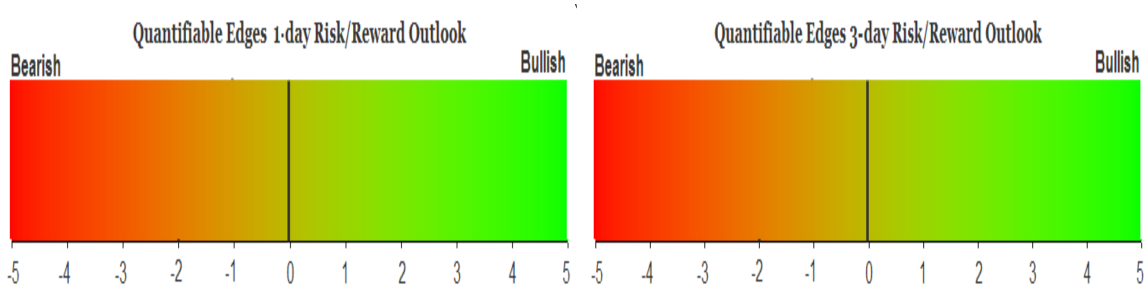
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2015 Volume 8 Issue 157

Market Overview



Signals Overview

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

Tonight's Research Points

- Opex week in August has not been consistent.
- The NASDAQ is now lagging.

Short-term Outlook
The Bottom Line

While short-term evidence leans bullish the market is overbought. This is not a great reward/risk scenario and leaves me overall neutral.

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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						
August 14, 2015	SPY 1% rvsl frm 20-low. Then down.	1-4 days	Bullish	2.50%	-0.90%	-1.80%
Active - Long Term						
July 27, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
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						
August 10, 2015	HV low. SPX not high.	1-5 days	Bearish	-2.30%	1.20%	2.20%

The Evidence

After a dip in the morning the market managed to pull out some solid gains on Friday. The SPX rose 0.4%, the NASDAQ gained 0.3%, and the Russell 2000 rallied 0.7%. Breadth was squarely positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 65%. Total NYSE volume came in at the lowest level in a while.

The low volume does not particularly concern me. Low volume is typical in August – especially headed into a weekend. There were a few studies related to low volume that appeared. For the most part they had bearish implications when SPX was below the 200ma, but were neutral above it.

From a seasonal standpoint, this upcoming week is options expiration. Options expiration is often a bullish week for the market but it really varies from month to month. The table below is copied from the 3/16/15 letter. It shows opex week tendencies broken down by month.

Op-Ex Week SPX Performance by Month. $100k/trade. 1984 - present.
(Excludes September 2001.)

X Month	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
12	28,528.05	31	25	6	80.65	1,480.13	5,868.16	-1,412.53	-4,176.33	1.05	4.37	920.26
11	1,875.70	31	19	12	61.29	1,355.52	3,718.25	-1,989.93	-8,351.64	0.68	1.08	60.51
10	24,123.24	31	22	9	70.97	2,338.11	7,282.10	-3,035.03	-9,109.98	0.77	1.88	778.17
9	13,251.05	30	19	11	63.33	1,574.71	5,313.08	-1,515.30	-4,975.04	1.04	1.79	441.70
8	4,355.19	31	18	13	58.06	1,432.07	4,329.72	-1,647.84	-4,643.52	0.87	1.20	140.49
7	-2,874.13	31	15	15	48.39	1,409.35	6,921.25	-1,600.96	-7,953.12	0.88	0.88	-92.71
6	-1,609.97	31	17	14	54.84	1,263.77	3,786.09	-1,649.57	-3,998.19	0.77	0.93	-51.93
5	2,129.77	31	15	16	48.39	2,025.78	4,850.40	-1,766.05	-4,959.45	1.15	1.08	68.70
4	28,700.79	31	20	11	64.52	2,293.46	5,731.96	-1,560.77	-3,580.15	1.47	2.67	925.83
3	26,262.25	31	21	10	67.74	2,009.95	7,515.60	-1,594.66	-6,711.66	1.26	2.65	847.17
2	7,607.38	32	18	14	56.25	1,395.40	3,096.72	-1,250.70	-6,814.80	1.12	1.43	237.73
1	6,949.78	32	15	17	46.88	2,177.49	5,389.00	-1,512.51	-5,383.93	1.44	1.27	217.18

