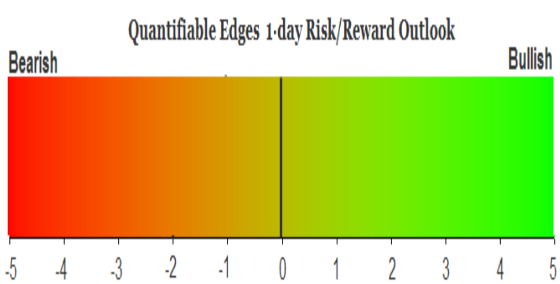
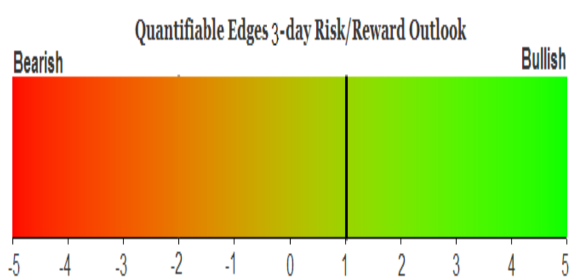
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 23, 2015 Volume 8 Issue 55

Market Overview





Signals Overview

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

Tonight's Research Points

- 7 days in a row of SPX reversing direction is leaving the short-term evidence fairly lacking.
- Intermediate-term indications are still leaning bullish.

Short-term Outlook

The Bottom Line

Evidence is mildly bullish, but continued chop is not providing great clarity. And with the market a little overbought versus short-term expectations, reward/risk does not appear greatly favorable.

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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						
March 19, 2015	High volume up day > 200ma. No opex	1-10 days	Bullish	2.50%	-1.50%	-3.10%
Active - Long Term						
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			

The Evidence

The market rallied on Friday. The SPX rose 0.9%, the NASDAQ closed up 0.7%, and the Russell 2000 gained 0.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 79% and the Up Volume % was 86%. Total NYSE volume came in very high as often happens on options expiration Fridays.

I feel like a broken record but the market again failed to do anything to trigger compelling Quantifinder studies. That often happens when we see the market chopping back and forth, and Friday marked the 7th day in a row that SPX changed direction.

One notable is that the market did well during opex week. On occasion opex week strength will suggest weakness the next week. But times when SPX has risen more than 2% during opex week have not suggested any reliable directional edge. So there are no new studies to add to the Short-Term Active List tonight.

I have updated the Aggregator chart below.

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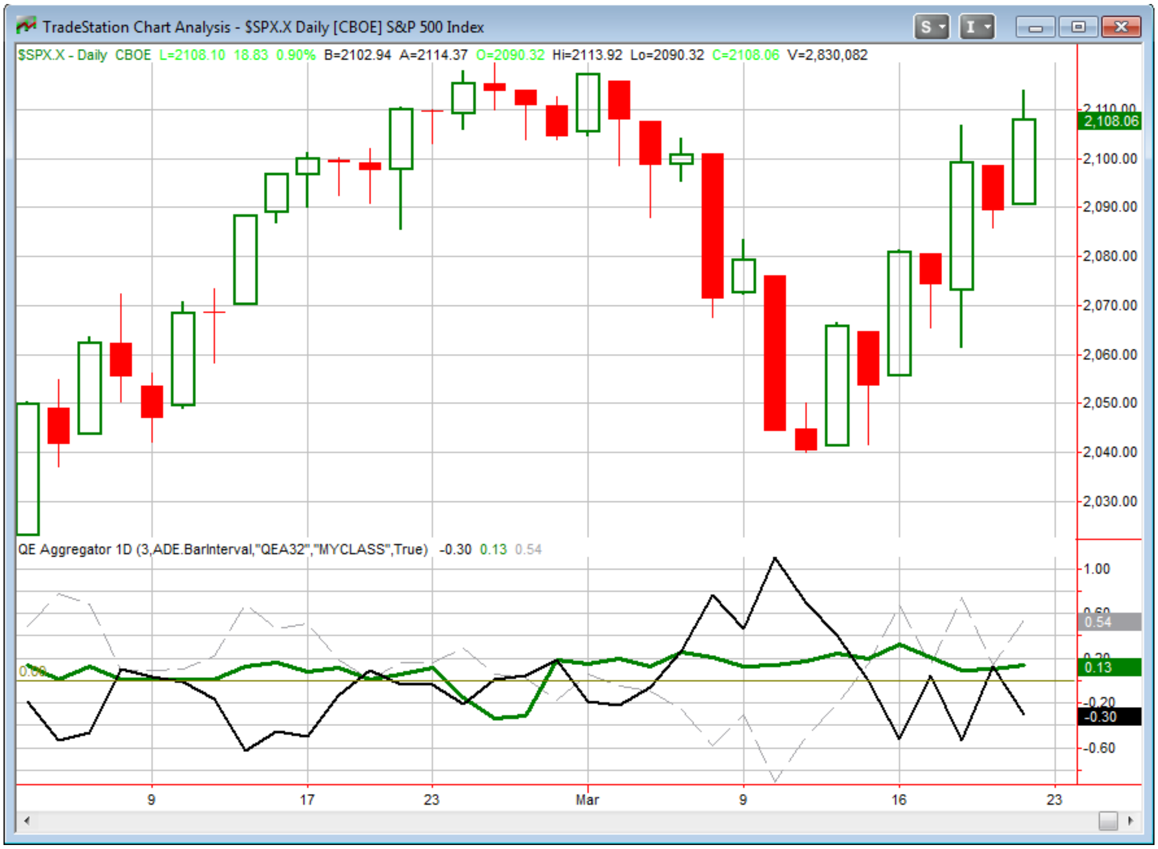

