

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 30, 2017

Volume 10 Issue 102

Market Overview



Signals Overview

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

Tonight's Research Points

- Friday's seemingly low volume was actually normal for the Friday before Memorial Day.
- The week of Memorial Day was strong for a long time, but it has had a tough time the last few years – except for Thursday.
- SOMA flows have helped recently, but will likely be flat or down over the next week and a half.

Short-term Outlook

The Bottom Line

Evidence is weak and the market is only marginally overbought versus recent expectations. This is leaving the Aggregator neutral. I am also neutral.

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

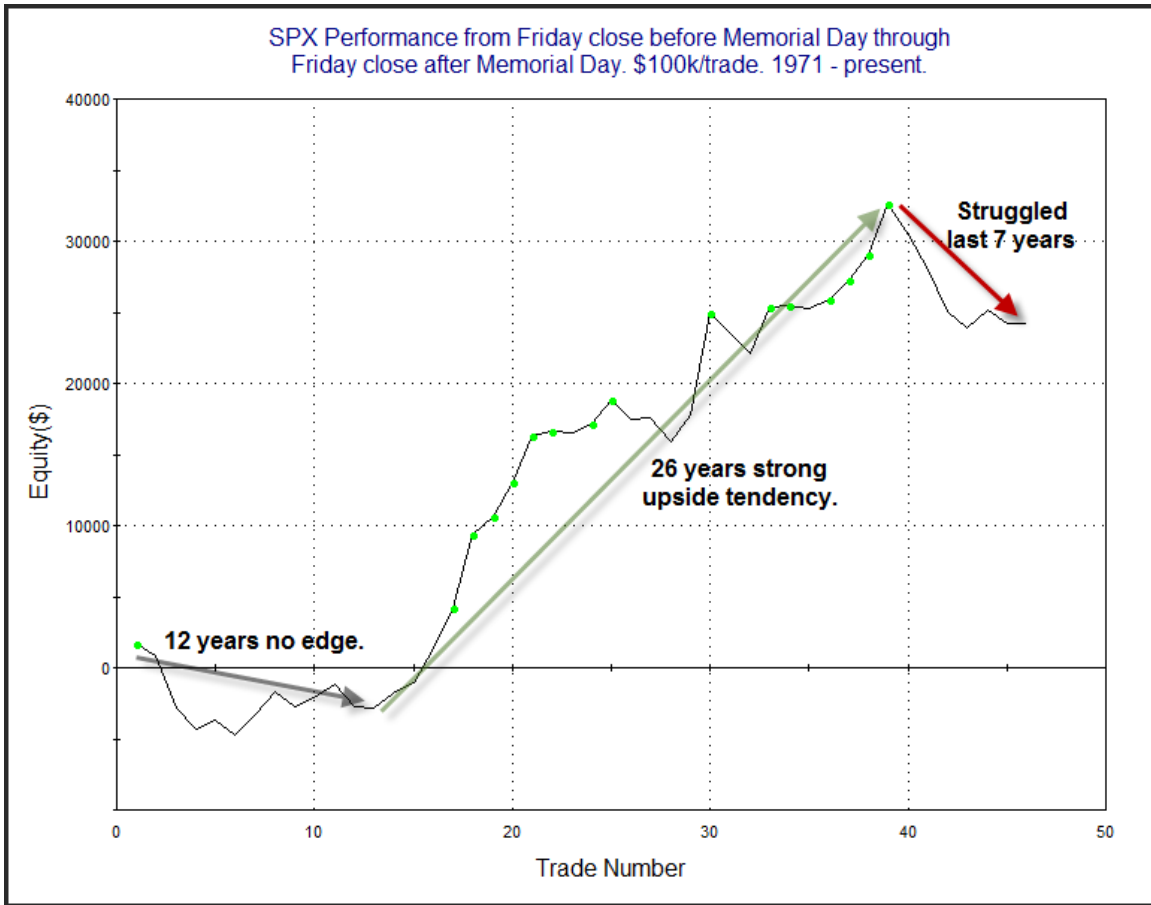
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
None						
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

Friday saw some indices rise for the 7th day in a row, and also generated more all-time highs. The SPX finished up 0.03%, the NASDAQ gained 0.08%, and the Russell 2000 declined 0.08%. Breadth was slightly negative as the NYSE Up Issues % was 49.6% and the Up Volume % came in at 46.6%. NYSE volume came in at the lightest level in over a month.

