

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2016

Volume 9 Issue 132

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- Friday's breakout occurred in a way that often suggests further upside. Positives included 1) an unfilled upside gap, and 2) extremely strong breadth.
- The SPX has moved from a 50-day low to a 50-day high less than 2 weeks. Past occurrences have led to bullish returns over the short and intermediate-term.
- The NASDAQ is now showing strength versus the SPX, which is an intermediate-term positive.

Short-term Outlook

The Bottom Line

Evidence looks strong, but the breakout on Friday has left the market short-term overbought. This is leaving me short-term neutral.

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						
July 1, 2016	QE Buying Power Short	1-6 days	Bearish			
June 30, 2016	VIX 10% 10ma from 10% below	1-8 days	Bullish	1.90%	-1.10%	-2.20%
Active - Long Term						
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
April 26, 2016	Golden Cross	int term	Bullish			
March 2, 2016	FTD & 20-day high	int term	Bullish			
February 1, 2016	290% 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						
July 5, 2016	3+ up from 50-day. Today is NR7	1-3 days	Bullish	2.00%	-1.10%	-2.95%
July 5, 2016	SPX up >1% 3 of 4 consecutive up days	1-3 days	Bullish	2.00%	-0.90%	-1.80%

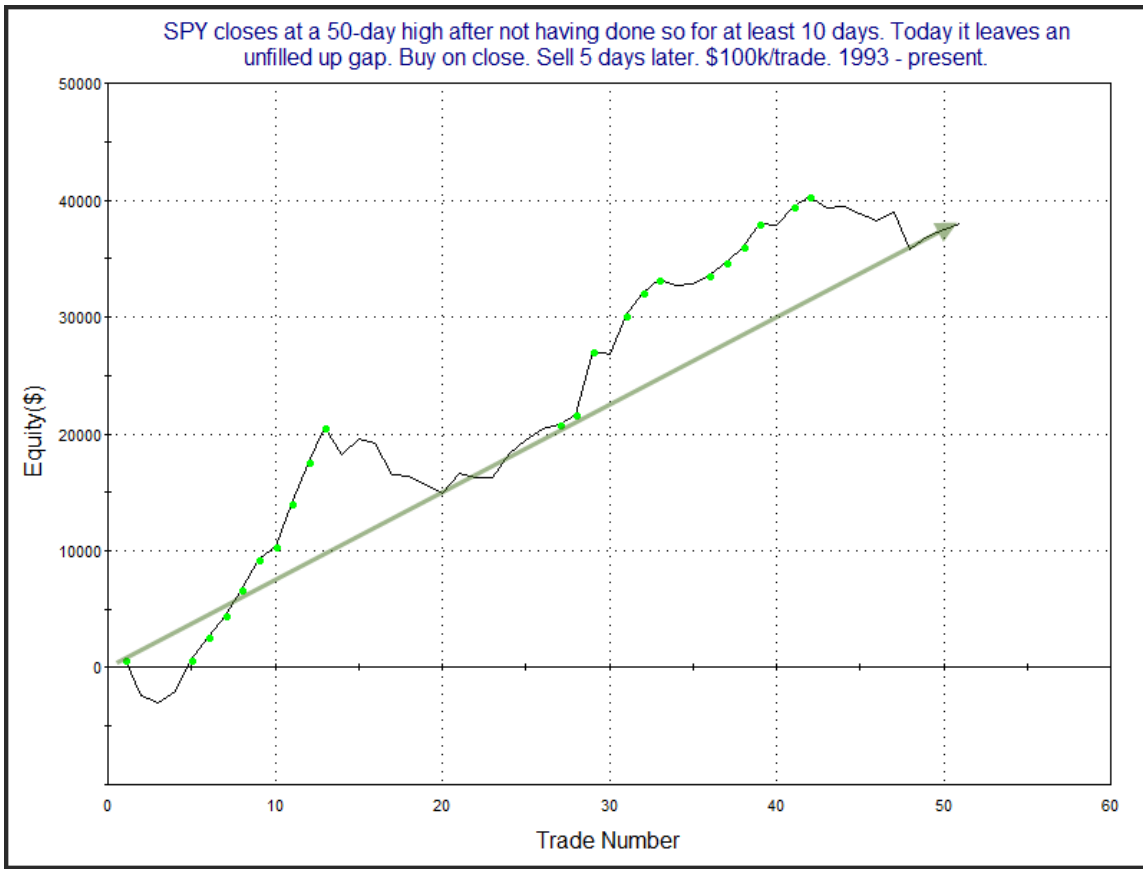
The Evidence

The market posted a big rally on Friday, with some indices breaking out to new highs on the year. The SPX gained 1.5%, the NASDAQ rose 1.6% and Russell 2000 climbed 2.4%. Breadth was extremely positive as the NYSE Up Issues % was 87.5% and the Up Volume % came in at 94%. NYSE volume rose some from Thursday's level.

