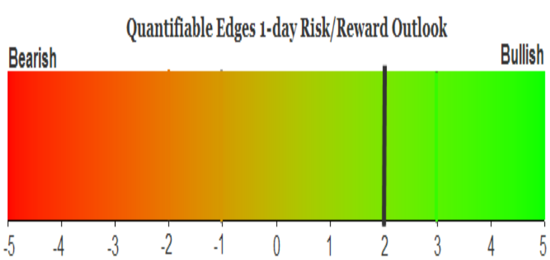
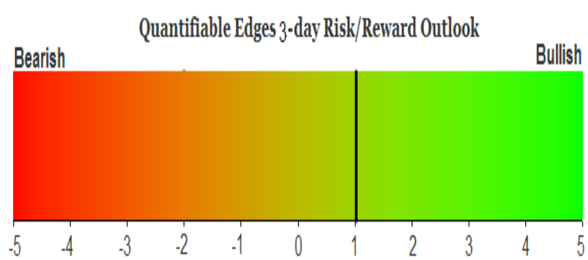
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 8, 2016 Volume 9 Issue 25

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. But times where it has not bounced quickly it has sold off hard.
- SOMA came in flat over the last week.

Short-term Outlook
The Bottom Line

Evidence has turned bullish and the market is now a little oversold. While this suggests a bullish edge, the environment appears risky. It does not appear to be a highly favorable setup at this point.

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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						
February 8, 2016	SPY 5 low 1st time in over 10 days/	1-2 days	Bullish			
February 5, 2016	NDX down 3. SPX 3-day high.	1-2 days	Bullish			
February 5, 2016	VIX up. SPX up<0.25%. Midweek.	1-2 days	Bearish			
Active - Long Term						
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
February 1, 2016	FTD on strong breadth and weak vol	1-10 days	Bullish			
January 19, 2016	NASDAQ 100-day low. UpIss EMA<37.5	1-19 days	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
February 1, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
January 29, 2016	NDX up 1%. SOX down.	1-6 days	Bearish			
February 3, 2016	Dn 2 days > 1.5% to start month	1-3 days	Bullish			

The Evidence

The market got beat down pretty badly on Friday. The SPX lost 1.85%, the NASDAQ fell 3.25%, and the Russell 2000 declined 2.9%. Breadth was negative (though not to any extreme) as the NYSE Up Issues % was 24% and the Up Volume % came in at 23%. Total NYSE volume declined some from Thursday's level.

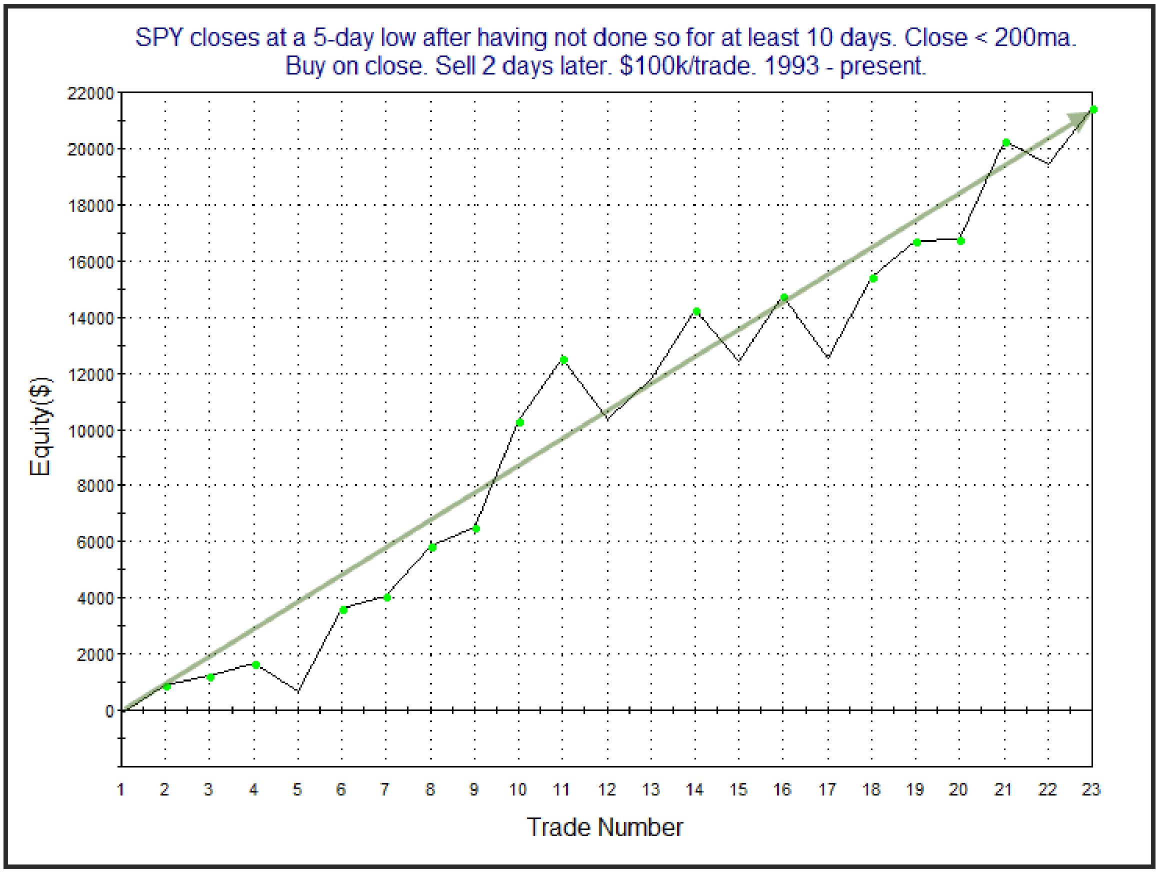
Friday marked the 1st time SPY has closed at a 5-day low in a while. The Quantifinder triggered a study that looked at performance in SPY following the 1st 5-day low in over 2 weeks. Tonight I decided to incorporate a long-term trend filter into the study to see how it has performed in long-term downtrends. Results of this new study are below:

