

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 20, 2015

Volume 8 Issue 74

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.
- 1%+ drops on strongly negative breadth are often followed by a bounce.
- The continued trading range and moderate Fed stimulus has done little to change the intermediate-term outlook.

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is now oversold with room to the upside. This is creating a bullish outlook that could become more bullish if the pullback continues early this week.

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						
April 20, 2015	1st 5 low in 10 days	1-4 days	Bullish			
April 20, 2015	1% drop on 2:1 negative breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
April 14, 2015	VIX up 10%. SPX no 1% drop	1-5 days	Bullish			
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			

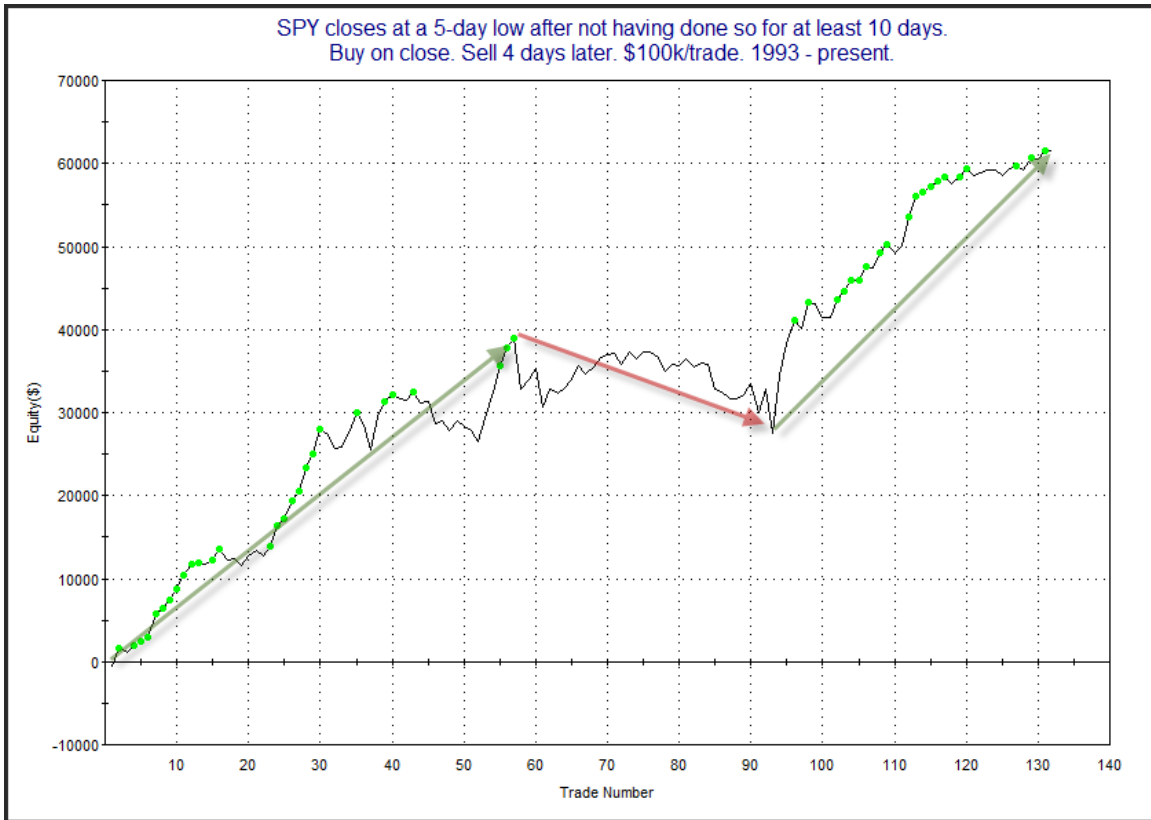
The Evidence

The market suffered its worst day in a while on Friday. The SPX lost 1.1%, the NASDAQ declined 1.5%, and the Russell 2000 fell 1.7%. Breadth was negative as the NYSE Up Issues % came in at 20% and the Up Volume % was 18%. Total NYSE volume rose from Thursday's level.

