

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2017

Volume 10 Issue 52

Market Overview



Signals Overview

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

Tonight's Research Points

- The strong breadth on a day the SPX declines bodes well for the next day.
- SOMA flows are expected to remain positive through Wednesday, then turn negative.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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						
March 20, 2017	SPX down. Up Issue % > 55%	1 day	Bullish			
Active - Long Term						
March 9, 2017	1st 10-day low in 30+ days	1-10 days	Bullish	3.10%	-1.95%	-4.40%
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			

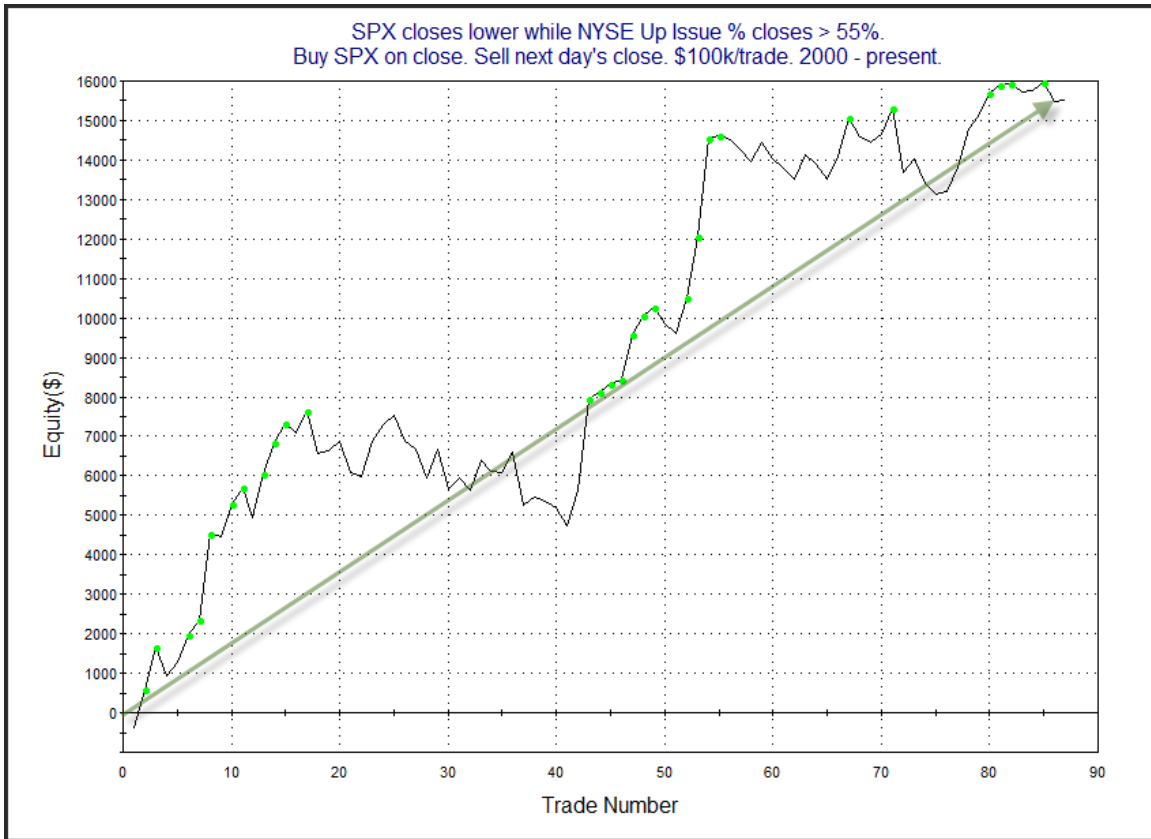
The Evidence

Friday was mixed and mild for the market. The SPX lost 0.1%, the NASDAQ rose less than 0.01%, and the Russell 2000 climbed 0.4%. Breadth was mixed as the NYSE Up Issues % was 59% but the Up Volume % came in at 40%. NYSE volume came in high as it often does on opex Friday.

There was not much of note from the Quantifinder. The study below last appeared in the 12/30/16 letter, and I did find it worth another look. It considered the fact that despite the selloff in the SPX, Up Issue % breadth was fairly strong.

