

QUANTIFIABLE EDGES

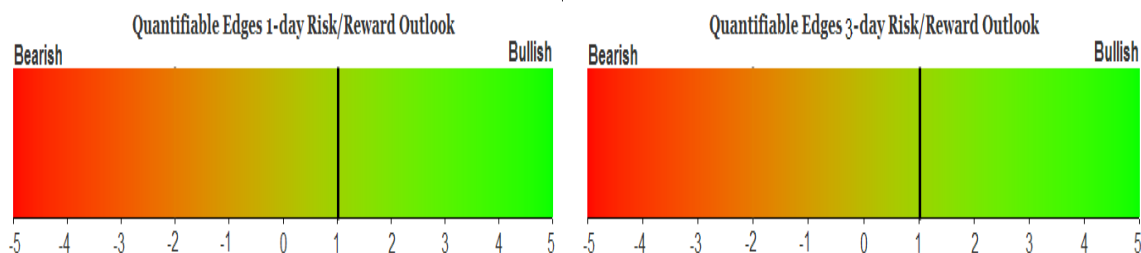
WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 15, 2016

Issue 377

Market Overview



Signals Overview

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

Tonight's Research Points

- The light volume pullback could be a concern.
- Opex week during August has not been as impressive as some other months.
- Fed liquidity should be strong this week and next.

Short-term Outlook

The Bottom Line

While the Aggregator is suggesting a slight bullish edge, it is not enough to get me interested.

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						
None						
Active - Long Term						
July 11, 2016	NASDAQ leading	int term	Bullish			
July 11, 2016	SPX 50-high breakout 90% up volume	1-35 days	Bullish			
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			
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						
August 1, 2016	Highest volume 20 on up day. Not opex.	1-10 days	Bullish	2.40%	-1.60%	-3.10%

The Evidence

Friday was mixed and mild. The SPX lost 0.06%, the NASDAQ gained 0.09%, and the Russell 2000 gained 0.08%. Breadth was weak as the NYSE Up Issues % was 48% and the Up Volume % came in at 46%. NYSE volume came in at the lightest level in a long time.

The light-volume pullback from a 50-day high triggered a study we saw just a few nights ago in the 8/9/16 letter. I have copied my discussion of it below.

The study below is one that was last seen in the 7/28/14 letter. It looks at light volume occurring on down days after a 50-day high. Stats have all been updated.

After closing at a 50-day high yesterday, SPX declines today. NYSE volume is the lightest in 10 days. 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: Profit Factor	All: Avg Trade
10	-29,249.89	72	36	36	50.00	1,675.63	5,104.00	-2,488.12	-6,121.74	0.67	0.67	-406.25
9	-24,206.14	73	37	36	50.68	1,630.32	3,955.23	-2,348.00	-6,236.87	0.69	0.71	-331.59
8	-33,732.66	73	35	38	47.95	1,414.45	3,521.07	-2,190.49	-6,661.66	0.65	0.59	-462.09
7	-43,063.34	73	34	39	46.58	1,228.03	3,732.48	-2,174.78	-7,193.64	0.56	0.49	-589.91
6	-40,656.38	74	35	39	47.30	1,012.03	2,563.47	-1,950.70	-5,426.99	0.52	0.47	-549.41
5	-26,172.47	75	36	39	48.00	912.29	2,273.04	-1,513.21	-4,288.68	0.60	0.56	-348.97
4	-23,832.18	78	39	39	50.00	800.39	2,457.84	-1,411.47	-4,263.60	0.57	0.57	-305.54
3	-5,950.16	81	44	37	54.32	788.75	2,169.48	-1,098.79	-3,726.24	0.72	0.85	-73.46
2	-2,188.80	81	43	38	53.09	666.19	2,328.05	-811.44	-4,049.40	0.82	0.93	-27.02
1	-4,913.70	81	42	39	51.85	485.88	2,235.13	-649.25	-3,068.81	0.75	0.81	-60.66

