

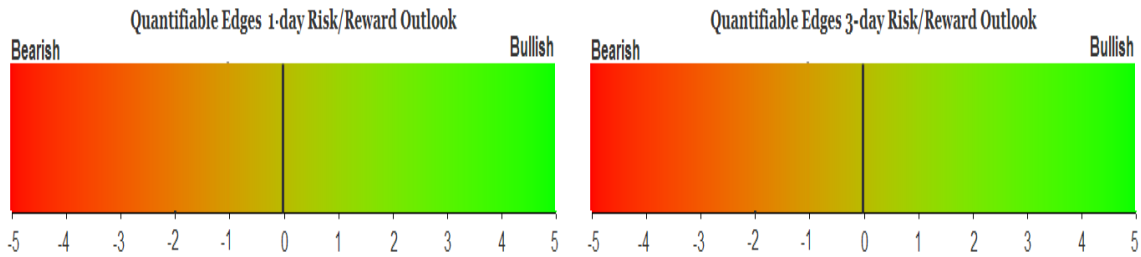
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2017

Volume 10 Issue 29

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- SOMA flows are positive and expected to remain so for the next 10 days.

Short-term Outlook

The Bottom Line

Expectations remain positive but the market is overbought. This is leaving me with a neutral short-term outlook.

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						
February 13, 2017	SPY 2 gaps up & 50-day high	1-2 days	Bullish			
February 10, 2017	SPY Breakaway Gap	1-5 days	Bullish			
February 6, 2017	4 down then 3 up days	1-7 days	Bullish	2.35%	-1.10%	-2.15%
Active - Long Term						
February 9, 2017	RUT down 3. SPX 3-day high.	1-10 days	Bullish			
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			

