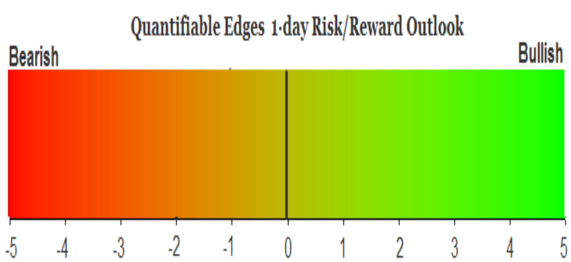
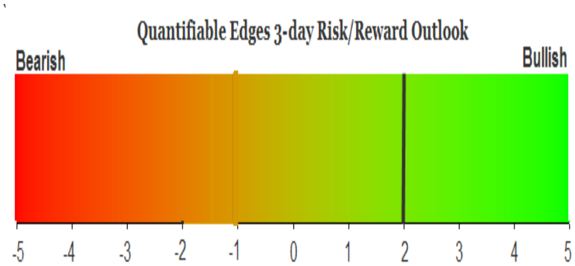
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 30, 2017 Volume 10 Issue 209

Market Overview





Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- The NASDAQ has retaken a leading position, which is bullish.
- The Fed's SOMA reduction policy still has not seemed to kick in.

Short-term Outlook
The Bottom Line
The Aggregator is again bullish, and reward/risk appears nicely favorable.

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						
October 30, 2017	2 unfilled gaps & 50-day high	1-3 days	Bullish			
October 30, 2017	Monday After 4th Fri in October	1 day	Bearish			
October 26, 2017	1st close < 10ma in 15+ days	1-5 days	Bullish			
October 24, 2017	SPX 20-high then clos bottom 10% rng	1-8 days	Bullish			
Active - Long Term						
October 30, 2017	NASDAQ leading SPX	int term	Bullish			
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
October 24, 2017	5up to 50-high. 1 down day.	1-10 days	Bullish			
October 17, 2017	RUT down 3 days. SPX 3-day high	1-10 days	Bullish			
October 2, 2017	SOMA reduction begins	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

Friday was a big up day – especially for the NASDAQ. The SPX rose 0.8%, NASDAQ rallied 2.2% and Russell 2000 gained 0.7%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 58%. NYSE volume rose some from Thursday's level.

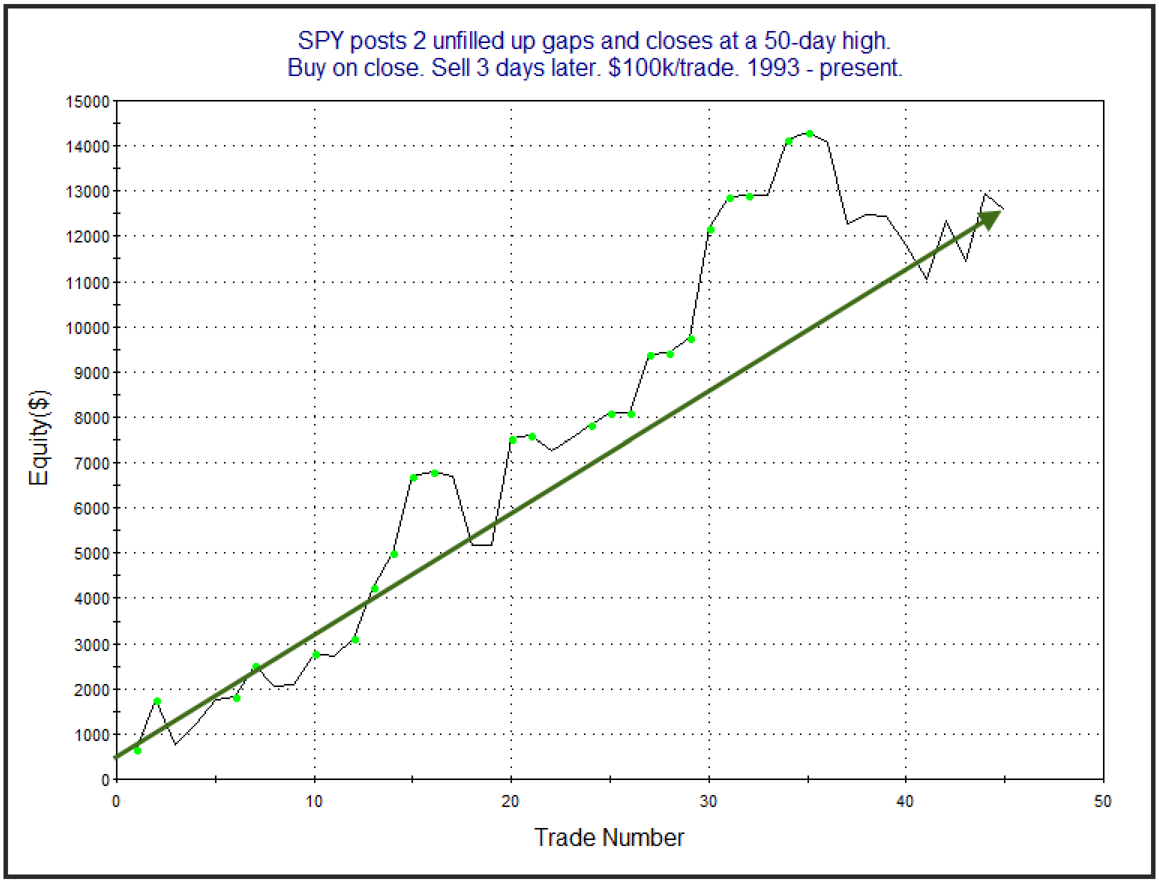
It is notable that Friday was the 2nd day in a row with an unfilled up gap. The study below was from in the 9/13/17 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

