

QUANTIFIABLE EDGES

WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 21, 2016

Issue 357

Market Overview



Signals Overview

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

Tonight's Research Points

- Solid gains during opex week are often reversed the following week.

Short-term Outlook

The Bottom Line

Expectations are negative and the market is overbought. This suggests a bearish short-term edge.

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 21, 2016	Opex week 1%-2% gain	1-5 days	Bearish			
March 18, 2016	Top 10% 10-day range before Opex	1-4 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			
Dropped Tonight						
March 17, 2016	Fed day 10-high < 100-high	1-2 days	Bearish			

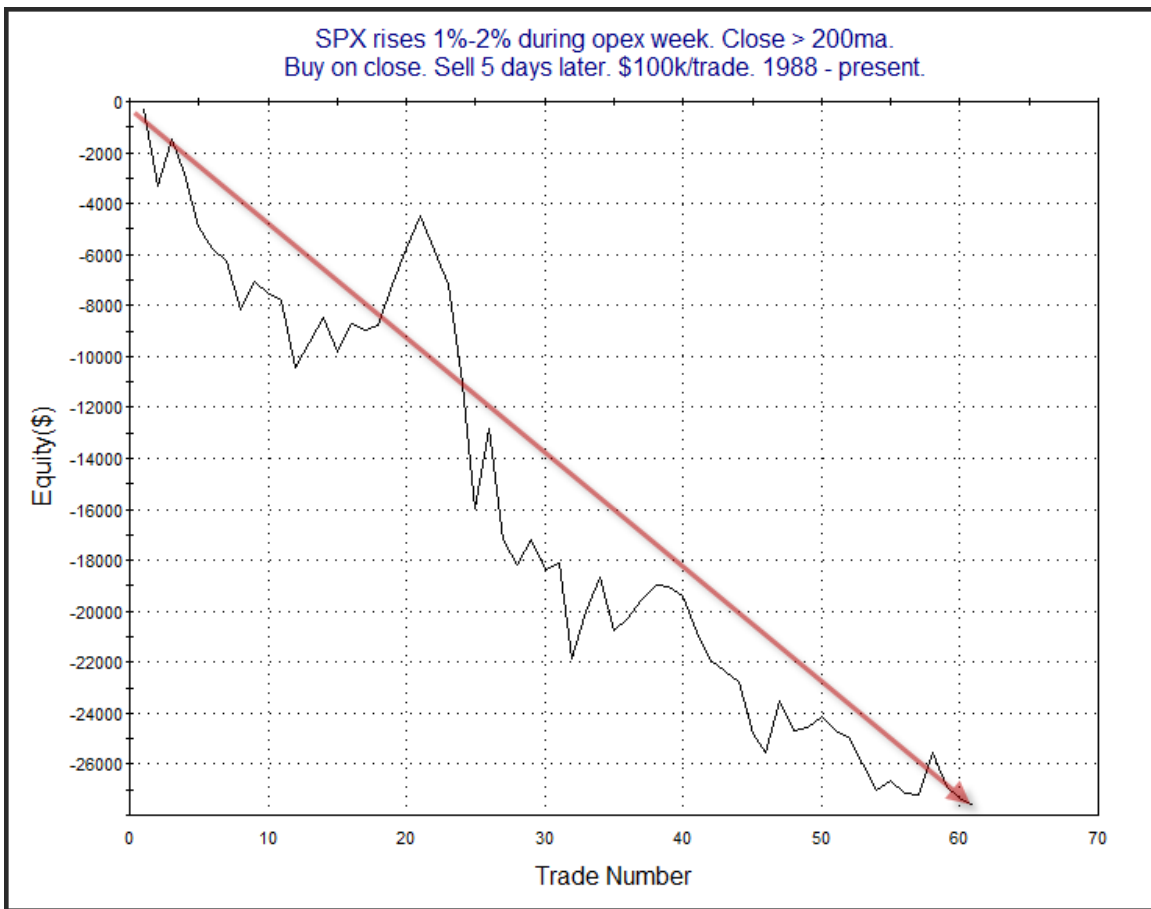
The Evidence

The market moved higher again on Friday. The SPX rose 0.4%, the NASDAQ gained 0.4%, and the Russell 2000 rallied 1.0%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 61%. Helped by options expiration NYSE volume spiked to the highest level of 2016.

