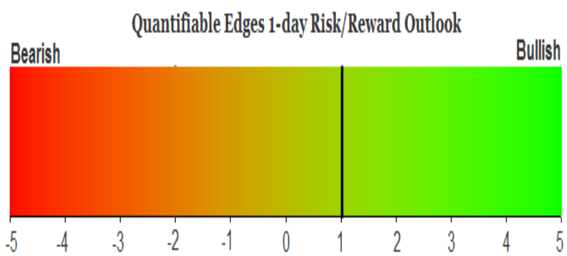
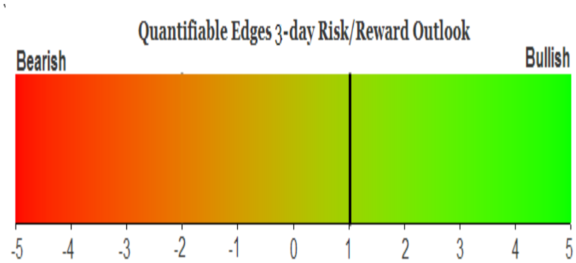
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2017 Volume 10 Issue 165

Market Overview





Signals Overview

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

Tonight's Research Points

- No new compelling evidence emerged tonight.
- SOMA declined this past week and appears likely to do so again this upcoming week, which could act as a headwind for the bulls.

Short-term Outlook
The Bottom Line

The Aggregator is bullish, but evidence is sorely lacking. I am not inclined to take on new positions right here, and will wait to see what new compelling evidence emerges early this upcoming week.

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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						
August 22, 2017	20-lo close then 20-intraday lo & up cls.	1-10 days	Bullish	2.80%	-1.80%	-3.30%
August 11, 2017	VIX 100-day high. SPX no 100-day low.	1-15 days	Bullish			
July 17, 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

Thursday was a mixed day for the market. The SPX closed down 0.2%, the NASDAQ lost 0.1%, and the Russell 2000 gained 0.3%. Breadth was negative as the NYSE Up Issues % was 49.9% and the Up Volume % came in at 48.5%. NYSE volume rose some from Wednesday's level.

There were a couple of interesting studies that appeared in the Quantifinder. The one below was last seen in the 12/27/16 Letter. It looked at other times that SPX posted a weak bounce after two down days. I have updated the results below.

After closing down 2 days in a row SPX closes up today but by less than 0.2%.
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	13,085.67	46	24	22	52.17	1,993.55	7,590.88	-1,579.98	-5,506.23	1.26	1.38	284.47
4	-7,868.24	47	23	24	48.94	1,438.83	4,662.24	-1,706.72	-7,588.98	0.84	0.81	-167.41
3	-8,731.26	47	20	27	42.55	1,455.03	3,939.79	-1,401.18	-5,685.45	1.04	0.77	-185.77
2	-2,199.96	47	20	27	42.55	1,296.90	4,732.64	-1,042.15	-3,197.70	1.24	0.92	-46.81
1	-7,317.39	47	22	25	46.81	771.95	3,390.64	-972.01	-3,325.38	0.79	0.70	-155.69

Results here seem somewhat suggestive of a downside edge – especially day 1. But the 11/12/12 letter added a different wrinkle to this study. Most of the time it occurred where the market traded low much of the day and then squeezed into positive territory in the end. But Friday it was up strongly and then closed weak. The next study simply adds a filter in which the close must have been in the bottom 1/3 of the day's range, as it was on Friday.

