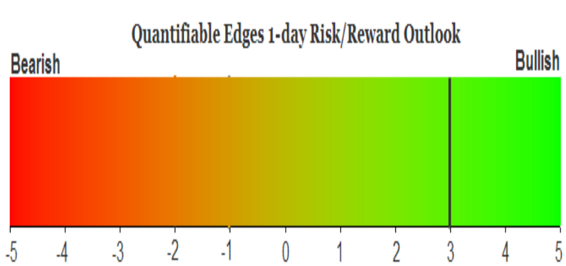
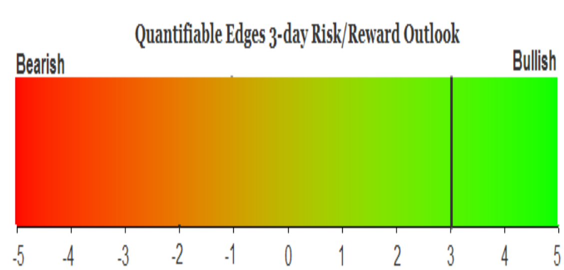
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 29, 2016 Volume 9 Issue 167

Market Overview





Signals Overview

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

Tonight's Research Points

- The 3-day pullback is suggesting a mild upside edge.
- SOMA is not likely to increase either this week or next, which could make things a little more difficult for the bulls.

Short-term Outlook

The Bottom Line

Evidence is mild but bullish. With the market short-term oversold there appears to be an upside edge.

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						
August 26, 2016	Dn 3 > 200. Not from 20-day low.	1 day	Bullish			
August 25, 2016	1st 6 low in 10 days	1-4 days	Bullish			
Active - Long Term						
July 11, 2016	NASDAQ leading	int term	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 25, 2016	Unfill up then unfilled down < 2 ago	1-2 days	Bearish			
August 24, 2016	Unfilled gap 20-high, close > open	1-3 days	Bullish			

The Evidence

Friday was an up and down day that finished mostly down. The SPX lost 0.2%, the NASDAQ gained 0.1%, and the Russell 2000 declined 0.2%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 38%. NYSE volume rose some from the level of the last few days.

There were a number of studies that triggered in the Quantifinder related to 3-day pullbacks. In general, 3-day pullbacks will often suggest an upside edge. There tend to be certain circumstances where such pullbacks provide a strong edge than others. If the market is in a long-term uptrend that is a positive. Other things that can impact the edge are if it is coming off a long-term high, or how volatile the pullback is. I ran several studies and they all suggested a similar edge based on the current situation. That is that there is likely a 1-day edge, but not much more than that. The study below is from the 12/27/12 letter, and it does a good job of defining the current setup.

SPX close down for exactly the 3rd day in a row. It is not coming off a 20-day high. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 2000 - 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	24,772.07	58	32	26	55.17	1,657.18	5,555.16	-1,086.84	-3,385.80	1.52	1.88	427.10
4	23,840.41	61	36	25	59.02	1,506.49	5,290.00	-1,215.73	-3,863.84	1.24	1.78	390.83
3	24,212.31	61	36	25	59.02	1,412.91	4,895.50	-1,066.09	-4,464.88	1.33	1.91	396.92
2	12,112.45	61	34	27	55.74	1,149.08	4,424.50	-998.38	-7,559.56	1.15	1.45	198.56
1	14,613.15	61	39	22	63.93	805.67	2,503.90	-763.99	-1,953.32	1.05	1.87	239.56