Strong moves higher on opex week will often be followed by a pullback the following week. This is something we last saw in the 4/7/14 subscriber letter. I have updated the study from that letter below.

SPX rises 1%-2% during opex week. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-27,621.06	61	22	39	36.07	1,113.18	3,146.64	-1,336.18	-4,961.56	0.83	0.47	-452.80
4	-24,475.71	61	21	40	34.43	944.54	3,212.16	-1,107.78	-4,046.70	0.85	0.45	-401.24
3	-7,666.51	61	29	32	47.54	783.47	3,403.68	-949.60	-2,765.00	0.83	0.75	-125.68
2	-9,618.59	61	29	32	47.54	581.41	1,590.30	-827.48	-2,917.60	0.70	0.64	-157.68
1	-5,373.53	61	24	37	39.34	508.13	1,739.10	-474.83	-2,470.65	1.07	0.69	-88.09

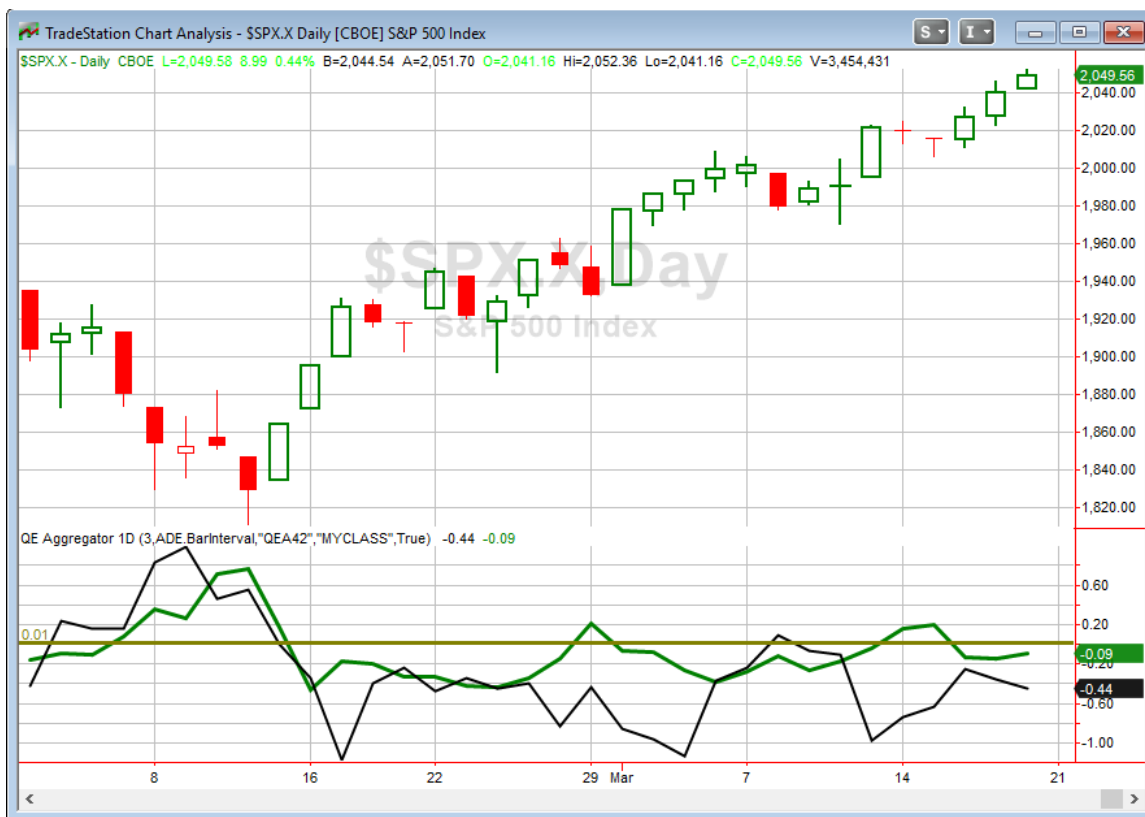
The stats suggest a short-term downside edge. Below is a profit curve assuming a 5-day holding strategy.