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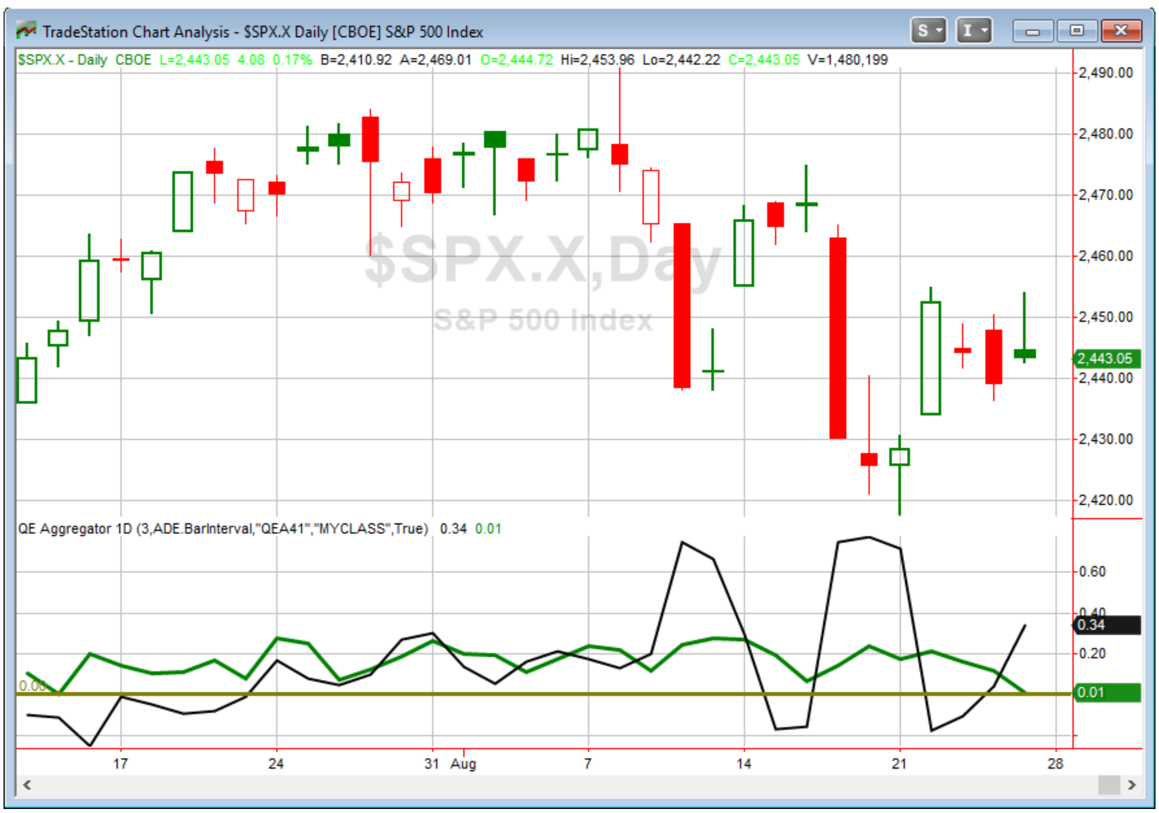
After closing down 2 days in a row SPX closes up today but by less than 0.2%. It also closes in the bottom 1/3 of its daily range. Buy on close. Sell X days later. $100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	13,958.86	10	6	4	60.00	3,005.60	7,590.88	-1,018.68	-1,947.00	2.95	4.43	1,395.89
4	7,059.02	10	6	4	60.00	1,918.51	4,662.24	-1,113.01	-2,161.38	1.72	2.59	705.90
3	4,307.00	10	6	4	60.00	1,730.51	3,535.07	-1,519.02	-2,037.00	1.14	1.71	430.70
2	4,871.53	10	4	6	40.00	2,623.77	4,732.64	-937.25	-1,832.70	2.80	1.87	487.15
1	1,871.21	10	5	5	50.00	1,258.84	3,390.64	-884.60	-1,405.00	1.42	1.42	187.12

Results here no longer appear bearish. The number of trades is low and the mild win rate suggests it would be dangerous to interpret the setup as bullish. But to me the results are strong enough to call the previous study into question, and negate my desire to include it on the Active List. So I will not be adding any new studies to the Active List tonight.

I have updated the Aggregator chart below.



The green Aggregator line held just barely above zero tonight. 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 above 0. Therefore, the Aggregator signal stayed long at the close.

The choppy action over the last several days has left the Short-Term Active List empty. So any new short-term evidence that emerges will have a substantial impact on expectations. For the time being the intermediate-term studies have expectations leaning bullish. The Differential Pivot will be 2457.53 on Monday. That is 0.6% above Friday's close. So SPX would need to close up at least 0.6% in order to move from oversold to overbought on Monday.

The Aggregator formation is suggesting a mild bullish edge, but the lack of compelling short-term evidence has me wary of jumping into new index positions right here. I will wait to see how things play out on Monday (and perhaps beyond) before putting new capital at risk.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/21– 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 was no change in the Combo Systems. Combo Systems #2 & #3 both remained "Long" while #1 is "Flat".*

The market actually posted small gains this past week, with the SPX gaining 0.7% from last Friday's close. And there was one study that emerged from the 8/22 (Monday night's) letter that had intermediate-term bullish implications. I have copied it below.

SPY did post a higher close, but not before making a new intermediate-term intraday low. The study below was last seen in the 3/23/17 letter. It looks at similar reversals from intermediate-term lows. All stats are updated.

