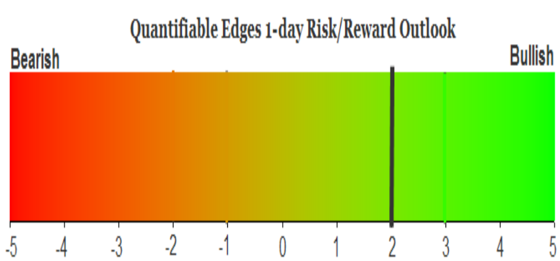
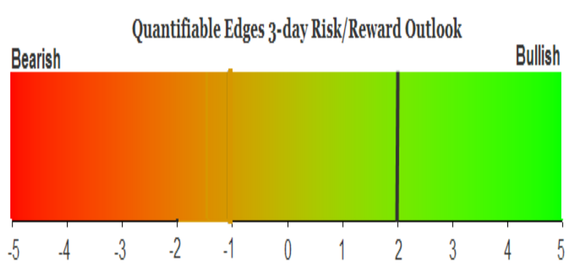
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 25, 2016 Volume 9 Issue 78

Market Overview





Signals Overview

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

Tonight's Research Points

- The 1st low 5-day in over 2 weeks is often followed by a bounce, especially when SPY is still above its 10ma.
- The NASDAQ is now lagging.
- The SPX is about to have a Golden Cross.

Short-term Outlook

The Bottom Line

Evidence is hinting at a bounce and the SPX is now a little oversold. The leaves somewhat bullish and looking to possibly take on some long exposure.

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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						
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-4 days	Bullish	1.40%	-1.00%	-2.10%
April 22, 2016	Big drop from 50-high	1-4 days	Bullish			
Active - Long Term						
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-10 days	Bullish	2.20%	-1.30%	-2.70%
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			
Dropped Tonight						
April 18, 2016	Opex Week up 1%-2%	1-5 days	Bearish			

The Evidence

Friday had mixed results. The SPX was basically flat with a 0.10 point gain, the NASDAQ sold off 0.8%, and the Russell 2000 gained nearly 1%. Breadth was positive as the NYSE Up Issues % was 69% and the Up Volume % came in at 69% also. NYSE volume dipped some from Thursday's high reading.

SPY closed right at breakeven on the day. This left it tied with Thursday's close for the lowest close in the last 5 days. It was the 1st 5-day closing low in a while. Despite closing at a 5-day low, SPY did still close above its 10ma. This triggered a study from the 3/24/16 letter that I have updated below.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma.
Buy on close. Sell X days later. $100k/trade. 1994 - 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	41,758.61	43	31	12	72.09	1,757.51	4,839.66	-1,060.35	-2,972.16	1.66	4.28	971.13
9	40,942.65	43	33	10	76.74	1,628.35	5,293.08	-1,279.28	-3,319.71	1.27	4.20	952.15
8	38,014.38	43	32	11	74.42	1,573.61	4,734.72	-1,121.92	-2,602.71	1.40	4.08	884.06
7	33,409.14	43	32	11	74.42	1,590.08	4,118.22	-1,588.51	-3,472.29	1.00	2.91	776.96
6	31,008.18	43	31	12	72.09	1,419.22	4,307.28	-1,082.29	-2,992.38	1.31	3.39	721.12
5	28,367.43	43	30	13	69.77	1,352.69	4,496.34	-939.49	-3,570.00	1.44	3.32	659.71
4	26,335.81	43	31	12	72.09	1,225.69	3,149.62	-971.72	-2,475.20	1.26	3.26	612.46
3	21,877.77	43	31	12	72.09	1,166.81	3,452.40	-1,191.11	-3,393.78	0.98	2.53	508.79
2	12,063.39	43	27	16	62.79	1,020.73	3,809.72	-968.52	-3,737.28	1.05	1.78	280.54
1	5,493.05	43	26	17	60.47	726.53	2,225.48	-788.05	-3,909.03	0.92	1.41	127.75

40 of 43 instances (93%) closed above the entry price
at some point in the next 5 days.