This is an impressive curve. The downside edge has persisted for a long time and continues to make new lows.

No other studies showed up that were compelling enough to consider.

I have updated the [Aggregator](#) chart below.



With tonight's study included 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 remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal stayed short at the close.

Expectations on Monday are set to remain bearish. But this could change if new bullish evidence emerges. The Differential Pivot will be 2031.64 on Monday. That is 0.9% below Friday's close. So for SPX to move from overbought to oversold versus recent expectations it will need to close down a sizable 0.9% or more.

Despite evidence to the contrary the market continues to push forward. But it remains overbought and triggering studies that have led to pullbacks in the past. So I continue to believe the short-term edge is to the bears. I have a small short position and am hoping to benefit some from the anticipated pullback.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/21 – neutral

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

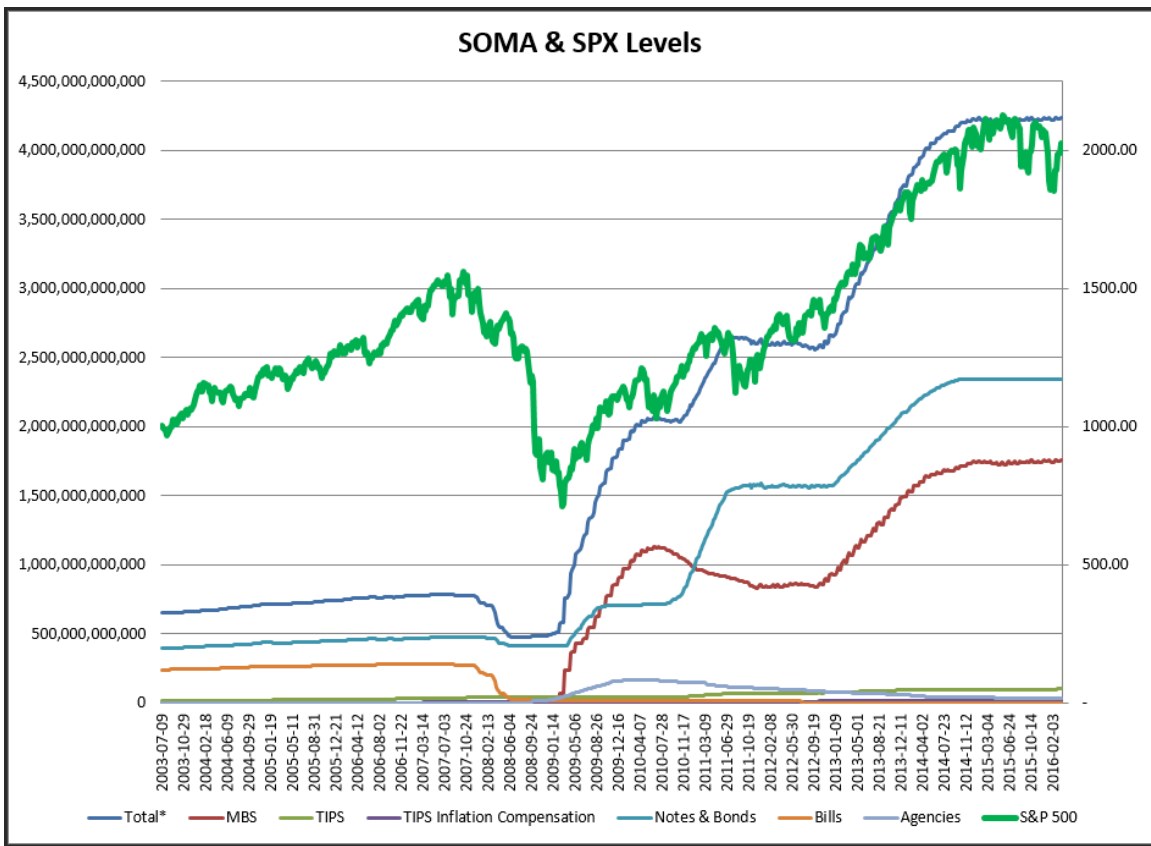
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The rally continued and SPX posted its 5th consecutive week of gains with a 1.4% gain. This has the SPX and Dow at new highs for 2016 and above their 200-day moving averages. The NASDAQ and Russell 2000 are lagging though. Both remain below their 200ma and below new 2016 highs. No new studies emerged this past week that suggested long-term implications.