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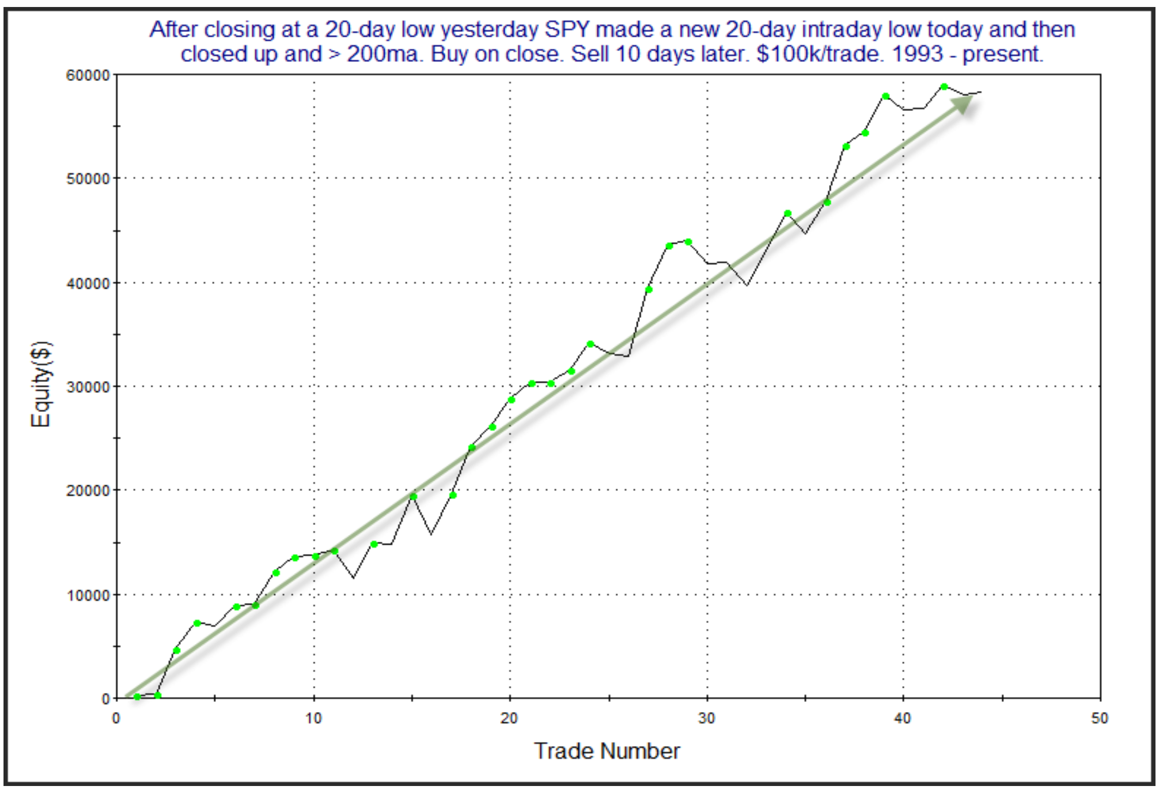
After closing at a 20-day low yesterday SPY made a new 20-day intraday low today and then closed up and > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	58,248.07	44	33	11	75.00	2,291.11	6,600.62	-1,578.04	-3,844.83	1.45	4.36	1,323.82
9	53,517.60	45	31	14	68.89	2,522.61	5,915.43	-1,763.10	-4,258.20	1.43	3.17	1,189.28
8	47,417.82	46	33	13	71.74	2,289.62	5,306.40	-2,164.58	-4,268.86	1.06	2.69	1,030.82
7	50,367.51	47	32	15	68.09	2,285.36	5,585.14	-1,517.61	-3,531.11	1.51	3.21	1,071.65
6	44,048.91	48	34	14	70.83	2,037.77	5,411.67	-1,802.52	-3,952.19	1.13	2.75	917.69
5	40,554.62	48	33	14	68.75	1,814.29	5,029.50	-1,379.78	-3,450.35	1.31	3.10	844.89
4	33,433.16	48	32	16	66.67	1,570.23	3,213.00	-1,050.89	-2,284.36	1.49	2.99	696.52
3	20,378.68	51	30	21	58.82	1,361.07	4,462.50	-973.98	-3,560.24	1.40	2.00	399.58
2	21,246.88	53	33	20	62.26	1,295.04	4,105.50	-1,074.47	-2,471.52	1.21	1.99	400.88
1	13,736.18	53	32	21	60.38	939.60	2,562.30	-777.66	-1,792.48	1.21	1.84	259.17

Results here seem to suggest a solid upside edge. Below {is} the profit curve for the 10-day exit strategy.

