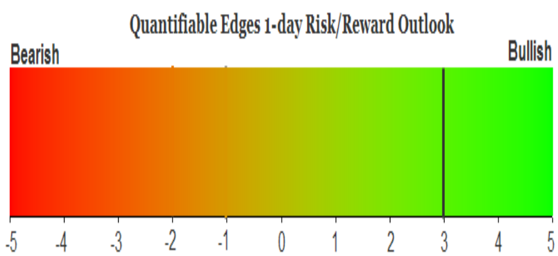
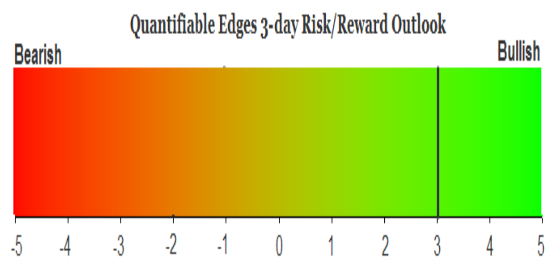
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 16, 2016 Volume 9 Issue 93

Market Overview





Signals Overview

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

Tonight's Research Points

- When SPX has closed down 3 days in a row leading up to opex week, there has been a sizable upside edge.
- 3 lower closes to a 20-day low to finish a week have often been followed by more selling – but not if it is opex week coming up.
- The SOMA account was flat this past week. It is now in a week that it is expected to rise, but the next week will likely see a decline.

Short-term Outlook
The Bottom Line

Evidence is somewhat bullish, and the market is strongly oversold. This combination suggests a bullish short-term edge. I think bulls have a bit of an advantage over the next few days.

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						
May 16, 2016	Down 3 going into opex week	1-5 days	Bullish	1.90%	-1.20%	-2.20%
Active - Long Term						
May 9, 2016	CBI >= 7. SPX < 200.	1-15 days	Bullish			
May 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.35%
April 26, 2016	Golden Cross	int term	Bullish			
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-10 days	Bullish	2.20%	-1.30%	-2.70%
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 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
May 9, 2016	CBI >= 7. SPX < 200.	1-5 days	Bullish			

The Evidence

Friday was another day of selling. The SPX lost 0.9%, the NASDAQ fell 0.4%, and the Russell 2000 dropped 0.6%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 18%. NYSE volume declined some from Thursday's level.

