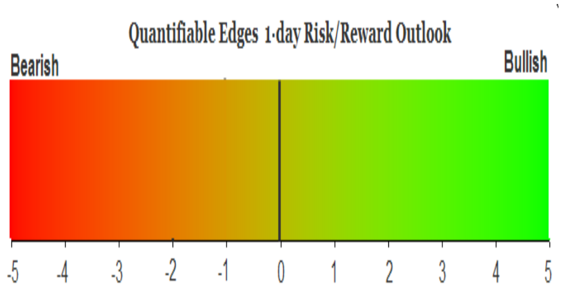
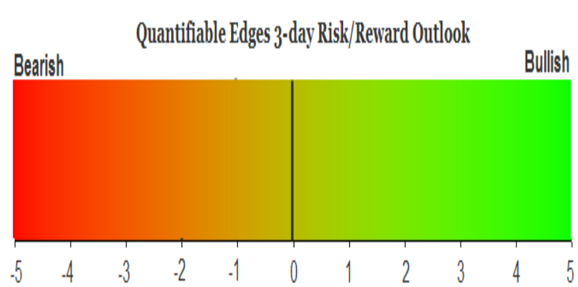
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 26, 2015 Volume 8 Issue 16

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- The NASDAQ has taken a leading position – a long-term market positive.

Short-term Outlook

The Bottom Line

The studies are pointing to a rise in the next few days, but the SPX is short-term overbought versus recent expectations. This is leaving the Aggregator neutral, and me without a strong directional conviction.

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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						
January 23, 2015	VIX 10% up to 10% dn blow ma	1-8 days	Bullish	2.50%	-1.00%	-1.95%
January 20, 2015	Bounce from 20-low	1-6 days	Bullish	2.30%	-1.50%	-2.80%
Active - Long Term						
January 26, 2015	NASDAQ leading SPX	int term	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
January 21, 2015	SPX up. Breadth poor	1-3 days	Bearish			
January 20, 2015	MLK week bearish	1-4 days	Bearish	-2.00%	1.10%	2.10%

The Evidence

The market was mixed on Friday as it traded in a fairly narrow range. The SPX closed down 0.6%, the NASDAQ rose 0.2%, and the Russell 2000 dropped 0.1%. Breadth was negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 32%. Total NYSE volume dropped quite a bit from Thursday's level.

From a short-term standpoint, there were not any compelling new studies that emerged. The 2 that remain on the short-term list from during the week are both bullish. I looked at a few different ideas, but the quiet action simply did not provide any meaningful results.

I have updated the Aggregator chart below.

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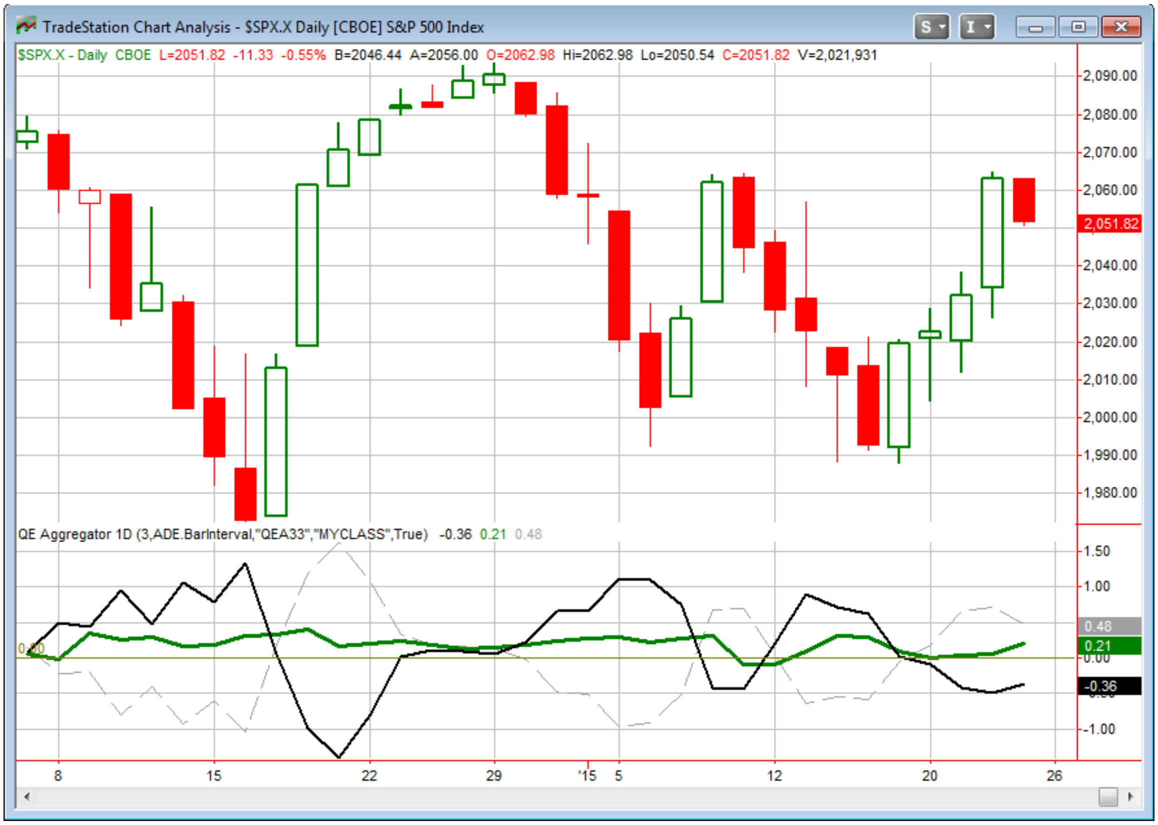


