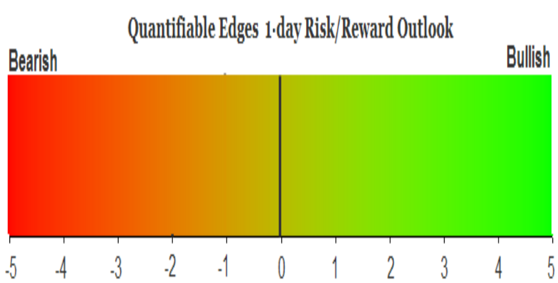
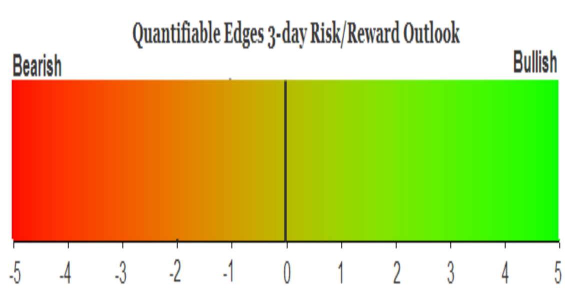
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2015 Volume 8 Issue 181

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Flat

Tonight's Research Points

- We are entering the most bearish week of the year.
- The gap down and further selling on Friday suggests Monday could see more losses.
- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Expectations are bearish but the market is slightly oversold for the short-term. This leaves me 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						
September 21, 2015	September post-opex weakest week	1-4 days	Bearish			
September 21, 2015	Gap & selloff after RSI>60. Close<200	1 day	Bearish			
September 21, 2015	1st 5-low in 10 days	1-4 days	Bullish			
Active - Long Term						
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
August 31, 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			
Dropped Tonight						
September 18, 2015	Reversal down & selloff on a Fed Day	1 day	Bullish			
September 14, 2015	Lowest volume in 10. SPX >10ma < 200	1-5 days	Bearish			
August 21, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%

The Evidence

Friday started with a big drop and things were not any better by the close. The SPX fell 1.6%, the NASDAQ declined 1.4%, and the Russell 2000 dropped 1.5%. Breadth was also negative as the NYSE Up Issues % came in at 31% and the Up Volume % was 13%. Total NYSE volume came in heavy as it often does on opex Friday.

From a seasonality standpoint, there isn't a more reliable time of the year to have a selloff than this upcoming week. Since 1961 the week following the 3rd Friday in September has produced the most bearish results of any week. In the 9/22/14 subscriber letter I showed a table with the best and worst weeks of the year. I have updated that table below.

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SPX performance during the week following the month and Friday specified.
$100k/trade. $0 commissions.1961 - present.Top and bottom 10 reseults shown.

