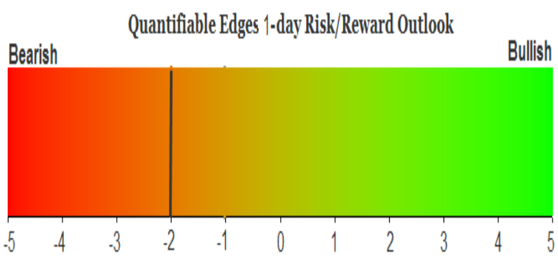
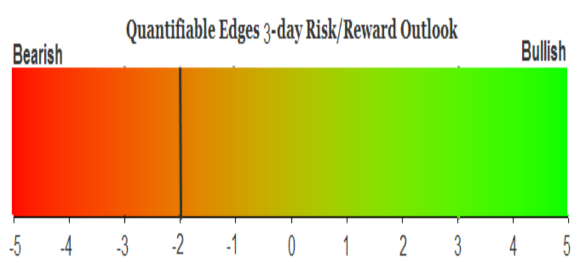
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 14, 2016 Volume 9 Issue 49

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- March Op-Ex week has historically been very strong, especially Mon-Thurs.
- Strong moves up through the 200ma have often led to pullbacks in recent years.
- SOMA could be supportive this upcoming week.

Short-term Outlook
The Bottom Line

There still appears to be a bearish edge but that edge won't last past Monday unless further bearish evidence emerges.

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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						
March 14, 2016	1% move up through 200ma	1 day	Bearish			
March 2, 2016	March opex week bullish	1-4 days	Bullish			
March 8, 2016	SPX & VIX up on Monday < 200	1-5 days	Bearish			
March 7, 2016	NASDAQ up 4 days < 200ma	1-6 days	Bearish			
Active - Long Term						
March 2, 2016	FTD & 20-day high	int term	Bullish			
February 18, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-5.10%	-12.10%
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
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			

The Evidence

Friday saw a strong rally that brought a few averages through their 200ma. The SPX finished up 1.6%, the NASDAQ rose 1.9%, and the Russell 2000 rallied 2.2%. Breadth was strongly bullish as the NYSE Up Issues % was 80% and the Up Volume % came in at 84%. Total NYSE volume came in at the lightest level in a couple of weeks.

Friday's strong rally pushed the SPX through the 200-day moving average for the 1st time this year. The 200ma is not a magic number, but it is a well-watched line. So price movement around it can often be volatile. Therefore the fact that the rally on Friday was a strong one is not a big surprise. The 200ma break got the attention of many traders during the day. I decided to look back at other times where the 200ma was broken on a sizable rally day (1% + gain). Interestingly, over the last 5+ years while the market has been in bull-market mode most of the time, this action has led to short-term reversals – especially on Day 1. This can be seen in the study below.

