

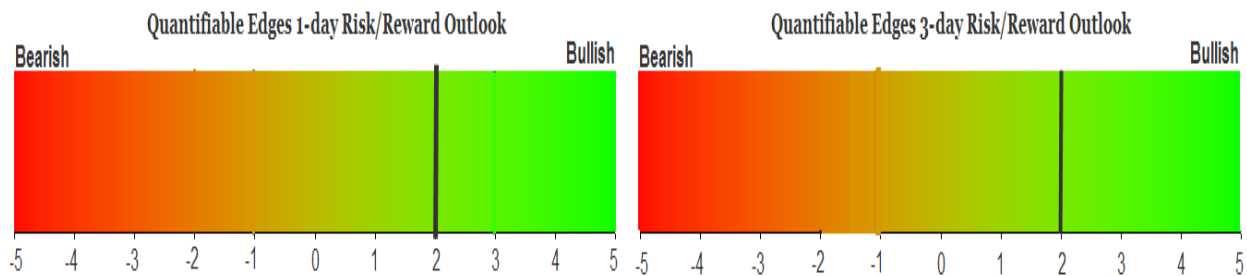
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 24, 2020

Volume 13 Issue 36

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.
- The SOMA expansion continued this past week.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is a moderate upside edge.

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 24, 2020	Gap < 5-low. Close < open.	1-2 days	Bullish			
Active - Long Term						
February 3, 2020	Hindenburg cluster 4+ (triggered Feb 3)	1-35 days	Bearish			
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 a good amount of selling. The SPX closed down 1.05%, the NASDAQ lost 1.8% and the Russell 2000 dropped 1.0%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 29%. NYSE volume rose as it typically does on opex Friday.

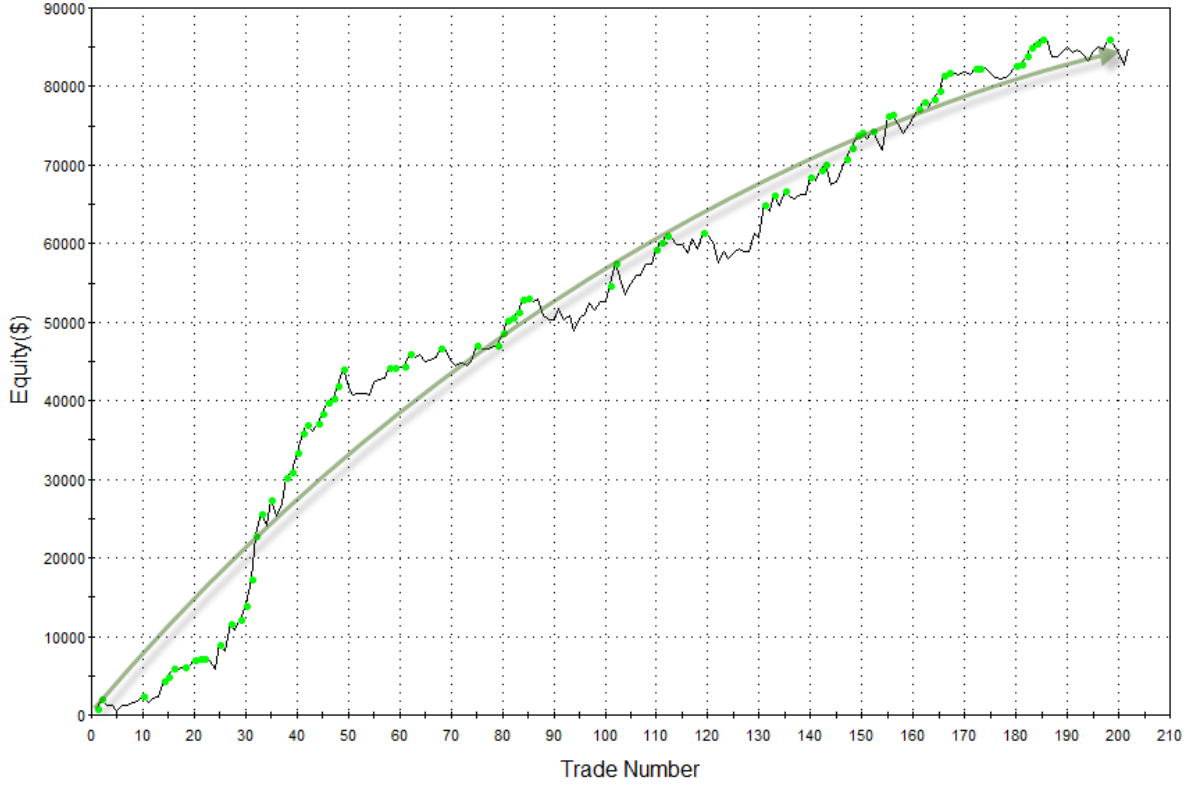
The selloff triggered a few studies with mildly bullish implications. But evidence at this point is still not strongly compelling. The study below is perhaps the most compelling that appeared. It was last seen in the 5/24/19 letter. Stats and curves are updated.