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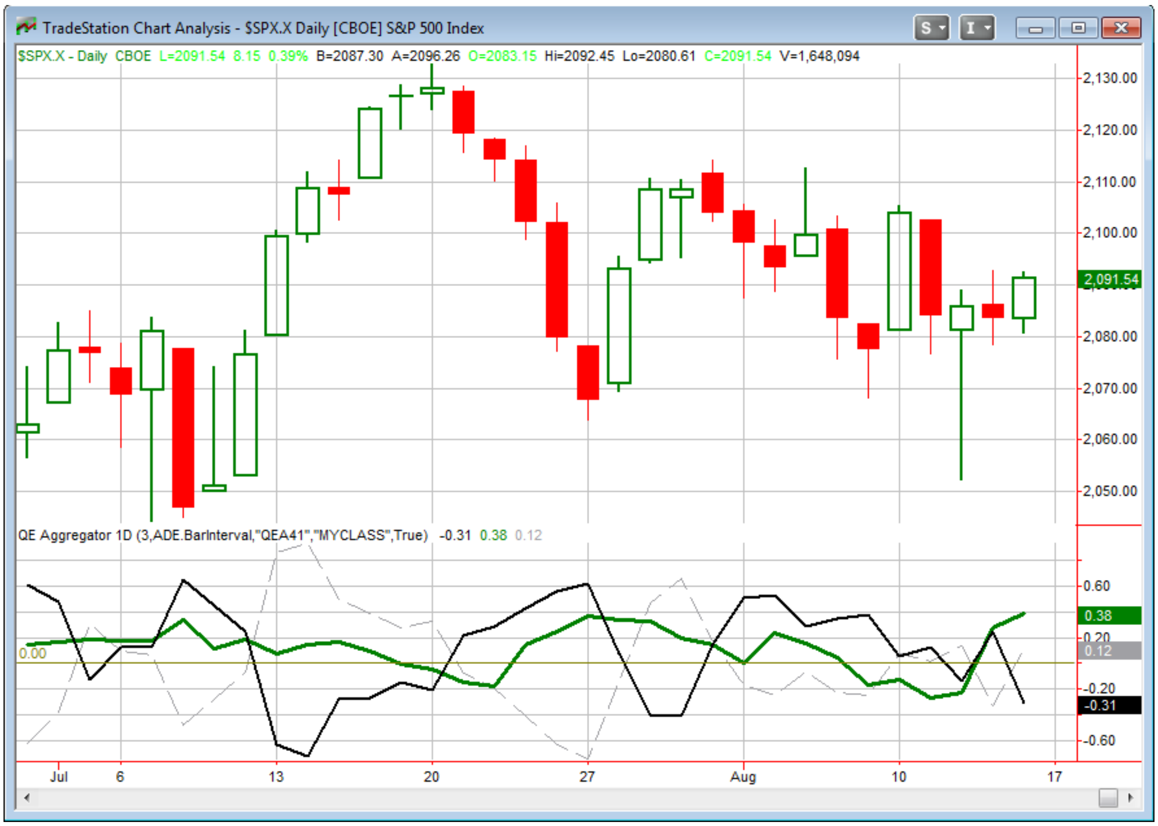
As you can see, August has not been consistent. Its numbers are basically neutral. So opex week won't be factoring into my market bias this month.

I have updated the Aggregator chart below.



Without any new short-term studies 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 dove back 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 side of 0. Therefore the Aggregator signal turned flat at the close.

Expectations are currently set to remain bullish on Monday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2073.05 on Monday. That is 0.9% below Friday's close. So for SPX to flip back to "oversold" versus expectations it will need to close down at least 0.9% on Monday.

The Aggregator is back to neutral and so am I. Edges have been more scarce in the last week or so than we have seen in a while. Much of this is due to the chop we have seen. Once the recent range is broken we are likely to see more evidence emerge. But patience and dexterity appear to be important in the current environment. I'll exercise patience right now and wait for a more compelling reward/risk scenario to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/17 – neutral

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

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.) *Combo #3 changed from long to flat at the close on Friday*.

SPX changed direction on a weekly basis for the 5th week in a row this past week. This time it was a 0.7% rise.

A possibly significant intermediate-term development is that the NASDAQ fell into a lagging position versus the SPX for the 1st time since May. The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom of the chart. The green line moving down below the blue line is the signal that the NASDAQ is now lagging.

