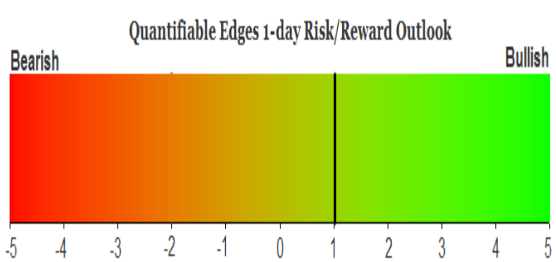
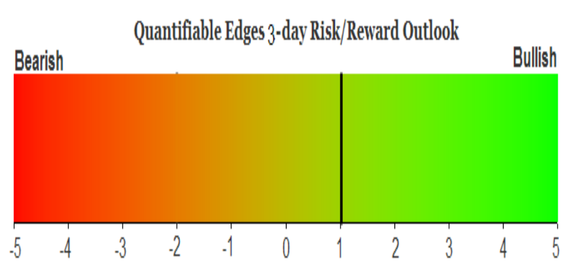
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 16, 2016 Volume 9 Issue 30

Market Overview





Signals Overview

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

Tonight's Research Points

- Friday's low volume suggests a possible pullback in the next few days.
- Unfilled gaps up from 50-day lows often see a dip the next day.

Short-term Outlook

The Bottom Line

The Aggregator is bullish but the signal is tenuous. I am looking to take profits on my long index position.

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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 16, 2016	Unfilled gap up from 50-day low	1 day	Bearish			
February 16, 2016	1% gain from 100-low on low volume	1-3 days	Bearish			
February 12, 2016	Catapult for ETFs trigger	1-5 days	Bullish			
February 12, 2016	Gap Down & Partial Reversal	1-2 days	Bullish			
Active - Long Term						
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
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 11, 2016	Gap up. Rise more, then reverse to low	1-2 days	Bullish			

The Evidence

Friday was a big up day for the market. The SPX rallied 2.0%, the NASDAQ gained 1.7%, and the Russell 2000 rose 1.9%. Breadth was positive as the NYSE Up Issues % was 79% and the Up Volume % came in at 86%. Total NYSE volume came in lower than Thursday's level.

There were a couple of short-term studies in the Quantifinder worth discussion. The first one was last seen in the 10/20/14 letter. There I looked at big gaps up from 50-day lows that go unfilled and close above the open. Below is an updated version.