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	9,274.33	45	29	16	64.44	927.83	2,013.72	-1,102.04	-4,508.40	0.84	1.53	206.10
4	13,010.42	45	30	15	66.67	921.29	2,475.56	-975.22	-2,720.25	0.94	1.89	289.12
3	12,587.32	45	30	15	66.67	691.09	2,419.84	-543.03	-1,801.77	1.27	2.55	279.72
2	8,661.02	45	31	13	68.89	503.50	1,858.87	-534.42	-1,476.68	0.94	2.25	192.47
1	1,570.24	54	28	26	51.85	354.73	1,156.32	-321.63	-1,942.24	1.10	1.19	29.08

48 of 54 instances (89%) closed above the entry price
at some point in the next week.

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-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.

The week after the 4th Friday in October has been an interesting one historically. I last discussed this in the 10/31/16 letter. Monday has seen difficulties, but the rest of the week has typically been among the best weeks of the year. Let's break it down. First, the Monday after the 4th Friday:

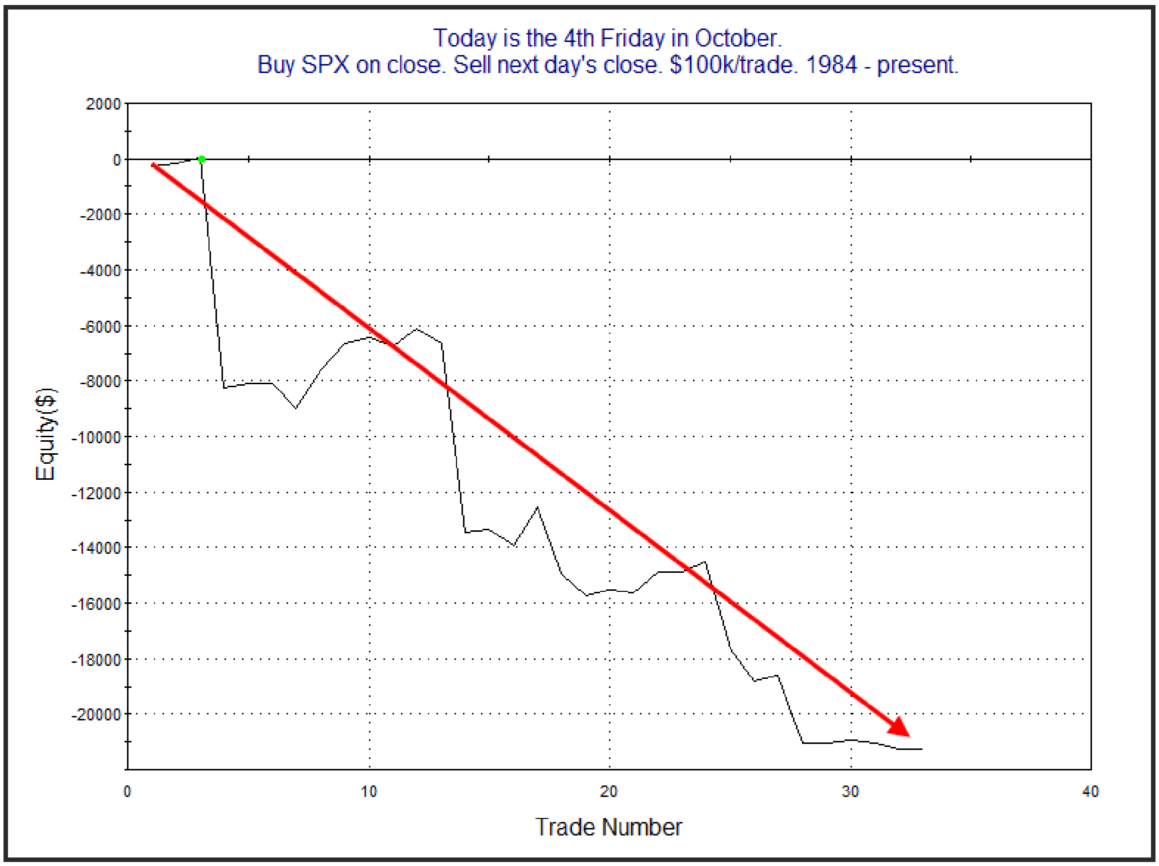
Today is the 4th Friday in October.
Buy SPX on close. Sell next day's close. $100k/trade. 1984 - present.