There were several studies that appeared in the Quantifinder that keyed off the extremely low volume. I am not inclined to dwell on any of them. Extremely low volume on a “normal” day can be a useful bit of information. On the day before Memorial Day weekend, extremely low volume is normal. Looking back to 1998, there have only been 2 years when NYSE volume did NOT come in at the lowest level in 20 days. Those were 2008 and 2010. Other than that, every year has seen extremely low volume. Memorial Day did bring up some other studies, though.

The week of Memorial Day has shown some interesting seasonal tendencies over the years. But it has faltered greatly the last few. The chart below is from the 5/31/16 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.

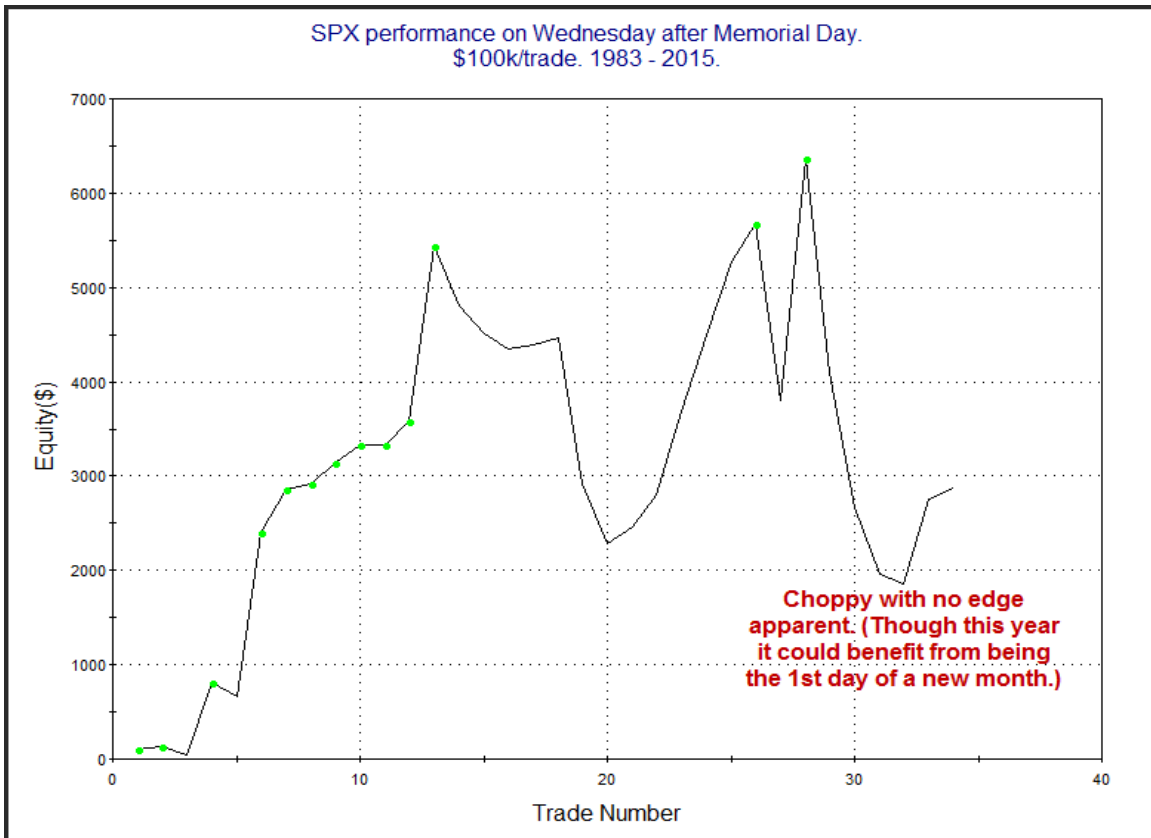
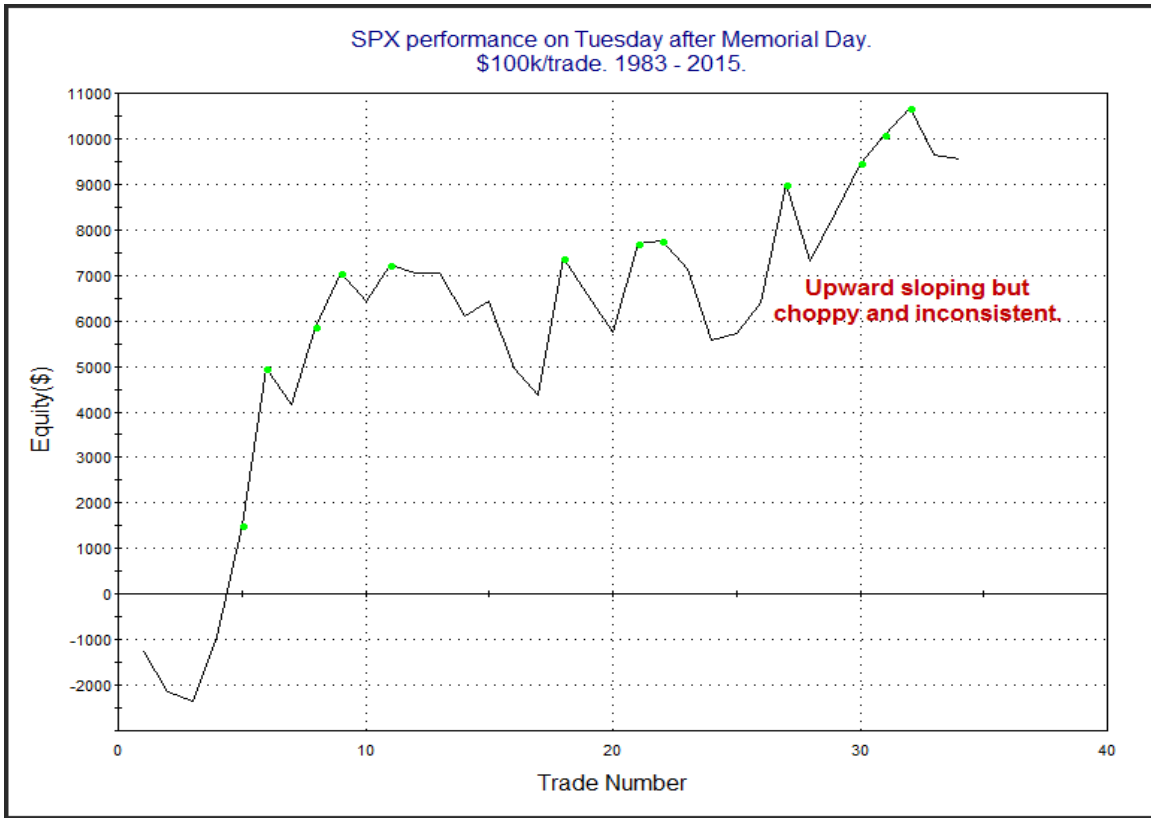