SPY closes at a 5-day low after having not done so for at least 10 days. Close < 200ma.
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	17,685.73	23	15	8	65.22	2,645.27	6,103.89	-2,749.16	-4,906.44	0.96	1.80	768.94
4	18,855.21	23	16	7	69.57	2,567.58	6,941.43	-3,175.16	-6,244.56	0.81	1.85	819.79
3	24,207.99	23	16	7	69.57	2,528.40	5,888.16	-2,320.92	-5,295.84	1.09	2.49	1,052.52
2	21,456.76	23	17	6	73.91	1,740.82	3,809.72	-1,356.21	-2,221.56	1.28	3.64	932.90
1	14,512.24	23	18	5	78.26	1,291.57	2,812.20	-1,747.19	-2,887.08	0.74	2.66	630.97

Of the 5 instances that failed to bounce on Day 1 - none of them closed above the entry price at any point in the next 6 trading days. The Average 6-day loss for those 5 trades was 5.5%.

Over the first 1-3 days there seems to be a strong tendency to bounce. Most of the gains were realized by Day 2, and it had the most compelling equity curve, which can be found below.



That is an impressive looking curve. But the note at the bottom of the table up higher is worth a little discussion as well. There were 5 times in which SPY failed to bounce on Day 1. And further returns for those instances were ugly. I have listed all 5 along with their 6-day returns and run-up/drawdown stats below.

6-day returns of the 5 instances that failed to bounce on Day 1.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
5/6/1994	Buy	$44.75	-0.49%	$201.06
5/16/1994	Sell	$44.53		($1,273.38)
9/30/1998	Buy	$101.75	-5.07%	$0.00
10/8/1998	Sell	$96.59		($9,358.46)
8/27/2002	Buy	$94.16	-5.71%	$0.00
9/5/2002	Sell	$88.78		($7,072.92)
1/15/2003	Buy	$92.40	-6.52%	$573.46
1/24/2003	Sell	$86.38		($6,740.86)
1/9/2009	Buy	$89.09	-9.56%	$0.00
1/20/2009	Sell	$80.57		($10,142.88)

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Other than the 1st instance, those are some hefty pullbacks we see. Bottom line with this study seems to be that there is a good chance SPY will bounce in the next day or two. But if it doesn't – watch out!

I have updated the Aggregator chart below.

With tonight's study being considered the green Aggregator Line inched a little above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and 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 turned long at the close.

Expectations on Monday are primed to remain positive if nothing new emerges. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1900.38 on Monday. That is 1.1% above Friday's close. So SPX would need to close up at least 1.1% in order to move from oversold to overbought on Monday.