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity

curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

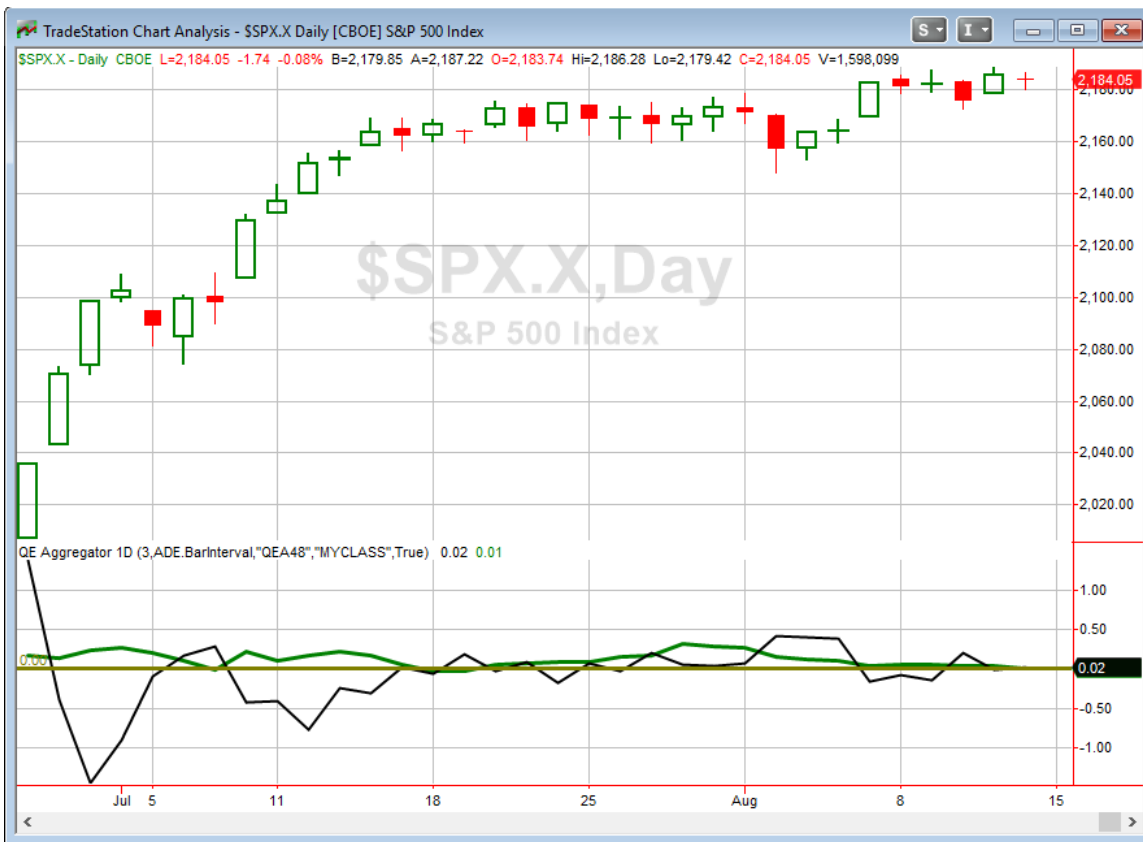
It is also somewhat notable that we are entering options expiration week. Opex week has generally been a strong week for the market. But in looking at the table below from the 3/14/16 letter we can see that August has not seen the same strong seasonality that other months have.

OpEx Week SPX Performance by Month. \$100k/trade. 1984 - present.
(Excludes September 2001.)

X Month	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
12	28,192.40	32	25	7	78.13	1,480.13	5,868.16	-1,258.69	-4,176.33	1.18	4.20	881.01
11	5,116.07	32	20	12	62.50	1,449.76	3,718.25	-1,989.93	-8,351.64	0.73	1.21	159.88
10	25,016.02	32	23	9	71.88	2,275.27	7,282.10	-3,035.03	-9,109.98	0.75	1.92	781.75
9	13,102.55	31	19	12	61.29	1,574.71	5,313.08	-1,401.40	-4,975.04	1.12	1.78	422.66
8	-1,315.36	32	18	14	56.25	1,432.07	4,329.72	-1,935.18	-5,670.55	0.74	0.95	-41.10
7	-473.17	32	16	15	50.00	1,471.32	6,921.25	-1,600.96	-7,953.12	0.92	0.98	-14.79
6	-874.42	32	18	14	56.25	1,234.42	3,786.09	-1,649.57	-3,998.19	0.75	0.96	-27.33
5	2,441.38	32	16	16	50.00	1,918.64	4,850.40	-1,766.05	-4,959.45	1.09	1.09	76.29
4	27,719.43	32	20	12	62.50	2,293.46	5,731.96	-1,512.48	-3,580.15	1.52	2.53	866.23
3	28,879.45	32	22	10	68.75	2,037.55	7,515.60	-1,594.66	-6,711.66	1.28	2.81	902.48
2	10,416.38	33	19	14	57.58	1,469.80	3,096.72	-1,250.70	-6,814.80	1.18	1.59	315.65
1	4,779.30	33	15	18	45.45	2,177.49	5,389.00	-1,549.06	-5,383.93	1.41	1.17	144.83

So the nothing action on Friday has again led to a complete lack of strong new short-term evidence to add to the Active List.