TradeStation Performance Summary — Expand

All Trades

Total Net Profit	($21,273.26)	Profit Factor	0.24
Gross Profit	$6,899.34	Gross Loss	($28,172.60)
Total Number of Trades	33	Percent Profitable	51.52%
Winning Trades	17	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	($644.64)	Ratio Avg. Win:Avg. Loss	0.23
Avg. Winning Trade	$405.84	Avg. Losing Trade	($1,760.79)
Largest Winning Trade	$1,385.80	Largest Losing Trade	($8,265.12)

There have actually been more Mondays here that have closed higher, but the losers have been about 5x the size of the winners on average. Here is a look at the profit curve.



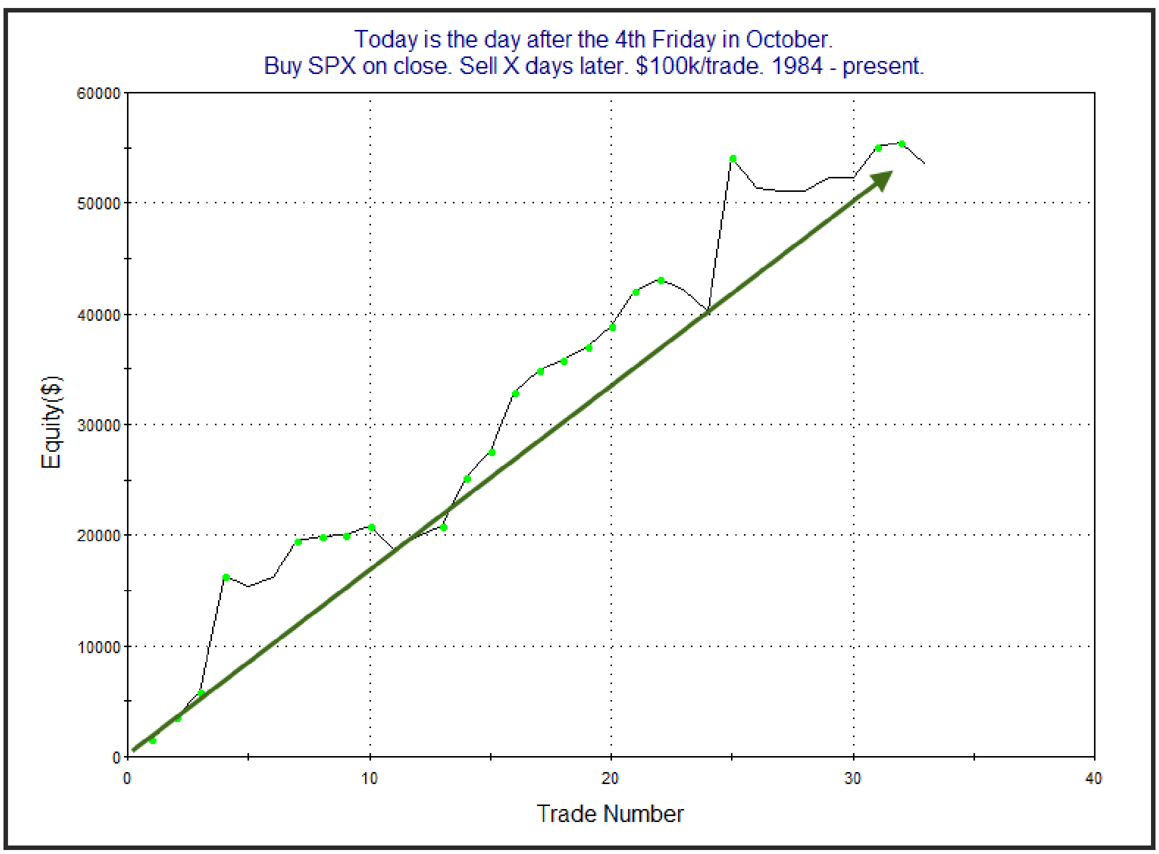
Choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through Friday have much more positive seasonality. This can be seen below.

Today is the day after the 4th Friday in October.
Buy SPX on close. Sell X days later. $100k/trade. 1984 - 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
4	53,542.00	33	24	9	72.73	2,692.38	14,020.11	-1,230.56	-2,860.68	2.19	5.83	1,622.48
3	45,011.01	33	25	8	75.76	2,063.91	12,304.89	-823.34	-2,081.28	2.51	7.83	1,363.97
2	24,908.62	33	25	8	75.76	1,361.38	9,496.89	-1,140.73	-2,261.76	1.19	3.73	754.81
1	21,710.51	33	21	12	63.64	1,524.15	10,716.03	-858.05	-2,766.58	1.78	3.11	657.89

