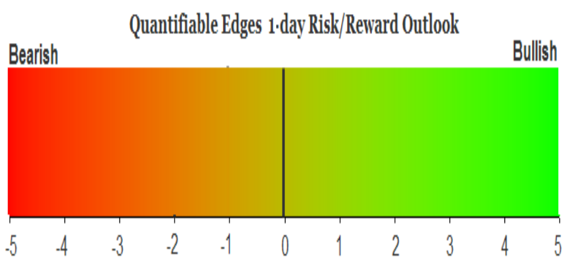
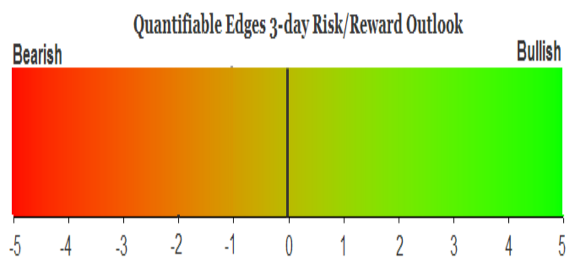
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 6, 2016 Volume 9 Issue 172

Market Overview





Signals Overview

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

Tonight's Research Points

- There has been some negative seasonality in September.
- SOMA may be flat though Wednesday, but then is expected to rise some the following Wed-Wed period.

Short-term Outlook
The Bottom Line
Sideways chop and very little suggesting a strong directional edge. 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						
None						
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			

The Evidence

The employment report got Friday off to a strong start and the market held on to post solid gains. The SPX and the NASDAQ each rose 0.4% while the Russell 200 climbed 1.0%. Breadth was strongly positive as the NYSE Up Issues % was 80% and the Up Volume % came in at 84%. NYSE volume was extremely light going into the long weekend.

The range-bound trading continues as it has for nearly 2 months now. And Friday's action did not inspire much in the way of new studies. But back in the 9/3/2013 letter I looked at Labor Day week performance. I found that Labor Day performance tended to vary based on how the market had performed in the 4 weeks leading up to Labor Day. Below I have update the study results. First let's look at times like now when there was a decline over the last 20 days.

It is Friday before Labor Day. SPX closes < the close 20 days ago.
Buy on close. Sell X days later. $100k/trade.

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	-10,203.00	33	12	21	36.36	1,315.30	3,228.12	-1,237.46	-2,942.07	1.06	0.61	-309.18
4	-6,975.55	33	14	19	42.42	1,236.56	2,580.34	-1,278.28	-3,113.11	0.97	0.71	-211.38
3	-5,057.34	33	17	16	51.52	1,042.93	2,718.52	-1,424.19	-4,024.28	0.73	0.78	-153.25
2	-5,873.44	33	13	19	39.39	1,055.30	3,047.41	-1,031.17	-2,678.02	1.02	0.70	-177.98
1	-4,260.52	33	17	16	51.52	631.48	1,745.28	-937.23	-4,147.45	0.67	0.72	-129.11

Stats here are weak. But when I looked at the profit curve I found that most of the losses had piled up early on. The last 3rd of most of these profit curves is just sideways chop. So the results did not justify adding it to the active list. And the decline over the last 20 days has only been 1 point, so it barely even qualifies for the setup. Next are the results when the market has risen leading up to Labor Day.

It is Friday before Labor Day. SPX closes > the close 20 days ago.
Buy on close. Sell X days later. $100k/trade.