Friday	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
4	1	43,628.29	55	34	21	61.82	2,094.11	5,480.00	-1,312.92	-4,863.30	1.59	2.58	793.24
4	10	40,840.95	55	34	21	61.82	2,279.66	10,485.72	-1,746.07	-3,993.72	1.31	2.11	742.56
2	4	38,413.64	55	36	19	65.45	1,839.59	5,731.96	-1,463.76	-3,580.15	1.26	2.38	698.43
2	3	36,613.83	55	35	20	63.64	1,740.28	7,515.60	-1,214.81	-6,711.66	1.43	2.51	665.71
4	12	34,141.25	55	35	20	63.64	1,603.80	6,726.00	-1,099.58	-4,480.29	1.46	2.55	620.75
2	9	32,879.89	53	35	18	66.04	1,740.12	7,573.02	-1,556.90	-4,975.04	1.12	2.17	620.38
2	12	28,867.42	55	35	20	63.64	1,357.83	5,868.16	-932.84	-4,176.33	1.46	2.55	524.86
4	5	27,402.69	55	31	24	56.36	1,899.64	7,145.28	-1,311.92	-3,713.26	1.45	1.87	498.23
3	11	24,836.86	55	35	20	63.64	1,601.95	11,930.04	-1,561.56	-4,672.36	1.03	1.80	451.58
3	12	23,715.34	55	36	19	65.45	1,215.43	5,007.78	-1,054.74	-2,258.85	1.15	2.18	431.19
2	5	-7,710.13	55	26	29	47.27	1,614.87	4,850.40	-1,713.68	-4,959.45	0.94	0.84	-140.18
3	1	-7,749.61	55	30	25	54.55	1,256.66	3,515.49	-1,817.98	-5,602.80	0.69	0.83	-140.90
3	3	-7,837.01	55	21	34	38.18	1,838.34	6,162.00	-1,365.95	-4,640.48	1.35	0.83	-142.49
3	7	-8,462.23	55	28	27	50.91	1,511.90	4,121.28	-1,881.31	-4,884.75	0.80	0.83	-153.86
3	2	-9,931.08	55	25	30	45.45	1,099.09	3,705.10	-1,246.95	-4,509.84	0.88	0.73	-180.57
1	9	-11,160.67	55	29	26	52.73	1,428.85	3,778.72	-2,022.97	-11,038.16	0.71	0.79	-202.92
3	5	-12,175.65	55	29	26	52.73	1,174.66	3,924.96	-1,778.49	-6,812.10	0.66	0.74	-221.38
3	10	-17,185.62	55	25	30	45.45	1,639.56	4,339.20	-1,939.15	-12,167.91	0.85	0.70	-312.47
3	6	-21,614.11	55	23	32	41.82	1,172.21	3,650.24	-1,517.97	-5,742.69	0.77	0.56	-392.98
3	9	-46,566.36	54	17	37	31.48	1,287.63	7,739.42	-1,850.16	-7,410.00	0.70	0.32	-862.34

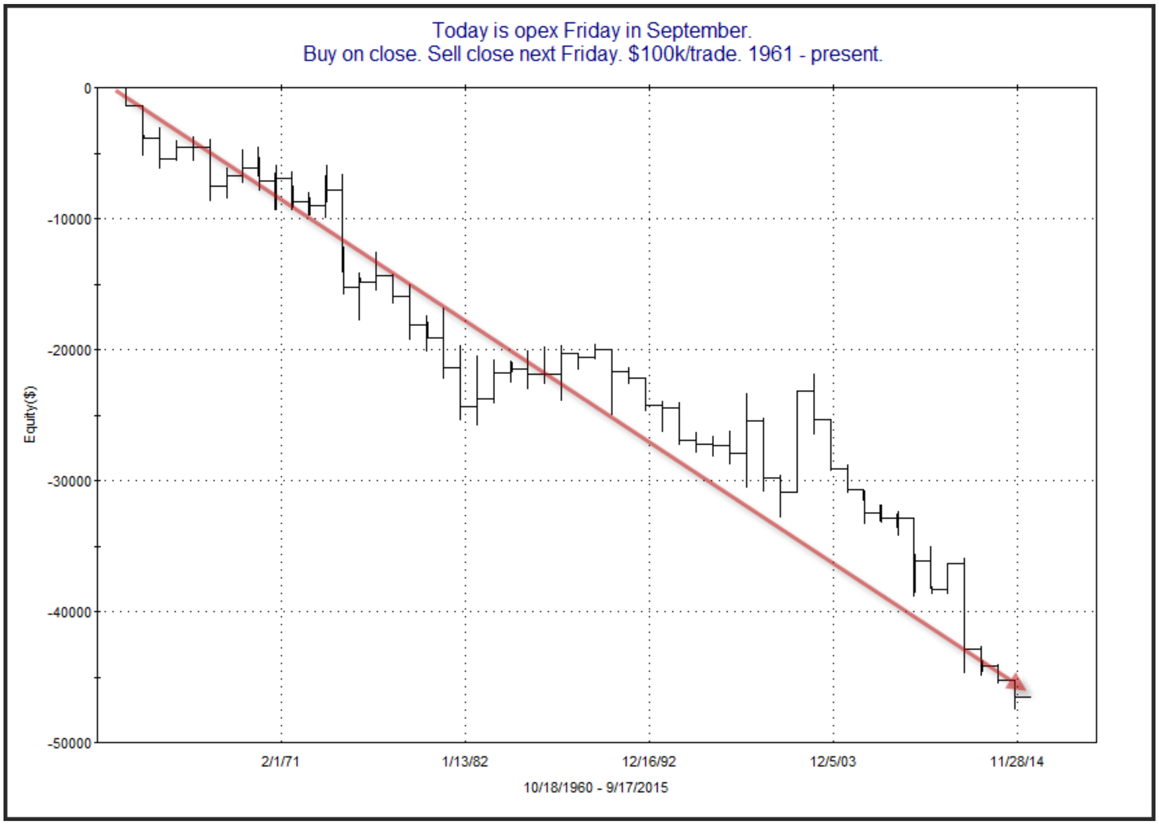
To make it a little neater and to keep the number of instances consistent I did not include weeks after the 5th Friday in these results. Just Fridays 1-4. If you look at the bottom line you will see that the worst results occur following the 3rd Friday of the 9th month. That is this upcoming week. In last year's letter I also ran the study back to 1988 to get a more recent picture. That table is also updated below.

