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June 13, 2024

Market Structure EDGE

A Set It and Forget It Strategy for Stock Investors

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Market Structure EDGE

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As with all investments, your capital is at risk

A “Set it and Forget it” Strategy for Traders

Tim Quast, founder and CEO of
Market Structure EDGE
June 13, 2024

- **Tim Quast – founder of two market structure analytics firms**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**
- *My market education will necessarily emphasize what I know.*



What if you
could set it...and
forget it?*

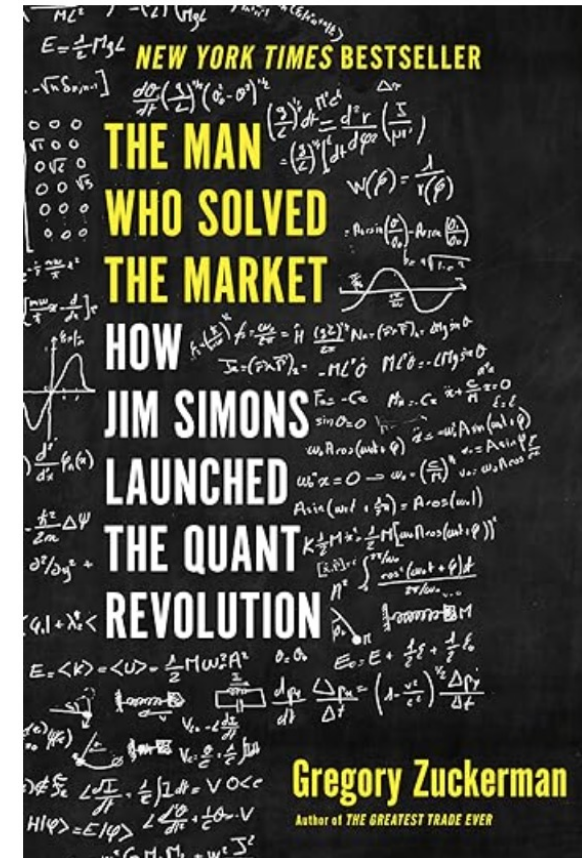


Photo [50874022](#) | [Clock](#) © [Mayatskyy](#) | [Dreamstime.com](#)

*Requires understanding the market, the money, having a plan

The setback was “stomach wrenching,” he told a friend. “There’s no rhyme or reason.” Simons had to find a different approach. He began amassing pricing data, developing algorithms to predict the market’s next move, and *building trading models that could run on their own.*

Forbes, Nov 8, 2019, How Billionaire Jim Simons Learned to Beat the Market – and Began Wall Street’s Quant Revolution - <https://www.forbes.com/sites/forbesdigitalcovers/2019/11/08/jim-simons-the-man-who-solved-the-market-gregory-zuckerman-book-excerpt/?sh=7239862613b6>



<https://www.amazon.com/Man-Who-Solved-Market-Revolution/dp/073521798X>

Two Takeaways:

- Setbacks are stomach-wrenching
- Find models that do the work for you

What do we need to know?



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1. What the Money is Doing.