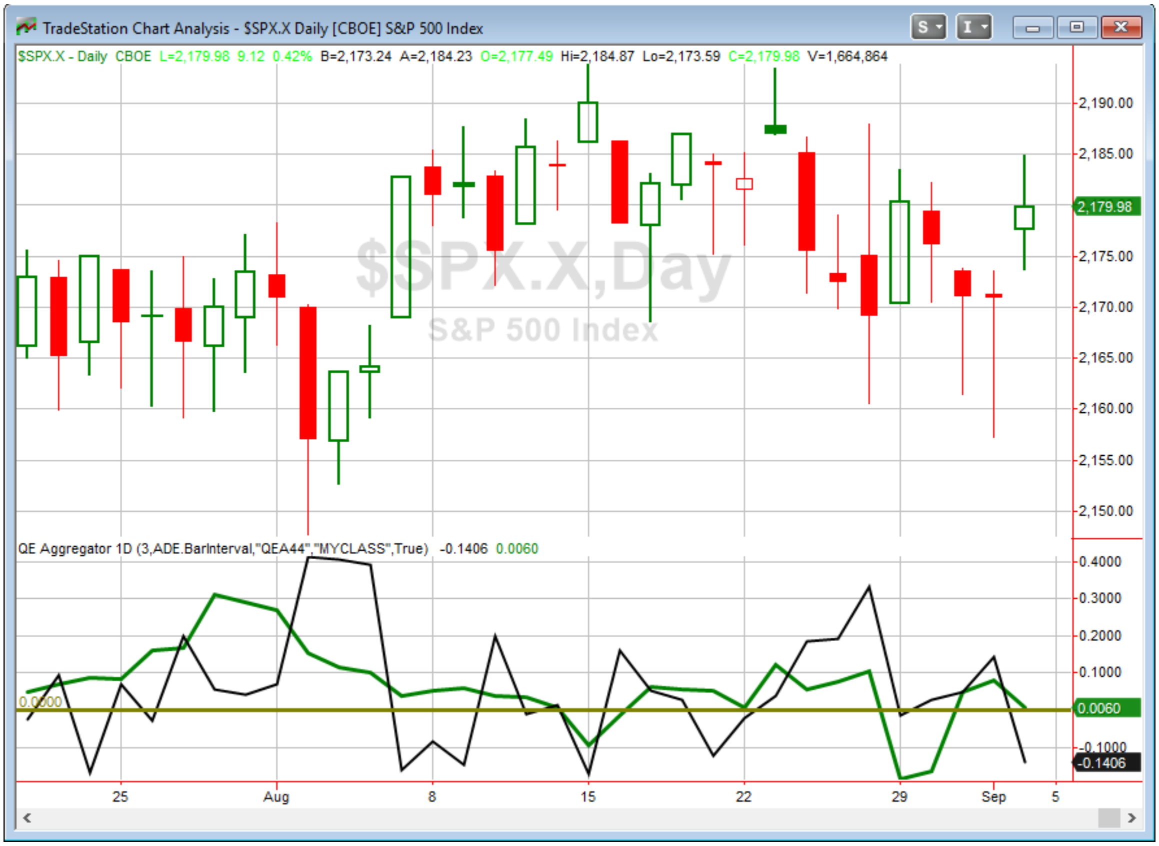
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
4	11,022.99	22	15	7	68.18	1,476.20	3,585.30	-1,588.56	-4,206.40	0.93	1.99	501.04
3	5,178.32	22	13	9	59.09	1,066.05	3,485.40	-964.48	-2,391.84	1.11	1.60	235.38
2	6,437.48	22	13	9	59.09	1,335.01	3,294.60	-1,213.07	-4,795.56	1.10	1.59	292.61
1	5,082.80	22	12	10	54.55	1,269.50	5,054.10	-1,015.12	-2,259.18	1.25	1.50	231.04

This would seem to be the better setup.

September as a whole has been the weakest month of the year. But most of that weakness is attributable to the later part of the month. In fact, the week after Opex week in September is one that I have often referred to as the "weakest week".

So we seem to be entering a weak seasonal period and that may make things a bit more difficult for the bulls. But I am not yet seeing anything suggesting a compelling short-term downside edge.

I have updated the Aggregator chart below.



Without any short-term studies to speak of the green Aggregator Line held a little above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove down 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 changed from long to flat at the close.

