

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 29, 2015

Volume 8 Issue 123

Market Overview



Signals Overview

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

Tonight's Research Points

- Mild 3+ day pullbacks from 20-day highs are often shortly followed by a bounce.
- The Fed's SOMA rose a little more this past week.

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is a bit oversold. Probabilities seem to favor a bounce in the next few days.

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						
June 29, 2015	3 dn from 20-day high	1-3 days	Bullish	1.80%	-0.80%	-1.80%
June 25, 2015	Weak close, 5-low, >200ma	1-4 days	Bullish			
Active - Long Term						
June 23, 2015	Russell late June strength vs SPX	until July	neutral			
June 16, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%
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			
Dropped Tonight						
June 22, 2015	June post-opex weak	1-5 days	Bearish	-2.00%	1.00%	1.80%

The Evidence

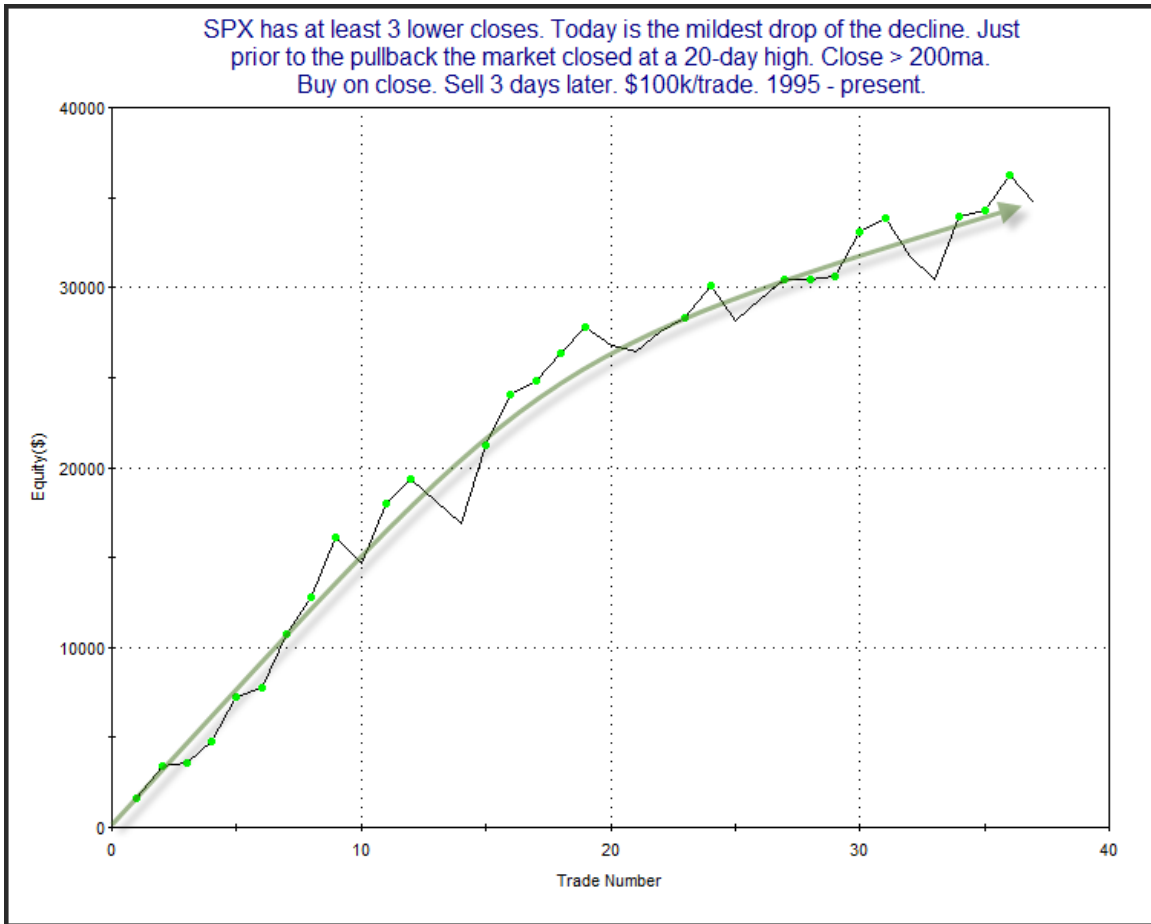
The market was mostly lower on Friday. The SPX declined less than 0.1%, the NASDAQ fell 0.6%, and the Russell 2000 dropped 0.3%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 44%. Total NYSE volume rose for the 4th day in a row.

