

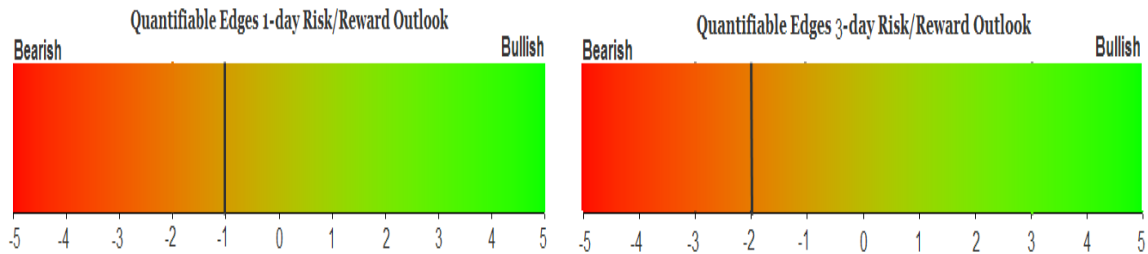
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 18, 2016

Volume 9 Issue 73

## 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.
- Tax Day and the day after have carried seasonal bullishness over the years.
- The SOMA hit new highs this past week, but it is expected to decline the next two weeks.

## *Short-term Outlook*

### *The Bottom Line*

There is a mix of studies that is suggesting a pullback in the next few days. But we have two bullish seasonal days to start the week. And while the market is currently short-term overbought, it won't be as of Monday's close if it doesn't continue to rise. So while there might be a downside edge, it doesn't appear strong. A short opportunity could look better after Tuesday's close.

*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
<b>Active - Short Term</b>						
April 18, 2016	Tax Days Bullish	1-2 days	Bullish			
April 18, 2016	Opex Week up 1%-2%	1-5 days	Bearish			
April 15, 2016	Top of range prior to opex Fri	1-4 days	Bearish			
April 14, 2016	QE Buying Power Short	1-6 days	Bearish			
<b>Active - Long Term</b>						
March 28, 2016	1st close < 10ma in 25 days	1-19 days	Bullish	4.10%	-0.90%	-2.25%
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**

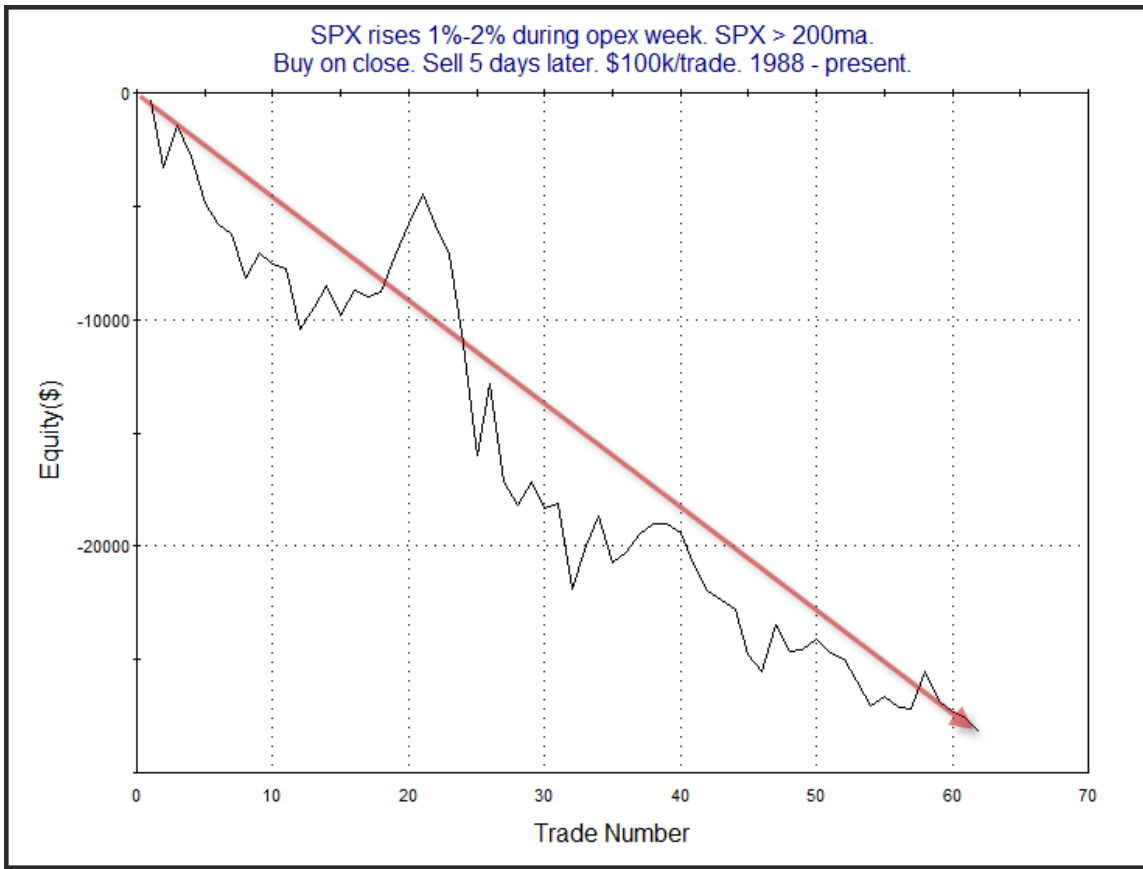
Friday was a mixed and mild day for the market. The SPX lost 0.1%, the NASDAQ declined 0.2% and the Russell 2000 rose 0.2%. Breadth was pretty neutral as the NYSE Up Issues % was 53% and the Up Volume % came in at 50%. NYSE volume rose some from Thursday's level.