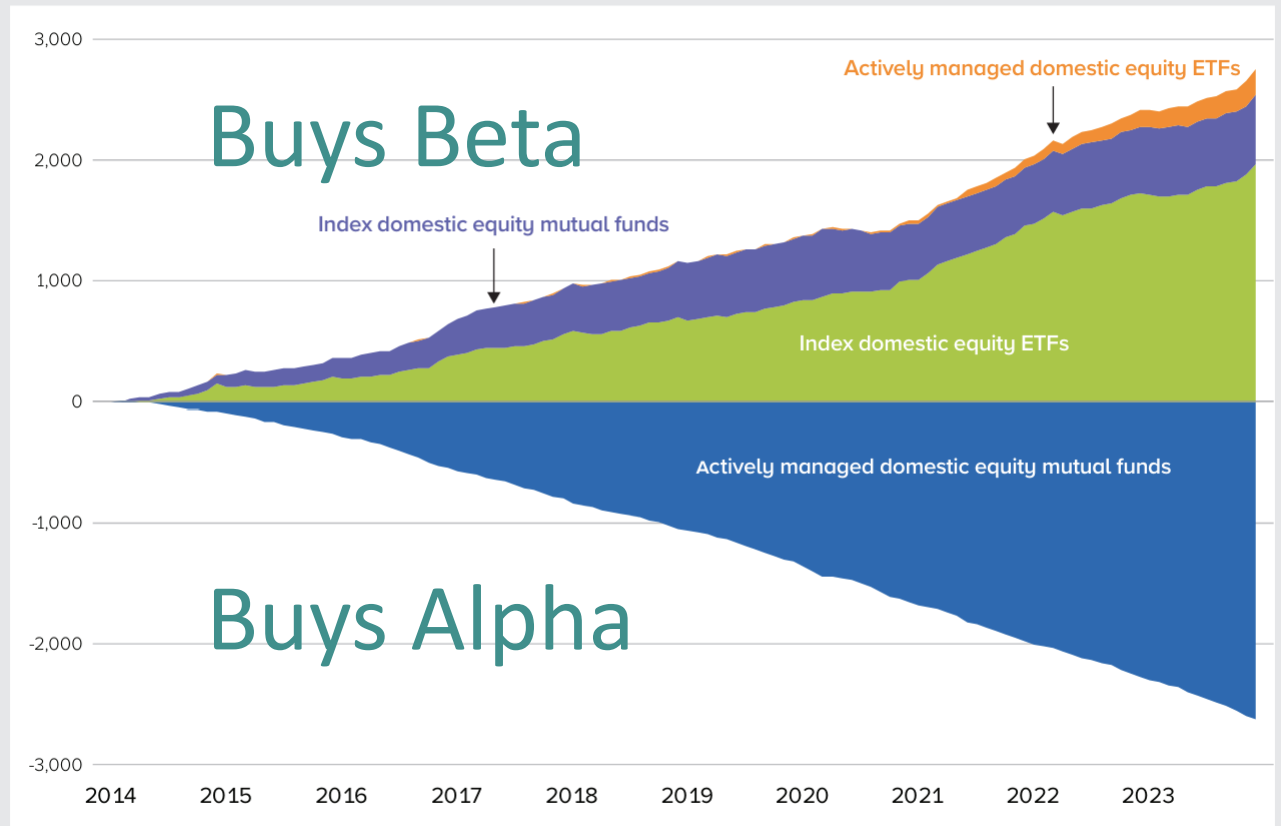
It's not after "alpha" (outperformance versus the same risk everyone else takes).

It's after "beta" – the herd, not the outliers.

FIGURE 3.9

Some of the Outflows from Domestic Equity Mutual Funds Have Gone to ETFs

Cumulative flows to domestic equity mutual funds and net share issuance of domestic equity ETFs, billions of dollars, monthly



Note: Mutual fund data include net new cash flow and reinvested dividends; ETF data for net share issuance include reinvested dividends.

Investment Company Institute (ICI.org) 2024 Fact Book

2. How the Stock Market Works.

- 16 stock exchanges (three big groups, four independents)
- 54% of volume at exchanges
- 46% at alternative systems
- Three tapes (NYSE, Nasdaq, ETFs)

Matched Volume	<u>Tape A</u>	<u>Tape B</u>	<u>Tape C</u>	Market*	% of Mkt	Today
⊕ NYSE (P,N,A,C,M)	1,364,171,782	448,606,190	774,384,016	2,587,161,989	21.24%	31.38%
⊕ NASDAQ (B,X,Q)	465,718,265	193,400,609	1,324,140,276	1,983,259,150	16.28%	10.69%
⊕ Cboe (Z,Y,K,J)	432,744,024	266,687,645	709,622,766	1,409,054,435	11.57%	25.86%
Members Exchange (U)	83,196,066	59,927,264	138,277,411	281,400,741	2.31%	1.53%
Investors Exchange (V)	92,432,666	27,143,781	77,896,060	197,472,507	1.62%	0.13%
MIAX Pearl (H)	49,122,864	46,521,908	70,609,617	166,254,390	1.36%	0.00%
LTSE (L)	96,008	233,342	614,385	943,735	0.01%	0.00%
Matched Total	2,487,481,675	1,042,520,740	3,095,544,531	6,625,546,946	54.40%	69.59%
FINRA & TRF Volume						
⊕ TRFs (DQ,DN,DB)	1,777,511,953	852,550,064	2,924,579,712	5,554,641,729	45.60%	30.41%
FINRA & TRF Total	1,777,511,953	852,550,064	2,924,579,712	5,554,641,729	45.60%	30.41%
Total Consolidated Volume						
Total	4,264,993,629	1,895,070,804	6,020,124,243	12,180,188,675	100%	100%

