

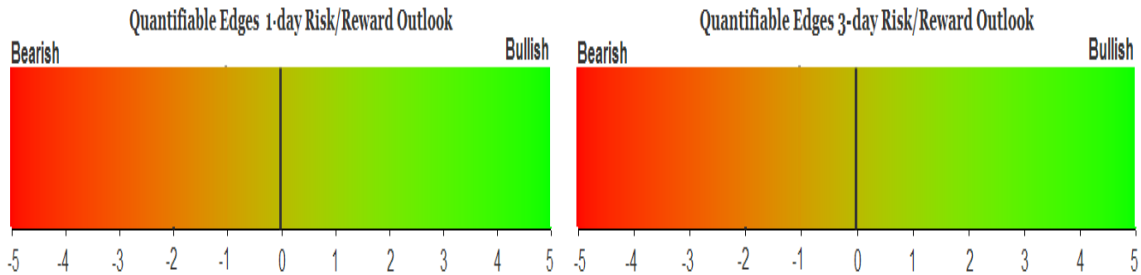
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2015

Volume 8 Issue 113

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- An unfilled gap down right after an unfilled gap up can suggest short-term problems for the bulls.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now mixed and overbought/oversold is in flux with the recent back and forth action. I don't see a strong edge in either direction.

**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>						
June 15, 2015	Unfilled gap down after unfilled gap up.	1-2 days	Bearish			
June 10, 2015	4 lower lows. 20-day low > 200ma	1-8 days	Bullish	2.40%	-1.50%	-2.70%
<b>Active - Long Term</b>						
May 18, 2015	NASDAQ leading SPX	int term	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>						
June 9, 2015	3-down, 20-low > 200 on Monday	1-4 days	Bullish			
June 1, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%