There are a few short-term studies that emerged in the Quantifinder, and they all have a seasonal component to them.

Strong moves higher on opex week will often be followed by a pullback the following week. This is something we last saw in the 3/21/16 subscriber letter. I have updated the study from that letter below.

SPX rises 1%-2% during opex week. SPX > 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	-28,221.54	62	22	40	35.48	1,113.18	3,146.64	-1,317.79	-4,961.56	0.84	0.46	-455.19
4	-25,129.47	62	21	41	33.87	944.54	3,212.16	-1,096.70	-4,046.70	0.86	0.44	-405.31
3	-8,283.31	62	29	33	46.77	783.47	3,403.68	-939.51	-2,765.00	0.83	0.73	-133.60
2	-9,607.07	62	30	32	48.39	562.41	1,590.30	-827.48	-2,917.60	0.68	0.64	-154.95
1	-5,275.61	62	25	37	40.32	491.72	1,739.10	-474.83	-2,470.65	1.04	0.70	-85.09

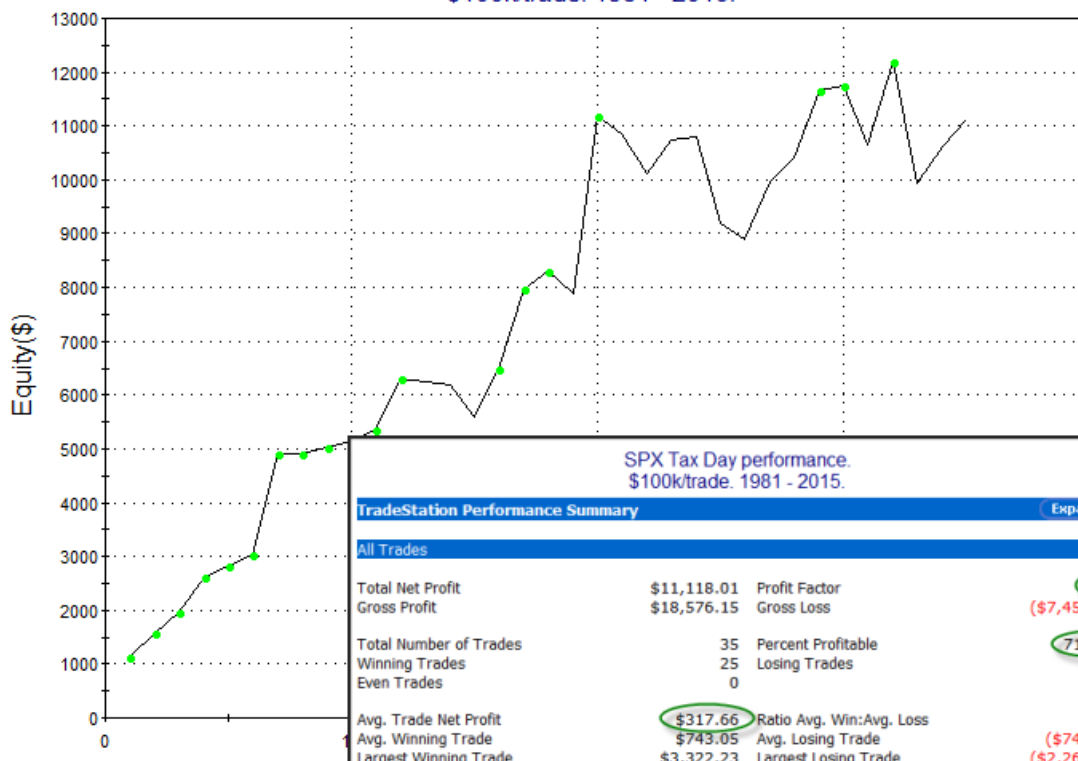
The stats suggest a short-term downside edge. Below is a profit curve assuming a 5-day holding strategy.