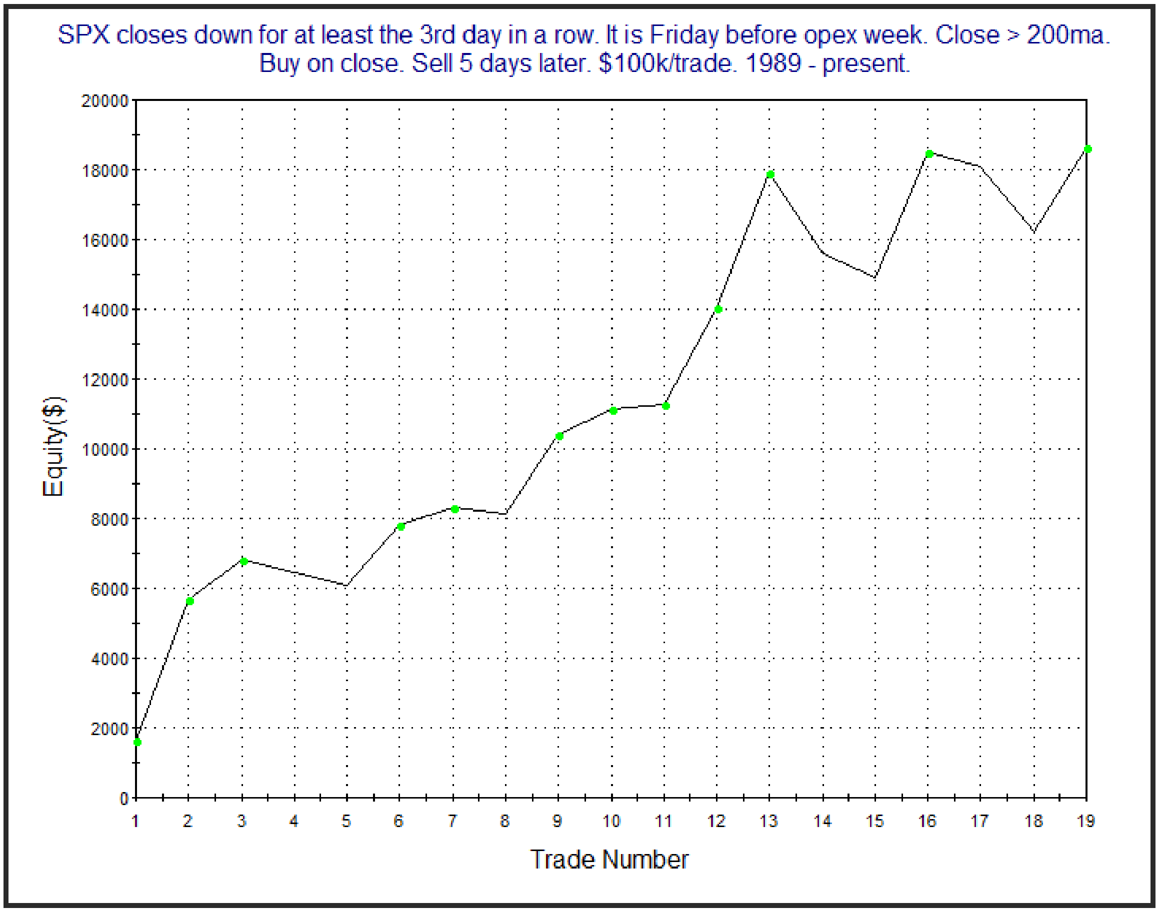
Three-day pullbacks often generate some interesting evidence. And many times they lead to a bounce. Of course not all 3-day pullback are created equal. One notable about the current pullback is that it is leading up to opex week. In the 12/16/13 letter I looked at this kind of scenario. (And interestingly, it hasn't happened since.) I have updated those results below.

SPX closes down for at least the 3rd day in a row. It is Friday before opex week. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1989 - 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	18,637.42	19	12	7	63.16	2,074.91	4,039.49	-894.50	-2,348.40	2.32	3.98	980.92
4	14,547.75	19	13	6	68.42	1,539.07	4,030.52	-910.03	-2,266.11	1.69	3.66	765.67
3	14,831.63	19	12	7	63.16	1,598.35	3,493.80	-621.23	-1,610.84	2.57	4.41	780.61
2	11,272.27	19	12	7	63.16	1,240.53	2,614.01	-516.31	-1,306.06	2.40	4.12	593.28
1	9,261.02	19	15	4	78.95	742.85	2,753.79	-470.45	-1,048.05	1.58	5.92	487.42

18 of 19 instances (95%) closed above the entry price at some point in the next week.

The stats here are quite bullish. Below is the profit curve assuming a 5-day holding period.



The strong, steady upslope acts as some confirmation of the upside edge.

It is also notable that SPX closed at a 20-day low on Friday. I also looked at 3-day pullbacks in conjunction with a 20-day low. Results were underwhelming. But when I also considered the fact that it was Friday, things got interesting again.

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. It is the last day of the week. Buy on close. 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	-28,648.98	44	24	20	54.55	1,923.30	6,111.54	-3,740.41	-18,000.90	0.51	0.62	-651.11
4	-32,480.29	44	23	21	52.27	1,523.57	4,731.13	-3,215.35	-17,037.90	0.47	0.52	-738.19
3	-29,823.87	44	18	26	40.91	1,575.30	3,833.82	-2,237.66	-10,286.10	0.70	0.49	-677.82
2	-35,549.59	44	20	24	45.45	917.03	3,585.76	-2,245.42	-16,188.58	0.41	0.34	-807.95
1	-48,485.27	44	19	25	43.18	590.71	2,503.90	-2,388.35	-20,424.58	0.25	0.19	-1,101.94

Not what you might expect. Here there is no suggestion of a bounce, and there appears to be a strong downside tendency – especially on day 1. So I further refined this study to take into consideration whether next week was an opex week or not. Let's first look at times like now when the setup has occurred just prior to an opex week.