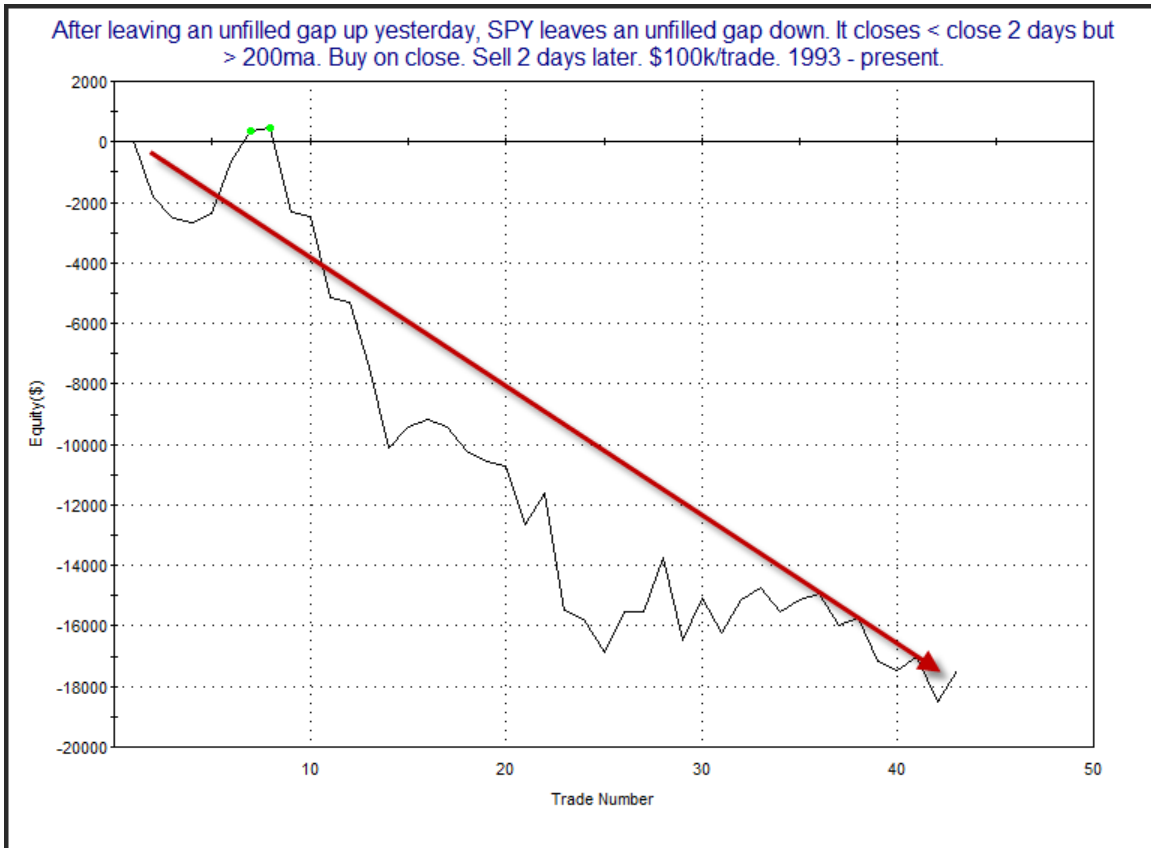
**The Evidence**

Friday was a down day across the board. The SPX lost 0.7%, the NASDAQ declined 0.6%, and the Russell 2000 fell 0.3%. Breadth was also negative as the NYSE Up Issues % came in at 35% and the Up Volume % was 25%. Total NYSE volume came in very light.

Interesting about the action is that SPY posted an unfilled gap down. This occurred immediately following an unfilled gap up the day before. The study below was last seen in the 1/30/14 letter. It examines 2-day moves like SPY has just encountered.

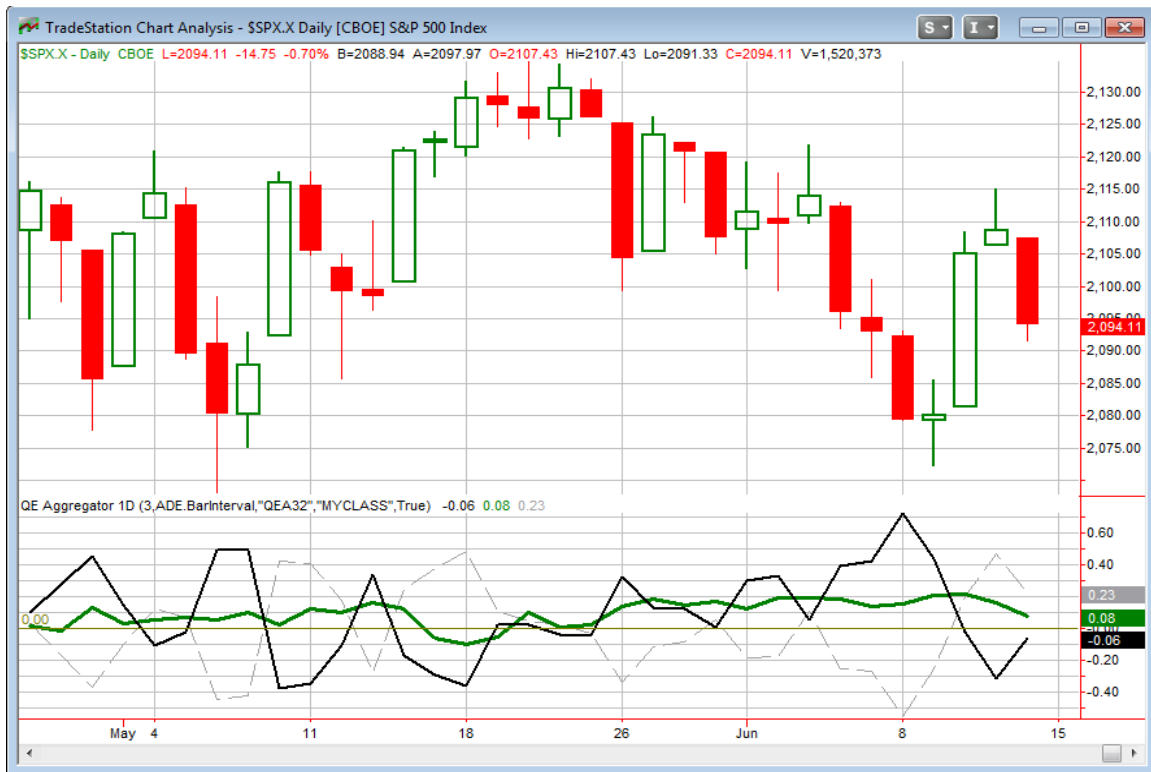
After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < close 2 days but > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-908.69	40	18	22	45.00	1,508.77	3,949.59	-1,275.76	-3,791.20	1.18	0.97	-22.72
4	804.14	41	18	23	43.90	1,567.23	3,637.58	-1,191.56	-4,926.08	1.32	1.03	19.61
3	-20,491.94	43	18	25	41.86	858.36	2,463.47	-1,437.70	-5,321.00	0.60	0.43	-476.56
2	-17,470.73	43	18	24	41.86	747.27	1,754.40	-1,288.40	-3,893.00	0.58	0.43	-406.30
1	-2,046.54	43	19	23	44.19	549.84	1,325.15	-543.20	-1,564.50	1.01	0.84	-47.59

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the steepness has lessened some in recent times, there still appears to be a bearish suggestion. I believe this study is worth some consideration.