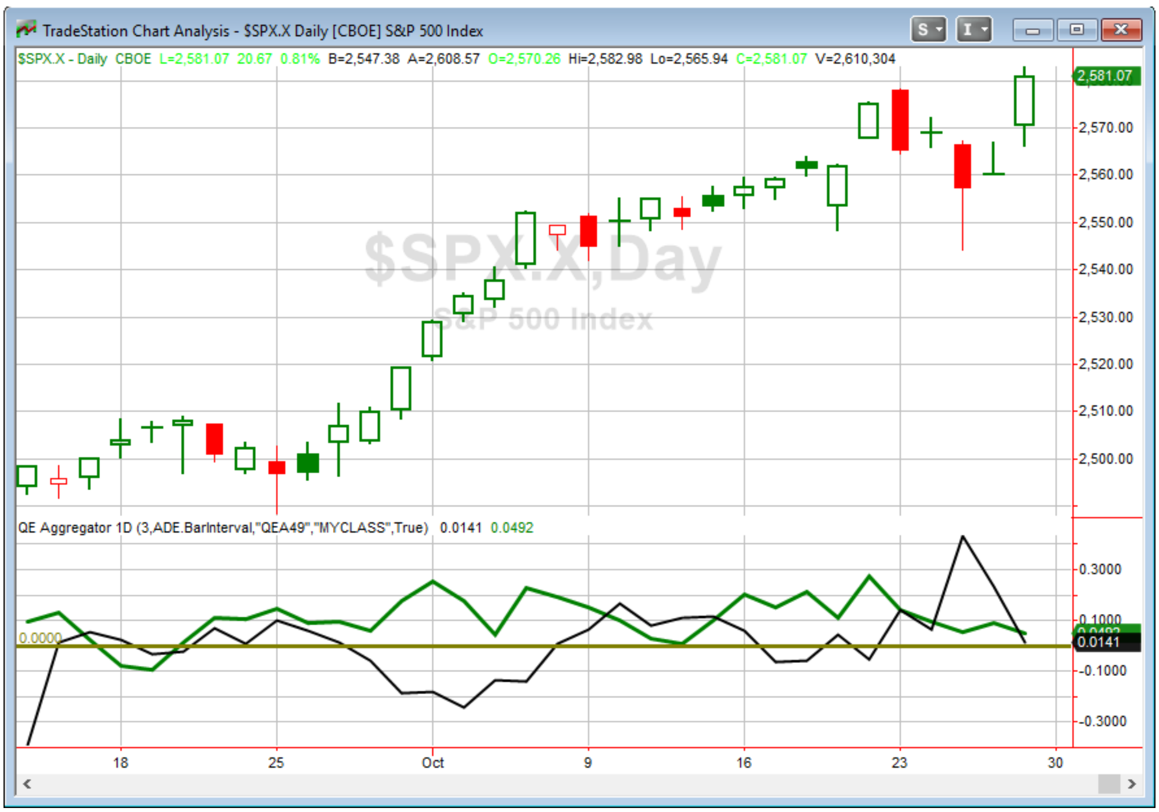
30 of 33 instances (91%) closed above the entry price at some point in the next 4 days.

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 4-day profit curve.



The curve has headed upwards for a long time. Long-term seasonality will see some changes as we enter November (Best 6 months & new Presidential Cycle year). But this short-term look at seasonality suggests the market could have some wind at its back this week. I'll also discuss some more short-term bullish inclinations in the next couple of days. Wednesday is a double-barrel day with it being both a Fed Day and the 1st day of the month.

I have updated the Aggregator chart below.



With the mix of studies tonight, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held just barely 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.

Based on the current list of active studies, expectations are set to remain positive on Monday. It would take some compelling bearish evidence to change this. The Differential Pivot will be *inverted at* 2564.51 on Monday. That is 0.6% *below* Friday's close. An inverted pivot means that the Differential Lie will cross through 0 if SPX closes flat. In this case, SPX is going to need to close down at least 0.6% in order to remain oversold. Anything other than that and it will be considered overbought as of Monday's close.

So there does appear to be a mild upside edge based on the 3-day expectations and the Aggregator formation. But the 1-day expectations are actually negative. And with the inverted pivot, reward/risk potential is poor. So I am not at all enthused about taking on new index exposure at this point. (And am quite disappointed I was not filled on my trade idea on Thursday.) There were a couple of Catapults that triggered, and I will look to take them. But from an index standpoint, I will wait until the next favorable reward/risk opportunity emerges.

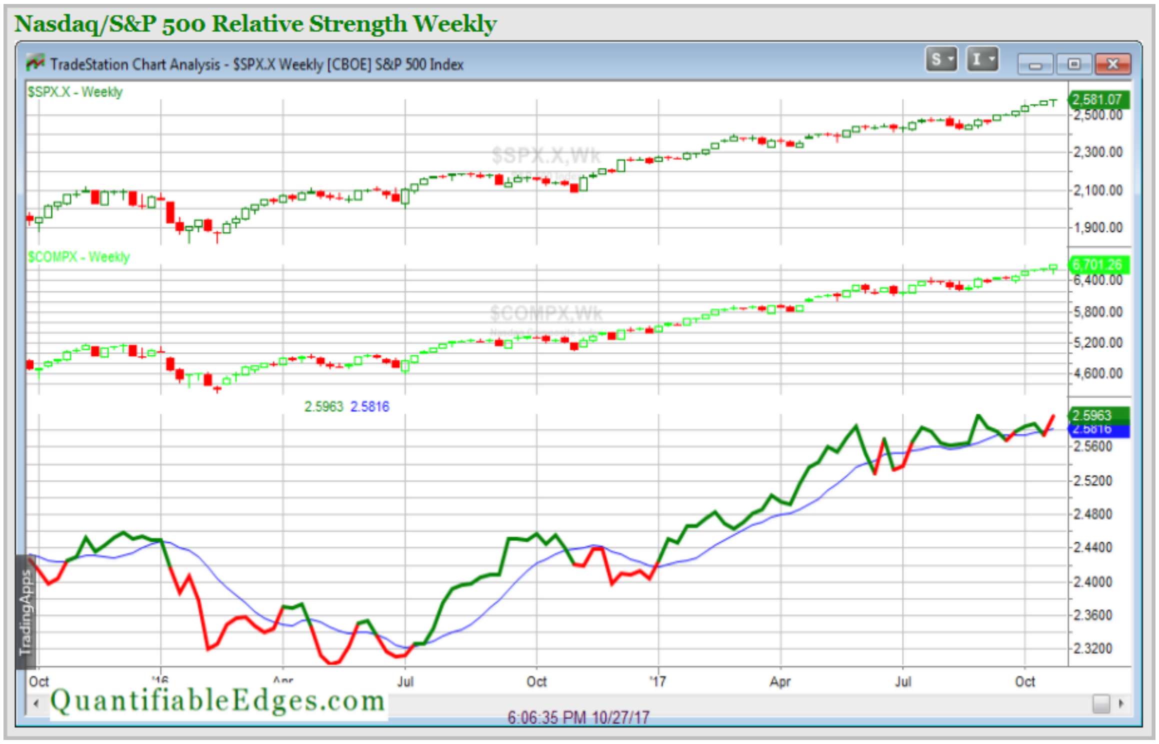
Intermediate-term Outlook (2 weeks – 2 months) – updated 10/30– somewhat bullish

