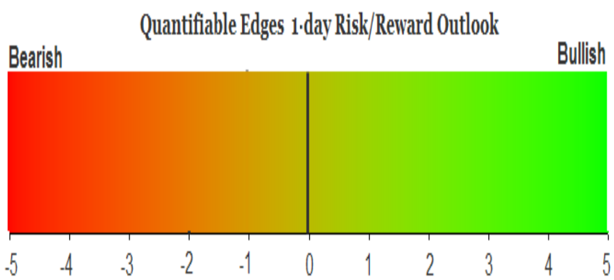
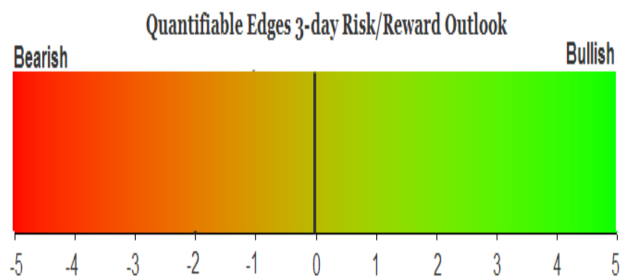
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 10, 2020 Volume 13 Issue 27

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- No new compelling short-term studies emerged on Friday.
- 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

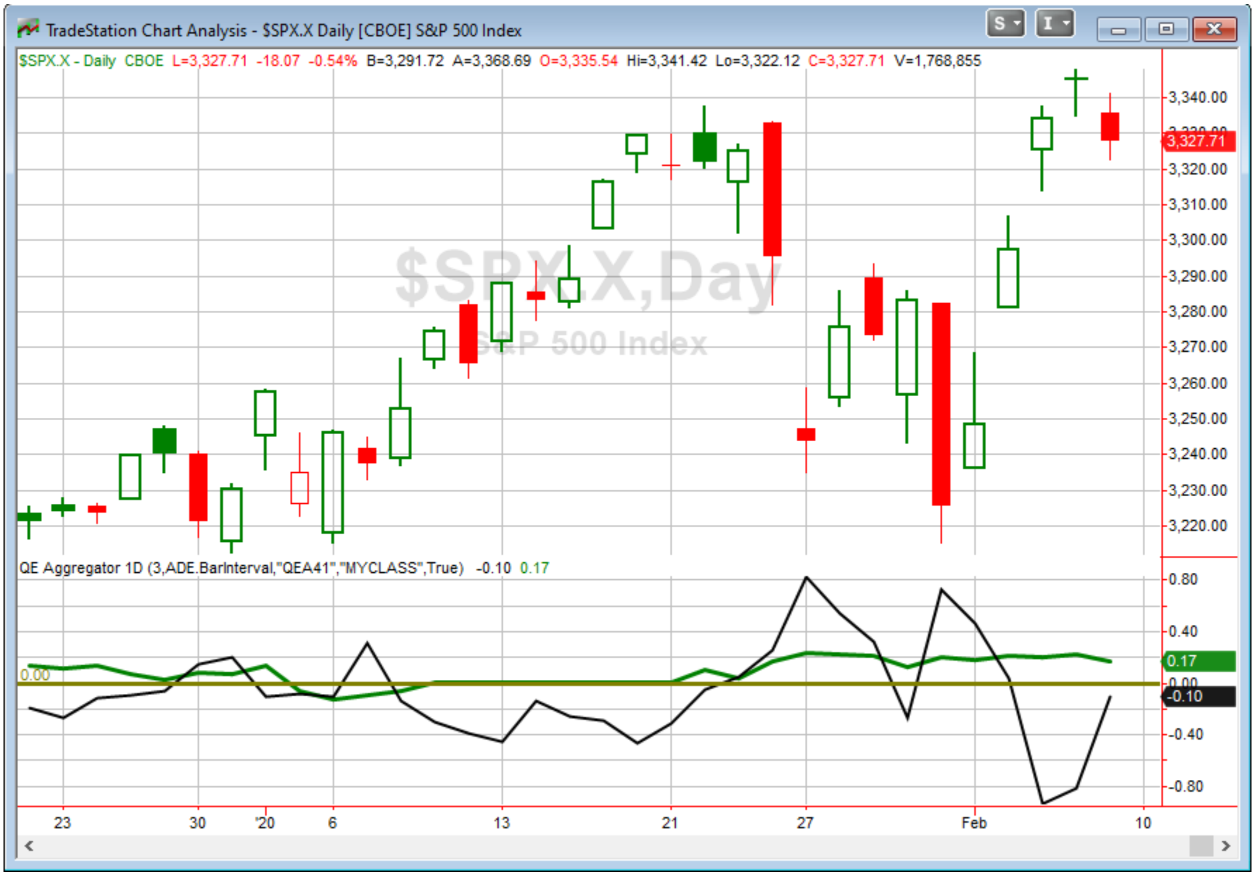
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 6, 2020	SPY unfilled gap to fresh breakout	1-5 days	Bullish	1.40%	-0.90%	-1.90%
February 6, 2020	2 unfilled up gaps and 50-day high	1-3 days	Bullish	0.80%	-0.60%	-1.15%
February 5, 2020	SPY 2 unfilled gaps up from 20-low	1-7 days	Bullish	2.00%	-0.90%	-1.70%
Active - Long Term						
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			
Dropped Having Met Target						
February 3, 2020	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish			
February 3, 2020	SPX down 1.5% twice in a week. 10-low	1-7 days	Bullish			

