

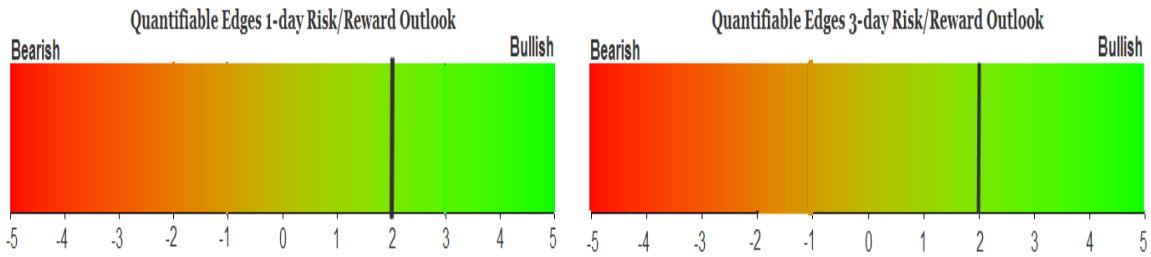
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2017

Volume 10 Issue 19

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- No new short-term evidence emerged on Friday.
- SOMA flows look weak for the next 10 days or so.

## *Short-term Outlook*

### *The Bottom Line*

Expectations remain bullish, but evidence is light. The 2-day consolidation has worked off the overbought condition. So there appears to be a moderate upside edge.

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

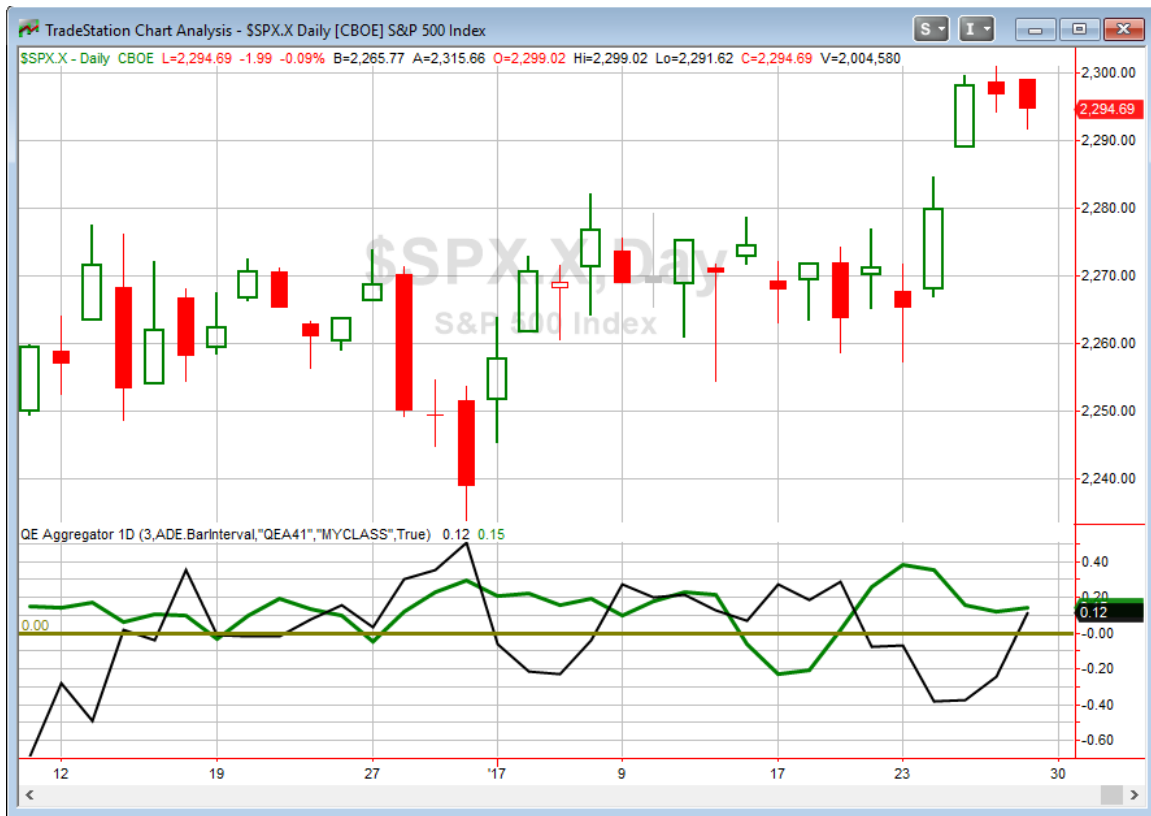
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 26, 2017	SPY breakaway gap	1-5 days	Bullish			
<b>Active - Long Term</b>						
January 9, 2017	NASDAQ Leading	int term	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
January 26, 2017	2 unfilled gaps and 50-day high	1-2 days	Bullish			

***The Evidence***

Friday was mixed and mild. The SPX closed down 0.1%, the NASDAQ gained 0.1%, and the Russell 2000 fell 0.4%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 41%. NYSE volume came in at the lowest level of the week.