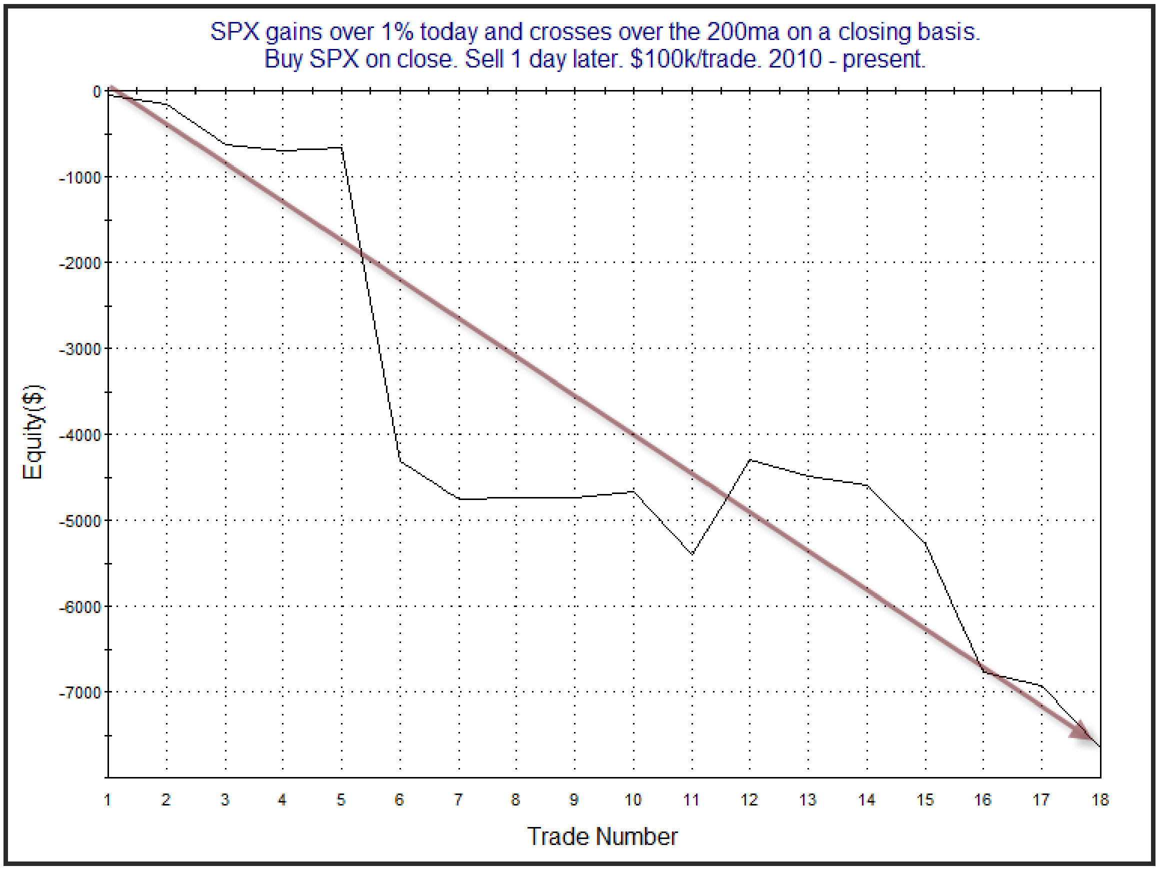
SPX gains over 1% today and crosses over the 200ma on a closing basis.
Buy SPX on close. Sell 1 day later. $100k/trade. 2010 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($7,655.43)	Profit Factor	0.14
Gross Profit	$1,226.45	Gross Loss	($8,881.88)
Total Number of Trades	18	Percent Profitable	22.22%
Winning Trades	4	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	($425.30)	Ratio Avg. Win:Avg. Loss	0.48
Avg. Winning Trade	$306.61	Avg. Losing Trade	($634.42)
Largest Winning Trade	$1,103.04	Largest Losing Trade	($3,651.96)

The stats look quite bearish. Below is a look at the profit curve.



This serves as confirmation. It appears that the 1-day excitement that is seen on the strong break through the 200ma is often a bit overdone, and that leads to a reversal the next day.

But there is a seasonal influence that could have a bullish impact on the market this week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/16/15 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. All statistics are updated.

OpEx 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	28,192.40	32	25	7	78.13	1,480.13	5,868.16	-1,258.69	-4,176.33	1.18	4.20	881.01
11	5,116.07	32	20	12	62.50	1,449.76	3,718.25	-1,989.93	-8,351.64	0.73	1.21	159.88
10	25,016.02	32	23	9	71.88	2,275.27	7,282.10	-3,035.03	-9,109.98	0.75	1.92	781.75
9	13,102.55	31	19	12	61.29	1,574.71	5,313.08	-1,401.40	-4,975.04	1.12	1.78	422.66
8	-1,315.36	32	18	14	56.25	1,432.07	4,329.72	-1,935.18	-5,670.55	0.74	0.95	-41.10
7	-473.17	32	16	15	50.00	1,471.32	6,921.25	-1,600.96	-7,953.12	0.92	0.98	-14.79
6	-874.42	32	18	14	56.25	1,234.42	3,786.09	-1,649.57	-3,998.19	0.75	0.96	-27.33
5	2,441.38	32	16	16	50.00	1,918.64	4,850.40	-1,766.05	-4,959.45	1.09	1.09	76.29
4	27,719.43	32	20	12	62.50	2,293.46	5,731.96	-1,512.48	-3,580.15	1.52	2.53	866.23
3	28,879.45	32	22	10	68.75	2,037.55	7,515.60	-1,594.66	-6,711.66	1.28	2.81	902.48
2	10,416.38	33	19	14	57.58	1,469.80	3,096.72	-1,250.70	-6,814.80	1.18	1.59	315.65
1	4,779.30	33	15	18	45.45	2,177.49	5,389.00	-1,549.06	-5,383.93	1.41	1.17	144.83

While December has been more reliable, March op-ex week has seen even more in total gains. As I did in that 3/16/15 Subscriber Letter, I also broke down March performance in more detail below.