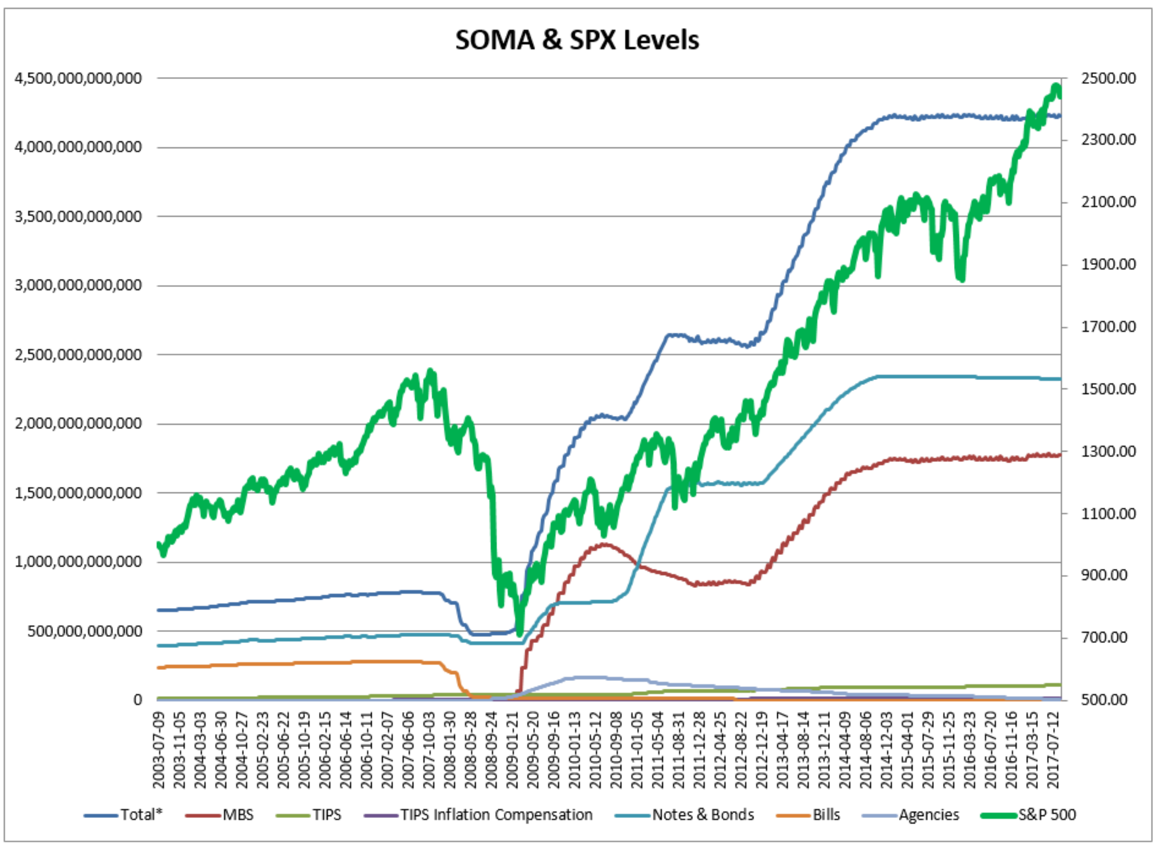


The impressive upslope serves as some confirmation of the upside edge.