SPX performance during the week following the month and Friday specified.
$100k/trade. $0 commissions. 1988 - present. Top 10 and bottom 10 results shown.

Friday	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
4	1	28,573.83	28	17	11	60.71	2,470.32	4,860.00	-1,220.14	-2,727.84	2.02	3.13	1,020.49
2	10	28,004.56	27	19	8	70.37	2,432.10	7,282.10	-2,275.66	-6,557.14	1.07	2.54	1,037.21
2	4	26,132.83	28	17	11	60.71	2,492.93	5,731.96	-1,477.00	-3,580.15	1.69	2.61	933.32
2	3	25,652.85	28	20	8	71.43	1,940.05	7,515.60	-1,643.52	-6,711.66	1.18	2.95	916.17
4	10	24,154.39	27	19	8	70.37	2,148.87	10,485.72	-2,084.26	-3,993.72	1.03	2.45	894.61
4	11	23,131.58	27	20	7	74.07	1,517.79	7,362.46	-1,032.04	-2,238.87	1.47	4.20	856.73
4	5	20,023.77	28	17	11	60.71	2,108.72	7,145.28	-1,438.59	-2,983.50	1.47	2.27	715.13
2	12	19,501.07	27	21	6	77.78	1,332.20	3,347.68	-1,412.53	-4,176.33	0.94	3.30	722.26
2	9	17,094.68	26	18	8	69.23	1,624.90	5,313.08	-1,519.20	-4,975.04	1.07	2.41	657.49
3	11	15,873.96	27	16	11	59.26	1,877.68	11,930.04	-1,288.09	-4,672.36	1.46	2.12	587.92
1	6	-5,029.66	28	12	16	42.86	1,313.05	4,090.16	-1,299.14	-2,765.84	1.01	0.76	-179.63
1	1	-5,239.55	24	14	10	58.33	1,180.59	2,087.80	-2,176.78	-4,825.62	0.54	0.76	-218.31
3	7	-5,417.30	28	14	14	50.00	1,683.89	4,121.28	-2,070.84	-4,884.75	0.81	0.81	-193.48
4	8	-6,766.63	28	15	13	53.57	1,257.22	3,712.56	-1,971.15	-5,174.95	0.64	0.74	-241.67
1	12	-8,795.97	27	11	16	40.74	1,298.32	4,131.36	-1,442.34	-3,505.92	0.90	0.62	-325.78
3	3	-9,193.67	28	7	21	25.00	2,826.00	6,162.00	-1,379.79	-4,640.48	2.05	0.68	-328.35
3	2	-13,238.50	28	12	16	42.86	838.33	2,106.80	-1,456.15	-4,509.84	0.58	0.43	-472.80
1	10	-13,962.64	27	14	13	51.85	2,073.58	5,944.32	-3,307.13	-18,000.90	0.63	0.68	-517.13
3	1	-15,401.43	28	14	14	50.00	1,009.34	2,505.60	-2,109.44	-5,602.80	0.48	0.48	-550.05
3	6	-15,612.32	28	9	19	32.14	1,250.68	2,928.60	-1,414.13	-3,626.75	0.88	0.42	-557.58
3	9	-26,318.52	27	5	22	18.52	2,565.25	7,739.42	-1,779.31	-6,525.56	1.44	0.33	-974.76