Source: Jun 6, 2024. https://www.cboe.com/us/equities/market_statistics/

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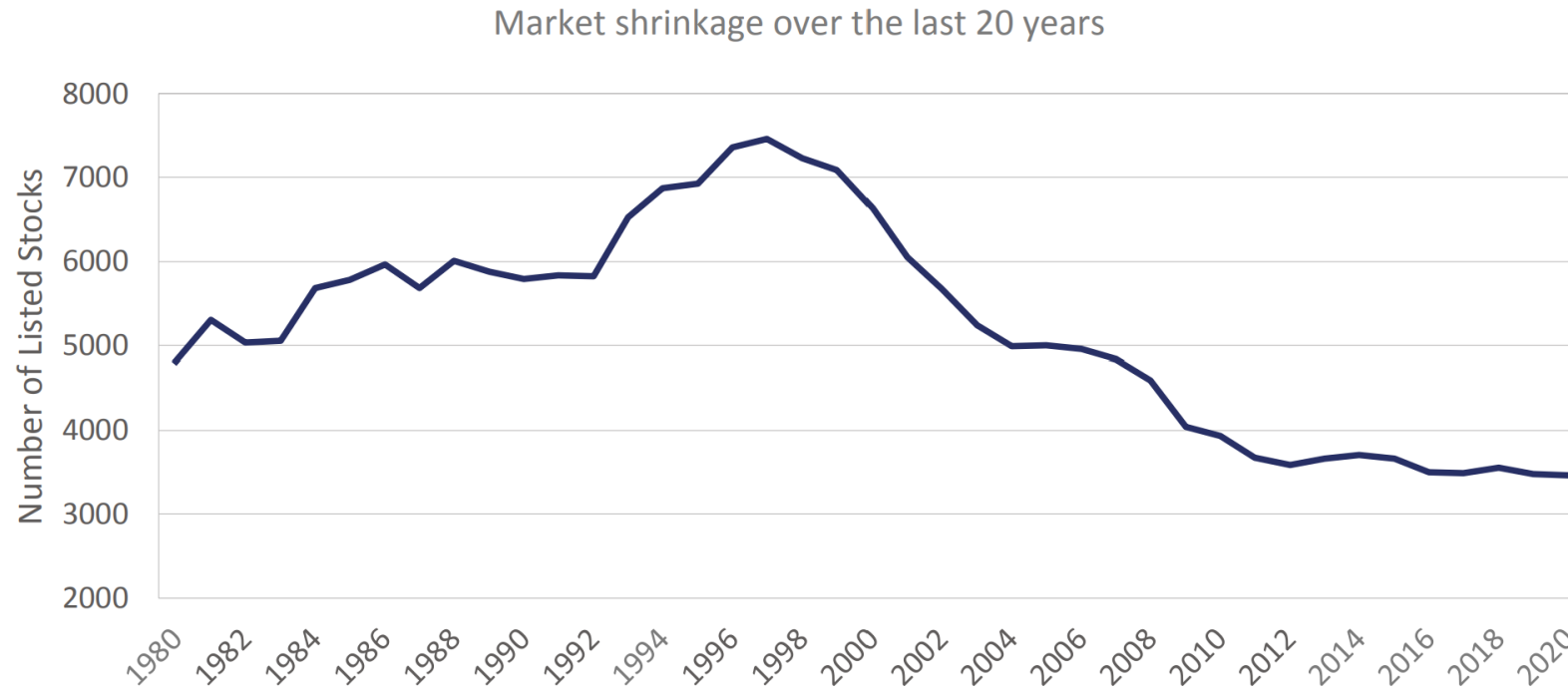
“In 2017, Optiver revealed that a good wire-to wire time was around 2.5 microseconds (2.5 microseconds is about the time it takes for light to travel from the spire of the Burj Khalifa to the ground). The paper goes on to say it's down to 10 nanoseconds, or the time it takes for light to travel from a lectern on a stage to the first row of audience seats.” – TABB Forum White Paper, June 3, 2024, Systematic Longshort

Prices are
Set by
Machines,
not Humans.