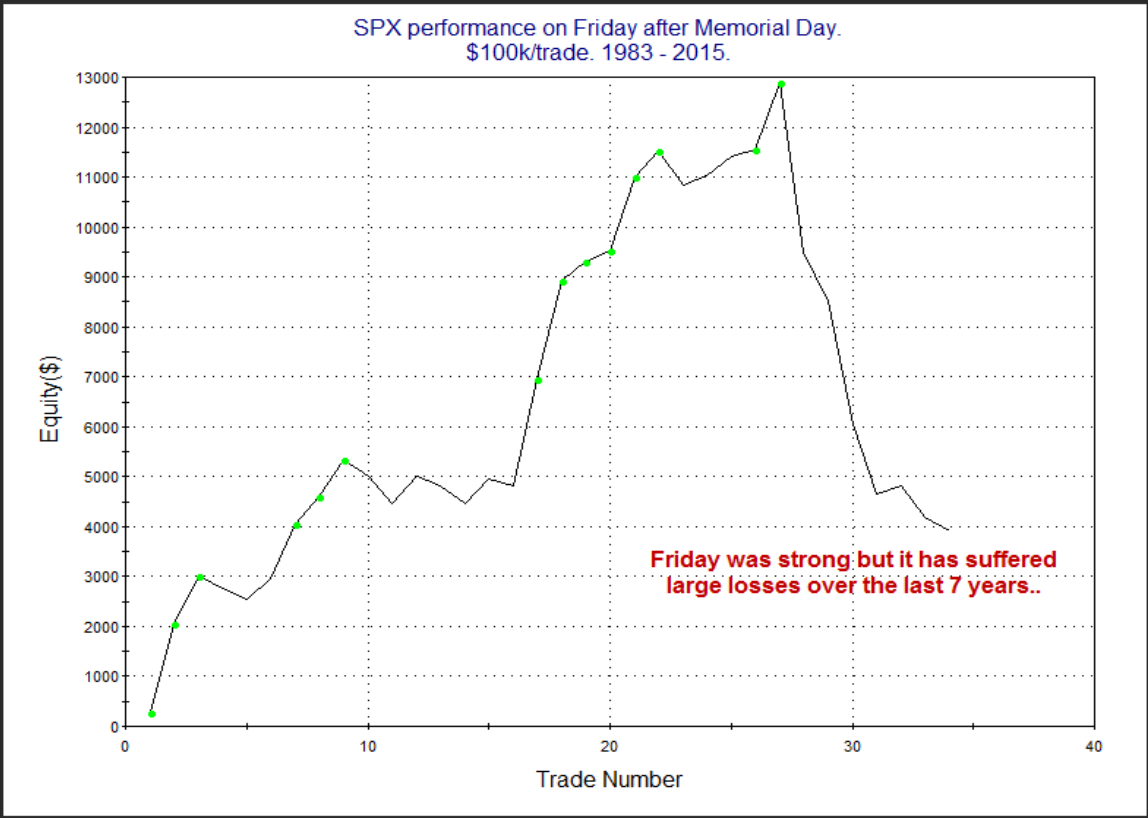
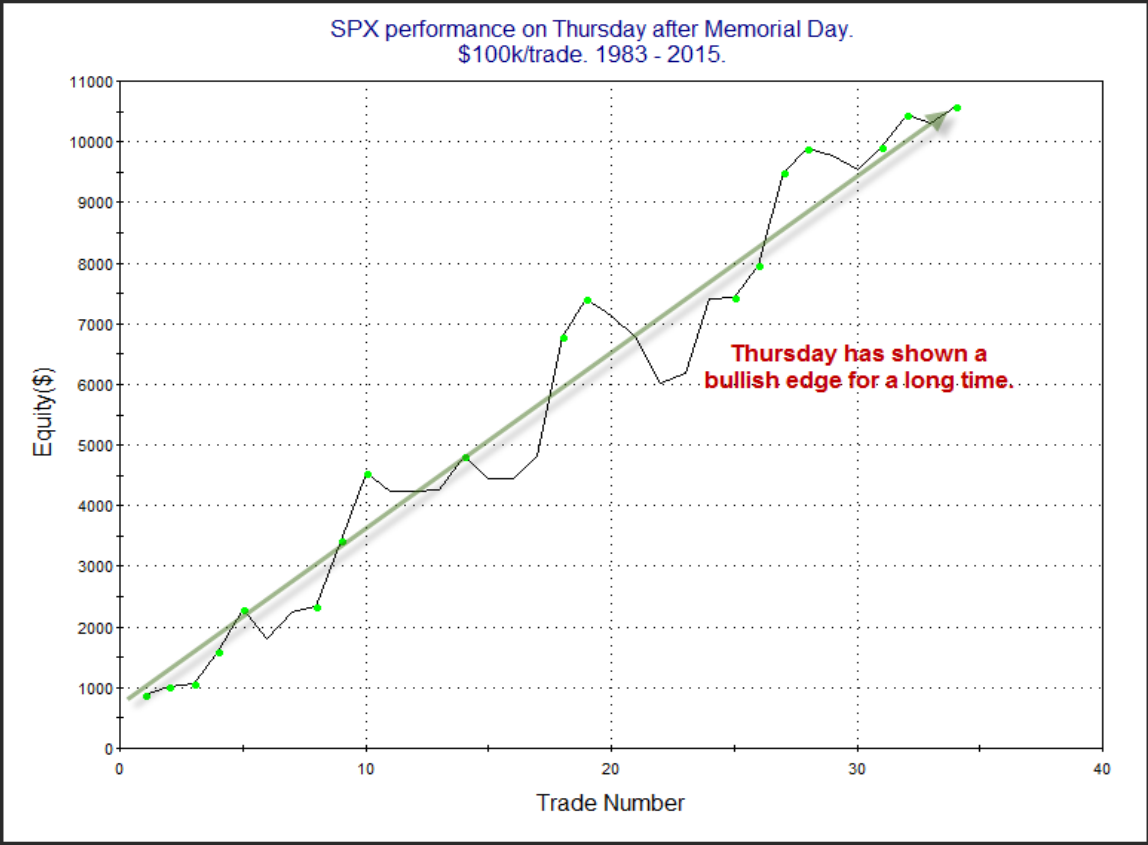
There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 7 years this week has mostly struggled. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Returns are broken down by the day of the week.