While SPX has pulled back the last two days, it has barely done so. And NDX made a new high for the 7<sup>th</sup> day in a row. But with the market barely moving the last couple of days, no new compelling studies emerged. So there is no new short-term evidence to discuss based on Friday's action.

I have updated the Aggregator chart below.



Without any new studies tonight the green Aggregator Line held 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 back 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 below zero. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 2318.92 on Monday. That is 1.05% above Friday's close. So it would take a strong move higher on Monday in order to flip the SPX from oversold back to overbought.

The bullish Aggregator formation is encouraging. The breakout on Tuesday and Wednesday has not followed through greatly to this point but it has managed to at least hold its ground. It appears likely we are seeing a brief pause before the next leg up. And with the Differential Pivot so far away, reward/risk appears favorable. The one substantial concern I have is that the bullish expectations are being generated with only 1 active short-term study. There is not much confirming evidence. To me that suggests the upside edge is a bit questionable. I do think we will see more bullish evidence emerge on Monday if we get a 3<sup>rd</sup> day down for SPX. I'll be looking to buy into that if it happens.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 1/30 – bullish**

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

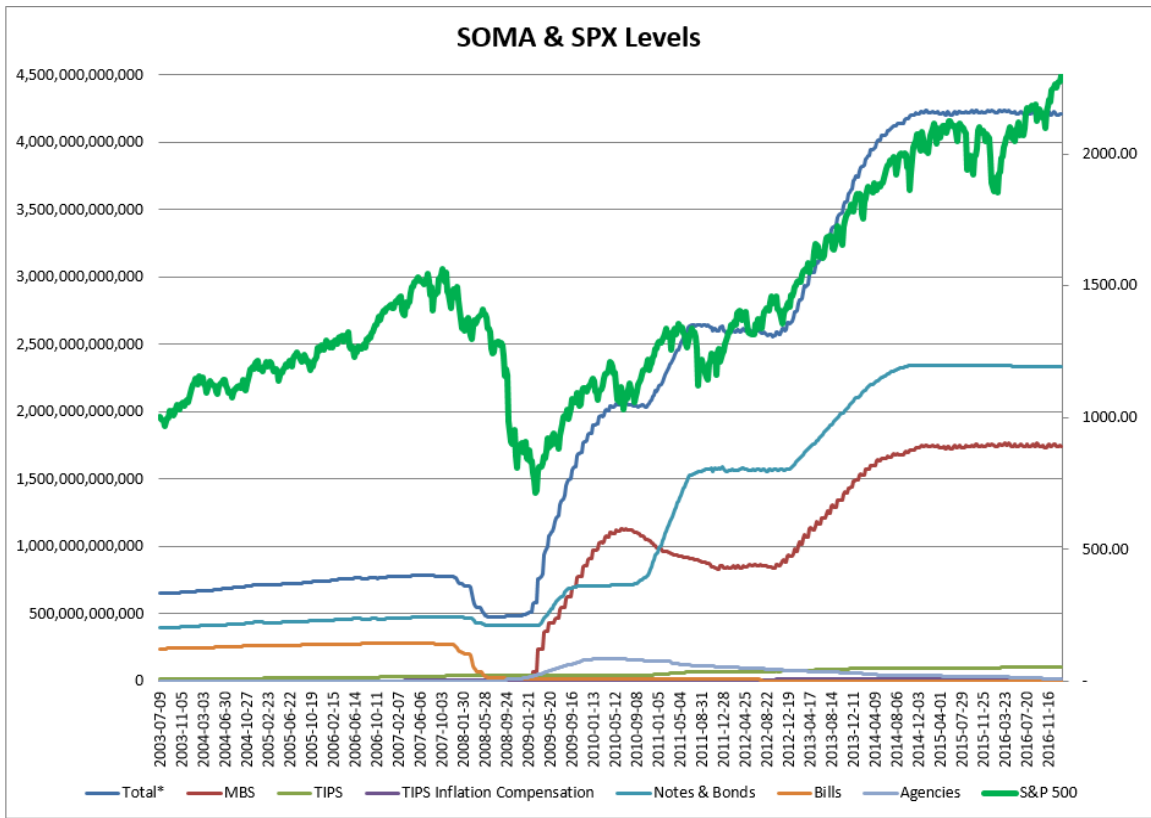
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week was a good one for the market that saw the SPX rise 1% and the NDX close at new all-time highs. With the indices all at, or near new highs the trend is still up. But other than the trend confirmation, we did not see any new evidence this week with intermediate-term implications.