With just the intermediate-term evidence to consider, expectations are set to remain positive on Tuesday. Of course any new short-term studies that emerge will have a strong influence. The Differential Pivot will be 2164.33 on Tuesday. That is 0.7% points below Friday's close. So SPX would need to close down at least 0.7% on Tuesday in order to move from overbought to oversold versus recent expectations.

Expectations are weak and the Aggregator is neutral. There just is not anything getting me excited about a large directional bet at the moment. I will wait to see how things play out over the next few days and what new evidence emerges before looking to take on any new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/29 – bullish

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

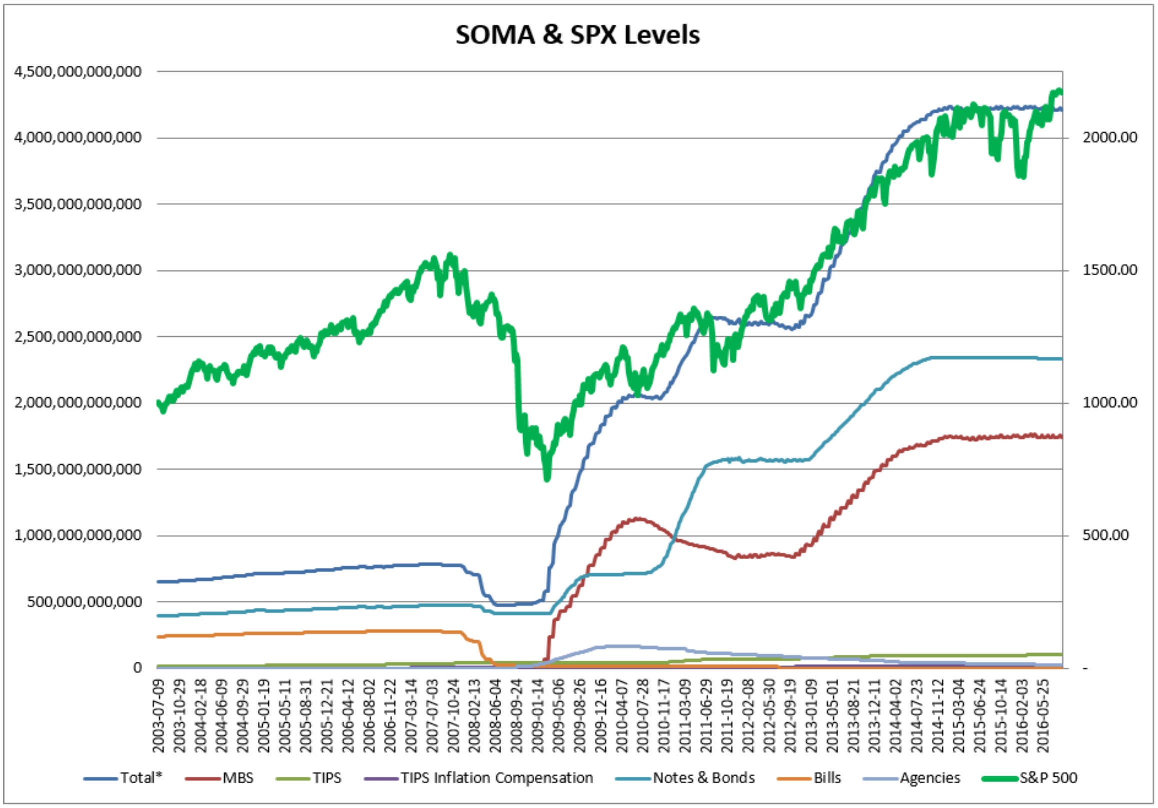
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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".*

The SPX finished this past week with about a 0.5% gain. It is still not far from new highs and the uptrend appears to be intact. But the quiet market again failed to generate any new compelling intermediate-term evidence.