Three-day pullbacks will often suggest an upside edge, depending on how they occur. The study below is from the 7/10/12 Subscriber Letter. It examined pullbacks similar to our current one that followed a 20-day high and occurred with declining force. The declining force can suggest sellers are running out of steam. I have updated the stats below.

SPX has at least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback the market closed at a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	35,457.56	37	26	11	70.27	1,869.18	5,769.16	-1,194.65	-3,304.80	1.56	3.70	958.31
4	34,676.66	37	23	14	62.16	2,023.05	4,989.40	-846.67	-2,876.40	2.39	3.93	937.21
3	34,684.56	37	28	9	75.68	1,671.72	4,373.80	-1,347.08	-2,085.27	1.24	3.86	937.42
2	25,968.55	38	28	10	73.68	1,369.92	3,583.44	-1,238.93	-2,803.79	1.11	3.10	683.38
1	11,674.57	41	29	11	70.73	770.67	1,767.00	-970.45	-2,214.00	0.79	2.09	284.75

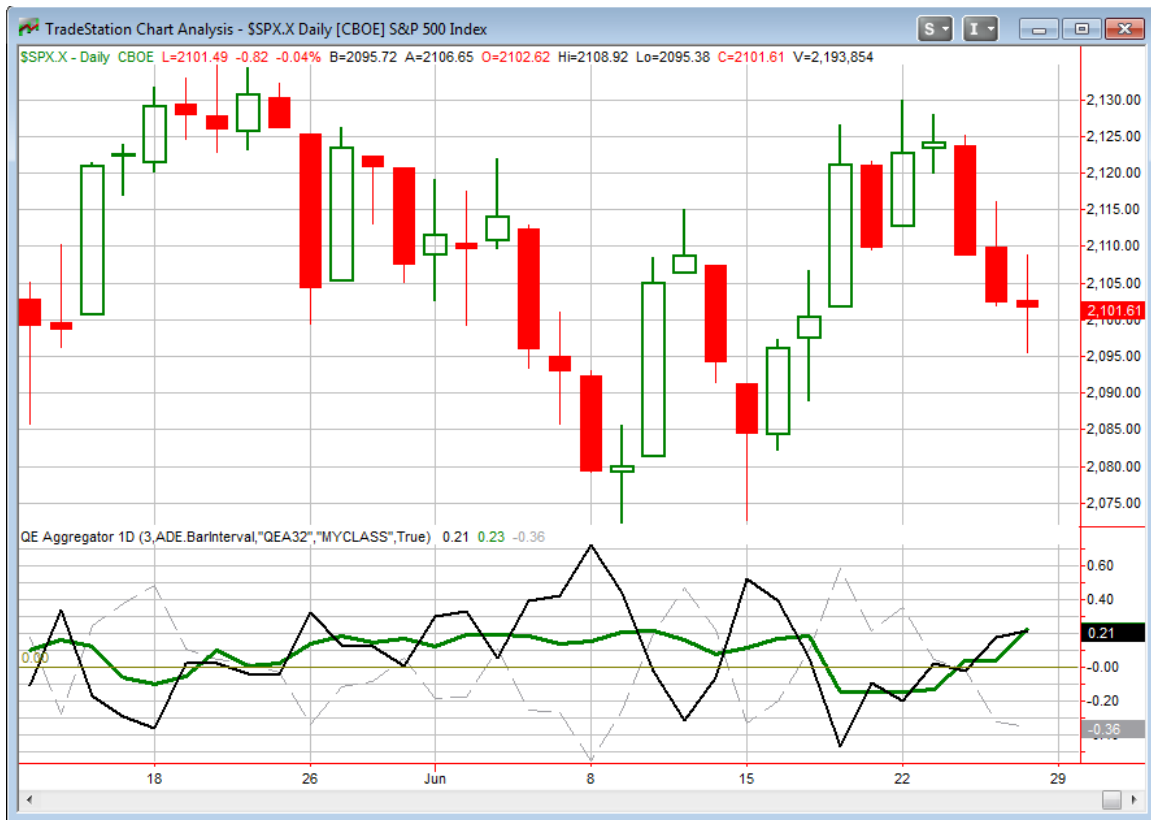
Only 2 instances failed to close above the entry price at some point in the next week. They were 7/22/98 and 4/8/12.