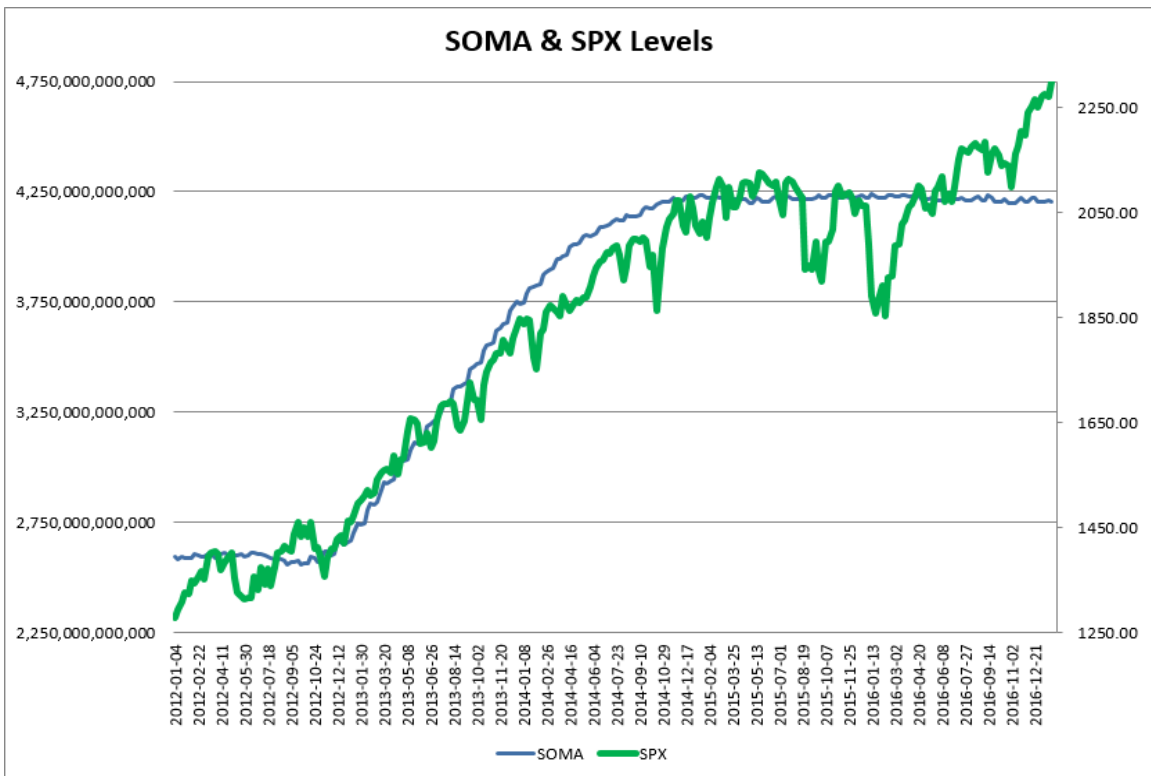
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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) declined a fairly moderate 0.15%. This was in line with expectations based on the Fed's SOMA schedule. The 1.17% gain for the SPX over this period was unusually strong for a week in which the SOMA failed to expand. Since the beginning of 2015 SPX has risen 66% of the time for a sum total of 10.35% during the 35 weeks in which SOMA expanded at least 0.01%. During the 73 other weeks SPX has only risen 48% of the time and has now gained a sum total of 2.17%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to see the SOMA come in flat or lower. And the following week we will likely see the SOMA remain about breakeven. So the bulls will not have Fed Liquidity on their side for at least the next 10 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.

Very little has changed from last week. The sum total of intermediate-term evidence still suggests to me that the bulls remain in charge. The market is still in an uptrend, and 3 of the 4 Market Timing Course indicators are in "bull" mode. Bears will note that Fed support is lacking and new highs have been diverging for years now. I am still inclined to favor the long side and I remain intermediate-term bullish. That means I intend to trade longs more aggressively than shorts, and will be extra-selective with any short plays.

### **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.*

**SPY – buy ¼ index position @ \$228.96 LIMIT ON CLOSE.** Based on the short-term outlook above. If SPY finishes lower on Monday, I'll start scaling in to a long position.

### **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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