...And the money chases fewer goods.

of components of the FT Wilshire 5000 over the last four decades.

Figure 1: Number of Listed Stocks in the US Market has contracted significantly



More money chases fewer goods. The big get bigger, the small die, the market concentrates into the largest stocks (consider AAPL, MSFT).

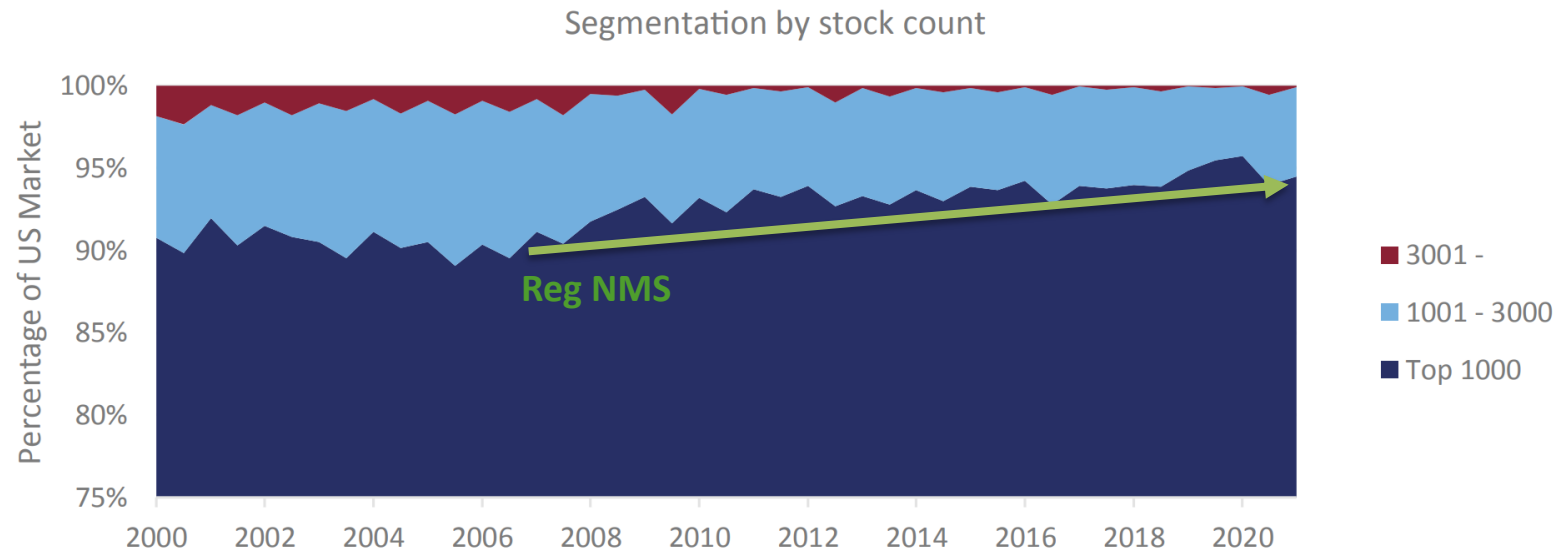
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SOURCE: Wilshire Associates. https://assets.website-files.com/60f8038183eb841e628c14df/62ceec895218c176d80032c8_Wilshire-SeeingThroughTheSizeMirageInUSEquities-ResearchNote_June2022%20FINAL.pdf

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And concentrates in large caps: 95% AUM in thousand largest, 88% in SPX.