Evidence is now turning bullish, and with the market short-term oversold the Aggregator is "long". But I am not enthused about buying just yet. Our primary piece of short-term evidence shows a solid probability of a 1-2 day move up, but real danger if it does not quickly bounce. It is not the kind of evidence that gets me excited to jump in with the intermediate-term uncertain. Personally, I am going to want to see more compelling evidence before taking on long index exposure. So I am sidelined for now.

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

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

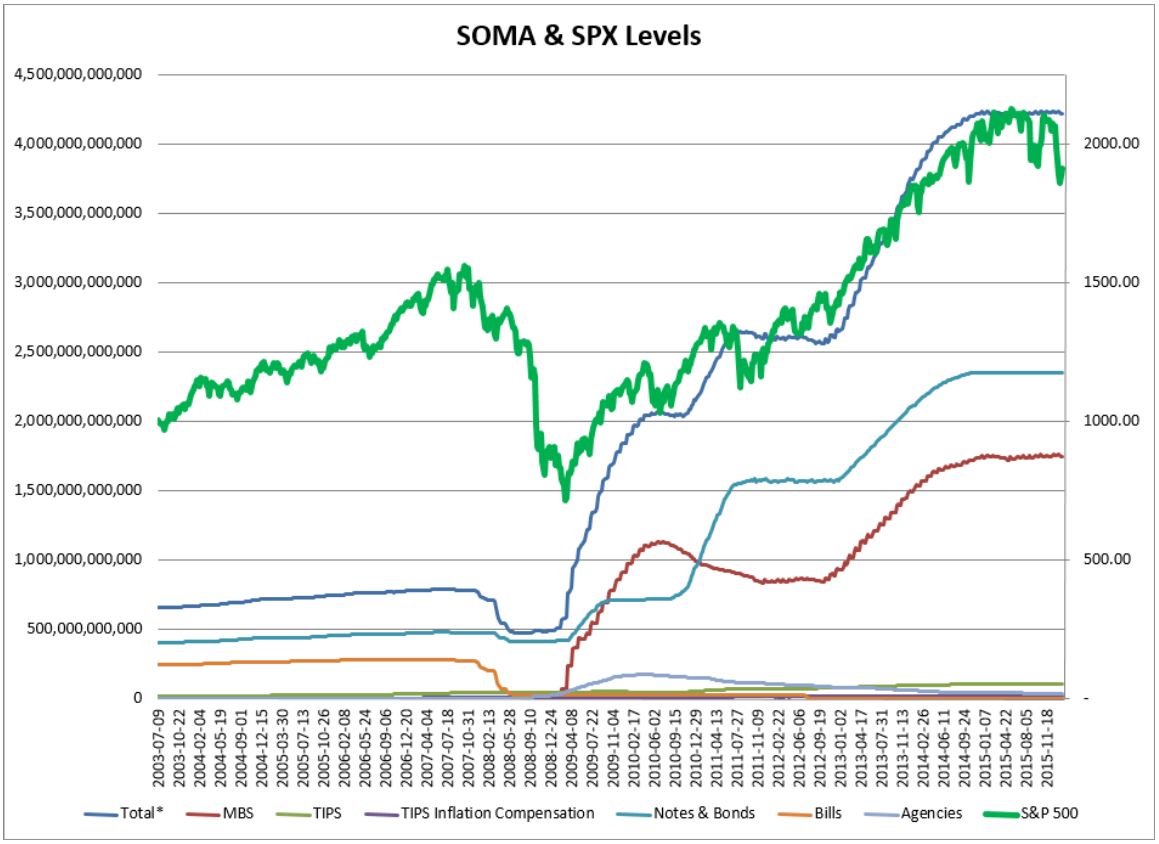
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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 to the Market Timing Course indicators this week and all 3 combo systems remained flat.*

Tuesday and Friday were the big down days this past week, and they helped SPX close the week with a 3.1% loss. It is also notable that the NDX posted its lowest daily close since August, though it has not yet broken its intraday low from 1/20.