The Evidence

Friday was a rare down day for the market. The SPX lost 0.5%, the NASDAQ declined 0.5% and the Russell 2000 dropped 1.2%. Breadth was also negative as the NYSE Up Issues % was 36% and the Up Volume % came in at 30%. NYSE volume declined some for the 2nd day in a row.

Friday was the only down day of the week for the SPX and NASDAQ, and it was the 1st day down from their all-time closing highs. Often, there is not much of an edge that emerges after just 1 down day from a rally high. And I am not seeing any substantial edge based on Friday's action. The Quantifinder came up blank, which is fairly rare, but not surprising under these circumstances. So I am going to keep the letter unusually short, especially for a weekend. I am sure action will get more interesting soon. It always does.

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 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 Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *highly inverted at* 3354.54 on Monday. That is 0.8% *above* Friday's close. An inverted Differential Pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.8% on Monday in order to remain "overbought". Anything less than that and it will be considered "oversold" vs expectations as of Monday close.

The Aggregator is again neutral and I am too. The market is overbought, but there is a lack of any evidence suggesting a compelling downside edge. So I will again wait for a more favorable reward/risk setup to emerge before looking to take on new index positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/10 – 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.*

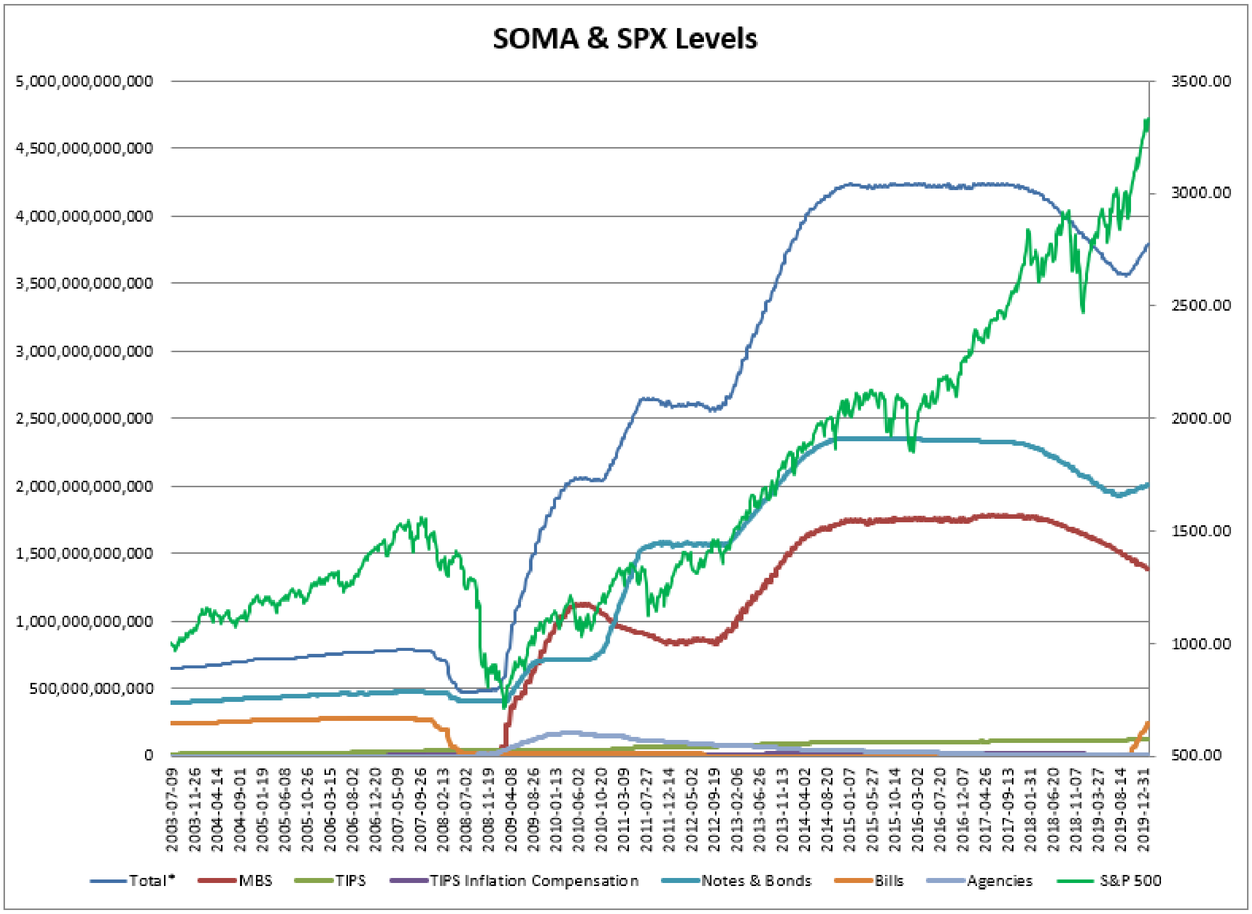
Despite Friday's decline, this past week was a very strong one for the market. The SPX rose 3.2% on the week, the NASDAQ rallied 4.0%, and the Russell 2000 gained 2.6%. SPX and NASDAQ posted all-time highs on Thursday. So any doubt about the long-term trend has been erased for the time being.

In last weekend's letter I showed detailed research about Hindenburg Omen signals. The bottom line is that it suggests a split market condition that has often led pullback of some degree in the next month and a half or so. The 4th Hindenburg Omen signal triggered on Monday, so I have now listed the Hindenburg cluster on the intermediate-term active list as a potentially bearish study. I won't repeat all the research here, but you may refer to last weekend's letter if you wish to review it.