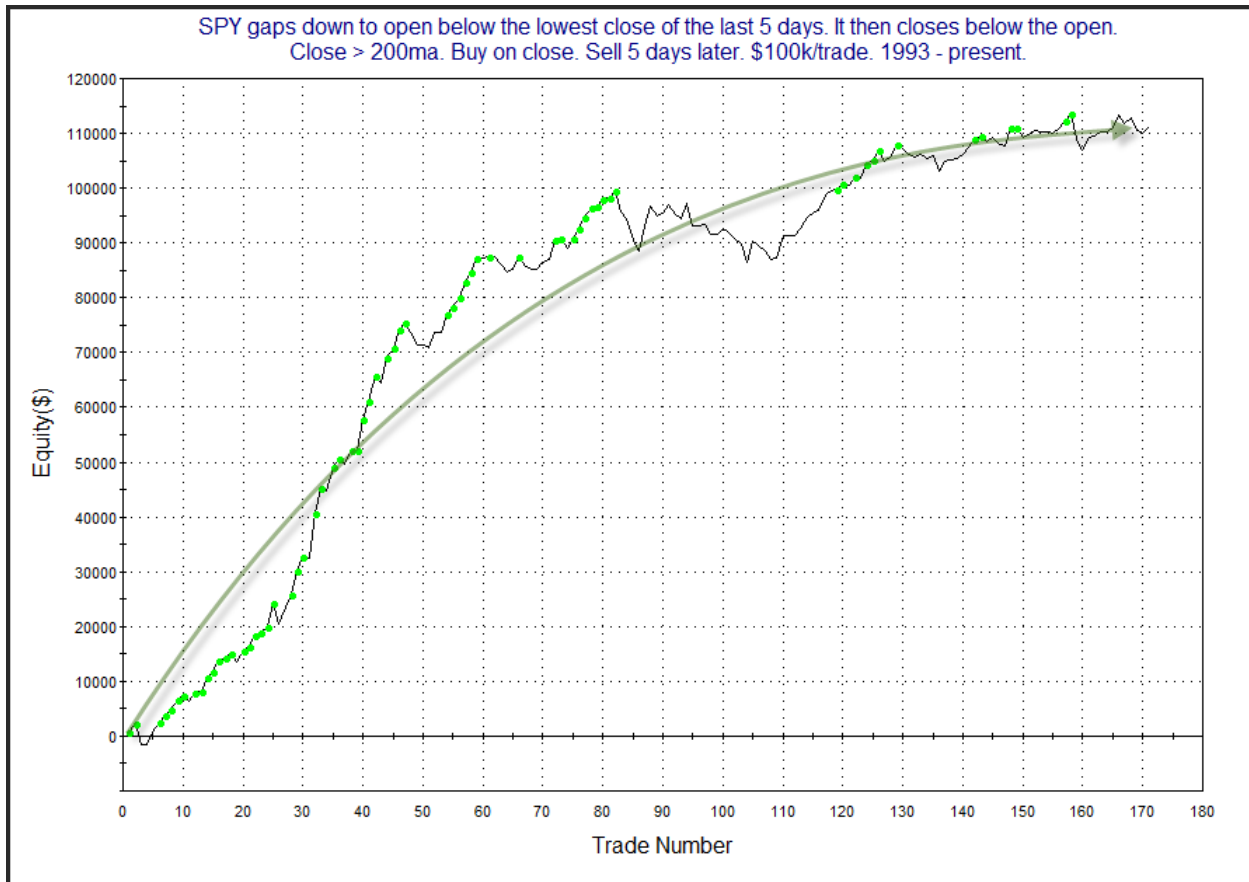
SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	138,996.53	150	97	53	64.67	9,282.24	-14,007.15	2,587.48	-2,113.01	1.22	2.24	926.64
9	145,612.40	158	103	55	65.19	7,585.77	-10,036.80	2,490.63	-2,016.77	1.23	2.31	921.60
8	136,073.88	160	109	50	68.13	7,858.26	-14,030.10	2,241.14	-2,164.22	1.04	2.26	850.46
7	115,347.91	167	108	59	64.67	8,324.13	-8,542.02	2,032.20	-1,764.91	1.15	2.11	690.71
6	120,543.61	170	115	55	67.65	7,873.02	-7,910.10	1,840.89	-1,657.43	1.11	2.32	709.08
5	111,209.23	171	114	56	66.67	8,239.74	-4,471.02	1,673.59	-1,421.07	1.18	2.40	650.35
4	103,844.69	180	120	60	66.67	5,581.02	-6,311.82	1,597.36	-1,463.98	1.09	2.18	576.91
3	90,514.97	189	115	73	60.85	5,117.85	-4,085.40	1,500.98	-1,124.63	1.33	2.10	478.92
2	84,928.67	202	127	72	62.87	5,477.88	-2,614.66	1,160.25	-866.99	1.34	2.36	420.44
1	55,123.00	220	142	78	64.55	5,764.38	-4,181.76	807.76	-763.84	1.06	1.93	250.56