One notable is that SPY left an unfilled gap up on Friday. And it closed at the first 50-day high in a while. In the 5/31/15 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	38,036.33	51	35	16	68.63	1,578.28	5,434.00	-1,075.21	-3,218.88	1.47	3.21	745.81
4	24,722.22	51	35	16	68.63	1,198.89	3,637.92	-1,077.44	-3,267.84	1.11	2.43	484.75
3	18,986.98	51	34	17	66.67	1,045.69	3,992.56	-974.50	-2,538.18	1.07	2.15	372.29
2	15,265.13	51	34	17	66.67	764.53	2,545.92	-631.11	-2,293.20	1.21	2.42	299.32
1	6,434.09	51	36	15	70.59	474.81	1,816.10	-710.60	-2,591.68	0.67	1.60	126.16
46 of 51 instances (90%) closes above the entry price at some point in the next week.												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The curve has struggled a bit recently, but I still believe it is strong enough to give this study some consideration.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 5/31/15 letter and has been updated.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	2,680.72	42	25	17	59.52	1,009.69	2,671.20	-1,327.15	-4,285.26	0.76	1.12	63.83
4	-1,633.74	42	23	19	54.76	1,027.10	2,072.07	-1,329.32	-4,518.34	0.77	0.94	-38.90
3	3,099.47	42	24	18	57.14	1,045.18	2,927.90	-1,221.39	-5,133.72	0.86	1.14	73.80
2	-2,588.07	42	21	21	50.00	663.67	2,324.90	-786.91	-3,640.86	0.84	0.84	-61.62
1	2,067.09	42	23	19	54.76	483.02	1,586.97	-475.91	-2,448.72	1.01	1.23	49.22

Moves to new highs that don't start with an unfilled gap are much less reliable.

The unfilled gap wasn't the only positive associated with Friday's breakout. The strong breadth was also a plus. In the 1/3/13 subscriber letter I looked at breakouts that came on strong breadth. I have updated that study below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
50	69,993.09	11	10	1	90.91	7,311.40	19,845.80	-3,120.87	-3,120.87	2.34	23.43	6,363.01
45	68,993.26	11	10	1	90.91	7,258.95	17,945.20	-3,596.28	-3,596.28	2.02	20.18	6,272.11
40	68,529.56	11	10	1	90.91	6,955.49	20,950.80	-1,025.34	-1,025.34	6.78	67.84	6,229.96
35	66,775.45	11	10	1	90.91	6,809.68	18,961.80	-1,321.35	-1,321.35	5.15	51.54	6,070.50
30	60,890.50	13	12	1	92.31	5,109.12	11,920.74	-418.88	-418.88	12.20	146.37	4,683.88
25	54,126.08	14	12	2	85.71	4,982.29	12,045.67	-2,830.68	-2,993.76	1.76	10.56	3,866.15
20	47,207.24	14	10	4	71.43	5,811.08	13,393.77	-2,725.88	-6,770.72	2.13	5.33	3,371.95
15	38,744.00	14	10	4	71.43	4,904.71	8,150.48	-2,575.76	-5,148.00	1.90	4.76	2,767.43
10	33,146.99	14	10	4	71.43	3,989.79	10,507.25	-1,687.73	-4,090.24	2.36	5.91	2,367.64
9	28,648.78	14	10	3	71.43	3,526.12	8,413.73	-2,204.14	-4,101.68	1.60	5.33	2,046.34
8	25,025.25	14	10	4	71.43	3,418.44	8,524.75	-2,289.78	-3,923.40	1.49	3.73	1,787.52
7	25,698.44	14	11	3	78.57	3,131.27	6,026.80	-2,915.19	-3,954.60	1.07	3.94	1,835.60
6	24,588.30	14	11	3	78.57	2,770.36	6,819.80	-1,961.90	-4,106.70	1.41	5.18	1,756.31
5	26,767.59	14	10	4	71.43	3,048.58	8,516.82	-929.55	-3,295.50	3.28	8.20	1,911.97
4	17,547.23	14	10	4	71.43	2,376.65	6,716.71	-1,554.80	-4,894.50	1.53	3.82	1,253.37
3	20,214.18	14	10	4	71.43	2,198.87	6,740.50	-443.63	-1,555.56	4.96	12.39	1,443.87
2	17,263.81	14	12	2	85.71	1,517.25	4,028.44	-471.58	-733.41	3.22	19.30	1,233.13
1	11,655.79	14	10	4	71.43	1,266.21	2,755.52	-251.58	-475.20	5.03	12.58	832.56