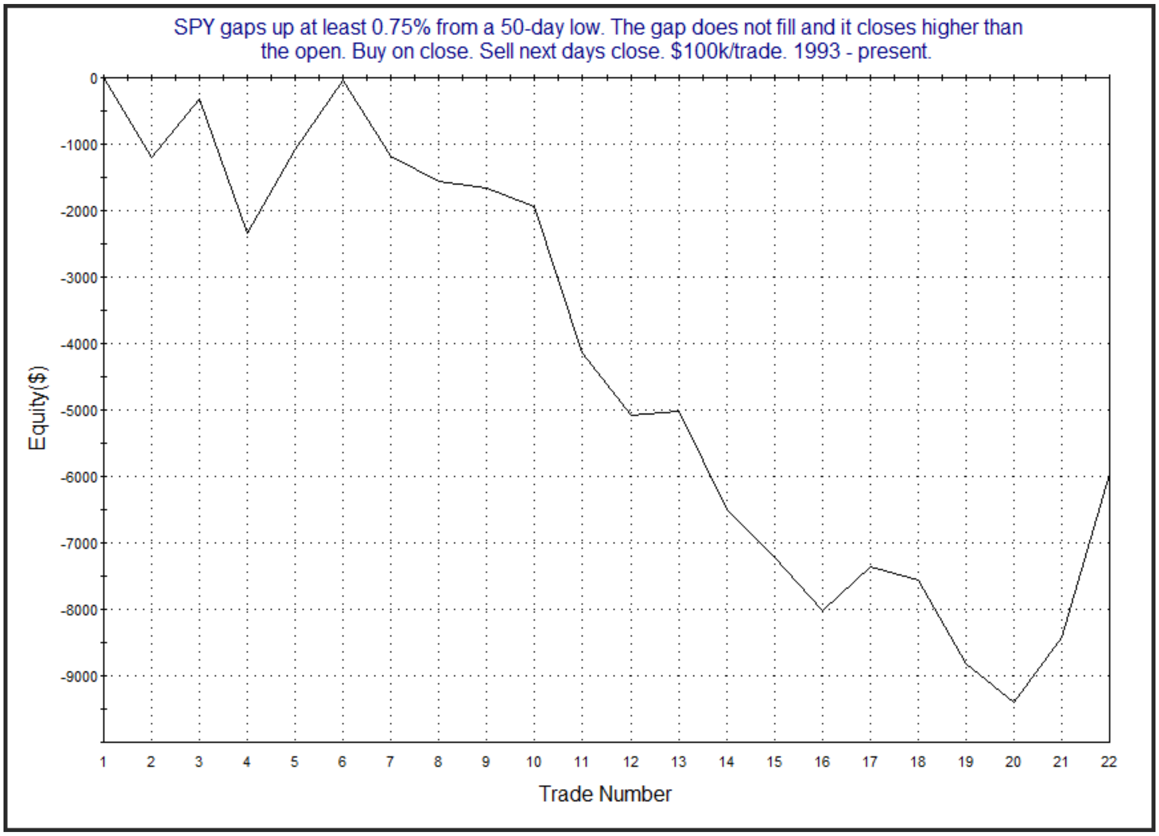
SPY gaps up at least 0.75% from a 50-day low. The gap does not fill and it closes higher than the open. Buy on close. Sell next days close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($5,953.16)	Profit Factor	0.55
Gross Profit	$7,352.55	Gross Loss	($13,305.71)
Total Number of Trades	22	Percent Profitable	31.82%
Winning Trades	7	Losing Trades	14
Even Trades	1		
Avg. Trade Net Profit	($270.60)	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	$1,050.36	Avg. Losing Trade	($950.41)
Largest Winning Trade	$2,472.34	Largest Losing Trade	($2,203.74)

As you can see, the stats favor a down day on Tuesday. Let's also look at the profit curve.



The curve looked pretty good until the last 2 instances. I am not inclined to throw out it just yet due to 2 instances. So I have again included this study on the Active List tonight. The suggestion here is that the strong 1-day bullishness (big gap and move higher) immediately after a new low is probably overdone, and unlikely to carry through for a 2nd day.

Another potential issue with the rally on Friday is that it occurred on low volume. In the 10/5/11 letter I looked at strong moves up from 100-day lows, and the impact that volume had on the follow-through potential. I looked at times the move came on strong volume (highest is 5 days) versus times it did not. I have updated the results of those studies below. Let's first look at times (UNlike now) where the rally came on the highest volume in 5 days.

