

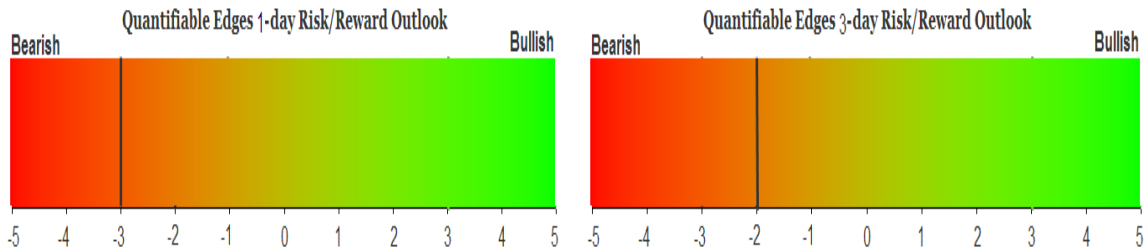
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 28, 2016

Volume 9 Issue 230

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- The Monday after Thanksgiving has historically shown bearish tendencies.
- SPY patter of 50-day high, inside day, new 50-day high, the last 3 days has often been followed by a pullback.
- SOMA levels are unlikely to increase of the next couple of weeks.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a mild bearish edge. But it is not strong enough to compel me to trade against this runaway up move.

Summary of Recent Active Studies (see Letters from listed dates for details)

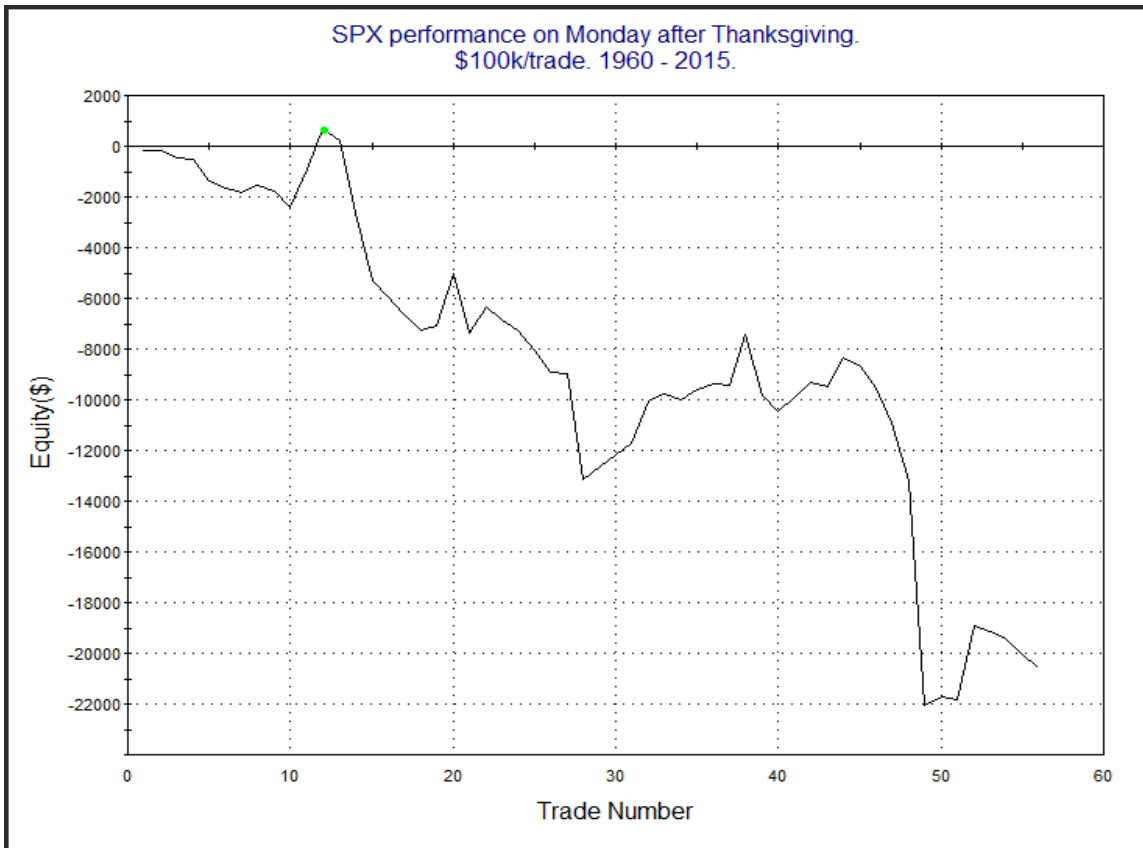
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
November 28, 2016	50-high, inside day, 50-high	1-3 days	Bearish			
November 28, 2016	Mon after Thanksgiving bearish	1 day	Bearish			
November 25, 2016	Thanksgiving Wed Lowest Volume 20	1-2 days	Bearish			
November 18, 2016	50-low to 50-high in 10 days	1-6 days	Bullish			
Active - Long Term						
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
November 8, 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			

