

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2015

Volume 8 Issue 45

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

## Tonight's Research Points

- Strong moves down on Fridays have led to reliable bounces over the next several days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing up and the market is now quite oversold in the short-term. I believe short-term reward/risk strongly favors the bulls.

*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
<b>Active - Short Term</b>						
March 9, 2015	Big Friday drop	1-6 days	Bullish	2.60%	-1.70%	-3.70%
March 5, 2015	50-high to 8-low in 2 days	1-5 days	Bullish			
March 4, 2015	Big drop from 50-high	1-4 days	Bullish	1.15%	-0.80%	-1.60%
<b>Active - Long Term</b>						
January 26, 2015	NASDAQ leading SPX	int term	Bullish			
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			
<b>Dropped Tonight</b>						
March 2, 2015	Dn2 > 200ma. Month end.	1-5 days	Bullish	1.50%	-1.10%	-3.30%

**The Evidence**

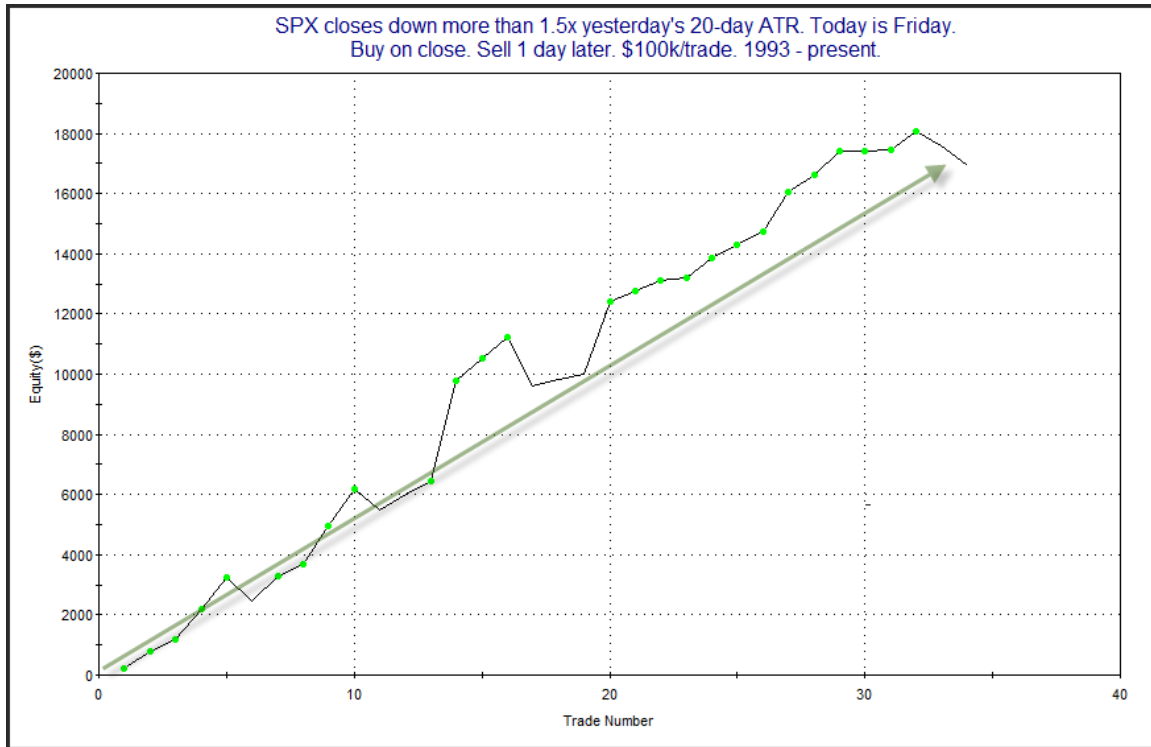
Friday was a big down day. The SPX and the Russell 2000 each closed down 1.4%, and the NASDAQ fell 1.1%. Breadth was strongly negative as the NYSE Up Issues % came in at 15% and the Up Volume % was 17%. Total NYSE volume spiked up to the highest level in a few weeks.

There were a few studies that noted the strong selling on Friday. By far the most compelling was the one that examined large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by many traders that are active today. In 1987 there was a strong selloff on Friday and then all hell broke loose on Monday. But since then strong Friday selloffs have commonly been followed by bounces on Mondays. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been very strong. The study below looks at strong drops on Fridays and was last discussed in the 12/15/14 subscriber letter.

