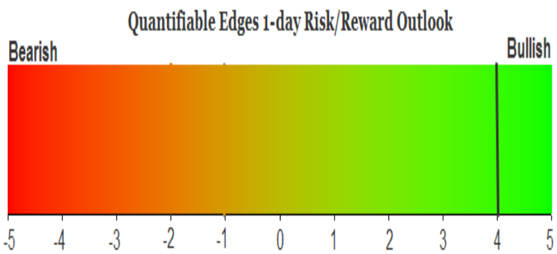
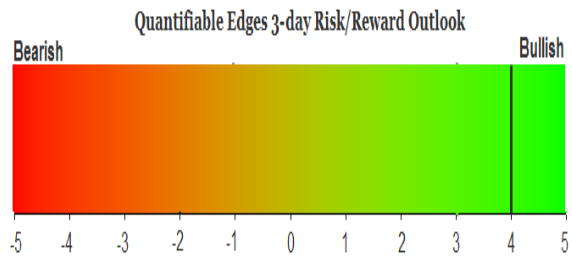
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 7, 2016 Volume 9 Issue 216

Market Overview





Signals Overview

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

Tonight's Research Points

- Weak closes at 5-day lows often lead to a bounce.
- A down Fed Day and the next 2 days also down have led to a bounce nearly every other time since 1982.
- The NASDAQ is now lagging, but 2 of our 4 Market Timing Course indicators remain positive.
- Fed Liquidity should temporarily improve starting on Wednesday.

Short-term Outlook
The Bottom Line

Similar to last night. Evidence is pointing higher and the SPX is oversold. Reward/risk appears favorable for the bulls over the next few days. I am long and looking to take advantage of a bounce.

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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						
November 7, 2016	Fed Day down and next 2 days	1-3 days	Bullish			
November 7, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			
November 4, 2016	VIX spike to 50-day high	1-4 days	Bullish			
November 3, 2016	RSI2<2, 50-low 2x	1-3 days	Bullish			
November 3, 2016	VIX up 7 days in a row	1-3 days	Bullish			
November 3, 2016	20-day low on a Fed Day	1-5 days	Bullish			
November 2, 2016	System 110524	1-7 days	Bullish			
Active - Long Term						
October 19, 2016	20 low yesterday. 4 high today.	1-20 days	Bullish	3.80%	-2.10%	-4.50%
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%

The Evidence

Despite evidence suggesting a bounce is overdue, the market has not been able to manage one. Friday the SPX lost 0.2%, and the NASDAQ fell 0.2%, but the Russell 2000 did rise 0.6%. Breadth was mixed as the NYSE Up Issues % was 50.7% and the Up Volume % came in at 49.6%. NYSE volume rose some from Thursday's level.

The selling did put SPX at another closing low. Over the last several years when SPX has closed near the bottom of its intraday range and at a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below, which was last seen in the 10/28/16 letter.

SPX closes in the bottom 10% of its daily range and at a 5-day low. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 2006 - 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	52,955.85	90	58	32	64.44	1,796.43	5,555.16	-1,601.17	-3,680.82	1.12	2.03	588.40
4	40,737.99	93	58	35	62.37	1,581.79	5,290.00	-1,457.31	-3,863.84	1.09	1.80	438.04
3	32,370.25	100	62	38	62.00	1,243.02	4,895.50	-1,176.24	-3,437.94	1.06	1.72	323.70
2	27,171.25	110	61	49	55.45	1,120.97	4,424.50	-840.98	-2,726.97	1.33	1.66	247.01
1	26,683.99	120	75	45	62.50	763.72	2,230.60	-679.88	-2,200.08	1.12	1.87	222.37

Odds seem to favor a rally over the next week. Here is the profit curve.