90.5% of instances closed above the entry price at some point in the next week.

You can see here a moderate upside edge suggested. Win/loss ratio, profit factor, and avg trade all look bullish. Below are the profit curves for the 2 and 5-day holding periods.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.
Close > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.





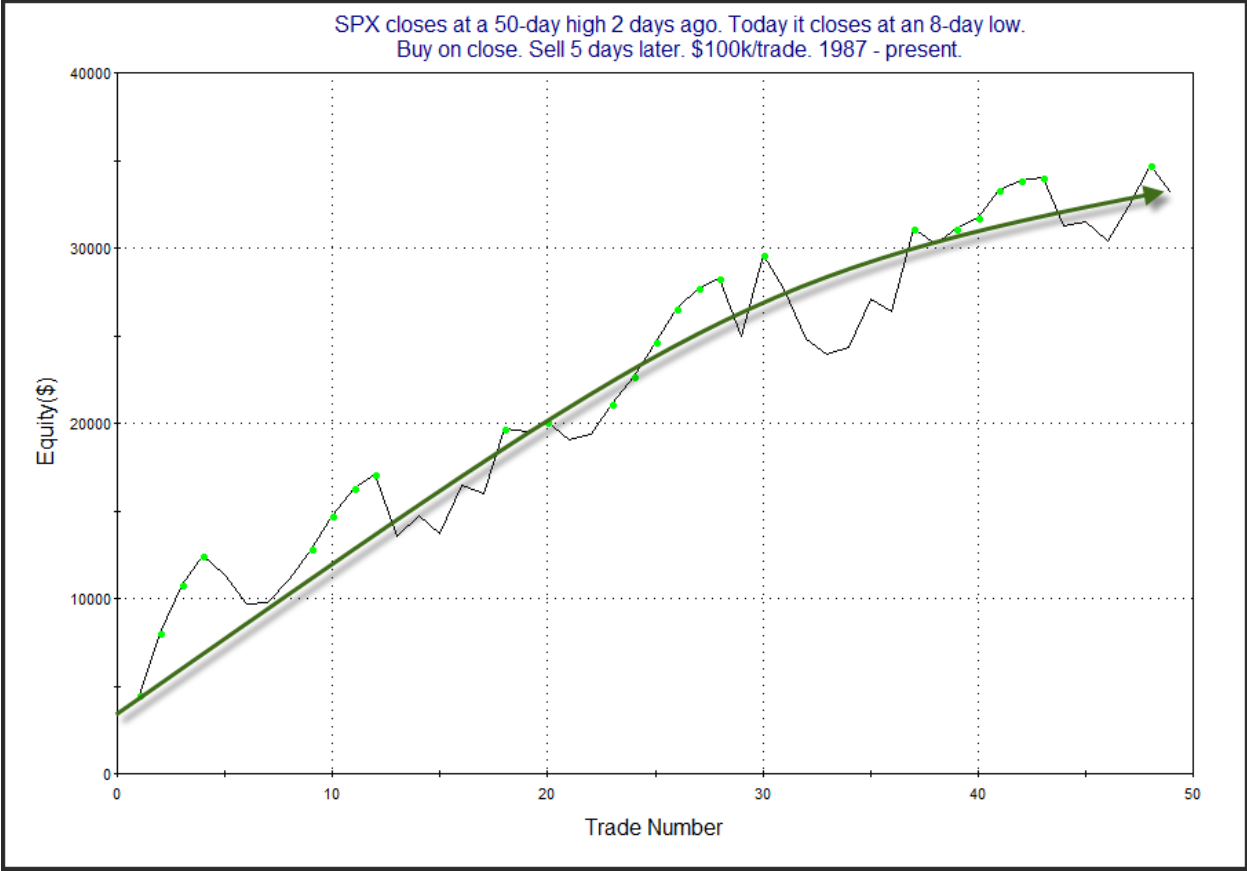
The 5-day curve appears to have flattened out a bit more. The 2-day curve still seems to be holding up better. I have decided to include this study on the Active List as a 2-day edge.