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. It is the last day of the week prior to opex week. Buy on close. 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	1,117.37	7	4	3	57.14	1,434.38	3,873.15	-1,540.05	-2,170.48	0.93	1.24	159.62
4	5,853.30	7	4	3	57.14	1,685.80	3,256.20	-296.63	-708.66	5.68	7.58	836.19
3	5,498.99	7	5	2	71.43	1,531.55	3,493.80	-1,079.39	-1,651.00	1.42	3.55	785.57
2	6,025.96	7	7	0	100.00	860.85	2,304.45	0.00	0.00	100.00	100.00	860.85
1	1,155.12	7	4	3	57.14	614.12	1,181.80	-433.79	-986.00	1.42	1.89	165.02

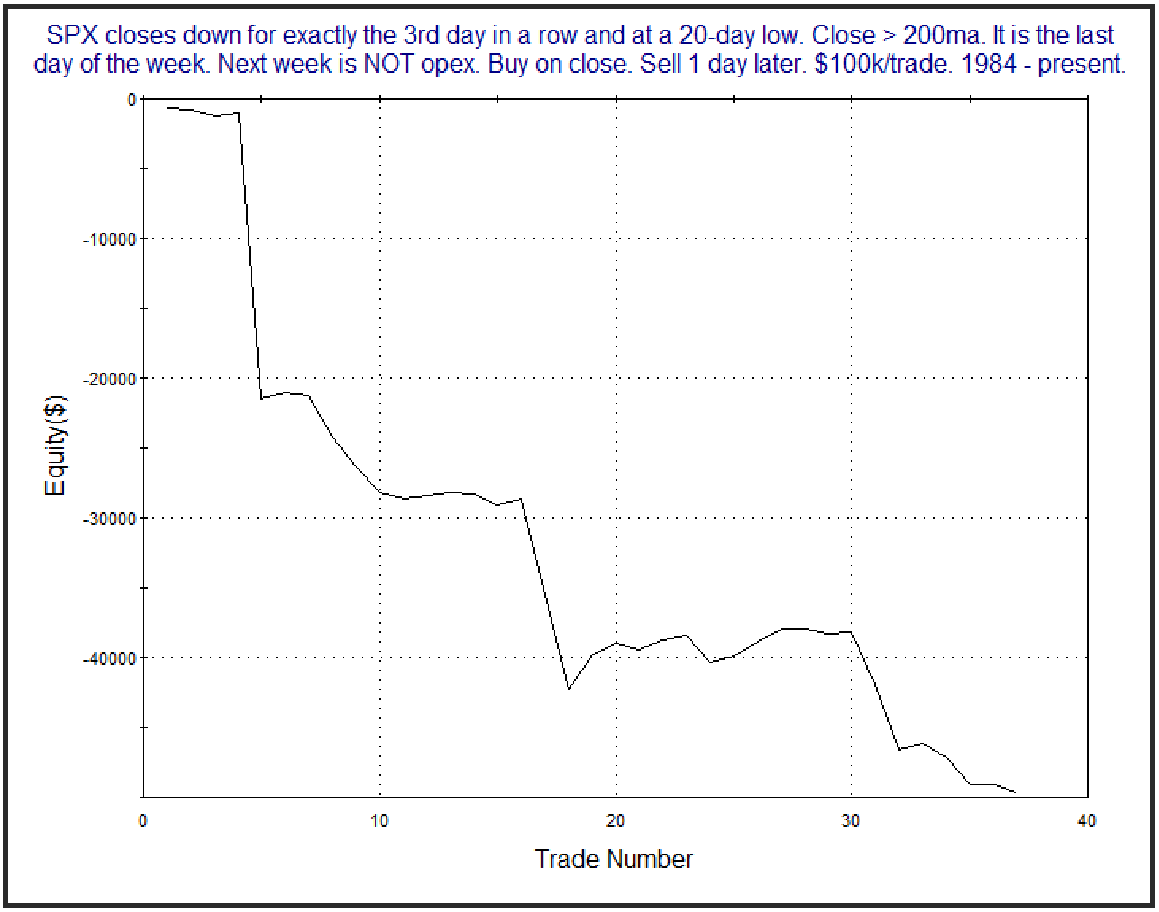
The bearish inclination is not seen here at all. Of course the number of instances is very low. With just a sample size of 7 I am not including this study on the Active List tonight. But it does make me feel a bit more confident in the first study I showed.