As you can see, looking at the more recent time period the week following the 3rd Friday in September is still the worst. Other potential bearish weeks that are coming up include the weeks after the 1st and 3rd Fridays in October. And interestingly, the weeks after the 2nd and 4th Friday's in October are listed among the most bullish 10. Further, I'd note that most of the weakest weeks occur after the 1st and 3rd Fridays while most of the strongest weeks occur after the 2nd and 4th Fridays of a month.

I also reproduced a graphic to show how this upcoming week has played out over time.



As you can see the bearish tendency has been pretty consistent over the last 54 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2014.

Today is opex Friday in September.
Buy on close. Sell X days later. $100k/trade. 1990 - 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	-26,568.91	25	4	21	16.00	3,062.79	7,739.42	-1,848.57	-6,525.56	1.66	0.32	-1,062.76
4	-27,728.32	25	4	21	16.00	2,287.06	5,439.43	-1,756.03	-7,088.90	1.30	0.25	-1,109.13
3	-19,746.47	25	5	20	20.00	2,100.70	4,508.00	-1,512.50	-5,455.74	1.39	0.35	-789.86
2	-15,896.30	25	7	18	28.00	1,092.14	4,786.41	-1,307.85	-5,283.52	0.84	0.32	-635.85
1	-9,882.45	25	6	19	24.00	1,063.49	3,877.95	-855.97	-3,791.21	1.24	0.39	-395.30

The only year that did not close below the entry price at some point during the week was 2001.

The consistency and net results appear quite strong. I note the only instance that didn't post a lower close at some point during the following week was in 2001. And the 9/11 attacks certainly made for unusual circumstances that year.

The gap down and lower close in SPY triggered a study from the 1/30/09 subscriber letter that was worth exploring for its 1-day implications. That study is updated below.