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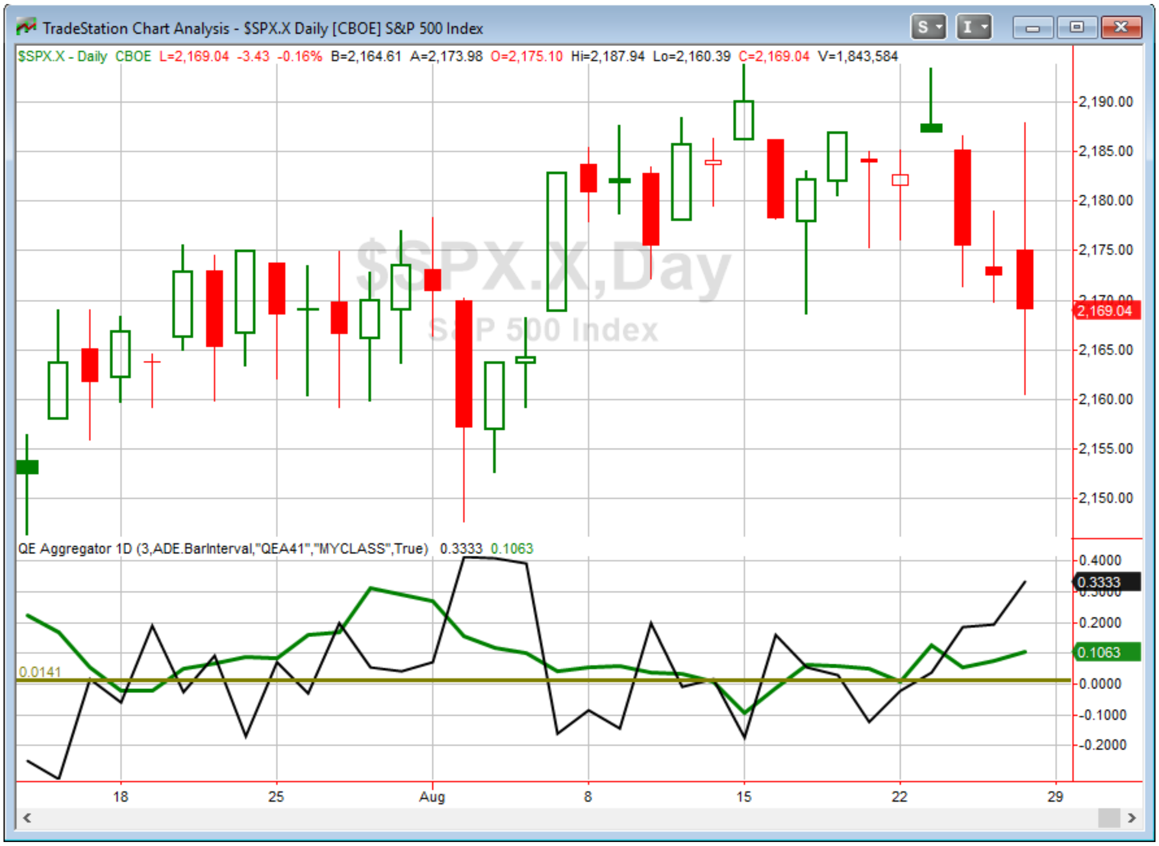
The pullback suggests a bounce, but most of the bounce is realized on day one. Below is a profit curve assuming a 1-day holding period.

The move from lower left to upper right serves as some confirmation of the edge suggested by the numbers.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line 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 moved a bit further above 0. The positive 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 stayed long at the close.

Based on the current active list, expectations are poised to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2179.48 on Monday. That is 0.5% above Friday's close. So SPX will need to close up at least 0.5% in order to move from oversold to overbought on Monday's close.

There appears to be a mild upside edge. The studies are not overwhelming, but they are pointing higher and there is a decided lack of bearish evidence. Also noteworthy is that the Quantifiable Edges CBI has risen to 5. It is reaching a level that often begins to hint at an upside edge as well. If the market declines again on Monday, we will likely see some "Turnaround Tuesday" edges emerge. I have some long index exposure already. Between the CBI and the Turnaround Tuesday potential I will look to add a little more index exposure if SPX closes down again on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/29 – 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".*

This past week saw the SPX pull back a bit. It finished the week with a 0.7% decline. SPX is still not far from new highs and the uptrend still appears to be intact. But the quiet market failed to generate any new compelling intermediate-term evidence.