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



Despite the bearish study tonight the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means 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 positive on Monday. This could change if more bearish evidence emerges. The Differential Pivot will be *inverted at 2117.19* on Monday. That is 1.1% *above* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So in this case, in order to remain "overbought" versus expectations SPX is going to need to close up at least 1.1% on Monday. Anything short of that and it will turn to "oversold".

So we are seeing some new bearish evidence, but the net of the current studies remains bullish. And while the market is overbought, it is likely to be oversold as of Monday's close. In other words, I am seeing lots of crosswinds. This is not the kind of setup that gets me excited about taking on new positions. With the Differential Pivot so highly inverted we are likely to see a bullish Aggregator formation emerge on Monday afternoon. But I will want to see it accompanied by new bullish evidence if I am going to act on it.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/15– slightly bullish**

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

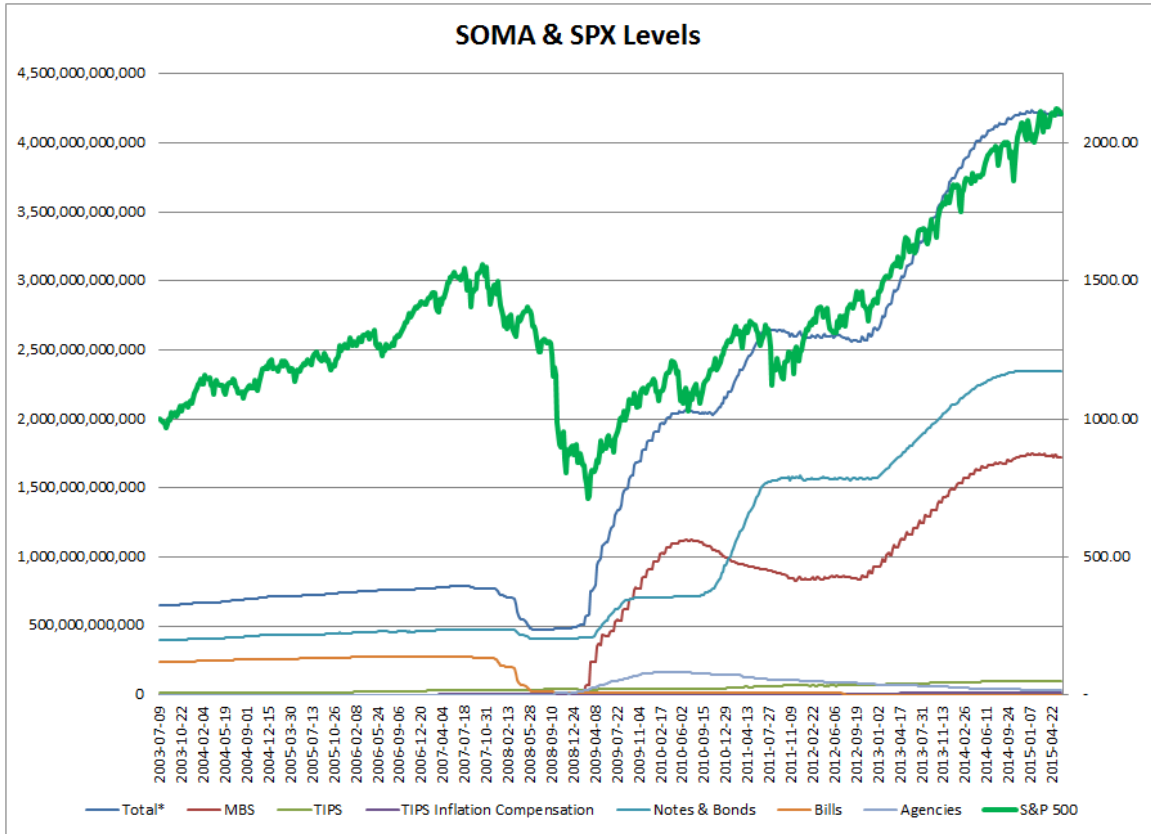
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.) There were no changes this week to the different Combination Signals. All three remain long.