With the bearish studies expiring the green Aggregator Line held a little above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line again held below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. That could change if more bearish evidence emerges. The Differential Pivot will be 2034.44 on Monday. That is 0.8% below Friday's close. In order for SPX to move from overbought to oversold versus expectations on Monday it will need to close down at least this much. So it will take some fairly strong selling in order to accomplish that.

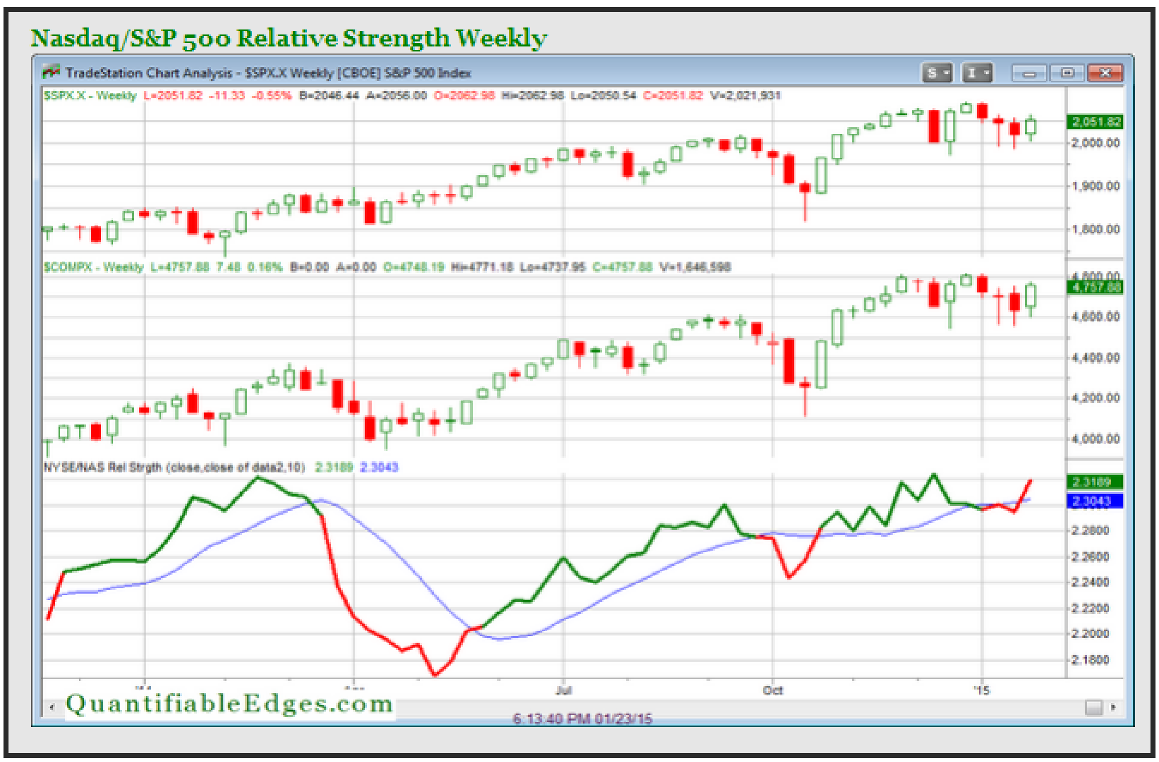
The bounce during the week looked good. The evidence that accompanied it was all short-term bullish. At this point it appears that Friday could have been simply a pause in a short-term overbought market. But while SPX pulled back a little, it is still overbought. So from a reward/risk standpoint this does not look like a great opportunity to take on new long index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/26 – somewhat 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.)