The Evidence

Friday saw the market rally continue. The SPX gained 0.4%, the NASDAQ climbed 0.3%, and the Russell 2000 rose 0.4%. Breadth was also positive as the NYSE Up Issues % was 63.5% and the Up Volume % came in at 64.0%. NYSE volume came in very light as you would expect on a half-day.

Even with the action so mild, there are a few interesting studies to cover. In last Sunday's letter, I discussed the bearish inclinations of the Monday after Thanksgiving. That commentary is copied below.

Now let's look at what has happened on the Monday after Thanksgiving.



The numbers from the results table were extremely negative, but as you can see the downside edge has not been steady at all. While the trend has been down pretty much the entire time, a large portion of the downside move is thanks to a 9% drop in 2008. This suggests a seasonal downside edge does exist, but it is perhaps not as strong as the raw numbers would suggest.

To get an idea of how strong the edge may be, I reran the study and excluded 2008.

SPX performance on the Monday after Thanksgiving.
\$100k/trade. 1960 - 2015 (not including 2008)

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$11,020.16)	Profit Factor		0.63
Gross Profit	\$18,818.70	Gross Loss		(\$29,838.86)
Total Number of Trades	55	Percent Profitable		38.18%
Winning Trades	21	Losing Trades		34
Even Trades	0			
Avg. Trade Net Profit	(\$200.37)	Ratio Avg. Win:Avg. Loss		1.02
Avg. Winning Trade	\$896.13	Avg. Losing Trade		(\$877.61)
Largest Winning Trade	\$2,913.68	Largest Losing Trade		(\$4,172.48)

Seasonality still seems to be bearish on Monday.

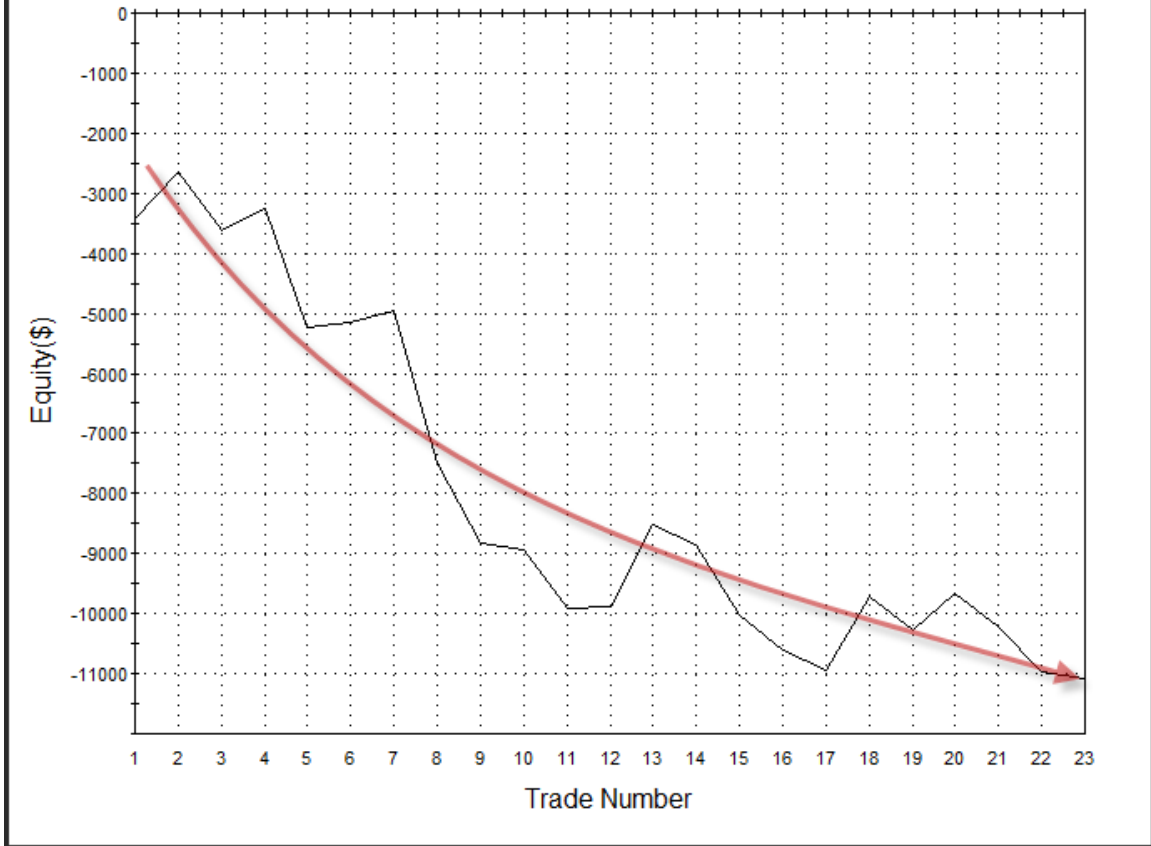
After Tuesday's move to a new high in SPY, Wednesday put in an inside day. With Friday closing at another new high the study below triggered. It was last seen in the 11/18/14 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and closes at a 50-day high again today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-16,051.99	23	7	16	30.43	671.55	1,413.21	-1,297.05	-3,754.10	0.52	0.23	-697.91
4	-11,358.55	23	8	15	34.78	725.65	1,245.97	-1,144.25	-5,106.46	0.63	0.34	-493.85
3	-11,076.38	23	8	15	34.78	583.02	1,367.56	-1,049.37	-3,417.34	0.56	0.30	-481.58
2	-10,868.25	23	6	17	26.09	654.76	1,132.23	-870.40	-2,737.00	0.75	0.27	-472.53
1	-5,111.22	23	4	19	17.39	451.88	651.42	-364.14	-1,405.62	1.24	0.26	-222.23