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Since 4/9/71, which is the earliest data point after the inception of the Nasdaq in which the calculations could be run, until now, the SPX has gained 1909.51 points when the Nasdaq was in leading position. When the SPX has been leading during that time it has gained only 79.93 points. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on the Nasdaq Weekly Strength Model page.

For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

Utilizing other Market Timing Course signals, I looked at how the market has fared during those times in which 1) The NASDAQ was lagging, 2) the Golden Cross was in effect, 3) the Presidential Cycle was bullish, and 4) it was the “Worst 6 Months”. This is the setup we currently find ourselves in. There have been 54 such instances over the years in which these 4 long-term indicators lined up in this manner. Below are the results of trading all of them using a flat $100k/trade per instance.

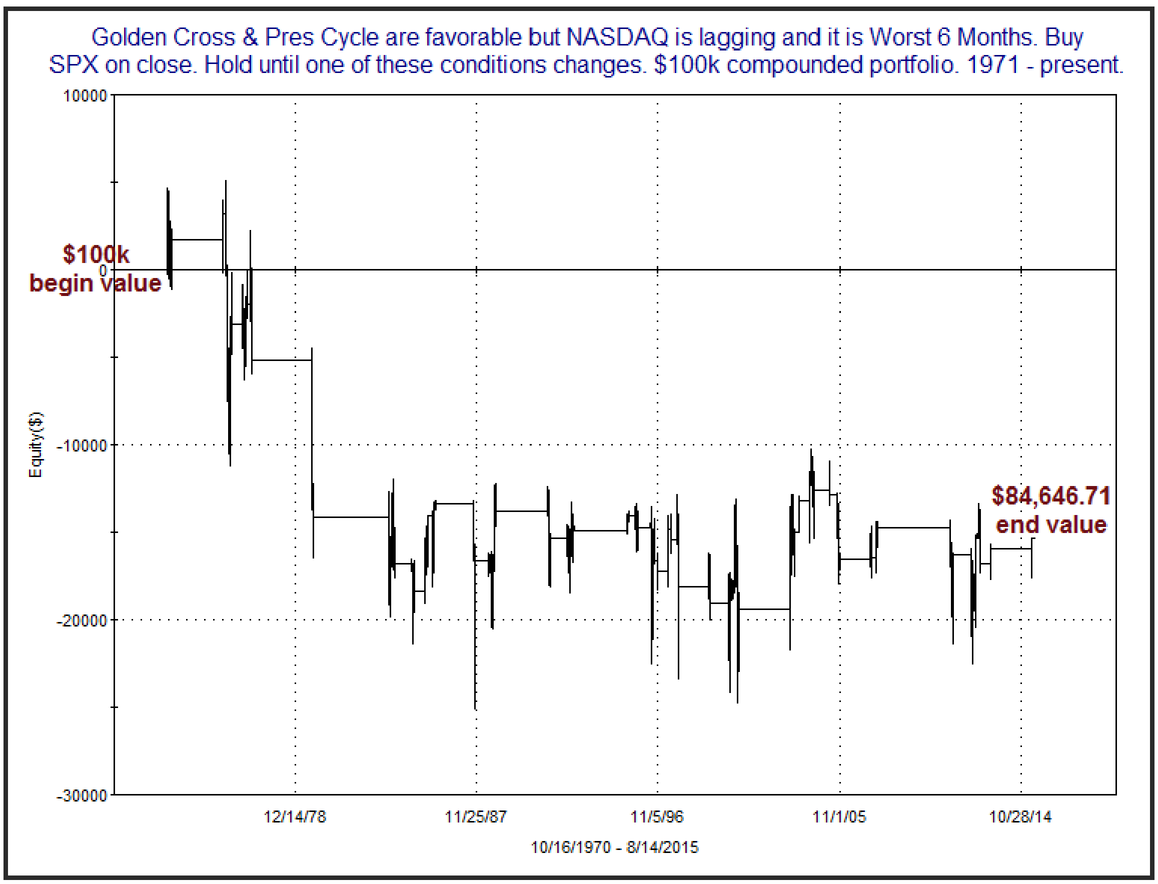
Golden Cross & Pres Cycle are favorable but NASDAQ is lagging and it is Worst 6 Months. Buy SPX on close. Hold until one of these conditions changes. $100k/trade. 1971 - present.