Of course what is good for the opex-week sample is bad for the rest of the weeks. While the current setup does not qualify, let's look at them.

SPX closes down for exactly the 3rd day in a row and at a 20-day low. Close > 200ma. It is the last day of the week. Next week is NOT opex. Buy on close. 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	-29,766.36	37	20	17	54.05	2,021.08	6,111.54	-4,128.71	-18,000.90	0.49	0.58	-804.50
4	-38,333.59	37	19	18	51.35	1,489.42	4,731.13	-3,701.81	-17,037.90	0.40	0.42	-1,036.04
3	-35,322.86	37	13	24	35.14	1,592.12	3,833.82	-2,334.18	-10,286.10	0.68	0.37	-954.67
2	-41,575.55	37	13	24	35.14	947.28	3,585.76	-2,245.42	-16,188.58	0.42	0.23	-1,123.66
1	-49,640.38	37	15	22	40.54	584.47	2,503.90	-2,654.88	-20,424.58	0.22	0.15	-1,341.63

These are some strongly negative results. Day one is especially negative. Below is a profit curve for the 1-day holding period. (And in case you are wondering I went back to 1984 because that is when S&P options started trading. Prior to that, there were no opex weeks.)



Down the whole time and making new lows. While we don't qualify tonight, this certainly appears to be a study worth keeping in mind in the future.

I have updated the Aggregator chart below.

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With tonight's new evidence under consideration the green Aggregator Line again remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line jumped higher above 0 than it has been in a long time. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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.

With the current list of active studies, evidence is poised to remain bullish on Monday's close. Of course this could easily change if compelling new bearish evidence emerges. The Differential Pivot will be 2074.62 on Monday. That is 1.4% above Friday's close. So SPX would need to close up a lot in order to move from oversold to overbought versus expectations on Monday.

Evidence is not all that strong, but with the SPX already substantially oversold, reward/risk potential looks fairly appealing. So I will be looking to wade back into an index position on Monday to try and take advantage of a potential bounce.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/16 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	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.) *Like last week, signal combinations #1 and #2 are "long" and Combo #3 is "flat".*

This was the 3rd down week in a row for the SPX. It is the first time since January that we have seen that happen. But the decline is nowhere near as steep as the one in January. Still, like I noted in the short-term section above, we are hitting 20-day lows. And it isn't just the SPX. The Russell 2000 is also at a 20-day low and the NASDAQ is nearly there. But while we have drifted down to new lows here, the move has been so tame that is has not triggered any new intermediate-term studies in the last few days.

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).