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 Combo Systems #2 and #3 changed from "Flat" to "Long". And Combo System #1 is set to change to "Long" at the close on Tuesday as we enter the "Best 6 Months".*

New highs were again made this week, and the SPX and NASDAQ closed Friday at new all-time highs. So the uptrend appears squarely intact. And the strong move in the NASDAQ at the end of the week caused it to jump back into a leading position based on our NASDAQ/SPX Relative Strength Indicator.

This was after just 1 week of it falling into a lagging position. Below is a chart of the indicator from the website.



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 1977.68 points when the NASDAQ has been leading versus 501.29 points when the NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 6164.39 vs. just 428.49. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

As I mentioned above, we are going to enter the "Best 6 Months" at the close on Tuesday. So I decided to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they will be starting Tuesday afternoon. That means: 1) a leading NASDAQ, 2) SPX "Golden Cross" in effect, 3) unfavorable Presidential Cycle, and 4) "Best" 6 months in effect. Below are updated stats showing SPX performance during this alignment.

Both Market Timing Course Price Action Indicators Are Bullish During The "Best 6 Months" In An Unfavorable Portion Of The Presidential Cycle. $100k/trade. 1971 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$40,524.97	Profit Factor	2.34
Gross Profit	$70,850.52	Gross Loss	($30,325.55)
Total Number of Trades	31	Percent Profitable	48.39%
Winning Trades	15	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	$1,307.26	Ratio Avg. Win:Avg. Loss	2.49
Avg. Winning Trade	$4,723.37	Avg. Losing Trade	($1,895.35)
Largest Winning Trade	$14,725.36	Largest Losing Trade	($4,900.60)

Wins have been substantially larger than losers here, leading to some strong bullish stats. But the win rate is low. So it is certainly worth examining the profit curve. (I ran the profit curve with compounding in effect.)

Both Market Timing Course Price Action Indicators Are Bullish During The "Best 6 Months" In An Unfavorable Portion Of The Presidential Cycle. $100k compounded. 1971 - present.

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That appears to be a fairly steady curve, especially when the win rate is only about breakeven. Like the Market Timing Course combo systems would imply, I am viewing this as a bullish formation.

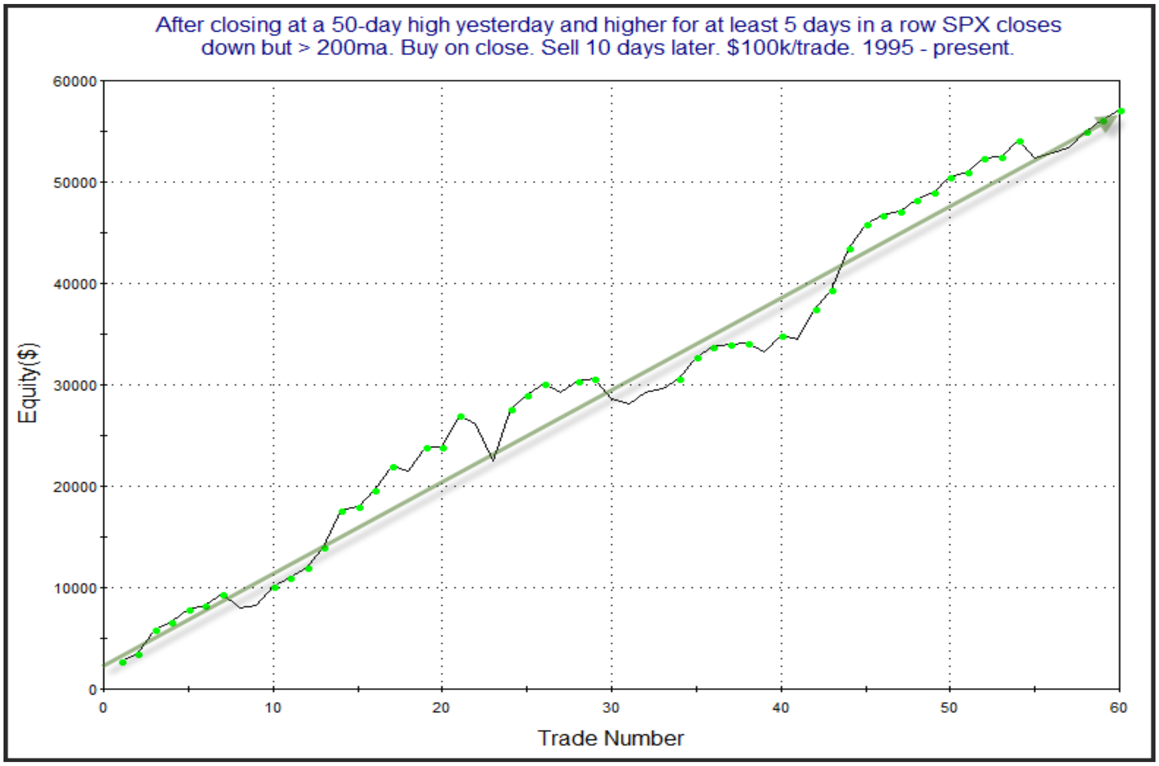
There were also a couple of intermediate-term studies that emerged this past week. Both in the 10/24 letter. I have copied them below.