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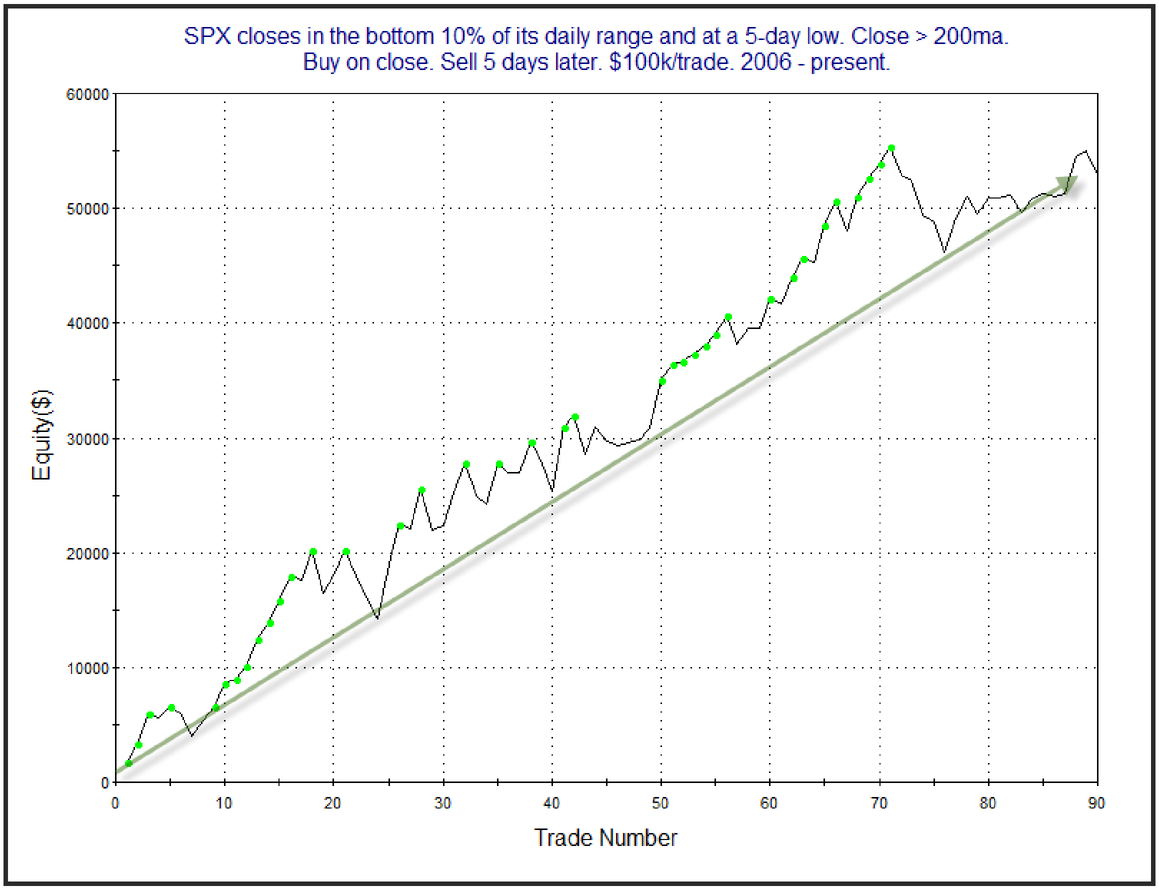

The strong upslope seems to act as a nice confirmation of the bullish numbers.

It's interesting that the selling has continued right through and after a (typically bullish) Fed Day. In the 9/24/10 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