Friday was the 1st time SPY has closed at even a 5-day low since 3/26. In the 9/10/14 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days. 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: Profit Factor	All: Avg Trade
5	46,076.98	132	81	50	61.36	1,511.24	6,103.89	-1,526.68	-4,906.44	0.99	1.60	349.07
4	61,478.26	132	87	45	65.91	1,361.09	6,941.43	-1,265.26	-6,244.56	1.08	2.08	465.74
3	37,163.46	132	79	53	59.85	1,246.29	5,888.16	-1,156.47	-5,295.84	1.08	1.61	281.54
2	23,246.96	132	75	56	56.82	1,046.50	3,809.72	-986.44	-3,737.28	1.06	1.42	176.11
1	15,067.69	132	74	58	56.06	798.63	2,812.20	-759.15	-3,909.03	1.05	1.34	114.15
115 of 132 instances (87%) closed above the entry price at some point in the next week.												

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



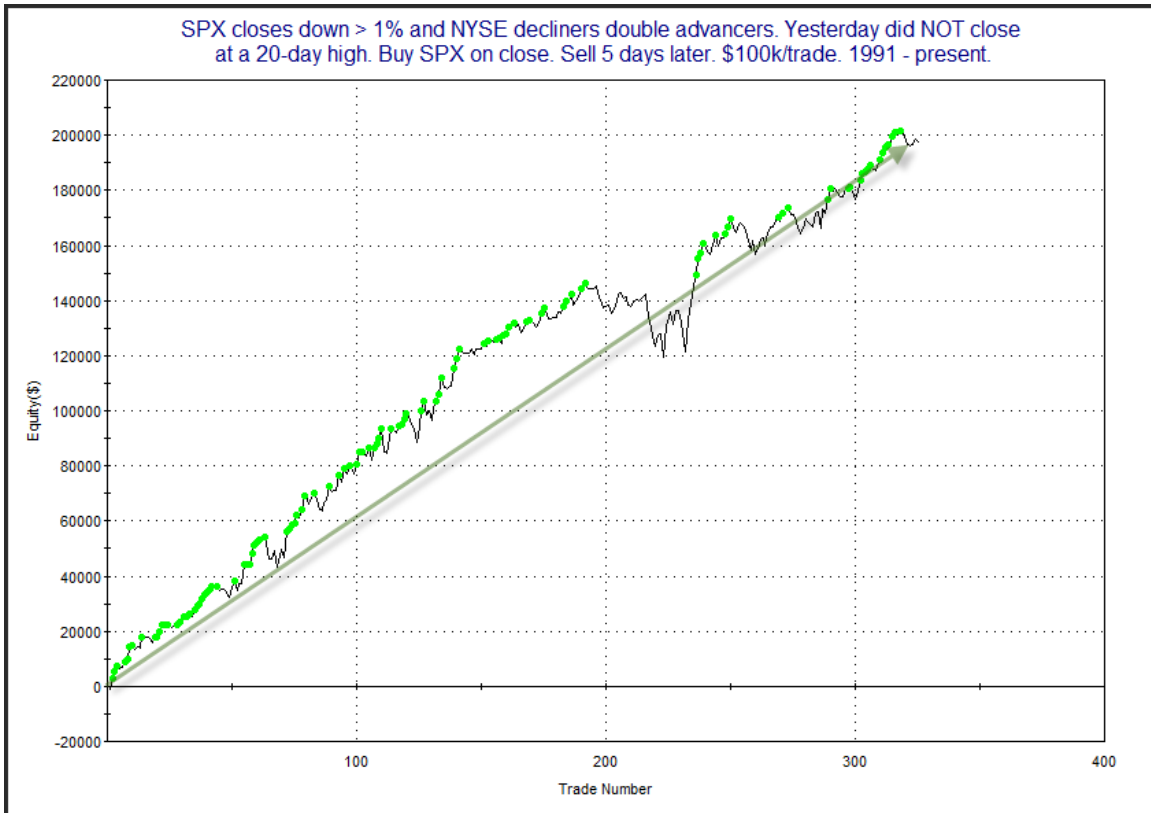
After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 40 trades or so the edge seems to have reasserted itself. The lesson with this study seems to be that persistent uptrends normally wither before they die, rather than turn on a dime.