One compelling study that triggered Monday suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 10/9/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. $100k/trade. 1995 - 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	57,079.22	60	50	10	83.33	1,400.10	5,131.35	-1,292.59	-3,672.90	1.08	5.42	951.32
9	56,417.67	63	52	11	82.54	1,376.87	5,023.20	-1,379.97	-4,151.40	1.00	4.72	895.52
8	49,373.93	64	46	18	71.88	1,559.26	4,878.08	-1,241.79	-4,874.10	1.26	3.21	771.47
7	37,542.29	65	45	20	69.23	1,398.54	3,874.76	-1,269.59	-3,912.48	1.10	2.48	577.57
6	38,005.89	67	47	20	70.15	1,284.50	4,307.20	-1,118.27	-3,637.71	1.15	2.70	567.25
5	29,342.93	67	43	24	64.18	1,126.42	4,252.50	-795.56	-2,466.75	1.42	2.54	437.95
4	31,026.12	67	43	24	64.18	1,140.19	3,843.00	-750.09	-3,003.39	1.52	2.72	463.08
3	20,131.83	67	44	23	65.67	862.44	2,472.85	-774.59	-1,992.34	1.11	2.13	300.48
2	18,711.79	67	47	20	70.15	727.74	2,437.50	-774.59	-2,614.95	0.94	2.21	279.28
1	10,473.58	67	43	23	64.18	511.11	1,751.19	-500.18	-1,744.10	1.02	1.91	156.32

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day:



The strong upslope appears to confirm the bullish edge…I have included this study on both the short-term and intermediate-term active lists.

And here is the 2nd study that emerged in the 10/24 letter…

Another interesting aspect of Monday's action is that the NDX suffered its worst decline in at least 20 days while SPX made a 20-day intraday high. This is something I last looked at in the 11/11/16 Letter. When I examined other instances of this back then I found little in terms of short-term implications, but the intermediate-term implications appeared strong. Below I have updated results for a 50-day holding period.

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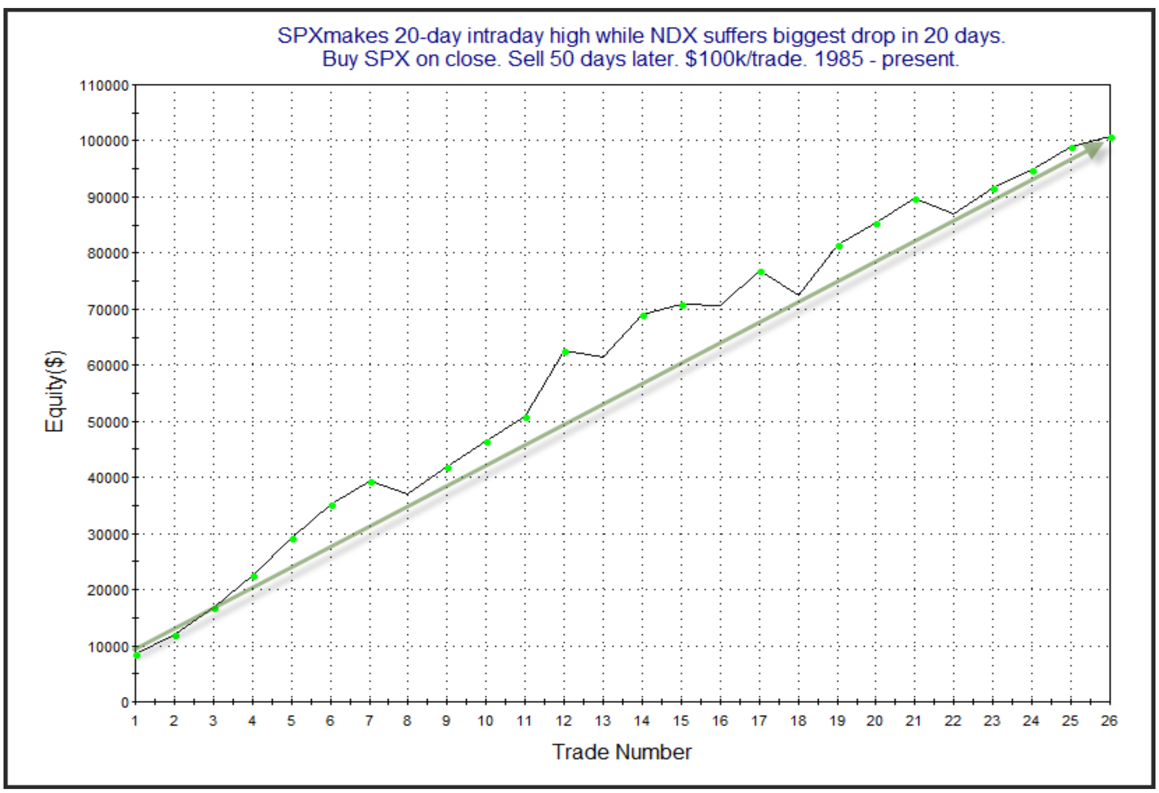
SPXmakes 20-day intraday high while NDX suffers biggest drop in 20 days.
Buy SPX on close. Sell 50 days later. $100k/trade. 1985 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$100,778.94	Profit Factor	10.36
Gross Profit	$111,543.81	Gross Loss	($10,764.87)
Total Number of Trades	26	Percent Profitable	80.77%
Winning Trades	21	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	$3,876.11	Ratio Avg. Win:Avg. Loss	2.47
Avg. Winning Trade	$5,311.61	Avg. Losing Trade	($2,152.97)
Largest Winning Trade	$11,736.48	Largest Losing Trade	($4,474.24)