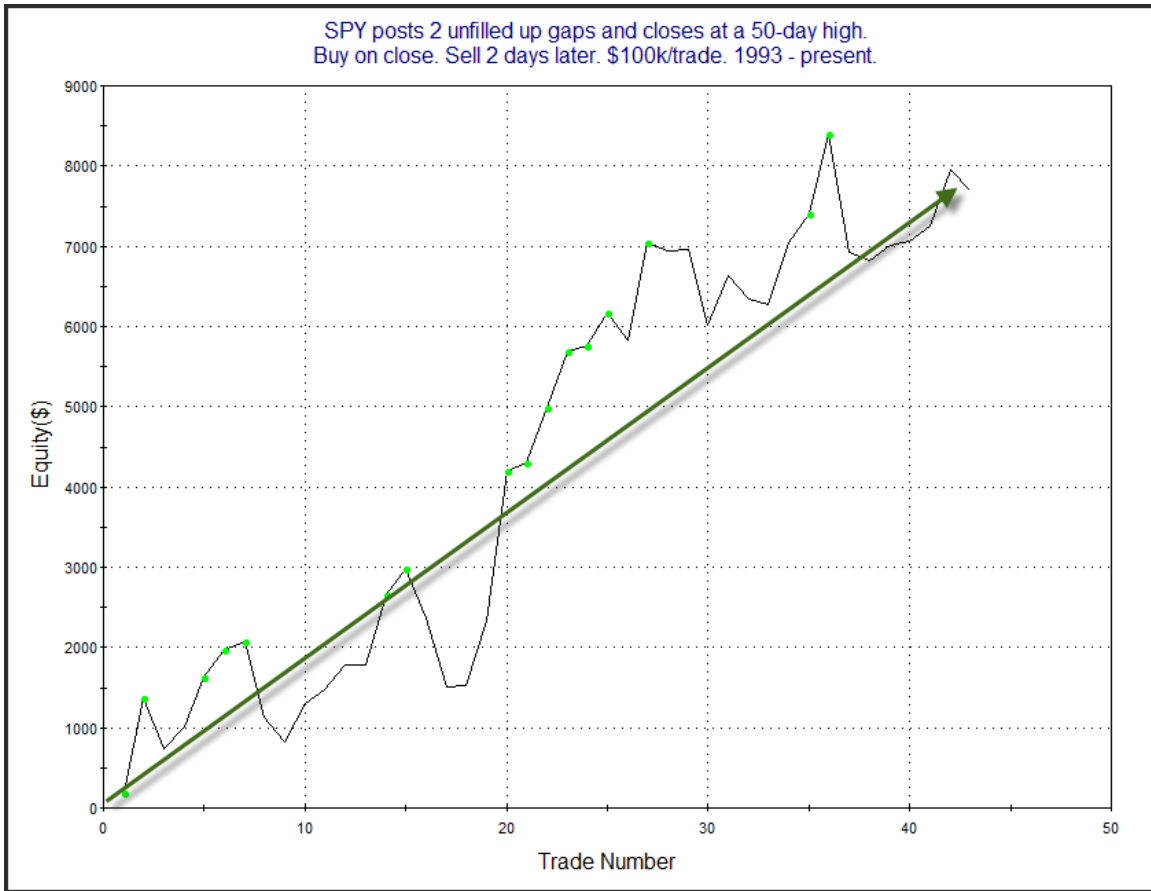
The Evidence

Friday saw the market follow through on Thursday's breakout. The SPX closed up 0.4%, the NASDAQ gained 0.3%, and the Russell 2000 rallied 0.75%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 68%. NYSE volume came in light.

Notable about Friday's action was that it was the 2nd day in a row with an unfilled up gap. The study below is one that was seen in the 1/26/17 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

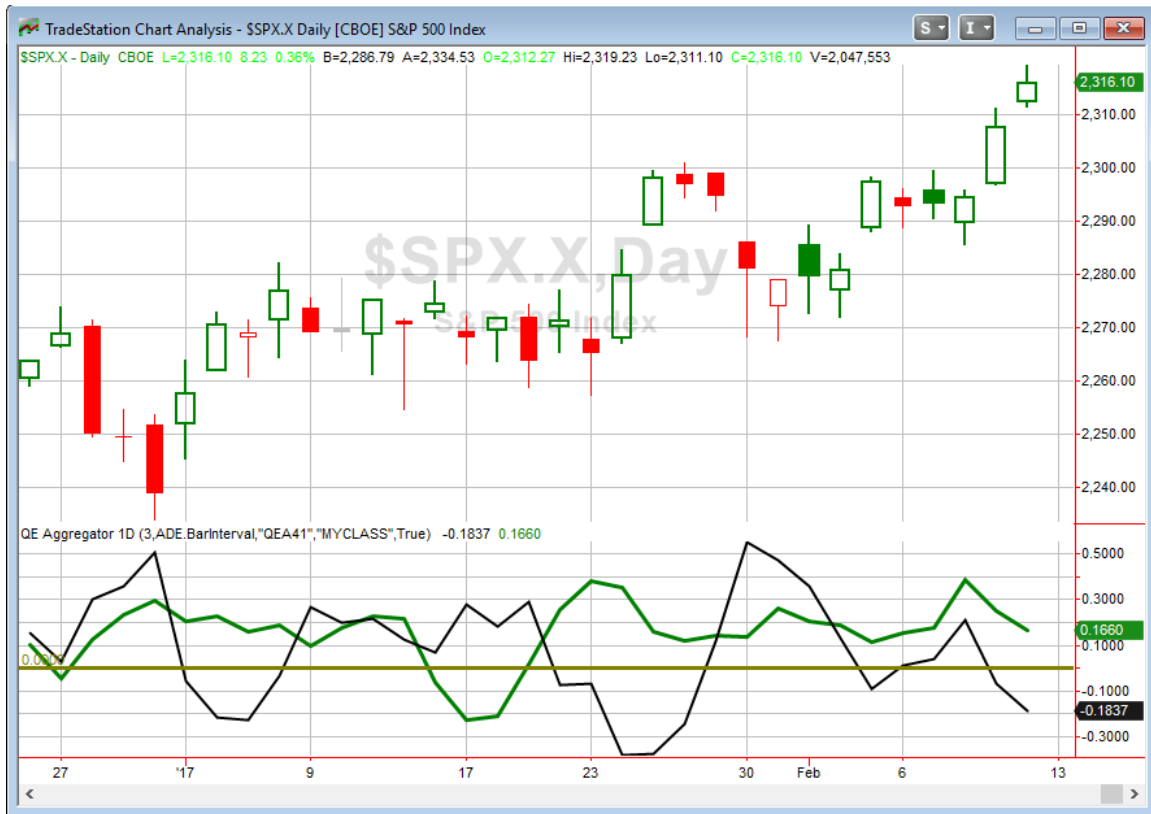
SPY posts 2 unfilled up gaps and closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	7,763.27	43	28	15	65.12	905.86	2,013.72	-1,173.38	-4,508.40	0.77	1.44	180.54
4	11,758.58	43	29	14	67.44	905.35	2,475.56	-1,035.47	-2,720.25	0.87	1.81	273.46
3	11,460.75	43	29	14	67.44	664.24	2,419.84	-557.31	-1,801.77	1.19	2.47	266.53
2	7,701.17	43	29	13	67.44	505.13	1,858.87	-534.42	-1,476.68	0.95	2.11	179.10
1	580.33	51	25	26	49.02	357.71	1,156.32	-321.63	-1,942.24	1.11	1.07	11.38