Another study worth examining is one I last showed in the 3/26/15 letter. Often big down days on strongly negative breadth like Friday will be followed by a bounce over the next several days. The edge is greatly reduced when the market is directly coming off of intermediate-term highs. This study takes both of those things into consideration. Stats are updated.

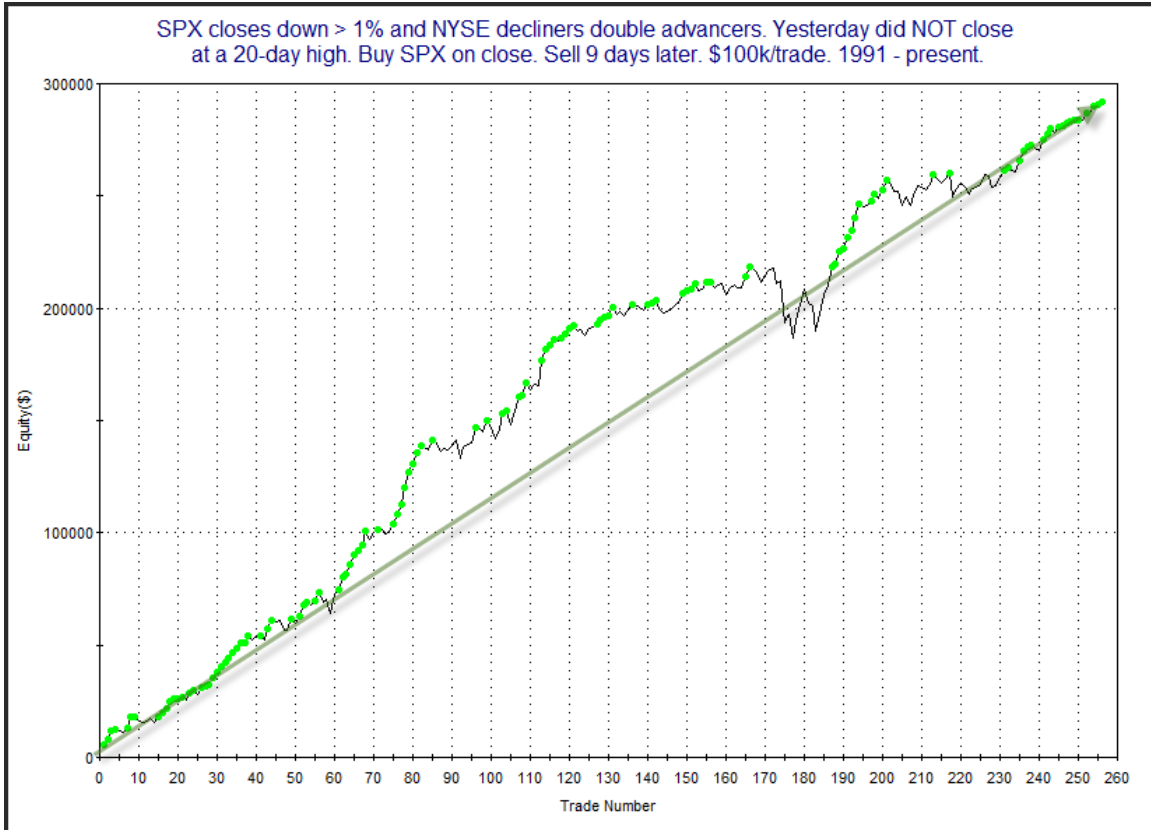
SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.

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	246,310.69	247	162	85	65.59	2,968.02	16,319.16	-2,758.93	-16,768.40	1.08	2.05	997.21
9	291,847.98	256	179	77	69.92	2,826.65	10,875.66	-2,780.82	-18,373.16	1.02	2.36	1,140.03
8	245,978.06	269	175	93	65.06	2,841.25	15,738.88	-2,701.52	-17,685.00	1.05	1.98	914.42
7	229,374.84	289	181	108	62.63	2,592.13	10,415.64	-2,220.37	-12,654.00	1.17	1.96	793.68
6	198,051.50	302	189	113	62.58	2,405.42	14,933.73	-2,270.56	-19,140.34	1.06	1.77	655.80
5	197,442.25	326	195	131	59.82	2,301.25	11,405.78	-1,918.33	-8,351.64	1.20	1.79	605.65
4	150,772.72	350	201	149	57.43	2,159.69	14,020.11	-1,901.51	-14,820.98	1.14	1.53	430.78
3	151,859.88	391	236	155	60.36	1,822.02	8,531.60	-1,794.44	-10,506.45	1.02	1.55	388.39
2	148,329.41	449	249	200	55.46	1,710.84	8,484.76	-1,388.35	-8,657.72	1.23	1.53	330.36
1	124,970.59	502	293	209	58.37	1,162.51	10,716.03	-1,031.80	-7,577.02	1.13	1.58	248.95