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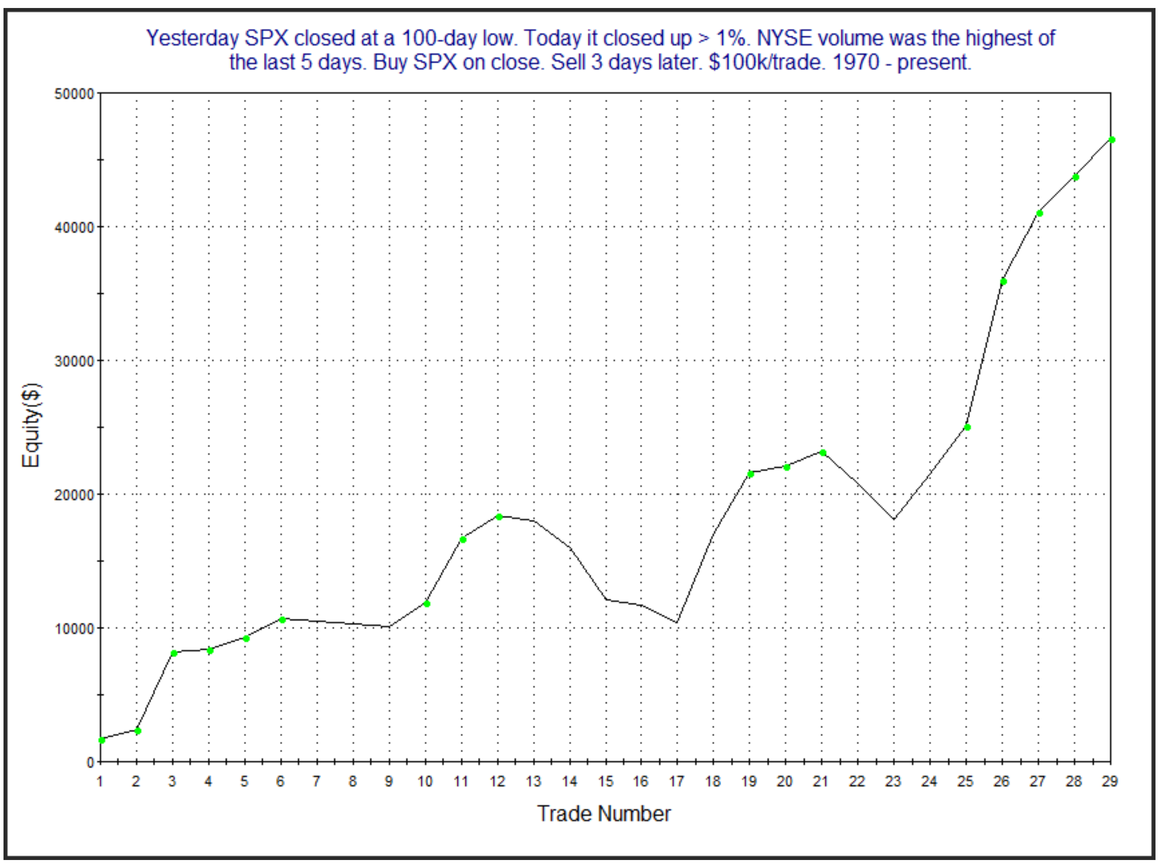
Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE volume was the highest of the last 5 days. Buy SPX on close. Sell X days later. $100k/trade. 1970 - present.

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
10	56,720.04	26	17	9	65.38	4,633.14	13,599.08	-2,449.26	-4,104.48	1.89	3.57	2,181.54
9	57,295.46	28	18	10	64.29	4,843.15	14,258.16	-2,988.13	-8,786.30	1.62	2.92	2,046.27
8	55,487.68	28	19	9	67.86	4,231.70	10,740.40	-2,768.29	-6,902.00	1.53	3.23	1,981.70
7	51,128.26	28	16	12	57.14	4,539.21	10,081.25	-1,791.60	-6,696.44	2.53	3.38	1,826.01
6	40,528.05	29	18	11	62.07	3,777.17	10,315.50	-2,496.45	-6,274.80	1.51	2.48	1,397.52
5	43,007.46	29	20	9	68.97	3,337.07	10,340.00	-2,637.09	-4,585.62	1.27	2.81	1,483.02
4	43,849.08	29	19	10	65.52	3,365.42	11,930.04	-2,009.38	-3,869.74	1.67	3.18	1,512.04
3	46,611.67	29	19	10	65.52	3,175.88	10,868.60	-1,373.01	-3,910.96	2.31	4.39	1,607.30
2	24,743.92	31	18	13	58.06	2,376.30	7,112.64	-1,386.88	-6,510.90	1.71	2.37	798.19
1	19,230.87	31	19	12	61.29	2,082.34	9,089.88	-1,694.47	-4,686.30	1.23	1.95	620.35

28 of 31 instances (90%) closed above the entry price at some point in the next week.

Results here appear to suggest an upside edge. Below is an equity curve to see how the edge has played out over time.