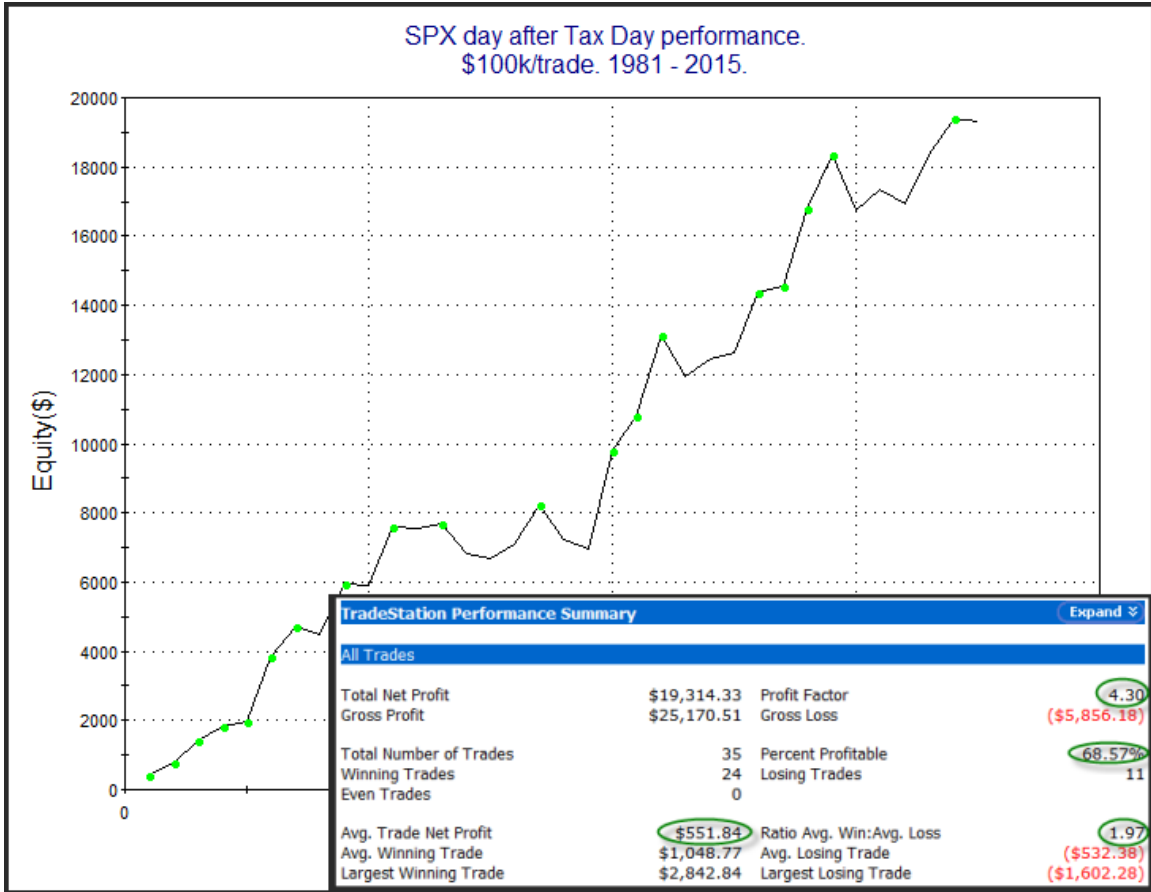


This is an impressive curve. The downside edge has persisted for a long time and continues to make new lows.