The size of the follow-through isn't terribly large, but it has been pretty consistent that some follow through was achieved in the next few days. Below is the 2-day profit curve.



Despite the recent dip the upward inclination appears to be in place. This study seems worth consideration, and I have included on the Active List.

I have updated the Aggregator chart below.



With tonight's studies to consider, 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 remained below 0. The negative Differential Line reading means SPX is now 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 zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Strongly bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2311.17 on Monday. That is 0.2% below Friday's close. Therefore, SPX will need to close down at least 0.2% in order to move back to "oversold" versus recent expectations.

The market continues to look strong, but the Aggregator is neutral and I generally do not favor buying into overbought conditions. So I will give it some time and look for a pullback to buy into. The Differential Pivot is close by, so it may not take too much of a pullback to get me interested in a long trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/13 – bullish

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

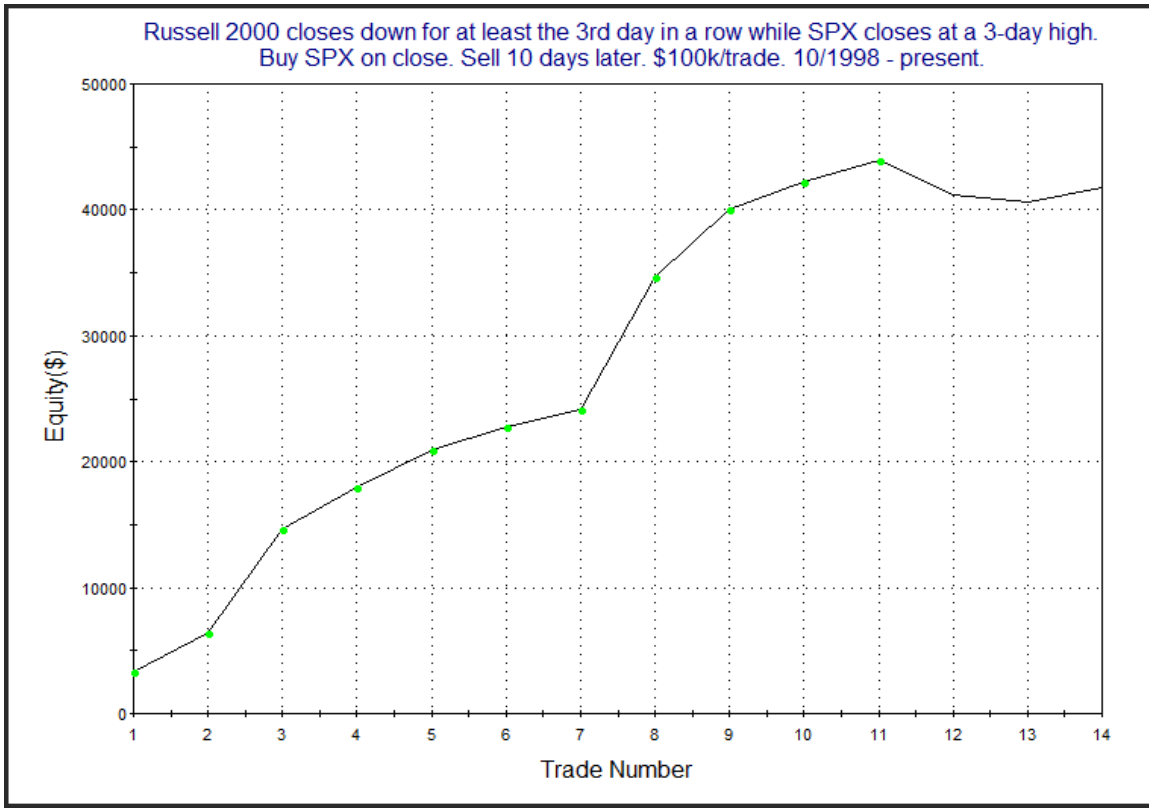
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 bulls. The SPX closed up 0.8% and at new all-time highs. The long uptrend certainly remains intact. We did see one new study emerge this week with intermediate-term implications. It was in the 2/9 letter and has been copied below.