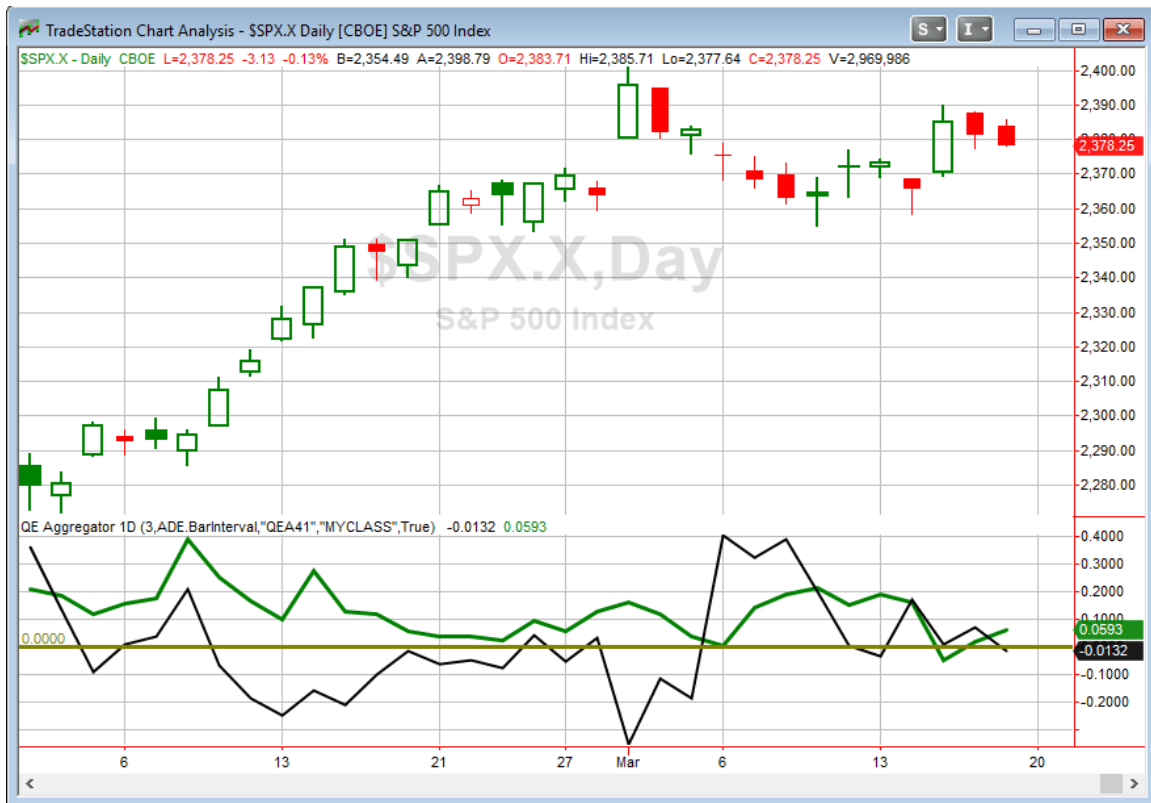
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$15,524.73	Profit Factor	1.96
Gross Profit	\$31,619.51	Gross Loss	(\$16,094.78)
Total Number of Trades	87	Percent Profitable	58.62%
Winning Trades	51	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$178.45	Ratio Avg. Win:Avg. Loss	1.39
Avg. Winning Trade	\$619.99	Avg. Losing Trade	(\$447.08)
Largest Winning Trade	\$2,484.00	Largest Losing Trade	(\$1,616.64)

The numbers suggest a bullish edge. Below is the 1-day profit curve.



Definitely choppy, and not always consistent. But it has made its way from lower left to upper right and is again near new highs. I felt this study was worth some consideration and have included it on the Active List for tonight.

I have updated the Aggregator chart below.



With tonight's study to consider, the green Aggregator Line held slightly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped below 0. The negative Differential Line reading means SPX is now slightly 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 turned flat at the close.

The last remaining short-term study is set to expire on Monday. This would leave expectations slightly positive based on the intermediate-term evidence. Of course any new studies that emerge could have a significant influence on short-term expectations. The Differential Pivot will be *inverted* at 2392.49 on Monday. That is 0.6% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.6% in order to remain overbought. Anything shy of that and it will be considered "oversold" versus expectations at Monday's close.

