

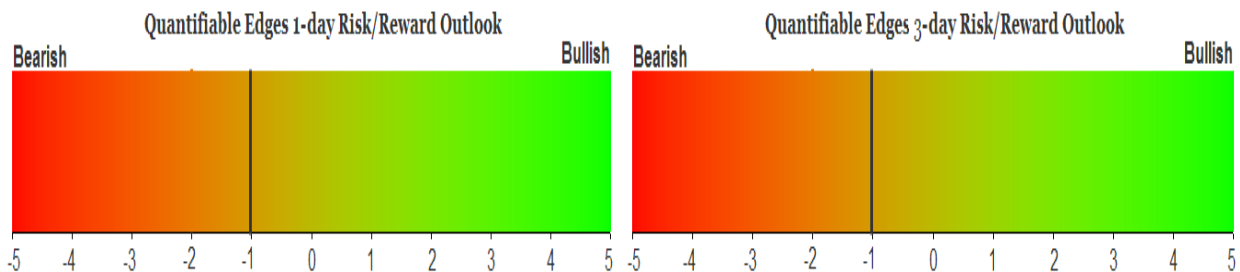
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 18, 2020

Volume 13 Issue 32

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- "not QE" is continuing to flood the system with liquidity, and the market continues to thrive.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but the setup appears both weak and tenuous. I am more neutral than bearish.

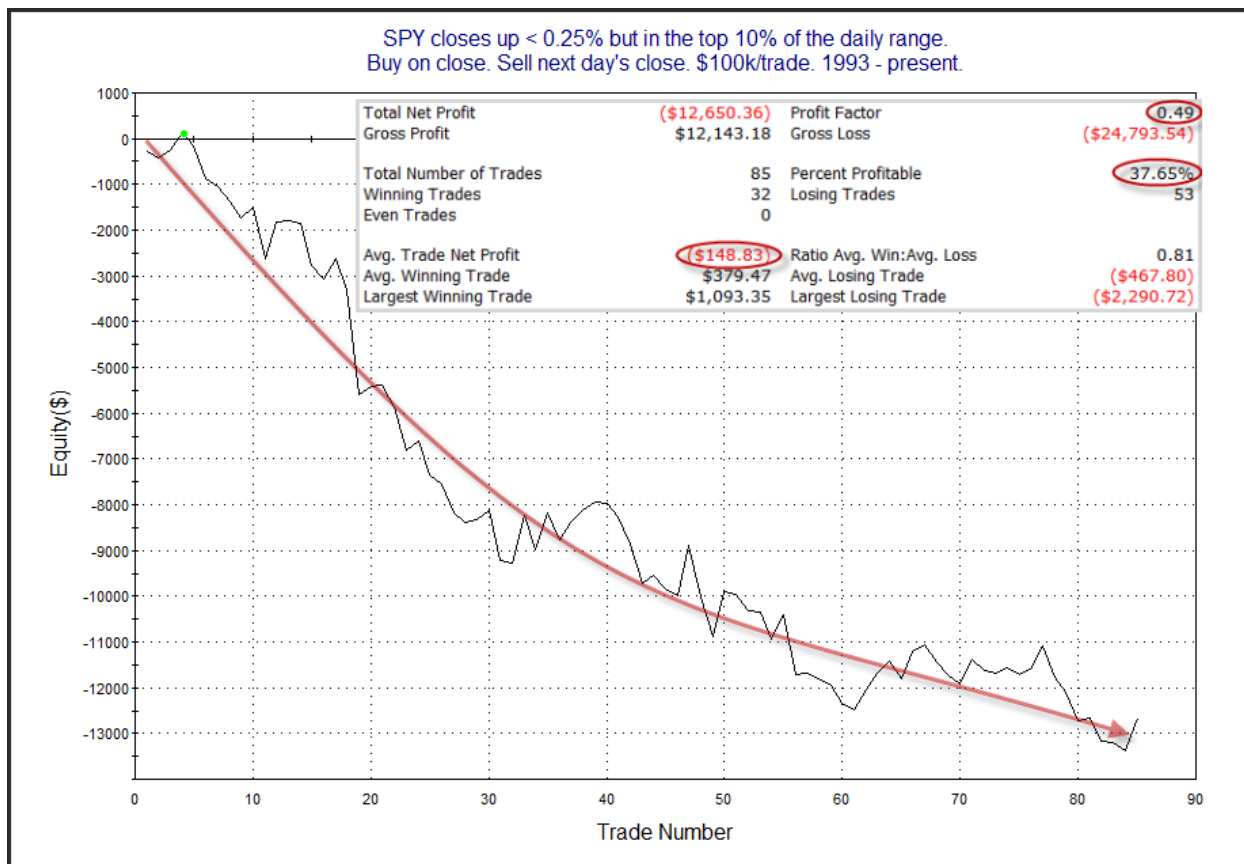
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
February 18, 2020	SPY up < 0.25%. Top 10% intraday rng	1 day	Bearish			
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			