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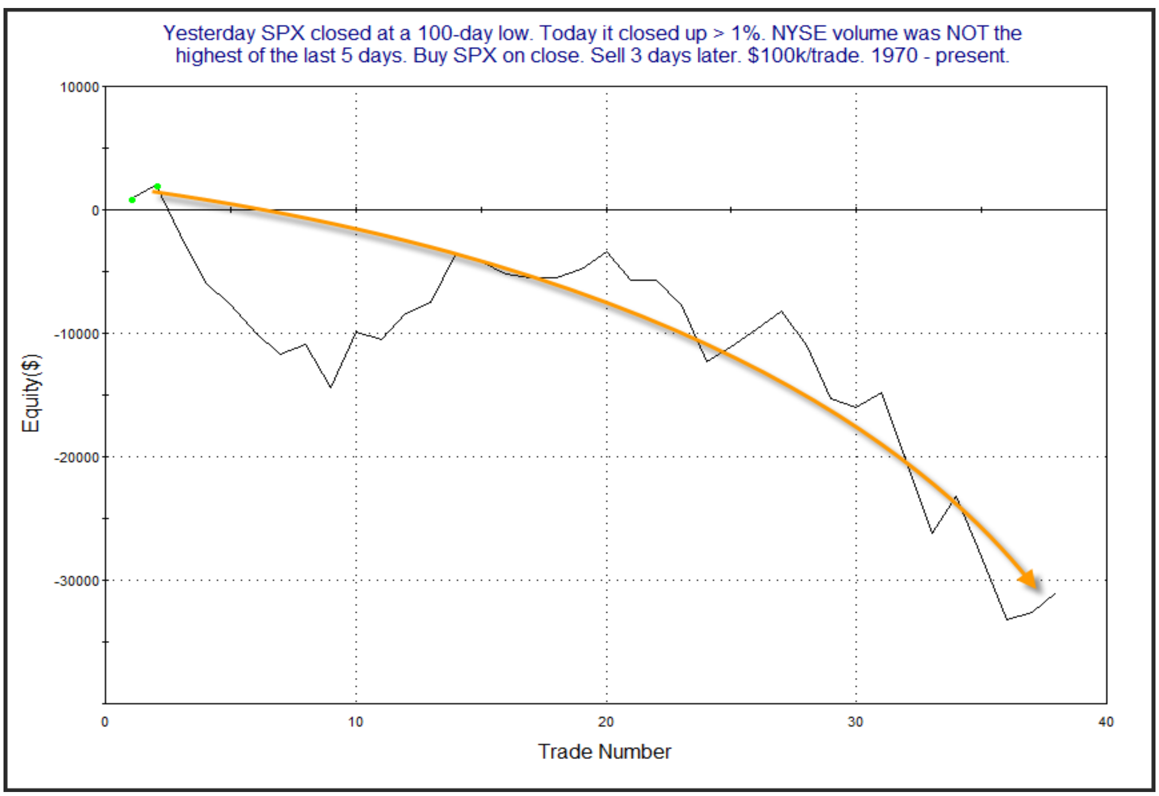
The strong upward slope confirms the edge suggested by the numbers. But volume was not close to a 5-day high on Friday. So here is what it looked like without the 5-day high in volume.

Yesterday SPX closed at a 100-day low. Today it closed up > 1%. NYSE volume was NOT the highest of the last 5 days. Buy SPX on close. Sell X days later. $100k/trade. 1970 - 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
10	-26,955.29	30	15	15	50.00	2,701.75	9,080.86	-4,498.77	-14,309.75	0.60	0.60	-898.51
9	-29,639.42	32	17	15	53.13	3,117.53	14,141.40	-5,509.16	-13,855.85	0.57	0.64	-926.23
8	-42,678.01	33	15	18	45.45	3,139.07	13,208.26	-4,986.89	-22,706.90	0.63	0.52	-1,293.27
7	-35,978.67	33	15	18	45.45	3,316.12	11,043.76	-4,762.25	-21,797.40	0.70	0.58	-1,090.26
6	-6,652.32	34	18	16	52.94	2,852.93	11,794.12	-3,625.31	-15,420.70	0.79	0.89	-195.66
5	-4,397.21	34	17	17	50.00	2,977.88	8,821.54	-3,236.54	-14,461.05	0.92	0.92	-129.33
4	-21,984.89	36	18	18	50.00	2,078.37	5,108.22	-3,299.76	-9,329.28	0.63	0.63	-610.69
3	-31,031.13	38	16	21	42.11	1,681.86	4,492.54	-2,759.09	-5,706.05	0.61	0.46	-816.61
2	-24,324.08	38	17	21	44.74	1,726.40	4,983.16	-2,555.85	-9,455.49	0.68	0.55	-640.11
1	-8,834.90	38	15	23	39.47	1,117.77	3,184.32	-1,113.11	-4,400.45	1.00	0.65	-232.50

The results primarily all flipped from positive to negative. A quick look at the equity curve below also shows that also appears to have flipped.