It appears the SPX will likely flip to oversold on Monday based on the highly inverted pivot. If expectations remain positive that would place the Aggregator chart in a bullish formation. But expectations will be highly dependent on any evidence that emerges on Monday, so they cannot be counted on at this point. A further pullback would certainly

provide a solid chance that expectations would remain bullish. It would set up studies related to 3-day pullbacks and “Turnaround Tuesday”. So there is a good chance a down day Monday will have me interested in the long side. But I am not going to jump the gun just yet. I will instead wait to see what evidence emerges before committing to new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/20 – bullish

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

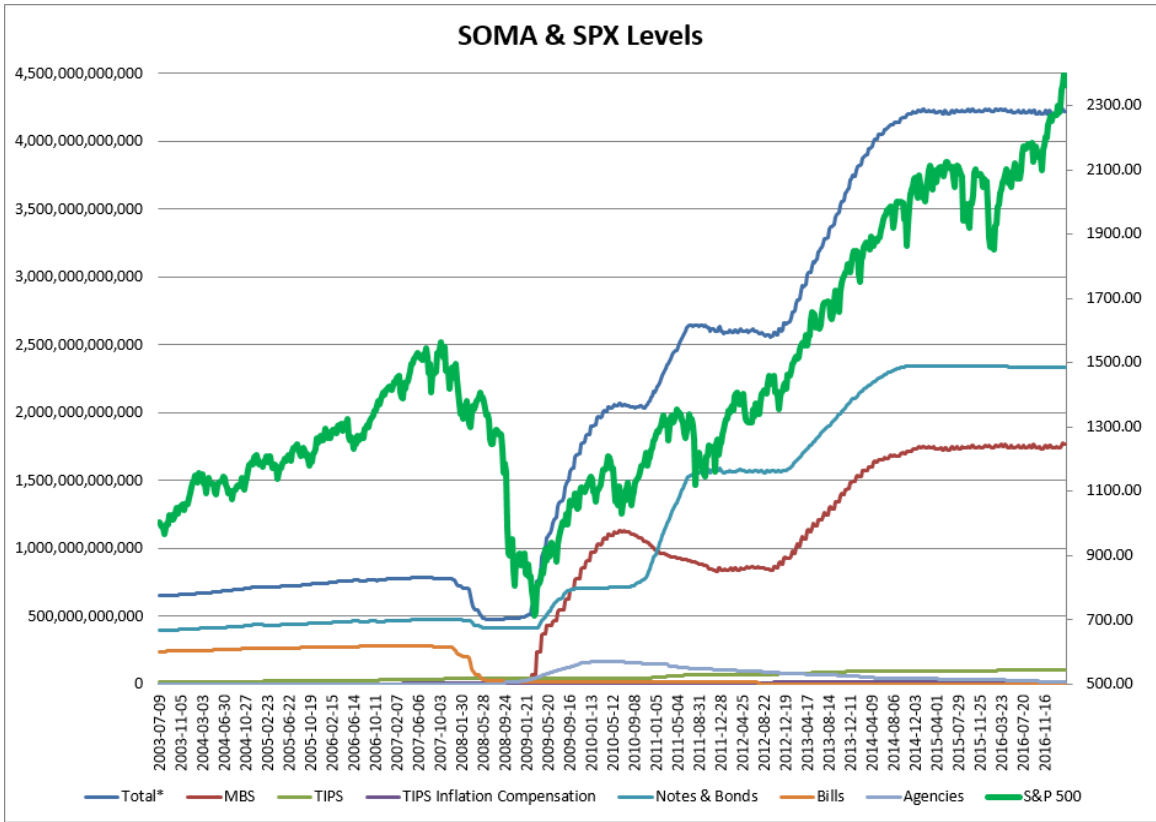
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 did not see much change in the market. SPX closed up a modest 0.2% since the previous Friday. The long-term trend does still appear up. While the NASDAQ Composite did not quite reach a new all-time high, the NASDAQ 100 did post one. We did not have any studies of intermediate-term significance emerge.