Figure 3: Segmentation of the US Market by Stock Count and Cumulative Market Capitalization

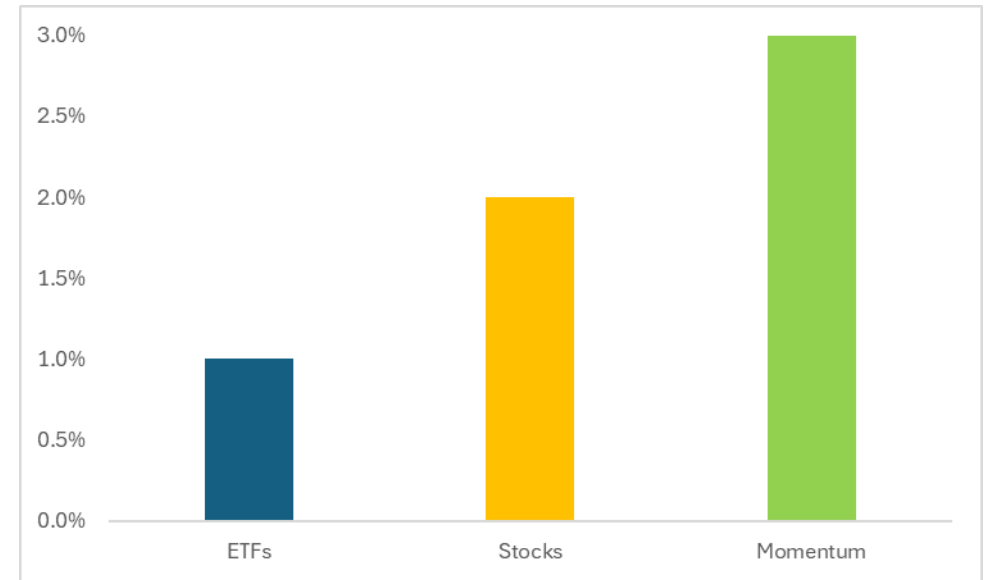


Index characteristics - Weights

	Number of stocks
FT Wilshire 5000 Index	3525
FT Wilshire US Large Cap	496
FT Wilshire US Mid Cap	289
FT Wilshire US Small Cap	1272
FT Wilshire US Micro Cap	1757

1,2,3...

1. Market trackers like an ETF average less than 1% daily VOLATILITY.
2. Underlying stocks average about 2% VOLATILITY.
3. Momentum stocks have 3% (or more!) VOLATILITY.



Data: ModernIR.com models, marketstructureedge.com.
VOLATILITY: Average intraday high/low spread.

To Set and Forget, three things: BCD

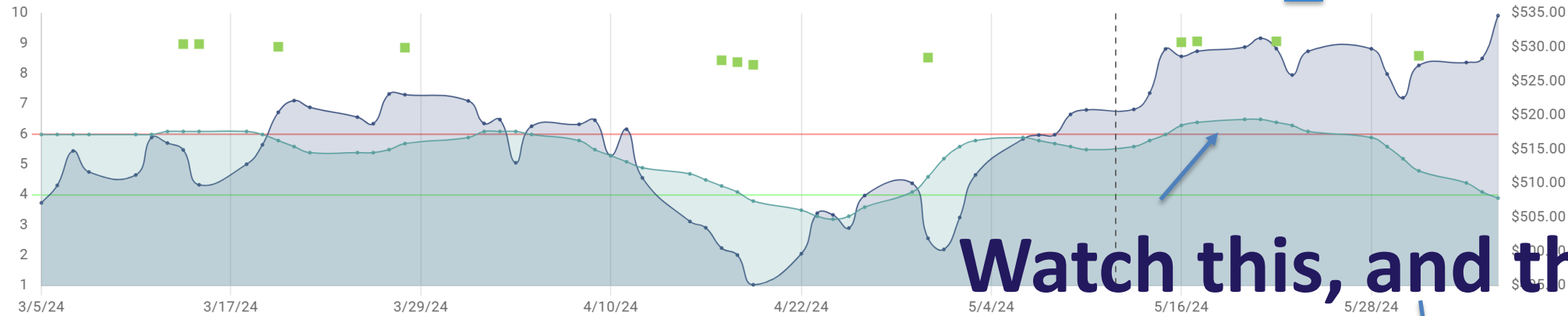
1. **Broad Sentiment** – *Market demand rising or falling?*
2. **Context** – *Options expiring? Jay Powell speaking? Economic data hitting the wires?*
3. **Divergence** – *The PROBABILITY machines will raise or lower prices?*



Broad Sentiment, the EDGE risk-management tool, reflects average Market Structure Sentiment™ (Demand) for composite S&P 500 stocks versus the price of S&P 500 ETF. Green squares show monthly options and futures expirations.