It was a mixed week for the market, with the SPX closing up a couple of points and the NASDAQ down a little. The market has been range-bound for much of 2015. While direction has not been strongly up, so far I am not see strong indications that the long-term uptrend has reached its end. From a studies standpoint, the mixed action this past week did not trigger anything of intermediate-term significance.

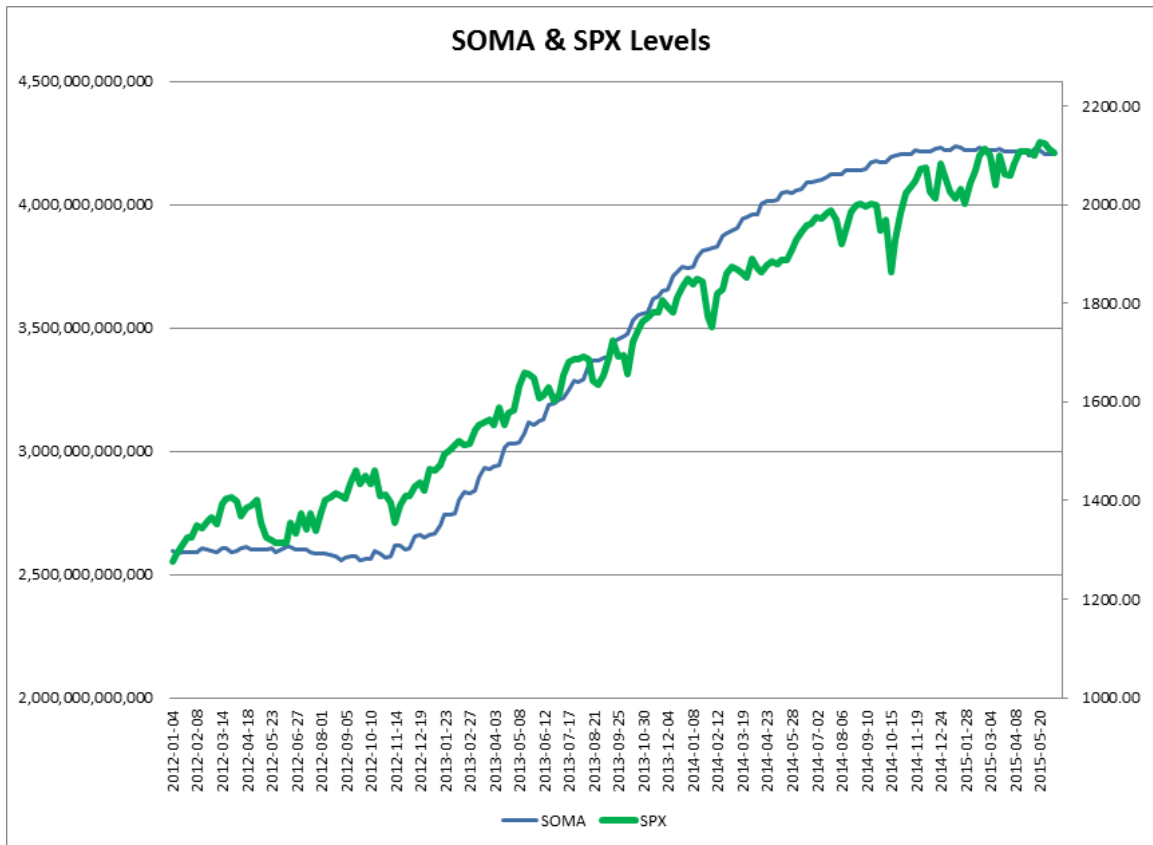
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 (2012 – present).



It is impossible to see on the chart, but for the 2<sup>nd</sup> week in a row the SOMA held nearly steady, gaining an extremely small amount. It is still close to its lowest level since QE ended at the end of October. A drop below that range could lead to some more serious consequences for the market. So the next few weeks continue to appear important. Fed policy and SOMA activity remain a significant market influence. I will be monitoring it closely as I normally do.

Once again my intermediate-term outlook is largely unchanged. Our Market Timing Course indicators are still mostly bullish (and the MTC “Combo Systems” are all bullish). But other indicators continue to suggest a dangerous environment. This includes the diverging number of stocks making new highs and the questionable SOMA action. Overall, I am not inclined to bet against then trend, the leading NASDAQ and the MTC Combo Systems. I therefore will remain “slightly bullish”. I am willing to trade both long and short, but I’ll be a bit pickier with short-side opportunities.

## **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***

## **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.**

## **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
XIV(1/2)	3/9/2015	\$32.25	\$46.70	44.81%	\$40.40	Aggressive VIX

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