While such breakout action has been unusual, both short and long-term performance has been impressive. Below I have listed all instances for both 2 and 35-day periods.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/30/1970	Buy	\$87.20	1.47%	\$1,867.98
12/2/1970	Sell	\$88.48		(\$1,249.14)
1/27/1975	Buy	\$75.37	2.51%	\$3,527.16
1/29/1975	Sell	\$77.26		(\$185.64)
1/5/1976	Buy	\$92.58	1.48%	\$2,775.60
1/7/1976	Sell	\$93.95		(\$226.80)
8/20/1982	Buy	\$113.02	2.04%	\$3,978.00
8/24/1982	Sell	\$115.33		(\$928.20)
10/6/1982	Buy	\$125.97	4.03%	\$4,821.44
10/8/1982	Sell	\$131.05		\$0.00
1/6/1983	Buy	\$145.27	1.03%	\$1,892.00
1/10/1983	Sell	\$146.77		(\$1,045.76)
8/2/1984	Buy	\$157.99	2.92%	\$4,600.96
8/6/1984	Sell	\$162.60		\$0.00
9/13/1984	Buy	\$167.94	0.55%	\$1,011.50
9/17/1984	Sell	\$168.86		\$0.00
1/4/1988	Buy	\$255.94	1.15%	\$2,277.60
1/6/1988	Sell	\$258.88		\$0.00
5/11/1990	Buy	\$352.00	0.65%	\$1,817.60
5/15/1990	Sell	\$354.28		(\$17.04)
8/2/2010	Buy	\$1,125.86	0.12%	\$254.32
8/4/2010	Sell	\$1,127.24		(\$800.80)
9/20/2010	Buy	\$1,142.71	-0.74%	\$511.56
9/22/2010	Sell	\$1,134.28		(\$968.31)
9/6/2012	Buy	\$1,432.12	-0.21%	\$456.78
9/10/2012	Sell	\$1,429.08		(\$216.66)
1/2/2013	Buy	\$1,462.42	0.28%	\$375.36
1/4/2013	Sell	\$1,466.47		(\$468.52)

September 2010 and September 2012 were the two failures. All the non-September instances saw follow-through over the next 2 days.

Here are the 35-day results.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. Buy SPX on close. Sell 35 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/30/1970	Buy	\$87.20	7.55%	\$8,400.18
1/20/1971	Sell	\$93.78		(\$1,249.14)
1/27/1975	Buy	\$75.37	12.95%	\$15,527.46
3/18/1975	Sell	\$85.13		(\$185.64)
1/5/1976	Buy	\$92.58	10.21%	\$11,329.20
2/24/1976	Sell	\$102.03		(\$226.80)
8/20/1982	Buy	\$113.02	18.98%	\$20,703.28
10/11/1982	Sell	\$134.47		(\$928.20)
1/6/1983	Buy	\$145.27	3.08%	\$4,492.64
2/25/1983	Sell	\$149.74		(\$5,180.64)
8/2/1984	Buy	\$157.99	4.85%	\$7,362.80
9/21/1984	Sell	\$165.66		\$0.00
1/4/1988	Buy	\$255.94	3.55%	\$3,970.20
2/23/1988	Sell	\$265.02		(\$6,154.20)
5/11/1990	Buy	\$352.00	2.14%	\$4,765.52
7/2/1990	Sell	\$359.54		(\$221.52)
8/2/2010	Buy	\$1,125.86	1.24%	\$2,000.24
9/21/2010	Sell	\$1,139.78		(\$7,582.08)
9/6/2012	Buy	\$1,432.12	-1.34%	\$2,924.91
10/25/2012	Sell	\$1,412.97		(\$1,861.62)
1/2/2013	Buy	\$1,462.42	3.64%	\$4,659.36
2/22/2013	Sell	\$1,515.60		(\$733.04)

Again here it was the September 2012 instance that struggled. But even that instance saw greater run-up during those 35 days than it saw drawdown. The 1975, 1976, & 1982 instances saw outsized gains versus everything else. Most years posted solid gains. The average run-up was 7.8% and the average drawdown was just 2.2%. Overall, there seems to be a strong inclination for the market to rally after similar setups in the past.