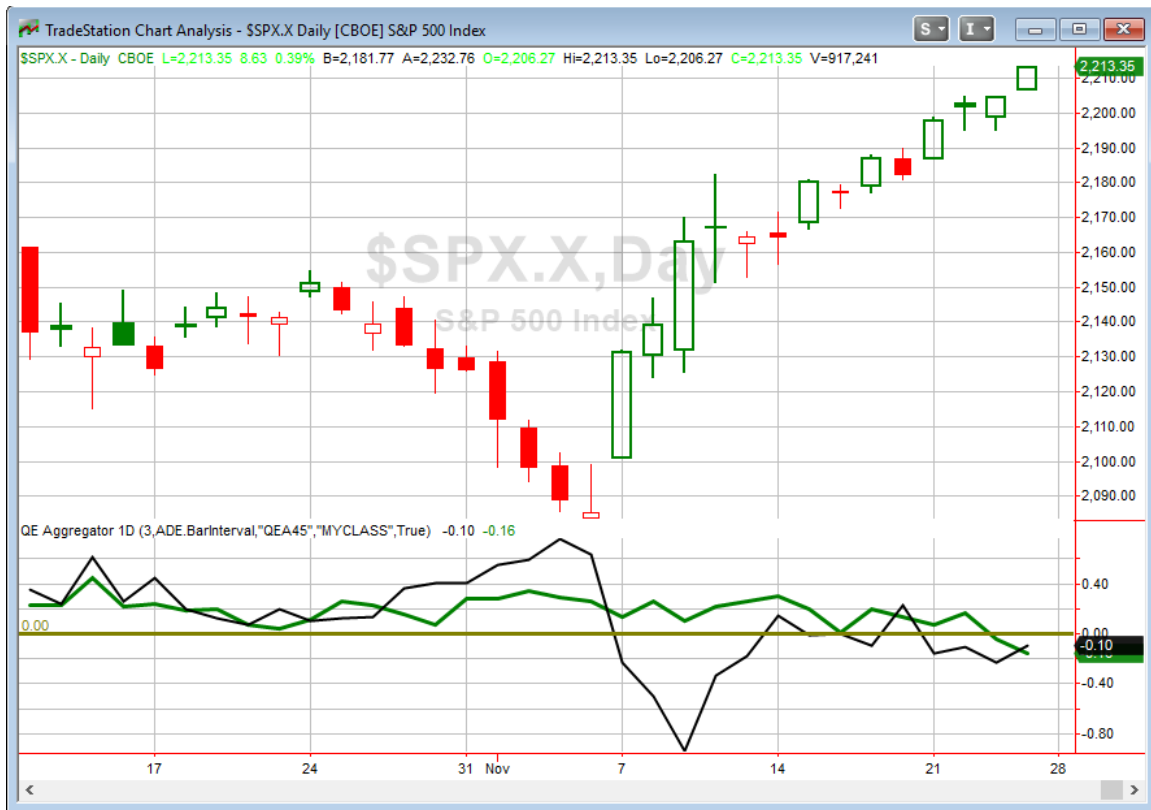
Stats here suggest a bearish inclination following action similar to the last 3 days. The three-day profit curve appeared to be the most appealing. You can see it below.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and closes at a 50-day high again today. Buy on close. Sell 3 days later. \$100k/trade. 1999 - present.