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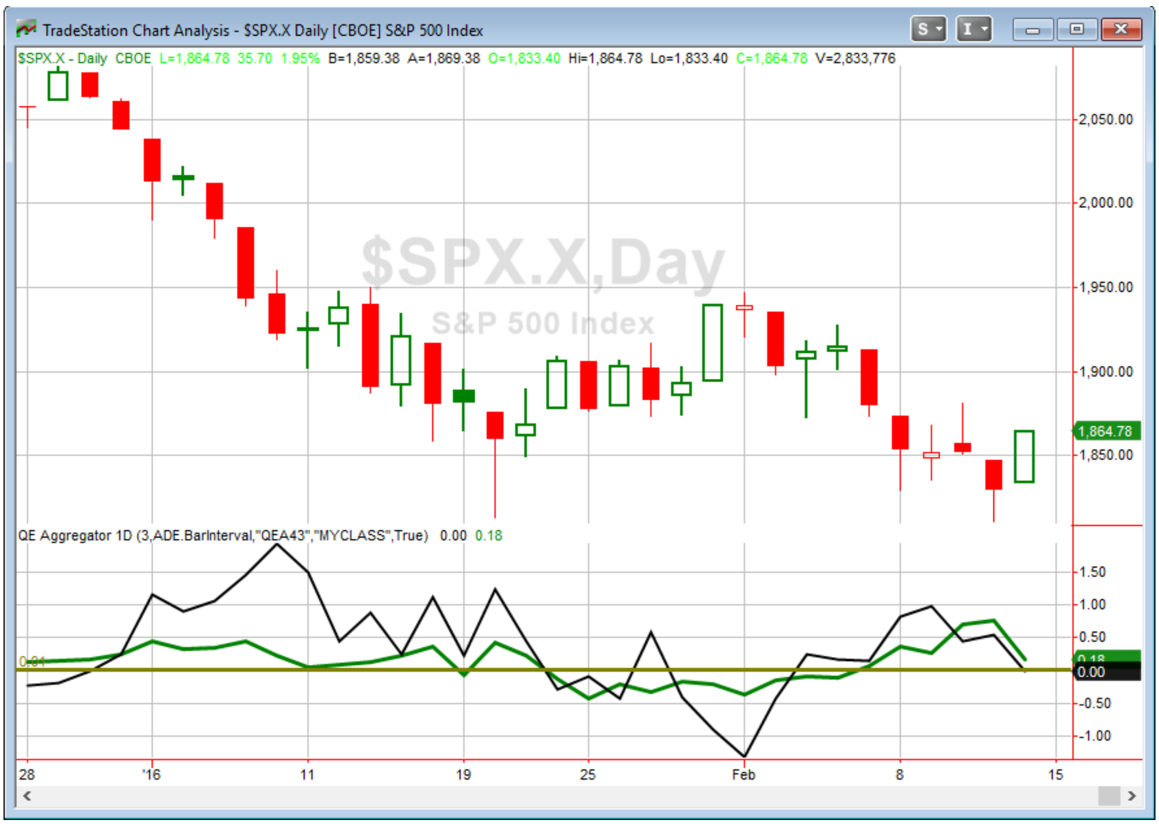
This suggests a possible downside edge for the next 3 days and I have included it on Active List.

I have updated the Aggregator chart below.



With tonight's studies being considered the green Aggregator Line still managed to hold above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also remained above 0. But just barely. 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 stayed long at the close.

Expectations on Tuesday are primed to remain bullish. Of course this could change if new bearish evidence emerges or if bullish targets are met and those studies removed from the list. The Differential Pivot will be 1876.21 on Tuesday. That is 0.6% above Friday's close.

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So for SPX to move from oversold to overbought on Friday it will need to close up at least 0.6%.