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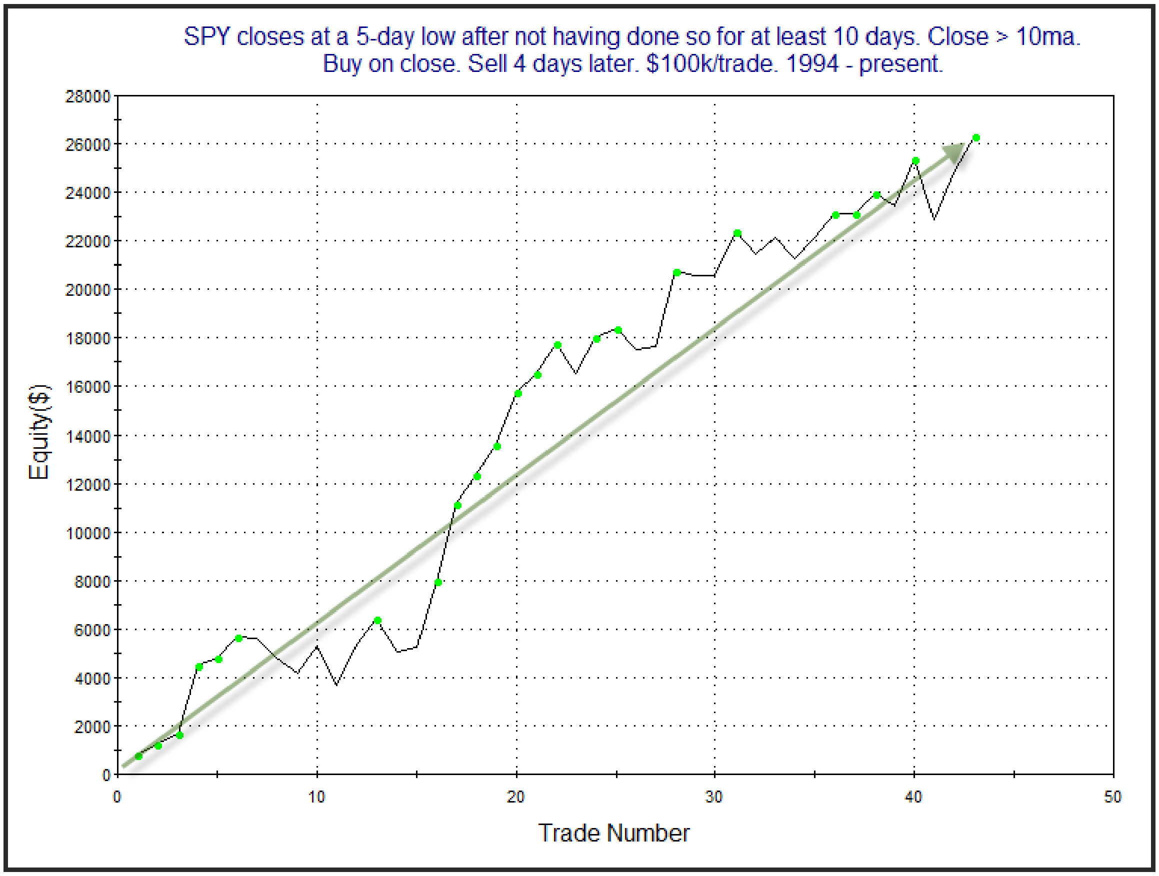
Results here suggest a solid edge over the next 1-10 days. Much of the gains have been realized in the 1st 4 days. Below is a profit curve for a 4-day holding period.



The strong steady upslope is impressive. I also ran a 10-day curve.