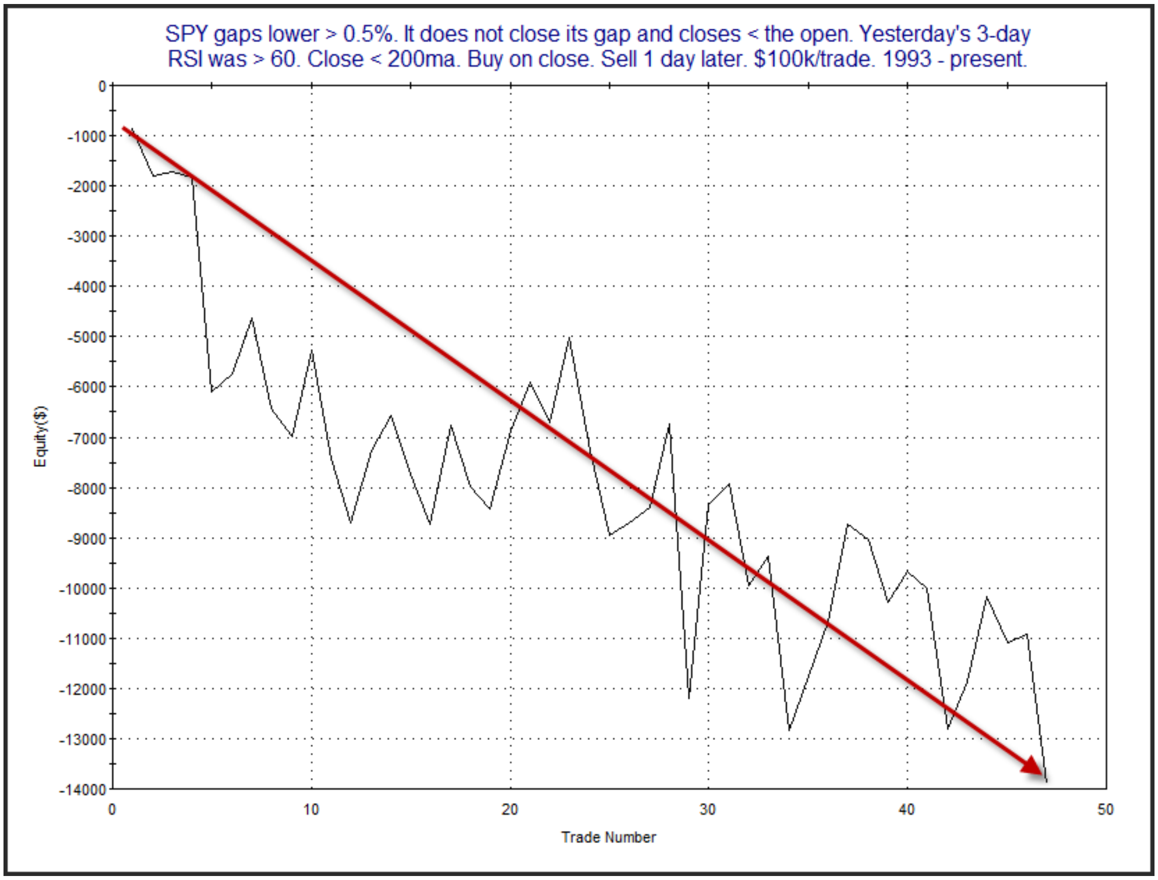
SPY gaps lower > 0.5%. It does not close its gap and closes < the open. Yesterday's 3-day RSI was > 60. Close < 200ma. Buy on close. Sell 1 day later. $100k/trade. 1993 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	($13,894.13)	Profit Factor	0.65
Gross Profit	$26,138.82	Gross Loss	($40,032.95)
Total Number of Trades	47	Percent Profitable	48.94%
Winning Trades	23	Losing Trades	24
Even Trades	0		
Avg. Trade Net Profit	($295.62)	Ratio Avg. Win:Avg. Loss	0.68
Avg. Winning Trade	$1,136.47	Avg. Losing Trade	($1,668.04)
Largest Winning Trade	$3,845.72	Largest Losing Trade	($5,444.46)

The net losses were sizable as was the size of the losers compared to the size of the winners. But instances that rose the next day versus instances that declined were near breakeven. So a look at the profit curve would be helpful in determining whether this study is worth consideration.



The downslope is surprisingly consistent for a study that is 50/50. With this picture in mind I have decided to include this study on the Active List.