Another study that appeared looked at quick 2-day moves from 50-day highs to 8-day lows. It was last seen in the 5/3/19 letter. Below are updated results.

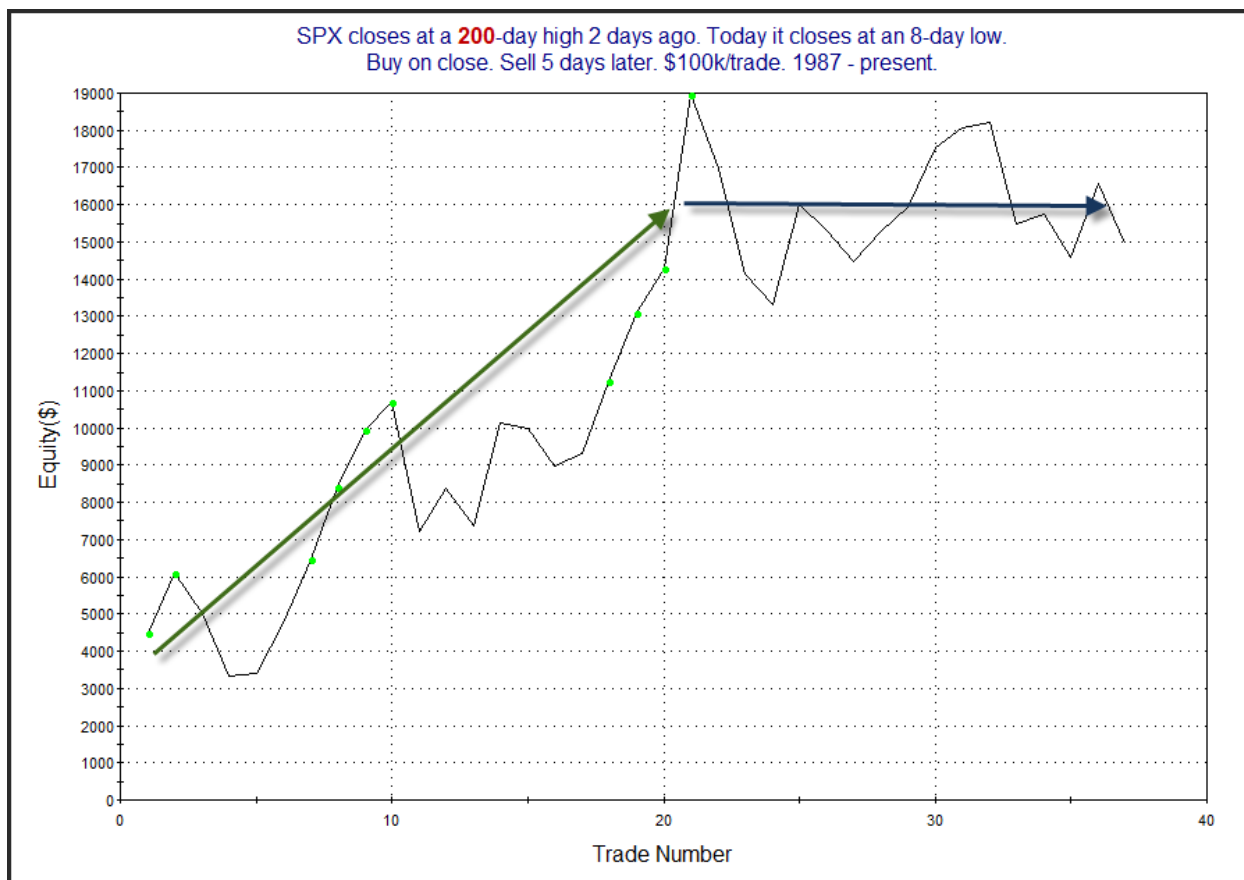
SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low.
Buy on close. Sell X days later. \$100k/trade. 1987 - present.