Here we see what appears to be a reliable setup with some powerful results. A 3-day profit curve can be found below.



The upslope appears solid and serves as confirmation of the bullish stats.

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



Tonight's study helped the green Aggregator line move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved higher above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Monday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2103.53 on Monday. That is just 0.1% above Friday's close. So for SPX to flip from oversold to overbought versus recent expectations it will only need to close up 0.1% on Monday.

Short-term evidence is now more clearly favoring the bulls. And with the market oversold there seems to be a decent upside edge. But it won't take much for the Aggregator to turn back to a neutral formation, since the Differential Pivot is so close by. This somewhat limits potential reward. To make up for this some I will look to buy into weakness on Monday rather than simply using a limit price equal to Friday's close as I often do. I will also be keeping my position small for the time being.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/29– slightly bullish

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

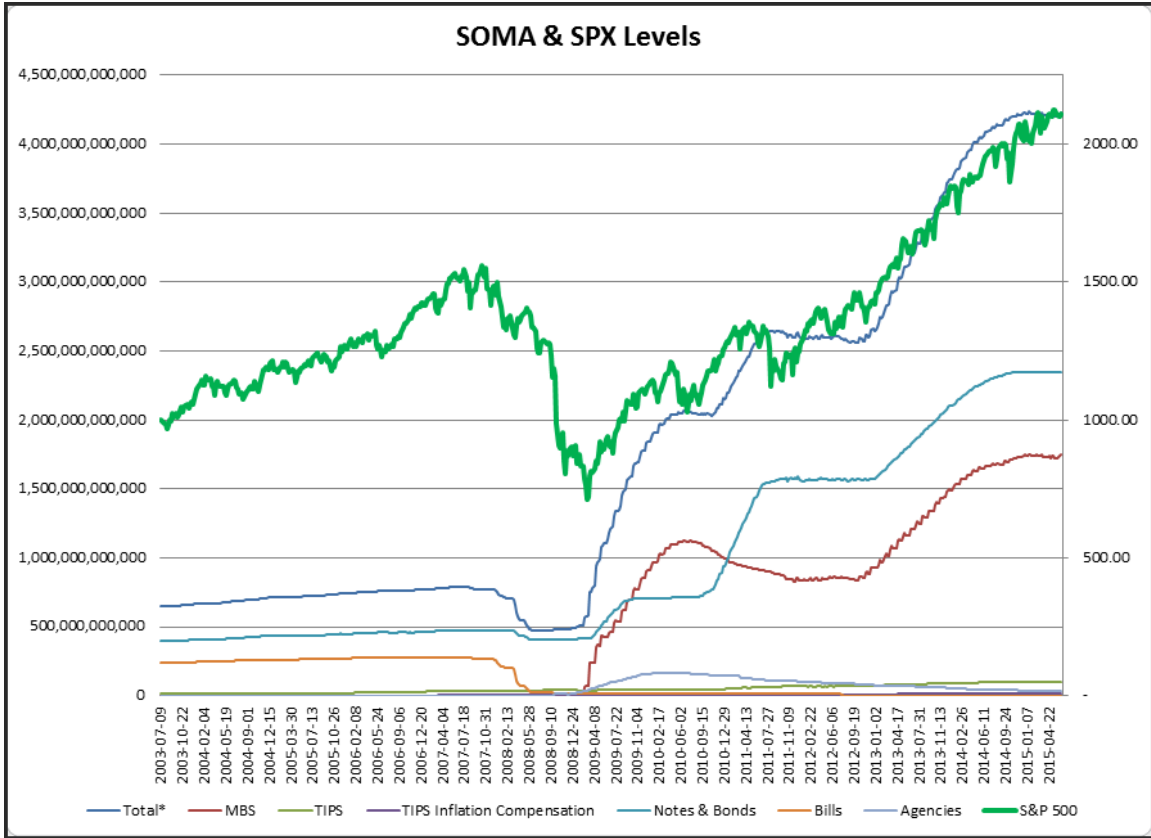
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

After 2 small up weeks, the SPX suffered a small down week this past week with a 0.4% decline. It has been in a tight range for almost all of 2015 and that remains the case. The tight trading and mild pullback this past week did nothing to generate compelling new intermediate-term studies.