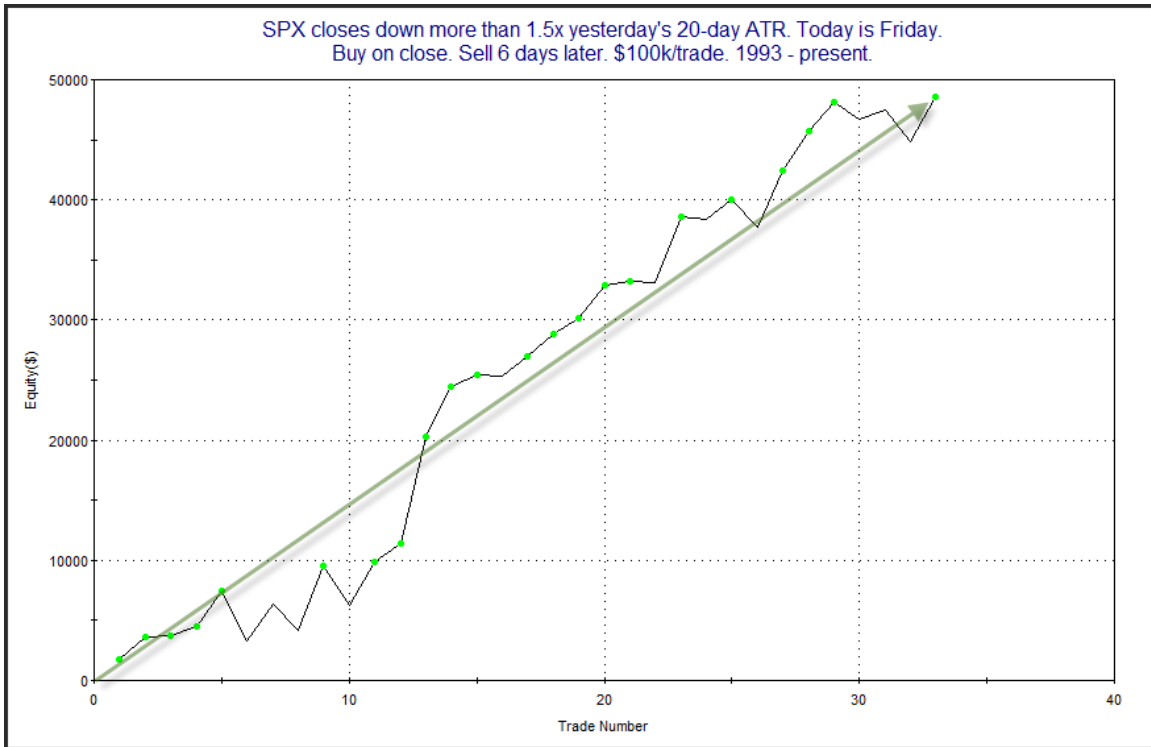
SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	34,335.54	33	21	12	63.64	3,063.35	9,241.60	-2,499.57	-6,049.40	1.23	2.14	1,040.47
9	36,388.29	33	21	12	63.64	2,931.32	7,602.40	-2,097.45	-5,483.80	1.40	2.45	1,102.68
8	42,230.02	33	22	11	66.67	2,869.20	7,949.70	-1,899.30	-3,550.72	1.51	3.02	1,279.70
7	42,250.97	33	21	12	63.64	2,989.92	7,662.81	-1,711.44	-4,599.52	1.75	3.06	1,280.33
6	48,526.80	33	24	9	72.73	2,711.67	8,870.96	-1,839.24	-4,202.80	1.47	3.93	1,470.51
5	35,750.77	34	24	10	70.59	2,294.18	5,393.97	-1,930.96	-6,368.04	1.19	2.85	1,051.49
4	26,161.03	34	23	11	67.65	1,899.93	5,731.96	-1,594.30	-4,917.36	1.19	2.49	769.44
3	24,889.83	34	22	12	64.71	1,771.10	5,215.85	-1,172.87	-3,492.36	1.51	2.77	732.05
2	19,880.43	34	23	11	67.65	1,394.69	6,245.15	-1,108.85	-4,320.06	1.26	2.63	584.72
1	16,947.14	34	29	5	85.29	729.09	3,322.23	-839.32	-1,614.72	0.87	5.04	498.45

The numbers here are all very impressive and suggest a strong bullish bias. I decided to look at the 1-day and 6-day returns in a little more detail. First, below is the profit curve for a 1-day holding period.