So the Aggregator remains bullish. But really just barely. The Differential Pivot on Friday was 1864.79. So it only needed to close 0.01 points higher to move from oversold to overbought. In other words - the market is neither right now. And as I write the letter on Monday night the futures are substantially higher. It won't take much in order for the SPY Catapult for ETFs study to meet its target on Tuesday, and if that happens then it will come off the board, and expectations could easily finish negative instead of positive. With all this in mind, I am inclined to quickly exit my SPY long exposure on Monday if the market does manage to gap up strongly. I am certainly not looking to add new exposure at this time.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/16 – neutral

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

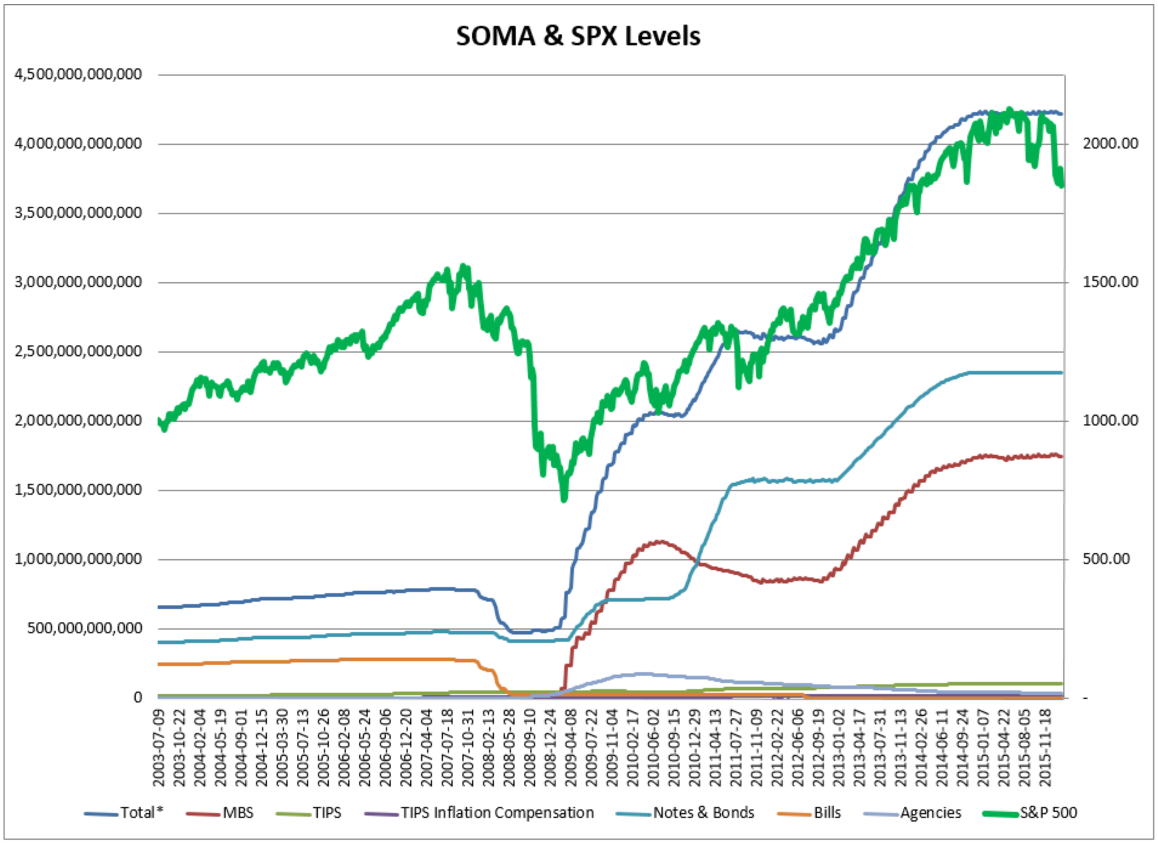
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

Despite the strong rally on Friday, SPX managed to make new lows this past week - both on an intraday, and a closing basis. It also finished the week down 0.8%, even with the 2% Friday rally.

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).