Without anything new to add tonight the green Aggregator Line held a bit above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped back down below 0. The negative Differential Line reading means the SPX is back to overbought versus recent expectations. So expectations are positive but the SPX is now 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 changed from long to flat at the close.

Based on the current active studies, expectations are set to remain positive on Monday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be *mildly inverted at* 2112.33 on Monday. That is *0.2% above* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case it means SPX will turn oversold unless is closes up at least 0.2% on Monday. Only a rise of that much would allow it to remain overbought versus recent expectations.

So evidence is a bit lacking. The small amount of short-term evidence we have is suggesting further gains. But with the market already a little overbought, that increases risk. This is leaving the Aggregator neutral. I am not excited about taking on new exposure here. The Aggregator could easily turn bullish if SPX has a flat or down day on

Monday. With current evidence fairly weak, this is not something I will try and anticipate with a standing buy-order. I would rather see more compelling evidence emerge, and would prefer to examine anything that emerges on Monday before committing to a long trade. I might also like to see a little more of a pullback. Despite changing direction each day for the last 7, SPX has moved quite a bit higher during that time. It has stayed above its 10ma the last 5 days and is not far from a new all-time high. So I don't intend to do anything Monday, but would likely start leaning long if we get a pullback over the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/23 – 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.)

The week was a good one for bulls. SPX posted a gain of 2.7% and is now less than 1% from a new all-time high. The NASDAQ did manage new multi-year highs on Friday. So the uptrend still appears to be solidly in place. There was one study that emerged this past week with short-to-intermediate-term implications. It was from the 3/19/15 letter, and I have copied it below.

When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 12/18/14 subscriber letter that demonstrates this.