The Evidence

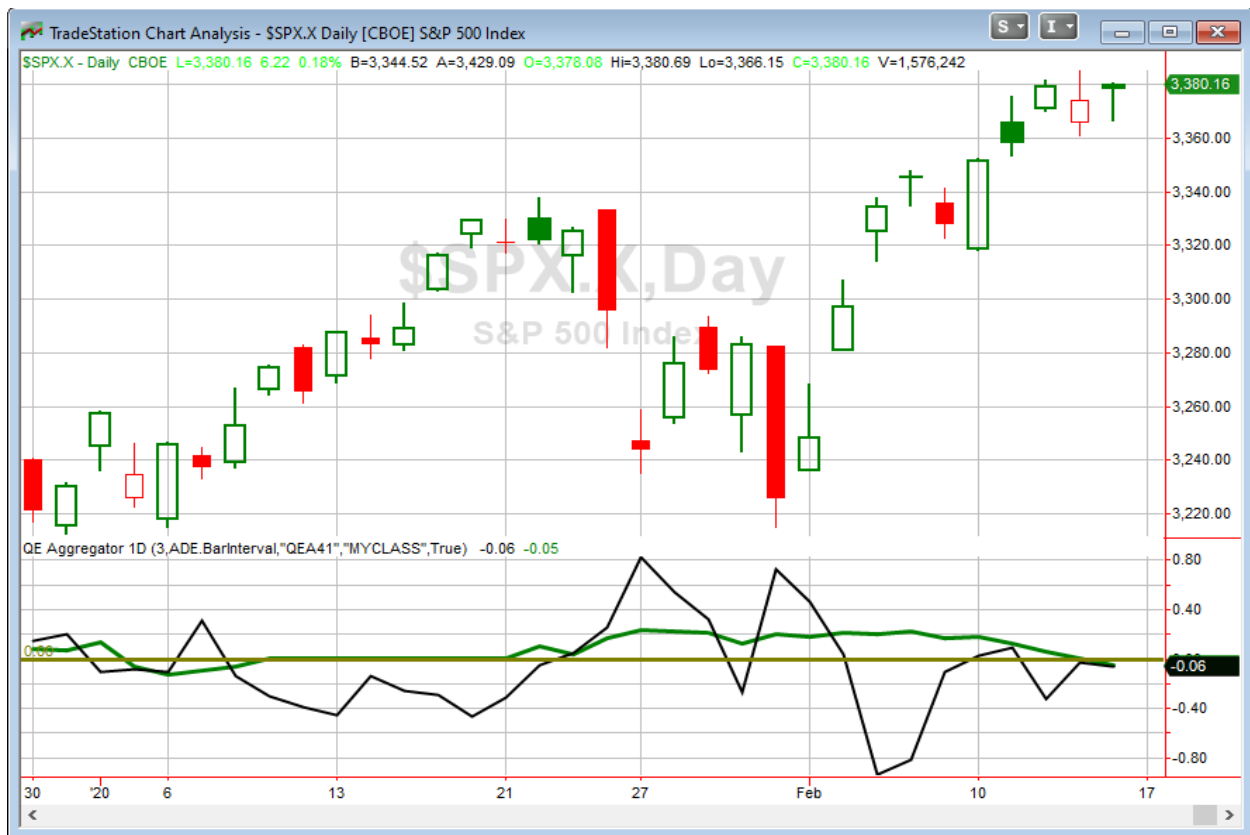
Friday saw mixed results, but the SPX and NASDAQ both closed at all-time highs. The SPX finished up 0.18%, the NASDAQ rose 0.20% and the Russell 2000 lost 0.36%. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 41%. NYSE volume rose some from Thursday's level.

Action did not trigger much compelling evidence from the Quantifinder. But the study below is interesting. It 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 11/15/19 letter. I have updated the stats and the profit curve.



The last instance did not work out, but 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. I have added this study to the Active List tonight.

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



With tonight's study considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

With today's bearish study set to expire after Tuesday, expectations are currently slated to swing back to slightly bullish. Of course, expectations over the next few days will be greatly impacted by any new evidence that emerges. Meanwhile, the Differential Pivot will be *inverted at 3392.12* on Tuesday. That is *0.35% above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX needs to close up over 0.35% on Tuesday to remain "overbought". Anything less than that will cause it to flip to "oversold" vs expectations as of Tuesday's close.