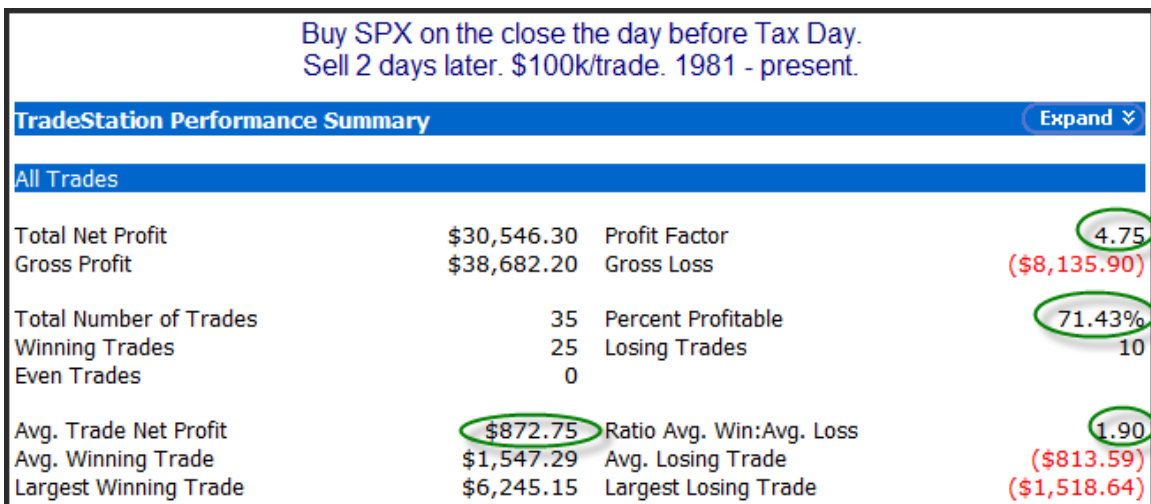
In the 4/13/15 letter I showed that there has been a strong historical tendency on tax day (normally April 15<sup>th</sup>, but Monday the 18<sup>th</sup> this year) and the day immediately after. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15<sup>th</sup>. Fund managers will often put this money to work immediately and it creates a positive bias for the market. Below are some updated studies that demonstrate this.

SPX Tax Day performance.  
\$100k/trade. 1981 - 2015.