After 3 down weeks the SPX finally put up a winner and rose 1.6% in this shortened 4-day week. Notable from an intermediate-term standpoint was the change in our NASDAQ/S&P 500 Relative Strength Indicator. The NASDAQ outperformance over the last few weeks caused this indicator to turn bullish. This can be seen in the chart below, which is copied from the Charts page.



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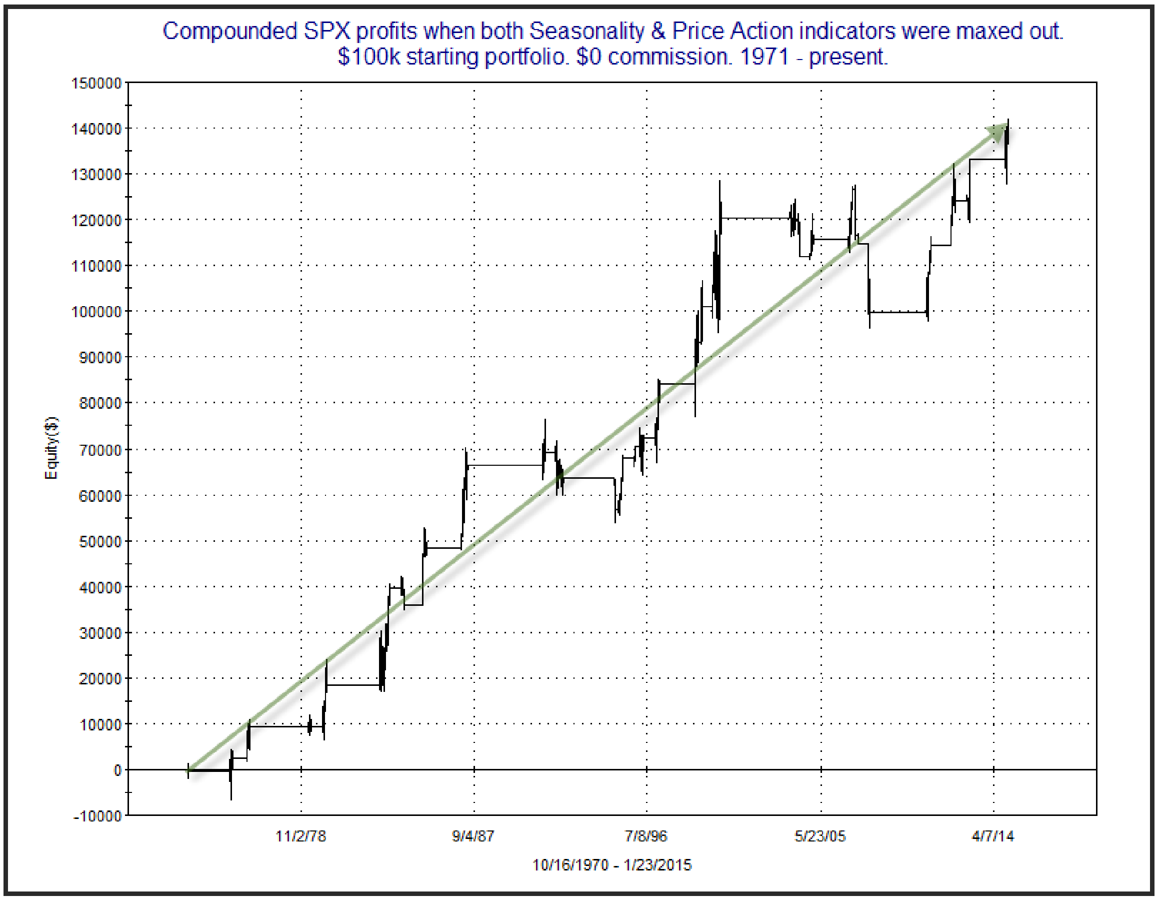
The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, nearly all of the S&P 500 gains, and more than 100% of the NASDAQ gains, have occurred when the NASDAQ was leading. More on this indicator can be found on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

This is also one of the long term indicators I cover in the Quantifiable Edges Market Timing Course. The change in this indicator means that all 4 of the long-term indicators from the course are now bullish. Below is a chart of hypothetical performance in a $100k portfolio that goes long SPX when both Seasonality and both Price Action indicators covered in the course are bullish.