So the Aggregator is bearish, but that is as weak and tenuous of a bearish formation as you are going to see. A flat close and no new evidence emerging on Tuesday would see the Aggregator flip to bullish. From an index trading standpoint, this is not the kind of setup that gets me excited – especially so when the intermediate-term outlook is bullish. So I will continue to exercise patience and wait for a more compelling short-term setup to emerge.

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

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

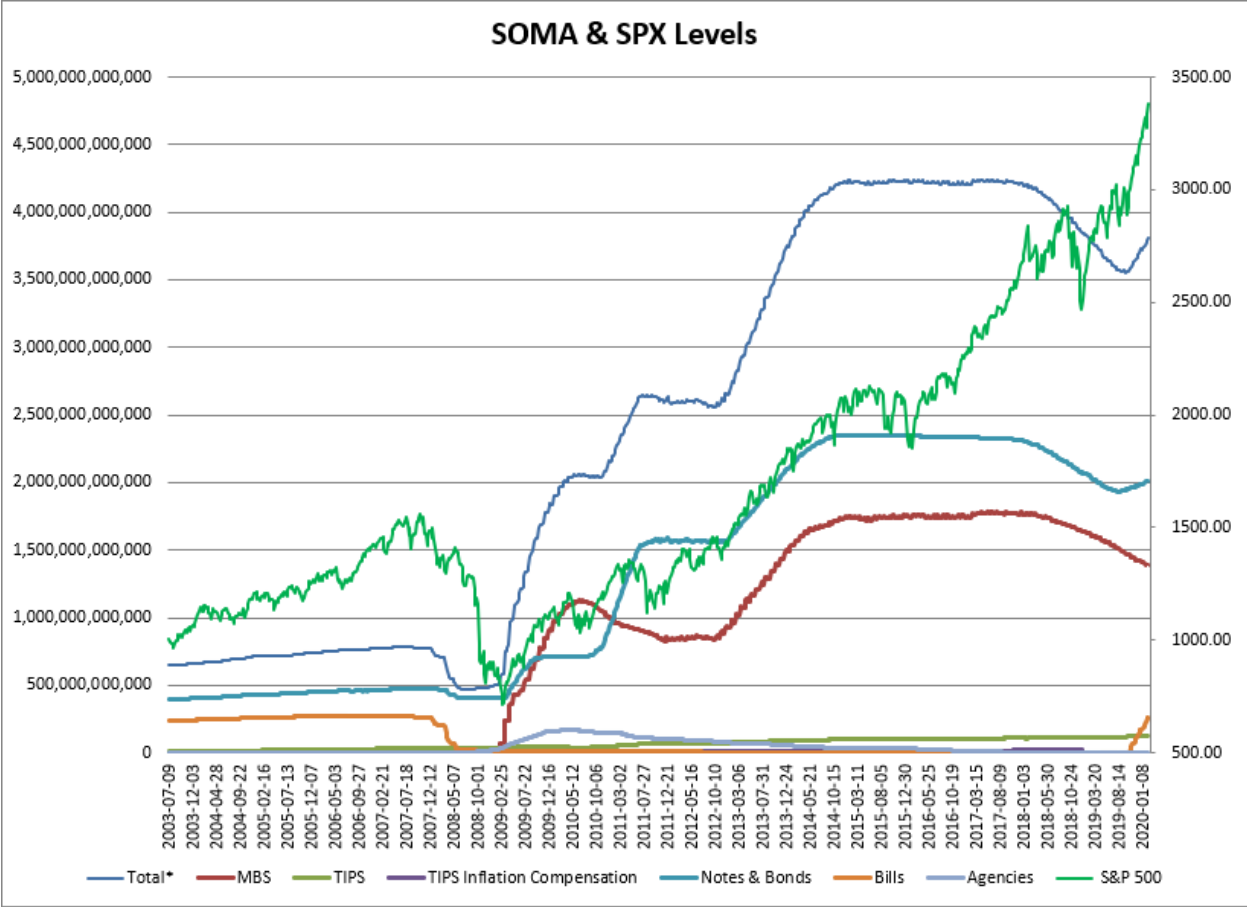
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week saw the rally continue. The SPX rose 1.6% on the week, the NASDAQ rallied 2.2%, and the Russell 2000 gained 1.9%. SPX and NASDAQ closed at all-time highs again on Friday. So any doubt about the long-term uptrend clearly remains intact. There were no new studies with intermediate-term implications that emerged this past week.