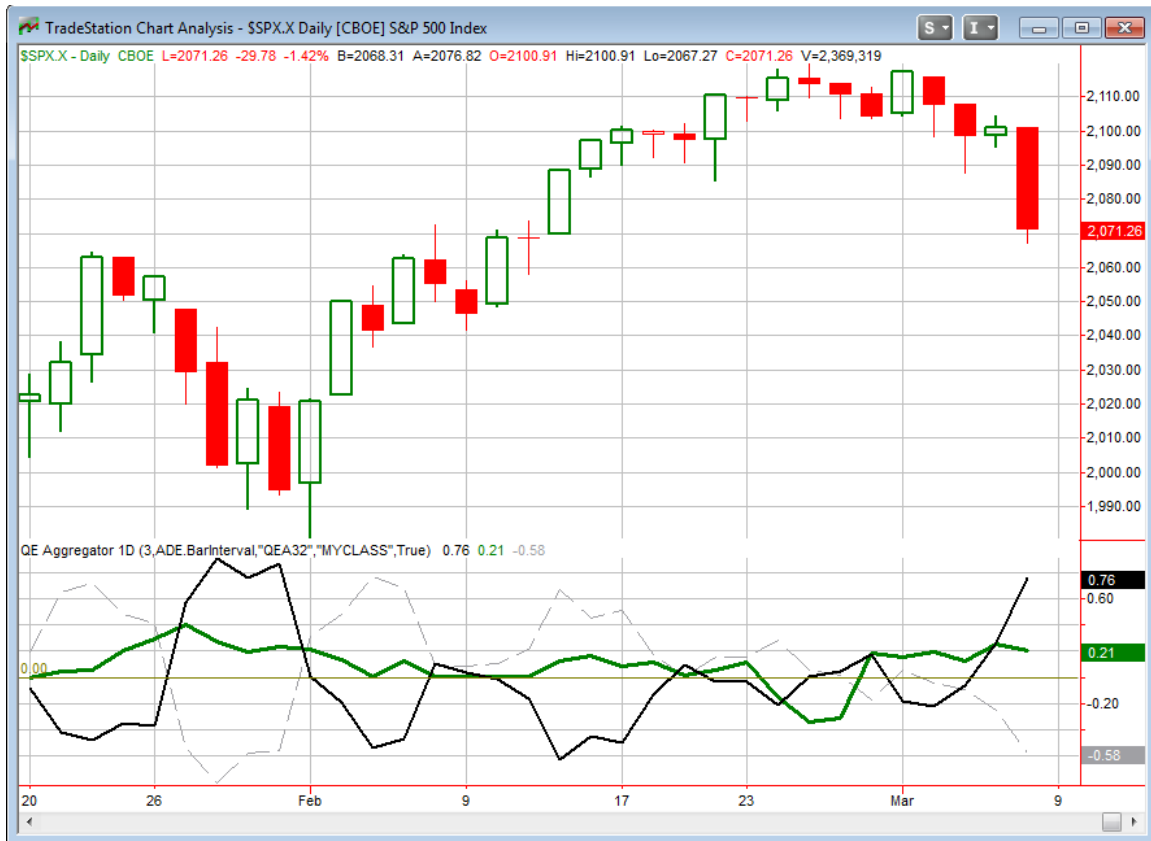


The Monday inclination has been strong. The last 2 have not followed through, but the upslope still appears intact. For the 6-day I also produced a profit curve.



Here too the results remain impressive. This certainly seems to be a study worth taking under consideration.

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



With today's study factored in the green Aggregator Line again remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, big selloff caused the black Differential Line to move way above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

If nothing new triggers, then expectations are set to remain positive on Monday. It would take strong bearish evidence to change this. The Differential Pivot will be 2108.05 on Monday. That is 1.8% above Friday's close. So for SPX to change from oversold to overbought versus recent expectations it is going to need to close up at least 1.8% on Monday. That is a tall task. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I like the short-term setup at this point. Evidence suggesting a bounce is solid. And there is plenty of room to the upside before the market would be considered "overbought". So reward/risk seems very favorable here. I have some long exposure already, but I will be looking to add quite a bit more on Monday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/9 – somewhat bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
Long	Long	Long