March 5, 2024 - June 5, 2024

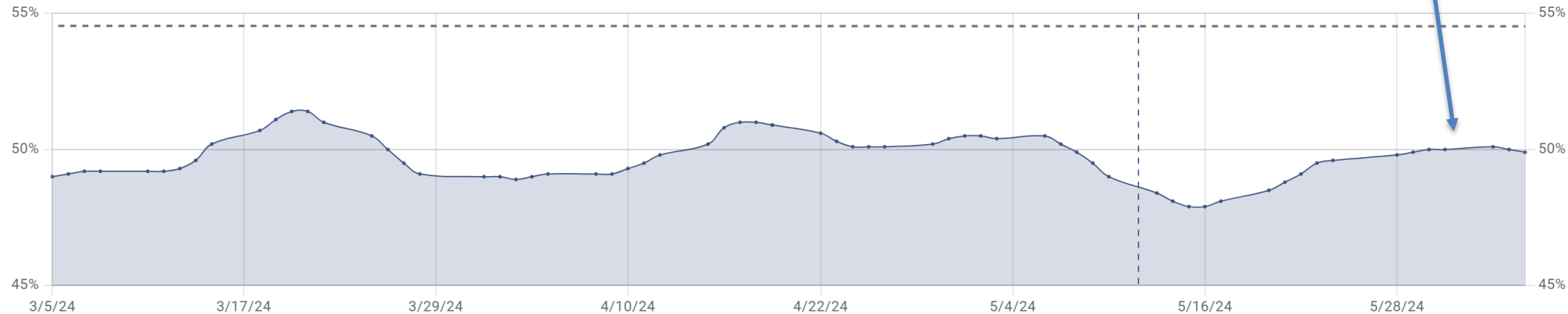
Options Broad Sentiment: 3.9 ETF: 534.67 Trade Date: 6/5/2024



Watch this, and this

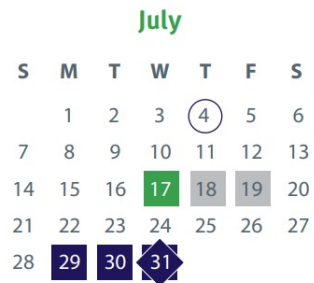
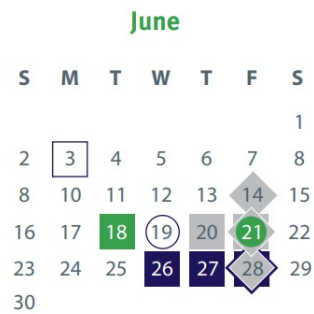
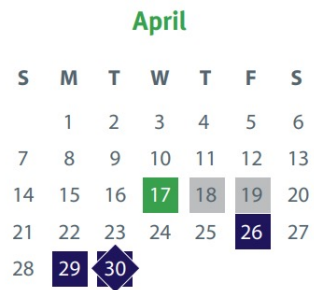
Short Volume (Supply) is the average percentage of daily volume in S&P 500 stocks that's short (borrowed, created by market-makers).

Short Vol %: 49.9 Trade Date: 6/5/2024



Source: Marketstructureedge.com

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Context: The expirations calendar.

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- Exchange holiday: markets closed
- Options expirations: stocks, indexes, currencies, interest rates, treasuries
- VIX (Volatility Index) options expirations
- S&P quarterly rebalances: quarterly share updates to S&P 500, Mid-cap 400, Small-cap 600, Total Market
- MSCI Barra Rebalances: announcement and effective date of quarterly changes to Morgan Stanley/Barra quantitative theme and strategy indexes
- ◆ Russell Rebalances: annual reconstitution of Russell indexes; rankings May, estimates early June, final late June
- Month-end portfolio balancing: poor time for good news/good time for bad news
- LEAPS expirations: S&P futures for long term portfolio hedges
- ◆ S&P 500 End of Month (EOM) options expire

Source: [Marketstructureedge.com/Resources](https://marketstructureedge.com/Resources)

MARKET STRUCTURE EDGE Daily Trading Ideas

The key.