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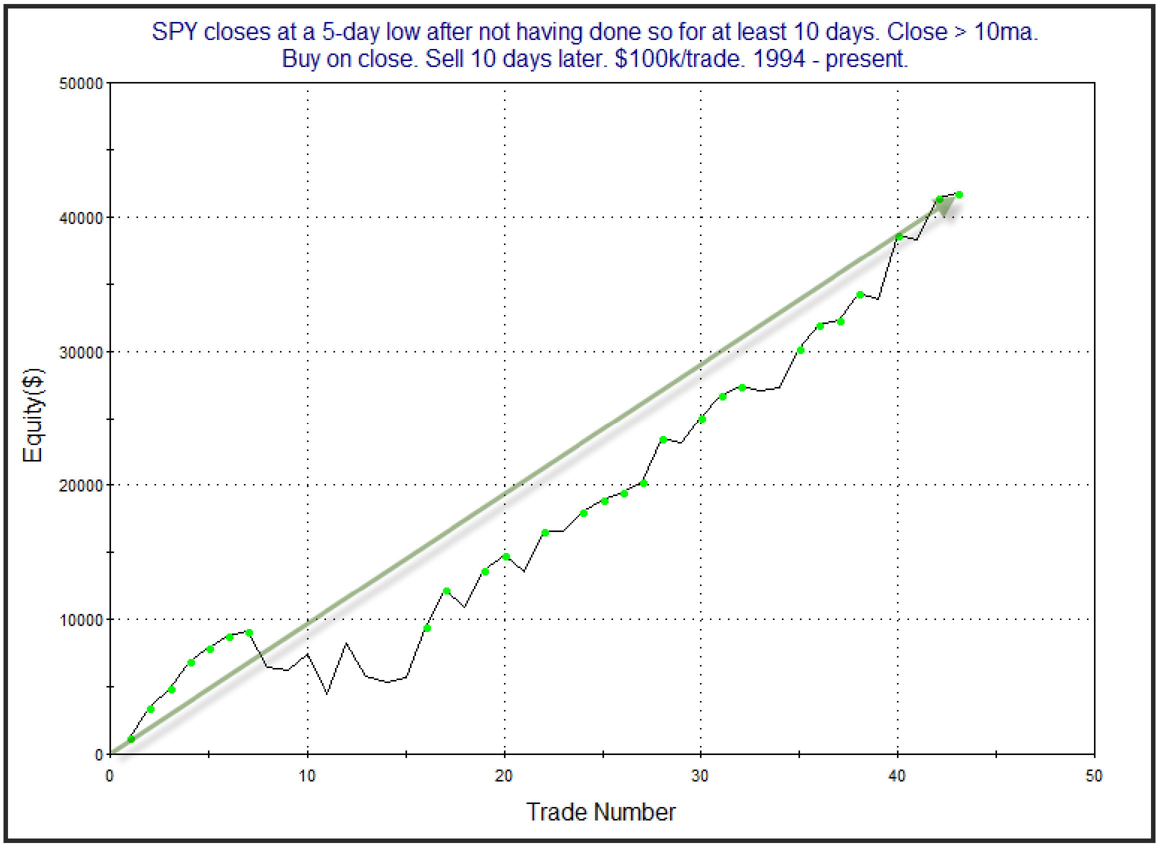

This curve is also impressive and helps to confirm the upside edge. I have added this study to both the short and intermediate-term active lists tonight.

I have updated the Aggregator chart below.