And even if we ignore the fresh breakouts, and simply look at instances of SPX hitting a 50-day high on 90% up volume, the stats are still strong. The study below was also seen in the 1/3/13 subscriber letter and has been updated.

SPX closes at a 50-day high. NYSE Up Volume % > 90%.
Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
50	98,913.35	19	18	1	94.74	5,799.30	19,845.80	-5,474.10	-5,474.10	1.06	19.07	5,205.97
45	95,433.05	20	18	2	90.00	5,751.68	17,945.20	-4,048.58	-5,052.36	1.42	12.79	4,771.65
40	92,241.24	21	17	4	80.95	5,809.34	20,950.80	-1,629.39	-2,937.98	3.57	15.15	4,392.44
35	95,639.77	21	18	3	85.71	5,564.47	18,961.80	-1,506.89	-2,194.86	3.69	22.16	4,554.27
30	81,323.57	21	19	2	90.48	4,321.93	11,920.74	-396.52	-418.88	10.90	103.55	3,872.55
25	67,981.51	23	18	5	78.26	4,331.94	12,045.67	-1,998.68	-3,024.54	2.17	7.80	2,955.72
20	63,250.91	24	18	6	75.00	4,384.06	13,393.77	-2,610.37	-6,770.72	1.68	5.04	2,635.45
15	53,355.23	24	19	5	79.17	3,680.81	8,150.48	-3,316.01	-6,277.02	1.11	4.22	2,223.13
10	36,029.66	26	17	9	65.38	3,034.31	10,507.25	-1,728.18	-4,090.24	1.76	3.32	1,385.76
9	31,099.71	26	18	7	69.23	2,676.52	8,413.73	-2,439.66	-5,207.55	1.10	2.82	1,196.14
8	30,877.52	26	18	8	69.23	2,751.01	8,524.75	-2,330.07	-4,082.16	1.18	2.66	1,187.60
7	28,848.13	27	18	9	66.67	2,679.57	6,026.80	-2,153.79	-3,954.60	1.24	2.49	1,068.45
6	29,546.67	27	19	8	70.37	2,153.27	6,819.80	-1,420.68	-4,106.70	1.52	3.60	1,094.32
5	32,453.81	29	22	7	75.86	1,828.56	8,516.82	-1,110.63	-3,295.50	1.65	5.17	1,119.10
4	22,706.91	30	22	8	73.33	1,651.36	6,716.71	-1,702.88	-4,894.50	0.97	2.67	756.90
3	15,705.57	30	19	11	63.33	1,463.02	6,740.50	-1,099.25	-5,105.87	1.33	2.30	523.52
2	17,541.14	30	21	9	70.00	1,097.77	4,028.44	-612.44	-2,409.33	1.79	4.18	584.70
1	11,227.70	31	17	14	54.84	960.96	2,755.52	-364.90	-1,255.50	2.63	3.20	362.18

No matter how you look at it, the extremely strong breadth in conjunction with the 50-day high appears to suggest an upside edge.

Another thing about this breakout that is remarkable is the fact that Friday's 50-day high close came just 8 trading days after SPX closed at a 50-day low. That's quite rare to see. The last time we saw a move from a 50-day low to a 50-day high occur within 2 weeks was in 2014. The study below is from the 8/22/14 letter and it examines such sharp moves. All stats are updated.