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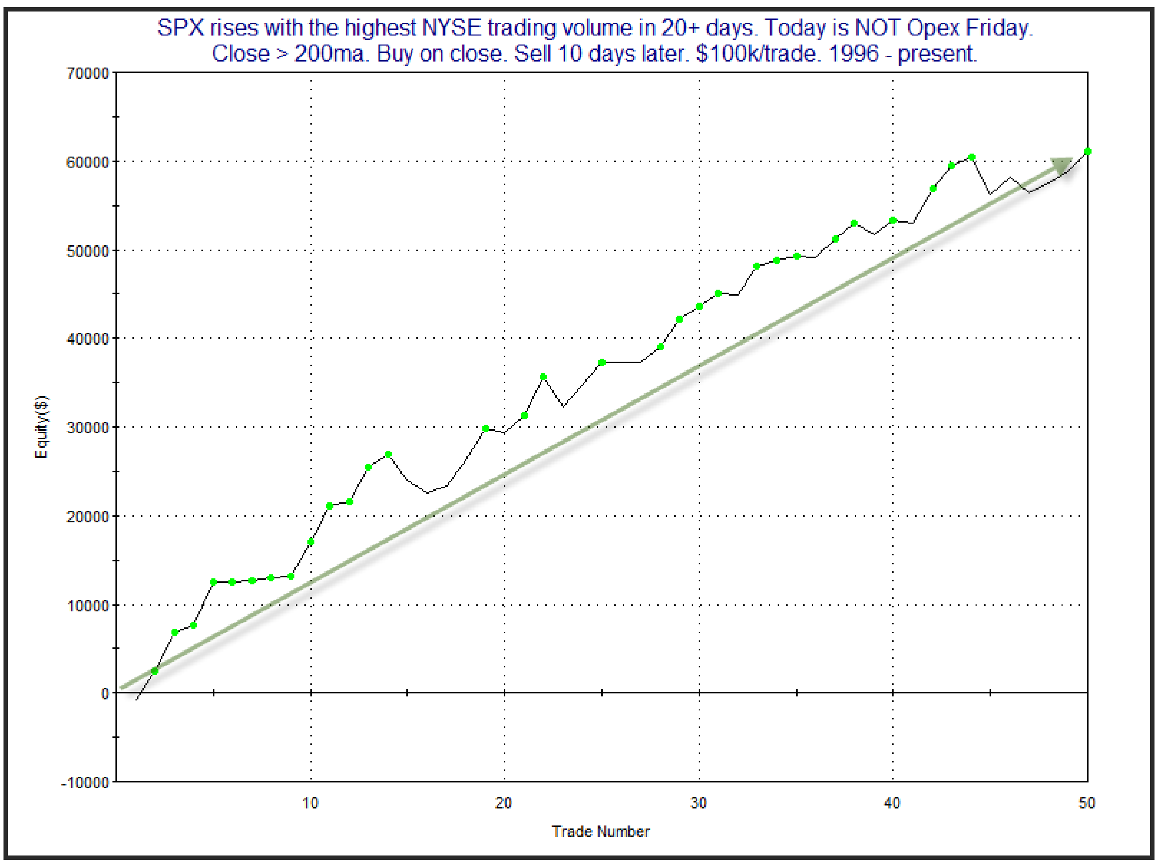
SPX rises with the highest NYSE trading volume in 20+ days. Today is NOT Opex Friday. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1996 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	61,122.09	50	37	13	74.00	2,115.98	4,885.00	-1,320.71	-4,242.42	1.60	4.56	1,222.44
9	53,146.80	50	37	13	74.00	1,972.28	5,451.25	-1,525.21	-5,429.38	1.29	3.68	1,062.94
8	50,758.67	50	39	11	78.00	1,837.42	4,174.09	-1,900.05	-5,492.28	0.97	3.43	1,015.17
7	40,983.16	52	38	14	73.08	1,817.51	4,869.18	-2,005.88	-5,526.30	0.91	2.46	788.14
6	39,201.55	55	37	18	67.27	1,858.36	5,552.91	-1,642.11	-4,857.36	1.13	2.33	712.76
5	28,130.69	55	37	18	67.27	1,570.13	4,683.84	-1,664.68	-4,459.24	0.94	1.94	511.47
4	24,536.04	58	37	21	63.79	1,417.50	4,518.75	-1,329.11	-4,368.22	1.07	1.88	423.04
3	16,523.29	60	39	21	65.00	1,142.48	3,216.85	-1,334.92	-3,332.96	0.86	1.59	275.39
2	6,598.88	61	37	24	60.66	846.44	2,830.24	-1,029.98	-3,844.10	0.82	1.27	108.18
1	9,318.42	74	43	31	58.11	633.76	2,368.66	-578.49	-2,302.95	1.10	1.52	125.92

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.