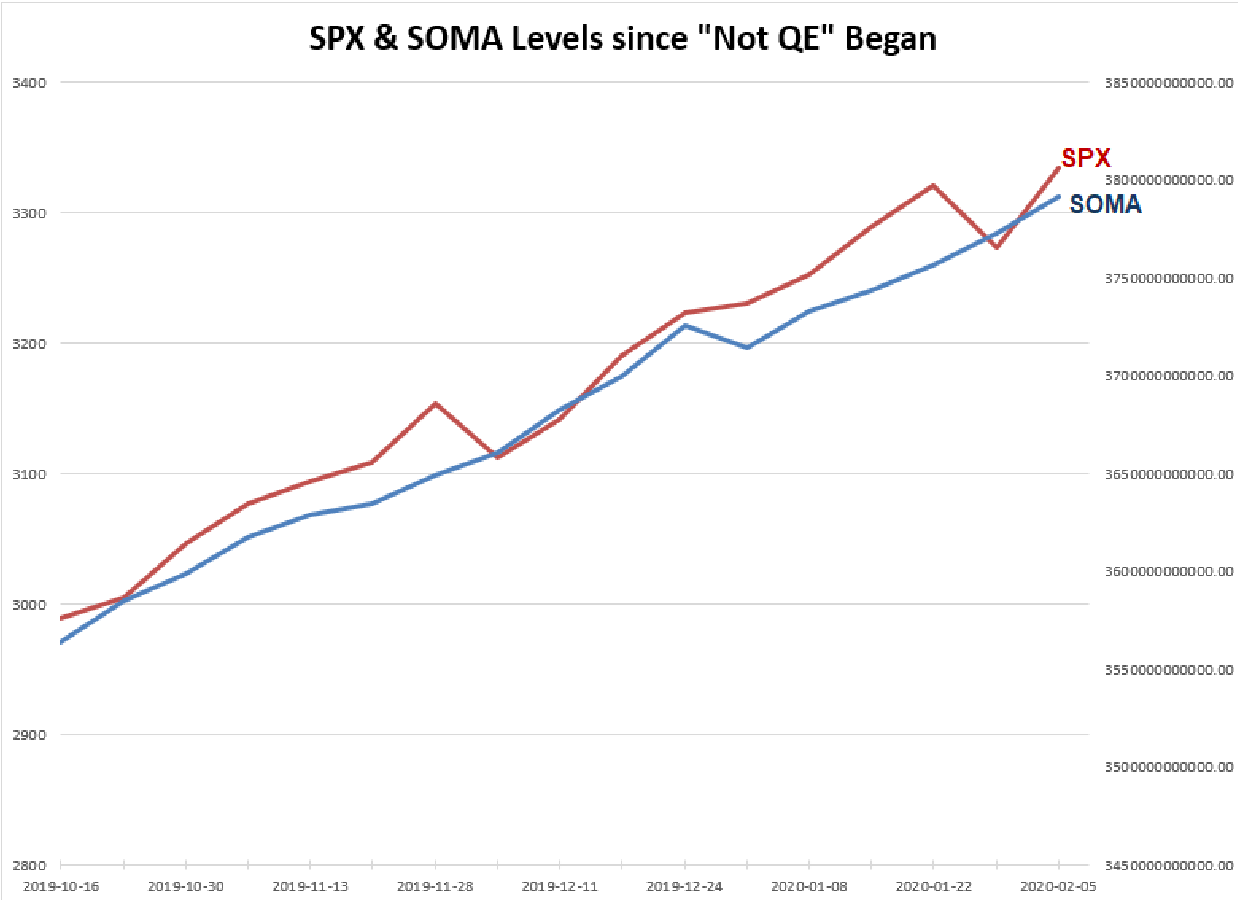
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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.



The table below is from the Fed's website and shows the SOMA changes this past week.

« 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 SOMA rose over $18.8 billion this past week. That is a substantial amount, and above average since “not QE” began 15 weeks ago. And since “not QE” has been in effect, SPX has closed higher 13 of those 15 weeks and gained 11.5% 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. And the Fed seems to be intent on letting “not QE” run for a bit longer.

The intermediate-term active list is still dominated by bullish studies. The SPX & NASDAQ again made new highs this past week, and a couple of studies listed from January suggest the momentum is likely to continue. 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. The Hindenburg Omen signals are providing a bit of a warning that a split market could be emerging that is susceptible to a deeper pullback. 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
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
None

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.