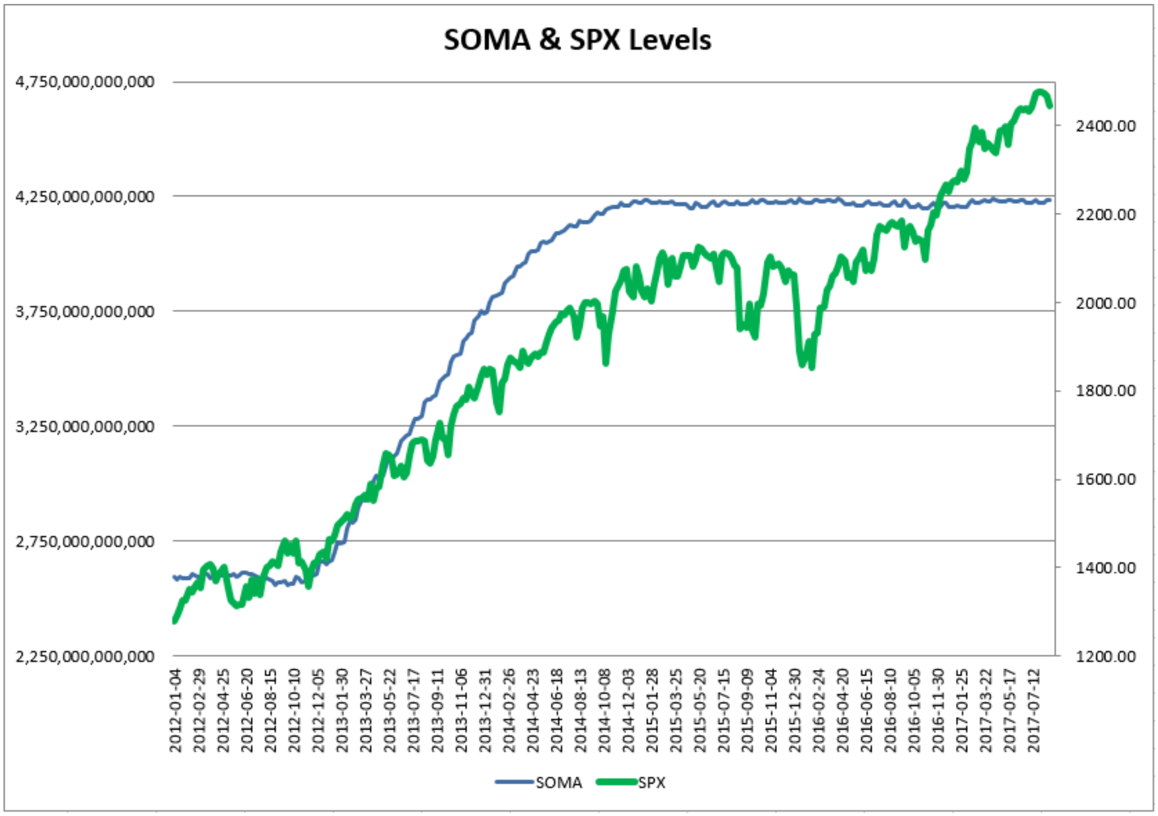
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) posted a small ***loss*** of 0.01%. This was ***NOT*** in line with expectations based on the Fed's SOMA schedule. We had been expecting a small gain. The 0.98% loss for the SPX over this same period would not have been a big surprise if we anticipated the dip in the SOMA. Since the beginning of 2015 SPX has risen 64% of the time for a sum total of 13.80% during the 45 weeks in which SOMA expanded at least 0.01% (like this one). During the 93 other weeks SPX has only risen 49% of the time and has gained a sum total of just 5.00%. That's less than 40% of the gains in over twice the time. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week appears likely to see the SOMA decline some. But some of that decline may have been moved forward, and the schedule could be slightly off. Still, a decline appears to be our best guess. And the next week we expect to see the SOMA come in about flat. So bulls are not likely to have Fed liquidity aiding them in the near future.

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 primarily kept to their schedule of the last two and a half years and we have not seen any strong derivations. ***That is expected to change soon.*** When the Fed discontinues reinvestment of maturing bonds, it could throw some very cold water on the rally.

Intermediate-term evidence still seems to favor the bulls. Two of the three Market Timing Course Combo Systems are "Long". We saw a new bullish study looking at the bounce off the 20-day low, and the 100-day high VIX study from a couple of weeks ago is still supporting the bull case. Bears can point to overall weak Fed support, weak seasonality, and a long-term divergence of new highs. I still think the bullish evidence is outweighing the bearish for the time being. So I will continue to favor the long side, and will be extra selective with any short trades until the bullish outlook changes.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

AGN– 1/3 @ $239.74 (bought @ limit)
AGN– 1/3 @ $242.65 (bought @ limit)
AGN– 1/3 @ $241.22 (bought @ limit)
AIG– 1/3 @ $63.00 (bought @ limit)
AIG– 1/3 @ $62.65(buy @ limit) – not filled

Broad Market Large Cap CBI – 5(AGN-3, AIG-2)

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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AGN(1/3)	8/7/2017	$242.65	$221.81	-8.59%		Catapult
AGN(1/3)	8/8/2017	$241.22	$221.81	-8.05%		Catapult
AGN(1/3)	8/9/2017	$239.74	$221.81	-7.48%		Catapult
AIG(1/3)	8/11/2017	$63.00	$60.78	-3.52%		Catapult
AIG(1/3)	8/18/2017	$61.46	$60.78	-1.11%		Catapult

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