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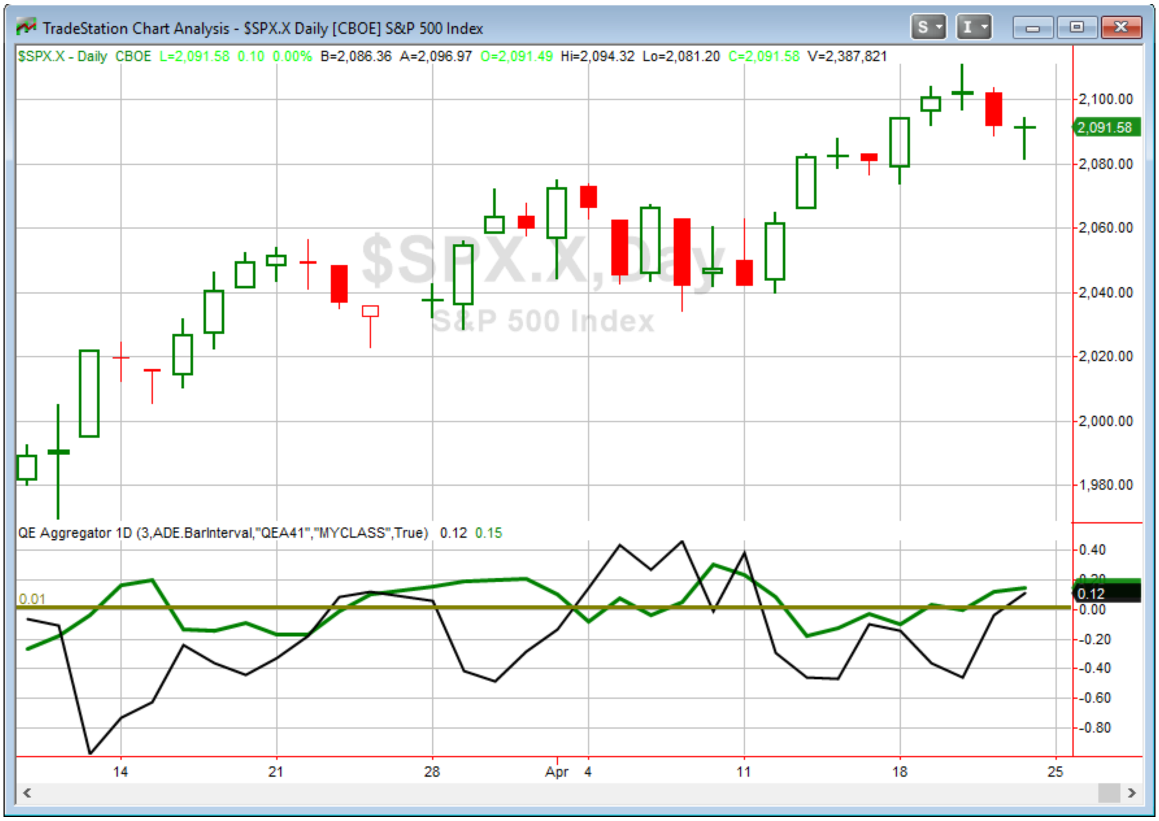


With tonight’s study being added the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved above 0. The negative Differential Line reading means SPX is oversold versus recent 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.

Based on the current active studies, expectations are slated to remain positive on Monday. This could change if more bearish evidence emerges. The Differential Pivot will be 2100.95 on Monday. That is 0.45% above Friday’s close. So for SPX to move from oversold to overbought versus expectations on Monday it is going to have to close up at least 0.45%.

So there appears to be a bit of an upside edge. In general, I prefer not to take long trades when SPX has not even pulled back below its 10ma. But the study we are looking at above takes that into account and still suggests a solid bullish tendency. So I will look to take advantage of that information and I will scale into an index position if I can get a favorable entry – either at the open of the close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/25 – slightly bullish

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.) *All three signals changed from Long to Flat on Friday's close, due to the NASDAQ falling into a lagging position.*

SPX managed to post a gain for the 2nd week in a row, rising 0.5% this past week. The Russell 2000 also posted gains on the week, but the NASDAQ had a losing week.

There are some notable changes occurring with regards to the QE Market Timing Course price action indicators. The NASADAQ/SPX Relative Strength Indicator flipped on Friday so that the NASDAQ is now lagging. This has not been a good formation for the market over the years, since most of the SPX gains, and more than all of the NASDAQ gains have occurred when the NASDAQ was in a leading position.

The 2nd Price Action indicator is the SPX Golden Cross / Death Cross, which is likely to enter "Golden Cross" territory as of Monday's close. There is a good amount of information on Golden Crosses in the QE Market Timing Course. Bottom line is that it is not any kind of magic indicator, but most of the net gains the market has managed over the years have been while it was in a Golden Cross formation. This is primarily because it allows investors to sidestep the worst bear markets.