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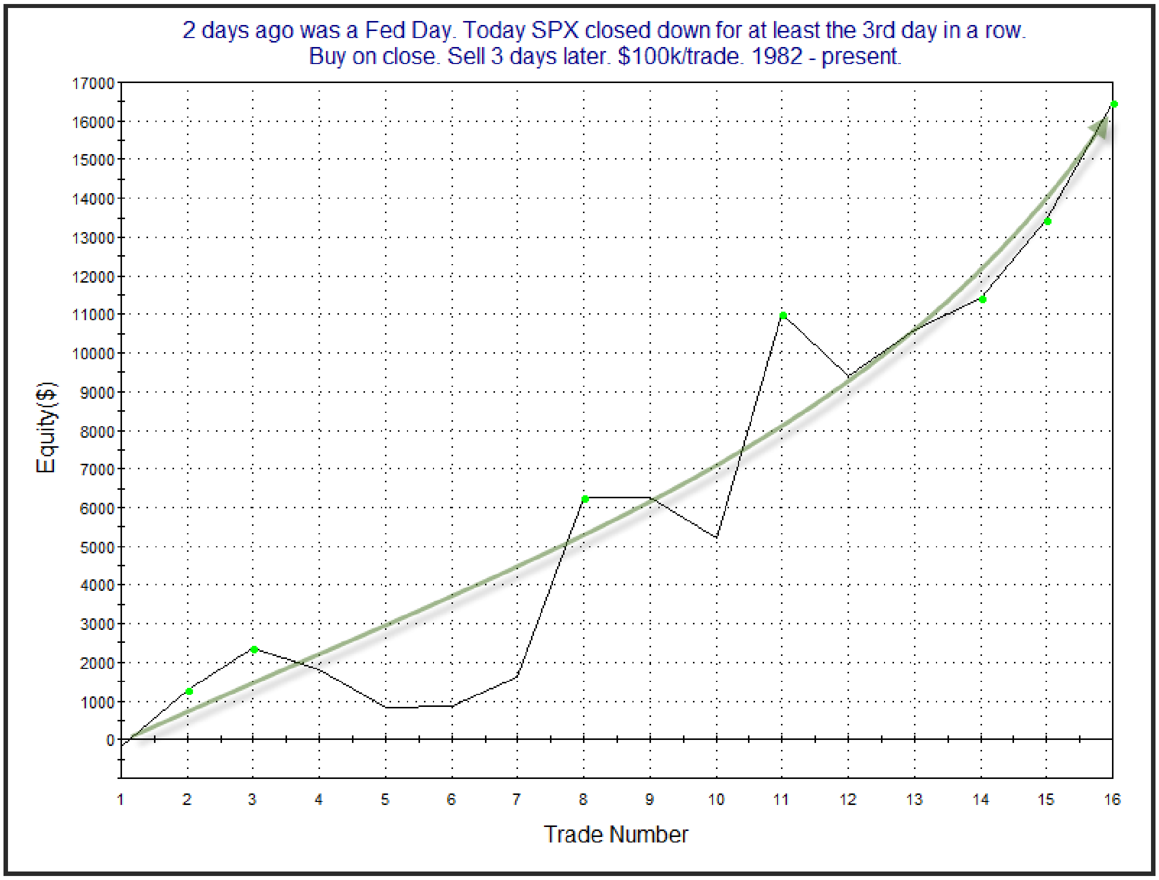
2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - present.

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	8,447.42	16	9	7	56.25	2,405.25	5,555.16	-1,885.69	-3,477.69	1.28	1.64	527.96
4	13,283.96	16	9	7	56.25	2,329.12	5,564.00	-1,096.87	-2,266.11	2.12	2.73	830.25
3	16,465.11	16	10	6	62.50	2,084.60	5,801.02	-730.15	-1,610.84	2.86	4.76	1,029.07
2	13,895.71	16	12	4	75.00	1,329.13	4,670.25	-513.45	-971.48	2.59	7.77	868.48
1	10,090.63	16	12	4	75.00	891.09	2,097.92	-150.62	-401.12	5.92	17.75	630.66

15 of 16 instances closed above the entry price at some point in the next 3 days. The lone instance that failed triggered on 11/9/84 and it continued to sell off for several weeks.

The edge looks quite strong over the next 1-3 days. Below is a look at a 3-day profit curve.



Recent instances have made this one look even better. I have included this study on the active list tonight.

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Of further note is that the Quantifiable Edges Capitulative Breadth Indicator (CBI) remained at 8 on Friday. I anticipated it would move higher if the SPX sold off again, but that was not the case, as the additional potential Catapult stocks managed to post gains despite the market decline. So it is still not quite at the 10 level that I typically view as a high-probability bounce reading, but it is only a stone's throw from there.

I have updated the Aggregator chart below.