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	33,161.31	49	33	16	67.35	4,726.48	-3,502.11	1,760.67	-1,558.79	1.13	2.33	676.76
4	31,064.92	49	33	16	67.35	4,732.80	-2,555.39	1,448.65	-1,046.28	1.38	2.86	633.98
3	10,710.98	49	29	20	59.18	2,985.55	-2,866.27	1,086.84	-1,040.37	1.04	1.51	218.59
2	6,728.04	49	28	21	57.14	3,515.34	-2,051.10	938.42	-930.84	1.01	1.34	137.31
1	10,887.58	51	31	20	60.78	2,002.36	-2,200.08	720.99	-573.16	1.26	1.95	213.48

Here again we see numbers suggesting a moderate upside edge. Below is a look at the 5-day profit curve.



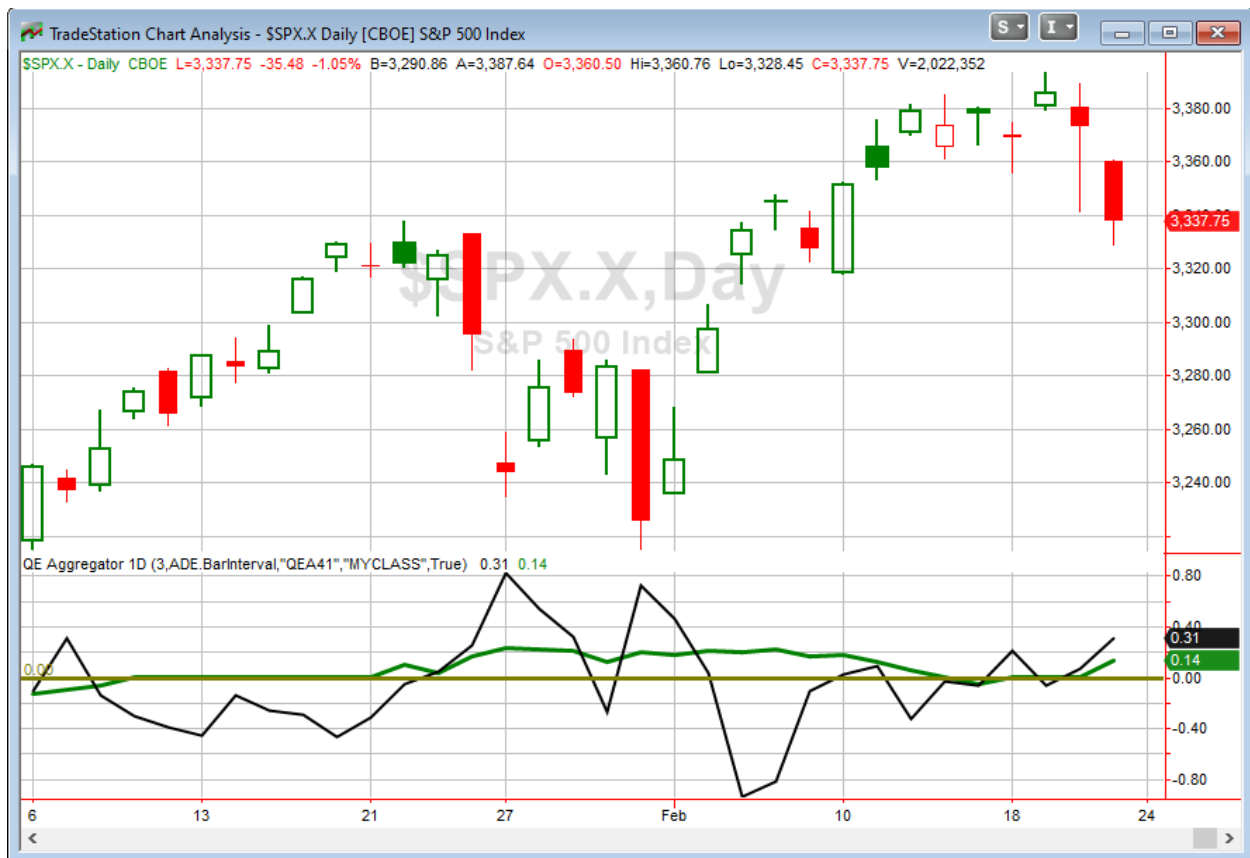
Despite the failure on the last instance, this curve still appears pretty good. But SPX is not just coming off a 50-day high. It is coming off an all-time high. So I decided to use the 200-day measure and see how results looked there. Here is the 5-day profit curve with a 200-day high required instead of a 50.



That is not nearly as impressive – and even a little alarming. Overall, I just don't think this 2-day drop scenario is showing enough strength to make it compelling. Therefore, I decided to leave it off the active list tonight.

There were a few other studies I looked at as well that exhibited questionable edges. In the end I determined that the overall edge at this point just is not that strong. Representing it on the Active List with just the top study I showed is probably the right thing to do. So that is the only study that got added tonight.

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



With tonight's new evidence to consider, 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 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 studies, expectations are set to remain bullish on Monday. Of course that can change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3384.35 on Monday. That is 1.4% above Friday's close. So SPX would need to close up a sizable 1.4% on Monday in order to flip from oversold to overbought versus expectations. That's an unlikely 1-day move. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is bullish and there appears to be a small upside edge. There is also ample room to the upside before SPX would turn overbought. So I am not yet ready to jump in with both feet, but I will look to take on a small amount of long index exposure if I can get a favorable fill on Monday. And if the market closes lower on Monday, I would expect to see some more compelling evidence appear, with both 3 down days and Turnaround Tuesday study possibilities emerging.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/24 – bullish