Not as steep as it once was, but this study still seems worth some consideration.

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line stayed below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal remained short at the close.

Based on the current active studies, expectations are primed to remain negative on Monday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2211.03 on Monday. That is 0.1% below Friday's close. So SPX would only need to close down 0.1% in order to move from overbought to oversold versus expectations.

So there seems to be a bit of a downside edge early this week. But it is not terribly strong, and the potential reward is quite limited with the Differential Pivot so close by. With the market in such a runaway up move (Russell 2000 closed up a record-tying 15 days in a row now), I am not inclined to get cute with playing mild bearish edges. I will wait until a more favorable opportunity arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/28 – somewhat bullish

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

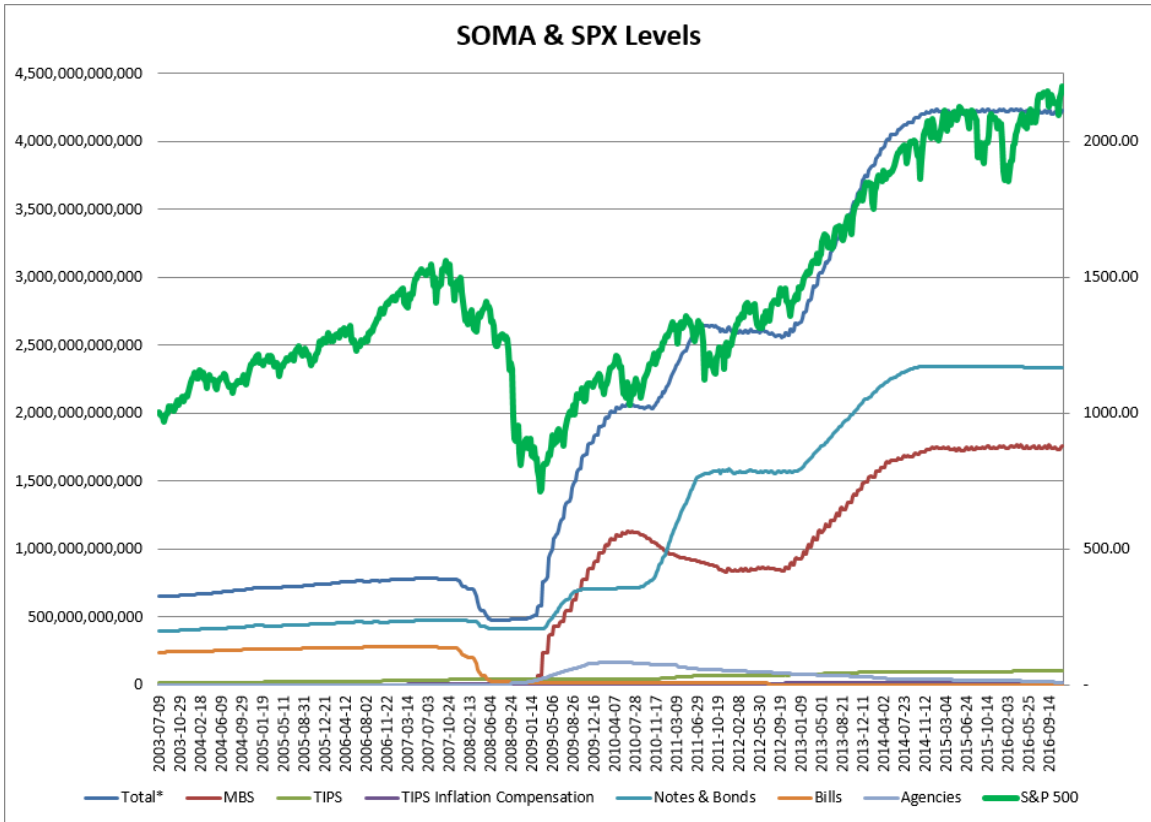
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The SPX put in a strong week, rising 1.4% and finished at new all-time highs. Obviously the uptrend is still intact. No new studies of intermediate-term significance emerged.