With even more bullish evidence tonight the green Aggregator Line held far above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also elevated above 0. 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. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are primed to remain positive on Monday. It would take extremely compelling new bearish evidence in order to change this. The Differential Pivot will be 2117.01 on Monday. That is 1.5% above Friday's close. So SPX would need to close up 1.5% on Monday to flip from oversold to overbought versus expectations. That would be a sizable jump for 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Worries continue as evidenced by the continued rise in the VIX and the failure of the bulls to even mount a 1-day rally despite all the bullish studies we have seen. Bullish evidence remains strong, even with the CBI a little lower than I'd prefer for a large index position. And the market is strongly oversold, making for a bullish looking Aggregator. I do have a large index position right now, and I am anticipating a bounce. I may pair back a little if we see a bounce on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/7 – 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.) *This week we saw one of the combo systems change to "Flat" while the other two remained "Long".*

The SPX had a tough week, as it slid lower every day. But the selling was not terribly strong and the total damage was just a 1.9% decline on the week. This left the index at the lowest level since early July.

One possibly significant intermediate-term development is that the NASDAQ fell into a lagging position versus the SPX. The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom of the chart. The green line (which is about to turn red) moving down below the blue line is the signal that the NASDAQ is now lagging.

NASDAQ/S&P 500 Relative Strength Weekly

Since 4/9/71, which is the earliest data point after the inception of the Nasdaq in which the calculations could be run, until now, the SPX has gained 1737.60 points when the Nasdaq was in leading position. When the SPX has been leading during that time it has gained only 245.48 points. The NASDAQ differential has been even more exaggerated. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on the Nasdaq Weekly Strength Model page.

For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

There were actually changes to 3 of the 4 Market Timing Course indicators this week. When November 1st hit we moved from the “Worst 6 Months” to the “Best 6 Months”. We also entered Year 1 of the Presidential Cycle. (I will note that some people measure the Presidential Cycle from January 1 of the first year of a new presidency. Others measure it from inauguration day. I measure it from Nov 1, which is very close to the actual election day.)

So let’s now look and see how the SPX has performed when the Market Timing Course indicators have been in their current state.

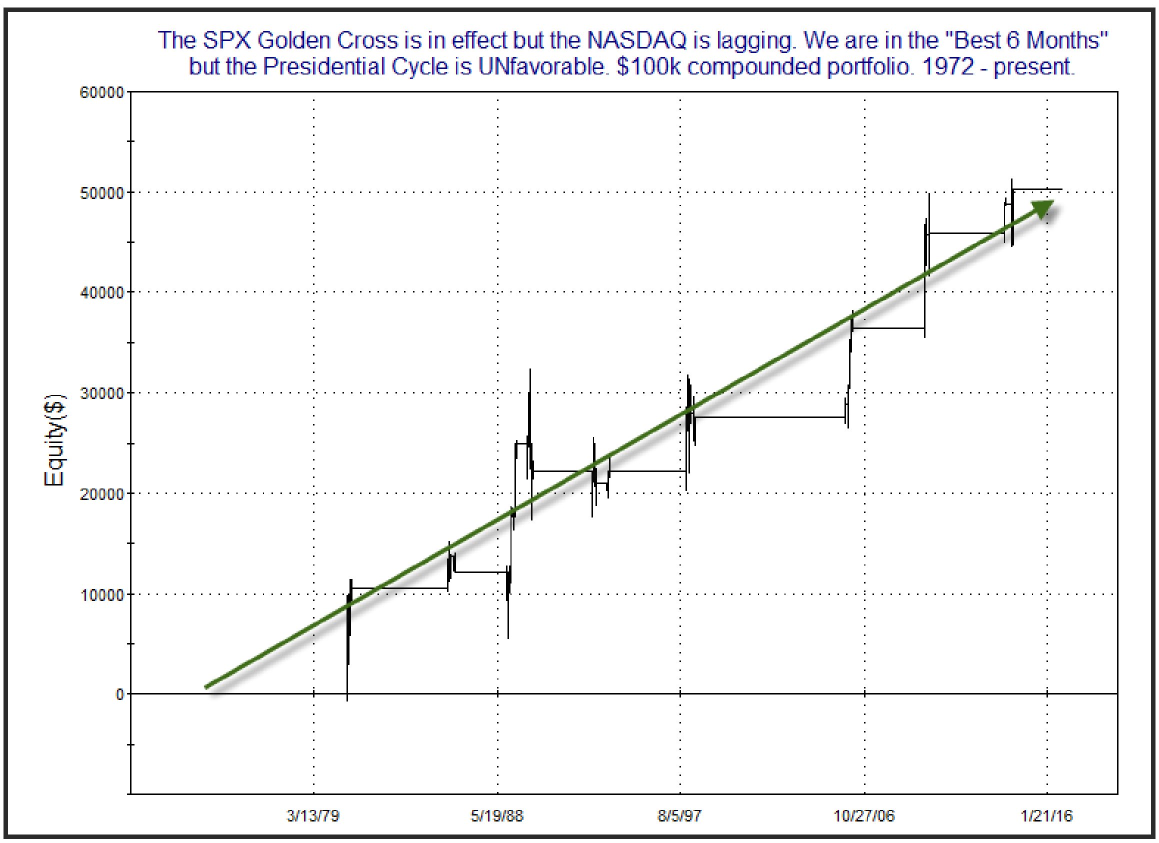
The SPX Golden Cross is in effect but the NASDAQ is lagging. We are in the "Best 6 Months" but the Presidential Cycle is UNfavorable. $100k/trade. 1972 - present.