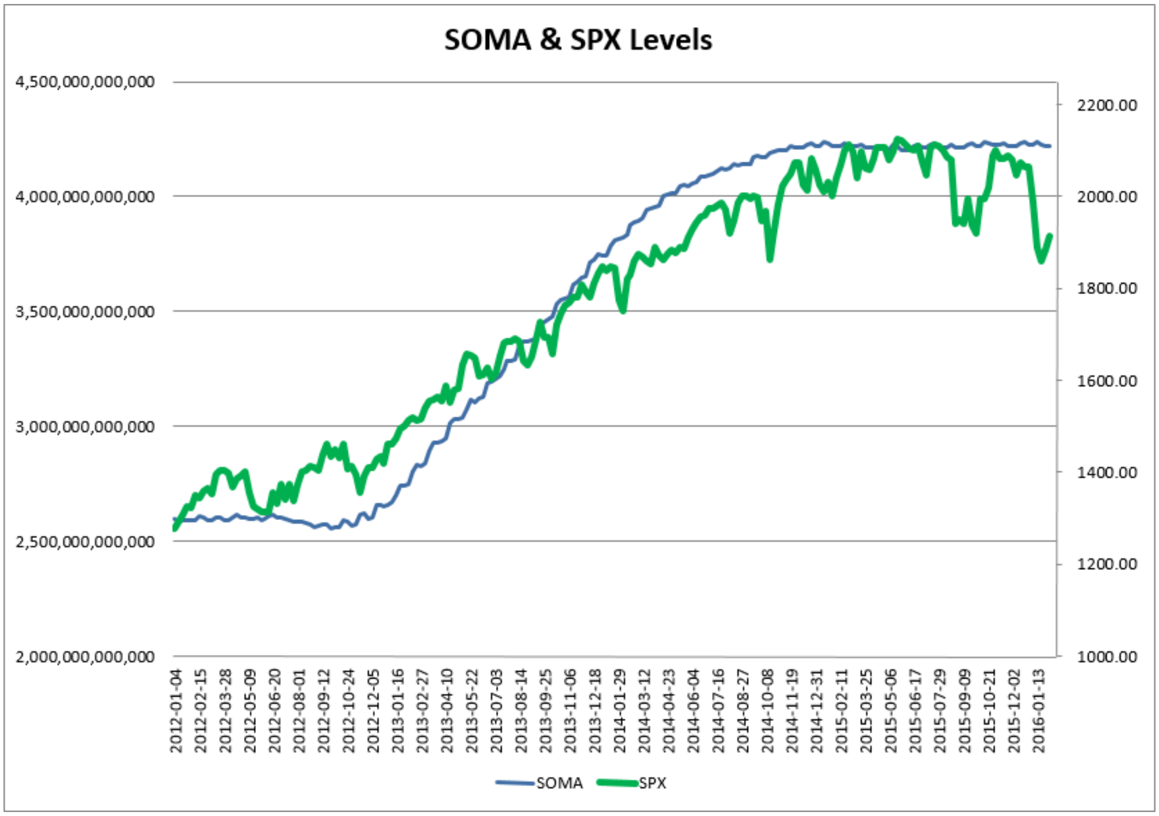
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



SOMA this past week (Wednesday to Wednesday) was almost flat, with just a very slight decline of less than 0.01%. This does leave the SOMA at the lowest level it has been at since September. Based on the SOMA reinvestment schedule it appears likely that this upcoming week will be near-breakeven also. Overall, near-breakeven weeks have not fared very well. Since the beginning of 2015 the SPX has lost a sum total of 7.14% during these weeks. So if the market is going to rally, it is going to have to do so without liquidity support from the Fed at least until Thursday rolls around.

As I often discuss, flat or declining SOMA readings have typically led to market struggles. But a rising SOMA has consistently led to gains. It will be important to monitor SOMA activity, including the monthly reinvestment schedule so that we may quickly identify any change in policy and take steps to adjust our strategies. I expect liquidity analysis to remain an important tool for us.

Intermediate-term evidence remains mixed. Bulls can point to long-term seasonal forces, the NASDAQ extreme breadth and low study from a few weeks ago, and last week's FTD study and "Double 90% Days" study. But trend, leadership, and Fed liquidity are still pointing towards a long-term downtrend. With this mix I am still neutral. This means I am open to trading in either direction if compelling enough short-term evidence suggests an edge.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

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.

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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AXP(1/3)	1/25/2016	$54.46	$53.98	-0.88%		*sell on open*
AXP(1/3)	1/26/2016	$55.02	$53.98	-1.89%		*sell on open*

AXP hit its intraday target and will be exited at the open on Monday.

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.

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