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days.
Buy on close. Sell X days later. \$100k/trade. 1950 - 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
20	19,806.68	7	7	0	100.00	2,829.53	8,380.32	0.00	0.00	100.00	100.00	2,829.53
19	21,125.05	7	7	0	100.00	3,017.86	8,424.52	0.00	0.00	100.00	100.00	3,017.86
18	21,804.18	7	7	0	100.00	3,114.88	9,503.00	0.00	0.00	100.00	100.00	3,114.88
17	26,604.14	7	7	0	100.00	3,800.59	9,953.84	0.00	0.00	100.00	100.00	3,800.59
16	25,318.27	7	6	1	85.71	4,288.38	8,910.72	-412.00	-412.00	10.41	62.45	3,616.90
15	23,300.20	7	6	1	85.71	3,940.28	8,150.48	-341.50	-341.50	11.54	69.23	3,328.60
14	21,588.94	7	7	0	100.00	3,084.13	7,027.80	0.00	0.00	100.00	100.00	3,084.13
13	20,886.78	7	7	0	100.00	2,983.83	7,911.80	0.00	0.00	100.00	100.00	2,983.83
12	15,664.89	7	4	3	57.14	4,109.81	8,106.28	-258.12	-510.30	15.92	21.23	2,237.84
11	17,823.08	7	7	0	100.00	2,546.15	7,372.56	0.00	0.00	100.00	100.00	2,546.15
10	20,357.84	7	6	1	85.71	3,396.19	8,530.60	-19.30	-19.30	175.97	1,055.81	2,908.26
9	18,686.80	7	7	0	100.00	2,669.54	6,409.00	0.00	0.00	100.00	100.00	2,669.54
8	13,689.37	7	7	0	100.00	1,955.62	4,623.32	0.00	0.00	100.00	100.00	1,955.62
7	14,118.51	7	6	1	85.71	2,382.03	5,728.32	-173.70	-173.70	13.71	82.28	2,016.93
6	13,588.12	7	7	0	100.00	1,941.16	4,689.44	0.00	0.00	100.00	100.00	1,941.16
5	11,927.07	7	7	0	100.00	1,703.87	4,765.28	0.00	0.00	100.00	100.00	1,703.87
4	7,091.11	7	5	2	71.43	1,636.58	4,888.52	-545.90	-744.39	3.00	7.49	1,013.02
3	7,023.62	7	5	2	71.43	1,669.88	4,031.04	-662.90	-1,190.70	2.52	6.30	1,003.37
2	5,851.21	7	6	1	85.71	994.99	2,913.52	-118.72	-118.72	8.38	50.29	835.89
1	2,556.21	7	3	4	42.86	1,877.28	2,755.52	-768.90	-1,921.32	2.44	1.83	365.17

There have only been 7 occurrences but the stats are overwhelmingly bullish over the next month. The profit maxes out on day 17 in the table above. To getting a better feel for the instances I have listed them all below along with their 6-day and 17-day stats.

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days.
Buy on close. Sell 6 days later. \$100k/trade. 1950 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/1/1961	Buy	\$67.37	0.55%	\$667.80
8/9/1961	Sell	\$67.74		(\$638.12)
6/17/1976	Buy	\$103.61	0.11%	\$1,167.65
6/25/1976	Sell	\$103.72		(\$1,167.65)
8/20/1982	Buy	\$113.02	4.11%	\$7,248.80
8/30/1982	Sell	\$117.66		(\$928.20)
8/2/1984	Buy	\$157.99	4.70%	\$6,692.88
8/10/1984	Sell	\$165.41		\$0.00
6/24/1998	Buy	\$1,132.89	1.20%	\$1,378.96
7/2/1998	Sell	\$1,146.45		(\$465.52)
10/14/2011	Buy	\$1,224.58	2.42%	\$2,589.57
10/24/2011	Sell	\$1,254.19		(\$2,681.10)
8/21/2014	Buy	\$1,992.37	0.55%	\$633.50
8/29/2014	Sell	\$2,003.37		(\$380.50)

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days.
Buy on close. Sell 17 days later. \$100k/trade. 1950 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/1/1961	Buy	\$67.37	0.33%	\$1,587.88
8/24/1961	Sell	\$67.59		(\$638.12)
6/17/1976	Buy	\$103.61	1.99%	\$3,059.05
7/13/1976	Sell	\$105.67		(\$1,167.65)
8/20/1982	Buy	\$113.02	9.96%	\$10,440.04
9/15/1982	Sell	\$124.28		(\$928.20)
8/2/1984	Buy	\$157.99	5.35%	\$6,831.92
8/27/1984	Sell	\$166.44		\$0.00
6/24/1998	Buy	\$1,132.89	4.52%	\$5,076.72
7/20/1998	Sell	\$1,184.10		(\$465.52)
10/14/2011	Buy	\$1,224.58	4.19%	\$5,514.48
11/8/2011	Sell	\$1,275.92		(\$2,681.10)
8/21/2014	Buy	\$1,992.37	0.33%	\$940.00
9/16/2014	Sell	\$1,998.98		(\$694.50)
Avg Run-up: \$4,778 Avg Drawdown: \$939				

While 7 instances is a bit low, the results are unanimous and the stats above are incredibly lopsided. So it seems it may be worth some consideration. The average run-up of the 7 instances is over 5x the size of the average drawdown, and every instance saw a run-up substantially larger than its drawdown. That's impressive.

I have updated the Aggregator chart below.



With tonight's bullish studies included the green Aggregator Line shot back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active list, expectations are poised to remain positive on Monday. It will take some very bearish new evidence to change this. The Differential Pivot will be 2111.09 on Monday. That is 0.9% below Friday's close. So for SPX to move from overbought to oversold it will need to close down at least 0.9% on Monday.