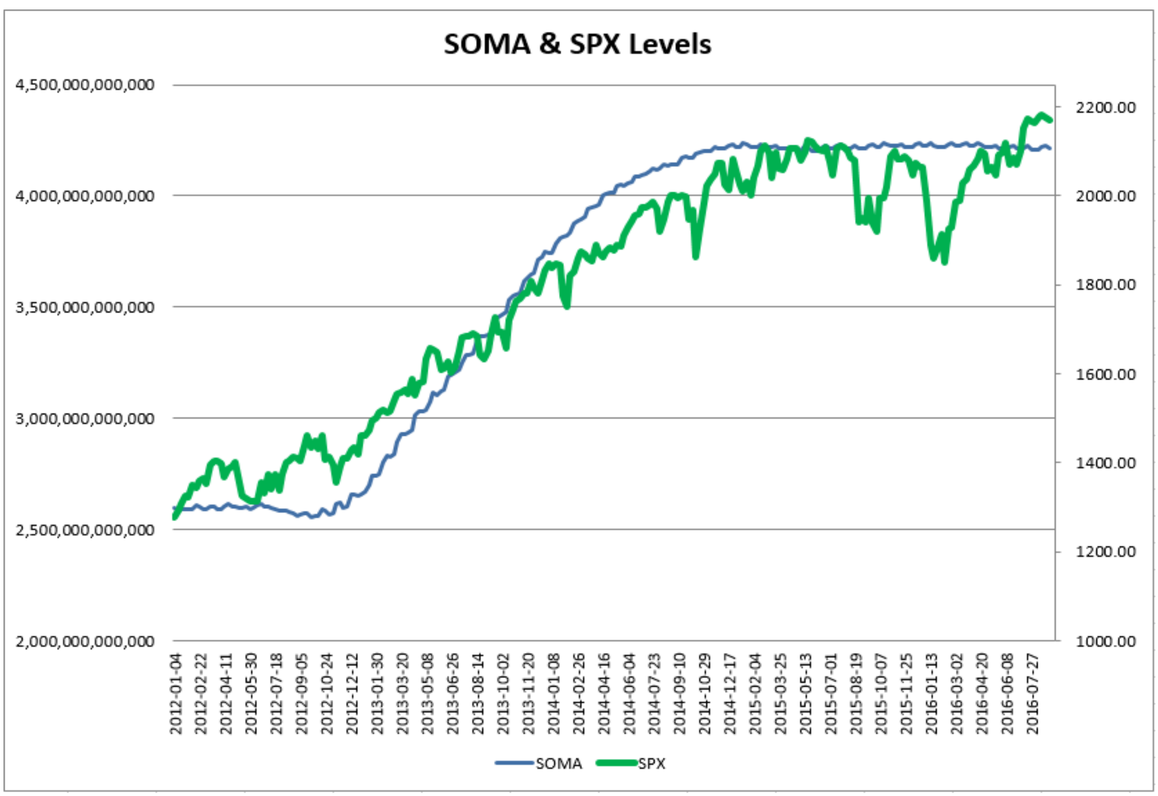
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



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



SOMA shrunk a fairly sizable 0.36% this past week (Wednesday to Wednesday). I indicated in last week's letter that I expected a decline in the SOMA based on the Fed's past reinvestment schedule. The 0.21% loss for the SPX over this period is typical for a week that the SOMA fails to rise. 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 45% of the time and has ***lost*** a sum total of 3.95%. 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 come in near breakeven. But the week after this it appears will likely show a gain. So bulls may get some help from Fed liquidity after Wednesday.

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)

Broad Market Large Cap CBI – 2 (ABT-2)

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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	$38.59	56.23%	$35.00	Aggressive VIX
ABT(1/3)	8/25/2016	$43.17	$42.09	-2.50%		Catapult
ABT(1/3)	8/26/2016	$42.84	$42.09	-1.75%		Catapult
FOXA(1/3)	8/26/2016	$24.57	$24.55	-0.08%		*sell on open*
FOXA(1/3)	8/31/2016	$24.54	$24.55	0.04%		*sell on open*

FOXA hit its intraday target level on Friday. This means it will be sold at the open on Tuesday.