2007 saw the worst drawdown here. But the edge has seemed strong. And long-term results would have been even stronger using the Nasdaq. Traders that would like to learn more about the performance of different combinations and possible long-term approaches

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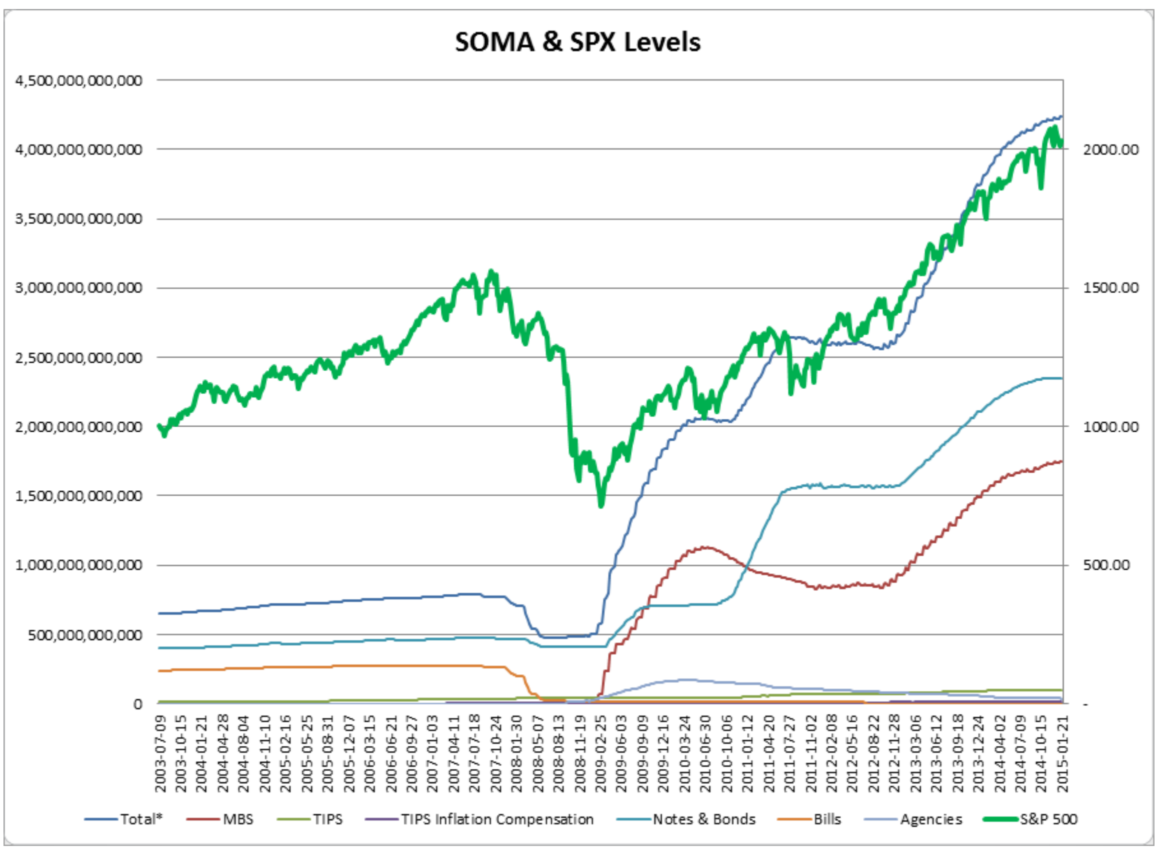
to utilizing them are encouraged to review the Quantifiable Edges Market Timing Course (free with all annual subscriptions).