This breakout looks compelling. I generally do not like buying into an already overbought market for swings trades. If you are looking at a longer-term position, then the entry price is less important because the potential reward is so great. But reward/risk on a swing trade is improved if you can buy into a pullback. So I am not going to look to buy on Monday, but if we see a pullback early this week I may jump on it for some additional long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/11 – 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.) ***We now see all 3 combo signals are “Long”.***

It was only a 4-day week but the SPX did well and closed 1.2% higher than last Friday. The breakout leaves no doubt that the intermediate-term trend is up. And as we saw above, both the strong breadth and the fact that the 50-day high has come so soon after a 50-day low, appear to suggest bullish implications for the intermediate-term.

The NASDAQ had an even stronger week than the SPX, rising 1.9%. The relative outperformance of the NASDAQ helped it to retake a leading position based on our NASDAQ/SPX Relative Strength Indicator. This is the first time the indicator has been positive in about a month. Below is a chart of the indicator from the website.

NASDAQ/S&P 500 Relative Strength Weekly



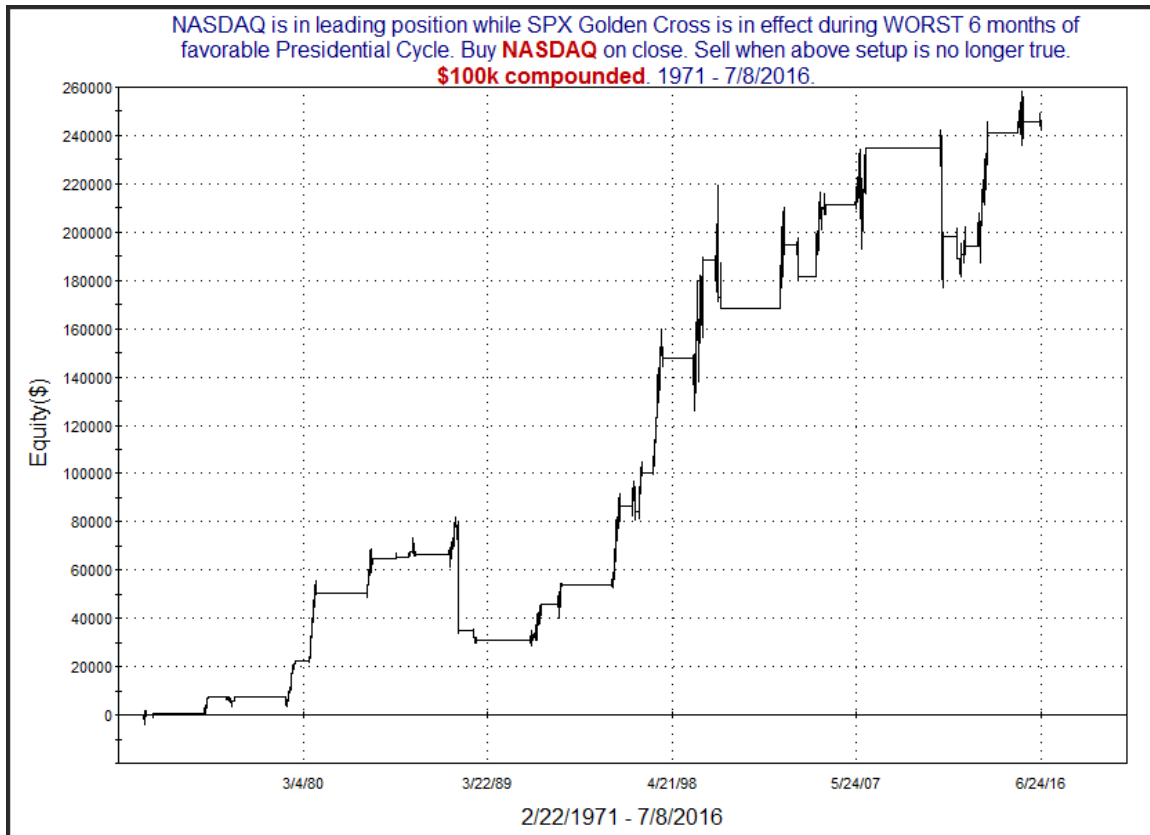
The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, nearly all of the S&P 500 gains, and more than 100% of the NASDAQ gains, have occurred when the NASDAQ was leading. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). <http://quantifiableedges.com/nasdaq-weekly-strength-model/>

I decided tonight to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX “Golden Cross” in effect, 3) favorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below are stats showing SPX performance during this alignment.