Market Structure EDGE uses analytics built on the rules and mechanics of the US equity market to identify high-probability (50%-100%) **Momentum** (volatility of 3% or more) or **Low Volatility** (volatility of 2.2% or less) Daily Trading Ideas among liquid stocks, with entry and exit ranges for 1-5 days. We look for certain recurring conditions in the trailing 90 days to predict what might be possible ahead. **Past performance no guarantee! This is not advice.** But it's actionable, validated data. If total choices across both portfolios are 30 or more, that's a lot. At times, there may be few or none in one or both portfolios, a signal to look for better conditions.

Momentum
Low Volatility
?
Table
Probabilities
?

Momentum Portfolio ?

Ticker	Probability	Close	Volatility	Entry Low	Entry High	Exit Low	Exit High	Avg Vol	Market Cap	Sector
CAVA	89.5%	\$92.04	7.2%	\$88.73	\$94.24	\$90.51	\$96.13	5.7M	\$10.5B	Consumer Discretionary
HOOD	94.7%	\$21.57	6.9%	\$20.82	\$22.07	\$21.24	\$22.51	25.07M	\$18.96B	Financials
ANF	100.0%	\$172.70	4.6%	\$168.71	\$175.36	\$172.09	\$178.87	2.38M	\$8.81B	Consumer Discretionary
AA	100.0%	\$42.59	4.0%	\$41.75	\$43.15	\$42.58	\$44.02	4.82M	\$7.65B	Materials