SPX Performance on X day of Memorial Week.
\$100k/trade. 1983 - 2016.

Day of Week	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
Fri	3,907.15	34	20	14	58.82	790.02	2,140.16	-849.52	-3,415.50	0.93	1.33	114.92
Thurs	10,591.58	34	24	9	70.59	567.84	1,970.50	-337.39	-735.68	1.68	4.49	311.52
Wed	2,873.44	34	22	12	64.71	581.27	2,573.31	-826.21	-2,268.10	0.70	1.29	84.51
Tues	9,552.37	34	17	17	50.00	1,361.16	3,443.56	-799.26	-1,701.70	1.70	1.70	280.95

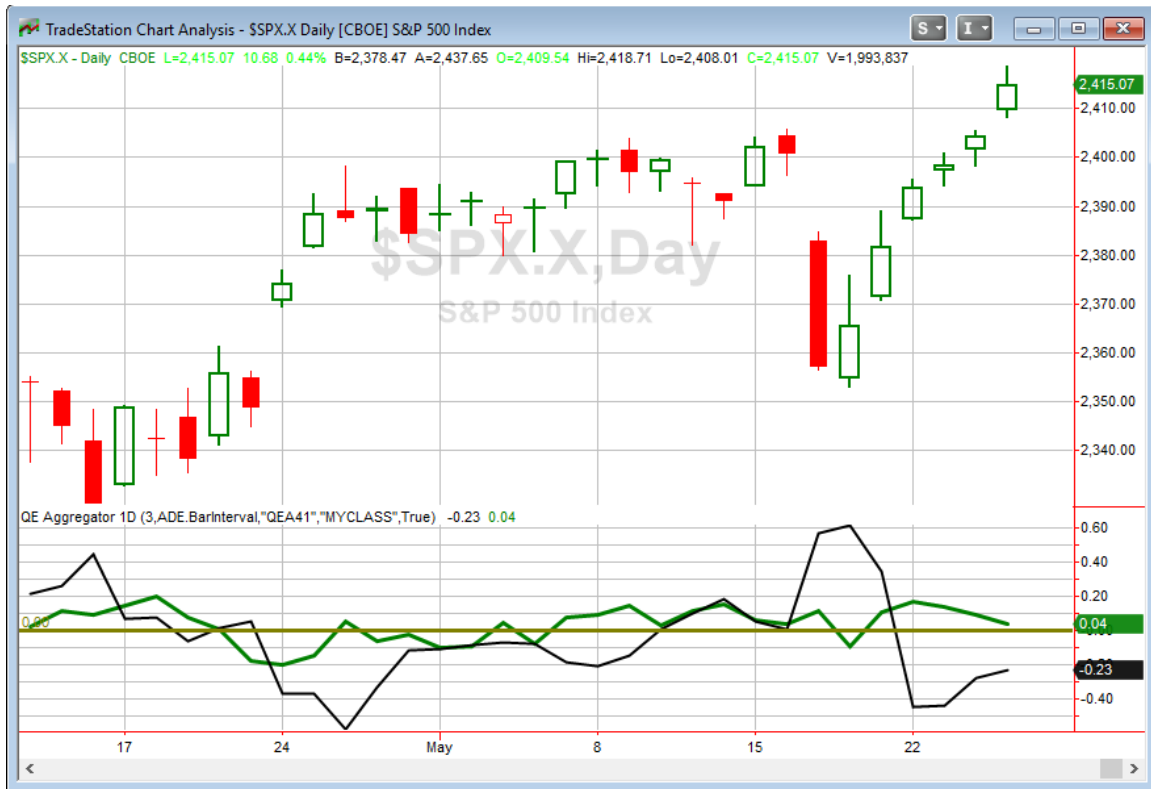
The results table suggests Thursday is the most consistently bullish day. Wednesday has the weakest net numbers. So let's examine the equity curves for each particular day.





The charts seem to confirm what the results table was suggesting. Thursday appears to be the only day that I'm inclined to credit a consistent seasonal edge to at this point.

I have updated the Aggregator chart below.



The Memorial Thursday study won't kick in for a few days, so we are without new studies for now. This is leaving the green Aggregator line slightly positive – primarily on the basis of the intermediate-term outlook. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held a little below 0. The negative Differential Line reading means SPX is 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 0. And with both lines very close to 0, that is especially neutral. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain slightly bullish on Tuesday. This could easily change if new bearish evidence emerges. With nothing active on the short-term list, any new short-term studies will have a strong influence on expectations. The Differential Pivot will be 2413.78 on Tuesday. That is just 0.1% below

Friday's close. So for SPX to move from overbought to oversold versus expectations on Tuesday it will need to close down just 0.1%.

There is simply nothing to get me excited about new short-term positions right now. The market is neither strongly overbought or oversold versus recent expectations, and evidence is lacking based on this recent action. I will continue to exercise patience and wait for the next favorable reward/risk opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/30 –bullish