NASDAQ is in leading position while SPX Golden Cross is in effect during WORST 6 months of favorable Presidential Cycle. Buy SPX on close. Sell when above setup is no longer true. \$100k/trade. 1971 - 7/8/2016.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$86,220.49	Profit Factor	2.65
Gross Profit	\$138,359.05	Gross Loss	(\$52,138.56)
Total Number of Trades	54	Percent Profitable	74.07%
Winning Trades	40	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	\$1,596.68	Ratio Avg. Win:Avg. Loss	0.93
Avg. Winning Trade	\$3,458.98	Avg. Losing Trade	(\$3,724.18)
Largest Winning Trade	\$13,739.66	Largest Losing Trade	(\$20,174.85)
Max. Consecutive Winning Trades	12	Max. Consecutive Losing Trades	2
Avg. Bars in Winning Trades	34.48	Avg. Bars in Losing Trades	24.43
Avg. Bars in Total Trades	31.87		

Stats here appear nicely favorable as this alignment has shown some strong gains over the years. Gross gains have been over 2.5 times the size of gross losses. Of course we learned in the Market Timing Course that when the NASDAQ was leading, it also generally continued to outperform the S&P 500. That holds true in this case as well. For the chart below I decided to look at buying the NASDAQ under these conditions. I also looked at compounding the returns rather than investing a flat \$100k/trade.

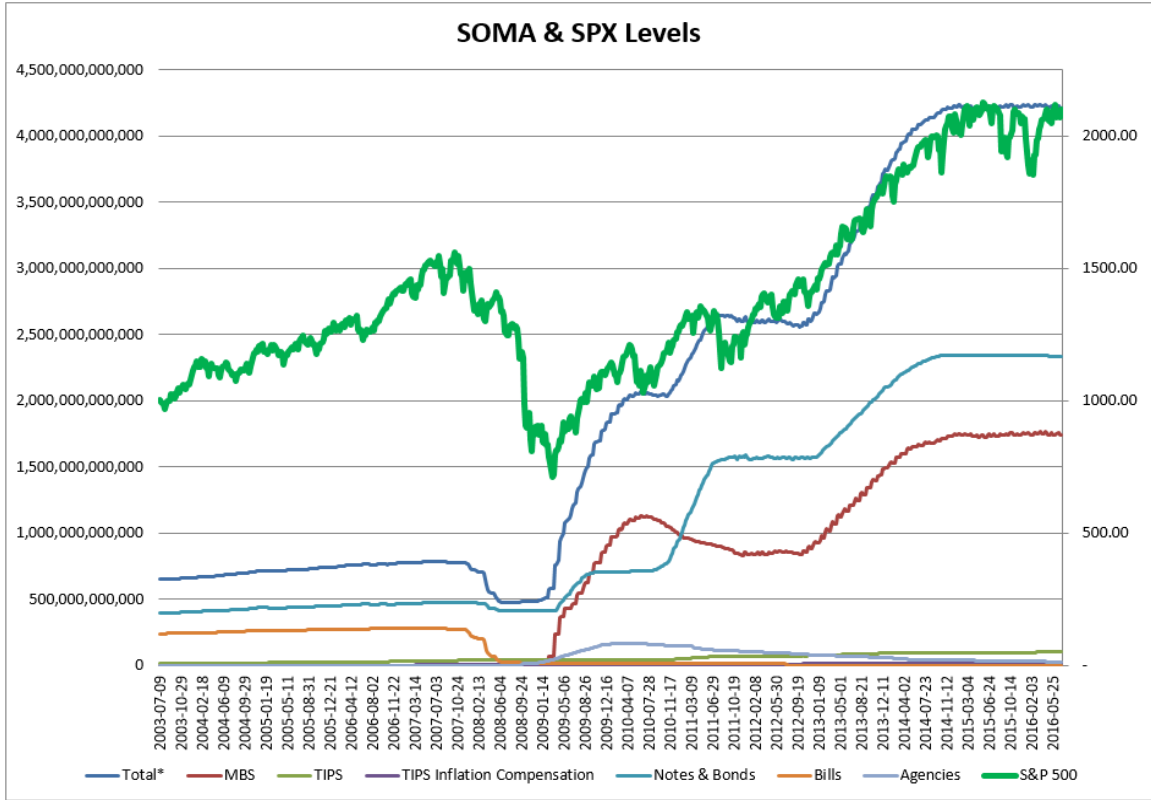


That's an impressive looking profit curve. The now-leading NASDAQ certainly appears to be good news for the bulls.

