

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2020

Volume 13 Issue 26

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## Tonight's Research Points

- The SOMA had another big expansion week, and the market continues to like that.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I.

**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>						
February 6, 2020	SPY unfilled gap to fresh breakout	1-5 days	Bullish	1.40%	-0.90%	-1.90%
February 6, 2020	2 unfilled up gaps and 50-day high	1-3 days	Bullish	0.80%	-0.60%	-1.15%
February 5, 2020	SPY 2 unfilled gaps up from 20-low	1-7 days	Bullish	2.00%	-0.90%	-1.70%
February 3, 2020	SPX down 1.5% twice in a week. 10-low	1-7 days	Bullish			
February 3, 2020	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish			
<b>Active - Long Term</b>						
February 3, 2020	Hindenburg cluster 4+ (triggered Feb 3)	1-35 days	Bearish			
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>						
February 6, 2020	NASDAQ 3:2 Adv/Decl 3 days in row	1 day	Bearish			
January 31, 2020	Higher high dn close, lower low up close	1-5 days	Bullish			
January 28, 2020	1st 10-low in 30 days	1-8 days	Bullish			
January 27, 2020	1st close < 10ma in over 25 days	1-9 days	Bullish	2.65%	-0.85%	-1.80%

**The Evidence**

Thursday was mixed but mostly positive. The SPX rose 0.3%, the NASDAQ climbed 0.7% and the Russell 2000 lost 0.3%. Breadth was negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 47%. NYSE volume declined some from Wednesday's level.

SPX and NASDAQ again closed at new highs. This rally does not seem to have any quit in it. But neither does the liquidity being pumped in from the Fed. Thursday they released the latest SOMA changes (through Wednesday). The screenshot below is from the Fed's website.

« As of 01/29/2020

DOMESTIC SECURITIES HOLDINGS AS OF

**February 5, 2020** 📅

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

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	247,536,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,010,458,871.2
US Treasury Floating Rate Notes (FRN)	15,015,998.3
US Treasury Inflation-Protected Securities (TIPS)*	129,451,063.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,387,289,002.3
Total SOMA Holdings	3,792,097,935.0
Change From Prior Week	18,803,000.0

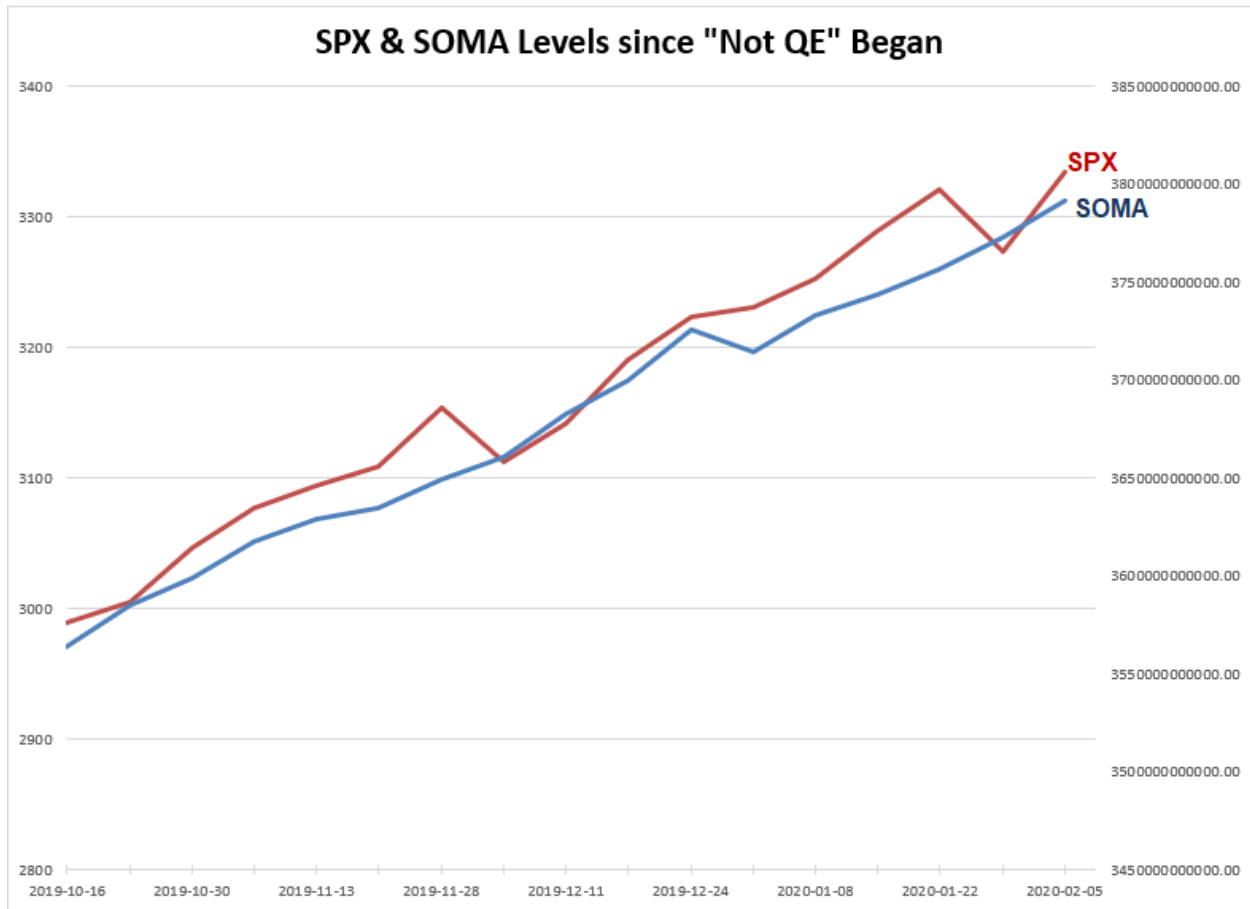
\*Does not reflect inflation compensation of 25,418,062.5

\*\*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.