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

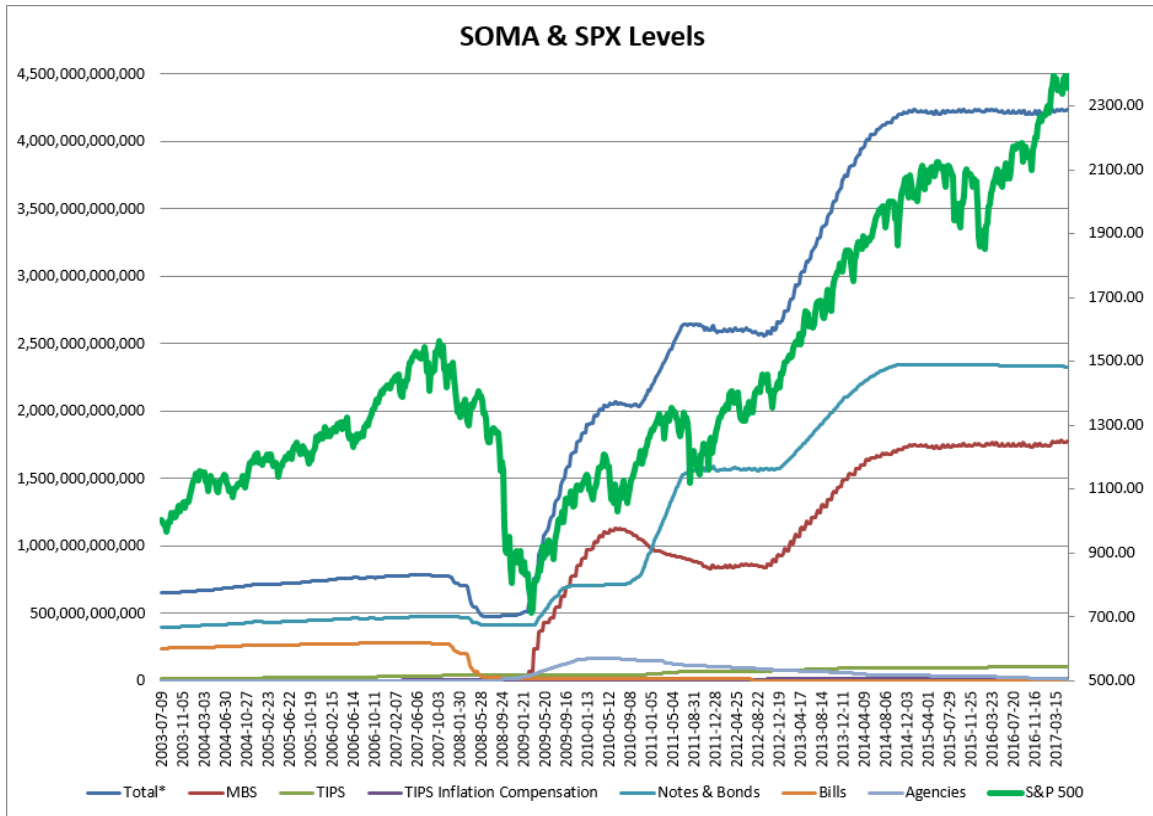
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo systems.*

The market put in a very strong week this past week. It rose every day, finished 1.4% above the previous Friday, and closed at new all-time highs. Bulls can't ask for much more than that. Obviously with new highs being made the long-term uptrend also remains intact. While the strength continued, there were no new studies of intermediate-term significance that triggered.