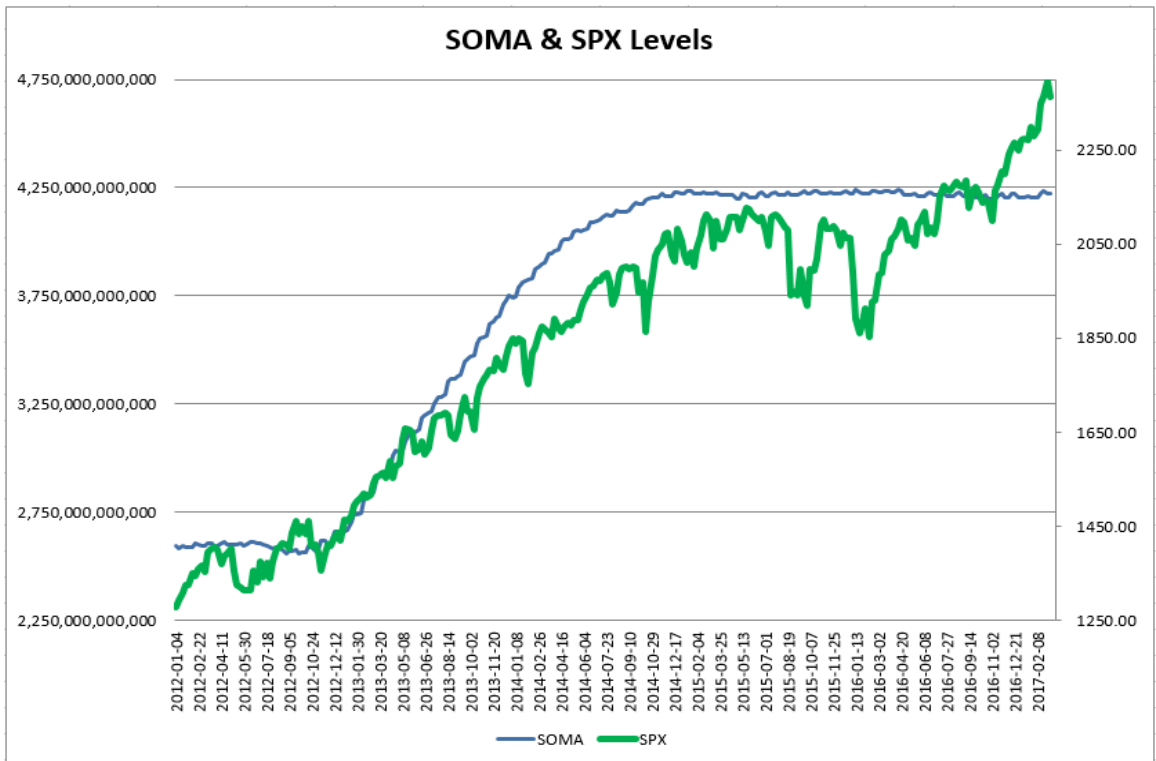
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) saw a decent increase of 0.19%. This was in line with expectations based on the Fed's SOMA schedule. The 0.94% rally for the SPX over this period was strong, but not unusual. Since the beginning of 2015 SPX has risen 68% of the time for a sum total of 14.25% during the 38 weeks in which SOMA expanded at least 0.01%. During the 77 other weeks SPX has only risen 48% of the time and has gained a sum total of just 2.04%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to see the SOMA increase a bit. But the following week it will likely see an outflow. So the bulls will likely not receive further help from liquidity flows 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 two-plus years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

The weight of the evidence still seems to be supporting the bull case. The market is still in an uptrend, and 3 of the 4 Market Timing Course indicators are in "bull" mode. Additionally, the bullish intermediate-term study from last weekend is still in effect. Bears will note that Fed support is generally 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

TGT – 1/3 @ \$55.14 (bought @ limit)

TGT – 1/3 @ \$55.02 (bought @ limit)

New

BRK.B – 1/3 @ \$172.82 (buy @ limit)

Broad Market Large Cap CBI – 3(TGT-2, BRK.B)

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.

BRK.B – buy 1/3 Catapult position @ \$172.82 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for BRK.B.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TGT(1/3)	3/8/2017	\$55.14	\$54.29	-1.54%		Catapult
TGT(1/3)	3/9/2017	\$55.00	\$54.29	-1.29%		Catapult

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