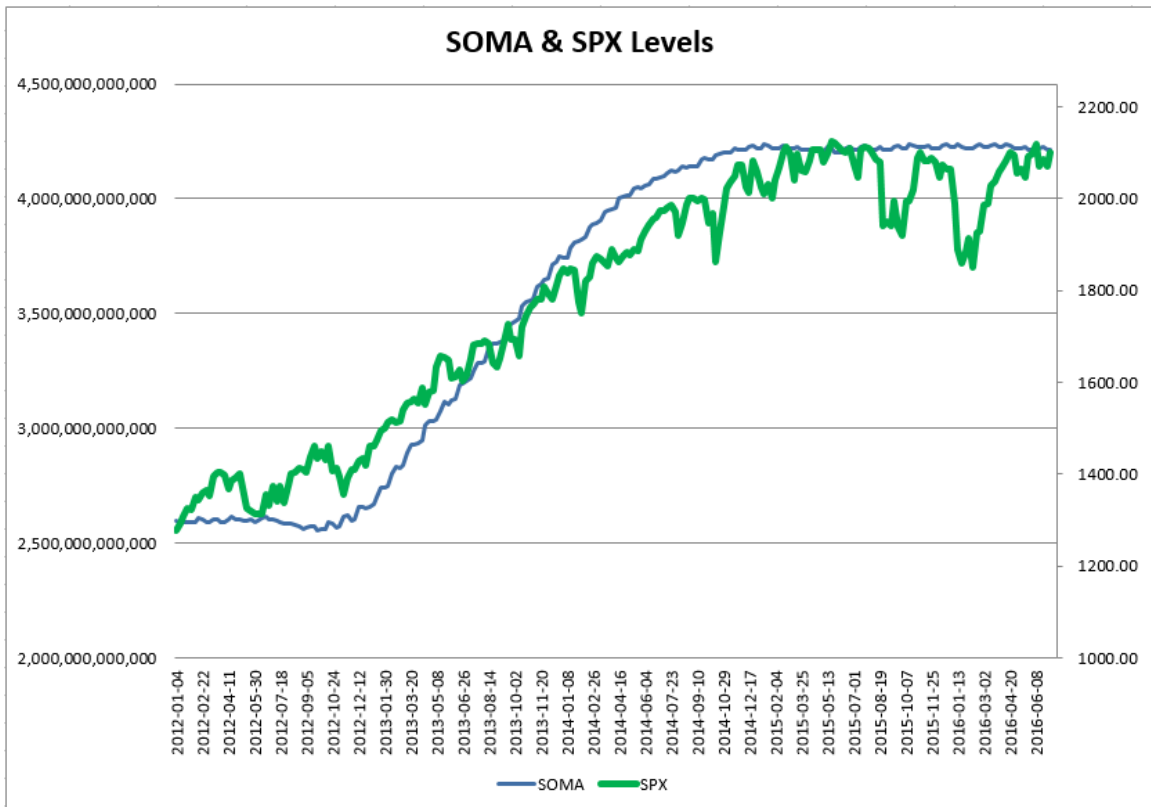
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) remained basically flat, with just a miniscule decline of less than 0.01%. This is something I indicated was probable last week based on the Fed's reinvestment schedule. The 1.4% gain for the SPX over this period is unusually large. Most often the SPX will suffer during weeks that the SOMA fails to expand. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 9.62% during SOMA expansion weeks. During all other weeks SPX has only risen 45% of the time and has *lost* a sum total of 6.37%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week, which ends on Wednesday, is likely to post a decent gain. The following week the SOMA is expected to take a bit of a dip. So the bulls are enjoying strong liquidity right now, but after Wednesday they may face a headwind.

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.

The breakout on Friday was accompanied by a good amount of bullish evidence. Between the 90% up day and the quick move from a 50-day low, the breakout itself was compelling for the intermediate-term. The NASDAQ strength now has 3 of our 4 Market Timing Course indicators bullish and made the outlook even more promising. There are also some past breadth thrust signals that are already active. There is still some bearish evidence as well, The overall weak Fed support, and the long-term new-high breadth divergence favor the bears. With this week's new bullish evidence and the fact that the market is again challenging new highs I am moving my outlook to "bullish". I will be looking to trade the long side more aggressively and will be extra-selective with possible short trades.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$28.30	14.57%		Aggressive VIX

Expectations are strong and 1-2 month futures contango is very big at over 13%. I like my XIV position and will look to ride it a while longer.

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