As you can see, the numbers all look solidly bullish. The big NDX drop during an intermediate-term move higher for SPX has rarely derailed the rally. Most of the time it has been followed by additional gains. Below is the profit curve.



The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge. I have added this study to the intermediate-term Active List.

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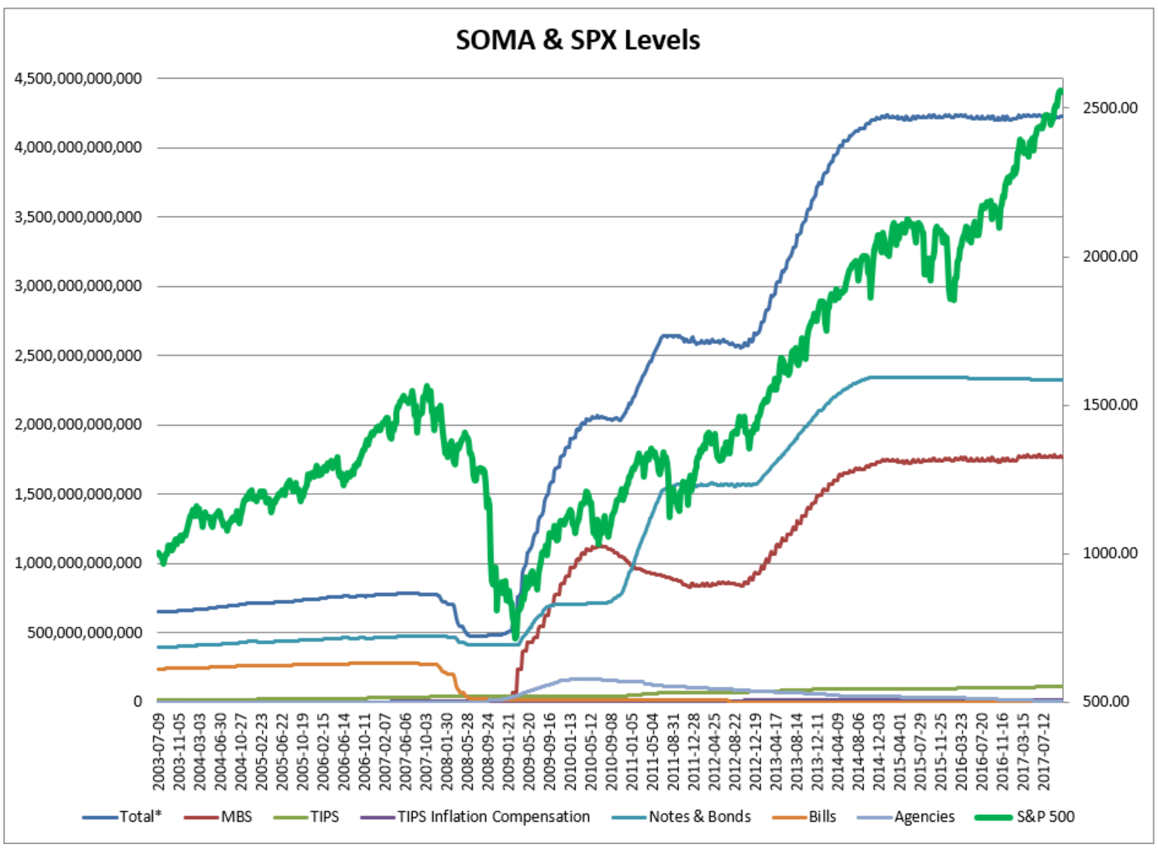
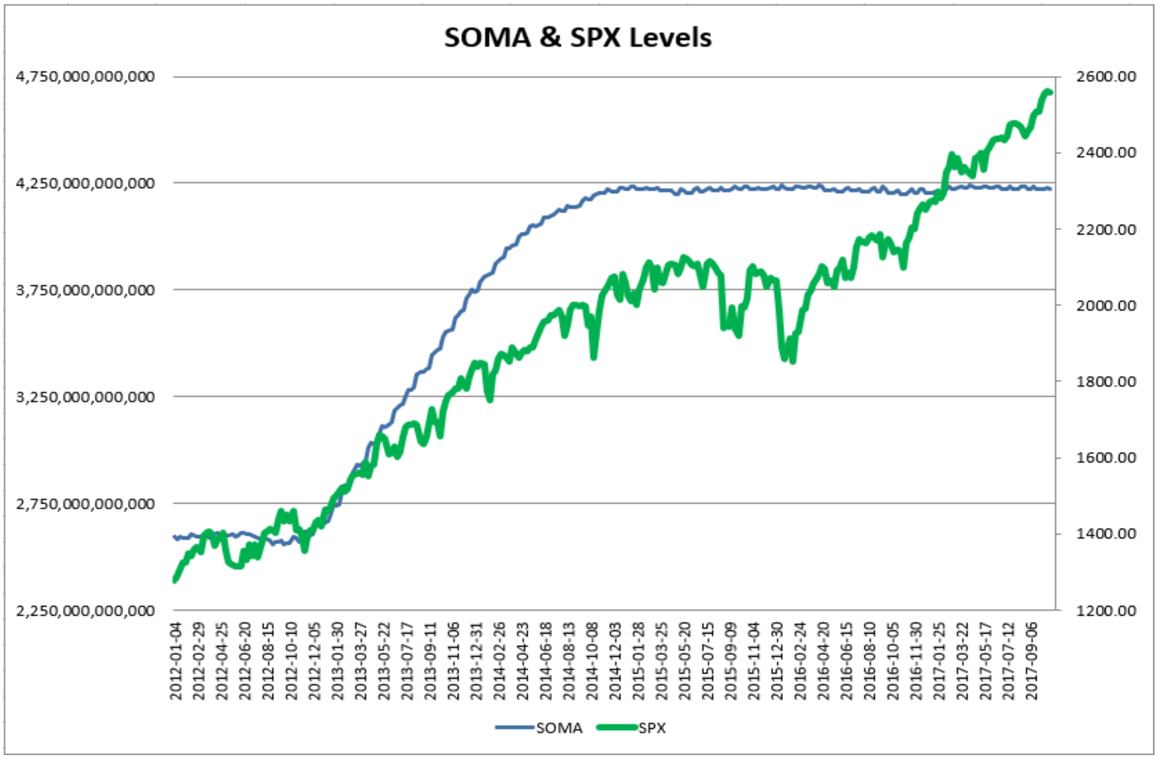
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) declined a fairly mild 0.17%. This is right in line with the schedule the Fed has gone by for the last few years. The Fed announced at their September meeting that they were switching to a new policy of a $10 billion per month SOMA reduction at the start of October. But to this point the reinvestment schedule has remained exactly the same as that before the policy announcement. Historically, and through many policy periods, the market has performed better when the SOMA was expanding, and struggled when it has contracted. For some reason, the new policy has not kicked in yet. So the continued rise in the market is not terribly surprising since the SOMA actually has a net gain over the last few weeks. I'll continue to monitor actual flows. If the schedule remains as-is and the announced selling still does not kick in, then I would expect this upcoming week to be breakeven to mildly negative for the SOMA. As I have stated repeatedly, a steady shrinking of the SOMA could create a real headwind for the bulls. So I am interested to see when the policy will kick in and with how much actual force.