I have updated the Aggregator chart below.



With no new studies tonight the green Aggregator Line held a little above zero. But the current 0.01 reading is so low that the line is indiscernible on the chart. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line inched up slightly above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are a little positive and SPX is slightly 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 list, expectations are poised to remain positive on Monday. But with nothing left on the Short-Term Active List, actual expectations in the coming days will be largely dependent on any new evidence that emerges. The Differential Pivot will be *slightly inverted* at 2178.81 on Monday. That is 0.2% below Friday’s close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close down at least 0.2% in order to remain oversold. Anything short of that and it will be considered “overbought” verses recent expectations.

This is as weak of a “bullish” Aggregator signal as you could possibly get. You really can’t even see the lines on the chart because they are all bunched together near zero. The SPX is “oversold” – but not really. With a reading near zero and the inverted pivot this same level would be considered overbought on Monday. And the short-term bullish expectations are not due to any compelling short-term evidence, but are thanks to intermediate-term evidence leaning bullish. I am simply not enthused about this “long” signal, and I will wait until I see more substantial evidence before taking on new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/15 – bullish

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

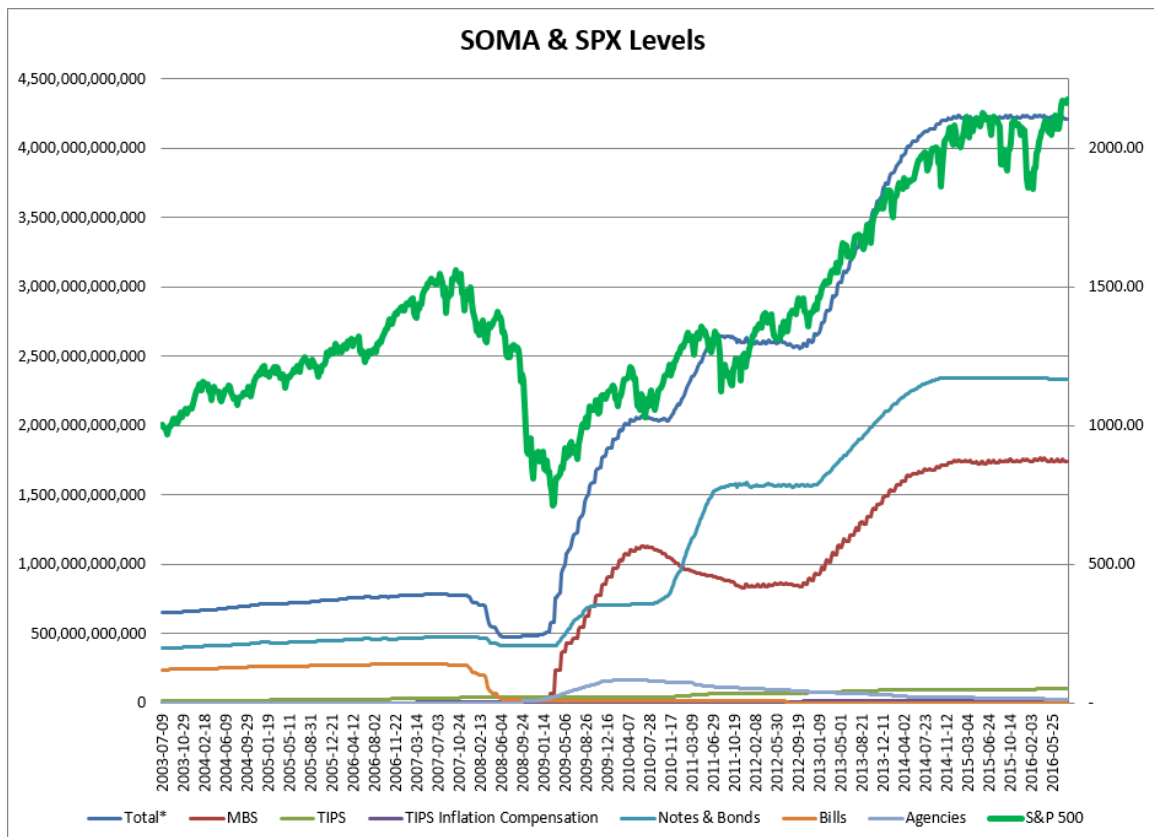
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The Russell 2000 closed down slightly on the week while the NASDAQ and the SPX finished up. For the SPX the gain was just over 1 point. So the movement was minimal as we saw mostly small choppy moves back and forth. The indices all did hit new highs during the course of the week and the uptrend still appears to be intact. The mild, choppy, action did not trigger any new, compelling intermediate-term studies.