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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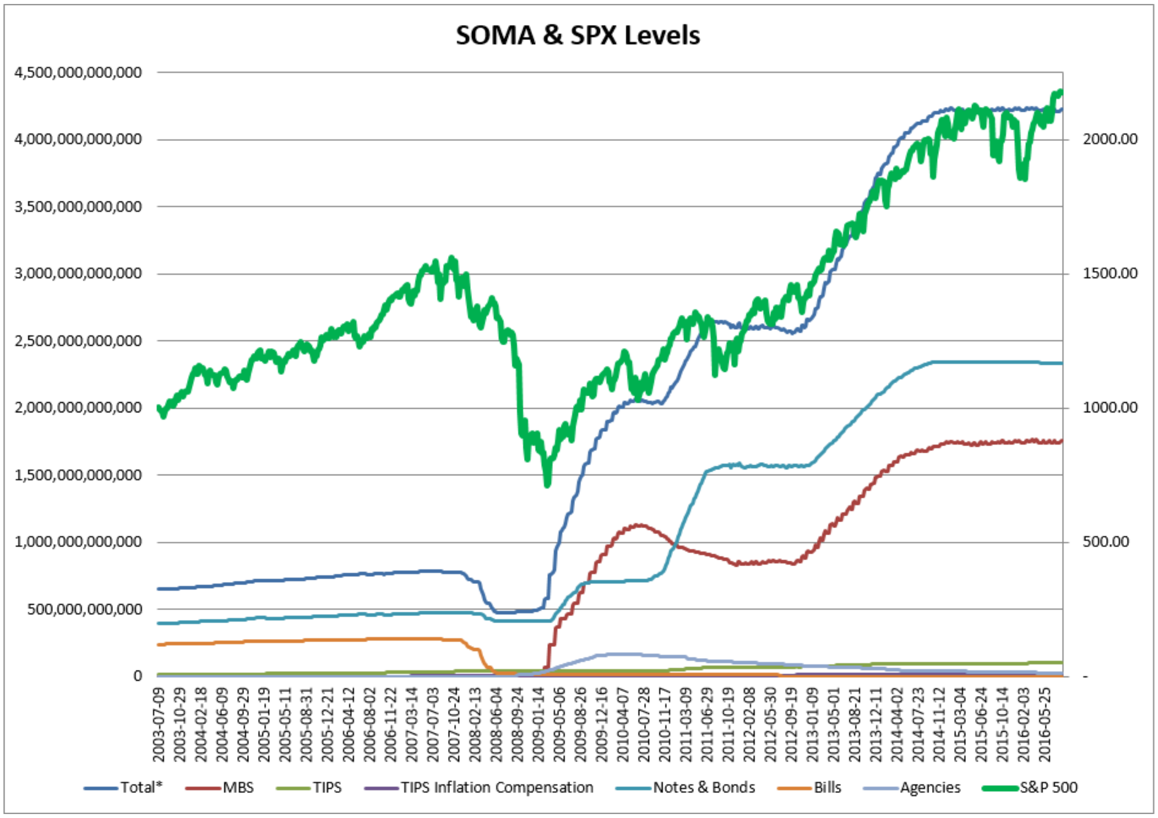
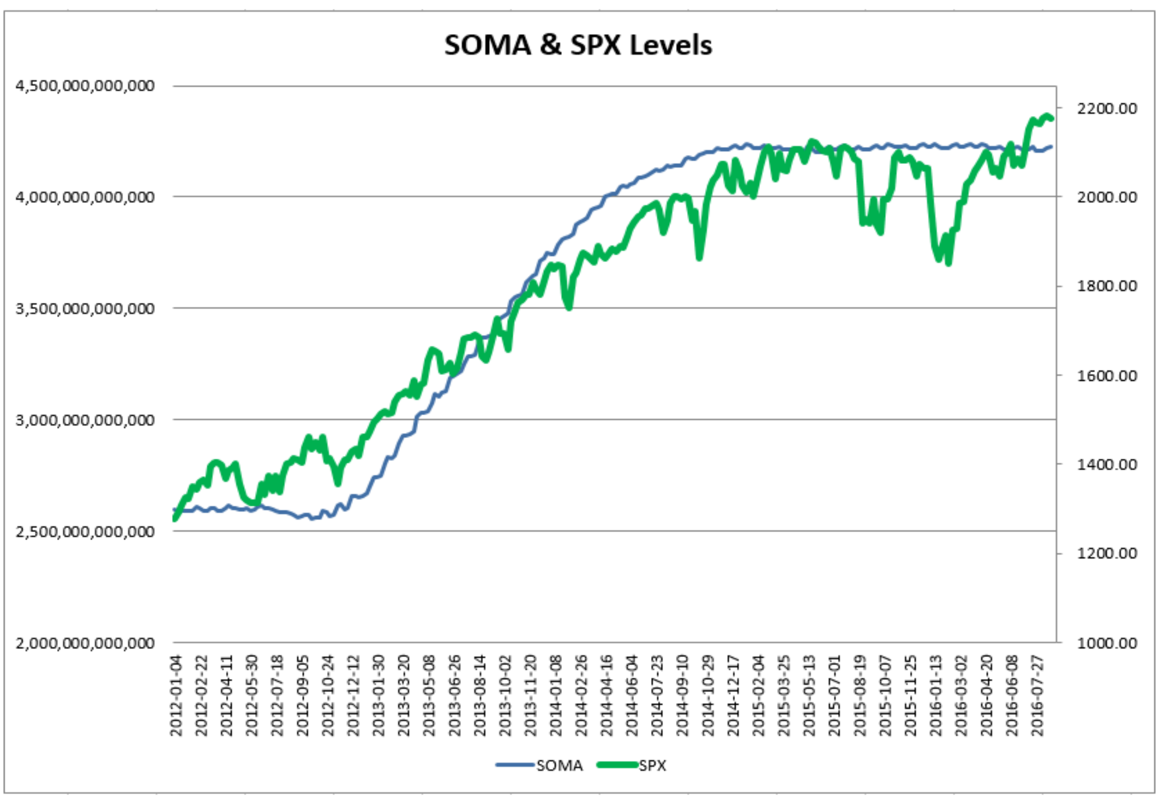