Buy SPX on Friday before March Opex Week.
Sell X days later. $100k/trade. 1984 - 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	30,447.94	32	22	10	68.75	2,108.84	7,515.60	-1,594.66	-6,711.66	1.32	2.91	951.50
4	30,563.52	32	23	9	71.88	1,856.04	5,108.40	-1,347.26	-4,848.66	1.38	3.52	955.11
3	14,222.15	32	20	12	62.50	1,448.93	4,989.60	-1,229.70	-5,403.51	1.18	1.96	444.44
2	12,817.96	32	22	10	68.75	1,156.94	3,981.60	-1,263.48	-2,894.94	0.92	2.01	400.56
1	4,079.15	32	22	10	68.75	661.39	3,542.40	-1,047.14	-4,302.72	0.63	1.39	127.47

There have only been 4 years where SPX did not close above the entry price at some point during Opex Week. They were 1986, 1991, 2001, and 2011.

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.

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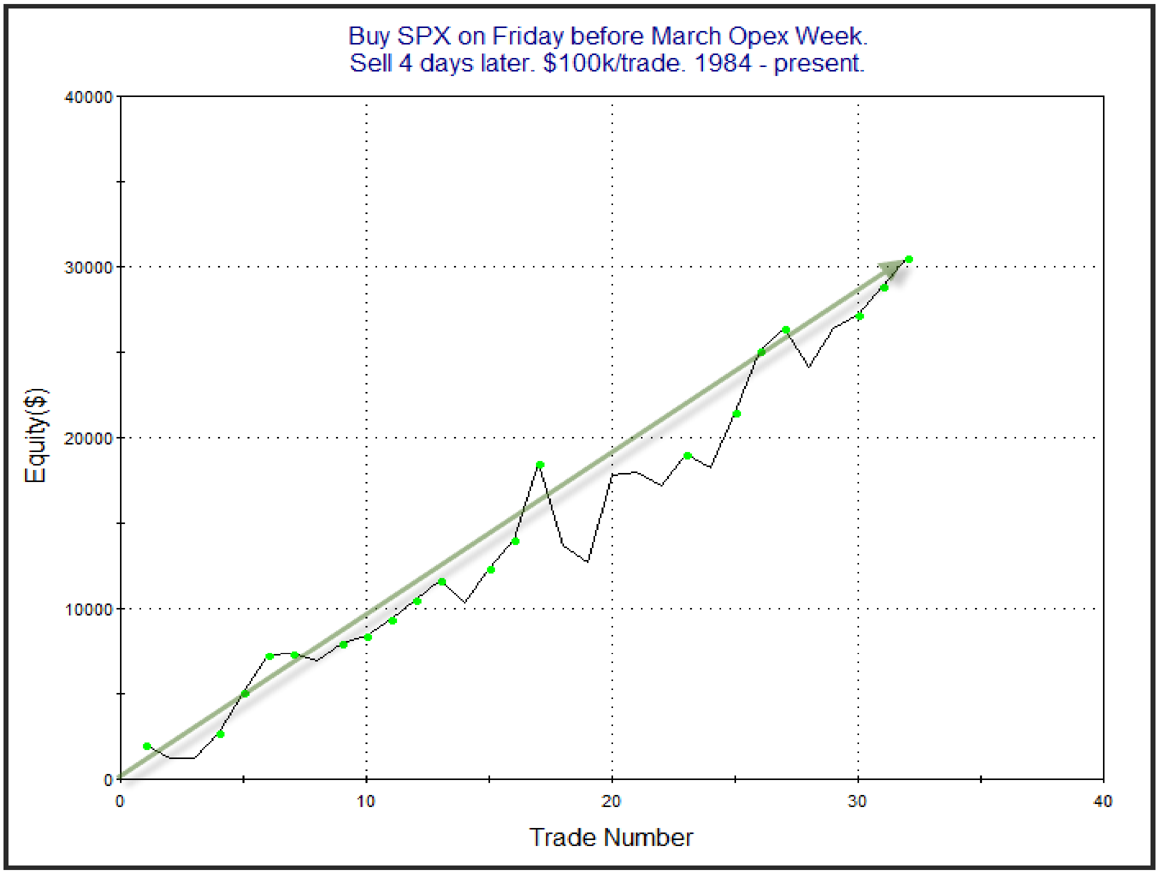

The curve is impressive. Bottom line here is that seasonality this week could provide a bit of a wind at the markets' back.