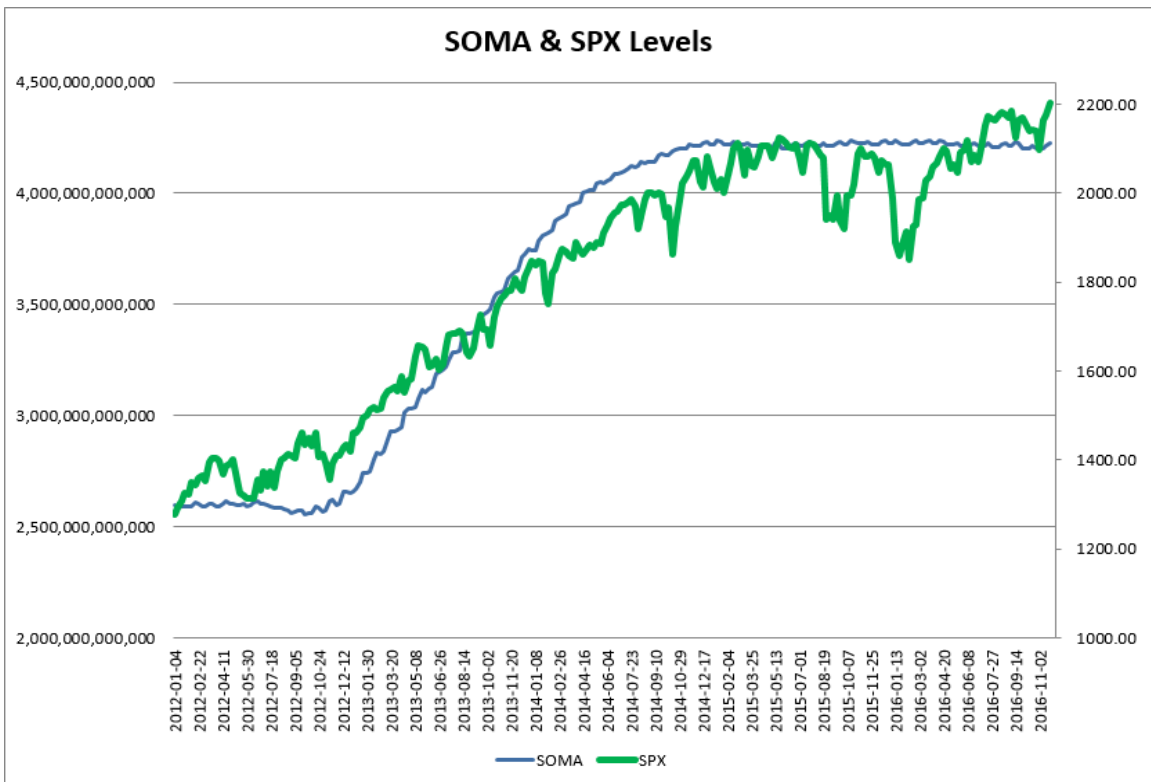
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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), managed a decent sized gain of 0.27%. This was in line with expectations based on the Fed's SOMA schedule. The 1.28% rally for the SPX over this period was strong but not surprising. The market has generally done well during weeks that the SOMA has expanded. Since the beginning of 2015 SPX has risen 67% of the time for a sum total of 9.96% 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 1.65%. 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 decrease a bit. And the next week is highly likely to come in basically flat. So the bulls, who have had Fed liquidity on their side the last couple of weeks, are not going to have that support over at least the next 10 trading days.

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

Evidence continues to lean bullish. There are still some bullish studies active from a couple of weeks ago. And there are still two of the four Market Timing Course indicators in "bull" mode. Bears will note that Fed support is lacking, the NASDAQ is lagging, and new highs have been diverging for years now. I will remain "somewhat bullish" overall. I am open to trading either side on a short-term basis. I will be more selective with shorts than longs.

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

None

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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