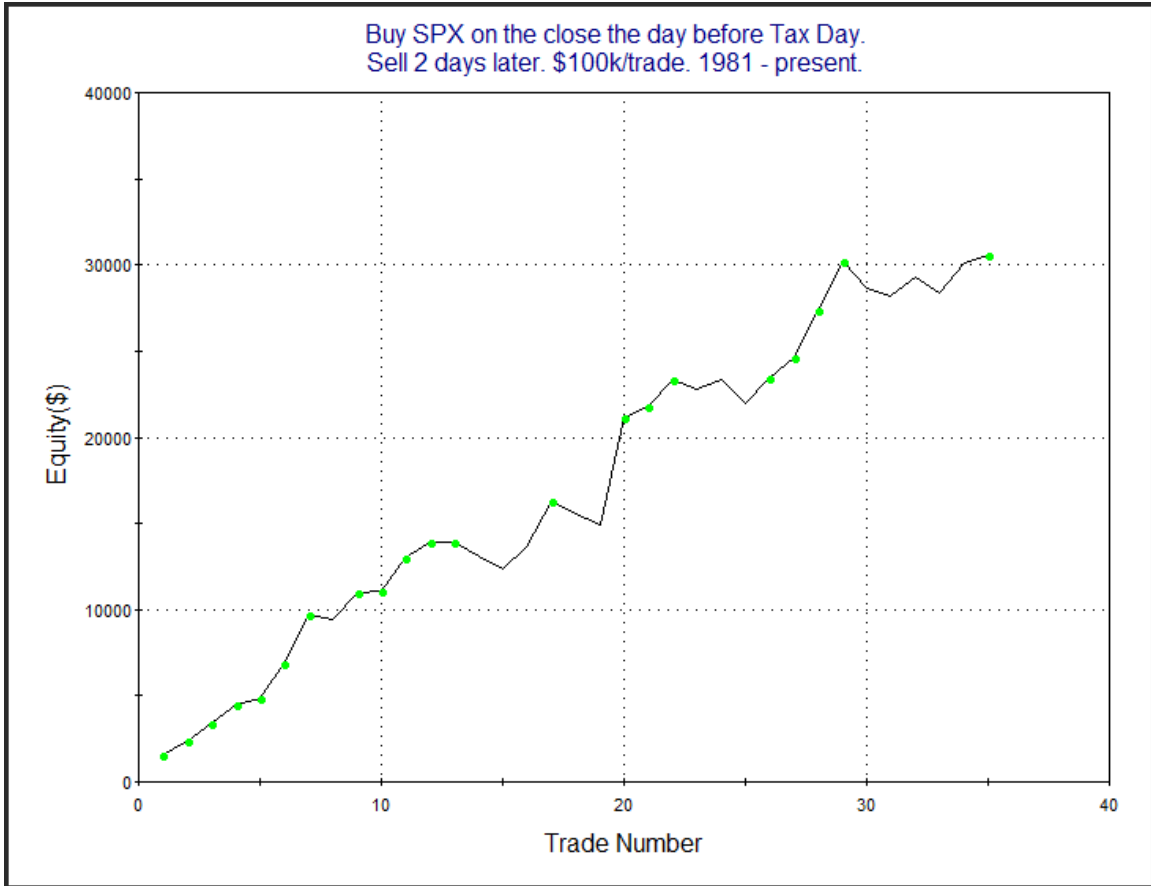




As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

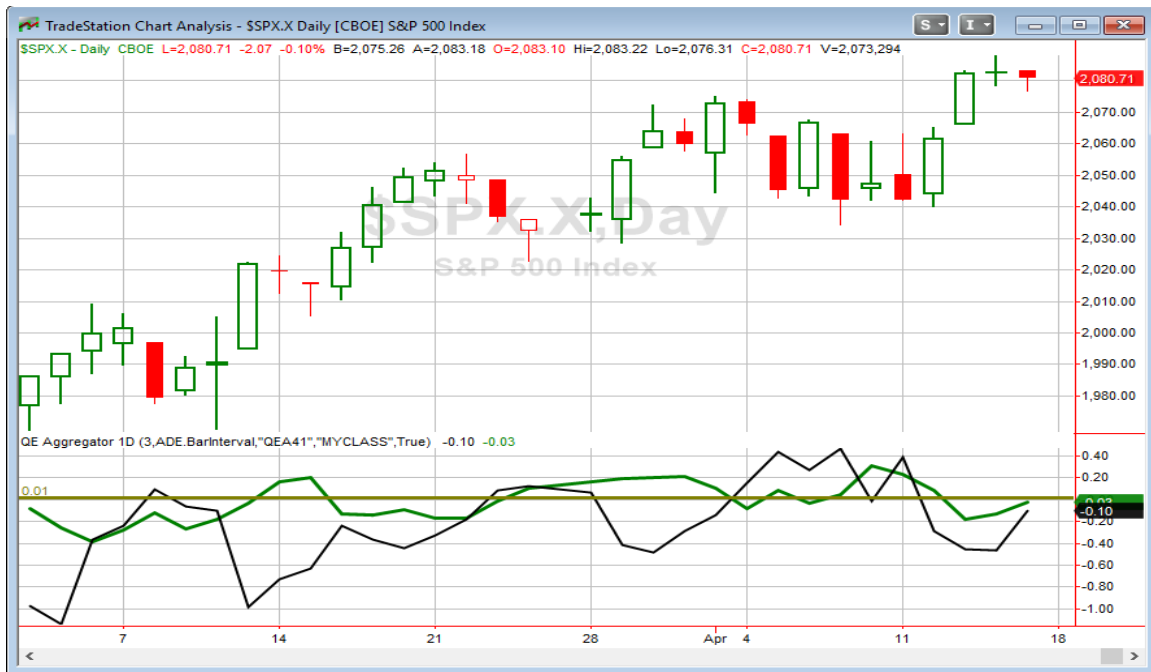


As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.



A good looking curve that made new highs just last year. While post-opex is suggesting a possible down week, the market certainly has a couple of strong seasonal days to begin the week.

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



With tonight's mix of studies considered the green Aggregator Line held below zero – but just barely. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained below a little 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.