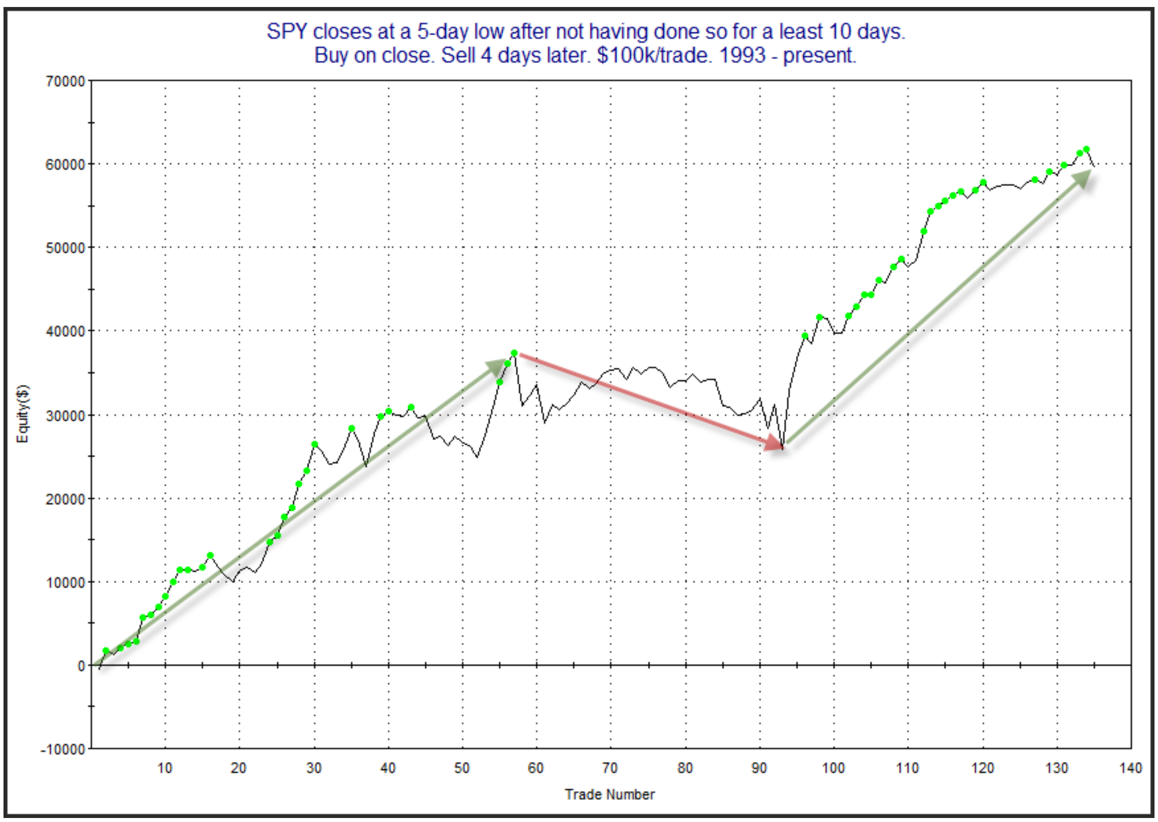
Not everything that appeared in the Quantifinder was bearish. Friday marked the 1st time SPY has closed at a 5-day low in a while. In the 4/20/15 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for a 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: ProfitFactor	All: Avg Trade
5	46,245.95	135	84	50	62.22	1,474.29	6,103.89	-1,551.89	-4,906.44	0.95	1.60	342.56
4	59,564.74	135	88	47	65.19	1,361.13	6,941.43	-1,281.16	-6,244.56	1.06	1.99	441.22
3	35,601.16	135	81	54	60.00	1,226.02	5,888.16	-1,179.74	-5,295.84	1.04	1.56	263.71
2	23,543.35	135	76	58	56.30	1,048.76	3,809.72	-968.32	-3,737.28	1.08	1.42	174.40
1	16,496.23	135	76	59	56.30	802.08	2,812.20	-753.60	-3,909.03	1.06	1.37	122.19

117 of 135 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

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turn on a dime. Whether you want to consider the last few weeks a persistent uptrend is up to you. I've included this study on the Active List, because it did qualify, but I am not sure the recent action is in the spirit of the type of action we typically see when this triggers. So the results should probably be taken with a grain of salt.

I have updated the Aggregator chart below.

With tonight's studies included the green Aggregator Line dipped back below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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 currently set to remain negative on Monday. Of course this could change if more bullish evidence emerges. The Differential Pivot will be 1984.27 on Monday. That is a 1.3% above Friday's close. Therefore, for

SPX to move from oversold to overbought on Monday it would need to close up at least 1.3%.

