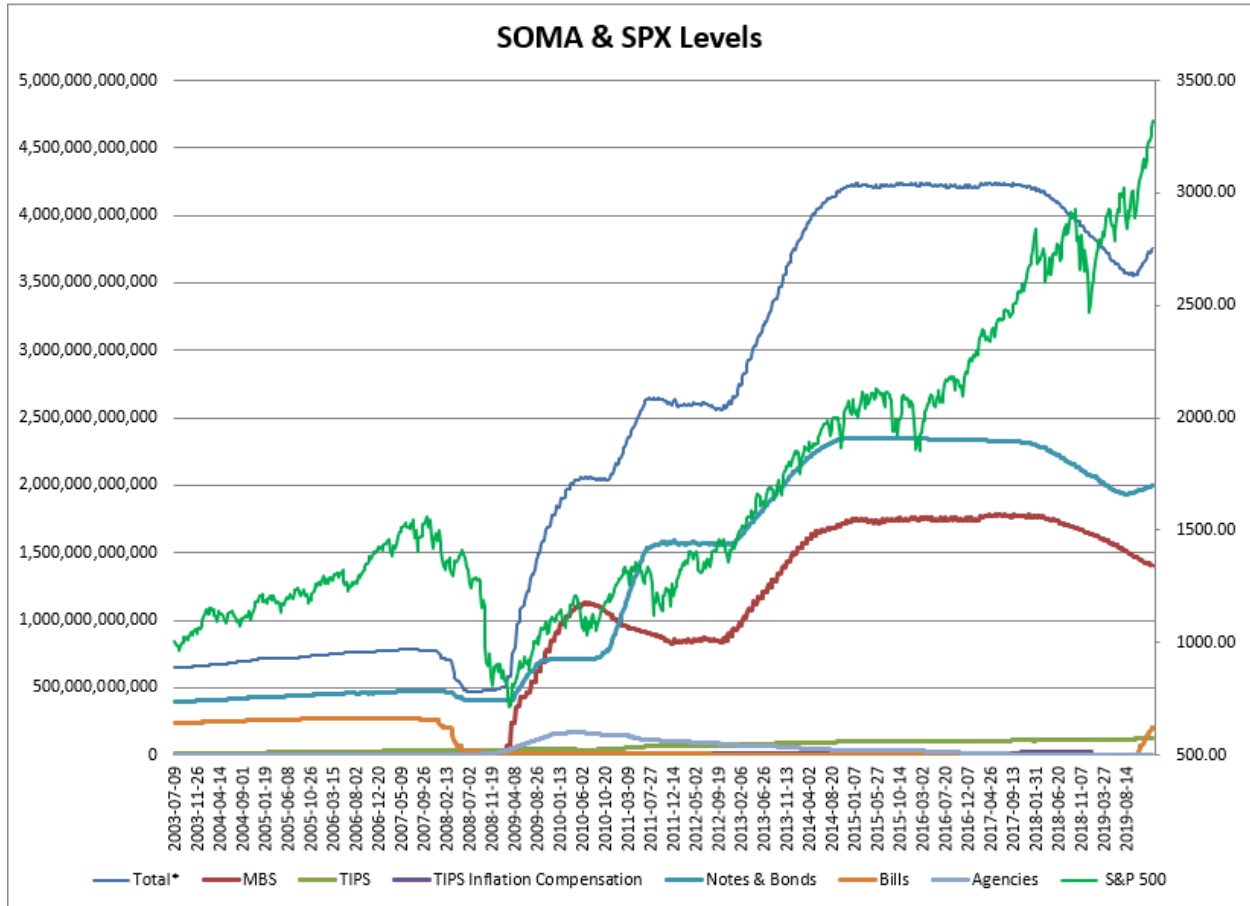
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Friday's selling led all the major indices to close down on the week. The SPX lost 1.0%, the NASDAQ fell 0.8%, and the Russell 2000 dropped 2.2%. SPX and NASDAQ are only a few days from their all time highs. So the long-term trend certainly still appears to be up. Other than the study I featured today in the short-term section, there were no new studies that appeared this week with intermediate-term implications.