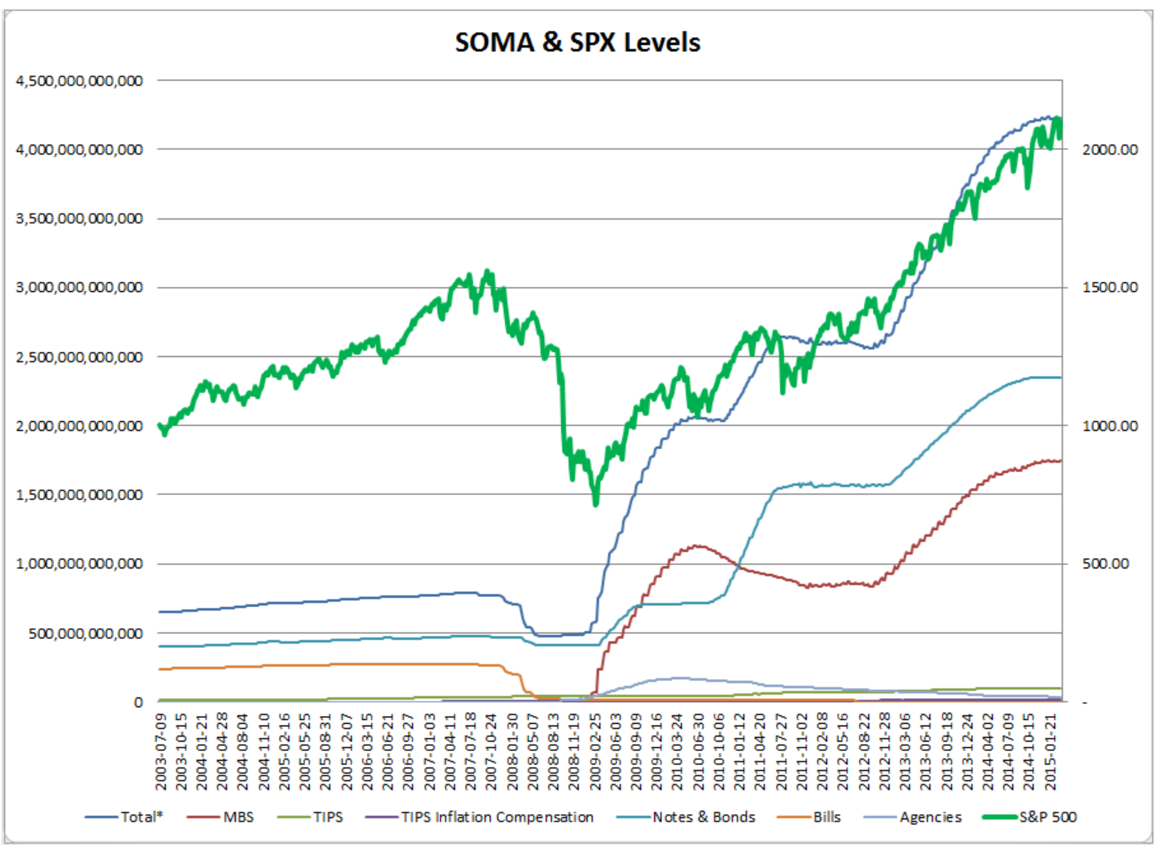


After a little bit of a struggle for a couple of instances the profit curve is again making new highs and looks impressive.