The stats table suggests a decent upside edge over the next 1-2 weeks. Below are the profit curves for the 5-day and 9-day holding periods. First the five.

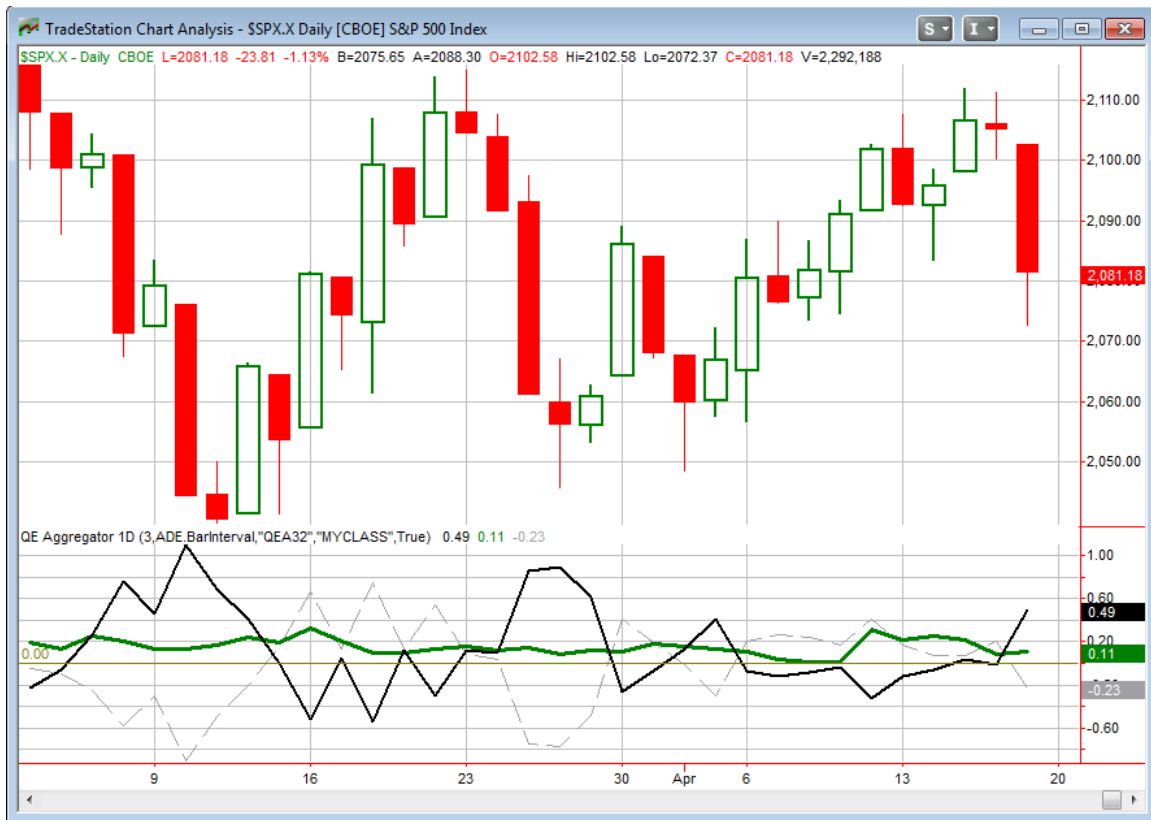


Other than the one rough period, it has been a pretty persistent rise in this curve. Now the 9-day curve.



This looks quite similar and suggests the upside edge which has been in place a long time, remains so. I have included this study on the Active List tonight.