Another aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 11/18/14 Subscriber Letter. Stats are updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/1998 - 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
10	41,797.76	14	12	2	85.71	3,761.47	10,577.93	-1,669.96	-2,723.00	2.25	13.51	2,985.55
9	34,808.06	14	11	3	78.57	3,443.71	8,209.02	-1,024.26	-2,674.70	3.36	12.33	2,486.29
8	32,170.41	14	11	3	78.57	3,149.37	9,347.15	-824.21	-1,463.00	3.82	14.01	2,297.89
7	33,088.27	14	9	5	64.29	4,134.54	9,614.11	-824.52	-2,783.20	5.01	9.03	2,363.45
6	28,624.11	14	10	4	71.43	3,499.14	9,598.49	-1,591.81	-3,491.60	2.20	5.50	2,044.58
5	22,785.97	14	10	4	71.43	2,919.59	7,700.66	-1,602.48	-2,075.04	1.82	4.55	1,627.57
4	23,612.44	14	10	4	71.43	2,757.74	7,217.86	-991.23	-1,680.10	2.78	6.96	1,686.60
3	18,096.73	14	10	4	71.43	2,035.48	4,839.33	-564.51	-887.22	3.61	9.01	1,292.62
2	17,892.83	14	11	3	78.57	1,719.96	5,134.01	-342.23	-551.73	5.03	18.43	1,278.06
1	11,592.23	15	10	5	66.67	1,344.82	4,708.01	-371.19	-764.46	3.62	7.25	772.82

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks... I also produced a profit curve for a 10-day holding period.