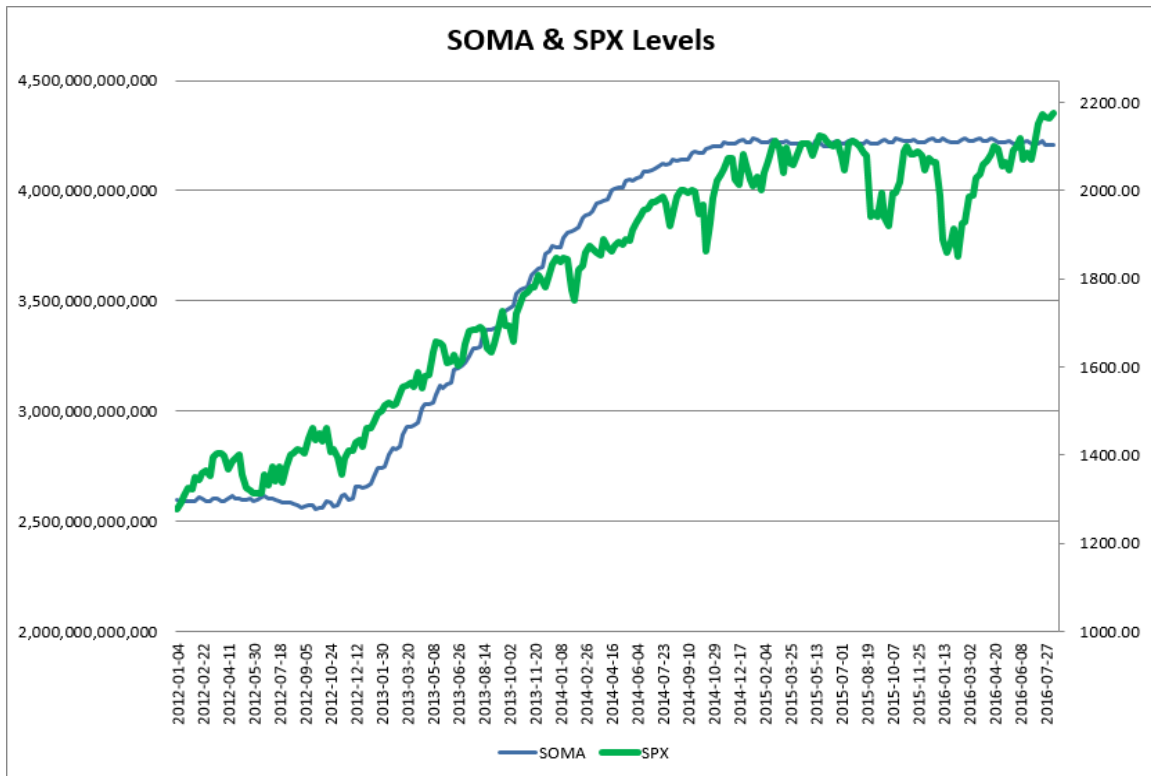
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 came in basically breakeven this past week (Wednesday to Wednesday) with a miniscule rise of less than 0.01%. I indicated in last week's letter that I expected a flat SOMA based on the Fed's past reinvestment schedule. The 0.54% gain for the SPX over this period is better than a typical week that the SOMA fails to post a substantial gain. Since the beginning of 2015 SPX has risen 67% of the time for a sum total of 10.58% during SOMA expansion weeks (of at least 0.01%). During all other weeks SPX has only risen 46% of the time and has *lost* a sum total of 3.74%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week, which ends on Wednesday, appears likely to show a rise. And we could see a rise the week after that as well. So bulls may be helped out by some positive liquidity over the next 8 trading days or so.

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.

Most of the evidence we are seeing from an intermediate-term perspective continues to point north. There are some past breadth related studies that suggest that the market is

likely to continue higher. Additionally, 3 of our 4 Market Timing Course indicators are bullish, which has historically been quite promising. There is still some bearish evidence though, including overall weak Fed support and the long-term new-high breadth divergence. With all this to consider and the market again at around new highs I am keeping my intermediate-term outlook bullish. I will be looking to trade the long side more aggressively and will be extra-selective with possible short trades.

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