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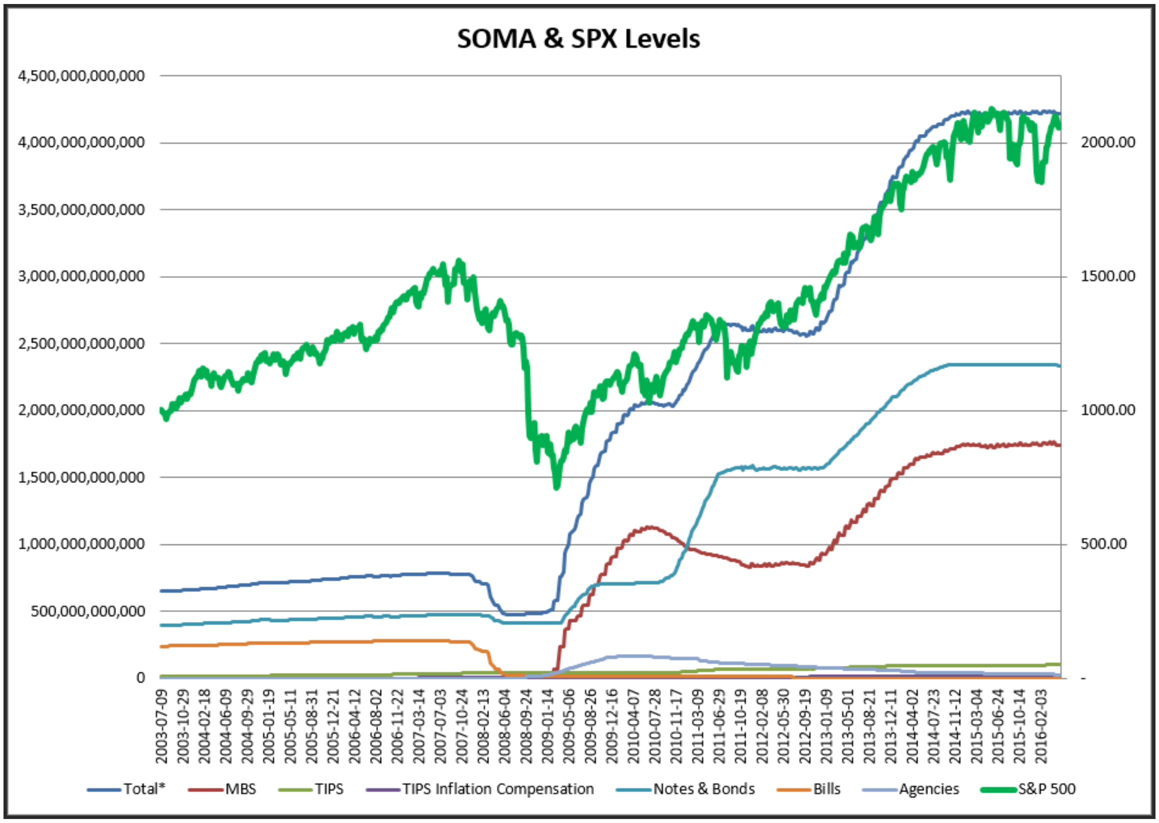
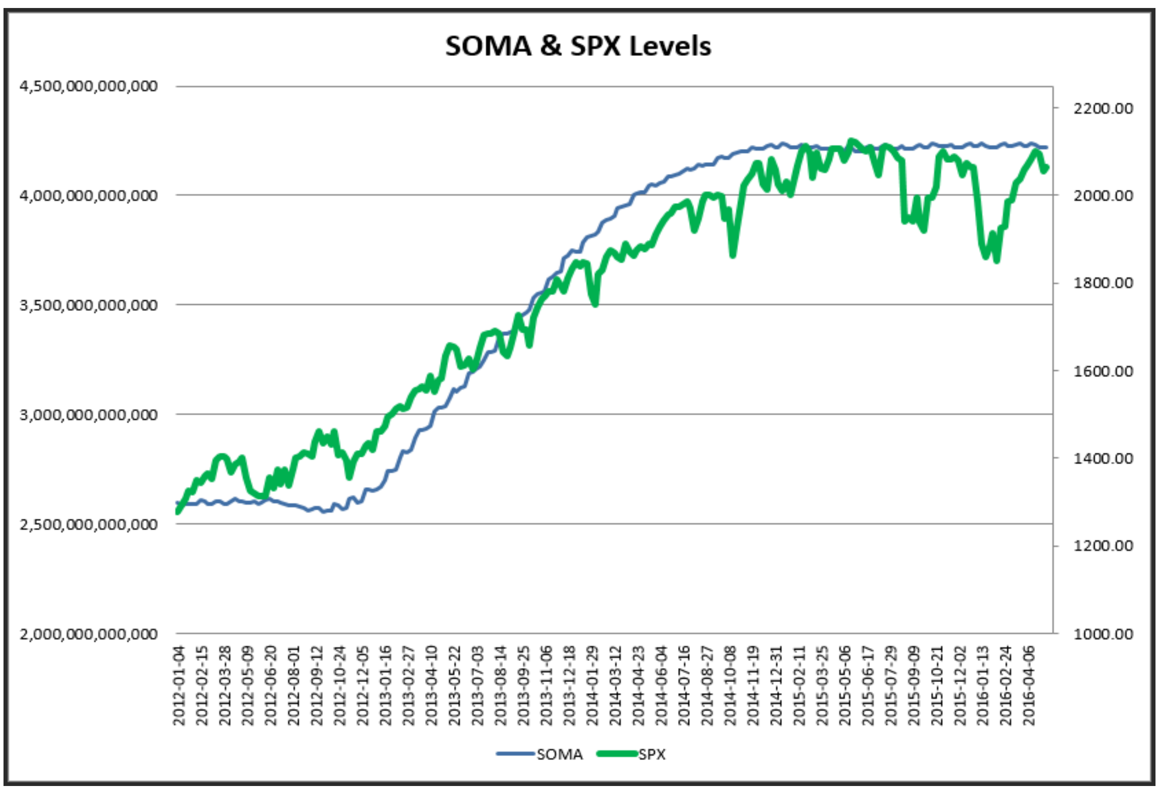