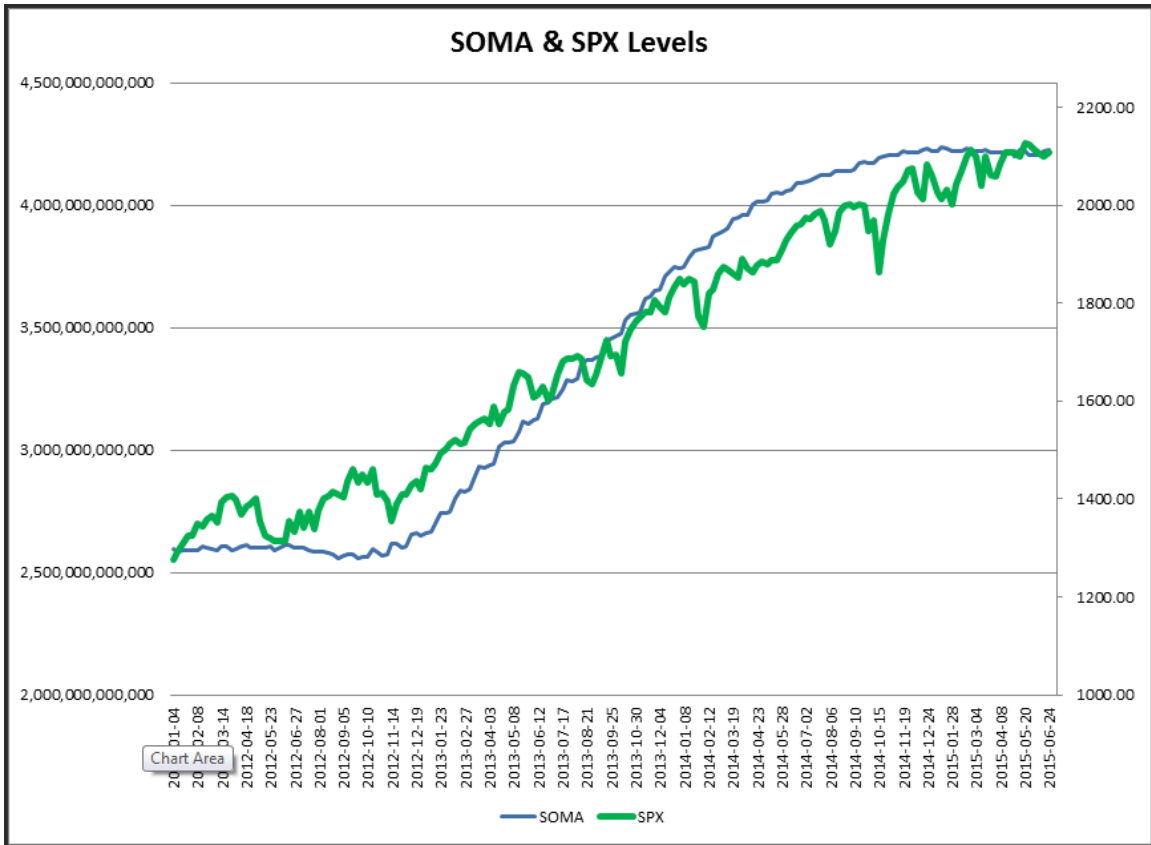
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 almost indecipherable, but the SOMA did post a rise again this past week – putting it at the highest level since mid-March. Still, it is still within the range it has been in since QE3 ended at the end of October. Things should really get interesting when that range is finally broken in a decisive way. Fed policy and SOMA activity have had a huge market influence historically, and paying attention to them is critical. I will continue to monitor changes 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

New

RTN - \$97.79 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(RTN)

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 \$209.50 LIMIT. Based on the short-term outlook above, I will look to scale in to a long position if SPY gaps down of dips to this level during the day.

RTN – buy 1/3 Catapult position @ \$97.79 LIMIT. This is a Catapult trade. It is the 1st of 3 possible lots for RTN. Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information 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	\$48.60	50.70%	\$42.95	Aggressive VIX

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