TradeStation Performance Summary

All Trades

Total Net Profit	$41,492.98	Profit Factor	8.73
Gross Profit	$46,860.73	Gross Loss	($5,367.75)
Total Number of Trades	26	Percent Profitable	80.77%
Winning Trades	21	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	$1,595.88	Ratio Avg. Win:Avg. Loss	2.08
Avg. Winning Trade	$2,231.46	Avg. Losing Trade	($1,073.55)
Largest Winning Trade	$6,699.84	Largest Losing Trade	($2,241.45)
Max. Consecutive Winning Trades	10	Max. Consecutive Losing Trades	2

The average stats here are quite impressive, and quite a bit better than I anticipated. While we only have 2 of the 4 indicators positive at the moment, those 2 have provided a profitable combination in the past. Below I have produced a profit curve utilizing re-investment of capital and compounding.

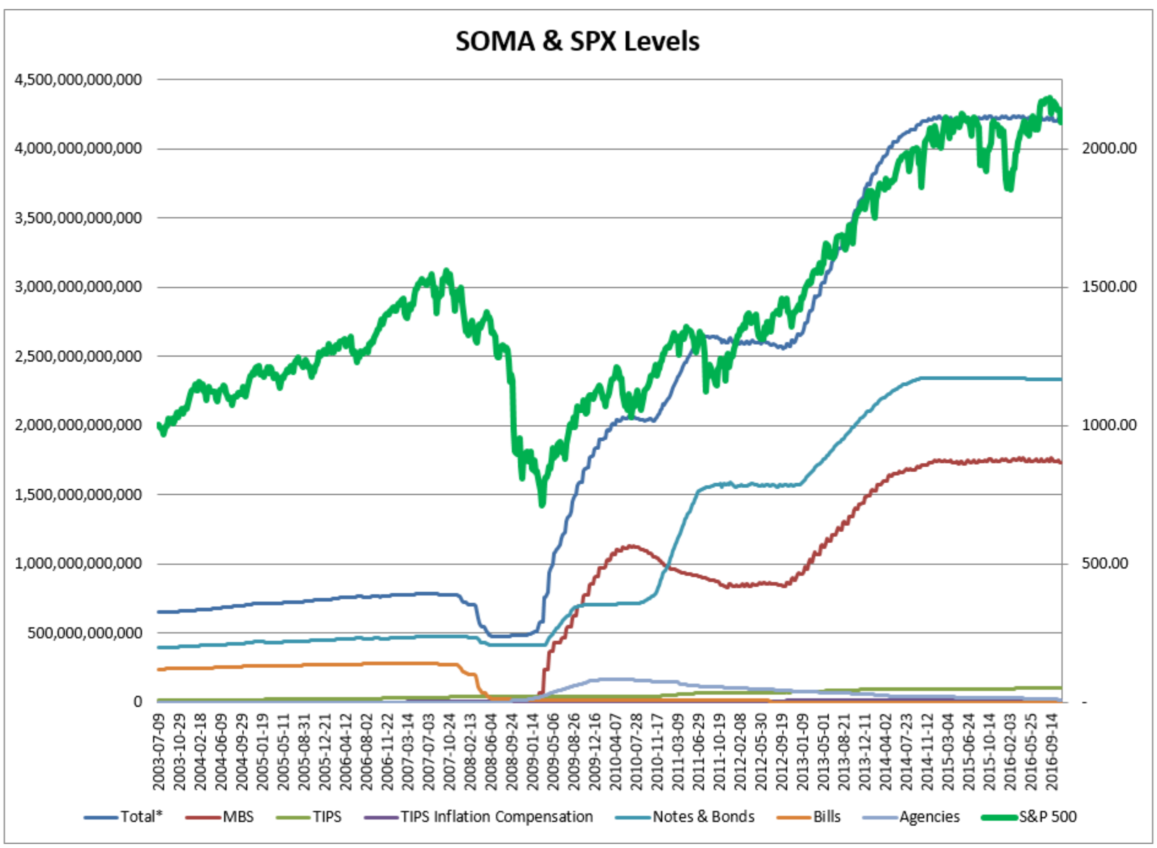


The strong, persistent upslope is impressive, and it adds credibility to the numbers.

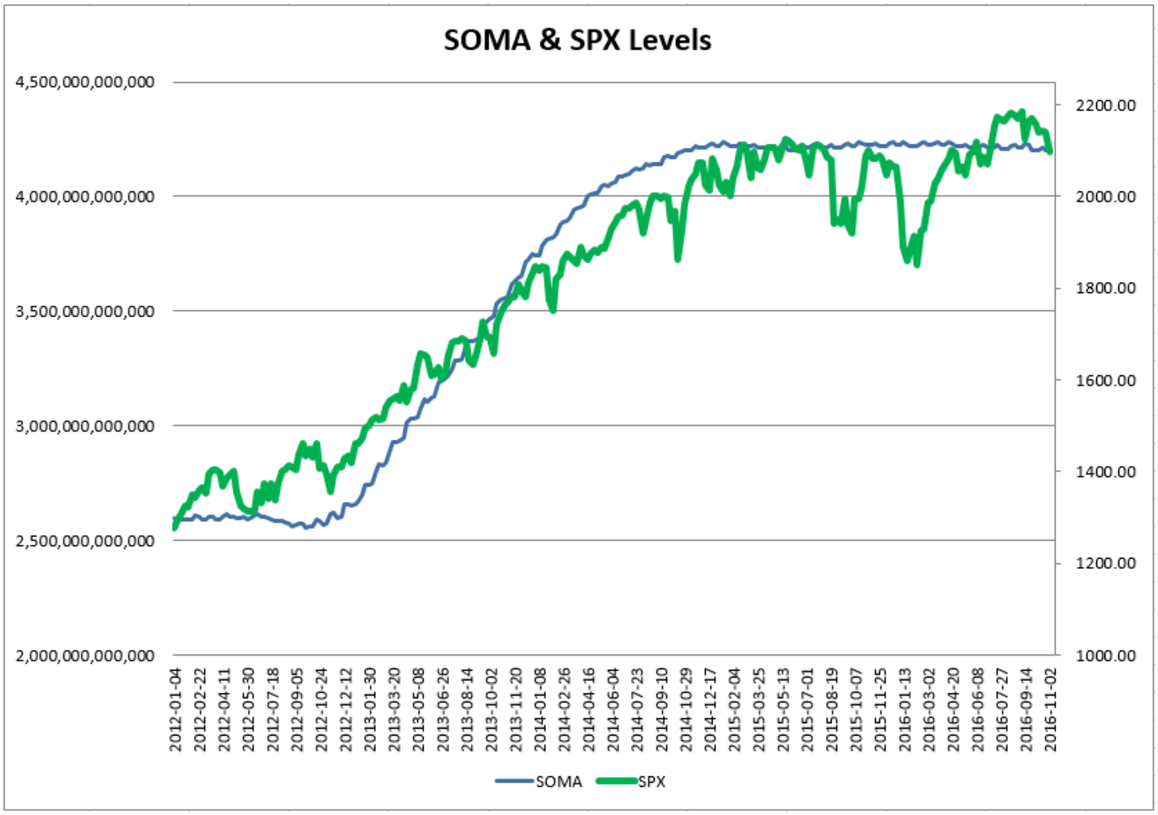
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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), was basically breakeven, posting a very small gain of less and 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 1.94% decline for the SPX over this period was steep, but the market has generally struggled during weeks where the SOMA fails to expand. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 8.06% during SOMA expansion weeks (of at least 0.01%). During all other weeks, like this past week, SPX has only risen 45% of the time and has ***lost*** a sum total of 4.76%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week, which ends on Wednesday, should see the SOMA again come in near flat. But the week after that is likely to see the SOMA spike up a bit. So after the election is done and market uncertainty removed with regards to who will be president, we will also have some temporary liquidity support from the Fed. This could be helpful to the bulls.