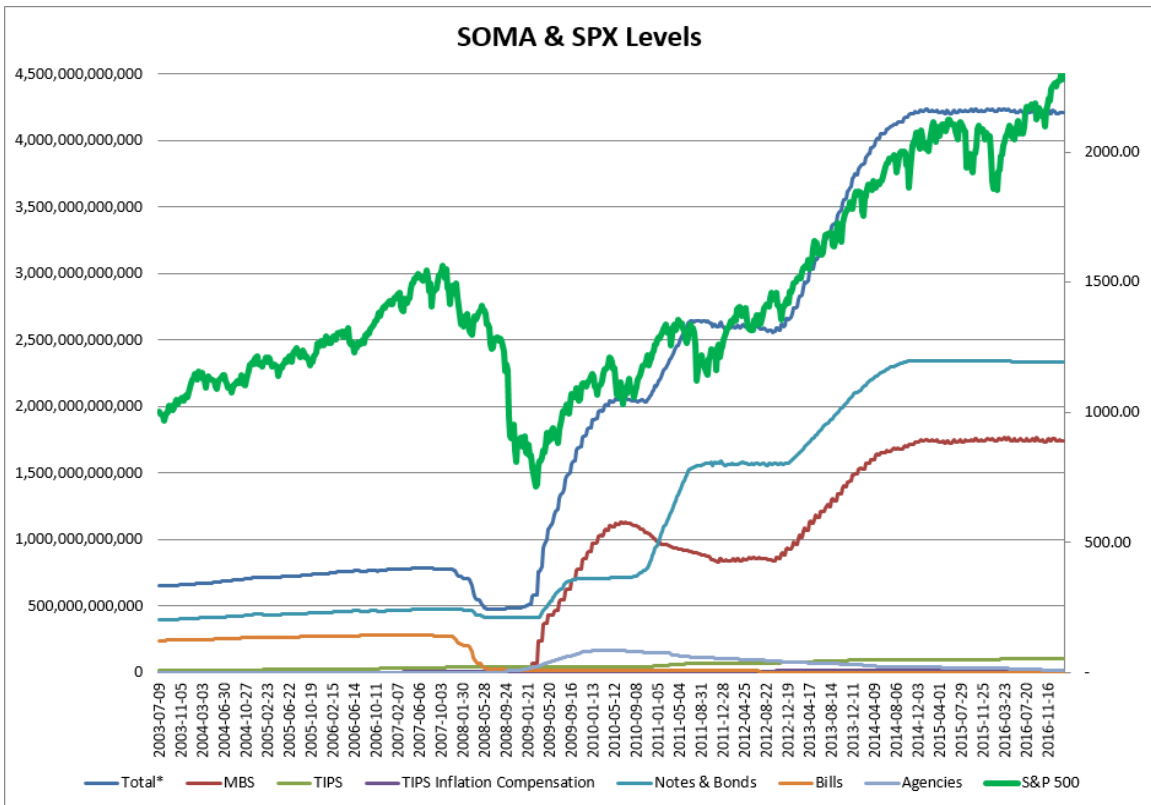


The move up has been impressive. I have included this study on both the short-term and the intermediate-term active list.

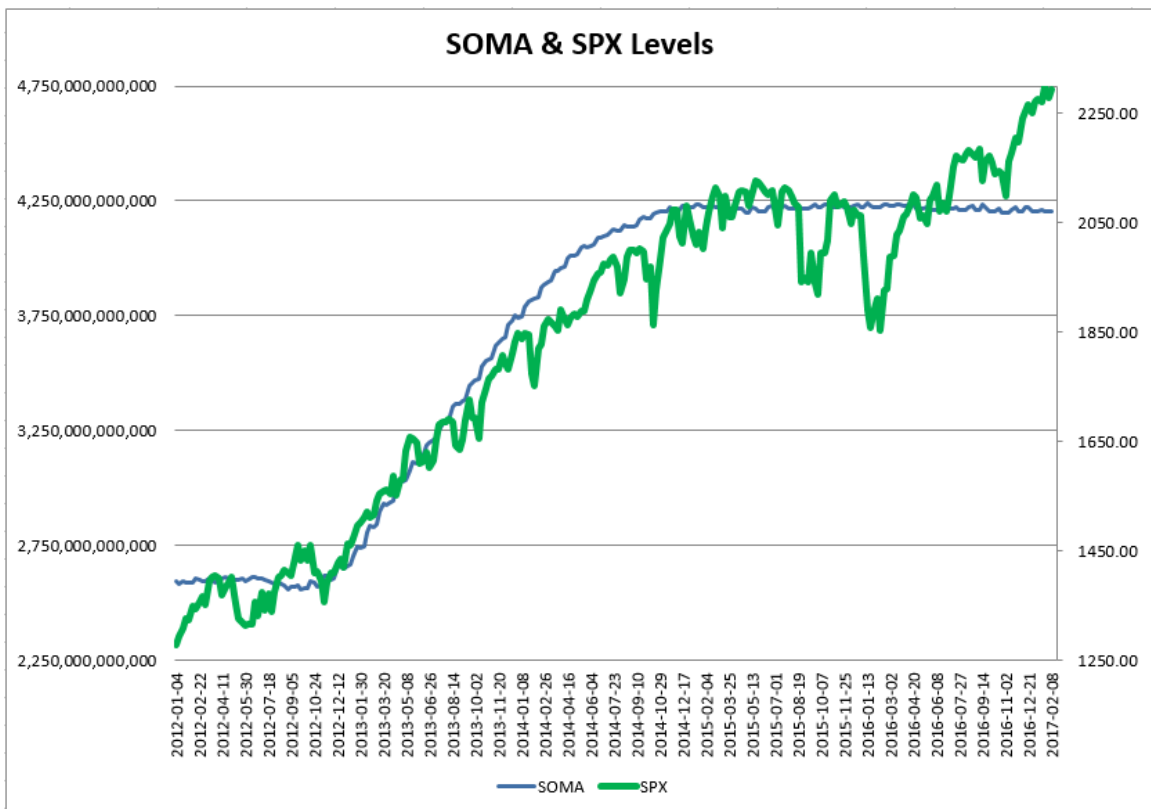
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) came in basically breakeven with a rise of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.66% rise for the SPX over this period was quite 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 75 other weeks SPX has only risen 48% of the time and has now gained a sum total of just 2.01%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to see the SOMA expand a bit. And the following week we will likely see the SOMA also expand some. So the bulls should have a bit of a liquidity wind at their backs for the next 10 days or so.

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.

It is not easy to be much other than bullish with the market continually making new highs. The Russell/SPX study this week added to the bullish evidence. 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.

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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