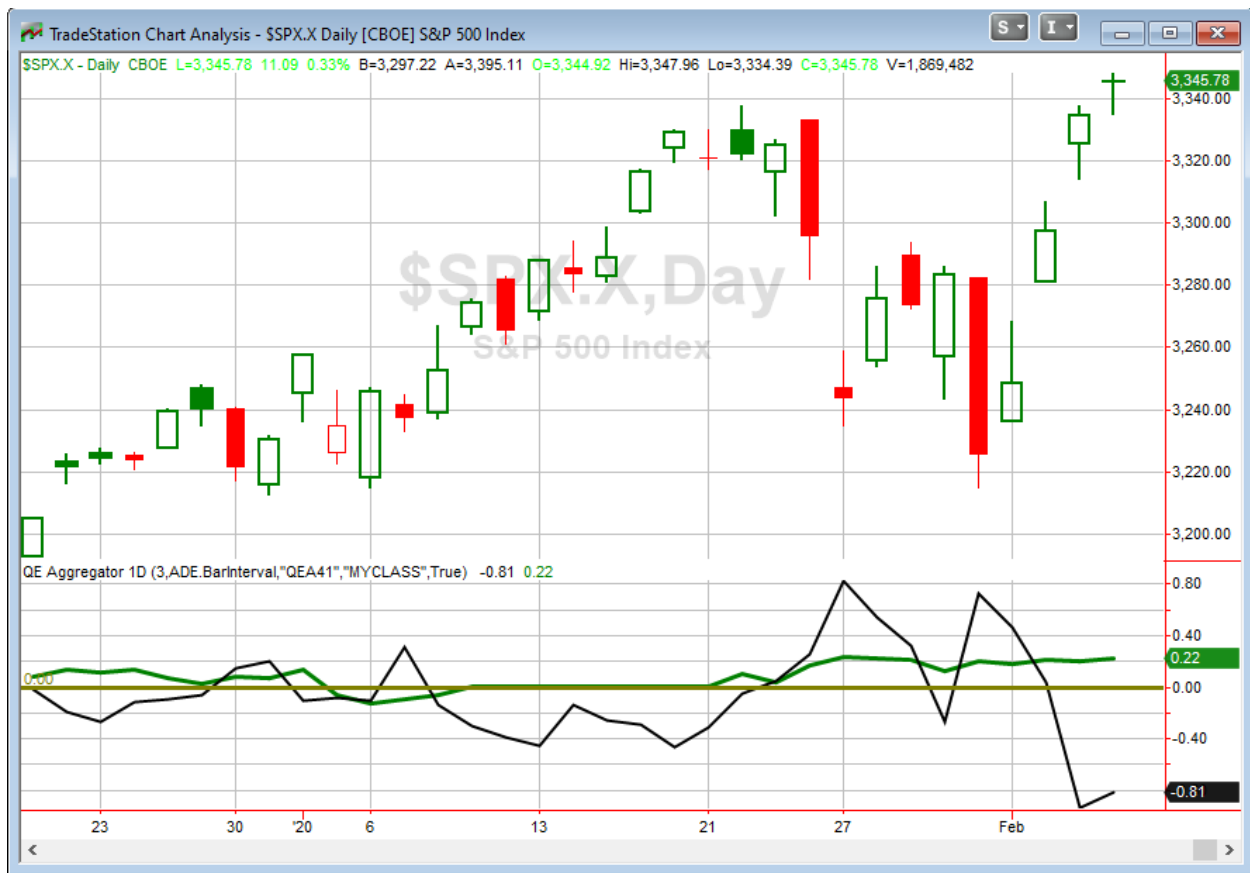
Data posted on 02/06/2020 4:30pm.

The \$18.8 billion increase this past week is the largest since the week before Christmas. Below is an updated chart showing both the SPX and the Fed's SOMA balance since "Not QE" began in October.



That rise in the SPX (red line) is 11.5%. As I normally do, I'll discuss the SOMA in more detail in the weekend letter. But the point is obvious. The market is loving the liquidity, and it is probably not a good idea to make strong bets against it. I look at an awful lot of indicators and studies here at Quantifiable Edges. But there is a reason I have tracked and shown the SOMA consistently every weekend for the last 8 years or so. And that's because it has continuously demonstrated a strong impact on price movement over the short to intermediate-term. There is very little chance I will be looking to take short index trades as long as the SOMA is expanding at the rate it has been during "not QE".

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



Without any new studies being added tonight, 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 is still well 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain bullish on Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be 3264.64 on Friday. That is 0.85% below Thursday's close. So SPX would need to close over 0.85% lower on Friday in order to flip from overbought to oversold vs recent expectations.

The Aggregator is again neutral and I am too. While the market is overbought, I am not seeing evidence that a dip is a high probability. More upside is certainly possible. But since the market is so overbought, risk is elevated for longs. So I will remain sidelined and patient, awaiting the next favorable reward/risk opportunity.

### ***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/3 – bullish***

The intermediate-term outlook was last updated in the 2/3/20 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***OpenCatapult Triggers***

COP – 1/3 @ \$56.49 (buy at limit) – not filled / cancel for now

### ***Broad Market Large Cap CBI – 1(COP)***

### **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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>DD(1/3)</i>	<i>2/3/2020</i>	<i>\$51.18</i>	<i>\$54.50</i>	<i>6.49%</i>		<i>sold on open</i>
<i>BKNG(1/3)</i>	<i>2/3/2020</i>	<i>\$1,830.55</i>	<i>\$1,958.90</i>	<i>7.01%</i>		<i>sold on open</i>

*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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