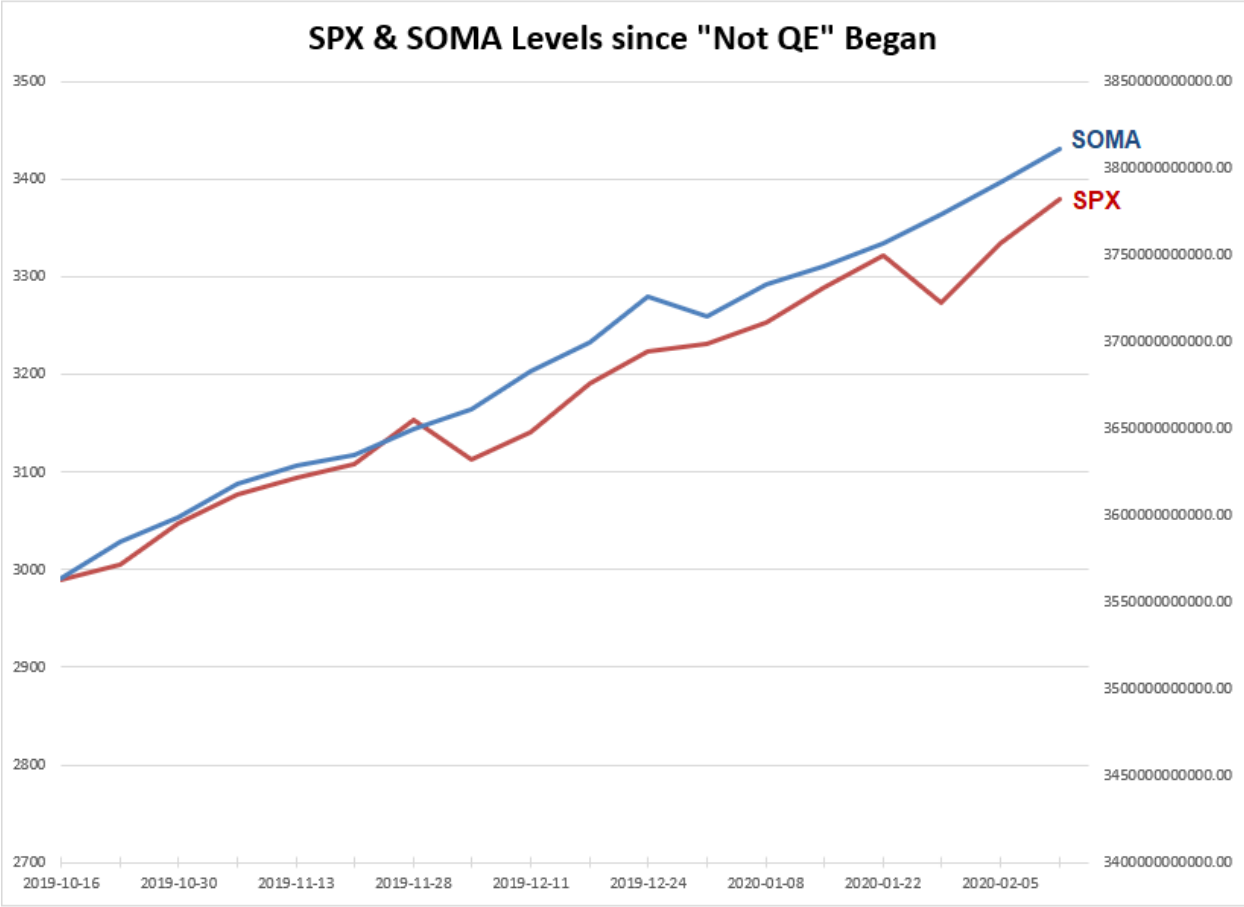
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 02/05/2020

DOMESTIC SECURITIES HOLDINGS AS OF
February 12, 2020 📅

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

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	258,038,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,012,659,871.2
US Treasury Floating Rate Notes (FRN)	15,416,998.3
US Treasury Inflation-Protected Securities (TIPS)*	131,052,063.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,391,525,788.3
Total SOMA Holdings	3,811,039,721.0
Change From Prior Week	18,941,786.0

*Does not reflect inflation compensation of 25,453,877.3

**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 02/13/2020 4:30pm.

The SOMA rose over \$18.9 billion this past week. That is a substantial amount, and above average since “not QE” began 16 weeks ago. And since “not QE” has been in effect, SPX has closed higher 14 of those 16 weeks and gained 13% 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 become troublesome. 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

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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