The Aggregator is neutral. Evidence is mixed, and the oversold reading is very slight. I don't see a compelling case for either direction right now. When both lines close very close to 0 but on opposite sides of it like we are currently seeing, that that is "very neutral". Have covered my short position on Friday I am now flat and awaiting the next favorable reward/risk opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/14– slightly bearish

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

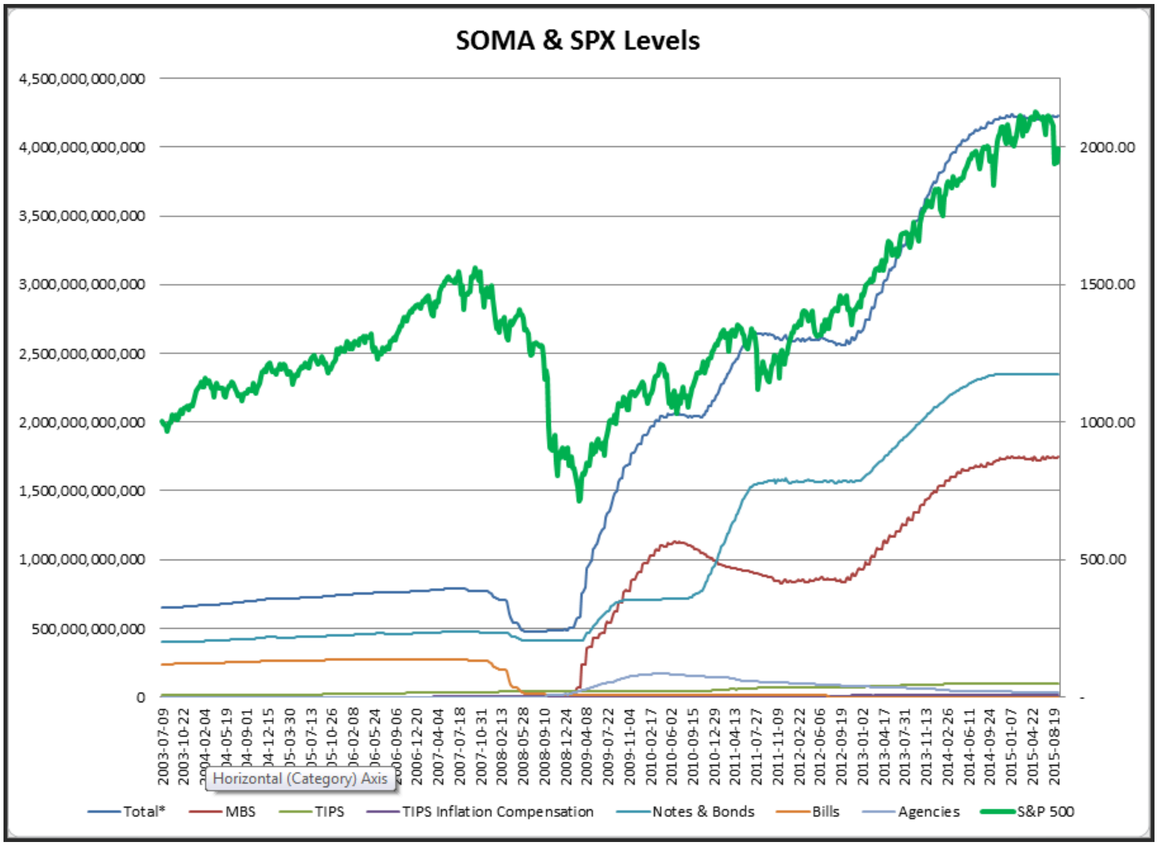
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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.) *There were no changes this past week to the indicators or the Combo system signals.*

The market changed direction on a weekly basis for the 10th week in a row. This past week it was a small 0.15% loss. From an intermediate-term standpoint, no new substantial studies emerged.