Based on the current active studies, expectations are slated to remain negative on Monday. This could change if more bullish evidence emerges. The Differential Pivot will be *a little inverted at 2085.28* on Monday. That is 0.2% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to rise over 0.2% in order to remain "overbought". Anything less than that and it will be considered "oversold" versus expectations as of Monday's close.

I generally do not view times with inverted pivots as great opportunities for entering new positions. And if I am in a position I will often take profits when this occurs. So if I had taken on a short position on Friday after the Aggregator signal turned short, I would already be looking to take a profit on Monday. The reason for all this is that while there appears to be an edge, that edge has very limited reward potential. The signal will expire in one day if SPX moves in the expected direction (down in this case). So I will not be looking to take on a position yet. If we do move higher over the next couple of days and the bearish studies remain, then there is a good chance that I could look to short near the close on Tuesday or the open Wednesday morning. For now, I'll remain patient.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 4/18 – slightly bullish**

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

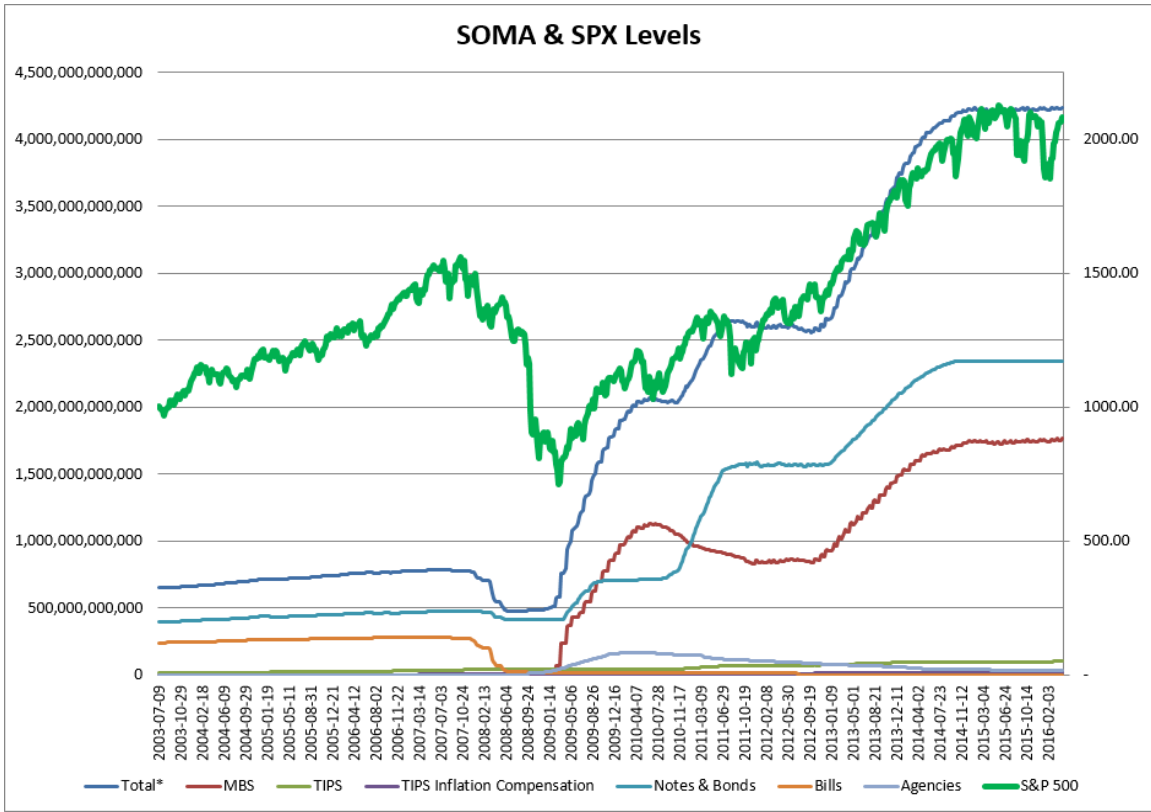
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 was no change in the Combination Signals this past week, as all three remained long.*

Even with Friday’s small dip, the market moved nicely higher this past week. The SPX managed to close up 1.6% on the week and it also made new intermediate-term (50-day) highs. Despite the move higher we did not have any substantial intermediate-term studies emerge.