So tonight I thought I would review how the market has performed when the Market Timing Course indicators were aligned as I expect them to be as of Monday's close.

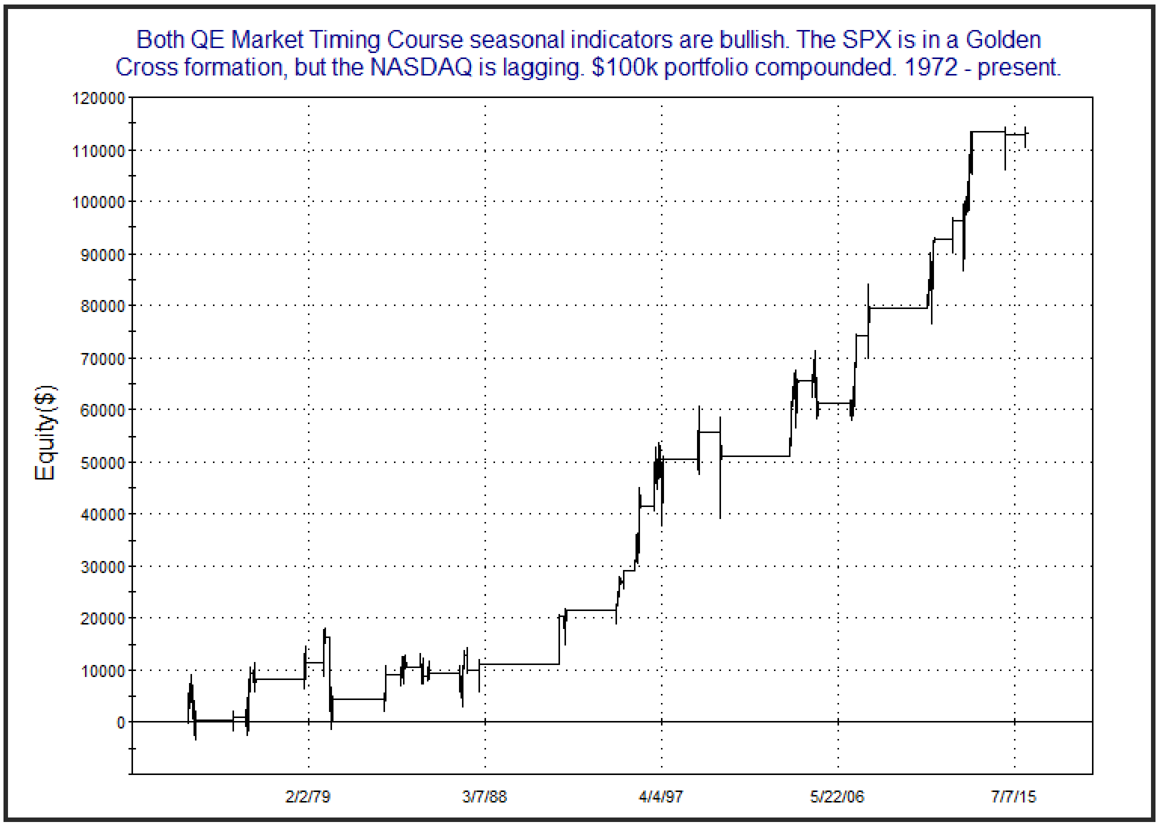
Both QE Market Timing Course seasonal indicators are bullish. The SPX is in a Golden Cross formation, but the NASDAQ is lagging. $100k/trade. 1972 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$79,070.62	Profit Factor	3.22
Gross Profit	$114,654.56	Gross Loss	($35,583.94)
Total Number of Trades	52	Percent Profitable	73.08%
Winning Trades	38	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	$1,520.59	Ratio Avg. Win:Avg. Loss	1.19
Avg. Winning Trade	$3,017.23	Avg. Losing Trade	($2,541.71)
Largest Winning Trade	$8,333.40	Largest Losing Trade	($10,089.09)

Stats here appear solidly bullish. I also looked at a profit curve that assumed the portfolio was 100% in when the configuration was in place and 100% out otherwise. No commissions or interest on cash positions were included. This can be seen below.