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



With tonight's studies factored in the green Aggregator Line stayed above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose above below 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal tuned long at the close.

Based on the current active studies, expectations are set to remain positive on Monday. That could change if compelling bearish evidence emerges. The Differential Pivot will be 2120.82 on Monday. That is a whopping 1.9% above Friday's close. So for SPX to move from oversold to overbought it is going to need to close up at least 1.9% on Monday. That would seem to be a reach. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

The Aggregator is certainly bullish. And there is plenty of room to the upside (potential reward) before the SPX would be considered overbought. So this is the type of setup where I generally look to take advantage. I am not going to jump in here with large positions though. While bullish, the evidence is not overwhelming. Also, the "oversold" nature of the market is not terribly extreme. SPX had a big drop on Friday, but it is only down 2 days in a row, and coming off of a multi-week high. So it could certainly get

more oversold before the anticipated bounce ensues. Therefore, I believe it is warranted to start scaling into a position here with the intention of getting longer if the market does get more oversold. That is what I will be looking to do on Monday – and perhaps further into the week if the selloff continues.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/20– somewhat bullish

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

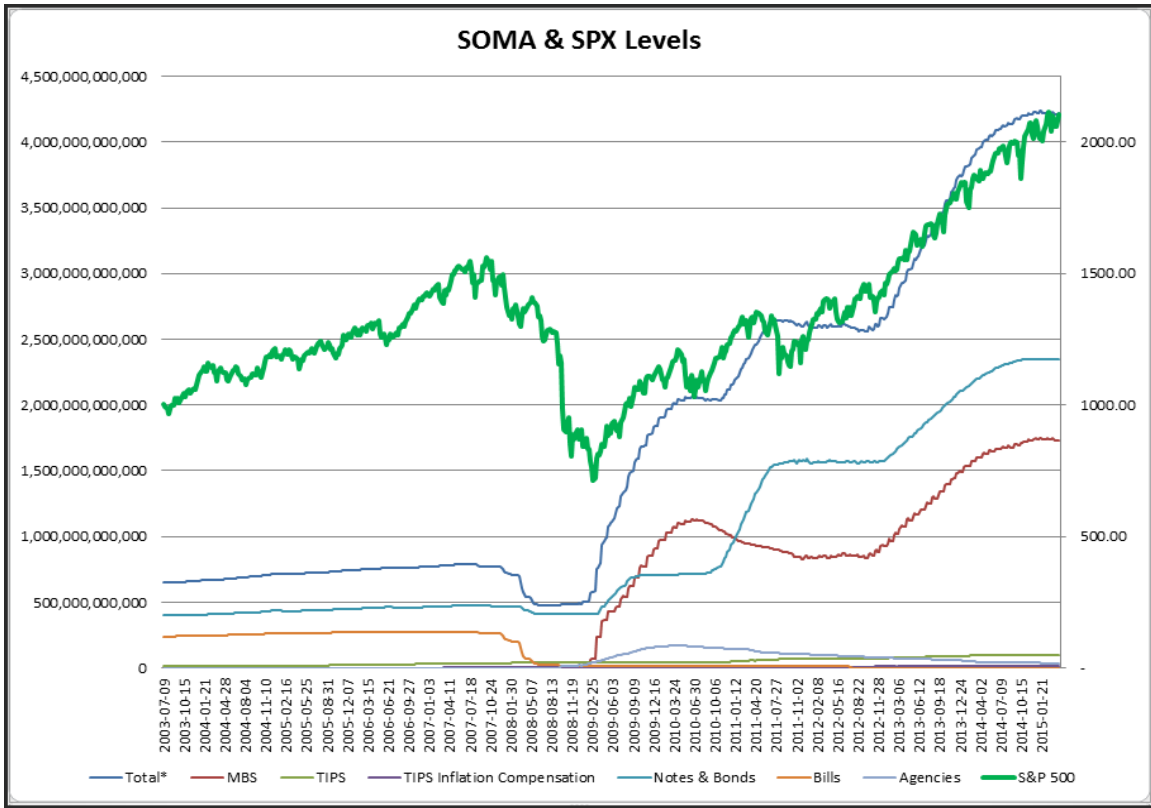
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.)