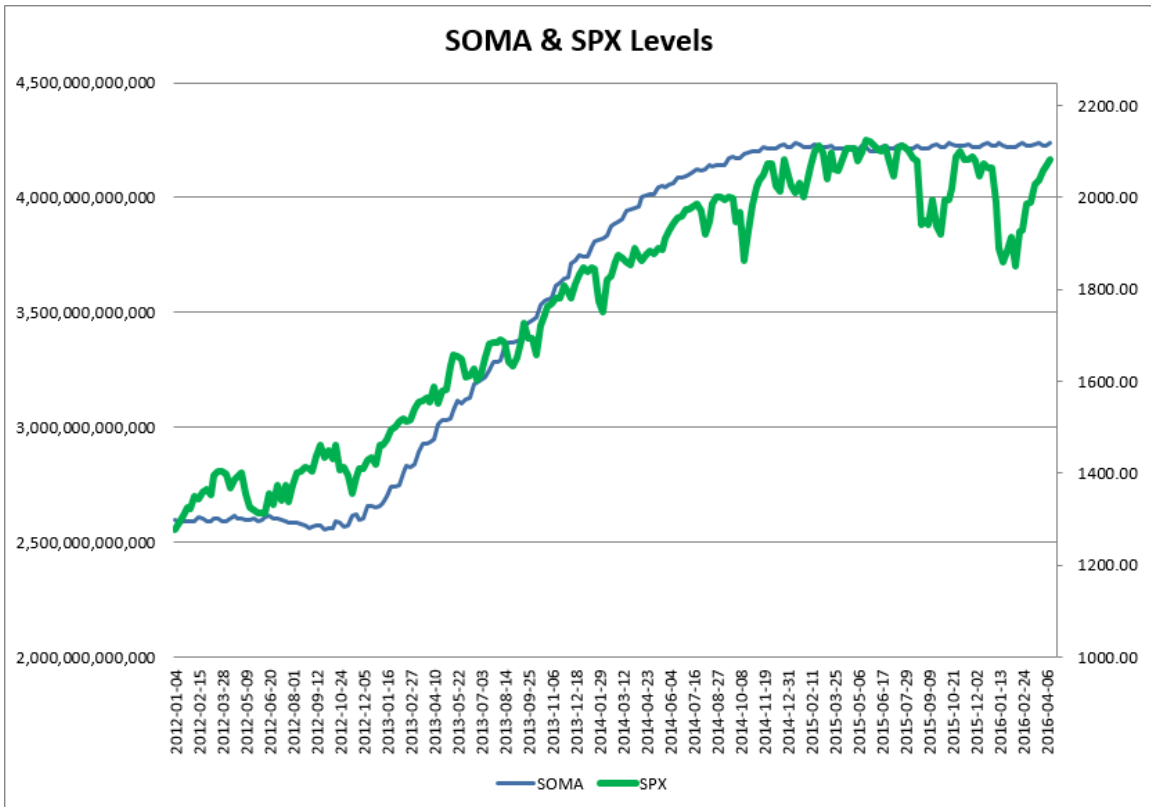
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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) saw a sizable rise of about 0.31%. This is something I indicated was probable last week based on the Fed's reinvestment schedule. And the SOMA increase was actually enough to put it at new all-time highs for the first time since January. This strong move in the SOMA was also accompanied by a rise in the SPX of 0.76%. The SPX will often rally during weeks where the SOMA increases. Since the beginning of 2015 SPX has risen 70% of the time for a sum total of 12.01% during SOMA expansion weeks. During all other weeks SPX has only risen 41% of the time and has lost a sum total of 9.68%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, I expect to see the SOMA contract both this upcoming week and the week after. That has generally been a bad thing for the market. So the bullish studies that are currently dominating the intermediate-term are going to need to contend with negative Fed liquidity for the next week and a half.

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. But there seems to be more in favor of the bulls. This includes long-term seasonal forces, a few breadth-thrust studies that we see on the Active Studies list, the bullish FTD study, and the persistency study from late March. On the bearish side we still see overall Fed policy and some long-term trend measures are pointing lower. The upcoming SOMA contraction does have me a little concerned for the next week and a half or so. Due to this, I am lowering my outlook from "bullish" to "slightly bullish". While I will take short-term trades in either direction, my slightly bullish bias still means I will be a bit more aggressive on the long side than the short side.

### **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.**

### **Current Open Trade Ideas**

*None.*

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