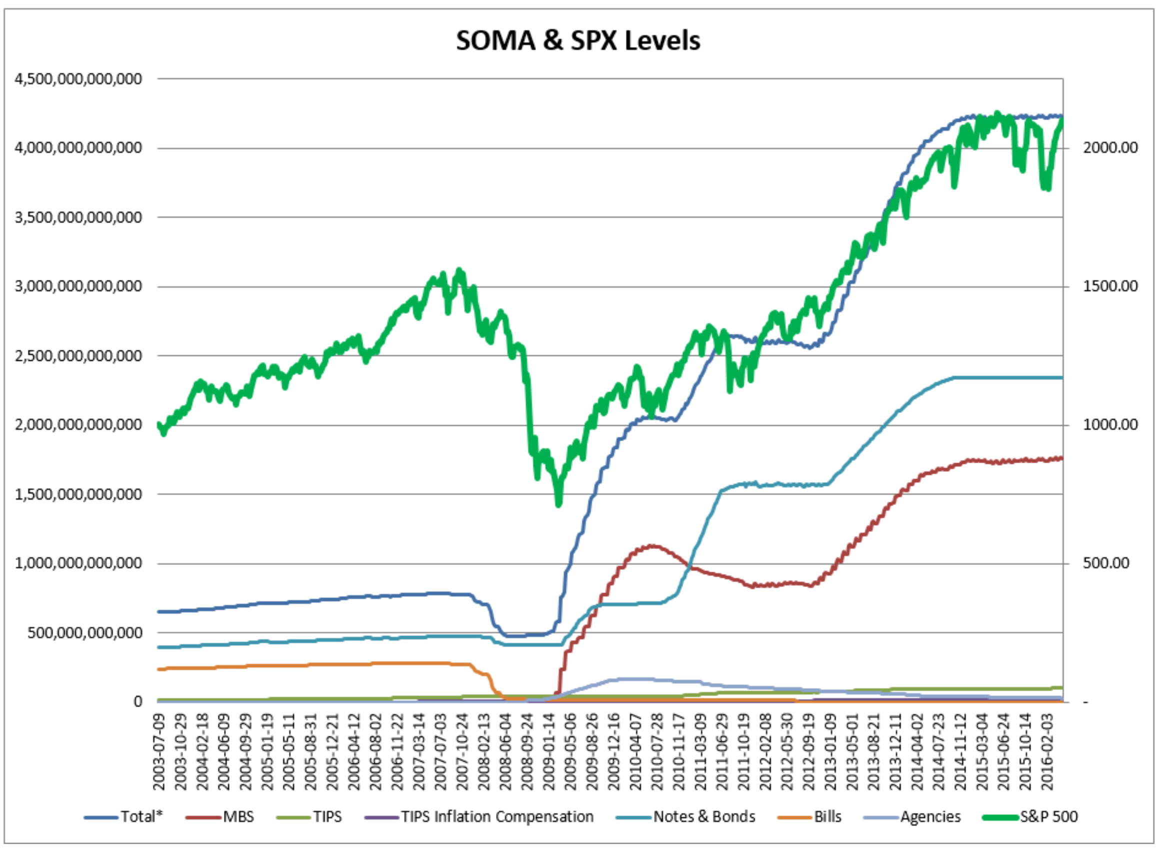


No red flags here, as the formation appears to have produced intermediate-term gains on a pretty consistent basis over the years.