Friday’s big drop caused the market finish down for the week. The SPX lost just slightly less than 1.0% and remains in the trading range it has been in for the last couple of months. We are not seeing any price-based evidence that a downtrend has begun, so I am continuing to give the uptrend the benefit of the doubt.

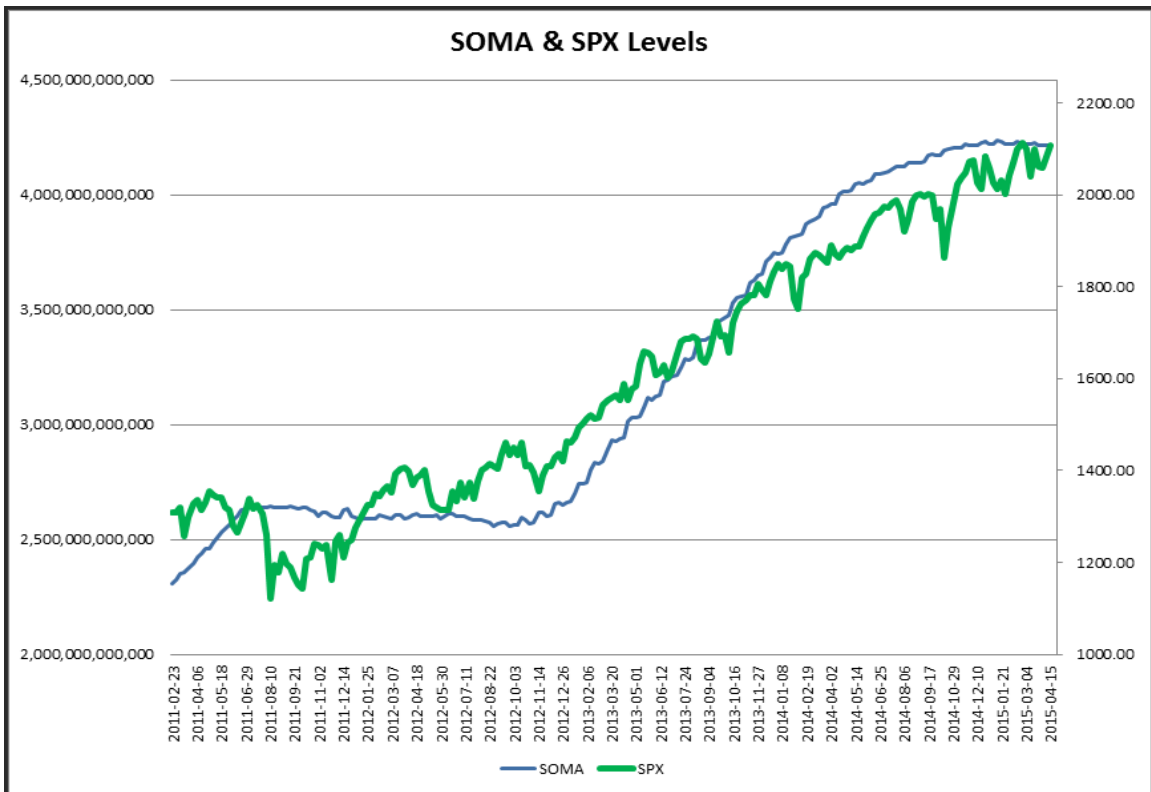
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 again saw another mild increase this week. That changed really nothing in my SOMA analysis. SOMA has basically chopped sideways over the last couple of months. 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 market has not made much progress but it also has not rolled over. 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. Fed 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 again this 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](#).

One part of the above that will change soon is the "Best 6 Months" seasonality, which will expire when the calendar turns to May. I'll discuss implications of this in next week's intermediate-term section.

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

New

WMT – 1/3 @ \$77.88 (*buy @ limit*)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (WMT)

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 @ \$207.95 LIMIT. Based on the short-term outlook above, I will look to start scaling into an index position if I can get filled at or below Friday’s closing price.

WMT – buy 1/3 Catapult position @ \$77.88 LIMIT. This is a Catapult setup as shown above. Catapults do tend to be quite volatile. More about Catapults can be found on the [Catapult System page](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$39.37	22.08%	\$32.69	Aggressive VIX

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