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 two years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

The intermediate-term is looking less bullish now. We had two bullish breadth studies expire this week. We also saw the NASDAQ fall into a lagging position. There is not a whole lot of evidence favoring the bulls. The best thing they seem to have going for them is the "Best 6 Months" and the "Golden Cross" combination that has done well in the past. Bears can point to overall weak Fed support, the long-term new-high breadth divergence, and now the lagging NASDAQ. I nearly moved my outlook all the way to "neutral", but have left it a "slightly bullish" instead. I am open to trading either side on a short-term basis. I will likely be fairly selective with my trades for the time being.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

SPG @ $183.23 (bought 1/3@limit)
SPG @ $182.88 (bought 1/3@limit)
PFE @ $30.63 (bought 1/3 @ limit)
LLY @ $72.65 (bought 1/3 @ limit)
PFE @ $29.89 (buy 1/3 @ limit) – not yet filled
LLY @ $72.11 (bought 1/3 @ limit)
AGN @ $188.82 (buy 1/3 @ limit) – not filled – cancel for now
AMGN @ $135.22 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 8 (SPG-2, PFE-2, LLY-2, AGN, AMGN)

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.

PFE – buy 1/3 Catapult position @ $29.89 LIMIT. From the Catapult section above. This is the 2nd of 3 possible lots for PFE. .

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPG(1/3)	10/28/2016	$183.23	$180.28	-1.61%		Catapult
SPY(1/4)	10/28/2016	$213.14	$208.55	-2.15%		Aggregator
SPG(1/3)	10/31/2016	$182.88	$180.28	-1.42%		Catapult
SPY(1/4)	11/1/2016	$212.55	$208.55	-1.88%		Aggregator
SPY(1/4)	11/2/2016	$209.74	$208.55	-0.57%		Aggregator
PFE(1/3)	11/3/2016	$30.63	$30.00	-2.06%		Catapult
LLY(1/3)	11/3/2016	$72.65	$72.49	-0.22%		Catapult
LLY(1/3)	11/4/2016	$72.11	$72.49	0.53%		Catapult
AMGN(1/3)	11/4/2016	$133.71	$135.40	1.26%		Catapult
SPY(1/4)	11/4/2016	$208.55	$208.55	0.00%		look to exit on bounce

I will look to sell the latest ¼ position in SPY @ $208.60 LIMIT ON OPEN. If not filled on open I will cancel the order and look to sell at $208.60 LIMIT ON CLOSE. The last SPY position was taken at the close in anticipation of the CBI reaching 10, as discussed in Thursday night's letter. But the CBI did not get there. While I believe the position should ultimately rally, I would prefer to back off a little since the CBI did not reach 10. So I will sell into either a gap up or a close higher.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.

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