TradeStation Performance Summary Collapse

All Trades

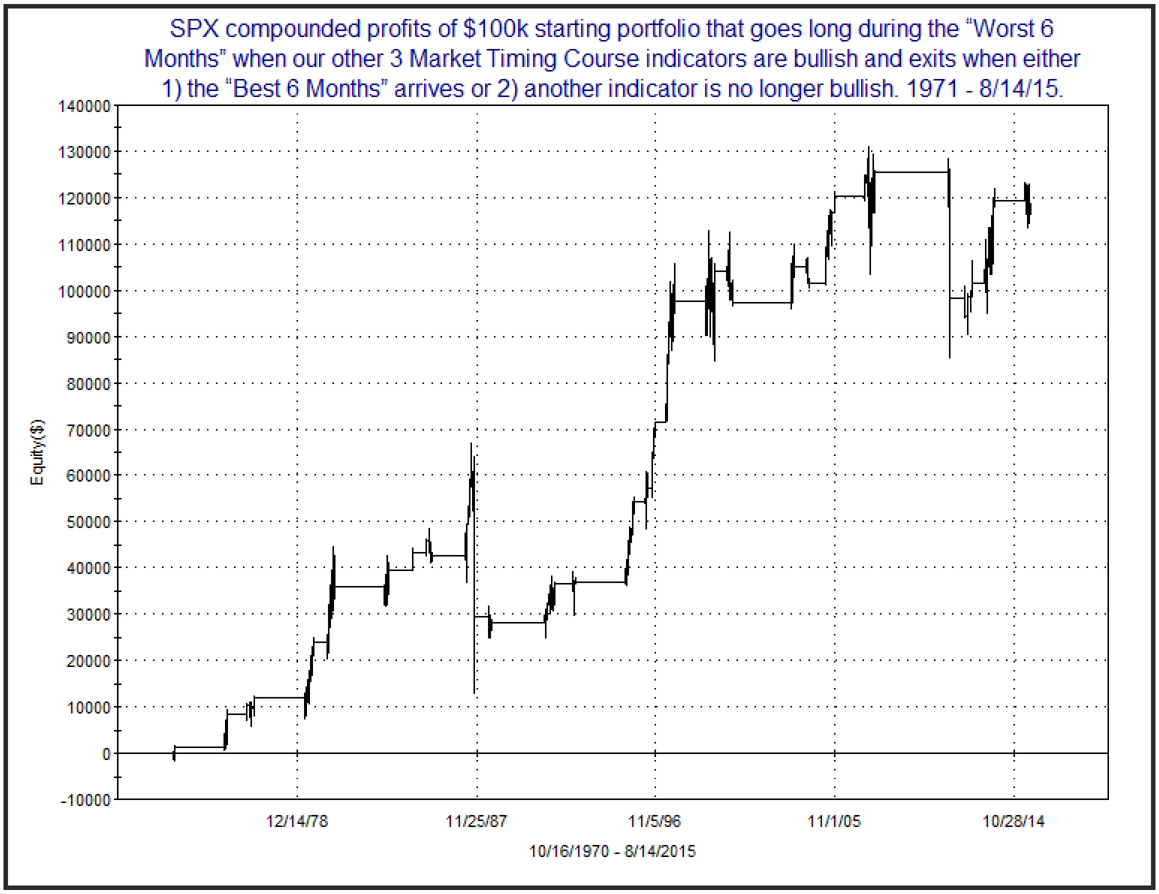
Total Net Profit	($14,056.48)	Profit Factor	0.79
Gross Profit	$53,281.66	Gross Loss	($67,338.14)
Total Number of Trades	55	Percent Profitable	45.45%
Winning Trades	25	Losing Trades	30
Even Trades	0		
Avg. Trade Net Profit	($255.57)	Ratio Avg. Win:Avg. Loss	0.95
Avg. Winning Trade	$2,131.27	Avg. Losing Trade	($2,244.60)
Largest Winning Trade	$7,426.65	Largest Losing Trade	($8,486.10)

Numbers here are not very encouraging. I also ran a profit curve. For this curve I assumed a $100k starting portfolio value and then reinvested the whole portfolio with each trade.



Most of the losses came in the 1st 15 years, but there has never been a time where this setup has appeared bullish. It has barely managed to tread water since the mid-80s. So although 2 of the 3 Market Timing Course "Combo Systems" remain long, the details of this particular setup do *not* appear favorable.