I have updated the Aggregator chart below.

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With the new studies tonight the green Aggregator Line held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line fell further below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is strongly overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal remained short at the close.

Expectations on Monday are slated to flip to bullish. But this could change if new bearish evidence emerges. The Differential Pivot will be 1975.26 on Monday. That is a whopping 2.3% below Friday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down a substantial amount on Monday. More likely it will take a multi-day decline or consolidation to work off the overbought condition.

Bears are fighting positive seasonality this week. But for the time being it still appears there is a short-side edge. Of course without new bearish evidence emerging on Monday, short-term evidence will start pointing higher. I still have a short position. If the market closes down much on Monday I will close out of some of it in anticipation of expectations turning bullish. And if they do turn bullish I will likely exit the rest on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/14 – neutral

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

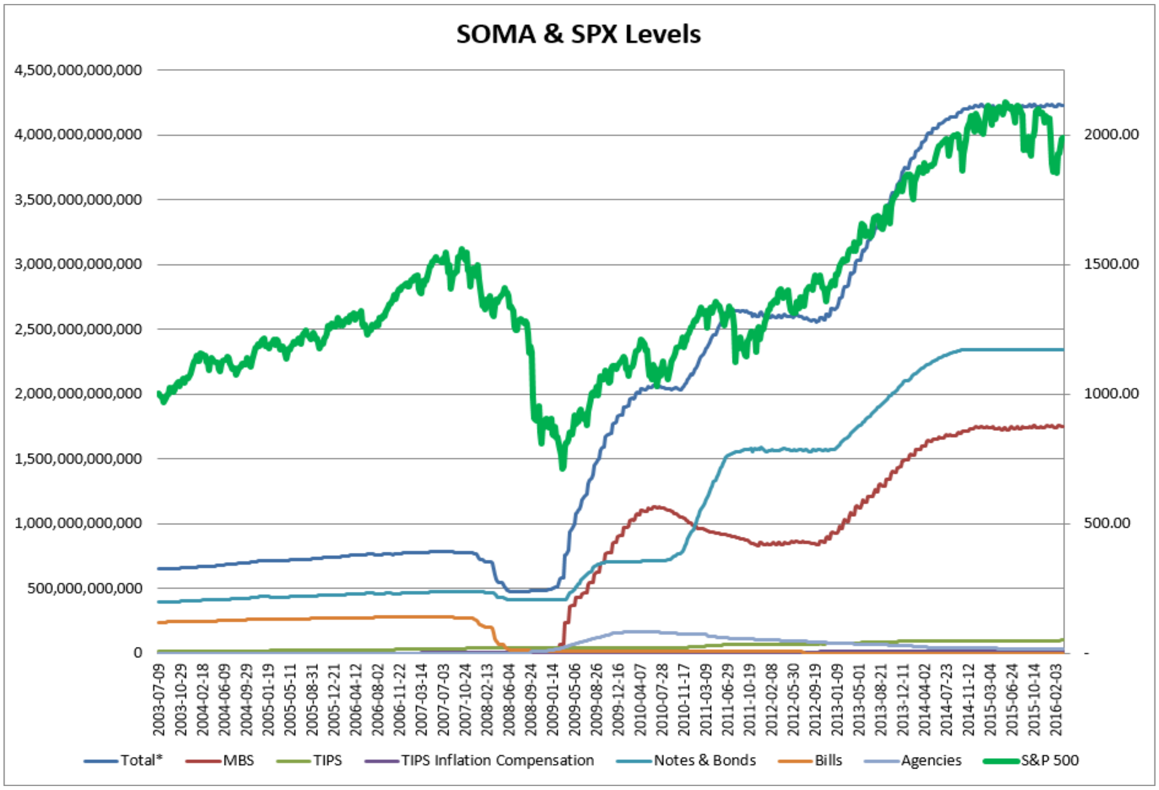
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

Friday's big rally put the SPX positive on the week, leaving it with a 1.1% gain. After bottoming in February, this marks the 4th positive week in a row as it tries to rally to new highs. From an intermediate-term standpoint, there was no new studies added to the Active List this past week.