Rows per page: 50 1-4 of 4

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Summary for CAVA
6/6/2024

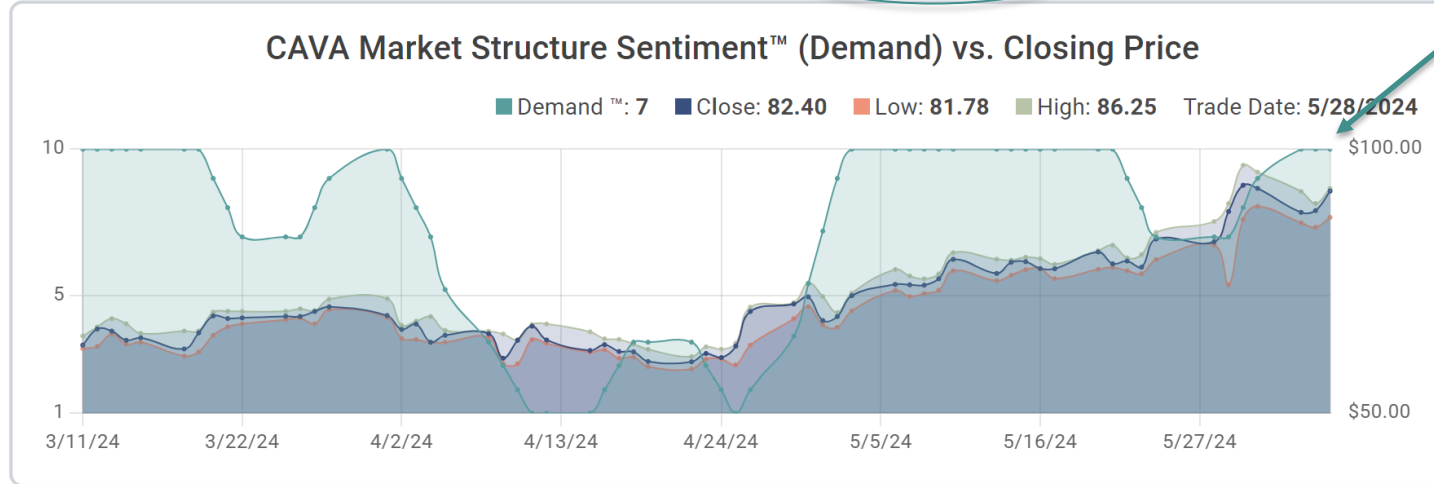


Probability: 89%

Last close: \$92.04

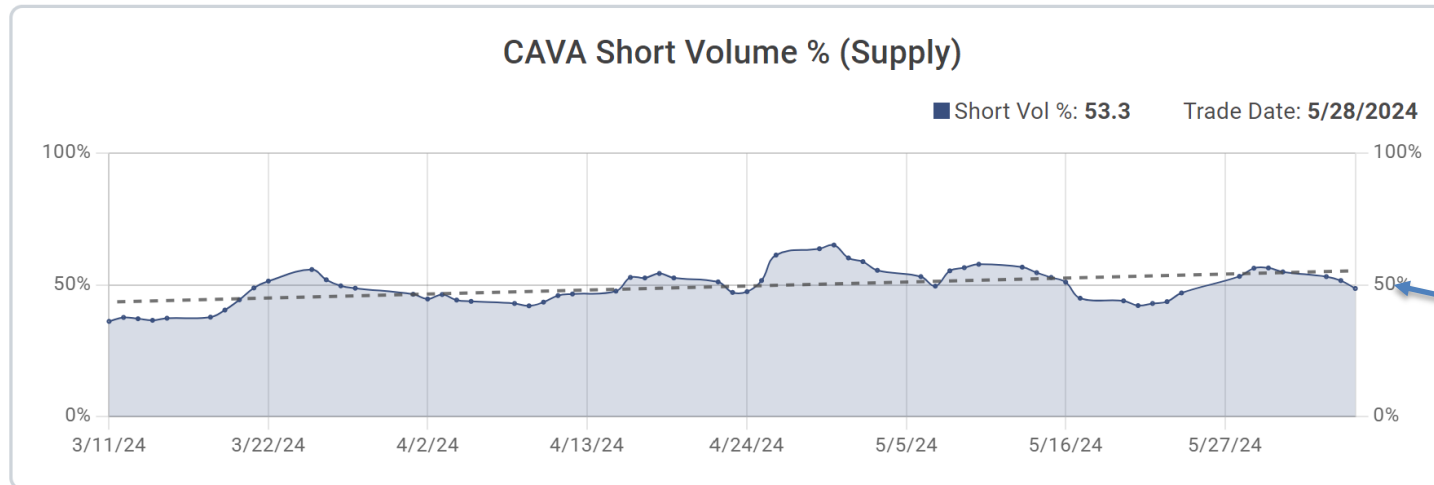
Entry: \$88.73 - \$94.24

Exit (1-5 days): \$90.51 - \$96.13



Demand

1. Demand/Supply Divergence
2. Broad Sentiment rising
3. Limit orders premarket
4. Stops 1% below
5. Limits 2% up
6. Go walk the dog



Supply

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Momentum

Low Volatility



Table

Probabilities



Momentum Portfolio

Ticker	Probability	Close	Volatility	Entry	Entry	Exit	Exit	Avg	Market	Sector
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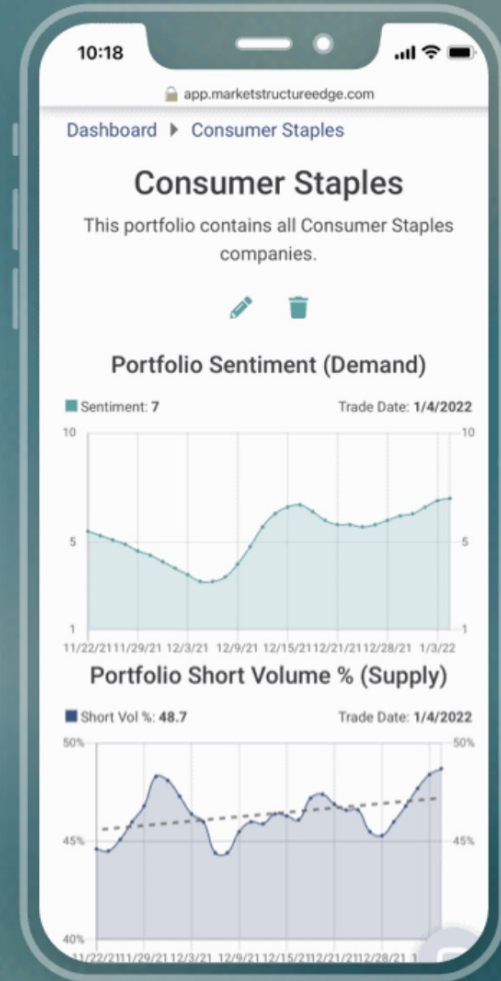


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