Of course we should also keep in mind the profit curve below that examines "Worst 6 Months" when all of the other Market Timing Course indicators were bullish…



As you can see, the "Worst 6 Months" under these circumstances has actually fared quite well, with over $120k in profits and a choppy, but persistently upward moving profit curve. For this setup to occur, we would simply need to see the NASDAQ retake its leading position.

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

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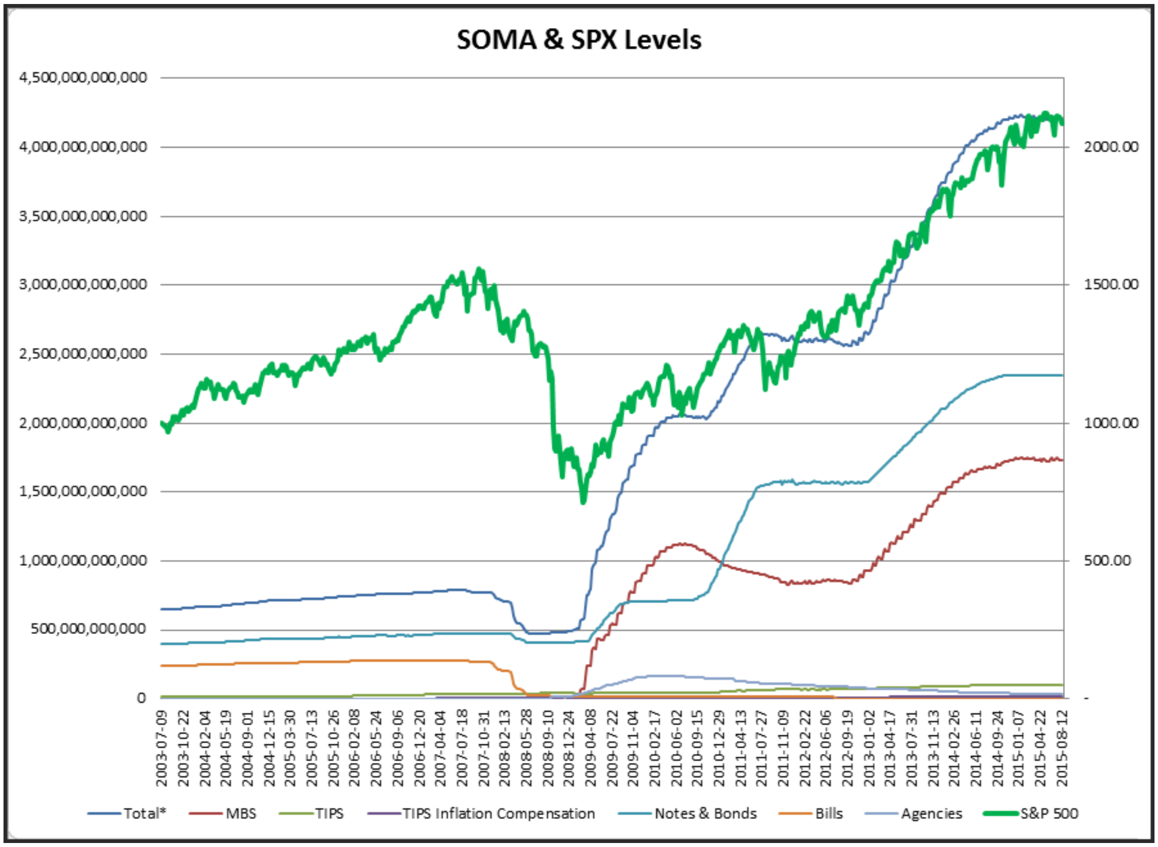
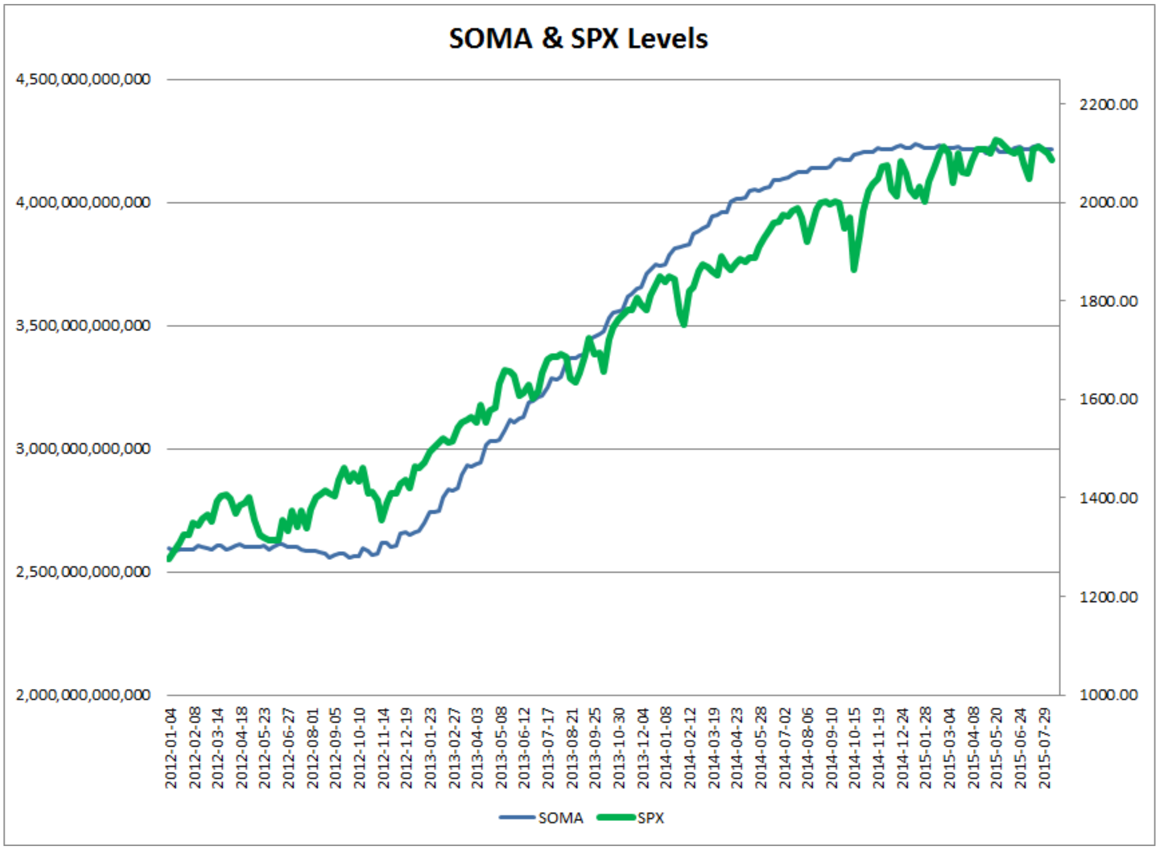
takeaway has been "don't fight the Fed". As far as intermediate-term indicators go, this has been as good as anything in recent years.