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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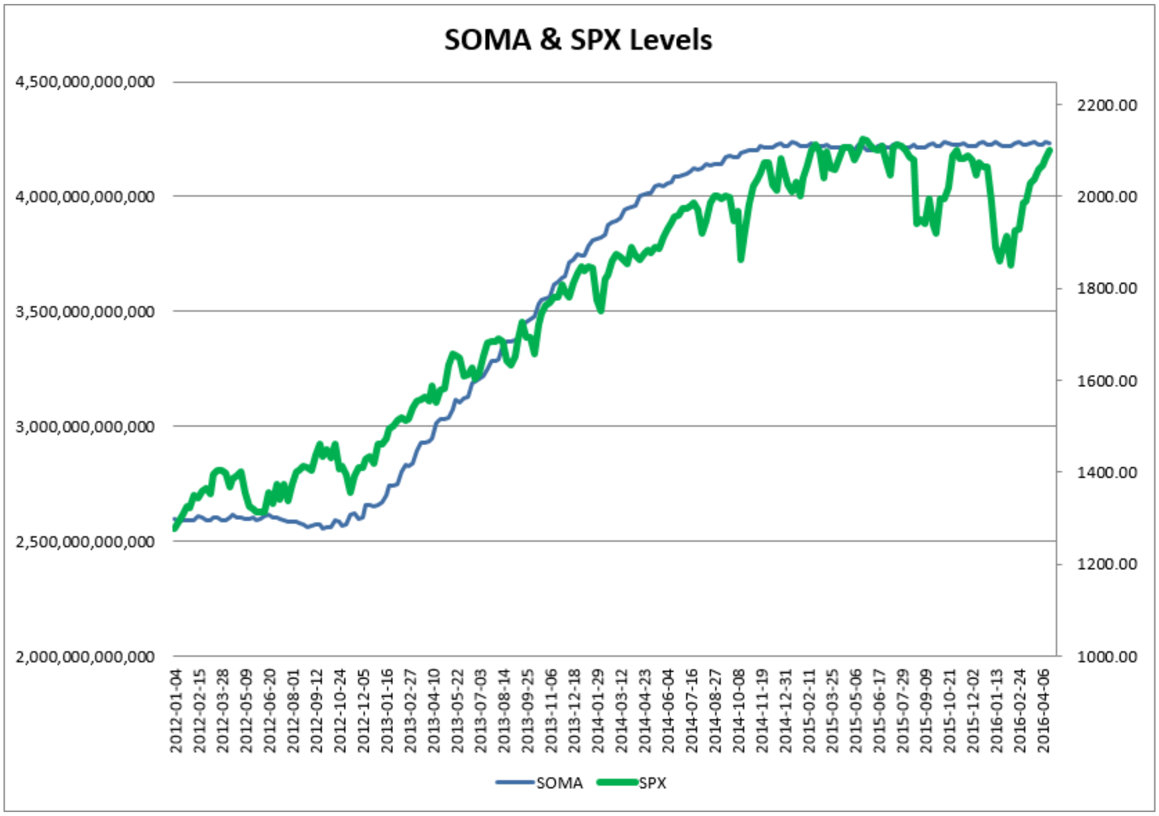

SOMA this past week (Wednesday to Wednesday) saw a decline of about 0.20%. This is something I indicated was probable last week based on the Fed's reinvestment schedule. So the 0.96% gain for the SPX is much stronger than the typical week where the SOMA did not rise. The SPX will often rally during weeks 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 42% of the time and has lost a sum total of 8.72%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, I expect to see the SOMA contract this upcoming week and then basically break even 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. Additionally, the "1st 5-day low" study and the Golden Cross formation that I discussed above both favor the bulls. On the bearish side we still see overall Fed policy and the

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lagging NASDAQ pointing lower. The upcoming SOMA contraction does have me a little concerned for the next week and a half or so. So I will remain "slightly bullish" for the time being. While I will take short-term trades in either direction, my 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.

SPY – buy ¼ index position @ $208.50 LIMIT ON OPEN. If not filled on open, cancel order and then look to purchase @ $205.50 LIMIT ON CLOSE. I am looking to buy into a gap down or a close lower of about $0.50. I will not buy into an intraday selloff, instead waiting for the end of the day in the hopes of getting a better price if Monday does start well but turns sour.

Current Open Trade Ideas

None

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