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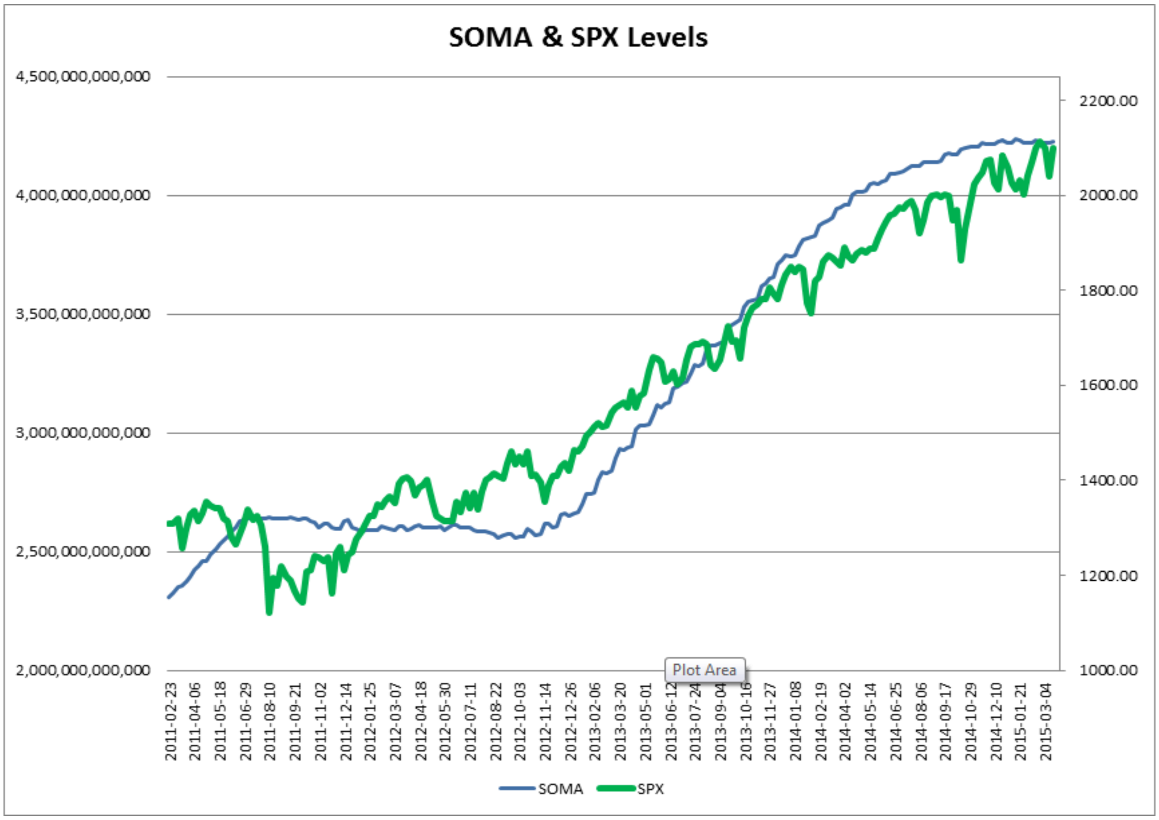
And now the zoomed-in view (2011 – present).



SOMA saw a very slight rise this week and has basically continued to chop sideways over the last couple of months. In fact, the high came on January 14th, and changes since then have been minimal. But still the SOMA line has not rolled over. Of course, in looking at the 1st 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. There have been strong swings over the last several months. The action over the last week has it looking like an upswing again. Perhaps flat SOMA is enough to sustain the market for now, especially through the bullish seasonal period we are in until the end of April. I doubt a steadily declining one would support a positive market environment.

Part of what caused the excitement and rally this past week was the Fed announcement on Wednesday. They indicated that a rise in interest rates was not on the near-term horizon. So while they are not aggressively pumping, they are not doing anything to dampen economic activity at the moment, and it continues to look like it will be a while before that happens. Policy changes and SOMA activity remain an important market influence. Therefore, 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. The meandering SOMA levels and the continually floundering number of stocks hitting new highs since spring of 2013 are potential warning signs. Bulls can still point to strong seasonality (Best 6 Months) as well as a continuing uptrend (Golden Cross) and a leading NASDAQ. The high-volume rally this past week also lends support to the bulls.

With bullish evidence still outweighing 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

MO – 1/3 at $53.37 (filled @ $53.20)

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.

None tonight

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	$32.25	$34.63	7.38%		Aggressive VIX
MO(1/3)	3/11/2015	$53.20	$51.42	-3.35%		Catapult

I continue to like the XIV positon here. It is at a point where I am beginning to consider implementing a breakeven stop, but I may give it a little more room before doing that. Despite the VIX futures roll on Wednesday, contango remained strong. XIV benefits from steep contango between the 1-2 month futures contracts, and at Friday's close the difference was 8.9%. So unless short-term evidence turns bearish or contango shrinks quite a bit, I will continue to try and ride this position a while longer. More information on the impact of contango and ideas with regards to XIV trading can be found on the VIX-Based Systems & Research page under the "Systems" dropdown on the website. (Subscribers must first login to access this material.)