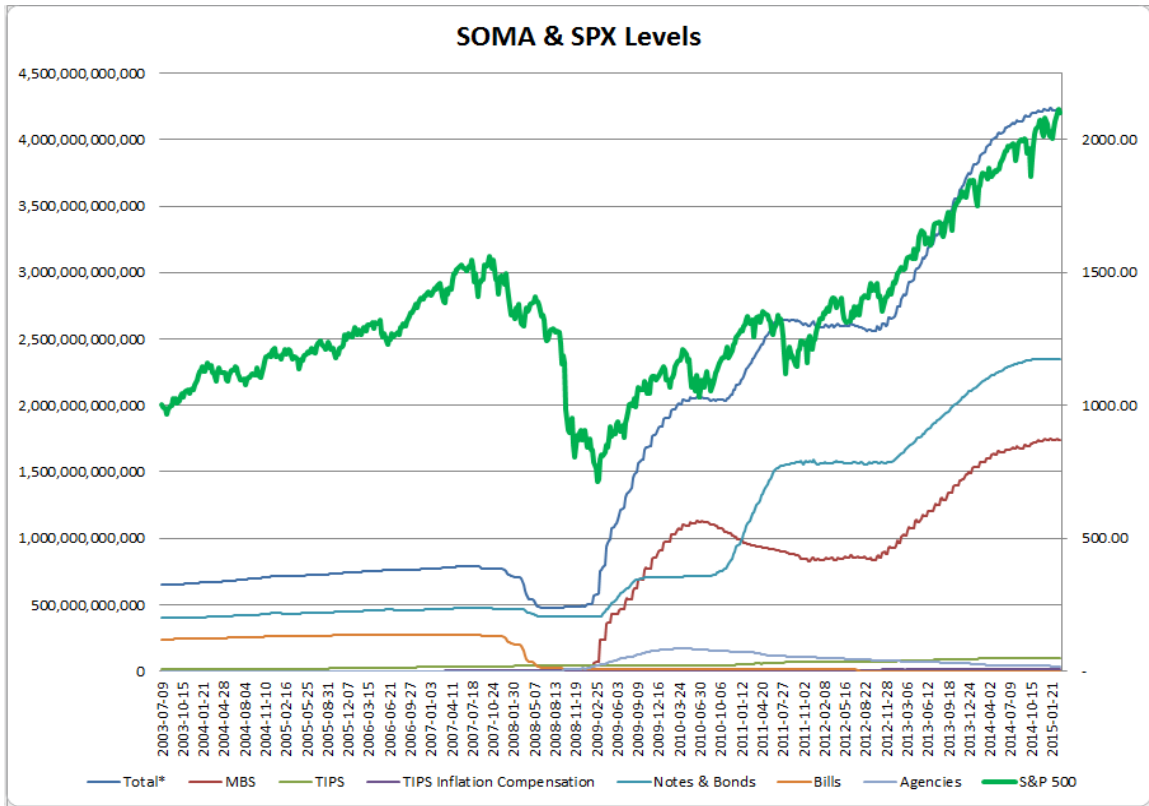
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 Friday's strong selloff, SPX finished the week down 1.6%. That is the worst week since the end of January. But the selling did not flip any intermediate-term indicators, nor did it generate any bearish studies. The uptrend does not appear broken yet.