And now the zoomed-in view (2012 – present).



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SOMA this past week (Wednesday to Wednesday) was basically breakeven with a very slight rise of less than 0.01%. The flat SOMA is something I indicated was probable last week based on the Fed's reinvestment schedule. The 0.36% gain for the SPX over this period is better than usual – though perhaps the market selloff just came a day late (on Thursday). The SPX often struggles during weeks where the SOMA fails to rise. 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 10.52%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, I expect to see the SOMA rise between Wednesday the 11th and the 18th. The week after is less clear, but a decline in the SOMA between the 18th and 25th appears more likely. So bulls may have a little support from Fed liquidity over the next few days. But if they can't muster a bounce soon, then it will have to come without Fed support – and that typically means they are less powerful.

It continues to 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. To this point the Fed has kept to their schedule of the last year and a half and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

Intermediate-term evidence remains mixed. The Presidential Cycle, a few breadth-thrust studies that we see on the Active Studies list, the bullish FTD study, and the Golden Cross formation from previous weeks are all still valid studies. Additionally, the double-gap down pattern study and the somewhat high CBI study that I highlighted last weekend are helping the bull case. On the bearish side we still see overall Fed policy and the lagging NASDAQ pointing lower. The "Worst 6 Months" is upon us from a Seasonal standpoint. The Market Timing Course indicator configuration we are seeing has long struggled to make any gains. So with a bit more seemingly favoring the bulls I will remain "slightly bullish". I am willing to take trades in either direction, but will be more inclined towards long trades than short ones.

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Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

ABT @ $40.42 (bought 1/3)

ABT @ $38.90 (bought @ limit) – 2nd lot

GILD @ $88.21 (bought @ limit)

ABT @ $38.85 (bought @ limit) – 3rd lot

AAPL @ $93.64 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 5 (ABT-3, GILD, AAPL)

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 @ $204.76 LIMIT. Based on the short-term section above I will look to start scaling in to an index position. I will use a limit price equal to Friday's closing price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Pric	Current Price	% Gain/Loss	Stop	Notes
ABT(1/3)	4/29/2016	$40.37	$37.60	-6.86%		Catapult
ABT(1/3)	5/2/2016	$38.85	$37.60	-3.22%		Catapult
GILD(1/3)	5/2/2016	$88.21	$82.70	-6.25%		Catapult
ABT(1/3)	5/3/2016	$38.80	$37.60	-3.09%		Catapult
XIV(1/2)	5/5/2016	$26.20	$27.66	5.57%		Aggressive VIX
AAPL(1/3)	5/6/2016	$93.21	$90.52	-2.89%		Catapult

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