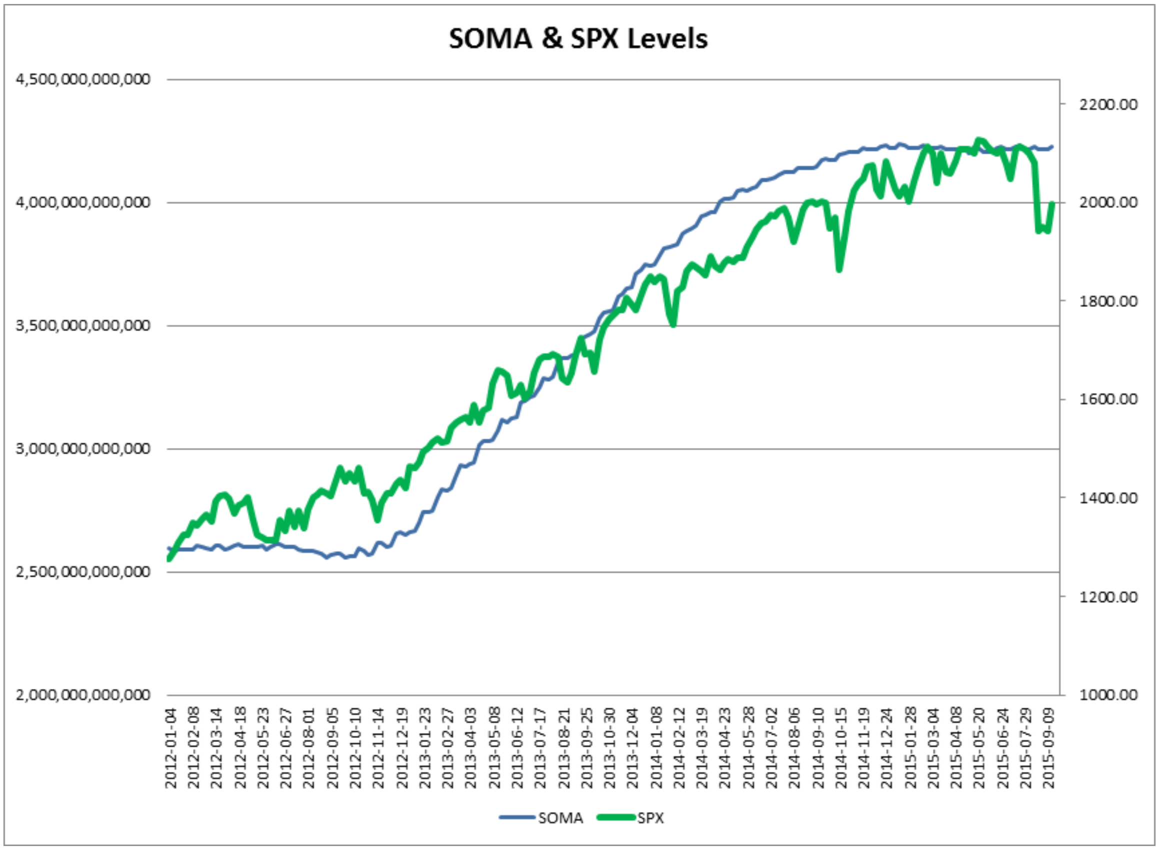
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



The SOMA rose a little this past week and hit its highest level in about a month. It still remains squarely within its range since QE3 ended at the end of October 2014. As I have been noting for some time here in the letter, the market has struggled over the years when SOMA was not on the rise. With the sideways SOMA since October 2014, the selloff held off for quite a while. But the lack of increased liquidity came to roost in August and the market underwent some strong selling. The Fed (in)action this past week would seem to be a potential positive. They are not tightening and therefore still remain leaning dovish. But the rate hike still looms. And it can still cause worries for investors. It will be interesting to see how the SOMA moves in the coming weeks.

With the bullish intermediate-term CBI study now expiring, the bears seem to have a bit more pointing in their direction. This includes the FTD study from last week, the weak Fed support, and the divergent breadth seen at the top. Bulls can point to the NASDAQ relative strength. As I indicated I would likely do last weekend, I am now leaning bearish. I want to see some bullish indications before I would consider leaning back in that direction. From a trading standpoint my intermediate-term bias means that I will now be more aggressive from the short side and more conservative when considering long entries.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MON 1/3 @ $89.42 limit (not filled and was cancelled)

Broad Market Large Cap CBI – 1

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	***9/15/2015***	***$198.46***	***$196.74***	***0.86%***		****includes dividend payable***

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.