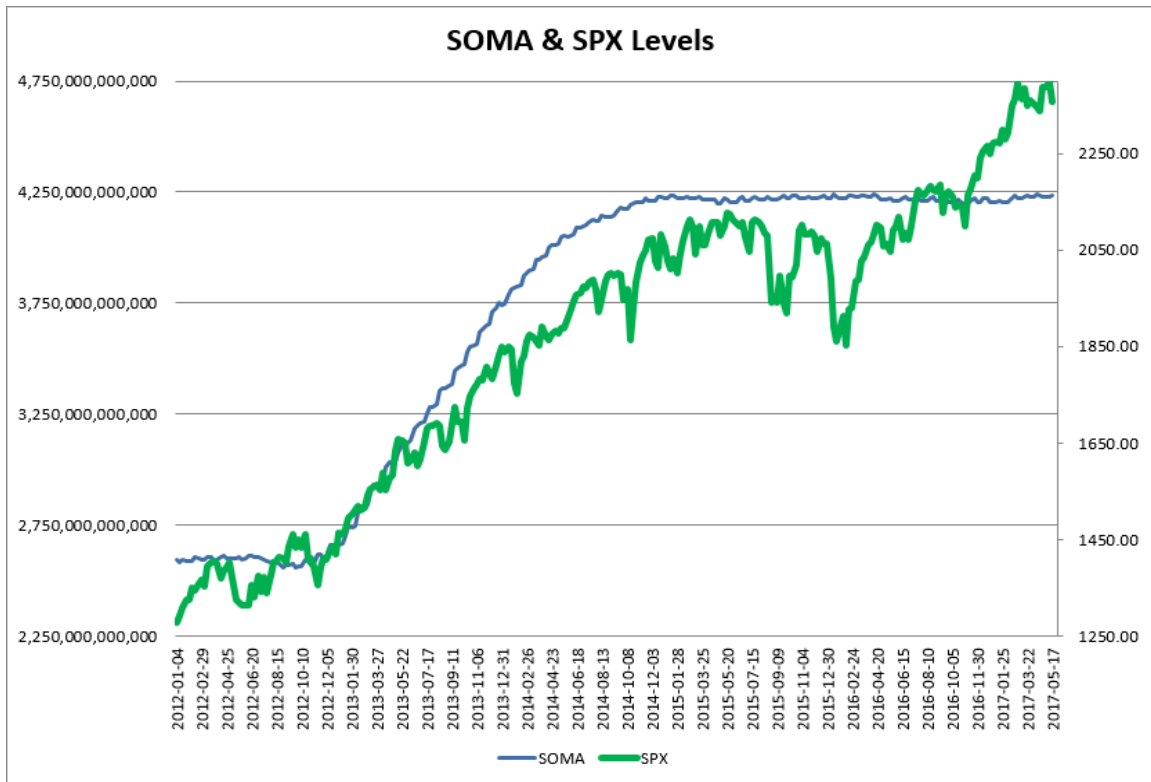
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



The Fed's SOMA this past week (Wednesday to Wednesday) managed to rise 0.05%. This was in line with expectations based on the Fed's SOMA schedule. The 2.01% rally for the SPX over this same period was very strong, although much of it was likely a recovery from the previous week when SPX declined 1.78%, despite SOMA increasing. Since the beginning of 2015 SPX has risen 64% of the time for a sum total of 12.60% during the 42 weeks in which SOMA expanded at least 0.01%. During the 83 other weeks SPX has only risen 49% of the time and has gained a sum total of just 4.56%. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week is likely to see the SOMA decline a bit. And the following week it appears SOMA should come in flat or perhaps slightly down. So bulls will not be receiving any liquidity assistance from the Fed over the next couple of weeks.

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. That is expected to change at some point this year, and I will be keeping a close eye out to see when it does. I expect liquidity analysis to remain a vital tool for us.

I am not seeing anything yet that would cause me to change my bullish bias. Intermediate-term evidence is still leaning higher. The market keeps moving up, and with SPX and

NASDAQ again at new highs, the long-term uptrend remains in force. We also have both price action indicators from the Market Timing Course still bullish, which is keeping 2 of the 3 “Combo” systems bullish as well. Of course bears do have overall weak Fed support, weak seasonality, and a long-term divergence of new highs to point to. But for now the bulls still appear to be in control. So like the last several weeks, I intend to continue to trade longs more aggressively, and be extra cautious with any short trades.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>DIS(1/3)</i>	<i>5/4/2017</i>	<i>\$110.58</i>	<i>\$107.71</i>	<i>-2.60%</i>		<i>sell on open</i>
<i>DIS(1/3)</i>	<i>5/5/2017</i>	<i>\$111.17</i>	<i>\$107.71</i>	<i>-3.11%</i>		<i>sell on open</i>
<i>DIS(1/3)</i>	<i>5/18/2017</i>	<i>\$105.98</i>	<i>\$107.71</i>	<i>1.63%</i>		<i>sell on open</i>

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