As I 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.*

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



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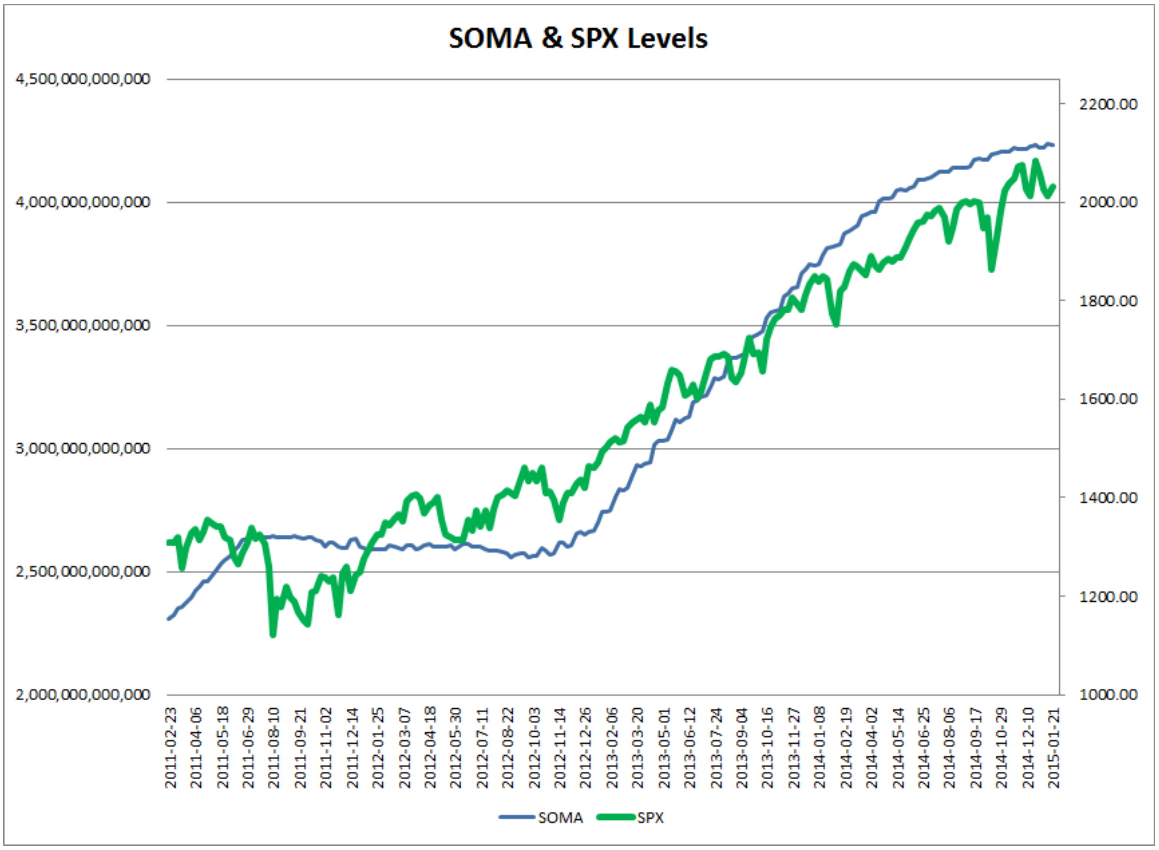
And now the zoomed-in view (2011 – present).



SOMA totals declined slightly this past week. Since quantitative easing ended in October the market has seen much choppier action, with more pronounced downmoves than we saw during QE. The liquidity support is just not what it was. Still, the small SOMA increases have seemed to provide enough support to allow the SPX rally to continue. And to this point it has pulled back but not broken down. It will be important to see if the blue line representing SOMA levels can continue to work its way higher. A shrinking SOMA could be a difficult obstacle for the market to overcome, and could lead to some substantial selling.

Of course part of what helped the market to rally this past week was the announcement of Euro-QE. The European version is expected to last for 18 months and purchases will be nearly of the magnitude of those that were seen during the US Fed's recent program. It is expected that this should help buoy the European markets in a way that the Fed's program seemed to help the US markets. Of course such liquidity and economic stimulus could help globally, and the US could also benefit from the increased liquidity, stronger markets, and hopefully stronger economies. But the Euro version will be a bit different, and there will be many central banks involved. How it will play out is not yet clear, but the announcement certainly sparked optimism this week.

The NASDAQ taking a leading position did brighten up the outlook a bit this week. Trend and intermediate-term seasonality also continue to favor the bulls. The bears are looking to potential breadth and liquidity issues. I am keeping my outlook at “somewhat bullish” this week. I still would need to see further price breakdowns in order to move to bearish. At this point I will continue to trades longs a bit more aggressively than shorts.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 0

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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, though traders could look to the numbered systems page. MCD looks fairly compelling with system 81119. I will not include it or track it here, but another down day and I may look at a numbered system trade like this if I still am not ready to take on index exposure.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	$34.03	$29.82	-12.37%		Aggressive VIX

I have been in this XIV trade idea quite a bit longer than I typically hold positions. The last few nights I have considered closing it out. Contango is not very steep and the Aggregator is basically neutral. So the edge is not as strong as I typically like to see for an XIV trade. But the Aggressive VIX system is still 50% long. And the recent short-term studies offered fairly compelling bullish evidence. So I have decided I will continue to hold for now, though it is admittedly a borderline position at the moment.

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