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

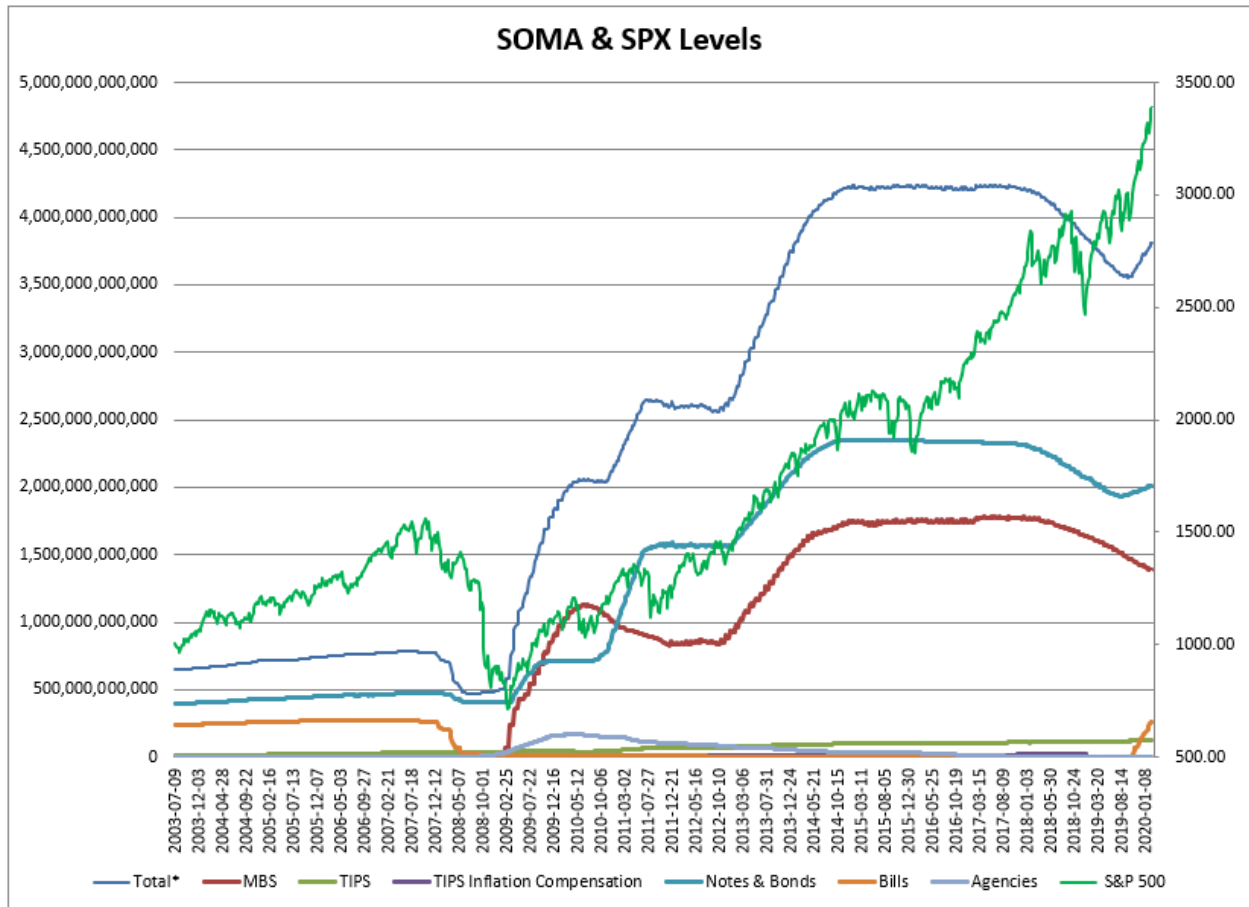
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 selling on Thursday and Friday made this a down week for the market. The SPX declined 1.1% on the week, the NASDAQ lost 1.8%, and the Russell 2000 fell 1.0%. SPX and NASDAQ did close at all-time highs on Wednesday before pulling back. So the long-term trend certainly still appears to be up. There were no new studies that emerged with intermediate-term implications.