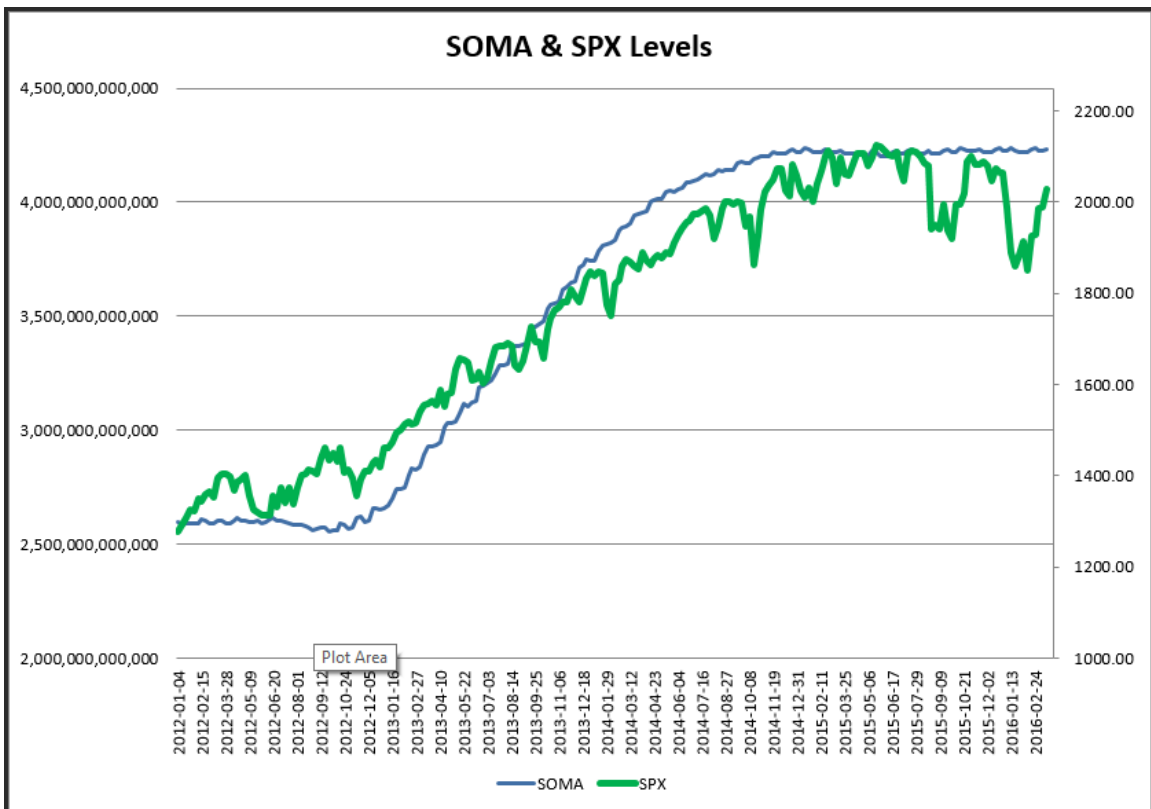
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 about 0.1%. I discussed last week that a mild rise was expected based on the SOMA reinvestment schedule, and that such weeks often saw gains. The market rose 1.9% from Wed to Wed, which is strong – even for weeks with a rising SOMA. Since the beginning of 2015 SPX has risen 10.78% during SOMA expansion weeks. During all other weeks SPX has lost a sum total of 11.14%. This week the SOMA is again expected to rise. This is based on the current reinvestment schedule. So there could again be some support 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 overall 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.

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