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).



For the 2nd week in a row the SOMA held steady with an indecipherable rise of less than 0.01%. It still remains squarely within its range since QE3 ended at the end of October. The market has also held in a relatively tight range over the last several months. But in prior years SPX has not even managed to breakeven when the SOMA has not been increasing. The recent sideways range is about as good as we have seen. Other periods of steady (or declining) SOMA suffered deep pullbacks. Things could get interesting when the SOMA range is finally broken in a decisive way (up or down). Fed policy and SOMA activity have had a huge market influence over the last several years, and paying attention to them is critical. I will continue to monitor changes closely as I normally do.

This week I am changing my intermediate-term outlook from "slightly bullish" to "neutral". The research above from the Market Timing Course Indicators shows the market has historically struggled to make upward progress under similar circumstances. The uptrend has stalled quite a bit in recent months, and we seem to be continually testing the 200ma. Bears can point to the recent Hindenburg Omen signals as well as the diverging number of stocks hitting new highs, and the questionable Fed support. The bullish CBI study from a few weeks back has only one week left to go. After this upcoming week, if we do not see improvements or additional intermediate-term bullish evidence emerge, then there is a good chance I will view the intermediate-term environment as bearish or slightly bearish.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

DD– 1/3 @ $56.94

DD

DD– 1/3 @ $55.90

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/2(COP-3, DD-3)

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DD(1/3)	7/27/2015	$56.83	$53.86	-5.23%		Catapult
DD(1/3)	7/28/2015	$53.38	$53.86	0.90%		Catapult
DD(1/3)	7/29/2015	$55.90	$53.86	-3.65%		Catapult

Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the QE Trade Ideas Results Sheet. It can be downloaded from the website at any time.