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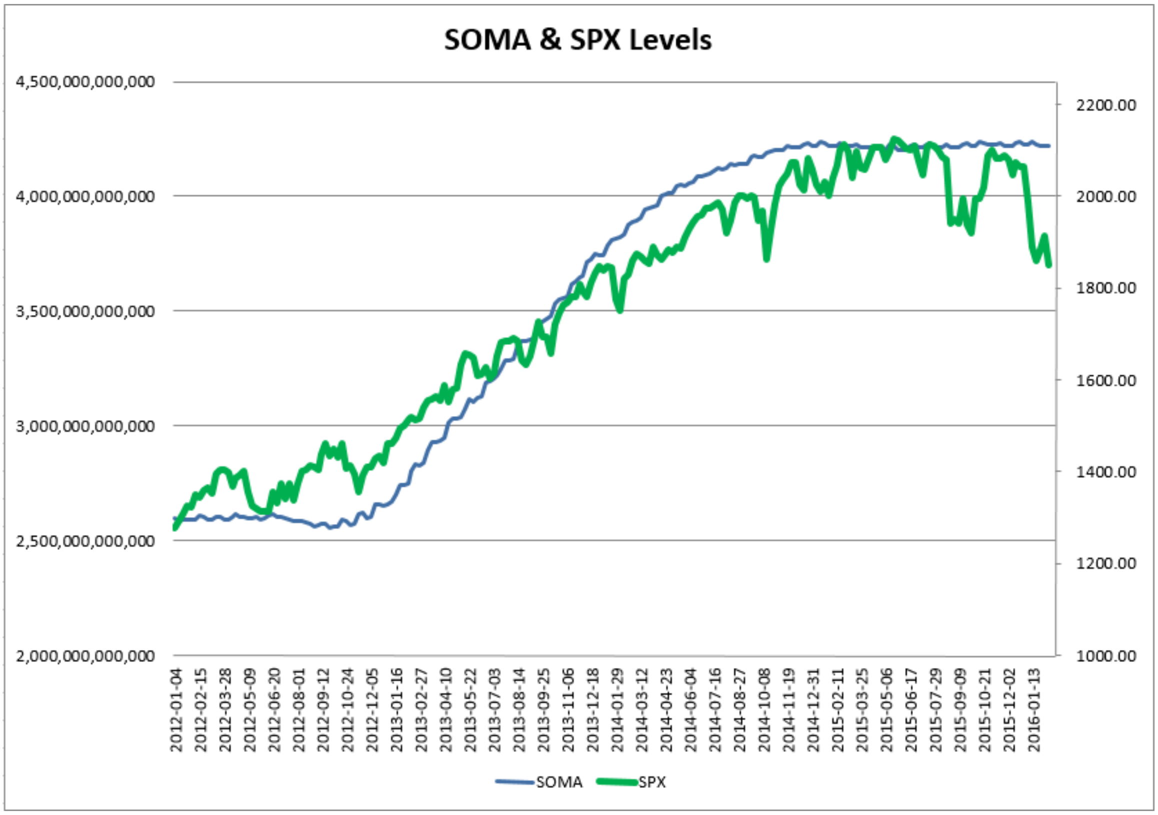

SOMA this past week (Wednesday to Wednesday) was almost flat, with just a very slight increase of less than 0.01%. Based on the SOMA reinvestment schedule it appears likely that this upcoming week will see a rise in the SOMA. Weeks that have seen rises in the SOMA have typically performed well. Since the beginning of 2015 the SPX has gained a sum total of 4.7% during these weeks. So the rally on Friday has come during a time that you would typically see it, and SOMA support is set to continue through Wednesday/

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.

One thing I will be keeping an eye out for this upcoming week is a Follow Through Day (FTD). I have done a lot of research on FTDs over the years. I have found that they are not nearly what they are often hyped to be, but that they can often provide nice clues about whether a rally is likely to succeed or fail. A lot of research on FTDs can be found on the Quantifiable Edges blog.

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 the "Double 90% Days" study from a couple of weeks ago. But trend, leadership, and Fed policy 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

BA – 1/3 @ $108.44 (bought @ limit)

BAC – 1/3 @ $11.16 (buy @ limit) – not filled – cancel for now

C – 1/3 @ $34.98 (buy @ limit) not filled – cancel for now

GS– 1/3 @ $140.69 (buy @ limit) not filled – cancel for now

Broad Market Large Cap CBI – 4(BA, BAC, C, GS)

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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/11/2016	$182.34	$186.63	2.35%		Aggregator
BA(1/3)	2/12/2016	$105.12	$108.63	3.34%		Catapult

SPY – I will look to sell @ $187.50 LIMIT ON OPEN. If not filled on open then I will cancel the order and sell if SPX closes >= 1876.21.

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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