Evidence turned more bullish this week. As I discussed above, we saw two new intermediate-term bullish studies emerge on Monday night. And the NASDAQ took back the leading position from the SPX on Friday. The new index highs and persistent uptrend are also favoring the bullish case. Fed policy, and its implications, remain my biggest concern. But there are no signs of a correction starting just yet. I have changed my outlook back to somewhat bullish. I will therefore be a bit more aggressive with long trades and a bit more conservative when considering short trades.

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Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CELG @ $99.99 (bought 1/3 @ limit)

New

CELG @ $98.17 (buy 1/3 @ limit)

CVX @ $113.54 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 3(CELG-2, CVX)

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.

CELG – buy 1/3 Catapult position @ $98.17 LIMIT. From the Catapult section above, this is the 2nd f up to 3 possible lots for CELG. (Note when considering whether this trade ideas is appropriate for you that this stock has been especially volatile.)

CVX – buy 1/3 Catapult position @ $113.54 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for CVX.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
HAL(1/3)	10/20/2017	$43.42	$42.43	-2.28%		*sell on open*
HAL(1/3)	10/23/2017	$42.51	$42.43	-0.19%		*sell on open*
CELG(1/3)	10/27/2017	$99.64	$98.17	-1.48%		Catapult

HAL hit its exit target and will be sold at the open on Monday.

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