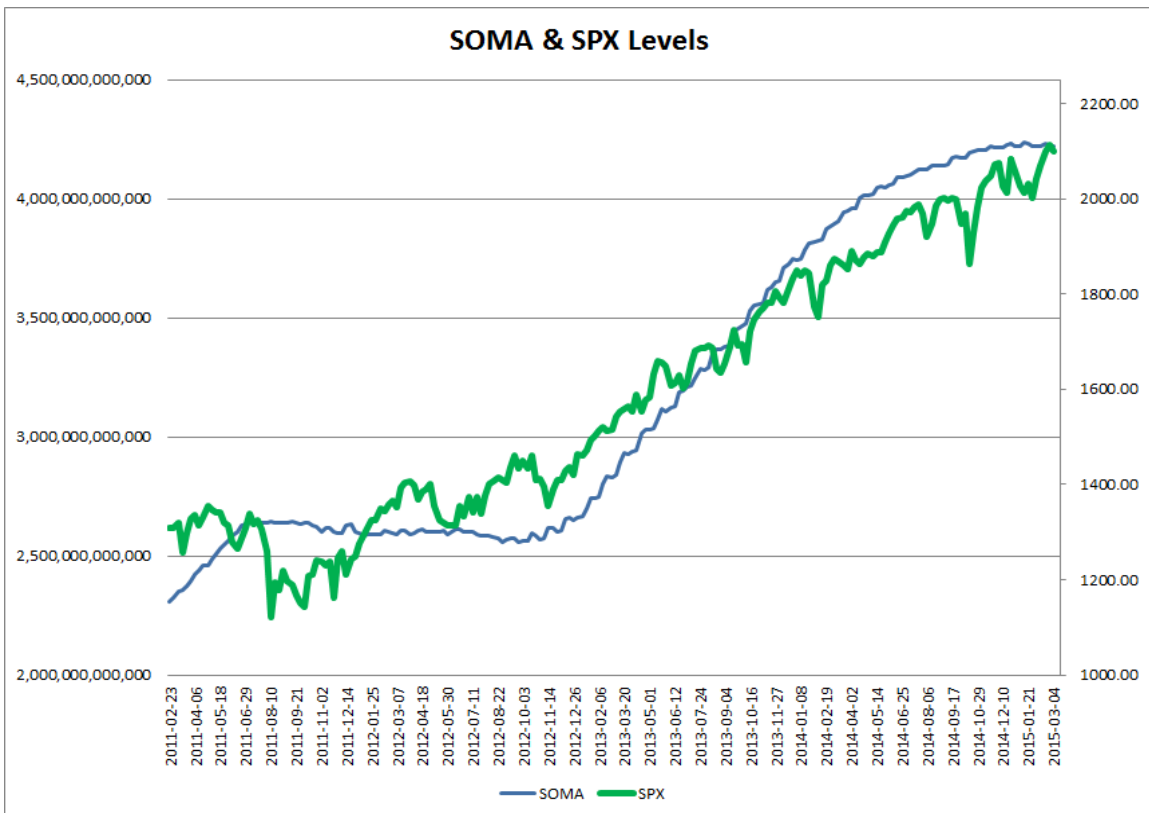
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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).*



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



SOMA saw a very slight rise this week and has basically continued to chop sideways over the last couple of months. While the SOMA line has definitely flattened out, it has not yet rolled over. Of course, in looking at the 1<sup>st</sup> chart you'll note that even flat SOMA readings have led to difficult markets over the last several years. Since quantitative easing ended in October the market has seen much choppier action, with more pronounced down moves than we saw during QE. But it has still managed new highs. Perhaps flat SOMA is enough for now. I doubt a steadily declining one would provide much support for the market. So as I have been doing, I will continue to keep a close eye on Fed action and SOMA levels.

The intermediate-term outlook from last week remains largely unchanged. One factor pointing to possible trouble is the limited amount of Fed stimulus. This can be seen in the SOMA account levels discussed above. The continually floundering number of stocks hitting new highs since spring of 2013 is also a potential warning sign.

Bulls can still point to strong seasonality (Best 6 Months) as well as a continuing uptrend (Golden Cross) and [a leading NASDAQ](#). More details on the influence of these factors and how different combinations have performed can be found in the Market Timing Course. (Included free with all annual subscriptions.)

Overall, the bullish evidence is still outweighing the bearish. I am keeping the intermediate-term outlook at "somewhat bullish" as it has been for some time now. I remain more inclined to take on long positions than short ones, but will take either if short-term evidence is compelling enough.

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

*New*

*MO – 1/3 at \$53.37 (buy @ limit)*

#### ***Catapult for ETF's Trades***

*None*

#### ***Broad Market Large Cap CBI – 1(MO)***

### **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 at \$207.50 LIMIT.** This would be the 2<sup>nd</sup> lot. Based on the short-term outlook, I would like to add more index exposure to try and take advantage of a possible bounce in the next few days.

**XIV – buy ½ Aggressive VIX position @ \$32.25 LIMIT.** The Aggressive VIX system is now 100% long. The market appears primed for a bounce, according to the Aggregator. The VIX is hitting short-term highs. And the VIX futures is in steep contango, with the 2<sup>nd</sup> month trading 9.62% above the front month. All of this points to a strong upside edge for XIV. I have placed the limit above Friday’s closing level. I did this in case of a gap up that does not fill. I still want to give myself a good chance to get into the position.

**MO – buy 1/3 Catapult position at \$53.37 LIMIT.** This is from the Catapult & CBI section above. Catapults have been very volatile over the years and are traded without stops. Traders should keep this in mind when considering whether the trade ideas are suitable for them, and how much they want to allocate. More info on Catapults can be found on [the Catapult Systems page](#).

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2015	\$209.42	\$207.50	-0.92%		bought on open

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