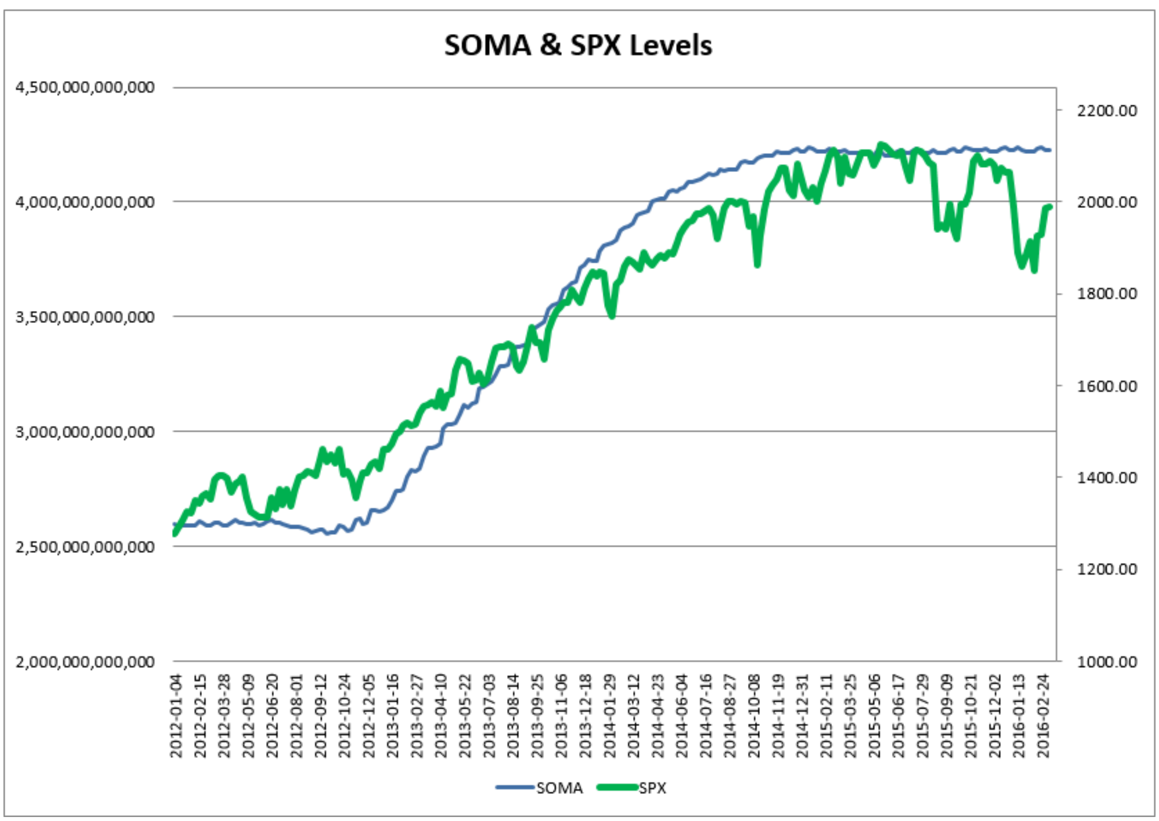
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) rose by a miniscule amount (less than 0.01%). I discussed last week that a flat week like this was expected based on the SOMA reinvestment schedule. The market rose 0.14% over this period, which is not bad for a week when SOMA has barely budged. Since the beginning of 2015 SPX has risen 8.87% during strong SOMA expansion weeks. During all other weeks SPX has lost a sum total of 11.14%. This week the SOMA outlook is not clear. It appears we are likely to see either flat week or a mild rise. So there could be some support from from Fed liquidity.

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, a few breadth-thrust studies that we see on the Active Studies list, and the recent bullish FTD. But long-term trend measures, leadership, and Fed policy are still pointing towards a 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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Pric	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	2/17/2016	$191.16	$202.76	-6.07%		Aggregator
SPY(1/4)(s)	2/26/2016	$196.57	$202.76	-3.15%		Aggregator
SPY(1/4)(s)	3/7/2016	$200.43	$202.76	-1.16%		Aggregator

I will look to exit 1 lot of SPY if SPX closes <= 2000, or all 3 lots if it closes <= 1975.26..