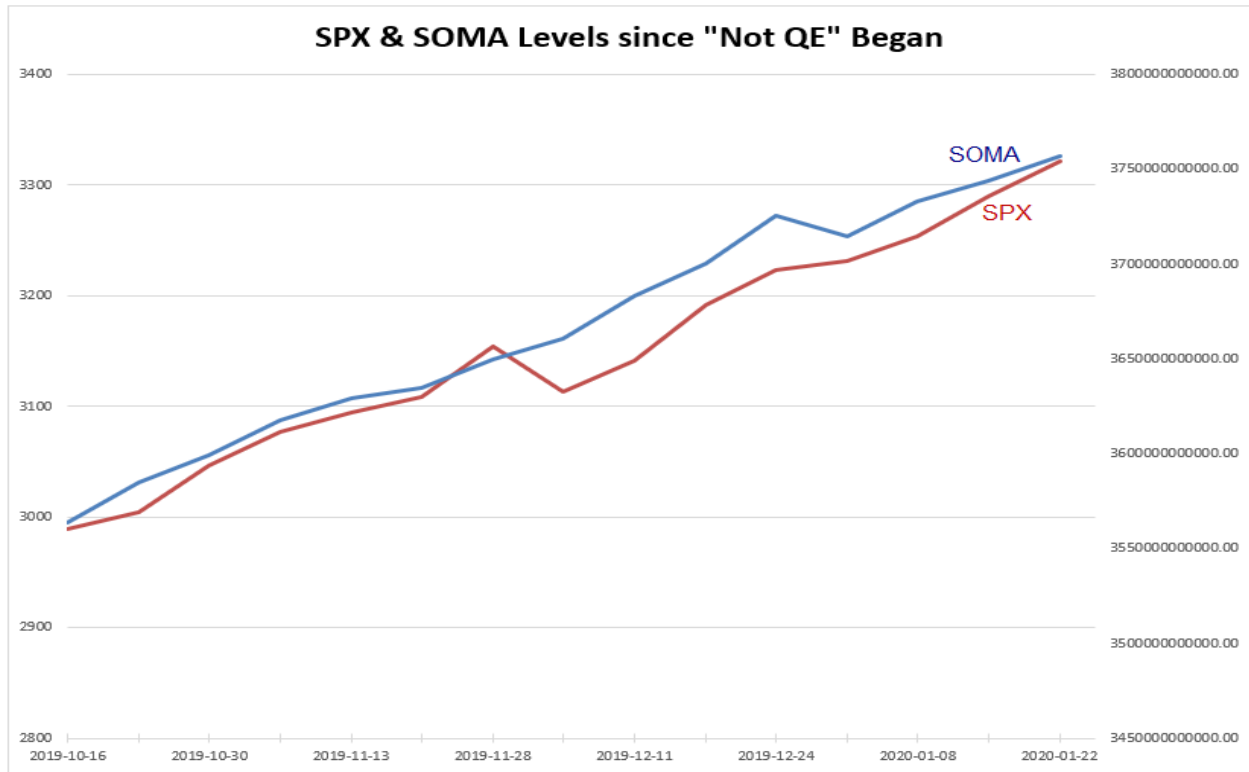
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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. In October 2019 a new Fed policy, nicknamed “not QE” was put in place and it has generated further SOMA expansion.



And here is a zoomed in version since “not QE” began in October.



Note that the charts above look at performance on a Wednesday to Wednesday basis in order to match up with the SOMA reporting dates. The table below is from the Fed's website and shows the SOMA changes this past week.

« As of 01/15/2020

DOMESTIC SECURITIES HOLDINGS AS OF  
**January 22, 2020**

Summary		T-Bills	T-Notes and T-Bonds	FRN	TIPS	Agencies
Security Type	Total (in Thousands)					
US Treasury Bills (T-Bills)	210,031,000.0					
US Treasury Notes and Bonds (Notes/Bonds)	1,999,707,783.6					
US Treasury Floating Rate Notes (FRN)	17,809,716.4					
US Treasury Inflation-Protected Securities (TIPS)*	128,005,432.7					
Federal Agency Securities**	2,347,000.0					
Agency Mortgage-Backed Securities***	1,398,642,265.5					
<b>Total SOMA Holdings</b>	<b>3,756,543,198.2</b>					
<b>Change From Prior Week</b>	<b>12,728,764.3</b>					

\*Does not reflect inflation compensation of 25,466,566.8  
 \*\*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 01/23/2020 4:30pm.

The SOMA rose over \$12.7 billion this past week. That is a substantial amount, but a little below average since “not QE” began 14 weeks ago. And since “not QE” has been in effect, SPX has closed higher 13 of those 14 weeks and gained over 11.1% in total. Like past QE policies, “not QE” certainly seems to be favorable for the market. Betting against the market when there is a substantial SOMA expansion underway has never been a good idea.

I will note that my colleague Tom McClellan ([https://www.mcoscillator.com/market\\_reports/](https://www.mcoscillator.com/market_reports/)) wrote a very interesting piece in his subscriber letter on Thursday night that discussed the fact that the Fed may be pulling back the amount of their overnight repo holdings. And similar to overall SOMA movement, this kind of action has led to trouble in the past. The Fed has a meeting this week on Tuesday and Wednesday, so I’ll be carefully looking for policy change announcements. If “not QE” is going to be wound down, the reduced liquidity could create a problem for the market.

At this point, the intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ are at all-time highs. Momentum is strong as shown in a few recent studies. Both the Best 6 Months and the Presidential Cycle are bullish. This leaves all 4 Market Timing Course indicators again bullish. And the recent SOMA expansion seems to be having the same type of positive market impact that past SOMA expansions did. Of course with the Fed meeting this week, I’ll be on the lookout for any changes there. Overall, the bullish case still seems substantially stronger. I remain bullish on the intermediate-term. I will therefore keep a generally 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***

OXY – 1/3 @ \$43.29 (bought at limit)

OXY – 1/3 @ \$42.52 (bought at limit)

**New**

OXY – 1/3 @ \$42.22 (buy at limit)

AGN – 1/3 @ \$188.19 (buy at limit)

***Broad Market Large Cap CBI – 4(OXY-3, AGN)***

## **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.

**SPY – Buy ¼ index position @ \$328.00 LIMIT ON OPEN. If not filled on open, cancel order and look to buy at \$328.75 LIMIT ON CLOSE.** From the short-term section above. I'll be looking to start scaling into a long index position if there is a sizable gap down or a modest close lower on Monday.

**OXY – Buy 1/3 Catapult position @ \$42.22 LIMIT.** From the Catapult section above, this is the 3<sup>rd</sup> and final lot of OXY.

**AGN – Buy 1/3 Catapult position @ \$188.19 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots of AGN.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
OXY(1/3)	1/23/2020	\$42.62	\$42.22	-0.94%		Catapult
OXY(1/3)	1/24/2020	\$42.47	\$42.22	-0.59%		Catapult

*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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