And now the zoomed-in view (2012 – present).



SOMA rose a small amount this past week (Wednesday to Wednesday) with a 0.13% gain. I indicated in last week's letter that I expected a rise in the SOMA based on the Fed's past reinvestment schedule. The 0.31% loss for the SPX over this period is poor for a week that the SOMA posts a gain. Since the beginning of 2015 SPX has risen 66% 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 decline. And the week after this it appears will likely be near breakeven. So bulls are not likely to get any help from Fed liquidity in the next week and a half.

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 mild action this past week has left the intermediate-term outlook largely the same. 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 near 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.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

ABT – @ $43.17 (bought 1/3 @ limit)
ABT – @ $42.84 (bought 1/3 @ limit)
FOXA – @ $24.57 (bought 1/3 @ limit)
GOOGL – @ $791.30 (bought 1/3 @ limit)
New
FOXA – @ $24.57 (bought 1/3 @ limit)

Broad Market Large Cap CBI – 5 (ABT-2, FOXA-2, GOOGL)

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.

FOXA – buy 1/3 Catapult position at $24.54 limit. This is a Catapult trade idea from the Catapult & CBI section above. This is the 2nd of 3 possible lots for FOXA.

SPY – buy ¼ index position @ $217.28 LIMIT ON CLOSE. Based on the short-term section above I will look to take on a 2nd lot (of possibly 4 for SPY) if it closes down again on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	$24.70	$36.56	48.02%		Aggressive VIX
SPY(1/4)	8/25/2016	$217.70	$217.29	-0.19%		Aggregator
ABT(1/3)	8/25/2016	$43.17	$42.98	-0.44%		Catapult
ABT(1/3)	8/26/2016	$42.84	$42.98	0.33%		Catapult
GOOGL(1/3)	8/26/2016	$791.30	$793.22	0.24%		Catapult
FOXA(1/3)	8/26/2016	$24.57	$24.54	-0.12%		Catapult

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