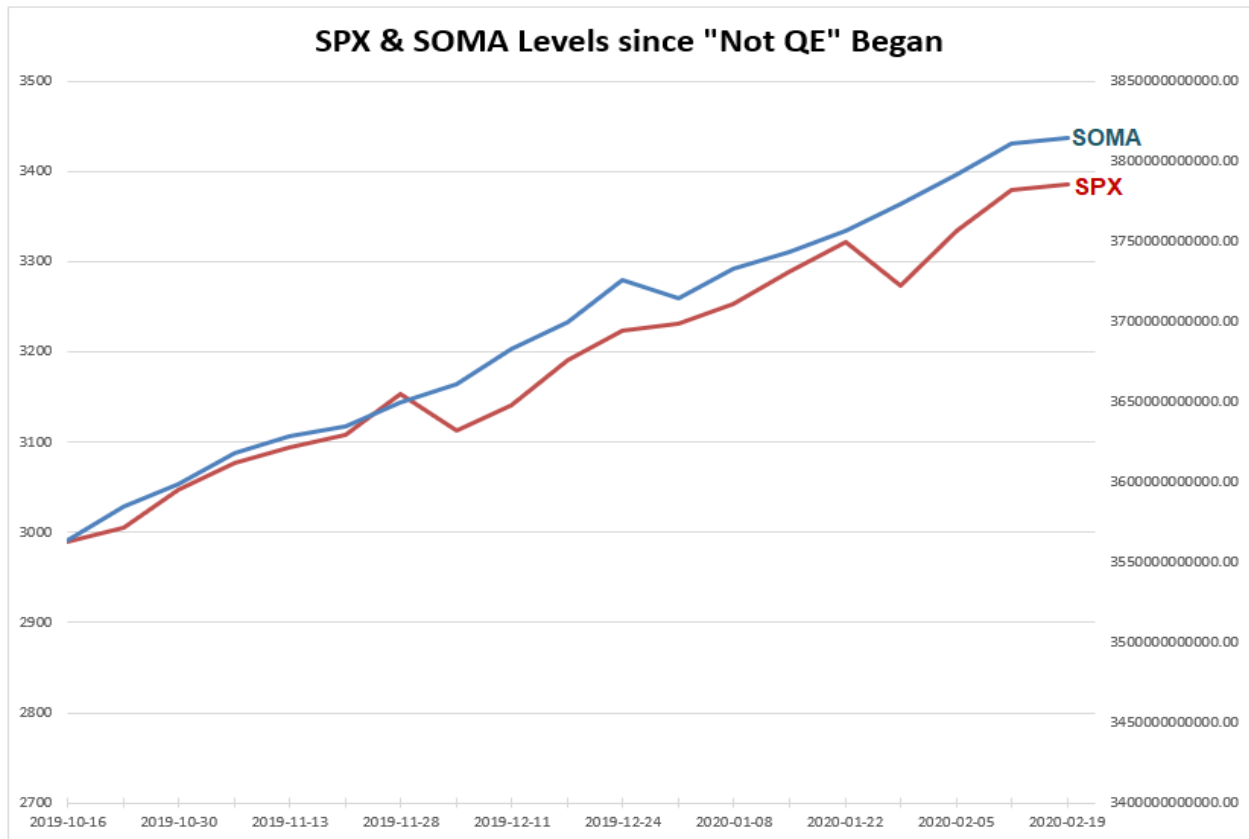
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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.



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

« As of 02/12/2020

DOMESTIC SECURITIES HOLDINGS AS OF
February 19, 2020 📅

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	265,539,000.0
US Treasury Notes and Bonds (Notes/Bonds)	2,014,260,871.2
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***	1,385,784,076.4
Total SOMA Holdings	3,814,400,009.1
Change From Prior Week	3,360,288.1

*Does not reflect inflation compensation of 25,419,436.3

**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 02/20/2020 4:30pm.

The \$3.4 billion rise in the SOMA this past week is quite small compared to what we have seen over the last few months. Other than the week of December 20th, where the SOMA actually declined, the \$3.4 billion increase was the smallest since “not QE” began at the beginning of October. Of course, it is coming on the heels of two large weeks, so there is a good chance this is just a reversion to the mean. But I’ll of course keep watch to see if the rate of SOMA expansion does slow. “Not QE” has now been in place for 17 weeks. And amazingly, 15 of those 17 weeks SPX has risen. This past week it was a mild 0.2% gain, bringning the total SPX gain for the 17 weeks to 13.3%. Like past QE policies, “not QE” has had a very favorable impact on 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 the %b study from January suggests 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.

SPY – Buy ¼ index position @ \$333.00 LIMIT ON OPEN. If not filled on open, cancel order and look to enter at \$333.47 LIMIT ON CLOSE. Based on the short-term outlook above, I will start scaling into a long position if I can get a favorable fill on Monday. I am looking for a gap down or a close lower to enter.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>LLY(1/3)</i>	<i>2/19/2020</i>	<i>\$141.01</i>	<i>\$141.34</i>	<i>0.23%</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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